Public Expenditure Tracking For Social Sector Programs in India:
Case Study of Sarva Shiksha Abhiyan in Nalanda, Bihar

Part - I
Issues in Expenditure Management for Centrally Sponsored Schemes

1. Introduction

Expenditure in social sectors has undergone significant changes in the last decade. The Central government has been instrumental in the increase in allocations for education, health, urban and rural development. These are subjects were included in the domain of the states at the time of drawing up of the Constitution. In 1976, most of them were transferred to the concurrent list, thereby giving the Central government a greater say in sectors such as elementary education, public health and rural employment. However, the most significant changes have happened in the last decade, facilitated by national level missions such as the Sarva Shiksha Abhiyan (SSA), National Mid-day Meal Scheme (MDM), National Rural Health Mission (NRHM), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), National Rural Employment Guarantee Scheme (NREGS), Pradhan Mantri Gram Sadak Yojana (PMGSY) and other Bharat Nirman schemes.

This is part of the wider restructuring in the nature of India's fiscal federalism framework which devolves funds from the Central to the State governments as per the recommendations of successive Finance Commissions. For the first time, the 12th Finance Commission provided for limited 'equalization' grants for two sectors – education and health to eight states which were deemed to be lagging behind in social indicators due to their low revenue capacity (Table 1 below):

Table 1: Grants-in-Aid for Education Sector

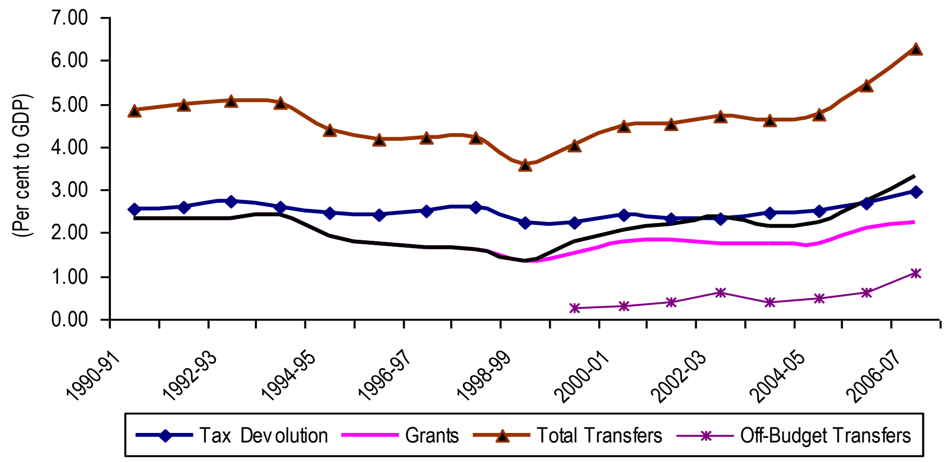
State	2005-06	2006-07	2007-08	2008-09	2009-10	2005-10
Assam	183.20	200.60	219.66	240.53	263.38	**1107.37**
Bihar	443.99	486.17	532.36	582.93	638.31	**2683.76**
Jharkhand	107.82	118.06	129.28	141.56	155.01	**651.73**
Madhya Pradesh	76.03	83.25	91.16	99.82	109.30	**459.56**
Orissa	53.49	58.57	64.13	70.22	76.89	**323.30**
Rajasthan	20.00	20.00	20.00	20.00	20.00	**100.00**
Uttar Pradesh	736.87	806.87	883.52	967.45	1059.36	**4454.07**
West Bengal	64.83	70.99	77.73	85.11	93.20	**391.86**
Total States	**1686.23**	**1844.51**	**2017.84**	**2207.62**	**2415.45**	**10171.65**

Source: 12th Finance Commission Report, 2005

In terms of the absolute amount of the transfers, nearly 70 percent went to two states – Bihar and Uttar Pradesh. These grants are transferred from the Central pool of resources to the State exchequer and therefore are accounted for in the State budget.

There are two basic categories of transfers from the Centre to the States in the Indian federal setup – tax devolution and grants. The quantum of grants going from the Centre to the States as a percentage of GDP surpassed tax devolution for the first time in 2005-06 (see Figure 1 below):

Figure 1: Transfers to States: 1990-91 to 2006-07



Source: Incidence of Central Expenditure at the State Level, NIPFP Report, 2009

The trajectory of the amount of grants transferred from the Centre to the States (third line from the top) shows a sharp upward slope from exactly the turn of the century. Grants from the Centre to the States are provided in different forms: (i) Non-plan grants; (ii) grants for State Plan schemes; (iii) grants for Central Plan schemes; (iv) grants for Centrally Sponsored Plan schemes; and (v) grants for Special Plan schemes.

Non-plan grants are provided as per the Gadgil formula, while other categories are more or less discretionary depending on the negotiations between the Planning Commission, concerned ministries and the States. Over the last decade, the Centrally Sponsored Schemes (CSS) have constituted the largest source of increase in grants. The CSS transfers made up 1.40 percent of GDP during the Tenth Plan (2002-2007). This will increase to 2.35 percent during the Eleventh Plan (2007-2012), a rise of nearly 70 percent.

One very important point to note is that CSS schemes can go either through the State budget or "off-budget" directly to implementing agencies at the district level and below – including gram panchayats. From 2000-01, off-budget transfers have increased from less than 0.1 to just over 1 percent in 2006-07 – a 10 fold increase within a decade. At present, off-budget transfers are nearly Rs.50,000 crore – a figure that is expected to increase significantly in the coming years. Figure 1 depicts this clearly by disaggregating the budgetary and off-budget grants from 2001-02 onwards.

The 'off-budget transfers' are made up of the so-called "Flagship Programs" in social sector and rural development schemes. These include SSA, NRHM, NREGA, PMGSY, TSC, AWRSP, BRGF etc. The State government provides a share of the funds (State share) except in the case where the scheme is 100 percent CSS (National AIDS Control Program (NACP) for example).

These schemes are implemented by district-level bodies or panchayats. Funds are transferred to the respective bank accounts, and are withdrawn with the concurrence of the signing authorities. To increase accountability, the design of the scheme sometimes incorporates two signing authorities. In SSA for example, both the headmaster and the Village Education Committee or School Management Committee Secretary are authorized signatories. As per the rules of membership of the community-level body, the elected head of the panchayat may also be one of the signatories.

2. Challenges in Management of Budget and Off-Budget Expenditure

Tracking expenditure through budget documents requires an understanding of the expenditure responsibilities within and across Central and State governments. Although budget codes have been harmonized from 1987 onwards, the budget making and documentation has not kept pace with the changes over the last two decades. This is especially true of transfers from higher to lower tiers of government – from Centre to States to Local Bodies/Implementing agencies after the 73rd and 74th Amendment to the Constitution.

Budget documents of the Central government are posted on a dedicated website. However, the detailed demand for grants provides the Revised Estimates (RE) and Budget Estimates (BE). The final accounted expenditure is available from a separate document called the Finance Accounts, which is not available online.

Budget documents of the State governments do provide actual expenditure with a lag of two years. The budget for the year 2009-10 will have actual expenditure for 2007-08, BE and RE for 2008-09 and BE for the current year, that is, 2009-10. There is no standardization of the presentation of the budget document across states, and rarely are they publicly available online.

For social sectors such as education, there may be multiple departments delivering the service. For example, in Madhya Pradesh and Chattisgarh, schools in tribal-dominated blocks are under the Tribal Welfare Department. In some states, SC/ST Welfare department may also run schools for deprived sections of the population. Therefore, the total expenditure for education is generally higher than the expenditure incurred by the Department of Education.

Similar problems arise in the case of service delivery facilities – in health for example, some states may book the expenditure on building a new primary health centre in Public Works Department demand for grants, others in Public Health Engineering under the Department of Health.

Significant portion of grants coming from the Centre pass through the State budget but the final destination is the panchayat. The State budget documents mention the quantum of block grants to panchayats made by various departments, but often not the purpose it is meant for. Since panchayats do not maintain budget documents harmonized along the lines of the System of National Accounts, it is difficult to reconcile the grants coming from the Centre and the States with panchayat records.

All 'off-budget' expenditure is routed through implementing agencies at the district level and the panchayats. Expenditure is incurred at district and block offices of the line departments (such as health, education and DRDA), and in service delivery units like schools, anganwadis, public health centres etc. Tracking the allocation and expenditure of these funds is an extremely tedious exercise due to a lack of centralized information database and lack of transparency in reporting procedures.

A new strategy has evolved over the last decade which has led to consolidation of CSS schemes and the system of monetary transfers for implementing various social sector programs. The overriding objective was to cut out delays at the State government level which was thought to affect the pace of project implementation. To track the fund flow and expenditure incurred in implementing the program, the amounts transferred from the Consolidated Government Accounting System have to be collated through 'Memorandum Accounts'. These are not under the purview of annual audit of the CAG or the State AG office.

The use of memorandum accounts have led to serious problems such as: (i) unreconciled entries between the numerous bodies to which funds are transferred, especially the ones which are charged with implementing the scheme; and (ii) proliferation of bank accounts and idle balances lying in them.

Most CSS have a State component, where the State government transfers an agreed share of the particular CSS. In SSA for example, the initial State share was 25 percent until 2006-07. It will increase gradually to 50 percent by the end of the 11th Plan, that is, until 2011-12. At present, it is not possible to obtain Statewise releases under CSS from the accounting system directly, although this information is very important for monitoring progress of the scheme.

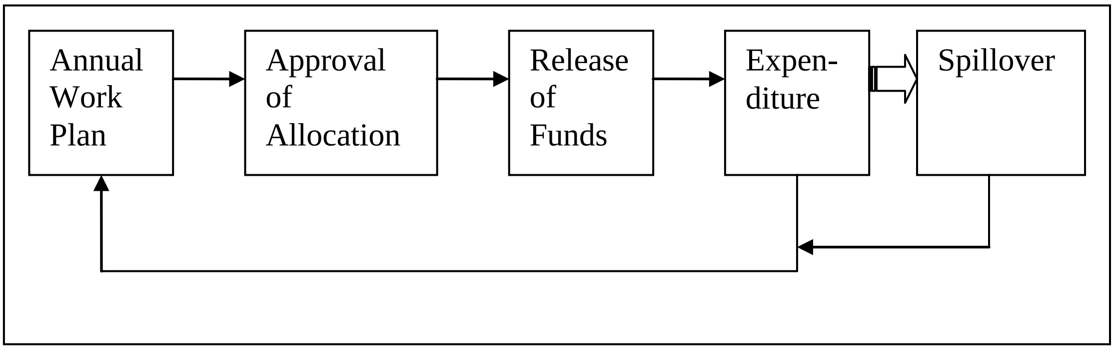
3. Tracking Expenditure for Centrally Sponsored Schemes – Case of SSA

Tracking resource flows for programs such as SSA requires an understanding of the planning, allocation, release and final expenditure sequence. At every stage, there are information and execution bottlenecks that hinder the implementation of the program.

SSA funds can be categorized as "off-budget" transfers from the Central government to State Implementation Society. However, it has to be noted that the financing framework of SSA requires State governments to contribute a prescribed share, which is reflected in the State government's budget. This share was 25 percent of the AWP during the 10th plan period (2002-07). The share of centre and state governments was 65:35 for the first two years of the 11th Plan. Thereafter, each year the state share will increase by 5 percent to make it 50:50 by 2011-12. For the financial year 2009-10, the sharing formula stands at 60:40 as per the SSA implementation guidelines.

A typical annual cycle looks like the following (Figure 2):

Figure 2



The process of implementation of SSA therefore requires that: (a) Annual Work Plans are drawn up, (b) approvals obtained from the Ministry of Human Resource Development, (c) instalments are released to implementing agencies – centre to states to districts to blocks to service delivery points, and (d) expenditures are incurred.

At every stage, however, there may be problems with the process:

- AWPs are not submitted on time
- Approval of plan is delayed
- First instalment is released at the end of the first quarter
- Expenditure happens after sanctions obtained at multiple levels
- All approved and released funds are not spent within the year
- The next planning process begins without clear information on actual expenditure

We analyze each of these aspects below, and their implication for resource management.

3.1 Annual Work Plan

Annual Work Plans are supposed to start from the habitation level, so that the specific needs of each school can be addressed within the scope of the SSA guidelines and norms. These should ideally be assessed at the Cluster (generally a group of 10 schools), then sent to the Block and onto the District Project Office.

District Plans are to be consolidated into one State Annual Work Plan which is then approved by the Ministry of Human Resource Development at the Centre.

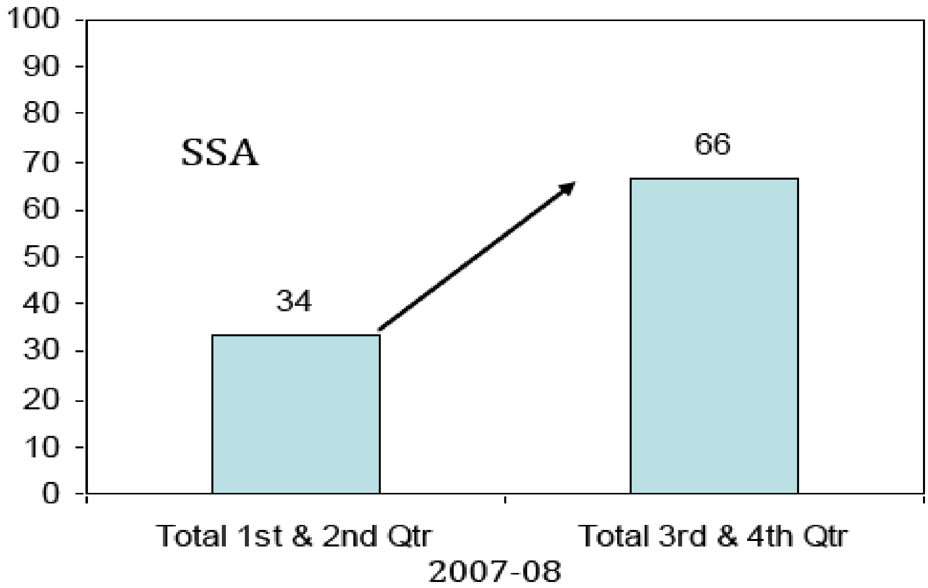
In reality, however, the process is short-circuited – planning is mostly done at the District Project Office on the basis of data collected through the Management Information System (MIS). The critical issue then becomes the completeness and timeliness of the data collection. This is often not the case. One paradox of this planning process is that the funds for repair are sometimes harder to get than building an additional classroom, although the former may be more cost-effective in the long term.

3.2 Release of Funds

After the plan is approved by the MHRD, the first instalment of the funds is released to the State Implementation Society by the Centre. The state government also releases its share to the SSA pool available with the State Implementation Society. Information on state releases and actual expenditure is recorded as a grant-in-aid item under the Department of School Education. This can only be obtained from the budget documents of each state.

The release of the second instalment of the approved funds from the Centre is contingent upon the State government providing its share as per the formula, and expenditure of at least 50 percent of the money transferred to the implementation society by the Centre and State government combined. This provision in the SSA guidelines is supposed to ensure speedy implementation of the AWP. However, as seen from Figure 3 below, nearly two-thirds of the expenditure is incurred in the second half of the financial year.

Figure 3



3.3 Fund Flow and Expenditure

Apart from administration and some monitoring and evaluation at the State level, most of the SSA expenditure is incurred at the district and below. Each district has a project implementation office, which merges with the line department in some states like Bihar. In other states such as Madhya Pradesh, the demarcation between the SSA Mission directorate and state education department is very clear.

There are frequent delays in the fund flow process for several reasons. First, late approval of the AWP delays the transfer of the first instalment from the Centre to the State implementing society, and consequently to the district project offices. Second, from the district, funds are transferred to blocks and then on to clusters or directly to schools. In many states, blocks receive funds in the second half of the year, thus delaying the actual transfer to the schools. Third, the school grants are paid by cheque which takes time to prepare, disburse and clear.

The complicated and tardy fund flow is directly related to spillovers that occur from one year to the next in the utilization of SSA funds. In normal government expenditure that is met through the Consolidated Fund at the Centre and the States, there is no possibility of spillovers since all allocated funds have to be disbursed and spent within the financial year. The Central and State Auditor

General's office then audits the books of accounts, and the final Finance Accounts are prepared which is placed before the Parliament and the Assembly as the case may be. The off-budget transfers through SSA to state implementation societies are audited by private chartered accountancy firms as per the rules of the Societies Registration Act, 1868 under which they are registered. This is a curious case of tax payer's money being used for an important social objective where the organs of the state are not involved in the accounting process.

Social sector schemes such as SSA and National Rural Health Mission (NRHM) that bypass the State budget and are directly implemented by state-level societies need greater monitoring in terms of financial management than traditional centrally or state sponsored schemes implemented by line departments. The design of Centrally Sponsored Schemes such as SSA perforce loosens the accountability of public expenditure both in terms of its timeliness and its efficiency.

This anomaly has to be set right immediately. As we have shown in Figure 1 above, the quantum of resources going outside the budget is already over 1 percent of GDP and will continue to increase in the near future. Transparency and accountability need to be enhanced substantially if the tax payer is to be convinced that the social sector programs are not only doing the right things, but also doing the things right.

Part II

Tracking Expenditure of School Grants in Nalanda district, Bihar

The objective of the Nalanda field survey were: (i) to gather basic information on school facilities and teachers; (ii) information on grants received and spent by the schools as per the norms of the Sarva Shiksha Abhiyan (SSA); and (iii) opinion of the headmasters and senior teachers about the actual needs of the school on the basis of a hypothetical 'one-lakh rupee grant' question. The administered tool is attached as Appendix I.

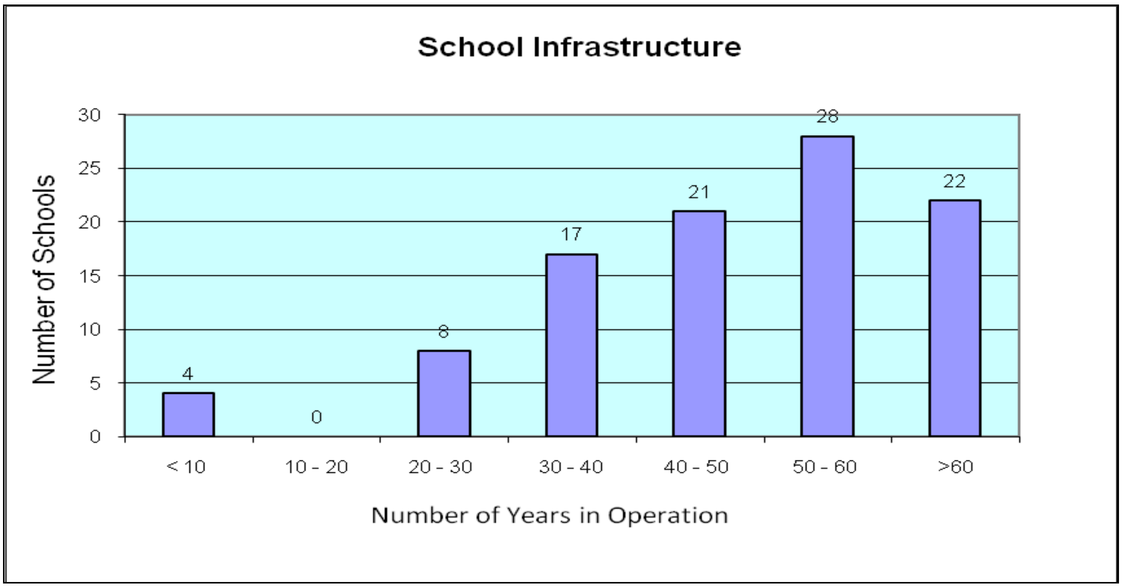
The survey was carried out in 100 government primary and upper primary schools spread across Nalanda district. Out of these, 50 schools (core sample) were chosen from the school list using the probability proportional to size (PPS) method. The remaining 50 schools are the schools nearest to the schools in the core sample (neighbourhood sample). The survey was in the field for two and a half days, including one day of training and piloting of the tool. A team of 30 investigators, five supervisors and two PAISA project staff was constituted for this purpose. The data collection was completed on 26th March, 2009, just before the end of the financial year. The survey, therefore, gave a fairly good idea of the fund flow and expenditure over the last financial year, i.e., 2008-09.

4. Basic School Information:

Nalanda district has a long history of education, being the site of the oldest university in the world. In terms of modern education as well, the oldest school in our sample was established in 1912, and over 20 percent before 1950. A significant proportion of existing schools were established in the two decades after independence. Building of new schools declined thereafter, only 8 percent being established between 1980 and 2000.

There is some evidence of increase in the number of new schools in Nalanda during the period of the SSA. Figure 1 shows that nearly 5 percent of the surveyed schools were built in the last decade. This also means that the stock of school infrastructure is old, majority between 30 and 60 years. Upgradation and maintenance of school infrastructure therefore, has to be addressed as a long-term financing issue.

Figure 4

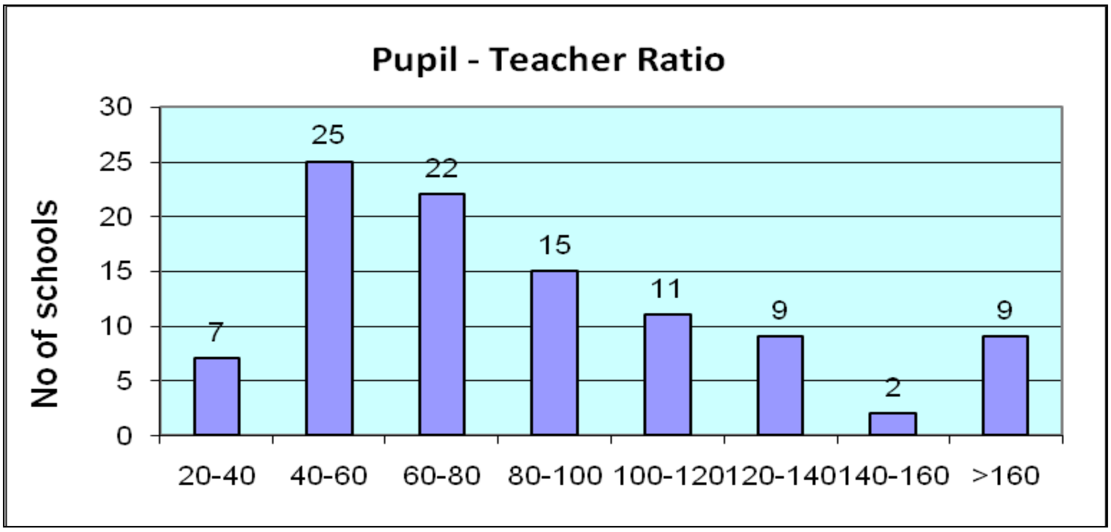


The primary objective of SSA was to ensure universal access and retention for children in the age group 6 - 14 by 2005. This target has been extended until 2010, and the current phase of SSA is scheduled to finish by 2012. To achieve the objective, SSA addressed two basic aspects: a) infrastructure (school buildings, classrooms, amenities like drinking water and toilets); and b) appointment and training of teachers.

The prescribed SSA norm for Pupil Teacher Ratio (PTR) is 40 for elementary schools. In our survey, however, the PTR above the prescribed norm in 90 percent of schools in Nalanda. Over 30 percent of surveyed schools have a PTR of over 100 (Figure 2). This is in spite of nearly 200,000 new teachers appointed over the last five years. At the same time, nearly 1.5 million out-of-school children have been enrolled, which implies that for every new teacher appointed, eight new students have been inducted into elementary schools. The empirical question is also whether the teacher allocation has been efficiently done, that is, whether schools with high PTRs have been provided the additional teachers.

There is some evidence that previous universal education initiatives such as Operation Blackboard suffered from misallocation of new teacher appointments.

Figure 5

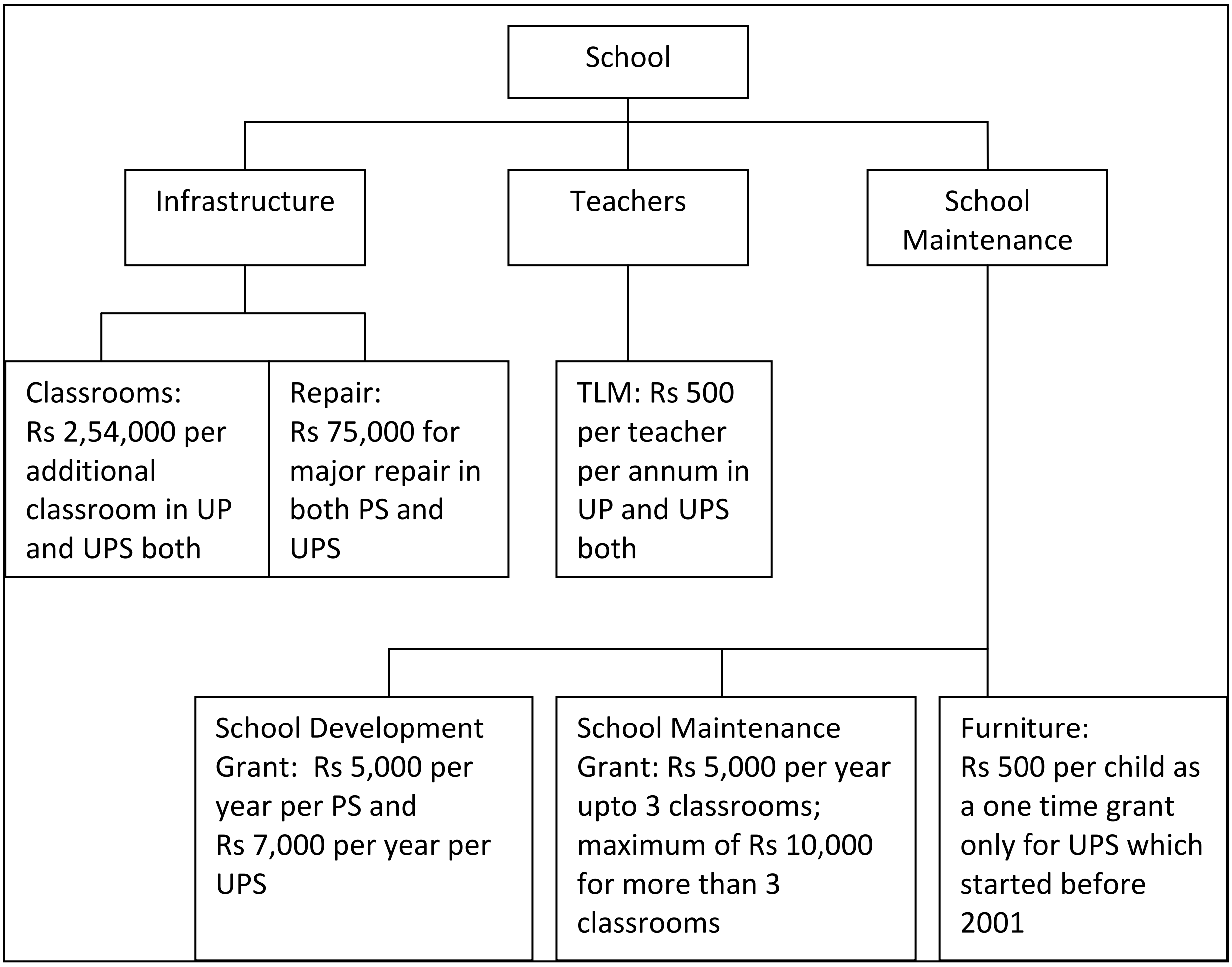


5. Information on School Grants:

The SSA guidelines stipulate the type and the amount of grants that are devolved to schools; Figure 3 provides the schematic diagram for all types of SSA grants. There is a distinction between primary and upper primary, and whether the school has three classrooms or more.

Therefore, if we consider that there are no single-teacher schools, the minimum amount of grants that will be transferred to a school is Rs. 11,000 per year. As per SSA norms, every school receives three grants - School Development Grant (SDG), School Maintenance Grant (SMG) and Teaching Learning Material Grant (TLM). The other three – classroom, repair and furniture – are essentially demand based, and will depend on whether they are sanctioned as part of the approved Annual Work Plan and Budget (AWP) for the district.

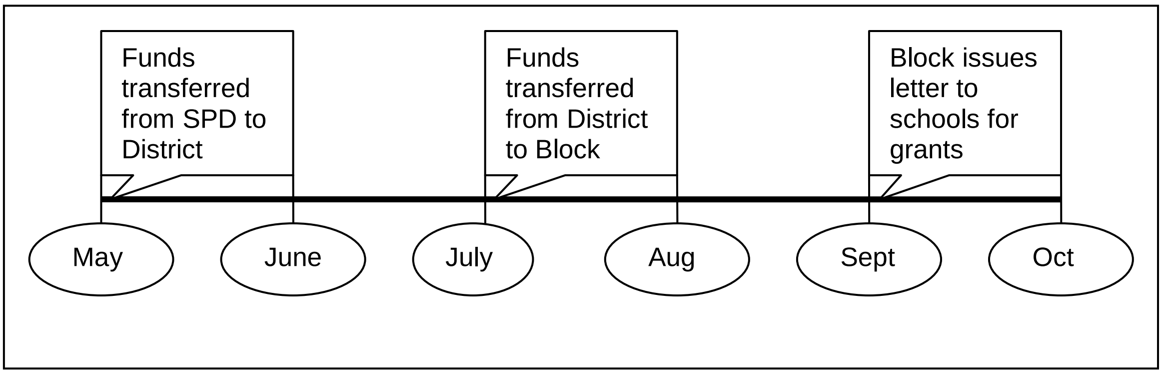
Figure 6: Schematic Diagram of Different Grants as per SSA Norms



As explained in Figure 2 above, SSA funds travel through several layers before reaching the final service delivery point – the school. Once the Annual Work Plan is approved by MHRD, the first instalment of the approved amount is released to the State Project Directorate, concurrently with the receipt of the State share. As per the financial guidelines of SSA, funds are transferred from the State Project Directorate office to the districts as per the approved district-level Annual Work Plan.

The District Project Coordinator then releases the funds to the Block Resource Centres under different activities specified under the annual work plan. At the last stage, the block coordination office of SSA releases funds to the school bank accounts maintained jointly by the Headmaster and the Chairman of the Vidyalaya Shiksha Samiti (VSS). This is to pay for civil works and the norm-based grants specified under SSA.

In Nalanda district, the transfer of funds from district to block to schools is done through cheques issued by each competent authority. The timeline of release and disbursement for 2008-09 is given in the following calendar.



In our survey, the Headmasters were asked to mention the month when the funds for the SSA grants reached the school bank account. The earliest reported receipt of grants is in October, which fits into the timeline. Majority of schools, however, reported getting the grants between December and February. These are spent between January and March, as shown in Figure 7.

Figure 7a. School Development Grant

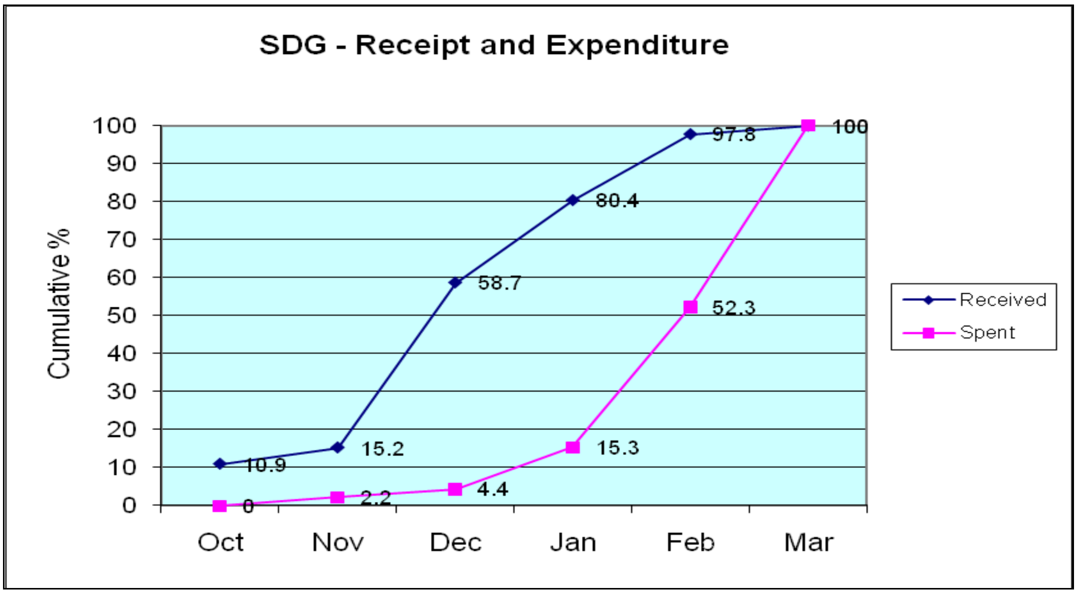


Figure 7b. School Maintenance Grant

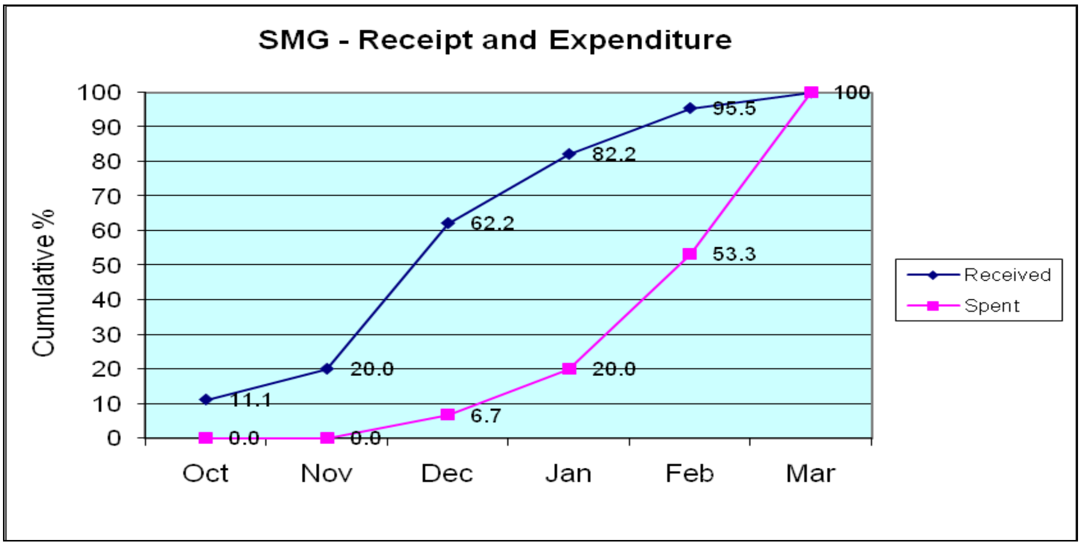
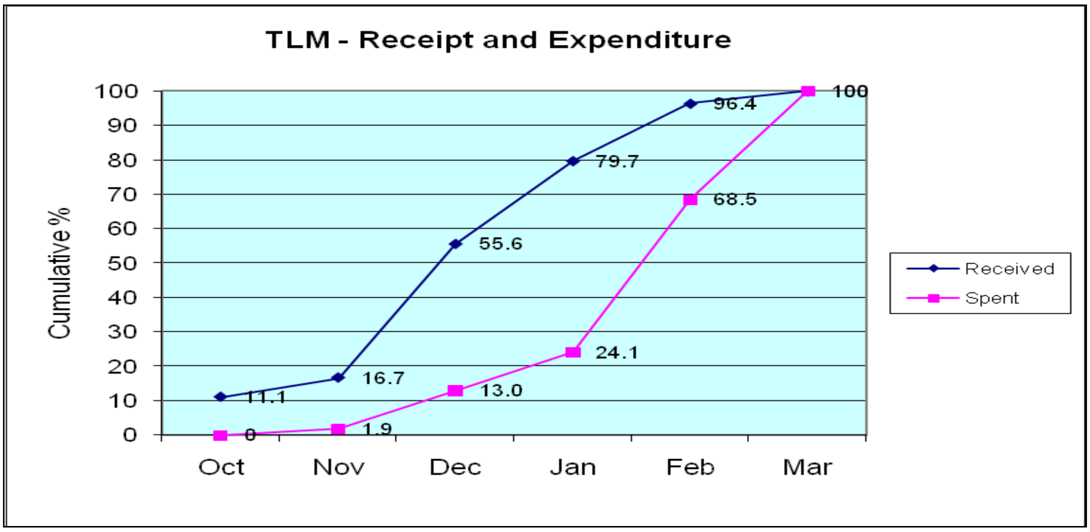


Figure 7c. Teaching Learning Material



The SDG and SMG follow exactly the same pattern, the only difference is that the first reported expenditure for SMG in our sample is in December while that for SDG is in November. However, it seems that the TLM grant has a better expenditure pattern – while only 50% of the schools stated that they have spent the SDG and SMG by February, nearly 70% reported that they had spent the TLM by that time. This might be due to two reasons: (i) teachers are more aware of their entitlement (TLM) rather than the other two types of grants; (ii) stricter expenditure norms for SDG and SMG, which need to be spent with the consent of the school management or village education committee as per SSA guidelines

Figure 8: Summary of Grants Reported by Schools – by Type

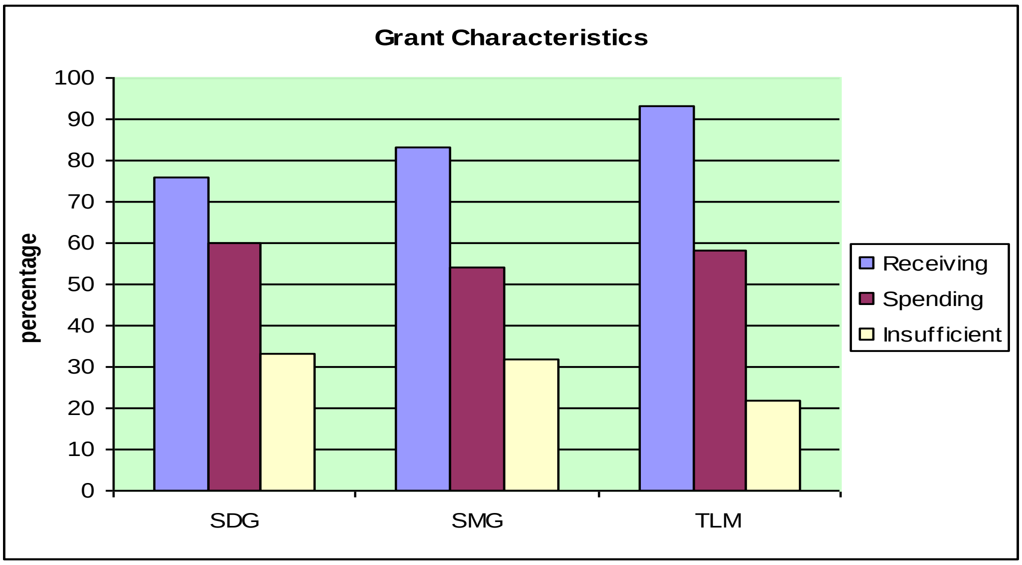
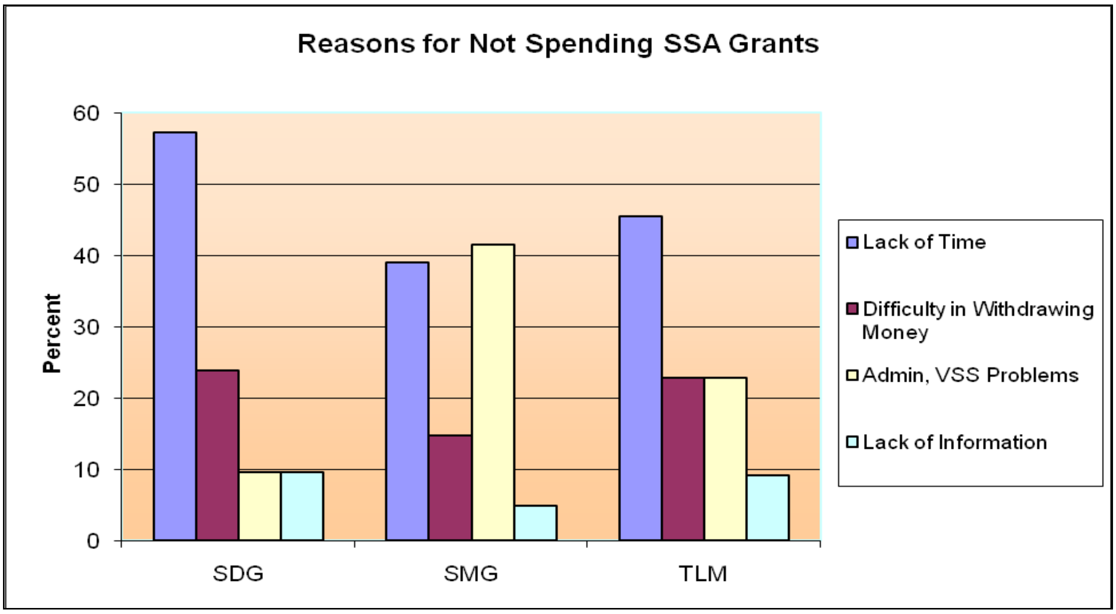


Figure 8, however, shows that there is also a significant difference between the proportion of schools that report receiving the grants – TLM is the highest and SDG is the lowest. This is surprising since these three grants are available to all schools under SSA. However, the block and district administration can withhold the disbursal of the grants if the school and the VSS have not submitted the necessary documents showing utilization of the grants in the previous year.

There is no significant variation between the proportion of schools which have been able to spend the three grants at the time of the survey. Among reasons cited for not being able to spend the grants, 'lack of time' was the most common, followed by 'administrative/VSS' problems' and 'difficulty in withdrawing grant money from bank accounts' (Figure 9)

Figure 9



5. Untied Grants – Analysis of Responses to the "One-Lakh" Question

The normative grants provided to schools under SSA falls in the category of 'tied' grants, i.e., grants which have to be used for a specific purpose. For example, TLM grants have to be used for teaching aids in class, SDG is provided specifically to procure items such as chalk, duster, blackboards and other articles used in the classrooms, while SMG is to undertake painting of school buildings and other small maintenance work in the school compound. This leaves very little scope for spending on items such as story books, furniture, recreational activities etc.

The problem with norm-based 'tied grants' is precisely the fact that schools are constrained to provide inputs specified in the guidelines, while the requirement may be very different. Since the same norms apply to all states and districts in the country, the assumption that all schools need the same inputs for better infrastructure and quality of education is often not applicable. Moreover, the SSA norms for school grants are not fixed on per-child basis – thereby putting schools with high enrolment at a disadvantage. We have provided evidence of this in Annex – I comparing two schools in the same neighbourhood.

The 'one-lakh' question was included in the survey to ascertain the actual and perceived needs in the elementary education system in Nalanda. Headmasters and senior teachers were asked about the problems faced by the school. They were then given a hypothetical situation where the school gets a grant of one-lakh rupees.

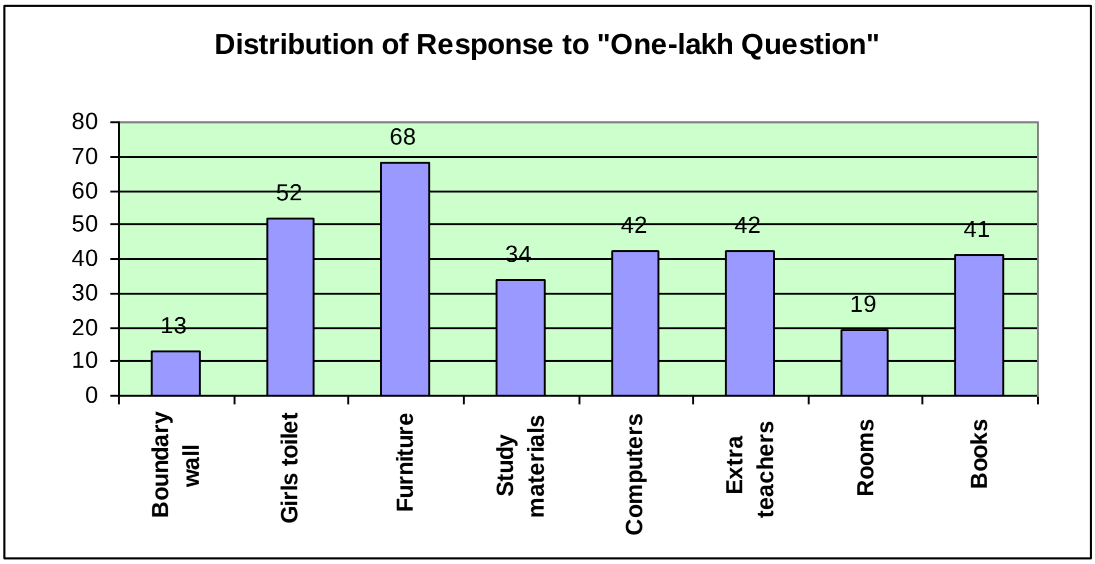
Investigators were asked to probe the question and get a combination of two or more categories. Each item of expenditure had to be backed by unit cost calculation. For example, if schools asked for furniture, cost of each desk, chair or bench had to be clearly stated. This question was asked to ascertain the real need of the school vis-à-vis the SSA grants

The investigators were trained to probe the question further, indicate the problems in the school and try to elicit responses that were plausible. The respondents had to keep their calculations within the stipulated amount – no extra concessions were given. Each monetary entry had to be backed by unit cost calculation – for example, if Rs.50,000 was asked for furniture, then the respondent had to estimate the per-child or per-classroom cost.

The investigators were asked to provide alternative choices so that a mix of needs could be reflected in the responses. Only three out of 100 schools provided singleton answers – that is, they wanted to spend the whole amount on only one of the choices provided.

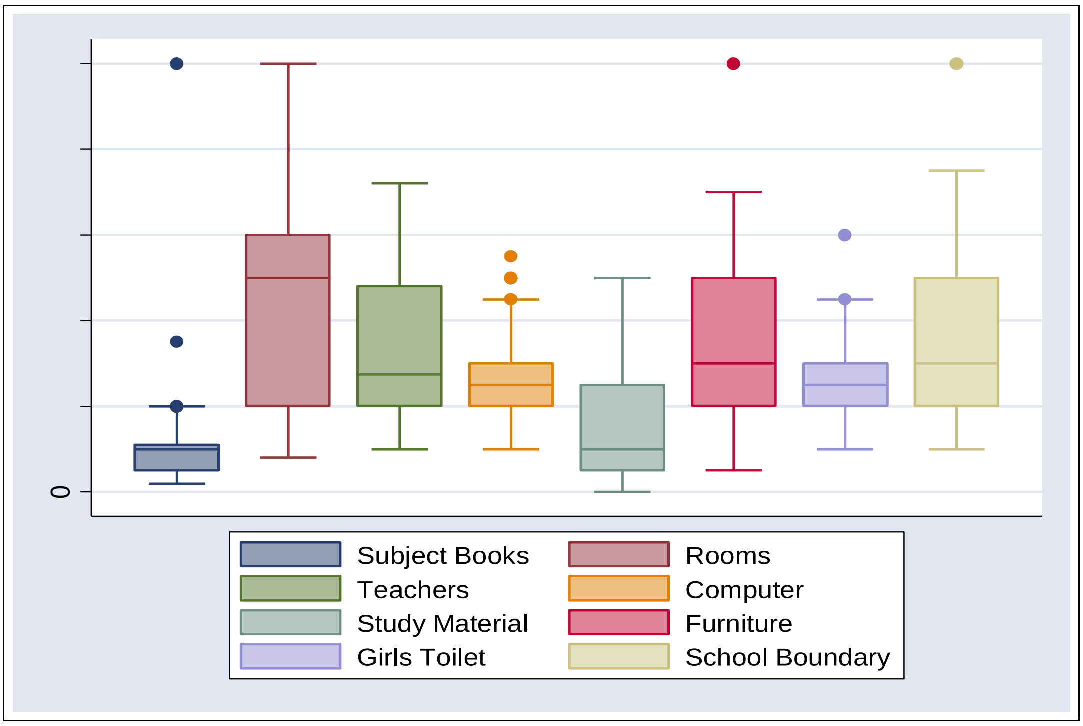
Maximum responses were obtained for furniture, girls toilet, teachers and computers. Interestingly, none of the schools in our sample reported receiving the furniture grant as part of the norms stipulated by the SSA.

Figure 10: Categories of Expenditure for One-Lakh Rupees



Note: Column numbers denote the number of schools reporting each category of expenditure; most schools reported more than one category

Figure 11: Summary of Monetary Expenditure for One-lakh Grant



The median reported expenditure for furniture is around 30000. Only 18 out of 66 responses for furniture were equal to or more than 50000. The response for rooms suggests that the respondents may have included repairs and maintenance in their calculation, and not only construction of new rooms (range is from 10000 to 100000)

While a large number of responses were obtained for girl's toilet, the spread was relatively narrow – median value being around 25000. The interesting result is that of teachers - 40 out of 42 schools that budgeted for teachers had a pupil-teachers ratio of more than 40.

The unit cost for extra teachers reported by the schools is in the range of 2000 to 3000 per teacher per month; this is even lower to the entry-level teacher salary in Bihar of 4000. Out of 52 schools that have said they will spend money on girls toilet, 47 of them do not have one. None of the schools that budgeted for boundary wall have one at present. Same is the case for subject books and computers.

Therefore, it seems that the one-lakh question has more or less succeeded in identifying the needs of the school. In many cases, this was the first time that the headmasters/senior teachers were ever asked to budget for an untied grant. However, they had a clear perception about the problems of school inputs, and their budgets reflected it adequately.

In summary, there is a need to advocate for untied grants or per-child costs; the existing system provides too little in the way of grants with hardly any flexibility to cater to the needs of the school. *(Please see: "A Tale of Two Schools" available at http://www.accountabilityindia.org)*