

Guidelines and Formats for 10th Five Year Plan (2002-2007) and Annual Plan (2002-2003)

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D.O.No.N-11016/5/2001-PC

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GOVERNMENT OF INDIA
PLANNING COMMISSION
YOJANA BHAVAN
NEW DELHI-110001

28th September, 2001

Dear

I hope you have received the letter of Deputy Chairman, Planning Commission addressed to the Union Ministers / Chief Ministers regarding the formulation of the Tenth Five Year Plan. You are, perhaps, aware that the National Development Council (NDC) in its meeting held on 1st September, 2001 has unanimously approved the Approach Paper to the Tenth Plan and directed the Planning Commission to prepare the Tenth Plan on the basis of the Approach outlined therein. The Approach Document has already been placed on our Web site, namely <http://planningcommission.nic.in/> and as soon as it is printed, copies would be made available to your Ministry / Department.

2. I would like to draw your attention to the decision that the discussion on the Tenth Five Year Plan (2002-07) and the Annual Plan (2002-03) would be held together. These would be scheduled sometime in December, 2001 - January, 2002. Accordingly, it is requested that the Tenth Plan and Annual Plan 2002-03 proposals of your Ministry/Department may please be forwarded to the Planning Commission not later than 20th November, 2001. The guidelines for the classification of the Plan and Non-Plan expenditure as also the formats for presenting the proposals are enclosed. Given the schedule for the formulation of the Tenth Plan and its consideration / approval by the NDC prior to its scheduled launching on 1st April, 2002, it would be necessary that we keep to the indicated schedule for a meaningful Plan discussions that permit an appropriate reflection of your plan priorities in the allocations for the Tenth Plan and the Union Budget 2002-03. I may add here that the first step in this process would be to complete the reports of all the Working Groups, concerning your sector, constituted for the formulation of the Tenth Plan latest by mid-October, 2001. On this issue, your nodal Advisers in the Planning Commission would shortly be in touch with you.

3. In this letter, I would like to share with you the general thinking in the Planning Commission on some important issues that have a bearing on the process of Plan formulation, in general and the proposal for the Tenth Plan/ Annual Plan 2002-03, in particular.

General Concerns

4. As you are aware, there has been less than adequate allocation of resources for Plan programmes and schemes in the nineties and particularly so in the Ninth Plan. In fact, the ratio of Gross Budgetary Support to GDP as also the ratio of public investment to GDP has declined almost continuously during this period. Necessary steps would be taken to reverse these trends in consultation with the Finance Ministry and in keeping with our overall approach to economic policy and development planning. It is, however, more disturbing to note that even what has been provided by way of plan outlays is not reflected well in terms of physical achievements. There are many possible reasons for this, including a thin spread of scarce resources on account of proliferation of both Central and Centrally Sponsored Schemes with similar objectives -within a sector and across sectors - inadequate monitoring of Plan expenditure and, more importantly, the general inefficiency and ineffectiveness in transforming our scarce resources into desired outcomes. At a juncture, when we are projecting a most ambitious growth target for our economy so far, namely, a GDP growth rate of 8% per annum, we have to not only take serious steps for mobilising additional resources for stepping up our investment rate, but we also need to address all these concerns most expeditiously. The Tenth Plan has to be a plan which sets new benchmarks for efficiency and effectiveness in implementing our development policies and programmes. In this context, I would like to reiterate here some suggestions that we have been making in the last few years and which continue to be relevant for preparing the proposals for the Tenth Plan and the Annual Plan 2002-03.

- (i) Past experience has shown that while too many schemes have been launched without sufficient resources, very few have been dropped or shelved. This has resulted in a plethora of schemes that are difficult to effectively administer. As has been pointed out both in the Mid-Term Appraisal of the Ninth Plan and Approach Paper to the Tenth Plan, that the focal point of our delivery system, namely, the district administration have to handle a very large number of projects / schemes, each with their own budgets, guidelines and reporting requirements. The end result is that insufficient attention is paid to the implementation of any particular scheme and monitoring becomes virtually impossible. It must be our effort to reduce the number of such schemes to a manageable level. Besides this, it has also led to a thin spread of resources. Evaluation Reports of Planning Commission clearly indicate that in a large number of schemes there is too much expenditure on administration and, as a result, too little is left for the actual work to be carried out. We have been, as you are aware, pursuing an exercise involving convergence/weeding out and transfer of Central/Centrally Sponsored Schemes. Some progress has already been made in this exercise and it has to now come to a conclusion before the proposals in respect of your Ministry/Department are considered for inclusion in the Tenth Plan. In this context I would also like to draw your attention to

the policy announcement made in the Finance Minister's Budget speech 2001-2002 regarding subjecting all Plan schemes to Zero-Based Budgeting in the course of the current fiscal year (i.e. prior to the formulation of Tenth Plan). This would enable us to prevent a mismatch between the requirement of funds and the Plan allocations and ensure that Plan expenditure is matched by desired physical achievements. It would also shift the focus of planning from inputs to outputs, i.e. on physical targeting rather than on financial allocations. This process needs to be completed in right earnest. I may add here that in the course of next few weeks the concerned nodal Advisers in the Planning Commission may get in touch with you on this issue.

- (ii) There has to be a serious prioritisation of all Plan programmes/schemes/projects for the Tenth Five Year Plan with a view to use the available resources in the most judicious and economically efficient manner. In particular, while preparing the Annual Plan proposals for 2002-2003, there should be an attempt to outline the "Core Plan" for the Ministry/Department highlighting the basic sectoral priorities and the minimum programme for public action in the concerned sector. Implicit in this is the idea that critical programmes in each sector should not suffer for lack of allocation over the Plan period and completed as planned so that the projected benefits from their implementation could be fully realised.
- (iii) There is no doubt that we have to find adequate resources for priority public sector projects, programmes and schemes. However, it is equally important to strengthen the institutional framework for improving implementation of projects in both public and private sector, releasing latent entrepreneurial energies and encouraging private initiatives to supplement and gradually supplant some public efforts. I will like to draw your attention to an entire area of public policy which I may club as "resource neutral policies" where a lot can be achieved in terms of the stated Plan objectives without seeking and providing for resources be it the case of a small time entrepreneur trying to set up a new business venture or, for that matter, the case of an individual setting up an educational institution. These are areas where procedural hurdles and the framework of rules and regulations have raised the transaction costs of economic activities in production, distribution and even consumption of our produce. This has contributed to inefficiencies in our systems and have made India a high-cost economy in comparison to some of our competitors in the export markets. There is, therefore, a need to vigorously root-out these distortions in our policy framework for generating a more broad-based development momentum, cutting across the public and private domain, to address our concerns on equity and sustaining an accelerated growth performance of our economy.

- (iv) There is significant scope for improving the monitoring of Plan expenditure with a view to improve effectiveness of public spending in obtaining the stated objectives of the Plan programmes/schemes. I would urge you to also involve the Planning Commission in undertaking the quarterly performance review and encourage joint monitoring of Plan schemes from time to time. This would provide us useful feedback and a better understanding of your concerns.
- (v) As far as possible, only such Central sector and Centrally Sponsored Schemes/Programme/Projects should be included in the Tenth Five Year Plan which have been approved for the Plan period / for which the necessary investment decisions have already been taken by the designated body or proposals which are in public interest and cannot be delayed without significant implications for the economy and for which at least the preliminary feasibility study has already been carried out. The relevant detailed guidelines in respect of the procedure for inclusion of the new Plan schemes are being shortly issued separately. The spillover projects from the Ninth or earlier Plans can be included in the Tenth Plan only if these Plan programmes/schemes have been evaluated afresh/subjected to Zero-Based Budgeting and have been specifically cleared for continuation in the Tenth Plan in consultation with the concerned nodal Adviser(s) in the Planning Commission. For further details in this regard, you may like to refer to the Guidelines for Classification of Expenditure for the Tenth Five Year Plan enclosed.
- (vi) An important channel for mobilising resources for development, particularly for social sectors, namely, the Externally Aided Projects (EAPs) and direct funding of projects (i.e. outside the budgetary flows) by the NGOs, has been seen to be insufficiently integrated with the planning process and the allocation of budgetary resources. Often, it has been observed that some of these projects are started in the course of the year and since the budgetary support for the fiscal year is fixed at the time of the presentation of the Union Budget, additional funds required for the inclusion of new EAPs can only be through depletion of funds under the Domestic Budget Support (DBS) of the Ministry / Department. This adversely affects, in many cases, the physical targets fixed for the programmes initiated by the concerned Ministry / State Government and creates uncertainty on the availability of further resources for such programmes / schemes. There is no doubt that this important source of resources for development, in our context, should be adequately tapped, but there is significant scope for taking an overall view for provisioning of the required budgetary support between the EAPs and the other programmes and schemes of the Ministries / Departments. Much of this issue could be resolved through better communication between the concerned Ministry / Department, Ministry of Finance and the Planning Commission. We have already taken up

this issue with the Finance Ministry for indicating separately the DBS and the EAP component routed through the budget while communicating the overall GBS for the Annual Plan to the Planning Commission. This would enable a higher utilisation of the external aid and, at the same time, enable adequate funds for the programmes initiated by the Ministry / Department. In this context, it would be desirable that your Ministry / Department's proposal for the Tenth Plan and its Annual Plans should also include the proposed / likely EAPs in your sector. Externally Aided Projects which are of high enough priority for inclusion in the Core Plan should be indicated and included in the Core Plan as well. These could be, then, discussed with your Ministry / Department in the course of Adviser level discussions for the Annual Plan where the representative of the Ministry of Finance could also participate.

- (vii) You may recall that as per the Prime Minister's initiative for the North-Eastern region, all Central Ministries/Departments are required to earmark at least 10 per cent of the Budget for the North-East (except those specifically exempted). A scheme-wise break up of this allocation may also be indicated separately for the Tenth Plan as also the Annual Plan 2002-03. The list of Departments exempted from this requirement of earmarking at least 10% of their budget is also enclosed.

Tentative Size of the Tenth Plan and Annual Plan 2002-03

5. The issue of the likely Plan outlay and the budgetary support of the Tenth Plan are being discussed with the Ministry of Finance and a more firmer picture would emerge only in the next few weeks. However, on an indicative basis, subject to further confirmation, while formulating the Tenth Plan proposal of your Ministry/Department, you may like to consider a budgetary support which is five and half times the current year (2001-02) for the Plan period 2002-07. For the Annual Plan 2002-03, an indicative increase of at least 10 per cent over the current year, in nominal terms, may be factored in while preparing your proposal.

6. I would like to emphasise the need to have a realistic assessment of resources so that the proposal formulated for the Tenth Plan as also the Annual Plan 2002-03, are credible and the exercise itself is meaningful. I would like to add here that the internal resources and the functioning of public sector undertakings and departmental undertakings such as the Electricity Boards, Transport Corporations and Irrigation Departments have been a matter of concern and deliberated extensively in the Commission. There has to be a concerted effort to enhance the internal accruals of such undertakings so that they do not constitute a drain on the budgetary resources of the government, on the contrary they should be in a position to make a positive contribution to the government's efforts at mobilising resources for the Plan. It has also been observed that in some cases the gap between the approved Plan outlay and the revised/actual Plan outlay is largely

on account of the failure of the PSUs to mobilise the agreed quantum of internal and extra budgetary resources for the Plan. This has to be examined closely and such Ministries/Departments that have Public Sector Undertakings under them, need to bridge the said gap.

7. A clearer picture on the resource position - the budgetary support to the Central Plan and the Central assistance to State Plans - is expected to be available in due course. In the meantime, in light of what have been stated above, you may like to initiate the formulation of your Ministries/Departments proposals for the Tenth Plan and the Annual Plan 2002-03. We expect to receive your proposals by 20th of November 2001 at the latest so that the Plan discussions can be scheduled starting from the first week of December 2001. The process of Plan discussions and finalisation of the Plan outlays would be greatly facilitated if the proposals are forwarded keeping in view the prescribed guidelines and the formats that have been forwarded separately. I may add here that the concerned sectoral Advisers in the Planning Commission may also write to you in due course to seek specific information in respect of your sector.

8. Smt. Firoza Mehrotra, Adviser (Plan Coordination and Administration), Telephone no. 371 6301 would be the Chief Coordinating Officer in the Planning Commission in-charge of the Central Plan. The name and telephone number of the coordinating officer in respect of your Ministry/Department may be intimated for facilitating liaison. You may please send ten copies of your proposal to your Subject (Nodal) Division in the Planning Commission and another 10 copies to the Plan Coordination Division.

9. I look forward to your cooperation in completing this exercise meaningfully and as per the indicated schedule. This letter may please be acknowledged.

Warm regards

Yours sincerely,

Sd/-

(Swarn Singh Boparai, K.C.)

All Union Secretaries

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**Guidelines for Classification
of Expenditure**

(Plan and Non-Plan)

For

**The Tenth Five Year Plan
(2002-2007)**



**Planning Commission
Government of India
September 2001**

Guidelines for the Classification of Expenditure for the Tenth Five Year Plan (2002-2007)

The following guidelines may be observed for classification of expenditure relating to the Tenth Five Year Plan in respect of Central Government, State Governments and UTs' outlays over the period 2002-2007.

A. Plan Expenditure

All outlays proposed under the following heads will be classified as plan outlays:

- (i) Outlays connected with all Plan programmes/projects/schemes which have been sanctioned in the Ninth Plan or earlier, and which have not been completed as on 31.03.2002. However, in case of Central Sector/Centrally Sponsored Schemes, these will constitute the plan outlay for the "Spill-over" schemes/projects, only if they have been evaluated afresh/subjected to Zero Based Budgeting and have been cleared for continuation in the Tenth Plan in consultation with the concerned Nodal Adviser(s) in the Planning Commission.
- (ii) In case of "Spill-over" projects/schemes involving investments/expenditure which have well defined physical targets of completion, a fourfold classification is to be adopted. These are as follows: -
 - (a) **Projects/Schemes due for completion in the Tenth Plan or beyond as per the approvals:** These can be included as plan projects.
 - (b) **Projects/Schemes due for completion by the end of the Ninth Plan in which less than 10 per cent of the approved outlay has been spent:** These projects should be separately identified for weeding out/shelving/dropping or converging/transferring to the private/joint sectors, as the case may be. Projects initiated prior to the Ninth Plan and where less than 20 per cent of the approved outlay for the project has been spent, so far, may be similarly treated.
 - (c) **Projects/Schemes due for completion by the end of the Ninth Plan in which more than 75 per cent of the work has been completed :** These projects are to be indicated separately for accelerated completion. The revised estimates of time and costs are also to be included.
 - (d) **All other projects/schemes not falling into the above three categories:** States and Ministries are to evaluate afresh such projects for the Tenth Plan as per the guidelines applicable for any new proposal.

- (iii) **Outlays on existing programmes/projects/schemes which lead to or are by way of, additions or extensions to capacity, of existing institutions/establishments for further development thereof :** The investments involved in this case and the additional capacities proposed may be quantified when setting out the outlays under this head. These investments are to be broadly classified as plan outlays on "Upgradation/Expansion".
- (iv) **Investment outlays for improving productivity/performance levels of existing capital stock (as on 31.03.2002) :** If such investments are of a major nature, outlays when proposed should quantify the improvements in productivity performance or capacity utilisation expected, in appropriate units of production/performance. These investments are to be broadly classified as "Modernisation/Balancing Investment".
- (v) **Investment outlays required to replace worn-out or over aged capital stock :** In proposing such investments the vintage (i.e. age) of the capital stock proposed to be replaced, and the improvements that would be effected either in levels of output/performance (improved capital output ratios) or in reduction of operational costs should be clearly brought out, together with the implications for improved resource generation. These investments are to be broadly classified as "Replacement Investment".
- (vi) **New Plan Proposals:** Development programmes/projects/schemes on capital/revenue account that have been cleared for inclusion in the Tenth Plan, in principle or otherwise, or for which an investment decision has been taken or is in the process of being taken by the concerned authority as per the applicable guidelines. Guidelines for initiating new projects/programmes/schemes in the Central Sector are being issued separately.

For investments in physical assets, whether new, spill-over or by way of upgradation/modernisation/replacement investment, it should be indicated as to whether they are to be retained in the public sector domain or whether they are to be taken up for disinvestment in the course of the Tenth Plan period.

Secondly, in determining the "completion" or otherwise of a programme/scheme during the Ninth Plan period a careful analysis of the performance/progress of the Schemes vis-à-vis prescribed plan targets and intended benefits is warranted. The approach to categorisation of schemes as "completed", "part-completed" or "not-completed" may vary from scheme to scheme depending on the nature of the schemes. The basis for categorisation should be specifically indicated.

In case of spill over projects that are finally included in the Tenth Plan proposals, the date of initiation of the projects/ schemes is to be indicated.

B. Grants for Capital Works

Grants given for capital formation should be treated as resource for the Plan and, therefore, the corresponding expenditure should be considered as plan outlay. It is often seen that since grants are shown on the revenue side of the budget, they may not always be reflected appropriately in terms of their use for plan / non-plan activity.

C. Loans for Capital Formation

A common classification has to be followed regarding expenditure met from Government loans. All loans for capital formation will have to be included in the Plan, as per the practice in the Ninth Plan. Loans for consumption purposes, for meeting revenue deficit of local bodies etc., will be outside the Plan. It is often seen that since all loans are shown on the capital account, they may not be correctly reflected in terms of their use for funding plan / non-plan activity.

D. Development Outlays Currently Being Incurred Outside State Plans.

All development outlays, on specified programmes/projects, which are currently being incurred outside the State Plan will form part of the State Plan. This is particularly relevant in the context of resource flows for funding various activities involving societies, parastatals and agencies set up by government for meeting specific development objectives.

E. Administrative and Residential Buildings

All outlays on construction of administrative and residential buildings will have to be included within the Plan. Expenditure on police housing etc., financed from Central loans will have to form part of Central Plan outlay.

F. Centrally Sponsored Schemes

The criteria set out above in section A-E shall be applicable for Centrally Sponsored Schemes also. In the case of schemes/programmes that have to run for a specified period of time, extending beyond the Tenth Plan, the total unspent portion of the approved outlay both on revenue and capital account by the end of 2001-02 may be treated as Plan outlay for the Tenth Plan (2002-2007).

G. Committed Non-Plan Expenditure

The items of expenditure/outlays incurred in the current (Ninth) Plan that are to be treated as committed non-plan expenditure are as follows :

- (i) All expenditure connected with operation and maintenance of development schemes completed during the five-year period ending 31.3.2002.
- (ii) In case of development schemes spilling over, a portion of the assets may have already been created or services/facilities established. Operation and maintenance of such assets or services/facilities is to be treated as committed non-plan expenditure.
- (iii) In the case of programmes/schemes/activities involving phased coverage, the expenditure on field staff of the block(s) already covered, along with expenditure on headquarters staff, is to be treated as committed non-plan expenditure.
- (iv) All expenditure connected with maintenance of existing institutions and establishments will be treated as non-plan committed expenditure.
- (v) In the case of programmes/schemes and activities which are of a recurring or continuing nature e.g. Soil Conservation, Land Reclamation, Health Vaccination, anti-Malaria measures, Survey and Settlement, etc., the expenditure on staff in position as on 31.03.2002 should be treated as committed non-plan expenditure.
- (vi) Expenditure on both maintenance and Staff covering Research Schemes, taken up during the Ninth Plan shall be treated as committed non-plan expenditure.
- (vii) All Grants-in-aid upto the level attained at the end of the year 2001-02 will get transferred to the non-plan side of the Expenditure Budget for 2002-03, except for cases indicated at para B above.
- (viii) Expenditure on fellowships and Scholarships at the level reached by the end of the year 2001-02 will get shifted to the non-plan side of the Expenditure Budget.
- (ix) Normal or current operation and maintenance costs of all existing revenue generating assets are to be treated as a part of committed non- plan expenditure.

- (x) All social sector schemes which are in the nature of transfer payments, such as old age pensions and subsidies to various items of consumption, are to be treated as non-plan outlays unless specific approval of the Planning Commission has been obtained.

In view of the importance that needs to be placed on the upkeep of existing assets, the committed non-plan expenditure on maintenance outlays as provided in paras G (i), (ii), (iv) & (vi) would need to be separately listed and provided schemewise along with information on the source of these funds.

Wherever transfer of Plan to non-plan under committed expenditure involves continuance of staff, the need has to be examined carefully and full justification has to be given for any proposed continuance of staff.

The committed expenditure liability is to be borne by the Central Government in respect of Central Plan Schemes and by the State Governments in respect of State Plan Schemes and Centrally Sponsored Schemes.

H. Selective Use of Plan Funds for Maintenance of Existing Assets:

In an effort to improve the productivity of existing capital assets, and efficiency of resource use during the Tenth Plan, selective use of Plan Funds is to be permitted for critical repair and maintenance activities. This is to be restricted to a few sectors namely, Surface Transport, including Roads and Railways; Power; Irrigation; Health; Education (including scientific research & higher education) and Rural and Urban Infrastructure. The proportion of Plan funds that can be considered for diversion to repair & maintenance would vary from sector to sector and in any case it would not exceed 15% of the Plan budgetary support to the sector/major head of development of which the maintenance activity is a part. The amount that could be diverted, in this context, would in each case be determined and approved by a joint team of officials from the concerned Ministry and/or State Government and the Planning Commission.

I. Presentation of Plan Outlay

- (i) For the Tenth Plan, it has been decided to lay emphasis on completion of on-going projects and upgradation of existing capital assets before starting new projects. The new projects may be taken up only after a certain minimum number of partially completed/on-going projects are brought to completion. These need to be indicated while presenting the plan proposal. This, however, does not entail a completion of all such existing projects that on present consideration are not seen to be the most desirable from the point of available technical options and/or economic principles. Such Projects may be discontinued/shelved/weeded out in the course of evaluation to be undertaken prior to the formulation of the Tenth Five Year Plan. In case of all 'spill-over' projects / schemes that are to be continued in the Tenth Plan, the date of initiations of the said projects / schemes have to indicated.

- (ii) The selective use of plan funds for maintenance of existing assets in the identified sectors, with a view to improve the productivity and efficiency of resource use during the Tenth Plan, is to be indicated separately. These outlays have to be in accordance with the guidelines outlined earlier in para H above.

The plan proposals have to adhere to these presentational changes.

All Plan outlays should be shown on a Gross Basis, i.e., inclusive of autonomous investments (e.g. from internal resources). Also the breakup of internal resources (i.e. depreciation & retained surplus) should be shown separately.

The components of the Plan outlay, i.e., "Capital and Revenue" for each of the programmes/projects/schemes should be shown separately. The quantification of revenue outlay should be done carefully with reference to the committed expenditure already provided under the non-plan side. Particular emphasis is to be placed on providing for maintenance outlays in committed non-plan expenditure as discussed above. Details in respect of upgradation, modernisation, improvement and replacement should be given separately both under continuing schemes as well as new schemes.

The Gross Plan outlay presented for various sectors/sub-sectors (project-wise) in terms of the categories mentioned earlier should separately delineate the funding by (i) domestic resources and (ii) external financing. Domestic financing will include (a) budgetary support; (b) Inter-Corporate loans; (c) market borrowings/public sector bonds;(d) borrowings by and from parastatals on the strength of State Government guarantees; (e) institutional loans such as from the IDBI, LIC, IFCI, ICICI, PFC; and (e) established funds such as SDF, OIDB, OCC etc. These may be indicated separately. The flow of resources on account of external financing will be based on actual reimbursement of funds by external agencies which in turn will depend upon the progress of implementation of externally aided projects. This will also include foreign supplier's credit, which may be indicated separately.

In case of clarification, may like to get in touch with the State Plan Division or the concerned Nodal Division in the Planning Commission.

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List of Central Ministries / Departments exempted from earmarking at least 10 per cent of their budget outlay for specific programmes in North Eastern Region

1. Expenditure
2. Revenue
3. Planning
4. Ocean Development
5. Space
6. Atomic Energy
7. Economic Affairs
8. External Affairs
9. Petroleum and Natural Gas
10. Sugar and Edible Oil
11. Steel
12. Legal Affairs
13. Personnel and Training
14. Bio-Technology
15. Science and Technologies