

Centrally Sponsored Schemes: Restructuring and Rationalisation

A.N. Jha

Yash Jaluka

Pinaki Chakraborty

NIPFP

New Delhi

19th August, 2021

1. Introduction

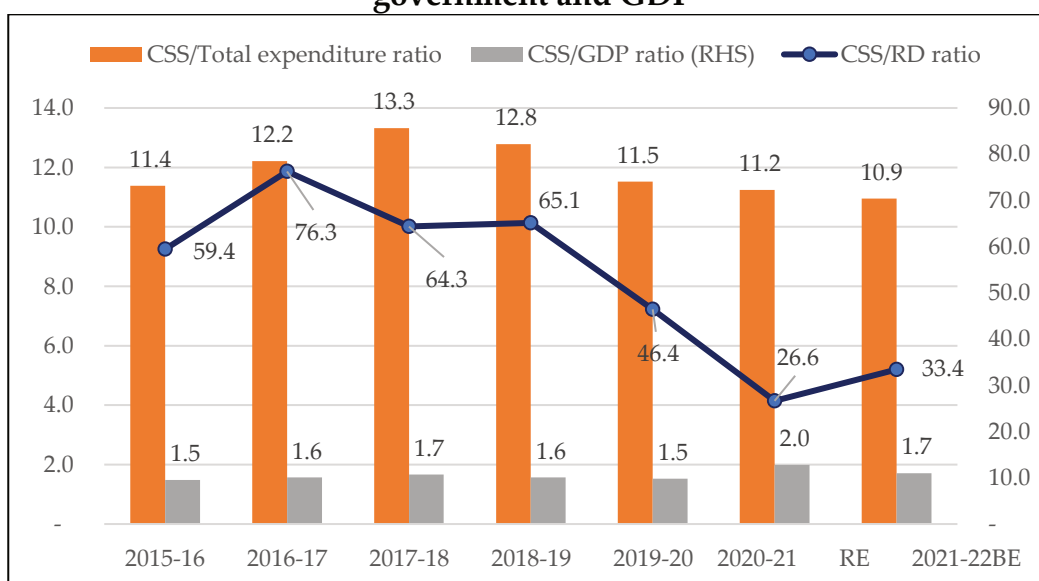
- 1.1. Due to the asymmetric assignment of revenues and expenditure, federal systems are characterized by both vertical and horizontal imbalances. Currently, in India, 37.3% of combined revenues are collected by the States whereas, 62.4% of expenditure is incurred at the state level. There are also horizontal imbalances among states. Institutional capacities, income levels and tax base, and cost-disabilities impact a state's fiscal position vis-à-vis others.
- 1.2. The Constitution provides for the Finance Commission to correct these imbalances under Articles 270, 275 and Article 280. In addition, the Union makes specific purpose transfers under Article 282 of the Constitution.
- 1.3. Following the recommendations of the XIV Finance Commission (FFC) and the abolition of Plan-Non Plan distinction since March 31st, 2017, Centrally Sponsored Schemes (CSS) and Central Sector schemes (CS) have become the primary mode of specific purpose transfers made by the Union to the States. **The report by the Sub-Group of Chief Ministers (2015) on which the current framework of the CSS is based, defines CSS as "schemes that are implemented through the State Governments and in sectors falling in the State and Concurrent Lists of the Constitution."**
- 1.4. As per the Budget 2021-22, there are 36 CSS. Expenditure on CSS forms around 11% of total central expenditure as per the budget 2021-22, at over ₹3.8 lakh crore. The share of CSS expenditure as a percentage of the GDP has remained stable at around 1.6%.
- 1.5. CSS are important vehicles to address gaps in public services, ensure equalization across states by addressing deficiency in public goods and merit goods, and also achieving progress towards certain national objectives. **However, the current framework of CSS has a large number of schemes, with only 15 schemes having 91.14% allocation as per BE 2021-22.**
- 1.6. Over the years, proliferation of CSS resulted in setting up of various Committees, as detailed out later, to restructure CSS. Successive Finance Commissions have also dealt with the issue of CSS and highlighted the need for restructuring. The *Chaturvedi Expert Group (2011)* argued that small schemes are not suitable as CSS. It also recommended flexibility and incentives for states to improve performance

of CSS. Based on this, the number of CSS were reduced from 142 to 66. Later the XIV FC restructured the fiscal federal framework, expanding the untied fiscal space available to states. It recommended that “the existing arrangements for transfers between the Union and the States need to be reviewed with a view to minimising discretion, improving the design of transfers, avoiding duplication and promoting cooperative federalism, insofar as such transfers are required to be made outside of the recommendations of the Finance Commission.”

1.7. Consequent to the changes made by the XIV FC in the inter-governmental transfer framework, the Sub-Group of Chief Ministers was formed in 2015, which recommended rationalisation of schemes by grouping them into Core of Core, Core and Optional Categories, with greater financial contribution by states for Core schemes. It also recommended flexibility in schemes on the lines of the Rashtriya Krishi Vikas Yojana (RKVY). Based on this recommendation, there was a restructuring of CSS carried out in 2016, with 3 categories of Core of the Core, Core and Optional Schemes. The funding pattern for general states for Core schemes changed from 75:25 earlier to 60:40. The cycle of schemes is now aligned with the FC cycle, leading to greater synchronization in FC and non-FC transfers.

1.8. Even after the rationalisation, issues with CSS remained and were pointed out by the XV FC, like the large number of schemes and sub-schemes, input-based transfers, and the regressive nature of the specific purpose transfers. The FC recommended that there should be a minimum threshold funding size for the approval of a CSS and basing financing on bilaterally agreed ‘compacts’ instead of exhaustively discussed implementation plans.

Figure 1: CSS expenditure as a percentage of the total expenditure of the Union government and GDP



Source: Union Budget, MoSPI

1.9 The XV FC also highlighted that “the schematic transfers of the Union Government in the form of centrally sponsored schemes (CSS) and central sector schemes to the State and Union Territory Governments amounted to 12.81% of the gross revenue receipts of the Union Government during the award period of the FC-XIV (2015-16 to 2019-20)”. Union’s expenditure on items on the State and Concurrent list has increased substantially. Analyses by Chakraborty et al (2018) show that Union used to spend 23% of its revenue expenditure on the items of state list in 2008-09 which although declined but remained high as 16% in 2015-16. These large financial flows by the Union also have implications for macro- stabilisation. CSS-to-revenue deficit ratio remained over 60% till 2018-19. It dropped to 26.6% in 2020-21RE due to an abnormal increase in the revenue deficit (see Fig. 1).

The current structure of CSS as highlighted by various FCs and other Committees on the restructuring of CSS, has various issues, such as loss of functional space of states, centralized design and resultant lack of flexibility, a large number of schemes with very small financial allocation. The overall effectiveness of CSS is reduced due to a large number of schemes.

1.10 Hence CSS must be designed and operated in the most efficient manner possible. Expenditure re-prioritisation is also needed to ensure schemes have the required edge without straining the fiscal math at any level of government.

1.11 The Hon’ble Finance Minister, in her Budget Speech, 2021-22, said, “On the recommendation of the Fifteenth Finance Commission, we have undertaken a detailed exercise to rationalise and bring down the number of Centrally Sponsored Schemes. This will enable consolidation of outlays for better impact”.

1.12 This report seeks to identify the various issues in the CSS and suggest some design and operational changes that can be made to improve them. The report is divided into eight sections. Section 2 provides the rationale for CSS. Section 3 provides the constitutional background and evolution of the centrally sponsored schemes. Section 4 describes recommendations of the past committees on restructuring and rationalisation of the CSS. Section 5 and 6 provides the current framework of the CSS and discusses the prevailing issues in the implementation of these schemes. Section 7 provides recommendations to resolve the existing issues and challenges in the CSS and section 8 provides the concluding remarks.

2. Rationale for CSS

2.1. Brief background to inter-governmental transfers in India:

2.1.1. In a federation, intergovernmental fiscal transfers are used to address the vertical and horizontal fiscal imbalances. In India, the Finance Commission make recommendations on tax devolution and grants. These transfers could be of general-purpose nature (unconditional transfers) or could be tied to a specific purpose. The rationale for general-purpose transfers is to enable all states to provide comparable levels of public service at comparable tax rates (Rao, 2017). *The objective of specific purpose transfers is to ensure minimum standards of public service and therefore these transfers are conditional.* The Finance Commission transfers are mostly unconditional in nature. Specific purpose grants, on the other hand, are mostly given through Centrally Sponsored Schemes and Central Sector Schemes.

2.1.2. These unconditional and conditional transfers help in overcoming the asymmetric design of the fiscal federal setup by providing the necessary resources to states depending upon their need, like population, area, geographical factors, income levels, to achieve a uniform level of service delivery across states.

2.2. Other than the need for equalisation in the provision of key services, CSS also takes into account the **spillover effects and externalities associated with the provision of merit goods**. Merit goods are a category of goods, introduced in the debate by Musgrave (1957), in which individuals tend to under-or over- consume because their preferences are “irrational” or “defective.” This leads individuals to make suboptimal choices, which are detrimental to their well- being. Public sector subsidises these goods so as to encourage their consumption. Goods such as subsidised housing or social services, which predominantly help the poor, or health care services, are generally regarded as having considerable merit and therefore have a strong claim on government resources.

2.3. The next question that arises is that at which level of government should provide these goods. Certain goods such as healthcare, education, roads have massive positive inter-jurisdictional externalities. It is generally desirable to internalize, where possible, all the benefits and cost associated with the provision of a particular good (Oates, 1972). Structure of CSS hence can effectively internalize these spillover effects and externalities instead of state-confined approaches, thus leading to optimal provision of these merit goods.

2.4. **Design of CSS:** Economic theory can provide some of the guiding principles that must be borne in mind while designing CSS.

2.4.1. **Principle of Subsidiarity:** In social and political philosophy the principle of subsidiarity is a principle which states that in the relationship among communities, but also in the relation of the individual to any form of human community, the smaller social or political entity or institution ought to be given priority (e.g., the individual should come before the community, the community before the state, the state before the federation, and so on). In this context, it is an important, if not the most important responsibility of the bigger institution to enable the smaller one to perform its tasks and to provide it with any necessary support (*subsidium*) (Gosepath, S. 2005).

2.4.2. This principle defines *subsidiarity* as the idea that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level.

2.4.3. Related to the Principle of subsidiarity, the '*Decentralization Theorem*', formulated by Oates (1972) states:

2.4.3.1. "For a public good – the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or for the respective local government – it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions".

The theorem suggests that a public good should be provided by that geographical jurisdiction that internalises its provision and should include precisely the set of individuals that consumes it:

"each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalise benefits and costs of such provision". Oates (1972).

2.5. As defined above, CSS are implemented at the state level and their funding pattern varies (either shared in some proportion between the Union and the states or Union bears the entire expenditure). The Union and states jointly focus on achieving the overarching national priorities set out in the National Development Agenda (NDA) through the CSS. Given this nature of the CSS, these become an important instrument in **equalizing the level of service provision in key areas among sub-national regions**. For instance, current schemes for the development of SCs/STs and minorities are national priorities where the Union can guide the states for specific interventions through the CSS. Another scheme that focuses on

infrastructure facilities for the judiciary is also an example of a specific intervention that aims to ensure equalization of justice delivery across states.

- 2.6. Given the rationale behind the existence of the CSS, we examine how the Constitution provides for such interventions and the issues related to the Constitutional provisions.

3. Constitutional Background of CSS and Historical Evolution

- 3.1. The division of responsibilities between Centre and States is demarcated in the *Seventh Schedule of the Constitution of India*, with both having overlapping responsibilities in the Concurrent List. States are responsible for key areas like health, law and order, employment, which involve large public expenditure, appropriate policy framework and effective implementation machinery. These requirements necessitate coordination between the Union and the State governments. For example, agriculture has been assigned squarely to states, except Entry 33 in the Concurrent list which puts Inter-state trade and commerce in certain items including foodstuffs, in the Concurrent list. However, there has been significant Union intervention in agriculture.
- 3.2. The Constitution has under Part-IV mentions the Directive Principles of State Policy. These inform the policies of various wings of the Government and act as an overriding philosophical basis. These should guide governments at all levels and provides the constitutional basis for national efforts in some areas, like removal of inequality (Article 38), education (Article 45), the welfare of weaker sections (Article 46) public health (Article 47).
- 3.3. Other federal countries like Australia, Canada have Constitutional provisions for equalizing levels of services and to achieve this, there is commensurate transfer of resources from Central Government to State Governments. While the Finance Commission transfers in India, have a similar purpose, these are meant to transfer resources to the States to meet their requirements of expenditure on public services.
- 3.4. The Government of India is involved in a large number of programmes in sectors/areas such as education, health, labour, skill development etc. that are in the State List through the Centrally Sponsored Schemes. These programmes essentially arose from the national objectives and cut across State boundaries.
- 3.5. In the 1st FYP (1951-56), many schemes, which should have appropriately found a place in the State sector, were included in the Central sector, because the exact distribution of their financial liability had not been decided upon. Some such schemes were Damodar Valley, Bhakra Nangal, Hirakud, etc. However, there was no clear criterion for the distribution of central assistance.
- 3.6. In the 2nd FYP(1956-61), the majority of schemes funded in the Central Sector and implemented by states outside their plan were transferred and included in State plans. This was done in the 3rd plan as well, resulting in large Central transfers.

3.7. However, Central Assistance in the first three plans to states was determined based on needs, problems, past progress, lags in development, contribution to the achievement of major national target, population, area, income, while the total quantum of central assistance was decided based on resource gap in states. So, by the end of the 3rd plan, there were 92 plans sponsored by the Centre, with complicated prescribed patterns. Their design was also often at variance with those prevalent in states. This matter was considered by the National Development Council in 1967. It recommended the following for being classified as CSS

- a) A limited number of important schemes to be implemented as matters of national policy.
- b) Schemes such as those for specialized research and training which benefit more than one state or might be of all-India significance.
- c) Pilot projects for R&D.
- d) New schemes introduced after the Plan has been finalized.

3.8 In 1969, the NDC adopted the Gadgil formula (later the Gadgil Mukherjee formula) for distribution of Plan grants. With the Planning Commission grants and FC grants becoming formula based, there was a proliferation in discretionary CSS under Article 282.

3.9 In the 4th plan (1969-74), the funding pattern for schemes was varied: 59 were eligible for 100% assistance, 12 for 75%, 3 for 60% and 15 for 50% assistance outside State plans. States argued that this resulted in inequitable distribution of Central Assistance. Accordingly, the concept of block assistance for State Plans was introduced. Despite the NDC recommending a cap on CSS funding to be 1/6th of total Central Plan assistance, ministries continued to introduce new schemes, increasing their number to 190 at the end of the 5th Plan and 201 at the end of 6th FYP.

3.10 There have been several Committees that looked at the issue of proliferation of CSS. We will look at the key recommendation of those committees in section 4 of the report.

4. Past Committees on CSS

- 4.1 The proliferation of CSS became a major problem after 4th five-year plan. The number of CSS increased from 45 in 1969 to 190 at the end of the Fifth Five Year Plan. The Sixth Five Year Plan also witnessed a proliferation of CSS both in terms of number and quantum of funds. The number of CSS increased to 201 at the end of the Sixth Five Year Plan in 1985.
- 4.2 To resolve this issue, the NDC constituted an Expert Group under **Shri K. Ramamurty (1985)**. The Committee suggested the following criteria for CSS: a) It should relate to demonstration, pilot project, survey and research; b) it should have a regional or inter-state character; c) it should aim at building an institutional framework for the country or region as a whole; d) it should be in the nature of a “pace setter”.
- 4.3 The report of the Expert group was considered by NDC and it was felt that the recommended criteria are too broad. Thereafter, a new Committee under **Shri P.V. Narsimha Rao was set up in 1986** to relook at the criteria for CSS, a ceiling on funding, consultation mechanism etc. Its key recommendations modified the criteria for CSS as fulfilment of an important national objective, regional or inter-state character and “pace setter” programs. Based on the recommendations, it was decided to transfer multiple CSS to states while maintaining the pattern of funding at the 1991-92 level, with only those schemes being retained as CSS which fulfilled the criteria laid down by the Expert Group.
- 4.4 But the issue of provision of Central Assistance to States for CSS and rationalization continued to be discussed in NDC meetings while the Ministries kept introducing new Schemes. The total number of schemes increased to 360 in the last year of the Ninth Five Year Plan and accounted for about 60% of Central assistance. NDC observed that the better off States benefit more through the CSS as they have better resource matching and implementation capabilities compared to poor States.
- 4.5 There continued to be great divergence in the stance of CSS both among states as well as between States and Union Ministries. Based on the recommendations of the 51st NDC meeting, the Planning Commission set up the **Arvind Varma Committee in 2005** which made the following recommendations on restructuring of the Centrally Sponsored Schemes:
- 4.5.1 A new CSS should be introduced only after full consultation with states.

- 4.5.2 Zero Based Budgeting exercise should be undertaken at least every 5 years in consultation with states.
- 4.5.3 A new CSS should be introduced only if the annual outlay is greater than ₹ 300 crores. For the existing smaller schemes, the amount should be transferred to states as Normal Central Assistance.
- 4.5.4 All existing CSS should have terminal dates and targeted outcomes specified.

4.6 The Expert Group Report was considered by the Planning Commission while preparing the 11th Five Year Plan but issues like the proliferation of CSS, top-down approach, lack of flexibility to states among others continue to exist. To address some of these concerns, Planning Commission had constituted the B.K. **Chaturvedi Committee (2011)** was constituted. It made the following recommendations

4.6.1 Unless required as part of a convergence process of a broader scheme at the Centre, the small schemes are not suitable as CSS. These should be weeded out, or merged or converged with larger schemes or be transferred to states who can continue these schemes based on their requirements.

4.6.2 Proposed categories for CSS:

- a) Flagship with national priorities- education, health, irrigation, urban development, infrastructure, rural infrastructure, skill development, employment.
- b) Major Sub-sectoral schemes- to address challenges in sub-sectors like agricultural education.
- c) Sector Umbrella Schemes

4.6.3 Apart from a core component, states should have the flexibility to tailor schemes as per their own ground realities.

4.6.4 To incentivize states to provide larger funds for certain sectors, the Committee recommends an incentive scheme.

4.6.5 50% of the additional GoI allocation for a CSS over the previous year should be distributed as an incentive grant. This will be given to those states who have

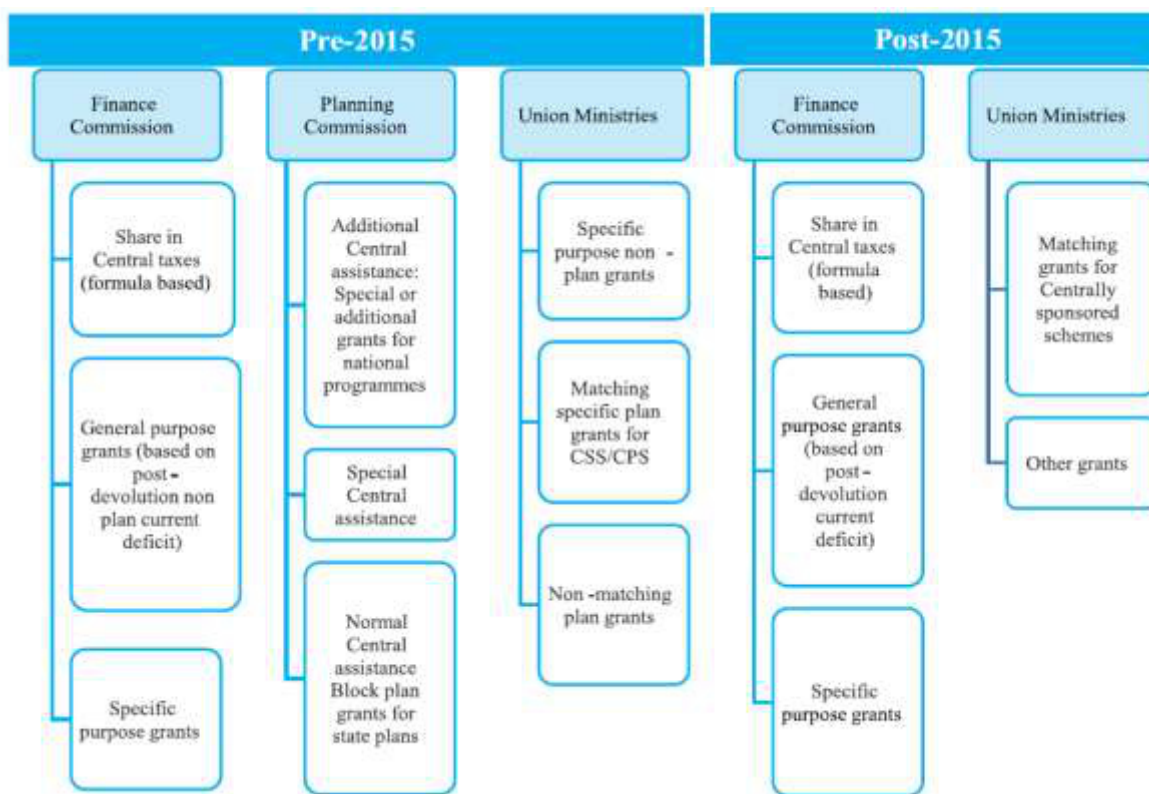
- a) Increased allocation in their states for the concerned scheme- 50%.
- b) Effectively devolved 3Fs to PRIs/ULBs to be ascertained based on a Management Development Index-50%.

4.6.6 The incentive grant will be distributed in the same proportion in which they are getting their normal allocations.

4.6.7 New CSS should focus on major interventions required for national development needs.

- 4.6.8 The states may be allowed to change the physical norms of a scheme based on the recommendations of a Chief Secretary led Technical Committee.
- 4.6.9 Financial norms of certain components of schemes like cooking cost of MDM Scheme should be revised every 2 years. This revision should be linked to the wholesale price index.
- 4.6.10 An interactive website and database should be formed allowing all states to learn from the implementation experience of other states.
- 4.7 There was a rationalization of CSS carried out in 2013. The then 142 CSS/ACA schemes were reduced to 66, including 17 flagship schemes, in areas like agriculture, drinking water, sanitation, irrigation. At least 10% of the outlay for a particular scheme was kept as Flexi-fund and State-specific guidelines were formulated.
- 4.8 Up to 2013-14, funds for the Centrally sponsored schemes were routed through two channels - the Consolidated Funds of the States and directly to State implementing agencies. From 2014-15 onwards, direct transfers to State implementing agencies have been done away with, and all transfers to States for Centrally sponsored schemes are now being routed through the Consolidated Fund of the State.
- 4.9 Before the impact of the BK Chaturvedi Committee report's recommendations could be gauged, the XIV Finance Commission undertook a major shift in inter-governmental fund transfers. The XIV FC covered the entire revenue account requirements of the states, both plan and non-plan, in its recommendations. It increased the devolution to states from 32% to 42% of the divisible pool and included the plan revenue requirements within the FC's ambit. The Plan-Non plan segmentation was abolished following the end of the 12th FYP on March 31, 2017. The resulting budgetary distinction of Capital and revenue account is a much more structurally sound distinction and allows a more holistic view of government finances. Figure 2 shows a paradigm shift in intergovernmental fiscal transfers since 2015. It also subsumed various heads of funding like Special Central Assistance, Normal Central Assistance, Additional Central Assistance, within its devolution. **Hence, post-2015, there are only 2 major sources of fund transfers to states- FC transfers and non-FC transfers through CSS and Central Sector Schemes.**

Figure 2: Structure of inter-governmental transfers in India



Source: 15th FC Report

4.10 The XIV FC highlighted the following issues in CSS:

- 4.10.1 Union government unilaterally deciding about the scope, nature and design of the Centrally sponsored schemes.
- 4.10.2 Union Government exercises excessive discretion in distributing the resources among them through the transfer mechanism, especially with regard to Centrally sponsored schemes.
- 4.10.3 CSS are based on a 'one size fits all approach' and that often the design of schemes is inappropriate for several States.

4.11 XIV FC recognised that some of the current Centrally sponsored schemes relate to subjects that can best be handled entirely by the States and, hence, should be in the fiscal space of States alone. There are also schemes that normally need to be in the States' domain, but need support from the Union. The FC recommended the Union Government should continue to have fiscal space to provide grants to States for functions that are broadly in the nature of 'overlapping functions' and for area-specific interventions.

4.12 In light of the above shift in intergovernmental fiscal transfers, a shift in the funding pattern of the CSS was necessary as the states had more resources to fund these schemes. **The Sub-Group of Chief Ministers for Rationalisation of**

CSS was constituted in 2015 under the Chairmanship of Shri Shivraj Singh Chauhan, Chief Minister of MP. It highlighted the following issues:

- 4.12.1 There are a large number of schemes with small outlays. Eg till 2014-15, 86% of Central Assistance was received by only 17/66 schemes, called the Flagship schemes, thus leading to very poor allocation for the other schemes. 12 schemes were receiving less than ₹ 200 crores annually.
- 4.12.2 Reduction in Untied Block Grants under Plan grants.
- 4.12.3 The overwhelming focus on the process-centric approach denying flexibility.
- 4.12.4 For the NEH states, there was only a 60% release in allocated funds for CSS, while it was over 85% for other states.
- 4.12.5 Due to different conditions in each state, not all schemes are relevant for all states. However, all states implemented all schemes just to be able to receive whatever central assistance was on offer.

4.13 Recommendations of the Sub-Group were:

- 4.13.1 The focus of CSS should be on Schemes that comprise the National Development Agenda for realizing Vision 2022, where the Centre and States need to work together.
- 4.13.2 MGNREGA and Schemes for social inclusion would be accorded the highest priority. Other core sectors would be drinking water and sanitation, rural connectivity and electrification, agriculture including fisheries and animal husbandry, education including Mid-Day Meal, Health, Nutrition, women, children, housing for all, urban transformation, justice delivery. Hence, existing schemes should be divided into Core and Optional Schemes.
- 4.13.3 Among the Core, those for social protection and social inclusion should form the Core of the Core and be the first charge on available funds for the National Development Agenda.
- 4.13.4 Ordinarily, in any sector, there should be one Umbrella Scheme having the same funding pattern for all its sub-components.
- 4.13.5 Investment in core should be maintained to prevent shrinkage of the program.
- 4.13.6 Funds for optional schemes would be given to the states by the Ministry of Finance as a lumpsum and states would be free to decide which optional scheme they choose to implement.
- 4.13.7 Sharing Pattern-
 - a. Core- For NEH 90:10. For UTs, 100:0. For others, 60:40
 - b. Optional- NEH 80:20, UTs 100:0, Others 50:50
 - c. Core of Core- Existing funding pattern to continue

- 4.13.8 25% allocation in a scheme should be flexi-fund to be spent following MoF guidelines.
- 4.13.9 The design of the CSS should be like the Rashtriya Krishi Vikas Yojana (RKVY) with a large number of components with the state being free to choose components to suit their local needs with the volume of central assistance remaining unaffected by the components chosen, which solves the 'one size fits all' approach.
- 4.13.10 NITI to have concurrent jurisdiction in the monitoring of CSS and also oversee Third-Party Evaluation

5 The current framework for CSS

5.1 The current framework for CSS is based on the Sub-Group of Chief Ministers' recommendations as spelt out in the OM O-11013/02/2015-CSS & CMC dated 17th August 2016.

5.2 The National Development Agenda listed the following ten areas as priority sectors:

- 5.2.1 Poverty elimination-livelihoods, skill and jobs
- 5.2.2 Drinking water and sanitation
- 5.2.3 Rural connectivity- electricity, roads and communication
- 5.2.4 Agriculture including animal husbandry, fisheries, integrated watershed management, irrigation
- 5.2.5 Education and Mid-Day Meal
- 5.2.6 Health, Nutrition, Women and Children
- 5.2.7 Housing for all
- 5.2.8 Urban Transformation
- 5.2.9 Law and Order, justice delivery
- 5.2.10 Others like wildlife conservation and greening

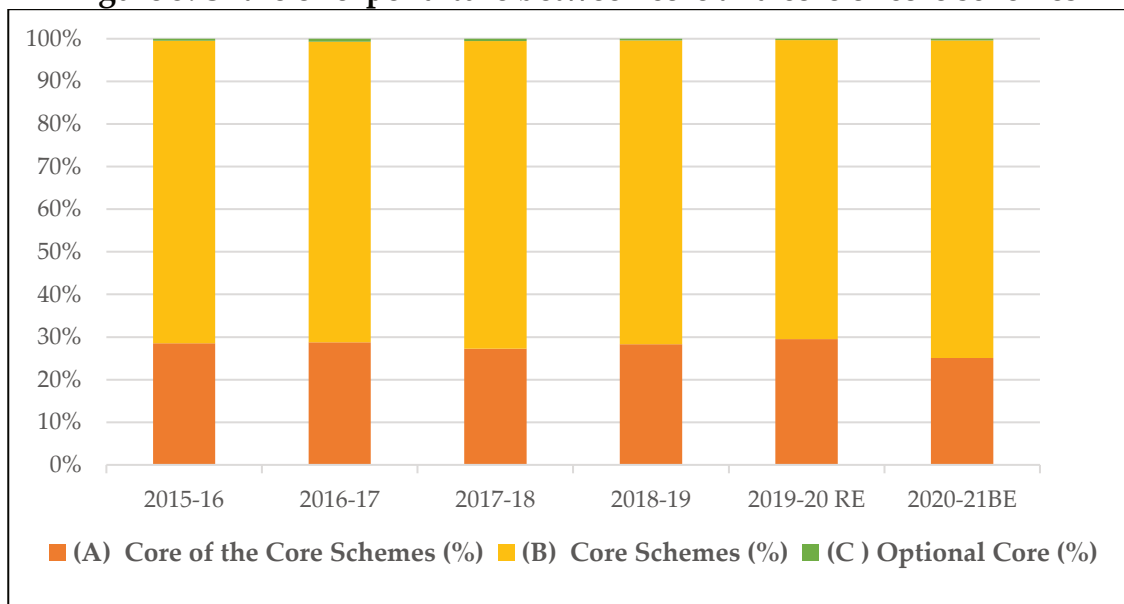
The Union and states jointly focus on achieving objectives through CSS in these areas of national priority.

5.3 The CSS are categorised into-

- 5.3.1 **Core of core schemes-** schemes that are legislatively backed or meant to serve the vulnerable populations and have existing funding patterns.
- 5.3.2 **Core schemes-** schemes where state participation is compulsory
 - a) Allocation of funds for these is made by MoF in Demand for Grants of the respective ministries.
 - b) Inter-state distribution is based on criteria evolved by a Committee comprising Secretary of Nodal ministry, Financial Advisor of the ministry and NITI Aayog advisor.
 - c) The funding pattern for NEH states is 90:10 while for the rest of states it is 60:40.
- 5.3.3 **Optional schemes-** schemes where state participation is optional.
 - a) A lump sum provision for each state is intimated in advance based on which states inform MoF of the overall distribution within the overall ceiling.
 - b) States have the portability of moving non-utilised funds for optional schemes to any other CSS component within the overall
 - c) Budgetary allocation for the state under CASP.
 - d) The funding pattern is for NEH states at 80:20 while for other states at 50:50.

Related schemes can be merged as Umbrella schemes with states having the flexibility to administer the components as per the state-specific requirements. As Figure 3 shows, of the total CSS expenditure, around 28% account for the core of core schemes and around 72% on core schemes.

Figure 3: Share of expenditure between core and core of core schemes



Source: Union Budget

5.4 Other norms in CSS

- 5.4.1 For construction-based schemes, cost norms are decided by states based on a Schedule.
- 5.4.2 There is flexibility in cost norms for non-construction based schemes provided that such flexibility does not create any entitlements for an increased allocation.
- 5.4.3 The central ministries shall permit flexibility in the choice of components to states as under the RKVY.
- 5.4.4 The Flexi-fund under each CSS has been raised to 25% for states and 30% for UTs of the overall annual allocation.
- 5.4.5 Release of instalment would be based on **producing UC of the penultimate (last to last)** instalment rather than the last instalment.
- 5.4.6 Standing committee under NITI CEO with states and ministries representatives to meet at least twice a year to monitor implementation.

5.5 **The XV Finance Commission** highlighted in its report that, despite the recent consolidation, CSS still account for a large number of specific purpose transfers. CSS are generally not linked to outcomes and are input or process-based with a large number of conditionalities attached. There also remains a substantial overlap of schemes concurring with state responsibilities. Regressivity in ministry specific purpose transfers, detract from the equalizing focus of transfers by the FC.

5.6 The XV FC recommended that it is important to gradually stop the funding for that CSS and their subcomponents that have either outlived their utility or have insignificant budgetary outlays not commensurate to a national programme. There should also be a minimum threshold funding size for the approval of a CSS. This will help both the Union and the State Governments to focus on “the continuing imperative of the national development programme”. Clarity and stability in the share of the Union Government in CSS are important for the fiscal arithmetic of the States. The funding pattern of the CSSs should be fixed upfront in a transparent manner and should be kept stable. Financing can be provided based on bilaterally agreed 'compacts' related to specific objectives (for example, service delivery outputs or specific outcomes) instead of exhaustively discussed implementation plans. To support this approach, the Union Government can support initiatives to enhance data systems, monitoring and evaluation and transparency. Further, the flow of monitoring information should be regular and should include, apart from routine statements of financial and physical progress, credible information on output and outcome indicators.

6 Challenges to the current status of the Centrally Sponsored Schemes

6.1 Based on the views of various expert bodies and the current framework of the CSS, the most pressing issues plaguing the CSS can be summarised as follows:

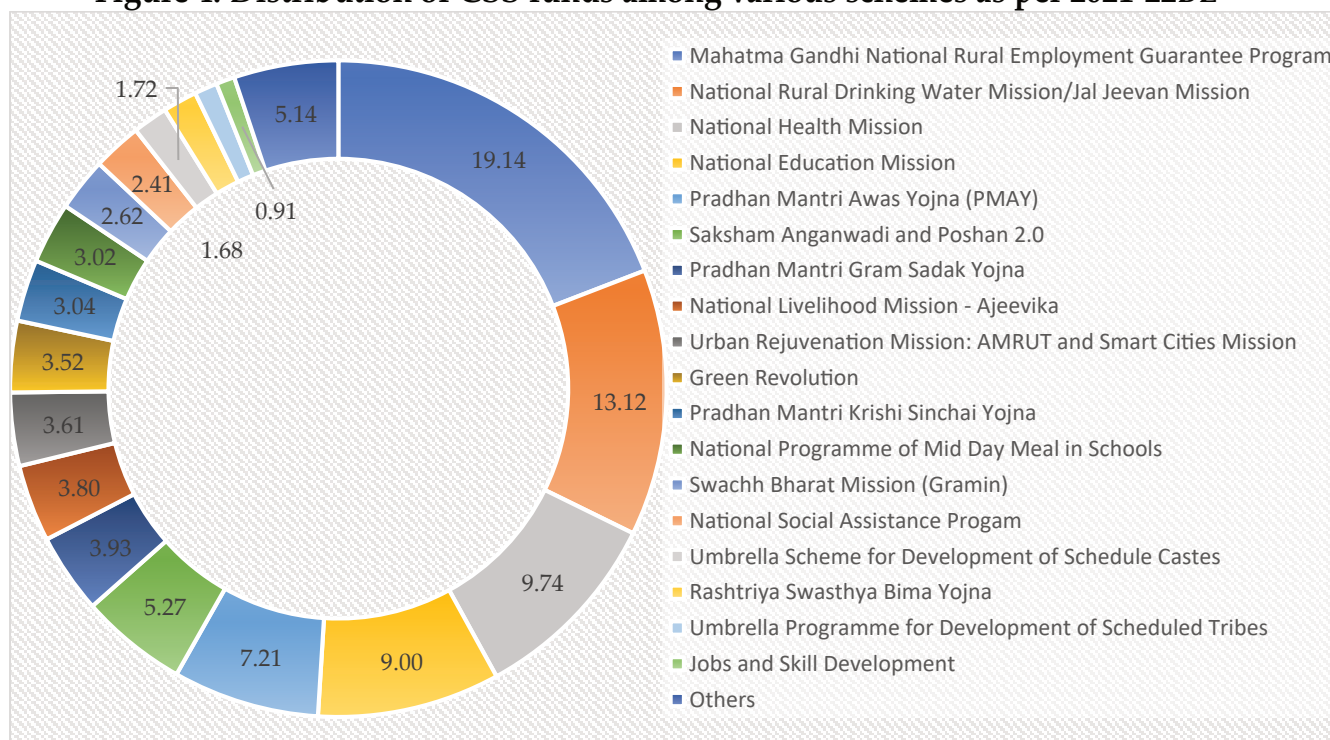
1. The multiplicity of schemes leading to a thin spread of resources for a large number of small schemes.
2. Lack of flexibility to states due to 'one size fits all' approach.
3. Lower absorption capacity in some states, leading to lower investment in states where it is needed most.
4. All CSS are process-oriented and hence all monitoring is input based.

We analyse these issues in greater detail.

6.2 The multiplicity of schemes leading to a thin spread of resources for a large number of small schemes.

6.2.1 As mentioned above, even after the rationalisation following the recommendation of the Sub-Committee of Chief Ministers, there are 36 CSS. The BE for FY 2021-22 shows that 15 schemes account for 91.14% of total expenditure. 18 small schemes clubbed together form only 5.14% of the total outlay on CSS for 2021-22 BE (Figure 4).

Figure 4: Distribution of CSS funds among various schemes as per 2021-22BE



Source: Union Budget 2021-22

6.2.2 Even within the broad ‘umbrella’ schemes, there are many sub-schemes that receive minuscule amounts. Several examples are given below:

6.2.2.1 Consider the National Health Mission. It has 5 major heads like the National Rural Health Mission (NRHM), National Urban Health Mission (NUHM), Strengthening of State Drug Regulatory System, Tertiary Care Programs and Human Resources for Health and Medical Education . Each of these has several sub-schemes. For instance, the Tertiary Care Program has the National Mental Health Program, Capacity Building for Trauma Centres, Telemedicine.

6.2.2.2 The NRHM has 10 different sub-schemes (clubbing various funding sources for the same scheme). The NUHM has 2 sub-schemes, the Tertiary Care programs has 7 sub-schemes, the Human Resources Program has 7 different sub-schemes.

6.2.2.3 A large number of sub-schemes have, consequently, very small allocations (as per BE 2021-22). Pilot Schemes (Sports Medicine, Deafness etc.) have ₹ 20 cr. The National Mental Health Program has ₹ 40 cr. Capacity Building for Trauma Centres has ₹ 60 cr.

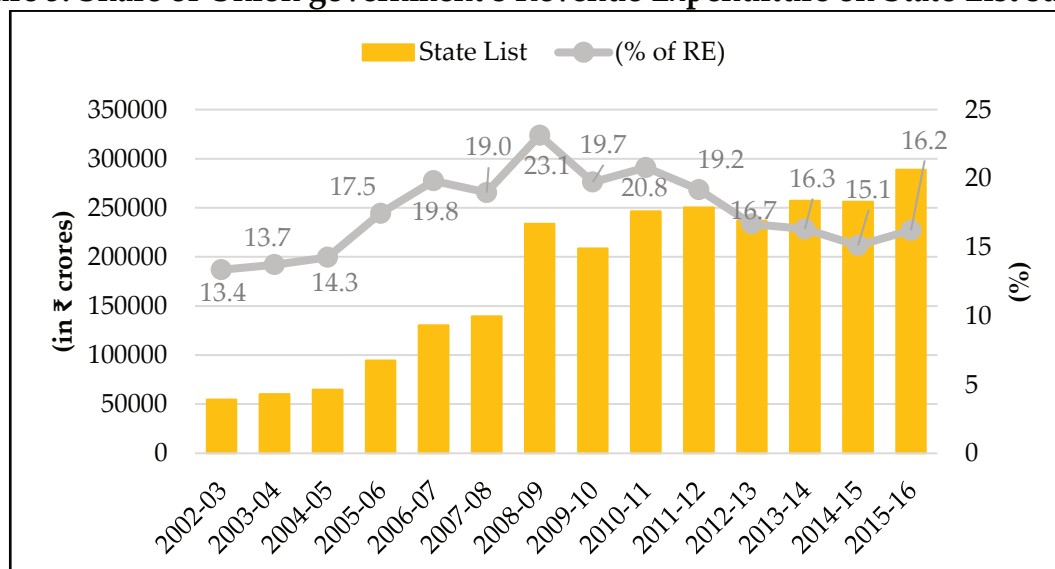
6.2.2.4 Consider the Green Revolution CSS. It has 18 different sub-schemes, like the RKVY, National Food Security Mission, National project on Organic Farming. Some of these have very small allocations. For instance, the Organic Value Chain Development for North East Region sub-scheme has an allocation of ₹ 200 cr. The Rainfed Area Development and Climate Change Sub-scheme has an allocation of ₹ 180 cr. The National project on Agro-Forestry has an allocation of ₹ 34 cr.

6.2.3 It is clear that for a vast country with significant developmental needs, such small expenditures don’t make a major difference in achieving the desired outcomes. The segmentation of the program in these various small sub-components has various other issues like duplication of effort and lack of the desired convergence. It also makes monitoring and accountability difficult.

6.2.4 The priority sectors set out in the National Development Agenda lie in both state and concurrent lists and hence some overlap is par for the course. However, Union’s expenditure on state items has gone up considerably, hence constrained fiscal space for the items in the Union list. Analyses by Chakraborty et al (2018) show that a large part of the revenue expenditure of the Union government is spent on State and Concurrent lists subjects with a corresponding decline in expenditure on Union List

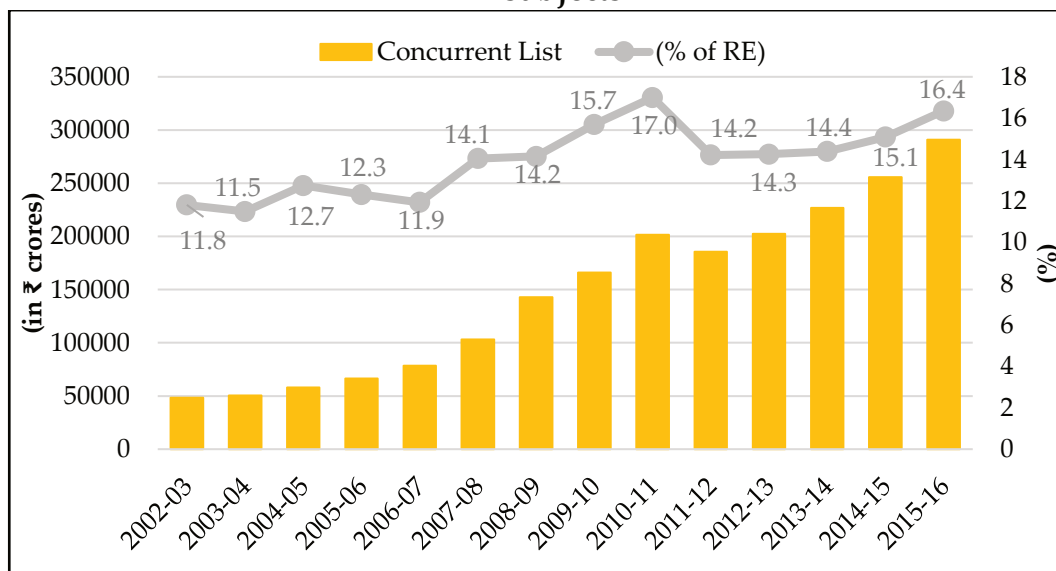
subjects. Figures 5 and 6 show that the Union's expenditure on the state list and concurrent list has substantially increased relative to what they were around 2 decades ago.

Figure 5: Share of Union government's Revenue Expenditure on State List subjects



Source: Chakraborty et. al. (2018)

Figure 6: Share of Union government's Revenue Expenditure on Concurrent List subjects



Source: Chakraborty et.al. (2018)

6.2.5 Defence expenditure has reduced (from 2% of the GDP in 2011-12 to 1.5% in 2019-20 RE). Appendix I provides a detailed mapping of the current CSS and shows that several schemes are based on subjects in the state

list. Of the total 34 schemes, 10 schemes¹ are a part of CSS that corresponds to entries only in the State list having a total financial outlay of 28.01% of the total expenditure of ₹3.81 lakh crore.

6.3 Lack of flexibility to states due to 'one size fits all' approach

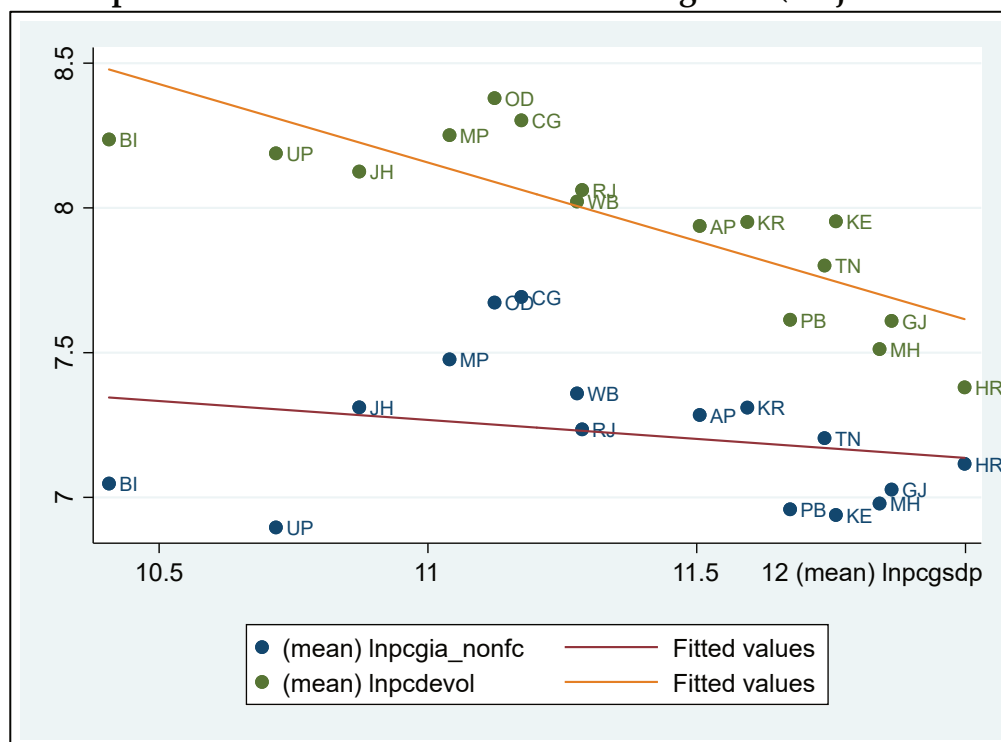
- 6.3.1** The centralised design prevents states from modifying schemes as per their own needs, leading to a conditional, straitjacketed approach. The contours of schemes are set at the Union Ministry level which may not always be flexible enough to accommodate not just inter-state differences but also intra-state differences. As the above example of the NHM illustrates, the sub-heads and sub-components are specified in detail, with operational guidelines for each of the components, providing little room for manoeuvrability to states.
- 6.3.2** The lack of flexibility also betrays a lack of trust between different tiers of governance and goes against the spirit of cooperative federalism.

6.4 Regressive inter-se allocation of CSS grants

- 6.4.1** The current inter-se allocation formula is unilaterally decided by the Union and is opaque (ref. 5.3.2.b). The formula for inter-se allocation is not solely based on the deficiency of the service but also incorporates the state capacity in form of various compliance requirements. It also depends on the planning process adopted, initiatives and strategies adopted by states to improve delivery mechanisms. (Rao, M.G, 2017). These reduce the funds transferred to the poorer states, making CSS less progressive compared to FC grants.
- 6.4.2** Figure 7 shows the comparison of progressivity of per-capita FC devolution and per-capita non-FC grants (largely CSS grants) for the major states excluding Goa. It can be observed that the formula-based FC devolution is much more progressive relative to the discretionary CSS grants.

¹ These schemes are Green Revolution, Jal Jeevan Mission, Modernisation of Police Forces, PM Gram Sadak Yojana, Pm Krishi Sinchayi Yojana, Rashtriya Gram Swaraj Abhiyan, Swachh Bharat Mission, Swachh Bharat Mission(Gramin), Saksham Anganwadi and Poshan 2.0, White Revolution.

Figure 7: Comparison of FC devolutions and non-FC grants (Major states excl. Goa)



Source: Finance Commissions and Finance Accounts (various years)

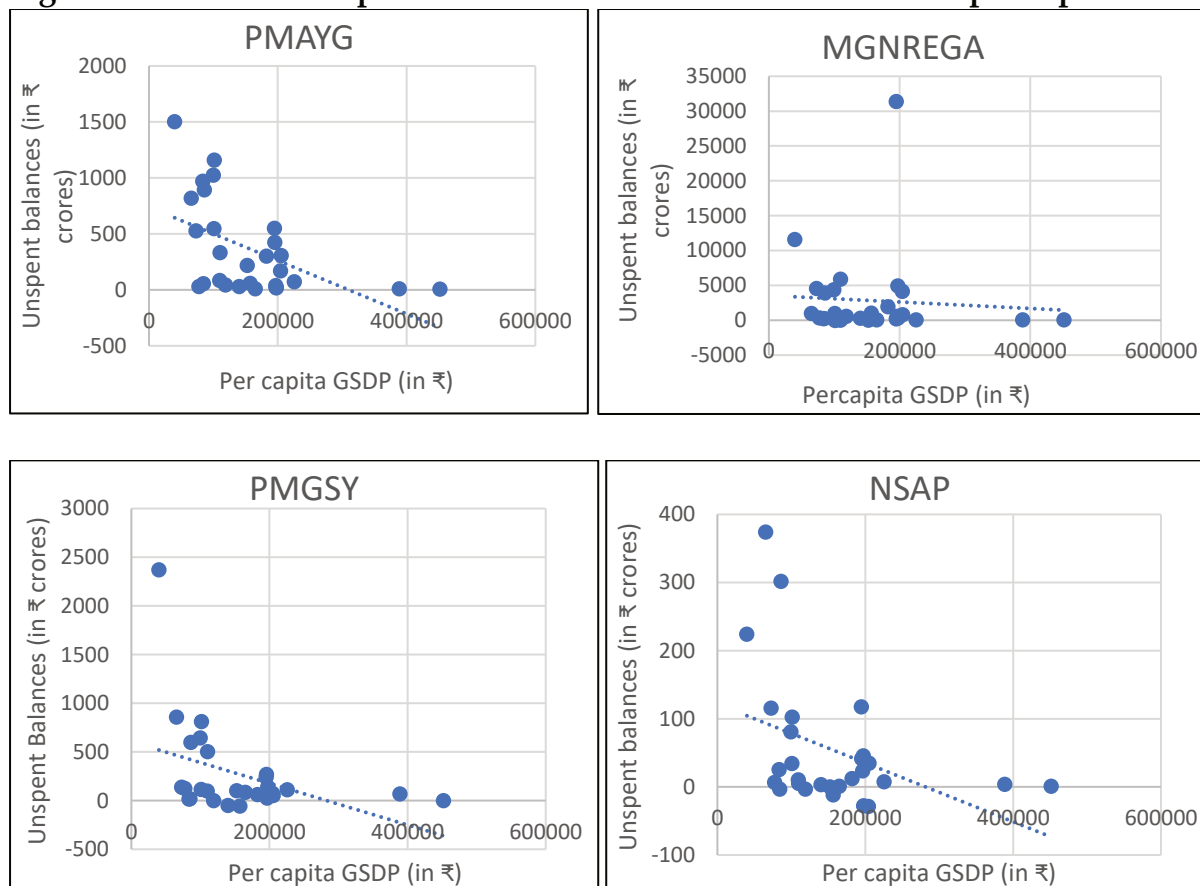
6.5 Lower absorption capacity in some states, leading to lower improvement in states where it is needed most.

6.5.1 States with high service deficiency also have weak governance. These are reflected in delay in plan formation for the implementation of schemes, lag in the submission of Utilisation Certificates on which the release of subsequent instalments of the Union's share is based.

6.5.2 Further, states with lower GSDP are unable to absorb the released funds on time due to inadequate capacity in terms of manpower, skills, technical expertise. Figure 8 depicts that state-wise unspent balances under major schemes such as MGNREGA, PMAY-G are negatively related to the per-capita GSDP. This means that as GSDP increases, the utilization increases and hence unspent balance decreases, implying that absorption capacity is related to per-capita

GSDP. This also shows the need for reforms in financial transfers, so that the pro-cyclical and divergent nature of fund use can be tackled and CSS fulfil their role as a vehicle of equalization across states.

Figure 8: State-wise unspent balances under various schemes and per-capita GSDP



Source: Ministry of Rural Development

6.6 Process Oriented and Input based schemes

6.6.1 CSS are process driven, with detailed guidelines on ‘what to do’ and ‘how to do’ rather than defining ‘what to achieve’. This results in rigidity as well as poor correlation with outcomes achieved, for instance, increase in allocation for teachers’ salaries and improvement in learning outcomes. This focus on processes makes compliance also difficult and the onerous reporting requirements end up harming the states with lower absorption capacity.

6.6.2 The NITI DMEO was tasked with monitoring the implementation of schemes at the state. The first evaluation reports have been published in July 2021. Furthermore, lack of state capacity in poorer states makes monitoring even more challenging particularly for

those states, for instance, through lack of high-quality MIS or IT infrastructure.

7 Recommendations

7.1 Re-classification of the schemes

7.1.1 There is a broad consensus, as argued by the Sub-Group of Chief Ministers, that there are some areas, called the National Development Agenda by the Sub-Group, where Union intervention is warranted. These areas are those which are the most fundamental to the development of the nation, like education, health, drinking water, electricity and agriculture. Some areas have very large multiplier effects, like PMGSY, PMAY or have significant spillover effects to other states, for example through improved access to market facilitated by PMGSY. Such schemes should be run as CSS to help internalise these externalities. This framework for Union's intervention is also supported by economic theory.

7.1.1.1 Out of the 35 schemes, **22 schemes are part of the National Development Agenda.** These schemes are shown in Table 1

Table 1: Schemes corresponding to NDA

S.No.	Scheme	NDA	Share (%) in total CSS budget
1.	MNREGA	Poverty Elimination, Livelihoods, Skill and Jobs	19.14
2.	National Social Assistance Program	Poverty Elimination, Livelihoods, Skill and Jobs	2.41
3.	Umbrella Program for Development of Minorities	Poverty Elimination, Livelihoods, Skill and Jobs	0.41
4.	Umbrella Program for Development of Other Vulnerable Groups	Poverty Elimination, Livelihoods, Skill and Jobs	0.56
5.	Umbrella Program for Development of Scheduled Tribes	Poverty Elimination, Livelihoods, Skill and Jobs	1.13
6.	Umbrella Scheme for Development of Schedule Castes	Poverty Elimination, Livelihoods, Skill and Jobs	1.72
7.	Environment, Forestry and Wildlife	Others like Wildlife conservation and greening.	0.20
8.	Green Revolution	Agriculture	3.52

9.	Infrastructure Facilities for Judiciary	Justice Delivery	0.21
10.	Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission	Drinking Water and Sanitation	13.12
11.	Modernisation of Police Forces	Law and Order	0.74
12.	National Education Mission	Education	9.00
13.	National Health Mission	Health	9.74
14.	National Programme of Mid-Day Meal in Schools	Mid Day Meal and Nutrition	3.02
15.	Pradhan Mantri Awas Yojana (PMAY)	Housing for all	7.21
16.	Pradhan Mantri Gram Sadak Yojna	Rural connectivity	3.93
17.	Pradhan Mantri Krishi Sinchai Yojana	Irrigation	3.04
18.	Swachh Bharat Mission	Sanitation	2.62
19.	Swachh Bharat Mission (Gramin)	Sanitation	0.60
20.	Saksham Anganwadi and Poshan 2.0 (Umbrella ICDS, Anganwadi Services, Poshan Abhiyan, Scheme for Adolescent Girls, National Creche Scheme)	Nutrition, Women and Children	5.27
21.	Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	Urban Transformation	3.61
22.	National Livelihood Mission-Ajeevika	Livelihood	3.80
Total			95.00

Source: Union Budget, 2021-22 and Shivraj Singh Chauhan Committee

- 7.1.2 The small schemes, having an expenditure of less than 1% of the total CSS outlay and which do not form a part of the NDA that can be better designed at the state level, should be transferred completely to states. This will ensure that the original rationale for the CSS, that of Union intervention in only some specific nationally important areas, is upheld, instead of small, less impactful schemes. There are 16 schemes with allocations less than 1% of the total CSS outlay. However, we do propose to keep some small schemes in the CSS framework as they are part of the NDA.
- 7.1.3 Based on the above reasoning, we propose a schema of 6 parameters (table 2) for re-classification of the CSS. Of the current 34 schemes, 9 schemes (small schemes targeting local issues which do not require Union's intervention) should be made *optional schemes* that offer states the flexibility in choosing the schemes as per the states' requirements. The states can choose from this class of schemes, every 3 years, aligning it with the mid-cycle review of CSS. This 3-yearly selection will also provide enough time to gauge effectiveness after a stable implementation. **These 9 schemes amount to ₹13,298 crores (3.49% of**

the total CSS expenditure) as per the 2021-22BE. A summary of this classification is provided in table 2².

Table 2: Summary of the Proposed Classification of the CSS

Classification indicators	No. of schemes	% of expenditure
1.a: Kept as a CSS due to national priority (directly falls under NDA)		
1.b: Inter-jurisdictional externality of good/service delivery		
1.c: Equalisation need across states 1.d: Special needs of states		
Total schemes retained as CSS (based on 1.a to 1.d)		
	25	96.34%
Schemes that are made optional (flexibility to states to choose schemes every three years)		
2.a: Transfer to states for reasons of better design/localised intervention		
2.b: Small schemes (<1% of total CSS)		
Total Optional Scheme	9	3.49%
Total schemes	34 ³	99.83% ⁴

7.2 Broad-ranging design of CSS and flexibility in the implementation of schemes

- 7.2.1 Outcome-based approach- State-specific outcome-based targets for each of the sub-areas should be defined, for instance achieving a target doctor-to-population ratio, reduction in IMR, MMR etc. in a defined time frame.
- 7.2.2 The focus on outcomes will also encourage convergence among different schemes, as the state, for instance, to reduce MMR will be able to focus on not just the creation of more PHCs but also reduce anaemia based on its needs. The interlinkages between various schemes can be better harnessed when states are given the required flexibility to use the strategies and interventions from various schemes to achieve desired outcomes. The above will allow effective outcome-based monitoring as well. The NITI Output-Outcome framework can be used as a reference for each sector to define the targets for CSS.
- 7.2.3 This must be accompanied by high-quality data collection at the state level, with efforts to minimize time lags, through the use of technology.

² A detailed classification of schemes under each parameter is provided in Appendix II.

³ There are 36 schemes as per the budget 2021-22. Of these, Umbrella ICDS has been merged with Saksham 2.0 and we have not classified 'others' under any of the parameters.

⁴ 'Others' forms 0.17% (Rs. 660 crores) of the total CSS expenditure of Rs. 3,81,305 crore.

- 7.2.3.1 Quarterly surveys, self-generation of information by beneficiaries with robust checks should be designed.
- 7.2.3.2 The gram panchayats need to be further strengthened to have more frequent data collection.
- 7.2.3.3 The simpler design will also free up a lot of bureaucratic effort in micro design at the Union level and allow the Ministry to have better output- outcome monitoring.
- 7.2.4 *The CSS design must be made simpler and broader.* Instead of having detailed sub-targets, broader areas and outcomes must be specified and the specific design within those broader areas must be left to the states. The areas should be defined to include the basic needs of a particular intervention, like infrastructure or human resources. For instance, the Rashtriya Krishi Vikas Yojana (RAFTAAR) has broad areas like infrastructure, value chain development, innovation. It leaves the detailed design to the states but gives an **indicative** list of projects. Similar approaches are needed in other areas as well, which will help in achieving the above-stated objective of outcome-based design.
- 7.2.5 Convergence of multiple sub-schemes: Currently, every CSS has multiple sub-schemes targeting different outcomes. This prevents a holistic approach to achieving the desired outcome. Alternatively, the sub-schemes should be designed to achieve **convergence in outcomes**. For instance, the National Health Mission, instead of having separate sub-schemes for cardiovascular diseases, mental health, trauma centres, nursing services etc. can have broad areas like infrastructure, human resources, insurance, preventive care, curative care, infectious diseases, which will all be geared towards achieving the broad outcomes of the health sector, instead of each trying to solve a different problem.
- 7.2.6 *The flexibility of sub-schemes and sub-components-* Each scheme has 2 parts- sub-schemes and sub-components. For instance, the National Health Mission has NRHM, NUHM, Tertiary Care as different sub-schemes. Each of these sub-schemes has sub-components, like Tobacco Control, Health care for the elderly. However, in our broad design, the NHM may have sub-schemes like Infrastructure, Human Resources, Preventive Care, with there being sub-components under each, like PHCs, SHCs. Based on this, we propose 2 kinds of flexibility:
1. Flexibility at the sub-scheme level: For instance, under the National Health Mission a state should be able to focus on NRHM more instead of NUHM if the conditions in the state warrant it. Similarly, states with a good health infrastructure but a severe lack of health personnel should

be able to focus more on medical education and training rather than building more hospitals.

2. Flexibility at sub-component level- Within a particular sub-scheme there are several sub-components. The National Health Mission's sub-scheme Tertiary Care Programs has 7 different sub-components like Tobacco control, health care for the elderly etc. We propose that the states should have the flexibility to choose between the various components, to achieve the overall state-wide health outcomes.

7.3 Flexibility in cost norms

7.3.1 In line with the Sub-Group of Chief Ministers, flexibility in cost norms has been given to states. However, these can also be used to incentivise efficiency in implementation. Thereby, we propose:

7.3.1.1 For every state, a min-max range of costs can be developed for various interventions and flexibility given to states to operate within them.

7.3.1.2 The closer the states move towards the minimum cost, conditional upon the outcome being achieved, the better it is performing.

7.3.1.3 This can be incentivized through:

- a) Consider the prescribed norm for a hypothetical activity being ₹100 cr., with the range, minimum being ₹95 cr.
- b) If a state can achieve the desired outcome say at ₹97 crore (lower than the predetermined norm), then the remaining funds (norm – actual cost) can be converted to untied funds with intra-departmental mobility.
- c) This cost efficiency will thereby free up resources which can then be put to better utilisation. The purpose of keeping the funds untied is to allow states to harness their comparative advantage in some sectors. For instance, a state may be able to build roads using unskilled labour more cheaply. The savings made here can be used for maintenance of other roads.

7.4 Inter se allocation formula

7.4.1 The allocation needs to be decided through a more **consultative and transparent process**.

7.4.2 To make the inter-se allocation among states more progressive, **an appropriate formula-based approach must be adopted** that takes into account factors such as deficiency in service, improvement in predefined output/outcome indicators and also reward the historical performance of the state. Special needs of states, for instance, the North Eastern and the Himalayan States, needs to also be considered.

7.4.3 An appropriate mechanism of **training and capacity building** to increase absorption in states where it is low should be undertaken.

Over time, as state capacity progresses, improvement in service parameters will become more achievable. So gradually, the funding share of improvements should be increased to incentivize performance. But this should be done only with a thorough analysis of state capacity.

7.5 Strengthening Implementation and Accountability

7.5.1 MoU between states and ministries on which parameter will be tracked can be signed, which will take into account each state's existing condition and improvement capacity. **For states able to achieve the target, an incentive may be given in the form of a Challenge Fund, to be created by the Union.**

7.5.2 *Greater collaboration between local and national institutions:* The Union should use its network of research institutions to provide high-quality inputs to states to improve their policymaking and implementation. These institutions can also be leveraged to expand best practices across states, design pilots and scaling up. In each scheme, a bi-annual national conference should be held with the participation of states, best performing districts in each state, representatives of the concerned ministry, under the aegis of the technical institution in that area. This can act as a regular platform for ideation and collaboration across states and passing of the required technical expertise from the institutions to states. If states have their own institutions in these areas, there needs to be deputation of experts from the national to state institutions and vice-versa regularly. The existing model of State Councils of Educational Research and Training (SCERTs) collaborating with NCERT to design syllabi and other educational policy needs to be expanded to other domains as well.

7.5.3 *Operationalising the Flexi-funds:* The flexi-funds, though being in the guidelines, are not effectively used currently. We propose that the flexi-funds guidelines should be modified to target intra-state inequality in outcomes. States can be allowed to deploy the flexi-funds for a focused implementation of the scheme in the most deprived areas of the state. This will also help in achieving the target of developing the Aspirational districts.

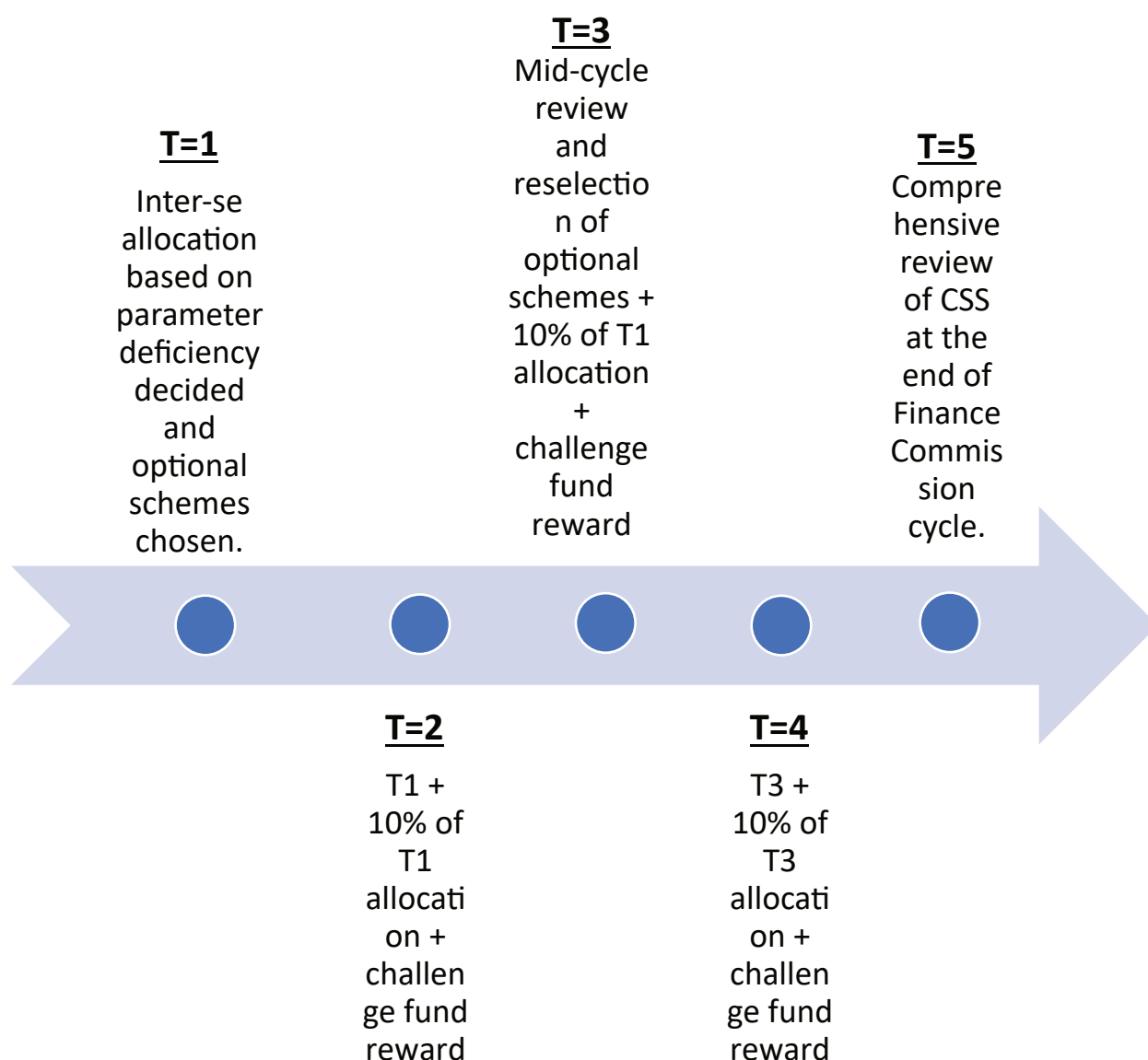
7.6 Evaluation

7.6.1 The above recommendations on broad, flexible designs, funding based on service deficit and incentivising efficiency in cost norms without sacrificing service quality are all predicated on a strong and credible evaluation framework.

7.6.2 The current setup of evaluation is led by the NITI DMEO. This can be modified to a Ministry wise concurrent evaluation of schemes. Further, the DMEO can

randomly select 10 schemes for evaluation that can supplement the Ministry led monitoring and evaluation process. This will lead to a continuous and comprehensive evaluation of schemes.

7.6.3 Additionally, as the CSS are run in the 5 yearly cycle of the FC, there needs to be a major mid-cycle review at the end of 3 years of all CSS. Sunset clauses need to be inbuilt in the CSS when they are approved. If the scheme fails to achieve its defined outcomes and if a review does not lead to definite improvements, the scheme must be phased out.



8 Conclusion

- 8.1 The Centrally Sponsored Schemes have been an important instrument for the Union to direct states' efforts in certain areas and achieve desired outcomes across states. They have been vital for fighting poverty, through schemes like NREGA, Umbrella Schemes for Vulnerable Sections, and also create human capital through NHM, NEM. However, given their importance, both financially and for national progress, they must be designed and implemented bearing in mind the diversity of India and the varying needs across states. To achieve this, we have proposed transfer of some schemes to states and also a design modification in schemes to be retained as CSS, to allow for greater flexibility and contextualized implementation.
- 8.2 Given the large financial flows and the impact on state budgets, the CSS should also be used to incentivize efficiency at the state level for improvement of governance capacity, through an appropriate fund allocation formula and cost norms. Co-operative federalism also requires that these modifications should be made only after consultations with the states.

Appendix I: Mapping of CSS to the Constitutional Provisions

<u>Name of Scheme</u>	<u>Directive Principle of State Policy</u>	<u>Entry in Union List</u>	<u>Entry in State List</u>	<u>Entry in Concurrent List</u>
CORE OF CORE SCHEMES				
Mahatma Gandhi National Rural Employment Guarantee Program	38(2), 39(a), 41			23
National Social Assistance Program	41		9	23
Umbrella Program for Development of Minorities	38(1), 46			23
Umbrella Program for Development of Other Vulnerable Groups	38(1), 46			23
Umbrella Program for Development of Scheduled Tribes	38(1), 46			23
Umbrella Scheme for Development of Schedule Castes	38(1), 46			23
CORE SCHEMES				
Rashtriya Swasthya Bima Yojna	47	47	6	23
Blue Revolution		57	21	
Border Area Development Program	38(2)	1		
Environment, Forestry and Wildlife	48A			17A, 17B
Green Revolution	48		14	
Infrastructure Facilities for Judiciary	39A		3	11A
Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission	43		17	
Jobs and Skill Development	41			23
Mission for Protection and Empowerment for Women	39(d), 46			20A
Modernisation of Police Forces			2	
National Education Mission	45	63, 64, 65, 66		25
National Health Mission	47		6	29
National Livelihood Mission - Aajeevika	41, 43B			23
National Programme of Mid-Day Meal in Schools	39(f)			25

Pradhan Mantri Awas Yojana (PMAY)	43			
Pradhan Mantri Gram Sadak Yojna			13	
Pradhan Mantri Krishi Sinchai Yojana	48		17	
Rashtriya Gram Swaraj Abhiyan(RGSA)	40		5	
Shyama Prasad Mukherjee Rurban Mission	38(2)			
Swachh Bharat Mission	47		6	
Swachh Bharat Mission (Gramin)	47		6	
Saksham Anganwadi and Poshan 2.0 (Umbrella ICDS, Anganwadi Services, Poshan Abhiyan, Scheme for Adolescent Girls, National Creche Scheme)	39(f), 47		6	
Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	38(2)			20
White Revolution	48		14	
Rashtriya Pashudhan Vikash Yojana	48		15, 16	17
Mission VATSALYA (Child Protection Services and Child Welfare Services)	39(f)			5
Mission Shakti	46			
Prime Minister Formalisation of Micro Food Processing Enterprises Scheme (PM-FME)	48			33
Others				

Note: These entries are based on our interpretations of the entries in the three lists.

Source: Budget 2021-22; Constitution of India

Appendix II: Re-classification of CSS

Name of Scheme	Parameters for classification	Percentage share in total CSS expenditure (2021-22BE)
CORE OF CORE SCHEMES		25.38
Mahatma Gandhi National Rural Employment Guarantee Program	1.a: NDA-Poverty alleviation, livelihood	19.14
National Social Assistance Program	1.a: NDA-Poverty alleviation, livelihood	2.41
Umbrella Program for Development of Minorities	1.a: NDA-Poverty alleviation, livelihood	0.41
Umbrella Program for Development of Other Vulnerable Groups	1.a: NDA-Poverty alleviation, livelihood	0.56
Umbrella Program for Development of Scheduled Tribes	1.a: NDA-Poverty alleviation, livelihood, skill and jobs. Obligation under Article 275.	1.13
Umbrella Scheme for Development of Schedule Castes	1.a: NDA-Poverty alleviation, livelihood	1.72
CORE SCHEMES		74.14
Rashtriya Swasthya Bima Yojna	1.b: Externality in insurance sector.	1.68
Blue Revolution	1.b: Externality as fishery is common pool resource and hence associated with the problem of tragedy of commons if left to individual states. Tragedy of commons is when a common pool resource is exploited as individuals try to maximise own gain resulting in high social costs.	0.27
Border Area Development Program	1.d: Special needs of border states and also imperative of national security	0.15
Environment, Forestry and Wildlife	1.a & b: NDA and externalities associated with environmental issues.	0.2

Green Revolution	1.a: NDA- Agriculture	3.52
Infrastructure Facilities for Judiciary	1.a & c: NDA and need for ensuring equal standards of justice delivery across states.	0.21
Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission	1.a: NDA- drinking water and sanitation	13.12
Jobs and Skill Development	2 (a & b): Even though it can be interpreted as a part of the NDA, the scheme accounts for only 0.91% of the total CSS expenditure as per 2021-22BE.	0.91
Mission for Protection and Empowerment for Women	2 (a & b): Even though it can be interpreted as a part of the NDA, the scheme accounts for only 0.01% of the total CSS expenditure as per 2021-22BE.	0.01
Modernisation of Police Forces	1.a and 1.c: NDA and need for equalisation of policing across states.	0.74
National Education Mission	1.a,1.b, 1.c: Education is national priority with major externalities. There is also need for equalisation of educational standards across states	9
National Health Mission	1.a,1.b, 1.c: Health is national priority with major externalities. There is also need for equalisation of health service delivery across states	9.74
National Livelihood Mission - Aajeevika	1.a: NDA-Poverty alleviation, livelihood	3.8
National Programme of Mid-Day Meal in Schools	1.a: NDA	3.02
Pradhan Mantri Awas Yojana (PMAY)	1.a: NDA- housing for all.	7.21
Pradhan Mantri Gram Sadak Yojna	1.a and 1.c: NDA- rural connectivity; provision of rural roads should be there in all states.	3.93
Pradhan Mantri Krishi Sinchai Yojana	1.a: NDA-irrigation	3.04
Rashtriya Gram Swaraj Abhiyan(RGSA)	2 (a &b): Capacity building and training of local bodies varies from state to state and is best addressed at state level. The Union intervention in the scheme is very small (0.17 of the total CSS expenditure as per 2021-22BE)	0.17
Shyama Prasad Mukherjee Rurban Mission	2 (a&b): Provision of urban amenities in rural areas is a localised intervention which can best be designed at state level taking into account the needs of rural areas of the state.	0.16

Swachh Bharat Mission	1 (a and b): Sanitation is a part of NDA and is associated with positive externalities. However, these schemes ultimately must be transferred to states as we move to the next phase of the mission, that is, waste management which can be effectively managed at state level.	0.6
Swachh Bharat Mission (Gramin)		2.62
Saksham Anganwadi and Poshan 2.0 (Umbrella ICDS, Anganwadi Services, Poshan Abhiyan, Scheme for Adolescent Girls, National Creche Scheme)	1.a & 1.c: Health, nutrition are national priorities. Equalisation need of provision of the right nutrition at state level is also important to tackle the glaring issue of malnutrition in the country.	5.27
Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	1.a: NDA- urban transformation.	3.61
White Revolution	2a & b- Even though animal husbandry falls under the NDA, we suggest this intervention is best made at the local level. Furthermore, as a large part of the dairy sector is under co-operatives, which fall under state domain, we recommend that this scheme should be transferred to states. The financial outlay by the Union is also small.	
Rashtriya Pashudhan Vikash Yojana		0.31
Mission VATSALYA (Child Protection Services and Child Welfare Services)	2a & b- Although, protection of women and children are national priorities, we suggest this intervention is best made at the local level. The financial outlay by the Union is also small.	0.24
Mission Shakti		0.82
Prime Minister Formalisation of Micro Food Processing Enterprises Scheme (PM-FME)	1.b: Even though it is a small scheme, food processing units have forward and backward linkages that cross the state level boundaries and may require inter-state coordination. Hence due to factors of externalities, this must be retained as a CSS.	0.13
Others		

References

- Gosepath S. (2005) The Principle of Subsidiarity. In: Follesdal A., Pogge T. (eds) Real World Justice. Studies in Global Justice, vol 1. Springer, Dordrecht
- Oates, W.E. 1972. Fiscal Federalism. New York: Harcourt Brace Jovanovich

- Rao, M.G.; Central transfers to States in India- Rewarding Performance while Ensuring Equity; 2017
- Chakraborty, Pinaki, Lekha Chakraborty, Manish Gupta, Amandeep Kaur, Shatakshi Garg, Md. Azharuddin Khan (2018) A Study of Intergovernmental Fiscal Transfers in India, Project Report, National Institute of Public Finance and Policy, New Delhi
- Musgrave RA (1957) A multiple theory of budget determination. *Finanzarchiv* 17(3):333–343