Flow of Funds and Monitoring Arrangements under selected Centrally Sponsored and Earmarked State Plan Schemes

(Sponsored by Planning Commission)

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Preface

For a long time, economists held the view that development is a function of high rate of growth in the Gross National Product (GNP) but in the course of time the concept of the positive correlation between the wealth and well-being was questioned by the economists and it was soon recognized that material wealth and human misery, economic prosperity and poverty might coexist in an economy. The planners as well as policy-makers in the third world countries gradually realized that the twin inter-related problems, unemployment and poverty are so complex and bewildering that they call for an entirely different strategy that aims at achieving the object of 'growth with social justice'. Gradually the focus has been shifted from 'area-approach' to 'target-group approach'.

However, it may be admitted that none of these strategies did yield significant results to the extent expected. Past experiences suggest that funds may be necessary, but they are not an end but means. Reforms and good governance, therefore, have to be the main focus of the Tenth Plan.

In the present report efforts have been made to identify few important features to improve effectiveness of design of programmes as well as its delivery for seventeen selected centrally sponsored schemes and earmarked state plan schemes with regard to eight specified states and three specific financial years (i.e., 1998, 1999, 2000).

The special feature of this study is that this is the only study or rather effort in our country to document the various stages of approval and release of funds provided for specified plan schemes required to be implemented by state governments, from their inclusion in the union budget, till the funds are received in the accounts of the ultimate field implementing agency and analyze the trends, both scheme wise and state wise. The study also highlights the areas of policy attention.

The entire primary data, which is really difficult to be collected, have been obtained largely through field visits and in few cases through correspondence.

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Executive Summary

In the present report efforts had been made to conduct a research study on behalf of the Planning Commission, India regarding Flow of Fund to eight selected States for the seventeen major Plan Schemes for three financial years i.e. 1998-99,1999-2000 & 2000-01.The eight selected States are Andhra Pradesh, Assam, Bihar, Maharashtra, Manipur, Rajasthan, Tamil Nadu and West Bengal. The seventeen schemes in this study are Centrally Sponsored Schemes (CSS), Central Sector Schemes involving transfers to the states or earmarked assistance for State Plan Schemes. These are all forms of conditional or specific purpose transfers from the central government to the States to influence expenditure in areas that are a constitutional responsibility of the States.

The broad objectives of the study are:

- To document stages in release of funds and time lags involved in the case of seventeen centrally sponsored, central sector or earmarked state plan schemes with regard to eight specific states and three specified financial years.
- To examine arrangements for monitoring physical progress and expenditure in the case of these schemes.
- To recommend policy action if required to improve release mechanism and monitoring arrangements of physical output and expenditure based on above.

This study is organized in sections that include a brief review of literature on the subject of specific purpose inter-governmental transfers, an analysis of the design features of the sample schemes, a description of the various ways in which fund flow takes place from the central government to the implementation level and the time lags at different stages in the context of the release mechanism.

Discussion on the subject of specific purpose transfers in the literature on fiscal federalism suggests limited use of this form of transfers to areas that reflect considerable spillovers beyond sub national boundaries and design features that incorporate simplicity, outcome orientation, appropriate penal provisions and sunset clauses. It also discusses the context in which different forms of specific purpose transfers (block, matching and non-matching) are appropriate. In the literature on inter-governmental transfers in India, the predominant debate has, in the main, focused on the extent to which vertical transfers have been fair to states and horizontal transfers secured the goal of equity and balanced regional development. CSSs have often been considered excessive and an encroachment on the states but a conceptual framework on CSSs has been lacking. India presents a case of extensive use of various forms of conditional transfers. Among these, plan assistance linked only to sectoral priorities would be an example of block transfers, CSSs involving 100% central funding are non matching transfers while the large number of CSSs requiring states to contribute varying proportions of funds are examples of matching transfers.

The proper implementation of centrally sponsored schemes is often considered to be hampered by the failure of states to ensure adequate and timely release of funds and by the quality of monitoring arrangements. Of the seven specified schemes, three are in the nature of block transfers, nine are non-matching transfers and five are matching transfer schemes. However, most of the schemes appear to violate the principle that specific purpose grants should be limited to areas of significant externalities. Eleven of the schemes reflect an adherence to formula based elements for purposes of allocation. Only six relatively small schemes (and of these two are not even CSSs – NBDP and NEC) have no clear allocation criteria. However, most of the formula based schemes (in combination with other design features) appear to promote a 'draw down of rights' perspective among the states. Only the two health sector schemes have some competitive element in their allocation mechanism. Eleven of the schemes have a complex, process oriented focus. All the block transfer schemes have a simple structure while schemes that are of relatively recent origin or have been subjected to revision, have a greater complexity in their guidelines. All schemes not only have internal, process and expenditure oriented monitoring arrangements that are amenable to patronage based pressures but have an ability to withhold further releases linked to failure to spend. However, only five of the schemes have an explicit or implicit sunset clause but even in their case, this lacks credibility in view of the longevity of schemes or their ability to re-emerge as new schemes with similar objectives. Again the schemes that are the subject of this study exhibit an expenditure based focus and the combination of various design infirmities create poor incentives for performance. Block transfers have formula based allocations and simple guidelines. However, these are offset by the expenditure focus and lack of a sunset clause. In the case of non-matching schemes, the expenditure focus and failure to secure a credible sunset clause are compounded by problems related to lack of clarity in allocation criteria (in some cases) and the internal monitoring arrangements. Concern with inability to secure performance appears to be resulting in greater attention to more complex process oriented guidelines. While matching schemes ensure state participation, in view of the design shortcomings, usually the attempt is to convey proforma adherence to secure the central shares. On the whole, the design parameters of all these schemes would appear to generate the kind of perverse incentives that a principal agent relationship is prone to in the absence of an ability to change agents or deliver a credible message of penalty for poor performance.

For the scheme **Pradhan Mantri Gram Sadak Yojana**, in most cases analyzed, subsequent release of second installment was delayed considerably while in the case of Rajasthan even the release of first installment at state level occurred after a considerable time lag.

The three sample states that received funds under the scheme **Hill Area Development Programme,** only West Bengal reported specific releases to implementing agencies. Even for this single state, state releases were of varying amount over the year and only in one case did central and state release amounts tally but even in this case it cannot be definitely stated which particular installment of central release it pertained to.

Central releases under the scheme **Slum Development Scheme** are made in monthly installments along with installments of central assistance for the plan. Details of specific state level releases were obtained in the case of Assam, Bihar, Rajasthan and West Bengal. None of these states followed a monthly pattern of releases to match the central release. Hence working out exact time lags was not possible. And at best the percentage of total release made in a particular quarter of the year not only shows the tendency to make releases in the last quarter but also the need to improve accounting and monitoring systems.

Calculating time lags against central releases is not practical for **Pradhan Mantri Gramodaya Yojana,** as only a few specific releases at state level could be located. Release date from Assam, Bihar and West Bengal bore no relationship with the numerous central installments released till that time. Only in the case of Rajasthan two central releases for rural housing (Gramin Awas) each were matched by releases of like amount at state level.

All the sample states received **Special Central Assistance** for **Tribal Sub-Plan** but only Assam reported specific sanctions for expenditure under the scheme. It would appear that central releases under the scheme were not guided by a strict adherence to a condition of securing expenditure data on earlier installments or it was possible for states to fudge such data and secure release.

The estimated time lag figures for focus states under **Integrated Dairy Development Project** reflect the permission to draw funds from the treasury for further disbursement to implementation agencies. Actual receipt of funds by this implementation level (usually Milk Federations/Unions) may have taken even longer. The fact that central releases have been made even while earlier installments were still to reach implementation levels reflects poor monitoring and failure to impose even the process related condition of prior expenditure by the central ministry. The spend pressure at the central ministry level was clearly greater than the desire to ensure compliance with conditions relating to expenditure of earlier releases on the part of the states.

The **Operation Blackboard Scheme** primarily supported teacher salaries. Therefore, tracking time lags in this scheme is meaning less where salaries are being paid on a monthly basis in this fashion.

For **National Oilseeds Production Program**, while time lags were maximum in the case of Assam, they were least in the case of Rajasthan. State level release data could be obtained from the states of Assam, Rajasthan and West Bengal. It would appear that the central ministry’s ability to influence state level release is limited.

Against the central release data under **National Pulses Development Programme**, state release data that matched the amounts involved was not forthcoming from any of the sample states. While matching the release amounts proved difficult, it would appear that the trends were similar to those exhibited in the case of the Oilseeds scheme. Rajasthan exhibited lesser time lags than West Bengal in making releases.

For **National Programme of Biogas Development,** central releases were reported to all the eight states in the concerned years. Of these information on receipt of the funds was forthcoming from six states but information on actual release dates could be obtained only from four states i.e., Assam, Bihar, Rajasthan, and Tamil Nadu.

For **National Aids Control Programme**, while central release data was obtained for all eight states, data at state level could be gathered from only four states. Of these four, the data for Assam and West Bengal could not be matched with central releases at all. In the case of Bihar and Rajasthan, the receipts from the centre for the relevant period could be tracked for the dates on which the drafts were deposited in the concerned State Aids Control Society Account.

For **Revised National TB Control Programme** state level release data could be obtained from the states of Assam, Rajasthan and West Bengal. An exact match on transaction amount was possible in only one case but estimation of time lags has been attempted in other cases also wherever it was considered plausible to do so. The type of Release Mechanism adopted would appear to have little correlation with time lags between first release till funds reach implementation level.

Under the **Indira Awas Yojana** separate central release transactions are undertaken with each district in the country. Data on receipt of the central releases in the concerned districts was obtained for Kamrup district, Assam, Jehanabad district, Bihar, Jaipur district, Rajasthan and Burdwan district, West Bengal. The time lag for these four districts, has been measured basically in relation to the dates on which the receipt has been recorded in the concerned district. Even in the case of these four districts there are many instances of mismatch in the data. While some central releases not shown, there are additional entries that may relate to state share releases. For measuring time lags, only the entries where amounts matched have been considered.

As in the case of IAY, central releases under the **Employment Assurance Scheme** (now merged in the SGRY) were made directly to districts. Matching central release received at district level with disbursement to subsequent levels is rendered virtually impossible by the fact that the amounts and dates vary for the large number of agencies (usually blocks) to which releases are made. In a case like Burdwan where DRDA first releases to the Zila Parishad and funds are then passed on to implementing agencies, it should have been possible at least to match DRDA to ZP entries but even this was not possible.

Details of State level release for **Swarna Jayanti Shahari Rozgar Yojana** could be obtained only from two states, Rajasthan and West Bengal. The time lags reflect funds becoming available for passing on to urban local bodies responsible for implementation. Actual disbursal to the local bodies and further actual expenditure on the schemes by them would obviously involve more time lags.

States release data under **Balika Samridhi Yojana** was obtained from the states of Assam, Bihar and Rajasthan. However, only one entry in the case of Assam matched one of the central releases relating to this state.

Data of central releases made under **North Eastern Council Schemes** to both Assam and Manipur were obtained through the State Planning Division of the Planning Commission for all the three years. However, at the state level data on further releases by the state government to implementing agencies could be obtained only from Assam. The central data showed a much greater number of transaction than those showed at the state level. In the circumstances, the only time lags that can be accurately computed in releases at the intermediate level are those between the date of first and final release by the State Finance Department for a specific scheme.

The general conclusion of the broad objectives that can be drawn from the study are:

Firstly, the different mechanisms for release of funds to state governments in the case of earmarked state plan schemes, centrally sponsored schemes and central sector schemes implemented through state government agencies are as follows:

- To state governments through credit to the state government account at the RBI by the Finance Ministry (Type 1).
- To state governments through credit to the state government account at the RBI by the concerned Administrative Ministry/Department or a subordinate office of that Department (Type 11).
- To separate agencies at state or district level directly by the concerned Administrative Ministry/Department or a subordinate office of that Department (Type 111).
- To state government departments by means of a bank draft by the concerned Administrative Ministry/Department or a subordinate office of that Department (Type 1V).
- To separate agencies at state or district level by another agency under the concerned Administrative Ministry/Department or a sub-ordinate office of that department (Type V).

Of the schemes that are the subject of this study, as many as sixteen fall in the first three categories and one in the fourth category .The stages that could be mapped for time lags in each of the above cases are central level, intermediate level and implementation level.

There are both constraints on availability of information as well as discrepancies in the data secured at the intermediate level compared to the central level. This discrepancy exists even with regard to the amount of receipts reported by the states against the releases said to have been made at the central level. The extent of this discrepancy is evident in the comparison of the scheme wise central level release figures and the receipts recorded at state level on an annual basis for each of the three years. The level of mismatch, reflecting the extent of accounting problems and mix up appears to increase from Type I Release Mechanism to Type IV Release Mechanism. The state wise mismatch status shows the maximum instances in the case of the two North East States and least in the case of West Bengal, Tamil Nadu and Andhra Pradesh.

Secondly, for the passage of funds to the final implementation level, no data has been forthcoming. In the case of Type I and II releases, dates of actual withdrawal from treasuries by the concerned implementing field office could not be accessed in any state. In the case of Type III releases, the date of approval/passing on of funds to implementing levels by the agency receiving the funds from the center, were also not feasible to ascertain. This is largely because segregated accounts or reporting systems do not exist to permit such data to be made available readily in an intelligible fashion.

The analysis of time lags has largely been restricted to the stage where the funds become available at the intermediate level for passing on to the implementation level. No clear patterns are evident from an attempt to see the correlation with the quarterly release pattern of each scheme .At best, it is possible to say that generally central releases tend to be least in the first quarter and maximum in the fourth under all schemes. In the case of Type I and II Release Mechanisms, another stage analyzed for time lags is that relating to credit in the state government account at the RBI does not necessarily have a linear relationship with the time taken for funds to reach implementation levels .A comparison of the data on central releases and corresponding credit to concerned state government accounts at the RBI brings out the fact that –

- There are a number of instances where the releases reported by the GoI do not appear to have been credited in the State Government accounts at the RBI.
- Where credit entries have been made while in many cases, this occurs within a day or two of the release, there are instances of considerable time lag also.

Of the total number of release orders reported to have been issued under both Type I and II Release Mechanisms, 17.56% could not be matched with credit entries to concerned state governments at the RBI in the three references years. There are instances of central releases where corresponding credit by RBI to State Government could not be traced.

The most important inference that can be drawn is that a considerable number of release transactions reported by the centre are not being recorded appropriately at the RBI. The proportion of such transactions varies across schemes and states but clearly the errors are greater in the case of schemes falling under Release Mechanism II. The North East states have the maximum untraced entries while states like Andhra Pradesh, Maharashtra and West Bengal have the least missing credits. Clearly there is a greater need for reconciliation between Ministries and the RBI as well as State governments and the RBI. In the case of Type I Releases, less than 11% of releases were credit to states after 3 days and less than 1% took more than 15 days. On the other hand, in the case of type II Releases, over 69% releases took more than 15 days to be credited to state governments. There is clearly a need to evolve better release procedures for Type II Releases.

Thirdly or lastly, uniformity in systems of account keeping and an emphasis on capacity building in this direction are warranted. This could do with considerable improvement specially in the case of states like the two states from the north-east which were part of the sample for this study. The fact that to a considerable extent central releases tend to get bunched in the last quarter was not entirely surprising but the level of discrepancy between reported central releases and their credit in state government accounts at the RBI was not anticipated. The time lags in this process, specially in the case of Type II Release Mechanism, drew attention to the need for improving systems in this regard. The analysis of time lags at the intermediate levels shows that correlations between greater or lesser time lags and broad categories like types of release mechanism or block, matching or non-matching transfers are difficult to draw. But it is possible to say that states with better account keeping systems appear to show lesser time lags and at the central level schemes with an ability to enforce greater adherence to conditions of prior expenditure by the states before making subsequent releases, clearly showed smaller time lags in releases at the intermediate level. States like Assam and Manipur which reported acute fiscal stress shown greater time lags in making releases at state level. The conclusions on time lags draw attention to the importance of the need to adhere to appropriate design principles if better implementation is to be secured. A core issue of the principal agent problems and consequent lack of ownership at state level can be mitigated only by reducing the number of such schemes and restricting them to matters involving significant spillovers. Overall, in sum, the conclusion of this study is that it is not the type of release mechanism that is critical to lesser time lags and (if time lag is an appropriate proxy for this) of better performance. It is adherence to key design principles that matters far more and it is this area that really needs attention.

Introduction

The centre plays a predominant role in the model adopted for the public provisioning of most goods and services in post independence India. The rationale for this model has been grounded in the perception that a centralized state could best harness scarce resources and ensure optimal allocation to secure balanced and equitable development. This centralizing vision has shaped the manner in which revenues and expenditure functions have been assigned and inter-governmental transfers effected between the center and the states and the states and local governments.

The Indian constitution exhibits a unitary bias in many spheres relating to the political, administrative and fiscal spheres of center-state relations. On the fiscal side this is specially pronounced in the central control over sources of revenue. The states are expected to rely on transfers from the center to assist them in performing the expenditure functions assigned to them. The constitutionally mandated Finance Commissions have been supplemented by the establishment of the Planning Commission to devolve as well as direct the flow of inter governmental transfers. Large inter-governmental transfers have, therefore, been both a reflection of and over time, an instrument to further the centralized pursuit of development. This has meant control and management from the centre of many areas assigned to the states by the constitution. The mechanism for this role has included both the Planning Commission's influence in the formulation of state plans and the large number of centrally sponsored schemes administered by various Ministries.

The proper implementation of centrally sponsored schemes is often considered to be hampered by states' failure to ensure adequate and timely release of funds and by the quality of monitoring arrangements. The fiscal difficulties being experienced by states in recent years is considered to have exacerbated these problems. It is in this context that the explicit objectives of this study have been framed.

a) To document stages in release of funds and time lags involved in the case of 17 centrally sponsored and earmarked state plan schemes with regard to 8 specified States and three specified financial years.

b) To examine arrangements for monitoring physical progress and expenditure in the case of these schemes.

c) To recommend policy action if required to improve release mechanism and monitoring arrangements of physical output and expenditure based on above.

Meeting these objectives requires on one hand a delineation of the stages through which scheme funds pass while travelling from the central government to the implementation level and the time taken for this journey. It would also appear to need a parallel exercise to look at the monitoring systems specified at different levels to review the physical and financial progress of the schemes. On the other hand, to analyse trends, identify the weaknesses and suggest improvements that enhance the prospects of meeting programme objectives would appear to require an attempt at looking at other factors that may affect scheme performance. In effect, it would demand another look at the implicit a priori assumption that time lags and monitoring arrangements are critical factors in explaining poor performance. However, an exhaustive performance appraisal of the schemes would clearly fall beyond the ambit of this work. But an analysis of the design of each scheme in the context of appropriate design principles that support successful outcomes in the case of specific purpose transfers from the centre to sub national units is both possible and may also be useful for a number of reasons. It can shed light on the incentives that guide the behaviour of the agencies involved in scheme implementation and assist in an understanding of the manner in which different features affect fund flow and the monitoring of both physical and financial progress.

Scope of the Study:

This study has been sponsored by the Planning Commission. The scope of the study is defined by the objectives, the foregoing discussion and by the availability or otherwise of relevant data. This study is organized in four sections to address these requirements.

- It begins with a brief review of literature related to this field to understand issues that have been of concern in both the international and Indian contexts. The section also attempts an enumeration of appropriate design principles related to the generally understood classification of different forms of specific transfers from central to sub national governments.
- The second section is an analysis of the schemes that are the subject of this study in order to arrive at an appropriate typology reflecting their features in relation to the design principles enumerated in section one.
- The third section is a description of the different ways in which fund flow takes place from the central government to the implementation levels under various centrally sponsored and earmarked state plan schemes and a classification of the schemes being studied under these different categories. This is followed by an attempt to understand the time lags at different stages in the flow of funds in the context of the release mechanism, states and schemes.
- The fourth section attempts to draw some conclusions, if any, from considering the relation between the typology generated in section two and the results of the empirical exercise conducted in section three. It concludes with the suggestions and recommendations for consideration by policy makers.

Methodology and Constraints:

The methodology adopted for undertaking this study on the lines indicated above was the following:

A. A review of literature on fiscal federalism and intergovernmental transfers in general and specific purpose transfers in particular both in the international and the Indian context was undertaken as an ongoing process that continued till the end of 2002. This involved consulting relevant books and journals in various libraries including the one at LBSNAA, Mussoorie.

B. In order to collect information from the concerned Ministries/ Departments of the Government of India on the various parameters mentioned above, apart from corresponding with concerned offices, personal visits had to be undertaken to the concerned offices in Delhi. This process after repeated visits and associated correspondence enabled gathering relevant information by May, 2002.

C. Based on the information gathered on the release mechanism adopted in the different schemes, a preliminary classification in four categories was attempted by the end of June, 2002. This was important in order to ensure collection of data of the various stages through which funds pass in reaching the implementation level in the states.

D. One of the important modes of release of funds under the schemes being studied was by credit to the state government account with the RBI. In order to understand time lags, if any, between the release at Government of India level and credit to the account of the state government concerned, a visit was made to the RBI's Central Accounts Section at Nagpur in July, 2002 to collect the relevant data.

E. The information required on the release/sanction procedure adopted in the different states, an outline of the stages in this process (in the context of the attempted classification of release modes) and the release/sanction dates at each stage was first solicited by writing to the Finance departments of the concerned Sates. At the same time appropriate nodal officers were located in each state to undertake the task of collating state level information. Thereafter these state nodal persons were pursued to secure the required information. The response varied both in terms of time taken and the quality of data transmitted. While in some cases no data was forthcoming at all, in many other cases the data received was incomplete. As a result, finally, visits had to be made to many of the states to gather the required information. This has been the most time consuming part of the study and while it was possible to collect some information from most of the states, in the case of Maharashtra no state level information could be obtained.

F. It was not possible to collect 100% primary data from the intermediate (often district) level from all the States for all the relevant schemes. The prime reason was that at this level, records and registers are not usually maintained in a manner conducive to readily secure the information required. As a result the initial target of matching completely the data flows from centre to implementation level was amended. In the case of programmes where the intermediate agencies are at the district level, central releases made direct to such agencies were tracked in the case of one sample district only. Even this had to be restricted to four of the eight states in view of the failure to secure requisite data from all the states despite numerous attempts.

G. Compilation and analysis of the information and data gathered as result of the processes described above was then carried out to bring out trends both scheme-wise and state-wise and enable conclusions about the nature of time lags in different contexts.

H. Discussions were held with concerned officers at the central, state and implementation levels to understand the arrangements for monitoring of scheme progress and the extent of emphasis on expenditure, physical progress and the achievement of scheme objectives in this process.

I. A draft report was prepared on the basis of the information and analysis undertaken in the above steps. It was then subjected to internal review in the month of April, 2003 before being sent to the Planning Commission for comments.

I. Review of literature and design principles

Centrally Sponsored Schemes (CSS) or earmarked assistance for state plan schemes are forms of conditional or specific purpose transfers from the central government to the States to influence expenditure in areas that are a constitutional responsibility of the States. Writings on the subject of specific purpose inter-governmental transfers form part of the corpus of literature on inter-governmental transfers that in turn is a component of fiscal decentralisation or inter-governmental financial relations. Recent years have seen the emergence of a large body of literature on the world wide trend towards decentralisation, analysing the rationale for decentralisation, the institutional arrangements to be addressed in designing fiscal decentralisation and the lessons which can be drawn from the experiences of various countries.

Contemporary work related to fiscal federalism and decentralization has been implicitly cast in a framework that derives its assumptions about the incentives guiding the behaviour of governments at various levels from theories of public choice and principal- agent relationships. Typically, the positive feature of decentralization stressed in the literature is better allocative efficiency, while the concern on the obverse side is with a possible negative fallout on equity and macro-economic balance introduced by autonomous decision making and spending authorities. Considerable attention has been devoted to analyzing practical experience to understand the critical areas of institutional design to maximize the gains from fiscal decentralization while minimizing possible adverse consequences[1]. These critical areas are now generally recognized to include expenditure assignment, revenue assignment, inter-governmental transfers and the management of debt[2]. Reviews of the position across the world highlight that there are no rigid single prescriptions in the design of arrangements to regulate these four areas that appear to work in all situations. However, there are certain principles that would appear to offer greater probability of success even if there is occasional evidence of positive outcomes in the face of their non-application in certain countries[3]. There is also an interdependence of the arrangements adopted across the four areas due to which adherence to an ideal type in one area while deviating dramatically in another may end up accentuating the negatives of decentralization. In this context, although this study's prime concern falls within the sphere of inter-governmental transfers, it may be appropriate to mention briefly, the understanding on the principles likely to produce successful designs of fiscal decentralization in all these four areas.

Expenditure assignment, it is felt, must follow a principle of vesting expenditure responsibility on the basis of the spatial spread of the benefits arising from an expenditure decision. Expenditure decisions, resulting in benefits accruing to a defined local area, are best taken by the level of government responsible for that

[1] Among recent publications of note Teresa Ter Minaissan (1997), Bird (2001), contain both an extensive review of issues as well as country experiences and list most publications on the subject. Litvack (1998 and 1999) are a distilled condensation of the various perspectives on decentralization and the nature of the debates on the various components of the subject.

[2] Bird (2001)

[3] Bahl (2000)

area. Expenditure decisions resulting in the spill over of benefits to a larger area than the sphere of a local government are more appropriately kept in the domain of the government with next higher spatial responsibility. However, the application of this principle also needs to take into account issues like the capacity required to perform the function in question, economies of scale and the design of other institutional arrangements. A critical aspect to be considered is the extent to which a particular expenditure function can be unbundled to arrive at an apportionment that fits the ideal type and to view the process of capacity creation as dynamic both with regard to human capability and technological change.

Revenue assignment acquires complexity in view of a number of competing considerations. The need to ensure a well functioning, unfettered internal market, concern about equity and macro-economic stabilization issues favour centralizing taxation powers. However, accountability suggests the need to match revenue means at the local level to the requirements imposed by expenditure responsibility. The general consensus seems to be that revenue bases with spatial rigidity such as property and tolls and fees related to local infrastructure should be exclusively in the domain of local bodies as far as possible. It is often felt that these revenues are likely to be insufficient where expenditure responsibilities actually follow the principles outlined for expenditure assignment. They can then be supplemented by a surcharge on a tax collected centrally such as a personal income tax or the gap can be left to be made up through inter-governmental transfers.

Inter-governmental transfers are made necessary by any vertical imbalance caused by a revenue bias in favour of a higher level of government while giving local bodies major expenditure responsibilities and any horizontal imbalance resulting from the diversity in the circumstances of the smaller units. There is a considerable body of literature on whether transfers should only have revenue sharing as a goal or also combine an equalizing function across sub-national units, taking into account both fiscal capacity and cost differentials in the delivery of services. The preponderance of opinion holds that equalization enables efficiency gains, need not compromise autonomy and, therefore, is a legitimate objective to be pursued in effecting transfers. However, there is a view that division of revenues should be largely guided by only a revenue sharing principle while grants should be the vehicle for equalization. Further, equalization grants should be general purpose and unconditional unlike special purpose grants linked to achievement of specific targets. Overall, the entire scheme of inter-government transfers, in both formulation and implementation, should be seen as fair and transparent, conform to the requirement of a hard budget constraint and minimize creation of moral hazards.

Appropriate arrangements to control the ability of sub national units to contract debt are critical for overall macro-economic stability of the fiscal system. The key issue is the imposition of a credible hard budget constraint on the ability to borrow since excessive borrowing by different units can imperil the entire fiscal system. A hard budget constraint can be left to market forces or based on rules (statutory or administrative) or a consultative process or a combination of all these. The possibility that rules can be bent or consultative processes may see intransigence in the case of some member governments means that by and large a pre-eminence of market based controls is probably best. However, markets may not be adequately developed or information asymmetries may be considerable preventing markets from functioning efficiently. In such circumstances while working towards a situation where markets can impose an effective constraint, both rules and consultation may be in order to control access to debt.

With regard to the issue of choosing between general purpose unconditional transfers and specific purpose or conditional grants, the generally held view is that formula based devolution of the former should in general be preferred since the freedom of choice in making expenditure offers the right incentive to make accountable use in line with local preferences. Specific purpose or conditional transfers are best restricted to situations of spillovers. "The term spillover refers to instances where the benefits of a service provided by a sub-national government spill beyond its borders to benefit those not contributing to the cost of providing such services."[4] In practice of course specific purpose grants are justified on a number of considerations including the pursuit of development as well as meeting minimum standards in the provision of public or merit goods and services across sub-national units and used to pursue a wide variety of central government objectives.

Conditional transfers may be grouped under three different categories from the point of view of the extent of conditions they impose on the recipients: block transfers, non-matching transfers and matching transfers. Block transfers come closest to unconditional transfers in that they allow considerable latitude in choosing schemes and even the emphasis placed on particular items of expenditure within a broadly specified area.

Non-matching transfers are more specific in that the expenditure choices are clearly laid down and they cannot be changed. However, they do not impose any condition regarding a matching contribution to be made by the recipients as in the case of matching transfers. Block transfers are considered the appropriate form to pursue general developmental goals where issues of spillovers and externalities are limited and allowing for innovation and experimentation is desirable. Non-matching transfers can be affected where more specific objectives are being pursued and a greater degree of control is considered necessary while matching transfers should be restricted to situations where not only spillovers are significant but it is felt that the recipient must also use its own resources to meet the objectives. While justification for such transfers can be shown to exist in many cases, it is important to remember that specific purpose transfers in general and matching transfers in particular pose the danger of distorting local expenditure priorities and imposing recurrent burdens that have adverse effects on the fiscal position in the long run.

In the literature on specific purpose or conditional transfers from central to sub national units (whether block, matching or non-matching), there is a stress on a number of factors to ensure that desired objectives are actually advanced and the transfers do not result in redundant expenditure or even worse generate adverse consequences with regard to both performance and fiscal stability. **Foremost, as stated earlier, any scheme of inter-government transfers should be seen as fair and transparent, conform to the requirement of a hard budget constraint and minimize creation of any moral hazard. In general, to ensure adherence to these precepts, the following cautions are advocated.**

[4] Ahmad and Craig (1997) pp.82

i) Conditional or specific purpose grants should not attempt to tackle a large number of areas. They should be a last resort to meet objectives unlikely to be taken up by sub-national governments due to the presence of externalities or because of paucity of resources that cannot be mitigated through normal transfers. "A proliferation of conditional and performance linked special purpose grants is likely to generate confusion and pro forma fulfillment of the needed criteria."[5].

ii) Allocation criteria can either be formula driven or competitive or a combination of both, depending on the objectives sought to be achieved. But in all instances they should be transparent and not amenable to manipulation. Dilution of these requirements in formulation or implementation can render them ineffectual in securing performance or reduce them to vehicles for dispensing patronage. Formula driven transfers are most likely to meet the requirements of transparency and a hard budget constraint. However, where objectives require that appropriate proposals for funding should be received in a competitive mould, it is essential that both criteria as well as systems of evaluating proposals meet the conditions of transparency and fairness. In the absence of these requisites, formula based transfers may be preferable.

iii) The design of conditional grants should keep in view capacity to monitor and manage at the central level. Objectives should be clearly spelt out, be capable of being monitored and non-performance should invite the possibility of sanctions. In the absence of these features in the design, even conditional transfers based on transparent formula can become rights, which sub national units are entitled to regardless of attached conditions rendering issues of performance secondary and linking drawls to expenditure alone.

iv) Specific purpose grants must contain sunset clauses to create effective incentives for performance. In their absence, there is a clear incentive to under perform in order to obtain a larger amount over time.

Table 1.1: Design Principles in India

Design Issue	Principle
Type of Transfer	Block transfers for pursuing general developmental goals where issues of spillovers and externalities limited and allowing scope for innovation and experimentation desirable. Non-matching transfers to pursue more specific objectives while matching transfers restricted to situations where not only spillovers significant but resources of recipient units required to be co-opted.
Allocation criteria	Transparent formula based equitable distribution for developmental goals and competitive incentives for more specific objectives
Operational Guidelines	Simple, outcome oriented and not process focused
Monitoring Arrangements	Insulated from patronage based pressures as far as possible and with capacity to gauge outputs linked to desired outcomes rather than process oriented expenditure monitoring
Penal Provision	Effective by linking to outputs and sunset clause

In the literature on inter-governmental transfers in India, the predominant debate has, in the main, focused on the extent to which vertical transfers have been

[5] Ahmad and Craig (1997) pp. 87-88

fair to states and horizontal transfers secured the goal of equity and balanced regional development. On the whole, a conceptual framework has been lacking.[6] Analysis of Finance Commission transfers has to an extent focused on the pitfalls of a gap filling approach in promoting perverse incentives[7] but in the main the debate has been confined to the centre versus states or inter-se states issues[8]. Specific purpose transfers have often been commented on under the general rubric of discretionary transfers and been criticized for being excessive, encroaching on the states' domain and distorting expenditure priorities of the states[9]. Attention in official circles has also usually been focused on the issue of reducing the number of CSSs[10].

It is surprising that academic interest in the issues related to the design of CSSs has been limited given that India presents a case of large scale use of conditional transfers. Among these, plan assistance linked only to sectoral priorities would be an example of block transfers, CSSs involving 100% central funding are non matching transfers while the large number of CSSs requiring states to contribute varying proportions of funds are examples of matching transfers. That the design of conditional transfers and specially CSSs ought to be a matter of concern is brought out by the observations contained in a CAG Report in 1999on the implementation of a few CSSs:

"the result of the performance reviews of these schemes carried out in the controlling Union Ministries and the different states disclosed a common pattern of shortcomings in the execution of all Centrally Sponsored Schemes as under:

- Inability of the Union Ministries to control the execution of the schemes with a view to ensuring the attainment of the stated objectives in the most cost effective manner and within the given time-frame, as a result of which, the programmes continued to be executed in uncontrolled and open ended manner without quantitative and qualitative evaluation of delivery.

- The controlling Union Ministries confined their role to the provision of budget and release of the funds to the state governments rather mechanically without reference to the effective utilization of the funds released earlier in accordance with the guidelines and capacity of the respective state governments to actually spend the balance from the previous years and releases during the current year.

- The Ministries were unable to ensure correctness of the data and facts reported by the state governments. Overstatement of the figures of physical and financial performance by the state governments was rampant. No system of

[6] Rao M.G and Chelliah (1993)
[7] Grewal (1975), Gaur (1988), Gurumurthi (1995)
[8] some examples are Sinha (1984), Gaur (1988), Rao S.R (1996), Vithal and Sastry (2001)
[9] Grewal (1975), Gulati (1987), Guhan (1993), Gurumurthi (1995),
[10] The issue has been frequently raised in the National Development Council and committees have been periodically set up to review the number of CSSs but with rather indifferent results. Begun in the IVth Plan as an adjunct to the formula based central assistance to state plans, they have been proliferating ever since. The Rao Committee (1987) succeeded in reducing slightly the number of schemes in the VIIIth plan period. But they have maintained a rising graph since then despite some attempt to prune their number in the next two plans also. At last count, there were over 220 CSSs covering a vast number of subjects.

accountability for incorrect reporting and verification of reported performance were in vogue.

- The Ministry was more concerned with expenditure rather than the attainment of the objectives. Large parts of funds were released in the last month of the financial year, which could not be expected to be spent by the respective state governments during that financial year.

- The state government's attitude to the execution of the programmes was generally indifferent. They laid emphasis on release of assistance by the ministry rather than ensuring the quality of expenditure and attainment of the objectives. Misuse of the funds provided for vulnerable sectors and sections of the society was rampant. The state governments' attitude towards such misuse was one of unconcern. The controlling Union ministries had no clue to such misuse. Thus, in many cases, the figures of expenditure booked in accounts assumed precedence over the bonafide and propriety of the expenditure.

- Nobody could be held responsible for shortfall in performance, poor delivery of output, wanton abuse of the authority to misuse the funds provided for succour to the victims of calamity, economic upliftment of the poor Scheduled Tribes, eradication of Malaria, sheltering from the suffering of repeated droughts, etc."[11]

It would appear that the Indian experience of specific transfers exhibits many of the negative features to which the literature has drawn attention. A critique of the design of CSSs is implicit in the CAG's comments. Monitoring capacities are weak and largely restricted to expenditure details. The incentives at center and state level favour disbursement as a prime goal and in many cases even the assessment of performance on the basis of expenditure may be ignored. CSSs do some times come to an end but inevitably re-emerge in a new incarnation. The design of most CSSs usually contains features that either encourage "a draw down of rights" perception or leave considerable scope for dispensing patronage. They also encourage a principal agent relationship between the centre and the states and exhibit all the hazards such a relationship can pose. The next section examines the extent to which the design of the schemes that are the subject of this study conform to or deviate from the ideal design principles advocated in the literature.

[11] Planning Commission (2001) pp.2

II. The Design of Schemes

This section discusses the objectives and design of the schemes included in this study with reference to the type of transfer, nature of allocation criteria, extent of complexity in operational guidelines, nature of monitoring arrangements, penal provisions if any and the incentives dictating behaviour at different levels.

1. Prime Minister's Gramodaya Yojana (PMGY)

The scheme was launched in 2000-01 with the objective of achieving sustainable human development at the village level in a more centrally directed manner than the earlier Basic Minimum Services (BMS) scheme. The programme involved provision of additional central assistance (on the pattern of normal central assistance for State plans) for selected components including rural drinking water, primary health, elementary education, rural housing, and nutrition supplement for children and rural electrification.

i) PMGY now operates largely as a block transfer with considerable flexibility available to states for prioritisation within sectors as well as in scheme selection.

ii) Allocations to States are based on the old BMS criteria. BMS allocations were formula driven, based on a composite index with equal weightage to five indices, assessed gaps in rural water supply, housing and connectivity by road, levels of elementary education based on the number of illiterates and dropouts and health status based on IMR and crude birth rate. The criteria in effect favours poorer and more populous states. The BMS in practice contained sufficient flexibility to bestow special favours on some States. However, PMGY allocations have in the last two years adhered more closely to the formula.

iii) Initial programme guidelines issued for the PMGY were detailed with each concerned Ministry issuing its own set laying out at considerable length the conditions required to be met by States. These have been amended in 2002-03 and the scheme has more or less reverted to the old BMS pattern.

iv) Monitoring instructions were issued by each concerned Ministry and included both financial and physical details, although in effect the emphasis was on the financial side to assess whether further instalments of assistance could be released. Now the old BMS instructions are again in force and monitoring has reverted to the Planning Commission.

v) With-holding of initial annual releases pending clearance by concerned ministry to the state action plan and release of further instalments tagged to receipt of expenditure reports, constituted the penal provisions under the scheme.

vi) The scheme reflects the fixation with expenditure common to most specific purpose grant schemes. But in removing the flexibility available to "States" to set sectoral priorities within the old BMS, the PMGY had the impact of skewing state expenditure priorities, strengthening agency perceptions and added cumbersome procedures delaying release of funds. As a result from 2002-03, PMGY implementation has reverted to the old BMS pattern. The States now deal directly with the Planning Commission and have more flexibility in prioritising expenditure. The danger now is that the excess discretion available under the BMS may also return to haunt the scheme once again.

2. Hill Area Development Programme (HADP) [including Western Ghats Development Programme]

This programme relates to designated hill areas of predominantly plain area States and is now restricted to seven states (after the formation of Uttaranchal). The objective is to supplement the efforts of the State Governments in the development of these ecologically fragile areas through the provision of special central assistance. The funds are made available as special central assistance in a 90:10 grant: loan proportion.

i) It operates as a block transfer scheme for expenditure within specified sectors.

ii) The overall allocation to the programme is based on historical trends. Inter se the designated hill districts of the HADP (which get 60% of the total allocation), it is based on an equal weightage to area and population based on 1981 census. In the case of the talukas that are the designated unit under WGDP the weightage is 75% for area and 25% for population.

iii) Programme guidelines permit considerable flexibility on expenditure prioritisation in HADP areas while in the WGDP areas, it has to fit into a watershed approach design.

iv) Monitoring arrangements basically comprise quarterly progress reports from the concerned state governments to the Planning Commission.

v) The funds are released to States in three instalments. The first instalment is based on receipt of annual plans, the second instalment based on progress reports relating to the first two quarters and the third based on the report of the third quarter.

vi) The programme has tighter allocation criteria and affords more flexibility to states than most CSSs. Programme guidelines and monitoring arrangements are relatively simple. However, the programme continues to be expenditure driven and exhibits weaknesses common to other specific purpose transfers in the Indian system. Recipients do not appear to feel responsible for optimum use of funds received by them. There is no sense of ownership of the funds and the agency perception is strong despite clarity of allocation criteria. The Centre sees states as irresponsible and the perception is shared even at the State level. State Departments often echo the view that in the absence of such dedicated programmes, specific sectoral or area needs would be ignored.[12]

3. Special Central Assistance to Tribal Sub-Plan (TSP)

These grants are meant to support family oriented, income generating schemes in various TSP areas to meet gaps that have not otherwise been taken care of by the State Plan. There is no matching requirement cast on states. It covers below poverty line tribal households in 23 States and UTs that have Tribal Sub Plan areas.

i) The flexibility available under the programme makes it akin to a block transfer.

ii) The allocation criteria are based on detailed formula in which an over-whelming weightage has been given to the extent of ST population in the designated areas and states.

iii) Programme guidelines are relatively simple and permit considerable flexibility to States in forming expenditure plans.

iv) Monitoring of financial and physical progress is based on reports and generally one annual review at GoI level.

v) Release of funds to States takes place in two or three instalments depending on the State. The first release is an advance and subsequent releases are based on submission of information utilisation. There is no other penal provision.

vi) The scheme is basically expenditure driven but in permitting some autonomy to States avoids excessive emphasis on treating them as agents of the centre in implementation.

4. Balika Samriddhi Yojana (BSY)

The BSY's basic objective was to assist in raising the status of girl children and empowering them to engage in more fulfilling roles in society. To this end it sought to cover girl children belonging to below poverty line families born after 15.8.1997 in both rural and urban areas in the entire country. The programme sought to provide financial incentives to change social and family attitudes towards female children, improve their enrolment and retention in schools, secure income generating skills for them and facilitate their marriage when they grow up. The scheme was recast in November 1999 but has been discontinued in the Tenth Plan.

i) The scheme operated as a 100% CSS after 1999.

[12] Planning Commission (2001a) pp.69.

ii) The scheme did not envisage explicit allocation criteria. Initial allocations were ad hoc or based on historical off take under the scheme. Future demand was expected to reflect actual demand based on eligible beneficiaries.

iii) Scheme guidelines entailed detailed processes for availing benefits and laid down the functions to be performed by Panchayats, implementing agencies, District and State level Committees.

iv) Monitoring responsibilities were cast on District and State level committees with reports to be forwarded to Government of India.

v) There were no penal provisions under the programme except further releases were likely to be with held unless required paper work relating to utilisation certificates, accounts and reports were furnished.

vi) The extent of paper work, the limited immediate individual benefits and the long intervening period before substantial rewards could be expected, were all factors against the scheme from inception. Off take was low and monitoring difficult all through the period of its operation.

5. Prime Minister's Gram Sadak Yojana (PMGSY)

Announced on 15.8.2000, the programme aims at providing an all weather road connection to every village with a population of over 1000 within a period of 3 years and every village with a population of over 500 (250 in hill/desert areas) by 2007. The programme was initially formulated as an earmarked state plan scheme to be funded through additional central assistance. But from the year 2001-02 it has been recast as a CSS with the same objective. Scheme funding is based on a 30% flow from a cess on high-speed diesel. Initial allocations are projected at Rs.2500 crore annually. A special feature of the scheme is that year ending unspent balances do not lapse and are transferred to the Central Road Fund.

i) It is a non-matching scheme with a 100% central share.

ii) Of the total annual allocation, 5% has been kept apart as a discretionary quota. The allocation criteria for distribution of the balance inter se states are based on weightage to two indicators- the total number of villages with over 1000 population and over 1000 population villages not connected by road. Twenty five percent of the allocation is based on the first indicator and seventy five percent on the second. There are, however, no clear guidelines on re-allocation of un-disbursed amounts that are not given to states for failing to comply with scheme requirements. The Ministry has also retained the right to make additional allocation for special problems or needs of specific areas.

iii) Scheme guidelines are extremely detailed on implementation process, project selection and approval, accounting practices to be adopted and roles envisaged for different agencies involved including DRDAs, executing agencies, a State Level Committee and an Empowered Committee at central level.

iv) Monitoring of the scheme is envisaged through periodic returns and reports to be submitted to MoRD and a possible on line monitoring system. MoRD also proposes to engage independent monitors to assess physical quality of works undertaken.

v) The penal provisions only relate to foregoing allocation on failure to meet required conditions of preparing master plans and annual action plans to be approved by the prescribed Committees.

vi) Scheme incentives favour expenditure and proforma compliance. Since construction of rural roads to connect all villages is essentially the responsibility of the states, the allocation criteria appears to reward historically poor performers among the states. Although there is an accent on outputs in the scheme sanctioning process, the historical inability to enforce a sunset clause in such schemes favours expenditure rather than adherence to such targets by states. The excessive central control strengthens a principal agent perception of the scheme. The lack of State level ownership of the scheme and qualitative achievement is reflected in the initial reports on Scheme implementation secured by the Ministry.[13]

6. National Programme for Biogas Development (NPBD)

This scheme, started in 1981-82, seeks to promote household level biogas plants with the multiple objectives of providing clean and cheap energy, enriched manure to supplement chemical fertiliser, improved sanitation and reduction in the drudgery characterising the life of rural women. The scheme is a Central Sector project, implemented through State nodal agencies, the KVIC and two large NGOs.

i) Although not a CSS it takes the form of a non-matching specific transfer to concerned state government agencies.

ii) Since the programme is not a centrally sponsored scheme, there are no specific allocation criteria for states. Targets for implementation are given out to implementing agencies based on a mix of historical achievements and potential for further propagation. Based on these, the financial allocation for the different subsidies under the programmes as well as support for training, publicity etc. is provided to the agencies.

iii) Appropriate guidelines relating to various facets of the project are provided to the implementing agencies.

iv) Routine monitoring is based on progress reports from the implementing agencies. With regard to physical progress and quality, a three tier monitoring system has been in place. State agencies are expected to conduct 100% physical verification of all new biogas plants. The second tier monitoring is the field inspection on a random basis by the regional offices of the department. Concurrently NGOs and several autonomous organisations are associated in this exercise. At the third tier, states are

[13] Economic Times Dec 8, 2002 "UP gets most aid for rural roads"

encouraged to involve independent agencies in this work. At the national level, the PEO of the Planning Commission has been evaluating the programme at regular intervals.

v) Although allocations are made to implementing agencies in advance, in effect the programme is based on reimbursement of actual achievement on the various components.

vi) This programme explicitly uses state agencies as agents for delivery of benefits under the programme. While both expenditure and physical progress are indices for securing funds, quality and utility of assets created are difficult to assess. The continuation of the scheme for over two decades and support for refurbishing old plants creates perverse incentives with regard to attention to quality.

7. Operation Blackboard (OBB)

The Operation Black Board Programme was aimed at supporting the universalisation of Elementary Education through assistance to ensure adequate infrastructure and facilities at the primary level in States. Specifically it supported the provision of another teacher in Primary Schools as well as provision of teaching/learning material.

i) The OBB was formulated as a 100% central sponsored scheme.

ii) The allocation criteria relied on the information generated by the 6th All India Education Survey of 1992-93 on the number of single teacher primary schools in states. Support was provided for a second teacher in all such schools and a third teacher was allowed where enrolment was above 100.

iii) Programme guidelines were relatively simple to implement.

iv) A quarterly report constituted the monitoring arrangements under the programme.

v) An annual instalment at the beginning of the year was the usual mode of release. Utilisation certificates and copies of orders continuing the designated number of posts were the means to ensure that funds had been utilised for the specified purpose.

vi) The scheme has now been merged into the new Sarva Shiksha Abhiyan. This has a state share also and relies on a fresh household survey to fix allocations. Unfortunately this action detracts from the idea of a sunset clause for conditional transfers and in effect favours additional allocation to States that have opened more primary schools since the last survey without providing the required number of teachers.

8. Integrated Dairy Development Project (IDDP)

It is a small programme to encourage the production of milk through appropriate projects in non Operation Flood areas.

i) The IDDP is a 100% centrally sponsored scheme. The annual allocation under the programme is only about Rs.20 crore. It is meant to be a demand driven programme. Eligible areas/states are expected to submit project proposals, which are put up to the Ministry SFC (Standing Finance Committee) for approval. If there is excess demand for the grants, then some ad hoc division is made between the projects proposed and their balance requirements are carried over to the following year.

ii) Programme guidelines largely relate to the framing of project proposals. They specify the various components and scale of subsidies admissible under the programme.

iii) Quarterly reports and utilisation certificates are obtained to monitor progress. A programme evaluation study has been commissioned and is being carried out by the Institute of Human Development. Another study is being conducted by the Programme Evaluation Organization of the Planning Commission.

iv) Releases are based on the usual pattern common to most CSSs. The first instalment is released in advance and the second instalment is based on utilisation conveyed by the State Government.

v) While programme guidelines would appear to favour competition within the designated focus areas to secure funding, the actual allocation process has a measure of discretion. The programme has components for transport, fuel and fodder and similar recurring subsidies. However, in evaluating proposals for funding, it does not appear that there is a provision to assess the ability of projects to secure viable economic activity in a finite period of time, if subsidies are phased out. It is difficult to say whether sustainable economic impulses are being generated by the scheme or it is ending up creating new state dependent structures in various peripheral regions.

9. Revised National Tuberculosis Control Programme (RNTCP)

The programme's objective is to control prevalence of tuberculosis by giving assistance in cash or kind to the states. It has been in operation since 1962 but was extensively reformulated during the 8th Plan and then again in the 9th Plan. In the 9th Plan, it was decided to implement it at district level in 305 districts but with components for strengthening State level capacity as well as other related institutions in the entire country.

i) It operates as a 100% Centrally Sponsored Scheme in the specified areas of support.

ii) There is no explicit formula for allocation of funds. Fund allocation is based on action plans submitted by the States relating to the different admissible areas of expenditure under the programme. The amount that a state can draw is subject to the expenditure ceilings for the different components.

iii) The guidelines are comprehensive with regard to the extent of assistance available under different components.

iv) Monitoring arrangements include periodic visits to the states and review of physical and financial progress against approved allocations through quarterly reports submitted by the state TB control society that in turn collates information from district societies.

v) There are no penal provisions with regard to assistance. The release of funds at different levels is only subject to submission of utilisation.

vi) The allocation process under the programme appears to favour a competitive approach by seeking the submission of action plan with component wise ceilings. But in effect the evaluation and sanctioning process ends up conveying a draw down of rights perception among the beneficiary states. The long duration of the programme and stress on expenditure as a means of securing more funds dilutes state commitment to achieving programme objectives in an effective manner.

10. National AIDS Control Programme (NACP)

The objective of the programme is to reduce the spread of HIV infection in India and strengthen India's capacity to respond to HIV/AIDS on a long-term basis. The programme offers comprehensive support to AIDS control especially in the areas of behaviour change, service delivery, research and reform of the management of state AIDS control societies.

Phase I of the programme was initiated in 1992 as a 100% Centrally Sponsored Scheme and operates as a non-matching transfer to state level and selected municipal level AIDS control societies.

i) There is no explicit formula for allocation of funds. The scheme is based on an externally assisted project with a detailed project design to assist in interventions with specified levels of assistance for various components. Within these ceilings, states can treat the specified level of funding as virtually a right to be drawn on submission of action plans.

ii) The guidelines are extensive with regard to the extent of assistance available under different components.

iii) The programme envisages separate monitoring and evaluation units at central and state levels as well as external evaluations at baseline, mid term and final year stages. Regular monitoring arrangements include periodic visits to the states and review of physical and financial progress against approved allocations through Project Monitoring Reports to be submitted at monthly, quarterly and annual intervals.

iv) There are no penal provisions with regard to assistance. Initial releases are based on an MOU and approval to an action plan and subsequent releases on expenditure incurred.

v) The allocation process under the programme ends up conveying a draw down of rights view among the beneficiary states. However, the projectised nature of the programme does favour a 'sunset' perception with regard to the assistance diluted only by the overall longevity of CSSs in general.

11. Slum Development Scheme (SDS)

The Slum Development Scheme has the objective of assisting in improvement and upgradation work in urban slums. The components of this scheme includes projects for provision of amenities like water supply, sanitation and drainage, street lighting, community centres, primary health centres etc. as well as construction of shelter/housing for the urban poor. The scheme funding is in the form of additional central assistance to the states.

i) In effect the scheme operates as a non matching 100% transfer to the states although it is a not a CSS but an earmarked state plan scheme.

ii) The allocation criterion for distribution of funds inter se states is the proportion of urban slum population in each state.

iii) The programme is expected to be implemented on the same pattern as the SJSRY. The modalities are, therefore, detailed.

iv) Urban local bodies as implementing agencies are expected to send reports under the programme on a periodical basis to the SUDA/State Government. Similarly, the central ministry expects to receive details of physical and financial programmes from the SUDA/State Government.

v) The Department of Expenditure, Government of India, makes releases under this programme on the basis of recommendations of the nodal department. Under the guidelines these recommendations are based on reviews of expenditure, physical progress and other performance criteria.

vi) The programme is largely expenditure driven and encourages proforma conformity in order to secure release of funds.

12. North Eastern Council (NEC)

North Eastern Council came into existence through an Act of Parliament in 1972. Originally only the seven North Eastern States were members but recently Sikkim has also been conferred membership. The Council, chaired by the Governor of

Assam is an advisory body to the Central Government and the Government of each State concerned on issues of common interest in the field of economic and social planning specially with reference to inter-state transport, power and flood control projects. It is expected to help formulate and review a common regional plan with regard to specific projects that can benefit two or more states of the region. In effect it makes recommendations to the Central Government on the taking up of schemes, the appropriate implementing agencies, the sharing of benefits and expenditure on the project as well as the central assistance for this purpose.

i) The predominant characteristic of the scheme is that of a non-matching central sector programme.

ii) Overall allocation to programme has been fixed in nominal terms at Rs.450 crore annually for many years. The NEC allocates funds for infrastructure projects. There is no explicit formula for allocation of funds inter se states or projects. Annual allocations generally end up being dictated by the requirement of on going projects and balancing of the projects to which funds are being disbursed located in the different constituent states. In practice release of funds shows no co-relation with any state-wise criteria by area, population etc. It appears to have been based more on the extent to which funds can be utilised in the priority sectors of water and power development and transport communication.

iii) The North Eastern Council Secretariat functions as a wing of the concerned ministry (earlier MHA and now Department of North East). Guidelines for execution of NEC approved schemes follow the approved procedure laid down in the Government of India for projects of this nature.

iv) Monitoring of physical progress is conducted through a process of periodic review meetings. Cost and time over runs are common and even as new projects are added, there is a long list of unfinished schemes.

v) Releases are made by the NEC Secretariat to States, for further disbursal to implementing agencies, against projects based on the usual system of an initial advance and later releases on the basis of utilization.

vi) The North Eastern Council is a creation of a Central Act and the NEC Secretariat is a wing of the concerned Central Government ministry (earlier MHA now Department of North East). Projects are implemented both through central and state agencies. The State Governments are therefore explicitly understood to be agents in this process.

13. Swarn Jayanti Sahari Rojgar Yojna (SJSRY)

The SJSRY is a successor programme to the Prime Minister Integrated Urban Poverty Eradication Programme. Its objective is to provide gainful employment opportunities to the urban unemployed and /or underemployed poor through two components- one supporting self-employment ventures and the other wage employment. While the first component covers all urban areas, the second is limited to towns with less than 5 lakh populations as per the 1991 census. The scheme was started in December 1997 and is projected to continue in the Tenth Plan. Expenditure in the Ninth Plan was Rs.1009 crore.

i) It is a matching CSS with a 75:25 centre: state sharing pattern.

ii) The allocation of funds to states is based on the incidence of poverty as communicated by the Planning Commission from time to time. However, additional factors like absorption capacity and special requirements can also be considered. There is also scope for discretion in apportioning year ending unspent budgetary provisions at the central level.

iii) Programme guidelines provide detailed prescriptions on the implementation process, beneficiary selection, eligible expenditure, etc.

iv) Monitoring requirements envisage regular reports by the State urban Development Authority (SUDA- the state level implementation agency), to the UEPA Department at the centre. In effect, this imposes a condition for regular reporting by DUDAs /ULBs that receive the funds from the SUDA. Reporting requirements include both measures of physical output in terms of number of self-employment/ wage employment opportunities created as well as expenditure incurred. A high level monitoring committee headed by the Secretary UEPA is required to review the programme on a half yearly basis.

v) Penal provisions are restricted to withholding release of the second installment (first installment is released in advance) if a state’s matching contribution has not been made or expenditure reports are not sent to the centre in time.

vi) Scheme performance is expenditure driven with little emphasis on qualitative achievement. Departmental incentives at the central level dictate maximizing expenditure of annual budgetary allocations. Detailed programme guidelines treat the state and lower levels as agents to deliver benefits on behalf of the centre regardless of local perception about need and appropriate modalities to secure results. In the absence of ownership of the scheme at implementation levels there is a tendency to exhibit proforma adherence in order to secure the allocated central funds. The accent on periodic review of allocation based on revised poverty data in a sense rewards poor qualitative performance.

14. Employment Assurance Scheme (EAS)

The programme in its present form was launched on 1.4.99 and has recently been designated as a component of the SJGSY. Its primary objective is the creation of wage employment opportunities for the rural poor through manual work during periods of acute shortage of wage employment in rural areas. A secondary objective is the creation of durable community, social and economic assets for sustained employment and development. It is projected to continue in the Tenth Plan.

i) It is a matching CSS with a 75:25 centre: state-sharing pattern.

ii) The central share is allocated to the states on the basis of proportion of rural population in a state to the total rural poor in the country. Allocation to districts within a state is based on an index of backwardness using two indicators with equal weightage- proportion of SC/ST population of the district and the inverse of agricultural production per agricultural worker. Within the district 70% of the funds are allocated to panchayat samitis on the basis of proportion of rural population while 30% is retained at the district level for areas of endemic distress. Only 2% of annual budgetary allocation is retained at the centre for separate distribution in case of acute distress. There is limited scope for discretion in the distribution of year ending unspent balances.

iii) Programme guidelines provide detailed prescriptions on the implementation process, scheme selection, eligible expenditure, records to be maintained at different levels, audit procedures, etc.

iv) Monitoring arrangements prescribe monthly and annual reports from each DRDA to be consolidated at state level for onward submission to the centre. The reporting format has been prescribed and contains both measures of physical output in terms of number of wage employment opportunities and durable assets created as well as expenditure incurred. In addition periodic reviews are envisaged.

v) Penal provisions include withholding release of subsequent installments if a state's matching contribution has not been made or expenditure reports are not sent to the centre in time. In addition there is a provision for deduction of central allocations on late submission of proposals for release of second installment.

vi) Scheme performance is largely expenditure driven. Departmental incentives at the central level dictate maximizing expenditure of annual budgetary allocations. Detailed programme guidelines strait jacket the programme and emphasize expenditure in prescribed ways regardless of need at the local level. Accountability suffers as a result and the matching state share requirement harbours the possibility of skewing government expenditure priorities at the state level.

15. Indira Awas Yojna (IAY)

The IAY was launched in 1985 as a sub-scheme of the 100% CSS, the RLEGP. Later it became a component of the JRY when that scheme was launched in 1989. From 1.1.1996 it was made an independent scheme. The objective of the scheme is to help construction/up-gradation of the dwelling houses of disadvantaged sections in rural areas like SC/ST households, freed bonded labourers, other below poverty line families, war widows, ex-servicemen, disabled and displaced persons, etc., by providing grant-in-aid at specified rates.

i) In line with other CSSs of the Ministry of Rural Development this now operates on a 75:25 centre state cost-sharing basis.

ii) Central assistance under the scheme is allocated on the basis of equal weightage to poverty ratio and housing shortage in a State. The poverty ratio prepared by the Planning Commission is used for this purpose while housing shortage data is derived from the last available census. There is some scope for discretion in making releases and re-allocating unspent balances.

iii) The scheme prescribes a detailed procedure for beneficiary selection, obtaining releases, etc. It imposes considerable process monitoring responsibility at various levels.

iv) Monitoring responsibilities are prescribed in terms of periodic visits and reports. At state level, Co-ordination Committee for R.D. programmes is expected to monitor the programme at regular intervals and central representatives must be invited to its meetings. The State Government is expected to draw up both a schedule of supervisory visits for officials and prescribe appropriate reports to facilitate monitoring. In addition GoI expects a monthly and annual report on a prescribed proforma covering both financial and physical details.

v) The penal provisions in the programme relate to withholding further releases and cuts on allocations on failure to meet required conditions for securing releases as per laid down time schedule. The release conditions emphasize expenditure as the main criteria to secure release of further installments.

vi) The programme incentives emphasize expenditure at various levels as in the case of the two programmes discussed earlier.

16. National Pulses Development Programme (NPDP)

17. National Oilseed Production Programme (NOPP)

The Technology Mission of Oil Seeds and Pulses covers both the National Development Project and National Oil Seeds Development Project. The objective of the programme is to enhance the production and productivity of pulses and oil seeds in the country. The major thrust is on increasing productivity in addition to area expansion through inter-cropping and additional arable land coverage.

i) The programme is a matching transfer scheme with 75:25 centre state shares.

ii) There is no explicit formula for allocation to states under the programme. It is expected to be roughly guided by the proportion of area coverage under the relevant crops. However, in actual practice, it would appear that historical trend rates of utilisation and discretion are major factors in deciding allocation.

iii) Programme guidelines are extremely detailed in terms of the manner and the components for which assistance can be made available to the farmers.

iv) A monthly progress report is obtained on 20 components measuring various inputs supplied under the programmes. An annual review meeting is also held at the central level with the states. In addition, the programme is subject to periodic evaluation by the Agriculture Finance Corporation (an organisation originally funded by public sector banks but now surviving largely on Ministry grants for evaluation work). However, these evaluations are regarded as a formality and not considered of great value. As a result, there is no real attempt to draw conclusions on output/outcomes of the programme from these evaluations. The general perception is that the programme has little to contribute in assisting increase in production. The thrust areas for this lie in the domain of pricing policies for both inputs and outputs.

v) The first instalment is an advance and subsequent release is based on submission of utilisation. There is no other penal provision.

vi) Even more than many other centrally sponsored programmes, this scheme has an expenditure oriented focus and incentives. In addition it suffers from poor allocation design since it leaves considerable scope for discretion and patronage.

Table 2.1: Summary of Scheme Description in relation to Design Principles

Scheme	Allocation criteria	Operational guidelines	Monitoring Arrangements	Penal Provision	Assessment
BLOCK TRANSFER					
PMGY	Formula based	Simple revised structure	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	Broad development goals suited to block transfer but expenditure focus creates poor incentives to secure desired outcomes
HADP	Formula based	Simple structure	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	Broad development goals suited to block transfer but expenditure focus creates poor incentives to secure desired outcomes
TSP	Formula based	Simple structure	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	Broad development goals suited to block transfer but expenditure focus creates poor incentives to secure desired outcomes
NON-MATCHING TRANSFER					
BSY	No clear criteria	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked, possesses implicit sunset clause	Limited spill over should have been part of block transfer, complexity and limited funds ensured little state level interest
PMGSY	Largely formula based	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked, sunset clause exists but lacks credibility	Limited spill over while scheme size will ensure proforma compliance, debatable incentives for performance
OBB	Formula based	Relatively simple	Internal and process/ expenditure focused	Expenditure linked, sunset clause exists but lacks credibility	Limited spill over scheme size will ensure proforma compliance, debatable incentives for performance

(Cont….)

Table 2.1: Summary of Scheme Description in relation to Design Principles

Scheme	Allocation criteria	Operational guidelines	Monitoring Arrangements	Penal Provision	Assessment
IDDP	No clear criteria	Relatively simple	Internal and process/ expenditure focused	Expenditure linked possesses implicit sunset clause	Limited spill over debatable incentives for performance
NACP	Mix of Formula and competitive elements	Complex and process oriented focus	Internal and external mix improved output focus	Expenditure linked possesses implicit sunset clause	Relatively better design may ensure better performance than other CSSs
RNTCP	Mix of Formula and competitive elements	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	debatable incentives for performance
NEC	No clear criteria	Relatively simple	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	debatable incentives for performance
SDS	Formula based	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	debatable incentives for performance
NBPD	No clear criteria	Relatively simple	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	debatable incentives for performance
MATCHING TRANSFER					
SJSRY	Formula based	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked, with no sunset clause	Ensures state participation but incentives dictate proforma achievement
EAS	Formula based	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	Ensures state participation but incentives dictate proforma achievement
IAY	Formula based	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	Ensures state participation but incentives dictate proforma achievement
TMOP	No clear criteria	Complex and process oriented focus	Internal and process/ expenditure focused	Expenditure linked with no sunset clause	Ensures state participation but incentives dictate proforma achievement

In sum, the above table brings out the following trends:

i) Scheme Type: Of the seventeen specified schemes, three are in the nature of block transfers, nine are non-matching transfers and five are matching transfer schemes. The block transfer schemes are in consonance with the general principle of being useful to pursue broad developmental goals. However, most of the other schemes appear to violate the principle that specific purpose grants should be limited to areas of significant externalities.

ii) Allocation Criteria: Eleven of the schemes reflect an adherence to formula based elements. Only six relatively small schemes (and of these two are not even CSSs- NBDP and NEC) have no clear allocation criteria. However, most of the formula based schemes (in combination with other design features) appear to promote a 'draw down of rights' perspective among the states. Only the two health sector schemes have some competitive element in their allocation mechanism.

iii) Operational Guidelines: Eleven of the schemes have a complex, process oriented focus. All the block transfer schemes have a simple structure but in the case of the others schemes that are of relatively recent origin or have been subjected to revision, have a greater complexity in their guidelines.

iv) Monitoring Arrangements: All schemes have internal, process and expenditure oriented monitoring arrangements that are amenable to patronage based pressures.

v) Penal provision: All the schemes have an ability to withhold further releases linked to failure to spend. However, only five of the schemes have an explicit or implicit sunset clause but even in their case, this lacks credibility in view of the longevity of schemes or their ability to re-emerge with similar objectives.

vi) Assessment of Incentives: All schemes exhibit an expenditure based focus and the combination of various design infirmities create poor incentives for performance. Block transfers have formula based allocations and simple guidelines. However, these are offset by the expenditure focus and lack of a sunset clause. There is an overriding sense of the objectives being a central responsibility that prevents securing a state ownership and concern about qualitative achievement. In the case of non-matching schemes, the expenditure focus and failure to secure a credible sunset clause are compounded by problems related to lack of clarity in allocation criteria (in some cases) and the internal monitoring arrangements. Concern with inability to secure performance appears to be driving greater attention to more complex process oriented guidelines. While matching schemes ensure state participation, in view of the design shortcomings, usually the attempt is to convey proforma adherence to secure the central shares. On the whole, the design parameters of all these schemes would appear to generate the kind of perverse incentives that a principal agent relationship is prone to in the absence of an ability to change agents or deliver a credible message penalty for poor performance.

III. Time Lags in Flow of Funds

Mapping the time lags in the flow of funds requires a delineation of the stages through which they pass from the time of release of funds at the central level till they reach the implementation level and then tracing the specific releases through each of these stages. The various stages in the flow of funds are a function of the release mechanism adopted for a particular scheme. The different mechanisms for release of funds to state governments in the case of earmarked state plan schemes, centrally sponsored schemes and central sector schemes implemented through state government agencies are as follows:

i) To state governments through credit to the state government account at the RBI by the Finance Ministry.

ii) To state governments through credit to the state government account at the RBI by the concerned Administrative Ministry / Department or a subordinate office of that Department.

iii) To separate agencies at state or district level directly by the concerned Administrative Ministry / Department or a subordinate office of that Department.

iv) To state government departments by means of a bank draft by the concerned Administrative Ministry / Department or a subordinate office of that Department.

v) To separate agencies at state or district level by another agency under the concerned Administrative Ministry / Department or a subordinate office of that Department.

Of these types, the first three are the most commonly encountered. The last two are used only for a few central sector or centrally sponsored schemes. Of the schemes that are the subject of this study, as many as 16 fall in the first three categories and one in the fourth category. Their division among these four types is reflected in Table 3.1 below:

Table 3.1: Type of Release Mechanism

S.N.	Type I	Type II	Type III	Type IV
	To state governments through credit to the state government account at the RBI by the Finance Ministry	**To state governments through credit to the state government account at the RBI by the concerned Administrative Ministry / Department or a subordinate office of that Department**	**To separate agencies at state or district level directly by the concerned Administrative Ministry / Department or a subordinate office of that Department**	**To state government departments by means of a bank draft by the concerned Administrative Ministry / Department or a subordinate office of that Department**
1.	Hill Area Development Programme	Integrated Dairy Development Project	Employment Assurance Scheme	North Eastern Council
2.	Slum Development Scheme	Special Central Assistance Tribal Sub Plan	Balika Samridhi Yojna	
3.	Prime Minister's Gramodaya Yojna	National Pulses Development Programme	Indira Awas Yojna	

(Cont…)

Table 3.1: Type of Release Mechanism

S.N.	Type I	Type II	Type III	Type IV
	To state governments through credit to the state government account at the RBI by the Finance Ministry	**To state governments through credit to the state government account at the RBI by the concerned Administrative Ministry / Department or a subordinate office of that Department**	**To separate agencies at state or district level directly by the concerned Administrative Ministry / Department or a subordinate office of that Department**	**To state government departments by means of a bank draft by the concerned Administrative Ministry / Department or a subordinate office of that Department**
4.	Prime Minister's Gram Sadak Yojna*	National Oilseed Production Programme	National Programme on Biogas Development	
5.		Operation Blackboard	National AIDS Control Programme	
6.			National TB Control Programme	
.			Swarna Jayanti Shahari Rojgar Yojna**	

**In 2000-01, the release was made in this fashion and from 2001-02 it moved to a type III mechanism.*

***In practice most states have not established a registered state level agency and the concerned state government office is receiving the funds but instead of depositing these in the state government account and securing budgetary allocation for further disbursing to implementing agencies, they have been routing these through bank accounts. In effect, they have been functioning in much the same fashion as a registered state level agency would be expected to.*

The stages that could be mapped for time lags in each of the above cases are depicted in Table 3.2 below:

Table 3.2 Stages in Fund Flow to the Implementing Level under Different Release Mechanisms

	Type I	Type II	Type III	Type IV
Central Level	Date of Release of funds by Finance Ministry	Date of release of funds by concerned administrative Ministry / Department	Date of release of funds by concerned administrative Ministry / Department	Date of release of funds by concerned administrative Ministry / Department
	Date of credit in state government account by the RBI	Date of credit in state government account by the RBI		
Intermediate Level	Date of state finance department approval to a budgetary allocation where required	Date of state finance department approval to a budgetary allocation where required	Date of credit in agency accounts	Date of Deposit of funds in state government account
	Date of sanction permitting withdrawal of funds	Date of sanction permitting withdrawal of funds	Date of approval permitting transfer of funds to implementing agencies	Date of sanction permitting withdrawal of funds
Implementation Level	Date of actual withdrawal of funds	Date of actual withdrawal of funds	Date of actual receipt of funds by the implementing agencies	Date of actual withdrawal of funds

Ideally for the purpose of this study, each amount released under each scheme should have been traced through every one of the specified stages till it reached the implementation level. On this basis, the trends outlined and conclusions drawn with regard to time lags and their relation, if any, to release mechanism, type of transfer (block, non matching and matching) or state would have been backed with all the relevant data. However, there were a number of constraints affecting the conduct of any such detailed exercise. While persistent effort enabled securing details of the releases made at the central level (details in annexure A), data related to the levels below was more difficult to access. Some schemes did not pertain to all the states, in some other cases data could be obtained only for specific districts in the case of Type III release mechanism and in some cases no data could be obtained at all. Scheme / state wise data availability for the intermediate level and below is shown in Table 3.3 (details in annexure B).

Table 3.3 Availability of Intermediate and lower level Data

Release Mechanism I	Release Mechanism II	Release Mechanism III	Release Mechanism IV
SDS	**NPDP**	**SJSRY**	**NEC**
Assam	Assam		Assam
Bihar		Rajasthan	
Rajasthan	Rajasthan		
	West Bengal	West Bengal	
West Bengal	**NOPP**	**EAS**	
PMGSY			
Assam	Assam	Assam (Kamrup)	
Rajasthan		Bihar (Jehanabad)	
Tamil Nadu	Rajasthan	Rajasthan (Jaipur)	
West Bengal	West Bengal	Tamil Nadu	
		West Bengal (Burdwan)	
HADP	**OBB**	**IAY**	
West Bengal	Assam		
PMGY	Rajasthan	Assam (Karuring)	
Assam		Bihar (Jehanabad)	
Bihar		Rajasthan (Jaipur)	
Rajasthan	**IDDP**	Tamil Nadu	
	Andhra Pradesh	West Bengal(Burdwan)	
West Bengal	Assam	**BSY**	
	Bihar		
	West Bengal		
		Assam	
	SCA forTSP	Bihar	
		Rajasthan	
	Assam		
		NPBP	
		Assam	
		Bihar	
		Rajasthan	
		Tamil Nadu	
		RNTCP (TB)	
		Assam	
		Bihar	
		Rajasthan	
		West Bengal	
		NACP	
		Assam	
		Rajasthan	
		West Bengal	

Even this data was not readily amenable to one to one tracking of central releases, for a number of reasons.

i) In the case of Type I release mechanism, the tracking of releases is rendered difficult because the schemes involved are usually earmarked state plan schemes. These are often budgeted in the normal course with spending powers delegated to lower levels and the expenditure pattern is un-related to the timing of central releases. In such cases, there may be no specific action of intermediate level release at all. Even if there is a specific release, it may bear no relationship at all with the central release since it may pertain to more than one installment or part of an installment of central release. Actual expenditure at implementation level cannot be correlated with central releases at all in these circumstances.

ii) Type II releases are less likely to face situations of the kind experienced with Type-I releases except when they relate to block transfers or are meant to fund salaries. But even when this is not the case, intermediate level figures of releases in the case of Type II mechanisms often vary due to carryover amounts from previous years released in successive periods. Correlating implementation level expenditure with central releases is often as difficult here as in Type-I situation since even with one intermediate level release, the number of agents involved at the lower level may be very high.

iii) Misclassification and mix up of amounts relating to central shares of different schemes occurs in the case of all three types of release mechanism.

iv) Exact dates of interim stages like administrative / financial sanction in the state government (often involving Finance Department concurrence) are difficult to obtain in many cases.

v) In the case of Type-III releases, receipt at intermediate level can be correlated but tracing further disbursal to and expenditure by implementation levels in relation to specific central releases is rendered difficult by carryover amounts being included in approvals and the multiplicity of implementing agencies.

vi) In the case of Type-IV releases also, releases to implementing departments can end up being spaced put over a period of time and matching amounts can prove difficult.

As a result there are both constraints on availability of information as well as discrepancies in the data secured at the intermediate level compared to the central level. This discrepancy exists even with regard to the amount of receipts reported by the states against the releases said to have been made at the central level. The extent of this discrepancy is evident in the comparison of the scheme wise central level release figures and the receipts recorded at state level on an annual basis for each of the three years that form part of this study. Table 3.4 below summarizes the data comparing scheme wise release figures from the centre and the receipts reported by the state (details given in Annexure C).

Table 3.4: Instances of Mismatch between Central Release Data and Record of Receipts at the State Level (Scheme Wise)

Scheme	Release Mechanism Type	Number of cases where state records of central releases received on an annual basis could be obtained	Instances of Mismatch between central data and state records
PMGY	I	6	1
PMGSY	I	6	1
HADP	I	9	3
SDS	I	18	5
Total		**39**	**10 (25.64%)**
IDDP	II	12	1
TSP	II	18	3
Pulses	II	18	6
Oilseeds	II	18	11
OBB	II	15	1
Total		**81**	**22 (27.02%)**
(27.16%)	III	18	4
IAY	III	15	6
BSY	III	18	9
Biogas	III	21	2
TB	III	21	7
AIDS	III	18	4
SJSRY	III	18	7
Total		**129**	**39 (30.23%)**
NEC	IV	3	3 (100%)
Grand Total		**252**	**74 (29.37%)**

The level of mismatch, reflecting the extent of accounting problems and mix up appears to increase from Type-I Release Mechanism to Type IV Release Mechanism. The State wise mismatch status shown in Table 3.5 below shows the maximum instances in the case of the two North East states and least in the case of West Bengal, Tamil Nadu and Andhra Pradesh.

Table 3.5: State wise mismatch data

State	No. of cases where State records of central releases read on an annual basis could be obtained	Instances of mismatch between central date and state records	Percentage of mismatch
Andhra Pradesh	41	6	14.63
Assam	47	29	61.70
Bihar	32	10	31.25
Manipur	12	9	75.00
Rajasthan	35	11	31.43
Tamil Nadu	41	6	14.63
West Bengal	44	3	6.82
Total	252	74	

For the passage of funds to the final implementation level, no data has been forthcoming. In the case of Type I and II releases, dates of actual withdrawal from treasuries by the concerned implementing field office could not be accessed in any state. In the case of Type III releases, the date of approval / passing on of funds to implementing levels by the agency receiving the funds from the centre, were also not feasible to ascertain. This is largely because segregated accounts or reporting systems do not exist to permit such data to be made available readily in an intelligible fashion. In fact culling out such information, even if it could be done accurately would require an effort hardly commensurate with expected results. Consequently, the analysis of time lags has largely been restricted to the stage where the funds become available at the intermediate level for passing on to the implementation level. In the case of Type I and II releases, this becomes possible when the state administrative department secures approval for the field level office to draw funds for implementation. Actual drawl of funds may be delayed due to time involved in further communication, delays at treasury level because of liquidity problems being experienced by the state, etc. In the case of Type III releases, in a sense funds become available at the intermediate level when they are received by the concerned state or district level agency. However, actually passing on funds to the implementation level (district level societies, block offices, local bodies) would still require passing through the stage of approval / sanction in the state/ district level agency. They may also have to deal with issues of reports relating to progress of on going works, left over balances, etc. It is this that accounts for considerable funds being available at any given time with these intermediate state and district level agencies. Therefore, a comparison between the time lags of funds becoming available under the three different types of release mechanism, must factor in this difference.

Time Lags in Release of Funds at the Central level

The terms of reference suggest that time lags be identified starting from the stage of budgeting at the central level. This has been understood to mean an analysis of the timing of the central releases in the course of the financial year. Actual release of funds at the central level is logically a function of the release schedule and conditions laid down in the scheme design. The schedule for the release of funds under the different schemes forming part of this study can be distinguished on the basis of the number of installments in which funds are expected to be released in the course of the year and the timing if any specified for the release of these installments. An attempt was made to see if these scheme conditions have any correlation with the quarterly release pattern of each scheme (details at Annexure D). No clear patterns are evident. At best, it is possible to say that generally central releases tend to be least in the first quarter and maximum in the fourth quarter under all schemes. In a sense, this bears out the fact that states are slow to move proposals in the first quarter and the passage of the center's own budget tends to occur well into the quarter. The spend pressure and the fear of allocations lapsing with the financial year push up expenditure in the fourth quarter.

In the case of Type I and II release mechanisms, another stage analyzed for time lags is that relating to credit in the state government account at the RBI, (details in annexure E). This does not necessarily have a linear relationship with the time taken for funds to reach implementation levels since in most states the allocation and sanction of funds are independent of the credit of the central release in the state government account. In the case of most earmarked state plan schemes and many continuing Centrally Sponsored Schemes the annual state budget contains necessary provisions and these may be reappropriated or added to based on actual central releases / expenditure. In other cases, allocation is sought from the state finance departments on the basis of the copy of the sanction/ pay order received by the concerned state administrative department. Based on the allocation (original or fresh) sanction is accorded for the withdrawal of funds by the competent authority as per the financial delegations in the state. However, as states face increasing financial difficulties, it is possible that state finance departments begin to look at actual credit to their account before permitting withdrawal of funds. In such a situation, this stage will begin to assume importance.

A comparison of the data on central releases and corresponding credit to concerned state government accounts at the RBI brings out the fact that:

a) There are a number of instances where the releases reported by the Govt. of India do not appear to have been credited in the State Government accounts at the RBI.

b) Where credit entries have been made while in many cases, this occurs within a day or two of the release, there are instances of considerable time lag also.

Of the total number of release orders reported to have been issued under both Type-I and Type-II Release Mechanisms in the three years under the selected schemes, 17.56% could not be matched with credit entries to concerned state governments at the RBI. The proportion of release orders by scheme and state that could not be traced are reflected in the table below:-

Table 3.6Instances of Central Releases where corresponding credit by RBI to State Government could not be traced.

Release Mechanism-I

State	PMGSY		PMGY		SDS		HADP		Total		% un-traced
AP	2	-	9	-	27	4	-	-	38	4	10.53
Assam	2	-	7	2	25	6	9	-	43	9	16.28
Bihar	2	-	6	-	26	3	-	-	34	3	11.76
Maharashtra	2	-	9	-	26	4	10	1	47	5	10.64
Manipur	1	1	7	7	25	25	-	-	33	33	100.00
Rajasthan	3	1	11	-	27	8	-	-	41	9	19.51
Tamil Nadu	3	-	11	1	28	4	16	3	59	8	13.56
West Bengal	2	-	9	-	27	3	8	1	46	4	8.70
Total	17	2	69	10	211	47	43	5	340	53	
% of total		11.76		14.49		18.01		11.36		15.54	

Release Mechanism-II

State	OBB						TSP		IDDP		Total		% un-traced
AP	5	-	5	-	2	-	8	-	1	-	21	-	Nil
Assam	2	-	5	2			7	3	1	1	15	6	40.00
Bihar							2	1	3	2	5	3	60.00
Maharashtra	1	-	5	-	2	-	8	3	-	-	16	3	18.75
Manipur			3	2			8	2	1	-	12	4	33.33
Rajasthan	2	1	5	2	2	-	9	3			18	6	33.33
Tamil Nadu	4	3			2	1	8	-			14	4	28.57
West Bengal	7	2	5	-	2	-	9	-	2	1	25	3	12.00
Total	21	6	28	6	10	1	59	12	8	4	126	29	
% age	28.57		21.43		10.00		20.34		50.00		23.02		

The most important inference that can be drawn from the information in the above tables is that a considerable number of release transactions reported by the Centre that are not being recorded appropriately at the RBI. The proportion of such transactions varies across schemes and states but clearly the errors are greater in the case of schemes falling under Release Mechanism-II where Ministries other than the Finance Ministry are involved. It would appear that either release information does not reach the RBI in such cases or a proper record is not kept. This means that state government balances at the RBI are missing credits that may run into hundred of crores each year despite the central accounts recording necessary debit entries. In the case of the states, the pattern noticed in the case of mismatch between central and state data is found here also. The North East states have the maximum untraced entries while states like Andhra Pradesh, Maharashtra and West Bengal have the least missing credits. Clearly, there is a greater need for reconciliation between Ministries and the RBI as well as state governments and the RBI.

With regard to the time taken in crediting the state government account at the RBI after a central release, many transactions are credited on the same day but in other cases considerable delay occurs. In the case of Type-I Release Mechanism where the Finance Ministry often communicates releases telephonically, credit is often given the same day. Only in a few cases has delay of any significant period been reported. The position is very different in the case of Type-II Release Mechanism where credit on the same day is an infrequent occurrence. The position in this regard is reflected in the table below:

Table 3.7. Time Lag between credit to state government by RBI and date of central release.

Release Mechanism-I

Scheme/days	0	1-3	4-7	8-15	Over 15	Total
PMGSY	10	6	1	-	1	18
PMGY	2	57	-	-	-	59
SDS	83	50	18	2	1	154
HADP	10	21	5	2	-	38
Total	105	134	24	4	2	269
% age of total	39.03	49.81	8.92	1.49	0.75	

Release Mechanism II

Scheme/days	0	1-3	4-7	8-15	Over 15	Total
OBB	-	2	-	4	9	15
Oilseeds	-	-	1	3	18	22
Pulses	-	-	-	5	4	9
TSP	-	-	4	9	34	47
IDDP	-	-	1	1	2	4
Total	-	2	6	22	67	97
% of total	-	2.06	6.19	22.68	69.07	

In the case of Type I Releases, less than 11% of releases were credit to states after 3 days and less than 1% took more than 15 days. On the other hand, in the case of Type-II Releases, over 69% releases took more than 15 days to be credited to State Governments. There is clearly a need to evolve better release procedures for Type-II Releases if both greater accuracy and timely credit are to be ensured. State governments, concerned with minimizing costs and facing liquidity imbalance on frequent occasions, need to specially look at this issue.

Time lags in flow of funds at intermediate level

Given the discrepancy between the release amounts revealed in the central and state data as shown in Annexure D, the data in Annexure A and B were carefully filtered to bring out entries that could be related to enable an estimation of time lags. An exact match in amount was possible in some cases while in some other instances an attempt was made to correlate dates even where the amounts varied. The position emerging from this exercise is discussed below for each release mechanism scheme wise.

Release Mechanism I

Pradhan Mantri Gram Sadak Yojana

Releases under this scheme from the centre were made in February and March of 2001. 2000-01 was the first year of implementation of the scheme and funds were to be passed on to district level agencies immediately. Second installments were released by the centre only after the state had passed on the first installment to the district level. Data of release at state level could be obtained from four of the sample states and the time lag position is reflected in the table below: -

Table 3.8: Time lags at intermediate level: PMGSY

Sate	Date of Central release	Amt. of Central release	Date of State release	Amt. of State release	Time lag
Assam	6.2.2001	456	1.3.2001	465	22 days
	27.3.2001	7035			Not known
Bihar	12.3.2001	5935	30.3.2001	14620	18 days
	27.3.2001	9055			14 days (shortfall of Rs. 370 lakh
Rajasthan	6,2,2001	10067	21.5.2001	13000	104 days
	12.3.2001	2933	21.5.2001		70 days
	27.3.2001	1000			Not known
West Bengal	6.2.2001	600	30.3.2001	777	52 days (177 excess)
	27.3.2001	12900			Not known

In most cases analyzed, subsequent release of second installment was delayed considerably while in the case of Rajasthan even the release of first installment at state level occurred after a considerable time lag.

Hill Area Development Program

Of the three sample states that received funds under the scheme, only West Bengal reported specific releases to implementing agencies. Presumably in other states expenditure under this block transfer scheme occurred through normal budgetary allocations and financial delegations and did not therefore require specific release approvals at a central level. In the case of West Bengal, almost all central releases were in installments of Rs.741 lakh (only in one case Rs.1482 lakh were released possibly representing two installments releases together) Against this state releases were of varying amount over the year and only in one case did central and state release amounts tally but even in this case it cannot be definitely stated which particular installment of central release it pertained to. Even so an attempt has been made to link particular releases to estimate time lag as shown below: -

Table 3.9: Time lag at intermediate level: HADP

Year	Date of Central release	Amt. of Central release	Date of State release	Amt. of State release	Time lag
1998-1999	22.1.1999	741	18.6.1999	500	147 days (shortfall of Rs. 241 lakh)
	31.3.1999	741	10.8.1999	982	132 days (excess of Rs. 241 lakh)
1999-2000	9.9.1999	741	28.1.2000	741	172 days
	22.2.2000	741	29.5.2000	700	97 days (shortfall of Rs. 41 lakh)
	27.3.2000	1482	21.8.2000	782	147 days (short fall of 741 lakh after accounting for earlier shortfall)

Slum Development Scheme

Central releases under this scheme are made in monthly installments along with installments of central assistance for the plan. Only the last installment is usually delayed pending receipt of expenditure figures. Many states permit expenditure against the scheme against normal budgetary allocations and with financial delegations at lower levels. Specific sanctions of disbursal can be difficult to trace in such a situation. Details of specific state level releases were obtained in the case of Assam, Bihar, Rajasthan and West Bengal. None of these states followed a monthly pattern of releases to match the central release. In most cases even matching total amounts was difficult. In the circumstances working out exact time lags was not possible and at best the percentage of total release made in a particular quarter of the year has been exhibited in the case of the three states for which sufficient data was available.

Table 3.10: Quarter wise proportion of state release: SDS

State	Year	Total central release	Total state release	Qtr.-wise proportion of state release
Assam	1998-99	253	253	100% release in last quarter
	1999-2000	281	252	100% release in 3rd quarter
	2000-2001	80	252	100% release in last quarter
Bihar	1998-99	2223		
	1999-2000	2668	2342	Dates not available
	2000-2001	685	4444	100% in last quarter
Rajasthan	1998-99	1349	1045	100% in last quarter
	1999-2000	1479		
	2000-2001	376	548	100% in last quarter

The tendency to make releases in the last quarter is clearly evident in most cases but the inability to match figures in most of the instances show the need to improve accounting and monitoring systems.

Pradhan Mantri Gramodaya Yojana

The PMGY is an earmarking of central assistance for the state plan for expenditure in specific sectors. Releases by the Ministry of Finance are linked to reporting of expenditure to concerned central Government ministries against earmarking decided earlier in consultation with the Planning Commission. However, states need not formally label their relevant state schemes as PMGY schemes in their budgets as long as these adhere to the PMGY guidelines. Actual expenditure on these schemes may also not require formal sanctions following central releases but may occur in routine based on budgetary allocations and financial delegations. Calculating time lags against central releases is not practical in such cases. Consequently only a few specific PMGY releases at state level could be located. In Assam a release date of 1st March, 2001 for Rs. 49.79 crore bore no relationship with the numerous central installments released till that time amounting to Rs. 80.81 crore. Release date from Bihar and West Bengal was similarly not amenable to correlation. Only in the case of Rajasthan two PMGY central releases for rural housing (Gramin Awas) of Rs. 7.23 crore each were matched by releases of like amount at state level. The time lags in their case are exhibited below: -

Table 3.11: Time lag at intermediate level: PMGY

State	Amt. of central release	Date of central release	Date of state release	Time lag
Rajasthan	723	20.7.2000	23.12.2000	156 days
	723	29.3.2001	19.7.2001	112 days

Release Mechanism II

Special Central Assistance for Tribal Sub-Plan

All the sample States received SCA for TSPs but only one of them, Assam reported specific sanctions for expenditure under the scheme. Presumably in other States (as in the case of many other block transfer schemes), expenditure under the scheme occurred through normal budgetary allocation and financial delegations and did not require specific sanction. In Assam, one annual sanction in the last quarter of the financial year was reported in each of the three years. The details are given below:-

Table 3.12: Time lag at intermediate level: TSP

Year	Date of Central release	Amt. of Central release	Date of State release	Amt. of State release	Time lag
1998-99	22.7.1998	775.52	3/1999	1848.68	About 7,6 and 4 months against the three central releases and shortfall of Rs. 193.88 lakh
	18.9.19998	387.76			
	9.11.1998	879.28			
1999-2000	12.7.1999	879.28	2/2000	1855.00	About 6 months and excess release of 975.72 lakh
2000-2001	3.8.2000	814.42	1/2001	2194.25	About 5,2 and 0 months and shortfall of Rs. 249.25 lakh
	28.11.2000	81454			
	23.1.2001	814.54			

It would appear that central releases under the scheme were not guided by a strict adherence to a condition of securing expenditure data on earlier installments or it was possible for states to fudge such data and secure releases.

Integrated Dairy Development Project

The total number of central release transactions reported for the sample states in the selected years involved Rs. 15.43 crore. Against these, data at state level was forthcoming from four states. The position of the time lags in each case is brought out in the table below:-

Table 3.13: Time lag at intermediate level: IDDP

State	Central release date	Amount of central release	Date of State release	Amount of State release	Remarks/Time lag
Andhra Pradesh	4.12.2000	191.49	-	-	No release recorded in 2000-01
Assam	21.10.1998	250	4.1.2000	250	Possibly release first cleared on 2.7.99 but actual release occurred later. Time lag 440 days
Bihar	16.2.2000	48.6	7.2.2001	48.6	Time lag 357 days
	18.2.1999	100.00	31.3.2002	50.00	Possibly only part release, time lag 1137 days
	19.12.2000	82.89	31.3.2002	82.289	Time lag 467 days
West Bengal	30.11.1998	70.00	31.3.1999	155	Possibly includes earlier backlog. Time lag 121 days
	8.3.1999	63.88	19.3.2001	63.88	Time Lag 842 days

These time lags reflect the permission to draw funds from the treasury for further disbursement to implementation agencies. Actual receipt of funds by this implementation level (usually Milk Federations/Unions) may have taken even longer. The fact that central releases have been made even while earlier installments were still to reach implementation levels reflects poor monitoring and failure to impose even the process related condition of prior expenditure by the central ministry. The spend pressure at the central ministry level was clearly greater than the desire to ensure compliance with conditions relating to expenditure of earlier releases on the part of the states.

Operation Black Board

The Operation Blackboard scheme primarily supported teachers' salaries. In many states such salaries were paid on a monthly basis along with other employees and did not wait for sanction against a specific central release. Therefore, tracking time lags in this scheme is meaningless where salaries are being paid on a monthly basis in this fashion. Only two States reported specific releases in this context. In both cases, the amounts involved did not match the central releases and were far less than the latter. Possibly they related to only non-salary elements of the scheme. In the circumstances estimation of time lags was not practical.

National Oilseeds Production Program

State level release data could be obtained from the states of Assam, Rajasthan and West Bengal. The lags against central releases in the case of transactions that could be matched have been shown below: -

Table 3.14: Time lag at intermediate level: NOPP

State	Date of Central release	Amt. of Central release	Date of State release	Amt. of State release	Time lag
Assam	14.6.1999	67.00	10.8.2000	67.00	423 days
	14.6.1999	50.00	9.11.2000	50.00	511 days
Rajasthan	1.7.1998	150.00			42 days
	1.7.1998	50.00	12.8.1998	200.00	42 days
	18.9.1998	450.00			61 days
	18.9.1998	150.00	18.11.1998	600.00	61 days
	14.6.1999	410.00	3.8.1999	410.00	52 days
	25.10.1999	238.95	3.2.2000	238.95	101 days
	21.3.2000	210.00			179 days
	10.5.2000	52.50			129 days
	8.9.2000	225.00	16.9.2000	487.53	8 days
West Bengal	14.6.1999	62.00	28.2.2000		259 days
	10.5.2000	7.91	19.2.2001		285 days

While time lags were maximum in the case of Assam, they were least in the case of Rajasthan. It would appear that the central ministry's ability to influence state level release is limited.

National Pulses Development Programme

Against the central release data under this scheme, state release data that matched the amounts involved was not forthcoming from any of the sample states. In the case of Rajasthan and West Bengal some releases of differing amounts were correlated with relevant central release dates to get an idea of time lags. The position in this regards is reflected in the table below :-

Table 3.15: Time lag at intermediate level: NPDP

Sate	Date of Central release	Amt. of Central release	Date of State release	Amt. of State release	Time lag
Rajasthan	10.5.2000	52.50	17.7.2000	300	68 days
	12.3.2001	134.05	12.3.2001	73.05	9 days
			24.3.2001	64.02	12 days
West Bengal	12.3.1999	37.50	31.3.1999	25.00	19 days
	14.6.1999	83.00	18.2.2000	22.50	249 days

While matching the release amounts proved difficult in this scheme, it would appear that the trends were similar to those exhibited in the case of the Oilseeds scheme. Rajasthan exhibited lesser time lags than West Bengal in making releases.

Release Mechanism III

National Programme of Biogas Development

The National Programme of Biogas Development's main component is subsidy for biogas plants. The programme involves passing on the support through specified national NGOs or concerned state government departments. Central releases were reported to all the eight states in the concerned years. Of these information on receipt of the funds was forthcoming from six states but information on actual release dates could be obtained only from four states. Analysis of time lags based on this information is presented below:

Table 3.16: Time lag at intermediate level: NPBD

State	Date of central release	Amount of central release	Date of state release	Amount of state release	Time lag/ remarks
Assam	31.12.98	14.5	31.3.99	14.5	Time lag 90 days
Bihar	28.12.98 3.6.99 19.6.2000	7.5 11.25 7.5	31.3.99 22.3.01	 0.70	Since amount not co-related difficult to compute time Lag
Rajasthan	7.1.98	12	27.11.98	12	Time Lag 324 days
	27.11.98	13	30.5.99	13	Time Lag 184 days
	3.6.99	15	22.1.2000	15	Time Lag 233 days
	29.2.2000	5.32	31.3.2000	5.32	Time Lag 31 days
	19.6.2000	11	30.11.2000	11	Time Lag 174 days
Tamil Nadu	9.9.98 7.10.98 27.11.98 3.6.99 29.11.99 14.1.2000 25.1.2000 19.6.2000 28.3.2001	1 15 15 22.5 29.42 12.74 22.5 33.4 35.2	June, 99 July, 99 Dec., 99 Jan. 2000 April, 2000 Feb., 2001 March, 2001 April, 2001 Dec., 2001		Amount of state releases to various districts not given so tracking of exact time lags was not possible. However, spacing of two sets of releases shows time lags may have extended between 200 days to 400 days

National Aids Control Programme

This programme involves transfer of central funds to state level societies that use these for state level activities or pass them on to district level societies. The releases are based on consolidated state action plans. While central release data was obtained for all eight states, data at state level could be gathered from only four states. Of these four, the data for Assam and West Bengal could not be matched with central releases at all. In the case of Bihar and Rajasthan, the receipts from the centre for the relevant period could be tracked for the dates on which the drafts were deposited in the concerned State Aids Control Society account. The time lags in this process are depicted below:

Table 3.17: Time lags at intermediate level: NACP

State	Date of Central Release	Date of Deposit in State/Society etc.	Time lag
Bihar	18.7.2000 22.2.2001	28.8.2000 28.3.2001	41 days 34 days
Rajasthan	3.1.2000 12.5.2000 1.6.2000 18.7.2000 29.1.2001 22.2.2001	18.1.2000 31.5.200 6.7.2000 11.8.2000 19.2.2001 27.3.2001	15 days 19 days 37 days 24 days 21 days 33 days

Revised National TB Control Program

State level release data could be obtained from the states of Assam, Rajasthan and West Bengal. An exact match on transaction amount was possible in only one case but estimation of time lag has been attempted in other cases also wherever it was considered plausible to do so.

Table 3.18: Time lag at intermediate level: RNTBCP

State	Date of Central release	Amt. of Central release	Date of State release	Amt. of State release	Time lag
Assam	4.1.1999	51.03	30.7.1999	44.2	176 days(Release of funds to State level)
	31.5.2000	85.64	23.10.2000	85.64	145 days (Release of funds to State level)
Rajasthan	4.1.1999	124.27	4.5.1999		120 days (State level to district level release)
	23.3.2001	6.13	29.10.2001		220 days
West Bengal	4.1.1999	154.22	27.12.1999		357 days (Release of funds to level below district)
	15.4.1999	49.25	8.5.2000		390 days
	18.4.2000	26.37	28.11.2000		194 days

The fact that some data was obtainable under this scheme for releases to district agencies and even below that, enables some idea of time lag that can occur even where funds are disbursed directly to state level agencies and do not have to pass through the state budget. The type of Release Mechanism adopted would appear to have little correlation with time lags between first release till funds reach implementation level.

Indira Awas Yojana

Under this scheme, separate central release transactions are undertaken with each district in the country. This meant that the number of transactions involved, if any attempt were to be made to track time lags in the case of releases to each of the districts in all the states, would be enormous. It was, therefore, felt that tracking releases to one sample district in a state would be sufficient. Data on receipt of the central releases in the concerned districts was obtained for Kamrup district, Assam, Jehanabad district, Bihar, Jaipur district, Rajasthan and Burdwan district, West

Bengal. (Dates of receipt of assistance were also procured for 10 districts in Tamil Nadu but in the absence of amounts, it was not possible to relate these to the central releases). The time lag for these four districts has been measured basically in relation to the dates on which the receipt has been recorded in the concerned district. Further releases to implementation levels that can include block offices and various PRIs could not be obtained. Only in the case of Burdwan were release dates from the DRDA to the Zila Parishad forthcoming. But even in this case, the ZP is not the implementation level although this does convey some idea of the delays inherent in this release mechanism even after funds are received at district level.

Even in the case of the four districts where dates and amounts of release were received, there are many instances of mismatch in the data. While some central releases not shown, there are additional entries that may relate to state share releases. For measuring time lags, only the entries where amounts matched have been considered.

Table 3.19: Time lag at intermediate level: IAY

District	Amount of Central Release	Date of Central Release	Date of Receipt at DRDA level	Time Lag
Kamrup	441.67	21.5.99	19.6.98	29 days
Jehanabad	117.8 23.55	25.5.99 5.3.2001	24.6.99 21.3.2001	30 days 16 days
Jaipur	11.04 11.04 1.56 44.18	7.1.2000 30.5.2000 28.1.2001 14.2.2001	16.2.2000 18.7.2000 19.2.2001 -	40 days 49 days 22 days more than 45 days
Burdwan	306.13 306.13 306.12	15.11.1999 8.5.2000 12.10.2000	13.12.99 28.6.2000 19.10.2000	28 days 51 days 9 days

Time lags between receipt in DRDA and release to ZP in Burdwan

Table 3.20: Time lags between receipt in DRDA and release to ZP in Burdwan: IAY

Amount	Date of Receipt in DRDA	Date of Release to ZP	Time lags
306.13 306.13 306.12	13.12.99 28.6.2000 19.10.2000	28.12.1999 31.10.2000 14.12.2000	15 days 123 days. Rs. 408.1 released on 31.10.2000 and a further unspecified release was on 14.12.2000

Like in the case of Type-II Release Mechanism where credit to the state government account takes considerable time, the time lag of credit to concerned district agency account can also be considerable. Passage of funds to further intermediate levels also takes time and again reflects the fact that the type of release mechanism adopted may have little correlation with the time taken for funds to reach implementation level.

Employment Assurance Scheme

As in the case of IAY, central releases under the EAS (now merged in the SGRY) were made directly to districts. Information on dates of receipt at district level could be secured only from the same sample districts as for IAY. However, the number of central releases that could be matched with entries at district level were much less than in the case of IAY. The limited number in which a match was possible are listed below:

Table 3.21: Time lag: EAS

District	Amount of Central Release	Date of Central Release	Date of receipt at district level	Time Lag/Remarks
Kamrup, Assam	102.5 395.85 395.85 567.87 710.31	7.5.1999 8.9.1999 21.2.2000 27.4.2000 7.2.2001	28.5.1999 15.10.1999 15.3.2000 20.5.2000 17.3.2001	21days 37 days 24 days 23 days 38 days
Jaipur, Rajasthan	72.5	10.5.1999	8.2.2000	8 days, only half the amount shown as received at district level
Burdwan, West Bengal	802.32 474.76	31.1.2000 13.10.2000	8.2.2000 18.10.2000	5 days

Matching central release received at district level with disbursement to subsequent levels is rendered virtually impossible by the fact that the amounts and dates vary for the large number of agencies (usually blocks) to which releases are made. In a case like Burdwan where DRDA first releases to the Zila Parishad and funds are then passed on to implementing agencies, it should have been possible at least match DRDA to ZP entries but even this was not possible. Against two installments of central release to DRDA recorded for 1999-2000, eight entries of release are shown from DRDA to ZP in the district. Further releases to implementation level are based on receipt of reports/requests and sanctioning procedures (like formal meetings) which can introduce any length of time lag, which is difficult to calculate given the impossibility of matching release entries.

<u>Swaran Jayanti Shahai Rozgar Yojana</u>

Details of state level release could be obtained only from two states, Rajashan and West Bengal. Time lags in instances where state level releases matched central level release data are shown below: -

Table 3.22: Time lag at intermediate level: SJSRY

State	Central level release Amt.	Date of Central release	Date of State release for passing on to local bodies	Time lag
Rajashan	176.17	10.12.1998	31.3.1999	111 days
	123.62	10.12.1999	31.3.2000	111 days
	323.92	22.2.1999	9.3.2000	380 days
West Bengal	67.00	22.2.1999	6.5.1999	73 days
	92.01	23.2.1999	6.5.1999	72 days
	187.51	15.9.1999	18.11.1999	95 days
	1.00	30.3.2000	31.3.2000	1 day
	62.00	15.12.2000	13.2.2001	90 days
	142.56	20.12.2000	26.3.2001	96 days

The time lags reflect funds becoming available for passing on to urban local bodies responsible for implementation. Actual disbursal to the local bodies and further actual expenditure on the schemes by them would obviously involve more time lags.

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State release data under this scheme was obtained from the states of Assam, Bihar and Rajasthan. However, only one entry in the case of Assam matched one of the central releases relating to this State. While the central release in this case amounting to Rs.1,05,000 was made on 31.10.2000, the corresponding state release was recorded on 5.2.2002, indicating a time lag of 463 days.

Release Mechanism IV

North East Council

Data of central releases made under NEC schemes to both Assam and Manipur were obtained through the State Plans Division of the Planning Commission for all the three years. However, at the state level data on further releases by the state government to implementing agencies could be obtained only from Assam.The central data showed a much greater number of transactions than those dejected at the state level. The state data also has two other infirmities inhibiting transaction specific tracking of time lags. In the first place, the scheme-wise central releases against which State releases are reported does not mention dates of the central release. In the second place, the state releases for specific schemes have been made on different dates without mentioning the amount released on those dates. In the circumstances, the only time lags that can be accurately computed in releases at the intermediate level are those between the date of first and final release by the State Finance Department for a specific scheme. These have been computed below for the 12 schemes for which data was forthcoming.

Table 3.23: Time lags between the date of first and final release by the State Finance Department

Sr. No.	Scheme	Amount (Rs. in lakhs	Time Lag between first and final release for the scheme
1.	Regional Forest Rangers College, Jalukbari	34	87 days
2.	Anti Erosion measures on NH44 at Lowaipowa	5.87	270 days
3.	Anti Erosion measures at Chambpura	85	338 days
4.	Control of Gainadi	149.95	134 days
5.	Support for additional activities in Medical College	208.58	182 days
6.	Upgradation of Sericulture CentreTilabar	15	Nil
7.	Reg. Dental College Guwahati	15	Nil
8.	AMC, Dibrugarh	60	Nil
9.	Roads & Bridges	1054	199 days
10.	Fellowship and Academic Programme	2.5	Not released
11.	Sports and Youth Activities	5	Nil
12.	Improvement of Inland water	10	Nil

These release dates at State level pertain to sanction by the state Finance Department. Actual receipt of funds by the implementing agency would be based on date of disbursement by the treasury. It has not been possible to obtain these dates and given the financial difficulties experienced by Assam resulting in prolonged periods when the treasuries are closed, such delays could have been considerable.

More concise tabular representation of the aforementioned analysis is represented in ***Table 3.24***.

Table 3.24: Time lags (in days) of selected centrally sponsored schemes for eight states with regard to three specific financial years

Scheme/State	Andhra Pradesh	Assam	Bihar	Manipur	Maharashtra	Rajasthan	Tamil Nadu	West Bengal
Release Mechanism Type 1								
PMGSY/Year								
1998								
1999								
2000		22	18,14			104,70		52
HADP/Year								
1998								147,132
1999								172,97,147
2000								
PMGY/Year								
1998								
1999								
2000						156,112		
Release Mechanism Type 2								
TSP/Year								
1998		210,180,120						
1999		180						
2000		150,60						
IDDP/Year								
1998		440						121
1999			1137					842
2000			357,467					
NOPP/Year								
1998						42,42,61,61		
1999		423,511				52,101		259
2000						179,129,8		285
NPDP/Year								
1998		90						
1999								19,249
2000						68,9,12		
Release Mechanism Type 3								
NPBD/Year								
1998						324		
1999						184		
2000						233,31,174		
NACP/Year								
1998								
1999								
2000			41,34			15,19,37,24,21,33		

(Cont…)

Table 3.24: Time lags (in days) of selected centrally sponsored schemes for eight states with regard to three specific financial year

Scheme/State	Andhra Pradesh	Assam	Bihar	Manipur	Maharashtra	Rajasthan	Tamil Nadu	West Bengal
RNTBCP/Year								
1998								
1999	176					120		357, 390
2000	145					220		194
IAY/Year								
1998			30					
1999	29		16					28,51,9
2000						40,49,22,45		
EAS/Year								
1998								
1999	21,37					8		
2000	24,23,38							5
SJSRY/Year								
1998								
1999						111		73,72,95, 1
2000						111,380		90,96
BSY/Year								
1998								
1999								
2000	463							

** OBB-Tracing time lags in this scheme is meaningless as salaries are being paid on a monthly basis.*
*** SDS-Dates not available*
**** NEC-The scheme wise central releases against which state releases are reported does not mention dates of the central release*

In sum, the above table brings out the fact that the analysis of time lags at the intermediate levels and to a very limited extent to those for levels below that shows that correlations between greater or lesser time lag and broad categories like types of release mechanism or block, matching or non-matching transfers are difficult to draw. There were too few entries to run any meaningful statistical correlations and conclusions have been drawn on the basis of simple observation.

As this final table shows out of these specific seventeen CSS's, for all the selected eight states, tracking time lags has not been possible in the case of two schemes, namely, OBB and SDS. The reasons are either type of that particular scheme itself or non-availability of relevant dates. For the scheme, NEC which is applicable for only two states i.e., Assam and Manipur year wise time lag has not been possible to measure due to lack of date wise release data.

Of the rest fourteen schemes, the scheme PMGSY's time lag can be traced for only four states i.e. Assam, Bihar, Rajasthan and West Bengal. Again, out of these four states Bihar shows the lowest lag (i.e. of 14 and 18 days for two different installments) whereas the state Rajasthan shows highest lag (i.e. of 70 and 104 days for two different installment) for the same scheme.

For the scheme HADP, only the state West Bengal's data are measurable and they show as high time lag as of 17 days, 147 days, 132 days, and 97 days for different installment during the period of our study.

For the scheme PMGY, only the state Rajasthan's data show time lag of 156 days and 112 days. For the scheme TSP Assam's data are comparable to deduce time lag and they show as huge time lag as of 210 days, 180 days, 120 days, 180 days, 150 days and also 60 days for different installments.

The scheme IDDP shows time lag for two different states i.e. Bihar and West Bengal. The state Bihar has shown the slowest flow of fund by indicating as high as 1137 days lag. Other lags are also as high as 357 days and 467 days whereas the another state West Bengal shows the time lag of 842 days and 121 days for two different installments.

The scheme NOPP data measure time lag for three states out of eight selected states, the states are Assam, Rajasthan, and West Bengal. The state Assam shows the slowest flow of fund by showing 511 days and 423 days time lag, whereas for the state Rajasthan the lag varies from 42 days to 179 days for different installment. The state West Bengal also shows as high as 285 days and 259 days lag for the same scheme.

The scheme NPDP's data matched only for two states, namely, Rajasthan and West Bengal whereas, West Bengal shows as huge as 249 days lag, Rajasthan shows lag for 9 days, 12 days and 68 days for three different installments.

Of the remaining seven schemes NPBD data shows time lag for two states only. They are Assam and Rajasthan. Assam shows time lag of 90 days, whereas for Rajasthan the period has been as high as of 324 days, 233 days, 174 days, 184 days and 31 days and obviously this state shows the slowest flow as compared to the other one.

For the scheme NACP, time lag has been possible to derive for two states only i.e. Bihar and Rajasthan, whereas the state Bihar shows only 41 days and 34 days time lag, for another state, Rajasthan, different installments have different size of lags i.e. 37 days, 33 days, 21 days, 19 days, 15 days, 4 days and 2 days. Obviously, for this specific scheme and among these two states the state Bihar shows the slowest flow of fund.

For RNTBCP the data from three states Andhra Pradesh, Rajasthan and West Bengal are able to derive time lag. The state Andhra Pradesh shows as high time lag as 176 days and 145 days. 220 days, 120 days for Rajasthan and 390 days, 357 days and 194 days for West Bengal. A comparison between intra-state data shows the state West Bengal as the slowest flow of fund state for this particular scheme.

As far as the scheme IAY is concern, for four out of eight selected states i.e. Andhra Pradesh, Bihar, Rajasthan and West Bengal, time lag is measured for date of actual release and date of DRDA receipt and the lag varies between 9 days to 51 days for West Bengal. Rajasthan shows 49 days, 40 days, 45 days, 22 days lag whereas Bihar present 30 days and 16 days lag for two different installment. The state Andhra Pradesh shows only 29 days lag for only one installment. For the same scheme time lags between receipt at intermediate release to implementing level has been possible for only one state i.e. West Bengal. The lag varies between 15 days to 123 days for different installments.

The scheme EAS shows time lag for three different states. They are Andhra Pradesh, Rajasthan and west Bengal. For the states Rajasthan and West Bengal, the measured time lag is as low as of 5 days and 8 days but for the state of Andhra Pradesh it varies between 21 days to 38 days, showing the slowest flow for this particular scheme.

The scheme SJSRY measures time lag for two states, Rajasthan and West Bengal only. The lag is as high as 380 days and 111 days for Rajasthan whereas it varies between 1 day to 96 days for the state West Bengal. Among these two states Rajasthan data shows the slowest flow of fund.

For the last scheme BSY only Assam data can be traced showing as high as 463 days lag.

This section on analyzing time lags in the release of funds from the central level to the implementation stage brings out, in the first place, the difficulties inherent in attempting such an exercise. Even at the broadest level of aggregate central releases reported over an annual period and the corresponding state level data, there is considerable mismatch. Other practical problems that made tracking time lags in the case of individual releases have also been highlighted. The fact that tracking such releases till the moment when implementation levels actually disburse money is actually impractical, has also been noted. Securing data even at state level was a Herculean task and the extent of data which could finally be obtained was at best patchy.

IV. Conclusions

The objectives and scope of this study were set out in the introduction section. Section II and III discussed the design features of the sample schemes and attempted to track the time lags in the releases. The conclusions and the implicit recommendations in this regard were discussed in the respective sections. Here it is sufficient to recapitulate briefly the important points arising from this discussion.

Of the schemes that are the subject of this study, the stages that could be mapped for time lags are central level, intermediate level and implementation level. There are both constraints on availability of information as well as discrepancies in the data secured at the intermediate level compared to the central level. This discrepancy exists even with regard to the amount of receipts reported by the states against the releases said to have been made at the central level. The state wise mismatch status shows the maximum instances in the case of the two North East States and least in the case of West Bengal, Tamil Nadu and Andhra Pradesh.

The analysis of time lags has largely been restricted to the stage where the funds become available at the intermediate level for passing on to the implementation level. No clear patterns are evident from an attempt to see the correlation with the quarterly release pattern of each scheme. At best, it is possible to say that generally central releases tend to be least in the first quarter and maximum in the fourth under all schemes.

A comparison of the data on central releases and corresponding credit to concerned state government accounts at the RBI brings out the fact that there is a greater need for reconciliation between Ministries and the RBI as well as State governments and the RBI.

Clearly account keeping and reconciliation could do with improvement specially in the case of states like the two states from the north-east which were part of the sample for this study. Uniformity in systems of account keeping and an emphasis on capacity building in this direction are warranted.

The fact that to a considerable extent central releases tend to get bunched in the last quarter was not entirely surprising but the level of discrepancy between reported central releases and their credit in state government accounts at the RBI was not anticipated. The time lags in this process, draw attention to the need for improving systems in this regard.

However, it is possible to say that states with better account keeping systems also appear to show lesser time lags. This is also correlated to the level of fiscal stress being experienced by states. States like Assam and Manipur which reported acute fiscal stress have also shown greater time lags in making releases at state level. At the central level schemes with an ability to enforce greater adherence to conditions of prior expenditure by the states before making subsequent releases, clearly showed smaller time lags in releases at the intermediate level.

The extent of discussion on design principles of specific purpose transfers and the features exhibited by the schemes forming part of this study may at first glance have seemed excessive given that the primary task was related to tracking time lags in the flow of funds from the central level to the implementation level. However, the conclusions of the preceding section that looked at time lags draw attention to the importance of need to adhere to appropriate design principles if better implementation is to be secured. In themselves, time lags in expenditure can, to an extent, be curtailed if the operational guidelines, monitoring systems and penal provisions are well structured. But spend pressure at the central level needs to be tackled if adherence to even better design of these spheres has to have meaning. A core issue of the principal agent problems and consequent lack of ownership at state level will however, still continue to be bedevilling such transfer schemes. This can be mitigated only by reducing the number of such schemes and restricting them to matters involving significant spillovers.

Overall, in sum, the conclusion of this study is that it is not the type of release mechanism that is critical to lesser time lags and (if time lag is an appropriate proxy for this) of better performance. It is adherence to key design principles that matters far more and it is this area that really needs attention.

Abbreviations

AFC	Agriculture Finance Corporation
SFC	Standing Finance Committee
ISO	Integrated Scheme for Oilseeds, Pulses and Maize
CSS	Central Sponsored Schemes
GoI	Government of India
CRF	Central Road Fund
SSA	Sarva Siksha Abhiyan
AIES	All India Education Survey
UCs	Utilization Certificate
PEO	Programme Evaluation Organization
BSY	Balika Samridhi Yojana
PMGSY	Prime Minister's Gram Sadak Yojana
IDDP	Integrated Dairy Development Project
TMOP	National Oilseeds and Pulses Development Programme
TSP	Tribal Sub Plan
OBB	Operation Black Board
NEC	North Eastern Council
SJSRY	Sahari Rojgar Yojana
IAY	Indira Awas Yojana
SC	Schedule Caste
ST	Schedule Tribe
UT	Union Territories
DRDAs	District Rural Development Authorities
ZP	Zilla Parishad
SLCC	State Level Coordination Committee
NPBD	National Programme on Biogas Development
CFA	Central Financial Assistance
NTBCP	National Tuberculosis Control Programme
STCS	State Tuberculosis Training and Demonstration Centre
DTCS	District Tuberculosis Control Society
SOE	Statement of expenditure
STO	State Tuberculosis Officer
NTI	National Tuberculosis Institute
DTO	District Tuberculosis Centre
PIU	Programme Implementation Unit
USEP	Urban Self Employment Programme
UWEP	Urban Wage Employment Programme
CDS	Community Development Societies
SUDA	State Urban Development Authority
DUEPA	Department of Urban Employment and Poverty Alleviation
RBI	Reserve Bank of India
ACA	Additional Central Assistance
BMS	Basic Minimum Services
MoU	Memorandum of Understanding
HADP	Hill Area Development Programme
NAIDSCP	National AIDS Control Programme
TSP	Tribal Sub Plan
SCA	Special Central Assistance
DoE	Department of Expenditure

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