

2nd State Forum on Innovation in State Finances

Challenges in Utilisation of Central Grants

Finance Department, Government of Uttar Pradesh

27th September 2024

Agenda for discussion

- 1 Overview of Central Grants
- 2 Central Grants in UP
- 3 Efforts Undertaken for Utilization of Funds





Overview of Central Grants



Outcomes from Centrally Sponsored Schemes (CSS)

CSS has supported the State to achieve multiple outcomes that have helped improve the socio-economic profile

UP has the **highest number of beneficiaries** across several schemes through successful implementation



समग्र शिक्षा



Select outcomes supported by ---

**Delhi–Meerut Regional
Rapid Transit System**

20% funds received from
Government of India

47.82 lakh

Homes completed under
PMAY

73

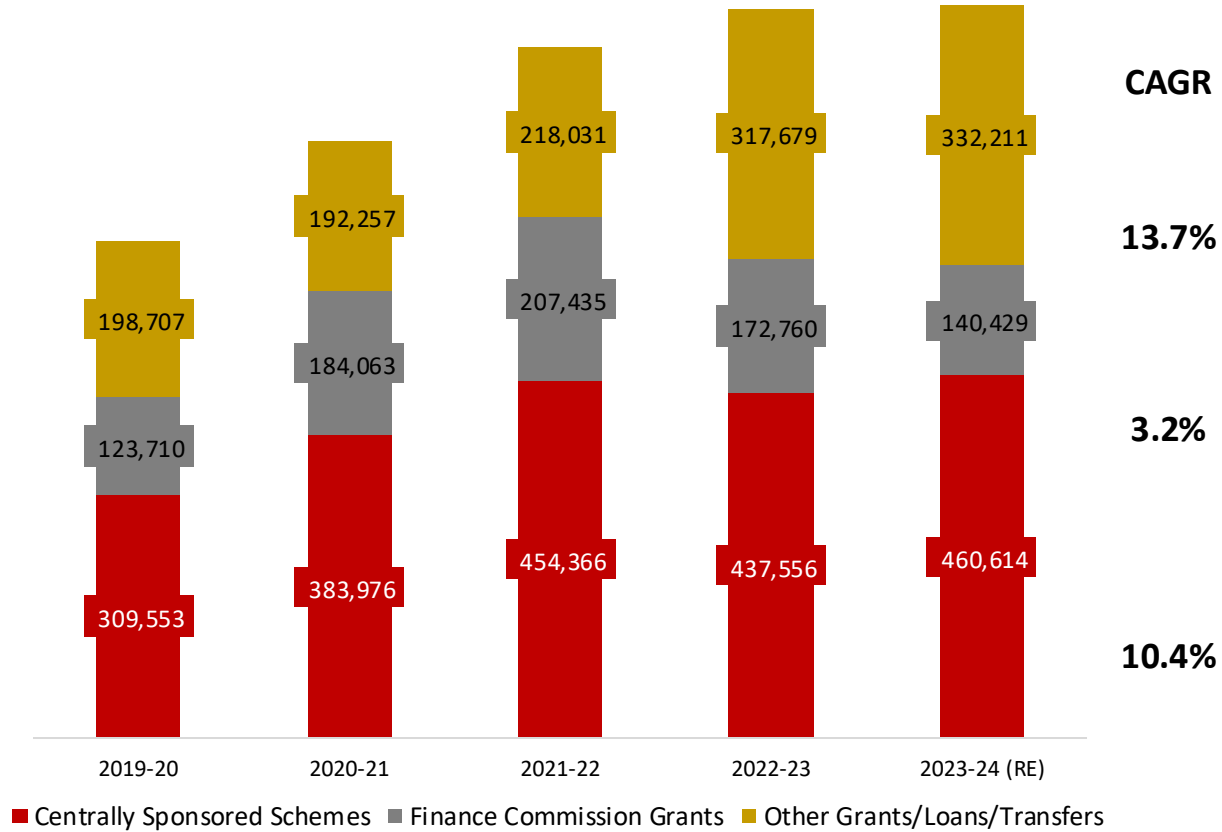
Number of medical colleges

Overview of Central Grants



Central Grants are dominated by Centrally Sponsored Schemes (CSS)

Composition of Central Grants (in INR crores)



- The total budget in the same period has grown at 13.7%
- CSS, accounting for ~50% of the total grants, has grown at a slower pace than the overall budget
- Proportion of CSS as a share of total grants has remained relatively constant over time
- FC grants have grown at a significantly slower pace than the overall budget
- Proportion of FC grants in total grants has declined from a high of 24% in 2020-21 and 2021-22 to 15% in 2023-24 (RE)



Central Grants in UP

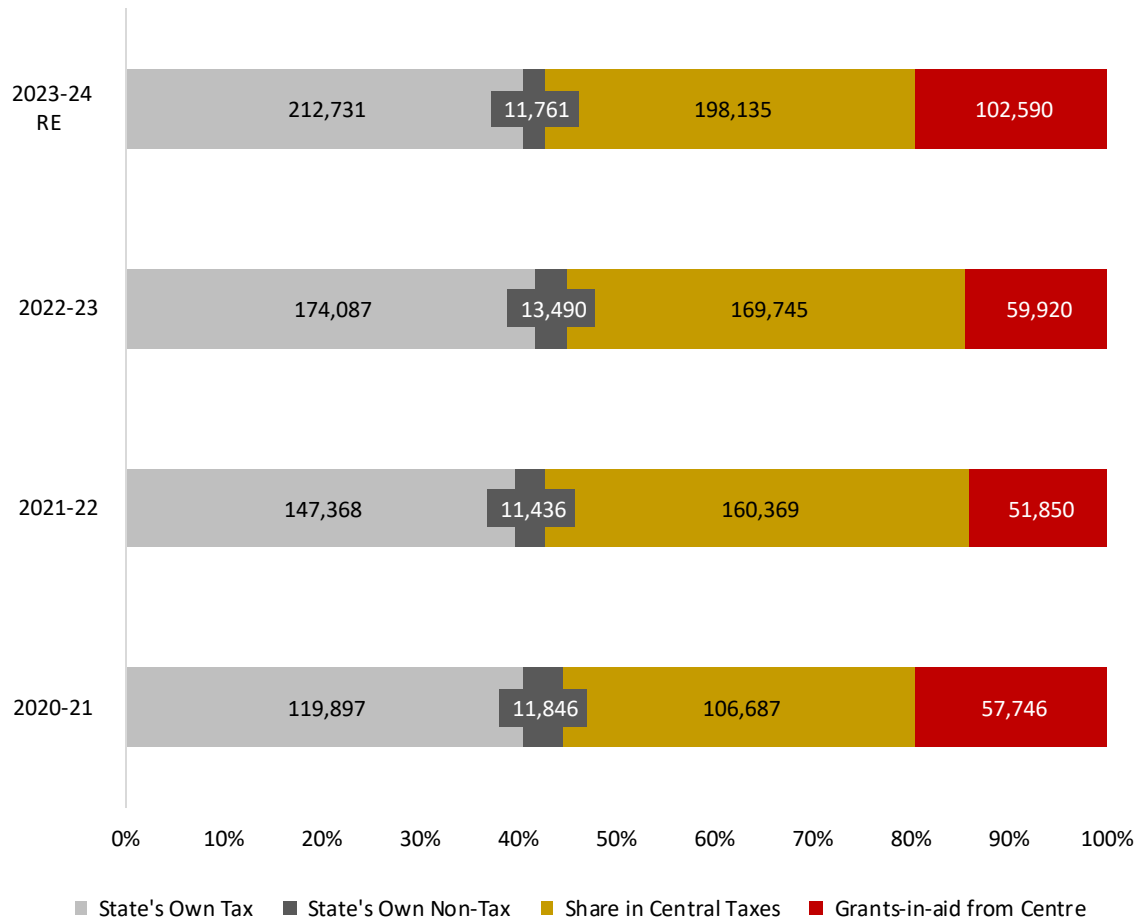


Role of Central Transfers in UP Budget

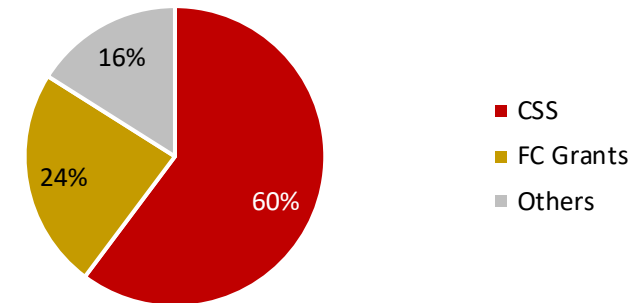
Central transfers account for over 50% of UP's revenue receipts



Composition of Revenue Receipts (in INR crore)



Composition of Central Grants in UP



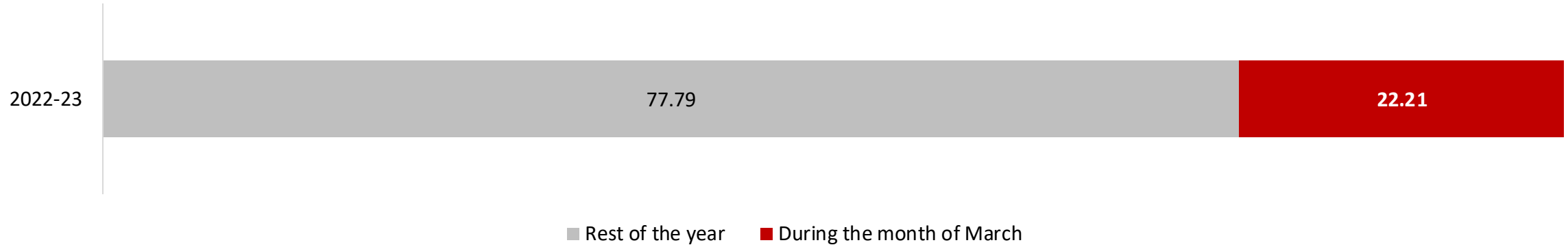
- Central transfers account for more than 50% of the revenue receipts in UP – providing substantial support
- Central grants account for 15-20% of the revenue receipts over the last few years
- Of the central grants, CSS constitutes the largest proportion at ~60% followed by FC Grants at ~24%
- UP is quick to adopt CSS and initiatives related schemes to extend the benefits to additional beneficiaries through state schemes

Utilization of CSS

Utilization of CSS has been declining over the years



Proportion of Central share of CSS received in March of the year



- Actual expenditure of CSS has been declining over the years due to high compliance, delayed availability of funds and other challenges
- A large proportion of funds are received in March, leading to limited capacity of utilization and delay in submission of UCs

Centrally Sponsored Schemes – Select Schemes

Challenges in utilization of funds for select key CSS



Key Schemes – Utilization & Challenges

Challenges in utilization:

- Funds are disbursed in 4 equal installments – for each instalment UCs are to be provided and the process for the same takes 2-3 months
- The first instalment is generally received in August when the academic year begins in April
- ~30-40% funds are received in March – making utilization difficult

Challenges in utilization:

- Funds are disbursed in 4 equal instalments of 25% each but as construction activities take time, front-loading of funds will support disbursement
- The MIS portal captures the physical progress while the PFMS captures financial progress. Lack of integration between the two leads to data mismatch.

Challenges in utilization:

- Grants >Rs. 500 crores submitted at the beginning of the month are disbursement only after 20th of the month – causing delay in fund availability
- Funds for construction are provided as an advance to contractors but are made available to the State only post 75% utilization which takes 3-4 months for completion



Efforts Undertaken for Better Utilization of Grants



Efforts Undertaken



Some efforts have been made by the Centre and State to resolve challenges

Efforts undertaken by the Centre as well as States to streamline utilization of central grants...

Implementation of SPARSH

1. Single Nodal Agency (SNA)

Central Government has moved to the SNA model which envisages 'Just In Time' transfers and reducing delay in fund transfers and in turn, reducing 'floats' parked in the bank accounts and reducing interest costs

2. Capacity building initiatives

The Central Government organizes periodic 1-2 day trainings across States to build capacity of officials to adopt the new fund flow mechanism

System Changes & Capacity Building

1. Linkage of current IFMIS

UP is undertaking initiatives to adopt the new fund flow mechanism in the existing IFMIS implemented in the State

2. Training and capacity building

In addition to the initiatives undertaken by the Central Government, UP has been undertaking training and capacity building initiatives in Finance Department and other lines departments to smoothly adopt the new fund flow mechanism and sensitize for timely completion of compliances

...However, some challenges remain that require efforts from the Centre as well as State initiatives

01

Code mapping and integration between IFMIS and PFMS required – time consuming for implementation of SPARSH

02

Infrastructure readiness – customization of IFMIS in line with SNA under SPARSH

03

Inadequate and sporadic capacity building initiatives to adopt new mechanisms – further support will be requested during implementation



सक्षम एवं तैयार उत्तर प्रदेश





Way Forward



Support Requested



While the Centre and State are undertaking some efforts, additional support is also requested



Release of funds in fewer instalments

Mechanism for timely release of funds, particularly in schemes in sectors such as agriculture with 2 seasons, construction which requires more front-loading of expenditure etc.



More freedom to states for fund utilization

Reduction in utilization criteria with freedom to states for utilization of a proportion of funds per state requirements



Simplified mechanism for fund disbursement

Some CSS have multiple SNAs under one umbrella scheme while some SNA's cover schemes implemented by multiple departments – rationalization of SNAs to reduce compliance burden



Realistic timelines for capital expenditure disbursement

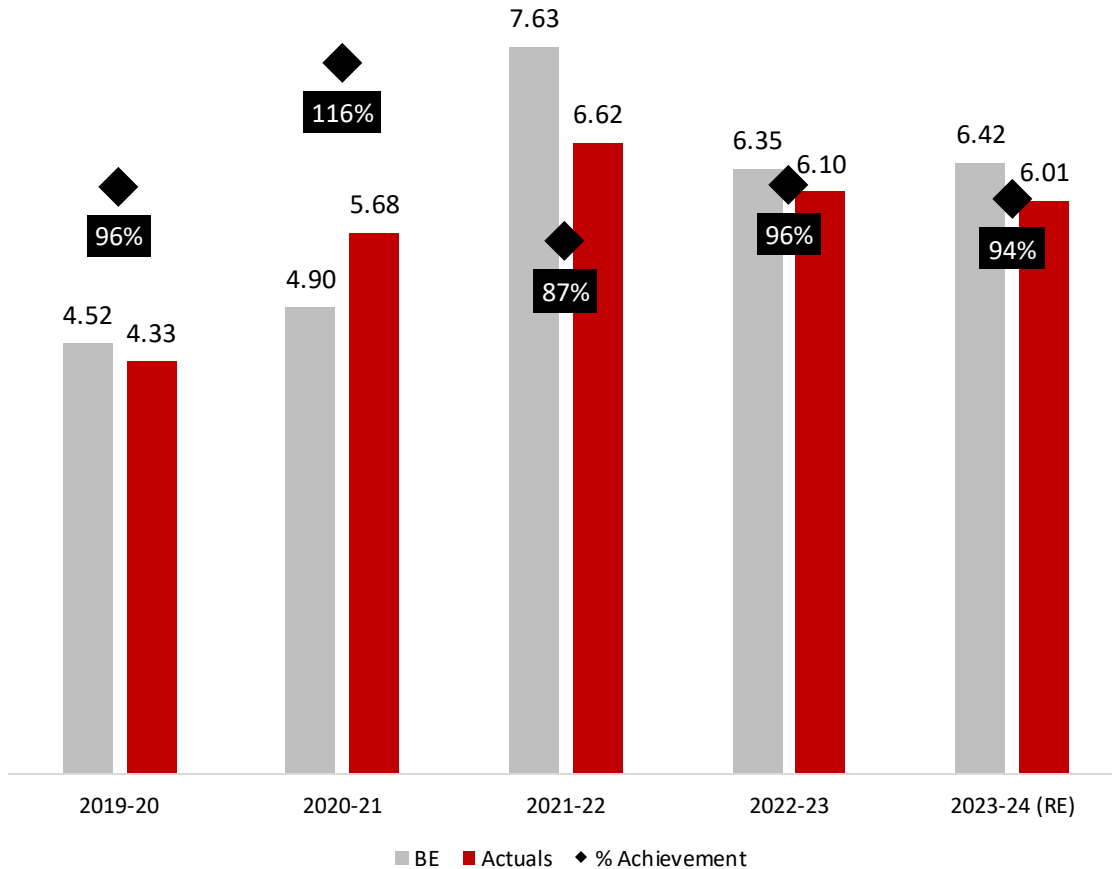
Planning for capital expenditure taking into account the time taken for onboarding vendors

Overview of Central Grants

Grants from the Center – Budgeted vs Actuals



CSS and FC grants – Budgeted vs Actual (in INR lakh crore)



- The actual disbursement of CSS and FC grants has been 87-96% of the budgeted in the last 3 years
- 2023-24 (RE) is lower than the actual expenditure of 2022-23
- Over the last 3 years, the actual expenditure was INR 1.66 lakh crores less than the budget