APPENDIX

A NOTE ON PERFORMANCE BUDGETING

An important characteristic of planning for economic development, as adopted by most of the underdeveloped economies, has been the dominant role assigned to the public investments and the consequent importance accorded to the public sector. The governments of these countries have assumed not only a centralized direction of resource mobilization and their use, but also have undertaken significant amount of entrepreneurial avocations, which have led to a logical development of public sector becoming a dominant factor in the process of economic development. This development has brought in its wake many important structural changes in the economic and financial administration in these countries.

These structural changes have brought alongwith institutional adjustments in the organization and conduct of public sector programmes and activities. The entrepreneurial functions and activities in the public sector are mostly excluded from the conventional budgetary framework and are entrusted to autonomous corporations/joint stock companies. In a number of instances, however, the government budget includes, in addition to normal administrative programmes and activities, certain entrepreneurial activities commonly known as departmental undertakings.

"The institutional separation of enterprise activities rests partly on management considerations; but this emphasis on management aspects, sound as it is, is rarely found in its application to public sector transactions included in a budget. A plan is essentially a blue-print for action while budgetary activity is mainly operational in nature. It would be, therefore, only logical to expect that management considerations should be of eminent importance in budgeting, and that the budget should be so devised as to highlight the truly operational character, both physical and financial, of any given programme. Such is, however, not the experience in many developing countries. As a result, the operational character of a government budget and its links with planning are largely obscured."1

DEVELOPMENT OF THE MANAGEMENT APPROACH IN BUDGETING

The system of conventional budgeting, which is in vogue in the majority of the countries, conceives an emphasis on financial aspects of governmental operations. "The financial accountability to the legislature is usually the overriding consideration and this permeats the entire budgetary process. Emphasis is placed mainly on the observance of appropriation limits. Moreover, the object-cum-organizational classification of expenditures in the budget does not enable identification of programmes

or projects and, furthermore, is not related to the cost of major inputs or the work performed. In other words, the system of budgeting does not provide information on what a government is actually doing and what it gets for the money spent. Of course, it may be possible to compile such information from departmental reports or other supplementary documents, but in many cases this information cannot be linked directly with financial data as they appear in a budget or in the accounts because it does not constitute a basis for budget management. The absence of pertinent information of this type reduces the usefulness of this budgetary approach even for purposes of legislative review and appropriation. The sanctions resulting from this process then tend to be accorded to policy objectives that are not explicit in the budget.”

The need, development, adoption and use of performance budgeting have developed, therefore, essentially in the context of affecting corrections in this situation. The primary consideration was to highlight management aspects in the budgetary framework and in so doing to bring out the most significant economic, financial and physical aspects of the budgetary activity.

The concept of performance budgeting has developed in the U.S.A. and has been given its most rigorous application in that country. Although a programme based budget was in vogue, in different forms and details, in some metropolitan centres and a few States in the U.S.A., the concept as it is understood now got a major recognition after the first Hoover Commission’s Report in 1949. The Commission, recognizing that the most important aspect in budgeting is the performance in respect of the work to be done or the services to be rendered and the cost involvement of such work/service, recommended that “the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities and projects” and this was designated by the Commission as a ‘performance budget’.

This recommendation was supplemented by the proposals put forward by A.E. Buck in the Commission’s Task Force Report. It was stated: “A programme or performance budget should be substituted for the present budget, thus presenting in a document of much briefer compass the government’s expenditure requirements in terms of services, activities, and work projects rather than in terms of the things bought. Such a budget would not detract from congressional responsibility and should greatly improve and expedite committee consideration.”

Following the Commission’s recommendations, the Federal Government of the U.S.A. decided to formulate its budget on a performance basis since 1951. The importance of the concept was further stressed in the second Hoover Commission’s Report in 1955. Substantial progress has been made in the U.S.A. since then and quite recently, a few other developing countries have either adopted this technique or are in the process of considering its introduction.

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2Ibid.
It may be added here that some distinction has been made in the past between a programme budget and a performance budget, though the Hoover Commission did not seem to view them as different concepts. "There is no precise definition for performance budgeting; it has come to mean something different in every jurisdiction which puts it into operation. In particular, there has been a tendency to make programme budget and performance budget synonymous terms, and this has contributed a good deal to the terminological confusion......In an attempt to clarify what is meant here by programme and performance, definitions will precede organizational and hierarchical lines. For present purposes, programme will be defined in relation to a higher level of organization than performance. A programme embraces a number of performance units......Programme and performance may also be distinguished according to their time dimension. Budgeting programmes are inherently forward-looking, a projection of the economic and social policies of a government. Performance must be based on the past — on the record of prior accomplishment. In the preparation of budget estimates, programme determinations should precede and set the framework in which the measurement of performance can be undertaken."6

Quite recently, a United Nations Manual on Programme and Performance Budgeting has made a useful distinction between programme budgeting and performance budgeting. "In programme budgeting, the principal emphasis is on a budget classification in which functions, programmes, and their sub-divisions are established for each agency, and these are related to accurate and meaningful financial data. Performance budgeting involves the development of more refined management tools, such as unit costs, work measurement, and performance standards. Of course, the measurement of work, both in a physical and financial sense, presumes an already formulated set of work units which can be derived only when programmes and their sub-divisions are first established. In this case, performance budgeting is an all-inclusive concept embodying programme formulation as well as measurement of the performance of work in the accomplishment of programme objectives."7

It may be mentioned that quite recently, a new programme budget (Planning-Programming-Budgeting System) has been developed in the U.S.A., the purpose of which is to provide for more and better information for decision-makers at all levels of government. It seeks to focus attention on alternative means to achieve carefully defined goals, specifying the full costs and benefits of each alternative, etc. Its special feature is the concept of long-range planning and programming which is brought into the whole process of budget making for the first time.

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The Concept of Performance Budgeting

Performance budgeting, as is generally understood, is essentially a technique of presenting government operations in terms of functions,

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7United Nations, *op. cit.*, p. 3.
programmes, activities and projects. Through such a meaningful classification of transactions, government activities are sought to be identified in the budget in financial and physical terms so that a proper relationship between inputs and outputs could be established and performance assessed in relation to costs.

The focus in a performance budget is basically different from that in the conventional budgets. The two approaches differ in their scope and context. Firstly, under the performance budgeting, emphasis is shifted from the budget as a means of accomplishment to the accomplishments themselves. It concerns itself primarily with the objectives aimed at by the government rather than on the outlays incurred on several projects. An important aspect of the technique of performance budgeting is the precise detailing of the job to be performed or services to be rendered and a realistic estimate of what that job or service will cost. Secondly, a performance budget is prepared in terms of functional categories and their sub-division into programmes, activities and projects rather than being prepared in terms of organizational units and the objects of expenditure. The object classification shows what government purchases but not why; accordingly, it does not show the nature of governmental programmes, or accomplishments under these programmes. Thirdly, a performance budget prepared in terms of costs and results facilitates management control by bringing out the programmes and accomplishments in financial and physical terms closely interwoven into one comprehensive document.

The technique of performance budgeting, it may be emphasised, divides the whole gamut of governmental operations into functions, programmes, and activities/projects. A function represents a major division of the total efforts of the government such as Education, Health, Agriculture, Industry, etc. Programmes are broad categories within a function that identify the end-products or accomplishments towards the fulfilment of the objectives of a function. They broadly reflect the responsibilities of major organisational units of the government. Activities constitute the collection of homogenous types of work in a programme with a purpose to contribute towards the accomplishment of the programmes. The term project is generally used to distinguish such activities as are of a capital nature. For example, education is a function, university education a programme, training of university teachers an activity, and the construction of buildings, equipping the laboratories, a project.

The introduction of a system of performance budgeting involves three basic steps: (a) establishment of meaningful programmes and activities for each function entrusted to an organization or an agency in order to show precisely the work objectives of various agencies; (b) adoption of a system of accounting and financial management in accordance with the aforesaid classification; and (c) determination of suitable norms, yardsticks, work-units of performance and unit costs, wherever possible, under each programme and activity for reporting and evaluation. Thus, "a performance budget is one which presents the purposes and objectives for which funds are required, the costs of programmes proposed for achieving those objectives, and quantitative data measuring the accomplishments.

*Burkhead, Jesse, *op. cit.*, p. 139.*
and work performed under each programme."

The main objects sought to be achieved by the performance budgeting are:

(a) to coordinate the physical and financial aspects of every programme or activity;

(b) to improve budget formulation, review and decision-making at all levels of management in the government machinery;

(c) to facilitate better appreciation and review by the legislature;

(d) to make possible more effective performance audit;

(e) to measure progress towards longterm objectives as envisaged in a development Plan; and

(f) to integrate the annual budgets and development Plans.

In a planned economy, where the public sector outlays constitute a major step towards accelerating the tempo of economic growth, the technique of performance budgeting has its advantages in as much as it serves to bring together the financial and physical implications of each programme, facilitating thereby better programming, decision-making, review of the progress and control for the management, and for a more precise, purposeful and intelligible presentation of government activities to the legislature and the electorate.

PHASES OF PERFORMANCE BUDGETING

The process of performance budgeting involves four broad stages: (1) planning or establishing performance objectives; (2) estimating or determining the quantum of physical resources, like personnel, materials, services, facilities, etc., in order to accomplish these objectives, and the amount of financial resources involved in that; (3) reviewing or ascertaining that the basic objective, resource requirements, and resource availabilities are clear and accurate and conform to overall guides and limits; and (4) operating or accomplishing approved objectives within the appropriations voted by the legislature.

PRE-REQUISITES OF PERFORMANCE BUDGETING

Important pre-requisites for the introduction and operation of performance budgeting are that, as a first step, it is desirable to emphasise the programme formulation aspect and to establish a clearly defined and meaningful pattern of organizational responsibilities. In doing so, the budget classification could be closely related to projects included in a development Plan. The next logical step would be to bring the system of accounting and financial management into line with budget classification. "In the early stages, emphasis could be placed on planning and on providing prompt financial and related information for use in performance reporting so as to enable a comparison of actual results with original plans. As progress is made towards these objectives, the introduction of accrual accounting and the solution of more complicated accounting problems might be considered. Accrual or cost accounting could be applied either to all types of programmes or to such operations

\[\text{\textsuperscript{8}}\text{Ibid.}\]
as commercial or industrial activities."\(^9\) The third step consists of the introduction of a system of measuring physical progress and performance. This would depend largely on the availability of relevant statistical data. Each programme would present its own problems in terms of determining proper units of measure and meaningful indicators of performance. Fourthly, the system of performance budgeting, because of its significant role in the management of governmental operations, demands specially qualified personnel for its successful operation. "The most important consequence of performance budgeting is that it increases the responsibility and accountability of management......The performance budget enhances the role of management, but at a price—budgeting may no longer be treated as a peripheral assignment, but is now at the centre of management responsibility. This should lead to an improvement in the quality and quantity of budgeting at the level of operations."\(^10\) "In its ultimate application, this approach involves a sound budgetary operation, financial discipline, skilled and responsible manpower both for budget formulation and execution, a frequent and efficient system of recording and reporting financial and, physical data, and close coordination between various governmental agencies and the central budget agency."\(^11\)

The technique of performance budgeting suffers, however, from certain limitations:

Firstly, it is sometimes contended that the performance budgeting involves only a quantitative and financial evaluation of programmes and activities. It does not facilitate qualitative evaluation. This limitation is not, however, peculiar to this technique as no budgetary technique is capable of making qualitative evaluation which must depend on certain other appropriate devices.

Secondly, it is claimed that the usefulness of the technique is somewhat limited in the case of activities that are not subject to measurement in any precise manner, such as research, law and order, defence, etc. It is true that the technique may not be as effective as in outlays on physical programmes, but even in such subjective areas, suitable norms can be developed to explain performance in a meaningful manner.

Thirdly, the success of performance budgeting depends upon well-organised departments and agencies identifiable with programmes and activities. In practice, however, precise categories of functions and programmes corresponding to organizational units are rather difficult to achieve. It is argued on the other hand that a synchronisation of functions and programmes with organisations though desirable in the long run, is neither a pre-condition to nor an essential ingredient of a performance budgeting system.

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\(^9\)United Nations, op.cit., p. 3.
\(^10\)Burkhead, Jesse, op.cit., p. 155.
\(^11\)United Nations, op.cit., p. 3.
Desirability and Scope of Performance

The pattern of existing budgetary system in India (hereafter referred to as the ‘conventional budget’) has been designed mainly to ensure legislative accountability and accounting scrutiny. Its primary object is to ensure that the moneys are raised and disbursements made by the public authorities in accordance with the schemes sanctioned by the legislature. The conventional budgets are framed by the various Ministries/Departments with expenditures broken down into the broad objects constituting the primary units of appropriation. These budgets are conceived largely in financial terms emphasising thereby the financial aspects and not so much the physical accomplishments out of the proposed outlays. Precisely, the conventional budget is accountability-oriented and is intended, primarily, to facilitate itemised financial control.

Besides being the principal instrument of providing accountability to the legislature and the means for ensuring financial control, the budget is, in the context of State-oriented planned economic development, the chief instrument of fiscal policy, a principle device for the implementation of the projects set-out in the development Plans, a vehicle for carrying out the government’s policies and decisions, a tool for better management of the government’s operations, and chief source of data in order to facilitate the decisions of the government on fiscal and economic issues.

With the recognition that the primary object of a sound budgetary system in a planned economy must be to ensure the achievements of Plan objectives, the concept of accountability has acquired a broader connotation than is understood from its conventional usage. In the context of planned economic development in which the public outlays are to play a dominant role, specific socio-economic goals are defined, availability of resources is assessed, and alternative programmes are selected to attain these goals. As such, the accountability, instead of being confined to ensure that the moneys are spent as sanctioned and are kept within the limits laid down in the appropriations, must extend to ensure that the targeted physical results are achieved. It becomes essential, therefore, that the budget should reflect the pattern of development Plans in content and classification. The budget should reflect and reveal as to what was planned to be done in terms of physical targets, the output to be aimed at or services to be provided as envisaged in the development Plan and what has actually been achieved both in financial and physical terms. More specifically, by having a common classification for both the Plan as well as the budget, the instrument of budget could be made an operational document for carrying out the Plan objectives.

It is in this context that an assessment has to be made about the usefulness of the present budgetary system and identify its shortcomings. As it exists presently, it provides for financial and legal accountability,
but the usefulness of the system can be enhanced considerably if it could be devised to give a comprehensive account of the total efforts of the government in its financial aspects, the economics of its activities, the physical results that flow from them, and the exact relationship between inputs and outputs. The conventional budgetary system does not link the financial and physical aspects of programmes and activities nor does it provide an adequate amount of information on the effectiveness of money spent on such programmes and activities. It does not throw sufficient light for an overall view of the financial and physical aspects of such programmes and activities, and the accomplishments.

The question of introducing performance budgeting in the Indian context could, therefore, be viewed from two angles: (a) by pointing out the deficiencies in the conventional budgeting and considering the merits of the performance budgeting; and (b) by a consideration of the various arguments against the introduction of the technique of performance budgeting. Approach (a) has briefly been covered in the preceding paragraphs. As regards (b), various doubts and misgivings about the introduction of performance budgeting are detailed below:

(1) Quite a number of the purposes designed to be served by the technique of performance budgeting are presently being already served by the techniques and processes of economic planning in certain ways and consequently, introduction of the technique of performance budgeting would amount to duplication of effort.

(2) Sufficiently comprehensive data and information is now given in the budgetary documents on both the financial and physical aspects of governmental programmes and activities, supplemented by the annual reports of the Ministries/Departments, annual report on the working of commercial and industrial undertakings of the government, etc.

(3) The financial and legal accountability of the executive government to the legislature will be impaired by the introduction of performance budgeting.

(4) A bulk of the disbursements undertaken by certain Union Ministries/Departments, e.g., agriculture, education, etc., consist of grants to the States and other organizations. As such, their performance may not be capable of measurement at Union level.

(5) In the present institutional structure, a performance budget can, at best, be only supplementary to the existing conventional budget, and cannot in anyway supplant it.

(6) The utility of performance budget may be greater in the context of the relationships between the executive and the legislature as they exist in the U.S.A. In the Indian context, where the initiative in budgetary decision-making vests in the executive, the legislature being mainly concerned with sanctioning the policies formulated by the executive, the system may not be capable of achieving that degree of success as may be anticipated.
The Working Group examined these points and have come to the following conclusions.

(1) Commenting on the point that performance budgeting is largely a technique for planning, implementation and reporting, both in financial and physical terms, and that this is obtaining, in some measure, in our planning process, the Working Group remarked that "prima facie, the contention seems to be an oversimplification both of the concept of performance budgeting as also of the virtues of the planning process...... The technique of performance budgeting is something more than a mere bridge between the financial and physical aspects of a programme. In so far as the planning process is concerned, the experience during the last decade or so has indicated the inadequacy of the link between the two. It is also observed that because of the absence of a rapport between the financial and physical aspects of a programme, budgetary estimates were often either underpitched or overpitched with consequential impact on the allocation of resources. It has also, in turn contributed in some measure to the gap between the physical targets and financial outlays. Thus, while programmes, targets, outlays, etc., exist in the planning process, there is a lacuna in the existing system in that there is no well-organized operational framework. To the extent that such a framework would be supplied by performance budgeting, it would be greatly strengthening the existing planning process."\(^{13}\)

(2) The argument is advanced that progressively increasing data and information about the various programmes and activities of the government, financial as well as physical, is now given in the budget and the various documents attached to it. It is correct that the Explanatory Memorandum, Notes on Important Schemes furnished in the Demands for Grants, the Economic Survey, the Economic Classification of the Budget, the Annual Reports of the Ministries/Departments, and other documents do provide the legislature and the public at large a substantial amount of information. "While these developments have been in the right direction, it is to be recognised that unless these somewhat disjointed efforts are coordinated and brought into a well-knit, purposeful and cohesive whole at one place, they are not likely to be of much help either in the formulation of programmes or in the evaluation of performance. It has thus to be seen that though there were various developments, welcome in themselves, yet, in the absence of a comprehensive scheme for budget-reform and also because they were often the result of attempts at meeting the requirements from different quarters, they tended to be diffused and were thus inadequate."\(^{14}\)

(3) The contention that under performance budgeting, as emphasis is shifted to programmes and activities and their cost-benefit analysis, the legal and financial accountability of the executive government will be affected, appears to be based on erroneous impression. This contention may not be well-founded because the form and technique of performance budgeting could be formulated in such a way that the Ministries/Departments/Organisations may retain their identity and the Demands for Grants can continue to be in terms of objects of expenditure (i.e.,

\(^{13}\)Ibid. pp. 168-169.

\(^{14}\)Ibid., p. 168.
units of appropriation) under the several programmes and activities of the Ministries/Departments/Organisations. The legal and financial accountability of the executive government would not, therefore, be compromised, rather more important aspects of accountability will result and be secured.

(4) As regards the difficulties contemplated for the evaluation of the results out of loans and grants given by the Union Ministries/Departments, it is a matter of detail regarding the form and content of performance budgeting rather than the principles underlying it.

(5) The fifth argument relates to the form in which the performance budget is to be prepared and presented. The issue involved is whether it should be a supplementary document to the conventional budget or should replace the latter. That the performance budget should be a supplementary document to the conventional budget is supported on two points: (a) it may not be desirable to change an established practice; and (b) it would not be possible to prepare a performance budget within a period of three months that now forms the crucial period during which the budget is finalized and presented. It is contended, however, that "it would not be sufficient to have the performance budget document as a supplementary one to the existing set of documents, as in that case it will not have any impact whatsoever on the existing system. For one thing, the performance budget is being evolved to overcome the deficiencies in the existing budgetary process and framework and not to supplement it. The idea of a supplementary document in such a context would inevitably mean the continuation of the existing procedures, financial practices, accounting classification, etc., with their inadequacies. Indeed, if performance budgeting is not made an integral part of the budgetary process, but only an additional exercise, unconnected with the main process, the advantages that are expected of it would not materialize. Secondly, performance budget is not merely a matter of form; it represents a change in concepts that has significant effects on the approach to the budget and the decision-making practices. The form is only the culminating point of the various processes towards better management and control. The form of the document has no special significance apart from the presentation effect. The performance budget as a supplementary document would be somewhat of a fifth wheel to the coach. The appropriate method in the circumstances would be to adopt, evolve and introduce performance budgeting in such a way that it would fit in without conditions and mitigate the transitional difficulties involved in the switchover, while continuing, at the same time, to serve the purposes expected of it."15

As regards the practicability of preparing a performance budget within a period of three months referred to above, it is contended that "in our planning process, both the implementation of programmes and the evolving of new ones are a continuous process throughout the year. Thus, in a way, budgeting would also be an all-the-year round process with the final stage of consolidation being reached in the period referred to above. Moreover, even under the present system, the administrative departments and organizations are enjoined upon to forward their budget

15Ibid., pp. 169-170.
proposals quite early in the financial year, say beginning with July. Information on programmes, activities, targets, achievements and other work-load data will be available continuously all through the year through a performance reporting system."

(6) Coming to the executive-legislature relationship, it may be pointed out that the need for the performance budgeting does not hinge on the character of such relationship.

It may be concluded that the introduction of the technique of "performance budgeting is needed more than ever, for integrating the Plan and budgetary process, for building up an internal edifice of the financial outlays and accomplishment for each administrative agency, for quantification of the results from government outlays, for enabling a more purposive audit and preliminary review and control, and thus serving as a window, so to say, to every citizen of the country on the governmental activities."  

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Pre-requisites for the Introduction of Performance Budgeting in India

The more important pre-requisites necessary for the introduction of performance budgeting in India may now be examined:

(a) Performance budgeting involves the measurement and evaluation of end-products of a programme or activity. Since in a sizeable part of government operations there are no end-products, the utility of the concept may not be realized in practice. Even in cases where the end-products can be identified and quantified, there appears to have been no systematic effort at evolving work or performance units with a view to measuring the physical progress or accomplishments with few exceptions like Public Works Department. "It may, however, be mentioned here that the idea of measuring workload is not altogether unknown in India. Apart from the P.W.D., the O&M Units of the Ministries and the Staff Inspection Unit (previously Special Reorganization Unit) of the Ministry of Finance, etc., have been engaged for quite some time in evolving workload factors, indices and ratios in respect of manpower utilization and related aspects and have been adopting the technique of work study, work measurement etc......These studies can be carried further and suitable yardsticks/norms evolved in due course, for measuring the output and accomplishments."

Moreover, physical measurement may be of three types: (i) measures of accomplishment showing the effect of the work and the achievement of objective or programmes; (ii) measures of end-products reflecting the results of the work or output; and (iii) measures of workload bringing out the volume of work, or the volume of work and time, or the volume, time and costs. In combination with data on the employment of labour, the time spent and the resources expended, performance or work

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16Ibid., p. 170.
17Ibid., p. 171.
18Ibid., p. 175.
measurement or productivity ratios can be developed to show results in terms of units.

(b) The success of performance budgeting presupposes a system of advance programming of the government operations on a long-term basis. In the context of planned economic development, a long-term planning with annual break-down is already in vogue, indications already exist about operational tasks, time schedules, targets and other aspects. With greater emphasis now being placed on the process of annual Plans, it should be possible to frame budgetary requests adequately supported by necessary administrative planning and projection into the future.

(c) It is contended that under a system of performance budgeting, the outlay shown in the budget documents for any programme or activity should represent the total cost of such a programme or activity and should be available at one place. This could be possible only if all outlays are classified on a functional basis irrespective of the Departments/Organisations incurring them, a proposition which does not seem to be feasible under the existing circumstances.

(d) Under the existing cash accounting basis, the cost of a programme or activity as shown in the budget may not represent the total cost of the programme or activity. "It has been recognised that, in the initial stages, accounts should not be unduly disturbed. Refinements such as accrual accounting, allocation of overheads like general administration and common services, etc., may also be deferred to a latter stage. The introduction of performance budgeting elsewhere has not been made contingent on shift from cash to accrual basis. Moreover, the advantage to be gained by having total or full or accrued cost may not be commensurate with the cost and labour involved in a radical departure immediately from the long established accounting systems and practices."19

(e) Another pre-requisite for performance budgeting is that the execution of the budget and the authority administering the programmes must be concentrated in one agency. Such an identification has been rendered possible, to a considerable extent by the enhanced delegation of powers to the administrative Ministries/Departments and the recent changes affected in the budgetary procedures. "With the greater delegation of financial powers and the increasing association of the representatives of the administrative Ministry with the budgetary process, the state of affairs will increasingly approximate to the ideal situation where the budgeting and administering agencies will be the one and the same. Also, if suitable norms and standards could be laid down in respect of a wider field of governmental activities as is inherent in performance budgeting and if the financial management skills could be developed in the administrative Ministries, they, with the aid of their financial advisers, will be able to formulate budgets in such a manner as to obviate the necessity of modification in a large measure by an outside agency, i.e., Finance Ministry."20

(f) Another important step towards the introduction of performance budgeting is to evolve the necessary financial data through the accounting

19Ibid., p. 177.
20Ibid.
system in terms of programmes and activities. The existing accounting system would require, therefore, to be modernized so as to meet the requirements of performance budgeting.

(g) In the context of performance budgeting, another point which is commonly stressed is the need to strengthen the reporting system. An adequate system of performance reporting is, without doubt, an indispensable adjunct to performance budgeting. "At present, reporting is mainly in financial terms in the context of and on the lines of budgetary appropriations.....With a view to relating financial progress with actual achievements, it is necessary that both the physical and financial aspects are interwoven into a single report against a background of time and cost and a projection into future commitments. Such a performance reporting at regular intervals is an indispensable aid to performance budgeting and expenditure control."\(^1\)

"The introduction of performance budgeting in the existing circumstances and at this stage of the development of our institutions and procedures may be attended with some initial difficulties. But these difficulties should be capable of being resolved in a satisfactory manner, given the necessary motivation, resources and a spirit of cooperation. The benefits to be derived from the new technique should not be viewed in terms of costs involved, but have to be viewed in the larger context of securing benefits resulting from more effective control, greater efficiency and all-round improvement in governmental operations. The conversion to performance budgeting has to be viewed as a major step towards the improvement of the budgeting structure with a view to better comprehensibility and towards making budget a programme-oriented document. Having regard to the significant changes involved, the installation process should, of necessity, be carried out in a phased manner. In the nature of things, the introduction of this technique has to be an evolutionary process to be developed and extended gradually over a number of years."\(^2\)

In such a process of phased application, priority shall have to be accorded to Departments/Organisations directly involved in development programmes and activities, and which account for a sizeable part of development expenditure in the Plan and the budget.

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