

## **Budgeting to achieve outcomes: Let 'Pay for results' lead the way**

-Amitabh Kant & Mohit Bahri

India's budget 2024-25 estimates government's spending to be around Rs 48 lakh crore. From budgeting traditionally on an "inputs" basis, steps have been taken in the last few years to bring due attention to disclosing "outcomes" that tangibly impacts citizens' lives. We, now, need to take it a step further, where budget spending drives delivery of "outcomes", by directly linking spending with achievement of results. "Pay for Results" simply means that the government pays to the implementor only if they meet or exceed pre-defined "outcome" targets, rather than merely provisioning of infrastructure or services that are an input to achieving those outcomes.

Traditionally, budgets have been allotted based on expenditures on "inputs" like salaries, office supplies, and equipment. Linking budgetary spending with their desired impact (called "Outcomes") has remained far from ideal. In recent years the budget planning has started to consciously keep "Outcomes" as a focus. The Outcomes Budget document of FY 2024-25 clearly lays out the framework, including outcomes, indicators and targets to be achieved. Bringing in this thought process consciously helps policy makers optimize spend on the activities that are likely to maximise impact. For instance, "Outcomes" in school education include enhancing access, improving learning, retention & transition rates, and reducing dropouts, promoting vocationalization of education; thereby helping policy makers allocate more budget to inputs that drive these specific outcomes.

As the next steps, two further evolutions are critical. First is the way the outcomes are currently defined. Second, prioritising approaches that ensures attaining the target outcomes. Lets elaborate on these two aspects.

In determining budget priorities, the first crucial step is defining "Outcomes" themselves. Should we prioritize immediate, intermediary outcomes driven by short-term needs, or should our focus be on real outcomes that fundamentally transform beneficiaries' lives? The answer lies in balancing current exigencies with long-term goals. Take education, where achieving universal access has been a milestone, yet the ultimate outcome elevating learning levels and securing students' socio-economic well-being demands deeper consideration. Similarly, in healthcare, outcomes like improving patients' quality of life, or rewarding practices that reduce their hospital visits must guide resource allocation. Road infrastructure, too, should not merely aim at construction but also measure success by its economic impact on local communities. Aligning budgets with these transformative outcomes ensures sustained societal progress. While intermediary outcomes serve as stepping stones, prioritizing enduring impacts as our north star ensures that every budgetary decision propels us towards a more equitable and prosperous future, where the true measure of success lies in tangible improvements to people's lives.

Secondly, while the current budget allocation is meant to deliver certain results, the spending is still not linked with 'meeting' or 'not meeting' targets for Outcomes. It's still linked to "input" activity. In a scenario, where budget spending and result-achievement are delinked, the delivery mechanisms of the

implementer may not evolve to a level that's needed to deliver results, and innovations remain subdued. There are scenarios, where despite spending entire budgetary allocation on an activity, the targets of outcomes are not met.

The journey towards defining and measuring such advanced forms of end-outcomes and “Pay for Results” needs discovery. In this direction, implementing a few initial pilots of “Pay for Results” was announced by the Finance Minister of India in the FY2023-24 Union budget.

Interestingly, some pockets of initial pilots are available that have used “Pay for Results” approaches. NITI Aayog, in association with Dell Foundation and GDi Partners, initiated a pilot project in education domain, where a part of the payment of ICT provider (who sets up computer labs) in government schools is linked to “Improvement in learning levels of the students” (the key “Outcome”). Implemented in select Aspirational Districts in Uttar Pradesh, early results from the pilot shows that such a budgetary spending method brings in desired behavioural changes of ICT provider and schools by driving their efforts to prioritize activities that directly improve students’ learning levels. ICT providers are found to be going the extra mile which ensures higher order usage of ICT labs, providing quality learning content, supporting teachers, ensuring operations of labs and implementing learning focussed practices. An independent impact assessment showed that within a year of implementation, learning improvement of students who used these ICT labs has improved by 3-times more than those who did not. This is a big deviation from the erstwhile practice of paying ICT providers for merely provisioning of ICT labs in schools.

Similarly, National Skills Development Corporation (NSDC) has implemented a “Pay for Results” initiative, called Skill Impact Bond (SIB), which leverages innovative Results-based financing tool that rewards job placement and retention, rather than merely training and certification for vocational skilling. By linking payments with delivery of results, the initiative has driven behavioral and process improvisation by implementors. As per NSDC data, so far more than 70% have got job placements while 56% women and 62% men have retained jobs.

Another notable example in a similar direction is the Production Linked Incentive (PLI) scheme, that aims to promote domestic manufacturing and encourage the "Make in India" vision through financial incentivisation. Though it's not truly a “Pay for Results” program, it encourages delivery of pre-defined outputs by linking incentive payments to meeting defined production. Outgo of resources takes place only when production targets are achieved.

Thus, two things are clearly emerging from above examples – One is to evolve the way “Outcomes” are defined by focussing on results that tangibly impact beneficiaries’ lives (economically or socially), and secondly, linking implementer's payments to achieving predefined targets of these Outcomes.

Linking payments with outcome achievement will require that the system consciously identify areas where Pay for Results can be implemented, shift towards defining Outcomes clearly, define short-term and long- term goals with set timelines, objectively measuring the outcomes, put in place an effective

review system to track indicators and evaluate performance and prioritize per unit cost of outcomes over per unit cost of inputs for funding allocation.

“Pay for Results” is a promising way forward for enhancing effectiveness of budgetary spending, and bringing in desired behavioural shifts. As a country that aims to achieve its vision of Viksit Bharat by 2047, we need to embrace this shift sooner than later.

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