

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

Policy Brief: 2



Factors Constraining Fund Utilisation in Social Sector Schemes: An Overview

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I. Why We Did it

The Centre for Budget and Governance Accountability (CBGA), in collaboration with the Tata Trusts, undertook a project to understand the fund flow mechanisms and the extent of fund utilisation in 10 development schemes across five districts in four states. The findings suggest that while most social sector schemes have reportedly utilized over 85 per cent of funds across districts in 2017-18 and 2018-19, the extent of utilisation is not uniform. It varies across schemes and districts. There are instances where the extent of fund utilisation is less than 85 per cent like in case of Mid-day Meal (MDM) and National Health Mission (NHM). In this regard, implementing agencies face multifarious challenges.

This policy brief documents a diverse range of factors that are affecting utilisation of the available funds under different schemes, and also suggests policy actions towards addressing the gaps.

II. What We Found

Factors Contributing to Near Full Utilisation of Available Funds

Direct Benefit Transfer (DBT): Introduction of DBT has certainly improved the extent of fund utilisation under various social sector schemes such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Swachh Bharat Mission (SBM), Pradhan Mantri Awas Yojana (PMAY) and National Social Assistance Programme (NSAP). The implementing agencies and the local administrations are responsible for assessing the demand, identifying and registering beneficiaries and generating labour days in their jurisdiction. Wages are transferred directly to the workers' bank accounts and material costs are given directly to the vendors or the implementing agencies, thus leading to full utilisation of funds under MGNREGS. Similarly, the creation of dedicated bank accounts under PMAY and SBM and their integration with the beneficiary bank accounts along with the

process of online demand, approval and release of funds has resulted in higher fund utilisation rates. The district administration of East Singhbhum has been appreciative of the role of this mechanism in improving fund utilisation in the district.

Well-Defined Beneficiaries and Unit Cost Under the Scheme:

It was observed that the nature of scheme and its implementation mechanism drive the extent of fund utilisation. According to many district level implementing officers, the extent of fund utilisation for schemes like NSAP and Integrated Child Development Services (ICDS) is always high. The prime reason for this high rate of fund utilisation is that the target beneficiaries and unit costs for the main components are given. In such cases, the quantum of funds allocated is known prior to spending and hence, implementing the scheme is relatively easier.

Inadequate Budget: Due to inadequate budget provisioning, utilisation of funds under demand-driven schemes such as MGNREGS is found to be high. Although the limit of budget allocation under MGNREGS is set for the districts, expenditure is reported on the basis of reimbursements. Demand for funds under MGNREGS is always high compared to allocations fixed for the districts. This is the reason why many blocks in all the project districts reported a negative balance under MGNREGS for most quarters.

High Prioritisation Accorded to the Scheme:

In many instances, it was noticed that the extent of fund utilisation is high when special attention is given to implement a particular intervention by various quarters of the government. A recent example of this is the attention given to implementing SBM in order to achieve Open Defecation Free (ODF) status. In this regard, the Union and the state governments exerted substantial pressure on the district administrations to prioritise the effective implementation of this programme and achieve their targets, leading to full utilisation of the available funds. For instance,

most districts under the study reported high levels of fund utilisation under SBM-G, indicating the high priority given to this scheme by the upper echelons of governance.

Strong Monitoring and Handholding Support:

Adequate and effective monitoring can ensure optimum utilisation of the available funds in the districts. A case in point is the implementing authority of Sarva Shiksha Abhiyan (SSA) in Balasore. The district implementing agency regularly monitors and follows up with the blocks and schools. The Block Education Officer (BEO) and the Block Resource Centre (BRC) coordinator supervise and inspect schools regularly, and provide all the necessary technical support to the schools for effective implementation of the programme.

Factors Constraining Utilisation of Funds

Delay in Flow of Funds: Delay in fund flow is one of the major factors causing underutilisation. Quite often, implementing agencies at the district level receive the first instalment by the end of first quarter and sometimes, even during the second quarter of the financial year. As a result, they are unable to spend on the activities planned during the first quarter. According to an official in East Singhbhum, most of the funds allocated for the district under MDM were disbursed during the last quarter of 2018-19. Delays in fund flow through the treasury for constructing Anganwadi Centres in Balasore resulted in underutilisation of funds. Chandrapur also received funds for constructing toilets in Anganwadi Centres in the month of March in the financial year of 2018-19 resulting in low levels of fund utilisation under ICDS.

Delay in Submission of Annual Action Plan and Budget: Delays in preparation of annual action plan and budget is one of the major reasons for underutilisation of funds in various social sector schemes. We came across a number of instances

across districts where the annual plan and budget get finalised by the end of the second quarter of the financial year. As a result, a substantial amount of the funds, meant for activities during the first two quarters of the financial year, remained unspent. For instance, the SSA annual work plan and budget for 2019-20 was finalised and shared with the Balasore district in September 2019. This prevented the district from spending on any head other than the teachers' salary. This also pushed the procurement of school uniforms for children to the third quarter of 2019-20. Similar concerns were expressed by a Block Programme Manager (BPM) in Balasore with respect to the utilisation of funds under NHM.

Delay in Finalisation and Approval of Annual Action Plan and Budget:

Once the proposal for the listed activities is prepared and submitted by the implementing agencies to the state level agencies, it is reviewed and finalised by the state and submitted to the Union government ministries for discussions and approvals. The Union ministries approve the plan after reviewing it and consulting with the state nodal offices. Subsequently, the budget is approved and transferred to the state. Following this, the state-level implementing societies submit a requisition letter for the disbursement of funds. Delays in the finalisation of plans by the state and subsequently, in the approval of the plan and budget at the level of Union ministries have been leading to delays in fund disbursements to the state. Once the fund is available with the state, it has to contribute a matching grant (the approval of such matching grants passes through several administrative layers), which takes several weeks and further delays fund disbursements to bank accounts of the state implementing agencies. Following this, the state implementing societies transfer funds to the district level implementing societies. This whole process is time consuming and affects fund utilisation rates in the district level.



Lack of Decentralised Planning: The creation of local governments with the necessary powers to prepare need-based plans and budgets is important for the effective implementation of development schemes. All scheme guidelines have elucidated how need-based planning is necessary to achieve the targeted outcomes. However, the guidelines are not followed as the local bodies have never been conferred with the job of preparing budget backed plans at their level. Even if these local bodies plan and prepare budgets, those are not considered seriously by the higher administrative authorities. The decision-making powers continue to rest with higher officials in the chain of hierarchy. As a result, the levels of district administration and below fail to utilise funds optimally, forcing implementing agencies to prioritise spending as per the wishes of the state and the Union governments. We found such instances in Balasore where the district equally distributed funds among the blocks for some components of certain schemes. Some blocks could not utilise these funds as they did not need any additional funds under those specific components, and instead needed resources for some other component. For example, the blocks of Remuna and Basta had in Balasore needed funds for the component of peripheral school development under SSA, which did not receive any attention.

Inefficient Coordination Between Departments and Lack of Convergence Among Interventions: Coordination between different departments is critical for the effective implementation of schemes, especially when the social sector programmes and schemes are designed in such a manner that two or more departments require convergence for the pooling of resources in order to deliver the outputs / services optimally. Lack of coordination between the spending departments, both at the levels of the state and the districts (line department offices) can lead to poor utilisation of funds.

In Balasore, we noticed that the lack of coordination between the School Management Committees (SMCs) and the principals affected fund utilisation under SSA. This delayed most of the construction-related works and consequently, the funds remained unspent. Due to poor coordination between the Office of the Project Director of the District Rural Development Agency and the District Social Welfare Office in Balasore, the targeted construction of Anganwadi Centres could not be taken up during 2018-19.

Lack of Comprehensive and Clear Guidelines: There are many instances where programmes and schemes are announced and launched for implementation without adequate groundwork. Frequent changes in the nature of fund flow mechanisms and fund sharing agreements, lists of targeted beneficiaries and eligibility criteria are neither captured nor updated in the scheme guidelines. Subsequently, these changes are not communicated to the district and the sub-district level implementing agencies on time. Further, local officials find it difficult to understand the scheme guidelines due to the language barriers, which often lead to the funds remaining unspent. For instance, Chandrapur district in Maharashtra had to build community toilets in 2018-19. Since the district officials did not get clear guidelines from the State on the usage of the available funds under various components of Swachh Bharat Mission-Gramin (SBM-G) resulted in low levels of fund utilisation.

Rigid Scheme Guidelines: Rigid guidelines are also a cause for sub optimal utilisation of funds. For instance, within a scheme, funds meant for a particular component is not allowed to be used for another, which sometimes leads to underutilisation of funds. At times, States impose conditions on the district implementing agencies. For example, the Bolangir district could not organise an event under SSA for which funds had been approved in the work plan. It did not get timely approvals from the state to spend the funds for organising the proposed event. In another example, the Chandrapur

district needed funds for hiring sweepers to clean community toilets under SBM. However, it could not undertake this task since there was no such provision in the guidelines. Similarly, the districts are not given the freedom to include new beneficiaries if their names are not in the state list.

Staff Shortages: Shortages of human resources across departments at every tier of the government has a huge implication on fund utilisation. It has almost been a decade since states started curtailing their revenue expenditures by reducing the number of new hires, thus, leaving a large number of positions vacant in almost every department in order to be fiscally prudent. Most of the departments hire short-term staff on a contractual basis. Despite this, there are many vacancies across departments. In the absence of the required number of regular and technical staff, the delivery of services has been impacted adversely and quite often, the salary budgets remain unspent.

For instance, in Balasore, there is shortage of staff in the line departments both at the block and the district levels for the implementation of SSA, ICDS, MGNREGS and NHM. The number of vacant teaching positions in schools is considerably high and there have been no recruitments or promotions in the education department since 2014-15. Also, the lack of human resources at the office of the Child Development Project Officer (CDPO) and the Anganwadi Centres have affected fund utilisation rates in Balasore.

There are a number of vacancies for technical staff posts, including junior engineers, accountants and programme managers. In Chandrapur, the data entry operator's position for MDM has been vacant for a long time and the district has been unable to spend the amount allocated for the operator's salary in 2018-19.

Inadequate and Unrealistic Unit Costs: Most often, the unit costs of the components

are decided at the level of the Union government ministries. For example, the Ministry of Health and Family Welfare specifies unit costs of different components in the approved budget document (Record of Proceedings or RoPs). The unit costs for food grains used under MDM are also predefined by the Centre. Sometimes, these defined unit costs are lower than that of the prevailing market rates. In such cases, the allocated funds remain unspent because the district cannot spend more than the prescribed unit costs.

Lack of Financial Delegation: Since the control of funds (sanctioning authority) at the district level lies with the District Collector / Deputy Commissioner/ Chief Executive Officer, who is the head of various societies for expending funds, it delays the approval and release of funds to various blocks. Further, sanction orders from the higher authorities are required to spend funds above certain limits (varies across schemes) for each component within a scheme, impacting the extent of funds utilised.

Capacity Issues: Delays in preparation, finalisation and submission of action plans for various programmes at the levels of the districts and the states are caused by shortage of quality human resources. The lack of accountants, technical staff and managers under various schemes across districts impede preparation and the execution of programmes on the ground. Regular capacity building and training programmes have not been undertaken at the levels of the districts and blocks leading to the implementing agencies' lack of knowledge of various schemes. Due to capacity issues of staff at the district level, successful convergence across schemes did not result into better outcomes of public spending. For instance, due to lack of capacity among ICDS frontline service providers and appropriate convergence between NHM programmes in the district, the health related services provided in the Anganwadi platforms did not result better outcomes.



Local Challenges: Interference and influence of local political leaders also hamper the extent of fund utilisation. Interference in the selection of beneficiaries and forcing the implementers to favour a certain group of contractors / vendors often hinder the utilisation of funds. Local leaders are also not aware of the process of tendering, which results in delaying the entire process of fund utilisation.

Seasonal Factors: The financial year in India starts from 1 April and ends on 31 March covering two calendar years partially. During the initial months of the financial year, due to shortages of resources, expenses meant for salary and miscellaneous expenditure are prioritised over other components of scheme such as civil works. Hence, the implementing agencies often receive funds for construction-related work from the second quarter onwards. However, construction-related activities cannot be undertaken during the monsoon, i.e., the second quarter of the financial year (July–September). This leads to underutilisation of funds as the allocated amount cannot be used up to the end of the second quarter of the financial year. For instance, in Chandrapur, the necessary construction-related works and the setting up of pipelines for drinking water supply in 2018-19 could not be completed due to the monsoon and the district had no option but to initiate the process in the month of December, which affected fund utilisation under National Rural Drinking Water Programme (NRDWP). Sometimes, region-specific features aggravate such situations. For example, Bolangir is a drought-prone district and water scarcity during the summer affected the construction of houses under the PMAY, which affected the optimal use of funds.

There exist several other factors that affect fund utilisation. For example, in Bolangir district, beneficiaries constructed houses with three rooms or more, covering areas more than those allotted to them. As a result, they did not receive the funds due

under PMAY. Also, land disputes among neighbours delayed the construction process, leading to the funds not being utilised optimally.

III. Policy Recommendations

- 1** Need-based planning processes at the local level (gram panchayats and blocks) should be initiated and institutionalised to help the local bodies and the implementing agencies in identifying the critical areas for development and executing the schemes accordingly. The on-going process of preparing Gram Panchayat Development Plan (GDP) can be integrated into the district plan for preparing a comprehensive and need based plan for the district. This will also solve the problems pertaining to delays in preparation of plans and budgets for the district, which further delays the flow of funds and impacts the extent of fund utilisation.
- 2** Delegation of adequate financial powers to the local implementing authorities should be considered to address the rigidity of the financial norms that dictate scheme execution. There should be provisions for relaxing scheme guidelines in certain special cases. The districts must be given flexibility to include beneficiaries to accommodate local needs and utilise the allocated funds.
- 3** In order to improve efficiency, it is essential for training, capacity building and refresher programmes to be conducted at regular intervals to keep the existing and the new staff updated with the changes in policies, design and guidelines of schemes, norms and the selection processes for beneficiaries. It is important that adequate budgets are set aside for these activities within each Centrally Sponsored Scheme (CSS).

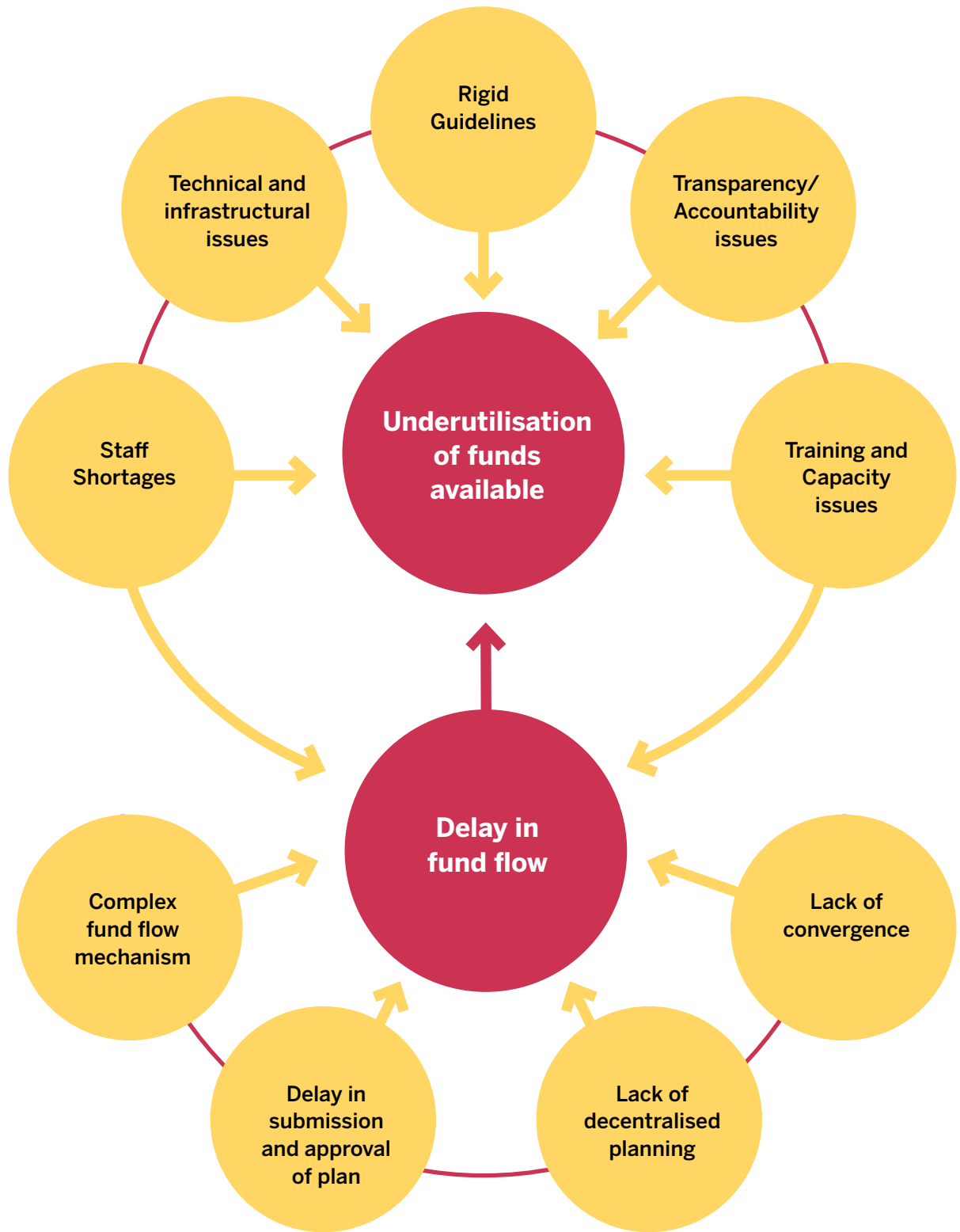
4 Even though inter-schematic convergence across CSS has been mandated to improve the quantum and quality of fund utilisation on time, the purpose is defeated with the absence of any institutional mechanism like inter-departmental

cells. Creating such cells should be prioritised both at the level of states and districts in order to leverage adequate resources and effective implementation of development schemes.





Figure 1: Factors Causing Under-utilisation of Available Budgets



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