

Structural changes in centrally sponsored schemes and its impact on state finance of Kerala

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Introduction

The constitution of India envisages the fiscal federalism where the financial powers as well as duties and responsibilities between Centre and states have been described. The responsibilities vested on states are immense and much more than their financial power ie, revenue generation power. Hence, in order to meet the transferred responsibilities of the states, the fund transfer from the Centre is essential. Earlier fund transfer from the Centre was mainly through two means- plan grants and Finance Commission (FC) grants. Plan grants mainly comprise of Centrally Sponsored Schemes (CSS), Central Sector Schemes and other plan grants. CSSs have been implemented mainly based on Article 282 of the constitution and the article enables centre as well as state governments to make discretionary grants for any public purpose. CSS constitutes significant proportion of fiscal transfers from the Centre to the states and this was nearly 23 percent of the total fiscal transfers to the states according to the budget estimate of 2021-22 (Rao and Singh 2021, Sharma etal 2023).

One of the important institutional change which has far reaching impact on the fiscal federalism of India is the constitution of National Institution for Transforming India, NITI Aayog in 2015. As per the decisions of the first Governing Council meeting of NITI Aayog, a sub –committee was appointed to rationalize the plan grants to the states. Pursuant to this sub-committee report, structure of CSS and sharing pattern between Centre and States has

drastically been changed. There has also been substantial reduction in the number of schemes. These changes have resulted far reaching impact on the fiscal structure of the states.

In this context, this paper examines the impact of the changes in structure and fund pattern of CSSs on the fiscal structure of Kerala. It is also specifically estimated that how much additional burden has been imposed by these changes on the financing of the State.

Structure of Plan Grants and CSS before NITI Aayog

CSS and Central Sector Schemes are two main components of central assistance to state plans. The CSSs are implemented by state governments or designated agencies based on scheme specific guidelines which are formulated and operationalized by Central Ministries. A separate classification of schemes as CSS was introduced from Fourth Plan onwards. These schemes had a national character, and dealt with areas/concerns like family planning, agricultural workers, research and training. The number of schemes covered under the Centrally Sponsored category varied from 188 in 2002-03 to 147 in 2011-12. In 2011, under chairmanship of Shri. B K Chaturvedi a Committee was appointed for restructuring of CSS, to enhance its flexibility, scale and efficiency. Based on the recommendation of the committee the number of CSS had been reduced from 147 to 66.

Other important components of plan grants from Centre to the states were: (a) Normal Central Assistance (NCA), comprising untied assistance for the annual plans of States, based on the Gadgil-Mukherjee formula; (b) Additional Central Assistance (ACA) for specific-purpose schemes and transfers; (c) Special Central Assistance (SCA), comprising untied assistance for the North-eastern and certain hilly States; and (d) Special Plan Assistance. Apart from these, financial assistance from the Centre also came via Central Plan schemes and Centrally Sponsored Schemes, which were conditional upon specified implementation criteria.

The distribution of Normal Central Assistance was as per Gadgil Mukherjee formula and was untied in nature. In the case of Other Central Assistance (OCA), the nature of funding was partly grant and partly loan. Some of the schemes were fully funded by Centre, while others were on loan and grant mode with 80:20, 70:30 and 60:40. One time ACA was implemented by state governments based on the scheme wise proposals submitted to Planning Commission. The allocation of funds by Planning Commission to one time ACA

was for the specific proposals as per the guidelines and the fund was as 70 percent loan and 30 percent grant.

Structure of CSS in post NITI Aayog

After the constitution of NITI Aayog, the GoI appointed a Sub-Group of Chief Ministers for rationalisation of CSS in 2015. Accepting the recommendations of the Sub Group, the number of CSS was restructured from 66 schemes to 28 umbrella schemes in 2016. Out of the 28 umbrella schemes, 6 schemes were categorised as core of the core schemes, 20 schemes as core schemes and 2 as optional schemes. The sharing of fund by States is mandatory in core schemes whereas participation in optional schemes was left to the decision of the States.

Along with the restructuring of the schemes, the funding pattern was also altered. The funding pattern would continue as 100 percent GoI share for core of the core schemes. For core schemes, 60 percent of fund will be met by Centre and 40 percent by states, but for 8 north eastern states and 3 Himalayan states of Uttarakhand, Himachal Pradesh and Jammu and Kashmir the pattern would be 90 per cent by Centre and 10 per cent by States. The rate is 50 percent by Centre and 50 percent by State for Optional schemes. For 8 North Eastern and 3 Himalayan states of Uttarakhand, Himachal Pradesh and Jammu and Kashmir the proportion for optional schemes would be 80 percent by Centre and 20 percent by States.

Additional Burden on State

From 2016-17 onwards, Kerala had to bear a larger share of scheme expenditure for CSS. Prior to this, the funding pattern of the schemes was such that Centre supported a major part of financing of scheme like 90 per cent, 80 per cent and 75 per cent. The State accordingly had to finance only 10 per cent, 20 per cent and 25 per cent of the schemes. However, from 2016-17 onwards, the funding pattern of most schemes was such that state has to incur on an average of 40 percent share in the place of 25,20,10 percent earlier.

For estimating the additional burden due to the change in the funding pattern, 10 schemes have been selected from the list of CSS. In 2023-24 budget, an amount of Rs.1339.76 cr was earmarked as state share for these selected 10 schemes. But if the old funding pattern was followed, the amount would have been Rs. 642.68 cr. Hence, for these 10 schemes alone, the

additional burden on State finance in 2022-23 is Rs.697.08 cr. This additional burden of State is neither compensated from the Finance Commission transfer nor through hike in the central assistance through CSS.

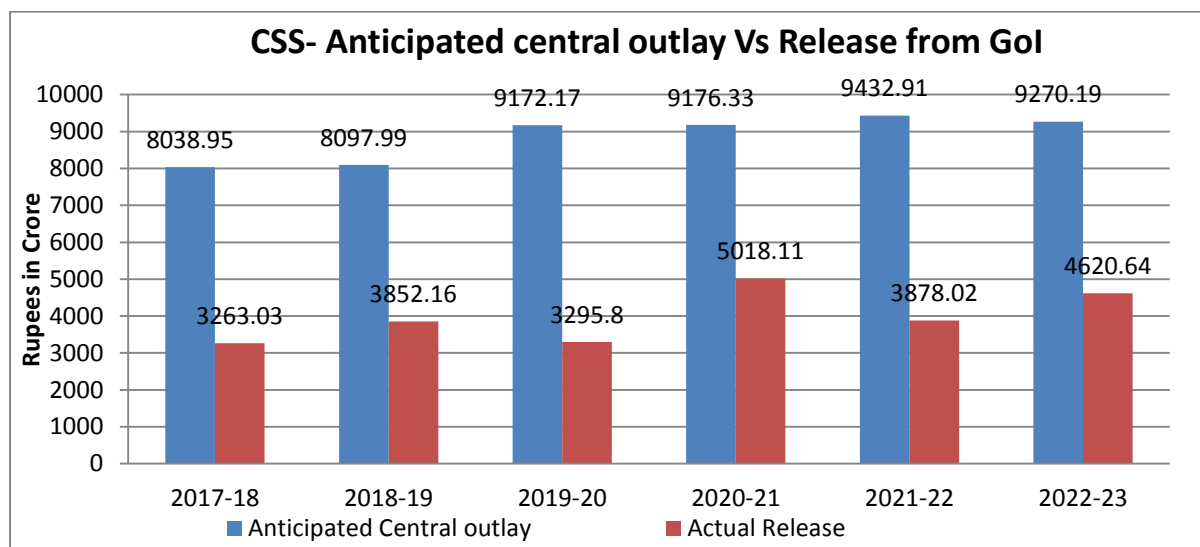
Table 1
Budget Outlay of ten CSSs-2023-24 in lakh

Sl. No	Name of Schemes	Ratio of Central - State Share		State Share in 2023-24	If followed old ratio	Additional Burden
		Old	New			
1	Pradan Mantri Mastya Sampada Yojana	75 - 25	60-40	4380	2737.5	1642.5
2	National Rural Livelihood Mission	75 - 25	60-40	6500	4062.5	2437.5
3	Pradan Mantri Gram Sadak Yojana	100 - 00	60-40	8000	0	8000
4	Samagra Siksha Abhiyan	75 - 25	60-40	6000	3750	2250
5	Mid- Day Meal Programme	75 - 25	60-40	34464	14360	20104
6	National Health Mission	75 - 25	60-40	50000	31250	18750
7	Prime Minister Awaas Yojana	75 - 25	60-40	1000	625	375
8	DIET	75 - 25	60-40	1200	750	450
9	Integrated Child Development Services	90 - 10	60-40	19432	4858	14574
10	Prime Minister Ayushman Bharat Health Infrastructure Mission	75 - 25	60-40	3000	1875	1125
	Total			133976	64268	69708

Source: Annual Plan Document, GoK, 2023-24

Apart from this extra burden due to the change in sharing pattern, State government is also facing the problem of less release from centre than expected central transfer under CSS. When more state share is to be earmarked in anticipation of central allocation than the actual release, the free plan allocation (for which the state resource can be exclusively used for state formulated schemes) is affected.

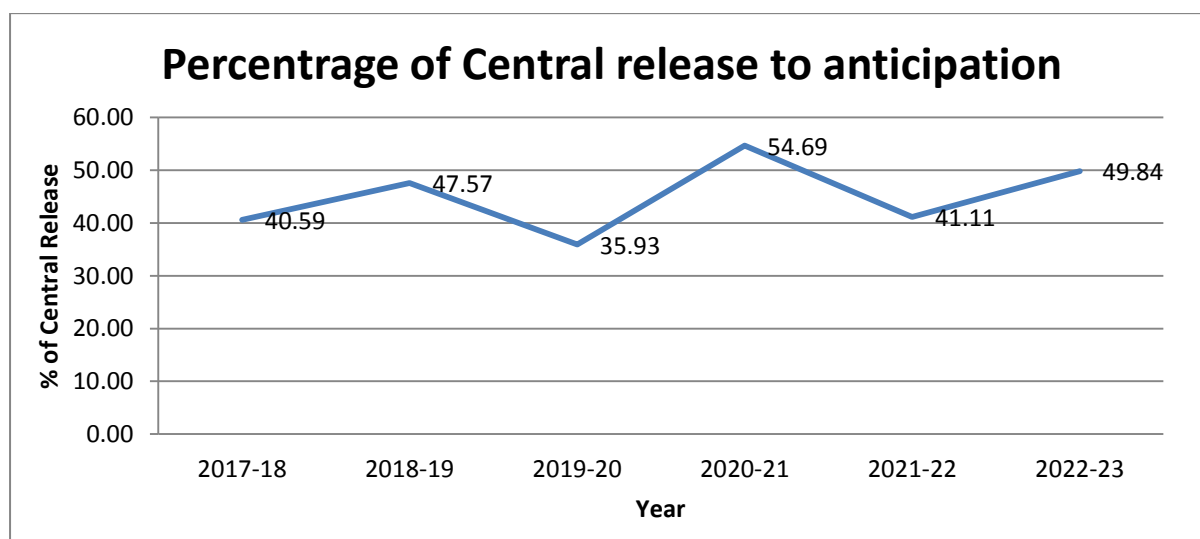
Figure 1.



Source: Annual Plan Document, GoK, 2023-24 and PFMS (Fund Release)

It is observed that Kerala is getting merely half of the anticipated share from central government (Figure 2).

Figure 2.



Source : Annual Plan documents and PFMS

The share of expenditure by Centre for the Centrally Sponsored Schemes for the period 2012-13 to 2019-20 also reduced from 93 per cent to 64 per cent (Table 2). Meanwhile, during the period 2014-15 to 2016-17, the share of State increased from 7 per cent to 36 per cent. The share of expenditure by State for the schemes was 36 per cent as compared to 22 per cent in 2015-16. It has further increased to 43.55 percent in 2019-20

Year	Expenditure (in lakh)			% of expenditure	
	Central	State	Total	Central	State
2012-13	155144	28889.7	184034	84.3	15.7
2013-14	106038	32131	138169	76.75	23.25
2014-15	337746	24932.7	362679	93.13	6.87
2015-16	294760	84812.8	379573	77.66	22.34
2016-17	315853	178474	494327	63.9	36.1
2019-20	470887	362897	833784	56.45	43.55

Source: Computed from CAG Accounts of various years

Increasing Share of Central Sector Schemes

Central Sector Schemes are fully funded by Central Government and more based on the discretion of Centre. Initially, nearly 25 percent of the central grants to the states constituted CSS. But since 2014 the share of CSS has been declining and share of Central Sector Schemes has been increased. The increasing role of CSS as well as Central Sector Schemes in the place of plan grants results in the growing centralization of social sector policies in the country (Rath, 2013). As the state governments have no any say on Central Sector Schemes, the more centralization happens when the share of Central Sector Schemes increases. Table 3 shows the share of both CSS and Central Sector Schemes to the total development expenditure of the centre for the period 2014-15 to 2022-23. The share of Central Sector Schemes has increased from 13 percent in 2014-15 to 39 percent in 2020-21.

Year	CSS	Share of CSS to total Development Expenditure	Central Sector Scheme	Share of Central Sector Schemes to total Development Expenditure	Total Development Expenditure
2014-15	338408	18.85	236592	13.18	1794892
2016-17	241900	12.21	308110	15.57	1978060
2020-21	383976	10.93	1356817	38.65	3509836
2022-23	476105	10.57	1467880	32.59	4503097

Source: Union Budget documents and Computed from CAG Accounts of various years

Functional and Implementation Issues of CSSs

The main limitation of CSSs is that they are mainly general and national in nature, specific needs and requirements of the states are not addressed properly while formulating the criteria

and guidelines of CSSs by the centre. This issue has become more intense during post NITI Aayog period. Since the number of CSSs has been reduced to 28 and most of the schemes or programmes comes under major umbrella schemes, the unique characteristics of the state can't be attended.

Confusion arises with regard to the funding pattern of the schemes also. For the same scheme, different funding pattern is followed. For example, the funding pattern of Integrated Child Development Programme, the 25 percent is the state share in general. But the 75 percent of cost for human resource is to be met by the states. Also, central government has given instruction to the states to meet the 100 percent of human resource from 2023-24 onwards. Likewise, the maximum amount for cooking fuel and cooking staff for Mid-day Meal scheme has been fixed which is far below the actual cost in the State. The per day wage for cooking staff is fixed as Rs.100 by the centre and 60 percent of the cost, ie. Rs.60 is met by the centre. But daily wage of cooking staff in Kerala is above Rs.500.

States face difficulties when guidelines, formats and criteria are frequently revised and changed. This creates issues in implementation at grass root level and delay in submitting the utilization certificates (UC). Only if the UCs are submitted in time and prescribed format, the fund will be released from the centre.

Conclusion

Impartial allocation and effective utilization of Centrally Sponsored Schemes is an instrumental mechanism for strengthening fiscal federalism in our country. Additional commitment borne by the States due to the rationalization of funding pattern has to be ensured either through hike in the share of CSS in the total development expenditure or by providing sufficient fund through 16th Finance Commission. Considering heterogeneous subnational structure, adequate flexibility has to be ensured for utilizing CSS. Restoration of flexi fund, provided in the 12th Five Year Plan, may be rejuvenated. As per the flexi fund, the states could set aside 25 percent of any Centrally Sponsored Scheme to be spent for the specific needs state which is in line with the overall objective of the approved Scheme. While formulating Union Budget, due consideration has to be ensured for Project Approval Board's (PAB) minutes since States would anticipate central allocation for each Scheme based on the approved minutes of PAB. As the implementation process of CSS has become more complex, a mechanism is needed for Kerala to disseminate central initiatives to implementing

departments, helping the preparation of winning project proposals and timely submission of utilization certificate. This suggested co-ordination mechanism would help the departments on redressing complaints and ensure liaison with Ministries and implementing departments for effective utilization of available fund through Centrally Sponsored Schemes.

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