

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



Policy Brief: 6

Rigid Norms and Guidelines Affecting Utilisation of Funds in Social Sector Schemes

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“Government agencies need to be given greater operational autonomy and flexibility by consolidating budget items and decentralization of administrative and financial powers.”¹

I. Why We Did It

While suggesting a host of reform measures needed to strengthen the financial management system in the country, the Second Administrative Reforms Commission, Government of India, put forward a specific reform suggestion on giving greater operational autonomy and flexibility to implementing agencies, with decentralisation of administrative and financial powers. Although the recommendation was made after reviewing the financial management system in 2009, it remains relevant even today.

A number of initiatives have been taken in this regard at various levels, including the Union and state governments. The recommendation of the NITI Aayog’s committee on restructuring Centrally Sponsored Schemes (CSS) has also been crucial in providing flexibility in scheme norms and guidelines to ease the process of fund flow and increase fund utilisation in social sector schemes.

During our study spanning two years and five districts, we observed that rigid scheme norms and guidelines continue to constrain full utilisation of available funds in social sectors. This policy brief reviews the dimension of norms and guidelines in select social sector schemes, its impact on extent of fund flow and utilization. It further suggests appropriate policy action to achieve optimal outcomes from public expenditure.

II. What We Found

Tied Nature of Funds Under CSS

With regards to flexibility in each CSS, the Ministry of Finance, Government of India had issued a circular suggesting that “Flexi-funds of at least 10 per cent of each CSS in order to provide flexibility

to states to meet the local needs and requirements within the overall objective of each programme and scheme”. Further, based on the recommendations of the sub-group of chief ministers, NITI Aayog revised the degree of flexibility for all CSS funds to 25 per cent since 2016.

However, district-level implementing agencies receive funds under CSS that are not only tied in nature at the aggregate level, but also at the level of scheme components. Scheme norms are so stringent that funds received under one head (component) of expenditure cannot be used for other heads. This rigidity, sometimes, leads to under-utilisation of funds in one component, even as other components suffer with inadequate resources. We encountered several such instances during the course of our project.

This problem arises due to several reasons. Two of the most significant reasons are discussed below;

1. The process of planning and budgeting at the district level follows a top-down approach. Districts are hardly preparing the annual plan and budget for schemes based on their needs. Rather, they are asked to fill up the format designed centrally, either by the Union government ministries or by the state administrative departments. The number of beneficiaries and unit costs of schemes were given to district-level implementers as per a pre-designed format. In such a process, neither the plan nor the budget prepared for districts reflected their actual needs. For schemes like ICDS, MDM, NSAP and PMAY, the budgets for districts are based on the beneficiary targets set by the states and the Centre. Thus, factors like area-specific needs, diversity, distance and inaccessibility of service delivery platforms, etc. are overlooked. The one-size-fits-all approach results in under-utilisation of available funds.

¹ Fourteenth Report of the Second Administrative Reforms Commission on: Strengthening Financial Management System, 2009, Government of India Pg-19.

2. Adequacy of funds to accommodate the needs of a district has always been a concern. On top of that, some components of CSS are given more attention due to their popularity in terms of allocation of funds by the Union ministries, which might not reflect the actual demand raised by a district. Within a scheme also, an over-emphasis on prioritising specific components can lead to reduction of funds for other components.

For example, in East Singhbhum, the NHM administration shared that they received a low amount for communicable diseases, and could not meet the additional demand from the surplus available in other components under the reproductive and child health (RCH) head. Consequently, the district reported under-utilisation of 22 per cent under NHM in 2017-18.² Similar instances of the tied nature of funds for CSS leading to under-utilisation were also noticed in East Singhbhum (for SSA), Chandrapur (for SBM) and Balasore (for NSAP and MDM). In Chandrapur, funds were needed to clean and maintain community toilets, and hire sweepers to do so. In the absence of such provisions in SBM, the district did not build community toilets and funds remained unutilised to the extent of 73 per cent during 2018-19.³

Lack of Flexibility in Beneficiary Selection

District authorities are not delegated with the power to add and revise beneficiary lists for CSS; it is the prerogative of states to select beneficiaries. As a result, many households eligible for benefits under schemes like NSAP, PMAY and SBM have been left out due to a faulty selection process. Even after identifying those eligible households, district authorities are tied to scheme norms, and are hence unable to extend the benefits of the CSS to them. In this context, it is crucial to iterate the narration of

the Second Administrative Reforms Commission: “...even while formulating CSS, the Union and State Governments need to include elements of flexibility so that they could be moulded as per local conditions and requirements. The ministries concerned should only issue guidelines and the implementational flexibility should be left to the local bodies”.⁴

When asked why East Singhbhum has been showing under-utilisation of available funds for PMAY, district officials there said that the scheme guidelines don't give them the flexibility to add new beneficiaries. As a solution, districts should be given flexibility in PMAY beneficiary selection of at least 2-3 per cent above their targets, so that available funds can be utilised.

Fixed Unit Costs

Fixed unit costs under various CSS are a major constraint to effective implementation of schemes by fully-utilising available funds. In this context, it is important to highlight this observation by the Planning Commission: “Most of the CSS are designed by the Central Government Ministries and they typically require the State/district administration to follow a number of norms and guidelines in implementing them. Hence, many of the CSS, in the past, have not been very effective in addressing the local needs. Moreover, funds meant for these schemes have remained underutilised in the States, in particular the backward States”.⁵

For example: allocation for teaching learning material (TLM) grant under SSA is Rs. 500 per teacher per year. This amount is insufficient for upper primary level students, who require apparatus for experiments. Similarly, allocation for foodgrains under MDM is fixed at Rs. 4.93 per child per day in primary section and Rs. 7.63 per child

2 As per the data provided by the district officials from East Singhbhum.

3 As per the data provided by the district officials from Chandrapur.

4 Report of the Second Administrative Reforms Commission on State and District Administration, 2009, Government of India, Pg-88.

5 The Planning Commission, in its review of the CSS during the 9th Five Year Plan period, and the Comptroller and Auditor General (C&AG) of India have highlighted these as some of the main problems with CSS, among numerous others.



per day in upper primary section. This unit cost is low and has been computed with the assumption that demands for food and nutrition requirements across age groups and gender would be uniform. Similarly, the honorarium of cook-cum-helper is linked to the number of students enrolled or attendance in a school. But there are schools in remote hilly areas with only 25-50 students, and the cook-cum-helper there receives an insufficient honorarium due to the fixed unit cost. Unit costs to procure drugs, equipment and other necessary items under NHM are also set centrally by the Union ministry, while the procurement is happening mostly at the level of states.

Inadequate Financial Delegation and Lack of Operational Flexibility

Fund utilisation under CSS is contingent on delegation of financial powers to implementers at the ground level. In addition to the Union government ministries, state line departments have also been imposing several conditions on districts to spend funds under CSS. Due to multiple layers of approval needed to use funds, district implementing agencies are not able to utilise the entire amount disbursed to them.

For instance, Bolangir district could not organise an event approved as part of the annual SSA work plan, as it did not receive financial approval from the state on time. In Odisha, under NHM, Additional District Medical Officers (ADMOs) can spend up to Rs. 1 lakh, whereas Chief District Medical Officer (CDMO) is the authority to approve expenses for amounts between Rs. 1 lakh and Rs. 10 lakh. In East Singhbhum, the CDMO decides untied funds and annual maintenance grants to Rogi Kalyan Samities, Community Health Centres, Primary Health Centres, Sub-Centres. Civil works undertaken under NHM is approved by Deputy Collector; CDMO can spend up to Rs. 5 lakh for repairs and renovations; the District Programme Manager of District Health Society can approve up to Rs. 15,000 for drug procurement.

Similarly, for SSA, the District Project Coordinator (DPC) and financial consultant are joint signatories, and can approve up to Rs. 5 lakh for civil works and Rs. 2 lakh for other works. For amounts above that, the DPC and District Collector have to jointly approve the fund. In East Singhbhum, the District Education Officer DEO-cum-DPO can approve up to Rs. 10 lakh for contracting out civil works, and for amounts above Rs. 10 lakh, approval has to be taken from the District Collector. In Maharashtra, the DEO is authorised to spend up to Rs. 1 lakh, and amounts above that have to be approved by the CEO of the Zilla Parishad.

These examples point to a complicated process of spending CSS funds at the district level, beyond the norms and guidelines set under each CSS. Looking at the prevailing financial delegation given to district-level authorities and the increasing scheme budgets, the financial authorisation matrix should be revisited.

Lack of Decentralised Procurement System and Use of Locally Available Resources

Procurement of drugs, medical equipment, contracting out civil works, selection of vendors for distribution of foodgrains, etc. is done at the state level. This centralised process of procurement and supply of goods and services sometimes creates a problem of timely delivery of services.

For instance, districts have been asked to lift foodgrains for distribution under MDM as per the chart prepared at the state level. However, as noticed during the project period, schools in Balasore did not serve MDM for a couple of weeks due to the unavailability of foodgrains. Further, locally available resources have not been optimally utilised to suit local culture and practices. A decentralised procurement system would address the problem of delay in service delivery, and might reduce the cost of transportation and other administrative costs as well.

III. Policy Recommendations

1 The district administration should be given the flexibility to select additional beneficiaries to make the scheme more inclusive and to adjust available funds across scheme components, in line with the flexibility given by the Union government ministries to states under CSS. A certain percentage of scheme funds should be utilised following districts' discretion, which would help them to accommodate regional diversities and local needs.

2 Looking at the extent of financial delegation to district authorities on several CSS, these limits should be revised substantially. An appropriate committee at the state level should look into it urgently to increase fund utilisation. In addition, implementing agencies at the district level must be given the flexibility to decide unit costs based on local factors (in special cases) to enable higher levels of fund utilisation.

3 Unit costs should be revised regularly, and be at par with prevailing market prices. The state-level approval committee on CSS should look into the matter on an urgent basis. It should regularly update unit costs, at least once a year, and the scheme budget should be accordingly made available to districts.

4 For effective scheme implementation, state governments should make available to districts additional resources beyond scheme funding. Flexibility should be given to the district authorities to create a 'district innovation fund', which can work as a revolving fund to address their unforeseen needs.



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