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Utilisation, Fund Flows and Public Financial Management under the National Health Mission

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Abstract

This study provides insights on how institutional architecture for public fund flows affects budget execution. Using the case of the National Health Mission (NHM) in India, it highlights how the rules and procedures that govern release of public funds affect utilisation of budgeted resources. It analyses the utilisation of NHM funds in 29 States, and documents the processes for fund releases from State treasuries to implementing agencies in Bihar, Maharashtra and Odisha. The study finds that on average, only about 55 per cent of funds allocated for NHM were utilised in 2015-16 and 2016-17. In Bihar and Maharashtra, this was partly due to significant delays in release of funds from State treasuries to implementing agencies. The delays were a result of complex administrative procedures associated with the release of NHM funds from State treasuries. The existence of implementing agencies outside the States' administrative setup, and the rigid fragmented financial design of NHM has contributed to the complicated architecture of release processes.

Key Words: Public Fund Flow, Fund Utilisation, Public Financial Management, Budget Execution, National Health Mission

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1. Introduction

Institutional structure for public fund flows has an important bearing on the effective use of budgeted resources. An understanding of this institutional architecture, including the rules and procedures that govern the release and utilisation of public funds, is essential for improved use of public resources.

In a federal structure of Government, public funds have to flow through multiple levels of governments and administrative units before these can be spent for the designated goods and services. In India, several public schemes are initiated at the National level and implemented at the sub-national level. In such schemes, public funds flow through a number of decentralised units (States, districts, blocks and lower-level structures) before they can be spent for the purpose. The processes involved in release of funds at each tier of the decentralised architecture have important implications for budget execution.

Execution of health budgets in developing countries has received considerable attention in recent years (Barroy H. *et al.,* 2016; Cashin C. *et al.,* 2017; Welham B. *et al.,* 2017). This attention has gained momentum following the commitment to Universal Health Coverage (UHC) in many countries. It has been argued that UHC would not only involve a larger commitment to public spending on health, but also more effective use of public resources. With fiscal parameters constraining public spending on health in many developing countries, the improved use of public resources through better budget execution can play an important role in complementing the Government's efforts in expanding the resource envelope for UHC.

Empirical evidence of poor budget execution in the health sector has been highlighted in a few developing countries. Studies in Nepal and Ghana have shown how delays in transfer of funds in the health sector leads to underutilisation of health budgets and affect service delivery (Hart, 2017; Blanchet et al., 2012; Schieber et al., 2012). The factors that lead to delay in transfer of funds have been less explored. Country specific studies in local contexts are required for an understanding on the issue (Welham B. *et al.,* 2017). This study attempts to contribute in that direction.

In India, preliminary studies on selected schemes initiated by the National Government had also pointed out problems of budget execution (Gupta et al., 2011; Gayithri, 2012; Choudhury et al., 2013; Barker et al., 2014; Bhanumurthy et al., 2014). These studies have argued that the nature of involvement of different tiers of Government and administration, and the institutional features associated with them have lowered the effectiveness of funds allocated to many of these schemes. Many schemes are decentralised in nature and the poor capacity for planning and implementation at the lower units of the decentralised structure has been argued to result in poor budget formulation and execution of these schemes. Further, in the decentralised structure, coordination between the lowest decentralised unit in States and the highest unit at the national level for planning and execution is often time consuming, and this delays the process of budget approval and execution of these schemes. Moreover, institutional gaps

like the vacancies of staff at the lowest levels of implementation units and improper planning across different components of budgets have been argued to lower the effectiveness of the resources allocated to these schemes.

A recent reform related to the institutional architecture for public fund flows in India has opened up the possibility of exploring implications of such changes. Till March 2014, funds for various schemes initiated by the National Government were directly transferred to implementing agencies in States, bypassing the treasuries of the State Governments. Since April 2014, funds for such schemes are being released to State-level implementing agencies through the treasuries of the sub-National (State) Governments.[4] The reform has added an additional layer in the architecture of fund flows under schemes sponsored by the National Government.

This study focuses on the institutional architecture for the release of funds from State treasuries to implementing agencies, and its relationship with budget execution in India's health sector. Specifically, we undertake an examination of funds under the National Heath Mission (NHM), to derive insights on the institutional features that affect the extent to which resource allocations for the health sector are optimally used for providing health services. NHM is the single largest scheme in India's health sector, and constitutes about a third of all Government health expenditures in the country. We examine the utilisation of NHM funds in 29 Indian States in 2015-16 and 2016-17 and highlight the institutional arrangements for release of funds from sub-National Governments to State-level implementing agencies of the scheme in three selected States: Odisha, Bihar and Maharashtra. It provides evidence on the factors that contribute to poor execution of health budgets in India.

2. Data and Methodology

The extent of utilisation of NHM funds is analysed here using the utilisation ratio. The utilisation ratio is defined as the ratio of actual expenditure to total allocation. For calculating utilisation ratios, data on actual expenditures (both aggregate and quarterly) have been compiled from the Financial Management Reports (FMRs) of States for the respective years.[5,6] For State-wise allocation under NHM, data have been compiled from the Record of Proceedings (RoPs) of each State provided by the Ministry of Health and Family Welfare.[7] It is important to note that the approved allocation figures in RoPs are

[4] This was based on the recommendations of the High-level Expert Group, which was constituted by the National Government in 2010 for suggesting reforms on Efficient Management of Public Expenditure.

[5] Financial Management Reports (FMRs) are quarterly expenditure statements submitted by State-level implementing agencies (State Health Societies) to the Ministry of Health and Family Welfare. It indicates the quarterly expenditure against the allocation for each budget head under NHM.

[6] As FMRs for both the years excluded expenditure towards 'Infrastructure Maintenance' (IM), the allocations for IM were also netted out from total approvals to calculate the utilisation ratio. In other words, the utilisation ratios calculated here is net of the IM component. It includes the components RCH-Mission Flexible Pool, Flexible Pool for communicable Diseases and Flexible Pool for non-communicable diseases and NUHM.

[7] These include the approvals made through supplementary RoPs as well. The RoPs is the minutes of the meeting of the National Program Coordination Committee (NPCC) for NHM, which highlights the State-wise final approvals for NHM in each year.

inclusive of both committed and uncommitted unspent balances available in States. It also includes the resources expected from State Governments in the form of matching contribution to the scheme. The utilisation ratio here therefore, reflects the utilisation out of all funds potentially available for the scheme.

The choice of States for understanding institutional structures was based on the extent of utilisation of NHM funds in 2015-16 and 2016-17. Odisha was taken up as a State which had one of the highest utilisation ratios in the country, whereas Bihar and Maharashtra were chosen for relatively poor utilisation: the utilised amount was less than half the allocated funds in these States. The insights drawn with respect to individual States were based on unstructured interviews and data provided by officials of State Health Societies (SHSs), Department of Health and Family Welfare and the Finance Departments of the three States for 2015-16 and 2016-17.[8]

3. Utilisation of Funds under the National Health Mission

Utilisation of NHM funds was remarkably low in both the years. On average, only about 55 per cent of the funds allocated to States were actually spent (Table 1). The utilisation ratio was marginally lower in the group of States with poor health achievements (High-Focus States) than those with relatively better health achievements (Non-High Focus States). This is an area of concern as NHM funds were primarily meant to support health spending in poor performing States. Also, utilisation of NHM funds was higher in some of the better-off States like Tamil Nadu, Kerala, Gujarat and Punjab than poor States like Bihar, Uttar Pradesh and Jharkhand. This is can potentially accentuate the inequality in health spending across States. Interestingly however, even among the worse-off States, there are a few exceptions: Madhya Pradesh and Odisha ranked high in terms of utilisation ratios. In contrast, Maharashtra a relatively better-off State stood at the bottom in fund utilisation in both the years (Table 1). In the high-focus North-Eastern States (N.E.) with the exception of Assam and Arunachal Pradesh), the utilisation ratio was low in both the years (Table 1).

The overall utilisation ratios are affected by systematic differences in utilisation ratios among its components. The utilisation ratio in the RCH flexible pool (RCHFP) was higher than Mission Flexible pool (MFP) in almost all States. Similarly, the combined utilisation of RCHFP and MFP was higher than those of other components of NHM in almost all States (Table 1). Given that there are no major systematic differences in the procedure of release among various components of NHM, these differences can be attributed to other institutional weaknesses.

The problem of low utilisation is further compounded by a disproportionately high share of expenditure in the last quarter of the financial year. On average, about 40 per cent of total expenditure in States was incurred in the last quarter (Table 2). Among the high-focus N.E. States, the share of expenditure in the last quarter was even higher; more than two-thirds of total expenditure. Notably, although Assam and Arunachal Pradesh had

[8] SHSs are the State-level implementing agencies for NHM in each State.

better utilisation ratios than other N.E. States, bulk of the expenditure (more than 70 per cent) was incurred in the last quarter. The disproportionate expenditure in the last quarter of the financial year in States could be due to delay in flow of funds to implementing agencies, which limits the availability of funds for expenditure at a specific point of time.

Table 1: Overall and component-wise utilisation ratios under the National Health Mission, 2015-16 and 2016-17 (per cent)

States	2015-16							2016-17						
	Overall	Part I: (RCH/Mission FP, Immunization, NIDDCP			Part II (FP_CD)	Part III (FP_NCD)	Part IV (FP_NUHM)	Overall	Part I: (RCH/Mission FP, Immunization, NIDDCP			Part II (FP_CD)	Part III (FP_NCD)	Part IV FP_NUHM
		Total	RCH_ FP	M_FP					Total	RCH_ FP	M_FP			
High-Focus States (Other than North-East)														
Bihar	51	53	65	35	40	16	29	44	47	61	32	36	17	30
Chhattisgarh	56	64	71	60	63	14	49	67	69	66	71	66	30	70
Himachal Pradesh	59	63	65	61	49	29	9	69	71	79	68	49	22	53
Jammu and Kashmir	58	73	80	66	65	29	83	56	61	72	49	40	7	51
Jharkhand	42	44	52	35	87	11	-	48	54	74	37	48	26	15
Madhya Pradesh	74	-			68	59	53	70	71	76	67	54	61	54
Odisha	75	81	84	80	64	44	64	69	71	88	60	64	40	
Rajasthan	58	59	69	54	48	65	44	57	59	70	52	53	53	55
Uttar Pradesh	45	45	61	37	45	27	48	45	44	56	37	57	37	55
Uttarakhand	62	67	75	54	12	12	71	58	70	71	65	49	11	60
Average	**54**	**59**	**71**	**50**	**52**	**33**	**50**	**54**	**55**	**66**	**47**	**52**	**35**	**58**
Non-High Focus Large States														
Andhra Pradesh	67	75	83	71	54	37	25	71	74	74	73	63	68	55
Gujarat	75	72	72	71	84	98	76	83	82	89	78	95	73	84
Haryana	60	74	79	63	50	31	60							
Karnataka	55	67	67	65	72	45	23	40	36	55	24	72	48	69
Kerala	70	76	79	72	62	89	63	80	84	85	82	51	56	76
Maharashtra	44	49	65	39	65	41	21	45	48	54	45	60	37	21
Punjab	69	64	77	56	64	53	46	79	82	88	82	62	55	79
Tamil Nadu	74	49	60	44	74	71	67	80	82	80	88	56	86	78
Telangana	30	36	63	20	29	14	5	33	36	51	25	24	10	28
West Bengal	45	59	58	60	49	12	10	62	68	76	64	64	18	38
Average	**56**	**58**	**67**	**52**	**61**	**42**	**32**	**57**	**61**	**69**	**56**	**60**	**46**	**47**
High Focus North Eastern States														
Arunachal Pradesh	73	99	75		37	13	71	63	62	56	67	72	48	
Assam	68	69	75	65	49	39	55	72	76	77	76	39	32	57
Manipur	51	64	53	74	29	41	29	30	36	49	27	19	6	16
Meghalaya	42	72	77	70	38	13	65	43	45	54	41	40	24	26
Mizoram	46	70	72	69	-	22	57	42	44	49	38	37	42	16
Nagaland	32	60	73	45	15	-	48	36	40	46	35	16	24	39
Sikkim	49	50	66	40	61	66	60	59	63	69	60	42	52	31
Tripura	47	47	60	41	36	36	25	53	53	63	48	98	39	28
Average	**60**	**69**	**73**	**66**	**44**	**35**	**57**	**57**	**64**	**68**	**61**	**41**	**31**	**40**
All States	**55**	**60**	**70**	**52**	**55**	**37**	**38**	**55**	**58**	**67**	**51**	**54**	**39**	**50**

Source: Actual Expenditures have been compiled from the FMR of States. Data on total budget have been compiled from the RoPs/supplementary RoPs and FMR of States. Total budget includes both committed and uncommitted unspent balances in each year and the resources expected from both the Union and State Governments for the scheme.

Note: RCH_FP refers to Flexible Pool for Reproductive and Child Health; M_FP refers to Mission Flexible Pool; FP_CD refers to Flexible Pool for Communicable Diseases; FP_NCD refers to Flexible Pool for Non-Communicable Diseases, and FP_NUHM refers to Flexible Pool for National Urban Health Mission.

As FMRs do not include information on expenditures under 'Infrastructure Maintenance' (IM), these were excluded from the above analysis. The FMRs of States included information on four components: NRHM-RCH Flexible Pool' and 'Flexible Pool for Communicable Diseases', 'Flexible Pool for Non-Communicable Diseases' and 'National Urban Health Mission'. The figures in the above table include all these four components.

Utilization is calculated as actual expenditure as a percentage of total budget in respective parts.

Table 2: Cumulative expenditure in each quarter under the National Health Mission, 2015-16 and 2016-17 (per cent)

States	Expend. between Apr-Jun (Q1)		Cum expend at the end of Sept. (Q2)		Cum expend at the end of Dec (Q3)		Cum expend at the end of Mar (Q4)	
	2015-16	**2016-17**	**2015-16**	**2016-17**	**2015-16**	**2016-17**	**2015-16**	**2016-17**
High-Focus States (Other than North-East)								
Bihar	7	9	26	29	54	44	100	100
Chhattisgarh	-	19	36	39	59	64	100	100
Himachal Pradesh	-	9	37	44	61	62	100	100
Jammu and Kashmir	-	14	33	35	52	60	100	100
Jharkhand	-	16	24	41	55	61	100	100
Madhya Pradesh	-	8	36	33	61	58	100	100
Odisha	-	9	36	35	60	61	100	100
Rajasthan	17	14	39	37	65	63	100	100
Uttar Pradesh	8	12	27	35	55	58	100	100
Uttarakhand	13	13	30	28	67	56	100	100
Average	**6**	**12**	**32**	**35**	**58**	**58**	**100**	**100**
Non-High Focus Large States								
Andhra Pradesh	-	11	26	32	72	58		100
Gujarat	-	11	28	31	53	55	100	100
Haryana	-	15	42	39	61	61	100	100
Karnataka	-	11	31	36	54	61	100	100
Kerala	-	14	36	33	60	64	100	100
Maharashtra	-	7	28	26	57	59	100	100
Punjab	-	17	40	37	64	62	100	100
Tamil Nadu	-	7	38	40	52	69	100	100
Telangana	17	13	34	29	58	52		100
West Bengal	-	15	37	37	60	59	100	100
Average	**1**	**11**	**33**	**34**	**58**	**60**	**100**	**100**
High Focus North Eastern States								
Arunachal Pradesh	-	6	28	19	77	34	100	100
Assam	-	10	33	30	70	58	100	100
Manipur	7	18	31	47	56	68	100	100
Meghalaya	17	13	27	30	49	72	100	100
Mizoram	-	17	33	37	51	56	100	100
Nagaland	-	13	44	30	70	61	100	100
Sikkim	-	17	39	40	59	51	100	100
Tripura	-	14	37	28	63	61	100	100
Average	**1**	**11**	**33**	**30**	**67**	**57**	**100**	**100**
All States	**4**	**12**	**32**	**34**	**59**	**59**	**100**	**100**

Source: Financial Management Reports (FMRs) of respective States

4. Timeliness of Fund Flows in the Selected States

There has been substantial delay in release of funds from State treasuries to bank accounts of SHS in Bihar and Maharashtra in the two financial years. In both the States, about 80 to 85 per cent of all funds received were credited to the bank account of SHS with a time lag of more than two months (Table 3 and Table 4). In Bihar, the delay was particularly high in 2016-17. More than 80 per cent of all funds received in 2016-17 were credited to the bank account of SHS after a gap of 3 months (Table 3). Even in Maharashtra, about 14 per cent of all funds received in SHS account in 2016-17 were credited with a lag of more than 3 months (Table 4).

The substantial delay in release of funds from the State treasury to the SHS account has adversely affected the utilization of funds in Bihar. In 2016-17, the delay resulted in a situation where the first instalment of NHM funds reached the SHS only by the end of December 2016, leaving only the last quarter to spend the amount (Table 5). This could be partially responsible for the fact that about 56 per cent of all expenditure in the State in that year was incurred in the last quarter (Table 2). Notably, the first instalment (which was credited to SHS at the end of December) constituted nearly 80 per cent of all funds received in that financial year. The remaining 20 per cent of the funds received in that year was received only on 31st March, the last day of the financial year (Table 5). In general, no funds sanctioned (approved for release) since November 2016 could be credited to SHS account before March 2017 (Table 5). Even in 2015-16, about 45 per cent of funds were received in the last quarter, of which 18 per cent were credited only in March (Table 5). This again could be partially responsible for the fact that nearly half of all expenditure in that year (46 per cent) was incurred in the last quarter.

In Maharashtra too, the delays had adverse effects on utilization of funds. In 2016-17, about a quarter of the funds released to State treasury from the Consolidated Fund of India, could not be released to SHS. Of the GoI funds that were released by the State treasury, more than half the corresponding State share was not received by the SHS within the financial year. Besides, bulk of the State share (about 56 per cent) was received by SHS only in the last month of the financial year. This has severely reduced the timely availability of funds to implementing agencies. The situation is worse if one considers the fact that about a quarter of NHM funds received in State treasury of Maharashtra from GoI were not released to SHS within that financial year, which implies that the contribution of State was even lower.[9] Besides, as in Bihar, no funds sanctioned since December 2016 for Maharashtra could be credited to the SHS account before March 2017 (Table 6). In 2015-16, it was worse; nearly a third of the funds released to SHS in Maharashtra were credited only in March 2016 (Table 6).

[9] Notably, till 2015-16, the process for release of NHM funds was even lengthier. The request for release used to be processed by 13 different units within the Health Department as the NHM budget is spread out over 13 different budget heads in the State budget. Besides, the Planning Department was also involved in processing the file (in addition to Finance and Health Department). Since 2016-17, the process has been relatively simplified. The file for release is now processed only by the Health and the Finance Department and request for all programmes are processed by a single section within the Health Department. Despite the simplification, the process remains cumbersome.

Table 3: Number of days taken to credit Central Share in SHS account of Bihar

Number of days	Between issue of SO by GoI and receipt of funds in State treasury			Between receipt of funds in State treasury and credit to SHS Account*		
	Amount credited (Rs. Crore)	Distribution (per cent)	Average no. of days	Amount credited (Rs. Crore)	Distribution (per cent)	Average no. of days
2016-17						
0-7	658.2	85.6	5	-	-	
8-15	111	14.4	12	0.2	0.02	13
16-30	0.2	0.02	*	-	-	
31-90				121.4	15.8	72
90+				647.8	84.2	113
Total	**769.4**	**100**		**769.4**	**100**	
2015-16						
0-7	635.1	82.2	4			
8-15	127.6	16.5	12	5.2	0.7	9
16-30	10.3	1.3	*	127.4	16.5	21
31-90				398.6	51.6	65
90+				241.9	31.3	154
Total	**773.1**	**100**		**773.1**	**100**	

Source: The data on the date of receipt of funds in the State treasury are sourced from Finance Department, Bihar. Data on the date of credit of funds to SHS account and date of Sanction Orders (SO) are collected from SHS, Bihar. The dates of SO were also cross-checked with list of SO provided by the Ministry of Health and Family Welfare.

*In 2015-16, Rs. 20.37 Crore received in the State treasury could not be credited to the bank account of SHS by the end of the financial year. It was adjusted in the next financial year. GoI refers to Government of India.

Table 4: Number of days taken to credit Central Share in SHS account of Maharashtra

Number of days	Between issue of SO by GoI and receipt of funds in State treasury			Between receipt of funds in State treasury and credit to SHS Account*		
	Amount credited (Rs. Crore)	Distribution (per cent)	Avg. no. of days	Amount credited (Rs. Crore)	Distribution (per cent)	Avg. no. of days
2016-17						
0-7	615.6	88.6	5			
8-15	76.1	11.0	12			
16-30	2.8	0.4	27	2.8	0.4	30
31-90				595.2	85.7	56
90+				96.5	13.9	148
Total	**694.5**	**100**		**694.5**	**100**	
2015-16						
0-7	756.1	99.4	2			
8-15						
16-30						
31-90	4.8	0.6	50	658.8	86.6	57
90+				102.1	13.4	152
Total	**760.9**	**100**		**760.9**	**100**	

Source: The data on the date of receipt of funds in the State treasury are sourced from Finance Department, Maharashtra. Data on the date of credit of funds to SHS account and date of SO are collected from SHS, Maharashtra. The dates of SO were also cross-checked with list of SO provided by the Ministry of Health and Family Welfare.

Note: *In 2015-16, Rs. 59.75 Crore received in the State treasury could not be credited to the bank account of SHS by the end of the financial year. It was adjusted in the next financial year. In 2016-17, the amount was about Rs. 242.4 Crore.

Table 5: Receipt of different instalments released by GoI during the years 2015-16 and 2016-17 in Bihar

Release Towards	Date of Sanction Order (SO)	Date of receipt in SHS Ac	Share of total receipts from GoI (per cent)
		2016-17	
NRHM-RCH Flexible Pool	2nd Sept, 2016	26th Dec, 2016	78.9
RNTCP	7th Nov 2016	31st Mar, 2017	2.8
IDSP	29th Nov, 2016	31st Mar, 2017	0.3
NVBDCP	9th Dec, 2016	31st Mar, 2017	2.3
NRHM-RCH Flexible Pool	13th Jan, 2017	31st Mar, 2017	15.8
Total			**100**
		2015-16	
NRHM-RCH Flexible Pool	24th June, 2015	11th Sep, 2015	48.6
		29th Dec, 2015	3.8
		25th Jan, 2016	22.4
RNTCP	29th June, 2015	11th Sep, 2015	1.8
		25th Jan, 2016	1.0
NUHM	8th July, 2015	15th Dec, 2015	2.1
NVBDCP and Flexible Pool for NCDs	30th Sep, 2015	16th Feb, 2016	2.0
NPCDCS	21st Oct, 2015	31st Mar, 2016	0.05
IDSP	9th Dec, 2015	16th Feb, 2016	0.2
NVBDCP	15th Dec, 2015	18th Mar, 2016	0.6
NVBDCP	11th Feb, 2016	19th Mar, 2016	1.6
NVBDCP	24th Feb, 2016	31st Mar, 2016	15
NRHM-RCH Flexible Pool	29th Feb, 2016	31st Mar, 2016	0.9
Flexible Pool for NCDs	25th Feb, 2016	**Not received@**	
NLEP	22nd Mar 2016		
Total			**100**

Source: State Health Society, Bihar @ Some of the funds credited to the State treasury could not be credited in SHS bank account within the financial year. It was adjusted in the next financial year.

Table 6: Receipt of different instalments released by GoI during the years 2015-16 and 2016-17 in Maharashtra

Release Towards	Date of Sanction Order (SO)	Date of receipt in SHS Ac	Share of total receipts from GoI (per cent)
2016-17			
NRHM-RCH Flexible Pool	21st Sep, 2016	29th Oct, 2016	68.4
	21st Sep, 2016	9th Dec, 2016	7.1
Flexible Pool for NCDs	30th Sep, 2016	24th April, 2017	3.7
RNTCP	11th Nov, 2016	1st Feb., 2017	6.2
		2nd Mar, 2017	0.6
NVBDCP	9th Dec, 2016	26th April, 2017	0.7
		24th April, 2017	0.1
NUHM	26th Dec, 2016	20th April, 2017	1.9
		24th April, 2017	6.9
IDSP	19th Jan., 2017	24th April, 2017	0.3
NRHM-RCH Flexible Pool	28th Feb., 2017	24th April, 2017	4.1
Total			**100**
2015-16			
NRHM-RCH Flexible Pool	15th Sep, 2015	20th Oct, 2015	52.1
		5th Dec, 2015	6.2
		28th Dec, 2015	7.8
RNTCP	29th Sep, 2015	28th Dec, 2015	1.5
		29th April, 2016	2.3
Flexible Pool for NCDs	30th Sep, 2015	29th Feb., 2016	2.5
		11th Mar, 2016	0.4
		29th April, 2016	0.3
NVBDCP	8th Oct., 2015	29th Feb., 2016	0.5
		11th Mar, 2016	0.1
		29th April, 2016	0.1
NLEP	7th Dec, 2015	29th Feb., 2016	0.3
		11th Mar, 2016	0.04
		29th April, 2016	0.03
NCD	25th Feb., 2016	29th April, 2016	0.5
NRHM-RCH Flexible Pool	26th Feb., 2016	31st Mar, 2016	23.2
		29th April, 2016	2.4
Total			**100**

Source: State Health Society, Maharashtra
@ Some of the funds credited to the State treasury could not be credited in SHS bank account within the financial year. It was adjusted in the next financial year.

Unlike Bihar and Maharashtra, the time taken for release of funds from State treasury to SHS account in Odisha was much lower. In 2016-17, about 94 per cent of all funds received by SHS were credited in less than a month's time (Table 7). In 2015-16, this proportion was around 84 per cent (Table 7). Importantly, more than 90 per cent of the funds received by SHS in 2016-17,

and 85 per cent in 2015-16 were credited to the bank account of SHS by end of December in that financial year (Table 8).

Table 7: Number of days taken to credit Central Share in SHS account of Odisha

Number of days	Between issue of SO by GoI and receipt of funds in State treasury			Between receipt of funds in State treasury and credit to SHS Account*		
	Amount credited (Rs. Crore)	Distribution (per cent)	Average no. of days	Amount credited (Rs. Crore)	Distribution (per cent)	Average no. of days
2016-17						
0-7	445.3	85.2	4	14.8	2.8	0*
8-15	66.4	12.7	9	71.0	13.6	12
16-30	10.6	2.0	64	406.6	77.9	23
31-90				29.8	5.7	38
90+						
Total	**522.2**	**100**		**522.2**	**100**	
2015-16						
0-7	446.4	97.1	3	66.9	14.6	3
8-15	6.3	1.4	12			8
16-30	7.0	1.5	22	318.9	69.4	22
31-90				17.5	3.8	66
90+				56.4	12.3	98
Total	**459.7**	**100**		**459.7**	**100**	

Source: The data on the date of receipt of funds in the State treasury are sourced from Finance Department, Odisha. Data on the date of credit of funds to SHS account and date of SO are collected from SHS, Odisha. The dates of SO were also cross-checked with list of SO provided by the Ministry of Health and Family Welfare. *Note*: *In 2015-16, Rs. 11.21 Crore received in the State treasury could not be credited to the bank account of SHS by the end of the financial year. It was adjusted in the next financial year. In 2016-17, the amount was about Rs. 0.14 Crore.

Table 8: Receipt of different instalments released by GoI during the years 2015-16 and 2016-17 in Odisha

Release Towards	Date of Sanction Order	Date of receipt in SHS Account	Share of total receipts from GoI (per cent)
	2016-17		
NRHM-RCH Flexible Pool	2nd June, 2016	27th June, 2016	61.6
NVBDCP	22nd June, 2016	27th June, 2016	10.0
RNTCP	29th June, 2016	27th July, 2016	1.6
NUHM	9th Sep, 2016	8th Nov, 2016	1.7
NLEP	10th Oct, 2016	3rd Feb, 2017	0.4
NUHM	5th Dec, 2016	29th Dec, 2016	0.8
Flexible Pool for NCDs	8th Dec, 2016	3rd Feb, 2017	1.9
NRHM-RCH Flexible Pool	9th Dec, 2016	29th Dec, 2016	12.4
Flexible Pool for NCDs	20th Jan, 2017	28th Feb, 2017	1.9
NUHM	31st Jan, 2017	28th Feb, 2017	0.8
NRHM-RCH Flexible Pool	8th Feb, 2017	4th Mar, 2017	2.2
IDSP	23rd Feb, 2017	27th Mar, 2017	0.3
RNTCP	28th Feb, 2017	27th Mar, 2017	1.6
NVBDCP	29th Mar, 2017	31st mar 2017	2.8
NLEP	23rd Mar 2017	Not Received@	
Total			**100**
	2015-16		
NRHM-RCH Flexible Pool	9th June, 2015	27th June, 2015	64.8
RNTCP/IDSP	29th June, 2015	27th July, 2015	3.0
NVBDCP	6th July, 2015	19th Aug 2015	1.5
NLEP	31st July, 2015	8th Oct 2015	0.2
Flexible Pool for NCDs	30th Sep 2015	4th Nov 2015	2.3
NRHM-RCH Flexible Pool	17th Dec 2015	23rd Dec 2015	14.6
NRHM-RCH Flexible Pool	17th Dec 2015	29th Mar 2016	7.0
NUHM	22nd Dec 2015	29th Mar 2016	5.3
NVBDCP	28th Dec 2015	29th Mar 2016	0.8
IDSP	31st Dec 2015	29th Mar 2016	0.4
NVBDCP	15th Dec 2015/30th Mar 2016		
Flexible Pool for NCDs	25th Feb 2015	Not received@	
NLEP	31st Dec 2015/22nd Mar 2016		
Total			**100**

Source: State Health Society, Odisha

@ Some of the funds credited to the State treasury could not be credited in SHS bank account within the financial year. It was adjusted in the next financial year.

5. Institutional Features Affecting Timeliness

The procedures for fund release from the State treasury to SHS in Bihar and Maharashtra are unduly lengthy (Figure 1, Figure 2 and Figure 3). As indicated in the figure, there are a minimum of 32 desks in Bihar and 25 desks in Maharashtra (in contrast to 10 in Odisha) through which the paper file for release has to pass through before funds can be released to SHS. Bulk of the movement of file over multiple desks is up and down the hierarchical State administrative set up for issuing SO [the approval letters] by State Governments for releasing funds to SHS.

In Bihar, specific structures for fund flows have complicated the process. Unlike Odisha and Maharashtra, there is an additional layer through which funds are channelled in Bihar. Funds received in the Consolidated Fund of Bihar (State treasury) are first transferred to a Personal Ledger Account (PL account) before being credited to the bank account of the SHS. PL account is an account of the SHS within the State treasury, which is used for depositing funds received by the State Government for transfer to the SHS. Till recently, as per the notification of the Finance Department, only 20 per cent of the funds deposited in the PL account could be withdrawn by SHS at a time.[10] Although the restriction on the upper limit of withdrawal of funds from PL account was waived by FD for every instalment, and was not implemented in practice, the need for special request for waiver in each instalment lengthened the process of withdrawal of funds.[11] Besides, unlike most other States, every instalment of release of funds to SHS in Bihar requires the approval of the Minister of Health, which further lengthens the process.

[10] In 2015-16, with special request from the Principal Secretary (Health), the Finance Department, allowed SHS to withdraw significantly larger proportions of funds from the PL account for each instalment. Similarly, in 2016-17, the Finance Department had allowed 100 per cent withdrawal of each instalment under special request from the Principal Secretary (Health). An examination of the receipts and payments from the PL account (information provided by the Finance Department), shows that all funds deposited in the PL account in 2015-16 and 2016-17 were withdrawn by SHS.

[11] As per the Finance Department, the creation of an additional account was required to deal with issues related to utilisation of NHM funds and their documentation by SHS.

Figure 1: **Process for release of NHM funds from State treasury to State Health Society in Bihar**

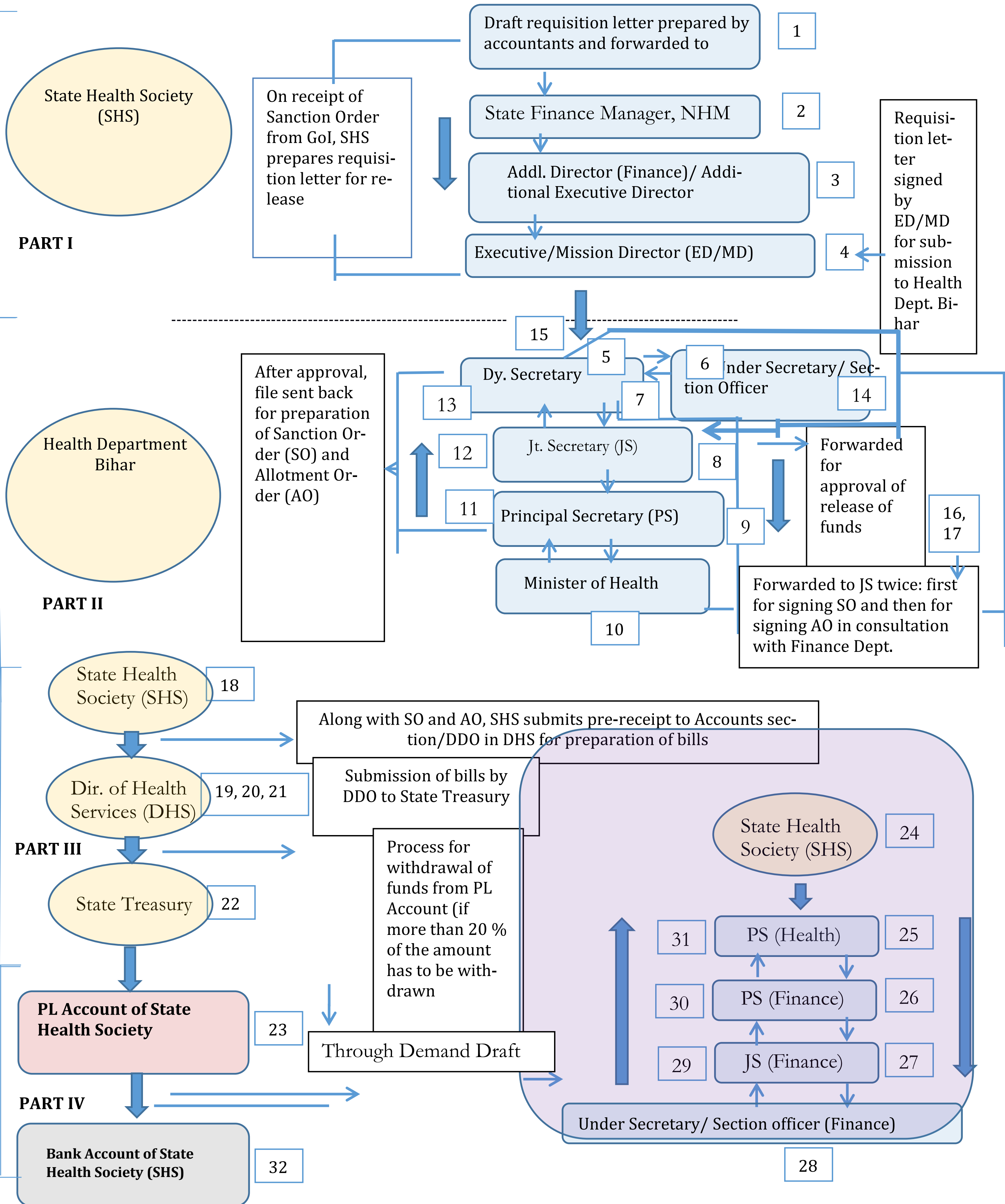


Figure 2: **Process for release of NHM funds from State treasury to State_Health Society Maharashtra**

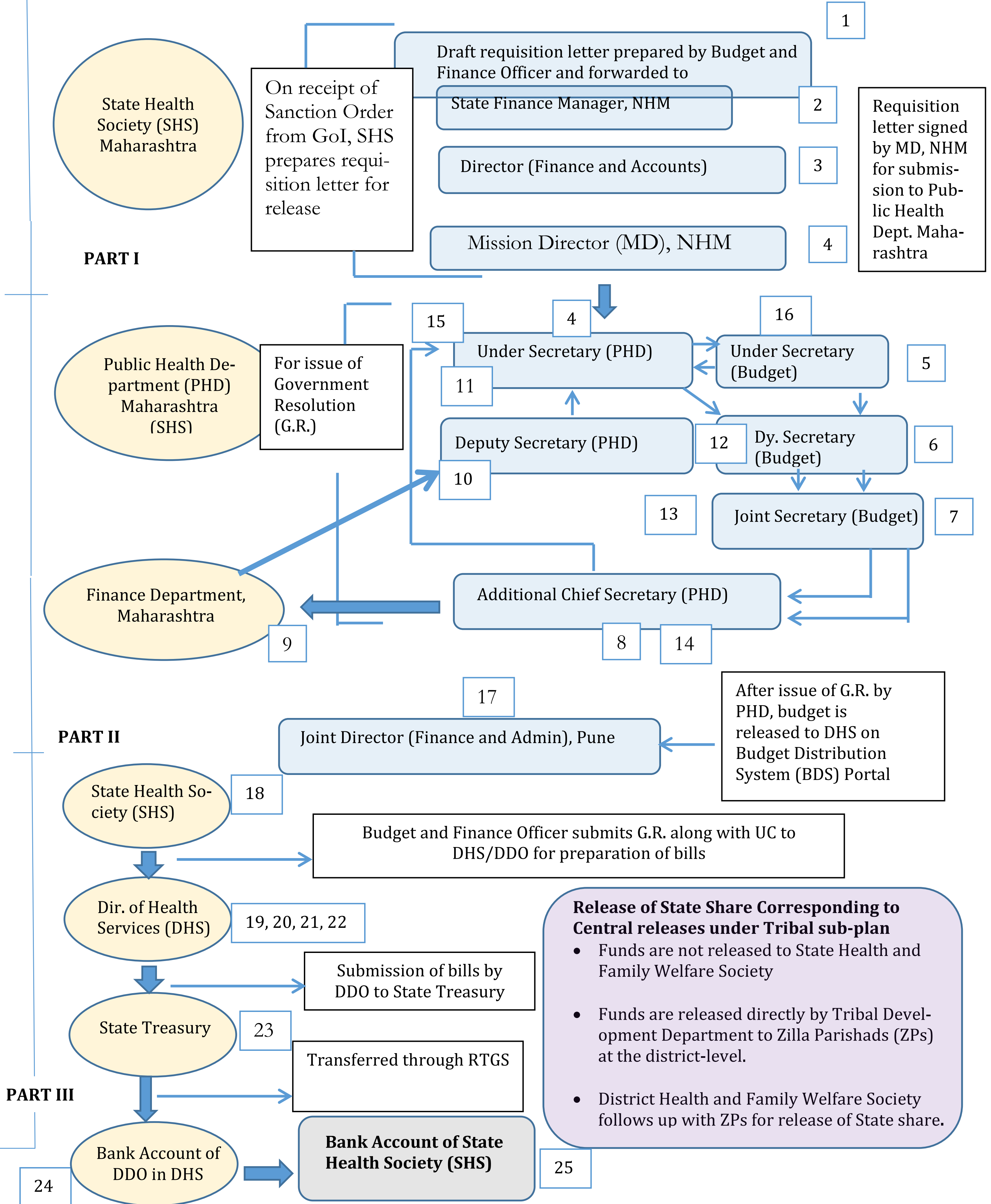
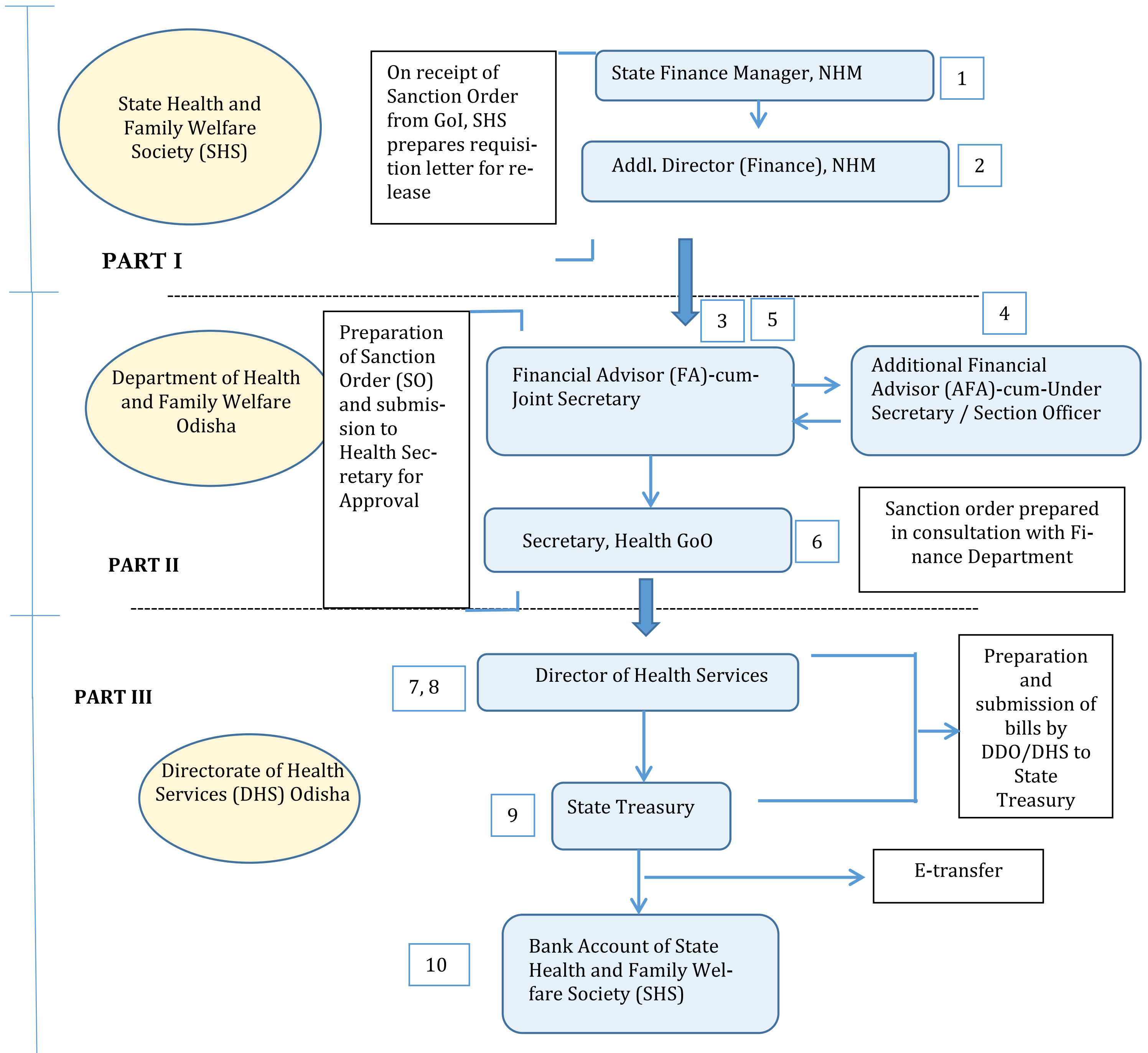


Figure 3: **Process for release of NHM funds from State treasury to State Health and Family Welfare Society in Odisha**



In Maharashtra, there is also a separation of the procedures for releasing the GoI and State share of NHM funds, which makes the overall process cumbersome. In Bihar and Odisha, for every instalment, the requisition letter sent by SHS to the Health Department (HD) includes the claim for corresponding State share against each instalment from the Centre. These letters are also processed in those States taking into account the combined claim by SHS for the Central and the State share. In contrast, in Maharashtra, due to apprehensions about releases, it has been a practice of the SHS to claim the State share only after the GoI share is credited to its bank account. This increases the number of iterations required for the release of funds, and results in an inordinate delay or non-receipt of funds (a lag of 4 to 5 months) after the GoI release.

Further in Maharashtra, funds are released to multiple agencies for different parts of the program. The State share towards NHM under tribal-sub-plan is treated differently and released directly by the Tribal Development Department to Zilla Parishads (ZP), the district government, unlike other grants, which are released to SHS. The requisition for release of the State share under tribal sub-plan is therefore submitted and followed up by each District Health Society to the Chief Executive Officer (CEO) of the ZP in the respective district. This adds to the complications in the process of release of NHM funds.

In contrast, in Odisha, certain institutional arrangements help to simplify the process and reduce the number of desks through which the file has to pass through for releasing funds to SHS. First, the placement of a 'Financial Advisor' (FA), an employee of the Finance Department (FD) within the Health Department prevents the need for the file (with requisition for release) to move to the FD for approval. The 'FA' in the Health Department clears issues with the FD without having the file to move to FD. This speeds up the process. Secondly, unlike Bihar and Maharashtra, the file does not move back and forth in the chain of hierarchy within the Health Department. On receipt of requisition from the SHS, the FA checks with the FD and sends the file to the relevant section in the Health Department for preparation of the SO. The draft SO is then forwarded to the Secretary of the Health Department for approval, from where it is passed on to the DHS for preparation and submission of bills by the DDO. In other words, the file with the requisition from SHS is moved up only once after clearance by FA and preparation of SO by the relevant section in the Health Department. Thirdly, the draft SO prepared by the relevant section is sent directly by the FA to the secretary, and does not pass through the entire hierarchy within the Health Department. This is in contrast to Bihar and Maharashtra wherein the file with the requisition passes through various desks up and down the hierarchy within the Health Department.

6. Other Rigidities in the Financial Architecture

Structuring of NHM budget into more than a 1000 budget lines, and limited flexibility in the use of funds across different flexible pools poses a hurdle in utilisation. Even within the same 'Flexible pool', budgets are often strictly segregated. Under the flexible pool for communicable diseases, funds for disease control programs like the Revised National Tuberculosis Control Programme (RNTCP), National Vector Borne Disease Control Programme (NVBDCP) and National Leprosy Eradication Programme (NLEP) are earmarked and approved for release by separate divisions within the Health Ministry and released separately. With separate budgets, releases and requirement of maintenance of accounts for individual disease control programmes, limited flexibility in using budgets across different heads exist even within the same pool.

The segregation of funds within the NHM budget and the requirement of separate financial reporting for each programme have complicated the implementing structure resulting in reduced transparency in utilization of funds. The reduced transparency has resulted into delays in fund releases in States like Bihar. A typical example of this is the existence of multiple bank accounts in implementing agencies which cater to different programmes under the scheme. Data provided by SHS in Odisha and Maharashtra suggest that the main (group) bank account of SHS is further subdivided into 8 to 9 sub-accounts to ensure segregation of funds under different programs. Releases to District Health Societies are made separately from each of these bank accounts. Similarly, multiple bank accounts exist at the level of districts and blocks, and funds are released from each of these accounts to implementing agencies at the lower level or to health facilities. The network of bank accounts and releases from each account at different levels for expenditure on different parts of the programme reduces transparency in accounting.

The existence of SHS outside the administrative boundary of the State Governments has further added complexities. Being outside the State administration, NHM Funds can be released to SHS only in the form of Grants-in-aid (GIA), which in turn can be released only on issuance of a SO by the State Government. GIA is a transfer of funds from the State Government to local Governments or implementing agencies for the purpose of funding a specific program or project. Much of the time consumption in the release process of States is in the issuance of SO. This is unlike withdrawals within the State administration where the approval of the budget is adequate to withdraw funds from the State treasury and no separate SO is required for release of funds. In addition, NHM grants cannot be withdrawn directly by SHS from the State treasury as they are not a part of the State administration. These are withdrawn by a Drawing and Disbursing Officer (DDO) in the Health Department.[12] Even in a relatively better performing State like Odisha, a significant number of days (nearly a week) are consumed in submission of bills even after the SO is issued.

Utilisation can also be adversely affected by factors unrelated to the financial architecture. Deficiencies of physical inputs (like lack of human resources) in State health systems pose major constraints in utilising NHM funds. Many of the interventions under NHM assume the existence of a certain set of complementary inputs in States, which are inadequate in many of the high-focus States. Partially due to this, the utilisation of funds under the Mission flexible pool in better performing States is higher than the poor performing States.

7. Upward and Downward Linkages in Fund Flows

It is important to recognise that releases to district-level implementing agencies are affected by the delay in receipt of funds at SHS. In Bihar, around 78 per cent of all funds transferred to districts under the RCH-Mission Flexible Pool in 2016-17, were released after the SHS received the first instalment of funds at the end of December (Table 9). Bulk of the releases to districts were made two days after the SHS received the first instalment of funds in December, thereby indicating a strong association between receipt of funds in SHS account and release of funds to district-level health societies. In Maharashtra too, about 63 per cent of all releases to districts in 2016-17 were made after funds were received by the SHS. More than a third of these were

[12] DDOs are officers authorized by administrative departments with the concurrence of the Finance Department along with the Auditor General (A.G.) to withdraw funds from the State treasury under various budget heads.

released after the receipt of first instalment of funds by the SHS (Table 9). In Odisha, the association was even stronger. About 81 per cent of funds transferred to districts under the RCH-Mission Flexible Pool were released after a day of receipt of funds in SHS account in that year (Table 9).

Table 9: Association of releases to districts with receipt of funds at SHS

	1st instalment received	
	In SHS	26th Dec
Bihar	Date of release to districts (78 % of all releases after receipt of first instalment at SHS)	28th Dec
	In SHS	29th Oct
Maharashtra	Date of release to districts (63 % of all releases after receipt of first instalment at SHS)	10th Nov
	In SHS	27th June
Odisha	Date of release to districts (81 % of all releases after receipt of first instalment at SHS)	28th June

Notably, part of the delay in crediting funds to SHS account in Bihar and Maharashtra is on account of delay in approval and release of funds from GoI. In 2016-17, in both the States, the first SO, which is the administrative approval for release, was issued in the month of September, nearly 6 months since the beginning of the financial year. In Bihar, part of this was due to a delay in finalization of the Program Implementation Plan (PIP), the initial state plan for NHM, and the approval of the NHM budget of that year. In Maharashtra however, although the NHM budget was approved in June, the issuance of SO for the first instalment was delayed due to the State's inability to meet various conditions required for the release of funds in that instalment. Notably, in most major States, the NHM budget was not approved before June, the end of the first quarter in the financial year.

8. Summary

This study highlights the role of institutional processes in effective use of budgeted resources. It takes up the case of the National Health Mission (NHM) in India, and documents the utilisation levels across 29 States and their association with the volume and timeliness of fund releases from State treasuries in the three States of Bihar, Maharashtra and Odisha.

The analysis suggests that on average, about 45 per cent of the funds allocated to NHM remained unutilised across States in 2015-16 and 2016-17. The problem of low utilisation is further compounded by a disproportionately high share of expenditure in the last quarter of the financial year. In Bihar and Maharashtra, the low utilisation was associated with a delay of about 2-3 months in release of funds from State treasuries. This can be partially attributed to the complex States' administrative procedures for fund releases. The file with the request for release of funds has to pass through a minimum of 32 and 25 desks up and down the administrative hierarchy in Bihar and Maharashtra. In contrast, in Odisha, the process of fund release was relatively simpler, and correspondingly, the time consumed in release of funds to implementing agencies was shorter.

The complex procedures for release of funds partially arise from the fact that the State-level implementing agency (SHS) is outside the administrative structure of the State Governments. Unlike withdrawals within State Governments, releases of funds to SHS require a separate Sanction order from the Government, which lengthens the time taken for release of funds. In addition, segregation of NHM budgets into multiple heads and complicated accounting procedures have reduced transparency in fund utilisation of NHM. This has led to creation of additional checks and balances in the fund release process in Bihar. Further, fragmented procedures and non-release of GoI funds received by the Maharashtra State treasury have reduced the volume of fund flows to implementing agencies.

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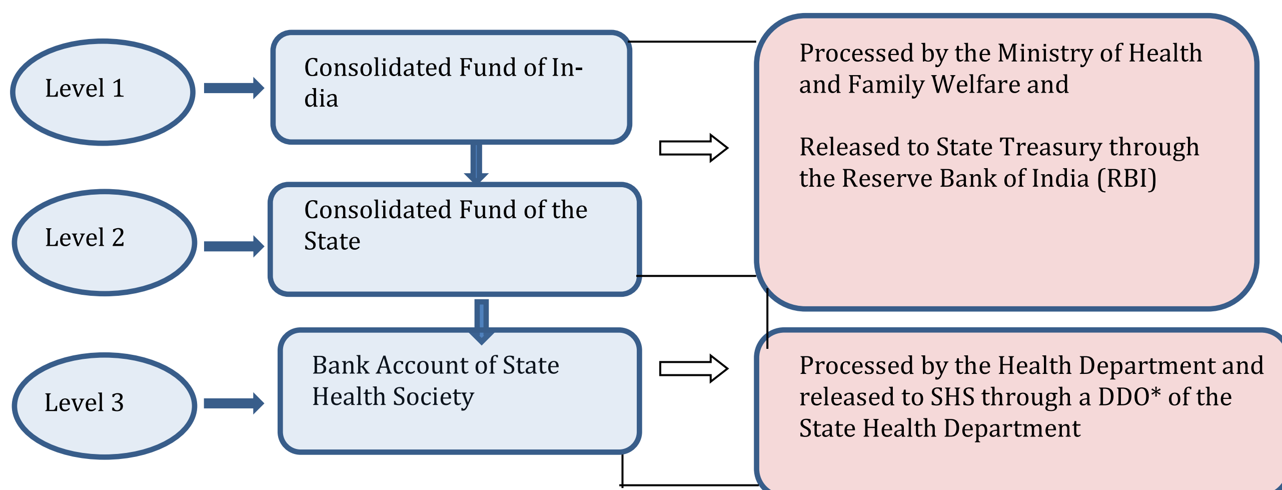
Appendix: Features of Fund Flows to State-level Implementing Agencies

Appendix Figure 1: Flow of Funds to State Health Societies under the National Health Mission



Releases from the Consolidated Fund of India: Releases from the Consolidated Fund of India are processed by the Ministry of Health and Family Welfare. The process for release begins with the issuance of SO for specific programmes. Bulk of the SO is issued in two instalments in each programme.[13] For the first instalment (which is usually the largest amount released in the financial year), the SO is processed only if two conditions are met by States (i) have submitted the FMR and the provisional fund utilization certificate (UC) for the previous financial year, and (ii) have contributed the required State share in the previous financial year and there are no arrears on this account. For the second instalment, SOs are issued if States submit (i) audited UC and audit report of the previous year, and (ii) FMR for the previous quarter.[14] For each instalment, the issuance of a SO is followed by an advice to the Reserve Bank of India (RBI) for credit of funds to the respective State accounts. On receipt of this advice, RBI informs the FD of the respective States about the credit of NHM funds.

Releases from the Consolidated Fund of the State: NHM Funds are released to SHS from the State budget in the form of Grant-in-aid (GIA). For releases of GIA, a SO has to be issued by the State Government, following which, a Drawing and Disbursing Officer (DDO) in the Health Department withdraws funds from the State treasury and releases it to SHS.

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[13] Infrastructure maintenance and kind grants are exceptions to this rule.

[14] Interestingly, SO are issued by multiple units within MoHFW. For National Urban Health Mission (NUHM) and Disease Control Programmes for Communicable Diseases like the Revised Tuberculosis Control Programme (RNTCP), National Leprosy Eradication Programme (NLEP) and National Vector Borne Disease Control Programme (NVBDCP), sanction orders are issued by the individual disease control divisions, while for the remaining components of NHM, Sanction Orders are issued by the NHM (Finance) division within MoHFW.

The SHS initiates the process for the issuance of SO. On receipt of information on GoI SO, SHS submits a request to the Health Department for release of NHM funds.[15] Following the request from SHS, the Health Department of each State processes the file (in consultation with the FD) and issues the SO for release. The DDO in the Health Department of the respective States who has been delegated the responsibility of withdrawing funds on behalf of SHS then prepares the necessary bills and submits to the State treasury for release. The treasury in turn credits the requested amount to the bank account of SHS by way of e-transfer (as in Odisha and Maharashtra), or issues a Demand Draft in favour of the SHS (as in Bihar).

15 The Department of Health and Family Welfare here refers to the Health Department in Bihar and the Public Health Department in Maharashtra.

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