Trapped in the Comfort Zone of Denial 50 years of Expenditure Management in India

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National Institute of Public Finance & Policy
New Delhi

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Preface

Hardening of the budget constraint on the one hand and greater awareness to improve efficiency in transforming public expenditures into outputs and outcomes on the other, have underlined the need to improve processes and strengthen institutions in Public Expenditure Management. In countries like India, a large area of market failure requires significant government intervention, but unless efficient systems of expenditure management are instituted, it can open up a vast area of government failure. Instituting proper system of public expenditure management and control is extremely important for efficient provision of public services, ensuring accountability and improving tax compliance. There is a constant complaint from the taxpayers that they do not receive quality public services inspite of paying high taxes.

In India, the processes of, and institutions for public expenditure management have been at work for more than 50 years. Indeed, the objectives of public expenditure management have changed over time from merely complying to the rules of spending to paving the way for efficiency and accountability in public service provision. Several attempts have been made to identify the shortcomings in the systems and institutions and initiate reforms to remedy them. Yet, some of the basic issues in public expenditure management need to be reformed. There are backlogs in reforms to be undertaken, and some new ones have emerged in the fast changing environment. These need to be addressed without loss of time.

A. Premchand has studied India's public expenditure management for over 45 years beginning with his first book, *Control of Public Expenditure in India*. Over the years, the focus has shifted from *Control* to *Management* and he has done commendable work on the subject not only in India but also in a number of other developing countries. At the request of NIPFP, he has once again revisited the subject. Some part of the analysis was presented in a seminar at Madras School of Economics, Chennai.

I am grateful to A. Premchand for his critical but a lucid and eminently readable analysis of public expenditure management in India. Hopefully, the policymakers will find the critical analysis of public expenditure management presented in the monograph useful and they will get necessary motivation to implant the recommendations on reform to achieve both greater efficiency and accountability in public expenditures. Needless to add that the views expressed in the monograph are the author's alone and not that of the NIPFP.

M. Govinda Rao
New Delhi

CONTENTS

	Introduction	**1**
	Considerations and Caveats	3
I.	**Historical Perspectives**	**5**
	i. Economic Development	8
	ii. Budget Innovations	11
	iii. Econmies in Expenditure	17
	iv. Deficit Management	19
	v. Resource Utilisation Process	22
	vi. Resource Use Accounting	27
	vii. Others	32
II.	**Evaluating the Experience**	**34**
	i. Strategy and Structures	34
	ii. Role of Technocrats and Political Class	51
	iii. Budget Innovations as Rhetoric	52
	iv. Process and People	54
	v. Solutions as Problems	55
	vi. Evaluation and Legacy	56
III.	**Building Bridges to the Future**	**62**
	i. Ambivalence and Denial	62
	ii. Range of Issues: Relevance of General Themes	64
	a. Decentralisation	64
	b. Participatory decision making	67
	c. Transparency and accountability	69
	d. Delivery of services	72
	iii. Toward a More Effective System	73
	a. Hidden zones: An inclusive approach	74
	b. Promoting standards of expenditure management in partners	76
	c. Improved expenditure planning	81
	d. Anchors for expenditure management	86
	e. The future is now	88
		89

LIST OF TABLES

Table 1.	Expenditure Management: Initiatives Taken by the Central Government during the Last Fifty Years	**5**
Table 2.	Origins and Impact of Expenditure Management Initiatives	**36**
Table 3.	Toward a More Effective Expenditure Management System	**74**

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A. PREMCHAND*

"Several attempts have been made over the past fifty years, to improve the expenditure management system. But, poor and ineffective implementation, stemming from inertia and indifference have not yielded the expected results. The disuse of some of the traditional features and weak implementation of the innovations have converted the system into an elaborate ritual with high maintenance cost and few commensurate results. Meanwhile, there has been, on the one hand, an unchecked growth in the power of the executive, and on the other, a deterioration in the provision of services. The design of checks and balances is under severe stress. Millions of rupees are wasted in daily life and no one is accountable. Worse, it seems to be nobody's concern. Achievement of economy, efficiency, and effectiveness has become too elusive. Indeed, they do not figure on the radar screens of the system's managers. Urgent action is needed to revitalise the system. Some of the directions of future reform are discussed here in detail while pointing out the lessons of experience."

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* Disclosure: The writer was closely associated with expenditure management in India, as an observer, as a researcher, as a critic, and as a participant in the reform process for more than five decades. The views expressed herein therefore reflect these diverse roles and are not free from preference or prejudice.

TRAPPED IN THE COMFORT ZONE OF DENIAL[1]
50 YEARS OF EXPENDITURE MANAGEMENT IN INDIA

A. PREMCHAND

" It is probably true, as philosophers say, that life must be understood backwards. But they forget the other proposition, that it must be lived forwards"

\- *Kierkegaard*

" … History may be servitude,
history may be freedom . . .
… to become renewed, transfigured, in another pattern.
… A people without history
is not redeemed from time, for history
is a pattern of timeless moments.

T.S. Eliot, Little Gidding

Introduction

Traditionally, expenditure management had a very limited role and was restricted to compliance of legally specified rules and regulations in making payments and in ensuring a safe custody of the money collected. Given the proclivity of government employees to misappropriate money[2], or as Kautilya described, "it is impossible for one dealing with government funds not to taste, at least a little bit, of the king's wealth"[3], this emphasis was considered necessary. As a consequence, expenditure management revolved around the fortification of the treasury so as to reduce the possibility of stealing by the invaders from outside as well as government employees, and on the formulation and design of a system of punishments

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1 An extended version of a talk delivered under the joint auspices of Public Expenditure Round Table (PERT) and Madras School of Economics, in Chennai on May 3, 2007.

2 This phenomenon is not necessarily restricted to the past. In the late 1980s, the Minister of Finance of Pakistan stated in his budget that more than eight percent of the government outlays were misappropriated. The practice continues in various forms in many countries.

3 Kautilya, *The Arthashastra*, Penguin Books, New Delhi, 1987. (Translation by L. Rangarajan).

for those found to be violating the rules.[4] Several centuries later, they came to be revised and systematised, when efforts were initiated by Warren Hastings to draw up an Indian Penal Code. More significantly, the age old process of collection, payment, liquidation of claims and custody of money came to be streamlined by Napoleon, whose treasury system envisaged the maintenance of commitments, verification of payment claims (review of the legal aspects) and scrutiny of payments made. At the end of the day, they were reviewed and consolidated. These aspects formed the hardcore of expenditure management. Later, the objectives of expenditure management came to be expanded as a part of systematic study of the subject, and reflecting the growing practice of expanding state fiscal intervention, to include the production, distribution, and stabilisation functions.[5] Even as these objectives were changing, the observance of the hardcore of expenditure management had been contributing to dilemmas, which were best exemplified by a letter reportedly written by Duke of Wellington to the British Treasury. It appears that he and his accountant had difficulty in reconciling the daily account, in particular, an outlay of about £ 2.6 (sterling). In his letter, he sought guidance whether he should focus his efforts on waging the war against Napoleon and winning it, or in reconciling the daily account. But, with the steady growth in outlays at all levels of government, attention also came to be focussed on prudence (an aspect that was emphasised frequently by Manu and Kautilya), elimination of waste, efficiency, and enhanced effectiveness. Indeed, people – the ordinary citizens – have come to expect these as a part of the daily routines of government.

The preceding developments had their impact on expenditure management in India too. The impact varies, however, among the various levels of government, although, in principle, they were expected to be microcosms of the central government. The efforts made by the central government to update itself at frequent intervals are important in view of their extensive impact on resource allocation, resource utilisation, resource use accounting, and, more significantly, on strengthening the trust of the people in the safeguards taken for the maintenance of the stewardship role. The fiftieth anniversary of the establishment of the Department of Expenditure (1957-2007) provides an opportunity and an analytical peg to review the efforts made to strengthen the expenditure management system, their relevance, success and failures, and, in that

4 The ancient treatises by Manu (*The Laws of Manu*, Penguin Books, New Delhi, 1991; Introduction by Doniger Wendy, and Brian K. Smith) and Kautilya contain an elaborate schedule of possible violations and their punishments.

5 For an elaboration of the actual evolution of the subject, *see* Premchand, A., *Controlling Government Spending*, Oxford University Press, New Delhi, 2005.

light, to consider the problems that continue to be experienced and how they may be addressed.

Considerations and Caveats

The inexorable growth in expenditures, and the general perception that there is a good deal of waste, even according to the periodic statements and admissions by the government, and that benefits do not reach the intended beneficiaries have contributed to an inevitable feeling of alienation among the members of the community. The dialectics of modern society in India are such that this feeling of an anomy is not due to lack of effort in reforming the system, but the disillusionment is despite the frequent effort.[6] But it also raises issues about the nature of the effort, the relationship between effort and the result, and the general fabric of relationship between the ruled and the rulers. These aspects are best understood in the light of an understanding of the history of efforts and their impact. But as Levi-Strauss noted that 'exploration is not so much a matter of covering the ground as of digging beneath the surface'. It should be noted at the outset, however, that no attempt is made to offer a comprehensive history of expenditure management reform in India. It awaits the labours of a younger generation. The attempt here is to provide an insight into the discontinuous but 'timeless moments' and to consider the issue as to what the discontinuities have evolved into and how different the system is from where it started and what was intended and how it addressed the traditional, current, and potential concerns.

An enumeration of the historical events inevitably involves, to some extent, seeing the past through the concerns of the present, and a consideration as to how the past limitations continue to cast their long shadows on the present. Every effort is made, however, to eschew the element of nostalgic romanticism in a discussion of the past events. Indeed, it is argued that many of these efforts were found to be severely limited in their conceptual framework, made worse by partial and generally ineffective implementation. This aspect alone alerts those involved in reform to the fact that any complacency, as is found now, is misplaced, and should yield to more vigorous and organised efforts as the problems encountered and continuing to haunt the system are too important to be neglected except at a high social cost.

[6] For a discussion of some of these general aspects, *see* Aron, Raymond, *Progress and Disillusion: The Dialectics of Modern Society*, Penguin Books, Harmondsworth, England, 1968.

The series of efforts made over the half century do not provide a continuum. In as much as that many reforms were specific to the context, there are inevitable discontinuities. Not all of them are proposed to be covered in this survey. There are major limitations that need to be noted. First, the discussion focuses entirely on the central government. Some of the reforms introduced in the central government were complemented by similar efforts in state governments. But these are not covered here, except for an occasional reference, where the effort of the central government involved related to changes in the other levels of government, as is the case with accrual accounting. Second, the discussion does not also consider the changes in legislative control, which any way has been on a down-hill journey. The few changes that have taken place, such as the revival of the Standing Finance Committee, and the establishment of consultative committees have been largely eclipsed by the fact that the annual budget is approved, on occasion, without discussion, and without a consideration of the reports of the committees, and that a major part of the appropriation bills are approved in the final hour of the allotted time. Whether this decline is a part of a voluntary renunciation on the part of the legislature, or whether it reflects inherent limitations of the influence of a multi-party system and related coalition politics, or due to the absence of continuity in the coherence that is passed on from one generation to another, are important matters that require more detailed analyse on their own merits.

The paper is divided into three sections. The first is devoted to an enumeration of the reforms undertaken, and to a consideration of the context in which they were envisaged and came to be formulated. The second section deals with the features, limitations, and the experience in implementing them. The concluding section considers the issues that are embedded in the system and need to be addressed if the system is to be rendered effective. The discussion in the last section is selective. To facilitate a quicker grasp of the subject, each section contains a table providing the requisite detail that also permits selective illumination of the topics covered.

I. Historical Perspectives

The history of expenditure management reform in India reveals a series of efforts made in numerous areas, over several years. These efforts are enumerated in a chronological order in *Table 1.* They straddle several important components of the system and are best considered in terms of themes.

Table 1: Expenditure Management: Initiatives Taken by the Central Government during the Last Fifty Years

Decade	Initiatives Taken
1950s	• Establishment of the Planning Commission with primary responsibility for the allocation and monitoring of the utilisation of resources for the planned economic development of the country. • Establishment of a committee on plan projects (COPP) and a programme evaluation organisation (PEO) to review and evaluate selected plan projects and programmes. • Establishment of a Department of Expenditure, with responsibility for financial controls (observance of financial regulations and overall management of payment process including pre-audit of payments). The Department of Economic Affairs continued to be responsible for the preparation of the annual financial statement (budget) and for the determination of the aggregate levels of expenditure and for sub-allocation among various expenditure components. • Introduction of the attached financial advisers scheme and delegation of enhanced financial powers to spending ministries. • Establishment of a staff inspection unit (SIU) – also known as staff reorganisation unit (SRU) in the Department of Expenditure to review the sanctioned staff (personnel) strength of organisations. • Establishment of a cost accounting unit in the Department of Expenditure, primarily dealing with the accounting systems in the growing sector of state owned enterprises [then known as public sector units (PSUs)]. • Establishment of a cell in the ministry of finance, to coordinate the activities of the PSUs. This came to be called, years later, as the bureau of public enterprises. The bureau was shifted, periodically, from the Ministry of Finance to other ministries. • Beginning of a recognition of the imperative need of budgetary reform, in particular, a performance based system. A major report on the subject was issued by the *Lok Sabha* secretariat. • Emergence of a three pronged approach to expenditure control – (a) non-plan, rupee expenditure control by the Department of Expenditure; (b) plan expenditure control by the Planning Commission, and (c) foreign exchange expenditure control by the Department of Economic Affairs. With the full eruption of a foreign exchange crisis in the later part of the decade, the Department of Economic Affairs became the

Decade	Initiatives Taken
	focal point for the coordination of foreign aided outlays. • As a preliminary step in the separation of accounts from audit, a pay and accounts office was established in a couple of central ministries.
1960s	• A system of functional and account classification of budget transactions was introduced on a supplementary basis. The compilation itself was undertaken as a distinct exercise after the submission of the budget to the Parliament. It was intended to provide meaningful information in terms of economic categories. In due course, many state governments also undertook similar compilations. • Feasibility studies were undertaken in the Planning Commission regarding the introduction of performance budgeting. • The developments in external relations necessitated the introduction of austerity management approaches. The approach was to secure enhanced defence capability while pursuing economic development. Although several austerity measures were taken in the previous years reflecting the resource shortage, it became an important dimension of expenditure management in the aftermath of Indo-China war in 1962. • During the second half of the decade, an overhaul of the administrative system was undertaken through the appointment of an administrative reforms commission with wide ranging terms of reference. It issued several reports covering several areas. In so far as expenditure management is concerned, the following measures were important: - introduction of performance budgeting in the central government on a supplementary basis; - simplification of the accounting system through the abolition of suspense and settlement accounts, and personal deposit accounts. The structure of appropriation accounts was also sought to be simplified; - measures were to be taken to delegate higher financial powers to the administrative ministries; and - audit of the commercial and manufacturing enterprises functioning in the burgeoning public sector was to be strengthened through the appointment of subject specialists. Audit boards were organised for the purpose.
1970s	• A comprehensive system of budget classification in terms of functions, programmes, and activities was introduced. It provided a link with the plan and facilitated the compilation of national income accounts. • Accounts were separated from audit in the central government and a separate civil accounts service was organised. • To strengthen the financial management capacity in administrative ministries, a revised system of integrated financial advisers was introduced. They were to be considered as integral parts of the administrative ministries and not as outposts of the Ministry of Finance. • A project appraisal division was set up in the Planning Commission so that a systematic pre-budget evaluation could be undertaken of the proposed projects that involved huge outlays. • A project information system, inspired by the Management Information Systems, was also organised in the Planning Commission.

Decade	Initiatives Taken
1980s	• Establishment of a public investment board to review proposed major projects as a penultimate step to their approval by the cabinet. This was intended to strengthen the process of pre-budget scrutiny and to avoid projects that would prove to be unproductive. • Fiscal stress management became a dominant theme as agreements were concluded with international financial institutions on an extended basis. Major features of this management included the following elements: - introduction of zero-based budgeting to permit comprehensive review of the continuing programmes; - introduction of a regular monitoring system to ensure that budget implementation was according to schedule and that credit limits were observed; - selective hiving off of activities that tended to exacerbate the budget deficit magnitudes. As a part of this effort, an oil coordination committee was set up to determine the prices of oil products and to keep the financing of those products as a balancing exercise maintained by the oil companies themselves, outside the budget; and - concerted efforts began to be made to apply the information technology to the compilation of the budget and to facilitate payments. A central computerised pension payment system (limited to civilian employees) was established.
1990s	• Complete rupee budgeting, a consequence of economic liberalisation, was introduced. Foreign exchange budgets and related controls were given up. • As a consequence of fiscal stress, more belt tightening measures were under taken including the reintroduction of zero-base budgeting. • Improved methods of cash management were introduced. • Payment and receipt collection processes were further refined and reporting lags were substantially reduced. • Revival of standing finance committee and consultative committees as a part of an effort to shore up legislative control.
Since 2000	• Introduction of fiscal responsibility and budget management legislation. This specified targets of fiscal deficit, as well as limits on guarantees. Public debt management responsibilities were also specified anew. • A national expenditure commission was appointed to secure economies in expenditure. • Introduction of reporting of government finance data in terms of international guidelines. • Introduction of outcome and gender budgeting. • A modified accrual accounting system, applicable to the three-tier structure of *panchayati raj* institutions also, was introduced.

i. Economic Development

Soon after independence, the task of economic development became abundantly self-evident. The period of suffering was now over, and the task of building was initiated and blueprints for economic development were prepared both in government and outside. Even prior to independence, there was a postwar reconstruction effort launched under the cabinet secretariat. Outside, in the political arena, the Congress party, which then deemed itself as a national movement, established a national planning commission, which issued a series of studies indicating the approaches and policies for economic development. Similar efforts were made by the corporate sector.[7] Continuity in this direction was provided through the appointment of a Planning Commission. The Commission played a major role in the saga of expenditure management, which for analytical convenience, may be examined in terms of the relationship between the Ministry of Finance and the Planning Commission, efforts aimed at the reduction of waste, and project planning and implementation.

The first issue that was encountered related to the responsibility for resource management. Until then, the tasks of resource allocation and associated resource mobilisation, were vested, both in terms of functions and in terms of the traditions of work, in the Ministry of Finance. The establishment of a Planning Commission meant, in reality, a transfer of some parts of that work from the Ministry of Finance to the Commission. This was perceived as a diminution of the role and power of the Finance Minister himself. In due course, this issue contributed to the exit of the second Finance Minister in independent India from the cabinet. As a consequence, the first issue related to the clarification of the respective roles of the Finance Ministry and the Planning Commission. In the ensuing allocation of work, it was determined that the role of the Planning Commission would comprise analytical studies and formulation of plans, while the final responsibility for the allocation of resources and for mobilisation of resources, which drew their legitimacy by virtue of their inclusion in the annual financial statement,[8] would be that of the Finance Ministry. To facilitate coordination between the two agencies, the Finance Minister was made an *ex-officio* member of the Commission. This coordination device's effectiveness depended on the personality of the Finance Minister. In some periods, the minister exercised his traditional

[7] A brief history of these developments is provided in Premchand, A., *Control of Public Expenditure in India*, Allied Publishers, New Delhi, 1963.

[8] The term 'annual budget' is not used in the Constitution of India.

power by limiting the budgetary allocations, while in a few cases, efforts were made to resolve disagreements through debate and more frequently, through the exercise of political compromise. It may be noted in this context, for the first two decades after the establishment of the Planning Commission, a single party was in power at the centre and in most state governments, a factor that had contributed to the lessening of tension inherent in the area.

The initial experience in the implementation of the plans revealed the immense potential for waste inherent in the rapid expansion of government expenditures and the large possibility of inclusion of projects and programmes, without full consideration of their feasibility. The issue for consideration then was, whether these tasks could be carried out by the then existing system of expenditure management. There was a clear understanding that these tasks, novel as they were, were beyond the capacity of the Ministry of Finance and the Planning Commission. To address these lacunae, two organisations were set up – in the form of a programme evaluation organisation, and a committee on plan projects (PEO and COPP respectively).

The task of the PEO was to undertake a systematic evaluation of the completed projects and programmes, so that lessons of experience could be identified and applied to future programmes. The purview of evaluation was limited to plan outlays only and most of the efforts aimed at identifying the benefits and consider whether they were in conformity with the plans. It was also to consider whether the same range of benefits could have been procured through lesser outlays or other means. It completed the cycle of budgetary operations – planning, budgeting, implementation and evaluation. It recognised explicitly that the traditional audit was not adequate for the purposes in view and needed to be supplemented. The charter of the PEO implied a radical departure from the previous practices and offered a testimony to the vision of those engaged in the economic management of the country. At that time, no other country had an evaluation organisation in government. (Some four decades later, the establishment of evaluation organisations became a part of the modernisation of institutions, launched and funded by international financial institutions.)

It was abundantly becoming evident that spending money on development was not a facile task and could, even with the best of efforts involve a lot of waste, and efforts were to be made to reduce it through systemic improvement. It was not clear, at that stage, how that systemic strengthening could be organised. As a result of this awareness, COPP was established. It was to be an independent effort, with experts from government and the corporate sector pooling their talents, so that improvement could be secured. It was an institutionalised form of a regular enquiry carried out by teams staffed with experts. The association of independent experts for short periods on specified subjects, chosen by the COPP itself, was a novel approach for the period. The committee worked in several fields and provided blueprints, among others, for the improvement of local governments, introduction of performance budgeting, and management education as well as initiation of efforts toward northeast hill state development. In a context, where the government's hierarchical approach was still dominant, the introduction of a team approach provided an alternative.

During the first three plans, it was felt, that no special effort was needed to undertake project appraisal, as most projects were legacies of the efforts of post-war reconstruction department, and others represented obvious 'felt-needs'. By the early 60s, however, it became necessary for government to invest resources on project appraisal and monitoring on an institutional footing. This responsibility was considered to be exclusive to the Planning Commission, and by the early 70s; divisions were set up for the purpose in the Commission.

During the 50s, it became evident that the financing of the plans could not be carried out through domestic mobilisation alone, and that external resource, in kind and in cash, in the form of loans and grants, were needed. The negotiation of external aid, within the financing parameters envisaged in the five-year, and annual plans, became a part of the tasks of the Department of Economic Affairs. In due course, the maintenance of accounts of foreign aid, mostly at the insistence of the donors, and to facilitate claiming of reimbursements from donors, also were (in themselves distinct from the routine accounts of the central government, which were then maintained by the Accountant General, Central Revenues) entrusted to the Department of Economic Affairs. As a part of this overall effort a separate annual report on *External Assistance* was initiated by the early 60s. India, in retrospect, can claim to be a pioneer in this area.

The development plans were conceived in terms of programmes and schemes, and its terminology was different from the budgetary decision making, which was mostly accounting oriented and revolved around organisations, each of which became a major head of account.

The plan allocations had to be transformed, in order to gain budgetary legitimacy, into major and minor heads. For the experienced administrator, let alone the public, which anyway found it difficult to comprehend the technical jargon, (there is a view that the use of the incomprehensible jargon by governments is not unintentional in that it provides a protective coating, indeed armour, against efforts to understand governments) it became a complicated exercise, to ascertain the multiple heads, under which plan allocations were subdivided and provided for. To minimise this embedded discord, a separate document called *plan-budget link* had to be prepared as a compass to guide through the thickets and cobwebs of the budget. By mid 70s, the problem was considerably mitigated through the introduction of a revised budget classification system oriented to functions, programmes and activities and in the process the plan language became, to a large extent, the budget language too. This is not to say that perfect harmony was established, as each plan brings new activities and there is a lag in making appropriate revisions in the budget classification system.

ii. Budget Innovations

During the last half-a-century, attempts were also made to introduce performance based budgeting. With the launching of the five year development plans, there came about a realisation that the conventional line-item budgeting, which was primarily conceived as a vehicle for obtaining legislative approval for appropriation and whose orientation was solely on the legality of financial transactions, was hardly suitable to the new context. The search, therefore, began for a system that emphasised results and that made administrators, managers, rather than accountants responsible for the accounting of every paisa spent. This was also the time, when as a result of the efforts of the Hoover Commission in the USA, performance budgeting, which until then was found mostly in the County governments, was also sought to be made applicable to the Federal government. Inspired by this experiment, the estimates committee of the *Lok Sabha* also recommended in a report, specifically titled *Budgetary Reform* (which was rather bold for the times), that consideration be given to the introduction of performance budgeting in India too. Although, the general atmosphere was conducive for reform, the Finance Ministry was far from willing to undertake a major overhaul. They therefore responded to the effect that there were many institutional, primarily accounting constraints, that stood in the way of transforming the budget system into a performance based one.[9] The total lack of enthusiasm toward introducing major budgetary reforms proved to be a major impediment in infusing any new spirit and consequently a lull ensued. But, as Pieter Geyl has pointed out (*Encounters in History*, 1965) "history is a drama without a denouement: every division glides into a resumption of the plot".

The plot (to be sure, a subversive term) resumed after about seven years, in the COPP of the Planning Commission where a unit was set up to explore the feasibility of performance based budgeting systems in India. Learning a lesson or two from experience, this time, the focus was not on making a recommendation, but on examining the institutional and systemic constraints and on how they could be overcome. It was recognised by the unit that the concept needed to be tailored to the needs and institutional constraints that loomed so large on the Indian horizon. More than the systemic constraints, the mental prism through which any suggestion for improvement was considered, ("these innovations are for industrial countries; they don't work in India") had to be changed. This could be done, not through rhetoric or ideological debate (there was hardly any debate in the public), but only through persistent plodding and addressing each of the identified constraints. These studies, which were still viewed with a degree of skepticism by the Finance Ministry, came to receive additional impetus from the newly established Administrative Reforms Commission.

The Commission itself needed a major theme for improvement, but was reluctant to replace the existing system by performance budgeting. It therefore recommended the introduction of performance budgeting as a supplementary device, more educative in nature rather than transformative. Even this, modest as it was, did not prove to be too appetising to the taste of the Finance Ministry. But unknown to them, the Cabinet Secretary issued instructions, on his own initiative, to the effect that the recommendations of the Commission should be implemented.[10] This episode illuminated the typical way in which some policy decisions were made in the government. At each level, the perspective changed, and the eventual decision represented the view of the then final level.

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9 For a fuller discussion of these aspects, *see* Premchand, A., *Performance Budgeting*, Academic Books, New Delhi, 1969. Also *see*, for the later developments, in addition to the reports of the Administrative Reforms Commission (*Financial Administration, and Report on Finance, Accounts, Audit*, Government of India, New Delhi, 1967), Dean, Peter N., with Cedric Pugh, *Government Budgeting in Developing Countries*, Routledge, London, 1989.

10 A discussion of these developments is provided in Premchand, A., *On the Fringes of Government*, UBS Publishers and Distributors, Delhi, 2005.

Faced with a firm decision by the Cabinet Secretary, the Finance Ministry presented a supplementary document comprising the performance budgets of a few central ministries in the central government in 1968. Later, the scope of the document was enlarged to cover all ministries. Soon state governments also made efforts on their own to prepare performance budgets. But the efforts came to be substantially diluted at the centre in later years, as the scope of the document came to be limited to plan programmes. In effect, it became an annual ritual without any discernible influence on the expenditure management system. But ideas rarely experience a permanent death in governments. Like military generals, they fade away from the public view for a while, until situations arise that enable them to reemerge in a different form.

During the mid 1980s, attempts were also made, as a part of the formation of long-term fiscal policies, to introduce an informal multi-year, rolling expenditure planning. This aspect was later specifically addressed by the Planning Commission. It was felt that preparation of annual estimates were not yielding any information on the full outlays on a programme to its completion, nor were they helpful in estimating the medium-term requirements of continuing policies. Till that date projections were made, at an aggregate level, on the plan and non-plan outlays. While they revealed the broad trends, they continued to represent an area of darkness in that the trends in specific policies and programmes were far from clear. But this plea for multi-year expenditure planning was misinterpreted, in some quarters, as an attempt at replacing the development planning process, which by then had become fully institutionalised and became an integral part of day-to-day management in government. Besides, the plea was made at a time, when there was a change in the party holding power at the centre. It therefore generated the impression that the new government was trying to throw away the previous practice. As a result, multi-year rolling expenditure planning was given up even before systematic efforts were made to implement it. The preparation of long-term fiscal policies was followed for a few years and later came to be revived, in a different form, through the fiscal responsibility and budget management legislation.

During the late 1980s, an attempt was also made to introduce an Indian variant of zero-base budgeting (ZBB), which was attempted in the United States in early 1960s after John Kennedy became President, but was given up in the subsequent preoccupation with Vietnam war, yielding place to the introduction of planning programming budgetary system (PPBS), during the earlier years of President Johnson’s stay at the helm of power. ZBB itself came to be revived in a more refined form during mid 1970s when Jimmy Carter was the President. As was the feature with changing governments, this form of ZBB was given up, as a part of the regular exercise of pseudo-creative response, by the Republican Presidency that followed Carter's electoral defeat, when he attempted to become the President for a second term. Meanwhile, however, ZBB became a part of the budgetary vocabulary, with periodic influence on the thinking of governments in various governments around the corners of the world.[11] The first informal initiative to introduce ZBB in the Government of India was in the second half of 1980s. It was the time when the outlays on scientific and technology departments (in particular atomic energy, space research, etc.) were growing rapidly and there was palpable tension between these departments and the Ministry of Finance in managing the outlays and in containing them. What the central agency viewed as legitimate intervention, the spending departments considered as needless intrusion, that was fast becoming an avoidable impediment. With a view to containing tension, the Ministry of Finance offered to reduce its interventions if the scientific departments introduced ZBB. But the contours of ZBB that was to be introduced was far from clear, both to those who sought to introduce it and to others, at the receiving end, in the scientific departments. It was used as a rhetorical device to change the direction of the debate.

Meanwhile, the general state of government finances was becoming critical, and there was a perception that there was considerable waste in many of the government programmes, more so in plan programmes. The costs of administration became the major component of programmes and the benefits were progressively becoming less and less. It was recognised that a comprehensive budgetary review of these programmes was to be undertaken, including their basic premises and the manner of their implementation. Such a fundamental review was the main plank of ZBB when it was sought to be introduced without invoking the name of the system, presumably because of its foreign origins. The Finance Minister accordingly announced in the budget speech for 1986-87, thus: "The government is initiating a process of *thorough review* (emphasis added) of our expenditure policies and procedures. We have to cut every rupee of wasteful expenditure, get more out of every rupee of essential expenditure, and improve efficiency *all round* (emphasis added). A full debate on what we can and must do to reduce expenditure is necessary and I would like to invite the suggestions of the Hon'ble

11 For a discussion of these aspects, *see* Premchand, A., *Government Budgeting and Expenditure Controls*, International Monetary Fund, Washington D.C., 1983.

Members on these issues".[12] These profound statements, which tend to be generally reserved for the annual budget ceremonies, received little recognition, let alone a concerted response, except that there was a negative fallout in that the attempt by the Finance Minister was viewed as an attempt to cast adverse light on plan programmes. It was suggested that they must have some utility as, otherwise, they would be in the plan, and efforts to review them could be only a preliminary step to disown and abandon them. Since these programmes were evolved by the government in the first place, efforts to disown them, even if in a camouflaged form, would have, it was argued, an adverse political fallout that they could ill afford. Thus, the effort had a still-birth. But the demise of ZBB was not complete, as it was invoked, with full title, in the early years of the twenty-first century. This time, there was no inhibition in using ZBB, although its actual applicability was limited to the indication of ceilings for new outlays (which any way was being done for plan outlays) and excluded the other features of the system. Once invoked, however, it was not used in the following years.

These themes were revived again in 2005, with the introduction of 'outcome budgeting' and the submission of a bulky volume entitled, 'outcome budget'. It was initially limited to plan outlays and was envisaged to be extended to non-plan outlays too.[13] The outcome budget involves the following steps – defining measurable outcomes, standardising the unit costs of delivery, benchmarking standards, capacity building for attaining the requisite administrative capacity, ensuring necessary funding, effective monitoring and evaluation and making the system far more inclusive through the participation of the community and the stakeholders. In focussing on these aspects, the proposed budget paid due homage to all the management concepts that are in vogue, and reinforcing their efforts, they also use the technical jargon associated with those approaches. Moreover, it also sought to identify the risk factors that stand in the way between intent and outcome. To that extent, it contributed to the philosophy that budgetary outcome, rather than intent, should be considered the *real* budgetary policy.

12 *See Budget Speeches of Union Finance Ministers, 1947-48 to 1990-91*, Ministry of Finance, Government of India, 1990, p. 554. This volume and others that followed provide a goldmine of information in an accessible form. Regrettably, similar efforts are not made in other countries. Pakistan is an exception in that it too published three volumes of the budget speeches of the finance ministers.

13 For a detailed discussion of this innovation, its antecedents and limitations of its content, *see* Premchand, A., "False Dawn on the Budget Front", *Social Sciences*, October 2005, Mumbai.

In practice, however, the measurement of outputs and outcomes (frequently the two are mixed up in the volume) and the specification of benchmarks are, as yet, at too nascent a stage to be considered functionally utilitarian. Computation of unit costs, originally envisaged as part of performance budgeting introduced in the late 1960s and long overdue, has yet to take off. Similar efforts are needed to make the monitoring (which is now done electronically in most cases) and evaluation system (long in existence, and still carried out as an independent exercise, remaining outside the loop of the budget system), and to strengthen the administrative capacity. The effort is welcome as a restatement of a commitment to improve the system. Its main limitation is that it views the budget system as the initiator of an administrative overhaul – an effort that is generally viewed as outside the conventional perception of the role of the budget system. In any event the effort remains to be undertaken. Its ability to generate and sustain this much needed effort is rendered doubtful as the outcome budget is viewed as a supplemental device rather than an expression of an intent to supplement the existing system. If, on the other hand, it is viewed as an evolutionary process, then it has to be recognised that many of the elements of the outcome budget were in their essence, a revival of the components of performance budgeting, some in a new vocabulary, and a few that continue the old language.

The essence of any reform aimed at improving implementation is, as the late management guru, Peter Drucker wrote nearly four decades ago, (*The Age of Discontinuity*, 1968) that, “it must be able to move scarce and expensive resources of knowledge from areas of low productivity and non results to opportunities for achievement and contribution”. He emphasised that ‘organisation’ should be viewed as “a maximising device”. In its present form, the outcome budget represents a continuation of an effort that was initiated a few years ago, but is suffering from entropy, and offers a promise without an indication of a strategy that would help it to achieve its goal. Meanwhile, its main utility lies in being educational to those participating in the process, and informational to those who have the fortitude to withstand the relentless onslaught of an enormous amount of raw numbers.

In the series of budget innovations undertaken by the Central Government, the latest is gender budgeting, aimed at identifying the resources utilised for addressing the problems of women. It reflects a growing trend in many countries and the effort in India was sponsored and funded by one of the agencies of the United Nations. In its first appearance, it was a compilation of the programmes and schemes undertaken by the Central Government (mostly implemented at the subnational government levels) in this sphere, and was appended to the *Economic Survey*, the annual document issued a few days ahead of the presentation of the budget to the Parliament. It is expected that there would be eventually cells in each ministry devoted to gender budgeting. It is an effort that can be described not as 'work-in-progress' but as one whose contours remain to be sketched out in detail.

iii. Economies in Expenditure

A primary function of an expenditure management system, both in theory and by convention, is to secure economies in outlays through a rigorous scrutiny of budget estimates, at the time of their formation, and through the proper compliance of specified procedures for contracting during implementation. The intent is to ensure a prudent allocation and utilisation of resources. What is prudent (wise management of manpower, materials and money), however, is a matter that differs, depending on the location of the decision maker. For those employed in the Ministry of Finance, prudent use of resources has come to mean a reduction, either in aggregate, or in detail, in the demands for financial resources submitted by the spending agencies. For the latter, prudence means a persistent demand for growing resources that can be devoted to the provision or improvement of services to the public. The conventional wisdom suggests that greater outlays translate themselves into higher growth rates or levels of development.[14] This difference in the perception is the root cause for much of the inherent tension between the central and spending agencies. In this context, the need for the pursuit of economies, in an explicit manner, becomes even more important. The rapid growth in expenditures makes this a compelling necessity.

The pursuit of economies was undertaken, over the years, both through conventional and unconventional means. Traditionally, when the

[14] The allocated resources may not, however, be fully spent. Experience shows that in many development sectors, vast amounts remain unspent at the end of the fiscal year. The slow utilisation suggests a laxity in the initial review before inclusion in the budget, and the under-estimation of many an administrative factor, such as the procurement of land for the projects. As under spending reflects poorly on the administrative capacity of the agencies, they circumvent the annual lapsing of budgeted funds by transferring them to personal ledger accounts, (or personal deposit accounts) which are then spent in the following years. This creates an illusion of spending where, in fact, no expenditures take place. Despite the fact that this is a form of deception, it continues to be a problem that remains to be addressed by the expenditure management system.

gap between resources and proposed expenditures tends to widen during the course of the fiscal year, Finance Ministries resort to draconian cuts or severe limitations on the budget allocations in the form of across-the-board reductions. For the most part, however, these general limitations reflect a failure of the expenditure management system. Allocation of resources involves the exercise of a choice, and an across-the-board reduction is a negation of that process. The issue therefore was one of moving from an expedient to a more organised form of addressing the root cause of the problem. In the late 1950s, the general perception was that a great share of the inertial and deliberately planned growth in expenditures was attributable to the growth in manpower. Was this growth reasonable and how could it be curtailed? To address these questions, a staff inspection (reorganisation) unit was set up in the newly created Department of Expenditure. The unit was to undertake a systematic review of the Departments and their subordinate agencies and determine, after a study of the work procedures, the staff complements, and targets for reductions. During the earlier periods of life, several claims were made about the successful contributions made by the unit. In the later decades, however, the unit lost its importance, as much of the manpower growth was taking place in the plan programmes, deemed essential for national development and in the security sector that was always considered to be vital for national survival.

The unconventional means used refer to the ad hoc economy committees outside the government and converting their recommendations into government policies. During the late 1950s, there was an imperative need for immediate efforts aimed at procuring economies, in view of the growing deficits. Curiously, however, the initiative in this regard was taken by the All India Congress Committee, (AICC) which appointed a committee to suggest ways for securing economies. To fulfill the immediate expectations, the committee recommended a slew of measures such as, the abolition of unfilled staff positions, reduction in foreign and domestic travel, avoidance of purchases of conspicuous items such as carpets and airconditioners and similar ways to reduce outlays. These measures were immediately accepted by the government.

The measures at cutting the outlays on the fringes did not, however, address the fundamental factors contributing to growth. But, they provided a means for quick acceptance, both in political circles and administrative agencies. For the latter, it was relatively easy to accommodate the proposed reductions, as all that it implied was some minor adjustment in the budgetary slack available to them. More important, it left the programmes, more or less, in tact. In the later years, these types of measures, became a part of conventional wisdom and every time there was a public demand for reduction, these types of measures were invoked. Repeated exercise of these, admittedly ineffective measures, reflected poorly on the expenditure management system.

In the 1980s, when the problems reappeared in a more virulent form, once again reliance was placed on the recommendations of an economy committee, appointed by the AICC. Again, true to form, the same type of measures were recommended and implemented, and became, in due course, a part of the failed policies. To some extent, the apparent failure, was also contextual, in that the government, while reiterating the need for economy (a rhetoric to which homage is paid in every budget speech) reinforcing the ritual, also acquired during this period, a large fleet of cars to be provided with chauffeurs to the senior levels of the privileged administrative class. Inevitably, it was deemed to be a mockery of the specified ideals of the government and inflicted a severe damage on the credibility of the system.

Meanwhile, however, the measures suggested by these committees, have come to be routinely implemented whenever there was a demand to reduce 'waste' and 'uneconomical' expenditures. The parameters underlying these measures have, neither been expanded nor reduced, and no lessons of experience have been learnt. The only argument in their support is a counterfactual one; it is the claim that the situation would have been far worse in the absence of these measures.

iv. Deficit Management

During the 1950s, the debate was primarily on the use of deficit financing as an instrument of economic development.[15] It was expected to facilitate economic development, without creating major inflationary pressures. The view was that monetary easing would quickly contribute to greater investment and production that in turn, would reduce the gap between money supply and production. But the persistent use of this instrument contributed to a situation where governments were contributing to the steady generation of inflationary impulses in the economy. Soon,

[15] *See*, for example, Rao, V.K.R.V., *Deficit Financing, Price Behaviour and Capital Formation in Developing Countries*, *Eastern Economist Pamphlet*, New Delhi, 1954.

policy attention shifted to the control and containment of budget deficits, so that the inflationary impulses could be kept under check. During recent years this view gained considerable movement in the European Union, which had, before it, the experience of Germany with growth and stability legislation. By early 1990s efforts began to be made, in a concerted way, to promote legislation that would restrict the level of budget deficits, and the magnitude of public debt, and ceilings were placed on both, as a part of the Maastricht Treaty signed by all its members. The new belief was, that annual budgets were to be formulated within this framework and that much was to be gained through explicit legislation, promoting the rule of the law that would also ensure regular compliance by government. As a part of this effort, an elaborate monitoring framework was developed in the European Union. Meanwhile, New Zealand, with a change in the government undertook major reforms in the management of public finances that *inter alia* included legislation aimed at the mandatory pursuit of prudent (no ceilings were specified in the legislation enacted in New Zealand) fiscal policies. In due course, this approach had its demonstration effect, in that, Australia and the United Kingdom also enacted legislation that assured the community of the government's intent, to be frugal in its fiscal operations. These experiences created an international environment, partly abetted by the international financial institutions, in which a strong lobby of international investors and capital managers emerged, for the development of 'Fiscal Rules' that would ensure an orderly behaviour. They were seeking an assurance, indeed a protective shield for themselves, through their insistence on the rules, regardless of the distinct environment of civil law and common law systems.

It was only natural that the movement also reached India, which because of change in the parties managing the government, also discontinued by this time, the issue of long-term fiscal policies initiated, in the mid-1980s (referred to earlier). In due course, subtle pressures came to be exercised by the visiting international investors, about the imperative need for the promotion of a rule based fiscal policy. The response at the civil service level, in the government was somewhat muted, in that they seem to have felt (although being always discreet, they were not too vocal about this in the public) that there were enough legal safeguards in the system, that the annual budget itself contained numerous provisions aimed at pursuing orderly fiscal behaviour, and that the government, more specifically the Ministry of Finance had adequate powers to contain the deficit (both through under-funding and arbitrary across-the-board cuts) and that the promotion of new legislation would not by itself be a guarantee of prudent fiscal policies, as each piece of legislation also brought with it a whole range of escape mechanisms and circumvention procedures. There was, however, a grudging recognition that the promotion of legislation could, in the short term, dampen the enthusiasm of the spending agencies and the public.

Meanwhile, as even this, below-the-surface discussions were taking place, the Finance Minister made a commitment, during the course of a meeting with visiting international investors, for the introduction of legislation to guide the government's fiscal policy. In government, dissensions tend to go underground, once a commitment is made at the political level, and as a consequence, a working group was appointed, to study the issue and develop draft legislation for the purpose. Its deliberations led to a report that was placed on the website and the draft legislation was soon sent to the Parliament. The scope envisaged in the draft legislation was broad enough and included provisions aimed at strengthening the budget management aspects too (hence the title – *Fiscal Responsibility and Budget Management Act*). The select committee of the Parliament, which had many enthusiasts for deficit financing approaches, felt that the draft legislation was somewhat restrictive and the final act, reflecting their lukewarm support, became a somewhat diluted version of the original intent.

The legislation mandated the government to specify the different fiscal indicators (there are many levels of the deficit in the Indian budget system) that would be pursued by the government and limits were also placed on the levels of guarantees provided by the government. It provided a guidepost for the fiscal policy in a more explicit fashion than before. Very soon, many state governments enacted similar legislation (there were differences among the states), partly to comply with the new approach, and partly under the impression that it might be helpful in their negotiations with the World Bank, which has now launched a programme for lending to the subnational governments.

The legislation, while following the general trend in a few industrial countries, offers the prospect of carefully orchestrated effort to reduce the level of the deficit over the medium term. But its enforceability is not always assured, as it is left in the hands of the central government, which, when not convenient, can hold it on 'pause' as has already been done. It also seeks to address the issue of guarantee in terms of limits (which can have perverse results), but the issue of risk sharing between the guarantor and those receiving the guarantee is not considered at all. In some

European countries, guarantees carry a fee, which is then pooled and maintained separately, to be used in the event of the default. Moreover, in the event of default or insolvency, a market solution is envisaged and the default risks are shared between the government and others. The intent behind these efforts is to ensure that the impact of the contingent liability on the government budget is limited. Further, the legislation and the supporting rules developed by, the Ministry of Finance, have not paid attention to the supporting improvements in the expenditure management machinery, except to hope that the introduction of accrual accounting would somehow contribute to a greater awareness of liability management in the government. If the deficit levels are to be sustained, and if greater congruence is sought between budgetary intent and outcome, then greater attention to this aspect becomes a compelling necessity. Meanwhile, the legislation is being used, as the proverbial drunkard uses a lamp post, not for illumination, but for support.

v. Resource Utilisation Process

The primary responsibility for the preparation of the annual budget and related allocation of resources (in the Indian system, the budget is an instrument to limit the outlays not necessarily to fund them) is that of the central agency, such as, the Ministry of Finance. But, the task of utilising these resources and achieving the policy goals, for which funds have been allotted in the first place, is a broader task, in which the responsibility shifts to the administrative agencies. In the phase of resource utilisation, the task of the central agency and the overall framework of relationships, between the central and spending agencies, is a delicate one. The former, has to allow greater freedom and flexibility in the use of resources, as the spending agencies alone have the responsibility of providing services and managing the street level bureaucracy that is in contact with the public.

During the previous eras, when governments were small, much of the fiscal administration, such as, periodic allocations, granting of requisite administrative approvals and arrangement of payments was in the hands of Ministry (or department, as was the case) of Finance. This arrangement had an underlying premise to the effect that the spending agencies could not be trusted with the management of public money and that the task was best carried out by the central agency. This centralisation of tasks, responsibilities and power, had the inevitable effect of a growing dependence of the spending departments on the central agency – a dependence that came to be detested by the spending agencies. Inevitably, the central agency also became the whipping boy for all slippages and failures during the budget implementation phase.

These aspects reached a critical phase during the Second World War, when the activities of the central government increased exponentially and there was a consequent logjam in the traffic going to the central agency. To address this task, a special cadre, known as, Finance and Commerce Pool was created and arrangements were also made to introduce a system of contract budgeting (under which the responsibility shifted to the spending agencies). Both those features were abandoned at the end of the war and the system reverted to its centralised basis. Meanwhile, however, it was recognised, that the government has grown so big that its financial administration could no longer be conducted, as before, in a centralised form. This recognition was influenced to some extent by the changes that took place in the British Treasury (which was still the colonial power). The British Treasury explicitly stated that it was futile to expect the Treasury to keep a, ceaseless vigil, on the buccaneering proclivities of the spending departments and proceeded to make the heads of departments, the chief accounting officers, both in theory and practice, and making them responsible for the administrative and financial aspects of the work of the departments. A similar measure was taken in India too by making the head of a department/ministry, its chief accounting officer. But the management of internal finances in the departments became a matter of central importance in the late 1950s, when a report on the subject prepared by the then comptroller and auditor general[16] designate became a matter of intense debate in the country, less for its content, and more for the manner in which the task was undertaken. The report itself was never published,[17] although the writer of the report took care, to include, substantial portions of it in a report of the public accounts committee, and later in a book written by him while avoiding any mention of the report itself.

[16] As envisaged in the Constitution, the auditor general was also to function as a comptroller of issues, an aspect that has never been fulfilled. With the introduction of computerisation and on line systems, the task itself became redundant.

[17] The task was undertaken at the behest of the Prime Minister. Considering that as an affront and intrusion into his activities, the Finance Minister refused to comment on or consider the report. Given this unintended effect, the report was quickly buried, although its spectre continued to haunt the cavernous corridors of the Central Secretariat. For a discussion of these developments, *see* Premchand, A., *Control of Public Expenditure in India*, Allied Publishers, New Delhi, 1963 and, Chanda, A.K., (the report writer), *Indian Administration*, George Allen & Unwin, London, 1958.

In the hierarchical structures of government administration, the ministry of finance had a role of primacy that often translated itself into a patronising attitude toward the spending agencies. Often, it tried to substitute its judgements to those of the administrative ministries. The efforts during the 1950s and in the later decades aimed at converting an intrusive and not infrequently negative attitude into an arms length management, where the roles would be so defined that spending agencies would be given freedom to utilise the budgetary resources flexibly in the pursuit of their policies. It was intended to change, the centralised hegemonial attitudes into fruitful partnerships. The instructions from the top, as was traditionally done, were to be replaced by efforts, aimed at building financial management capability in the spending ministries. The report prepared by the comptroller and auditor general played the role of a catalyst in this effort. In the new relationships envisaged, the newly created Department of Expenditure was expected to play a key role. The measures aimed at improvement taken during the last five decades may be analysed in terms of (a) delegation of enhanced financial powers to spending agencies, (b) developing an institutional form for financial management in the agencies, and (c) improved financial reporting within agencies and to the public.

The relationship between the central and spending agencies was expressed through a code of delegated financial powers. In principle, all financial powers were vested in the Ministry of Finance, and these were delegated, in different degrees, to the agencies. In the early period, the agencies had very limited powers, either to create staff posts to engage in virement, or shift money from one unit of appropriation to another, to purchase materials, to make a grant, to write-off non-recoverable loans, to condemn property or equipment that was no longer deemed useful or to award contracts. In every aspect, the agency was expected to obtain the approval from the Ministry of Finance – a time consuming process, and a process that effectively stood in the way of development of financial management capability. They became robotic, with little independent judgement, awaiting instructions or clearances from the central agency. The development of financial responsibility in the agencies was to start with greater delegation of financial powers to the agencies, so that they could conduct their own affairs and be accountable for it. At this stage, the payment systems and the accounting systems were still centralised. Although the agencies were to have their own initial or departmental accounts, they preferred, as a part of the traditional dependence on the central accounting agency the continuation of a centralised accounting system. The delegation itself was undertaken in stages as the Ministry of

Finance was wrestling with its own conflicted views, on the extent of the powers that could be relinquished. Over the years, the spending agencies were empowered to shift appropriations from one segment to another (although there were restrictions about shift from plan to non-plan), to establish staff positions in select categories, and to award contracts. The categories of action that were contingent on prior approval from the Ministry of Finance were reduced, and greater powers were devolved to the agencies. The delegation has now reached a stage, where the agencies have full freedom to spend their budget allocations and to be self-accounting. The term Chief Accounting Officer became a reality, endowed with the requisite substance. All these powers, like those devised by the ancient sage Manu, (with the difference that while Manu claimed divine support for his system, India being a secular country claimed no such support) distinguished between normal and extraordinary times. During the later stage, all delegations are subject to suspension and there could be a reversal to *status quo ante*.

The institutional form of financial management was developed through the system of Financial Advisers (FAs). Since the spending ministries had no supporting infrastructure except in the form of small budget and accounting cells, groups of ministries were provided with FAs, so that they could have regular contact with the agencies to which they were attached. (Hence the initial title attached financial adviser.) The FA was still an employee of the Ministry of Finance, but was to assist the spending agencies in the development of policies, from their embryonic stage to their implementation and in the exercise of associated financial oversight. This attempt proved however, to be less than satisfactory, as the FA was treated, not as a partner, but as a distant outpost of the Ministry of Finance, keeping a wary eye on the agencies. In the subsequent decades, the role of the FA was elaborated to have functional oversight on budgeting and accounting (the latter was decentralised under the scheme of separation of accounts from audit but more of this further on) and in the management of all financial matters within the ministry. He was envisaged in the new role, to be the principal adviser to the departmental head. This institutional form was deemed an essential step in the development of financial management capability in the agencies. But the development itself was gradual and, too often, reflected the reluctance of the Ministry of Finance, to part with power, or to change its own role. Be that, as it may be, it is also a fact of life that the FA, having moved from one attached to integral status, has come to assume a crucial role in the agencies.

Monitoring is an important, indeed vital, element in the implementation process. It reveals the progress made and permits an identification of the factors that could impede rapid implementation. Such monitoring was rendered difficult, as the treasury system, which extended throughout the length and breadth of the country was often slow in reporting the data to the office of the Accountant General, which then classified the raw data into specified formats and submitted them to the departments. Meanwhile, the agencies were to depend on the primary accounts maintained internally. But these were found to be wanting; in that the agencies preferred to depend on the distant Accountant General, who was administratively responsible for the rendition of accounts. Some of the delays were inherent, as the entire process was conducted manually. Not infrequently, the documentation sent by the treasuries was lost in transit or was incomplete to start with. The eventual solution to these structural problems came in the form of computer technology.

There was an initial resistance to the introduction of computer technology, as the staff felt that it would lead to drastic reductions in personnel. These resistances were overcome as a part of the tidal wave of the computer technology. Besides, the separation of accounts and making their maintenance, a part of departmental responsibilities, facilitated a quick compilation of accounts. The on-line systems permitted easy, quick and equal accessibility to all. During more recent years, the government has also been periodically publishing data on the status of government finances, in conformity with guidelines issued by international agencies. The progress made in these areas is such, that monitoring is no longer a problem area as it was previously.

But, the progress made has to be tempered by recognition of the problems faced in the working of the institutions. The FA system, although internal to the agencies, is still viewed as a lingering legacy of the previous process, as the FA is not entirely free from the implications of the shadow in which they work. The annual performance report of the FA is countersigned by, the Secretary of the Department of Expenditure. This puts them in the uneasy or delicate position of having to work with the departmental head on a daily basis, while also recognising the long shadow cast by the Finance Ministry. It is a moot point whether, in the situation, the independence of the FA is intellectually compromised. Moreover, the functional jurisdiction of the FA remains incomplete. His (her) purview was to include internal audit. But, such audit is narrowly interpreted and is confined to the verification of the payment claims. In its larger remit, internal audit involves a periodic examination of the implementation processes undertaken and the results, which inevitably reflect on the administrative capacities of the agency, are submitted to the departmental heads. It is only then, that financial management is fully internalised. But this remains to be achieved.

To carry out the manifold tasks entrusted to the FA, he or she is required to be a full professional, with a full knowledge of the financial aspects, and more important, of the administrative aspects of the agency where they work. But, the personnel management is such that, not infrequently, the posts are manned by officials from the administrative services. The posting is often used as a provisional parking lot for the person concerned, pending his (her) further career move. These limitations stand in reaping the full benefits of an 'internal' system and in the full blooming of the agencies' financial management system.

There is an additional handicap in that the monitoring continues to be oriented to and generally limited to financial aspects. From the agency's point of view, a management information system reflecting the varying needs of the different administrative schemes, broad at the base, and narrow but highly selective at the top, still needs to be developed. The need for such a system is also buttressed by the outcome budget.

vi. Resource Use Accounting

Accounting is viewed in some circles, as an independent sphere of activity. In reality, however, it is an important phase of the composite expenditure management system.[18] Notwithstanding its crucial role, it came to be considered, as a legacy of the colonial rule, as somewhat secondary, and distant from the day-to-day policy management. Inevitably this led to a spatial gap – both physically and qualitatively, in that the accounting organisation, which was then under the audit department, had a relationship with the administrative agencies that was far from supportive. This was further exacerbated by the complicated structure of the accounting system, the organisational form, the basis with reference to which accounts were compiled, and the end use of the finished product. Reforms were undertaken in all these areas with mixed results.

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18 For an exposition of this view, *see* Premchand, A., *Public Expenditure Management*, International Monetary Fund, Washington DC, 1992.

When the accounting system was reviewed by the administrative reforms commission in the later 1960s, more attention was paid to the structural aspects of the system, as it felt rightly, that the endemic delays in the compilation and reporting of accounts were entirely due to the complex structure. The payments of the central government were made throughout the country. But when they were made outside Delhi, they were initially paid by the Accountant General of the province/state and later claimed and adjusted, from the Accountant General of the central government. The mechanism was known, in accounting parlance, as settlement accounts. Similarly, there were suspense accounts, implying that, in the case of centralised procurement of stores and equipment, payments were first recorded in the accounts of the central procurement agency and were later adjusted against the budget allocation of the agency for whom the procurement was made. Accounting entries that had a different final destination than the initial entry were known as suspense accounts. In addition, there were personal ledger accounts reflecting the cash withdrawn from the treasury and accounted for later. These and related accounts contributed to inordinate delays in the compilation of intra-year and end-of-the year accounts, and there was no way of knowing the fiscal status of the government except through the aggregate flows maintained by the fiscal agent of the government, *viz*., Reserve Bank of India.

Addressing this bottleneck, the reforms commission recommended the abolition of these accounts and suggested the introduction of non-paying checks (essentially book transactions) to settle intra-agency accounts. The recommendation was accepted and the above types of accounts were abolished. But the abolition was more in the nature of a provisional reprieve, as they emerged in full vigour by the end of 1970s. The reasons for the re-emergence were, neither explained nor stated publicly. The change took place by stealth. As a result, while accounting information is available quickly because of computerisation, it is not fully useful, as significant shares of outlays continue to be booked under suspense accounts. The re-emergence of these accounts also proved to be helpful to the state governments during periods of liquidity crisis, as a short-term ways and means device, to postpone payments to the centre. In addition, there was a major development during the 1980s, which took some of the cross-subsidisation transactions from out of the government fiscal system itself. This related to the establishment of the oil coordination committee and its self-balancing account. For all of its life, *i.e*., until the abolition of the committee in the early 21st century, the committee and its account had no legal basis, as what was outside the consolidated fund, was also out of the ambit of legislative control. More recently, an intergovernmental fund, from the oil revenues, was also organised on the lines of the experience of Norway, Kuwait, etc. This was intended to provide the impression that funds from a depleting natural resource were being conserved, to be used at a later stage for the next generation. There are also efforts to create an infrastructure development fund. It is debatable, whether the integrity of the consolidated fund should be violated through these forms and whether they could not be served within the established structure of accounts.

Another aspect of the system was the combined operations of accounts and audits under one agency, *viz*., the Indian Audit and Accounts Department. This was a historical legacy from the British period, although it should be pointed out in fairness, that even during the colonial regime, efforts were made to separate them and to install a system of pay and accounts office as a part of the administrative departments/ministries. But it was done on a limited scale and its expansion was always resisted, on grounds, that the financial costs of separation were such, that they would make a serious dent into the perennially fragile financial situation. The issue was raised again during the late 1950s, and was again stalled on consideration of economy. The issue itself got some recognition during 1960s, when the rules and regulations of the office of the Comptroller and Auditor General were framed. Once again, it was swept aside on the same considerations as stated before. During 1970s, however, the separation was ordered, on the basis of a policy directive issued by the Prime Minister’s office. (As usual, there were no recorded directives. Reflecting the centralisation of power of the times, much of it was oral, informal, and generally without debate.) This time, economy consideration ceased to be weighty and the responsibility for the compilation of the central government’s accounts shifted to the government, although the combined accounts and audit functions (which, in effect means that the agency audits its own accounts – a practice shared by only a few countries in Latin America) continue at the state level with no indication, (indeed the issue is hardly raised, let alone, debated) as to whether, a similar separation would take place at that level.

The separation meant that the accounting function would be internal to the administrative ministry and that full benefits such as policy accounts could be reaped. This, in turn, implied that the annual appropriation accounts, which usually provide a window of opportunity to the legislatures and to the public to ascertain the patterns of resource utilisation, would be revised to fully reflect the latent promise. This, however, is belied by experience, as the information provided is too skimpy to provide a meaningful basis for the understanding of the agency's activities. More significantly, the paucity of information provided through this medium has not been a matter of serious consideration, as the publications and analysis of the Reserve Bank of India compensate for this major shortcoming. Meanwhile, the preparation of annual appropriation accounts, has, as in the past, become an innocent folk rite carried out ritualistically with little enthusiasm. Its intended use and actual use have not so far been subjects of debate, an aspect that is illustrative of the public apathy.

The basis of government accounting has always remained in the form of cash despite its shortcomings. Although it had inherent advantages in facilitating effective coordination with monetary policy, it did not have the capacity to reveal the full outlays either on a programme or a project. It became further problematic, as the outlays on the programmes and projects were distributed among the current and capital budgets. Meanwhile, it generated the false impression that the amounts budgeted and spent were *all* the amounts that were needed to be spent on a programme. It was unhelpful in identifying the liabilities incurred, or the financial needs of the assets in regard to their maintenance. In short, it was not immensely useful in the computation of costs of government activities. But it was simple to use and it is this simplicity, and long history that contributed to the continued prevalence of cash as the basis of government accounting. The alternative, accrual basis, was considered in the government sometime in the later thirties, but it was felt that accrual accounting was primarily needed in commercial organisations engaged in the pursuit of profit. As the government was not a profit-making agency and as its primary motive was provision of services, it was decided that accrual accounting was to be applied, on a supplementary basis, in the commercial departments. Accordingly, Railways, Posts and Telegraphs, Information and Broadcasting, and Irrigation (commercial) were expected to submit proforma annual balance sheets.[19]

The issue was presumed dead and lay buried in the vaults of the government and did not figure in the radars of any commissions of enquiry, until the 1990s when the support for the introduction of accrual accounting came from donors and international financial institutions. In a

[19] For an excellent discussion of this issue, *see Introduction to Government Accounts and Audit*, Government of India, New Delhi, 1940. For a relative assessment of the merits of cash and accrual basis, *see* Premchand, A., *Effective Government Accounting*, International Monetary Fund, Washington DC, 1995.

loan given to Kumbakonam municipality in the southern state of Tamil Nadu, the World Bank included the introduction of accrual accounting as a part of its conditions. In a similar vein, the USAID, while extending financial assistance to Ahmedabad Municipal Corporation, also insisted on the introduction of accrual accounting, as a supporting device, to promote its borrowing from the public market. By this time, the credit rating agencies also became prominent and their assessments included the liabilities, which had to be separately calculated. Furthermore, the World Bank, which was beginning to be an important lender to state governments, included the introduction of accrual accounting in its loan to the government of Uttar Pradesh.[20] Although all these conditions or intentions were cleared by the Central Government, which alone had the primary responsibility for foreign aid agreements, the government itself did not deem it necessary to consider the general issue. It came up later, as a part of the recommendations of the Eleventh Finance Commission, which suggested that, the office of the Comptroller and Auditor General should issue instructions about the accounting formats, to be followed for the purpose. Later, instructions were issued about the need for a maintaining an inventory of assets and the maintenance of depreciation.

There was no change in the basis of government accounting, which continues to be cash. Rather, it is to be supplemented by the maintenance of accrual accounts, so that the full picture of assets and liabilities could be clarified. The merits and the compelling strengths of accrual accounting lay in revealing the full outlays on a programme/project from initial conception to its completion, in identifying the formal, hidden and contingent liabilities, and in disclosing the maintenance needs of completed projects and assets. Moreover, it has the virtue of facilitating the computation of accrual costs, reflecting the actual use of resources and thus contribute to a comprehensive system of resource use accounting. Given, however, the modified and extremely narrow form of accrual accounting proposed, and also in view of the fact, that it is largely intended to be supplemented to the cash based accounts, it is most unlikely that the potential benefits, implicit in the system, would be reaped. Although, it is claimed – as a part of the outcome budget – that unit costs would be computed, it is, at this stage, far from clear, as to how these costs would be compiled, in view of the limited nature of the form of

[20] It also included a statement about the need for separating accounts from audit. Although these aspects were beyond the purview of the state government, they showed little hesitation in signing the loan document. Neither accrual accounting nor separation, were considered as conditions precedent, as the loan was disbursed in a single tranche, without the fulfilment of these or other intentions. Soon after, there was a change in the government and the new party that came into power did not pay any attention to these matters.

accrual accounting. Neither the outcome budget, nor the modified accrual systems are accompanied by a road map about the future developments in these areas.

vii. Others

An area, where the government was an unintended beneficiary, relates to the application of electronic technology to financial management operations. As in other areas, the government was not too enthusiastic in joining this bandwagon, if only, for the reason that it was less than confident about the reaction of the staff unions. One such office, where the trade union activities were somewhat stronger than in the industrial and banking sectors, was the office of the Accountant General, Central Revenues. (These titles have been changed in the following years, into Director General. It is a moot point whether the nomenclature, which hitherto was applied in the police departments, made much sense in clarifying the role of accounting offices.) Here, in the late 1960s, hesitant efforts were made to introduce a payroll system for central government employees. As expected, there were loud protests. Later, in the early 1970s, as a part of the revised budget classification system, a new coding procedure was also introduced, to be applied on a computerised basis. Much later, when the maintenance of accounts was departmentalised, each ministry was assigned a nationalised bank, through which, its financial transactions were carried out. Taking advantage of the computerised system of operations, then being applied in the banking sector, the accounting operations were also computerised. These applications were progressively extended as India gained more experience and became a leading centre in the application of electronic technology. Simultaneously, the extended application of this technology in the Reserve Bank of India also facilitated the operations of the nationalised banks assigned to the ministries as well as the operations of the state governments too. The latter also made efforts to apply the technology to the operations of the district treasuries, with the specific grants made available by the finance commissions. In due course, a separate office for the payment of central pensions (civil) was also established, and the payment processes were considerably simplified. More important, in a gesture aimed at addressing the grievances of the pensioners about the late or non-payment of pensions, separate public grievances offices, equivalent to the customer service departments in the corporate sector, were also established. Moreover, plans have also been prepared for a progressive extension of the technology to other areas. The steady decline in the prices of personal computers has enabled most officials to have them on their tables: they are now a part of the furniture provided in each room and have ceased to be a status symbol.

The developments described above have contributed to visible progress felt by the public: they have transformed the system on an enduring basis. Storage of enormous data and their quick retrieval have enabled a quicker processing of the routine tasks that are at the heart of the accounting system. For the most part, however, they have neither replaced nor abridged the associated administrative processes. Rather, the electronic processing has become an adjunct to the conventional manual system. Parts of the payments continue to be made through the issue of cheques or payment vouchers, and electronic adjustments are used along with the traditional systems. These areas are bound to undergo further changes, as greater progress is made in the payment systems through the introduction of biometric and related techniques. It is difficult to foresee the limits of the progress that will be made hereafter in this area.

II. Evaluating the Experience

History, it is said, is an interrogation of the past by the present. This interrogation however is never complete and it is almost certain that future generations would develop their own ways of undertaking this and in gaining associated perspectives. The completion of the half-century benchmark provides us with a lever to evaluate the experience. To facilitate this, the innovations and changes of a technical nature, all intended to have a beneficial impact on the systems of management, and related efforts are summarised in *Table 2*. The changes are regrouped into two categories – those that aimed at systems improvement, and those that are of an organisational nature. The latter refers to the technical and administrative infrastructure that the systems need. In addition, the sources that had an influence in shaping the content of the change are also indicated. The intended impact in terms of, incremental or transformative change, are also discussed. Necessarily, an assessment of this type is judgmental in nature and is helpful in undertaking a more systematic evaluation.

Before undertaking the evaluation, it is appropriate to consider some general aspects of the experience.

i. Strategy and Structures

In architecture, a generally recognised principle is, that form follows functions. An extension of this principle to organisations is, that structures follow strategy. As a part of the latter, the issue is raised whether reform or technical change should be planned on a comprehensive basis or in a piecemeal fashion. The experience analysed above reveals that there was often a general strategy, but not always a carefully drafted blueprint with all details recognised and specified. Rather, it has been more a case of crossing the river, feeling the depth at each stage and making detours wherever necessary. In the process, it was unlikely to reach the intended destination in the specified manner, and not infrequently, there may be unintended consequences, which may eclipse the few benefits. Historians warn us of the dangers of comprehensive plans. But the fundamental difficulty in formulating a comprehensive plan is that in governments, there are far too many imponderables, major uncertainties, and the usual quota of fallibility that stand in the way. Besides, information on these aspects is not always available, to the extent, implicit in the purpose and frequently satisficing approaches are adopted. Necessarily, therefore, even where the effort is to have a comprehensive plan aimed at undertaking major reform, it has the potential of becoming a piecemeal approach. It may also imply a realistic adaptation to the changing scenarios. In some cases, there may be no accompanying structural changes.

Three aspects illustrate the changes in expenditure management since the 1950s and they may be considered in terms of (a) strategy and improvisation; (b) directed strategy; and (c) seat- of-the-pants approach. The first category refers to a specified strategy that the government uses it to gain acceptance from all concerned and as a basis for implementation. Establishment of the Planning Commission, as well as the plan to introduce electronic technology, are examples of this type of approach. The Planning Commission, both in form and content, was viewed as a national necessity and as a continuation of the previous efforts in a more vigorous form. There was however opposition to this from the then Finance Minister, who feared, rightly as it turned out, the loss of the primacy of his ministry and a transfer of some of his functions and powers to the newly established agency. His view did not, however, carry much weight and he was quickly replaced by a more compliant former civil servant. But the goal of establishing a full fledged Planning Commission, was not followed by a detailed blueprint. Only the destination seemed to be clear and the details of the journey remained to be worked out, which the government did in the following years through a series of improvisation measures. An organisation grows reflecting the times and their requirements, as was indeed the case with the Planning Commission. In particular, its role in relation to the allocation of resources and the monitoring of their utilisation evolved through a process of give and take between the two contending agencies. It was not a process without tension, for such a tension was embedded in the situation, given the fact, that one was considered to be ambitious, while the other was viewed as more cautious. In a similar way, it can be said that the application of computer technology, which became a mandate, had a specific strategy whose scope expanded to include the rapid changes in the technology itself and in the associated communication system. A movement from a main frame to a more decentralised application was made possible by the changes in the technology and more important, by the rapid decline in the marginal costs of the extended system.

Table 2: Origins and Impact of Expenditure Management Initiatives

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
I. <u>Systems Improvement</u>				
• Planning Commission	• Inspired by the Russian experience	• It was structured to meet the local context and needs.		• Changed the landscape of budgeting and introduced a new vocabulary that became an enduring part of the system.
• Establishment of committee on plan projects		• Both in concept and in practice, a local effort. It eventually became a part of the planning machinery.		• It made enduring contribution in the study and restructuring of *panchayat raj* institutions, as well as introduction of management education and performance budgeting. It initiated studies of hill development plans for the north east states.
• Programme evaluation organisation		• Totally indigenous in character and was much ahead of the times.	• Mostly incremental.	• Its pioneering studies, if fully implemented could have had a transformative impact.
• Cost accounting		• Reflected an important need of the times.		• Was instrumental in laying the framework of a uniform accounting system for public sector enterprises.
• Coordination of the activities of public sector enterprises		• It was developed from within the government.		• Notwithstanding its humble beginnings as a cell, it eventually grew into a bureau with a mandate for the coordination of investment activities and pricing policies, staff

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				management and for the publication of an annual report on the consolidated finances of publicly owned enterprises.
• Three pronged approach for expenditure management		• Although it was not conceived as an organised framework, it evolved into a *de-facto* expenditure management system with earmarked departmental/ministerial tasks and responsibilities		• The plan expenditure, non-plan expenditure, and foreign exchange budget related approaches dominated the scene for many decades. Separate foreign exchange controls were given up on as a part of economic liberalisation.
• Functional and economic classification of the budget	• The effort was prompted by the publication of a manual on the subject by the United Nations	• The classification of the budget itself was substantially revised over the years in the light of local needs, in particular, plan programmes	• The new classification has replaced the previous list of major and minor heads of account.	• Two types of classification have come into practice at the centre. The budgetary classification, which is fairly detailed, is the basis for resource allocation, utilisation and resource use accounting. In addition, a document showing the budgetary allocations in terms of international practice is also prepared annually and forms the basis for much of the analysis contained in the *Economic Survey.* The practices vary in state governments, in that the budgetary

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				classification continues to cling to the object based classification, while another document containing the functional and economic classification is prepared at a later stage. The former is the basis for the compilation of annual accounts.
• Performance budgeting	• To a very large extent, inspired by the UN manual on the subject and from the US practice.	• It was sought to be adapted to the local situation.		• The change to the extent it sought to replace the existing system, would have been transformative. But it never replaced the existing system and was used to provide additional information on selected performance aspects. Over the years, the scope of the document was restricted to plan outlays. As a result, the utility of the document came to be moot.
• Zero-base budgeting	• Inspired by the experiences of the United States during 1961-62 and 1974-78.	• The application in India was in a truncated form of the original concept.	• Little change took place in practice.	• In the first attempt at its introduction, which was half-hearted at best, it was sought to be applied to the budgetary allocations made to scientific departments. During the second attempt, it was

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				restricted to the specification of ceilings for sectoral projects. In as much as ceilings already existed for plan projects as a part of the annual plans, it tended to be a reinforcement. Other elements such as *inter se* priority planning and cut off levels or other supporting administrative changes were not introduced. Over the years, the term itself came to be forgotten.
• Outcome budgeting		• Originally a component of performance budgeting, it acquired a life of its own	• No impact is as yet discernible.	• Introduced in 2005, it was restricted to plan projects and programmes. It was sought to be a binding arrangement to assure the specified outputs for the allocated resources. It also was intended to specify the risk factors that stand in the way of utilisation of resources and the delivery of services/outputs. To a large extent, the measurement of out-puts or the identification of risks left a good deal to be desired. Besides, the fact

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				that many of the programmes/projects are funded by the central government but are implemented by the state governments added a complex dimension in the fulfillment of output goals or service chain of delivery. Its goal and role are limited to providing information (already provided in other budget documents) in a specified format with little impact on the process of allocation of resources or their utilisation or their accounting.
• Gender budgeting	• The effort was initiated and funded by the United Nations		• Too nascent to provide a basis for assessment	• In view of the growing importance of the role of women and the budgetary support aimed at mitigating their problems, efforts were initiated to identify and collate the resources allocated under a broad range of programmes and activities in the plan and non-plan outlays of the budget. It is likely, if properly utilised, that this sort of compilation would facilitate a more

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				focused consideration of women's issues and an evaluation of budgetary support and the mechanisms through which the support is channelled.
• Project appraisal and investment scrutiny	• A trend of the times and many governments have come to accept the need for a comprehensive assessment of major investment projects.	• The system was adapted to the local institutional framework.		• The change was substantial. It forced everyone to think more analytically and to be, as far as possible, rational, rather than being emotional on these issues. More specifically, it sought to introduce a rigorous discipline that in due course permeated throughout the government and in the process enriching the financial planning frame.
• Project information system	• This aspect received emphasis as a part of the general development of the management information system, which was then the general academic vogue.	• The system was adapted to the needs of the Planning Commission.		• The system, as introduced in the late 60s, had very little impact as the project authorities came to view it as yet another requirement to be fulfilled. With the growth of the application of electronic technology, the system went through a transformation and the design, as originally introduced, lost its

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				importance. It is a case where the tidal wave of computer technology replaced the nascent efforts made in the previous periods.
• Fiscal stress management		• These approaches were periodically revived reflecting the economic changes.	• The change was episodic rather than enduring.	• One feature of the management of the stress that came to continue is the emphasis on the monitoring of the credit limits and the overall relationships with the central bank. The management of public debt itself was shifted from the central bank to the government and the former was not expected to participate in the primary market. At the state level, the treasury was technologically updated, to facilitate, the rapid compilation of data. Inevitably, the progress made is highly uneven among the states and along with it, the benefits too.

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
• Improved payment systems		• Totally indigenous effort.		• Each spending ministry was assigned one of the nationalised banks to make and receive payments. Coordination mechanisms were established to facilitate same day settlements with the Reserve Bank of India. More significantly, and much to the relief of the pensioners, a centralised computerised system, with facilities for addressing customer grievances, was established. Although, the treasury system continues to operate, the extensive spread of the banking system, enabled the development of a system that facilitated the work of the community with the government.
• Abolition of the foreign exchange budget		• The need for continuation of this approach was no longer felt in the context of economic liberalisation		• As a consequence, one of the instruments that hitherto had a major part in the three- pronged approach to expenditure management was eliminated. More significantly the single language of rupee based budgeting facilitated a

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				more even treatment of outlays. The division of plan and non-plan outlays with its associated dualism continues, however.
• Fiscal responsibility and budget management	• This legislation was inspired by the experience of New Zealand and other countries. Informal pressure from international financial institutions played a catalyst role.	• The scope of the legislation was adapted to the local needs.		• In scope, it envisaged an enduring impact, in that, it had the potential of transforming the way in which fiscal policy was formulated and implemented. Emulating the centre's approach many state governments also introduced similar (but varying among states) legislation. The focus on deficit levels and the periodic reporting as well as the changes in debt management and specification of ceilings on guarantees was salutary. The provisional pause in its implementation, raised doubts, about the enduring impact of this approach.
• National Expenditure Commission		• An indigenous approach reflecting the new realities of coalition politics		• In scope, it had the potential of facilitating an organised discussion of national priorities. In the event, the commission opted for the narrower approach of being a

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				provisional economy committee and there-fore failed to generate the intended debate. The commission did not consider the adequacy of the expenditure management system thus depriving itself and the country of a major opportunity to engage in a comprehensive review of the strengths and weaknesses of the system.
• Accrual accounting	• To a large extent, the effort was inspired by the recent experience of a few countries, and to a lesser extent, recommendation of the Eleventh Finance Commission played a catalyst role.			• The system is intended to promote a greater understanding of liability management and asset maintenance. Aimed at the latter, instructions were issued for the maintenance of assets and depreciation. Accrual accounting, in its previous form, was limited to what were known as commercial departments and the coverage was limited to Railways, Posts and Telegraphs, and Irrigation (commercial), and Information and Broadcasting. They were

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				expected to prepare proforma balance sheets. In intent, it is expected to promote a heightened financial management capability in the spending ministries and agencies. This goal is, as of now, unlikely to be realised, as the supporting technical infrastructure of computation of costs is not in place.
• Revival of standing finance committee and the establishment of consultative committees	• Establishment of consultative committees is inspired, to a major extent, by the experience of the United Kingdom	• The standing finance committee has had a good deal of experience during British Rule and was abolished when the estimates committee was established.		• In intent, it was expected to bolster up the role of the Parliament in the control of public money, more specifically, in the discussion of demands for grants of individual ministries, and in the approval of related appropriation bills. But, in reality, the approval of a major part of the budget is taking place in the guillotine hour (during the last hour of legislative debate) and on several occasions, appropriation requests were approved even before the reports of the consultative committees were

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
				submitted. Thus, their role has come to be abridged to the point of nullifying the small impact they would have had otherwise.
II. <u>Organisational Matters</u> • Department of Expenditure		• An indigenous effort aimed at a clearer delineation of tasks and responsibilities	• Change has been mostly incremental, reflecting the periodic changes made in its charter. Although, plan finances were not in its initial purview, they came to be included in the range of activities undertaken by the department. It has a major role in the broad determination of annual budgetary aggregates, in the examination of the expenditure aspects of new policies and in the review of contingent policies.	

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
• Financial advisers scheme		• This reflects the institutional realities of the Central Government	• This scheme has undergone several changes over the years. The intent was to cushion the hegemony exercised by the Finance Ministry and to provide a degree of autonomy to the spending agencies. Still regarded as an extended outpost, the effectiveness of a financial adviser depends, despite recent addition of responsibilities relating to payments and the compilation of departmental activities, on the perceptions of the administrative ministry. It is an institutional form whose full impact remains to be realised.	

Area	Foreign Inspired Effort	Indigenous Origin	Incremental Change	Transformative in Nature
• Staff reorganisation units		• An indigenous device	• No longer in existence in view of the extended delegation of financial powers to administrative ministries.	
• Computerisation of the budgetary and accounting process	• Part of a worldwide trend	• Software is indigenous		• This has had an enduring impact in all stages of expenditure management with major benefits in the payments area

The second category of directed strategies is a contrast to the first approach in that the strategy is not evolved from within, but is directed or managed from outside. The history of expenditure reforms described earlier offers several examples of this approach and a few may be considered here. The introduction of Performance Budgeting was opposed, on considerations of feasibility in the late 1950s, but was accepted by the government when it became a recommendation of the Administrative Reforms Commission and soon took the form of an informal directive from the Cabinet Secretariat. It was not clear, however, that the government was eager to implement the recommendation and change the existing system. Performance Budgeting became, therefore, a supplementary exercise, and in due course, came to be restricted in its application even in that form. Eventually, it came to be spiritually superceded by the outcome budget. Similarly, in the case of separation of accounts from audit, which was on the anvil for about three decades before independence, the Central Government periodically indicated its lack of willingness to undertake the task. Consideration of cost became a fig leap justification for its reluctance. Once, however, it became an informal directive from the highest echelon, a separation was quickly undertaken, but it was restricted to the Central Government. The anomaly of a combined accounts and audit organisations continues in the State Governments and as yet, there is no indication, let alone a firm decision, as to when they would be separated. A third example is provided by the fiscal responsibility and budget management legislation. Here the views of the civil service were different from those of the minister, and there was a feeling that the minister bowed to external pressure from the investor class, whose frequent jittery nerves were sought to be assured and comforted. The lack of enthusiasm on the part of the civil service was evident in the initial form of the draft legislation, which was further weakened by the legislative committees. The end result is, a piece of legislation that does not inspire confidence, and does not have the capacity to exercise a decisive influence, as subsequent events indicate, on the course of fiscal policy.

The third approach implies situations that are characterised by the absence of a strategy and there is a resort to seat-of-the-pants approach as a substitute. Governments are loathed to admit the absence of a strategy and therefore utilise an ad hoc way to address the problems. A pre-eminent example in this regard is the package of economy measures introduced from time to time. As previous discussion shows, the Central Government relied on external committees (in two cases by the findings of the committees) appointed by the All India Congress party for inspiration, content and political support for the measures, although it was evident to policy analysts, that the measures, skirting on the fringes of public expenditures, rarely addressed the heart of the issue. It is also evident that no structural changes took place, as the problem was deemed to be irregular in incidence than an embedded feature of government outlays.

ii. Role of Technocrats and the Political Class

There is a generally held view that in formulating and implementing reforms, the technocrats play a prominent role. It is suggested that this phenomenon is particularly observable in the economic and financial sphere, which are deemed to be too technical to be grasped in detail by the political class, *viz.* ministers. The Indian experience lends support to these views. India is one of the few countries, where the average span of a Finance Minister is long enough for him (her) to acquire an expertise on technical matters. This was different from the experience of Latin America, where the average longevity of a Finance Minister was, during the 1980s and 1990s, not more than thirteen months. It was even shorter in countries such as Turkey. At the height of Asian financial crises in the second half of 1990s, Thailand had three Finance Ministers in about as many weeks. In India, there have been Finance Ministers who presented as many as eight budgets. But longevity offers no guide either to merit or to innovative capacity. Furthermore, five of the ministers that served the country were from civil services or held high ranks, including as, heads of Department of Economic Affairs.[21] But their association with the civil services did not prove to be either assets or liabilities to budget reform. In fact most proposals for innovation had their origins, except those so indicated in *table 2*, in reports or studies made by the Parliament secretariat or other governmental agencies. Their processing did not always follow the normal steps, as in some cases, the requisite push was provided by either Cabinet Secretariat or the Prime Minister's office or the Finance Minister's office. The civil service itself would appear to be divided into two groups, *viz*., those who favoured change, however gradual it is, and those who were comfortable with the existing system and were skeptical about the benefits of the proposed improvement. When the second group was at the helm, the general response was, to the effect, that the situation was not yet ripe for radical solutions. The attitude to separation of accounts from audit, and the introduction of performance

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[21] They include C.D. Deshmukh, Morarji Desai, H.M. Patel (both Deshmukh and Patel were members of the ICS, while Desai served in the Provincial Civil Service in Bombay Presidency before joining politics), Manmohan Singh (a member of the Indian Economic Service and like H.M. Patel was a Finance Secretary) and Yashwant Sinha, a member of the Indian Administrative Service.

budgeting provide ample evidence in this regard. When the first group was at the command, there seems to be a willingness to try out an alternative approach, in the hope, that while it offered no panacea, it had the potential of incremental change for the better. The Civil Services in India also offer, in some cases, a built-in resistance to change. In most cases, members of the Civil Services reach the top of the administration towards the end of their career, and may serve there for an average of less than three years. Having spent a large part of their life in those systems, they become the silent supporters for the maintenance of *status quo*. They do not also see any career enhancement because of the change. More significantly, any suggestion for change coming from outside is viewed as an implicit criticism of their administration. They want to give the impression that they are in firm control of the situation and that issues, to the extent there were any, were being addressed. This personal identification is mostly a factor contributing to resistance to change, than to, paving the way for change. Frequently, an impression is sought to be provided to the effect, that they are better aware, of the potential pitfalls, than the visitors. Thus, while reform is undertaken in other countries, particularly those with a spoils system and where the top positions are likely to be manned on a rotating basis by political appointees, as a badge of honour, it tends to be relatively low-profile affair in India, because of the civil service approaches. This does not negate the fact that some innovations had, both the blessings and active support from civil servants. They cannot, however, act alone and need to be supported by their ministers. In cases, where there are frequent changes in the people manning the top positions, the relative longevity of the minister may promote a view of stability. There is a symbiotic relationship between the Civil Services and their political masters, and the contention that, either of them is exclusively responsible for budget innovations does not lend itself to easy empirical proof. History also illustrates, that both classes are subject to external pressures, subtle or otherwise, from international financial institutions and other donors during periods of crisis. The conditionality that comes with external assistance, including institutional and systemic change, is often resisted (on consideration of hazy notions of sovereignty or public apathy) initially, then negotiated to seek marginal concessions (which are then touted as major triumphs for the domestic political and administrative teams) and finally accepted.

iii. Budget Innovations as Rhetoric

Governments are keen to be seen as addressing their structural problems and as being constantly engaged in improving the administrative systems and in seeking to provide improved services. These efforts, it is believed, would be helpful in forming better perceptions about the government's effectiveness and, at a minimum, preventing further erosion of trust in the government. There is also the unstated hope that the improved perceptions would translate themselves into greater political support. Most political manifestoes and common programmes recognise these political effects and tend to play up their intentions, to make administrate change a reality, when they come to power. These approaches have also found their way into Indian efforts at reform. In general, the rhetoric tends to seize big items, such as, the introduction of new benefit programmes. The budget innovations, being of a technical nature, and where the benefits to the public may not be visible, except to those, who are engaged in policy making in governments, tend to get less political space, and are reserved usually for annual budget speeches. These speeches, which tend to be long, (and dull, except to those engaged in stock trading) often deal with more important matters such as tax changes, and budget innovations tend to be buried somewhere in the text.

During periods of crisis, they acquire greater prominence. Governments seek, in these situations, to impress the public about the endeavours being made to address and ameliorate the condition. They aim to create a lobby in favour of the proposed action and to reap, short-term political advantages. The announcement of the measures creates, for the most part, hopes about beneficial results form the actions, and in a few quarters, anxieties too about the uncertainties associated with the proposals and their possible unintended consequences. While hopes result in support to government, they also have the down side in that, non-achievement of the intended goal, would quickly lead to disillusionment and gradual decline in the credibility of government. In the early decades after independence, when COPP and PEO (discussed earlier) were established, government announcements reflected a desire to explain the problem first and then describe the proposed measure. They were sought to be viewed, both in the government and outside, as an earnest expression of sincerity and modest ambition. During the 90s and later, the announcements were far more confident, indeed even strident, as was the case with zero-base budgeting and outcome budgeting. In the case of the former, there was no attempt even to explain, as to how the technique would work and how long it would be in operation. Admittedly, it was intended to reap the benefits of an 'announcement effect'. In the case of the latter, it was stated that the intent was to achieve greater congruence between intent and outcome, and the details were left to be sketched out in the document submitted later. Here again, there was no attempt to provide a road map and a timetable for implementation. These experiences lend support to the view (*see*, March James G. and Johan P. Olsen, *Rediscovering Institutions*, 1989) that much of the administrative reorganisation in the twentieth century was a history of rhetoric. While this conclusion was reached after analysing the experience of the United States, it has applicability to India too. It also indicates that more effort is needed to sustain the announcements.

iv. Process and People

It is a truism that governmental policies and the processes through which they are formulated and implemented have an enormous impact on the public and on those working inside the government. They thus become the stakeholders, and as such may need to be consulted about the reform, both before its introduction and during implementation. Moreover, the success of the effort depends on the extent of consultation with the stakeholders working within the government and measures taken to improve their technical skills that may prove to be vital in the implementation of reforms.

The experience with budgetary reforms in India reveals a benign neglect, of the role of the stakeholders. Many of the measures announced during the 50s were not discussed with the legislators or with the public. Except for the establishment of the Planning Commission, which in any event was long anticipated, proposals about COPP and PEO were announced rather suddenly and were neither preceded nor followed by any discussion. Same was the case with the establishment of, the Department of Expenditure. In regard to the unpublished Chanda report, there was an extended debate in the lower house on the basis of a newspaper report. The contention was the non-publication of the report than its contents; there was no debate, not even an expression of recognition, when the contents of the report were published in a different from at a later date. The budget innovations that were introduced later, such as ZBB and outcome budgeting, were not preceded by any discussions with the public or its legislative representatives or with any other representative institutions. Even when there were major failures, such as the death of about sixty people in a stampede that took place in the early hours of a drizzly morning in Chennai while waiting to receive government assistance, there was no demand either from the public or the government to change the method of payment. In fact, the public did not figure explicitly in any of the budgetary innovations introduced thus far. The implicit reasoning seems to be that all improvements were intended to benefit the public and that the government was performing its role. As a continuation of this neglect, reforms are often greeted by the pubic, at best, with mild disbelief, and at worst with silence. It is said that silence is often an accomplice of failure.

The consultation within the government too, experience shows, was often non-existent. As an extended post of budget secrecy,[22] budget innovations too were announced as a part of the budget package and were not preceded by consultation with spending agencies. The three legged expenditure management system depends, for its smooth operation, on the contributions of the central agencies, spending departments and the public. But the participation of the latter two in the planning of budget innovations was not even marginal. Moreover, the new systems require enormous improvement in the technical skills of those engaged in implementing them. The need for such improvement is inherent in a situation where the employees, hitherto oriented to traditional systems, were expected to be weaned away from them.[23] Organised efforts at training were launched only in the later 1960s. The presumption seems to be that the administrative agencies would somehow cope up with the new tasks. In retrospect, it is debatable whether more overt efforts to consult with the public, spending agencies, and government employees would have yielded different results.

v. Solutions as Problems

The annals of government reveal that what is offered, as a solution in a specific context could itself become a problem at a later stage. There are no permanent solutions, and each solution may become an issue at a later stage. One such solution, which has had the effect of radically altering the administrative culture in the sphere of expenditure management, relates to the introduction of planning machinery, and the refinement of its methods and techniques of operations over the years. The establishment of the Planning Commission and the introduction of plan outlays, as a distinct

[22] The procedure of parliamentary privilege is generally limited (and rightly) to tax proposals. Administrative reorganisations are often viewed as internal matters, and may not be announced in the Parliament.

[23] The training division in the Ministry of Home Affairs was established in 1968. Among its endeavours was the preparation of literature, to be used as 'desk material' by government employees. The first training volume published by the ministry was Premchand, A., *Performance Budgeting: An Introductory Analysis*, Ministry of Home Affairs, New Delhi, 1969.

category, contributed to the emergence of a dualism, where the traditional outlays yielded their primacy to the new category. The area in which, claims for greater allocations came to be made and greater time was taken in budgetary decision making, was the plan outlay. It acquired greater prominence as a barometer of development and increases came to be viewed as important in themselves and as political victories. In the process, the non-plan outlays came to be considered as routine, with little or no debate about their continuing benefits. In practice, given the resource fungibility, it made no difference, as a doctor paid from a plan scheme, performed the same functions as a doctor from a non-plan scheme. For administrative purposes, however, the distinction between plan and plan schemes has had the adverse effect of treating the latter as secondary that required no annual review. In such a context, the growth of non-plan came to be significant, contributing to greater fiscal stress. While part of this growth was contributed by the interest burden, reflecting the increasing reliance on debt as a source of financing, it was also the result of steady inertial increases from grade and activity creep. It also reflected, as analytical neglect, in the annual process of budget making. In the annual tight time squeeze of budget making, this neglect has a price and it has become a problem in its own right.

The solutions also do not yield the expected results, when the patterns of implementation are different from those envisaged. This was the case with Performance Budgeting, which despite its immense potential, for transforming the landscape of expenditure management, had no impact at all, because it was viewed as a supplementary exercise. A similar experience looms large on the horizon of *Outcome Budgeting*.

vi. Evaluation and Legacy

Evaluation of budgetary innovations is rendered difficult, as the benefits may not be tangible and frequently lay buried in the labyrinths of government structures, processes and the long piles of their records. It is rendered even more difficult in the Indian context, as the government has shown little eagerness to evaluate its own experience. But evaluation is necessary if only, for the reason that the movement forward depends on knowing what has been done and what part of it would endure into the future. Evaluation can be, both narrow or broad in that it can be done within the framework in which the purposes of innovations were conceived or specified, or broader in that those terms can be transcended and important aspects such as, their relevance to the problems experienced may also be considered. From these points of view, the important questions that evaluation has to answer are – did the innovations serve the intended purpose?, were they beneficial?, were their costs reasonable?, would they endure?, and finally, what has the system evolved into and would that provide a viable and adequate basis to sustain itself and address the future tasks as well? Some tentative answers to these questions except one are offered for consideration here. The issue relating to costs cannot be explored, however, both in view of the lack of data, and the difficulty in computing the costs in a non-controversial fashion. It is an important task that needs to be addressed and it is to be hoped that future researchers would throw some light on this area of darkness.

The question relating to serving the intended purpose is also rendered difficult, in view of the fact that many of the changes were not accompanied by any specification of objectives, the machinery for implementation, and the stream of benefits. These have to be imputed and then evaluated. An additional factor to be taken into account is the fact that some of the innovations are still at a nascent stage and adequate experience has not been gained to permit evaluation. This is the case, for example, with the *Outcome Budget.*

Taking the first question of serving the intended purpose, it appears that the government was mostly successful in carrying out the incremental changes. Thus, improvements in budget classification, which were introduced more than once, reflecting the changes in the state-of-the-art, were largely successful in achieving their objective. More or less, the same may be said about fiscal stress management during 1980s, and during the liberalisation period of early 1990s. It has also to be recognised that the conditionality of the structural adjustment programme and the extended fund facility, with the international financial institutions, may have had a substantial role, in the management of fiscal stress and in the reduction of the size of the budget deficit. The change brought about through the establishment of a Department of Expenditure is, however, a more debatable issue. It coincided with a period of steady decline in the primacy of the role of the Ministry of Finance. The new realities of planning for economic development contributed to a major shift of the focal points of analytical power and greater role in the allocation of resources shifted to the Planning Commission. Moreover, the emergence of foreign exchange crisis, and the fact that foreign aided expenditures started becoming a major component of expenditures and the fact that both these factors were managed by, the Department of Economic Affairs, further eroded the role that would have been played otherwise by the

Department of Expenditure. Similarly, the changes in the financial advisers scheme, all of which were intended to create a recognisable financial management capability in the spending agencies were too gradual, implying that the full implications of the proposal were not squarely faced by the Ministry of Finance. Rather, each time it reacted to the growing demands of the spending agencies and to the general demand that tasks in government be undertaken on a more decentralised basis. While the gradual devolution of financial power and associated responsibilities to the spending agencies has been helpful in making financial management systems more viable in the spending agencies, several important structural changes remain to be made. An area where success remains firmly lodged in the remote regions relates to the achievement of economies in expenditure. Apart from annual exhortations, which have assumed the function of a formal ritual, little was done within the government, except in the early Five Year Plans, as a result of the efforts of COPP and PEO, and reliance was placed on the intellectual spadework performed by a political party.

The systemic change envisaged through the reforms offers a more mixed picture. As noted earlier, the establishment of the Planning Commission and its associated bodies has transformed the system of expenditure management. Its impact is continuous and enduring. Similar is the experience with the computerisation of accounts. Although several tasks remain to be completed, it has ushered in a sea change in the system, and the improvements in the payment systems have yielded permanent beneficial results, both to government and to the public. The experience with the introduction of a slew of budget innovations is vastly different, however. While they had the promise of transforming the system of expenditure management, their indifferent implementation contributed to a situation, where the benefits, if any, are hardly discernible on the ground. Apart from improved awareness of the new terms, the systems remain to be fully operational. While granting that institutional reform is more akin to long distance running than sprinting for short distances, the lack of implementation of performance budgeting casts a different and less favourable light on the commitment of the government. Systemic change in this regard has, so far, proved to be elusive.

Were the reforms beneficial? The answer tends to be different, depending on the location of the analyst. If viewed from the point of the public, many of the changes remained far from their radar screens. To them, they were changes in the procedures, an integral part of domestic sanitary engineering of governmental structures. The cutting edge of the street level bureaucracy with which they were concerned relate in a fundamental way to the economy, efficiency, and effectiveness in the delivery of services. Prior to 1990s, the concept of service delivery had a different form. It was considered in terms of integration of financial and physical aspects of a programme and in terms of performance that took into account the orientation of the clientele. During more recent years, these several aspects were conflated into a shorthand expression, *viz*. delivery of services.[24] Notwithstanding claims to the contrary, many of these fundamental tasks remain to be completed. But it also needs to be recognised in extenuation that the objectives of government in introducing variants of Performance Budgeting, were neither to procure economies nor improve efficiency, but achieving improved accountability for results. It can also be argued that the reform itself is a long-term task and immediate results are hard to be found in the short term. But the length of the long term has never been specified.

The benefits, to the extent there are any, tend to be different to the users of the system, *viz*. people, legislators and administrators. Many of the changes described earlier were intended for the most part to facilitate the work transactions of the government and to that extent they were internal to those working in the machinery. The contact with the people arises in the context of providing benefits efficiently and in ensuring that the intended benefits were actually utilised by the people. The former task was expected to be fulfilled by performance budgeting type of systems. Performance becomes, in due course a basis for the allocation of resources and, the budgetary systems that rely on that as a primary component facilitate the achievement of allocative efficiency as well as utilisation efficiency. In the event neither goal can be considered as achieved, as Performance Budgeting was never fully implemented. As for the legislators, the reforms introduced aimed at providing large amounts of data on programmes, their purposes, and the likely outcome. Evidence, which is mostly anecdotal and qualitative, does not show that the material provided was used either in legislative debate, or in committee work. This may have been due to the fact that the greater provision of information came at a time when legislative control of public money was on a down hill journey. As for the ease in administration, it has to be recognised that the management of the economy has become, during the last half-a-century, a very complicated task and the

24 Over the years, what was considered to be a distant goal of expenditure management in the past has become a basic requirement of the system. For a discussion of this evolution, *see* Premchand, A., "Public Financial Management: Getting the Basics Right" in (*ed*.), Schiavo-Campo, Salvatore, *Governance, Corruption and Public Financial Management*, Asian Development Bank, Manila, 1999, pp. 47-88.

budgetary improvements sought to catch up with the growing and more diversified demands made on it.

Would the budgetary innovations endure? Many of the institutional changes have already endured for several decades and could endure if continuous efforts are made to update the organisational process. As tasks and requirements grow, organisations have to engage themselves in a constant adjustment to the changing requirements. The experience shows that in some areas, the required adjustments have been made often after considerable lags, and in some areas the direction, the content, and the pace of adjustment left a good deal to be desired. In appearance, and in form, many efforts have been made to change the system. In reality the institutional resilience stood in the way of achieving many of the objectives and thus in addressing the needs.[25] History does not provide us with any evidence as to whether the issue of institutional resistance was anticipated, let alone addressed in any specific way. Rather, the assumption would appear to be that once, a decision is taken by the government; it would be implemented as expected. The institutional lags and contributory factors to slippages were not recognised.

What has the system evolved into? History does not offer panaceas or settled conclusions. It does show, however, that there was a constant desire, frequently supported by substantial endeavours to engage in a journey of modernisation. As anthropoligist, (late) Clifford Geertz, stated that modernisation "whatever it is, it is pervasive, as either a presence or a lack of an achievement, or a failure, a liberation or a burden".[26] In the past few decades, efforts were made to attain progress, although there was no clear understanding as to what the contents of modernisation of expenditure management system were or what the destination was and whether it was reachable. It was a journey where the travel itself became the most important aim: Destination, to the extent known, was secondary. The lack of certitudes did not, however, deter the government. The experience of developing countries shows that coping up with the growing problems prompted them to look for solutions, which were also influenced in some cases, by the experiences of industrial countries. It was the context in which,

[25] This phenomenon is not, if it is of any consolation to those engaged in reform, restricted to developing countries. In a study of the cogressional reforms, specifically in the appropriation process, it was concluded that most efforts aimed at change were not successful as legislators, in the comfort of familiarity and convenience with the existing systems, obstructed or subverted the reforms. *See*, Scott Adler, E., *Why Congressional Reforms Fail: Re-election and the House Committee System*, The University of Chicago Press, Chicago, 2002.

[26] Geertz, Clifford, *After the Fact*, Harvard University Press, Cambridge (Mass), USA, 1995, p. 137.

what was done or sought to be done, in the industrial world became, as it were, a wave of everybody else's future.

These reforms may in a positive way be considered as works in progress. It would be an illusion to view them as completed tasks – a view that is not likely to be seriously contested by future analysts and historians. For better or worse, they have left their footprints on the system and it is necessary to consider their legacy for the future generations. If the expenditure management system is considered as a four legged apparatus comprising policy controls, process controls, regulatory tasks, and efficiency controls, the existing system operates mostly on process controls. The consequence is a proliferation of programmes and activities that overlap in objectives and in content. Little effort is made to alter the design of the programme even when it is evident that they are neither successful in providing the expected benefits or in reaching the targeted group.[27] The daily operations of the Department of Expenditure provide ample indication of a remark by a member (British) of the viceroy's council in the early 1940s to the effect that it swallows camels but strains at the gnats. The department has become a 'soft power' with all the attributes of a jelly-fish except for the sting. Its legacy is an incomplete one, suggesting pursuit of paths where the journeys are initiated but are never completed. Its eagerness, during some periods, is never matched by an effort to complete the self-specified tasks.

[27] For a critique of these aspects, *see* Sarma, E.A.S., "Quality of Government Expenditure: A Review" in (*eds*.) Favaro, Edgardo, M., and Ashok K. Lahiri, *Fiscal Policies and Sustainable Growth in India*, Oxford University Press, New Delhi, 2004, pp. 124-147.

III. Building Bridges to the Future

i. Ambivalence and Denial

The previous discussion conclusively demonstrates that there is a sizeable backlog of issues that need to be addressed. In addition, there are several new problems, some partly identified and some latent, that need to be addressed in the near future. But instead of there being readiness there seems to be an abundance of ambivalence and denial for a variety of reasons. First, the operations of the fiscal cycle have generated the feeling that the finances of the government have been improving and that the size of the budget deficit both at the centre and in the states is becoming more manageable. The improvement to a large extent has its origins in the commendable higher rate of annual economic growth achieved. Much of this is, however, due to the rapid strides by the corporate sector, and the services sector, not because of, but despite the government policies. Meanwhile, however, the comfortable state of affairs has generated a feeling of happiness and as an extension any major effort to address the basic problems that afflict the public expenditure management system is on hold. Second, there also seems to be an ennui stemming from the view that a good deal has been done to reform the system over the years, and the remaining problems would be solved through the nascent outcome budgeting. As the preceding analysis shows, the landscape of previous reform offers no unqualified success and leaves, indeed a trail of many issues that remain to be addressed. Further, the reliance on *Outcome Budgeting* may be a case of misplaced (to borrow the description from A.N. Whitehead, a philosopher of yesteryears) concreteness – that is the fatal error of mistaking beliefs for reality. Even if Outcome Budgeting is fully implemented (and this requires a lot of faith in the intentions of the government as well as its capacity to implement), it is doubtful that it has the innate strengths to address the multiple issues that are being encountered. Third, there is also the view that there is no public demand for reforms. While there may be no specified demand or a permanent lobby engaged in the reform of the system, there is a widespread view that the system has not been successful. The daily stories in the media about the financial sleaze seem to justify this view. A variant of an Italian proverb (*I soldi pubblici sono come l'acqua santa-ognuno si aiuta come puo'*. Public money is like holy water. Everyone helps himself to it) seems to be the popular impression. Furthermore, there is a steady outpouring of writings from retired civil servants (some of whom have been fairly vocal even when in service) about the deterioration in the public services.[28] These aspects reflect the public discontent and offers, in turn, ample evidence of their displeasure with the system. These factors have contributed to ambivalence and the non-acknowledgement of the issues that are growing day-by-day. The feeling of denial is not, however, a new one as the preceding history shows. More often than not, governments start with a denial and when it becomes untenable to continue the previous approaches, it announces measures to pacify the situation and secure a measure of control over it. Once that stage is reached, and quietness is established, it ignores its own commitments and engages in lackadaisical implementation or infrequent subversion. The continuation of this trend contributes to a steady accumulation of problems that tend to become more intractable as time goes by. They need to be addressed before the situation turns into a crisis.

It is frequently argued that good governance contributes to higher economic growth. But, it has also to be recognised that a higher rate of growth, more so when it is contributed by the non-governmental sector, affords an opportunity to address the long embedded problems of governance, rather than being pushed around from one crisis to another. More important, it permits the government to undertake an introspective examination of the architecture of its systems and ascertain the factors contributing to the paradox of high rates of growth and deterioration in the provision of public services. More than one and a half century ago, Tocqueville wrote in the concluding part of his *Democracy in America* that "providence has not created mankind entirely independent or entirely free. It is true that around every man *a fatal circle* (emphasis added) is traced beyond which he cannot pass: but within the wide verge of that circle he is powerful and free: as it is with man, so with communities." It is important that the representative institutions created by the community to govern itself recognise the limits of the fatal circle and explore every opportunity to exploit the choices permitted. In an industrial parlance, it is more akin to undertaking an annual overhaul of its machinery so that it could perform well in the future. This holds good as the recent post Katrina (a typhoon that left a devastating trail in the state of Louisiana) events have shown, for industrial countries too.

In undertaking this effort, two elements that have been a part of the conventional wisdom, need to be discarded. The first one is the notion

28 *See*, for example, Jalan, Bimal, *India's Politics: A View from the Back Bench*, Penguin/Viking, New Delhi, 2007.

that higher rate of government spending is an indicator of development. In the final analysis, development is to be seen and assessed in terms of the perceptions of the community. If it believes, often accurately, that higher spending is not translating itself into provision of services, on a more efficient scale, then it is time to undertake a more intensive and objective evaluation of the expenditure management machinery at work and ascertain the reasons for underachievement. Second, is the notion that a good deal has already been done correct? The more important issue, however, is the impact of the previous reforms on the expenditure management system. On this score, there is not much room for debate. What has been achieved is important. What remains to be addressed is vital for the smooth functioning of a democracy. More organised efforts aimed at improving governmental systems alone can reduce the anxieties of the community and put a brake on the eroding credibility of governments.

ii. Range of Issues: Relevance of General Themes

Efforts at improvement start with an identification of the issues. In the course of the preceding discussion several issues have been identified. In identifying the others, the prospective reformers do not have the luxury of starting it on a clean state. Rather, fortunately or otherwise and adding a good deal of complexity to this task is the fact that a lot has already been written on this subject and much of it has also become the folklore influencing the thinking of governments. Before undertaking an examination of specific issues, it is necessary therefore to consider, albeit briefly, four themes.

a. Decentralisation*:* An important theme of development-oriented reform has been that of decentralisation. During the 1950s and in the later decades, considerable emphasis was laid on delegating more powers to the administrative personnel so that managers can manage. The prevailing view then was that the extensive framework of rules and regulations (which, in most cases, have become obsolete anyway) has been inhibiting the managerial functions and that the way out of this mire was to provide more autonomy to them. As an extension of this theme, the theme of decentralisation has come to be analysed in terms of the inter-governmental relations and more specifically, how the subnational governments have come to be made more dependent on the central governments. The other side of this argument is that the central governments have come to depend on the subnational governments for the fulfillments of their own tasks.

From the expenditure management point of view it is important to examine two other major components (frequently ignored in the literature) of this framework. These relate to the delegation of financial powers from the central agencies to the spending agencies, and within the spending agencies, from the headquarters to the front lines. In regard to the former, the previous discussion shows that extensive financial powers have been delegated to the spending agencies. In practice, however, these delegations are circumscribed by several limitations that range from the more mundane and archaic procedural aspects, to the more critical issues of funding. In several cases, prior approvals from the central agencies may still be needed even after budget provision has been made, (which, in some cases may be notional) thus making consultation with the central agency an year long affair. Moreover, funding releases may not be congruent with the implementation needs. The sudden spurt of releases during the final month of the fiscal year, to avoid lapse of funds, make a mockery of orderly implementation. The frequent resort to escape mechanisms, such as diversion of funds into personal deposit accounts, or the creation of special reserve funds that permit spending beyond the year, add avoidable complications to this issue. This institutional recidivism has become so common that, despite its fundamental negation of the established tenets of decentralisation, it has come to be accepted as a part of the organisational landscape. As in most other aspects of daily life, the ‘devil here is in the details’, which somehow have not received the attention due in the broader discussion of the general theme.

The general experience of the industrial and developing countries reveals that there are at least three factors that are lending support to the traditional centripetal forces. First, it is suggested that there has been a shift of decision making, from the traditional process of an iterative method in which papers move up and down and laterally, to a ministerial level to a process that is mostly outside the usual cabinet system. In fact, in the United Kingdom, the cabinet committees ceased to have any influence. Moreover, the consultants from outside and the party channels have contributed to a process, where policies are made outside the normal channels and in a more centralised fashion.[29] Secondly, the judicial intervention and financial support mechanisms have also changed the undercurrents of the federal financial and administrative system. In addition to increasing central financing of developmental schemes, which involves a policymaking shift from subnational governments to the centre, there are administrative interventions too and as a result the lines between the various levels of government have come to be blurred. Indeed, a seamless web of operations has emerged.[30] These are now reinforced by judicial interventions that are, at times, contrary to the intentions of the constitution. Some critics suggest that this judicial intervention is responsible for an implosion in the federal system.[31] Third, the introduction of improved technology has also abetted the shift to greater centralisation. The introduction of telegraph in the old era, it was suggested, had contributed to the demise of individual initiative in government through a steady stream of instructions from the top and that increasingly with the replacement of the telegraph[32] by the cell phone, the distinction between levels of government and among the echelons of administrative hierarchy has ceased to be of relevance. The operations of the street level bureaucracy are increasingly guided (a euphemism for straight interference) by, the political and administrative classes from the national and state capitals. In advanced countries, even the military operations are no longer left to the field commanders. History shows that from Vietnam war to Iraq war, including operations in Yugoslavia, even the bombing sites were selected by the While House.

29 For an excellent discussion of these aspects, *see* Foster, Christopher D., and Francis J. Plowden, *The State Under Stress*, Open University Press, Buckingham (U.K.), 1996.

30 For example, *see* Austin, Granville., *Working of a Democratic Constitution: A History of Indian Experience*, Oxford University Press, New Delhi, 1999 and Rao, Govinda M. and Nirvikar Singh, *Political Economy of Federalism in India*, Oxford University Press, New Delhi, 2005. The Central Bureau of Investigation which enjoys a semi-autonomous status, is frequently entering into areas that are traditionally a part of the administrative system of the sub national governments. What is ironical is that these interventions are not imposed but are sought and welcomed at the lower level. This voluntary surrender of functions took different forms during earlier periods.

31 For a discussion of the U.S. experience in this regard, *see* Nagel, Robert F., *The Implosion of American Federalism*, Oxford University Press, New York, 2001.

32 For an early discussion of this aspect, *see* Orwell, George, (a literary writer, who always felt that political language was "designed to make lies sound truthful and murder respectable, and to give an appearance of solidity to pure wind, and devoted all his life to a trenchant analysis of contemporary trends), *Why I write*, Great ideas series, Penguin Books, London, 2005. His comment on the demise of the individual initiative as a result of the introduction of the telegraph is taken from his essay "The Lion and the Unicorn: Socialism and the English Genius", 1940.

These trends illustrate the difficulty in addressing the theme of decentralisation. Every effort to move from it and to reinforce that move through supporting legislation is being partly nullified by administrative compulsion and partly by technological breakthroughs. The important issue now is to devise ways through which decentralisation ceases to be a paper dream and becomes an operational reality.

b. **Participatory decision making:** A major theme that has come up for intensive advocacy during recent years is that the people, who pay the taxes that finances the governmental processes, should have a more direct participatory role, both in policy making and implementation. As this involves a transformative change in the way in which expenditure management system operates, it is important that the full implications are analysed in some detail. The mind of the individual, as a member of the community, is somewhat conflicted in this regard which concomitant implications for policy making. As an individual receiving, say a health service, he would like *all* the technological facilities including electronic scanning, to be utilised in identifying the problem and in providing the curative treatment that may include the use of expensive drugs. This contributes to higher expenditure and the use of more public resources. But as a member of the community, and acting in a collective capacity, he is hesitant to pay the money that would finance the higher expenditure. There is thus a permanent conflict between the demand for greater expenditure (as an individual consumer) and the demand for smaller expenditure and more prudent management of public finances (as a member of the community). The desire for more expenditures and the absence of a will to resist the demands inevitably leads to a ratchet effect and it would be difficult to reduce the pace of growth, when such an adjustment is indicated in the light of changing economic environment. Such changes may be brought about by external or internal developments. In either case, the need for a downward adjustment may be recognised, but it may be difficult to pursue requisite policy measures in view of the likely resistance from the community. The adjustment poses its own quota of policy choices and frequently as experience indicates, the projects and programmes funded by external donors may continue to be funded, while reductions may be made in other areas.

The more important question, however, relates to the nature of the public opinion itself. In addition to the permanent conflict referred to above, the views as expressed may go through a 'preference falsification', in that a notional support may be extended to those programmes or policies that are deemed, mostly in the political discussions, to be necessary. Some sections may be so pressured as to conceal their real preferences and falsify them so that they may continue to be a part of the so-called main stream. An inevitable consequence is the emergence of private truths as public lies.[33] Moreover, as the recent experience with deregulation shows, the business interests who stand to gain from proposed policies may undertake expensive campaigns aimed at influencing the views of the community. In these situations, the public may not have information on all aspects of the proposals and may easily be influenced. The first casualty in public debate, as during periods of war, is truth and information tends to be massaged and severely doctored to meet the needs of the proponents. Inevitably, this will contribute to the combination of programmes that yield benefits to the vested interests and in the process, social policies and public expenditure priorities get skewed. This is not to say that public opinion should not be sought or should be disregarded, but that adequate attention should be paid to the realities of public opinion and the ways in which it is influenced and eventually formed.

Another aspect that merits consideration in this context relates to the segments of decision-making, where public participation should be invited. Should it be in regard to the determination of policy and related strategy or should it be in the area of day-to-day operations. Experience shows that when governments are confronted with policy choices, and where they consider that public support would add more credibility and legitimacy to them, they may seek public opinion. Besides the process of getting such an opinion is rendered easy through electronic media or through town hall meetings in view of the extensive pubic viewing of television, which is now firmly entrenched in social life of the community. With or without government prompting, the media is asking the public to make its opinion felt on matters ranging from the increases in the prices of vegetables to the election of the highest executive of the country.

[33] For a discussion of the social consequences of preference falsification, *see* Kuran, Timur, *Private Truths, Public Lies, The Social Consequences of Preference Falsification*, Harvard University Press, Cambridge (Mass), 1995.

Occasionally, it is also asked to choose the players to be included in the national cricket team, or the 'idol' of the younger generation. In addition, in some countries, public participation is invited to monitor the operations during the budget implementation phase, particularly in the award of contracts. This participation is considered to be beneficial at the local level, where the benefits may accrue to specific localities. Public is also associated in the conduct of social audit of the operations. This form of audit does not, however, interfere in the day-to-day activities of public bodies and is an independent process.

An important issue that needs to be addressed in this context relates to the respective roles of representative institutions on the one hand, and pubic participation, regardless of its form, on the other. The expenditure management system contains a series of checks and balances, through which elected representatives interact with governmental processes. The relationships between the two envisage the observance of an arms length principle and adequate powers are delegated to enable governments perform the assigned tasks while retaining necessary means of oversight in the representative institutions. The injection of public participation into this scenario changes the established relationships. In delineating the role of public participation care needs to be taken to ensure that the established traditions are not drastically disrupted and the stability embedded in the system is not endangered. Similarly, care is also needed in specifying its role in policy and operational matters.

c. **Transparency and accountability:** Although these two themes are by no means new, they have come to acquire more prominence in public debate in view of the support, including funding, extended by international financial institutions.[34] Both these components of the management system have had a long past and several attempts have been made to improve and substantial progress achieved in the area of transparency, while formidable challenges remain in the area of accountability. Despite the long history, accountability has no equivalent terms in some languages, *viz*., Chinese and Spanish, and consequently the coverage differs from one administrative culture to another.

[34] For a critical assessment, *see* Premchand, A., Umbrella Themes Obscure Real Problems: An Appraisal of Recent Efforts to Improve Financial Management" in *Public Budgeting and Finance*, Vol. 18, No. 3, Fall 1998, pp. 72-88.

Fiscal transparency can be interpreted both in a narrow and in a broader way. In the former sense, it mainly relates to the specification of the limits of the public sector and its financial transactions, relations between the taxpayer and the tax authority, information on the expenditure programme of the government and their expected benefits, and the levels of debt as well as its ownership.[35] To achieve the objectives in the expenditure management area, the budget classification is sought to be so made that it would illuminate the intent behind the budget. As already noted, substantial progress has already been made in this area in the central budget, while state budgets vary. The information contained in the budget documents has achieved, for the most part, clarity and is broadly within the reach of the analyst. Participation in the international reporting system in compliance with the standardised formats specified for the purpose has also proved to be beneficial.

Two major challenges remain to be addressed, however. First, the transparency, as it is structured now is primarily intended for the investing class in that it seeks to reveal the status and as an extension the creditworthiness of the government. The focus on performance is rather minimal and greater progress remains to be made. Second, transparency has thus far been viewed in a narrow trajectory, primarily reflecting the aims of government and the financial results of its operations at the end of the year. The major objective of fiscal transparency is to inform the common citizen about the policy choices available, the implications of each choice, and the reasons as to why a particular choice is preferred. This seeks to enable the citizen to participate in policy making in an informed way. Although some progress is made in this area in terms of providing some data on some expenditure choices, the major choices continue to be opaque. Partly the initiatives are constrained by the limited vision offered in this regard by the international financial institutions. It is also to be noted that much of the budgetary language remains beyond the comprehension of even the educated classes. Just as tax law requires the interpretation of tax lawyers, expenditure programmes too need experienced analysts to convey the content of the programmes in

[35] An extended discussion of these aspects as well as the ethical dimensions of Expenditure Management is provided in Premchand, A., *Controlling Government Spending: The Ethos, Ethics and Economics of Expenditure Management*, Oxford University Press, New Delhi, 2005.

an understandable manner. In extenuation, it should also be noted that most attempts at simplifying the government language and making it user friendly have ended up in adding yet another layer of complexity and impenetrability (the efforts of the Clinton government in the United States during 1990s, provide ample evidence in this regard).

Accountability refers to the process in which the administrative system is held responsible for securing the expected results. From this conception arose the practices of vertical accountability in the administrative hierarchy where the actions of lower officials are monitored by the senior levels, and horizontal accountability in which the entire government is monitored by the legislature and its committees. In the final analysis, it is expected that the success achieved by the government in the procurement of results would be taken into account by the electorate. Despite the intent, accountability has come to be perceived and practiced in terms of budgetary intent and outcome. The outcome itself has come to acquire additional dimensions in the form of accountability for programme performance and for the overall fiscal management and the efficient discharge of the stewardship responsibility of the government. In India, the former is promised in the charter of Outcome Budgeting and the latter, is covered by the *Fiscal Responsibility and Budget Management Act*. No effort has yet been initiated to enact legislation that specifies a framework of incentives and penalties. Indeed, it can now be asserted that for all the international support no country either in the industrial or developing groups has as yet attempted legislation providing for enhanced accountability in regard to the programme results and in terms of overall fiscal management. The attempts thus far have been limited to the naming and shaming through the work of audit and anti-corruption agencies. Meanwhile, the bureaucracies are devising new ways to diffuse administrative responsibility and to keep the operations as opaque as possible. The promise held out during recent years remains to be fulfilled.[36] The establishment of the anti-corruption bureaus was expected to reduce corruption. In some cases, they too have become corrupt. The experience in this

[36] The track record of those engaged in the drumbeat of accountability also leaves a good deal to be desired. The United Kingdom which has been a strong advocate of accountability, has held off inquiries into the sale of military aircraft to a middle-eastern country on considerations of national security. A President of the World Bank who had to resign his position, as a result of alleged favouritism, pleaded that his actions were taken in 'good faith'. This provides, yet another justification for failure.

wide field demonstrates that in the final analysis people would form their own perception, on the basis of record and not on a slogan.

d. **Delivery of services:** The terms delivery-of-services have become, during recent years, a shorthand expression for multiple aspects of expenditure management. They reflect the performance expected, planned outcome from the services provided, and also indicate the principal-agent relationship (buyer and seller or funding and service provider, where the latter is undertaken by a different agency) in that it may provide the parameters for funding and provision of services. Further more, specific emphasis has been placed on this aspect by some of the donors, who have also been commissioning studies on the problems of providing services particularly in the health and education sectors, on the utilisation of benefits (a hitherto neglected aspect) and on consumer or user satisfaction. The emphasis on delivery of services has been long overdue and should therefore be commended.

There are, however, a few other dimensions that remain to be explored and deployed in the day-to-day processes of Expenditure Management. Delivery needs to be planned and monitored in terms of cost, quality and timeframe for each service. These three elements should then become the *lingua franca* of daily management. They have not yet attained that status as cost on an accrual basis remains to be computed. Quality and timeframe too need to be indicated on a firm basis, so that accountability could be facilitated. More significantly, the opportunity of specification of these elements should be utilised for examining the alternatives available. In the present context, the administrative and technical departments at the center, who are responsible for funding in most cases, formulate the programmes, which are then administered by agencies at different levels. The alternatives are presumed to have been taken into account by the funding agencies during the stage of the formulation of programmes. The ground realities, however, often tend to be different and contingent situations may require different approaches to implementation. Available evidence does not provide conclusive indication that these aspects have actually been taken into account. Another aspect relates to the funding levels. Most agencies assume that the funding would be available to the extent required. In anticipation of fringe adjustments undertaken by the finance ministries, the administrative agencies seek to have a built-in slack in the programmes. The more important issue, however, is that fiscal developments may take place, necessitating adjustments in outlays. Lord Rutherford, father of the atomic science movement in the United Kingdom, is supposed to have remarked “we have no more money, now we must think”. This kind of thinking is a feature that is an integral part of ZBB discussed earlier. It is also a feature that remains to be implemented.

Another feature requiring consideration relates to, the transmission mechanism for channelling budgeted funds. Experiences of several countries show that there are long delays in releasing the funds that they are frequently bunched together and are transmitted, toward the end of the fiscal year. Moreover, there may be many levels through which the releases have to be processed, all adding to the transaction costs. Studies of activity based costing reveal that a major part of the programme outlays is devoted to administration. While every opportunity is taken to denounce the growth in these costs, little has been done to reduce them. That requires a review of the administrative system and governments are reluctant to undertake it. As a consequence, many of the problems continue and inhibit the delivery of services to the targeted group and the fulfilment of cost, quality and timeframe goals remain a distant dream.

iii. Toward a More Effective System

The purpose behind the study of history is not merely to know what has happened, how it has happened and the way it has happened but to learn the lessons, so that continuing problems may be addressed. The preceding discussion shows that a stubborn refusal to admit problems and when admitted a refusal to recognise, their quantitative and qualitative dimensions, has contributed to an expenditure system that is far from effective in securing economies in expenditure, efficiency in operations, and effectiveness in implementation. The content of these three approaches changes from time to time and the measures taken during one period may not be appropriate during another period. Moreover, the absence of detailed expenditure planning has contributed to overlapping programmes, lack of specification of links with delivery systems and an archaic, narrow system of financial accountability. As a result, institutional recidivism has become common and needs to be addressed. Not all the problems are intended to be enumerated here. Rather, the attempt here is limited to a discussion of the ways in which efforts may be made with a view, to strengthening the Expenditure Management System.

In an explicit recognition of the issues discussed thus far, Table 3 seeks to provide the specific directions in which improvement may be made. Some of these are self-evident and some require more elaboration.

a. Hidden zones: An inclusive approach: The Expenditure Management System has become a restricted one and concentrates for the most part on money transactions. It includes some non-cash transactions such as foreign aid, but they are limited in scope. These are in accord with the constitution, which has specified the procedures in terms of money bills and in terms of the flows into the consolidated fund, contingent fund and public account that form the basis for the budget and accounting systems. But no consideration has been given to the grant of land, or its sale at a subsidised price. It was assumed that due prudence would be exercised in this regard by the executive wing of the government. In practical terms it meant that a good deal of power has

Table 3: Toward a More Effective Expenditure Management System

I.	Structural aspects →	• Greater inclusiveness* • Compatible systems among various levels of government* • Improved systems in non-governmental organisations that receive government funds and in the corporate sector that receives contracts from governments and those that participate in the public-private partnerships.
II.	Resource allocation: Improved policy planning* →	• Preparation of rolling expenditure estimates • Compilation of major programmes and their expenditure profiles • More explicit determination of expenditure instruments, *viz*., direct outlays, loans, guarantees, tax expenditures, public-private partnerships and quasi-fiscal accounts. • Consideration of risk sharing of guarantees • Improved costing (estimates of projects and programmes) • Choice of expenditure anchor – running costs

- Analysis of budgetary allocations and programme linkages
- Explicit recognition of risks and formulation of contingent strategies
- Specification of economies to be procured
- Formulation and specification of binding annual budget ceilings covering plan and non-plan outlays
- Provision of an expenditure contingency reserve

III. Resource utilisation →

- Consistent funding
- Release of quarterly allocations
- Monitoring performance through agreements with spending ministries for delivery of public services
- Revamping of information systems to provide greater emphasis of performance and cost aspects

IV. Resource utilisation accounting →

- Abolition of suspense, exchange and personal ledger accounts
- Improving the design of annual appropriation accounts
- Annual accounts of each agency to include the assets, their maintenance and current status of their use
- Formulation of accounting standards*
- Introduction of on-line reporting systems
- Selective consolidation of payment systems through establishment of offices for the payment of pension, public debt, payroll and transfers on a computerised basis

V. Supporting infrastructure →

- Improved consultation with legislative wing
- Agencies to strengthen internal audit and annual accounts to include the economies procured
- Financial advisers to be made functionally and managerially independent from Department of Expenditure and to be fully integrated with the administrative ministries.

Note:* denotes the issues discussed in the text.

come to be reposited in the government. The power has come to be exercised in an arbitrary manner and came to be an instrument in the creation of domains of patronage. It has also contributed to uneven playing fields in economic activity as one corporation with a land grant tended to acquire an unfair advantage over another, which acquired its plant, property and equipment through the investment of its own money. From an expenditure management point of view, the whole activity of consideration of grant of land has become a parallel non-cash budgetary process that is non-transparent and non-accountable to the people and their representative institutions. It is a leakage in the Expenditure Management System with profound effect on the land assets left to the next generations.[37]

A similar activity takes place in regard to the provision of loans; including those relent by the Central Government to individuals, corporations and to subnational governments. A loan has come to be a substitute for direct expenditure and tends to be more acceptable politically, as it becomes a part of the financial assets of the government. A direct expenditure is a permanent claim on the government's resources, whereas a loan, being recoverable, makes no such claim. The negotiation of such loans, such as the terms and conditions of repayment, etc. are all within the realm of the executive. It also empowers the executive to write off, when the prospects of recovery are remote. Such write offs are a part of the executive privilege that lends itself to be used in a discriminating manner with political impact. Moreover, they also provide an incentive to the borrower not to honour the terms of agreement.

Since these two hidden zones have become integral parts of a parallel process that is beyond public scrutiny, it is important that efforts are made to make the budgetary process a broader and a more inclusive one.

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[37] *See* Premchand, A., "Government Land Grants: Case for Reappraisal of Current Policy", *Economic and Political Weekly*, January 2007, Vol. XLII, No. 3, pp. 200-203.

b. **Promoting standards of expenditure management in partners:** The arsenal of expenditure management instruments is now a vast one and includes, in addition to direct expenditures, loans, tax expenditures, guarantees, quasi-fiscal accounts, land grants, loans of different types, and public-private partnerships. The objectives of fiscal policy may be attained by any of these instruments either in an exclusive fashion or in varying degrees of combinations with others. The determination of the choice is often an ***ad hoc*** one and much is dependent on the political climate. When the climate is less favourable, new instruments such as comfort letters in lieu of guarantees may be used. Thus the arsenal has potential for expansion and extended application. The use of these instruments also implies, depending on their share in the total expenditures, of the government, that much of the work is carried out by sub national governments, non-profit organisations, autonomous institutions, and corporations both in the public and private sectors. During recent years Central Governments, particularly in federal type systems, have become cash dispensing machines, engaged in the financing of activities that are undertaken by others on an agency basis. Performance in that context becomes a joint responsibility of the funding level of government and the agency entrusted with the implementation of the programme. In the process, the service link gets extended and the powers of the central government may in reality be heavily circumscribed by the financial management systems at the receiving level. Its monitoring systems alone may not be adequate for the purpose, when the adequacy of the systems at the operating levels, leave a good deal to be desired. It is for this reason that donor countries carry out initial surveys of the financial management systems in the receiving countries and try to assure themselves, of their legislatures and their public and that they are broadly adequate for the purposes in view.

In domestic operations, however, there are no such initial surveys, and the financial management systems in the receiving organisations tend to vary from levels of being adequate to being non-existent. When the central government transmits its money in any form to the state governments, there is an assurance of adequacy in that they are organised in a fashion similar to the Central Government. Their accounting systems are laid down and managed by the office of the Comptroller and Auditor General, who is also responsible for the audit of state finances. The procedures vary, however, in regard to the local governments at the district and city levels. Local governments receive money, both from the central governments (directly in some cases) and state governments. Their accounting systems were designed a long time ago and were recently, sought to be updated through the introduction of a modified accrual systems. The design of this system to be applied at all the three levels of *panchayati raj* institutions was delineated by the office of the Comptroller and Auditor General and involves the application of forms of commercial accounting. Given, however, the non-professional background of the officials working at these levels, it is moot whether the specified design is being implemented, to offer comfort and assurance to the public. In regard to some transfers to the *panchayati raj* institutions, the district boards are deemed to be corporation, as in the case of *Jawahar Rozgar Yojana*, and its accounts are audited by a professional chartered accountant. The audit reports may not always be available in the public domain. For other financial transactions, the *panchayati raj* institutions are subjected to, a local fund audit by the state finance department and is a practice inherited from the British period. Their transactions are also, in theory, subject to a supplementary audit by the Comptroller and Auditor General, who has the powers to follow the rupee trail and audit any organisation that receives funds from the central and state governments. This procedure is rarely invoked, however.

The system in regard to corporate bodies is governed by different approaches. For the most part, their accounting systems follow the Generally Accepted Accounting Principles (GAAP) and the actual accounting standards, are specified from time to time by the Institute of Chartered Accountants of India. The depreciation provisions, are generally, specified by the tax authority. The standards do not however illuminate the transfers, including land made available by the public bodies. As such, the community has no means of knowing how its resources are utilised for public benefit by the corporate sector. The audit of the corporations is governed by the provisions in the Company Law, and is generally undertaken by a professional audit organisation. Here again, they may be subjected to supplementary audit, at the discretion of the Comptroller and Auditor General of India, who has the power to pursue the rupee trail. In regard to public sector corporations, a supplementary audit is undertaken, by the commercial audit division of the comptroller and auditor general and the annual reports are also subject to legislative review.

The world of the non-governmental organisations is too diverse, however, to permit a coherent discussion. They include faith-based organisations (parochial schools, for example), voluntary organisations, cooperative institutions and other miscellaneous form of organisations. There is no accounting systems specified to be followed by them, either by the government or by any other organisation. Some sectors, such as the private sector corporations tend to work in an onion syndrome in that there are several layers of regulation. At the basic level, there are self-specified regulations, such as the accounting standards developed by the Institute of Chartered Accountants. Then there are regulations of the company law and then there are audits carried out, when needed, by the Comptroller and Auditor General. In the case of non-governmental organisations, however, there are no apex bodies that seek to promote self-regulations. There are, however, expectations stemming from the registration act, under which these organisations are required to function. But there is hardly any supervision of compliance.

The importance of all these bodies, as instruments of providing publicly funded services, has been growing. The magnitude of money transfers have been growing as a result of the 73rd amendment in the Constitution. Furthermore, services, which have been traditionally funded by and provided by governmental agencies, are now being undertaken by non-governmental organisations. At the level of state governments nearly half of the education budget is devoted to transfers to these organisations and the eventual delivery of measurable outputs and performance are dependent on their effectiveness. The chain of command becomes, in the process, too long and frequently ineffective. But they have replaced the traditional channels of service delivery by governmental agencies and have become the cutting edge in the seamless web of operations. The situation has become more complex with the intrusion of public-private partnerships, which although nascent, is likely to acquire growing importance in the future. These new trends start with an idea, which then becomes a dominant theme, then an ideology and finally a political option. Three arguments are generally adduced in support of the growing reliance on non-governmental organisations. First, being different from the tight discipline of the bureaucracy, they have the opportunity to innovate and evolve creative forms of delivery of services. Here the government becomes its own critic in that it replaces its bureaucracy by a new and different form of management. Second, the availability of non-governmental channels may provide a much needed choice to the citizen. Third, the determination of the final choice may promote competition among the non-governmental bodies.

It is difficult, however, to conclude that these assumptions are valid or have been fulfilled. For one thing, given the large diversity of organisations, the available facts are few and the interpretations are more. The ability to innovate is made dependent on the limitations of the traditional governmental bureaucracy and innovations, to the extent there are any, have not become identifiable to be considered on their own merits. Meanwhile, it is important to note that social audit and the process of selecting the best local governments and giving them awards (thus gaining valuable public support) has also induced some governmental organisations to innovate and improve the public service. The second consideration of choice, which in principle is available in the new situation may turn out to be a Hobson’s choice in that the alternative may be far more expensive. To the extent that such additional expense is sought to be eliminated by a system of vouchers and thus secure fiscal equalisation, it has to be noted that this variant of public policy has not been considered in India. The third element of competition is also suspect, as bidding procedures are not always followed, and the final award is mutually negotiated. The procedures of auction and bids for the public-private partnerships remain to be fully implemented.

There are several factors that emphasise the need for an urgent review and for the strengthening of the role of the state as a regulator. It is first important to realise that there is now a national grid for the provision of public services. It is a long chain, where every link has to be made effective, as any weak link makes the whole chain vulnerable. When reliance is placed on outside agencies, then efforts are needed to regulate them in such a manner as to fulfil the function of a proper and prudent stewardship of national resources. In the first instance it is necessary to ensure that the allocation of resources to the non-governmental sector is efficient and that no major domains of patronage are created.

Second, the non-governmental agencies (including the corporate and non-corporate bodies as well as subnational governments) are now perceived (and accurately) as mere agencies for spending with little need for either economical or efficient approaches. Moreover, their systems are opaque and there is no provision for organised audit or for public accountability. The design of their Expenditure Management Systems does not inspire confidence. In some cases they have become mere clones of government departments as in their perception that makes them eligible for getting governmental money. But this defeats the very intent of contracting out delivery of public services. And finally, the value system of these organisations tends to be different from the public values, such as affirmative actions and related social policies. Thus, the government may be creating like the special economic zones, enclaves where its own policies and public values may be fully circumvented with official sanction.[38] It is therefore necessary that their Expenditure Management Systems are properly designed and maintained within the framework specified by public bodies. Interference, in the name of public oversight, in their affairs is not the answer, however. Rather, the desire for ensuring a proper compliance should be tempered by a recognition that interference may defeat the very purpose for which contracting out has been designed. An independent regulatory mechanism entrusted with the task of addressing the above concerns and with the development of proper standards, aimed at ensuring adequate Expenditure Management Systems, is clearly indicated in the current situation.

c. **Improved expenditure planning:** Planning, to state the obvious, involves specification of objectives, selection of the organisations and financial instruments that enable a fulfillment of the intent, and a detailed blueprint of operations in which the tasks, process and responsibilities of every unit engaged in the activity are specified in some detail. In short, before a programme is included in the budget and adequate provision is made for funding, care needs to be taken to specify the strategy and the managerial and operational aspects. In such cases, budgeting becomes a mere exercise in the allocation of financial resources for securing the manpower, materials and equipment. These requirements are expected to be fully met in regard to the programmes and projects included in the

[38] For a cogent discussion of the legal issues involved specially in the United States, *see* Minow, Martha, *Partners, Not Rivals. Privatization and the Public Good*, Beacon Press, Boston, 2002.

five years and annual plans. In practice, however, there may be, and in fact there is, a gap between needed and actual funding, reflecting in part a lack of priorities and an overwhelming desire to please all participants.

In regard to the non-plan programmes and projects, it has to be recognised that there are both continuing outlays as well as new outlays on initiatives undertaken outside the realm of organised development planning. In addition, there may be contingent outlays depending on the needs that may develop during the fiscal year. The planning involved for new and contingent outlays tend to be ad hoc and far less rigorous than the plan programmes. The main justification for allocation of resources to the non-plan segment is the long duration for which they have been in operation. It is said that about a few decades ago, a leader of a prospective expedition to Mount Everest, asked as to why, he wanted to reach the top, he replied ‘because it is there’. A similar approach prevails in regard to the non-plan segment. They are presumed to be serving the public purpose and are presumed to be implemented economically and efficiently. The presumption is more of a triumph of hope and optimism over experience. It also implies that approximately seventy five percent of the budget is determined mainly because the underlying programmes have been in existence before and form part of a continuing legacy with little or no debate about their relevance to the changing requirements of the community. This practice is a negation of the underlying rationale of expenditure management and is based on a false presumption.

The above phenomenon and other aspects discussed earlier need to be addressed through a thorough overhaul of the expenditure planning process. The main elements of such an overhaul are indicated below.

- Improved expenditure planning involves a consideration of the determination of the aggregate level of expenditures as well as the ceilings on allocations for different sectors and their programmes. The determination of the aggregate level is influenced by several factors, the most important being the economic one in that the fiscal impact of the proposed levels compels serious attention. In addition, there may be social and political goals that influence the sector ceilings and thus the aggregate. During recent years there has been a growing demand for the allocation of resources specified as percentages of gross national product, as has been the case in regard to the outlays on health and education. In reality, however, the compliance with this implicit target depends on the outlays for different programmes that are parts of these sectors. Thus attention will have to be at the programme level as the primary factor contributing to the fulfillment of this target. A technical factor, however, needs to be specifically considered here. In the present system, the budget is often a putative step and is augmented by three supplementary demands for additional expenditure submitted and given proforma approval by the Parliament. This procedure is a part of the legacy from the British period. Although supplementary demands are intended to be undertaken only for unforeseen factors, in practice, bulk of them have become fairly routine. To that extent they have robbed the value of the annual budget as a policy instrument and as a plan of action. Improved expenditure planning should therefore aim at avoiding this and seek to restore the primacy of the annual budget. This requires that the use of the supplementary estimates should be restricted to the contingent situations and to the regularisation of unavoidable excess expenditures.[39] For other purposes, the aggregate level derived from the sectoral outlays should be considered as firm and should form the anchor of fiscal policy.

- Expenditure planning at sub-aggregate levels involves a choice in regard to three aspects: (a) choice of instruments, (b) choice of the organisation for implementation of the programmes, and (c) choice of the time frame for which expenditure planning is undertaken. In regard to the instruments, it has been noted earlier, that their range has expanded considerably and beyond the implicit basis of the constitution. While the choice of government lending or the provision of guarantees was a part of the inherited process, the use of land grants, or the provision of fiscal incentives specifically tailored to the needs of some prospective investors, has introduced an element of patronage and possible discrimination. More significantly, the use of these

[39] It should be noted that some supplementary estimates may arise as a result of the monetary policy pursued. A defence of the rupee or a prevention of the appreciation of its value, which may be needed because of external developments, may require the issue of additional bills that in turn would result in additional public debt charges. Thus supplementary estimates are not entirely avoidable but that should not be considered as an invitation to make it so routine as to reduce the value of the initial budget.

instruments is often less than transparent and may not be consistent in application. To rectify this situation, the parameters guiding the choice of the instrument should be explicitly laid down in a law.

The choice of the level of the organisation for implementation was relatively an easy task as much of it was based on the distribution of powers in a federal system. But now the range of organisations has vastly expanded and includes, as previously noted, an array of non-governmental organisation and public-private partnerships. The choice of either of these forms of organisations expands the physical and administrative gap between the funding agencies and the service providing agencies. The controls exercised by the former are restricted to the observance of legal procedures for making payments and to undertaking inspections. Governments become dependent on the service providers. These factors require that an expenditure framework be formulated to address the unique relationships. Further, as a part of the legislation suggested above, the parameters governing the choice of the organisations should be specified through legislation.

The third choice relates to the timeframe. In reality, however, it is not a choice in that while an annual budget is needed to meet, among others, the constitutional requirements. Planning over a period has, however, become almost obligatory. The type of planning referred to here is different both in structure and content from development planning and is purely financial in nature. Improved expenditure planning in this regard distinguishes between current or existing policies and new policies and as envisaged here is limited to the former category. The existing policies cast long shadows in that they need continued outlays in the future years. Very few government policies have sunset provisions and are presumed to continue unless otherwise specified. Thus, the outlays needed in the future years are estimated, on a rolling basis, for the next three or four years, for each programme. Such estimation enables the administrative agencies to have a firm understanding of their financial requirements, and facilitates the task of central finance agencies, to estimate the levels of aggregate expenditures in the future years. As an extension, it enables them to undertake adjustments as and when necessary and facilitates the task of the preparation of the annual budget. Indeed it simplifies the lengthy process of annual budget making and enables the participants to focus on key issues.

- Disaggregated rolling expenditure planning requires the mapping of the expenditure profile of each programme. Although every programme contains outlays on manpower, materials, running expenses, and transfers to other levels of government, the relative share of each varies considerably among programmes. In turn, the differing composition of outlays determines the form and content of expenditure control framework. For purposes of financial planning it is important that it is undertaken at the level of each in a much-compressed form that is different from the detailed minor heads and units of appropriation now used in the making of the budget. The approach to financial planning proposed here requires the rearrangement of the numerous items of expenditure into meaningful categories that seek to provide more analytical insights into the functioning of a programme. The expenditure profiles so formulated should be utilised to build up a computer operated data base that, while permitting the preparation of rolling expenditure plans, reduces the enormous paper work which is a part of the existing budgetary process.

- The data on the expenditure profiles of programmes should be utilised by the agencies to formulate their annual bids for budgetary process. The Ministry of Finance should aim to utilise the data to anticipate the magnitude of demands and more important, to formulate ceilings on the allocations for each ministry. These ceilings should be indicated to the agencies at the outset of the annual budget making process and the agencies should be instructed to formulate their bids within the ceilings indicated. The ceilings should be considered as valid for the duration of the whole fiscal year and supplementary demands considered only in exceptional circumstances. To meet the supplementaries, a planned reserve may be set apart. These procedures allow a greater firmness in considering the requests for new policies, which any way are being considered as a part of the annual plan.

- The budgetary process should provide for a fundamental review of a segment of the continuing programmes each year. These programmes may be selected on the basis of a review of the expenditure profiles of programmes; the profiles indicate the components where growth has been substantial, with implications of a substantial slack. Furthermore, the review permits an evaluation of the extent to which the objectives of programmes have been achieved and an identification of the areas of slippages and potential risks that need to be addressed. This fundamental review will enable the central and spending agencies to identify the programme vulnerabilities and to discard or modify the programmes that ceased to be effective.

- The analysis of the expenditure profiles will also reveal the phasing of budget implementation and associated cash requirements. Some categories of expenditure may reveal a steady pattern throughout the fiscal year, while a few others may involve bunching of payments at certain points of the fiscal year. An explicit recognition of these variations in the programmes will permit a more organised cash management, which can then be linked to the borrowing programme. It will also enable the central agency to assure the spending agencies that adequate funding would be available for the implementation of the budget; and

- The above suggested, transformative changes, should be introduced as a part of the *Fiscal Responsibility and Budget Management Act*. It may be recalled in this context that the original intent of this legislation was to provide guidelines for the conduct of fiscal policy and to provide a supporting technical administrative infrastructure. In the event the outcome was different in that there was more focus on the policy aspects and little on the technical infrastructure. The opportunity of amending the legislation may be utilised to provide a legal backing to some of the recent initiatives such as outcome and gender budgeting.

d. **Anchors for expenditure management:** Every management system tends to develop its own anchors over a period of time. A common feature of the traditional Expenditure Management Systems was that it focussed mostly on the personnel or the staff positions, as that was believed to be the most important factor contributing to the inexorable growth in public expenditures. The belief was – control the personnel costs and the problem of expenditure growth is addressed. As a part of this approach ceilings on staff growth were devised and targets for reduction (which took place rarely) were also indicated. Later, work-studies came to be introduced, so that staff planning could be addressed in a more organised basis. Over the years, however, these instruments proved to be inadequate for the purpose. Personnel increases came to be taken up as a part of the development plan and most increases took place in a routine way in the national security area, which was considered to be vital and beyond the normal budget vagaries. During more recent years, the issue has been one of addressing the 'surplus' personnel and their deployment and much of the staff increases are taking place outside the government reflecting the growing trend of contracting out selected services. Thus, the traditional anchor of staff, which guided the Expenditure Management System, had to be given up and new anchors developed.[40]

The dynamics of expenditure management are such that no anchor would prove to be valid for all times. Accordingly, in some countries, the anchor shifted to performance and outcome. Performance Budgeting and its variants have two sides of the bargain. On one side, the allocation of resources is contingent (reflecting the buyer-seller nexus) on a promised level of performance, which also has its own benchmarks. On another side, the promise of an assured level of performance also required that adequate funding is provided for the purpose. This two-way street became the anchor of expenditure management until the management of fiscal stress became the dominant theme and adequate funding could no longer be assured. Further, the decline of Performance Budgeting meant that it was due to be replaced by another anchor.

The new anchor that was chosen was the 'running costs' of a programme. It emphasised the need for a more comprehensive look into the cost elements of programmes and an analysis of the factors contributing to increases in costs. In some countries this

[40] A more detailed discussion of these aspects is provided in Premchand, A., "Public Expenditure Management: Selected Themes and Issues" in Frank, Howard A., *Public Financial Management*, Taylor & Francis Group, Boca Raton, London, New York.

anchor came to be supplemented by the periodic fundamental reviews of existing policies and associated programmes. In due course, as circumstances change a new mix of anchors is likely to emerge and that mix will last a few years until it is replaced by another mix. These developments show that the choice of the anchor(s) depends on the needs of the times and much depends on the pragmatism of governments. In the Indian context, it appears that a mix of three anchors – running costs, fundamental review and an emphasis on performance and outcome would be appropriate. The computation of costs is however not an easy task, and should be aimed at after getting adequate experience with accrual accounting. Focus on performance also requires the development of benchmarks. The deployment of fundamental reviews also requires a willingness to face unpleasant truths about the effectiveness of existing programmes.

e. **The future is now:** A few centuries ago Machiavelli wrote in his advice to the prince, "physicians say of consumption, that in the early stages of this disease it is easy to cure but difficult to diagnose: whereas later on, if it has not been recognised and treated at the beginning, it becomes easy to diagnose and difficult to cure. The same thing happens in the affairs of the state." If efforts are not made now to treat the problems identified at length in the preceding pages, Machiavelli's prediction about the difficulty of curing is likely to become true. The growing lag between the identification of problems and the formulation and implementation of policies aimed at resolving them is likely to lead to further erosion in the credibility of the government. It should therefore be the aim, at a minimum, to prevent further steep erosion, and as a desirable goal, the restoration of credibility. In this regard, it is appropriate to recall the words of Einstein in the concluding part of a letter that he wrote to a friend, a month before his death. He wrote "people like us, who believe in physics, know that the distinction between past, present and future is only a stubbornly persistent illusion". His discovery of relativity taught the world that this division was an illusion. It may be so in human affairs too.[41] In daily life these elements fuse into a single stream and, as a television commercial of an insurance company operating in India puts it "life comes at you fast". A recognition of these aspects leads to the conclusion that denial is not an option. 'Renewal' and 'transfiguring' are the imperatives of the times.

[41] Dyson, Freman, *Disturbing the Universe*, Basic Books, New York, 1979, p.193.