Central Transfers to States & Centrally Sponsored Schemes

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The Indian Constitution assigns specific tax and expenditure responsibilities to the Center and States. In practice, however, the Center often operates in the sphere of the States. For instance, it has expanded the role of Centrally-Sponsored Schemes (CSS), especially in rural development and the social sectors, while transfers to States are increasingly used to finance recurrent expenditures. How should CSS be reformed?

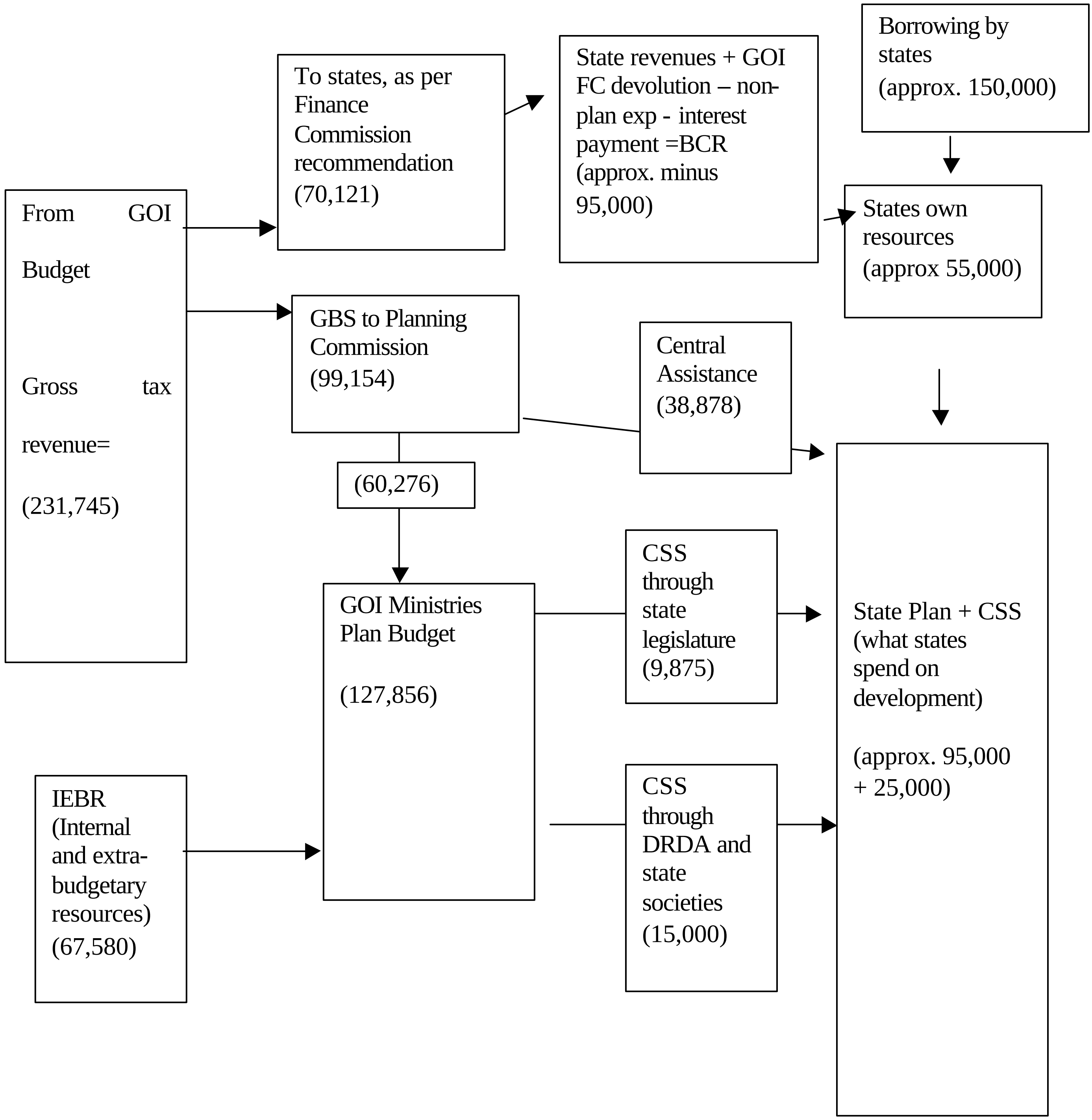
Sources for State finances – multiplicity of agencies

The Constitutional division of responsibilities between the Government of India and the States means that the revenue-raising capability of the GoI is substantially higher than that of the States, although all subjects having a bearing on poverty eradication and well being of the people, as well as requiring huge staff (teachers, doctors, etc.) are with the state governments. Inadequacy of the revenue raising powers assigned to the States relative to their expenditure has been compensated by statutory provision for the transfer of funds from the Center to the States via the Finance Commission[1]. Further, States receive plan funds from the Planning Commission through two routes, via support to States' plans (called Central Assistance), and via the Centrally Sponsored Schemes (CSS) of GoI Ministries (see flow chart). This imbalance between revenues and the responsibility for expenditure for the States is not conducive to the emergence of accountable administration, as it has been seen that the more dependent a State (such as the north-eastern States) is on central transfers, less are the chances of good governance in that State. The weak connection between spending and taxing decisions raise the possibility of opportunistic fiscal behavior among recipient governments. Moreover, the central institutions that control transfer of funds (FC, Planning Commission, central Ministries, central financial institutions, such as NABARD, HUDCO, LIC, etc.) have also not made earnest efforts to link their assistance with a set of incentives and dis-incentives to the States for fiscal (or governance) reforms. There is lack of effective coordination between FC and PC[2]. As a result, it was possible for a State to underplay its resource availability before the FC but present a different picture before the Planning Commission to obtain approval for its plan of a size unwarranted by available funds. Year after year PC approved plan size for the States with full realization that State resources or capability to spend does not back such an inflated plan size.

[1] Consequent on the amendment to the Constitution of India in August 2000, 29 per cent of the pool of central taxes (on net basis) are to be shared with the States; this percentage is subject to review by the Finance Commission every five years.

[2] Although a member of the Planning Commission is designated as an ex-officio member of the FC (even this was not done for the Eleventh FC), it has been a mere formality and in actual practice there is little exchange of data or views between the two Commissions.

Devolution of funds from Center to States in 2001-02 (RE)



Figures in brackets is the amount in crore Rs

Transfers from central government

In 2001–2 the States received roughly Rs700bn, Rs400bn and Rs250bn[3] respectively from the Center via the FC, PC, and the central Ministries. In aggregate, these three sets of transfers were more than the States' tax revenues and amounted to almost 36 percent of the States' public expenditure. Transfers from Center to States are therefore important, and have been increasing in real terms, but declining in relation to most key indicators. Thus, for instance, they have declined from 9.3 percent of GNP in 1985–6 to 5.4 percent in 1999–2000. They have also declined against the revenue receipts of central government. Ever since 1982-83 the Center has had a fiscal deficit greater[4] than the fiscal transfers (including share of taxes, grants and loans net of recoveries) to the States and UTs. 'Devolution under fiscal federalism in India has become an exercise in distributing deficits'. Changes in the transfer to States as percent of State expenditure as well as percent of GDP since 1990-91 is shown in the chart below.

Table 1: Transfer of funds to States, including FC, PC and CSS, but excluding transfer to DRDAs and State Societies

Year	Gross transfer to States	Total expenditure of States	GDP at market prices	transfer to States as % of State exp	transfer to States as % of GDP
1990-91	42350	80232	5,68,772	52.8	7.45
1991-92	46201	95587	6,53,298	48.3	7.07
1992-93	51800	106149	7,47,387	48.8	6.93
1993-94	58459	120635	8,59,220	48.5	6.80
1994-95	63947	143750	10,09,906	44.5	6.33
1995-96	70502	163676	11,81,961	43.1	5.96
1996-97	82637	181872	13,61,952	45.4	6.07
1997-98	88729	206714	15,15,646	42.9	5.85
1998-99	80924	243355	17,58,276	33.3	4.60
1999-2000	94780	289621	19,56,997	32.7	4.84
2000-2001 (R.E.)	113857	337176	21,95,529	33.8	5.19
2001-2002 (B.E.)	127614	369219	24,74,766	34.6	5.16

Some clear shifts have occurred among the three types of transfer: there has been a shift in favor of transfers via the Finance Commission, reflecting a diminishing

[3] According to the budget documents this figure is only about Rs 100bn. The reason for the discrepancy is that transfers to District Rural Development Agencies (DRDAs) and State Societies are not included in the budget as transfer to States, although this mode of transfer to State level organizations has increased rapidly in the last decade, and is now about Rs 150bn.

[4] For example, in 2001-02, according to the provisional estimates for the Center, the revenue deficit was Rs 960 billion and the fiscal deficit was Rs 1362 billion while transfers to states and UTs were Rs 1148 billion. Thus, even without any transfers to the states and UTs, the Center would have had a fiscal deficit and only a small revenue surplus.

importance attached by central and state governments to 5-year indicative plans. States have no doubt welcomed this as a much more flexible source of funds, and one that does not add to their debt burden or require counterpart contributions from them. Within the two types of funds mandated to the Planning Commission, support via the Union Ministries' Centrally Sponsored Schemes has doubled over the last 20 years, increasing their share in the central plan allocations from one-third to a little less than two thirds of the total (Table 2).

Although the share of Central Assistance for States as a percentage of GDP has declined from 2.74 percent in 1987-88 to 1.64 percent in 2001-02, about half of these funds are not linked to any formula (called Additional Central Assistance, as distinct from Normal Central Assistance that is linked with the well known Gadgil Formula), and therefore the Center has discretion in designing the nature of these schemes. Some effort has been made to link some of the new schemes included in ACA with reforms, yet a substantial part of ACA is still not linked to fiscal performance of the States. Examples of reform linked support are the Accelerated Irrigation Benefit Program (AIBP), Accelerated Power Development and Reform Program (APDRP), Urban Incentive Facility and the Development Reforms Facility. However, the reform component is either weak or not rigorously enforced, it remains a paper tiger. Even the modest allocation for APDRP could not be utilized, as the RE figures for this scheme were only 450 and 1089 crores for the years 2001-02 and 2002-03, as against the BE of 1500 and 3500 crores for these two years. The will to wield the 'stick' has been missing in the system, as another example described below would illustrate.

In pursuance of a decision taken in the NDC meeting, the Finance Minister after meeting a group of Chief Ministers in March 1999 decided that from the year 2000-2001 State-specific medium-term fiscal strategies should be drawn up jointly by the Center and the States. This would be monitored by a Committee chaired by the Secretary, Planning Commission with Secretary (Expenditure) as Member. However, despite initial enthusiasm this initiative did not improve State deficits, as its success required continuous monitoring combined with release of funds in installments dependent on States' performance. No separate fund was created by the Planning Commission out of the ACA (roughly 200 billion annually) at its command from which assistance could be given to the reforming States.

For the first time since the eruption of serious fiscal distress, an amount of Rs25 billion was provided in the Annual Budget 2002/03 towards the Development Reforms Facility. The idea must have been to *tranche* a part of the plan Funds to States that take effective steps to reduce deficit. But the proposal that has been finally approved by the Planning Commission has a very tenuous link with reforms. About Rs 8 billion has been sanctioned for what is essentially a poverty alleviation program aimed at the 25 poorest districts in the country, with a sub-component for Bihar and the KBK Districts of Orissa. There is little reform content in the scheme and certainly falls far from what was expected from the budget announcement. The rest 17 billion has been surrendered by the Planning Commission for want of proposals!

Another factor causing State deficit to go up is the term at which Central Assistance is given by the Center to the States. Most States receive plan assistance as 30 per cent grant and 70 per cent loan, in the hope that the revenue content of the plan would constitute, on the average, 30 per cent of the plan outlay. However, the revenue component in the plan expenditure has gone up from 30 percent in 1974-75 to more than 50 per cent now. In some States, it exceeds 80 per cent of their plan expenditure. The Tenth FC had observed that approval of the State plans by the PC without specification of its revenue and capital components is one of the main causes of the 'endemic fiscal disequilibrium'. With increasing emphasis on social sector and maintenance of existing assets, there is no way that the revenue component can be brought down. Ideally speaking the 30:70 formula ought to be modified to 50:50, but as funds for the entire plan are borrowed by GoI, and are not part of the central revenues (which is not even sufficient to meet interest liability and the non-plan expenditure), increasing the grant component in central assistance will increase fiscal distress for the Center, unless GoI improves its revenue deficit from a minus Rs950 billion to a positive figure.

To sum up, a good transfer system should distribute funds based on needs, capacity, and effort. Capacity is the end result of effort, which is the intermediate stage. A State may be low on capacity, which takes time to build up, but if does not even make efforts in that direction surely does not deserve sympathy just because it is poor. Mere gap filling transfers foster dependency and ultimately block the incentive to reform. Matching and conditional transfers have economic and fiscal advantages in terms of allocative efficiency. They introduce elements of local involvement, commitment, accountability and responsibility for the aided activities.

Lastly, an important channel for mobilizing resources for development, particularly for social sectors, namely the Externally Aided Projects (EAP) and direct funding of projects (i.e. outside budgetary flows) by the NGOs has not been sufficiently integrated with our Planning process. Consequently, an important source of scarce resource for development is not being adequately tapped. Moreover, since EAPs in the State Sector is routed as additional Central assistance and nearly 70-80 percent of such resources are flowing into a handful of States, there is an issue of distributional equity to be addressed urgently, in this regard. The Planning Commission has suggested that the quantum of external aid should be delinked from GBS so that there is an incentive for central Ministries to make efforts for accessing more external aid. Even IDA funds carrying very low rate of interest have remained unutilized in the past, as Ministries have no incentive to tap external funds.

Background and history of CSS

As already noted, in addition to transfers via the Finance and Planning Commissions, States received roughly Rs25,000 crores during 2001-02 for implementation of Centrally Sponsored Schemes pertaining to subjects that are under the State domain. Grants for CSS are meant to supplement the resources of the state governments, who are responsible for the implementation of these schemes and who are expected to pay a matching contribution, typically of 25 percent. These schemes are designed by the central Ministries, who then pass on the funds to the States from the central plan budget that the Ministries control. The outlay and nature of the individual schemes is determined by the provisions and guidelines attached to schemes, are relatively inflexible, and cannot be altered by the States, at least on paper.

Centrally Sponsored Schemes were originally to be formulated only where an important national objective such as poverty alleviation was to be addressed, or the program had a regional or inter-State character or was in the nature of pace setter, or for the purpose of survey or research. However, the CSS have proliferated enormously, and in the terminal year of the Ninth plan there were as many as 360 CSS.

At the beginning of the Fourth Five Year plan (1969-74) there were only 45 CSS, but their number rapidly increased during the IV and V plan periods and stood at 201 in 1979. Center's involvement with State subjects started increasing under Mrs. Indira Gandhi's regime with her focus on *Garibi Hatao* (poverty eradication). Many current schemes in rural development, such as IRDP, creation of employment through public works, rural housing, etc. were initiated during her regime. Several subjects, such as education, population control, and forests were brought from the State to the concurrent list through amendment to the Constitution. This enabled the GoI to pass legislation in these sectors without obtaining States' agreement.

CSS vs. Central Assistance

As early as in 1969 the NDC had decided that the total value of CSS should be limited to 1/6 of the Central Assistance to the States. Despite this decision, the central ministries kept on introducing new schemes, and the number increased from 45 in 1969 to 190 in 1978-79, and the total allocation far exceeded the limit of 1/6th fixed by the NDC. However, this number was reduced to 75 in 1980, but again increased to 201 by 1985. During the Sixth plan period 1980-85, a total assistance of Rs 9,318 crores was allocated to CSS, which worked out to be 35 percent of the total Central Assistance to the States. During the Ninth plan the number of CSS was 360 approximately, with allocation being about 60 percent of Central Assistance. Relatively better off States benefit more through the CSS, as they have better matching resources and better implementation capability. These transfers have also been criticized as being 'discretionary' as they are designed by the central ministries where many non-economic considerations enter into the distribution mechanism.

One of the reasons for this increase is rooted in the changes that have taken place in the nature of central Ministries' plan schemes that are funded by the budget over the last twenty years are shown in Table 2.

Table 2: Percentage Distribution of Central plan Outlay Supported by the Budget through GoI Ministries by Heads of Development

Head of Development	Sixth plan 1980-81 to 1985-86	Seventh plan 1985-86 to 1989-90	Annual plans 1990-91 1991-92	Eighth plan 1992-93 to 1996-97	Ninth plan 1997-98 to 2001-02	Tenth plan 1st year 2002-03
Industry and Minerals, Energy, and Communications	51	44	34.1	25.3	16.9	13
Agriculture, Irrigation, Rural Development, Education, Health & Family Welfare, Water, Sanitation, House, Urban Dev., SCs & STs Welfare	33	40.6	49.8	62.5	61.3	55.3
Transport	14.1	14.1	13.5	9.3	17.3	21.3
Others	1.9	1.3	2.6	2.9	4.5	10.4*
Total	100	100	100	100	100	100

* This includes several new schemes for NE States, and thus contributes to transfers to States

As many schemes in the Transport sector (construction of roads) are implemented by the States, one could estimate from the Table that the share of CSS has almost become double in the last twenty years from one-third to close to two-thirds of the total central budgeted plan. The Center spends more money on State subjects than on the central subjects, perhaps as a consequence of liberalization as well as growth of central parastatals (such as NTPC, oil companies), because of which Center's budgetary involvement in the industry and energy sectors has vastly reduced, permitting the Center to allocate more on subjects traditionally under the purview of the States. This is despite continuous deterioration in central finances and a falling tax/GDP ratio.

These trends must also be seen in light of the political economy of Center-State relations in India. With the decline of the Congress Party, regional parties and those built on sectional interests have gained importance. While, as we noted above, States have become dependent on the Center economically, they have become increasingly politically independent and indeed, powerful. As subjects under States' jurisdiction are politically more important (land, water, law & order, education and health), the Center has often used the funds for Centrally Sponsored Schemes as a tool to enhance its political visibility at State level. The Prime Minister's speech to the nation on the 15th August every year concentrates more on what the Central Government is doing on subjects under the States' jurisdiction than on subjects with the Center. The allocation of funds is also dictated by compulsions to bow to regional parties at State levels (such as in Andhra Pradesh), who are also coalition partners at the Center.

GoI has increased its control over the State[5] sector in three ways, firstly through substantial funding of CSS, the budget for which is about 60 percent of the Central Assistance; secondly much of it goes straight to the districts, thus bypassing the States and placing district bureaucracy directly under the supervision of the GoI; and thirdly more than half of Central Assistance is given in the form of ACA, which is often not formula based but where the GoI Ministries have a great deal of control over the State allocations and releases. Some of these schemes with their outlays in 2002-03 are PMGY (2800 crores), AIBP (2800), APDRP (3500 crores), and Development and Reform Facility (2500 crores). Though for budgetary purposes they are shown as Additional Central Assistance, they share many common features with CSS, as these entail adequate control over flow of funds with the central Ministries but States too have flexibility in deciding the details of schemes. This new hybrid form of transfers must be seen as a healthy development, as it can be used for promoting reforms in the States.

Are CSS funds diverted to other uses?

There are indications that at least some funds from CSS are diverted from their given purpose. These can either be for other schemes that the state government prefers, such as *Janmabhoomi* in Andhra Pradesh and *Paani Roko Abhiyaan*' ('Hold Water Campaign') in Madhya Pradesh, or for the more general use for budgetary support (which is frowned upon by the Center). There are two ways this can happen: within a particular financial year, with money being released to implementing agencies at the end of the installment period with interest being earned of it in the interim (the end of year accounts will not reflect this juggling in any way) and second, on a more permanent basis. One way to ascertain this is by examining the ratios of plan loans from the Center to actual plan spending. Where the former is higher, this generally provides strong evidence that some percentage of the funds for capital spending is financing other expenditures.

We seem to have reached a paradoxical situation; on the one hand central transfers to States as a percentage of States' total expenditure have gone down in the last 15 years (Table 1), and yet due to fiscal constraints faced by the States, centrally sponsored schemes are often the only schemes at the field level in the social sector that are under operation, as States spend most of their own resources and borrowings on just meeting the essential non-plan expenditure (interest, salaries, pensions, and subsidies).

As regards choosing between transfer via support to their plans and via Centrally Supported Schemes, States are caught in a dilemma. On political platforms they demand (in the name of autonomy) that the CSS should be transferred to them as Central Assistance, but as it would increase their debt burden they do not pursue these demands in earnest – quite the contrary, they often seek to get State schemes or projects transferred quietly to the Center. A good example is of the District Primary Education Program of Andhra Pradesh funded by the World Bank that was a State project until 1999, but the Chief Minister got it transferred to central jurisdiction,

[5] Although police is a State subject, GoI employs more than 750,000 policemen under various para-military forces.

which reduced the loan component of World Bank’s assistance from 70 percent to zero, as far as the State is concerned.

Another implication of the wholesale transfer of CSS to the States would be a drastic increase in the Central Assistance as compared to budget support to Central Ministries. This ratio has in the past 20 years has been around 40:60, which would then become 65:35 in favor of States. Since these funds are borrowed, and not part of Central revenues, one might ask: why should Center borrow from the market and support State schemes on which it has no control? One might as well give States the power to borrow from the market.

CAG on CSS

Has the enhanced control by the Center through CSS been at the cost of efficiency, decentralized management and greater flexibility in design of programs to suit local conditions? Well, the opinion varies. Central Ministries defend higher allocations for CSS on the grounds that national goals and objectives can be achieved only through CSS, and the States would not implement national programs unless they were provided financial assistance. On the other hand, the CAG studied the implementation of many CSS and observed a common pattern of shortcomings in their execution as under:

Inability of the Union ministries to control the execution of the schemes with a view to ensuring the attainment of the stated objectives in the most cost effective manner and within the given time-frame, as a result of which, the programs continued to be executed in uncontrolled and open-ended manner without quantitative and qualitative evaluation of delivery.

The controlling Union ministries confined their role to the provision of budget and release of the funds to the state governments rather mechanically without reference to the effective utilization of the funds released earlier in accordance with the guidelines and capacity of the respective state governments to actually spend the balance from the previous years and releases during the current year.

The ministries were unable to ensure correctness of the data and facts reported by the state governments. Over-statement of the figures of physical and financial performance by the state governments was rampant. No system of accountability for incorrect reporting and verification of reported performance were in vogue.

The Ministries were more concerned with expenditure rather than the attainment of the objectives. Large parts of funds were released in the last month of the financial year, which could not be expected to be spent by the respective state governments during that financial year.

The state government's attitude to the execution of the programs was generally indifferent. They laid emphasis on release of assistance by the ministry rather than ensuring the quality of expenditure and attainment of the objectives. Misuse of the funds provided for vulnerable sectors and sections of the society was rampant. The state governments' attitude towards such misuse was one of unconcern. The controlling Union ministries had no clue to such misuse. Thus, in many cases, the figures of expenditure booked in accounts assumed precedence over the bonafide and propriety of the expenditure.

Nobody could be held responsible for shortfall in performance, poor delivery of output, wanton abuse of the authority to misuse the funds provided for succor to the victims of calamity, economic upliftment of the poor Schedules Tribes, eradication of Malaria, sheltering from the suffering of repeated droughts, etc.'

Reasons for poor implementation

The Mid-term Review of the 9^{th} plan had gone in detail into the question of poor implementation of centrally sponsored schemes, and identified many reasons, such as:

There are too many schemes to be monitored. This has meant large and infructuous expenditure in the name of development. The Department of Agriculture has for instance about 150 budget schemes, including about 50 centrally sponsored schemes. The Divisional Commissioner, Kanpur identified 167 schemes being run at the block level, and he felt there were more schemes that were still to be added to the list. It was impossible, he felt, for the BDO to keep effective control on their proper execution. The number needs to be curtailed drastically so that systems for their monitoring can be developed.

There is unwillingness to accept poor performance, for fear of being questioned by Parliament or adverse press publicity. Senior officers feel that they would be taken to task if failures were admitted. Hence a vested interest develops up to the top to conceal shortcomings, and not encourage independent evaluation. Since weaknesses are not highlighted, no corrective action is taken to set them right. Due to vested interest all along the line in bogus reporting and no readiness to admit bad performance, the learning process of the organisation is blocked.

Since social sector schemes are implemented by the States, sensitivity associated with Center-State relations often precludes the Center from asking the States embarrassing questions. Moreover, Ministries are hesitant to monitor State sector schemes, although it may have important bearing on the sector with which the central Ministry is concerned. Even centrally sponsored schemes are not being adequately monitored by the central ministries. Funds are released in an indifferent manner without asking for utilisation of previous assistance. If financial monitoring is weak, the impact of funds on performance is hardly studied, and sustainability is never questioned!

Most schemes follow a blue print and top-down approach, with little flexibility given to field staff. Any change in the scheme requires approval from GoI which is time consuming. Uniformity of schemes all over the country from Mizoram to Kerala, without sufficient delegation to States to change the schemes to suit local conditions, leads to a situation where the States even knowing that the scheme is not doing well become indifferent to its implementation. For instance, in the Indira Awaas Yojana, it is compulsory to build toilet with the house for which a grant of 20 to 22,000 Rs is given. In many villages there is no arrangement for water, and hence these toilets were never used. However, States have not been given any discretion to change the pattern of funding. Similarly, there are regions in India, where labor is scarce, such as the north-east and Uttaranchal. However, public works are carried out in these regions too, for which the field staff employs labor from other regions, but records are fudged to show employment of local labor. It would be much better if the States have discretion in deciding the mix of poverty alleviation programs. However, GoI guidelines are rigid and give no such flexibility to the States.

Most government schemes are generally meant to continue till the end of the world, however the world may have changed in the meanwhile. Many CSS have been in operation for more than 10, and some even for 20 years. This period has seen several political parties in power at the Center and the States. The result is that the party in power has no sense of ownership with the existing schemes, although it also does not wind it up either because of bureaucratic resistance or sheer lethargy. Greater political advantage is seen in announcing new schemes on the 15th August or at the time of the budget, with the result that the number of schemes keeps on increasing. Often the old schemes are refurbished under a new name with some cosmetic changes to drive political mileage associated with the launch of a new scheme.

Many States are ruled by a political party different from that at the Center. These governments do not put their weight behind CSS formulated by the Union Government as they see no political advantage in successful implementation of such schemes. The successful implementation of social sector schemes requires a high degree of political commitment (mid-day meal scheme of Tamil Nadu, EGS in Maharashtra, Antyodaya in Rajasthan, and two rupee rice in Andhra are examples) and administrative coordination, which GoI cannot secure for want of control over the staff. The Planning Commission has observed that the implementation of State sponsored anti-poverty schemes in Rajasthan, Tamil Nadu, Gujarat, and Karnataka was far better than that of centrally sponsored programs in the same State.

States do not release the counterpart funds in time, leading to uncertainty about the availability of funds at the field level. Even the release of GoI funds to the field is held up for several reasons. First, the States have to get legislative approval for GoI schemes, which takes time. Second, States do not attach importance to spending on CSS, and thus are in no hurry to sanction expenditure. And third, fiscal problems at the State level force the States to divert GoI funds for paying salaries. States' burgeoning fiscal problems thus exacerbate this trend.

Routine has taken over the functioning of government at all levels. Little time is left for officers to initiate reforms or change schemes. With the best of commitment it often takes two years to get a scheme changed. In the meantime the officer gets transferred, and his efforts come to naught. Perception of short tenure dampens the enthusiasm to undertake reforms. Incentive structure is also weak. These and other governance issues are discussed in chapter 3 of the paper.

Is greater allocation for State plans the answer?

Despite these problems, it must be admitted that reducing funds for CSS and devolving more resources to the States for State plans may not always improve efficiency, at least in the poorer and badly governed States. In addition to the problems associated with CSS (poor monitoring, too many schemes) which are common to State sector schemes too, releases by the State Finance Departments in many States for their own schemes is highly adhoc, uncertain, delayed, and subject to personal influences. One important factor behind fiscal indiscipline is the artificially inflated approved plan of some of the States, which is often 50 to 80 per cent higher than the available resources[6], as seen below:

Table 3: Approved plans Vs Actual Availability of Funds for some of the States during the Ninth plan (1997-02) at 1996-97 Prices in crores

Name of the State	Sum of Approved plans during the Ninth plan	Actual availability of resources	Percentage of actual realization
Assam	8984	4054	45
UP	46,340	23,058	50
Bihar	16680	9885	59
Orissa	15000	9525	63
Rajasthan	22526	15009	66
MP	20075	14333	71

The wide gap between the approved plan and the resources plays havoc with fund releases for the sectoral schemes, which are often approved on the basis of the approved plan size, but for which resources are not in sight. Projects that need advance Planning or are completed in several years suffer very adversely. Even though financial sanctions are issued as per budget and plan provisions, the Treasury does not release money when the bills are presented. Finance Department issues formal/ informal instructions for not honoring the bills even though they may be within the budgetary provisions. There is also a system of issuing of CCL (cash credit limit) which becomes a major constraint.

The widening gap between outlay and resources weakens the link between physical targets and plan expenditure. Prioritization of schemes becomes adhoc. This distorts the development process and undermines the sanctity of the plan. Apart from this, it also makes the whole process non-transparent and prone to corruption. Bills for POL, TA, Electricity bills etc. keep pending for months discouraging officers to undertake

[6] In an official communication dated September 4, 1998 addressed to the Deputy Chairman, Planning Commission, the Comptroller and Auditor General of India commented, 'The size of the plan was beyond the States' capacity to implement. Our reports contain enough material on systematic transfer of funds from the Consolidated Fund to the Public Account because expenditure rates were much slower than transfer of resources' (MTR 2000).

journeys. Many times officers pay for POL from their own pocket, which encourages corruption. Such conditions of anarchy are hardly conducive to healthy financial management

Faced with the inordinate delays in releasing of money by the Finance Departments in the States, many Central Ministries, such as RD and Health have opted for releases to district or State level societies for receipt of funds directly from the Central government bypassing the state governments. While this may improve the flow of fund position to the field, ignoring State legislatures has long-term implications and is at best a temporary solution. In the long run we must improve the fiscal health of the States, so that credibility and integrity of the budget process is preserved.

Thus wholesale replacement of CSS by State sector (or by PRIs) is neither desirable nor politically feasible, at least for quite some time to come. GoI has employed huge bureaucracy in the social sector Ministries, and they resist any such reduction in their budgets. It may be recalled that following a direction from the NDC, several CSS schemes were sought to be transferred to the States. Planning Commission in Feb. 1999 prepared a list of schemes with an outlay of Rs 3709 crores annually which were proposed to be handed over to the States. But Ministries have been reluctant to transfer the schemes, and agreed to give up schemes worth only 163 crore and transfer to the States. In the meanwhile several new CSS have been introduced in the last four years.

A possible way out

A more practical solution and acceptable to all would be to reduce the number of schemes without hitting at the outlay of the Ministries by way of convergence and weeding out. This indeed was attempted in the terminal year of the Ninth plan, and of the 360 CSS in operation in the Ninth plan, Planning Commission recommended weeding out of 48 schemes, merger of 161 schemes into 53 schemes, and retaining the remaining 135 schemes, implying a carrying forward of 188 CSS to the Tenth plan. In some of the merged schemes, such as SSA (sarva shiksha abhiyan – a scheme for promoting elementary education) and macro management in agriculture Ministries have adopted a cafeteria approach whereby a cluster of CSS have been clubbed together under one umbrella scheme and the option to select schemes has been left to the the States as per their needs and priorities.

Time thus saved should be used by the central Ministries in capacity building, inter-sectoral coordination, and detailed monitoring of State sector projects. CSS compare unfavorably with EAPs as far as the practice of frequent reviews and evaluations are concerned. Third party reviews should be periodically undertaken as suggested in the next chapter.

In future, no Ministry should be allowed to run more than 3 or 4 CSS (this figure could be higher for large Ministries) and the outlay for each scheme should not be less than 100 crores a year. In 2001, less than 20 percent of the CSS had an outlay of more than 100 crores a year.

CSS funds should also be used for enhancing the budgetary allocation of successful development schemes that are being run by state governments on their own, or for meeting the State contribution for donor assisted programs for poverty alleviation and social infrastructure.

Finally, delays in financial sanctions are inherent in the very process of annual budget formation. It would be useful to take Parliament sanction of expenditure once for two years, so that continuity in releases is maintained. The annual budget could only be for receipts and taxation, and for new schemes in expenditure. This minor change in procedure will result in timely releases of financial sanctions.