SOCIAL WELFARE THROUGH CENTRALLY SPONSORED SCHEMES

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The constitutional mechanism of the Finance Commission and extra-constitutional mechanism of the now-defunct Planning Commission, which was created by a resolution of the Government of India in March 1950, were both created to address the problem of striking an equitable balance between the socio-economic growth of individual states and the disparity that exists between them. The Finance Commission strives to achieve this by transferring resources from the richer to the poorer states through the agency of the Central Government, while the Planning Commission sought to addressed this problem by allocating Central resources through its Five Year Plans to meet the growth needs of the individual states - by ensuring higher per capita allocation to the poorer states. During the 1950s and 1960s, about two thirds of the Central resources thus used to be transferred to the states through the Planning Commission, which share was subsequently reduced to little less than half before the Planning Commission was itself disbanded earlier this year.

Finance Commission recommendations cover both the vertical transfer from the Centre to the states as well as horizontal transfers among the states, from the richer to the poorer states, hence these are equalization transfers. Rangarajan and Srivastava (2011) pointed out that in the vertical transfer of resources from the centre to the states, there has been a long term stability. While the relevant shares and ratios have undergone changes, the relative shares of the centre and the States have more or less remained stable, especially since the Seventh Finance Commission (1979-84). They further pointed out that prior to the transfers, the Centre collected about 63-64% of the combined revenue receipts, while after transfers states get about 64% of the combined revenue receipts. The states spend nearly 57% of the combined revenue expenditure of the Centre and the states, while the centre spends only 43% of the combined revenue expenditure by retaining only 36% of the revenues.

Finance Commissions are constituted once in every five years under article 280 of the Constitution of India to recommend transfer of central resources to states by two mechanisms: transfer through devolution of taxes and transfer through grants, keeping in mind the redistributive considerations as well as fiscal needs of the states, while giving adequate importance to the consideration for incentives to be given to the states that perform better in terms of fiscal and financial management. The transfers are determined by the three guiding principles of ensuring equalisation, equity and efficiency. Mechanism for automatic devolution of high yielding union taxes to the states has been provided in the Constitution itself in the taxing powers of the union and the states as defined in the articles 270 and 272[1], while grants are to be given to the states under article 275 of the Constitution. While the devolution of taxes is made to reduce both the vertical imbalance between the Centre and the states in terms of availability of resources for development, as well as the horizontal imbalance between the rich and the poor states, the Central grants-in-aid to the states are recommended for bridging their non-plan revenue deficits, for local bodies and Panchayati Raj institutions, for disaster relief, management of environment and sustainable development, upgradation of standards of services and outcomes, for special purposes like health, education etc. as well as for state specific purposes. These are all non-plan transfers, while the transfers made at the behest of the

[1]Art 272 has since been repealed by 80th Amendment to the Constitution enacted for giving effect to the recommendations of the 10th Finance Commission.

Planning Commission are referred to as plan transfers. Constitution does not distinguish between plan and non-plan expenditure, it only provides for yearly transfers to the States in aid of their revenues from the Consolidated Fund of India in article 275 and recognises the need for different states requiring different amounts in respect of such transfers; plan transfers do not have any such statutory authority and are often discretionary in nature. These are made under article 282 of the Constitution which only enables grants to be given for any public purpose by the Union or the States, even if that purpose may not be within the legislative jurisdiction of the Centre or the States.

It has remained a matter of debate whether the plan grants are covered under article 275 mentioned earlier or 282.[2] As pointed out by Paranajape (1988), article 282 derived from section 150 the Government of India Act 1935 that was mainly used to enable the special Central assistance to Bengal in the wake of the famine of 1943; later ad-hoc grants were also made under this section to provide for special contingencies and to meet unforeseen expenditure needs. This is further supported by the fact that while article 275 is included under part XII of the constitution under the sub-title "Distribution of Revenues between the Union and the States" indicating the regular nature of such distribution, article 282 is included under the sub-title "Miscellaneous Financial Provisions", indicating the non-regular nature of transfers under this provision. Legally, therefore, a plan transfer that includes transfer of revenue from the Union on a regular basis should be covered under article 275 in keeping with the spirit of the constitution, and not under article 282 which gives unfettered discretion to the Centre, and a number of legal and constitutional experts have opined from time to time that it was not intended by the Constitution to be a channel of regular transfers and hence was illegal (Paranajape (1988), Vithal & Sastry (2001). But generally the accepted practice institutionalized by the successive Central Governments has been that while the Finance Commissions looked at the non-plan side of the revenue expenditure and made recommendations for grants to bridge the non-plan revenue deficits of the states, plan grants, revenue as well as capital, are recommended by the Planning Commission. While plan revenue expenditure pertains to revenue component of the different plan projects under execution, capital expenditure is overwhelmingly plan expenditure. The Central Government has also largely limited the role of the Finance Commission only to the examination of non-plan part of the revenue expenditure as indicated in the Terms of Reference of the Finance Commissions.

Distinction of expenditure into plan and non-plan components has again been a subject of debate during the last few decades and to resolve it the Planning Commission had appointed a "High Level Expert Committee on Efficient Management of Public Expenditure" headed by Dr. C Rangarajan which has since submitted its report in July 2011 in which they had recommended for removal of the distinction between plan and non-plan expenditure, leaving the Planning Commission only with the task of formulating the five year plans.[3] The Government is yet to accept this report.

It must be pointed out that states were more dependent on the Planning-Commission-allocated non-statutory transfers of a discretionary nature outside of the constitutional machinery for resource transfers through the Finance Commission because such non-statutory transfers used to constitute the bulk of total transfers to the states. George and Gulati (1985), in their study for the period from 1956-84, had pointed out that states' dependence on the Centre had increased over time as a major part of the total devolution of fiscal resources was dependent on Centre's discretion, further the nature of such dependence was also undergoing a change which

[2]Ninth Finance Commission took legal opinion and expressed the view that the plan transfers were very much within the purview of the Finance Commission and covered under article 275.
[3]Report of the Rangarajan Committee (2011), pp. 6-7

was not in keeping with the spirit of constitutional devolution. About 60 percent of the gross transfers to the states were effected by the Planning Commission during 1951-84, and the increase in the discretionary component was leading to increasing inequality in such transfers [(George & Gulati (1985)]. As shown by Khemani (2003) in his studies of inter-governmental transfers during 1972-95, allocation of resources by the Planning Commission was often influenced by political rather than rational economic considerations, with the result that the states ruled by the same political party at the Centre was often favoured by higher allocations. In the statutory transfers by Finance commissions, however, no such discriminations were noticed. Unlike the statutory transfers by Finance Commissions under article 275 mentioned earlier, Planning Commission transfers are discretionary by nature, and hence more vulnerable to political considerations. Singh and Vashishta (2004) also echoed similar observation in their study of the inter-governmental transfers during 1983-93, where they noticed states with more political relevance to the ruling dispensations at the Centre wielding greater bargaining powers with the Central Government. Paranjape (1988) rightly argued that the role of the Planning Commission as the most important extra-Constitutional allocator of resources was jeopardizing the Centre State relations in the matter of development planning and financing. Garg (2006) pointed out that Central assistance for the state plans have been used as the principal instrument of control of the states by the Centre for influencing them and for interfering with the states' autonomy.

In 1968, the Fifth Finance Commission was constituted by the Government of India to recommend the devolution of taxes and grants to the states for the period 1969-74. It submitted its report in 1969, where it noted huge disparities existing among the 17 Indian states. The richest state had a per capita income of Rs 619 and the poorest Rs 292 only; the largest had a population of 9 crore and the smallest only 4 lakh. It expressed concern that the need for equalization among the states demanded a more positive redistributive policy then simply dividing the grants on the basis of population – by taking the reality of the rich and poor states into account. In this context it correctly observed,

> The transfer of funds recommended by the Finance Commission can only partially fulfill the objective of equalization in view of the division of functions which now exists between the Planning Commission and the Finance Commission whereby the former looks after developmental needs and gives plan grants for this purpose. As the language of Article 275 stands, there is nothing to exclude from its purview grants for meeting revenue expenditure on Plan schemes nor is there any explicit bar against grants for capital purposes.
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> We are not, however, able to agree with this view as it would blur the entire division of functions between this Commission and the Planning Commission.[4]

Thus for the first time, it considered the Planning Commission transfers to look at the totality of funds at the disposal of the states before making its recommendations, though it was asked to recommend grants under article 275, 'other than the requirements of the Five Year Plan'. The terms of reference of the next finance commission made it abundantly clear the Commission was to look only into the non-plan maintenance expenditure on plan schemes completed earlier and into the non-plan capital gap of the states, keeping the plan expenditure out of its reach.

Central Plan Assistance and Gadgil Formula

States now are given Central Assistance for their Annual Plans and Five Year Plans under:

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[4]Report of the Fifth Finance Commission, Para 2.9, 1969.

(a) Normal Plan Assistance (NCA) for Central Plans and State Plans;

(b) Additional Central Plan Assistance for implementation of externally assisted projects;

(c) Additional Central Plan Assistance (ACA) for Centrally Sponsored Schemes; and

(d) Special Plan Assistance (SCA) that includes Special Central Assistance for Hill and Border Areas, North Eastern Council etc.

The Normal Central Plan Assistance (NCA) is given as per a formula which is known as Gadgil Formula since 1969, after Dr. D.R. Gadgil, the then Deputy Chairman of the Planning Commission. The origin of the formula can be traced back to 1965, when the need for a set of principles was emphasized by some Chief Ministers for allocation of Central assistance to states for the Fourth Five Year Plan. The Gadgil formula was adopted to introduce into the discretionary nature of the plan assistance some semblance of rationality that effectively curbed the absolute discretion the Centre enjoyed over such transfers. This formula has been revised from time to time and is now called the modified Gadgil Formula or the Gadgil / Mukherjee formula for determining the Central Assistance to a State (after Dr Gadgil and Shri Pranab Mukherkee, the then Deputy Chairman of the Planning Commission). Under this formula adopted since 1991, the Central Plan assistance is given to the States based on a combination of criteria having different weightages.[5]

Before the Gadgil formula was applied, the states used to get more resources from the Centre as loans and less as grants, plan and non-plan combined, leading to increasing indebtedness of the states. This situation was substantially changed since the Fourth Plan onwards, after the Central assistance started getting distributed as per the Gadgil formula [Goswami (2007)]. But the major contribution of the Gadgil formula has been to bring in discipline, transparency and objectivity in the plan transfers that severely attempted to limit the arbitrary discretion the Centre had hitherto enjoyed over these transfers. Of course the Centre would devise another way of exercising its discretion through the mechanism of the so called Centrally Sponsored Schemes.

Centrally Sponsored Schemes (CSS)

The CSS followed from the Directive Principles in the Constitution that enjoins upon the state to “secure a social order for the promotion of welfare of the people” (article 38), or, to provide for “early childhood care and education to children below the age of six years” (article 45), or the “right to work, to education and to public assistance in certain cases” (article 41). In fact, the Government of India Resolution of 1950 establishing the Planning Commission mentioned the Fundamental Rights as well as the Directive Principles of State policy in the Constitution that ‘the State shall try to promote the welfare of the people’ and asserted that the objective behind setting up of the Commission was to further the ‘declared objective of the Government to promote a rapid rise in the living standards of the people by efficient exploitation of the resources of the country, increasing production and offering employment opportunities’.[6] **However, no transfer of resources from the Centre to meet the needs of above is envisaged in the Constitution;** besides, the ad-hoc manner in which these schemes have been allowed to

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[5]30% of total Central Assistance is reserved for the 11 special category states. The rest 70% is distributed among the 17 general category states according to the following criteria with their respective weightages: (i) Population (1971): 60%; (ii) Per Capita Income: 25% (20% according to deviation method only for states with per capita income below the national average and 5% according to the distance method covering all States); (iii) Fiscal and Financial Performance: 7.5% (Tax effort: 2.5%; Fiscal Management: 2%; National Objectives: 3%, of which 1% each will be allocated for population control and elimination of female illiteracy; 0.5% each will be allocated on on-time completion of externally aided projects and success in land reforms); (iv) Rest 7.5 allocation will be on the basis of special problems of the states.

[6]Resolution No. I.P(C) /50 dated March 15, 1950 constituting the Planning Commission, Paragraphs 3 and 4.

proliferate without any rhyme or reason, or the way many of these have been and are being run raises legitimate doubts about the sincerity of their purpose and in their actual and potential use more for meeting the political ends of the powers that be than for the stated purpose of improving standards of public services to the citizens of the country.

The Centrally Sponsored Schemes which are initiated by the Centre *de facto* constitute a ploy by the Centre to indulge in exercising its discretion to make grants to states – a discretion that the Gadgil Formula apparently took away. As at the end of 2011-12, there were as many as 147 CSS operating in the country, despite transferring a large number exceeding this to the states during many previous times.[7]

Till the Fourth Five Year Plan, Central assistance was given to states for implementation of the plan schemes within the state's jurisdiction. Funds were allocated scheme-wise and the system lacked the requisite flexibility and efficiency for efficient and effective implementation of these schemes. A separate classification for CSS was introduced in the Fourth Plan. Before that, most schemes for which funds were given in the Central Plan but which were implemented by the states were later transferred to the states as part of the state plans. At the end of the third plan, there were 92 such plan schemes which were, so to say, 'assisted' or 'sponsored' by the Centre. A sub-committee of the NDC had considered the need for harmonizing their structure and funding patterns with the schemes run by the states in 1967 and recommended a reduction in their number. But instead the draft Fourth Plan included as many as 147 such schemes which were finally cut down to 90, with varying funding patterns by the Centre and the States (between 50% to 100% of Central funding). Another NDC Committee appointed in 1968 recommended for the CSS a ceiling of $1/6^{th}$ of total Central Plan Assistance to States, which were never heeded by the Central ministries which merrily went on increasing their numbers and bypassed this recommendation cleverly by treating them as 'Central Sector Schemes' though they were very much in the nature of CSS. This Committee also laid down the criteria for selection of a CSS, which mainly stipulated that they should relate to pilot projects, surveys and research; should have regional and inter-state character and an overall significance from the all India angle. From time to time, a large number of these schemes were transferred to the states and the resultant savings to the Centre were also transferred to the states as "Additional Block Assistance" based on the "Income Adjusted Total Population Formula".

During the 4th and 5th Plan periods, the administrative ministries went on introducing one CSS after another, ignoring the advice of the NDC Committee and the criteria for CSS laid down earlier and often without any justification. States did not object as all these were 100% financed by the Centre. When after the Emergency, the Congress Government was replaced by the Janata Government at the Centre, they terminated the Fifth Plan (1974-79) prematurely in 1978 while preparing to launch the 'Rolling Plan" and appointed a Committee to re-examine the running of the CSS. At that time there were 116 CSS, besides 74 other schemes of the same nature but called the Central Sector schemes in order to bypass the $1/6^{th}$ limit for CSS (Vithal & Sastry, (2002), p 59). The Committee consulted the states which argued that a proliferation of these schemes run by the centre had effectively shrunk the amount of Central assistance available for state plans while the Centre argued that but for these innovative schemes, the states' development would not be uniform. The Committee recommended that the CSS should be financed 100% by the in respect of certain health, family planning schemes and power projects, while in respect of CSS for rural and agricultural development and for weaker section, the cost

[7]Till March 1977, Central assistances for centrally sponsored schemes were released by the Ministry of Finance in 8 installments; since then Central Ministries have been releasing these funds directly to the State Governments or executing agencies.

should be shared by the Centre and the states. These recommendations were adopted in the Sixth Plan (1978-83) where 70 CSS were transferred to the State Plans.

The Sixth Plan was reformulated by the newly elected Congress Government for 1980-85, treating the previous two plans as annual plans. But the number of CSS continued to proliferate and by the end of the Sixth Plan, their numbers had risen to 201. Their allocation which was Rs 1238 crore in 1980-81, was also increased to Rs 9318 crore for the revised Sixth Plan (1980-85) representing 35% of the total central Assistance for state plans, far exceeding the 1/6th limit that was laid down earlier.

It was also seen that the developed states gained from CSS in terms of per capita plan assistance while, the backward states like Bihar, Rajasthan, UP and Orissa received much lesser per capita assistance than they otherwise would have got under the Gadgil formula due to the large number of CSS eating up a substantial chunk of the total Plan funds. Since most schemes required a matching grant from the States, states that were in a position to afford these grants reaped the benefits; some states of course gave its own part of contribution so as to attract the funds which they later diverted towards meeting their non-plan expenditure, mainly on account of salaries of their staff.

The NDC formed another Committee headed by Shri P V Narsimha Rao, the then Minister for HRD, in 1985 which added to the exiting criteria the condition that any CSS selected for implementation must fulfil an important national objective like poverty alleviation or providing the minimum standards of education, besides retaining 149 of the 262 schemes from the 6th plan period and removing any limit for outlay on the CSS. But the criteria recommended were so broad that it rather facilitated the continued proliferation of the CSS which went on as shown in Table 1:

Table 1: Centrally Sponsored Schemes

Plan Period	No. of CSS at the end of the plan	Total Allocation of Central funds (Rs Crore)
4th Plan (1969-74)	90	6145
5th Plan (1974-79)	190	6357
Annual Plan (1979-80)	201	9318
6th Plan (1980-85)	262	15757
7th Plan (1985-90)	125	14104
8th Plan (1992-97)	236	29483
9th Plan (1997-2002)	360	99001
10th Plan (2002-07)	188	229762
11th plan (2007-12)	147	660506

(Source: 4th to 8th Plan: Vithal & Sastry (2002), p. 19; 9th Plan onwards: B K Chaturvedi Committee Report on the Restructuring of CSS, Planning Commission (2011), p. 18)

As Vithal & Sastry observed,

> The original exercise at the time of the Gadgil formula first set a limit of 1/6 of total central assistance for State Sector Plan and then specified what type of schemes could be formulated within this limit. What all needed is now to reiterate their limit and ask some groups to decide schemes within that limit…..(2002, p. 76).

But the resistance to this came mainly from the Central Ministries dealing with State List, Ministries that had grown in size because of these schemes. And there lies the crux of the problem. These Ministries do want to see any shrinking of their turfs; these are mainly the ministries of Agriculture, Health and Rural Development etc. These are the Ministries that

handle thousands of crores of rupees of allocations under the CSS that they can dole out to the rural electorates, creating and using a niche for their political masters. During 2012-13, these 3 ministries alone consumed Rs 1.91 lakh crore, or 13% of the total expenditure budget of the Union. These Ministries have grown in size essentially on the CSS implemented by the States, and they are the ones that most strongly resist the scrapping of these schemes. No Government irrespective of the political dispensation that is in power would be likely to give up such easy privileges for buying votes. Besides, many of the flagship schemes run by the Central Government also were also used as failsafe conduits to divert public money to party or private funds. The system was also playing havoc with state budgets since almost 60-70% of the total grants received by the States from the Centre passed outside their budgets directly to the executing agencies of the CSS, which could be autonomous Government organizations or NGOs or a combination of the two, and in the process the normal budgetary and accounting controls that regulate any Government expenditure were done away with, since any expenditure that is not passing through the treasuries would not be captured in the accounts compiled by the Accountants General of a state. In fact till today, there is no database in existence which would give up-to-date information about all the CSS running within a State – their number, the money spent on these or the benefits from them that have accrued to the people. It is a typical case where public money is spent ostensibly on public purposes but outside the machinery of public accountability system ensured and enforced by the State government budget, accounts and Legislative or Parliamentary Committees – and all this in the name of economic and social welfare of the weaker sections of our society!

The 360 CSS at the end of 9th Plan consumed about 60% of total Central Assistance provided to the states. For the 10th Plan, the Planning Commission under a zero-base budgeting exercise had weeded out 48 schemes, besides merging 161 schemes into 53 and retaining the remaining 135 schemes, making a total of 188. For the 11th Plan, of the total allocation of Rs 6.6 lakh crore for 147 schemes, the 9 flagship schemes (IAY, MNREGA, PMGSY, TSC, NRDWM, NRHM, ICDS, SSA and MDM) alone consumed Rs 5.24 lakh crores or 79.4% of the total allocation. Consequently, as a result of much higher allocation to CSS, and also due to the fact that after the Twelfth Finance Commission recommendations, the Centre was only giving grants and not grants as well as loans as it used to give to the States earlier, the NCA to the States came down to 6.74% of the Centre's Gross Budgetary Support (GBS). The pattern of Central assistance also varied from 100% to 90% for NE States, 65% in SSA, 75% in IAY and a number of other schemes. One Expert Group headed by Shri Arvind Varma appointed in October 2005 recommended that all CSS funds should be routed through the State budget and hence subjected to the usual checks exercised by the Accountants General (Audit). This was of course found unacceptable by the Planning Commission which recommended establishment of a scheme-wise reliable information system with the help of the Chief Controller of Accounts attached to the Ministries. What was not mentioned was that the Ministries would not accept any independent authority exercising oversight functions over what they considered their exclusive turf.

A committee headed by Shri B K Chaturvedi was set up in April 2011 - it submitted its report in September 2011. Its major recommendations are:

(i) CSS with outlays less than Rs 100 crore made no national impact and hence should be weeded out or merged with other schemes;

(ii) Their number should be reduced to 59, categorized into:

  (a) 17 flagship schemes to address major gaps in health, education, irrigation, rural and urban development etc. including the existing 9;

(b) 39 CSS classified into major sub-sectoral schemes to address sub-sectors of the major sectors like agriculture, education etc and sector umbrella schemes to improve the effectiveness of plan expenditure; and

(c) 11 ACA/ CSS schemes including 8 flagship schemes (AIBP, NSAP, JNNURM, RKVY, R-APDRP, RGGVY, BRGF), besides the existing 9;

(iii) NCA should not fall below 10% of GBS; except in case of new flagship schemes, all CSS would be 100% Centrally funded; and

(iv) "Efforts must be made to gradually move over to transfers through the State budgets…..Transfer mechanism should be worked out, so that over a period of Twelfth Plan all transfers are routed through State Governments and not directly to the independent societies at the State or district level." The 2014-15 now had adopted this approach..

Like the Rangarajan Committee report as mentioned earlier, the Chaturvedi Committee Report is also yet to be accepted by the Government. Till 2013-14, there were only 137 centrally sponsored schemes. Some semblance of reason was sought to be brought in later by restructuring these into 66 schemes, including the 17 Flagship programmes with significant outlays, for the remaining years of the ongoing 12th Plan (2012-17). It was also decided to abolish the direct transfer of funds for centrally sponsored schemes to agencies that were implementing these schemes in the states without routing the funds through their budgets. But much more needs to be done, in terms of integrating and streamlining these programmes further by coordinating, monitoring and directing their deliveries towards specific, target-oriented and time-bound outcomes. A suitable accountability architecture which is missing also needs to be created.

As pointed out earlier, article 282 has often been misused by the Centre to make discretionary transfers which were against the spirit of the Constitution. The Centre has often used the plan transfers as a means of exercising control over the states. The transfers under this article often lacked transparency. The intrusion of an extra constitutional authority like the Planning Commission into the working of Finance Commission in respect of transfer of resources from the Centre to the states through the means "discretionary transfers" as opposed to "statutory transfers" violates the principles of federalism implicit in the financial relations between the Union and the States as defined in the Constitution of India. The situation is made murkier by the implementation of numerous Centrally Sponsored Schemes (CSS) which include the flagship schemes of the Central Government on which astronomical sums are spent each year, often with questionable justifications. All these constitute a politically maneuvered aberration in the Indian financial system and in fact, an assault on the fiscal federalism principles. This aberration was further eroded by the direct fiscal transfers by the Centre outside the States' budgets and accounts, bypassing the internal controls that are inherent in budget execution and accounting. They not only render the process illegal and unconstitutional, they dilute and undermine the authority of the States. These direct transfers under the CSS have been burgeoning since the last few decades and now constitute between one-half and two-thirds of the total Central grants coming to the States.

Table 2 shows such transfers during the last 5 years, from which it is seen that the total amount of Gadgil Formula transfers form a miniscule part of the total Central plan transfers to States, barely amounting to 10% of the total transfers during the last 4 years and the current year (budget estimates). Direct transfers far exceed the Central assistances for State plans and the total amount of transfers in respect of Central Plan and Centrally Sponsored Plan Schemes that

is routed through the State budgets is a small part, barely 30%, of the total transfers under the Plans. It makes a mockery of the principles of federalism in fiscal and financial relations between the Union and the States; and not simply that. There seems to be a pattern in systematically and deliberately increasing the extra-budgetary transfers at the cost of budgetary transfers. The transfers under Gadgil formula have suffered the most; their share in total transfers over the last 3 plans (ninth to eleventh) has gradually fallen from 35% during ninth plan to only 10% during 11th plan, while the share of direct transfers has increased from 20% to 52% over the same period. It was a way of making sure that the Gadgil transfers that limited the discretion of the Centre were rendered ineffective, and to remind the States of their dependence upon the Centre. The plan funds routed through the state budgets constituted only 29% of the total transfers of the State, another glaring example of disregarding the autonomy of the States.

Table 2: Central Plan Assistance to States (Excludes UTs with/without Legislature

Rs Crore

	2008-09 Actuals	**2009-10 Actuals**	**2010-11 Actuals**	**2011-12 RE**	**2012-13 BE**
Central Assistance for State Plans, of which	73,611	79,157	89,747	101,105	124,249
NCA as per Gadgil formula	**15948**	**17,442**	**20,008**	**21,831**	**25,589**
Additional Central Plan Assistance to States for Central and Centrally Sponsored Schemes passed through State Budgets	50,319	49,604	55,163	61,275	78,507
Special Plan Assistance including Special Central Assistance for Hill and Border Areas etc.	7,344	12,111	14,576	17,999	20,153
Direct Transfer of Central Plan Assistance to State/ District Level Autonomous Bodies / Implementing Agencies outside budget	83224	90,520	118,740	112,803	133,358
Percentage of Direct Transfers in Total Transfers	51.92	51.72	56.06	51.74	50.64
Percentage of Gadgil Formula Transfers in Total Transfers	9.95	9.97	9.45	10.01	9.72

(Source: Union Budget 2011-12 and 2012-13: Expenditure Budget, Vol. I, Statements 16 to 18.)

Some interesting trends are noticed in this. First, the statutory transfers under Finance Commissions' recommendations initially constituted only one third of the total transfers during the first plan period, this proportion has gradually increased to 53% during the 10th and 11th plan periods. Still about half the total transfers take place through non-statutory mechanism of the Planning Commission. Second, the non-discretionary Plan assistance to states (under Gadgil Formula and other transfers tied to specific projects) use to dominate the total plan transfers, but the proportion of such transfers in the total transfers have declined progressively, with the result that now the discretionary transfers, most of which are extra-budgetary, account for the bulk of such transfers.

On account of huge funds allocated under the ill-conceived, ill-designed and poorly implemented Centrally Sponsored Schemes in the name of social welfare, Union budgets are increasingly becoming statements of subsidies doled out in the name of the poor and passed on the to the states as grants, without appropriate monitoring and control mechanisms. In 2008, Mr Chidambaram magnanimously granted the Agricultural Debt Waiver and Debt Relief Scheme 2008 under which Rs 60000 crore of debt owed by the marginal/ small farmers were waived. A recent CAG report on the implementation of this scheme pointed out how the funds meant for debt relief to farmers were diverted to benefit the private micro-financing institutions.[i] Inefficient designs and inadequate controls in respect of most flagship welfare

schemes like MNREGA would result in similar leakages and large scale misappropriation of public funds.

Thankfully the first step has been taken to stop all these aberrations that have long plagued our fiscal and financial systems by disbanding the anachronism called Planning Commission that enjoyed unrestrained and illegitimate authority to play with taxpayers' money. The next logical step would be to transfer all Centrally Sponsored Schemes to the states along with all resources meant for them. The State would then decide which ones they would need to implement and how. That would also signal the end of existence of all Central Ministries dealing with state subjects that consume a substantial portion of the taxpayers funds and dole these out in the name of centralized welfare to buy votes, money that otherwise could create productive capacities in the economy to serve the cause of social and economic welfare much better.

The newly constituted Niti AAyog must devise an efficient mechanism for monitoring and evaluating the implementation of these programmes by the States. On this primarily will depend whether it truly becomes what its name suggests - the National Institution for Transforming India.

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