

Fund Utilization in Development Schemes

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India's total public spending (combined budgetary spending by Centre and States) every year on social sectors is less than 7 percent of GDP. During the last decade, i.e. since 2005-06, the Union Government's budgetary spending on these sectors has been stepped up (though it is still less than 2 percent of GDP). This gradual increase has not translated into any visible increase in overall public spending (in the country) on these sectors as the priority for social sectors in the State Budgets has not increased much over the last decade. When compared with other countries, India's public spending on social sectors as percentage of GDP has been much lower not only than most developed countries but also some of the developing countries for decades now. The average level of budgetary spending on social sectors in the Organisation for Economic Cooperation and Development (OECD) countries (excluding their social security payments) has been roughly around 14 percent of GDP over the last decade, i.e. more than double the level of budgetary spending on social sectors in India. In this scenario, the present level of public spending on social sectors in India cannot be considered adequate.

However, several policymakers and development policy analysts have observed in the past few years that the main problem in social sectors in India is not of inadequate budget outlays but rather poor utilization of those. It is true that unspent balances continue to be high in many of the Centre's flagship social sector schemes, but the notion that the problem lies only with inefficient implementation is not correct, as it overlooks the causal factors underlying the trend of poor utilization of funds in social sector programmes/ schemes. It does not take into consideration some of the key aspects of the federal fiscal architecture in India and the weaknesses that have emerged in this complex architecture over the last decade.

Fund utilization varies across schemes

A research study led by Centre for Budget and Governance Accountability (CBGA) in 2013, '*What Ails Utilization of Funds in Development Schemes?*', which tracks the utilization of funds in six development schemes at the district level in select States notes that almost all States showed noticeable levels of underutilization of budget outlays. The study analyzed Sarva Shiksha Abhiyan, National Rural Health Mission, National Rural Drinking Water Programme, Nirmal Bharat Abhiyan, Rashtriya Krishi Vikas Yojana and MGNREGS in select districts spread across 11 States and found that the extent of utilization of available funds and its quality of utilization varied across the six schemes – with MGNREGS (in Tamil Nadu) presenting a relatively better picture on utilization of funds, followed by RKVY (in Rajasthan, Madhya Pradesh and Uttar Pradesh), and the NRDWP (in Andhra Pradesh and Maharashtra) showing the highest levels of under utilization of funds as well as problems in terms of violation of

guidelines. The factors affecting the extent and quality of fund utilization in different schemes differ to some extent. Some common factors that are the biggest hurdles in utilization of funds were cited as – *staff shortage, poor planning and delayed flow of funds*.

Factors constraining utilization of plan outlays in the social sectors

Under-utilization of Plan outlays by the States can be attributed to the institutional and procedural bottlenecks in the process of implementation of Plan schemes and deficiencies in the planning process being followed at the district level. These factors listed below need to be addressed in order to strengthen States' ability to better utilize higher magnitudes of allocations for the social sectors –

1. The deficiencies in decentralized planning being carried out in the schemes, resulting due to insufficient staff for undertaking planning activities, inadequate attention to their capacity building and minimal role for community participation in the planning process.
2. Bottlenecks in budgetary processes in the schemes, such as delay in the flow of funds, in releasing sanction orders for spending, decision-making in the States being centralized, insufficient delegation of financial powers to the district/ sub-district level authorities and uniform norms of Centrally Sponsored Schemes for all States. Further, lack of need based budgeting in the schemes, which is often carried out without proper analysis of unit costs on the ground, implied allocations for some of the schemes being decided in a top-down and unrealistic manner.
3. Systemic weaknesses, manifested as shortage of trained, regular staff for various important roles like programme management, finance/accounts and frontline service provision; this contributed to weaken the capacities of the government apparatus in the States for implementation of Plan schemes.

Regarding the systemic weaknesses in the government apparatus in the States, it can be argued that Non-Plan expenditure by the State plays an important role in improving the overall capacity of the government apparatus. It affects the capacity of the State Government apparatus in terms of the availability of regular qualified staff and adequacy of government infrastructure for implementing Plan schemes. However, over the past decade, Non-Plan expenditure in social sectors has been checked by many States due to the emphasis of the prevailing fiscal policy on the reduction of deficits through the curtailment of public expenditure. Consequently, the capacity of the government apparatus to implement Plan programmes/schemes has been constrained.

Policy measures for improving fund utilization capacity

An assessment of functioning of different Plan schemes shows that efficient utilization of the available funds in the Central schemes is a concern and there is scope for improving the effectiveness of these schemes by way of revisiting some critical factors like the design of scheme, flow of funds etc. The institutional and procedural bottlenecks in planning, fund flow

and fund utilization processes need to be removed through concerted efforts by both the Centre and the States. The restructuring of the Centrally Sponsored Schemes (CSS) as being carried out now by the Union Government for the current Five Year Plan by following the roadmap suggested for this purpose by the B. K. Chaturvedi Committee can help take care of some of the deficiencies related to planning and budgetary processes. This includes bringing down the total number of CSS significantly, transferring some of the schemes to States, and doing away with the practice of Central funds being routed outside the State Budgets and State Treasury system. Moreover, there is also a need for imparting a lot of flexibility to the States vis-à-vis the norms, guidelines and unit costs in the Central schemes.

However, the underperformance regarding fund utilization in the Central schemes is also rooted in the fact that some aspects of the fiscal policy being followed over the last decade have resulted in systemic weaknesses in the government apparatus in social sectors across many States. The country's fiscal policy needs to shift its focus in order to enable the State Governments to increase Non-Plan spending in the social sectors along with Plan spending on the same so that the problem of shortage of staff could be addressed effectively.

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