

F.No.25 (1) FCD/2010
Ministry of Finance
Department of Expenditure
Finance Commission Division

*11th Block, 5th Floor,
CGO Complex, Lodi Road,
New Delhi- 110003.
Dated:25th April 2011*

*To
The Chief Secretary,
Government of
(All state Governments)*

Subject: Implementation of recommendation of Thirteenth Finance Commission (FC-XIII) regarding release and use of grant-in-aid for **Water Sector Management**.

Dear Sir/ Madam,

As you are aware, grant for water sector management recommended by FC-XIII is available during 2011-15. While you would have perused the detailed recommendations of FC-XIII in this regard (paragraphs 12.55 to 12.58 of the report of FC-XIII, Vol.I, read with annexes 12.5 to 12.8 in Vol. II), the basic features are summarised below.

2. The grant is to be spent only on non-salary maintenance of public Major and Medium Irrigation (MMI) and Minor Irrigation (MI) schemes. The grant is to be in addition to normal expenditure on maintenance, and FC-XIII has specified normative Non Plan Revenue Expenditure (NPRE) under the budget heads relevant to irrigation. Release of the grant is incumbent upon each State setting up a Water Regulatory Authority (WRA) by March 2012. Given the smaller size of their water sector, the north eastern states (except Assam) are exempt from this requirement. Each WRA is to be mandated, inter alia, to regulate the water tariff charges for surface and sub-surface water used for domestic, agriculture, industrial and other purposes. The WRA in each State is also expected to determine and regulate the inter-sector and intra-sector entitlement for various categories

of uses. Identifying the major problems associated with the management of water resources in the country include injudicious inter-sectoral and intra-sectoral distribution of water amongst various categories of water users, low water use efficiency, fragmented approach to water resources planning and development, low water user charges and meagre recovery, FC-XIII has underlined the desirability of setting up statutory autonomous Water Regulatory Authorities in States to address these problems.

3. Apart from setting up WRAs, the eligibility of States to receive the grant will depend on their effecting recovery of water charges in accordance with the recovery rates specified by FC-XIII. Where a State's WRA specifies recovery rates different from FC-XIII's rates, the WRA mandated rates will apply.

4. The grant will be released from 2011-12 onwards. Since States may set up their WRAs by March 2012, the requirement to provide confirmation and relevant documents in this regard is applicable to the release of the grant from 2012-13 onwards. For release of the grant in 2010-11, States need only to ensure that the required aggregate NPFE provision has been made in the State's budget, under heads 2700, 2701 and 2702 together. While it is expected that the States would have made the necessary provisions at the BE stage in the year 2010-11, any State making the required provision at the first supplementary stage will also be considered eligible.

5. The eligibility requirements to access this grant, and other relevant information, are summarised below:

i. States are to set up statutory and independent Water Regulatory Authorities (WRAs) and notify these by 31 March 2012. The north-eastern states, except Assam, are exempt from this requirement. State Governments may please send a copy of the relevant legislation and notification in this regard by April 2012 to the Ministry of Finance to be eligible to draw their grant for the year 2012-13 onwards. The WRAs must be entrusted with at least these functions:

- to fix and regulate the water tariff system and charges for surface and sub-surface water used for domestic, agriculture, industrial and other purposes.
- to determine and regulate the distribution of entitlement for various categories of uses as well as within each category of use.
- to periodically review and monitor the water sector costs and revenues.

ii For the year 2011-12, the release of grant is contingent upon providing at least the projected NPRE in 2011-12 budget under the major heads 2700, 2701 and 2702. Information regarding the aggregate NPRE provision under the aforementioned three heads in 2010-11 also needs to be provided. In case a State has not made the required provision in 2011-12 BE, but makes it good at the first supplementary stage, the first instalment of the grant will be released on a commitment from the State's Finance Secretary to make the required provision. For release of the second instalment, the Finance Secretary will certify that the relevant provision has indeed been made. The projected NPRE provisions have been reproduced in **Annex-II** of this letter.

iii The annual grant shall be released in two equal instalments, in July and December, over the four year period 2011-12 to 2014-15. The State-wise allocation of this incentive grant is given in Annex 12.5, report of FC-XIII, Vol. II, which is reproduced as **Annex-I** in this reference.

iv States are required to achieve the projected recovery rates, for the period 2010-11 to 2014-15, to become eligible for grants. The required recovery rates are listed in Annex 12.6 of the report of FC-XIII, Vol. II, which is reproduced as **Annex-II** of this letter. The Finance Secretary of each State will be required to give a certificate regarding the recovery rate achieved in the previous year in the specified format (**Annex-IV**) to establish eligibility for release of the grant instalments in each year. This certificate will need to be sent by the month of June to facilitate release of the first instalment of the grant in July.

v Where a State's WRA specifies recovery rates and mandates them, these would replace the recovery rates prescribed by FC-XIII (in **Annex-II**),

for that particular State. A State shall be eligible for the grant if it recovers at least 50 per cent of the water charges mandated by WRA. Where the WRA recovery rates are followed, the Finance Secretary's certificate (in the format annexed as **Annex-IV**) will be required in regard to these rates.

vi Since the incentive grant for water sector management is an addition to the normal maintenance expenditure to be incurred by the States, the States will need to incur the total expenditure detailed in Annex 12.6 and 12.8 in the report of FC-XIII, Vol. II. The projected expenditure and the conditions of release are reproduced in **Annex-II and III** of this letter.

6. The grant would be released by Ministry of Finance (Department of Expenditure) from Demand for Grants 35 of the Ministry of Finance.

Monitoring agency at State level

7. Every State shall constitute a High Level Monitoring Committee (HLMC) headed by the Chief Secretary to the State Government, which will include the State's Finance Secretary and Secretaries of Departments concerned as members. The HLMC shall have the responsibility to ensure adherence to specified conditions and shall meet at least twice a year. Minutes of HLMC meetings shall be provided to the Department of Expenditure (Finance Commission Division), Ministries of Water Resources, Rural Development and Urban Development.

Audit by the Controller and Auditor General:

8. Comptroller and Auditor General of India would undertake audit of expenditure of this grant every year.

Yours faithfully

(Alok Chandra)
Director (FCD)

Tel.: 011-2436 0647

Fax: 011-2436 0174

alok.chandra@nic.in

Copy to: - Principal Secretary (Finance), Government of
(All State Governments)

Annex-I

Grants-in-Aid for Water Sector						(Rs. crore)
Sl. No.	State	2011-12	2012-13	2013-14	2014-15	Total (2010-15)
1	Andhra Pradesh	71	71	71	71	284
2	Arunachal Pradesh	2	2	2	2	8
3	Assam	22	22	22	22	88
4	Bihar	76	76	76	76	304
5	Chhattisgarh	22	22	22	22	88
6	Goa	2	2	2	2	8
7	Gujarat	59	59	59	59	236
8	Haryana	53	53	53	53	212
9	Himachal Pradesh	16	16	16	16	64
10	Jammu & Kashmir	22	22	22	22	88
11	Jharkhand	27	27	27	27	108
12	Karnataka	32	32	32	32	128
13	Kerala	44	44	44	44	176
14	Madhya Pradesh	37	37	37	37	148
15	Maharashtra	92	92	92	92	368
16	Manipur	2	2	2	2	8
17	Meghalaya	1	1	1	1	4
18	Mizoram	1	1	1	1	1
19	Nagaland	1	1	1	1	4
20	Orissa	46	46	46	46	184
21	Punjab	80	80	80	80	320
22	Rajasthan	56	56	56	56	224
23	Sikkim	1	1	1	1	1
24	Tamil Nadu	48	48	48	48	192
25	Tripura	2	2	2	2	8
26	Uttar Pradesh	341	341	341	341	1364
27	Uttarakhand	19	19	19	19	76
28	West Bengal	74	74	74	74	296
Total		1250	1250	1250	1250	5000

Source: Annex 12.5, FC-XIII Report, Vol. II

Total Projected NPRE, Normal NPRE (under Major Head 2700, 2701 and 2702), Recovery Rate for Irrigation and Incentive Grants for Water Sector								
(Rs. Crore)								
Sl. No.	State	Items	2010-11	2011-12	2012-13	2013-14	2014-15	Total 2010-15
1	Andhra Pradesh	Normal Expenditure	613.78	644.47	676.70	710.53	746.06	3391.54
		Grant	0.00	71.00	71.00	71.00	71.00	284.00
		Total NPRE	613.78	715.47	747.70	781.53	817.06	3675.54
		Required Recovery Rate (%)	--	27.00	32.00	37.00	42.00	
2	Arunachal Pradesh	Normal Expenditure	29.53	31.00	32.55	34.18	35.89	163.15
		Grant	0.00	2.22	2.22	2.22	2.22	8.88
		Total NPRE	29.53	33.22	34.77	36.40	38.11	172.03
		Required Recovery Rate (%)	--	3.00	6.00	9.00	12.00	
3	Assam	Normal Expenditure	411.17	431.73	453.31	475.98	499.78	2271.97
		Grant	0.00	21.81	21.81	21.81	21.81	87.24
		Total NPRE	411.17	453.54	475.12	497.79	521.59	2359.21
		Required Recovery Rate (%)	--	3.20	6.20	9.20	12.20	
4	Bihar	Normal Expenditure	854.48	897.20	942.06	989.17	1038.63	4721.54
		Grant	0.00	76.11	76.11	76.11	76.11	304.44
		Total NPRE	854.48	973.31	1018.17	1065.28	1114.74	5025.98
		Required Recovery Rate (%)	--	20.00	25.00	30.00	35.00	
5	Chhattisgarh	Normal Expenditure	225.00	236.25	248.06	260.47	273.49	1243.27
		Grant	0.00	22.47	22.47	22.47	22.47	89.88
		Total NPRE	225.00	258.72	270.53	282.94	295.96	1333.15
		Required Recovery Rate (%)	--	148.00	148.00	148.00	148.00	
6	Goa	Normal Expenditure	36.06	37.86	39.75	41.74	43.83	199.24
		Grant	0.00	2.32	2.32	2.32	2.32	9.28
		Total NPRE	36.06	40.18	42.07	44.06	46.15	208.52
		Required	--	32.00	37.00	42.00	47.00	6

		Recovery Rate (%)						
7	Gujarat	Normal Expenditure	446.53	468.85	492.29	516.91	542.75	2467.33
		Grant	0.00	59.33	59.33	59.33	59.33	237.32
		Total NPPE	446.53	528.18	551.62	576.24	602.08	2704.65
		Required Recovery Rate (%)	--	139.00	139.00	139.00	139.00	
8	Haryana	Normal Expenditure	693.48	728.15	764.56	802.79	842.92	3831.90
		Grant	0.00	53.02	53.02	53.02	53.02	212.08
		Total NPPE	693.48	781.17	817.58	855.81	895.94	4043.98
		Required Recovery Rate (%)	--	24.00	29.00	34.00	39.00	
9	Himachal Pradesh	Normal Expenditure	193.16	202.82	212.96	223.60	234.78	1067.32
		Grant	0.00	16.47	16.47	16.47	16.47	65.88
		Total NPPE	193.16	219.29	229.43	240.07	251.25	1133.20
		Required Recovery Rate (%)	--	3.60	6.60	9.60	12.60	
10	Jammu & Kashmir	Normal Expenditure	250.56	263.09	276.24	290.06	304.56	1384.51
		Grant	0.00	22.09	22.09	22.09	22.09	88.36
		Total NPPE	250.56	285.18	298.33	312.15	326.65	1472.87
		Required Recovery Rate (%)	--	4.80	7.80	10.80	13.80	
11	Jharkhand	Normal Expenditure	330.29	346.80	364.14	382.35	401.47	1825.05
		Grant	0.00	27.30	27.30	27.30	27.30	109.20
		Total NPPE	330.29	374.10	391.44	409.65	428.77	1934.25
		Required Recovery Rate (%)	--	20.00	25.00	30.00	35.00	
12	Karnataka	Normal Expenditure	358.43	376.35	395.17	414.93	435.68	1980.56
		Grant	0.00	32.15	32.15	32.15	32.15	128.60
		Total NPPE	358.43	408.50	427.32	447.08	467.83	2109.16
		Required Recovery Rate (%)	--	24.00	29.00	34.00	39.00	
13	Kerala	Normal Expenditure	297.80	312.69	328.32	344.74	361.98	1645.53
		Grant	0.00	44.11	44.11	44.11	44.11	176.44
		Total NPPE	297.80	356.80	372.43	388.85	406.09	1821.97

		Required Recovery Rate (%)	--	20.00	25.00	30.00	35.00	
14	Madhya Pradesh	Normal Expenditure	391.97	411.56	432.14	453.75	476.44	2165.86
		Grant	0.00	36.76	36.76	36.76	36.76	147.04
		Total NPPE	391.97	448.32	468.90	490.51	513.20	2312.90
		Required Recovery Rate (%)	--	24.00	29.00	34.00	39.00	
15	Maharashtra	Normal Expenditure	963.09	1011.25	1061.81	1114.90	1170.64	5321.69
		Grant	0.00	91.96	91.96	91.96	91.96	367.84
		Total NPPE	963.09	1103.21	1153.77	1206.86	1262.60	5689.53
		Required Recovery Rate (%)	--	93.00	93.00	93.00	93.00	
16	Manipur	Normal Expenditure	52.42	55.04	57.79	60.68	63.71	289.64
		Grant	0.00	2.32	2.32	2.32	2.32	9.28
		Total NPPE	52.42	57.36	60.11	63.00	66.03	298.92
		Required Recovery Rate (%)	--	24.20	27.20	30.20	33.20	
17	Meghalaya	Normal Expenditure	14.27	14.98	15.73	16.52	17.34	78.84
		Grant	0.00	1.22	1.22	1.22	1.22	4.88
		Total NPPE	14.27	16.20	16.95	17.74	18.56	83.72
		Required Recovery Rate (%)	--	3.40	6.40	9.40	12.40	
18	Mizoram	Normal Expenditure	1.95	2.05	2.15	2.26	2.37	10.78
		Grant	0.00	0.21	0.21	0.21	0.21	0.84
		Total NPPE	1.95	2.26	2.36	2.47	2.58	11.62
		Required Recovery Rate (%)	--	3.60	6.60	9.60	12.60	
19	Nagaland	Normal Expenditure	11.07	11.63	12.21	12.82	13.46	61.19
		Grant	0.00	1.32	1.32	1.32	1.32	5.28
		Total NPPE	11.07	12.95	13.53	14.14	14.78	66.47
		Required Recovery Rate (%)	--	3.10	6.10	9.10	12.10	
20	Orissa	Normal Expenditure	367.31	385.68	404.96	425.21	446.47	2029.63
		Grant	0.00	45.78	45.78	45.78	45.78	183.12

		Total NPRE	367.31	431.46	450.74	470.99	492.25	2212.75
		Required Recovery Rate (%)	--	26.00	31.00	36.00	41.00	
21	Punjab	Normal Expenditure	739.49	776.47	815.29	856.06	898.86	4086.17
		Grant	0.00	79.83	79.83	79.83	79.83	319.32
		Total NPRE	739.49	856.30	895.12	935.89	978.69	4405.49
		Required Recovery Rate (%)	--	20.00	25.00	30.00	35.00	
22	Rajasthan	Normal Expenditure	486.24	510.55	536.08	562.89	591.03	2686.79
		Grant	0.00	56.11	56.11	56.11	56.11	224.44
		Total NPRE	486.24	566.66	592.19	619.00	647.14	2911.23
		Required Recovery Rate (%)	--	27.00	32.00	37.00	42.00	
23	Sikkim	Normal Expenditure	2.14	2.24	2.35	2.47	2.60	11.80
		Grant	0.00	0.31	0.31	0.31	0.31	1.24
		Total NPRE	2.14	2.55	2.66	2.78	2.91	13.04
		Required Recovery Rate (%)	--	9.60	12.60	15.60	18.60	
24	Tamil Nadu	Normal Expenditure	430.12	451.62	474.20	497.91	522.81	2376.66
		Grant	0.00	47.51	47.51	47.51	47.51	190.04
		Total NPRE	430.12	499.13	521.71	545.42	570.32	2566.70
		Required Recovery Rate (%)	--	20.00	25.00	30.00	35.00	
25	Tripura	Normal Expenditure	31.35	32.92	34.56	36.29	38.11	173.23
		Grant	0.00	1.86	1.86	1.86	1.86	7.44
		Total NPRE	31.35	34.78	36.42	38.15	39.97	180.67
		Required Recovery Rate (%)	--	4.20	7.20	10.20	13.20	
26	Uttar Pradesh	Normal Expenditure	2853.66	2996.34	3146.16	3303.47	3468.64	15768.27
		Grant	0.00	341.04	341.04	341.04	341.04	1364.16
		Total NPRE	2853.66	3337.38	3487.20	3644.51	3809.68	17132.43
		Required Recovery Rate (%)	--	20.00	25.00	30.00	35.00	
27	Uttara khand	Normal Expenditure	240.29	252.31	264.92	278.17	292.08	1327.77

		Grant	0.00	19.13	19.13	19.13	19.13	76.52
		Total NPRE	240.29	271.44	284.05	297.30	311.21	1404.29
		Required Recovery Rate (%)	--	8.30	11.30	14.30	17.30	
28	West Bengal	Normal Expenditure	771.10	809.65	850.14	892.64	937.28	4260.81
		Grant	0.00	74.24	74.24	74.24	74.24	296.96
		Total NPRE	771.10	883.89	924.38	966.88	1011.52	4557.77
		Required Recovery Rate (%)	--	20.00	25.00	30.00	35.00	
TOTAL	TOTAL	Normal Expenditure	12096.74	12701.55	13336.60	14003.49	14703.66	66842.04
		Grant	--	1250.00	1250.00	1250.00	1250.00	5000.00
		Total NPRE	12096.74	13951.55	14586.60	15253.49	15953.66	71842.04

Source: Annex 12.6, FC-XIII Report, Vol. II

Conditions for the Release of Incentive Grants for Water Sector

1. These grants should be spent only on non-salary maintenance items for public Major and Medium Irrigations and Minor Irrigation schemes.
2. These grants should be budgeted and spent for meeting the non-plan revenue expenditure only under the heads 2700, 2701 and 2702.
3. Recovery rate for irrigation has been taken as the ratio of NPRR under major heads 700, 701 and 702 to NPRE under major head 2700, 2701 and 2702. The recovery rate of each State, based on its 2009-10 BE has been indicated in Annex 12.7 of FC-XIII's report, Vol II. With reference to the rates indicated in that table, the states need to fulfil the following criteria in respect of recovery rate for irrigation:
 - (a) Special category states should step up recovery rate for irrigation by at least 3 percentage points in 2011-12 over 2009-10 (BE) and then by 3 percentage points in every successive year during the forecast period.
 - (b) General category states should meet the following conditions:

Sl. No.	Recovery Rate of States (2009-10 BE)	Required Recovery Rate in 2011-12	Step-up in Every Successive Year up to 2014-15
1	0% to 15%	At least 20%	By 5 percentage points
2	Above 15% but less than 75%	At least all-states average or their respective recovery rates in 2009-10 (BE) whichever is higher.	By 5 percentage points
3	75% and above	At least at 2009-10 (BE) level of the respective states.	Should maintain at least 2011-12 level during the remaining forecast period.

4. The grant to be allocated in two equal instalments in each financial year subject to the following conditions for the total of NPRE under MH 2700, 2701 and 2702 and desired recovery rate as given in **Annex-II** of this letter :

Year	Items	
2011-12	(a)	2011-12 (BE) should not be less than the projected 'total NPRE'. If there is any shortfall in this provision, this may be made good at the first supplementary stage in the current fiscal, to draw the first instalment of the grant for this year. A commitment from State's Finance Secretary would be required.
	(b)	2010-11 (RE) should not be less than the projected 'total NPRE' for 2010-11.
2012-13	(a)	2012-13 (BE) should not be less than the projected 'total NPRE'
	(b)	2011-12 (RE) should not be less than the Normal NPRE for 2011-12 plus grants released in 2011-12 and recovery rate in 2011-12 at required rate or higher.
2013-14	(a)	2013-14 (BE) should not be less than the projected 'total NPRE'
	(b)	2012-13 (RE) should not be less than the Normal NPRE for 2012-13 plus grants released in 2012-13 and recovery rate in 2012-13 at required rate or higher.
	(c)	2011-12 (Actuals) should not be less than the Normal NPRE for 2011-12 plus grants released in 2011-12 and recovery rate in 2011-12 at required rate or higher.
2014-15	(a)	2014-15 (BE) should not be less than the projected 'total NPRE'.
	(b)	2013-14 (RE) should not be less than the Normal NPRE for 2013-14 plus grants released in 2013-14 and recovery rate in 2013-14 at required rate or higher.
	(c)	2012-13 (Actuals) should not be less than the Normal NPRE for 2012-13 plus grants released in 2012-13 and recovery rate in 2012-13 at required rate or higher.

5. Grants to be released to only those states in the third year (i.e., 2012-13) which have set up statutory and independent water resources regulatory authority through appropriate legislation and notified all relevant provisions by 31 March 2012. This condition will not be applicable to north-eastern states except Assam.

Source: Annex-12.8, Report of FC-XIII, Vol.II.

State:

Non-Plan Revenue Expenditures (NPREs) and Recovery rates for the year 20.....

1. An independent and statutory Water Regulatory Authority (WRA) has been set up through appropriate legislation and notified by 31 March 2012. Copies of the relevant legislation and gazette notification are enclosed/ have already been sent vide letter No. _____ dated _____.
- 2.

Year	Aggregate Non-plan Revenue Expenditure under Major Heads: 2700 , 27001 & 2702	Provisions in budget /Finance Accounts under Major Heads: 700,701 & 702.				
		Provision in budget /Finance Accounts	700	701	702	Total
2011-12	a)2010-13 BE b)2010-11 RE	a)2010-13 BE b)2010-11 RE				
2012-13	a)2012-13 BE b)2011-12RE c)2010-11(Actuals)	a)2012-13 BE b)2011-12RE c)2010-11 (Actuals)				
2013-14	a)2013-14 BE b)2012-13RE c)2011-12 (Actuals)	a)2013-14 BE b)2012-13RE c)2011-12 (Actuals)				
2014-15	a) 2014-15 BE b) 2013-14 RE c) 2012-13 (Actuals)	a)2014-15 BE b)2013-14RE c)2012-13 (Actuals)				

- 3.

Year	Recovery rates mandated by FC-XIII /WRA	Actual recovery rate of State Govt.
2011-12		
2012-13		
2013-14		
2014-15		

FINANCE SECRETARY, GOVERNMENT OF _____
