PAISA

Planning, Allocations and Expenditures, Institutions: Studies in Accountability

Strengthening Accountability and Transparency in Public Expenditure

Management for Elementary Education in India

Objective

PAISA is an effort to strengthen transparency and accountability in the processes of expenditure management for core public services.

It aims to do this by:

- ➤ Collecting district level data on annual planning processes, resource allocations, expenditures and institutional arrangements for service delivery
- ➤ Creating "how to" tool-kits to track allocated resources, expenditures and understand institutional roles and responsibilities
- ➤ Disseminating this data to relevant stakeholders with a particular emphasis on citizens (users of services), providers and policy makers
- ➤ Strengthening the capacity of citizens and providers to improve planning processes, expenditure efficiency and implementation of service delivery
- ➤ Informing the policy debate on how to introduce transparency and accountability mechanisms in the implementation of public services

PAISA is being implemented through a partnership between the Accountability Initiative (AI), the National Institute of Public Finance Policy (NIPFP) and the ASER Centre.

The problem the organization seeks to address

Background and Context

Expenditures for core public services (education, health, water, sanitation, rural infrastructure and employment) have increased by an order of 15 from 7,600 crores in 1994 to 1,25,000 crores in 2009-10.[1] However, this increased investment has failed to translate into outcomes in human development. In fact India fell in her human development index ranking from 128 in 2007 to 134 in 2009.

It is widely acknowledged that public service delivery is plagued with chronic problems of wastage, inefficiencies and leakage. Therefore, it is no surprise that despite the large

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[1] Calculations made by Ministry of Panchayati Raj

increases in expenditure, outcomes have not improved. According to one estimate a mere 15-20 percent of funds allocated for service delivery actually reach the poor. As Kapur et al argue "...in each case only a small fraction of overall resources reaches the poor due to, in varying degrees, targeting inefficiency (inability to reach the poor), leakages (to the non-poor), participation costs (forgone earnings that are especially consequential in employment programs) and large administrative costs."[2]

Systemic failures of accountability lie at the heart of the problem. Delivering services through the government involves two steps. First, citizens must be able to draw on political processes, including elections, to articulate their needs and demands and hold the state to account for services they receive. Second, the state acting as an agent for its citizens must be able to transmit these demands to the provider of services and make sure that the incentives for these providers are aligned to the preferences and well being of citizens. Accountability is thus a product of two things working together: a system of institutions designed in a manner that make accountability possible, and an informed and mobilized citizenry that can draw upon platforms for engagement to make accountability demands on the system. The fact that accountability failures persist in India, a democracy, suggests that some links in the chain of delegation from citizens to their representatives to the policy executors are damaged. India's expenditure management system for public services is a classic example of this failure.

1.1 Failures in Expenditure Management for Public Services

Public services are primarily funded by the central government through a mechanism called the Centrally Sponsored Schemes (CSS). CSS are specific purpose fiscal transfers from the federal government to sub-national state governments intended to address infrastructure and human development needs in the country. They are now the dominant mechanism through which social sector expenditures are incurred and will constitute 2.35 percent of the GDP by the end of the eleventh five year plan period (2012).

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[2] Kapur, D., Mukhopadhyay, P, Subramanian, A., "More for the Poor and Less for and by the State: The case for Direct Cash Transfers, *Economic and Political Weekly* April 12, 2008

CSS have two distinctive features.

> **Centrally funded, centrally designed and locally executed**: CSS are typically designed and funded by the central government entirely or in part with the state and local agencies contributing funds. States and local governments (Panchayats and Municipalities) are responsible for the execution and implementation of CSS. Most often, the guidelines for execution are extremely rigid giving states and local governments very little flexibility in implementation. For some schemes, the central government has chosen to bypass the state government by dropping funds directly to parallel bodies such as state and district level societies, thus creating a new stakeholder in the implementation process.

> **Local planning, local monitoring**: Most CSS mandate a strong role for local governments and communities in planning processes, implementation and monitoring. To facilitate community involvement, most schemes mandate the creation of local Community Based Organizations (CBO) such as Village Education Committees, Village Health Committees, water and sanitation committees tasked with making annual plans and overseeing village level expenditures. These plans are then aggregated up at the district level. Local governments and community based organizations are also tasked with monitoring the everyday implementation of the schemes.

De-jure, these features of CSS seem reasonable. However, the devil is in the detail. De-facto, the implementation of CSS is riddled with accountability failures. There are three key failures which include:

> **Institutional design failures**: The rigidity of the centrally funded, centrally designed, locally executed feature of CSS makes it difficult for states and local governments to adapt implementation based on the needs of their specific jurisdictions. In the case of rural electrification, for instance, if a state wants to spend more on improving quality of power supply by ensuring uninterrupted

supply over infrastructure and connectivity, it cannot do so.[3] The problem is even more acute at the service delivery point. In the case of education, schools have no discretion over funds that arrive tied to rigid norms determined by the center and states. These norms also determine the quantum of funds that the schools receive, resulting in a mismatch between school needs and funds received. To illustrate the point, a school with 1,000 students receives just about 2 and a half times more money than a school that has 100 students. And if a school wants to spend more on teacher materials rather than painting walls, the norms simply won't allow it.[4]

Second, the institutional arrangements for CSS require multiple levels of jurisdiction to work together. However, this has not been accompanied by a clear articulation of roles and responsibilities across these layers of government, resulting in a fragmentation of authority. For instance, the Sarva Shiksha Abhiyaan (SSA) and National Rural Health Mission (NRHM) are implemented through parallel societies. At the same time the line ministries have their education and health infrastructure and officers that are tasked with similar responsibilities to these parallel societies. The problem is exacerbated by the fact that in many states, Panchayats at the district and village level are also tasked with the delivery of health and education. In such a situation, where multiple institutions operate with overlapping roles and responsibilities in the same areas of jurisdiction, lines of accountability are diffused. Therefore, coordination is impossible, creating incentives for governments to free-ride because citizens will not know who to blame for breakdowns in delivery.

This diffusion of lines of accountability result in inefficiencies in the fund flow process. A common problem in CSS is that fund flows are extremely unpredictable and usually reach the service delivery point in the last quarter of the financial year

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[3] For an insightful article on this specific problem and its impact on centre-state relations see: D. Hooda, "The coming federal crisis," Indian Express, August 7 2009

[4] For more details see A. Mukherjee and E. Satwalekar "A tale of two cities", PAISA briefs, Accountability Initiative, August 2009

resulting in inefficient expenditure[5]. Consequently, large quantities of monies remain unspent at the end of the financial year. Confusion over roles and responsibilities make it impossible to affix responsibility for these delays. Accountability failures have created perverse incentives not to track fund flow processes and monitor compliance. Moreover, there are no penalties associated with delays in transfers. In the absence of regular monitoring and penalties for delays in transfers, fund flows remain unpredictable and bunched up to the last financial quarter.

➢ **Citizen voice failures**: That CSS are riddled with voice failures is ironic given that local planning and local monitoring is a key feature. There are two main problems. The first is a consequence of the institutional design failures described above. Numerous studies have highlighted that unless people believe in the efficacy of their own actions on service delivery outcomes, it is unlikely that they will participate in a meaningful way. The fact that it is impossible to affix accountability at the right level of government means that when citizens have grievances they have no idea where to go for redressal and even if they do, the authority concerned may not have the powers, capacity or incentive to respond. Participation thus is unlikely to yield results.

For citizens to be involved in the planning process, expenditures need to be timely. In the current system, the rush to spend that follows the late arrival of funds often results in spending for convenience rather than spending to meet requirements of the plans. This acts as a disincentive for citizens to involve themselves in the planning process.

The second problem with citizen voice is that of capacity. Most CSS's have training budgets to deal with the capacity deficit. However, these training budgets are rarely spent. This limited capacity support seriously impedes the local and district level planning processes. Training apart, local governments and CBOs have no direct

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[5] For details, see Accountability Initiative Budget Briefs, www.accountabilityindia.org

technical support or finances available to hire technical support. Therefore, when plans are made, quality varies greatly.

➢ **Information failures:** One common thread that runs across both these failures is that of lack of information. There are very few incentives to collect and disseminate data on fund flows, expenditures and institutional responsibilities. In the absence of this information, plans and the subsequent allocation of funds rarely reflect realities and capacities on the ground. Moreover, institutional monitoring becomes impossible. As a result, inefficiencies in expenditures including delays in disbursements and leakages continue to proliferate, unchecked. Finally, in the absence of information, citizens are unable to monitor the effectiveness of expenditures or make effective plans and consequently, accountability is seriously compromised.

As this brief discussion of CSS in India indicates, accountability failures have contributed to an overall environment where public expenditure management systems are rife with problems of weak planning, lack of reliable data on fund flows for decision making, unpredictable fiscal transfer systems, confusion over roles and responsibilities, weak implementation capacity, and limited citizen's participation.

2. Addressing accountability failures in expenditure management systems for public services

2.1 PAISA: Vision and theory of change

The PAISA project envisions a holistic approach to resolving the accountability failures in expenditure management systems for core public services by empowering citizens and informing providers and policy makers.

The PAISA project aims to achieve this vision by focusing on strengthening access to information on resource allocations and expenditures. While there are many factors that contribute to creating accountability, access to information on the processes and outcomes of services is critical. Information enables politicians and policy makers to make effective plans, to link resource allocation with realities on the ground, to ensure that resources are

spent well and in so doing ensure better development outcomes. Information enables citizens to better participate in the governance process, monitor the effectiveness of government programs, and make informed choices when electing their representatives.

The process of collecting and disseminating information on planning processes, resource allocations, expenditures and institutional arrangements can lead to two outcomes. First, it can help create transparency in the expenditure management system which will help initiate a debate and kick start a process of fixing the institutional design problems faced in the delivery of CSS. Fixing institutional design will lead to the second outcome of creating incentives for citizen participation thereby strengthening voice and accountability.

Information, however, is only the first step towards creating an accountable system. PAISA aims to draw on district level data collected to create and strengthen the links between information and accountability. To achieve this, the data collection exercise will be accompanied by disseminating information in relevant and easy to use formats and a capacity building effort to enable citizens and providers to use this information to participate more effectively in planning and resource tracking efforts. This is PAISA's theory of change.

2.2 Rationale and Strategic Approach

To date, much of the work on public expenditure management has tended to focus either at the macro level (examining resource flows and planning processes from the center to the state and district) or the very micro level (examining resources at the service delivery point through mechanisms such as social audits). Very little effort has been made to link micro level processes to macro policies. PAISA aims to bridge this gap. It will do so by collecting and analyzing district level data. This data and analysis will be drawn upon to link back to the macro level (national and state) with a view to inform the policy debate on how to introduce transparency and accountability mechanisms in the implementation of public services.

Moreover, much of the current information generated through analysis of public expenditure management systems is restricted to select policy and academic circles. Little

effort has been made by governments, academia and civil society to disseminate information directly to citizens, who are the real consumers of services and hence the worst affected by accountability failures. Another weakness with current expenditure tracking methodologies is that no effort has been made to transfer knowledge on "how to" use these expenditure tracking instruments to generate regular, reliable and relevant information on service delivery.

PAISA will address these gaps by:

➤ Collecting district level data on annual planning processes, resource allocations, expenditures and institutional arrangements for service delivery

➤ Creating "how to" tool-kits to track allocated resources, expenditures and understand institutional roles and responsibilities

➤ Disseminating this data and tool kits to relevant stakeholders with a particular emphasis on citizens (users of services), providers and policy makers.

➤ Strengthening the capacity of citizens and providers to improve planning processes, expenditure efficiency and implementation of service delivery

➤ Informing the policy debate on how to introduce transparency and accountability mechanisms in the implementation of public services

While PAISA deals with core public services, the current focus is on elementary education and specifically the Sarva Shiksha Abhiyaan (SSA). SSA is a CSS and therefore embodies most of the accountability failures discussed above. In addition, the Government of India has recently passed a new Right to Education Act which will significantly increase the quantum of funds allocated for elementary education. The Act also envisages a very strong role for local governments as well as the creation of school management committees. Therefore, understanding problems and strengthening local capacity for decision making within the current expenditure management systems in elementary education is crucial. This is an opportune time to influence the institutions and mechanisms for delivery of elementary education in India.

Working in one sector will allow us to test our theory of change which will help us improve our approach and in the long term expand to other sectors.

2.3 *Understanding accountability failures in expenditure management for elementary education*

Launched in 2001, SSA is one of the largest programs for universal education in the world with an annual budgetary allocation of nearly 5 billion USD in 2009.

Funds for SSA flow through the central government into state societies with state government's contributing a prescribed share. The share of the centre and state governments has been fixed at 65:40. However, this is likely to increase incrementally to make it 50:50 by 2011. SSA also envisages a strong role for the district and local communities in planning, implementation and monitoring processes. Key responsibility for preparing annual plans and implementation lie at the district and block level. In most states, the district is also tasked with the disbursement of funds to schools. Planning is envisaged as a bottom up process where village (or habitation) level plans are developed through Village Education Committees and the aggregated at the district. The committees are also involved in local level monitoring. They have the authority to sanction expenditures related to school buildings and other facilities.

SSA also shares the accountability failures common to CSS's more generally. Key failures include:

➢ **Weak institutional design:** The primary problem with the institutional design of SSA is that its rigid guidelines prevent local level adaptation. Consequently, expenditures, particularly at the school level, rarely reflect local needs.

Second, SSA operates on the basis of a society model creating a parallel structure to the education line ministry at the state and district level. Teachers are hired and paid in part through SSA funds and in part through the state government funding making the teacher accountable both to SSA and the state line ministry authorities. This blurring of roles violates the first principles of accountability. Moreover,

schools also receive funds from state specific programs that are funded through the line ministries with a different monitoring and reporting structure.

This multiplicity of roles and responsibilities results in many inefficiencies. For one, the annual planning process is often delayed. Second, fund flows are unpredictable and usually arrive in the last quarter of the financial year leading to a last minute rush to spend. In 2007-08 more than two-thirds of the SSA funds were spent in the second half of the financial year. SSA funds do not get spent in their entirety in any given financial year. In 2008-09 the opening balance for SSA was as much as Rs. 8,000 crores. In the absence of incentives to monitor and track fund flows, the reasons behind this large under-spending remain undetected. Plans are thus made without requisite information on financial performance and inefficiencies of one financial year, simply transfer onto the next financial year.

➢ **Weak citizen voice**: Despite the creation of Village Education Committees, local level planning and citizen participation remains the weakest link in the chain. In 2008, the Accountability Initiative in partnership with the ASER centre undertook a rapid assessment of 34 VECs across the country and found that with the exception of the headmaster, none of the members of the VEC had any information on allocations and grants received in schools. These findings are borne out by a micro level study of VECs in Jaunpur, Uttar Pradesh by MIT J-PAL which found that awareness levels on basic membership was extremely weak. A startling 92 percent responded that they did not know of any such committee. Of those that claimed that such a committee does exist, less than 3 percent could name at least one of the actual members of the Village Education Committee.[6] Weak citizen voice has meant the village level plans are rarely made and school level monitoring almost never happens.

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[6] Abhijit Banerjee, Esther Dufflo, Rukmini Banerjee, Rachel Glennester, Stuti Khemani, "Can Information Campaigns Spark Local Participation and Improve Local Outcomes? A Study of Primary Education in Uttar Pradesh, India," *World Bank Policy Research Working Article* 3967 (2006). Accessed from www.worldbank.org.

➢ **Weak information flows:** Like all CSS's very little effort has been made at the district level to regularly monitor and collect information on fund flows. This despite the fact that SSA has a very good MIS system at the central and state government level. Even where information is available, very little has been done to disseminate this information. Most citizens remain unaware of basic allocation and expenditure data in SSA.

Arguably, these accountability failures in the delivery process are partly responsible for SSA's biggest failing – the provision of quality education.

3. Current PAISA Activities

PAISA began in January 2009 as a pilot initiative. During this year, the main focus of PAISA activities was on piloting and testing tools with the objective of learning from experience, fine tuning the tools and strengthening our approach. The activities have focused on two areas:

3.1 Understanding fund flows and institutional design

➢ *Understanding the macro picture*: This is the first step towards understanding fund flows at the district level. Towards this end, PAISA has analyzed resource flows (allocations and expenditures) from the central government to states and districts. Based on this analysis, budget briefs on trends in allocations and expenditures were prepared in four social sectors (elementary education, primary health, rural development and urban development). These briefs were then circulated to various stakeholders and based on feedback received, they will be prepared on an annual basis to track and monitor trends.

➢ *Developing a resource mapping tool kit*: The focus of the tool kit development exercise was on elementary education. To develop these tool kits, intensive pilots were undertaken over a four month period. The pilots were administered by the ASER centre. The resource mapping tools focused on the following questions: How much money is allocated? when does it reach? how much gets spent? and on what? Based on these pilots, a one page resource mapping tool has been prepared.

- *Implementing the resource mapping tool at the village level:* In March 2009, a pilot survey of 100 schools was undertaken in Nalanda district, Bihar. Results from the pilot have been analyzed and widely circulated.

- *Understanding planning process:* A pilot study to analyze the annual work plans (AWP) is currently underway in Nalanda district, Bihar. This study will feed into the capacity building activity and the development of a tool kit.

- *Resource mapping at scale:* To test the possibility of taking resource mapping to scale, a version of the resource mapping tool has been added to ASER 2009.

3.2 Understanding local decision making and building capacity for planning at the village level

- *Rapid assessment of VEC capacity*: This was conducted in January and February 2009. Tools to assess VEC capacity were developed and tested.

- *Tool kit development and training manual:* Pilot training manuals and training tools such as resource mapping posters have been developed as aids to build capacity at the local level. The manual and tools focus on resource allocations, guidelines and norms for expenditure at the school level and roles and responsibilities of the Village Education Committees.

- *Strengthening Village Education Committees (VEC):* To understand how to enhance VEC participation, a pilot is currently underway in 6 villages in Narsullaganj block, Sehore district, Madhya Pradesh. The pilot will be completed in February 2009. During the pilot efforts have been made to strengthen capacities of the VEC.[7] The focus has been on providing the VEC with information on roles and responsibilities, equipping VEC's with tools to access school budget data and assisting them in developing annual plans for their schools.

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[7] Note: In MP the VEC's are called the Parent Teacher Associations (PTA)

4. Outcomes sought

The ultimate, long term objective of PAISA is to ensure greater transparency and accountability in expenditure management systems for elementary education. This will be achieved through an expenditure management system where:

- o Increased knowledge amongst providers at the district and block level on planning processes, fund flows and institutional roles and responsibilities

- o Greater and effective citizen participation in the planning process

- o MIS systems are adopted at the district level to monitor fund flows

- o Regular, pro-active reporting by the government on plans, allocations and expenditures

- o Timely and predictable fund flows

- o Increased debate in the public domain on the quality and effectiveness of expenditures and on finding the right institutional design for the delivery of elementary education