Restructuring Centrally Sponsored Schemes

A Brief Note on the Recent Policy Measures

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In the discourse on public expenditure in India, a lot of attention has been given to the Central Government schemes in various development sectors that are implemented in all or most of the States. A large number of these schemes are Centrally Sponsored Schemes (CSS), which are programmes or schemes designed by the Central Government ministries in which the Centre contributes a part of the funds and the States are required to provide certain amount of matching contributions. Apart from the matching contributions, it is the responsibility of the States to provide the human resource requirements and the infrastructure requirement for the successful implementation of the CSS.

The last one and a half decades have witnessed a proliferation of the CSS, not just in terms of the number of such schemes but also in terms of the share of CSS in total public expenditure in the country. Almost concurrently, the debate over these schemes has also intensified. In response to the growing criticisms of the CSS, the Planning Commission (in the Central Government) had proposed a major restructuring of these schemes for the 10th Five Year Plan (2002-03 to 2006-07) and again for the 11th Five Year Plan (2007-08 to 2011-12). On both the occasions, however, the restructuring that happened was to a limited extent, presumably because of the unwillingness of Central Government ministries to transfer a major chunk of their schemes to the State Governments. This pattern of transfers by Centre to States have been criticized and debated widely in literature pertaining to fiscal federalism and governance in India (Bagchi, 2003 and Vyasulu, 2012).

In such a backdrop, it is pertinent to take note of the restructuring of the CSS that is being carried out now by the Central Government for the 12th Five Year Plan (2012-13 to 2016-17). This exercise, being led by the Planning Commission and the Union Finance Ministry and expected to be effective from financial year 2014-15, is following the roadmap suggested for this purpose by a Committee headed by Planning Commission Member Mr. B. K. Chaturvedi.

The present note highlights some of the changes that are expected through this process of restructuring of CSS and also points out a major lacuna in the same, which pertains to the limited devolution of untied resources to State Governments vis-à-vis resources for programmes and schemes in various development sectors that are tied to objectives and conditions of Central ministries.

Centrally Sponsored Schemes (CSS) in India's overall fiscal architecture:

The Constitution of India provides a clear division of the roles and responsibilities of the Central Government and State Governments in a federal setup, which has translated into a division of expenditure responsibilities and taxation powers between the two. As per the Constitutional provision, all activities in Government sphere are categorised as falling under Union, State or Concurrent List. States are primarily responsible for major developmental sectors like health, education, employment, etc. which often involve large public expenditures. However, the States also suffer from a lack of adequate resource raising powers. Since successful implementation of development programme requires availability of adequate funds, appropriate policy framework, and effective delivery mechanism, Central Government has the mandate to work with the States to undertake their responsibility in an effective manner. Recognising the gap between the expenditure and revenue of the States, the Constitution mandates transfer of funds to the State Governments through statutory transfer of tax receipts collected by Centre through the Finance Commission award. In addition, the States access central plan funds through Centrally Sponsored Schemes (CSS) and Central Assistance to State Plans.

The article 38 of the Constitution clearly states that:
"State to secure a social order for the promotion of welfare of the people –
(1) The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life.

(2) The State shall, in particular, strive to minimize the inequalities in income, and endeavour to eliminate inequalities in status, facilities and opportunities, not only amongst individuals but also amongst groups of people residing in different areas or engaged in different vocations."

Keeping these national priorities in focus, the Planning Commission formulated the CSS to help the States in those sectors, which were critical to ensure reduction in regional imbalances, facilitation of cross learning and sharing of technology, and removal of income inequality within States. However, certain factors of vertical and horizontal imbalance between the powers of the States and Centre were not taken into account seriously while formulating the CSS. The CSS and Central Sector schemes were then criticized by the States as encroachment tendencies on part of the Centre in States' autonomous affairs, which could adversely impact the federal fiscal structure of a young nation.

Nature of Imbalance and Patterns of Transfer of Funds from Centre to States

There is a vertical imbalance between the powers of the States and Centre to raise revenue through taxes and duties in comparison to their expenditure requirements. The powers of revenue mobilization vested with the States are insufficient to help them mobilize resources that would meet their total expenditure requirements. This kind of a vertical imbalance was built into the fiscal architecture of India keeping in mind the need for Central Government's interventions to address the horizontal imbalance, i.e. the limited ability of some of the States to mobilize adequate resources from within their economies. In the fiscal architecture that has evolved in India, a significant amount of financial resources are transferred from the Central Government every year to every State Government so as to enable the State Governments to meet their expenditure requirements.

Public expenditure in India can be divided into two categories — Plan expenditure and Non-Plan expenditure. Plan expenditure refers to all kinds of government expenditure (expenditure on capital heads, like, school buildings, hospital buildings, roads and bridges as well as those on revenue heads, like, salaries of staff, wages of workers, textbooks and medicines) incurred on the programmes / schemes laid out in the ongoing Five Year Plan (such as *Sarva Shiksha Abhiyan*, *Mid-day Meal* scheme, and *Integrated Child Development Services*). Non-Plan expenditure refers to all kinds of government expenditure that is outside the purview of the Five Year Plan (such as expenditure on defence services, interest payments, organs of the state, and those on the running of existing government institutions in different sectors). In the case of Non-Plan expenditure in development sectors, a very large part of this category of expenditure in the States is meant for the salaries of staff working for the government.

While Plan expenditure is meant solely for development sectors (such as, education, health, drinking water & sanitation, agriculture, transport etc.), Non-Plan expenditure caters to the requirements in both development sectors as well as non-development sectors (like, defence, law and order, interest payments, pensions etc.). The latter collectively accounts for almost two-third of total public spending in India.

Therefore, almost one-third of total public expenditure in India is Plan expenditure, i.e. government expenditures on programmes and schemes laid out in the National Five Year Plan and all State-specific and Union Territory- specific Five Year Plans. The Central Government provides budgetary resources every year for the National Five Year Plan, which is known as the Gross Budgetary Support (GBS) for the (National) Plan. This GBS for the National Plan comprises – Plan Budgets for all Central Government ministries and an amount called *Central Assistance for State & UT Plans*.

The Plan Budgets for Central ministries finance the schemes run by them, including the Centre's fund contribution in all the CSS. The State Governments use the *Central Assistance for State & UT Plans* and additional resources from their own revenue to finance State-specific programmes and schemes in development sectors, i.e. the State Plan Schemes (e.g. *Kudumbashree* in Kerala, *Kanya Vidya Dhan* scheme in Uttar Pradesh, and *Mukhyamantri Balika Cycle Yojana* in Bihar). Over the last one and a half decades, the dependence of the States on the funds they get under *Central Assistance for State & UT Plans* for financing their State Plan schemes (as well as their matching contributions in the CSS) has increased for most States because of problems in their overall fiscal health.

It may be worthwhile to note here that for the 12th Five Year Plan, in the Gross Budgetary Support (GBS) for the Plan to be provided by the Centre, the *Central Assistance for State & UT Plans* accounted for only 24 percent while the total Plan Budgets for Central ministries accounted for the rest of the resources (discussed later). Thus, it becomes clear that the Central Government extends much higher priority to the Plan schemes designed and run by the Central ministries, mostly in the nature of the CSS, as compared to the schemes designed and run by the State Governments.

Major criticisms of the Centrally Sponsored Schemes (CSS):

The discussions and criticisms surrounding the CSS in the recent years highlight, among other issues, the increased centralization of the federal fiscal architecture in the country. As elaborated in the previous section, the CSS have their own history rooted in the mixed economy days of planning, with an underlying philosophy of the Central Government assisting and aiding the States in difficult sectors and times. However, the spate of CSS over the last one and a half decades has been more of a manifestation of Central Government's efforts at increasing its control over the fiscal architecture in the country. Also, it may have been accentuated due to the emergence of stronger regional political parties across different States and Union and State Governments being ruled by different political parties over the same period of time, which may have led to the Union Government being proactive in developmental interventions within the States in order to maintain a degree of visibility at the State level.

As indicated earlier, the CSS essentially are central schemes in which the Centre contributes a part of the funds and the States are required to provide some matching contributions, depending upon the formula for division of financing responsibility for different schemes. As a result of this, the economically poorer States, with lower magnitudes of own revenue and consequently lesser ability to provide matching funds for the CSS, have received less Central funds for CSS than they should have on the basis of socio-economic challenges. Moreover, in case of some of the States, a significant chunk of the funds they receive under *Central Assistance for State & UT Plans* has been used for matching contributions by States for the CSS leaving little resources for State Plan Schemes.

Another major criticism of the CSS has been the broad adherence to a 'one size fits all' approach in the objectives, financial norms, unit costs and operational guidelines in most such schemes. There have been several instances of States complaining about the limited scope given in the CSS for adapting to locally-relevant needs and challenges. As a result of such rigidity in the designs of the CSS, States have faced problems in utilizing funds adequately and the results achieved through these schemes have been less than satisfactory.

A less talked about problem with CSS has been the fund flow channels that the nodal Central ministries have preferred in most of the schemes over the last decade. In the years around 1999-2000 to 2003-04, many States had been through a severe fiscal crunch, which (reportedly) had compelled the Finance Departments in some of the States to delay the flow of Central Government funds for the CSS to the concerned Departments in the State (which would have affected the implementation of the schemes). Many of the Union Ministries responded to this possible risk factor by bypassing the State Finance Departments and transferring their funds directly to the implementing agencies in the States. For example, in *Sarva Shiksha Abhiyan (SSA)*, the Central Government funds for a State are not sent to the State Finance Department; rather, the funds are sent directly to the Bank Account of an autonomous society set up in the State capital for implementing SSA. Subsequently, the matching contribution for SSA by the State is also sent by the State Finance Department to the Bank Account of the same society. The society for implementing SSA then sends these funds to its district level offices using its own route of Bank transfers. The fund flow mechanism is thus routed outside the State Treasury system. The implication of bypassing the State Treasury system is that it falls outside the purview of the State legislature and thus the use of these funds does not fall under mandatory audits by the Comptroller & Auditor General (C&AG) of India; these expenses are audited by empaneled Chartered Accountants. Moreover, the State Budget documents do not capture the Central Government funds for SSA in the State and hence the State Legislature does not get the scope to discuss the same. Such a practice of bypassing the State Budgets for sending Central funds to the implementing agencies has been followed in most of the prominent CSS over the last decade.

Some such examples of the CSS other than the *Sarva Shiksha Abhiyan (SSA)*, in which the State Budget is bypassed, would be the *National Rural Health Mission (NRHM)*, *Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)*, *National Rural Drinking Water Programme (NRDWP)*, and *Nirmal Bharat Abhiyan (NBA)*. However, few aberrations like the Mid-*Day Meal (MDM)* and *Integrated Child Development Services (ICDS)* are among those where the Central funds are still routed through the State Budgets.

The other major criticism of the proliferation of CSS has been the large number of schemes that are there to be implemented and the related problem of limited public resources being spread very thin across so many schemes. It has been argued that the implementation of schemes could improve if the total number of thinly financed schemes is brought down significantly and have a few adequately financed schemes.

Finally, one of the problems with the proliferation of CSS, which has not been highlighted much in the public discourse, is its adverse implication for the problem of human resource shortage in States. In almost all CSS, the States are not allowed to use the Central funds (i.e. the Plan funds) for recruiting new staff on regular / permanent cadre; States can use the Salary-related funds in the CSS only for contractual staff who can be laid off easily. Given that public expenditure through CSS has become the major source of new interventions / provisioning by the government in most development sectors in the country, the shortage of regular / permanent cadre State Government staff in development sectors has aggravated over the last decade. What is disturbing is the fact that while such growing shortage of qualified staff in the States has constrained their capacity to utilize Central funds in the CSS, the same inability of the States to fully utilize Central funds is then cited as a justification of the low level of budgetary allocations for the development sectors in the country.

B. K. Chaturvedi Committee's recommendations and the 12th Five Year Plan:

In order to deal with the problems associated with CSS, the B. K. Chaturvedi Committee on *Restructuring of Centrally Sponsored Schemes* was constituted by the Central Government in 2011. The committee has taken into account the major criticisms surrounding the character and structure of the CSS and provided the following recommendations for restructuring those:

- Reducing the number of CSS for better monitoring and implementation;
- Merging smaller schemes of less than Rs. 100 crore as annual outlay into larger schemes;
- Increasing flexibility and enabling better utilization of funds by transferring some schemes to States;
- Restructuring CSS into three categories: Flagship schemes, Sub-sectoral schemes and Umbrella programmes:

- Flagship schemes comprising nine major CSS (list of these nine CSS provided in Table 3) and six Central Sector Schemes[2] implemented through Additional Central Assistance (ACA) for State Plans;

[2]Central Sector Schemes are different from CSS. Those Central schemes in which the Centre provides the entire funding are referred to as Central Sector Schemes. Some examples being the National Agricultural Insurance.

- Sub-sector schemes for major ministries and departments with several subsectors, where the core sub-sector with a common requirement by all States would be under this scheme; and
- 'Umbrella Programmes' to accommodate a number of smaller schemes under smaller departments, which cannot be categorised as CSS (for annual outlays under Rs. 300 crore).

• Increasing Central Assistance to the States for Plan implementation;

• Introducing flexi-funds, i.e. schemes to have a certain flexible component up to 20 percent in case of Sub-sector schemes and Umbrella Programmes, which may be used by the State Governments for developing specific interventions that are consistent with the objectives of the CSS; and

• Following the treasury route (i.e. the State Budget route) in order to improve monitoring and evaluation of the schemes.

Some of the media reports in this regard indicate that most of the recommendations made by the B. K. Chaturvedi Committee are indeed being pursued by the Planning Commission and the Union Finance Ministry, in consultation with the other Ministries. It would certainly be steps in the right direction – if the smaller schemes are merged with larger (in terms of outlays) schemes, total number of CSS is brought down significantly, some of the schemes are transferred to States, and the practice of Central funds being routed outside the State Budgets and State Treasury system is done away with.

While the recommendations of the B. K. Chaturvedi Committee recognize the issues of rigidity (of norms and guidelines), lack of needs-based planning and lack of monitoring in the CSS; they do not address the core issue of devolution of untied Plan resources to the States. The B. K. Chaturvedi committee report does recommend an increase of *Central Assistance (CA) for State and UT Plans*, but this recommendation too is based on the proposal to increase the Additional Central Assistance (ACA) to the States instead of Normal Central Assistance (NCA) for State Plan. It is important to note here that the total *Central Assistance for State and UT Plans* has three components, of which only the Normal Central Assistance or NCA (determined as per the *Revised Gadgil-Mukherjee formula, provided in Annexure 1*) is the 'truly untied' component, while Additional Central Assistance (ACA) and Special Central Assistance (SCA) are both tied to broad objectives determined by the Union Government[3].

As explained earlier, *CA to State and UT Plans* and Plan Budgets for all Central Ministries together constitute the Gross Budgetary Support (GBS) for the Plan. Within the Plan Budgets for the Central Ministries, the two components are outlays for CSS and those for Central Sector Schemes. The Plan Budget component of the GBS has been gaining importance compared to the *CA for State and UT Plans*, which is an important issue that the Chaturvedi Committee has addressed. The committee recommended increasing the *CA to States and UT Plan*. However, it recommends increasing this amount through increases in ACA and remains silent on NCA.

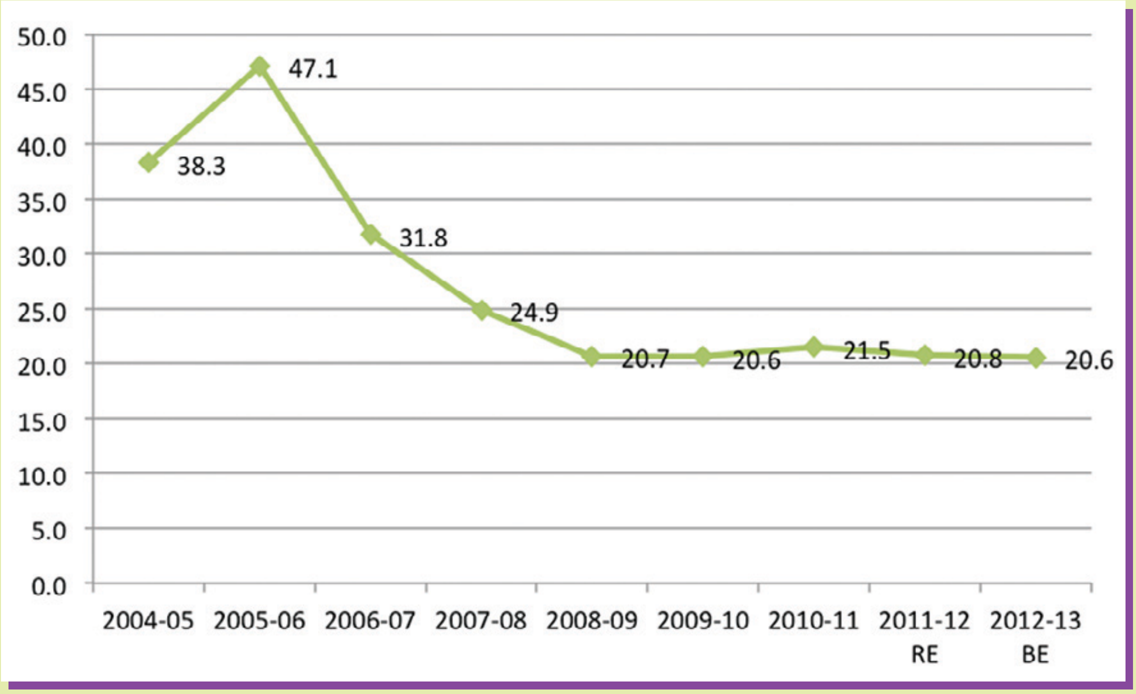
Despite the consistent demand from the States for increasing the NCA, we observe a considerable decline in NCA as share of *Central Assistance for State and UT Plans* (Figure 1 on next page). The NCA's share also shows a clear decline in the Gross Budgetary Support (GBS) for the Plan (Table 1 on next page) over the 11th Plan period. We find that the CSS take away lion's share of the GBS for the Plan for all the years, during 2007-08 to 2012-13.

As stated earlier, one of the key recommendations of the B. K. Chaturvedi Committee has been to reduce the total number of CSS and keep it restricted to approximately fifty beginning from 2013-14 (or by 2014-15),

Scheme (NAIS), Rajiv Gandhi National Fellowship for SCs, Deen Dayal Disabled Rehabilitation Scheme, Support to Navodaya Vidyalayas, Support to Kendriya Vidyalayas, National Crèche Scheme and so on.

[3]NCA is based on the revised Gadgil-Mukherjee formula; ACA includes foreign aid for States that are necessarily routed through the Union Budget; and SCA are funds given to States with greater flexibility than those in the Central schemes, e.g. the funds for JNNURM, BRGF, RKVY etc.

Figure 1: **Normal Central Assistance (NCA) as percent of total Central Assistance for State and UT Plans**



Source: Based on Union Budget documents, various years

Table 1: **Funds for CSS and CA for State and UT Plans as proportions of GBS for the Plan**

	2007-08	2008-09	2009-10	2010-11	2011-12	11th FYP (2007-12)	2012-13 BE
GBS for the Plan (in Rs. Crore)	2,05,100	2,43,386	3,25,149	3,73,092	4,41,547	15,88,273	3,91,027
NCA as percent of GBS	8.2	8.0	6.5	6.4	5.8	6.7	6.5
Total CSS as percent of GBS	41.0	41.8	42.2	42.1	40.9	41.6	34.3

Source: Calculated from Union Budget documents, various years

i.e. at the onset of the effective period of the 12th Five Year Plan (FYP). However, in terms of the share in the Gross Budgetary Support (GBS) for the Plan, the much higher priority for Central schemes is still visible in the 12th FYP (Table 2 on previous page). As shown in Table 2, as much as 76 percent of GBS for the Plan is meant for the Plan Budgets of Central Ministries[4] and only 24 percent of the GBS for the Plan is meant for *CA for State and UT Plans*.

With regard to the trends shown in Table 2 (on next page), one needs to note here that the sharp decline in the share of *CA for State and UT Plans*, from 43.8 percent in the Ninth Plan to 34.2 percent in the Tenth Plan, was partly due to a change in the composition of *CA to State and UT Plans*, introduced in 2005-06[5].

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[4]Plan Budgets of Central Ministries comprise CSS and Central Sector Schemes (i.e. those schemes in which the Centre funds the entire amount).

[5]Following the recommendation of the 12th Finance Commission, the Centre stopped giving loans to States under CA for State and UT Plans from 2005-06. Until 2004-05, for the non-special category states, the CA for State and UT Plans was given as 30 % grants and 70 % loans. Based on the complaints made by the States to the 12th Finance Commission that this practice had increased their indebtedness and hence the Centre should give them only Grants and zero loans under the CA for State and UT Plan, the loan component was dropped from CA for State and UT Plans since 2005-06, except for certain States.

Table 2: **Composition of Gross Budgetary Support (GBS) in Plan Periods**

	GBS for the Plan (in Rs. Crore) [at current prices]	No. of CSS	Plan Budget for CSS and Central Sector Schemes as % of GBS for the Plan	CA for States and UT plans as % of GBS for the Plan
Ninth Plan* (1997 - 2002)	3,16,286	360	56.2	43.8
Tenth Plan* (2002 - 2007)	5,94,649	155	65.8	34.2
Eleventh Plan* (2007 - 2012)	15,88,273	147	73.5	26.5
Twelfth Plan (2012 - 2017) Projections	35,68,626	-	76.0	24.0

Note: *Ninth and Tenth Plan Figures are Actuals and Eleventh plan figures are Revised Estimates
Source: Compiled from Union Budget and Plan documents, various years

Table 3: **Union Budget spending for the 15 major CSS and ACA-linked flagship programmes**

No.	Scheme	Nodal Ministry / Department in the Central Government	Eleventh Plan (2007-08 to 2011-12) (in Rs. Crore)	2012-13 BE (in Rs. Crore)
1	Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	Rural Development	156179	33000
2	Indira Awas Yojana (IAY)	Rural Development	41030	9966
3	Pradhan Mantri Gram Sadak Yojana (PMGSY)	Rural Development	65002	16042
4	National Rural Health Mission (NRHM)	Health & Family Welfare	65261	18515
5	Intehrated Child Development Services (ICDS)	Women and Child Development	38980	14074
6	Total Sanitation Campaign (TSC)	Drinking Water & Sanitation	6560	3150
7	Mid-Day Meal (MDM)	School Education and Literacy	38914	3708
8	Sarva Shiksha Abhiyan (SSA)	School Education and Literacy	72760	8293
9	National Rural Drinking Water Programme (NRDWP)	Drinking Water & Sanitation	39778	9450
10	Jawaharlal Nehru National Urban Renewal Programme (JNNURM)	Urban Development	48485	12522
11	Accelerated Irrigation Benefit Programme (AIBP)	Water Resources	46622	4434
12	National Social Assistance Programme (NSAP)	Rural Development	24323	8382
13	Rajiv Gandhi Gramneen Vidyutikaran Yojana (RGGVY)	Power	25913	4761
14	Accelerated Power Development Reforms Programme (APDRP)	Power	6726	2803
15	Rashtriya Krishi Vikas Yojana (RKVY)	Agriculture	22167	9217
	Grand Total (in Rs. Crore)	**1-15**	**6,98,702**	**1,58,317**
	Share in GBS for the Plan	**-**	**43.9 %**	**40.5 %**

Source: Compiled from Twelfth Plan documents and Union Budget documents

The emphasis on the major CSS, in terms of the Plan funds, is also visible from the table above. Table 3 presents the Union Budget spending in the Eleventh Plan period and in 2012-13 for the fifteen major CSS and ACA-linked 'flagship' programmes of the Central Government. Schemes numbered 1 - 9 are CSS and the rest (numbered 10 - 15) are the ACA-linked flagship programmes. The table provides cumulative expenditure on these during the Eleventh Plan and the allocation in the first year of the Twelfth Plan. It is amply evident from the last row of the table that the bulk of the Central Government's GBS for the Plan goes to these fifteen programmes and schemes.

The figures shown in Table 3 indicate that only a few prominent CSS and ACA-linked programmes launched by the Central ministries have been accounting for a significant chunk of the Central Government's GBS for the Plan every year over the last decade. Hence, even when the total number of CSS is brought down to seventy or less, the control of the Central ministries over a very high share of the GBS for Plan would continue unless some of these prominent CSS and ACA-linked programmes are transferred completely to States. However, the latter is unlikely to happen in the Twelfth FYP, and hence, the projections for this FYP indicate that Plan Budgets of all Central ministries would account for as much as 76 percent of the GBS for Plan while *CA for State & UT Plans* would account for 24 percent only.

As regards the control of the Central ministries over a very high share of the GBS for Plan, we must note here that both CSS and Central Sector Schemes have also been criticized on the issue of the discretionary powers available to the Central ministries in the determination of scheme budgets and fund releases for different States. While some schemes have incorporated certain flexible elements in the later years of their implementation, which is reflected in lesser variations (as in NRHM), a wide range of variation is observed when we look at the per capita figures of Central fund releases to States under the other schemes. The following table compares per-capita fund releases by the Centre to States in different CSS over the 11th Plan period.

With regard to the wide variation observed in the per capita figures of Central fund releases to States under some of the CSS, one reason would have been the varying performance of the States in terms of the pace of utilization of funds provided for the schemes and another factor would have been the varying abilities of different States to provide matching funds for the CSS. However, the Central ministries' discretionary powers in terms of the determination of scheme budgets and fund releases for different States may also have influenced these variations to some extent.

[See Table 4 on the next page]

Table 4: **Average Per Capita Central Releases to States in select CSS** (Figures in Rs.)

Select CSS	MGNREGA	PMGSY	NRHM	SSA	MDM	TSC	NRDWP
Average per capita Central Release over the period	**2007-08 to 2011-12**	**2007-08 to 2011-12**	**2008-09 to 2011-12* (*up to Dec. 2012)**	**2007-08 to 2011-12**	**2009-10 to 2011-12* (*up to Nov. 2012)**	**2007-08 to 2012-13* (*up to Jan. 2013)**	**2009-10 to 2012-13* (*up to Jan. 2013)**
Non-special Category States							
Andhra Pradesh	409.7	69.9	176.5	86.3	56.7	10.3	56.3
Bihar	129.4	255.7	154.7	159.1	67.2	14.4	22.7
Chhattisgarh	567.4	360.6	243.6	226.5	127.1	13.5	48.0
Goa	16.5	0.0	160.1	41.0	49.9	0.4	11.7
Gujarat	76.3	34.6	166.3	64.1	45.8	7.2	91.5
Haryana	57.3	76.9	164.4	97.7	59.2	4.8	92.9
Jharkhand	352.2	148.7	187.4	226.9	98.6	13.8	42.6
Karnataka	199.5	88.6	168.9	89.2	67.4	8.9	108.3
Kerala	139.4	32.1	182.2	40.7	41.7	2.9	38.8
Madhya Pradesh	432.9	242.5	204.9	183.8	82.0	19.0	49.7
Maharashtra	30.9	79.5	156.7	64.5	62.3	7.6	56.8
Odisha	218.4	367.4	246.3	160.4	81.5	14.8	49.7
Punjab	35.3	95.8	188.0	96.5	44.9	1.1	36.1
Rajasthan	536.5	172.0	244.0	183.7	60.2	6.9	161.9
Tamil Nadu	237.5	40.5	188.8	82.5	55.1	7.6	52.3
Uttar Pradesh	206.6	73.3	178.7	114.5	45.3	10.9	41.3
West Bengal	186.4	72.0	155.8	135.9	76.3	9.9	39.2
Special Category States							
Arunachal Pradesh	284.6	2109.6	984.0	1097.7	152.8	33.6	1415.2
Assam	215.0	416.3	468.2	182.4	115.5	24.0	145.8
Himachal Pradesh	559.4	361.7	342.2	139.3	83.7	19.5	218.1
Jammu & Kashmir	251.1	304.5	263.8	187.5	62.7	15.1	372.8
Manipur	1518.3	508.7	531.7	164.2	100.8	28.1	168.7
Meghalaya	657.2	145.1	440.8	425.8	249.9	44.6	310.3
Mizoram	2042.5	782.6	1111.1	712.6	162.7	33.0	436.8
Nagaland	1756.5	238.8	609.9	227.7	91.1	23.5	290.9
Sikkim	933.4	1921.4	911.5	353.9	122.4	12.0	493.0
Tripura	1601.9	765.7	460.9	254.9	138.1	14.2	202.9
Uttarakhand	235.8	182.0	272.4	176.8	101.0	12.4	85.1
All India avg. (in Rs.)	**238.3**	**137.9**	**195.2**	**123.9**	**64.8**	**10.6**	**67.6**
Min. (in Non-Special category States) [in Rs.]	16.5	32.1	154.7	40.7	41.7	0.4	11.7
Max. (in Non-Special category States) [in Rs.]	567.4	367.4	246.3	226.9	127.1	19.0	161.9
CV (in Non-Special category States)	0.78	0.80	0.17	0.50	0.34	0.56	0.62

Source: Calculated from Union Budget documents and Demand for grants-various years, Respective scheme website information on central release and Census Population Estimates, 2011

Concluding remarks:

This note is an attempt to highlight the problems with the increasingly tied nature of transfer of Plan resources from Centre to States and point out the major lacunae in the restructuring of CSS as is being followed at present; however, it does not assert that the State Plan Schemes (an emphasis on which would require significant stepping up of untied fund transfers to States for Plan purposes) are necessarily better designed and better implemented than the CSS in any sector at present. The design and implementation of several State Plan Schemes also need close scrutiny and have ample scope for improvement.

Nonetheless, the discourse on CSS versus State Plan Schemes does need to take into account the following observations:

In most of the Central schemes (though not all), the Central Ministries set the norms and guidelines for the utilization of funds, providing less scope to State Governments for modification and thereby adapt to local needs. As a result, the funds spent through such schemes often do not result in desired outcomes.

In almost all of the Central schemes, the Planning Commission does not allow the States to recruit regular cadre staff / permanent staff. But, in social sectors, the expenditure has been increasing over the last decade mainly from the Plan Budgets and not from the Non-Plan Budgets. As a result, the States have been constrained in addressing the challenge of growing shortage of human resources in most sectors, despite getting more funds to spend in the Plan schemes. This problem of acute staff shortage has emerged as the biggest systemic weakness constraining the quality of utilization of funds in many Central schemes.

Increasing the share of untied fund transfers to States (i.e. under CA for State Plan), as compared to the share of the Plan Budgets of Central ministries, would enable the country to take the first major step towards substantive fiscal decentralization. The second major step, then, would be a similar increase in devolution of funds (untied funds) from State Government to Local Bodies (following the Kerala model of State Planning would be an example).

Greater amount of untied Plan funds with States can certainly enable many of the States to design State-specific Plan schemes that would be more responsive to the locally felt needs. Increased untied funds with District Planning Committees can certainly be expected to strengthen the institutions and processes of planning at the sub-national level.

Therefore, merely reducing the number of CSS will not solve the problem of centralization; the issue is of growing control over resources by the Centre despite persistent demand from the States for higher untied transfers. It has been observed that with the shift in the policy paradigm towards a philosophy of fiscal conservatism, the tendencies of Central control over resources have increased; untied transfers to States have reduced and competition among the States for resources have also increased. The tendency of centralization may have been accentuated due to the emergence of coalition politics and stronger regional political parties across different States over the last decade. The Twelfth FYP document continues with the ongoing pattern and does not reflect any serious intent of addressing and resolving the emerging concerns related to the growing control over resources by the Centre.

Annexure 1: Revised Gadgil-Mukherjee Formula

The Gadgil formula, evolved in 1969, for the distribution of Plan finances to the States by the Centre, was adopted during the Fourth and Fifth Five Year Plans. It was named after the then deputy chairman of the Planning Commission Dr. D. R. Gadgil. The formula mainly comprised the following criteria:

(i) Population [60%]

(ii) Per Capita Income (PCI)[10%]

(iii) Tax Effort [10%]

(iv) On-going Irrigation & Power Projects [10%]

(v) Special Problems [10%] was used during 4th FYP (1969-74) and 5th FYP (1974-78).

However, the formula was revised on a couple of occasions on the repeated insistence by the States highlighting the problem of increasing gaps between the assistance provided and Plan outlays of the States. Finally in 1990, a committee under Shri Pranab Mukherjee, then Deputy Chairman, Planning Commission was constituted to evolve a suitable formula to address the issue of the gaps and interstate inequities. The suggestions made by the Committee were considered by the National Development Council (NDC) in a meeting in 1991, where following a consensus, the Gadgil-Mukherjee Formula was adopted. It was made the basis for allocation during 8th FYP (1992-97) and it has since been the basis of horizontal sharing of the Central Assistances to State and UT Plans. The current revised formula is based on the following criterion:

I	Criteria	Weight	Remarks
II	Population (1971) Per Capita Income a) Deviation method b) Distance method	60% 25% 20% 5%	 Covering States with per capita SDP below national average For all States
III	Performance in Tax Effort, Fiscal Management and Progress in respect of national objectives	7.5%	Tax policy [2.5%], Fiscal Management [2.0%], National objectives [3%] comprising population control (1.0%), elimination of illiteracy (1.0%), timely completion of Externally Aided Projects (0.5%) and land reforms (0.5%)
IV	Special Problems	7.5%	

Source: Report of the Working Group on State's Financial Resources for the 12th Five Year Plan (2012-17), Planning Commission, GOI

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