Fiscal Governance Reforms at District Level for Improving Fund Flow and Utilisation in Development Schemes

Policy Brief: 3

Delay in Fund Flow: Consequences, Causes and Remedies

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CBGA

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I. Why We Did It

Effective implementation of Centrally Sponsored Schemes (CSS) is always contingent on adequate, regular and timely flow of funds from upper tiers to implementing agencies. But different deficiencies across departments have marred the extent of fund utilisation under various programmes. During financial years 2017-18 and 2018-19, fund absorption under many CSS improved, but issues of timely release of adequate funds from the Union and state governments to implementing agencies at the district level remain.

Timely transfer of funds improves the confidence of implementing agencies and has a positive impact on programme performance, bringing efficiency in public spending. Delays, on the other hand, negatively impact the quality of fund utilisation. Sometimes, these delays set in early and exceed six months, leaving the district with no money right in the beginning of the financial year. This is the case with several schemes, including those with a comparatively higher fund utilisation rate.

It is, therefore, crucial to understand the extent of delay in the flow of funds across various social sector programmes, and across districts. It is also important to note the factors causing this delay, the possible consequences and the solutions to address these problems. This policy brief documents these issues and suggests appropriate policy actions.

II. What We Found

The process of flow of funds under CSS from the Union government to the state budget / treasury, and subsequently, to bank accounts of implementing societies and agencies at the state and district levels takes several months. Delays in transfer of funds to bank accounts of societies arise due to procedural lapses and systemic weaknesses.

Procedural lapses include poor financial delegation, delay in submission, approval and sanction orders of annual action plans, unclear guidelines and too many instructions, rigid norms, complex fund flow mechanism and stringent administrative processes. Systemic weaknesses include shortage of human resources, inadequate capacity of government apparatus, infrastructural deficits, weak monitoring framework, absence of accountability mechanisms, absence of need-based planning, etc.

A. Extent of Delay in Flow of Funds

The time taken to release funds under these schemes determines the gravity of the problem surrounding the process of fund flow. In financial years 2015-16 and 2016-17, there was an average delay of 2-3 months in releasing National Health Mission (NHM) funds from state treasuries to implementing agencies in Bihar and Maharashtra[1].

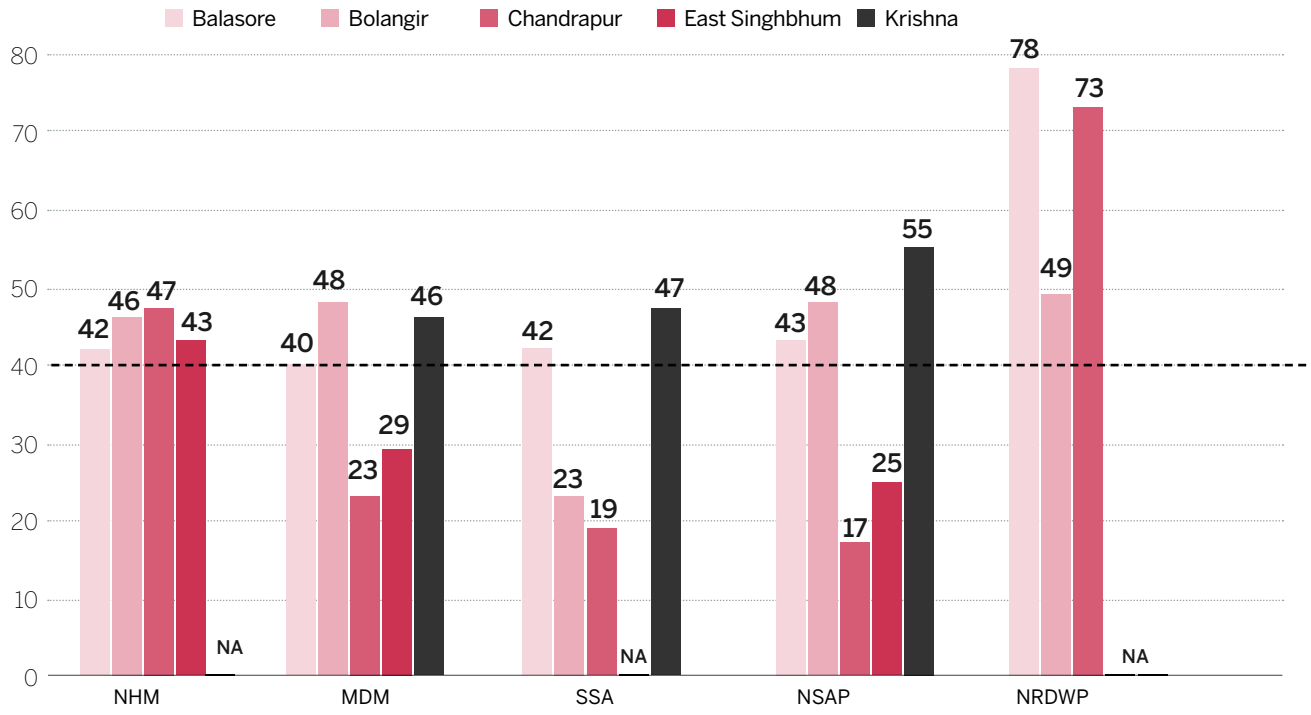
A recent report[2] by NITI Aayog highlights the disparity in terms of the average number of days taken to transfer the Union government's share of NHM funds from state treasuries to implementing societies. In FY 2017-18, the extent of this delay was as high as 191 days in Bihar and 187 days in Jharkhand. The system in Telangana was the most efficient, with funds being transferred the same day. At 19 days, Odisha was also one of the better-performing states in this regard. In an advanced state such as Maharashtra, it took 66 days to transfer NHM funds in FY 2015-16, while in FY 2017-18, it took 95 days.

The evidence documented regarding the release

1 Choudhoury, M and R.K. Mohanty (2017): Utilisation, Fund Flows & Public Financial Management under the National Health Mission: A Study of Selected states, NIPFP

2 Healthy states Progressive India: Report on the Ranks of states and UTs, Health Index, 2019, NITI Aayog, government of India.

Figure 1: Fund Utilisation Under Various Schemes Across Districts During the Third and Fourth Quarter in FY 2018-19, (in %)



Note: NA: Not Available Source: Compiled by the district budget analysis team, based on data shared by the respective district officials.

of funds for National Health Mission (NHM), Mid-Day Meal (MDM), Sarva Shiksha Abhiyan (SSA), National Social Assistance Programme (NSAP) and National Rural Drinking Water Programme (NRDWP) in five project districts is worth noting here. The extent (quantum) of funds spent by implementing societies for these schemes during Q4 of FY 2018-19 has been used as the proxy to measure the delay in fund flow. It was noticed that out of 21 data points (data for four such instances is not available), 14 show that more than 40 per cent expenditure happened in Q4 of FY 2018-19. Schemes like NHM, NRDWP, MDM and NSAP have spent over 40 per cent of the total funds in the fourth quarter of FY 2018-19 (Figure 1).

For NHM, quantum of funds utilised during the fourth quarter ranges between 42 and 47 per cent across all the study districts (in 2018-19). In the case of NRDWP, in the fourth quarter, Balasore utilised (78 per cent), Chandrapur (73 per cent) and Bolangir (49 per cent) in FY 2018-2019. With respect to funds utilised under NSAP, the situation is quite similar. The extent of fund utilised is around 43 per cent for Balasore, 48 per cent for Bolangir and 55 per cent for Krishna district.

In terms of district-wise fund utilisation in Q4 of 2018-19, Balasore spent more than 40 per cent for all the five schemes. Bolangir spent a very high percentage of funds for four schemes (NHM, MDM, NSAP and NRDWP) in the fourth quarter of FY 2018-19. In Krishna, the same is true for three schemes (MDM, SSA, and NSAP); two schemes for Chandrapur (NHM and NRDWP) and one scheme for East Singhbhum (NHM).

The first instalment for implementing SSA in Bolangir was received in July 2018. It is true that schools remain closed for more days during the

first quarter of a financial year, and hence problems do not arise in implementing schemes like MDM and SSA. Nonetheless, it is crucial to highlight the fact that in order to streamline expenditures across schemes / departments and across quarters, the Ministry of Finance, Government of India[3] had suggested "...not more than one-third (33%) of the Budget Estimates (BE) may be spent in the last quarter of the financial year...It may be emphasized here that the restriction of 33% expenditure ceiling is to be enforced both scheme-wise as well as for the Demands for Grants as a whole..."

Despite setting the expenditure ceiling, which is crucial in improving the quality of fund utilisation, more than 40 per cent of funds in schemes like NHM, MDM, NSAP and NRDWP has been utilised in the final quarter of 2018-19 in many districts. Consequently, utilisation of funds under various schemes is constrained and realising desirable results from public spending becomes increasingly more difficult. Such inordinate delays in fund release limit the availability of funds for expenditure at specific points of time.

B. Consequences of Delay in Fund Flow

The most pressing consequence of delays in fund flow is the sub-optimal fund utilisation in schemes, which, in turn, affects desired levels of outputs / services. When funds are released towards the fag end of the financial year, a high share of expenditure is done in the fourth quarter of the financial year, compounding the problem of quality fund utilisation. There are instances of poor budget planning and delays in the execution of civil works reported under the National Rural Health Mission (subsumed by NHM in 2013) due to delays in fund release by states to districts[4].

The budget for various components such as teachers' training, Information, Education and Communication (IEC) materials, repair and maintenance, honorarium and salary of contractual staffs is released during the last quarter of the financial year. Similarly, the dress materials and books were provided in the second quarter of the financial year, which affected the quality of service delivery. Therefore, urgent efforts are needed to amend the rules and procedures that govern the release of funds, with a focus to correct these systemic problems.

C. Possible Causes of Delay in Fund Flow

The following are the possible causes of delay in fund flow in social sector schemes observed during the study:

1. Delay in Preparation, Finalisation and Submission of Programme Implementation Plans (PIPs) / Annual Work Plan and Budgets (AWP&B):

Delay in preparation of project implementation plans and project proposals at the district level delays its finalisation, submission and approval by authorities at the higher level in both the state and Union government ministries. State governments often do not submit complete proposals on time to obtain a timely release of funds from Central Ministries. Balasore finalised and shared its annual plan for SSA (for FY 2019-20) in September 2019.

In another instance, there was a delay in the release of funds to states as they did not furnish complete proposals for Post Matric Scholarship funding to the Ministry of Tribal Affairs on time[5]. Some reasons for the delay in preparation and submission of plans from districts to states and, subsequently, to the Union Government ministries include the capacity to prepare plans on time and shortage of quality human resources.

3 Ministry of Finance, Budget Circular, 2018-19, Government of India.

4 Ibid., Page no-163.

5 Ibid., Page nos. 174-175

2. Complexities in Procedures:

The process of fund flow under CSS is extremely complex. Until FY 2013-14, funds from the Union government went directly to the society, bypassing the state budget and treasury route for schemes spending through the society route. From FY 2014-15, the fund flow from the Union government has been via state budgets and treasuries, but they still bypass district treasuries, with the schemes being executed by state implementing societies at the district level. This process has certain advantages like little scope for diversion of funds. But it is bound by a number of norms and regulations, which results in lengthy delays in the flow of funds from the state treasuries to state implementing societies and, subsequently, to district implementing agencies. Further, the implementing agencies have to maintain separate accounts for each component of the schemes, adding to the complicated structure of the fund flow processes.

3. Additional Layers of Administrative Control:

The change in fund flow structure has created additional layers of administrative control, and this delays the release of funds at the state level. For instance, an additional bureaucratic structure in the process of fund release to implementing agencies has been created in Bihar, which has increased the time required to disburse NHM funds.[6] Similarly, since the control of funds (sanctioning authority) at the district level lies with the District Collector or Deputy Commissioner, who is the head of various societies, it delays the approval and release of the funds to various blocks.

3. Multiplicity of Actors and Institutions:

There are numerous agencies / institutions involved in channeling funds for social sector programmes. With a view to ease administrative processes and expedite fund flow and utilisation, parallel structures have been created at the state level (as independent autonomous implementing societies) for most CSS. Even now, funds under CSS are routed through state budgets and treasuries, and then transferred to the bank accounts of the state implementing societies. In this process, a number of actors are involved along with the institutions and agencies, causing procedural delays in fund flow. A recent study highlights that there is a minimum of 32 desks in Bihar, 25 desks in Maharashtra and 10 desks in Odisha through which files for disbursement have to pass through before funds can be released under the NHM to the state Health Society.[7] Similar arguments were shared by various stakeholders from the project districts. For instance, Bolangir district could not spend funds to conduct teachers training in 2018-19 due to a delay in getting financial approval from the state authority.

4. Multiple Instructions and Guidelines from Various Higher-Level Authorities:

Expending funds under CSS at the district level and below requires sanction orders. There are several sub-programme heads assigned for a programme, which requires multiple sanction orders from competent authorities, starting from the Union government ministries, to spend the allocated budget. There are also instances of oral / informal orders from higher authorities, which confuse programme implementers and frontline service providers to spend the available funds without written authorisation from the higher levels. In many instances, the allocated funds remain unspent as the implementers do not want to spend with a fear of audit objections in future. According to a case from Chandrapur in Maharashtra, districts and blocks do not get clarity on how the available funds would be utilised for various components of Swachh Bharat Mission-

6 Choudhury, M and R.K. Mohanty (2017): Utilisation, Fund Flows and Public Financial Management under the National Health Mission: A Study of Selected states, NIPFP.

7 Ibid .

Gramin (SBM-G), resulting in under-utilisation, and subsequently, causing delays in the flow of funds.

5. Uncertainty About Timing of Releases Among Implementing Agencies:

There is no clarity on the dates of fund release and the quantum of funding available with the implementing agencies at the district level. Hence, they are unable to hire services and goods required for the completion of proposed activities under the programmes that impacts subsequent instalments. In many instances, it was noticed that states do not release the matching grants on time, leading to delays in the release of funds from the state treasury to state level societies and, further, to district-level implementing agencies as shared by the district officials of Balasore under MDM.

6. Accrued Unspent Balance and Not Matching with Scheme Norms Delaying Release of Funds:

Districts have been given beneficiary targets under several CSS, particularly under entitlement based programmes such as Pradhan Mantri Awas Yojana-Gramin (PMAY-G), NSAP, SBM-G, etc. If the threshold expenditure target set for the district in a specific quarter is not met, the scheme guidelines suggest that the district will not get funds in the subsequent quarters of the financial year until the available funds are spent. The same rule applies for blocks that delays fund flow from the districts as well in subsequent quarters of the financial year.

7. Delay in Submission of Expenditure/ Utilisation Statements / Certificates from the District:

There have been delays in the release of funds due to delays in submission of statements of expenditures by the district to the state and the ensuing delays in the submission of utilisation certificates by the State to the Union government ministries. This delay in submission of expenditure statements at the district level and below arises mostly due to shortages of accountants and other technical staff in addition to delays in approvals of the district's action plans. Multiple formats and hundreds of scheme components (separate accounts have to be maintained) for which details have to be filled in, as part of the reporting structure, contribute to this delay.

8. Shortage in Human Resources and Weak Infrastructure Support:

As noted, delays in preparation, finalisation and submission of action plans for various programmes at the levels of districts and states are caused by shortages in quality human resources and inadequate infrastructure support. For instances, there are vacancies of accountants, technical staff and managers under various schemes across districts[8]. Thus, programme executions do not happen on time, impacting fund utilisation and delays in the release of funds for successive instalments. Training and capacity building programmes are not taken up regularly to address capacity constraints of the existing staff at the district level.

D. Remedies to Address Delay in Fund Flow

Various reform measures have been initiated by the Union government ministries and the state governments to expedite the flow of funds and ensure timely release of instalments under various social sector programmes recently. One such example is the implementation of the Direct Benefit Transfer scheme by linking Jan Dhan accounts, Aadhaar and Mobile numbers (referred to as the JAM trinity) under the MGNREGS, in which wages are credited directly to the workers' bank accounts, thereby reducing delayed payments. Creation of dedicated bank accounts at the state and district levels, both under the MGNREGS and the PMAY-G,

8 For details, please refer to the policy brief on Human Resource Shortages.

have addressed delays in wage payments as well as in the release of funds directly to the bank accounts of beneficiaries. Similarly, introducing online approval and the processing of instalments (e-payments) reduce the transit time for fund disbursements under various programmes. Various technology-based applications and dashboards have been increasingly used to expedite the process of fund transfer under development programmes.

However, there are issues pertaining to strict adherence to scheme guidelines and norms, which often restrict the release of instalments, unless the utilisation of funds is reported to a particular extent (threshold limit). Also, delays in formulating and sending detailed and clear guidelines to the implementing agencies to carry out activities planned under the programmes affect the extent of utilisation and delay future instalments. A few remedies are suggested here to address delays in the flow of funds for development schemes:-

- The complex structure of fund flow needs to be simplified and gaps should be plugged from the programme point of view rather than seeing the fund flow mechanism / structure from purely a technical aspect.
- Introduction and institutionalisation of revolving fund mechanism at the district level could help address the issue of delay in the flow of funds in any scheme.
- Addressing the issues of inadequate human resources and infrastructure shortages can help timely preparation, submission and finalisation of action plans and expenditure statements at various ends.
- Periodic and systemic review meetings, regular capacity building and refresher programmes of accountants and other technical officials should be conducted at both the district and block levels for prompt submission of plans and expenditure statements.
- Clear scheme guidelines and timely supply of information on utilising funds in a comprehensive form will help implementers to expend available funds.
- Strengthening the management information system (MIS) / reporting system at the district level and below would help in flagging problems that cause delays in flow of fund. The data should be fed with a relevant framework in place on a real-time basis in a consolidated manner instead of updating it ex-post-facto.
- Giving flexibility to district implementing agencies on utilising funds under various components instead of rigid norms set for them could lead to better utilisation of funds.

III. Policy Recommendations

1 Introduce and Institutionalise Revolving Fund Mechanisms: A revolving fund mechanism can be introduced at the district level for pooling resources for various schemes through a convergence approach, which could help address the issue of delays in the flow of funds in a particular scheme. If there are fund disbursement delays for development schemes, adequate flexibility should be given to the district authority to use the funds from other schemes and adjust the same later.

2 Regularise Programme Review Meetings: Review meetings with various stakeholders at the state level should be regularly held to exchange ideas on expediting fund flow. A dedicated session should be planned in such review meetings to share better practices of addressing fund flow in different schemes at the district level by documenting such practices for replication. The programme and account managers should be adequately incentivised for sharing such case studies.

3 Relaxation on Scheme Guidelines and Norms: District implementing agencies should be given flexibility in utilising funds under various components instead adhering to the rigid norms set for them at the Union or state level. This flexibility would allow district authority to expend fund within various components of a scheme in order to meet the threshold limit of overall scheme expenditure and make the district eligible for next instalment. Nonetheless, a robust system of transparency and accountability mechanism should be in place to avoid misappropriation and misuse of funds.

4 Address Shortages of Human Resources: Delay in preparation and submission of action plans and budget as well as expenditure statements for various development schemes from the districts is mainly due to lack of competent human resources at the district level and below. The officials with the planning and monitoring unit are overburdened with numerous works. Adequate human resource should be in place to prepare and submit the plan from the district for approval and release of funds on time.

5 Prepare Finance Manuals and Modules: Primers and manuals can be prepared in regional languages to facilitate better understanding of the schemes' objectives, target groups, coverage, etc., by the accountants and scheme implementers. District administration should be adequately funded in preparing these scheme specific primers and manuals and regular orientation programmes for the officials below the district level should be conducted at a regular interval.

NOTES

Fiscal Governance Reforms at District Level for Improving Fund Flow and Utilisation in Development Schemes:

Full List of Outputs

Policy Briefs

1. Extent of Fund Utilisation in Social Sector Schemes: Does It Conceal More Than It Reveals?
2. Factors Constraining Fund Utilisation in Social Sector Schemes: An Overview
3. Delay in Fund Flow: Consequences, Causes and Remedies
4. Fund Flow Mechanisms of Centrally Sponsored Schemes in Social Sectors
5. Availability and Capacity of Human Resources for Implementing Social Sector Schemes
6. Rigid Norms and Guidelines Affecting Utilisation of Funds in Social Sector Schemes
7. Strengthening Budget Information Architecture at the District Level

Notes from the Districts

1. District Mineral Foundation Trust (DMFT) Fund-A Potential Source to Address Resource Gaps in Development Schemes: A Case from East Singhbhum, Jharkhand
2. Revolving Fund Mechanism Can Address Problems Relating to Delayed Fund Flow in Schemes: A Case from Krishna, Andhra Pradesh
3. Unspent Funds Utilised by Expanding Beneficiary Coverage: A Case from Balasore, Odisha
4. Coordination Among Multiple Agencies at the District Level Can Deliver Better Results: A Case from East Singhbhum, Jharkhand
5. Enhancing Transparency and Accountability through DISHA Committee Meetings: A Case from Bolangir, Odisha
6. Online Treasury Portals Can Enhance Fiscal Transparency at the District Level: A Case from Chandrapur, Maharashtra

Summary Report

Fiscal Governance Reforms at District Level for Improving Fund Flow and Utilisation in Development Scheme

All outputs are available at
www.cbgaindia.org

To know more about Tata Trusts' role and approach to district budgets, visit
https://www.tatatrusts.org/our-work/digital-transformation/data-driven-governance

About the Project

CBGA and Tata Trusts have carried out a two-year project focusing on fiscal governance reforms needed at the district level to improve fund flow and utilisation in development schemes across sectors. It focused on 10 social sector schemes (viz. SSA, MDM, NHM, ICDS, SBM, NRDWP, MGNREGS, NSAP, PMAY, PMFBY) in five districts across four states: Balasore and Bolangir in Odisha, Chandrapur in Maharashtra, East Singhbhum in Jharkhand, and Krishna in Andhra Pradesh. The project assessed the pace of fund flow, and the extent and quality of fund utilisation in select development schemes in the five districts; it has generated a host of policy suggestions to improve planning and budgeting at the district level, and improve the processes of fund flow and utilisation in social sector schemes.

About CBGA

CBGA is an independent, non-profit policy research organisation based in New Delhi. It strives to inform public discourse through rigorous analysis of government budgets in India; it also tries to foster people's participation on a range of policy issues by demystifying them.

For further information about CBGA's work, please visit
www.cbgaindia.org or write at: info@cbgaindia.org

About Tata Trusts

Since inception in 1892, Tata Trusts, India's oldest philanthropic organisation, has played a pioneering role in bringing about an enduring difference in the lives of the communities it serves. Guided by the principles and the vision of proactive philanthropy of the Founder, Jamsetji Tata, the Trusts' purpose is to catalyse development across various sectors. The Trust's work on data driven governance focuses on "strengthening rural & urban decision making systems, and associated stakeholders to leverage data and technology and move towards a more informed and participatory approach to decision making, that supports improved development outcomes for all."

For further information about Tata Trusts' work, please visit
www.tatatrusts.org or write at: talktous@tatatrusts.org