

Speech for Hon'ble Chief Minister of Tamil Nadu

Prime Minister's Meeting with Chief Ministers to discuss the New Institution to replace the Union Planning Commission

7th December, 2014, New Delhi

Hon'ble Prime Minister,

Hon'ble Union Ministers,

Hon'ble Chief Ministers,

Senior Officials,

Vanakkam!

It is my proud privilege to be addressing you at this meeting on behalf of the Government of Tamil Nadu with the blessings of my Beloved Leader Puratchi Thalaivi Amma. Hon'ble Prime Minister, in your address to the nation from the ramparts of the Red Fort on Independence Day, 2014, you had announced that the Union Planning Commission in its present form would be abolished and replaced with a new organization. The background you provided to the decision was

that States are now at the centre of development and that India's federal structure was more important today than at any time in the past 60 years and hence the States should have a greater role in the direction that the Nation takes.

2. We in Tamil Nadu, under the leadership of Puratchi Thalaivi Amma have always strongly pleaded for an increased role for the States in the development and nation building process and for greater fiscal autonomy for States. It is our belief that a Strong Union can emerge only out of Strong States and India's governance structure has to incorporate more and more federal features.

3. As a Chief Minister of a large State for a significant period of time you, Mr Prime Minister, are well placed to understand whether the Union Planning Commission has a continued relevance in its present form. On behalf of the Government of Tamil Nadu and guided by the vision and direction provided by my Beloved Leader Puratchi Thalaivi Amma, I shall lay before this august gathering certain points for consideration.

4. The original Government of India Resolution, dated 15 March, 1950, setting up the Planning Commission provides a fairly simple and robust exposition of what the Planning Commission was expected to do: make an assessment of the available resources, formulate a plan for their effective utilization, determine priorities and sequencing of implementation, identify the factors retarding economic development and measures to tackle them, identify the executive machinery to execute the plan, and to periodically appraise the progress and suggest policy correctives. By themselves, these were unexceptionable objectives. The Commission was to work in close co-ordination with the Central and State Governments and consulting with all interest groups. It was also intended to be purely an advisory body with executive responsibility vesting with the Governments.

5. The issues with the Planning Commission have arisen in actual practice. The process of consultation, particularly with the States has been weak. Over the years, there has been accretion of direct executive functions with a dilution of the advisory function. The body has failed to wield the necessary intellectual clout, partly because of shortcomings in its own composition and also because of greater

intellectual capacity elsewhere in Indian society. Publicly funded schemes are one of the interventions, rather than the only intervention possible in development. But the focus of planning continued to remain on fund allocations and less on other key aspects impinging on the growth of a sector – including non-financial policy action and effective regulation. This gap became more and more apparent as the role of the private sector grew and particularly after the opening of the economy. States have become more and more frustrated with the meaningless ritualistic exercises that Annual Plan discussions and NDC meetings had become. We saw little of value coming out of these meetings and discussions. Neither did we receive schemes, funding support or policy clearances nor were we heard. My Beloved Leader Puratchi Thalaivi Amma was not even given an opportunity to complete her speech in the last NDC meeting. The solutions we attempt must be mindful of this background.

6. Hon'ble Prime Minister, you had highlighted the need to bring States to the centre of the development process as the primary motivation to replace the Planning Commission. This is a welcome emphasis. In our Constitution, for reasons of administrative efficiency

and convenience, more of the taxation powers are vested with the Central Government. But the responsibilities for actual delivery of many resource intensive public services - maintenance of public order, public health, agriculture, education and social security are vested with the States which are much closer to the people.

7. In the decades since the founding of the Planning Commission, India has changed considerably and for the better. The economic forces that operate in the country today have changed the relative roles of the Central and State Governments. The role of the Government at the Centre is now much more that of a facilitator through economic policy making, while the role of the State Governments, as providers of public goods including maintenance of public order and provision of social and economic infrastructure has grown. States have had to spend more to provide a social safety net for the poor in particular. Investors decide location of industry not on the basis of a license issued by a Central Ministry, but on the basis of where quality public services and infrastructure including well maintained rule of law and public order, a well-educated, healthy workforce, good quality roads, power and other services are available.

All this implies that the resource needs of the States have increased significantly.

8. More importantly, State Governments, which are engaged in the direct provision of many services, have also demonstrated their greater efficiency and effectiveness in the delivery of such services. Many of the best success stories in service delivery have come from States. Tamil Nadu has been a front runner. The introduction of the Nutritious Mid-Day Meal programme by Puratchi Thalaivar Dr MGR, the introduction of Old Age Pension schemes and the continued implementation of a universal Public Distribution System are some standing examples of Tamil Nadu's model initiatives. Our Beloved Leader Puratchi Thalaivi Amma has pioneered many path breaking initiatives including the Cradle Baby Scheme, the Girl Child Protection Scheme, the free distribution of laptops, fans, mixies, grinders, milch animals, sheep and goat units, and the internationally acclaimed Amma Unavagams.

9. We have also seen a steady shift in real political and economic power away from the Centre. State level parties and leaders

are now far more significant players. These should not be seen as centrifugal or fissiparous trends that have to be curbed, but as a manifestation of India's maturing as a nation with diversity and as a democracy. State Governments must be empowered and incentivized to perform effectively and deliver peace and prosperity and growth and development to the people.

10. Unfortunately, although the economic and political role of the States has grown significantly and a federal polity has become more entrenched, the relationship between the Central and State Governments have remained stuck in a much older mind set. The general approach of the Union Planning Commission and of the Central Ministries to proposals and suggestions from State Governments has been arrogant and condescending. States' have been placed at the whim and mercy of different Ministries in Delhi to receive approvals and sanctions wherever such approvals are required. The elected State Governments are not regarded as equal partners in the governance and development process, but as mere local supplicants. It often seems to be forgotten that it is the same people who vote the Central

Government to power and also the State Governments. It is the same people whom both levels of Government need to serve.

11. Hence a very important element of the reform would necessarily be a systematic mechanism in the new institution to take on board the views of the States. State Chief Ministers must be given representation in the new body and the views of the States heard at different levels in the hierarchy of the organization to make planning a federally empowered function with active participation of the States. The background paper talks about developing Co-operative Federalism and institutionalizing it through a Council of Chief Ministers. We need to be careful to ensure that the Council of Chief Ministers does not become a ritualistic exercise similar to the National Development Council or the Inter State Council.

12. The proposed Council of Chief Ministers should be used to discuss issues concerning the nation and the Chief Ministers' views should be heard and given due weightage. Article 263 of the Constitution which provides for the setting up of an Inter State Council could provide the proposed Chief Minister's Council the requisite

Constitutional legitimacy and heft. This may require the merger of the existing Inter State Council Secretariat into the new institution. The Government of India must engage in policy co-ordination with the States in all seriousness and genuinely respect the views of the State Governments, for the new organization to yield the desired results.

13. For the Council to become a forum where the Centre and the States can discuss, debate and evolve mutually beneficial policies and programmes instead of a mere ceremonial meeting where opinions are sought but no action is taken, it is essential that the processes and procedures for the Chief Ministers' Council should be laid down clearly. Meetings should be held with adequate notice. Agenda papers should be finalized after due consultation and circulated well in advance. States should also have the opportunity to raise issues in the Council. To ensure that the distribution of powers between the Centre and States are respected, the discussion in these meetings could focus primarily on subjects covered in the Concurrent List and certain issues which find place both in the Union and State Lists of the Constitution. For instance, issues such as Inter State sharing of river waters by developing the National River Water Grid,

developing a co-ordinated policy in the energy sector to ensure an adequate supply of coal to generating stations, inter-regional transmission capacity, expediting environmental clearances for such projects are all areas which could be fruitfully discussed and a way forward found in the Council of Chief Ministers.

14. Given the challenges of economic development in India, there still is a strong case for an expert body that prepares a blue print for action with clearly laid down goals and objectives to be achieved within a given time frame. The body should address the basic issues that confront the economy and how to resolve them, securing the consensus of both the Centre and the States. Both a longer term strategic view and a medium term perspective are required. The Tamil Nadu Vision 2023 document launched by our Beloved Leader Puratchi Thalaivi Amma is an excellent example of such a perspective plan. I would urge that the New Institution should create sector wise Strategic Vision documents which would provide a longer term perspective of where the Nation aspires to be in that particular sector. At the same time, the medium term plan for a period of five years also continues to be relevant. Here the emphasis needs to be on how policy co-

ordination is to be achieved, resources are to be garnered and implementation mechanisms created to work towards the longer-term goals. Hence, the Five Year plans will not merely focus on outlays, but also on the policy measures required for private sector participants in economic development to contribute their mite in achieving the sectoral goals. The Perspective and Five Year Plans should provide sufficient elbow room for States to develop their own long and medium range plans.

15. An exercise of increasing irrelevance has been the Annual Plan discussions held each year to finalize the Plan size for each State. These discussions are held in three parts – a resources discussion, sectoral discussions at the official level and the discussion between the Chief Minister of the State and the Deputy Chairman of the Planning Commission to finalize the Plan outlay for each year. The discussions have become ritualistic with little value addition at the technical level and virtually no significant additional financial allocations. This ritual should be abandoned straightaway.

16. A more relevant question to be addressed is whether the Plan and Non-Plan distinction itself is relevant in the current context. The High Level Expert Committee on Efficient Management of Public Expenditure had recommended in 2011 that the distinction between Plan and Non-Plan expenditure is an artificial distinction which can be given up and the functional classification of expenditure available in the budgetary classification is adequate. Now, with the abolition of the Planning Commission as we know it, continuance of the Plan and Non-Plan distinction appears to be even less relevant. Although the background paper does not make a mention of this aspect, I would recommend that this distinction should be done away with, especially since no Annual Plan discussions will be held or Plan Targets finalized. States should be free to choose crucial schemes in the Infrastructure and Social sectors for close and careful monitoring.

17. The Planning Commission has had a significant role in the transfer of resources to States with 15 per cent of Government of India's expenditure transferred to States as Plan Assistance. Plan Assistance accounts for about 44 per cent of what the States receive as Central Assistance and covers both Centrally Sponsored Schemes

and Block Grants. Hence an immediate concern is about the mechanism by which resource flow to States will continue after the abolition of the Planning Commission.

18. There has always been a lack of transparency in the manner in which Plan funds are transferred to the States. These flows have never been predictable and they have tended to be discretionary and at times discriminatory. The situation is made worse by the fact that a State that performs well like Tamil Nadu does not receive its due share in Central Plan funds. According to the Twelfth Plan Document, Tamil Nadu receives just 4.328 percent in fund flow against 5.96 percent population share as per the 2011 census.

19. Plan funds transfer has become more complicated over the years with an increase in the number of players involved. Over the years, the proportion of funds allocated by the Union Planning Commission as "Normal Central Assistance" to the States has declined to just 15 per cent of the plan funds. More and more plan assistance flows as "Additional Central Assistance" and through Centrally Sponsored Programmes where different Central Ministries also play an

important role in deciding allocations to States. Details of even small projects in different sectors have to be sent to different Ministries in Delhi, presentations made and specific approval sought. While Tamil Nadu may be more efficient in accessing more funds for some of the schemes in such a mechanism, I sincerely believe that such discretionary transfers are not only a sub-optimal solution, but also deeply humiliating for the States. Hence, abolishing the role of the Union Planning Commission in the Plan funds allocation mechanism only addresses a small portion of the problem.

20. Further, Plan transfers have also been subject to arbitrary mid-year cuts. Year after year we have found that promised releases have not been made. Annual Work Plans are approved for many schemes and the States go ahead incurring expenditure to find themselves left high and dry later in the year when the Centre cuts back on its allocations and releases are not made. This not only hurts the State's fiscal health, but also affects effective scheme implementation. A significant portion of the revenue deficit problem now confronting many States stems from this pernicious practice,

which does not show signs of having abated even during the current fiscal year.

21. The abolition of the Union Planning Commission's allocational role by itself is not adequate to comprehensively overhaul Centre-State fiscal relations. We are at the cusp of history. We have the opportunity to re-order Centre-State financial relations in the country and make them reflect the contemporary reality of the political economy. I urge you to take a bold approach and effect the paradigm shift that is needed at this juncture. My Beloved Leader Puratchi Thalaivi Amma has already called for the greatest proportion if not the entire fund flow from the Centre to the States must be on the basis of the recommendations of the Constitutionally mandated Finance Commission.

22. To effect this shift and to abolish Centrally Sponsored Schemes, the Gross Budgetary Support which the Centre currently provides to support Plan expenditure, both at the Centre and in the States, should be excluded from the committed liabilities of the Central Government when the resources available with the Centre for

devolution to the States are assessed by the Finance Commission. Thereafter, I think it would be quite feasible for the Centre to share at least 50 per cent of its aggregate resources with the States under Article 270 based on the recommendations of the Finance Commission. A formula based sharing of 50 per cent of the Centre's tax revenues would not only appropriately balance the expenditure needs of the States and the Centre, but would also ensure a predictable, non-discretionary and non-discriminatory flow of funds to the States.

23. Only such a far-reaching change in the sharing of financial resources will deliver on the true intent of your announcement – of making State's equal partners in the process of development. Otherwise, States, instead of being at the mercy of the Union Planning Commission, would remain at the mercy of other Ministries of the Government of India and your noble goal will not be achieved.

24. Until such time that the far reaching changes of abolition of the Plan-Non-Plan distinction and routing all Central devolution through the Finance Commission route are effected, we may have to work with tweaks to the existing system. The background papers for

this meeting have also highlighted the recent restructuring of the Centrally Sponsored schemes. In the final days of the previous UPA Government, the Union Planning Commission took a decision that from the fiscal year 2014-15 onwards, the Central Plan outlay on all Centrally Sponsored Schemes released to States and their agencies would be classified as Central Assistance to the State Plan and included as part of the State Plan outlay. This arrangement was perhaps mooted to deflect the criticism that the Central Assistance to State Plans was increasingly becoming a very small proportion of the States' Annual Plan outlays. Hitherto only the States' matching share of expenditure on Centrally Sponsored Schemes was treated as State Plan outlay.

25. What States including Tamil Nadu had been demanding was that State Governments should not be bypassed and hence all Central Assistance for schemes being implemented by State Government agencies should be released through the State Budget to ensure better accountability. However, the new arrangement artificially boosted the size of the State Plan and also of the Central Assistance made available to the State Plan. This was more like an exercise of

presentational one-upmanship rather than any systematic attempt at reform. It also did not lead to any increase in flow of untied funds to the States. The larger plan now has schemes which may not reflect the priorities of the State and over the design of which the State would have little control. More importantly, the State will have little control on the financing of this portion of the plan outlay. This so called reform measure, undertaken in the last few months of the previous Union Government's term to be implemented in 2014-15, with a new Government in place is poorly conceived and needs to be urgently revisited.

26. The best occasion to review the continuance 49 centrally sponsored and 17 central flagship schemes is when the recommendations of the 14th Finance Commission are considered and the Budget for 2015-16 is prepared. While we would expect a substantially enhanced flow through the Finance Commission mechanism, it is possible that some Centrally Sponsored Schemes would continue. The following suggestions regarding the design of the schemes need to be considered:

- There has to be greater fairness in the criteria adopted for allocation of Central Assistance under such schemes. An approach which penalizes States which have already invested their own resources to provide basic infrastructure is neither fair nor does it incentivize performance. Aspiration levels in such States are rising and they cannot be deprived of their due share of resources and penalized for having utilized their own resources effectively to provide basic levels of infrastructure.
- The fund allocation formulae need to provide clarity and certainty on the level of allocation for the year to enable better planning and implementation. In certain cases, the National Agriculture Development Programme (Rashtriya Krishi Vikas Yojana) is an example, the allocation formula as structured at present causes great unpredictability and volatility in fund allocation and the formula could also be misused by manipulating budgeted outlays at the State level.

- In terms of sharing of expenditure the States' share should be limited to a maximum of 25% of the scheme cost in order to ensure that the States' own expenditure priorities are not distorted.
- States should be provided adequate certainty both in terms of allocation of funds each year and in terms of actual release in the course of the year. At times, annual allocations are not communicated till very late in the year. In many cases, promised allocations are subjected to arbitrary mid-year reductions. Non-release of committed funding is very disruptive and must be avoided. The release of Central share for any year should be in not more than two installments and the shortfalls in releases of previous years should be made good before current year releases are made.
- Substantial flexibility in the design of the flagship programmes is needed to cater to the diverse needs and the capacity differentials amongst States. Scheme design should provide broad sectoral allocation allowing greater

- flexibility to States to implement schemes based on local needs. The limits for flexible funds in all schemes should be substantially raised and should not be less than at least 25% of the allocation.
- Guidelines must allow States to dovetail Central scheme funds with State funds where there is a similar State Scheme where the coverage is better or level of benefit is higher. For example under the National Social Assistance Programme (NSAP), Maternity Benefit Schemes and Rashtriya Swasthya Bima Yojana (RSBY), the level of pensions, maternity benefit and medical insurance cover under corresponding State schemes in Tamil Nadu is significantly higher and hence convergence must be permitted.
 - Indexing of Financial Norms to rising costs is essential and the level of benefits should be automatically raised for example in the case of Old Age Pension amounts and the unit costs of houses under Indira Awas Yojana (IAY).

27. Tamil Nadu has an extensive hilly area which is covered under two special area development programmes administered by the Union Planning Commission - the Hill Area Development Programme (HADP) and the Western Ghats Development Programme (WGDP). These programmes cover a very unique geographical area and an ecosystem which requires specific attention and intervention. The proper environmental management of these hilly regions is of vital importance to not only Tamil Nadu, but to the country as a whole. The growing demographic and economic pressures on these ecological sensitive areas underlines the continued need to implement these programmes with substantially enhanced allocations and with the present funding pattern of 90 per cent grant from the Government of India.

28. The background note envisages an Innovation and Knowledge Hub role for the New Institution to replace the Union Planning Commission. The effectiveness with which the New Institution can play this role depends on the quality of knowledge and information that would be made available. It should be the high quality and value of the technical advice and support that attracts

States and other stakeholders to access the Hub. Mandates and fiats to seek advice or approval should be avoided. States are also building up capacity in some areas including Public Private Partnerships. Tamil Nadu under the guidance of my Beloved Leader Puratchi Thalaivi Amma has put in place a policy framework in the form of the Tamil Nadu Infrastructure Development Act, Rules and Regulations, along with the Tamil Nadu Transparency in Tenders (Public Private Partnerships Procurement) Rules. Tamil Nadu is the first State to have a legislative framework to deal with Public Private Partnership procurement. The Tamil Nadu Infrastructure Development Board is responsible for implementing this policy framework. Such initiatives taken by State Governments should also be appropriately recognized and supported by the New Institution.

29. Evaluation is undoubtedly a crucial function and the new body should have a strengthened Evaluation Division. Data and analysis of high credibility, particularly inter-State comparisons of performance in key sectors, documentation of successful initiatives and knowledge sharing platforms would be very useful. My Beloved Leader Puratchi Thalaivi Amma had recently announced a new

initiative in Tamil Nadu for evidence based policy making. The Department of Evaluation and Applied Research in Tamil Nadu is being strengthened. A Memorandum of Understanding has been signed with the Abdul Latif Jameel Poverty Action Lab (J-PAL) in Massachusetts Institute of Technology (MIT) to undertake evaluation of selected schemes in Tamil Nadu. Tamil Nadu would welcome a similar move towards empirical evidence based policy making at the Government of India level as well.

30. There have been suggestions that the restructured institution replacing the Union Planning Commission will also have divisions dealing with the Unique Identity Authority of India (UIDAI) and Direct Benefit Transfer. We are not sure whether these two initiatives, which are essentially executive functions, should be located in the New Institution. They would be better handled in the parent Ministries of the Government of India. Given the importance of these two initiatives, I would like to briefly comment on them.

31. I believe that greater co-ordination is required within the Government of India Ministries and with State Governments to ensure

that UIDAI achieves the desired outcomes. Given the limitations of its existing databases, Tamil Nadu has already put in place the State Resident Data Hub (SRDH) which will be the core database from which data will be drawn for all other applications. Since Tamil Nadu was a State covered under the National Population Register (NPR) exercise, the Registrar General of India is to share the NPR database with Tamil Nadu to form the basis for the SRDH. Hence, we request the Government of India to ensure that the NPR data centre is completed at the earliest and an online linkage provided to the data base so that all updations are carried out simultaneously in the SRDH and the NPR. It is also essential that the UIDAI, the Census Department and the Government of Tamil Nadu agree to a joint protocol under which UIDAI could continue to allow mutations which will be used as inputs for carrying out changes in NPR databases after due diligence by the concerned statutory authority. In addition, the RGI would need to provide the requisite support to the State Government to set up permanent enrolment centres through their vendors. The National Population Register Bio-metric Enrolment should also be expedited so that the entire field work is completed by March 2015. Civil

Registration System updation which is the software to support updation of births and deaths should also be activated. These steps would enable Tamil Nadu to ensure full digitization of the beneficiary data and populating it with Aadhaar numbers by March, 2015.

32. As the background paper has highlighted, Tamil Nadu has already adopted the mechanism of Direct Cash Transfer, through bank accounts to beneficiaries under schemes which involve conditional cash transfers including Scholarships, Maternity Benefits and Social Security Pensions on its own initiative. However, Tamil Nadu continues to have certain reservations about the Direct Benefits Transfer model proposed to be adopted by the Government of India. First and foremost, as my Beloved Leader Puratchi Thalaivi Amma has stated, in principle, Tamil Nadu is strongly opposed to any move to monetize and transfer in cash the subsidy element under the Public Distribution System including kerosene, and fertilizers, where the concern is not just the quantum of subsidy, but more importantly, access to and timely availability of commodities.

33. Tamil Nadu also strongly urges the Government of India to effect transfer of cash to the bank accounts of the beneficiaries only

through the State Governments as this would be an administratively sound practice, given the complexities in different schemes and varying Central and State Shares, and in keeping with the spirit of federalism which forms the backdrop to these discussions. The Direct Benefits Transfer Scheme, as envisaged by the UPA Government was unmanageable and would have created more administrative problems than it would have solved. It would also have led to lack of accountability. I am confident that in the light of the suggestions made by the States, including Tamil Nadu the approach to implementing DBT would now be revisited. If the objective of introducing Direct Benefits Transfer is to ensure efficient delivery, then the Government of India should route its funds through the State Government, which is already progressively switching over to the bank mode of disbursement for all its beneficiary oriented schemes. Further, more points of outreach should also be created for the convenience of the public by using Primary Agricultural Co-operative Societies and Post Offices as points of disbursal in addition to bank branches since the outreach of bank branches is inadequate to render doorstep service to many beneficiaries, including old age pensioners.

34. I thank the Hon'ble Prime Minister for this opportunity to discuss the contours of the New Institution to replace the Union Planning Commission. This is truly a historic occasion. I have placed before this august gathering the views of the Government of Tamil Nadu, ably guided by my Beloved Leader Puratchi Thalaivi Amma. I do hope that our views would be given due weightage and States will now find themselves full partners in the development process and together we are able to work to regain for the Nation a high growth trajectory.

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