

CHAPTER 5

PLANNING AND IMPLEMENTATION ISSUES

5.1 The experience of planning at the State level over the last five decades seems to indicate that if we are to remove bottlenecks to progress, we have to step up growth rates and also ensure that the benefits of development are shared by all, in addition, qualitative aspects need to be paid at least as much, if not more, attention than the quantitative aspects of planning. The Approach Paper to the Tenth Plan had signalled that in order to achieve its Stated objectives, the Plan had to be a reform plan, and not a resources plan as before.

5.2 The issue of governance has been separately discussed at a much broader level in Volume I of this document. The Mid-term Appraisal has however drawn attention to a number of governance-related findings that have relevance at the State level as well. Carrying this analysis further, therefore, the first section of this chapter takes a look at the perspective of governance at the State level, and proposes an agenda for reforms in this area in the Tenth Plan.

5.3 The second part of the chapter looks at more technical issues and concerns that have gradually emerged over the years in the process of Plan implementation. While they may seem to be relatively minor by themselves, many of these concerns are tending to distort and undermine the process of State level planning itself, and therefore need to be flagged and suitably addressed during the Tenth Plan.

A STATE LEVEL GOVERNANCE PERSPECTIVE

Background : The Mid Term Appraisal

5.4 Since the beginning of planned development in India, both Central and State Governments have been implementing several programmes for eradication of poverty. However, it has been the experience of development planning since

Independence that availability of funds by itself is not sufficient for tackling the problem of poverty. With liberalisation, there is an ongoing paradigm shift at the State level, with the Government increasingly playing the role of a facilitator rather than a direct provider. At the same time, more effective public intervention only can address the challenges of poverty alleviation. In this, the experience is essentially that better governance and implementation of programmes within a pro-poor policy framework is needed for effective results on the ground.

5.5 Many examples of anti-poor laws and policies are discussed in the Mid-term Appraisal (MTA) of the Ninth Plan, especially in chapters on SC/ST, forestry and decentralisation. The examples discussed therein show that a large number of policies and rules act against the interests of the poor. There is a need for putting pro-poor policies in place. A beginning can be made by reviewing the policies outlined in the MTA, and sensitising public opinion with a view to getting them modified suitably within the first two years of the Tenth Plan.

5.6 In the international context, good governance is often interpreted from a purely business point of view to mean policies that will attract foreign capital, such as effective rule of law, enforcement of contracts, protection of property rights, and reduction of uncertainties about decision-making by national Governments. In the context of development in a less developed country, good governance may be defined as the capacity of the Government to manage resources efficiently and formulate, implement, and enforce such policies and schemes that are in the interest of the poor and facilitate development.

5.7 However, good governance is not automatic. In the scarcity-ridden context of development in a poor society, the executive (both political and

bureaucratic) may amass large monopolistic and discretionary powers for the apportioning of resources. This may result in a 'rent seeking' behaviour. With a view to preventing rent seeking, more rules and regulations may be prescribed, which may further result in delays, inefficiencies and corruption. Thus a vicious circle is set up, with non-compliance of rules leading to more rules and ending up in a situation where individuals in Government, whether from the legislature or executive, may, with the best of intentions find themselves helpless in changing the 'system', and ultimately find it more convenient to join the system rather than fight it. Another tendency for any Government is to evolve a culture in which rules of decision-making or transaction are not easily amenable to scrutiny by the general public or the intended beneficiaries. Not only are the decisions difficult to be examined, they are also likely to be challenged or reversed, except by appeal to the munificence of the same executive which took them in the first place (thereby enlarging the ambit of power of the executive).

5.8. Independent studies suggest that corruption and poor governance lead to lower growth and investment. The South Asia Human Development Report also makes the point that low human development makes it easier for poor governance practices to survive, leading to a vicious circle. Thus, good governance and accelerated human development are inextricably linked and indeed, governance forms the bedrock on which gains in human development can be rapidly achieved.

Delivery of Programme Benefits

5.9. Successful implementation of development programmes requires adequate funds, appropriate policy framework, and effective delivery machinery. Past experiences suggest that availability of funds alone may be a necessary but not a sufficient condition for tackling the problems of poverty and backwardness. The determining factor seems to be the capability of the funding Governments or Ministries to formulate viable schemes, and the delivery system to optimally utilise funds and achieve sustainable growth.

5.10. There is now substantial evidence, which corroborates experiential evidence, that even

though there are variations, basic public services and programmes (such as those meant for the poor and the weaker sections) function relatively inefficiently in poorer and badly performing States. This is due to lack of motivation, accountability, absence of performance appraisal, absence of a system of incentives and penalties, understaffing and poor working conditions on the one hand, and large-scale leakages on the other.

5.11. This seems to be the case particularly for the numerous rural development programmes where studies suggest that the 'leakage' is estimated to be between 20 and 70 per cent! The weak track record of implementation of these programmes and failure to deliver intended benefits to the poor have been documented in various reports and studies including the reports of the Comptroller and Auditor General and surveys by international agencies and other independent bodies.

5.12. The implementation of development programmes by the State Governments must be more effective. Close monitoring can be organised in selected areas such as implementation of schemes relating to primary health, primary education, watershed development, empowerment of the local people to discharge their responsibilities effectively at the local level, as evidenced by the implementation of poverty alleviation programmes etc. The monitoring can be done on the basis of questionnaires designed by selected public institutions in consultation with the Planning Commission.

5.13. One way of doing so may be through a process of sampling, wherein randomly selected villages can be identified in every State for impact studies and obtaining progress reports in these sectors. These studies may be carried out either by academic institutes, consultants approved by the Planning Commission or by the Programme Evaluation Organisation of the Commission wherever possible. Incentives for improving implementation should be built into the criterion for the allocation of additional funds to the States in such a manner that the States which demonstrably perform better be entitled to more development assistance as compared to the States which do not implement these programmes effectively.

Agenda for Governance Reform

5.14. Governance reform thus needs to be at the center-stage of development planning, since without good governance and programme implementation, much of the vast quantum of resources being spent for development is wasted. It should be so designed as to bring about improved transparency, greater accountability, and streamlining of the structure of Government.

5.15. Improved transparency should have the result of improving the flow of information to the general public on the modes of decision-making, and hence lead to less arbitrariness, as decisions come under closer public scrutiny. Greater accountability implies that the decision-making (and implementing) executive is answerable for the course of action that it pursues. Since answerability is in any case implicit in the existing process, reforms should aim at improved accountability, which means that adverse results associated with wrong actions are quickly corrected and are not easily repeated. Similarly, changes in the structure and role of the Government are needed, involving a review of its role and functions, allowing it to concentrate on areas of key concern, and reducing its role in areas where it is not needed. In short, it means redesigning the structures of the Government so as to reduce distortions and allow it to optimally perform its key tasks.

5.16. Experience both within and outside the country has pointed to certain essential elements of any strategy for governance reform. This agenda of reform in governance, which is especially relevant at the State level, includes a multifaceted strategy based on decentralisation, civil services renewal, open and responsive Government, tackling corruption and strengthening the rule of law, and fiscal and environmental sustainability. Each of these elements of the strategy is outlined below.

Decentralisation

5.17. DeCentralisation of power from Centre to States, States to district, and areas within districts and villages can be one of the best ways of radically restructuring an over-Centralised system of governance, which may be somewhat removed from people, and have limited direct accountability

to them. Decentralisation results in empowering people, promoting public participation and increasing efficiency.

5.18. According to the Human Development Report 1993 of the United Nations Development Programme (UNDP), wherever decentralisation has taken place it has often been quite successful, encouraging local participation, increasing accountability of local officials, reducing costs and increasing efficiency. Decentralisation can help mobilise local resources, promote locally and regionally diverse solutions and promote equitable growth by bringing the poor into the mainstream of development. It may also increase the pressure on Governments to concentrate on those human priority concerns that are more likely to be chosen by the local community.

5.19. Decentralisation has been seen as desirable and necessary for public participation in the process of planned development. With the 73rd and 74th Constitutional Amendment of 1993, panchayat raj institutions (PRI) and urban local bodies have taken root all over the country. However, effective decentralisation has not taken place in most States, for various reasons, (see Appendix 5.1 to this Chapter) and efforts need to be made to strengthen and accelerate the process.

5.20. The 73rd Amendment envisages a polity where more and more powers are decentralised to the third stratum, but ironically, in many of the States administrative and financial powers have been heavily concentrated in the secretariats and directorates. This process of centralisation of authority has particularly been going on in the last thirty years. The concentration of power, in addition to facilitating political corruption, results in making decisions the outcome of a long and tedious process that inconveniences the public.

5.21. On the whole, the panchayat's role is still heavily influenced by the role of the development bureaucracy and the existing mechanisms and processes provide the space for considerable distortions and leakages. The present system is such that even honest panchayati raj institution (PRI) representatives find it difficult to carry out their functions.

5.22 In this connection, many lessons have been learnt from the experience of devolution in the wake of the 73rd/74th Amendment. These point to the direction of desired reforms. Governments need to sustain the devolutionary process by transferring powers and functions specified in the 11th and 12th Schedule, to the local bodies at the appropriate level, and provide administrative control to local bodies over local functionaries. We must build commensurate capacity in the local bodies, its members and its committees through training and transfer of resources - physical and financial, encourage the local bodies to raise local resources for development, and put a system of incentive-based fiscal transfers in place.

5.23. At the same time, we have to inculcate attitudinal changes in the developmental bureaucracy, which should become a facilitator of the third level of government and help develop a healthy relationship between elected governments at all levels and the bureaucracy. The accountability of the local bodies, their standing committees and the representatives, need to be defined and strengthened. Panchayati raj institutions/urban local bodies (ULB) have to be helped to evolve a code of conduct for the newly elected members. Rules and procedures should be made simple and transparent. Financial management and audit procedures have to be strengthened with the objective of facilitating the tasks to be performed by the elected functionaries drawn from all walks of life.

Civil Services Renewal

5.24. In the area of civil services reform, State Governments face three critical challenges. They must enhance the productivity of the civil services and make certain that each employee is performing socially relevant tasks. They must ensure the long-term affordability of the civil services, and must enforce procedures for rewarding and promoting merit, and disciplining malfunction and misconduct, in order to strengthen accountability and enhance performance quality.

5.25. Unfortunately, ever since higher education was introduced by the British, the State has been seen as the employer of first resort by the educated middle class in India. This mindset has to change.

Since the beginning of the 1960s, a rapid expansion of government employment has taken place, especially of the support staff. With the changing role of the government, the size and scale of the civil services no longer relate to the nature of functions that the government can or should undertake. Governments should identify the surplus staff, set up an effective redeployment plan, and a liberal system for exit. For the time being, recruitment should only take place for functional posts, and vacant posts of secretarial and clerical nature should not be allowed to be filled.

5.26. The Administrative Reforms Commission (ARC) Report, 1970 had recommended the abolition of clerical positions in the secretariat, by merging the field departments with the secretariat departments at appropriate levels, and by following the pattern prescribed in the army for decision making through the single file system. This can be done even now, as it will result in substantial reduction in the number of employees. Reducing the number of general holidays, as recommended by the Fifth Pay Commission can lead to better productivity of the existing staff. The Central Government has already restricted the recruitment of fresh personnel to just one-third of the posts falling vacant each year, and some States have taken similar steps. These are moves in the right direction.

Open and Responsive Government

5.27. Open Government is a key element of governance reform. The environment of secrecy that pervades government functioning encourages malpractices. There is no early check because decisions are taken behind closed doors. The sharing of information and making the entire system more transparent would certainly reduce the danger of the system being manipulated by a few in the name of many. Transparency builds external demand for reform and makes administration more responsive and performance oriented. One way of sending a signal for reform is to encourage the enactment of legislation for *Right to Information* along the lines of the statutory scheme of the Government of India. If the right of the ordinary citizen to information is recognised, it will dramatically increase the strength of the citizen to

understand and challenge corruption and the arbitrary exercise of State power. It should be the duty of the decision makers at all levels to proactively attempt to increase the power of the citizen in his or her relation with the State, through building in transparency in all official procedures and systems, and, suo-moto, making available all relevant information to the people.

5.28. There are many ways to bring about openness in government. The declared intention of the government should be in favour of transparency. All such information that is generally provided by the Assembly/Parliament to a Member should also be accessible to any member of the public. Departments such as the Police and Revenue, which have extensive public dealings, should be subjected to a social audit at periodic intervals. These audits, by eminent members of the public, should look at their policies and performance, and suggest constructive steps for their improvement.

5.29. The government also needs to make conscious efforts to increase its responsiveness to the ordinary people, whom it is meant to serve. At present the system of government is such that it is difficult for an average citizen to have access to information about schemes and programmes that affect him, and even about his rights and records. The complicated procedures not only distance Government from the very people that are sought to be provided with services but also create possible sources of corruption. Therefore, the stress needs to be on developing computer based information systems so that discretion and delay can be reduced.

5.30. Each department with a public interface should develop *citizens' charters*, establishing clearly enforceable norms. The citizens' charter should clearly define the standard for the services being rendered. It should also specify the remedial mechanisms available to the citizen. Merely notifying citizens' charters should not be an end in itself. After promulgating citizens' civil charters, departments should ensure that the necessary changes have also been introduced in every aspect of the functioning of the department and at every level to conform to the standards set in demand of these

charters. Each department should organise large-scale capacity building programmes to bring in attitudinal change in their employees.

Increasing Accountability

5.31. In his address in the National Development Council meeting held on February 19, 1999, the Prime Minister had Stated that, 'people often perceive the bureaucracy as an agent of exploitation rather than a provider of service. Corruption has become a low risk and high reward activity. Frequent and arbitrary transfers, combined with limited tenures, are harming the work ethic and lowering the morale of honest officers. While expecting discipline and diligence from the administration, the political executive should self-critically review its own performance. Unless we do this, we cannot regain credibility in the eyes of the people who have elected us to serve them.'

5.32. The existence of widespread *transaction costs* in a governmental system corrodes the credibility of public institutions leading to widespread disenchantment with them, weakening the very fabric of governance, and making it virtually impossible to speed up development tasks. Accountability, transparency and the rule of law, are integral constituents of good governance. Transparency in government functioning, as already discussed, will in itself reduce the possibilities of leakage and malpractice. The issue of accountability is crucial for effective financial management and a responsive civil service.

5.33. A responsive *legal system* is essential for the development of the private sector as well as for ensuring that all citizens, and particularly the poor, have access to justice. Streamlining of the civil and criminal justice systems with a view to reducing delays in disposal of cases is important. In addition, consideration of innovative mechanisms such as Lok Adalat (Peoples' Court for alternative dispute resolution) to reduce the burden on the courts may be necessary. The Nyaya Panchayat in the villages need also to be strengthened.

5.34. *Procurements* is an area especially prone to malpractices. Enactment of legislations/regulations to mandate strictly competitive bidding

of all contracts and procurement of works, goods and services by the government and its entities, with regular issuing of tender notices, bid closing dates and contract awards, should be effectively ensured to minimise opportunities for malpractices in procurement decisions.

5.35. Democratic Governments respond to pressures from below, and however well motivated and determined the reforms initiated by the government are, these can fructify only if government actions and decisions are subjected to continuous scrutiny and pressure by communities and the *civil society*. Yet, despite the enormous burden posed by weak governance, civil society action has been found wanting, on the whole. The pace of improvement in governance would accelerate only when countervailing forces in society develop sufficient confidence to oppose inefficiency and corruption in government. States should, therefore, not just tolerate, but actively encourage credible civil society organisations.

Sustainability: Fiscal Reform

5.36. It is important for the fiscal policies of a government to be sound and sustainable. Unfortunately, as is well known, the fiscal situation of the Centre and the States has deteriorated continuously through the 1990s, especially after 1997. The combined balance of current revenues of the Centre and the States fell from minus 13,324 crore in 1996-97 to minus 92,969 crore rupees in 1999-00. Tax Revenue as per cent of GDP of the Centre has fallen from 11.3 per cent in 1989-90 to 8.8 per cent in 1999-00. Financially weak infrastructure sectors have placed a massive burden on the States; the problem has been accentuated by the deepening culture of non-payment by customers of public utilities. The share of plan expenditure of the Centre and the States in GDP has fallen from 13.4 per cent in 1986-87 to 8.6 per cent in 1998-99, making plan outlay a residual item of Government expenditure. States' own contributions to plan financing is now totally non-existent. The debt burden of governments is rising rapidly, and most governments are increasingly borrowing even to finance their current consumption.

5.37. A fiscal crisis has major developmental implications. First, declining capital investment leads to slower growth, which in turn renders it more difficult to increase the revenue yield. Slow growth also means that the incomes of the poor do not rise significantly. Second, a rising debt burden has the serious implication of sacrificing the welfare of future generations, who will sooner or later have to pay the price for the profligacy of today.

5.38. The key to overcoming the crises being faced is to *curtail administrative expenditures*, which are absorbing larger and larger shares of the public resources, leaving very little for spending on the developmental needs of the people. There is undoubtedly a historical legacy here that has to be overcome. The pressing need of the day is to put into place an action plan for rightsizing the government with a liberal system for exit of the surplus staff.

5.39. The Government of India has to take a lead in reducing its staff, especially in ministries dealing with State subjects. It is only then that the Centre will have the moral authority to seek similar action in the States. In the Ministries, there should be restraint on initial recruitment, and most vacancies caused by retirement should remain unfilled and the posts subsequently abolished. Steps have been initiated by the Centre and many States in this direction. As is the case in some countries, to reinforce the control on staff expansion, consideration may need to be given to a legislative ceiling on the total number of posts authorised for any particular department/organisation.

5.40. Other steps necessary to tackle the fiscal problems and improve resource mobilisation include:

- (i) **External Aid**: States should be encouraged to attract and improve disbursements of external assistance, which is a significant source of additionality to a State's resources. This is a source that does not presently have a ceiling, and the extent to which it can be tapped depends only on the willingness of

a State to be pro-active, pursue sound policies and accord priority attention to timely implementation.

(ii) **Single Economic Space**: There is a need for the States to appreciate the mutual benefits of looking at the country as a single economic space, from which considerable economic advantages can be reaped by them. Greater integration and removal of barriers would encourage commerce and business and lead to a win-win situation for all concerned. Similarly, there is tax competition among States to attract private investments. Such policies are harmful, as States have lost tax revenue without influencing investment decisions. Better infrastructure, faster decision-making, and investor-friendly environment are more important in the decision matrix of the investor community, and State resources are better deployed in such areas.

(iii) **State Guarantees**: A practice that is pushing the States towards a fiscal crisis is the ready extension of guarantees to the borrowings of State-level public enterprises. These guarantees may devolve on State Governments, as the financial health of many such enterprises is not sound. This practice will hurt States' credibility and adversely influence their credit ratings and ability to raise resources in future. A legislative cap on guarantees, as has been done by some States, would improve the confidence of the investors in the States.

5.41. Similarly, there is a case for explicitly introducing *Reform Linked Central Assistance*. The medium-term fiscal strategy should include measures aimed at providing financial help to States to alleviate the fiscal stress facing them. However, the strategy would have to incorporate certain conditionalities. These would focus on critical issues facing the States on the fiscal and governance fronts. These conditionalities would be formulated with the agreement of the States concerned. The reform linked assistance would

need to be phased over time with a view to accelerating the reform process at State level, and helping State finances to be put on a sound footing in the medium term.

Environmental Sustainability

5.42. In the last thirty years there has been enough empirical evidence to establish that environmental conservation must go hand in hand with economic development, because any economic development that destroys the environment will create more poverty, unemployment and diseases – as the poor depend on the nature much more for their day to day needs - and thus cannot even be called economic development. It may just be a transfer of resources from the poor to the rich.

5.43. Environmentally destructive economic development will impoverish the poor even further and destroy their livelihood resource base. In the absence of clean air and clean water not only is the productivity of the poor going down but their expenses on medical care is shooting up, resulting in their further misery. Denuded hills and barren pastures have resulted in falling groundwater levels, reduced availability of organic manure, and loss of soil and moisture for crops, thus affecting the productivity of rain fed agriculture and income through cattle. The environmental concern in India must go “beyond pretty trees and tigers” and must be linked it with peoples' lives and concerns.

5.44. Investment in better environment and forests however requires taking unpopular decisions like closing down of polluting industries, controlling vehicular pollution, reducing subsidy on forest raw material, etc. It also needs greater investments, the benefit from which is not easily discernible or immediate. When States are starved of funds, cuts are imposed on the budgets of these departments and activities, and money is diverted to paying salaries or civil works programmes. Therefore, improving governance must mean better policies and more funds for improving the quality of life through greater attention to environmental concerns.

PLANNING AND IMPLEMENTATION: DIRECTIONS

Capital Investments

5.45. Capital investments are supposed to be the productive and growth enhancing components of developmental expenditure. In the early years of the 1950's and '60s, plans consisted largely of capital investments. In those days, since we as a newly independent country were starting from a relatively low base, governments were concerned primarily with adding to the stock of public assets. Capital expenditures as a proportion of plan outlays have been steadily declining since, and have been estimated by the Eleventh Finance Commission to form now only about 42 per cent of the States Plan outlays. In the case of some States like Kerala and Andhra Pradesh, this proportion is even less, at less than 25 per cent.

5.46. States do realise the need for the plan outlays to consist of an adequately high proportion of capital investments. Nevertheless, they find it difficult to increase capital expenditures, because of fiscal constraints, and the immediacy of the pressure generated by the administrative machinery, most of which translate into revenue expenditure. At some point States would need to take a hard look at the situation, put aside short-term considerations, and see the big picture in this regard, even if it implies tough decisions. The capital content of the Plan needs to be protected, to enable plan funds to be utilised largely to create growth-inducing productive assets. This is in the long-term interest of the development of the State.

Maintenance of Capital Assets

5.47. There is another side to it. It may be argued that in the present day, with over five decades of planned development behind us, and a large stock of capital assets having been created, State Governments should be equally concerned about preservation of the existing public assets and schemes that have been built up over the years.

5.48. The problem arises particularly since preservation and utilisation of these public assets imply recurring expenses on operation and

maintenance (O&M), which are supposed to be the normal responsibility of a Government. These are therefore not seen as falling within the purview of "new" development expenditures, and are outside the Plan. Fiscal constraints on non-plan expenditures are increasing due to rising establishment costs and interest burden. This leads to the tendency to under-provide for the maintenance of these capital assets, since establishment and interest payments have a compelling priority claim on resources, whereas the impact of under-funding of maintenance expenditures is not immediately visible. Over the medium term, however, the impact is felt through the productive assets that have been created over a long period of time having deteriorated due to lack of maintenance, and no longer serving the productive purpose they were intended to.

5.49. The expenses on maintenance, therefore, have to be provided for. A State cannot be said to be planning wisely if capital assets created at a great cost are allowed to run down for want of maintenance expenditures. Rational planning would mean fully budgeting these expenditures and recognising them as an essential component of developmental expenditure, since not providing for them would lead to running down of assets created over the years.

5.50. The immediate consequence of this approach is that O&M expenditures will gradually eat up larger and larger shares of development expenditures, crowding out new investments and giving rise to the question of sustainability. This need not happen. If this type of expenditure goes hand in hand with a policy of recovery of adequate *user charges* from the beneficiaries of the services provided, spending on O&M need not curtail plans for new projects and schemes. If, on the other hand, governments make the policy choice to bear most or the entire O&M burden themselves, the implication for them is that in doing so they reduce their ability to sustainably create the much needed fresh capital assets.

5.51. In an effort to improve the productivity of the existing capital assets, and efficiency of resource use during the Tenth Plan, however, selective use of plan funds has been permitted for the first time

under the Plan for critical repair and maintenance activities, signaling thereby a positive development in this direction.

Social Sector Expenditures

5.52. Today, there is a realisation borne out of the lessons of experience that investment in human capital is probably as much, if not more, important than “hard” capital investment. Human development is now seen not only as an end in itself, but also as a vital means to achieve the end of economic growth and prosperity for all. The Planning Commission has brought out in the first year of the Tenth Plan a National Human Development Report to signal the recognition of this.

5.53. This kind of investment creates another type of recurring expenditure dilemma, in that, the delivery of the services that create human capital is primarily through personnel and require a relatively heavy staff component e.g., teachers, health-care workers, etc. Further, unlike other capital projects, in which the bulk of the staff expenditures are linked to the construction phase of the project and such costs subsequently decline, in the case of human capital projects, staff expenditures are an essential and continuing part of the scheme or programme, since without them the desired development outcomes will not be realised. Social services will continue to expand in the foreseeable future, until the desired levels of human development are attained. However, any planned expansion of facilities in the social sectors would need to factor in and provide for the long-term implications in terms of recurring costs. Innovative solutions have to be devised to reduce costs of delivery while retaining quality, in order that the expansion of services that must take place is sustainable.

5.54. In the context of the ongoing fiscal and administrative reforms, redeployment of personnel from other government or semi-government formations to social sectors, where possible, needs to be considered. The need is to move towards a dispensation wherein rather than recruitment for a specific project without flexibility of redeployment, there should be conscious attempt to redeploy personnel from project to project, once activity ceases in any one project and a new project

commences. Further, options such as those adopted in Madhya Pradesh and Rajasthan of having contractual community appointed teachers with low infrastructure overheads, and in Uttar Pradesh of providing one time capital grants to encourage private educational institutions (rather than the policy of providing recurring grants-in-aid to such institutions) to help expand school education indicate that there are ways to move forward without compromising on the overall objective of expanding social services.

Projectisation

5.55. Yet another significant issue relates to the productive deployment of capital. “Projectisation” remains an imperfect art in Government. The problem is the delinking of project formulation and what in commercial world is called “financial closure”. A common tendency is to understate the magnitude of the projects for Plan scrutiny, so as to squeeze them through a constrained resource envelope. Then, as the years go by, they emerge in their true colours. As a result, projects are not fully funded; implementation slips, and costs escalate markedly. Comprehensive project configuration, costing and full financial commitment is necessary for proper planning of capital outlays. It should be possible to consider the deployment of potentially productive capital as a business proposition, in which a sort of financial closure in the sense of a commitment of outlays required for the project is built into the plan, so that the requisite resources are arranged and a cap put on the costs including escalation. Practically, this can be done with prospective effect, by loading subsequent plan outlays for concerned departments with an opening balance of committed outlays that are automatically set apart. While this will not immediately solve the problem of past overhang, which would be immense, this will at least ensure that what is henceforth committed, is realised.

Core Plan

5.56. Decisions on the size of the plan have been traditionally driven by the tendency to present an optimistic picture to the media and the public of ever increasing development outlays. At the same time, State Governments tend to avoid hard decisions

involving elimination or reduction in outlays for schemes/sectors, which have a reduced contemporary relevance. This leads to the over-estimation of available investment resources by a substantial margin. This can also be termed as 'overloading' of the plan.

5.57. Overloading occurs when screening mechanisms are weak, and this implies that the top decision-makers are unable to set or enforce sectoral ceilings and priorities. When an overloaded plan comes up against the real constraints of State finances, the result is inevitable: ad-hoc adjustment of funds and allocations towards the close of the financial year. Making such ad-hoc adjustments usually means across the board cuts in plan allocations to different sectors. The State is thus forced to sacrifice or dilute the priorities that were initially set and reflected in the original plan allocations. Overloading thus tends to lead to surrender of priority setting, and is ultimately self-defeating.

5.58. Overloading is to be distinguished from over-programming. Used as a management tool, over-programming means the deliberate inclusion of slightly detailed higher level of outlays in the Plan than can be realistically financed, to compensate for unanticipated project slippages. This would also go hand in hand with careful ex-ante prioritisation, so that the funds are made available for lower priority projects or schemes only if the higher priority projects fail to utilise funds to the extent programmed. And this is desirable only when full drawal of programmed funds is seen as a virtue; this may not be so if the funds are coming from high cost sources. In such cases, it may be better from a macro viewpoint to let the funds remain unutilised rather than over-programme.

5.59. Planning with a realistic resource framework, and the effective ex-ante prioritisation that results, remains the best bet for getting a developmental agenda implemented without loss of control. To assist the States in this task, the Planning Commission has taken the initiative of encouraging realism in State plans, for better planning and prioritisation. The concept of a "core plan", or the plan that would be protected in the event of resources not materialising as expected, has been

recommended to States. Annual Plan outlays are now being finalised after discussion with the States, taking into consideration the visible resources at the time of plan finalisation, and adopting a realistic and conservative estimate of resources available for financing the plan. This initiative has been appreciated by the Chief Ministers of most States in their annual plan discussions with the Deputy Chairman. It has also led to reduction in the gap between agreed outlays and actual achievement of the annual plans.

Completion of Incomplete Works

5.60. A major share of available resources should go into the meeting of existing commitments i.e., incomplete works and ongoing schemes. Incomplete works that go on for a long time due to inadequate resource allocation breed cynicism, and a loss of faith in the ability of the Government to deliver. In view of the large number of such works and schemes that may exist, it would be necessary to develop a simple transparent criterion for their prioritisation in order to enable the most productive use of resources. For example, the criterion could be to include works that are more than 80 per cent complete, and to review the possibility of termination of works on which not more than 10 per cent expense may have been incurred. State Governments hesitate at laying down rational criteria for fear that their discretionary authority will be eliminated. The aim of transparent criteria is to reduce arbitrary discretion. But any criterion has the big advantage in so far as it helps ward off unreasonable pressures for misallocation of resources, and increases probability of productive outcomes within a visible time frame.

5.61. All existing commitments and incomplete works should ideally be fully funded as per their requirements, before taking up new investment for inclusion in the Plan. New investments may be considered in the event that ongoing works are fully taken care of, or that a conscious decision is taken to set apart a certain percentage of investible plan resources for new investments. The category of approved or sanctioned schemes, works or projects should constitute the bulk of any new investment. Limiting new proposals only to those duly sanctioned and approved by the competent authority increases

the probability of timely implementation and productive use of the funds allocated.

Scheduling of the Plan

5.62. Finally, the process and scheduling of plan preparation is almost as important as the content of the Plan. No matter how well the Plan may have been prepared, if it is not prepared in accordance with a strict annual schedule, the effort may be in vain. This is because a fundamental consideration for an effective investment plan is the use of the plan document in overall programming and management of public investments and as a regular tool of financial and economic management. Although most States have arrangements such that inclusion of schemes in the Plan is usually a pre-condition to a budgetary outlay for that scheme,

the actual allocation for a particular scheme does not always bear a close relationship with the amount indicated in the plan document. This situation arises when there is a scheduling mismatch between planning and budgeting. If plans are not prepared in time and in harmony with the budgetary cycle, they cannot be accurately reflected in the budget, and as such lose their relevance as a commitment of a Government's development priorities and as an instrument of economic management. To achieve integration with the legislative timetable for budgetary approval, internal procedural reforms for improving the scheduling, and some amount of rigidity in the deadlines for various steps in the planning process, with deadlines being laid down and enforced in the same manner as for the budgetary timetable, become quite necessary.

Status of Panchayati Raj Institutions - Selected Indicators (February, 2002)

States / Union Territories	Holding of Panchayat elections	Constitution of DPC	Status of State Finance Commission Recommendations	Devolution of Funds, Functions, & Functionaries in respect of 29 Subjects (At. 243G)	Status of DRDA/ ZP linkage
1	2	3	4	5	6
1. Andhra Pradesh	GP elections held in August 2001, while Intermediate and District Panchayat elections held in July 2001	Not constituted	Accepted 54 recommendations fully, 11 with some modifications, and 19 not accepted at all. Second SFC constituted	Funds – 05 Functions – 17 Functionaries – 02	DRDA & ZP not merged, Collector is Chairperson of DRDA & President of ZP is Vice-Chairman
2. Arunachal Pradesh	Elections not held	Constituted	Not constituted	Not applicable yet	Not yet
3. Assam	Elections held in January 2002	Not constituted so far	Recommendations accepted in part	No action taken yet	Not transferred
4. Bihar	Elections held in April 2001	No	Report awaited	Funds – Functions – 20 Functionaries –	Not merged
5. Goa	GP – in 1997 DP – in 2000	No information	Report under consideration	No information available	Merger under consideration
6. Gujarat	GP- Dec.2001 PS & DP – in December 2000	Not constituted	Received, but not yet placed before Legislature for consideration	No information available	Not merged
7. Haryana	Elections held in March 2000	Only in 16 districts	Accepted major recommendations.	Funds – 0 Functions – 16 Functionaries - 0	Not merged
8. Himachal Pradesh	Elections held in December 2000	Only in 5 districts out of 12	Accepted. Second SFC constituted	Funds – 2 Functions – 23 Functionaries- 7	Merged & headed by President of Zilla Parishad
9. Jammu & Kashmir	73rd Constitutional Amendment Act has yet to be extended to State. However, the Ministry of Home Affairs has requested the Government of J&K to seek the views of the State Legislature extending the provisions of the 73rd Constitutional Amendment Act 1992, to the State. Panchayat elections in some part were held in January – February 2001 according to State Panchayati Raj Act.				
10. Karnataka	GP – Feb. 2000 PS & DP – July 2000	Only in 5 districts	Accepted major recommendations	Funds – 29 Functions – 29 Functionaries - 29	Merged
11. Kerala	September 2000	Yes	Accepted & implemented. Second SFC constituted	Funds – 15 Functions –29 Functionaries -15	Merged and headed by President of Zilla Parishad
12. Madhya Pradesh	January 2000	Yes	Accepted. Second SFC constituted	Funds – 10 Functions – 23 Functionaries – 9	Merged
13. Maharashtra	GP- Oct.1997. PS & DP – March 1997	No	Major recommendations accepted	Funds – 18 Functions – 18 Functionaries – 18	Against merger of DRDA with ZP
14. Manipur	GP & DP – January 1997	Yes in 2 out of 4 districts	Accepted	Funds – 0 Functions – 22 Functionaries –4	No information available
15. Meghalaya 16. Mizoram 17. Nagaland	73 rd Constitutional Amendment Act is not applicable as the traditional system of local self Government exists in these States				

Appendix 5.1 contd.

States / Union Territories	Holding of Panchayat elections	Constitution of DPC	Status of State Finance Commission Recommendations	Devolution of Funds, Functions, & Functionaries in respect of 29 Subjects (At. 243G)	Status of DRDA/ ZP linkage
1	2	3	4	5	6
18. Orissa	January 1997. Elections in Schedule V area invalid	Only in 6 districts	Accepted	Funds – 5 Functions –25 Functionaries –3	Merged and headed by Chairperson of ZP
19. Punjab	GP- June,1998 PS & DP – election are due	Not yet	Accepted	Funds – 0 Functions – 7 Functionaries – 0	Not merged
20. Rajasthan	January 2000	Yes	Accepted. Second SFC constituted	Funds – 0 Functions –29 Functionaries –0	Merged
21. Sikkim	October 1997	Yes	Accepted. Second SFC constituted	Funds – 24 Functions –24 Functionaries –24	Status not reported
22. Tamil Nadu	October 2001	Yes	Accepted Second SFC constituted	Funds –0 Functions – 29 Functionaries –0	Status not cleared
23. Tripura	July 1999	Yes	Accepted Second SFC constituted.	Funds – 0 Functions – 12 Functionaries – 0	Status difficult to define
24. Uttar Pradesh	June 2000	Yes	Accepted. Second SFC constituted	Funds – 12 Functions –13 Functionaries –9	Merged and headed by President of ZP
25. West Bengal	June 1998	Yes	Accepted Functions –29	Funds – 12 Functionaries –12	Merged and headed by President of ZP
26 Chhattisgarh	January 2000	Yes	Not set up	Funds – 10 Functions –23 Functionaries –09	Merged
27 Jharkhand	Election due. Reported that election will be held in September 2002	Not Constituted	Not set up	No information available	
28 Uttaranchal	Term of Panchayat expired in Dec.2001. State Panchayati Raj Act has yet to be notified.	Not Constituted	Report awaited	Funds – 12 Functions –13 Functionaries-9	
Union Territories					
29. Andaman & Nicobar Islands	September 2000	Yes	under consideration	Funds – 6 Functions – 6 Functionaries- 6	Merged and headed by Chairperson of ZP
30. Chandigarh	GP-Jan.1999 ZP- July2000 PS- not held so far	No	SFC Report awaited	No information available	Not Applicable
31. Daman & Diu	September, 2000	Yes	Under consideration	Funds – 5 Functions – 9 Functionaries – 3	Merged & headed by ZP President

States / Union Territorries	Holding of Panchayat elections	Constitution of DPC	Status of State Finance Commission Recommendations	Devolution of Funds, Functions, & Functionaries in respect of 29 Subjects (At. 243G)	Status of DRDA/ ZP linkage
1	2	3	4	5	6
32. Dadra & Nagar Haveli	October, 2000	Yes	Under consideration	Funds – 0 Functions – 3 Functionaries –3	No DRDA exists
33. Delhi	NCT Delhi had repealed the Panchayati Raj Act and sought abolition of the Panchayati Raj Institutions (PRI) System. However, it is now considering adopting the 73rd Amendment Act and reviving the Panchayats.				
34. Lakshadweep	December 1997- January 1998	Yes	Under consideration	Funds – Functions –6 Functionaries -	No DRDA exists
35. Pondicherry	Elections have not been held in the UT, as the matter relating to the validity of provisions pertaining to reservation for backward classes in the Pondicherry Panchayati Raj Act was subjudice. The Judgment of the Chennai High Court had become available and the UT Administration filed a clarificatory application in the Chennai High Court. On a similar issue pertaining to Tamil Nadu, the Hon'ble High Court at Chennai had passed Orders making it possible for the Tamil Nadu Government to hold elections. The Ministry of Rural Development has advised the UT Administration to take appropriate action to hold panchayat elections at the earliest on the same lines.				

Source : Planning Commission