

## EXECUTIVE SUMMARY

### **Background**

1. Directive Principles of State Policy of the Constitution of India (contained in Part IV, Articles 36 to 50) should guide the policies of various wings of the Government and act as an overriding philosophical basis. These require a national effort in education, childhood care, health, unemployment and old age, and for minimizing inequalities in income amongst States.
2. The NDC has discussed issues relating to CSS extensively in several meetings. The first Sub-Committee on this was set up in 1967 which recommended a limited number of important schemes to be implemented as matters of national policy, such as family planning, resettlement of landless agriculture labourers and schemes in several other areas. Subsequently, these issues have been discussed in NDC meetings in 1968 and 1984 and in several other meetings.
3. In meetings of NDC, State Chief Ministers have emphasized on several occasions the need to reduce the number of CSS. Measures suggested to do so include (i) putting a cap on CSS at 1/6<sup>th</sup> or 1/7<sup>th</sup> of Central Plan assistance, (ii) transferring a number of identified schemes to State Governments, (iii) consultation with States, particularly if the schemes are not 100% Central funded and (iv) flexibility to States. A number of other recommendations (Annexure-II).
4. The State Governments' suggestions on CSS in the NDC meetings also include (i) transferring the entire CSS funds to the States without any

restrictions (ii) 100% funding of CSS with no counter-part State funds and (iii) flexibility in the implementation of these schemes.

5. In the initial Plan years, no. of CSS was very large (190 at the end of Fifth Plan which increased to 360 at the end of Ninth Plan). The total no. of CSS have reduced gradually over time. Further, generally the pattern has been reduction in the number of schemes at the end of the Plan after a review and subsequent increase in new schemes during the course of the Plan. For example, in the Eleventh Plan, the number of schemes declined from 155 (2005-06) to 99 (2007-08) at the beginning of Eleventh Plan and subsequently increased to 147 (2011-12).
6. Transfer of funds to the States is taking place through CSS, ACA and normal Central Schemes. Of the total CSS provision of Rs.6,60,506.40 crore during the Eleventh Plan, the 9 Flagship CSS alone constituted Rs. 5,24,465.99 crore i.e 79.4%.
7. The share of all CSS as percentage of GBS has increased continuously in the last three Plans. In the Eleventh Plan it went up to 41.59% as against 38.64% in Tenth Plan and 31% in Ninth Plan. However, there has been a decline in no. of CSS during the last three Plans to 360, 155 and to 147 respectively.
8. Normal Central assistance to States declined to 6.74% of the GBS during the Eleventh Plan. The sharp decline in the Eleventh Plan was partly due to fact that in earlier Plans assistance was given in the form of Central grants as well as loans, while in the Eleventh Plan only grants were given. Loans are now taken by the State Governments

directly from the open market, after the Twelfth Finance Commission award.

### **Gaps in Design, Implementation and Outcome of CSS**

9. Large funds are being transferred as ACA under JNNURM, RKVY, AIBP, R-APDRP and RGGVY (the last two operate as Central Sector schemes), which are considered Flagship Schemes of the Central Government. These cover major areas of power, urban development, agriculture and irrigation. Total transfers under ACA/Central Sector (CS) Schemes in Eleventh Plan is estimated at Rs.2, 90,317.63 crore – i.e 18.28% of the GBS. The current system of implementing ACA and CSS as separate category of schemes is artificial. Both are administered in the same manner.
10. The pattern of assistance for States under CSS varies from 100% to 90:10 for North-East States, 65:35 in SSA, 75:25 in IAY and 75:25 in a no. of other schemes. Rapid increase in CSS and need for counter-part funds has led to pre-empting of resources of State Government for their Plan priorities. In several cases, it has also led to difficulties in accessing CSS funds due to shortage of counter-part funds with a State.
11. Criteria for allocation of CSS funds to different States need to be more transparent. A formula driven model as of RKVY is good but has problems of instability over different years. The inter-distribution amongst States needs to be based on equitable notified criteria. Further, linkage between Centre and State funding needs to be kept in mind while devising the criteria for distribution.

12. CSS does not take into account adequately the need for flexibility in physical and financial norms of projects being built or feasible under CSS for roads, civil works, employment generation programmes or cooking cost in MDM. Flexibility is required to take full cognizance of divergence amongst States in geographic condition, level of economic development, nature of gaps in physical infrastructure and demography. However, quality of output needs to be maintained.
13. The monitoring by Ministries and independent evaluation of schemes is generally poor in CSS due to gaps in design of scheme, lack of ownership amongst States. No emphasis is being laid on outcomes or impact of these schemes through independent assessment/evaluation.
14. Accounting process is different in different States for same CSS scheme. It is, therefore, not possible to have an effective Central monitoring and accounting system.
15. There is need for reforms in designing of CSS, physical and financial norms, planning, transfer of funds, monitoring and evaluation. There is also need to meet the concerns of the States on their inability to provide counter-part funds as the States are not able to access these funds.

### **Recommendations**

16. The no. of CSS with small outlays do not achieve the objective of making an impact across the States. Such schemes are, therefore, not suitable as a CSS and need to be implemented by the States, unless required as part of convergence process of a broader scheme at the

Centre. 44% of the total CSS have an average annual outlay of less than Rs.100 crore. These schemes should either be weeded out or merged for convergence with larger sectoral schemes or be transferred to States, who can then continue with these schemes based on their requirements.

17. The existing 147 CSS should be restructured into three categories:
  - (a) Flagship Schemes which will address major national interventions required on education, health, irrigation, urban development infrastructure, rural infrastructure, skill development, employment and other identified sectors,
  - (b) Major Sub-Sectoral Schemes to address developmental problems of sub-sectors of major sectors like Agriculture, Education and Health, and
  - (c) Sector Umbrella Schemes, which will address the sectoral gaps to help improve effectiveness of Plan expenditure. The total number of schemes can be reduced to 59 based on the above assessment of the Committee. The list of revised schemes is placed at Annexure-IV. All existing 9 Flagship CSS are being proposed for continuance after extensive review by Working Groups/Steering Committees with changes based on it, if any.
  
18. A no. of CSS aims to address issues which are important nationally, but the ground conditions amongst States vary widely. For example, development of animal husbandry infrastructure in different States requires different treatment. It is proposed that these schemes be restructured into ACA schemes in which, apart from a core element, there is flexibility to the States to undertake activities depending on the developmental gaps in that area. This will require issuance of guidelines and flexibility to States to prepare schemes as in RKVY.

19. The total no. of schemes are proposed to be accordingly restructured into following categories:
- (a) 9 Flagship CSS are being proposed for continuance after extensive review by Working Groups and changes suggested by Steering Committees which may be required in it. In addition NRLM is also being proposed as Flagship Scheme in view of its financial outlay, broad scope and objectives.
  - (b) 99 CSS are being proposed to be restructured into 39 CSS as Sub-Sectoral Schemes/Umbrella Schemes.
  - (c) 39 CSS are proposed to be restructured into 11 ACA/CSS schemes.

The details of all these are at Annexure-IV.

20. In addition to above, funds are being transferred to States through 26 ACA schemes [as per Expenditure Budget (Volume-I)]. These include 6 schemes referred to as Flagship Schemes, namely AIBP, NSAP, JNNURM, RKVY, R-APDRP and RGGVY (the last two are operated as Central Sector schemes). These 6 schemes should continue as Flagship schemes, after review and reforms by the Working Groups/Steering Committees.
21. In addition to the above Flagship Schemes, under ACA (excluding UTs), there are other schemes, including 8 in which no allocation is being made in the current year. It is proposed that those 20 schemes be restricted and merged into 7 schemes (Annexure-V). Of these, Backward Region Grants Fund (BRGF) scheme should be a Flagship

Scheme taking the total number of Flagship scheme to 17 including CSS/ACA/ CS. (See para 20,21& 22)

22. Distribution of CSS funds amongst different States should be based on transparent notified guidelines. Such guidelines should be put on the website of the concerned Ministries. To incentivize the States to provide larger funds for certain sectors on which they have placed emphasis, the allocation in health, education, urban development, skill development and rural infrastructure may be based on the guidelines issued by the concerned Department as above along with an incentive scheme. The States which provide for an increase in their budget envisaging increase over the previous year in the concerned sector (excluding Central CSS/ACA funds). 50% increase in the budget amount of Central Government Department will be distributed amongst those States which have placed such an emphasis in their budget in that sector. The suggested methodology is being placed at Annexure-VI.
23. New CSS should focus only on major interventions required by national development needs. Such schemes should be Flagship Schemes (Category-I) and have a minimum Plan expenditure of Rs.10,000 crore over the five year Plan period. New schemes less than that should either be a part of the Major Sub-Sectoral Schemes (Category-II) or Sector Umbrella Schemes (Category-III).
24. To ensure that there is no proliferation of CSS, all new schemes must fall in the above three categories with new interventions being confined generally to Flagship Scheme only. Other new schemes should become a part of Sub-Sectoral Schemes or Umbrella Schemes

and be used to meet gaps in developing infrastructure and improve convergence of the sector.

25. The normal Central assistance to States should not be reduced to below 10% of GBS to enable States to have adequate flexible untied resources for their Plan.
26. All new CSS (except new Flagship Schemes) should be a part or sub-component of Sub-Sectoral Schemes or Umbrella Schemes and must be 100% Centrally funded. It should have no conditionality for counter-part funds. However, other conditions for efficient use of funds and meeting the objectives of the scheme must be there. In new Flagship Schemes counter-part funds from State Government could be required up to a maximum of 25% depending upon the interventions planned. In case of North East States such counterpart funding requirement may be up to 10%.
27. To enable State Governments to meet their special needs, flexibility in the CSS should be provided in its design. 20% of budget allocation in all the CSS (10% in Flagship Schemes) to be called 'Flexi Funds' should be earmarked in each scheme for this purpose. Such funds should be used by the State Governments on sub-schemes or components of CSS for which guidelines should be notified by the concerned Ministries, similar to RKVY. Such guidelines should aim at strengthening the objective of the CSS and meeting the developmental gaps in that area in the State. This will ensure an effective implementation of the CSS.

28. Prior to the start of the Twelfth Plan, each Ministry should review the current physical norms and prescribe such variations in physical and financial norms for North-East or tribal areas or coastal areas or other identified geographical area or States as required. In view of the large variation in the geographical, demographic and economic conditions prevailing in different parts of the country, flexibility in physical norms of the scheme, however, may be permitted during the Twelfth Plan based on recommendations as given below.
29. The States may be allowed change in the physical norms for schemes based on the recommendations of a Committee to be chaired by the Chief Secretary of the State, which should include Technical Experts, concerned Secretary of the Department, Planning and Finance Secretaries of the State. These recommendations may then be approved by an Empowered Committee chaired by Secretary, Planning Commission and including Secretary, Ministry of Finance, Secretary of administrative Department and a Technical Expert, suggested by the administrative Ministry. The State Government representative may be invited to this meeting as Special Invitee. Once this Committee approves the change in norms, the new norms may be used for the CSS in that State/States. The Committee considered that given the large number of schemes it would be difficult for the Chief Secretaries of the States to chair all the meetings. Therefore, it is necessary to have coordinated approach among various departments in state while holding approval or alternatively these meetings may chaired by the Development Commissioner or the Additional Chief Secretaries. It is also felt that there is need for larger

convergence at State level in related areas so as to have better outcome of expenditure.

30. Financial norms for certain components in schemes, like cooking cost in MDM scheme, or cost of construction of houses under IAY need to be revised once in two years to enable effective use of funds. The norms for these identified financial components of the schemes should be revised by Ministry of Finance once in two years. The revision should be linked to Wholesale Price Index. The Committee realizes that this may result in construction of, say, lesser number of houses from a given allocation. The Committee feels that such revision will fund the construction fully for such schemes to enable effective implementation and outcomes.
31. Procedure for transfer of funds to the States should be reformed to ensure full accountability of States. Efforts must be made to gradually move over to transfers through the State budgets. Since currently transfers are taking place directly at District level or to other independent bodies or societies, there may be difficulties in making wholesale changes to the transfer procedures. Transfer mechanism should hence be worked out, so that over a period of Twelfth Plan all transfers are routed through State Governments and not directly to the independent societies at the State or District level.
32. States are implementing various Centrally Sponsored Schemes. It is important that the experiences are shared with other so that benefits of federal structure flow to all constituent. For this there is need to have an interactive website and authenticated data base. Planning Commission can explore the feasibility of hosting such website.

33. There should be both monitoring by Ministry and Independent evaluation of all CSS on a regular basis. Such monitoring and concurrent evaluation reports should be placed on the respective Ministry's website and forms the basis of any mid-course correction. Absence of such evaluation should be viewed adversely which will effect release of funds to the Ministry. Planning Commission is in the process of setting up of Independent Evaluation Office whose services may be utilized for such independent evaluation.
34. The evaluation of the CSS may be done by (a) assessment by professional institutions, (b) assessment by visits of experts to major project implementing States, (c) assessment by other individual experts by visits to the fields. In addition, sample surveys may be carried out in selected States across the country to assess the impact and outcomes of the individual CSS.
35. Planning Commission should prepare a list of organizations which can conduct such monitoring and evaluation in States. For these institutions of ICSR, universities, known experts in the field and organizations undertaking sample surveys may be invited. A panel of these should be kept ready. This exercise should be completed before the start of the Twelfth Plan to enable effective evaluation and monitoring of the Plan right from the beginning.