Who and how should we finance the provision of elementary education in India? The Right to Education Act (RTE) passed in August 2009 has committed the Government of India to the provision of free and compulsory universal education to all of India's children. Now, the issue of financing is one of the central challenges faced by India's policy makers. The focus of the debate is currently on the question of who ought to be the primary financial provider - the state government or the central government? Crucial as this question is, there is a second, and more critical issue that ought to be at the forefront of the financing debate – that of ensuring that the mechanisms and process for effective and efficient expenditure are in place so that these funds are spent in a manner that is transparent and accountable. After all, regardless of the amount of money and where it comes from, the ultimate objective is to ensure that money reaches its ultimate destination and fulfils it explicit purpose.

The RTE has many provisions for ensuring accountability in its delivery including the creation of school management committees (SMC) empowered to make plans and monitor school level expenditures. But as is well known in India, the devil lies in the implementation. How effectively these provisions will work on the ground depends on getting the 'right' design that will ensure accountability and transparency in implementation process. And to get the design right, we need to learn from current experience. What do schools, officials and citizens know about money that flows in and out of the system? Is there sufficient autonomy at the local level for citizen committees to influence decision making? What capacities exist at the local level? Understanding the nature and shape of the pipe is the first step to getting the water to flow through it. To do this, the Accountability Initiative, National Institute of Public Finance and Policy and the ASER Centre came together to implement a project called PAISA to monitor fund flows and build decision making capacities at the local level. The project started with a pilot in Nalanda district in Bihar before it became a part of ASER 2009. This article highlights some of the findings from the PAISA experience.

First principles of public accountability require that expenditures must adequately reflect citizens' interests and priorities. When it comes to basic services, citizens' interests are best captured locally at the point where services are delivered. This means greater local autonomy and discretion particularly in resource allocation.

PAISA found that SSA allows no room for local autonomy. This is ironic given that SSA through its guidelines envisions a bottom up planning process where plans are made at the habitation level through village education committees (or equivalent bodies) and aggregated at the district level, thereby allowing for local autonomy and discretion in resource allocation. In practice however, funds arrive based on norms and guidelines developed nationally with limited flexibility. Consequently, plans have to be made on the basis of norms that do not reflect local priorities and local autonomy is severely constrained.

To illustrate the point, SSA guidelines stipulate the type and quantum of grants that ought to be devolved to the school (see Fig 1 for a pictorial representation of the grants). As the figure highlights, every school receives three grants - School Development Grant (SDG), School Maintenance Grant (SMG) and Teaching Learning Material Grant (TLM). Three other grants – classroom, repair and furniture – are based on demands made through the planning process. However, the quantum of funds received is determined by national norms.

As this description highlights, funds reach schools ‘tied’ to norms and have to be put to specific uses. For instance, TLM grants have to be used for teaching aids in class and SDG is provided specifically to procure items such as chalk, duster, blackboards and other articles used in the classrooms. And if a school wants to spend more on learning materials rather than painting or buy furniture, the norms simply won’t allow it.
A second problem with this ‘tied’ approach to funding is that norms determine the quantum of funds that the schools receive, resulting in a mismatch between school needs and funds received. To illustrate the point, a school with 1,000 students receives just about two and a half times more money than a school that has 100 students. The assumption behind this approach – that all schools need the same inputs for better infrastructure and quality - curbs any space for local discretion and autonomy and therefore local needs are rarely reflected in local expenditures.

Autonomy apart, accountability requires transparency and predictability in fund flows. After all, you need to know how much money is due and when it ought to arrive in order to make plans and hold the system to account. This is one of SSA’s greatest weaknesses. In March 2009, PAISA undertook a survey of a 100 schools in Nalanda, Bihar to understand fund flows in the district. The survey found that majority schools received funds somewhere between the months of December and February (officially, fund receipts ought to be scattered through the financial year so that expenditures match local and time specific needs). Consequently, expenditures are only incurred in the last quarter of the financial year. This last minute rush often results in inefficient and insufficient expenditures – just over 50 percent of the grant funds are spent within the financial year.

The findings at this micro level are reflected in the financial data collected from schools across the country as part of the 2009 ASER survey. ASER findings report that in October 2009, less than 50 percent of the schools reported receiving SSA funds – and October is half way through the school year.

The problem of delayed fund flows is exacerbated by the lack of transparency. Schools and village education committees (or equivalent bodies), and often even block and district officials remain unaware of the processes through which funds arrive at their final destinations and thus are unable to plan effectively or hold the system accountable for delayed and unpredictable fund flows.

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4 For more details see A. Mukherjee and E. Satwalekar “A tale of two schools”, PAISA briefs, Accountability Initiative, August 2009, www.accountabilityindia.org
fund flows. Worse still, in most cases, apart from the headmaster, no other stakeholder has any information on the quantum of funds available or the norms and guidelines that govern their expenditures. In 2008, the Accountability Initiative in partnership with the ASER Centre undertook a rapid assessment of 34 VECs across the country to find that with the exception of the headmaster, none of the members of the VEC had any information on allocations and grants received in schools.

This lack of information is a consequence of two factors. First, very little has been done by the higher tiers of government to train local officials and stakeholders particularly village education committees. Consequently, their access to information on key elements of education delivery and particularly resource allocation is extremely limited. Second, and perhaps more importantly, there are very few incentives within the system to collect and disseminate ‘real time’ information on fund flows and expenditures in the course of the financial year. As a result, there simply is no regular available information on fund flows as funds travel from the centre to the schools and delays and leakages proliferate, unchecked.

Information is widely recognized as a necessary condition for accountability. Information ensures that plans are made effectively to reflect local needs, that fund flows and expenditures are monitored and inefficiencies addressed. Information enables citizens to monitor government performance and hold the system to account. The information failures in SSA have seriously compromised accountability.

As the experience with SSA amply demonstrates, accountability and transparency require an implementation design that ensures a high degree of local autonomy so that resource allocations match local needs and priorities. This must be accompanied by a system where information on fund flows and expenditures is collected regularly and reliably. Information should be disseminated widely so that implementation can be monitored and citizens have the tools necessary to demand accountability. To create such a system, processes need to be designed such that incentives are built in for regular information collection.

Education policy in India today is at a crossroads. There is a clear consensus that improved education outcomes hold the key to India's future and the passage of the RTE stands testimony to this. Now as bureaucrats take to their drawing boards to develop rules and guidelines for the implementation of the RTE and as the issue of financial provisioning gets debated, the focus must shift to getting the design right. Only then will the RTE achieve its potential.