Improving Effectiveness and Utilisation of Funds for Selected Schemes through Suitable Changes in Timing and Pattern of Releases by the Centre

A Report of Research Project sponsored by the Planning Commission of India

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Preface

This study was sponsored by the Planning Commission under the scheme of Socio Economic Research (SER). The study team was led by Professor Tapas K. Sen. Other members of the team were Dr. Anit Mukherjee, Dr. Manish Gupta and Mr. R. Srinivasan.

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M. Govinda Rao
Director

Contents

List of Tables

List of Figures

1. Introduction

Intergovernmental transfers from the centre to the states takes place through three channels: statutory and other transfers mandated by the Finance Commission, formula-based transfers for State Plan Schemes through the Planning Commission, and other discretionary transfers by the Planning Commission/ various central Ministries. The entire tax sharing is a part of the Finance Commission transfers. In the rest of the transfers constituting of grants alone, grants other than those for State Plans now constitutes 69 percent (Table 1.1). These are generally not formula determined and for the bulk of the amount, are often conditional upon various actions at the state level including putting up the matching amounts. Thus, while the block grants (for State Plan and other block grants) by definition are unconditional transfers and therefore the issue of their utilisation is not a major concern, for the other grants the actual utilisation can be different from the allocations made; if the gap is large, then it can be a cause for concern.

Table 1.1
Central Grants to States in 2009-10 (RE)

(Rs. Crore)

A. Grants to State/UT Governments	
1. Non-plan	46610
2. State Plan	73965
3. Central Plan and CSS*	22007
Total (A)	**142582**
B. Direct Releases to Implementing Agencies	
1. State Plan	1580
2. Central Plan and CSS*	93881
Total (B)	**95461**
C. Total Central Grants	***238043***

* CSS: Centrally Sponsored Schemes

Source: Government of India, Budget Documents, 2011

It may be further noted that as per Table 1.1, as much as 40 percent of the total grants is released directly to implementing agencies, usually parastatals of the state governments. As such, the utilisation of the available funds under various grant schemes becomes a function of the institutional setup and efficiency at three levels. As the extent of such utilisation has caused some concern in recent years, various aspects of this issue merit detailed examination. The present study deals with only two of the various aspects concerned, namely the design of the schemes, and timing and structure of releases of funds with the objective of finding suitable changes that could contribute to better utilisation. This Final Report covers 16 selected schemes and transfers to all individual states in two categories. The Interim Report covered only the North-Eastern states including Sikkim, and Jammu & Kashmir[1], and these continue to be a distinct group in this report as well, called óSelected Statesô. The remainder of the states are covered as óOther Statesô in this report.

2. General Observations

In terms of facilitating utilisation, a grantor agency has limited tools in its hands. These include, *inter alia*, the design of the scheme (to eliminate disincentives for utilisation), the actual transfer mechanism, and the timing. In terms of design, when one is considering conditional transfers which all the schemes under examination are, it is almost tautological to observe that the more conditions there are, and the more difficult they are to meet, the less would be the utilisation. For example, a specific-purpose transfer without any matching requirement is likely to be utilised to a higher extent than one with such a requirement. Similarly, the transfer mechanism can also influence utilisation; in times of resource constraints, grants on a reimbursable basis have less chance of high utilisation than those provided at least partly on advance basis. The importance of timing of transfers hardly needs an explanation: it is sufficient to state that grants received at the fag end of the year have little chance of getting spent usefully within that year. In the selected special category states that this report separately covers, there is also a seasonal dimension to the issue of timing. All the special category states in India have the problem of extreme weather; in the north-eastern states it is the monsoon season that is characterised by heavy rainfall and in the states of Jammu & Kashmir (excluding the relatively lower areas of Jammu), Sikkim and northern parts of Arunachal Pradesh, it is the winter with heavy snowfall. During these months of extreme weather, developmental work is substantially hampered, and funds received cannot be gainfully employed.

In what follows, we examine available data with respect to the selected schemes to draw inferences about the suitability or otherwise of present arrangements. But before examining the data, we conduct below an *a priori* analysis of the design of the scheme and the structure of the transfer. This broad method of analysis is followed for each of the schemes analysed, with some variations due primarily to availability of data and sometimes the nature of the scheme. The schemes are organised by the concerned

[1] It also covered 15 of the 16 selected schemes.

Ministries. Comments about the possible improvements are in the final section of this report.

3. Examination of Selected Schemes

3.1. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) (Ministry of Rural Development)

This scheme is the largest rural employment programme designed in India, following up on and subsuming other rural employment programmes like SGRY with the ultimate objective of alleviating rural poverty through job creation. It entitles all persons ï below poverty line or not ï to at least 100 days of guaranteed wage employment. It was introduced through the notification of the Act first in 200 districts of the country, subsequently extended to another 130 districts. The Act is now applicable to the entire country except fully urban districts.

This is a cost sharing scheme with the centre bearing the full cost of wages of unskilled labour, 75 percent of the cost of material and wages for skilled/semi-skilled labour, and a part of the administrative expenses. The state governments have to bear the remaining costs of material and wages, and administrative costs, along with the costs of unemployment allowance payable to those who cannot be provided wage employment within 15 days of application.

As this is an entitlement programme, there is no predetermined amount of expenditure, either nationally or in any state. The nature of the scheme demands flexibility in the system of financing, and such flexibility is sought to be imparted through first release of the year based on an annual labour budget at the beginning of the year and subsequent release of funds on the basis of subsequent demand on expenditure of at least 60 percent of the first instalment (plus opening balance). The district level labour budgets and follow-up demands are channelled through the state government. Normally the releases are in two tranches, the first not more than 50 percent of the total approved labour budget after adjusting unspent balances. The first instalment is released subject to submission of the Audit report of the year before last. Releases are subject to physical, financial, administrative and accountability conditions. Utilisation certificate for the previous year is due before second instalment is released, as also certificate regarding the release and receipt of the state share supported by authenticated bank statement.

The flow of funds hinges crucially on the labour budget, the preparation of which is an elaborate decentralised exercise. Starting from the village level, the proposed works have to be costed, checked for conformity with guidelines (e.g., permitted types of works, and approved ratio of materials and wages), conveyed for approval, and aggregated at the next higher level. The process is expected to start on October 2 every year and the state has to provide the detailed labour budget by end-January. Given the essential characteristic of the decentralised nature of this programme, this process of formulating the labour budget is perhaps ideal; however, the uneven administrative capacity of Panchayati Raj institutions (particularly at the block and village level) can create difficulties in the nature of trade-offs between timely submission and quality of the budget. The system would also encourage a tendency of inflating the annual labour budget to obtain larger amounts up front, ending up with unspent balances every year, so that *post facto* utilisation of funds would appear lower than expected. It would be entirely up to the Ministry of Rural Development to curb this tendency while assessing the annual labour budgets.

3.1.1 Utilisation in Selected States

Data on utilisation of funds do not reveal any serious concern with respect to the selected states. For all these states as a whole, utilisation has been above 83 percent in both 2008-09 and 2009-10. There is, of course, variation among states and the utilisation figure is considerably depressed because of the relatively low utilisation in Assam, the state with the largest weight in the total for the two years put together. However, the problem appears to be state-specific and not generic, since there are other states with much higher utilisation. The state-specific nature of the problem is also indicated by the large difference in the utilisation figures for the two years in several of the states.

Data on releases show several types of departures from the expected pattern. First, there are cases of releases larger than allocations. In a demand-driven programme, this is possible, but the margin of difference (case of more than 100 percent) makes the possible cause of spurt in job demand unlikely; a more likely cause is releases relating to previous year(s). If that is indeed so, then it is perhaps a pointer towards conditionalities that may be difficult to meet.

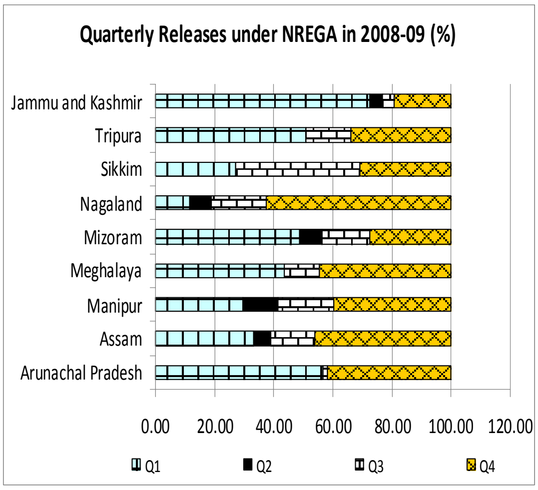
Table 3.1.1: Utilisation of NREGA Funds in Selected States

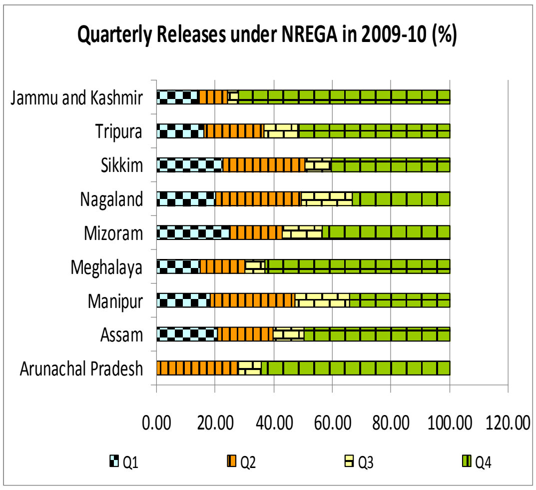
(Rs. Lakh)

States	Year-2008-09				Year 2009-10			
	Central Allocation	Total available fund	Expendi-ture	Utilisation (%) (column4/ column 3)	Central Allocation	Total available fund	Expendi-ture	Utilisation (%) (column8/ column 7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Arunachal Pradesh	1573.17	1786.86	1471.16	82.33	117.55	2021.64	1726.60	85.41
Assam	89973.36	130658.22	95028.42	72.73	66658.18	131203.57	103351.56	78.77
Manipur	30064.72	33255.17	35558.25	106.93	32346.70	39785.75	39316.87	98.82
Meghalaya	8708.83	11881.51	8947.31	75.30	17657.87	21749.75	18346.08	84.35
Mizoram	14952.93	17185.08	16455.70	95.76	22163.83	24201.05	23577.81	97.42
Nagaland	24613.03	26728.49	27231.15	101.88	42528.86	49020.95	45945.00	93.73
Sikkim	3926.94	4661.83	4371.51	93.77	8857.35	10256.22	6408.99	62.49
Tripura	44371.48	49916.75	45227.86	90.61	88636.01	96206.73	72393.18	75.25
Jammu & Kashmir	9788.86	14573.59	8703.55	59.72	12936.83	20770.40	18236.28	87.80
Total	**227973.32**	**290647.50**	**242994.90**	**83.60**	**291903.18**	**395216.06**	**329302.37**	**83.32**

Source: Ministry of Rural Development

Figure 3.1.1





Second, there is a clearly noticeable tendency for the bulk of the funds to be released in the last quarter. In fact, first quarter release in 2008-09 was very small only in Nagaland (around 10 percent), while Assam, Manipur and Sikkim also received 35 percent or less. But the other selected states received at least 40 percent of the total releases in the first quarter. Releases during the second and third quarter were small. In 2009-10, the pattern changed considerably, with none of the selected states receiving more than 30 percent in the first quarter. The smallest last quarter release (more than 30 percent) was in Nagaland, with Jammu and Kashmir receiving around 70 percent of its total releases in the last quarter. The pattern clearly indicates difficulties with the system of flow of funds.

3.1.2 Utilisation in Other States

The information on utilisation of available funds provided in Table 3.1.2 shows that utilisation was indeed low in 2008-09 overall at only 74 percent. In several states (excluding the Union Territories), such utilisation remained between 50 and 60 percent. It improved in 2009-10, but in two states (Goa and Maharashtra), it remained only marginally higher than 50 percent.

Table 3.1.2: Utilisation of NREGA Funds in Other States and UTs

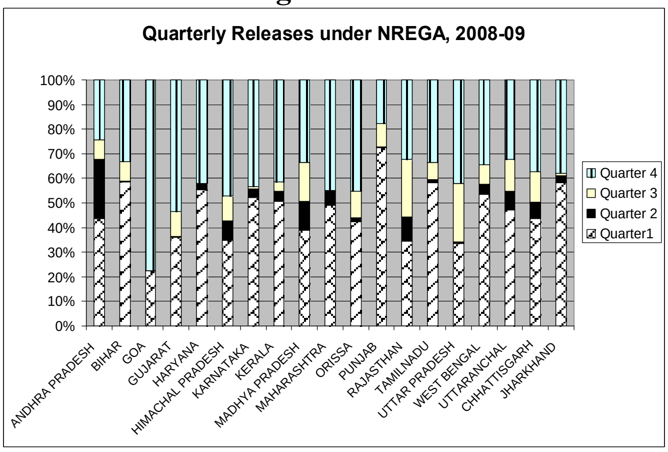
(Rs. Lakh)

		Year 2008-09				Year 2009-10			
S. No	States	Central Allocation	Total available fund	Expendi-ture	(5)/(4) (%)	Central Allocation	Total available fund	Expendi-ture	(9)/(8) (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Andhra Pradesh	308894	357653	296390	**82.87**	321278	461473	450918	**97.71**
2	Bihar	129681	209489	131526	**62.78**	88817	221359	181688	**82.08**
3	Chhattisgarh	163217	197352	143442	**72.68**	81489	161707	130374	**80.62**
4	Goa	468	533	239	**44.84**	0	870	450	**51.67**
5	Gujarat	16516	28224	19615	**69.50**	74078	94490	73975	**78.29**
6	Haryana	13257	16033	10987	**68.53**	11879	18934	14356	**75.82**
7	Himachal Pradesh	40940	50090	33228	**66.34**	37512	60278	55656	**92.33**
8	Jharkhand	176393	232189	133800	**57.63**	80394	191629	137970	**72.00**
9	Karnataka	37939	64245	35787	**55.70**	167237	233203	281653	**120.78**
10	Kerala	19887	29662	22452	**75.69**	46771	58769	47185	**80.29**
11	Madhya Pradesh	383027	484397	355167	**73.32**	376969	591266	377972	**63.93**
12	Maharashtra	21592	63809	34943	**54.76**	22977	61787	32086	**51.93**
13	Orissa	76297	100807	58781	**58.31**	46874	99979	93274	**93.29**
14	Punjab	6758	11267	7180	**63.72**	14108	20405	14872	**72.88**
15	Rajasthan	622972	695373	616440	**88.65**	492582	716652	619110	**86.39**
16	Tamilnadu	140127	179459	100404	**55.95**	137119	241256	176123	**73.00**
17	Uttar Pradesh	381142	458445	358282	**78.15**	500678	682059	590604	**86.59**
18	Uttarakhand	12086	17536	13579	**77.44**	26930	34881	28309	**81.16**
19	West Bengal	86039	125786	92362	**73.43**	172561	234695	209422	**89.23**
20	A&N Island	709	1564	328	**20.94**	153	1516	1226	**80.90**
21	D&N Haveli	Neg.	2	1	**65.61**	39	197	134	**67.97**
22	Daman & Diu	0	0	0	**0.00**	0	0	0	**0.00**
23	Lakshadweep	262	435	179	**41.06**	0	262	201	**76.87**
24	Puducherry	243	793	136	**17.16**	380	1020	727	**71.23**
	Total	**2638446**	**3325144**	**2465247**	**74.14**	**2627490**	**4188688**	**3518284**	**83.99**

Source: Ministry of Rural Development, Government of India, New Delhi

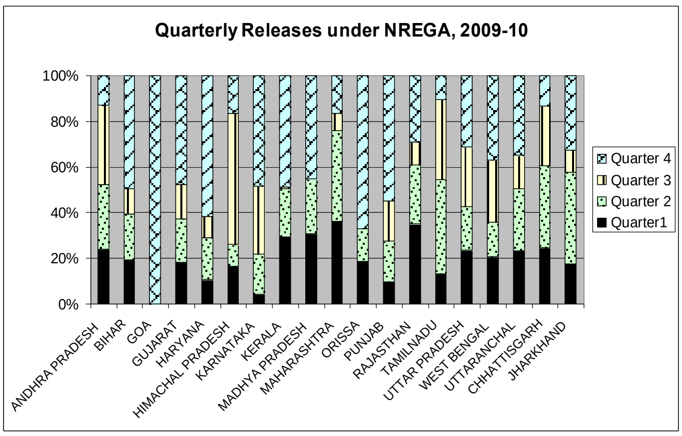
States like Andhra Pradesh, Rajasthan, Uttar Pradesh, Uttarakhand, and West Bengal exhibit high levels of utilisation in both the years. In the case of some of the states like Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Karnataka, and Orissa, utilisation of available funds during the year 2009-10 improved vastly as compared to the earlier year 2008-09. A few states like Goa, Maharashtra, and Tamilnadu have been spending much below the national average. As the scheme is basically demand driven, while the relatively high per capita income and low poverty level in Goa may explain the lukewarm performance in Goa to some extent, the low utilisation in Maharashtra in both years does not admit of such an explanation, given the relatively high incidence of poverty in the state.

Figure 3.1.2



Data on releases of funds to individual states for the year 2008-09 (Figure 3.1.2) indicate that much of the releases were in the first quarter, except in the case of Goa. Second and third quarter releases were small, with large fourth quarter releases in many states (Goa, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Orissa, Uttar Pradesh, Chhattisgarh and Jharkhand). Clearly, meeting the requirement of providing utilisation certificate for the previous year delayed the substantive second instalment for the year till the fourth quarter.

Figure 3.1.3



The pattern changed considerably in 2009-10 ï the bulk of the transfers being made in the last quarter, i.e. January to March in the year 2010. While Goa received its entire transfer in the last quarter, the percentage was quite large in the cases of Orissa, Haryana, Punjab, Bihar, Gujarat, Karnataka and Kerala. The releases in the first quarter were mostly below 30 percent, Maharashtra and Rajasthan being two exceptions. Oddly enough, the utilisation was much better in general in 2009-10 as compared to 2008-09, although one would expect a negative impact of the timing of releases on utilisation in the latter year. In fact, the data in Table 3.1.2 together with the timing pattern in 2009-10 indicate a correction in 2009-10 in most states for the large unutilised funds at the end of 2008-09, explaining the apparent paradox of poor first quarter releases and yet, relatively higher utilisation in the later year.

As NREGA is a demand based scheme and as funds are released based on labour demands projected by the state, whatever slackness is there in the system is due mainly to the incapacity of the states to prepare the labour budget in line with Government of India guidelines in a comprehensive way in time and providing the matching amounts in time. Perhaps greater attention may have to be paid to the capacity building of the state officials to prepare labour demand budget etc. Further, allowing additional categories of work ï specific to the state/region ï may improve the scope of the project. Also, a recent proposal to link NREGA wages to inflation by linking it to Consumer Price Index (CPI) for agricultural labourers will give boost to the scheme in years to come. Some of the problems associated with claims of State Governments and release by the centre will be minimized once the online system of releases of funds is introduced in the near future.

3. 2. Pradhan Mantri Gram Sadak Yojana (PMGSY) (Ministry of Rural Development)

This is a fully centrally funded transfer scheme designed to provide connectivity to rural habitations (not revenue village or Panchayat) through construction of/ upgradation to all-weather roads. The eligible habitations are defined as with population of at least 250 in hill states, desert and tribal areas, and of at least 500 in other areas. Recipient states have to identify or set up an autonomous agency with a distinct legal status under its control that would be designated as the State Rural Roads Development Agency (SRRDA). The SRRDA is the actual recipient of the funds transferred by the central government and is the executing agency at the state level.

The administrative setup includes a state level Standing Committee chaired by the Chief Secretary and an Empowered Committee at the central Ministry level. The scheme is a project-based one, with states submitting project proposals as per guidelines and vetted by the Standing Committee, and approved by the Empowered Committee. PMGSY is funded mainly from the accruals of diesel cess in the Central Road Fund ï 50 percent share of the cess on High Speed Diesel. The allocation of the original Re. 1/- per litre cess to the states/Union Territories is based on, *inter alia*, a weightage of 75 percent for óNeedô (share of unconnected habitations in the total unconnected habitations of the country) and 25 percent for óCoverageô (share of connected habitations in the total connected habitations of the country). From the year 2003-04, the cess on HSD was hiked by 0.50 per litre. 50 percent of the additional diesel cess had been made available from 2005-06 onwards. The distribution of additional cess of Rs. 0.50 per litre is being targeted to the states primarily on the basis of proportion of road length to be covered under Bharat Nirman Programmes. The state government has the responsibility of providing funds for the proper functioning of the SRRDA, funds for administration of maintenance contracts of PMGSY roads, funds to meet works related expenses not found eligible to be funded by the Ministry under the PMGSY, and to meet cost escalation, tender premium and other programme expenses.

The transfers are made available to the SRRDAs normally in two instalments. However, the entire annual assistance may be provided in a single tranche for some specified districts (Lahaul-Spiti, Leh and Kargil). Otherwise, the first instalment amounts to 50 percent of the cleared value of projects or annual allocation, whichever is lower. Apart from meeting the general conditionalities of the programme, the release of the first instalment does not have any prerequisite. However, for single tranche releases and for the second instalment, several conditions regarding utilisation of available funds, physical progress, utilisation certificates, audited statement of accounts for the previous year (if the second instalment is after October), and certificate of the Bank Manager (where relevant accounts are maintained) have to be met. The second instalment is normally equal to the balance due on the approved cost of awarded works. Works cleared but not awarded by the time the second instalment is provided are considered as lapsed. Given the above, the transfers should be substantially front-loaded, i.e. bulk of the transfers should be at the beginning of the year. The conditionalities are by no means excessive and constitute normal precautions to prevent undue accumulation of funds at the state level and to ensure proper utilisation for the intended purposes.

3.2.1 Utilisation in Selected States

Data on allocations, release of funds and expenditure on the scheme by the selected states (Table 3.2.1) indicates that utilisation has to be measured against releases rather than allocations, the latter usually being much smaller than the former. Actually, utilisation should be examined with respect to available funds, i.e. releases plus funds carried over from previous year (plus whatever state allocations are made available). However, since there is an in-built check on carry-over of balances and the state allocations are relatively small, utilisation of the funds can be measured against releases also in the absence of information on available funds.

Table 3.2.1: Utilisation of Funds under PMGSY in Selected States

(Rs. Crore)

State	2008-09				2009-10			
	Allocation	Release	Expendi-ture	Utilisation (%) Column (4)/ Column (3)	Allocation	Release	Expendi-ture	Utilisation (%) Column (8)/ Column (7)
Arunachal Pradesh	57.00	107.98	152.01	140.78	48.68	282.52	247.61	87.64
Assam	181.00	982.12	1007.05	102.54	154.58	1179.00	1412.91	119.84
Manipur	33.00	20.00	37.97	189.85	28.18	149.16	145.13	97.30
Meghalaya	45.00	35.95	12.64	35.16	38.43	0.00	20.38	N.C.
Mizoram	32.00	65.00	54.55	83.92	27.33	44.58	66.86	149.98
Nagaland	30.00	85.71	87.31	101.87	25.62	65.02	71.61	110.14
Sikkim	30.00	55.00	103.99	189.07	25.62	71.80	80.17	111.66
Tripura	40.00	379.99	315.77	83.10	34.16	168.49	253.74	150.60
Jammu & Kashmir	65.00	191.74	190.71	99.46	55.51	372.60	359.42	96.46

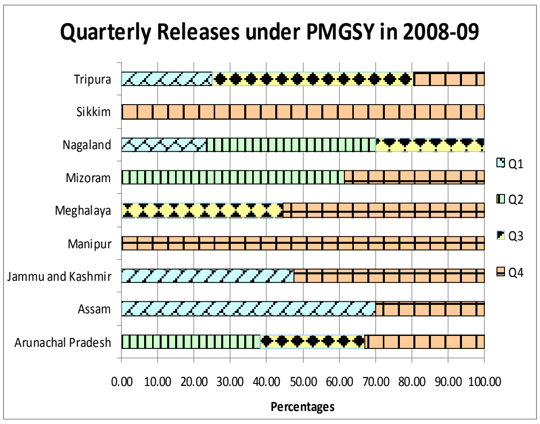
Note: Allocations refer to those from the share of cess on diesel only; releases include other sources, including loans from NABARD. **Source**: Ministry of Rural Development

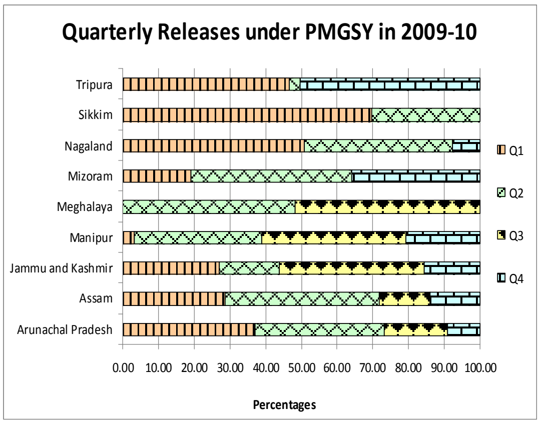
The extents of utilisation of funds in the selected states do not reveal any major cause for worry except in Meghalaya. Clearly, there is a state-specific problem that needs to be handled as such, and the figures do not indicate anything amiss in the design of the scheme. There is the aspect of timing of releases, however. As noted earlier, bulk of the releases is expected to be in the first quarter in this scheme. Available data on timing of releases indicate considerable variability between the selected states, with extreme cases of the entire release for the year in the last quarter also noticed (Figure 3.2.1).[2] There are usually several difficulties that arise in the construction of roads in particular ï land acquisition, forest clearances, seasonal stoppages and labour-related problems among them. The design of the programme tries

[2] The monthly/quarterly data on releases do not fully match the annual data reported in Table 3.2.1, but the differences are not large (except in Meghalaya for 2009-10). This is the case with most of the schemes discussed below where both annual and quarterly data have been used/reported.

to obviate these problems as far as possible by requiring necessary clearances at the proposal stage itself, but it appears that problems arise even after approval.

Figure 3.2.1





3.2.2 Utilisation in Other States

Utilisation of funds released under this programme in most other states for the two years 2008-09 and 2009-10 has been quite high as can be seen from Table 3.2.2. Moreover, on an average and in the case of most of the states utilisation of releases increased over the previous year, except for Goa where no releases were made in both the years. During 2008-09, all the states except Chhattisgarh, Himachal Pradesh, Karnataka, Maharashtra, Orissa, Rajasthan and West Bengal, expenditure was more than 100 percent of the releases. During 2009-10, the expenditure was more than 100 percent of the releases in all the states except Punjab. Thus, there seems to be little problem with respect to the releases and utilisation of funds and the problem, if any, seems to lie elsewhere. Actually, based on the CAG Performance Audit Report No. 13 (2004-05) on the programme under discussion, the biggest issue was that the objective of the programme of providing connectivity to all unconnected habitations with population of 1000 and above by 2003 was largely defeated, as only 11,509 such habitations against the target of 50,782 could be connected upto 2003. The total number of habitations (irrespective of the population) connected upto March 2005 was only 33,875 or 24 per cent of the initial target of 1,41,085 after five years of its launch when the total duration of the programme was seven years. This has now been extended, but the pace of implementation has not picked up as much as was hoped for.

Table 3.2.2: Central allocation and release, and Utilisation of Funds under PMGSY during 2008-09 & 2009-10 – Other States

(Rs. in Crores)

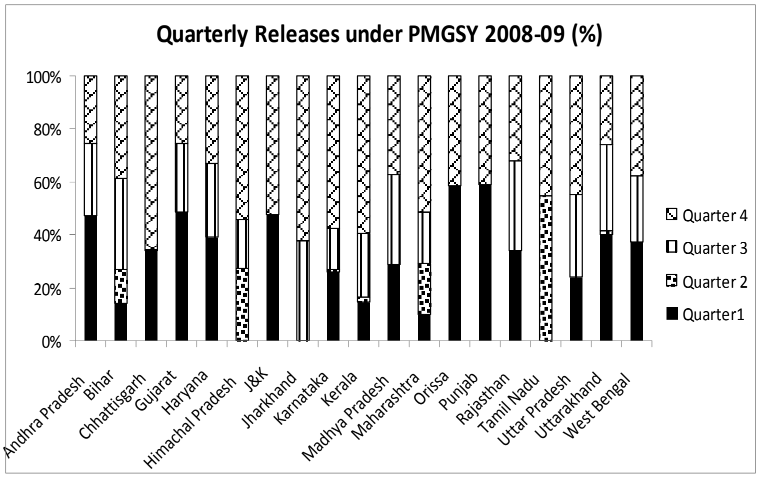
	2008-09				2009-10			
State	Allocation	Release	Expendi-ture	Percent-age	Allocation	Release	Expendi-ture	Percent-age
Andhra Pradesh	105	471	494	105	90	877	886	101
Bihar	337	1065	1068	100	288	1751	1875	107
Chhattisgarh	240	976	863	88	205	540	805	149
Goa	5	0	0	0	2	0	0	0
Gujarat	65	230	255	111	56	194	190	98
Haryana	30	272	313	115	26	255	277	108
Himachal Pradesh	87	269	241	89	74	125	220	176
Jharkhand	175	211	211	100	149	418	458	110
Karnataka	110	640	550	86	94	765	884	116
Kerala	30	84	84	100	26	100	114	114
Madhya Pradesh	440	1895	2198	116	376	2136	2235	105
Maharashtra	145	1030	930	90	124	949	995	105
Orissa	273	1251	1163	92	233	1594	1895	119
Punjab	35	243	269	111	30	348	323	93
Rajasthan	234	1771	1696	96	201	603	795	132
Tamilnadu	90	89	128	144	77	525	560	107
Uttar Pradesh	375	1676	2000	119	324	2845	2915	102
Uttarakhand	100	117	153	131	85	166	173	104
West Bengal	226	635	583	92	193	375	576	154
Total	**3102**	**12925**	**13200**	**102**	**2651**	**14567**	**16175**	**111**

Source: NRRDA, Ministry of Rural Development, Government of India, New Delhi

The same performance audit notes that in 14 states, 143 works were abandoned or remained incomplete after spending Rs. 43.85 crore and 149 works costing Rs. 54.71 crore were either abandoned or not taken up in 12 states due to non-availability of land, want of forest clearance, land disputes or roads were already constructed by other agencies or connectivity was already existing. Besides, it also pointed out that improvements were called for in the tendering process, quality of roads built and the information system for management and monitoring.

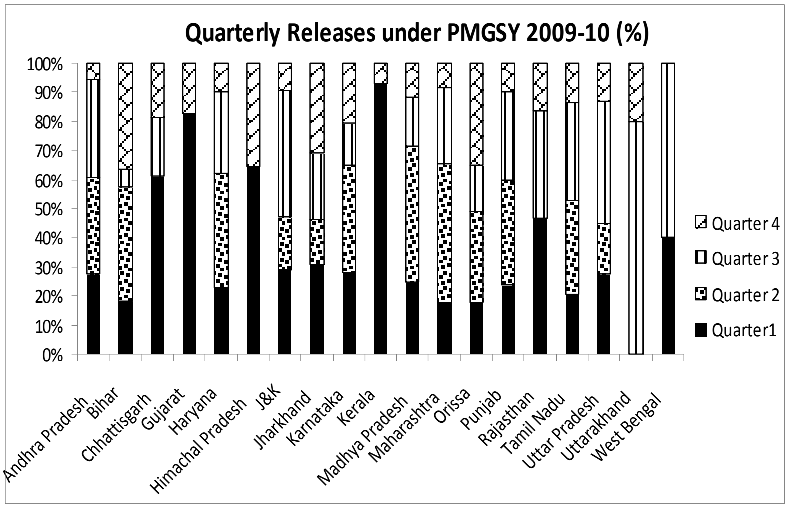
Details of releases made ï quarter wise - under this programme for the years 2008-09 and 2009-10 are represented in Figure 3.2.2 and Figure 3.2.3 below. Quarter-wise releases reveal that during 2008-09 bulk of the releases have been made in the first and in the last quarter and they accounted for almost 80 percent of the total during this particular year.

Figure 3.2.2



First quarter releases were large in respect of the states like Andhra Pradesh, Gujarat, Haryana, Jammu & Kashmir, Orissa, Punjab, Rajasthan, Uttarakhand and West Bengal. For states like Bihar, Chhattisgarh, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Kerala, Maharashtra, Uttar Pradesh and West Bengal, the amounts released in the last quarter were sizeable.

Figure 3.2.3



In the year 2009-10, the pattern of releases has been mixed. While some of the states (particularly four ï Chhattisgarh, Gujarat, Himachal Pradesh and Kerala) received the bulk of their releases in the first quarter, sizeable amounts were released in the second and third quarter for the other states; fourth quarter releases were generally small. The last aspect of the releases is something eminently desirable because last quarter releases have a high probability of either not being spent, or at the lease, not well-spent. However, in a system where first quarter releases should have dominated, relatively large shares of releases in the second and third quarter in many states indicates some problems with the system, either in terms of the necessary compliance by the states (in terms of submission of project proposals), or in terms of completing the necessary formalities at the central level itself.

3.3. Indira Awaas Yojana (IAY) (Ministry of Rural Development)

IAY, the scheme for construction and upgradation of houses for the rural poor with special focus on SC/ST, is a cost-shared scheme between the centre and the states in the ratio of 75:25 (90:10 for the North-Eastern states and Sikkim). It is implemented through the District Panchayat or District Rural Development Agency (DRDA), and central funds are made available directly to the district-level agencies. It is designed to provide cash assistance and a (optional) loan at a low rate of interest to each of the beneficiaries. This is primarily an allocation-based scheme, with state shares determined by the factors of rural housing deficit (75 percent weight) and poverty ratio (25 percent weight). Intra-state allocation by districts is based on housing deficit with the same weight and SC/ST population (25 percent weight). Allocations below the district level are also determined on the basis of the same set of factors. The beneficiaries receive the assistance on a staggered basis linked to progress of construction.

The centre releases the assistance allocated to the district level agencies in two instalments except in the cases of districts with special problems like limited working season; in the latter cases, the entire annual assistance is released in one go. Single instalment releases are conditional upon at least 60 percent utilisation of available funds in the previous year, actual disbursement of the state share in the previous year, audited accounts for the year before last, bank reconciliation statements, and block-wise expenditure statements (or certificate from a Chartered Accountant that funds are directly transferred to beneficiariesô bank accounts from the DRDA). In other cases, 50 percent of the annual allocation is released in the first instalment provided conditions imposed while releasing second instalment of the previous year, if any, are met. Though the assistance to districts is based on allocations, the release of the second instalment is conditional upon a proposal for the same and fulfilment of several other conditions including at least 60 percent utilisation of total available funds, full release of state share in the previous years and due for the current year to date, appropriate budget allocation in the current year for the matching state share, submission of audit report for the last year along with action taken report, utilisation certificates for the previous year, approved Annual Plan and all pending progress/monitoring reports. The proposals have to be submitted latest by December 31 every year. Late submission invites progressive cuts in allocated amount.

The provisions summarised above indicate that the conditions imposed are primarily at the time of the second instalment and hence there ought to be little delay in releasing the first instalment. However, in the cases where the decentralised system is fully articulated, the sheer number of agencies involved increases the probability of default in providing some document or the other, which can hold up the proposals. Block-wise expenditure statements are called for, but it is an enormous task to actually sift through this large number of statements with any degree of necessary attention at the central level. Some of these requirements may perhaps be curtailed and the task of monitoring may also be decentralised to some extent.

3.3.1 Utilisation of funds in selected states

Overall utilisation of funds (Table 3.3.1) has been reasonable under this scheme, although significant inter-state variations can be seen. In particular, the cases of Manipur and Jammu & Kashmir in 2008-09 and of Tripura in 2009-10 are notable for low utilisation. However, these data do not point to any general problem with respect to utilisation but what are, in all probability, state-specific issues.

Table 3.3.1: Utilisation of Funds under IAY

(Rs. crore)

States	Year 2008-09				Year 2009-10			
	Central Allocation	Central Releases	Utilisation of Funds	Utilisation* (%)	Central Allocation	Central Releases	Utilisation of Funds	Utilisation* (%)
Arunachal Pradesh	19.55	34.83	28.35	81.40	29.36	33.37	24.01	71.95
Assam	432.26	683.53	627.04	91.74	649.15	667.37	863.55	129.40
Manipur	16.97	16.4	4.25	25.91	25.48	20.66	16.84	81.51
Meghalaya	29.55	21.38	26.43	123.62	44.38	37.83	38.54	101.88
Mizoram	6.3	12.51	15.29	122.22	9.46	12.68	14.22	112.15
Nagaland	19.56	39.59	54.99	138.90	29.37	39.96	30.39	76.05
Sikkim	3.74	5.79	6.86	118.48	5.62	5.62	7.81	138.97
Tripura	38.08	66.97	63.44	94.73	57.18	63.69	38.19	59.96
Jammu & Kashmir	38.04	71.29	39.39	55.25	57.25	57.25	59.68	104.24
Total	**604.05**	**952.29**	**866.04**	**90.94**	**907.25**	**938.43**	**1093.23**	**116.50**

Source: Ministry of Rural Development

* With a 10 percent matching requirement, a figure of 110 percent utilisation against central releases would be roughly equivalent to 100 percent utilisation against available funds, ignoring balances carried over.

Figure 3.3.1

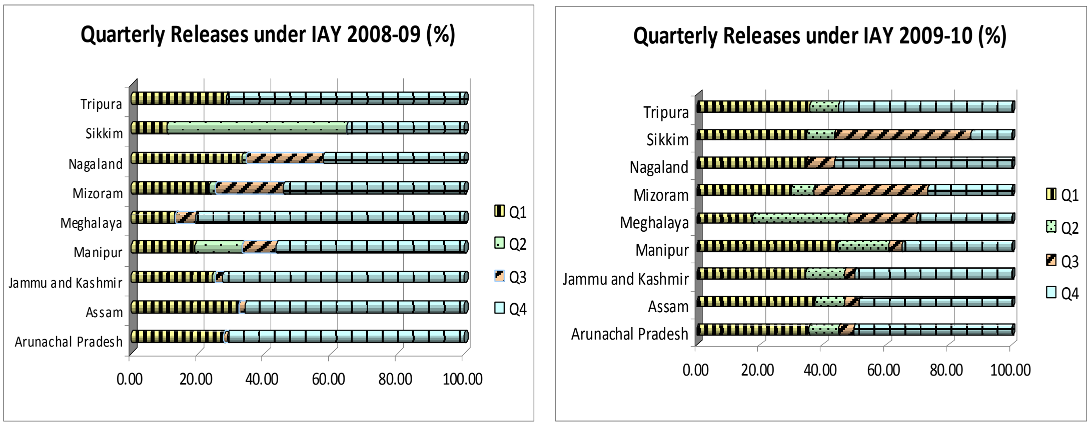


Figure 3.3.1 depicts the quarterly release of funds as a percentage of the total release. It can be seen that there is a strong *de facto* tendency of the larger part of the releases to be made in the last quarter. Release in the first quarter is more than 40 percent in only one case ï Manipur in 2009-10. The problems with last quarter releases are well-known and hardly need repetition. Also, this problem is more or less generic, and hence in all likelihood caused by one or more feature(s) of the design and/or administration.

3.3.2: Utilisation of funds by other states

Table 3.3.2 provides information on allocation, release and utilisation of funds under IAY for two years, 2008-09 and 2009-10. In general, the data show fairly high levels of utilisation in terms of releases in both the years, with substantial increase in the utilisation of funds under the programme in the year 2009-10, when the utilisation was of the order of 158 percent of the central releases, up from 95 percent in 2008-09. In the year 2008-09, in all the states except Chhattisgarh, Jharkhand, Karnataka, Kerala, Orissa, Punjab and West Bengal, utilisation of funds was at least 100 percent. In the year 2009-10, utilisation was much more than the amount released by the Central Government in all the states, despite significant increases in the releases in several states. In terms of number of houses constructed also there was a substantial improvement in 2009-10 over 2008-09 (data not reported here). Thus, the scheme obviously seems to be very popular with the State Governments, and there is little to worry about utilisation of funds in this case, even after counting in the statesô share (one-third of the central release).

Table 3.3.2: State-wise Central Allocation and Release, and Utilisation of Releases under IAY

(Rs. Crore)

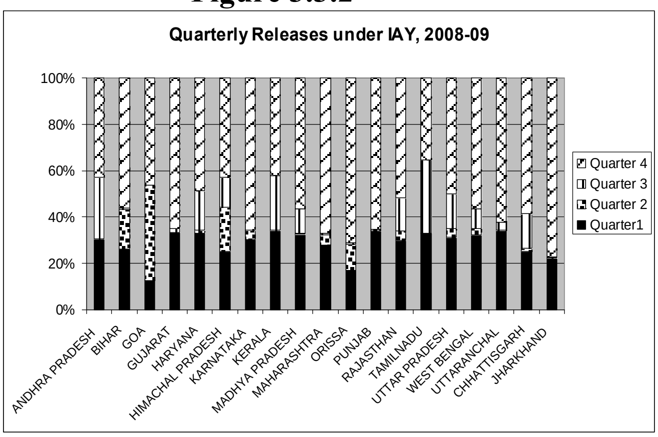
		Year-2008-09				Year 2009-10			
S. No	**States**	**Central Allocation**	**Central Releases (upto 31.3.09)**	**Utilization of Funds**	**Percent-age***	**Central Allocation**	**Central Releases (upto 31.3.10)**	**Utilization of Funds**	**Percent-age***
1	Andhra Pradesh	504	820.83	899.38	**109.57**	759.01	856.29	1307.96	**153**
2	Bihar	1489	2398	2154	**90**	2240	2009	2996	**149**
3	Chhattisgarh	78	158	107	**68**	117	163	322	**198**
4	Goa	3	3	4	**138**	5	5	5	**116**
5	Gujarat	247	359	338	**94**	372	416	568	**137**
6	Haryana	35	50	54	**106**	52	52	85	**161**
7	Himachal Pradesh	12	18	23	**129**	18	19	31	**164**
8	Jharkhand	133	297	164	**55**	200	302	360	**119**
9	Karnataka	194	282	218	**77**	292	302	536	**177**
10	Kerala	108	157	152	**97**	163	163	213	**131**
11	Madhya Pradesh	155	234	408	**174**	233	241	340	**141**
12	Maharashtra	304	470	546	**116**	458	474	1286	**271**
13	Orissa	292	461	257	**56**	440	460	769	**167**
14	Punjab	43	62	44	**71**	65	65	78	**120**
15	Rajasthan	124	181	205	**113**	187	189	299	**158**
16	Tamilnadu	202	294	339	**115**	304	305	445	**146**
17	Uttar Pradesh	669	976	1071	**110**	1006	1015	1588	**156**
18	Uttarakhand	34	49	42	**87**	50	50	78	**155**
19	West Bengal	403	572	454	**79**	607	607	892	**147**
	Total (incl. UTs)	5042	7844	7482	**95**	7587	7697	12199	**158**

Source: Ministry of Rural Development, Government of India, New Delhi

* With a 25 percent matching requirement, a figure of 125 percent utilisation against central releases would be roughly equivalent to 100 percent utilisation against available funds, ignoring balances carried over.

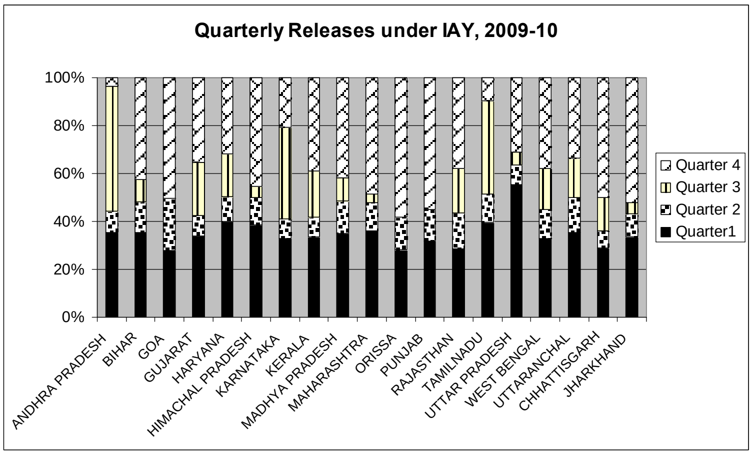
Details of releases made ï quarter-wise ï under this programme for the years 2008-09 & 2009-10 are given in graphical form in Figure 3.3.2 and Figure 3.3.3 below.

Figure 3.3.2



Oddly enough, the timing of releases was rather unfortunate in the year 2008-09, with bulk of releases in the last quarter, which usually signifies poor utilisation. The first quarter release was less than 40 percent in all cases, and even less than 20 percent in the cases of Goa and Orissa. The second and third quarter releases were usually small; the only exceptions were a significant second quarter release in the case of Goa, and a release of about 25 percent of the total in the third quarter in Tamilnadu.

Figure 3.3.3



The time pattern of releases was only marginally different in 2009-10. The first quarter releases were between 30 and 40 percent in most states; the only exception was Uttar Pradesh, which received almost half of its annual releases in the first quarter. The second quarter releases were universally small; third quarter releases were also generally small, but Andhra Pradesh received more than half of its annual total in the third quarter and two other states (Karnataka and Tamilnadu) received smaller but still substantial part of their releases in the same quarter. Last quarter releases were substantial in all states but three (Andhra Pradesh, Karnataka and Tamilnadu); the largest fourth quarter release at about 60 percent was in Orissa. And yet, its utilisation of total releases was as high as 167 percent.

3.4. National Rural Drinking Water Programme (NRDWP) (Ministry of Rural Development)

The basic objective of this programme is to ensure safe drinking and cooking water for all rural citizens in a sustainable manner through judicious combination of the use and development/improvement of existing water sources, surface water, ground water sources, and rain water harvesting. The coverage also includes all rural schools and *Aanganwadi*s. The scheme focuses on the quality of drinking water and universal coverage, encouraging local government involvement (along with state level organisations) with beneficiaries and other stakeholders, and the introduction of user charges in the interest of financial sustainability. Central funds for this programme are transferred directly to the bank accounts of State Water and Sanitation Mission (SWSM), the apex state-level body to be set up, supported by an elaborate institutional structure including district and village level structures. Planning for water is expected to be carried out in bottom-up manner, with priorities for various projects/activities suggested in the programme guidelines. Salient features of the financial aspects of the programme are given in Table 3.4.1. The system of transfers is driven by the allocations, and the state annual plan has to fit within the guidelines and the envelope of available funds.

Table 3.4.1: Financial Provisions – NRDWP

Name of the scheme	National Rural Drinking Water Programme (NRDWP)
Pattern of funding	• NRDWP has several components. These components along with the weightage provided to each of them are: (i) Coverage (38%), (ii) Quality (20%), (iii) Operation and Maintenance (10%), (iv) Sustainability (20%), (v) Desert Development Programme (5 %), (vi) Natural calamity (5%), and (vii) Support (2%). • The pattern of funding between the centre and states for the first three components is on 50:50 basis for all states except for North-eastern states and Jammu & Kashmir (90:10 for them). • The pattern of funding for the remaining four components is 100 percent by the centre.
State-wise allocation	• Criteria for allocation of funds to the states under the NRDWP is as a) Rural Population (60 %) b) Rural population managing rural drinking water supply schemes (from no. of GPs managing drinking water assets/ distribution) (10 %) c) States under DPAP, HADP and special category Hill States in terms of rural areas (30 %) • In the case of NRWSP (DDP Areas), criteria for allocation of funds would be the same as above except for the purpose of rural area, the area of DDP blocks would be considered
Release of Funds	**Release of 1st Instalment** • Every year, in the beginning of the financial year, allocation of funds under different components of NRDWP will be communicated to the states. The states/UTs will be required to indicate the component under which and to what extent, they would like to avail the funds. • However, once allocation is made, the 1st instalment amounting to 50 percent of the allocation under Programme Fund will be released to states/UTs without any proposal from the state/UT, if the concerned state/UT has drawn the 2nd instalment in the previous year. • In case, due to any reason, allocation under Programme Fund could not be decided in the beginning of the financial year and/or Parliament has not passed the full budget of the financial year, release will be made in April on ad-hoc basis based on the available funds as part of the 1st instalment against programme fund. • Once the allocation under Programme Fund is decided and adequate funds become available, the remaining part of the 1st instalment will be released making it 50 percent of the allocation **Release of 2nd Instalment** • The 2nd instalment under Programme Fund to cover the balance of the annual allocation will be released on fulfilment of the following conditions: a) Receipt of a specific proposal under Programme Fund from the state/UT with progress reports generated from the IMIS. b) Utilization of 60 percent of the available resources under Programme Fund and corresponding expenditure under the state sector funds available till date (unutilised opening balance, if any, from the previous years plus funds released as the first instalment). c) Receipt of certificate of actual expenditure under the state sector and the NRDWP from the AG up to the year preceding the previous financial year; However, if report from AG is not received due to any unforeseen reasons, the release will not be withheld, if State Government is able to provide specific reasons for delay and gives undertaking for furnishing the same after the receipt of the same from the office of the AG. In case, in the AG's report, some discrepancies/deficiencies are reported, the same will be adjusted in the subsequent releases. d) Receipt of Utilization Certificate generated from the online IMIS under the state sector and the NRDWP signed by the Head of the fund recipient Department/Board/ Authority/Corporation/Body and countersigned by the Principal Secretary/Secretary of the concerned Department. e) Certificate that unfinished works are given priority for completion. f) Certificate that all the schemes approved by the state level Scheme Sanctioning Committee six months ago have been taken up for implementation.

<table>
<tr><th>Name of the scheme</th><th>National Rural Drinking Water Programme (NRDWP)</th></tr>
<tr><td></td><td>g) Proposal for release of the second instalment of funds under the Programme Fund, complete in all respects as indicated above, should reach to the RGNDWM by the 31st December of the financial year. Proposals received after 31st December will be subjected to progressive cuts as indicated below:
<table>
<tr><th>Month of receipt of proposal</th><th>Cut on the total allocated amount</th></tr>
<tr><td>Up to December</td><td>Nil</td></tr>
<tr><td>January</td><td>10%</td></tr>
<tr><td>February</td><td>20%</td></tr>
<tr><td>March</td><td>30%</td></tr>
</table>

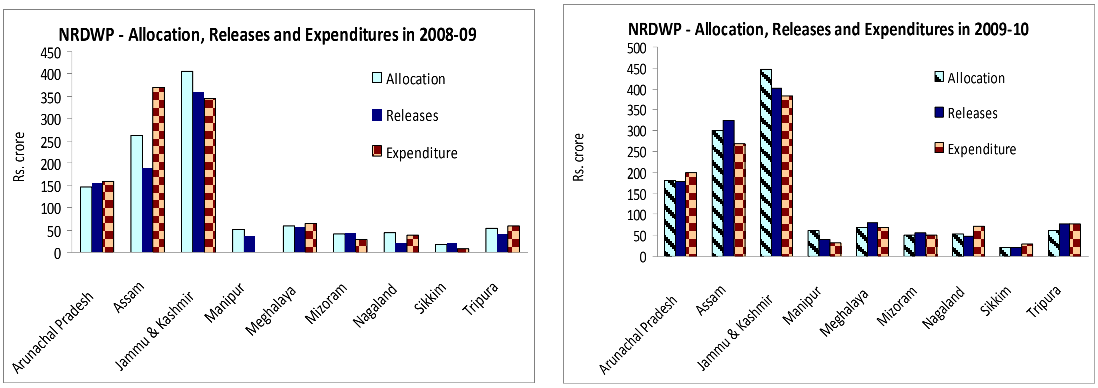
Support Fund which is 100 percent grant in aid, will also be released in two instalments based on certain criteria and release of 2nd instalment will be based on submission of activity-wise Physical and Financial progress and Utilization Certificate generated from the IMIS.
The expenditure on O&M part of the fund should not exceed 10 percent of the total funds released in the previous year under NRDWP. Excess expenditure in the previous year, if any, will be deducted at the time of release of the 2nd instalment of funds;
Funds will be released based on the specific proposals from the State Governments indicating the actual requirement during the remaining part of the year and utilization of prescribed percentage of funds already released.
While releasing the central share, the quantum of unutilised funds available with the states/UTs in relation to the total allocation for the financial year will be kept in view.
Carry over funds in the next financial year will be allowed to the extent of 10 percent of the total amount released.
However, if any amount has been released in the month of March and or amount could not be transferred to the state/UT in the financial year, the same will not be accounted as carry forward amount.
While releasing the second instalment, the excess amount over and above the prescribed limit, will be deducted. However, if the state/UT has utilized more than 75 percent of the total available fund in the current financial year, the excess carry over amount may not be deducted while releasing the 2nd instalment.
The states/UTs shall release the entire amount of central allocation received along with the matching state share to the implementing agency (s) without any delay and in any case not later than 15 days after its receipt.
</td></tr>
<tr><td>Utilisation certificate /audited statement of expenditure</td><td>
The SWSM will ensure that the accounts are audited by a CA approved by the CAG, within 6 months of the close of the financial year. This account will be supported by a statement of reconciliation with the accounts of PHED and a certificate of the CA on its accuracy.
Additionally the works under this Programme would be subject to audit by the Office of the C&AG.
</td></tr>
</table>

Source: Document on Framework for implementation of the programme

3.4.1 Utilisation in Selected States

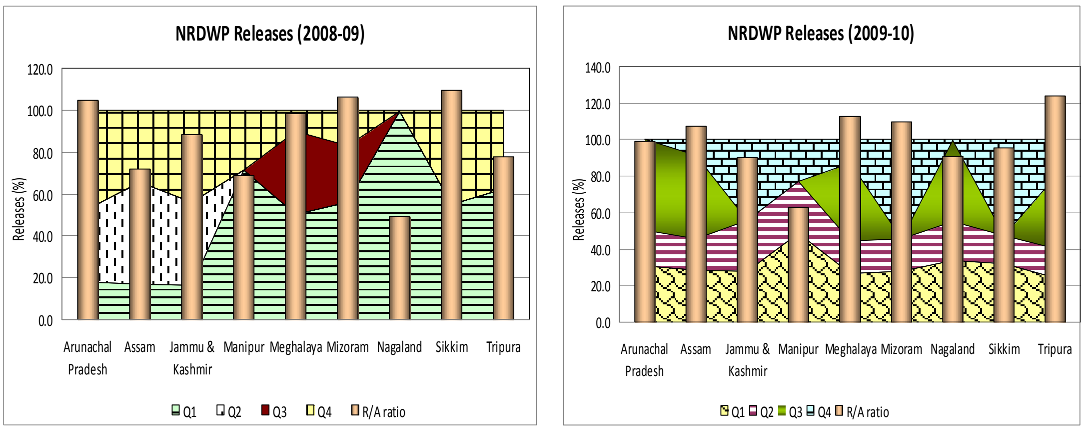
Figure 3.4.1 gives an idea of the utilisation of funds by the selected states by comparing allocation and release of central funds and the expenditure reported. Though the expenditures are not directly comparable (because it includes state releases as well) to the other two (relate to central funds only), the figure indicates that apart from Manipur in 2008-09, utilisation in terms of central allocations and releases have been reasonable, particularly in Arunachal Pradesh, Nagaland and Tripura. Assam and Jammu & Kashmir are the two states with the largest allocations, releases and expenditures; in the cases of these two states also, expenditures are not too far below central releases. As such, taking the year as a whole, there is no serious concern about utilisation, unless state releases were relatively large in some or all of the selected states.[3]

Figure 3.4.1



The time pattern of releases of funds can have a significant bearing on utilisation. Figure 3.4.2 shows the quarterly releases during 2008-09 and 2009-10 and also depicts the ratio of releases to allocations of central funds. The pattern of releases shows a significant part of the annual allocation released in the first quarter itself in 2008-09 in six of the nine selected states. Of these, the case of Nagaland, where there was almost no release other than that in the first quarter stands out; given the low overall releases relative to allocations, it clearly implies non-utilisation and/or inability to meet the conditions for the second instalment.

Figure 3.4.2



Note: R/A ratio indicates Releases/Allocation ratio

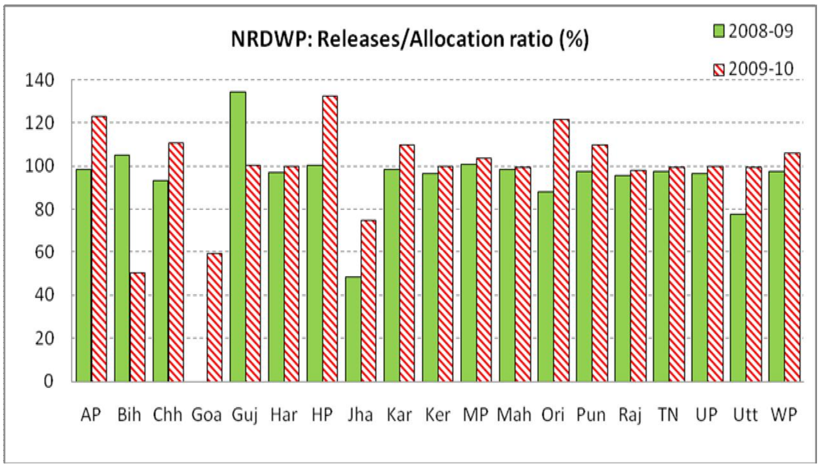
The situation obviously improved in 2009-10 in the state. Assam and Manipur also had relatively low R/A ratios in 2008-09, but things were better for Assam in

[3] Unfortunately, data on state releases are not readily available. However, given the matching ratio of 10 percent, they are not likely to be very large.

2009-10 while Manipur continued to have low R/A ratio probably as fallout of its poor utilisation in 2008-09. The noticeable feature of the pattern of releases in 2009-10 is the uniformly low share of releases in the first quarter. This is somewhat surprising because the first instalment under this scheme is almost unconditional. However, all states received at least 40 percent of their total releases by the end of the second quarter. Last quarter releases were relatively large for only 3 states in 2009-10.

3.4.2 Utilisation in Other States

Figure 3.4.3



Data on allocations, release of funds and expenditure on the scheme by the other states (all general category states and Himachal Pradesh and Uttarakhand) for 2008-09 and 2009-10 are given in Table 3.4.2, while Figure 3.4.3 shows for the two years the releases to allocation ratio. From Figure 3.4.3 it is quite clear that the release of funds from the centre is no problem as for most states releases to allocation ratio was 100 percent with the exception of Bihar (in 2009-10), Goa (2008-09 and 2009-10) and Jharkhand (both 2008-09 and 2009-10).

Table 3.4.2 provides data on utilisation of funds by the selected states, comparing allocation and release of central funds and the expenditure reported. Though the expenditure figures are not directly comparable (because it includes state releases as well) to allocation and releases as they relate to central funds only, the figures indicate that utilisation in terms of central allocations and releases have been 80-90 percent in general. Given the matching ratios applicable to components of the programme, the average matching ratio can be taken to be around 30 percent. Then, a calculated utilisation rate of 80 percent would imply an actual utilisation rate of around 62 percent, assuming the entire matching amount was made available. As such, taking the year as a whole, there is serious concern about utilisation; even if some of the computed utilisation figures are close to genuine because state releases were small, it points to another problem ï that of inadequate state allocations.

Table 3.4.2: Utilisation of Funds under NRDWP

(Rs. crore)

States	2008-09				2009-10			
	Allocation	Releases	Expenditure	E/R ratio (%)	Allocation	Releases	Expenditure	E/R ratio (%)
Andhra Pradesh	408.33	402.74	452.66	112.39	437.09	537.37	389.79	72.54
Bihar	440.70	462.81	79.94	17.27	372.21	186.11	284.87	153.07
Chhattisgarh	134.28	125.29	110.76	88.40	116.01	128.22	104.07	81.16
Goa	4.16	0.00	0.00	--	5.64	3.32	0.50	15.06
Gujarat	323.03	433.72	252.33	58.18	482.75	482.75	506.69	104.96
Haryana	120.78	117.29	117.57	100.24	207.89	206.89	132.35	63.97
Himachal Pradesh	144.65	144.94	84.97	58.63	138.52	182.85	144.50	79.03
Jharkhand	165.68	80.33	60.68	75.54	149.29	111.34	86.04	77.28
Karnataka	487.59	479.95	356.67	74.31	573.67	627.86	473.71	75.45
Kerala	108.46	104.90	103.77	98.93	152.77	152.04	150.99	99.31
Madhya Pradesh	381.41	383.62	243.92	63.58	367.66	379.66	354.19	93.29
Maharashtra	589.27	580.09	654.05	112.75	652.43	647.81	622.70	96.12
Orissa	305.60	268.41	314.84	117.30	187.13	226.66	198.87	87.74
Punjab	89.83	87.48	106.32	121.54	81.17	88.81	110.15	124.04
Rajasthan	983.90	938.31	909.09	96.89	1036.46	1012.16	680.00	67.18
Tamilnadu	250.12	243.70	156.93	64.39	320.43	317.95	364.21	114.55
Uttar Pradesh	567.31	548.05	560.84	102.33	959.12	956.36	974.14	101.86
Uttarakhand	110.43	85.87	75.44	87.86	126.16	124.99	63.83	51.06
West Bengal	401.46	390.62	175.21	44.85	372.29	394.30	368.77	93.52
Total	**6016.96**	**5878.11**	**4815.99**	**81.93**	**6738.69**	**6767.45**	**6010.37**	**88.81**

Source: Department of Drinking Water Supply, Ministry of Rural Development

Apart from Bihar, Gujarat, and Himachal Pradesh 2008-09 and Goa in 2009-10, where utilisation was really low even in terms of only central releases, the same was not less than 50 percent in any other state, the highest being 122 percent in Punjab in 2008-09 and 153 percent in Bihar in 2009-10. Given that a 130 percent utilisation in terms of central releases is what one is looking for, all states fall short of it in 2008-09 and only Bihar meets it in 2009-10 (although we should probably be looking for an even larger utilisation figure in Bihar in 2009-10 because of the large carryover of funds from the previous year).

Figure 3.4.4

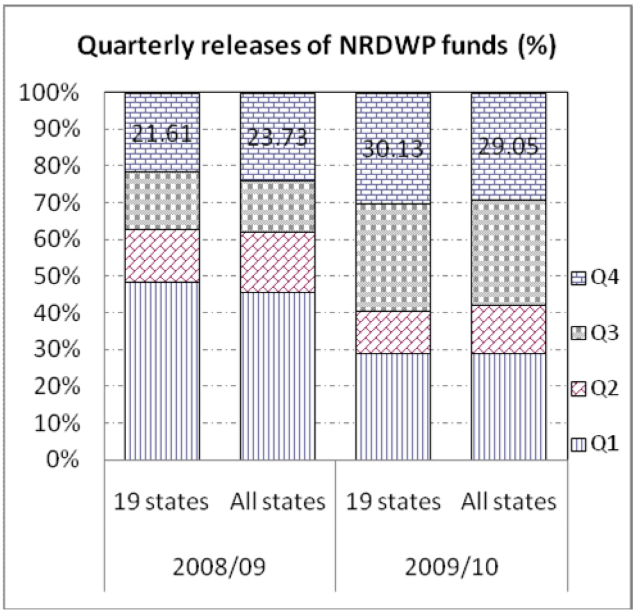


Figure 3.4.4 shows the quarterly releases during 2008-09 and 2009-10, aggregated for the 19 ớother statesô and for all states. The noticeable feature of the pattern of releases in 2008-09 and 2009-10 is the lower share of releases (below 30 percent) in the first quarter. This is somewhat surprising because the first instalments under this scheme are almost unconditional. However, all states received at least 40 percent of their total releases by the end of the second quarter in 2009-10; in the previous year, the figure was above 60 percent. Last quarter releases were relatively large in 2009-10 (around 30 percent), while they were not insignificant even in 2008-09.

Clearly, overall utilisation with respect to this particular programme is not very encouraging. And a part of the reason is to be found in the relatively small first quarter releases, although this alone cannot explain fully the low actual utilisation levels. It is possible that adequate and timely state releases were not forthcoming. Also, there might have been delays in the submission of necessary documentation from the states required for the release of the second instalment in particular. While the centre can only provide incentives to the states to put up the matching amounts, it can try and simplify the conditions for releases of funds to speed up the flow of funds and perhaps thereby improve utilisation.

3.5. Rashtriya Krishi Vikas Yojana (RKVY) (Ministry of Agriculture)

This is a special additional central assistance (ACA) scheme under the state plan mooted by the National Development Council (NDC) in 2007. The main objective is to provide a boost to the agriculture and allied sector by incentivising the states to maintain and raise their investment in agriculture. The scheme is based on comprehensive district level agricultural plans (C-DAP), which are expected to take into consideration local needs and preferences, as well as constraints (agro-climatic and technical). It encourages convergence with other schemes wherever possible.

The system is driven by eligibility (conditional upon at least maintaining baseline allocation to agriculture and allied sectors in state plan) and formula-based allocations. Fixed proportions of allocations are available for funding specific projects and for supplementary funding in existing schemes/projects. Details are provided in Table 3.5.1.

Table 3.5.1: Salient Features of Financial Provisions for RKVY

Name of the scheme	**Rashtriya Krishi Vikas Yojana (RKVY)** (State Plan Scheme)
Nodal Ministry	Department of Agriculture & Cooperation, Ministry of Agriculture
Pattern of funding	• Pattern of funding is 100 percent Central Government grant • RKVY would be available to the states in two distinct streams. i. **Stream-I:** at least 75 percent of the allocated amount shall be proposed under Stream-I for specific projects ii. **Stream-II**: funds under Stream-II will be available for strengthening the existing state sector schemes and filling the resource gaps
Eligibility under RKVY	• Each state will become eligible to receive RKVY funds, if and only if: a. The base line share of Agriculture and allied sectors in its total State Plan (excluding RKVY funds) expenditure is at least maintained b. District Agriculture Plans and State Agriculture Plans have been formulated • The baseline level of expenditure will be determined on the basis of the average percentage of expenditure incurred under agriculture by the State Government in the State Plan during the three years prior to the previous year (excluding RKVY funds). Base line would be a moving average and the average of the previous 3 years will be taken into account for determining eligibility under RKVY, after excluding funds already received. • During 2007-08, the states would be exempted from formulation of the District Agriculture Plans as the State Plans have already been formulated and finalized in the meanwhile. • There may arise a situation when a particular state becomes ineligible to avail of the funds under the RKVY in a subsequent year due to its lowered expenditure on Agriculture and allied

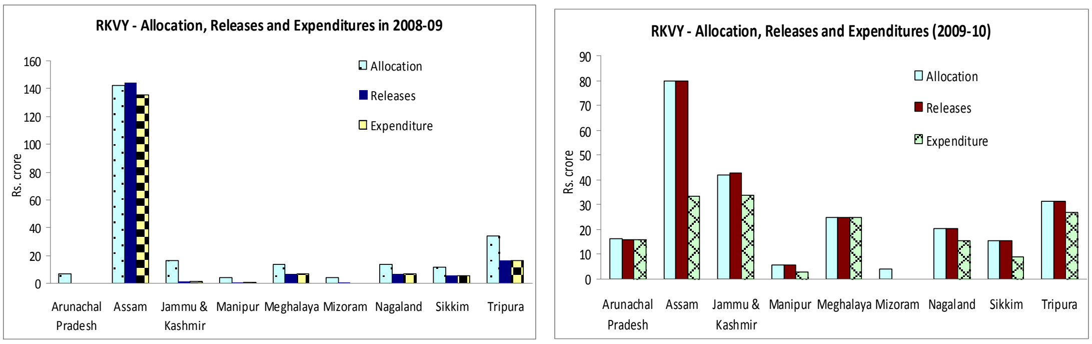
Name of the scheme	**Rashtriya Krishi Vikas Yojana (RKVY)** (State Plan Scheme)
	sectors. If this were to happen, the states shall be required to commit their own resources for completing the sanctioned projects/schemes under the RKVY
State wise allocation	• Once a state becomes eligible for the RKVY, allocation by the Central Government under the scheme to each of the eligible states would be based on the following parameters and weights: a) percentage share of net un-irrigated area in a state to net un-irrigated area of the eligible states. **(weight assigned: 20 percent)** b) projected growth rates to a base year GSDP for Agriculture and allied sectors (say, 2005-06) will be applied to the GSDPs to be attained by the end of the 11th Plan by the states. The parameter will be set in terms of inter-state proportion of these GSDPs projected to be reached by the state by end of 11th Plan. **(weight assigned: 30 percent)** c) increase in total Plan expenditure in Agriculture & allied sectors in previous year over the year prior to that year. **(weight assigned: 50 percent)**
Release of Funds	• State Agriculture Dept. is the nodal department for implementation of the scheme to whom the funds will be released from the centre. • For administrative convenience and ease of implementation, the state governments may identify, or create an exclusive agency for implementing the scheme on the fast-track. In such situations where the states notify a Nodal agency, the release of funds may be done by the centre directly to the Agency. **Stream-I** (project based) a) If the detailed project report (DPR) is not available, the nodal agency (in most cases it is the agricultural department of the state) can hire independent consultants and spend **5 percent** of the funds under this stream for the preparation of specific projects. After the DPR is prepared and has been accepted and money has been paid for its preparation, balance **95 percent** of the funds will be distributed as 1. **45 percent** of the funds will be released as first instalment to the state, upon the receipt of the sanction letter issued by the State Level Sanctioning Committee (SLSC). 2. **40 percent** of the balance funds will be released when a physical progress of at least 50 percent of the milestones is informed to the Department of Agriculture and Cooperation (DAC), as envisaged in the DPRs. 3. The balance **10 percent** of the funds will be released when the Project is completed and field verification is done by a designated agency of the Government of India. The designated agencies will be chosen by DAC at an appropriate time b) However, if the detailed project report (DPR) is available or is prepared by the nodal agency or the implementing agency and has been accepted then **50 percent** of the funds will be released as first instalment to the state, upon the receipt of the sanction letter issued by SLSC. **40 percent** of the balance funds will be released when a physical progress of at least 50 percent of the milestones is informed to the Department of Agriculture and Cooperation (DAC), as envisaged in the DPRs. Balance **10 percent** of the funds will be released when the

Name of the scheme	**Rashtriya Krishi Vikas Yojana (RKVY)** (State Plan Scheme)
	project is completed and field verification is done by a designated agency of the Government of India **Stream-II** • A maximum of 25 percent of the funds allocated to a state are available. • Funds under Stream-II will be released states in two equal instalments. **1st Instalment:** 50 percent of the central allocation will be released as first instalment to the states at the commencement of Kharif Season, in **April**. **2nd Instalment:** Release of the second and final instalment would be considered on the fulfilment of the following conditions: • Utilization certificates for funds released, upto the previous financial year • Expenditure of at least 60 percent of available funds, i.e., unspent balance of the previous year plus the releases in the first instalment. • Submission of performance report in terms of physical and financial achievements as well as outcomes, on a regular basis, within the stipulated time frame. **Note**: Depending upon the state's needs, a state may choose to use its entire allocated RKVY funds under the Stream-I only (i.e., entire 100 percent of RKVY funds can be utilized for Stream-I). However, the reverse is not permissible, that is, a state cannot choose to lower its Stream-I allocation below 75 percent. The permissible carryover of unspent balance would be 10 percent of the central allocation. Any excess over the permissible limit of 10 percent carry over will be adjusted in the second instalment.

3.5.1 Utilisation by selected states

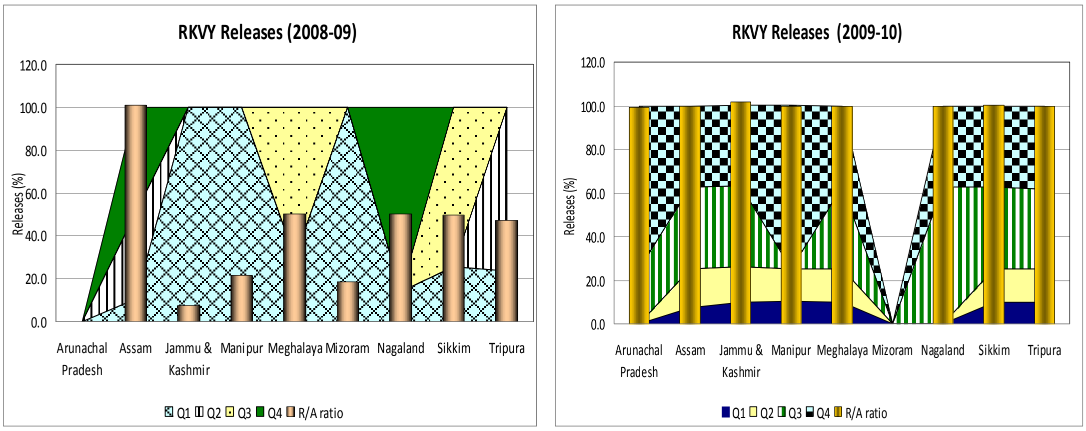
In the case of this scheme, there is no matching requirement and the system is allocation-based, although project proposals are needed to obtain releases. The first feature should aid utilisation and the second should make the procedure a little simpler than a fully demand-driven approach. We first examine the allocations, releases and expenditures for the selected states (Figure 3.5.1) for the years 2008-09 and 2009-10. This being a new scheme, it did not really take off in any of the selected states except Assam and to some extent, Tripura in 2008-09. In 2009-10, the implementation was considerably better except in Mizoram and Manipur. However, the state with the largest allocation – Assam – had very poor utilisation despite getting releases to the full extent of its allocation. Releases were invariably made to the (nearly) full extent of allocations except in Mizoram. But overall utilisation was poor, mainly ascribable to that in Assam, which had the largest weight among the selected states.

Figure 3.5.1



To assess whether utilisation was adversely affected by the timing of the releases, we examine the pattern of quarterly releases in the two years (Figure 3.5.2). Although the pattern for 2008-09 is also presented, as observed above, the scheme did not really start functioning in earnest that year and hence it is the pattern in 2009-10 that has to be concentrated upon.

Figure 3.5.2



Note: R/A ratio indicates Releases/Allocation ratio

The graph clearly shows that most of the funds were released only in the fourth quarter; in the first two quarters, none of the states that funds were released to received much more than 20 percent of the allocations. This is quite contrary to *a priori* expectations since the scheme neither requires matching contributions, nor is it demand-driven. Clearly, either the states were unable to submit acceptable proposals to take full advantage of the scheme, or the concerned central Ministry was unable to process them in time to make the releases, or both.

3.5.2 Utilisation by the ‘other’ states

We now examine the allocations, releases and expenditures for the ótherô states (19 states: all 17 General category states, Himachal Pradesh and Uttarakhand) for the years 2008-09 and 2009-10 (see Figures 3.5.3 and 3.5.4).

Figure 3.5.3

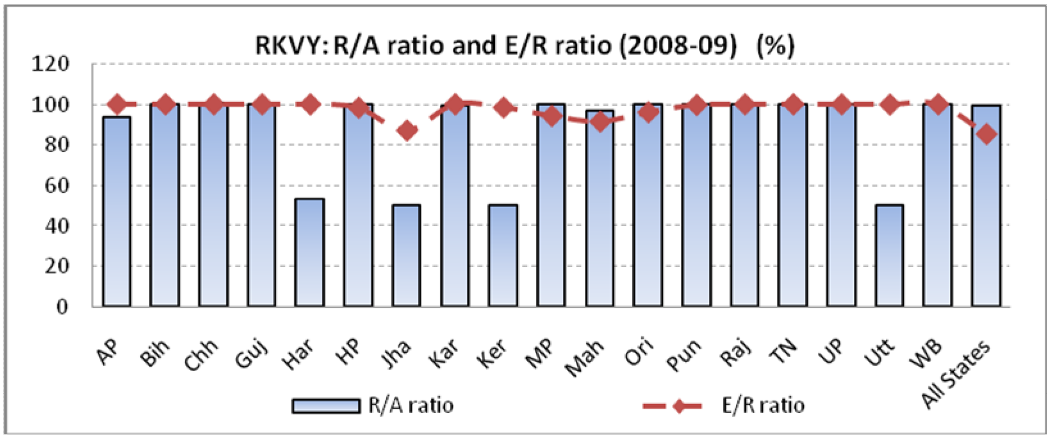
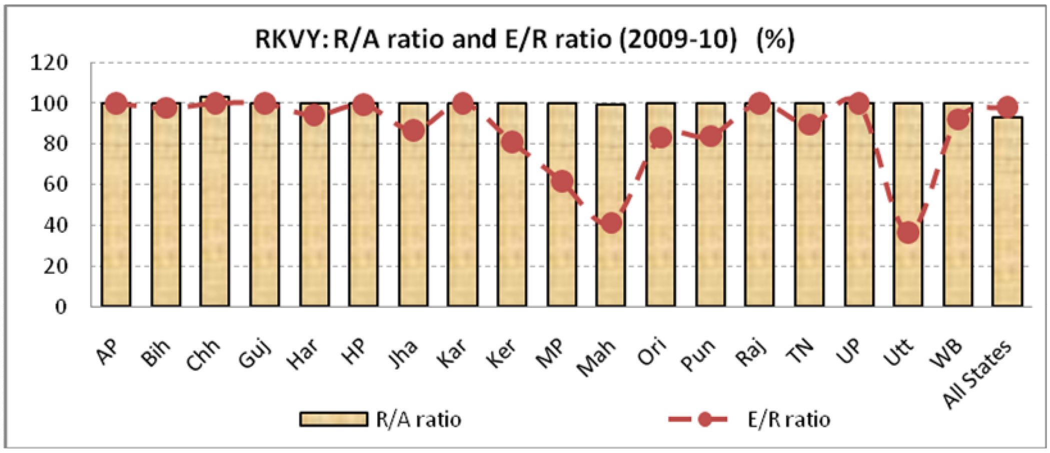


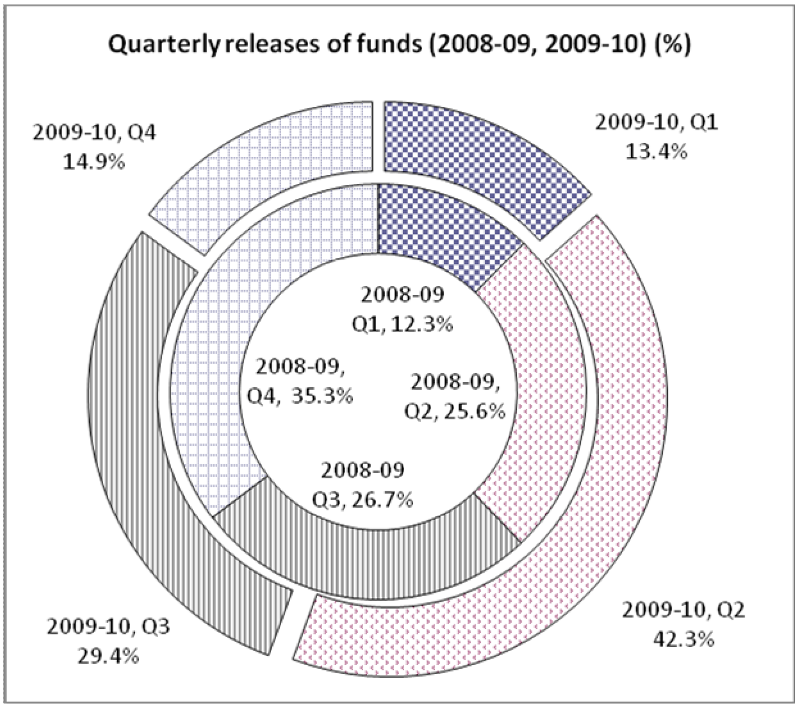
Figure 3.5.4



Note: R/A ratio denotes releases to allocation ratio while E/R ratio is expenditure to releases ratio.

Releases were invariably made to the (nearly) full extent of allocations in 2009-10 in all these states. However in 2008-09, in many states (Haryana, Jharkhand, Kerala, and Uttarakhand) releases were nearly one half of allocations. Goa was the only state (not shown in the figure) where no releases were made in either of the years despite its entitlement of funds under the scheme. Overall utilisation was good, in both the years. During the year 2009-10, in some states ï namely, Kerala, Maharashtra, Madhya Pradesh, and Uttarakhand ï utilisation was poor despite having a near 100 percent release of allocated funds. However, the utilisation in 2008-09 was somewhat better. States which had lower releases in that year were successful in utilising most of it in that financial year itself.

Figure 3.5.5



To assess whether utilisation was adversely affected by the timing of the releases, the pattern of quarterly releases in the two years is examined. Figure 3.5.5 shows the quarterly release of funds aggregated across all states for 2008-09 (Inner circle) and 2009-10 (outer circle in the graph). Though there are interstate variations in the pattern of releases in both the years, most of the releases are in the 2nd and 3rd quarters (see Figure 3.5.6a for interstate variation in quarterly releases in 2009-10). In the first quarter for most states the fund releases were low. This is quite contrary to *a priori* expectations since the scheme neither requires matching contributions, nor is it demand-driven. Clearly, either the states were unable to submit acceptable proposals well in time to take full advantage of the scheme, or the concerned central Ministry was unable to process them in time to make the releases, or both. Although the pattern for 2008-09 is also presented (see Figure 3.5.6b), as observed above, the scheme did not really start functioning in earnest that year and hence it is the pattern in 2009-10 that has to be concentrated upon.

Figure 3.5.6a

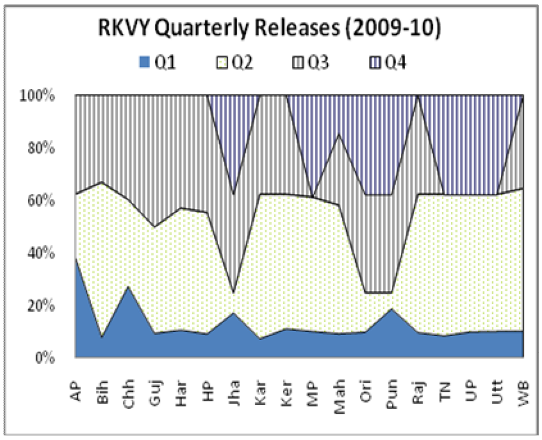
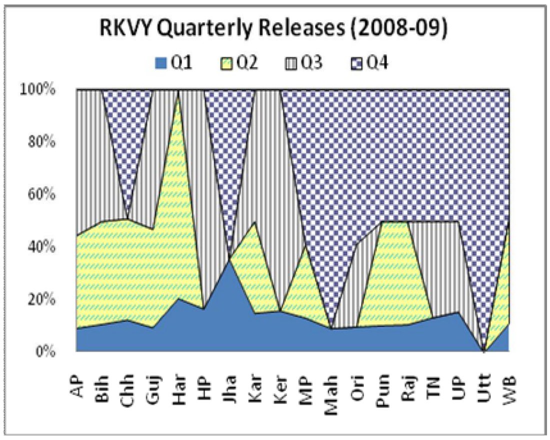


Figure 3.5.6b

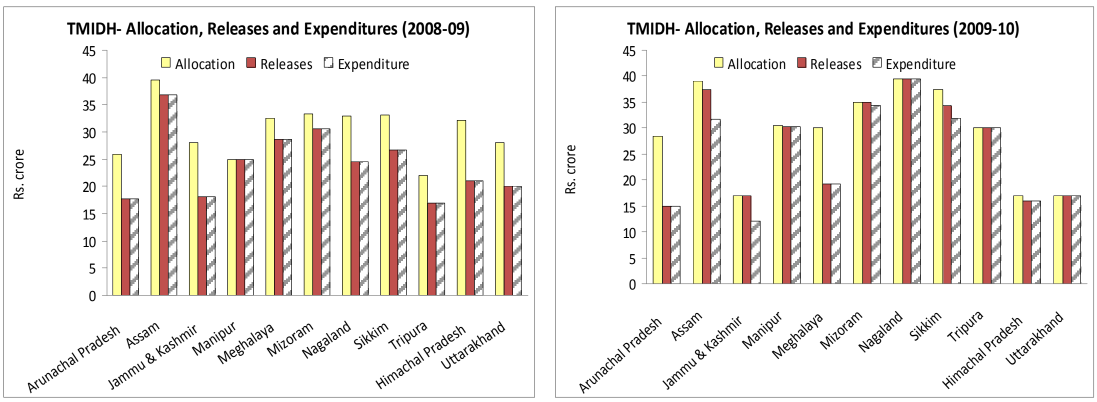


3.6. Technology Mission for Integrated Development of Horticulture in North Eastern States, Sikkim, Jammu & Kashmir, Himachal Pradesh and Uttarakhand (TMIDH)

This centrally sponsored scheme aims to óimprove livelihood opportunities and bring prosperityô to the North-eastern region and the Himalayan states by harnessing their potential for horticultural output. The scheme covers all aspects of horticultural production, storage and marketing. There are four parts of this scheme called mini-missions: (a) research, (b) production, (c) post-harvest issues regarding output and (d) processing and marketing of processed products. Each of these four parts are coordinated and implemented by different agencies. The first part is based on allocations, the second based on annual action plans to be submitted for approval by each of the concerned states, and the last two are based on project proposals. Small Farmersô Agri-Business Consortium (SFAC) at the central level and the state level SFAC play a major role, particularly in the system of disbursement of funds, since all funds (excepting those for research) are routed through them, as are the action plans and proposals. There is no matching requirement of the state governments, as the funds are channelled through SFAC to district level agencies and then to the individual beneficiaries.

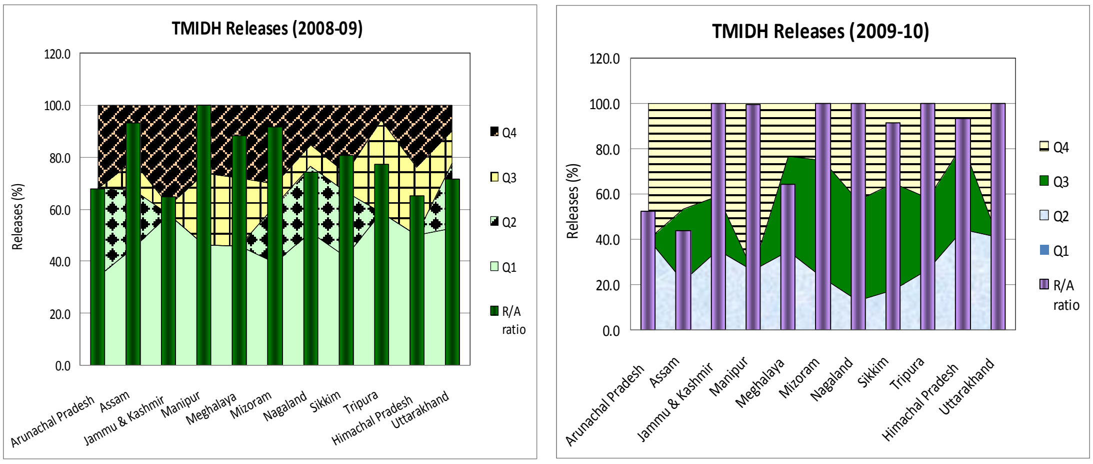
As the annual allocations (except for research) are essentially indicative and given the complex structure of the scheme and implementation agencies, releases and expenditures would depend on the speed of processing action plans/ proposals and the relative rigours imposed on the clearance system. Data on allocation, releases and expenditure show that there is rarely any gap between releases and expenditure, although there are a few cases of releases being substantially lower than allocations. Overall, utilisation of funds does not appear to be a major concern.

Figure 3.6.1



Given the uniformly near-full utilisation of released funds, the time pattern of releases is not really very important for the issue of formal utilisation, although it may still be important in determining the time lag with which the impact of the scheme shows up in the outcomes. In any case, Figure 3.6.2 provides the time pattern of releases by quarters, if only for the record. In 2008-09, bulk of the releases was in the first quarter; in contrast, there is no release at all in the first quarter in 2009-10. Also, there is much larger variation among states with respect to releases relative to allocations in 2009-10 as compared to 2008-09.

Figure 3.6.2



Note: R/A ratio indicates Releases/Allocation ratio

3.7. Accelerated Irrigation Benefit Programme (AIBP) (Ministry of Water Resources)

This programme is essentially meant to provide funds for completion of irrigation projects that have been ongoing for a long time, and can be completed relatively quickly. The objective, thus, is to make available funds for the ðlast mileô so that the benefits of the investments already made are available within a short time. In doing so, the programme framework singles out projects (or project components) that are starved of funds by ensuring that the supported projects do not have any other funding except state budgetary support. Also, the projects must have investment clearance from the Planning Commission. Important features of the programme are summarised in Table 3.7.1.

Table 3.7.1: Salient Features of AIBP Framework

Name of the scheme	Accelerated Irrigation Benefits Programme (AIBP)
Pattern of funding	The central assistance will be in the form of central grant which will be 90 percent of project cost in case of special category states[4], projects benefiting drought prone area, tribal area and flood prone area, and 25 percent of project cost in the case of Non-special category states[5].
Eligibility criteria	Major, medium and Extension, Renovation & Modernization (ERM) irrigation projects (a) having investment clearance of Planning Commission (b) are in advanced stage of construction and can be completed in the next four financial year (c) are not receiving any other form of financial assistance can be considered for inclusion in the programme. Components of the projects not receiving any other form of financial assistance can also be considered for inclusion in the programme. New project can be included only on completion of an ongoing project on one to one basis except for projects benefiting (a) drought-prone areas; (b) tribal areas; (c) states with lower irrigation development as compared to national average; and (d) districts identified under the PM's package for agrarian distress Surface minor irrigation (MI) schemes (both new as well as ongoing) of NE states, Hilly states (Himachal Pradesh, Sikkim, Jammu & Kashmir and Uttarakahnd) and drought prone KBK districts of Orissa which are approved by State TAC/ State Planning Department will be eligible for assistance under the programme provided that (i) individual schemes are benefiting irrigation potential of at least 20 ha. and group of schemes (within a radius of 5 km) benefiting total ultimate irrigation potential of at least 50 ha. (ii) proposed MI schemes have benefit cost ratio of more than 1 and (iii) development cost of these schemes per ha. is less than Rs.1.00 lakh. For Non-special category states, only those minor irrigation schemes with potential more than 50 hectare which serve tribal areas and drought prone areas could be included.
Release of Funds	During a financial year, the sanctioned grant will be released in two instalments. **1st instalment**: is based on projected outlay and the grant component amounting to 90 percent of the total grant sanctioned will be released immediately **2nd instalment:** the balance 10 percent will be released when 70 percent of the agreed expenditure is incurred. Funding for the years subsequent to the first year will be based on the confirmation of expenditure of the previous years. • The grant component along with the state share must be released to the project authorities by the state governments within 15 days of its release by the Government of India. • If the State Governments fails to comply with the agreed date of

[4] Special Category States include the North Eastern States, Sikkim, Himachal Pradesh, Jammu & Kashmir, and Uttaranchal. The projects in the undivided Koraput, Bolangir and Kalahandi (KBK) districts of Orissa will also be treated at par with Special Category States

[5] All other states not covered under special category shall be Non-Special Category States.

Name of the scheme	Accelerated Irrigation Benefits Programme (AIBP)
	completion, the grant component released will be treated as loan and recovered as per usual terms of recovery of the central Loan.
Utilisation certificate /audited statement of expenditure	• States would be required to submit audited statements of expenditure incurred on the AIBP component of the project within 9 months of the completion of the financial year. • Release of central assistance of following years will not be considered if audited statement of expenditure is not furnished within 9 months of release of central assistance. • The Central Water Commission will carry out the monitoring and submission of Status Reports at least twice a year for the period ending March and September of the year. The releases of subsequent installments will be based on physical and financial verification and the recommendations of Central Water Commission to the satisfaction of Ministry of Water Resources.

Under this programme, there are no annual allocations because the programme is fully project proposal driven and the projects in general are multi-year projects. The releases of grants after approval of projects are largely (to the tune of 90 percent) upfront, although actual expenditures may be spread over a number of years. As such, annual figures of utilisation against releases are not conceptually appropriate. The concept of utilisation in this case must be applied to project-wise utilisation over the estimated period for completion against the releases. Even then, particularly for the projects with central funding of 25 percent only (does not apply to selected states) of the project cost, comparing expenditures with central releases of grants may not be meaningful. In any case, information by projects was not readily available, and the actual utilisation of grants provided could not therefore be assessed. However, aggregate annual utilisation figures against releases for the scheme as a whole was quite reasonable.

As regards timing of the releases, multi-year implementation reduces the importance of this factor, although it could be extremely important for the states at the margin for a reason different from the usual seasonal factor. In case the project is not completed within the agreed time period, the grant changes into a loan, which no state government would want. Hence, utilisation of the grants received would be a matter of urgency for the states. The actual timing of releases under this programme for 2009-10 shows that among the selected states, only Assam received substantial releases across all the four quarters of the year. In all other cases, almost the entire release was confined to the third or fourth quarter and in several states, only the fourth quarter. Given the multi-year framework of this programme and the relevant seasonal factors, this pattern of timing would be a major disadvantage only in Jammu & Kashmir, Sikkim and Arunachal Pradesh, because it is these states which would not be able to start utilising the funds immediately on receipt because of seasonal factors.

A recent CAG report of AIBP (*Performance Audit Report No. 4, 2010*) pointed out several problems that plague its implementation. The audit was for the period 2003-04 to 2007-08 and covered 70 major and medium irrigation projects and 346 minor irrigation projects in 26 states. The report points out that between 75-85 percent of the AIBP grants released during the period 2005-06 to 2007-08 were cornered by six states. This holds true for the releases made during 2008-09 and 2009-10 (refer table 2). The top six states (Maharashtra, Andhra Pradesh, Orissa, Karnataka, Madhya Pradesh and Assam) corner more than two-thirds of the grant released.

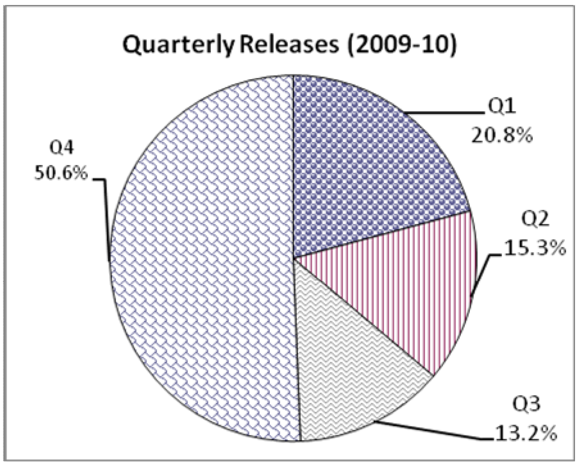
Table 3.7.2: AIBP releases (2008-09, 2009-10)

(Rs. Crores)

	2009-10			2008-09	
	Releases	**% of total releases**		**Releases**	**% of total releases**
Maharashtra	1,429.44	16.77	Maharashtra	2257.83	29.72
Andhra Pradesh	1,313.69	15.41	Andhra Pradesh	855.18	11.26
Orissa	985.96	11.57	Orissa	724.44	9.53
Karnataka	934.01	10.96	Madhya Pradesh	473.78	6.24
Madhya Pradesh	764.64	8.97	Karnataka	442.42	5.82
Assam	690.83	8.10	Assam	405.95	5.34
Top 6 states	6,118.57	71.78	Top 6 states	5159.61	67.91
Rest of the states	2,405.82	28.22	Rest of the states	2438.62	32.09
Grand Total	**8,524.39**	**100.00**	**Grand Total**	**7598.22**	**100.00**

Source: Central Plan Scheme Monitoring System, Ministry of Finance, GoI.

Figure 3.7.1



The CAG report finds that majority of the central sanctions for the release of funds were issued at the fag end of the financial year (i.e., in the last quarter or in the month of March) a finding, which is supported by the 2009-10 releases data (see Figure 3.7.1). The report also points towards instances of diversion/parking of funds by many states; there is delay not only in the release of central funds to the implementing agencies by the state government funds are also not released in entirety; audited statements of expenditure in support of the UCs for each project were also not being sent by many states. Among other things, the CAG report recommends that in order to maintain the sanctity of the budgeting process, the Ministry of Finance/Water Resources must ensure timely release of AIBP funds and being an Additional Central Assistance (ACA) programme the central government must ensure equitable distribution of AIBP funds to states based on certain predefined criteria.

3.8. Backward Region Grant Fund (BRGF) (Ministry of Panchayati Raj)

This programme is a grants-based one with a focus on attending to locally determined development gaps and capacity building at the district level and below. District Plans are expected to consolidate more decentralised plans and provide the key guidance for implementation of the entire system, encompassing both rural and urban areas in its fold along with their interactions. Its coverage is limited to 250 identified backward districts in different states; the allocations to states thus depend on the number and other relevant characteristics of the identified districts in the state. Recognising existing capacity deficits at the local levels, the programme allows for enlisting technical assistance to prepare the plans. The main features of the programmeôs financial aspect are given in Table 3.8.1.

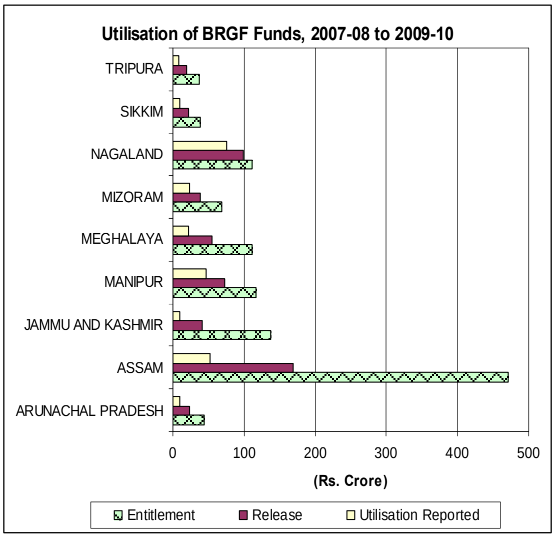
Table 3.8.1: Salient features of BRGF

Name of the scheme	**Backward Regions Grant Fund (BRGF)**
Pattern of funding	Consists of two funding windows, namely 1. A capacity-building fund of Rs. 250 crore per annum (to be used primarily for building capacity in planning, implementation, monitoring, accounting and improving accountability and transparency. 2. A substantially untied grant (for 2006-07 it was Rs. 3500 crore) ï to be used for addressing the critical gaps in integrated development through the participative planning process.
Eligibility criteria	250 BRGF Districts covering 28 states
State wise allocation	• The allocation of capacity building funds for each state is calculated at the rate of Rs. 1 crore per BRGF district in that state. • The substantially untied grant (also called development funds) will be distributed among the concerned districts as follows: a) every district will receive a fixed minimum amount of Rs. 10 crore per annum b) 50 percent of the balance allocation under the scheme will be allocated on the basis of share of population of the district in the total population of all backward districts c) The remaining 50 percent will be distributed on the basis of the share of the area of the district in the total area of all backward districts • Each state will indicate the normative formula for inter-se allocation of BRGF fund to panchayats/ULBs within the districts.

Release of Funds	**2008-09 Onwards:** Financial assistance under the development grant will be released against the corresponding annual plan in **two instalments** 1st Instalment will be of the value of a maximum 90 percent of the entitlement of the district 2nd Instalment will consists of the balance 10 percent of the allocated amount and will be released only after the receipt of physical and financial progress report and expenditure statement for 60 percent of the 1st instalment. • Funds against annual plan for 2008-09 will be released only when the district has utilized 100 percent of the funds released against annual plan of 2006-07 and achieved at least 75 percent physical and financial progress of the funds released against 2007-08 annual plan. • While releasing the 1st installment of 2008-09, the amount of unspent balance out of the release of previous annul plan will be deducted. • The balance funds for 2008-09 to be released on the receipts of physical and financial progress report for the full amount of 2007-08 and physical and financial progress report of at least 75 percent of the funds for 2008-09 • Under the capacity building component, the total release to a state would be restricted to Rs. 3 crore per district till 2008-09 (as the scheme came into operation in 2006-07) **Note**: In states and districts where Part IX and IX A of the Constitution do not apply or in Sixth Schedule areas the funds must be transferred to identified planning and implementing institutions without diversion or delay within 15 days of release.
Utilisation certificate /audited statement of expenditure	• Utilisation certificates are required to be submitted within one year of the release of funds in a prescribed format. • Audit reports for the programme for the last year and submission of ATR should contain a certificate from the chartered accountant that while auditing the district account of the programme, he/she has taken into account the bank reconciliation statement and the accounts of all implementing agencies and that advances have not been treated as expenditure.

3.8.1 Utilisation in Selected States

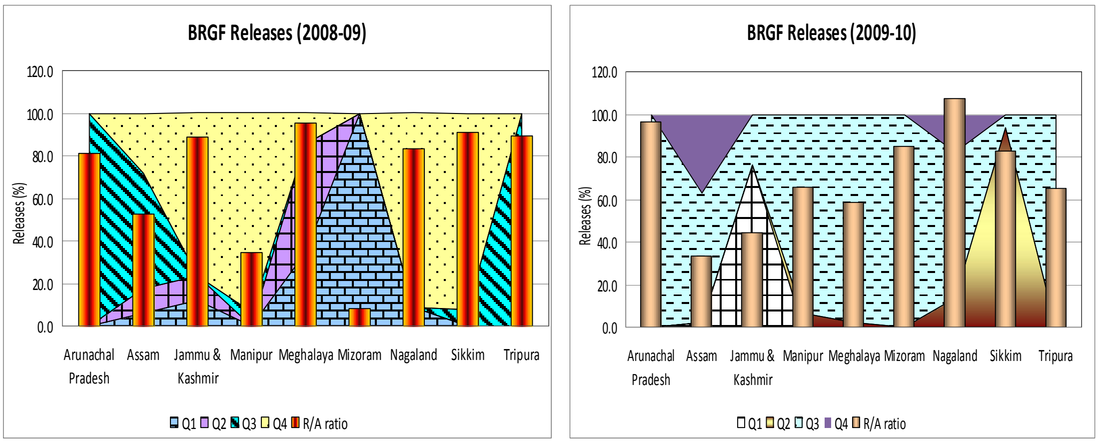
Figure 3.8.1



From all accounts including departmental assessments, utilisation of BRGF funds, particularly the developmental grants, have been rather poor. Figure 3.8.1 depicts utilisation reported by the selected states against their entitlements and releases during the first three years of the Eleventh Plan. It can be seen that the releases (linked to actual utilisation in the previous year) are substantially lower than entitlements and the actual expenditures (or utilisation) are even lower. Given that there is no substantive matching requirement, the problem of releases can only be a result of the statesô inability to meet the conditions for release of funds or shortcomings in the process of release of funds. Since the conditions for release relate to submission of plans, actual progress in implementation and furnishing documentary evidence of progress, the problem can be traced to either excessive documentation requirements, or inadequate actual progress, or both. Undue delays at the central level cannot be ruled out either.

Since seasonal factor plays an important role in the selected states, we also examine the time pattern of release of funds to see whether it can explain to any extent the gap between releases and utilisation (Figure 3.8.2). The first noticeable feature is that only two states of the nine (Meghalaya and Mizoram) received most of their releases in the first two quarters in 2008-09, out of which the case of Mizoram is simply that of non-utilisation (as indicated by the abysmally low release-allocation ratio). In 2009-10, only Jammu and Kashmir received the bulk of its releases in the first quarter, while for Sikkim it was the second quarter. All other states received most of their releases only in the third quarter. While this time pattern might not have hampered utilisation because of the seasonality factor, it certainly gave the states much less time to properly utilise the funds than what would have been available if the releases were made in the first quarter.

Figure 3.8.2



Notes: (a) R/A ratio indicates Releases/Allocation ratio; (b) Allocation of BRGF includes allocation of Development grant, capacity building grant and releases of RSVY.

3.8.2 Utilisation in Other States

Figure 3.8.2 depicts utilisation reported by the other states against their entitlements and releases during the first three years of the Eleventh Plan (i.e., 2007-08, 2008-09 and 2009-10). It can be seen that the releases (linked to actual utilisation in the previous year) are substantially lower than entitlements and the actual expenditures (or utilisation) are even lower.

Figure 3.8.2

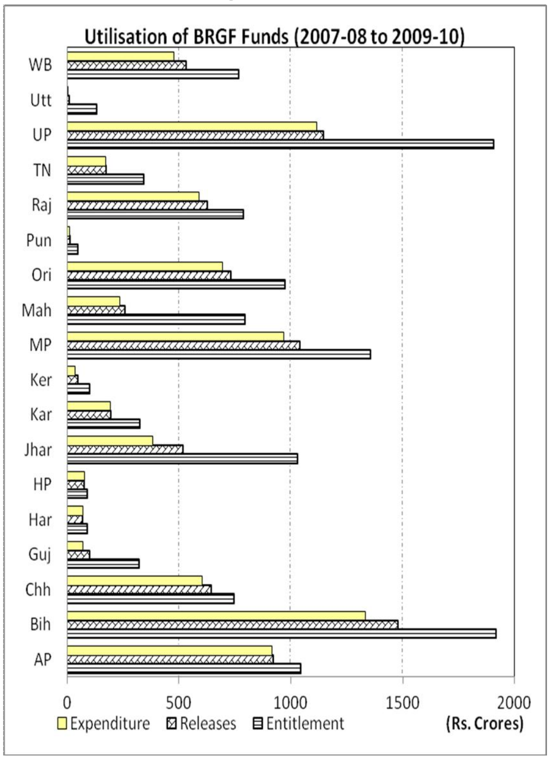


Table 3.8.2 shows the release to entitlement ratio for the general category states and Himachal Pradesh and Uttarakhand that comprise the óother statesô. From the table we see that for many states the annual releases has been less than the entitlement and in some states the releases are not made at all. Among the major recipients of funds under this programme, Jharkhand and Uttar Pradesh had the lowest release/allocation ratios, although utilisation of the released amounts was not so bad, particularly in Uttar Pradesh. In general, the problem appears to be more serious for the gap between allocations and releases than for the utilisation of released funds. Clearly, there is a problem with the flow of funds, either because of obstacles at the central level, or ascribable to difficult-to-meet conditions for the releases. Of course, one cannot completely rule out simple tardiness in complying with the conditions for releases on the part of the states, but it is unlikely to be completely independent of the ease of compliance.

Even the report of the First Independent Review of the BRGF by the World Bank submitted in January 2010 points to severe delays in the disbursement of BRGF funding and also points out that the predictability of the flow of funds is perceived to be low. The report points out that the fund releases (releases from the MoPR to the district) are generally delayed in all states and funds only arrive towards the end of each financial year, parts of it even in the subsequent year(s). The general picture is that there is one or even sometimes two years of back log in the releases of funds. There are delays in all stages from releases of funds from the centre to the states and the onwards transfers from the states to the local bodies. This could possible explain zero releases in some of the states (see table 3.8.2).

Table 3.8.2: Releases to Entitlement Ratio (2007-10) *(percent)*

	2007-08	2008-09	2009-10	2007-10
Andhra Pradesh	90.41	71.89	102.62	88.30
Bihar	84.22	65.97	81.22	77.14
Chhattisgarh	90.52	82.68	86.95	86.72
Gujarat	0.00	5.63	90.06	31.90
Haryana	84.10	84.36	63.57	77.34
Himachal Pradesh	90.66	76.98	89.87	85.84
Jharkhand	6.11	84.49	60.89	50.50
Karnataka	87.33	0.00	95.47	60.93
Kerala	67.52	0.00	70.52	46.01
Madhya Pradesh	88.95	71.72	69.77	76.81
Maharashtra	0.00	11.22	85.92	32.38
Orissa	86.77	70.18	68.89	75.28
Punjab	0.00	0.00	90.57	30.19
Rajasthan	114.41	69.78	53.77	79.32
Tamilnadu	0.00	99.55	54.45	51.33
Uttar Pradesh	3.98	85.17	91.16	60.10
Uttarakhand	0.00	20.07	0.00	6.69
West Bengal	75.13	62.34	70.77	69.41

Source: Calculated on the basis of data provided by MoPR

Note: The shaded boxes indicate states where in a particular year/period the releases to entitlement ratio is less than 65 percent.

The Independent Review report also provides reasons for the delay in release of funds. These reasons include:

(a) delays in the planning process which often starts in February/March, while the financial year for which plan has to be made starts in April. As per guidelines it should start much earlier;

(b) The complicated system of minimum level of spending (rules on 100%, 75% and 60%)[6], creates confusion and further delays. Firstly, it may be hard to spend funds (that arrive with delay towards the end of the fiscal year) within a few months in each financial year (FY), and as each transfer year is treated separately (i.e. there has to be 100% spending of FY 2006-07 prior to releases on FY 2008-09 and single projects can hold up the entire system). The requirement not only creates delays, it also adds to lack of up-to-dated auditing and reduced accountability. It is overly complicated and the guidelines are difficult to understand for the local bodies.

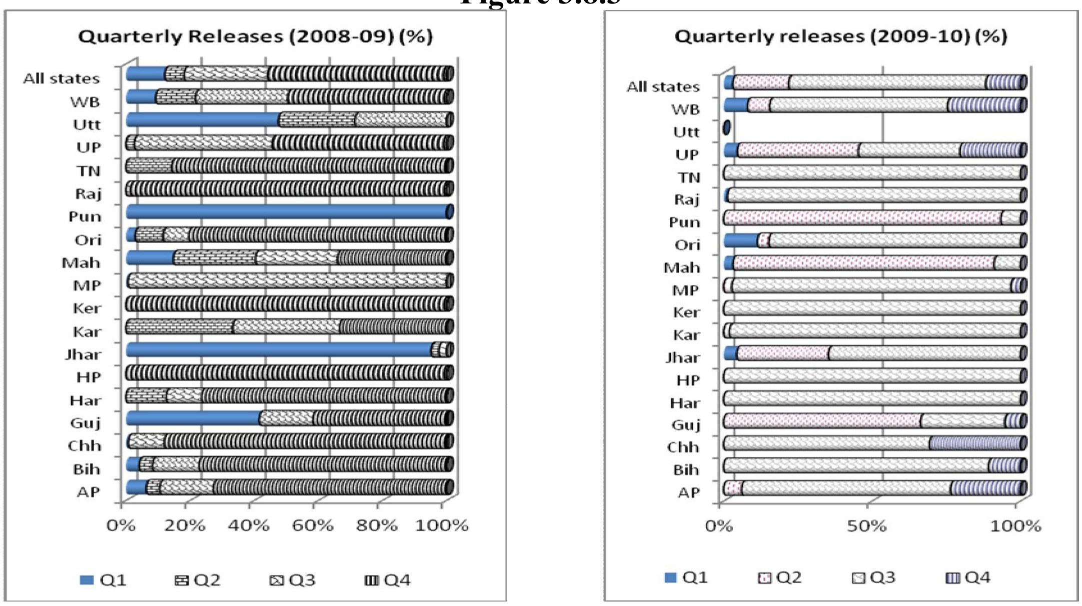
[6] According to the guidelines from MoPR, the second installment can only be released if 60% of the first installment has been used. The first installment for a coming FY can only be released if 100% of the funds from the two years ago have been utilized and if 75% of the funds from last FY have been utilized.

These issues need to be addressed. The delays in releases of funds lead to a large gap of time between planning and actual implementation, thereby hampering the relevance of the entire planning process. The delays also cause confusions and reduce transparency in the overview of fund utilization, they also lead to cost increases and rushed project execution.

Since seasonal factor plays an important role in some of the selected states, as also because late releases contribute to low utilisation, we examine the time pattern of release of funds to see whether it can explain to any extent the gap between releases and utilisation. Figure 3.8.3 shows the quarterly releases of BRGF funds by the central government for the year 2008-09 and 2009-10.

The noticeable feature of two graphs (Figure 3.8.3) is that most of the releases take place after the second quarter; in 2008-09 most of the releases were in the fourth quarter while in 2009-10 it was in the last quarter. Such late releases definitely adversely impact the utilisation of BRGF funds by the local bodies and will also affect releases in the next financial year because of the design of the scheme (see footnote 1 relating to rules on 100%, 75% and 60%). In many states we see there are no releases in a particular financial year. Such late releases could be attributed to (i) delay in preparation of plans and (ii) delay in transfer of funds. This was also pointed out by the World Bank study on the performance of BRGF.

Figure 3.8.3



Note: Releases figures are inclusive of all three components, viz. development grant, capacity building grant and releases under RSVY.

On the strength of the admittedly limited examination of the issue at hand, it is suggested that the process of preparing Annual plans for a financial year (say 2011-12, which starts from 1 April 2011) should begin by July of the previous financial year (i.e., July 2010) so that by the end of February 2011 these are approved and the funds can be transferred and reach the bank accounts of the local bodies by end-May 2011 (i.e., in the 1st quarter). This will not only give adequate time for the local bodies to utilise these funds efficiently but would also result in better utilisation of the available BRGF funds, thereby addressing the development needs of the local bodies and contributing to their capacity building.

The other suggestion pertains to the guidelines relating to release and utilisation of funds. The whole issue of release of second installment only after 60 percent of the funds released in the first installment has been used, and subsequent release first installment for a coming fiscal year only after 100 percent utilization of funds released two years ago and 75 percent utilization of the funds released in the last fiscal year have created a lot of complication and confusion. It has affected the release of funds and its utilization. It is recommended that this rule should be simplified in consultation with all the stakeholders.

3.9. National Rural Health Mission (NRHM) (Ministry of Health and Family Welfare)

This Mission is a central initiative to support and restructure health services in such a way as to make it more effective, simultaneously broadening its coverage. Apart from putting together a number of disease-specific programmes, the Mission has several other components like strengthening healthcare infrastructure, making basic health services available at the household level through female health workers, promoting decentralisation of the system while maintaining a vertically integrated structure, improving health services management and financing, and streamlining health-related policy making. It envisages setting up of state and district level ôHealth Missionsö.

Central transfers are made to the state health missions, which are assisted every year on the basis of approved annual work plan and budget (AWPB). The state level AWPB in turn incorporates the district level AWPBs. The state level health mission is expected to convey to the district missions their share of central assistance. All the nine selected states considered in this report are among the special focus states under NRHM. The key features of the transfer system under NRHM are given in Table 3.9.1.

Table 3.9.1: Key Features of Transfer System under NRHM

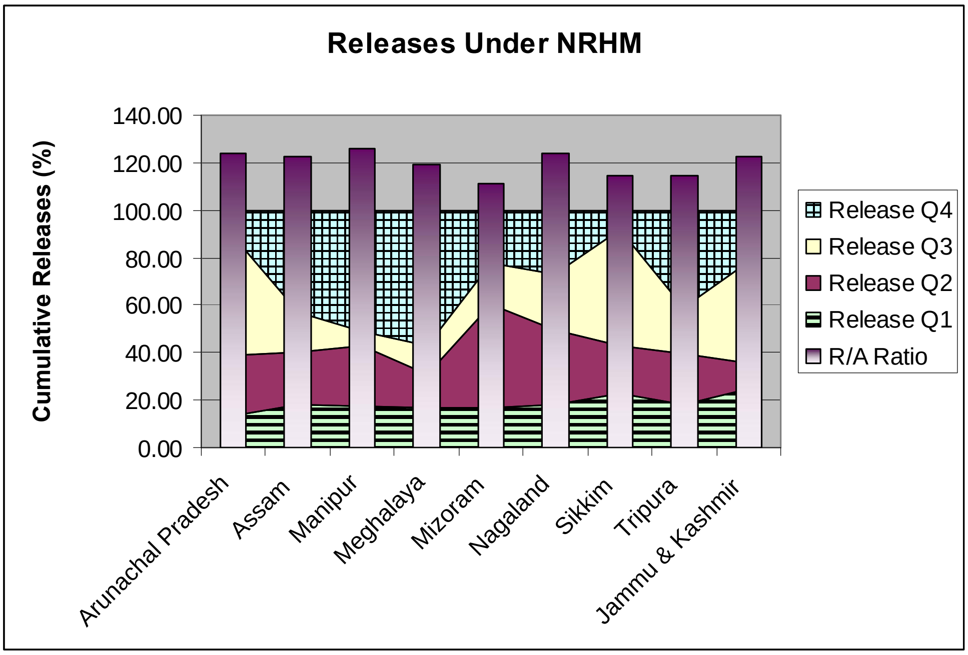
Name of Scheme	Centre – State Sharing Ratio	1st Instalment as per Guidelines	2nd Instalment as per Guidelines	Utilization Certificate Due Date
National Rural Health Mission	Current ratio: 85:15 Proposed in XII Plan ï 75:25	**By 15th May** if plan is approved and less than 6 monthsô balances remain in the SHC account; In addition, the state has to fulfil the Financial Management Indicators, including the sending of Financial Reports, Audit Reports and UCs, as also progress in achieving institutional process targets	**By 15th November** if audited accounts and UCs are submitted for the previous year and Statement of Expenditures for the first two quarters are provided	1st November of the following financial year

A priori examination of the system reveals that apart from the conditionalities to be met by the recipient states, there are some possibilities of delays at the central level. First, the system is crucially dependent upon approval of AWPB in time. Given the right timeline for submissions and discussions, this would normally not be a problem, but there can be cases requiring further details, disputes, procedural problems which could derail the flow of funds. This is particularly probable because the quantum of transfer is to be determined on the basis of achievement of output targets also. There is clearly a possible trade-off between monitoring requirements and timeliness of releases.

3.9.1 Release of Funds and Utilisation in Selected States

Releases of funds under NRHM, on the whole, have been higher than initially approved amounts for all the selected states during 2009-10, for which we obtained data on quarterly releases. Figure 3.9.1 shows the pattern of releases by quarters during the year along with the ratio of releases to approvals for the selected states. It is to be noticed, however, that for some of the states, more than 40 percent of the releases were made in the last quarter. For Assam, Manipur and Meghalaya this was the case, while for Tripura, close to 40 percent was released only in the last quarter. In Meghalaya, about half the releases were in the last quarter. As per the system, 50 percent of the total releases should be in the first quarter; in none of the states, the releases are much higher than 20 percent in the first quarter. Obviously, there is a problem with the timing of the releases, but without a case by case investigation, it is difficult to pinpoint the reason for this.

Figure 3.9.1



Note: R/A ratio indicates Releases/Allocation ratio

Table 3.9.2: Utilisation of NRHM Funds by Selected States

State	Allocations (Rs. crore)		Expenditure (Rs. Crore)		Utilisation (%)	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
Arunachal Pradesh	45.95	39.26	56.35	58.42	122.63	148.80
Assam	582.74	883.14	697.76	724.26	119.74	82.01
Manipur	62.62	91.16	62.04	63.57	99.07	69.73
Meghalaya	60.67	87.68	44.42	52.43	73.22	59.80
Mizoram	37.88	52.76	53.97	58.21	142.48	110.33
Nagaland	53.57	77.43	56.12	58.18	104.76	75.14
Sikkim	23.32	26.78	51.60	37.06	221.27	138.39
Tripura	77.01	123.91	73.45	72.13	95.38	58.21
Jammu and Kashmir	90.61	135.21	115.01	162.80	126.93	120.41

Source: MIS of NRHM

Utilisation of NRHM funds (Table 3.9.2) in the selected states has been good except in Meghalaya. The comparison of utilisation percentages for 2008-09 with those for 2009-10 shows reduction in several states, but a closer look reveals that this outcome is mainly because of substantial increase in allocations which probably could not be absorbed at short notice.

3.9.2 Utilisation in Other States

NRHM prioritizes states on the basis of their health status. Among the major states under review, there are two specific categories: (a) High-focus, non-North East which includes Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh; and (b) Non- high focus states which includes Andhra Pradesh, Goa, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Punjab, Tamilnadu, Uttarakhand and West Bengal. Since Goaŝs allocation is very small compared to the rest of the states, we analyse the quarterly releases of this category without including it in our sample.

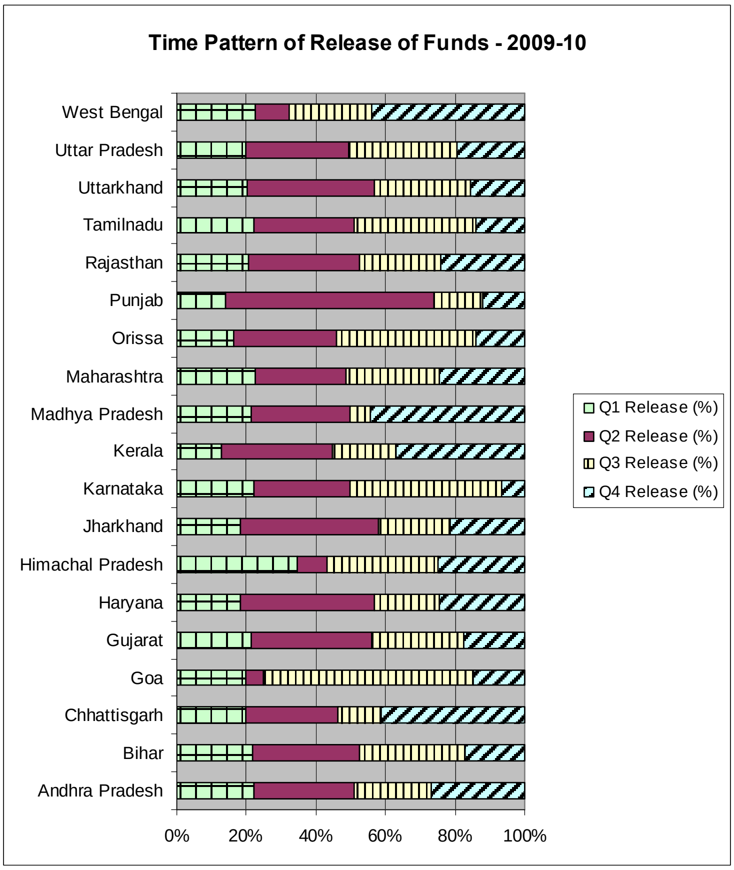
Table 3.9.3: NRHM Flow of Funds – Key Ratios of Other States

State	R-A Ratio 2009-10 (%)	R-A Ratio 2008-09 (%)	E-R Ratio 2009-10 (%)	E-R Ratio 2008-09 (%)	E-A Ratio 2009-10 (%)	E-A Ratio 2008-09 (%)
Andhra Pradesh	90.54	113.82	102.75	112.62	93.03	128.18
Bihar	73.47	138.30	120.26	74.43	88.36	102.93
Chhattisgarh	78.06	137.86	78.61	78.50	61.36	108.22
Goa	82.50	124.50	115.08	77.80	94.94	96.86
Gujarat	105.86	94.38	121.86	140.33	129.00	132.45
Haryana	114.40	122.67	127.52	103.38	145.88	126.81
Himachal Pradesh	110.93	92.63	135.79	99.67	150.63	92.32
Jharkhand	49.17	94.84	85.93	111.29	42.25	105.55
Karnataka	85.39	111.35	135.36	108.24	115.59	120.53
Kerala	83.41	96.90	128.17	134.57	106.90	130.40
Madhya Pradesh	79.56	130.63	116.20	99.39	92.44	129.84
Maharashtra	107.11	89.20	104.27	137.40	111.68	122.57
Orissa	107.10	120.25	130.65	89.78	139.92	107.96
Punjab	171.03	114.42	100.00	100.79	171.03	115.33
Rajasthan	111.92	153.10	132.11	109.21	147.86	167.20
Tamilnadu	100.20	124.80	103.42	93.97	103.63	117.27
Uttarakhand	102.29	117.24	99.73	122.29	102.01	143.38
Uttar Pradesh	95.81	122.86	99.92	101.15	95.74	124.27
West Bengal	102.11	99.84	78.85	97.87	80.51	97.71

Table 3.9.3 provides the releases to allocation ratio (R-A) and expenditure to releases ratio (E-A) for the individual states in the ŏotherô states category. As the figures confirm, E-A ratios are generally reasonable, even when it is noted that taking into account the 15 percent matching amount from the state government, an E-A ratio of 115 percent should be taken as roughly 100 percent, particularly in 2008-09. In 2009-10, there is a noticeable drop to a relatively low level in a few states (Jharkhand, Chhattisgarh and West Bengal). Releases were quite reasonable in 2008-09 as the R-A ratios show, but this ratio also deteriorated in 2009-10, explaining the drop in E-A ratio to some extent in states like Jharkhand, Chhattisgarh and Bihar, but not in West Bengal.

There could be other factors affecting actual expenditure: the timing of releases and balances carried over from the previous year are two obvious ones. Of these, the available data on the former is presented here in Figure 3.9.2.

Figure 3.9.2



We observe that the average quarterly release is more or less evenly distributed across the four quarters. The average quarterly release is the highest (nearly 30 percent) for the second quarter. The variance in the release, however, is the lowest for Q1. This implies that almost all states get a similar share of funds at the beginning of the financial year, but the variation rises in the later quarters. This may indicate the difference in expenditure performance among states as we progress through the financial year. Moreover, releases in Q2 to Q4 may also be linked to reporting guidelines under NRHM financial management system and releases adjusted accordingly. The combined share of Q1 and Q3 release is less than 50 percent for the 19 states taken together. Last quarter releases are particularly high for Madhya Pradesh, Chhattisgarh, West Bengal and Kerala. The analysis does not change significantly even if we divide the states as per the NRHM categories. Therefore, looking at the quarterly release picture, it does not seem that there is any difference between the high-focus and non-high focus states.

Our hypothesis is that states which have higher releases in the Q4 will find it difficult to spend their funds in the financial year, and therefore would have a lower E-R ratio than the others. A simple correlation calculation shows that this is indeed the case ï we find a negative and significant coefficient of 0.33 between E-R and the share of Q4 release. However, we do not find any significant correlation between the R-A and E-R ratios.

In short, NRHM funds are released in a dispersed manner over the financial year. The financial management would need to reduce Q2 and Q4 releases significantly to bring it to the best practice of releasing most of the funds by the end of the third quarter. Also, the financial performance of high-focus states is very similar to the non-high focus states, whereas their expenditure priorities ought to be very different. It needs to be ensured that Q1 and Q3 releases are substantially increased specially for the former category. Negative correlation between Q4 share of release and expenditure performance points to a direct policy recommendation of minimizing Q4 transfers. This is especially true for a large and complex program like NRHM where lack of funds in one activity (say buying medical kits of ASHAs) can have direct impact on outcomes (number of infections detected and averted).

3.10. Sarva Shiksha Abhiyan (SSA) (Ministry of Human Resource Development)

SSA was started with the objective of universalising elementary education and improving the quality of education imparted. Its focus is on providing access to education for all children of the relevant age group by ensuring norm-based supply, provision of school infrastructure including buildings, boundary walls, regular teachersô training, use of teaching-learning material and such other educational inputs, leaving scope for innovative activities as well. The implementation of this programme is based on annual work plans and budgets (AWPB), building decentralisation into the process. An autonomous state level implementation agency (state project office or SPO) has to be set up for this purpose, with counterparts at the district level. It is the SPO that receives the funds from the centre and accounts for them, with the state government playing an active role through deputation of staff, supervision, regular monitoring and financial contribution.

SSA is a cost-shared programme with state contribution required in the mandated ratio (Table 3.10.1) to match the central contribution. There are some broad factors specified along with weights to determine the overall state shares, but the system is intrinsically a demand-driven one with the AWPB playing a crucial role.

Before the beginning of each financial year, states are expected to send their AWPB prepared as per programme guidelines for approval to the concerned department of the Ministry; these are expected to be prepared in a bottom-up fashion with the full involvement of the Panchayati Raj institutions. Detailed budgets have to be prepared for schools and other bodies like the Block /Circle Resource Centres, and administrative offices.

Table 3.10.1: Key Features of Central Transfers under SSA

Centre – State Sharing Ratio	**1st Instalment as per Guidelines**	**2nd Instalment as per Guidelines**	**Utilization Certificate Due Date**
60:40 (2009/10) 55:45 (2010/11) 65:35 (Proposed Under RTE) 90:10 for NE states	Ad-hoc grant transferred in April. Upto 50 percent of actual funds utilized by the State Implementation Society in the previous year, adjusted for unspent balances available as on 1st April.	Second instalment released in September as per the approved AWP and adjusted for the first instalment released in April	One year from the date of release of instalment

The AWPB is examined and approved by the designated central level Committee. The first instalment is then released at the beginning of the financial year on the basis of the approved budget and balance carried forward from the previous year. The second instalment is to be released normally in September on the basis of demand supported by all the necessary accounts, certificates and other documentary requirements as per guidelines.

3.10.1 Utilisation of funds by Selected States

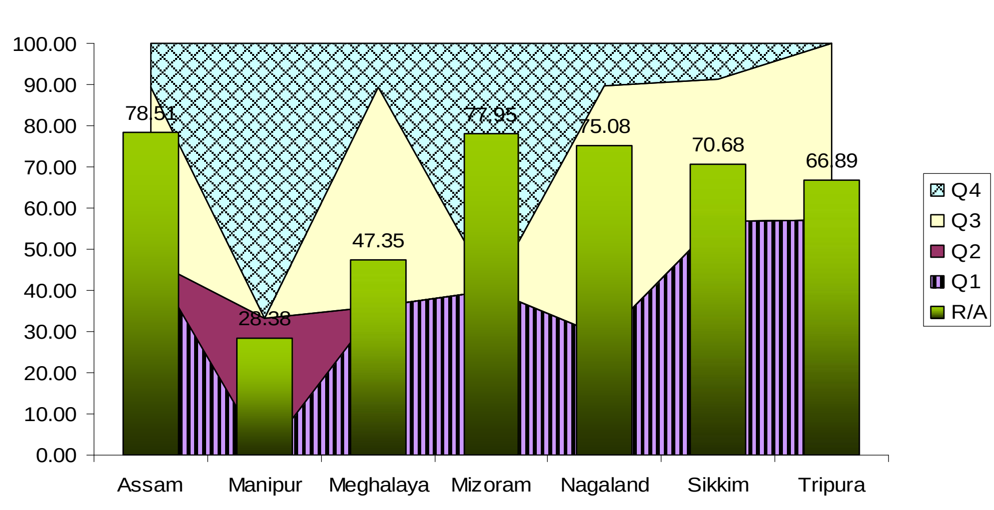
The data on allocation, releases and expenditure by the selected states (Table 3.10.2) do not reveal major worries with respect to utilisation of available funds except in Mizoram in 2008-09. Almost all the utilisation ratios are above 90 percent. However, these figures mask the problem of releases (denoted by funds available in the table) being much lower than the approved outlay in almost every case. Clearly, this is either because of problems in actually carrying out the planned activities (this could happen in the previous year also, in which case there would be unduly large opening balances that would reduce releases in the current year), or inability to meet the documentary requirements like utilisation certificates.

Table 3.10.2: Utilisation of Funds under SSA

(Rs. Lakh)

	2008-09				2009-10			
States	Outlay approved (central & state)	Total Funds Available (central & state)	Expen-diture	Exp./ Funds Available (%)	Outlay approved (central & state)	Total Funds Available (central & state)	Expen-diture	Exp./ Funds Available (%)
Assam	61954.12	47740.91	55426.39	116	60473.68	55917.00	50780.61	91
Arunachal Pradesh	18133.30	16874.93	16864.67	100	16332.00	12727.94	12427.83	98
Manipur	3929.68	717.44	782.48	109	5285.52	2087.28	2323.85	111
Meghalaya	16613.49	10305.54	10794.75	105	19815.71	11238.24	12093.67	108
Mizoram	6739.18	4372.54	2127.34	49	8490.34	8607.80	8254.45	096
Nagaland	5718.30	2947.87	3203.96	109	6429.46	5567.40	5439.51	098
Sikkim	2302.22	1265.62	1890.20	149	2456.41	1841.74	2040.90	111
Tripura	7468.92	7404.96	6937.90	94	11172.50	8442.83	8992.52	107
Jammu & Kashmir	49944.79	27432.59	26622.06	97	76109.00	16658.27	22257.61	134

Figure 3.10.1: Quarterly Releases under SSA in 2009-10



R/A: Central releases to allocation ratio (%)

Figure 3.10.1 throws light on one aspect of the problem, that of timing of releases.[7] In terms of the structure of the financial flows, much of the releases ought to be in the first quarter of the year, and most of the rest in the third. The figure confirms this except for Manipur, which received less than 30 percent of its releases in the first quarter, and the rest only in the fourth. Its releases-to-allocation ratio was also the lowest of the selected states, implying that there was a serious problem with implementation. Mizoram, despite receiving more than half of its releases only in the last quarter, managed to post a fairly high level of utilisation. Thus, the data do not

[7] The graph does not include Jammu and Kashmir on account of lack of quarterly data.

indicate any generic problem and the one noticed in Manipur is obviously a state-specific issue.

3.10.2 Utilisation of Funds by 'Other' States

As per the SSA sharing arrangement, in FY2009-10, the Centre-State ratio was fixed at 60:40 for non-special category states. Relevant data, however, show that some states have either contributed less (Rajasthan, MP and West Bengal) or more (Punjab, Gujarat and Bihar) than the state share than stipulated. Most states do however conform to the sharing ratio of 60:40.

Table 3.10.3 provides information on actual utilisation of available funds during the years 2008-09 and 2009-10. Clearly, the figures indicate a high level of utilisation in all of the óotherô states with no figure less than 90 percent, though there are inter-state variations and significant year-to-year fluctuations. The latter could partly be ascribable to spillover of funds from one year to the next.

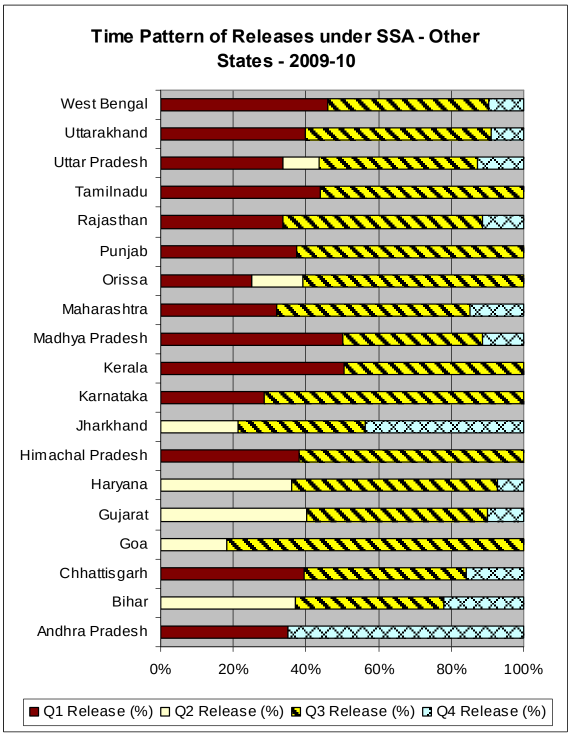
Table 3.10.3: Utilisation of Funds under SSA in 'Other' States

State	E/FA (%) 2009-10	E/FA (%) 2008-09
Andhra Pradesh	146.11	101.63
Bihar	102.11	74.80
Chhattisgarh	104.82	94.26
Goa	143.08	91.77
Gujarat	114.02	83.66
Haryana	99.18	94.73
Himachal Pradesh	102.62	93.10
Jharkhand	103.62	110.30
Karnataka	113.10	105.55
Kerala	98.73	104.73
Madhya Pradesh	106.28	114.35
Maharashtra	113.76	94.81
Orissa	107.24	110.12
Punjab	97.42	132.11
Rajasthan	102.97	95.46
Tamilnadu	97.94	120.01
Uttarakhand	101.12	101.21
Uttar Pradesh	105.08	133.59
West Bengal	97.21	124.10

E/FA: Expenditure/Funds Available

From the information provided on quarterly release of central funds for this programme during 2009-10 (Figure 3.10.2) it can be seen that the average quarterly release is around 30 and 50 percent for Q1 and Q3 respectively, while Q2 and Q4 together account for around 20 percent. In general, this is what we would expect to happen if states follow the financial management and reporting norms under SSA. However, the low average figure for Q4 masks the fact that for three states ï AP, Bihar and Jharkhand ï the fourth quarter releases are still substantial. As per the SSA Financial Management guidelines, the centre is supposed to release funds in Q1 and Q3 depending on the state fulfilling its obligations. We see that for five states ï HP, Karnataka, Kerala, Punjab and Tamil Nadu ï the whole tranche was released in Q1 and Q3 combined. For eight other states, the ratio is between 80 and 90 percent, which is also very good considering the conditionalities of the release. The states which are of concern as far as fund flow is concerned are those where Q1 and Q3 releases taken together fall below 70 percent.

Figure 3.10.2



The timing of releases, however, reveals some problems with the system of flow of funds. There are five states for which there was no release in the first quarter at all. Clearly, these were states where the necessary documentation was delayed, or did not meet with quick approval. Similarly, there were two states (Andhra Pradesh and Jharkhand) where releases in the fourth quarter were unduly large; in particular, Andhra Pradesh received more than 60 percent of its releases only in the last quarter. While the consequent ill-effects of such a pattern of releases are well-known, the state-specific nature of the problem indicates that it was not systemic.

<u>3.11. Mid-day Meal Programme (MDM) (Ministry of Human Resource Development)</u>

This programme, formally launched in 1995 as National Programme of Nutritional Support to Primary Education, now covers all elementary students in government and aided schools, EGS and AIE centres, and Madarsa and Maqtabs supported under SSA. This is a cost-shared centrally sponsored scheme with the objective of providing hot cooked meals to the students during the day in order to enhance enrolment, retention and attendance in schools, simultaneously improving nutritional standards of children in the relevant age group. The centre provides the foodgrains free of cost to the states, plus part of the transportation and cooking costs. States are free to provide more than their stipulated cost per meal served. Tamil Nadu for example has a norm of Rs.4 per meal per child, which is more than the current base rate.

The system is based on Annual Work Plan and Budget (AWPB) submitted by states containing, *inter alia*, district-wise details of school working days, enrolment, expected coverage during working days and during summer vacation for the current year along with detailed information about the previous year including the expenditure under various heads. The AWPB is expected to be prepared in a decentralised ôbottom-upô manner. This provides the basis for cash assistance after assessment at the central level. Further, the states have to provide monthly report on offtake of foodgrains, and quarterly claims for transport subsidy and quarterly progress reports. It is sought to ensure additionality of central assistance by requiring state level budget provision for this purpose to be at least at the level of the same in 2005-06. The major provisions of the financial system are provided in Table 3. 11.1.

Table 3.11.1: Salient Features of Financial Flows under MDM

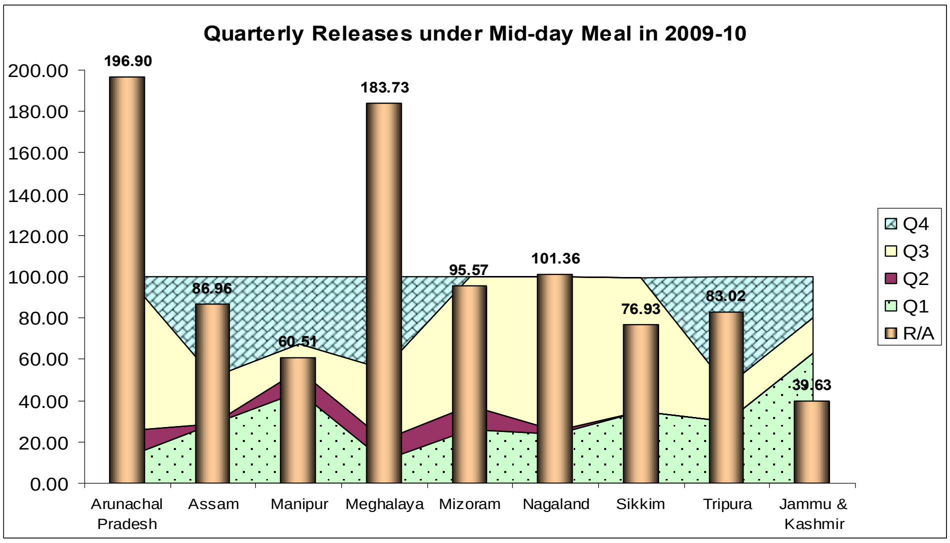
Centre – State Cost Sharing	1st Instalment as per Guidelines	2nd Instalment as per Guidelines	Utilization Certificate Due Date
100% Centre: Cost of Foodgrains, Transportation cost, Management, Monitoring and Evaluation (MME), Kitchen Devices Centre-State 75:25 (non-NER): Non-foodgrain material for cooking, Cooking cost, Honorarium to cook-cum-helper, Kitchen-cum-store NER states – 90:10	1st instalment given in April/May if unspent balances are less than 20 percent of last year's releases	2nd instalment given in September/ October based on progress in expenditure from the release of 1st instalment	By June 30th of the following financial year for Central assistance provided by way of (i) free foodgrains; and (ii) foodgrains in drought affected areas for summer vacations

Information on actual expenditures (or on releases by states) on this programme by states was not readily available; this accounts for the fact that no data on utilisation of available funds (or even central releases) is presented here for this programme. While these data should in future be made easily available and accessible, it may be noted that the primary concern regarding utilisation in this programme is on the foodgrains, and the financial allocations are relatively small, which may explain the lack of attention to data on the latter. However, annual data by states on central releases, state releases, and actual expenditures relating to the cash component of the programme also need to be monitored, and hence corresponding data should be maintained and presented. The discussion below, for reasons stated above, relate only to the time pattern of releases of central funds (cash component).

3.11.1 Timing of Release of Funds for the Selected States

The actual distribution of releases across quarters of 2009-10 and the releases-allocation ratio (R/A) is depicted in Figure 3.11.1. There is considerable variation in all these parameters across the selected states, which makes it difficult to draw any general inference. The R/A varies from 197 percent (Arunachal Pradesh) to 40 percent (Jammu and Kashmir). Since releases depend mainly on actual utilisation, and given that the school calendars and enrolments do not change substantially during the year, the only base variable that can explain the divergence from 100 percent R/A ratio either way is attendance by students. This, as can easily be appreciated, can vary dramatically depending on various factors like climatic conditions, natural calamities and law and order environment. Besides, there can be a problem of overestimation of enrolment, as is widely held, which would tend to depress actual utilisation rate when AWPBs are based on inflated enrolment figures.

Figure 3.11.1



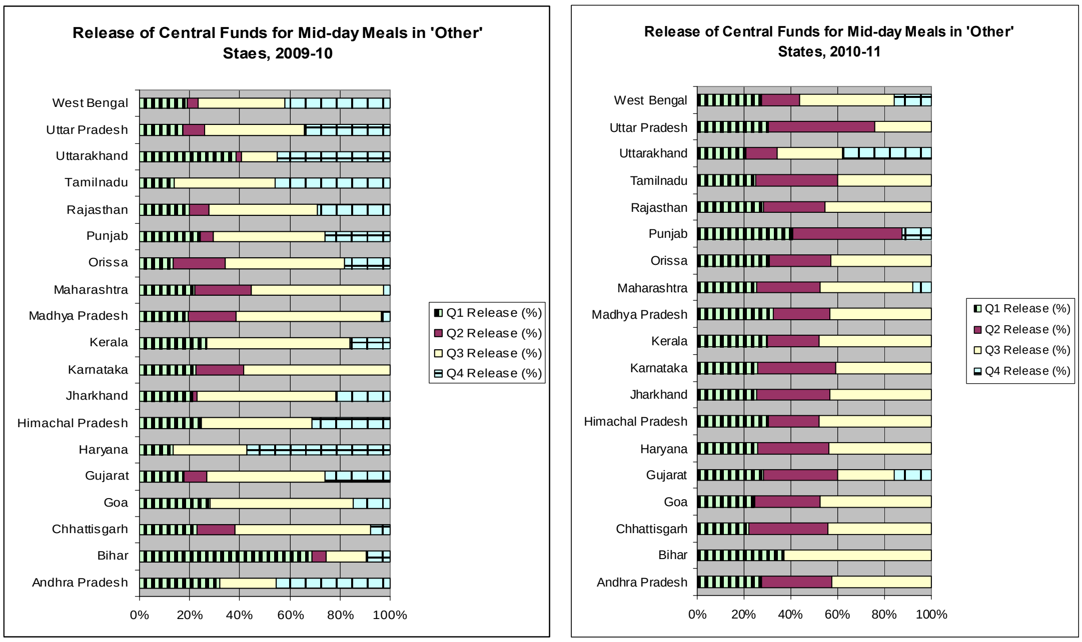
Note: R/A ratio indicates Releases/Allocation ratio

It may be noticed that among the selected states, those with high R/A ratios also have the largest share of their releases in the third quarter (the second instalment), while the first quarter releases are generally below 40 percent of the total. There is hardly any release during the second quarter, which is as it should be. The pattern indicates the possibility of large balances carried over from the previous year which reduces the releases of the first instalment to some extent, and larger second instalments upon exhaustion of available funds by that time. It may also be noticed that the fourth quarter releases are substantial in the case of four states, which probably indicates delays in submission of utilisation certificates, and corresponding delays in the release of the second instalment.

3.11.2 Release of Funds for the 'Other' States

Central releases across all states have increased significantly between 2009-10 and 2010-11, partly due to the revision of cooking, transportation and management costs, and partly to adjustments from the previous year (Bihar for example). The R/A ratios for 2009-10 (not reported) also show wide variation, from 36 percent in Bihar to 188 percent in Haryana. It has to be noted that MDM releases have to take into account both monetary expenditure as well as physical stock adjustment, which might explain the variation in the R/A ratio. Unfortunately, due to lack of data, we cannot compare the R/A ratios across the two financial years.

Figure 3.11.2



Comparing the quarterly release schedule over the two financial years, we find a significant shift in Q4 releases in 2010-11. Average Q4 release as a percentage of total release came down from 25 percent in 2009-10 to less than 5 percent in 2010-11. This implies that the fund flow for MDM has been substantially streamlined ï 12 out of 19 states got their full release from the centre by Q3 in 2010-11. Only Uttarakhand in this group of states had a large last quarter release (almost 40 percent of the total). In 2009-10, there were 5 states with more than 40 percent release in the last quarter. It is to be hoped that that this improvement in the timing of releases would continue in future.

3.12. Integrated Child Development Services (ICDS) (Ministry of Women and Child Development)

ICDS is a scheme meant to deliver a comprehensive package of services for child development across the country, the target age group being 0-6 years. The package consists of supplementary nutrition, basic health and informal pre-school education services. To facilitate achievement of the primary objective, pregnant and lactating mothers are also provided the nutrition and health services, while women in the age group 15-45 are provided education on nutrition and health to help them take better-informed decisions/action. Immunisation, health check-up and referral services that constitute the basic health services package are delivered through the Ministry of Health and Family Welfare. The coverage is not limited to BPL households. The non-medical services are delivered through a chain of *Aanganwadi* or mother and child centres.

ICDS is a cost-shared scheme of the central government the funding pattern of which has undergone a change in 2009-10. Before that, the supplementary nutrition scheme was funded 50:50 by the centre and states, with the centre picking up the cost of the rest of the scheme. From 2009-10, the North-Eastern states have to share the cost of supplementary nutrition at 10 percent only (no change for other states), while the 100 percent funding by the centre for other components has been reduced to 90 percent.

The system is driven by the population norms for projects (often block level), *Aanganwadi* centres (or AWC) and mini-AWCs. Individual beneficiaries are expected to be registered. States present annual requirements on the basis of registered beneficiaries and prevalent norms for existing projects/AWCs/mini-AWCs, as also to establish new ones. After assessment, releases are made on the basis of approved requirements in two instalments, as is usual. Foodgrains are allocated to states at prices applicable for BPL population on demand from the states under this scheme. Releases of instalments are subject to usual conditions of actual progress and submission of prescribed documents like expenditure statements and utilisation certificates.

3.12.1 Utilisation of Funds by Selected States

Approvals or available funds were not available in this case, and hence utilisation against such approvals could not be ascertained. However, for the year 2008-09, data were available for releases and expenditure reported by states. These data are provided in Table 3.12.1. It may be noted that the expenditures ought to be more than 100 percent of the releases as the releases relate to only the central government while the expenditures are from total funds that include state shares as well. It is seen that utilisation was rather poor in Assam, and inadequate in Arunachal Pradesh; in all the other selected states, utilisation with respect to releases was satisfactory.[8]

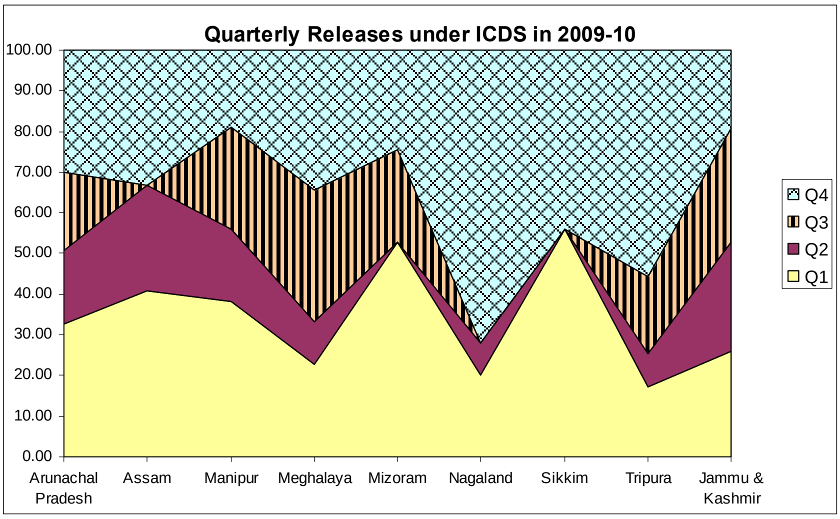
Table 3.12.1: Releases and Expenditure under ICDS in 2008-09

	General		Supplementary Nutrition		Total		Utilisation
State	Release	Exp.	Release	Exp.	Release	Exp.	(%)
Arunachal Pradesh	33.96	27.41	3.27	8.80	37.23	36.21	97.26
Assam	260.34	196.78	105.41	95.40	365.75	292.18	79.89
Manipur	28.89	29.66	11.29	23.72	40.18	53.38	132.85
Meghalaya	18.17	15.86	13.63	31.52	31.80	47.38	148.99
Mizoram	16.04	16.13	7.67	14.95	23.71	31.08	131.08
Nagaland	25.27	25.04	13.03	25.03	38.30	50.07	130.73
Sikkim	8.84	N.A.	0.96	6.35	9.80	N.A.	------
Tripura	29.75	28.08	7.74	19.06	37.49	47.14	125.74
Jammu & Kashmir	45.58	85.30	6.98	43.27	52.56	128.57	244.62

The time pattern of releases during the year 2009-10 is shown in Figure 3.12.1. The distribution of releases in 2009-10 across quarters (Figure 3.12.1) indicates relatively small amount of releases in the second quarter; however, releases in fourth quarter are quite substantial, particularly in Nagaland among the selected states. Clearly there is a tendency for the system to become one of reimbursement instead of advance provision of funds, as it is intended to be. In all probability, the large releases in the fourth quarter are a result of delayed submission of utilisation certificates for the previous year, and consequent delayed release of funds.

[8] It may be noted that utilisation in the context of mid-day meals programme and ICDS would actually have two connotations – that relating to the release of funds and that relating to the release of foodgrains. We have considered only the utilisation relating to the releases of funds above.

Figure 3.12.1



3.12.2 Utilisation of Funds and Timing of Releases for 'Other' States

Because of insufficient data, it is difficult to gauge the level of utilisation of ICDS funds ï information on actual expenditure could be obtained only for 2008-09, but without information on state releases (it may be recalled that the matching ratio is 50:50), utilisation can be examined only against central releases. Table 3.12.2 provides the available information. It can be seen that utilisation of funds was lowest in Uttarakhand (70 percent) and highest in Andhra Pradesh (174 percent). In general, the utilisation levels appear reasonable, but if statesô releases actually matched the central releases, then, ignoring balances carried over from previous year, utilisation levels against available funds would be roughly half of the computed numbers. In that case, utilisation would have to be considered quite low in general, although the relative positions of individual states may not be altered very much. In any case, the lack of adequate information makes the computations and inferences drawn from incomplete information rather unreliable.

Table 3.12.2: Central Release and Expenditure of 'Other' States under ICDS Programme in 2008-09

(Rs. Lakh)

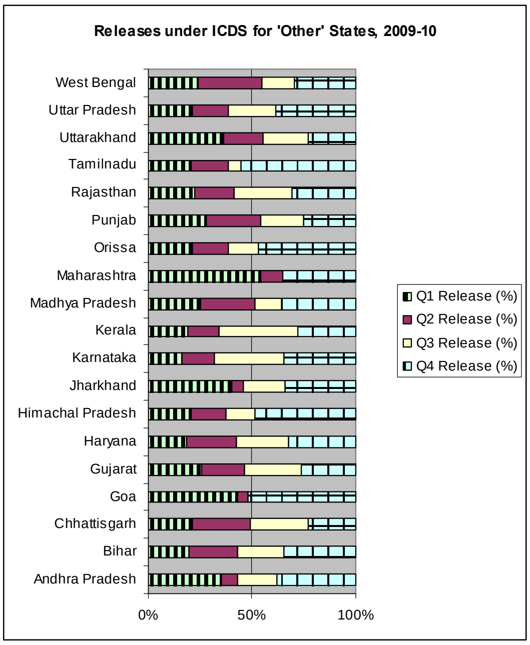
State	Releases*	Expenditure*	Utilisation (%)
Andhra Pradesh	27163.56	47238.14	173.90
Bihar	17508.23	20764.15	118.60
Chhattisgarh	8992.46	12051.94	134.02
Goa	406.56	NA	NA
Gujarat	16491.86	15596.07	94.57
Haryana	8455.6	8798.38	104.05
Himachal Pradesh	8232.21	NA	NA
Jharkhand	9776.6	9851.86	100.77
Karnataka	19473.26	22474.61	115.41
Kerala	15020.66	13726.91	91.39
Madhya Pradesh	29168.81	24141.32	82.76
Maharashtra	31996.55	NA	NA
Orissa	16934.58	18081.79	106.77
Punjab	9125.15	8709.66	95.45
Rajasthan	19486.76	20226.22	103.79
Tamilnadu	18163.08	17203.97	94.72
Uttarakhand	4627.72	3259.16	70.43
Uttar Pradesh	54349.16	48226.21	88.73
West Bengal	33616.96	33083.08	98.41

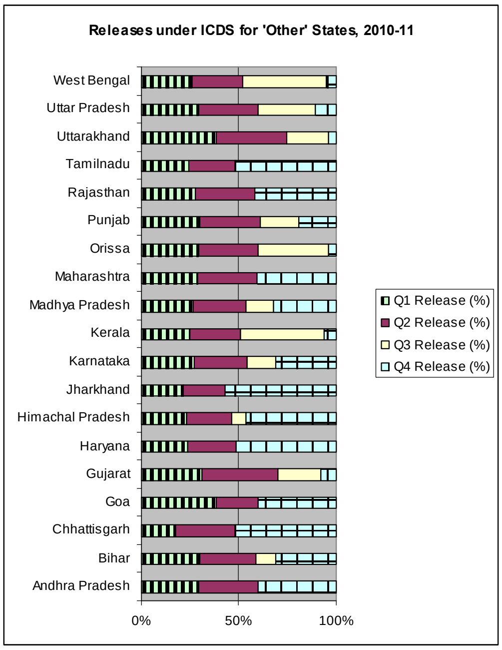
NA: Not available; * ICDS (general) only, not including SNP
Source: Ministry of Women and Child Development

More recent data on central releases show that the total central releases to 19 ótherô states has increased by around 17 percent between 2009-10 and 2010-11. While Madhya Pradesh and Jharkhand have seen the highest increase, three southern states ï Andhra Pradesh, Karnataka and Kerala ï have seen a decline in their receipt from the central government.

Comparing the quarterly release schedule over the two financial years (Figure 3.12.2), we find that the central releases are more or less uniform across the four quarters. Between 2009-10 and 2010-11, the Q2 releases have increased on average, while Q3 and Q4 releases have declined slightly. Even then, the average Q4 release in 2010-11 stands at 30 percent, compared to less than 5 percent for MDM ï the program closest to ICDS in scope and design. However, at least for six states, last quarter releases have dropped to only a small share of the total in 2010-11; this was not true for any of the states in the group in 2009-10. The first quarter releases remain too small in both the years; there is a need to push it up further, after identifying the reason(s) and taking corrective action.

Figure 3.12.2





Before closing the discussion on ICDS, it may once again be pointed out that data availability and standardization needs urgent attention. It is difficult to provide policy inputs with inconsistent and incomplete data on allocation and expenditure. Further, frontloading of releases should be encouraged along with a transparent mechanism for financial reporting and release conditionalities.

3.13. Jawaharlal Nehru National Urban Renewal Mission (Ministry of Urban Development and Ministry of Housing and Urban Poverty Alleviation)

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is a central government programme for urban development with two broad sets of objectives ï (a) improvement in the coverage and supply of urban infrastructure along with rejuvenation of urban local bodies (includes two components: Urban Infrastructure and Governance or UI&G covering 65 identified cities, and Urban Infrastructure Development Scheme for Small and Medium Towns or UIDSSMT) and (b) tackling the problem of urban slums through resettlement and other measures and providing basic services to the urban poor (two components: Basic Services to the Urban Poor or BSUP, and Integrated Housing and Slum Development Programme or IHSDP). Areas covered under (a) include urban transport, sewerage and sanitation, water supply, and construction of public facilities, among others. Assistance is given to implementing agencies (state governments or urban local bodies, parastatals or special purpose vehicles set up to carry out the proposed programmes), on the basis of detailed project reports (DPR) or city development plans prepared by them and Memoranda of Agreements (MOA). The assistance is provided as matching grants (the matching ratio varies depending upon population, location and category of the city concerned), with the expectation that these resources would be adequately leveraged with state/local body resources and by generating further investment including private investments. UIG and UIDSSMT are administered by the Ministry of Urban Development, while BSUP and IHSDP are administered by the Ministry of Housing and Urban Poverty Alleviation. With regard to the latter, the patterns of central sharing of project costs are:

- for BSUP: (a) in cities with population> one million, 50 percent; (b) for cities in North-Eastern states and Jammu and Kashmir, 90 percent; and (c) for other cities, 80 percent;
- for IHSDP: (a) for cities in North-Eastern states and Jammu and Kashmir, 90 percent; and (b) for other cities 80 percent.

The details of the two submissions UI&G and BSUP is given in table 3.13.1 below.

Table 3.13.1: Financial Provisions under JNNURM

<table>
<tr><th>Name of the scheme</th><th>Jawaharlal Nehru National Urban Renewal Mission (JnNURM)</th></tr>
<tr><td>Nodal Ministry</td><td>

- Ministry of Urban Development (Sub-mission I)
- Ministry of Housing and Urban Poverty Alleviation (Sub-mission II)

</td></tr>
<tr><td>Pattern of funding</td><td>

- Sub-mission I: ***Urban Infrastructure and Governance***

<table>
<tr><th rowspan="2">Category of Cities / Towns / UAs</th><th colspan="2">Grant</th><th rowspan="2">ULB or Para-Statal Share/Loan from Financial Instns.</th></tr>
<tr><th>Centre</th><th>State</th></tr>
<tr><td>Cities/UAs with 4 million plus population as per 2001 census</td><td>35 %</td><td>15 %</td><td>50 %</td></tr>
<tr><td>Cities/UAs with million plus but less than 4 million population as per 2001 census</td><td>50%</td><td>20%</td><td>30%</td></tr>
<tr><td>Cities/towns/UAs in North Eastern states and Jammu & Kashmir</td><td>90%</td><td>10%</td><td>-</td></tr>
<tr><td>Cities/UAs other than those mentioned above</td><td>80%</td><td>10%</td><td>10%</td></tr>
<tr><td>For setting up de-salination plants within 20 Kms. from sea-shore and other urban areas predominantly facing water scarcity due to brackish water and non-availability of surface source.</td><td>80%</td><td>10%</td><td>10%</td></tr>
</table>

- Sub-mission II: ***Basic Services for Urban Poor***

<table>
<tr><th>Category of Cities / Towns / UAs</th><th>Grant Central Share</th><th>State/ULB/Parastatal Share, including beneficiary contribution.</th></tr>
<tr><td>Cities with 4 million plus population as per 2001 census</td><td>50%</td><td>50%</td></tr>
<tr><td>Cities with million plus but less than 4 million population as per 2001 census</td><td>50%</td><td>50%</td></tr>
<tr><td>Cities/towns in North Eastern states</td><td>90%</td><td>10%</td></tr>
<tr><td>Other Cities</td><td>80%</td><td>20%</td></tr>
</table>

</td></tr>
</table>

<table>
<tr><th>Name of the scheme</th><th>Jawaharlal Nehru National Urban Renewal Mission (JnNURM)</th></tr>
<tr><td></td><td></td></tr>
<tr><td>Eligibility</td><td></td></tr>
<tr><td>State wise allocation</td><td>
Keeping in view the paucity of resources and administrative constraints in taking up all cities and towns under this intensive urban infrastructure improvement programme, it is suggested that only selected cities/Urban Agglomerations (UAs) as per 2001 Census will be taken up, as per norms/criteria mentioned below
<table>
<tr><td>A</td><td>Cities/UAs with 4 million plus population as per 2001 census</td><td>7</td></tr>
<tr><td>B</td><td>Cities/UAs with 1 million plus but less than 4 million population as per 2001 Census</td><td>28</td></tr>
<tr><td>C</td><td>C Selected Cities/UAs (State Capitals and other cities/UAs of religious/historic and touristic importance)</td><td>28</td></tr>
</table>
</td></tr>
<tr><td>Release of Funds</td><td>
Sub-mission I: Urban Infrastructure and Governance

Funds would be released as Additional Central Assistance (100% central grant in respect of central share) to the State Govt. or its designated State Level Nodal Agency. The nodal agency will disburse central assistance to ULBs or para-statal agencies as the case may be as soft loan or grant-cum-loan or grant.
The grant-cum-loan may be sanctioned in such a manner that 25% of central and state grant put together is recovered and ploughed into revolving Fund to leverage market funds for financing of further investment in infrastructure projects.
At the end of the Mission period, the Revolving Fund may be graduated to a State Urban Infrastructure Fund.
1st installment of 25% will be released on signing of Memorandum of Agreement (MoA) by State Government/ULB/Para-Statal for implementation of JNNURM projects.
The balance amount of assistance shall be released as far as possible in three instalments upon receipt of Utilisation Certificates to the extent of 70% of the grants (central & state) and subject to achievement of milestones agreed for implementation of mandatory and optional reforms at the state and ULB/Parastatal level as envisaged in the MoA.

A Sub-mission II: Basic Services for Urban Poor

Funds would be released as far as possible in 4 installments by Ministry of Housing and Urban Poverty Alleviation as Additional Central Assistance (100% grant in respect of central share) to the State Government or its designated state level agencies.
1st installment of 25% will be released on signing of the Memorandum of Agreement by the State Government/ULB/Parastatal for implementation of JNNURM projects.
Balance amount of assistance shall be released as far as possible in three installments upon receipt of UCs to the extent of 70% of the central fund and also that of state/ULB/Parastatal share, and subject to achievement of milestones agreed for implementation of mandatory and optional reforms at the state and ULB level as envisaged in the MoA

</td></tr>
</table>

Most of the projects covered have a multi-year span; as such, after the first instalment upon approval of the project and completion of initial steps like signing of the MOA, other instalments are subject to benchmarks relating to progress of the project and usual documentation including utilisation certificates. As many projects under this scheme are spread across more than one year, annual utilisation figures are not very meaningful. The only meaningful way to assess utilisation of funds is to look at cumulative figures of utilisation against releases/allocation. We have not been able to obtain necessary information on actual utilisation of funds under JNNURM, but available indications point to not very high utilisation. This is based on available figures of cumulative ACA releases against allocation (Table 3.13.2 for UI&G component).

Table 3.13.2: Cumulative Release of Funds for Projects Sanctioned under UI&G

(Rs. crore)

States	No of projects sanctioned	Cost of Sanctioned Projects	ACA Admissible	ACA Released
Andhra Pradesh	50	4903.98	2064.28	1002.64
Arunachal Pradesh	3	180.48	162.43	60.68
Assam	3	441.47	374.50	142.25
Bihar	8	711.81	394.76	98.59
Chhattisgarh	2	459.87	342.91	182.18
Goa	0	0.00	0.00	0.00
Gujarat	68	5373.49	2333.37	1234.89
Haryana	4	704.47	352.25	117.85
Himachal Pradesh	3	98.49	78.79	19.70
Jammu And Kashmir	4	531.52	469.47	117.37
Jharkhand	4	761.49	482.68	120.67
Karnataka	48	3882.58	1632.80	590.10
Kerala	10	975.79	634.50	144.95
Madhya Pradesh	21	2222.47	1131.29	419.35
Maharashtra	78	11560.23	5066.11	2670.51
Manipur	3	153.96	138.56	11.58
Meghalaya	2	217.96	196.16	49.04
Mizoram	1	16.82	15.14	11.35
Nagaland	2	75.68	68.11	22.71
Orissa	5	811.98	637.13	159.28
Punjab	6	725.39	362.70	146.73
Rajasthan	14	1290.16	777.43	379.08
Sikkim	2	96.54	86.88	27.40
Tamilnadu	52	5612.41	2237.19	825.88
Tripura	2	180.47	160.43	17.61
Uttar Pradesh	33	5374.53	2707.06	945.06
Uttarakhand	9	288.39	230.73	81.54
West Bengal	46	4093.94	1503.47	570.44
UTs	32	6283.63	2399.19	92.32
All States	515	58029.98	27040.32	10261.74

Source: Annual Report 2009-10, Ministry of Urban Development, GoI

In the selected states including North-Eastern states, taking UI&G first, release to allocation ratio (cumulative) till end-December 2010 has been reasonable (around 75 percent) only in Mizoram among the selected states. While Tripura and Manipur were at the other extreme with 11 percent and 8 percent respectively, the other selected states had ratios varying from 24 to 38 percent. The situation is better with regard to BSUP and IHSDP ï six of the nine selected states have at least availed of the budgeted amounts of ACA to the extent of 80 percent or more by end-December 2010, and only in Arunachal Pradesh this percentage was below 40 percent.[9]

Considering all the states, taking UI&G first, a total of 515 projects have been sanctioned since the inception of this scheme at the total approved cost of Rs. 58038.18 crore where the ACA committed is Rs. 27040.32 crore (i.e., 45.6 percent of the approved cost). Till end-December 2009, the releases have been of the order of Rs. 11309.64 crore to various states and UTs. In other words, only 41.83 percent of the ACA committed till December 2009 could be released, which does not help the extent of utilisation reckoned against allocations.

As regards UIDSSMT (Urban Infrastructure Development Scheme for Small and Medium Towns) scheme, since its inception and till 24.12.2009, 969 projects in 781 towns in 27 states and 3 UTs amounting to Rs.19831.56 crore have been approved, of which 753 projects in 636 towns worth Rs. 12824.63 crore have been considered for release of funds. Of this, the central shares of Rs. 10340.41 crore have been committed against which Rs. 5862.05 crore has been released till 24.12.2009. Thus, the actual release to allocation ratio works out to 58 percent for this component.

The progress under Basic Services for Urban Poor (BSUP) and (IHSDP) components for JnNURM till the end of December 2009 is shown in Table 3.13.3. From the table it can be seen that the central releases have been low.[10] Again, the low percentage of releases against commitments is expected to have pulled down the level of fund utilisation.

Table 3.13.3: Allocation, Commitment and Release (in Rs. Crore)

	BSUP	IHSDP	Total
Revised 7-Year Allocation	16356.35	6828.31	23184.66
ACA Commitment made	13207.43	5894.95	19102.38
% Commitment	80.74%	86.33%	82.33%
ACA Released (total)	4293.07	3028.57	7321.64
% Release (Release vs Commitment)	32.50%	51.37%	38.28%
No of projects approved	467	856	1323
Total project cost approved	26150.14	8587.31	34737.45

Source: Annual Report 2009-10, Ministry of Housing and Urban Poverty Alleviation, GoI

[9] This information is taken from the latest available Annual Reports of the two concerned Ministries.
[10] This information is taken from the latest available Annual Reports of the two concerned Ministries.

The time pattern of releases in this case have not been examined mainly because there is no expected pattern; after the first instalment is given (the timing depending on the submission of the CDP/DPR and the time taken to complete assessment of the same and completing initial paperwork), the subsequent releases do not follow a fixed time pattern but depend on reaching benchmarks agreed upon. Casual observation of the data (not reported) reveals that the timing of releases in 2009-10 varied substantially among the nine selected states and did not show any clear pattern.

3.14. Non-Lapsable Central Pool of Resources (NLCPR) (Ministry of Development of North Eastern Region)

NLCPR is meant to supplement state funds for infrastructure development (both social and physical), but not normal plan programmes. This programme is project-based, with the system requiring each state to submit a list of proposals for consideration by November 30, to be taken up next year. These projects should not be funded from any other external source, and should preferably be part of a long-term strategy for identified priority sectors. Also, the proposed projects should benefit a large number of people and not for individual beneficiaries. Estimated project cost for each should be at least Rs. 3 crore and at least 25 percent of the project costs should be for those in backward areas/ Sixth Schedule Areas/ Autonomous District Councils. The concerned Committee in the Ministry examines the proposals and selects projects for further detailed examination and upon approval, support from the central pool.

The support to the approved projects is to the tune of 90 percent of the project cost as grant, the remaining 10 percent to be provided by the state. The first instalment of 40 percent is released after project approval. Remaining support is released in two further instalments of 40 and 20 percent of the total grant. The second instalment is released after completion of at least 40 percent of the project and submission of utilisation certificate of at least 80 percent of funds released in first instalment. The last instalment is similarly contingent upon at least 80 percent utilisation of the last release and full utilisation of previous instalment(s) along with commensurate physical progress. After the first instalment, subsequent instalments are also conditional upon requisite documentation like utilisation certificates, quarterly progress reports, photographs and inspection reports. All central pool releases are to be utilised within 12 months and the state government must release funds received to the implementing agency within 15 days of receipt.

As against the approved cost of Rs. 8319.96 crore till 31.12.2009, only Rs. 6030.32 crore have been released from the fund. Clearly, there are problems with implementation of the approved projects, which holds up releases after the first. State-wise releases are given in Table 3.14.1. It may be recalled that the system does not preclude utilisation of funds released in one year in the subsequent year, making annual comparison of project expenditures (not readily available) and releases less meaningful. However, a comparison of cumulative releases (last column of the table) with the cumulative approved cost (second column) provides some evidence on utilisation because of the link between releases (second instalment onwards) and utilisation. Even this comparison shows that only in the cases of Sikkim and Tripura the releases/approval ratio is above 80 percent ï all other states have a ratio of below 75 percent. Actual utilisation can only be below these levels.

Table 3.14.1: Funds Released for Projects under NLCPR

(Rs. Crore)

State	Approved Cost	No. of Projects	9th Plan #	10th Plan	2007-08	2008-09	2009-10	Total
Arunachal Pradesh	1144.03	111	148.37	283.31	105.28	165.98	42.16	745.10
Assam*	2109.04	318	282.47	953.23	146.09	94.38	57.81	1533.98
Manipur	981.67	113	178.78	292.85	61.86	84.35	37.53	655.37
Meghalaya	601.66	67	67.06	161.55	60.39	94.82	36.81	420.63
Mizoram	667.80	85	161.73	322.86	29.82	14.94	10.94	540.29
Nagaland	1023.17	113	131.57	399.50	71.70	103.81	44.69	751.27
Sikkim	664.85	197	114.11	269.75	48.46	62.91	16.54	511.57
Tripura	1069.09	67	214.57	446.14	112.40	39.19	41.15	853.45
Common to NER	21.41	4	18.46	0	0.00	0.00	0.00	18.46
BTC Area Projects**	37.24	3	0	0	100.00	67.03	0.00	167.03
Total	8319.96	1078	1317.12	3129.19	736.00	727.41	287.63	6197.35

*Including 39 projects of BTC areas with total cost of Rs. 439.02 crore.
** There is separate budget for BTC area projects from 2007-08.
# Scheme started from 1998-99.
Source: *Annual Report 2009-10*, Ministry of Development of North Eastern Region.

Although project-based, there is a time schedule that the system is expected to adhere to. The list of proposed projects are to be submitted by the states by November 30 so that the Ministry can complete their assessment by end of the financial year and release funds (first instalments) at the beginning of the next financial year. In actual practice, this does not seem to happening very much, going by the detailed data on releases. Much of the releases seem to take place in the second half of the financial year, which could be contributing to implementation delays after approval.

A recent CAG report (*Performance Audit Report No. 5, 2010-11*) dealt with this programme and has pointed out several problems that plague its implementation. There is considerable slippage in physical implementation of the approved projects because of a several reasons; contributing factors actually start with non-release by states of funds received for a long time, and non-release of the state share of funding. The CAG report recommends a serious reassessment of the continuation of the scheme, particularly in view of its marginal impact and failure to meet its objective.

<u>3.15. Transfers from North-Eastern Council (NEC) (Ministry of Development of North Eastern Region)</u>

These are essentially *ad hoc* grants made by the NEC from central funds allocated to it and are meant for institutions, organisations, and associations etc. in the nature of NGO to implement projects the benefits of which cut across state boundaries, even though the project may be located in one state. The proposals have to be submitted through the concerned state government in general, but direct submission to the Council (NEC) is also considered in exceptional cases. A small share of promoterôs contribution is generally insisted upon in each case. Secretary (NEC) has been delegated the power of approving small projects at his level.

There is no set time schedule for submission of proposals or release of funds under this scheme ï such terms are decided by the NEC on a case-by-case basis while approving proposals. Usually funds for small projects costing less than Rs. 5 crore are released in one or two instalments, and only for bigger projects the funds are released in more than two instalments. Whenever funds are to be released in more than one instalment, release of second and subsequent instalments are conditional upon satisfactory financial and physical progress.

Other than data on annual releases by states and sectors, detailed data on approvals, utilisation and timing of releases under this scheme were not readily available. As such, an informed assessment of this scheme could not be carried out.

3.16. Prime Ministerôs Reconstruction Plan (PMRP), 2004 (For Jammu and Kashmir) (Ministry of Home Affairs)

PMRP is quite different from the programmes that were discussed above in several respects; it relates to only one state, is essentially a co-ordinating system for diverse developmental activities, is actually implemented by several agencies including the State Government and is funded by several agencies including various Ministries and other public sector bodies of the Government of India. Announced in 2004 and expected to run till 2010-11, it originally included 67 Projects/Schemes in the following sectors broadly aimed at: (a) expanding economic infrastructure, (b) expanding provision of basic services, (c) providing thrust to employment and income generation, and (d) providing relief & rehabilitation to the dislocated and the families of victims of militancy. The largest part of the financial outlay was earmarked for the power sector, with NHPC Limited bearing the bulk of the responsibility of implementing the projects.

Given the diversity of the projects and the implementing agencies, collating the information on allocation and release of funds, their modalities and expenditure on the several projects under PMRP proved to be a non-starter. Discussions with the major implementation agency in terms of planned expenditure (NHPC) indicated the rather *ad hoc* as also mixed (own resources of NHPC, central government and the state government ï also a mix of grants and loans) nature of the related financial flows, forestalling any systematic analysis. Information on the portfolio of projects undertaken by NHPC under the PMRP revealed that actual cumulative expenditures were much higher than the releases from central/state governments in all cases. Obviously, utilisation of funds was not the main issue ï it was the actual implementation of the projects. The latter, of course, was subject to different types of constraints, the three major ones being law and order problems, vagaries of weather and difficulties of obtaining permission to use land falling within forest areas.

4. Observations and Recommendations

The review of the individual schemes and their functioning provides us the necessary background to undertake an assessment with a view to improving their effectiveness and utilisation. Of the 15 schemes reviewed, utilisation would be a real concern only in the cases of NRDWP, BRGF, ICDS, JNNURM and NLCPR. There are isolated cases of poor utilisation in one or two states in the case of some other schemes also, but one can argue that those could be ascribed to state-specific factors. However, that is not to say that there is no scope for improvement. The following discussion is undertaken in that spirit. To structure the discussion, two main aspects of the schemes are covered: design of the scheme including administrative features, and flow of funds. Nevertheless, it has to be borne in mind that these aspects are not mutually exclusive.

4.1. Design of the Schemes

The first design feature to be discussed would be the matching requirement of the scheme. Conceptually, the difference between a matching and non-matching grant is that a matching requirement can change budget priorities for expenditures on other heads of expenditure too, since the matching amount has to be taken out of the overall expenditure ceiling, affected one or more of unrelated expenditure heads. A non-matching grant simply makes more funds available for expenditure in the specified category, in contrast. This is sometimes interpreted to contend that matching central grants to states can ódistortô the priorities of states. The strength of this ódistortionô naturally depends on the matching ratio. Thus, *a priori*, matching grants are called for when the grantor agency wants to change the pattern of grantee agencyôs budgetary allocations in favour of the supported service. The success of this instrument, however, depends on the extent of foiling grantee level fungibility[11] of funds; ***to ensure additionality, a strong monitoring system is required***. Also, ***too many matching grants in the system of intergovernmental transfers can cause conflicts of interest in the states with only small amounts of free resources; it may become difficult for a state to accommodate so many demands on its meagre resources that remain after meeting contractual obligations.***

At a more practical level, a matching ratio that cannot be afforded by several states can easily explain lukewarm response of the states to a scheme. However, in the case of the selected states that this particular study is covering, matching requirement is rarely above 10 percent, which is not high. Also, among the few schemes with low

[11] This refers to the ability to use funds for purposes other than that formally declared; it would also include passing off normal increases in own expenditure as meeting matching requirements.

utilisation, BRGF has no matching requirement, indicating that ***lowering matching requirement is not necessarily a solution to the problem of effective utilisation***. There have been some suggestions of reducing matching requirement further for better off-take of funds, but we find no evidence that such reduction is either necessary or sufficient to achieve that. ***A uniform matching requirement for all states may actually be problematic in the case of 'other' states for schemes with high matching ratios, since the fiscal strength of the states in the group varies widely.*** However, this a question that has been debated since long and the perceived arbitrariness implicit in a system of varying matching ratios has made such a system politically/administratively unpalatable.

The second design feature that could be important is the basis of the determination of transfers. The schemes can be divided into broadly two types: those based on proposals/plans to be submitted for approval and those based on allocations. Some of the schemes may have elements of both, but the distinction is still valid because only one of them can be the effective driver. MGNREGA is a different category by itself since it is an entitlement programme, although it is based to some extent on annual plans submitted by states. Conceptually, allocation-based programmes should have an edge in terms of utilisation simply because they do not involve the additional effort on the part of the states to prepare credible proposals/plans that may conceivably strain the administrative capabilities of some of the states. However, in practice, allocations may be subject to proposals/plans as well as in the case of NRDWP, RKVY or BRGF. In such cases, overall utilisation can be relatively low because states with good proposals/plans will not be able to get more funds than their respective allocations, while states that cannot prepare good proposals/plans would get less than their allocations. As such, we would suggest that ***the design should opt for either a pure proposal/plan based system, or a substantially allocation based system*** (like IAY). Combining both would *a priori* reduce utilisation of available funds.

The third, and probably most important, issue is that of delivery mechanism of the scheme. Most of the schemes reviewed, including the some of the flagship schemes, have two features in common: (a) they are expected to be implemented in a decentralised manner, and (b) the state level coordination is entrusted to an agency created for the purpose, with state government participation but autonomous. Many schemes expect the state level agency to be literally only a co-ordinating body, with the focus at the district level or at a further decentralised level. The decentralised structure is expected to cover the whole spectrum of the implementation process starting from preparation of project proposals/plans to actual expenditure, and the flow of funds is designed to percolate down for actual expenditures to be incurred at the most decentralised level. While this is a structure that obviously has an appeal in terms of decentralisation, it can, and probably does, create serious problems of administration and effective delivery. The problems of administration are dealt with below; suffice it to say here that this creates a trade-off between accountability and utilisation. Even in a conceptual sense, the main problems with respect to a decentralised structure of a scheme administered from the central government level in a country like India is: (i) the inability to build in enough flexibility to accommodate necessary state-level variations, particularly for the North-eastern states, (ii) lack of information and time to assess really decentralised detailed proposals/plans, (iii) creating a large number of agencies that have to ensure delivery without the authority or the constitutional back-up that the state governments enjoy, and which add to the costs of governance, and (iv) not getting the state governments ï without whose involvement, the schemes cannot succeed anyway ï fully on board. For these reasons, as also administrative reasons elaborated below, ***it would be better to involve the state governments fully in the delivery of the schemes and leave it to their choice as to whether a dedicated agency for the scheme is required or not (as under RKVY)***.

4.2. Flow of Funds

Ensuring a smooth flow of funds under any scheme is absolutely essential to the success in meeting the ultimate objectives of the scheme. This is where the administration of the scheme is tested, and more often than not, this is what determines effective utilisation of the scheme. The review of the structure of the schemes, unfortunately leads one to the conclusion that there is perhaps too little delegation in the system that is creating bottlenecks in the flow of funds, which is also impacting on the effectiveness of the scheme and utilisation of available funds, defeating the objectives to varying extents. To begin with, approval of the project proposals/DPRs/plans is almost invariably at the central level. Given the sheer volume of the job, and the details that have to be gone into, there is a high probability of a trade-off between doing a good job of evaluation and doing so within a reasonable period of time. Unfortunately, slippage in either has negative impact on the scheme. As such, ***the only way out is to reduce the number of approvals necessary at the central level or eliminate this requirement altogether through delegation of this responsibility to the state government, or an agency designated by it***. The delegation can be full (all proposals/plans) or partial (proposals/plans below a given cost, say Rs. 100 crore). When the scheme involves transfers to individuals/groups, it should be fully based on allocations and no approvals at the central level, except an aggregative estimate from the state level, should be required. However, when the proposal originates from the state government, it should be assessed at the central level irrespective of the cost.

Another cause of disruption in the flow of funds is the detailed documentation necessary to obtain the second and subsequent instalments of approved amounts of transfers, including audited accounts and utilisation certificates. With a decentralised system of implementation, default by some lowest level implementation agencies can penalise many such agencies (or delay on the part of a few can cause delay for a larger number), if the documentation (particularly utilisation certificates) has to be consolidated at a higher level for submission. This is where the trade-off between accountability and utilisation shows up. Here again, the solution can only be through delegation ï the ***central Ministries should require utilisation certificate and audited accounts from the respective state governments only (with a little more time allowed – these should be allowed to be submitted by end-December of a year for the previous year, with second instalments released on the basis of simple statements of expenditures at the state level).*** Any discrepancy between expenditure statements and utilisation certified can be adjusted while releasing the first instalment of the following year.

The above changes should help significantly in maintaining the time schedule of releases, which can impact on the schedule of implementation. For the selected states covered in this report and the remaining special category states, it is particularly important to provide the bulk of funds in the first instalment, so that seasonal constraints can be worked around. Thus ***it would help these states if 80 percent of the***

approved funds are released in the first instalment by May 15 of every year, after necessary adjustments. For other states, the normal procedure may be followed.

Some comments on the design and functioning of the individual schemes are included in their respective assessments. As regards the two schemes for North-Eastern states covered in the present report ï NLCPR and NEC, we have too little information for the latter to base our comments on. ***As far as the NLCPR is concerned, the general comments made above in subsections 4.1 and 4.2 should apply with the additional recommendation that the 12-month restriction for spending all releases should be removed to allow for longer time taken to implement projects in these states*** for various reasons including several clearances required. Also, ***in the case of the selected states (in fact, all special category states), appointment of professional consultants to prepare project proposals should be allowed (if not included) on a reimbursable basis*** under the schemes to compensate for usual lack of expertise in this area.