

*NAC Working Group on
Reforms in Governance, Institutional Capacities and
Effective Implementation of Flagship Programmes*

Recommendations on

Reforming Fund Flows for Flagship Programmes

Empowerment of the *aamaadmi* has been a major commitment of the UPA government. The period since 2004 has seen an unprecedented increase in spending in programmes of social inclusion. The same period has also seen a number of legislations securing rights of our most disadvantaged people. Reviewing the experience since 2004, the Planning Commission observes, in the 12th Five Year Plan, that there is an urgent need to overcome the “U without Q” syndrome, wherein the drive to **universalise**(U) rights and entitlements has sometimes come at the cost of **quality** (Q) of outcomes on the ground, giving rise to what the Honourable Prime Minister has often described as the “outlay-outcome gap”. An analysis of the many problems besetting our flagship programmes shows that inefficient fund flows through the system resulting in delayed releases, are a major bottleneck hampering performance.

The present proposal seeks to

- reform the existing fund flow mechanism at various levels of government by enabling real-time transfer of government funds;
- ensure that all releases subsequent to the first one are executed voucher for voucher on a real time basis as and when each voucher is uploaded online. These releases would take place only when all release conditions imposed by programme managers have been met;
- replace the file-based system of programme management by an internet-based system that captures and propels the entire work-flow at all levels - central, state and local.
- provide to all citizens of the country real-time visibility of the movement of all government funds meant for them

In this way the new system will enable

- timeliness of releases of funds as per real requirement, respecting among other things, the seasonality of work patterns in rural India
- greater speed and reduction in delays in citizens securing benefits of government programmes

- greater directness in transfer of benefits to entitlement holders, eliminating multiple stages of transfer
- reduction in wasteful “float” or unutilised funds within the system, that have been known to also give rise to myriad malpractices and misutilisation of funds
- reduction in cost of administering government schemes, enabling a reduction in the fiscal burden and releasing funds to be deployed for urgent social purposes
- removing the existing asymmetry in availability of information by transforming the present hierarchical structure of information flow into a hub-and-spoke architecture that promotes horizontal peer-to-peer collaboration
- appropriate analytics that would help continually redesign programmes to make them deliver better
- greater accountability and transparency of fund flows leading to empowerment of citizens, resulting in a powerful check on corruption

Existing Fund Flow System

The current system where funds are released quarterly/half-yearly based on utilisation certificates, suffers from inefficiencies which creep in through:

- a) Multiple levels of releases leading to administrative bottlenecks
- b) Delays in release of funds due to archaic file-based and cheque-issue systems
- c) Inability of implementers to execute projects on time, in response to genuine demands and seasonality of work
- d) Parking of funds at various levels leading to a large float in the pipeline
- e) Opacity regarding eligibility for release of funds.

As a result, although substantial Government funds are shown as having been ‘spent’ on various schemes:

- a) The ultimate beneficiary (MGNREGA worker, school teacher, pensioner, anganwadi worker etc) is uncertain of when and whether the money would reach
- b) Programme managers (including Financial Advisers) spend most of their time and energy in deciding the quantum of funds to be released, compromising on the time available for quality issues
- c) Citizens remain unsure of the way their tax money is being expended.

An analysis of the funds that were released by the Ministry of Rural Development show that nearly 43% of the funds released by Central Government (Rs. 35,589 cr as on 31st Dec 2011¹) remained unspent in various bank accounts of state agencies. This is a bad bargain for the Government that borrows to fund flagship programmes.

Central Role of CPSMS in the NAC Proposal

The Central Plan Scheme Monitoring System (CPSMS) has been set up to generate and monitor scheme-wise and State-wise releases for about 1,000 central plan and centrally sponsored schemes. The objective was to put in place an integrated Decision Support System and Management Information System. Currently, it is monitoring the releases of 9 CSSs and has piloted a fund flow mechanism to individual beneficiaries in MGNREGS in Nalanda District of Bihar. Its biggest strength is that it has established real time data exchange with the CBS system of all major banks in the country. Because of this, authorised CPSMS users can now see details of individual transactions of individual bank accounts mapped on to the CPSMS system. CPSMS can machine aggregate both balances and payments made by different entities through different bank accounts as required, thereby closing a huge gap in the system caused by delays and mistakes in bank reconciliation. CPSMS has been expanding in scope and now aims to bring together state and local implementing agencies, individual beneficiaries and bank branches into a central monitoring system.

Innovations by States

Meanwhile, some States have started their own innovations to reform the fund flow systems. One such is the electronic fund management system (eFMS) of Andhra Pradesh, which has achieved efficient and optimised fund flows for various Rural Development programmes by operationalising the electronic movement of funds from a State level fund to the destination accounts as and when expenditure is incurred. This system allowed movement of funds from a State Fund right through to the beneficiary, cutting down multiple levels of releases. It also uses Business Correspondents to deliver cash at the door step of the beneficiaries. It has been under implementation for the past 3 years and has moved over Rs. 20,000 Cr of Central and State funds in housing, MGNREGS and Pension schemes.

The BK Chaturvedi Committee on reforming CSS has proposed that all Central funds released to States including that for Centrally Sponsored

¹ Outcome Budget 2012 (Page 98), Ministry of Rural Development, Government of India

Schemes should go to the Consolidated Fund of each state. In the absence of an integrating IT platform and changes in state treasury codes and practices so as to enable real time reimbursement, such a move could result in greater opacity, even more senior management time being spent on issues related to fund releases and delays in programme implementation.

The NAC Proposal

Building upon the opportunity provided by the CPSMS, it is possible to reduce costs, improve outcomes and enhance accountability by operationalising a new fund flow mechanism and providing analytics not only for Centrally Sponsored Schemes (CSSs) but also for various State Governmental and local body schemes.

Under this mechanism, internet enabled IT platforms will be set up for each programme with a capability to drive all aspects of the work flow at all levels of implementation - Centre, State, District, Block and Panchayat. This will allow online replenishment of funds expended, subject to agreed validations. Under this system, after the first tranche, all subsequent releases of funds will be executed voucher for voucher on a real time basis, as and when each voucher is uploaded online and all fund release criteria are met.

CPSMS would continue to move funds from the Centre to the States. For this CPSMS will be integrated with the internet enabled programme management platforms to enable fund transfers on a real-time, demand-pull mode. Further movement of funds from the State level to the implementing agency, shall be based on the actual expenditure incurred and uploading of vouchers that support the expenditure claim. This may require up-gradation of state level IT systems and their integration with CPSMS and GoI platforms. State governments may need financial and technical support for this. The attached flow chart depicts how funds and vouchers will move once CPSMS is used to integrate internet enabled programme management platforms of GoI with IT enabled accounting systems used/to be developed by States.

Where required hosting services can also be provided to ensure business continuity. However programme managers (Central, State and Local) will have full control over their respective applications and the ability to develop and integrate new ones where needed.

Boundary Conditions

The proposed system described above will require the fulfilment of a number of boundary conditions. These are:

- a) Ensuring reliable broadband availability to all Block HQs in the country and to gram panchayats (GPs), especially in the 200 most backward districts in India to begin with. This will need to be supplemented by mobile signal availability to operate an inter-operable POS cum micro ATM network. All service deficient Block HQs and GPs (especially in 200 most backward districts) should be mapped and action taken to immediately extend coverage to these deficit geographies. This can be done by aligning with the National Optical Fibre Network (NOFN), now incorporated as Bharat Broadband Network Limited (BBNL).
- b) Financial inclusion of all implementing agencies, end-users and beneficiaries
- c) Making micro ATMs inter-operable across banks and operators. Currently unlike his/her urban counterpart, the rural user cannot use his/her smartcard to access micro ATM's other than the one s/he is attached to. This reduces choice and encourages rent seeking by the micro ATM provider and the under privileged are its biggest victims. All Micro ATMs in the country should therefore be made interoperable.

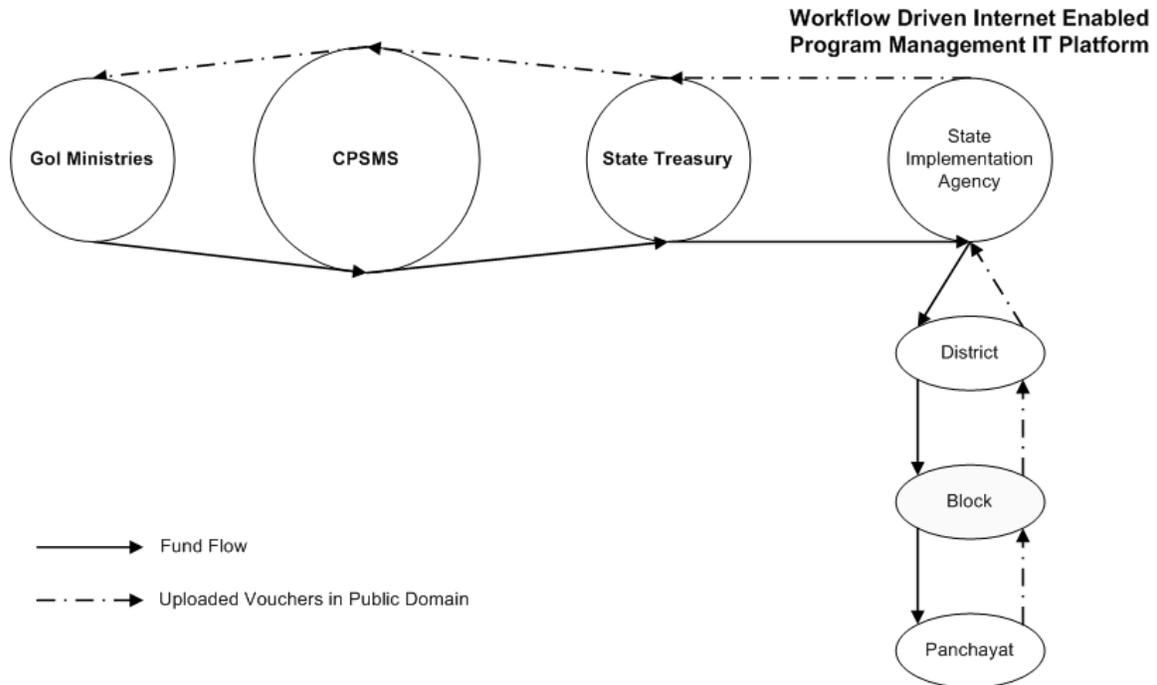
Implementation Process and Phasing

In order to ensure beta-testing of this idea at scale before we begin to cover, in a carefully calibrated, phased manner, all major schemes across the country, we propose that the new system in the first instance cover all the programmes of the Union Ministry of Rural Development in areas which satisfy the boundary conditions. However, it will be ensured that no beneficiary will lose his/her benefits in the interim, while the boundary conditions have not been fulfilled and he/she will continue to be serviced in the same manner as before. The NAC proposal is that

- a) The Ministry of Rural Development, Government of India replace its file-based system of programme management by internet- based platforms that capture and propel the entire work-flow for each of its programmes at all levels - central, state, district, block and panchayat.
- b) The Ministry of Rural Development use CPSMS and the above internet based programme management platforms to move all its programmes to new system of fund flow
- c) The Ministry of Rural Development use the proposed internet based programme management platform to place in the public domain real-time information on all aspects of its programs including movement of funds

Response of Ministry of Rural Development, Government of India

The Ministry of Rural Development, Government of India has, in a formal communication to the NAC in response to this note, agreed to begin implementation of this new fund flow mechanism for programmes and regions where the boundary conditions are in place.



The NAC fully shares the concern of the Department of Expenditure, Ministry of Finance, Government of India (DoE) that nothing should be done to either replace or duplicate CPSMS. This concern has also been shared by the NAC with the MoRD. The MoRD fully concurs with the NAC and the DoE that CPSMS must and will remain central to the new fund flow mechanism.

As illustrated in the figure above, the NAC proposal, agreed to by the MoRD, is entirely upstream of CPSMS as far as fund flow is concerned and entirely downstream of CPSMS as far as flow of information is concerned. In the latter, CPSMS begins where the NAC proposal for reform ends, in the former, CPSMS ends where the NAC reform begins. The NAC proposal is that the MoRD will electronically deliver sanctions to CPSMS and electronically process records of expenditure delivered by CPSMS.

CPSMS is the fulcrum of the NAC proposal. The NAC proposal seeks to enhance the effectiveness of CPSMS.