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

Policy Brief: 4

Fund Flow Mechanisms of Centrally Sponsored Schemes in Social Sectors

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CBGA

TATA TRUSTS

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I. Why We Did It

Centrally Sponsored Schemes (CSS) are aimed at addressing poverty, inequality and issues of larger national interest. Implementation of most CSS was initiated in the late 1990s, with financial burden split between the Centre and states. Annually, around 12 per cent of the total Union Budget[1] has been provisioned for CSS. This amount constitutes a major chunk of the resource available with states for social sector provisioning.

A major change in provisioning for CSS came about with the implementation of the 14th Finance Commission recommendations since 2015-16, and subsequently, the implementation of the recommendations of the sub-group of Chief-Ministers on Rationalisation of CSS in October 2015. Following this, the Union Government's share for major CSS has been confined to 60 per cent, leaving the substantial remainder for the states.

There are two distinct forms of fund flow in India: the treasury route and the society route. Until 2013-14, the Union Government's share for CSS was bypassing the state budget, and hence state treasuries. It was instead directly routed through the implementing agencies at the state and district levels. From 2014-15 onwards, CSS funds released from the Union government began to be routed through state treasuries.

To improve public finance management, as well as transparency and accountability, direct benefit transfers (DBTs) have also been introduced for many schemes. As a result, a centralised mechanism of fund flow is seen in most entitlement-based CSS like National Social Assistance Programme and Pradhan Mantri Awas Yojana.

Delay in the flow of funds to the district-level implementing agencies is one of the major factors causing under-utilisation of funds across social sector schemes. Thus, it becomes important to evaluate the changes in fund flow mechanisms, identify gaps and suggest policy actions towards effective utilisation of funds.

To understand the structure of CSS implementation and the mechanisms of fund flow, it is crucial to document how these funds have been expended at the level of districts and below. Based on the evidence gathered from five districts across four states, this Policy Brief documents the mechanism of fund flow under select CSS, and the associated challenges and gaps.

II. What We Found

A. CSS Funds Routing Through State Treasuries

After changes to the CSS fund flow route in 2014-15, wherein funds are now routed through the state treasury, the process of fund transfer is as follows.[2] First, funds are released from the Consolidated Fund of India, as provisioned by the respective Union Government ministries, to the state treasury. Next, the state government releases its share to the bank accounts of state implementing agencies, based on the requisition letters from state societies to the respective state departments. The concerned departments generate bills in consultation with the state finance department, and the state treasury transfers the entire tranche of CSS funds to bank accounts of implementing societies at the state level. Subsequently, CSS funds flow to districts and below, as per the budget approved for various districts in a state.

There were many arguments in favour of CSS funds being routed through implementing societies: the process was faster, it checked diversion of funds,

1 As per the data given in Expenditure Profile, Union Budget, various years, Ministry of Finance, Government of India.

2 There are still some exceptions to the state treasury route. The wage component under MGNREGS is still routed through the bank account of the State Employment Guarantee Society, and MPLAD funds through district implementing agencies.

and expedited the extent of fund utilisation, and it instilled a greater sense of ownership and urgency in implementing schemes.

The most important critique of the earlier fund flow mechanism was that state legislatures were unable to exercise their voting rights over expansion of CSS funds, particularly the share of Union government for any CSS in the state. This weakened the oversight role of state legislatures in making state executives accountable. Other arguments against the earlier mechanism were that it created a parallel structure for scheme implementation, it had greater scope for misappropriation as the audit was not done by an independent agency like the state audit offices of the Comptroller and Auditor General of India.

The revised process of funds flowing through the state treasury has several positives; notably:

1. Funds flowing into states under various CSS can be traced, enhancing transparency.
2. It allows legislative scrutiny of funds available to a state.
3. It strengthens the accountability of executives and reduces misappropriation of public funds.

However, the change also adversely impacted effective implementation of CSS in the following ways:

1. It has added another layer of bureaucracy at the level of states. This delays flow of funds, hampering fund utilisation and implementation of programmes.

2. Funds flowing into districts and below cannot be traced from budget documents, as these funds are not routed through the district treasury. Further, fund utilisation of CSS cannot be assessed due to lack of relevant data in the district treasury portals. Hence, transparency and accountability issues have not been fully addressed.

3. The new system does not give enough scope to track funds beyond the state level. It is also difficult to track the matching contribution for various CSS by states, as most states do not provide segregated data of their own share.

B. Direct Benefit Transfer

To strengthen public financial management, the Union government introduced a new fund flow mechanism called Direct Benefit Transfer (DBT). This mechanism transfers subsidies and benefits under various schemes directly to the bank accounts of beneficiaries.

The study documents several instances wherein the centralised nature of fund transfers undermines the decentralised structure of scheme implementation.

SSA

For example, Sarva Shiksha Abhiyan (SSA) funds were transferred from the state treasury to the state implementing society to the district implementing agencies to Block Resource Centres (BRC) to School Management Committees (SMCs). This process was changed recently in Odisha.

One component, for construction and other civil works, goes directly from the state treasury to Panchayat Raj Institutions (PRIs). As before, the state society of SSA transfers funds to the district education office (DEO), the nodal office at the district level for SSA. The DEO credits those funds into the bank accounts of students, SMCs, Block Education Officer (BEO) and vendors. Therefore, the SMCs no longer bear the full responsibility of utilising funds under the respective heads.

Similarly, in Jharkhand, books are procured at the state level, and are distributed across districts. school grants and salary of para teachers are credited to the bank accounts of SMCs and teachers directly. The cost of civil works goes to SMCs and contractors supplying raw materials for construction. Funds for school uniforms are credited to the bank accounts of students.

MDM

Funds for the Mid Day Meal (MDM) scheme previously flowed through district treasuries in Odisha. One component went from the district treasury to the Block Education Office (BEO) to SMCs and vendors to buy foodgrains. Other components flowed through the district nodal agency, to pay salary to teachers and honorarium to cook-cum-helpers, and to procure rice.

Presently, funds under MDM bypass the district treasury and flow through the state society. The state society releases the cost of foodgrains to the state civil supply corporation. The release of funds is centralised, and only sanction orders are sent to districts to lift the foodgrains for MDM. The state society also releases salaries to cook-cum-helpers and the remaining amount to the DEO. The DEO transfers one component in the MDM account of schools; contingency and administrative cost to BEOs; and transportation cost to travel agents.

In contrast to the practice in Odisha, the entire allocation, other than fuel and cooking cost, are routed through the district treasury in Maharashtra.

ICDS

The Integrated Child Development Services (ICDS) scheme is perhaps the only scheme where funds flow through the district treasury. One component is transferred to the District Social Welfare Officer (DSWO), and subsequently to the joint account of the Child Development Protection Officer (CDPO) and Aanganwadi Workers (AWWs). Other components go to vendors to procure rice and other items, and to bank accounts of AWWs to buy uniforms. In some states, some components used to bypass the district treasury until recently; for example, in Gujarat, the cost of uniforms for AWWs was credited to their bank accounts.

NHM

Under the National Health Mission (NHM), funds go from the state treasury to State Health Society accounts (State Programme Management Unit), to District Health Society (District Programme Management Unit) to Block Health Society (Block Programme Management Unit). The BPMU transfers funds to the bank accounts of beneficiaries', vendors', health facility centers, ANMs and ASHAs. Previously, beneficiaries used to get incentives in cash, but now they receive DBTs.

MGNREGS

The fund flow mechanism under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is completely different. Funds for material and administrative expenses are transferred from the state treasury to the State Employment Guarantee Society (SEGS), an account created under the NREGS cell of the nodal administrative department.

The Project Director (PD) at the district level is the signing authority on expenditure in the district. The PD authorises Block Development Officers (BDOs) as the signing authority at the block level. BDOs authorise Assistant Programme Officers (APO) as the signing authority to take care of expenses by panchayats. APOs pass on the authority to Panchayat Executive Officers, who, along with the elected head of the Panchayat, credit the fund in the bank accounts of vendors to buy material. There is a ceiling on administrative expenses: 6 per cent in the district and 4 per cent in blocks, of the allocated amount, which are primarily utilised by PD and BDO.

On the other hand, the wage component under MGNREGS is directly credited to the bank account of the State Employment Guarantee Society (SEGS), an account created under the NREGS cell of the state nodal department. From there, the wage component is directly transferred to the bank account of beneficiaries or workers. The Panchayat Executive Officer prepares a muster roll, enlisting all beneficiaries and the respective number of days they have worked for, and submits it at the block office. The accountant at the block office feeds the data into the online portal.

Once the data is uploaded, the BDO verifies the data and generates a Fund Transfer Order (FTO), which is sanctioned by the Project Director at the district level. This is submitted to the NREGS cell at the state level, after which funds are transferred directly from the SEGS account to beneficiary bank accounts. This clearly shows that funds under the wage component of MGNREGS are not devolved to districts and below.

C. Gaps in Present Mechanisms of Fund Flow in Social Sector Schemes

Present mechanisms of fund flow suffer from inadequate human resources, capacity issues among the staff, and technical and infrastructural bottlenecks.

Staff shortages and capacity: The Union and state governments are aiming to digitise every process of administration, for which staff capacity to work with advanced digital technology is a prerequisite. District administrations, however, face an acute shortage of qualified technical staff. Officials of East Singhbhum district shared how staff shortages, and their inability to enter data into the computer, led to underutilisation of funds in MGNREGS.

In the same district, only one accountant has been appointed at the district level for NSAP, affecting the process of issuing, verifying and approving relevant documents by local bodies. The staff is not trained to work on the Public Financial Management System (PFMS) platform. One Child Development Project Officer is looking after two to three blocks. There is no statistical assistant to enter data and prepare reports in any block.

On the one hand, districts do not have the authority to appoint statistical assistants even in contractual positions. On the other, states, citing fiscal prudence, have stopped recruiting staff in regular positions. The condition of tribal blocks is even worse.

Technical and infrastructural issues: Real-time updation of databases at the district level is crucial for effective implementation and quick policy action. Under NSAP, linking beneficiary accounts with Aadhaar numbers has become a prerequisite to identify beneficiaries for DBT. Fund transfer is impeded when the Aadhaar number of the beneficiary becomes inactive or the Aadhaar link fails due to a technical error or infrastructure bottlenecks. Further, though DBT is seen as an improvement over the earlier cash transfer programme, there are still barriers such as insufficient numbers of banking institutions, and inadequate financial literacy.

As a result, the present fund flow architecture has neither been able to ensure accountability and transparency, nor address delays in fund flow.

III. Policy Recommendations

The following are recommendations to strengthen the present fund flow mechanisms:

1. While funds are being routed through state budgets, they still bypass the district treasury, and are instead routed through various offices of the state implementing societies at the district level. All CSS funds should be routed through the district treasury system, so that funds can be tracked down to beneficiaries on a real-time basis.

2. The parallel mechanism of the society route makes the process of fund flow cumbersome and ambiguous. The society route should be integrated within the functional domain of existing line departments to solve the problems relating to multiple reporting, and shortages of qualified and

technical staff. Moreover, this will allow both state and district implementing authorities to be held accountable if funds are misappropriated or not utilised fully.

3 The government's focus on cashless transactions and digital economy, to address misappropriation of funds and corruption in public finance management, appears to be a step in the right direction. However, it is imperative to address infrastructural bottlenecks at the level of districts and below. Issues related to power supply, network connectivity and banking infrastructure should be resolved on priority basis.

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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