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The Design of a Performance-Oriented Fiscal Transfer in West Bengal

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**International Studies Program
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**The Design of a Performance-Oriented
Fiscal Transfer in West Bengal**

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The Design of a Performance-Oriented Fiscal Transfer in West Bengal

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ABBREVIATIONS

12FC:	Twelfth Finance Commission
CAG:	Comptroller and Auditor General of India
BDO:	Block Development Officer
BRGF:	Backward Regions Grant Fund
GoI:	Government of India
GP:	Gram Panchayat
GUS:	Gram Unnayan Samiti (village planning committee)
ICDS:	Integrated Child Development Services
ISDP:	Improved Service Delivery by Panchayati Raj Institutions Project
LSGs:	Local Self-Governments
M&E:	Monitoring and Evaluation
MSK:	Madhyamik Shiksha Kendras (upper primary education center)
NREGS:	National Rural Employment Guarantee Scheme
PAAO:	Panchayat Audit and Accounts Officer
PHE:	Public Health Engineering Department
PRDD:	Panchayat and Rural Development Department
PRIs:	Panchayati Raj Institutions
SFC:	State Finance Commission
SRD:	Strengthening Rural Development
SSK:	Shishu Shiksha Kendras (primary education center)

The Design of a Performance-Oriented Fiscal Transfer in West Bengal Draft Report

Executive Summary

Based on other studies in this series commissioned by DFID and the World Bank this draft report outlines a tentative proposal for a new fiscal transfer to Gram Panchayats (GPs) to phase in, as the current DFID project (Strengthening Rural Development, SRD) phases out in 2011.

According to current discussions, two primary goals of the new grant appear to be 1) improvements in the organizational capacity of GPs and 2) improvements in accountability and financial management.

If the new grant is to rely on the village development committees (GUS) for identification of service needs, the annual funding would have to be at least US\$ 2 per capita to allow improvements in education or child/maternal health services in every village over the four-year lifespan of the program. If the aim of the project is to have all participating GPs improve service delivery in each of the four main sectors (child/maternal health, education, water supply, and roads) in each village over the lifespan of the program, then the aggregate level of funding has to reach US\$ 12 per capita over the entire project period. The latter can include dove-tailing of the BRGF funds (US\$ 1-2 per capita per annum) and State Finance Commission grants (US\$ 0.5 per capita per annum).

The World Bank Project Concept Note envisions the universe of around 800-1000 targeted GPs. Based on criteria of need and “leveraging off the foundations established by other programs,” as much as half of the targeted GPs could be selected from the current 462 recipients of SRD grants. To make use of the technical support infrastructure, the remaining half of the targeted GPs can be selected from BRGF districts. Having all districts of a division included within the program would allow for monitoring and evaluation to occur during the quarterly development meetings.

The most pragmatic approach to determine entitlements for specific GPs would be allocating a fixed amount per capita, possibly adjusted upwards each subsequent year. However, to allow any meaningful projects in GPs with tiny population, some minimum size of the grant can be guaranteed regardless of the GP population size.

There appears to be consensus among the stakeholders that the new grant should not be used for recurrent expenditures. However, to mitigate the risks to sustainability and the ultimate impact of the program, revealed by international experiences with similar grants, the grant guidelines can require explicit consideration of operation and maintenance costs in the project planning documents.

A consensus appears to have emerged that evaluation of cross-cutting institutional performance should go beyond transaction audit and include a few indicators in each of

the following areas: financial management, procurement, participation, accountability, environmental screening, own-source revenue generation, and human resources.

Because this grant scheme is to include hundreds of recipients, to be sustainable in the long run, the assessment process will have to rely on desk-reviews of standard reports produced by the existing M&E system, such as inspection by the Panchayat Audit and Accounts Officers (PAAO), rather than field visits by contracted auditors as in other international experiences covering only a few dozen recipients. In the short run, however, private contractors might have to be brought to perform annual performance assessments possibly engaging PAAOs in this exercise as trainees.

To implement the grant, a number of regulatory changes (and rules) will need to be effected including the Guideline for Integrated Panchayat Planning, the PAAO report template, and the 2007 GP Accounts, Audit and Budget Rules.

Task III: The Design of a Performance-Oriented Fiscal Transfer in West Bengal Draft Report

Introduction

DFID and the World Bank commissioned a series of studies to analyze the fiscal situation of the Panchayati Raj Institution (PRIs) in West Bengal and develop a proposal for a new grant system. The new grant is designed to phase in as the current DFID project (Strengthening Rural Development, SRD) phases out in 2011. Based on other studies in this series, this draft report outlines a tentative proposal for a new fiscal transfer to Gram Panchayats (GPs) designed to support their financing needs and incentivize an enhanced institutional performance. The focus of the new grant is on improvements in the organizational capacity of GPs and improvements in accountability and financial management.

As a way to inform ongoing consultations that are expected to produce consensus on the ultimate design of the new grant scheme, in this report, we provide assessment of various options suggested by the stakeholders² as well as other options from international experiences relevant, given the general parameters identified for the prospective grant scheme. Options are explained around the following key elements of grant design in the context of West Bengal:

- underlying objectives,
- sources and level of funding for the grant scheme,
- universe of targeted GPs,
- permitted usage of funds,
- determining grant amounts for individual GPs,
- criteria for access to funds and performance incentives,
- institutional arrangements for performance assessment,
- phasing in and rolling out, and
- relevant legal and regulatory frameworks and changes necessary.

Key elements

Objectives

The design of a grant scheme should be driven by the objectives to be accomplished. In the course of our meetings with various stakeholders a number of potential goals for this grant have been articulated.

The Project Concept Note for the World Bank project including funding for this grant scheme (as well as others) states the following overall objective:³

² Stakeholders include representatives of the Government of West Bengal, DFID, and the World Bank.

³ See World Bank (2009a).

The project development objective is to help support the development of stronger, better capacitated and performing Gram Panchayats (GPs) delivering enhanced local services and infrastructure (Section2).

Furthermore, the project component providing financing for the untied grants to GPs narrows this goal to “strengthening of the institutional capacities and capabilities of the targeted GPs, and the deepening of bottom-up accountability” (Section 3).

At the ISDP Design Brainstorming Session in September 2009, World Bank representatives further detailed their vision of achieving project objectives through funding infrastructure for “public goods” that would have GP-wide benefits as opposed to more private benefits. Funding would be implemented by the GPs themselves as opposed to village development committees (GUS).⁴ Through leveraging funds of other programs, the strengthened institutional capacity of GPs is expected to contribute to better service outcomes at this level of government overall by fostering enhanced utilization of those resources available from other schemes.

Thus, according to the current vision for this grant, primary outcomes are: 1) improvements in the organizational capacity of GPs and 2) improvements in the institutions of financial and project accountability from the GP level and moving upwards, organizationally. A secondary outcome could be identifying capacity gaps that could provide inputs to a separate capacity-building component of the proposed World Bank project.

Improvements in service delivery at the GP level is expected to be an outcome of implementation of the proposed grant scheme, but is not a direct target, given multiple influencing factors that are outside the scope of this program. Nevertheless, for the targeted GPs as a group, it is expected that this program will result in a discerned increase in the role of GPs in the provision of public services.

Sources and level of funding

The total amount of funding necessary to implement the proposed grant scheme is a function of what is to be achieved by a targeted GP and how many GPs are to be covered by the program. Thus, the aggregate level of funding is determined by a combination of a number of micro-level (GP) and macro-level (state-wide) factors.

The GP-level considerations include incentives to perform, ability to absorb funding, and a minimum grant size required for meaningful projects:

Incentives to perform. As recognized in the reports for Tasks I and II, GPs have a limited number of administrative staff (as both the number of posts and recruiting are outside their control), while the number and volume of programs that they administer have been

⁴ Because a GUS does not have permanent staff, channeling resources through GUS will not further the goal of strengthening the institutional capacity of the PRIs.

steadily increasing. Thus, any new grant scheme will be competing with a plethora of other state and central-level and outside grants and schemes for the time and dedication of GP staff to achieve effective and efficient management. Potentially, there are a number of ways that the new grant can be designed to be attractive enough to induce additional administrative effort despite all other draws on the GP administrative resources. First, an untied grant scheme allows for greater responsiveness to local needs, thereby inducing greater engagement by the GP community for projects so funded. For example, NREGS, while being the largest source of GPs' semi-discretionary revenues,⁵ does not allow investment in water supply infrastructure, high priority needs in many of West Bengal's GPs.

Preliminary estimates indicate the current per capita amount of (semi-) discretionary resources available to GPs for new investment approximately US\$ 1-5, depending on the extent of discretion allowed (see the Task I Report). Thus, if designed to have minimum strings attached, a new grant of US\$1 per capita would effectively double the current level of mostly discretionary resources. Even in the context of less discretionary grants, such as NREGS, while accounting for only one-fifth of such resources, a new grant of US\$1 per capita, might still be attractive enough for GPs if it allowed leveraging and dove-tailing with those semi-discretionary schemes. For example, while NREGS allows only 40 percent of the non-labor share in project costs, supplementing material inputs financed by the new grant funds would support GP building more sophisticated and possibly more efficient infrastructure. Finally, when considering this incentive aspect, one should take into account differences in the composition of discretionary resources between BRGF and non-BRGF GPs (that is, the latter GPs have a slightly higher share of NREGS and own-source revenues in the composition of their revenues).

Ability to absorb. In terms of financial management capacity, absorption of additional resources of US\$ 1-2 per capita is not prohibitive as GPs currently administer a total volume of various schemes on average around US\$ 6 per capita. It should be noted that detailed guidelines are provided to GPs regarding implementation of most central and state schemes. Regarding the capacity to invest additional resources into public infrastructure, the empirical evidence on the effective limits of that capacity is rather limited. The main source of evidence is the experience of 11 of 18 West Bengal's districts with the national BRGF program. Because of rather populous districts in West Bengal, and since more than half of BRGF funding is allocated by the Union as a fixed amount per district, the levels of BRGF funding received by West Bengal GPs range between US\$ 1-2 per capita. The four BRGF GPs visited by the GSU team did not express any concern about their ability to absorb the allocated funds. However, they have expressed concern about being held back by the lack of absorption in other GPs in their district, which prevented the release of the next grant installment, at least until the

⁵ The taxonomy of GP resources according to the degree of discretion was introduced in the Task I Report. The category of semi-discretionary resources includes 90 percent of BRGF funds and 70 percent of NREGS funds in addition to fully discretionary funds (own-source revenue and State Finance Commission grants). The Central Finance Commission grants, earmarked for maintenance of existing assets, can be included or excluded from consideration, depending on whether the focus is on the discretionary funds available for new investments or also on maintenance of existing assets.

prescribed level of utilization is achieved on a district-wise basis.⁶ Reportedly, the low utilization ratios computed for the year are due to a late transfer of funds from the Union and the district level to GPs as a result of a lengthy process of hierarchical review and approval of GPs' workplans.⁷ This suggests that while the new grant can rely on the same participatory planning processes instilled in GPs with the BRGF scheme, a new more time efficient system is needed to review GP plans if it is to be part of the new grant design. The Independent Review also reports delays in project implementation in some GPs due to issues with land acquisition.

Minimum size required for meaningful projects. Given the untied nature of the proposed grant scheme, the size of meaningful projects is likely to somewhat vary from sector to sector. Here we rely on two types of evidence: 1) the potential use for additional untied funds revealed by GPs in the course of our interviews, 2) the actual use of existing (semi-) discretionary funds such as BRGF, self-evaluation incentive grants, and State Finance Commission grants. While there are some variations across GPs, overall, it appears that funds from different (semi-) discretionary sources are used on the same types of infrastructure projects:⁸

- The Integrated Child Development Services (ICDS) centers (or *anganwadi*) cost between Rs 2.5-3 lakh to build plus about Rs. 2 lakh for land acquisition;⁹
- Shishu Shiksha Kendras (SSK) centers, or community managed primary schools, cost Rs 2.5-4 lakh to build excluding land acquisition;¹⁰

⁶ According to the First Independent Review of the Backward Regions Grant Fund (World Bank 2009b), the current guidelines issued by the Ministry of Panchayati Raj require 60% utilization of the first (90%) installment in order for the district to request the second installment (10%) in any fiscal year. Moreover, the first installment for the coming fiscal year can only be released if 100% of the funds from the penultimate fiscal year and 75% of the funds from the last fiscal year have been utilized.

⁷ The First Independent Review of the Backward Regions Grant Fund reports GPs receiving the first 2007/08 BRGF installment in the last four days of the fiscal year. The first installment for the 2008/09 allocations had not been received until three months after the end of the fiscal year.

⁸ According to the First Independent Review of the Backward Regions Grant Fund, 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%). Moreover, the shares of these two categories in West Bengal are higher than in the nation-wide BRGF expenditure composition.

⁹ For ICDS center construction by the GoI in the North East states, the costs of construction were revised from Rs.1.25 lakh per ICDS center to Rs.1.75 lakh per center in 2005/06. The ICDS program was launched by the Government of India with ongoing financial and technical assistance from the UNICEF and the World Bank in 1975. ICDS centers provide supplementary feeding for children below the age of six, pregnant women and nursing mothers, non-formal preschool education for children aged three to six, maternal and child health care services such as immunization and vitamin supplements and nutrition and health education for mothers (for more details see <http://wcd.nic.in/icds.htm>). ICDS is a Centrally-sponsored scheme implemented through the State Governments/UT Administrations with 100% financial assistance for inputs other than supplementary nutrition, which the states were to provide out of their own resources. It has been decided that from 2005/06, the GOI will support states up to 50% of the financial norms or 50% of actual expenditure incurred by them on supplementary nutrition, whichever is less. While the costs of supplementary nutrition vary from place to place, the most recent guidelines issued by GoI cite Rs 2-3 per child per day. According to our interviews, construction of ICDS building does not necessarily involve increasing state/union expenditures, as many investment projects involve existing ICDS centers operating out of somebody's house.

- Madhyamik Shiksha Kendras (MSK) centers, or community managed upper primary schools, cost about Rs. 3 lakh to build excluding land acquisition;
- GP headquarters building (undisclosed cost)
- Water supply projects (sinking a tube well, construction of a platform) cost about Rs. 2 lakh per water point;
- Road projects, depending on the type and scale, can cost as little as Rs. 0.3 lakh for drainage culverts.

With the average GP size of seventeen thousand residents on average distributed among eleven constituent villages, a new grant of US\$ 1 per capita (or Rs. 7.5 lakh per GP) would allow building 1-2 ICDS/SSK/MSK centers or 4 water points per year. Over the four-year lifespan of the program, a US\$ 1 per capita per annum grant would allow building one ICDS/SSK/MSK facility in every other village or one water point in every village. Given that not every village would benefit from a US\$ 1 per capita in any given year, this might not provide sufficient incentives to undertake participatory planning exercise by GUS on an annual basis.

Indeed, the First Independent Review of the Backward Regions Grant Fund (World Bank 2009b) reports indications of “planning fatigue,” partly due to the frustration from sequestration of work plans produced in the absence of any resource envelope. The Independent Review expresses concerns over whether the rigor of the planning exercise in the first year of the BRGF implementation (FY 2007/08) will be maintained in subsequent years. If the new grant is to rely on the GUS level planning process to identify service needs to be addressed with the GP projects, the funding would have to be increased to US\$ 2 per capita to allow improvements in education or child/maternal health services in every village over the four-year lifespan of the program. Moreover, in non-BRGF districts, which do not have to undertake the annual planning exercise at the GUS level, the new grant can require a one-time intensive planning exercise for the four-year program period, possibly combined with less time consuming annual updates. Furthermore, the allocation of the grants could also be made in a multi-year framework where the exact timing of the funds release would be determined by fulfillment of the minimum access conditions on the part of GPs. The multi-year allocation could also prevent inefficient fragmentation of projects due to the inability to stretch funding across years.

Finally, if the ultimate aim of the project is to have all participating GPs improve service delivery in each of the four main sectors (ICDS, SSK/MSK, water supply, and roads) in each village over the life span of the program, then the aggregate level of funding has to reach approximately US\$ 12 per capita over the entire project period.¹¹ The latter can

¹⁰ SSKs are institutions of alternative (or “flexible”) primary education setup by the Panchayat and Rural Development Department under the Shisu Shiksha Karmasuchi program. The program targets children between 5-9 years old who are not enrolled or who have dropped out from the formal education system. Funding for the SSK is provided by the State Government and GPs act only as facilitators (for more details see <http://wbprd.gov.in/html/activities/schemes/ssk.htm>).

¹¹ These back-of-the-envelope calculations assume that improvements in any sector of GP service delivery would require at least one infrastructure investment per sector in each village. Given that some villages

include dove-tailing of the BRGF funds (US\$ 1-2 per capita per annum) and those of State Finance Commission (US\$ 0.5 per capita per annum).

It is acknowledged here that the typical costs of currently executed projects do not necessarily reflect costs of the most efficient design and scale of projects. Thus, it appears that most projects, including ICDS and water supply are implemented directly by GUS, possibly reflecting the bottom up process of project identification. Indeed the benefits of most of the aforementioned projects are limited to one village. It is quite possible that constructing a GP-wide piped scheme could be more cost efficient (and possibly safer given the arsenic problems in many GPs) than sinking tube-wells in all 10 villages of one GP.

The state-wide considerations of the required funding level include: 1) the number of GPs covered, 2) life-span of the program and 3) fiscal position of the state:

Number of GPs covered. Whatever level of funding is determined to be necessary according to the GP-level considerations discussed above, it must be multiplied by the number of GPs covered by the program in order to arrive at the program funding requirements in any given year. We explore this in more detail in the discussion of the universe of eligible GPs below.

Life-span of the program. The annual funding requirements have to be multiplied by the number of years of the envisioned lifespan of the program. However, it is unnecessary for the level of funding to be the same every year. It is possible that at the beginning of the program only a fraction of the eligible GPs will pass the minimum access conditions. At the same time it is possible that the level of funding will gradually increase in response to GP performance. As suggested above, it could be more practical to determine the GP-level funding requirements using a multi-year perspective and then arrive at the total program funding based on the number of GPs targeted for this program.

Fiscal position of the state. The envisioned exit strategy for this project is for the Government of West Bengal to take over funding of the grants for the initial universe of targeted GPs and then to roll funding over to the rest of the GPs in the State. Based on rough estimates, this would require US\$ 12 per capita over the planning cycle (five years) to achieve improvements in every village in each of the four main sectors (ICDS, SSK/MSK, water supply, and roads). If the goal is to achieve improvements in at least one of the four main sectors in each village, then the Government of West Bengal would have to spend US\$ 5 per capita over the planning cycle. Taking into account the total rural population in the State of 64 million, this gives us the range of the total funding requirements between US\$ 320-770 million per planning cycle depending on the ambition and scope of the program.

have infrastructure already in place for some sectors, the funding requirements might be lower for specific GPs in any given year. However, according to the report of the Third Joint Review Mission (JRM) of the SSA in West Bengal (GoI 2006), “many of the SSKs that the team visited were found to be extremely poor in terms of infrastructure.” Thus, even if some infrastructure is in place, it might require upgrading to achieve any service improvement.

This implies a two- to three-fold increase in state-funded transfers to PRIs relative to the current US\$ 55.6 million per year (or US\$ 278 million per five-year period). At the same time, the Government of West Bengal has accepted the recommendation of the 3rd State Finance Commission to increase the annual untied entitlements for LSGs by a factor of 2.3 from FY 2009-10 and aims to incrementally increase this amount in nominal terms at an annual rate of 12% thereafter (Government of West Bengal, 2009b).¹² If these increases in PRI funding are to be complementary, the Government of West Bengal would have to reallocate an equivalent of 2.8 percent of own-source revenue to the untied grants in addition to 1.7-4 percent of own-source revenue required to take over and roll out funding of the ISDP grants throughout the State.

The universe of beneficiary GPs

The Project Concept Note envisions the universe of around 800-1,000 GPs “selected on the basis of criteria related to need, risk management, and the importance of leveraging off the foundations established by other programs.”

Moreover the Government of West Bengal expressed its considerations about the choice of targeted GPs related to fitting the new grant scheme in the existing Monitoring and Evaluation System and the future roll-out of the grant scheme to the entire state. Currently, the quarterly development meetings are used as “an effective management tool ...for taking stock, identifying areas of weakness and taking corrective actions and reporting on progress.”¹³ Unless all districts in a division are covered by the new grant scheme, it cannot be part of the agenda of these development meetings. Thus, a separate monitoring and evaluation (M&E) arrangement would have to be set up for this program.¹⁴

From the point of view of the future roll-out of the program, it would be beneficial for the initial scheme to include some GPs in every district; these GPs could then serve as sources of good practice. This concern can be addressed by having all districts covered by the Capacity Building component of the World Bank project so that all districts can learn about the success stories in the GPs targeted by the new grant scheme.¹⁵ However, for managing risks of the program, especially if special monitoring and evaluation arrangements have to be put in place, then logistic considerations would require clustering targeted GPs in a few districts.

Regarding “leveraging off the foundations established by other programs,” one possibility is to include some GPs currently covered by the SRD program given the institutions of participatory planning and accountability established there. Selecting SRD

¹² In addition to increasing the annual untied entitlements for LSGs from Rs 350 crore to Rs. 800 crore, the 3rd State Finance Commission also recommended increasing the GP share in the PRI entitlements from 60 to 70 percent.

¹³ Gerhard van 't Land et al. (2009)

¹⁴ Each of the three divisions covers between 5-7 districts.

¹⁵ The dissemination of the ISDP success stories can be further facilitated by study tours from non-ISDP districts as part of the Capacity Building component.

GPs would also address the need criterion as these GPs have lower scores on self-evaluation, a higher percentage of below-poverty line populations, and lower socio-economic indicators according to the 2001 census. However, considerations of risk management might require limiting the selection to better performing SRD GPs. Leveraging with the foundations established by other programs could be further improved by selecting GPs from those 11 out of 13 SRD regions that are part of the BRGF scheme. This leveraging could occur through dove-tailing with the BRGF resources as noted in our discussion of the incentive aspect of determining the grant size. In the fiscal year 2008/2009, 462 GPs received SRD grants. Thus, another half of the universe of targeted GPs would have to be non-SRD GPs. For logistical reasons, some of these GPs could be selected from the SRD districts given the institutional arrangements in place for supervision and hand-holding support. Other GPs can be selected from one or two non-SRD districts.

At the December 2009 workshop it was agreed to define the universe of targeted GPs as a certain fraction of top-performing GPs in each of the following nine districts: two better performing non-SRD/non-BRGF districts (Bardhaman and Haora); two better performing SRD/non-BRGF districts (Koch Bihar and Nadia); five better performing SRD/ BRGF districts (Bankura, Birbhum, Dakshin Dinajpur, Paschim Medinipur, Purba Medinipur). Better performing districts were identified based on the PRDD internal assessment metric capturing performance of all PRI tiers of a district. The selection of eligible GPs in a district will be made based on the 2008-09 self-evaluation. The fraction of better performing GPs in each district will be determined so that the total number of eligible GPs in all nine districts would add up to about one thousand GPs.

Permitted usage of the funds

There are a number of grant design choices to be made concerning permitted usage of funds in terms of sectors, economic items (capital versus recurrent), public versus private use, etc. While the Project Concept Note does not offer a clear vision on these choices, the ISDP Program Design Brainstorming session of September 2009 seems to have produced a consensus on these issues among the representatives of the Government of West Bengal and the World Bank.

Both parties agree that the new grant should not be used for recurring expenditures. The representatives of the Government of West Bengal point out that other revenue sources are available to cover ongoing spending, for example the Twelve Finance Commission grants. The World Bank representatives believe that given the transitional nature of the World Bank intervention, these funds should not be used for recurrent needs. Furthermore, in terms of logistics, focusing on tangible outputs would make the supervision and evaluation by the World Bank both easier and more reliable. However, the emerging vision can further detail whether the use should be limited to big-ticket items, such as buildings or allow smaller one-off types of costs (such as school benches, water filters, etc), which currently are common uses by GPs of the SFC and BRGF grant funds. Furthermore, it should be decided if any portion of the new grant can be used on

non-capital one-off development expenditures, such as contracting professional planners, feasibility studies, and so on.

However, further discussions at the December 2009 workshop revealed certain practical difficulties in operationalizing and enforcing such capital earmarking. Currently, the accounting and budget reporting systems in place at the GP level do not classify expenditures according to the recurrent versus capital nature. Even if such accounting systems were in place, they would only be helpful in accounting for purchases of capital assets and contracting construction and capital rehabilitation of infrastructure objects. However, in practice most of the GP expenditures on infrastructure from untied funds are on purchases of materials while labor (and sometimes land) is donated in kind by the beneficiaries or paid for from the guaranteed employment schemes (NREGS).

Experience with performance based grants in other countries suggest that the operation and maintenance implications of projects funded under the program require explicit attention in the grant design to ensure sustainability and ultimate impact of the program outputs. For example, the First Independent Review of the Backward Regions Grant Fund found “few examples of BRGF schemes where there are any plans and budget in place for the costs of operations and maintenance of the infrastructure/buildings.” This is consistent with the results of site visits for this report suggesting that operation and maintenance implications are not really a part of the GPs’ planning and budgeting process regarding investment projects.

Nevertheless, the operation and maintenance implications of the common types of investments mentioned above as potential projects under this grant are significant. Thus, the recurrent costs of the ICDS program average US\$ 10-22 per child a year.¹⁶ With the average coverage of 62 children of 0-6 years old by one ICDS center serving one village of 1,000 residents, the annual recurrent costs can be estimated as US\$ 0.62-1.36 per capita. Similarly, for SSKs, the average annual cost of teachers’ salary is Rs 240 per child.¹⁷ With the average enrollment of 100 children in one SSK serving one village of 1,000 residents, the annual recurrent costs can be estimated as US\$ 0.5 per capita.

While, some portion of recurrent costs of the existing GP facilities is shouldered by the State and Union governments, one cannot assume that these funds will increase proportionally should the new grant scheme double the level of resources available for new infrastructure projects. One possible way to address this problem is to have grant guidelines require a strategy for the future operation and maintenance costs in the project planning documents, including the strategy to increase own source revenue to support such expenditures. The comparative analysis of future operation and maintenance costs should help GPs identify projects that they will be able to maintain given the estimated availability of untied funds in the foreseeable future.

Both the Government of West Bengal and the World Bank seem to agree that the new grant should have multi-sectoral use rather than being earmarked to any specific sector. Thus, GPs can be provided with a menu of allowed sectoral uses, which can be based on

¹⁶ Source: UNICEF.

¹⁷ According to the report of the Third Joint review Mission (JRM) of the SSA in West Bengal.

the items that are devolved to PRIs in the Eleventh Schedule of the Constitution and further detailed in Chapter III of the West Bengal Panchayat Act, 1973 and in the 2009 *Roadmap*.¹⁸ However, the Government of West Bengal would like to have the ability to ensure that the service needs in the priority sectors are addressed before GPs are allowed to use resources in other sectors. One possibility to accommodate this would be varying the scope of allowed sectors based on past performances.

More local discretion over the usage of funds would help GPs better tailor projects to local priorities and should, as a result, give them more incentives to participate in this program and strive to improve performance in order to receive an incentive increment. On the other hand, narrowing the range of permitted uses would allow steering the resources towards the State priority sectors. Also, having a narrower range of uses would make it easier to assess sector-specific performance such as physical outputs (kilometers of roads built, etc). Thus, this grant design choice will have to be determined based on which objective is more important. Trying to incorporate too many objectives into the design of a single transfer instrument would take away from its simplicity and transparency. If the primary goal is strengthening cross-cutting institutional performance, broad local discretion of sectoral use within the scope of devolved functions appears most appropriate.

The final grant design choice concerning the usage of funds is the extent of publicness in the benefits of projects. According to the vision of World Bank representatives, rather than benefiting selected individuals, the projects funded under the new grant should benefit the entire community/village and possibly the entire GP. As mentioned earlier, the benefits of most infrastructure projects carried out under BRGF, SFC, and NREGS do not extend beyond one village. This can be partially explained by the planning process where most of the project identification takes place at the GUS level. If the goal of the new grant is to encourage GP-oriented projects, then more emphasis could be placed on construction of inter-village roads and Health Sub-Centers (serving five to ten villages). The former, being quite expensive, may be feasible only by leveraging the NREGS funds. However, Health Sub-Centers are quite feasible within the indicative level of resources identified for the new grant scheme, as long as recurrent costs can be picked up by the Auxiliary Nurse and Midwife (ANM) scheme of the State Department of Health.

Determining grant amounts for individual GPs

Given the aggregate level of funding for the new grant scheme that would be consistent with the objectives of the grant, it is also necessary to have a mechanism to allocate this pool of funds among specific GPs in a given fiscal year, or possibly in a multi-year perspective. Conceptually, these allocations can vary among GPs reflecting differences in such factors as absorption capacity, risks, leveraging of existing resources, and past performance. Because the goal of the program is to create examples of good practice to support future rollout, the equity considerations are not relevant for the design of the grant. However, given the objective of incentivizing performance improvements, it could

¹⁸ Government of West Bengal (2009a).

be important to create a level-playing field to make sure that effort is rewarded notwithstanding the differences in other factors outside of GP control. Thus, if the grant is to reward generation of own-source revenue, ideally we need to control for differences in the revenue base, for example by providing higher matching from the grant for the same amount of revenue raised in poorer GPs. Another alternative is to reward performance relative to the starting position, rather than according to any absolute level.

However, in practice these characteristics can be hard to implement due to the paucity of data at the GP level. Even the BRGF allocation formula, which is supposed to reflect GP backwardness, allocates 50 percent of resources per capita and the remaining 50 percent based on illiterate population (as of 1991). Another alternative is to take into account the number of the Below Poverty Line (BPL) population assessed by PRDD through the Rural Household Survey (last in 2005). However, Bakshi and Okabe (2008) report wide discontent among GPs concerning the accuracy of the Rural Household Survey.¹⁹ Their validation exercise in one village finds discrepancies for 25-37 percent of examined households. Given these pragmatic considerations of data availability, only limited weight can be assigned to allocation factors other than the population size. However, the less account is taken of GP characteristics in the allocation of grants, the more should performance measures focus on efforts and processes rather than outputs of GP activities that can be held back by other factors not captured by available data.

Thus the most pragmatic approach would be allocating a fixed amount per capita, possibly adjusted upwards for each subsequent year. However, because GPs exhibit significant variation in the number of constituent villages and total population,²⁰ the size of the grant produced with per capita funding might be too small to undertake any meaningful projects in GPs with tiny population. For that reason, some minimum size of the grant can be guaranteed regardless of the GP population size. At the December 2009 workshop it was proposed to have a minimum grant size (allocation floor) of Rs. 10 lakh.

Criteria determining access to funds and performance incentive

The Project Concept Note envisions the design of the grant to “to provide a performance-oriented incentive for the strengthening of the institutional capacities and capabilities of the targeted GPs, and the deepening of bottom-up accountability.” Essentially, there are three ways a grant can provide incentives: 1) by granting access to the grant scheme based on performance; 2) by increasing/decreasing the grant amount based on performance; 3) by allowing more discretion in the use of the grant resources based on the performance improvements.

¹⁹ Aparajita Bakshi and Jun-ichi Okabe (2008).

²⁰ According to our data, in the nine selected districts the smallest GP (Amrasota GP in Bardhaman district) has a total population of 541 persons in three constituent villages while the largest GP (Dutta Pulia GP in Nadia district) has a total population of 41,134 persons in 11 constituent villages.

At this stage, the consensus seems to be leaning towards using performance measures only to qualify GPs for receiving grants on an annual basis. For those GPs that have qualified to receive grants, performance improvements can be incentivized by raising the passing mark for the performance score in each subsequent year. However, it would require tracking several cohorts of GPs subject to separate passing marks depending on the number of years they have been in the program. Alternatively, there can be several levels of the funding corresponding to different levels of performance scores so that all GPs would be subject to the same performance assessment regardless of the cohort.

In the previous discussions the Government of West Bengal indicated its desire to limit the use of grant resources in less important sectors until some progress is achieved in the priority sectors (water supply, roads, markets, healthcare, preventing malnourishment). While this is technically possible to accommodate by giving higher performance scores for using the grant funds in the priority sectors, it would unnecessarily complicate the performance assessment system without contributing to the primary objectives of this program (strengthening institutional capacity).

Depending on the specific mechanism to reward performance, the choice of specific performance measures will be different. Thus, in the case of providing access to the grant scheme based on assessment, the indicators should capture the absolutely necessary minimum safe-guards, without which entrusting the program funds to the GP would carry significant risks. However, in case of incremental increases of the grant amount based on performance, the indicators can capture less critical aspects with possibly smaller weights. At the December 2009 workshop it was suggested to combine these two types of indicators for GPs to qualify for access to the grant by fulfilling all minimum access conditions plus attaining a passing mark for the combination of other less critical indicators.

The next design choice with respect to the performance indicators is whether to measure cross-cutting institutional performance or sector specific performance. The World Bank representatives do not want to limit performance evaluation exclusively to the new grant scheme, but would also like to assess management of other resources. At the same time, they acknowledge that it would be counterproductive to award incentive grants based on sectoral outcomes, as they are largely outside GP control due to influence of other external factors. Yet, even sectoral *outputs* can be outside the GP control in cases where dove-tailing with other schemes is involved. For example, the First Independent Review of the Backward Regions Grant Fund cites a case of Saltora GP in Bankura District, where implementation of projects co-funded from the State Finance Commission (SFC) and BRGF was challenged because the funds from the BRGF were not received on time.

One possible solution could be to look at the outputs of projects entirely financed with the new grant while for other projects to limit the evaluation to process and procedures, but not the actual outcome. However, even for projects entirely financed from the new grant, sector specific measures could be problematic given the discretion GPs will have in allocating the resources across (a fixed menu of) sectors. It is not clear whether it would serve the purpose of the program to penalize those GPs that target the new grant on

substantial improvement in one single sector instead of marginal improvements in each of the sectors and vice versa. If sector specific indicators are used, as a system, they should be able to appreciate both improvement strategies.

At the ISDP Program Design Brainstorming session in September 2009, a consensus appears to have emerged that evaluation of cross-cutting institutional performance should go beyond transaction audit and include a few indicators in each of the following areas: financial management, procurement, participation, accountability, environmental screening, own-source revenue generation, and human resources. Depending on the specific purpose of performance assessment, the list of indicators could be shorter or longer. Thus, for assessing whether minimum safeguards are in place to determine eligibility, the list should focus on a few indicators that can be evaluated more rigorously. For awarding performance increments in the grant amount, a more comprehensive list can be employed especially if the information is readily available from the established M&E processes. However, it is better to have a more parsimonious set of indicators that can be carefully validated within the resource constraints of the assessment arrangements. A shorter list of indicators would also provide a more straightforward feedback to GPs in terms of the performance areas needing improvement. Furthermore, different indicators capturing various aspects of institutional quality are likely to be correlated.²¹ On the other hand, duplication of information from combining indicators capturing related aspects, especially if coming from different sources, can mitigate the impact of measurement errors in any single source.

Finally, given the ultimate objective of improved institutional capacity, the performance indicators should be confined to areas where some means are available for GPs to improve their performance. For example, there should be rulebooks or manuals available, spelling out the good practices that would pass the performance benchmarks. Similarly, where human capacity constrains good performance, resources should be available to build lacking capacity (in term of training allowances or centrally provided training programs).²²

The December 2009 workshop produced the following list of minimum access and performance indicators covering various areas of institutional performance identified in September 2009:

Performance area	Minimum access conditions	Performance measures
Planning	<ul style="list-style-type: none"> • Timely adoption of the GP budget (Form 36) 	<ul style="list-style-type: none"> • Compliance with ESMF in planning
Execution	<ul style="list-style-type: none"> • 60% utilization as of 	<ul style="list-style-type: none"> • Compliance with ESMF in

²¹ It is possible to analyze the database of self-evaluation reports to look for the evidence of correlation between various indicators and whether any sub-set of indicators can capture the bulk of the information in the dataset by means of principal component analysis.

²² According to the Independent Review of BRGF, the existing training provided by the State is generic, supply driven and does not allow GPs to focus on the areas where they have capacity gaps.

	Q4 of untied funds (excluding BRGF) available by Q3 ²³	execution, <ul style="list-style-type: none"> • 80% utilization as of Q4 of funds (SFC, CFC, ISDP, OSR) available by Q3 • Register of asset includes infrastructure created in the last fiscal year (Form 20)
Transparency/participation	<ul style="list-style-type: none"> • Clean audit report (last available) • GPMS can generate monthly statements (Form 26) 	<ul style="list-style-type: none"> • Public Information Statement/Public Notice issued in line with the GoWB Order
Capacity		<ul style="list-style-type: none"> • # of staff cable to use GPMS

Assessment process

The conceptual vision for performance measurement outlined above has to be applied to the institutional framework of West Bengal in terms of availability and timeliness of data in order to capture these performance aspects.

In terms of institutional arrangements, there are five basic options:

- 1) Self-assessment by GPs
- 2) Assessment performed by the PRDD staff
- 3) Assessment performed by the GoI CAG /Examiner of Local Accounts
- 4) Assessment performed by private contractors
- 5) Combination of some or all of the above.

Relative advantages and disadvantages of these options can be evaluated based on a number of criteria (for example see Steffensen and Larsen, 2005). However, at the ISDP Program Design Brainstorming session, an understanding emerged that timeliness of the assessment results is the most critical factor. As the assessment will be used to determine grant allocations, the latter must be determined and communicated to GPs by August 31 to allow resource-constrained prioritization and planning under the established budget calendar. This means that performance in the previous fiscal year has to be assessed within five months after the closing of accounts.

This rules out reliance on self-assessment by GPs, which is usually completed within nine months after closing of accounts. It takes 12 months for the Examiner of Local Accounts (ELA) to audit all GPs, which is usually done block-wise. If the universe of targeted GPs is confined within less than half of all blocks of West Bengal, the ELA office can adjust

²³ Evaluating the utilization of Q3 resources at the end of Q3 would suffer from the same issues as evaluating utilization at the end of the fiscal year, namely deposit of transfers at the last day of the period without any reasonable chance of being spent in the same reporting period.

its workplan so that to inspect all targeted GPs within six months after the closing of accounts. In order to make the rollover of the program possible after the completion of the ISDP, during these four years the ELA would need to augment its capacity so that all West Bengal GPs could be inspected within six months after the closing of accounts.

While the auditor's opinion from the ELA report can provide an input to the assessment of GP financial management, other performance aspects, such as good governance and environmental compliance, will require separate arrangements. For the latter, there are two viable options: 1) to conduct the assessment by the PRDD staff, or 2) to contract it out to private auditors. Given the intention for the grant scheme to be eventually taken over by the Government of West Bengal and rolled out to the rest of the State, contracting out would not contribute to building the capacity of the Government of West Bengal necessary to continue this program in the future and would not be sustainable in the long run because of the costs.

For the reasons of practicality, costs, and sustainability, assessment of performance for the grant allocation purpose should, as much as possible, exploit synergies and cost-sharing with the existing monitoring and evaluation processes and data streams currently in place within PRDD. Compared with other international experiences with performance-based grant systems of similar goals, this is a novel scheme given inclusion of hundreds as opposed to dozens of recipient governments. For that reason, in the long run, instead of separate assessments through field visits as in other experiences, this program will have to rely on desk-reviews of standard reports produced by the existing M&E system. Essentially, there are currently three kinds of M&E processes that eventually can produce such data in a standardized form consistent across GPs and over time: 1) monthly and (semi-) annual financial reporting by GPs; 2) quarterly inspections of GPs by a Panchayat Audit and Accounts Officer (PAAO) posted at the block level; 3) (ad hoc) inspections of GPs by junior district officials under Section 205 of the West Bengal Panchayat Act, 1973.

Where adequately staffed, the Panchayat Audit and Accounts Officer (PAAO) inspects GPs on a monthly basis. However, a standard inspection form is only filled out on a quarterly basis. The inspection report for the last quarter of a fiscal year, which is different from interim quarters, has 127 questions grouped into 10 sections. What is important, is that in addition to financial management aspects, the PAAO also inspects governance issues such as whether meetings of the GP council and its standing committees take place on a regular basis and whether citizen feedback on the draft budget is addressed in these meetings. Some of the PAAO questionnaire items are yes/no questions while others require qualitative statements. It is possible that a district-based panel reviewing PAAO reports for quality assurance could also code some of the qualitative statements from the report and add them up with appropriate weights to calculate a performance score.

While the PAAO appears to be the most appropriate M&E mechanism out of those currently in place and this employee could be utilized for performance assessment under the new grant, it is not a perfect match. Therefore, during the ISDP lifespan, private

contractors might have to be brought in before some additional measures are undertaken to mitigate these risks and thus make the PAAO inspection suitable for the eventual program rollout. First, because of the understaffing in some blocks, the frequency of inspection of GPs across the State is less than quarterly. For example, Jotkamal GP in Raghunathganj-II block (Murshidabad district) had not been inspected by a PAAO for more than a year, at the time of our visit in September, 2009. Thus, if the PAAO is to be charged with the task of performance assessment under the new grant, the Government of West Bengal would have to fill all PAAO vacancies in the districts selected for the program. Second, the experiences with performance grants in other countries suggest that, to preserve the integrity of the program, the assessment process should be kept “as far away from the rest of the grant administration machinery as possible.”²⁴ The reason is that the agency through which the grant flow is normally channeled (in our case, the BDO) is also under political pressure to provide emergency assistance and deficit grants and thus might have an incentive to manipulate the assessment process in order to secure funding for the right GPs. These risks can be mitigated by the proposal to move the PAAO from the block administration to the sub-division magistrate.

Alternatively, or in addition to the PAAO report, performance assessment can utilize the annual statement of receipts and payments (Form 27 governed by Rule 27 of the 2007 Rulebook), especially after being certified by the ELA office. This document is produced by the Executive Assistant within two weeks after the close of a fiscal year and approved in a general meeting of the Gram Panchayat within one month after the end of a fiscal year. Form 27 submitted by GPs are checked for consistency at the block level and also reviewed by the PAAO in the quarterly report for the last quarter of a fiscal year.

Finally, as far as the self-assessment is concerned, the actual score might not be of much use for the incentive grants for the reasons of timeliness and credibility. However, the very fact that the self-assessment takes place in a GP and also any indication of its quality and usability for GP decision-making can be taken into account with some weight when assessing GP performance for the incentive grant allocation.

Relevant legal and regulatory framework and necessary changes

A number of regulatory changes (and rules) will need to be effected to implement the grant:

- Because of the reported delays with project implementation in some GPs due to issues with land acquisition (for example see the Independent Review of BRGF), the Guideline for Integrated Panchayat Planning in West Bengal might need to be amended to make sure land acquisition is addressed as part of the project planning/approval.
- Furthermore, the planning guidelines can be amended to introduce integrated, resource constrained planning and budgeting for the subset of revenues sources that are discretionary (to some degree), predictable (due to the use of a formula) and allow dove-tailing among each other. Besides the new grant scheme, this

²⁴ Steffensen and Larsen (2005).

could include own-source revenue, BRGF, SFC, and 12FC. As pointed out in the Task II report, GPs would have to switch to area-wide planning and budgeting from what is essentially now sectoral programming.

- If the coverage of the PAAO report is expanded to include additional performance areas specific to the new grant scheme, changes have to be made to the PAAO report template prescribed in PRDD Memorandum 1430/PN of April 4, 2000.
- Likewise, if private auditors are contracted, among other things, to turn ELA and PAAO reports into performance scores, an assessment manual will need to be issued clearly describing the scoring system and the entire assessment process.
- In some areas, such as procurement, where the financial management standards introduced in the 2007 rulebook are deemed substandard, a supplementary financial management manual can be required to be followed by GPs in order to gain access to the new grant scheme.

Regarding these regulatory changes, an important design choice is whether to create special arrangements applying exclusively to the ISDP funds in the targeted GPs or to revise the overall regulatory framework faced by all GPs in West Bengal. At the December 2009 workshop, the representatives of the Government of West Bengal expressed their preference for the latter option both for administrative expediency and conceptually for seeing no reason to deny any GP superior regulatory framework.

Risks and mitigating strategies

The proposed design options for the new grant explicitly incorporate measures intended to mitigate substantial fiduciary risks identified in several areas of budget and financial management practices in West Bengal's GPs by recent *Fiduciary Risk Assessment for Support to the SRD Cell in West Bengal* (2009).²⁵ This assessment of substantial fiduciary risk in these areas is further supported in a report prepared by Georgia State University under Task II: GP Financial Management Capacity and PRI Financial Management Reform Efforts in West Bengal. Below we list these areas of substantial risk along with mitigating strategies:

1. *Ability of GPs to adhere to the budget preparation and allocation schedule as provided by laws and regulations.*

The proposed assessment process will allow timely determination of grant allocations for targeted GPs, which would be communicated to GPs by August 31 to allow resource-constrained prioritization and planning under the established budget calendar. Furthermore, it is proposed to amend the planning guidelines to introduce integrated, resource constrained planning and budgeting for the subset of revenues sources that are discretionary (to some degree), predictable (due to the use of a formula), and allow dove-tailing among each other. Besides the new

²⁵ PriceWaterhouseCoopers for Department for International Development, UK (2009).

grant scheme, this could include own-source revenue, BRGF, SFC, and 12FC.

2. *Effective action taken to identify and eliminate corruption.*

The annual performance assessment should contribute to identifying corruption at the GP level. Moreover, an additional layer of quality assurance through a proposed review of GP assessments should make this process more effective than the existing PAAO inspections. Further improvements are expected from addressing PAAO understaffing by the Government of West Bengal as part of the eventual project roll-out to the rest of the state, which could make the PAAO responsible for the annual performance assessment.

3. *Government agencies are held to account for mismanagement.*

By design, the introduction of minimum access conditions for the new grant penalizes gross mismanagement by making GPs ineligible for this grant. Given the two-year lag in assessing minimum conditions (assessment undertaken in year t to determine allocation in year $t+1$ evaluates performance in year $t-1$), an additional mitigation strategy could be ejection of GPs from the program in the case of gross mismanagement uncovered as a result of public grievance received during the fiscal year. Incentives to eliminate minor irregularities can be provided with the incremental increase of GP entitlements based on their past performance.

4. *Criticism and recommendations made by the auditors are followed up.*

Under the new grant, GPs will have incentives to address the criticism and recommendations made by PAAO in order to improve their performance score so that next year they could become eligible for the grant or receive an incremental increase.

Institutional arrangements

The disbursement of grants can rely on the mechanism of transfer of funds established for the State Finance Commission grants: from the State Fund Transfer Account to Fund Transfer Accounts of Zilla Parishads to Designated Bank Accounts of Gram Panchayats. Under these arrangements, funds credited to the FT Account at the State-level or Zilla Parishad level have to be transferred to the destination within two days from the date of receipt of the fund transfer advice from the authority (see the Task II Report for more details).

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Annex A: Services to be provided by the GPs according to the 2009 Roadmap

Service	GP responsibilities
Drinking Water Supply and Sanitation	
Installation and maintenance	At present the GPs install and maintain the spot sources while the Public Health Engineering (PHE) Department installs and maintains most of the piped water supply schemes. Except for schemes which are very large and have technical complexity, the PHE department will hand over all the existing piped water supply schemes to the lowest tier of the Panchayats that fully encompasses a particular scheme area.
Surveillance for bacteriological and chemical contamination	Surveillance of all drinking water sources for bacteriological and chemical contamination will be the primary responsibility of the PS but the part of the implementation related to collection of samples etc. will be the responsibility of the GP and overall supervision will be with the ZP.
Sanitation	GPs have to ensure 100% access to safe sanitary toilets to households and all institutions. GPs (supported by the other two tiers) will be responsible for creating awareness among the people for maintaining a good level of personal hygiene and environmental sanitation. Sewage and solid waste management arrangements will be put into place for each habitation for proper environmental sanitation by the GP.
Services Related to Public Health	
Registration of birth and death	Pradhans of the GP have been appointed to act as Sub-Registrars within their respective jurisdictions. That is, they are collecting information on births and deaths, maintaining registers in the prescribed manner and making available such extract copies of the registers as may be intended for. They are also sending periodic reports to the Registrars on the work done by them.
Immunization of the children	The GP will be responsible for: <ul style="list-style-type: none"> – mobilizing the community in order to achieve 100% immunization of children with appropriate support from the upper tiers of Panchayats and the State Government – seeing that adequate services are available within its area and, if not, mediating with the State Government through PS, if necessary, so that every newborn has access to such services -keeping track of the actual coverage.
Safe motherhood	The GP will be responsible for: <ul style="list-style-type: none"> -Identifying areas and mediating with the State Government directly or through the PS for making available services, like tetanus vaccination, pre-natal and post-natal check-ups and other good practices for safe motherhood - If the government maternity facilities are far off, developing infrastructure in their headquarter health sub-centers or in

	other suitable places for safe delivery of mothers with the help of the ANMs working in their jurisdiction
Preventing malnutrition	<p>GPs will ensure that:</p> <ul style="list-style-type: none"> - all children of the area up to the age of three years are brought under regular surveillance through the ICDS program or otherwise. - malnourished children receive adequate supplementary nutrition through local arrangements for which the GP will make provision for economically weaker households out of their own resources, if no such provision is there out of any existing program.
Providing elementary curative services	The Health & FW department has entrusted maintenance of health Sub-Centers to GPs. 930 Homeopathic dispensaries, 154 Ayurvedic dispensaries and 48 allopathic clinics are being run at present in GPs without having any Government run health centers within their geographical area. All the doctors in those GPs are engaged on contract by the GPs and expenses for medicines etc. are borne both by the State Government and the GPs themselves. Where no such centre exists, GPs will be provided assistance by the State Government to run a dispensary by engaging a graduate doctor from a prescribed system of medicine as may be advised by Health and Family Welfare Department.
Prevention of communicable diseases	The GP will pass on information of any incidence of outbreak of communicable diseases to the appropriate agencies and will provide all local supports to make government interventions effective in containing the same along with taking up local measures for preventing recurrence of such incidents.
Services Related to Universal Literacy and Elementary Education	
Primary and upper primary education	The responsibility of supporting community managed education centers for primary and upper primary level education have fully devolved to the Panchayats of the State in order to provide necessary access to all children. It will be the responsibility of the GPs to ensure 100% enrollment and their retention till class VIII standard using the State sponsored or Panchayat sponsored institutes. The responsibility of the State Government will be to augment the capacities of all the tiers of Panchayats for achieving this important goal.
Mid Day Meal	Gram Panchayats work as an associate of the School Education Department in implementing the Mid Day Meal program with due support from the upper tiers. The GPs have engaged the SHGs for cooking and distribution of food and also have constructed kitchen sheds for running the program.
Roads, irrigation, and drainage	
Road connectivity	Responsibilities of the PS and the GP will be to connect by semi-metal roads all the habitations not covered under the PMGSY and lying unconnected so far with the existing network of metal roads, depending on whose exclusive

	jurisdiction the road is located. Construction of roads within one habitation or between two habitations within one GP will be the sole responsibility of the GP concerned. In its annual budget, the Panchayat body owning the roads will allocate enough funds based on its resources for maintenance of roads. The Panchayat body owning any road should be responsible to ensure safety of the roads (proper road signs, controlling traffic speed in congested areas, educating the inhabitants about all safety measures).
Irrigation	Every GP will prepare a GIS based map showing existing irrigation systems including all tanks used for irrigation and untapped potential within its area with the help of higher tiers and the State Government to work out a sustainable water management plan with maximum irrigation.
Drainage	Responsibility for providing appropriate drainage facilities for each habitation will primarily lie with the GPs. What cannot be taken up by the GP on grounds that the task is beyond its technical competency or if the command or impact area is spread over more than one GP then the higher tiers will be involved.
Development of Habitat, Housing for the Poor and Other Civic Planning	
	Under the law, Gram Panchayats are the sanctioning authorities for building plans. The GP will be responsible for development of durable houses with less vulnerability from natural disaster for all families living within its jurisdiction so that providing essential civic services to all the households becomes easier. Every GP will come out with a plan for those who do not possess even homestead land and deserve assistance for constructing houses. Based on that, the GPs will be assisted by the State Government to acquire land for developing settlements for those families.
Issuing Trade Registration Certificates and Licenses	
	The GP has the authority to issue trade registration certificates for carrying out any business within its jurisdiction.
Disaster Management	
	Each GP will be required to develop a Disaster Management Plan in consultation with the community for mitigating the impact of any disaster and to take as much pre-emptive action as possible.

Source: Government of West Bengal (2009a).

Annex B: Manual for the West Bengal Grants Simulation Model

The preparation of policy simulations is a key analytical step in the development of a new system of intergovernmental grants. Such simulations show the amounts of transfer funds that GPs would receive under the proposed transfer mechanisms. The simulations would clearly depict the impact of introducing the proposed transfer mechanism, provide transparency, show who the recipients are, and give some indication whether the grant size per GP would allow any meaningful projects.

As such simulations contribute to answering up front whether the proposed reforms are politically acceptable. Simulations would also provide the basis for further analysis and allow one to evaluate the impact of the proposed mechanism on the finances of targeted GPs.

Rather than simulating a single set of grants design choices, the study team has developed a completely functioning simulation model specifically for the case of West Bengal. This model allows the user to simulate and consider a number of options for different grant design choices.

B.1 Description of the simulation model

This document is accompanied by a Microsoft Excel® file containing the *West Bengal Grants Simulation Model*.²⁶ The simulation model allows policy makers to “try out” and simulate a wide array of design options for the allocation mechanism. The model has been developed in a user-friendly format that should be accessible to anyone with minimal exposure to computers and spreadsheet programs.

B.1.1 Model structure and data issues

The simulation model consists essentially of four components:

- First, an intergovernmental grant system is driven by a set of design choices. The design choices made by the model’s user determine the per capita level of funding in each year, which in turn determines the annual aggregate flows. These design choices are included in the spreadsheet model in the first worksheet “FUNDING.” In this spreadsheet, the model’s user also specifies exchange rate for the Indian Rupee versus US Dollar.
- Second, an intergovernmental grant system is driven by the available GP-level data, which are used to define the universe of eligible GPs. These data, including

²⁶ The *West Bengal Grants Simulation Model* is programmed in Microsoft Excel® (version 6 and later). The file takes up approximately 3,000 KB of disk space and should run on virtually any personal computer. It is recommended that the model be run from the hard drive for improved performance.

GP population and self-evaluation scores, entered into a worksheet named “UNIVERSE.”

- Third, the available data are used to compute grant allocations in each fiscal year. Based on the policy options chosen with regard to the per capita funding and the data for GP population, the model computes or simulates the level of grants that each GP would receive under the selected grant design choices. This is done in several worksheets, each indicated by the name of the year of the program: “YEAR1,” “YEAR2,” “YEAR3,” “YEAR4,” and “YEAR5,” correspondingly. Each of these worksheets also includes a column to enter performance scores from the last annual assessment.

B.1.2 Advantages of the worksheet model structure

A spreadsheet program provides the appropriate platform to develop this model, for a number of reasons:

- Since the model should be understandable to a wide variety of government officials (including GP officials), the model should be developed in a user-friendly format that should be accessible to anyone with minimal exposure to computers.
- The software used should provide a flexible environment, allowing the model’s user to change policy parameters without altering programming code.
- The model should be as transparent as possible, so that every user can observe and track each step in the grant allocation process that the model simulates.

In order to facilitate use of the model, we have taken advantage of a number of factors of the spreadsheet program:

- Data fields are color-coded. Policy variables that can be selected by the model’s user are indicated in light green. Variables that directly depend on the user’s selection are indicated in light yellow.
- Reliance on formulas. The spreadsheet simulation model uses spreadsheet links and formulas, rather than requiring the manual computation of each step of the grant allocation process. This minimizes computational errors and assures that when a value (for instance the per capita funding level) is changed, all related values that depend on this amount are automatically updated.
- Fields are protected. The areas that do not require user input are “protected” to prevent accidental changes in the spreadsheet model’s programming.²⁷

²⁷ Each worksheet can easily be “unprotected” by clicking on “Tools\Protection\Unprotect Sheet” in Excel 2003 or clicking **Unprotect Sheet** in the **Changes** group on the **Review** tab in Excel 2007(no password was used). This would allow more advanced users to make modifications to the model.

- Transparency. The structure of the model was kept as transparent as possible. This allows the user to see each step of the simulation process and also allows for future modifications of the programming in the model.

B.1.3 Data sources and issues

In order to simulate alternative intergovernmental grant schemes, data are needed in order to compute the potential allocation factors. In the development of the simulation model, we were often forced to rely on data sets that were dated and sometimes incomplete; whenever actual data were not available for regions, we were forced to impute these values for the purpose of making the simulation model operational. Of course, to the degree that actual data were unavailable, the accuracy of the simulation model is reduced. Naturally, actual data are needed for all GPs in order for the final allocation amounts to be computed.

For completeness, we are providing a description of the problems that we encountered with specific variables included in the simulation model:

- Population. The GP population numbers included in the model are obtained by aggregating to the GP level of data on village population. Some villages, accounting for 0.25 million out of total 58 million rural population, do have their GPs reported and thus remain unaccounted for. In order for population figures to be included in actual grant allocation, it is crucial that these figures be verified and updated using inter-census estimates.
- Self-evaluation scores. The model currently includes data from the 2006-07 self-evaluation while the actual grant allocation will utilize data from the 2008-09 self-evaluation.
- Performance scores. The model does not currently include any performance score and therefore sets the “passing mark” to be equal to zero. The actual grant allocation will utilize data from annual performance assessments and specify a “passing mark” for each year of the program.

B.2 How to use the simulation model

As outlined in Section 1, the *West Bengal Grants Simulation Model* has three main components:

- Determining funding levels
- Determining the universe of targeted GPs
- Computing the simulated allocations.

The current section walks step by step through the simulation model, allowing anyone with minimal exposure to Microsoft Excel or other spreadsheet programs to understand the workings of the model.

B.2.1 Determining funding levels

In the FUNDING worksheet the user is able to determine the per capita level of funding in each year, and the exchange rate for the Indian Rupee versus US Dollar as can be seen on Figure B.1:

Figure B.1
The Funding Worksheet

	A	B	C	D	E	F	G
1							
2							
3							
4		Exchange rate: (USD 1= (Indian Rupees)			46.00		
5							
6		Year 1	Year 2	Year 3	Year 4	Year 5	Total
7	USD/capita	0.5	1	2	2	2.5	8
8	Rs/capita	23	46	92	92	115	368
9	Total flow (Rs)	960,000,000	993,885,950	1,550,417,788	1,550,417,788	1,914,557,565	6,969,279,091
10	Total flow (USD)	20,869,565	21,606,216	33,704,735	33,704,735	41,620,817	151,506,067
11							

B.2.2 Determining the universe of targeted GPs

As can be seen in Figure B.2, the user can define the universe of targeted GPs as a certain fraction of top-performing GPs in each of the following nine districts: Bardhaman, Haora, Koch Bihar, Nadia, Bankura, Birbhum, Dakshin Dinajpur, Paschim Medinipur, and Purba Medinipur. The selection of eligible GPs in a district is made by specifying for each district the benchmark score for self-evaluation that GPs need to exceed in order to be selected. In order to select the same fraction of GPs from each district, the benchmark would need to be set higher for districts with better-performing GPs. User can also set the same benchmark for all districts resulting in under-representation of districts with worse performing GPs.

Figure B.2
The Universe Worksheet: selecting eligibility benchmarks

H	I	J	K
District name	Eligibility benchmark	% of eligible GPs	# of GPs
Koch Bihar	5.0	63.78%	127
Dakshin Dinajpur	5.0	56.92%	65
Birbhum	5.0	62.72%	169
Barddhaman	6.5	63.70%	270
Nadia	6.0	65.57%	183
Bankura	3.5	63.68%	190
Paschim Medinipur	4.5	61.38%	290
Haora	0.1	50.36%	137
Purba Medinipur	0.1	43.50%	223
Total		59.31%	1654
Eligible GPs			981

B.2.3 Computing the simulated allocations

The final computation (simulation) of the grant which flows to each GP takes place in three steps for each year (in worksheets “YEAR1,” “YEAR2,” “YEAR3,” “YEAR4,” and “YEAR5,” correspondingly):

- First, specifying the passing mark for the annual performance assessment in cell G3 determines GPs that qualify to receive the grant in a given year.
- Second, in order to compute the grant allocations, the per capita funding (shown in Cell H3 as selected in the FUNDING worksheet) is multiplied by the respective GP population (shown in Column D). The resulting grant amount is shown in Column H in Figure B.3.
- Third, the final grant amount for GP (Column I) is determined as the per-capita-based allocation amount (Column H) adjusted for floor and ceiling amount specified by the user in Cells I3 and I2 correspondingly .

Figure B.3
The Simulation Worksheets

	C	D	E	F	G	H	I
1							Ceiling/floor
2					Passing Mark	Rs./person	None
3					0	23	1,000,000
4	GP Name	GP population	Eligible	Performance score	Qualified	Allocation	Trimmed allocation
271	DAKSHIN BARA HALDIBARI	29,713	1		1	683,399	1,000,000
272	DEWANGUNJ	15,666	1		1	360,318	1,000,000
275	UTTAR BARA HALDIBARI	914	1		1	21,022	1,000,000
278	CHANGRA BANDHA	23,065	1		1	530,495	1,000,000
284	BAIRAGIRHAT	18,965	1		1	436,195	1,000,000
285	GOPALPUR	23,070	1		1	530,610	1,000,000
286	HAZRAHAT-I	27,667	1		1	636,341	1,000,000
287	HAZRAHAT-II	1,720	1		1	39,560	1,000,000
288	JORE PATKI	19,087	1		1	439,001	1,000,000
289	KEDARHAT	18,761	1		1	431,503	1,000,000
290	KURSHAMARI	15,577	1		1	358,271	1,000,000
291	NAYARHAT	20,405	1		1	469,315	1,000,000
292	BACHAGAR	21,620	1		1	497,260	1,000,000