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# Status of PRI Finances in West Bengal Final Report

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June 2011

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Sally Wallace

Georgia State University

ANDREW YOUNG SCHOOL
OF POLICY STUDIES

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# Status of PRI Finances in West Bengal Final Report

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**June 2011**

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# *Status of PRI Finances in West Bengal Final Report*

**Sally Wallace**[1]

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# Task I: Status of PRI Finances in West Bengal Final Report

## Introduction

*Overview of the current system of local finance*

Rural government decentralization in West Bengal has been a focus of the state government since the state's 1973 Panchayat Act. The three-tiered Panchayat Raj (PRI) system provides a role for governance at the district, block, and gram panchayat levels. The Government of West Bengal (GOWB) has been providing support and assistance to the PRIs to improve service delivery and governance. To date, the perceived problems related to the PRIs include a lack of fiscal decentralization to the PRIs, a lack of untied and own source revenues and expenditure authority, limited capacity especially at the GP level for meeting public service demands, lack of modernization and computerization of budgets, expenditures, and receipts, and poor service delivery, In the GOWB's endeavor to support further decentralization, DFID provides technical support to the GOWB through the program, Strengthening Rural Development (SRD). The World Bank will provide similar support for improved PRI service delivery and governance to the GOWB.

The next round of support for the PRIs in West Bengal will focus on a new or revised grant system to promote a "better functioning GP system in the state" and "improved institutional performance by targeted GPs". DFID and the World Bank commissioned a series of studies to analyze the fiscal situation of the PRIs in West Bengal and develop a proposal for a new grant system. This report for Task I provides an update on the status of PRI finances in West Bengal with a focus on the gram panchayat level. Information presented in this report is complementary to information presented in the reports for Task II (an assessment of the current state of financial management and capacity of the PRIs and an assessment of PRI financial management reforms) and Task III (design of a fiscal transfer that will support the financing needs while also incentivizing the GPs to increase their service delivery and overall performance management), with some overlap among the three reports.

The scope of this task did not call for a full updating and analysis of the fiscal situation of all GPs. Instead, case studies of nine GPs, one block, and one district are used to provide up to date information on the finances of the PRIs in West Bengal, with a focus on the GPs. Data from the PRDD are used to update the status of expenditures, revenues, opening and closing balances for all districts, blocks, and GPs. The first field visits were made in July and the second were made in September, 2009. In September, we also received financial reporting forms for 15 additional GPs from the PRDD in electronic format.

The status of GP finances has not changed markedly since the 2007 Government of West Bengal (World Bank commissioned) study on PRI finances and Williamson's 2008 report. The PRIs are still focused on executing central and state sponsored schemes and most of the resources flowing to the PRIs are related to these schemes. The total level of expenditure made in the rural sector is small (on the order of 17 percent of total state, urban, and rural expenditures, GOWB, 2007).[2] Discretionary expenditures are even smaller. Own source revenues show some signs of increase since the 2007 GOWB analysis, but on a per capita level, in 2007-08, there were still less than 11 rupees per capita (GOWB, 2009).[3]

Expenditure responsibilities have been partially devolved so that, for many expenditures, the district, block, and GP have some shared responsibility associated with numerous expenditure functions, but no tier of the PRIs have clear or exclusive authority over a functional category of expenditure. The line ministries of the state continue to make a large share of expenditures, but the exact level is difficult to determine. A recent accounting change has opened "windows" in the state budget to help track the level of line ministry expenditures. The "windows" refer to state expenditures at the substate level, which are parallel to the PRI system. For example, in the department of health, the window refers to the expenditures through district health offices, which are state employees and not part of the *Zilla Parishad.* This accounting does not change practices or expenditures through the PRI system, but will provide information on the actual level of line ministry expenditures within the PRIs for five functional categories. The main expenditure functions of the GPs are categorized as capital expenditures, but in practice, most expenditures are made for maintenance. The total level of expenditures made at the GP level is small—on average 319 rupees per person in 2007-08. However, this level has more than doubled since 2005. Most of these expenditures (approximately 80 percent) remain non-discretionary. Two main issues in the PRI system in this area are the lack of clarity in expenditure assignments and the lack of autonomy in expenditure decisions.

Revenues of the PRIs are driven by schemes and grants from the central and state governments. In 2007-08, central and state schemes and grants accounted for 96.6 percent of PRI revenue—up slightly from 2005 (95.2 percent) due to increased transfers. Untied revenue—revenue from unconditional grants and own sources—was 18.9 percent in 2007-08. If the Backward Region Fund Grant (BRFG) is categorized as an untied revenue source, untied revenue increases to 28.6 percent of total revenue. In 2007-08, the total revenues of the PRI was 3,342 crore, approximately 514 rupees per person. At the GP level, the average level of revenue per person was approximately 336 rupees. About 20 percent of those revenues are for discretionary use. Two main issues in the PRI system in the area of revenue assignments are the high level of dependency on transfers (low own revenue effort of local governments) and the predominance of conditional grants over unconditional grants.

The continued growth of central and state sponsored schemes dominates PRI finances in West Bengal. While discretionary revenues (and expenditures) have grown since 2002-03, tied grants and schemes have grown faster than own source revenue and discretionary expenditures. This pattern suggests that attempts to improve service delivery within the PRIs compete with increased non-discretionary expenditure obligations, perhaps making it difficult for the PRIs to focus on discretionary public expenditures. Still, in interviews

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[2] The population of the rural sector is about 72 percent of total population (GOWB, 2007).

[3] Per capita gross state product at the district level ranges from 868 to 1,562 rupees per person in 2005.

with PRI officials, they expressed specific additional needs in the areas of water supply, ground water management, health (clinics), and education (textbooks and repairs to school buildings). All GPs interviewed were confident in their abilities to determine local needs and provide additional services. Two main issues in the PRI system in this area are the increasing complexity of the grant systems and the lack of autonomy for local governments.

*Facilitating the design of a new grant program as a goal: different prevalent views*

The review of PRI finances in West Bengal is one component of a number of studies and analyses designed by DFID and the World Bank to provide input regarding a new grant program in West Bengal. The new grant is designed to phase in as the current DFID project (Strengthening Rural Development, SRD) phases out through 2011. The new grant will be coordinated with the current SRD grant program and with the Union's Backward Region Grant Fund (BRGF). States have some discretion customizing this grant, for example, in fine-tuning the formula for intra-state allocation. Based on discussions with the World Bank, DFID, and the Government of West Bengal, the focus of the new grant is developing financial management capacity at the gram panchayat level to increase the efficiency and effectiveness of service delivery. The new grant is not aimed at equalization per se. Given that there are many ways to strengthen financial management with a goal to improving service delivery in the PRI system (focusing on the GP level) different stakeholders have expressed somewhat different visions of what the new grant should look like. In particular, in the PRDD, a vision for the potential WB grant is to achieve four goals within the overarching goal of improved service delivery. Secretary MN Roy stressed the ability of the PRI system to work "as a system" that is not interrupted by politics such as the recent elections. The four goals of the new grant include:

- Enhancing the capacity of the GP staff
- Ensuring continuity of local service provision, despite election cycles
- Improving political institutions at the local level concerning resource allocation
- Addressing issues that are left out from the BRGF due to its conditionalities

The PRDD and SRD staffs expressed concern that in some GPs general socio-economic conditions impede improvements in service provision. These conditions included low revenue capacity, increases in population in some areas, increases in pension population in some districts, and participation of the population in gram sabha and other meetings. PRDD envisions a possible "tiered" structure for the new grant system, with the tiers referring to levels of administrative and/or financial management competency from low to high. There is some concern within PRDD that setting too high a bar in terms of basic competency will exclude GPs with low starting capacity although they might express a "willingness to advance." These are GPs that in PRDD's opinion have shown effort in terms of financial management, computerization, and/or training. This concern can be taken care of through a capacity development program to allow the poorest GPs to be integrated into the grant system.

Based on discussions with the PRDD and field visits to the GPs, one vision of the format of the new grant is to view it as a multi-phase process where GPs could be started in different years. For example, one group could begin Phase I in 2011 and another group could begin Phase II in 2012 (or 2013) and then Phase III groups in 2014 (2015):[4]

- Phase I: A two year phase that is focused on capacity building priorities (financial management and accountability) at the GP level. Benchmarks at this phase might include: an application to the new grant program with a narrative on the current limitations of the GPs to provide service delivery and (self-assessment of sorts regarding where the GP is in terms of service delivery and what it hopes to attain), attendance at PRDD (and/or SRD) sponsored training on financial management (get the list of what they train on), demonstrated consistent use of the 2007 GP Accounts, Audit and Budget Rules, evidence of regular gram sabha meetings (with attendance reported), or absorption of central and state sponsored scheme monies. This phase could include GPs that easily make the benchmarks and those with application statements that articulate their problems in service delivery and needs.

- Phase II: A second two year phase with increased accountability and inclusion of the GUS level. In this phase, the expenditure responsibilities might be expanded beyond the general devolution that exists currently. Benchmarks at this phase might include: a significant increase in the self-assessment score of the GP (15 percent increase, for example), evaluation of impact of projects at the GUS level (the SRD has a monitoring component that could be helpful in this assessment), and growth in own source revenues.

- Phase III: Finally, a third phase of three years that increases the flexibility of the GPs and GUS to provide services and increases ownership by the communities. In this phase, the expenditure responsibilities of the GPs would be further expanded and funds increased, and the GPs would serve as mentors for those GPs not yet in the system.

This type of sequenced processing of the grant system is important, but consensus on the goals and objectives of the grant system is paramount.

[4] Design of the new grant system is the focus of Task III. Discussion is provided here in the context of the field work undertaken for Tasks I and II. Discussions with the World Bank suggested the program could be undertaken in three phases of four years each. Finalization of the grant design is planned for December 2009 in consultations with the PRDD, DFID, and World Bank.

*Organization of this report*

This report for Task I is organized as follows. The report provides an overview of the PRI system in West Bengal. In the third section, information regarding the budget process is presented (which will be covered in greater detail in the report for Task II). The fourth section includes an analysis of PRI expenditures (with a focus at the GP level), providing information regarding mandated and de facto expenditure, and the revenues are treated in the fifth section. Section six provides an analysis of the ability of the GPs to absorb additional funds and section seven presents an analysis of additional expenditure needs and potential impacts of the new grant system and a summary of the impacts of a $1 per capita and $2 per capita simulation follows. The conclusion summarizes initial observations regarding the state of PRI finances in West Bengal, an analysis of the level of truly "discretionary" finance at the GP levels, and some alternatives related to the new grant.

**Overview: Panchayat (PRI) Fiscal System in West Bengal**

The three tiered PRI system in West Bengal consists of 18 zilla parishad (ZP or districts), 341 panchayat samities (PS), and 3,354 gram panchayats (GP). In addition, there is a fourth tier, the gram sansads (GS, village level parliament) and their gram unnayan samities (GUS, village development committees), which are active participants in setting budget priorities and carrying out projects in some GPs.[5] The 2001 Census reports that the rural population was 72.5 percent of the total population of West Bengal, and the projected rural population in 2009 is 65 million people.[6] The average population of a ZP is estimated at over 3.6 million people, for the PS, 190,000, and for the GP the average population is 19,000. Based on interviews in the field and with PRDD officials, the number of GS level bodies per GP range from 5 to 12 with populations on average of between 1,600 and 3,900. This size is too small for effective service delivery of most public services, but this level can provide input into the overall budget development process.[7]

Much of the structure of PRI finance is hierarchical whereby development and reporting on budgeting priorities and expenditure outcomes are done from the GP level up to the block and then to the district. In some districts, there is active participation of the fourth tier—the GS level in the development of budget priority and as a distribution mechanism of the GPs. Figure 1 presents the hierarchical scheme of the PRIs in West Bengal. This is discussed in more detail in following sections. The central and state sponsored scheme

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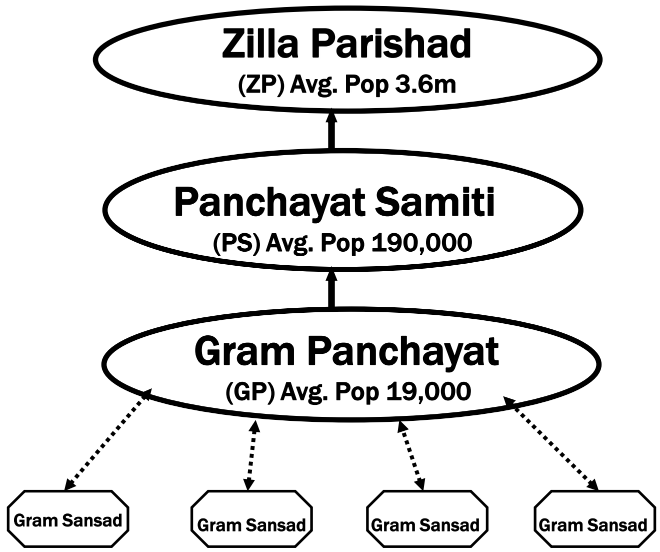
[5] Both GS and GUS are prescribed in the West Bengal Panchayat (Gram Panchayat Administration) Rules, 2004, Part-II, Chapter XI.

[6] Expanding Williamson's projections from 2008.

[7] In fact, most activities at the GUS level are carried out by "self-help" groups and tend to be more private than public in nature. These activities include development of very small business and livelihood activities such as a three-women catering "company" or the purchase of livestock for a specific family.

revenues (the bulk of the PRIs' revenues) flow down from higher levels of government through various channels.

**Figure 1:** System of PRIs in West Bengal




*Source:* PRDD, SRD cell, presentation July 2009; original SRD population figures based on 2001 levels, projected to 2009 levels using an annual average of 1.76 percent population increase.

The PRI system is developed based on the Union Constitution and the 73rd amendment to the Constitution (1993) which allowed for devolution of expenditures in 29 functional areas and set authority for revenue raising powers to local governments. The corresponding West Bengal Panchayat Act amendment focused the decentralization efforts of the state. The Government of West Bengal more recently has published detail on the expenditure responsibilities of the PRIs along 15 functional areas (GOWB 2005). The West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007 (GOWB 2007) is an important handbook for budget preparation, execution, and audit at the GP level.

The budgets at all three levels are driven by the central and state schemes in terms of total revenues and total expenditures. As noted in the GOWB 2007 report, grants and schemes account for 94.3 percent of revenue at the district level, 96.0 percent at the state level, and 93.8 at the GP level and expenditure largely follow these revenue patterns. Central grants and transfers make up the bulk of the total transfers: 87.6 percent of all revenues at the district level are from federal grants and transfers, 80.9 percent at the block level, and 68.8 percent at the GP level. Own fund revenues (and expenditures) are very limited and constitute less than 4 percent of all revenue across the PRIs in 2007-08 (Williamson, 2008). Districts and blocks have no taxing power but can impose various fees. GPs have taxing authority including a land and building tax.

As noted in World Bank (2007), PRI finances are also affected by the recommendations of the State Finance Commission regarding fiscal resources (own source revenues as well as grants). The Third State Finance Commission report includes a call for additional revenue sharing from the state to sub-state governments. The Government of West Bengal, Finance Department (Budget Branch, 2009) submitted their review of the recommendations. Recommendation 8.5 states that the GOWB will increase untied funds flowing to local self-governments to 5 percent of state own net tax revenue—approximately Rs. 800 crore, with annual increases of 12 percent.[8] The GOWB has accepted the recommendation. If the recommendation is enacted, it represents a tripling of untied funds flowing to local self governments in West Bengal. The net impact on the state budget is substantial and there is no indication of the trade-offs that would be necessary at the state level to support such an increase.

While the GOWB has issued strong support for many of the 3rd SFC recommendations to increase revenue mobilization and grant funding for the PRIs, it is unclear how much of the increased sharing will actually happen in the coming years. For example, the report of the Second State Finance Commission (2001) had recommended an untied transfer of 16 percent of net state tax collections to the PRIs and municipalities (distributed on the basis of population shares, this calls for 11.5 percent of net state taxes to transfer to the PRIs and 5.5 percent to the urban bodies). The 16 percent distribution was not justified based on expenditure needs and in fact, in the absence of detailed fiscal data for the PRIs, seems to have been set somewhat arbitrarily (GOWB 2007). The State did not act on this recommendation and instead has set aside untied transfers based on the overall constraints of the state budget. Based on the State's budget report, the State Finance Commission grant allocation was 0.85 percent of net state tax receipts in 2007-08. In 2008-09 the planned distribution was 0.96 percent and the revised estimate was 0.69 percent, and for 2009-2010 the estimated expenditure is 0.83 percent. Based on these figures reported in the State's budget, there has not been much movement in the percent of net state tax revenues allocated to the PRIs. [9]

The recommendations on the vertical transfer of the first two State Finance Committees were made with little reference to expenditure assignments between the state and the PRIs (and municipalities) (GOWB, 2007). It could be the case that the Committee considered the unfulfilled needs of local government in making their recommendation. But good design and practice of transfer design requires to link transfers and revenue assignments to expenditure needs arising from existing and new assignments. In the absence of analysis of the distribution of expenditures and their costs among the levels of government, it is difficult to say what a redistribution of 16 percent of state taxes implies. For example, Williamson (2008) notes that within the context of the overall state budget, the SFC recommended vertical share is possible only if the responsibility, funding and functionaries of major services such as health and primary education were truly devolved to the PRIs.

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[8] Recommendations 8.6 and 8.7 provide for the distribution among local and rural bodies (24 percent and 76 percent respectively); and among rural bodies (of the rural share, 12 percent to districts, 18 percent to blocks and 70 percent to GPs).

[9] http://www.wbfin.nic.in/. Reasons given for the smaller disbursements include pressure to fund additional salary lines (given the new functionaries in the PRI system) and the inability of GPs in particular to use funds. Utilization certificates that certify use of funds are used in some cases to determine the release of additional (remaining) funds.

PRI finances are also affected by other transfers from the state and transfers from the central government. Financing for various schemes flows to the PRIs directly or through the PRDD. These funds include categorical grants and untied funds and are summarized in a section below.

In addition, the fiscal situation of the state government is important to the potential for increased autonomy and accountability of the PRIs. Improvements in financial management and ultimately in service delivery at the PRI level requires stability and predictability in revenue sharing from the state (and through state agencies). Several pieces of information point in the direction of an existing need to strengthen the state finances. West Bengal has been often criticized for not adopting a Fiscal Responsibility and Budget Management (FRBM) Act. The Comptroller and Auditor General reports that the state "lost" 547 crore in debt relief in 2007-08 because it had not passed the FRBM Act (Mint.com and the Wall Street Journal, 2009). The state budget speech notes that introduction of the FRBM would "curtail the welfare role of the state government" (Government of West Bengal, 2009 p. 3).

As reported in the state budget speech for 2008-09 and in the West Bengal Annual Financial Statement 2009-2010, and based on the budget documents for 2009-2010, the revenue deficit has fallen markedly since 1999-2000 when the revenue deficit was 90.95 percent of revenue receipts.[10] The 2007-08 revenue deficit was 27.01 percent and the estimated revenue deficit is 19.14 percent for 2008-09 (Government of West Bengal, 2008 Budget Speech and West Bengal Annual Financial Statement 2008-09 and 209-2010). The fiscal deficit as a share of state domestic product has also fallen from 8.66 percent to 3.75 percent (2007-08) and further to 3.71 (estimated 2009-10).[11] Those gains in financial stability are important as the state looks forward to potentially expanding the amount of untied grants to the PRIs. An often stated detractor on the state budget front is the level of non-discretionary expenditures (salaries, pensions, and interest payments), which are approximately 90 percent of revenue receipts (Government of West Bengal, 2008). Salaries and pensions will continue to put pressure on central and state government finances as larger numbers of the population face retirement age. In one GP, Molandighi, we were told that their expenditures/funds under the National Old Age Pension Scheme (NOAPS) increased eightfold in the last two to three years.[12]

The next sections summarize the budgeting process and current fiscal position of the PRIs in West Bengal and focus on the GP level.

[10] Revenue deficit is the level of revenue expenditures (non-capital expenditures) minus revenue receipts (tax and non-tax revenue).
[11] Fiscal deficit is the difference between total revenues and total expenditures.
[12] The pressure of non-discretionary expenditures was cited by Fitch Ratings India as area of concern regarding the state's credit profile (Economic Times 2009).

**Budgeting, Banking, and Fiscal Management**

In-depth discussions of the budget process, banking and fiscal management system are reported in the report for Task II. Here we provide a brief overview of the issues.

The budget process is detailed in the 2007 GP Accounts, Audit and Budget Handbook. The budget system flows up from the lower tiers of government. In West Bengal, the Gram Unnayan Samity (GUS) is a ward (village) level entity that serves as a spending unit of the GP. The GUS is to be used to inform the GP budget process through meetings of the Gram Sansad. Based on interviews with the GPs, there is not universal use of the GUS to provide inputs into the budget process. GPs use various ways to notify the constituency of the budget process, actual budget, and outcomes associated with the budgets. In the sample GPs interviewed, all GP officials provided information on how they disseminated information. There was a general consistency of this dissemination through printed pamphlets or leaflets.

The GP budgets are sent to the block level not so much for approval of the overall budget but for approval for certain types of expenditures. For example, where GPs receive the BRGF, the block reviews the suggested uses of funds and determines that the uses do not overlap existing schemes. In cases where they do, the GPs are told to adjust the plans. The block budgets are also supplied to the districts for information and not for approval.

Budgeting is annual at all levels and in the field visits conducted for this report, we find that in a majority of cases, the budget forecasts are based on the previous year's budget multiplied by some inflation factor. There is no separate capital and current budget in practice. Although the governments are not technically allowed to run deficits, the 2007 GOWB report demonstrates that at the GP level, deficits exist. For the field work conducted for that report, GPs responded that they ran deficits by posting some expenditures but not actually paying those expenditures (particularly late in the year) or by borrowing from upper level governments, but not posting the receipt of the "loan."

The flow of funds for the PRIs has been a focus of the state, and recent changes have been made to simplify the system and get money to the PRI as efficiently as possible. The physical flow of funds from the center and state to the PRI varies depending on the types of funds. Generally the plan and non-plan grants from the state government and transfers to PS and ZP levels are through Local Fund Account. Funds related to CSS and other funds which flow to the blocks and districts from agencies are operated through specified banks accounts opened for separate schemes.

At the GP level, there is no single account management. The GP opens a separate bank account for each scheme and one for own-source revenue. In addition, each GUS, which is technically a spending unit of the GP, has a separate bank account. All national and state funds are routed through the district and/or block transit account (fund transfer or FT account) because, due to branch network coverage, all GPs cannot have accounts in the same bank. This arrangement also allows districts to play gatekeepers for schemes requiring district-wise utilization triggers.

The audit process is prescribed in the 2007 rules handbook. There is one external audit of the GPs and districts conducted annually and semi-annually for the blocks. Technically, there are also quarterly internal audits within the PRIs, but in field visits, it appears that these do not always occur. Finally, a GP self-assessment is made each year and results are published by the PRDD. The PRDD also provides an incentive grant to GPs that do well and/or have shown significant improvement in the self-assessment. The budget and audit processes are presented in greater detail in the report for Task II.

The interim assessment of the SRD program pointed to a somewhat higher participation in Gram Sansad meetings in SRD districts versus the control group (non-SRD districts) and higher utilization of centrally sponsored schemes. This may reflect more accountability associated with the focus on the GUS and GP levels in the SRD districts.

The next two sections focus on the expenditure and revenue assignments of the PRIs in West Bengal, with a focus on the GPs.

## Expenditures

The GOWB 2005 Activity Map identifies the responsibilities by PRI level for 15 functional areas.[13] The structure of the activity map is found in Table 1 below (reporting two out of seven activities for illustration, Appendix Table A1 includes all seven activities). Based on this activity map, the PRIs are given little authority to set policy regarding expenditures. Instead, the PRIs carry out schemes and perform a hierarchical set of duties for specific activities associated with a particular service delivery. Functions are not assigned primarily to any level of PRIs. The activity map also prescribes the ZP, PS, and GP level official responsible for the particular component of each activity within the 15 areas. As pointed out by the GOWB (2007), Williamson (2008), and others, the resulting expenditure assignment is more a devolution of expenditures than assignment of responsibilities to the PRIs. As a result, much of the PRI expenditure activity is focused on carrying out and reporting on prescribed central and state sponsored schemes.

The de facto expenditure assignment is identified in the distribution of actual expenditures by the PRIs. Based on information from the GOWB (2007), the share of expenditures made by the PRIs from 2002-2005 were quite small—about 17 percent of total expenditures of the state, urban, and rural governments were made by the PRIs.[14] Per capita, as of 2005, urban governments spent three times as much as rural governments (GOWB, 2007).

[13] These are: agriculture and extension works, animal resources, cottage and small scale industries, health and family welfare, forestry, women and child development, food and supplies, fisheries, backward classes welfare, mass education extension (including library services), information and cultural affairs, school education, public health and engineering, water investigation and development, and land/land reforms (GOWB, 2005).

[14] The share of PRI population is approximately 72 percent. Currently, there are no more recent data on urban finances.

Within the rural sector, the distribution of expenditures among the three tiers has remained relatively stable since 2002-03. In 2005, the districts spent on average 156 rupees per person, the blocks, 95 rupees per person and the GPs spent 138 rupees per person. In 2007-08, the GPs expenditures more than doubled to 319 rupees per person.[15]GOWB (2007) reports that within districts, blocks, and GPs there are significant disparities in per capita expenditures. All PRI expenditures range from 231 rupees per capita in Murshidabad district to 726 rupees per capita in Koch Bihar district (in 2005). By level of PRI, among GPs, the variation in expenditures per capita ranged from 14.9 rupees per capita to 1,423 rupees per capita; among blocks the range was 14.7 to 396; and among districts the range was 68.7 to 288 rupees per capita (GOWB, 2007).

A comprehensive statement of PRI expenditures by type is not found in the otherwise quite complete PRDD Annual Report. This makes it difficult to provide updates on the total level of spending among the PRIs and the composition of that spending by function. However, since most spending is tied to the central and state schemes, the composition of expenditures is difficult to separate from the composition of revenues at all levels of the PRI system. The Annual Report provides information on release and expenditure by type of funding for major schemes and grants but does not provide detail on the actual expenditure of untied revenues and some grants (BRFG and SRD grants for example).

Based on the comprehensive data presented in GOWB (2007), districts spend 85 percent of their budget for capital expenditures while the share for blocks and GPs is about 60 percent (see Table 2). However, as noted in GOWB (2007), the capital assets provided by the PRIs are more often public works projects and employment schemes so that expenditures are more akin to current expenditures. This use of funds was borne out again in the field visits conducted for this report. In a few cases, GPs reported producing buildings and long-lived assets but these were reportedly produced using own fund revenue and not revenue from the larger schemes.

There is a specialization of expenditure patterns among the PRIs. Data from GOWB (2007), reported in Table 3, demonstrate that the districts focus their expenditures on housing, infrastructure, and employment generation, which are expenditures aligned with the central and state schemes. Block expenditures are more heavily focused on education than the other tiers, but also expend large portions of their budget on infrastructure and employment generation.[16] At the block and district levels, a relatively small share of expenditures are made for administration. The GPs expenditure focus is on housing, employment generation, and administration. These expenditures are a result of the mandates associated with the IAY housing program, the SGRY employment program, and the salary grants passed down from the upper tiers of government. The lack of concentration of PRI expenditures on important areas such as education is due to the presence of the line ministries in the rural areas.

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[15] Estimated based on Williamson (2008) Table 3 and adding 90 percent expenditure from own fund revenues and the BRFG ***(estimate waiting for data to confirm level of usage)***.

[16] Blocks administer the mid-day meal program, which is categorized as an education expenditure in these data.

Interviews conducted during the field visits focused on the financing at the GP level.[17] Based on interviews, there has not been much change in the types of expenditures made by the GPs or in their interpretation of their basic activities over the past three to five years. There was a recognition of somewhat increased own source revenues, which gave the GPs some additional fiscal "room" for expenditures. But, the perceived size and importance of that additional room varied by GP. The overwhelming focus of budgetary expenditures comes from the various schemes and much of the work of the GP is focused on these schemes.

To analyze the actual expenditures of the GPs in 2008-09, we rely on a variety of reports that we obtained during the field visits. To understand the distribution of expenditures (and revenues) at the GP level, it is important to understand the details of those reports. Ultimately, these data will be computerized and the budgeted and executed revenues, expenditures, and accounting should be consistent among GPs, blocks, and districts. This is not yet the case (as described below).[18] The reports are as follows and the sample GPs use of them is reported in Table 4:[19]

**Form 27: Statement of Receipt and Payment:** This report provides receipts and payments by major subject heads, opening balances, amounts received/spent during the period, total amounts, and closing balances. The report should represent the executed budget of the PRI (GPs in the cases reviewed here). Form 27 reports do not provide a high level of detail on individual receipt and expenditure items. In the case of some GPs, fund transfers are specified, in other GPs they are subsumed under other headings and adjustments are not separately identified. This is important because the total reported level of revenue should be net of adjustments PRDD methodology used to calculate fund utilization rates, adjustments are double counted in the gross receipt and expenditure figures. To get a good picture of the tax effort of a GP, for example, own source revenue

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17 The nine sample GPs are: Thalia (Amta-II block, Howrah district), Bankra III (Domjuur block, Howrah district), Malangihi (Kanska block, Burdwan district), Maszidpur (Galsi II block, Burdwan district), Shyamsundar (Raina I block, Burdwan district), Jasohari Anukha II (Kandi block, Murshidabad district), Jamuar (Rathunathganji I block, Murshidabad district), Sammatinagar (Raghunathganji II block, Murshidabad district), and Jotkamal (Raghunathganji II block, Murshidabad district). Also interviewed were officials from Kandi and Nabagram blocks and Murshidabad district. In addition, data from 13 GPs were obtained from the PRDD and are included in analyses below.

18 The extent of computerization in the five sample GPs is presented in Box 1.

19 The dates of coverage of all of the computerized forms we were shown can be tailored monthly or annually on a fiscal year basis.

**Table 1:** Sample Activity Map Detail Function 4 Health and Family Welfare

| Function | Activity | Responsibility of Standing Committees of three-tier PRIs | | |
|---|---|---|---|---|
| | | Zilla Parishad: Chief Medical Officer of Health | Panchayat Samiti: Block: Block Medical Officer of Health | Gram Panchayat: Health Supervisor |
| Improvement in Infrastructure | Upgrading facilities at Sub-center | • Civil works for improvement of infrastructure (large size outlay) | • Maintenance and upgradation of BPHC and PHC | • Maintenance and upgradation of Sub-centers |
| Supply of Materials | Procuring materials and distribution | • Fund allotment<br>• Lifting of materials from State Hqtrs and supply to different block | • Supervision and monitoring of utilization of funds and materials by BPHCs and PHCs<br>• Local Purchase of non-medical items required by the PHCs and BPHCs as may be authorized by H&FW Department | • Supervision and monitoring of utilization of funds and materials by Sub-centers<br>• Local Purchase of non-medical items required by the sub-centers as may be authorized by H&FW Department |

**Table 2:** Capital and Current Expenditure Shares by PRI (2005)

| | Capital | Current | Total |
|---|---|---|---|
| **Districts (N=17)** | 85.50 | 14.50 | 100 |
| **Blocks (N=288)** | 62.41 | 37.59 | 100 |
| **Gram Panchayats (N=3,016)** | 63.16 | 36.84 | 100 |
| **Total** | 63.40 | 36.60 | 100 |

*Source:* GOWB (2007).

**Table 3:** Expenditure Shares by PRI Type (2005)

| | Education | Housing | Infrastructure | Employment Generation | Panchayat Administration | Other |
|---|---|---|---|---|---|---|
| **Districts (N=17)** | 1.6 | 18.1 | 28.6 | 30.6 | 3.9 | 17.2 |
| **Blocks (N=293)** | 15.2 | 2.9 | 20.8 | 28.3 | 3.8 | 29.0 |
| **Gram Panchayats (N=3,082)** | 0.9 | 30.1 | 6.2 | 24.8 | 25.4 | 12.6 |
| **Total** | 2.1 | 27.7 | 7.6 | 25.1 | 23.5 | 14.0 |

*Source:* Based on GOWB (2007) Table 3 with adjusted categories.

"adjustments" are not an appropriate component of tax effort and should be subtracted.[20] Since not all GPs currently provide that level of detail, it is difficult to get a consistent picture on revenue and expenditure items across the GPs. The fund transfer is also problematic since it is large in some GPs and is not attributed to a specific fund.

**Form 26: Monthly Statement of Fund Position:** This report provides the following information on a monthly basis ("fund position as on Day-Month-Year"):

- Balance of fund at the beginning of the month
- Fund received during the month
- Total fund available
- Payment made during the month
- Balance fund available
- Payment Commitment
- Net Balance
- Remarks

This report provides information on the flow of receipts and expenditures. An analysis of Form 26 for a consecutive set of months helps to provide information on the timing of flows of grants, scheme funds, and own revenues. Aggregation is at a relatively high level, but individual schemes are listed separately.

**Compiled Collection and Expenditure Report (CCER):** This report provides the most level of detail on expenditure and revenue amounts, opening balances, and closing balances by ledger head. Ledger heads include:

- 12th Finance Commission
- 2nd State Finance Commission
- NREGS
- IAY
- GP Staff Salary
- GP Tax Collector Allowances

[20] Adjustments and transfers are found in many of the GP accounting reports that were analyzed for this report. Our understanding of these is that they are accounting transactions within the GP budget and transfers should be included in net expenditure and receipts figures but adjustments should not. For example, an adjustment can be logged when in the course of the fiscal year, funds are borrowed from another account (e.g., own source) and then when the scheme moneys arrive they would pay it back to the account used as a temporary source. Another possible explanation for the adjustment transactions is settling advances to the GUS levels. The GUS first receives an advance from GP to an operational account and then when the project is competed a balance might have to be returned to the GP account. Fund transfers are the internal transaction from the (transit) Fund Transfer Account to the scheme specific accounts. Until 2009, the sector funds were wired to this single transit account of the GP, and then the GP would have to transfer the funds to the appropriate earmarked account. The PRI stopped this practice because money would sit in the Fund Transfer account as the GP would not know for what scheme a particular payment was that hit their account. Consistency in the definition and accounting of these transfers is very important for the usefulness of data that are currently in development in the PRDD GPMS.

- Own source revenues

The number of ledger heads and details within the ledger heads varies among the GPs sampled for this report. The GPs did not articulate an understanding of a mandate (or even need) to produce the report with a specific level of detail. Rather, we were told by the GPs that this report was tailored by the GP itself. This again is problematic as the details on particular funds (including own source revenue), transfers and adjustments, and "other" categories are necessary to analyze the fiscal situation across GPs. This report also includes a bottom line "analysis." The following items are reported:

| | |
|---|---|
| Total expenditure | Total revenue |
| Closing Balance | Opening balance |
| All Total | All Total |
| | |
| Actual Payment | Actual Receipt |
| Available Fund | Utilization % |

Total expenditure and total revenue include all transactions reported in the CCER (including adjustments and fund transfers)
Actual payment = total expenditure – adjustments
Actual receipt = total receipt – adjustments
Available fund = actual receipts + opening balance
Utilization % = (actual payment/available funds)

The Form 27 report and CCER are used to provide a detailed breakdown of actual GP expenditures for the field sample GPs. The data in Table 4 summarize the distribution of expenditures for major schemes and grants, and for untied revenue.[21] The main theme of the earlier expenditures is repeated in these GPs—most of the expenditure is made on non-discretionary schemes.

The distribution of expenditures by general ledger head (which are aligned most closely with plan and non-plan revenues on Form 26, 27 and the CCER) for 2008-09 for the field sample of GPs plus those GPs for which data were received directly from PRDD is found in Table 5.[22]

[21] The BRFG and SRD grant do not exist for the five GP sample.
[22] To maintain consistency with PRDD's utilization percentage, we exclude major adjustments from these calculations. We report the transfer fund if it is reported as separate item in the GP accounts.

**Table 4:** Field Sample GPs Use of Standardized Reporting Forms

| GP | Form 26 | Form 27 | CCER |
|---|---|---|---|
| Thalia | Yes (June 2009) | Yes (FY 2008-09) | Yes (FY 2008-09) |
| Maszidpur | Yes (June 2009) | Yes (FY 2008-09) | Yes (FY 2008-09) |
| Malangighi | No<br>We were given a hardcopy of a budget for 2008-09 | No<br>GP officials stated that is being used, but they could not produce it | No<br>We were given a hardcopy of a statement of executed revenue and expenditures for 2008-09, in Bengali |
| Shyamsundar | Yes (June 2009) | Yes (FY 2008-09) | Yes (FY 2008-09) |
| Bankra III | Yes (April, May, June 2009) | Yes (FY 2008-09): not computerized | Yes (since April 2009) |
| Jasohari Anukha - II | Yes (as of Aug. 31, 2009) | Yes (FY 2008/09) | GPMS installed on April 1, 2009 |
| Jamuar | Not available | Yes (FY 2008/09, pages missing; FY 2009/10 year to date) | Yes |
| Sammatinagar | Yes (as of June 2009) | Not received | Not received |
| Jotkamal | No We were given a hardcopy of the budget 2008-09/09-10 | Not received | Not received |

As seen in Table 5, the concentration of GP expenditures in 2008-09 is in the area of tied schemes, and in particular the IAY and SGRY expenditure area. In the cases of Bankra III and Malandighi, detailed data from the CCERs was not made available by the GPs, so we cannot be sure that the adjustments are netted out. The average tied expenditure share is 76 percent, with a range between 59 percent (Majdia) and 89 percent (Totopara). Expenditures made out of own source revenues are small in these GPs—on average, 3.9 percent of expenditures come from own fund sources. However, one GP, Jhamtia, reports nearly 15 percent of expenditures from own fund sources.

The data in the next table (Table 6) provide a breakdown of the concentration of expenditures out of particular schemes and grants by GP for the sample GPs. Within the tied revenue sources, most expenditures are made out of four funds: IAY, NOAPS/IGNOAPS, NREGS/WBREGS, and Mid-day meals (with adjustments netted out). These four expenditures account for, on average, 92 percent of total tied expenditures in the sample GPs (with a range of 67 to 99.8 percent). The concentration of these schemes in GP expenditures among the sample GPs is varied. The employment scheme, NREGS/WBREGS, dominates tied expenditures for 14 of the GPs, but the housing scheme, IAY dominates in five GPs. Based on information received during field visits, these differences in concentration reflect to some extent local demands (or articulated demands) for housing in Thalia and Bankra and the relative number of pensioners in different GPs. In Thalia and Jhamtia, the mid day meal program expenditures are out of line with the norm found in the GOWB 2007 study, where mid day meal expenditures were allocated to the block level. This may reflect some reallocation of responsibilities and is worth further investigation. The general pattern of expenditures found in Table 6 is similar to that reported from the earlier studies—GPs focus on employment generation and housing.

**Table 5:** Distribution of Major Expenditures in Sample GPs by Ledger Head
(% of total expenditures, 2008-09)

| GP | TIED | UNTIED | OSR | SALARY | TOTAL |
|---|---|---|---|---|---|
| **THALIA** | 73.1 | 13.1 | 1.8 | 12 | 100 |
| **SHYAMSUNDAR** | 87.6 | 5.5 | 3.9 | 3 | 100 |
| **MASZIDPUR** | 85.5 | 5 | 1.7 | 7 | 100 |
| **BANKRA III** | 60.1 | 15.4 | 10 | 15.9 | 100 |
| **MALANDIGHI** | 85.9 | 5.9 | 2.3 | 6 | 100 |
| **CHAUHATTA** | 76.9 | 14.9 | 2.9 | 5.4 | 100 |
| **DASKALGRAM** | 75.1 | 9.6 | 2.7 | 12.5 | 100 |
| **DOMOHANI** | 71.4 | 15.5 | 3.7 | 9.3 | 100 |
| **HATIA** | 78.1 | 12.3 | 1.3 | 8.3 | 100 |
| **JHAMTIA** | 63.7 | 8.1 | 14.6 | 13.6 | 100 |
| **KHARIA** | 65.6 | 20.3 | 2.2 | 6.0 | 100 |
| **KIRNAHAR** | 81.7 | 8.5 | 3.3 | 6.4 | 100 |
| **KURUNNAHAR** | 86.3 | 5.3 | 0.8 | 7.6 | 100 |
| **MAJDIA** | 58.9 | 10.4 | 8.8 | 21.2 | 100 |
| **PADAMATI** | 67.6 | 17.7 | 1.3 | 13.3 | 100 |
| **PURANDARPUR** | 74.4 | 13.9 | 2.7 | 9.0 | 100 |
| **SARPALEHANA** | 83.9 | 5.0 | 2.7 | 8.4 | 100 |
| **SATTOR** | 77.3 | 9.3 | 5.7 | 7.1 | 100 |
| **TOTOPARA** | 88.8 | 3.6 | 1.9 | 5.6 | 100 |

*Sources:* GP Forms 27 and CCERs received July, 2009, September 2009, and GPMS from PRDD.

**Box 1:** Computerization of Fiscal Information

The State has made gains in the area of computerizing the fiscal information of the PRI system at the same time that they have institutionalized and rationalized the budgeting process and fiscal reporting (using the 2007 Accounts, Audit and Budget Rules). Fiscal management software systems were developed under the direction of the PRDD to allow information on revenues and expenditures of the three tiers of the PRI to be aggregated at "head level" and reports produced on the level of revenues and expenditures.

The systems are currently operational in all districts and in all but 22 blocks. The GPs, which have a separate system (Gram Panchayat Management System, GPMS), have lagged behind due to accessibility, training, and a willingness to participate. Currently, 2,000 GPs "have" the system which means that they have a computer and the software in a GP office. Of these 2,000, PRDD states that 700 GPs are using the system on a timely basis. Officials interviewed in the sample GPs indicated receiving from 3 to 5 days of training--some GPs received training from the block and some from the district levels on the use of the GPMS. Technical assistance from the state is available, however it was noted in one GP that a state technical assistant oversees 40 GPs, so it is not always possible to get help quickly.

The PRDD has produced examples of the type of analysis possible with the financial management information system. They have used in part the 2007 GOWB study on PRI finances to fashion the fiscal analysis.

The system has moved financial management a long way forward. The ability of the PRDD to analyze expenditures and revenues at each level of the PRI is critical to monitoring initiatives within the system, to identify needs for further reforms, to access the stability of the PRIs on all levels. The system is not "there" yet since many GPs are not yet computerized and remain unable to interface with the system. Also, the system is not currently web-based.

The financial management information system could also be used for budget preparation, but that is not part of the functionality at this time. One GP (Thalia) produced a spreadsheet "model" for their budget, using the 2007 GP Account, Budget and Auditing Rules. Other GPs presented hardcopies of their budgets produced in the local language. These were not available in softcopy.

**Table 6:** Distribution of Expenditures from Tied Revenues in Sample GPs
(% of total tied expenditures, 2008-09)

| | IAY | NOAPS/ IGNOAPS | Midday Meal | NREGS/ WBREGS | 4-Scheme Share of Total Tied Expenditures |
|---|---|---|---|---|---|
| **THALIA** | 51.3 | 9.8 | 14.3 | 10.3 | 85.7 |
| **SHYAMSUNDAR** | 8.3 | 2.5 | Not separately reported | 87.3 | 98.1 |
| **MASZIDPUR** | 7.2 | 7.3 | 6.5 | 74.9 | 95.9 |
| **BANKRA III** | 68.2 | 17.3 | Not separately reported | 6.4 | 91.9 |
| **MALANDIGHI** | 11.7 | 4.1 | Not separately reported | 69.1 | 84.9 |
| **CHAUHATTA** | 7.0 | 11.0 | 0.0 | 77.0 | 95.0 |
| **DASKALGRAM** | 6.0 | 15.0 | 0.0 | 75.0 | 96.0 |
| **DOMOHANI** | 16.0 | 21.0 | Not separately reported | 60.0 | 97.0 |
| **HATIA** | 12.0 | 19.0 | 0.0 | 56.0 | 87.0 |
| **JHAMTIA** | 38.0 | 19.0 | 27.0 | 8.0 | 92.0 |
| **KHARIA** | 39.0 | 21.0 | Not separately reported | 39.0 | 99.0 |
| **KIRNAHAR** | 4.0 | 9.0 | 0.0 | 87.0 | 100.0 |
| **KURUNNAHAR** | 0.0 | 10.0 | 0.0 | 87.0 | 97.0 |
| **MAJDIA** | 63.0 | 29.0 | 0.0 | 7.0 | 99.0 |
| **PADAMATI** | 14.0 | 22.0 | 0.0 | 63.0 | 99.0 |
| **PURANDARPUR** | 19.0 | 9.0 | 0.0 | 71.0 | 99.0 |
| **SARPALEHANA** | 11.0 | 8.0 | 0.0 | 48.0 | 67.0 |
| **SATTOR** | 6.0 | 10.0 | 0.0 | 61.0 | 77.0 |
| **TOTOPARA** | 4.0 | 2.0 | 0.0 | 87.0 | 93.0 |

*Source:* GP Forms 27 and CCERs, received July, 2009, September 2009, and PRDD GPMS.

*Note:* NREGS/WBREGS in Kirannahar is the value for NREGA-WB
NREGS/WBREGS in Sarpalehana includes the value (17%) of NREGA
NREGS/WBREGS in Sattor is the value for NREGA

One of the most diverse set of expenditures comes from the own fund of GPs. As noted earlier, the size of the own fund is quite small—between 0.8 and 15 percent of total GP expenditures in the sample GPs. However, this is the fund where GPs have the most latitude to make their own budgetary decisions. Some might argue that this discretion is reduced because of the constraints associated with the GP staffing requirements and the expenditure pressures of the various grants and schemes that might impose costs in terms of maintenance and operation of these programs.

For a number of the sample GPs, we obtained a detailed list of own revenue fund expenditures. The own fund expenditures are largely focused on operational expenses (electricity, telephones, equipment) and maintenance and development (road building, supplements to tubewell development, school building maintenance and repair). The top 10 expenditures from own funds are reported in Table 7 for the sample GPs for which data are available.[23] As seen there, there is some diversity in specific own fund expenditures. Maszidpur and Chauhatta GPs use the largest share of their funds for development in terms of roads and tubewells and other development, while Thalia is focused on current operations expenditures. Shyamsundar and Padamati have the largest miscellaneous category, which makes it difficult to describe their emphasis in own fund expenditures.[24] Jhamtia focuses most of its own resources on sanitation.

Based on this analysis, one observation is that the GPs do express local tastes in terms of own fund expenditures, and there are substantial differences in their investment. However, given the overall size of own funds, which are small, the distribution of actual own fund expenditures are very much constrained. Investment expenditures may be a luxury in many GPs due to relatively high start up costs.

Expenditures attributed to the 12$^{th}$ Finance Commission and untied funds from the state also provide some insight into the expenditure choices the GPs are making. The 12$^{th}$ Finance Commission grant does impose some restrictions on use in that the focus is supposed to be existing assets. For most of the sample GPs, the expenditure choices associated with these funds are not detailed in Form 27, 26 or the CCER. In Thalia, the 12$^{th}$ FC grant is reportedly used for tubewell material, road construction, and labor for projects. In the case of untied state funds, Thalia GP reports "untied wage and materials payments." In Daskalgram and Sattor, the GPs report that most SRD expenditures are related to planning. However, there is no detail regarding the planning expenditures.

In interviews with the sample GPs, the GP officials expressed needs that could not be met with current tied or untied revenues. In five of the GPs, we were told that the list of needs and projects came from discussions from the GUS level up to the GP. References were made to needs for disaster relief (repair of buildings damaged in frequent storms), additional health services (especially primary clinic facilities), and water management resources (drainage, water supply). The focus of the GP officials was (understandably) on expenditures that would improve the basic quality of life and there was no discussion in the five GPs of improving conditions for employment.

The list of activities that officials wished to carry out was not constrained by interpretations over expenditure assignments in that the GP officials did not express concern that new expenditures would conflict with their authority to carry out those expenditures. However, in no GP was there a call for significantly increased expenditure authority over a functional area. The discussion was very much in terms of

[23] Excluding fund transfers and adjustments.

[24] For Bankra, the CCER for April 2009-June 2009 was available and this reflects own revenue fund expenditure focus on tubewell labor and material, road repair, printing, and commission to the tax collector.

**Table 7:** Largest Own Fund Expenditures 2008-09
(percent of total Own Fund Expenditure)

| Shyamsundar | | Maszidpur | | Thalia | |
|---|---|---|---|---|---|
| Office equipment | 121.9 | Road maintenance/ repair | 24.2 | Telephone bill | 14.3 |
| Miscellaneous | 17.8 | Own fund 626 | 13.1 | Car expenses | 13.7 |
| School building maintenance | 5.9 | Sports and Festival | 10.1 | Commission of tax collector | 11.3 |
| Reception | 4.9 | Health | 8.5 | Cleaning | 8.9 |
| ICDS construction | 4.5 | Miscellaneous | 7.0 | Electricity bill | 8.3 |
| Office services | 4.5 | Bonasrijan | 5.9 | Stationary | 7.8 |
| Other development | 4.4 | Tubewell labor | 4.4 | Office entertainment | 7.8 |
| Bonsarijan | 4.0 | Reception | 3.9 | Telephone and Electric Repair | 4.4 |
| Printing | 3.6 | Cash | 3.8 | Election contingency | 3.9 |
| Office Parichalan | 3.5 | Daptar | 3.7 | Annual sports | 3.9 |

| Chauhatta | | Daskalgram | | Hatia | |
|---|---|---|---|---|---|
| Other Development | 37.1 | Contigency of general fund | 28.9 | Reception | 37.1 |
| Office Parichalan | 23.8 | Tubewell Material & Parts | 20.9 | Office Parichalan | 17.3 |
| Reception | 17.5 | Resource Person | 15.4 | Own Fund | 15.5 |
| Homepathy Treatment | 4.6 | Referessment | 7.1 | Land & House Tax (Return) | 6.3 |
| Telephone Bill | 3.7 | Tax collector Remuneration | 6.2 | Other Services | 4.3 |
| Office Equipment | 3.1 | Advertizement | 5.4 | Health | 3.1 |
| Electricity Bill | 2.4 | M F T A | 3.9 | Electricity Bill | 3.1 |
| Other Services | 2.0 | Court Case | 3.7 | Sports & Cultural Programme | 2.8 |
| Assasment Write | 1.5 | Travel Allowencess | 2.1 | Telephone Bill | 2.8 |
| Commission to Tax Collector | 1.5 | Electricity Bill | 2.0 | Gram Samsad & Gram Sabha | 2.0 |

| Jhamtia | | Kirnahar | | Kurunnahar | |
|---|---|---|---|---|---|
| Nirmal Gram Puroskar | 73.6 | Own Fund (Ent.) | 23.6 | Office Parichalan | 39.2 |
| Own Fund | 7.2 | Own Fund (Others) | 15.4 | Other Services | 19.1 |
| Tubewell Material & Parts - Own | 3.4 | Owo Fund (Seresta) | 14.3 | Commission to Tax Collector | 11.5 |
| Office Parichalan | 2.2 | Sale Of Tree | 9.0 | Office Equipment | 10.4 |
| Other Services | 1.9 | Jana Swastha, Education, Cultural | 6.7 | Reception | 5.2 |

**Table 7:** Largest Own Fund Expenditures 2008-09 (continued)
(percent of total Own Fund Expenditure)

| Jhamtia | | Kirnahar | | Kurunnahar | |
|---|---|---|---|---|---|
| Reception | 1.8 | Own Fund | 6.4 | Telephone Bill | 4.4 |
| Tubewell Labour - Own Fund | 1.7 | Commission to Tax Collector | 6.0 | Office Cleaning | 3.5 |
| Office Equipment | 1.0 | Proflal | 4.0 | Electricity Bill | 3.2 |
| Publicity & Advertisement | 0.9 | Office Cleaning | 2.7 | Bank Charges | 1.8 |
| Road Repairing | 0.9 | T.A. Staff | 2.6 | Publicity & Advertisement | 1.2 |
| **Padamati** | | **Purandarpur** | | **Sattor** | |
| Miscellaneous | 49.8 | Office Equipment | 25.8 | Tubewell Material & Parts - Own | 42.3 |
| Contingency | 24.0 | Reception | 16.0 | Tubewell Labour - Own Fund | 11.4 |
| Commission to Tax Collector | 8.6 | Sports & Cultural Programme | 10.7 | Reception | 7.7 |
| Telephone Bill | 7.5 | Other Services | 9.9 | Medical bills | 5.9 |
| Electricity Bill | 5.9 | Health | 9.5 | Commission to Tax Collector | 3.1 |
| Election Expenses | 1.5 | Street Light Maintenance | 4.1 | Social Forestry | 2.5 |
| Seminar | 1.2 | Miscellaneous | 3.8 | Sports & Cultural Programme | 2.4 |
| Electrical Equipments | 0.6 | Gram Samsad & Gram Sabha | 3.4 | Health | 2.3 |
| News Paper | 0.5 | Others Development | 3.4 | Stationary materials | 2.1 |
| Other Services | 0.3 | Office Parichalan | 3.2 | Advertisement expense | 2.0 |
| **Totopara** | | | | | |
| Commission to Toll Tax Collector | 18.5 | | | | |
| Road Repairing | 15.6 | | | | |
| Reception | 14.1 | | | | |
| Other Development | 10.2 | | | | |
| Car hire | 9.4 | | | | |
| Office Parichalan | 8.5 | | | | |
| Contingency- Own Fund | 6.2 | | | | |
| Office Equipment | 5.8 | | | | |
| Publicity & Advertisement | 3.0 | | | | |
| Commission to Tax Collector | 1.9 | | | | |

*Source:* GP CCERs, 2008-09, received July 2009, September 20009, and PRDD GPMS the devolution that has been taken place, where the GP has found worthy projects along side scheme development activities and line ministry activities.

There are other players in the expenditure system of the PRIs. As noted in these report and elsewhere (GOWB 2007, Williamson 2008, and Polly 2007 among others), the line departments of state government are important players in terms of expenditures made at all levels of government. In the sample GPs, officials made reference to large direct expenditures of the state on infrastructure projects, but no official had an estimate of the actual size of these projects. Currently, there is no specific accounting for state line department expenditures at each level of PRI.

Non-governmental organizations (NGOs) also play a role in expenditures in some of the GPs in West Bengal. In Thalia, for example, we were told that there were five NGOs currently registered and two of those had activities in the GP. The GP officials said that the NGOs had to apply to the GP to work in the area and received a certificate of completion when work was finished. In some cases the NGOs were working on projects within the GPs plans and in these cases, the projects were coordinated by the GP at the GUS level. According to the GP officials, in some cases the NGOs work on projects completely separate from the local government plans. The GP officials did not have an estimate on the size of recent projects performed by NGOs. In Bankra III there was one NGO currently active on a sanitation project. Officials said that this NGO keeps the government informed of its activities but there is "no requirement" for them to do so.

In summary, the expenditures of the PRIs are varied by level but are largely driven by the grants and schemes of the central and state governments. The main issues regarding expenditures are a lack of clarity in expenditure assignment, the relatively low level of expenditures in the PRI system and very low level of discretionary expenditures. The next section analyses the current revenue streams of the PRIs and recent changes in revenue flows.

**Revenues**

While revenues of the PRI include own source revenues and untied grants, the revenue story is driven by schemes and grants financed through the Union and state budgets, just as expenditures. Funds for the major grant programs may flow directly or indirectly through the State, PRDD, line departments, and PRIs. Funds expended by line ministries are largely off-budget. Because the central schemes and some of the state schemes are conditional, it is difficult to separate expenditure assignment and outcomes from grant inflows. Annexure 4.1 of the PRDD Annual Report lists 38 funds for which releases were made to the PRI in 2007-08, including 24 scheme fund releases.

The revenue system is dominated by transfers from the central government. Table 8 below provides a breakdown of major sources of revenue in 2002-03 and 2007-08. The trend over this period has been an increase in the share of revenue from the central government through increased Finance Commission grants, non-discretionary NOAPS funds, and imposition of new funds, namely the Backward Regions Grant Fund (which subsumed the RSVY program) (See Box 2 for more information on the new schemes). All revenues grew over period, but central government grants and schemes (released through the state and directly to the PRIs) increased more than 4.5 times between 2002-03 and 2007-08, where state grants and schemes increased about 3-fold and own revenues nearly tripled over the period. The larger role of the central government came from untied grants (Finance Commission) and increases in central schemes. Total revenue resources from all sources to the PRIs increased from 9.7 billion rupees in 2002-03 to 33 billion in 2007-08, or approximately 514 rupees per capita. With an annual average inflation rate of 4.8 percent in India over this time period, real revenues to the PRIs more than doubled over the period.

Central and state grants and schemes are sent down to all three levels of PRIs directly from the central government or state, or directly to the PRIs. As shown in Table 9, there has been a drift in the concentration of the devolution of central and state grants and schemes toward the GPs and away from the districts although the pattern is somewhat mixed over the last eight years. Fiscal year 2006-07 is somewhat of an outlier due to a relatively large increase in 12th Finance Commission grants to the GP between 2005-06 and 2006-07.

**Table 8:** The Composition of PRI Revenues
(percent of total revenue, 2002-03 and 2007-08)

| Year | Own Source Revenue | State Grants and Schemes | Central Government Grants and Schemes |
|---|---|---|---|
| 2002-03 | 4.7 | 44.3 | 50.9 |
| 2007-08 | 3.4 | 34.4 | 62.2 |

*Source:* PRDD Annual Report (Table 4.7)

**Table 9:** Distribution of Grants and Schemes through State among PRIs
(percent of total state grants and schemes)

| PRI level | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---|---|---|---|---|---|
| District | 39.5 | 40.8 | 35.4 | 32.4 | 23.5 | 30.5 |
| Block | 14.1 | 8.0 | 11.6 | 14.5 | 12.7 | 17.4 |
| GP | 46.4 | 51.2 | 53.0 | 53.1 | 63.8 | 52.1 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 |

*Source:* PRDD Annual Report (Table 4.6)

Of the transfers from the central and state governments, tied funds dominate untied funds. In 2007-08, the following was the distribution of revenues of total revenues for the PRIs (PRDD Annual Report Table 4.3):

| | |
|---|---|
| Salary Grants | 7.5 |
| Schemes | 73.6 |
| Untied Grants | 15.5[25] |
| Own revenue | 3.4 |

Williamson (2008) reports that the trend in revenues over the last six years has been continued dominance of the central and state schemes. There have been three noteworthy changes to the fiscal landscape in the last three years. The SGRY employment program was subsumed by NREGS, the central government established the Backward Regions Fund Grant, and the SRD program came on-line. NREGS is non-discretionary while BRFG and the SRD program are more discretionary (with some specifications regarding types of expenditures allowed).

The GPs own fund revenues are made up of tax and non-tax sources. The major tax source is the land and housing tax (property tax) and non-tax sources include sales of natural resources, business fees, and tolls, among others. In 2007-08, GP own source revenues per capita were less than 11 rupees. The per capita own source revenue for all three tiers was 18.65 rupees. Over the last five years, there has been some growth in own source revenue per capita at the district and GP level, with most of the growth occurring between 2005-06 and 2006-07. Table 10 reports own source revenue per capita for all three tiers. As seen there, the GPs generate the largest amount of OSR, and have doubled their resources since 2003-04. The districts have also seen a large percentage increase in own source revenue. However, the level of own source revenue is still very low. In 2007-08 PRDD reports total fund flows to the PRIs (salary, schematic, and other grants) of 3,230 crore rupees and total own source revenues of 112.84 crore rupees. Own source revenue is approximately 3.5 percent of the state and central grant flows among all of the PRIs.

[25] Allocating the BRFG to schemes. If the BRFG is allocated to untied funds, the untied share increases to 23.4 percent.

**Box 2:** Recent Changes in Grants and Schemes

In the past two years there have been some significant changes to at least three programs: the National Rural Employment Guarantee Act of 2005 established the National Rural Employment Guarantee Scheme, subsuming the SGRY program. The program began in 2006 in 10 districts and was expanded in 2007 to seven more districts (Howrah was under the SGRY program through 2007). In addition, the Backward Region Fund Grant was authorized in 2006 and disbursements were made in West Bengal in 2007-08. According to PRDD (Annual Report 2006-07), the purpose of the fund is two-fold:

- Funding for development projects "so as to bridge critical gaps in local infrastructure and other development requirements that are not being adequately met through existing inflows" (PRDD, p. 101)

- Technical assistance to local bodies in planning, implementation and monitoring BRGF activities.

The grant is listed by PRDD as a schematic fund, although the grant can be used for a variety of development projects. In 2007-08, 266 crore rupees was released by PRDD for the BRFG. The First Independent Review of the Backward Regions Grant Fund (World Bank 2009) provides the first detailed analysis of the BRGF, the planning process, dissemination, and uses of the funds in the GPs. As noted in the Review, the two largest uses of the grant in West Bengal are for Integrated Child Development Services (ICDS) centers (28%) and roads, including drainage and culverts (22%).

The DFID program, Strengthening Rural Development (SRD) began in 2005, targeting six districts (backward districts). The first distributions were made to 304 GPs. The output goals of the program are four-fold (PRDD Annual Report 2009 and Sambodhi Research and Communications, 2009):

- Prepare and implement an effective roadmap for further decentralization
- Develop the institutional framework and capacities for further decentralization
- Increase pro-poor participatory planning, implementing, and monitoring
- Improve resources used to strengthen livelihoods, improve service provision and reduce vulnerability of the poor (Sambodhi, p. 1)

In 2008-09, ten districts received SRD fund support covering 465 GPs; 13.7 million rupees was sent to the GPs and 214.6 million to the GS. The funds covered 4,462 GS with an average allocation of 50,200 rupees per GS. The allocation to the GP level was on average 30,000 rupees per GP. As noted elsewhere, the interim report on the SRD program suggests that it has been effective in achieving some goals, particularly in increasing resources to the GP and GS levels and encouraging participation among constituents.

**Table 10:** Own Source Revenue
(per capita, rupees)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---|---|---|---|---|
| All levels per capita[a] | 8.44 | 11.11 | 12.61 | 17.36 | 18.65 |
| Districts | 1.63 | 2.38 | 2.22 | 4.85 | 5.94[b] |
| Blocks | 1.34 | 2.19 | 2.63 | 2.05 | 2.58[b] |
| GPs | 5.44 | 6.55 | 7.76 | 10.18 | 10.13[c] |

*Sources:* [a] PRDD Annual Report, Table 4.13, [b] PRDD Annual Report, Table 4.12, [c] PRDD Annual Report, Table 4.11; other per capita amounts use the level of own source revenue provided by PRDD Annual Report Table 4.10 and use the implied population from Tables 4.11-4.13.

Comparing the concentration of own source revenue to total revenue in 2005 and 2008, we find that only in Thalia was there an increase in the percent of own source revenue to total revenue.[26] Using the same data, we find that tax revenues grew faster than non-tax revenues only in Malangighi.

In the field visits, officials expressed general consensus of increases in own source revenue over the last three years and these are borne out in the data. However, the source of increase varied by GP. For example, in one GP (Malangighi) an increase in revenue was attributed to more aggressive collection of property tax arrears. Officials from Malangighi estimated that their collection rate was 95 percent of assessed property taxes. In Thalia and Shyamsundar, the collection rate for property tax (taxes collected divided by assessed taxes) was 60-70 percent and 47 percent respectively, suggesting room for improved property tax collections and further increase in own source revenue. Interestingly, officials in both GPs seemed to blame the administration for lax collection activities as much as a lack of voluntary compliance by taxpayers. In Bankra, the GP officials said that voluntary citizen contributions were on the rise, and names of the contributors were published in a document that circulated in the GP but the growth of property tax was not singled out as a source of increased own source revenue in Bankra.

Using data from the CCER, we report the main sources of own source revenue for the sample GPs for which we have CCER data in Table 11. There is substantial diversity of sources of own revenues among these GPs. For example, Shyamsundar and Purandarpur GPs receive most of their own fund revenue from sales from trees and fees associated with use of ponds. In interviews with officials in Shyamsundar, they stated that this is a recent trend for them. They also expressed interest in the need for being more aggressive about property tax collections. Thalia and Jhamtia received large rewards for mobilization (in the case of Jhamtia, it was attributed to works from the Nirmal Gram Purosakar). Maszidpur, Furunnahar, Padamati, Sattor, and Jamuar GPs receive the largest share of own revenue from property tax and fees. GPs that were interviewed did

[26] For 2005, we use data from the GOWB 2007 study and for 2008 we use data from the CCER. Absolute levels of own source revenue increased in all GPs.

not remark that there were any significant changes in their own revenue structure over the past three years.

In summary, the revenue picture for the GPs shows marked growth in all sources over the last eight years. However, the largest revenue growth at this level is in grants and schemes, with the relative level of growth of own source funds lagging. Property taxes, fees, and sales of natural resources have increased own source revenues the most in the sample GPs. Still, the level of own source revenue is low—on average about 11 rupees per capita. If we add untied funds and classify the BRFG as an untied source, then Williamson (2008) reports that by 2008-09, the level of per capita discretionary funds is 68 rupees. This is a substantial increase in level from 2003-04 when the per capita amount of discretionary revenue was 11 rupees per person.

In the next section, we turn to an analysis of the abilities of GPs to absorb new funds, which is an important consideration for the expansion of GP resources.

**Table 11:** Own Source Revenue Sample GPs
(percent of total own fund revenue minus adjustments)

| GP | Land and house tax | Trade fees and registrations | Toll fees^ | Miscellaneous | Sale of trees | Pond leasing | Scrap sale | Donations | Reward for mobilization |
|---|---|---|---|---|---|---|---|---|---|
| **THALIA** | 16 | 6.1 | Less than 1 | Not reported | Not reported | Not reported | Not reported | 13.1 | 50.4 |
| **SHYAMSUNDAR** | 12.4 | Less than 1 | Less than 1 | Not reported | 46.7 | 14.5 | 6.7 | Not reported | Not reported |
| **MASZIDPUR** | 58.8 | 1.7 | 19.6 | 7.5 | Not reported | Not reported | Not reported | Not reported | Not reported |
| **BANKRA III** | | | | | | | | | |
| **MALANDIGHI** | | | | | | | | | |
| **CHAUHATTA** | 9 | 4.8 | 8.4 | 0 | 0 | 2.3 | 7.5 | 0 | Not reported |
| **DASKALGRAM**** | 0 | 0 | 0 | 0 | 0 | Not reported | 0 | 0 | Not reported |
| **DOMOHANI** | 21.9 | 2.6 | 0 | 3.3 | 0 | Not reported | Less than 1 | 0 | Not reported |
| **HATIA** | 24.1 | 1 | 0 | 18.1 | 0 | Not reported | 0 | 0 | Not reported |
| **JHAMTIA** | Less than 1 | Less than 1 | 0 | Less than 1 | 4 | Not reported | 0 | 0 | 76.5* |
| **KHARIA** | 18.8 | 7.7 | 0 | 1.1 | 0 | Not reported | 0 | 0 | Not reported |
| **KIRNAHAR** | 33.3 | Less than 1 | 0 | 0 | 10.6 | 0 | 4 | 0 | Not reported |
| **KURUNNAHAR** | 72.1 | 1.5 | 0 | 0 | 0 | Not reported | 0 | 0 | Not reported |
| **MAJDIA** | 9.3 | 4.4 | 0 | Less than 1 | 0 | Not reported | 0 | 10.3 | Not reported |
| **PADAMATI** | 36.1 | 0 | 0 | Less than 1 | 2.5 | 0 | 0 | 41.9 | Not reported |
| **PURANDARPUR** | 16.8 | 0 | 0 | 0 | 32.6 | Not reported | 0 | 0 | Not reported |
| **SARPALEHANA** | Not reported | 0 | 0 | 0 | 0 | Less than 1 | 0 | Less than 1 | Not reported |
| **SATTOR** | 35.5 | 2.1 | 0 | Less than 1 | 0 | Not reported | 0 | 0 | Not reported |
| **TOTOPARA** | 4.8 | Less than 1 | 31.3 | 0 | 0 | Not reported | 0 | 11 | Not reported |
| **JASOHARI** | | | | | | | | | |
| **JAMUAR** | 35.1 | 1.7 | Less than 1 | 1.8 | 2.2 | 1.1 | Not reported | 33.1 | Not reported |

*Source:* CCER of GPs, received July 2009 and September 2009, and PRDD GPMS

Notes: * Nirmal Gram Puroskar
^ Road tolls and Toll tax (in Totopara)
**Tax Collection 18.8%

**GPs Ability to Absorb Additional Funds**

A long standing issue in GP finance in West Bengal has been issue of the ability of the GPs to actually use the current level of tied and untied grants and the potential to absorb an increase in untied funds. Analysis of closing balances as a share of receipts (GOWB (2007) and Williamson (2008)) has been used to evaluate the absorption capacity of the GPs.[27] Based on those analyses, the average absorption capacity of GPs in West Bengal has not changed over the last five years and closing balances remain between 22 and 28 percent of receipts. Among the four GPs for which we have detailed data, the average closing balances as a share of available funds (receipts plus opening balances) is 17.6—somewhat below the average across West Bengal.

We are able to compare the closing balances as a share of revenue received (net of opening balances) for a number of GPs from 2005 (using the detailed data from GOWB 2007) to those reported in 2008-09. The changes in this measure of absorption are mixed—two non-BRGF GPs show no significant difference in the ratio, one shows a large improvement of absorption of these funds, and one GP shows deterioration in absorption of funds. Three SRD/BRFG GPs show an increase in closing balances as a share of revenue received (we did not have complete data to evaluate the other 11 SRD/BRFG GPs in our sample). While the sample is small, there is limited evidence that among non-BRFG GPs there is no strong evidence of more or less absorption of revenue in a fiscal year between 2004-05 and 2008-09 while in the case of three SRD/BRFG GPs there is some evidence of larger closing balances as a share of revenue received. A full accounting of these balances using all GPs in the GPMS would be helpful to better understanding the closing balances phenomenon.

The CCER includes a utilization calculation based on GP receipts and expenditures. The Utilization Ratio is the ratio of actual payments divided by available funds—another way to measure absorption. As noted earlier, actual payments are total reported expenditures minus adjustments; available funds are actual receipts (reported receipts minus adjustments) plus opening balances. The simple average utilization ratio for non-SRD/BRFG GPs is 84.5 percent and the utilization rate for the 15 sample SRD/BRFG is 70.5 (the utilization ratio for the GPs is reported in Table 12).

The PRDD Annual Report and the GP CCERs provide information on expenditures as a share of releases by major ledger head (including tied and untied funds). Table 13 is reproduced from Williamson (2008), and the data demonstrate the differences in absorption among the GPs in West Bengal by major category. The lowest utilization rate for any fund is found for IAY, where 78 percent of releases were expended in 2007-08. Overall, the utilization rate is relatively high among the GPs in West Bengal in 2007-08.

[27] Measuring absorption capacity as the ratio of closing balances to receipts is one measure of absorption capacity. As noted below, there may be good reasons for this ratio to be high including the timing of disbursements of funds to the PRIs. PRIs that are conservative in their fiscal planning may also keep a portion of receipts as a type of "rainy-day" fund for unexpected needs.

Among the five of the sample GPs, payments as a share of receipts for tied funds varies from 70 to 95 percent and for untied funds, from 97.5 to 99.8 percent. The tied funds with the lowest usage rate are NREGS in three of the GPs and NOAPS in two GPs (reported in Table 14).

While the absorption and usage rates call into question the GPs capacities to utilize funds, it is often mentioned that the timing of the disbursements of various funds from the state to the GPs is problematic and may help aggravate the absorption and usage rates. GOWB (2007), Datta (2007), and others report that large unspent balances at the year's end result from the timing of state disbursements. In the field visits undertaken for this report, two GPs noted that they continue to have this timing trouble and also noted that they do not have information about expected state flows to their budgets in a timely manner. These views were expressed in the GPs with the most seasoned officials. This is different from impressions reached three years ago in multiple interviews with GPs where timing of the state disbursement of funds was universally mentioned as an issue for GPs.[28] The state has taken steps to improve the flow of funds since 2005 by instituting changes in the banking and fund transfer systems discussed above.

**Table 12:** Utilization Ratio for Sample GPs (2008-09)

| GP | Utilization Ratio |
|---|---|
| Thalia | 79.34 |
| Shyamsundar | 93.78 |
| Maszidpur | 80.53 |
| Majdi | 44.84 |
| Sattor | 56.34 |
| Haita | 65.01 |
| Jhamtia | 65.24 |
| Jhamtia Amta-II | 65.24 |
| Batikar | 68.45 |
| Purandarpur | 69.54 |
| Kurunnahar | 69.85 |
| Kharia-Jalpaiguri | 72.80 |
| Padamati-I | 74.73 |
| Sarpalenhana-Albandha | 75.22 |
| Totopara-Ballalguri | 79.32 |
| Doskalgram | 79.82 |
| Kirnahar II | 85.13 |
| Chauhatta-Muhodari | 86.44 |

*Source:* GP CCERs received July, 2009, September 2009, and PRDD GPMS

[28] For some schemes, the GPs must present utilization certificates certifying the status of various schemes. For some schemes, additional releases at the district level are made when the average utilization within the district meets some specified minimum. This in a sense punishes the GPs that utilize funds in a timely fashion and may reduce the incentive to do so.

**Table 13:** Average Releases and Expenditures for all GPs
(rupees, 2007-08)

| | 2007/08 | | |
|---|---|---|---|
| | **Release** | **Expenditure** | *Expenditure / Releases (%)* |
| **Salary and Allowances Grants** | | | |
| GP Salary | 549,396 | 572,684 | *104%* |
| Allowance to Tax Collectors | 3,280 | 2,783 | *85%* |
| GP TADA | 49,195 | 40,103 | *82%* |
| **Sub Total** | **601,871** | **615,569** | ***102%*** |
| **Schematic Funds** | - | - | |
| IAY (Housing) | 1,026,373 | 804,502 | *78%* |
| SRGY (Rural Employment) | 27,105 | 101,632 | *375%* |
| NREGS (Rural Employment) | 2,721,105 | 2,597,454 | *95%* |
| Construction of Phachayat Ghars | 373 | 373 | *100%* |
| CHCMI (Communith Healthcare) | 283 | 283 | *100%* |
| NOAPS (Pension) | 855,962 | 824,456 | *96%* |
| **Sub Total** | **4,631,200** | **4,328,699** | ***93%*** |
| **Untied Grants** | - | - | |
| Incentive Grants | 8,259 | 8,259 | *100%* |
| Second State Finance Commission | 366,445 | 386,526 | *105%* |
| Twelfth Finance Commission (Centre) | 443,326 | 435,287 | *98%* |
| BRGF (Backwards Regions Development) | 252,914 | n/a | *n/a* |
| Professions and Callings | 427 | 427 | *100%* |
| Entertainment Tax | 22,171 | 22,171 | *100%* |
| **Sub Total** | **1,093,542** | **852,669** | ***101%*** |
| **GRAND TOTAL** | **6,326,613** | **5,796,937** | ***95%*** |

*Source:* Williamson (2008), p. 11.

**Table 14:** Expenditures as a percent of revenues received for five GPs (2008-09)

| | **Thalia** | **Shyamsundar** | **Maszidpur** | **Bankra III** | **Malandighi** |
|---|---|---|---|---|---|
| Tied Funds | 80.0 | 96.7 | 92.3 | 71.0 | 95.4 |
| Exhibit: fund with lowest expenditures as a share of revenues | NREGS 41% | NOAPS 11.8% | NREGS 6.8% | NREGS 45% | NOAPS 19.9% |
| Untied Funds | 99.8 | 99.8 | 98.9 | 97.5 | 98.2 |

*Source:* Budget and report forms of GPs, 2008-09.

One way to clarify the timing of funds issue is to look at Form 26. This is a monthly statement of fund position, for which we have complete data for three GPs for one to three months. Without multiple months of these reports, it is difficult to say much about the actual flow of fund receipts, but we do see some interesting timing issues in these cases. For example, in the case of IAY, in June 2009, in Shyamsundar, funds received from IAY were virtually the only IAY funds available by June 30, 2009, while in Maszidpur, IAY funds received during the month of June were about 50 percent of funds made available previous to June 2009. In Bankra III funds made available in June doubled total funds available. The funds available for IAY by June 30, 2009 represent the follow share of total funds expended for IAY in fiscal year 2008-09: 87 percent for Shyamsundar, 110 percent for Maszidpur, and 29 percent for Bankra III.

In the case of NREGS, in June 2009, in Shyamsundar funds received for NREGS were (again) the only funds available by June 30, 2009, while in Maszidpur and Bankra III, no NREGS funds were made available in the month of June, 2009. The funds available for NREGS by June 30, 2009 represent the follow share of total funds expended for NREGS in fiscal year 2008-09: 15 percent for Shyamsundar, 5 percent for Maszidpur, and over 200 percent for Bankra III.

It is not possible to determine if this pattern is similar in previous years, but it does suggest that timing of the release of funds is not smooth, and may affect the ability of GPs to plan for and execute various schemes.

Do GPs need additional untied funds? The easy answer is yes, but it is difficult to define "how much" and that issue is taken up in the next section. In the field visits to GPs, each GP was able to articulate needs for additional untied funds. The needs expressed were for the following expenditures:

- Water (clean water, reduce standing water, drainage, connections to dwellings and wells)
- Sanitation
- Social forestry

- Crisis and natural disaster aid
- Building additional institutions of alternative primary (SSK) and secondary (MSK) education
- Books and furniture for schools
- Bettering ICDS buildings and services

When asked about ability to find labor and materials and direct projects, three of the GPs said there would be no difficulty in carrying out the additional projects. In two GPs, we did not get an answer to the question. A general impression is that the GPs in this small sample have thought about priorities and are prepared to carry out important public projects in their GPs if money is made available. This impression holds for non-SRD/BRFG GPs as well as SRD/BRFG GPs.

The first assessment of the SRD program raises some important issues related to the expansion of untied grants (Sambodhi Research and Communications, 2009). The report correctly notes that it is very early to assess gains in service delivery and poverty reduction associated with the SRD program. The focus of the assessment is on measurable outcomes including poverty reduction and income generation. The focus of the assessment is not on the change in the composition of expenditures. The report suggests that there is some evidence of increased incomes among households in SRD GPs relative to those in a non-SRD control group. What is difficult to discern from the report is specifically how this additional income generation may have occurred. The analysis finds evidence that in the SRD GPs, households have larger increases in financial and social capital relative to the control GPs (non-SRD GPs).

The SRD program has focused in part on expanding the network and reach of Self-Help Groups (SHGs) and the authors of the assessment report credit the increase in financial capital of the poor to improved access to financial services via the SHGs. There is no obvious way to document this empirically. Social capital is measured by attendance at GP and GUS meetings and presence of SHGs in the GPs. The more tangible measures of improved economic conditions—physical, human, and natural (livestock and other) capital—are not found to differ significantly between SRD and non-SRD GPs. It may simply be too early for the impacts to reach to this level. The next assessment is scheduled for 2011. It may be worthwhile to the new grant development to carry out that assessment earlier. The same sample could be analyzed, which could reduce time and monetary costs of doing an interim assessment in 2010. A focus of that assessment might be the change in the composition of expenditures as a measure of the "success" of the untied grant funds in promoting local fiscal decisions.

The assessment raises the point a number of times that the GPs' mandate does not cover policy decisions over many important services including health and education. But the report points out that increases in the quality of service delivery for these important services could be enhanced by more active GP participation in terms of public awareness education, engaging with the line ministries in tailoring education and health programs, encouraging local participation in budgeting and planning, etc. Given the relatively limited room GPs have in the scope of education and health expenditures, we might not expect to see substantial gains in poverty indicators. It may therefore be difficult to pick up quantitative measures of success in aggregates like the level of poverty. As grant development moves forward, a condition of the new grant program might be for the individual GPs themselves to define measures of success going into the grant program.

Next, we turn to an analysis of the need for additional revenue and possible impacts of additional untied revenue on GP finances.

**Additional Expenditure Needs**

The GOWB *Roadmap for Panchayats* (2009) envisions three roles for the PRIs in West Bengal (Roadmap, page 14):

- Performance of obligatory duties in line with Article 243G of the Constitution—related to socio-economic development and covering governance and administration;

- Tasks done on behalf of the state as an agent of Government (including schemes for social welfare); and

- Own activities of the PRIs taken up in pursuit of economic development and justice, often concurrent with the state.

These roles are largely an affirmation of an on-going process of decentralization to the PRIs in West Bengal. The *Roadmap* provides detail regarding the support and development of PRIs in support of these roles and discusses areas in need of expanded service delivery, needs for resources (institutional, technical, and financial), and a detailed strategy for achieving growth in the roles of the PRIs. Many of the specific implementation strategies call for improved service delivery, which will most certainly require additional revenues. The *Roadmap* strategy implementation specifically mention increased mobilization of own revenue revenues. An additional component could be expanded support from the state, and the current DFID-World Bank coordinated SRD grant is a reasonable mechanism to consider expanding to serve these needs.

For the new grant program, the GOWB, DFID, and the World Bank focus on a "better functioning GP system in the state" and "improved institutional performance by targeted GPs" as goals for the program. The interim assessment report and Roadmap also speak to improved service delivery—hopefully a complementary outcome. It is important to acknowledge that a focus on the GP level is one of several possibly strategies for improving service delivery. The GOWB (2007) report on the fiscal condition of the PRIs in West Bengal provides a discussion of the role of the PRIs in expenditure delivery and the issue of expanded expenditure responsibility of the PRI. The 2007 report provides arguments related to the appropriate level of expenditure responsibility and management among the PRIs. Economic efficiency might be enhanced by increased responsibility at the GP level, but the report points out that economies of scale, spillovers in benefit areas, capacity, and the sheer number of GPs may reduce the feasibility of a substantially increased role of GPs in service delivery.

As noted earlier, the assignment of expenditure responsibilities to the PRIs is more a devolution of responsibilities than assignment for authority over functions. The strategy for further devolution (and some clarification) is repeated in the *Roadmap* which calls for amendments to the West Bengal Panchayat Act on expenditure assignments.[29] However, it is quite clearly stated that some assignments will be concurrent with the state (page 13) and over time, these may be devolved further as GPs gain experience in the provision of public goods.

How much additional resource should be considered for the new grant? This is difficult o answer when expenditure assignment is still unresolved. As discussed in GOWB (2007) best practice would have the GOWB establish new expenditure assignments and estimating minimum expenditures to determine the amount of additional revenue to share with the GPs. Ultimately, we night consider the expenditure *need* of the PRIs, particularly at the GP level. Accurately estimating expenditure need is a notoriously difficult exercise and beyond the scope of this report. Instead, we will present analyses of alternative expansions in revenue for the GPs.

*Example 1:* The Second State Finance Committee recommended a devolution of 16 percent of state taxes to urban and rural bodies and the Third SFC suggests a more modest 5 percent. As noted earlier, this devolution has not occurred and it was never supported by a specific expenditure objective. As a starting point, we can analyze a16 percent devolution as the new grant basis. The PRI share of the pool would be 11 percent (of the 16 percent), and of that, GPs would receive 32 percent based on the current distribution of expenditures among the three tiers (GOWB 2007). With 2009 revenue receipts of 360 billion rupees at the state level, this devolution would suggest an increase of 3.5 million rupees on average per GP—or 195 rupees per person at the GP level. Based on Williamson's estimates of discretionary untied revenues, this would increase discretionary revenues by more than 4 times at the GP level. The cost to government for a pilot of 800 GPs would be an increase of 0.8 percent of state government revenue receipts (focusing on just the GP level).

An increase of this magnitude might be difficult for the GPs to absorb. For example, in Malangihi GP, we were told their main priority for new funds would be to increase water supply. Officials in the GP estimated the cost of the expansion to be approximately 3 million rupees over 18 years. A transfer of 3.5 million rupees in a new grant suggests that the water supply issue most important to them could be dealt with over a relatively short period of time. In Shyamsundar need was expressed for 6 million rupees for expanded ICDS facilities and services. Again, a grant of the magnitude of 3.5 million would meet that expenditure requirement in only 2 years. In Thalia, the need expressed was to expand primary and secondary schools at a cost of 300,000-400,000 rupees (per

[29] Specific examples of devolved services are drinking water, maintenance of vital statistics, monitoring some aspects of public health, literacy and sports and culture, and actual building of metal roads.

school with "some" needed). Finally, in Bankra III officials said they could easily absorb 100 rupees per person more for health and sanitation. Other officials in the room said even more funds were needed because educational facilities needed to be upgraded and expanded.

These case studies do not provide hard evidence of the specific expenditure needs of the GPs in West Bengal, but they suggest that there is some scope for absorbing substantially increased funds. Of the sample GPs, Bankra III discussed expenditure needs closer to the magnitude of the transfer of this first example.

*Example 2:* GOWB (2007) provides an analysis of a new (or expanded grant) that would double or triple current the level of per capita expenditures as examples of how the grant system could be expanded. The simulations provide a distribution based on either a minimum expenditures (ensuring a basic level of expenditures equal to 2 or 3 times the average per capita expenditure in 2005) or a formula basis (incorporating a degree of equalization in the system).

These alternatives would provide substantial increased revenue to the GPs for discretionary expenditures. If the doubling and tripling of per capita GP expenditures were done at 2009 levels, this would represents an increase in the share of state revenue receipts to 5 percent and 11 percent respectively to cover all GPs or 1.4 and 2.9 percent for 800 GPs. As the GOWB analysis demonstrates, there are alternatives to financing including increased revenue mobilization from enhanced revenue autonomy (specifically for the property tax), redirection of the share of state revenues going to urban governments, or increased taxes at the state level, for example.

*Example 3:* Williamson (2008) presents an analysis to add $1 or $2 per capita to GP discretionary expenditures. Williamson analyzed a baseline of 68 rupees per capita of untied GP funds on average (44 rupees per capita completely discretionary for investment). Under this assumption, an increase of $1 per capita would more than double the amount available to GPs to 114 rupees per capita (and 90 rupees per capita on average for investment) across GPs. An increase of $2 per person would further increase per capita discretionary revenue to 160 rupees per person on average (136 rupees per person for investment on average) (Williamson Table 6).

The $1 per capita revenue increase is of the magnitude that Thalia and Shyamsundar GPs suggested they needed to address current needs that they cannot address with their current level of revenues.

These significantly expanded revenues represent a relatively small increase in state transfers while increasing discretionary revenues by 136 to 209 percent. The cost to the state is estimated by Williamson at $15 million for 800 GPs for the $1 per capita increase and $64 million for all GPs. For the $2 per capita expenditure, the cost is estimated at $30 million for 800 GPs and $128 million for all GPs. For 800 GPs at current exchange rates, this is approximately 0.4 to 0.8 percent of the states expected 2009 revenue receipts.[30]

*Example 4:* If own fund revenue per capita were doubled, this would represent an increase in revenue on average of 11 rupees per person in the GPs. Adding this to the discretionary revenue of 68 rupees per person, this represents an increase of 16 percent in average own fund revenues per capita, or twenty five percent of discretionary revenues for investment. This is a relatively small amount—about 167 million rupees for 800 GPs (about 700 million for all GPs)—roughly $3.6 million ($15 million). Doubling own fund revenues could be a revenue mobilization component of the new grant.

Alternatively, we might focus on a different definition of the "discretionary base for investment" of GPs and compare $1 and $2 per capita increases in the level of discretionary revenue. Such an analysis is somewhat subjective since some schemes and grants are more discretionary than others. In Tables 15, 16, and 17, we provide such an analysis using data from the GPMS and field visits and applying defensible assumptions regarding use of the grants (based on interviews and limited data). The data are presented per GP, with per capita figures in italics. Data in Table 18 summarizes these results in the context of a simulation exercise where we consider new $1 and $2 per capita discretionary grants flowing to the GPs. The GPs used in this analysis constitute a relatively small sample, but it provides a more detailed analysis of the potential size of the new grant relative to a more detailed definition of discretionary revenues currently available for investment at the GP level. In each table, the last column is an estimate of the current available revenue available for new investment expenditures by the GP. These might be thought of as the "true" discretionary investment revenues that GPs currently have at their disposal. In Tables 15-17, the exhibit demonstrates the relative size of a $1 or $2 per capita grant for the average of all GPs.

In Table 15, all NREGS, NOAPS, IAY, salary, 12$^{th}$ FC, BRFG, SRD and other grants are considered unavailable for new investment. This table is therefore the most conservative estimate of current revenues available for new investment. Based on this analysis, the average discretionary revenue available for investment across for all GPs is 34 rupees per capita and for SRD and/or BRFG GPs is 53 dollars per capita. A new grant of $1 per capita or $2 per capita would more than double or triple the available investment revenues.

[30] Assuming an increase in expenditures of 7 percent from 2007-08 to 2008-09.

**Table 15:** Breakdown of GP Revenues, per GP (rupees)
(*per capita*)

| GP Group | (1) Total Revenue | (2) Non-Discretionary/heavily conditional: NREGS NOAPS IAY Other | (3) Salary | (4) Discretionary/some conditionality 12th FC BRFG SRD other | (5) Residual Available for new investment |
|---|---|---|---|---|---|
| All GPs | 7,290,850 *(382)* | 5,106,251 *(268)* | 601,871 *(32)* | 942,394 *(49)* | 640,333 *(34)* |
| Non SRD/BRFG (4 GPs) | 9,358,452 *(521)* | 6,942,024 *(378)* | 937,073 *(52)* | 447,405 *(27)* | 1,031,950 *(65)* |
| SRD and/or BRFG (11 GPs) | 11,069,025 *(675)* | 7,565,868 *(452)* | 928,429 *(57)* | 1,739,592 *(113)* | 835,576 *(53)* |
| EXHIBIT: $1 per capita (46 rupees) | | | | | 877,758 *(46)* |
| $2 per capita (92 rupees) | | | | | 1,755,516 *(92)* |

*Notes:* All GP analysis for 2007-08; SRD/BFRG/Non-SRD/BRFG GP analysis for 2008-09.
Total revenue includes all funds in the account over a fiscal year including opening balances, direct fund deposits, adjustments and transfers. Distinctions are based on observable practices in use of grant funds

Realistically, some of the revenues from various schemes allow some room for discretionary expenditures. There is no hard and fast rule about the percent of those scheme revenues that are actually discretionary on the part of the GPs, but we make what we think are reasonable assumptions based on discussions with GPs and PRDD. In Table 16, we classify most of the major grants and schemes into discretionary welfare/non-discretionary/heavily conditional (column labeled 2), discretionary non-welfare/some conditionality (column labeled 4) and residual available for investment (column labeled 5). The assumption here is while some scheme funds may allow the GPs some room regarding their usage; they are still largely used for welfare or other non-investment purposes. Based on this analysis, on average, across all GPs, this does not affect the estimate of residual funds available for new investment (last column), but suggests that there are more revenues associated with "discretionary non-welfare" expenditures that have some level of conditionality. These expenditures might include basic operations and maintenance of facilities but do not include new investments.

**Table 16:** Breakdown of GP Revenues, per GP (rupees)
(*per capita*)

| **GP Group** | **(1) Total Revenue** | **(2) Discretionary "Welfare"/ Non-Discretionary/heavily conditional: NREGS (30%) NOAPS (100%) IAY (100%) SRD (90%) BRFG (10%) Other** | **(3) Salary** | **(4) Discretionary non-welfare/some conditionality 12th FC BRFG (90%) NREGS (70%) SRD (10%) other** | **(5) Residual Available for new investment** |
|---|---|---|---|---|---|
| All GPs | 7,290,850<br>*(382)* | 3,068,870<br>*(161)* | 601,871<br>*(32)* | 2,979,776<br>*(156)* | 640,333<br>*(34)* |
| Non SRD/BRFG (4 GPs) | 9,358,452<br>*(521)* | 3,996,473<br>*(230)* | 937,073<br>*(52)* | 3,392,956<br>*(174)* | 1,031,950<br>*(65)* |
| SRD and/or BRFG (11 GPs) | 11,069,205<br>*(675)* | 4,888,028<br>*(293)* | 928,429<br>*(57)* | 4,417,596<br>*(272)* | 835,153<br>*(53)* |
| EXHIBIT:<br>$1 per capita (46 rupees) | | | | | 877,758<br>*(46)* |
| $2 per capita (92 rupees) | | | | | 1,755,516<br>*(92)* |

*Notes:* All GP analysis for 2007-08; SRD/BFRG/Non-SRD/BRFG GP analysis for 2008-09
Total revenue includes all funds in the account over a fiscal year including opening balances, direct fund deposits, adjustments and transfers. Distinctions are based on observable practices in use of grant funds

In the last of these tables, Table 17, we allocate a large share of BRFG and NREGS to new investment. This least conservative assumption (most "liberal" assumption) regarding the level of discretionary funds available for investment suggests that, under a liberal interpretation of discretion, overall, GPs have 166 rupees per capita to spend on new investments, and SRD/BRFG GPs have substantially more—259 rupees per capita. A $1 per capita or $2 per capita non-discretionary grant would still represent a significant increase in discretionary revenue to GPs of between 18 and 36 percent increase for SRD and/or BRFG GPs and for all GPs between 28 and 56 percent increase in investment funds.

**Table 17:** Breakdown of GP Revenues, per GP (rupees)
(*per capita*)

| GP Group | (1) Total Revenue | (2) Discretionary "Welfare"/ Non-Discretionary/heavily conditional: NREGS (30%) NOAPS (100%) IAY (100%) SRD (90%) BFRG (10%) Other | (3) Salary | (4) Discretionary non-welfare/some conditionality 12th FC SRD (10%) other | (5) Residual Available for new investment plus BRFG (90%) NREGS (70%) |
|---|---|---|---|---|---|
| All GPs | 7,290,850 *(382)* | 3,068,870 *(161)* | 601,871 *(32)* | 462,238 *(24)* | 3,157,871 *(166)* |
| Non SRD/BRFG (4 GPs) | 9,358,452 *(521)* | 3,996,473 *(230)* | 937,073 *(52)* | 447,405 *(27)* | 3,977,501 *(213)* |
| SRD and/or BRFG (11 GPs) | 11,069,205 *(675)* | 4,888,028 *(293)* | 928,429 *(57)* | 1,015,260 *(66)* | 4,237,489 *(259)* |
| EXHIBIT: $1 per capita (46 rupees) | | | | | 877,758 *(46)* |
| $2 per capita (92 rupees) | | | | | 1,755,516 *(92)* |

*Notes:* All GP analysis for 2007-08; SRD/BFRG/Non-SRD/BRFG GP analysis for 2008-09
Total revenue includes all funds in the account over a fiscal year including opening balances, direct fund deposits, adjustments and transfers. Distinctions are based on observable practices in use of grant funds

These analyses of expanded untied revenues to the GPs demonstrate different orders of magnitude in GP discretion. Again, we emphasize that without a focus on expenditure assignment, it is difficult to recommend any one of these examples or dozens of others. Even a quadrupling of current per capita expenditures of GPs (Example 1) is within the scope of perceived need of at least one of the sample GPs.

Based on conversations in the PRDD/WB/DFID working group, the most likely scenario for the new grant is one that increases per capita discretionary revenues for GPs by $1 or $2 per capita. The effects of the sized grant are substantial and important to the GPs. The data in Table 18 present an analysis of the magnitude of such a grant on GPs in the sample analyzed in this report. The simulations report the average, minimum and maximum per capita discretionary grants under current law using conservative assumptions regarding the calculation of revenues for new investment (row labeled 1) and under liberal assumptions (row labeled 2). For the "All GPs" group, the mean level of per capita revenue available for investment under conservative assumptions is 34 rupees per capita and under more liberal definitions it is 166 rupees per capita (based on summary data from PRDD). Since we do not have micro data available for comparison, we report the minimum and maximums among the sample GPs. Under the conservative assumption, among the non-SRD/BRFG GPs, Bankra III has the lowest per capita revenue available for investment (32 rupees per capita) and Maszidpur has the largest (101). Under the more liberal assumptions, Bankra III still has the lowest level of per capita potential investment revenue (54.6 rupees) while Malangighi has the largest (457.5).

Among the SRD and/or BRFG GPs, Sammatinagar has the smallest level of per capita investment grant potential in the conservative case (10.1 rupees per capita) and Jhamtia has the largest (136.1). Under the liberal definition of investment revenues, Sammatinagar retains the lowest level (65.6) and Totopara has the largest level of per capita investment revenue (477.8). It is obvious that even in this relatively small sample, with somewhat noisy data, the disparities among GPs in terms of investment potential revenue are very large.

Lines 4 and 5 of Table 18 demonstrate the relative magnitude of an increase in discretionary investment revenues of $1 per capita. The level change in all cases is 46 rupees per person. Among all GPs, such a grant would yield an increase in per capita discretionary expenditures of 135 percent in the conservative case and 28 percent in the liberal case. At the extremes, Bankra III would see an increase of 144 percent and Maszidpur would witness an increase of 45.5 percent (conservative min and max), and Bankra III and Malangighi would see increases of 84 and 10 percent respectively in the liberal case. In the case of the SRD and/or BRFG GPs, the average GP would see increases of 87 and 18 percent in the conservative and liberal cases respectively. At the extremes, Sammatinagar would see an increase of 460 percent in the conservative case and 70 percent under the liberal definition of discretionary investment revenues. Jhamtia would see an increase of 34 percent (conservative maximum) and Totopara would see an increase of 9.6 percent under the liberal definition.

In the case of a $2 per capita grant, the additional revenues are 92 rupees per capita. The order of magnitude change from a $2 per capita grant can be seen in the lower bank of Table 18.

This simulation exercise demonstrates that a $1 or $2 grant per capita would have a large and significant impact on GPs discretionary expenditures for investment. The differences among GPs are very large, however it is not possible a priori to determine whether GPs with large potential increases in investment revenues need more support to be able to absorb the new grant. In the limited evidence we have on current absorption of funds, there is no significant correlation between GPs with low per capita investment revenue and absorption rates. Other factors such as training and personnel should also be considered in the support related to the application of the new grant versus simply considering the potential increase in discretionary expenditures.

**Table 18:** Simulations of New Grant

| | | ALL GPs (rupees per capita) | | | | SAMPLE SRD and/or BRFG GPs (rupees per capita) | | | | Exhibit: Total Cost |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Average** | **GP name** | **change** | **percent increase** | **Average** | **GP name** | **change** | **percent increase** | **of New Grant** |
| 1. Current new investment | Mean* | 34 | | | | 53 | | | | |
| discretionary revenues per capita | Min * | 32 | Bankra III | | | 10.1 | Sammatinagar | | | |
| Conservative Assumptions (Table 15) | Max * | 101 | Maszidpur | | | 136.1 | Jhamtia | | | |
| 2.Current new investment | Mean* | 166 | | | | 259 | | | | |
| discretionary revenues per capita | Min * | 54.6 | Bankra III | | | 65.6 | Sammatinagar | | | |
| Liberal Assumptions (Table 17) | Max * | 457.5 | Malangighi | | | 477.8 | Totopara | | | |
| 3.New investment with additional | Mean* | 80 | | 46 | *135.3* | 99 | | 46 | *86.8* | |
| $1 per capita | Min * | 78 | Bankra III | 46 | *144.0* | 56.1 | Sammatinagar | 46 | *460.0* | |
| Conservative Assumptions | Max * | 147 | Maszidpur | 46 | *45.5* | 182.1 | Jhamtia | 46 | *33.8* | |
| 4.New investment with additional | Mean* | 212 | | 46 | *27.7* | 305 | | 46 | *17.8* | |
| $1 per capita | Min * | 100.6 | Bankra III | 46 | *84.2* | 111.6 | Sammatinagar | 46 | *70.1* | |
| Liberal Assumptions | Max * | 503.5 | Malangighi | 46 | *10.1* | 523.8 | Totopara | 46 | *9.6* | |
| *EXHIBIT: TOTAL COST of $1 increase in grant for 800 GPs* | | | | | | | | | | *$ 15,200,000* |
| *EXHIBIT: TOTAL COST of $1 increase in grants for all GPs* | | | | | | | | | | *$ 63,726,000* |

**Table 18:** (continued)

| | | ALL GPs (rupees per capita) | | | | SAMPLE SRD and/or BRFG GPs (rupees per capita) | | | | Exhibit: Total Cost |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Average** | **GP name** | **change** | **percent increase** | **Average** | **GP name** | **change** | **percent increase** | **of New Grant** |
| 5.New investment with additional | Mean * | 126 | | 92 | *270.6* | 145 | | 92 | *173.6* | |
| $2 per capita | Min * | 124 | Bankra III | 92 | *288.0* | 102.1 | Sammatinagar | 92 | *910.9* | |
| Conservative Assumptions | Max * | 193 | Maszidpur | 92 | *91.1* | 228.1 | Jhamtia | 92 | *67.6* | |
| 6.New investment with additional | Mean * | 258 | | 92 | *55.4* | 351 | | 92 | *35.5* | |
| $2 per capita | Min * | 146.6 | Bankra III | 92 | *168.5* | 157.6 | Sammatinagar | 92 | *140.2* | |
| Liberal Assumptions | Max * | 549.5 | Malangighi | 92 | *20.1* | 569.8 | Totopara | 92 | *19.3* | |
| *EXHIBIT: TOTAL COST of $2 increase in grant for 800 GPs* | | | | | | | | | | *$ 30,400,000* |
| *EXHIBIT: TOTAL COST of $2 increase in grants for all GPs* | | | | | | | | | | *$ 127,452,000* |

*Note:* * Mean based on all GPs as reported in published data from PRDD, min and max based on non-SRD/BRG GPs in our sample.

An additional issue to consider regarding the new grant is whether or not to include a revenue mobilization incentive to further expand GP expenditures. This approach has been used in Karnataka as well as in Tamil Nadu and Goa (Subrahmanyam, 2004). Tying increased revenues to some form of mobilization would increase the accountability of the GPs over the longer run and also provide them with additional revenues. In the cases of Thalia and Shyamsundar, if the revenue mobilization for property tax were increased from current reported levels (65 and 47 percent respectively) by 25 percent (to 81 and 59 percent respectively—admittedly high targets), the additional revenue generated would increase own revenue collections by about 3.9 in Thalia and 0.9 percent in Shyamsundar.

Can additional own source revenue be mobilized? There seems to be room for increased mobilization based on interviews, past trends, and previous analyses (including GWOB 2007). However, the political will of governments to charge accordingly for government services is necessary for enhanced revenue mobilization. Previous studies document a "willingness to pay" but an "unwillingness to charge" for local public services (Mathur and Peterson, 2006, UNDP-World Bank, 1999, Datta, 2008). Alignment of these two is important to increased revenue mobilization and the effective provision of public goods.

The final section provides a summary of the findings of this report and some initial observations for the new grant based on the current state of PRI finances in West Bengal.

## Summary—Initial Observations on PRI Finances in the context of a new grant for improving service delivery

The fiscal condition of the PRIs in West Bengal has shown growth since 2005 in terms of the level of expenditure and revenue flowing through the system. The level of revenue has more than doubled overall, including the level of revenue for the GPs as have expenditures. Own fund revenues and expenditures have also increased, but own fund revenues still remain at a relatively low level of 11 rupees per person. Williams' analysis suggests that discretionary revenues (from own source and untied funds) are, on average, 68 rupees per person in 2007-08 and the analysis presented in Tables 15-17 demonstrate that the actual discretion could be larger depending on how liberal an interpretation is used regarding "discretion" and "investment." The growth in tied revenue sources was larger than untied sources over the last 3 years. The relatively low level of untied revenues suggests that there is fiscal room for expanding the amount of untied revenues at the GP level. Interviews and analysis of the sample GP finances suggest that GPs are able to plan and carry out additional expenditures that have an investment nature in water, education, health, and disaster management.

There is no evidence of increased or decreased absorption of funds when considering tied revenues or untied revenues. However, there appears to be a growth in the use of "grass roots" decision making via the GUS. In the sample GPs, more than 75 percent appear to have incorporated the GUS level in the budgeting process. Technical assistance by the

PRDD and SRD show up in various areas including computerization of PRI data and institutionalization of the budget process. An annual self-evaluation of the performance of GPs also focuses attention on the growth of GPs in terms of meeting needs of the population. The PRDD has supplemented this with an incentive grant and four of the sample GPs were recipients. This technical assistance will enhance the ability of the PRDD to monitor and evaluate performance of the GPs, which is important in the context of expanding the grant system.

A grant of $1 or $2 per capita would yield important increases in discretionary investment revenues. In the sample analyzed here, the increases are on average between 27 and 270 percent for increases of 46 and 92 rupees per capita. To perform a detail simulation analysis of the impact of grants of that magnitude requires further refining of the GPMS. The current format is very useful for analyzing individual GPs, but cumbersome for analyzing policy changes across all GPs due to some inconsistencies in variable definitions, reporting, and missing data.

Based on the reviews and field work undertaken for this report, there are a number of initial observations we might make regarding the new grant system. One suggestion is that the team think about continuing to provide a technical assistance component at the PRDD level that will not only help GPs attain specific benchmarks, but would increase the flow of information and the quality of information on PRI finances. This technical assistance is in progress but for example, what we saw in the field was substantial variation in the competencies of the GP staff to use and update the financial management system.

Here, we provide some initial observations regarding some components of that system, issues to be considered, and other technical assistance that could be designed around the new grant system. The report for Task III presents more detailed options.

- There have been a number of initiatives over the last decade focused furthering decentralization in India and in West Bengal. These include the SRD initiative, BRFG, training and grant initiatives in other states such as Tamil Nadu and Karnataka. It would also be helpful to the development of the next grant system to put together a review of recent initiatives and assessment of their impacts. Pieces of this may be done but there does not seem to be a compendium, which would be very useful for beginning this new grant. The State Institute of Panchayats and Rural Development (SIPRD) has the mandate to conduct such analyses, and its training and analyses are reported in the states Annual Report. However, the analyses such as those reported in the 2007-08 Annual Report Table 5.10 do not appear to be widely disseminated. In addition, the state might consider holding a roundtable with other states that have or are considering implementing grants that provide additional untied revenues to the GPs. These states might include Tamil Nadu, Karnataka, Kerala, and Goa.

- The state offers a wide variety of technical assistance and training to the GPs in the areas of budgeting and financial management. The Annual Report provides some detail on these activities. If the training could be categorized from very basic training in an area (say budgeting) to higher level training in the area, a condition for the new grant could be a GPs attendance at the various levels.

- The development of the fiscal data system is critical to the ability of the state to evaluate its grant system (existing and new grants) and to monitor the impacts. Based on the limited sample of GPs interviewed for this report, some GPs need more help than is currently available to run the financial management system.[31] In addition, the PRDD might consider more standardization in the accounting and reporting of these data, given the experiences we faced with Forms 26 and 27 and the CCER.[32] A statement from the GP regarding their level of integration of the GPMS system could be a condition for consideration for the new grant system.

- At least one GP in our sample did not conform to the 2007 Accounts, Budget, and Audit Rules. Use of the standards reported in that rules book might be a basic condition for consideration of the new grant system.

- There is some variation in the distribution of expenditures among GPs even in terms of tied grants. The 2007 GOWB study highlighted the distribution of per capita expenditures among the GPs. It is interesting to consider whether we can learn something about absorption from GPs with higher (or lower) expenditures per capita. Can we learn something about GP financial management from these GPs? The outliers in expenditures per capita might be good candidates for the new grant. Using data from the 2007 GOWB study, on average, higher expenditures per capita are positively correlated with higher closing balances as a share of expenditures. However, at higher levels of expenditures (greater than 50 percent of the mean), there is no correlation between closing balances (or negative at higher levels of expenditures per capita). If PRDD has updated data on these expenditures by all GPs in the state, it would be useful to analyze similar issues related to absorption.

- Over the last three years, the GPs have been authorized to increase the number of employees to include an engineer, account clerks, and data entry employees, among others. In numerous GPs, these posts are unfilled, and the engineering post is the most often unfulfilled. In 2007-08, 53 percent of these posts were unfilled. Account clerks and data entry positions are among those with high vacancy rates. If GPs are to expand their service delivery, they may be in dire

[31] Bakshi and Okabe (2008) provide an interesting case study on data collection in Raina GP. They find that the GP holds a variety of data that are not currently collected at a higher level of government. In the field, we also heard that outcome measures of various schemes are not computerized, but are readily identified. These include housing built, waitlists for houses, kilometers of roads cleared, etc. These outcomes are shared with the higher levels of government (and some of this information is produced in the PRDD Annual Report), but the GPs expressed a need to get these data "into the system."

[32] Rajaraman and Si (2007) demonstrate how difficult analysis of the impact of decentralization is without standardization of fiscal data across the PRIs.

need of help in recruiting qualified candidates for these posts. A component of the grant might include a way to incentivize important posts such as the engineer through higher salary (although this may not be possible within the law).

- The development of tax administration appears to be lacking at the level of the GP. To date, there really has been little incentive for GPs to develop their tax administration. If the new grant system includes an incentive component, the state might consider upgrading training and assistance in the area tax administration and in particular, for property tax.

These and other issues will also be discussed in the report for Task III. In addition, data and information in this report will be updated to include the September field visits to four GPs, one block, and one district as well as information and clarifications gathered during the September meetings in West Bengal.

**Table A1:** Activity Map Detail Function 4 Health and Family Welfare All components

| Function | Activity | Responsibility of Standing Committees of three-tier PRIs | | |
|---|---|---|---|---|
| | | • Zilla Parishad: Chief Medical Officer of Health | • Panchayat Samiti: Block: Block Medical Officer of Health | • Gram Panchayat: Health Supervisor |
| Improvement in Infrastructure | Upgrading facilities at Sub-center | • Civil works for improvement of infrastructure (large size outlay) | • Maintenance and upgradation of BPHC and PHC | • Maintenance and upgradation of Sub-centers |
| Supply of Materials | Procuring materials and distribution | • Fund allotment<br>• Lifting of materials from State Hqtrs and supply to different block | • Supervision and monitoring of utilization of funds and materials by BPHCs and PHCs<br>• Local Purchase of non-medical items required by the PHCs and BPHCs as may be authorized by H&FW Department | • Supervision and monitoring of utilization of funds and materials by Sub-centers<br>• Local Purchase of non-medical items required by the sub-centers as may be authorized by H&FW Department |

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