

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

Policy Brief: 1



Extent of Fund Utilisation in Social Sector Schemes: Does it Conceal More Than it Reveals?

January 2020

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I. Why We Did It

In terms of the general understanding of different actors in the policy community in the country, the understanding of the challenges in utilisation of funds in social sectors is limited. The problems of unspent funds or under-utilisation in social sector schemes, especially in the major CSS, are highlighted frequently in the public discourse. However, there is limited discussion on the causal factors underlying constrained fund utilisation in social sector schemes. Hence, it is pertinent to unpack the challenges in the process of fund flow and utilisation and identify the major factors that need to be addressed.

This policy brief focuses on assessment of the extent and quality of utilisation of funds available in select social sector schemes in the five project districts. The extent of fund utilisation in a scheme in a district is evaluated by comparing actual expenditure in a year with the total funds available to the district for the scheme concerned for that year. Thus, higher the extent of utilisation in a scheme in any year, lower is the amount of unspent funds in the same at the end of that fiscal year.

Quality of fund utilisation is assessed by referring to the pattern of fund utilisation across the four quarters of a year, across different blocks and different components within a scheme. The rationale is that relatively high levels of utilisation for a district for a year can hide uneven utilisation across quarters, across geographies and components.

II. What We Found

The narrative of under-utilisation of funds in CSS cannot be generalised for all schemes or all districts. Also, it cannot be generalised that

districts do not have the capacity to absorb funds in social sector schemes. At least since 2016-17, districts have been showing satisfactory levels of fund utilisation under various CSS.

The same has also been reiterated at the national level by various Union government ministries of the social sectors. For instance, the Standing Committee Report No. 308¹ noted that during the years 2015-16, 2016-17 and 2017-18 (upto 3.2.2018), the Union Ministry of Women and Child Development (MWCD) utilised 96 per cent, 95 per cent and 73 per cent of the allocations respectively.

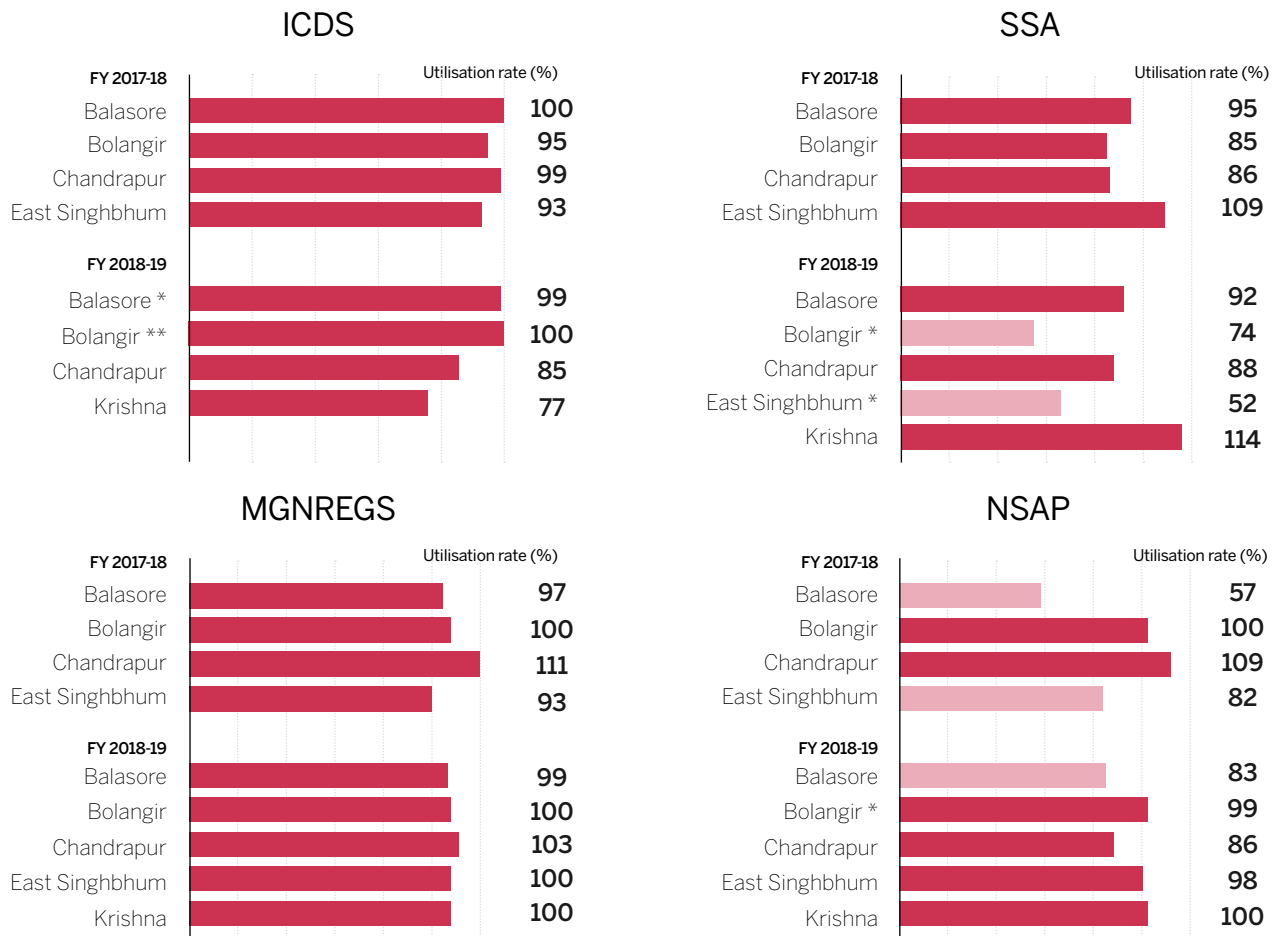
We have plotted the extent of fund utilisation for eight CSS for two financial years in four districts, and five CSS for one financial year in one district under study. That's 68 data points: 16 each for Balasore, Bolangir and Chandrapur, 15 for East Singhbhum, and 5 for Krishna. The list of better-performing districts has been prepared by taking into account the number of instances in which each district has utilised over 85 per cent of the funds available with them. Both Odisha districts—Bolangir (11 data points) and Balasore (11 data points)—and East Singhbhum (11 data points) in Jharkhand have performed better compared to Chandrapur (8 data points) in Maharashtra and Krishna (3 data points) in Andhra Pradesh.

Fund utilisation rates² in schemes such as ICDS, SSA, MGNREGS, NSAP, NRDWP and SBM-G are above 85 per cent (which we have considered as a benchmark) during financial years 2017-18 and 2018-19. The analysis reveals that schemes such as NHM and MDM performed moderately in terms of utilisation of funds in financial years 2017-18 and 2018-19. However, the extent of fund utilisation across schemes and districts is not uniform even within the well-performing schemes.

1 Action Taken by the Government on the Observations/Recommendations contained in the Three Hundred Fourth Report on the Demands For Grants 2018-19 of the Ministry of Women and Child Development, Rajya Sabha, December, 2018

2 Extent of fund utilisation across schemes is computed based on the funds utilised and the funds available with the districts. The latter is the sum of unspent balances carried forward from last year, the funds released in the current year and the interest accrued.

Figure 1: Schemes with Fund Utilisation Rates above 85 Per Cent



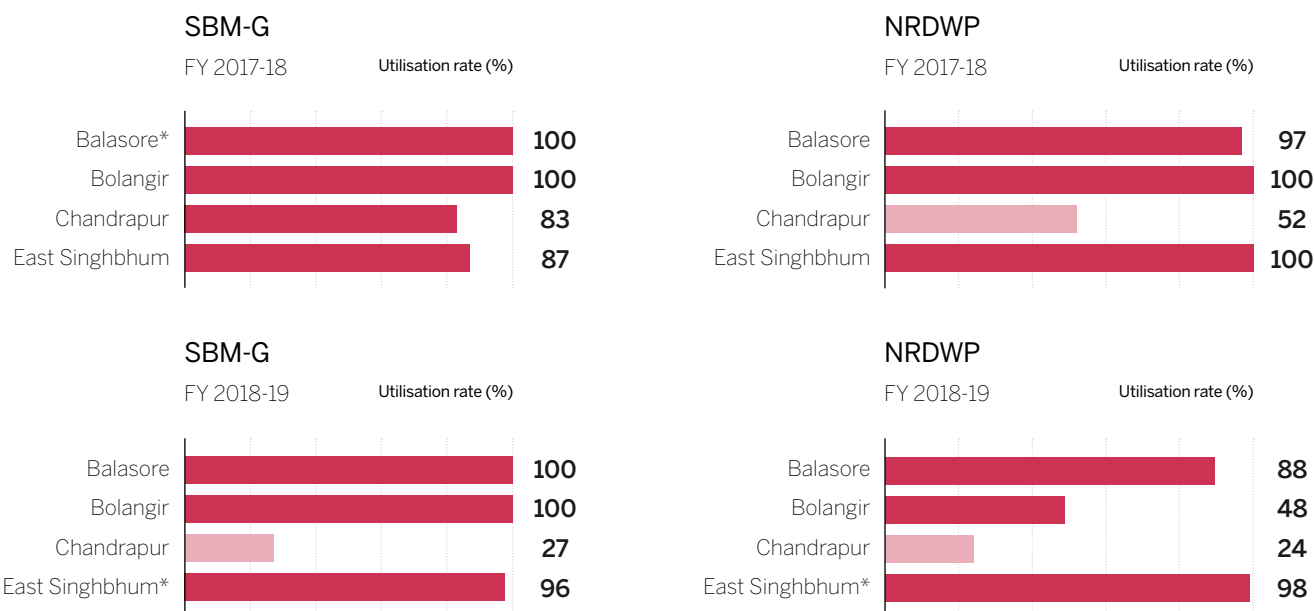
Bars marked in pink indicate utilisation below 85% * Data up to third quarter ** Data up to second quarter
 Source: Compiled by the district budget analysis team as per the data provided by respective district officials.

Under MGNREGS, fund utilisation for both the FYs 2017-18 and 2018-19 was reported at above 90 per cent in all the five districts under study. MGNREGS accounts in most of the blocks across districts showed negative balance. In other words, the district administration spent in excess of the funds received. MGNREGS (in FY 2017-18 and 2018-19) and NSAP (in FY 2017-18) show more than 100 per cent utilisation in Chandrapur, indicating that the previous year's liabilities were shown as expenditure even though the payments are made in the subsequent financial year. This was the case for the SSA in East Singhbhum district during 2017-18 and Krishna district during 2018-19 as well (Figure 1).

The extent of fund utilisation under the NSAP for Balasore district was at 57 per cent in 2017-18 but improved to 83 per cent in 2018-19. All other four districts have been reporting more than 80 per cent utilisation under NSAP. Further, four districts reported satisfactory level of fund utilisation under SSA in 2017-18 with Balasore and East Singhbhum utilizing more than or equal to 95 per cent of the available fund. In 2018-19, Bolangir spent 74 per cent and East Singhbhum spent 52 per cent (till the end of third quarter) of available funds under SSA. Similarly, Krishna spent 114 per cent of its SSA funds in 2018-19.

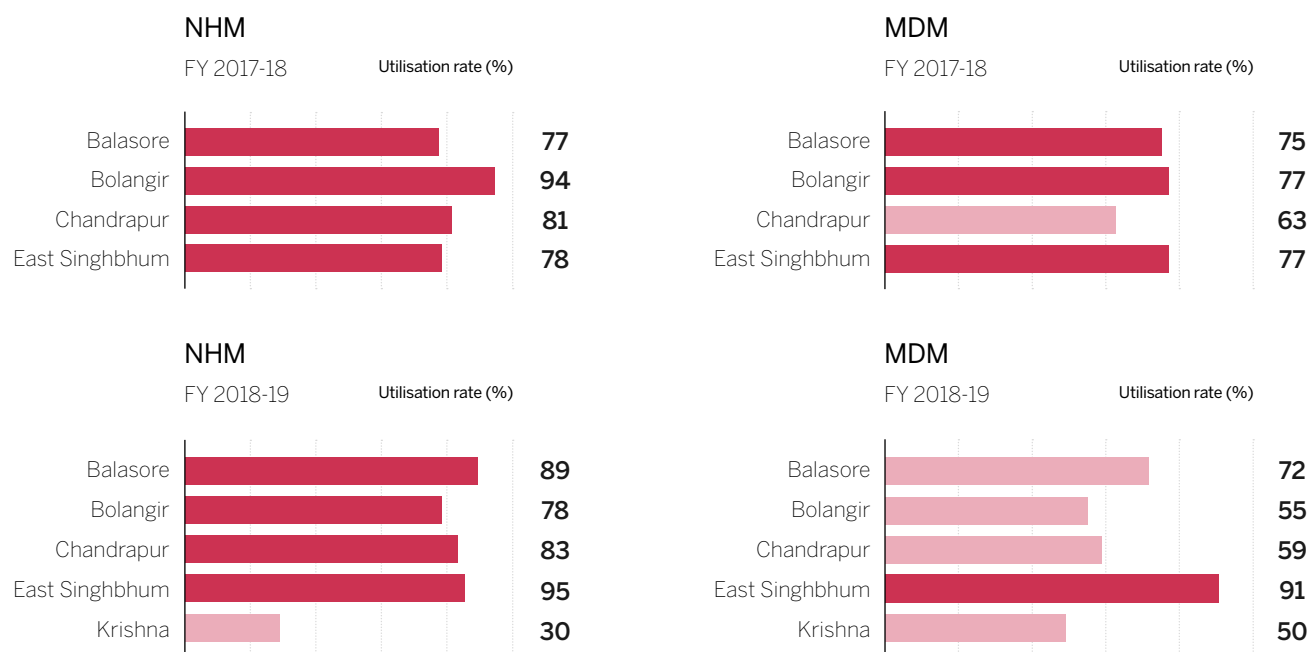


Figure 2: Chandrapur is an Outlier in Spending Funds under SBM-G and NRDWP



* Data up to second quarter ; Source: Compiled by the district budget analysis team as per the data provided by respective district officials.

Figure 3: Schemes with Fund Utilisation Rates Above 75 per cent



Source: Compiled by the district budget analysis team as per the data provided by respective district officials.

Balasore and East Singhbhum utilised 77 per cent and 78 per cent of their NHM funds respectively; and in 2018-19, Bolangir utilised 78 per cent of its funds. The average rate of utilisation for the four districts was between 75 and 80 per cent in both the financial years (Figure 3). It is worth noting that the actual outlay for NHM had declined in the Union Budget of 2017-18. The Standing Committee on the subject had noted that poor utilisation rates under NHM should not be cited as a reason for decreasing outlays. Compared to the rate of fund utilisation under National Rural Health Mission (NRHM) in 2008-09, which was only 65 per cent, it seems that a decade later, the scheme has not registered enough improvement³.

Except in Chandrapur, more than 85 per cent of the available funds for the SBM-G were utilised in both the years in the other three districts. Similarly, except for Chandrapur (for both the financial years) and Bolangir (2018-19), all the other districts have shown more than 85 per cent fund utilisation under the NRDWP (Figure 2). However, allocations for the scheme have declined in the recent past at the level of Union Government leading to a shortage of funds, on the ground.

All districts, except East Singhbhum, spent less than 80 per cent of the funds available under the MDM in 2018-19. Bolangir, Krishna and Chandrapur spent less than 60 per cent of funds in 2018-19. In 2017-18, however, more than 75 per cent of MDM funds were spent by Balasore, Bolangir and East Singhbhum. With a few exceptions, the overall extent of utilisation of funds has increased visibly as compared to the situation in FY 2013-14 for most of the schemes.

As per the guidelines set in the budget circular (2018-19) by Department of Economic Affairs, Ministry of Finance, Government of India, more than 33 per cent of the total budget cannot be spent in the last quarter of a financial year. The circular also instructs all tiers of government including

local bodies to spend 15 per cent, at most, across sectors and schemes, during the month of March to ensure fiscal discipline⁴. However, districts are often found to spend more than 33 per cent of the fund for several CSS in the last quarter of a financial year.

For example, expenditure on SSA, MDM and NSAP was unevenly distributed across quarters in Balasore, Bolangir, Chandrapur, East Singhbhum and Krishna. In Balasore, expenditure on SSA declined in second quarter and registered an increase thereafter. Expenditure on MDM, on the other hand, was higher in second and fourth quarter as compared to other quarters in both Balasore and Bolangir. Chandrapur district was found to have spent higher proportion of funds under MDM during second and third quarter as compared to first and last quarters of 2018-19.

Although the extent of utilisation of available funds in social sector programmes has improved significantly over the last decade, there is uneven utilisation of funds across the four quarters in every district studied. Four different types of pattern of distribution of total expenditure have been observed across quarters. These are as follows:

1. Some districts spent the highest share of funds during the second quarter of financial year 2018-19 (for example, Bolangir on SSA, Chandrapur on SSA and ICDS, East Singhbhum on MDM).
2. Some districts spent more than 40 per cent of funds in the schemes during the last quarter of financial year 2018-19.
3. All the study districts, except Balasore, showed the highest share of expenditure on MGNREGS during the first quarter of the financial year.
4. Expenditure on ICDS was somewhat evenly distributed across quarters in Bolangir and Krishna (Figures 4-7).

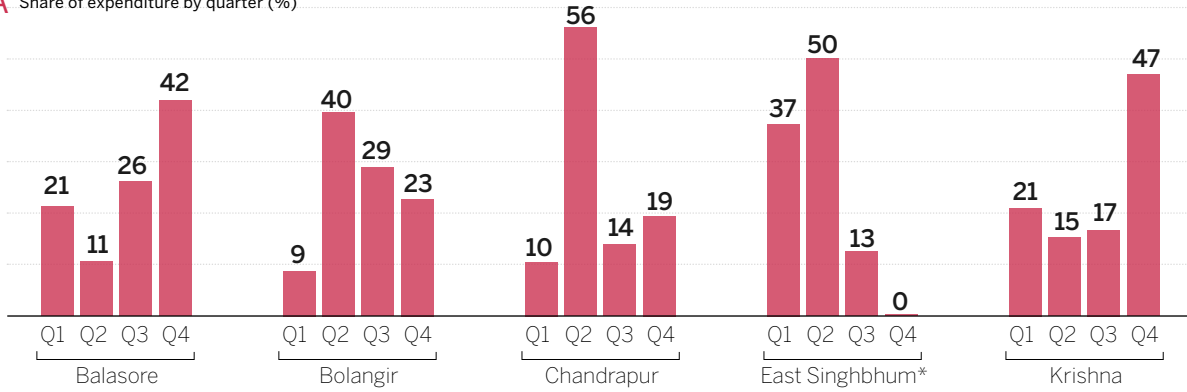
3 Parliament of India, 2018, Demands for Grants 2018-19 (Demand No. 42) of the Department of Health and Family Welfare (Ministry of Health and Family Welfare), 106th report, Rajya Sabha Secretariat, New Delhi.

4 Budget Circular, 2018-19, Ministry of Finance, Department of Economic Affairs, Government of India.

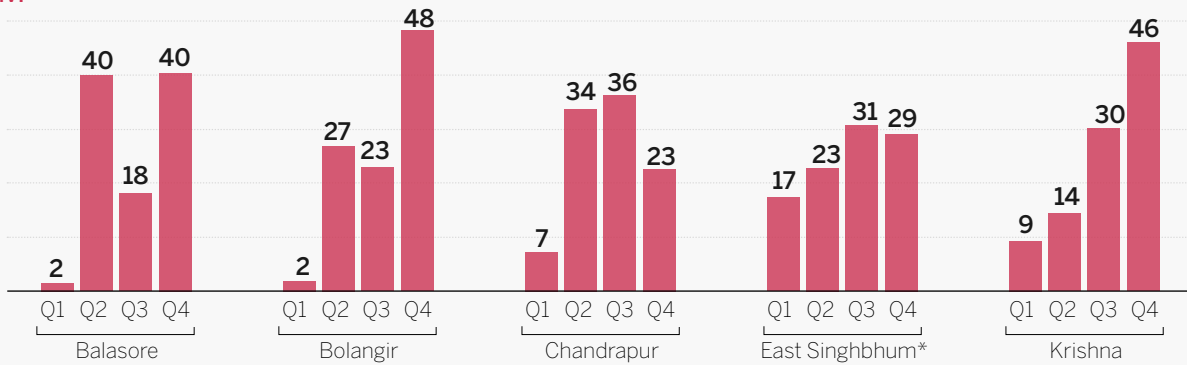


Figure 4: Fund Utilisation Rates Above 85 Per Cent Across Quarters

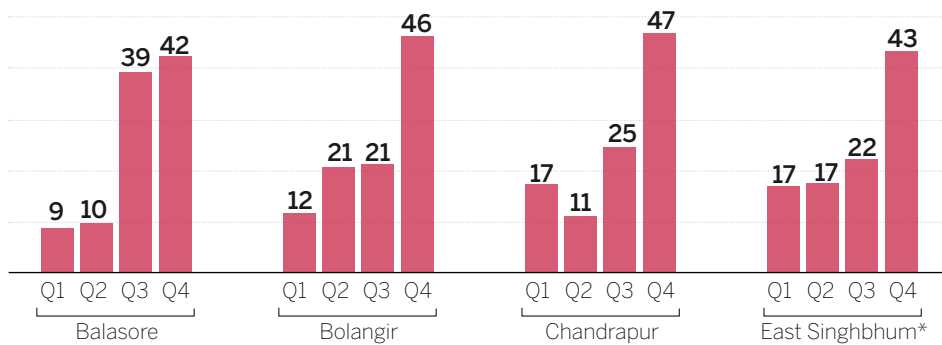
SSA Share of expenditure by quarter (%)



MDM Share of expenditure by quarter (%)



NHM Share of expenditure by quarter (%)



NSAP Share of expenditure by quarter (%)

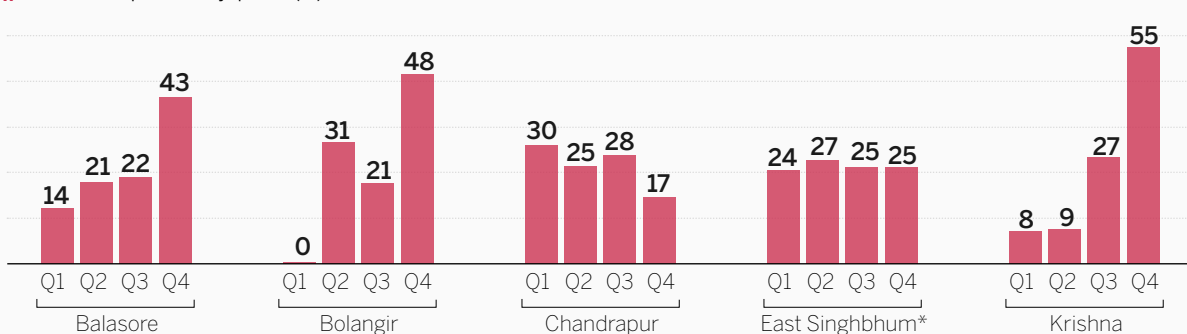


Figure 5: Even Distribution of Expenditure on ICDS in Balasore and Krishna (2018-19, in %)

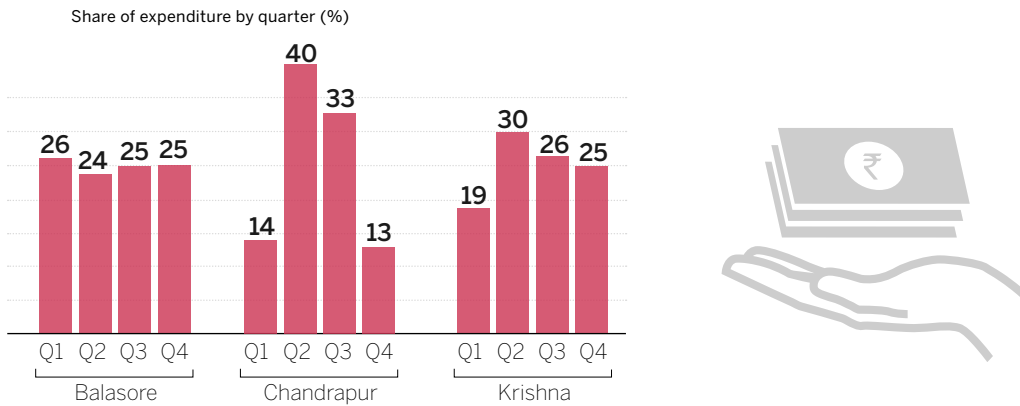
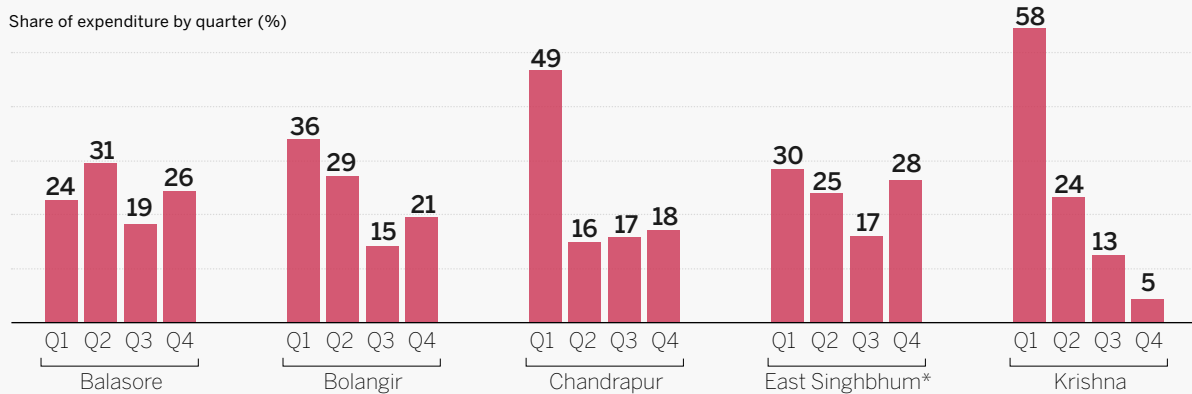


Figure 6: Highest Share of Expenditure During First Quarter, MGNREGS (2018-19, in %)



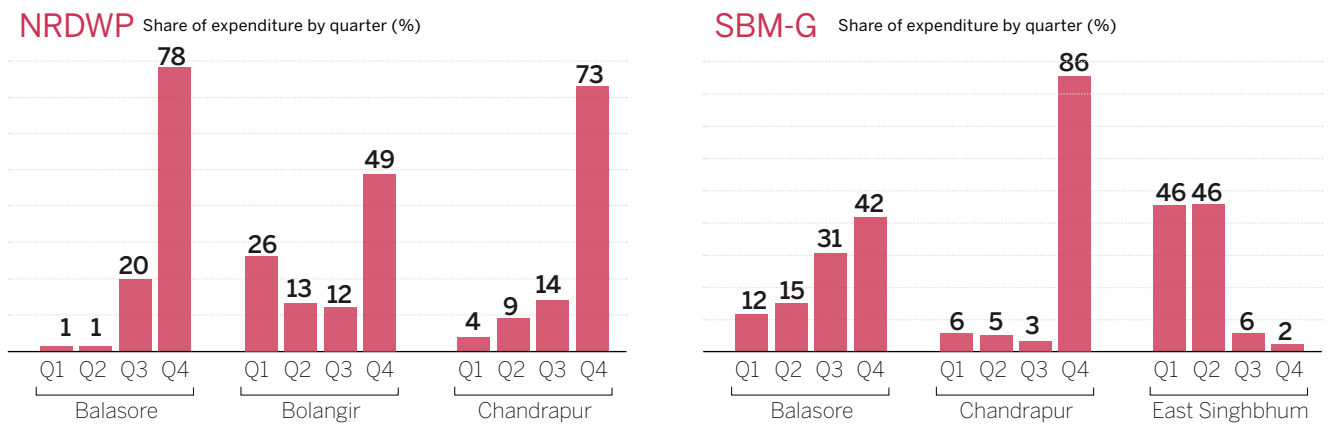
Under ICDS, Chandrapur district spent a higher share of funds during the second and third quarters of 2018-19, while a somewhat even distribution across quarters was noticed in Bolangir and Krishna. Similarly, under NSAP, even spending was seen in East Singhbhum and Chandrapur districts during 2018-19, but not for other districts.

Other than Bolangir, all the study districts showed the highest share of expenditure on MGNREGS during the first quarter of the financial year. That's partly because districts cleared due payments of the previous financial year during the first quarter of the current financial year (Figure 6).

Expenditure on NRDWP was also unevenly distributed across quarters in Balasore, Bolangir and Chandrapur. Chandrapur spent around 86 and 72 per cent of the total expenditure on SBM-G and PMAY, respectively, during the last quarter of 2018-19 (Figure 7).

Sometimes, states did not release their matching share on time. As a result, districts had to postpone financial decisions, as the Centre's share alone was insufficient to take up due activities. Such instances were found in respect of fund utilisation under MDM in East Singhbhum. Similarly, uneven distribution of expenditure in NRDWP across

Figure 7: Districts Spending Highest share in Fourth Quarter for NRDWP and SBM-G (2018-19, in %)



quarters in 2018-19 is attributed to a delay in fund release from State (East Singhbhum).

District implementing authorities reported that they received funds under CSS in 12 to 13 instalments and that the first instalment was credited in the bank account of the Drawing and Disbursing Officer only by the end of the first quarter of 2018-19. Thus, districts were unable to spend on schemes like SSA, MDM, ICDS, NHM, PMAY, NRDWP and SBM during the first quarter of financial year 2018-19.

According to implementing officials, the uneven pattern of expenditure, across schemes and districts is due to a number of reasons. For instance, it was agreed that the inclusion of new beneficiaries or removal of old beneficiaries in NSAP led to uneven distribution of expenditure across quarters in districts, especially in Balasore during 2018-19. Similarly, strikes by Gram Sevaks and Block Programme Officers (BPO) in East Singhbhum and Bolangir affected utilisation of funds across quarters in 2018-19 for MGNREGS. The SBM-G guidelines to use funds allocated for community toilets were not clear, because of which Chandrapur could not utilise the funds in 2018-19.

High levels of utilisation are seen in components for which making expenditure is relatively easy. An example of this is salary component, which

is recurring in nature and the unit cost is fixed. However, components like civil works, procuring medicines and equipment under NHM, supply of goods and services under MDM, etc. would require following a certain process of tendering. This process sometimes negatively impacts the extent and quality of fund utilisation. Low extent of fund utilisation in these components out of the fund available impacts the quality of fund utilisation. However, ascertaining fund availability in these components is contingent upon the disaggregated information available and shared by the district implementing agencies. Due to a number of accounts being maintained by the district implementing agencies, across components, within a scheme, this information is not easy to collate. In the absence of this information, we have looked at the overall extent of fund utilisation of some select components of select CSS.

The district officials provided reasons for uneven utilisation across components. Certain activities like civil works or construction cannot be undertaken in all seasons. Therefore, the budget allocated to construct school buildings (under SSA), toilets (under SBM) and houses (under PMAY) could not be spent uniformly across quarters. Further, utilisation of funds under the civil works component within a scheme was poor due to a delay in the tendering process. The budget for Take Home Ration (THR) component within ICDS

came during the fourth quarter of 2018-19 in East Singhbhum.

In Chandrapur, the first instalment for PMAY came by the end of the first quarter of 2018-19. That's the beginning of the monsoon season, which inhibited construction. As a result, beneficiaries could not start building houses then. Beneficiaries were unable to complete the first stage of construction in the prescribed time, and became ineligible for the second instalment. Thus, they started work during the third quarter of 2018-19 and utilised major portion of the funds during the last quarter of 2018-19.

In East Singhbhum, training cost for teachers was reduced, and the district received budgets to conduct training programme for two days only, instead of five days. This affected the quality of

training programme. Similarly, Chandrapur did not spend on teacher training, payment for new teachers and school maintenance grants in the first quarter of 2018-19.

Further, due to low and inappropriate unit cost of components, the quality of service delivery becomes poor. For instance, under MDM, budget for management, monitoring and evaluation (MME) was kept at Rs. 15,000 per month to cover travel expenses of the District Education Officer (DEO) to blocks. The allocation was too low to cover all travel expenses to blocks that were far from headquarters. As a result, the DEO in Balasore could not visit all blocks for effective monitoring of the scheme.

In Chandrapur, the state government did not sanction the school development fund. Some

Figure 8: Block-Wise Rate of Fund Utilisation Across Schemes in Select Districts

	Balasore (12 Blocks)	Bolangir (14 Blocks)	Chandrapur (15 Blocks)	Krishna (49 Taluks)
SSA	All Blocks > 80 %	NA	All Blocks >90 %	NA
MDM	NA	NA	All Blocks 100 %	All Taluks 100 %
ICDS	All Blocks 100 %	9 Blocks > 80 %, Titilagarh (50%), and Gudvella (56 %)	14 Blocks >70 %, Korpana (53 %)	NA
NHM	11 Blocks < 75 %, Soro (35%)	All Blocks >80 %	All Blocks >85 %	48 Taluks < 70 %, Vijayawada Rural (72 %)*
NSAP	All Blocks 100 %	All Blocks 100 %	Nagbhid 100 %, 14 blocks <100 %	All Taluks 100 %
MGNREGS	11 Blocks 100 %, Remuna (88 %)	All Blocks 100 %	All Blocks >100 %	NA

Source: Compiled by the district budget analysis team as per the data provided by respective district officials.



schools did not have basic facilities such as toilets and classrooms, and there was no budget to improve them. Expenditure on IEC, HRD and administrative cost on SBM-G is very poor due to inadequate unit cost. The lion's share of the expenditure had gone into construction of IHHLs. In the first quarter of 2018-19, under SBM-G, East Singhbhum spent 99 per cent of total expenditure on IHHL, and nothing on HRD and administration, although the district had already achieved around 94 per cent of its physical target in 2017-18.

The extent of fund utilisation in schemes has improved at the aggregate (district) level. But there are issues across blocks. Utilisation of funds varied across blocks. Some blocks could not spend the entire amount available to them. Low levels of fund utilisation were noticed, across schemes, in tribal blocks: like Titlagarh in Bolangir; Korpana, Rajura, Jiwti and Pombhurna in Chandrapur; and Soro in Balasore.

All blocks in Balasore spent more than 80 per cent on SSA, ICDS, NSAP and MGNREGS. As far as block-wise pattern of utilisation is concerned, Bolangir performed well in ICDS, NHM, NSAP and MGNREGS; Chandrapur did well in SSA, MDM, NHM and MGNREGS; and Krishna did well in MDM and NSAP (Figure 8).

The evidence on extent of fund utilisation shows that resource-absorption capacity at the district level has improved significantly in most CSS. There are some exceptions: NHM and MDM seem to have scope for further improvement. But almost all CSS have a lot of scope to improve the pattern of utilisation across the four quarters, components of schemes and blocks. Thus, quality of utilisation needs a lot more attention now.

III. Policy Recommendations

1 The level of fund utilisation under SSA, ICDS, MGNREGS, NSAP, and to a large extent under

SBM-G and NRDWP, points towards issues relating to resource inadequacy rather than underutilisation of the available funds with the implementing agencies. Some districts spent in excess of the available funds for these schemes indicating that the resource absorption capacity of implementing agencies has increased over the years. The policy narrative focusing on underutilisation and efficiency of public expenditure needs to factor in resource adequacy as well. The Union Government ministries should look into the matter on case by case basis and approve and release higher amount of funds under these CSS.

2 Across districts, the extent of fund utilisation under MDM and the NHM was lower when compared to other schemes. There are a number of factors including delays in fund flow, inadequate unit costs, shortages of frontline service providers and technical staff and poor financial delegation that affect full utilisation of available funds, which need to be addressed urgently. The state government must ensure smooth flow of funds as well as allow districts to recruit human resources along with appropriate delegation of powers to the district authorities for effective scheme implementation at the district level.

3 Funds flow into districts by the end of the first quarter or the beginning of the second quarter of a financial year. This delay affects the extent of fund utilisation, and funds get staggered towards the fourth quarter of the financial year, affecting the quality of fund utilisation. The planning and fund flow process should be improved to tackle this problem. State governments should ensure that funds under CSS reach district implementing agencies within the stipulated time.

4 The state government should ensure adequate funds are allocated for components that improve the quality of fund utilisation: for example, Training, IEC, Monitoring, Transportation, Contingency, School Improvement Grants, Text Books, Uniforms, Supplementary Nutrition. Further, the state government should ensure that

budgets for these components reach on time for district implementing agencies to carry out these activities effectively.

5 Persisting issues relate to shortage of human resources, capacity problems and infrastructural bottlenecks. Special provisions should be made in scheme budgeting, keeping in

mind that different unit costs would be required for tribal and inaccessible blocks within a district. Also, adequate human resources should be deployed with sufficient financial incentives (difficulty allowances) to work in remote areas.



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

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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