

EVALUATION CAPACITY DEVELOPMENT

The Government Monitoring and Evaluation System in India: A Work in Progress

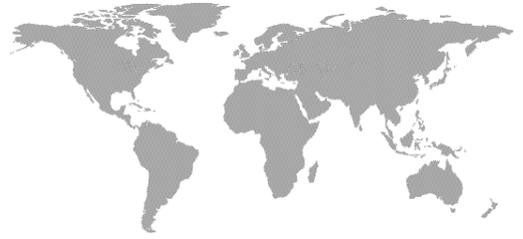
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Santosh Mehrotra

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The Government Monitoring and Evaluation System in India: A Work in Progress

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Abbreviations and Acronyms

BPL	Below Poverty Line
CAG	Comptroller and Auditor General
CLEAR	Centers for Learning in Evaluation and Research
IEG	Independent Evaluation Group
IEO	Independent Evaluation Office
M&E	Monitoring and Evaluation
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MIS	Management Information System
MIT	Massachusetts Institute of Technology
NGO	Non Governmental Organization
NHP	National Health Policy
PEO	Program Evaluation Organization
RFD	Results Framework Document

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1. INTRODUCTION

A surge in public expenditure driven by economic growth has occurred in India,¹ which in turn has resulted in a growing demand for monitoring and evaluation (M&E) and performance management from government, program implementers, international donor organizations, and civil society at large. There is evidence that key macroeconomic policy makers (ministries of finance and planning) are also concerned about quality in public spending and better outcomes from public investments.

In the light of these imperatives, the Indian government has taken initiatives to improve the monitoring and evaluation environment. The government is moving toward a countrywide M&E system to establish more firmly an institutionalized national setting for continuous results-based M&E activities tied to planning, budget decision making, and accountability. The Ministry of Finance has instituted outcome budgeting, and the Planning Commission has created an Independent Evaluation Office, which will subsume the Commission's preexisting Program Evaluation Organization. Similarly, the Cabinet Secretariat (which services the Cabinet, that is, the Council of Ministers) has created the Performance Management and Evaluation System.

Today, most development schemes of the government of India, if not of the state governments, are evaluated from time to time (in some form or another), but only rarely because of donor insistence. Evaluation is being driven mainly because of the value planners, policy makers, and program implementers are placing on it as an instrument for accountability and improvement of public programs. In India, public expenditure is much more under the scanner, and the slow progress toward the achievement of Millennium Development Goals has also led to a greater stress on effectiveness of public expenditure. The India Human Development Report (2011), for example, shows slow progress on health, nutrition, and sanitation output/outcome indicators, despite growing public investments in these areas.² The report finds that the health index (one of the three indices in the calculation of the Human Development Index) has shown the least improvement between 2000 and 2008.³

As the Finance Minister noted in 2005:

Robust economic growth has thrown up many new challenges, among them the need to put in place effective monitoring, evaluation and accounting systems... I think we do not pay enough attention to outcomes as we do to outlays; or to physical targets as we do to financial targets; or to quality as we do to quantity... Government ...intends to strengthen evaluation... This needs to be supplemented by independent evaluations conducted by research institutions (Budget Speech, February 29, 2005).

This paper is discusses the evolution of India's approach to monitoring and evaluation of government programs. It is organized into 8 sections. After introduction, section 2 describes the Indian government structure and sets the context for the challenges of building a government-wide M&E system in India. Section 3 outlines a short history of the evaluation system under the planning

¹ The public expenditure to GDP ratio has remained stable, or even fallen since economic reforms began, but on account of much faster GDP growth, the absolute size of public expenditure has surged. The public expenditure of the central government was 17 per cent of GDP in 1991-2, when reforms began; it was 14.5 per cent in 2011-12, having never exceeded 17 per cent over these two decades.

² IMR was falling slowly till 2007: between 2003 and 2007 it fell from 60 per 1000 live births to 55; but since then the rate of decline seems to have picked up (www.data.gov.in/IMR). Proportion of households with access to toilets increased little: from 42 per cent in 2002 to 49 per cent in 2009 (IAMR, 2011). Child malnutrition rate was 47 per cent in 1998-9, and barely fell to 46 per cent in 2005-6 (National Family Health Surveys II and III, 1999 and 2006); more recent data has not been collected.

³ By 14 per cent as against 21 per cent for Human Development Index overall

commission and its stages of development. Section 4 examines the demand side of evaluation – the sources of demand for accountability, especially in recent years, and for evaluation in particular, and the locus of decisions regarding the selection of which programs to monitor and evaluate.

Section 5 discusses supply-side and operational issues such as staffing and capacity, and technical approaches (including the type or range of methodology applied). This section also examines the role of the private sector, think tanks, and civil society. Section 6 examines the new institutional arrangements M&E. This section also examines the state of management information systems (MISs), outcome budgeting encouraged by the Ministry of Finance, and the performance management system as it operates in India. It finally discusses the new Independent Evaluation Office (which became functional recently, in 2013).

Section 7 highlights the fiscal issues underpinning the emerging accountability and effectiveness processes. It outlines the current system of fiscal transfers from the center to the states and the highly centralized central-state fiscal relations, and how they may affect performance and evaluation.

The final section concludes with some observations about ways forward.

2. THE INDIAN GOVERNANCE STRUCTURE—A SUMMARY

Building a governmentwide M&E system in a large, complex, and diverse country like India is not easy. The difficulties of building such a system can be gauged if one understands the complexity of India's governance structure. India is a federal, multiparty democracy, composed of 28 states, 5 union territories, and a total of 641 districts, into which the states are divided. The union and state governments have a Westminster style parliamentary system. The Constitution of 1950 created a federal, secular republic in a country which had for the preceding 90 years been governed by the British Crown and for a century prior to 1857 (when the Crown took over) by the East India Company and its local feudal collaborators.

This system gives the country two main levels of government: the states and the union government, in which the majority party forms the executive that is normally elected for a five-year period. The ministers, both in the central government and the states, are normally from the majority party (in Parliament and in the state legislatures), whereas the administrative structure is dominated by a permanent civil service.

According to the Indian Constitution, there is a state list of subjects on which the states alone can legislate; there is a central list of subjects on which the union government alone can make laws; and there is a concurrent list on which both the union and the states can make laws. For instance, health and education are on the joint list, and both levels of government can legislate on them. However, most of the recurrent expenditure, 85 per cent, on these subjects is undertaken by state governments. Salary expenditure for school teachers and physicians and paramedics in the public health system is undertaken by the state governments, while a significant proportion of new investment expenditure in these two fields has in recent decades been undertaken by the central government. Rural development is another area where a significant proportion of expenditure is undertaken by the central government, but as with health, education, nutrition, and water/sanitation, state governments implement programs in which the center allocates funds for centrally sponsored schemes.

Ensuring accountability of expenditures not only has a joint dimension, but is also impacted by the relationship in the union government between the Planning Commission (or the Planning Ministry of the central government) and the Ministry of Finance in respect to budget decision making.

The broad discussions about the overall size of Plan and non-Plan expenditures take place mainly between the Prime Minister, who is the Chairman of the Planning Commission, and the Finance Minister. The Finance Minister is responsible for all allocations of non-Plan expenditures for the central government line ministries, whereas Plan expenditures are determined for each line ministry in consultations between the Deputy-Chairman of the Planning Commission and the individual line ministries. In addition, the Finance Minister remains responsible and in charge of all tax collections, which are undertaken by central agencies throughout the country.

The Finance Minister is also responsible for devolving grants-in-aid and central tax revenues to state governments in accordance with the guidelines of the Finance Commission (a constitutionally mandated body that is created at five-year intervals to determine the principles by which the taxes collected by the central government will be devolved to the states). Although state governments also have independent sources of tax and nontax revenues that they retain (called own revenues), they receive a significant proportion of their total resources from the central government in the form of devolved funds, as recommended by the Finance Commission. The state governments account for 56 per cent of total government expenditure in India, but they collect only a third of all revenues, hence must rely upon devolved funds.

The role of the Planning Commission in government and the funding of plan programs on social and economic infrastructures remain central. The Commission is responsible not only for drafting the five-year plans for the country as a whole, but because the policies in the Plan are implemented through projects and programs, it also has the responsibility of financing those programs and projects (for the centrally sponsored schemes), not only to central line ministries, but also to individual state governments. Between January and March each year, the Planning Commission meets with the Chief Ministers from the states (who usually are accompanied by all their senior-most line ministry civil servants from the state), in order to allocate annual plan funds for that fiscal year commencing on April 1. Plan funds for a centrally sponsored scheme (CSS) allocated to a state government must be matched by a financial contribution by the individual state government, without which the central government plan allocation for the state for an individual centrally sponsored scheme would not be triggered.⁴ For most CSS the proportion tends to be 75 per cent borne by the Centre and the remainder by the state government.

The state is divided into districts for administrative purposes. Each district on average has a population of about 2 million. Each district has two parallel governance structures, one administrative and the other a three-tier system of elected local governments (called Panchayats for rural areas and urban local bodies for urban areas). The elected Panchayats are at district (Zila Panchayat), block (block Panchayat), and village (Gram Panchayat) levels. There is an administrative structure for the district headed by an officer of the Indian Administrative Service, a national-level all-India service whose officers are selected on the basis of an annual national, very competitive examination. Below the district magistrate of the district there is a large administrative structure for each line ministry of the state government, staffed by persons who belong usually to what is called the Provincial Civil Service.

⁴ The 13 flagship centrally sponsored schemes are for rural roads the Pradhan Mantri Gram Sadak Yojana; for low-cost rural housing: Indira Awaas Yojana; for water supply, National Rural Drinking Water Programme; a program for irrigation; one for rural telephony; one for rural electrification, the Rajiv Gandhi Grameen Vidyut Yojana, Mahatma Gandhi National Rural Employment Guarantee Scheme; for elementary education, Sarva Shiksha Abhiyan; the Mid Day Meal Scheme for school children; the Integrated Child Development Scheme; National Rural Health Mission; and the Jawaharlal Nehru National Urban Renewable Mission.

The District Magistrate is responsible, on average, for administering at least 75 schemes of the central and state governments together, and therefore has a very heavy set of responsibilities. In addition, the Panchayats receive funds directly for the centrally sponsored schemes, for which accountability has to be ensured.

3. EVALUATION UNDER THE PLANNING COMMISSION: EVOLUTION AND CURRENT STATUS

The Planning Commission's Program Evaluation Organization has historically been charged with evaluating the central government programs in the state.

The beginning of evaluation in India can be traced back to the commencement of planning. Planned development began with the first five-year plan covering the period 1951–52 to 1956–57. The instrument of five-year plans continues today with the 12th five-year plan (2012–17) having just been finalized by the Planning Commission. Although India became independent from British rule in 1947, its first five-year plan began in early 1950 on the inauguration of the Constitution of India. The Planning Commission was vested with the responsibility of writing the five-year plans, and the Program Evaluation Organization (PEO) was created in 1952 as an independent agency in the Planning Commission to evaluate programs funded by the plan. State evaluation offices were also mandated at the state level.

The PEO was conceived as an elaborately structured nationwide organization with field units, regional offices usually located in state capitals, and the headquarters in the Planning Commission.⁵ It was a relatively autonomous organization, with its own state-level offices, and in that sense it was quite different from other divisions of the Planning Commission (the other divisions are all sectoral and correspond to the line Ministries of the central government). The state evaluation offices all report to the head of PEO, and the PEO has remained a part of the Planning Commission. The relative autonomy and size of the PEO grew in the first two decades after planned development began.

The PEO flourished from 1952 to 1970. It had a staff strength of around 500 including all its state evaluation offices and field offices (totaling 40 offices). It also had autonomy and financial resources to conduct its business and was headed by an academic, designated as Director, who was vested with independence in all its administrative and technical powers. The PEO's reports each year were an important agenda item at the annual conference of State Development Commissioners, enabling them to undertake follow-up action. Till the end of the 1960s, the PEO had a cadre of technical staff and administrative staff separate from the Planning Commission.

The PEO's decline began in the early 1970s, after the Administrative Reforms Commission (set up by the Government of India) recommended in its reports in the late sixties that the role of the Planning Commission itself should be reduced in the central government's decision making. During the period of the first three five-year plans, the Planning Commission had a role in (a) the allocation of funds, (b) the design of schemes, and (c) implementation of the schemes. Its role in the last element was eliminated thereafter and also reduced for design of programs; however, it has retained a role in allocation of funds for schemes and some role in design. The reduced role for the Planning Commission had a corresponding effect on the PEO.

⁵ Most of this section draws upon Pal (2011a, 2011b, 2012a, and 2012b).

The committee redefined PEO's functions and asked it to extend the sphere of its work from rural to urban areas. It also recommended that PEO's substantive evaluation work should mainly concern operational, financial, and administrative aspects of schemes and programs, rather than issues related to the overall design of programs and their impact on the community. This reduced scope was entirely consistent with the fact that the role of planning itself was being questioned, as we noted above. Just as PEO's role had grown with the emergence of planning in the early years after independence, so the reduction in scope was similarly driven by it. This reduction in the scope of PEO's functions to operational and financial aspects was also consistent with the transition to appointing Indian Economic Service Officers (that is, generalists) as the head of PEO. The committee also recommended that the PEO should undertake only those studies the results of which could be made available quickly so that they could be used by line divisions of the Planning Commission.

There were many consequences of the reorganization of PEO. First, the tradition of an academic heading PEO was abandoned, because the scope of PEO's work was reduced and made routine. Moreover, the internal functions of PEO, including budget and accounts, personnel, and administration, were all merged in April 1973 with those of the Planning Commission. Until that point the PEO had been headed by people with academic backgrounds; since then it has been headed by members of all India Service Cadres of the Indian Economic Service, Indian Statistical Service, or Indian Administrative Service—people with little research experience.

In 1971 the PEO was reviewed by the Staff Inspection Unit of Ministry of Finance and the review resulted in the recommendation to close PEO's field offices. This was consistent with the downplaying of the role of planning and the concomitant reduction in the role of PEO in the Planning Commission. As a result the number of PEO field units fell from 40 to 27 from the beginning to the end of the 1970s.

The next phase of the PEO's evolution began in 1995, with the appointment of a professional economist as the head of PEO, and was marked by a revival in evaluation studies. However, the restructuring of the PEO continued through the 1990s. The organization, which had 27 field offices (regional evaluation offices and project evaluation offices) at the end of the 1970s and a staff strength of about 400 now has only 15 field offices (7 regional and 8 project offices) with fewer than 120 staff. There began a phase where evaluations were increasingly outsourced to social science research institutes. However, its autonomy and independence has remained minimal. Control over transfer and posting of PEO staff to and from PEO was lost, and PEO continued to have staff with little interest or orientation in research. Lack of expertise at headquarters had a ripple effect on the output of the field offices, which were dependent on headquarters for work.

India's economic reforms began in 1991, and they were led by the Ministry of Finance and Ministry of Industries and Commerce, not the Planning Commission. Dr Manmohan Singh, as Finance Minister, was at the forefront of the reforms. The Planning Commission was not the intellectual source of the economic reform process. Since the PEO was part of the Planning Commission, it received even less attention in the government structure.

This downsizing of PEO was also probably a part of the effort of the government to reduce salary expenditures and went hand in hand with a freeze on recruitment into all government posts during the 2000s, not just in PEO. The government legislated a Fiscal Responsibility and Budget Management Act in 2003. Twenty state governments then proceeded to pass similar fiscal prudence acts through their state legislative assemblies. As a result, significant fiscal consolidation took place, and the fiscal deficit: GDP ratio was reduced to under 6 percent for the central and state government combined, from a level close to 10 percent in the early 2000s.

PEO's position has seen a gradual improvement but which hardly responds to the very significant challenges of assessing effectiveness of public expenditure. The PEO remains the anchor of evaluation work in the country (though the monitoring function is decentralized to each line ministry implementing the programs), is barely equal to the task. Currently, PEO headquarters in Planning Commission has one adviser-level officer⁶ as its head, with a small number of Indian economic service officers as support.

Use of Evaluations⁷

In the first two decades of planned development, when the PEO was evaluating the community development programs, discussions on its reports used to form an explicit agenda item at the Annual Conference of Development Commissioners. Thus evaluation findings were considered by the central and state governments. It was also a normal practice to send the PEO's reports to members of Parliament for wider publicity. The subject-matter divisions of the Planning Commission were expected to initiate follow-up actions through the concerned ministries.

However, there was lack of intellectual leadership and a low capacity to deliver in the 1970s, which prompted the Planning Commission to appoint the Dubhashi Committee. The Dubhashi Committee Report (PEO 1980) on review and strengthening of the PEO and state evaluation organizations noted that supply-side weaknesses on the one hand and inadequacy of the institutional arrangements for follow-up on evaluation reports on the other were responsible for low use of evaluation reports. However, the Committee report did not explicitly refer to low demand as a major factor influencing the use of evaluation findings in planning and implementation.

The Dubhashi Committee was of the view that the responsibility of follow-up should not be left with the evaluation agency, but should lie with the departments/agencies responsible for the program/project. In other words, the responsibility for follow-up action on evaluation findings must rest with the subject matter divisions of the Planning Commission (which are responsible for allocation of funds and periodic review of progress of ongoing projects/programs), not on the PEO alone.

Notwithstanding the recommendations of the Dubhashi Committee to make evaluation effective in the planning process by improving the quality and supply of evaluation findings on one hand and measures to improve use of evaluation by planners and policy makers on the other, the 1980s and early 1990s actually witnessed a decline in evaluation output and activities, as we have noted above. The effectiveness of the Planning Commission, which played a key role in devising development strategies and allocation of development funds in the first two decades (1950s and 1960s) of the planning process in India, also declined considerably because of changes in development thinking and the mixed experience with centralized planning. The GDP growth rate from 1950 to 1980 averaged only 3.5 percent per annum. Economic reforms began in the Indian economy, and the liberalization set in motion in the 1980s gathered momentum after 1991.

The resurgence in demand for evaluation results could be traced to the late 1990s, when the Planning Commission's involvement in designing and implementing social safety net programs started growing to counter the adverse effects of economic reforms initiated in the early 1990s. In response to this rising demand in the postliberalization period, the PEO took the innovative step of seeking the

⁶ The hierarchy in the permanent civil service runs as follows: Secretary (the head of the department, who reports to the Minister), additional secretary, joint secretary, director, deputy secretary, and under secretary.

⁷ This subsection draws heavily on Pal (2011a and 2012b).

opinion of the concerned divisions of the Planning Commission, central ministries, and state governments on the usefulness of PEO reports to them and follow-up actions taken on its evaluation findings.

In 2004, the PEO published “Development Evaluation in PEO and Its Impact,” which attempted to put in one place the scattered evidence of use of its findings. During the ninth Plan period (1997–2002) and thereafter, the PEO started involving the implementing and planning agencies (that is, ministries and subject divisions of Planning Commission) at various stages of its evaluation studies *to build in a sense of ownership of evaluation results among stakeholders*. It also started gathering evidence of the use of its reports (following queries by members of the Evaluation Advisory Committee of Planning Commission) by eliciting information from the ministries/departments and subject divisions of Planning Commission and through review of various annual reports of ministries, policy and plan documents that referred to PEO reports.

The following are examples of follow-up actions based on PEO evaluation findings taken at the highest decision-making level:

- The Mahila Samridhi Yojana, a program for empowerment of poor rural women, was thoroughly restructured and redesigned following PEO’s evaluation report (1996).
- The Non-Formal Education program of the Ministry of Human Resource Development was revamped, with a new strategy. In restructuring the program, the PEO’s findings of the evaluation of the program (1998) were considered.
- Based on the findings of PEO’s evaluation (2001) of the National Project on Bio-gas Development, the Ministry of Non-Conventional Energy Sources modified the guidelines for implementation of the scheme and the revised guidelines were issued in 2002–03.
- The findings of the evaluation on the functioning of community/primary health centers were extensively used in the midterm appraisal of the ninth plan (1997–2002), formulation of the tenth five-year Plan (2002–07), and formulation the National Health Policy (NHP 2002).

However, Pal (2012b) notes that it is difficult to say which aspects of the findings were acted on and whether the substantive findings about the systemic weaknesses were taken into consideration, as restructuring of programs may not take place at one point of time and all follow-up actions are not formally announced. “Hundreds of evaluation studies are being carried out in the country each year, but not much is known about the follow-up actions taken on their findings. There is no evaluation data bank in the country and one does not know how such studies are initiated and whether such studies are carried out in keeping with accepted standards of evaluation practice” (Pal 2011a).

The latest phase

One can surmise that during the Eleventh Plan period (2007–12) India might have reached what can be called a new stage in the evolution of its evaluation function. Several important developments occurred during this period. First, emphasis was placed on building an online MIS system for all the 13 flagship programs of the central government. Second, a Development Monitoring Unit was created in the Prime Minister’s office in 2009, with the objective of regular monitoring of the implementation of the flagship programs of the central government. Third, the central government decided to create a Performance Management and Evaluation System, located in the Cabinet Secretariat (the office that *services* the central government’s Council of Ministers). Finally, the

Planning Commission decided to create a new Independent Evaluation Office (IEO), at arms' length from the Planning Commission, which began functioning in 2013.

4. THE DEMAND FOR ACCOUNTABILITY AND EVALUATION

Public expenditure has grown rapidly in absolute terms, along with the size of the economy. As we noted earlier, it is not that the share of public expenditure in GDP has risen, but the absolute size of public expenditure has grown with the size of the economy. The need for ensuring effectiveness of this growing expenditure has been felt not only by decision makers in government, but also by the media and Parliament.

The Demand for Greater Accountability

India is a democracy, and a vibrant one, and thus there are multiple sources of demand for accountability. The media is a constant source of demand, focusing the attention of bureaucrats and Parliament alike on the outputs/outcomes of public expenditure. The last two decades has seen a sharp increase in the number of TV and Internet-based media in India, as in most countries, as well as the rise of aggressive investigative journalism. The media may not be engaged in M&E per se but is a source of demand. The media have been proactively reporting the activities of a civil society movement, India Against Corruption, that has systematically worked to corner the government into enacting a bill to create an ombudsman (*LokPal*) in the central government and one for each state government (*Lok-Ayukta*),⁸

Another underlying source of demand for greater accountability is emerging from civil society activism around the Right to Information Act, passed by Parliament in 2005. The output-related targets set by government departments for their own programs are now available through the Right to Information—which give fillip to the movement. Civil society organizations have often taken the initiative to assess social impact of key development projects (for example, major hydroelectric projects and dams) or of a government policy (for example, programs to address child malnutrition). Such studies often influence government policies, both at the planning and execution stages. For instance, *Pratham* is a school education-related nongovernmental organization (NGO) that has through its annual surveys been reporting on the poor learning levels of primary school children, which the media pick up and disseminates.

In addition to the media and civil society, two more institutions, which are part of India's constitutional governance system, are playing a key role in demand for accountability. One is the Comptroller and Auditor General (CAG) and the other is the Supreme Court. In recent years, these bodies have become extremely proactive in holding the executive to account. The CAG audits all receipts and expenditures of the Union government and the state governments. It is also the external auditor of government-owned companies and of those bodies that the government substantially finances. The reports of the CAG are examined and discussed by Public Accounts Committees, which are special committees in the Parliament and the state legislatures.

Recently, the CAG has been in the limelight for its reports exposing big corruption scandals – relating to the 2G spectrum allocation to companies, the Commonwealth Games scams, and the coal-mining allocations to private companies. The CAG has in recent years gone well beyond mere auditing of

⁸ The bill has failed to pass Parliament for one reason or another and is still pending in Parliament. It may pass in 2013, before general elections take place in early 2014 for the national Parliament.

financial accounts. “We were advised by the highest in the law not to exceed our mandate, which they believe is to be mere accountants and to conduct mechanical audits of government’s expenditure” (*Times of India*, February 8, 2013). The Auditor-General added: “We were being advised not to get into the realm of auditing policy formulation.” However, it was the CAG who first said in 2011 that the loss in the allocation of 2G spectrum over the 2000s could be as high as Rs.1,76,000 crores (\$ 32 billion), and then came out in 2012 with a report on coal allocations (a public sector company that allocated coal blocks to private colliers) that computed a Rs.1,86,000 crore (US \$ 34 billion) loss, causing a huge furor in Parliament and outside.

The fact that the CAG is an independent body, created by the Indian Constitution, has enabled it play a watchdog role greater than any evaluation or monitoring body could do. CAG’s reports must all be tabled in Parliament. In fact, there are some lessons here for the newly created Independent Evaluation Office, which does not have any authority from Parliament (i.e., it is not a statutory body), let alone having a constitutional mandate (as the CAG does).

Similarly, the Supreme Court of India has been accepting many Public Interest Litigation petitions from civil society and monitoring executive actions (see Box 1).

Box 1. The Supreme Court Monitoring Executive Actions on Food Programs

The Supreme Court of India has for the last 10 years been hearing and passing orders to be carried out by the executive arm of the government on food-related government programs. The Right to Food movement throughout India has taken on the executive regarding the reforms required in government food-related programs—the Public Distribution System for wheat, rice, and kerosene to those below the poverty line through “ration shops”; the school Mid-day Meal scheme; and the Integrated Child Development Scheme, which addresses the nutritional and health requirement of zero to six-year-old children and pregnant and lactating mothers—all centrally sponsored schemes that absorb very large amounts of central government public expenditures and are implemented by state governments.

In fact, the Supreme Court has appointed two former senior bureaucrats who monitor government actions and prepare reports on a regular basis that are submitted to the Supreme Court judges. The Court has been hearing a case on a regular basis on these matters, and the court has been summoning both central and state governments to explain their actions, and giving directions to these governments.

The Demand for Evaluation

Although the underlying source of demand for accountability might be emanating from civil society and is enforced by the Supreme Court and CAG, the proximate source of demand for evaluation remains government ministries, especially at the level of central government. The programs of national importance (especially of the rural development and the social sector ministries) are also the flagship programs of the political party in power (see footnote 3 for full list of these programs). The evaluation of such programs often occurs in response to comments or queries about them by a parliamentary committee or a Constitutional body like the Comptroller and Auditor-General, often because there has been a media report of leakage of funds. However, line ministries or the PEO, or the two in consultation, may commission an evaluation to review the performance of large flagship programs as well.

Another source of demand, on the one hand, comes from the implementing ministries. Small evaluations are conducted routinely and periodically by implementing ministries, most of which have

funds earmarked for M&E, for the purpose of self-learning.⁹ On the other hand, donors, who although having a relatively small role in India, also support evaluations. Multilateral agencies (the World Bank, the Asian Development Bank, and the United Nations system agencies) and five bilateral donors present in India (the United States, the United Kingdom, Germany, France, and Japan) support evaluation of programs to which they make a financial contribution.

Of all line ministries, the biggest spender is the Ministry of Rural Development, which has a number of flagship programmes (the rural employment guarantee, the rural roads programme, the rural housing for below poverty line (BPL) households, the old age pension for BPL over 65 year olds, the widows pension, a major self-employment programme based on women's self-help groups). In fact, it has in 2013 decided to create its own Concurrent Evaluation Office, and has done a global search for its head. This is separate from the Independent Evaluation Office mentioned earlier (and discussed later).

There is also growing interest from state governments in evaluations, as well as in performance management (the latter is discussed later). Karnataka state government has been the leader, and it has taken the evaluation function seriously, and has a well-articulated policy on the subject.

5. THE SUPPLY SIDE AND OPERATIONAL ISSUES

The Suppliers

Until about the mid-1990s most evaluations were conducted by PEO staff, as they were spread throughout the country. That situation dramatically changed and most evaluations, certainly those initiated by the Planning Commission, are outsourced to research institutions. This happened obviously because PEO's capacity had been run down over the years, as we have noted in section 2. Its staff strength and the number of field offices had fallen significantly (also noted earlier). The PEO's responsibility is restricted to preparing the terms of reference, agreeing on a methodology with the research institution, and thereafter monitoring progress of the study. The institutional arrangement is usually between the line ministry or PEO – whichever may be the commissioner of the evaluation – and the research institution that is conducting the evaluation. The budget for the evaluation comes from the line ministry or PEO, whichever may be commissioning the evaluation. Since there has never been an assessment of PEO funded evaluations by anybody, independent or otherwise, it is impossible to hazard a guess whether this arrangement improved the quality of evaluations.

The evaluation (that is, the intention to evaluate a program) is announced by PEO or a line ministry, and then bids are invited from research institutions by the commissioners in letters to research institutions and advertisements in newspapers. The research questions are usually identified in the terms of reference by the Ministry. The selected research institutions prepare the detailed design, and the PEO or commissioning line agency conducts oversight and quality assurance.

Quite often the institutions conducting the evaluation may be attached to one or the other ministry of the central government. For instance, the Ministry of Rural Development, which has one of the largest portfolios of any central line ministry of development and welfare programs, has the National Institute of Rural Development, which often conducts its evaluations. Similarly, the Ministry of Human Resource Development has under its wings the National University of Educational Planning

⁹ Data on share of budgets for evaluation are not publicly available. But funding is rarely an issue in Indian line ministries, which are constantly calling on research organizations to conduct concurrent evaluations for them.

and Administration and the National Council of Educational Research and Training. Research institutions that are largely dependent on government project funding may well feel disinclined to be overly critical of a large project of the parent ministry. In many cases the conclusions of such an evaluation may be compromised.

However, many independent research institutions also apply to conduct evaluations. In particular, research institutions funded by the Indian Council for Social Science Research (there is usually at least one such research institute in every state), normally apply and conduct evaluations, since they are usually staffed with academics of reasonable quality. Independence of these institutions is in no way compromised. The evaluations they conduct show no signs of toning down of criticism where necessary.

Capacity and Funding

Nonetheless, the capacity to conduct results-focused evaluations is still limited. State governments' own programs rarely get either monitored or evaluated. Most programs are implemented by state governments, but the institutional and human capacity to conduct evaluations focusing on outcomes is very limited. At the state level, the social science departments of universities focus primarily on teaching growing numbers of students (gross enrolment ratio in higher education has risen between 2007 and 2011 from 12 to 18 percent), not on conducting research. Research institutions funded by the government, which have credibility, are very limited in number, perhaps no more than two to three in a state that do social science research (although the sciences have many more). Thus, both the institutional and human resource constraints for conducting quality evaluations or building credible MIS are considerable in most states.

The government recommends that 2 percent of the funds for a program should be set aside for evaluation. A large part of the funds for evaluation are controlled by line ministries (which explains their important role as demanders of evaluation; see previous section). This is a problem because critical evaluations have been resisted by line ministries.

If capacity to identify the key components of a MIS or to conduct evaluations is low it is primarily because the subject has not received the kind of attention of policy-makers at the highest level that the subject requires. However, as we have suggested earlier, the demand for greater accountability is growing constantly, especially from civil society, which may well also translate into greater pressure on the upper echelons of the technocracy and bureaucracy that building credible M&E systems is necessary, which also requires greater investment in capacity to conduct evaluations.

Tools and Methods

The World Bank (2004) outlines some tools, methods, and approaches to M&E: performance indicators, the logical framework approach, theory-based evaluation, formal surveys, rapid appraisal methods, participatory methods, public expenditure tracking surveys, cost benefit and cost-effectiveness analysis, and impact evaluation. Most of these approaches are used in India to varying degrees.

Performance indicators or an MIS is used by all line ministries, at least at the level of the central government (Mehrotra and others 2013). It is also true that evaluations carried out tend to use, either explicitly or implicitly, a log-frame approach.

Theory-based evaluation has similarities to the log-frame approach, although it allows a much more in-depth understanding of the workings of a program—the “program theory” or “program logic” (IEG

2004). In India, terms of reference for evaluations are written by professionals in the field and then usually vetted (at least for PEO evaluations) by stakeholders. Hence, casual factors are usually addressed or intended to be addressed in evaluations.

Many evaluations involve conducting formal surveys, and usually a carefully crafted, statistically valid design is prepared by the research institutions commissioned to conduct the survey. As a result, evaluations may take a year or more to complete. However, the line ministry often desires “concurrent evaluations,” that is, while a program is ongoing, so rapid appraisal methods are also being used.

Unfortunately, Public Expenditure Tracking Surveys are not widely used, nor are they in vogue officially. However, research institutions may undertake such work independently. For instance, the Centre for Accountability and Governance, together with the National Institute of Public Finance and Policy, has annually carried out expenditure tracking in a number of states in connection with the program to universalize elementary education.

The “community score card” is another tool that has been used in India to monitor services provided by the state. This tool generates information through focus group interaction to facilitate a joint decision between recipients and the service provider on the quality of the service.

Another instrument that has been used with great effect is the “citizen’s score card.” Whereas the community score card involves the community as a unit, the citizen’s report card involves a survey for which data are collected from individual citizens regarding their satisfaction with services provided by the municipal corporation like health, water supply, and electricity (Sharma 2009).

Finally, impact evaluations have recently become popular. This trend has been encouraged by a number of factors. First, Prof. Abhijit Banerji, one of the pioneers in the field, is an Indian economist at MIT and runs the Jameel Poverty Action Lab. He and Prof. Esther Duflo, also of MIT, have conducted several such evaluations in India, some in collaboration with NGOs, such as Pratham. Second, the International Initiative for Impact Evaluation is headquartered in New Delhi and has been supporting impact evaluations. Third, the World Bank, the Asian Development Bank, several international foundations and bilateral donors in 2011 funded the creation of the Centers for Learning in Evaluation and Research (CLEAR), which is also engaged in impact evaluations and is conducting capacity development in approaches to various types of evaluations, including impact evaluations. The evaluations are conducted in conjunction with line ministries of the state government or large NGOs.

Social audits

Participatory methods have taken a particular form in India: social audits. The community has—especially since the launch in 2006 of the National Rural Employment Guarantee Act (a public works program), one of the largest centrally sponsored schemes of the Union government—been very actively involved in social audits of the program. It involves the village council (*gram panchayat*) and the entire village community getting together with government officials in a town hall type meeting to discuss the issues around the implementation of the program in that particular village. Such social audits, especially when led by experienced NGOs, have been extremely fruitful in exposing corruption and have led to government officials who have embezzled funds getting publicly exposed and having to return such funds. This has happened in a number of villages, especially in Andhra Pradesh, where social audits were encouraged actively by the state government, especially in the case of one of the world’s largest public works programmes, the Mahatma Gandhi National Rural Employment Guarantee (MGNREGA) programme.

With respect to monitoring and evaluation, MGNREGA follows conventional auditing mechanisms. Physical audits by state, district, and block-level officers verify the quality of work undertaken and check if the expenditure incurred has led to the creation of durable assets. Block-level officers are expected to carry out inspections at 100 percent of the project sites, district level officers at 10 percent, and state-level officers at 2 percent. In addition, mandatory financial audits are carried out each year by local fund auditors at the district level or by the chartered accountants appointed by the state government. Continued funding of the projects is contingent on satisfactory audits.

But Andhra Pradesh went much further. It set up the [Society for Social Audit, Accountability and Transparency](#), an autonomous body insulated from government interference. Over the years, contractors and middle men have been eliminated. The Andhra Pradesh model is undoubtedly a success, with more than 3,200 social audits and more than 38,000 disciplinary cases brought against officials involved with the jobs scheme. Hundreds have been suspended or punished. Between 2010 and 2013, the team has been able to recover almost a quarter of the \$24m of irregularities detected.

The dissemination of information is proving instrumental in checking corruption. For the first time, officials can use real-time information generated from social audits to redesign delivery of public goods. Technology-based solutions are being used to provide "programme intelligence" for social audits in Andhra Pradesh. The objective is to bridge the gap between policymakers and those affected. Their work has involved mining about 250,000 documents in the state over the last few years and using the extracted data to predict fraud.

Similarly, Rajasthan has used social audits to great effect within the same MGNREGA (World Bank, 2009). But in many other states the social audit system has had difficulty in taking off, primarily because of limited support from the state government, though there have been some limited successes (World Bank, 2009a).

6. NEW INSTITUTIONAL ARRANGEMENTS: MIS, OUTCOME BUDGETING, PERFORMANCE MANAGEMENT, AND THE INDEPENDENT EVALUATION OFFICE

Evaluations and social audits alone cannot be the main mechanism of a system of accountability and evidence-generation for policy for any government. There are a number of dimensions to ensuring improvements and enhancing effectiveness. Effectiveness of public expenditure requires a whole architecture of functions being performed by various government bodies and cannot depend merely on periodic evaluation studies, which by their very nature can only be conducted once in a few years. It requires that line agencies and ministries regularly operate an online MIS. Second, it requires that the Ministry of Finance and the Planning Commission hold line ministries accountable not merely for spending the money on programs but also for achieving the outcomes desired by the government, which implies that a system of outcome budgeting is in place. Third, it requires that audit agencies be authorized to carry out financial and program audits. Fourth, with outcome budgeting, there should be a system of performance management, located preferably at a high level in government.

Finally, the whole system needs to be supported by statistical bodies that are responsible for collecting data that goes beyond what is normally collected in an MIS. The latter is normally restricted to financial and physical indicators of process, and at best output data. In India, The statistical system, through the National Sample Survey Organization, collects data on a regular basis on outcomes through sample surveys, which are separate from the line ministries' MIS (and will not be discussed in this paper). The data are periodically collected on a whole range of economic and social indicators on an extremely systematic basis, with the indicators generated being valid and

representative not only at national but also at the state level, but not at the district level. All of the above requirements are now in place in India, though they face different challenges.

Management Information Systems in India

For failures of design to be discovered, there is need for programs to be monitored well (using an online, publicly available MIS) so that they generate data that program managers in central ministries can then use to provide feedback to state governments that are implementing programs. There has been enormous progress in recent years in the case of MIS, with each flagship welfare program of the Union government now having some form of information system¹⁰.

The use of information and communications technology systems in government is slowly spreading. For instance, the union government will ensure by 2014 that 600 million, or half of India's population, will have an identity number, along with biometric identification possible for each individual with a number.¹¹ Given that the program began only in 2010, this is already a remarkable achievement, because it will make monitoring the beneficiaries that should actually receive welfare benefits possible when the identity card is linked to specific welfare programs. The unique identity system has not been linked to welfare programs yet, but that will also happen over 2012–14, as coverage of the unique identity card expands.

Mehrotra and others (2013) carried out an assessment of the MIS of the 13 central government flagship programs. The programs were assessed and ranked based on certain criteria: whether the MIS is based on a log-frame; whether it relies on periodic data authentication and validation; the periodicity of the data; if the data are accessible in the form of a user-friendly website; and whether the data are utilized for management purposes. Almost none of the flagship programs use a log-frame explicitly, though some have implicit theories of change. All do internal consistency checks on the data, but none validate or authenticate the data by conducting a random check. The data are regularly collected and for most schemes are available for up to the last financial year quarter, or the latest month. Naturally, this is only possible if there is a website. However, the concern is how these data are being used internally by the line ministry for decision making, especially in regard to budget allocations the following year.

There are also other issues associated with the MIS. One concern is the speed with which the data becomes available from block level to the Delhi-based ministry for it to be useful for management purposes. One outcome of this state of affairs is that the Prime Minister's office created in 2009, soon after the new government came to power, a Delivery Monitoring Unit – which also runs a MIS on the flagship programs, although the unit has only a summary of the latest information that the line ministry collects and puts out. However, one must recognize that information problems are faced by most advanced M&E systems, and one of the system's key functions is to help solving them over time.

In any case, monitoring systems in India can only generate a limited amount of information on inputs (for example, financial resources released and spent) or processes. Monitoring systems can/should actually produce output and intermediate results information based on performance indicators, and can even monitor impact when information is available. Those who implement programs also need information on such indicators.

¹⁰ The National Sample Survey Organisation has no role to play in the design of the MIS.

¹¹ Two hundred twenty million such identity cards were issued between 2010 and 2012, by the Unique Identify Development Authority of India, under the leadership of information technology professional Nandan Nilekani, who until 2010 lead one of India's best known international IT firms, Infosys.

Performance Management System

In 2009, the government of India introduced a performance management system in the union government for the Cabinet Secretariat. The system requires each department of the government of India to prepare a results framework document (RFD). The RFD provides a summary of the most important results that a department expects to achieve during the financial year. It has two objectives: move the emphasis of the department from process to results, and provide an objective and fair basis to evaluate the department's overall performance at the end of the year. Departments set targets consistent with those agreed with Planning Commission and the Ministry of Finance. The RFDs prepare the outcome-oriented plans to be assessed at the end of the financial year. These RFDs are all placed on the respective website of the departments. It is ironic that outcome budgets were introduced in 2005, but RFDs came into existence only in 2009. Because state governments are also demanding RFDs, it appears that demand for performance monitoring is growing and will continue to grow.¹²

Table 1 summarizes the key methodological differences between RFD and previous approaches to holding departments accountable. First, unlike in the past, the objectives and success indicators (key performance indicators) are prioritized in the RFD. Thus, it is not enough to say that 12 of 15 targets were achieved. Prioritization ensures that the three targets not achieved were not the most important ones for the department.

Second, with RFD, the interpretation of deviations from targets is agreed ex ante. That is why RFDs have a five-point scale rather than a single target. Third, there is an independent vetting of the RFD at the beginning of the year by an independent nongovernment body of experts. They also review the results at the end of the year. Fourth, RFDs allow all departments to have a composite score between 0 and 100 percent. This has allowed the government to finally move toward implementation of the recommendation of the sixth pay commission regarding a performance-related incentive scheme.

Today around 80 departments and 800 Responsibility Centers (subordinate offices, attached offices, and autonomous organizations) under these departments are covered by the RFD policy. Though state governments are not so bound, 13 states have already adopted an RFD policy. That is, pretty much any organization drawing funds from the Consolidated Fund of India has to account for the results delivered in return for these funds.

Table 1. Key Methodological Differences Between RFD and Previous Approaches

Criteria	Budget	Performance Budget	Outcome Budget	RFD
1. Are the objectives prioritized?	No	No	No	Yes
2. Are the success indicators prioritized?	No	No	No	Yes
3. Are the deviations agreed ex ante?	No	No	No	Yes
4. Is there an independent scrutiny of targets as well as achievements?	No	No	No	Yes
5. Is it linked to performance-related incentives?	No	No	No	Will be

¹² For further details on India's PM system, visit <http://www.performance.gov.in>.

There are, however, several challenges that the Indian experience has revealed with performance management. The first is that in a federal country, the vision of the central government is complicated by the fact that implementation of a policy or program is often dependent on the state government. Clearly, performance management in such countries is bound to be embroiled in structural issues of the governance structure. Hence, it may be necessary to set out guidelines for a policy for subnational governments to follow in terms of M&E, which will also depend on the extent and depth of decentralization and subnational autonomy. Mexico is a good case in point; it needed to change the Constitution to mandate states to move toward performance management and evaluation. This can lead to the creation of federal/state performance agreements, such as are starting to emerge in Australia, where there are large funding transfers between different levels of government.

The second challenge is that there may be a lack of interministerial support at the central government level for achieving the results stated in the RFD. The Indian performance management system is beginning to address this challenge by piloting the concept of “team targets” and greater ex ante clarity regarding interministerial dependencies.

The third challenge is the political will to use the full potential of performance management in India. The Prime Minister’s order clearly mandates the Performance Management Division in the Cabinet Secretariat to, at the end of the fiscal year, compare the achievements against the RFD targets in the Cabinet. Because of the sensitivities involved in a coalition government, this has not been done as mandated. Instead, the 2009–10 performance results were conveyed by the Cabinet Secretary to the secretaries of respective departments. Although this is a good start, it needs to go to its logical conclusion.

The fourth challenge relates to enhancing alignment of RFD priorities and targets with those of the 12th Plan. Attempts have been made, but there is a lot of scope for improvement in this regard.

Fifth, the alignment between RFD and Annual Performance Appraisal Reports of senior officers is still not systematic. Some departments have adopted RFDs at division and branch levels, but as yet there is no requirement to do so.

Finally, unless RFD is linked to a strong incentive system, it will not be fully effective. Indeed, it may even deteriorate over time. These incentives can be pecuniary or nonpecuniary, but they must matter.

Outcome Budgeting

The Finance Minister announced in 2005–06 that all ministries must practice outcome budgeting. The outcome budget is also an excellent initiative, but it must still deliver the desired results. For example, outcome budgets of the Ministry of Power were prepared for its Accelerated Power Development and Reforms Program (which was launched in February 2000) with the aim, among other things, to reduce the theft of power. But the country still suffers \$10 billion worth of losses (mostly from theft) in the power sector.

The outcome budget appears not to be achieving its objectives because the assumptions of the theory of change underlying this initiative have not been satisfied (Gupta 2011). This is not entirely surprising. The theory consists of four assumptions.¹³ First, the government assumed that issuing of

¹³ There are other countries where difficulties have arisen in outcome budgeting. Australia has a long history (from 1997 to the present) of failed initiatives regarding outcome budgeting reporting.

guidelines by its Ministry of Finance's Department of Expenditure would be enough to create the requisite incentives for its ministries to prepare the outcome budget on intended lines. Second, the government assumed that its ministries had the knowledge and skills to define the intended outcomes of their interventions and to articulate the production functions for these outcomes.

Third, the government assumed that its ministries had the requisite incentives and skills to generate credible data required to prepare the outcome budget on their own, to validate the data available from other sources, and to seek, if necessary, the assistance of outsiders for generation/validation of the required data. Finally, the government assumed that its ministries would somehow be able to deliver the intended outcomes despite the serious problems that may be faced with ensuring the timely flow of money to the appropriate level, while preventing misuse/diversion of money to unrelated activities (Gupta 2011). However, it is important to highlight that M&E systems are bound to fail in many of their attempts as they consolidate and mature. These can to a large extent be a process of trial and error.

Media reports seem to suggest there is a clear recognition of the outcome budget's limited success in delivering the desired results.¹⁴ Dr. Montek Singh Ahluwalia, Deputy Chair of the Planning Commission, said, "The exercise of outcome budget of manipulating existing data did not get the desired results. It's easy to evaluate whether investment made in a steel plant has delivered. But measurement of outcomes in health and education are difficult and complex" (*The Economic Times*, October 13, 2009).

Independent Evaluation Office

It is in this context that the central government announced in June 2009 that it would create an Independent Evaluation Office (IEO). The Cabinet approved its creation in 2011, and it has recently become functional (latter half of 2013). However, there is no legislation underpinning the creation of IEO which makes it a weak alternate to other institutional arrangements (such as Mexico's Consejo Nacional de Evaluación de la Política de Desarrollo Social). However, it is a superior alternative to the existing PEO, for several reasons. The IEO exists at arms' length from the Planning Commission and in that sense is different from the PEO, which was a part of the Planning Commission. This arms'-length relationship is intended to make it independent of the government structure. In the early years, the PEO too used to have an independent budget and was relatively separate from the Planning Commission—a position that PEO then lost. The independence of the IEO (which will subsume the staff and organization of the PEO) will thus be possible since, after receiving its staff salaries and other costs from the Planning Commission, it will be separate from it.

The IEO is intended to be able to exercise influence over the line ministries, which are not always willing to respond to independent evaluations that are critical of design features of programs they run. There are two features built into the IEO's structure that might give it more influence than PEO had: (i) the head of IEO is an ex officio member of the Planning Commission, and because the latter is the funding body for the ministries' programs, it can influence the latter through the Planning Commission; and (ii) the head of IEO holds the rank of Minister of State and thus is one level above the line Ministry's civil service head; hence, if necessary, he or she can pull rank. These two features can potentially improve the use of evaluation findings or MIS information in a way that the PEO was rarely able to achieve. The IEO's staff, yet to be fully appointed, will not be large, but will consist of

¹⁴ Mr. P. Chidambaram, the Finance Minister who launched the outcome budget, said, "The government of India has substantially expanded outlays in sectors like irrigation, education and health, but kept on following the existing 'tried and failed' system, as a result of which the outcome of these enhanced outlays is not visible at the ground level" (*The Times of India*, December 3, 2007).

professionals in the fields of health, education, statistics, and so on. In other words, the problem raised earlier in this paper was that PEO came to be staffed after the first two decades of its existence by officers of the Indian Economic Service or even the Indian Administrative Service; that will now change. The budget of the IEO is generated from the government of India, but is entirely independent of the Planning Commission. The head of IEO reports to the Cabinet Minister responsible for the Planning Commission (that is, the deputy chairman, who is usually a technocrat, not a politician). The IEO itself may not have more than 25 staff, but the PEO's field and state offices will probably get folded into the IEO, so there will be only one organization (that is, IEO plus PEO together), and PEO may well cease to have an independent identity. Uncertainties around its ability to influence decision-making in line ministries in the Centre remain, and its ability to influence state governments' decision-making will probably be limited, except in regard to centrally sponsored schemes. Unless state governments themselves take action (as Karnataka has begun to do) the ability of IEO to influence state governments receptivity to issues arising from evaluations will remain open to question.

IEO has its task cut out. It will first need to ensure that monitoring systems are built up in every central government line ministry, and also then in state government departments. It will then need to ensure that data collected through such monitoring systems are authenticated and validated, so that they are reliable as tools for implementation management of program objectives. More important, it may wish to develop training programs to build capacity to conduct evaluations generally, and impact evaluations in particular—because there is very limited capacity to conduct rigorous evaluations in the country. Finally, and most important, it can take the lead in conducting evaluations itself and encourage others to undertake such evaluations, especially of large-spending flagship programs—so that poor designs can be discovered and flaws corrected before funding is released the following year. We do not wish to overstate the importance of conducting evaluations itself. Experience shows that when adequately designed, outsourcing arrangements can be very cost-effective for M&E systems.

7. STRUCTURAL ISSUES ABOUT ENSURING ACCOUNTABILITY AND OUTCOMES OF GROWING PUBLIC EXPENDITURE

There are two systemic issues that relate to the manner in which financial resources are transferred by the central government to the states, and the way fiscal relations are organized in India's federal constitution, that still pose a challenge to ensuring accountability and improving the use of public funds intended to achieve specific outcomes.

Issues with the System of Financial Transfers from Center to States

Resources flow from the center to states in India in two ways: assignments and transfers. The states' share in central taxes (called tax devolution) is an assignment. The transfers from the center to the states include non-Plan and Plan transfers. The important Plan grants that are transfers from the center to the state are of four types: (1) state plan schemes that include normal central assistance and other scheme-based central assistance; (2) centrally sponsored schemes for which funds are routed through the consolidated fund of states; (3) centrally sponsored schemes for which funds are transferred directly to the state/district level autonomous bodies/implementing agencies; and (4) a small proportion of Finance Commission grants treated as plan grants.

The government of India releases Plan funds to the states for centrally sponsored schemes by two methods: the treasury mode and the society mode (the latter are to state-level autonomous bodies or implementing agencies). In a treasury mode after the sanction of funds by the central line ministry/finance ministry the Reserve Bank of India (the central bank of India) is intimated to transfer

the funds to the state government, and the state's Accountant General (who reports to the union government's CAG) is informed. Hence, the funds are audited by the CAG.

In the society mode, however, funds are sanctioned by the concerned central line ministry and released to the concerned implementing agency of the states, and further to their constituents at the district, block, or village level. The audit of such bodies is conducted by chartered accountants, not by the CAG. The size of direct transfer by society mode of plan funds by the union government amounted to about \$30 billion in 2010–11, which was about 31% of the total plan expenditure of the union government.

The central government faces serious challenges in the form of weaknesses in the responsibility system to manage public funds. Since 2007–08, the central government expanded public spending on welfare schemes even more as part of the fiscal stimuli by the government after the global economic crisis (by 2.5 per cent of GDP). The central government gave more money to district bodies and NGOs than to the state administration, and all of these are grants. Several CAG reports have pointed out that there is little monitoring of those funds possible by the center.

The Rangarajan Committee 2011 has noted that despite some problems, there are several advantages of the treasury mode of fund transfer: "It is a robust method since expenditure incurred are voucher-based, validated by the Accountant General and audited by the CAG" (Planning Commission 2011, p. 28). It allows a system of tracking, cash management, and bank reconciliation.

There are more drawbacks in the society than in the treasury mode. In the society mode, the central ministries are concerned about avoiding lapse of budget, which gives them incentives to spend not connected with utilization by implementing agencies. Hence, the committee recommended the treasury mode of transfer of central plan funds. However, it is yet to be implemented.

The Structure of Center-State Fiscal Relations also Constrains Development of M&E

If accountability and monitoring and use of funds are to improve in India, there is another systemic issue that goes beyond the modalities of transparency of funds from higher to lower levels of government.

The seventh schedule of India's Constitution demarcates tax and expenditure responsibilities for central and state governments, as well as a list of concurrent responsibilities. Any residual function not listed in the schedule resides with the central government. India's inter-governmental fiscal system has an in-built imbalance between revenue-raising power and expenditure responsibilities of states, due to which the states are dependent on fiscal transfers and loans from the central government. The states derive 65 percent of revenue from own sources; the remaining 35 percent of revenue consists of transfers from the center.

The structural (vertical as well as horizontal) imbalance in India's fiscal system partly accounts for the low quality of state expenditures. The concurrent list (where responsibility lies with more than one level of government for expenditure) reduces clear accountability.

Further, no clear demarcation exists between taxing powers of states and of local governments. Decentralization is left to the discretion of individual states, and state governments do not appear willing to transfer fund and functions to local governments in India. Hence, despite the constitutional amendments of 1992 and 1993 resurrecting rural and urban elected local bodies, very few states have actually transferred responsibility to local governments, rural or urban, although they were required to do so. Thus, ensuring adequate resources for performance and local accountability is still limited.

8. THE WAY FORWARD

There is an incipient M&E system in place in India. The PEO has functioned for six decades in the Planning Commission of the government of India. It still has field offices/regional offices in place, although its capacity has been seriously weakened. However, new developments have taken place and the system is being revived.

An IEO is functional and will probably subsume the PEO structure. All major government of India programs have an online MIS. A performance management system was created for the government in 2009, and state governments are picking up its ideas. An outcome-budgeting requirement is in place, at least for the central government's ministries.

However, major challenges remain, which also suggest what needs to be done. Despite the increase in management information system (MIS) and evaluation activity, the question remains: Are evaluations utilized in reforming programs and policy modifications? The more general salient concerns that remain are discussed below.

First, the government ministry MISs are of variable quality, and the IEO may need to spend time working with each major ministry to improve it. The National Sample Survey Organization may need to be roped in for the purpose. At the same time, the state governments will have to be cajoled by the IEO to create an MIS for each of their major programs. Most important, the use of each MIS as a serious management tool may need to have some incentives built in. A system is also needed for ensuring that administrative data are independently verified and periodically authenticated.

Second, the capacity to conduct evaluations will need to be built up systematically; IEO will need to take the initiative to finance the courses in applied research and evaluation-related courses at universities and research institutions. Otherwise, there is a risk that small NGOs will continue to apply when calls for bids are made to conduct evaluations of their programs. Such NGOs often do not have the capacity and bid low, and the lowest bid gets selected in accordance with government rules. The creation of a separate concurrent evaluation office within the central Ministry of Rural Development (which has one of the biggest welfare spending programmes of all central line ministries) might also evoke greater interest in the results of evaluations in the states, if it leads to the generation of a database that enables some 'naming and shaming' to be done.

Third, a sanctions- and incentive-based system will need to be considered by the Planning Commission so that once evaluations are ready, they are taken into account before allocations for the following year are sanctioned. A culture of accountability for outputs/outcomes will need to be developed, taking other countries' lessons into account.

Finally, India's fiscal system is a paradox: although India is a federal, democratic polity, the fiscal relations between the center and the states remain relatively centralized. In a vast, populous, and extremely diverse country, accountability for the delivery of basic services may only be ensured through improved fiscal relations.

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