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Performance Budgeting

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I. INTRODUCTION

Today, when the management of money is more important than ever for public and private entities, budgeting plays an enormous role in controlling operations efficiently and effectively. Budgeting in itself is a familiar process to even the smallest economic unit – the household - but it needs to be divided into two different classes: budgeting for public entities and private entities.This differentiation is important because public bodies need to go through many processes before moving into the budget execution phase and post-execution analyses; furthermore, the entire process involves the collaboration of different bodies throughout the government. This collaboration is not only for budget preparation, negotiation and approval processes, but also for the spending approval after the whole budget allocation is finalized. Compared to private sector, it is cumbersome.

According to this new budgeting methodology, traditional methods of analyzing and utilizing budget figures are insufficient. In traditional terms, organizations start building up their long-term plans and break those plans into annual budgets that are formed as forecasts. At the end of the year, budget figures are compared with actual results and a simple actual-budget variance comparison is calculated. Since the analysis is simple, this analysis lacks any sophistication in terms of adjusting similar budget items for forthcoming periods by increasing or decreasing the expenditure estimates. Basically, variance results are generally used for revising monetary amounts for the next planning and budgeting cycle, and also for very simple departmental performance tracking.

This new approach to budget analysis and utilization is many steps ahead of traditional methods. As an example, a governmental project to enhance the social welfare of women in a remote area can help explain the performance-oriented approach. For such projects, which are generally composed of long-term plans, governments decide on objectives and the activities that are required to be accomplished to achieve them. Practical ways of enhancing social welfare of women in a rural area might include increasing the literacy levels of women in the area.In order to achieve such an objective, the government may plan to establish schooling infrastructures in various locations, complete with the necessary equipment, and further plan to assign trainers to those schools for implementing the educational programs. All these activities have a cost aspect and, at this point, long-term plans are broken down into annual budgets that incorporate the monetary figures. Once the long-term plans are accomplished, the traditional way to gauge the effectiveness of this whole project would be to assess the gap between the budget and the actual money spent.

However, with the new budgeting approach, the questions to answer are tougher:

- Did we really succeed in enhancing the social welfare of women?
- Did this project cost what we expected?
- Have we done what we should have done in enhancing the social welfare of women?

Peter van der Knaap[1] from the Ministry of Finance in the Netherlands suggests: "The general purpose of the proposals is to make budget documents and, hence, the budgetary process more policy-oriented by presenting information on (intended and achieved) policy objectives, policy measures or instruments, and their costs." Furthermore, van der Knaap explains that this type of budgeting has the following major performance indicators:

- the quantity, quality, and costs of products and services (output) produced by government or government services in order to achieve certain effects, and;
- the intended effects of those measures (outcome).

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[1] Peter van der Knaap, 'Performance management and policy evaluation in the Netherlands': towards and integrated approach, Ministry of Finance, The Hague

Within this kind of a planning and budgeting setup, the lack of reliable information on the effects of policies emerges as a serious issue. Therefore, it is important to approach the planning and budgeting cycle in a holistic and integrated way, with collaboration across the areas of policy design, performance measures definition and policy evaluation. This whole framework points us to a newer way of budgeting, the so-called Performance-Based Budgeting.As explained by Carter [2] "Performance budgets use statements of missions, goals and objectives to explain why the money is being spent. It is a way to allocate resources to achieve specific objectives based on program goals and measured results." The key to understanding performance-based budgeting lies beneath the word "result". In this method, the entire planning and budgeting framework is result oriented. There are objectives and activities to achieve these objectives and these form the foundation of the overall evaluation. Performance budgeting comprises three elements:

- the result (final outcome)
- the strategy (different ways to achieve the final outcome)
- activity/outputs (what is actually done to achieving the final outcome)

Within this framework, a connection exists between the rationales for specific activities and the end results and the result is not excluded, while individual activities or outputs are. With this information, it is possible to understand which activities are cost-effective in terms of achieving the desired result. As can be seen from some of the definitions used here, Performance-Based Budgeting is a way to allocate resources for achieving certain objectives. In short Performance-Based Budgeting sets a goal, or a set of goals, to which monies are allocated. From these goals, specific objectives are delineated and funds are then subdivided among them.

II. PERFORMANCE BUDGETING IN INDIA: A HISTORICAL PERSPECTIVE

Over the last 50 years, the term Performance Budget (PB) has come to acquire a certain definition, meaning, and purpose in the parlance of governance. PBs, as presently produced by the ministries, does not really satisfy the rigorous definition of the term. Simply put, PB is about integrating financial budgeting with physical performance. That integration is, however, far from simple. It involves, on the financial side, development of activity based cost accounting and management systems; and, on the physical side, development of measurable performance parameters and benchmarks of various facets of Government activities, quantitatively and qualitatively. It also involves identification of those facets of governance where development of measurable performance parameters may be difficult – or impossible – and providing explanation as to why that is so. Finally it involves matching (integration) of the activities' costs with corresponding 'measured' performance of respective activities. Performance budgeting is a highly complex and administratively demanding exercise, and is still in various stages of evolution the world over.

In the context of Indian situation, an appreciation must prevail at the outset that 'outputs' and 'outcomes' are essentially two different things. Output denotes quantitative measure of the processes, activities, goods, and services produced through a Government programme. Outcome, however, bespeaks the qualitative achievement of that programme with regard to efficiency, economy, and effectiveness. Often, implicit economic value of Government interventions - especially regulatory - is enormous, if not immeasurable, especially in a long term perspective. At the same time foregone opportunity costs of 'outputs' related to huge public investments not having been put to fruitful end-use for one reason or the other, often remain an untold story. While, therefore, determination of 'output' is an important first step, the journey towards performance will have little meaning without determining the 'outcome'; and that too, relative to the costs incurred. This issue needs to be flagged in the very beginning with reference to Indian federal financial structure, where the financial systems of various tiers of Government, viz. the centre, the states, the local bodies, and other para-state bodies are intertwined in quite a unique fashion.

The history of PB in India goes back to 1954, when Lok-Sabha debated upon the matter of its introduction, while discussing Ministry of Finance's control over expenditure. This debate apparently continued later and various Estimates Committees of the Parliament from time to time made recommendations on the need to establish PB, for proper appreciation of Government schemes and outlays included in the budget. In 1964, the Union Planning Commission (PC) highlighted the need to devise methods of making PBs, with the objective that those become integral to the machinery for planning and supervision over plan fulfillment. PC set up a Performance Budgeting Unit in 1965. That unit conducted many studies, which were eventually used by the Administrative Reforms Commission (ARC) set up later by the Government.

ARC made detailed recommendations on PB in the chapter on 'Finance, Accounts, and Audit' of their report submitted in January 1968. It recommended introduction of PB, both at the Centre and the States, selectively in the departments and organizations 'which were in direct charge of development programme'. In

[2] K. Carter,The Performance Budget Revisited: A Report on State Budget Reform - Legislative Finance,Paper #91, Denver, National Conference of State Legislatures, pp. 2-3

March 1969, the Government of India accepted ARC's recommendations, and also commended it for acceptance to the States.

In October 1969, MoF presented PB of selected ministries for FY1970 to the Parliament, and conveyed more detailed guidelines as regards steps to be followed for preparation of PB to the line ministries. Those steps were as follows: (a) enunciation of the objectives and functions of each Ministry; (b) identification of related programme and activities; (c) determination of cost of programme and activities; (d) correlation of financial requirements of programme with 'targets, standard of performance, work load data, performance rating, and evaluation of performance, not only for the budget year but also on a long term basis in accordance with the plan'; (e) where possible, development of unit costs; (f) where measurement of end product was not tangible, such as administrative and maintenance functions, statement of accomplishments, work done, and changes in the workload to support the financial requirements; (g) for projects, preparation of 'control schedules' showing total estimated costs as summation of estimated component costs distributed year-wise, date of commencement, to-date physical and financial progress in relation to the overall project targets and outlays, expected completion date; (h) development of 'network scheduling' to watch progress of projects vis-à-vis 'control schedules'. MoF October 1969 guideline recognized that a reorientation of financial and accounting system would be necessary to attune the prevailing budget system in to a 'performance type of budget' in a fuller sense.

From 1970-71 onwards, central ministries presented their respective PB to the Parliament with progressive additions to their number. Estimates Committees of the Parliament took keen interest in PB, and suggested specific improvements. Largely based on those recommendations, MoF issued further guidelines on PB from time to time till 1985. Salient points of those guidelines are as follows: (a) PB should present meaningful data to the Members of Parliament and the public to judge the achievements of a project relative to its objectives; (b) presentation of data should facilitate evaluation of performance of a particular unit with other comparable units; (c) (as regards projects), PB should cover economic impact of cost/capacity revisions, shortfalls in capacity utilization, cost benefit analysis, contribution of project to sector, regional, and national plan; (d) pending their eventual integration, an integrated approach may be adopted to presentation of information/data in both PB and in the notes on detailed demand for grants.

A major development as regards PB was restructuring of accounting classification and budget, effective FY1975, in terms of functions, programme, and activities. There was little action, however, on the most crucial area, i.e. determination of the performance measures of programmes and activities. By FY1976, all ministries/departments had begun preparation of their PBs. MoF circulated summary guidelines for improvements in data presentation in PB in Nov 1975. Salient points of those guidelines were: (a) wherever possible a correlation should be established between inputs and outputs; (b) unit cost data should be generated and exhibited in respect of important programme where unit costing will contribute to efficiency; (c) scientific norms and standards should be evolved which should be the basis both for setting targets and measuring performance; (d) targets and achievement/likely achievements should be indicated for the previous year and current year in all cases; (e) the technique of performance budgeting has to be followed right down to each cost centre; (f) PBs prepared on the basis of similar budgets of lower formations are more realistic and useful for serving management objectives; (g) in the case of large projects the future year costs till the date of completion of project should also be projected; (h) the reasons for cost escalations or overruns should be elaborated in sufficient detail explaining why correction mechanism failed to arrest that trend; (i) an indication of how the individual schemes included in the budget fit into the national objectives; (j) priorities should be given and the continued relevance of the schemes and even the objectives should be evaluated periodically and results indicated in PBs; and, (k) though the ministries may not be directly executing all the programme, a total picture of achievement in the functional areas for the country as a whole may be given wherever possible in PBs, e.g. irrigation area; food production, health services, etc.

MoF went so far ahead as to prescribe a 'standard format and chapterization of PB, the latest instruction on that regard is probably dated Nov 1985. The prescribed chapterization is as follows. Chapter 1: Introductory note giving objectives of the Ministry, broad programme classification, and organization of connected implementing agencies; Chapter 2: Review of overall performance of Ministry of the preceding year detailing target and achievements in terms of broad physical dimensions and financial outlays; Chapter 3: Performance appraisal of major projects and programmes costing Rs 100 Cr or more; Chapter 4, Part A: Statement of scheme-wise expenditure; Chapter 4, Part B: Object-wise classification; Chapter 4, Part C: Sources of Finance; Chapter 5: Scope and objective of individual schemes, giving how individual schemes fitted in to the national schemes and priorities and explaining their continued relevance with regard to capacity utilization.

After many initiatives early on, still the envisaged integration of PB with normal budget, i.e. demand for grants, has not come about in the right manner. The focus of budget continues to be on input allocations without direct linkages with programme outputs (not to speak of outcomes), and without much correlation with the past performance. Determination of programmes performance measures has remained as nascent as ever. Meanwhile, the number of central ministries, often with intersecting mandates and functions, has grown. In such situation, PB has receded in to background as a perfunctory formality. A close look at some PBs would reveal that these are at best only a disjointed compilation of data and information. PB has not evolved as a key instrument for management information, executive accountability, and performance reporting for the legislature and for the general public. Before we get in to the reasons and search remedies, a look at the contemporary practices existing and evolving in some of major democratic countries as regards performance reporting / budgeting in the Government would be helpful.

III. PERFORMANCE BUDGETING: USA EXPERIENCE

Despite fundamental difference in their systems of legislative financial control, it is found that the vintage of concerns on PB is quite the same in USA and India. The story of PB in USA, too, is a little over 50 years old. PB was mentioned for the first time in the Report on Budgeting & Accounting of 1949 of Mr. Herbert Hoover, Chairman of The Commission on the Organization of the Executive Branch of the (Federal) Government. In USA, long-term budget simulations by Government Accountability Office {formerly General Accounting Office, (GAO)} and the Congressional Budget Office have shown that USA faces a large and growing long-term structural deficit due primarily to known demographic trends and rising health care costs. Serious concerns have been voiced that continuing on that unsustainable fiscal path will gradually erode, if not suddenly damage, US economy, standard of living, and ultimately national security. It is believed that the problem is too big to be solved by economic growth alone or by making modest changes to the existing spending and tax policies. Accompanying these pressures have been demands for more public accountability. Performance measurement, budgeting, and reporting had been put centre-stage by Clinton Administration in early 90s. It remains one of the key items of Bush Administration's management agenda unveiled in 2001. One of the notable features in the US-system is the careful institution-building which legislative action to establish and sustain PB.

The legislative activity in USA relating to performance could be said to have begun with the enactment of the Inspector General (IG) Act of 1978 by the US Senate with twin objectives of promotion of economy, efficiency, and effectiveness in the administration and of prevention and detection of fraud and abuse in Government programmes and operations. This act provides for appointment by the President in every agency of an IG, by and with the advice of the senate, to work under the general supervision of the head of agency concerned, with biannual and parallel reporting responsibility to the Agency Head as well as to the Senate. IG is also required to report to the Attorney General whenever there is a reasonable suspicion about federal criminal law violation. Although IsG are officers of the executive, IG Act envisages that their audit and investigative activities would give due regard to the activities of the Comptroller General of US, who is an officer of the US Congress, to ensure effective coordination and cooperation. The office of IG combines, in effect, the functions of internal audit & evaluation and proactive vigilance, in an institutional manner.

The next legislation of significance is The Chief Financial Officers Act of 1990 (CFOs Act). The primary purpose of this law is improvement of financial management activities within the federal Government. It marks the beginning of a greater focus on programmed results. CFOs Act charges CFOs at each agency with implementing effective accounting and financial management systems.

Two more legislations worthy of note are 'The Government Management Reform Act of 1994 (GMRA)' and 'The Federal Financial Management Improvement Act of 1996 (FFMIA)'. GMRA requires agencies to have comprehensive audited financial statements.

USA's The Government Performance and Results Act of 1993

The high point of the legislative journey towards performance management in USA arguably is The Government Performance and Results Act of 1993 (GPRA). This Act envisions complete integration of the Annual Performance Plan with the Budget – what is known as "Performance Budgeting" - in a graded and cascading manner through all levels of a department or agency, by linking day-to-day programs activities and their costs to the long-term outcome goals of the entire organization. GPRA seeks to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. GPRA establishes three key elements of an effective program performance measurement system, viz. (i) Strategic Plan (SP), (ii) Annual Programme Performance Plan (APPP), and (iii) Annual Programme Performance Report (APPR). Additionally, GPRA provides for the possibility of waivers for increased managerial accountability and flexibility, and tests the development of program performance budgets. GPRA clearly states that development of these plans and reports are 'inherently governmental functions'. While assistance may be provided by (and obtained from) other parties, actual formulation of the final products must be the responsibility of federal managers.

A very important prerequisite to developing effective performance budgeting systems - that can support comprehensive performance management at all levels of the organization - was established in 1998 with implementation of a new accounting standard for federal agencies, in pursuance of the issuance of "Managerial

Cost Accounting Concepts and Standards for the Federal Government" in 1995. This standard essentially underscores the need to identify the unit costs of activities and to develop activity-based costing and activity-based cost management, in four major steps; viz. (i) identification of activities performed in a responsibility segment to produce outputs, (2) assignment or mapping of resources to the activities, (3) identification of outputs for which the activities are performed, and (4) assignment of activity costs to the outputs. Surely, implementation of satisfactory management cost accounting system is still a work-in-progress in many US Agencies. But it is recognized to be the critical link for serious implementation of performance budgeting. One of the special features of GPRA is that it includes a provision for the granting of managerial accountability and flexibility waivers; i.e. the opportunity to be exempt from certain specific types of non-statutory administrative procedural requirements, in return for achieving greater program results than would otherwise occur. These waivers, with the agreed conditions and promised benefits specifically spelled out, have to be approved by OMB, and mentioned in the performance reports.

GPRA has adopted a definite two-stage approach towards performance budgeting. First, it required the executive, beginning with FY1999, to submit an overall federal Government performance plan along with the budget, derived from the agency performance plans. Secondly, it required two-year pilot projects in performance budgeting in at least five federal programs, beginning in FY1998. The Senate committee working on GPRA recognized that: (a) performance budgeting would be a major undertaking; (b) it would be difficult for the executive to achieve comprehensive program goal-setting, and performance measurement and reporting, on a Government-wide basis; (c) many federal agencies would have to think about their programs in ways they were not now accustomed - with a focus on results; (d) new information technologies, unavailable in past decades, should now be a great advantage in bringing about successful program performance measurement; (e) performance budgeting, however, will require careful planning and thoughtful execution, because the ultimate objective is to change agency and managerial behavior-not to create another bureaucratic system. GPRA, therefore, requires OMB to designate the pilot project programs, in consultation with agency heads. It required that there would be at least ten such pilots in a representative range of Government functions and capabilities in measuring and reporting program performance. GPRA set out a period of eight years from 1993 to 2001 for establishing a Government-wide performance budgeting system. By FY04, ~50% of US federal agencies' budgets have reportedly become performance based.

IV. PB IN OTHER OECD COUNTRIES

The concerns of measurement and improvement of performance perhaps came to be voiced when Governments settled in relative stability after the World War-II. In the past two decades, performance of public (Government) expenditure has taken on special urgency in OECD countries as they faced recessions, mounting demands for more and better public services, and, in some countries, increasing unwillingness on the part of citizens to pay higher taxes. Despite the differences in approach, there are common trends in OECD countries' efforts to become more performance oriented. From "OECD/World Bank Budget Practice and Procedures Database 2003", developed after country surveys, one sees that most of OECD countries include non-financial performance data in their budget documentation. A recent OECD policy brief prepared under the responsibility of its Secretary-General makes an interesting analysis of the cited data base as regards performance management and budgeting, and brings out the following interesting conclusions:

a. Performance movement in the public sector is there to stay, but needs refinement.

b. Public servants agree that formal performance measurement and reporting is superior to considering it simply as a staff motivational issue.

c. Different kind of performance information may be needed to improve policy advice, to improve management, and to establish public and parliamentary accountability.

d. Governments should diagnose their specific environment, before deciding the relative weight to be given to interventions in leadership, strategic planning, performance management, performance-based budgeting, or policy evaluation. Each has different strengths and limitations and cannot be done all at once.

e. Performance budgeting in the strict sense is still in relative infancy, and has so far been stronger on process than proven results.

f. Performance information has proven very useful for the executive, but the common assumption that it would also serve the legislature so far remains unproven.

g. Governments are undecided how much weight to assign to the independent evaluation of policies given the advent of performance targets and indicators. Performance indicators are no substitute for the independent, in-depth qualitative examination of the impact of policies that evaluations can provide, but on the other hand evaluations are not well wired into the regular decision-making processes of Government.

h. Too much emphasis on performance distracts attention from organizational capacity and underlying Government values such as equity. Thus caution should be exercised when using formal performance incentives for senior managers, as a strong collective culture remains essential for sustained public sector performance.

V. PB: COMMON FEATURES OF INDIA AND OTHER COUNTRIES

On a theoretical plain, early developments soon after independence about performance budgeting in India were quite contemporaneous; and, in some ways, even futuristic. Some limited but significant structural reforms also followed related to the requirement of production of PB. During FY1975, the Government restructured accounting classifications and budget in terms of Government functions, programmes, and activities. During FY1976, a major restructuring of central civil accounts set up was taken up. A three-tier finance & accounts management system was created in the central ministries consisting of 'Secretary-Financial Advisors-Controller of Accounts'. Integrated finance divisions (IFDs) - headed by Financial Advisors (FAs) - were created in the line ministries. The department secretary was at the apex of the three-tier system of finance & accounts management, with Financial Advisor (FA) as a kind of a finance manager, and the Controller of Accounts (CA) as the bookkeeper, paymaster, budget maker, and internal auditor.The central planning model which was followed in India soon after its independence also would appear to have been responsible for a large body of reports that ministries and other associate organizations of the Government generate; similar to many reporting instruments of USA's GPRA of 1993. Five Year Plans of various ministries would correspond to 'Strategic Plan', their Annual plans to 'Annual Programme Performance Plan', and Annual Reports to Annual Programme Performance Reports' of GPRA. There exist, theoretically, PBs for all the central ministries.

VI. THE BOTTLENECKS IN PREPARATION OF PB

Where is, therefore, the problem? Why all these important reports have remained mere documents, mostly without much analysis of strength, weakness, opportunity, and threat (SWOT) areas, and without much fruitful end-use? Answers to these vexed questions must be found primarily in nature of the Indian federal finance structure and its evolution over years, and in yet another question as to whether institutional arrangements for financial and performance management in the Government at all levels have matched the theoretical development of the subject matter.

As was said at the very outset, the finances of various levels of Government in India – the Union, the States, the Local Bodies, other para-state bodies – are closely intertwined under the prevailing federal financial structure. The central planning model of economic development adopted by Indian planners has led to determination of a major fiscal role for the Central Government in almost all areas of governance. After independence, expenditure has grown many-folds in areas of exclusive central ministration such as defense, internal security, science & technology especially in nuclear and space sciences, etc. Central Government is also the main conduit of external assistance to the States. Finances of the States depend substantially on the general and specific purpose fiscal transfers from the Centre, administered in a complex arrangement in which MoF, central ministries, and planning commission play their part. Fiscal involvement of the central Government with subjects directly in the States' list and the Concurrent list has also multiplied, both explicitly and implicitly, especially after mid-seventies, with the advent of a flurry of centrally sponsored schemes (CSS), especially relating to socioeconomic development and poverty alleviation. The number of central ministries and agencies administering and coordinating these CSS has also grown.

What would be rather unexceptional in this evolving scenario is the fact that performance management, measurement, and reporting, and their role in decision making and fiscal resource allocation – for which a theoretical framework had been so elegantly built – have taken a back seat, perhaps a clear case of organizational slack or inefficiency internal to the organization, known as X-inefficiency. There have been however some developments in external evaluation of Government programmes within and outside the executive branch of the Government. For instance, Comptroller & Auditor General of India (CAG) has taken up performance auditing in a big way. There is an exclusive central ministry to monitor central Government programme implementation. Planning Commission, who plays a big role in determining general budgetary support to the central ministries and the States, also conducts independent evaluation of Government programme and activities. Administrative ministries also optionally conduct evaluations of their programme performance. At times such evaluations are required by external funding agencies. Yet, by its very nature, post evaluation of programmes cannot be a substitute for a dynamic and dispassionate internal programme performance management, measurement, and reporting system; and indeed, of integration of budget and performance information down through all levels of Government, which is what performance budgeting is all about. Centrally sponsored activities in the States, Local Bodies, and through non-Government organizations (NGOs) throw up their own challenges in performance budgeting, as performance measurement and management is so much more indirect and distant.

There is universal recognition that: (a) performance measurement of Government programmes and activities is a highly complex and tedious task, sometimes impossibly so; (b) programme managers are not always as enthused about performance measurement as they would be (with good intentions) about programme implementation; (c) activity based cost accounting and management of Government programme is still in infancy everywhere and is facing progressive hurdles as complexity of Government business grows; (d) there is much information asymmetry and subjectivity in performance measurement, especially in multi-layered Government programmes; and, last but not the least, (e) PBs have yet to develop themselves as key input to the decision support systems for policy making.

27. Problems associated with PB have not diminished its need or importance. On the contrary, PB is considered the foremost instrument of formally establishing and taking forward the performance movement. PB could be answer to many issues: a strong decision support for policymakers; a much validated MIS for the programme managers; an assurance to taxpayers of efficient, effective, and economic utilization of public resources; a measure to ensure transparency in the Principal-Agent model in Government (fiscal) transactions.

VII. THE PREREQUISITES FOR PB

Much of the futuristic theoretical framework for PB set out from late sixties onwards has remained unactioned in any real sense, in the absence of empowered and accountable institutional arrangements. Much ground has to be covered to establish institutions and practices relating to financial and performance management of the Government at all levels either by legislation or by Government Resolutions. Notification of the Fiscal Responsibility & Budget Management (FRBM) Act in August 2003 encourages the central ministries to bring better discipline in their annual expenditure, as a first step.

The detailed procedure prescribed to be followed for approval of any plan scheme and for its continuance on to the next plan, generally provides the broad framework for performance mapping relative to financial outlays of a given plan scheme. The expenditure finance committee (EFC) memoranda are expected to contain annual physical and financial milestones in various activity segments of a plan scheme, corresponding to their respective fiscal outlays. The physical and financial roadmaps are seldom built on standard activity-wise cost estimates and well-defined performance indicators. It is, therefore, necessary that performance indicators of a scheme are carefully developed and built in the plan schemes by the line ministries while proposing plan schemes. An effective and efficient national system of performance benchmarking is crucial to the whole process. Good performance benchmarks must satisfy the criteria of being clear, relevant, economic, adequate, and monitorable (CREAM). Designing those would involve: (a) formulation of outcomes and goals; (b) selection of outcome indicators; (c) gathering baseline information on current condition; (d) setting specific targets to reach and, timeframe within which these are to be achieved; (e) regular collection of information to assess whether the targets are being met; (f) analyzing and reporting the results, particularly the rates of convergence of targets and the deviation of the achievements from intentions.

The next step in the journey towards PB would be determination of performance targets corresponding to the carefully calibrated performance indicators, and their eventual integration with the corresponding budget outlays of plan schemes. This would necessitate development of new budgeting formats. The task of establishing performance indicators is a very complex and sensitive task, on which the very sanctity of PB may be based. Every scheme approval and its continuation from one year to other should be a building block of the PB of the Ministry; indeed, each such approval should be seen as a mini PB of a Government scheme, eventually going to construct PB of the ministry.

Three important documents which provide the backbone of PB are the Five Year Plan (FYP), the Annual Plan (AP), and the Annual Report (AR) of the Ministry. It is necessary to reinvent these documents, state new speaking mandates for them, and establish professional accountability for their production. Five Year Plan must articulate a Ministry's plan goals in as clear and as precise manner as possible so that the organization could maintain a consistent sense of direction, regardless of leadership changes at the top, both at the political and managerial level. Five Year Plan must state the overall approach for achieving plan goals, a schedule for significant actions, linkages with goals of Annual Plans, and the needed resources, wholly as well as for the constituent schemes and programmes.

Annual Plan (AP) must provide the direct linkage between a Ministry's plan goals, defined in FYP, and the action agenda of its managers during the year. AP should be drawn in hierarchical manner, showing annual performance goals, which need to be accomplished at each level. Performance goals may relate to "outputs" and "outcomes"; the latter for policy purposes and the former for tracking per-unit costs.

Annual Report (AR) needs to be developed as feedback report to managers, policymakers, and the public as to what was actually accomplished for the resources expended, how well the original goals were met, where there were only partial successes or failures, and what are the remedial plans. ARs must also relate performance measurement information to program evaluation findings, in order to give a clear picture of the agency's performance and its efforts at improvement. Like AP, AR should also be drawn up in a hierarchical manner with organic linkages to performance appraisals of officials at various levels. This will ensure that scope of voice is enhanced to achieve appropriate public accountability.

FYP, AP, and AR, along with PB, should constitute the basic accountability framework with built-in inter-linkage. Recommendation by PC of annual budgetary appropriations to a Ministry for respective programmes (schemes) as also in totality, and its determination by MoF should be premised on these four key documents.

Internal evaluation of programmes is an important devise to test the efficacy of PBs. Such evaluations have to be selective and representative, and be carried out objectively with reference to generally accepted cost accounting and performance measurement standards. At present 'internal' evaluations are being carried out under aegis of many agencies. In absence of well-defined cost and performance standards, these evaluations often result in subjective conclusions. It is necessary to strengthen evaluation mechanism of government programme. It is also necessary to build evaluation standards so that those complement, rather than duplicate, the efforts being made for establishing performance budgeting. Although the mandate of CAG is of external audit and is governed by the statutes, it would be advantageous to benefit from the expertise of external audit evaluation and to seek CAG's advice in setting up mechanism for internal evaluation in the ministries, as a dynamic system to validate and sustain PB.

Performance budgeting is an information intensive exercise. Information & Communication Technology has been one of the prime movers of the performance movement. It has made it possible to marshal, keep, process, and validate a large body of information; to sift it conveniently for management use; and, to put it in public domain for study, scrutiny, analysis, and benefit of all the information stakeholders, in the most economic, effective, and efficient manner. Much of lack of transparency, corruption, wastefulness, etc. in government programmes could be directly linked to the historical mystic and opacity of government information system, which could be dismantled by application of ICT in governance in the real sense.

VIII. DISCUSSION & CONCLUSION

Any exercise to set out an agenda for meaningful performance budgeting must recognize that it must move beyond mere theorizing. For this type of advanced budgeting, which requires the definition of Key Performance Indicators (KPIs) at the outset, linking these performance indicators to resources becomes the vital part of the entire setup. This is similar to the Corporate Performance Management (CPM) framework, which is "where strategy and planning meet execution and measurement", This is a sort of a Balanced Scorecard approach in which KPIs are defined and linkages are built between causes and effects in a tree-model on top of a budgeting system which should be integrated with the transactional system, in which financial, procurement, sales and similar types of .transactions are tracked. Moreover, linking resources with results provides information on how much it costs to provide a given level of outcome. Many public bodies fail to figure out how much it costs to deliver an output, primarily due to problems with indirect cost allocation. This puts the Activity-Based Costing framework into the picture. Both the concepts of scorecards, and activity-based costing are today well-known concepts in the private sector, but much less so for the public-sector bodies. Another conceptual framework that has gained ground is the relatively recently introduced CPM, again more popular in the private sector. The point is that the CPM framework has not much touched on the topic of Performance-Based Budgeting, although the similarities in policies offered by these frameworks are worth a deeper look. The technical foundation that the CPM framework puts on the table may well be a perfect means to rationalize the somewhat tougher budgeting approach, not only for the public sector but also for commercial companies. Leading companies are integrating various business intelligence applications and processes in order to achieve Corporate Performance Management.

The first step is for senior management to formulate the organization's strategy and to articulate specific strategic objectives supported by key financial and non-financial metrics. These metrics and targets feed the next step in the process, Planning and Budgeting, and are eventually communicated to the front-line employees that will carry out the day-to-day activities. Targets and thresholds are loaded from the planning systems into a Business Activity Monitoring engine that will automatically notify responsible persons of potential problems in real time. The status of the business is reviewed regularly and re-forecast and, if necessary, budget changes are made. If the business performance is significantly off plan, executives may need to re-evaluate the strategy as some of the original assumptions may have changed. Optionally, activity-based costing efforts can enhance the strategic planning process – deciding to outsource key activities, for example. ABC can also facilitate improved budgeting and controls through Activity-Based Budgeting which helps coordinate operational and financial planning.

CPM and the adoption of more public sector oriented PB are not easy to tackle, but in the ever-changing business and political climate they are definitely worth a closer look! PB could well be a double edged weapon: if handled improperly (a) it might lead to questionable postulates and misleading projections; (b) misguide policy makers and programme managers; (c) be an inadequate shield against mismanagement, malfeasance, wastefulness of public resources; and (d) add to the plethora of Government reports which only hike the cost of governance. If developed diligently, carefully, sincerely, and responsibly, it might prove to be an instrumentality of unprecedented value in planning and performance management of Government programmes and activities. In other words, it might well sow the seed of the wider action of reinventing the Government.

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