



EFFICACY OF OUTCOME BUDGETING UNDER DECENTRALIZED PLANNING

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Abstract

Outcome Budgeting is a budget tool in Public Finance which connects resource allotted and results generated. It is a concept which emphasizes on the importance of outcome than outlay and measures the effectiveness of the outlay. Though it is not a new concept, governments are hesitant to practice outcome budgeting. This paper aims to understand the need and relevance of practicing the concept in governance. In Kerala, which is a successful example of decentralization in India where one third of the total plan funds are moving to the hands of local bodies every year, the effectiveness of these funds are not tracked by any authority. In light of this, this paper intends to point out the importance of outcome budgeting in the local bodies of Kerala in tracking the outcome of the funds. Various relevant literatures available are used for this purpose.

Keywords: *Outcome Budgeting, Output, Outlay, Local Bodies, Decentralization.*

1. Introduction

The word “budget” comes from budget, meant for the king's bag containing the money necessary for public expenditure¹. Budget is the most important instrument or manual of the government in carrying out their day-today activities by guiding the allocation and use of funds for the implementation of various policies. This traditional way of budgeting has control only over the allocation side and expenditure side. It does not focus on the result or performance of the money spent, essentially leaving this “effective government tool” ineffectual. In this era of information, the efficiency and effectiveness of the public expenditure comes under the scrutiny of the public eye. This calls for the need for an evaluation of the outcome of funds spent by the governments by developing and practicing a tool named ‘Outcome Budgeting’. It is not a new concept. It is mainly a pre-budgeting instrument, which intends to know the real need of expenditure. We can find successful experience stories of outcome-based budgeting from different parts of the world and this study analyzes the relevance of such a tool in the Local Bodies of Kerala.

The functional and financial autonomy granted to the local self-government institutions (LSGIs) guaranteed in the 73rd and 74th Constitutional Amendments theoretically ensures to meet the aspiration of local people. The LSGIs in Kerala have been receiving nearly 1/3rd of the state budget outlay for various development activities in addition to other centrally sponsored schemes and state schemes and internally generated resources. This paper investigates the relevance and importance of outcome budgeting to measure the impact of this huge amount of funds spent by the LSGIs.

2. Literature Review

Grizzle, Gloria and Pettijohn, Carole (2002) perceive performance-based budgeting as beneficial by acting as a symbol of government commitment to outcomes and by helping to institutionalize the performance-measurement process. Also, they are trying to gain a deeper understanding that can be applied when designing future budget reforms and fine-tuning existing budgeting process to make more effective from the experiences of Florida, that apply budgetary incentives/disincentives for performance results.

Kristensen, Kromann Jens et.al (2002) provide an overview of the conceptual framework, the motives, the implementation challenges, the systems design options and the actual approaches to outcome-focused management and budgeting in selected OECD member countries

O’Toole E Daniel and Stipak Brian (2002) explore ongoing trends and the importance of local governmental use of productivity-friendly management tools and budgetary practices. It is said that one of the reason for the shift of budgeting towards output-oriented formats was due to the optimistic expectations.

Webber David (2004) conducts a prolonged search for improvements and innovations in the theory and practice of public management in New Zealand. The paper concludes that the developments like outcome focus have potentially serious implications for the quality and integrity of public spending.

¹ *Ministère de l’Economie et des Finances “France’s state budget”, Paris, 1996*



Melkers, Julia and Willoughby, Katherine (2005) provide a national assessment of the perspectives of local government administrators and budgeters regarding performance-measurement use and effectiveness of U.S. local governments by taking 300 local governments as sample. It finds that the consistent, active integration of measures throughout the budget process is important in determining real budget and communication effects in local governments.

Chowdhary, Harnita (2006) writes about the need for the adoption of outcome budgeting by government. According to him, shifting of the emphasis from output to outcome will lead the nation into a much prosper dimension. He encourages learning lessons from the experience of foreign countries as well as our own usage.

Rivenbark, William and Kelly, Janet (2006) examine the use of performance measures during budget preparation and adoption emerge when performance budgeting is defined as a process by using a survey of municipalities. It finds that municipalities are building capacity for performance budgeting by adopting performance measurement systems and by augmenting their budget processes with performance results.

The objective of Sterck, Miekatrien and Scheers, Bram (2006) is to describe how extensively performance budgeting systems are used in a selection of OECD countries such as Australia, Canada, New Zealand, Sweden, Netherlands, United Kingdom and the United States. The study points out that performance information are used to allocate resources and set priorities. Also, it adds that the major impact of results-oriented budget reform is situated in the internal management of departments and agencies.

All these studies are discussing the importance of outcome budgeting from the experiences of different countries. It may be due to the encouragement of successful world experiences and right intention to carry the county forward, the then union finance minister, P Chidambaram in his budget speech on February 28, 2005, said: "I must caution that outlays do not necessarily mean outcomes. The people of the country are concerned with the outcomes." In the light of this speech, different ministries are now preparing Outcome Budgets. But still, since it remains as a paper document like traditional budget; it could not produce the 'expected outcome'. Also, there were no serious studies or articles available in India worth reviewing. This increases the importance of the present paper and will lead us to think about the implementation of Outcome Budgeting in the Panchayat Raj Institutions.

3. Objectives of the Study

The main objectives of the study are:

- (i) To understand the concept and relevance of Outcome Budgeting.
- (ii) To understand the importance of Outcome Budgeting in Panchayat Raj Institutions.

4. Methodology

This study is descriptive in nature. In order to understand the relevance of the concept 'Outcome Budgeting' in Panchayat Raj Institutions, we are employing available secondary data from reliable sources. The accessible secondary data is intensively used for research study.

5. What is Outcome Budgeting?

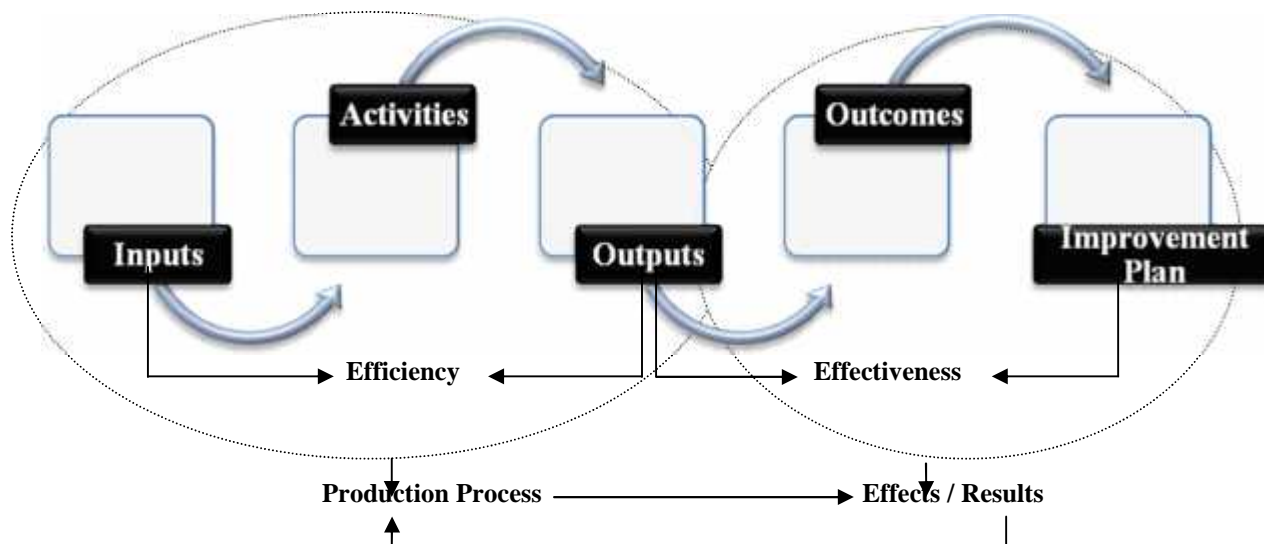
a. Definition

Outcome Budgeting is a simple concept which links the use of resources and its outcomes. The OECD defines performance budgeting or outcome budgeting as "a form of budgeting that relates funds allocated to measurable results"². The main aim of performance budgeting is to create a link between utilized funds and its outcome in order to improve the transparency in achieving the goals set by the government for each programmes. It is mainly based on the results rather than the input or output.

Inputs can be defines as the resources and output can be defined as the short-term/medium term direct product. But outcome is the direct/indirect long-term benefits. The process outcome generation can be schematically represented as below:-

² Does Performance Budgeting Work? An Analytical Review of the Empirical Literature, M. Robinson and J. Brumby, IMF Working Paper, 2005, p5

Figure 1, Schematic Representation of the Production Process and Outcome Generation³



Source: Author's illustration

The financial resources (input) pumped into the economy is utilized for various activities and it will generate a tangible output. The achievement of the amount of physical outputs per unit of input proves the efficiency of the production process. This production process leads to effects. That is, the generated physical output will be capable of creating a long-term outcome in the economy. This achievement of the objectives can be said as effectiveness and measurement of this outcome can be used to understand the percentage of achievement and improvement. From these understandings, new and improved plan can be prepared for the next production process.

Even though we have schematically represented the steps above, the preparation of outcome budgeting takes a reverse order. It is a system of budgeting that sets the purpose and objectives/goals for which funds are required (outcomes), decide the outputs to be produced or services to be rendered under each program to achieve it, and then finalize the costs of the implementation of programs and associated activities proposed for achieving those objectives (inputs).

b. Relevance

Outcome Budgeting should reflect the socio-economic situations and both internal and external managerial efficiency. The budget process has become more participatory by involving administrators, politicians, various departments, interest groups and countless others.

The main objective of outcome budgeting is to enhance the efficiency of public spending and government policies or programmes from its allocation process to implementation level. It will help the allocated resources to be more productive. Thereby it will help the government to achieve the desired result at the lowest cost without losing its quality. It acts as an early warning on the developments of output and outcome and provides better service quality. The evaluation of the outcomes will help to understand the drawbacks and prepare better plans. It will improve the accountability also.

The main confusion arises in the area of uncertainty about the outcome indicators. The main questions arise in this regard are:-

- Who decides the outcome?
- What will be the outcomes?

³ Idea is based on various reference; schema presented by M. Robinson, (2007), *Performance-based Budgeting*, p. 20, Sorber, Bram, (1993), *Performance Measurement in the Central Government Departments of the Netherlands*, *Public Productivity & Management Review*, Vol. 17, No. 1, p.64 and *Performance budgeting and decentralized agencies – Guidelines*, 10 December 2013, p.5.

- How to measure it?
- Would the measures be accurate?

The answers of all these questions must be a combined effort of the concerned departments, politicians and the administration. Otherwise there arise chances of disagreement.

If we can give appropriate answers to the above-said questions through our logic, it will be the next logical step in the implementation of a results-oriented government.

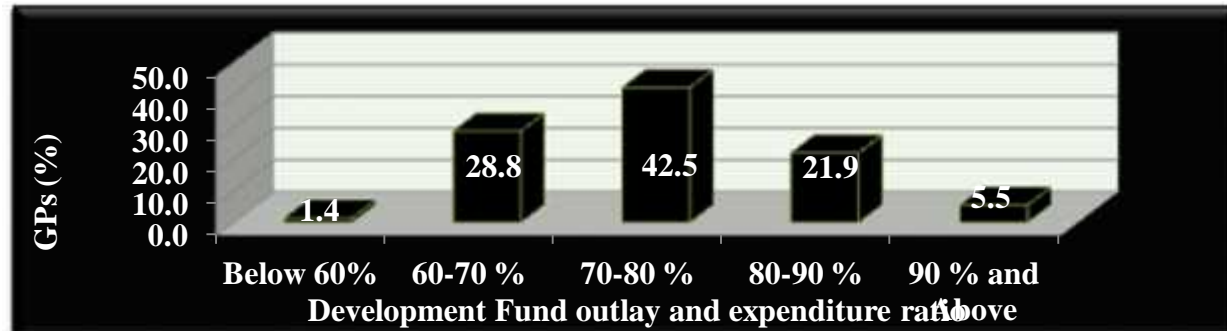
6. Need for Outcome Budgeting in LSGIs of Kerala

The historic move that we have put forwarded through our 73rd and 74th constitutional amendments saw everything decentralized: politics, administration, power, finance, etc. In Kerala, Grama Panchayat is the smallest decentralized unit and year by year the percentage of outlay moving from state to local bodies is increasing. This is in addition to the other centrally, state-sponsored schemes and other grants. The allotted and spent amount is audited every year. But the impact created by this huge expenditure is not measured. Here arises the need of outcome-based budgeting. When the governments clearly define their outcomes and objectives first, there will be greater transparency and efficiency in achieving it.

Even a single rupee spent by the government should be on the basis of its outcome generated. Therefore Outcome based budgeting can be used for both plan and non-plan expenditure of GPs. Non-plan expenditure can be considered as an outcome of plan expenditure. Due to this outcome exercise, the mindset of the elected representatives and administrators will shift from release of funds to utilization of funds. That is, more result-oriented government will be constituted.

Figure 2 gives a picture of percentage utilization of development funds of Grama Panchayats in Thiruvananthapuram districts in 2012-13. Still the question of the measure of outcome generated remaining, only 5.5 percent of the total GPs are utilizing above 90% of their development fund. That is, though GPs have the power and freedom to spend money within the purview of the guidelines given to them, they are not utilizing their allotted fund completely.

Figure 2, Utilization Rate of Development Fund of GPs in Thiruvananthapuram 2012-13



Source: Deputy Directorate of Panchayats, Thiruvananthapuram

Another important thing is that even if the LBs are utilizing the amount, there will not be a uniform spending. After creating a delay in the implementation of the projects, they will try to pump the entire amount at the end of the financial year (February, March). If they could not implement a project in the current year, they will present it as a spill-over project in the next year and ask for more investment to meet the spiraling costs. It will not help the budget more cost effective. If the LBs are changing their outlook to more result oriented, we can avoid these issues. Outcome Budgeting will bring a discipline and uniformity in their spending and they will not stagger towards the last quarter of the financial year anyway. Also it will ensure that projects and schemes do not continue indefinitely from one year to the next, without an independent, in-depth evaluation.

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

etc. in critical decision and implementation processes of the schemes (Gopalakrishnan 2004)⁴. As quoted above, the budget preparation must start with the involvement and serious discussions of administrators, politicians and target group. This “meaningful involvement” itself is capable to change the mindset of LBs from outlay centric to result oriented. \

a. Major steps involved in outcome budgeting in LBs

Step 1----- Conduct an extensive survey in order to identify the needs. It must be done with people from all sections of the society.

Step 2----- List their needs and rank them with priorities.

Step 3----- Set the desired outcome.

Example: If their need is to get financial/physical aid for paddy cultivation, outcomes can be employment, income generation, poverty alleviation and so on.

Step 4----- Plan the project/programme.

This planning process will involve: Mode of implementation, structure of the programme, fixation of time duration, amount of outlay and physical output.

Here is an example of the statement of outcome budgeting that we can use in the Local Bodies

STATEMENT OF OUTCOME BUDGETING											
Sector : Production											
Sub sector: Agriculture											
Sl. No:	Name of the Scheme / Programme	Need	Objective/ Outcome	Outlay (Rs)			Activity Structure	Physical Output	Projected Outcome	Time	Remarks
				Previous	Current	Projected					
1	Paddy development scheme	Get subsidy, seeds, sprayer, fertilizer	To generate employment , to generate income, to eradicate poverty			50,00,000	Distribute seeds, fertilizer, sprayer & provide subsidy	Paddy	Employment, income, poverty eradication	1 year	

Source: Author’s illustration

Step 5----- Implementation

After preparing an outcome budget, they can present it and with getting the approval, they can move to the implementation step. It should be very careful in the selection of beneficiaries that the benefit will not go to the undeserving hands.

Step 6----- Evaluation/Outcome Assessment

This is the final step. Without a proper evaluation, it is difficult to assess the success of a scheme/programme. Also, evaluation is inevitable in the ‘Outcome Budgeting’ process. For this evaluation purpose, let us use a worksheet. In this, Part A should be filled before the implementation and Part B should be filled after the implementation.

An Example:-

WORK SHEET	
PART A	
Name of the Project	Paddy development
Type of the project: Single/Multiple Year	Single
Project Number	S0004/14
Section: General/SCP/TSP	General
Main Sector	Production

⁴ Quoted from Chowdary, Harnita,(2006), ‘Outcome Budgeting: Moving beyond Rhetoric?’ Economic and Political Weekly, Vol. 41, No. 25, p.2516 & Gopalakrishnan R, (2004): ‘Outcome Budgeting of SSI Ministry’, The Hindu, August 28.

Sub Sector		Agriculture								
Micro Sector		Paddy								
Mode of Implementation: Direct/Indirect		Direct								
If it is indirect, Specify the implementing authority/Agency:		NA								
Implementing Officer		Agriculture Officer								
Objectives of the Project		<ul style="list-style-type: none"> • Employment generation • Income generation • Increase in Paddy production • Make paddy cultivation profitable • Improve productivity 								
No:	Expected Outcome	Details of Associated Programmes/ Proposed activities	Cost (Amount in Rs.)							
			Scheme Programme	Sanctioned			Actual Expense			
				Previous	Curr ent	Proje cted	Previous	Curr ent	Proje cted	
1	Employment	Programme Name: Paddy development Project Duration: one year Started Date: End Date: Proposed Output: Proposed Work: 1. Distribution f subsidy 2. Distribution of chemical fertilizer 3. Distribution of sprayers 4. Distribution of seeds	Distributio n of seeds			10,00,000			10,00,000	
2	Income									
3	Profitable Production									
4	Poverty eradication									
5	Increase Productivity				40,00,000				40,00,000	
6	Technological integration						50,00,000			50,00,000
7	Encouragement to stay in paddy cultivation						Fifty lakhs			Fifty lakhs
PART B OUTCOME ASSESSMENT										
	Outcome	Indicators (Average)			Before	After	Impression			
1	Employment	No: of working days / month			2	7	improved			
		Working hours/day			3	7	improved			
		Income Earned from the field/month			1000/-	3000/-	improved			
		Cost incurred/month			1250/-	1500/-	increased			
Overall Assessment Report (Put a tick mark)					Yes	No				
Improved					✓	✓	Successful			
2	Income									

Source: Author's illustration

It will be fruitful if any other higher authority evaluate and scrutinize this worksheet seriously and prepare detailed report which includes any drawbacks of the scheme. This may help to improve the implementation of the scheme in future.

7. Conclusions

It is important that the application of outcome budgeting in local bodies implies a "learning by doing" process and it cannot be introduced overnight. It needs a continuous combined effort from the part of administrators, politicians and the society. It will not be the answer to all the problems existing in the expenditure side of any government, especially Local Bodies. However, it will do many things by shifting the focus of debates from inputs and outputs to outcomes and results. The



systematic use of strategic planning and execution of outcome- based budgeting, is essential to achieve a more results-oriented, transparent and quality governance. If we can use the tool 'Outcome Budgeting' in our Local Bodies, it will definitely increase the efficiency and be helpful to make programmes/schemes more effective. This effective implementation and outcome generation will lead the grass root economy into a developed state.

8. Suggestions

Outcome budgeting practices must be initiated at the local level. The expected physical and financial outcome must be prepared for each project while including the schemes in the budget document. A periodical review must be conducted for the outcomes from each of the sanctioned projects and constitute a wing in every Local Bodies to evaluate the Outcome. Legislative and administrative reforms are needed to make Outcome Budgeting a reality.

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