Development Expenditure in the States Post Fourteenth Finance Commission Award: An Assessment of the Centrally Sponsored Schemes

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Executive Summary

The Fourteenth Finance Commission (FFC) recommendations to increase the devolution to the States from 32 percent to 42 percent of the divisible pool was accepted by the Government of India (GoI) on February 24 2015. This was accompanied by other far reaching changes in the institutional arrangements, classification of expenditure and as well as in the composition, mix and priorities of development schemes and programmes. The design and implementation arrangements, sharing patterns and their scope also underwent considerable modification in the first two years of the FFC Award (2015-16 and 2016-17). Against this backdrop, this Study assesses the following:

1. Impact of institutional and structural changes that followed after the discontinuation of Plan / Non-Plan classification in expenditure, dismantling of the Planning Commission and the end of the Five-Year Plan era on the –

    a. Classification of Total Receipts in the Union Budget

    b. Classification of the Total Expenditure in the Union Budget

    c. Fiscal Space of the Union

2. Impact of rationalization of Centrally Sponsored Schemes (CSS) on

    a. Number / Census of CSS

    b. Composition of CSS

    c. Funding pattern of CSS

    d. Total outlays on CSS

        - across Schemes; and

        - across States

    e. Outcomes of CSS

3. Pruning CSS

4. Harmonization of the collective efforts of the Union and the States to meet the international commitment to achieve the Sustainable Development Goals 2030

1.a. The study found that the institutional and structural changes did not impact the classification of Total Receipts. On analysing the trend, it was found that during 2012-13 to 2017-18, Total Receipts of the Union increased at a compound annual growth rate (CAGR) of 11 percent; Revenue receipts increased at CAGR of 13 percent. Of the Total Revenue Receipts, Gross Tax Revenue (GTR) also increased at a CAGR of 13 percent and Non-Tax Revenue increased at a CAGR of 11 percent. Capital Receipts increased at a CAGR of 5 percent. According to the Union budget 2018-19, budgeted receipts of the Union were Rs. 31.8 lakh crores (Table 2.1), of which GTR constitutes 71 percent. The share of Goods and Services Tax (GST) of the total tax revenue was the highest.

b. The study found that these changes impacted the pattern of expenditure by the Union and the States Governments and the classification of Total Expenditure in the Union Budget changed. In FY 2017-18, following the concluding year of the Twelfth Five Year Plan, the distinction between Plan and Non-Plan classification was done away with in the Union Budget and replaced by broad classifications of Central Expenditure and Transfers to States under Revenue and Capital. CSS are classified as Transfers to States under the Revenue head. Post the discontinuation of Plan/Non Plan, the main components of Total Expenditure include Central Expenditure (including Establishment expenditure, Central Sector Schemes and Other Central expenditure) and Transfers (including CSS, Finance Commission Transfers, and Other Transfers). After the higher devolution to States, Block Grants (NCA/SCA/SPA etc.) under Plan were discontinued. The special dispensation to the 11 Himalayan States and in the NER were also withdrawn as was their status as Special Category States.

Trend analysis shows that the Total Expenditure increased from Rs. 16.6 lakh crore in 2014-15 to Rs. 24.4 lakh crore in 2018-19 (BE), recording a CAGR of 10 percent. In 2014-15, share of Central Assistance to State Plans (CASP) (including CSS and Block Grants) in Total Expenditure was 16 percent and Transfers under CSS were 12 percent of Total Expenditure. In BE 2018-19 among the 84 + Central Government Ministries, 13 account for 54 percent of the estimated Total Expenditure.

c. The Fiscal Space of the Union (FSU) is a function of Total Receipts, Tax Devolution, Finance Commission (FC) Grants and National Calamity Contingent Duty (NCCD) Transfers. The study analyzed the effects on FSU with respect to Total Receipts net of Debt Receipts. It was found that the FSU shrunk from 72 percent to 65 percent between 2012-13 and 2018-19. The FSU contracted as a result of higher Transfers to States and more specifically, the States' share of taxes going up from 32 percent in the Thirteenth Finance Commission (TFC) Award to 42 percent in the FFC Award. Of the Total Transfers to States, share of Tax Devolution in Total Transfers to States was 44 percent in 2012-13 and it increased to 49 percent in 2015-16 and thereafter. FC Grants also increased by 75 percent on average, between the last three years of the TFC Award and first three years of the FFC Award.

2.a. The study did a census of CSS post 2015-16, and found that there is no clarity on the total number of CSS. In 2015-16, all CSS, consolidated into 28 Umbrella Schemes were classified as Core and Optional with the States participation made compulsory, by consensus, in the former. Amongst the Core Schemes, poverty elimination and social inclusion were the Core of the Core signalling the unanimous commitment that these would remain the first charge on funds available for achieving the goals of the National Development Agenda (Table 3.3). Other Sectors covered include Rural Infrastructure and Livelihoods, Drinking Water and Sanitation, Education, Health, Nutrition, Women and Child development and Housing.

b. According to the Union Budget – Expenditure Profile 2017-18 and 2018-19, Union's expenditure is given for 28 CSS (including Core and Core of the Core schemes). The Expenditure Profile, 2017-18 also lists sub-components of the various schemes – out of the 28 schemes, sub-components of 16 schemes are listed and for the remaining 12, no sub-components are listed. Taking these into account, the total number of CSS comes to 89. However, a detailed analysis of flow of funds between the Union and states given in the Demand for Grants for 2018-19, Union Budget, indicates that there are many more sub-components of the 28 CSS. In order to determine the number of CSS being implemented at present, a Ministry-wise analysis of Demand for Grants, extracted from Union Budget, 2018-19 was done and according to the budget lines there are a total number 204 CSS.

c. Union's expenditure on CSS has been increasing. Between 2015-16 and 2018-19 (BE), it grew at a CAGR of 14 percent. The total Outlay on CSS in 2017-18 (RE) was Rs 2.85 lakh crore. In 2018-19 (BE), total Outlay on CSS is Rs. 3.05 lakh crores with States' shares between 0 – 40 percent. Six out of the 13 Ministries (accounting for 54 percent of Total Union's Expenditure; see Table 2.9) are implementing major CSS, accounting for 84 percent of Union's Total Outlays on CSS.

d. Within the schemes, outlays on the top 10 schemes (out of 28 Umbrella Schemes) account for around 79 percent of Union's Total Outlays on CSS. These 10 schemes have 74 sub-components (that are counted as separate schemes). Among them two schemes – National Health Mission and Green Revolution, together have 44 sub-components with about 15 percent of the total outlays. Highest outlay (Rs 55,000 crores) is on MGNREGA, followed by National Education Mission (that has 6 components). The remaining 18 schemes with 130 sub-components account for the balance 21 percent of the total outlays. The point to be noted is that the increase in outlay over the last few years has been spread very thin across these 18 Umbrella Schemes and, moreover, without regard for priorities across them.

e. Post 2015-16, the sharing pattern for expenditure on CSS between the Centre and States was changed from an average of 67:33 to an average of 60:40 for all Core schemes. All Core of the Core Schemes were fully funded by the Central Government. The sharing pattern for 8 North Eastern (NER) and 3 Himalayan States was retained at Centre: State: 90:10; and for other States it changed to Centre: State - 60:40.

f. Trend analysis of CSS outlays across States shows that between the 18 states and 11 states, percentage distribution of CSS outlays have changed. The Share of 18 States as a percentage of Total Outlays for CSS was 77 percent in 2014-15, and it increased to 83 percent in 2017-18 while the share of 11 States as a percentage of Total Outlays for CSS was 23 percent in 2014-15, and it decreased to 17 percent in 2017-18. The Share of 11 states in Union's total outlays for CSS decreased, while devolution amounts increased, while for 18 States both percentage share of CSS and devolution amounts increased.

g. The scope of national development Schemes and programmes have expanded since 2015-16. The targets and outcomes outlined in the Outcome Budgets for the last three years envisage an enhanced expectation of measurable results under the major Schemes. However, it is too early to evaluate the outcomes of all schemes on the ground as the outlays have not increased to the levels needed to cover the deficit in development in the respective sectors. As regards CSS, in addition to the proliferation of sub-components and budget lines, the changes in names, targets and their modes of implementation have undergone many modifications in the last few years. There is a lack of uniformity of nomenclature as well as budget classifications and accounting practices across the States that makes it impossible to trace the releases from the Centre for each CSS to the various Departments and levels within the States. Many Schemes are renamed and in yet others, the quantum of benefits are topped up with their own funds. For example, Pensions under NSAP (Old Age, Widows, Disability and Family Benefits) are enhanced by three to four times the Central releases by various States and given State specific names.

h. The attempts to streamline the implementation processes through improved monitoring overlooks the basic flaw in Scheme design and implementation of CSS that have defied all attempts to rationalize and improve their outcomes. It may be contended that this is due to the fact that there is no holistic perspective on development goals and the timelines within which to achieve them.

3.a. The proliferation of CSS since 2015-16 has followed the same trajectory as in the past. In 2015-16, they were rationalized into large Umbrella Schemes in identified key sectors. By 2018-19, the count has gone up almost ten times. There are too many of them, and the outlays per scheme is woefully inadequate, spread too thin and not focused with little visible impact and fuzzy outcomes. At State level, in 2018-19, total outlays on all 204 schemes was Rs. 305,517 crores, this implies that per State pro rata outlay on these Schemes was less than Rs. 34.48 crores. At the scheme level, of the Total CSS outlays, 91 percent (Rs. 2.78 lakh crores) was on 46 schemes out of 204 schemes. Amount allocated for these schemes is between Rs. 1,000 crores and Rs. 10,000 crores and above. Outlays on the remaining 158 CSS is around Rs. 26,958 crores with outlays (accounting for less than 9 percent of total outlays on all CSS), below Rs. 1000 crores. This implies that per scheme and per state outlay is approximately Rs 5.7 crores. Prima facie the expenditure on such schemes is untenable as outcomes of schemes with such low outlays are so scattered that they are invisible.

b. The numbers need to be pruned to make the CSS more efficient as vehicles of development interventions and to ensure that public spending on them becomes more effective in the Centre and the States. As discussed earlier, the census of CSS indicates that there is no clear cut indication of their numbers due to the way the Union presents its outlays on CSS in the Union Budget. While it may seem that there are only 28 CSS operating at present, in reality the number is almost 10 times greater. This is because each of these 28 schemes has multiple sub-components that are schemes in themselves.

c. Based on a detailed analysis, three options present themselves. **The options are neither new nor untried, but they need to be applied afresh to each version of CSS.**

These options are:

i. Making them 100 percent Centrally Funded and prioritizing them according to the national development program; Or

ii. Transferring them to the States and with untied grants up to 13 percent of Total Expenditure as Scheme specific grants with the option to continue them; Or

iii. Adopting the Golden Mean by making some of the fully Centrally Funded and yet others transferred to the States with a radical rejig of their design and implementation.

Of these three options, **Option (iii) - 'Adopting a Golden Mean'- is the preferred option**. The study identifies schemes that can be transferred to the Central Sector / transferred to the States / retained but with changes in design and implementation / discontinued based on criteria that have been enumerated.

- Out of the existing 204 schemes, a list of 58 such schemes were identified, which could be 100 percent Centrally funded. Present outlays on these schemes is less than Rs. 500 crores per scheme and account 3 percent of Total Outlays, such that the even if retained without any changes, impact on Central expenditure will be negligible. 36 Schemes out of 204, accounting for 3 percent of Total Outlays, can be transferred to the States with funding retained at the present level. Based on the foregoing analysis, **of the remaining 110 CSS (out of 204 CSS), a list of 79 schemes, accounting for 93 percent of Total Outlays, have been identified that should be retained as CSS,** and a list of 31 schemes, accounting for 1 percent of Total Outlays, that should be dropped or reclassified.

  While the study recommends that these **79 schemes should be retained**, a closer analysis of the number of sub-components is needed. Some of the sub-components of these schemes could be merged under the respective Umbrella Schemes. To ensure that the per scheme outlays are not thinly spread, ideally there should be only one Scheme per identified sector of national importance.

  Further, there should be an express embargo on increasing the number either by introducing fresh standalone Schemes or by adding sub-components. Finally, they need to be made more flexible by reducing the number of budget lines and improving the flow of funds to the implementing level. 4. Government of India is fully committed to its resolve to achieve SDGs and their related targets by 2030. In order to harmonise the national development priorities with international efforts, all SDGs have been mapped to the initiatives under various development schemes, especially the CSS. Several States have set up SDG Cells and are closely involved in this process. A number of policies, strategies, programmes / schemes and actions have been implemented in India to achieve the SDGs and especially to end hunger and poverty and attain ensuring food and nutrition security. Considering the interconnectedness among all SDGs, we have focussed our discussion on the extent to which India has been successful in achieving it.

5. The Terms of Reference of the XV Finance Commission, inter alia, includes the mandate to assess the demand on the States' resources on account of financing socio economic development as well as the impact on Union government finances following higher devolution to the States "*coupled with the continuing imperative of the national development program including New India -2022."* The CSS are a demand on both States*"* finances as well as on the Union. Despite the shrunken fiscal space for the Union post 2015-16, they continue to script the development story. The story however, needs to be rewritten.

6. The vision of New India 2022 has been articulated in public platforms The Prime Minister's address to the nation also a from the ramparts of the Red Fort on August 15, 2018 also alluded to New India 2022. But the contours of the strategy to translate the mission is not yet clear. To address this lacuna, it is important to have a wider perspective on national development over a longer time horizon. NITI Aayog has outlined a Three-Year Action Agenda (2017-20) and is in the process of consulting the States on a document outlining Vision 2022. So, it is now opportune to clearly define the place for the erstwhile Non-Plan sector expenditure and place it squarely the within the context of a blueprint for an inclusive and sustainable development paradigm. It is universally acknowledged that sustainable development is possible only in an environment of peace and harmony. As the UN Declaration on Transforming our World: the 2030 Agenda for Sustainable Development states

> *"…There can be no sustainable development without peace and no peace without sustainable development….."* .

In consonance with the spirit of this Declaration, the national development paradigm has to be reimagined and recast to ensure that living without fear and want lies at the core of the vision of New India 2022.

This report is divided into two Sections – Section 1 details key analysis and findings of the study and Section 2 presents Annexures.

Background

The Fourteenth Finance Commission (FFC) recommendations to increase the devolution to the States from 32 percent to 42 percent of the divisible pool was accepted by the Government of India (GoI) on February 24 2015[1]. This was accompanied by other far reaching changes in the institutional arrangements, classification of expenditure and changes in the composition, mix and priorities of development schemes and programmes. The design and implementation arrangements, sharing patterns and their scope also underwent considerable modification in the first two years of the Award period (2015-16 and 2016-17). Against this backdrop, this Study seeks to assess the outlays and outcomes of Centrally Sponsored Schemes (CSS) in the first two years of the Award period and, to the extent possible, attempts to include information up to BE 2018-19.

Specifically, the Terms of Reference 2 (ToR 2), as approved, required that the Study should include (and may not be restricted to) the following:

1. Pursuant to the Fourteenth Finance Commission (FFC) recommendations, the fiscal space of the Union government has shrunk but the scope of national development Schemes and programmes have expanded. How has this impacted their outcomes on the ground?

2. Study the effect of rationalization of CSS on the design and implementation of these Schemes

3. How are the collective efforts of the Union and the States being harmonized to meet the international commitment to achieve the Sustainable Development Goals 2030?

A copy of the Terms of Reference 2, as approved by the Fifteenth Finance Commission (Commission) is at Attachment I.

The issues posed in the ToR 2 are addressed in five parts:

- Part 1 outlines the context of the far-reaching changes in the classification and patterns of expenditure of the Union government in the years immediately preceding and succeeding the increased devolution to the States from 32 percent 42 percent (2015-16) in the backdrop of the institutional transformation that framed these changes;

- Part 2 analyses the impact of the increased devolution on the fiscal space available to the Union to undertake productive expenditure and the extent and degree to which this affected on Centrally Sponsored Schemes (CSS);

[1] *Press Information Bureau Government of India Ministry of Finance, http://pib.nic.in/newsite/PrintRelease.aspx?relid=115810 (last accessed May 23 2018)*

- Part 3 examines the post facto scope and coverage of the CSS and their centrality in articulating the goals of the National Development Agenda as well as the successive attempts to rationalise their design and implementation to improve their outcomes;

- Part 4 moves on to link the national effort to harmonise the National Development Agenda with the international commitment to Sustainable Development Goals 2030.

- Part 5 presents the findings and conclusions

Part 1: Context – Changes in Classification and Patterns of Expenditure

Over the last few years, several changes have taken place that impacted the pattern of expenditure by the Union and the State Governments. The Twelfth Five Year Plan (2012-17) was endorsed by the National Development Council (NDC) in December 2013. In the Financial Year (FY) 2013-14, the share of the State Governments in key CSS[2] that used to be transferred directly to the State Implementing Agencies (e.g. District Rural Development Agencies), was transferred into the Consolidated Fund of the States[3]. In 2014-15, the Planning Commission was dismantled and the NITI Aayog was set up in its place. From FY 2015-16, consequent upon the FFC Award, significant changes took place in the approach to Transfers to States. In keeping with the spirit of cooperative federalism, and 'to reflect our trust in all tiers of government'[4], FFC recommended that the States' share of taxes be increased from 32 percent to 42 percent, and tax devolution[5] (and not grants) should be the primary mode of transfer to the States to give them greater fiscal autonomy and enable them to effectively perform their functions.

Concomitantly in FY 2015-16, the resource base of the Union was reduced due to the higher devolution to States and the resources with the States were substantially higher. In addition, in 2015-16, few CSS were transferred to the States (for instance, Scheme for setting up 6000 Model Schools at Block level as Benchmark of Excellence[6]); and around six CSS were discontinued [for instance, National e-Governance Action Plan (NeGAP) and some schemes] were taken into the Central Sector so that they would be fully funded and implemented by the Line Ministries (for instance *Namami Gange*). Finally, the Block Grants under Plan were discontinued.[7]

In FY 2016-17, the Union Cabinet approved the recommendations of Sub-Committee of Chief Ministers on rationalisation of CSS that ranged from pruning their number from 66 to 28 Umbrella Schemes to be implemented by 12-14 major Line Ministries; and changes in the share of the Union ranging from 100 percent for Core of the Core Schemes and 60 percent for

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2 Centrally Sponsored Schemes (CSS) are Schemes that require a share of the outlays to be provided by the States and be implemented by them. Central Sector (CS) Schemes are fully funded by the Government of India and are implemented in the States by agencies of the Central Government

3 The Rangarajan Committee set up by the Planning Commission in its report titled 'Report of the High Level Expert Committee on Efficient Management of Public Expenditure': July 2011, estimated that almost one third of the Central Plan transfers to States bypassed the State Treasuries and, were therefore, outside the purview of the State budgets. The same Committee also recommended the ending of Plan and Non-Plan distinction which was implemented w.e.f. FY 2017-18.

4 Para 2.42 of the FFC Report

5 Tax Devolution to States = Devolution of 42% of the Divisible Pool (FFC Award period) / 32% of the Divisible Pool (TFC Award period)

6 For details see http://mhrd.gov.in/model_school (last accesses October 10 2018)

7 Until 2014-15, Transfers to States were classified under Central Assistance to State Plan (CASP) and funded through Gross Budgetary Support (GBS) in the Expenditure budget of the Union. CASP consisted of Block grants ranging from untied grants to all States (Normal Central Assistance and Additional Central Assistance (ACA) and Special Central Assistance (SCA) under Article 275 to Special Category States. The latter also received Special Project Assistance (SPA) in the form of grants tied to specific projects. All these were under the purview of the Planning Commission.

most of the others. It was also decided to retain 90 percent assistance to eleven States comprising the North Eastern Region (NER) and Himalayan States.

In FY 2017-18, following the concluding year of the Twelfth Five Year Plan, the distinction between Plan and Non-Plan classification was done away with in the Union Budget and replaced by broad classifications of Central Expenditure and Transfers to States under Revenue and Capital. CSS were classified as Transfers to States under the Revenue head.

Figure 1.1: Rapid Changes in classification and patterns of expenditure

2013-14	2014-15	2015-16	2016-17	2017-18
• State's share of CSS transferred directly to the Consolidated Fund of States	• Planning Commission dismantled on August 15, 2014 and Niti Aayog replaced Planning Commission on January 01, 2015	• First year of FFC Award - tax devolution to States increased from 32% to 42% • Block Grants under Plan from Centre to States discontinued • 8 CSS discontinued • Some CSS transferred to States	• Cabinet approved recommendations of the Sub-Group of Chief Minsters on Rationalization of CSSLast year of the 12th Plan (2012-17)	• Plan and Non-Plan classification of expenditure discontinued

Source: Compiled by Authors

Accompanying these structural changes in budget classifications during this period, were far reaching institutional changes as well. The Planning Commission was dismantled in 2014. The NITI Aayog came into being on 1st January 2015. The first meeting of its Governing Council comprising Chief Ministers of all States and Lt. Governors of Union Territories (UTs) (as "Team India" was held on February 8, 2015 and it was decided in the spirit of cooperative federalism, to endorse a common National Development Agenda to achieve Vision 2022 to mark the 75th year of India's Independence. It was also decided not to continue the Five-Year Plans beyond the concluding year of the 12th Five Year Plan period (2016-17). A Sub-Group of Chief Ministers was constituted with Chief Minister of Madhya Pradesh (Shri Shivraj Singh Chouhan) as its Convenor and CEO NITI Aayog as the Coordinator to rationalise CSS that were administered by Line Ministries of the Government of India and implemented by the States.

The Sub-group of Chief Ministers submitted their Report on 'Rationalisation of Centrally Sponsored Schemes'[8] in September 2015. After wide ranging consultations with all State Governments and key Central Ministries, the Report endorsed the key role of the Centre and the States in national development and noted that they were collectively bound to achieve common national goals in a uniform manner across the country. Therefore, the Sub-Group

[8] Niti Aayog (2015)

recommended that continuation of CSS was necessary, especially in sectors that were national priorities.

The Sub-Group also took into account that the CSS arising out of entitlements based legislative obligations (like Mahatma Gandhi National Rural Employment Guarantee Act) as well as Schemes that were meant to benefit disadvantaged and vulnerable groups (like Scheduled Castes, Scheduled Tribes, Old Age Pensioners and Persons with Disabilities) should continue and that they should be administered by respective Ministries of the Government of India.

In the meantime, while accepting the FFC recommendations, the Union Government took note of the sentiments expressed by the States that the CSS designed to meet national development goals took away their autonomy to address local needs. In the Explanatory Memorandum to the Action Taken on the FFC Report submitted to Parliament on February 24, 2015 the Ministry of Finance stated that "*Idea(sic) of Team India to achieve national goals is to allow States greater freedom in tailoring the schemes as per their requirement*."[9], and went on to say that *"It is expected that with this change in the sharing pattern concerns of the States of asymmetry in fiscal federal relations will be addressed. It is hoped that the States will use the extra fiscal space available to them to create productive capital assets…*[10]

In anticipation of the fact that the higher tax devolution will allow States greater autonomy in financing and designing Schemes as per their requirements, the Fiscal Policy Strategy Statement 2015-16 noted "*Thus from 2015-16, the resources available to the States will be substantially higher. The central theme of the FFC recommendations is based on the fact that States have graduated into designing and implementing development programmes based on local conditions. The emerging consensus is that Centre should partner with States under the new paradigm, playing a supportive role as an enabler rather than executing schemes from the front.*"[11]

These far-reaching changes provide the context in the background of which, it is proposed to assess the role of CSS for the first two years of the Award period i.e. 2015-16 and 2016-17. The fiscal space of the Union has, arguably, shrunk as a result of higher devolution of taxes to State Governments. The consequential impact on the composition, mix and priorities of CSS and the changes in the design and implementation of these interventions will be analysed to examine their effect on achievement of desired national goals.

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9 Para 5 of the Explanatory Memorandum as to the action taken on the recommendations made by the FFC in its report submitted to the President on December 15, 2014: Government of India, Ministry of Finance, Department of Economic Affairs.

10 *ibid*

11 Fiscal Policy Strategy Statement; Budget documents 2015-16, p.19

Part 2: Impact of Changes

Part 2 of this study provides an overview of the impact of changes on total receipts, total expenditure and Fiscal Space of the Union (FSU). For the purpose of this study, definitions of Total Receipts, Total Expenditure, FSU, Transfers to States and Tax Devolution to States are given in Box 2.1.

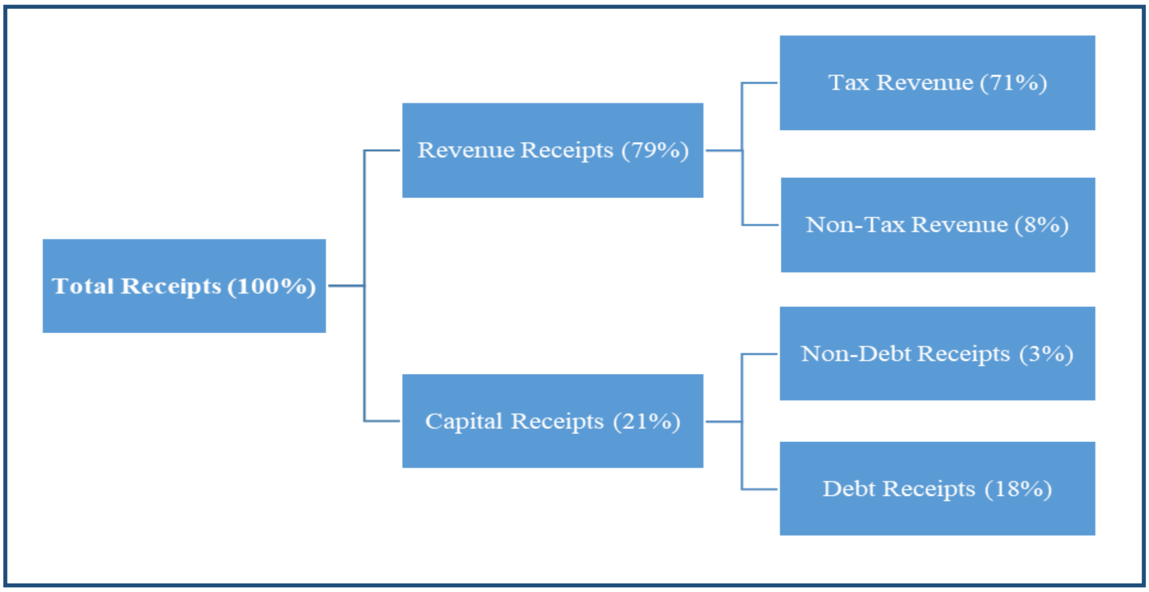
Box 2.1: Definitions

- **Total Receipts** = Gross Tax Revenue *plus* Non-Tax Revenue *plus* Non-Debt Receipts *plus* Debt Receipts
- **Total Expenditure** = Central Expenditure (including establishment expenditure, central sector schemes and other central expenditure) *plus* Transfers (including Centrally Sponsored Schemes, Finance Commission Transfers, Other Transfers)
- **Fiscal Space of the Union** = Total Receipts minus Debt Receipts *minus* State's Share in Union Taxes *minus* National Calamity Contingent Duty (NCCD) transferred to NCCF/NDRF *minus* Finance Commission Grants
- **Transfers to States** = Tax Devolution to States *plus* Centrally Sponsored Schemes *plus* Finance Commission Transfers *plus* Other Transfers
- **Tax Devolution to States** = Devolution of 42 percent of the Divisible Pool (FFC Award) / 32 percent of the Divisible Pool (TFC Award)

2.1 On Total Receipts

Post the institutional and structural changes that have taken place over the last five years, there has been no change in the classification of Total Receipts. Total Receipts of the Union are classified into Revenue and Capital Receipts (see Figure 2.1). Share of Revenue Receipts is higher than Capital Receipts and within Revenue receipts, Tax Revenue accounts for the highest share.

Figure 2.1: Classification of Total Receipts of the Union Government



Source: Authors' compilation from the Union Budget

Percentages in parenthesis indicate the share of each component in total receipts for the year 2018-19

Table 2.1: Total Receipts of the Union-Trends

(in Rs. Crores)

Categories	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actuals	Actuals	Actuals	Actuals	Actuals	RE	BE
Revenue Receipts							
Gross Tax Revenue	1036234	1138734	1244885	1455648	1715822	1946119	2271242
Y-o-y growth		10%	9%	17%	18%	13%	17%
Non-Tax Revenue	137354	198870	197857	251260	272831	235974	245089
Y-o-y growth		45%	-1%	27%	9%	-14%	4%
Capital Receipts							
Non-Debt Capital Receipts*	40949	41865	51475	62967	65372	117473	92199
Y-o-y growth		2%	23%	22%	4%	80%	-22%
Debt Receipts (Borrowing And Other Liabilities)**	541202	522029	510725	532791	544514	634229	581210
Y-o-y growth		-4%	-2%	4%	2%	16%	-8%
Total Receipts (Revenue *plus* Capital Receipts)	1755740	1901498	2004942	2302666	2598539	2933795	3189740
Y-o-y growth		8%	5%	15%	13%	13%	9%
State's Share of Central Taxes	**291547**	**318230**	**337808**	**506193**	**608000**	**673005**	**788093**
Y-o-y growth		**9%**	**6%**	**50%**	**20%**	**11%**	**17%**
NCCD[12] transferred to the NDRF[13]/NCCF	**2810**	**4650**	**3461**	**5690**	**6450**	**3660**	**2500**
Y-o-y growth		**65%**	**-26%**	**64%**	**13%**	**-43%**	**-32%**
Total Receipts (less State's Share and NCCD)	**1461382**	**1578618**	**1663673**	**1790783**	**1984089**	**2257130**	**2399147**
Y-o-y growth		**8%**	**5%**	**8%**	**11%**	**14%**	**6%**

Source: Extracted from the Union Budget 2016-17, 2017-18 and 2018-19

12 NCCD – National Calamity Contingency Duty
13 NDRF – National Disaster Relief Fund

**Non-Debt Capital Receipts include Recoveries of Loans and Advances and Miscellaneous Capital Receipts (mainly Disinvestment receipts). The sudden increase in Non-Debt Capital Receipts between 2016-17 and 2017-18 was due to a significant increase in disinvestment receipts (it increased from Rs. 0.35 lakh crores to Rs. 1.00 lakh crores)*

***High growth in Debt Receipts for the year 2017-18(RE) is due to hike in Market Borrowings by the government.*

Key findings:

- The institutional and structural changes between 2012-13 and 2017-18 did not impact the classification of Total Receipts
- During 2012-13 to 2017-18, Total Receipts of the Union increased at a compound annual growth rate (CAGR) of 11 percent; Revenue receipts increased at CAGR of 13 percent. Of the Total Revenue Receipts, Gross Tax Revenue (GTR) also increased at a CAGR of 13 percent and Non-Tax Revenue increased at a CAGR of 11 percent. Capital Receipts increased at a CAGR of 5 percent.
- According to the Union budget 2018-19, budgeted receipts of the Union were Rs. 31.8 lakh crores (see Table 2.1), of which GTR constitutes 71 percent. The share of Goods and Services Tax (GST) of the total tax revenue was the highest.

2.2 On Total Expenditure

The discontinuation of Plan /Non-Plan distinction of expenditure in the Union Budget in 2016-17 has impacted the classification of expenditure in significant ways. Prior to this change, Total expenditure of the Union was broadly divided into Plan and Non-Plan Expenditures. Now, the main components of Total Expenditure include Central Expenditure, and Transfers (including CSS). Much detailed data is not available, for comparison. For instance, a separate category for consolidated expenditure of the Union on Centrally Sponsored Schemes was not presented in the Union Budget prior to 2015-16.

In the first budget after the discontinuation (Budget 2017-18), the classification of Total Expenditure changed (see Figure 2.2 and Table 2.2).

Central Expenditure (including the erstwhile Non-Plan and Central Plan) is now classified only under three major Heads. These are detailed as below:

- **Establishment Expenditure** of the Centre that includes all the establishment related expenditure of the Ministries/ Departments and includes establishment expenditure on attached and subordinate offices. For instance, Pensions, Interest payments, Subsidies and Defence (Pensions) (Misc.) and (Revenue). These are committed liabilities
- **Central Sector Schemes/Projects** that includes all Schemes that are entirely funded and implemented by the Central Agencies. It also includes expenditure incurred on Subsidies;

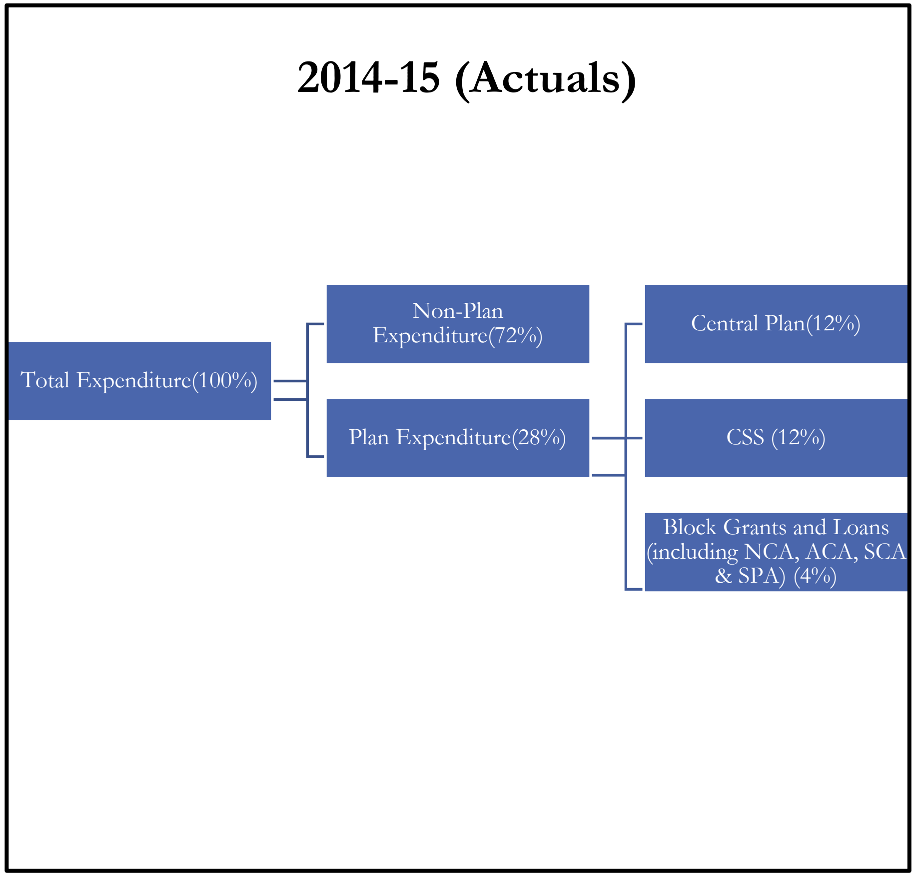
Capital Outlay on Defence and part of the budget of Police under Ministry of Home Affairs.

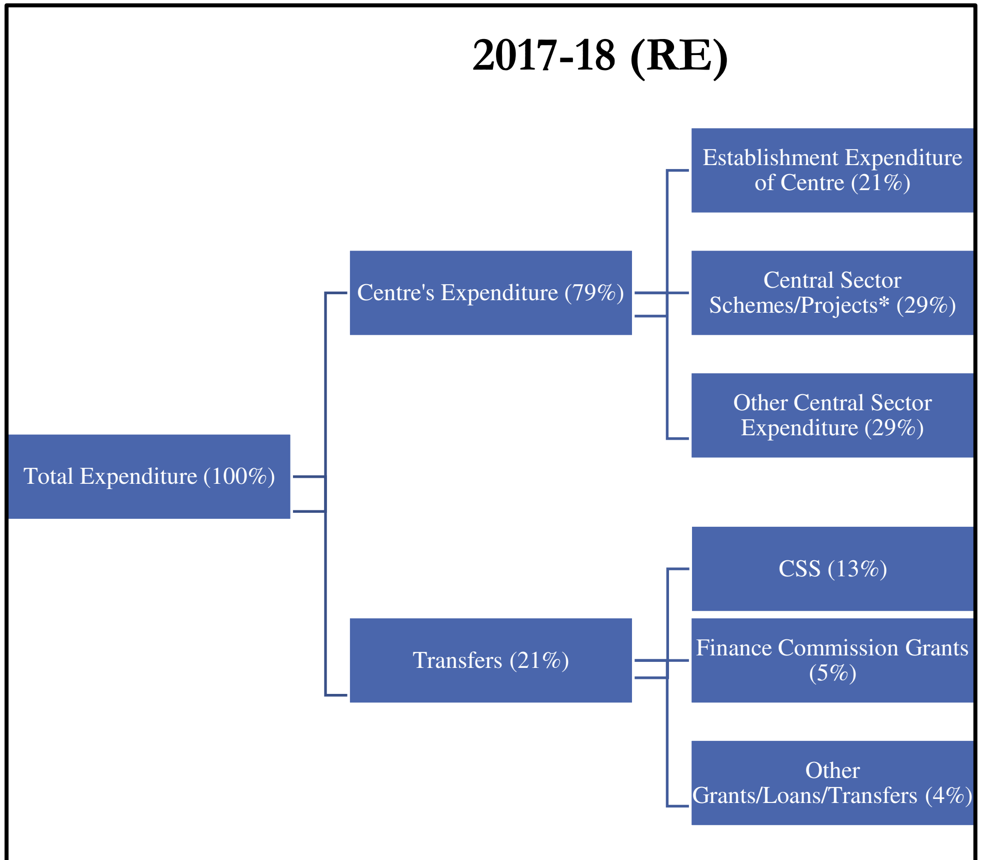
- **Other Central Expenditure** that includes provisions made for Central expenditure on PSUs, Autonomous Bodies etc. and expenditure not covered in the category - (i) and (ii) above. It includes some parts of Defence (Misc.) and some items from the Police budget under Ministry of Home Affairs

Transfers (including the erstwhile CASP under Plan and FC Grants that were under Non-Plan) are now classified as under:

- **CSS** that have State shares of varying proportions and are implemented by the States.
- **Finance Commission Grants** comprising Revenue Deficit Grants to 11 States, Local Bodies Grants and Disaster Relief Grants to States under the FFC Award.
- **Other Transfers** to States comprising all other transfers to States such as National Calamity Contingency Transfers Assistance to schemes under proviso (i) to Article 275(1) of the Constitution.

Figure 2.2: Total Expenditure: Changes in Classification between 2014-15 and 2017-18





*** Includes parts of earlier Non-Plan Ministries and Subsidies**

Table 2.2: Summary of Expenditure Statement in Union Budget post 2014-15

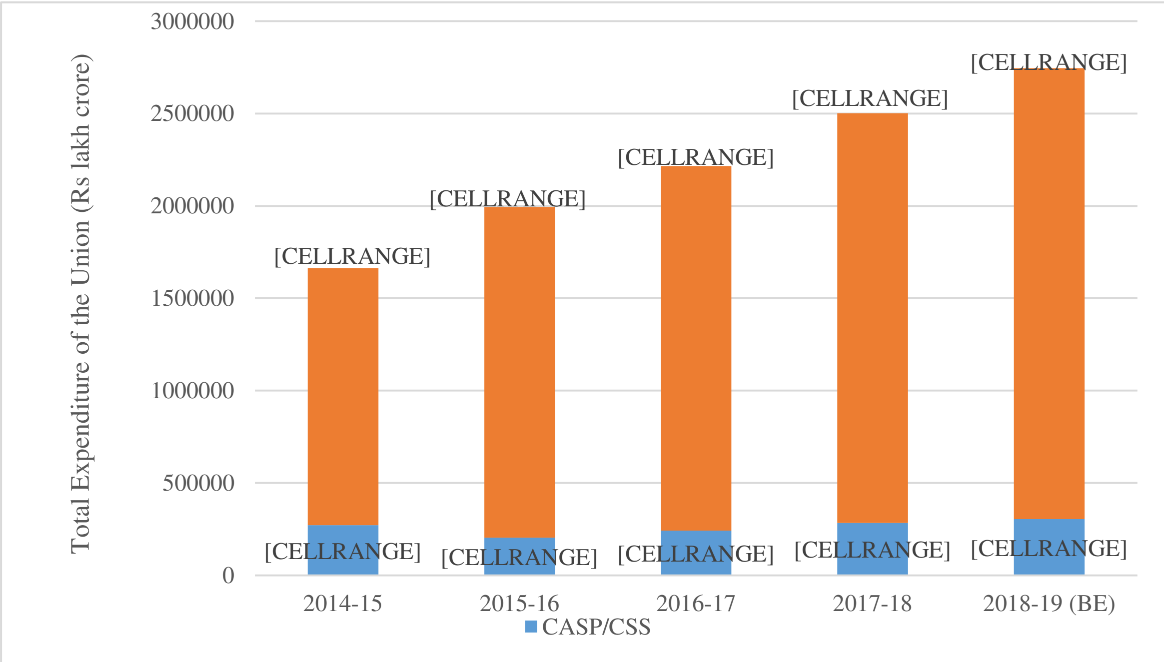
(in Rs. Crores)

Expenditure Profile Summary of Expenditure - Statement 1								
S. No.		**2014-15 Actuals**	**S. No.**	**Ministry / Department**	**2015-16 Actuals**	**2016-17 Actuals**	**2017-18 RE**	**2018-19 BE**
	TOTAL EXPENDITURE (1+2)	**1663673.1**		**Total Expenditure through Budget and Resources of Public Enterprises (9+10) of which…**	**2102229.21**	**2313290.63**	**2694608.63**	**2920484.37**
1	Non-Plan Expenditure	1201029.5	1	**Central Expenditure (2+3+4)**	1449152.98	1583698.1	1741241.52	1895350.02
2	Plan Expenditure	462643.57	2	*Establishment*	*334870.28*	*423850.62*	*468914.03*	*508399.6*
3	Central Assistance for State & UT Plans	270829.09	3	*Central Sector Schemes*	*521373.98*	*589470.61*	*634318.08*	*708933.67*
4	Budget Support for Central Plan (2-3)	191814.48	4	*Other Central Expenditure*	*592908.72*	*570376.87*	*638009.41*	*678016.75*
5	Resources of Public Enterprises	229067.15	5	Transfers (6+7+8)	341629.71	391495.61	476508.54	546863.28
6	Central Plan (4+5)	420881.63	6	*Centrally Sponsored Schemes*	*203740.42*	*241295.55*	*285581.44*	*305517.12*
			7	*Finance Commission Transfers*	*84578.79*	*95550.3*	*101490.18*	*109373.5*
			8	*Other Transfers*	*53310.5*	*54649.76*	*89436.92*	*131972.66*
			9	**Total Expenditure through Budget (1+5)**	**1790782.69**	**1975193.71**	**2217750.06**	**2442213.3**
			10	Resources of Public Enterprises	311446.52	338096.92	476858.57	478271.07

Source: Compiled from Unions Budgets, 2016-17, 2017-18, 2018-19

Total Expenditure of the Union increased from Rs. 16.6 lakh crore in 2014-15 to Rs. 24.4 lakh crore in 2018-19 (BE), recording a CAGR of 10 percent. In 2014-15, share of Central Assistance to State Plans (CASP) (including CSS and Block Grants) in Total Expenditure was 16 percent and Transfers under CSS were 12 percent of Total Expenditure (see Figure 2.3).

Figure 2.3: Share of CASP / CSS in Total Expenditure



Source: Compiled from Unions Budgets, 2016-17, 2017-18, 2018-19

Before 2016-17 and prior to the discontinuation of Plan/Non-Plan distinction, Union's outlay on development schemes and programmes, including the CSS and Central Sector Schemes, was classified as Plan Expenditure. This distinction is of significance because Planning Commission was the arbiter of all outlays under Plan expenditure (Central Plan and CASP). Plan Outlays were financed out of Gross Budgetary Support (GBS) that was the residual amount after all committed liabilities as well as outlays for Ministries under Non-Plan were decided by the Ministry of Finance. **Since key sectors like Internal and External Security and External Affairs were under the Non-Plan Expenditure, their outlays and expenditures were outside the purview of the Planning Commission.**

Plan Expenditure was further bifurcated into Central Plan and CASP. The bulk of the committed expenditure on interest payments, pensions, subsidised postal deficits and reimbursements to Railways for strategic lines, elections etc., was under the Non-Plan head. In addition, expenditure on key sectors like Defence, Central Police Organizations, and External Affairs were classified as Non-Plan. Some grants to State governments / UTs without legislature, and foreign governments, loans to States/Public Enterprises and even some items under export promotion were under Non-Plan.

The discontinuation of Plan/Non-Plan classification, dismantling Planning Commission and the cessation of Block Grants (NCA/SCA/SPA etc.) under CASP and the withdrawal of "benefits" to Special Category States closely following the higher devolution to States pursuant to the FFC Award had a far reaching impact. In Budget Estimate (BE) 2014-15, Central Assistance to State Plan (CASP) under Plan comprised CSS and Block Grants including Normal Central Assistance (NCA), Additional Central Assistance (ACA), One Time Additional Central Assistance, Special Central Assistance (SCA) and Special Plan Assistance (see Table 2.3).

The CASP constituted about 59 percent of the Plan budget of the Union, and within CASP, the CSS accounted for 75 percent (of 59 percent). Block grants were discontinued in 2015-16 and only the Centre's share for each CSS continued. Block grants were subsumed under the increased devolution, pursuant to the FFC recommendations.

Table 2.3: Changes Classification of Union's Expenditure post Plan/Non-Plan discontinuation

(in Rs. Crores)

Categories	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actuals	Actuals	Actuals	Actuals	Actuals	RE	BE
Plan Assistance to State & UT	108886	112849	270829				
Central Plan	304739	340479	191815				
Other Non-Plan Expenditure	193321	213103	244435				
Non-Plan Assistance to State & UT Govts	51402	60631	77198				
Post discontinuation of Plan/Non-plan classification							
Centrally Sponsored Schemes				203537	240816	283781	303233
Central Sector Schemes				185592	269024	284728	323888
Finance Commission & Other Transfers				137889	150200	190927	241345
Pensions					131401	147387	168466
Interest Payments	313170	374254	402444	441621	480714	530843	575795
Defence	181776	203499	218694	225895	251781	267108	282733
Subsidies	257079	254632	258258	262476	234809	264908	293353
State's share of Taxes and Duties	291547	318230	337808	506193	608000	673005	788093
Other Expenditure				333774	216449	248069	253400
Total Expenditure	1701920	1877677	2001481	2296976	2583194	2890755	3230306
Total Expenditure (less State's Share)	**1410373**	**1559447**	**1663673**	**1790783**	**1975194**	**2217750**	**2442213**

Source: Extracted from the Union Budget 2016-17, 2017-18 and 2018-19

In 2017-18 and 2018-19 Union Budgets, these classifications no longer exist (see Table 2.2). However, the Total Expenditure of the Union continues to be divided into Revenue and Capital to indicate a distinction between recurring expenditures and expenditure that broadly leads to asset creation.

It may be recalled that the FFC did not make any distinction between Plan and Non-Plan expenditure and factored all expenditure under only Revenue and Capital. This assumption led to its own unintended consequences as the States had projected only their Non-Plan requirements to FFC. Moreover, Plan expenditures were under both Revenue and Capital. A comparison of the RE/BE of the last two budgets indicates that the proportion of expenditure on Central Sector Schemes and CSS (a proxy for the erstwhile Central Plan and CASP) continues to be overshadowed by Establishment expenditure (Committed Liabilities) and Subsidies (included in the erstwhile Non-Plan sector. Although Internal and External Security (Police and Defence) get a high proportion of the outlays, they are mostly Revenue expenditures.

The discontinuation of Plan / Non-Plan classification in expenditure and the end of the Five-Year Plan era, has led to a significant shift in the way the National Development Agenda is articulated. While on the one hand, it has facilitated the mainstreaming of public expenditure on Defence and Internal Security, it has also resulted in a lack of clarity about the sectoral priorities in the Expenditure Budget of the Union (see Table 2.4)

Table 2.4: Summary of Union's Expenditure post Plan/Non-Plan discontinuation

(in Rs. Crores)

		2017-18		2018-19	
S. no.	Categories	RE		BE	
1	**Defence Central Sector Scheme Expenditure of which**	**89876**	**4%**	**97547**	**4%**
	Capital Outlay on Defence Services	*86488*	*4%*	*93982*	*4%*
2	**Subsidies Central Sector Scheme Expenditure**	**263102**	**12%**	**291064**	**12%**
	Food Subsidy	140282	6%	169323	7%
	Fertiliser Subsidy	64974	3%	70080	3%
	Petroleum Subsidy	24460	1%	24933	1%
	Interest Subsidies	21834	1%	18633	1%
	Other Subsidies	11553	1%	8095	0%
3	**Sub Total (1+2)**	**352978**	**16%**	**388611**	**16%**
4	**Other Central Sector Scheme Expenditure (5-3)**	**281340**	**13%**	**323888**	**13%**
5	**Total Central Sector Scheme Expenditure**	**634318**	**29%**	**712499**	**29%**
6	**Centrally Sponsored Schemes**	**285582**	**13%**	**305517**	**13%**
7	**Establishment Expenditure**	**468914**	**21%**	**508399**	**21%**
8	**Total Expenditure of the Union**	**2217750**	**100%**	**2442213**	**100%**

Source: Extracted from the Union Budget 2018-19

Among all Central Government Ministries, 13 Ministries account for 54 percent of the estimated total expenditure in 2018-19 (see Table 2.5). Of these, the Ministry of Defence has the highest allocation in 2018-19, at Rs 4,04,365 crore (including pensions). It accounts for 17 percent of the total budgeted expenditure. Other Ministries with high allocation include: (i) Ministry of Consumer Affairs, Food and Public Distribution, (ii) Rural Development, (iii) Home Affairs, and (iv) Human Resource Development.[14] **It may be noted that Revenue Expenditure is higher than Capital expenditure in all these Ministries.**

[14] For details see http://www.prsindia.org/uploads/media/DFG%202018-19/Union%20Budget%20-%20Demands%20for%20Grants.pdf (last accessed October 10 2018)

Table 2.5: Distribution of Union's Expenditure by Ministry

(in Rs. Crores)

S. No.	Ministry	2016-17			2017-18			2018-19			% of total Expenditure (2018-19)
		Actuals			RE			BE			
		Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**	**Revenue**	**Capital**	**Total**	
1	Defence	260067	91483	351550	282542	91461	374004	304801	99564	404365	16.56%
2	Consumer Affairs, Food, Public Distribution	121805	594	122399	149566	42	149608	175472	473	175944	7.20%
3	Rural Development	96728	…	96728	110869	5	110874	114910	5	114915	4.71%
4	Home Affairs	80846	10772	91618	89117	13274	102391	94358	13215	107573	4.40%
5	Human Resource Development	72016	…	72016	81619	250	81869	82258	2752	85010	3.48%
6	Road Transport & highways	11039	41193	52232	10136	50864	61000	11560	59440	71000	2.91%
7	Chemicals & Fertilisers	65404	125	65529	65549	385	65934	70586	…	70587	2.89%
8	Agriculture & Farmers Welfare	44461	39	44500	50203	61	50264	57442	158	57600	2.36%
9	Railways	…	45232	45232	1814	40000	41814	2028	53060	55088	2.26%
10	Health & Family welfare	37771	1224	38995	50043	3251	53294	51880	2720	54600	2.24%
11	Housing & Urban Affairs	20436	16511	36946	21332	19422	40754	25350	16415	41765	1.71%
12	Communication	32437	3832	36269	30506	5802	36308	33791	5760	39551	1.62%
13	Petroleum & Natural Gas	27780	2451	30231	31661	1534	33195	27392	3709	31101	1.27%
	Sub-total	**870790**	**213456**	**1084245**	**974957**	**226351**	**1201309**	**1051828**	**257271**	**1309099**	**53.60%**
14	Others	819794	71155	890949	969348	47094	1016442	1089944	43170	1133114	46.40%
	Total Expenditure	**1690584**	**284609**	**1975194**	**1944305**	**273445**	**2217750**	**2141772**	**300441**	**2442213**	**100.00%**

Source: Compiled from Union Budget 2018-19

Key findings:

- Discontinuation of Plan /Non-Plan distinction impacted the classification of expenditure - Total expenditure of the Union was broadly divided into Plan and Non-Plan Expenditures, which has changed and now, the main components are Central Expenditure, and Transfers (including CSS)

- With higher devolution to States, Block Grants (NCA/SCA/SPA etc.) under CASP were discontinued and dispensation extended to Special Category States ceased as did the nomenclature after the FFC Award.

- Total Expenditure of the Union increased by a CAGR of 10 percent. Share of CASP (including CSS and Block Grants) in Total Expenditure was 16 percent in 2014-15 and that of CSS is 12 percent in 2018-19 (BE)

- Block grants were discontinued in 2015-16 and only the Centre's share for each CSS continued to be shown. Block grants were subsumed under the increased devolution, pursuant to the FFC Award.

- Now among Central Government Ministries, 13 account for 54 percent of the estimated total expenditure in 2018-19

2.3 On Fiscal Space of the Union

While the notion of Fiscal Space of the Union (FSU) is widely accepted there is no formal definition of the concept available in the literature. For the purpose of this study the definition of FSU is given in Box 2.1.

It is an incontrovertible fact that FSU contracted as a result of the States' share of taxes going up from 32 percent in the Award of the Thirteenth Finance Commission (TFC) to 42 percent in the Award of the FFC. However, the contours of the fiscal space need to be clearly delineated.

The FSU is a function of Total Receipts, Tax Devolution, Finance Commission (FC) Grants and National Calamity Contingent Duty (NCCD) Transfers. In order to capture the effect of the increase in Tax Devolution, FC Grants and NCCD Transfers on the FSU, we have netted them out from Total Receipts and then studied the effects on FSU with respect to Total Receipts [see Table (2.6a)].

Table 2.6(a): Fiscal Space of the Union-Trends

(in Rs. Crores)

S. No.	Category	2012-13 Actuals	2013-14 Actuals	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	2017-18 RE	2018-19 BE
1	Gross Tax Revenue	1036235	1138734	1244885	1455648	1715822	1946119	2271242
2	Non-Tax Revenue	137355	198870	197857	251260	272831	235974	245089
3	Non-Debt Receipts	40950	41865	51475	62967	65372	117473	92199
4	Debt Receipts	541202	522029	432973	532791	544514	634229	581210
5	Total Receipts (5 = 1+2+3+4)	1755742	1901498	1927190	2302666	2598539	2933795	3189740
6	Tax Devolution to States	291547	318230	337808	506193	608000	673005	788093
7	NCCD transferred to the NCCF/NDRF	2810	4650	3461	5690	6450	3660	2500
8	Finance Commission Grants	45253	53905	61813	84579	95550	101490	109374
9	**Fiscal Space of the Union (FSU) (9 = 5-6-7-8)**	**1416132**	**1524713**	**1524108**	**1706204**	**1888539**	**2155640**	**2289774**
10	*Fiscal Space of the Union in Rs. Lakh Crores*	*14.16*	*15.25*	*15.24*	*17.06*	*18.89*	*21.56*	*22.90*
11	**Fiscal Space of the Union as a percentage of Total Receipts**	**81%**	**80%**	**79%**	**74%**	**73%**	**73%**	**72%**

Source: Union Budgets (2014-15 to 2018-19)

The FSU comprises the resources available for undertaking productive expenditure, and therefore, it is contended that it is necessary to net out Debt Receipts from Total Receipts as Debt Receipts are in the nature of 'accommodating transactions'.[15] After coming to a normative figure for Total Expenditure and fixing a Fiscal Deficit target as a percentage of Gross Domestic Product (GDP), typically the difference between Total Receipts and Total Expenditure will be Debt raised from various sources to cover the gap.

It is noteworthy that, the FSU increased from Rs. 8.75 lakh crore to Rs. 17.09 lakh crore between in 2012-13 and 2018-19 (BE), recording a compound annual growth rate (CAGR) of 12 percent.

[15] We are grateful to the Commission for this clarification during the Presentation on the Interim Report on September 15 2018.

Table 2.6(b): Fiscal Space of the Union -Trends

(in Rs. Crores)

S. No.	Category	2012-13 Actuals	2013-14 Actuals	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	2017-18 RE	2018-19 BE
1	Gross Tax Revenue	1036235	1138734	1244885	1455648	1715822	1946119	2271242
2	Non-Tax Revenue	137355	198870	197857	251260	272831	235974	245089
3	Non-Debt Receipts	40950	41865	51475	62967	65372	117473	92199
4	Debt Receipts	541202	522029	432973	532791	544514	634229	581210
5	Total Receipts (5 = 1+2+3+4)	1755742	1901498	1927190	2302666	2598539	2933795	3189740
6	Tax Devolution to States	291547	318230	337808	506193	608000	673005	788093
7	NCCD transferred to the NCCF/NDRF	2810	4650	3461	5690	6450	3660	2500
8	Finance Commission Grants	45253	53905	61813	84579	95550	101490	109374
9	**Fiscal Space of the Union (FSU) (9 = 5-4-6-7-8)**	**874930**	**1002684**	**1091135**	**1173413**	**1344025**	**1521411**	**1708564**
	Fiscal Space of the Union in Rs. Lakh Crores	*8.75*	*10.03*	*10.91*	*11.73*	*13.44*	*15.21*	*17.09*
10	**Fiscal Space of the Union as a percentage of Total Receipts**	**72%**	**73%**	**73%**	**66%**	**65%**	**66%**	**65%**

Source: Union Budgets (2014-15 to 2018-19)

The FSU, therefore, is a function of Total Receipts (net of Debt Receipts), Tax Devolution, FC Grants and NCCD Transfers [see Table (2.6b)].

The fiscal deficit as a percentage of GDP reduced from 4.8 percent to 3.3 percent between 2012-13 and 2018-19 BE. High Total Receipts were on account of the tax revenue earned on Petrol and Petroleum products that remained static despite a steep drop in the price of oil in these years.

The FSU is what is left with the Union after meeting its obligatory allocations to States[16], which include Tax Devolution, FC Grants, and NCCD Transfers [see Table 2.7(a)].

Table 2.7(a): Obligatory Allocations to States as a fraction of Total Receipts

S. No.	Category	2012-13 Actuals	2013-14 Actuals	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	2017-18 RE	2018-19 BE
1	Tax Devolution	24.0%	23.1%	22.6%	28.6%	29.6%	29.3%	30.2%
2	NCCD transferred to the NCCF/NDRF	0.2%	0.3%	0.2%	0.3%	0.3%	0.2%	0.1%
3	Finance Commission Grants	3.7%	3.9%	4.1%	4.8%	4.7%	4.4%	4.2%
	Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Union Budgets (2014-15 to 2018-19)

16 These are Constitutionally mandated

Table 2.7(b): Transfers to States as a fraction of Total Receipts

S. No.	Category	2012-13 Actuals	2013-14 Actuals	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	2017-18 RE
1	Share of Tax Devolution in total Transfers	44%	44%	39%	49%	50%	48%
2	Share of Other Transfers in Total Transfers of which	27%	27%	38%	31%	30%	31%
2a	*Finance Commission Grants*	*6.9%*	*7.5%*	*7.1%*	*8.2%*	*7.8%*	*7.3%*
2b	*NCCD transferred to the NCCF/NDRF*	*0.4%*	*0.6%*	*0.4%*	*0.6%*	*0.5%*	*0.3%*
3	Share of CSS in Total Transfers	29%	28%	23%	20%	20%	20%
	Total Transfers (including CSS) Rs. crores	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Union Budgets (2014-15 to 2018-19)

Total Transfers to States included the obligatory allocations to States and Unions' outlays on CSS (as defined in Box 2.1).

Predominantly, FSU has shrunk because Transfers to States have increased [see Table (2.8b)]. Transfers to States (including Tax Devolution, CSS and Other Transfers- including FC Grants and NCCD Transfers) increased from Rs. 6.60 lakh crore in 2012-13 to Rs. 13.96 lakh crore in 2017-18, recording a CAGR of 16 percent. Of the Total Transfers to States, share of Tax Devolution to States increased substantially after implementation of the FFC recommendations (2015-16). Share of Tax Devolution to States in Total Transfers to States was 44 percent in 2012-13 and it increased to 49 percent in 2015-16 and thereafter. Share of Other Transfers (including the FC Grants) remained broadly in the range of + / - 30 percent in the last three years of TFC Award period and first three years of FFC Award period.

But in nominal terms, FC Grants increased between the last three years of TFC Award and first three years of FFC Award from Rs. 53,657 crores to Rs. 93,873 crores. The composition of FC Grants also underwent a change (see Table 2.8).

Table 2.8: Finance Commission Grants

(in Rs. Crores)

Composition of FC Grants	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 RE	2018-19 BE
Post Devolution Revenue Deficit Grants *	11716	10074	7550	48905	41307	35819	34582
Grants for Local Bodies	14267	21594	22399	26918	45868	56288	64939
Grants in Aid for State Disaster Response Funds (SDRF) (Including for Capacity Building)	5262	6099	5765	8756	8375	9383	9852
Sub-Total	**31245**	**37767**	**35714**	**84579**	**95550**	**101490**	**109373**
Grants in Aid for maintenance of Roads and Bridges	3664	4600	5956	…	…	…	…
Grants in Aid for State Specific Needs	2634	3595	6397	…	…	…	…
Grants in Aid for Performance Incentive Grant	360	…	…	…	…	…	…
Grants in Aid for Environment	1099	1050	6313	…	…	…	…
Grants in Aid for Governance	1636	1879	2785	…	…	…	…
Grants in Aid for Elementary Education	4615	5013	4648	…	…	…	…
Grand Total	**45253**	**53905**	**61813**	**84579**	**95550**	**101490**	**109374**

Source: Compiled by Authors using Union Budget (2014-15 to 2018-19)

** Prior to 14th Finance Commission referred as "Grants to cover deficit on Revenue Account"*

All 29 states received both Local Body Grants and Disaster Relief Grants under the TFC Award and FFC Award. Sector-specific grants to eligible States including Grants for State Specific Needs and Performance Incentives were discontinued by the FFC.

Eight states received Revenue Deficit Grants in the TFC Award, and the number increased to 11 under the FFC Award. However, the list of states changed (see Table 2.9). The TFC extended Revenue Deficit Grants to the erstwhile Special Category States only. The FFC did not consider the Special Category States as a group. Of the 11 NER and Himalayan States, Arunachal Pradesh, Sikkim and Uttarakhand were not found eligible for Revenue Deficit Grants. FFC assessed Revenue Deficit by different criteria and the States covered included the residual State of Andhra Pradesh (after bifurcation), Kerala and West Bengal (see Table 2.10).

Table 2.9: States that received Revenue Deficit Grants

S. No.	13th Finance Commission Award (2010-2015)	14th Finance Commission Award (2015-2020)
1	Arunachal Pradesh	
2		Andhra Pradesh
3		Assam
4	Himachal Pradesh	Himachal Pradesh
5	Jammu & Kashmir	Jammu & Kashmir
6		Kerala
7	Manipur	Manipur
8	Meghalaya	Meghalaya
9	Mizoram	Mizoram
10	Nagaland	Nagaland
11	Tripura	Tripura
12		West Bengal

Source: Compiled by Authors

Key findings:

- Predominantly, FSU has shrunk because Transfers to States have increased. Transfers to States (including Tax Devolution, CSS and Other Transfers- including FC Grants and NCCD Transfers) increased from Rs. 6.60 lakh crore in 2012-13 to Rs. 13.96 lakh crore in 2017-18, recording a CAGR of 16 percent

- As a percentage of Total Receipts (net of Debt Receipts), FSU shrunk from 72 percent to 65 percent between 2012-13 and 2018-19.

- Of the Total Transfers to States, share of Tax Devolution to States in Total Transfers to States was 44 percent in 2012-13 and it increased to 49 percent in 2015-16 and thereafter. Also, FC Grants increased by 75 percent on average, between the last three years of TFC Award and first three years of FFC Award

Part 3: Rationalisation of Centrally Sponsored Schemes: Impact Analysis

The central purpose of development schemes and programmes is embedded in the Directive Principles of State Policy (Part IV and Articles 36 to 48A of the Constitution). They are *"fundamental in the governance of the country and it shall be the duty of the State to apply these principles in making laws*" (Article 37). In essence, these principles underlie the intent behind national development efforts regardless of the subjects falling within the legislative competence of the Union, the States or the Concurrent Lists in the Seventh Schedule.

The FFC notes that the Union Government's role in certain sectors regardless of their being subjects that fall in the State List is important as the Union is expected to play a key role in ensuring equalization, promoting interstate projects and providing specified minimum standards of services in sectors of national priority.

"*The Union ministries and departments sought larger resources to ensure the fulfilment of national priorities, which could, among other things, be determined by the following: (a) the need to provide specific levels of public services, across the country, based upon the requirements of a welfare State, in line with the framework laid down under the Directive Principles of State Policy, (b) norms legislated by Parliament and (c) obligations in social sectors arising out of international commitments…."*[17]

The FFC further observed that "*We consider health, education, drinking water and sanitation as public services of national importance having significant interstate externalities. Signaling that the Union must remain invested in these sectors…"* [18]

Within this broad schema, CSS are special purpose grants extended by the Central Government to States to support State Governments to plan and implement programmes that help attain national goals and objectives.

Over the last decade and a half, the development interventions of the Union have been primarily by means of CSS. They have focussed on key concerns such as Poverty (from alleviation /eradication/elimination- the thrust has been to lift the people out of it), Health Education, Women and Children, SCs/STs/Minorities, Agriculture and Irrigation. The expenditure is shared between the Centre and States in a proportion that ranges between 100 percent to 60:40 and 90:10 (for States in the Himalayan and North Eastern Region).

In 2018-19 (BE), out of the 13 Central Government Ministries (that account for 54 percent of Unions' Total Expenditure), Six Central Ministries are also implementing major CSS, that account for 84 percent of the total outlay on CSS. There are 704 "Central Sector Schemes and Projects" with an Outlay of Rs. 7.09 lakh crores (which works out to approximately Rs. 1000 crores per Scheme). These 'Schemes' cover subjects under the Union List (formerly known as Central Plan) as well as subjects falling under the Concurrent List that are fully funded

[17] para 12.13, pp.161, of the FFC Report, Volume I
[18] para 11.59, pp. 154, of the FFC Report, Volume I

(100 percent) by the Union budget and implemented by Central Ministries. The largest outlays in the Central Sector Schemes are for Railways and Roads and Highways, amongst others.

The last few decades have witnessed a proliferation of CSS (see Box 3.1) in terms of the number of such schemes. Their design had become complex and implementation top heavy. Most importantly, they are resented by the States that felt that they were being strait jacketed into a uniform 'one size fits all' schemes that did not meet State-specific requirements. Despite repeated attempts over the last six decades, the number of CSS continues to remain high and the recommendations of various Committees and the National Development

Box 3.1: CSS over Six Decades – More things change more they remain the same….

Centrally Sponsored Schemes (CSS) have formed a critical element of transfer of resources from the Centre to the States since 19501-52. Central Assistance to States was provided on a discretionary basis outside the State Plans under successive Five-Year Plans for development programs. Initially major projects like Bhakra Nangal, Damodar Valley and similar large dams were taken up in addition to sectors like Community Development and Cooperation. By the Third Five Year Plan (1961-66), 92 plans were "sponsored" by the Centre, 35 of which were in Agriculture and Cooperation and 16 under General Education. The boom came in the years 1974-79, during the Fifth Five Year Plan and the number of the "Centrally Sponsored" development programs jumped to 190. In the Sixth Plan (1980-85), the assistance became Scheme based and this element of Central Assistance to State Plans (CASP) came to be known as CSS; it has stayed so since. In 2012, at the commencement of the 12th Five Year Plan (the last), CSS constituted 41.59% of the Gross Budgetary Support under Plan.

The waxing and waning of the number of CSS followed a pattern with every Plan period beginning with a pruning exercise as a result of Committees that were set up following sharp criticism by the Chief Ministers in the meetings of the National Development Council. By the end of the Plan period they invariably increased to a very large number. The peak was reached in the Ninth Five Year Plan (1997-2002) when the number stood at 360 in the last year (2002). Thereafter, there has been a periodic pruning, and in the 11th Five Year Plan, the number of Schemes declined from 155 (2005-06) to 99 (2007-08) and subsequently increased to 147 (2011-12). In the last couple of such exercises in 2012 and 2015 the number was brought down from147 to 66 to 28 Umbrella Schemes. Since 2015 the numbers have mushroomed.

The recommendations of various Committees over the years for reforming CSS have broadly covered the same ground regarding the criteria for CSS, namely national development goals; interstate ramifications; regional imbalances; and innovations and pilot programs. There have been regular demands for flexibility in design and greater room for State wise variations from the States, reduction in State shares (Preferably 100

Council, have not resulted in any material change in their structure and design.

percent Central funded), caps on total percentage of CSS to other Plan transfers, that were not tied to Schemes. Finally, they have been criticised for being iniquitous and unduly skewed in favour of a few States that have ostensibly the requisite resource matching and implementation capabilities. But despite the criticism successive governments at the Centre and States have not favoured completely winding them up altogether.

Source: Report of the Committee on Restructuring of Centrally Sponsored Schemes (CSS); B.K. Chaturvedi Member, Planning Commission, Government of India New Delhi (September 2011)

3.1. On Scope and Coverage

Pursuant to the implementation of the FFC Award, the scope of national development Schemes and programmes have expanded, despite the shrunken fiscal space of the Union. The institutional and structural changes have impacted their design and number, total outlays, composition and funding pattern, outcomes. These are detailed in the following sections.

3.1.1. Impact of Changes on Number: A Census of CSS

Post 2015-16, there is limited clarity on the total number of CSS. According to the Union Budget – Expenditure Profile 2017-18 and 2018-19, Union's expenditure is given for 28 CSS (including Core and Core of the Core schemes). The Expenditure Profile, 2017-18 also lists sub-components of the various schemes – out of the 28 schemes, sub-components of 16 schemes are listed and for the remaining 12, no sub-components are listed. Taking those into account, the total number of CSS comes to 89.

However, a detailed analysis of flow of funds between the Union and states given in the Demand for Grants for 2018-19, Union Budget, indicates that there are many more sub-components of the 28 CSS. In order to determine the number of CSS being implemented at present, a Ministry wise analysis of Demand for Grants, extracted from Union Budget, 2018-19 was done and according to the budget lines there are a total number 204 CSS [see Figures 3.1(a) and 3.1(b)].

Figure 3.1(a): Census of CSS: Expenditure Profile 2017-18

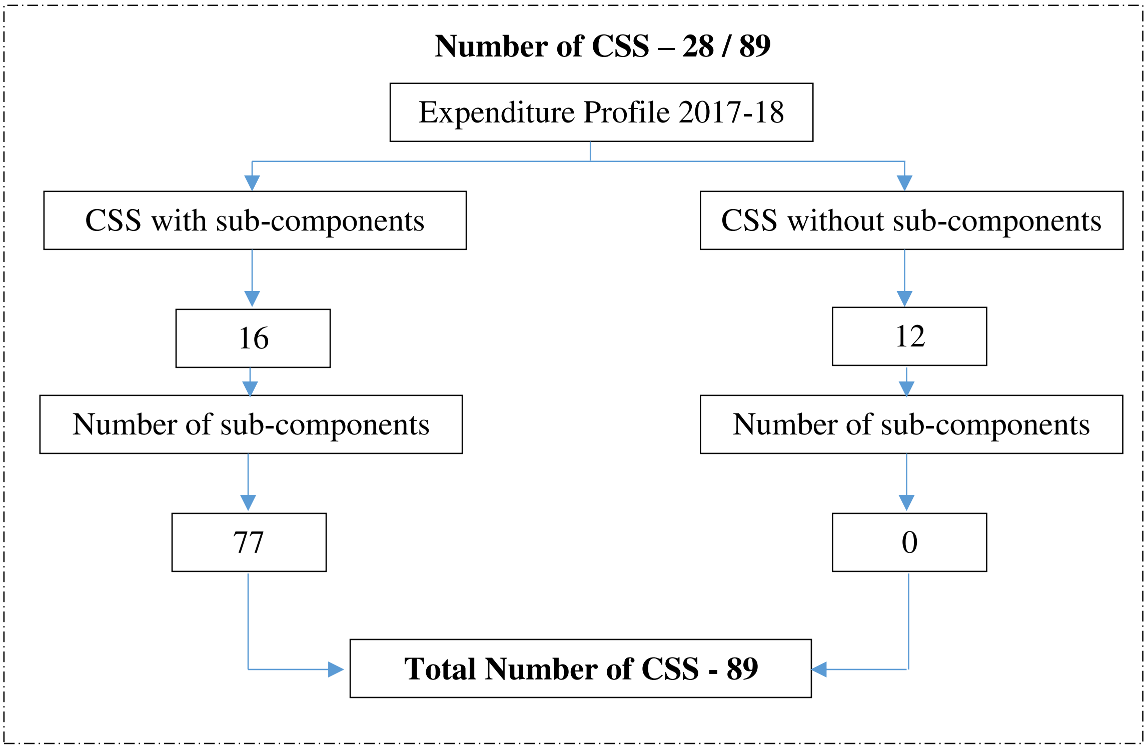
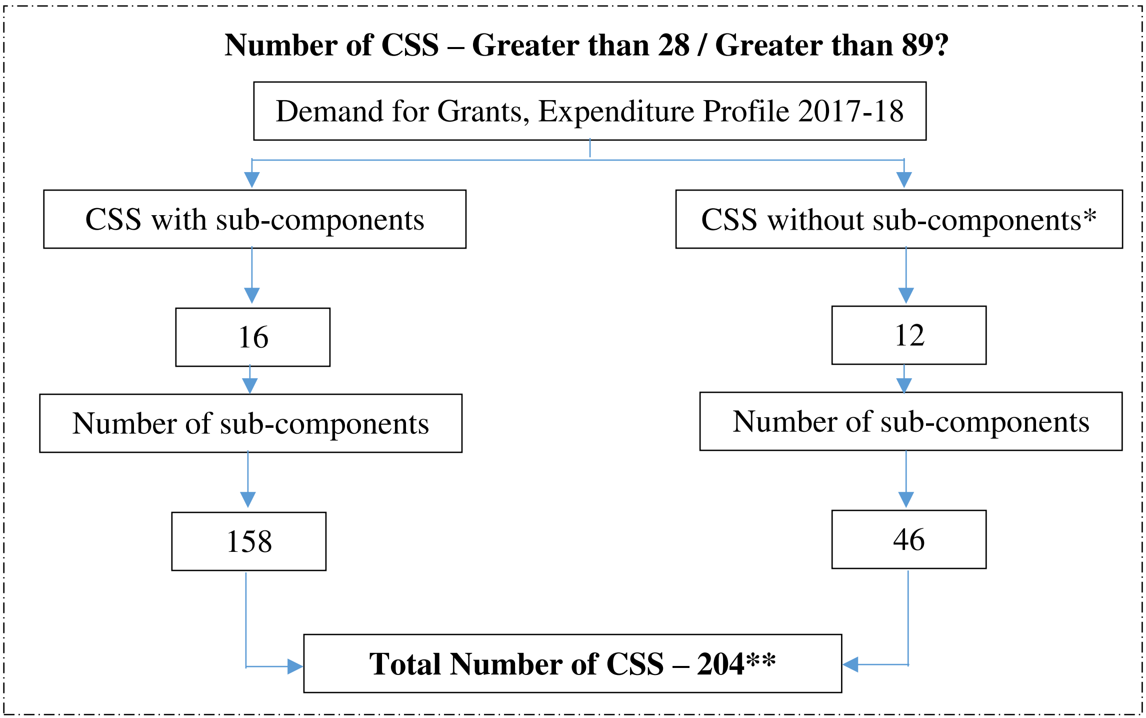


Figure 3.1(b): Census of CSS: Demand for Grants 2018-19



Source: Compiled by Authors

** CSS without sub-components, as presented in the Expenditure Profile 2017-18*

*** The total number has been enumerated in consultation with the Secretariat of the Commission*

Further analysis by per scheme outlay of the 204 CSS shows that:

- In 2018-19, as many as 158 out of the 204 CSS had outlays of less than Rs. 1000 crores. This implies that per State pro rata outlay in these Schemes was less than Rs. 34.48 crores. No budget provision was made for 46 schemes and hence it was concluded that these schemes were discontinued.
- Of the Total CSS outlays Rs. 2.78 lakh crores (91 percent) was on another 46 schemes out of 204 schemes. Amount allocated for these schemes is between Rs. 1,000 crores and Rs. 10,000 crores and above (see Table 3.1).

Table 3.1: Break-up of CSS by Outlays

(In Rs Crores)

S. No.	Outlay Range (2018-19 BE)	Number of Schemes	Total Outlay per Range (Rs. Crore)-2018-19 (BE)	Percentage Share in Total Outlay
1	**Greater than Rs. 10,000 crore**	**7**	**158724.79**	**51.95%**
2	**Greater than Rs. 5000 crore and equal to 10,000 crore**	**8**	**51625.32**	**16.90%**
3	**Greater than Rs. 1000 crore and equal to 5000 crore**	**31**	**68208.45**	**22.33%**
	Sub-Total	**46**	**278558.56**	**91.18%**
4	Greater than Rs. 500 crore and equal to 1000 crore	16	11825.76	3.87%
5	Greater than Rs. 100 crore and equal to 500 crore	51	12579.59	4.12%
6	Greater than Rs. 50 crore and equal to 100 crore	20	1488.87	0.49%
7	Greater than Rs. 25 crore and equal to 50 crore	17	680.55	0.22%
8	Greater than Rs. 10 crore and equal to 25 crore	13	239.38	0.08%
9	Greater than Rs.1 crore and equal to Rs. 10 crore	24	137.39	0.04%
10	Greater than Rs. 10 lakh and equal to Rs. 1 crore	8	6.7	0.00%
11	Less than and equal to Rs. 10 lakhs	9	0.12	0.00%
	Sub-Total	**158**	**26958.36**	**8.82%**
	Grand Total	**204**	**305516.92**	100.00%
	Number of Schemes Discontinued in 2018-19	*46*	...	*na*

Source: Data extracted from Expenditure Profile, Demand for Grants, 2018-19

- 91 percent of total CSS outlays is distributed across **seven Ministries, accounting for 124 schemes (out of 204 schemes)**

- Highest number of schemes are under Ministry of Agriculture and Farmers' Welfare (32), but account for only 6.8 percent of the total outlays

- On the other hand there are 14 schemes under Ministry of Rural Development, accounting for 37 percent of total outlays

Table 3.2: Ministry-wise distribution of CSS

S. No.	Ministry wise distribution of CSS	Number of Schemes	Outlay - 2018-19 BE (Rs Crores)	Percentage share in Total Outlay	Number of Schemes Discontinued in 2018-19
1	Ministry of Rural Development	14	114175.8	37.37%	0
2	Ministry of Human Resource Development	8	43232.51	14.15%	2
3	Ministry of Health and Family Welfare	26	32634.04	10.68%	1
4	Ministry of Housing and Urban Affairs	11	21484	7.03%	4
5	Ministry of Women and Child Development	19	24453.86	8.00%	5
6	Ministry of Agriculture and Farmers' Welfare	32	20771.42	6.80%	6
7	Ministry of Drinking Water and Sanitation	14	22343.1	7.31%	2
8	Ministry of Social Justice and Empowerment	36	7469.73	2.44%	0
9	Ministry of Minority Affairs	1	1320	0.43%	16
10	Ministry of Home Affairs - Police	3	3928.26	1.29%	0
11	Ministry of Tribal Affairs	11	3806.02	1.25%	5
12	Ministry of Labour and Employment	4	1797.79	0.59%	0
13	Ministry of Skill Development and Entrepreneurship	7	3273.24	1.07%	0
14	Ministry of Environment, Forests and Climate Change	10	1019	0.33%	2
15	Ministry of Law and Justice	2	630	0.21%	0
16	Ministry of Water Resources, River Development and Ganga Rejuvenation	6	3178.05	1.04%	3
	Total	**204**	**305516.82**	**100.00%**	**46**

Source: Data extracted from Expenditure Profile, Demand for Grants, 2018-19

3.1.2. On Composition of CSS

In 2015-16, all CSS, consolidated into 28 Umbrella Schemes were classified as Core and Optional with the States participation made compulsory, by consensus, in the former. Amongst the Core Schemes, poverty elimination and social inclusion schemes were the Core of the Core signalling the unanimous commitment that these would remain the first charge on funds available (see Table 3.3). Other Sectors covered include Rural Infrastructure and Livelihoods, Drinking Water and Sanitation, Education, Health, Nutrition, Women and Child development and Housing. Schemes in these sectors would be allocated at least 80 percent of the total allocation earmarked for CSS.

Table 3.3: Core of the Core Vs Core Schemes

S. No.	Scheme- Wise Distribution	Number of Schemes	Total Outlay	Percentage share in Total Outlay
	Core of Core Schemes			
1	Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGA)	1	55000	18.00%
2	National Social Assistance Programme (NSAP)	6	9975	3.26%
3	Umbrella Scheme for Development of Schedule Castes	18	5182.58	1.70%
4	Umbrella Programme for Development of Scheduled Tribes	11	3806.02	1.25%
5	Umbrella Programme for Development of Minorities	2	1440	0.47%
6	Umbrella Programme for Development of Other Vulnerable Groups	18	2287.15	0.75%
	Total – Core of Core Schemes	**56**	**77690.75**	**25.43%**
	Core Schemes			
7	Green Revolution	19	13908.92	4.55%
8	White Revolution	10	2219.89	0.73%
9	Blue Revolution	2	642.61	0.21%
10	Pradhan Mantri Krishi Sinchai Yojna (PMKSY)	8	9429.05	3.09%
11	Pradhan Mantri Gram Sadak Yojna (PMGSY)	3	19000	6.22%
12	Pradhan Mantri Awas Yojna (PMAY)	7	27505	9.00%
13	National Rural Drinking Water Mission	13	7000	2.29%
14	Swachh Bharat Mission (SBM)	2	17843.1	5.84%
15	National Health Mission	25	30634.04	10.03%
16	National Education Mission (NEM)	6	32612.51	10.67%
17	National Programme of Mid-Day Meal in Schools (ICDS)	1	10500	3.44%
18	Umbrella Integrated Child Development Services	7	23088.28	7.56%
19	Mission for Protection and Empowerment for Women	12	1365.58	0.45%
20	National Livelihood Mission – Ajeevika	2	6060	1.98%
21	Jobs and Skill Development	11	5071.13	1.66%
22	Environment, Forestry and Wildlife	10	1019	0.33%
23	Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	3	12169	3.98%
24	Modernisation of Police Forces	2	3157.29	1.03%
25	Infrastructure Facilities for Judiciary	2	630	0.21%
26	Border Area Development Programme	1	770.97	0.25%
27	Shyama Prasad Mukherjee Rurban Mission	1	1200	0.39%
28	Rashtriya Swasthya Bima Yojna (RSBY)	1	2000	0.65%
	Total – Core Schemes	**148**	**227826.4**	**74.57%**
	Grand Total	**204**	**305517.1**	**100.00%**

Source: Data extracted from Expenditure Profile, Demand for Grants, 2018-19

As shown in Table 3.3, 56 out of 204 schemes are classified under the Core of the Core schemes category (accounting for 25 percent of the total outlay) and remaining 148 are Core Schemes (accounting for 75 percent of the total outlay).

In addition to the above, Schemes that seek to discharge obligations cast by entitlement-based legislation are included in CSS (see Table 3.4).

Table 3.4: Legislation Backed Schemes in 2017-18 (RE)

(In Rs Crores)

S. No.	Schemes		2017-18 RE	2018-19 BE
1	Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGA)	Provisions of **National Rural Employment Guarantee Act 2005** fully incorporated under MGNREGA	55000	55000
2	Sarva Shiksha Abhiyan (SSA) and Madhyamik Shiksha Abhiyan (MSA)	Covers some of the obligations under the **Right to Education Act 2004**	27414.9	30341.81
3	Targeted Public Distribution System (TPDS)	Cover the obligations under **National Food Security Act 2013 (NFSA)**	140281.69	175944
	Total CSS Outlays		**285581.4**	**305517.1**
	Percentage Share of MGNREGA, SSA & MSA in total CSS Outlay		**29%**	**28%**
	Total Outlay on Central Sector Schemes		**284728**	**323888**
	Percentage Share of TPDS in total Central Sector Outlay		**49%**	**54%**

Source: Authors' own compilation

MGNREGA, *Sarva Shiksha Abhiyan (SSA)* and Targeted Public Distribution System (TPDS) are Schemes that cover fully or in part, the obligations cast by legislations that are rights driven social entitlements. While National Rural Employment Guarantee Act 2005 (NREGA) provisions are fully incorporated in the MGNREGA Scheme, the other two Schemes only partially incorporate the provisions of the respective Acts. The SSA and Madhyamik Shiksha Abhiyan (MSA) (sub-components of the National Education Mission), cover some of the obligations under the Right to Education Act 2004. Similarly, the Targeted Public Distribution System (TPDS), under which subsidised food grains are given to eligible families below the poverty line, covers the obligations under the National Food Security Act (NFSA), 2013. However, the last is retained as a Central Sector scheme operated through subsidies to Food Corporation of India. Subsidies to food grains supplied to *Aanganwadis* covered under the Supplementary Nutrition Programme under Integrated Child Development Services (ICDS), which is a CSS, is mandated under the NFSA.

3.1.3. On Funding Pattern of CSS

From 2015-16, the sharing pattern for expenditure on CSS between the Centre and States was changed from an average of 67:33 to an average of 60:40 for all Core schemes. All Core of the Core Schemes were fully funded by the Central Government. The sharing pattern for 8 North Eastern (NER) and 3 Himalayan States was retained at Centre: State: 90:10; and for other States it was Centre: State : 60:40.

3.1.4. On Total Outlays of CSS

3.1.4.1. Across Schemes

The FFC recommendation impacted total outlays on CSS and they increased during the first four years of the FFC Award (2015-16 to 2018-19) (see Table 3.5).

Table 3.5: Union's Outlays on Central Assistance for State Plans and Centrally Sponsored Schemes

(In Rs Crores)

Categories	2012-13 Actuals	2013-14 Actuals	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	2017-18 RE	2018-19 BE
Central Assistance for State Plan of which	**104198**	**107601**	**264725**	…	…	…	…
Block Grants and Loans	82892.44	85558.52	65968.84	…	…	…	…
Centrally Sponsored Schemes	21305.56	22042.48	198756.2	203740.4	241296	285581	305517
Total	**104198**	**107601**	**264725**	**203740.4**	**241295.6**	**285581.4**	**305517.1**

Source: Compiled from Union Budgets, Expenditure Profiles 2014-15 to 2018-19

Union's expenditure on CSS has been increasing (see Table 3.5). Between 2015-16 and 2018-19 (BE), it grew at a CAGR of 14 percent. The total Outlay on CSS in 2017-18 (RE) was Rs 2.85 lakh crore. In 2018-19 (BE), total Outlay on CSS is Rs. 3.05 lakh crores with States' shares between 0 – 40 percent.

Six out of the 13 Ministries (accounting for 54 percent of Total Union's Expenditure; see Table 2.9) are implementing major CSS, accounting for 84 percent of Union's Total Outlays on CSS (see Table 3.3).

Within the schemes, outlays on the top 10 schemes (out of 28 Umbrella Schemes) account for around 79 percent of Union's Total Outlays on CSS. These 10 schemes have 74 sub-components (that are counted as separate schemes). Among them two schemes – National Health Mission and Green Revolution, together have 44 sub-components with about 15 percent of the total outlays [see Table 3.6(a)]. Highest outlay (Rs 55,000 crores) is on MGNREGA, followed by National Education Mission (that has 6 components). The remaining 18 schemes (out of 28 Umbrella Schemes) account for around 21 percent of the Total Outlays on CSS. In all these schemes have 130 sub-components. The outlay-wise distribution across these 18 schemes is shown in Table 3.6(b). The point to be noted is that the increase in outlay over the last few years has been spread very thin across these 18 Umbrella Schemes. There is no discernable pattern in the proportion of increase across the schemes. While the focus on rural employment (through MGNREGA), health, education, women and child development, drinking water and sanitation and housing is clear and evident, a similar sharp focus does not come across in the others based on the outlays.

Table 3.6(a): Scheme-wise distribution of CSS: 2018-19 (BE)

(in Rs Crores)

S. No.	List of CSS	Name of Ministry	Number of Sub-components	Total Outlay	Percentage share in Total Outlay
1	Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGA)	Ministry of Rural Development	1	55000	18.00%
2	National Education Mission (NEM)	Ministry of Human Resource Development	6	32612.51	10.67%
3	National Health Mission	Ministry of Health and Family Welfare	25	30634.04	10.03%
4	Pradhan Mantri Awas Yojna (PMAY)	Ministry of Rural Development	7	27505	9.00%
5	Umbrella ICDS	Ministry of Women and Child Development	7	23088.28	7.56%
6	Pradhan Mantri Gram Sadak Yojna (PMGSY)	Ministry of Rural Development	3	19000	6.22%
7	Swachh Bharat Mission (SBM)	Ministry of Drinking Water and Sanitation Ministry of Housing and Urban Poverty Alleviation	2	17843.1	5.84%
8	Green Revolution	Ministry of Agriculture & Farmers' Welfare	19	13908.92	4.55%
9	Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	Ministry of Housing and Urban Poverty Alleviation	3	12169	3.98%
10	National Programme of Mid-Day Meal in Schools	Ministry of Human Resource Development	1	10500	3.44%
	Sub-Total		**74**	**242260.85**	**79.29%**
11	National Social Assistance Programme (NSAP)	Ministry of Rural Development	6	9975	3.26%
12	Pradhan Mantri Krishi Sinchai Yojna (PMKSY)	Ministry of Agriculture & Farmers' Welfare	8	9429.05	3.09%
13	National Rural Drinking Water Mission	Ministry of Drinking Water and Sanitation	13	7000	2.29%
14	National Livelihood Mission – Ajeevika	Ministry of Rural Development	2	6060	1.98%
15	Umbrella Scheme for Development of Schedule Castes	Ministry of Social Justice and Empowerment	18	5182.58	1.70%
16	Jobs and Skill Development	Ministry of Labour and Employment	11	5071.13	1.66%
17	Umbrella Programme for Development of Scheduled Tribes	Ministry of Tribal Affairs	11	3806.02	1.25%
18	Modernisation of Police Forces	Ministry of Home Affairs-Police	2	3157.29	1.03%
19	Umbrella Programme for Development of Other Vulnerable Groups	Ministry of Social Justice and Empowerment	18	2287.15	0.75%

20	White Revolution	Ministry of Agriculture & Farmers' Welfare	10	2219.89	0.73%
21	Rashtriya Swasthya Bima Yojna (RSBY)	Ministry of Health and Family Welfare	1	2000	0.65%
22	Umbrella Programme for Development of Minorities	Ministry of Minority Affairs	2	1440	0.47%
23	Mission for Protection and Empowerment for Women (MPEW)	Ministry of Women and Child Development	12	1365.58	0.45%
24	Shyama Prasad Mukherjee Rurban Mission	Ministry of Rural Development	1	1200	0.39%
25	Environment, Forestry and Wildlife	Ministry of Environment and Forests and Climate Change	10	1019	0.33%
26	Border Area Development Programme	Ministry of Home Affairs-Police	1	770.97	0.25%
27	Blue Revolution	Ministry of Agriculture & Farmers' Welfare	2	642.61	0.21%
28	Infrastructure Facilities for Judiciary	Ministry of Law and Justice	2	630	0.21%
	Sub-Total		**130**	**63256.27**	**20.70%**
	Grand Total		**204**	**305517.1**	**100.00%**

Source: Data extracted from Expenditure Profile, Demand for Grants, 2018-19

Table 3.6(b): Budget allocations across 18 Schemes [S. No. 11-28 of Table 3.6(a)]

Release-wise variations across schemes (2017-18)	Number of Schemes
Less than Rs. 650 crores	4
Rs. 650 - Rs. 1100 crores	3
Rs. 1100 - Rs. 5000 crores	7
More than Rs. 5000 crores	4
Total	**18**

Source: Authors' own compilation from Union Budget, Expenditure Profile 2018-19

Higher devolution to States reduced the resources left with the Central Government. The budget for FY 2015-16 responded to this situation by reducing the number of CSS, transferring some to the Central sector, yet others to the States and discontinuing 6 CSS[19] altogether and changing the funding pattern of almost all of them to require a higher share from the States. Of these one scheme Rajiv Gandhi Panchayat Sashaktikaran Abhiyan

[19] Rajiv Gandhi Panchayat Sashaktikaran Abhiyan, National e-Governance Action Plan, Scheme for setting up of 6000 Model Schools at Block Level as Bench Mark of Excellence, Scheme for Central Assistance to the States for developing export infrastructure and other allied activities, National Mission on Food Processing and Tourist Infrastructure

(RGPSA)[20] has been reinstated in 2018-19 (BE) and renamed as Rashtriya Gram Swaraj Abhiyan (RGSA) with an outlay of Rs. 1554.8 crores.

Key findings:

- The FFC recommendation impacted total outlays on CSS and they increased during the first four years of the FFC Award - it grew at a CAGR of 14 percent
- Outlays on the top 10 schemes (out of 28 Umbrella Schemes) account for around 79 percent of Union's Total Outlays on CSS.
- These 10 schemes have 74 sub-components
- The remaining 18 schemes (out of 28 Umbrella Schemes) with 130 sub-components account for the 21 percent of the Total Outlays.

3.1.4.2. Across States

It may be seen from Table 3.5 that Block Grants amounted to Rs. 0.65 lakh crore in 2014-15, the year preceding the commencement of the FFC Award period. While it is a fact that these grants were 25 percent of the total expenditure of Rs. 2.64 lakh crores under Plan in that year, their discontinuation had a differential impact across the States. The NCA that was disbursed to all States under the Gadgil-Mukherji formula was 29 percent of all CASP in 2013-14 (RE)[21] and comprised expenditure under both Revenue and Capital. Block grants and several other forms of Plan transfers (namely, SCA and SPA as well as ACA) that sought to address regional imbalances, were flowing to the NE and Himalayan States, to specific projects in these states and to Area based programmes in other States.[22] The SCA was in the form of untied grants to the Himalayan and NE States to fill the gap in resources to finance their State Plan expenditures and SPA was for projects identified by them under their State Plans. The discontinuation of these Block grants were, for the most part, made up by the higher devolution amounts. However, there is no evidence that these higher devolution amounts found their way into targeted development expenditure in these States.

Between the 18 states (with 60:40 sharing pattern) and 11 states (with 90:10 sharing pattern) CSS outlays have changed. Share of 18 States as a percentage of Total Outlays to States on CSS was 77 percent in 2014-15, and it increased to 83 percent in 2017-18 (see Figure 3.2).

Outlays to 18 States was Rs. 1.99 lakh crores in 2014-15 and Rs. 1.85 lakh crores in 2017-18 (RE). Share of 18 States in Union's total expenditure on CSS have increased – devolution amounts have also increased (see Table 3.7).

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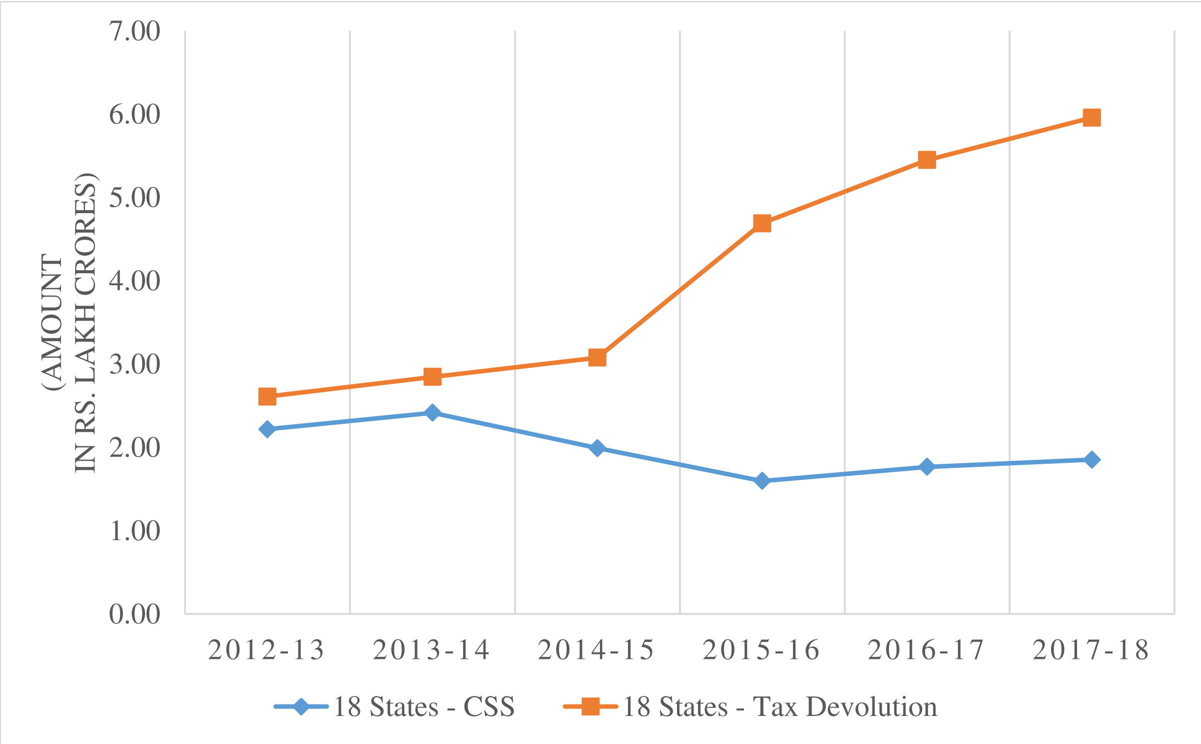
20 For details see http://pib.nic.in/newsite/PrintRelease.aspx?relid=178826 (last accessed October 16 2018)
21 FFC Report, Volume I, pp. 262.
22 The Backward Area Grant Fund (BRGF) for instance, funded not only programs in identified backward districts, but also the Bihar Special Plan, the Koraput-Bolangir-Kalahandi (KBK) Plan in Odisha, Waterlogging in select districts of Punjab and the Integrated Action Plan in LWE districts in five States.

Figure 3.2: Outlays on CSS - 18 States (60:40 Sharing Pattern)



Share of 11 States as a percentage of Total Outlays to States on CSS was 23 percent in 2014-15, and it decreased to 17 percent in 2017-18. Outlays to 11 States was Rs. 0.61 lakh crores in 2014-15 and Rs. 0.38 lakh crores in 2017-18 (RE) (see Figure 3.3). Share of 11 states in Union's total expenditure decreased, while devolution amounts increased (see Table 3.7).

Figure 3.3: Outlays on CSS - 11 States (90:10 Sharing Pattern)

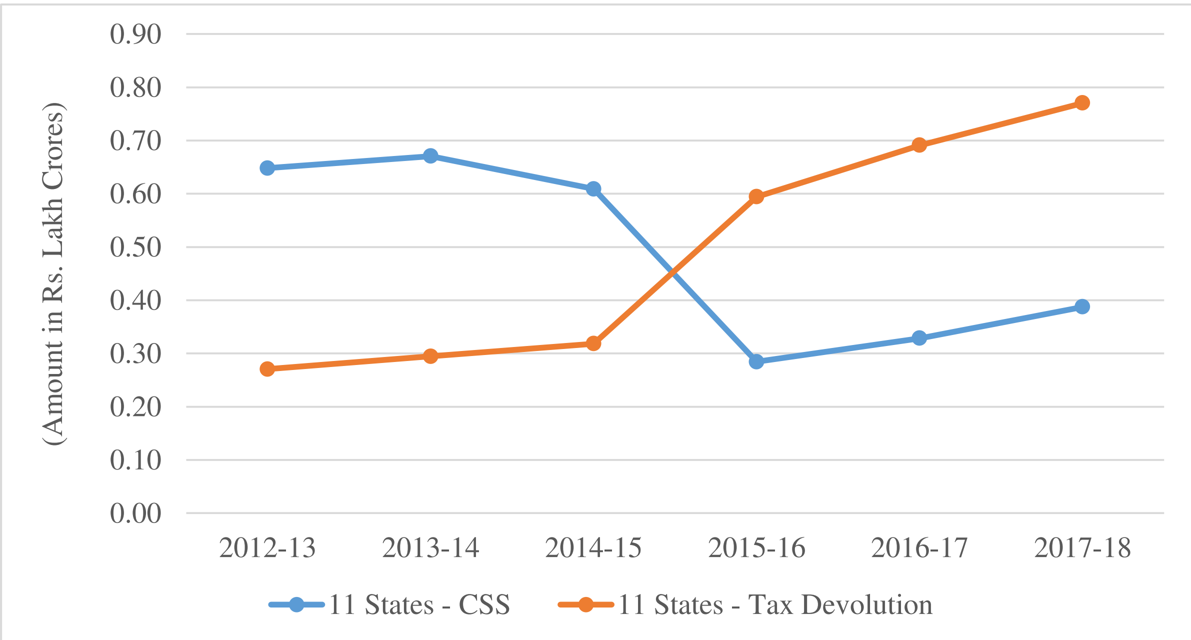


Table 3.7: Outlays on CSS and Tax Devolution between 60:40 and 90:10 States

(In Rs Lakh Crore)

Categories	2012-13 Actuals	2013-14 Actuals	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	2017-18 RE
CASP / CSS						
18 States	2.22	2.42	1.99	1.60	1.77	1.85
11 States	0.65	0.67	0.61	0.28	0.33	0.39
TAX DEVOLUTION						
18 States	2.61	2.85	3.08	4.69	5.45	5.96
11 States	0.27	0.29	0.32	0.59	0.69	0.77
TOTAL TRANSFERS (CASP/CSS and Tax Devolution)						
18 States	**4.83**	**5.26**	**5.07**	**6.29**	**7.22**	**7.81**
11 States	**0.92**	**0.97**	**0.93**	**0.88**	**1.02**	**1.16**
Total	**5.75**	**6.23**	**5.99**	**7.16**	**8.24**	**8.97**
Percentage share in Total Transfers						
18 States	**84%**	**84%**	**85%**	**88%**	**88%**	**87%**
11 States	**16%**	**16%**	**15%**	**12%**	**12%**	**13%**

Key findings:

- Between the 18 states and 11 states, CSS outlays have changed in opposite directions. Share of 18 States as a percentage of Total Outlays to States on CSS was 77 percent in 2014-15, and it increased to 83 percent in 2017-18; Share of 11 States as a percentage of Total Outlays to States on CSS was 23 percent in 2014-15, and it decreased to 17 percent in 2017-18

- Share of 11 states in Union's total outlays decreased, while devolution amounts increased; but for 18 States, outlays and devolution amounts both increased

- The consequences of these changes on development expenditures of these States is yet to be assessed fully. Moreover, the issues of regional equity and of redressing the development deficit in regions across several States have not received attention as they are multi sectoral and multi state issues. In particular CSS do not address area specific development issues. Specially designed area development programmes are needed to address issues common to hill areas, coastal areas, tribal areas and forest areas across clusters of states. These will need the cooperation of all participating stakeholders and therefore, should be CSS.

3.2. On Outcomes of CSS

As can be seen despite increase in outlays on CSS, the scope of national development Schemes and programmes have expanded since 2015-16.

Although a major proportion of the outlays (78 percent in RE 2017-18; see Table 3.3), was on nine major CSS under the Ministries of Agriculture, Rural Development, Drinking Water and Sanitation, Health, Human Resource Development and Women and Child Development, the number of sub-components under each of them have mushroomed and each sub-component has multiple budget lines and concomitant targets (see Table 3.3. and Figure 3.1). Accordingly, the targets and outcomes outlined in the Outcome Budgets[23] for the last three years envisage an enhanced expectation of measurable results under the major Schemes.

It is noteworthy that there has been a continuous attempt to streamline the processes of monitoring and evaluation even as the CSS have undergone waxing and waning in numbers, increased outlays and targets. The Results Framework Documents are now a regular feature in the Union's Outcome budgets; each Ministry has its own concurrent monitoring Cells[24] and almost every Scheme has a sub-component for Research, Monitoring and Evaluation in its budget; and NITI Aayog has an independent Development Monitoring and Evaluation Office (DMEO). Concurrent and social audits are being conducted in addition to Joint Review Missions under SSA, Mid-Day Meals, NHM, etc.,[25] to States for assessing the results in the field.

It is too early to evaluate the outcomes of all schemes on the ground as the outlays have not increased to the levels needed to cover the deficits in development in the respective sectors. In addition to the proliferation of sub-components and budget lines, the changes in names, targets and their modes of implementation have undergone many modifications in the last few years. There is, moreover, a lack of uniformity of nomenclature as well as budget classifications across the States that makes it impossible to trace the releases from the Centre for each CSS to the various Departments and levels within the States. Many Schemes are renamed in States and in yet others, the quantum of benefits are topped up with their own funds. For example, Pensions under NSAP (Old Age, Widows, Disability and Family Benefits) are enhanced by three to four times the Central releases by various States and given State specific names.

The attempts to streamline the implementation processes through improved monitoring overlooks the basic flaw in Scheme design and implementation of CSS that have defied all attempts to rationalize and improve their outcomes. It may be contended that this is due to the fact that there is no holistic perspective on development goals and the timelines within which to achieve them.

3.3. Pruning CSS: Options

The proliferation of CSS since 2015-16 has followed the same trajectory as in the past. In 2015-16, they were rationalized into large Umbrella Schemes in identified key sectors. By 2018-19, the count has gone up almost ten times. There are too many of them (See Master List in Annexure E), the outlays per scheme is woefully inadequate, spread too thin and not focused with little visible impact and fuzzy outcomes.

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23 For details see Output Outcome Framework for Schemes 2018-2019, available at https://www.indiabudget.gov.in/OutcomeBudgetE2018_2019.pdf (last accessed October 18 2018)

24 For details see Monitoring and Evaluation Division, Department of Fertilizers, Government of India

25 Reports of the Review Mission (several years) for selective states available at http://mdm.nic.in/Review%20Mission.html (last accessed October 18 2018)

Of the 204 schemes, total outlays on 158 CSS is around Rs. 26,958 crores (accounting for less than 9 percent of total outlays on all CSS), and the per scheme outlays on these 158 schemes are below Rs. 1000 crores, which means per scheme and per state outlay is approximately Rs 5.7 crores. Prima facie the expenditure on such schemes is untenable as outcomes of schemes with such low outlays are so scattered that they are invisible.

The number of CSS needs to be pruned to make the CSS more efficient as vehicles of development interventions and to ensure that public spending on them becomes more effective in the Centre and the States. As discussed earlier, the census of CSS indicates that there is no clear cut indication of their numbers due to the way the Union presents its outlays on CSS in the Union Budget. While it may seem that there are only 28 CSS operating at present, in reality the number is almost 10 times higher. This is because each of these 28 schemes has multiple sub-components that are schemes in themselves. At the implementation level in the States, the shares in them are not clear and so the total expenditure on them is not easily discernible in order to measure outcomes.

Over the years, several attempts have been made to rejig the CSS, reduce their number and improve their design and implementation. It is time for another such exercise. Based on a detailed analysis, three options present themselves. The options are neither new nor untried but they need to be applied afresh to each version of CSS. **These options are:**

iv. **Making them 100 percent Centrally Funded and prioritizing them according to the national development program ; Or**

v. **Transferring them to the States and with untied grants up to 13 percent of Total Expenditure as Scheme specific grants with the option to continue them; Or**

vi. **Adopting the Golden Mean by making some of them fully Centrally Funded and yet others transferred to the States with a radical rejig of their design and implementation.**

While Options (i) and (ii) above are the first best options in a perfect world, it is also abundantly clear that they are not feasible because CSS are the critical link to a common development platform across the country. Moreover, in a federal polity, both the Centre and the States need to work together to achieve the goals that are enshrined in the Directive Principles under the Constitution and are also an international commitment under the SDGs 2030. Therefore, Option (iii) is the preferred option and discussed further in the following paragraphs.

<u>Option (iii): Adopting the Golden Mean</u>

<u>CSS to be 100 percent Centrally Funded</u>

Based on a detailed analysis, this study suggests that the following schemes should be transferred to the Central Sector:

a. Schemes that are priorities in the national development program and have a pan national presence;

b. Schemes aimed at capacity building that creates a pool of Master Trainers in every sector - training of frontline workers, and / or creation of infrastructure and institutions for capacity building (for instance, Strengthening of Training Institutions)

c. Schemes for research and development, regulation and standard setting (for instance, National Skill Development Agency)

d. Schemes addressing issues that span across many States (for instance, Sub-Mission on Plant Protection and Plant Quarantine)

Based on the above, out of the existing 204 schemes, a list of 58 such schemes were identified (see Annexure A), which could be 100 percent centrally funded. Present outlays on these schemes is less than Rs. 500 crores per scheme and account for 3 percent of Total Outlays, such that the even if retained without any changes, impact on Central expenditure will be negligible.

<u>Transferring CSS to the States</u>

CSS that have a direct bearing on social or economic sectors at the State level may be transferred to the States who could consider amalgamating them into State Plan Schemes and programs and/or decide on their continuation. The States may be incentivized through Scheme specific grants up to the proportion of total expenditure that is allocated to them in BE 2018-19.

- **Based on the above, 36 Schemes out of 204 can be transferred to the States with funding retained at the present level (see Annexure B). Outlays on these schemes account for 3 percent of Total Outlays.**

<u>Rejig CSS number, design and implementation</u>

- **Based on the foregoing analysis, of the remaining 110 CSS (out of 204 CSS), a list of 79 schemes have been identified (see Annexure C) that should be retained as CSS, and a list of 31 schemes that should be dropped or reclassified.**

- **Of the 110 that remain after transfer to the Central Sector/States, it is suggested that 31 be dropped or reclassified**. Outlays on these schemes account for 1 percent of Total Outlays. These are Schemes that serve operational requirements. For instance, schemes for ‘Research’, ‘Monitoring’, Communication and Information’ and ‘Gender Budgeting’, ‘Project Management’, etc. that are not Schemes in themselves, but are merely ‘budget lines’ i.e. activities that are integral to the Scheme design (see Annexure D). These may not be counted as separate CSS

- **Of the 110 CSS, 79 schemes have been identified (see Annexure C) that could be retained.** These comprise 46 Schemes that are Core of the Core Schemes falling under priority sectors and signal the Centre and State governments' unified commitment for inclusiveness; and the remainder of 33 schemes include Core Schemes with significant outlays (ranging between Rs. 1000 and Rs. 10,000 crores) and those supporting innovations and pilot projects (like Telemedicine). These 79 Schemes account for 93 percent of total outlays on CSS.
    - While the study recommends that these 79 schemes should be retained, a closer analysis of the number of sub-components is needed. Some of the sub-components of these schemes could be merged under the respective Umbrella schemes.
    - To ensure that the per scheme outlays are not thinly spread, ideally there should be only one Scheme per identified sector of national importance.
    - Further, there should be an express embargo on increasing the number either by introducing fresh standalone Schemes or by adding sub-components. Finally, they need to be made more flexible by reducing the number of budget lines and improving the flow of funds to the implementing level.

Part 4: Collective efforts of the Union and the States and meeting the international commitment to achieve the Sustainable Development Goals 2030

The Sustainable Development Goals (SDGs) 2030 embody an international commitment to a development agenda that is necessary for a peaceful world order. They were adopted by the United Nations General Assembly in its 70th Session and build on the accomplishments of Millennium Development Goals (MDGs) that ended in 2015. The MDGs, adopted in 2000, aimed at an array of issues that included elimination of poverty, hunger, disease, gender inequality, and access to water and sanitation. India along with other countries signed the declaration on the 2030 Agenda for Sustainable Development, at the Sustainable Development Summit of the United Nations in September 2015.[26] The SDGs have a broader agenda than the MDGs. As the Preamble states "***This Agenda is a plan of action for people, planet and prosperity. It also seeks to strengthen universal peace in larger freedom. We recognize that eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development.***"

As such the SDGs go much farther than the MDGs, addressing the root causes of poverty and the universal need for development that is inclusive, safeguards the resources for the future and works for all people. The 2030 Agenda including eight (8) anti-poverty goals that were part of the MDGs and 17 new SDGs[27], will guide policy and give international funding a direction for the next 15 years.

Government of India is fully committed to its resolve to achieve SDGs and their related targets by 2030. In order to harmonise the national development priorities with international efforts. Presumably, New India 2022, will dovetail the national effort into this grand design. Several States have set up SDG Cells and are closely involved in this process. A number of policies, strategies, programmes / schemes and actions have been implemented at the national level to achieve the SDGs specially to end hunger and poverty and ensuring food and nutrition security.

4.1. Monitoring SDGs

The SDGs are monitored by country governments that decide on the focus and priority to be given to specific SDGs. Out of the 17 SDGs, India has selected 7 SDGs (Goals       and ) for itself. The first 'Voluntary National Review Report'

[26] For details see UNGA Resolution Text, available at http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E (last accessed November 9 2018)

[27] For details see List of SDGs 2030, available at https://www.un.org/development/desa/disabilities/envision2030.html (last accessed November 9 2018)

released in 2017[28] lists the progress made under the chosen focus Goals. The existing CSS and their sub-components are designed to promote the welfare of infants, young children and lactating mothers, little attention is paid towards holistic development of next generations such that they are capable of contributing to the economic growth of the country. Perhaps such weaknesses in the strategic focus have contributed to India's low ranking (131) in the Human Development Index. Human resource development is a multi-dimensional issue and requires adequate attention on sustainability. Point in time gains do not secure sustainability and hence policies and strategies should be designed to deliver a long term impact.

All the 17 SDGs are highly interconnected and a closer analysis reveals that SDG 2 (zero hunger) is connected with all SDGs. SDG2 has many elements of which the element of availability and access to food is highly linked to SDG 1 (end poverty). In addition, the elements of reducing food wastage and losses of SDG 12, promoting sustained and inclusive economic growth of SDG 8, reducing inequality of SDG 10, on responsible consumption in the context of food consumption of SDG 5, on gender inequality of SDG 5, reducing inequalities of SDG 10, on peace and justice of SDG 16 are closely linked to and are drivers for steering SDG 2. Similarly, the SDG 2 is also related to the SDG 14 on marine resources, SDG 15 on terrestrial ecosystems and its sustenance and SDG 14 on averting climate change. The nutrition element of SDG 2 is closely connected with SDG 3 on health, SDG 4 on education, SDG 6 on drinking water and sanitation and SDG 7 on access, SDG 9 on supporting innovations, industry, infrastructure, etc. Further, with growing role of urban population, importance of SDG 11 related nutrition issues is increasing. SDG 17 on means of implementation is the fulcrum for all SDGs.

4.2. SDGs Mapping: CS and CSS

A key element of the SDGs is a commitment to the future of the planet and people. Building human capital that is ready for the future therefore, is the fulcrum of all the SDGs. Reaching the goals requires a multi-dimensional approach across sectors, geographies and demographies. The development programs in the Centre and the States, on the other hand, are fragmented sectoral interventions that do not have adequate outlays to reach the selected goals by 2030. A Study[29] supported by the Ministry of Environment pegged this gap to be Rs. 533 lakh crore in 2015. At this level of financing, India is unlikely to meet the targets by 2030 even in respect of the focus goals selected for intensive monitoring.

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28 United Nations (2017), Voluntary National Review Report 'On the Implementation of Sustainable Development Goals', available at http://niti.gov.in/writereaddata/files/Final_VNR_report.pdf (last accessed October 18 2018)

29 For details see Technology and Action for Rural Advancement (2015), pp. 40, https://www.devalt.org/images/L3_ProjectPdfs/AchievingSDGsinIndia_DA_21Sept.pdf (last accessed October 18 2018)

2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

2.2 By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons

Such weaknesses in the strategic focus and low investments have contributed to India's consistently low ranking (131) in the Human Development Index.

All SDGs have been mapped to the corresponding CS and CSS by NITI Aayog[30]. The Schemes are collectively expected to deliver on the corresponding SDG goal. They are being implemented across multiple Ministries and by State governments and UTs in a piecemeal manner without any coordination. As a result, there is no schematic coherence that ensures that the SDG being targeted is having its desired outcome. Such weaknesses in the strategic focus and low investments have contributed to India's consistently low ranking (131) in the Human Development Index.

4.3. Monitoring SDGs

The SDGs are monitored by country governments that decide on the focus and priority to be given to specific SDGs. Out of the 17 SDGs, India has selected 7 SDGs (Goals       and ) for itself. The first 'Voluntary National Review Report' released in 2017[31] lists the progress made under the chosen focus Goals.

Niti Aayog launched the 'Nourishing India-National Nutrition Strategy' in 2017 as a key element of the government's National Development Agenda. For more inclusive growth, the focus of this strategy is on reduction of maternal, infant and young child mortality by preventing and reducing undernutrition in children and prevalence of anaemia among young children, adolescent girls and women in the reproductive age group. The Strategy identifies the following as key nutrition interventions:

- Infant and young child care and nutrition
- Infant and young child health

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30 For details see http://www.niti.gov.in/writereaddata/files/SDGsV20-Mapping080616-DG_0.pdf (last accessed November 9 2018)

31 United Nations (2017), Voluntary National Review Report 'On the Implementation of Sustainable Development Goals', available at http://niti.gov.in/writereaddata/files/Final_VNR_report.pdf (last accessed October 18 2018)

- Maternal care, nutrition and health
- Adolescent care, nutrition and health
- Micronutrient deficiencies – anaemia, vitamin A and iron deficiencies
- Community nutrition

Overall focus of the Strategy is on supplementary nutritional support during pregnancy and lactation, health and nutrition counselling and institutional childbirth and improved post-natal care. The strategy recommends preventive early action for addressing undernutrition, infant and mortality, and risks to maternal and child survival and development. Predominantly CSS including the ICDS, National Programme on Mid-Day Meal Scheme and the National Nutrition Mission.

Table 4.1: Development schemes - CSS of the Union, in line with the strategy

S. No.	Name of the Scheme	2017-18 (RE)	2018-19 (BE)
1	National Health Mission (NHM)	31292.06	30634.04
2	Integrated Child Development Services (ICDS)	19962.75	23088.28
	National Nutrition Mission	*950*	*3000*
	Anganwadi Services	*15245.19*	*16334.88*
	Scheme for Adolescent girls	*460*	*500*
	National Creche Scheme	*65*	*128.39*
	Child Protection Scheme	*648*	*725*
3	National Programme on Mid-Day Meal	10000	10500
4	Vanbandhu Kalyan Yojana	394.35	420.02
5	Rashtriya Swasthya Bima Yojna*	470.52	2000

Source:Union Budget 2018-19

**Renamed Pradhan Mantri Jan Arogya Yojana (PMJAY), a CSS, in 2018-19*

4.4. Monitoring SDGs: Achieving the Goals by 2030

The SDGs are monitored by country governments that decide on the focus and priority to be given to specific SDGs. Out of the 17 SDGs, India has selected 7 SDGs (Goals and) for itself. The first 'Voluntary National Review Report' released in 2017[32] lists the progress made under the chosen focus Goals. The Report notes the various steps being taken to achieve the targets and the need for strong governance at all tiers of government to be able to be able to reach them by 2030. Recently, a Group led by the Chief Statistician has been set up to develop and monitor the indicators of progress with reliable, timely, accessible and disaggregated data.

[32] United Nations (2017), Voluntary National Review Report 'On the Implementation of Sustainable Development Goals', available at http://niti.gov.in/writereaddata/files/Final_VNR_report.pdf (last accessed October 18 2018)

At the international level, The Sustainable Development Goals Report 2018[33] , acknowledges that a fast-changing climate, conflict, inequality, persistent pockets of poverty and hunger and rapid urbanization are challenging countries' efforts to achieve the SDGs. The Report states that despite the political commitment of the national governments across the world, conflict and climate change were major contributing factors leading to growing numbers of people facing hunger and forced displacement, as well as curtailing progress towards universal access to basic water and sanitation services. For the first time in more than a decade, there are now approximately 38 million more hungry people in the world, rising from 777 million in 2015 to 815 million in 2016. According to the report, conflict is now one of the main drivers of food insecurity in 18 countries. In 2017, the world experienced the costliest North Atlantic hurricane season on record, driving the global economic losses attributed to the disasters to over $300 billion. Achieving these goals will need an integrated approach that recognizes that these challenges are interrelated and finding a holistic design that offers solutions to them. It will also require that the funding levels be ratcheted up with the institutional backing required for effective implementation at every level. It is expected that the high level political commitment to the SDGs and the annual High Level Political Forum (HPLF) at the UN will highlight the national efforts and foster international and regional cooperation.

[33] For details see The Sustainable Development Goals Report 2018 https://unstats.un.org/sdgs/files/report/2018/TheSustainableDevelopmentGoalsReport2018-EN.pdf (last accessed November 9 2018)

Box 4.1: Development Schemes for promoting Nutrition Growth

Integrated Child Development Services (ICDS)

ICDS is a well-designed CSS implemented through states and UTs, focussing on children in age group 0-6, pregnant women, lactating mothers and adolescent girls. It takes care of all components of early childhood care including health and nutrition education for mothers, health services, supplementary food, and pre-school education for children.

National Nutrition Mission (NNM)

National Nutrition Mission (NNM)

NNM is a technology driven platform to monitor growth of children and check the pilferage of food ration provide at *anganwadis*. The mission targets to reduce stunting, under-nutrition, anaemia among young children, women and adolescent girls and reduce low birth weight by at least 2% per annum.

Mid-Day Meal (MDM) Scheme

The MDM aims at enhanced enrolment, retention and attendance besides improvement of nutritional levels among children. Under this scheme children studying in classes I – V in Government and aided schools and EGS/ AIE centres and children in upper primary (classes VI to VIII) in Educationally Backwards Blocks are provided cooked mid-day meal with 300 calories and 8-12 grams of protein.

Part 5: Conclusions Findings and Issues

Transforming the Development Paradigm

5.1. The discontinuation of Plan /Non-Plan classification in expenditure and the end of the Five Year Plan era, has led to a significant shift in the way the National Agenda is articulated. While on the one hand, it has facilitated the mainstreaming of public expenditure on Defence and Internal Security, on the other, it has also shown up a lack of clarity about the sectoral priorities in the Expenditure Budget of the Union. Most importantly, in the absence of a holistic perspective on national development, the annual budget cycle has become the only mechanism by which allocation decisions are made within the resource envelope available for the ensuing fiscal year. Consequently, the horizon for assessing requirements and outcomes has, willy nilly, become short term. The dysfunctionality of this arrangement is exacerbated on account of the fact that procurement processes within the government system typically take between 12-18 months to fructify and often much longer. A close analysis of the BE/RE/Actuals of recent budgets will underscore this conclusion as there is an increasing gap between the figures that points to poor marksmanship in budgeting practices.

5.2. During the Five Year Plan era, the institutional oversight of the Planning Commission was buttressed by the prevailing view of development as predominantly pertaining to the Welfare. Successive Five Year Plans that received the endorsement of State Chief Ministers in meetings of the National Development Council[34] focussed on economic growth and subsequently on growth with redistribution and finally in the 12th Plan (2012-2017) on Higher, More Inclusive and Sustainable growth. Schemes and programmes for increasing agricultural production, reducing poverty and ensuring provision of basic services received the highest attention (this has been marginally corrected in the last two decades by addressing the infrastructure sectors under Plan because it came to be acknowledged that this deficit is a constraint to growth and development). As a consequence, key national concerns, such as the defence of the realm and internal security, have come to be viewed as extraneous to national development and the exclusive concern of the Union government. In addition, this paradigm has given unintended encouragement weak policy action to linger on in critical areas such as subsidies, on fuel and fertilizers. As a result, they have come to have pre-emptive claims on the Union's expenditure over the years, as they were Non-Plan expenditures and reduce funding for key development sectors. To address this lacuna, it is important to have a wider perspective on national development over a longer time horizon.

5.3. Welfare Schemes became Plan expenditures, at both at the Centre and the State levels (State Governments give "Handouts" and the Centre implements "Schemes") and treated as a residual in public expenditure. This has not changed in recent years despite the changes in percentages of devolution, discontinuation of Plan/Non Plan classification and the dismantling of Planning Commission. The first charge on the Union continues to be the erstwhile "Non-Plan" expenditures comprising committed liabilities under Interest payments,

[34] National Development Council was constituted in 1967.

Pensions, (both Civil and Defence) and Subsidies. These take away a lion's share of the fiscal space available after devolution to States and obligatory transfers under FC grants and NCCD.

<u>Central Sector (CS) Schemes vs. Centrally Sponsored Schemes (CSS)</u>

5.4. Direct interventions in key Social and Economic Sectors by the Union has remained more or less the same in proportion to Total Expenditure. Now CS Schemes and Projects are the major means of development expenditure by the Union and subsume the erstwhile Central Plan, Subsidies and Non Plan Ministries like Defense and Central Police Forces. A rough ball park estimate indicates that in 2014-15 Central Plan constituted 12 percent of Plan expenditures and CSS and Block Grants constituted 16 percent of Total expenditures; Non Plan expenditures constituted 72 percent of the Total Expenditure. Now in 2017-18 (RE), Central expenditure comprises 79 percent of Total expenditure, while Transfers comprise the remaining (21 percent). About half of the expenditures of the Union is under Establishment and Other Expenditure. Of the other half, more than 16 percent is taken up by Subsidies.

5.5. **The CSS component has remained 13 percent, of Total Expenditure of the Union since 2012-13 until date. Moreover, CSS are the main interventions in which the States are key partners as they not only share the financial burden but also the implementation responsibilities. In this scenario, the critical issue is whether public money is spent more effectively and efficiently by the Central Government through CSS where the funding responsibilities are shared and the implementation is in the States by the State level agencies or by the State governments by means of Untied Transfers/Block Grants/Sector specific grants/State specific grants.**

5.6. There is a consensus between the Centre and the States on the priorities and sectors that define the national development program. The National Development Agenda has been endorsed by the Governing Council of NITI Aayog in its very first meeting held in February 8, 2015.[35] But there is no clarity on the means to achieve them, the sharing of responsibility, the expenditure required and the resources to be raised by the Centre and States to meet the national goals within an agreed time frame. Therefore, to incentivize the States to spend on the national priorities poses a challenge.

5.7. State governments contend that the national development program and priorities is driven by the Centre, and they must be fully funded. In that case, the Central Sector Schemes and Projects will need to be the main vehicles of development efforts and the implementation responsibilities will also have to be through the agencies and employees of the Central government working in the States. The Seventh Schedule (Union States and Concurrent Lists) under Article 246 of the Constitution read along with Part IV (Directive Principles) does give a fair idea of not just the distribution of legislative responsibilities between the

[35] NITI Aayog (2015)

Union and the States but also provides a framework for areas of cooperation and areas of autonomy that is essential within a federal framework.

5.8. The stated premise of the FFC Award was to give primacy to untied transfers through devolution in the overall scheme of transfers of resources as it reflected *"our trust in all tiers of government"*[36] over block grants/ sector specific grants/state specific grants/tied grants based on need or performance. However, the contrary view is that untied grants gets spent in States even before they enter the system as their proximity to the constituent populations and the compulsions of their electorates require them to demonstrate quick and visible outcomes on the ground. In the unique system of functional cooperative federalism evolved in the Indian context, funds are with the Centre and spending with States. Experience has shown that when fund and spending is both at one place - whether Centre or State- the system is more susceptible to short term pulls and pressures often driven by the electoral cycle.[37]

5.9. CSS ensure that spending takes place in targeted sectors and perhaps, the effective way to push per capita social sector spending to the desired levels. Incremental improvements in terms of effective aligning of national incentives, better scheme design and room for state level innovations will be required to make them more effective. The impact is more likely to be felt when the allocations to the deficit States is differentially more and the funding is also focussed and concentrated ("carpet bombing approach"). For instance, in its first phase, the NHM focussed on Reproductive and Child Health (RCH) and outcomes are now there for all to see in reduced rates of infant and maternal mortality and neo natal deaths.[38]

CSS: Reduce Numbers, Increase Outlays and Improve Outcomes

5.10. This having been said, it is evident that the available CSS funding is not only inadequate but is spread too thin across a large number of Schemes (204 in FY 2018-19). This results in piecemeal efforts on the ground with no visible impact and clear outcomes. The impact is also not felt as the outlay is fragmented into multiple sub components and is distributed equally across all States with scant regard to need or performance. In addition, the allocated funds are earmarked under watertight budget lines with rigid strait jacketed procedural compliances that result in delays and eventually underspending

5.11. Implementation of CSS schemes is uneven due to gaps in design as well as lack of ownership amongst States. Outcome assessment and impact of these schemes through independent assessment/evaluation are available with a time lag and do not loop back into improvements in design or implementations on the ground. Most Joint Review Missions have focussed on shortcomings in delivery and leakages. Accounting processes are different in different States for same CSS. It is, therefore essential to implement the PFMS across all

[36] Para 2.42 of the FFC Report

[37] We are grateful to Ms. Sujatha Rao, Former Health Secretary Government of India and Shri Peeyush Kumar, Finance Secretary Government of Andhra Pradesh for their insights on these issues.(Email exchanges)

[38] As above

States urgently in order to monitor fund flows on a real time basis to enable a better appreciation of results. For this purpose, a significant amount of funds and functionaries as required must be made available by the Centre.

5.12.0 Instead of delving into micro design issues (as is evident in the explosion of sub components in the Umbrella Schemes in recent years) the Central Ministries have to proactively sets standards and indicate priorities to provide incentives to States to take up larger spending from central funds. The Centre also has to increase outlays overall and a sharing formula worked out where the inter se spends on key sectors of national importance (and Central shares within it) must be related to the total investments required to cover the deficit in development and meet the seven SDG Goals selected by India for focus and achieve the targets by 2030.

Making CSS Work: Options

5.13. In view of the foregoing, it is clear that CSS as they currently exist need to be reworked to make them more efficient vehicles of development interventions and to ensure that public spending on them is rendered more effective in the Centre and the States. Over the years, several attempts have been made to rejig them and reduce their number and improve their design and implementation. It is time for another such exercise.

The number of sub-components under CSS need to be capped. Schemes that have been started in the last few years can serve as an example for rejig of these multiple CSS. Schemes such as SBM, Shyama Prasad Mukherjee Rurban Mission, and Rashtriya Swasthya Bima Yojna, among others that have been implemented recently have fewer sub-components (mostly no more than two) and budget lines under these schemes are not counted as CSS. Schemes like SBM have two sub-components – rural / urban; mainly because the two schemes SBM – rural and SBM- Urban are under two separate central government ministries. Going forward, this could be a model and schemes should be classified into sub-components only if multiple Central Ministries are responsible with a clear demarcation of responsibilities for outcomes.

Several CSS with small outlays do not achieve the objective of making an impact across the States. Such schemes are, therefore, not suitable as a CSS and need to be implemented by the States, unless required as part of convergence process of a broader scheme at the Centre. In addition, Schemes other than those having high national importance and /or are legislatively backed / in line with National Agenda and International Commitments could be identified and considered for transfer to the States. Allocation criteria for CSS funds amongst different States should be reworked and based on a balance of need and performance.

To sum up, of the 204 CSS that have been identified, 58 (accounting for 3 percent of Total Outlays on CSS) can be 100 percent Centrally Funded, 36 (accounting for 3 percent of Total Outlays on CSS) can be transferred to the States; 31 (accounting for 1 percent of Total Outlays on CSS) can be dropped and the remaining 79 (accounting for 93 percent of Total Outlays on CSS) can be retained. Even those that are retained

should have fewer sub-components and well-defined terminal dates, targeted outcomes and outcome measurement strategy for all existing CSS should be notified. All new CSS should have start and closure dates, and in the absence of a specified date of closure, would come to a close at the end of a pre-defined period.

A Final Word

The Terms of Reference of the XV Finance Commission, inter alia, includes the mandate to assess the demand on the States' resources on account of financing socio economic development as well as the impact on Union government finances following higher devolution to the States *"coupled with the continuing imperative of the national development program including New India -2022.*[39] The CSS are a demand on both States' finances as well as on the Union. Despite the shrunken fiscal space post 2015-16, they continue to script the development story. The story however, needs to be rewritten.

The vision of New India 2022 has been articulated in public platforms The Prime Minister's address to the nation also a from the ramparts of the Red Fort on August 15, 2018 also alluded to New India 2022 but the contours of the strategy to translate the mission is not yet clear. To address this lacuna, it is important to have a wider perspective on national development over a longer time horizon. NITI Aayog has outlined a Three Year Action Agenda (2017-20) and is in the process of consulting the States on a document outlining Vision 2022. So it is opportune to clearly define the place for the erstwhile Non-Plan sector expenditure and place it squarely the within the context of a blueprint for an inclusive and sustainable development paradigm. It is now universally acknowledged that sustainable development is possible only in an environment of peace and harmony. As the UN Declaration on Transforming our World: the 2030 Agenda for Sustainable Development states

> , *"…There can be no sustainable development without peace and no peace without sustainable development….."*[40].

In consonance with the spirit of this Declaration, the national development paradigm has to be reimagined and recast to ensure that living without fear and want lies at the core of the vision of New India 2022.

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39 Para 6(iv) of the Gazette Notification dated November 27, 2017.

40 For details see United Nations A/RES/70/1: Resolution adopted by the General Assembly on September 20 2015 Agenda items 15 and 116 in the Seventieth Session, available at http://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_70_1_E.pdf (last accessed August 20, 2018)