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(ग्रामीण विकास मंत्रालय, भारत सरकार)

National Rural Infrastructure Development Agency
(Ministry of Rural Development, Govt. of India)
5th Floor, 15-NBCC Tower, Bhikaji Cama Place, New Delhi-110066

File No. NRRDA -A021(11)/8/2019-FA-367252 Dated: 14.08.2020

To,

**The Principal Secretary/Secretary/Chief Executive Officer/
Chief Engineer/Empowered Officer of Nodal Department
of PMGSY of all States.**

Subject: Comments on the implementation of 'Just-in-Time' (JIT) fund release in PMGSY Scheme.

Sir/Madam,

Please find attached a "Note on Implementation of 'Just-in-Time' (JIT) fund release in PMGSY Scheme" to keep the fund holding cost for the Govt. at a minimum level.

2. You are requested to furnish your comments/suggestions upon the proposal contained in the note to the undersigned at the earliest.

Yours sincerely

(Deepak Ashish Kaul)
Director (F&A)
14/8/2020

Encls: as above

<u>Copy to</u>

1. The Financial Controllers of Nodal Department of PMGSY of all States for information & necessary action.
2. PPS to AS(MoRD) and DG, NRIDA
3. Shri Vijay Ingle, Programmer, NRIDA with the request to upload in on website of NRIDA

National Rural Infrastructure Development Agency
(Ministry of Rural Development)
5th Floor, 15 NBCC Tower,
Bhikaji Cama Place, New Delhi

Note on implementation of 'Just-in-time' (JIT) fund release in PMGSY Scheme

The basis behind the concept of 'Just-in-time' (JIT) fund release is to keep the fund holding cost for the Government at a minimum level. The approach envisages promoting financial efficiency and economy in public finance management, through better cash management for the Government. Just in time concept is based on the principle of providing funds as per the requirement of implementation of program/scheme. Further, it endeavors to bring down the unutilized funds idly parked with the implementing agencies for a longer period. Once implemented, this will result in reduction in cash mismatch of GoI during the financial year and less requirement of short term borrowings which includes Ways and Means Advances.

As per this concept, GoI may release funds to the States in such a manner that funds reach the implementing agencies and remain available with them when needed rather than getting parked twice a year without the actual requirement being there. To begin with, funds may be released on quarterly basis rather than twice a year. This would bring down the float. This concept note on the implementation of the JIT fund release in the PMGSY scheme setup aims to outline the pros and cons on the existing system of fund release being followed in PMGSY and the JIT release concept. It also suggestes a methodology for implementation of the JIT releases in PMGSY.

<u>Existing PMGSY-III Fund Release Procedure</u>

As per the clause 19.2 of the PMGSY-III guidelines the funds are made available to States in two instalments.

(a) The first instalment amounting to 50% of the cleared project or annual allocation whichever is smaller shall be released subject to fulfilment of requisite conditions.
(b) Release of second instalment of 50% of project would be subject to utilisation of 60% of the available funds and completion of at least 80% of the road works awarded in the year previous to the preceding year and 100% of the awarded works of all years preceding that year and fulfilment of other requisite conditions, if any, stipulated while releasing the previous instalment.

Further, as per clause 19.3 of the PMGSY-III guidelines, central share for each installment will be released subject to the conditions that State Government has credited its commensurate State share against previous releases in the bank account of the SRRDAs. A cursory perusal of the above stipulated funds release procedure would show that the concept of the release of 50% of the project cost in advance may not be encouraging financial efficiency as it does not focus on the fund requirement of the state. It ignores the interregnum between the sanction of the project and the actual requirement of funds for the payment of bills which may extend to 6-8 months. Therefore, during this period the funds are often lying unutilised in the state treasury or in SRRDA bank account earning a very meagre interest when compared to the cost of borrowing paid by the GoI.

The existing system of fund releases however provides liquidity and flexibility to the State, to utilise the central share of PMGSY funds into any other States scheme if at that time funds are not required in PMGSY. As and when funds are required by SRRDA, the States are making funds available to the SRRDAs through the treasury.

Pros and cons of the existing release system

Pros	Cons
Provides flexibility to the states for temporarily utilising the grant for other schemes where immediately required	Grant very often lies with the state treasury for long periods without utilisation
Ease of spending the budget for the central ministry in lesser instalments and lumpsum expenditure booking	Large amount of float in the system leading to higher cost of borrowing and interest burden on the GoI
Liquidity at SRRDA level. The contractor payments are not delayed for want of money, in case of delay in releases from central/state government or treasury	No proper correlation between the physical and financial progress of the work.

Just in time release system

The ultimate aim of the Just in time release system is to encourage financial efficiency for the GoI by providing the funds as per the requirement of works, thereby avoiding unnecessary parking of funds leading to reduction in their holding cost.

Pros and cons of the JIT release system

Pros	Cons
Reduction of float in the system with no parking of excess funds	No flexibility with the states for temporary diversion of the fund to other schemes depending upon their needs.
Greater transparency and accountability in the use of public funds	There is a possibility of delay in payments by SRRDA to the contractors, in case of delay in release of funds/authorization by central government, especially in the beginning of the financial year. Consequently, there could be liquidity crunch at SRRDA level.
Greater control of the GoI over work progress and release of funds	
Lower cost for GoI as interest on borrowing to be paid as per the actual spending of funds by the states.	

Procedure to implement JIT in PMGSY scheme.

A single TSA account may be opened in RBI by MoRD and all SRRDAs be linked to that account. Instead of actual cash transfers to State treasuries, as is being done in the existing system, quarterly authorization of spending limits of all states be fixed by the MoRD. These limits are to be fixed in consultation with the states and in accordance with the work planned to be executed by them in various quarters of the financial year. To ensure that paperwork in the process of releases is not increased, current system of approval for releases may be followed. Therefore, all papers as required to be checked before the authorisation of the first 50% of the annual allocation would be called for and examined by the program divisions, IFD and accounting offices. Approval will be accorded for the amount due for the six monthly authorization but actual authorization will be only half of the amount in the beginning, for 1 quarter and the remaining half to be released on utilization of at least 90 % of the amount authorized in the first half and the authorization by the state of 100 % of its share against the 6 monthly authorization of the central government. Until both these parameters are met, the next quarterly authorization will not be issued for the state. Fund utilization means, actual expenditure of funds by the States/UTs for the intended purpose of the scheme, which will be monitored by the PD in PFMS. Third quarterly authorization would be issued to the state when 90% of the central share + state share authorised so far has been utilised. The last or 4 quarterly authorization would be issued to the state upon successful utilization of 90% of the central + state share authorised in the first 3 quarters and issue of the payment authorization by the state of its remaining state share for the financial year. Thus, this process only changes the release cycle and approval process remains unchanged. At the time of issue of all fund authorizations, due care shall be taken about the utilization of funds pertaining to State share in the scheme. Once the system matures, release cycle may be brought down to monthly level. The payment to the contractors against these authorizations can be continued in the same way through PFMS as is being done presently and the RBI account would be debited to the extent of the actual payments made on a daily basis till the authorised limit is reached. RBI will maintain subsidiary details statewise for recording the expenditure figures and honouring the authorisations issued by the Ministry. It is, therefore, envisaged that funds would be released in a more staggered manner to reduce float of funds and its avoidable parking.

1. **Steps to Implement JIT in PMGSY**

In order to facilitate JIT

(a) The JIT fund release system should be finalized in consultation with the states as they are the executing agencies.

(b) States need to be informed in advance about the budget provisions made by Government of India and likely share of the State.

(c) PMGSY guidelines have the provision to release funds in two tranches. In order to make JIT effective and applicable, scheme guidelines need to be amended to allow more than two authorizations / releases.