RULES VS RESPONSIVENESS

TOWARDS BUILDING AN OUTCOME-FOCUSSED APPROACH TO GOVERNING ELEMENTARY EDUCATION FINANCES IN INDIA

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1. INTRODUCTION

Elementary education policy in India is undergoing an important transition. For decades, the primary goal of the Indian Government's elementary education policy was to create a universal education system through the provision of school inputs. This resulted in a significant expansion of India's elementary education infrastructure – enrollment in India is near universal and most states in the country have constructed schools in every habitation. But even as this infrastructure was being put in place, it became increasingly clear that schooling was yet to translate into learning. And even as the country increased its financial investments in elementary education (between 2007-08 and 2012-13, India's elementary education budget more than doubled from Rs. 68,503 crore to Rs. 1,47,059 crore), children's learning levels remained stuck. The annual ASER report has repeatedly highlighted that nearly half of India's standard 5 students cannot read standard 2 text. Worryingly, recent ASER reports (2012 and 2013) suggest that learning levels have actually fallen even as the country raced to meet input standards set in the Right to Education Act (RTE Act).

In 2012, the Government of India (GOI) made an important policy shift. The 12th five-year plan (FYP) explicitly articulated learning improvements as the stated goal for education policy. This was followed by several policy documents published by the Ministry of Human Resource Development (MHRD) stating the importance of meeting the learning challenge.

Today, there is a growing body of literature (see for instance Walton and Mukherji, 2013 and Muralidharan, 2012) that focusses on what works – from curriculum reform; re-aligning classrooms according to learning levels; improved testing and governance through tighter teacher monitoring and performance linked-pay – each of which offers alternative policy pathways for education reform. However, even as educationists and policymakers grapple with identifying the appropriate policy "choice" for improving learning outcomes, there is a new challenge that India must confront: the challenge of building appropriate governance systems that will enable policy choices to be sustained, scaled up and embedded in to the day-to-day functioning of the Indian bureaucracy. This is particularly relevant for a state that has rather appropriately been characterised by Lant Pritchett (2009) as "flailing" where the gap between policy choices and implementation capacity is so wide that, to quote Pritchett, "the head – its elite institutions at the national and state level - remains sound and functional but where its head is no longer reliably connected to its limbs". Ensuring that the stated policy goal of improving learning outcomes translates into action on the ground thus requires sustained efforts to strengthen the capability and capacity of India's education administrators to implement policy shifts.

An important consensus emerging from much of the current literature on learning outcomes is that

the shift towards learning requires a responsive delivery architecture that pushes the administrative system to focus on the interaction between teachers and students inside the classroom (See for instance Muralidharan, 2012, Banerji, 2014 and Pritchett, 2014). This necessitates an approach that privileges greater autonomy at the school level with appropriate performance standards so that teaching can be aligned to student needs on one hand and the administrative system has the capacity to actively support schools and ensure accountability on the other.

This expressed need for a classroom-focussed education system raises important questions about the capability of the current administrative architecture for education delivery. Are existent tools of administration – resource allocation, planning and decision-making systems, work-flows – aligned with the goal of learning? Can they facilitate a more responsive, school and classroom-focused approach to delivering education? And if not, how can this realignment be achieved?

The starting point for debating the effectiveness of the current administrative architecture is to understand the status quo. Despite widespread agreement about the weaknesses (and failures) of the Indian governance system, there is surprisingly little empirical work on how the state, particularly at the lower levels of administration, actually works.

Since 2010, PAISA has been working to fill this gap through the PAISA district survey, a bi-annual survey of elementary education finances, planning and fund flow systems and decision-making structures. The survey was first undertaken in 2011 in 8 districts in India: Medak (Andhra Pradesh), Nalanda and Purnea (Bihar), Kangra (Himachal Pradesh), Sagar (Madhya Pradesh), Satara (Maharashtra), Jaipur and Udaipur (Rajasthan). The survey was conducted in a random sample of approximately 150 schools in each district, where it tracked fund flow and expenditure behavior across the entire gamut of elementary education finances. The objective was to develop a comprehensive picture of the planning, budgeting and expenditure and decision-making systems at the district and school level.

This exercise was repeated in 2013 when surveyors re-visited the same set of schools surveyed in 2011. In addition, a set of in-depth qualitative interviews and participant observations that studied the planning process at the district and school level were undertaken. Finally, the PAISA team also analysed key plan and budget documents at the state and GOI level for each of the states surveyed, to obtain a macro picture.

This paper builds on the findings from these in-depth district studies to present both the key findings as well as a comprehensive set of recommendations based on the PAISA studies.

1. See Annex 1 for a detailed note on the methodology employed in the PAISA surveys and budget analysis.

2. UNDERSTANDING THE PROBLEM

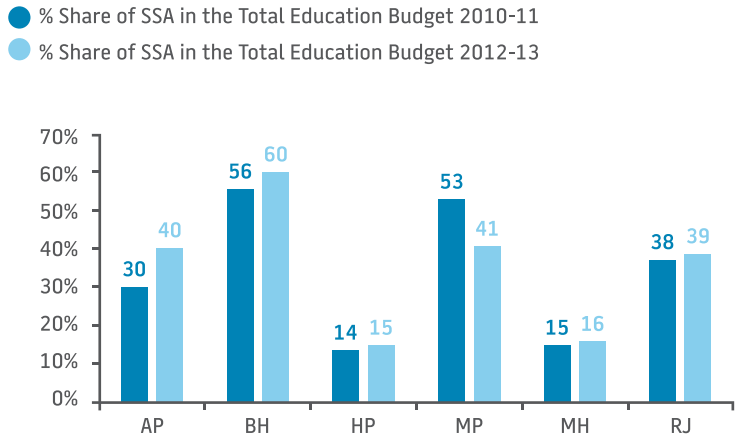
Analytical work done through the PAISA studies offers critical insights in to the fund flow patterns and expenditure priorities in elementary education (EE), as they operate today. These can broadly be summarised in to three points:

2.1 Top-down resource control

The current financial system for EE is extremely centralised. In most states GOI is the primary source of non-wage related finances for EE. Consequently, GOI plays an important role in determining how resources are allocated. This model of financing runs the risk of promoting a one-size-fits-all approach to financing EE that reflects GOI rather than state government priorities and reduces state ownership over education activities.

To explain, GOI funds travel to state governments through the mechanism of the Sarva Shiksha Abhiyan (SSA), a centrally sponsored scheme. The finances for SSA are shared between GOI and state governments on a 65:35 sharing formula. Since 2009, GOI financing for EE has increased from Rs. 19,123 crore to Rs. 39,622 crore in 2013-14. State budgets have not increased at the same pace resulting in an increase in the proportion of SSA funds in the total EE budget. Between 2006-07 and 2010-11 (the latest year for which national data is available), the proportion of SSA expenditure in the country's EE increased by 5 percentage points from 8.2% to 13.2 %[2]. At the state level this increase has meant that in some states SSA now accounts for nearly half the total education budget (see Figure 1 below for trends in the proportion of SSA in the total budget for the 2010-11 and 2013-14 in select PAISA states).[3]

Figure 1: Share of SSA in Total Education Budget



2. Mukherjee, A (2013): "Targeting Education Financing on the Marginalized: Lessons from Implementation of Sarva Shiksha Abhiyan and Right to Education in India", Background paper prepared for the Education for All Global Monitoring Report 2013-14

3. It is interesting to note that Andhra Pradesh received as large a share of SSA funds as some of the poorer states suggesting the need for further investigation in to the extent to which SSA has been able to ensure equity in education financing.

The bulk of the state budget is used to fund salaries and administrative expenses. On average, in the 6 PAISA states, between 2009 and 2013 teacher salaries accounted for between 75-80% of the state governments' financial allocation. SSA, on the other hand, provides resources for all other EE related activities ranging from infrastructure to teacher training and learning related activities. As the primary source of non-wage related expenditure, SSA thus plays an important role in shaping the overall EE policy for the state.

However, the design of the current financing system is such that GOI priorities tend to take precedence over state needs. Under SSA, the MHRD has taken on the role of negotiating day-to-day budgeting and expenditure at the state level in a manner that pushes states to focus on GOI priorities. This is best illustrated in the plan and budget meeting (PAB) negotiations. In the 2013-14 minutes of the PAB meetings, one state, was keen to restructure its in-service teacher-training model. However, the PAB cautioned the state that any difference in costs incurred when training teachers outside the prescribed framework would have to be borne from the state's own resources, as no central funds could be used for these efforts. In another example, in 2011-12, a state asked for a top-up grant to improve the quality of their textbooks. The PAB did not accept this proposal.

This process of GOI-dominated planning has contributed to constraining state flexibility and reducing the effectiveness of the planning process by limiting state ownership over education activities. The state governments, in turn, have a ready excuse not to implement activities effectively, as they can always pass the buck and blame GOI thus creating perverse incentives for inaction.

This GOI specified implementation model has been further entrenched by the RTE Act. The Act prescribes a set of defined norms that all schools are expected to adhere to. Thus funding to states and districts is primarily determined by RTE norms (prioritised through the PAB) rather than state and district level needs.

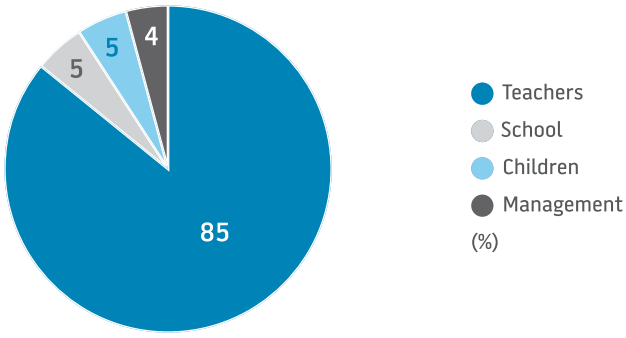
Interwoven in to this centralised model of resource control is an intent to decentralise. The annual SSA plan process is designed to ensure that the planning process begins at the school level through the preparation of School Development Plans (SDP)[4]. These plans are then consolidated at the block and district level in to a district level annual work plan (AWP). Finally, the state government consolidates the district AWP in to a state level plan which is negotiated at the PAB.

However, this decentralised approach has not been implemented in practice. An important reason for this is that the SSA financial and institutional architecture gives schools and school committees

4. The mandate of decentralised planning through community engagement has been incorporated in to the RTE Act. Section 21 of the Act mandates the creation of school committees and preparation of annual school development plans.

(SMC) almost no discretionary power over the budget. To explain, in 2013-14, the bulk of the budget (85%) was allocated to investments in teachers. All critical teacher-related decisions – hiring, salary payment, and training – are taken by the state and district administration. Following teacher salaries, the second largest investment is on school infrastructure (5%) and the provision of direct entitlements to children (5%) such as free textbooks, uniforms and scholarships. Funds for school infrastructure development and children's entitlements are often channeled to schools. Schools, in turn, are responsible for actual "implementation" (construction in the case of civil works and distribution of entitlements in case of children specific activities). However, key decisions related to implementation – the kind of infrastructure to be built, sanctions, mechanism for providing entitlements and so on – are taken by the state administration. Funds for quality (less than 1%) are allocated based on state and GOI priorities. The quality line-item has a Rs. 1 crore innovation fund for districts, 50% of which is required to be spent on computer-aided learning programs leaving districts with a discretionary spend of half the allocation.

Figure 2: Resource prioritisation in elementary education across 6 PAISA states (FY 2013-14)



The only monies over which schools and SMCs have any expenditure discretion are 3 annual school grants – the Teaching Learning Material Grant (TLM), the School Development Grant (SDG) and the School Maintenance Grant (SMG). In 2013-14, these monies accounted for less that 1% of the elementary education budget. On average, this amounted to approximately Rs. 15,000 (calculations based on PAISA survey) per school.

Even though schools have discretionary power over the grants, these powers are constrained by financial design. School grants are tied grants i.e. expenditure against them is limited to the broad budget heads specified by the financial guidelines for SSA. Thus, if a school wants to use its development grant to buy additional learning aids in a particular year, the rules simply won't allow it.

This limited expenditure discretion has rendered the process of making school plans meaningless. Many schools don't make plans (only 44% schools in the 2013 PAISA survey reported preparing an SDP) and when they do, the process is akin to a mechanical checklist exercise where pre-prescribed formats are filled with little deliberation. Since plans are never accompanied by resources. Moreover, plans are not considered when the district plan is being made. The district annual plan is based on the District Information System for Education (DISE) data rather than school specified priorities[5].

These top-down plans result in serious distortions at the implementation level. In 2013, PAISA researchers undertook a workflow analysis to try and understand the consequences of these top-down plans on school infrastructure. The following anecdote best illustrates our findings. In a school in Nalanda, Bihar, the headmaster had received a grant for building a boundary wall in 2012. Here's what he told our researchers:

PAISA Researchers asked: "When did you make the request for the wall?" He never did. The wall was sanctioned at the state level based on DISE data, and finalised at the district level. When asked if he was satisfied with the way the civil works process was conducted, he shrugged his shoulders and said "The wall is built, this is good. But the main problem here is the lack of clean water as the children get sick. We don't know who to talk to about this. And honestly, the DISE form doesn't ask us for this information".

2.2 Process related bottlenecks in fund flows[6]

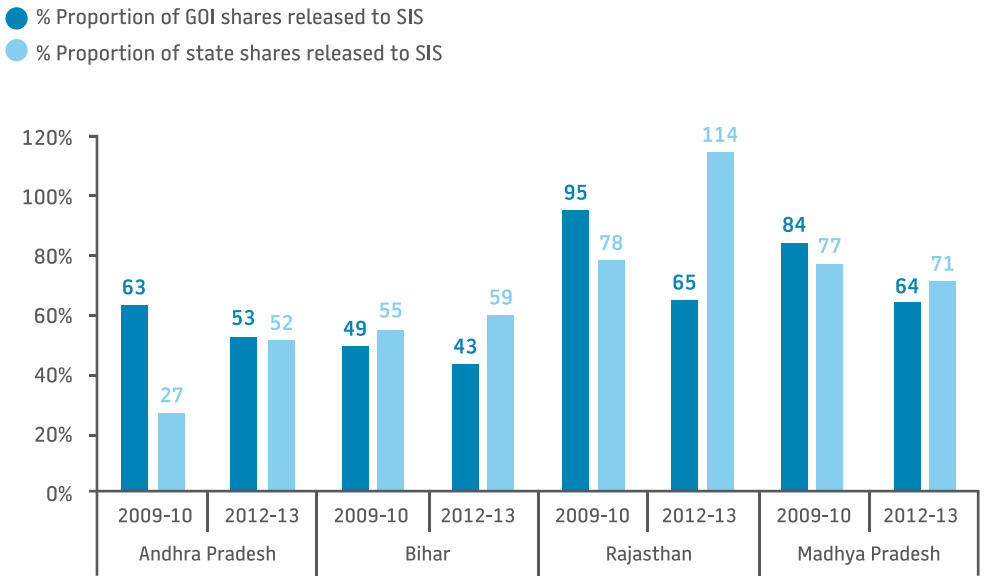
The SSA expenditure management system is riddled with process related bottlenecks. As a result, there is a significant gap between allocations, releases and expenditures. In the current architecture, GOI and state funds for SSA are routed through a state level society or state implementation society (SIS). The SIS in turn transfers funds to districts and schools[7].

2.2.1 Funds allocated vs fund released

The first step in tracking fund flows is to analyse the flow of funds from GOI and state government to the SIS. As Figure 3 (below) indicates, no state within the PAISA sample, received its entire share of approved funds for SSA. This gap highlights a crucial limitation in the planning process – plans are made with little consideration of resource envelopes available to states and budgetary constraints at the center. As a result there is a lot of uncertainty about the quantum of money available through the financial year resulting in poor expenditure.

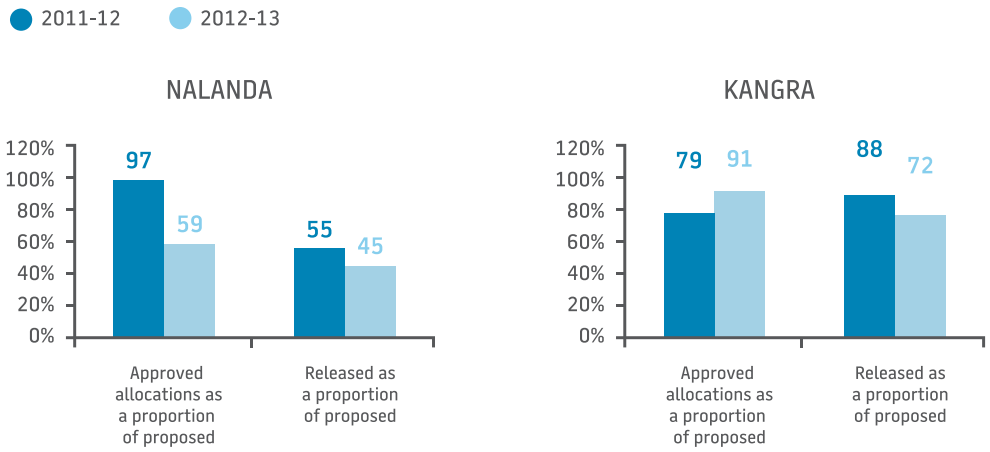
5. A national data base of school-related indicators. Data is collected annually from schools directly.
6. Owing to data constraints, this section focusses exclusively on SSA funds
7. In most states, the district is the conduit through which funds are directed to schools, Over the last few years, some state governments have attempted to introduce direct transfers to schools for the school grants. But the process has not been institutionalised.

Figure 3: Quantum of funds received by the State Implementation Society (SIS)



This gap between funds approved and funds released at the SIS has a knock-on effect at the district level. For instance (see figure below), in 2012-13, Nalanda in Bihar received only 45% of its total approved budget.

Figure 4: Wide gap between proposed plans, approved plans and final fund releases



SOURCES: PAB minutes. Data obtained from the SSA office.

2.2.2 Delays in fund flows

PAISA analysis of the timing of fund flows reveals significant delays in the actual release of funds by different levels of government. Consequently, many states receive large chunks of their annual funds towards the end of the financial year, making speedy, need-based expenditure difficult.

SSA funds are expected to reach the state society in two installments: the first installment is released in April and the second in September. The first installment is an ad hoc grant whose release is not dependent on the fulfillment of any conditionality. The second installment is released upon the fulfillment of two conditions – the transfer of the state government share to the state society and progress in expenditure and quality of implementation.

Analysis of the timing of fund releases by GOI and state governments in the PAISA states suggests that GOI usually releases the first tranche of about 25%-30% funds in May/ June. The first installment of the state government share is transferred in the second quarter. The quantum of money transferred by state governments' varies across states. In 2012-13, Madhya Pradesh transferred 88% of its total releases to the state society by the end of the second quarter of the financial year. Maharashtra, on the other hand, had only transferred 26%.

Moreover, there is little correlation between the quantum of money transferred by GOI and the amount transferred by state governments, adding to the unpredictability in the timing of fund disbursals. For instance, in 2012-13, GOI had released roughly the same amount (just over 50%) of its total released funds to Madhya Pradesh and Maharashtra. However, Maharashtra was slower than Madhya Pradesh in releasing its own share to the SSA society. Despite Maharashtra's low releases, GOI released its entire annual share to Maharashtra in the third quarter, whereas Madhya Pradesh was given a lump sum of 41% of its annual share in the last quarter of the financial year.

2.2.3 School level fund flows

2.2.3.1 School grants

Through the PAISA survey, we traced the receipt and allocation of grants at the school level. The school level experience reflects the same anomalies described at the state and central level.

Moreover, like all centrally sponsored schemes, in SSA, releases from one administrative unit to the next are reported as expenditure making it impossible to track actual school level expenditure in real time. Consequently bottlenecks to expenditure are rarely identified and problems in accessing funds in one financial year simply continue on to the next year.

The PAISA surveys highlight two problems with annual school grants. First, many schools do not receive this money, annually. On average, 73% schools reported receiving all three school grants in 2012-13. Second, when these grants are transferred, the transfer occurs halfway through the school year. School grants are meant to support daily expenditure needs in schools. Thus they ought to reach schools at the start of the school year in order to ensure that schools function smoothly. Data collected from the PAISA survey suggests schools can expect to receive their grants any time between May to December of the school year (with some variation across districts).

Part of the reason for these delays is the lack of co-ordination between the education administration and banks. Analysis of district fund releases for 2012-13 across PAISA districts suggests that while districts issue the fund transfer orders somewhere between May and July, it can take anywhere between 2 to 6 months for banks to transfer money in to school accounts. Investigations in to the causes of these delays reveal a number of process inefficiencies. These include: misreporting of school bank account numbers, limited co-ordination with local banks, and lack of information among headmasters on the timing of grant receipts.

In terms of expenditure, delays have meant that schools either function without essential supplies until money arrives or enterprising headmasters use funds from other budget heads or their own money to make up the gap and “adjust” accounts once funds arrive. But for the most part, schools just wait. And when money finally arrives spending pressures to meet paper work requirements kick in and schools’ headmasters spend without any consideration to school needs. Infact, over the years the PAISA survey has met enterprising headmasters who have used their grants to buy fire extinguishers for schools that are yet to receive their building allowance; for desks and chairs when they already have them and to white wash walls when the walls looked perfectly well maintained!. The PAISA national survey reports that more than 60% schools in India white wash their walls annually!

2.2.3.1 Civil works

In addition to school grants, the PAISA survey also tracked the flow and expenditure of civil work monies at the school level. The survey found that actual disbursements of funds from the district to schools is ad hoc making it impossible to map the receipt of money in the school bank account to the financial year in which monies where allocated.

The survey also found that money tends to be parked in school bank accounts for long periods of time. Once funds arrive, it can take anywhere between one and 6 months for construction work to start. Work completion can take another 12 months. The rules, however, require that works be completed within 2 months of funds arriving in school accounts.

These delays are yet another symptom of poor planning. Starting construction work can take a long time owing to cumbersome procedures (getting works sanctioned, going through the procurement and tendering process, getting completion certificates etc.) involved in spending infrastructure monies. At the same time, schools face many local level constraints ranging from difficulties in getting labour for the rates set by government to problems with purchasing materials. However, because plans and budgets are made annually and without any consideration of expenditure patterns or needs at the school level, allocations for civil works often have little bearing on the schools ability to spend.

Worse there is no mechanism for school level needs and demands to be reflected in the district plan process. This is highlighted through the PAISA survey. The survey asked headmasters whether they had assessed their needs and "placed" requests for construction works being undertaken in their schools to higher authorities. On average a mere 17% schools asked for classrooms, 26% for boundary walls and 14% for girls toilets. And given the system's limited capacity to respond to requests, the probability of receiving money when demand is placed is also very variable. In Kangra, there was a 50% probability of receiving money when a request is placed while in Nalanda the likelihood was very low. These gaps in planning and budgeting result in a large amount of unspent money parked in school accounts across the country.

8. For a detailed analysis see "Pritchett, L and Aiyar, Y. " Economic Cost and Accounting Cost in Government Provided Schools: Concepts with estimates for private schooling in India" (forthcoming) – Accountability Initiative and Centre for Global Development working paper series

2.3 Planning, budgeting and decision-making de-linked from outcomes

Finally, and perhaps most importantly, the PAISA surveys highlight the fact that there is no clear link between outlays, expenditure and learning outcomes.

Between 2007-08 and 2012-13, India's EE budget had more than doubled from Rs. 68,503 crore to Rs. 1,47,059 crore. However, every single research study (including large surveys like PAISA and ASER) points out that learning levels have been remained low, and in recent years worsened. This is particularly striking in the context of the relatively low costs and high results achieved in the private sector. Calculations by PAISA estimate the median cost of private schools in 2011-12 was Rs. 5,961 compared with Rs. 14,615 in the same year. Yet, according to ASER data, learning levels on basic reading and math among children in government schools is 15 percentage points lower than in private schools[8]. Studies by PAISA researchers on the effects of outlays on learning outcomes suggest that there is no correlation between increased allocations and learning outcomes in states. Using state budget data and ASER outcomes data for 2010-11, this study found that an increase of Rs. 10,000 in per-student allocation increased the proportion of students in Standard 3-5, who can read Standard 1 text, by a mere 2 percentage points (roughly a fifth of the magnitude of our estimates), Pritchett and Aiyar argue that given these gaps if, at current costs, government schools were to achieve private schools' learning level outcomes, the GoI would have to spend nearly Rs 232,000 crores.[9] In other words, the excess cost of achieving private learning levels at current public sector costs is 2.78% of GDP!

This is not to suggest that private systems are better. The point of this argument is to highlight the vast gap between costs of delivery and actual outcomes which are in essence a consequence of poor efficiency.

Although there are many factors that influence the quality of education (and these cannot be captured through finances) the widening gap between allocations and learning levels does raise important questions about the design of elementary education financing and whether this is facilitating or obstructing a focus on improving learning outcomes.

9. Dongre, A. and Tewary, V. (2013) "Do Schools Get Their Money?" PAISA National Report, www.accountabilityindia.in

PAISA analysis of the government planning and budgeting system suggests that in the current architecture, SSA financing incentivises the provision of infrastructure over improvement of outcomes. This is evident in three ways. First, in the nature of resource prioritisation. PAISA analysis of the SSA budget finds that nearly 76% of the budget in 2013-14 was allocated to inputs – teacher salaries and infrastructure activities. Tying resources to infrastructure inputs inevitably creates incentives among implementing officials to focus on meeting input specific targets, rather than outcomes. This is exacerbated by the fact that accountability systems for teachers are weak, resulting in high absenteeism and poor quality teaching.

Second, the planning processes. The planning and budgeting system in SSA is based on data collected through DISE. DISE only collects information on schooling inputs. Thus plan targets are set based on school inputs rather than learning outcomes. Again incentivising the system to focus on schooling rather than learning.

Third, measurement. As mentioned, DISE only collects information on schooling inputs. There is no systematic, regular effort by the government to measure learning outcomes, annually aligned with the planning cycle. And since what gets measured is what gets done, the entire education administration primarily focuses on improving its performance against schooling rather than learning improvements. Further entrenching a plan and budget system based on outputs rather than inputs.

In 2012 the GOI, through the 12th FYP five year plan and subsequent documents prepared by the MHRD, took a significant step forward in the direction of focussing on learning outcomes by explicitly stating improved learning goals as the primary objective of India's EE system. However, these statements have not been met by complementary changes in the planning and budgeting system. Budgets and associated goals continue to concentrate on inputs. And while the 2014-15 PAB does acknowledge the important of learning improvements and assessments, the discussion fell short of defining specific learning related goals and targets. It is important to state here that in August 2014, the MHRD launched a new programme called "Padhe Bharat, Badhe Bharat" with the objective of increasing the focus on learning. We discuss this program and its potential to address the learning challenge later in this note.

This continued reliance on planning and budgeting instruments designed to focus on a one-size-fits-all, infrastructure-focussed delivery system is a serious constraint. Changing policy goals without reforming instruments may result in spending money on the wrong problem and losing the opportunity afforded by the policy shift to resolve the real crisis that India's education system faces today – that of ensuring that schooling leads to learning.

3. SOLUTIONS: REFORMING ELEMENTARY EDUCATION FINANCING

Before engaging in a discussion on solutions, it is important to emphasise that the PAISA studies highlight two challenges to reforming education financing. The first is a design challenge and relates to building the appropriate financing structure that can incentivise a focus on learning. The second is an implementation challenge that relates to building appropriate processes and mechanisms within the financial management system that would ensure: a) alignment between school needs, plans and budgets through improved planning and b) smooth fund flows so that the right levels of administration have access to resources when they need it.

The implementation challenge can be resolved through minor policy changes in the current SSA financial design and using IT-based solutions to build an appropriate financial management system that would enable smooth flow of funds to schools. The first set of solutions we propose focus on these two issues.

However, improvements in implementation, while making the current system more efficient are unlikely to address the more serious concern of the links between increased outlays and improved outcomes. It is our contention that addressing the design challenge would require a radical restructuring of the EE financing system. We, thus, propose a second set of solutions that builds an alternative, performance-based financing model that would be supported through an improved financial management system.

3.1 Improving implementation

3.1.1 Strengthening the district planning processes

Provide an untied block grant for meeting infrastructure norms at the district level. Since RTE infrastructure norms are expected to be met within a set time-frame, all districts should be required to make a three-year estimation of funds needed. This estimation could then be used to provide an

annual, RTE block grant to the district to meet RTE norms. The district plan process should focus on prioritising specific activities, identified based on school priorities (discussed below), ability to spend and needs assessment through DISE for which schools receive funds.

This would strengthen the districts' incentives and capability to plan in three ways a) districts will be able to better estimate their annual budget envelope and make realistic plans, b) plans will be based on an assessment of school priorities, and c) districts will be "forced" to determine district specific priorities and thus, will automatically begin to take the annual plan process more seriously.

However, for plans to be meaningful, they must be aligned to school priorities. One way of achieving this alignment is to link school priorities with DISE by creating an extra field in DISE that records school-based infrastructure priorities. Since DISE data is collected directly from schools by the education administration, this school level prioritisation exercise can easily be incorporated in to the data collection process at no extra cost to the administration. It should be made mandatory for districts to allocate resources to schools based on these priorities.

3.1.2 Improving school level planning

While the school level prioritisation process will make the school plan process more meaningful by linking plans to financial resources another important way of strengthening school planning is to change the mechanisms through which school grants are transferred. This can be done by tweaking the SSA financial rules to provide untied block grants to SMCs. The district could identify broad areas of expenditure (eg. infrastructure, maintenance, teaching material) but schools must be given the flexibility to spend on activities prioritised by them. To ensure that schools receive money as per their needs, the current formula-based approach for determining the quantum of school grants should be modified in to a flexible, per-child based allocation.

The need for freeing school grants from the current norm-based approach has been well recognised. In 2011, the MHRD's Joint Review Mission (the MHRDs monitoring committee for SSA) recommended that the government move away from the current system which they described as a 'one size fits all' method of determining grant allocations to a system that "...reflect(s) the student strength of the school rather than providing the same grant for all schools, a scale or "slab" system could be devised

10. MHRD (2011): 14th Joint Review Mission http://ssa.nic.in/monitoring/joint-review-mission-ssa-1/joint-review-mission-ssa
11. The idea of building an EIN to facilitate just-in-time payments is not new. Several commissions have proposed this idea (including the Technology Advisory Group for Unique Projects report tabled in 2012). We draw on these proposals to tailor a model for building an EIN for SSA. Similar systems have been in operation in other programs, notably the E-FMS system being used in MGNREGA. SSA is well-placed to adopt such a system for two reasons. First, given the nature of SSA, the quantum of payments is relatively few (compared with MGNREGA that deals with direct payments to wage seekers every 15 days). Second, SSA already has a very robust MIS system in the form of DISE which designed unique IDs for every single school in India. This MIS can very easily be leveraged to create an EIN.

which would provide larger school grants for larger schools."[10]

3.2 Smoothen fund flows

The PAISA study highlights that the entire expenditure management system is riddled with process related bottlenecks which result in delays in fund flows and large, unaccounted for unspent balances. To address this problem, we propose that MHRD move towards building a just-in-time system for expenditure management so that expenditure units (i.e., schools, district level SSA missions, state level SSA societies and departments) can receive funds directly in their accounts, on a needs basis. This will eliminate the delays caused in transferring money across different levels of government, reduce the quantum of unutilised funds that are currently parked in bank accounts across the delivery chain and ensure greater transparency by enabling regular, real-time tracking of funds.

To build a just-in-time transfer system, an Expenditure Information Network (EIN) can be set up, which functions as a fund allocation, release and monitoring system. This will bring all fund allocating agencies (i.e. GOI and state) and all expenditure incurring agencies (schools, blocks, districts and state level entities) onto one single IT-based platform. Each implementing agency (state, district, DIET, block and school) will be given a unique institutional identity code. The current CPSMS could evolve into the future EIN.[11]

The details of the proposal are as follows:

3.2.1 Building the basic infrastructure for the EIN

- Create a mechanism for making GOI and the state SSA account inter-operable. One means of doing this is to link the CPSMS with the state treasury and thereby, with the treasury account for SSA (as has already been recommended by several committee reports). This would enable the creation of an automated mechanism of fund transfer from GOI and the state treasury in to the SSA account, once the PAB has been approved.[12] To reduce unpredictability in fund flows GOI and states could enter in to an agreement whereby once the GOI releases funds, an automatic trigger would be enabled to facilitate immediate transfer of the requisite amount from the state treasury. The EIN will be maintained on a central server and linked to state and district servers.

- All agencies that directly spend money (i.e. districts, blocks and schools) should have access to

12. This point presumes that the finance ministry directive to transfer CSS funds directly to the state treasury account and, over time, eliminate the society bank account is going to be implemented. However, this does not preclude the implementation of this model even if the state society account continues to operate.

the EIN with appropriate access controls based on their unique institutional identity code. These agencies will thus be able to view the funds sanctioned to them and also update their status of utilisation of funds on a 'virtual account' created for them on the EIN.

- DISE has developed unique codes for every elementary school in India. This code can automatically be used for designing the EIN.

- The process of developing unique codes for implementing agencies other than schools can also be used to identify entities that are merely intermediaries in fiscal transfers (the districts, for instance, in the case of school grants and civil works), and whose intermediation can create unnecessary bottlenecks and delays in the fiscal transfer system between the state and the school. These intermediaries can be removed from the transfer system by making suitable changes in the financial guidelines.

- Similarly, MHRD, state departments, and managing entities (such as SSA societies, if they continue) can be linked to the EIN. This will ensure that relevant authorities can authorise releases and monitor fund flow status and expenditure through near real-time availability of information about all entities and programmes. CPSMS has the capability to enable this process.

3.2.3 The working of the EIN: An illustrative example

- Once an EIN is set up, payments can be handled through a 'just-in-time' system that allows funds to be transferred directly from the state consolidated fund to the final expenditure incurring entities, based on the preconditions for release being met. To illustrate how this process will work, below is a work flow for the transfer of civil works money to schools (the largest funds that schools receive directly).

- In the current system, funds for civil works are transferred from the district to school bank accounts. In several instances, spending pressures result in funds being transferred in advance of technical and land-related clearances being approved. In a just-in-time system, the funds will remain with the GOI and the state government and will be released only when

the clearances are received.

- The first step to starting a civil work will be intimation from the district via SMS to the school headmaster of a budgetary approval. On receiving this intimation, the school will then initiate the process of getting clearances. Once the clearances have been approved, the headmaster will send a payment request to SSA for the first tranche on the EIN, by posting details on its 'virtual account'.

- To ensure accountability, the payment request could include a requirement of uploading paper work such as the approved sanction report, work estimates, a photo of the land where the building will be located and so on.

- Once the relevant documents have been uploaded, the district authority empowered to approve payment can give clearance to the request online.

- Every day, the central EIN server will undertake a sweep of the EIN system to ascertain how many approved payment requests have been received from schools across the country. The Pay and Accounts Offices of central ministries (PAO) should be able to view the payment authorisations marked in EIN and release funds to spending agencies. On that basis, it will automatically transfer funds meant for each school, into the consolidated fund of the state, indicating the unique ID of each school to which payment is released.

- The deposit of central funds into the state consolidated fund will, in turn, trigger the release of the proportionate state share. The central and state shares will then be automatically transferred into the bank accounts of the school.

- Similarly, the second and final installments for civil works can also be paid using the same system. Once the construction activity is completed, the HM can upload the photograph along with the completion certificate to the virtual account. This, in turn, will trigger the process for the release of the final installment directly in to the school account.

While this illustrative example focusses on civil works, the same system can be used to transfer school grants to school accounts at the start of the school year as well as for entitlement programmes

13. In Bihar, to reduce unspent balances in civil works, in 2013-14, no new money was approved to districts for civil works. As a result, districts across the state had to wait for ALL districts to utilise their civil works funds before receiving any new funds.

like scholarships, uniforms and transport allowances.

The advantages of a just-in-time system described above, operating through an EIN, are as follows:

- Since payments are made every day, the problem of lumpy releases will be solved. Daily payments will ensure that GOI and states do not feel the fiscal stress, as the demands made on them to release their respective shares is also not lumpy.

- From the perspective of a school as of now, there is no reward for efficient performance. Funds are usually transferred on the basis of district-wise utilisation certificates being submitted to the state. Therefore, a school that has completed its work quickly has to wait till the entire district reaches the trigger level of 60% utilisation for receiving the next installment.[13] In the EIN, each school (or other expenditure entity) will be judged on its own merits and will not suffer the consequences of sluggish performance by its peers. This will provide a huge fiscal incentive for efficient and quick implementation of programmes. The same logic applies to other expenditure agencies as well.

- Once information begins to flow from all entities onto the EIN, real-time data can be easily provided to citizens through a transparency portal. Raw data, that can be machine-read and format neutral can also be provided, thus enabling easy research and analysis.

3.3 The design challenge

Even if the process bottlenecks are resolved, the overarching problem of creating a planning and budgeting system that incentivises a focus on learning outcomes remains. It is our contention (and several other commentators have made a similar argument) that the current SSA system is not capable of supporting an outcome-focussed education system. In other words, funding through the SSA mechanism is likely to widen (rather than bridge) the current gap between outlays and outcomes.

To lay the foundations of an alternative implementation architecture for delivering EE, we propose a design for a performance-based financing system by GOI. This proposal acknowledges that RTE Act norms (for infrastructure and teacher-student ratios), as laid down in the Act are a non-negotiable and all states will necessarily have to meet these norms in the near future (the current deadline of

March 2015 is likely to be extended by at least one more year).

3.3.1 Designing a performance-based financing system

One way of designing a performance-based financing system is through the creation of a three-window financing system. The first window is a block grant to finance states to meet RTE Act norms. The second window is a formula-based untied grant designed specifically to fund state specific proposals to improve learning goals, against learning targets. The third window is a performance-based incentive to be secured by states that show improvements against targets set.

3.3.2 Rationale and quantum

a. RTE Window: At present 76% of the SSA budget is allocated to infrastructure and human resource requirements mandated under RTE Act. On average, states are able to spend between 60%-70% of their total SSA budget. Thus, we surmise that approximately 50% of the current SSA finances are needed to meet RTE Act requirements. We propose, therefore, that the RTE window command 50% of the total SSA budget. As states begin to achieve targets, it is anticipated that their financial requirements will reduce freeing up a larger proportion of funds for funding the untied grant and performance window.

b. Formula-based learning grant: As mentioned, PAISA analysis highlights two critical weaknesses in the current SSA design: 1) excessive centralisation through a tightly controlled line-item specific budgeting system where states have limited flexibility and therefore, ownership over activities, and 2) learning goals are not specified. This proposal addresses these two weaknesses through the mechanism of a formula-based block learning grant that will be allocated to states for learning related activities proposed by the state governments. These programmes will be evaluated against benchmarked learning targets (we discuss this below). We propose that 25% of the SSA budget be allocated specifically for this learning grant. This grant can be financed by consolidating the non-RTE Act related line-items in the current SSA budget such as learning enhancement programme, training, innovation and so on.

   This proposal is a departure from current efforts at developing “learning” specific interventions (including the recently launched “Padhe Bharat, Badhe Bharat” programme because it moves away

from a system which privileges central control over the design of programmes by giving states the freedom to determine their learning pathways. It also incentivises states to fulfill goals because it is linked to a performance grant (described below).

Over time, as states meet their RTE infrastructure requirements, the RTE window should be merged with the learning window to create a single window block grant transfer to states. The design principles of this grant will follow the same principles applied in case of the learning grant. As the financial requirements reduce (once RTE Act infrastructure norms are met), the total untied window should reduce to 50% of the budget and the performance incentive should be enhanced to 50%.

c. Performance incentive: To incentivise achievement against state targets and to send a clear signal through the EE establishment of the importance of learning as the primary goal of government financing, 25% of the SSA budget can be given to states as a performance grant based on achievement against learning targets. The amount to be given can be based on the levels of achievement against targets. For instance, states that have achieved 50% of their target can receive 50% of the total performance grant while states that have met more than 80% of their target can receive the entire grant amount. The specific mechanisms of this performance grant can be designed in two ways:
   - Radical approach: A pure untied grant that will be transferred directly to the state treasury and which the state can use for any activity (including education) that it chooses. To ensure that state governments have adequate resources to meet their education requirements, the funds for this performance grant will be provided by the Ministry of Finance as a top-up to the total SSA budget.
   - Education-focused approach: the performance grant will be financed through the SSA budget and transferred to the state treasury as a specific purpose transfer for EE. However, this will be an untied transfer and state governments' will have autonomy over how they choose to use this money, within the context of EE.

3.3.3 Formula for learning grant

To ensure efficiency and a smooth, timely transfer of funds, it is critical that the inter-governmental

14. The RTE Act mandates that all states declare their recurring per-child costs. This is to be the basis of reimbursements to private schools that admit children under section 12 of the Act.

transfer system be based on a simple, non-discretionary formula. We thus propose that the formula for determining the allocation for the learning grant be determined on a per-child basis. The per-child allocation can be based on the costs declared by state governments, in conformity with the RTE rules[14]. To ensure equalisation, the median per-child cost will be calculated and will be used as the baseline for calibrating state transfers. However, it is likely that the amount per state will exceed the 25% limit of the EE budget. Thus, states will receive a percentage of the median so that all states can receive grants within the limits set by the allocated budget. This will ensure that states have a prior knowledge of how much they can expect to receive from GOI and make realistic plans.

3.3.4 Learning targets and measurement

The two tricky issues in designing a performance-based financing system is identifying the processes through which targets are set and ensuring effective measurement. A performance system will not work if targets are set in a manner that sets the bar too low or too high for states. Moreover, performance needs to be measured regularly and objectively.

There are two possible approaches to target-setting. One approach could be to empower states to set goals and targets as they see appropriate to their particular contexts. This has the advantage of ensuring state buy-in and ownership over targets. Moreover, it will ensure that states arrive at realistic plans that are relevant to their contexts. However, the fact that money is tied to targets could result in the setting of subjective, low-stake targets. Further, in the absence of any objective national benchmarks, it might be difficult to gauge performance across states and create competition for improvement.

A second alternative could be for GOI to develop a set of learning indices for each age-grade against which state performance can be benchmarked and measured. These indices could be devised by an expert panel that includes educationists and administrators.

The issue of measurement is trickier. The mechanisms of measurement – particularly what to measure, where to measure and how frequently to measure – has been the subject of much debate amongst educationists in recent years. The push toward a performance-based financing system will

create the necessary momentum for MHRD to resolve some of these vexed issues and build a robust measurement system. Key expert bodies like Central Advisory Board of Education (CABE) could be the appropriate platform for these discussions. In addition, since 2013, state governments have begun undertaking state level learning assessments. The state specific experiences with conducting these assessments could be the starting point of addressing these complex questions. On the issue who measures, the MHRD could draw on the experiences in the health sector where the Ministry of Health and Family Welfare has engaged third parties to undertake large scale surveys such as the National Family Health Survey and the District Level Household Survey. The MHRD could adopt a similar strategy and engage third parties to undertake regular assessments in states.

3.3.4 Co-operative planning and the role of MHRD

In the current architecture, the final decision-making authority on the SSA budget is the PAB. As discussed, the PAB process skews the negotiation between GOI and states in favor of GOI priorities in a manner that constrains state flexibility and reduces the effectiveness of the planning process. If these anomalies are to be addressed in the performance-based financing system, it is important that the dynamics of the plan process move away from the current hierarchical system to one of partnership, support, collaboration and complementarily. In effect, the block grant formula for allocations to state enables this shift as, under this proposal, GOI will no longer be required to negotiate line-item budgets for a bulk of SSA financing. However, GOI can use its control over the purse strings to tweak the PAB negotiations such that it engages with states on technical aspects of their proposals both in terms of the targets to be achieved at the actual activities proposed. In addition, the PAB can be used as a check and balance against the state gaming the system. For instance, GOI can use the PAB to undertake a state level peer review of achievements recorded against targets. In essence, under this proposal, the role of MHRD will undergo a radical shift from designing programmes and controlling budgets to that of being a “regulator” that oversees finances, incentivises state action, builds knowledge, undertakes assessments and supports state governments.

3.3.4 Transparency

Transparency is a critical feature of any effective, robust fiscal transfer system. To ensure that plans are realistic and implementable, sub-national governments need to have relevant information about

their entitlements along with the certainty that these entitlements will be paid out to them in full. Moreover, transparency is essential to curb discretion. By its very design, this proposal can ensure that information on the quantum of transfers can be provided to state governments prior to planning. First, as mentioned, state governments can develop a three-year projection of finances needed for the RTE window and will thus, be able to approximate their annual entitlement through the RTE window. Second, the per-child cost formula for the learning grant is based on information that all state governments are expected to declare publicly. This will ensure that the criterion for determining the state share of the learning grant is based on objective, transparent criterion and state governments will be able to forecast their individual entitlements at the start of the annual planning cycle. The issue of transparency in fund flows will need to be addressed separately by building apublicly accessible real-time MIS that tracks fund flows across levels of government.

To conclude, EE policy in India is undergoing an important transition. The policy shift towards learning outcomes initiated by the 12th FYP affords a critical opportunity to address the widening gap between outlays and outcomes. However, the extent to which this opportunity will be realised depends on crucial reforms in the design and architecture of the delivery system. The key guiding principle of this re-design ought to be an incentive structure that rewards performance and ensures that the entire education administration is targetting, measuring and talking about learning. In the absence of these reforms, this policy shift may well end up being a real lost opportunity for India.

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ANNEXE 1: PAISA METHODOLOGY

Budget Analysis

GOI & State Level Analysis

The first step in the analysis was to calculate the total elementary education budget. There are two main sources of information to calculate total budget for elementary education at the national and state level: a) State Budgets and, b) the Approved Annual Plan and Budget (AWP&B) for Sarva Shiksha Abhiyan (SSA).

State budgets

Budgetary Allocation

Data related to elementary education was collected manually from state budget documents. Since more than one line department finances elementary education, this requires collating data from multiple departments such as the Tribal Welfare, Welfare of Scheduled Castes, Planning Department and so on.

The total elementary education expenditure in the state budget, includes the state allocation and expenditure for SSA. However, it does not include funds released by GOI. Total SSA expenditure (GOI and state share) is only available on the scheme website. In order to avoid double counting, the state share of SSA was netted out of the state budgets for elementary education.

The next step entailed calculating the total expenditure incurred under SSA. Total SSA expenditure (GOI and state share) was collected from Annual Work Plan &Budget (AWP&B) documents and Project Approval Board (PAB) minutes, available on the SSA portal[1]. Since PAB minutes are revised frequently through the year, to obtain the most updated figures for a particular year, we used the PAB minutes for the next year. For instance, PAB 2013-14 has been used to obtain 2012-13 figures for expenditures. It is important to note that for some states, since the PAB meetings occur before the end of the financial year, the expenditure figures may be actual expenditure till January and then anticipated for February and March[2]. Where information was not available on either the scheme or State specific websites, Right to Information (RTI) applications were filed to obtain the necessary information.

Per student expenditures were derived by dividing total expenditures by total enrolment in elementary sections (Sections I-VIII) in government schools[3]. Total enrolment was obtained from DISE State Report Cards.

1. www.ssa.nic.in
2. An alternative methodology can be collating total elementary education expenditure from the state budget and simply adding the GOI release for SSA. This would be a simpler method as it would not require netting out state share of SSA from the state budgets. However, the current methodology is a more precise estimate. SSA has a significant degree of underspending. As a result, not all GOI releases are spent. Thus, adding GOI releases could be a slight overestimate of elementary education expenditure.
3. It is important to note that while expenditure on elementary education may include expenditure on out of school children(OOSC), we have not included OOSC in calculating the total per student expenditures. This however should not make a significant difference as expenditure on mainstreaming OOSC is very small proportion of total EE expenditure.

District Level Analysis

The district receives funds from two sources. First, funds flowing from the state treasury . These funds arrive directly in bank accounts of designated officers at the district level (known as Drawing and Disbursing Officers (DDOs)) and second, SSA funds. These funds arrive at the district through the State SSA society.

In order to estimate total per-student allocation for elementary education at the district level, two methodologies were used. First, in states where the treasury system is computerized - Andhra Pradesh and Himachal Pradesh - PAISA accessed data directly from the treasury accounts. The total district wise allocations under the treasury route were then added to SSA allocations for the district obtained from the PAB minutes or Monthly Expenditure Statements to ascertain the total elementary education budget and expenditure for the district. Per-student allocations were calculated using the number of students enrolled in Government Management schools available from DISE District Report Cards for 2009-10 till 2011-12[4].

In states where treasury accounts was unavailable, district budgets where estimated on the basis of the proportion of schools, teachers and students in the district compared to the state. For instance, if Rs. 4000 crore were allocated for teacher salaries at the state level and the district has 5% of the total teachers in the State, the district estimation for teacher related inputs will be 5% of 4000, i.e. Rs. 200 crore. Creating district estimates required accessing data on district and state proportions has been obtained from the District Information Systems for Education (DISE) State and District Report Cards from 2009-10 till 2011-12.

Fund flows

Analysis of fund flows in PAISA is limited to SSA. There are two main reasons for this. First, treasury allocations to the district are harder to access as there are no district level budget allocations. Second, funds arriving through the treasury are primarily teacher salaries and thus their arrival is fairly predictable.

In-depth analysis was undertaken for the flow of funds under SSA. The primary sources for this exercise was the monthly physical and financial progress reports, and monthly expenditure statements which provides information on activity-wise physical (outputs) as well as financial progress (expenditure) achieved on a monthly basis. These were collected from the District Offices of SSA, and were used to calculate both the allocations, total expenditures as well as the month-wise expenditures. In addition, utilization certificates (UCs) were used to obtain data on the most updated

4. District Report Cards were only available till 2011-12 at the time of preparation of the report.

expenditure incurred by the district.

These documents were not available for Medak District, Andhra Pradesh, for 2009-10 and 2010-11.

School Survey

The school-level analysis is based on two rounds of field surveys conducted by Accountability Initiative. 142 to 148 schools were selected randomly from rural areas in each of the eight PAISA districts[5]. The sampling frame was the list of schools given in DISE 2009-10. 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 sampled schools were surveyed twice - first during May to August 2011, and then during July-September 2013.

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 infrastructure activities carried out, as well as details about the grants received were collected for the two financial years, 2009-10 and 2010-11 in the first round, and 2011-12 and 2012-13 in the second round.[6] The survey questionnaire was finalized after extensive pilot surveys.

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 UCs. 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).

5. 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%.
6. Every effort was made to visit the same school in the second round as well. In instances where the schools were shut down due to reduced enrollment, they were replaced with randomly selected schools in the same block.

ANNEXE 2

To identify the budgetary allocations PAISA clubbed different budgetary line items together in to the following categories:

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 7% of the total budget.

Teacher: This category pulls together all allocations where monies are expected to be 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 accounted for 72% of the education budget across the 7 states.

Schools: Investments in the provision of school facilities are included in this category. These are infrastructure related allocations like civil works, school maintenance grant and, if available, funds for the building of libraries. Investments in schools account for a significant 15% of the education budget.

Management: This includes all costs related to the administration of elementary education such as allocations for Block Resource Centers, Cluster Resource Centers, management and MIS costs as well as research and evaluation line items. 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.