

PAISA District Studies

Towards a New Frontier for Governing Elementary Education Finances in India

1. Setting the context

India's elementary education system is at a crossroads. In 2009, the Indian Parliament passed the Right to Education (RTE) Act guaranteeing the provision of free and compulsory education to all children between the ages of 6 to 14 years. At the heart of the law is a guarantee to ensure 'age-appropriate mainstreaming' for all children. In other words, the Act is a guarantee that every child in India acquires skills and knowledge appropriate to her age. Now, as efforts to deliver on this guarantee gain ground, the country faces an important choice: should elementary education be delivered through the current model that focuses on the expansion of schooling through a top-down, centralized delivery system? Or should we use the RTE as an opportunity to fundamentally alter the current system and create a bottom-up delivery model that builds on an understanding of children's learning needs and privileges accountability for learning rather than schooling?

For decades, the primary goal of the Indian government's elementary education policy has been to create a universal elementary education system by expanding schooling through inputs. Substantial finances have been provided to meet this goal. Between 2007-08 and 2009-10, India's elementary education budget increased from Rs. 68,710 to Rs. 97,255 crore in 2009-10.¹ To put this investment in perspective, in 2008-09, the government invested Rs. 6,314 per child (this is a low estimate as available data is yet to take into account budget hikes following the implementation of the RTE).

Most of this money has been used to build school-level inputs through a large education bureaucracy controlled and managed by the state and central government. To illustrate, PAISA analyzed the elementary education budgets of 7 states in the country for 2009-10 and 2010-11 to find that, on average, 78% of the education budget is invested in teachers and management costs. All critical teacher-related decision-making, for instance, hiring or salary payment, lies with the state administration.² Following teachers, the next largest investment is on the creation of school infrastructure - 14% of the budget. Funds for infrastructure development are often channeled to schools; however, key decisions related to sanctions and procurement are taken by the district. Importantly, while a school can demand infrastructure funds, it has no decision-making power as most major infrastructure-related expenditures are incurred based on directives

received from the district and state administration. Interventions aimed directly at children, such as the provision of free textbooks and uniforms and addressing the problem of out of school children, account for just 6% of the total investment.

Interwoven in this top-down system is an intent to involve parents in decision-making. In 2001, the Government of India (GOI) launched the Sarva Shiksha Abhiyan (SSA) now the programmatic vehicle for the delivery of the RTE with a mandate that expenditure decisions be taken based on plans made at the school level through Village Education Committees (VEC) or School Management Committees (SMC) as they are referred to under RTE. These plans are then, aggregated up at the district and state levels. Despite this bottom-up planning structure, however, SSA has done little to empower these committees. For one, teachers, as pointed out already, are not accountable to them. Second, committees have spending powers over very little money. In 2010-11, the committees had spending powers over just about 5% of SSA funds. Even these funds are expected to be spent based on norms set by GOI. So, if a school wants to spend more than the norm on, say, purchasing teacher material or if a school wants to invest more in improving children's reading capabilities by dipping in to its maintenance fund - it can't. In essence, SSA has promoted a bottom-up delivery system with no bottom-up control or decision-making power. The result is thus a de-facto centralized, top-down system.

To the extent that expansion of infrastructure has been the goal, this centralized investment model has been effective. Schools have been built, teachers have been hired and enrolment levels have reached near universal levels.³ To be sure, the pace of this expansion has been variable across the country. Yet, even as lagging states work to fill this gap, the improved education infrastructure has thrown up the next great challenge: that of ensuring that children actually learn. Evidence thus far suggests that education infrastructure is yet to translate into children acquiring basic abilities in reading and arithmetic. The Annual Status of Education Report (ASER), has been tracking learning outcomes since 2005 to find that learning levels have remained almost stagnant over the years; just about half the country's Standard 5 children can read a Standard 2 textbook and far fewer can do basic arithmetic.⁴ Arguably, therefore, while this hierarchical centralized education system has been successful in creating education inputs and putting in place a system

¹ Ministry of Human Resource Development (2011) 'Analysis of Budgeted Expenditure on Education 2007-08 to 2009-10', Statement No. 7, Plan and Non-Plan Budgeted Expenditure on Elementary Education (Revenue Account), www.education.nic.in/planbudget/ABE-2007-10.pdf

² Some states like Bihar and Madhya Pradesh experimented with decentralizing the hiring process to local governments. Local governments were empowered to only hire contract teachers. However, even here all critical decision related to salaries and regularization remain with the administration.

³ In 2009-10, the Government of India reported a net enrollment of 98.3%.

⁴ Annual Status of Education Report (ASER), 2010

for schooling. Now, as the focus shifts to learning, the question for India is this: can this top-down delivery system enable the transition from schooling to learning?

This shift towards learning requires that the system focus on the needs of individual schools and children; or, to draw on the argument made by GOI, it requires a system that recognizes ‘the need for the creation of capacity within the education system and the school for addressing the diversified learning needs of different groups of children who are now in the school system.’⁵

Can this capacity be built through a large centralized education bureaucracy? If not, what should this alternative model be? How do we align plans and financing systems? Can this be done through the traditional line-item budgeting system or does it require an alternative funding mechanism? Can the RTE-mandated School SMC be the catalyst for this shift? If so, how best to channelize investments so that planning and financing capacities of SMCs are strengthened?

In essence, the shift from schooling to learning provides us an opportunity to reassess the current structures for governing elementary education finance and delivery. Understanding the status quo is the first step toward such a re-think. How are education resources allocated? How do they flow through the system to reach their destination? Who controls decisions on how resources are allocated and spent? What are the outputs and outcomes of this expenditure?

Through a detailed analysis of GOI and State governments’ planning and budget documents, as well as a district-wide school level sample survey, these PAISA district studies are an attempt to offer a window into these questions. Through this analysis, these studies aim to initiate a conversation about the nature of elementary education financing and its links to learning.

2. Coverage and Methodology

The PAISA study covers 9 districts spread across 7 States in India. These districts are: Medak (Andhra Pradesh), Nalanda and Purnea (Bihar), Kangra (Himachal Pradesh), Sagar (Madhya Pradesh), Satara (Maharashtra), Jaipur and Udaipur (Rajasthan) and Jalpaiguri (West Bengal).

The focus of these PAISA studies was to track the flow of funds from their point of origin to their final point of expenditure i.e. the district or the school. This required analysis at three levels: GOI and State, District and School.

2.1 GOI and State Analysis

There are two main sources of information to calculate the total budget for elementary education at the state level: a) State Budgets, and b) the Approved Annual Plan and Budget (AWP&B) for SSA.

Within state budgets, the data for elementary education was manually collected and collated from the state budget documents. The state share for SSA and the funds

allocated towards the Mid-Day Meal scheme were excluded to avoid double-counting.

For SSA budgets, Information was sourced from the AWP&B and Project Approval Board (PAB) minutes available on the SSA Portal.⁶ Since the PAB minutes are revised frequently based on the supplementary plan, in order to obtain the most updated figures for a particular year, we used the PAB minutes for the next year. For instance, PAB 2011-12 has been used to obtain 2010-11 figures for approved allocations; the same is true for expenditures.

2.2 District Level

Similar to the state, the district budget for elementary education requires calculating both the budget under the state budget available through the state treasury, as well as that of SSA.

State budget treasury allocations to the district are harder to access as there are no district-level budget documents. PAISA devised two ways of calculating the district allocations for elementary education. First, funds from the state treasury flow to the bank accounts of designated officers at the district level (known as Drawing and Disbursing Officers (DDOs)). In Himachal Pradesh and Andhra Pradesh, where the treasury has been computerized and is publicly accessible, PAISA accessed data directly from the treasury accounts. This data is available for 2010-11 only. In states where the treasury account information is not publicly available, PAISA developed a second methodology. This methodology involved estimating the district budget on the basis of the proportion of schools, teachers and students in a given district. For instance, if Rs. 4,000 crore have been allocated for teacher salaries at the state level and the district has 5% of the total teachers, then the district estimation for teacher-related inputs will be 5% of 4000, i.e. Rs. 200. crore. State level administration expenditures were netted out to estimate the total funds at the district. These were then allocated proportionately to the districts using the teacher, school and enrolment ratios. The required data was obtained from the District Information Systems for Education (DISE) State and District Report Cards 2008-09 and 2009-10 Flash Statistics. These estimates are for 2009-10 only.

For SSA budget data, the primary data sources at the district level are the monthly physical and financial progress reports, and monthly expenditure statements. These documents provide information on activity-wise physical (outputs) as well as financial progress (expenditure) achieved on a monthly basis. These documents were collected from the District Offices of SSA by the PAISA team and used to calculate the allocations, total expenditures as well as the month-wise expenditures.

These documents were not available for Medak District, Andhra Pradesh, and hence PAB minutes have been used. These documents were not available for Jalpaiguri district as well.

⁵ Ministry of Human Resource Development (2011), ‘Sarva Shiksha Abhiyan: Framework of Implementation’

⁶ SSA portal: <http://www.ssa.nic.in>

In addition, Right to Information Queries (RTIs) filed by the Accountability Initiative have provided figures for GOI and State releases.

2.3 School Level

The school-level analysis is based on a field survey conducted by Accountability Initiative. 142 to 148 schools were selected randomly from rural areas in each of the nine PAISA districts.⁷ The sampling frame was the list of schools given in DISE 2009-10.⁸ Schools without either primary (Std. 1-4/5) or upper primary sections (Std. 5/6-7/8) were excluded, as were private unaided schools. Schools were sampled from each block of a district on the basis of the share of schools in that block as a fraction of total schools in the district. The survey was conducted between May to August 2011.

The survey details are as follows:

Table 1: PAISA sample: A snapshot

State	District	Sample Size	Survey Time
Andhra Pradesh	Medak	146	July 2011
Bihar	Nalanda	143	June 2011
	Purnea	142	June 2011
Himachal Pradesh	Kangra	145	May 2011
Rajasthan	Jaipur	148	May 2011
	Udaipur	148	July 2011
Madhya Pradesh	Sagar	146	July 2011
Maharashtra	Satara	146	July 2011
West Bengal	Jalpaiguri	147	August 2011
Total		1311	

The survey questionnaire sought to collect information about student enrolment and attendance, teacher appointment and attendance, status of school infrastructure (such as toilets and classrooms) as on the date of survey. Information about teacher training and infrastructure activities carried out, as well as details about the grants received were collected for the two financial years, 2009-10 and 2010-11. The survey questionnaire was finalized after extensive pilot surveys in one block of each of the above nine districts conducted in December 2010.

A team of two surveyors visited each school in the sample list along with the copies of permission letters from the state and district authorities. Schools where required information was not received on the day of the survey were revisited. Grant information was collected from financial documents such as bank passbooks, cash books and utilization certificates. Only in the absence of any of these documents, was [financial] information based on recall. The primary respondents were the headmasters (or the acting head masters, known as *prabharis*).

3. An overview of PAISA Findings: Unpacking the black box of education finance

3.1 What is the total budgetary allocation for elementary education and how are these finances prioritized?

The first step to understanding elementary education financing is to unpack the composition of resources and identify how these are prioritized.

3.1.1 Budgetary allocations (2009-10 and 2010-11)

Budget allocations: State and District

Elementary education in India is primarily financed by state government revenues channeled through state education line departments.⁹ The bulk of GOI's contribution to elementary education is through the SSA. In addition, state governments draw on funds from the special component plan for Scheduled Castes and the Tribal Sub-Plan to finance elementary education related activities targeted at specific beneficiary groups. These activities are implemented by a range of departments, such as the Tribal Welfare and the Social Welfare and Justice Departments. On average in PAISA states, there are three to four departments in addition to the state line department that fund elementary education programmes. State budgetary expenditure also includes statutory transfers determined by the 13th Finance Commission which awarded Rs.24,000 crore to support implementation of RTE between 2010 – 2015. Table 2 details the budgets for elementary education for 2009-10 and 2010-11 in all the seven PAISA states.

Table 2 : Budgetary Allocation (Sarva Shiksha Abhiyan+ State Government) 2009-10 and 2010-11 in Rs. Crore

States	2009 -10	2010-11
Andhra Pradesh	5295	7042
Bihar	8941	11226
Himachal Pradesh	1486	1753
Madhya Pradesh	4629	7235
Maharashtra	9157	12585
Rajasthan	6756	7935
West Bengal	5327	7686

Source: State budget documents and PAB minutes. For Madhya Pradesh, the AWP&B was sourced from the state governments' SSA website to obtain the latest figures.

To put these allocations in a comparative perspective, PAISA also calculated the per-child investment in each of these states for 2009-10 (Table 3). Per-child investment in PAISA states ranges from Rs. 3,982 in West Bengal to Rs. 19,111 in Himachal Pradesh. This variation is indicative of a vast inter-state disparity in education investments. This raises important questions about the role of GOI funding in ensuring equity in financial distribution. With the increased emphasis on RTE, the big challenge going forward will be in equalizing the

⁷ Sample size was calculated under the assumption that a) 90% schools would receive the school grants, b) margin of error is 5% and confidence level is 95%, and c) non-response rate is 10%.

⁸ DISE 2009-10 is the latest available list of all schools. It includes government, government aided and private schools.

⁹ State governments contribute a substantive 74% to the total education budget (2009-10 estimates): Taken from Kapur, A (2011). 'Analysis of State Budgets: Elementary Education,' Accountability Initiative, Budget Briefs series, www.accountabilityindia.in

distribution of education investments in India. State variations in investment are also mirrored at the district level (see Table 4).

Table 3: Per-child Investment in PAISA states

State	Education Budget 2009-10 (Rs.Crore)	Per Child Investment (Rs.)
Andhra Pradesh	5295	8390
Bihar	8941	4705
Himachal Pradesh	1486	19111
Madhya Pradesh	4629	4423
Maharashtra	9157	12075
Rajasthan	6756	9192
West Bengal	5327	3982

Source: State budget documents and PAB minutes. For Madhya Pradesh, the AWP&B was sourced from the state governments' SSA website to obtain the latest figures. Enrolment numbers sourced from DISE, Flash Statistics 2009.

Table 4: District Budget Estimates and Per Child Costs (2009-10)

District	Education Budget (Rs.Cr.)	Per Child Investment (Rs.)
Medak	232	7588
Nalanda	265	5719
Purnea	284	4841
Kangra	302	19574
Sagar	138	3616
Satara	317	14766
Jaipur	421	8289
Udaipur	368	9426
Jalpaiguri	285	4935

Source: State treasury accounts, PAB minutes and Monthly Expenditure Statements. The figures for Medak, Nalanda, Purnea and Kangra are for FY 2010-11. The remaining districts pertain to FY 2009-10. Enrolment numbers obtained from DISE and are for 2009-10.

3.2 How are education finances prioritized?

Typically, governments allocate funds based on line-item prioritization. In this PAISA study, we approach the question of prioritization from a different perspective. Rather than unpacking the budget to determine allocations and assess prioritization across traditional line items, the PAISA study analyzed prioritization across 4 key activities central to the functioning of an education system. These are: children, schools, teachers and management. In addition, PAISA created a separate category for quality-related activities. The focus on quality-related activities is in recognition of the enormity of the learning problem in India. PAISA's effort in separating this category from other elementary education activities is to highlight the nature and extent to which quality-specific activities are prioritized in the education budget.

To identify the budgetary allocations for each of these categories, PAISA clubbed different budgetary line items together. These include:

Children: All allocations where monies are expected to be invested directly on children are clubbed together in this

category. These are line items budgets for entitlements such as textbooks, uniforms and transport provisions along with mainstreaming out-of-school children, remedial teaching, residential schools and education for children with special needs. On average, for all 7 PAISA states, between 2009-2011 investments in children accounted for 6% of the total budget.

Teacher: This category pulls together all allocations where monies are invested directly on teachers. These are: teacher salaries, teacher training and teaching inputs such as teaching learning material, teaching learning equipment and the school development grant. Teachers receive the largest share of the education budget and between 2009 and 2011 investments in teachers accounted for 72% of the education budget across the 7 states.

Schools: This category comprises of all investments made toward the provision of infrastructure in schools. These are: civil works, school maintenance grant and, if available, funds for the building of libraries and provision of furniture. Investments in schools account for 14% of the education budget.

Management: This includes all allocations related to the administration of elementary education such as allocations for Block Resource Centers, Cluster Resource Centers, management, Management Information Systems (MIS) and research and evaluation line items. Between 2009-10 and 2010-11 management costs received an average of 5% of the budgetary allocation.

Quality: This includes all allocations for improving learning levels, specifically, the innovation and learning enhancement program (LEP). Quality receives 1% of the total investment.¹⁰

Inter-state patterns of investment reveal interesting variations (Table 5). Bihar stands out for investing just over half its budget (59%) on teachers, followed by Madhya Pradesh and West Bengal, which invested 64% and 67%, respectively. One reason for this low investment is a policy in all 3 states to substitute regular teachers for contract teachers. Contract teachers are hired at a substantially lower salary, thus enabling fiscal savings. In states like Bihar, these savings have given the state flexibility to prioritize other activities, such as the provision of children's entitlements. Importantly, in Bihar this investment prioritization has come alongside a state-wide contract teacher hiring drive which has resulted in a substantial drop in PTR ratios from 96:1 in 2005 to 58:1 in 2011 (2011, PAB minutes). Bihar thus presents an interesting model of lowering teacher costs and reallocating these funds to other state-specific priorities.

Bihar and West Bengal invest the largest proportion of their resources in programmes directed at children. As mentioned, an important component of the children budget goes towards activities aimed at mainstreaming out of school children. Both Bihar and West Bengal have the largest number of out of school children. Thus, this high investment appears to be aligned with the education needs of the states.

¹⁰ For details of quality-related activities see Annexure 1

3.3 Changes in SSA resource prioritization post the RTE

With the implementation of the RTE in April 2010, SSA budgets have increased significantly across all states. On average, the SSA budget for all PAISA states increased by 70% between 2009-10 and 2010-11. The largest increase was in funds to schools for the provision for children and infrastructure (89% and 85%) and funds for community mobilization and training (973%). These latter funds are captured in the miscellaneous component of the SSA budget. To give a flavour of the changes in education resource prioritizations within SSA, Table 6 highlights increases in the 7 PAISA States.

Analysis of the composition of state budgets post 2010-11, points to a significant increase in SSA funds as a proportion of the total budget. On average, in 2009-10, the state budget excluding the SSA component contributed to 69% of the elementary education budget; this dropped to 60% in 2010-11. Unsurprisingly, states like Bihar and West Bengal that have low fiscal capacity leverage far more of their funds through SSA than fiscally strong states like Maharashtra and Himachal Pradesh. Importantly, these latter states have also met the bulk of the RTE requirements and thus have less leverage over GOI funds. An interesting trend observable in 2010-11 is that Andhra Pradesh, which has a stronger resource base than the poorer states in the PAISA sample, has seen a significant increase in SSA's contribution to the education budget: up from 19% in 2009-10 to 30% in 2010-11. The primary implication of this increased contribution of SSA funds to the elementary education budget is that it runs

the risk of increasing de-facto centralization of elementary education financing. Since SSA is a centrally sponsored scheme, the scheme gives preference to activities prioritized by GOI. State governments now contribute a significant 35% of the total SSA budget, Thus a significant portion of state funds are also geared towards funding activities prioritized by GOI thereby limiting state discretion.

3.4 The SSA planning process

Under SSA, annual budgetary allocations are finalized through a process of negotiation between GOI and state governments. In March every year, state governments prepare a proposed AWP&B (which is meant to be an aggregation of district plans). This proposed plan and budget is then discussed with the Ministry of Human Resource Development (MHRD), GOI, and the final approved budget is an outcome of this negotiation. To understand the efficacy of this process, PAISA analyzed the differences between proposed budgets and those that were finally approved by GOI for 2009-10 and 2010-11. This analysis points to some mismatch between the state's own assessment of its needs and priorities, GOI's priorities and the final approved budget. This is particularly visible post-2010, when GOI prioritized the implementation of the RTE and states were expected to align their priorities to meet RTE requirements by 2013. The cases of Bihar and Rajasthan best illustrate this point. In 2010, Bihar increased its own state budget for activities related to children's entitlements by a significant 368%. Perhaps for this reason, the state, in its proposed SSA budget, budgeted a low amount for children entitlements.

Table 5: Inter-state distribution of education investments (2009-10 & 2010-11)

	Andhra Pradesh	Bihar	Himachal Pradesh	Madhya Pradesh	Maharashtra	Rajasthan	West Bengal
Teachers	72%	59%	79%	64%	86%	87%	67%
School	13%	25%	9%	21%	5%	6%	19%
Children	4%	10%	1%	8%	5%	1%	10%
Quality	2%	1%	1%	1%	1%	1%	1%
Management	9%	4%	9%	5%	4%	3%	4%
Misc	0%	0%	1%	0%	0%	1%	0%

Source: State budget documents and PAB minutes. For Madhya Pradesh, the AWP&B was sourced from the state governments' SSA website to obtain the latest figures.

Table 6: % Increase in SSA budget from 2009-10 to 2010-11

	Andhra Pradesh	Bihar	Himachal Pradesh	Maharashtra	Madhya Pradesh	Rajasthan	West Bengal
Teachers	97%	37%	48%	119%	52%	25%	134%
School	90%	58%	46%	52%	110%	130%	134%
Children	207%	101%	37%	84%	250%	62%	18%
Quality	16%	7%	12%	15%	12%	21%	89%
Management	84%	43%	87%	57%	41%	23%	48%
Misc	1581%	874%	643%	1176%	843%	305%	1307%
Total	105%	54%	50%	73%	87%	39%	100%

Source: PAB minutes 2010-11 and 2011-12. For Madhya Pradesh, the AWP&B was sourced from the state governments' SSA website to obtain the latest figures.

In the final negotiation however, GOI enhanced the entitlement budget by a whopping 210% of what was proposed. In Rajasthan, we see a similar trend where the approved 2010-11 SSA budget for infrastructure was 284% more than the state had proposed. This analysis points to a tension between state-identified priorities and RTE priorities. Ideally, this tension could be resolved if states were able to use their own resources to meet their priorities. However, as discussed earlier, state finances are increasingly tied to SSA funds. In such a scenario, state priorities also need to find place in the SSA negotiations. The challenge lies in balancing the tension between states and GOI priorities and creating greater flexibility at the state level.

4. How do funds flow to schools?

In this section, PAISA focuses on the flow of monies from their point of origin to the school. Owing to paucity of data, it is difficult to access information on fund flows related to the state treasury. Thus PAISA analysis on fund flows is focused specifically on fund flows within SSA. Key findings from PAISA analysis include:

Table 7: % of allocated funds released (GOI+state to state society)

	2009-10	2010-11
Andhra Pradesh	42%	64%
Bihar	49%	53%
Himachal Pradesh	84%	88%
Madhya Pradesh	81%	73%
Rajasthan	86%	83%
Maharashtra	68%	63%

4.1 Significant gap between funds allocated and funds released

As Table 7 highlights, no state in the PAISA sample received its entire share of funds in 2009-10 and 2010-11. The quantum of funds varies widely across states with Himachal Pradesh receiving the largest proportion of its allocation followed by Rajasthan. Inefficiencies in expenditure management are the primary reason for this gap. Funds released under SSA are contingent upon conditionalities such as the submission of utilization certificates, expenditure statements, and completion certificates (in the case of infrastructure), amongst others. Delays in submission of these documents results in delays or withholding of fund releases. Importantly, GOI releases are contingent upon state governments' releasing their share of the SSA allocation. In most states, we find that state governments have been slow to release funds and often the gap between the state government share and release amount is much larger than that in the GOI share allocated and released. Interestingly, this trend reversed in 2010-11 as state governments began to put in a greater share while the GOI share declines.

Gaps in fund receipt at the state-level had a knock-on effect on the quantum of money received at the district level (see Table 8). Between 2009-10 and 2010-11, only three PAISA Districts – Kangra in Himachal Pradesh, and Jaipur and Udaipur in Rajasthan – received close to 90% or more of their allocations; all other districts received half or less. One interesting point to note is the differences in release amounts within states. In Rajasthan, for instance, Udaipur received marginally less of its allocation than Jaipur. Purnea also performs better than Nalanda. These differences (as we see in the expenditure section below) are a consequence of expenditure performance at the district-level.

Analysis of district fund flows also reveals that for some line items, the state incurs expenditures on behalf of the district. Consequently, these funds, although allocated to the district, are never actually transferred to the district account. To explain, in Sagar district, Madhya Pradesh for instance, close to 60% of the total district expenditure is booked under an expenditure head called SPO (the state name for the SSA society). Analysis of this expenditure head reveals that the bulk of these funds are allocated to teacher salaries and civil works. The civil works head accounts for 50% of the district civil works budget. Civil works funds are directly released to the Panchayat accounts to incur expenditures, by-passing the district, while teacher salaries are directly deposited in teacher accounts. Arguably, this appropriation of district funds by the state suggests that the district has limited flexibility or decision-making power over key activities. This points to increased state control, which, as funds for teacher salaries and civil works increase with the RTE, is only going to increase.

Table 8: % of allocated funds released (state to district)

	2009-10	2010-11
Medak	47%	66%
Nalanda	43%	45%
Purnea	50%	51%
Kangra	90%	84%
Sagar	NA	83%
Satara	60%	72%
Jaipur	99%	92%
Udaipur	89%	88%
Jalpaiguri	66%	52%

Source: RTIs filed by PAISA team and collected from the District Project Offices of all the districts.

4.2 Bunching of fund transfers to the end of the financial year

While fund flows from GOI and the state are meant to be released to the state society in 2 installments across the first three quarters of the financial year. In practice however, the bulk of the money is released toward the end of the financial year.¹¹ There are state variations. As highlighted in Table 9, states like Andhra Pradesh, Bihar

¹¹ The financial year in India is broken up in to 4 quarters: Quarter 1 April-June; Quarter 2 July-September; Quarter 3 October-December; Quarter 4 January to March. The release is determined on the basis of the SSA financial manual.

Table 9: Fund transfers till Quarter 3 and Quarter 4 as a % of total allocation.

	Funds transferred till Q3				Funds transferred till Q4			
	2009-10		2010-11		2009-10		2010-11	
	GOI	State	GOI	State	GOI	State	GOI	State
Andhra Pradesh	19%	19%	38%	80%	55%	23%	55%	80%
Bihar	17%	47%	46%	36%	47%	52%	46%	65%
Madhya Pradesh	73%	38%	61%	58%	84%	77%	69%	82%
Rajasthan	83%	63%	66%	79%	94%	74%	71%	105%
Maharashtra	66%	0%	37%	57%	78%	54%	63%	63%
Himachal Pradesh	78%	37%	40%	42%	78%	96%	83%	96%

Source: RTIs filed by Accountability Initiative.

and Maharashtra received half or just under half of their finances for the year in the last quarter, between January and March. Fund flows improved significantly in 2010. It is important to note that this improvement comes against the backdrop of significant budgetary increases for SSA funds in 2010-11. However, we see a downward trend in the speed of releases in Himachal Pradesh, which received as much as 47% of its funds for 2010 in the fourth quarter compared with 21% the previous year.

Delays in fund receipt at the state level also result in delays at the district level. However, unlike at the state level, the speed of transfers was much slower in 2010-11, with some districts such as Kangra and Jaipur receiving as much as 39% and 27% of their funds in the fourth quarter, respectively. Given the significant increases in budgets, the result of this year-end bunching is an increased year-end cash surplus. In a scenario where SSA funds are only going to increase further over the next few years, this bunching up of funds and cash surplus will create serious expenditure management problem for state governments from now on.

4.3 Fund flows at the school level

Under SSA, there are three key grants that schools are expected to receive annually. These are: Teacher Learning Material (TLM), School Development Grant (SDG) and School Maintenance Grant (SMG). According to the SSA financial manual, schools can receive these grants after they submit utilization certificates for the previous year. These certificates are expected to be submitted to the district within one month of the close of the financial year; however, there is no specified time period for when these funds are expected to be transferred to schools. Through the district surveys, PAISA tracked the flow of funds to schools. Like the state and district picture, the PAISA survey, too, reveals gaps in allocations and receipts for all 3 grants.

- On average, across the 9 PAISA districts, in 2009-10, 81% schools received TLM grants, 73% received the SDG and 68% received the SMG. Receipt of TLM funds dipped somewhat in 2010-11 when 80% schools reported receipt. However receipt of SDG and SMG improved as 75% and 73% schools received their grants.

- Trends across 2009-10 and 2010-11 highlight that not every school receives the grants in both years. To illustrate, 27% schools received the TLM grant in only 1 of the 2 years under consideration. Similarly, 28% and 27% schools received the SDG and SMG grant in only 1 of the 2 years. Worryingly, 6% schools did not receive TLM in either year and a further 12% and 16% schools did not receive SDG and SMG, respectively. It is likely, that these gaps in receipt were on account of the fact the schools did not submit their utilization certificates within the specified time period.
- In terms of timing, on average schools received their grants by the end of quarter two (end September) in both 2009-10 and 2010-11. In most PAISA states, the school year starts in April/ June every year. The fact that the school grants only reaches at the end of September means that schools have no money for essential supplies and minor repairs till almost half way through the school year. How do schools cope with these delays? During the survey, PAISA discovered that in many instances, headmasters use left-over funds from previous years or funds received from community contributions on national holidays. In some instances, headmasters said that they use their own money to purchase essential supplies. Once funds arrive, the schools reimburse themselves and adjust the books to ensure that account books are in order. Such practices, while they enable schools to get by till the grants arrive create serious accountability problems that contribute to the accountability deficit at the school level.

5. Expenditures: Do schools spend their money?

5.1 Significant under-spending and bunching of expenditures at the district level:

As highlighted in Table 10, district spending ranges widely from 50% to 99%. Interestingly, despite a significant increase in allocation between 2009-10 and 2010-11, district expenditures have kept pace and in some cases actually improved from the previous years.¹²

¹² Expenditures include expenditures incurred through the SPO. They do not include expenditure incurred under the NPGEL and KGBV heads

Table 10: District level expenditures in %

District	% spent out of allocation 2009-10	% spent out of allocation 2010-11
Medak	84	78
Kangra	88	80
Satara	96	86
Sagar	69	82
Nalanda	53	50
Purnea	50	55
Jaipur	99	93
Udaipur	86	84
Jalpaigudi	NA	77

Source: Monthly expenditure statements obtained from the district

To assess the timing of expenditures, PAISA analyzed monthly expenditure statements for the nine PAISA districts.¹³ Perhaps, a consequence of delayed fund flows, this analysis points to a last minute rush to spend money as expenditures are bunched up toward the end of the financial year. In 2010-11, when budget allocations increased, this bunching up worsened even though fund flow timings to districts improved.

When analyzed from the perspective of budgetary components, we see a clear prioritization of expenditures for recurring costs. Teacher salaries and administration costs (salaries for the elementary education bureaucracy) are amongst the highest expenditure items in all districts and, by and large, these expenditures are incurred through the year. A large proportion of infrastructure funds are also spent. However, these expenditures tend to be bunched up toward the end of the financial year. Importantly, districts book releases to schools as expenditures. These expenditures are then adjusted once schools submit utilization certificates. Consequently, expenditures on infrastructure are merely indicative of releases of monies to schools. The last minute rush to release these funds is indicative of spending pressures faced at the district level as a consequence of which the district rushes to send money to schools toward the end of the financial year. In practice, schools are slow to undertake infrastructure activities. This is partly a consequence of the cumbersome procedures involved in spending infrastructure monies - works need to be sanctioned and approved from authorities outside the Department of Education, such as the state Public Works Department; issues such as land access need to be negotiated; and finally, competent authorities need to provide a certificate of approval. All this requires coordination between multiple administrative authorities and leads to delays in getting works started. In fact, when the PAISA survey mapped the pace of work at the school-level to increases in infrastructure funds at the district-level, it found that despite large amounts of money having been transferred to schools, schools were yet to start construction works in 2010-11.

From the school's point of view, these cumbersome procedures can be intimidating and, in fact, act as a disincentive for spending. One headmaster in Medak district, Andhra Pradesh told PAISA surveyors that headmasters lack a proper understanding of the procedures involved in spending infrastructure monies and thus prefer to whitewash walls rather than spend large amounts on big infrastructure construction. This sentiment was echoed by headmasters in Purnea, Bihar as well. Another problem in implementing infrastructure activities is that, although technically there is flexibility at the school-level to determine their infrastructure priorities, de-facto infrastructure activities are expected to be undertaken based on instructions provided from the district officials (who in turn are responding to state and GOI pressures). However, at the school-level, all expenditures require approval from the SMC. This creates a mismatch between SMC perceptions of school needs and what the school must do, owing to directives from the top. Thus, a lot of time has to be spent in negotiating with the SMC to arrive at a consensus on starting expenditures, resulting in delays in expenditures.

Infrastructure expenditures apart, a worrying trend in district expenditures is that expenditures on non-recurring activities, such as on trainings, children and quality-related activities, are slow; more often than not, these line-items report significant under-spending. We see the consequences of this under-spending in important ways at the school level. For instance, PAISA tracked the number of trainings received by teachers in all nine districts between 2009-10 and 2010-11. PAISA findings point out that, the number of trainings dipped from 33 days in year 1 to 28 in year 2, despite increases in training budget allocations. Moreover, in 2009-10 17% teachers reported not receiving any training at all through the year. This increased to 19% in 2010-11.

5.2 Delays in spending at the school level

Expenditures at the school-level are slow. At a minimum there is a 60 day time lag between the day a school receives a grant and the day its starts spending its money. There are variations across grant type:. In 2009-10, there was a time lag of 66 days between grant receipt and the first day of expenditure for TLM grants; this reduced to 60 days the following year. For SDG and SMG, there was a 90 day and 96 day time lag, respectively, which improved to 73 and 80 days in 2010-11.

PAISA also measured utilization levels of school grants to find a dip in utilization between 2009-10 and 2010-11. In 2009-10, on average, 91% schools utilized all their grant monies. This proportion fell to 86% in 2010-11, however this dip could be on account of the fact that PAISA only captured expenditures till the date of the survey (between May and July 2011) and thus it does not capture expenditures that could have been incurred after the cut-off point.

¹³ These statements were not available in Medak and Jalpaigudi districts

What explains this slow spending? As mentioned earlier, schools have little discretion over expenditures incurred through school grants. This lack of discretion is perhaps one reason for low spending as schools await directions from higher authorities on what they can and cannot spend on. When money is spent, it is often spent on activities that are not considered important by the school. This is highlighted in the case of a school in Jaipur, where an official directive was issued requesting all schools to use the SDG (also known as School Facility Grant) to purchase furniture. The school in question has no requirement to purchase this furniture but was pressured by local officials to purchase furniture in response to this directive. A similar incident was reported in Purnea Bihar, where the district approved a request from some schools to use their development grant to purchase a storage cupboard. This was interpreted at the frontline as an order for all schools and regardless of need, schools were made to spend their grant buying the cupboard. These instances point to a systemic problem. The absence of discretion creates a complete disconnect between school articulated need and actual expenditures. Schools can thus legitimately claim that they have no responsibility over meeting school needs thereby significantly compromising accountability.

6. Concluding remarks

This PAISA study was motivated by the question of whether the current model for financing and decision-making in elementary education can enable India to make the shift from schooling to learning. As the GOI itself has argued, implementing the RTE requires “...[the] creation of capacity within the education system and the school for addressing the diversified learning needs of different groups of children who are now in the schooling system.....planning and implementation for universal access in the rights-based approach would require an understanding of community needs and circumstances as well as decentralized decision-making for meeting the diversified needs of children.”¹⁴ Will a business-as-usual approach facilitate such a shift?

Findings from the PAISA study point to the need for a serious reassessment of the current system. With the implementation of the RTE, funds to elementary education have seen a significant increase. However, this increase has been accompanied by an increased centralization of decision-making – the anti-thesis of a decentralized approach. This centralization is further exacerbated by the governance deficit in actual expenditure management. The PAISA survey points to serious delays and gaps in fund

flows across all levels of government. These delays have a knock-on effect on expenditures, resulting in the prioritization of recurring expenditures like salaries, at the expense of other key learning-related activities (like training and quality). These problems are compounded by the fact that little time and effort has been spent in developing the capacities of school and local officials to exercise discretion where necessary. Instead, an extremely process heavy delivery structure has been created, where utilization certificates and sanctions determine the speed and nature of expenditures rather than needs at the ground level.

The SMC is the bedrock of a decentralized planning and implementation structure. However, as PAISA analysis highlights, the current system of planning and financing is structured such that plans, decision-making powers and fund flows are aligned to facilitate *de-facto* centralization. The SMC have little money and almost no discretion over these funds. Expenditures, even on school grants, are based on directives from higher levels of government. Thus the current model simply cannot facilitate a decentralized planning and implementation structure.

In conclusion, PAISA points to the need for a radical system overhaul. One that moves away from the current system of tied line item budgets implemented through centralized directives to a system that focuses on children and schools, and enables the SMC to determine school needs. Greater transparency and efficient fund flow management is critical to ensuring that such a system works. This would require a strong management information system that tracks, in real time much like the PAISA survey, the flow of money through the system to ensure that bottlenecks are addressed and monies reach their destinations.

Will this lead to more learning for school children? To be sure that is an open question but, at the very least, such a system will serve to strengthen parent engagement and ownership with the school and encourage accountability to parents. This is a first critical step.

India is not alone in facing the challenge of moving from a schooling to a learning system – most countries around the world are struggling with similar dilemmas. However, consequent to the provision of SMCs, India has the framework for an alternative bottom-up system. If we were to re-haul the education model, we could well lead the way in showing the world how to build an education system that privileges local control, innovation and accountability for learning.

¹⁴ Ministry of Human Resource Development (2011), ‘ Sarva Shiksha Abhiyan: Framework of Implementation’