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Ministry of Finance, Department of Economic affairs

(Fund Bank Division)

Sub: Guidelines for the release of additional Central Assistance to the State Government on account of externally aided projects

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Till 1978/79 additional Central Assistance to the Extent of 25 per cent of aid disbursed in respect of expenditure incurred from their Budgets on bank group assisted projects was being released to be State Government as an incentive for timely completion of these projects by making adequate budgetary provision for the purpose. With a view to further step up the disbursement of aid, with the concurrence of the Planning Commission and approval of the Finance Minister it was decided that from the year 1978-79 the additional Central assistance should be stepped up to 76 per cent of the aid disbursed in respect of the project expenditure incurred by the State Governments. Order to enable the proper and the timely release of these additional funds to the State Governments, the following guidelines have been formulated with the approval of the Finance Minister:-

- i) Additional Central assistance upto 70 per cent of aid disbursed on all externally aided projects involving substantial local currency expenditure such as irrigation, drinking water supply and agriculture etc. would be released to the Governments.

No additional Central assistance would be eligible in respect of projects which would involve large imports of plant and machinery examples being industrial and power projects in which only imports of equipments machinery etc. are financed out of foreign exchange available through external credits.

- ii) The additional Central assistance would be available in respect of aid disbursed as result of expenditure incurred by the State Governments. On such projects from out of their centrally sponsored schemes, institutional finance, etc. in any externally aided project would not qualify for release of Additional Central Assistance.

- iii) Additionality will be computed and released every quarter in the interest of the ways and means position of the State Governments. For computing additionality expenditure incurred from institutional source like Indian Dairy Corporation, Rural Electrification Corporation, Agriculture Refinance Development Corporation, etc. would be first excluded. Similarly, clearly identical expenditure incurred under Central Sector and / or centrally sponsored schemes to would be excluded. Where Category wise disbursement of expenditure is not available with reference to the agencies/institutions bearing the expenditure additionality shall be computed on the basic of proposition of expenditure required to be borne by the State Government with reference to the total costs estimates of the projects. These figure should normally be available from the projects coasts estimates as appraised by the donar agency of from the expenditure clearance. Such additionality would be on adhoc basic till such time as certified figures at expenditure duly sudited are receive from the State Governments.
- iv) Metropolitan or urban development projects were formerly supported by the Central Government under IUDP but these arrangements have been discontinued from the finance year 1979-80. As a result, from the year on 1979-80, States Concerned would be untitled to additional central assistances on this projects according to the normal pattern.
- v) Externally aided projects which are partly or wholly implemented by Municipalities and /or Municipal Corporations and the / or other designated local bodies would quality for the purpose additionality of Central Assistance to the State, provided of course such external assistance has not been directly made available to the local bodies. Thus, contribution of local bodies in the over all founding of the projects would

be trusted as the contributions of the State Government concerned for the purpose of computing additional Central Assistance.

- vi) With effect from 1st April, on 1979 centrally sponsored scheme have been place in 3 categories ie, 100% funding by the Central: (ii) funding on 50:50 basic by the Central and State Governments; and (iii) completely transferred to State Governments. No additionality would be released on account of first and second categories, while third categories will qualifying for assistance at the usual rate of 70% of the aid disbursed against project expenditure incurred by the State concerned from its on resources.
- vii) Though the percentage of founding by donor in various projects often differed from projects to projects and donor to donor, additionality on account of externally assistance projects would be uniformly computed at 70% of aid disbursed against projects expenditure in cured from the States. On recourses irrespective of the facts that such external assistance may be substantially more or less than 50% of the cost of any given projects.
- viii) The additional Central assistances would be made available to this State according to the above principles for the sixth plants periods 80-85.

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