Karnataka Evaluation Authority
Department of Planning and Statistics
Government of Karnataka

Analytical Study on the Criteria and Processes for Devolution of Plan Funds through Centrally Sponsored Schemes and Central Assistance

FINAL REPORT

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Almost the entire CBPS team contributed to this study in some respect or the other. Jyotsna Jha led the team with significant contributions from Srinivas Alamuru and Varun Sharma. Kavitha Narayanan, Neha Ghatak, Madhusudhan BV Rao, Shubhashansha Bakshi, Sandhya Chandrasekharan and Shreekanth Mahendiran with inputs from our interns including Krushna Ranaware (Indian Institute of Technology, Madras), Reetika Choudhary (Madras School of Economics), Madhurima Chakraborty (Madras School of Economics) and Samra Adeni (Stanford University) assisted in analyzing the scheme specific information.

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Executive Summary

1.1 Background

In India's federal system, the states share a greater responsibility than the Centre for delivering basic services to citizens. It is estimated that as much as 85 percent of the total public expenditure in the social sector in the country is undertaken by the states[1]. At the same time, the Constitution vests the union government with powers to collect more revenues through a wider tax-base. While this ensures efficiency in tax administration and smoothens out the prevailing horizontal imbalances between the states; the asymmetry in resource availability between the union government and state governments is simultaneously mitigated by devolution of funds by the union to the states. This takes place through two routes: a) devolution of states' share of taxes; and b) through central assistance to State's Plan schemes and Centrally Sponsored (CS) Schemes.

Centrally Sponsored schemes started in a small way in the year 1969 and as per the initial conception had a restriction on allocation to be no more than one-sixth of the allocation made under the state's share through divisible pool. Over a period of time, CS schemes have increased manifold with as many as 147 CS schemes across 29 Ministries/Departments as of date. Many commissions constituted by the Planning Commission have discussed the basis for the existence and proliferation of CS schemes. The Tenth and the Eleventh five year plans have looked at strategically reducing CS schemes in order to make their implementation more efficient.

National Development Council Reports and some academic studies working on the issue of federal polity and finance have commented on CSS besides. Most of these comments and concerns relate to the increasing number of the schemes and size of transfers happening through this route, the possibility of CSS addressing the central rather than the state priorities and preferences, and the guidelines being rigid, discouraging fiscal discipline in the states and lack of adequate monitoring and accountability mechanisms. The Planning Commission formed a sub-committee (Chaturvedi Committee) in 2011 to look into the issues related with rationalization of CSS through merger of schemes and explore the possibility for introducing a flexi fund. The Government of Karnataka (GoK) was also a member if this sub-committee. Center for Budget and Policy Studies (CBPS) undertook a study on restructuring of CSS for the Government of Karnataka which was completed in January 2012.

1.2 Scope and Objectives of the Study

One of the findings of the earlier CBPS-CSS study was that there was a lack of clarity regarding the criteria for fund allocation and distribution among different states. The issues relating to how funds are devolved by the centre to states under various CSS/ CA schemes; the questions such as how does one state get more funds than others; and so on were outside the scope of the earlier study. In order to be able to answer these questions, the Karnataka

[1] Challenges to Fiscal Policy in India in the Era of Reforms, T M Thomas Isaac and R Ramakumar: Progressive Fiscal Policy in India ed: Praveen Jha

Program Evaluation Authority assigned CBPS to undertake a follow-on study with the objective of analysing the guidelines of the sixteen flagship schemes with the following objectives:

a. Examination of the criteria and processes (or the lack of it) for devolution of funds from central to state government and from state government to sub-state level as per the scheme designs from the perspectives of clarity, transparency, equity and regional disparity.

b. Providing suggestions for the best alternative set of criteria and processes from the perspective of relative positioning of Karnataka vis-à-vis other states and the Centre.

These sixteen schemes are a mix of CSS and ACA (Additional Central Assistance):

Table: Classification of 16 Flagship Schemes under CSS and ACA

S. No.	Name of Scheme	Acronym	CSS / ACA Schemes
1	Sarva Shiksha Abhiyan	SSA	CSS
2	National Rural Health Mission	NRHM	CSS
3	National Horticulture Mission	NHM	CSS
4	Pradhan Mantri Gram Sadak Yojana	PMGSY	CSS
5	Total Sanitation Campaign	TSC	CSS
6	Mahatma Gandhi National Rural Employment Guarantee Act	MGNREGA	CSS
7	Rashtriya Krishi Vikas Yojana	RKVY	ACA
8	Rajiv Gandhi Grameen Vidyutikaran Yojana	RGGVY	ACA
9	Mid-Day Meal	MDM	CSS
10	Integrated Child Development Services	ICDS	CSS
11	Accelerated Irrigation Benefit Programme	AIBP	ACA
12	National Rural Drinking Water Programme	NRDWP	CSS
13	Jawaharlal Nehru National Urban Renewal Mission	JNNURM	ACA
14	Indira Awas Yojana	IAY	CSS
15	National Social Assistance Programme	NSAP	ACA
16	Re-structured Accelerated Power Development and Reform Programme	R-APDRP	ACA

1.3 Method and Approach

We followed the following steps for the study:

a. Collection and analysis of data on release / expenditure under these schemes and analysis of inter-state distribution. We used the websites of different ministries /departments / schemes and that of the Planning Commission for this purpose.

b. Analytical Desk Review of the sixteen flagship schemes to understand the criteria for selection of states and devolution of funds from centre to states / districts. The review focused on identifying the guiding factors that determines the release / expenditure.

c. Consultation with key individuals in central ministries / Planning Commission / State departments who are identified on the basis of their knowledge and experience of respective schemes

d. Comprehensive analysis of all the above to arrive at the factors that determine the inter-state distribution of funds under CSS/ACA schemes.

This summary as well as the report uses CSS for both CSS and ACA schemes. The terms scheme and programme have also been interchangeably used.

2.1 Divisible Pool vs. CSS/ACS

An analysis of the funds that states receive from the union shows that while the quantum of divisible pool of central taxes has grown annually at a modest pace of 14 percent on an average over four year period of 2008-09 to 2010-11, the funds transferred through CSS have grown at 21 percent per annum.

2.2 CSS and distribution of responsibilities between the union and the state

An examination of the 16 flagship schemes shows that five of them involve subjects that fall under the state list, while in case of one scheme i.e. JNNURM it is not clear under whose remit these would fall, while ten schemes clearly fall within the concurrent list. The flagship schemes (excluding JNNURM) cover every significant aspect of a rural household and if these were to be implemented diligently, they could make a huge difference in the lives of rural people. They cover primary health, elementary education, nutrition, livelihood and social security, connectivity to outside facilities (hospitals, markets, etc.), housing and electricity, drinking water and sanitation, improving productivity of agriculture and horticulture. A bias towards states that have larger deficits and therefore greater needs in respective areas seems warranted in the light. Most schemes are linked to some constitutional commitment or international goals that the country is bound by, and therefore focuses on areas with gaps. The perspective seems to be national rather than state-specific or regional. We try to examine whether this necessarily translates itself into a bias against states that have already invested in those areas or not.

2.3 Analysis of Expenditure/ releases

All the CSS/ ACAs come with a set of detailed guidelines that include the eligibility criteria for allocation of funds to the states. However, the schemes differ widely from each other and so do the guidelines in terms of their criteria-base and detailing, making it difficult to classify. Nevertheless, one broad classification could divide the schemes into two sets: one set of schemes where there is a greater dependence on objective criteria such as the number of students enrolled in schools for provision of funds under midday meal while another set of schemes where the allocation depends more upon the initiative of the state to prepare plans and project expenditure.

Since most of these schemes are aimed at meeting development objectives and meant to fill the gaps, deficit states with higher needs are likely to have higher allocations. Although the objective criteria are present in the latter case as well, it is likely that the states that have capacity to incur and show expenditure and also prepare properly designed plans have an edge over others. In such cases, the states that have better planning capacity, more advanced institutional structure for implementation and the economies with higher absorption capacity are likely to have relatively greater allocations. Therefore, it is possible that the eligibility criteria do not disfavor progressive or developed states; on the contrary, many of them may have an edge. We attempted an analysis of release / expenditure trends for states under these schemes to see how various states are positioned under these two set of schemes but failed to locate any clear trend whatsoever.

2.4 Analysis of Guidelines: The main determinants for the size of resources

A deeper perusal of the guidelines of these schemes makes it clear that each of these has its own logic and rationale, and therefore it is difficult to look for a common trend in the allocations / expenditure. However, certain common focus areas are visible: in addition to addressing the development needs in the crucial areas of education, health, livelihood and poverty alleviation, a clear focus on governance reform, convergence, non-substitution of state investment and sustainability is clear. This is true for most schemes including those that are based on objective criteria. In other words, the following four emerge as the most important determinants:

a. Need / deficit / right
b. The need for reform measure
c. Institutional capacities (planning, monitoring, implementation mechanisms)
d. Absorption capacity

These in varying combinations play an important role in shaping the guidelines as well as the actual transfers. While the first two are more visible in the guidelines, the latter two play an important role in the actual allocations / releases / expenditures. We illustrate this point by elaborating the analysis of guidelines for each of these schemes.

2.5 Analysis of Guidelines: Incentives and Disincentives

Centre-state funding patterns vary for different schemes. The presence of features that act as incentive or disincentive for the state to actively participate also determines the interest and performance in a particular scheme. Also, the same feature can be viewed as an incentive or a disincentive by different states. Here, we have isolated two main features that seem to act as incentive or disincentive based on our consultations and study of guidelines.

Centre State sharing Patterns

The pattern of assistance varies for these schemes: while some are 100 percent centrally assisted, others are on sharing basis where the respective state governments also take the partial burden of funding. The states' share ranges from 10 percent to 50 percent while some schemes also have provisions for user contribution. In some cases, different sharing patterns are followed for different components in the same scheme. The rationale for the state share comes from several bases and is discussed in the report, together with the administrative concerns and fiscal issues that the arrangements give rise to.

Additionality and non-substitution clauses

A number of these schemes also have the clause that the budgetary allocation to particular sector will have to be maintained (for example, agriculture in RKVY and social protection in NSAP, health in NRHM are supposed to maintain / increase their sectoral allocations as part of the total budgetary allocations) or particular components already being supported by a state government would not be funded by particular schemes (for instance, the states that had already introduced free textbook distribution to children before SSA, the SSA was not going to support that component there). The report discusses the pros and cons of such clauses.

The reform agenda

Most schemes started in the 1990s and later period emphasize institutional reforms in respective sectors. The report discusses JNNURM as the most visible example where urban reforms are a clear agenda, together with other examples like NHM, NRHM and MGNREGA. The analysis suggests that states which have initiated some reforms are obviously at an advantage for implementing such schemes. Poorer states, on the other hand, are less ready and therefore more likely to perform badly. This creates a vicious circle of resource-crunch, weak institutional capacities, low level of economic activities and low absorption capacity in these states.

2.6 The role of political economy

The literature emanating from the areas of federal polity and finance has focused on political economic side of centrally sponsored schemes. These have pointed out to a number of issues. We examine some of these here based on the analysis of guidelines as well as drawing from consultations.

Centre - state ruling combinations

The analysis of expenditure / release trends do not support the argument that the ruling party / coalition at the centre is biased against the opposition- ruled states. The opposition ruled states have received higher relative allocations in per capita terms and vice versa. Senior civil servants who have served in various capacities at the Centre as well as in different states corroborate the finding that such considerations rarely override the objective criteria / performance linked assessments for allocations or releases in central plan transfers.

Bureaucracy – political leadership tension

Consultations revealed that there is also a tension between the perspectives of the bureaucracy and the political bosses. In general, the bureaucracy prefers the presence of clear guidelines based on well-defined criteria, though they are critical of rigid norms for disallowing inter-component transfers. On the other hand, politicians prefer flexible funds where guidelines are broad and allow greater room for local discretion. The bureaucracy views it as political interference, the scope for which is higher in absence of well-defined guidelines. While greater possibility of technology based data being accessible with a lesser time gap has increased the use of information based interventions, it has reduced the role of elected representatives to that extent. There obviously exists a tension between bureaucratic and political control which the report discusses.

Convergence and inter-departmental coordination

Most schemes covering end to end sectoral issues put high emphasis on convergence in terms of planning and execution responsibilities, as well as in terms of accessing / pooling funds. While it is a welcome step to avoid duplication of efforts and wastage of resources, it involves coordination and consensus building which is not very easy given the strong culture of parallel departmental functioning. One example is anganwadis run under ICDS, where the pre-school component has been repeatedly been pointed out as weak but despite several efforts, the departments of Education, and Women & Child Welfare have not necessarily been able to work together. This departmental functioning also acts as a hurdle in the reform process. The states where inter-departmental coordination is relatively better are able to perform better in the schemes that demand convergence.

3.0 State to District transfers

Majority of the flagship schemes are governed by Society node and therefore do not transfer money from state to districts using treasury. A number of them use core banking system and therefore do not face the constraints associated with the fund flow through treasury. The majority of these schemes are rooted in district/block (taluk) plans and therefore the central allocations in such cases are for district/block levels and include the state component separately. The respective state plans are usually a collection of district and state component plan.

The scheme guidelines include the details regarding the content and process of district / block plans and the appraisal processes take those into account. Most financial norms are also district or block specific depending upon the nature of a particular scheme. In such cases, same norms that guide the transfers from the Centre to states also guide the transfers from the state to districts or below: a mix of need, reform, performance and absorption capacity playing the major role. The report discusses SSA allocations for North eastern Karnataka districts as an illustration.

Political vigilance of the distribution of funds at state level is somewhat greater than the central level. Political considerations also often play a role in reallocations, if not in the original approvals, as low performance and utilisation rates in particular districts open doors for other districts that may not be very high on need but may have better capacities for spending.

4.0 Conclusions

The analysis of 16 flagship centrally funded schemes under CSS /ACA mode makes it clear that transfer of plan funds from centre to states and districts is based on a variety of considerations ranging from equity and regional balance to institutional reforms, and from performance and absorption capacity to political economy. The guidelines of the schemes in most cases are fairly clearly drafted and transparent. They have also evolved in some cases to suit the emerging needs of the states but each of them is more tuned to the sector/issue specific situation and requirements. There is an attempt to make / modify the guidelines to suit diverse needs of states / districts with varying levels of success.

Some of these schemes are more dependent on objective criteria and some others are more dependent on the state / district / block / GP plans. While the former is largely, though not necessarily, is beneficiary oriented, the latter is largely, again not necessarily, systems / service oriented. Reforms, performance and absorption capacity play a role in all of them to a varying degree. The releases / expenditure data are hard to get and the available ones do not depict any clear trend because of the emphasis on multiple factors where one could counteract against the other, i.e., a high-need state may be poorly performing and therefore receiving less funds. In the end, no state is uniformly receiving high or low funds. Political economy in terms of ruling party combinations also does not appear to influence allocations in any significant manner.

However, increasing size and the criticality of the sectors where the money is going have made the central government much more important and influential in areas that are largely the state subjects. This may be viewed as lending itself to the argument that the Centre is increasingly using central plan funds to weaken the federal structure of the country. On the other hand, as a counter, it can be argued that Centre has ensured investments in the desired sectors such as education, health, sanitation, water, roads/ connectivity. These are issues of national importance and with the country's commitment to MDGs and other international development indicators the national government has the responsibility of ensuring such prioritization. Some of the schemes are also a response to judicial activism leading to Supreme Court judgments that made the national government accountable to fulfill certain responsibilities. MGNREGA and MDM are two such examples. In this context, a reference to the sources of funding used for these schemes is also important. In addition to the central share of the divisible pool of tax collection, the central governments have also accessed two other sources for funding. These are new surcharges and cess meant for specific purposes, such as the education cess; and grants when sourced from UN, bilateral (e.g. DFID, USAID) or multilateral (European Union) agencies and loans, usually soft loans, from agencies such as the World Bank or Asian Development Bank. In such cases, the central government is accountable for repayment and therefore the risk bearer.

It is beyond the scope of our study to assess whether or not the investments made under such schemes were efficient and effective. However, what emerged clearly that though well-intended, many of these schemes are not leading to desired results, and it would help to have a relook at least in terms of rationalizing the numbers and considering the provision of well-designed flexi funds being made available to states. It would be worth considering merger of schemes on certain criteria, as suggested by Chaturvedi Committee Report (2012) and introduce flexi funds at least for a small amount and then gauge the impact. Merger of schemes could take some common principles into account: (i) merging duplicating/similar benefit schemes, (ii) weeding out exercise for old schemes and a sunset clause for the new schemes. All schemes that have been in operation for than two plan periods should be examined for the possibility of weeding out, and (iii) the smaller schemes less than an allocation of 300-400 crores should be assessed in terms of efficiency and effectiveness and weeded out or merged in the umbrella scheme. The states can be given an option of choosing 20-30 schemes based on its core indicators from a menu of schemes available with the Centre.

The risks associated with the introduction of flexi funds, as identified by the departments, include the possibilities of vested interests influencing the investments at the cost of real priorities, and diversion of funds in paying salaries and financing state sectors schemes. Well-designed and detailed guidelines and monitoring system need to be in place to minimise such risks. Strengthening of information systems would also help in streamlining the planning and monitoring of schemes, leading to a difference in performance.

Any reform in centrally sponsored schemes is also dependent on the reform in delivery machinery where the departmental functioning is deeply-entrenched and prevents sectoral or spatial approach to take roots. We consciously refrain from making any suggestion for any changes in the guidelines as it requires detailed study of each sector and, as stated earlier, the trends are not so clear, to make any broad comment in general.

Contents

1.1	Background	1
1.2	Scope and Objectives of the Study	2
1.3	Methodology	3
2.1	Divisible Pool vs. CSS/ACS	4
2.2	CSS and distribution of responsibilities between the union and the state	4
2.3	Analysis of Expenditure / releases	6
2.4	Analysis of Guidelines: The main determinants for the size of resources	8
	2.4.1 Sarva Shiksha Abhiyan (SSA)	*9*
	2.4.2 National Rural Health Mission (NRHM)	*10*
	2.4.3 National Horticulture Mission (NHM)	*11*
	2.4.4 Pradhan Mantri Gram Sadak Yojana (PMGSY)	*12*
	2.4.5 Total Sanitation Campaign (TSC)	*13*
	2.4.6 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	*14*
	2.4.7 Rashtriya Krishi Vikas Yojna (RKVY)	*16*
	2.4.8 Rajiv Gandhi Gram Vidyutikaran Yojana (RGGVY)	*17*
	2.4.9 Mid-Day Meal (MDM)	*18*
	2.4.10 Integrated Child Development Services (ICDS)	*19*
	2.4.11 Accelerated Irrigation Benefit Programme (AIBP)	*20*
	2.4.12 National Rural Drinking Water Programme (NRDWP)	*20*
	2.4.13 Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	*21*
	2.4.14 Indira Awas Yojana (IAY)	*22*
	2.4.15 National Social Assistance Programme (NSAP)	*23*
	2.4.16 Re-structured Accelerated Power Development and Reform Programme (R-APDRP)	*24*
2.5	Analysis of Guidelines: Incentives and Disincentives	25
	2.5.1 Centre State sharing Patterns	*25*
	2.5.2 Additionality and non-substitution clauses	*27*
	2.5.3 The reform agenda	*28*
2.6	The role of political economy	28
	2.6.1 Centre - state ruling combinations	*28*
	2.6.2 Bureaucracy – political leadership tension	*29*
	2.6.3 Convergence and inter-departmental coordination	*29*
3.0	State to District transfers	30
4.0	Conclusions and Suggestions	32
	References	35
	Annexure	36

List of Tables

Table 1:	Classification of 16 Flagship Schemes under CSS and ACA	3
Table 2:	Central Transfers (Rs Crores)	4
Table 3:	Flagship schemes and the jurisdiction	5
Table 4:	Analysis of schemes by type of criteria	6
Table 5:	Ranking of states based on Per Capita Release/Expenditure (2008-09 to 2010-11)	8
	Table 5.1	*9*
	Table 5.2	*11*
	Table 5.3	*12*
	Table 5.4	*13*
	Table 5.5	*13*
	Table 5.6	*15*
	Table 5.7	*16*
	Table 5.8	*17*
	Table 5.9	*18*
	Table 5.10	*19*
	Table 5.11	*21*
	Table 5.12	*22*
	Table 5.13	*23*
	Table 5.14	*24*
Table 6:	Centre-state sharing pattern	26
Table 7:	Financial Allocations under SSA and EDI Rankings, North-Eastern Districts, KA	30
Table 8:	Funds disbursed to health facilities at different levels under NRHM, KA	31
Table A:	Releases based on State Proposals rather than predetermined allocations	36
Table B:	Central Allocation based on criteria	38

Analytical Study on the Criteria and Processes for Devolution of Plan Funds through Centrally Sponsored Schemes and Central Assistance

1.1 Background

It is estimated that as much as 85 percent of the total public expenditure in the social sector in India is undertaken by the states[2]. Although the states share greater responsibility for delivering basic services, which are also more human resource intensive, to citizens the Constitution vests the union government with powers to collect more revenues through taxes that have wider bases as these also are more elastic. During the Twelfth Finance Commission period, the respective shares of centre and the states in revenue receipts before transfers were 63 percent and 37 percent[3]. The rationale for this obvious dichotomy lies in a) ensuring efficiency in tax administration; and b) to smoothen out the prevailing horizontal imbalances between the states. The asymmetry in resource availability between the union government and state governments is mitigated by devolution of funds by the union to the states under the principles prescribed by the central finance commission. The devolution of funds from the union to the states takes place essentially through two routes: a) devolution of states' share of taxes; and b) through central assistance to State's Plan schemes and Centrally Sponsored (CS) Schemes.

Centrally Sponsored Schemes (Article 282 of the Constitution) are usually conceptualized by the respective central government line ministries and departments, and are implemented through the respective state's machinery. CS schemes started in a small way in the year 1969 and as per the initial conception had a restriction on allocation to be no more than one-sixth of the allocation made under the state's share through divisible pool. Over a period of time, however, the centrally sponsored schemes have increased manifold. As of date, there are around 147 CS schemes across 29 Ministries/Departments. Many commissions constituted by the Planning Commission have discussed the basis for the existence and proliferation of CS schemes. The Tenth and the Eleventh five year plans have looked at strategically reducing CS schemes in order to make their implementation more efficient.

A number of committees set up by the Planning Commission at various points of time, National Development Council Reports and some academic studies working on the issue of federal polity and finance have commented on CSS. Most of these comments and concerns relate to the increasing number of the schemes and size of transfers happening through this route, the possibility of CSS addressing the central rather than the state priorities and preferences, and the guidelines being rigid, discouraging fiscal discipline in the states and lack of adequate monitoring and accountability mechanisms. The Planning Commission formed a sub-committee (Chaturvedi Committee) in 2011 to look into the issues related with rationalization of CSS through merger of schemes and explore the possibility for introducing a flexi fund. The Government of Karnataka (GoK) was also a member if this sub-committee.

[2] Challenges to Fiscal Policy in India in the Era of Reforms, T M Thomas Isaac and R Ramakumar: Progressive Fiscal Policy in India ed: Praveen Jha

[3] Thirteenth Finance Commission – Core Issues and New Challenges, D K Srivastava: Progressive Fiscal Policy in India ed: Praveen Jha

Center for Budget and Policy Studies (CBPS) undertook a study on restructuring of CSS for the Government of Karnataka with the following objectives:

a. To analyse the prevailing CS Schemes in Karnataka for their size, relevance and contributions in order to arrive at the suggestions for their continuation, merger and transfer to state schemes;

b. To analyse and suggest best possible ways of restructuring CSS so as to maximize the benefits and minimize the inefficiencies;

c. To suggest best possible ways and mechanisms of introducing a flexi fund to make it most useful and relevant for the states; and

d. To suggest criteria for selection for and monitoring of a proposal for CSS / flexi fund support in future.

The study[4], which involved analysis of CSS and consultations with various state government departments responsible for their implementation, provides some useful insights into the issues related with CSS design and functioning. The report also provided detailed criteria that could be used for providing support through Flexi Fund and suggested mechanisms that could be used to ensure that flexi funds are not misused. In addition, the report proposed three concise principles, backed by a range of examples for application of these principles, to facilitate merger of schemes.

Assuming that the Centrally Sponsored Schemes would continue to remain a principal and preferred vehicle for transfer of resources from the union to the states, the study made a number of suggestions to allow for clarity and flexibility in the guidelines and involvement of the states in designing and target setting, improving systems for improved monitoring and rewarding reforms. This study further examines the issue of centrally sponsored schemes to look into specifically the issue of eligibility criteria under different schemes that determine the size of fund allocations to various states.

1.2 Scope and Objectives of the Study

One of the findings of the CSS study was that there was a lack of clarity regarding the criteria for fund allocation and distribution among different states. The issues relating to how funds are devolved by the centre to states under various CSS/ CA schemes; the questions such as how does one state get more funds than others; and so on were outside the scope of the earlier study. In order to be able to answer these questions, the Karnataka Program Evaluation Authority assigned CBPS to undertake a follow-on study with the objective of analysing the guidelines of the sixteen flagship schemes with the following objectives:

a. Examination of the criteria and processes (or the lack of it) for devolution of funds from central to state government and from state government to sub-state level as per the scheme designs from the perspectives of clarity, transparency, equity and regional disparity.

[4] The study was completed in January 2012.

b. Providing suggestions for the best alternative set of criteria and processes from the perspective of relative positioning of Karnataka vis-à-vis other states and the Centre.

These sixteen schemes are a mix of CSS and ACA (Additional Central Assistance) as seen in the table below:

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c. Consultation with key individuals in central ministries / Planning Commission / State departments who are identified on the basis of their knowledge and experience of respective schemes

d. Comprehensive analysis of all the above to arrive at the factors that determine the inter-state distribution of funds under CSS/ACA schemes.

The report uses CSS for both CSS and ACA schemes. The terms scheme and programme have also been interchangeably used.

2.1 Divisible Pool vs. CSS/ACS

As mentioned earlier the states receive funds from the union government in two baskets i.e. one, their share of the divisible pool of union taxes; and two, the central assistance through CSS and ACS. An analysis of the above shows that while the quantum of divisible pool of central taxes has grown annually at a modest pace of 14 percent on an average over four year period of 2008-09 to 2010-11, the funds transferred through CSS have grown at 21 percent per annum.

Table 2: Central Transfers (Rs Crores)

	2008-09	2009-10	2010-11	2011-12	Average Annual Percentage Change
States' Share	178765	164361	219303	263458	13.8
Total CSS and ACS	127230	178104	203003	228791	21.6

Source: Ministry of Finance, Government of India

2.2 CSS and distribution of responsibilities between the union and the state

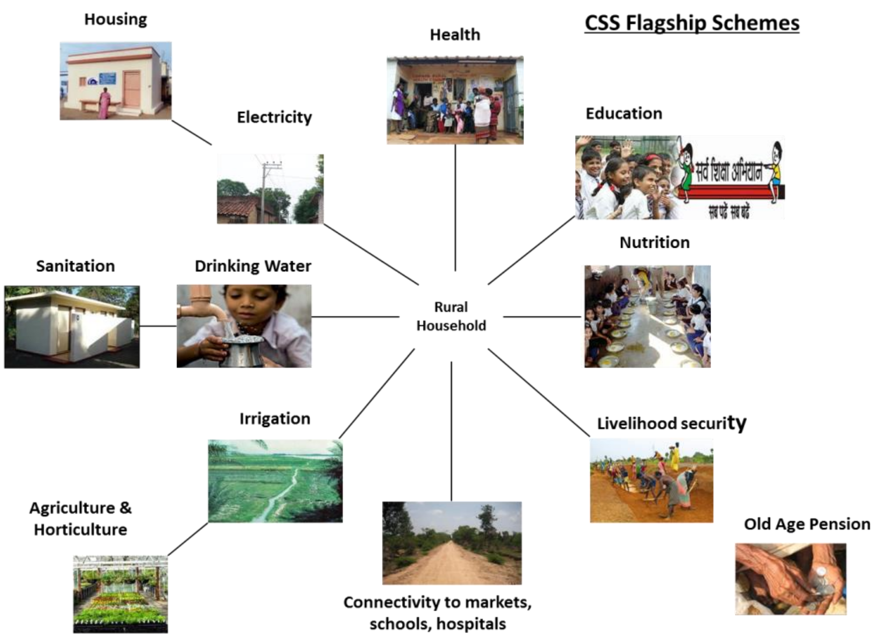
The Constitution provides three distinct lists under Schedule Seven; the first two lists i.e. the Union List and the State List contain subjects in which the union and the states respectively have exclusive jurisdiction to make laws and have corresponding administrative responsibility for ensuring provision of public services in that area. The third list is a concurrent one where both the central and state governments share the jurisdiction / responsibility. An examination of the 16 flagship schemes shows that five of them involve subjects that fall under the state list, while in case of one scheme i.e. JNNURM it is not clear under whose remit these would fall, while ten schemes clearly fall within the concurrent list (Table 3).

Table 3: Flagship schemes and the jurisdiction

Scheme	Subject	Union	State	Concurrent
SSA	Education			√
NRHM	Health		√	
NHM	Horticulture (Agriculture)		√	
PMGSY	Rural Roads		√	
TSC	Sanitation		√	
MGNREGA	Rural Employment / Livelihood			√
RKVY	Agriculture		√	
RG GVY	Rural Electrification (Power)		√	√
R-APDRP	Power		√	√
Mid Day Meal	Child Nutrition / Education			√
ICDS	Nutrition and Health (primarily)			√
AIBP	Irrigation			√
NRDWP	Rural Drinking Water			√
IAY	Rural Housing			√
NSAP	Social Security			√
JNNURM	Urban Development / infrastructure			

On the one hand, it is seen that the flagship schemes (excluding JNNURM) do indeed cover every significant aspect of a rural household and if these were to be implemented diligently, they could make a huge difference in the lives of rural people. They cover primary health, elementary education, nutrition, livelihood and social security, connectivity to outside facilities (hospitals, markets, etc.), housing and electricity, drinking water and sanitation, improving productivity of agriculture and horticulture (Figure 1).

Figure 1:



This obviously means that a bias towards states that have larger deficits and therefore greater needs in respective areas is warranted. Most schemes are linked to some constitutional commitment or international goals that the country is bound by, and therefore focuses on areas with gaps. The perspective is national rather than state-specific or regional. While analyzing the criteria at a later stage, we try to examine the issue whether this necessarily translates itself into a bias against states that have already invested in those areas or not.

2.3 Analysis of Expenditure/ releases

All the CSS/ ACAs come with a set of detailed guidelines that include the eligibility criteria for allocation of funds to the states. However, the schemes differ widely from each other and so do the guidelines in terms of their criteria-base and detailing, making it difficult to classify. Nevertheless, one broad classification could divide the schemes into two sets: one set of schemes where there is a greater dependence on objective criteria such as the number of students enrolled in schools for provision of funds under midday meal while another set of schemes where the allocation depends more upon the initiative of the state to prepare plans and project expenditure.

Table 4: Analysis of schemes by type of criteria

CSS Flagship Scheme	Releases based on State Proposals rather than predetermined allocations	Central Allocation based on criteria
SSA	√	
NRHM	√	
NHM	√	
PMGSY	√	
TSC	√	
MNREGA	√	
RKVY	√	
RG GVY	√	
R-APDRP	√	
Mid Day Meal		√
ICDS		√
AIBP		√
NRDWP		√
JNNURM		√
IAY		√
NSAP		√

Since most of these schemes are aimed at meeting development objectives and meant to fill the gaps, deficit states with higher needs are likely to have higher allocations. Although the objective criteria are present in the latter case as well, it is likely that the states that have capacity to incur and show expenditure and also prepare properly designed plans have an edge over others. In such cases, the states that have better planning capacity, more advanced institutional structure for implementation and the economies with higher absorption capacity are likely to have relatively greater allocations. Therefore, it is possible that the eligibility criteria do not disfavor progressive or developed states; on the contrary, many of them may have an edge. We attempted an analysis of release / expenditure trends for states under these schemes to see how various states are positioned under these two set of schemes but failed to locate any clear trend whatsoever. Nonetheless, we present here the analysis as absence of trend itself is indicative of certain characteristics that feature CSS/ACA fund allocation guidelines.

Based on the per capita criteria, sixteen major states of India were ranked ranging from highest to lowest per capita release/ expenditure. We have excluded seven north-eastern states (Sikkim, Nagaland, Mizoram, Assam, Arunachal Pradesh, Manipur and Meghalaya), special status states (Jammu and Kashmir, Himachal Pradesh and Uttarakhand), and Union Territories (Andaman and Nicobar island, Lakshadweep, Daman and Diu, Dadar and Nagar Haveli, Chandigarh, Pondicherry and NCT Delhi) for various reasons. If they are clubbed together with other states, it becomes difficult to have any meaningful comparative analysis due to their small size and special status. Goa is also excluded from the analysis considering the geographical and population size of state.

It was not easy to access data on expenditure or release. Data for allocation, release and expenditure for all schemes was not available. For certain schemes (e.g., PMGSY, RGGVY) only release and disbursement data was available and used. For R-APDRP, we could not obtain data related to allocation/ release or expenditure for three years considered. It was difficult to obtain all data required from one particular source. We have taken the average of three years, except in one case where only two years could be accessed, to avoid any particular annual fluctuation.

Table 5 presents the ranking of 16 major states in terms of per capita releases/expenditure for the period 2008-9 to 2010-11. Per capita figures have been taken to normalize the total amount for the size of the target population. Target population for each scheme varies and in some cases varied population groups have been targeted by the same scheme. We have taken the population of the main target group as denominator for estimation purposes and then ranked the states. As mentioned earlier, no clear trend emerges. Karnataka's ranks vary between 3rd and 12th when it comes to schemes that are more dependent on criteria, and between 6th and 12th in case of the schemes that are more dependent on respective states' proposals / performance. Most other states also depict similar variations.

Even the states with large gaps in development indicators are not necessarily the largest recipients. SSA is the only programme where the eight states with larger deficits in educational infrastructure have the first eight ranks. The same is not true for any other 14 flagship schemes. We also tried to see if there is any particular trend in terms of political economy; whether the states ruled by the Congress Party, the same as the head of coalition at the centre, receive more funds. The answer seems to be no. For instance, if West Bengal, an opposition ruled state, is ranked 10 or below in 8 of the 16 cases, so is Andhra Pradesh that has been one of the major Congress-ruled states in the last decade. Similarly, Odisha that has been continuously under non-Congress rule is the highest per capita recipient in a few cases.

Table 5: Ranking of states based on Per Capita Release/Expenditure (2008-09 to 2010-11)

State, UT/ Scheme	Releases for schemes that are based on State Proposals								Releases / expenditure for schemes which are more dependent on criteria						
	SSA	**NRHM**	**NHM**	**PMGSY**	**TSC**	**MGNREGA**	**RKVY**	**RGGVY**	**MDM**	**ICDS**	**AIBP**	**NRDWP**	**JNNURM**	**IAY**	**NASP**
A.P.	13	15	11	11	12	2	12	10	16	4	5	8	1	2	8
Bihar	5	7	14	5	6	11	4	5	9	16	10	15	16	1	3
Chhattisgarh	1	10	2	4	1	3	3	3	1	3	6	13	4	16	1
Gujarat	15	6	12	16	7	13	7	11	14	13	8	1	3	5	16
Haryana	9	5	1	10	13	14	5	9	13	10	..	5	14	14	13
Jharkhand	2	14	3	6	4	5	15	1	6	9	1	14	15	3	2
Karnataka	11	9	7	8	9	7	6	12	12	8	4	3	5	6	7
Kerala	16	8	10	1	15	12	2	16	10	2	13	12	12	9	15
M.P.	4	3	5	3	2	4	14	6	4	12	7	7	8	11	6
Maharashtra	14	12	9	9	8	16	10	8	5	11	2	4	2	4	12
Odisha	6	2	15	2	5	9	8	2	2	1	3	11	11	7	4
Punjab	12	13	6	12	16	15	9	13	11	5	12	10	13	8	14
Rajasthan	3	1	4	7	14	1	16	7	7	14	11	2	9	15	11
Tamil Nadu	10	11	8	15	11	6	13	14	8	7	…	6	7	10	10
U. P.	8	4	13	13	3	8	1	15	15	15	9	9	6	13	5
W. Bengal	7	16	16	14	10	10	11	4	3	6	14	16	10	12	9

Note: Aggregate per capita release/ expenditure is estimated based on the population size for respective schemes. Three years' average has been used for estimating the annual release / expenditure. Annex I provides the per capita release / expenditure in aggregate terms. The denominators used are also listed in the Annex.

2.4 Analysis of Guidelines: The main determinants for the size of resources

A deeper perusal of the guidelines of these schemes makes it clear that each of these has its own logic and rationale, and therefore it is difficult to look for a common trend in the allocations / expenditure. However, certain common focus areas are visible: in addition to addressing the development needs in the crucial areas of education, health, livelihood and poverty alleviation, a clear focus on governance reform, convergence, non-substitution of state investment and sustainability is clear. This is true for most schemes including those that are based on objective criteria. In other words, the following four emerge as the most important determinants:

a. Need / deficit / right
b. The need for reform measure
c. Institutional capacities (planning, monitoring, implementation mechanisms)
d. Absorption capacity

These in varying combinations play an important role in shaping the guidelines as well as the actual transfers. While the first two are more visible in the guidelines, the latter two play an important role in the actual allocations / releases / expenditures. We illustrate this point by elaborating the analysis of guidelines for each of these schemes in the following paragraphs. All references to per capita releases / allocations / expenditure pertain to Table 5 and Annex Table 1.

2.4.1 Sarva Shiksha Abhiyan (*SSA*)

SSA is implemented as India's main programme for universalizing elementary education. It was preceded by District Primary Education Programme (DPEP) which was implemented in about half of the country's districts and provided the model for SSA, which is operational in the entire country. The programme has assumed greater significance after enactment of the Right to Education Act (RTE) in 2009, which also led to the revision of the SSA guidelines to make them compatible and consistent with the RTE norms. SSA supports all aspects of elementary education: opening of schools, construction of new school buildings/ support institutions and up gradation of physical infrastructure in schools and support institutions, teachers' salary for new schools and additional teachers, quality related investment, measures for out of school children, measures for inclusion of disadvantaged children, academic monitoring, training, research, school development grants, teachers grants and so on. While there is a cap on construction, and financial guidelines define the upper limits for most activities, the actual annual allocations and releases are subject to detailed planning, budgeting and appraisal exercises taking the implementation, expenditure levels, needs and the suitability of the proposed interventions into account.

Table 5.1

	SSA
Chhattisgarh	1
Jharkhand	2
Rajasthan	3
M.P.	4
Bihar	5
Odisha	6
W. Bengal	7
U. P.	8
Haryana	9
Tamil Nadu	10
Karnataka	11
Punjab	12
A.P.	13
Maharashtra	14
Gujarat	15
Kerala	16

This implies that the allocations are likely to be higher, and are higher, for the states that have poor infrastructure and coverage. Therefore, the states that have already invested heavily in elementary education are at a disadvantage. SSA also promoted non-substitution implying that if a state had already initiated some initiative such as distributing free textbooks to all children SSA funds would not support that; the state government should continue funding that initiative. This was taken as a disincentive for reform, as states could stop introducing measures in future for fear of exclusion from a likely CSS/ACA. Hence, SSA is clearly geared more towards equity but the annual planning and appraisal exercises also ensure that states with better performance and planning, which could be either a deficit state or an advanced state, is rewarded. However, the fact that the eight educationally backward states have received the highest per capita releases depict that needs play a big role in the releases (see table 5.1 above).

2.4.2 National Rural Health Mission (NRHM)

NRHM was launched in 2005 by the Government of India with the intention of providing accessible, affordable and quality healthcare to its citizenry especially the ones who are in need of it the most such as the poor, women and children. The main goals of NRHM are[5]: (i) Reduction in Infant Mortality Rate (IMR) and Maternal Mortality Ratio (MMR), and (ii) Universal access to public health services such as women's health, child health, water, sanitation & hygiene, immunization, and nutrition.

While the programme covers the whole country, 18 selected states[6] form the core high focus states of the programme. These 18 states have been selected on the basis of weak health indicators and feeble public health infrastructure. One would expect these 18 states to be a higher per capita recipients but that is not the case. Haryana, Gujarat, Kerala and Karnataka, all non-core non-high focus states rank above Chhattisgarh and Jharkhand, two core high focus states (see Table 5.2 below). This can be explained by the capacity constraint faced by these states as compared to others who are able to reap the benefits due to better institutional network and absorption capacity. NRHM also focuses on clearly specified performance indicators where resource rich states that have invested more on health have the advantage. For instance, Karnataka's significant improvement in its mortality ratios viz. IMR from 50 in 2005 to 35 in 2011 (SRS Bulletins) and MMR[7] from 213 in 2005 to 178 in 2009 respectively (MoHFW), is perhaps attributable to the increased number of institutional deliveries[8] as well as to an increase in the number of PHCs and CHCs accessible at 24 hours for all days of the week (254 health facilities in 2005 at launch of NRHM to 1228 in 2009 (NRHM, MoHFW).[9]

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5 NRHM Mission Document (2005-12)

6 These 18 states are Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh, Orissa, Uttaranchal, Jharkhand, Chhattisgarh, Assam, Sikkim, Arunachal Pradesh, Manipur, Meghalaya, Tripura, Nagaland, Mizoram Himachal Pradesh and Jammu & Kashmir.

7 SRS bulletin 2005 October, SRS Bulletin 2012 October

8 NRHM MIS

9 Ibid

Table 5.2

	NRHM
Rajasthan	1
Odisha	2
M.P.	3
U. P.	4
Haryana	5
Gujarat	6
Bihar	7
Kerala	8
Karnataka	9
Chhattisgarh	10
Tamil Nadu	11
Maharashtra	12
Punjab	13
Jharkhand	14
A.P.	15
W. Bengal	16

The very clear identification of 18 focus states show the emphasis on equity and the need to fill the gaps in states where the heath indicators are significantly poorer. But the states with greater institutional capacity and prior investments have been able to access higher per capita resources. Like SSA, NRHM also puts a lot of emphasis on district plan with a focus on decentralised planning up to the village level. States are required to sign MOUs with the Government of India regarding their commitment to increase contribution to Public Health Budget (preferably by 10 percent per year) and increased devolution to Panchayati Raj institutions. Here again, the states with stronger local institutions at lower levels (such as Gujarat, Kerala and Karnataka) are at an advantage. Therefore, NRHM emphasizes equity, reform and performance, and this explains why the focus states are not necessarily the largest recipients.

2.4.3 National Horticulture Mission (NHM)

National Horticulture Mission was introduced in the year 2005-06 during the 10th Plan period with 100 percent central assistance which changed to 85 percent with 15 percent contribution by the State Government during the 11th plan (2007-12) period. The objective is to improve horticulture across the country through a cluster based approach. It is an end to end programme including components on land development, planting material, improving post-harvest technology and enhancing market links / facilities.

Table 5.3

	NHM
Haryana	1
Chhattisgarh	2
Jharkhand	3
Rajasthan	4
M.P.	5
Punjab	6
Karnataka	7
Tamil Nadu	8
Maharashtra	9
Kerala	10
A.P.	11
Gujarat	12
U. P.	13
Bihar	14
Odisha	15
W. Bengal	16

While tentative costs for various components including the permissible financial assistance are indicated in the guidelines, the state submits an annual plan and budget every year based on a perspective plan prepared for five years. The plan has to cover a minimum of 100 Hectares in a cluster. The allocations in this case are much more dependent on the feasibility of the cluster and the 'quality' of the state plan. Haryana has the highest rank for the per hectare expenditure as against West Bengal, which has the lowest rank, while Karnataka stands seventh (See Table 5.3 above). Haryana has been the beneficiary of the Green Revolution, and therefore the feasibility of having such farming is indeed high whereas West Bengal, where subsistence farming is still quite common and the population density is very high, the preference for cluster based horticulture is likely to be low. In general, this scheme has a bias against states with larger areas under subsistence farming, implying those that are generally economically poorer, e.g., Bihar and Orissa. This explains the low ranks in per hectare expenditure for such states as seen in the Table 5**.**

2.4.4 Pradhan Mantri Gram Sadak Yojana (PMGSY)

The PMGSY was launched in 2000 to provide all-weather road connection to every habitation with a population of over 1000 (500 for hilly states) within a short period of three to five years, as until then, only 60 per cent of villages/habitations in the country had some kind of road connectivity. Enhancing connectivity rather than up gradation is the main focus of the scheme. This implies that the states with larger number of big habitations and un-connected by all-weather roads were likely to get higher allocations. The per-village releases were the highest for Kerala and lowest for Gujarat among the 16 major states. Orissa, UP, Bihar, Jharkhand and Chhattisgarh are also high recipients indicating the high level of needs in those states (See Table 5.4 below).

Table 5.4

	PMGSY
Kerala	1
Odisha	2
M.P.	3
Chhattisgarh	4
Bihar	5
Jharkhand	6
Rajasthan	7
Karnataka	8
Maharashtra	9
Haryana	10
A.P.	11
Punjab	12
U. P.	13
W. Bengal	14
Tamil Nadu	15
Gujarat	16

The planning and approval process is such that district panchayats, as well as the MLA and the MP of respective areas have a role in approval of the proposal. Considering that roads and connectivity have been one of the major development related demands, and also a 'visible' indicator of development, the interests of the elected representatives are higher. That also explains high releases for this scheme in general.

2.4.5 Total Sanitation Campaign (TSC)

Total Sanitation Campaign was launched in 1999 with the objective of accelerating sanitation coverage and improving general quality of life in rural areas. The allocation is based on the appraisal of the district plans submitted through the state government. In includes components for awareness creation as well as building of toilets in local institutions (school, anganwadi, community hall, etc.) and individual households.

Table 5.5

	TSC
Chhattisgarh	1
M.P.	2
U. P.	3
Jharkhand	4
Odisha	5
Bihar	6
Gujarat	7
Maharashtra	8
Karnataka	9
W. Bengal	10
Tamil Nadu	11
A.P.	12
Haryana	13
Rajasthan	14
Kerala	15
Punjab	16

To estimate aggregate per capita expenditure we have used data for three financial years (2008-09/ 2010-11) and rural total population data from census 2001. Punjab received the lowest per capita while Chhattisgarh received the highest per capita allocations among the 16 major states (See Table 5.5 above). A comparison of Punjab, Karnataka and Chhattisgarh shows that Chhattisgarh has the highest percentage of rural population, and also had the highest utilization of the funds as percent of release (87.7 percent). Punjab has the highest (93.4 percent) sanitation coverage, explaining why it did not need high allocations. Cumulative performance index score (that takes into account[10] Individual Household Latrine (IHHL) to BPL, IHHL to APL, percent of sanitary complex, school toilets, Anganwadi toilets and percentage expenditure against release) was highest for Karnataka (0.7187). Karnataka ranks 9th in terms of per capita release. It is obvious that states with higher rural population and low sanitation coverage receive more funds.

2.4.6 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

The National Rural Employment Guarantee Scheme seeks to facilitate the commitments of the National Rural Employment Guarantee Act to enhance the rural livelihood, by providing a fallback employment source and creating durable assets, and to strengthen the natural resource base in the rural areas. The act promises to provide a guaranteed employment, in a time bound manner, for at least 100 days to any adult person who is willing to do unskilled manual work. MNREGA aims to ensure that unskilled manual employment is provided to the registered volunteer within 15 days, otherwise the State government bears the cost of unemployment. Started in phases, the act and therefore the scheme now cover the entire country. Precursors to the MGNREG Scheme include Employment Assurance Scheme (EAS), National Rural Employment Programme (NREP), Jawahar Rozgar Yojana (JRY), Sampoorna Grameen Rozgar Yojana (SGRY) and National Food for Work Programme (NFWP).

The transfer of resources from Centre is purely demand driven such that funds are released based on labor budget proposals, recommended by the Gram Sabha and consolidated by the state, and utilization certificates presented by the State government rather than on predetermined allocations. The labor budget is evaluated on parameters such as employment generation (in terms of person days), cost per person per day, maintenance of 60:40 ratio for wage and non-wage components and comparison of existing wage rate to the minimum wage rate. Moreover, the labor budget is expected to be estimated on the basis of actual achievements of the past year and the deviations between the past year's actual and estimated utilization.

Since the scheme is demand driven, the criteria for release of funds are chosen based on (a) number of households that demanded employment and (b) rural population (based on 2001 census) and it is evaluated on the basis of number of households that have being provided employment and the amount of wages transferred to banks and post office accounts.

[10] For details see "A decade of Total Sanitation Campaign, A Rapid Assessment of processes and outcomes" (2010), Department of Drinking water and Sanitation, Ministry of Rural Development http://www.wsp.org/sites/wsp.org/files/publications/WSP_India_TSC_Report_Vol_1_Press.pdf

Maharashtra received the lowest per capita amount as against Rajasthan that received the highest. Andhra Pradesh, Madhya Pradesh and Chhattisgarh are other high recipients (See table 5.6 below).

Table 5.6

	MNREGA
Rajasthan	1
A.P.	2
Chhattisgarh	3
M.P.	4
Jharkhand	5
Tamil Nadu	6
Karnataka	7
U. P.	8
Odisha	9
W. Bengal	10
Bihar	11
Kerala	12
Gujarat	13
Haryana	14
Punjab	15
Maharashtra	16

The size of allocations in MGNREGA is likely to be determined by several factors. If economic activities are plenty and the prevalent wage rates are high, the demand is likely to be low. On the other hand, if the economic opportunities are not enough and wage rates are not attractive, the demand is likely to be high. This to some extent explains the low allocations to Maharashtra as against Rajasthan and other states where economic opportunities are relatively not as high. Karnataka is ranked 7th in terms of per capita allocations and has a high conversion rate[11] of 99.39 percent whereas Rajasthan receives three times the Karnataka per capita release and manages to provide employment only to 95.78 percent of the household that demanded employment. Further, surprisingly, Karnataka has transferred lower amount through bank and post office accounts in comparison to both Maharashtra and Rajasthan.

Since Gram Sabha and Gram panchayat are the most important agencies for implementation, their capacities also play a role. Gram Sabha recommends works to be taken up, monitors and supervises works, conduct social audit of implementation and provides a forum for sharing information in order to ensure transparency and accountability. Gram Panchayat is responsible for planning the shelf of works, registering of households, issuing job cards, allocating employment, and monitoring and implementation of the Scheme/ Act at the village level. The GP is the single most important implementing agency for executing works as the Act mandates earmarking a minimum of 50 per cent of the works in terms of costs to be executed by the GP. This is the statutory minimum. Therefore, states where GPs and gram sabhas are active and capable institutions, the demand is likely to be high. This coupled with

[11] Conversion Rate = (Number of Household provided Employment * 100) / Number of household demanded employment

low level of economic activities in rural areas could have contributed to higher demands from Rajasthan.

2.4.7 Rashtriya Krishi Vikas Yojna (RKVY)

It is a 100 percent central assistance programme aimed at incentivizing states to invest in agriculture and allied sectors started during 2007-08. The objective was to increase the efforts for making agriculture sector reach the growth rate of 4 percent during the 11th plan period. The scheme comes to states with a number of conditionalities that mainly focus on the commitment of state investment to agriculture sector. A state becomes eligible only if it maintains the baseline share of expenditure in agriculture in the total state budget. The baseline is defined as an average of 3 years prior to the year it applies for RKVY funds. The increase in the year of application over the baseline percentage determines the maximum size of the assistance that can be made available in that year. Preparation of District and State Agriculture Development plans are also compulsory to ask for assistance. There is a lot of focus on convergence while preparing the plan so that all relevant information is provided and all relevant departments / agencies are involved.

Table 5.7

	RKVY
U. P.	1
Kerala	2
Chhattisgarh	3
Bihar	4
Haryana	5
Karnataka	6
Gujarat	7
Odisha	8
Punjab	9
Maharashtra	10
W. Bengal	11
A.P.	12
Tamil Nadu	13
M.P.	14
Jharkhand	15
Rajasthan	16

UP and Kerala are the top recipients and Rajasthan and Jharkhand are at the lowest ranks in terms of per hectare receipts (see Table 5.7 above). Considering that the allocations are largely based on the commitment to the sector, increase in agriculture’s share in the budget and the quality of the plan, it is difficult to explain the ranks without going into the details of these indicators and processes, which is beyond the scope of this study.

2.4.8 Rajiv Gandhi Gram Vidyutikaran Yojana (RGGVY)

The RGGVY was launched in April 2005 with the objective of providing electricity to 1,25,000 un-electrified villages and also providing free electricity connection to 2.34 crore rural BPL households. All other schemes of rural electrification have been merged with this scheme. The criterion for distribution of funds is the size of rural BPL population. Uttar Pradesh has received the lowest per capita release (Rs. 58.7) and Jharkhand the highest (Rs. 1705). The aggregate per capita release was Rs. 148 in Karnataka. While Jharkhand with higher aggregate per capita release has provided the highest number of free electricity connection to BPL households (1,272,755), Uttar Pradesh has managed to provide connection to a reasonable number despite lower per capita releases (1,044,494). The cumulative coverage of un/de-electrified villages was the highest in Uttar Pradesh (27,759 villages) when compared to Karnataka (61 villages) and Jharkhand (17,917 villages). The cost of reaching villages and household could be higher because of the hilly terrain and dispersed population habitations. Karnataka provided the connection to 834,196 households. This again highlights the issue that unless each scheme is analysed in greater detail, it is difficult to understand the release/ expenditure patterns just by looking at the guidelines.

Table 5.8

	RGGVY
Jharkhand	1
Odisha	2
Chhattisgarh	3
W. Bengal	4
Bihar	5
M.P.	6
Rajasthan	7
Maharashtra	8
Haryana	9
A.P.	10
Gujarat	11
Karnataka	12
Punjab	13
Tamil Nadu	14
U. P.	15
Kerala	16

The assistance for this programme is based on the rural electrification plan submitted by the states. States are required to finalize their Rural Electrification Plans in consultation with Ministry of Power and notify the same within six months. The Rural Electrification Plan is a roadmap for generation, transmission, sub-transmission and distribution of electricity in a State, which will ensure achievement of the objectives of the scheme. District based detailed project reports (DPRs) that are to be executed on a turnkey basis are prepared by state power utilities in accordance with the RGGVY guidelines. The state power utilities have the responsibility of implementing the work of rural electrification in their respective states. The States have to comply with the following conditions to ensure proper implementation of the programme: (i) States must make adequate arrangements for supply of electricity and there should be no discrimination in the hours of supply between rural and urban households; (ii) Deployment of franchisees for the management of rural distribution in projects financed under the scheme; (iii) Making provision of requisite revenue subsidies to the State Utilities as required under Section 65 of the Electricity Act, 2003; and (iv) Determination of bulk supply tariff for franchisees in a manner that ensures their commercial viability and thus, revenue sustainability. The capacity to comply with these conditions also determines the ability to access the funds.

2.4.9 Mid-Day Meal (MDM)

The scheme, which has evolved in many ways, is now operational in all primary and upper primary schools throughout the country where hot, cooked meals are provided to all children studying in grades I to VIII. Although the scheme has had impact on enhancing enrollment, retention and attendance, the prime objective has been to improve the nutritional levels among children. The scheme also provides the mid-day meal during summer months (school holidays) for areas that have declared as drought affected by the State and therefore acts as measure of food security for children. The criteria for fund allocation / release are based on the number of last year enrolled children in primary and upper primary and estimated number of children who will be enrolling next year. The assistance comes in a mix form: grains from the Food Corporation of India and cash for other inputs such as cooking charges, adding vegetables and other ingredients, etc. Convergence with SSA and other rural development schemes is encouraged for building of kitchen sheds and other such requirements. A fixed per child norm is prescribed for different kinds of grains.

Table 5.9

	MDM
Chhattisgarh	1
Odisha	2
W. Bengal	3
M.P.	4
Maharashtra	5
Jharkhand	6
Rajasthan	7
Tamil Nadu	8
Bihar	9
Kerala	10
Punjab	11
Karnataka	12
Haryana	13
Gujarat	14
U. P.	15
A.P.	16

Considering the universal nature of the scheme and uniform norm, per capita allocation for states should not be too varied. However, that does not seem to be the case. Per capita allocation in Chhattisgarh (Rs. 2288.11) is twice the amount of that in Karnataka (Rs 1133.11) for the period 2008-2011 (Annex Table 1). Andhra Pradesh has the lowest per capita allocation (Rs 808.95) and is ranked 16th as against Karnataka's twelfth rank (see table 5.9 above). One reason for high allocations to Chhattisgarh and Orissa (which is ranked 2) could be that both states experienced drought in this period. The allocations also take the off-take in the previous year into account. Considering that Karnataka views the fixed norm of grains per child as higher than necessary could be one reason for lower off-takes and consequent allocations[12]. Karnataka believes that higher off-takes could lead to pilferage and leakages and therefore are better avoided.

2.4.10 Integrated Child Development Services (ICDS)

The scheme is one of the oldest CSS in operation. It has been continuing since 1975 with some modifications in the guidelines from time to time. The scheme was introduced with the aim of improving the nutritional and health status of children in the age group 0-6 years and also to lay the foundation for proper psychological, physical and social development of the child. In addition, the scheme seeks to reduce the incidence of mortality, morbidity, malnutrition and school drop-out. It aims to enhance the capability of the mother to look after the normal health and nutritional needs of the child through proper nutrition and health education. The main beneficiaries of the programme are children (0-6 years) and, pregnant and lactating mothers. While care is provided to both mothers and children in term of nutritional support and health education, immunization and health check-ups, children in 3-6 years also receive pre-school education. Anganwadi, a centre where mothers and children come coupled with home visits by the anganwadi workers are the main instruments through which the programme is operated.

Table 5.10

	ICDS
Odisha	1
Kerala	2
Chhattisgarh	3
A.P.	4
Punjab	5
W. Bengal	6
Tamil Nadu	7
Karnataka	8
Jharkhand	9
Haryana	10
Maharashtra	11
M.P.	12
Gujarat	13
Rajasthan	14
U. P.	15
Bihar	16

In terms of per capita release, Bihar shows the lowest per capita amount of Rs. 421.60 as against Odisha that has received the highest per capita amount of Rs. 1123.22. Karnataka was almost in the middle of this range having received Rs. 822.77. Odisha, the state which had received the highest in terms of per capita release, was able to cover 88.76 percent of the eligible population whereas Bihar was able to cover only about 36.43 percent of the eligible population. Karnataka was able to cover around 73.52 percent of the eligible population. It is obvious that the states with higher allocations had covered higher proportion of eligible population. This trend reflects that fact that the allocations are clearly based on fixed norms.

[12] CSS study consultations (CBPS)

The low coverage and therefore lower allocations could be caused by a number of factors, one of those being the requirement of state share that we are discussing in another section. The population norm for starting an anganwadi centre used to be 1000 in initial years which meant a large number of villages were not eligible. This population norm was later changed to 400-800 (300-800 for hilly, riverine, desert, difficult area) and the concept of mini anganwadi was also introduced for which the norm is as low as 150-400. This led to an increase in coverage and therefore the allocations increased in most states, especially those that were willing to put in the state share.

2.4.11 Accelerated Irrigation Benefit Programme (AIBP)

Started initially as a Central Loan Assistance (CLA) programme in 1996-97, this was converted into fully grant-based programme in 2005-06. This is aimed at expediting the irrigation projects of the states covering the extension, renovation and modernization of existing major, medium and minor irrigation projects. Jharkhand, Odisha, Maharashtra, Karnataka and Andhra Pradesh are the highest per hectare recipients in this scheme. This is explained by the fact that there is a special emphasis on drought prone areas, tribal areas, states with low irrigation coverage and identified agriculturally distress districts (this included 17 districts each from Maharashtra and Karnataka, and 25 from Andhra Pradesh).

2.4.12 National Rural Drinking Water Programme (NRDWP)

National Rural Water Supply Programme was revised in 2009 and the revised programme is known as National Rural Drinking Water Programme. The programme is to deal with availability, quality and sustainability of drinking water. Thirty percentage of fund under NRDWP is available for coverage, 20 percent for quality assurance, 10 percent for operation and maintenance, 20 percent for sustainability, 10 percent for DDP area, 5 percent for natural calamities and 5 percent for other support. Criteria for fund allocation among state is based on: (a) total rural population based on 2001 census, (b) rural SC and ST population, (c) Rural Population managing drinking water supply schemes and (d) States under DDP, DPAP, HADP and special category Hill States in terms of rural areas.

In the present analysis to estimate aggregate per capita expenditure only two financial year data could be used (2009-10/2010-11). Total rural population based on 2001 census was used as targeted population. Two performance indicators namely: (1) percentage of fund utilized under 11th plan period and (2) cumulative percent expenditure of release are used for comparative analysis.

Table 5.11

	NRSWP
Gujarat	1
Rajasthan	2
Karnataka	3
Maharashtra	4
Haryana	5
Tamil Nadu	6
M.P.	7
A.P.	8
U. P.	9
Punjab	10
Odisha	11
Kerala	12
Chhattisgarh	13
Jharkhand	14
Bihar	15
W. Bengal	16

Based on the aggregate per capita expenditure it was found that West Bengal had the lowest (Rs. 78.1) and Gujarat the highest (Rs. 355) aggregate per capita expenditure. Per capita expenditure in Karnataka was Rs.300.00. West Bengal has a higher rural population in total population (72 percent) and higher rural SC and ST population (34 percent) when compared with Karnataka. Both the percentages of funds utilized under the 11th Five Year Plan and the cumulative percentage of expenditure to releases were higher in West Bengal as compared to Karnataka. The percentage of funds utilized under 11th Five Year Plan was 43.2 percent and 16 percent, and cumulative percentage of expenditure to release is higher 86 percent and 62 percent respectively for West Bengal and Karnataka. Lower allocations to West Bengal could be due to lower demands from the state. West Bengal is endowed with high rainfall and a number of rivers, and that could be a reason for lower demand; this, however, is just a surmise, as investigating the cause of such imbalances is beyond the scope of this study.

2.4.13 Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

JNNURM was launched in 2005-06 for a period of seven years (till 2012-13) with the purpose of creating economically productive, efficient and accountable cities. By design, this is a scheme that is ‘reform driven, fast track, planned development of identified cities with focus on efficiency in urban infrastructure / service delivery mechanisms, community participation and accountability of Urban Local bodies towards citizens’. Three kinds of cities are eligible: 4 million plus, more than 1 million but less than 4 million, and selected cities of tourist / religious significance. These eligibilities make a difference in terms of access to funds: Andhra Pradesh with the highest per capita expenditure is spending almost double of Karnataka, this being Rs. 1396.66 for Andhra and Rs. 656.45 per capita for Karnataka. Andhra also has a higher utilisation rate against allocated funds at 71.82 percent as against Karnataka at 58.85percent. While the proportion of total urban population is similar in these two states, only two cities with a total population of about 65 lakhs are eligible in Karnataka as against three cities with about 81 lakh population in Andhra Pradesh.

The focus on reforms can also act as an incentive or disincentive depending on a particular state's readiness. We discuss this in greater detail in the next section.

Table 5.12

	JNNURM
A.P.	1
Maharashtra	2
Gujarat	3
Chhattisgarh	4
Karnataka	5
U. P.	6
Tamil Nadu	7
M.P.	8
Rajasthan	9
W. Bengal	10
Odisha	11
Kerala	12
Punjab	13
Haryana	14
Jharkhand	15
Bihar	16

2.4.14 Indira Awas Yojana (IAY)

The Indira Awas Yojana was launched as a part of the Rural Landless Employment Programme in 1985-86 and then became a part of the Jawahar Swarojgar Yojana from 1989 till 1996 after which it was delinked and made an independent scheme. The main intent behind IAY is to provide funds for the construction of houses for the Schedule Castes/Schedule Tribes, other minorities and other Below Poverty Line rural households. The amount of allocation to each state is dependent on the poverty ratio and the housing shortage in rural areas of the state. Inter-district allocation is based on the proportion of SC/STs in the district and the housing shortage in the district.

Bihar has the highest per capita aggregate expenditure (Rs. 885.00) and Rajasthan the lowest (Rs. 119.3), while Karnataka falls in the middle (Rs. 354.45). Bihar has the highest proportion of rural population (55.3 percent), which is much higher than Karnataka (26.1 percent) or Rajasthan (26.4 percent) (2009-10, Planning Commission following Tendulkar Methodology). The difference in the number of poor people in rural areas is even higher: Bihar – 498.7 lakhs, Karnataka – 97.4 lakhs and Rajasthan -133.8 lakhs. This seems consistent with the high allocation in Bihar but this does not adequately explain the difference in Karnataka and Rajasthan, which also have similar percentages of SC and ST populations. Since the actual allocations depend on a number of factors, many of them not even specified, it becomes difficult to have a deep analysis using secondary data alone.

Table 5.13

	IAY
Bihar	1
A.P.	2
Jharkhand	3
Maharashtra	4
Gujarat	5
Karnataka	6
Odisha	7
Punjab	8
Kerala	9
Tamil Nadu	10
M.P.	11
W. Bengal	12
U. P.	13
Haryana	14
Rajasthan	15
Chhattisgarh	16

2.4.15 National Social Assistance Programme (NSAP)

The National Social Assistance Programme was established in 1995 with the objective of providing financial assistance to the under privileged community to fulfill the needs of National Policy of Social Assistance to Poor Households and Directive Principles of State Policy. Currently the following programmes are a part of NSAP[13]

a. Indira Gandhi National Old Age Pension Scheme
b. Indira Gandhi National Widow Pension Scheme
c. National Disability Pension Scheme
d. National Family Benefit Scheme
e. Annapurna Scheme

Since these are all meant to provide security, the criteria for allocation of funds are the number of elderly, widowed, disabled and households without breadwinners below the poverty line with respective eligibilities for age and other qualifying parameters. The scheme has defined the caps for each of the scheme based on uniform datasets for each state. Also, the assistance comes under this scheme with a conditionality that the state will maintain the social protection expenditure and the scheme's contribution should be in addition to that. Karnataka receives higher per capita (Rs. 165) than the neighbouring states such as Tamil Nadu (Rs. 117.65) and Andhra Pradesh (134.03). Gujarat receives the lowest (Rs. 30.22).

13 I. Indira Gandhi National Old Age Pension Scheme (IGNOAPS): Under the scheme, BPL persons aged 60 years or above are entitled to a monthly pension of Rs. 200/- up to 79 years of age and Rs.500/- thereafter.

II. Indira Gandhi National Widow Pension Scheme (IGNWPS): BPL widows aged 40-59 years are entitled to a monthly pension of Rs. 200.

III. Indira Gandhi National Disability Pension Scheme (IGNDPS): BPL persons aged 18-59 years with severe and multiple disabilities are entitled to a monthly pension of Rs. 200.

IV. National Family Benefit Scheme (NFBS): Under the scheme a BPL household is entitled to lump sum amount of money on the death of primary breadwinner aged between 18 and 64 years. The amount of assistance is Rs.10.000.

V. Annapurna: Under the scheme, 10 kg of food grains per month are provided free of cost to those senior citizens who, though eligible, have remained uncovered under NOAPS.

Since the population data for each of the eligible groups under these schemes are not available in public domain, it becomes difficult to undertake any comparative analysis.

Table 5.14

	NSP
Chhattisgarh	1
Jharkhand	2
Bihar	3
Odisha	4
U. P.	5
M.P.	6
Karnataka	7
A.P.	8
W. Bengal	9
Tamil Nadu	10
Rajasthan	11
Maharashtra	12
Haryana	13
Punjab	14
Kerala	15
Gujarat	16

An evaluation study of old age pension schemes in Karnataka carried out by GRAAM (2012) shows gross divergences between the number of beneficiaries and demographic trends for the population group. This implies that there are irregularities in terms the number of beneficiaries in some districts, this being significantly higher than the population estimates based on census trends. This is neither specific to Karnataka nor to this scheme. Nevertheless, this can be taken as an illustration of the extent to which such practices can distort the intent and allocations of such schemes.

2.4.16 Re-structured Accelerated Power Development and Reform Programme (R-APDRP)

This programme is aimed at reforming the urban power institutions and reducing the losses. The programme has 3 components: a. establishment of baseline data and IT application for energy accounting and auditing and consumer services; b. Distribution strengthening projects aimed at reducing Aggregate Technical and commercial (AT&C) losses and c. enabling component for implementing the scheme. Towns with population more than 30000 (more than 10000 in special category states) are eligible for assistance. The states are required to constitute State Electricity Regulatory Commission and achieve the target of reducing the AT&C to the utility level of 15 percent. The Utilities having AT&C loss above 30 percent was expected to reduce the losses by 3 percent per year while the Utilities having AT&C loss below 30 percent was expected to reduce the losses by 1.5 percent per year.

The scheme has both loan and grants components from the centre. The centre provides 25 percent of the total cost (90 percent of cost in case of special category states) as loans, of which 50 percent (90 percent of loans in special category states) can be converted into grant on sustained reduction of AT&C losses for 5 years. The Government of India assesses the reduction in losses on annual basis at the end of the financial year through an independent evaluation process. The entire loan can be converted into grant if the project is finished in 3 years and approved by the Government of India through independent evaluation. We could not locate any data in public domain on loss reduction and conversion of loans into grants, as only the baseline data is available so far.

In general, the disbursements are quite low against sanctions. West Bengal received the highest (57.12 percent) disbursement against the sanctioned amounts while Karnataka received 30 percent, Puducherry 16 percent and Bihar 29.99 percent in part A. In Part B, Assam received the highest disbursement (30.01 percent) while it was 15.01 percent in Karnataka and 4.58 percent in Chhattisgarh.

2.5 Analysis of Guidelines: Incentives and Disincentives

Centre-state funding patterns vary for different schemes. The presence of features that act as incentive or disincentive for the state to actively participate also determines the interest and performance in a particular scheme. Also, the same feature can be viewed as an incentive or a disincentive by different states. Here, we have isolated two main features that seem to act as incentive or disincentive based on our consultations and study of guidelines.

2.5.1 Centre State sharing Patterns

The pattern of assistance varies for these schemes: while some are 100 percent centrally assisted, others are on sharing basis where the respective state governments also take the partial burden of funding. Only five out of sixteen flagship schemes are fully funded by the Centre (see Table 6 below). Four out of these five, namely JNNURM, NSAP, RKVY and R-APDRP are Additional Central Assistance and only PMGSY is a centrally sponsored programme. The states contribute some percentages, this generally being less for the special category states, in the rest of schemes. The states' share ranges from 10 percent to 50 percent while some schemes also have provisions for user contribution. In some cases, different sharing patterns are followed for different components in the same scheme. MGNREGA and NRDWP are two such programmes among this group of sixteen. The rationale for the state share comes from several bases. One is the notion of joint responsibility for providing that specific service for the centre and the state. A more compelling argument from the central government's side is that of ownership, accountability and absorption. This is especially so in cases (i) where the primary responsibility is considered to be that of the state and the salary or maintenance liabilities are going to be high (e.g., SSA), or (ii) where the emphasis is on reform (e.g., RGGVY).

Table 6: Centre-state sharing pattern

S. No	Scheme	Centre's Share	State Share
1	SSA (2012 onwards)	65%	35%
2	NRHM	85%	15%
3	NHM	85%	15%
4	PMGSY	100%	-
5	TSC	80%	20%
6	MNREGA	100% (of wages for unskilled manual work) 75% (of material cost of the scheme)	25% (of material including payment of wages to skilled and semi skilled workers cost) 100% (of unemployment allowance by state government)
7	RKVY	100%	-
8	RG GVY	90%	10% by Rural Electrification Board as loan to state
9	Mid Day Meal	150 grams of food-grains per child, a cooking subsidy of Rs.1.50 and a transportation subsidy of Rs.1.80	A matching contribution of Rs.0.50 for cooking and transportation
10	ICDS	90% (except nutrition where 50%)	10% (except nutrition where 50%)
11	AIBP DPAP blocks Non DPAP Blocks	90% 75%	10% 25%
12	NRDWP		
	30% for coverage	50%	50%
	Water quality and O&M	50% (90 for NE and J&K)	50% (10 for NE and J&K)
	Sustainability, DPAP, natural calamity, other support	100%	-
13	JNNURM	100 %	-
14	IAY*	60%	28%
15	NSAP	100%	
16	R-APDRP	100%	

**the IAY has a beneficiary contribution of 12%*
Source: Ministry of Finance, Government of India website

However, consultations reflected two kinds of concerns where sharing patterns act as disincentive; one is administrative while the other relates to fiscal issues. The administrative concern is related more to schemes where the funding patterns are different for different components and therefore making it as much more complex for monitoring. The fiscal issue is more serious where some states, usually resource-poor ones, find it difficult to release their shares in time, which in turn has an impact on releases, expenditure and overall performance of the scheme. For instance, under ICDS, states were supposed to provide supplementary nutritional support till 2005-06 but most states, especially where the nutritional levels are poor, were not providing supplementary nutrition citing resource as a constraint. The pattern was changed to 50-50 for this element (90-10 for NE states) since then. There are arguments on both sides: while the Centre considers it necessary for ensuring the state's commitment and reprioritization, the states argue that sometimes this clause goes against the very objective of equity and regional balance, and acts as disincentive for resource poor states.

Another feature of the sharing pattern which acts as an incentive or a disincentive is the provision for staff cost. If the scheme has provision for staff costs, it acts as an incentive. Any provision for capacity building of staff is also viewed as an incentive. While some schemes have provisions for additional staff (e.g., SSA), some have no provision for any additional staff (e.g., PMGSY). Consultations with respective departments had suggested that paucity as well as competence of staff acts as a major constraint in delivery and at times gets reflected in poor expenditure pattern and in turn low releases.

2.5.2 Additionality and non-substitution clauses

A number of these schemes also have the clause that the budgetary allocation to particular sector will have to be maintained (for example, agriculture in RKVY and social protection in NSAP, health in NRHM are supposed to maintain / increase their sectoral allocations as part of the total budgetary allocations) or particular components already being supported by a state government would not be funded by particular schemes (for instance, the states that had already introduced free textbook distribution to children before SSA, the SSA was not going to support that component there). These clauses are meant to ensure that the respective states do not substitute their own investments / commitments by using the scheme, and the fund flow coming through the scheme remains additional.

Again, there are arguments on both sides: while the Centre feels it is perfectly legitimate to have such clauses as the very rationale for CSS and ACA is to provide additional support and also reduce regional imbalances, the states that have traditionally been resource rich and / or have invested more on particular sector / component at times feel they are the 'losers' in the process. In that sense, it acts as a disincentive for future – the states feel that they should refrain from investing in the sectors / components that are likely to see greater central investment. On the other hand, the argument in favour of such prioritization and conditionality runs on the ground that the country is not a federation and guided by 'national' goals and priories, and hence the central government has a responsibility towards the sectors where we still have major gaps, and if the gaps happen to be concentrated in certain states, they should get higher shares from central allocations.

A related issue is that of institutional capacity and efficient delivery. The states that have been resource poor and remained deficient in various indicators, usually also have weak institutional capacities and therefore many a times yield less 'value for money'; the investments do not lead to as high results as elsewhere because of a number of factors including higher leakages. There comes the role of emphasis on reforms including those that enhance institutional capacities and builds accountability mechanisms. We discuss this in the following section.

2.5.3 The reform agenda

Most schemes started in the 1990s and later period emphasize institutional reforms in respective sectors. JNNURM is the most visible example where urban reforms are a clear agenda. The objective is that Urban Local Bodies (ULB) and para-statal agencies become financially sound with enhanced credit worthiness and ability to access market capital for improved services and becoming more amenable to public private partnerships. While certain reforms have to be initiated at district level, a few have to be undertaken at state level. The areas of intended reform include accounting, rationalization of taxes and user charges, services meant for urban poor, land ceiling, rent control and various other acts related to building, registration of property, etc.

Another example is NHM, where the very cluster approach requires a kind of reform and reorganization. NRHM requires states to increase health budget every year, to increase the devolution of powers / responsibilities to PRIs and benchmark the performance indicators. MGNREGA also presupposes strong and empowered panchayats to be able to consolidate demands and make comprehensive plans. Some schemes have been trying to encourage fiscal prudence. The focus on bringing down the operational & maintenance costs and reducing the losses of the electricity authorities in respective states in R-APDRP reflects this. The readiness for such schemes is higher in states with stronger fiscal positions and institutional structures. These states may already have initiated some reforms and are obviously at an advantage for implementing such schemes. Poorer states, on the other hand, are less ready and therefore more likely to perform badly. This creates a vicious circle of resource-crunch, weak institutional capacities, low level of economic activities and low absorption capacity in these states.

2.6 The role of political economy

The literature emanating from the areas of federal polity and finance has focused on political economic side of centrally sponsored schemes. These have pointed out to a number of issues. We examine some of these here based on the analysis of guidelines as well as drawing from consultations.

2.6.1 Centre - state ruling combinations

As mentioned earlier, the analysis of expenditure / release trends do not support the argument that the ruling party/ coalition at the centre is biased against the opposition- ruled states. The opposition ruled states have received higher relative allocations in per capita terms and vice versa. There is no particular trend on either side and therefore it becomes difficult to support this argument on empirical grounds per se. Consultations with a number of senior civil servants having served in various capacities at Centre as well as in different states also seemed to suggest that such considerations rarely override the objective criteria/ performance linked assessments for allocations or releases in central plan transfers. Most of them opined that even if such considerations at times surface in cases of special area programmes, they are rarely at the cost of need/ defined criteria.

2.6.2 Bureaucracy – political leadership tension

Consultations revealed that there is also a tension between the perspectives of the bureaucracy and the political bosses. In general, the bureaucracy prefers the presence of clear guidelines based on well-defined criteria, though they are critical of rigid norms for disallowing inter-component transfers. On the other hand, politicians prefer flexible funds where guidelines are broad and allow greater room for local discretion. The bureaucracy views it as political interference, the scope for which is higher in absence of well-defined guidelines. While greater possibility of technology based data being accessible with a lesser time gap has increased the use of information based interventions, it has reduced the role of elected representatives to that extent. There obviously exists a tension between bureaucratic and political control. This is also reflected in the bureaucratic tilt towards the Society/ para-statal bodies' mode of fund transfer as compared to the treasury mode.

A number of new CSS/ACAs are being funded through the Society/non Treasury route; this includes SSA, NRHM, JJNURM, MGNREGA, RGGVY and IAY among others. The arguments for this mode include: (i) faster fund flow and speedy implementation by avoiding the delays in approval and release of funds, (ii) flexibility in implementation by hiring consultants and contractual staff, and (iii) prevents diversion of funds and assures that the funds are used for the designated purposes. The arguments against the Society models are: (i) the accountability of the state government apparatus is reduced, (ii) high chances of fund misuse if the proper audit system is not in place, (iii) creating parallel structure does not strengthen the capacity of the respective departments, (iv) consolidation of public money spent in the state becomes difficult, and (v) convergence of activities becomes difficult at the state level despite a lot of emphasis on the same, as the department is often directly not involved. Therefore, in some cases, these become counterproductive by acting against the very systemic reform they want to promote in states, as they are not implemented through direct machinery of the state. The Society mode is usually preferred by the central line ministries as it allows them greater control on the design and processes, and the state bureaucracy also finds it easier to align with them rather than the state political actors.

2.6.3 Convergence and inter-departmental coordination

Most schemes covering end to end sectoral issues put high emphasis on convergence in terms of planning and execution responsibilities, as well as in terms of accessing / pooling funds. To illustrate, one can take RKVY's example where the state's agriculture plan has to take note of the schemes/ plans of a number of departments including Rural Development, Animal Husbandry, Dairying and Fisheries, Soil and Water Conservation, MGNREGA, BRGF and Bharat Nirman.

While it is a welcome step to avoid duplication of efforts and wastage of resources, it involves coordination and consensus building which is not very easy given the strong culture of parallel departmental functioning. One example is anganwadis run under ICDS, where the pre-school component has been repeatedly been pointed out as weak but despite several efforts, the departments of Education, and Women & Child Welfare have not necessarily been able to work together. This is just one example. This departmental functioning also acts as a hurdle in the reform process. The states where inter-departmental coordination is relatively better are able to perform better in the schemes that demand convergence.

3.0 State to District transfers

Majority of the flagship schemes are governed by Society node and therefore do not transfer money from state to districts using treasury. A number of them use core banking system and therefore do not face the constraints associated with the fund flow through treasury. As is clear from the discussion above, the majority of these schemes are rooted in district/block (taluk) plans and therefore the central allocations in such cases are for district/block levels and include the state component separately. The respective state plans are usually a collection of district and state component plan.

The scheme guidelines include the details regarding the content and process of district/ block plans and the appraisal processes take those into account. Most financial norms are also district or block specific depending upon the nature of a particular scheme. In such cases, same norms that guide the transfers from the Centre to states also guide the transfers from the state to districts or below: a mix of need, reform, performance and absorption capacity playing the major role. For instance, North-eastern Karnataka districts generally emerge as needier in case of most development oriented schemes because of the poor education, health and other development indicators and in many cases receive more funds. We present here SSA allocations for North eastern Karnataka districts for two financial years just as an illustration:

Table 7: Financial Allocations under SSA and EDI Rankings, North-Eastern Districts, Karnataka

Districts	Total No of Schools (DoE + Pvt Aided)		Total Allocation in Rs lakhs		Per School Allocation		EDI Ranking
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09/2009-10
Bellary	1404	1439	4737.88	4737.88	3.37	3.29	25
Bidar	1387	1441	3306.3	3306	2.38	2.29	24
Gulbarga	1666	1958	10658.68	10658.68	6.40	5.44	28
Raichur	1459	1533	5392.25	5392.25	3.70	3.52	29
Koppal	957	992	3245.6	3245.6	3.39	3.27	27
Bijapur	2017	2056	5583.81	5583.81	2.77	2.72	26
Bagalkot	1327	1406	4175.49	4175.49	3.15	2.97	21
Karnataka	**47925**	**48891**	**94727.48**	**94727.48**	**1.98**	**1.94**	

**Per School Allocation is an average calculated by dividing the total funds allocated to the District divided by the total number of schools (Government + Government-aided) in the district.*
***Source:** Financial Allocations compiled from Annual Report SSA Karnataka 2008-09 and 2009-10, Per School allocations estimated.*

The average per school allocation is much higher in the North-Eastern districts as compared to the average for the whole of Karnataka. This is despite the fact that (i) certain facility-based (school, hospital, health centre, school) allocations under programmes like SSA and NRHM are uniform for the scheme, i.e. any school or sub-centre will receive the same grant every year irrespective of the size of the number of students enrolled or the population being served, (ii) the districts would have got lower releases than approved budget because of the inability to spend earlier receipts fully. This is due to the weak institutional base, which in turn affects their performance and subsequent quantum of the release of funds from the state. Institution rather than population based norms themselves could be iniquitous in some cases; we illustrate this with the help of an example from NRHM.

Under NRHM, all health facilities are provided with a specific sum of money as untied grants which can be used by the health facilities as per its discretion in order to improve the quality of services. There are 3 different kinds of funds that are flexible in nature and disbursed to health facilities in Karnataka under NRHM, namely, the ARS (Arogya Raksha Samiti) Corpus Grant, AMG (Annual Maintenance Grant) and Untied Funds. The purpose of the funds is to decentralize the planning and implementation of innovations and facilitate local level liquidity of funds. However, the utilisation rate of these funds has been low as can be seen in Table 8: A joint study by CBPS and SHSRC (State Health Systems Resource Centre, Karnataka) looking into the reasons for low utilisation rates and the ways to improve this and based on primary data collected from Udupi and Bangalore Rural recommended differential financing instead of uniform facility based financing taking the population size to be served as the main base for defining the need. The study shows that money can be used much more efficiently by changing the base for devolution.

Table 8: Funds disbursed to health facilities at different levels under NRHM, Karnataka (Rs. In Lakh)

Grant	2009-10			2010-11*		
	Budget	Expenditure	%	Budget	Expenditure	%
Untied Grants	4,645	1,942	42	4,487	1,581	35
ARS (Corpus Grant)	2,675	1,963	73	2,602	1,151	44
AMG	1,519	1,390	91	1,831	767	42
Total	8,839	5,295	60	8,920	3,499	39

**from 1 April 2010 to 31 December 2010*

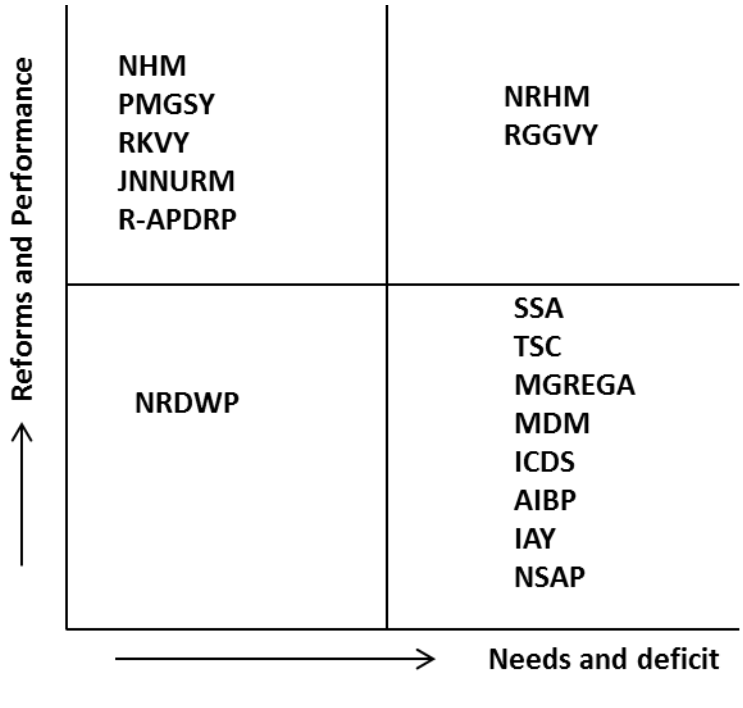
Source: National Rural Health Mission, Karnataka

The role of political economic factors especially in terms of political considerations overriding the objective criteria does not seem to be playing a major role. The presence of guidelines and criteria is often used by the bureaucracy to avoid political interference and is hence considered helpful. However, considering the smaller sizes of the constituencies, political vigilance of the distribution of funds at state level is somewhat greater than the central level. Political considerations also often play a role in reallocations, if not in the original approvals, as low performance and utilisation rates in particular districts open doors for other districts that may not be very high on need but may have better capacities for spending.

4.0 Conclusions and Suggestions

The analysis of 16 flagship centrally funded schemes under CSS /ACA mode makes it clear that transfer of plan funds from centre to states and districts is based on a variety of considerations ranging from equity and regional balance to institutional reforms, and from performance and absorption capacity to political economy. The guidelines of the schemes in most cases are fairly clearly drafted and transparent. They have also evolved in some cases to suit the emerging needs of the states but each of them are more tuned to the sector/issue specific situation and requirements. There is an attempt to make / modify the guidelines to suit diverse needs of states / districts with varying levels of success.

As mentioned in the beginning, some of these schemes are more dependent on objective criteria and some others are more dependent on the state / district / block / GP plans. While the former is largely, though not necessarily, is beneficiary oriented, the latter is largely, again not necessarily, systems / service oriented. Reforms, performance and absorption capacity play a role in all of them to a varying degree. The diagram below classifies these 16 schemes in four quadrangles to depict the relative emphasis on the need and regional disparity on one hand, and reforms and performance on the other. Six out of 18 are clearly more tilted towards higher deficit states and thus focusing on regional parity as well. Five are more geared towards reforms and performance, while two emphasize both needs and reforms in almost equal manner. The guidelines and financial trends did not show any clear tilt towards one or the other and that is why we have put it in the quadrangle that is low on both counts.



The releases/ expenditure data are hard to get and the available ones do not depict any clear trend because of the emphasis on multiple factors where one could counteract against the other, i.e., a high-need state may be poorly performing and therefore receiving less funds. In the end, no state is uniformly receiving high or low funds. Political economy in terms of ruling party combinations also does not appear to influence allocations in any significant manner.

However, increasing size and the criticality of the sectors where the money is going have made the central government much more important and influential in areas that are largely the state subjects. This may be viewed as lending itself to the argument that the Centre is increasingly using central plan funds to weaken the federal structure of the country. On the other hand, as a counter, it can be argued that Centre has ensured investments in the desired sectors such as education, health, sanitation, water, roads/ connectivity. These are issues of national importance and with the country's commitment to MDGs and other international development indicators the national government has the responsibility of ensuring such prioritization. Our analysis suggests that there is a bit of truth in both. The investments in desired sectors have gone up but so has the central government's role and influence in these areas that are state subjects.

Some of the schemes are also a response to judicial activism leading to Supreme Court judgments that made the national government accountable to fulfill certain responsibilities. MGNREGA and MDM are two such examples. MGNREGA which occupies nearly one fourth of the central plan transfer through schemes was in response to the right to food campaign where the Supreme Court gave a judgment making the national government responsible for food security. MGNREGA aimed at livelihood security was one response. The universalization of the midday meal scheme whereby all children in primary and upper primary schools get a cooked, hot meal every day was also in response to the same judgment.

In this context, a reference to the sources of funding used for these schemes is also important. In addition to the central share of the divisible pool of tax collection, the central governments have also accessed two other sources for funding the central plan transfers. One is the new surcharges and cess meant for specific purposes. The most obvious examples are cess on education and High Speed Diesel. Half of the cess on High Speed Diesel (HSD) is earmarked for PMGSY, which is a fully centrally funded scheme. Education cess at 2 percent and secondary and higher education cess at 1 percent of income-tax are applicable for all income tax payees. The resource generated through 2 percent education cess has been used to fund midday meal and SSA. Although there is no direct link between those who pay and those who are direct beneficiary of the services, the payers usually know the use of these resources unlike the taxes where that link is absent by the very definition.

The other source commonly used by the central governments has been international agencies. Funds have come both in the form of grants when sourced from UN, bilateral (e.g. DFID, USAID) or multilateral (European Union) agencies and in the form of loan, usually soft loan, when sourced from multilateral agencies such as the World Bank or Asian Development Bank. In such cases, the central government is accountable for repayment and therefore the risk bearer. Grants do not bear any such risks. Whatever the source, whether grants, loan or own resources, the value for money comes only when the investment is efficient and leads to desired changes.

It is beyond the scope of our study to assess whether or not the investments made under such schemes were efficient and effective. However, what emerged clearly that though well-intended, many of these schemes are not leading to desired results. Chaturvedi committee points out that the distinction between CSS and ACA based schemes is artificial as both are conceptually the same. Greater clarity in such definitions is indeed desirable. It would be worth considering merger of schemes on certain criteria, as suggested by Chaturvedi Committee Report (2012) and introduce flexi funds at least for a small amount and then gauge the impact.

Our earlier study on CSS has suggested three major principles for merging the schemes to reduce the number. The first is to merge duplicating/similar benefit schemes. For instance, difference departments are running health insurance schemes with similar objectives leading to high operational costs. Similarly, there exists a number of social security schemes also run by different departments. They can be merged after considering the pros and cons. The second principle is to have a weeding out exercise for old schemes and a sunset clause for the new schemes. All schemes that have been in operation for than two plan periods should be examined for the possibility of weeding out. The third principle is linked with the scale of the scheme and its relationship with efficiency, effectiveness and impact. The smaller schemes less than an allocation of 300-400 crores should be assessed in terms of efficiency and effectiveness and weeded out or merged in the umbrella scheme. The states can be given an option of choosing 20-30 schemes based on its core indicators from a menu of schemes available with the Centre.

The risks associated with the introduction of flexi funds, as identified by the departments, include the possibilities of vested interests influencing the investments at the cost of real priorities, and diversion of funds in paying salaries and financing state sectors schemes. Well-designed and detailed guidelines and monitoring system need to be in place to minimise such risks. Flexi funds can also be used an incentive for states that have made greater investments in particular sectors. For instance, Karnataka and other states who had introduced free textbooks before SSA initiation could be given the equivalent amounts as flexi funds to be used for some other purposes within the sector.

Strengthening of information systems would also help in streamlining the planning and monitoring of schemes, leading to a difference in performance. One way of doing this could be through developing district level information system to be used for all the sectors rather than parallel development of systems based on sector/department. The district could be tracked for about commonly agreed list of indicators and then be ranked or classified under agreed small number of categories.

Any reform in centrally sponsored schemes is also dependent on the reform in delivery machinery where the departmental functioning is deeply-entrenched and prevents sectoral or spatial approach to take roots. We consciously refrain from making any suggestion for any changes in the guidelines as it requires detailed study of each sector and, as stated earlier, the trends are not so clear to make any broad comment in general.

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Annexure

State, UT/ Scheme	Table A: Releases based on State Proposals rather than predetermined allocations															
	SSA		NRHM		NHM		PMGSY*		TSC		MGNREGA		RKVY		RGGVY#	
	Aggregate per capita (Rs)	Rank	Aggregate per capita (Rs)	Rank	Aggregate per ha (Rs)	Rank	Aggregate per village over 1000 population (Rs)	Rank	Aggregate per capita (Rs)	Rank	Aggregate per capita (Rs)	Rank	Aggregate per ha (Rs)	Rank	Aggregate Per capita (Rs)	Rank
Andhra Pradesh	1506	13	281	15	3703	11	1475138	11	20	12	2603	2	584	12	71	10
Bihar	3146	5	367	7	2030	14	3366676	5	35	6	588	11	944	4	266	5
Chhattisgarh	4902	1	341	10	22135	2	4027767	4	57	1	2317	3	1057	3	359	3
Gujarat	1115	15	373	6	3564	12	763538	16	25	7	424	13	788	7	70	11
Haryana	2174	9	378	5	29333	1	1668924	10	18	13	234	14	844	5	79	9
Jharkhand	4455	2	313	14	15997	3	2531763	6	39	4	1682	5	520	15	945	1
Karnataka	1928	11	352	9	6402	7	2242848	8	24	9	1130	7	802	6	57	12
Kerala	1094	16	357	8	4021	10	41822785	1	9	15	518	12	1375	2	18	16
Madhya Pradesh	3387	4	395	3	8140	5	4288073	3	55	2	2286	4	533	14	201	6
Maharashtra	1363	14	325	12	4397	9	1848170	9	25	8	109	16	677	10	90	8
Odisha	3052	6	446	2	1586	15	5774669	2	38	5	911	9	730	8	831	2
Punjab	1880	12	315	13	6463	6	1461925	12	3	16	162	15	691	9	35	13
Rajasthan	3592	3	544	1	11065	4	2426844	7	16	14	3523	1	443	16	123	7
Tamil Nadu	1944	10	329	11	4880	8	1158029	15	21	11	1240	6	572	13	32	14
Uttar Pradesh	2218	8	389	4	2868	13	1331123	13	49	3	1067	8	9045	1	27	15
West Bengal	2566	7	280	16	451	16	1195324	14	23	10	836	10	640	11	303	4

Note:

1. Aggregate Per capita is estimated based on the Population size for each scheme.

2. The aggregate releases were calculated by summing the releases for the time period 2008-2011.

3. * PMGSY release data are shown, # Amount Disbursed is considered for estimation purpose

4. Denominators used

- Sarva Shiksha Abhiyan (SSA): number of children aged 7-13 years (as census data did not give 0-6 years children data at disaggregated level). (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Social_and_cultural/Educational_level_and_Age_groups.aspx)
- National Rural Health Mission (NRHM): Denominator used total rural population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Total_Population.aspx)
- National Horticulture Mission (NHM): Denominator used per hectare horticulture area
- Pradhan Mantri Gram Sadak Yojana (PMGSY): Denominator used number of village over 1000 population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Number_of_Villages_bet_1000_4999.aspx)
- Total Sanitation Campaign (TSC): Denominator used total rural population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Total_Population.aspx)
- Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA): Denominator used total rural population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Total_Population.aspx)
- Rashtriya Krishi Vikas Yojana (RKVY): Denominator used per hectare cultivated area
- Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY): Denominator used total rural population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Total_Population.aspx)

State, UT/ Scheme	**Table B: Central Allocation based on criteria**													
	MDM		ICDS		AIBP		NRDWP^		JNNURM		IAY		NASP	
	Aggregate per capita (Rs)	Rank	Aggregate per capita (Rs)	Rank	Aggregate per ha (Rs)	Rank	Aggregate per capita (Rs)	Rank	Aggregate per capita (Rs)	Rank	Aggregate per capita (Rs)	Rank	Aggregate per capita (Rs)	Rank
Andhra Pradesh	809	16	953	4	4520	5	148	8	1397	1	603	2	134	8
Bihar	1195	9	422	16	690	10	95	15	237	16	885	1	199	3
Chhattisgarh	2288	1	978	3	3202	6	121	13	742	4	0	16	226	1
Gujarat	936	14	673	13	1477	8	355	1	922	3	504	5	30	16
Haryana	1120	13	807	10	0	..	222	5	389	14	147	14	58	13
Jharkhand	1425	6	809	9	22419	1	102	14	275	15	581	3	222	2
Karnataka	1133	12	823	8	5664	4	300	3	656	5	354	6	165	7
Kerala	1154	10	1098	2	378	13	122	12	410	12	255	9	51	15
Madhya Pradesh	1594	4	738	12	2907	7	153	7	550	8	242	11	174	6
Maharashtra	1551	5	772	11	18034	2	240	4	1177	2	518	4	76	12
Odisha	1646	2	1123	1	9980	3	131	11	455	11	352	7	177	4
Punjab	1142	11	934	5	422	12	136	10	395	13	310	8	51	14
Rajasthan	1337	7	550	14	605	11	352	2	502	9	119	15	82	11
Tamil Nadu	1298	8	854	7	0	…	193	6	560	7	249	10	118	10
Uttar Pradesh	845	15	485	15	754	9	144	9	622	6	208	13	174	5
West Bengal	1636	3	883	6	360	14	78	16	469	10	233	12	119	9

Note:

1. Aggregate Per Capita is estimated for each scheme based on the population size.

2. The aggregate releases were calculated by summing the releases for the time period 2008-2011.

3. ^With effect from 1.4.2009 rural water supply programme and guidelines have been revised as NRDWP

4. Denominators used

- Mid-Day Meal (MDM): Denominator used total number of children aged 7-13 years (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Social_and_cultural/Educational_level_and_Age_groups.aspx)
- Integrated Child Development Services (ICDS): Denominator used total number of children aged 0-6 years (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Social_and_cultural/Educational_level_and_Age_groups.aspx)
- Accelerated Irrigation Benefit Programme (AIBP): Denominator used per hectare irrigated area
- National Rural Drinking Water Programme (NRDWP): Denominator used total rural population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Total_Population.aspx)
- Jawaharlal Nehru National Urban Renewal Mission (JNNURM): Denominator used total urban population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Total_Population.aspx)
- Indira Awas Yojana (IAY): Denominator used total rural population (http://www.censusindia.gov.in/Census_Data_2001/Census_Data_Online/Population/Total_Population.aspx)
- National Social Assistance Programme (NASP): Denominator used total BPL population (Planning commission and census of India)