

# Facilitating efficient transfer of National Rural Health Mission funds in Jharkhand

## Final Report

September 2011

Submitted by:

Child In Need Institute (CINI)

Supported by:

MCH-STAR Initiative, USAID



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## 1. About this report

Delayed transfer of select National Rural Health Mission (NRHM) funds at various administrative levels has been identified as one of factors impeding effective utilization of these funds in the state of Jharkhand<sup>1</sup>. Fund transfers are influenced by both banking and non-banking factors, the latter being integral to the NRHM financial management system.

This report highlights both banking and non-banking factors affecting funds transfer and offers evidence based options for improving government fund transfers at district and sub-district level through existing and innovative mechanisms. The last part of the report (section 5) provides decisions undertaken by Government of Jharkhand (GoJ) to expedite funds transfer in the state, based on the evidence provided in this report.

## 2. Sources of evidence

- NRHM State Programme Implementation Plan(PIP) of Jharkhand (2011-12)
- Administrative approval (ROP) of Jharkhand (2011-12)
- Strategies to improve utilization of the NRHM flexi-funds in Jharkhand-Project lead by CINI in partnership with GoJ with technical and financial assistance from USAID funded MCH-STAR initiative (August 2010)
- Unstructured interviews with key informants in GoJ for progress on non-banking factors (May 2011)
- Unstructured interviews with leading bank management in Jharkhand (May 2011)
- Minutes of meeting held between GoJ officials and management of leading<sup>2</sup> banks in the state (September 2011)

## 3. Factors affecting fund transfer

*Background:* The Hospital Management Society(HMS) fund, Annual Maintenance Grant(AMG) and the untied funds, from the NRHM flexi-pool provide a solution for paying for urgent but discreet expenses pertaining to maintenance of health infrastructure and provision of services at district, block and village level.

The HMS fund, AMG and untied funds together constitute about 10 percent of the total state NRHM budget of about INR 560 crores (2011-12). Untied funds have the largest share.

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<sup>1</sup> Strategies to improve utilization of the NRHM flexi-funds in Jharkhand-Project lead by CINI in partnership with GoJ with technical and financial assistance from USAID funded MCH-STAR initiative (August 2010)

<sup>2</sup> The banks having strong presence in Jharkhand has been treated as the leading bank.

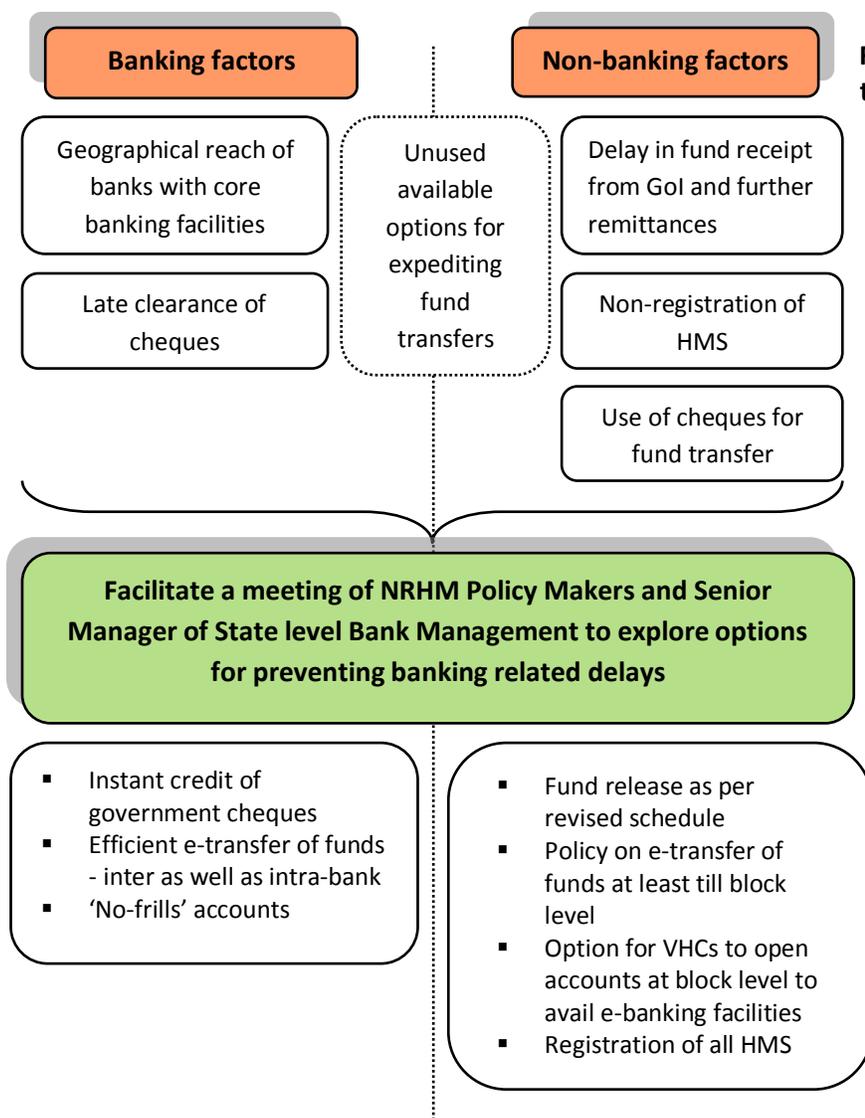


Management and use of these funds is decentralized with local bodies such as the HMS and the Village Health Committees (VHCs) being accountable for effective utilization.

Under-spending was reported for all three funds in 2008-09 and 2009-10 with less than 50 percent spending on untied funds at block and village level.

85 percent of the approved untied fund for VHCs was unspent in 2009-10. This fund constitutes more than 80 percent of the total state untied fund budget of about INR 36 crores (2011-12).

Both banking and non-bank related factors affect efficient transfer of flexi-funds (Refer fig. 1).



**Figure 1: Factors affecting fund transfer and options for addressing barriers to prompt transfer of funds at various administrative levels.**



### 3.1. Current scenario of non-banking factors

#### 3.1.1 Delay in fund receipt from Government of India (GoI) and further release

In year 2009-10, state received funds from the GoI in June, two months after start of the financial year. Further there were delays in remitting funds to districts, blocks and villages. There was variation in timelines for receipt of different types of flexi-funds but in general remittance was initiated in August for districts and not before October for sub-district funds.

In 2009-10, some blocks received allocated funds in the next financial year.

**Implications for fund transfer:** States receive funds from Centre at various times through the financial year contingent on approval of PIPs and amendments to the same. If there are delays in remitting these within the state, the managers and users get limited time to effectively use funds and report expenses. The delayed reporting results in a vicious cycle of delaying next financial release as well.

#### 3.1.2 Use of cheques for funds transfer at sub-district level with no intimation on fund remittance to managers

The guidelines on financial, accounting, auditing, fund flow and banking arrangements as approved by Empowered Programme Committee of NRHM issued vide Circular No. 107/FMG/2005-06 dated 14th December, 2006 mentions at paragraph 8: “To facilitate electronic transfer of funds, the state societies have been asked to open their bank accounts in the ICICI Bank” The guidelines gives detailed procedures to be adopted by States and avail the facility of easy transfer of funds through Group Accounts with separate sub-accounts, which the bank offers, mainly through electronic transfer of funds.

Though ICICI has limited presence in Jharkhand, other banks with a wide network in the state offer electronic transfer facility. However, GoJ continues to use cheques for remittance beyond the district level. In addition till recently fund managers did not receive intimation on issue of cheques resulting in further delays in fund use. However, taking cognisance of findings from the 2010 study, the state has initiated the system of sending a written communication to the fund managers providing fund transfer date and amount and the details of funds transferred in case of bulk/consolidated transfer of many funds through one tranche.

**Implications for fund transfer:** Accounts of state NRHM and blocks are with different banks resulting in inter-bank transfer delays associated with clearance of cheques. There are no clearing houses at the blocks mandating additional time for inter-bank cheque transfers.



### 3.1.3 *Non-registration of societies and delayed opening of bank VHC bank accounts*

The registration of HMS has increased from 37% (194 of 524) in August 2010 to more than 45% in May 2011. The number of VHC account has also increased to 69% in 2011 from 34% last year.

**Implications for fund transfer:** Budgetary allocation has been made anticipating almost complete HMS registration and VHC bank opening status. Funds cannot be transferred to the HMS and the VHCs till the registration/ bank account opening process is complete. Thus under-spending is inevitable. A challenge with the VHC bank account opening has been the requirement for minimum deposit and bank charges which many committees have been unable to generate.

## 3.2. **Current scenario of banking factors**

### 3.2.1 *Geographical reach of banks with core banking facilities*

Core banking facilities are offered by all nationalized banks having presence in Jharkhand. These include the State Bank of India, Bank of India, Punjab National Bank and Allahabad Bank. Together these banks cover all districts and blocks (with the exception of three blocks). Core banking enables electronic transfer of funds through Real Time Gross Settlement (RTGS) for transactions above INR one Lakh only while there is no limit for fund transfer through National Electronic Fund Transfer System (NEFT). Although these banks have no penetration in the rural areas but they do not have presence in all villages and remote areas of Jharkhand where denizens depend on *grameen* banks and/ or post-offices for savings.

**Implication for fund transfer:** It is possible to institutionalize electronic transfer of funds at least till the block level through the 900 odd branches of four leading nationalized banks in Jharkhand. Electronic Fund transfer cannot be made in the existing VHC Accounts with grammeen banks.

### 3.2.2 *Late clearance of cheques*

This is an outfall of usage of cheques by GoJ to remit funds to sub-district levels. Delays in cheque clearance are inevitable due to inter-bank transfers as standard banking procedures entail fixed time.

**Implication for fund transfer:** The time range for cheque clearance varies from couple of days to about a fortnight depending on location of its issue and encashment. As mentioned earlier the time lag is due to the lack of clearance houses at the block level requiring clearance advice through the district branch of the same bank before cheque can be encashed.



## 4. Unused available options for expediting fund transfer

In co-ordination with bank management, GoJ has the potential to expedite fund transfer by making best use of available mechanisms.

### 4.1 Easy banking options

All the nationalized banks offer 'no frills' account to their customer. The advantage of these accounts is zero balance is acceptable for considerable time. Although, some districts in Jharkhand have initiated these reforms due to local initiatives by the District Commissioners, it is not a state-wide phenomenon. These are particularly suited to opening VHC and Sub-centre level accounts.

### 4.2 Extending use of electronic transfer of funds

As mentioned earlier the state can institutionalize electronic transfer of funds till the block level without requiring major administrative changes as most banks offer core banking facilities till this level.

If VHCs are offered the option of opening accounts at the block level they too can maximize benefits of electronic transfer of funds.

#### **What Tamil Nadu has done for efficient fund transfer at all administrative levels?**

- All funds from state to the district are remitted through electronic mode at fixed time that is, twice a year (May and November).
- The account of the State NRHM is with ICICI bank and those at the district and block levels in various nationalized banks with core banking facilities.
- Funds are released to the blocks within a week of their receipt at the district through electronic mode.
- All sub-district accounts have been opened in branches of the same nationalized bank having wide coverage in the district.
- In cases if there is no branch of any specific nationalized bank in any one or more of the villages, the authorities / fund managers are encouraged to open their accounts either (i) at the branch of the same nationalized bank nearest to them or (ii) in any branch of the same bank at the block headquarter centre – in which case the fund managers can transact their banking business during their visit to the block, which they do regularly for attending monthly meetings.
- Only in absence of above two options, the remittances are made through cheques.



Keeping in view the state's context the following recommendations to reduce delays in transfer of state funds are proposed:

- Fund release at all levels post receipt from GoI as per revised schedule of GoJ
- Policy on electronic transfer of funds at least till block level
- Option for VHCs to open accounts at block level to avail core banking facilities
- Registration of all HMS
- Negotiation with bank management for- instant credit of government cheques, efficient electronic transfer of funds - inter as well as intra-bank and 'No-frills' accounts at least for the VHCs and sub-centres



## 5. Decision undertaken by GoJ to expedite fund transfer

A meeting between GoJ officials and management of lead banks in the state was facilitated by Child In Need Institute (CINI) with the objective of seeking agreement and developing an action plan to take the recommendations forward. The issues discussed and decisions taken are presented in table1.

**Table 1: Issues discussed and decisions undertaken in the meeting between GoJ and bank management (September 2011, Ranchi, Jharkhand)**

S.No.	Issues	Discussion	Decision
1	Electronic transfer of fund at block and village level	Electronic transfer of fund is possible at every level. NRHM should open bank accounts at all levels and submit the IFSC code to the leading banks from where money needs to be transferred. No charge is levied for this service by the banks.	NRHM will collect the name and branches of its existing bank accounts from every level with their IFSC code for institutionalizing electronic fund transfer facility.  The lead bank in six districts (list given below) will be approached to provide electronic transfer services. Based on this experience, banking arrangement for the entire state will be undertaken.
2	Opening of account with zero balance/'no-frills account'	All banks are ready to open account with zero balance facility.	All banks will issue letter to their district counterpart for providing option of zero balance account facility.
3	VHC bank accounts to be opened with banks with core banking facilities	VHC should open account with their nearest bank branch and the department should submit the list of account and telephone number of the signatories for management of funds.	NRHM through its Block Programme Management Unit will coordinate with the banks at block and village level to ensure opening of VHC account.
4	Standardized MIS for monitoring of fund use and transaction	Banks may provide software based MIS solution for the state officials to track banking transaction and utilization of fund at every level.	Separate meeting to take place with NRHM for finalizing the banking MIS and process that may be linked with the accounting software of the state.



In summary GoJ is in agreement on taking the recommendations on expediting transfer of funds in coordination with the leading banks. In addition to the efforts made by CINI and MCH-STAR, the Chief Secretary of the state is also in a process to ensure electronic transfer of government funds throughout the state in accordance with the directive of issued by Ministry of Finance, Government of India on August 2011.

List of districts and lead banks for piloting electronic transfer facilities

<b>District</b>	<b>Bank</b>
Khunti	State Bank of India
Ranchi	Bank of India
Bokaro	Punjab National Bank
Giridih	Allahabad Bank
East Singhbhum	Bank of Boroda
Simdega	United bank of India



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