PUBLIC SECTOR REFORMS
FISCAL AND GOVERNANCE REFORMS
A CASE STUDY OF ORISSA STATE, INDIA

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Declaration

This thesis contains no material, which has been accepted for the award of any other degree in any university or other institution. To the best of my knowledge, this thesis contains no material previously published or written by another person, except where due reference is made in the text.

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Mukti Mishra

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Abbreviations

ADB	Asian Development Bank
ASI	Adam Smith Institute
BOP	Balance of Payment
CM	Chief Minister
CSE	Chicago School of Economics
DFID	Department for International Development
FD	Fiscal Deficit
FDI	Foreign Direct Investment
FRBM	Fiscal Reform and Budget Management Bill
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
GOI	Government of India
GOO	Government of Orissa
GP	Gram Panchayat (Village Administration)
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
MLA	Member of Legislative Assembly
MP	Member of Parliament
MTEF	Medium Term Expenditure Framework
MTFRP	Medium Term Fiscal Reform Program
NCAER	National Center for Applied Economic Research
NGO	Non-government Organisation
NIPFP	National Institute of Public Finance and Policy
NPM	New Public Management
NSDP	Net State Domestic Product
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PD	Primary Deficit
PEM	Public Expenditure Management
PRI	Panchayati Raj Institutions
PS	Panchayat Samiti (Block Administration)

RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RD	Revenue Deficit
TI	Transparency International
UNDP	United Nations Development Program
VAT	Value Added Tax
WB	The World Bank
ZP	Zilla Parishad (District Administration)

Abstract

The main purpose of this empirical research was to ascertain measures to make the reform process a success in Orissa where the state government has undertaken an ambitious reform program since 1993 without significant visible impact. This study primarily focussed on the fiscal and governance reforms aspects of public sector reform. The study delved into the elements, and progress of fiscal and governance reforms in developed and developing countries, especially in India/ Orissa and the linkage between the fiscal and governance reforms.

For the purpose of the research, data were gathered through 101 in-depth interviews and 114 surveys using a structured questionnaire. The respondents were senior bureaucrats of India/ Orissa, senior level representatives of multilateral and bilateral agencies, reserve banks, professional and research institutions, NGOs and the private sector. Frequency tests and factor analyses were used for quantitative data analysis to corroborate the qualitative data.

The following were the findings of the study:

1. The elements of fiscal reforms were enforcing fiscal discipline, promoting strategic priorities for revenue generation and expenditure and achieving value for money, and the elements of governance reforms were transparency and accountability, decentralization/ commercialization and administrative reforms.

2. Fiscal reforms have been succeeding in developed countries where governments are responsive and accountable to the citizenry, policies are predictable, states are being rolled back through decentralization and commercialization of non-core public sector activities, and administrative reforms are an ongoing process. But critically this is prodded along by a vigilant civil society which demands efficient and effective governance. In developing countries, the lack of accountability and transparency, absence of devolution of authority and responsibility, and unwieldy bureaucracies are norms rather than exceptions. These are the governance issues that need to be addressed in order to bring about fiscal sustainability.

3. Fiscal and governance reforms are inherently interlinked, interwoven and interdependent. Thus, implementing one without the other would lead to unconstructive outcomes and reform fatigue.

4. The tardy progress and not so encouraging outcomes evidenced in India/ Orissa are due to the absence of governance reforms. This has been attributed by most respondents to the absence of sustained political and bureaucratic engagement with the reform process besides low level of transparency and accountability, lack of effective decentralization, a large public sector and cynicism of the basic governance structure.

The findings of this research helped to develop a set of measures for Orissa to pursue in order to make the reform process a success. Since India is a federal state, the involvement of the central government in the reform process is imperative, hence sets of measures were also recommended for the Government of India. A separate model has been recommended to deal with corruption. The measures suggested are required to be implemented simultaneously and not in a stand-alone manner.

The results of this study would be a foundation for furthering fiscal and governance reforms not only in Orissa but also with some customization in other states in India and poorer regions elsewhere in the world. This study can also be a benchmark for further research in the area of public sector reforms, especially fiscal and governance reforms.

Chapter 1

Introduction to the Study

1.1 Introduction

Historically, in the context of the Nation State, the production and distribution of public goods and services was in the hands of the government. In recent times, however, the 'nation state' itself has become contentious and no longer fits the global reality. In this regard, Ohmae (1993, p. 78) claimed that "the nation state has become an unnatural, even dysfunctional unit for organizing human activity and managing economic endeavour in a borderless world. It represents no genuine shared community of economic interest; it defines no meaningful flow of economic activity". Further, political leaders have asserted that a fear of change, in citizens has led to a crisis of confidence and lack of trust in policy makers (Blair 2001). This has raised questions about whether policy makers have answers to society's intractable problems. In contrast, it is seen that governments face stark choices between the promotion of profit through the free market, and the protection of welfare state through government intervention. It is also realized that "prevailing inertia in overall governance will likely bankrupt governments" (Rockman 1998, p. 22). Governments are under pressure to shed their powers and responsibilities and allow previously governmental functions to be performed by business, voluntary organisations, co-operatives, churches, private households, community centres and so on (Boston et al. 1996). Is this an indication that governments have surrendered too much control to market forces? Experience has shown that excessive government control bred inefficiency and led to the ineffective use of resources (Buiter 1995).

It was evident that significant change in the relationship of the government and its citizenry was taking place and the role of the public sector as a whole was under scrutiny. Peters in (Kettl & Milward 1996, p. 15) stated that "many of the old certainties about government and the role of the public service are now either totally altered or are subject to severe questioning". Therefore, it is increasingly realised that government's role should be redefined and reoriented with respect to the provision of goods and services. As Hood (1998) has pointed out, whatever can be done at a distance from government should be devolved and left to other forms of community organisation, provided that the resulting service is decently done and the stakeholders are respected and accorded their due dignity. There was a paradigm shift in public sector with a profound difference in its constitutive and strategic ties to the ongoing activities emulating private sector management concepts and tools with a typical sequence of goal setting, implementation and evaluation.

Governments have begun to adopt policies designed to reduce the scope of the states intervention in the economy (Haque & Moll 2001). States curbed their involvement in production, prices and trade. Market friendly strategies took hold in large parts of the developing world. The pendulum had swung from the state dominated development model of the 1960s and 1970s to the minimalist state of the 1980s and 1990s (Bird 1995; Blair 2001). The development discourse mainly focussed on economic aspects, that is, growth, to the exclusion of the machinery responsible for the delivery of services that would enhance growth without marginalising the poor (Borre & Scarborough 1995). Of late, economists and representatives of International Financial Institutions argue that governments had grown much beyond their justified role, undermining economic incentives, property rights, and economic freedom, and mortgaging the income of future generations (Tanzi & Schuknecht 2000). This, it was claimed, was due to the rising deficits and public debts. The new scepticism about 'benevolent' government making the 'right' policy choices, and about its technical ability to conduct efficient polices, reawakened interest in the role of public institutions and in the attitudes of policy makers (Szirom et al. 2001). However, issues of governance, which would be responsible for pro-poor growth, and efficient and effective delivery of services have always been bypassed (Vaghul 1999). It is the contention of the researcher and the argument posed in this thesis that in order to achieve the desired outcomes in terms of fiscal discipline and sustainability, governance reforms such as transparency, accountability, administrative reforms commercialization and decentralization are critical.

1.2 Public sector reforms in the global environment

The precursor to public sector reforms as envisaged today were the structural adjustment programs initiated and supported by the World Bank and the International Monetary Fund. In the UK, the process of public sector reform as envisaged today was initiated way back in 1979 and the reasons were the following (Edwards 2000):

- The public sector was too large and the frontiers had to be rolled back.
- The public sector should not do anything that the private sector could do as well or better.
- The slimmed public sector should be reorganised as private sector thrives.
- Public expenditure and borrowing must be cut.
- Taxation should be rationalised and rates drastically reduced, especially of high income.
- The government, not the trade unions must run the country.

In similar lines, many OECD countries introduced reforms with more stringent Acts and Regulations such as Fiscal Responsibility Acts of New Zealand. In Australia, there have been important financial management reforms and government machinery changes at federal, state, and local levels; hence the focus was especially on fiscal reforms (Boston et al. 1996). In the USA, the Clinton administration had made the quest for a government that 'works better and costs less' one of its top priority (Peters & Savoie 1996). Developing countries like South Korea, Thailand, Kenya and many others have embarked on massive public sector reforms since 1980s (OECD 2001a). The most significant reforms were carried out in New Zealand. The New Zealand model of public sector reforms, the product of an extraordinary succession of governmental reforms commencing in the mid 1980s, has been most widely acclaimed and celebrated (Bonaglia et al. 2001). The World Competitiveness Report in 1993 ranked New Zealand first among all OECD member countries for its quality of government. Not only has it drawn high commendations from international agencies and leading academics, but it has also figured prominently in the debates over public sector reform in numerous countries – Australia, Britain, the USA, and other developing countries, too (John 2002). As claimed by Halligan (2003), New Zealand has gone the farthest along the entrepreneurial path. In one fell swoop; New Zealand did away with its old civil service system, freeing department managers to negotiate their own contracts with their employees. It eliminated regulations that inhibited competition in both private and public sectors – forcing government-owned businesses into more competitive markets. And it adopted a budget system focussed on performance and an accrual accounting system modelled on business accounting.

Several countries across the globe have undertaken reforms. In the late 1980s, developed countries faced fiscal challenges similar to those confronting many developing countries today. Through the implementation of fiscal reforms, which embedded governance reforms, developed countries have achieved great progress, while developing countries still languish with poor fiscal and governance indices (The World Bank 2000a). Table 1.1 provides evidence on fiscal and governance indices of selected countries. The components of **citizen participation** are political freedom and stability, and governance quality; **government orientation** are judiciary and administrative efficiency, decentralization, accountability, transparency and lack of corruption; **social development** are human development and egalitarian income distribution; and **economic management** are tax rationalisation, outward orientation, revenue generation, central bank independence, inverted debt to GDP ratio, value for money and fiscal discipline (International Monetary Fund 1997a; Transparency International 2000; UNDP 2000). The components such as citizen participation, government orientation and social development are elements of good governance (governance reforms), and the elements of economic management represent fiscal reforms (Huther & Shah 1997).

Table 1.1 Governance and fiscal indices (Scores out of 100 points)

Countries	Citizen Participation	Government Orientation	Social Development	Economic Management
Australia	71	93	96	75
United Kingdom	71	91	86	77
United States	69	90	82	75
New Zealand	74	98	84	60
South Korea	51	52	62	63
South Africa	52	56	42	50
Brazil	50	37	51	48
Thailand	43	30	56	50
India	50	37	35	53
China	38	25	46	56
Pakistan	41	24	36	38
Ghana	34	31	37	26
Uganda	40	24	27	24

Source:(Huther & Shah 1997; Kaufmann et al. 2002)

Table 1.1 indicates that in developed countries where governance and social indices are high, economic indices are also high. In the case of New Zealand, the economic management index ranges from 56 to 60 between 1997 and 2001 (International

Monetary Fund 2001b; Oxford Policy Management 2001). Evidence from developing countries suggests that unless governance reforms such as policy predictability, transparency, accountability and devolution of power are introduced simultaneously, desired outcomes will not occur (International Monetary Fund 1997a; The World Bank 2000a) i.e. good governance is a sine qua non for fiscal sustainability and discipline in any economy (Fukasaku & de Mello 2000). South Korea, which had governance and economic indices at the same level as Thailand in mid 1980s, has surpassed all developing countries due to introduction of governance reforms in 1992, where fiscal reforms were introduced in 1989 with assistance from the International Monetary Fund (IMF) (The World Bank 2001). India, which also opted for structural adjustment in 1991, still lags far behind South Korea, suggesting that governance reforms are inextricably linked to fiscal reforms (The World Bank 2002b). These findings underpin the theoretical assumptions of this research, that is fiscal and governance reforms should be implemented in tandem and simultaneously, not sequentially.

1.3 Public sector reforms in India

The Government of India (GOI) formally initiated the process of economic reform in the country in July 1991. The reform package comprised stabilization as well as structural adjustment components and was a standard Internatinal Monetray Fune – World Bank (IMF-WB) type (Cassen & Joshi 1995). This implied that the measures taken by GOI included efforts to reduce the budget deficit, improve the balance of payments, curtail inflationary pressures, deregulate the industrial sector, strengthen the prevailing financial system and improve governance(Cassen & Joshi 1995; Vaghul 1999). An important reason that compelled GOI to approach international agencies for financial support in July 1991 was a severe balance of payment (BOP) crisis. However, this alone cannot explain the subsequent developments adequately, as India had faced a balance of payment crises earlier in 1965-66, 1975-76 and 1979-80. What was different in 1991 was that a crisis of confidence compounded the problem on the trade account (Parikh 2002). 'By June 1991, the BOP crises had become overwhelmingly a crisis of confidence in the government's ability to manage the BOP. The loss of confidence has itself undermined the governments' capability to deal with the crises by closing off all recourse to external credit. A default on payments, for the first time in our history had become serious possibility in June

1991' (Planning Commission of India 1992). The non-resident Indians (NRIs) withdrew their dollar deposits from Indian banks at alarming rates. The confidence of international financial community in India's ability to meet its obligation was shaky and the credit worthiness ratings had fallen in about a year from AAA to BB+ i.e. it was put on credit watch (Chelliah 1999). Though the balance of payments crisis was precipitated by the loss of confidence of international financial institutions, the seeds of the crisis were sown by the fiscal profligacy (unabated rise in revenue expenses financed by domestic and external borrowing) of successive governments in the 1980s. The crisis provided an opportunity for a major reorientation of Indian economic policy and in principle decisions were taken to roll the government activities through major reforms of public sector.

Realising that abrupt initiation of economic reforms could severely affect the poor (40% below poverty line in 1991-92), the GOI committed itself to implementing 'structural adjustment with a human face'. The Eighth Plan, launched a year later in July 1992, focussed on social sectors and declared 'human development' as its 'ultimate goal' (Planning Commission of India 1992). Apart from dealing with the immediate crisis, the reforms were aimed at reducing poverty and improving the well-being of people. A high growth was considered essential for rapid reduction in poverty. For high growth, India needed to use resources efficiently, and for efficiency competition was essential. For achieving, fair competition, deregulation, decentralization and devolution were required (Peters & Savoie 1996).

Public sector reform in general across the globe has made more progress in devolving managerial authority than in enforcing managerial accountability (Patnaik 2002b). Dismantling old controls has proved easier than establishing new performance based accountability in government, which can be accomplished by introducing fiscal and governance reforms. It is argued that the Indian economy can achieve the desired efficiency and growth only by pushing the unfinished economic reforms (Ahluwalia 2000).

1.3.1 Fiscal reforms in India

In line with fiscal discipline and reform all round the globe, India introduced the Fiscal Responsibility and Budget Management Bill in December 2000 and committed to eliminate the revenue and fiscal deficits, build up adequate revenue surplus and maintain stringent fiscal prudence (Government of India 2000g; Lahiri & Fardoust 2000; Macroscan 2002). As part of the Memorandum of Understanding (MoU) with the World Bank and IMF, overall economic reforms were set in motion in 1991. Fiscal reforms were the central issue since the revenue expenditure was as high as 13.3% of GDP and fiscal deficit was around 8.3% of GDP in 1991 (Karnik 2001).

In a decade since reforms were introduced, India has achieved substantial success in the macroeconomic sphere. The Fiscal Deficit of the Central Government has come down from highest level of 8.3% in 1991 to 5.61% in 2001-02 (Karnik 2002). The one unambiguous Achilles Heel of the reforms has been the vulnerable state government finances (Kopiti 2001). Debt liabilities as a proportion of revenue receipts exceed 200 percent in many states (Reserve Bank of India 2000). Due to the high debt level and substantial rise in interest payments, essential public services become casualties while capital expenditure has remained stagnant or shrunk in real terms in most states, jeopardising the growth prospects of States (Sen 2000). Therefore, GOI is now seeking to strengthen its supervision of state finances through bilateral agreements and MoUs with states, coupled with inducements to implement fiscal reform programs designed to bring the state to the path of fiscal rectitude – the compatibility of such an approach in the Indian context, however, remains to be examined carefully by economists, researchers and policy makers (Anand et al. 2001).

1.3.2 Governance reforms in India

Governance reform in India is hampered by a centralised, monolithic and non-transparent public governance manifest through excessive government interference, corrupt capital market or utility regulation or government 'capture' by private interests as in 'crony capitalism' (The World Bank 1994a, 2000a) and rigid structures with little flexibility. Corruption flourishes in India because it is perceived to be a low risk, high profit business (Asian Development Bank 2000d). In the public goods and services delivery there is a lack of transparency in values and procedures, significant delays in operations and functioning and lack of devolution of powers and authority. Hence, for India – 'Governance and Fiscal Reforms' is the said to be the answer (Singh 1996).

To make governance reforms successful, the GOI after a national debate initiated the following proposal in the Chief Ministers Conference in 1997: make administration accountable and citizens friendly, ensure transparency and the right to information and take measures to cleanse and motivate the civil service. Thus the main theme was to eradicate corruption from all levels and accordingly states were directed to form action plans for good governance (Jha 2000). Further, towards decentralization (as part of governance reforms), GOI introduced 73rd and 74th amendments to the constitution of India, which gave local governments, rural and urban, a legal status which they formerly lacked (Government of India 1993). In India, governance problems have accelerated the fiscal crisis both directly and indirectly, and need to be addressed as a high priority (Saxena 2001).

1.3.3 Orissa – A Case Study

The Context: The State of Orissa lying in the Eastern Coast of India with a population of 36.7 million, is extremely resource rich. Despite large endowments of cultivable soil, water, coastlines and minerals, Orissa remains one of the least developed States in India. Abject poverty coexists with offensive opulence with 47% of the State's 36.7 million people living beneath the poverty line (highest in the Country), per capita income only slightly more than half the national average and the State continues to fall behind the rest of the country socially, administratively and economically (Government of Orissa 2001a, b).

1.3.4 Fiscal reforms in Orissa

Orissa's fiscal deficit at around 9.92% of GDP in 2001-02 is unsustainable and has caused deterioration in the State's physical and human capital, which in turn has retarded growth (The World Bank 1996; Government of India 2000e). Government of Orissa (GOO) and GOI signed an MOU on 11th October 2001 to work together to enable the GOO to achieve fiscal sustainability in the medium term (fiscal deficit to be 2.19%, revenue generation to be 8.12%) in accordance with the Orissa Medium Term Fiscal Reforms Program for 2001-2005 (Government of India 2001a).

A joint DFID-World Bank Technical Mission visited Orissa between 15-24 January 2002 and 23rd April to 2nd May 2002 to assist GOO in operationalizing its fiscal, governance and associated reforms to facilitate and enable faster economic growth and poverty reduction over the medium term. GOO intends to achieve MTFR through reforms, expenditure compression measures, Tax reforms, and disinvestments (Government of Orissa 2001b; DFID - World Bank 2002).

1.3.5 Governance reforms in Orissa

Orissa in its endeavour to improve governance through decentralization passed the Orissa Zilla Parishad (District Government) Act in 1991. Through this Act, the State Government delegated powers to District level elected representatives to undertake schemes and adopt measures including financial delegation for development in sectors such as health, education agriculture, industries, etc (Government of Orissa 1994). In spite of all these efforts (results need to be assessed) improving governance still remains the core issue. Orissa has a high government employee–population ratio of 1.61% compared to 0.77% all India level. The salary and pension bill constitute more than 11.5% of GSDP (Government of Orissa 2001b). The governance reforms need to be conceived broadly not only as internal reforms within bureaucracy but also dealing with issues such as decentralization, delegation and privatization (The World Bank 1999b). The extensive corruption in Orissa is due to the high degree of government control. Hence governance reforms should be prioritised (The World Bank 1999b).

The Governance and Civil Service Task Force Report and the draft Action Plan aim to achieve a bureaucracy that is 'slimmer, works faster, is very friendly and transparent and ensures equity and justice' (DFID - World Bank 2002).

1.4 General aim

The general aim of the research is to analyse and evaluate the public sector reforms in different parts of the world with special reference to public sector reforms as undertaken by the Government of Orissa, to investigate the links between fiscal and governance reforms, to identify what works, why and what does not, and finally to provide recommendations for better outcomes of reforms already introduced and for the implementation of future reforms in developing countries, especially in the State of Orissa.

1.5 Specific aims

The specific aims of this research are to:

- Determine the relationship between fiscal and governance aspects of public sector reforms in general.
- Assess the current status of public sector reforms, specifically fiscal and governance reforms, initiated in different parts of the world with special reference to Orissa.
- Assess various fiscal and governance scenarios and reform measures adhered to in India and particularly the state of Orissa where the World Bank, Department for International Development (DFID), UK Government and United Nations Development Programme (UNDP) are facilitating the implementation of fiscal and governance reforms.
- Analyse various Fiscal Reform Acts, Medium Term Fiscal Frameworks (MTFF)/ Medium Term Expenditure Frameworks (MTEF), reforms in Budget processes and procedures, financial accountability measures and governance performance, reforms prevalent elsewhere in the World, and explore their adaptability in the context of Orissa.
- Recommend the facilitating conditions to implement and take forward fiscal and governance reforms in Orissa and other states of the Indian subcontinent.

1.6 Significance of the study

Fiscal and governance reforms have been introduced in India since 1991 and in Orissa since 1996 (World Bank 1996b).

The proposed research is of enormous significance since there is little evidence of a study combining, linking, and relating fiscal and governance reforms in either developed or developing countries. The research, following a review of the current status of reforms across the world, will recommend processes, procedures, and methods to implement reforms in India and specifically the State of Orissa. The reference is made to the country context first, as it is a federal structure and the federal government plays a crucial role in influencing the policies at State level. It is more so for States such as Orissa because of their high level of fiscal dependence and poor human development indices.

Orissa was the first State to initiate reforms in India. The Government of Orissa is committed to the Government of India and other bilateral/ multilateral funding agencies for reforms by achieving certain targets. Even after a decade of reform initiatives, the capabilities of the government in sustaining the pace and content of reforms is subjected to question at national and international levels. The study will be of significance because if reforms can be successfully implemented in Orissa, the poorest state and on the brink of bankruptcy, it will be possible to apply the processes to other developing and poor regions.

The government of India/ Orissa is embarking on introducing public sector (fiscal and governance) reforms. Most of the reform agenda is driven by consultants' reports and bilateral/ multilateral agencies, with a weak evidence base. It is imperative that policy planners/ politicians are empowered to take evidence-based decisions. This research is expected to fill the gap in knowledge and provide a clear direction with recommendations for future reforms.

1.7 Contribution to knowledge

This research will fill the gaps in knowledge in the ongoing dialogue and reform initiatives undertaken by various governments with the assistance of bilateral/ multilateral aid agencies. The following are the specific contributions to knowledge from this study:

This thesis analyses and investigates the reasons for poor governance and fiscal crisis in Orissa, India and the measures to be adopted for implementing fiscal and governance reforms in poor, under developed and marginalised regions like Orissa.

This thesis seeks to further analyse the relationship between fiscal and governance reforms, which are not clearly established in the available literature. In the past the emphasis has most often been on the fiscal components of reform initiatives, but that the failure of fiscal reforms is intrinsically linked to issues of governance is often not taken cognisance of.

This thesis delves into the intricacies of decentralization and accountability and provides recommendations for improved governance and fiscal discipline, which are areas of concern for most developing countries.

This thesis provides substantive material and input that will be of value to researchers, academics, policy makers, implementers and political authorities in the area of fiscal and governance reforms in general, and identify a model of the reform process that countries can use to implement change in their governance and fiscal policies.

1.8 Scope of the study

The research topic is complex, intricate and intriguing due to its dynamic nature. The research deals with public sector reforms in a broader perspective, but specifically will be concerned with governance and fiscal reforms. However, the 'applicability' of the recommendations will be determined by factors, such as political will and commitment, which are beyond the bounds of this research or researcher. Undoubtedly there are aspects to reforms that have not been considered here and are beyond the purview of this research, but are equally important in order that citizens reap the benefits, and these are political reforms, judicial reforms, role of civil society including the media, public-private partnerships and right to information. The other most important aspect corruption which has been addresses through issues of transparency and accountability, monitoring and evaluation, etc, is in itself a large area of study and would require further research.

Firstly, a critical review of the contemporary and current status of fiscal and governance reforms in various developed, developing and least developed countries is presented with specific emphasis on Orissa. The period considered for the study will be restricted to post 1990s.

Governance reforms will be confined to and focus on administrative reforms and policy aspects of decentralization of powers/ responsibilities and authority, and issues of transparency and accountability. Fiscal reforms will focus on revenue generation, expenditure control and debt management implemented in Orissa in the Medium Term Fiscal Reforms Programme (MTFRP) and MTEF.

The State of Orissa in India will be taken as the Case Study since it is the first state in the country to embark on reforms per se, where the progress has also been extremely tardy and Orissa is also the poorest state in the country. Orissa also happens to be the home state of the researcher.

Currently, the World Bank and the Department for International Development (of the UK Government) continue to provide assistance for an Orissa Economic Revival Program in the State.

1.9 Organization of the thesis

This thesis is organised into eight chapters, which are briefly described below. Chapter 2 reviews the literature on public sector reforms across the globe, with special reference to fiscal and governance reforms in particular. It traces the reform trajectory in various parts of world, summarizes definitions, theories and processes of various elements of fiscal and governance reforms (MTEF/ MTFF, Budgets, Fiscal Acts, public expenditure management, promoting strategic priorities, value for money, accountability and transparency, decentralization, civil service reforms, etc) provided by various stakeholders.

Chapter 3 discusses public sector reforms in India, with specific reference to fiscal and governance reforms. A brief history of India's growth and development, the constitutional provisions, the federal structure, and regional variations provide the context for the study. The rationale for undertaking reforms (from within and without) and the progress in the reforms undertaken have also been highlighted. Such a review will help ascertain the challenges that any government and civil society faces in order to improve the fiscal and governance situation and thereby ensure transparency and accountability.

Chapter 4 presents the background information on Orissa detailing its fiscal and governance reform status as published in the White Paper on State Finances. It sets out the targets agreed upon by the Government of Orissa and Government of India through a MoU. This being a case study, a detailed and insightful analysis of the reform measures (including debt management) embarked upon by the state government has been undertaken. The chapter also highlights the impediments to the reform process.

Chapter 5 establishes the theoretical framework for the empirical research. It proposes the interactive analytical framework, that is, the linkage between fiscal and governance reforms. In establishing this linkage an attempt is made to enquire into the governance contributory factors that make fiscal measures effective. Following a SWOT analysis of Public Expenditure Management, the elements of governance crucial to achieve the desired fiscal outcomes are identified.

Chapter 6 is devoted to a discussion on research design and methodology. It discusses the overall research approach, data collection methods, sampling procedures, formulation of questionnaires and procedures adopted for data analysis. This research is primarily a qualitative study with substantial quantitative inputs. Frequency tests have been performed using SPSS to indicate the significance of certain variable over others. A factor analysis has also been conducted to ascertain the correlations between a set of variables.

Chapter 7 represents the analysis and interpretation of both qualitative and quantitative data. The data has been analysed to respond to the research questions, while taking into account theoretical contributions and practical implications. The data analysis has elaborately explored the significance of research finding in the context of India, specifically Orissa.

Chapter 8 discusses results gathered through analysis and interpretation of both qualitative and quantitative data and literature survey. The discussion has been outlined in response to each research question. The discussion also links to the theoretical framework. The discussion explores the significance of research findings in the context of Orissa state.

Chapter 9 presents the conclusions and recommendations. Following the previous chapters, recommendations for reform initiatives that could be undertaken by Orissa state specifically and other developing regions in the country and elsewhere are provided. Also are highlighted the implications for academic research and theory, the limitations of the study and scope for future research.

1.10 Conclusion

This chapter sets out the argument of the thesis, the aims, scope and significance, and the organization of the thesis. The chapters following further justify the central argument of the thesis that governance reforms are intrinsically linked to fiscal reforms and the manner in which public sector reforms (fiscal and governance reforms) in a poor region like Orissa can be steered. Also is highlighted the replicability of public sector reforms as initiated in Orissa to other developing states. The next chapter is the Literature Review.

Chapter 2

Literature Review

Government provision of public goods is both growth and evolution friendly while provision of private goods is not.

J.M. Keynes, 1926

2.1 Introduction

This chapter sets the theoretical context within which the study was undertaken. There are three sections to this chapter, the first relating to public sector reforms, the second section to fiscal reforms and the third section to governance reforms in the global arena.

Section 2.2 deals with public sector reform, provides definitions and traces its genesis. It further discusses the infringement in the autonomy of fiscal institutions and the arguments and assumptions for the prominence of public sector. The objectives, principles and policy propositions for public sector reforms follow.

Section 2.3 reviews the literature on fiscal reforms, beginning with fiscal and monetary policies that highlight the necessity for fiscal reforms. This section deals with fiscal transparency and its various elements, a medium term expenditure framework, its interface with the budgetary types and processes, and various problems associated with different forms of budgeting, government accounting systems, public expenditure management and role of tax reforms.

Section 2.4 discusses governance reforms and its various components, provides definitions, and discusses the links between decentralization, fiscal policy and public expenditure. This section also elaborates on the constraints to decentralization, accountability, transparency, administrative reforms, privatization and commercialization.

2.2 Definition of public sector and its genesis

Public sector institutions are broadly defined to include any institution that shapes the way public functions are carried out. They encompass government as a whole (National, Sub-national, and Local), State owned enterprises, government schools, hospitals and so on (Aoki et al. 1997). Thus, public sector refers to all organisations and institutions both formal and informal where state has invested or contributed directly and indirectly, actively and passively to render services or to provide goods with or without expecting any economic return (Brown et al. 2000). The public sector deals mainly with four functions: public resource allocation, income redistribution, stabilisation and public regulation which are broadly categorised as Governance and Fiscal functions (Lane 1997).

The arguments about government intervention have changed in a cyclical manner. In the 18th century the market was the prime institution for economic growth. Adam Smith, in his book, 'The Wealth of Nations' (1776), recognised that the market was the best instrument for realising growth and improving welfare. The State, in his view, was best restricted to certain core functions - providing public goods such as defence, ensuring the security of persons and property, educating the citizenry and enforcing contracts - deemed essential for the market to flourish. Adam Smith also emphasized the importance of erecting and maintaining public institutions and public works; thus introducing an early version of the concept of a public good while propagating the optimisation of market influence and its role (Buchanan 1967).

By the 19th century, failure of the market system led to the adoption of Keynisian economics in the early 20th century. The general attitude towards the role of the Governments started changing as reflected by the title of Keynes's book 'The End of Laissez-Fair'. Keynes (1926, p. 71) wrote that: "the important thing for government is not to do things that individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all". By 1937, the minimal state committed to laissez-faire policies was on the way out and the ground had become fertile for the growth of the welfare state, and in this growth, income redistribution would play a large role irrespective of the economic status of the country (Mullard 1993).

Galbraith through his influential book 'The Affluent Society' stated that the conventional wisdom of the balanced budget was obsolete and governments should be more and more involved in producing public goods. To him public poverty prevailed not only in education but also in basic research, pollution control, and foreign assistance in relieving starvation, hence to alleviate public poverty, public spending should be enhanced (Galbraith 1996).

The post-Depression and World War II period, marked an unparalleled enthusiasm for activist expenditure policies coupled with rapid growth in the involvement of the government in every aspect of the economy. In his outstanding book, Musgrave (1959) described the allocative, stabilising, and redistributive functions that a modern government should undertake. The development of the theory of public goods and of the concept of externality suggested a growing allocative role for the state (Musgrave 1959). The popularity of socialism among western intellectuals and political leaders made the redistributive role progressively more appealing and a cental issue (De Jouvel 1952).

Keynes and Galbraith's contribution led to a paradigm shift in which the role of the State was supreme. The State, it was considered, being more powerful than any person or group within it, may exploit and manage resources more efficiently (Wilson 1989). It was expected to exercise its powers for public good, whereas a private person or corporation enjoying the same powers might pursue selfish aims inconsistent with public goods (OECD 2001a). The State had abilities lacking in the private sector. Its role in direct production was justified since it was held that managerial skills absent in the private sector were available in the public sector. The paucity of capital and expertise in private sector highlighted a state's capability and strength for large scale activities or projects (Forte 1999).

The basis for this paradigm shift were certain commonly held assumptions, such as

- The actions of the policy makers were generally driven by the altruistic motives and the objective of promoting social welfare.

- The public sector was monolithic and with an obvious nerve center where all the important economic decisions for the whole sector were made in a rational and transparent way.
- Policy decisions were reversible.
- The policy makers had full control over the policy instruments.
- Policies are consistent not just in space but also in time.
- Finally, it was assumed that the policy makers had a good and correct understanding of how economies operated (Peters 1996; Nolan 2001).

However, experience has shown that public sectors (Lane 1997; Ocampo 2002),

- are not monolithic but have several policy making centres which may not all be guided by the same concept of the public interest;
- may not make policies consistent in space and time;
- may be very much influenced by other factors and by pressure groups;
- may contain decision makers ignorant of how the economy really works;
- may suffer from principal-agent problems;
- may not be able to reverse their actions; and
- harbour bureaucracies that are inefficient or corrupt or both.

These factors have made exponents of reforms sceptical about the expanded role of governments and its fiscal and governance activities, which is the rationale for pursuing public sector reforms, especially fiscal and governance reforms.

2.2.1 Defining reform and tracing its trajectory

The term economic reform is used to describe 'significant changes in a sizeable number of economic policies as part of the package of policy changes' (Bates & Krueger 1993). Thus, reform refers not just to piecemeal changes with respect to the extent of state intervention but also to a greater reliance on market forces, institutional and administrative changes, stabilisation efforts and removal or relaxation of controls for better performance of the economy as a whole (Behrendt 2002).

Public sector reform is a cultural change that is very much pervasive and propagated as a culture of reform. By 'culture of reform' it is meant the innovations that uproot established practices of public administration and radiate through the public sector. Where this culture thrives, reform is comprehensive rather than piecemeal, at the core of government rather than at the periphery, institutionalised rather than pilot tested. This cultural shift is not confined to fiduciary aspects only, but to other managerial action and institutional revamping as well (Asian Development Bank 2002a).

The ideology and standardisation of public sector reforms have been most influenced by the teachings of the Chicago School of Economics (CSE), focussed on deregulation, and privatization, and by reinventing government machinery, arguing in favour of marketization (Lane 1997). The scholars in CSE propounded that public sector may face serious difficulties in policy-making and implementation, which in the public choice school were called 'government failure' (Friedman 1969). Public sector 'failure' in policy making and implementation of measures to reduce poverty indicated a need for public sector reforms. The two types of reforms required were fiscal and governance reforms. Public sector reforms remain incomplete if they do not comprehensively include governance and fiscal reform measures (Bannerji 2000).

It was in the 1980s that the tide turned in favour of a smaller role for the government. Margaret Thatcher and Ronald Reagan were considered as two forceful and articulate opponents of big governments and they carried out a determined political attack on large governments (Williamson 1996). Excessive government spending, expensive welfare states and reforms promised and initiated by various governments all across the globe came under criticism. The spreading of information on success stories regarding the public sector restructuring in New Zealand and Chile (two much-admired role models, for many countries) initiated debate and subsequent adaptation of changes across the globe (King 1997). The other most influential factor has been the advancement of information technology. Furthermore, globalisation and capital mobility increased the scope of and the benefits from privatising government activities (Pizarro 2000).

With the changes wrought by globalization, the developed world faced an impasse that emerged due to the need for capital to accumulate profits, the need for the state to administer its increasingly large and costly machinery, and the need for government to secure loyalty and cooperation from the mass of its citizens by providing a reasonable standard of living, employment and political participation (Allan 1998). Minor and patchy adjustments were no longer enough and therefore major structural changes were envisaged. Most developing countries, heavily dependent on the loans from international lending agencies, had no option but to follow suit and to opt for massive structural adjustment programmes of public sector reforms (Allan 1996).

The fundamentals of this structural adjustment were termed the 'Washington Consensus'. Its key elements are as follows (Alesina & Perotti 1995; Williamson 2003):

- **fiscal discipline**: keeping government budgets small enough that, after debt servicing, the operating deficit is no more than 2 percent of Gross Domestic Product (GDP);
- **public expenditure priorities**: redirecting expenditure from politically sensitive and inefficient areas, towards neglected fields which are economically productive, strengthen the country's infrastructure, or have the potential to improve income distribution, such as primary health and education;
- **tax reform**: reducing marginal tax rates to sharpen incentives for companies and individuals to earn more, and broadening the tax base to improve horizontal equity;
- **deregulation:** abolition of regulations which impede entry of firms and restrict competition, while ensuring that all other regulations can be justified by criteria such as safety, environmental protection, or prudential supervision of financial institutions;
- **foreign direct investment:** removal of investment barriers impeding foreign firms, with all receiving 'national treatment' (the same treatment as domestic firms);
- **financial liberalisation:** progressively move towards market-determined interest rates within a less constrained financial market-place;
- **exchange rate:** a single exchange rate that is set at a level that encourages expansion of non-traditional exports and managed in a way that assures exporters of continued competitiveness;
- **trade liberalisation:** rapid conversion of quantitative trade restrictions, such as import quotas, into tariffs, and the progressive reduction of tariffs to between 10 to 20 percent;

- **privatization**: of state enterprises and assets;
- **property rights**: ensuring security of property rights under law without excessive costs.

The implementation of these measures was seen to meet the need for public sector reforms.

2.2.2 Objectives of public sector reforms

From literature available the main objectives of public sector reforms can be summarised as follows (Boston 1995b; Pollit & Bouckaert 2003):

- to improve allocative and productive efficiency;
- to augment effectiveness of the government and the government process;
- to improve the accountability of public sector institutions and the accountability of the executive to the legislature body;
- to contain and observe reticence in government expenditure and reduce the size of core public sector;
- to minimize the opportunities for the non-transparent use of public power;
- to improve the quality of the goods and services produced by public agencies; and
- to make public services more accessible and responsive to citizenry, as well as more culturally sensitive (Kondo 2001).

2.2.3 Principles of public sector reforms

The review of literature suggests that the key principles of public sector reform are as follows (Boston 1995a; Boston et al. 1996; Pollit & Bouckaert 2000):

- The government should only get involved in those activities that cannot be more efficiently and effectively carried out by non-governmental bodies.
- Any commercial enterprises retained with public sector should be structured along the lines of private sector companies.
- The goals and targets of governments, departments, individual public servants and other agencies should be stated as precisely and clearly as possible.
- Potentially conflicting responsibilities should, wherever possible, be placed in separate institutions.

- There should be a clear separation of the responsibilities of ministries and departmental chief executives. Ministries should be responsible for selecting the outcomes they wish to achieve and purchasing their desired outputs and chief executives should be responsible for selecting the inputs required to produce the desired outputs with the minimum practicable interference from ministers.
- Wherever it is possible, publicly funded projects or services, including the purchasing of policy advice, should be made contestable and subject to competitive tendering, the quality, the quantity, and cost of publicly funded services should be determined by the purchaser's i.e. ministry's requirements rather than the producer's preferences (Kuczynski & Williamson 2003).
- Institutional arrangements should be designed to minimise the scope for provider capture.
- Preference should be given to governance structures that minimise agency costs and transaction costs.
- In the interests of administrative efficiency and customer responsiveness, decision making powers should be located as close as possible to place of implementation (Lane 1997).

In general, public sector reforms across the globe made more progress in devolving managerial authority than in enforcing managerial accountability. Dismantling old controls proved easier than establishing new performance based accountability in government. There was an emerging consensus that establishing new performance based accountability and resource sustainability could be achieved only by introducing a combination of fiscal and governance reforms (Lister & Betley 1999; Long 2001).

2.3 Fiscal reforms

2.3.1 Fiscal and monetary policy

Before understanding fiscal reforms, there is a need to be familiar with the concepts of fiscal policy and monetary policy, the source of the problems which necessitated fiscal reforms. Fiscal policy can be stated as government policies referring to taxes, spending, and debt management that affect macroeconomic outcomes, particularly in relation to employment, the size of the economy, price level stability, and the equilibrium in balance of payments. The budget process is a major vehicle for determining and implementing fiscal policy (DFID 2001a).

Kalecki (1993)stated that fiscal policy is not merely an instrument for resource mobilisation. It must also encompass an expenditure policy that does not vitiate the reasons for accumulation in the first place. Through fiscal policy governments intend for disposition of returns from public investment between the private and public sectors.

Fiscal policy contains some major generic concepts/ terminologies, which need to be annotated to comprehend fiscal policy in its entirety, and the definition stands incomplete without this exercise. Some experts (Pearce 1995; Reserve Bank of India 2003) brand these concepts as fiscal indicators[1].

As indicated in the definition, the fundamental role of fiscal policy is managing the expenditure, and tax i.e. revenue generation and debt. Hence it is imperative to elaborate debt and sustainability indicators and indicators of fiscal stress which relate to taxation and expenditure[2] (Rodden et al. 2002).

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[1] The concepts are:

Revenue Deficit (RD): The revenue deficit denotes the difference between revenue receipts and revenue expenditure and signifies dissavings of the government.

Monetised Deficit (MD): The monetised deficit is the increase in net central bank credit to the central government, which in sum increases the central bank's holdings of (i) central government dated securities, (ii) treasury bills, (iii) currency coins and (iv) loans and advances from central bank to central government.

Gross Fiscal Deficit (GFD): The gross fiscal deficit is the excess of total expenditure including loans, net of recovery, over revenue receipts (including external grants in case of developing and under developed countries) and non-debt capital receipts. It measures the net borrowing requirements of the governments. This indicator is often used in the text as fiscal deficit (FD).

Net Fiscal Deficit (NFD): The net fiscal deficit is the difference between gross fiscal deficit and interest payments. NFD measures the borrowing requirement in the absence of the debt service burden of past borrowings of the government.

Gross Primary Deficit (GPD): The gross primary deficit is the difference between the gross fiscal deficit and interest payments. GPD otherwise termed as primary deficit (PD) measures the borrowing requirement in the absence of the debt service burden of the past borrowings of the government.

Net Primary Deficit (NPD): This denotes net fiscal deficit minus net interest payments.

Government Sector Fiscal Deficit (GSFD): Government sector fiscal deficit is the deficit of central and state governments net of inter-government transaction.

[2] Debt and sustainability indicators are as below:

Debt: Public debt and other liabilities which include small savings, provident funds, reserve funds, deposits etc. with the government.

Monetary policy has no consistent definition in economics (Kavajecz 1994). It refers to that branch of economic policy which attempts to achieve the broad objects of policy – stability of employment and prices, economic growth, and balance in external payments – through control of the monetary system and by operating on such monetary magnitudes as the supply of money, the level and structure of interest rates and other conditions affecting the availability of credit (Pearce 1995). Monetary policy denotes the actions designed to manipulate the money supply, including bank credit, in order to achieve specified economic objectives by a duly authorised public authority, most generally a central bank.

Fiscal policy has some advantages over monetary policy. Policy makers control inflation by changing interest rates and exchange rates. Ball (1992) suggested that with an independent fiscal authority, policy makers would also shift taxes or government spending. This would improve the economic scenario for two reasons.

- Fiscal policy affects the economy more quickly than monetary policy. Using fiscal policy would allow policy makers to offset macroeconomic shocks with a shorter time lag. As a result, both inflation and output would be more stable.
- Monetary policy is notorious for the 'long and variable lags' in its effects, the famous phrase - as stated by Milton Friedman. Channels through which policy affects the economy can be reviewed to understand these lags.

Combined Central and State Debt: Total liabilities of the centre and the states net of loans and advances given by the centre to the states.
Interest Burden: This refers to interest payments as a ratio of revenue receipts.
Nominal interest rate on government debt: This signifies, relative higher interest rate exceeding Gross Domestic Product (GDP) growth rate, which has implications for debt stability.
Contingent Liabilities: Guarantees issued by governments for various purposes. These may include credit guarantees, interest payment guarantees or exchange risk guarantees.
Indicators of Fiscal Stress are as follows:

- Debt/ GDP Ratio: higher ratio puts strain on government finances and affects future sustainability of fiscal policy.
- Ratio of Revenue Receipts (RR) to GDP: Lower ratio adds to stress.
- Ratio of Tax Revenue to GDP: Lower ratio adds to stress.
- Ratio of Non-Tax Revenue to GDP: Lower ratio adds to stress.
- Ratio of Direct Tax to GDP: Lower ratio adds to stress.
- Ration of Indirect Tax to GDP: Lower ratio adds to stress.
- Revenue Expenditure as proportion to GDP: Higher ratio indicates fiscal stress.
- Capital Expenditure to GDP: Lower ratio adds to stress.
- Ratio of Interest payments to Revenue Expenditure/ Total Expenditure/ Revenue Receipts: Lower ratio adds to fiscal stress.
- Non-Developmental Expenditure as proportion to Revenue Receipts/ Total Expenditure/ GDP: Higher ratio indicates poor allocative efficiency of budget.

Likewise, there are also some lags in the effects of fiscal policy. In particular, while fiscal policy impacts quickly, there is still the lag between changes in spending and changes in inflation. But, overall, fiscal policy can control inflation more quickly than monetary policy. By using fiscal tools, policy makers would not need to forecast as far ahead, and they would make fewer mistakes. Mistakes can therefore be corrected more quickly. Shorter time lags are the first major advantage of using fiscal policy as a macroeconomic tool. There is a second advantage, which is equally important. Monetary policy is an awkward tool not only because it works slowly, but also because its effects are spread unevenly across the economy. The entire economy benefits from the Reserve Bank's policy of controlling inflation but the spill over costs fall disproportionately on certain sectors. With more active fiscal policy, the costs would be shared more equally in the entire economy (Ball 1992).

2.3.2 Defining fiscal reforms

Fiscal reform refers to containing the wasteful expenditure, enhancing the revenue collection, observing reticence and managing debt prudently. In the context of this research, fiscal reform refers to stabilisation and structural adjustment measures. Stabilisation includes the policies initiated by the IMF and has been defined as 'the correction of imbalances which are held to be unsustainable' (Green & Faber 1994, p. 2). Structural adjustment on the other hand is associated with World Bank lending for the medium term to enable reorienting of an economy towards greater efficiency. The World Bank (1998, p 11) delivered structural adjustment or 'reforms of policies and institutions – microeconomic, i.e. taxes, macroeconomic, i.e. fiscal imbalance (these two components put together are referred to as fiscal reforms) and institutional, i.e. public sector inefficiencies including governance'. Thus, fiscal reforms refer to restoring a sustainable balance of payments, reducing inflation, rationalizing taxes, containing revenue expenditure and fiscal deficit (Corbo & Fischer 1995; The World Bank 1998a). Economic and fiscal reforms, mean managing the economy so as to secure sustainable growth, low inflation, a healthy balance of payments and a pro-poor budget. Fiscal reform includes some tough choices. It includes recognition of hard budget constraints at state level, and acknowledgement that domestic debt financing needs to be kept under control. Otherwise, if wages and salaries are protected, deficits will lead to an ever larger percentage of resources going for interest payments, while pro-poor and productive expenditure is squeezed (Vereker 2000).

Fiscal reforms focus on the following (Toye 2000):

- Cash planning in conformity with budget authorization and taking into account ongoing commitments for which a sound budget is a prerequisite (sound budget is explained in detail below in the section on budgets);
- Effective controls at each stage of expenditure (whatever the organisation of controls, internal or external to the spending ministry);
- Adequate monitoring at each stage of the expenditure cycle (commitment, verification, and payment);
- Clearly defined procedures for registering transactions, adequate cash management and transparent procedures for procurement.

Further, the Asian Development Bank (ADB) recommended the following actions as the main component of fiscal reforms (Schiavo-Campo & Tommasai 2002):

- Flexible rules for virement and regulated carry-over provision, especially for capital expenditure;
- Progressive decentralization of controls; and eventually,
- Development of market testing and consideration of possibilities for contracting out (Clay & Schiavo-Campo 2002).

However, in the present world economic scenario, fiscal reforms mostly refer to public expenditure management by adhering to fiscal discipline through prioritisation of expenditure commitments while ensuring value for money (DFID 2001a).

It is often seen that governments may promise to reduce deficits (GFD, RD and PD) and yet, on being unable to do so, point to circumstances beyond their control, such as high oil prices, slow down in the economy, etc. In the presence of imperfect or asymmetric information (with government being better informed), it is difficult to evaluate the veracity of these claims of governments. In such a scenario, a government committed to fiscal prudence, either endogenously or exogenously, (for example, through pressures from international agencies) would want to offer credible commitments to economic agents about its seriousness by legally binding itself to targets, foreswearing certain policy options (for example, monetary accommodation by Reserve Bank) or being more transparent. By the enactment of laws, present governments not only commit themselves to fiscal discipline but also commit all future governments to such discipline (OECD 1997c, f; Diamond 2003).

2.3.3 Genesis and current status of fiscal reforms

In most countries, until the early 1990s, macroeconomic policies were employed for partisan and political purposes, and political pressure at crucial junctures tended to force the Central Bank to relax its dedication to price stability and accommodate on fiscal policy (Desai 1998). The need was felt to go for a broad regulatory framework that should establish the broad parameters for ensuring adequate fiscal discipline, control and granting appropriate management autonomy while ensuring adequate accountability for those public resources under its stewardship (Ball 1994). Repeated efforts at budget system and/or fiscal reforms produced a natural tendency for bureaucrats who had seen 'reforms' come and go to be cynical and adopt a 'wait and see' strategy (Ball 1981). Adopting a new wide sweeping regulatory framework then had an added advantage of overcoming the bureaucracy's 'business as usual' attitude. The basic idea was to create rules and procedures that impose costs on government and bureaucrats for deviating from fiscal responsibility (Diamond 2003).

New Zealand was a pioneer and chief exponent of fiscal reform laws. To arrest significant macroeconomic abuses of the 1980's and to ensure a comprehensive legal framework for formulation and conduct of fiscal policy, New Zealand adopted two pieces of legislations (Wildavsky 1988). This also helped incorporate a long-term orientation to the budget process and improve macroeconomic credibility. The Reserve Bank Act 1989 strengthened the Central Bank's independence under a charter that required it to achieve and maintain price stability – setting a target of inflation between 0-2 percent. The Bank had the independence to use whatever instruments at its command to achieve the goal. In pursuit of this goal the Bank could and did refuse to follow an accommodating monetary policy (Government of New Zealand 1996).

The second piece of legislation designed to enhance political and fiscal credibility was the Fiscal Responsibility Act, which was enacted into law in 1994. Its main features were (Government of New Zealand 1996):

- Reduce total Crown debt to prudent level, i.e. the government is to spend less than it receives in revenue until public debt is reduced to prudent level (Note: The requirement of running an operating surplus prevented governments from achieving prudent debt levels simply by selling assets).
- Maintaining total Crown debt at prudent levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues, i.e. the government is to keep the debt at prudent levels by living within its means over time (Note: A government should not expect to borrow to pay for the groceries on an ongoing basis).
- Achieving levels of Crown net worth that provide a buffer against adverse future events, i.e. the government is able to borrow to face adverse economic pressures without undue risk of moving into an unsustainable net worth position.
- Managing prudently the risks facing the crown, i.e. to recognise risk and where possible take steps to manage it.
- Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years, i.e., to avoid surprises about future tax rates.

These principles of responsible fiscal management are then translated into specific government objectives through an annual Budget Policy Statement. This Statement is published at least three months prior to the Budget itself being presented to Parliament. The most noteworthy aspect of this approach to setting fiscal objectives is that the Principles of Responsible Fiscal Management are stated in general terms in the legislation and do not mandate any specific fiscal targets, but rather refer to 'prudent levels' and 'reasonable degrees'(Wildasin 1997). It is left to the government of the day to specify the meaning of the relevant fiscal terms in a Budget Policy Statement.

Australia used a process of introducing fiscal reforms through a medium term 'trilogy' strategy of not increasing outlays or revenue as a portion of GDP and of reducing the deficit/GDP ratio disclosed in a 'Budget Honesty' commitment. Accordingly, the Financial Management and Accountability Act 1997 was enacted.

The Government's medium-term fiscal strategy provided a number of benefits to the Australian economy. The benefits included (Collins 2001):

- ensuring public finances were sustainable by requiring government spending to be covered by government revenue over the medium-term;
- improving the Government's net worth position (assuming positive net investment) and reducing the burden of net interest payments relative to the tax base over time;
- helping to maintain intergenerational equity by ensuring that current taxpayers meet the cost of current spending and do not pass on an inequitable burden to future generations;
- promoting strong and sustainable growth in the Australian economy by removing the Government's call on private savings (and the current account deficit) over the medium-term and creating the conditions for low interest rates; and
- allowing fiscal policy to react to short-term fluctuations in the economy to support economic growth.

Due to these initiatives, Australia's net debt as a per cent of GDP has fallen considerably since 1996, from its peak of around 19 per cent in 1995-96 to under 6 per cent projected for 2002-03. Australia's total general government net debt level is much lower than in most other industrial countries. It is among the lowest in the OECD and compares well to the OECD average of around 40 per cent of GDP (International Banks and Securities Association 2001).

It is almost like a norm now for governments to have self imposed fiscal charters that require them to live within means i.e. to avoid fiscal imprudence and profligacy (Gray et al. 2002). The United Kingdom has also enacted a Code for Fiscal Stability. Notably, Brazil has also recently adopted its own Fiscal Responsibility Law.

Governments through various acts and laws have been trying to enforce fiscal transparency by reinventing the budget (with utmost importance to observing ostentatious reticence in public expenditure management) in a medium term framework. It is essential here to discuss (i) fiscal transparency, (ii) budget management, (iii) public expenditure management and (iv) medium term framework which are imperative elements for fiscal reforms (OECD 1997b; DFID 2001a).

2.3.4 Elements of fiscal reforms

2.3.4.1 Fiscal transparency

'Transparency in any sphere of operation is a natural presumption and in government operations transparency is increasingly regarded as an important precondition for sustainable economic growth and good governance. A transparent budget system or fiscal framework provides a readily understandable guide as to how resources are planned for use and what results will be achieved' (Bouder et al. 2001, p. 624). Reporting should also enable easy monitoring of actual expenditure against the government's stated intentions. Thus, a movement towards greater transparency and participation in governmental budget decisions are encompassing much of the world.

Good governance dictates that government operations and decisions should be made openly and with the active participation of those people influenced by them. The budget is the primary economic policy document of the government; for this reason transparency and participation in the budget are particularly important. The benefits of transparency are said to include (International Monetary Fund 1997a):

- Early identification of the weaknesses and strengths of policies, thereby promoting necessary reforms.
- Improved accountability of government. Legislatures, the media, civil society and the public will be better able to hold the executive to account if they have information on its policies, practices and expenditures.
- Increased transparency may increase faith in governments and commitment to policy tradeoffs. Transparency can thus build social cohesion.
- Improved investment climate.

Transparency promotes certainty and confidence over budget plans and reduces the opportunity for corruption. Clear communication of the government's strategy also helps public sector managers to ensure that their budget plans are consistent with the strategy. Managers can only be held accountable, if expectations are clearly specified ex ante. The IMF (2001a, p. 8) indicated "fiscal transparency would make a major contribution to the cause of good governance. It should make governments more accountable for the implementation of fiscal policy. However, it is only one aspect of good fiscal management, and attention has to be paid also to increasing the efficiency of government activity and establishing sound public finances".

IMF recommended the following procedures and key objectives for attaining fiscal transparency (International Monetary Fund 2001c):

- **Clarity of Roles and Responsibilities** - The government should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed. There should be a clear legal and administrative framework for fiscal management.
- **Public Availability of Information** - The public should be provided with full information on the past, current, and projected fiscal activity of government. A commitment should be made to the timely publication of fiscal information.
- **Open Budget Preparation, Execution and Reporting** - The budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks. Budget information should be presented in a way that facilitates policy analysis and promotes accountability. Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified. There should be regular fiscal reporting to the legislature and the public.
- **Assurances of Integrity** - Fiscal data should meet accepted data quality standards. Fiscal information should be subjected to independent scrutiny.

The process of fiscal reforms emanates from the primary intention of enforcing fiscal transparency. It is argued that efforts for fiscal transparency automatically bring in fiscal discipline and value for money into the system (Karnik 2003).

2.3.4.2 Budget management

The sustainability and effectiveness of fiscal policy and fiscal reform of any country mostly depends on the budget, which is the combination of budgetary process, budget functions, budget dynamics and players and also the accounting system adopted (Premchand 1999a). In democratic societies, approval of the budget (the 'power of the purse') was the main form of parliamentary control of the executive. The budget authorized the executive to spend and collect revenues. In later years, the scope of government activities expanded considerably, and the role of the government budget became more complex (Asian Development Bank 2000c). The budget generally is an annual document in which the government presents its expenditure and taxation plans for the year (DFID 2001b). It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.

Budgeting is a work in progress. Budgeting is also a deadline-driven process, in which sub-optimal decisions often are the norm because governments do not have the option of making no decisions. In budgeting, the failure of one reform begets another reform. For the last two decades reform was the Holy Grail of budget people, their unending quest for a better way to parcel out money and plan the work of government. Sometimes they embraced big bang reforms, such as planning-programming budgeting systems (PPBS) and zero-base budgeting; usually, however, they strive for incremental adjustments in one or another element of the process (Rose 2003). Over the past two decades, budgeting has been more closely integrated with other financial management processes including accounting systems and financial statements. On the policy front, spending growth is slower than it was during the postwar period, but entitlements claim a larger share of central government financial resources. Nevertheless, revenues and expenditures are closer to balance in most countries, though few have managed to sustain a balanced budget through an entire economic cycle. Reform has made a difference, but not a very big one (Schick 2001).

Budget Process: The budget process is the vehicle by which the government sets its overall budget plans and within which decisions are made on the allocation of funds. A good budget process is a tool that enables government to channel expenditure towards those areas that make the greatest and sustainable contribution to its objective (Schick 1998). Budget processes differ between countries. However, most budget processes have six generic iterative stages as depicted in figure 2.1 below:

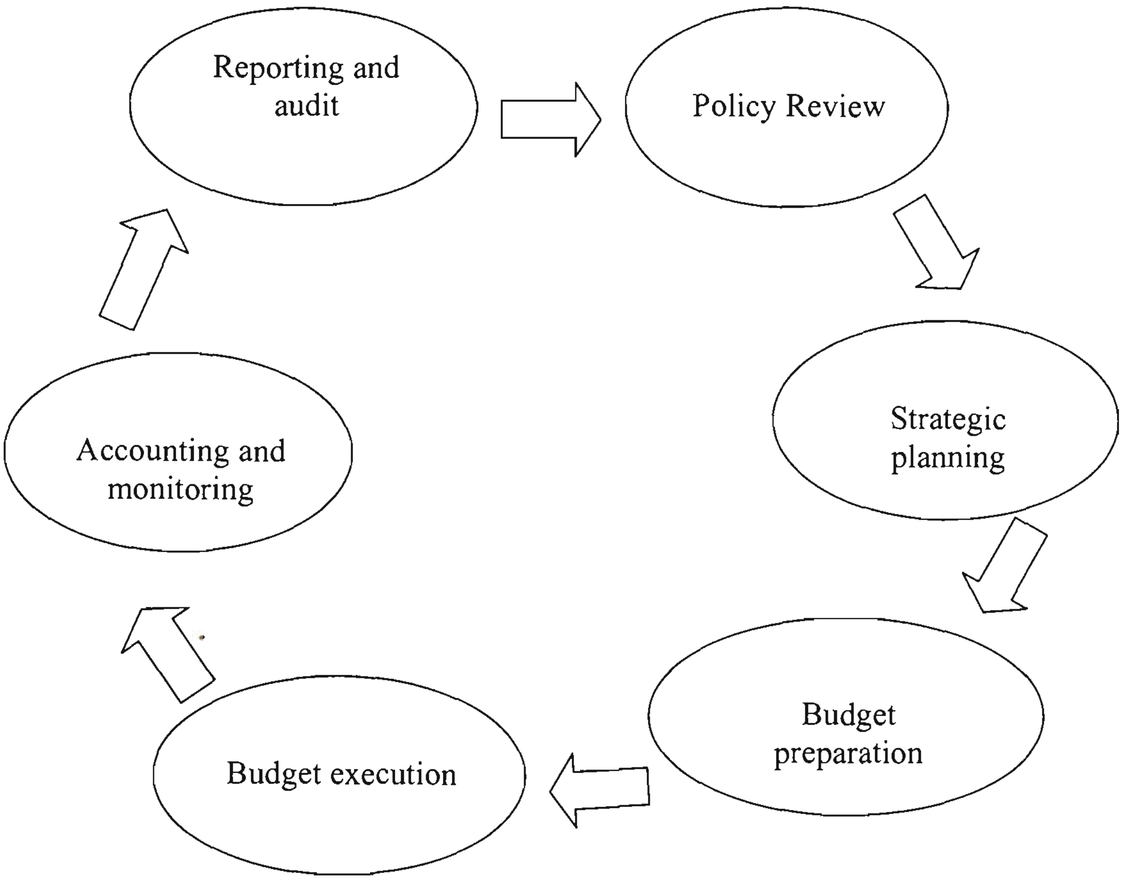

Figure 2.1 The budget iterative process
Source: (DFID 2001a; Gray et al. 2002)

The cyclical aspect of the process is crucial to a budget's effective operation. It is the quality of budget execution that gives meaning to the process of budget preparation. It is the strength of auditing which lends rigor to the process of executing and it is the quality of policy review that gives direction to strategic planning. A weak line in the cycle will undermine the system as a whole. For this reason it is important to look at the cycle in its entirety when attempting to diagnose strengths and weaknesses.

Key Functions: All budget systems – reformed and traditional – have three basic budget tasks: to maintain aggregate fiscal discipline, to allocate resources in accord with government priorities, and to promote the efficient and effective delivery of services (Robinson 1996; Premchand 2000). Fiscal discipline pertains to effective control of the budget totals. An effective budget system is one that has disciplined (in contrast to accommodating) totals (Adrian 2001). Allocative efficiency is the capacity to establish priorities within the budget, including the capacity to shift resources from old priorities to new ones, or from less to more productive uses, in correspondence with the government's objectives. Operational efficiency is the capacity to progressively reduce the cost of producing the goods and services for which resources are provided. Although the terminology may be unfamiliar, the fundamental and final motto of budget is involved with maintaining aggregate fiscal discipline, striving for allocative efficiency, and promoting technical efficiency (Kharas & Mishra 2001). How Governments (Central Budget Offices) go about these tasks distinguishes traditional and reformed budget offices. Budgetary capacity can be assessed in terms of performance on each of the three dimensions.

Strong fiscal discipline means that the totals do not merely rise to meet demands. Aggregate fiscal discipline refers not only to the decisions taken in formulating the budget, but also to pressures that arise during the year when the budget is being implemented. Control of the totals is the first purpose of every budget system. Balance is enforced through strict constraints on spending, the logic that if the parts of the budget were effectively controlled, so, too, would the total (Fozzard 2001).

Allocative efficiency means not only that the government channels incremental resources to new priorities, but that it has the will and the procedures to transfer funds from lower to higher valued uses. The more austere the norms and the longer they are maintained, the greater the risk that budget priorities will be rigidified. Allocative efficiency is the capacity of the budget system to distribute resources on the basis of the government's priorities and the programme's effectiveness (Forte 1999).

Operational efficiency implies that the budget impels agencies to raise productivity and thereby reduce the cost of goods and services purchased by government, thus achieving better value for money. Retrenchment in a portion of the budget has become a recurring phenomenon as financially stressed governments have sought savings in their most controllable and least politically sensitive expenditures. Cutbacks in operating expenses rarely suffice to close the budget gap, but they convey the appearance that the government is doing something to correct its fiscal imbalances (Ablo & Reinikka 1998).

Concurrent and Future Budgeting Systems: The table 2.1 below summarises the key types of budget systems predominantly used and the provisions therein:

Table 2.1 Adequacy of budget concurrent systems

Types of systems	*Macro-economic Stability*	*Effective Budgeting*	*Financial Discipline*	*Efficiency Gains*	*Programme and project management*	*Financial Disclosure*	*Transparency*	*Accountability*	*Client Orientation*	*Political Acceptability*	*Citizen participat*
Line-item budgets	General emphasis on inputs. In its most recent form, is used in the United States to secure cuts in legislatively approved programs and projects.	Can be used, in its own way, to match outlays with resources	Can be used to secure budgetary outcome congruent with estimates	Little capability	Little capability	Sheds very little light on policies	Shows only the broad object on which money is spent	Provides a narrow based accounting of money raised and spent	Very little	In its simplicity and long tradition, it found a large measure of political acceptability	Very little
Perform-ance budgeting	Had very little orientation to the macroeconomic policies. In fact scrupulous adherence to specified performance standards could contribute to steadily increasing expenditures.	Like traditional systems, this too can be used to secure a budget balance.	As above	Properly utilized this should contribute to efficiency gains and to more effective cost controls	Most useful in ensuring proper management	Sheds more light on performance	Facilitates greater transparency	Provides enhanced accountability	Performance takes into account the need of clients	By enabling a causal link between resources raised and services provided it has a built-in-political acceptability	The syster did not provide fo this featur but can be augmented to include
Planning progra-mming budgeting system	Placed greater emphasis on the allocative efficiency and application of quantitative techniques of analysis. Not much attention to stability.	Placed emphasis on the medium term context and on getting the right balance of money, man-power and materials	As above	The gains were to be produced through the application of quantitative analytical techniques	Most useful in ensuring proper management	No emphasis on this aspect	No particular emphasis on this aspect	Accountability was more in the right selection of policies, programmes, and projects	Not much	Provided empirical support to proposed policies	Very little
Zero-base budgeting; fundame-ntal review; target based budgeting; evaluation	Aimed at securing a moderation in the rate of growth of expenditures and an improved allocation of resources	This family of systems can be used to secure a balance between resources and outlays. The aim is to lice within available resources	As above	The system offered a means to eliminate uneconomic programmes and projects	No major emphasis on this aspect	Very little emphasis	No particular emphasis. These are used mostly internally in the preparation of the executive budget	No such emphasis	One of the criteria of evaluation is the extent to which programmes have succeeded or failed in responding to client needs	It indicated the determination of the government to drop the uneconomic programmes. Politically, it meant a loss of support from some quarters and gaining support from those who wish to see an efficient government	Very little

TABLE (Contd.)

Types of systems	*Macro-economic Stability*	*Effective Budgeting*	*Financial Discipline*	*Efficiency Gains*	*Programme and project management*	*Financial Disclosure*	*Transparency*	*Accountability*	*Client Orientation*	*Political Acceptability*	*Citizen participation*
Output budgeting	No emphasis on this aspect	Sought to build a nexus between allocations and outputs but not between aggregate resources and outlays	As above	The quantitative expression also implied the efficiency levels to be achieved	Very helpful in securing programme and project achievements	Sheds light on the physical aspects of government services	In addition to financial data, information is given on the non-financial aspects	Accountability for results is provided for explicitly	The output orientation is expected to include this dimension too	Lends support to the view that political acceptability is enhanced when new dimensions of accountability are added	Very little
Accrual based budget system	Very little emphasis on this aspect	Provides an effective link between assets, liabilities and net worth	As above	No specific attention	Programme managers are expected to have a heightened awareness of costs and resource utilization	Shows the effective use of resources	Shows the financial condition of government	Provides yet another dimension of accountability	Very little	Enhances governance	Very little
Corporate practice or manage-ment oriented budgets	Little attention to this aspect	The links between resources and outputs, as well as responsibilities are specified	As above	The manager would be obliged to deliver services within specified cost estimates	Allows greater flexibility to programme and project managers in resource use	Periodic provision of information is envisaged	Provides greater transparency through the publication of contractual agreements	Managers are expected to be accountable to specified channels	Managers are expected to be market oriented and thus be responsive to client needs	It brings a new relationship between political levels and managers	Envisages citizens councils to oversee and to provide the requisite feedback

There is a criticism that traditional/ conventional budgeting has been input and inward looking and does not take into consideration governance issues, but the reformed budgeting is output/outcome and outward oriented (Ablo & Reinikka 1998). The budgeting process and classification is subjected to massive transformation and change. Below discussed in brief is a blue print of future budgeting dynamics touted by neo-liberal economists.

Distributive Budgeting: Redistribution is not wholesale change; it is tinkering here and there to free up money for current needs. Redistribution is always difficult, but it has been made more so by the heightened activism of interest groups on the periphery of government lobbying to protect their budget stakes. As budgets have gotten tighter, groups have become more assertive, and many now have informal roles in budgeting. Efficiency in allocation through distributive budgeting has been pursued principally through investment in program evaluation and outcome measures (Alesina & Perrotti 1996).

Incremental Budgeting: In the scenario of incremental resource availability, budgeting is a distributive process in which government responds to fresh demands by allocating additional resources to them. Critics argue that it biases spending upward and rewards inefficiency. However, incrementalism requires increments, additional resources that can be spent on some purposes, without taking money away from other purposes. But the reality is that most of the countries are suffering from 'resource crunch', hence incremental budgeting per se does not have much significance (Adrian 2001).

Zero-Base Budgeting: Under the rubric of distributive budget zero-based budgeting was tried, but failed. It failed because governments do not have the freedom to start with a 'tabula rasa' so to say, budget makers cannot ignore past decisions and commitments, nor can they uproot programs without regard to the impact on the government agencies carrying them out. Irrespective of the process used, the current years' expenditure will always be the best indicator of the next years spending (Pearce 1995; Premchand 2000).

E-Budgeting: Information and communication technology (ICT) facilitates various interest groups to have required information and access more timely data on past and pending actions and greater opportunity to influence budget outcomes. Advancement of ICT has impelled government to relax their secrecy and the budget will become more permeable. The only debate that is currently happening now is how much information should be posted before the budget presentation and how much after (Ablo & Reinikka 1998).

Class-based Budgeting: Class-based budgets will be prepared in the future covering major fissures in society; men versus women, rich versus poor, young versus old, one ethnic or racial group versus others; one region against another, and so on. What will be new about them in the future is that rather than being issued by outsiders, they will be published under the imprimatur of the government, first as supplementary schedules to the regular budget documents, but over time as authoritative statements. Once this occurs, class-based budgets will become decisional classifications; in the course of producing its budget, government will decide how much to spend on rich and poor, men and women, young and old, etc. (Ablo & Reinikka 1998).

Performance Budgeting: The concept of performance-budgeting intended here is one in which each increment in expenditure is expressly linked with an increment in output or performance. Implementing this concept requires that government have reliable data on the unit cost of services and that bids for resources be structured in a manner that facilitates the marginal analysis of costs and outputs. Few governments currently have this capability, though many compile performance information (OECD 1996, 1997f).

Normative Budgeting: An increasing portion of national budgets will be allocated by fixed norms, which will govern transfers to households, grants to sub-national governments, and program allocations (OECD 1997e, f).

Exogenous Budgeting: Revenues and expenditures will be increasingly dependent on outside influences - economic and social conditions, capital flows, exchange rates, age and income structure of the population, medical technology, child-rearing practices, and service levels. Changes in these factors will compel automatic adjustments in national budgets (OECD 1996, 2001b).

The players in the budget process: The precise organization responsibilities will vary considerably from country to country. Nevertheless, three key relationships underpin the budget process in any democratic set up, that is between, the Legislature and the Executive, the Executive or Cabinet and the Ministry of Finance, and Ministry of Finance and spending ministries. The Ministry of Finance takes on a 'guardian role' in ensuring that overall expenditure of spending agencies is kept in line with the budget (Potter & Diamond 1999).

Government Accounting: Government accounting is the process of recording, analysing, classifying, summarizing communicating and interpreting financial information about government in aggregate and in detail reflecting transactions and other economic events involving the receipt, spending, transfer, usability and disposition of assets and liabilities.

The wave of fiscal reform through the wider budgetary reforms causes reorientation of the accounting system. Governments term it as an accounting system reform. There are four main bases of a government accounting system (OECD 1997a; Potter & Diamond 1999):

- cash basis
- modified cash basis
- full accruals basis
- modified accruals basis

The cash basis measures cash flows as it actually take place. The modified cash basis allows a short period of time after the year-end for settling liabilities of the year just ended (and treats this expenditure as occurring in the year just ended). The full accrual basis records expenditures and revenues when they become due (i.e. in many cases before the associated cash flows take place). The modified accrual is similar to the full accrual basis, but it is simpler because it does not involve the capitalisation of fixed assets (nor the provision of depreciation of fixed assets).

2.3.4.3 Public expenditure management (PEM)

Public expenditure management (PEM) explains integrated relationship between revenue and expenditure – that is, between money collected directly and indirectly from people and the use of that money in a manner that reflects most closely the people's preferences. Table 2.2 below explains that reforms in public expenditure management and effectiveness, responsiveness and accountability of government, in essence good governance, are like two sides of a coin.

Table 2.2 Objectives of public expenditure management

Effective Government	• Provision of services to the public within specified time and cost schedules. • Achievement of allocative and technical efficiency. • Ensuring that budgetary intent and outcome are congruent. • Matching outlays with resources. • Provision of management flexibility to the implementation agencies.
Responsive Government	• Achievement of macroeconomic stability. • Responsiveness to changing economic situation. • Responsiveness to the changing needs of the client/ consumer. • Provision of a choice to the client/ consumer. • Promotion of a utilization culture in lieu of a spending culture.
Accountable Government	• Accountability for results. • Provision of accurate information on the status of government finances. • Decision-making process to be transparent.

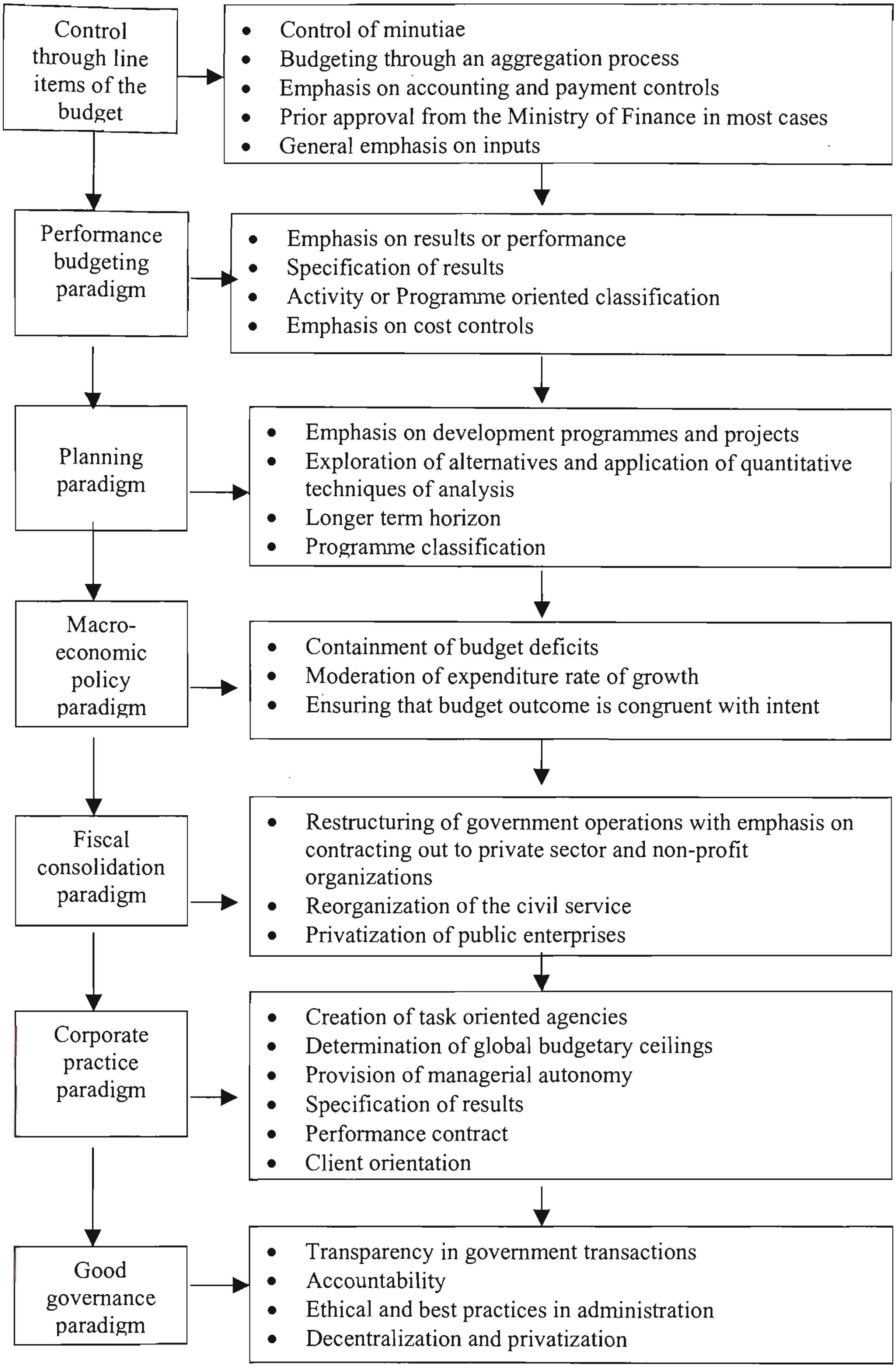

Figure 2.2 Changing paradigms in public expenditure management and their features

Figure 2.2 above explains PEM's evolution with the ultimate aim of bringing in a paradigm of good governance, which will make the fiscal reform move in the right direction. It is apparent from this paradigm flow chart that a country can identify its position and infuse the necessary reform measures both in governance and fiscal policies. As observed from the figure above and debated by neo-liberal economists PEM is the nerve line of fiscal reform and improved governance, their complementarity is obvious (Premchand 1999b, 2000).

There exists a definite distinction between the expenditure policy question of 'what' is to be done, and the expenditure management question of 'how' it is to be done (Camdessus 1999). Attempts to set over-rigid boundaries between policy and implementation tend to lead eventually to unattainable and unachievable policies, patchy implementation and over a period of time, policy and implementation failure – which is otherwise termed as bad governance (Ahluwalia 2000). The procedures, processes and goals of public expenditure management can yield desired result if good governance is clubbed with it (Wolfensohn 1999).

Like budgetary reform, public expenditure management reforms also intend to achieve three basic objectives as follows (Premchand 2000; DFID 2001a; Diamond 2003):

- To maintain aggregate fiscal discipline – that is, effective control of the budget totals by setting ceilings on expenditure that are binding both at the aggregate level and on individual spending entities.
- Budget systems, through effective public expenditure management optimize the return on public resources thus enhancing value for money.
- To allocate resources in accordance with government priorities – effective public expenditure management aims to enhance the capacity to establish priorities within budget to distribute resources on the basis of the government's priorities and the program's effectiveness and to shift resources from old priorities to new ones, or from less to more productive activities, in correspondence with the government's objectives.

The three objectives of the PEM are complementary, interdependent and inter-reliant. If a top down expenditure limit is imposed in isolation and without any attention to the internal workings of the public expenditure system, the outcome may well be, to exclude undertaking many worthwhile activities and distant policy priorities. This is a syndrome that mostly developing countries suffer from (Robinson 1996; Sandahl 2002).

Public expenditure and public services: One of the greatest anxieties expressed about fiscal reform is that reducing public expenditure would have an adverse impact on the provision of basic public services such as health and education. The beneficial effects of health services and education (especially primary education) have been well demonstrated. They increase economic growth. They help to reduce poverty. It is, therefore, to be expected that any public policy, such as fiscal reform, that seems to threaten the funding of these services, will attract much criticism and hostility. However, although there is indeed much to be anxious about in relation to the provision of health and education in many developing countries, the claim is that the main danger to the social sector is fiscal reform.

During the late 1980s and early 1990s, the IMF and World Bank focused their attention more or less exclusively on overall ceilings of public expenditure (Schiavo-Campo & Tommasai 2002). At that time, it took pride in not trying to influence domestic expenditure priorities, on the grounds that to do so would be a form of political interference. It was also perhaps over-confident about how much could be achieved with this aggregate focus, as suggested by Killick (1995, p. 13), "For one thing, governments have been increasingly canny in evading overall expenditure ceilings; for all their experience, it is difficult for IMF/ WB missions to compensate for informational asymmetries and close all possible loopholes".

Killick (1995, p. 25) further stated that, "in the absence of safeguards, there is a near-universal tendency for governments to first cut capital expenditures, and then maintenance and current supplies. They may also be tempted to impose disproportionate reductions in the provision of economic services, in attempts to avoid reducing the size of the civil service and/ or the military budget". Thus, it is suggested by scholars that, if the level of public investment is to be increased from the sub-optimal level of the 1990s or is to be maintained at a higher level, so as to attract private investment, both higher tax revenues and reduction in the current expenditures are necessary, which is possible through undertaking reform measures (Sachs & Bajpai 2001).

Tax reforms as a component of fiscal reform: Historically, the tax systems of developed and developing countries have followed a divergent evolution. The main difference is that the developed countries succeeded in establishing the institutions necessary for the direct taxation of the majority of the adult population during the first half of the twentieth century. Consequently, the developed countries were able in the late 1980s to raise 17.35% of their GDP in taxes on persons, through income and social security taxes. This was more than half the ratio of total tax revenue to GDP ratio, which was 31.21%. The equivalent figures for all developing countries were 3.38% out of 18.05% (Burgess 2002). Speaking broadly, one could say that direct personal taxation is the missing element in the tax systems of developing countries. The absence of direct personal taxation on the revenue side of the budget is matched by the absence, on the expenditure side, of much spending on social security, education and health services. In the twentieth century, developed countries (including the United States) created a welfare state, which was built around the risk-pooling bargain of welfare benefits at times of need, in return for direct personal taxation in times of prosperity. Nothing even remotely similar exists in most of the developing world (Brumby 1998; Burgess 2002). The structure of government budgets in developing countries faithfully reflects this (GDNet 2002).

The best hope lies in the most recent tax technology, namely the value-added tax (VAT). The most important feature of VAT from the point of view of policy-makers in developing countries is its revenue productivity. Because of its broad base, much broader than the typical sales tax, VAT has high revenue-income elasticity, when its coverage is fully extended. Its revenue-income buoyancy can even exceed 1, if rates are subsequently increased (Bajpai & Sachs 1999).

Other than economic virtues VAT can result in the following positive implications (Cashin et al. 2001; Chelliah 2002):

- The VAT system has the scope to be incorporated into the overall price of goods and services.
- The low visibility and the broad base of the tax discourage attempts at evasion by consumers.
- The broad base of the tax makes it less vulnerable to the political opposition of particular lobby groups.
- Consumers pay it in small amounts, as and when purchases can be afforded.
- The introduction of VAT can initially be as a replacement for other taxes, its revenue neutrality helping to deflect potential opposition.
- VAT has a lower political profile than many other types of tax.
- VAT is less compatible with official tax corruption than other types of indirect tax and has reduced scope for official discretion (Indonesia is an example of the reduction in tax corruption consequent to the introduction of VAT) (Auerbach 1994).

There exists some truth that, because of its relative novelty, the introduction of VAT can run into particular problems in federal countries. This can arise if the division of tax powers between the federal government and the state governments is constitutionally entrenched, and there is no clear cut provision for the use of VAT as is the case in India. This is where the fiscal and governance reforms play a significant role. Aggregate fiscal discipline and allocative efficiency call for tax rationalization, which is possible by introducing GST or VAT (International Monetary Fund 2001b). As per the World Bank more than 100 countries have introduced VAT and many more are working out the modus operandi to embrace VAT due to the above-mentioned advantages (Bagchi 1998). The claim that fiscal reforms remain incomplete if the tax rationalization does not take place is proved especially in developing countries where indirect taxes are major revenue contributor. The criticism that VAT is administratively unworkable in developing countries has been greatly exaggerated (Auerbach 1994; Toye 2000).

2.3.4.4 Medium term expenditure frameworks (MTEF)

The failure to link policy, planning and budgeting is the single most important cause of poor budgeting and fiscal policy outcomes in developing countries (Acharya 2001). In many respects MTEF has become the new panacea of public expenditure management – proposed as an instrument to address not only the inadequacies of planning and budgeting systems but also with respect to the broader performance problems of government. An MTEF can provide a mechanism for assisting decision making in the allocation of limited resources between sectors and specific activities within sectors. However, it is important to recognise that an MTEF is only a tool and does not provide the answers to the difficult question as to the level of resources to be provided to each sector. An MTEF can be used to highlight the opportunity costs of various policies and programmes, i.e. what will need to be foregone if additional resources are allocated to a particular programme (The World Bank 1998b, c; Asian Development Bank 2000c).

The MTEF process involves three main steps as illustrated below in figure 2.3:

- Step One: estimating the availability of resources both domestic and foreign over the medium term, either a three or five year period (Asian Development Bank 2000c).
- Step Two: estimating the actual costs of existing government policy and targets in each sector (Asian Development Bank 2000c).
- Step Three: putting this information together in an expenditure framework as the basis for making decisions on how resources will be allocated to the sector ministries (Asian Development Bank 2000c).

Step One — **Macroeconomic Framework**
Available resources

Step Two — **Sector Requirements**
Based on objectives, policies and targets for each sector

Step Three — **Matching resources with priorities**
Annual budget

Figure 2.3 The MTEF process

In essence, the Medium Term Expenditure Framework (MTEF) consists of: a 'top-down' resource envelope consistent with macro-economic stability and both internal and external resource availability, prepared by core financial management and planning agencies; a 'bottom-up' estimate of the current and medium term cost of existing national priorities prepared by line agencies; and a negotiation process which matches the demand for resources with availability through iterative decision making (The World Bank 1998c).

The MTEF also helps to communicate policy, by setting out clear priorities, and provides a basis for negotiations with external financing partners. At a tactical level, forward projections of expenditure allocations help to guide and track the reallocation of resources in line with government's development priorities. Forward projections also facilitate sector planning by indicating the likely flow of resources over a three to five year period, thereby allowing spending agencies to take into account the operations and maintenance requirements of investments and target levels of service delivery (Schiavo-Campo & Tommasai 2002).

The Outcomes of MTEFs: Experience of budget reform in OECD and developing countries suggests that MTEFs can help improve budget processes and outcomes through greater (Short 1999; Shome 2002):

- Clarity of policy objectives;
- Predictability in budget allocations;
- Comprehensiveness of coverage;
- Transparency in the use of resources.

A successful MTEF must be diagnostic, rather than formulaic, that is, improving budget outcomes requires a focus on where the real problems lie:

- If the release of budget funds is unpredictable, it will be difficult to instil confidence in medium term projections;
- If Ministers, Parliamentarians and budget holders are not held to account, then no gains can be made from attempts to link budget outcomes to policy objectives;

- If the bulk of aid financing is not reflected in the budget, then integrating the recurrent budget with the domestically financed component of the development budget is just an academic exercise.

Without the direct involvement of political leaders, the MTEF would be little more than a technical exercise, more a matter of projections than of policy decisions.

The reputed success of Australia's reforms has spurred interest in the MTEF. In line with MTEF, many countries have developed systems like Medium Term Budgetary Framework[3] and, Medium Term Fiscal Reform Framework[4]. All these methods seek to improve the value for money of public spending, in addition to reinforcing fiscal discipline and strategic prioritisation (Steven 2001). But although many countries claim to be applying a medium-term expenditure/ budgetary/ fiscal reform framework, few use it in the manner intended by its architects. Experience from developing countries tends to support the use of more narrowly focused Medium Term Budgetary Frameworks (MTBF). There are, however, some potential advantages to introducing extended MTEF initiatives. Implementing a rigorous extended MTEF is a significant challenge, particularly for a developing country (Purohit 2000). It absorbs a large amount of technical and human resources and runs the risk of distracting attention from the basic elements of the MTBF. The MTEF may well be a useful treatment for many dysfunctional public expenditure management systems, but exactly how the MTEF pill is prescribed – or sugared – is likely to be different in each case. Strong diagnostic tools are essential to ensure that the prescription is the right one and those activities are focused on where the real problems lie (Tanzi & Schuknecht 2000). However, mature countries like India can substantially gain and the fiscal reform programme can get a real impetus if MTEF is adhered to (Premchand 2000).

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[3] MTBF - builds on this first step by developing medium term budget estimates for individual spending agencies. The objective of an MTBF is to allocate resources to the nation's strategic priorities and ensure that these allocations are consistent with overall fiscal objectives. This gives some degree of budget predictability to spending agencies, while ensuring overall fiscal discipline. In fact, an MTBF is the most basic type of MTEF.

[4] MTFRF - It typically contains a statement of fiscal policy objectives and a set of integrated medium-term macroeconomic and fiscal targets and projections

2.4 Governance defined

Governance is about the institutional environment in which citizens interact among themselves and with government agencies/ officials (Asian Development Bank 1995). Governance is a simple concept at heart: good governance is good government (Asian Development Bank 1997). The concept relates to the quality of the relationship between government and the citizens, for whom it exists, to serve and protect. The Asian Development Bank (ADB) defines governance as "the manner in which power is exercised in the management of a country's social and economic resources for development. Put more simply, governance means the way those with power use that power. Governance has, therefore, political and economic dimensions. Issues of political governance include the mechanisms by which the public's political preferences are ascertained and leaders chosen (Asian Development Bank 2000a). But economic governance - sound development management - is at the core of sustainable development. This is supported by empirical evidence that the quality of governance has a significant impact on investment and growth and over all fiscal management" (Asian Development Bank 1999).

'Governance encompasses the state but it transcends the state by including the private sector and civil society organisations' (UNDP 1997a, p. 2). Governance encompasses the functioning and capability of the public sector as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance and regulatory frameworks relating to companies, corporations and partnerships (The World Bank 1991).

Good Governance: According to ADB, improving governance, i.e. governance reforms or sound development management is extremely and essentially the vital concern of all governments (Asian Development Bank 2002d). Good governance is an essential complement to sound economic policies. Efficient and accountable management by the public sector and a predictable and transparent policy framework are critical to the efficiency of markets and governments, and hence to economic development. Good governance is central to creating and sustaining an environment, which fosters strong and equitable development, and it is an essential complement to sound economic policies (Asian Development Bank 2002d).

'Good Governance among other things is participatory, transparent and accountable. It is also effective and equitable. It promotes the rule of law. Good governance ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision making over the allocation of development resources' (UNDP 1997a, p. 8).

ADB's concept of good governance focuses essentially on the ingredients for effective management. In other words, irrespective of the precise set of economic policies that find favour with a government, good governance is required to ensure that those policies have their desired effect. In essence, it is concerned with the norms of behaviour that help to ensure that governments actually deliver to their citizens what they say they will deliver (Asian Development Bank 2001).

Speth (1997, p. 126) states that "the fundamental principles of good governance are universal and mutually reinforcing. Good governance is about encouraging the politics of inclusion, accommodation and tolerance. Good governance is local. Decentralizing governance allows local communities and regional entities to manage their own affairs and, through facilitating closer contact between central and local authorities, decentralization enables more responses to people's needs and priorities and makes development more sustainable through genuine ownership. Good governance is also about efficient and effective public management and demands high standards of integrity. Civil society organizations should be able to channel and mobilize people's participation in economic and social activities and organize them in ways that can influence public policies and enhance the access of the poor to public resources. Good governance cannot be a standard prescription. Nowhere is the 'one-size-fits-all' concept less appropriate. While the fundamental principles are universal, their application must vary from country to country, taking historical experiences into account, building on indigenous systems, cultures and values; and reflecting everyday realities".

UNDP defines the following as core characteristics of good governance (UNDP 1997b):

- Participation
- Rule of the law
- Transparency
- Responsiveness
- Consensus Orientation
- Equity
- Effectiveness and efficiency
- Accountability
- Strategic vision
- Legitimacy
- Resource prudence
- Ecological Soundness
- Empowering and Enabling
- Partnership
- Spatially grounded in communities

Other agencies have also provided definitions and characteristics of good governance.[5] The most referred four key components of good governance are those stated by Asian Development Bank: accountability, transparency, predictability, and participation.

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[5] The UK's Overseas Development Administration (ODA) notes that good government is 'complex' and identifies four components ODA 1993, *Good Government*, Overseas Development Administration, London.:

1. The *legitimacy* of government, government which depends on the existence of participatory processes and the consent of those who are governed;
2. The *accountability* of both the political and official elements of government for their actions, depending on the availability of information, freedom of the media, transparency of decision making and the existence of mechanisms to call individuals and institutions to account;
3. The *competence* of governments to formulate appropriate policies, make timely decisions, implement them effectively and deliver services;
4. Respect for *human rights and rule of law*, to guarantee individual and group rights and security, to provide a framework for economic and social activity and to allow and encourage all individuals to participate.

Source: ODA (Overseas Development Administration) (1993) 'Good Government', *Technical Note* no. 10 (London: ODA)

The World Bank identifies four major components in governance. While these partially overlap with ODA's usage of the term, pronouncements on political structures are avoided:

1. *Public sector management:* government must manage its financial and personnel resources effectively through appropriate budgeting, accounting and reporting systems and by rooting out inefficiency particularly in the parastatal sector.
2. *Accountability*: Public officials must be held responsible for their actions. This involves effective accounting and auditing, decentralisation, 'micro-level accountability' to consumers and a role for non –governmental organisaitons.
3. *The legal framework for development:* there must be a set of rules known in advance, these must be enforced, conflicts must be resolved by independent judicial bodies and there must be mechanisms for amending rules when they no longer serve their purpose.
4. *Information and transparency:* there are three main areas for improvement, (a) information on economic efficiency; (b) transparency as a means of preventing corruption; and (c) publicly available information for policy analysis and debate.

Table 2.3 Four pillars of good governance

Accountability is the capacity to call officials to account for their actions. Effective accountability has two components: "answerability" and consequences. "Answerability" is the requirement to respond periodically to questions concerning one's official actions. There is also a need for predictable and meaningful consequences, without which accountability is only a time-consuming formality. In addition, both internal (administrative) and external accountability are needed. Particularly with the dramatic improvements in information and communication technology, external accountability through feedback from service users and the citizenry can now be obtained at low cost and for a greater variety of government activities, and is an essential adjunct to improving efficiency and effectiveness of public service delivery.
Transparency entails low-cost access to relevant information. Reliable and timely economic and financial information is a must for the public (normally through the filter of responsible media). It is essential not only that information be provided, but also that it be relevant and understandable. (Dumping on the private sector vast amounts of raw economic information does not improve transparency).
Predictability results primarily from laws and regulations that are clear, known in advance, and uniformly and effectively enforced. Lack of predictability makes it difficult for public officials to plan for the provision of services (and is an excellent alibi for nonperformance). Predictability of government economic actions is also needed as an indicator on which the private sector can rely to make its own production, marketing, and investment decisions. Most importantly, to be predictable, the application of economic regulations must be effective, fair, and uniform.
Participation is needed to obtain reliable information and to serve as a reality check and watchdog for government action. Among other things, participation by external entities is needed as a spur to government operational efficiency, and feedback by users of public services is necessary for monitoring access to and quality of the services.

Source: (Asian Development Bank 2002c)

In summary, the elements of governance reform or good governance can be broadly described as embedding accountability and transparency, embracing decentralization and commercialization and administrative reforms. Decisions about the fiscal or governance inputs have to be taken on the projection of output and outcomes; hence governments need to be re-invented (Saxena 2001).

A new terminology used by Osborne and Gaebler (1993, p. 13) for a reformed government is 'entrepreneurial government'. "The entrepreneur rearranges and reallocates resources to higher productivity and greater yield base and trims the lesser

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Source: World Bank (1992) *Governance and Development* (Washington D.C.: World Bank).

benefit areas, thus using available resources in new ways to maximise efficiency (productivity), effectiveness and overall benefits. This applies equally to the private sector, public and voluntary (third) sectors with the same intensity. When governance reforms are talked about, it generally means public sector as a whole - its peripheral institutions habitually act in the above manner and constantly use their resources in disciplined ways to heighten both their allocative and operative efficiency and effectiveness".

Governance whether in government or business, still remains a scarce commodity. Governance reforms implemented have far from intellectual consistency although these reform endeavours are paraded under the umbrella term 'reinvention' (Osborne & Gaebler 1993). The scenario is that a number of reforms now being implemented in developing countries are often incompatible, that is, they are not successful and therefore failures are exacerbating the already pervasive conception that government is incapable of doing anything right. It is seen that governments no longer impose their will through legal instruments and coercion where necessary. Governments must now work to achieve outcomes approaching consensus among large groups of self-interested parties of stakeholders who have some influence over policy (Sandahl 2002). Further, governing in most industrialised democracies has become a process of bargaining and mediating rather than applying rules. Such changes have manifested from the dominant right wing assumption that governments cannot do anything well so should do as little as possible (Peters 1996).

There is a widespread assertion that the following reasons are responsible for rethinking of governance. Economies and societies that governments are meant to control and regulate have become less governable (Mayntz 1993; Kraay 2002) because of the following interrelated causes

- There is increasing social and political heterogeneity among populations.
- The role of the age old welfare states in rectifying market based inequalities has been reduced and income inequalities have been widening in almost all societies.
- The ethnic and racial heterogeneity of industrialized societies has also been increasing through immigration, with a related escalation of social tension.

- The generic problems of sustainable economic growth, distribution employment and availability of resources (inadequacy) are more important and vibrant in 1980/ 1990s than they appear to have been at any time since the end of World War II.
- There is a steady decline of stable organisations and institutions as main support and source of input into governing.

The supranational organisations have identified the following reasons for the covert hype about governance rethinking (The World Bank 1997; Tanzi 1999b):

1. The private sector wants a more conducive market environment and a better balance between state and the market.
2. Citizens want increased accountability and responsiveness from government, as well as greater decentralization.
3. Global pressures from super nations and world-wide social and economic trends are challenging the identity and nature of the state (UNDP 1999).

In developed and developing countries alike, the state is being compelled to redefine its role (functioning, i.e. governance) in social and economic activity – to reduce it, reorient it, and reconfigure it (Turner 2002).

2.4.1 Aim of governance reforms

While pursuing reforms, it needs to be remembered that in government, the routine tendency is to protect turf, to resist change, to build empires, to enlarge one's sphere of control, to protect projects and programs regardless of whether or not they are needed any longer. The aims of governance reforms/reformed government are to (Asian Development Bank 2002d):

- Introduce more effective and efficient ways of managing,
- Be willing to abandon old programs and methods,
- Be innovative, imaginative and creative,
- Take calculated risks,
- Turn government functions and actions into money market/ benefit provider rather than budget barter or cost imposer,
- Eschew traditional alternatives that offer only life support systems,

- Work with private sector and non-government organisations,
- Employ solid economic sense while honouring the political rationale,
- Privatise (where required), create enterprises and generating revenue,
- Embrace market orientation and commercialization,
- Focus on performance measurement, monitoring and evaluation, and reward merit,
- Say 'lets make this work' and are unafraid to dream the great dream.

When governance reforms are initiated with these aims in view, the government can be termed as entrepreneurial or reinvented government, which is required to emphasise on 'doing more with less' and exploring more innovative, cost-effective management techniques (Bates 1999; Asian Development Bank 2002b).

2.4.2 Rationale for governance reforms

Mis-governance or poor governance causes staggering waste and cannot be addressed through budgets and cutting line items. Bureaucratic institutions must be turned into entrepreneurial institutions, ready to kill off obsolete initiatives, eager to absorb new ideas (ODA 1993).

In the context of Public Sector Performance, for broader governance, links and commonalities are seen in the areas of (Katorobo 1998; OECD 2001a; John 2002):

- Budgeting and financial management system, which includes financial reporting and auditing.
- Intergovernmental fiscal relations and the extent, to which they encompass a focus on performance.
- Commercialization and the private sector delivery of public services. For private sector to be successful in the delivery of public services, government should have a clear understanding of program objectives, and they should undertake ex-ante, ongoing and post-facto assessments of performance.
- Formulation of customer service standards by service delivery agencies and monitoring the extent to which these standards are actually achieved.

- Civil service reform, including personnel performance, management and appraisal – recognising that individual performance is reflected.
- Participation and the voice of civil society, which incorporates the views and expectations of ordinary citizens concerning the performance of government activities.
- Transparency and accountability efforts, particularly to improve financial management systems and performance reporting, strengthening watchdog agencies, and achieving greater transparency in policy formulation and implementation (Kaufmann et al. 1999).

The rationales for governance reforms are also the very ingredients of fiscal reforms; hence implementing one without the considering the interventions in their entirety will not yield the desired outcomes.

2.4.3 Models of governance

Governments are expected to become more than willing to interweave scarce public and private resources in order to achieve community priorities. There are various contemporary schools of protagonists who have propounded different models of governments on the basis of the diagnosis, structure, management, policy making and public interest (Peters 1996). The age-old government system needs to be reformed to match the present days requirement as agreed by a cross section of experts but the models are quite different from one another. The four prominent models are discussed below.

Competitive governance: This means injecting competition into the government and all its activities. The proponents of a competitive governance hypothesis, state that in the traditional governance set up, there exists a dearth of motivation and civil servants maximise 'on the job leisure' resulting in familiar images of the slothful and indolent bureaucrat (Peters 1996)[6]. It is believed that through competition and an idealised pattern of exchange and incentives, accountability and transparency can be ensured. The fundamental intellectual root of the competitive approach to changing the public sector is

[6] Still another hypothesis is that civil servants frequently maximise the size of their agency budgets as a means of enhancing their own personal power and income. It is also perceived that civil servants and their organisations are sometimes overzealous, not about personal rewards but about the exercise of public policy which result in damaging the industry and impose 'internalities' on the society as a whole.

the strong belief in the efficiency of markets as the mechanism for allocating resources within a society (Peters 1996)[7].

With the onset of 'new public management' (NPM) the issue of governance has moved to a different stratum where it is assumed that management is management, no matter where it takes place (Schwartz 1995). In its most insistent form, NPM literature argues that much of the infrastructure that has been created around public management was a means of justifying the inefficiencies and privileges inherent in the traditional governance system. The basic goal of the governance reform is to 'deprivilege' the civil service and infuse external competition (Szirom et al. 2001). By using the techniques and motivational devices from the private sector the advocates argue that good managers can produce better government for less money.

Participatory governance: The second alternative approach to reforming governance is participation, almost the ideological antithesis of the market approach. In the current environment, governments all across the globe find it difficult to legitimise their actions without active public involvement. Despite the ideological differences, both the schools (competitive and participatory) have belief and absolute agreement in one common theme that conventional bureaucracies are an impediment to good government. These schools believe that hierarchy and top down style management in traditional bureaucracies lead to distortion in resource allocation and ignores the economic rationale for policy prioritisation (The World Bank 1994a).

The participative governance argument is that the lower echelons of public organisations are central to the effective functioning of those organisations and as a simple empirical reality the role of street level bureaucrats need to be recognised. It is found that workers often begin to identify with their clients and to debureaucratise agencies as well as to provide client services to which they might not formally be entitled (Verspaandonk

[7] There is a school of economists who argue that bureaucracies have the choice of creating public and private goods through their budgets. Since public goods are indivisible and non-excludable, they cannot confer particular benefits on individual members of the society whereas private goods can. Therefore, bureaucracies having the latitude will under supply public goods and over supply private goods to their clients. In countries like India it is startling to observe that capital expenditures are on a down swing and the reverse is true for revenue expenditure.

2001). The debureaucratization in turn provides clients with an important locus of participation within the administrative system.

The exponents of the participatory model besides describing and improving management within the government organisations themselves have also promoted the ideas of managing the participation of citizens and the relationship between state and society. In the simplest form, participatory government is plebiscitarian, with the public being asked to decide all manner of policy issues including quantitative fiscal and monetary matters by a direct vote (UNDP 2002a). At a somewhat higher intellectual level and with a more intensive conception of public participation, various bodies of literature on 'discursive democracy', 'associative democracy', 'strong democracy' and other similar ideas call for reforming government fundamentally (Peters 1996). These ideas offer a much broader conception of participation and democracy than conventional representative democracy. This school argues that isolating important decisions from public involvement will generate policy errors. They state that no single actor, public or private has the required knowledge and information to solve complex dynamics and diversified problems; neither actor has sufficient overview to make the application of needed instruments effective (Ramaswamy 2000). Therefore, there is a need to involve a wider range of citizens in shaping of issues, in the formulation of responses (policies) and perhaps also in the implementation of programs once they are adopted.

Flexible governance: The alternative reform model to the traditional governance is the flexible governance. At the basic level, a flexible government is capable of responding effectively to new challenges or surviving in the face of change. Flexibility refers to the capacity of government and its agencies to make appropriate policy responses to environmental changes rather than merely responding in habitual and tardy ways to inherently novel challenges. The permanence of government and the politicians who run the government in a democratic set up being ephemeral causes a state of conflict for accountability and transparency of bureaucracy in particular and civil service in general (Gore 1993). In recent days, government leaders, the media, the moderately informed public have begun to advance proposals for decreasing the permanence of budgets, organisations and employment in the public sector.

Many politicians and scholars believe that making government institutions less permanent has virtues as a goal in itself, regardless of how well or how poorly they may be functioning. The present form of government in many countries especially developing countries has a self perpetuating structure, and are out of touch with the current mood and public demand for reduced size and influence of the public sector. In budgetary terms a permanent organisation may be a source of increasing expenditure, even if spending increases only gradually and incrementally (Gore 1993; Epstein et al. 2000).

The flexible government allows government organisations to retain any unspent funds from one budget year to use in subsequent years. This budgetary flexibility while making the time horizon of the public manager more like that of the private managers also reduces the control of the central agencies.

Deregulated governance: The next option for reform is to unleash the potential power and creativity lying within the pubic sector by 'deregulating government'. The basic assumption of deregulation is, however, that if some constraints on action are eliminated, government could perform in function more efficiently. Government might even be able to undertake new and creative activities to improve the collective welfare of the society through better allocation of resources while ensuring international equity, if some of its shackles were removed. This is the Nike theory of governing: 'Just do it' (Peters 1996).

The basic assumption in this model is that, individual employees want to do their jobs as well as possible and if employees are allowed greater freedom, they will use it for the benefit of the organisation and its clients (Peters 1996). Thus as it shows, the deregulatory reforms can succeed only within the context of a dominant civil service ethos. The deregulating model would assign a somewhat stronger role to the bureaucracy in making policy, the logic being that these organisations tend to be major repositories of ideas and expertise and hence should be allowed to make more decisions. This characterisation of the deregulatory model should not be taken to mean that its advocates argue that policy-making powers should be entirely abrogated by political institutions in favour of the public bureaucracy (Weller 2000). Rather, it means that policy making is likely to be better on substantive grounds if an active role is permitted for the bureaucracy.

The summary of all four models discussed above is stated in the table 2.4 below.

Table 2.4 Major features of the four models of government

Main Characteristics	Competitive Government	Participative Government	Flexible Government	Deregulated Government
Principal diagnosis	Monopoly	Hierarchy	Performance	Internal regulation
Structure	Decentralizati on	Flatter organizations	"Virtual organizations"	No particular recommendation
Management	Pay for performance; other private-sector techniques	TQM; teams	Managing temporary personnel	Greater managerial freedom
Policymaking	Internal markets; market incentives	Consultation; negotiation	Experimentati on	Entrepreneurial government
Fiscal management	Competition and evaluation	Financial power devolution	Delegation with on going monitoring	Setting the limits and allowing fiscal discretion
Citizenry Interest	Low cost	Involvement; consultation	Low cost; coordination	Creativity/ activism

The table 2.5 below explains how the basic governance issues are attended to in various models.

Table 2.5 Governance issues in the various models

Issues	*Competition*	*Participation*	*Flexibility*	*Deregulation*
Coordination and linkage	Invisible hand	Bottom up	Changing organization	Managers' self-interest
Error detection/ correction	Market signals	Political signals	Do not institutionalised errors	Accept more error
Civil service system	Replace with market mechanisms	Reduce hierarchy	Use temporary employment	Eliminate regulations
Accountability and transparency	Through markets	Through consumer complaints	No clear recommendation	Through ex post controls

None of the above models independently can yield the desired outcomes of the reform process nor is any country adhering to any particular model(s) in an absolute sense. Various governance reforms measures are carved out encompassing elements of all the four models that are context specific.

2.4.4 Governance and evaluation

Governance reform will remain incomplete without a strong evaluation system. The experience of developed countries illustrates the potential links between national evaluation capacity and good governance, reflecting the opportunities and difficulties in achieving cultural change in a government – winning hearts and minds is a slow business. Evaluation commands an insurmountable importance due to the following reasons (Mackay 1998):

- Results of an evaluation can be an important input for government decision-making and prioritisation, particularly in fiscal policy.
- It aims to ascertain the performance of ongoing activities of the project, program or sector; hence it acts as a management tool, which leads to learning and improvement in the future. Evaluation results can also be used to assess the reform processes.
- Evaluation data contribute to accountability mechanisms, whereby managers and governments can be held accountable for the performance of their activities.
- Evaluation acts as an undisputable tool for accountability – making sure that public institutions and their staff are held accountable for their performance.
- Evaluation ensures that resources are allocated to those activities, which contribute most effectively to achieving the strategic priorities of government.

As per the World Bank the main barriers to developing evaluation systems in developing countries like India are (The World Bank 2003b):

- Poor demand and ownership in countries.
- Lack of a culture of accountability often related to ethics and corruption.
- Lack of evaluation feedback mechanisms to aid the decision making processes.
- Besides the above many poor countries also suffer from lack of availability of accounting and auditing skills.

- Line Ministries may perceive evaluation findings as a threat because of fears that finance or planning ministries will use the findings to reduce the budget allocation and demand accountability.

This underscores the trade-off between central ministries using findings to assist budget allocation or for accountability, versus managers using the findings to improve performance (The World Bank 1994b). Developing an evaluation system should not be viewed as a stand-alone activity since it would be unrealistic to attempt to simply 'bolt on' an evaluation system to an existing structure of governance if the institutional framework and incentives do not support it (Matheson 2000). Thus an evaluation mechanism is an in-built and inherent ingredient for governance reform and there is no 'one-size-fits-all' evaluation system.

2.4.5 Decentralization

The process and implementation of decentralization of roles, responsibility and authority of superior governments occupy insuperable importance in any country. Governance through decentralization can achieve transparency, accountability, fiscal discipline, value for resources used and strategizing priorities in entirety (The World Bank 2002a).

2.4.5.1 Defining Decentralization

Decentralization[8] -- the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/ or the private sector -- is a complex multifaceted concept (Mathiasen 2002). There are many kinds of reforms, which fall under the banner of decentralization. Different types of decentralization should be distinguished because they have different characteristics, policy implications, and conditions for success (March & Olsen 1995). It is therefore useful to follow and distinguish between different modes of decentralization along the following lines:

[8] Decentralization has been a popular theme in development thinking and practice for at least two decades. The interest lies in the impact of decentralisation of government expenditures and revenues i.e. fiscal policies of public sector upon human development. Detailed analysis of the various dimensions of decentralisation - participation, financing and comparative priorities - and of the relevant effects upon efficiency, resource availability and equity, enables us to draw some interesting lessons from the theory and practice of governance reforms per se.

- Deconcentration - spatial relocation of decision making - i.e. the transfer of some administrative responsibility or authority to lower levels *within* central government ministries or agencies; Deconcentration - which is often considered to be the weakest form of decentralization is used most frequently in unitary states - it redistributes decision making authority and financial and management responsibilities among different levels of the central government (Kondo 2001).
- Delegation - assignment of specific decision making authority - i.e. the transfer of managerial responsibility for specifically defined functions to public organisations (e.g. local governments or parastatals) outside the normal bureaucratic structure of central government; delegation is a more extensive form of decentralization. Through delegation central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it (The World Bank 2000a)
- Devolution - transfer of responsibility for governing, understood more broadly - i.e. the creation or strengthening, financially or legally, of sub-national units of governments, whose activities are substantially *outside* the direct control of central government (The World Bank 2000a, 2001). When governments devolve functions, they transfer authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status (Anan 1997). In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. It is this type of administrative decentralization that underlies most political decentralization.

2.4.5.2 Decentralization and fiscal policy

Financial responsibility is a core component of decentralization. If local governments and private organizations are to carry out decentralized functions effectively, they must have adequate levels of revenue –either raised locally or transferred from the central government – as well as the authority to make decisions about expenditures. Fiscal decentralization can take many forms, including (Ball 1992; Ma 1997)

a) self-financing or cost recovery through user charges,

b) co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labor contributions;

c) expansion of local revenues through property or sales taxes, or indirect charges;

d) intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses; and

e) authorization of municipal borrowing and the mobilization of either national or local government resources through loan guarantees.

In many developing countries local governments or administrative units possess the legal authority to impose taxes, but the tax base is so weak and the dependence on central government subsidies so ingrained that no attempt is made to exercise that authority (Levitt & Joyce 1987).

2.4.5.3 Decentralization and public expenditure

The need for increased public expenditure to keep pace with economic growth results in the possibility that decentralization may increase total public resource mobilization. It is found that voluntarism is fairly widespread at the local level (as predicted by the visible benefits principle) although it rarely accounts for substantial amounts of revenue (Sandahl 2002). Decentralization has tremendous but a mostly invisible capacity to create resources due to voluntarism that can contribute towards reducing/improving fiscal imbalances (Patnaik & Chandrasekhar 1998). If decentralization leads to increased local public expenditure and expands the provision of public goods and services, a narrowing of intra-district/regional disparities in access among different socio-economic groups would be expected to follow. Moreover, if decentralization of decision-making is accompanied by increased participation of representatives from a wider variety of political, ethnic and social groups, greater equity in the allocation of public resources is presumed to be more likely (Potter & Diamond 1999).

2.4.5.4 The extent of Decentralization

The extent of decentralization will obviously depend upon the relative importance of local government. In the present context, this is best indicated by the share of local government in total government expenditure, which varies widely among developing countries. So far as the decentralization issue is concerned there is frequently a large gap between the rhetoric, and the reality of the extent to which national governments are prepared to decentralize decision-making authority. Moreover, it can be argued that many decentralization programs have involved devolution to 'hybrid' bodies, composed of both locally elected and centrally appointed representatives (Lister & Betley 1999).

2.4.5.5 Constraints to Decentralization

There are significant underlying obstacles confronted in decentralization efforts. There is ample evidence of political resistance to decentralization by those who perceive their vested interests to be threatened, and of bureaucratic problems, especially relating to staffing (Robertson 1994)[9].

2.4.5.6 Obstacles to the implementation of decentralizing reforms

In a number of cases, the central government has retained effective control over local personnel through recruitment, promotion, payment and so on. Although this may help to alleviate skill and resource shortages at the local level, it leads to accountability and

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[9] **Political constraints**

'Where decentralisation is proposed seriously, it is likely to be a focus for political confrontation, precisely because it has to do with specifying who may participate legitimately in decision making and whose interests will have highest priority' (Samoff 1990, p.524). It is predictable that change will be resisted by those who perceive their vested interests threatened by a new structure of governmental arrangements. This, coupled with bureaucratic inertia, can constitute formidable obstacles to the implementation of decentralisation reforms. Political will at the highest level may not, per se, be sufficient to overcome such obstacles. McGinn and Street (1986), criticising the assumption that national governments are 'unitary, neutral actors', argue that policy makers evaluate organisational reforms in terms of the impact upon their own power and control over the use of public resources - so that different actors react differently to the same policy.

Bureaucratic obstacles

Beyond the political tensions involved in decentralisation attempts, there often arise significant problems related to the nature of the bureaucracy - its structure, technical competence and resource base. The creation of new systems of local government requires considerable administrative skill and resources. There may be basic problems with respect to personnel needs, attitudes (held both regionally/ locally and centrally), and training in local government.

In a number of cases, the central government has retained effective control over local personnel through recruitment, promotion, payment and so on. Although this may help to alleviate skill and resource shortages at the local level, it leads to accountability and loyalties which lead upward to the capital, rather than to local constituents. This may undermine local autonomy, and create an obstacle to the implementation of decentralising reforms.

An evaluation conducted by Price Waterhouse Coopers Ltd identified the following weaknesses: (i) shortages of professional skills; (ii) responsiveness of the appointed mayor and council to their superiors, rather than local residents; (iii) inadequate revenue and weak fiscal discipline; (iv) uncoordinated development programmes; and (v) failure to enforce local regulations.

loyalties which lead upward to the capital, rather than to local constituents. This may undermine local autonomy, and create an obstacle to the implementation of decentralising reforms. A few examples are cited below (de Mello 2000):

- In Indonesia, it has been observed that the structure and regulations governing the civil service severely handicap efforts to develop a local civil service adequate to meet the demands of decentralization (Kraay 2002). Substantial deconcentrations of development activity through INPRES programmes were found to have been undermined by centralising civil service reforms (as well as financing arrangements). In 1985 over three-quarters of employees working in regional governments were seconded central employees. Local staff available for decentralized management was subject to cumbersome and centralised control. Further, the structure of incentives encouraged a 'brain drain' from the regions to Jakarta (Asian Development Bank 1998b).
- In Bangladesh, although the service of civil servants has been formally transferred to the upazilas, their appointment, training, transfer, promotion and discipline all remain subject to national government control (Lister & Betley 1999).
- In Botswana, the recruitment, posting, training, promotion and discipline of local authority staff is generally the responsibility of the centrally directed Unified Local Government Service (ULGS). The ULGS staff at headquarters has been strongly criticised by the District Councils for not being sufficiently aware of, and responsive to, local problems and needs (Das 1998).
- Staff shortages at the local level appear to be a crucial constraint in many developing countries. An IMF survey conducted in 1992 showed that 67% of all government employment in industrial countries is at the 'local' (as opposed to the central) level, compared to only 15% for developing countries - Africa averaging only 6%, Latin America 21% and Asia 37% (The World Bank 1993). This can be seen to reflect personnel shortages as well as the fact that local governments account for a greater share of public expenditure in industrial, relative to developing, countries.
- In Nigeria, there is reportedly a wide gap between the staff required by local governments and the actual number employed by them. Local governments have

not been able to attract and retain qualified staff and attempts by state and federal governments to train local government staff have not overcome this problem (Nwankwo 1984).

- Rondinelli et al (1983) emphasise the 'crucial effects of shortages of trained staff on the success of decentralization' (p.69). There are many examples of local governments with limited capacity. In the Chilean context of a relatively thoroughgoing decentralization, the limited capacity of local officials has confined their work to mainly administering central directives: local initiatives have been rare (Racynski 1987). In Kenya, the vast majority of skilled technicians and managers have been concentrated in Nairobi. The Sudan has suffered severe skill shortages, even within central ministries, which impeded decentralization and limited the ability of provincial administrators to provide even basic services. In Pakistan, the technical officers available to the markaz councils were quite limited - in that the project managers are often either agricultural technicians or generalist administrators with little experience of district planning and development (Khan 1982).
- The Moroccan government recognised the importance of personnel at the local level in creating a new special corps of posts in the local civil service, consisting of centrally trained and paid chief civil servants called 'secretary-generals'. Training centres for local civil servants were greatly expanded (Nellis 1983).
- In Zambia, administrative capacity to plan and implement substantial development programmes was lacking at the 'provincial, let alone district level - (and) even in Lusaka'. The shortage of qualified staff, the absence of suitable training programmes for district development officers, the unattractiveness of local government employment all contributed to this problem (Rakodi 1988).
- In Kenya, there are several management problems at the local level. Many officers tend to be underqualified for their jobs; in some cases appointment is on the basis of political criteria rather than merit. There are frequently severe gaps in staffing. Some councils have six or seven vacancies at senior levels (clerk, treasurer, surveyor etc.) - so that one officer might be expected to fulfill all of these tasks over an extended period. In this light it is noted that in the 1984-88

National Plan period, even the more successful councils only managed to carry out about half the projects they had proposed (Wallis 1990).

2.4.5.7 Conditions for successful Decentralization

Although politics are the driving force behind decentralization in most countries, fortunately, decentralization may be one of those instances where good politics and good economics may serve the same end. The political objectives to increase political responsiveness and participation at the local level can coincide with the economic objectives of better decisions about the use of public resources and increased willingness to pay for local services. At least five conditions are important for successful decentralization (The World Bank 2002c):

1. the decentralization framework must link, at the margin, local financing and fiscal authority to the service provision responsibilities and functions of the local government - so that local politicians can bear the costs of their decisions and deliver on their promises;
2. the local community must be informed about the costs of services and service delivery options involved and the resource envelope and its sources - so that the decisions they make are meaningful. Participatory budgeting, such as in Porto Alegre, Brazil, is one way to create this condition;
3. there must be a mechanism by which the community can express its preferences in a way that is binding on the politicians - so that there is a credible incentive for people to participate;
4. there must be a system of accountability that relies on public and transparent information which enables the community to effectively monitor the performance of the local government and react appropriately to that performance - so that politicians and local officials have an incentive to be responsive; and,
5. the instruments of decentralization - the legal and institutional framework, (Constitution, laws and regulations that codify the formal rules of the game by which a decentralized system is supposed to function) the structure of service delivery responsibilities and the intergovernmental fiscal system - are designed to support the political objectives.

Successful decentralization is closely related to observing the design principles of: finance [clear assignment of] functions; informed decision making (transparency); adherence to local priorities with economic rationality; and accountability (The World Bank 2000a). While transparency has been discussed extensively in the section on fiscal reforms, it is the measurement of transparency that becomes critical to ensuring good governance that is discussed below.

2.4.6 Measuring transparency

A useful framework for assessing transparency is the IMF Code of Good Practices on Fiscal Transparency. The code defines good practices with regard to (International Monetary Fund 2001c):

- Clarity of roles and responsibilities.
- Public availability of information.
- Open budget preparation, execution and reporting.
- Independent assurances of integrity.

The extent to which there is a transparent relationship between public expenditure and the resulting outputs is also an essential aspect of this characteristic. Figure 2.4 provides some questions to ask to allow any government or any organisation to assess this dimension of transparency.

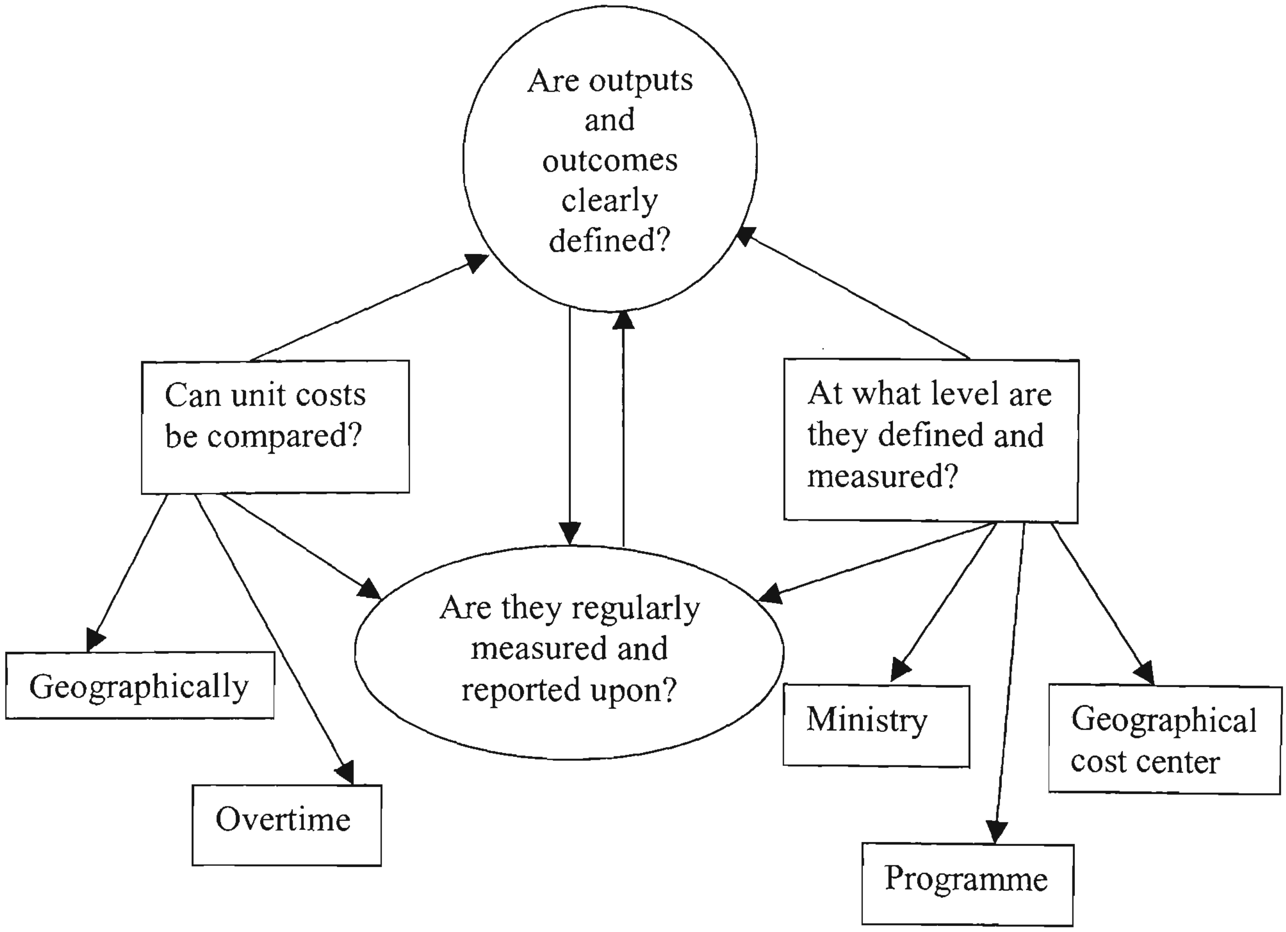

Figure 2.4 Criteria for transparent links between expenditure and outputs

In the process of good governance transparency and accountability are intertwined (Kaufmann et al. 1999). Hence accountability needs to be discussed.

2.4.7 What is accountability?

Accountability has been viewed since time immemorial as a channel for ascertaining the use of power by an individual or an organisation that has been entrusted with the task of performing prescribed tasks. Accountability requires that decision makers be held responsible for the exercise of authority vested in them. Not only must budget officials and line ministries answer for the use of funds, but they must also face consequences for any misuse of funds (Joseph 2001).

Many developing countries focus on financial accountability, holding agencies responsible for keeping spending in line with budgets (International Monetary Fund 1997b). While this is important, ideally public sector managers should also be required to justify their budgets, and be assessed, in terms of the results achieved, that is, move to a managerial system of accountability. Managerial systems of accountability involve holding public sector managers responsible for results in return for greater discretion in the way in which they achieve results. This move from financial accountability to managerial accountability is likely to be slow in developing countries (Gray & Jenkins 2002).

2.4.7.1 Why is accountability important?

Three decades of fiscal turbulence have contributed to a substantial erosion of the credibility of government fiscal machinery, and to a growing distrust of governments, which has brought accountability into limelight. It is difficult now to administer without endowing every administrator with some degree of trust, which can come with accountability.

Without accountability the stakeholders have no incentive to take the fiscal management process seriously and budgets can become meaningless. Accountability has become significant in governance especially in a fiscal policy framework since it ensures (OECD 1999; DFID 2001a):

- that actual expenditures are consistent with plans;
- that spending is supported by appropriate documentation and complies with financial and accounting regulation; and
- that, in the process of economic management, no action is taken to impair the fiscal capability of the community.

Accountability is also of vital importance in the public sector since it ensures that, appropriate rules are observed and that the authority is not abused, risks are taken within delegated powers to achieve objectives, there is responsibility for service delivery within specified cost, and quality and time schedules are maintained while observing economy and efficiency. Spending contributes to the achievement of the government and community's objectives.

2.4.7.2 Measuring accountability

That accountability in governance has to be linked with budget allocation and public expenditure management has to be ascertained. Assessing the extent to which PEM and governance system are embodied with accountability requires answering several key questions (OECD 1999; Premchand 1999a):

- Are there clear lines of accountability? Are the roles and responsibilities of key players clearly defined?
- Is information on execution of the budget available on a timely, reliable and accurate basis?
- Is the PEM system reinforcing discipline through the enforcement of control and compliance regulations?
- Are the outputs and/ or outcomes of expenditure reported upon (half yearly or annually) and considered in assessing future budget requests?
- Are there any efforts to involve the public in decision-making processes or to assess public satisfaction with the quality of public services?
- Is there independent evaluation and monitoring of performance and financial reporting?
- Is the oversight mechanism effective and active?

In practice, however, the application of the principle of accountability (in its true sense) is relatively rare and difficult and even more so with poor governance.

2.4.8 Administrative reforms

Some definitions of administrative reforms assign importance to the perceived outcome of the reform process by identifying it as the means to make the administrative system a more effective instrument for social change, a better instrument to bring about political equality and engagement, social justice, economic growth and prudent fiscal management. Administrative reform also refers to changing established bureaucratic practices, behaviour and structures. The common elements in various definitions are as follows (Das 1998; Prasad 2000):

- Administrative reform is about deliberate planned change to public bureaucracies
- It is synonymous with innovation

- Improvements in public service efficiency and effectiveness are the most important intended outcome of the reform process
- Urgency of reform is justified by the need to cope with the fiscal uncertainties and rapid changes taking place across the globe.

When governance reforms are discussed, the aim and intention is to bring about changes in people who are involved in governing based on the principle that 'managing organisations is about managing people' (De Jouvel 1952; Das 1998). Changing public organisations is about attempting to change people in those organisations in a way that is beyond ethical reproach. Disinvesting in people is the surest route to failure and a form of political abdication (Halligan 1997). A decline in the standards of the human element will inevitably lead to a decaying public system. Thus, as part of the internal components of governance reform, administrative reform in association with transparency and accountability norms and procedures need to be embraced and decentralization and commercialization (privatization) measures as external components have to be implemented in tandem.

The effort for enforcing transparency, accountability, commercialization and decentralization through reform will remain ineffective until state institutions are reinvigorated (Asian Development Bank 2000b, 2002a). Reform is not a matter of simply assigning people and responsibilities but again it is people who make the institutions effective, responsive and efficient. Acknowledging the countries' existing, possibly meagre capabilities do not mean accepting them for all time. The importance of state institutions and economic outcomes are depicted below in Figure 2.5:

One of the main tasks of governance reforms is to bolster the states institutional capability by providing incentives for public officials to perform better while keeping arbitrary action at bay (The World Bank 1997). It may not be always the politicians who have interest to maintain an inequitable and inefficient status quo. Many times, the problems are linked with the bureaucracy (The World Bank 1995). Managing a public bureaucracy is a complex business that does not lend itself to clear, unambiguous solutions (Das 1998).

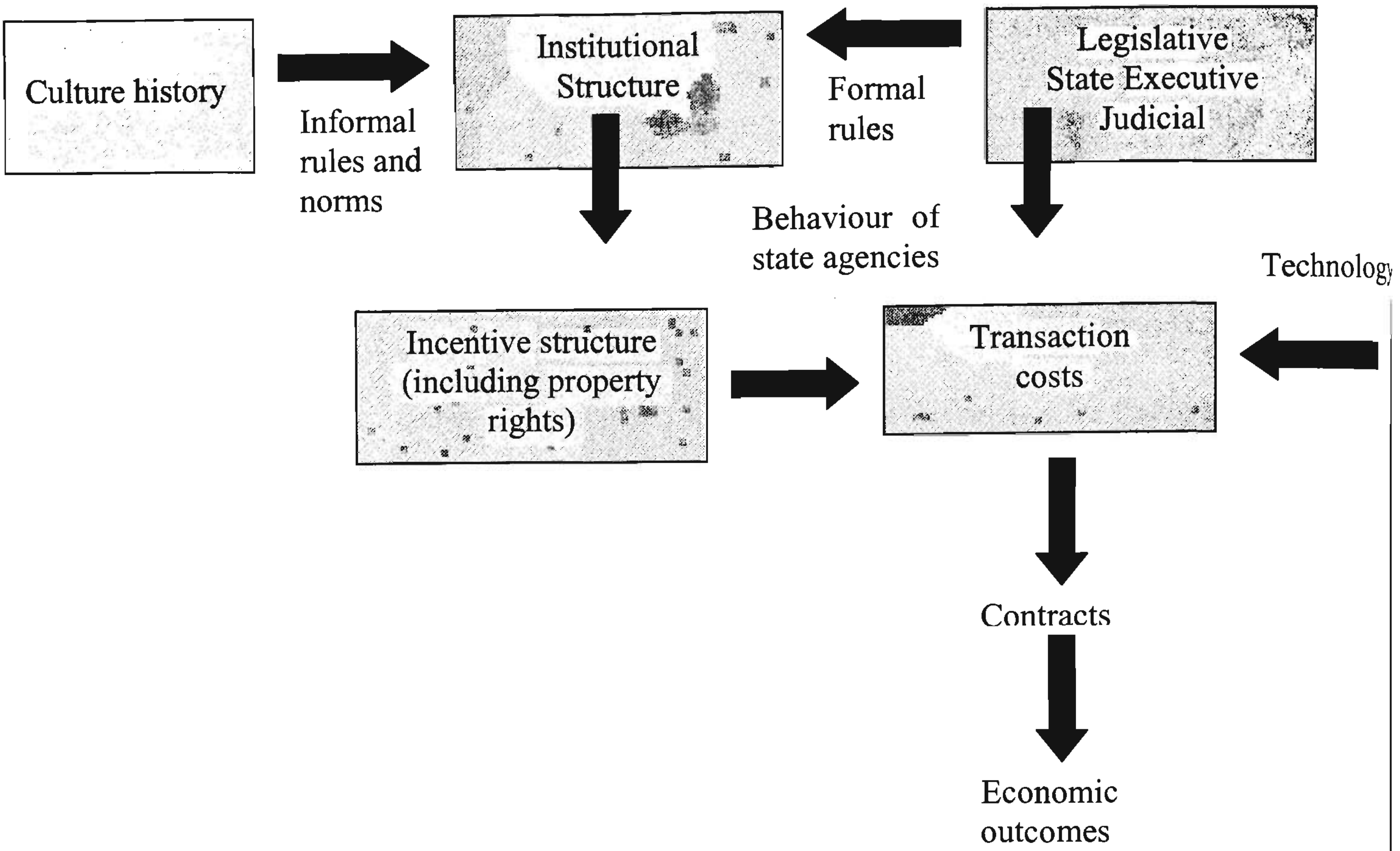

Figure 2.5 The State, institutions, and economic outcomes
Source: (The World Bank 1997)

In fact, building institutions for an effective public sector requires addressing a host of underlying behavioural factors that distort incentives and resources utilisation, which ultimately lead to poor outcomes (Schiavo-Campo & Sundaram 2001b). However, the concern of this thesis is bureaucracy and administrative reforms.

The public organisations, which till recently were encouraged to expand and multiply, are now perceived as obstacles to development – and expensive ones at that. Public sector reform demands reinvigoration and redesign as a vital component of strategies to 'redimension the state'. Public institutions, thus public servants, are required to be efficient, effective and provide value for money (Ahluwalia 2002).

Administrative reforms are therefore universally sanctioned as the means to bring about the desired changes to the public sector as a whole but predominantly to enforce fiscal rectitude. 'A state is no longer credible (and might even be without credit) unless it has an ongoing program of administrative reform' (Aoki et al. 1997).

2.4.9 Privatization/ Commercialization

The key driver to privatization and commercialization is the need to reduce government public finance deficits. Wherever there is scope, a solution is to outsource government services. Most of the state owned enterprises (SOEs) across the globe are loss making and have exacerbated debt accruals and contingent liabilities (Polackova et al. 2001). Whenever SOEs have shown profit, it is because they are mostly monopolies, protected from competition or pursuing accounting methods that would not be applied under international accounting standards. SOE losses are most often a major contributing factor to the overall fiscal deficit, and have to be financed either directly through explicit or hidden subsidies, or transfers from government, or indirectly through state owned banks or financial institutions. This scenario is most prominent in developing countries (Arigapudi 2001).

Privatization and commercialization free the state from the burden of financing SOE losses and new investments. This, in itself, improves the overall fiscal position. Further, fiscal gains may be realised after privatization and commercialization through increased returns to any remaining state owned equity, or through user fee charges and/ or tax revenue generated by a profit making private enterprise (Schiavo-Campo & Tommasai 2002).

Governments through the reforms process can counter SOE losses and negative externalities in non-core public sector activities, which work as 'fiscal termite' for the whole economy. The continuous drain of resources on account of public sector activities that can be better performed by the private sector or at least at an equal level of efficiency can be averted by implementing the Chicago school of Economics recommendation (Deregulation, Privatization, Marketisation - DPM) (Lane 1997). The resources thus saved can be utilised for priority sectors. This inefficient use of resources impacts government policies for prioritising resource allocations.

2.4.10 Results of fiscal and governance reforms

As indicated earlier, New Zealand is the pioneer and chief exponent of fiscal reform laws. New Zealand also enacted the Fiscal Responsibility Act into a law in 1994. It is worthwhile mentioning that due to the various fiscal reform measures initiated in New Zealand, government debt which was hovering at 52 percent has come down to 30 percent of GDP and fiscal deficit of 8.8 percent has swung to a surplus of 3 percent of GDP between 1994 to 1999-2000 (Nolan 2001). This is of course a remarkable achievement.

There is evidence of such laws being enacted and enforced in a number of other countries. (a) The Maastricht Treaty (European Union) required fiscal deficits to be 3 percent of GDP for general government and a total debt ceiling of 60 percent of GDP, Convergence on interest rates and on inflation were also required (Barber 1996); (b) The Gramm Rudmann - Hollings Act in the US required a steady decline in the federal government's deficit to zero by 2002 but this was achieved in 1999 due to a strong economy and a booming stock market (Karnik 2002).

The fiscal responsibility law in Brazil applies to federal, state, district and municipal entities as also to all the three branches of government, namely, executive, legislature and judiciary. Its key provisions, such as barring the Central Bank from financing the government and forcing the government to set mandatory fiscal targets, have been upheld by courts (Milesi-Ferretti 1996). Reference may be made to some important provisions of the Brazilian law. Any expenditure or commitment, which is not adequately funded, is considered unauthorised, irregular and harmful. Expenses on outsourced services are to be included among 'other personnel expenditure' and added to expenditure used to calculate the ratio of total personnel expenditure to net current revenue. The law provides for restrictions aimed at avoiding current expenditures being financed by credit operations. Overall debt is the focus of the fiscal responsibility law. Reference may also be made to the rules pertaining to the end of the tenure of a government: no act that increases personnel expenditure is permitted from 180 days before the end of tenure in office; no financial obligation that cannot be paid in the same year can be assumed if there are not enough cash resources; and credit operations based on anticipated revenues are prohibited during the last year of the chief executive's term. The seriousness of purpose is underlined by the sanctions provided for non-compliance with any of the provisions of the Act, namely, federal and state transfers are to be suspended; new credit operations are to be forbidden; and new federal and state guarantees are not to be granted. Strict penalties are liable to be imposed on the persons infringing the law. It is interesting to note that due to the implementation of the Brazilian law, governments have been able to adjust their debt to revenue and personnel outlays to revenue ratios quite vigorously (Marcel 1998; Merrill Lynch 2000).

Fiscal responsibility legislation has now been placed on the statute books in many other countries which include Argentina, Canada, Columbia, members of the European Union, Indonesia, Japan, and Switzerland (Milesi-Ferretti 1996). Such legislation is also under consideration in a number of other countries. While the characteristics of the legislation vary from country to country, it may be useful to note a few interesting provisions contained in some of them. It is true that not all of them lay down quantitative targets but the legislations also do not stop at mere empty and pious intentions or rhetoric. A number of other salutary provisions ensure that the government does not digress too far from the path of fiscal probity, rectitude and discipline. Under the German Constitution, borrowing has to equal investment and cannot be resorted to for meeting revenue deficit (Mohan 2000). In others, limits are put on personnel expenditure. There need be no straitjacketing of the government budget process, but it is imperative that the annual budget is based on some well-accepted golden rules.

A number of attempts at budget reform, such as Planning Programming Budgeting System (PPBS) and Zero Based Budgeting (ZBB) in the USA, Public Expenditure Survey (PESC), Program Analysis and Review (PAR) and their successors in UK, Envelop Budgeting in Canada, Rationalisation des choix budgetaries (RCB) in France were implemented because of their capacity to reduce or eliminate commitments to existing organisations in favour of a more comprehensive evaluation of spending priorities (OECD 2002c).

One of the several market principles underlying the financial reforms of the public sector is the separation of purchasers and providers and the creation of internal markets (OECD 1993). In traditional public administration such a reform was irrelevant, or perhaps even inconceivable, given that the old model was one of hierarchy and unitary services. In contemporary systems, however, this reform is an important mechanism for ensuring that market principles pervade the public sector. For examples, in the National Health Service in Britain the purchasers and providers had been managed as part of one corporate entity. That unified structure has now been replaced with a quasi market in which Area Health Authorities purchase services for their customers (citizens) from providers (hospitals and so on). Likewise, budget-holding general practitioners will begin to negotiate with specialists for their services on behalf of patients. In this management system the separation of the two functions is intended to reduce costs and increase efficiency (Ranada 1995), although there has been substantial public and academic criticism about the real consequences of the changes (Harrison, Small, and Baker 1994).

The Government of New Zealand has undertaken a similar separation of purchasers and providers throughout the entire government. Under the Public Finance Act (1989) the purchaser-provider dichotomy is intended to pervade a good part of the public sector (Pallot 1991). In this system, government, through its central agencies, in essence becomes the purchaser of the output of the departments actually producing the services (Boston 1994). In this approach to public finance, virtually all public-services providers essentially become public corporations with even more stringent financial controls than usually have been applied to public corporations (Gruen 2001).

Even the Swedish Government, has implemented in the counties, a system similar to that in the United Kingdom, and a greater choice of physicians for citizens has been introduced by separating purchasers from providers in the health service (Burki & Perry 2000).

The Financial Management Initiative (FMI) in the United Kingdom and the Financial Management Improvement Programme (FMIP) in Australia (Keating & David 1990) are two of the principal programs designed to change financial management in central governments. These two reforms have some common elements. The most important is the attempt to identify within government the 'cost centres' associated with the delivery of services and to allocate total costs of each service more accurately than in the past (Macfarlane 2001). For example, the overhead costs of government – central management functions, information technology, and so on – are sometimes difficult to attribute to particular programs so that the programs that consume a great deal of these overhead services tend to be subsidized by those programs that do not. With the financial management improvements that have been implemented there has been an attempt to assign true costs more fairly to each programme, which results in better judgement of the relative efficiency of programmes (Gray et al. 2002).

The idea behind implementing 'resources accounting and budgeting' in government in the UK is to account for public money not just in current costs but also in terms of opportunity costs of the uses of the resources (March & Olsen 1995). This reform is designed to reflect more accurately the real impact of the public sector on the economy. Australia meanwhile has resumed the practice of program budgeting so popular during the 1960s. This return to rationality also reflects an attempt to capture better alternative uses of resources within the public sectors (Gramberg & Teicher 2000).

Governments are also making a number of attempts to establish standards for adequate performance by public services. In the UK, citizens charters are means of enumerating service standards so that citizens can ascertain where and how the public resources are spent, whether the desired outcomes are achieved and whether their expectations are met (Corbett 1996).

The evidence concerning decentralization's destabilizing effect is, however, mixed. Research in **Russia** and **China** has clearly linked subnational government autonomy to growing central government deficits, but these cases may not be generalizable because of their unique system of using local governments to collect central government revenue. Other, more 'typical' subnational governments in **Argentina** and **Brazil** have expanded expenditures beyond revenues and then turned to the central government for bailouts or debt relief. **Switzerland**, on the other hand, has been both highly decentralized and highly stable in the post-war period. Research on **Canada** has shown that increasing subnational governments' budgets may have actually had a stabilizing effect. Subnational governments have coordinated spending and may be more able to offset region-specific business cycles (Bird 1995; Burki & Perry 2000).

Governments' may undertake substantive schemes of redistribution through grants, which favour sub-national local governments in poorer parts of the country. In practice however, it appears that the prevailing fiscal arrangements under decentralization - by design or otherwise - generally fail to enhance inter-district/ regional equity. Below are a few examples of redistribution undertaken by various countries and their impact (Brown et al. 2000; Burki & Perry 2000).

- In Chile, the system of central grants was altered from one, which redistributed in favour of poorer regions to one that made allocations on a per capita basis. Inadequate central financing failed to cover the cost of service provision (as it was supposed to), so that poorer municipalities could only afford inferior services - thereby worsening existing inequalities between regions (Marcel 1998).
- Zimbabwe proceeded on similar lines to Chile, in that many recurrent central grants are allocated on a per capita basis with no consideration of community fiscal capacity (Matheson 2000).
- In India, it has been said that federal education grants are made primarily on political grounds and serve only to exacerbate spending disparities (Appu 2000).
- In Bangladesh, the fiscal system transfers resources from the urban to the rural sector (where 85% of the population lives). At the same time however, development fund grants are allocated on a per capita basis without regard to need, and the infrastructure grants appear to be distributed on an ad hoc basis (Bahl 1998).
- In Botswana, where the District Councils depend upon central transfers for over 80% of total recurrent expenditure, the system of resource allocation is described as 'haphazard', resulting in the 'uneven provision of local government services in different parts of Botswana' (Tordoff 1988 p.197).

By way of contrast there is some evidence, which reflects attempts by national governments to alleviate the inter-region/ district equity problem, through grants that offset differentials in local tax bases.

- In some Indian States, grants are distributed to the districts on a criterion of 'backwardness' - taking total population, number of scheduled castes (who tend to be landless) and development of infrastructure (roads and electrification) in the district. Under this arrangement, which was introduced with decentralization, the backward districts get more than in the past, and inter-district disparities have tended to be reduced (Bahl 1998).
- In Nigeria, constitutional changes over time have led to an equalising trend in federal transfers. Until 1978 transfers were made on the basis of derivation, as well as other criteria, which focused more upon redistribution. In successive constitutional amendments, the latter gained in importance. The heavily populated and poorer northern states have been able to reduce the influence of the derivation principle in transfers and extend, first, the population criterion and, more recently, the 'additional need' factor. Thus, new formulas have further increased the importance of the fiscal equalisation principle (Mathiasen 2002).
- In Brazil, the 1967 tax reform led to the redistribution of public funds from richer to poorer regions (Graham 1987). The basic formula used by the federal government weighted the amount received according to the level of development. For every 100 cruzeiros collected by the federal government in taxes set aside by law for transfer to the states, the North received back 210 cruzeiros in 1976; the states of the South and Southeast regions receive less than 25 cruzeiros for each 100 they collect (Gruen 2001).

While success stories are many, several criticisms have also been posed regarding the reforms initiated by many of these countries. Considine (1997) commenting on the Australian reforms said that corporate management of government provisions has failed in its attempt to deal with this turbulence, because it is essentially a framework designed to 'circle the wagons' and ration supplies. Its overwhelming concern is to spend effort on systems to limit goals, focus effort on programs, cut slack and tie all activities to narrowly prescribed outputs. This produces increased central control and greater homogeneity (Nolan 2001).

Halligan (1997) evaluating the reforms in Australia and New Zealand argued that the unintended outcomes included high social costs, high unemployment, economic inequality, growing distrust towards political responsibility and integrity, and changes in income security, quality of life, the natural environment and inter-personal and inter-generational distributions. Likewise, Lindquist with respect to the Canadian reforms argues that the reform impacts on civil society and the quality of public discourse on governance is not satisfactory on the grounds that social disparity has increased, governments have not been able to show a vision for change, civil service employees though are providing services to the ministers and citizens at the same level within limited resources, but the incidence of burn out and low morale are legion, and many are leaving the public service to join the private sector (Lindquist 1997).

2.5 Conclusion

The President of World Bank, Wolfensohn (1999), in his address to the Board of Governors of the World Bank stated 'the causes of financial crises and poverty are one and the same. If countries do not have good governance, if they do not confront the issue of corruption, if they do not decentralize, if they do not have a complete legal system which protects human rights, property rights and contracts, their development is fundamentally flawed and will not last'.

As the above statement and the literature review suggests, all countries, developed and developing have faced fiscal instabilities in varying degrees. This was the genesis of reforms in most countries. Soon it was realised that mere fiscal reforms did not yield the desired outcomes, hence the need for governance reforms was propounded. A fillip to this consolidation of fiscal and governance reforms came from multinational and bilateral agencies through the Washington Consensus. The World Bank has proposed that for a country to be financially sustainable and well governed there needs to be holistic view of the public sector. Central to the public sector reform process is decentralization and devolution of power and authority. This needs to be supported with rules and restraints, listening to the 'voice' and creating partnerships, and facilitating a competitive environment. The drivers of public sector reforms as envisaged by the World Bank are presented in Figure 2.6 below. Public sector reforms are envisaged as having three intersecting drivers (rules and restraints, contestability and partnership) converging on decentralization. This highlights that whilst in the past, emphasis was primarily on fiscal sustainability and debt management, governance issues have gained prominence in recent years.

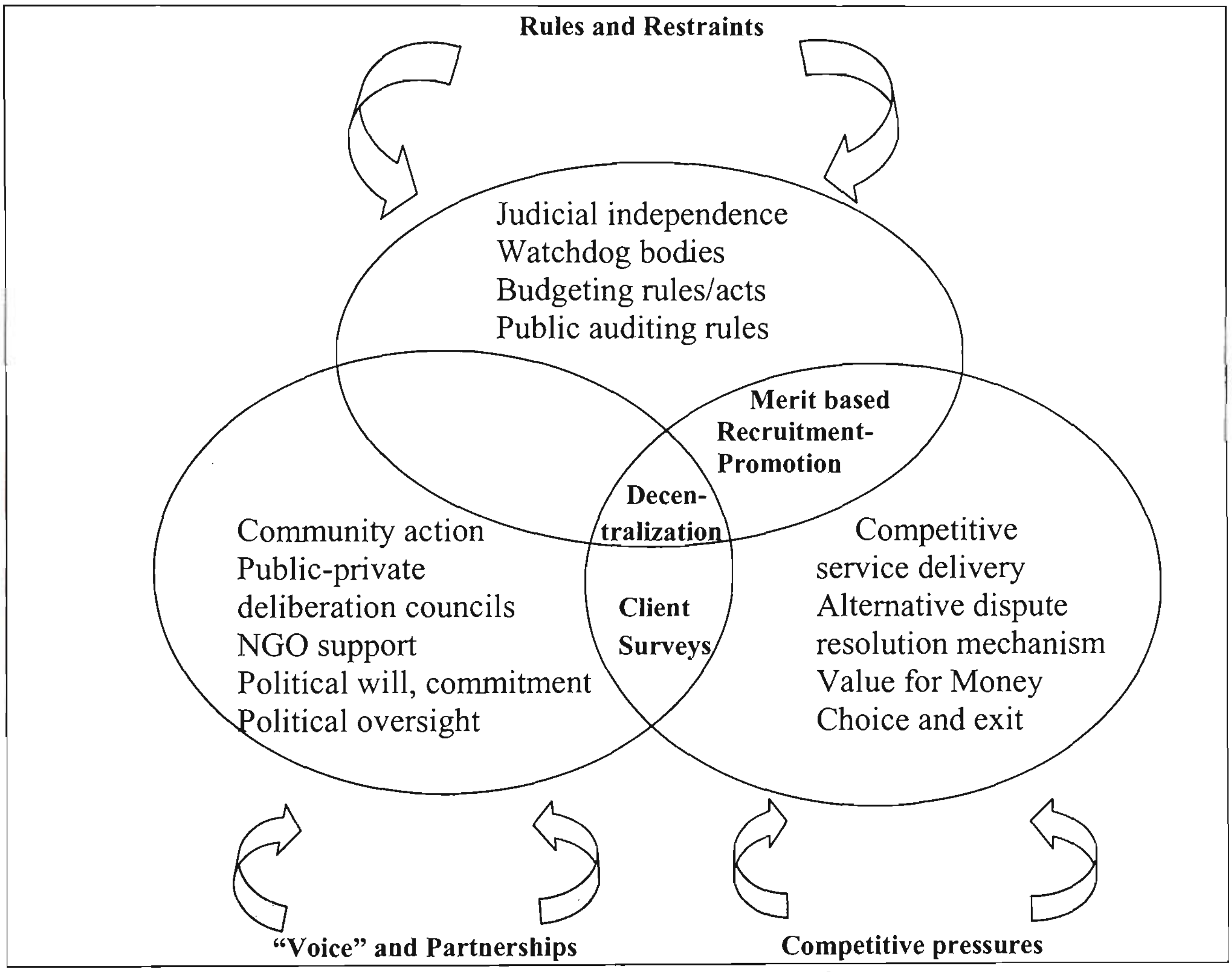

Figure 2.6 Drivers of public sector reforms
Source: (The World Bank 2000a)

This thinking regarding the public sector led to a paradigm shift in the approach to fiscal indiscipline across the globe, which is depicted in Figure 2.7. This diagram indicates fiscal (budget rules/acts – fiscal discipline, value for money) and governance contents (contestability, transparency and accountability and partnership and so on). The issues of governance such as transparency and accountability, which influence the process of implementing fiscal reforms and are in turn influenced by fiscal unsustainability, can be achieved through decentralization. Structural stability at both micro and macro levels is achievable by enforcing good governance (Bates 1999).

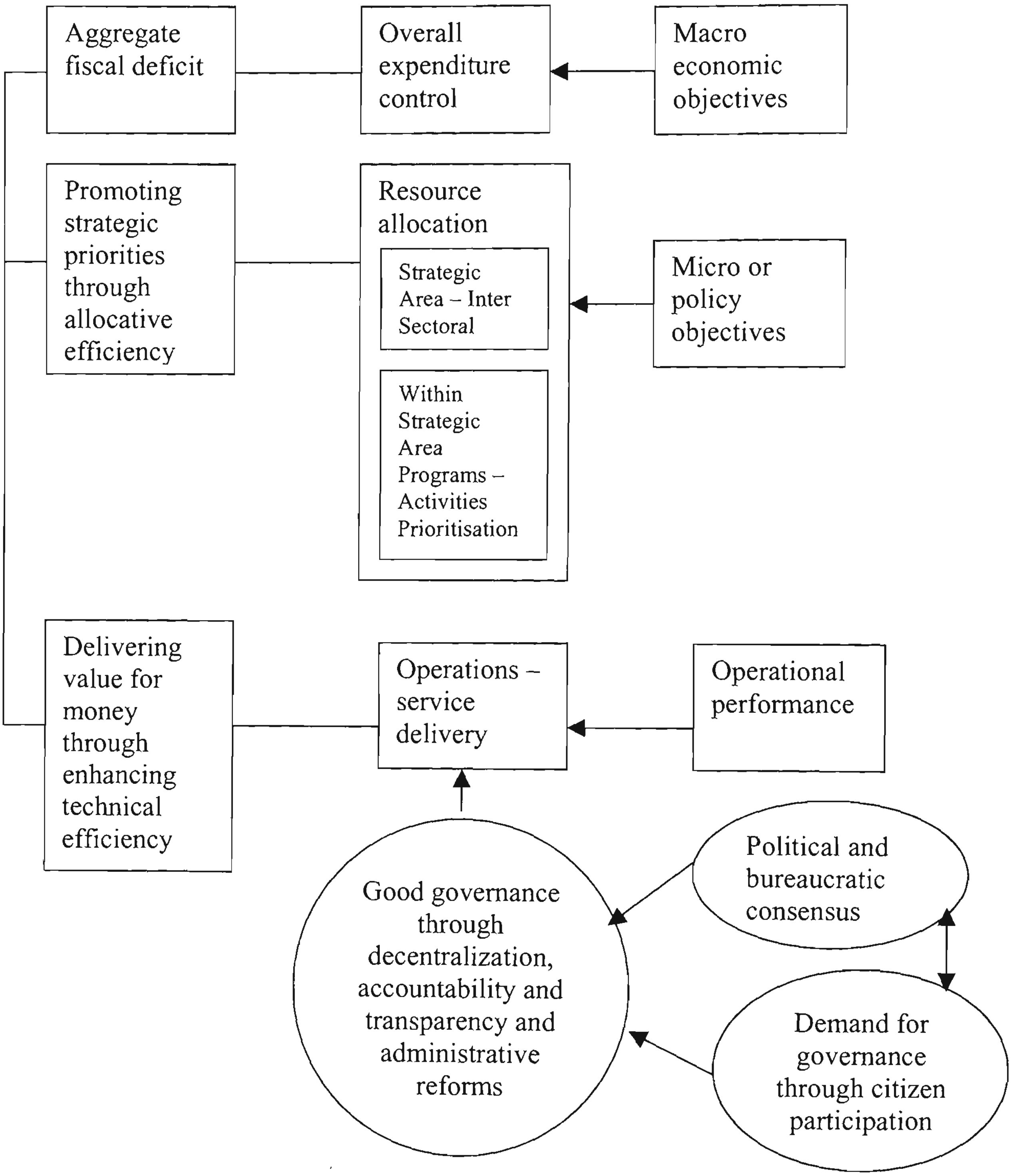

Figure 2.7 Paradigm of fiscal and governance reforms
Modified From: (Poterba & Hagen 1996; The World Bank 2000b, 2001)

The Economist, in various issues, highlighted the achievements of reforms undertaken by the New Zealand Government, which was the harbinger of reforms with the following epithets, 'Free Market Socialists', 'The sort of Socialism of which millionaires approve', 'Out-Thatchering Mrs. Thatcher', 'Trail-Blazing Economic Reforms', 'A Paradise for Free Markets', 'The most thorough going economic reforms', etc till 1993. "Subsequently, the very same reforms were characterised as the New Zealand disease in the Independent (1994), which stated "one in seven below poverty line, record number of people in jail, armed police on the streets, queues at charity 'food banks', there is a feeling that something irreplaceable has already been lost" (Kelsey 2002, p. 9). Presently, the reforms have borne positive results making New Zealand one of the most stable and fast growing economies. However, the pictures that emerge from across the globe are situations ranging from reform success, ongoing reforms, reform fatigue, and reform failure.

Reforms are never short course measures and should be pursued in their entirety. Ad hoc-ism leads to reform fatigue and failure. Reforms should also be context specific while taking into account the changes in the international scenario that may influence the process, that is, policy makers should be flexible to adapt and respond to the situation.

This chapter has presented a review of Public Sector Reform – fiscal and governance reforms literature. It has explored the genesis, definitions, the objectives, and the principles of Public Sector Reforms. Further, this chapter has dealt in detail with the elements of fiscal reforms and their implementation, that is, Fiscal Transparency, Budgeting, Public Expenditure Management and Medium Term Fiscal Frameworks. Issues of governance, has been another focus of this chapter and includes definitions, aim, rationale and models of governance. It specifically goes into details of decentralization, accountability and transparency, administrative reforms and privatization and commercialization. Finally, this chapter attempts to point out some of the winners and losers in reforms. The literature review forms the foundation for the following chapters.

Chapter 3

Fiscal and Governance Reforms in Developing Countries with special reference to India – National and Sub national contexts

At the core of our dark experience lies the ugly truth that there was an absence of transparency, accountability, public interest, and public responsibility.

M. Adler 1981

3.1 Introduction

This chapter provides an overview of fiscal and governance reforms in developing countries with special reference to India at different levels of governance. This chapter is presented in five sections. Section 3.2 provides an overview of fiscal and governance measure in developing countries. Section 3.3 deals with fiscal reforms in India. The theoretical underpinnings and precursors to reforms undertaken at the National and State Governments are highlighted. The structures of institutions and governance that either promote or are barriers to reforms are also critically viewed in this chapter. Finally, what some sub national governments are doing to overcome such barriers and the outcomes they have achieved are spelt out that could provide directions to other governments to follow. Section 3.4 is on governance reforms in India. The role of the civil society is examined closely. The relationship between state institutions, civil service and poor governance and the accountability of government officials in the present system is studied herein. This section ends with a discussion on fiscal governance in the context of India where the failure of fiscal reforms can be attributed to weak governance initiatives. Section 3.5 presents the conclusion of this chapter.

3.2 Fiscal and governance measures in developing countries

3.2.1 Fiscal policy in developing countries

Fiscal policy comprises "a mix of budgetary instruments that governments can use to target particular economic goals such as higher economic growth or improved income distribution" (Alesina & Perotti 1996, p. 5). They comprise government expenditure to help achieve its goals and revenue from taxes and non-tax sources to pay for activities that facilitate their achievement. While fiscal policy supports government's objectives, it could also have detrimental ramifications unless perspicuously managed. The design of fiscal policy is a challenge since there can be no generic policy prescription associated with it. Rather, it depends on the initial position and economic environment from which a government formulates it (Broadway et al. 1994).

In simple economic terms, fiscal reform leads to containment of public expenditure through enforcing fiscal discipline and ensuring value for money while enhancing revenue earning through streamlining priorities of government (Krueger 1993). Thus, a prime requirement of macroeconomic stability in medium and long term is the reduction of the fiscal deficit of the government, more broadly the deficit of the non-financial public sector (Poterba & Hagen 1996)[10]. The reduction of fiscal deficit is essential because if governments perpetuate their spendings more than their revenue collections, the difference has to be financed through either money creation or borrowing since rises in taxation is politically undesirable in a democracy.

In developing, and to some extent newly developed countries, though the basic policy intention is to strive for balanced or sound fiscal policy, still large and persisting deficits exist. The following economic and political considerations are being attributed for this sort of fiscal aberration (Premchand 2000, pp. 15-6).

- "Voters and policymakers may be subject to fiscal illusion (i.e., not fully aware of the government's intertemporal budget constraints), and therefore favour deficits over surpluses. However, there is also some evidence that fiscal adjustment can be popular because voters seek to penalize profligate fiscal policies but this mostly happens in developed countries.
- Current voters and policy makers may want to shift the burden of fiscal adjustment onto future generations.
- Debt accumulation may be used as a strategic instrument to limit the fiscal room for manoeuvre of future governments – a sadist approach which a government apprehending to loose power in the next election cycle may adhere to.

[10] Non-financial public sector means the aggregation of central and state governments, public sector enterprises and the reserve banks, excluding other public sector financial institutions such as the nationalised commercial banks.

- Fiscal consolidations may be delayed by political conflicts regarding the sharing of adjustment costs between various groups, resulting in persistent deficits.
- And last but not the least, existing budget institutions may function in a way that leads to persistently high spending".

The literature suggests that most nations, but with great variation in the intensity, are subjected to inside and outside lag which contribute to disparity in the fiscal policy objectives and outcomes. Inside lags reflect the time it takes to recognize that fiscal policy should be changed and then to put appropriate fiscal measures in place. Inside lags are a function of the political process and effectiveness of fiscal management (Schick 1998). Outside lags reflect the time it takes for fiscal measures to feed through to aggregate demand. All fiscal measures could be subject to long inside lags because their design, approval, and implementation may be protracted. The greater the reliance on discretionary measures, inside lags are likely to be longer. "India has notoriously accumulated expertise in prolonged inside and outside lags thus the policy outcomes are seldom in line with the projected goals" (Sen 2000, p. 5).

Thus fiscal prudence should be inbuilt and inherent in public policy (Schwartz 1995). Since governments have a tendency to stray away from reality, a well-planned workable framework is required, which is a fiscal reform framework. In some countries this framework is self imposed and in other countries, especially developing countries it is imposed from outside since countries approach World Bank, IMF and other multilateral/ bilateral agencies for balance of payment support (Patel 1998).

The International Monetary Fund (IMF) and World Bank (WB) have mainly propagated the concept of 'sound fiscal policy'. In order to illustrate some of the common themes that emerge in IMF and Bank assessments of sound fiscal policy, it is useful to begin by citing some recent elements of the Concluding Statement by the IMF's mission team in the recent Article IV consultation mission to one of its industrial country members – Denmark - in January 2003 (like New Zealand's fiscal responsibility act of 1994, Denmark is very much quoted for sound fiscal policy) (International Monetary Fund 2003, pp. 21-9).

- "The government's stated intention to maintain a broadly neutral budget in 2003 is appropriate. Neutrality is interpreted as no significant change in the underlying surplus.
- Automatic, stabilizers should be allowed to operate in the event that economic growth deviates from the projected path for 2003.... [Thus] the surplus could fall below the 2 percent of GDP floor of the medium-term target...This would not by itself be a cause for alarm, but it could mean that some tightening of fiscal policy would be necessary after this year to keep the surplus within the targeted range if the loss in pension yield tax receipts prove more permanent.
- Denmark is setting an admirable example internationally by its forward-looking fiscal policy. To meet the challenges of an aging population and the associated longer-term strains on the welfare system, Denmark has been running sizeable surpluses while playing down the public debt. Targeting surpluses of 2 to 3 percent of GDP through 2010 should continue.
- To sustain budget surpluses, at a minimum, the target for real public consumption growth of 1 percent a year should be observed. But there is a need to find additional control mechanisms.
- The high tax burden is at best not conducive to increasing labour supply and could become a constraint on economic growth ... [it] may not be sustainable in the face of tax competition from abroad ... there is a good case for building more room into medium term plans for tax cuts.
- Meeting a more stringent expenditure target while accommodating higher spending in priority areas would require a critical review of other areas, including social spending, where spending is relatively high by international standards.
- Welfare traps are not solely an immigrant issue and should be addressed through a general review of the structure of benefits.
- Denmark has an outstanding record in providing assistance to developing countries of about 1 percent of GDP. It is hoped that this record is maintained and that ODA is exempted from efforts to meet public spending restraint targets".

From developing countries perspective these sound like an utopian concept. For that matter, even for developed countries sustainability of fiscal policy on these parameters is a herculean task (Rangarajan 2004).

More generally, it can be said that there are six central threads on what constitutes a sound fiscal policy fabric: governments' approach to assessing the short-term fiscal policy stance; the attention paid to medium and sometimes long-term issues; a focus on sustainability; recognition of the factors determining the successful implementation of a desired aggregate fiscal policy stance (including political economy matters); the importance placed on the structural content of fiscal policies (the efficiency of the tax system and quality of public expenditures); and finally, the relevance of institutional, governance, and process issues associated with the implementation of a budget and the collection of government revenues (Brixi et al. 2001).

3.2.2 Three pillars of fiscal architecture

From the perspective of developing countries, imposing fiscal reforms may lead to over perform on fiscal policy targets, which may in turn lead to a slow down of the economy. Therefore, the foundation for an appropriate fiscal policy for developing countries should focus on the three pillars of fiscal architecture. These are feasibility, affordability and sustainability – comprehensively and broadly the following questions need to be asked in the design of fiscal policy and the degree of reform commitment depends on the level of correctness of answers (Rao & Sen 1996; Shome 2002).

Feasibility: Is the fiscal policy architecture feasible given the country's available resources and administrative capacity? Is the government's proposal attainable? Do we need a macro fiscal model that will clearly delineate why the proposed budget is feasible? How neutral is the tax system not to hurt the segments of population for them to react strongly? Is the tax revenue projection without bias? Are expenditure programs implementable? Is computerisation essential to make the fiscal program attainable? Is the investment in and use of information technology correctly structured in a background of a public employment policy of government as employer of first resort? (Shome 2002)

Affordability: What is the overall size of resources that governments at different levels can realistically command? Do government projects tend to be too grandiose to be affordable? At the central level, is the building of mammoth dams financed through multilateral loans, or costly sports complexes for a one-time event in the capital city, affordable? At the state level, are huge energy complexes financed by multinational conglomerates at international market rates affordable, or loans from multilateral institutions – that require not an insignificant proportion of the loan itself to be spent on international consultant studies – worth it? What mechanism is in place to determine the affordability of projects? Are they based on cost-benefit analyses carried out by domestic professional experts in the specific field? Who is in charge of the final decision on affordability – is it a committee with appropriate representatives or an individual bureaucrat or politician? In short, to determine affordability, is there a transparent and dependable system in place that systematically utilizes the knowledge and expertise of professionals and specialists? (Rao & Sen 1996; Shome 2002)

Sustainability: Is the architecture based on the premise that, even if continued up to the medium term, it would not precipitate an economic crisis in the form of a loan service default, or emergency taxation and sudden expenditure reduction, or high inflationary pressure? Is debt policy tending to raise the interest rate such that it could exceed the growth rate? Could government sustain its public debt, for example, could it stabilize it in terms of GDP relatively comfortably if it wanted to introduce such a strategy? Given that the benefits and costs of public debt tend to be shared by both current and future generations, is intergenerational fairness built adequately into this architecture of fiscal policy? (Desai 2002)

These questions cannot be addressed or answered unless issues of governance are addressed (Forte 1999). It is not only the capacity building of institutions that should attract priority but policy planners and implementers need to strengthen their own capacity as well. Some economists advocate the need for the simultaneity of fiscal and governance reforms, be they stabilisation, decentralization or administrative reforms; ipso facto, they deny the need for any kind of sequence (Fozzard & Foster 2001). On the other hand, another school of economists states that all reforms would be costly in welfare terms and, without some democratic consensus building, politically destabilising (Corbo & Fischer 1995). This led them to ask simply for more time for implementation, without considering whether a reform timetable that was already in place could be rearranged to better effect. Therefore, this remains a highly contentious issue.

3.2.3 Governance reforms in developing countries

Governance now not only occupies center stage in the development discourse but is also considered as the crucial element to be incorporated in the development strategy. Policy analysis based empirically on the historical experiences of governance gives prominence to 'government failures' to deliver leading to propositions for making the administration lean, proactive, progressive and responsive, enforcing accountability, transparency and devolution of power and authority (Corbo & Fischer 1995).

In a conventional sense the state was governed with three constituents i.e. legislature, judiciary and executive. But with the evolution of governance reforms, other constituents like private sectors (including the media), local government (due to decentralization), and civil society (for watching the transparency and accountability) have come into existence and play a crucial governance role which is depicted pictorially bellow (OECD 2002a).

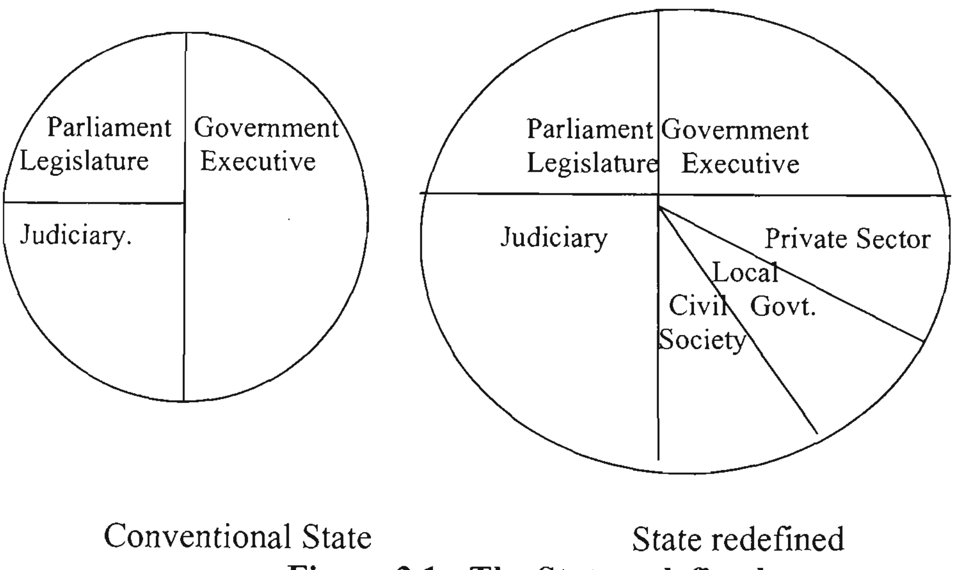

Figure 3.1: The State redefined

In a broader perspective good governance is central to creating and sustaining an environment that fosters strong and equitable development, which is an essential complement to sound macro, micro and meso economic policies (Piven & Cloward 1993;

OECD 2002a). Therefore, Governments require systems of accountability and transparency, adequate and reliable information, and efficiency is resource management and the delivery of public services through a proactive civil service (Peters & Savoie 1996).

The path to good governance is different for each developing country, depending on culture, geography, political and administrative traditions, economic conditions, and many other factors. The scope of activities allocated to the public and private sectors diverges markedly. Variation in scale is also enormous. Many of the institutions and practices that work effectively in the People's Republic of China (PRC), with its 1.2 billion people, will not be relevant in Nauru, with its population of 10,000 (Rockman 1998).

Yet governments share many features. They face similar responsibilities in that they need to establish a basic policy framework, provide critical goods and services, protect and administer the rule of law, and advance social equity. They need to focus on core public tasks. They need proper incentives to perform these tasks as efficiently and effectively as possible in a responsive, transparent, and predictable fashion, and with clear strategic focus and appropriate participation. They need to confront corruption from the highest level (Petit 2001).

In developed countries Government or its institutions are responsive to the citizenry and reasonably efficient in the delivery of public services. Their decision-making processes and the decisions they result in are in general transparent and predictable. Oversight mechanisms (checks and balances) exist to guard against arbitrariness and to ensure accountability in the use of public resources but these oversight mechanisms do not eliminate the flexibility and delegation that are needed to respond quickly to changing circumstances (The World Bank 2000a).

Most governments in the developing world are a long way from this model, although a growing number are devoting great efforts toward reform. Non-transparency, a lack of delegation and poor results on the ground are commonplace and contribute to arbitrariness, corruption and poverty. The unaccountable, centralised, monolithic and non-transparent public governance leads to a blurring of the lines between the public and private sectors and to dysfunctional corporate governance – manifest through excessive government interference, corrupt capital market or utility regulation or government 'capture' of private interests, or in 'crony capitalism' (Peters 1996; The World Bank 2000a).

Likewise, in developing countries, the mantra of privatization has become 'common sense' economics and an indispensable process in the reforms design. Privatization measures have been adopted and implemented under the frameworks imposed by the International Financial Institutions (IFIs), which have been by way of conditionalities attached to loans (McGowan 1998). However, the process of privatization in developing countries has not been a spectacular success and the IFIs have come forth with new policy measures including those in the area of law and governance reform to remedy the problem. Nevertheless, while it is assumed that privatization is an inherent part of good governance, there has not been good governance of privatization, particularly in India. In developing countries, the period of dominance of the State Owned Enterprises (SOEs/ PSEs) has been portrayed as politics imposed over economics. Significant internal factors support privatization in a number of countries, not least of these has been disenchantment with endemic corruption. There has been growing consensus that governments perform worse than the private sector in a host of activities (Paliwala 2001).

In the world of asymmetric economic level, political and cultural standards, each country has unique governance issues to deal with and priorities they need to adhere to. Region wise governance challenges are summarised in table 3.1 below.

Table 3.1 Governance challenges being addressed in the region

Sub region/ Type	Governance Challenge	Priority Action
Former centrally planned Economies	Overextension and over centralization of the state Lack of appropriate legal framework and skills Greater reliance on the market	Encourage carefully timed and tuned process of decentralization.
Least-developed countries	Very weak administrative system	Extend the scope and extend the pace of administrative reform
South Asia	State tries to do too much given limited resources and capabilities Regulatory ossification	Better matching the role of the state to its capability Cut red tape Encourage administrative volition and renewal
South East Asia	'Crony capitalism' Weak Checks and balances in public-private relations Barriers to competition	Improve openness, reciprocity, and checks on administrative discretion Strengthen corporate governance system Encourage competition

Modified From: (Putnam 1994; Asian Development Bank 2002c)

The next section deals with fiscal and governance reforms within the Indian context.

3.3 Fiscal reforms in India

3.3.1 India – A country profile

Federal structure: The Republic of India is a constitutional federal democracy made up of 29 states and six union territories. The Indian constitution allocates most powers between the centre and the states, although the centre takes precedence in relation to residual powers. There are continuous rifts between the states and the federal government regarding control of economic and administrative power (Dutta & Sundaram 2003).

The Judiciary and the Legislature: The Indian Constitution provides for an independent judiciary, with high courts in every state and a Supreme Court in New Delhi. There are two houses of parliament. The lower house, or Lok Sabha (House of People), is elected every five years by universal adult suffrage. Members of the upper house, or

Rajya Sabha (House of the States), are elected by their respective state legislatures, according to state quotas based on population.

Centre versus States: India's 29 states vary enormously in size and resources. The centre's powers to tax income, production and foreign trade give it far greater access to revenue, a large part of which is shared out amongst the states by the Planning Commission as well as by Finance Commissions that are appointed once every five years. The States cannot borrow without the Centre's permission (Dutta & Sundaram 2003). However, as the Centre has been ruled by a succession of weak governments from the late 1970s onwards, the Centre's expenditure has run ahead of revenue, and a fiscal deficit has emerged. The Centre has been unable to refuse the States' demands to run their own deficits. Both the centre's and the states' deficits are largely financed by banks and financial institutions, which channel public savings to the governments. This pre-emption of investments to finance excess consumption by the government – amounting to about 10% of GDP each year has become a drag on India's economic growth (The Economist Intelligence Unit 2002).

As central controls on industry, finance and foreign trade have been relaxed in the past decade, industry has received the freedom to relocate, but at the same time has faced greater competition. These competitive pressures have been passed on to the states, which have tried to attract and retain industry.

Although most states have been mired in a poor fiscal and political situation, some have taken advantage of the new openness and fluidity in the economy to make them more attractive to industry - especially to the Information Technology (IT) Industry, which has been India's greatest recent export success (Srinivasan 2001b).

The economy: Two-thirds of India's population is engaged in the agriculture sector. On an average, agriculture along with forestry and fishing accounts for around 25% GDP. However, the majority of landholdings are farmed at subsistence level and many farming families live below the poverty line. India has some of the lowest human development indicators in the world, particularly in rural areas. At the other end of the scale, India also has a large number of highly qualified professionals, as well as several internationally established industrial groups (Dutta & Sundaram 2003). Without a rapid and sustained increase in overall rates of economic growth, reducing poverty will remain a considerable challenge (Srivastava 2000).

Table 3.2 Comparative economic indicators, 2001

	India	China	Pakistan	Bangla-desh	Sri Lanka
GDP (US$ bn)	485.2	1180.1	58.7	46.9	15.8
GDP per head (US$)	471	928	418	334	810
GDP per head (US$ at PPP)	2,489	5575	1970	1463	3015
Consumer price inflation (av %)	3.7	0.7	3.2	1.6	14.2
Current-account balance (US$	-3.0	20.1	-0.1	-0.1	-0.9
bn) % of GDP	-0.6	1.7	-0.3	-0.2	-6.0
Exports of goods fob (US$ bn)	44.8	264.1	8.7	6.2	4.8
Imports of goods fob (US$ bn)	-54.9	-232.6	-9.2	-7.9	-6.0
External debt (US$ bn)	101.5	146.0	30.1	15.1	8.5
Debt-service ratio, paid (%)	13.3	6.3	17.9	9.5	8.7

Source: (The Economist Intelligence Unit 2002)

Economic policy: India's economic growth remains severely constrained by an unwieldy fiscal deficit. It reached 6.6% of GDP in 1991/ 92, when India experienced a payments crisis. Sustained attempts at fiscal restraint brought it down to 4.1% in 1996-97. The succession of weak coalition governments that followed raised it to about 5.9% in 2001/02. The states add another 1.5-2% deficit. Both the centre and the states finance their deficits by borrowing from banks, insurance companies, pension funds and other institutions, which in turn borrow from the public. Virtually the entire deficit goes to finance government consumption, and thus takes financial resources away from productive investment. If they were instead used productively, GDP growth would be a couple of percent higher (Ahluwalia 2002; The Economist Intelligence Unit 2002).

Economic performance: India's economy expanded considerably over the 1980s to reach an annual rate of GDP growth of around 5.5%. This was achieved after three decades of growing by just 3.5% per year (equivalent to 1% growth in GDP per head), which later came to be known as the "Hindu rate of growth" (Sen 2000; Ahluwalia & Little 2001). Economic growth fell back to 0.4% in the crisis year of 1991/ 92; but following devaluation, import liberalisation and industrial delicensing; it rapidly rose above 5% and reached a peak of 7.7% in 1995/ 96. Since then it has faltered. In 2000/

01, growth was 4.4% and growth for 2001/ 02 was 5.4%. However, the share of services in growth has become increasingly narrow. The only industries that have shown consistent growth are pharmaceuticals and vehicles, especially motorcycles. The large domestic saving remains comparatively high in India, despite a fall over recent years. Gross domestic savings stood at 23.7% of GDP in 2000/ 01compared with a peak of 27.5% of GDP in 1997/ 98. Public savings have deteriorated to –1.7% of GDP from 2% in 1995/ 96, constraining domestic resource mobilisation. Gross capital formation has fallen to 24% in 2000/01 from 16.9% in 1995/ 96. The large and unproductive state sector is a key constraint to higher rates of GDP growth. The State accounts for one-third of investment, although it employs 70% of the 28m workers in organised employment in India (Anand 1999). Most public sector enterprises are hugely overstaffed, debt-ridden and inefficient. A high level of unionisation (and political expediency) has restricted labour reforms and technological advances that could threaten jobs, deterring potential investors. The 2001/ 02 budget included a much-sought after "exit policy", permitting owners of enterprises that hire up to 1,000 staff to shed workers without government approval, as well as introduce measures to employ on contracts. Most such initiatives are unlikely to be pursued but the government has made a modest yet decisive beginning in the privatization of public enterprises by selling some major ones in the past two years. India's larger-scale private sector has responded better to the reform process, with mergers in several sectors helping to improve efficiency (Singh 2003). However, overall economic growth has been severely hampered by weak infrastructure facilities, including poor transport networks and insufficient and erratic power supplies, which have also limited investment. Levels of capacity utilisation have been low and capital productivity has been poor, with negligible growth in total factor productivity (Shah 1998; Appu 2000; Reddy 2001).

Progress on key indicators: Since Independence, and as of now, India has achieved significant progress in overcoming the long term colonial stagnation, a thousand years of political, economic and social subjugation and economic backwardness as can be assessed from the tables 3.3, 3.4 and 3.5 below but it is far below its potential and no where near the dream of our freedom fighters.

Table 3.3 Progress since independence: key indicators

Year	Poverty (%)	Literacy (%)	Life Expectancy (yrs)	Power Capacity (MW)
1951	45	17	32	1362
1961	45	31	45	4653
1971	52	38	50	14709
1981	43	44	55	30214
1991	35	52	60	85000
2001	27	65	65	105000

Source: (Government of India 2002c)

Table 3.4 FDI Inflows during the 1990s (in billion US dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	Total
India	0.1	0.2	0.6	1.0	2.0	2.4	3.3	2.3	11.9
China	4.4	11.2	27.5	33.8	35.8	40.8	44.2	45.5	243.2
HongKong	0.5	2.1	1.7	2.0	2.1	2.5	2.6	1.6	15.1
Indonesia	1.5	1.8	2.0	2.1	4.3	6.2	4.7	-0.4	22.2
Korea	1.2	0.7	0.6	0.8	1.8	2.3	2.8	5.1	15.3
Malaysia	4.0	5.2	5.0	4.3	4.1	4.7	5.1	3.7	36.1
Philippines	0.5	0.2	1.2	1.6	1.5	1.5	1.3	1.7	9.5
Singapore	4.9	2.2	4.7	8.4	8.2	9.4	9.7	7.2	54.7
Taiwan	1.3	0.9	0.9	1.4	1.6	1.9	2.2	NA	10.2
Thailand	2.0	2.1	1.8	1.3	2.0	2.3	3.6	6.8	21.9

Source: (Asian Development Bank 1999)

Table 3.5 Savings and investment trend (Percentage of GDP)

	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02
Gross Domestic Savings	22.5	25	25.1	23.2	23.1	21.5	24.1	23.4	24.0
Public	0.6	1.7	2.0	1.7	1.3	-1.0	-1.0	-2.3	-2.5
Private	21.9	23.3	23.1	21.5	21.8	22.5	25.1	25.7	26.5
Gross Domestic Investment	23.1	26.1	26.9	24.5	24.6	22.6	25.2	24.0	23.7
Public	8.2	8.8	7.7	7.0	6.6	6.6	6.9	6.4	6.3
Private	13.0	14.8	18.9	14.7	16.0	14.8	16.7	16.1	16.1
Savings-Investment Gap	-0.6	-1.2	-1.7	-1.3	-1.5	-1.0	-1.1	-0.6	0.2
Public	-7.6	-7.1	-5.6	-5.4	-5.3	-7.6	-8.0	-8.7	-8.8
Private	8.9	8.5	4.2	6.8	5.8	7.7	8.4	9.5	10.3

Source: (Government of India 2000c, d, 2001b)

The backwardness as mostly agreed now is due to the following sets of policies both at the federal and state levels as stated by Ahluwalia (2000, pp. 22-3):

- "Anti-globalisation policies that meant that India failed to take advantage of the opportunities provided by the growing world economy regarding trade and inward flows of foreign direct investment as can be observed from the table 3.3 above.

- Off-the-charts heavy reliance on public sector enterprises which afflicted by inevitable overstaffing, lack of incentives and too much of bureaucratisation and politicisation as well led to losses resulting in stressing, straining and draining the already precarious fiscal position further
- Protection and defence of capital-intensive choice of techniques that led to a tolerance of the huge white elephants in the public sector that intensified and aggravated the sorry performance of these enterprises and under this rubric a bulky bureaucracy was promoted to exercise control and regulate.
- An overwhelming expansion of direct controls to a Kafkaesque level that also made India a template, a model, of what not to do in order to grow the joneses way to sustained development".

During the last five and half decades of independence and five decades of planning, the rate of savings and investment which were only 10.4% and 10.2% in 1951-52 have been more than doubled to 23.31% and 24.23% respectively by the end of Ninth Five Year Plan (1997-2002). This is comparable with many developing and developed countries (Planning Commission of India 2002). But these rates are much lower than high growth countries like Singapore (savings rate of 51.4% and investment rate 34.5%) and China (savings rate of 42.5% and investment rate 38.8%) (The Economist Intelligence Unit 2003).

As it can be observed from table 3.4 above, there is a progressively negative trend in the public savings and investment due to increasing government consumption expenditure, which is a matter of great concern (Rajwade 2003). Higher investment rates are possible only if the rate of overall savings goes up substantially or foreign savings (current account deficits) are used in a big way to supplement domestic savings. Thus enhancing the growth rate of the Indian economy would necessarily call for higher domestic savings, and indirectly, higher public sector savings in particular. Hence, fiscal policy through a well designed reform framework can play substantial role in improving the investment and its productivity as in the case of Thailand and South Korea (Jha 2003a).

India, at the time of independence, had almost similar levels of per capita incomes as that of China or Korea. However, since then both these economies have surpassed India in terms of per-capita income even in terms of share in the global economy whether in manufacturing output or in global trade. India proudly proclaims its superiority in its pool of scientists and engineers; yet the ground reality is that even here the scientists and engineers per million population is less than one fourth that of China or one tenth that of Korea (Rangarajan 2001b). India enjoys the dubious distinction of having the world's largest number of poor. It is worthwhile to mention that in terms of human development index developed by UN, India ranks amongst the lowest 20 percent whereas the East Asian countries are in the highest 20 percent. Under this economic scenario, India needs to set its strategic priorities in right perspective and direction while observing reticence in fiscal profligacy (Rediff 2001). As Reddy (2000b, p. 38) rightly put it, "tomorrows problem cannot be solved with yesterdays strategies and cannot even be understood with day before yesterday's knowledge". Thus the situation warrants massive and consolidated fiscal reforms.

3.3.2 India's difficult fiscal reforms trajectory

India's reform phase began in 1991 and continues to date. After a period of pseudo robust economic performance in the late 1980s, the economy entered into a period of unprecedented liquidity crisis (Acharya 2001). This crisis was a combined effect of a number of coinciding events. These included, collapse of India's major trading partner USSR, and the Gulf War in 1991 which not only worsened the balance of payments crisis but caused virtual stoppage of remittances from Indian workers in the Gulf (Vaghul 1999). International credit rating agencies lowered India's both long- and short-term ratings. Thus India not only faced the crisis of difficulty in borrowing from the international market but the lack of confidence led to withdrawal of deposits by non-resident Indians (Wadhva 1994). Thus, impending bankruptcy drove the reform process and changed the state's role from that of principal investor to that of facilitator of entrepreneurs. This shift was expected to free up government finances for more social spending, but in practice the fiscal crunch prevented a significant increase (The World Bank 1997, 2003b)

The then Prime Minister Rao's government abolished most industrial and import licensing, devalued the rupee, drastically reduced import tariffs, liberalised the financial sector and foreign investment, and allowed private investment in areas previously reserved for the government. The new coalition government that came to power in 1996 has by and large sustained these reforms but with a lesser intensity. And since 1997 budget, orientation has been changed to take very positive steps in that direction (Parikh 1999). Most political parties agree on the need for reform, yet no party is eager to retrench surplus labour, close unviable units, or reduce subsidies, a paradoxical approach. The reforms so far are a positive step but must be extended and accelerated if India is to catch up with the East Asian tigers, especially China (Anand & Ravillion 1993; Aiyar 1999).

Comprehensive reform of the economy, which India embarked on, was to widen and deepen its integration with the world economy as a part of a structural adjustment. There seemed to be a general consensus on the desirability of reforms to dismantle the bureaucratic deep-rooted regulatory apparatus evolved over the years that may have outlived its utility (Bajpai 2001). However, there has been considerable debate on the contents of the reform package, their sequencing, the pace, their implementation and their impact. The debate has become a highly polarised one between two camps of scholars. One group of scholars hails the achievements of reform and seek faster implementation of the remaining issues of the reform agenda (Ahluwalia & Little 2001). The other school is more critical of the approach to reforms. It focuses on the adverse effects on the society especially the vulnerable groups, questions the sustainability of growth and the reforms themselves. Hence, they seek rethinking on the coverage, sequencing and pace of implementation of the reforms (Nagraj 1997).

The substantial cumulative reforms over the decade have been substantial which are broadly as follows (Kapila 2001b; Sachs & Bajpai 2001; Srinivasan 2001a; The Economist Intelligence Unit 2003):

- Progressively more sectors were opened to private investment, including power, steel, oil refining and exploration and investment, road construction, air transport, telecoms, ports, mining, pharmaceuticals, and the financial sector. Sectors such as garments and textiles previously reserved for small-scale industries were also delicensed.

- Policymakers sought to encourage FDI with majority equity, except in a few 'strategic' sectors, and portfolio investment. Red tape was significantly reduced.
- Most industries were delicensed to encourage competition. Domestic investment in defence-related items is now permitted.
- Trade policy was liberalised. Some import quotas were converted into tariffs, and the tariff system has been simplified to reduce the number of bands and achieve a reduction in overall rates imposed. From April 2001 remaining Quantitative Restrictions on imports have been removed, although tariffs remain high.
- Some aspects of business decision-making, such as the location of new enterprises and technology transfer, were taken out of the state's control. Labour relations and shutting down loss-making enterprises ('exit policy') remain strictly regulated. However, the 2001 budget proposed giving employers greater flexibility over hiring and firing staff.
- The exchange-rate regime was liberalised with the devaluation of the rupee by 22% against the US dollar in two instalments in July 1991. A market-determined exchange rate was introduced in March 1993 and current-account convertibility in August 1994. Since July 1995 all official foreign debt-service payments have been channelled through the interbank market. However, the rupee is not yet fully convertible on the capital account.
- Capital markets were reformed. Private mutual funds, foreign institutional investors (FIIs) and country funds are active investors, and the stock market is subject to more rigorous regulation, although scandals every couple of years suggest there is still some way to go. Officials are pointing to the National Stock Exchange as the model market.

Fiscal reforms were the central issue since the revenue expenditure was as high as 13.3% of GDP and the fiscal deficit of federal government was around 7.8% of GDP (Kapila 2001b). In India, as part of the MOU with World Bank and IMF, overall economic reforms were set in motion in 1991 (Kapila 2001a). In the following section, the specific focus will be on fiscal deficit/ debt and the Fiscal Reform Budget Management Bill.

3.3.3 Fiscal deficit/ debt

Tables 3.6, 3.7 and 3.8 and figures 3.2, 3.3 and 3.4 depict various aspects of the fiscal scenario of India post reform period that is for 1991-2001 which shows the waning out effects of fiscal reforms and the absence of realism in fiscal management.

Table 3.6 Trends in actual and hypothetical fiscal deficit

Year	Hypothetical Fiscal Deficit	Actual Fiscal Deficit
1989 90	35632.00	35632
1990-91	44632.00	44632
1991-92	36149.33	36325
1992-93	39601.77	40173
1993-94	59655.21	60257
1994-95	56393.26	57703
1995-96	57868.55	60243
1996-97	62958.92	66733
1997-98	84452.48	88937
1998-99	106307.32	113766
1999-00	98253.24	135833
2000-01	98473.24	143275

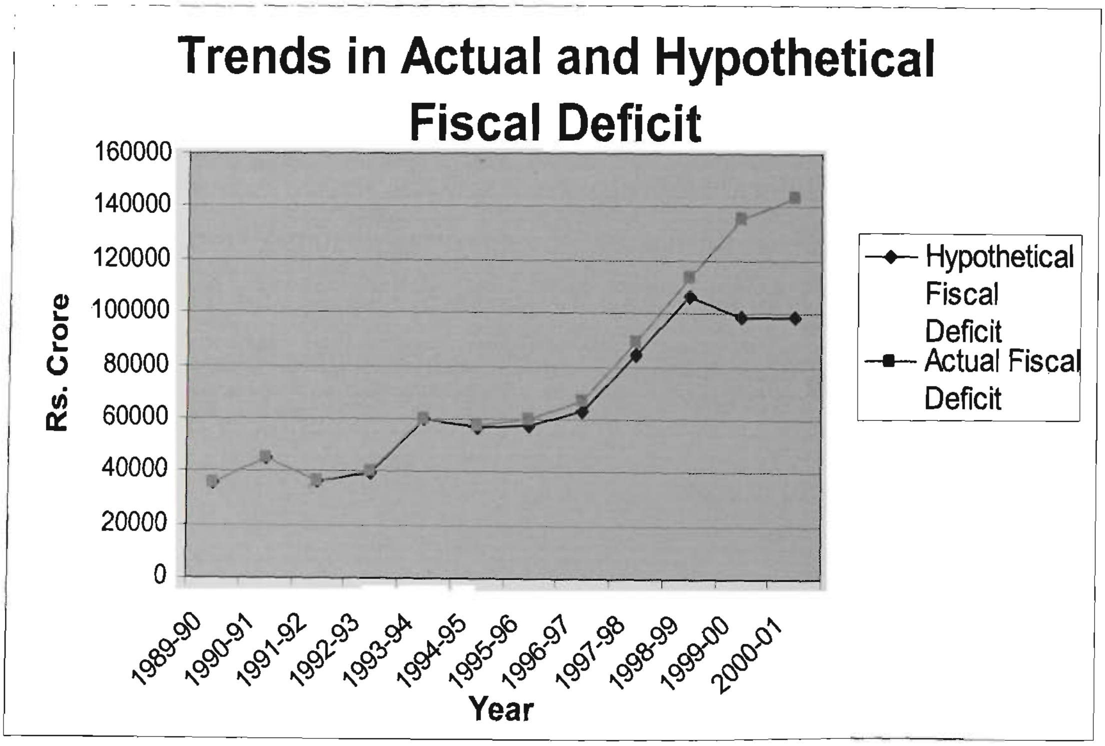

Figure 3.2 Trends in actual and hypothetical fiscal deficit

Year	Actual Interest Payments	Hypothetical Interest Payments
1989-90	17757	17757
1990-91	21498	21498
1991-92	26596	26420.33
1992-93	31075	30503.77
1993-94	36741	36139.21
1994-95	44060	42750.26
1995-96	50045	47670.55
1996-97	59478	55703.92
1997-98	65637	61152.48
1998-99	77882	70423.32
1999-00	91425	80780.24
2000-01	101266	88464.24

Table 3.7 Trends in actual and hypothetical interest payments

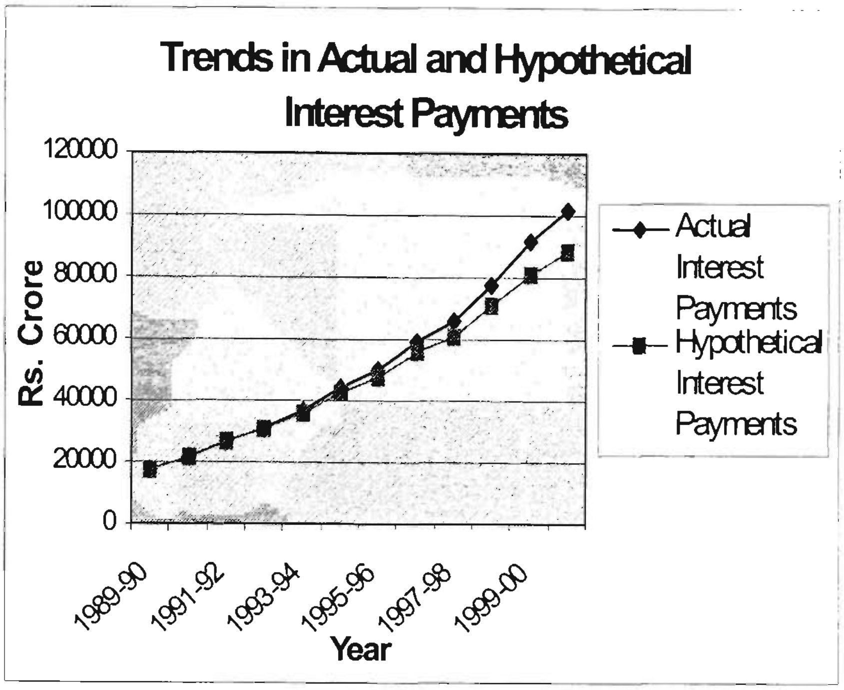

Figure 3.3 Trends in actual and hypothetical interest payments

Source: (Karnik 2002; Macroscan 2002; EPW Research Foundation 2003)

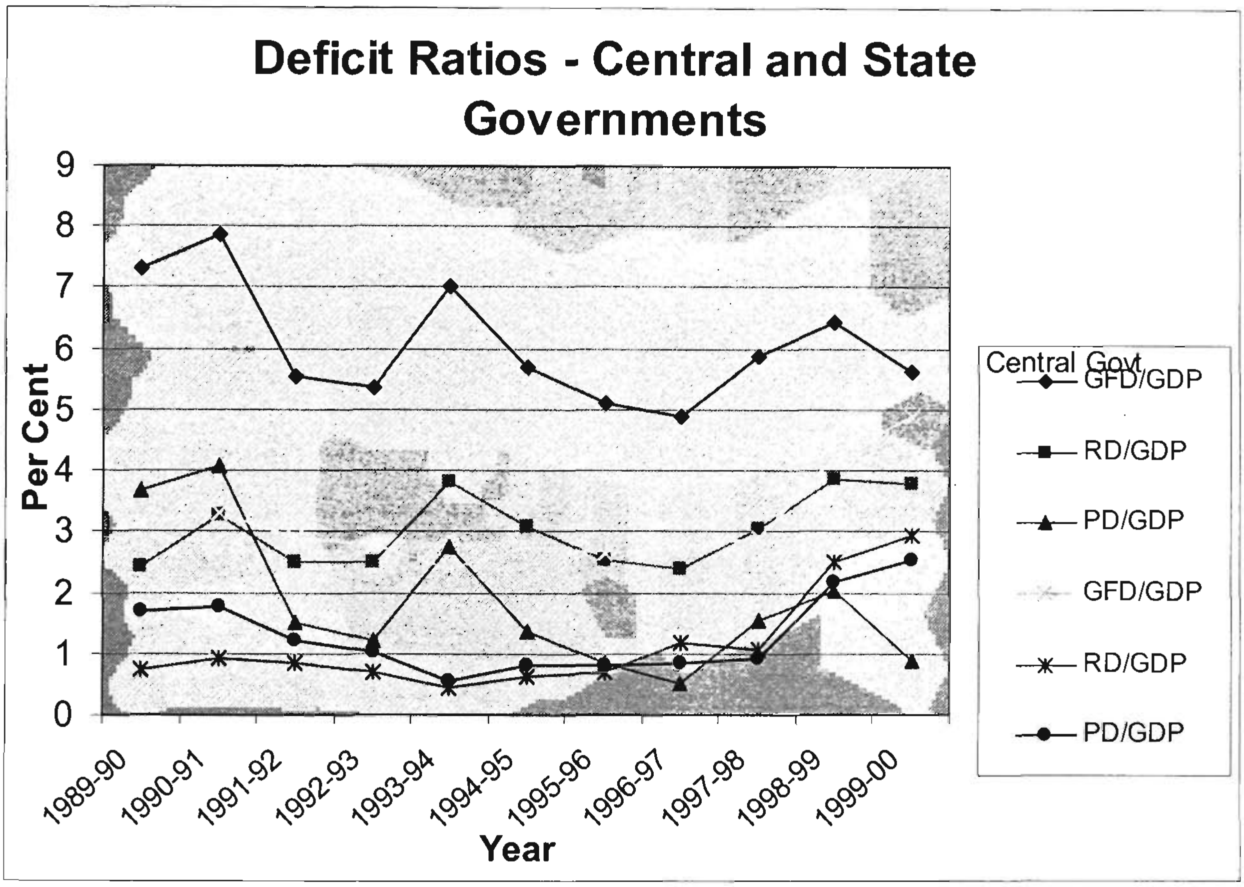

Figure 3.4 Deficit ratio – central and state governments

Source: (Karnik 2002)

As Table 3.8 shows, the rise in the public debt to GDP ratio has been mainly on account of internal liabilities. Internal liabilities have risen from 47.5 percent in 1997-98 to 58.6

percent in 2002-03. External liabilities, even when valued at current (instead of historical exchange rates), have been declining despite the steady depreciation in the rupee over this period.

Table 3.8 Rise in public debt to GDP ratio

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03 (RE)
Internal liabilities	47.5	47.9	49.7	52.4	55.1	58.6
External debt	10.6	10.2	9.6	9.0	8.7	8.5
Total outstanding liabilities	58.1	58.2	59.3	61.4	63.8	67.1
Outstanding liabilities (non-RBI)	48.3	50.0	52.0	54.5	57.2	59.9

Source: (Government of India 2000d, 2002c)

According to IMF, 'weak revenue performance and lack of expenditure control at both the central and state government levels caused the consolidated deficit of the public sector to rise sharply to around 11 per cent of GDP in the financial year 1999-00, with public sector debt exceeding 80 percent of GDP' (Callen et al. 2001, p. 9). There is little doubt that the overall fiscal performance of the centre and states, which has worsened over the decades, has been further exacerbated in the recent years.

Economists like Patnaik (2002a)and Rao (1999) argue that Indian Government fiscal policy is contradictory in its desire to maximise public accumulation, while at the same time maintaining a balance of power that favours the property owning classes. 'The Indian public economy has become an elaborate network of patronage and subsidies. The heterogeneous internal groups fight and bargain for their share in the spoils of the system and often strike compromises in the usual fashion of pressure group politics' (Rangarajan 2001b, p. 134). A hefty rise in the volume and spread of subsidies, high spending on administration and inadequate revenues result in a 'soft budget constraint' – a rise in fiscal deficit triggered by a heterogeneous increase in government expenditure on these line items (Ray 2001). The solution to this problem is a reduction in the domain of state activity, marked both by a decrease in distortionary tax rates and by a reduction in government expenditure (Jalan 1996). The policy prescription by economists of the

'New Political Economy' has been to cut fiscal deficit by cutting government current expenditure and by pursuing an accelerated policy of privatization and disinvestment.

To arrest the rising fiscal deficit has thus been identified clearly and explicitly as the prime policy target. Keeping in view the rising revenue deficit, current account expenditure and gross fiscal indiscipline, the government introduced a Fiscal Responsibility and Budget Management Bill on December 20, 2000 to make it an Act, hence the law of the land and demonstrated commitment to eliminate the revenue deficit and fiscal deficit and build up adequate revenue surplus.

3.3.4 Fiscal Responsibility and Budget Management Bill

As per India's Fiscal Responsibility and Budget Management (FRBM) Bill, the Central Government is required to meet the following extremely demanding criteria and salutary provisions (*The Fiscal Responsibility and Budget Management Bill* 2000):

- To reduce the revenue deficit by an amount equivalent to one half percent or more of the estimated GDP at the end of each financial year beginning April 2001.
- To reduce the revenue deficit to nil by end of March 2006.
- To build up a surplus amount of revenue and utilise such amount for discharging liabilities in excess of assets.
- To reduce the fiscal deficit by an amount equivalent to one half of one percent or more of the estimated GDP at the end of each financial year, beginning 1st April 2001.
- To reduce the fiscal deficit for a financial year to not more than 2 percent of the estimated GDP for that year by the end of March 2006.
- To ensure within a period of 10 financial years, beginning from 1 April 2001 and ending on 31 March 2011, that total liabilities (including external debt at current exchange rate) at the end of the financial year do not exceed 50 percent of the estimated GDP for the year.
- The bill also was to introduce ongoing reviews of the central government's fiscal performance – (i) a quarterly review of receipts and expenditure trends in relation to the budget would be under taken by the MOF and placed in the Parliament; (ii) whenever there is a revenue shortfall or expenditure overrun over target, the

expenditure authorisation would be cut in proportion; (iii) the Finance Minister would make a statement in Parliament explaining deviations in meeting obligations under the Act and proposed remedial measures.

The only contingencies, that would allow higher revenue or fiscal deficits, are described as the ground of unforeseen demands on the finances of the Central Government due to national security or calamity (Government of India 2000g).

This noteworthy step was widely acclaimed and the seriousness of the GOI to arrest the yawning fiscal gap while ensuring fiscal transparency and accountability was seen as a progressive step by academia, researchers and international community. But as it stands, as the provisions have been diluted to a great extent by the Standing Committee of the Parliament, the Bill remains a bunch of lose papers gathering dust in some corner of the Finance Ministry (Godbole 2003).

3.3.5 Fiscal discipline at sub national levels

India is de facto a decentralized federal democracy that also has many attributes of a highly centralised country including a quasi-federal constitution, a high concentration of effective taxing power at the central level, a highly regulated financial market dominated by centrally-owned financial institutions and significant parts of its economy still subject to central directives (Singh 1996). Despite the existence of hierarchical federal structures, which are capable of imposing hard budget constraints, in recent decades, lines of authority and accountability have become blurred across levels of government resulting in a softening of budget constraints (Seshan 1995). In turn, institutions and policies have softened budget constraints and have in turn complicated macroeconomic management, distorted state level debt financing decisions, encouraged states to make bad inter-temporal budget choices and contributed to major distortions in sub-national public expenditure composition (Anand et al. 2001).

State finances have been undergoing significant deterioration particularly since the mid 1980s. In 1998-99 the fiscal deficit (FD) of all states taken together measured 4.2 percent of Gross Domestic Product (GDP), an all time high, and rose further to 4.9 percent in 1999-2000 (Bannerji 2000). This has resulted in slowing growth in their planned expenditures relative to the Centre. This is illustrated in Table 3.9, which shows the share of states in total plan outlays. Since the Second Five Year Plan the share of states has been relatively stable from the mid 1950s to the late 1970s at around half of total plan expenditures. This has since deteriorated to only about 40 per cent or less in the late 1990s. The consequence is that the ability of state governments to invest in both social and physical infrastructure has declined considerably, since sub national governments such as states are unable to indulge in deficit financing unlike the central government.

Table 3.9 Share of states in plan outlays (1951-2002)

Plan	Centre (Percent)	States (Percent)
First (1951-56)	36	64
Second (1956-61)	54	46
Third (1961-66)	49	51
Annual (1966-69)	51	49
Fourth (1969-74)	50	50
Fifth (1974-79)	48	52
Annual (1979-80)	46	54
Sixth (1980-85)	53	47
Seventh (1985-90)	59	41
Eighth (1992-97)	62	38
Ninth (1997-2002)	63	37*

Source: First Plan to Seventh Plan: (Bagchi & Sen 1991)
Eighth and Ninth Plan: (Planning Commission of India 2002)
*against a target of 43% for the 9^{th} Plan

The intensity of the fiscal stress varies across all the states in India, none has remained unaffected. In 1998-99, in as many as 8 out of the then 25 states (three more states have been created after bifurcation in 2000), fiscal deficit (FD) exceeded 7% of their Gross State Domestic Product (GSDP). The most worrisome feature of the fiscal scene is the emergence of deficit in current account (Revenue Deficit or RD), accounting for over 50% of the aggregate fiscal deficit of the states. Primary (i.e. non-interest) deficit (PD) also is not small – in fact after remaining subdued in the first half of the 1990s, PD in state budgets has surged, exceeding 2% of GDP in both 1998-99 and 99-2000 (Government of India 2000e).

Reflecting the consequences of a heavy reliance on borrowing to meet their expenditures, the ratio of states outstanding debt to GDP has expanded from about 16 percent in mid 70s to 21.5 percent at the end of the nineties (Table 3.10). In several states, outstanding debt exceeds 30% of their respective GSDP. Debt liabilities as a proportion of revenue receipts exceed 200 percent in many states (Table 3.11). The indebtedness of states would be much higher if the burden likely to arise from unfunded pensions and (or) the loans of the public sector enterprises (PSEs) guaranteed by State Government is taken into account. Due to the high debt level and substantial rise in interest payments, essential public services (education, health, roads and rails) become casualties while capital expenditure has remained stagnant or shrunk in real terms in most states, jeopardising their growth prospect (Sen 2000).

Table 3.10 Outstanding debt of state governments

Year	Total Liabilities/ GDP	Share in total liabilities		
		Loans and Advance from the Center	Market Loans	Others
1975-76	16.4	70.6	15.4	14.1
1980-81	16.6	70.9	12.5	16.7
1985-86	19.1	72.3	11.4	16.3
1990-91	19.4	67.2	14.2	18.6
1991-92	19.3	66.1	15.0	18.9
1992-93	19.0	65.0	15.8	19.2
1993-94	18.6	63.7	16.3	20.0
1994-95	18.3	63.2	16.3	20.4
1995-96	18.0	62.0	17.0	21.1
1996-97	17.9	61.2	17.5	21.3
1997-98	18.6	61.4	17.7	20.9
1998-99	19.4	59.6	17.6	22.8
1999-00	21.5	58.2	17.2	24.6

Sources:(Reserve Bank of India 2001a, b)

Table 3.11 Debt burden of states

State	Total Debt/ GSDP	Total Liabilities/ Revenue Receipts	
	1997-98	1990-91	1999-00
Punjab	36.24	347.12	362.70
Orissa	37.96	208.71	330.63
West Bengal	22.97	191.53	304.86
Uttar Pradesh	26.59	170.85	279.79
Bihar	33.13	213.58	250.14
Himachal Pradesh	48.51	160.72	247.15
Rajasthan	27.78	157.24	246.04
Kerala	23.99	184.85	218.12
Haryana	20.12	147.46	173.30
Madhya Pradesh	19.79	143.56	169.82
Andhra Pradesh	20.82	126.11	167.64
Assam*	26.95	238.32	151.68
Goa	32.88	298.94	146.56
Gujarat	16.27	184.37	145.66
Maharashtra	12.08	113.23	143.42
Jammu & Kashmir*	NA	308.72	140.50
Karnataka	16.88	119.04	137.52
Tamil Nadu	15.55	108.12	137.31
Nagaland*	NA	105.04	133.01
Manipur*	35.60	89.39	128.21
Tripura*	36.01	96.16	109.54
Mizoram*	52.84	26.41	99.32
Arunachal Pradesh*	57.55	94.97	93.72
Meghalaya*	21.37	58.64	85.35
Sikkim*	NA	93.75	35.05

*** Special Category States**

NA Comparable GSDP data (1993-94 series) not available

Sources: (Government of India 2000f; Reserve Bank of India 2002).

Re-examination of the system of federal finance, with a view to restoring vertical balance and paving the way to fiscal responsibility at sub-national level is considered an urgent, though challenging task for policy makers (Kopiti 2001). Faced with this challenge, GOI, to strengthen its supervision of state finances, introduced bilateral agreements (MOUs), coupled with inducements to implement fiscal reform programs designed to bring the state to the path of fiscal rectitude – the compatibility of such an approach in the Indian context, however, has not yielded much positive result (Anand et al. 2001; Rao 2002).

3.3.6 Progressive and outward looking states

Though the central government has been dragging its feet in regard to the Fiscal Responsibility and Budget Management Bill as stated earlier, some states have adopted forward-looking policies. The Government of Andhra Pradesh has started presenting its annual fiscal framework, including draft performance budget, before the people prior to the presentation of the final budget to the Legislature. The Government of Karnataka passed a Fiscal Responsibility Act in 2002. It, inter alia, provides for preparation of a medium-term fiscal plan with four-year rolling targets for the prescribed fiscal indicators with underlying assumptions and salutary principles for fiscal management (Godbole 2003).

The Government of Punjab has introduced in the Legislature the Fiscal Responsibility and Budget Management Bill, 2002, to, inter alia, ensure inter-generational equity by achieving sufficient revenue surplus, and eliminating fiscal deficit and prudential debt management consistent with fiscal sustainability. The Bill is forward-looking and specifically provides that off-budget borrowings shall be treated as borrowings by the state government and expenditure incurred on subsidies due to the enterprises in the power sector, whether paid or not, shall be treated as expenditure by the state government. The Bill lays down that the state government shall take appropriate measures to eliminate the revenue and fiscal deficit (Rao 2002).

The Maharashtra Fiscal Responsibility and Budget Management Bill, 2002, also contains a number of innovative and bold features. The Bill provides for complete transparency in budget-making. Towards this end, it is incumbent on the government to recognise all liabilities, state key assumptions, and give 'fair value' treatment to government loans and equity holdings (Godbole 2003; Mohan 2003).

However, there is a growing feeling among the states that there is no level playing field between them and the centre insofar as managing their respective finances is concerned (Reddy 2002). In recent years, the centre has been insisting on the states signing MOUs for restructuring their finances if they are to avail of special assistance from the centre or even access aid from bilateral and multilateral agencies. There is also justifiable and growing resentment that the centre is playing favourites among the states such as Andhra Pradesh and Uttar Pradesh (Shome 2002). Such uneven treatment is bound to lead to further tensions between the centre and the states.

Some of the reasons for the high deficits/ debt situation and diminishing revenue receipts are critically weak governance (Jalan 2002). This leads us therefore into the next section, which is on governance reforms in India.

3.4 Governance reforms in India

The real world is complicated by incomplete and asymmetrical information, and various other uncertainties. Agents generally (especially in the government context) have access to information that principals do not; hence they have an incentive to exploit this situation to their advantage. This situation is stark in India since common awareness is limited and access to information (Official Secrets Act, 1923 and the conduct rule of the civil servants, which prohibit dissemination of information), is restricted hence there exists a wider scope for mis-governance (Karnik 2003).

Hence what does India do? – 'Governance and Fiscal Reforms' is the answer (Singh 1996). The current initiatives such as the measures on economic liberalisation were initiated owing to the unprecedented balance of payment crisis India faced in early nineties. To make governance reforms successful, GOI after the national debate initiated the following proposal in the Chief Ministers Conference in 1997.

- Making administration accountable and citizen friendly
- Ensuring transparency and the right to information
- Taking measures to cleanse and motivate the civil service.

Thus the main theme was to eradicate corruption from all levels and bring in fiscal discipline, transparency and accountability. Accordingly states were directed to form action plans for good governance initiatives (Jha 2000).

3.4.1 Privatization/ Commercialization

As part of developing action plans for good governance, and keeping in view some of the initiatives at that time, privatization/ commercialization was considered (Kumar 2002). It was soon recognized that a large increase in capacity building, both at national and sub-national levels was required. In order to set standards and to measure the work turned out, necessary technical skills required to appraise projects and negotiate terms would need to be developed. Each level of government presents its own situation and hence requires solutions that are tailor-made. This necessitates the capacity to define problems, and seek alternatives for evaluation, implementation, maintenance and general oversight of projects and contracts (Rao & Sen 1996).

Some institutional constraints also need to be addressed for privatization and commercialization to grow to its potential and yield optimal solutions. The current contract law does not provide sufficient protection to either parties, and the judicial procedure takes a very long time to come to conclusions in any case. At present the judicial system is not specifically designed to handle the complexities of modern contracts (Rangaranjan 2001). The reform of the judicial system is a continuous ongoing effort. New administrative tribunals, headed by a body comprising of government officials and business leaders would go a long way in reducing delays and increase confidence in the redressal mechanisms. This would lead to greater participation from reputable firms and multinationals with experience of executing similar projects (Shand & Bhide 2001).

The Government's strategy towards commercialization and privatization comprises a judicious mix of strengthening strategic units, privatising non-strategic ones through gradual disinvestments or strategic sale and devising viable rehabilitation strategies for weak units (Shand 1998). The strategies for restructuring PSEs for improving their performance on a long term basis, *inter alia*, include: (i) revival through the process of the Board for Industrial and Financial Reconstruction (BIFR), (ii) financial restructuring wherever appropriate, (iii) formation of joint ventures, (iv) manpower rationalization and (v) proper governance through strengthening of boards/ management (Chandrasekhar 2001).

3.4.2 Decentralization

In order to achieve the three proposals as set out, decentralization was considered as one of the best strategies. "When we speak of decentralization, we admit that there is centralization and so we want to remedy a wrong thing that has happened: that is, we start from the wrong end and so we have the paradox of a central legislation to bring in decentralization" (Meenakshisundaram 1997, p. 12).

To initiate decentralization (as part of governance reforms), GOI introduced 73rd and 74th amendments to the constitution of India, which gave local governments, rural and urban, a legal status that they formerly lacked (Government of India 1993). As per the amendments the local governments are entrusted with the responsibility of 'identifying, formulating, implementing and monitoring' local developmental programs. The states in turn are expected to enact legislation to endow the local governments with financial powers and responsibilities, as they deem appropriate. They are also necessitated to appoint a state finance commission to recommend adequate devolution of finances from state governments to local governments. The state governments are also expected to create district-planning committees to prepare developmental plans for both rural and urban areas (Government of India 1993).

The new amendments have only given the local bodies a constitutional status without placing them on an even keel with state governments. The subordinate legislation that should have been passed by states was not been passed by many states. Though this constituted a breakdown of constitutional machinery, little action could be taken against the erring states due to a weak central government and a fragmented polity (Lahiri & Fardoust 2000). Even in cases where the laws were passed, local governments gained little by way of financial devolution. In fact, revenues from the sources assigned to them could not possibly cover the functional responsibilities placed on them. In the circumstances, state governments have not been able to enforce local governments in carrying out their mandate. In India, State governments are reluctant to consider local bodies as 'government' even though the amendments refer to them in that way. This has resulted in an environment of 'pan unaccountability', as the local governments readily come up with lack of finances and other capacities as the stock excuse for nonperformance (Lal & Coleman 1999). While the reforms as embodied in the amendments are imperfect and incomplete, they mark potentially the most significant step towards decentralization of governance in India and are possibly the first step towards greater federalism than has prevailed until now. India has sometimes been characterized as only a quasi-federation (Verma 1995).

The current status of the so-called decentralization through the constitutional amendments can be summarized as below:

> "The officials – civil servants – are not answerable to the elected officials at the local level - they report to the superiors in their department in the district and state capital. The authorization to implement the schemes comes from the Department. There are no financial powers vested in these bodies – though in many states, the elected president has to co-sign cheques with the local officials. The bodies cannot initiate anything – they respond to what is placed before them by officials but officials now can claim that they are not responsible for any shortcoming because they act on the decisions of elected representatives. Decentralization is the form, but not the substance of what happens locally. The conclusion is that states have met the legal requirements of the constitutional amendment without any way devolving funds, functions and functionaries" (Vyasulu 2000, p. 12).

The 73rd and 74th constitution amendments have been implemented in form, not in substance. There are wide weaknesses in the functioning of local bodies. Fiscal autonomy, which should have been the basis of decentralization, still remains remote due to lack of administrative reform.

3.4.3 State institutions, civil service and poor governance

Over the decades, after having inherited very substantial powers from its colonial legacy, the State apparatus has steadily amassed functions – and more powers often in the name of the poor. The new developmental State has been bestowed a vast number of new responsibilities and vastly extended financial powers. Although the exercise of these powers is not untrammelled – there are a number of checks and balances imposed by the democratic system -- the labyrinthine and obscure processes through which decisions are taken, over-regulation in many spheres of public life, the weakness of democratic institutions, and the sheer monopoly which vests with the State, creates sufficient ground for arbitrary exercise of this power (The World Bank 2000a). This has led to two very major problems in the governance structures, inefficiency and corruption.

Effective and responsive state machinery should have a high degree of commitment, motivation, professional competence, adequate knowledge of their job and, above all, integrity (The World Bank 2002e). Stated objectives should be internalised and widely shared by the members of bureaucracy. There has to be a strong and consistent flow of energy from all concerned for meeting the objectives of good governance. Discipline needs to be combined with a high degree of innovation. Hard work should lead to output and output should lead to reward. Do the civil service and the development machinery conform to these standards?[11]

It is pertinent to quote here from the address of the Prime Minister to the National Development Council meeting held on Feb. 19, 1999

> "People often perceive the bureaucracy as an agent of exploitation rather than a provider of service. Corruption has become a low risk and high reward activity. Frequent and arbitrary transfers combined with limited tenures, are harming the work ethic and lowering the morale of honest officers. While expecting discipline and diligence from the administration, the political executive should self-critically review its own performance. Unless we do this, we cannot regain credibility in the eyes of the people who have elected us to serve them" (Saran 1999, p. 1).

A Planning Commission document states "Corruption is the most endemic and entrenched manifestation of poor governance in Indian society, so much so that it has almost become an accepted reality and a way of life. The underpinnings of this social phenomenon, which afflicts most developed and developing societies including India, have been reduced into a formulation that equates corruption with monopoly power plus

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[11] A note circulated by the Department of Administrative Reforms and Public Grievances, GOI, vide its letter No. K-11022/23/96-P dated 6th November 1996 observed –

> 'The public administration and the civil services at all levels are passing through difficult times in terms of eroded credibility and effectiveness of the civil service, growing public perception of an unholy nexus between certain elements among politicians and civil servants and criminals and increasing criticism of the low levels of honesty, transparency and accessibility to the political and bureaucratic elements in-charge of administration. The present lack of transparency and the scope for manipulation of the system results in the criterion of merit being undermined by considerations of personal loyalty and complicity with unethical dealings. The absence of a well-defined structure for rewards and punishments, and the confusion regarding the desirable service norms for civil service has led to low morale and pursuit of career advancement at the expense of ethical values'.

discretion without accountability and low government salaries. In other words, it suggests that when a relatively low paid government servant enters a situation where he/ she enjoys both monopoly and discretionary power without any or limited accountability, he/she has an incentive to restrict his/her assigned functions and duties, and in the process, seek and charge a monopoly price for services rendered" (Planning Commission of India 2003, p. 18).

There are many public activities, where institutional arrangements are such that officials have monopoly, as well as discretionary powers vested in them (Das 1998). This includes a range of activities involving interface with state utilities; state agencies responsible for licensing, including motor vehicle licenses, passports, trade licenses; and tendering of publicly instituted works. Procedural and legal hurdles that an individual has to confront in almost every interface with the public authorities also compound the problem.

It turns out that efficient and effective governance, be it the case of the executive, the judiciary or the legislature, requires the institutions, the delivery mechanism that they adopt and the framework of supportive rules, regulations and procedures to continuously evolve in harmony with each other and in response to the changing context (Tanzi 1999a).

The agenda of reform in governance should include a multifaceted strategy based on ensuring security of tenure, increasing accountability, civil services renewal, open and responsive government, tackling corruption and strengthening the rule of law, and e-governance. It must ensure the long-term affordability of the civil service, and it must enforce procedures for rewarding and promoting merit, disciplining malfunction and misconduct, to strengthen accountability and performance quality. It has become necessary to reshape the bureaucracy so that it performs its core public functions, and develop new ways of ensuring that critical economic and social services are provided directly or indirectly (Osborne & Gaebler 1993). A new work culture will have to be evolved at all levels of the staff. Innovation and performance should be encouraged and rewarded and steps should be taken to ensure effective devolution and control of the elected bodies over the functionaries (Saxena 2001).

3.4.4 Sustainability of initiatives

The environment of political instability makes it essential to include sustainability of initiatives into the proposal itself, as the system cannot be relied upon. One promising proposal is to establish a fund (financed by either the Central government or International financial institutions) to finance experimentation at local government level (Lindquist 1997). The fund needs to define criteria for selection of initiatives and mechanisms of interacting with the ministries at the state government to scale up the lessons learnt. There is also a need to institutionalize such interaction and publicize existence of the same. There would need to be a provision for cross-fertilization of ideas across states as well as periodic evaluation of the performance of the fund. The more successful models would then be available for replication across the country (Lane 1997).

The attempt to improve accountability in urban governments in India is likely to be a long drawn struggle. It has greater chance of success when an integrated approach is adopted along with making the necessary changes in the enabling environment. The most important step in this direction is to decentralize finances and powers (Kelkar 2001). This step by itself is not likely to produce the desired effects in the absence of an appropriate enabling environment. City councils need to be given greater freedom to operate and the committees that it appoints could help reduce the burden on the larger body. State and Central governments also need to play a larger role in the process. However, it is civil society and its increased participation in decision-making that holds the greatest promise in increasing accountability (Bird 1995).

Finally, sustainability of policies assumes importance in view of the fragmented polity. The issue of sustainability needs to be specifically planned for, rather than hoping that the system would take care of it. Government has been making all out effort to change its role as a controller to facilitator but India has a long way to go. As Chelliah (2002) points out that, in spite of all changes, any industrial project needs at least 30 approvals before it is commissioned. And Saxena (2001) states that in India, governance problems have accelerated fiscal crisis both directly and indirectly and needs to be addressed on a war footing. This leads us therefore to the next section on fiscal governance.

3.4.5 Fiscal governance

India has made some efforts in meeting the transparency criteria of IMF for achieving transparency, accountability and value for money, which are discussed below.

In its policy framework, India has achieved a reasonably high standard of transparency procedures in recent years (Jha 2003a). Particularly noteworthy is the detailed information that is made available in connection with the central government budget. A large amount of information is also made available elsewhere, including in reports by government ministries, the RBI, and the CAG. External audit is another strong point. Tax reforms have produced simpler taxes, which are more easily understood and applied more evenhandedly. However, in both these areas and in other areas, such as fiscal discipline and achieving value for money, there is tremendous scope for progress and improvement (Sarma 2000).

Enacting the Fiscal Responsibility and Budget Management (FRBM) Bill would be a major step forward given the emphasis it places on achieving a high standard of transparency. To this end, the Bill requires that a wider range of fiscal policy statements should be included with the budget documents, that changes in accounting standards should be announced, and that contingent liabilities should be disclosed. The Bill also requires the elimination of the revenue deficit (followed by revenue surpluses), and reductions in the overall fiscal deficit and government debt to specific target levels, by stated dates. But as it stands the FRBM has been diluted and even if enacted will miserably fail to justify the very purpose it was designed for (Goni 2002; Godbole 2003).

There appears to be considerable room for simplification and clarification in the area of intergovernmental fiscal transactions. While recent changes to rules governing tax sharing represent a significant step forward, the division of responsibility between Center and States for different taxes remains unclear in many areas and impedes the process of tax reform (Planning Commission of India 2003). Nevertheless, recent progress towards rationalizing and harmonizing state sales taxes and the proposal in the 2002/ 03 budget to restructure central excise duties into a central value added tax are noteworthy. On the expenditure side, the center has considerable discretion in establishing spending priorities for the states through the Planning Commission, but it is unclear whether these priorities fully take into account needs at the state level, or the longer-term costs of development projects. In addition, the 73rd and 74th constitutional amendments have created a third local tier of government for which expenditure and revenue responsibilities have yet to be fully defined (Vyasulu 2000).

The role of the central government in enforcing fiscal discipline on the states should be more clearly established. While the central government has the ability to restrict state borrowing, and it has used this ability to tighten the budget constraint faced by states, there remain significant loopholes (securities issued to the NSSF, guarantees) and problems with fully enforcing controls where they apply (Rao 2002). It is therefore unclear whether the central government can impose a hard budget constraint on states under the current system. Similarly, efforts to increase the discipline on some states through the MOU process, in effect by providing conditional loans are yet to prove effective. Moreover, the terms and conditions of these loans have not been transparent.

The reporting on general government finances needs to be improved. The current nine-month lag in producing reliable and detailed general government accounts is too long to permit proper fiscal policy analysis in a country like India where state governments have significant fiscal responsibilities (Reddy 2000a). Part of the problem is that not all states prepare their budgets in tandem with the central government budget, and more sharing of relevant information during budget preparation would allow better coordination and enable states to finalize their budgets earlier. States also need to meet higher standards of fiscal reporting, and it is encouraging that committees of state finance secretaries have been set up to propose fiscal indicators and disclosure norms for state governments. All states must have uniformity in budget presentation date so that budgetary competition can be avoided (Rao & Sen 1996). In this connection, it has to be emphasized that monthly reporting is a best practice that exceeds the requirements of the IMF Code.

The budget documents should provide more background information and analysis. To properly assess the impact and appropriateness of the central government budget, it has to be placed in a broader fiscal and macroeconomic context. This requires that its implications for the overall fiscal position be understood, which in turn means that some assessment has to be made of the outlook for general government finances (which would be easier if state government budgets were nearer completion) and ideally for the finances of the public sector as a whole (Campos & Pradhan 1996). Information on contingent liabilities and quasi-fiscal activities would help complete the picture. The analysis of the budget also needs to be more forward looking, beginning with a forecast for the two years following the budget (introducing MTEF/ MTFF is required to have proper assessment of fiscal position), and then using this as the base for a longer-term projection which feeds into an assessment of fiscal sustainability (Caiden 1998). In addition, the macroeconomic and other assumptions underlying the budget should be provided, and the forward-looking analysis of the budget should emphasize consistency with broader macroeconomic objectives. Finally, there should be an assessment of fiscal risks.

The expenditure framework in India is very much below the international standard and should be strengthened. The rolling three-year expenditure projections would address one clear weakness of the current expenditure framework. Presumably this would involve identifying the current and future financial implications of all expenditure programs, based on prospective developments in the cost drivers of programs (Pant 2001). The other areas, those yet to be paid attention, are the categorization of expenditure and assessing program performance as stated below (Chelliah 1999; Fischer 2002; Godbole 2003):

- For economic analysis, a breakdown of expenditure by economic category is most useful, and especially a clear distinction between current and capital spending. While the present breakdown between revenue and capital spending approximates this distinction, and certainly provides a reasonable basis for implementing and monitoring the reduction in the revenue deficit targeted in the Fiscal Responsibility and Budget Management Bill, a breakdown of expenditure by economic category for both the central and state governments should be produced on a timely basis. The present distinctions between plan and non-plan spending, and between development and non-development spending, are problematic. In particular, they do not appear to have facilitated coherent longer-term budgeting and they create incentives for misclassification. As a consequence, they have probably outlived their usefulness.

- Performance audits, which have been ignored till date, should be an essential part of internal audit. Clear targets should be set for all major programs; performance indicators should be developed that reflect the final objectives of programs (rather than intermediate outputs); assessments of performance against targets should be made every year and reported in the budget documents; and the results of performance audits should be taken into account in determining budget allocations.
- Oil Coordination Committee (OCC) finances ought to be reported in the budget documents and reflected in the general government accounts. This can be done in different ways. The simplest approach is to add the OCC balance, which is the net subsidy on selected petroleum products, to the deficit. Alternatively, to explicitly recognize the cross-subsidization that takes place, the gross subsidy on the same products can be treated as expenditure and the implicit tax on other products can be treated as revenue.
- The principles governing RBI financing of the central government is nebulous and could be more clearly specified. Granting the RBI full legal autonomy would be the first-best solution and it is now high time for government to act on it. This would make it fully independent in formulating and conducting monetary policy. A second-best solution would be an annual limit on overall RBI financing of the central government that is consistent with monetary policy objectives.
- Continued efforts also are needed to stem the scope for corruption among tax and other officials, including at the state level, primarily by further reducing their discretion in interpreting tax laws and other regulations. There exists further scope for simplification of tax laws.
- In view of the important role played by tax exemptions and other tax relieves, a report on tax expenditures should be included in the budget documents.
- There should be a realistic contingency provision in the budget to cover unforeseen expenditures. Supplementary budgets should be the exception rather than the norm.
- And finally, the recently established National Statistical Commission ought to address the issue of the technical independence of the Central Statistical Organization (CSO). In India, the data veracity has been a major issue of concern hence CSO's independence will help India to garner international credibility.

As it stands India still is miles away from good governance (Sachs & Bajpai 2001). The government size is disproportionate to the requirement i.e. to provide the good administration, and it is monopolistic, unresponsive to constituents, fails to enhance efficiency by reducing investment-inhibiting uncertainty, and has a primitive evaluation system. The institutional environment, that is the set of fundamental political, social, and legal ground rules and institutions of governance and the arrangements between economic units that govern the ways in which these units can cooperate and/or compete suffer from lack of clarity (Singh 1996). The fiscal catastrophe of the Asian crises will be repeated in India unless immediate corrective measures are taken to put governance issues on the right track. The government needs to infuse more effectiveness and efficiency into governance, which is most incontrovertible. Individuals in the country should not feel that they are subjects of the country, but rather that they are citizens - through social, political and economic inclusion, which allows them to have access to resources (UNDP 2002b). Unless these fundamentals are attended to, fiscal discipline and sustainability will remain rhetoric.

3.5 Conclusion

In chapter II the discussion was focussed on public sector reforms globally while the emphasis in this chapter is on fiscal and governance reforms in developing countries with special reference to India. This was necessary as important and lasting changes have been introduced and it is essential to take stock of what is the nature of the changes, the underlying forces behind these changes, to gain a sense of what works and what does not and finally what lessons can be learnt for Orissa from these changes. India's agenda for reforms set in 1991 was crises driven and was highly ambitious; politicians and policy makers took little account of the social and cultural compulsions that would impact this process. Reforms were entirely based on economic rationale without taking into consideration the weak structures and functions of governance.

Across the world government is being reinvented. While a number of changes have been concluded in the developed world, in India, there are a number of lacunae in the processes of reforms (Hemming et al. 2002b). For example, various Bills have been introduced in the OECD countries to support economic reforms; in India drafts of such Bills are languishing in the backrooms of parliament. However, this is an indication that India should in fact do more and faster, failing which, as the World Bank states 'people living with ineffective states have long suffered the consequences in terms of postponed growth and social development. But an even bigger cost may now threaten states that postpone reforms; political and social unrest and, in some cases disintegration, exacting a tremendous toll on stability, productive capacity and human life' (The World Bank 1997, p. 15).

Based on experiences in public sector reforms elsewhere, it is recognised that reforms are more continuous than discrete processes. Even if some reforms are successfully implemented, they are likely to generate a need for a new round of reforms. It is essential that India should be more responsive to the changes required, that too within its particular context.

The next chapter presents an introduction to Orissa, the fiscal and governance reforms initiated there, which is the context in which this research is conducted.

Chapter 4

Fiscal and Governance Reforms in Orissa The Context of the Research

4.1 Introduction

This chapter discusses the fiscal and governance initiative as taken up by the GOO within its unique socio-economic and political context. The chapter is divided into four sections. Section 4.2 presents a brief profile of Orissa State; section 4.3 is on fiscal reforms in Orissa, 4.4 on governance reforms in Orissa and 4.5 provides the conclusions for this chapter.

4.2 Profile of Orissa

Located on India's east coast, between West Bengal and Andhra Pradesh, Orissa is today the poorest of India's 14 major states, despite its rich endowment of mineral wealth (Iron ore 26.05%, Chrome 98.39%, Bauxite 69.7%, Coal 23.81%, Nickel Ore 95.24%, Mineral Sands 30.83% of all India reserves), forests, lakes, rivers and lengthy coastline (500 km.), and a rich and ancient history with vast untapped potential for both cultural and eco-tourism (Government of Orissa 2002a, p. 19). With a population of 36.7 million, almost half of whom are below the official poverty line, annual per capita income in the state today (about less than US$250, Rs.9273 in Orissa vs. Rs.16487 in All India, 2001-02, at current prices, second from below) is the same as in Rajasthan and Madhya Pradesh 15 years ago, and Uttar Pradesh almost 10 years ago. Orissa has fallen behind the rest of India, experiencing slower economic growth since 1970, more so in the 1990s (Government of India 2002b). The poor in Orissa suffer from a dearth of income earning opportunities, inadequate basic public services, frequent natural disasters, and entrenched relations of social exclusion (The World Bank 1996). The Scheduled Tribes (STs) constitute 22% of the total population in Orissa (compared to 8% in India) and 40% of the poor in the state. Regional disparity is marked, with a relatively well-off coastal area, having historically benefited more from trade and public investment, and an extremely poor and isolated hinterland, populated largely by tribal forest dwellers. Orissa has the lowest income per capita and growth rate of less than 3% against the national average of

5-6% per annum (Government of India 2000e). "Orissa is much poorer than the rest of India: poverty has fallen over time in Orissa, but India has grown faster than Orissa and the gap between Orissa and other states in per capita incomes, and probably in poverty, has widened. Deficiencies in governance have also contributed to Orissa's relative poverty" (Mackinnon 2002, p. 7).

As a World Bank (1999b, p. i) study indicates, "Increasing Orissa's growth rate is thus critical, but will not be possible unless the state addresses its fiscal problems. It is no exaggeration to say that Orissa today is in a fiscal crisis. Salaries, pensions and interest payments now more than exhaust the total revenues. The authorities are facing a 'fiscal crunch' in the very practical sense of finding it difficult to provide the cash to pay the government bills. The crisis is already harming the states growth prospects. If unattended to, it will leave the government solely as a bankrupt employment agency, unable to perform any developmental role at all. Although Orissa has a track record of reform it needs to enter a new phase of intensified reforms it is to solve its fiscal problems and grow more quickly".

GOO (2001a, p. 1) in its White Paper on State Finances observes, "No perceptible improvements in living condition of the common people is noticed although the state has been borrowing indiscriminately on an enhanced scale from year to year to invest in irrigation and other infrastructure and development programs. The result is that the State is in a debt trap, the stock of debt as on 31st March 2000 having exceeded 46 % of GSDP (at the end of 2003, the stock of debt has risen to more than 70% of GSDP) and per capita the debt burden is likely to exceed Rs. 5757.80 by end of the financial year 2000-2001. There is such a great slide in the fiscal situation that nearly 80% of the state's own revenue and 33% of its total revenue inclusive of shared taxes and grants-in-aid are being used up only in debt servicing which again constitutes more than 6.5% of GSDP". The state finance has already reached a crisis point. Time has come to seriously think and ponder as to how such a grave erosion in the fiscal wealth of the state can be tackled and this devastating and serious fiscal condition of the state can be overcome. "Persistence of this kind of great fiscal slide will push the state to the point of sinking down the quicksand of debt." (Government of Orissa 2001a, p. 2)

4.3 Fiscal reforms in Orissa

4.3.1 Trends in Orissa finance

In the year 1980-81, Orissa enjoyed a surplus in its revenue account by Rs.74.5 crore and in the immediate following year the surplus declined to Rs.27.98 crore (Government of Orissa 2001a). The surplus in revenue account was not only a regular phenomenon of those days with the state finance of Orissa but also with almost all the remaining non-special category states of India. All the states taken together enjoyed a surplus in revenue accounts till 1987-88 (Bannerji 2000). Thereafter the trend reversed. The reversal was quicker for Orissa than for other states; as such reversal overtook the Orissa finances from the year 1982-83.

Whether the imbalance which occurred to the state finance of Orissa in 1982-83 was permanent or transient in character can be judged from an empirical enquiry into the behaviour of the components of revenue account viz. revenue receipts and revenue expenditures over a longer run period (Bohra 1996). In order to ascertain the nature of the fiscal imbalance that Orissa encountered, an investigation of deficits the time period has been chosen to spread over 13 years from 1988-89 to 2001-02, the former being selected to coincide with the year from which all the non-special category states had fallen to deficits in revenue account. During this period, the compound growth rates of revenue receipts and revenue expenditures of GOO have been respectively 0.95% and 1.13% per annum (Government of India 2000f). Since revenue expenditures have grown faster than the revenue receipts year by year, the Government has been forced to incur deficits in the revenue account. During the period under reference, deficits in the revenue account of Orissa increased by 2.20% per annum, increasing faster from the year 1998-99 (Government of India 2001a). This is attributed to an unusually large burden imposed on the state exchequer by the granting of a central pay package to the state government and other employees working within the jurisdiction of Orissa state consequent upon the implementation of the recommendations of the Fifth Pay Commission of the GOI, without a compensating increase in revenue receipts of the GOO.

The fiscal imbalance of the state government has increased most in the post-reforms period 1992-93 – 2001-02. During this period, the compound growth rates of revenue receipts and revenue expenditures of the GOO have been 1.15 and 1.55% per annum respectively and deficits in revenue account on an average have increased by 4.46% per annum (Reserve Bank of India 2000). The gap between the growth rates of revenue receipts and revenue expenditures has greatly widened during 1992-93 – 2001-02 as compared to the period 1988-89 to 1991-92.

Table 4.1 presents all forms of deficits as percentages of NSDP at factor cost at current prices starting with the year 1980-81. Revenue deficit as a percentage of NSDP of Orissa was fluctuating between 0.56 and 1.50 prior to 1993-94. From this year itself, there has been a continuous increase in revenue deficit as a percentage of state income but the increase has been marked faster from the year 1998-99. From 1980-81 till 2002-03, fiscal deficit in each year as a percentage of state income has always increased much faster than the corresponding revenue deficit for that year.

From 1990-91 onwards, Orissa's finance has been subject to uninterrupted fiscal deficits. It was at its minimum of 8.7% of the state income in 1995-96 and maximum of 30.14% of the state income in 2001-02. In spite of all the stringent measures of fiscal discipline, the GOO experienced the highest ever-fiscal deficit as a percentage of NSDP in 2001-02 and fiscal deficits as percentages of state income have been on increase since 1998-99. These two together stand as an irrefutable argument in favour of Orissa's finance sinking under the irreversible tide of fiscal indiscipline.

The trend of the primary deficit for Orissa, which is defined as the excess of fiscal deficit over and above the annual interest payment equally presents a discouraging fiscal scenario starting with the year 1980-81. Primary deficit though a distinct and confirmed index of unsound finance, cannot be treated as an alternative to fiscal deficit to gauge the depth of fiscal indiscipline and used alone to forecast or to make any inference about the fiscal health of an economy. Fiscal deficit merits measurement for forecasting and/or inference building. Fiscal deficit comprises many components of which interest payment is one.

Table 4.1 Deficits of the GOO since 1980-81

In Rs.Crore

Years	Revenue Deficit	Fiscal Deficit	Primary Deficit	Fiscal Deficit Without WMA	Primary Deficit Without WMA
1980-81	-74.5	269.04	218.36	246.29	195.61
	(2.16)	(7.81)	(6.34)	(7.15)	(5.68)
1981-82	-27.98	430.85	363.88	191.92	124.95
	(0.73)	(11.21)	(9.47)	(4.99)	(3.25)
1982-83	22.98	674.10	594.42	365.75	286.07
	(0.56)	(16.56)	(14.60)	(8.99)	(7.03)
1983-84	-0.2	1004.05	907.68	197.78	101.41
	(3.81)	(19.11)	(17.28)	(3.76)	(1.93)
1984-85	73.74	991.05	889.35	447.00	345.30
	(1.42)	(19.09)	(17.13)	(8.61)	(6.65)
1985-86	60.09	733.49	607.50	461.71	335.72
	(0.97)	(11.78)	(9.76)	(7.42)	(5.39)
1986-87	19.74	729.55	557.53	503.10	331.08
	(0.29)	(10.81)	(8.26)	(7.46)	(4.91)
1987-88	74.51	1173.76	966.75	652.25	445.24
	(1.09)	(17.73)	(14.11)	(9.52)	(6.50)
1988-89	107.79	1275.14	971.37	636.60	332.83
	(1.24)	(14.69)	(11.19)	(7.33)	(3.83)
1989-90	105.39	1248.09	937.67	717.58	407.16
	(1.06)	(12.59)	(9.46)	(7.24)	(4.11)
1990-91	19.59	1515.22	1150.48	887.29	522.52
	(0.20)	(15.68)	(11.90)	(9.18)	(5.41)
1991-92	187.71	1778.16	1297.12	1146.44	665.40
	(1.50)	(14.22)	(10.37)	(9.17)	(5.32)
1992-93	135.72	2172.82	1630.59	926.42	384.19
	(1.01)	(16.20)	(12.15)	(6.91)	(2.86)
1993-94	271.14	2142.45	1459.62	1188.80	505.97
	(1.68)	(13.24)	(9.02)	(7.35)	(3.13)
1994-95	459.65	2041.11	1254.31	1368.59	581.79
	(2.36)	(10.49)	(6.44)	(7.03)	(2.99)
1995-96	807.10	2071.49	1142.16	1620.93	691.60
	(3.39)	(8.70)	(4.79)	(6.80)	(2.90)
1996-97	830.49	3811.36	2731.92	1802.70	723.26
	(3.66)	(16.81)	(12.05)	(7.95)	(3.19)
1997-98	903.14	4687.69	3395.88	2096.27	804.46
	(3.23)	(16.74)	(12.13)	(7.49)	(2.87)
1998-99	2264.75	5837.34	4352.42	3474.56	1989.64
	(7.26)	(18.70)	(13.95)	(11.36)	(6.37)
1999-2000	2573.87	8055.57	6817.80	4222.21	2984.44
	(7.52)	(23.54)	(19.92)	(12.37)	(8.72)
2000-01	1926.77	9228.53	6941.65	4068.76	1781.88
	(5.69)	(27.24)	(20.49)	(12.01)	(5.26)
2001-02	2829.55	11401.92	8566.96	4885.10	2050.14
	(7.48)	(30.14)	(22.64)	(12.41)	(5.42)
2002-03 (BE)	1754.84	5859.13	2943.83	4359.13	1443.83
	(4.22)	(14.08)	(7.07)	(10.47)	(3.47)
2003-04 (BE)	2465.78	6679.42	3429.42	5179.42	1929.42
	(5.39)	(14.59)	(7.49)	(11.31)	(4.21)

Figures within parentheses indicate percentages of the state income i.e., NSDP at factor cost at current prices. (BE: Budget Estimate & RE: Revised Estimate)

Sources: (Government of Orissa 2001a, 2004)

If the payment of interest is unavoidable to a government, reducing the magnitude(s) of other component(s) can contain fiscal deficit (Jha 2003b). Normally the choice falls on the cutting of non-interest non-plan expenditure, the latter being treated as an item of non-developmental expenditure of a government. Of course, how far a government succeeds in reducing such expenditure to lessen the incidence of fiscal deficit depends on many factors of which the political will is the most prominent.

All such enquiries on the trends of Orissa finance since 1980-81 ultimately come to the conclusion that there has been a continuous deterioration in the financial health of the Orissa economy.

4.3.2 State expenditure on social sector development

The GOO with a view to developing this sector makes necessary budgetary provisions. An in-depth study of actual budgetary outlays made by the GOO over time for the development of this sector may serve as a guide to policy for the future.

The social sector of a state economy comprises certain sub-sectors of which the more important ones are (1) education, sports, art and culture, (2) health and family welfare, (3) sanitation, housing and urban development and (4) labour and labour welfare. The present study aims to thoroughly review the trend and pattern of allocations (actual expenditures) made by the GOO on these budget line items out of the Consolidated Fund (Revenue Account) during the period 1990-91 – 2003-04. The base year has been chosen to coincide with the year preceding the year of the New Economic Policy of the GOI. Table 4.2 shows the actual budgetary allocations to these four sub-sectors as percentages of total allocations to social sector development by the GOO during the period under reference.

Table 4.2 Percentage allocations to social sector development

Year	Education, Sports, Art and Culture	Health and Family Welfare	Sanitation, Housing and Urban Development	Labour and Labour Welfare	Total to Social Sector*
1990-91	53.64	16.03	7.78	1.10	78.55
1991-92	52.73	15.06	9.26	1.04	78.09
1992-93	51.88	14.35	10.01	1.04	77.28
1993-94	51.95	14.15	7.92	1.01	75.03
1994-95	54.72	14.48	8.59	1.03	78.82
1995-96	51.37	13.89	8.31	0.75	74.32
1996-97	52.90	13.58	7.96	0.94	75.38
1997-98	54.61	13.42	8.97	0.75	77.75
1998-99	54.35	14.74	10.54	0.88	80.51
1999-2000	48.23	10.64	7.79	0.56	67.22
2000-2001	55.89	13.90	7.76	0.72	78.27
2001-2002	53.17	12.93	8.18	0.66	74.94
2002-03 (BE)	51.83	14.58	7.73	0.61	74.75
2003-04 (BE)	47.62	13.86	9.20	0.56	71.24

Source:(Government of Orissa 2003c & 1992-2002)

* The aggregate of the four percentage allocations will not add up to 100 for the exclusion of other sub-sectors of the social sector.

A much better view can be acquired on the expenditure trend of the GOO on social sector development if both the social sector and economic sector are taken simultaneously for a comparison as presented in Table 4.3. Economic sectors refer to infrastructure, transport, communication and information technology and so on.

Each year's expenditure on social services by the GOO both in absolute and percentage terms has remained above the corresponding figures for economic services. The percentage expenditures on social services and on economic services have both declined during the period of study but the decline has been seen faster in respect of economic services than what it is for the social services. While the true expenditure on economic services has diminished by 39.54% during the period under reference, actual expenditure on social services has diminished by 16.10%. The GOO has been forced to organise such decline in allocations to both social and economic services in favour of certain unavoidable disbursements like interest payment and servicing of debt. From whatever angle the budgets of the GOO are read and analysed, this ultimately ends with a disturbing conclusion and all such emanates from a single source i.e., of the unviable debt burden of the state.

Table 4.3 Expenditure on social and economic sector development

Year	Expenditure on Social Services (in Rs. Crore)	Expenditure on Economic Services (in Rs. Crore)	Expenditure on Social Services as a % of Total Expenditure met from Revenue	Expenditure on Economic Services as a % of Total Expenditure met from Revenue
1990-91	842.20	648.12	38.45	29.59
1991-92	1040.17	698.23	39.47	26.50
1992-93	1195.29	826.26	39.20	27.10
1993-94	1324.66	958.84	38.04	27.54
1994-95	1489.77	1117.20	36.92	27.68
1995-96	1834.67	1247.13	39.05	26.55
1996-97	2015.36	1132.83	39.38	22.13
1997-98	2212.88	1055.70	39.97	19.07
1998-99	2722.69	1316.22	39.93	19.30
1999-2000	4002.11	1547.69	47.31	18.30
2000-01	3115.96	1532.47	35.29	17.36
2001-02	3259.83	1534.83	33.00	15.54
2002-03 (BE)	3788.12	1925.52	33.35	16.95
2003-04 (BE)	4039.47	2240.08	32.26	17.89

Source: (Government of Orissa 2003c & 1992-2002)

4.3.3 Sustainability of public debt in Orissa

The current state of its debt liability is alarming. It is a fact that any loan availed by the government is not a cause of concern so long as it remains within the confines of sustainability (Hemming et al. 2002b). Accordingly, the following analysis attempts to verify whether the existing debt burden of the GOO is sustainable.

The current state of public debt in Orissa is principally attributed to a serious mismatch between receipts and expenditure. This serious imbalance has been due to certain factors at work of which the most remarkable one is the mounting expenditure on non-priority and unproductive budget line-items and absolute lack of transparency and accountability in use of public resources (Joseph 2001). A detailed study of the composition of revenue expenditure of the GOO, both non-plan and plan (Tables 4.4 and 4.5), points to a disproportionately larger allocation of such expenditure to non-priority and unproductive sectors over time.

Table 4.4 Composition of revenue expenditure (Non-Plan) as a percentage of GSDP of Orissa at current prices

Years	Salary including Pension	Old Age Pension and FRP*	Mid Day Meals	Subsidy	Interest	Maintenance of Capital Assets	Others	Total
1980-81	5.68	0.06	0.00	0.00	1.36	1.72	2.21	11.03
1990-91	7.23	0.16	0.00	0.13	3.34	0.95	1.36	13.17
1991-92	7.45	0.22	0.01	0.43	3.43	1.19	1.33	14.06
1992-93	7.97	0.36	0.00	0.56	3.58	1.52	1.22	15.21
1993-94	7.03	0.31	0.00	0.51	3.67	1.10	1.23	13.85
1994-95	6.65	0.26	0.00	1.21	3.51	1.11	1.12	13.86
1995-96	6.38	0.22	0.00	1.26	3.41	1.03	0.80	13.10
1996-97	6.94	0.23	0.00	0.42	3.99	1.27	1.05	13.90
1997-98	6.96	0.22	0.00	0.31	3.95	1.01	0.35	12.80
1998-99	8.36	0.21	0.00	0.24	4.14	1.20	0.28	14.43
1999-2000	9.23	0.16	0.00	0.34	3.14	1.19	2.54	16.60
2000-01(BE)	8.82	0.15	0.00	0.19	5.35	0.94	1.83	17.28
2001-02(BE)	8.59	0.16	0.00	0.09	6.33	0.97	1.61	17.75

Source: (Government of Orissa 2001a)

Table 4.5 Composition of revenue expenditure (Plan) as a percentage of GSDP of Orissa at current prices

Years	Salary including Pension **	Old Age Pension and FRP*	Mid Day Meals	Subsidy	Interest	Maintenance of Capital Assets	Others	Total
1980-81	0.50	0.00	0.00	0.00	0.00	0.00	3.24	3.74
1990-91	1.55	0.00	0.01	1.13	0.00	0.00	4.23	6.92
1991-92	1.00	0.00	0.00	0.43	0.00	0.00	3.32	4.75
1992-93	0.97	0.00	0.00	0.34	0.00	0.00	3.63	4.94
1993-94	0.92	0.00	0.00	0.38	0.00	0.00	3.56	4.86
1994-95	0.87	0.00	0.00	0.31	0.00	0.00	2.98	4.16
1995-96	0.82	0.00	0.14	0.39	0.00	0.00	2.78	4.13
1996-97	1.62	0.02	0.24	0.29	0.00	0.00	2.83	5.00
1997-98	2.04	0.03	0.12	0.22	0.00	0.00	1.74	4.15
1998-99	2.45	0.03	0.09	0.13	0.00	0.00	1.90	4.60
1999-2000	2.18	0.02	0.07	0.07	0.00	0.00	2.29	4.63
2000-01(BE)	2.04	0.03	0.04	0.10	0.00	0.00	2.75	4.96
2001-02(BE)	1.36	0.01	0.01	0.09	0.00	0.00	2.36	3.83

Source: (Government of Orissa 2001a)

** Note: Plan expenditure in respect of 'Salary including Pension' has no salary component. It is only salary.

Table 4.6 Composition of revenue expenditure (both Non-Plan and Plan) as a percentage of GSDP of Orissa at current prices

Years	Salary including Pension **	Old Age Pension and FRP*	Mid Day Meals	Subsidy	Interest	Maintenance of Capital Assets	Others	Total
1980-81	6.18	0.06	0.00	0.00	1.36	1.72	5.44	14.76
1990-91	8.78	0.10	0.01	1.26	3.34	0.95	5.59	20.02
1991-92	8.45	0.23	0.01	0.86	3.43	1.19	4.65	18.87
1992-93	8.93	0.36	0.00	0.90	3.58	1.52	4.85	20.14
1993-94	7.95	0.32	0.00	0.89	3.67	1.10	4.79	18.72
1994-95	7.52	0.26	0.00	1.52	3.51	1.11	4.10	18.02
1995-96	7.20	0.27	0.14	1.65	3.41	1.03	3.59	17.24
1996-97	8.56	0.25	0.24	0.71	3.99	1.27	3.89	18.91
1997-98	9.00	0.24	0.12	0.53	3.95	1.01	2.09	16.94
1998-99	10.82	0.23	0.09	0.37	4.14	1.20	2.18	19.03
1999-2000	11.41	0.20	0.08	0.18	3.14	1.19	5.26	21.46
2000-01(BE)	11.31	0.17	0.05	0.28	5.35	0.92	3.08	21.16
2001-02(BE)	9.95	0.18	0.01	0.18	6.33	0.84	4.10	21.59

Source: (Government of Orissa 2001a, 2003a)

*FRP: Freedom fighter rehabilitation program

A close scrutiny of the behaviour of revenue expenditure (non-plan) of the GOO (Table 4.4) over a period of more than one decade (1990-91– 2001-02) with base 1980-81 produces the evidence that such expenditure in 1990-91 was 13.17% of the GSDP evaluated at current prices. This rose to 17.75% of the GSDP in 2001-02. In the year 1990-91, the aggregate of revenue expenditure (non-plan) on the items as shown in the table was 13.17% of the GSDP of Orissa. Such expenditure increased to 17.75% in the year 2001-02, which accounts for an overall increase of 34.78% during the period 1990-91 - 2001-02. In the distribution of total expenditure for each year, the share of salary including pension is the highest followed by interest. But the share of interest in the total expenditure has increased faster over years than the share of salary and pension. While the former has increased by 89.52% over the period of twelve years, the latter has increased by 18.81%. During the period 1990-91 – 2000-01, the share of expenditure on subsidy in total expenditure has increased by 46.15%. In the list of unproductive expenditures, the expenditures on interest payment and subsidy, each being highly counter productive, have the worst consequence (DFID 2001b). Thus the non-plan revenue expenditure of the GOO on non-priority areas has not only increased over time but it has been distributed faster in favour of those items, which are exceedingly counter productive (Government of India 2000b). A comparison of the non-plan revenue expenditure (Table 4.4) with plan revenue expenditure (Table 4.5) of the GOO on non-priority sectors each being computed as a percentage of GSDP shows that the former has increased faster than the latter during the period 1990-91 – 2001-02. So also have the components of each.

Table 4.7 Statement of surplus (deficit) in the consolidated fund of Orissa

In Rs. Crore

Years	Revenue Account			Capital Account			Overall Surplus
	Receipts	Disbursements	Surplus	Receipts	Disbursements	Surplus	(4+7)
1	2	3	4	5	6	7	8
1990-91	2170.94	2190.30	-19.59 (0.20)	1426.41	1528.65	-102.24 (1.06)	-121.83 (1.26)
1991-92	2447.31	2635.02	-181.71 (1.50)	1455.77	1637.07	-181.30 (1.45)	-363.01 (2.95)
1992-93	2913.16	3048.88	-135.72 (1.01)	2040.56	2112.27	-71.71 (0.54)	-207.43 (1.55)
1993-94	3207.78	3482.21	-274.43 (1.70)	1838.27	1919.36	-81.09 (0.50)	-355.52 (2.20)
1994-95	3575.87	4035.46	-459.59 (2.36)	1558.30	1627.01	-68.71 (0.35)	-528.30 (2.71)
1995-96	3890.71	4697.89	-807.18 (3.39)	1807.90	1315.49	492.41 (2.07)	-314.77 (1.32)
1996-97	4286.76	5117.25	-830.49 (3.66)	3657.26	3201.79	455.47 (2.01)	-375.02 (1.65)
1997-98	4632.03	5536.48	-904.45 (3.23)	4020.14	3909.28	110.86 (0.40)	-793.59 (2.83)
1998-99	4554.40	6819.14	-2264.74 (7.26)	5356.07	4185.95	1170.12 (3.75)	-1094.62 (3.51)
1999-2000	5884.64	8458.51	-2573.87 (7.52)	6520.62	5584.51	936.11 (2.74)	-1637.76 (4.78)
2000-01	6902.02	8828.79	-1926.77 (5.69)	8824.94	7378.35	1446.59 (4.27)	-480.18 (1.42)
2001-02	7047.99	9877.54	-2829.55 (7.48)	9921.56	8704.02	1217.54 (3.22)	-1612.01 (4.26)
2002-03(RE)	9435.83	10896.31	-1460.48	10963.12	9648.35	1314.77	-145.71
2003-04(BE)	10054.98	12520.76	-2465.78	6299.76	4342.57	1957.19	-508.59

Sources: (Government of Orissa 2001a, 2002a, 2003a)

Note: Figures in the parentheses indicate percentage to NSDP of Orissa at factor cost i.e., the state income.

Table 4.7 explains the behaviour of revenue and capital accounts in the consolidated fund of the GOO during 1990-91 – 2001-02. A close observation of this table reveals that there has not only been a mismatch between year wise receipts and disbursements both in revenue and capital accounts but the mismatch widens further over time. In order to correct the mismatch i.e., the excess of disbursements over receipts, the receipts in capital account that have increased most part consist of borrowings.

The deficit in revenue account has not only increased in absolute terms over years but also as a percentage of state income of Orissa. Till 1994-95, both revenue and capital accounts showed deficits. Thereafter, only the capital account has reversed to show a surplus (due to the unwarranted expansion of receipts from huge borrowings). Such borrowings of the GOO have increased by 298.54% in 2001-02 as compared with that in 1990-91 each being evaluated at current prices causing thereby an average increase of 27.140% per annum. If it is computed at constant prices (1993-94 base), the increase in the overall burden of public debt of Orissa over the years 1990-91 – 2001-02 would be 173.683% causing thereby an average increase of 15.789% per annum. In spite of this heavy borrowing, there have been uninterrupted deficits in the consolidated fund (both revenue account and capital account taken together) from the year 1995-96 as it was before. This stands testimony to the fact that more the GOO borrows to bridge the ever-widening gap between receipts and disbursements on the revenue account of the budget, still insufficient is the (borrowed) amount to compensate for the deficit. Hence this 'deficit capturing in revenue account' syndrome has dragged, among others, the GOO into a debt trap (The World Bank 2003a).

The problem of debt in Orissa is further exacerbated by the losses of public sector enterprises (DFID 2001b), which is illustrated in Table 4.8. Over a nine year period as indicated in the table below, the accumulated loss incurred by all the public sector enterprises is estimated to be Rs.928.08 crores, which constitutes an extra liability on the state treasury.

Table 4.8 Year wise computation of profit and loss of the PSEs in Orissa

Years	Profit/Loss of the PSEs at current prices in Rs. crores
1993-94	-61.05
1994-95	-75.28
1995-96	82.07
1996-97	-124.44
1997-98	-121.24
1998-99	-258.92
1999-2000	-207.62
2000-01	-85.35
2001-02	-77.25
Accumulated Loss till 2001-02	**929.08**

Source: (Government of Orissa 2003a, d)

The factors outlined above interact among themselves to render the Orissa economy to be under a perpetual state of indebtedness. Since such indebtedness is unavoidable under the existing arrangement of public finance institutions, it remains to verify whether the current debt position is sustainable. As stated earlier in this work, there exist a good number of theoretical criteria developed on the basis of sound logic to test the sustainability of public debt. But it is too difficult to provide empirical treatment to all the test criteria due to non-availability of appropriate data. In order to overcome the difficulty on the one hand and to proceed with the objective of testing the sustainability of public debt of the GOO on the other, debt/ NSDP ratio criterion has been chosen to be the most relevant one in the present context. Table 4.9 computes all required ratios and their correlates to reach the conclusion in respect of whether the public debt of Orissa is sustainable. In table 4.9, the debt/ NSDP ratios for Orissa over a period of twenty-four years both with and without provident fund liability of the state Government have been computed. While the ratio without provident fund varies between 29.20 and 45.69 percents, the said ratio with provident fund remains in between 33.31 and 63.52 percents. The debt/ NSDP ratio without provident fund is seen to have shifted from 33.86 percent in 1980-81 to 45.69 percent in 2001-02 causing thereby an overall increase of 34.94 percent and an average increase of 1.66 percent per annum. This has confirmed the fact that the public debt of Orissa is not sustainable, as the debt/ NSDP ratio has constantly increased not only in the short run but also over a period of more than two decades contrary to the requirement of being stabilized in a very near future to make the debt burden sustainable (The World Bank 1999b; Government of Orissa 2001a, b).

Table 4.9 Components of sustainability test for public debt of Orissa

Years	NSDP at Factor Cost at Current Prices in Rs.Crore	Total Debt without PF* in Rs.Crore	Total Debt with PF in Rs.Crore	Debt/ NSDP Ratio without PF in %	Debt/ NSDP Ratio with PF in %	Interest Payment including Servicing of Debt	Per Capita Debt without PF in Rs.	Per Capita Debt with PF in Rs.
1980-81	3442.69	1165.72	1277.05	33.86	37.09	-	-	-
1981-82	3843.95	1183.37	1312.55	30.78	34.15	-	-	-
1982-83	4070.22	1342.65	1498.72	32.99	33.82	-	-	-
1983-84	5253.32	1538.75	1749.77	29.29	33.31	-	-	-
1984-85	5190.57	1675.67	1944.14	32.28	37.46	-	-	-
1985-86	6225.73	1945.90	2270.39	31.26	36.47	-	-	-
1986-87	6747.59	2148.07	2540.94	31.83	37.66	-	-	-
1987-88	6852.59	2438.97	2917.56	35.59	42.58	-	-	-
1988-89	8681.18	2771.10	3377.25	31.92	38.90	303.71	-	-
1989-90	9916.85	3152.07	3870.84	31.78	39.03	310.42	-	-
1990-91	9664.28	3684.36	4538.58	38.12	46.96	364.74	1162.26	1431.73
1991-92	12505.30	4166.38	5213.34	33.32	41.69	481.05	1293.91	1619.05
1992-93	13415.53	4708.43	6050.06	35.10	45.10	542.23	1439.89	1850.17
1993-94	16184.88	5270.92	6916.15	32.57	42.73	682.83	1589.91	2085.46
1994-95	19462.25	5997.46	7958.01	30.82	40.89	786.80	1779.66	2361.43
1995-96	23821.59	6913.61	9219.91	29.02	38.70	929.33	2021.52	2695.88
1996-97	22668.85	7865.50	10493.75	34.70	46.29	1079.44	2266.71	3024.14
1997-98	27999.56	9299.05	12387.50	33.21	44.24	1291.81	2641.78	3519.18
1998-99	31210.56	10831.08	14751.15	34.70	47.26	1484.91	3042.44	4143.58
1999-2000	34223.40 (RE)	13127.73	18100.00	38.36	52.89	1237.77	3636.49	5014.07
2000-01	33876.23 (PE)	15166.68	21001.90	44.77	62.00	2286.88	4132.61	5722.59
2001-02	37834.01 (QE)	17288.07	24033.62	45.69	63.52	2835.03	4634.87	6443.33
2002-03	-	20323.75 (RE)	28001.71 (RE)	-	-	3005.37 (BE)	5362.47	7388.31
2003-04	-	24034.38 (BE)	32512.34 (BE)	-	-	3440.07 (BE)	6258.95 (BE)	8466.76 (BE)

Sources: (Government of India 2000e; Government of Orissa 2001a, 2004)
NB – (Total debt of Orissa excludes Ways and Means Advances from the RBI; * PF: Provident Fund; PE: Provisional Estimates; QE: Quick Estimates)

To interpret the debt sustainability further, a simple derivative model is used. The trend and composition of different types of deficits help in the analysis of the fiscal situation of a nation or a state (Shome 2002). In this context Fiscal Deficit, Revenue Deficit, Primary deficit are very relevant.

Universally, in a budget:

- **(Total Expenditure) – [(Revenue Account Receipts) + (Capital Account Receipts)] = 0**
- **(Total Expenditure) – [(Revenue Account Receipts) + (Recoveries of Loans) + (Other Receipts) + (Borrowings)] = 0**
- **(Total Expenditure) – (Total Receipts Net of Borrowings) = (Borrowings)**

- [(Revenue Account Expenditure) + (Capital Account Expenditure)] –

[(Revenue Account Receipts) + (Capital Account Receipts Net of Borrowings)] = Gross Fiscal Deficit

- [(Revenue Account Expenditure)-(Revenue Account Receipts)]

+ [(Capital Account Expenditure)-(Capital Account Receipts)] = (Gross Fiscal Deficit)

(Revenue Deficit) + (Capital Deficit) = (Gross Fiscal Deficit) (i)

Net Fiscal Deficit = (Gross Fiscal Deficit)-[(Repayment of Loan)-(Recoveries of Loan)] (ii)

In other words Net Fiscal Deficit explains the utilization of borrowed funds other than repayment of loans.

Net Primary Deficit = (Net Fiscal Deficit) - [(Interest payments) - (Interest Receipts)] (iii)

In other words Net Primary deficit explains the utilization of funds after meeting the obligations of debt repayment as well as interest payments.

Primary Deficit = (Fiscal Deficit) - (Interest Payment) ... ... (iv)

Whereas (Primary Revenue Deficit) = (Revenue Deficit) - (Interest Payment) (v)

Primary Revenue Deficit is the deficit in Revenue account after the payment of interest. It is obvious from the above that

(Net Primary Deficit) - (Primary Revenue Deficit) = Capital Expenditure out of borrowed funds.

For enhancing the economic growth, growth rate of share of capital expenditure out of borrowed funds after debt and interest obligation is to be maximized. This implies that there is the need of minimization of the growth rate of Primary Revenue Deficit (Shome 2002). In brief Fiscal Reforms for fiscal sustainability imply

(a) Minimization of Primary Revenue Deficit and

(b) Maximization of Net Primary deficit

If the gap between revenue receipts and revenue expenditure can be reduced either through generation of revenue receipts or reduction of revenue expenditure or both, this will lead to a decline in revenue deficits and thereby fiscal deficits, debts and interest payment conforming to the maximization of net primary deficit (Lahiri & Kanan 2002). If debt is reduced, GSDP will grow and will improve the Debt sustainability in terms of convergence of Debt GSDP ratio towards a lower constant value.

$$p^{d} = \left(\frac{g-r}{1+g}\right)d \qquad (1)$$

Where p^d is the sustainable primary deficit as a fraction of GSDP, g is the GSDP nominal growth rate, r is the average effective nominal interest rate on fiscal debt and d, is the constant debt to GSDP ratio. Sustainability implies enduring without breaking down, while solvency means to be able to discharge one's obligation in the long-run (Rajaraman & Mukhopadhyay 2000).

Fiscal policy is sustainable if the government is able to service the stock of public debt over the foreseeable future. If an entity is insolvent and still able to continue functioning without a breakdown i.e., sustain its stance, then it is playing ponzi game by borrowing more to repay the old debt finance (Shome 2000). Solvency is a necessary condition for sustainability (Wildasin 1997). Solvency however is a long-term concept. Thus for sustainability and solvency, k (Growth rate of debt) must be less than r (Growth rate of interest), must be less than g (Growth rate of GSDP). The relationship between the (debt)/ (GSDP) ratio and the primary balance may be specified as

$$D_t = (1+r)D_{t-1} + PB_t \qquad \text{(i)}$$

$$\left(\frac{D_t}{Y_t}\right) = \frac{(1+r)D_{t-1}}{Y_t} + \frac{PB_t}{Y_t} \qquad \text{(ii)}$$

$$\left(\frac{D}{Y}\right)_t = (1+r-g)\left(\frac{D}{Y}\right)_{t-1} + \frac{PB_t}{Y_t} \qquad \text{(iii)}$$

Given the linear relationship between $\left(\frac{D}{Y}\right)_t$ and $\left(\frac{D}{Y}\right)_{t-1}$, it is simple to see that:

(1) if $r < g$, $\left(\frac{D}{Y}\right)$ would converge and be stable at the point,

(2) if $r > g$, and the government runs primary deficit then $\left(\frac{D}{Y}\right)$ explodes;

and (3) if $r > g$, only primary surpluses would lead a stable $\left(\frac{D}{Y}\right)$.

These three cases are depicted in the diagram that follows. Thus if the economy grows faster than the cost of servicing public debt, government can run deficits without increasing the Debt/ GSDP ratio. But with slower economic growth, surpluses are needed to keep the ratio from growing.

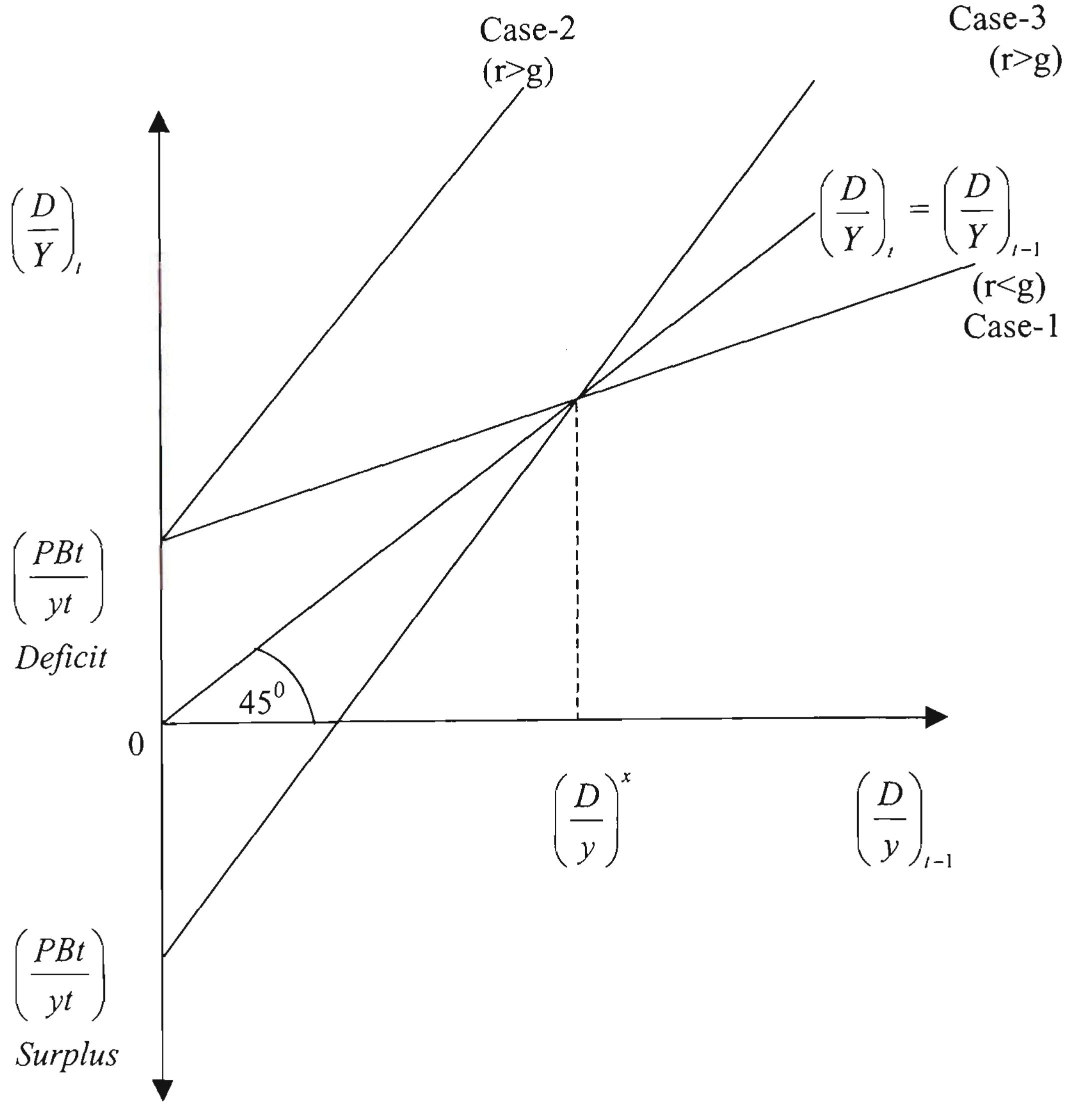

Figure 4.1 Public debt and primary balance requirements
Modified From: (La Pittus 2000; Gershenson 2001)

Below is an analysis of the fiscal situation in Orissa as explained through Figure 4.1. During the period under consideration the average annual growth rate of gross fiscal deficit in Orissa is 16.5% and it is almost the same with the average annual growth rate of net fiscal deficit and net primary deficit because for both these cases it is the same i.e., 16.4%. It shows that the growth rate of borrowing, the growth rate of borrowed funds after meeting interest obligation as well as the growth rate of utilized borrowed funds after fulfilling the requirements of debt repayment and interest payments rest on 16.4%. The growth rate of public debt during this period is 18.2%, which is higher than the growth rate of GSDP, which is 14.9% at current prices (The World Bank 2002d). It does not conform to the condition of debt sustainability, which requires the growth rate of public debt to be less than the growth rate of GSDP. The growth rate of shares of capital expenditure out of borrowed funds after debt and interest payment obligation fulfilment is only 1.4% whereas the growth rate of shares of revenue deficits without considering interest payments out of borrowed funds after debt and interest obligation is 9.1%. The growth rate of revenue deficits without interest payment (primary revenue deficits) is 26.8%. The most warranting fact is that the revenue deficits hover around 49.6%. Due to the lower growth rate of net borrowed funds for the capital expenditure in the form of infrastructure development, which is 1.4%, and the growth rate of revenue deficit, which is 49.6% there is no scope for convergence of debt/GSDP ratio to a lower stable value (Reddy 2002). The exploding growth rate of the revenue deficit comprises the major share of fiscal deficit for the unproductive purpose and is not self - financing in nature, thereby adding further due interest payments to the borrowing amount leading towards cumulative growth of public debt (The World Bank 1996, 1999b). On the other hand almost a negligible growth rate of share of capital expenditure out of net borrowed funds after meeting all debt and interest obligation, which is 1.4 %, does not contribute satisfactorily to the growth rate of GSDP. In Orissa the growth rate of GSDP (g = 14.9% at current prices) and is lower than the growth rate of interest payment at current prices (r = 17.6%) (Government of India 2000f).

But more importantly the solvency condition is not satisfied with debt growing at a faster rate (18.2%) than the rate of interest (17.6%). Every year the government must borrow not only to meet the primary deficit but also for paying at least a part of interest obligations. The government cannot generate a primary surplus and is bound to play a ponzi game by borrowing more to repay the old debt finances. The higher growth rate of interest payment (r = 17.6%) in comparison to growth rate of GSDP (g = 14.8%) at current prices with primary deficits causes the debt/GSDP ratio to explode in future giving a negative answer to the debt sustain ability perspective (Refer Case-2).

The loan outstanding as on 31.3.2002 is Rs.24272 crore out of which the loan payable to GOI is Rs.10360 crore (Government of Orissa 2004). The total outstanding constitutes debt as high as 61.20% of the state GSDP compared to 30% on the average for other states. The debt servicing liabilities during 2001-2002 was Rs.3689 crores, which constituted 52.34% of the state's total revenue of Rs.7048 crore and 118% of state's total own revenue of Rs.3139 crore (Government of Orissa 2003b). No further proof is necessary to show that Orissa is already in a debt trap.

4.3.4 Reform trajectory in Orissa

In the context of the fiscal crisis and the reforms initiative, the record of discussion held between Ministry of Finance, GOI and GOO on April 15th, 1999 and the subsequent MOU is of immense relevance. The National Development Council (NDC) recommended that GOI should provide an immediate assistance to the needy states, but would link the same to specific fiscal reform measures aimed at strengthening the financial situation of the state, so that such difficulties do not become a recurring feature. During April 1999 discussion was held with the GOI, and a draft fiscal reform programme was drawn up. The draft was submitted to Minister Finance GOI and Chief Minister GOO and the MOU was signed. Thereafter, GOI provided an advance of Rs 250 crores to help GOO in clearing it's over draft with the RBI. GOI having provided the assistance expected the state Government to implement the fiscal corrective measures by the specified dates as contained in the MOU (Government of India 2001a).

The MOU aimed to enable the GOO to achieve fiscal sustainability in the medium term in accordance with the Orissa Medium Term Fiscal Reforms Program (MTFRP) for 2001-2005, which has been basically drawn as per the terms and conditions of MTEF (Rao 2002).

The main objective of the MOU was to assist the state government to get out of the problem of unsustainable debt and improve upon governance. In order to secure further assistance from the central government, the state government was asked to introduce and implement a few time bound measures to reform its existing fiscal system (Government of India 2000b). There was a consensus that the existing fiscal imbalance could not be corrected without efforts from within and without exogenous assistance (DFID 2001b). The main components of the medium term reforms were:

- Augmentation of revenue
- Containment of expenditure
- Restructuring of public sector functions and implementation of a disinvestments programme.

Under the scheme of containment of expenditure, priority was assigned to the reduction in non-plan revenue expenditure of the state. Under the proposal of augmentation of revenue, an emphasis was given to the imposition of decentralization, user charges and community participation in funding and management of programmes at the grass roots level. Following are the set of measures listed for action based on MTEF measures (Government of India 2001a; DFID - World Bank 2002).

- **Structural reforms** (economic growth, human development & poverty monitoring) – a) agriculture policy and land administration, b) regulatory framework for private enterprise, c) public enterprise reform and privatization, d) education, e) health and f) poverty monitoring and evaluation;
- **Fiscal reforms** – a) fiscal discipline and sustainability, b) tax and revenue reforms, c) expenditure policy reforms, d) determination of user charges for social and economic services;
- **Governance reforms** – a) public expenditure management, b) procurement, c) financial accountability, and d) administrative and civil service reforms;
- **Reform communication and consultations.**

As part of the fiscal reforms GOO is committed to achieve the fiscal goals as indicated in the table 4.10 below:

Table 4.10 Broad fiscal targets for Orissa (Outcome Indicators)

Indicator for Fiscal Target	1999-2000 Actuals	2000-2001 (RE)	2000-2001 (pre-actuals)	2001-2002 (Targets)	2002-2003 (Targets)	2003-2004 (Targets)	2004-2005 (Targets)
Revenue deficit as % of GSDP	-6.53	-3.81	-5.19	-3.97	-2.27	-1.62	-0.13
Fiscal deficit of % of GSDP	-9.50	-6.92	-9.44	-7.10	-4.25	-3.62	-2.19
Primary deficit as % of GSDP	-6.36	-1.58	-4.18	-0.77	1.26	1.89	3.25
Interest payment as % of Revenue Receipt	21.00	30.9	33.14	35.90	30.60	30.90	29.20
Explicit subsidy as % of GSDP	0.41	0.22	0.22	0.13	0.09	0.07	0.05
States own tax as % of GSDP	4.32	5.34	5.05	5.69	5.83	6.03	6.26
States own non-tax as % of GSDP	1.82	1.56	1.58	1.70	1.72	1.76	1.85
States Own total Revenue (Tax+Non-tax) as % of GSDP	6.14	6.90	6.68	7.39	7.55	7.82	8.12
Consolidated Debt Stock (including GPF account) at the end of the year as % of GSDP	46.63	49.12	51.25	51.81	52.02	52.06	51.07
Revenue deficit as % of Revenue Receipt	-43.74	-22.07	-32.69	-22.55	-12.62	-9.05	-0.72

Source: (Government of India 2001a).

However, though the MOU was signed after intensive and extensive deliberations both at the state and federal level, the pace slowed down immediately after the signing of the

MOU. The World Bank reports that this was due to the institutional weakness and lack of political and bureaucratic engagement and commitment for non-compliance of any of the fiscal targets set in the MOU (DFID - World Bank 2002). Table 4.11 below shows the actual trend in various fiscal indicators in actuals. The trend also shows how immediate is the need for having comprehensive fiscal and governance reforms.

Table 4.11 Broad fiscal actuals of Orissa (Outcome Indicators)

Indicator for Fiscal Target	1999-00 Actual	2000-01 Actual	2001-02 Actual	2002-03 Pre-Act	2003-04 Projected
Revenue Deficit/ GSDP	-6.66	-4.97	-6.55	-4.61	-3.54
Fiscal Deficit/ GSDP	-9.70	-8.57	-9.17	-7.43	-6.70
Primary Deficit/ GSDP	-6.49	-2.66	-2.62	-0.87	-0.50
Interest Payment/ Revenue Receipt	21.00	33.10	40.20	35.20	32.80
Explicit subsidy/ GSDP	0.42	0.30	0.27	0.35	0.72
State's Own Tax/ GSDP	4.41	5.63	5.70	6.53	6.32
State's Own Non Tax/ GSDP	1.85	1.77	1.60	2.20	1.75
State's Own Revenue/ GSDP	6.27	7.40	7.30	8.73	8.07
Consolidated for Debt Stock/ GSDP	47.85	54.52	55.67	63.07	61.44
Revenue Deficit/ Revenue Receipt	-43.70	-27.90	-40.20	-24.80	-18.80

Source: (Government of Orissa 2003e)

Table 4.12 Comparative position of budget at a glance 1999-2000 vs. 2001-2002

		1999-2000	2000-2001	2001-2002	% Increase over 99-00
1	Revenue Receipts	5884.64	6902.03	7047.98	19.77
2	Disinvestments	0.00	0.00	0.00	0.00
3	Borrowings and Other Liabilities	6417.81	8748.36	9789.90	52.54
4	Out of Borrowings Wage and Means advance and O.D. from R.B.I.	3735.05	5965.92	6747.67	80.66
5	Non-Plan Revenue Expenditure	11372.22	13296.54	15803.98	38.97
6	Revenue Deficits	2574.19	1931.96	2829.56	9.92

Source: (Government of Orissa 2003e)

Observing tables 4.11 & 4.12 above, it is evident that GOO could not fulfill the commitment assured to GOI in the signed MOU in the stipulated period. Instead of reduction in Non-plan expenditure, it has been increased by 38.97%. There is an increase in revenue deficit by 9.92%. The performance with regard to disinvestments receipts is nil. Borrowings and other liabilities have increased by 52.54%. Ways and Means advance and overdraft from Reserve Bank of India is increased by 80.66%. As observed, revenue deficits as a percentage of revenue receipt has declined from 43.74% in 1999-2000 to 42.56% in 2001-2002, reflecting a 2% reduction in three years, less than the target. It was agreed between GOI and GOO that on achievement of, on an average, 5% annual reduction of revenue deficit as a percentage of revenue receipts, GOI would release the incentive fund due to the state. Also, on the basis of comparative performance GOI would give additional incentives to the government, consistent with the scheme. In 1999-2000 the revenue expenditure as a percentage of GSDP was 29.46%. State Government planned to reduce this ratio to 18.78% by 2004-2005. This was to be achieved by taking policy initiatives such as down sizing the Civil Service and reducing the salary cost, freezing in grants-in-aid and reduction of explicit subsidy (The World Bank 2002d). To achieve further a reduction in the fiscal deficit, a further cut of 8% to 10% in salary cost, going beyond attrition, reduction will be required (Government of India 2002e).

This persistent imbalance is attributed to the failure of the GOO to generate extra revenue commensurate with the demand for increased grants by the departments. During the period 1988-89 – 2001-02, the average growth rate of revenue receipts of the GOO was computed at 1.15% per annum. This growth is attributed to, of course in varying magnitudes, increases in both tax and non-tax revenues. During the period under reference, the tax revenue of the GOO increased by 1.43% and the non-tax revenue by 0.72% per annum, both collectively bringing an overall annual increase of 1.15% in revenue receipts. A gap exists between the proceeds from taxes and the receipts from non-tax sources. In order to lessen the burden of revenue deficit on the state economy, the revenue receipts should be increased. But it seems to be an up hill task for the GOO to expand its own tax base beyond the existing one. Agricultural income has been kept out of the tax net. Imposition of any new tax or enhancement of the rates of old taxes particularly direct taxes causes severe resentment (Government of India 2002f). At the time of the introduction of a professional tax during 2000-01, the Government faced stiff opposition by some professional lobbies and was ultimately forced to back down. Under such circumstances, a solution to the problem of revenue deficits needs to be found in terms of increasing the receipts from non-tax sources (Chelliah & Rao 2001).

4.3.5 An interim evaluation

Orissa state budget reforms - In an October 2000 'White Paper on Expenditure Management and Administrative Reforms', the GOO admits that "problems exist at all stages of the budget and expenditure management processes". The White Paper proposed the following remedies to the budgeting problems identified:

- The state was to adopt a medium term fiscal framework approach, whereby an expenditure projection would be formulated for the next five years, updated annually, and presented to the Assembly at the same time as the annual budget. "It has not been implemented with regard to the state budget for 2003/ 04. This shows how prevaricating the state government policies are" (The World Bank & DFID 2003, p. 14).
- The state claimed to have "started introducing realism in revenue forecasting in the budgetary process, leading in 2003 and beyond, to a systematic improvement in the accuracy of the forecasts"(Government of Orissa 2003a, p. 6) . This claim has no validity (The World Bank & DFID 2003).
- The state also proposed to set up a training program for orienting the state Government officers in budget formulation, tax administration, and budget monitoring. "When the state has failed to provide the basic training, it sounds like a very unrealistic proposition. Before the training, the state needs to go for the massive bureaucratic reengineering and making a policy decision on the tenure postings of bureaucrats with a clear AOP for each position" (The World Bank & DFID 2003, p. 36) .

Budget implementation – "The implementation of the budget is marked by numerous distortions, many of which are traceable to the lack of realism in budget preparation. The chief culprit has been a persistent tendency to over-estimate revenues. For example, in 2001/ 02, the state's share of central taxes was budgeted at nearly Rs.320 crores, but the state received only Rs.265 crores. The 2002/ 03 budget of almost Rs.350 crores has had to be revised downwards to about Rs.310 crores. But despite these experiences, the 2003/

04 budget still provides for anticipated receipts of Rs.343 crores from this source" (The World Bank & DFID 2003).

The liquidity crunch has meant that the provision of funds in the budget is no guarantee that money will be available to finance that expenditure. The constant worry on the liquidity front has cramped the normal flow of funds after the budget is passed. The Finance Department (FD) controls the release of funds to the other departments strictly based on the availability of cash. This upsets the priorities fixed in the budget. It also causes Secretaries to disown responsibility for implementing the budget as passed (Saxena 2001). Other distortions in budget implementation are summarized as follows (Gopalakrishnan & Rangamannar 1996; Parikh 2002):

- In the cash rationing process, resource-linked projects are accorded priority. They receive an initial instalment, for which they have to give a Utilization Certificate (UC) before they can receive further releases of funds. As many departments have difficulty in providing the UCs for various reasons (including slow or inadequate documentation), cash flow gets impeded.
- The money is received from central government mostly towards the end of the year. Unable to spend the money in a short time, and fearing lapse of funds, the spare money is kept in Civil Deposits Head in Public Account. As subsequent expenditure from Public Account does not need Legislative clearance, this process vitiates the system of legislative control. Closing balances held in such accounts have grown from almost Rs.20 crores in March 1997 to more than Rs.60 crores in March 2001 (Government of India 2002b).
- There are large variations between approved expenditure and actual expenditure every year. These 'savings', which amounted to more than 10% of total budget allocation in 19 out of 39 budget line items in 2000/ 01, are primarily due to lack of funds to spend.
- Many works are taken up in the hope of availability of funds. Sometimes, the funds do not materialize. This results in arrears in payment due to contractors. The size of the problem is reported to be large, though no reliable data are available.
- The late release of funds frees spending agencies from responsibility for implementing the programs in the budget.
- Re-appropriation of allocation from one line item to another within the same Grant is a routine feature. This flexibility, introduced to enable the government to change its priorities during the year appears to be abused by over-use. Its routine application contravenes the legislative intent.
- Supplementary budgets, often two in a year, represent another abuse of flexibility, suggesting lack of proper anticipation or wilful omission at the time of the original budget (Rakshit 2000).
- Line Departments and their Financial Advisers do not seem to have proper control over expenditure, as is suggested by the following comment by the external auditor: "Controlling Officers are responsible for ensuring that the

control over expenditure is effective and to guard against rush of expenditure in the month of March. Test check by audit disclosed that in 19 cases, 52 per cent to 100 per cent of the total expenditure for the year 2000/ 01 was incurred during the month of March 2001" (The World Bank & DFID 2003, p. 32).

- Although the regulations require line departments to surrender 'savings' to the Finance Department, in 2000/ 01, 14 line departments which had 'savings' of Rs. 190 crores surrendered only Rs. 56 crores. On the other hand, in 56 cases, the entire allocations were surrendered, indicating slack budgeting (The World Bank & DFID 2003).
- The line departments do not receive from the State Accountant General (AG) timely or useful figures to enable them to control expenditures.

The departments are also expected to reconcile their accounts monthly with the AG, since this practice is one of the best internal control measures for preventing and detecting frauds and misappropriations. In reality, however, most departments now perform the reconciliation only once a year. Furthermore, in 2000/ 01, 11% of all expenditures by value, representing 61 heads out of 377, remained unreconciled, even after the year-end, according to the Audit Report on Orissa (The World Bank 2003b). Thus transparency and accountability is the casualty and remains rhetoric.

"Reforms, though highly ambitious and introduced with much enthusiasm; progress has been tardy by any standards. Policy decisions have been taken in an ad hoc manner and do not address the more deep-seated problems. There is a need to complement the current initiatives with a more systematic approach to improving fiscal sustainability. As it stands the sanctity of the MOU is lost and the commitment for reform is under question both internally and externally" (Rangarajan 2001a, p. 22).

In moving ahead with the reform programme it will be important for GOO to pay attention to: (i) establishing capacity within GOO to take forward this agenda and ensure that due process is followed, and (ii) ensuring that further progress on administrative reforms is effectively linked to decentralization, commercialization of non-core activities and overall improvement in service delivery by enforcing transparency and accountability (The World Bank 2002d). This is possible through initiating strictly designed and time bound governance reforms (Ramaswamy 2000).

4.4 Governance reforms in Orissa

As noted in chapter 2, in an idealistic situation good governance aims at inclusion and devolution of administrative and fiscal powers to grass roots level, by making it part of a network, which stretches not only from global to the local but from the market to civil society (UNDP 1997a). Second, various levels of governance are in partnership that are based on cooperation rather than conflict. Third, they (the relationship) connect to each other via horizontal linkages rather than through vertical chains of command. Fourth, the relationships between different partners are flexible rather than bureaucratic (Asian Development Bank 1998a). In India, there is a continuous conflict between the sub-national and federal government and same is the case at the state level where local governments scrounge for the state governments' generosity. As per the assessment of some experts, Orissa as a state has strong desire for partnership governance but miserably fails in transforming it into action (Jagadananda 2003).

The paradigm shift supported by adjustment operations - from public sector dominated to private sector-led economic growth with improved public sector management – is expected to lift Orissa from fiscal crisis, and economic stagnation, with little progress against its massive poverty (47% poverty headcount) - to a path of rapid economic growth, fiscal sustainability and improved governance over the medium-term (Karnik 2003). Measures to improve revenue mobilization, public expenditure management and control, and public financial accountability should help enhance citizens' confidence in government and reduce waste and the state's increasing dependence on debt financing, while increasing fiscal space and the efficiency with which public resources are utilized in furthering the state's economic and social development (Kelkar 2002). Improvements in public governance, accountability and administrative effectiveness combined with growth-enabling structural reforms backed by political and bureaucratic will should lead to increased revenue, private investment and more rapid poverty reduction over time. It is this will that is the crucial factor that would ultimately decide the extent to which Orissa will be in a position to contribute effectively by way of its share to India's Plan target of 8% growth which, though ambitious, is considered by GOI to be attainable (Macroscan 2002).

Orissa is publicly and officially committed to fiscal and governance reforms. A preliminary assessment conducted by the World Bank in conjunction with preparatory work carried out in relation to the Orissa Economic Revival Credit/Loan in 2002 indicated that the fiduciary risk in this state is on the higher side. The annual Reports of the Controller & Auditor General of India and periodic reports of the Public Accounts Committee of the State Legislature provide considerable information on the need to substantially improve the management and control of public resources and returns on public investment. Such reports also point towards the need for stronger preventive controls and public awareness of the costs of mismanagement and irregularities. Many public and private officials hold the same view. In addition, an assessment of the key anti-corruption agencies at Orissa has pointed out that the problem of corruption is said to have become deep rooted and widespread (Reddy 2000a).

The legal and regulatory framework in Orissa is apparently good, and compares favourably with good international and Indian practice. It is transparent, provides for effective participation by all line government departments, and makes it obligatory for them to own the budget and implement it faithfully. The official manuals are very clear about the role of all the parties in framing the policies and implementing it. The laws and regulations are also faithfully observed in practice. The manuals, however, are badly in need of updating. Numerous additions have been made over the years, but obsolete provisions, such as references to relations with England, which seem to date back to colonial times, have not been deleted yet (The World Bank 2003b).

At the outset, as determined from the literature review the three components of governance reforms - decentralization/commercialization, transparency and accountability and administrative reforms - in Orissa will be discussed, following which some of the other critical and cross-cutting issues will also be discussed.

4.4.1 Decentralization

Panchayat Raj Institutions (PRIs) are the local governments in the rural areas and have been an integral part of the Indian rural society, albeit in different forms from times immemorial (Government of India 1993). The Constitution of India recognized their presence as far back as 1948, noting that the state shall take steps to organize village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self government (Bhaumik & Kumar 1997). Orissa being a state with more than 80% rural coverage PRIs are of insuperable importance.

In compliance with the 73rd Constitutional Amendment, Orissa, in its endeavour to improve governance through decentralization, the State Assembly passed the required conformity Acts in 1994, 1995 and 1997 to set in place the present form of the 3-tier system of Panchayati Raj consisting of *Zilla Parishad* at the district level (ZP), *Panchayat Samiti* at the block level (PS) and *Gram Panchayat* at the village level (GP) (Government of Orissa 1994). Through this Act the State Government intended to down delegate powers to district level elected representatives to undertake schemes and adopt measures including giving financial assistance relating to the development of agriculture, industries, water supply, public health and sanitation, primary, secondary and adult education, establishment of dispensaries and hospitals and so on.

The Panchayat Raj Department (PRD) of the State Government is accountable for ensuring that an adequate financial management and accountability framework for the PRIs is in place and that funds provided by the state and center are used for purposes intended. The PRIs are expected to provide utilization certificates to support their use of grant-in-aid funds. The PR Department is also expected to monitor the implementation of the schemes funded by the state and center to ensure that the purposes intended are being achieved. Monthly physical and financial progress reports are provided to the PR Department by the implementing agencies through District Rural Development Agencies (DRDAs) (Dutta & Sundaram 2003).

Orissa is also one of the few states that has constituted State Finance Commission as of 21st November 1996 to make recommendations relating to the sharing of taxes, duties, tolls and fees, etc between state and local governments such as municipalities, village Panchayats, Block and District level and provision of grants-in-aid to local bodies (Government of India 2002d).

PRIs remain almost exclusively dependent on funds from the state and center. This limits the extent to which the local governments can be self-governing bodies. This is exacerbated by fiscal stresses at the state level making budgeting processes ineffective. Major decisions, such as what kinds of programs will be undertaken and who will be the implementing agency, remains with the state and the center. PRIs play minimal role in the planning and implementation of schemes – for every function that has been devolved to the PRIs; there are specific line departments of the state or agencies like DRDA. Excessive levels of state controls over the PRIs, such as the power of the Collector in ordering enquiries against the elected representatives, and the authority to suspend resolutions passed in the meetings of the elected representatives of PRIs, has resulted in the PRIs being perceived as extensions of the states (Vereker 2000; Johnson 2003).

The accountability of the executive of the PRI remains essentially to the Collector (who is the executive head) at the District level and the state, and not to the elected representatives of the PRIs. The accountability of the elected representatives to their constituents is compromised by their limited role in the management of resources spent at each of the levels of PRIs. The secrecy that surrounds the executive action is most apparent in the selection of beneficiaries for subsidy and poverty alleviation programs – records of meetings do not show how the choices were arrived at or the options or criteria for selection, often concealing the high levels of arbitrariness in decision-making. The Management Information System at the PR Department does not provide information on the financial position of PRIs. This limits the ability of the state to take informed decisions on the allocation of resources between PRIs and to the PRIs as a whole, based on the needs of the rural population (Johnson 2003; Mohanty 2003).

There are far too many cases of weak accounting, inadequate internal controls (pending utilization certificates for Rs.91 crores (equals Rs.910 million) for grant-in-aid from the state, unadjusted advances of Rs.32 crores for 95 Panchayat Samitis (PSs) as on 31 March 2002, unspent balances of grants on 31 March 2002 amounting to Rs.12 crores) and related irregularities, such as diversion of funds reported by the external auditors repeatedly over the years. There appears to be no concrete action plan to address the given fiduciary risk associated with the funds spent in respect of PRIs. The effectiveness of the audit function is questionable, given (i) the large number of pending audits (12,990 GPs from 1995-96 to 2001-02); (ii) no audits of ZPs conducted since 1996-97; and (iii) the large number of surcharge cases pending disposal - 50,939 cases amounting to Rs.12.3 crores as on 31 December 2002 for GPs alone, besides 43,000 odd cases amounting to approximately Rs. 9.4 crores for PSs (Government of Orissa 2000; Ministry of Rural Development 2001).

"In spite of the federal and provincial acts it is clear from the above that the state's hand in the management of PRIs has not allowed the devolution process to proceed as may have been intended by legislations. The reasons for this are complex and worthy of analysis at the national level. The motivation to comply with the accountability framework in place is undermined by the diffusion of roles and responsibilities between the various levels of government with limited checks and balances provided by the State Legislature" (Saxena & Farrington 2003, p. 19).

"In the White paper on Public Expenditure Management and Administrative Reforms published in 2002, the GOO committed to a 12 point program for empowering the village panchayats and set up a high powered Committee under the Chief Secretary to recommend measures for greater devolution of powers and resources to the elected local bodies. The Government also committed to take steps to strengthen the capacity of field administration down to the districts and blocks. However, the recommendations made by the high powered Committee in March 2003 to hand over accountability of functionaries of 26 departments to the PRIs were reduced to 11 departments by the Cabinet of Ministers (Johnson 2003). The Cabinet also limited the authority of the PRIs to the approval of casual leave of the functionaries. It is the political masters who make the rules and then amend it. The situation is like moving two steps forward and retracting one and half and in the process the net benefit becomes either negligible or negative. This process has caused reform fatigue and appears to be heading toward reform failure" (Vyasulu 2000, pp. 17-8).

4.4.2 Privatization/ Commercialization

As part of the MTFRP, GOO is officially committed to GOI and bi/multi lateral agencies to initiate reform programs for privatization and commercialization to reduce the fiscal burden and to increase allocation of public resources for priority sectors. The privatization objectives are categorized as follows (The World Bank 1996; Desai 2002):

- Releasing large amount of public resources locked up in non-core PSUs for deployment in areas that are much higher on social priority such as primary health, primary education, rural roads, rural drinking water supply, nutrition, livelihood and food scarcity since Orissa is a poverty ridden state;
- Stemming further outflow of public resources for sustaining unviable PSUs, which are not in the core sector;
- Reducing public debt which has already reached alarming heights and unsustainable proportions;
- Transferring the commercial risks in which it explores the possibility of exposing money locked up in the PSUs to the private sector and to ascertain if private sector is willing and able to step in.

While the actions already taken by GOO suggest a more business-friendly government willing to address policy constraints to private investment, decisions have been taken in an impromptu and off the cuff manner and do not address the more deep-seated inherent problems. This is clearly evident in the lack of seriousness and commitment of the State Government in translating into action their very own policy pronouncements, that is, the implementation of the Industrial Policy Resolution (IPR-2001). They will need to be complemented by a more systematic approach to improving the investment climate for all categories of business. The Technical Consultancy Services Organization of Karnataka (TECSOK) has submitted a detailed report covering most of these areas to GOO but no action has been initiated till date (The World Bank 2002d).

Orissa pursued a big bang approach to privatization in mid 1990s and is a leader among Indian states on the privatization of public enterprises in sectors where the public sector has proved to be inefficient and non-essential (Adam Smith Institute 2001). It was the first state to privatise power distribution. However, the World Bank supervision mission for the Orissa Power Sector project has rated this success as partial, even after 8 years of implementation (Mackinnon 2002).

"Privatization carries much importance in Orissa since at one point in time GOO had 71 PSUs (67 SOEs and 4 Statutory Corporations) but today it has only 33 working companies and only three out of the 33 working companies have finalized their accounts for the year 2001-2002 as of June 2003. None of the statutory corporations had finalized their accounts. The extent of arrears in finalization of accounts ranged up to eight years. The accounts of non-working companies were in arrears ranging up to 36 years" (The World Bank & DFID 2003, p. 18). According to the latest finalized accounts of 33 Government companies and three statutory corporations, 20 companies and one corporation had incurred an aggregate loss of Rs.732 crores and Rs.14.3 crores respectively. Only seven companies had earned aggregate profit of Rs.115.4 crores; the aggregate profit earned by two corporations amounted to Rs.4.1 crores. The accumulated losses of six companies aggregating to Rs.1228 crores exceeded their equity of Rs.474.8 crores. The accumulated losses of 35 non-working companies amounted to Rs.2386.1 crores as per the latest finalized accounts. Thus the loss incurred has completely wiped out their equity of Rs.2211.3 crores (Government of Orissa 2003d).

The main reasons for poor performance in the public sector were ineffective management; overstaffing, time and cost over run in project implementation, lack of professionalism in decision-making, lack of accountability and poor productivity (Adam Smith Institute 2001). "Precisely poor governance has been the way of functioning both in SOEs and day to day administration too" (Saxena 2000, p. 22).

Public investments made in the last fifty years have imposed an increasing burden on the budget rather than providing returns in the form of non-tax revenues through dividend payments to the government. "The public has got used to not paying adequately for these services for two reasons. It is perceived that the services are provided by the government and therefore do not have to be paid for. Second, with the quality of service being poor, the public is loath to pay higher charges" (The World Bank 1999b, p. 42). This is a vicious circle, which needs to be broken. The imposition of higher user charges has to be accompanied by capable improvements in the quality of service. The attainment of higher efficiency in the provision of service can, progressively, lead to lower charges.

GOO has taken the initiative to impose user charges on a pilot basis in the health delivery system. User charges are being imposed on some services for at the levels of the district hospitals. However, attempts are made to provide all essential services free of charge to the marginalised section. GOO is also attempting to outsource certain services and activities. However, these are in a very small scale and the impact therefore is negligible. Community management of services and assets has also been attempted without much success (IFAD 2001; Johnson 2003).

As indicated from the outset, responding to GOO's fiscal unsustainability resources have to be generated to retire debts. This can be mustered through privatization/ commercialization. To further governance reforms, the GOO intended, inter alia, to (Government of Orissa 2004):

I. strengthen fiscal marksmanship further;
II. implement a system for monitoring of expenditure commitments, to prevent arrears;
III. carry out a second zero-based review of investment projects, to complete the weeding out of obsolete infrastructural projects and initiate the scrutiny of projects in the social sectors – again with a view to internal reallocation rather than fiscal savings; and
IV. formulate and begin implementing a training program in public expenditure management – focused on an overview of expenditure programming and budgeting; project appraisal; project management; accounting and reporting; and elementary budgeting for PRI representatives.

The intentions have mostly remained as rhetoric and the political and bureaucratic will is also not very conducive to speed up the process (Jagadananda 2003).

4.4.3 Transparency and accountability

In India, because of the extreme diversity, rule based transparency and accountability system gets precedence over value based ones. Monitoring and evaluation systems other than the rule based audits do not exist (Jha 2000). The citizenry also does not have access to the information in order to ensure their rights. Thus, India has a unitary public audit function in a federal set up to enforce and ensure ex-post transparency and accountability. The country's supreme audit institution, described as the Comptroller and Auditor General of India (CAG) is also the auditor of the state of Orissa. He has authority prescribed in the Constitution - an officer neither of the executive nor that of the legislature - on par with the apex judiciary. The Constitution prescribes exhaustive safeguards for the independent functioning of CAG like guaranteed fixed non-renewable tenure, full access to information, and the right to table his Reports in the Legislature without hindrance.

The cases reported in the Annual Reports of CAG in the state of Orissa provide strong indication of weak budget control, insufficient revenue collection, inadequate accounting reconciliation, large wastage of public resources, inappropriate accounting, poor return on investment, diversion of funds, and numerous instances of poor management of public resources including those provided by donors such as the World Bank (The World Bank & DFID 2003). The Audit Report for financial year 2002, as an example, points toward large scale irregularities in the area of funds provided under the Integrated Rural Development Program (IRDP), for eradication of illiteracy and for the "upliftment of the rural poor", which is a major activity rather a life line of the district administration and mostly funded by the federal government. It was reported that 60% of IRDP related funds were either unused, incorrectly advanced, diverted or were incurred on non-permissible activities (Government of India 2004).

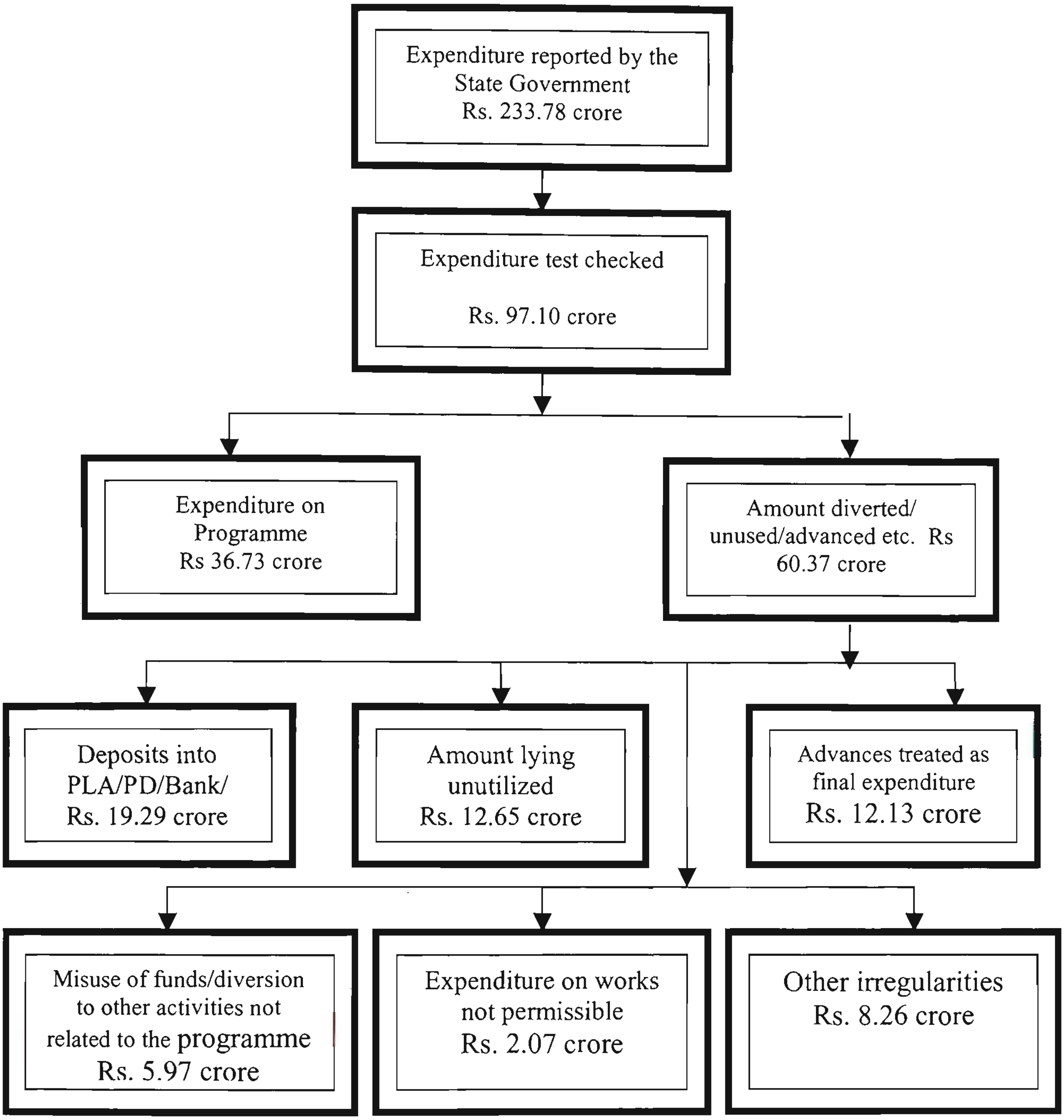

Figure 4.2 Transparency and accountability in Orissa
Source: (Government of India 2004)

The description in figure 4.2 above can sum up what level of lack of transparency and accountability that prevails in the state of Orissa. As observed from the figure above, out of Rs. 97.1 crore test checked almost two thirds have been diverted/unspent and no action has been initiated against errring officials. This type of non-transparent and unwarranted lapses is just the tip of the iceberg. Lack of transparency and accountability impinge on the fiscal stability directly and indirectly, which is almost a routine affair in the state (The World Bank & DFID 2003).

The International Federation of Accountants, Public Sector Committee (IFAC-PSC) has prescribed a set of principles for better accountability and transparency. It also encourages governments to progress to the accrual basis of accounting, for which different standards apply. The table 4.13 below shows the major features of the standard and how GOO accounts relate to them. The relationship is directional only since to apply all the standards GOI needs to bring in constitutional amendments.

Table 4.13 Comparison of Orissa vis-a-vis standards

IFAC-PSC Cash Basis Standard – Part 1	Government of Orissa
Statement of receipts, payments and cash balances	Provided in Financial Statement
Disclosure of accounting policies	Some explanation of items and summaries of results, but no statement of accounting policies.
Amounts received and paid on behalf of GOO (such as offshore payments by donors for supplies, equipment, etc)	Not shown.
Separate annual financial statements for each Department and other entity, and consolidated statements for GOO	No separate statements for lower level entities. GOO only, some entities under Government control omitted.
Statements understandable, relevant to users and presented within six months of end of year, reliable, and complete.	Accounts understandable, but issued after twelve months. Accounts are believed to be reliable and complete, subject to the omission of non-cash aid.
Statements to show date of issue, and who has authorised them for issue.	Yes, in CAG certificate.
Information about the entity – its operations, controlling legislation, and departments and other entities included	Not shown.
Any cash balances that are subject to restrictions on their use, and undrawn borrowing facilities.	Not shown.
Comparative information for the previous year.	Shown.
Additional Disclosures Encouraged under Part 2	
Assessment whether entity is a going concern (in the case of a lower-level entity).	Not applicable.
Extraordinary items (such as disaster relief).	Not identified, if any.
Classification of payments by function and/	Yes. Payments are classified by

or nature of payment, and receipts by type.	function, and by standard object within function. Receipts classified by type.
Proceeds from borrowing, by type and source.	Shown.
Assets and liabilities of the entity.	Only financial assets and liabilities listed, no physical assets.
Comparison with budgets.	Yes, for revenue and expenditure only (in Appropriation accounts).
Proportion of ownership interest in controlled entities.	No definition of controlled entities.
If intending to convert to accrual accounting, classification of cash flows into operating, investment and financing activities.	Not applicable.

Modified From: (The World Bank & DFID 2003)

In the state, the public audit system, the only evaluation system that exists does not have the desired impact. The core issue is an inadequate response to public audit at all levels, bordering sometimes on indifference on the part of government officials, which has seriously dented the accountability and transparency architecture. In some cases inspection reports have been outstanding since 1964-65, the departments do not send replies even to draft paragraphs intended for inclusion in CAG's Audit Reports Explanatory Notes on paragraphs finally included in the CAG's Audit Reports have not been furnished from 1989-90 onwards and a very large number of recommendations of the Legislative Committees are awaiting implementation (Government of India 2004). The elaborate system prescribed by Government for the speedy settlement of audit objections, scrutiny of CAG's reports and action taken on reports of the Legislative Committees seems to have become dysfunctional, if not malformed. The lack of adequate interest as characterized by departmental response to the inspection report was evident in the poor response rate of the executive as depicted in the table below. At least 53% of draft paragraphs proposed by the Accountant General (Audit) for inclusion in CAG's Audit Reports for the year ended 31st March 2002 were not responded to by the Executive as indicated in Table 4.14 below.

Table 4.14 Figures indicating numbers of responses from the executive

Audit Report	No. of paragraphs forwarded	No. of paragraphs to which reply was not received
Civil	58	**28***
Commercial	24	20
Revenue Receipts	56	30

Source: (Government of India 2004)
*Note: Report for the year ended 31st March 2001

Further, on an average, 56% of audit observations were not responded to by line departments as summarised, in the table 4.15 below. This is indeed a situation of serious concern.

Table 4.15 Figures indicating numbers of responses from line departments

Year of Audit Report	Total paras/reviews in Audit Report	Number of para's/ reviews for which explanatory notes were not received
1991-92	70	10
1993-94	60	18
1994-95	57	14
1995-96	61	15
1996-97	77	56
1997-98	64	37
1998-99	64	60
1999-2000	54	50
2000-2001	54	54
Total	**561**	**314**

Source: (Government of India 2004)

The table above indicates that in Orissa the levels of governance in reality has been diminishing rather than improving with the passage of time (The World Bank 2003b). A view has been expressed by many involved in the audit process that while there may be several reasons that could be given for the general indifference to public audit reports, a primary reason for the lack of follow up is the fact that there are no significant consequences for non compliance with financial rules and regulations of the government. "Neither the senior bureaucracy nor the political masters appear to have demonstrated the will to take concrete action against past irregularities pointed out by audit. There appears to be very little incentive to take action on such transgressions (no matter how severe) given the complexity of procedures for disciplinary action, lack of public demand for financial accountability and the slowness with which the enforcement machinery works at Orissa in line with other parts of the country" (The World Bank & DFID 2003). However, the time has ripened to reassess the value added from a largely compliance based public audit function with limited public interface or interest in its findings, for improved governance to enable the fiscal reform to succeed.

4.4.4 Administrative reforms

Richard Taub, an American researcher, as quoted in Das (1998, p. 152) who studied the functioning of the civil service in Orissa, stated that, "even though the Secretariat is manned at the higher levels by a group of well trained, intelligent, professional civil servants, the system does not work well. Bureaucratic decision-making in Orissa, as throughout India, is in fact synonymous with long forms, repeated delays, and endless run around, as petitioners seek the source of responsibility for a particular decision." The state of Orissa has been branded as the least developed state with ineffective and unresponsive bureaucracy.

Orissa's Administration, with the highest proportion of employees to the population, in the whole of India, at 1.61% of the population, compares to an all-India average of about 0.77%. Government is looked upon as a benevolent employer rather than service provider. The irony of the bureaucracy is that it is especially bloated where it should not be and too slender where it ought to be robust, especially in the backward and remote areas of the state, where there is concentration of the underprivileged sections of society. The salaries and pensions consume more than 11.5% of GSDP (Government of Orissa 2001b). No long-range vision guides the efforts toward reforms in the state. Despite examples of brilliance by different officers, their achievements have remained lonely furrows, effaced by time. Frequent transfers compound the problem, sometimes in an arbitrary manner. The procedures have remained frozen in the past. Many of these are antiquated, too complicated and unable to cope with the demands of today's administration. The Administration has failed to reach out to people, except in emergencies. Administration is perceived by business and the public as not being client-friendly (Chandhoke 2003). There is no effective system to follow up complaints made by the average citizen against harassment or inaction in the hands of those responsible for providing particular services. The concept of Citizens' Charter, prevalent in many states and GOI, has not percolated to the various government departments in Orissa (Government of India 2002a).

Government had decided in 2002 that administrative and civil service reforms should aim at a bureaucracy that (Government of Orissa 2002b):

- is slimmer;
- works faster and better;
- is user-friendly and transparent;
- ensures equity and justice;

In order to achieve this, GOO established a new Administrative Reform Cell (ARC) in the General Administration Department, headed by a Special Secretary reporting directly to the Chief Secretary. The ARC will work in close coordination with the Fiscal Reforms Cell in the Finance Department to ensure that implementation of the fiscal and governance reforms are linked effectively.

The bloating of the bureaucracy is more than just excess employment. It has, as its basis, bloated the role of government in every sphere. But this bloating must be corrected in a systematic and rational fashion and not by arbitrary cuts across the board. Therefore, the first and most important step in the reform process is a sequence of reviews of the organization and functions of the various departments especially those that are most important for human development and those, which require large public funds and human resources. The reviews will provide the opportunity to examine the rationale for government presence in discharging different functions in relation to the broader goals of macroeconomic policy and poverty reduction. They will also bring out both the internal relationships between departmental and non-departmental entities at different levels, elected local bodies, citizen groups and user agencies. However the political engagement has been weak in this aspect. More time needs to be allowed before an unbiased assessment is carried out (Taub 1996; Government of India 2000a; Government of Orissa 2002b).

In conformity with the aim of the reform programme, rightsizing of the workforce must be seen only as a necessary means to an end and not an end in itself. In the extreme fiscal crisis of Orissa, rightsizing is urgent and unavoidable, not only for fiscal recovery and eventual improvement in public service delivery, but in the interest of the government workforce itself and above all for improved governance. If done rightly, retrenchment can raise morale by revaluing the pubic services and stimulating better performance (Mackinnon 2002).

The GOO has deduced that attempting to bring employment in Orissa down to the All-India average would be too disruptive and inadvisable, except in the long run. This is why GOO has agreed in the MOU with the GOI to reduce the government workforce by March 2005 by only 20% compared to its level in 2000. This is the minimum reduction required to face up to the crisis, and if a greater reduction can be accomplished, the fiscal crisis will be resolved faster and more resources will flow to priority development and poverty-reduction programmes. Additional reductions in government employment will continue after 2005, but largely through natural attrition. "Again here also the success has not been noteworthy during last two and half years since the MOU was signed with GOI" (The World Bank 2003a, p. 7). The reason has been attributed to the lack of bureaucratic and political will.

The state of Orissa has a stable government but the paradox is that the level of governance has been deteriorating (Saran 2003a). In a recent survey of all major states of the country by India Today, it is shocking to note the atrocious perception about the state which is evident from the tables below. The paradox is that when Orissa claims to have clamped on governance and fiscal reforms and to be the pioneer in privatization, the indicators are on the reverse direction. As it is observed from the tables (Table 4.16 to 4.20), Orissa has progressed negatively in budgeting, law and order, education, health, infrastructure and investment scenario in comparison to other states. . The state in spite of reform measures is retreating in economic, social and human index. The survey has been on various counts and is directly and indirectly linked to the desired outcomes of fiscal and governance reforms. Unless Orissa improves or moves ahead it will never reap the benefits of globalisation and remain trapped in the fiscal muddle.

Table 4.16 Prosperity and budget

STATE	1991 Rank	2001 Rank	CHANGE
Delhi	1	1	0
Goa	2	2	0
Punjab	3	3	0
Gujarat	4	4	0
Haryana	10	5	+5
Maharashtra	6	6	0
Tamil Nadu	8	7	+1
Karnataka	5	8	-3
Himachal Pradesh	14	9	+5
Andhra Pradesh	7	10	-3
Jammu & Kashmir	9	11	-2
Kerla	11	12	-1
Rajasthan	12	13	-1
West Bengal	15	14	+1
Madhya Pradesh	13	15	-2
Uttar Pradesh	16	16	0
Assam	17	17	0
Bihar	19	18	+1
Orissa	**18**	**19**	**-1**

Fastest mover HIMACHAL PRADESH

Table 4.17 Law and order

STATE	1991 Rank	2001 Rank	CHANGE
Kerla	1	1	0
Tamilnadu	3	2	+1
Delhi	5	3	+2
Himachal Pradesh	6	4	+2
Rajasthan	7	5	+2
Gujurat	8	6	+2
Karnataka	4	7	-3
Madhya Pradesh	10	8	+2
Goa	2	9	-7
Maharashtra	9	10	-1
Andhra Pradesh	13	11	+2
Haryana	12	12	0
Orissa	**11**	**13**	**-2**
Punjab	17	14	+3
Jammu & Kashmir	16	15	+1
West Bengal	14	16	-2
Uttar Pradesh	18	17	+1
Assam	15	18	-3
Bihar	19	19	0

Fastest Mover PUNJAB

Table 4.18 Education

STATE	1991 Rank	2001 Rank	CHANGE
Goa	1	1	0
Himachal Pradesh	4	2	+2
Kerla	2	3	-1
Delhi	3	4	-1
Tamil Nadu	6	5	+1
Maharashtra	5	6	-1
Punjab	7	7	0
Karnataka	11	8	+3
Jammu & Kashmir	13	9	+4
Assam	10	10	0
Gujarat	8	11	-3
Haryana	9	12	-3
Andhra Pradesh	15	13	+2
West Bengal	12	14	-2
Orissa	**14**	**15**	**-1**
Madhya Pradesh	16	16	0
Rajasthan	18	17	+1
Uttar Pradesh	17	18	-1
Bihar	19	19	0

Fastest Mover RAJASTHAN

Table 4.19 Health

STATE	1991 Rank	2001 Rank	CHANGE
Goa	1	1	0
Delhi	2	2	0
Jammu & Kashmir	6	3	+3
Himachal Pradesh	3	4	-1
Kerala	4	5	-1
Punjab	5	6	-1
Tamil Nadu	7	7	0
Karnataka	10	8	+2
Gujarat	8	9	-1
Maharashtra	9	10	-1
Andhra Pradesh	12	11	+1
West Bengal	13	12	+1
Haryana	11	13	-2
Rajasthan	14	14	0
Madhya Pradesh	17	15	+2
Bihar	15	16	-1
Assam	18	17	+1
Orissa	**16**	**18**	**-2**
Uttar Pradesh	19	19	0

Fastest Mover MADHYA PRADESH

Table 4.20 Infrastructure

STATE	1991 Rank	2001 Rank	CHANGE
Goa	1	1	0
Delhi	2	2	0
Himachal Pradesh	3	3	0
Punjab	4	4	0
Kerala	11	5	+6
Tamil Nadu	10	6	+4
Haryana	8	7	+1
Maharashtra	7	8	-1
Gujarat	6	9	-3
Jammu & Kashmir	5	10	-5
Karnataka	9	11	-2
Andhra Pradesh	12	12	0
Rajasthan	14	13	+1
Madhya Pradesh	13	14	-1
West Bengal	16	15	+1
Uttar Pradesh	17	16	+1
Orissa	**15**	**17**	**-2**
Assam	18	18	0
Bihar	19	19	0

Fastest Mover Assam

Table 4.21 Investment scenario

STATE	1991 Rank	2001 Rank	CHANGE
Goa	1	1	0
Delhi	6	2	+4
Haryana	5	3	+2
Gujarat	3	4	-1
Punjab	4	5	-1
Himachal Pradesh	7	6	+1
Maharashtra	8	7	+1
Karnataka	10	8	+2
Tamil Nadu	13	9	+4
Andhra Pradesh	12	10	+2
Assam	11	11	0
Jammu & Kashmir	2	12	-10
Rajasthan	9	13	-4
Kerla	17	14	+3
Uttar Pradesh	15	15	0
Madhya Pradesh	14	16	-2
West Bengal	18	17	+1
Orissa	**16**	**18**	**-2**
Bihar	19	19	0

Fastest Movers Delhi & Tamil Nadu

Table 4.22 Consumer markets

STATE	1991 Rank	2001 Rank	CHANGE
Delhi	1	1	0
Goa	2	2	0
Punjab	3	3	0
Haryana	4	4	0
Maharashtra	6	5	+1
Himachal Pradesh	6	6	0
Kerala	9	7	+2
Jammu & Kashmir	5	8	-3
Gujarat	8	9	-1
Tamil Nadu	11	10	+1
Karnataka	10	11	-1
West Bengal	13	12	+1
Rajasthan	12	13	-1
Andhra Pradesh	17	14	+3
Assam	16	15	+1
Uttar Pradesh	15	16	-1
Madhy Pradesh	14	17	-3
Orissa	**18**	**18**	**0**
Bihar	19	19	0

Fastest Mover Andhra Pradesh

Source: (Saran 2003b)

Table 4.23 Poverty levels

BEST THREE	
Population below poverty line	
Goa	4.40
Punjab	6.16
Himachal Pradesh	7.63
WORST THREE	
Population below poverty line	
Orissa	**47.15**
Bihar	42.60
Madhya Pradesh	37.43

Figures are in %

Table 4.24 Per capita income

	2000-1	Growth%
BEST THREE		
Goa	30,744	5.69
Delhi	26,615	3.35
Punjab	17,450	2.44
WORST THREE	**2000-1**	**Growth%**
Bihar	4,616	0.88
Orissa	**6,162**	**1.26**
Uttar Pradesh	6,236	1.52

Income in Rs per annum and growth in the 1990s

4.5 Conclusion

While progress has been made on several fronts in the state of Orissa, there is no doubt that the policy makers; both political and bureaucratic have a long way to go. Orissa's fiscal situation is a difficult one, its human development indices are the poorest in the country and it has the highest levels of poverty in the country. Therefore, one of the biggest challenges for GOO is the hard decisions that it has to take in the process of fiscal and governance reforms that may affect various entrenched vested interests (The World Bank 1995).

The structure of the government is large, weak and inefficient due to its involvement in all sectors of the economy, leaving some priority sectors reeling under poor funding (The World Bank 1996). The government has weak planning capacity, centralized planning systems, duplication and poor distribution of functions, a lack of synergy between policy portfolios, weak public administration, poor accountability and transparency, absence of a system of monitoring and evaluation and a demoralized public service. There has to be therefore, a definite commitment of political and bureaucratic leaders to carry through this programme of fiscal and governance reforms for the broader interest of the State (Verma & Singh 2000).

In conclusion, it can be said that there is no clear-cut and consensual policy direction; reforms have proceeded in a fragmented manner, often contradictory. Political culture, formal structures and procedures, and the practices of key actors interact, giving rise to relations of different types between actors, and to different outcomes. In as much as there is a limited political/ bureaucratic commitment and civil society's demand for good governance is limited, this situation is less likely to change (Mackinnon 2002). "Most ostensibly democratic regimes that are in practice are highly clientelistic. Decisions are made informally and the allocation of resources depends on the balance of power between patrons and clients" (Peters 1998, p. 82). Thus in a system where governments lack capacity, resources are inadequate and bureaucratic processes lack efficiency, it is important for residents to cultivate bureaucratic and political relationships. This may enable some poor to negotiate the space from which to access services as personal or group favours. The efforts from other stakeholders (such as multilateral and bilateral agencies) to push the issue will only have limited impact in delivering the desired outcomes.

"Good governance is a question of attitude and mindset. Much effort still needs to be invested in bringing about this change in attitude in order to demand and deliver good governance from all stakeholders. Solutions to the fiscal problems will remain at arms length unless the issues of governance are addressed on a priority basis" (Planning Commission of India 2003, p. 87).

Chapters two, three and four have discussed extensively the literature on public sector reforms with special reference to fiscal and governance reforms in general, in developing countries and especially in Orissa where a program of fiscal and governance reforms is being implemented by the state government. The next chapter conceptualises these issues in a theoretical framework for the purposes of the research.

Chapter 5
Theoretical Framework

In every modern civilised community, the outlay of public funds collected by contributions from the community in a variety of forms, calls forth the liveliest interest from the tax-payers and demands the greatest carefulness from authorities entrusted with outlay. In theory, at least, the layout of monies must be, like the sowing of seed by the farmer, in the hope and with the intention that it would be returned a hundredfold to the sower.

M. K. Gandhi 1923

5.1 Introduction

This chapter broadly spells out the theoretical framework for empirical research in this thesis. Section 5.2 sets the scene for the research. Section 5.3 defines the variables under investigation in the study, and Section 5.4 determines how the variables are operationalized. Section 5.5 describes the theoretical framework. Section 5.6 identifies the research propositions and questions, which form the bases for the investigation. Finally section 5.7 is a conclusion to the chapter.

5.2 Setting the scene

A broad based consensus evolved during last two and half decades that the state by itself, no matter whatever be the extent of its power, was unable to manage the kind of problems that the modern society generates – from ethnic conflict to basic services (Peters 1996). By the middle of 20^{th} century, the idea that the state is naturally interventionist had preoccupied political thinking and imagination; by the end of that century confidence in this particular form of state had waned. The early decades of the 20^{th} century had witnessed optimism that the state could and should look after the poor and deprived (the welfare state), that it should and could regulate the market (the capitalist state), that it should encode the aspirations of its people for an egalitarian society (the socialist state) or that it should pursue development (the developmentalist state), but all these ideas were exhausted by the end of the century (Tanzi & Schuknecht 2000). The state, hence the government had to reinvent itself in different forms through different models as discussed in previous chapters.

This was the reasoning that underpinned the ascendance of neo-liberalism, which simply stated that the state pull out from many areas where it had become active, responsible, regulative and outsized and where other agents could do better. The neo-liberal ideas brought with them the suggestion that the crisis of the welfare state could be alleviated by the adoption of a firm monetaristic economic policy coupled with deregulation/ decentralization, privatization/ commercialization, drastic reduction in the state sector and a profound restructuring of the state with intensive debureaucratization and other administrative reform measures (Kelsey 2002). In 1991, the neo-liberalism got further legitimacy due to the Washington Consensus which otherwise Richard Feinberg, termed as 'universal convergence', on the grounds that the change in economic thought that Williamson was summarising extended far beyond Washington but that the extent of agreement fell far short of consensus and he was most certainly right (Stiglitz 2002; Kuczynski & Williamson 2003). Major issues that were propounded in the post-Washington consensus pertained to the importance of accountability, transparency, capacity building, safety network and also the importance of civil society organisations to achieve the desired outcome of debt and fiscal sustainability.

The mixed results of structural adjustment program in various countries at the end of 1990s, led multilateral and bilateral financial institutions and donor agencies to learn that market was a 'political construct' and as such, it needs several preconditions but the most vital and important condition is 'good governance'. This ignited the process to move away from the rhetoric of absolute emphasis on a free and untrammelled market to a near consensus approach (March & Olsen 1995).

Hard core fiscal measures for structural adjustment and a reform initiative as stated in the Washington consensus will be of little consequence in medium and long run, as demonstrated by 1997 Asian crisis. Table 5.1 gives a directional view of inherent weaknesses in fiscal governance system in various countries. As it is evident weak linkages between the tools of fiscal policy and the elements of governance is a key issue emerging from analysis of the table. The lack of enforcement, signals a lack of the budget, which is at least partly due to the lack of links between the policy and fiscal governance process (OECD 1996). In particular, the growing pressure of revenue expenses such as personnel, pension, maintenance of incomplete project costs and many more unproductive recurring costs on the budget signal a need to review the activities that government undertakes - which means it has to undertake governance reforms and the mix of personnel and other inputs needed to deliver priority activities (OECD 1997b). The table makes it crystal clear that fiscal discipline, strategic priorities and achieving value for money in the public sector context have to be embedded with a governance framework. Fiscal reforms demand transparency and accountability.

The next section defines the elements of fiscal and governance reforms that are the subject of investigation and operationalizes them for the purpose of this research.

Table 5.1 Summary diagnostic of a fiscal governance system

Tools of fiscal policy	Political Engagement	Policy clarity, affordability	Predictability	Transparency	Comprehensiveness	Accountability	Summary
Budget formulation: ***Policy review*** ***Strategic planning*** ***Budget preparation***	Cabinet has limited involvement in setting priorities: no tradeoffs made between programs in the context of available resources. Cabinet does not review ministry or program performance.	No provision of focused annual expenditure agenda by Cabinet: new programs effectively chosen by sectors/ line ministries. No link between budget and national plan.	No link between macro framework and annual budget submissions.	Revenue and expenditure estimates are published. Could be improved by publication of budget strategy and explanation of budget figures and trends.	Donor funds not captured in budget. 3 components of expenditure (salaries, nonwage recurrent, development) planned separately. No consistent framework for management of financial assets and liabilities.	No performance targets specified for line ministries.	• Ineffective political involvement • Poor link between macro forecasts, policy and budget • Lack of performance orientation
Budget Execution: ***Budget Execution***	Delays in presentation of accounts to Parliament. Lack of capacity in parliamentary select committee to	Wages are pushing up expenditure, squeezing out non-wage expenditure, but this is not linked to any clear strategy.	Spending agencies tend to receive at least budget amount. Unpredictable over-expenditure symptom of	Financial accounts (actual expenditures) are not published.	No central database of donor expenditure. Significant unreported, off budget expenditure.	10 different accounting systems, which do not reconcile. Sanctions for extra budgetary expenditure are not enforced.	• Accountability not enforced. • Coverage questionable • Expenditure control poor

Accounting and Monitoring ***Reporting and audit***	review accounts in a timely manner.		poor enforcement of accountability				poor • Transparency could be improved
Summary	Politicians not involved in either reviewing performance or setting priorities.	Lack of strategic direction: current policies appear unaffordable.	Atypical in the sense that over expenditure (rather than within year expenditure cuts) is a problem.	Lack of sufficient information to compare budget plans and actual spending.	Uncontrolled off budget expenditures are a problem. Poor integration of budget limits its effectiveness.	Accountability for spending or performance negligible. Limited parliamentary oversight.	

Modified From:(OECD 1997d, e; Tanzi 1999b; Wolfensohn 1999; DFID 2001a)

5.3 Defining the variables under investigation

Fiscal and governance reforms are two sides of the same coin – interlinked, interwoven, interdependent and inseparable. Fiscal reforms aim at maintaining fiscal discipline, promoting strategic priorities and delivering value for money (Dale 1996; Shah 1998; DFID 2001a; Gershenson 2001). Governance reforms aim at maintaining accountability and transparency, decentralization and commercialization, and administrative reforms (OECD 1995, 2001a; Schiavo-Campo & Tommasai 2002; Turner 2002). These reforms are contingent upon some other factors such as priorities of GOO and GOI, programs of multi/ bi lateral funding agencies, political priorities and socio-cultural systems, etc. From the literature review, the variables for the research have been identified and defined below (Hemming et al. 2002a).

The three variables/elements under fiscal reforms are:

- Maintain fiscal discipline - keeping spending within limits created by the ability to raise revenue and keeping debt within levels that are not prohibitively expensive to service.
- Promote strategic priorities - allocating and spending resources in those areas that make the greatest contribution to the governments' objectives.
- Deliver value for money - efficient and effective use of resources in the implementation of strategic priorities.

Governance reforms variables/elements proposed are:

- Smaller governments – This means 'rolling back' the state.
- Debureaucratization/ Administrative Reforms – 'Capacity building, institutional strengthening, stream lining and reengineering to reduce bureaucratic dysfunctions in large governments (The World Bank 1995).
- Decentralization, Accountability and Transparency – The governance mechanism is subjected to strong oversight mechanism in order to refrain from corrupt practices, and can result in efficiency, equity and macro stability (The World Bank 2000a, 2002a).
- Privatization – It leads to cost effective services for consumers, relieves government of expenditure burdens and reduces corruption.

- Commercialization – that is, the principles of 'user pays' and 'contracting out' are applied (The World Bank 2000b).

These variables are interdependent. Ideally, they will be mutually reinforcing but this is not automatically the case. As assessed from the literature review, it is extremely difficult to establish the dependency and independency of variables. In some instances, fiscal discipline comes first. In a situation of escalating debt and debt servicing costs, governments are forced to focus on reconciling expenditure and revenue levels. However, often the methods chosen to pursue fiscal discipline will undermine the achievement of strategic priorities and value for money (Rangarajan 2001a). This is particularly true where budgetary cuts are made within a year in an arbitrary unpredictable manner. When helping governments to tackle fiscal discipline approaches that impact negatively on strategic prioritization and value for money should be avoided. What is required is to follow a comprehensive, intensive, realistic, customized but complementary policy framework (Tanzi & Schuknecht 1997). Thus good governance has to be there for good fiscal policy. Without good governance, fiscal measures to achieve fiscal sufficiency, adequacy and sustainability are like lighting a candle under the open sky in a stormy night (Ubale 2000).

5.4 Operationalizing the variables

The three variables under fiscal reforms, maintaining fiscal discipline, promoting strategic priorities and value for money, were operationalized based on the elements comprising each.

Maintaining fiscal discipline is operationalized through identifying the debt levels in the state and the reasons for the same; the internal and external drivers for macro, meso and micro economic reforms that influence the budgetary process and promote strategic priorities; whether the state can introduce structural reforms and improve its systems of debt management; whether the state can adhere to the limits imposed on itself during budget and fiscal planning; and effectiveness of allocation and reallocation processes and procedures through zero based reviews.

Promoting strategic priorities is operationalized by delving into the achievability of MTEF/ MTFRP in a state with a difficult fiscal environment, the provisions within the planning and budgetary systems (revenue enhancement and curtailing expenditures) to address strategic priorities; prioritizing delivery of services; whether privatization of non-core sectors/ commercialization is a necessary option; and whether the solution to some of these problems is facilitating greater foreign direct investments to the state.

Value for money is operationalized through reviewing the various programs of the government and understanding the existing systems of accountability and transparency; ascertaining the fungibility of expenditure, aid, loans and grants; assessing the effectiveness of monitoring and evaluation procedures; and systems for the procurement of goods and services.

The variables of governance reforms explained above are classified into three elements - accountability and transparency, decentralization and commercialization and administrative reforms.

Accountability and Transparency have been operationalized as the availability of a legal framework (laws, administrative orders, citizens charters, etc) and adherence to accountability and transparency norms as proposed by various agencies; citizens' right to information; the extent of e-governance; existence of a system of whistle blowers and protection of whistle blowers; and the extent to which transparency and accountability measures have been incorporated for ensuring effectiveness in service delivery.

Decentralization and Commercialization are operationalized by assessing whether the decentralization including devolution of powers has occurred; whether the decentralized structures of government and function of service delivery have led to greater efficiency, cost effectiveness, quality and participation; whether convergence in terms of activities and institutions have happened; the extent to which commercialization/ privatization of non-core sectors progressed; and whether a system to determine cost sharing has been developed.

Appraising the immensity of the civil service at present and its motivation and productivity; an in-depth analysis of transparency, accountability and responsiveness operationalizes administrative reform; and whether the targets of the MOU signed between GOO and GOI are achievable.

5.5 Theoretical framework – Linking fiscal and governance reforms

Governance is characterised by the existence and functioning of numerous institutions and organisations. Every activity of government involves spending money. Governments formulate budgets, allocate resources, and specify the process control. The control over resources by the government and its enormous discretion over its allocation make public policies most contentious, many a time due to conflicting demand for resource sharing. The advance planning, and allocation and utilisation of resources are illustrated in figure 5.1 below. As the figure 5.1 indicates governments set priorities and accordingly resources are generated and allocated. In a democratic set up, due to political externalities and internalities there is a scope for allocative distortions and out of proportion expenditure. This ultimately leads to fiscal indiscipline and unsustainable debt level. To maintain reticence in public expenditure and to achieve value for money, it is suggested to apply performance management, efficiency compliance and input determinant measures through systematic monitoring and evaluation of out puts and outcomes (Toye & Carl 1996; Turner & Hulem 1997). As observed from the figure and suggested in the literature, robust fiscal management and good governance elements necessarily complement each other.

Fiscal policy has to recognise and establish explicit link with the governments' overall policies. Policies are not, normally self-enforceable, hence require deliberate planning on a variety of fronts. Lack of co-ordination within the institutional framework of the government results in disastrous fiscal and governance outcomes (Shome 1997). Fiscal policy and fiscal reforms are the absolute responsibility of the public sector institutional arrangements (Tanzi & Schuknecht 2000). However, there are several areas that remain opaque and obscure to the public as well as the representatives that represent the public. All transactions of government are influenced by four tracks – political, economic, organisational, and the core factors characterising the budget system of a country (Segsworth 2002). The effectiveness of fiscal policy, which is linked to fiscal reforms, has explicit and implicit relationship with various elements of governance as depicted in figure 5.2 below.

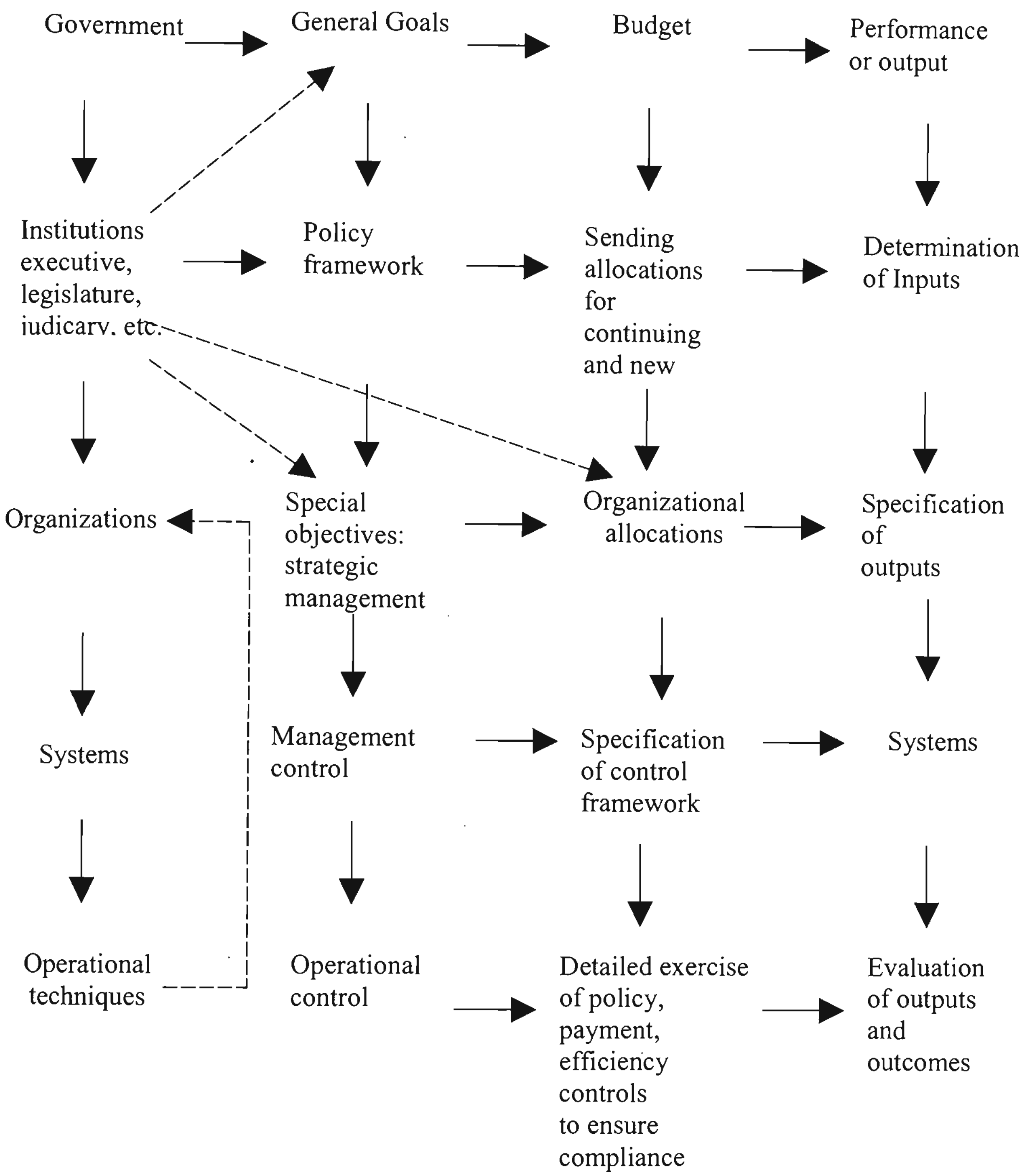

Figure 5.1 Governance and fiscal management: Interactive analytical framework
Modified From:(UNDP 1997a, b, 2002a, b)

The fig 5.2 complements the figure 5.1. It explicitly states that transparency and accountability norms, partnership and participation, smaller states, bureaucratic and political engagement, medium term planning, monitoring and evaluation besides other elements of governance form the fundamentals for economic development and fiscal stability and contains the fiduciary risk of a country.

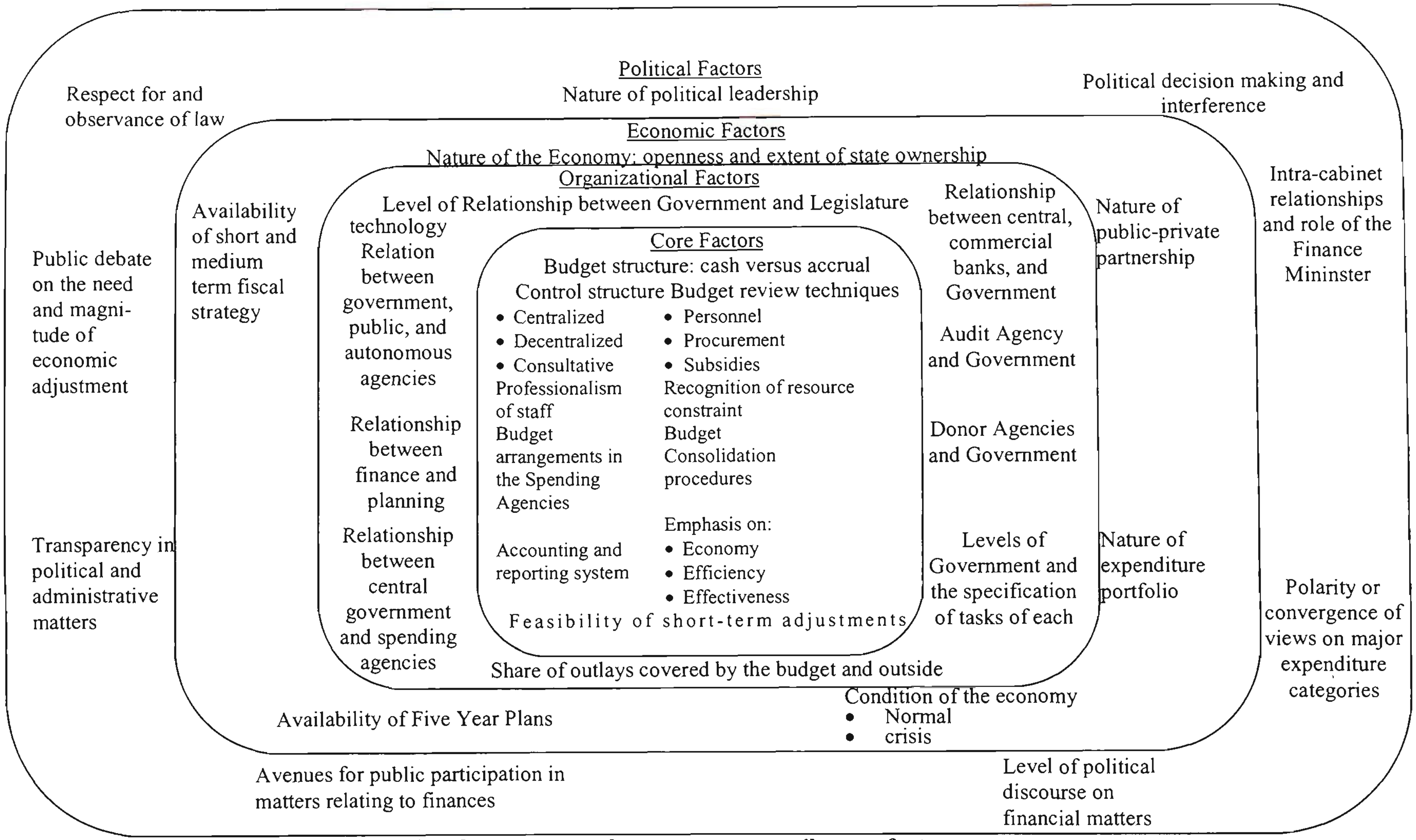

Figure 5.2 Effectiveness of fiscal measures and governance contributory factors

Modified From: (Sarma 2000; Schiavo-Campo & Sundaram 2001a; OECD 2002b; Salinas 2002; Mukhopadhyay & Das 2003)

5.5.1 Fiscal discipline and governance

The lack of explicit engagement of public servants, especially politicians, with the budget process means that the process is incremental and unable to address the fundamental policy trade-offs. Instead ministries simply juggle their budget estimates to fit the budget ceiling imposed by the Ministry of Finance (Anand 1999; Ram Mohan 2003). They need not be too concerned about the realism of these budgets, as they know they will not be binding. This creates a vicious cycle as depicted in Figure 5.3 where the combination of a lack of political and bureaucratic engagement, of links to policy and of enforcement of sanctions leads to unrealistic budgets and overspending.

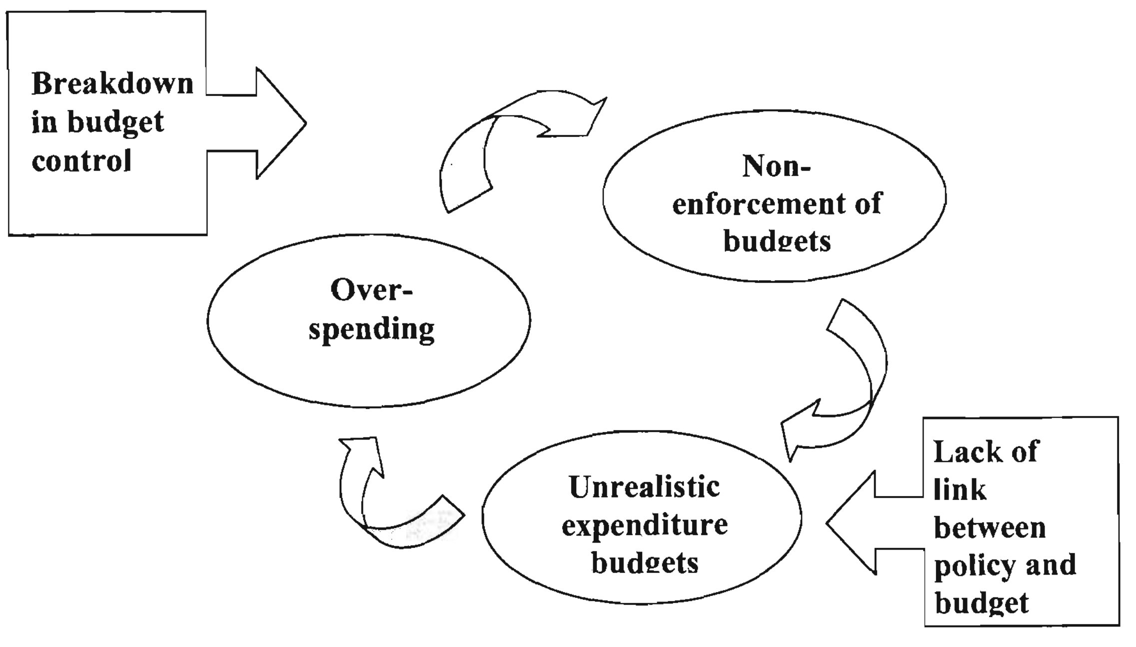

Figure 5.3 Vicious cycle of expenditure diagnosis

Effective fiscal reform is a long and incremental process. Before undertaking more sophisticated reforms, governments need to ensure that they have some of the more fundamental technical elements of budgeting and governance in place. Schick (1998, p. 22) has described this as 'Getting the Basics Right'. In elaborating his argument he stated, governments should:

- Foster an environment that supports and demands performance before introducing performance or outcome budgeting. In a broader sense, demand for good governance needs to be initiated by the government of the day.
- Control inputs before seeking to control output.

- Account for modified and realistic cash before accounting for accruals and operate a reliable accounting system before installing an integrated financial management system.
- Establish external controls before introducing internal control i.e. proper evaluation and monitoring to ascertain value for money.
- Establish internal control before introducing managerial accountability
- Budget for work to be done (output) before budgeting for results to be achieved (outcomes).
- Enforce formal contracts in the market sector before introducing performance contracts in the public sector.
- Have effective financial auditing before moving to performance auditing.
- Adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them and de-layer bureaucracy along with decentralising.
- Clearly identify merit and non-merit expenditures before prioritising so that investments can facilitate returns.
- Commercialise certain services as per the level of economic performance and capability along with privatization.

In a sense, designing a sequence of reforms requires balancing the demands for reforms with the supply of appropriate techniques and ambience. Where possible, it makes sense to tackle the weakest areas first; these are mostly the governance aspects.

5.5.2 Promoting strategic priorities, value for money and governance

Public expenditure management has singularly gained importance in the public finance domain due to the renewed thrust on the need for having responsible, responsive, and effective government under the rubric of good governance, that which works better and costs less (Tanzi & Schuknecht 2000). It has been stated that public expenditure is a bottomless pit and has ample hidden and explicit scope to contribute to the impetus of public corruption which can only be managed through improved governance (The World Bank 1998b). Governance is no longer only reactive as the limitations of such an approach have become abundantly clear long since. Governance is both reactive and proactive. Hence, governments are now engaged in examining their role and scope of operations – what they should do and pay for, what they should pay for and not do, and what they should neither pay for nor do (Anan 1997).

Reforms, fiscal or governance, do not evolve suo motto. It requires a continuum of restructuring of existing institutions and development of appropriate systems to fulfil the reform objectives. The literature review indicates that promoting strategic priorities and delivering value for money is strictly possible through improved public expenditure management, that is, PEM is the bloodline of fiscal reforms. Through a SWOT analysis (Table 5.2) the importance and linkage of PEM with governance can be established again highlighting strategic priorities and value for money.

Table 5.2 Expenditure management: A synoptic review of its strengths, weaknesses, opportunities and threats.

Strengths	Weaknesses
▪ Well organized Budget Offices in most countries.	▪ Emphasis on routine and neglect of policy issues or the use of overall resources.
▪ Closer integration with economic analysis and policy.	▪ Poor guidance to the Spending Agencies. Budgets have yet to live up to expectations as plans of action.
▪ Established routines for examination of budget requests and policy analysis.	▪ Poor analytical capability in many budget organizations and considerable dependence on Spending Agencies for data.
▪ Enhanced application of information technology.	▪ No forward plans for adjustment. Budget outcomes are often different from intent.
▪ Reasonably professional staff.	▪ Cutback management proved to be a costly failure with enduring damage to the system. Pursuit of reactive approaches.
▪ Comprehensive case and administrative laws available in most cases.	▪ Little reliance on cost data. Traditional paradigms about expenditures have a continuing impact on budgetary approaches.
▪ Gradual development of performance indicators	▪ Inadequate link-up with fiscal spending outside the budget. In some cases what is covered by the budget is relatively small.
▪ Past response to changing needs reveals a mixed picture half-full, half-empty phenomenon.	▪ Much of what is included in the annual budget is determined by the previous legislation.
▪ Introduction of new managerialism shows a marked departure from the previous practice. It remains to be accepted by most countries including those in Western Europe.	▪ Steady circumvention has become a steadfast subversion, eroding the credibility of the system.
▪ Acceptance of the fact that deficit management would require different approaches including learning from the private sector's experience and forging new links with the non-governmental organizations.	▪ Piecemeal responses to changing needs have had their own adverse impact.
	▪ Organizational paradoxes or perversities continue to dominate the scene, contributing to regular tensions between the Central and Spending Agencies as well as among the Central Agencies.
	▪ Lack of a diversified system to deal with ever growing expenditures. One-size-fits-all approach.

Opportunities	Threats
▪ Gradual reopening of the economy, liberalization of the control regime, phased withdrawal from the previous levels of benefits and an enforced determination to deal with the fiscal deficits provide a major opportunity to redesign the system.	▪ Lack of concerted action to address the weakness would pave the way for a steeper decline in the public's perception of the budgetary capacity.
▪ Introduction of sectoral cost controls on the lines of the private sector practice of activity based costing provides a much needed opening to redesign the budget planning and control system in Spending Agencies.	▪ Government's reduced capacity to deal with emerging problems would erode its strength.
▪ Innovations in information technology will permit several initiatives, such as outsourcing some budgetary activities that could not be conceived earlier.	▪ Liberalization of the economy reduces the degree of freedom and policy manoeuvrability available to governments. This threat needs to be addressed scientifically and the overall focus of government budgeting needs to be re-examined.
▪ Extended acceptance of strategies promoted by regional organizations, such as the principle of subsidiarity, deficit and debt provisions of the Maastricht Treaty, would have a beneficial impact in terms of an improved environment for taking measures aimed at strengthening budget organization.	▪ Information technology offers a new boundary, but in the absence of internal revitalization, the investment in new technology may not yield results. ▪ Absence of efforts to address the organizational paradoxes or the emerging tasks would compound the magnitude and complexity of issues that would prove complexity of issues that would prove increasingly intractable with the passage of time.

From the table 5.2, converting weaknesses and threats of PEM to strengths and opportunities which is the basic aim of reforms, cannot be achieved without enforcing transparency and accountability, overhauling the administrative institutions and processes, delegating authorities with responsibilities and weeding out the unviable and inefficient public service delivery mechanisms (Boston et al. 1996; Asian Development Bank 2000c; AusAID 2002).

5.5.3 Budget and governance

Budget is an important tool for formulation and execution of fiscal policy. It sets out the parameters for resource generation and allocation for all public sector activities. In recent years, through the process of evolution, reform initiatives and structural adjustment programs, budgets operate within a framework, which is called MTEF or MTFRP (OECD 1996; Brumby 1998; The World Bank 1998c).

It has now become conventional wisdom that in traditional governance, budgets encourage managers to squander money. It is so because if they were unable to spend their entire budget by the end of the fiscal year, three things happen: they would lose the money they had saved, they were allocated less money in succeeding years, and they were taken to task by audit, budget controller and departmental superiors for requesting too much last year as claimed by neo-liberal critics of traditional governance (Wildavsky 1992). Hence, the time-honoured practice of government is to rush to spend all funds by the end of the fiscal year. Good governance makes public servants think, "if this were my money, would I spend it this way" (Osborne & Gaebler 1993, p. 205). Theoretically it is still possible and permissible in developing countries to request permission from finance department to move funds across the fences. But most often there is a negative reply from the finance department and usually a withdrawal of unutilised funds. This forces the managers usually to stick to line items and smart ones spend every penny of every line item, whether required or not. This has resulted in bloated public organisations. The fiscal system prevalent in developing countries, especially India and Orissa, actually encourages every public manager to waste money (Appu 2000; Toye 2000).

As seen and observed, in the context of countries, who have introduced fiscal and governance reforms the dynamics have gone through enormous changes which have immense value for making the fiscal reforms successful. The paradigm of 'spend or lose' has given way to 'save and invest'. The change and the contrast is glaring, the result is also amazing since the same people behave differently with two streams of rules (Osborne & Gaebler 1993).

Good governance has brought in the concept of several forms of budget, which have been described in chapter two, all falling under the umbrella of the mission-driven budget. Fundamentally, the mission driven budget assists in expenditure rationalization, thus empowering organizations to pursue their missions, unencumbered by yesterday's spending categories (OECD 1997e). Its advantages are overwhelming (Osborne & Gaebler 1993; Fozzard 2001).

- Mission-driven budgets give every employee an incentive to save money,
- Mission-driven budgets free up resources to test new ideas,

- Mission-driven budgets give managers the autonomy they need to respond to changing circumstances,
- Mission-driven budgets create a predictable environment,
- Mission-driven budget simplify the budget process enormously,
- Mission-driven budget save millions of dollars on auditors and budget officers,
- Finally, Mission-driven budget free legislatures to focus on the important issues

The introduction of fiscal reforms combined with governance reforms, has led to the introduction of the new generation of mission-driven budget, which has brought in a lot of simplicity. This process lets the managers know what they will get and they try to stay within it. Thus affordability determines the desirability. Mission-driven budgets relieve legislators of micromanagement decisions, freeing them to focus on the larger problems they were elected to solve (Osborne & Gaebler 1993). This requires a paradigm shift with all stakeholders playing out their responsibilities in taking forward public sector reforms.

5.5.4 MTEF/ MTFRP and governance

The MTEF consists of a 'top-down' resource envelope consistent with microeconomic stability, a 'bottom-up' estimate of the current and medium term cost of existing national priorities, and a framework which matches these costs with available resources through an iterative decision-making process. There are three key components to MTEFs (The World Bank 1998c; Ahonen & Tammelin 2002):

- A statement of fiscal policy objectives or targets, for example for total expenditure, the fiscal deficit and debt levels, based on medium term macroeconomic projections (referred to by the IMF as a Medium Term Fiscal Framework).
- Medium-term expenditure estimates for individual spending agencies based on clearly defined sector policies. The objective is to allocate resources towards strategic national objectives within constraints implied by overall fiscal targets.
- Elements of activity and output budgeting that seek to improve strategic prioritization and the efficiency of public expenditures.

As gathered from the literature review, the most successful MTEFs are those that are used as strategic tools to make broad allocation decisions, rather than get bogged down in detail. The first step is for line ministries to be required to prepare more systematic justification for their budget bids and defend them in budget hearings. This can develop into more sophisticated approaches as capacity is strengthened. The clearest message from the cascading experiences of different countries is that clarity of national and sector objectives are crucial. For MTEF to be initiated and for the process to progress smoothly, a country has to start with the following priorities, which are summarised below (Allen 2001; Ahluwalia 2002):

- At the political level, MTEFs need to be driven by a clear policy framework and fiscal strategy. Only then can gains be made from attempts to link budget outcomes to policy objectives. This strategy will be undermined if ad hoc expenditure reallocations and inconsistent macroeconomic management occur.
- At the central level, building the capacity of the Ministry of Finance to reduce the gap between forecast and actual revenues and expenditures is crucial, as a means of improving budget predictability and the credibility of the MTEF process. Sector ministries cannot be expected to improve their performance if the Ministry of Finance cannot ensure a predictable level of funding.
- At the sector level, clear, consistent and realistic sector policies need to be established before trying to achieve transparency in the allocation of resources to specific activities. The central agencies, such as the Ministry of Finance, should ideally play a 'challenge function' by questioning ministries' definitions of sector priorities.

However, as stated and evident from the literature review, MTEF is an imperative and essential tool (for fiscal discipline and expenditure priorities) to make the fiscal reforms a success, but MTEF cannot be effective unless transparency, accountability, administrative reforms and decentralization are combined with it (The World Bank 2000a; Diamond 2003).

5.5.5 Financial accountability and governance

Prudent macroeconomic management meant that governments were expected to be prudent (in using resources and in considering what could be achieved at what cost) and to take explicitly into account the assessment of the linkages between the budget and the economies. "A kind of three-dimensional financial accountability emerged. The three dimensions are: (i) expenditure choices (to ascertain the degree of prudence); (ii) programme management (propriety, economic management, adequate delivery systems); and (iii) regular dissemination of information (showing material matching, i.e., a process by which outputs and income are related in a time frame to cost of services)" (Schiavo-Campo & Tommasai 2002, pp. 123-24) .

In recent years, in addition to conventional financial accountability, governments are accountable for ensuring that adequate systems to secure and improve results and to maintain the financial condition of the state (economic sustainability, flexibility in the use of resources, and reduced financial vulnerability) are in place (Gore 1993). Furthermore, governments are expected to demonstrate that the selected programmes are a part of the legitimate functions of a government and that the community can afford them.

The financial accountability has evolved as a generic and core functions of government and is unquestionably an inseparable and indissoluble part of fiscal reforms. Fiscal reforms will be a failure without governance reforms and governance reforms will not be possible without fiscal reforms creating scope for resources for the former.

5.5.6 Fiscal reforms and Decentralization/ Commercialization

In almost every developing country, government and development agencies are talking about the need to decentralize. In very broad terms, this refers to the shift of spending and, to a lesser extent, revenue-raising responsibilities to sub-national levels of government (Jenkins 1999). It reflects, at least in part, an untested assumption that local-level decision making will improve political accountability, ensure that publicly provided goods and services are more relevant to the preferences of recipients and improve the efficiency with which public services are provided (Litvack et al. 1998).

While decentralizing spending responsibilities can bring about these benefits, this is not automatically the case. Weak sub-national institutions can undermine benefits from decentralization. Overstaffing, poor technical skills, corruption and lack of transparency beset sub-national levels of government as much as they do central government. Therefore, it is necessary to assess the institutional capacity of sub-national levels of government, and programmes of improvement (such as training in financial management, councillor training programmes, etc) prior to devolving responsibilities (Litvack et al. 2002).

For successful decentralization, it is more useful to review the overall geographic assignment of state functions in the light of the new context, and ascertain the answer (i) which functions are suitable for greater decentralization (and which are not), (ii) what is needed to make such decentralization effective, (iii) what modifications in central government role are necessary to protect the country from the risks and costs of decentralization (de Mello 2000; Epstein et al. 2000). The management of decentralization calls for strong, transparent and accountable government.

It is also important to decentralize functions and access to the necessary resources simultaneously. Failure to transfer resources with new expenditure responsibilities can cripple local government's ability to perform new functions. The extent to which decentralization does improve access and quality of public services will depend upon the way it is designed and implemented. In particular, the success of decentralization will depend upon developing institutions that promote accountability and transparency at the local level and co-ordination between the layers of government (Johnson 2003).

Different types of decentralization such as deconcentration, delegation, devolution, and deregulation or privatization are often intermingled which form the main theme of 'new public management' (Boston 1995a). Decentralization can lead to (Blair 1996; The World Bank 1999a, 2000a):

- Political accountability – leaders have to be responsive and responsible to constituents hence they also demand performance from career civil servants;
- Administrative accountability – a legal and bureaucratic framework that makes clear who is responsible for what and to whom;
- Economic accountability – beneficiaries are responsible for paying for services (user fees), at least at the margin. User charges can establish links between revenue and expenditure and between payments made and services

received. Charges for locally provided services are efficient and relatively easy to administer. Introduction of user charges also makes the citizenry to respect ownership, which is of vital importance in developing countries.

Administrative decentralization combined with fiscal decentralization can increase service efficiency and people's economic welfare, as local governments can better suit goods and services to differing tastes and preferences of residents and are more responsive to the public (Vyasulu 2000). This is because people share the costs hence can hold local officials accountable for service delivery at some acceptable quantity, price, and quality. Local governments, being closer to the people, will be able to reach the lost potential revenues through some kind of user charges and other minor taxes while tailoring it to the ability to pay (Bardhan 1998).

Thus decentralization can craft the means for commercialization and privatization of various services that are being subsidised or fully paid by governments for ages and are not its core functions. This will free up substantial resources and will also generate revenue besides creating an ambience of ownership (Crook & Manor 1998).

5.5.7 Fiscal reforms and administrative reforms

From the literature review it is observed that the entire exercise of introducing fiscal and governance reforms will remain rhetoric unless it is backed up by administrative reforms. The political commitment will yield no result unless bureaucratic commitment is garnered. Reforms will remain as desirable only, unless actionable efforts are apparent and threaded with policy propositions. The actionability is the domain of civil servants. No governance is possible unless administration is invigorated and made proactive with a progressive look. As mentioned elsewhere there are four pillars of governance, which are embedded into the administration as discussed below (Asian Development Bank 2000a);

- Predictability of government action and consistent application of the rules is needed by civil servants to plan for the provision of services and by the private sector as a signpost to guide its own production, marketing, and investment decisions.

- Transparency of administrative information is a must for an informed executive, legislature, and the public at large. It is essential not only that information be provided, but that it be relevant and in understandable form.
- Participation at appropriate level by concerned public officials and employees and by other stakeholders is required for the sound formulation of public policies and programs; participation by external entities; for monitoring operational efficiency; and feedback by users of public services, for monitoring access to and quality of services.
- Finally, accountability is essential both for the use of public money and for the results of spending it.

It is amply clear that none of these four components can stand in isolation, each is instrumental in achieving the other three, and all four together are instrumental in achieving sound public management. Accountability is a must everywhere but does not become operational until one defines accountability 'of whom', 'for what', and 'to whom'. Transparency can be problematic when it infringes on necessary confidentiality and privacy hence a balance has to be struck and that is the job of the administration (Asian Development Bank 2002b).

In developing countries the public administration is viewed as inefficient, reactive, regressive, rent seeking and non-responsive (The World Bank 1992, 2000a). The generic values are, however, common to all countries – public servants are expected to treat all citizens with respect, fairness, and integrity, to be *sine ira ac studio,* and to ensure accountability and effectiveness in the delivery of services.

There is a predictable correlation between administrative reforms, accountability and decentralization. The basic aims of these reforms are to enhance efficiency, effectiveness and achieve economy. Through delegation and decentralization, higher level of accountability can be achieved (Giddens 1998). Due to reforms, the bureaucracy has become leaner in many developed countries, which has facilitated the objective and ethical policy formulation and timely implementation; hence priorities of the government are achieved (The World Bank 1993; Hellman et al. 2000a). Administrative reforms have fostered the ethical behaviour of public servants with greater intensity thus challenging corruption in public domain.

Corruption has been one of the most enduring problems confronting governments throughout history. The desire to reduce or eliminate corruption was at the core of many innovations for good governance. Of late, the effort to combat corruption has moved to the center of the debate on good governance and sustainable economic growth (Hellman et al. 2000b).

Without administrative reforms, governance reforms will be a concept without practical utility and without governance reforms fiscal reforms will be a myth. Without enforcing good governance measures such as accountability, transparency, decentralization and public private partnership, scarce resources are squandered on uneconomical projects, debt money is put to pay day to day expenses thus creating vicious debt trap hence priority sectors such as health, education, rural livelihood for poverty eradication etc. suffer disproportionately (Kraay 2002).

Globalisation, privatization and liberalisation have profound implications for governance. Governance can no longer be considered a closed system. Globalisation is placing governments under greater scrutiny, leading to improved state conduct and more responsive economic policies with greater transparency and devolution of power to sub-national and local governments (UNDP 1997a, 2002a).

Singh (1996) has pointed out that for India – 'Governance and Fiscal Reforms' is the answer to the problem of fiscal crises that it is facing. Fiscal and governance reforms are two sides of the same coin – interlinked, interwoven, interdependent and inseparable. All the elements and characteristics of fiscal reforms are embedded in good governance. In the Indian context, it has been amply understood that poor governance and weak implementation of policies and programs are the main causes of poverty, backwardness and low human development (Reuters 2001). In India, (Orissa too) the impetus for changes in governance and fiscal reforms from the outside has precipitated the current public sector reforms. Implementation of fiscal reforms will not yield desired results without governance reforms being considered simultaneously and vice-versa. Isolating one from the other will result in outcomes that may be liabilities in the long run rather than beneficial (as in the case of power sector reforms in Orissa, (PSIRU 2002)); the same is evidenced in other developing regions as well.

All these variables/elements and relationships among the variables are shown in figure 5.4:

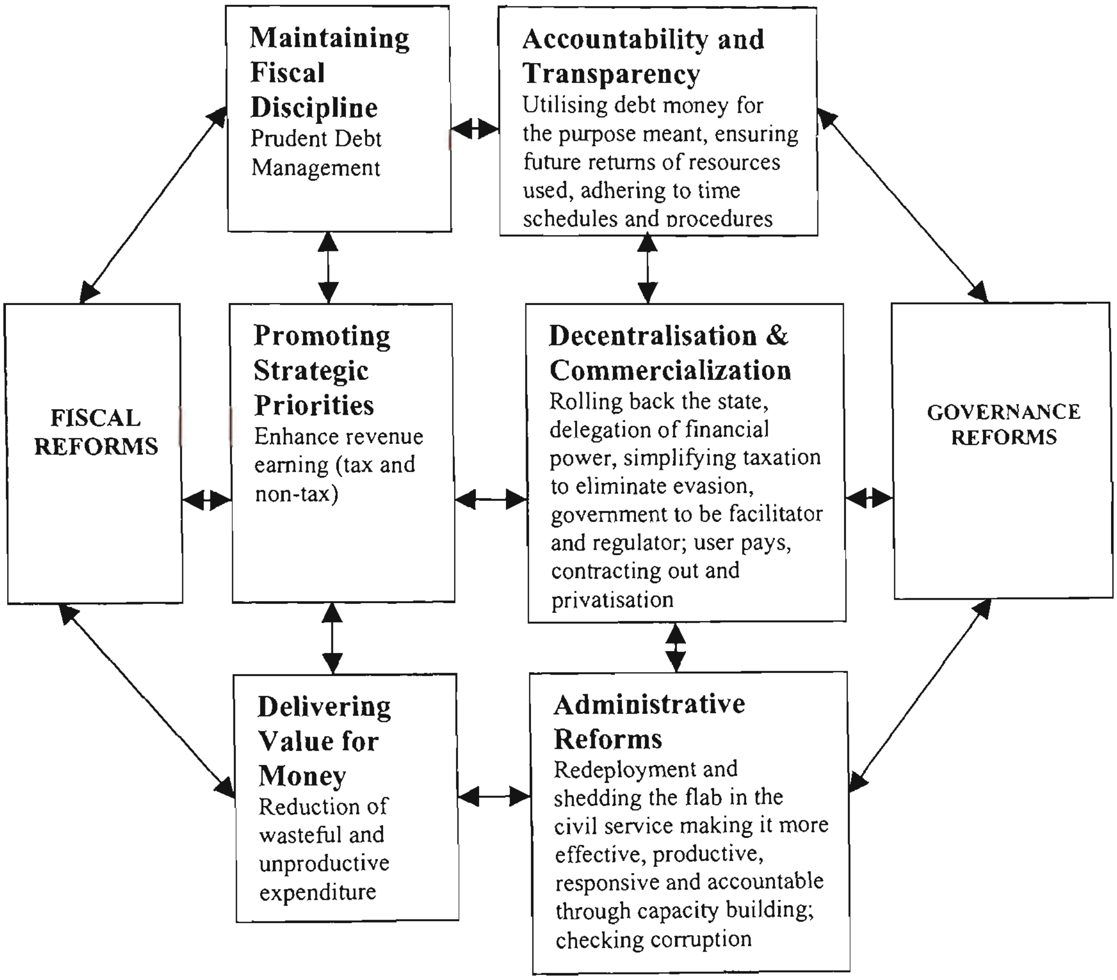

Figure 5.4 Relationship between fiscal and governance reforms

5.6 Research propositions and questions

This research proposes that fiscal and governance reforms can be successfully implemented in developing countries and therefore can be replicated in the state of Orissa. It further suggests that fiscal and governance reforms are inextricably linked and that successful implementation of one depends on the successful implementation of the other. Reforms with wide ownership are more likely to succeed than those that have a narrow organisational base. Reforms instigated by external players such as funding/ donor agencies are less likely to sustain.

This research will focus on the following research questions:

- What evidence is there of fiscal and governance reforms occurring in developed countries?

- What are the characteristics and initiators of these reforms?
- How have fiscal and governance reforms been linked?
- What has been the progress of fiscal and governance reforms in India and Orissa?
- What opportunities are there for Orissa to adapt fiscal and governance reforms undertaken elsewhere?
- What have been the roles of bilateral and multilateral funding agencies in advancing the fiscal and governance reform process?
- What are the methods, measures, processes and procedures that can assist Orissa to implement fiscal and governance reforms successfully?

5.7 Conclusion

This chapter underpins the theoretical framework for the empirical research. It highlights the relationship between fiscal and governance reforms, which is the primary focus of the research. The chapter further defines and operationalizes the variables under investigation. Further it goes on to describe the linkages and relationships among variables. The variables described here are not exhaustive because of the scope of the research and the nature of the subject. Factors such as the changes in the governments and other imminent issues may alter the variables and impact the outcome of reforms. These are however, variables that are not considered within the purview of this research. Finally this chapter concludes with the propositions and research questions. The theoretical framework is applied to Orissa as a case study, and can be extended with some customization to other poor and developing regions within India and across the world.

The theoretical framework forms the foundation for the research and the following chapter discusses the methodology and outlines the research process, methods, data collection, analysis and interpretation and issues to do with the quality of the research.

Chapter 6

Methodology

6.1 Introduction

The previous chapter established the theoretical framework and the research questions for this empirical research. This chapter describes the methodology adopted to collect and analyse research data to respond to the research questions. Section 6.2 describes the research process. It describes the sampling methods, instruments and procedures used in the data collection and procedures employed in data analysis. Section 6.3 describes the research procedures and section 6.4 deals with the issues of quality of research. Section 6.5 deals with the measures adopted in regard to the ethical issues and section 6.6 deals with the limitations of the methodology and Section 6.7 presents the concluding remarks on the chapter.

6.2 The research process

The research progressed through six steps as illustrated in figure 6.1: literature search, research design (a subset of which is the procedures involved in the research), identifying and contacting institutions/ respondents, data collection, data analysis – quantitative and qualitative, interpretation of data and finally recording it.

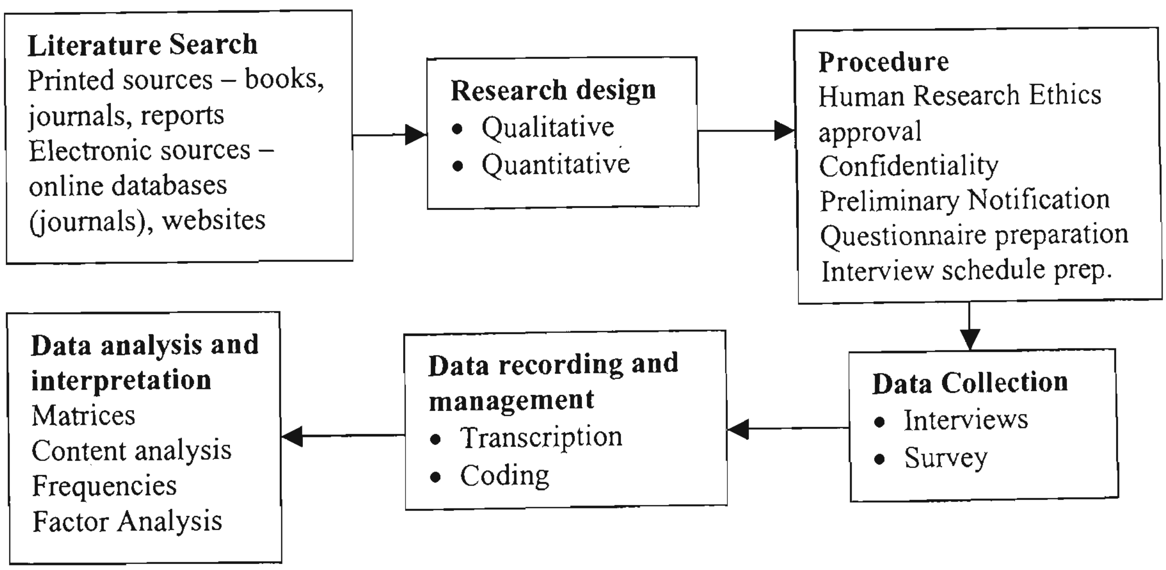

Figure 6.1 The research design

Table 6.1 Research stages and procedures

Stages	Aim	Tools for Analysis
I: Literature Review	History, Experience, Relation, Characteristics, Initiators	NA
II: Research Questionnaire and Respondents Finalisation		
III: Interviews – International, Bi-lateral and Multilateral Agencies	Opportunities, Relation, Roles, Appropriateness, Implementation	SPSS
1V: Interviews – Research Institutes, NGOs, Private Sector	History, Experience, Relation, Opportunities, Roles, Appropriateness, Implementation	SPSS
V: INTERVIEWS – Government Officials in Orissa and India	Appropriateness, Experience, Opportunities, Methods, Processes	SPSS
VI: Analysis and Interpretation	Responding to Research Questions and Propositions	SPSS
VII: Recommendation for Implementation, Limitations	Completion of Thesis	

6.2.1 Literature search

The literature search involved a secondary analysis of available information in the form of books, journal articles, reports, conference proceedings, newspaper editorials articles, articles in popular magazines, online material, etc. The study involved a review of previous research and documented experiences, (which brings in a historical dimension to the reform process) from other parts of the world and from India on fiscal and governance reforms and drawing comparisons with the reforms undertaken in Orissa. There has also been an attempt in the present study to examine the adaptability of methods and procedures adopted for the implementation of reforms, that is, best practices and recommendations of bilateral/ multilateral agencies on various initiatives at reforms.

The databases used included: (1) ABI/INFORM; (2) Business Periodicals On-disc [BPO] (3) EBSCOhost databases that include Academic Search Elite, Business Source Premier, Ebscohost Online Citations, Econlit, MasterFile Elite, Newspaper Source, Professional Development Collection and World Magazine Bank; (4) Emerald Library, (5) Expanded Academic Index (6) Electronic Collections Online (7) Education Online (8) Social Sciences Plus (9) Proquest – digital dissertations, (10) ERIC/Assessment and Evaluation [ERIC/AE] and (11) Wiley Interscience.

In addition, various web sites relevant to the topic of the research and of the various institutions/ agencies representatives interviewed were also referred to for reports, articles, current debates and trends, publications, working and briefing papers. The sites searched included those of the World Bank, the International Monetary Fund, United Nations (UN), Institute of Development Studies (IDS), Organisation for Economic Development and Cooperation (OECD), Overseas Development Institute (ODI), Department for International Development (DFID), Government of India (GOI), Government of Orissa (GOO), other country web sites and University Libraries.

The literature reviewed a broad expanse of work starting with definitions of reforms, reforms undertaken across the world, public sector reforms with special reference to fiscal policy and reforms and governance reforms in India and in different parts of the world. Also the thesis highlights the program of fiscal and governance reforms as it has evolved in the State of Orissa through a review of various Government reports and documents and those of bilateral and multilateral agencies. Finally, taking into above the literature reviewed and on the basis of the analysed data (as indicated in the section on data analysis), the thesis proposes measures that can be adopted/ implemented in the State of Orissa and the lessons that can be drawn for adoption in other developing countries.

6.2.2 Research design

The research used qualitative and quantitative methods to respond to the research questions (Miles & Huberman 1994). In the context of the current study, a qualitative research method was considered appropriate as the study sought to delve in depth into complexities of processes (Marshall & Rossman 1999, p. 57) on fiscal and governance reforms. The qualitative method used was in-depth interviews. The quantitative method used was a survey. In the present study, a combination of the qualitative and quantitative methods was useful in validating findings, enhancing and testing emerging theories, making comparisons between responses and developing a coherent theoretical representation of findings based on valid arguments.

Qualitative research is important in examining the intricate details of the relationship between fiscal and governance reforms. It also identifies the factors intervening that provide the direction in which reforms should proceed and the consequences outcomes of such interplay between elements and processes (Strauss & Corbin 1998, p. 11). Holme and Solvang as quoted in Elingsbo and Thorell (2003) state that qualitative research involves gathering, analysing and interpreting data that is not easily quantifiable. Further, they observe that a qualitative approach is characterised by a great closeness to the respondent or source and intends to capture these individuals' and other sources' values, attitudes, and perceptions regarding the investigated area. Ruyter and Scholl (1998) stated that qualitative research provides an in-depth insight that is flexible, exploratory and the results obtained are concrete, real-life like and full of ideas, which is a key aim of this research. Therefore the researcher strives to obtain a complete understanding and overview of the problem or situation rather than just focusing on specific elements. Denzin and Lincoln (2003) stressed that qualitative researchers emphasize the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraint that shape inquiry. To them the word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured in terms of quantity, amount, intensity or frequency.

Quantitative research adheres to the standards of strict research design developed before the research begins. It assumes that reality is objective, simple, and positive and consists of sense impressions; that there is one reality in nature. Quantitative research is a research approach that is formalized and highly structured (Holme and Solvang, as quoted in (Elingsbo & Thorell 2003). This approach enables the researcher to create universal generalizations through studying specific variables on a vast number of objects of investigation. The authors further allege that statistical methods are used to measure all variables, since information is presented as numerical data and thus easy to present in figures. They finally state that selectivity and distance between the researcher and the source is a clear character of the quantitative approach.

The rationale for using a combination of methods is highlighted by several authors, which is pertinent for this research. Sarantakos (1998, p. 56) suggests that there is no 'one right methodology', that quantitative and qualitative methods are the tools of trade of a researcher, who use them according to the circumstances, that is, according to the research questions, the available resources, the research conditions and most of all the type of information required. Likewise, Strauss and Corbin (1998, p. 27) also suggest that "an instrument is an instrument, not an end in itself". Blaikie (1988), Neuman (1994), Stanley (1990) and Crawford and Christensen (1995) also do not believe in the primacy of either one of the methods of doing research. Miles and Huberman (1994, p. 41) suggest that linking qualitative and quantitative data "strengthens the overall research design and the interpretation of the findings". Strauss and Corbin (1998, p. 31) call it "the interplay between qualitative and quantitative methods". Some of the reasons suggested for the linkages are:

- To enable confirmation or corroboration of each other via triangulation – qualitative inquiry is used in the interpretation of information generated using quantitative methods and vice versa;
- To elaborate or develop analysis, providing richer detail;
- To achieve a higher degree of validity and reliability of the data;
- To overcome the deficiencies of single method studies;
- To initiate new lines of thinking through attention to surprises or paradoxes, providing fresh insights (Rossman and Wilson 1991, cited in Miles and Huberman (1994, p. 41), to "express the commitment to thoroughness, the desire to be open-ended and to take risks" as well as to "increase the likelihood of obtaining scientific credibility and research utility" (Reinharz 1992, p. 197);
- To summarise data that is useful in highlighting comparative relationships between sets of data and looking at trends (Broughton & Hampshire 1997).

6.2.3 Research methods

In-depth or focused interviews

In-depth interviews were conducted with individuals who had vast knowledge and experience in public sector reforms - fiscal and governance reforms, especially in developing countries and more so in India/ Orissa. The interviews focused on the specific topic with the respondents providing their views and opinions on the research question. This added value to the research as it enabled the respondents' opportunities to provide additional and at times more specific information. The objective of conducting in-depth/ focused interviews was to gather data for generating categories, themes and patterns to inform the path of fiscal and governance reforms in the country/ state. The research substantially depended on personal interviews with previously identified and subsequently emerging respondents. Respondents were identified following the literature review based on their contributions to the field of research and the researcher's personal association with experts in the field. The research also adopted snowballing techniques, that is, during the process of interview, the respondents recommended other persons who met the criteria of research as indicated above and they in turn were interviewed (Miles & Huberman 1994; Sarantakos 1998).

In some instances, the researcher had to limit the number of interviews for a variety of reasons:

- senior government servants were difficult to access despite numerous efforts and when accessed they were unable to give sufficient quality time for the interviews,
- after conducting several in-depth interviews it was evidenced that the responses had reached a saturation level and there were no new themes emerging,
- in the case of interviews with representatives of multilateral and bilateral agencies security concerns in US and UK due to the Iraq war disallowed the completion of the number of interviews set out at the start of the research.

Survey

A survey method was used in the research as the study aimed at generalizing the findings from a sample of population using a questionnaire (Creswell 1994) to enquire into progress of fiscal and governance reforms in developed countries and its replicability to developing regions with special reference to India/ Orissa. The attempt was to develop a framework for implementing fiscal and governance reforms in Orissa. The research was an exploratory and descriptive study to ascertain the applicability of a body of knowledge which exists, and of which elements are known already. The nature of the problem in this study was to asess the existing body of knowledge, that is, public sector reforms - fiscal and governance reforms in India/ Orissa and to carry out independent unbiased research.

6.2.4 Selection of sample

Normally qualitative studies employ a form of non-probability sampling, such as accidental or purposive sampling, as well as snowballing sampling and theoretical sampling (Sarantakos 1998). The subjects were chosen on the basis of theoretical considerations such as those who are engaged in policy formulation and implementation of fiscal and governance reforms and comprised officials of multilateral/ bilateral funding agencies, academicians and researchers, officials from Ministries and Governments of Australian and India/ Orissa, Non-governmental Organisations (NGOs) and Private Sector. The sampling frame for both in-depth interviews and survey is shown in Table 6.2 below.

Table 6.2 Categories of respondents

Government of Orissa	Officers at Policy Formulation/ Planning level
	Officers at implementation level
	Political representatives
Government of India	Officers at policy formulation/ planning level
	Planning Commission
	Political representatives
	Reserve Bank of India
Australia	Reserve Bank of Australia
Research Institutions	National Institute of Public Finance and Policy, India
	National Center for Advanced Economic Research, India
	Nabakrushna Choudhury Center for Development Studies, India
	Institute of Development Studies, Australia
	ASI, OPM and ODI (UK) and WBI (USA)
	Governance Centers, India
	Utkal University, Orissa, India
Bilateral and Multilateral Agencies	IMF and World Bank, US and India
	DFID, UK and India
	ADB, Manila and India
	UNDP, US and India
NGOs	Center for Youth and Social Development
	CARE Orissa
	Concern Worldwide India
Private Sector	Sterlite Industries, Orissa
	AB Group of Industries
Miscellaneous	High Commissions, UN Sponsored program representatives, Other professional organizations and Government Agencies

In-depth interviews were conducted with 101 respondents of 121 contacted (appendix 3) and 114 questionnaires were received out of 178 distributed (appendix 5). Information was gathered from respondents who were best able to provide it and this involved some amount of judgement on the part of the researcher in the choice he made of respondents. The rationale for the sample was rather aiming towards (i) typical cases, (respondents clearly engaged in policy formulation/ implementation of fiscal and governance reforms) rather than a large number of respondents, (ii) towards fewer global settings than quantitative samples, (iii) towards a sample of respondents that is selected while the study is in progress, and (iv) clearly not aiming at representativeness but rather towards suitability (Sarantakos 1998). According to Holme and Solvang as quoted in Elingsbo and Thorell (2003), it is important to get in contact with the respondents with the right knowledge in order for the results of the study not to be invalid or worthless.

Officers engaged in policy planning, formulation, and implementation in Orissa was the major population target for survey in this study. There are 40 senior Secretaries in Government of Orissa who are engaged in policy planning and formulation. At the policy implementation level there are 75 officers including District Collectors, Commissioners, Chairmen and Chief Executives of various Corporations and Authorities. All were given the questionnaire to participate in the research. This represents a sufficiently large sample at each level from Orissa who were directly connected with the reform process to perform in depth data analysis. The other categories of respondents targeted were from GOI, bilateral and multilateral agencies who were closely involved with the reform process in Orissa and representatives of NGOs, research institutions, professional bodies and private sector. This was so because the researcher was aware of the respondents' knowledge and expertise on the subject and involvement in the reform process in India/ Orissa.

After the categories of agencies/ institutions were determined, the following selection criteria were used for selection of respondents for the research:

- Years of experience: At least 10 years;
- Nature of experience of those working in government or parastatal agencies: Respondents were those involved largely in policy formulation or implementation of fiscal and governance reforms in government or its various agencies, both at the federal and state levels, both in Australia and India/

Orissa. Countries/ States where reforms were successfully implemented were also taken into consideration in the selection of subjects for interview;

- Experience of Multilateral/ Bilateral agencies: Individuals from multilateral/ bilateral agencies who had experience in collaborating/ influencing policy formulation and implementation in fiscal and governance reforms in other developing countries and could draw upon their experience to consider their adaptability in India/ Orissa;
- Experience of Research Institutions: Respondents were also identified from various research institutions and policy based organisations who had a proven track record of having researched/ published in the area of fiscal and governance reforms.
- Political Representatives: Political representatives are key to the process of reform. It requires a rare amount of ineptitude for a strongly supported reform to be derailed by a politician. However, other political compulsions remain and therefore it was considered key to interview political representatives in India/ Orissa.

The table of respondents surveyed with name, designation and organisation is provided in appendix 5.

6.2.5 Interview schedule

The interview schedule contained open ended questions as attached in Appendix 4. The questions that were included in this research were constructed based on the literature review on fiscal and governance reforms in developed and developing countries with special reference to India/ Orissa, to the progress of reforms in Orissa and the linkages between fiscal and governance reforms. All interviewees were asked the same basic questions in a similar order, whilst the questions were worded in a completely open ended format (Patton 2002). This enhanced the comparability of responses and reduced the interviewer effects and bias when several interviews were conducted.

6.2.6 Questionnaire

Responses from in-depth interviews and the literature review formed the basis for the conceptualisation and construction of a structured questionnaire. The responses to the open-ended questions were also defined into sets of standard responses, and used to develop the questionnaire (Babbie 1998). The structured questionnaire was constructed for the purposes of supporting quantitatively the data collected through in-depth qualitative interviews. The questionnaire was constructed in a phased manner (De Vaus 1985). Firstly, a significant amount of preparation was done in consultation with the supervisor in conceptualising the questionnaire and how it would be administered. Reviewing questionnaires prepared by other researchers proved to be very valuable in the construction of the questionnaire. Secondly, a list of questions was prepared which dealt with not only the more substantive issues relevant to the research, but also those that related to the context of the study. Questions considered relevant, symmetrical, clear and simple were included. The draft was subsequently given to experts and peers who have had practical experience in the area of investigation for review and suggestions. Changes were eventually implemented; additions and eliminations became necessary. However, following changes, that were not substantial, it was not considered essential to go back to the reviewers for their opinions. Other than the more substantive issues, that is, questions related to the nature of the research topic itself, the questionnaire was also reviewed for its size, relevance of procedure, necessity, clarity, tone and content, adequacy, instructions, level of pitching, legal responsibilities and overall impressions (Sarantakos 1998).

There were five categories of responses to choose from, starting with 'strongly agree', 'agree', 'don't know', 'disagree' and 'strongly disagree'. This made the questionnaire easy to administer, to answer and to code, and allowed for comparisons and quantifications. It also ensured reduced response time and high precision. Since the sample was purposive and all the respondents were well informed on the topic of research, this choice of closed questionnaire was considered appropriate.

The questionnaire consisted of four sections and addressed the following aspects

(a) Fiscal reforms: This section consisted of three sub-sections, maintaining fiscal discipline, promoting strategic priorities and value for money, each sub-section comprising an average of ten questions.

(b) Governance reforms: This section likewise comprised three subsections accountability and transparency, decentralization and commercialization and administrative reforms, each sub-section comprising an average of fifteen questions.

(c) A third section posed questions on the overlapping themes between fiscal and governance reforms.

(d) The last part of the questionnaire was on demographic details, which was not mandatory for the respondent to complete.

The questionnaire was necessarily elaborate because of the scope of the research. A sample questionnaire and covering letter and plain language statement are in appendix 9, 6 and 7 respectively.

6.3 Research procedures

6.3.1 Data collection

The researcher travelled to Orissa and New Delhi where identified respondents in GOO/ GOI and research institutions were interviewed. In addition, respondents from country offices of DFID, World Bank, UNDP and other multilateral agencies in New Delhi were also interviewed. The researcher then travelled to USA and UK where he interviewed representatives of the UN, IMF, World Bank and some research institutions. In sum, 101 respondents were interviewed from government, international agencies, representatives from research institutions and academics, representatives from non-governmental organizations and private sector. In most instances the researcher provided the interview schedule to respondents prior to the interviews. The interviews lasted anywhere between 30 minutes and an hour and half. Whereas the interviewees were assured that their responses would be treated in strictest confidence, in particular instances, permission was sought to quote the names of respondents. Where it was declined, names have not been quoted. The list of individuals, their designations, organisations and the duration of interview is enclosed as an appendix.

Data collection was done in a phased manner. After the respondents were identified from the relevant departments, the Chief Secretary, Government of Orissa was requested to issue a Government order asking all respondents to wholeheartedly cooperate and participate in the research. The questionnaire along with the covering letter and a self-addressed envelope was distributed to the respondents, personally and by mail. The covering letter which accompanied the questionnaire introduced the respondents to the research topic, and its aims and objectives in order to neutralise any doubt or mistrust respondents might have about the study. It offered to the respondents an assurance of anonymity and confidentiality and instructions as to how to complete the questionnaire. The instructions indicated that the questionnaires be returned as soon as possible. A close follow up was done to ensure maximum rate of returns of completed questionnaires. Respondents were allowed to mail their responses without providing any personal details if they so desired. This was to ensure confidentiality and anonymity and to ensure maximum returns of questionnaires.

6.3.2 Data recording and management

In-depth interviews were transcribed from the tape recording; all the data gathered was studied in great detail to formulate response categories. These were collated with the notes from the interviews which could not be recorded. Themes emerged from the data so gathered and collated.

The quantitative data gathered using the questionnaire was also fed into the computer for analysis and interpretation. Pre-coding and the use of advanced computer analysis packages made the requirement of a codebook null and void. Following statistical analysis themes emerged which led to the interpretation of data and corroboration of theoretical frameworks.

6.3.3 Coding of data

Data was coded to maintain confidentiality and facilitate data entry. Data was coded to assist in the interpretation of easily identifiable elements of the text, that is, statements and answers were translated into numbers. The responses from the in-depth qualitative interviews were firstly transcribed. They were identified with a unique number, clearly separating them into categories of different levels of governance within GOI/ GOO, type of donor/ funding agency, research institution, etc those that were mutually exclusive and exhaustive.

Likewise, the questionnaires were also coded with a unique number. The codes 1, 2, 3, 4, and 5 indicated the numerical codes of the response categories ('strongly disagree' to 'strongly agree') for the question. Unique codes were also assigned to the various elements of fiscal and governance reforms to enable factor analysis.

Coding assisted with the easy reduction, analysis, storage and dissemination of data. This not only was easy to handle but also helped to minimise errors (Sarantakos 1998).

6.3.4 Data analysis and interpretation

The process of data analysis for the qualitative and quantitative is discussed below.

For qualitative data, the approach to data analysis and interpretation was to record the findings from in-depth interviews with individual respondents identifying the common themes emerging. The standardisation of data through the use of matrices facilitated comparisons. This analysis was useful in enhancing the generalisability of results, and deepening understanding and explanation of findings (Miles & Huberman 1994). This process leads to the development of new concepts and theories by relating evidence to abstract concepts and to theory generation.

Here analysis has been part of data collection and evaluation. Interpretation of data also involved making decisions and drawing conclusions related to the research questions. Identifying patterns and regularities, discovering trends and explanations were aspects of this process, which allowed the development of some firm views to guide the research further, namely data collection and reduction, organisation and interpretation and then again data collection and reduction and so on (Sarantakos 1998, p. 301).

The qualitative data here has been analysed in an inductive manner to arrive at theoretical formulations, while analysing the data around some propositions. The attempt has been to establish to what extent facts identified in each individual response (interview) led to the establishment of classes of similar phenomena and to systematic comparisons. These in turn led to identification of factors that influence diverse variables, paving the way for more integrated answers to the research questions (Barton and Lazarsfeld, 1979 as quoted in Sarantakos (1998). The attempt was to critically appraise reality.

The general process of data analysis and interpretations in the qualitative data was as follows: making comparisons and contrasts, finding intervening variables responsible for presence and/ or relationships between variables, considering which variables might reasonably be expected to have a direct impact on other variables both preceding them in time and having a plausible direct connection, testing emergent themes and suppositions by searching for rival explanations and negative patterns from respondents about causal connections, and searching for alternative explanations involved identifying alternative explanations to the emerging patterns, clarifying any assumptions made and demonstrating how the final explanations offered were the most plausible ones (Miles & Huberman 1994; Patton 2002).

Interpretation of qualitative data was a very complex process. This was because when interviewees responded to questions, they did not fit their responses into the categories that were determined by the researcher (Marshall & Rossman 1999). An example is presented in table 6.3 below

Table 6.3 Example of data recording

Transcript:

Question: Is there any evidence for good governance in developed countries?

Response: They have shed off excessive bureaucracy. Also they have gone in for more or less contractual employment so that, the result is assessed and extension of your contract depends on your performance. Only at the highest level they are permanent. Who are seasoned, who are the stationary bureaucrats. Number two, is that you will find that much of the things are very open. What you have to pay. How you are going to pay. And they also streamlined their system, so that you do not have to knock at many places. At one place you can go and get your things done. So these are some of the elements that they have introduced and they have been initiated from within. That does not mean that there is nothing called corruption. That must be there at a higher level. But for the common citizen the whole thing is very transparent.

Recording of data:

There is consensus that governance reforms are occurring in the developed countries and aspects of them are implemented in most developed countries. Governance reforms are inherent, inbuilt, innate and embedded in any sort of reforms under taken in the public sector. As reforms are conceived, envisioned, propelled and put into operation by public servants, it is essential and necessary to initiate the reform from within.

Additional categories included:

That corruption is universal is recognised; however, by and large does not affect common citizens. Reforms are introduced to make the system very transparent, especially the introduction of IT.

With each interview, data were added to the existing categories, and new categories created where new concepts were introduced. Working through these steps the study progressed from descriptions to determining the contribution of different variables to the actual outcomes. Through discussions and building up of logical chains of evidence, the result was a coherent conceptual presentation that demonstrated the relationships between variables (Miles & Huberman 1994).

Secondary data proved to be a comprehensive source to establish the framework within which the research progressed. These were content analysed to identify themes, which were then contrasted and compared with the data gathered through the interview process. The content analysis was however restricted to the issues those were relevant to the study and contributed further in identifying explanations to emerging patterns and development of theory.

For quantitative data, the process of data analysis involved six major activities, namely (1) data preparation (2) counting (3) grouping (4) relating (5) predicting and (6) statistical testing. Since this research is fairly large recourse was taken to mechanically analysing (using computers) the vast amounts of data. Therefore, the quantitative data were analysed using Statistical Package for Social Sciences (SPSS) to provide frequency distributions, percentages, cross-tabulations and correlations between variables. The frequency distributions and percentages were useful in summarising the data and describing observations. Analysis of data was to gather facts and figures that allowed for interpretation of results in the context of the research and to make statements about the significance of the findings for the policy makers, program implementers, research institutions and bilateral/ multilateral agencies that are supporting the reform programs in various countries across the world.

The data was prepared by using all those forms of manipulation that were necessary for preparing the data for further processing, such as coding, categorising answers, editing and checking as well as preparation of tables. Counting referred to the task of registering the occurrence and frequency of occurrence of responses in the research (Robson 1993). Grouping involved the ordering of similar items into groups and presented in the form of tables/ graphs. Relating referred to the cross tabulations and the use of statistical tests to explain the occurrence and strength of relationships. Through predictions the attempt was to extrapolate trends identified in the study into the future. Tests of significance, inference, hypotheses and correlation are finally, employed during the process of analysis.

Quantitative data analysis was limited to the extent that it provided objectivity to the qualitative data. With the help of SPSS, data were sorted, searched and recoded to allow for data exploration. The programme results were compared with those of the qualitative study for congruency. The SPSS for confirmatory factor analysis has been used to test the propositions as posed in the theoretical framework.

The interpretation of qualitative and quantitative data was carried out simultaneously, generating meaning and drawing conclusions from the findings and analysis. This was done by noting patterns and themes, seeing plausibility, clustering similar data, making comparisons and contrasts between cases, noting relationships between variables, and finding intervening variables. An understanding of the data included building a logical chain of evidence and making conceptual/ theoretical coherence (Miles & Huberman 1994).

6.4 Research quality

To ensure the quality of the research findings and conclusions, a number of factors were taken into consideration in the research design. These included measures to ensure validity, reliability and objectivity of research findings. The section below describes how the researcher addressed these issues.

6.4.1 Validity

Validity means the ability to produce findings that are in agreement with theoretical or conceptual values; in other words to produce accurate results and to measure what is supposed to be measured. Qualitative research, with its in-depth access to single cases, has to overcome the temptation of basing conclusions and explanations solely on a few extracts from fieldwork. These issues have been addressed in this research by having a fairly large sample size and finding the congruence of findings with the available literature (theoretical validation). The external validity of the research was enhanced by the use of real-life settings, and the use of a representative sample (Leedy & Ormrod 2001). The internal validity was confirmed based on the analysis of the data gathered through various means (Sarantakos 1998; Silverman 2000).

6.4.2 Reliability

Reliability refers to the ability of an instrument to produce consistent results; reliability is equivalent to consistency. Thus, a method is reliable if it produces the same results whenever it is repeated, even by other researchers. Reliability is also characterised by precision and objectivity. According to Leedy and Ormrod (2001) reliability can be enhanced by using a standardised instrument, and in the case of subjective judgements, specifying the criteria that dictate the kinds of judgement the researcher makes. Whereas a standardized instrument was not used in this instance, reliability was enhanced by having it reviewed by experts and subjecting it to changes before finally administering it to the respondents of the research. The attempt has been to look at options such as *coherence*, that is, the extent to which methods meet the goals; *openness*, the degree to which otherwise suitable methods are allowed to be used; *discourse*, that is, the extent to which researchers are allowed to discuss the researched data and interpret them together and evaluate the consequences of such findings (Bogumill and Immerfall, 1985 as quoted in Sarantakos (1998). In the analysis and interpretation of the qualitative data, the researcher has laid more emphasis on these aspects for reliability.

6.4.3 Generalisability

According to Miles and Huberman (1994) a study whose emphasis is on qualitative data, the issue to consider more critically is the generalisability of the theory developed and the concepts discussed. Offering "thick description" and drawing linkages between emerging theory and prior theory provides the reader with sufficient data to assess the potential generalisability and appropriateness of findings to other settings. The current study has attempted to address both of these areas thereby increasing the generalisability of results.

6.4.4 Objectivity

Objectivity is generally employed to minimise personal prejudice and bias, and to guarantee that social reality will be presented as it is, rather than as is it is interpreted or imagined by the researcher. Silverman (2000) notes that objectivity refers to the extent to which findings are free from bias. Bias is defined by Leedy and Ormrod (2001, p. 221) as "any influence, condition or sets of conditions that singly or together distort data". They also acknowledge that the researcher cannot avoid having data contaminated by some form of bias. However, bias can be reduced and objectivity enhanced. The researcher believes that although complete value neutrality may be unattainable, some degree of value neutrality is possible and some aspects of objectivity should be preserved and defended. This is possible and advisable at least during some stages of the research.

To enhance objectivity in the study, the researcher used multiple methods as well as the triangulation method of data collection so as to obtain information using two methods from multiple observers with regard to the issues under study. The researcher's own bias is acknowledged throughout on the assumptions and boundaries of the research to provide the reader with the researcher-position that is useful when assessing the interpretation of the findings and conclusions drawn.

In conclusion, it is important to state that while the research quality depends on measurable parameters of the instruments and methodology, alternatives have been suggested, especially in relation to qualitative research. Lincoln and Guba (1985) propose four alternatives to validity, reliability, generalisability and objectivity, namely credibility, transferability, dependability and confirmability. In their view, in qualitative research investigators do not need to demonstrate validity, but rather methodological excellence, that is, doing research in a professional, accurate and systematic manner. The researcher should state how research was undertaken, explain methods, instruments and parameters, leaving it up to those who are interested in the findings to decide whether they can be generalised or not, and to also use triangulation. In a changing world, dependability is the closest one can get to reliability. Shifting from objectivity to confirmability, shifts the centre of objectivity from the researcher to the data itself.

6.5 Ethical considerations

Ensuring confidentiality of the data was not only important to retain the privacy of the respondents but also to ensure that respondents provided accurate and honest responses to questions. Prior to conducting the study, the proposal was submitted to the Faculty of Business and Law Human Research Ethics Committee at Victoria University wherein an approval was sought for projects involving human participants. The application addressed issues of participant privacy and confidentiality, potential risks associated with the project, and the information provided to potential participants as part of the informed consent process. The Human Research Ethics Committee approval letter and participants' consent form are in appendix 1 and 8 respectively.

Although a demographic section existed in the questionnaire, respondents had the choice of either completing it or leaving it. This enabled the respondents to complete the questionnaire anonymously. Also the self-addressed envelop for return of the questionnaire enhanced the anonymity of the respondents. Finally, once the data was received, it was retained in a safe place so as to limit its access to unauthorized persons.

6.6 Limitations

There are various limitations in the methodology employed in the study. Overemphasis on either quantitative or qualitative methodologies may have the following consequences.

- The question of objectivity has been raised as a concern, whether it is possible to be truly objective, instead an attempt to be truly objective may lead to "technocratic and bureaucratic dehumanisation" as has been cited by Brieschke (1992, p. 174). The researcher has attempted to be personally involved in order to understand the reality as perceived by the respondents themselves.
- It is difficult to ascertain whether reality has been captured and what is the real meaning of social behaviour. This is more so in the case of quantitative methods. The predetermined response categories compel respondents to adhere to the choices, thereby making the possibility of responses adhering more to the beliefs of the researcher than to reality.
- Quantitative research is restricted by the greater dependence on standardised tools, based on quantifiable data, to test hypotheses. It makes 'disembodied abstractions' (Collins 1992, p. 183) of the researcher, who then treated the respondents as 'objects' of the research. Attempts have been made to overcome this through the use of multiple methods and through triangulation.
- In the case of qualitative research, the researcher found that the risk of collecting too much information, which was there from the start, proved true. Too much material was collected that was eventually not utilised by the researcher. In terms of data analysis, the selection of segments of qualitative data to be included in the discussions tended to be subjective (Marshall & Rossman 1999). A lot of information was gathered during the interviews, and in choosing words to summarise and reflect on the complexity of the data, and to produce the raw data matrix, some details may have been omitted. However, the researcher has attempted to conduct a comprehensive data analysis, as well as include quotes and stories from respondents in order to capture all the important aspects of the findings.
- Non-response was also an issue for which it was difficult to determine with certainty the reasons for. Czaja and Blair (1996) suggest that the percentage of non-response may be too small to have a significant effect on the results. It

is possible that the respondents consider themselves ill equipped to respond to the questionnaire, or were unable to find the time from their busy schedules to fill out the rather extensive questionnaires. It could also be that those who responded felt strongly about the questions being asked or held a particular view relative to those who did not respond. This view may then be over-represented (Clarke & Cooke 1983). This may have an effect on the generalisability of results.

- The entire process was very time consuming and involved travel to many places for conducting interviews. Due to unavoidable circumstances some of those visits also proved futile, as the respondents were not available.
- The promise of confidentiality to respondents meant that findings and discussions were made generally, and sometimes this resulted in some ambiguity as too much description of data could lead to divulging the identity of a respondent. However, the researcher has attempted to provide the reader with as much detail as possible to make sense of the data and discussions, while preserving the confidentiality of respondents.

While social research provides verifiable and reliable knowledge about the social world which can be applied in various spheres and improve social conditions, the applicability of research is restricted by many factors, both related to social factors and academic issues. In this research, the greatest limitations to applicability of the research are due to political factors – that there is uncertainty surrounding the utilisation of the recommendations of the research that are against the interests of political representatives, which then often remain in the archives of institutions; methodological factors – that contradictory results may arise from different academics doing the same study creating confusion and restricting the credibility and applicability of the research findings; academic factors – whereby social scientists attack each other on academic and ideological issues, usually those adhering to either the quantitative or qualitative methodologies; and economic factors – the availability of adequate funds determines to a large extent the possibility of wide publicity and the possibility of implementation.

In spite of the limitations therefore, it is hoped that the study has provided valuable information and made a significant contribution to the planning and implementation of fiscal and governance reforms in developing countries.

6.7 Conclusion

This chapter has provided the reader with the research method used in the study. Detailed explanations of the research procedure followed, the methods and tools used in the data collection, how and why particular pieces of data were collected and the methods of analyses used have been presented. Issues of validity, reliability and objectivity have been addressed. The limitations of the research, practical problems faced by the researcher and ethical considerations adopted in this research have also been discussed.

Through the methodology discussed, the researcher aims to engage the reader in discussions on fiscal and governance reforms as they are implemented in developing countries, the factors that facilitate or hinder the process of implementation and the significance of such reforms on the overall fiscal climate of the state.

Having discussed the methodology, the research project proceeds to describe and analyse the findings of the study. This is followed by analysis of results, discussion of results, conclusions and recommendations.

Chapter 7

Analysis of Results

7.1 Introduction

Chapters two, three and four reviewed the literature relevant to this study, chapter five established the theoretical framework and chapter six presented the research design and methodology used to generate the results from the research data. This chapter analyses the data and presents the results. They are presented in five sections. Section 7.2 presents the response rate, section 7.3 provides a description of the sample, section 7.4 presents the results and analysis of surveys and interviews, section 7.5 presents the results of the factor analysis, and section 7.6 presents the concluding remarks.

7.2 The response rate

The survey and interviews were conducted in India and overseas (bilateral and multilateral agencies and research/ academic organisations). They started in October 2002 and were completed in November 2003. Out of 178 survey questionnaires sent by mail and personally handed out, 114 completed questionnaires were returned, which represented a 64 percent response rate as indicated by table 7.1. This was as a result of a Government of Orissa administrative order, enclosed in appendix 2, and a close follow up. The fact that respondents were allowed to maintain anonymity also ensured the return of completed questionnaires. Senior representatives from multilateral/ bilateral agencies due to the competing demands on their time expressed their inability to devote adequate time on the questionnaire. Despite close follow up, questionnaires were returned late in some instances, due to which they could not be considered for the analysis.

It was possible to interview 101 respondents although 122 had been identified and contacted constituting a response rate of 83%. The 122 respondents were identified based on their in-depth knowledge, extensive experience and willingness to participate in the research. One hundred fourteen (114) completed questionnaires out of 178 distributed were returned constituting 64%.

Table 7.1 Percentage distribution of respondents

Organisation/ Agency/ Institution	Number contacted		Number responded		% of total respondents	
	a*	b**	a*	b**	a*	b**
Government of Orissa	20	75	18	70	90	93
Government of India	15	16	12	10	80	63
Political Representatives	10	11	8	9	80	82
Bilateral/ Multilateral Agencies	52	48	40	17	77	35
Research Institutions & Professional Bodies	18	19	17	6	94	32
Private Organisations, NGOs & Others	7	9	6	2	86	22
TOTAL	**122**	**178**	**101**	**114**	**83**	**64**

Note: a* indicates respondents for interview and b** for surveys

While there was an overlap in terms of persons responding to questionnaires and in-depth interviews, the opposite was also true in some instances, that is, there were some interviewees who did not participate in the survey. The table of respondents with name, designation, organisation and time interviewed, is provided in appendix 3.

7.3 Description of the sample

Precautions were taken to choose samples who were experts and had in-depth knowledge on the research subject so their answers provide evidence of the actual situation.

All the GOO and GOI officials belong to the Indian Administrative Service. Senior Government officials engaged in policy planning and formulation have more than ten years of service. At the program implementation level, the duration of service of officers varied from seven to twenty-five years. In addition, officers from the Planning Commission and Reserve Bank of India were also given the questionnaire/ interviewed.

Political representatives comprised of Ministers at the State level including the Chief Minister and Ministers at the Center/ Members of Parliament drawn from Orissa, having knowledge and engagement with the reform process.

Officials of bilateral/ multilateral organisations were chosen on the basis of their knowledge, experience and expertise in the reform process in Orissa or elsewhere in the world. The respondents held senior positions in their respective organizations. Representatives of the Reserve Bank of Australia were also interviewed.

Representatives from NGOs, Research Institutions/ Academics, Public and Private sector enterprises, Professional bodies were chosen following the literature review based on their engagement with the topic of the research.

7.4 Results of the study

Analyses of responses from the questionnaires were carried out using the SPSS package to produce descriptive statistics. Responses from the questionnaires (appendix 9) were grouped based on their relevance to the research questions. Responses were measured on a the Likert's Scale. However, in analysis, a distinction has not been made between the categories 'agree' and 'strongly agree'; overall they have been considered as respondents' concurrence with the issue at hand. Similarly, for categories of 'disagree' and 'strongly disagree', for purposes of analysis, they have been taken as respondents' disagreement. The response 'don't know' and 'not significant' are only mentioned where they have has been found to be of some relevance.

Considering the nature of the study and the methodology adopted (surveys and in-depth interviews), data from the surveys were used to corroborate findings of the interviews and lend it credibility. Therefore, excerpts from interviews and the survey results have been interwoven into each other in the text. This has added value and credibility to the discussion, which would have been limited in their potential if they had been analysed and discussed separately.

Finally, a factor analysis using the SPSS package has also been done to assess the responses as being 'desirable' and 'actionable'.

7.4.1 (i) What evidence is there of fiscal and governance reforms occurring in developed countries? and (ii) What are the characteristics and initiators of these reforms?

Research questions one and two research questions are combined for the purposes of analysis. This is illustrated in tables 7.2 to 7.6 followed by interview excerpts.

Table 7.2 Question: Fiscal reforms are successful in developed countries

Responses	Frequency	Valid Percentage
Strongly Agree	19	16.7
Agree	74	64.9
Don't Know	9	7.9
Disagree	12	10.5
Strongly Disagree	0	0
Total	**114**	**100.0**

As observed more than 81 percent respondents have confirmed that fiscal reforms are happening and successful in developed countries. The percentage of respondents who disagreed was insignificant. These respondents who disagreed are bureaucrats of Orissa state who do not probably have updated knowledge about the fiscal reforms carried out in developed countries.

Table 7.3 Question: Micro, Meso and Macro reforms have been in place since early 1980s in OECD countries

Responses	Frequency	Valid Percentage
Strongly Agree	10	8.8
Agree	81	71.8
Don't Know	22	19.3
Disagree	0	0
Strongly Disagree	1	0.9
Total	114	100.0

Table 7.3 projects that more than 80 percent agreement to the fact that fiscal and governance reforms are occurring in developed countries since the early 80s. However, the fairly high percentage of 'don't know' responses is probably an indication of lack of knowledge of officers at implementation level in Orissa state who are less likely to have thorough knowledge of policy issues occurring elsewhere in the world.

Table 7.4 Question: OECD countries adhere to prudent debt management.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	20	17.7
Agree	63	55.8
Don't Know	15	13.3
Disagree	13	11.5
Strongly Disagree	2	1.8
No Response	1	.9
Total	114	100.0

Table 7.4 illustrates that some respondents opinion that some OECD countries have succeeded in of debt management. As it is apparent from the table, the response is significant since more than 73 percent of respondents have agreed. Thirteen percent disagreement can be attributed to the recent trend of previously disciplined economies heading toward spiralling public debt due to the war on terror and security issues.

Table 7.5 Question: Governance reforms are successful in developed countries		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	13	11.4
Agree	67	58.8
Don't Know	22	19.3
Disagree	4	3.5
Strongly Disagree	0	0
No Response	8	7.0
Total	114	100.0

It is distinctively clear from table 7.5 that about 70 percent respondents have confirmed that governance reforms in developed countries are in place and also implemented successfully. This is further elaborated in the qualitative analysis. The high i.e. 19.3 percent 'don't know' response can be attributed to the same reasons as explained for the previous table.

Table 7.6 Question: OECD member countries have embraced comprehensive fiscal and governance reforms		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	25	22.1
Agree	74	65.5
Don't Know	10	8.8
Disagree	2	1.8
Strongly Disagree	2	1.8
No Response	1	0.9
Total	114	100.0

Table 7.6 corroborates the results from the two research questions cited above. On scrutiny, it is evident that a very high percentage of respondents have given affirmative answers to the question regarding the prevalence or adaptation of comprehensive fiscal and governance reforms in OECD countries. The disagreement is almost insignificant at around 3.5 percent, as against 88 percent of agreement.

It can be deduced from the above tables that fiscal and governance reforms are being implemented in the developed countries. The qualitative analysis below validates the claim that fiscal and governance reforms are deep rooted in developed countries.

Based on interviews, following is a country/region wise (pertaining to OECD member countries) summary account of the characteristics of various fiscal reforms, laws and acts to bring in fiscal discipline, transparency, and accountability along with achieving value for money and prioritizing government core functions.

Referring and analysing the interviews with Mike Stevens of World Bank and Ernesto Betancourt of IMF it is inferred that through the Maastricht Treaty (1991), most EU countries have recognized and implemented two separate limits for overall borrowing: is based on the flow of debt during a year, and the other is the public deficit representing net borrowing of the Government, outstanding at the end of every financial year. The Treaty seeks to place a limit of 3 percent for the ratio between Public Deficit and the Gross Domestic Product (GDP) at market prices and a limit of 60 percent for the ratio between Public Debt and GDP at market prices. Only indirect central bank credit to the government (defined as the acquisition of government securities by the central bank) from a third party is permitted, and that is entirely at the discretion of the bank.

S. S. Campo, World Bank, concurring with the above view stated "Most EU countries now refer to the Maastricht criteria as their primary aggregate fiscal goal. These have served as a particular incentive for fiscal consolidation in countries with significantly higher deficit and debt levels than the Maastricht criteria". S. Pradhan, World Bank stated that, "There can reasonably be a debate about the durability of this mechanism and the aptness of the targets so far chosen but fiscal rectitude has generally entered the objective functions of the EU and potential EU countries, to a degree not seen before. At least governments in OECD countries are feeling responsible and answerable".

"USA had for two centuries since independence followed a policy (not statutory) of a balanced budget. It was only in the 1980s that the US government incurred huge budget deficits because of reduction in taxes accompanied by a significant increase in expenditure which was the main initiator for fiscal and governance reforms" stated David Luna of U.S. Department of State. The Omnibus Budget Reconciliation Acts of 1990 and 1993, and the Balanced Budget Act of 1997 have been the main legislative framework in USA. The latest budgetary rules have been successful in controlling discretionary spending by setting caps on government investment and consumption. "In fact the balanced budget target was set for the year 2002 but due to impending war on Iraq one year time extension has been added", further stated Mr. Luna confirming that fiscal reforms are in place.

The following statement further justifies the intensity of fiscal and governance reforms in developed countries. "The Fiscal Responsibility Act of New Zealand has resulted in major advances in transparency and accountability of fiscal policy decisions. The Act specifies requirements for information and policy decisions through open budgetary processes, while establishing statutory accountability for the government and being amenable to evaluation in relation to specified criteria. The important mechanism operating here is that governments have to explain the policy rational behind five crucial fiscal indicators which help build on their commitment: (i) reducing total debt to prudent levels by achieving operating surpluses every year until a prudent level of debt has been obtained (ii) maintaining total debt at a prudent level by ensuring that average operating expenses do not exceed operating revenue; (iii) achieving and maintaining levels of net worth that provide a buffer against adverse future events; (iv) prudent management of fiscal risks; (v) pursuit of policies consistent with a reasonable degree of predictability about the level and stability of tax rules" stated Rachel Turner of the World Bank.

Steven Symansky of the IMF stated that, "Australia has entered the tenth year of an impressive economic expansion characterized by strong productivity growth and low inflation. In early 1990s, the unemployment was as high as 11% and budget deficit

2% of GDP. Australia has managed to reduce the unemployment rate to 6½% and move to a budget surplus at 0.8% of GDP by the end of 2001."

Robert Lawrence, RBA, Sydney stated, "Since 1983 the Government of Australia has been implementing public sector management reforms. Motivation was induced by macroeconomic concerns, i.e. to reduce the share of federal government outlays, which was more than 33% of GDP in 1983-84. The reforms introduced in Australia embraced tangible changes as per the following:

- substantial autonomy for departments in their spending of administrative expenses (including salaries) but the administrative expenses being strictly cash limited,
- greater surety about future resource availability to departmental managers via a system of three year forward estimates and other program expenses,
- the concern for 'value for money' – i.e. the effectiveness and efficiency of public expenditure was the critical aspect of fiscal reforms".

"In Australia, through Medium Term Expenditure Framework (MTEF) a culture of strategic management and competitive platform for resource allocation (reduction in wasteful expenditure) has been created. To enforce fiscal reforms structurally, control over spending has been brought under the purview of an Expenditure Review Committee, dominated by the department of PM and Cabinet. Through fiscal reforms, the Government of Australia intends to maintain a budget surplus and achieve 1.7% of GDP ($13.9 million surplus) by 2003-04. The net debt, which was 20% of GDP in 1995-96, has been reduced to 7.1% in 2000-01 (in a much better position than other OECD countries)", stated Jonathan Coppel, RBA which corroborates with other respondents about the success of fiscal and governance reforms in developed countries.

"The golden rule, embodied in Article 115 of the Constitution of Germany, specifies that over the cycle the Government will borrow only to invest and not to fund current expenses (including depreciation and maintenance). The balanced budget rule is stipulated in the Constitution and confirmed in the respective budget laws for both the federal and sub-national governments. In any year, government borrowings must not exceed government investment expenditure, except in circumstances of a macroeconomic disequilibrium", stated Dr John Williamson, World Bank Institute.

"To contain and control fiscal profligacy and bring in fiscal discipline so that value for money is achieved the government promulgated code for fiscal stability", stated Adrian Fozzard of ODI. According to William Morrison and Peter Young of ASI, UK's Code for Fiscal Stability has number of features that are quite similar to the New Zealand law. This code includes adherence to "the golden rule," targeted debt, and real operating expenditure levels. UK's golden rule differs from the German one by allowing deficits to exceed investment in any specific year as long as the rule is fulfilled over the course of the economic cycle. On the other hand, it is stricter by referring explicitly to net instead of gross investment. Further, UK follows a traditional prohibition on the central bank credits to the government as a measure of fiscal discipline.

"The repeated 'fiscal stimulus' packages of the past decade have not worked in Japan. Rather than kick-starting the Japanese economy, they have saddled it with a debt-to-GDP ratio of a massive 120 per cent, one of the highest rates in the industrialised world. The important development in Japanese budgeting was the creation of Fiscal Structural Reform Act (Zaisei Kouzou Kaikaku) of 1997 to restrict government spending and Japan's perilously escalating debt, to bring down the consolidated national and local government deficit to 3 percent of GDP by 2003 from approximately 6 percent" stated Michio Atushi of IMF.

"The Swiss government has proposed that its fiscal consolidation target be enshrined in the Constitution in 2001. The new Constitutional clause would set the authorized deficits for coming years. Should these objectives not be achieved, a mandatory procedure would be set in train, requiring savings to be made based on financial priorities. It has still to be presented for approval by the Parliament, the cantons and a public referendum" stated Steven Symansky of IMF. Other respondents further support this.

"The structural deficit ceiling, which was introduced as a policy norm in 1961, was abandoned in 1974. Under a more recent approach, introduced in 1995, the Netherlands is pursuing a similar rule to meet the EU deficit reference value", stated David Phillips of ASI, London. "Other countries such as Canada, Spain, Portugal, France and many others have also enacted laws to inflict self-disciplining laws to bring in fiscal rectitude and sustainability" added Dr. Phillips.

As can be construed from the above discussion, the respondents have concurred with the literature review. The formulation of various laws and acts to arrest the mounting fiscal deficit, wasteful public expenditure and public debt in many developed countries are evidence that fiscal reforms are being carried out in developed countries. However, it is essential to mention that some respondents also remarked that fiscal reforms have not yielded desired results in countries like Japan, not due to issues of governance but rather due to exogenous economic compulsions where the national government has very little control.

As fiscal reforms are conceived, envisioned, propelled and put into operation by public servants, it is essential and necessary to initiate the reforms from within which is further substantiated by the following comments. "Governance reforms came to prominence almost at the same time when the governments faced fiscal crisis and there was unanimity that governments had become disproportionate to the requirement" observed Dana Weist of ADB. "The idea that governments should do more with less in a context of tight budgets led to the first wave of governance reforms. Thatchernomics and Reaganomics principles in the late 1970s and 80s led to a surge of policies for public sector downsizing, privatization, budget reduction etc. particularly where there was a feeling that government spending was both too high and ineffective, as in Australia, New Zealand, the UK and also in the USA", opined Ian Thynne of OPM.

"Governance reforms were implemented to deal with fiscal predicaments in developed countries even though the institutional arrangements within public sector were workable and well functioning and they were responsive to people and reasonably efficient in service delivery. However, the cost was too high and the size was too big but nothing in comparison to the standard of developing countries. In developing countries the governance price tag is too high in comparison to the service they provide besides being unaccountable and non-result-oriented", stated Kaushik Basu of World Bank.

Agreeing on the implementation of governance reforms in developed countries Frederic Brouder of ADB stated, "the initiator for governance reforms is the resource crunch faced by developed world. Though the developing world faced similar problems, governance issues were neither their priority nor that of the funding agencies due to the global political situation. Even the governance reform measures undertaken in the developed world initially were like a routine change initiatives but later were planned and strategized as a comprehensive policy package".

Summarising the interviews it is inferred that OECD countries like Canada, Finland, New Zealand and Australia went as far as to re-examine systematically the roles and functions of government. In many countries they have split policy making from services delivery, merged or otherwise rationalized organisations that used to perform similar tasks separately, downsized and reallocated services within government organisations, devolved responsibilities to line units or sub-national governments or local governments. "In Canada, as a result of functional and program reviews of all ministries, some ministries shrivelled by more than half while others faced slower growth in resources despite large spending pressures" stated HE Mr. Peter Sutherland, Canadian High Commissioner to India.

Agreeing on the progress of governance reforms in developed countries, Vinay Swaroop of the World Bank stated "as part of governance reforms, countries like Australia, New Zealand, UK and even European Union countries have implemented massive administrative reforms such as privatization of both merit and non-merit goods and services production, contracting out and out-sourcing many public sector provisions, bringing in the concept of user fees, contractual agreements with bureaucrats and devolution of power and authority while redesigning and reinforcing accountability of public servants"

"From the enactment of fiscal laws in various OECD countries along with the tough measures to make the government more market oriented, lean, accountable and participatory that fiscal and governance reforms are being seriously pursued.

Basically the rising expectation of voters for better service at lower cost is a motivating factor for introduction of fiscal and governance reforms in developed countries" observed Dr. Tay Keong Tan of United Nations.

"Financial management initiatives, which are termed as 'Next Steps' in developed countries, through which departments are being encouraged to hive off administrative operations into free standing agencies under chief executives and to adopt more business like modes of operation have been adopted. Public sector operation as a whole has therefore changed in subtle ways. There is outright involvement of all managers in the budgetary process. To me the decision of managers' involvement is part of good governance and the modus operandi of these managers, leads to fiscal reforms. Most of the developing countries are far away from this stage of fiscal and governance reforms" stated Dr. Kanhaiya Singh of NCAER.

"In OECD member countries, there is inherent passion for changes and improvements. The current wave of fiscal and governance reforms, which were initiated as fiscal structural adjustments, owes its origin to USA and UK, the two most impatient and change crazy countries. There is no second opinion about the fact that severe resource crunch and input orientation of fiscal policies paved the way for initiating reforms" stated Dillip Rath of the World Bank.

The above responses to two research questions (What evidence is there of fiscal and governance reforms occurring in developed countries? and What are the characteristics of these reforms?) can be summarized as follows. Fiscal and governance reforms are occurring in many developed countries yielding desired results though there are instances of failure but that is not due to misgovernance as it is in the case of developing countries. The fundamental reason for embracing governance and fiscal reforms has been unwieldy expansion of public sector resulting in rising fiscal deficits and spiralling debt. Reforms are being enforced through various Fiscal Responsibility Laws and Acts, Public Service Acts and Freedom of Information Acts, decentralization, privatization, commercialization, various transparency and accountability measures through administrative reforms.

7.4.2 (iii) "How have fiscal and governance reforms been linked?" is the next research question. The quantitative analysis of responses is presented below in tables 7.7 to 7.23 followed by interview excerpts.

Table 7.7 Question: Developing countries lag behind in debt discipline due to lack of transparency and accountability in overall fiscal and monetary policy framework

Responses	Frequency	Valid Percentage
Strongly Agree	48	42.1
Agree	62	54.4
Don't Know	0	0
Disagree	3	2.6
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

As observed from the frequency, 96.5 percent of respondents agree that amplification of the debt problem which is both the cause and effect of fiscal indiscipline, is due to lack of transparency and accountability. As observed from the literature review, accountability and transparency are major components of good governance, thus indicating that fiscal and governance reforms are inter linked. The disagreement is almost negligible.

Table 7.8 Question: Revenue enhancement and expenditure savings measures which are outcomes of improved governance leads to reduction of fiscal deficit

Responses	Frequency	Valid Percentage
Strongly Agree	53	46.5
Agree	56	49.1
Don't Know	0	0
Disagree	3	2.6
Strongly Disagree	0	0
No Response	2	1.8
Total	114	100.0

Almost 96 percent respondents agree that improved governance will lead to reduction in fiscal deficit, which is highly significant. The disagreement that can be attributed to poor understanding of the question is almost negligible.

Table 7.9 Question: Efficient and effective budgetary allocation promotes strategic priority of government

Responses	Frequency	Valid Percentage
Strongly Agree	75	65.8
Agree	34	29.8
Don't Know	0	0
Disagree	2	1.8
Strongly Disagree	1	0.9
No Response	2	0.9
Total	114	100.0

Here, too, 96 percent of respondents corroborate that government priorities can be enhanced through efficient and effective budget allocation, which is the main engine of fiscal strategy formulation and result oriented implementation in any country. The fulfilment of a set priority is the first step in the process of inching towards providing good governance. This corroborates that there exists positive relationship between good fiscal measures and good governance.

Table 7.10 Question: Accrual budgeting and accounting system will promote government priorities

Responses	Frequency	Valid Percentage
Strongly Agree	5	4.4
Agree	52	45.6
Don't Know	40	35.1
Disagree	14	12.3
Strongly Disagree	2	1.8
No Response	1	0.9
Total	114	100.0

With regard to the question as to whether accrual budgeting and accounting system will promote government priorities, responses were not conclusive. Fifty percent respondents confirm the linkage between accrual accounting and budgetary reforms, but 35 percent gave a 'don't know' response. This is most likely because accrual accounting is not a familiar concept in the developing world. The 14 percent disagreement could also be attributed to the same reason. It can be inferred that the 50 percent agree accrual accounting, will assist government to achieve its priorities.

Table 7.11 Question: Financial accountability essential element of better public expenditure management.

Responses	Frequency	Valid Percentage
Strongly Agree	40	35.7
Agree	60	57.1
Don't Know	3	2.7
Disagree	5	4.4
Strongly Disagree	0	0
No Response	2	1.8
Total	114	100.0

As evident from the above table, about 93 percent of respondents agree that financial accountability is very much essential for ameliorating public expenditure management which ultimately results in value for money.

Table 7.12 Question: There should be explicit and implicit demarcation between merit and non-merit subsidies.

Responses	Frequency	Valid Percentage
Strongly Agree	26	22.8
Agree	82	71.9
Don't Know	5	4.4
Disagree	0	0
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

More than 94 percent respondents agree that there should be clear demarcation between merit and non-merit subsidies and since there is little disagreement, this makes the issue more acceptable. This indicates that fiscal reforms through fiscal discipline help propel good governance.

Table 7.13 Question: It is possible to improve public service delivery while observing reticence on subsidies

Responses	Frequency	Valid Percentage
Strongly Agree	29	25.4
Agree	59	51.8
Don't Know	12	10.5
Disagree	12	10.5
Strongly Disagree	1	0.9
No Response	1	0.9
Total	114	100.0

The table which complements the previous table indicates that 77 percent respondents agree that while enforcing tough measures on fiscal front, public service can be improved upon which means better governance. During the interview, many respondents stated that user fees can work as booster to preserve and protect public assets, and subsidies or free goods create a situation of 'no ownership', especially in countries where the education levels and sense of belongingness are poor.

Table 7.14 Question: In a fiscal structure like India, states can achieve better value for money through greater political and bureaucratic engagement/ commitment.

Responses	Frequency	Valid Percentage
Strongly Agree	35	30.7
Agree	70	61.4
Don't Know	4	3.5
Disagree	4	3.5
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

Even though the question was specific to India, the table above suggests that more than 92 percent of sample population concur with the supposition that value for money, an element of fiscal reforms, and political and bureaucratic engagement, an element of governance reforms lead to fiscal stability. Thus it can be deduced that progress of fiscal reforms is inextricably linked with good governance.

Table 7.15 Question: Value for money can be achieved if there is accountability, transparency, decentralization and commercialization.

Responses	Frequency	Valid Percentage
Strongly Agree	83	72.8
Agree	24	21.1
Don't Know	3	2.6
Disagree	3	2.6
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

As observed, 94 percent of respondents agree that value for money can be achieved through various measurers, which are basic elements of good governance. The absence of disagreement indicates that the fiscal sustainability is achieved through better accomplishment of value for money and improved governance.

Table 7.16 Question: Effective monitoring and evaluation procedures for public expenditure enhance value for money		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	46	40.4
Agree	63	55.3
Don't Know	3	2.6
Disagree	0	0
Strongly Disagree	0	0
No Response	2	1.8
Total	114	100.0

As evident from the table above 96 percent of respondents have confirmed that effective monitoring and evaluation system would enhance value for money and the disagreement is zero. Effective monitoring and evaluation is an inherent ingredient of good governance.

Table 7.17 Question: Capacity building and institutional strengthening is a required element for successful governance reforms and fiscal sustainability.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	55	48.2
Agree	54	47.4
Don't Know	3	2.6
Disagree	1	0.9
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

As the table 7.17 indicates almost 96 percent of respondents concur that from the perspective of capacity building and institutional strengthening there is also interdependence and inter-linkage between fiscal and governance reforms.

Table 7.18 Question: Decentralization necessarily leads to greater efficiency, cost effectiveness, achieving value for money and priorities.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	12	14.5
Agree	32	34.1
Don't Know	10	8.8
Disagree	35	26.7
Strongly Disagree	24	15.1
No Response	1	0.9
Total	114	100.0

The output though skewed, shows higher disagreement. The issue of decentralization is highly contentious. Some theorists believe that decentralization can cause higher levels of corruption and inefficiency in developing countries due to lack of awareness. Even in the review of literature, it is mentioned that decentralization will lead to cost escalation due to non-availability of economies of scale. However, from the interviews, it is inferred that there is a possibility of initial negative economic externalities and internalities but in due course of time, the progress of participation enforces better accountability. As observed from the table above, decentralization, which is a major element of good governance as stated in the theoretical framework does not stand to substantiate that fiscal and governance reforms are linked. Further the word 'necessarily' in the question has probably resulted in this kind of skewed response. This can be further substantiated from the table below.

Table 7.19 Question: Improved governance and fiscal management can be achieved through decentralization of financial management, authority and responsibility.

Responses	Frequency	Valid Percentage
Strongly Agree	23	20.2
Agree	71	62.3
Don't Know	6	5.3
Disagree	9	7.9
Strongly Disagree	3	2.6
No Response	2	1.8
Total	114	100.0

As can be observed 83.5 percent of respondents have concurred that decentralization of financial management, authority and responsibility leads to good governance and improved fiscal management. Further, decentralization, a major ingredient of governance reforms, in broader sense includes fiscal and administrative aspects. As per this table the indication about the role of decentralization is very much clear.

Table 7.20 Question: There exists duplication of functions amongst government institutions hence wastage of enormous public resources in developing countries.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	25	21.9
Agree	76	66.7
Don't Know	5	4.4
Disagree	4	3.5
Strongly Disagree	2	1.8
No Response	2	1.8
Total	114	100.0

There is consensus with almost 89 percent respondents agreeing that there is over lapping of public sector functioning in developing countries that lead to wastage of resources leading to resource allocation and value for money problems which ultimately leads to fiscal indiscipline, compromising the priorities.

Table 7.21 Question: Without civil service reform governance and fiscal reforms will not yield desired results		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	63	55.3
Agree	43	40.4
Don't Know	2	1.8
Disagree	2	1.8
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

The table above shows that almost 96 percent respondents agree that civil service reforms are essential for the success of fiscal and governance reforms. The table above shows that through civil service reforms, governance and fiscal reforms are also linked.

The two tables below address the research questions about the linkage between fiscal and governance reforms.

Table 7.22 Question: Governance reforms are necessary for fiscal reforms and vice versa.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	84	70.8
Agree	25	21.9
Don't Know	4	3.5
Disagree	0	0
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

The table above shows that there is again very high-level i.e. 93 percent agreement regarding the mutual importance and significance of governance reforms and fiscal reforms. There is no disagreement at all.

Table 7.23 Question: Governance reforms and fiscal reforms are interlinked and interwoven.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	85	74.6
Agree	25	21.9
Don't Know	3	2.6
Disagree	0	0
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

This table projects the outcome of a very straight question. As the output reveals there is unequivocal affirmation with 96 percent respondents agreeing that governance and fiscal reforms are interlinked and interwoven.

Given below are the excerpts of the interviews relating to the research question.

Agreeing to the linkage between the fiscal and governance reforms Dileep Nair of UN stated that "fiscal and governance reforms are inextricably interwoven and the implementation of one is not possible without the other. The elements of fiscal reforms, which are basically fiscal discipline and ensuring future returns, are not possible without the implementers' accountability. Accountability is possible if authority is down-delegated and responsibility is fixed with reward and reproach system. Governance reform can be implemented with fiscal reforms in place but the reverse is not true. Fiscal reforms measures without good governance will worsen the fiscal unsteadiness. In my opinion governance reforms measures should precede a fiscal reform, which does not happen in reality. Developing countries like India get trapped in fiscal crisis mostly due to centralisation of decision making, no evaluation system, lack of accountability and bureaucratic inefficiency and non-responsiveness which can be corrected through governance reforms".

Corroborating the above Doug John Porter of ADB said, "the fundamental element of Fiscal Reforms which is controlling the wasteful expenditure through allocation and operative efficiency is not possible without fiscal accountability and bureaucratic transparency which again depends on improved administrative commitments. As we know enforcing transparency and ensuring administrative involvement is a task of better governance, which is termed now-a-days as good governance. Best and foolproof fiscal policy dynamics will yield no result in an ambience of poor governance. Poorly performing government causes fiscal disaster and this disaster further affects the credibility of the government and creates a situation like Argentina. Most of the debt crisis or fiscal crisis is due to irresponsible, non-transparent and economically and socially irrational public policies and priorities. Hence as I see it governance and fiscal reforms have to be carried out in tandem".

Further, on this research question Stephen Howes of the World Bank stated, "Prior to 1998-99, liberalization, privatization and marketization were prescribed for structural adjustment. It was perceived that opening of the economy would alleviate the fiscal position of a country. But the onset of Asian crises did force economists, policy makers and developmental scientists to review and juggle around with their prescriptions to overcome fiscal strains of many countries especially developing ones. It has been since then that the issue of governance has been in the limelight. To me, fiscal reforms will remain un-implementable and if forced upon then will yield catastrophic results till the governance issues are not addressed. Mis-governance leads to malfeasance, which drains out the valuable resources for undesirable and unwarranted activities. As evidence can be drawn from New Zealand and Australia, the success stories of fiscal reforms are precisely due to prevalence of responsive governance and subsequent measures to improve on policies to address fiscal issues. Like the combination of hydrogen and oxygen create water, the linkage between/ combination of governance and fiscal reforms result in a progressive, stable and sustainable country. One without the other will be like fish without water and shall die a forced death".

"As I understand, if governance reform is simultaneously administered and implemented, the fiscal reform implementation will be a cake-walk in any country. Enforcing fiscal discipline, promoting strategic priorities and delivering value for money, which are broad and also precise elements of fiscal reforms will remain a far cry if accountability and transparency, devolution of fiscal, administrative and political power and administrative reforms do not proceed simultaneously" stated Sudipto Mundle of ADB.

"Fiscal and Governance reforms are not only linked rather one is inconceivable without the other. The policy planners and implementers will not be able to optimize the allocative and operational efficiency of public resources without good governance in place. Aggregate fiscal discipline will remain a myth until there is decentralization of authority with strict accountability. Strategic priorities will be only rhetoric unless commercialization of non-core sectors are taken up and participation is promoted by rolling back the state. Value for money can never be a reality till the political engagement is mustered and administrative reforms are carried out to reinvigorate and completely overhaul the entire bureaucratic set up which again is time consuming and long drawn. For that matter any reform has its own time constraints but governance and fiscal reforms are most complex since the scope and nature is very wide and ever expanding with new issues cropping up every now and then. Thus as I see, governance and fiscal reforms are required to be framed and progressed jointly" stated Clay Wescott of ADB. These sentiments were further concurred by Mr. Porter also of the ADB.

"There are systematic correlations between fiscal and governance reforms, starting with policy formulation to implementation – to evaluation. Fiscal reform will remain unattainable unless good governance prevails or governance reforms are put into effect. It is no more a debatable issue. The debate now centers on whether governance reforms should precede fiscal reforms or whether they should be implemented together. Fiscal and governance reforms are inherently interlinked but it has taken almost two decades for supranational organisations like IMF and World

Bank to assign importance to governance reforms. Even today many developing countries fail to diagnose and comprehend the implication of good governance. If policies are directed towards fiscal measures only then inevitably there will be economic and social cataclysm. Hence as I view it fiscal and governance reforms are joined at the hip hence inseparable" stated S. S. Campo of the World Bank.

"To have successful fiscal reforms, the government has to ensure proper debt management, which means not diverting debt money for current expenditure; rather it is to be invested in such a way that it generates revenue or works to facilitate capital formation by private sector. Fiscal prudency and economic rationale for debt will remain out of bounds unless and until accountability and transparency become the norm of governance. In traditional governance it was the political patronage, which determined the resource allocation. But in the new public management, the economic rationale with political and bureaucratic accountability predominates. Governance and fiscal reforms are mutually dependent and fiscal reforms will remain indubitably incomplete without the former" stated Thuy Mellor of ADB.

Agreeing on the inherent relationship between fiscal and governance reforms Sanjay Pradhan and V. J. Ravishankar of the World Bank opined that sound fiscal policy and progress of fiscal reform is the core function of any government in present day's resource strained world. Resource constraints, fiscal deficits and rising debt situation are main issues all across the globe. Government can make policies to tackle all these issues but desired outcome will remain a far cry till good governance is attempted and enforced. The administration needs to be more progressive and proactive with basic level of transparency and accountability, which is only possible through administrative reforms. Devolution of authority and responsibility is essential to ascertain the priorities to allocate resources. Just designing a framework for fiscal reforms without governance reforms will remain only rhetoric without any logical end result or outcome.

"In the context of developed countries the existence of good governance is not as much of an issue as it is in developing countries. In developing countries the oversight mechanism to ensure that resources are not spent arbitrarily is very weak. Wherever it exists, the flexibility of reallocating resources on the basis of evaluation is limited. This has resulted in continued expenditure in lesser priority projects. Thus in the context of a developing country, fiscal reforms will be unsuccessful if governance reforms are not implemented in tandem. There exists an explicit and implicit correlation between fiscal and governance reforms" stated Stephen Pollard and concurred by Robert Beschel of ADB.

It is summarized from the interviews that good governance cannot be implemented to a standard prescription. There is a general agreement that the 'one -size-fits-all' concept is definitely less appropriate in the present day complex world. While the fundamental principles are universal, their application must vary from country to country, taking historical experiences into account, building on indigenous systems, cultures and values; and reflecting everyday realities.

7.4.3 (iv) "What has been the progress of fiscal and governance reforms in India and Orissa?" is the next research question. Along with this research question the analysis will also consider the reasons for the fiscal and governance crisis and appropriateness of reforms in the State of Orissa. The related questions are discussed below in tables 7.24 to 7.42 followed by interview responses.

Table 7.24 Question: Fiscal deficits have caused spiralling of debts and vice versa in the State of Orissa

Responses	Frequency	Valid percentage
Strongly Agree	72	63.2
Agree	37	32.5
Don't know	1	0.9
Disagree	4	3.5
Strongly Disagree	0	0
No Response	0	0
Total	114	100.0

The above table has an affirmative response from almost 96 percent respondents which shows that the issue of debt is now both the effect and the cause of the fiscal crisis the state is encountering.

Table 7.25 Question: Debt accruals have spiralled in India/ Orissa due to improper debt management, lack of accountability and transparency in resource use.		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	78	68.4
Agree	31	27.2
Don't know	2	1.8
Disagree	3	2.6
Strongly Disagree	0	0
No Response	0	0
Total	114	100.0

The above table shows that almost 96 percent respondents have agreed that debt management in the state is not only improper but is also subjected to impropriety. There is a general consensus that the state's debt mismanagement has led to the burgeoning of debt burden. The very fact that the resource use lacks accountability and transparency shows that there is serious governance problem.

Table 7.26 Question: The State of Orissa is in a debt trap		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	65	57.0
Agree	32	28.1
Don't know	5	4.4
Disagree	9	7.9
Strongly Disagree	3	2.6
No Response	0	0
Total	114	100.0

The above table confirms that the state is in a debt trap. As observed, 85 percent of respondents have agreed with the contention that the state of Orissa is in a debt trap. The respondents 12 percent who disagreed were politicians and some bureaucrats of the state who still think that Orissa being a poor state needs to borrow and has the capacity to repay the debt.

Table 7.27 Question: Incurring debts and its subsequent management in Orissa have ignored economic rationale		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	63	55.3
Agree	43	37.7
Don't know	2	1.8
Disagree	5	4.4
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

There is almost absolute agreement that the state has been reckless and careless in borrowing and subsequent management of public resources. The economic rationale, which must be the base for incurring debt, has been disregarded as agreed by 93 percent of respondents. Five respondents who disagreed were politicians of the state.

Table 7.28 Question: Monitoring and evaluation procedures to assess public expenditure exist in Orissa.		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	9	7.9
Agree	3	2.6
Don't know	5	4.4
Disagree	65	57.0
Strongly Disagree	32	28.6
No Response	0	0
Total	114	100.0

As observed from the table above, there is near consensus with 83 percent respondents agreeing that monitoring and evaluation systems do not exist in the state. Eleven percent respondents who disagreed were bureaucrats of Orissa who believe the existing antiquated rules are sufficient to ensure necessary checks and balances.

Table 7.29 Question: Citizens in the State of Orissa lack access to information.		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	41	36.0
Agree	62	54.4
Don't know	0	0
Disagree	8	7.0
Strongly Disagree	1	0.9
No Response	2	1.8
Total	114	100.0

The state also has problem regarding the accessibility of its citizenry to the information base, which acts as the brick wall between citizenry and government as an institution. As observed from the above table more than 90 percent respondents agree that the first and foremost step for good governance, which is sharing of information with the principals, is almost nonexistent. The disagreement is negligible.

Table 7.30 Question: E-governance can improve accountability and transparency in governance.

Responses	Frequency	Valid percentage
Strongly Agree	29	25.4
Agree	73	64.1
Don't know	11	9.6
Disagree	0	0
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

Table 7.31 Question: Orissa is in the nascent stage of E-governance.

Responses	Frequency	Valid percentage
Strongly Agree	9	7.9
Agree	74	64.9
Don't know	23	20.2
Disagree	5	4.4
Strongly Disagree	2	1.8
No Response	1	0.9
Total	114	100.0

Tables 7.30 and 7.31 above show that the use of technology has potential to improve the level of governance. As observed during the interview, most of the respondents agreed that widespread use of technology will not only reduce human error but will enhance efficiency to a large extent. This will result in enormous savings. Since the scope of human error will be constricted, the level of transparency and accountability will go up automatically. The most interesting part is that all the bureaucrats during interview agreed that there is no dearth of hardware but there is no willingness of the civil servants to make use of it. Table 7.31 explains the minimal assimilation of technology in government functioning. As observed, more than 71 percent respondents have confirmed that Orissa has a long way to go in its effort to establish a sound association between administration and technology.

Table 7.32 Question: Commercialization of non-essential public services in Orissa is inadequate to overcome the present fiscal crisis in the State.

Responses	Frequency	Valid Percentage
Strongly Agree	35	30.7
Agree	64	56.1
Don't know	9	7.9
Disagree	3	2.6
Strongly Disagree	0	0
No Response	3	2.6
Total	114	100.0

As the above table indicates almost 87 percent respondents have corroborated the fact that non-essential and non-core public services have not been commercialized in the state. There is a general tendency of public servants to blame the poor progress of reforms on the poverty level of the state, which is refuted by the table below.

Table 7.33 Question: Considering the high levels of poverty in Orissa, the success of user pays remains a far cry.

Responses	Frequency	Valid Percentage
Strongly Agree	5	4.4
Agree	25	21.9
Don't know	3	2.6
Disagree	56	49.1
Strongly Disagree	24	21.1
No Response	1	0.9
Total	114	100.0

As can be observed more than 70 percent of respondents feel that poverty level is not the plausible reason to be cited by the government to enforce commercialization of non-core activities.

Table 7.34 Question: System in place is inadequate to determine who pays, how much for what service.

Responses	Frequency	Valid Percentage
Strongly Agree	13	11.4
Agree	60	52.6
Don't know	8	7.0
Disagree	16	14.0
Strongly Disagree	15	13.2
No Response	2	1.8
Total	114	100.0

This table shows that two third of respondents believe that the system to enforce commercialization and user fees is inadequate. As the table indicates 27 percent of respondents do believe that the existing system is adequate to address the commercialization and user fees issue.

Table 7.35 Question: Public service as a whole is highly unmotivated and lacks vigour in Orissa

Responses	Frequency	Valid percentage
Strongly Agree	31	27.2
Agree	63	55.3
Don't know	2	1.8
Disagree	14	12.3
Strongly Disagree	2	1.8
No Response	2	1.8
Total	114	100.0

As observed more than 82 percent respondents have corroborated that the public service does not have the dynamism and motivation to enforce reform measures which is alarming from governance point.

Table 7.36 Question: Fiscal and governance reform is a state priority for Orissa

Responses	Frequency	Valid percentage
Strongly Agree	10	8.8
Agree	68	59.6
Don't know	6	5.3
Disagree	19	16.7
Strongly Disagree	10	8.8
No Response	1	0.9
Total	114	100.0

As per the response percentage there is an over all agreement with 68 percent respondents confirming that fiscal and governance reforms remain a state priority. This table is interesting when analysed in conjunction with previous tables since it shows that even though the state is aware of its priority still it lags far behind in its actions to substantiate its priority. As stated by Shantanu Mitra, DFID, 'the government is fully aware of the problems and prospects but turns its attention every now and then to non-issues. We as the donor agencies are in no position to set the political and administrative priorities'. He also added that on the negotiation table the response from the government is very encouraging but the delivery remains far away from the commitments. Thus the progress of reforms has been appallingly low.

Table 7.37 Question: The government is committed to implement fiscal and governance reforms		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	3	2.6
Agree	60	52.6
Don't know	11	9.6
Disagree	32	28.1
Strongly Disagree	7	6.1
No Response	1	0.9
Total	114	100.0

The table above shows another intriguing outcome. There is more than 55% agreement that there exists a commitment to implement fiscal reforms though more than 34% respondents have questioned the commitment. However, as observed most representatives of the World Bank, ADB and research institutes have questioned the sincerity of the government where as Orissa government officials have replied affirmatively. The officials of DFID have also corroborated the government's commitment for reforms. Thus this question has received fractured response. The response proves that both the commitment and progress have not been noteworthy.

Table 7.38 Question: Orissa qualifies to be termed as a reforming state		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	3	2.6
Agree	16	14
Don't know	4	3.5
Disagree	15	13.2
Strongly Disagree	75	65.8
No Response	1	0.9
Total	114	100.0

The table above represents the most vital and significant indication about this research question. As seen and observed 79 percent of respondents have given negative response which means Orissa is not a reforming state. During the course of interview states like Andhra Pradesh, Karnataka even Maharastra etc were placed much above in terms of reform results even though Orissa is the first state to initiate power sector reforms. The reform started with a big bang but has slipped much below the level of gradualist approach stated many respondents.

Table 7.39 Question: The MOU signed between Government of Orissa and Government of India has achievable targets.		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	8	7.0
Agree	48	42.1
Don't know	26	22.8
Disagree	26	22.8
Strongly Disagree	5	4.4
No Response	1	0.9
Total	114	100.0

In its attempt to discipline itself and to claim a better share of central funding Orissa signed an MOU with GOI for achieving certain targets in the process of implementing reforms. The table above indicates the viability of this MOU. The response is highly skewed and there is some indication that the targets set and agreed by Orissa Government are indeed not achievable. During the course of interview it was stated that the MOU would remain a commitment on paper. M. Govinda Rao stated that Orissa lacks strong political and bureaucratic initiative and dedication for furthering the reforms initiated hence the targets will remain a distant dream.

Table 7.40 Question: Orissa suffers from reform fatigue		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	1	.9
Agree	14	12.3
Don't know	19	16.7
Disagree	59	51.8
Strongly Disagree	20	17.5
No Response	1	0.9
Total	114	100.0

Reform fatigue, the very concept has been in the limelight since the onset of Asian Crisis. This concept refers to the intolerance of the word reform by the implementers of reform measures. That happens when there is too much talk of reform and one after the other reform measures are being conceived and implemented without taking it to their logical end. Hence the world's graveyard of reform failures is littered with reform policy failures caused due to reform fatigue. However, there is still hope in Orissa since it has not reached that stage yet. It is high time that directions are set to derive benefits from the reforms or at least to ensure that reforms are not bid good-bye half way so that the planners and implementers do not suffer from 'cannibalizing syndromes'. As the table shows nearly 70 percent respondents agree that Orissa has not yet gone into the fatigue state.

Table 7.41 Question: It is believed that Orissa public service suffers from high level of inefficiency and corruption.

Responses	Frequency	Valid percentage
Strongly Agree	41	36.0
Agree	55	48.2
Don't know	5	4.4
Disagree	4	3.5
Strongly Disagree	8	7.0
No Response	1	0.9
Total	114	100.0

The response outcome is significantly affirmative with 74 percent respondents agreeing that there is inefficiency and corruption in the public service. There is a great degree of consensus that the public service and servants indulge in inept functioning and deliver only when there is pressure. Although civil servants supported the existence of high levels of corruption and inefficiency in the surveys, during their interviews they stated that this was an allegation made by politicians but with little substance. Whereas the donor agencies stated that there is an inordinate delay in executing any kind of decision, which allows for this kind of presumptions. Further, the unusual delay also causes the socio-economic cost to escalate. Phyllis Dickstien of UN stated that "I am aware of the inefficiency inherent in the bureaucratic and political set up in Orissa which is awful considering the level of poverty prevailing in the state. The most amazing part is that the state always has a stable government with powerful Chief Ministers but all of them have allowed the wastefulness and corruption to spread its tentacle in every direction of the public service. These are causes of the fiscal and governance disaster in the state and the stumbling blocks for any kind of reforms gaining momentum".

Table 7.42 Question: There has been little progress in the implementation of fiscal and governance reforms in Orissa		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	59	51.8
Agree	43	37.7
Don't know	0	0
Disagree	10	8.8
Strongly Disagree	2	1.8
No Response	0	0
Total	114	100.0

The table above sums up all the previous tables and responds summarily to the research questions. The table above shows that almost 90 percent respondents agree that the progress of the reforms is not noteworthy. The respondents who have disagreed about the poor progress of reforms are state Ministers and some bureaucrats.

The excerpts of interviews pertaining to this research question are given below which substantiates the quantitative analysis further.

Agreeing on the poor progress of fiscal and governance reforms Aruna Bagchee, DFID stated that

- "there is lack of exposure due to poor institutional set up and Orissa is too inward looking.
- Institutional experimentation has been very less and the institutional capacity is very weak.
- The State is still in a debt trap and it is sliding further because it has not managed nor managing its resources well and the search to create more surpluses has not been strong enough.
- The fiscal crisis has been taken as carte blanche to mismanage funds.
- Accountability is not very high all over the country; the financial set-up is actually so complicated that even the bureaucracy does not really know where the funds are; which scheme has what – it actually requires research to know all details".

Views of Arjan De Haan of DFID, on the causes of fiscal and governance crisis and progresses made due to reforms measures are stated thus:

- "The state is suffering from a kind of vicious cycle. If all the investments (most of which were borrowed) went in to Orissa in 80s and 90s, results would have materialized, then fiscal deficit hobbling to crisis would not have been there.
- Lack of good governance in the state has also compounded the worsening fiscal situation.

- The civil service is very expensive, still the size is quite large and there is no concerted effort to trim it down. The oversized bureaucracy also leads to inefficiency hence wastage of resources.
- The rise in pay due to fifth pay commission has been a factor in all the States but it has hit Orissa very hard, because the ratio of civil servants is higher than in other states.
- Orissa is in a debt trap, but is not one that it cannot come out from; if there is commitment and will, there are always funds available; it can beat the fiscal trap. The problem is that Orissa has not yet learnt the lesson and continues to take the situation flippantly. But I am sure the urgency will be felt sooner since misgovernance and fiscal hardship is looming large".

Mr. P. Kanungo, Minister of Finance, Government of Orissa during the course of interview also agreed that the progress of the reforms has not been up to the mark. He stated that "Orissa is passing through a very critical situation; however, it can be solved if reform measures are properly implemented and monitored. Further, mis-utilisation of funds, i.e. dead investments, no capital investment; no value for money have been the root cause for fiscal disaster. Funds were raised for developmental projects and capital investment, but were spent on luxury items such as posh buildings etc. for which the investment cannot pay back. In our state the political bodies and parties in general are experiencing total lack of governance; they also lack vision and progressive outlook which are very much essential in the present day context for any region, state, nation and even municipality areas to grow. The bureaucracy is taking full advantage of this poor political governance hence ultimately the poor mass is suffering".

Below is the gist of interviews of some experts pertaining to the research question. "Country as a whole initiated fiscal reforms in 1991, but it lost its momentum by 1993-94. The reform has been branded as half-baked. There have been some initiatives in administrative reforms, decentralization of power especially through 73rd and 74th Amendments of the Constitution, but the effect has been more in paper than in practice. The targets of the government for bringing in entrepreneurship into the public sector performance have been tardy. Thus the progress as a whole is abysmal" stated P.K. Mishra, GOI.

"India is very much advanced in its human resource and technological base, but it suffers from the over-democracy syndrome. The judiciary inadvertently stands as a stumbling block for policy implementation of government. The corruption issue remains an Achilles heel. Even though India faced the BOP and fiscal crisis in 1991 and clamped on structural adjustment, I cannot claim that the progress is noteworthy. The country has a multi-party coalition government, which is a government of convenience without any proper ideology. The common agenda of NDA is probably gathering dust. The Government at the center is more involved in fire fighting than stating the strategic priorities for the country. Further, no finance minister has desisted from fiscal profligacy. The reform, which was initiated in 1991, has lost its motion. Orissa as a state was a pioneer in embracing power sector reform has also not reaped the desired outcomes. The progress of fiscal reforms is sluggish due to invisible and inadequate governance reforms initiatives and governance reform measures are stymied due to fiscal problems. One reform supersedes the other but the state has not slithered in to reform fatigue hence there is ample scope to perform better" stated R. Radhakrishna, IGRD.

"India as a country is endowed with very rich human resources and strengths to withstand crisis. Since independence it has been under one party rule for majority of its period. Hence it has developed inertia for policy diversities. Due to its obsession for xenophobic policies the economy became very inward looking. The faulty policies, which have been a drain on resources, have precipitated in ever increasing direct subsidies/ cross subsidies. India started its first generation of reforms in 1991, which lost its thrust by 1995-96. The governance reforms still remain as policies on paper. The Fiscal Reforms Bill, which was drafted in 2000, has not only gone through massive changes, but the fate of its enactment is not known. In India malfeasance and misfeasance are shamelessly galore creating a vicious cycle of governance and fiscal crisis. When the progress of fiscal and governance reforms in the country is much below the desired level, states like Orissa definitely do not leave much to expectation", stated J. E. Campos of the World Bank. "In developing countries like India, it is purely governance hitches and low level of political engagement which causes economic reforms especially fiscal reforms to fail and fail miserably", stated Daniel Kaufmann of World Bank.

"Commenting on the progress of fiscal and governance reforms in Orissa and India, I think India as a whole has not created the fundamental required settings to embrace all round reforms. There have been serious attempts since 1991 to run the business of the government differently through partial introduction of New Public Management (NPM). The present federal government led by BJP probably due to its constitutional ingredients has serious constraints in pursuing long term policy plans which are essential for reforms. There is a serous absence of clear-cut direction to achieve targets, which is viewed sceptically by the international communities, therefore casting doubts on serious business partnerships with the country. The country also suffers from judicial lethargy. In Orissa, power sector reforms, which were introduced in early 1990s have not progressed well nor has it attracted any good competition to improve the service. The progress of public sector reforms as a whole does not merit discussion. Orissa is far behind many states like Andhra Pradesh, Punjab, and Maharastra who started reforms much later" opined P.C. Hota, UPSC.

Ivor Beazley of the World Bank providing a contrary view opined, "the fiscal and governance reforms progress in Orissa and the country at large has definitely got international attention. In the height of Asian crisis India remained unaffected. The annual growth has been hovering around 6% which is almost as per the international trend other than the challenging population growth at 2%. Even though India has not opted for comprehensive fiscal reforms, it has succeeded in evading the fiscal crisis. However, the fanfare with which the reform process was initiated has lost its intensity and the seriousness of policy makers to lead the reform is being questioned at every level. India also suffers from partial information sharing syndrome. Government is not very much open with the stakeholders about the rationale and perceived outcome of any reform process".

John Burton of DFID stated that "there exist many more unanswered questions in the minds of all concerned. Orissa is no different. The state suffers on two fronts, i.e. i) unclear policy about people's participation, ii) sluggishness in embracing computerization/ technology. The state has acquired a debt more than its economic tolerance limits and suffers uncontrolled growth in unplanned expenditure and services. To sum it up, both at federal and state level, a great deal of consensus must be achieved to restore fiscal discipline since the first generation reforms have not been carried out as planned".

Commenting on the unsatisfactory progress of fiscal and governance reforms Vikram K Chand of the World Bank stated, "Reforms remain a crisis driven policy instead of being consensus driven. On the fiscal front, subsidies still lead to bloated public expenditure although tax revenue remains either stagnant or declining. Every Finance Minister has rightly expressed his desire to bring down the fiscal deficit to the level of below 5% of GDP, but in vain. It is surprising that major part of revenue expenditure and higher subsidies still go to politically powerful domestic groups, such as rich farmers, business community, public sector employees and so on. India had experienced increasing reliance on commercial borrowings from foreign creditors until these lenders loose confidence in India's credit-worthiness and refuse to roll over debts as evidenced in 1991. There are some changes in the fiscal behaviour both at national and subnational levels such as refusals of government guarantees for public sector enterprises, recruitment of non-essential staff, and so on. But the main theme of bringing fiscal sustainability and improving the administrative performance has lost its significance. There is no urgency either in the states or at the federal level for this. Orissa being a poor state and having low capacity to embrace reforms, it is not surprising that the progress has been sluggish".

Agreeing to the abysmal progress of fiscal and governance reforms D.C. Gupta, GOI stated "India at the current stage is in worse fiscal situation than it was in 1991-92 when the reforms were initiated. The only difference is that it has extremely comfortable foreign exchange reserve. The revenue expenditure is increasing unabated and at the cost of capital expenditure. The fiscal policy in general is designed on the basis of political agenda without considering the economic reasoning which proves that poor governance persist in full strength. The very fact that FRBM bill has been diluted shows that fiscal transparency and accountability still remains at arms length. Government has been tardy in implementing VAT and also public sector disinvestment. States such as Karnataka, Maharastra, Punjab and many others have enacted FRBM but in Orissa the idea has not been conceived yet. Orissa's civil service remains bulky. The Administrative Reform Commission was formed as the Administrative Reform Cell in the Finance Department and has neither any power nor sanctity. Unlike other states a junior officer in Orissa heads the Administrative Reforms Commission. The debt burden has touched Rs.33000 crores, which is undoubtedly unsustainable".

It can be deduced from the above interview analysis that the progress of reforms is not something to be proud of. Reform has not done enough to trim the public-sector budget deficit, which has been running at around 10% of GDP for the past five years with every possibility of touching 12% for the year 2003-4. The World Bank and others have been warning governments about the deficits for years. "They may result in higher inflation," fretted a recent Bank report (The World Bank 2003b), "push up interest rates, further crowd out private investment, weaken the health of the financial system and increase vulnerability to macroeconomic risks". The target in India's current five-year plan is for average annual economic growth of 8%, the minimum needed to create enough jobs for India's young. Impeccably orthodox, rhetorically at least, this years budget noted that 'fiscal consolidation' is the 'central pillar' of sustained growth. But like many preceding budgets, the current budget seems more intent on short-term growth than on structural reform, in the hope that the former will make the latter less painful. The risk, distant though the prospect now seems, is that it will take a crisis to give radical reform another spurt. Since the federal government is subjecting itself to this kind of dereliction, the states do not mind splurging.

Conclusion drawn from the interviews show that Orissa, as such being a needy state with limited capacity to raise revenue, succumbs to a borrowing spree begetting further crisis. The state has not reaped any distinct benefits out of reform measures, which has caused resistance for new measures. The state has not been able to comprehend and internalize the basic principles and policies of reforms, which has led to a lag in the implementation of reforms.

(iv a) "How appropriate are fiscal and governance reforms in Orissa?" is a question relevant and linked to the previous one, but not one of the main research questions. Tables 7.43 to 7.50 address this question along with interview responses. As we have analyzed in the previous sections, the state is indeed at a crossroad and the reform measures adopted for the last decade or so have not yielded much fruition. "The state does need a comprehensive, integrated and customized fiscal and governance reform package" stated P. K. Mohanty, Chief Secretary to Government of Orissa. The overall response shows that the reform measures are most appropriate for the state since there has been a lapse of 10 years since the reforms were talked of and introduced. The state has learnt in a hard way the lacunae and prospects. It has also developed a mechanism for customizing the measures. The desirability and appropriateness of the reform measures are beyond any doubt or question.

Table 7.43 Question: There still exists wide scope for improving fiscal discipline through proper debt management and improved governance in Orissa

Responses	Frequency	Valid percentage
Strongly Agree	52	45.6
Agree	60	52.6
Don't know	1	0.9
Disagree	1	0.9
Strongly Disagree	0	0
No Response	0	0
Total	114	100.0

The output shows an extremely high degree of consensus among respondents. Almost all respondents agreed that the scope was very wide for bringing in fiscal sustainability improvements through proper debt and administration management and that is possible only by embracing fiscal and governance reforms. Many senior bureaucrats during the interview admitted in-camera that there cannot be a more opportune time and situation for Orissa to embark on the reform process. Now both WB and DFID are actively participating in the state and are more than willing to extend all technical support for the progress of reforms. If reforms are not injected then the interest of these agencies will also wane leading to a resource crunch to introduce reform measures. Sanjeev Hota, Additional Chief Secretary, GOO, stated that "the public in general are supportive of reforms but public servants are not delivering. When the state has a stable government and they are also partner of the coalition government at the federal level, the state could not have had a more opportune time and circumstance than this to turn around the unsustainable debt burden".

Table 7.44 Question: Accrual budgeting and accounting system will promote strategic priorities of government (especially in Orissa).

Responses	Frequency	Valid percentage
Strongly Agree	5	4.4
Agree	52	45.6
Don't know	40	35.1
Disagree	14	12.3
Strongly Disagree	2	1.8
No Response	1	0.9
Total	114	100.0

From the table above it is seen that 50 percent respondents agree that accrual budgeting can promote strategic priorities of government. However, accrual accounting cannot be achieved unless comprehensive reform measures are adopted. It is already an established fact that accrual accounting and budgeting leads to better control and reaping better value for money. As stated in the previous section there was a view that resources have been squandered in most unproductive projects, that many of the projects were abandoned half way through and new projects planned without designing a proper framework for resource availability and project completion timeframe. If accrual budgeting and accounting is accepted then Orissa can reap tremendous benefit, which justifies the appropriateness of the reforms for the state.

Table 7.45 Question: Existing rule based accountability and transparency norms are insufficient (especially in Orissa).

Responses	Frequency	Valid percentage
Strongly Agree	40	35.1
Agree	57	50.0
Don't know	2	1.8
Disagree	10	8.8
Strongly Disagree	4	3.5
No Response	1	0.9
Total	114	100.0

The above table shows with 85 percent respondents agreeing that there is a dearth of transparency and accountability, which is the case of the country in general. However, Orissa is being branded as state having very low level of transparency i.e. high level of dishonesty. Many respondents have categorized this as an assertion or hype. The respondents from World Bank were more vocal about the lack of transparency and accountability in the state. They are of the opinion that this is an important factor, which the state has been ignoring and steps taken are limited. "In the state there has been a spurt of vigilance cases and most of these are on issues which are trivial in nature and scope" commented a senior bureaucrat. The measures that can encourage and energize committed workers while deterring black sheep are far from the sight. But high degree of accountability and transparency is only possible if comprehensive reforms are initiated. Thus the state is in an appropriate stratum to embrace reforms.

Table 7.46 Question: Orissa has the scope and requirement to undertake measures for rightsizing, redeployment, capacity building and institutional strengthening

Responses	Frequency	Valid Percentage
Strongly Agree	39	34.2
Agree	61	53.5
Don't know	6	5.3
Disagree	4	3.5
Strongly Disagree	2	1.8
No Response	2	1.8
Total	114	100.0

As can be comprehended from the table above almost 88 percent respondents agree that there is a scope and requirement for various measures, which lead to the road map of good governance. "When the state has the requirement and scope then the appropriateness becomes obvious" as stated by S. Rath, Development Commissioner, GOO. He also stated "fiscal and governance reforms are most appropriate in the present economic environment but the problem lay in transforming the appropriateness to orient change and then to willingness". According to Arvind Behera, GOO, "the state has low and weak institutional capacity and strength which can only be ameliorated through governance reforms; hence the reforms are most appropriate for the state". He also stated in a subtle manner that "if governance can be improved fiscal rectitude will dawn upon sue motto". Thus, it is established that the governance and fiscal reforms are most appropriate for the state.

Table 7.47 Question: There still remains a greater scope for outsourcing of public services in Orissa.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	25	21.9
Agree	69	60.5
Don't know	14	12.3
Disagree	3	2.6
Strongly Disagree	2	1.8
No Response	1	0.9
Total	114	100.0

As observed, more than 82 percent respondents agree that there is a great opportunity for enhancing private participation by rolling back government involvement. A senior bureaucrat commented, "the services and provisions meant for poor never reach them in our state but the well to do and educated mass enjoy these benefits thus poor remain poor but rich becomes richer. Outsourcing or commercializing non-core public services will free up resources, which can be used for poverty eradication measures".

Table 7.48 Question: The service provided by the private sector is more effective and efficient than the public sector in Orissa.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	22	19.3
Agree	70	61.4
Don't know	5	4.4
Disagree	10	8.8
Strongly Disagree	5	4.4
No Response	2	1.8
Total	114	100.0

As observed, 81 percent of respondents agree that private sector is more effective and efficient in rendering services that are provided by public sector currently. Though private sector participation in Orissa is very limited, the experience in power sector, education, health etc. has been an eye opener. The consensus is gaining momentum for more private participation. Five years back this kind of debate was not even entertained. The recent decision of the state government to privatize one of its sugar factories is a positive signal. "There is a hope that the government is going to take advantage of this learning curve" stated D. N. Padhi, GOO. During the course of interview some respondents expressed their reservation about the propaganda of treating privatization as the panacea for all problems of mis-governance.

Table 7.49 Question: The private sector is capable of taking over commercial functions.

Responses	Frequency	Valid Percentage
Strongly Agree	47	41.2
Agree	56	49.1
Don't know	5	4.4
Disagree	3	2.6
Strongly Disagree	2	1.8
No Response	1	0.9
Total	114	100.0

The table above represents a question, which directly and indirectly links to the previous section. It indicates that more than 90 percent respondents concur that the private sector network available in the state is capable and competent to take over public sector functions. "There is great and varied scope for private sector investments to rise but the government has to create the environment and that is possible if a comprehensive blue print of reforms is projected and implemented" stated P. K. Mishra, GOO. G. C. Kar, NCDS, stated that "the time was ripe now to involve private sector at least as a partner to deliver public services failing which there will be two types of situations (i) there will be an absolutely chaotic situation and (ii) when the government will wake up, there will be no one to do the hand holding. He also added that the situation is no better at the federal level. All the promises and programme of privatization and disinvestments have progressed at a snails pace, primarily because the whole reform measures are patchy and incoherent.

Table 7.50 Question: Orissa is an appropriate state to adapt massive structural adjustments and embrace fiscal and governance reforms

Responses	Frequency	Valid percentage
Strongly Agree	55	48.2
Agree	49	43.0
Don't know	6	5.3
Disagree	3	2.6
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

As observed from the above table, more than 91 percent of respondents agree and only a negligible percent disagree about the appropriateness of the reforms for Orissa.

It can be deduced from the interviews that there is a strong conviction among Orissa public servants about the appropriateness of reforms but it is absolutely individual centric. No one wants to take the lead since there is a deep-rooted fear, "if it fails then what". As respondents from research institutions along with funding and donor agencies have stated the reform process has to be taken as a mission with bureaucratic and political passion that is missing in Orissa.

7.4.4 (v) "What opportunities are there for Orissa to adapt fiscal and governance reforms undertaken elsewhere?" is the next research question analysed through tables 7.51 to 7.53 along with interview responses. There has always been a debate that fiscal reforms have been imposed by supranational organisations like IMF and World Bank. It has also been alleged that structural adjustments have failed in many countries since the principles of reforms have been standardized to reap the scale of economies i.e. without assessing the requirements of specific country on the basis of its history, culture, resources, economic environment, political compulsion etc. As some economists allege, the Washington Consensus has been replicated in a most outrageous manner. Having said this it cannot be outright discarded that experience of one country cannot be replicated in another country. There can always be a benchmark. It is a fact that the basic principles and fundamentals i.e. the context for reforms remain the same but the contents change according to the spatial and temporal needs. The comments of John Williamson of WBI are most pertinent for this research question.

J. Williamson, from the World Bank Institute, stated that "I have classified the new reform agenda into four big themes: crisis-proofing; completing (and, where necessary, correcting) the 'first-generation' liberalizing reforms that constituted the core of the Washington Consensus; complementing them with 'second-generation' (institutional) reforms; and broadening the reform agenda to include a concern with income distribution. I was probably not very clear about the applicability of the Washington Consensus when it was formulated. But now, I have explicitly stated that reform agenda may be the same but prescriptions are different. Countries are required to be treated like a human body when going for reforms and it is most essential to ascertain the acceptance of medicine without causing allergy".

Table 7.51 Question: MTEF/ MTFRP achievable in any Country/ State		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	33	28.9
Agree	57	50.0
Don't know	20	17.5
Disagree	1	0.9
Strongly Disagree	1	0.9
No Response	2	1.8
Total	114	100.0

The above table shows 80 percent respondents agree that MTEF/ MTFRP is a plausible measure. The high percentage of ambivalent responses may be due to many bureaucrats not being fully aware of the fundamentals of MTEF; it is true that this is fairly a new concept at least for developing countries. However, there is a MOU between GOI and GOO for MTFRP, though this has not been pursued seriously. MTEF is one of the few principles of reform, which can be standardized and has universal applicability. This can be viewed as the by-product of good governance and fiscal discipline as stated by many respondents. As stated by M.G. Rao "the state can look into the MTEF implementation in South Africa, Ghana, and Thailand or even in any developed country like New Zealand and Australia and replicate it with minor changes if required".

Table 7.52 Question: MTEF/ MTFRP achievable in Orissa		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	16	14.0
Agree	60	52.6
Don't know	32	28.1
Disagree	1	0.9
Strongly Disagree	1	0.9
No Response	4	3.5
Total	114	100.0

It is interesting to note that though only 67 percent respondents agree that MTEF is achievable in Orissa but the disagreement is very insignificant i.e. less than 2 percent. 28 percent respondents are unsure and the reason could be the same as the one cited in the previous section. As Vinod Sahgal, World Bank and Tapas Sen, NIPFP opined, Orissa must adopt MTEF with immediate effect. Mr. P. Kanungo, the Minister Finance, Orissa during the course of the interview stated that "the resource forecasting is poor and political compulsions are enormous which create hindrance for adopting MTEF in true spirit". He also added "efforts are on but again as it stands it remains half-baked hence no outcome will be achieved and the success of MTEF in other poor regions can be an eye opener for the state".

Table 7.53 Question: India/ Orissa can replicate an administrative reform model of another country.

Responses	Frequency	Valid percentage
Strongly Agree	6	5.3
Agree	35	30.7
Don't know	31	27.2
Disagree	34	29.8
Strongly Disagree	7	6.1
No Response	1	0.9
Total	114	100.0

The outcome is fascinating since the agreement and disagreement is equally distributed. The neutral percentage is also very high. The data does not indicate any direction. During the course of interviews many respondents observed that the administration is state specific and it is more prominent now since regional political parties rule many states. There was almost a consensus that the state of Orissa cannot replicate the administrative reforms of other countries per se but it can take clues from the principles of reforms and look into neighboring states like Andhra Pradesh or Madhya Pradesh where the administration is rated as more responsive, progressive, efficient and effective. However, from the quantitative analysis it is deduced that there is very limited scope for the state to borrow reform models from another country. "Reforms are not off-the-shelf concept; they are country, region, locality and even department specific" stated Roger Wilson, DFID. Further he added, "Orissa can borrow the principles but has to tailor it to its requirement. He cited that there is no demand from the public in Orissa for any change. Government has the fundamental responsibility to create awareness. The government in Orissa has to behave more responsibly than many other developed states or regions since the citizens also function as the oversight institutions".

Below given are some excerpts of interviews pertaining to possible opportunities for Orissa to adapt fiscal and governance reforms undertaken elsewhere.

Disagreeing that Orissa can emulate any models from elsewhere S. B. Mohapatra, GOI stated, "Orissa as a state is abundantly endowed with high quality natural resources but capability for end use is very limited. As is known Orissa is a poverty stricken state with low levels of literacy, hence the demand for governance is minimal. There is poverty in political leadership too. It has to have its own model - it cannot adopt any other model".

Affirming that Orissa can emulate reform measures undertaken elsewhere Pauline Hayes, DFID opined that "if one considers the opportunities for Orissa to adopt fiscal and governance reforms undertaken elsewhere, it is evidenced that the state is yet to have strong political commitment and vision. It can learn from the experience of Andhra Pradesh where the reform has technically yielded some results in the perception of donors and other international agencies. But it has to develop its own blue print for reforms with the help of experts from funding agencies and Government of India if necessary. But just replicating another country's model is going to be a disaster. There are umpteen numbers of examples to justify that standardization of reform models are a concept of yester years. Reform measures by nature are heterogeneous and are specific".

On the other hand, Vikram Chand from the World Bank stated that "Reforms are universal phenomena with a common framework. The objectives of reforms are also comparable all across the region and country. The difference lies only in the scope and mode of implementation. An economically marginalized state like Orissa has enormous scope and opportunities to borrow and implement ideas and principles of fiscal and governance reforms implemented elsewhere. The state is in an advantageous position because of the presence of DFID and World Bank; hence it can use the expertise and technical competence of these institutions. As I understand, the state is not poor in resources but suffers from a lack of well directed policy formulations".

"The state government should ensure political and bureaucratic engagement. The state can emulate states like Karnataka, where projects like 'Bhoomi' i.e. governance in Revenue Department has yielded spectacular results. The record keeping and the database in the state of Orissa is in a primitive status and the government should make this a starting point. The state of Orissa has enormous scope to improve upon its fiscal indiscipline and mis-governance with or without any emulation. The impression one can have is that the state suffers from policy obfuscation and rampant tax evasion besides mass scale corruption. Thus the state can initiate and enforce improvements in every aspect of governance or public sector management. It can directly have its own reform framework without any support from anywhere", pointed out Ajit. K. Tripathy, GOO.

"Reform is a concept with enormous flexibility and without any generic definition. Reform principles of one sector will not be applicable for another. Hence, the replication of reforms between states and nations is difficult. There is no set sequence nor is it easy to draw a critical path for reform. Reform is a spatial concept but of course economic scenario and cycle will remain a major determinant of specific steps. There is no direct answer to this question. However, Orissa can definitely emulate certain elements like fiscal/ budget transparency laws, MTEF, decentralization principles, privatization framework etc. either from its sister states or from any other developing countries" stated S. S. Meenakshisundaram, GOI.

Confirming that Orissa has opportunities to adapt reform models from elsewhere S. Pradhan, World Bank stated, "it is a fact that the concept of fiscal and governance reforms have emanated from developed countries, but the applicability of the basic framework is universal. Any model can be emulated and discerned to fit in to the feasibility, affordability and suitability of the country and region. Orissa as a state can borrow the ideas and principles applied elsewhere and amend it as per requirement. The principles of fiscal reforms such as aggregate fiscal discipline and value for money will remain the goal everywhere. But the strategies and policies are formulated according to the level of economic maturity, political progressiveness and social compulsions. Governance reform is a wide concept and measures for its implementation can probably be emulated from any of the models implemented elsewhere. Orissa can also implement some of the principles adhered to in neighbouring states such as Andhra Pradesh and Madhya Pradesh".

"Orissa can customize various successful reform models, of course sector wise, from other parts of the country and region. To start with it can emulate fiscal transparency and budget management laws from sister states. It can also borrow ideas from Thailand's and Korean civil service reforms. Orissa is a small state and well endowed with natural resources, the only problem lies with the administrative efficiency and will. This can be achieved by introducing tough governance and fiscal measures, which need to be typically Orissa specific. The implementation also needs to be monitored with every care and sincerity. However, even the best of the models can fail if the policy makers do not want it to succeed" stated David Phillips, ASI. This institution has been working closely with Orissa government for the past 7 years in implementing various reform measures.

"Orissa is in a peculiar stage because it was the first state to embrace power sector reforms and now it can be ranked at the bottom so far as reform indicators are concerned. It could have capitalized on the experience of electricity reforms instead of allowing it to be used by anti-reformers to stall the reform process. However reform is not a new concept for the state. Orissa enjoys ample scope and opportunities for adopting fiscal and governance reforms implemented elsewhere but with necessary changes" stated P. K. Mohanty, Centre for Good Governance.

There is an agreement that Orissa can emulate certain universally applicable measures while other principles and measures need to be customized or to be developed from within in accordance with the requirement. During the course of interviews it is seen that the internal capacity and strength is extremely weak to conceive, pilot, monitor and implement reform measures. The state at large suffers from inherent institutional weaknesses. The other single most important factor that needs the attention of all concerned is that the demand from people in the state is practically non-existent. This has probably to do with the culture, low literacy levels and persistent poverty. However, this kind of low consciousness is a major factor for successive governments to indulge in fiscal profligacy and poor governance. During the course of the field trip, another attention-grabbing observation was the aversion of public servants for ownership of reform initiatives in the State. With this kind of attitude prevailing, it is difficult to expect that a comprehensive reform package can be worked out indigenously.

7.4.5 (vi) "What have been the roles of bi-lateral and multi-lateral funding agencies in advancing fiscal and governance reform process?" is the next research question which is discussed in tables 7.54 to 7.56. The power sector reform was initiated with the help from the World Bank and DFID and since then these two agencies have been there in the state to extend support for various reform measures. DFID funding is in the form of grant while WB lends.

Table 7.54 Question: International funding agencies have been extending resources, technical and background support for the reform process since early 1990s.

Responses	Frequency	Valid percentage
Strongly Agree	24	21.1
Agree	81	71.1
Don't know	3	2.6
Disagree	4	3.5
Strongly Disagree	2	1.8
No Response	0	0
Total	114	100.0

As the table above indicates 93 percent respondents agree that multilateral and bilateral agencies have been supporting the reform process for almost a decade now. The most prominent has been the commitment of these agencies for fiscal and governance reforms, which is being pursued since 1999/ 2000. DFID has already complied with its commitment by releasing the first tranche of direct budgetary support in March 2003 but the World Bank is still in the process of finalizing the release of funds (structural adjustment loan, SAL also called the Orissa Economic Revival Loan, OERL). These agencies are partners in this process.

Table 7.55 Question: Government should encompass norms of accountability and transparency laid down by bilateral/ multilateral agencies.

Responses	Frequency	Valid percentage
Strongly Agree	19	16.7
Agree	46	40.4
Don't know	16	14.0
Disagree	25	21.9
Strongly Disagree	8	7.0
No Response	0	0
Total	114	100.0

The question above has garnered a very mixed response since there is a perception that these agencies impose too strict norms, which are not practicable. There are respondents who feel that on the alibi of fulfilling the terms and conditions of international agencies, the government has a golden opportunity to bring in transparency and accountability norms, Fiscal Responsibility Bills, Administrative Reforms etc. More than 57 percent respondents confirm that the recommendations of these agencies should be accepted and implemented in entirety. The disagreement is mostly by bureaucrats of the state who want to evade and avoid oversight mechanisms. It is inferred that there is an overall agreement for accepting the prescriptions on issues of transparency and accountability laid down by these agencies.

Table 7.56 Question: Bi-lateral and multi-lateral funding agencies are playing crucial and pivotal role in furthering fiscal and governance reforms in developing countries so also in Orissa

Responses	Frequency	Valid percentage
Strongly Agree	20	17.4
Agree	76	66.7
Don't know	12	10.5
Disagree	4	3.5
Strongly Disagree	2	1.8
No Response	0	0
Total	114	100.0

This question has scored more than 84 percent of affirmative responses, thus clearly indicating that the progress of reforms in developing countries is externally infused and induced. The same is the case in Orissa. As C. S. Rao, GOI stated "but for the international agencies fiscal and governance reforms especially governance reforms would have been an alien concept for regions like Orissa". This may call for disagreement, but there is some strength in the statement. There is a school of thought that the multilateral and bilateral agencies have failed in restoring confidence about their activities and their intention of real change for the benefit of citizenry.

Below given are the some citations of interviews pertaining to the roles of bilateral and multi-lateral agencies in furthering fiscal and governance reform in Orissa.

Commending the roles of these agencies " O. P. Mathur, NIPFP now in IMF stated, "I think that multilateral and bilateral agencies are trying to enforce some fiscal discipline, but since the state has poor governance the fiscal discipline measures will be of no consequence. DFID and World Bank should first look into governance issues before getting into fiscal structural problems or else misguided resource allocation, excessive government intervention and corruption will be exacerbated. I am sure that the initiatives of these organizations are the main impetus for the reform process to keep rolling.

"Bilateral and multilateral agencies have been emphasizing on evaluation of various funded projects, which of course result in some accountability and transparency in the administration. These agencies also have been pursuing flattening the bureaucratic set up through redeployment of underutilized human resources. Though the outcome in the state is far from the desired level but there is still hope. The state does not have either the institutional capacity like Andhra Pradesh or Karnataka, or the fiscal capability to carry forward any reforms, since it is poorest among all major states. Thus the role of these agencies is both essential and necessary. The government of Orissa should ensure that these agencies perceive the state as a reforming state". These are the views of two senior bureaucrats of the state on secondment to GOI.

"The funding of power sector reforms by World Bank was prematurely designed and implemented. Of course the state was the pioneer in the field of reforms, but the World Bank has not been able to provide proper guidance and impose strict conditions. There have been derelictions, both on the part of the government and the funding agency. However, it has at least initiated the process of dialogue in the government, academia, NGOs and researchers, which indicates that there is a widespread awareness of reforms. These agencies also have hard job ahead since they just cannot abandon the state on the basis of non-performance. As I see it, these agencies will be more intensely involved in future. It is because, an organisation like DFID has been present for the past ten years and Orissa was one of the first state to be partnered, hence they will go all out to ensure that reforms succeed" said Mr. M. A. K. Swain, MP.

"The funding and donor agencies have been instrumental in advancing fiscal and governance reforms both in India and all across the globe. India had embraced fiscal reforms in 1991, due to the insistence of IMF. But then, governance reform was not a major precondition by IMF. These institutions have got wide cross-country technical expertise, which can be of enormous support and strength for implementing fiscal and governance reforms at every level. In fact the state Orissa, even the country can seek the help of funding and donor agencies to identify, evaluate and adopt any tested module undertaken elsewhere. DFID is a partner with the Government of Orissa. The outcome could be more glaring and positive, but the bureaucratic and political sabotaging continues unlike neighboring Andhra Pradesh" stated A. K. Mohanty to the Utkal University.

Corroborating all other respondents M. Patra, RBI stated, "it has been very much in the air that reform, initiated by funding agencies do more harm than good. Examples are many to prove and disprove these contentious allegations. Funding agencies have a tendency to replicate reform models tried elsewhere. Funding agencies should take each region as a stand–alone case and have a thorough assessment of its economic and administrative strengths, weaknesses and opportunities. The reform policy formulation or suggestion of such activities can make a success of this exercise. WB and DFID have long years of experience in the state of Orissa and have gained enough insight into the state's affairs. As it stands WB and DFID are playing central roles in advancing the reform process. Government of Orissa should take full advantage of the present circumstances and aim at achieving time bound results. The presence of these agencies can be exploited politically, economically and from administrative point as well".

"The roles of bilateral and multilateral funding agencies have been subjected to persistent criticism due to the lack of public communiqué. Their efforts to rationalize the past economically unwise politics have yielded scanty outcomes due to the lack of political commitment in the overall reform process. The donors and funding agencies are pushed into frustration since the present day government is unable to project any tangible involvement and desire for furthering reforms. But, in spite of all these obstacles, their role is extremely important and whatever little has been achieved is definitely due to their perseverance and support" stated S. K. Tamotia of the CII.

"For both India and Orissa the reform process has been externally induced, specifically by multilateral and bilateral agencies. Initially it started as the structural adjustment to counter the BOP crisis following which second generation reforms were to ensue, but it has been derailed. In Orissa especially whatever efforts are on, it is predominantly due to the technical and financial support extended by these agencies or with a hope to get future assistance. In states like Orissa, the axiom of self driven reforms is like a mirage in the desert, hence these agencies have been performing an extremely important role and it is expected this will continue for some years to come" stated S. Narayan, GOI.

"We (bilateral/ multi-lateral agencies) have been successful in implementing certain changes; it has been on the basis of the agenda Orissa State already had with the Central Government. The Government needs to be more serious about the reforms. The reform process is gradual and at times a bit disappointing, but movement is there and we have been doing the hand holding and acting as facilitator" commented Arjan DeHaan of DFID.

As it can be observed the roles of these agencies are of immense significance. The most difficult task these agencies face is to work with partner states with very low level of trust. These agencies feel that (as it stands in Orissa) the government is not serious to deliver whereas the government feels that these agencies are too nagging and demanding. It is a difficult situation and unless reforms progress well and outcomes are visible, this stalemate will continue for some time to come.

7.4.6 (vii) "What are the methods, measures, processes and procedures that can assist Orissa to implement fiscal and governance reforms successfully?" is the next research question which is not only the most important but also forms the basis for recommendations. Tables 7.57 to 7.71 address the above research question followed by gist of relevant interviews.

While discussing this research question the researcher has been fully aware of the intricacies involved with it. The researcher has made efforts to progress the interviews and questionnaire development on the basis of the sequences, steps and principles, which the state is conversant with. There is an explicit desire to implement fiscal and governance reforms but there is a wide gap to transform the desire into action.

Table 7.57 Question: Zero Based reviews play a pivotal role for reallocation of public expenditure to promote strategic priorities

Responses	Frequency	Valid percentage
Strongly Agree	67	58.8
Agree	39	34.2
Don't know	0	0
Disagree	5	4.4
Strongly Disagree	3	2.6
No Response	0	0
Total	114	100.0

The above table indicates that 94 percent respondents agree to introducing zero based investment reviews for allocation and reallocation of resources so that better value through prioritizing can be achieved. This will also lead to fiscal discipline. Commenting on the status of zero based interviews in Orissa R. Balakrishnan, GOO stated, "the only aspect required is to align zero based reviews as one of the fundamental principles in MTEF, which the state needs to work on". During the interviews two ministers and some bureaucrats stated that in a coalition government some resource allocation is done even knowing fully well that there is no immediate return. Further they added that "the concept of opportunity benefit or cost takes a back seat and temporary political mileage gains importance. The state has a committee headed by the Chief Secretary to review various investments and reallocate resources so that projects that are abandoned halfway through can be completed. The problem is that this committee meets once or twice a year and is not supported by reliable data. However, zero based review is a good measure to start with and many believe that it will definitely yield concrete results. Thus it is suggested that Orissa should institutionalize zero based review as a part of budget process".

Table 7.58 Question: Tax reforms (e.g.: VAT) at both state and federal levels essential for revenue enhancement.

Responses	Frequency	Valid percentage
Strongly Agree	44	38.6
Agree	67	58.8
Don't know	3	2.6
Disagree	0	0
Strongly Disagree	0	0
No Response	0	0
Total	114	100.0

The next policy measure suggested is the introduction of VAT but the state does not have much choice on this since federal government has to take the lead and there has been dereliction on the part of the federal government. As observed 97 percent respondents agreed about the importance of VAT. "For past 4 years the introduction of VAT has remained in paper only. Both the federal and state governments have incurred huge expenses on this front. It is most disturbing that countries like Bangladesh, Sri Lanka and Pakistan have introduced VAT but India is still dilly-dallying. As it can be observed almost all the respondents have confirmed that VAT needs to be introduced to face the fiscal difficulties but India keeps succumbing to pressure lobbies thus making the rich richer at the cost of national exchequer. This, once again proves that rather than a resource problem it is the governance problem which is causing the precipitation of the fiscal imbalance. It is high time India realize that almost 150 countries have reaped the benefits of VAT or GST and further delay will be detrimental for its short and long run economic and industrial growth since manufacturer and foreign investors who have been waiting for VAT to come into effect are running out of their patience" stated Tarun Das of CII.

Table 7.59 Question: Disinvestments in public enterprises should be prioritized to mitigate fiscal imbalance.

Responses	Frequency	Valid percentage
Strongly Agree	30	26.3
Agree	67	58.8
Don't know	1	0.9
Disagree	14	12.3
Strongly Disagree	0	0
No Response	2	1.8
Total	114	100.0

Commenting on the disinvestment level in Orissa and its implication Naresh Narad, GOI stated "the private sector should be supported to take up the entire production of commercial goods. Even the state should rope in private sector, NGOs, Community Groups and so on for the production of public goods and services such as policing, primary education, public health, public utilities, oversight mechanism, monitoring evaluation and many more. The private sector is quite competent to unburden the state of many commercial and non-commercial activities (goods and services) as we have assessed elsewhere. There is an unfounded bias against private sector and a deep-rooted culture of appreciation for government ownership. Further, there is an inherent fear amongst politicians that since the state has lagged behind in infrastructure and technology development, if public ownership is surrendered then this might lead to loss in employment. These kinds of convictions are only imaginary". As can be observed from the table 7.59 more than 86 percent of respondents have supported that disinvestment is an answer to fiscal imbalance.

Table 7.60 Question: Better accountability and transparency will ensure effective, responsive and productive public service.

Responses	Frequency	Valid percentage
Strongly Agree	68	59.6
Agree	45	39.5
Don't know	0	0
Disagree	0	0
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

This is not at all debatable and as expected there is 100 percent unanimity on this issue. But the importance of this question is enormous in the context of Orissa as highlighted by the recent Orissa State Financial Accountability Assessment Report by World Bank, and there is much to be desired in the states response. The peculiar situation is that all bureaucrats agree that the state needs to do a lot more to enforce transparency and accountability but when the researcher indicated about the laxity in his or her concerned department, the respondents were at times defensive and sometimes offensive too. It was observed that there is a general consensus about the significance and importance of accountability and transparency but it comes down to the enforcement part, there is a sense of despair and helplessness. However, through the interview it is determined that the existing system needs complete revamping to establish rule based individual accountability. As A. S. Sarangi, GOO commented "I come to know if the approved budget for a particular project is properly utilised or not from the audit report which comes to me almost 2 years after budget approval and during that period most of the responsible officers are either transferred or retired. There is no power vested in me to punish an officer if he is on secondment to or from another department. The process is very cumbersome". B. K. Patnaik, GOO, commented that "there is every possibility of being punished even if one has not committed any wrong but correct actions are seldom rewarded. He also added that probability of getting caught in wrong doings is less than one percent. If this kind of feelings and situation prevail then accountability and transparency will remain a desirable concept only". Most respondents from WB, DFID, ADB and research institutes have explicitly stated that accountability and transparency are still concepts of distance. Some respondents have also stated that low technology induction and non-existent automation are responsible for non-transparency and poor accountability. S. S. Campo, World Bank, commented that "dishonesty and bureaucratic obfuscation is slowly getting institutionalized in the state of Orissa, hence international agencies need to do lot more failing which fiscal discipline and achieving better value for money remains a distant dream".

Table 7.61 Question: Citizens in the State of Orissa lack access to information.

Responses	Frequency	Valid percentage
Strongly Agree	41	36.0
Agree	62	54.4
Don't know	0	0
Disagree	8	7.0
Strongly Disagree	1	0.9
No Response	2	1.8
Total	114	100.0

The table above highlights that the access to information is definitely a necessary ingredient. As can be assessed from the table almost 90 percent respondents agree that the accessibility to information for people in Orissa is an issue that requires attention.

Table 7.62 Question: Fiscal and governance reforms can be achieved through self determined procedures and rules and by an autonomous watchdog body.

Responses	Frequency	Valid percentage
Strongly Agree	21	18.4
Agree	60	52.6
Don't know	1	0.9
Disagree	16	14.0
Strongly Disagree	16	14.0
No Response	0	0
Total	114	100.0

As observed from the above table, 71 percent respondents agree that Orissa is capable of implementing governance and fiscal reforms with its existing capacity and strength. During the course of interview almost all the bureaucrats mentioned that the state had the necessary knowledge bank and there is a need for the state to go for a knowledge audit. However, World Bank and DFID officials expressed their reservation about the state's capability and sanctity of the independent oversight mechanism. They propagated an outside agency's involvement if the government is serious about enforcing transparency, accountability, value for money and fiscal discipline. P. Mishra of Utkal University commented that "at the present juncture the government priorities should be fixed by government in consultation with external agencies due to resource crunch and political volatility". However, politicians and bureaucrats do feel strongly about this proposition stating that this will lead to surrendering the state's sovereignty. 32 percent respondents think the state lacks self determined procedures, rules, and independent and impartial over sight mechanism. This is further emphasized by the government's inability and failure to comply with its commitments on the floor of the Legislative Assembly. "Almost more than 200 commitments and statements of the present government have not been carried out yet" stated Mr. S. Kar, the Speaker of the Assembly. From the field experience, the researcher also agrees that on its own the government will find it difficult to achieve any outcome hence the government should seek the help of domestic and/ or foreign institutions to steer the reform process.

Table 7.63 Question: Rightsizing and redeployment of government servants is necessary for good governance in Orissa.		
Responses	**Frequency**	**Valid Percentage**
Strongly Agree	62	54.4
Agree	44	38.6
Don't know	3	2.6
Disagree	5	4.4
Strongly Disagree	0	0
No Response	0	0
Total	114	100.0

As the table above indicates 93 percent of respondents agree that the state needs to go for massive restructuring of civil service since it has highest percent of prorate civil servants in the country. During the course of interviews there was unanimity about excessive bureaucratic set up in the state. Some respondents went to the extent of commenting that the bureaucrats are the major hurdle for reforms to progress.

Table 7.64 Question: The civil service set up in Orissa is too bulky.		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	49	43.0
Agree	53	46.5
Don't know	4	3.5
Disagree	6	5.3
Strongly Disagree	0	0
No Response	2	1.8
Total	114	100

The table above shows that 5.3 percent of respondents disagreed that the civil service set up is colossal. The respondents who disagreed were politicians and one senior bureaucrat who believe in the doctrine of expansive government. However, there is almost consensus among respondents as observed from the table above about the civil service unwieldiness in the state. This corroborates with the previous table that there is a need to reduce the number of public servants. "Government should also take measures to encourage people to opt for working in NGOs" stated S. N. Tripathy, GOO. Thus it can be concluded that oversized bureaucracy is a matter of serious concern for the state. The comments of N. C. Saxena of Planning Commission of India, is summarized below. He states that "the state of Orissa has a typical characteristic of having inefficiency, administrative callousness, political cynicism and low level of citizen participation which has led to the following situation:

Engineers, but no fund for construction or maintenance; Doctors, but no medicine; Teachers, but no school building; A large army of class three and four employees, with no productive work; Very little capital expenditure and asset creation for years together; Little funds for maintenance or repairs of assets; Highly paid employees, but no-complementary investment or working capital. Salaries have crowded out high priority non-wage expenditure. Since the state is the poorest state in the country, a big bang approach to bring in changes may lead to resistance and misery, hence prioritization of sectors is most essential". S. Mundle of ADB also stated that "The wherewithal of the state is limited along with poor political and bureaucratic commitment hence the state should prioritize sectors and ensure the implementation".

Table 7.65 Question: Contractual employment of public servants will improve the public service system & save enormous public resources.

Responses	Frequency	Valid percentage
Strongly Agree	10	8.8
Agree	13	11.4
Don't know	53	46.5
Disagree	25	21.9
Strongly Disagree	12	10.5
No Response	1	0.9
Total	114	100.0

This question has attracted skewed response with almost 32 percent agreement, 20 percent disagreement and 47 percent respondents with a 'don't know' response. Many respondents from multilateral and bilateral agencies supported contractual public service system but there was a strong resistance from GOI and GOO. Probably it is too early to go for contractual service arrangement. A number of respondents suggested a gradual approach on this aspect of administrative reform to avoid confrontation with bureaucrats at all levels. There were suggestions by the respondents to initiate outsourcing of certain services and to keep on adding more functions. Though the state has initiated some efforts but the progress has been sluggish. There is an inbuilt and inherent resistance by bureaucrats and politicians hence it is essential to sensitize them and make them understand the pros and cons of contractual and outsourced public delivery system. This sensitization and confidence building activity warrants the existence of an independent and autonomous institution.

Table 7.66 Question: Assessment of public servants/services should be performance based.

Responses	Frequency	Valid percentage
Strongly Agree	56	49.1
Agree	57	50.0
Don't know	0	0
Disagree	0	0
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

The table 7.66 suggests there is almost unanimity, 99 percent respondents agreeing about the performance based assessment of civil servants. Orissa like many other states of the country follows a system of yearly confidential dossier (confidential records - CR) for bureaucrats. This is an important document for postings of officials in ministries, but in reality the sanctity of this document is highly questionable stated a senior bureaucrat. Further, S. Agnihotri, GOO stated that "this document is also not updated for years together. In the state, there are instances of officers not submitting CRs for five years still no action has been initiated". It is indeed paradoxical to observe that when almost 100 percent unanimity is there about the importance of performance, however there is no objective, accountable and transparent performance system. Even though a system exists, it carries enormous weakness within it. As J. K. Mahapatra, GOO stated the loopholes and systemic problems have been institutionalized in this. Performance tracking and evaluation need to be introduced for every level of public servant and it needs to be a continuous process. As Vijay Pillai DFID commented "unless the policy planners and implementers are brought within the scope of continuous performance assessment and evaluation it will be impossible to see success of any kind of reform and good governance will remain a far cry. The state of Orissa can easily and without much problem introduce a simple but proficient performance assessment system which will enhance the efficiency of the bureaucracy while ensuring accountability and transparency". As suggested by Michael Carter of World Bank "the establishment of an independent institution can facilitate the performance monitoring and enhancement. However, the crux for the state is to explore ways and means to improve upon the existing system of performance assessment which should be the basis for posting and promotions and not on time frame or seniority. The concept of rewards in the public service on the basis of seniority is an antiquated concept which the state should shun with immediate effect".

The comments of Gurcharan Das, former CEO of Procter & Gamble and author of many books pertaining to Indian bureaucracy is as follows: "We are used to thinking of India in terms of dualisms: the rich versus the poor, upper versus lower castes, illiterate villagers versus sophisticated city dwellers. But the dualism that causes the greatest anxiety is the contract between the vibrant private space of India and the impoverished and callous public space. And no single institution has contributed more to our disenchantment with the public space as our bureaucracy. No single institution has disappointed us more. When we were young, we bought the cruel myth of the 'steel frame'. We were told that Britain was not as well governed because it did not have the Indian Civil Service. Today, our bureaucracy has fallen dreadfully in public esteem and has become the single biggest obstacle to development. Indians think of their bureaucrats as self-servers, rent seekers, obstructive and corrupt. Instead of shepherding economic reforms, they are responsible for blocking them.

The real solution is to change systems and procedures and reward bureaucrats for results and not for adherence to process. To achieve result orientation, we must decentralize decision-making, give more autonomy to officers, and delegate authority to those lower down in the hierarchy. Secondly, we should relentlessly invest in training civil servants. We should empower them with managerial skills, such as 'management by objective' and 'total quality'. We should educate them in the economics and the values of a market economy. There should be proper performance assessment, which needs to be institutionalized so that everyone craves to produce better and more, while introducing healthy competition as in corporate sector. Once the bureaucrats gain the strength to perform and confidence in the system of fairly impartial assessment the governance will automatically improve".

Table 7.67 Question: Administrative performance will improve when flexibility is ensured and operational authority is delegated.		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	32	28.1
Agree	74	64.8
Don't know	1	0.9
Disagree	5	4.4
Strongly Disagree	1	0.9
No Response	1	0.9
Total	114	100.0

The table above suggests 93 percent of respondents agreed that the delegation of authority with higher level of flexibility will enhance the bureaucratic efficiency. Commenting on the delegation of authority, P. K. Mohanty, CGG stated, "The decentralization of authority should be complemented by stringent accountability". Further Jagadanand of CYSD stated, "In Orissa absolute inflexibility and lack of delegation of authority prevails, which has led to misfeasance and also corruption. Whatever delegation has been implemented, bureaucrats from senior most to the street level are not comfortable to exercise their authority due to the ingrained practice of seeking approval from the next higher level. This looking up syndrome is being exacerbated due to the fear of vigilance and audit problems. This does not mean that oversight mechanism should not be there but *ex-ante* measures should be harnessed and public servants need to be trained and developed with strong ethical sense".

Table 7.68 Question: Public servants lack the commitment for reform		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	32	28.1
Agree	53	46.5
Don't know	2	1.8
Disagree	21	18.4
Strongly Disagree	5	4.4
No Response	1	0.9
Total	114	100.0

There is a strong perception among the international agencies that the public servants in general lack commitment, sincerity and interest in pursuing reforms. "There is cynicism and an early stage of reform fatigue syndrome has set in due to tardy progress of power sector reform" stated Pramode. K. Mishra, GOO. As observed, around 75 percent of respondents agree that public servants lack commitment to take forward the reforms. As it can be linked to the previous tables and comments, reforms can and should be initiated with administrative reforms. As R. Balakrishnan, GOO commented, "We need to reform reformers first". The disagreement is from the bureaucrats since they blame the poor political will and commitment as the reason for reform failure. They do not take the ownership of poor progress of reforms. However the view of the international and donor agencies is quite contrary. "Orissa state is considered as a bureaucracy driven state hence bureaucrats cannot shake off their responsibility" stated Arjan De Haan of DFID. "Civil servants are required to be placed in the so called loop of the reforms cycle through a continuous and customized process by a professional body" stated U. S. Bhatia, GOI.

7.69 Question: Without civil service reform governance and fiscal reforms will not yield desired result

Responses	Frequency	Valid percentage
Strongly Agree	63	55.3
Agree	46	40.4
Don't know	2	1.8
Disagree	2	1.8
Strongly Disagree	0	0
No Response	1	0.9
Total	114	100.0

As the table suggests, civil service reforms may not be sufficient but definitely essential condition for the success of the governance and fiscal reforms. Referring to the previous sections, this proposition is logical. It is also evident that 96 percent respondents agree with the importance of civil service reforms. The disagreement was from two Ministers of Central and State respectively (Mr. Jewell Oram and Mr. Kalindi Behera) who believe that the bureaucrats in the state cannot be changed and no reform can really work.

Table 7.70 Question: It is alleged that Orissa public service suffers from high level of inefficiency and corruption.		
Responses	**Frequency**	**Valid percentage**
Strongly Agree	41	36.0
Agree	55	48.2
Don't know	5	4.4
Disagree	4	3.5
Strongly Disagree	8	7.0
No Response	1	0.9
Total	114	100.0

As observed from the table 7.70, 74 percent of respondents agree about the high level of inefficiency and corruption in the state. This question attracted intriguing responses during interview. J. K. Mahapatra, GOO stated that "efficiency involves two things, willingness to perform and freedom and scope to perform. Willingness slowly dies down if the restriction on freedom and scope continues to persist for long periods of time. Institutional weakness also works as an impetus for inefficiency to prosper. Further, the efficiency is not also rewarded rather there is a scope for being reviewed". As Chhatar Singh, GOI stated, "inefficiency is promoted and supported under the rubric of transparency. A sense of complacency prevails in the bureaucracy which leads to a stereotyping situation like 'no action is the best action'. The government has to develop and promote a comprehensive policy for training, automation, simplification of the system and stringent norms of accountability with respectable reward and draconian punishment system. The state government to enforce transparency and accountability with visible seriousness can adopt the model of Ombudsman of Karnataka". "Since the system does not work well, institutions do not function properly, fiscal situation has worsened over last decade or so, economic growth and industrialization is on reverse trend, the issue of corruption is gaining prominence. To start with, the government has to initiate some hard measures and ensure its implementation in a systematic way. Most of the initiatives do not reach its logical end hence there is no public support for reforms. Stringent policy measures which are actionable and implementable can improve the transparency and efficiency. Many respondents believe that since Orissa is a small state and there is political stability it is not difficult to enhance efficiency and contain corruption" stated K. Basu, World Bank.

Table 7.71 Question: The Budget procedure and intents need to be improved upon

Responses	Frequency	Valid percentage
Strongly Agree	67	58.8
Agree	39	34.2
Don't know	2	1.8
Disagree	3	2.6
Strongly Disagree	0	0
No Response	3	2.6
Total	114	100.0

The table above suggests, 93 percent of respondents agree that budget procedure and intents need to be improved upon. "The Government of Orissa should immediately go for medium term expenditure framework in its budgeting. The budget has lost its sanctity since the concept of supplementary budget presentation has become almost a routine affair. Both the forecasting of revenue and expenditure never match with reality. It is now time when government should stop misleading itself. It should follow a conservative assessment of revenue and expansive assessment of expenditure. The budget is prepared as an annual exercise, and is not directly related to any ongoing plan of receipts and payments. A rolling budget covering a minimum of three years, of which the current year's budget is the first year, is preferable. In addition, all budgeting is still done in purely financial terms, with no indication of expected outputs or results. The State should introduce, at least for its capital budget, some indications of performance or output targets, which would enable it to judge the extent to which it is achieving the objectives of expenditures.

Officials have been concerned with the impact of cost and time overruns on project and program implementation. There is concern that financial and management controls have proven inadequate to ensure attainment of objectives in a cost effective manner and within a stipulated time frame. Monitoring and evaluation of projects has been lax; funds are often provided to the state close to the end of the financial year without effective monitoring and utilization of funds previously released" stated Shantanu Mitra, DFID.

"The present system of budgeting holds the departments and officers responsible only for spending money budgeted. It may be timely to move towards output oriented budgeting wherein broad but clearly measurable indicators are included in the detailed

Demand for Grants. This step would strengthen public financial accountability by way of information on the objectives of the project or scheme with subsequent accounting for results based on the intended benefits of the expenditure. A modern management information system which links financial with operational information would also enable the GOO to keep a closer watch over sectoral performance and ensure greater synergy between plan and non-plan expenditure", stated Vinod Sahgal, World Bank.

The comments and extracts of some interviews pertaining to the methods, measures, processes and procedures that can assist Orissa to implement fiscal and governance reforms successfully are listed below.

"Orissa should initiate training for legislators so that there can be a vision for the state. More than fiscal constraints, Orissa suffers from mis-governance by public servants, especially bureaucrats who overtly and covertly participate in abetting poor governance. The mis-utilisation of resources and misgovernance that still prevail can only be reversed by enlightened politicians and responsive bureaucrats. The reform measures should recognise that policy makers do not enjoy enough exposure to ascertain the realistic benefits of reforms. The whole issue of fiscal and governance reforms will remain rhetoric till policy makers and implementers are immersed in reforms. As it can be seen reforms are considered an imposition and there is absolute lack of conviction" stated S. S. Campo, World Bank.

"The state of Orissa has a greater problem of mis-governance than of lack of resources. The state should go for governance reforms before enforcing fiscal reforms. Fungibility of grants and resources available to the state should be avoided through improved administrative and political engagement. Budgetary process should be reformed on a medium term platform since the debt burden of the state is very high and yearly budget is not an economically rational strategy. The budget system lacks the strength to enforce accountability and suffers from many operational flaws" opined Chhatar Singh, GOI.

Complementing the above sentiments R. V. Singh, GOO stated, "Orissa can start with e-governance in the revenue sector. Orissa should focus on corruption issues, which cannot be eradicated but can be contained through automation and time-bound provision of public services. To start with, project/ policy/ issue based accountability can be adhered to without much problem but the desire and will to do this is necessary. The Government should take steps in war footing to commercialize the non-essential public services while ensuring that public servants are more responsive to the citizenry through sequential administrative reforms. It needs to strengthen its weak institutions. The government should also make efforts to improve upon the traditional and out dated systems and procedures. It is better that the government takes the help of World Bank or DFID to get some international experts with practical experience in implementing reforms. The ideal countries for this exercise will be experts from UK, New Zealand, Australia, Canada South Africa or Hong Kong".

Corroborating above views V. J. Ravishankar, World Bank stated "The state of Orissa has been having expansionary fiscal policy which has led to uncertainty and crowding out of private investments. The first measure the state should take is to make ceilings on revenue expenses unchangeable. Since government has very high debt level it should opt for medium term budgetary framework, which will bring in credibility towards its intension of fiscal responsibility. The state of its own can and should enact fiscal responsibility laws, disciplining the present and future governments. The state has public enterprises, which are real dead wood, and the efforts need to be expedited to infuse efficiency through measures such as disinvestment, privatization, or commercialization. The state also needs to have a consensus vision on the reform proposal. As it is observed the ministers pass conflicting remarks and people lose trust on the intention of the government".

However, S. N. Mishra of NCDS opined that "It should be very clear to internal and external partners of government where the state intends to be in the medium and long term. The short term tactics or administrative decisions can be formulated on the basis of long term goals. Orissa is in a stage where reforms need to be initiated from within. The state is burdened with accumulated debt, high interest payment commitments and over-employment in the government. It doesn't need an outside agency to tell them what they need to do or what steps it has to initiate".

"The state should initiate the administrative reforms especially civil service reforms with utmost urgency. Orissa should engage independent evaluators (not the CAG audits) to assess the progress of its performance and should accordingly change its policies. It should have independent institutions like Ombudsman or center for good governance outside its purview to rein on its functioning and resource mis-utilisation" stated Jagadanand, CYSD.

"To start with, the state must remove the inertia, non-performing and non-responsive bureaucratic symptoms through the administrative reform process. It should not only enforce accountability and transparency so that resources used yield social and economic returns but also expedite dismantling of huge public enterprise network. It has to take tough measures to plug tax evasions and make provisions for collection of user fees for providing non-basic services. It needs to ensure devolution of fiscal and administrative process to district and Panchayat levels. The government should appoint the finance commissions and follow its recommendation without diluting it. The most important aspect is that it should limit its revenue expenditure to its revenue earning capability. There is also a communication gap among various departments and it should evolve policies for convergence of interdepartmental functioning. If the government fails to achieve concrete outcomes faster, the anti-reform lobby can gain momentum and dilute the very purpose of reforms. However, the role of civil society organisations should not be undermined. In a state like Orissa where education levels are low and demand for governance is almost non-existent, NGOs and INGOs should be encouraged to play the role of watchdog bodies and whistle blowers for the reform to progress and succeed" stated S. N. Tripathy, GOO.

Adding to above sentimnets B. K. Patnaik, GOO stated, "The demand for governance is non-existent. I am not sure that there will be a demand for governance, unless the levels of education in the population increase, unless some investment comes into the State, which gives hopes to people for jobs, for improvement. A multi-level effort is needed in the state - a chief minister who has a vision and drive; he should be powerful enough that the MLAs listen to him; strong and committed civil servants in key places. 20 capable bureaucrats can make a big difference in the state if placed in right positions. The state is lacking that but with political will this can be achieved".

According to Aruna Bagchee, DFID, Orissa state should start with capacity building. She states "Capacity building has four aspects: Building better and more efficient rules; Better skill through training; Provision of adequate resources; Provide basic tools and systems for more information dissemination to people. One cannot wait for all the four elements to be in place before starting as it is the chicken-egg situation; you have to start somewhere and build on it." She also stated that for Orissa it would be a good policy to start with bureaucratic and political sensitization or intensive training. The state government should also start mass campaign for reforms to gain broad based support".

The comments and recommendations of Vinod Sahgal World Bank are: "Budget transparency; Comprehensiveness of policy framework and no ad hoc approach; the estimate of revenue should be conservative unlike the present trend of expansionary forecasting; well debated budget; department wise evaluation and monitoring committees to be established; improved financial management system with accountability of the departmental Secretary; output/ outcome orientation; Capacity building, computerization, training, expertise based recruitment, performance based contracts should be implemented; enlightened legislators and strong political will".

7.5 Factor Analysis

The conceptual framework of linking fiscal and governance reforms has been described in the previous section. The purpose of factor analysis is to validate the construct, which has been built in the theoretical framework. As per the conceptual framework, fiscal reforms have the following elements: Fiscal Discipline; Achieving Strategic Priorities; and Value for Money.

The governance reforms have the following elements: Accountability and Transparency; Decentralization and Commercialization; and Administrative reforms.

Based on the data, an attempt has been made to validate the conceptual framework. The contents of fiscal and governance reforms have been confirmed through analysis.

Factor analysis is a multi variate technique generally used for the purpose of content validity. Factor analysis theory states that correlation between a set of variables is due to underlying common factors. The data has been collected and analysed on a rating scale of 1 to 5. Appendix 11 gives the output of the factor analysis relating to the input of fiscal and governance reforms. The coded questionnaire is in appendix 10.

7.5.1 Fiscal reforms analysis

As the purpose is to obtain best fit, oblique rotation (instead of orthogonal rotation) has been used. The results are discussed below:

The analysis has been done using SPSS package. It is clear from the explanation of variance that 3 factors together explain close to 36% of the variance. One needs to consider close to 11 factors to explain 72% of the variance.

As the conceptual framework has proposed 3 determinants of fiscal reforms, only 3 factors were extracted. The rotated factor matrix loadings of 3 factors are given below in table 7.72.

(When components are correlated, sums of squared loadings cannot be added to obtain a total variance.)

Table 7.72 Extraction method: principal component analysis of fiscal reforms

Structure Matrix	Component 1	Component 2	Component 3
FOVER 1	-.001	.052	.405
FOVER 2	.484	.043	.182
FOVER 3	-.128	.697	.281
FISCDIS 1	.191	.267	.444
FISCDIS 2	.574	-.009	.119
FISCDIS 3	.590	-.090	-.481
FISCDIS 4	.106	.234	.622
FISCDIS 5	.726	-.079	-.006
FISCDIS 6	.780	-.117	-.186
FISCDIS 7	.470	-.591	-.221
FISCDIS 8	.773	-.226	-.263
FISCDIS 9	.522	-.420	-.227
FISCDIS 10	-.179	.394	-.072
FPR 1	.320	.568	-.388
FPR 2	-.309	.755	.120
FPR 3	-.119	.127	.290
FPR 4	.457	-.183	.048
FPR 5	.344	.465	.034
FPR 6	.130	.566	-.046
FPR 7	.404	.078	-.016
FPR 8	-.023	.230	-.434
FPR 9	-.313	.488	.324
FPR 10	.587	.260	-.288
FPR 11	.675	.164	-.013
FPR 12	.025	.103	-.013
FISV 1	.117	.149	-.453
FISV 2	.580	-.032	-.240
FISV 3	.521	.361	-.190
FISV 4	.499	-.336	-.237
FISV 5	.295	.026	-.280
FISV 6	-.504	.084	.290
FISV 7	.401	.178	.050
FISV 8	.372	-.044	-.025
FISV 9	.231	.281	-.540

Extraction Method: Principal component Analysis. Rotation Method: Oblimin with Kaiser normalization.

Analysing the factor loadings, the following grouping emerges: (loading of 0.7 and above have been taken)

Factor 1:

FISCDIS 5 - (Fiscal deficits have caused spiralling of debts and vice versa).

FISCDIS 6 - (Debt accruals have spiralled in India/ Orissa due to improper debt management, lack of accountability and transparency in resource use).

FISCDIS 8 - (Incurring debt and its subsequent management in Orissa have ignored economic rationale).

Factor 2:
FPR 2 – (MTEF/ MTFRP achievable in Orissa).

Factor 3:
(None of the variables have loading of more than 0.7).

From the loadings it is clear that while maintaining fiscal discipline and promoting strategic priorities are seen as part of the content of fiscal reforms, delivering value for money is not seen as the third content factor in fiscal reforms.

The conceptual framework shows that while content area number 1 (maintaining fiscal discipline) and content area number 2 (promoting strategic priorities) can be considered as "desirables" for fiscal reforms, content factor 3 (Delivering value for money) can be considered as "deliverables or actionables". It can be noted that content factor 3 has not emerged as part of the content of 'fiscal reforms'.

7.5.2 Governance reforms analysis

Similar to the fiscal reforms, the data has been obtained for variables in governance reforms. The analysis of variances contributed by each factor is in Appendix 11.

As the concept frame of governance reforms also has 3 content factors, 3 factors have been extracted. It is to be noted that even in this case, the 3 factors contribute only 36.92% variance. The factor loadings for the extracted factor are given below in table 7.73

(When components are correlated, sums of squared loadings cannot be added to obtain a total variance)

Table 7.73 Extraction method: principal component analysis of governance reforms

Structure Matrix	Component 1	Component 2	Component 3
GOVAV 1	.139	-.520	.300
GOVAV 2	.039	-.104	.646
GOVAV 3	.476	-.564	.334
GOVAV 4	.338	-.693	.210
GOVAV 5	.051	-.608	-.077
GOVAV 6	.205	-.275	.484
GOVAV 7	.108	-.518	.019
GOVAV 8	.280	-.624	.221
GOVAV 9	.210	-.036	.550
GOVAV 10	.350	-.554	.368
GOVAV 11	.215	-.458	.617
GOVAV 12	.046	.049	-.010
GOVAV 13	.046	-.072	-.050
GOVAV 14	.326	-.055	.223
GOVAV 15	.147	-.531	-.022
GOVDEC1	.163	-.449	.194
GOVDEC 2	.644	-.254	.285
GOVDEC 3	.267	-.601	.062
GOVDEC 4	.652	.036	.148
GOVDEC 5	.550	.290	.212
GOVDEC 6	.473	.072	.453
GOVDEC 7	.585	-.353	-.014
GOVDEC 8	.641	-.463	.126
GOVDEC 9	.517	-.094	.278
GOVDEC 10	.725	-.446	.165
GOVDEC 11	.424	-.046	.047
GOVDEC 12	.439	-.375	-.032
GOVDEC 13	.683	-.345	-.011
GOVDEC 14	.537	-.393	.496
GOVDEC 15	.359	-.457	-.263
GOVDEC 16	.501	-.681	-.072
GOVDEC 17	.404	.011	.273
GOVDEC 18	-.486	.341	.017
GOVDEC 19	-.270	-.443	-.346
GOVAR1	.365	-.303	.586
GOVAR 2	.458	-.562	.309
GOVAR 3	.433	-.378	.462
GOVAR 4	.440	-.011	.336
GOVAR 5	.070	.187	.513
GOVAR 6	.454	-.413	.237
GOVAR 7	.025	-.544	.443
GOVAR 8	.440	-.162	.089
GOVAR 9	.403	-.065	.165
GOVAR 10	.294	-.114	.669
GOVAR 11	.400	-.211	.614
GOVAR 12	.671	-.399	.295
GOVAR 13	.312	-.183	.197

Extraction Method: Principal component Analysis. Rotation Method: Oblimin with Kaiser normalization.

Using the variables that have a high loading, the following variables emerge in each factor.

Factor 1:

GOVDEC 2 - (Decentralization means rolling back the state)

GOVDEC 4 - (Delegation of financial power will eliminate tax evasion)

GOVDEC 8 - (Rightsizing and redeployment is necessary for good governance in Orissa)

GOVDEC 10 - (Orissa has the resources and capabilities to undertake measures of rightsizing and redeployment)

Factor 2:

GOVAC 4 - (Poor system of accountability and transparency have led to rampant corruption)

GOVAC 5 - (Existing rule based accountability and transparency norms are insufficient in Orissa)

GOVAC 8 - (Citizens in the state of Orissa lack access to information)

GOVAC 2 - (Poor systems of accountability and transparency have led to fiscal and governance crisis)

GOVAC 11 - (Government should encompass norms of accountability and transparency laid down by bilateral/ multilateral agencies)

Factor 3:

(None of the variables have high loading)

Once again while content factor 1 (Accountability and Transparency) and content factor 2 (Decentralization and Commercialization) can be considered as 'desirable', the content factor 3 (Administrative reform) is a "deliverable" or "actionable" content factor. As in fiscal reforms, while the desirable content factors have emerged as a part of construct, the actionable content area has not emerged as a part of the construct area.

Both the analysis show that while the desirable content factors have contributed to the variance, the actionable or deliverable content factors have not contributed any variance.

7.6 Conclusion

The analysis and discussion was done with the purpose of responding to the following research questions as set out in chapter 6.

- **What evidence is there fiscal and governance reforms occurring in developed countries?**
- **What are the characteristics and initiators of these reforms?**

Based on the interviews and survey there is overwhelming evidence that fiscal and governance reforms were implemented in developed countries. OECD member countries have put in place various measures such as a Fiscal Reform Budget Management Act, Budget Honesty Acts, and so on, to enhance fiscal discipline, prioritise resource allocation and achieve value for money. These reform measures yielded positive outcomes for some countries as they had dealt with the issues of governance continuously; other countries have been initiating reforms in the areas of administrative reforms, freedom of information acts, decentralization, accrual accounting, tax reforms and above all principles of new public management.

- **How have fiscal and governance reforms been linked?**

As inferred from the interviews and the survey, a consensus emerged that the success of fiscal reforms necessarily depends on the implementation of governance reforms. Elements of governance reforms such as transparency and accountability, monitoring and evaluation, capacity building and institutional strengthening, decentralization, commercialization, civil service reforms influence the outcomes of fiscal reforms. In addition, effective and efficient budgeting and demarcating between merit and non-merit subsidies leads to promoting strategic priorities for the government and in resource allocation. Effective systems of monitoring and evaluation enhance value for money. It was observed that debt discipline was not achieved in developing countries because of lack of accountability and transparency in resource utilisation. It was evidenced that there was nearly a skewed response to the need for accrual accounting, which can be attributed to the lack of knowledge on the subject amongst the respondents in the government. To conclude, there was a high level of consensus among all respondents that fiscal reforms are inter-linked and inter-twined with governance reforms and fiscal sustainability can only be achieved through initiating governance reforms.

➢ **What has been the progress of fiscal and governance reforms in India and Orissa? The appropriateness of the reforms implemented in Orissa was also assessed.**

From the interviews and survey, it is seen that there is unanimity about the poor progress of fiscal and governance reforms in the state and 79 percent of respondents agree that Orissa is not a reforming state. Debt mismanagement has been stressed as one of the major causes for the rising fiscal deficits with claims that the economic rationale has been persistently ignored. Respondents further agree that Orissa is in a debt trap, hence fiscal and governance reforms are imminent. The reasons that are claimed to be significant by the respondents are non-existent monitoring and evaluation systems, inadequate commercialization of non-core public sector activities, lack of transparency and accountability, citizens' lack of access to information, the gulf between citizens and the administration, poor use of technology and above all unmotivated public servants.

There is an overwhelming agreement that Orissa is a most appropriate state for implementing and adopting large scale fiscal and governance reform measures. It was evident that there is scope for redeployment, rightsizing of the bureaucracy, building capacities and strengthening institutions. It was also ascertained that the private sector has the capability of shouldering many of the responsibilities and functions presently undertaken by public sector.

➢ **What opportunities are there for Orissa to adapt fiscal and governance reforms undertaken elsewhere?**

There was a high level of consensus on the universal applicability of MTEF/ MTFRP. Further the applicability of MTEF in Orissa did not receive any disagreement. This indicates that MTEF/ MTFRP, a concurrent tool that embraces governance elements, and furthers fiscal reforms, can be replicated in other parts of the country and the developing world. However, there are doubts about the replicability of administrative reform models from other parts of the world. The contention of respondents is that administrative reforms should be temporally and spatially specific and therefore are best developed indigenously. It was agreed that the basic principles of reforms such as decentralization, transparency and accountability norms, commercialization, FRBMs, PEM, etc can be adapted by India and Orissa.

➢ **What have been the roles of bilateral and multilateral funding agencies in advancing the fiscal and governance reform process?**

There is almost unanimity, with 93 percent respondents agreeing that multilateral/ bilateral agencies are extensively involved and play a crucial role in the reform process in Orissa. As expected, there was substantial disagreement with the proposition recommended by aid agencies of carte blanche acceptance of transparency and accountability norms. Respondents during interviews said that the presence of these agencies has generated widespread awareness and debate about reforms in Orissa.

➢ **What are the methods, measures, processes and procedures that can assist Orissa to implement fiscal and governance reforms successfully?**

There has been high fungibility of aids and grants. As stated by respondents, economic rationale, transparency and accountability norms for use of public resources have been disregarded with impunity. Therefore, it was suggested by the respondents that Orissa should resort to zero based reviews of all activities with high public expenditure. It was also expressed that tax reforms were essential and that the tax base should be widened. The reduction of rates would enhance fiscal discipline and generating revenue for promoting strategic priorities. SOEs are a drain on the exchequer as evidenced in the literature review and therefore disinvestment measures should be initiated with immediate effect which 85% of the respondents believe will assist in mitigating the fiscal imbalance which has been concurred. Orissa having the highest public servant to population ratio in the country, it was agreed by 93% of the respondents that Orissa should introduce structured and comprehensive rightsizing and redeployment measures.

In summary, pursuit of the following methods, measures, processes and procedures in Orissa received high degree of consensus:

- budget transparency;
- comprehensiveness and openness of public policy framework and no ad hoc approach;
- the estimate of revenue should be conservative unlike the present trend of expansionary forecasting;

- well debated budget with medium term framework;
- department wise evaluation and monitoring committees to be established;
- improved financial management system with accountability of the departmental Secretary;
- output/ outcome orientation of PEM and public servant performance;
- tax reforms;
- capacity building;
- administrative reforms;
- introduction of e-governance for better transparency and accountability;
- training and sensitising legislators and bureaucrats;
- expertise based and contractual recruitment;
- government implementing the measures agreed in MOU with GOI and suggested by bi/multi lateral agencies.

In conclusion, revival of the Indian/ Orissa economy necessitates structural adjustment and reforms comprising fiscal reforms and governance reforms. There is enough evidence both from the literature review and the interviews conducted that developed countries have reaped the benefit of reforms and that the basic principles of reforms could be replicated in the developing countries by modifying them to the specific situations. Orissa, which is the case study, presently meets with the appropriate situation to initiate reforms, and though has undertaken reforms has not benefited from it as the success of fiscal reforms depends on good governance and this aspect has been ignored.

This chapter has provided an analysis of the data collected from the field on issues of fiscal and governance reforms in developed countries and their replicability to developing countries. Further, it is an assessment of the reform process in the state of Orissa identifying the gaps in the process and suggesting measures to counter the debt situation and arrive at fiscal sustainability. The next chapter is the discussion chapter, which gives an overview of each research question analysed in this chapter.

Chapter 8

Discussion of Results

New growths insensibly bud upward to fill each vacated place, unforseen accidents hinder intentions, and old plans are forgotten.

Thomas Hardy, Tess of the d'Urbevilles

8.1 Introduction

Chapters two, three and four reviewed the literature on the research subject. Chapter five presented the theoretical framework followed by the research methodology in chapter six. Chapter seven presented the results of the research both qualitative and quantitative. This chapter aims at discussing the findings of the data analysis. This chapter is organised into ten sections. Section 8.2 discusses the implications of the framework; sections 8.3 to 8.9 discuss the implications of each of the research questions. Finally, section 8.10 provides a conclusion to the chapter.

8.2 Framework implications

All countries have embraced reforms in some form or the other. Reforms are neither a concept nor a one-time policy framework. Reforms are a continuous process and refer to a 'culture change' hence they can be termed as promoting a 'culture of reforms'. Reforms more prominently are associated with government and its functioning; hence the terminology 'public sector reform' is more appropriate. The public sector deals mainly with four functions: public resource allocation, income redistribution, stabilisation and public regulation which are broadly categorised as governance and fiscal functions (Lane 1997). In a broader sense when one speaks of public sector reform, it unquestionably relates to governance reforms. Since government's fundamental role is to govern, often governance and government are synonymously used. It should be noted that every action of government involves either resource generation or expenditure. Hence, links to the policies of treasury and fiscal and governance reforms require resource commitment.

Governance is the sum of how individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated; co-opted and co-operative actions may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceived to be in their interest. As understood, governance is broader than government covering non-state actors too, and it is participatory, transparent and accountable. The World Bank has defined governance as the manner in which power is exercised in the management of a country's economic and social resources for development (The World Bank 1994a). However, this empirical research is confined to the study of economic resources. As ascertained from the literature and data analysis the main elements of governance reforms, which were dealt with in this research, are transparency and accountability, decentralization and commercialization and administrative reforms.

Fiscal policy as explained elsewhere can be defined in the following ways:

- It refers to changes in government spending and tax collections for the purpose of achieving a full-employment and non-inflationary national output.
- The fiscal policy is the government's plan for spending and taxation. It is designed to steer aggregate demand in some desired and predetermined direction.
- Fiscal policies are policies of government spending or setting tax rates or revenue to either stimulate or contract economic activities, intended to off set cyclical fluctuations in an economy.

To sum up, fiscal policy embraces public expenditure, taxation/revenue and the public debt of any country. In post World War II, public sector expenses are swelling up in every country causing public sector debt to swell in geometric proportions while political compulsions and inefficiency in tax system have put a ceiling on widening the tax collection base. This has made fiscal reforms a necessity and all pervasive. As the literature and data suggest, fiscal reforms are necessary for fiscal sustainability and over all sustainable economic development. The elements of fiscal reforms are fiscal discipline, prioritising strategies for resource allocation and generation and achieving value for money.

As it can be observed from the above definitions of the terms, governance and fiscal reforms relate to the activities of the government. It is evident from the previous chapters that the relationship between fiscal policies and governance are intertwined hence the relationship between fiscal and governance reforms.

The current chapter uses the analytical framework of the study to discuss the responses to the research questions in sequence.

8.3 Research Questions I and II

The first two research questions are dealt with simultaneously for purposes of analysis and discussion. They are "What evidence is there of fiscal and governance reforms occurring in developed countries?" and "What are the characteristics of these reforms?"

The study revealed a general consensus that fiscal and governance reforms have been implemented with varying degrees of success in OECD member countries. OECD countries have evolved and reinforced better debt management principles and policies. Even some developing countries like South Korea, South Africa and Malaysia etc. have achieved success in arresting the public debt to a large extent by introducing fiscal and governance reforms in tandem. As Kelkar (2002, p. 36) stated "Undoubtedly micro, meso and macro reforms have been initiated in the OECD countries since early 1980s, which has helped stabilise their economies and turn them round to a large extent". It can be deduced from the frequency tables that fiscal and governance reforms were being implemented in the developed countries on an ongoing basis since the early 80s. It is also observed that in spite of having well functioning and responsive governments, developed countries have introduced governance reforms along with the fiscal reform measures.

The qualitative analysis has also further validated the claim that fiscal and governance reforms are entrenched in developed countries. The instigators of these reforms in developed countries were fiscal deficit, debt burden, and oversized and inefficient public sector.

There is also a general agreement among all respondents that the unwieldy public expenditure causing the rising fiscal deficit and public debt were the initiators for reforms. In order to make a credible reduction in fiscal deficit and debt – GDP ratio, and gain the confidence of investors besides citizenry and civil society organisations, most OECD member countries have adopted a rule-based fiscal policy framework. The rules have varied from constitutional and legal arrangements within countries to agreements between countries.

In Eastern Europe, bureaucracy and state monopolies have given way to markets and choice with a suddenness that was unthinkable five years ago. Change was impossible in Poland and the rest of Eastern Europe, but it happened. Change was impossible in the Soviet Union, but it happened. People and movements that were seen only a few years ago as hopelessly isolated and idealistic are now leading revolutions and governing nations. The influence of public sector reforms, which originated from the UK, the USA, Australia and New Zealand, has now become pervasive.

In his 1991 inaugural address, Governor Pete Wilson of California as quoted in Osborne & Gaebler (1993, p. 18) articulated the central challenge of our age: "We will not suffer the future. We will shape it. We will not simply grow. We will manage our growth. We will not passively experience change. We will make change. But to shape our future, we need a new vision of government". Such commitment for reforms with strong conviction exists in the developed world.

As it is construed, the respondents have concurred with the literature review. The formulation of various laws and acts to arrest the mounting fiscal deficit, wasteful public expenditure and public debt in many developed countries are evidence that fiscal reforms are being carried out in developed countries. However, it is essential to mention that some respondents also remarked that fiscal reforms have not yielded desired results in countries like Japan not due to issues of governance but rather due to exogenous economic compulsions where the national government has very little control.

The governance machinery in developed countries is perhaps more responsive to the needs of the time. Hence the reform measures initiated becomes more evident in developed countries when compared with developing/ CIS countries. It is evidenced from the enactment of fiscal laws/ acts, FOI acts, and legislation for administrative reforms in various developed countries along with the tough measures to make governments more market oriented that fiscal and governance reforms are bring seriously pursued. Basically the rising expectation of citizens for better service at lower cost is a motivating factor for introduction of fiscal and governance reforms in the developed world. The debates for fiscal and governance reforms have yielded overall consensus cutting across the political ideologies and democratic beliefs. Developed countries have gone beyond first generation reforms i.e. cyclical adjustment and crisis driven fiscal measures. Reforms being enforced through various Fiscal Responsibility Laws and Acts, Public Service Acts and Freedom of Information Acts, include decentralisation and devolution of responsibility with authority, privatization, commercialization, various transparency and accountability measures through administrative reforms.

As observed, qualitative and quantitative data corroborate with the literature analysis that fiscal and governance reforms are occurring in developed countries and the fundamental initiator of these reforms is unsustainable and unproductive public expenditure. The developed countries have made serious attempts to take forward the reforms process through various self-disciplining measures including comprehensive administrative reforms. Though developing countries face the same problem of fiscal unsustainability and spiralling public debt as were faced by developed countries in 1980s, there is still a yawning gap in the public policy domain between desirable and actionable elements.

8.4 Research question III

The next research question discussed was "How have fiscal and governance reforms been linked?" As ascertained from the literature review and data collection, the basic elements of fiscal reforms are maintaining fiscal discipline, promoting strategic priorities and delivering value for money and of governance reforms are accountability and transparency, decentralisation and commercialisation and administrative reforms. A comprehensive review of these elements necessarily gives an indication of their linkage and relationship.

As is evidenced from the literature review, governance reforms are required to make fiscal reforms achieve effective structural adjustment of the economy. Fiscal reforms need good governance to achieve their desired goal and governance reforms can only be successful provided enough resources are generated through fiscal reforms to continuously support them. Enormous resources are required for training, communication, social and economic support during the initial period, which may extend to a decade or so. Thus, through fiscal reforms it is essential that, besides enforcing fiscal discipline, priorities need to be set properly so that value for public resources spent is realized. Fiscal discipline and value for money will remain a far cry if transparency and accountability is not enforced. Further, to a large extent, transparency and accountability are dependent upon the political and bureaucratic engagement. This shows the intensity of dependency and linkage between governance and fiscal reforms.

From the quantitative analysis of the responses, it can be summarily concluded that governance and fiscal reforms are necessarily and essentially interlinked and intertwined. The adoption of one without the other will definitely fail. In particular fiscal reforms cannot progress without good governance. Rather they may lead to fiscal disaster like the Asian crisis of 1997 and the economic collapse of Argentina. Thus, the failure of fiscal reform measures in developing countries can be attributed to the prevalence of poor governance and vice versa. Research data and literature have amply justified that mis-governance or improper governance can lead to fiscal extravagance, and hence fiscal indiscipline. In most developing countries, government functions are not coordinated and synchronized causing duplication and thus inefficiency. There is substantial agreement for the contention that better administration, which is directly linked to good governance, can result in achieving fiscal prudence.

Administrative reforms especially civil service reforms are a core ingredient of governance reforms. Most governments in developing countries are bloated with over sized bureaucracies. A pervasive feature of public administration in the developing countries including India is its emphasis on management of the public servants. The public have little influence over that management. Bureaucratic cultures and structures emphasize centralized top-down decision-making. Individuals, groups and organizations in society have little or no input into deciding what services they receive and little influence over their quality. Paralleling this long-diagnosed problem has been the continuous call for participation by the public in shaping the activities of public bureaucracies so that they provide services that are both required and desired and are efficiently delivered. The neoclassical hypothesis suggests that determined action to reduce the budget deficit through government's administrative cost reduction ('fiscal consolidation', in economic terms) would give the public at large, confidence that the government is finally getting its house in order and will be borrowing less in the future, thereby lowering interest rates throughout the economy. This would spur businessmen and investors into economic activity not only in the long run, but also during the immediate period of fiscal consolidation. It is essential that politicians and bureaucrats be convinced that reducing the budget deficit would not impose a severe penalty on economic growth. This would not only provide a fillip to the reform process and there would be less of a political inclination to delay this process which is very much required in deficit countries. This signifies the linkage between fiscal and governance reforms.

Capacity building and institutional strengthening are primarily governance functions but capable institutions with either inherited or acquired strengths cannot only provide good governance but fiscal stability. It is due to well performing public institutions that better fiscal discipline can be enforced and better value for money can be achieved. As was observed almost 96 percent of respondents consented that capacity building and institutional strengthening leads to better governance and fiscal sustainability. This again justifies the linkage.

Further, effective monitoring and evaluation is an essential and necessary ingredient of good governance. An effective monitoring and evaluation system leads to proper utilisation of resources and government priorities are complied with while wastage is minimized. Thus monitoring and evaluation is the subset of accountability and transparency especially in the public domain. As viewed from the qualitative and quantitative data the linkage between governance and the fiscal framework from this perspective, has scored a very high level of agreement from the respondents.

Public service delivery is a direct government function hence improvement in this means improved governance. Many countries adhere to a simple solution module that if government is not directly the provider of a service, then provision is made in the budget for subsidy, other than some sensitive areas, which receive subsidy as a matter of policy. There is enormous debate across the globe regarding the issue of subsidy and its direct benefit for the purpose it is designed for. Governments often change the nomenclature of subsidy from merit to non-merit and vice versa. As observed from the data analysis, 94 percent of respondents agree that there should be a clear demarcation on subsidy, and prudence on subsidy is the call of the day. In developing countries and to some extent in developed countries too, subsidies cause serious distortion of resource allocation and widening of the income inequalities. Even in the geopolitical arena and among supranational institutions, subsidy is one of the most contentious issues. The spiralling of debt burden in countries like India calls for immediate rein on the subsidy so that resources saved can be used for reinvigorating the economy, reducing poverty and enforcing good governance through the introduction of package of other related reforms. Control of non-merit subsidies frees up substantial amounts of resources. Further, through the introduction of user fees, governments can introduce the concept of ownership and inclusion. This can eventually lead to community ownership, which is the ultimate form of decentralization. However, subsidy is a fiscal policy measure which can be achieved through initiating reform measures such as commercialization and decentralization, which are governance elements. Hence, fiscal reform measures such as reduction or abolition of subsidies can result in greater involvement of people and accountability from government and citizenry.

Almost 96 percent of respondents agree that improved governance will lead to a reduction in fiscal deficit. Revenue enhancement with utmost stringent policies will fail unless the functioning of tax administration is transparent and is held accountable for failures. Expenditure savings is possible if priorities are set in accordance to the requirement after a thorough review of various contesting demands so that value for expenses incurred is optimised. This further corroborates the observation that fiscal and governance reforms measures cascade into each other.

As is advanced by the analysis of interviews, in principle and practice governance and fiscal reforms are interlinked, interlaced and intertwined. In developing countries, which suffer despondently from governance problems, fiscal reforms will cause further fiscal indiscipline if attempted without governance reforms. There is a need for absolute integration between fiscal and governance reforms. As evident from interviews and also from the literature review and the success stories of economic stabilisation in South Korea and Thailand after the Asian crisis, good governance is essential and imperative for initiating fiscal reforms and taking forward the process of reforms. As stated by one respondent, in a democratic set up, the political and bureaucratic engagement play a vital role and this is not possible without broad based governance reforms. The success of fiscal reforms in China and Singapore should not be taken as an ideal situation by countries like India as stated by some respondents. Since the geo-political and social contexts are different, governance issues are not predominant in those countries. However, there is an absolute agreement that fiscal and governance reforms must be carved out in a coordinated frame and implemented in tandem.

8.5 Research question IV

"What has been the progress of fiscal and governance reforms in India and Orissa?" is discussed here.

Like many countries India has also made attempts to pluralize the national government and there is a renewed attempt to down delegate authority and power to sub-national governments. There are conflicting views about the reinvention of the state especially in the developing world. One school claims that good governance presupposes cooperation instead of conflict across a multiplicity of sectors thus enhancing efficiency, effectiveness, and economy of resource use, leading to avoidance of fiscal derailment. But there is a segment, which also airs the view that the enforcement of good governance, will take away tasks, responsibilities, powers and authority which were once considered to be the domain of the state. These are now being divided among a number of agents (decentralization and inclusion paradigm) each of which pursue their own specific goals through a number of different and equally specific paths. This in turn could lead to the waste of resources and fiscal decadence and finally poor governance. However, the latter view does not have much support from respondents of interviews and survey. As stated in the literature review chapters more than the resource problems, Orissa has a problem of governance. As also seen from the literature review, debt repayment is working like interest-push deficit. As per the fiscal data of the state, the interest payment and administrative expenses far exceed the total own revenue earning leaving the state with negative cash flow hence capital investment has been declining in geometric proportion.. The reform measures initiated have not progressed well as evidenced from interviews and surveys.

As it is understood, the state's capacity to incur debts has either been over stated or successive governments have been too casual in their approach to utilize borrowings. This again shows that there is a dearth of monitoring, evaluation and oversight mechanisms; hence concepts like accountability and transparency remain rhetoric.

The literature review and the qualitative and quantitative data indicate that India and Orissa do not have effective monitoring and evaluation systems, which aggravates fiscal profligacy. Monitoring and evaluation leads to transparency and accountability that is an essential component of good governance. This shows that governance reform measures need top priority. Monitoring and evaluation will not only ensure proper functioning of the present day government but can act as the basis for fixing the 'next-mark' target for the government so that it can reorient, redesign and reorganize itself to ensure proper delivery of services to its citizens.

Wide ranging regional variations in education levels has meant that demand for good governance in Orissa is very poor. As observed from the data, citizens in the state, lack access to information. Hence, the agent, that is, the government and its machinery has been easily evading accountability. During the interviews it was clearly observed that Orissa bureaucracy though in public forums propagates the sharing of information, in reality resists it. Access to information can initiate the process of reforms in a more coordinated manner and effective way. Citizenry will also know how their resources are allocated and spent in practice, which will enforce stringent transparency and accountability norms and will lead to a sense of inclusion. Presently in the state, people neither feel involved nor own any responsibility.

As affirmed by respondents and observed during the process of interview there is an overt resistance to making use of technology for improving government functions. The most alarming issue is that government has incurred huge expenditure on procurement of hardware but the users are neither willing nor ready to make use of it. There is neither any IT policy nor any agency to facilitate the civil servants to adopt technology for better performance. The neighboring states are far ahead of Orissa in this aspect. The state of Andhra Pradesh has established a Centre for Good Governance (CGG) 5 years back, which is highly acclaimed as a successful center, and receives enormous foreign grants to initiate new modules of governance. There is a lackadaisical approach amongst bureaucrats of the state in embracing new intellectual and machine technology and adapt it's functioning to improve governance. As there is resistance to automation and system updation, this leads to poor governance and wastage of resources. In Indian states like Gujarat, Punjab and many others, automation and or introduction of e-governance has resulted in increasing the revenue base four fold besides enhancing the efficiency level. As some respondents have commented, the state's unenthusiastic approach on this issue causes non-transparency and lack of accountability to thrive. On this count also the progress is abysmal and government needs to pay immediate attention to it.

Like many developing countries, India and Orissa embraced a command type of resource allocation. This resulted in the state overstretching itself in every direction of economic function thus crowding out private investments. It was more prominent in this state since it had poverty amidst plenty. However, with the resource base dwindling and state debt level getting out of hand, it was presumed that the state would adhere to hard core reform measures. But as years have passed the outcome has been far below the level of expectation. The government is still involved in activities that are non-essential and can be better handled by the private sector. Likewise, the benefits accrue to a few influential classes. This shows that the progress of reforms has been practically insignificant. The allocation of resources to the non-core and non-essential sector has been an economic error and continuing the process will be catastrophic and fatal. Although the cause of the fiscal stress has been diagnosed and agreed, actions are far from sight. Many respondents during the course of the interviews attributed the poor progress in this aspect of the reform to the lack of political and bureaucratic will.

Poverty is cited as the reason for resistance to privatization and private sector involvement in delivering services which are even non-core to public sector. If the government is sincere and committed to privatizing or commercializing non-core sectors, low purchasing power parity will not be a hindrance since it is believed that most of the free or subsidized services provided by government in India as a whole and especially in Orissa, is enjoyed by the people other than those for whom they are meant. The aim of commercialization and introduction of user fees for services should be more egalitarian in economic and social terms. As stated by most bureaucrats, political compulsions are not allowing commercialization and privatization to happen. This shows that reforms are being implemented half-heartedly; hence not yielding desired results.

As observed from the data and from the interaction with the government machinery, the state has not evolved the system to enforce the basic concepts of enhancing efficiency of public sectors; therefore, implementation of deregulation and privatization remains a remote possibility. Further, introduction of user fees can result in better accountability and transparency since there will be demand for better service delivery. At present there is an ownership crisis in the public delivery system. Neither is the provider keen to improve the delivery mechanism nor are the receivers aware of 'what to ask for'. Since recipients do not pay, they have the psychological complacency of accepting the status quo, even the deterioration in the system. Many respondents stated that since the benefits go to undeserving mass, there is a fear that if challenged by them then the service may get withdrawn. Respondents especially from donor agencies, IMF, and World Bank have also stated that commitment to privatization and commercialization endeavours remain only lip service and the façade put up by the government is not convincing. There is a wide scope to bring in fiscal discipline through this activity. There is a general consensus among respondents and the literature suggests that Orissa lacks political commitment to introduce user fees or commercialisation of specific public services.

During the course of the interviews in Orissa, it was startling to observe that politicians and bureaucrats hold each other responsible for the poor governance and fiscal profligacy. Even the representatives of multilateral, bilateral agencies and research institutions stated that the state's public servants are in the blame game and there is a clear lack of political vision and leadership which has led to bureaucratic lethargy and indifference. Therefore reform measures have not yielded any significant result.

As observed from table 7.36, 68 percent respondents agree that fiscal and governance reforms remain a state priority. The intriguing factor is that there is absolute dearth of actionable efforts to achieve the desirables. Thus the desirables remain in rhetoric only. The bureaucratic and political engagement needs to be stepped up to make reforms a success.

There is a clear and unambiguous conclusion that reforms have not progressed well and much needs to be achieved before Orissa qualifies to be placed in the bandwagon of reformed states. There is a general consensus as observed from table 7.42 with 90 percent respondent agreeing that reforms have not progressed well in Orissa.

As deduced from the data analysis, Orissa needs to do lot more and at a faster pace too. But if the right approaches, proper policy framework and pre-determined sequence with stage wise monitoring and evaluation are not adhered to, then Orissa will only have the psychological satisfaction of implementing reforms without any concrete outcome.

8.6 Research Question IVa

This section discusses "How appropriate are fiscal and governance reforms in Orissa?"

As observed from the data almost 91 percent (table 7.50) agree that the state must adhere to comprehensive fiscal and governance reforms. The appropriateness of these reforms in the state of Orissa has received unequivocal agreement. There is some skepticism that is due to hiccups in power sector reforms. The policy makers often tend to forget that power sector reforms initiated in 1993 was first ever reform measures initiated in the country. There were derelictions on part of the bilateral and multilateral agencies too since they over estimated the capacity available to carry out reforms. The fundamental problem was again the issue of governance. Before the reforms were initiated capacity building should have been undertaken. The power sector reform was like blitzkrieg. Hence, it created enormous problems. The World

Bank also showed great impatience. However, as it stands, the power sector has stabilized. This is an opportune moment for government to take people into confidence and embark on structured and comprehensive reforms.

Immediately after independence and to some extent to date, the burgeoning public sector has been justified on the basis of incapability and lack of interest of private sectors. In Orissa, the Road Transport Corporation in public hands is justified on this argument. But these thoughts are of little significance in the prevailing socio-economic environment. If government is willing and sincere then private sector can build up its capacity within no time. The qualms about private sector capability should not be considered an alibi by the state. The state can benefit substantially if private sector is engaged in economic activities. The state is suffering from industrialisation recession for the past 15 years.

There is a general consensus that privatization with proper regulatory authority which is a government's prerogative can produce wonders due to its abundant natural resources and poor delivery of public services. However, since the state is in an embryonic stage with respect to privatization, there exists an extensive scope to provide more effective and efficient service, which will not be possible without a comprehensive reform process. This justifies the need and appropriateness of reforms.

To conclude, considering the fiscal chaos the state is passing through, willy-nilly the reform is the solution. In comparison to other states in India, Orissa is sliding down in every aspect of social, human, governance and economic indicators in spite of having a stable government; it appears that reforms are most essential and appropriate.

8.7 Research question V

"What opportunities are there for Orissa to adapt fiscal and governance reforms undertaken elsewhere?" is the next research question which is discussed in this section.

Replicating reform models have been the most contentious issue in the international arena. The term Washington Consensus, which emerged in 1989 as a by-product of a historically unusual degree of consensus that Latin American countries needed to stabilize, to open up their economies to trade and Foreign Direct Investment and to liberalize, has proved controversial right from the start. Most opponents of the Washington Consensus appear to have used the term in recent years to mean universal application of the neoliberal interpretation of the term. Perhaps this usage was to some extent legitimized by the fact that at least for a period in the 1990s some of the Washington institutions – the IMF and WB and key agencies of the US government like the Treasury – did indeed urge ahead parts of this extended agenda. Most people would agree in retrospect that a pace of capital account liberalization has been precipitated with damaging consequences. But even if the Washington Consensus is absolved of the responsibility for provoking crises, it is true that outcomes in Latin America have proved disappointing in the last decade, including in many countries that have stabilized, liberalized, and opened up on the basis of the Washington Consensus.

The tragedy in Argentina, the country that was often treated as a foster child for the Washington consensus poses questions as to the replicability of reform models. Its collapse was not caused by import liberalisation, or privatization, or any of the other reforms that the country implemented in the early 1990s, which in fact gave it its fastest growth rate since the 1920s; the problem was that the benefits of those excellent reforms were undermined by two misguided decisions. One was the attempt to peg the peso firmly to the dollar, which proved disastrous, especially after the devaluation of the Brazilian Real and the upward levitation of the US dollar that made the peso chronically overvalued. The second was the decision to splurge when Argentina was the darling of Wall Street, instead of using the good times to work debt down to a safe level. Since a competitive exchange rate and fiscal discipline were two of the 'ten commandments' in the original version of the Washington Consensus which were not pursued by Argentina, it would be bit rich to blame the latter for Argentina's crisis. Thus it cannot be said that replicability is out right rejected, rather customization is suggested.

Hence, applying this principle, Orissa can adopt certain modules or models implemented elsewhere but they have to be customized. The donor/ funding agencies have to play a crucial role here.

From the data, it is concluded that certain elements of fiscal reforms such as MTEF/ MTFRP, which has been a success in countries, like South Africa, Ghana, and South Korea could be replicated in Orissa. In Orissa, where change agents are few from within, it is better to borrow ideas and frameworks and customize those to the need of the time. As observed, the involvement of stakeholders in the reform process is low in Orissa, and therefore the government needs to consider various successful reform measures carved out in other Indian states and overseas. There are ample opportunities to adopt and adapt fiscal and governance reforms undertaken elsewhere.

8.8 Research question VI

The next research question "What have been the roles of bi-lateral and multi-lateral funding agencies in advancing the fiscal and governance reform process?" is discussed in this section.

It is important to note that reform initiatives in India were externally driven with a highly fractured political and bureaucratic support. Indian states including Orissa also have not explicitly come out as self-motivated reformers in spite of the fact that there are no better alternatives available. The presence of funding and donor agencies like World Bank and DFID respectively are very much felt in the state. However, it appears that because of the poor outcome of the WB/ DFID funded power sector reforms, the government is rather wary of these institutions and vice versa. Especially the World Bank needs to take a more softened stance and which should guide the state government in the right direction.

From the analysis it is observed that since the state government lacks institutional capacity right now to design a reform framework to navigate the reform process, the role of these agencies is most crucial. This argument has gained support due to three reasons (i) these agencies have been present in Orissa for more than a decade and hence have been able to understand and comprehend the eco-socio-political sensitivities and issues, (ii) government, on its own will never be able to enforce any stringent measures due to political compulsions and constraints and (iii) they have knowledge of international best practice and what works and what does not. The recent study undertaken by World Bank and DFID on State Financial Accountability Assessment has explored the appalling state of accountability in Orissa. This kind of technical support is sine qua non for reforms to progress. The wealth of knowledge these institutions carry can be of substantial use. However, these agencies especially the WB needs to do more handholding and should not treat Orissa at par with other developed states of India.

From the interviews and surveys it was observed that these agencies have been playing crucial role and though there is sporadic resistance, their presence is very much solicited.

8.9 Research Question VII

The next research question "What are the methods, measures, processes and procedures that can assist Orissa to implement fiscal and governance reforms successfully?" is discussed below.

Normally, the pace of reform is likely to be more rapid when governments are forced to take action by macroeconomic or fiscal crisis. Reform pressures from a fiscal crisis are often compounded by heavy external pressure from multi-lateral agencies and donors. In these situations, governments will be more receptive to technical assistance programmes that support wide-ranging reforms. However, one needs to beware of governments reforming only in response to pressure from international agencies and Orissa amply qualifies for this as stated by respondents. But, it can be said that Orissa is a paradox because, the state has failed to introduce hard core reforms though it has been passing through a fiscal crisis which is worsening rapidly for more than 10 years. In a federal structure, states often depend on the central governments to bail them out and this has proved to be counter productive for the fiscal performance of individual states.

However, there is risk that reforms driven by crisis will try to move too quickly, perhaps choosing options that are quick over those that would take longer but deliver more sustainable benefits. Attempts to reform too rapidly could also lead to over reliance on external technical assistance, thereby sacrificing relevance and sustainability. It is important not to forget the inertia inherent in fiscal and governance reforms. Even those reforms that may seem relatively straightforward, such as revising the budget classification, can take several years to implement. The new classifications are likely to take at least a year to design and approve, and possibly longer if legislation is required, and another year to apply in a first round of budget preparation. A further year will pass before they have been applied in budget execution and accounts, and then another year before the accounts have been audited. So after four years, the new classification system will have only been applied once throughout the cycle. Allowing scope for teething problems, it may take five or six years to fully implement a simple reclassification of the budget and that too only if the machinery of governance functions well. Considering the level of bureaucratic and political engagement, level of education, cultural background and economic development, the process of reform shall be long drawn and slow. However, both proponents, that is, multilateral agencies and policy makers of Orissa have to design and develop concerted and comprehensive policy framework for the reforms to yield desired results.

From the literature review and analysis of data, mis-governance emerges as the impending task to be dealt with. Good governance strengthens institutions, which create appropriate checks and balances. The state has a primary responsibility to educate people to demand good governance. As deduced from the interviews this will happen 10 years from now; already people are asking questions and the pressure is mounting; demand for right to information is spreading and with it people are asking the right questions. The job should be taken up by civil society organisations now. There are infinite numbers of NGOs in the state but many of them instead of serving people siphon the benefits meant for them. Guidelines and regulations for NGOs should be instituted. This is a state subject and it is expected that a well-governed state must facilitate the system in such a way that the level of governance improves.

There is no conviction among all the levels of the political and bureaucratic leadership of Orissa about implementing tough reform measures. This conviction can be achieved through training, field visits and cross-functional interactions besides political and bureaucratic vision and commitment. The secretaries of various departments must be clearly told what their responsibilities are and they should be held accountable for the expenses in the department. Financial management systems are extremely poor. If the budget is misspent, there is no public financial management law. The state has to consider the various possibilities and opportunities if they are serious about implementing fiscal reforms.

Orissa has taken a positive step by preparing a white paper on the state's fiscal scenario and signing a MOU with the Government of India. But the subsequent efforts have been woefully unsatisfactory. It has also stood up to its commitment of observing reticence in extending government guarantees. However the state has to promote its strategic priorities so that the tax-GDP ratio is enhanced. It can introduce simple measures like computerization of state entry points in line with Gujarat and Maharastra models to get better value for its resources. Administrative reforms are absolutely imminent since the state has the highest percentage of government employees to population in the country. The government has to create employment opportunities by providing good governance, including decentralization, ensuring transparency in the use of resources through proper evaluation and adhering to time schedule. Orissa needs to have a blue print of reform process. Orissa should have a FRBM Act in place like many other states in the country. Its budget should have medium term framework with realism built into it. Despite the very good legal framework, the implementation of the budget is marked by numerous distortions, many of which are traceable to the lack of realism in budget preparation discussed in the preceding chapter. The chief culprit has been a persistent tendency to over-estimate revenues. For example, the 2002/ 2003 budget indicates that the receipt estimate of Rs.350 crores had to be revised downwards to about Rs.310 crores. But despite these experiences, the 2003/ 2004 budget still provides for anticipated receipts of Rs. 343 crores from this source. This shows the expansive approach to revenue earning and conservative estimate of expenditure, which needs to be reversed immediately.

In Orissa, zero based reviews or investments are being tried out but not on a broad based framework. The reviews are also not done at regular intervals. Further the main problem is the absolute absence of monitoring and evaluation of output and outcome. Zero based review is a tested measure to ensure result oriented resource allocation and the state is conversant with it to some extent and it should capitalise on this with the assistance from bi/ multilateral agencies.

It is deduced that the decentralization has not progressed well. There should be devolution of authority both financial and administrative to the local levels as promised by the government 4 years back. Orissa could emulate the model adopted by the state of Madhya Pradesh for decentralisation.

As observed from the results, Government needs to create awareness among people about the reform as matter of routine policy. Almost all democratic countries have made efforts through Freedom of Information Acts to ensure this right for their citizens. India has also made attempts in this direction. The problem with Orissa is should an Act be enacted, a number of people will be bypassed due to the low literacy and awareness levels. Hence the government has a primary responsibility to ensure that information reaches people. There is generally a tendency to make a law or policy and let the system move on, business as usual. As we have discussed elsewhere there is no policy evaluation system existing in the state. Hence, the state needs to formulate a different and proactive strategy. With the changing socio-economic scenario, citizens need to be empowered through new legislations and acts to counter the immunity, complacency and imperviousness of public servants to the existing laws and rules.

Orissa has the highest percentage (1.72% of total population) of civil servants in the country. The bureaucratic structure affects the efficiency and resource base of the state. The layers of bureaucracy not only delay the policy formulation and implementation but also add to the cost of administration. As mentioned in previous chapters the salary, pension and related expenses are increasing by leaps and bounds which is unsustainable. As stated by many respondents from the government, the fundamental problem with the fiscal imbalance in the state is mainly due to unaffordable overhead expenses that are unsustainable. Governments irrespective of country's culture and history should not be considered a sort of *deus ex-Machina* to churn out public goods or jobs. In Orissa, the government has ample scope to create a base for employment through private sector matching any other state or national level but there is a dearth of sincerity to make it work. In 2003, the government introduced a voluntary retirement scheme, which did not receive encouraging results. The government was forced to adhere to other measures such as compulsory retirement scheme and special drive to redeploy people.

The state should take up the civil service reform as a priority issue. It is indicative of a lackadaisical approach that the task of administrative reforms is being dealt by the Administrative Reform Cell (ARC) headed by a Special Secretary where as in Karnataka a Cabinet Minister heads the Commission. In neighbouring Andhra Pradesh, the civil service reform is handled by Centre for Good Governance, which is headed by a Senior Principal Secretary and the Chief Minister. Civil service reform needs to be viewed from a broader perspective and government has to exhibit its commitment.

Further disinvestment is an area, which has attracted insurmountable attention from the respondents. The state is well endowed with natural resources and minerals, which are necessary for industrialization. The problem has been the state's involvement in all sorts of production such as iron, refractory, cement, ferrochrome, jute, cement, textile, and many more, leaving little to the private sector. In fact the facilitating environment required for private sector investment is not present. Therefore it appears as though the state is in direct competition with a very small private sector. As stated before, all the state units are either defunct or in the red. On an everyday basis the state is losing out. The state's fiscal deficit of more than 9 percent is justification enough to liquidate these assets and utilize these funds for infrastructure and institutional development so that private investments are encouraged. Although this has been a priority area for government since 1995, the achievement has been almost negligible. The government cannot succeed as producer or manufacturer of goods for commercial purposes; hence it should realign its focus to facilitation and regulation activities.

From the data analysis it is observed that if Orissa wants to make any real progress in implementing reforms it has to adopt technology. E-governance should become the major focus if Orissa wants to improve its governance track record; this is the only solution as there are too many pressure groups. Orissa should take advantage of assimilating technology with policies for better outcome and greater transparency. The state should not lay much emphasis on its natural resources as it is currently pursuing – actual prosperity will come from low cost industries. Efforts should be made to bring low-cost industries to Orissa. What should be the focus is value addition, not huge projects that bring results in 10 years' time; in the meantime the money is blocked and cost escalates.

Following are some of the recommendations to achieve the objective of fiscal and governance reforms in Orissa:

1. All possible efforts are to be made to widen the existing tax base and to make the existing taxes more productive.

2. Non-tax sources to increase revenue need to be tapped further.

3. With a view to lessening the burden of fiscal deficit, non-developmental expenditures need to be kept to their minimum limits. Government needs to right size itself first through administrative reforms.

4. Expenditure allocations to economic sections in general and agriculture in particular should not be reduced to compensate extra demand for allocations elsewhere as it may accentuate the problem of rural unemployment and poverty.

5. Among the non-taxes, state excise, taxes on vehicles, tax on goods and passengers are highly elastic with respect to GSDP. Any measure to raise the yields of these taxes must commence with the measures to increase GSDP.

6. There are three problems areas of the State Finance of Orissa. These are subsidy, PSUs and guarantees.

7. Subsidies are to be withdrawn from forty units, or at least it needs to be restricted to those items, which are consumed by the impoverished sections of the population.

8. All PSUs are to be disinvested, if not, those which are loss-making are to be disinvested and the proceeds be used to repay the old loans and construct some public utilities of enduring relevance to the common people.

9. Guarantees unnecessarily burden the state exchequer. The state government needs to be selective about units starting under guarantees. The state has taken concrete steps in this direction but the past mistakes need to be dealt with.

10. To sum up the state government needs to enforce fiscal discipline and maximize value for money through prioritizing it's over all governance activities and resource generation, allocation and expenditure.

11. In the name of fiscal adjustment, squeezing public investment should not be organized while leaving government consumption intact.

12. Government should implement decentralisation and initiate the process of wide-ranging civil service reforms.

13. Commercialization of non – core public sector activities need to be prioritized.

14. Through the audit compliance and developing stringent oversight mechanism, government can enforce transparency and accountability.

8.10 Summary and conclusion

In summary, it can be stated that, the motives for public sector reform have been fairly international, even if their relative priorities have varied overtime and according to the particular starting points and circumstances of the jurisdictions concerned. One strong motive – particularly during the economically troubled periods of the early 1980s and 1990s – was simply to save money. Many governments in developed countries faced a 'scissor movement' of growing welfare costs and declining possibilities for new taxation (Pollit & Bouckaert 2003). Cutting public expenditure, or at least reducing its rate of growth, has been high on the agenda. Further, there has been a widespread desire to remedy the perceived poor performance of significant parts of the public sector.

The intensity and success of reforms have varied considerably from country to country. Certain developed countries like Australia, New Zealand, the UK, and the USA and developing countries like South Korea and Thailand have been extremely active and reaped impressive benefits. The fundamental reason for the success of reforms has been attributed to the implementation of fiscal reforms/structural adjustments in tandem with governance reforms under the rubric of NPM. The linkage and relationship between fiscal and governance reforms have been established in the research beyond doubt and any question.

In many developing countries including India governments are still in the reactive policy and fail to pursue simple management cycle of goal setting, implementation and evaluation. The state of Orissa is no different though it has introduced fiscal and governance reforms since mid 1990s promoted by the World Bank and DFID. The state is in a financial dire strait. The reforms are most appropriate and essential. However, to a large extent it remains as rhetoric and polemics; there is not much progress in substance. The reason for the meagre outcome of reforms has been attributed mainly to the poor governance. The figure 8.1 summarises the policy measures must be addressed if the state intends to achieve sustained growth and reduce poverty. The figure 8.1 gives a clear overview of various levels of governance and suggests measures to move towards good governance. As observed from the research, the state of Orissa can probably be positioned as an incapable and unmotivated government. To move it to capable and motivated government, a comprehensive and structured reform - especially fiscal and governance reforms - is imperative and essential by adhering to the measures recommended in chapter 9.

To conclude, the starting point is recognition that there are two ways through which poor people can become less poor. One is by an increase in the size of the economic pie from which everyone in society draws his or her income. The other is by redistribution of a given sized pie so that the rich get a smaller proportion and the poor get a bigger proportion. In most cases the most effective way to give the poor a bigger proportion is to equalize opportunities by paying more attention to the social agenda which is possible through prudent and rational resource generation, allocation and finally utilisation. This can be achieved through concerted and coordinated implementation of governance and fiscal reforms. For the state of Orissa which has more than 47 percent of people below the poverty line, these reforms are of insurmountable importance and necessity.

This chapter presented a discussion on the fiscal and governance reforms in developed countries. The linkage between fiscal and governance reforms and how the state of Orissa can implement the reforms were discussed. Further, the role of multilateral and bilateral agencies was also discussed. The next chapter is the concluding chapter, which, while giving an overview of the themes discussed so far, attempts to provide concrete recommendations that the state of Orissa should adopt in order to successfully navigate the fiscal and governance reforms.

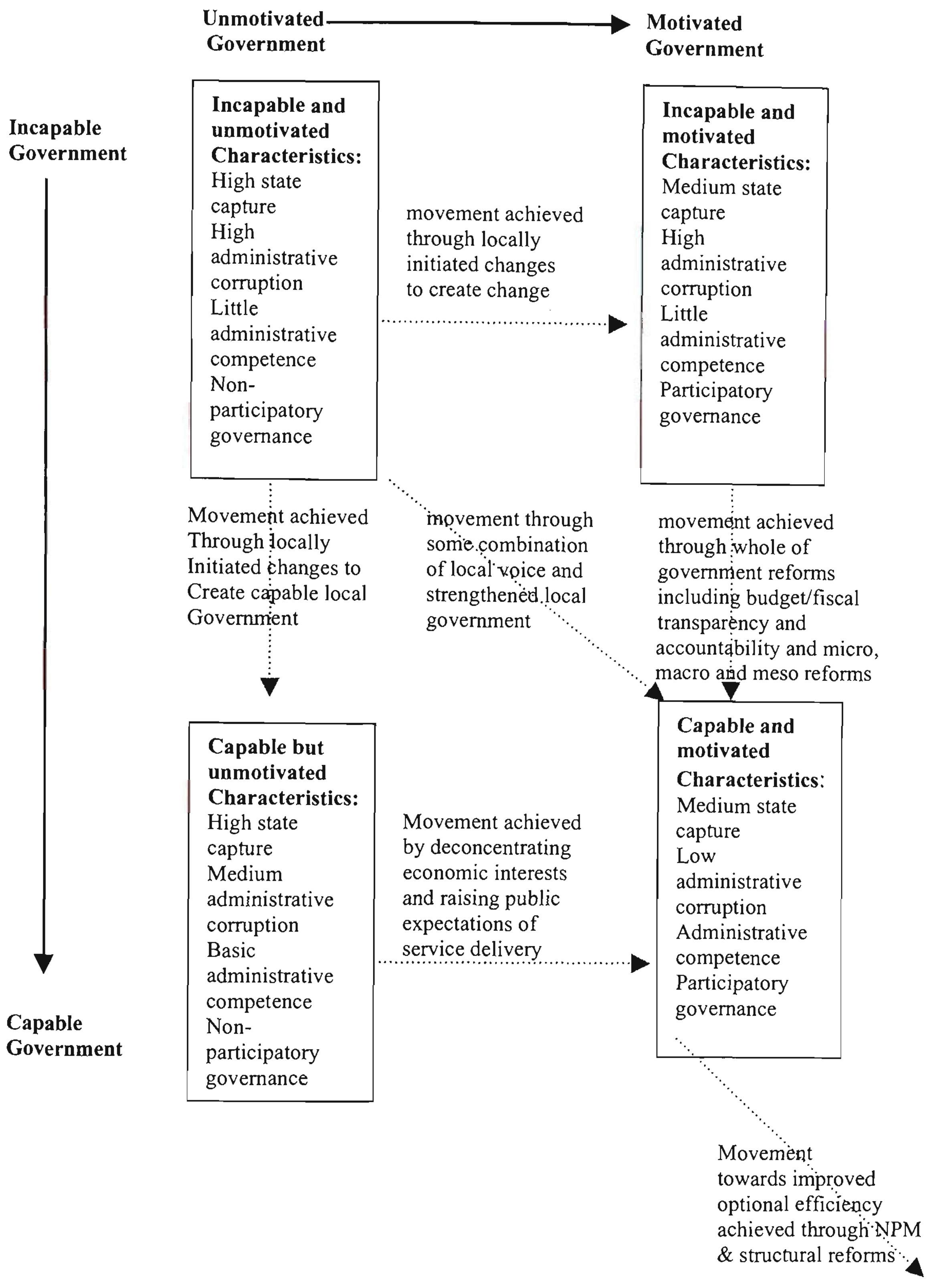

Figure 8.1 Variants, policy measures and sequencing public sector reforms

Chapter 9

Conclusions, Recommendations and Implications

If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you first enable the government to control the governed: and in the next place to oblige it to control itself. A dependence on people is, no doubt, the primary control on the government; but the experience has taught the mankind the necessity of auxiliary precautions.

James Madison, Federalist #51 (1787)

9.1 Introduction

The aim of this chapter is to provide a summary of previous chapters and to recommend reform measures that should be initiated to improve governance with fiscal sustainability that responds to the needs of the citizens in developing regions. Section 9.2 presents a Summary of Chapters, Section 9.3 provides the Recommendations, Section 9.4 deals with the Implications for Theory, Section 9.5 deals with Implications for Policy and Practice, and Section 9.6 deals with the Limitations and suggests areas for further research.

9.2 Summary of chapters

9.2.1 The research context, aims and significance of the research

Public sector reforms have come to center stage during the past two decades for developed and developing countries because of changing demands of citizens, associated problems of an expanding public sector and deteriorating fiscal situations in these countries. Reform measures have been initiated in developed countries since the early 1980s and their success has been attributed to the prevalence of good governance. These measures of good governance are administrative reforms, devolution of authority, enactment of various fiscal and budgetary reforms, freedom of information acts, corporate governance acts, policy initiatives to revamp state owned enterprises and so on. These countries to a large extent have succeeded in institutionalising flexibility and dynamism into the functioning of public sector (Wollmann 2003).

Though some developing countries such as Thailand, Indonesia South Korea and others introduced fiscal reform measures with the support of bilateral/ multilateral institutions and reaped spectacular outcomes initially, they however failed to sustain the process and the outcomes. Never, before the Asian crises, were the governance issues aired so much in the international and national contexts. This has led to a great interest to delve into the reasons for the slow pace of reforms, the limited benefits accrued from them to date, and the measures required to successfully implement reforms in developing countries.

This research was an attempt to respond to the broad question, ***What is the relationship between fiscal and governance reforms?*** and ***What are the methods, measures, processes and procedures that can make fiscal and governance reforms successful?*** Recommendations have been drawn to inform policy makers on future reform programs in developing countries, especially for Orissa, which was the main suject this research. This was achieved by reviewing literature on fiscal and governance reforms and its applicability in developed and developing countries.

The literature review followed the trajectory of reforms, describing the various reform elements and providing the convergent and divergent arguments of policy makers and practitioners in developing countries in general and India in particular. Further, the description highlighted what worked and what did not in different parts of the world. The literature review further revealed that there was little conclusive evidence regarding the linkage between fiscal and governance reforms, the sequencing and the reasons for success/ failure of reforms.

The scope of the research was defined in order to achieve its intended objectives. The limitations in the scope were also highlighted. The research was confined to the elements of fiscal and governance reforms, the basis for the theoretical framework and the subsequent interviews/ survey and analysis. Orissa was considered as the case study as it was the first state in India to embark on an ambitious program of public sector reforms since 1993.

9.2.2 Summary of the theoretical framework

The theoretical framework was a conceptual model designed for the purpose of this research. It was developed after a detailed analysis of literature pertaining to the field of research. It aimed at formulating the thematic linkage between fiscal and governance reforms, which would support policy makers in addressing issues of fiscal sustainability and good governance.

Based on the literature review, the elements of fiscal reforms were summarized as maintaining fiscal discipline, promoting strategic priorities and delivering value for money. The elements of governance reforms were transparency and accountability, decentralization and commercialization, and administrative reforms. It was inferred that fiscal and governance reforms were two sides of the same coin – interlinked, interwoven, interdependent and inseparable and were contingent upon some other factors such as the priorities of GOO and GOI, programs of multi/bilateral funding agencies, political priorities and socio-cultural systems, and so on.

The analysis and explanation of the theoretical framework was done by addressing the research questions. There were seven research questions which, using the analysis, tried to establish the success of reforms in developed countries and their replicability in developing countries, the linkages between fiscal and governance reforms, the trajectory of reform initiatives in India/ Orissa and finally the framework for Orissa to adapt in order to give a fillip to the reform process currently underway. These questions formed the bases for the research process.

9.2.3 Summary of the methodology

The research was based on both qualitative and quantitative methodologies for which data were collected through in-depth interviews and a survey using a structured questionnaire respectively. One hundred twenty two (122) respondents were identified as the target sample for the in-depth interviews based on their in-depth knowledge; extensive experience and willingness to participate in the research, of these 101 respondents were interviewed. This high percentage of responses was possible due to the researcher's ability to personally contact the respondents and schedule appointments at times convenient to respondents and because of his long standing association with government officials. The Researcher went to the headquarters of the World Bank, IMF, UN in the US and DFID, ASI, OPM, ODI in UK to interview experts. He also interviewed respondents in their country office in India and made a special effort to contact experts visiting country offices, especially the ADB. All the respondents were given the plain language statement for participants with the list of research questions. Permission was sought from respondents to record interviews on tape and/ or manually. The data so collected was subsequently transcribed and analysed manually in a thematic manner based on the research questions. Excerpts to strengthen the argument, which were non-repetitive in nature, have been quoted in the analysis.

A total of 159 questionnaires were distributed out of which 114 (72 percent) responses were received. The high response rate could be attributed to the issuance of a Government of Orissa administrative order and the extensive institutional support from the Chief Minister and Chief Secretary of Orissa. The target population for the survey were primarily government officials and representatives of bi/multilateral agencies. Also questionnaires were distributed selected representatives of research institutions and professional bodies, private sector, NGO and political representatives who were the potential stakeholders of the fiscal and governance reform programs. Responses from in-depth interviews and the literature review formed the basis for the conceptualisation and construction of a structured questionnaire. This was further refined and finalised in consultation experts and peers who have had practical experience in the area of investigation. The questionnaire along with the covering letter and a self-addressed envelope was distributed to the respondents. Once questionnaires were received they were coded and analysed using the SPSS package.

9.2.4 Summary of the results and discussion

This section is presented in three parts, the first is on the present status of fiscal and governance reforms in Orissa, the second part is on the linkage between fiscal and governance reforms and the third part is on the framework to be adapted by developing regions, with special reference to Orissa.

A substantial percentage of respondents stated that fiscal and governance reforms were yet to become a state priority and that the GOO lacks the commitment to implement reform measures. Seventy Nine (79) percent respondents reported that

Orissa was not a reforming state and 88 percent said that there was little progress in fiscal and governance reforms in the state. There was almost a consensus among respondents that Orissa was in a debt trap and that the economic rationale for decision-making was being ignored. It was also agreed that there was low transparency and accountability and the use of technology to enhance this was minimal. The monitoring and evaluation systems were weak. Most respondents affirmed the appropriateness of reforms for the state of Orissa. Respondents also agreed the importance of the implementation of administrative reforms because of the highly demotivated and unwieldy administration. Outsourcing to the private sector also won resounding support from the respondents. An MOU signed between GOI and GOO in 2001 for fiscal and governance reforms has not yet achieved the desired outcomes. Respondents consider that this is primarily because Orissa has not adhered to the implementation of the MTEF as laid down in the MOU. There was a consensus among the respondents that MTEF is achievable anywhere in the developing region and certainly in Orissa.

At present the poor resource generation and resource allocation and utilisation has led to spiralling of debts in developing countries. The major concern for policy makers therefore has been debt and effective public expenditure management, which are the basis for fiscal reforms. The respondents agreed that the method of responding to these concerns was through implementing a fiscal reform program elements of which were maintaining fiscal discipline through introduction of FRBM Act, prioritizing government activities through tax rationalization and MTEF, and achieving value for money through ensuring accountability and transparency in government activities. Overall, there was agreement that capacity building, decentralization, institutional strengthening, debureaucratization and marketization of non-core public sector activities, demarcation of merit and non-merit subsidies should be pursued by the government in order to progress in the direction of fiscal sustainability. There was a high degree of affirmation from the respondents for the introduction of monitoring and evaluation systems and engagement of political and bureaucratic support for achieving value for money. These were the elements of governance reforms considered in this study. In summary, it was observed that respondents affirmed that fiscal and governance reforms were interwoven and inseparable and implementing one would not yield the desired outcomes without the other being pursued.

Respondents claimed that Orissa has the dubious distinction of being notedfor its inefficient and bloated bureaucracy, and lack of accountability and transparency in public service that has led to its unsustainable fiscal situation. This unsustainability is abetted by inflexibility in expenditure management and poor flow of information and near absence of ownership at the administrative level. After 10 years of the onset of reforms, very little has been achieved, but there is a tacit understanding of the issues and problems in implementation. The respondents observed that reforms are appropriate and achievable in Orissa and should incorporate introduction of a FRBM Act, zero based reviews, VAT, disinvestment of defunct PSEs, rightsizing, redeployment and introduction of contractual appointments, and performance based and time bound (as is prevalent) incentives in the public service. There was also an agreement that Orissa can adapt some of the fundamental principles from the neighbouring states and other developing regions.

In brief, it was deduced from the interviews and surveys that fiscal reforms can be a success provided good governance is prevalent or governance reform measures are adopted in tandem with fiscal reforms. In Orissa, the fiscal reforms were not achieving desired outcomes since the governance aspects were not adopted.

9.3 Recommendations

The last decade has seen a steady deterioration in the state finances. The state also heavily suffers from malaise of poor cost recovery that does not lie merely in uneconomic pricing of these services; rather the problem is one of poor efficiency in governance. Hence, increasing prices will simply pass on the burden of production/ distribution inefficiency to the consumers resulting in resistance. Thus, despite a decade of reforms, fiscal consolidation at the state level has remained most elusive.

There is growing recognition that to improve fiscal policies, fiscal institutions need to be strengthened. This will require changes at the central level, the state level, and in center-state relations. Policy imperatives regarding public finances have to be taken up at three levels, the Central level, the State level and some policies have to be addressed at both the Central and State levels.

9.3.1 At central level

Legislating for fiscal discipline. The Fiscal Responsibility and Budget Management Bill (FRBM), passed by the Lok Sabha (lower house of parliament) in early 2003, which was initiated as early as 2000, mandates the elimination of the centre's revenue deficit by March 2008. This needs to be expedited into an Act at the earliest without further dilution of its provisions. The Bill pertains only to the central government, but three states - Karnataka, Punjab, and Tamil Nadu - have so far passed similar acts to limit their own deficits and others are following suit. A useful feature of the Act is the requirement that the central and concerned state governments annually publish multiyear fiscal strategies - developing time-bound road maps for restoring fiscal sustainability and publicly monitoring progress. If carefully implemented, this could enhance the credibility of India's fiscal policy.

State borrowing. While states ultimately have to be responsible for their own fiscal adjustment, reforming the borrowing regime they operate in ('hardening their budget constraints') will also help induce fiscal reform. Global borrowing caps should be introduced and enforced by the GOI. The caps should cover both on-budget and off-budget borrowing through state-level public enterprises and special purpose vehicles, where debt-servicing becomes a contingent liability in the budget. In return for much tighter control by the GOI over the annual quantum of borrowing, states could be given much greater freedom over how they arrange that borrowing. States should be allowed to borrow responsibly from the markets within their global cap. If necessary, a safety net can be provided for uncreditworthy borrowers.

Performance and reform-based transfers. The volume of center-to-state transfers linked to reform and performance needs to be expanded. The creation of the Fiscal Reforms Facility (FRF), recommended by the Eleventh Finance Commission, and the Accelerated Power Development and Reform Program (APDRP) for the power sector is a step in the right direction. The Fiscal Reform Facility provides grant funding for states that reduce their revenue deficit as a ratio of revenue receipts. Although the funding attached to the FRF is small given its universal coverage (only 2% of all transfers to the states), it has had a significant impact. They have helped GOI to start to discipline state borrowing in an environment characterized by multiple borrowing windows. In 2002/ 03, the FRF also started to provide authorization for qualifying states to borrow additional funds from the market.

Multilateral agencies also provide financing to reforming states through the GOI. It would be useful for assistance to fiscal reformers to be passed on not as loans but as grants, both to increase the incentives for reform and to help such states reduce their debt burden.

Measures to simplify expenditure management. Funding currently provided as plan support would be provided on the basis of an agreed and explicit set of criteria - which initially could be based on those currently in place - but could be termed 'development support' rather than 'plan support'. But GOI could take the lead by merging plan and non-plan divisions in the budget. The GOI also could help build this support by announcing that the move would enable funding for non plan areas, such as maintenance and recurring expenses.

Besides these broad measures, the specific reforms to be introduced are:

- Comprehensive computerisation of the tax system and universal usage of tax identification numbers in monetary transactions must be made mandatory for facilitating improved enforcement of the tax administration.
- Exemptions under corporate tax should be progressively eliminated.
- The coverage of the service tax must be expanded continuously under the union excise system so that much greater tax buoyancy can be achieved through increased coverage of the economy as a whole.
- Alignment should be made of customs tariff rates with average Asian rates.
- Exemptions and concessions that distort the tariff structure should be eliminated.
- Implementation should be ensured of the recommendations of the Expenditure Reforms Commission, for example, regarding progressive reduction of merit subsidies like fertilizer subsidy as well as elimination of non merit subsidies like petroleum subsidy.
- Food subsidy should be better targeted through the targeted public distribution system and specific programmes for the poor like Food for Work Programme, Midday Meals, Nutritional Support to Pre-School Children and Women etc.
- Curtailment of pay and allowances bill of the government must be pursued on a continuous basis, as, in the wake of the implementation of Fifth Pay Commission's recommendations, downsizing has become most crucial to reducing non-plan revenue expenditure.

- Improvement of the operational efficiency of public sector units should be targeted with a view to eventually eliminating all budgetary support and generating adequate internal resources.

9.3.2 At state level

Communication with the public to create demand for governance and sensitizing the citizenry towards pros and cons of reform is the first and foremost step the state government needs to initiate. Government needs to reach out to people on a regular basis through mass campaigns about the present fiscal situation, the issues and problems and the steps it intends to take so that the onus and ownership do not lie with the government only. The resource requirement is very minimal for this exercise; what is most important is the political will and conviction.

Improved access to information is a vital and fundamental requirement for good governance. Citizens' charters are one vehicle to empower the public in their dealings with service providers. It is important, however, that such charters be developed in consultation with major stakeholders and widely disseminated. NGOs can also play a vital role in this. GOI and a number of states are promoting greater transparency by adopting Right to Information legislation. Orissa is far behind in this aspect of governance. The benefit accrued to the state by having this policy will be immense and only requires the change of mindset of a few policy makers.

Capacity building by standardization of service delivery through infusion of technology such as computerization of front desks is required for the reform process to succeed. However, front delivery will not improve unless back end systems and processes are integrated. The time has come for the government to consolidate the e-governance efforts and carve out a clear cut policy. There are international and domestic organisations that are keen to support the state both financially and technically.

Misfeasance is the more impending issue in the state of Orissa. It is very much visible to any one that the entire bureaucracy is demotivated, dejected and reeling under mutual distrust. The gulf between political and bureaucratic leadership is yawningly wide. The wastage of public resources is worst victim of misfeasance. If the efficiency and effectiveness, which is probably at the lowest ebb, can be improved upon, the effect on governance will be noticeable.

Audit Compliance should be made mandatory. This will ensure and enforce some degree of transparency and accountability. Non-audit compliance should be treated with zero tolerance and should attract punitive actions such as increments stoppage, demotion and so on.

Reduction of political interference in the bureaucratic machinery is an important issue, which should be embedded in the reform process. This topic is a sensitive one, for the right to transfer civil servants is clearly vested within the political leadership under Article 310 of the Constitution. Yet few would disagree that both civil servants and politicians very often abuse this power. Recent successful reform efforts show the value of having an empowered and dedicated manager in place for several years. Karnataka has gone one step further and limited civil service transfers, with transfer data posted on a public website and more objective cadre management committees created to approve transfer requests. Orissa can follow the pattern established by Karnataka.

An evaluation system is the natural progression stage if the audit system has been effective and institutionalized. Like many developing countries, India also does not have a systematic and synchronized way of pursuing evaluation and monitoring. The state government should set up an independent institution like a centre for governance in line with Andhra Model (may be customized) for taking care of monitoring and evaluation of not only performances of policy makers and policies but also all the projects and expenses. Evaluations need to be a continuous affair, not a one off activity. This process needs to be institutionalized.

Civil servant and politician training is the foremost activity that needs to be initiated with topmost priority. To start with, rigorous training and exposure of the policy planners and implementers to the reform process undertaken elsewhere is most essential. The ongoing reforms are slow paced in the state because of bureaucratic and political misfeasance.

Administrative accountability through internal audit procedures should be strengthened, with clear sanctions for corruption or incompetence of officers. However, the key is to strengthen 'external' accountability to the public. The recent experience of the Lok Ayukta (Ombudsman) in Karnataka seems to be generating good results. Independence and adequate budgets are key to the success of such initiatives. In addition, a comprehensive anti-corruption strategy should include: (a) a radical overhaul and simplification of the procedures for imposing major and minor penalties; (b) expanded 'whistleblower' protection; and (c) publication of property and tax returns of senior officials. Each state should be asked to pass the Corrupt Public Servants (Forfeiture of Property) Act, which has already been drafted by the Law Commission. The state of Orissa should initiate this through internal restructuring provided political will is garnered.

Reducing the retirement age for government servants and redeployment of right people to the right place will enhance the efficiency and effectiveness of the government machinery. The reduction of retirement age will help in bringing people with new ideas and enthusiasm. There will be also some creation of new jobs if the retirement age is reduced and human resource restructuring can be made possible. Reduction in staff strength must be pursued through adoption of a policy of net attrition and constitution of a pension and amortization fund to make committed payments like terminal benefits and debt servicing self-financing. In addition, redeployment of staff should also be considered as a strategy for ensuring efficiency, responsiveness and productivity of public servants.

A Performance tracking system as part of the civil service reforms is being tried out in some states which at least ensures the quantitative improvement in the performance. Performance tracking needs to be complemented by the fixed tenure of bureaucrats. Continuity in tenure can also result in better accountability. The reform demands delegation of authority with responsibility to lower tiers of government and street level bureaucrats. The performance tracking system can be put on line so that there is a public scrutiny of the political and bureaucratic claims about the achievements. This will lead to good governance outcomes.

Many internal and external observers of Indian administration have argued that decentralization and local empowerment is essential in improving service delivery. The 73rd and 74th amendments though has obliged the states to decentralize to lower levels, but the states have been left with a wide range of discretion for devolution of authority and responsibility. The step which the Government of Orissa should try is decentralization in true spirit. The most visible achievement has been political decentralization without much of fiduciary power. The fiscal and administrative aspects of decentralization have been much more modest and hesitant. Administrative devolution has often failed to take account of the limited capacity of the local governments, the economies of scale in delivering services, or the potential of the private sector. Decentralization will not yield results in a short span of time. Decentralization can definitely boost service delivery and procurement. With the decentralization process on track, the government can not only ensure accountability and transparency but can also ensure revenue inflow through user fees. Since decentralization can heighten efficiency level of the government hence the delivery of public service, the citizenry will be more enthusiastic to be cooperative and participating hence the government can generate revenue through user fees.

The state of Orissa suffers from an economic paradox. It is the most marginalized state though many neighbouring states are becoming richer due to the natural wealth of Orissa. The economic climate is worsening progressively. The situation of Orissa is like African Oil rich poor countries. The existing institutions in the state need to be strengthened, reoriented and restructured to function like a single window clearance point for any investment whether domestic or foreign. This will be a proactive and progressive measure for taking forward both fiscal and governance reforms.

Vigilance surveillance in Finance - Sales Tax/ Excise/ Works/ Rural Development/ Water Resources/ Panchayati Raj and Transport Departments are an overdue policy objective. The government is committed to this but policy needs to be translated into action at the earliest.

Improving working ambience, though it may sound like a sweatshop concept, has direct implications for the overall governance reforms. The working environment has not been changed since independence. The entire secretariat and directorate along with the district head quarters require service-scape restructuring. Further, though the highest level bureaucracy has undergone evolution and changes, there exists a rigid structure down the line (which is termed as Kirani culture in local terminology which means what a clerk writes comes back with 28 signatures without any change in it) and needs reinvigoration.

Reduction in expenditure on administrative and establishment cost should be followed-up seriously. This exercise will not only improve fiscal situation but also governance, since slimming down of the bureaucracy will augment efficiency, hence lead to better governance.

Privatization of State Public Sector Units, especially those which are making losses and do not serve any social or economic objectives must be carried out. Though the state government has initiated the process but the process needs to be more vibrant.

Switching over to *ad valorem rates* of royalty on minerals through the Centre's initiative should be pursued. This has been a touchy and sensitive subject for GOO. As it is stated by the state government including the Finance Minister and the Chief Minister, the state is losing Rs. 750 crores every year due to the faulty policy of the federal government on the mining royalty. The present government appears to lack the sincerity about this policy measure. It is absolutely critical that this issue is addressed with all seriousness.

GOO should enact a Fiscal Responsibility and Budget Management Bill under which borrowings shall be restricted to attain a non-rising debt to GDP ratio from current levels in order to reduce the burden of interest payments. The ceiling can be fixed at a level, which the government considers sustainable. However, once the Act is enacted, government must adhere to it in letter and spirit. This kind of law will also allow the external agencies and other institutions along with investors to perceive the state's seriousness about the reforms.

Specific Fiscal Reforms. Figure 9.1 below sets out the framework for fiscal sustainability. There are primarily three vectors for the reorganising fiscal policy and institutions, (i) Enforcing fiscal discipline through the enactment of the FRBM Act and the time bound adherence to MTEF, zero based investment and review of ongoing projects and a debt swapping on a priority basis; (ii) Promoting strategic priorities through better allocation of resources which can be achieved by enhancing the revenue earning through tax rationalisation, devolution of fiscal powers, continuous budgetary reforms and (iii) delivering value for money which incorporates following standardised codes of transparency and ensuring oversight mechanisms.

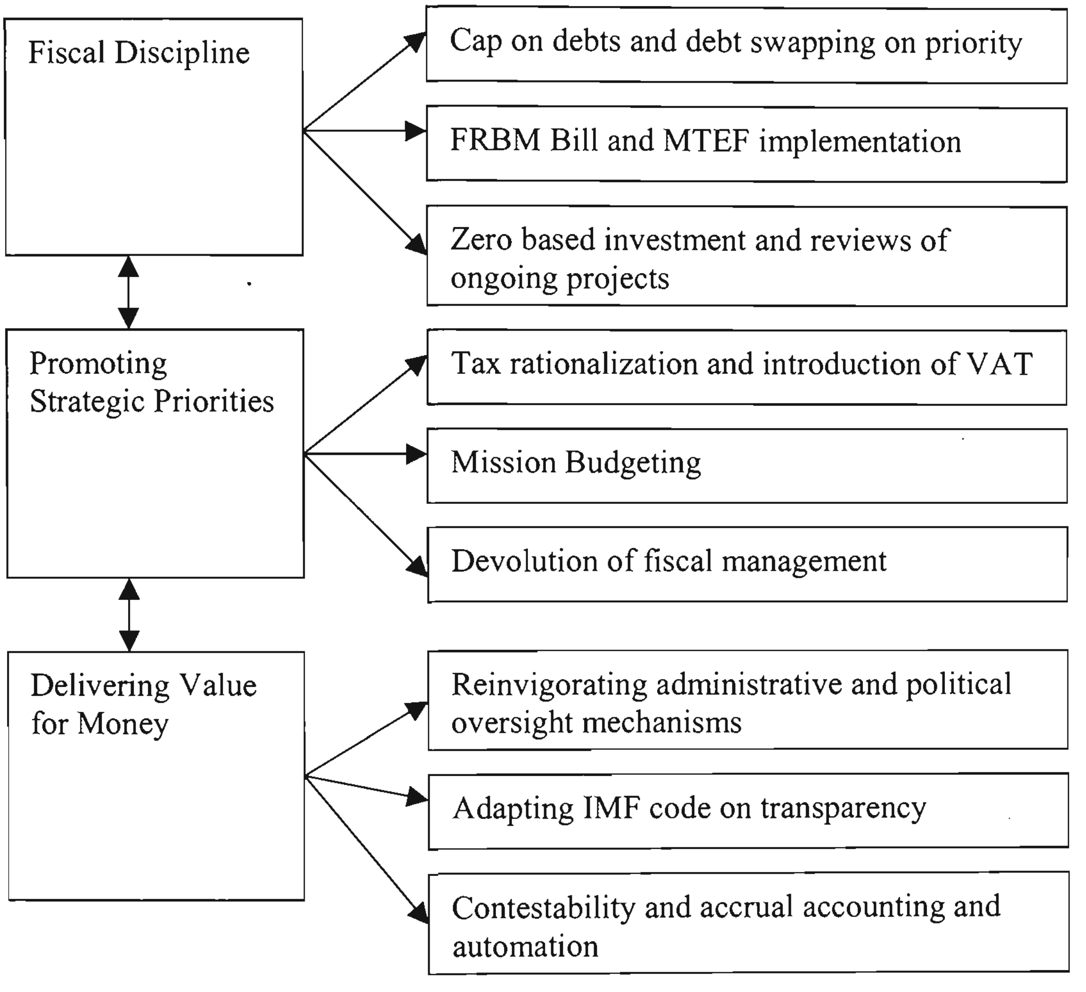

Figure 9.1 Three vectors model for fiscal reforms in Orissa

Budget preparation and approval in Orissa strictly comply with a fairly good and comprehensive legal and regulatory framework, but the process still results in a budget whose persistently over-optimistic projections of both capital expenditures and revenues, vitiate its chance of getting implemented as designed. To the extent that this lack of realism reflects political pressure, rather that weak technical capacity, training alone will not solve the problem. There is a need for political will to restrain politicians, and strengthen the capacity of civil servants to resist their pressures.

To the extent that the inadequacies described above have a technical origin, the following measures are recommended:

- Abrogation of supplementary budgets in entirety;
- Implementing the proposed measures described in the White Paper
  - The State was to adopt a medium term fiscal framework approach, whereby an expenditure projection would be formulated for the next five years, updated annually, and presented to the Assembly at the same time as the annual budget.
  - The State was to "start introducing realism in revenue forecasting in the budgetary process, leading in 2003 and beyond, to a systematic improvement in the accuracy of the forecasts".
  - The State also proposed to set up a training program for orienting the State Government officers in budget formulation, tax administration, and budget monitoring.

  These targets were set for the government for itself in the White Paper, but although three years have passed, little has been achieved;
- Unaudited annual financial statements of the State should be issued within less than six months following the end of the fiscal year, the final objective being to publish the audited financial statements within the next six months. This will enhance transparency;
- Comparative information for the preceding year should be included in all annual financial statements which will improve expenditure management;
- Confirming that all central government funds destined for projects in Orissa State have started flowing through the Orissa Government budget;
- Introducing output/ results budgeting to complement the current, purely financial budgeting to facilitate the assessment of the extent to which results of public expenditure are being achieved;
- Revising the Budget Manual by deleting obsolete provisions and making it more simple and dynamic;
- GOO to create, as soon as possible, a tax research unit, one of whose first priorities will be the introduction of a more scientific method for forecasting State revenues;
- Tightening of the assessment procedures, and action against officials responsible for specific cases of underassessment as pointed out by the reports of the Comptroller and Auditor General (CAG);
- Government to prepare Performance Budgets and comprehensive Annual Reports for all the departments in a more user-friendly form, to enable the legislature, as well as the average reader, to understand the purpose of proposed expenditures and have meaningful discussions on policies and programs;
- A political decision to remove (or at least limit) political pressures on the authors of the budget;
- Training and awareness building designed to replace budgetary optimism with a more conservative approach and
- Making Subject Committees in the Assembly more effective by endowing them with the attributes of Standing Committees in the Central Government.

Specific Governance Measures. Figure 9.2 below sets out the framework for improved governance. There are primarily three vectors for the reorganisation and restructuring of government, (i) reorganisation and restructuring of government which includes civil service reform and rightsizing, Decentralization and Commercialization and Process improvement through the use of IT; (ii) Accountability that can be ensured by service provision and contracts and performance guarantees and (iii) market mode operations and its efficiencies improved by developing internal markets thus enhancing competition and ensuring greater subcontracting of services.

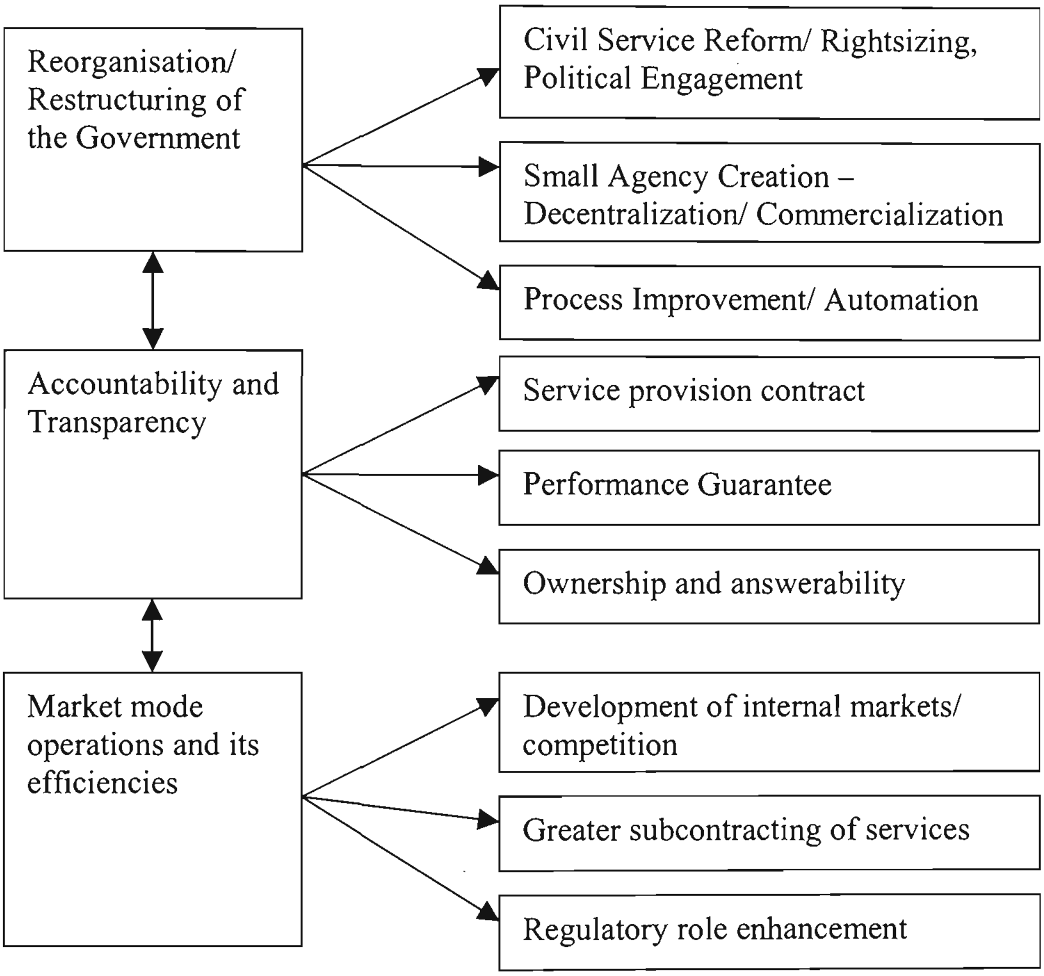

Figure 9.2 Three vectors model for governance reforms in Orissa

9.3.3 At central and state levels

- The extension of Value Added Tax (VAT) to the State level must be taken up at the earliest for facilitating its integration with the Central VAT and bringing about harmonization of tax rates levied by different tax jurisdictions.
- User charges must be raised to cost recovery levels and made acceptable by a

communication campaign to convince the general public that such a system would be in their own overall interest.

- An improvement in the Tax/ GDP ratio of Centre and States through inclusion of services in the tax base, removal of tax exemptions and concessions, harmonization of tax rates, tightening of tax administration, and adopting an integrated VAT regime is urgently called for.
- To a large extent, the task of the development administration would become easier if steps are taken to make available information, as a matter of right, to the citizens. The right to information has to be the starting point for much of the reforms proposed.
- It is necessary to undertake reforms in the revenue system, not only to have reasonable tax rates, and equally importantly, to reform the tax administration in order to make it more transparent, equitable, and user-friendly.
- Procedural reforms to cover all aspects of government's interface with the public are essential. Often private initiatives, entrepreneurial energies and innovations are snuffed out by the maze of red-tapism and procedural and legal hurdles that come in the way of development.
- Care and attention must be taken to formulate programmes, projects and schemes in a more systematic and professional manner to avoid faulty and incomplete design of the programme/ project /scheme.
- It is essential to strengthen the existing mechanisms for monitoring and evaluation, in order to make sure that plans are being implemented as envisaged and the impact is also as planned.
- Rationalisation of Centrally Sponsored Schemes (CSSs) and Central Sector Schemes (CSs) using Zero Based Budgeting has to be a regular exercise. (i) A new CSS will be permitted only in exceptional circumstances, only when an existing one cannot be modified, (ii) Monitoring and tracking State-wise flow of funds and assessing physical and financial targets under different CSSs and CSs will be essential, (iii) As far as possible CSSs should be conditional on reforms in that sector, (iv) There should be flexibility between components of a scheme.

➢ Civil Service Reforms must be aimed at improving transparency, accountability, honesty, efficiency and sensitivity in public administration at all levels. Figure 9.1 summarises some of the important components of Civil Service Reforms.

Table 9.1 Important components of civil service reforms

- The processes and the outcomes of policies, entitlements and procedures must be made *transparent,* widely shared and well displayed.
- It is believed and as such should be followed, that less *discretion* would lead to a more equitable and less corrupt system.
- Prevalent institutional arrangements will have to be reviewed and changes made so that those vested with *authority* are also made *accountable.*
- The present system of *rewards and punishments* in public life, which makes corruption a high return-low-risk activity, needs to be changed.
- It is necessary to review the situation, and identify departments and functions within departments that were once essential, but are now *redundant* and would need to be done away with.
- The induction of *professionals/ specialists* into the administrative system, on *contractual appointments* should be examined and suitable policy changes made in the entry policy.
- Pre-service and demand driven in-service *capacity building* for all cadres and ranks should be made a regular feature.
- *Contributory Pension System* for the new employees must be seriously considered.
- *Alternative ways of carrying out a job/ activity* must be examined and assigned to Government only if considered essential.
- *Stability of tenure* is essential and should be ensured for any constructive and sustainable work.

9.3.4 Role of bilateral and multilateral agencies

In India, multilateral and bilateral agencies have been operating for last three to four decades. They have gained sufficient insight into the inherent problems and prospects, still their actions do not complement the experience. The first and foremost job these agencies must take up is to facilitate political and bureaucratic engagement in the reform process. Continuous training and seminars need to be conducted for policy makers under their auspices.

Secondly, bilateral and multilateral agencies should extend technical support, such as bringing in expertise and best practices where required in addition to funding.

These agencies should facilitate the customization of various policy measures recommended by experts and not impose success stories from elsewhere without consideration for the local context.

To conclude, these agencies need to reorient their policies and approach to the public sector reform process in the state of Orissa and sensitize the administration, citizenry and civil society organisations about the reforms.

9.3.5 Targeting corruption

Corruption as a mediating factor has to be dealt with in a holistic manner. If fiscal and governance reforms are carried forward the issue of corruption would be tackled to a large extent. The matrix in figure 9.3 below gives a strategic direction to deal with corruption. Though 'corruption' per se has not been a major theme in this research, it has been addressed extensively through the issues of accountability and transparency, which are the more imminent concerns. To have a holistic approach toward corruption, legislative and judicial reforms are essential.

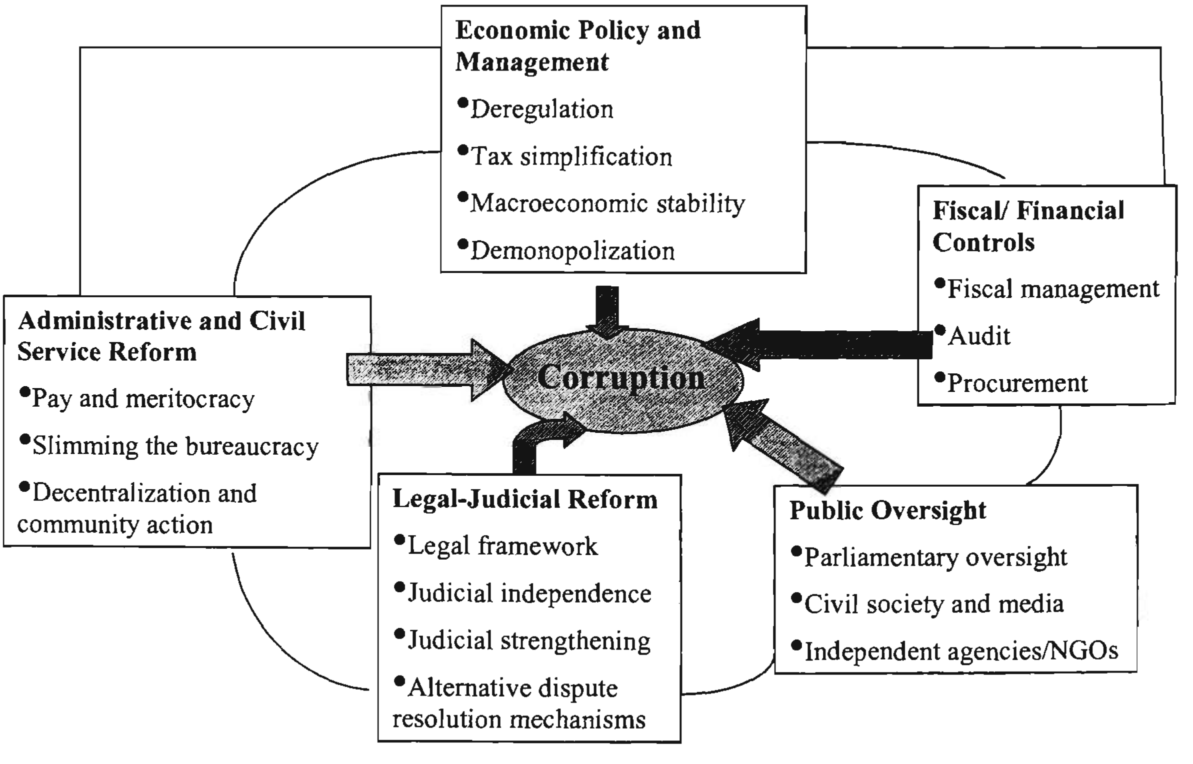

Figure 9.3 Multi-pronged holistic strategic model for combating corruption

9.4 Implications for theory

The implications to theory from this research were substantial. It was confirmed that fiscal and governance reforms have yielded desired outcomes to a large extent in developed countries primarily due to the responsive, accountable and result oriented governments being in place. Structural adjustment programs in developing countries have been with mixed results. The extensive literature review and the evidence from this research indicates that bloated bureaucracy, lack of accountability, non-transparency and high level of centralised power in most developing countries have proved to be obstacles for reforms to succeed. Further, it highlights the linkage between and interrelatedness of fiscal and governance reforms and therefore for reforms to succeed, both fiscal and governance reforms have to proceed in tandem. This research also filled the gap in knowledge in the field of public sector reform and emphasized the manner in which reforms could be applicable to developing regions, especially India and Orissa. Moreover, this research provides customized and practical recommendations for the implementation of fiscal and governance reforms in Orissa.

9.5 Implications for policy and practice

This research generated many implications for policy makers and practitioners, in the India, especially for the Government of Orissa. It is critical that the government communicates with the citizens to build confidence and trust, create a demand for good governance and ensure the responsiveness of the administration. The process of decentralization needs to be expedited and subnational local governments need to be economically and administratively empowered. The bureaucracy, with the highest ratio of civil servants to population, has proved to be the greatest impediment to progress and implementation of reforms, which was concurred by all the respondents including the Chief Minister and Chief Secretary of Orissa. This requires that civil service reforms is immediately attended to and prioritized. It has been established that efforts to implement fiscal reforms will be a futile exercise if governance measures are not implemented prior to or simultaneously. To start with, there should be a zero tolerance for legislative and administrative audit compliance. Further, for improved transparency and accountability, oversight mechanisms should be revitalized. It is confirmed from this research that debt swapping (replacing old high interest debts with cheaper loans) should be considered a priority. The provisions within MTEF should be adhered to and the FRBM Act should be enacted at the earliest to contain fiscal profligacy. It is suggested that customized accrual accounting should be considered as an alternative to the present cash based accounting. Adoption of technology is critical for revenue generation and public expenditure management. For the success of reforms, it is imperative that bilateral and multilateral agencies concentrate on greater political and bureaucratic engagement both at policy and implementation levels.

9.6 Limitations and implications for further research

The first and foremost limitation of this research is that the dynamic nature of fiscal and governance reforms poses restrictions in addressing all the relevant elements at a particular point of time.

Secondly, the scope of fiscal and governance reforms is vast and complex and therefore cannot be studied in its entirety. Therefore delimitations were imposed at the start of the study and some critical issues such as an in-depth analysis of corruption per se was not delved into in great detail. So also, legislative and judicial reforms, though receiving a mention were not analysed in depth. Likewise, in fiscal reforms, issues of direct taxes, subsidies and trade have not been discussed in depth.

One area for further research that could contribute significantly to knowledge in the area of public sector reforms would be to conduct a cross-country analysis of identified elements of reforms implemented in some developing countries of various regions across the globe. It would help in understanding what works, why and how and what does not, in the implementation of reforms.

The 'one size fits all' approach of bilateral and multilateral agencies has led to reform fatigue and failure in some instances. This has been corroborated by Pollitt and Bouckaert (2000, p. 13) in their statement, "the management reforms in any particular country will almost certainly be shaped by the local preoccupations and priorities of the politicians and private actors most concerned. These local frames of reference are likely to vary a good deal. The successful application of a single template right across the globe (or even across the liberal democracies of Western Europe, North America and Australasia) is therefore inherently improbable". The experience of these agencies has also led to the conclusion by UN that, "reductionist one sided, one size fits all are common characterizations of the principles and methods that guided these reforms in many developing and transitional countries. Often externally induced and mostly supply driven, they took insufficient account of the specific needs, priorities, conditions, culture and possibilities of the targeted countries. Instead of their stated objectives, what they sometimes accomplished, as a result, was a 'hollowing out of the State' with unfortunate results for the countries concerned" (UNDP 2001, p. 47).

From country to country - and even within each country – the mix of reform concepts and components being considered or implemented may vary greatly. On the one hand, public sector reform especially fiscal and governance reforms often is not a water tight, well-defined and consistent body of concepts (Christensen & Laegreid 2001). Instead, it is a bundle of different and sometimes contradictory concepts. Picking and eclectically selecting from what can be called as 'shopping basket', the varied concepts and elements of reform strategies and measures are required to be portioned and 'packaged' in different national, regional and local contexts. On the other hand, in many situations reform concepts and components which stem from a previous reform period may persist and lend themselves to amalgamation with reform-specific elements. This kind of dynamics in reforms can be examined as in further research.

Though this research has assigned specific importance for the implementation of fiscal and governance reforms in Orissa, there are extensive scope for its replication in other developing regions which may be the basis for further research.

Since the subject matter is dynamic there is scope for further research in these areas at different points in time to update the information and review what works and what does not. Therefore continuous research is called for.

9.7 Conclusions

The government of Orissa faces demanding problems. Not only is economic growth and development the problem; it has to face up to the challenges of poor governance, negative cash flow to the treasury, high poverty levels and investors' disenchantment with the state apparatus. The research has recommended achievable fiscal and governance reform measures for the state government to pursue. The measures suggested could be adhered to, though with some customisation, by any government, which is proposing to initiate or is facing obstacles in carrying forward fiscal and governance reforms. All the evidence from this study shows that fiscal and governance reforms are intrinsically linked and should be pursued simultaneously. Other Indian states can gain substantially from this study. However, these reforms are dynamic single research effort cannot suffice to enlighten the government in entirety to ensure that reforms are a success. Hence, this study can be taken as the benchmark and further research should be carried on, at regular intervals.

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Appendix 1

Human Research Ethics Committee Approval

Appendix 2

Government of Orissa Administrative Order

Appendix 3

Table indicating interview details

Sl. No	Name	Organization	Designation	Time (in mins)
1	Dr. David Phillips	Adam Smith Institute	Senior Policy Advisor	30
2	Peter Young	Adam Smith Institute	International Director	30
3	William Morrison	Adam Smith Institute	Senior Policy Advisor	45
4	Robert Beschel	ADB	Governance Specialist	60
5	Stephen Pollard	ADB	Economist	30
6	Sudipto Mundle	ADB	Economist	45
7	Thuy Mellor	ADB	Financial Management Specialist	45
8	Dana Weist	ADB	Public Sector Advisor	60
9	Frederic Brouder	ADB	Governance Advisor	30
10	Dr. S. K. Tamotia	Aditya Birla Group, Aluminum Division	Group President, President CII (Orissa chapter)	80
11	Mr. Peter Sutherland	Canada	High Commissioner	30
12	Dr. P. K. Mohanty	Center for Good Governance	Executive Director	90
13	Jagadanand	Center for Youth and Social Development	Member Secretary	90
14	Tarun Das	Confederation of Indian Industries	President	60
15	Dr. Arjan De Haan	DFID	Social Development Advisor	60
16	Dr. Aruna Bagchee	DFID	Senior Governance Advisor	60
17	Barbara Hendrie	DFID	Social Development Advisor, working on Africa	45
18	John Burton	DFID	Economist, previously in Delhi now working on Vietnam	30
19	Pauline Hayes	DFID	Governance Advisor	45
20	Roger Wilson	DFID	Chief Governance Advisor	45
21	Vijay Pillai	DFID	Economist, working in Andhra Pradesh	45
22	Shantanu Mitra	DFID	Senior Economic Advisor	80
23	Shri. P. K. Mishra	Govt.of India	Secretary, Ministry of Coal	40
24	Shri Dipak Chatterjee	Govt.of India	Secretary, Ministry of Commerce	40
25	Shri S.S. Meenakshishundaram	Govt.of India	Secretary, Ministry of Disinvestment	40
26	Dr. S. Narayan	Govt.of India	Secretary, Ministry of Finance & Company Affairs	30

27	Shri Naresh Narad	Govt.of India	Secretary, Ministry of Heavy Industries	30
28	Shri C. S. Rao	Govt.of India	Secretary, Ministry of Finance & Company Affairs	40
29	Shri. D. C. Gupta	Govt.of India	Secretary, Ministry of Finance & Company Affairs	40
30	Shri S. B. Mohapatra	Govt.of India	Secretary, Ministry of Textiles	40
31	Chhatar Singh	Govt.of India	Joint Secretary, Prime Minister's Office	60
32	P. C. Hota	Govt.of India	Chairman, Union Public Service Commission	45
33	N. C. Saxena	Govt.of India	Former Cabinet Secretary & Member Planning Commission	45
34	Ernesto Betancourt	IMF	Senior Economist	40
35	Michio Atushi	IMF	Economic Advisor	40
36	Steven Samansky	IMF	Economist	30
37	Prof. R. Radhakrishna	Indira Gandhi Institute of Development Research	Director	90
38	Dr. G. C. Kar	Nabakrushna Choudhury Center of Development Studies	Director	80
39	Dr. S. N. Mishra	Nabakrushna Choudhury Center of Development Studies	Professor	60
40	Kanhaiya Singh	NCAER	Senior Economist	90
41	Dr. M. Govinda Rao	NIPFP	Director	60
42	Dr. Tapas K. Sen	NIPFP	Senior Fellow (Professor)	60
43	Dr. Om Prakash Mathur	NIPFP, Seconded to IMF	Professor	45
44	Adrian Fozzard	ODI	Economist	40
45	Ian Thyne	Oxford Policy Management	Public Sector Specialist	45
46	Gurcharan Das	Proctor & Gamble India	Former CEO	60
47	Rob Lawrence	Reserve Bank of Australia	Senior Economist	60
48	Jonathan Coppel	Reserve Bank of Australia	Deputy Head	60
49	Michael Patra	Govt. of India	Chief Economist, Reserve Bank of India	40

50	David M. Luna	U.S. Department of State	Director, Anticorruption & Governance	60
51	Dileep Nair	UN, Internal Oversight Services	Under Secretary General	45
52	Paul Oquist	UNDP	Coordinator SE Asian Region	60
53	Dr. Phyllis Dickstein	UNDP, Dag Hgammarskjold Library	Head Librarian	60
54	Tay Keong Tan	UNDP, Office of Internal Oversight Services	Special Assistant to the Under Secretary General	60
55	Prof. A. Mohanty	Utkal University, Orissa	Professor RBI Chair	60
56	Assoc. Prof. P. Mishra	Utkal University, Orissa	Associate Professor	60
57	Clay G. Wescott	World Bank	Senior Public Administration Specialist	45
58	Dilip Rath	World Bank	Senior Economist	30
59	Doug John Porter	World Bank	Senior Governance	30
60	Ivor Beazley	World Bank	Public Expenditure Management specialist	40
61	Jose Edgardo Campos	World Bank	Senior Economist	30
62	Rachel Turner	World Bank	Economist	40
63	Reidar Kvam	World Bank	Social Development Advisor	40
64	Salvatore Schiavo-Campo	World Bank	Senior PEM Specialist	45
65	Sanjay Pradhan	World Bank	Senior PEM Advisor	45
66	V. J. Ravishankar	World Bank	Economist, New Delhi	30
67	Vikram K Chand	World Bank	Senior Public Sector Management Specialist	60
68	Vinay Swaroop	World Bank	Lead Economist	30
69	Vinod Sahgal	World Bank	Regional Pubic Financial Accountability Specialist	45
70	Mike Steven	World Bank	Economist	40
71	Kaushik Basu	World Bank	Economist	40
72	Stephen Howes	World Bank	Lead Economist	30
73	Daniel Kaufman	World Bank	Advisor	30
74	Michael Carter	World Bank	Country Head, India	30
75	Dr. John Williamson	World Bank Institute	Advisor	30
76	Shri P.K.Mohanty	Govt. of Orissa	Chief Secretary	45
77	Shri Srinibas Rath	Govt. of Orissa	Development Commissioner	45
78	Shri Sanjib Ch. Hota	Govt. of Orissa	Additional Chief Secretary	45
79	Shri R. Balkrishnan	Govt. of Orissa	State Relief Commissioner	60

80	Shri J. K. Mohapatra	Govt. of Orissa	Secretary to Chief Minister & Secretary Public Enterprises	45
81	Shri S. K. Satpathy	Govt. of Orissa	Spl. Secretary to Chief Minister	60
82	Shri Ajit Tripathy	Govt. of Orissa	Principal Secretary, Finance	40
83	Shri U. S. Bhatia	Govt. of Orissa	Secretary, Industries	30
84	Shri S. Agnihotri	Govt. of Orissa	Secretary, General Admn.	45
85	Shri S. N. Tripathy	Govt. of Orissa	Secretary, Panchayati Raj	60
86	Shri Aurobindo Behera	Govt. of Orissa	Secretary, Rural	40
87	Shri G. C. Pati	Govt. of Orissa	Chairman & Managing Director, IDCOL	40
88	Shri D. N. Padhi	Govt. of Orissa	Secretary, Steel and Mines & Energy	45
89	Shri A. S. Sarangi	Govt. of Orissa	Principal Secretary, ST/ SC Welfare	45
90	Shri B. K. Patnaik	Govt. of Orissa	Secretary, Water Resources	60
91	Shri P.K. Mishra	Govt. of Orissa	Spl. Secretary, Rail Co-ordn. & Transport	40
92	Shri Pramode. K. Mishra	Govt. of Orissa	Spl. Secretary, Finance	60
93	Shri R.V. Singh	Govt. of Orissa	Spl. Secretary, Planning & Coordination	60

Appendix 4

RESEARCH QUESTIONS	FISCAL REFORMS			GOVERNANCE REFORMS		
	Maintaining Fiscal Discipline	**Promoting Strategic Priorities**	**Value for Money**	**Accountability and Transparency**	**Decentralisation and Commercialisation**	**Administrative Reforms**
What evidence is there of fiscal and governance reforms occurring in developed countries?	If you agree that MACRO, MESO & MICRO economic reforms have been in place since early 80s in OECD Countries, what would you consider are/ were the internal drivers for these reforms?	Is MTEF/ MTFRP achievable in letter and spirit in any country?	How do you ensure greater value for money in a highly centralised system governed by a complex set of relationships (CSP, etc)	Are accountability and transparency universal issues? What has been the level of fiscal (expenditure and saving) transparency and accountability achieved in any country? How can it be improved upon?	How do you define a successfully reformed country? In your experience, is there any evidence that decentralization necessarily leads to greater efficiency, cost effectiveness, quality and participation?	Has there been any need for administrative reform in the developed world and for what purpose? Is there any success model that can be replicated elsewhere?
What are the characteristics of these reforms?	What are/ were the external factors influencing the momentum of these reforms? Would you support the claim that Public Sector Reforms especially Fiscal Reforms have worked well in OECD countries? In those OECD countries that have implemented reforms well as in	How can revenue enhancement and expenditure saving targets to reduce fiscal deficits be achieved?	What do you consider as 'value for money'? How do you differentiate "value for money" between developed and developing countries?	What kind of legal framework is required to ensure greater transparency and accountability? (laws, administrative orders, charters, etc)	Would decentralisation of financial management, authority and responsibility necessarily lead to improved governance and better fiscal management?	Do you corroborate the allegation that rampant corruption prevails in developing coutnries? Can you be more specific on this – whether it is malfeasance or misfeasance or both you reckon the state suffers from?

	New Zealand, Australia and UK, what do you consider the common factors enabling this implementation?					
How have fiscal and governance reforms been linked?	Do you agree that there exist explicit and implicit links between fiscal and governance reforms?	Is it necessary to implement fiscal and governance reforms to promote strategic priorities? How can the strategic priorities be promoted in the budget allocation? (zero-based review)	Can fiscal reforms ensure the realisation of value for money without governance reforms in place?	Do you agree that financial accountability and transparency can be achieved if good governance is in vogue? How do you ensure access to information? What is the role of e governance in fiscal reforms?	What measures would you recommend States should adhere to for effective decentralisation? Would improved human resource management (rightsizing) and devolution of power and functions lead to good governance?	What measures should the state adopt to contain the corruption while ensuring that the civil service remains effective, productive, responsive and accountable?
What have been the roles of bi-lateral and multi-lateral funding agencies in advancing fiscal and governance reform process?	What should be the role of funding agencies in promoting reforms? Do you agree that funding agencies have played their role effectively in promoting reforms?	How can the resources be used efficiently and effectively in the implementation of strategic priorities?	What is the level of fungibility of loans/ aids in developing countries and especially Orissa?	Do you think Governments should adhere to transparency norms laid down by funding agencies? If no, then what measures should they take to achieve the desired outcomes?	How should funding agencies reconcile with the lack of convergence at the local level, in terms of both activities and institutions (political representatives and the executive machinery).	What hindrance(s) do the funding agencies face? How should funding agencies respond to the issue of corruption?
What are the reasons for the fiscal and	Is the State's debt level beyond the tolerance limit? Is	Is there any coordination of aid and loan with	What are the monitoring and evaluation	Has the lack of accountability and transparency in	Is the level of commercialisation of non-essential public	Is there lack of public service commitments for

governance crisis in Orissa and India?	the State in a real debt trap as claimed in the white paper? Is the budget procedure and process followed transparent?	budget in targeting strategic priorities during the fiscal year? If no, then how can the strategic priorities be achieved/ improved in the State?	procedures in place to assess public expenditure and policy impacts? What improvements you recommend to make the budget a comprehensive and effective tool for fiscal and governance reforms?	public expenditure management and service delivery led to the fiscal and governance crisis in Orissa?	services in the state adequate to overcome the present crisis in the State?	reforms? How can it be improved upon?
What has been the progress of fiscal and governance reforms in Orissa and India?	What are the short and long term steps to be taken to contain the debt trap?	How do you evaluate the timeliness and reliability of fiscal reporting?	What would be the indicators to measure the state's progress into the bracket of reformed states (even after 8 years of implementation of power sector reforms)?	What is the guarantee that fiscal and governance reforms will succeed when other reforms have failed?	Are there inherent institutional and systemic incapacitations, that is, are institutions and systems inherently weak in the state?	How imperative is the civil service reform? Do you agree that no substantial progress has been achieved in this front even after 5 years?
How appropriate are fiscal and governance reforms in Orissa?	Can the State survive without massive structural reforms? How the debt management system can be improved upon?	What sort of taxation reforms you suggest should be adopted both at state and federal level?	What should be the systems in place to ensure the value for money in procurement and disbursements?	What should be the procedures in place for public service delivery to ensure transparency and accountability?	Should certain sectors be prioritised for immediate reforms and how?	Is reduction of the civil service by 20% in five years appropriate and realistic?
What	Is the ceiling limit	How can the state		How do you rate	Is there any particular	

opportunities are there for Orissa to adapt fiscal and governance reforms undertaken elsewhere?	set in the budget and fiscal planning adhered to? Is the rigour of approval procedures satisfactory? Is the appraisal technique effective?	improve upon the public service delivery while observing reticence on direct, indirect and cross subsidisation?		the rule based transparency and accountability mechanism in the state? What sort of reforms does this need?	model or region (such as MP or AP) Orissa State can emulate as its role model? Can any other country or region be emulated as the role model for Orissa?	
What are the methods, measures, processes and procedures that can assist Orissa to implement fiscal and governance reforms successfully?	How do you assess the link between capital and recurrent expenditure? What should be done for better effectiveness of allocation?	Should privatisation of public sector be considered as a strategic priority for Governments with fiscal problems?			Is the state suffering from reform fatigue?	How the state can reinvent its governance? How can government best prepare it for current and future reforms?
	How do you rate the level of control procedures and reallocations of expenditure and what improvements you suggest?	Is promoting industrial development and foreign direct investment the way to go? Will it necessarily lead to development outcomes that benefit the poor and marginalised groups?				

Appendix 5
Respondents for Survey

Sl No	Name	Organization	Designation
1	Dr. David Phillips	Adam Smith Institute	Senior Policy Advisor
2	Peter Young	Adam Smith Institute	International director
3	William Morrison	Adam Smith Institute	Senior Policy Advisor
4	Jak Jabes	ADB	Governance Advisor
5	Laura M. Walker	ADB	Governance Specialist
6	Robert Beschel	ADB	Governance
7	Stephen Pollard	ADB	Economist
8	Sudipto Mundle	ADB	Economist
9	Thuy Mellor	ADB	Financial Management Specialist
10	Dana Weist	ADB	Public Sector Advisor
11	Frederic Brouder	ADB	Governance Advisor
12	Dr. S. K. Tamotia	Aditya Birla Group, Aluminum Division	Group President, President CII (Orissa chapter)
13	Mr. Peter Sutherland	Canada	High Commissioner
14	Prabodh Mohanty	CARE India (NGO)	Program Officer
15	Dr. P. K. Mohanty	Center for Good Governance	Executive Director
16	Jagadanand	Center for Youth and Social Development (NGO)	Member Secretary
17	Rod McLeod	Concern Worldwide (NGO)	Country Director
18	Tarun Das	Confederation of Indian Industries	President
19	Amarjeet Sinha	DFID	Education Advisor
20	Dr. Arjan De Haan	DFID	Social Development Advisor
21	Dr. Aruna Bagchee	DFID	Senior Governance Advisor
22	Barbara Hendrie	DFID	Social Development Advisor, working on Africa
23	John Burton	DFID	Economist, previously in Delhi now working on Vietnam
24	Pauline Hayes	DFID	Governance Advisor
25	Roger Wilson	DFID	Chief Governance Advisor
26	Vijay Pillai	DFID	Economist, working in Andhra Pradesh
27	Shantanu Mitra	DFID	Senior Economic Advisor
28	Shri. P. K. Mishra	GOI, Ministry of Coal	Secretary
29	Shri Dipak Chatterjee	GOI, Ministry of Commerce	Secretary

30	Shri S.S. Meenakshishundaram	GOI, Ministry of Disinvestment	Secretary
31	Dr. S. Narayan	GOI, Ministry of Economic Affairs, Ministry of Finance	Secretary
32	Shri V. Govindrajan	GOI, Ministry of Industrial Policy and Promotion	Secretary
33	Shri Naresh Narad	GOI, Ministry of Public Enterprises	Secretary
34	Shri C. S. Rao	GOI, Revenue, Ministry of Finance	Secretary
35	D.C.Gupta	GOI, Expenditure, Ministry of Finance and Company Affairs	Secretary
36	Shri A.K. Rastogi	GOI, Inter State Council Sectt.	Secretary
37	Shri S. Narayan	GOI, Ministry of Finance	Secretary
38	Shri S. B. Mohapatra	GOI, Ministry of Textiles	Secretary
39	Chhatar Singh	GOI, Prime Minister's	Joint Secretary
40	P. C. Hota	GOI, UPSC	Chairman
41	R.R.Shah	GOI, Ministry of Information Technology	Secretary
42	N. C. Saxena	GOI	Former Cabinet Secretary
43	Stephen Howes	IMF	Lead Economist, New Delhi
44	Ernesto Betancourt	IMF	Senior Economist
45	Michio Atushi	IMF	Economic Advisor
46	Steven Samansky	IMF	Economist
47	Prof. R. Radhakrishna	Indira Gandhi Institute of Development Research	Director
48	Dr. Raghunath Jha	International Development Institute, Australia	Professor
49	Dr. G. C. Kar	Nabakrushna Choudhury Center of Development Studies	Director
50	Dr. S. N. Mishra	Nabakrushna Choudhury Center of Development Studies	Professor
51	Kanhaiya Singh	NCAER	Senior Economist
52	Dr. M. Govinda Rao	NIPFP	Director
53	Dr. Tapas K. Sen	NIPFP	Senior Fellow (Professor)
54	Dr. Om Prakash Mathur	NIPFP, Seconded to IMF	Professor
55	Adrian Fozzard	ODI	Economist
56	Ian Thyne	Oxford Policy Management	Public Sector Specialist

57	Gurcharan Das	Proctor & Gamble India	Former CEO
58	Rob Lawrence	Reserve Bank of Australia	Senior Economist
59	Jonathan Coppel	Reserve Bank of Australia	Deputy Head
60	Michael Patra	Reserve Bank of India	Chief Economist
61	S. B. Nayak	Sterlite Industries	Group Technical Advisor
62	David M. Luna	U.S. Department of State	Director, Anticorruption & Governance
63	Dileep Nair	UN, Internal Oversight Services	Under Secretary General
64	Paul Oquist	UNDP	Coordinator SE Asian Region
65	Dr. Phyllis Dickstein	UNDP, Dag Hgammarskjold Library	Head Librarian
66	Tay Keong Tan	UNDP, Office of Internal Oversight Services	Special Assistant to the Under Secretary General
67	Francis Montil	UNDP, Office of International Oversight Services	Senior Investigator
68	Prof. A. Mohanty	Utkal University, Orissa	Professor RBI Chair
69	Assoc. Prof P. Mishra	Utkal University, Orissa	Associate Professor
70	Prof. S. Panda	Utkal University, Orissa	Professor
71	Sam Sharples	World Bank	Senior Governance Advisor
72	Clay G. Wescott	World Bank	Senior Public Administration Specialist
73	Dilip Rath	World Bank	Senior Economist
74	Doug John Porter	World Bank	Senior Governance Specialist
75	Ivor Beazley	World Bank	Governance, Public Expenditure Management Specialist
76	Jose Edgardo Campos	World Bank	Senior Economist for Governance
77	Rachel Turner	World Bank	Economist
78	Reidar Kvam	World Bank	Social Development
79	Richard Allen	World Bank	Advisor on Governance
80	Richard Teuten	World Bank	Ex-economist, now working on budgetary assistance policy
81	Salvatore Schiavo-Campo	World Bank	Senior PEM Specialist
82	Sanjay Pradhan	World Bank	Senior PEM Advisor
83	V. J. Ravishankar	World Bank	Economist, New Delhi Office
84	Vikram K Chand	World Bank	Senior Public Sector Management Specialist
85	Vinay Swaroop	World Bank	Lead Economist
86	Vinod Sahgal	World Bank	Regional Pubic Financial Accountability Specialist
87	Mike Steven	World Bank	Economist

88	Kaushik Basu	World Bank	Economist
89	Stephen Howes	World Bank	Lead Economist
90	Daniel Kaufman	World Bank	Advisor
91	Michael Carter	World Bank	Country Head, India
92	Dr. John Williamson	World Bank Institute	Advisor

Officials of Government of Orissa

Sl.No.	Name	Department	Designation
1	Shri P.K.Mohanty	Govt. of Orissa	Chief Secretary
2	Shri Srinibas Rath	Govt. of Orissa	D.C.
3	Shri Sanjib Ch. Hota	Govt. of Orissa	A.P.C.
4	Shri N. Sanyal	OSDMA	MD
5	Shri R. Balkrishnan	Govt. of Orissa	SRC
6	Shri T. Ramachandrudu	Govt. of Orissa	Secy. to Governor
8	Shri J. K. Mohapatra	Govt. of Orissa	Secretary to C.M. & PE
9	Shri S. K. Satpathy	Govt. of Orissa	Spl. Secretary to C.M.
10	Shri N.C. Vasudevan	Commerce & Transport	Secretary
11	Shri R. L. Jhamuda	Revenue & Excise	Secretary
12	Shri R. C. Behera	Education (Higher)	Secretary
13	Shri J. Panda	Education (School &ME)	Secretary
14	Shri R. N. Bohidar	Energy	Secretary
15	Shri Ajit Tripathy	Finance	Principal Secretary
16	Shri Ashok Tripathy	Fisheries & A.R.D.	Secretary
17	Shri G.B.Mukherji	Forest & Env.	Secretary
18	Shri T. K. Mishra	Food Supplies & C.W.	Secretary
19	Shri S. Srinivasan	General Admn.	(Spl.Secy.)
20	Shri R. N. Senapati	Health & F.W.	Secretary
21	Shri Santosh Kumar	Home	Secretary
22	Shri A. K. Samantray	Housing & U.D.	Secretary
23	Shri U. S. Bhatia	Industries	Secretary
24	Shri J. P. Dash	Information & P.R.	Secretary
25	Shri S. Agnihotri	General Admn.	Secretary
26	Shri Rajalakshmi	Labour & Empl.	Secretary
27	Shri H. Mohapatra	Law	Secretary
28	Shri S. N. Tripathy	Panchayati Raj	Secretary
29	Shri G. C. Dhal	Western Division	RDC
30	Shri Jagar Singh	Public Grievances & P.A.	Secretary
31	Shri A. K. Panda	Southern Division	RDC
32	Shri Aurobindo Behera	Rural Development	Secretary
33	Shri G. C. Pati	IDCOL	CMD

34	Shri P. C. Mishra	Sports & Y.S.	Secretary
35	Shri D. N. Padhi	Steel & Mines	Secretary
36	Shri A. S. Sarangi	S.T. & S.C. Development	Principal Secretary
37	Shri M.M. Mohanty	Textiles & Handloom	Principal Secretary
38	Shri Asit Tripathy	IT & Tourism	Secretary
39	Shri B. K. Patnaik	Water Resources	Secretary
40	Smt. Madhur Sarangi	Women & C.D.	Secretary
41	Shri B. M. Patnaik	Works	Secretary
42	Shri P.C. Mishra	Home	Spl. Secty
43	Shri P.K. Mishra	Rail Co-ordn. & Transport	Spl. Secy.,
44	Shri P.K. Mishra	Finance	Spl. Secy.,
45	Shri R.V. Singh	P&C	Spl. Secy.,
46	N.B.Dhal	Govt. of Orissa	Collector, Anugul
47	Vishal Ku. Dev	Govt. of Orissa	Collector, Balasore
48	V. V. Yadav	Govt. of Orissa	Collector, Bargarh
49	Rashmiranjan Patnaik	Govt. of Orissa	Collector, Bhadrak
50	S. K. Lohani	Govt. of Orissa	Collector, Bolangir
51	Vishal Gagan	Govt. of Orissa	Collector, Boudh
52	D. K. Singh	Govt. of Orissa	Collector, Cuttack
53	N. P. Das (O)	Govt. of Orissa	Collector, Deogarh
54	N.N.Mohanty	Govt. of Orissa	Collector, Dhenkanal
55	S. K. Singh	Govt. of Orissa	Collector, Gajapati
56	Sanjeeb Mishra	Govt. of Orissa	Collector, Ganjam
57	B.Rath	Govt. of Orissa	Collector, Jagatsingpur
58	Rajanikanta Dey	Govt. of Orissa	Collector, Jajpur
59	Jyoti Prakash Das	Govt. of Orissa	Collector, Jharsuguda
60	Saswat Mishra	Govt. of Orissa	Collector, Kalahandi
61	Bijay Ku. Dhal	Govt. of Orissa	Collector, Kandhamal
62	Hemanta Sharma	Govt. of Orissa	Collector, Kendrapara
63	D.G. Tripathy (O)	Govt. of Orissa	Collector, Keonjhar
64	K.C. Mohapatra	Govt. of Orissa	Collector, Khurda
65	Usha Padhi	Govt. of Orissa	Collector, Koraput
66	Munish Moudgil	Govt. of Orissa	Collector, Malkangiri
67	C. T. M. Suguna	Govt. of Orissa	Collector, Mayurbhanj
68	P.K.Patnaik (O)	Govt. of Orissa	Collector, Nuapada
69	A. K. Padhi	Govt. of Orissa	Collector, Nawarangpur
70	K. C. Mohanty (O)	Govt. of Orissa	Collector, Nayagarh
71	D. Mohanty	Govt. of Orissa	Collector, Puri
72	P. K. Mehrda	Govt. of Orissa	Collector, Raygada
73	Surendra Kumar	Govt. of Orissa	Collector, Sambalpur
74	Dr. P.C. Chaulia	Govt. of Orissa	Collector, Sonepur
75	S.K.Vashishth	Govt. of Orissa	Collector, Sundargarh

Political Representatives

Sl No	Name	Office
1	Naveen Patnaik	Chief Minister, Orissa
2	Sarat Kar	Speaker, Orissa Legislative Assembly
3	P. Kanungo	Minister of State, Finance, Orissa
4	K. Behera	Cabinet Minister, Orissa
5	A. U. Singhdeo	Cabinet Minister, Orissa
6	B. Harichandan	Cabinet Minister, Orissa
7	P. Harichandan	MLA
8	Jewell Oram	Cabinet Minister, India
9	Arjun Sethi	Cabinet Minister, India
10	Prabhat Samantaray	MP
11	M A K Swain	MP

Appendix 6

<u>Research Questionnaire</u>

Dear Sir/Madam:

Over the past decade we have gone the extra miles to roll the country thru massive reform efforts, but we know that there is a lot more to do. Many OECD countries have initiated reforms to improve the performance by introducing new ways of managing government and its resources. We hope to learn from their experiences.

Your response to following questions will help the researcher to show the planners, bureaucrats and policy makers the relevance of new ways of managing government and resource sustainable in our cultural environment. It will help to forward appropriate recommendations to make the public sector reforms more successful and sustainable than now. This study is also expected to award a Ph.D. degree from the Victoria University of Technology, Melbourne, Australia to the researcher.

I, therefore, invite you to participate in a research project "Public Sector Reforms: Fiscal and Governance Reforms – A Case Study pf Orissa State, India". I request for your explicit and frank opinion on the following questions. Please tick [√] at the appropriate column to give your response.

The Second Questionnaire needs bit more elaborated/ detailed comments question wise hence I request you to be kind enough to send me the reply at your convenience or else if you can let me know thru e-mail or phone I can personally call on you to conduct the recorded interview. My India contact details are in my Business Card which is attached please.

Thanks!

M.K.Mishra

Appendix 7

PUBLIC SECTOR REFORMS: FISCAL AND GOVERNANCE REFORMS, A CASE STUDY OF ORISSA STATE, INDIA

THE PLAIN LANGUAGE STATEMENT OF PARTICIPANTS

We invite you to participate...

We invite you to participate in a research seeking to analyze the fiscal and governance aspects of public sector reforms (with special reference to Orissa, India); various Fiscal Reform Acts, MTEF and governance performance prevalent elsewhere in the world (especially in Australia), in order to assess its adaptability in different contexts; to help in identifying facilitating conditions to implement and take forward fiscal and governance reforms; and to contribute to the design of a model to implement fiscal and governance reforms.

What will I have to do...

If you confirm participation, the researcher will contact you to formalize the interview time and venue according to your convenience. The interview will last for approximately two hours.

What will my organization achieve from participating...

The information, opinions and suggestions shared by you will assist in understanding, analyzing and assessing public sector reforms, especially fiscal and governance reforms. The insight gained with your participation will help the researcher in developing a model for implementing fiscal and governance reforms which can be emulated by various developing countries in the process of implementing fiscal and governance reforms.

What if I decide that I do not wish to continue...

You are under no obligation to participate. You may withdraw at any time. It is entirely at your discretion.

Use of the information provided...

The information provided by you will be used for the purposes of research only. Data will be aggregated and no individual will be quoted without their permission. The recommendations and model(s) developed from this research will be beneficial to a larger audience, specifically the research will contribute significantly to the under developed/ developing regions.

Anonymity will be maintained for any confidential information shared by you, if desired. If required, the researcher undertakes to provide the transcripts of the interviews used in the research.

The interviews, which are audio taped, will be preserved with the principal investigator in a safe place for a period of five to seven years and then shall be destroyed in person by the principal investigator. These taped will not be used for any other purpose. If you desire then these tape(s) will be returned to you after the completion of the research.

The project in more detail…

The aims of this research are:

- To analyse the fiscal and governance aspects of public sector reforms.
- To assess various fiscal and governance scenarios and reform measures adhered to in India and particularly the state of Orissa where the World Bank and Department of International Development (DFID), UK Government are facilitating the implementation of fiscal and governance reforms.
- To analyse various Fiscal Reform Acts and Medium Term Fiscal Frameworks (MTEF)/ governance performance prevalent elsewhere in the World, especially in the Australian context, and explore their adaptability in the context of India/ Orissa.
- To help policy makers and governments to identify the facilitating conditions to implement and take forward fiscal and governance reforms in poor states of the Indian subcontinent or in other poor regions where World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB), DFID and other multilateral and bilateral funding agencies are intervening.
- To design and develop model(s) and recommend measures to implement fiscal and governance reforms.

This research will focus particularly on the following research questions:

- What evidence is there of fiscal and governance reforms occurring in developed countries?
- What are the characteristics of these reforms?
- How have fiscal and governance reforms been linked?
- What have been the roles of bi-lateral and multi-lateral funding agencies in advancing fiscal and governance reform process?
- What are the reasons for the fiscal and governance crisis in Orissa and India?
- What has been the progress of fiscal and governance reforms in Orissa and India?
- How appropriate are fiscal and governance reforms in Orissa?
- What opportunities are there for Orissa to adapt fiscal and governance reforms undertaken elsewhere?
- What are the methods, measures, processes and procedures that can assist Orissa to implement fiscal and governance reforms successfully?

The outcome of this research will be a model that can be used to implement fiscal and governance reforms in developing countries.

Appendix 8

Victoria University of Technology

Sample Consent Form for Subjects Involved in Research

INFORMATION TO PARTICIPANTS:

We would like to invite you to be a part of a research in: **Public Sector Reforms: Fiscal and Governance Reforms, A Case study of Orissa State, India**

CERTIFICATION BY SUBJECT

I,..(**p articipant's name**)
of
....(**O rganization**)

certify that I am at least 17 years old* and that I am voluntarily giving my consent to participate in the research entitled:
Public Sector Reforms: Fiscal and Governance Reforms, A Case study of Orissa State, India

being conducted at Victoria University of Technology by: **Prof. Anona Armstrong and Mr. Mukti Kanta Mishra**

I certify that the objectives of the research, together with any risks to me associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by:
Mr. Mukti Kanta Mishra

and that I freely consent to participation in interviews for approximately 1 – 2 hrs.

Procedures:

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this experiment at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed: .... }

Witness other than the experimenter: } **Date:** ....

....}

Any queries about your participation in this project may be directed to the researcher (Name: Mukti Mishra, ph. 92481070). If you have any queries or complaints about the way you have been treated, you may contact the Secretary, University Human Research Ethics Committee, Victoria University of Technology, PO Box 14428 MCMC, Melbourne, 8001 (telephone no: 03-9688 4710).

[*please note: where the subject/s is aged under 18, separate parental consent is required; where the subject is unable to answer for themselves due to mental illness or disability, parental or guardian consent may be required.]

Appendix 9

	Kindly _/ the box which you think to be most appropriate					
	Questions	**Strongly Agree**	**Agree**	**Don't know**	**Disagree**	**Strongly Disagree**
	FISCAL REFORMS					
1	Maintaining fiscal discipline, promoting strategic priorities and delivering value for money are main elements of fiscal reforms					
2	Fiscal Reforms are successful in developed countries					
3	MTEF/ MTFRP achievable in any Country/ State					
	Maintaining Fiscal Discipline					
1	Micro, Meso and Macro reforms have been in place since early 80's in OECD countries					
2	Monetary policy promotes fiscal discipline					
3	OECD countries adhere to prudent debt management					
4	Developing countries lagging behind in debt discipline					
5	Fiscal deficits have caused spiralling of debts and vice versa					
6	Debt accruals have spiralled in India/ Orissa due to improper debt management					
7	The State of Orissa is in a debt trap					
8	Incurring debts and its subsequent management in Orissa have ignored economic rationale					
9	Improper debt management primary reason for fiscal indiscipline in Orissa					
10	There still exists scope for improving fiscal discipline through proper debt management in Orissa					
	Promoting Strategic Priorities					
1	Strategic priorities refer to prioritising public expenditure for sustainable revenue generation and/ or social returns					
2	MTEF/ MTFRP achievable in Orissa					
3	Revenue enhancement and expenditure saving reduces fiscal deficits					
4	Efficient and effective budgetary allocation promotes strategic priorities					
5	Accrual budgeting and accounting system will promote strategic priorities					
6	Zero based reviews play a pivotal role for reallocation of public expenditure to promote strategic priorities					
7	Financial accountability essential element of public expenditure management					
8	Tax reforms (for eg: VAT) at both state and federal levels essential for revenue enhancement					
9	There should be explicit and implict demarcation between merit and non merit subsidies.					
10	It is possible to improve public service delivery while observing reticence on subsidies					
11	Disinvestment in public enterprises should be prioritised to mitigate fiscal imbalance					

12	Attracting foreign direct investment and a facilitating industrial policy will enhance revenue generation in the medium term					
	Questions	**Strongly Agree**	**Agree**	**Don't know**	**Disagree**	**Strongly Disagree**
	Value for Money					
1	Reduction of wasteful and unproductive public expenditure enhances value for money					
2	In a fiscal structure like India, states can achieve better value for money through greater political and bureaucratic engagement/ commitment					
3	Value for money can be achieved if there is accountability, transparency and decentralisation, commercialisation					
4	The purpose for which loans/ grants/ aid is intended for is not achieved in India/ Orissa					
5	Rigor of approval procedures and effective appraisal techniques required to ensure value for money					
6	Monitoring and evaluation procedures to assess public expenditure exist in India/ Orissa					
7	Effective monitoring and evaluation procedures for public expenditure enhance value for money					
8	Transparency in procurement and disbursement ensures value for money					
9	Link between capital and recurrent expenditure ensures better value for money					
	GOVERNANCE REFORMS					
	Governance Reforms are successful in developed countries					
	Accountability and Transparency					
1	Accountability and Transparency are universal issues					
2	Fiscal accountability and transparency is also a governance issue					
3	Poor systems of accountability and transparency have led to fiscal and governance crises in Orissa					
4	Poor systems of accountability and transparency have led to rampant corruption in Orissa					
5	Existing rule based accountability and transparency norms are insufficient					
6	Better accountability and transparency will ensure effective, reponsive and productive public service delivery to citizens					
7	Access to information is a fundamental ingredient to ensure accountability and transparency in governance					
8	Citizens in the State of Orissa lack access to information					
9	E-governance can improve accountability and transparency in governance					
10	Orissa is in the nascent stage of E-governance					
11	Government should encompass norms of accountability and transparency laid down by bilateral/ multilateral agencies					
12	Fiscal and governance reforms can be achieved through self determined procedures and rules and an autonomous watchdog body					

13	Encouraging a system of whistleblowing and protecting whistleblowers is essential					
	Questions	Strongly Agree	Agree	Don't know	Disagree	Strongly Disagree
14	Capacity building and institutional strengthening is a required element for successful governance reforms					
15	Citizens charter essential for accountability and transparency					
	Decentralization and Commercialization					
1	The authority and responsibility is not decentralized in practice					
2	Decentralisation means rolling back the state					
3	Government should act as the facilitator and regulator instead of producer and marketeer.					
4	Delegation of financial power will eliminate tax evasion					
5	There exists concentration of financial power at federal level and sub-national level					
6	Decentralization necessarily leads to greater efficiency, cost effectiveness quality and participation					
7	Improved governance and fiscal management can be achieved through decentralization of financial management, authority and responsibility					
8	Rightsizing and redeployment is necessary for good governance in Orissa					
9	Rightsizing and redeployment possible in Orissa					
10	Orissa has the resources and capacities to undertake measures of rightsizing and redeployment					
11	It is necessary to bring about convergence in activities and institutions at local level for better governance					
12	The principle of separation of policy with that of operational function is appropriate and workable					
13	Commercialisation of non essential public services in Orissa is inadequate to overcome the present fiscal crisis in the State					
14	There still remains a greater scope for out sourcing of public services in Orissa					
15	The service provided by the private sector is more effective and efficient than the public sector in Orissa					
16	The private sector is capable of taking over commercial functions					
17	Prioritisation of sectors for reforms is essential					
18	Considering the high levels of poverty in Orissa, the success of user pays remains a far cry					
19	Systems in place are inadequate to determine who pays, how much for what service					
	Administrative Reforms					
1	Public service as a whole is highly unmotivated and lacks the vigour in orissa					
2	There exists duplication of functions amongst government institutions					
3	The civil sevice set up in orissa is too bulky					

4	Civil service needs to be more effective, productive, responsive and accountable through capacity building and making it lean					
	Questions	**Strongly Agree**	**Agree**	**Don't know**	**Disagree**	**Strongly Disagree**
5	Higher level of transparency in public service is *sine qua non* for governance and fiscal reforms to yield desired results					
6	An independent institution is required to guide, counsel and advice public service employees on ethical issues					
7	Contractual employment of public servants will improve the public service system					
8	Assessment of public servants/ services should be performance based					
9	Administrative performance will improve when flexibility is ensured and operational authority is delegated					
10	India/ Orissa can replicate a administrative reform model of another country					
11	Public servants lack the commitment for reform					
12	Without civil service reform governance and fiscal reforms will not yeild desired result					
13	The following list contains the motivational factors commonly associated with the public service. Please score the following items in order of importance to you in your job (scoring 1 as most significant). Opportunity to have impact on policy Financial rewards Job security Opportunities for career growth and /or promotion Recognition for work performed Conducive Organizational environment Social prestige Adequate authority to perform jobs any others (please specify)					
	Fiscal and Governance Reforms - General Questions					
1	OECD countries have embraced comprehensive fiscal and governance reforms					
2	Bi-lateral and mult-lateral funding agencies are playing crucial and pivotal role in furthering fiscal and governance reforms in developing countries					
3	Fiscal and governace reform is a state priority for Orissa					
4	The government is committed to implement fiscal and governance reforms					
5	Governance reforms necessary for fiscal reforms					
6	Governance reforms and fiscal reforms are interlinked and inter-woven					
7	Federal support and inter state understanding essential for implementing fiscal reforms					
8	There exists a difference in fiscal and governance reform concepts between developing and developed countries					
9	Orissa qualifies to be termed as a reforming state					
10	The MOU signed between Government of Orissa and Government of India has achievable targets.					
11	Systems and institutions inherently weak to further the reform process in Orissa					
12	Orissa suffers from reform fatigue					
13	It is alleged that Orissa public service suffers from high level of inefficiency and corruption					

14	There has been little progress in the implementation of fiscal and governance reforms in Orissa					
	Questions	**Strongly Agree**	**Agree**	**Don't know**	**Disagree**	**Strongly Disagree**
15	Orissa is an appropriate state to adapt massive structural adjustments and embrace fiscal and governance reforms					
16	India/ Orissa can emulate the fiscal and governance reforms models implemented in any S.Korea/ Thailand and other developing countries					
	Is the Budget procedure transpaent in Orissa					
	The Budget processes and intents need to improved upon					
	Comments (Please give your point-wise recommendations to improve the fiscal and governance situation in Orissa).					
	Demographic Profile					
	Full Name (Optional)					
	Organization					
	Occupation Politican Civil Servant Other Employees/ Users					
	Multi/ Bi Lateral Agencies UNO					
	Gender Male Female					
	Education PhD MA or equivalent BA/BSc/BE/MBBS or equivalent					
	Experience Years					
	Age Band Below 40 41-50 51-60 60 and above					

Appendix 10

Sl No	Coding	Questions	Strongly Agree	Agree	Don't know	Disagree	Strongly Disagree
		Kindly _/ the box which you think to be most appropriate					
		FISCAL REFORMS					
1	**FOVER 1**	Maintaining fiscal discipline, promoting strategic priorities and delivering value for money are main elements of fiscal reforms					
2	**FOVER 2**	Fiscal Reforms are successful in developed countries					
3	**FOVER 3**	MTEF/ MTFRP achievable in any Country/ State					
		Maintaining Fiscal Discipline					
1	**FISCDIS 1**	Micro, Meso and Macro reforms have been in place since early 80's in OECD countries					
2	**FISCDIS 2**	Monetary policy promotes fiscal discipline					
3	**FISCDIS 3**	OECD countries adhere to prudent debt management					
4	**FISCDIS 4**	Developing countries lag behind in debt discipline due to lack of transparency and accountability in Government Finances					
5	**FISCDIS 5**	Fiscal deficits have caused spiralling of debts and vice versa					
6	**FISCDIS 6**	Debt accruals have spiralled in India/ Orissa due to improper debt management, lack of accountability and transparency in resource use					
7	**FISCDIS 7**	The State of Orissa is in a debt trap					
8	**FISCDIS 8**	Incurring debts and its subsequent management in Orissa have ignored economic rationale					
9	**FISCDIS 9**	Improper debt management primary reason for fiscal indiscipline in Orissa					
10	**FISCDIS 10**	There still exists wide scope for improving fiscal discipline through proper debt management and improved Governance in Orissa					
		Promoting Strategic Priorities					
1	**FPR 1**	Strategic priorities refer to prioritising public expenditure for sustainable revenue generation and/ or social returns					
2	**FPR 2**	MTEF/ MTFRP achievable in Orissa					
3	**FPR 3**	Revenue enhancement and expenditure saving reduces fiscal deficits which in otherwise called as improve governance					
4	**FPR 4**	Efficient and effective budgetary allocation promotes strategic priorities of Government					
5	**FPR 5**	Accrual budgeting and accounting system will promote strategic priorities of Government (Specially in Orissa)					
6	**FPR 6**	Zero based reviews play a pivotal role for reallocation of public expenditure to promote strategic priorities					
7	**FPR 7**	Financial accountability essential element of public expenditure management hence better governance					
8	**FPR 8**	Tax reforms (for eg: VAT) at both state and federal levels essential for revenue enhancement					

9	**FPR 9**	There should be explicit and implict demarcation between merit and non merit subsidies for better management of public resources					
10	**FPR 10**	It is possible to improve public service delivery while observing reticence on subsidies					
11	**FPR 11**	Disinvestment in public enterprises should be prioritised to mitigate fiscal imbalance					
12	**FPR 12**	Attracting foreign direct investment and a facilitating industrial policy will enhance revenue generation in the medium term					
		Questions	**Strongly Agree**	**Agree**	**Don't know**	**Disagree**	**Strongly Disagree**
		Value for Money					
1	**FISV 1**	Reduction of wasteful and unproductive public expenditure enhances value for money					
2	**FISV 2**	In a fiscal structure like India, states can achieve better value for money through greater political and bureaucratic engagement/ commitment					
3	**FISV 3**	Value for money can be achieved if there is accountability, transparency and decentralisation, commercialisation					
4	**FISV 4**	The purpose for which loans/ grants/ aid is intended for is not achieved in India/ Orissa					
5	**FISV 5**	Rigor of approval procedures and effective appraisal techniques required to ensure value for money					
6	**FISV 6**	Monitoring and evaluation procedures to assess public expenditure exist in India/ Orissa					
7	**FISV 7**	Effective monitoring and evaluation procedures for public expenditure enhance value for money					
8	**FISV 8**	Transparency in procurement and disbursement ensures value for money					
9	**FISV 9**	Link between capital and recurrent expenditure ensures better value for money					
		GOVERNANCE REFORMS					
	GOVREF 1	Governance Reforms are successful in developed countries					
		Accountability and Transparency					
1	**GOVAC 1**	Accountability and Transparency are universal issues					
2	**GOVAC 2**	Fiscal accountability and transparency is also a governance issue					
3	**GOVAC 3**	Poor systems of accountability and transparency have led to fiscal and governance crises in Orissa					
4	**GOVAC 4**	Poor systems of accountability and transparency have led to rampant corruption in Orissa and fiscal and governance crisis					
5	**GOVAC 5**	Existing rule based accountability and transparency norms are insufficient in Orissa					
6	**GOVAC 6**	Better accountability and transparency will ensure effective, reponsive and productive public service delivery to citizens					
7	**GOVAC 7**	Access to information is a fundamental ingredient to ensure accountability and transparency in governance					
8	**GOVAC 8**	Citizens in the State of Orissa lack access to information					

9	**GOVAC 9**	E-governance can improve accountability and transparency in governance					
10	**GOVAC 10**	Orissa is in the nascent stage of E-governance					
11	**GOVAC 11**	Government should encompass norms of accountability and transparency laid down by bilateral/ multilateral agencies					
12	**GOVAC 12**	Fiscal and governance reforms can be achieved in Orissa through self determined procedures and rules and an autonomous watchdog body					
13	**GOVAC 13**	Encouraging a system of whistleblowing and protecting whistleblowers is essential					
		Questions	Strongly Agree	Agree	Don't know	Disagree	Strongly Disagree
14	**GOVAC 14**	Capacity building and institutional strengthening is a required element for successful governance reforms and fiscal sustainability					
15	**GOVAC 15**	Citizens charter essential for accountability and transparency					
		Decentralization and Commercialization					
1	**GOVDEC 1**	The authority and responsibility is not decentralized in practice					
2	**GOVDEC 2**	Decentralisation means rolling back the state					
3	**GOVDEC 3**	Government should act as the facilitator and regulator instead of producer and marketeer.					
4	**GOVDEC 4**	Delegation of financial power will eliminate tax evasion					
5	**GOVDEC 5**	There exists concentration of financial power at federal level and sub-national level					
6	**GOVDEC 6**	Decentralization necessarily leads to greater efficiency, cost effectiveness quality and participation					
7	**GOVDEC 7**	Improved governance and fiscal management can be achieved through decentralization of financial management, authority and responsibility					
8	**GOVDEC 8**	Rightsizing and redeployment is necessary for good governance in Orissa					
9	**GOVDEC 9**	Rightsizing and redeployment possible in Orissa					
10	**GOVDEC 10**	Orissa has the scope and requirement to undertake measures of rightsizing and redeployment, capacity building and institutional strengthning					
11	**GOVDEC 11**	It is necessary to bring about convergence in activities and institutions at local level for better governance					
12	**GOVDEC 12**	The principle of separation of policy with that of operational function is appropriate and workable					
13	**GOVDEC 13**	Commercialisation of non essential public services in Orissa is inadequate to overcome the present fiscal crisis in the State					
14	**GOVDEC 14**	There still remains a greater scope for out sourcing of public services in Orissa					
15	**GOVDEC 15**	The service provided by the private sector is more effective and efficient than the public sector in Orissa					
16	**GOVDEC 16**	The private sector is capable of taking over commercial functions					

17	**GOVDEC 17**	Prioritisation of sectors for reforms is essential in Orissa for feforms to progress					
18	**GOVDEC 18**	Considering the high levels of poverty in Orissa, the success of user pays remains a far cry					
19	**GOVDEC 19**	Systems in place are inadequate to determine who pays, how much for what service					
		Administrative Reforms					
1	**GOVAR 1**	Public service as a whole is highly unmotivated and lacks the vigour in orissa					
2	**GOVAR 2**	There exists duplication of functions amongst government institutions hence wastage of public resources					
3	**GOVAR 3**	The civil sevice set up in orissa is too bulky					
4	**GOVAR 4**	Civil service needs to be more effective, productive, responsive and accountable through capacity building and making it lean					
		Questions	**Strongly Agree**	**Agree**	**Don't know**	**Disagree**	**Strongly Disagree**
5	**GOVAR 5**	Higher level of transparency in public service is *sine qua non* for governance and fiscal reforms to yield desired results					
6	**GOVAR 6**	An independent institution is required to guide, counsel and advice public service employees on ethical issues					
7	**GOVAR 7**	Contractual employment of public servants will improve the public service system and save enormous public resources					
8	**GOVAR 8**	Assessment of public servants/ services should be performance based					
9	**GOVAR 9**	Administrative performance will improve when flexibility is ensured and operational authority is delegated					
10	**GOVAR 10**	India/ Orissa can replicate a administrative reform model of another country					
11	**GOVAR 11**	Public servants lack the commitment for reform					
12	**GOVAR 12**	Without civil service reform governance and fiscal reforms will not yeild desired result					
13	**GOVAR 13**	The following list contains the motivational factors commonly associated with the public service. Please score the following items in order of importance to you in your job (scoring 1 as most significant). Opportunity to have impact on policy Job security Recognition for work performed Social prestige any others (please specify) Financial rewards Opportunities for career growth and /or promotion Conducive Organizational environment Adequate authority to perform jobs					
		Fiscal and Governance Reforms - General Questions					
1	**FGLINK 1**	OECD countries have embraced comprehensive fiscal and governance reforms					
2	**FGLINK 2**	Bi-lateral and mult-lateral funding agencies are playing crucial and pivotal role in furthering fiscal and governance reforms in developing countries also in Orissa					
3	**FGLINK 3**	Fiscal and governace reform is a state priority for Orissa					
4	**FGLINK 4**	The government is committed to implement fiscal and governance reforms					
5	**FGLINK 5**	Governance reforms necessary for fiscal reforms					

6	**FGLINK 6**	Governance reforms and fiscal reforms are interlinked and inter-woven					
7	**FGLINK 7**	Federal support and inter state understanding essential for implementing fiscal reforms					
8	**FGLINK 8**	There exists a difference in fiscal and governance reform concepts between developing and developed countries					
9	**FGLINK 9**	Orissa qualifies to be termed as a reforming state					
10	**FGLINK 10**	The MOU signed between Government of Orissa and Government of India has achievable targets.					
11	**FGLINK 11**	Systems and institutions inherently weak to further the reform process in Orissa					
12	**FGLINK 12**	Orissa suffers from reform fatigue					
13	**FGLINK 13**	It is alleged that Orissa public service suffers from high level of inefficiency and corruption					
14	**FGLINK 14**	There has been little progress in the implementation of fiscal and governance reforms in Orissa					
		Questions	**Strongly Agree**	**Agree**	**Don't know**	**Disagree**	**Strongly Disagree**
15	**FGLINK 15**	Orissa is an appropriate state to adapt massive structural adjustments and embrace fiscal and governance reforms					
16	**FGLINK 16**	India/ Orissa can emulate the fiscal and governance reforms models implemented in any S.Korea/ Thailand and other developing countries					
17	**FGLINK 17**	Is the Budget procedure transpaent in Orissa					
18	**FGLINK 18**	The Budget processes and intents need to improved upon					
		Comments (Please give your point-wise recommendations to improve the fiscal and governance situation in Orissa).					
		Demographic Profile					
		Full Name (Optional)					
		Organization					
		Occupation Politican Civil Servant Other Employees/ Users					
		Multi/ Bi Lateral Agencies UNO					
		Gender Male Female					
		Education PhD MA or equivalent BA/BSc/BE/MBBS or equivalent					
		Experience Years					
		Age Band Below 40 41-50 51-60 60 and above					

Appendix 11

Total Variance Explained Initial Eigenvalues (fiscal reforms)

Component	Eigenvalue	% of Variance	Cumulative %	Extraction Sums of Squared Loadings Total	% of Variance	Cumulative %	Rotation Sums of Squared Loadings Total
1	6.722	19.769	19.769	6.722	19.769	19.769	6.418
2	3.535	10.398	30.167	3.535	10.398	30.167	3.643
3	2.212	6.506	36.673	2.212	6.506	36.673	2.760
4	2.021	5.943	42.616				
5	1.865	5.485	48.101				
6	1.675	4.926	53.027				
7	1.603	4.713	57.741				
8	1.391	4.093	61.833				
9	1.272	3.743	65.576				
10	1.154	3.394	68.970				
11	1.097	3.225	72.195				
12	0.989	2.908	75.103				
13	0.868	2.554	77.657				
14	0.855	2.514	80.171				
15	0.777	2.284	82.455				
16	0.706	2.075	84.530				
17	0.637	1.872	86.403				
18	0.572	1.683	88.086				
19	0.536	1.577	89.663				
20	0.473	1.390	91.053				
21	0.430	1.266	92.319				
22	0.409	1.204	93.523				
23	0.351	1.031	94.554				
24	0.322	0.947	95.501				
25	0.269	0.791	96.292				
26	0.238	0.700	96.992				
27	0.203	0.597	97.589				
28	0.195	0.572	98.161				
29	0.160	0.470	98.631				
30	0.145	0.425	99.056				
31	0.127	0.373	99.429				
32	8.673E-02	0.255	99.684				
33	5.970E-02	0.176	99.860				
34	4.777E-02	0.140	100.000				

Total Variance Explained Initial Eigenvalues (governance reforms)

Component	Eigenvalues	% of Variance	Cumulative %	Extraction Sums of Squared Loadings Total	% of Variance	Cumulative %	Rotation Sums of Squared Loadings Total
1	10.749	22.870	22.870	10.749	22.870	22.870	7.919
2	3.718	7.919	30.781	3.718	7.911	30.781	6.992
3	2.886	6.140	36.921	2.886	6.140	36.921	5.124
4	2.505	5.329	42.250				
5	2.194	4.667	46.918				
6	1.937	4.122	51.039				
7	1.827	3.888	54.927				
8	1.643	3.496	58.423				
9	1.511	3.215	61.638				
10	1.488	3.165	64.803				
11	1.390	2.957	67.759				
12	1.207	2.568	70.327				
13	1.153	2.453	72.780				
14	1.079	2.295	75.075				
15	.976	2.077	77.152				
16	.898	1.910	79.063				
17	.871	1.853	80.916				
18	.801	1.705	82.621				
19	.743	1.580	84.200				
20	.721	1.534	85.734				
21	.640	1.361	87.096				
22	.621	1.321	88.417				
23	.561	1.193	89.610				
24	.545	1.159	90.769				
25	.491	1.045	91.814				
26	.446	.950	92.763				
27	.411	.874	93.638				
28	.351	.746	94.384				
29	.326	.693	95.076				
30	.321	.683	95.760				
31	.294	.626	96.386				
32	.236	.501	96.887				
33	.223	.475	97.362				
34	.192	.409	97.771				
35	.162	.344	98.115				
36	.159	.338	98.453				
37	.141	.301	98.754				
38	.116	.247	99.001				
39	9.684E-02	.206	99.207				
40	9.151E-02	.195	99.402				
41	7.075E-02	.151	99.552				
42	5.693E-02	.121	99.673				
43	3.899E-02	8.296E-02	99.756				
44	3.336E-02	7.098E-02	99.827				
45	3.144E-02	6.690E-02	99.894				
46	2.818E-02	5.995E-02	99.954				
47	2.160E-02	4.595E-02	100.000				