ACCOUNTABILITY INITIATIVE
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CENTRE FOR POLICY RESEARCH

The Future of Centre-State Relations for Social Sector Programmes: A Discussion Note
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Background

The last two decades have seen a proliferation of Centrally Sponsored Schemes (CSS) as the key mechanism of financing social sector programmes by the Union Government. CSS are specific purpose fiscal transfers from the Union government to sub-national state governments intended to address infrastructure and human development needs in the country. During the 11th Five Year Plan, CSS constituted 42 percent of total Union Governments Gross Budgetary Support, up from 31 percent during the 9th Five Year Plan.

Most CSS have two key features. First, CSS are typically designed by the Union Government, and funded by it either entirely or in part with States, whilst States (and in some cases local governments) are responsible for execution and implementation. Most often, the guidelines for execution are extremely rigid and follow uniform norms across the country, resulting in a one-size fits all approach with limited flexibility for States and local governments. Second, most CSS mandate a strong role for local governments and communities in planning processes, implementation and monitoring through creation of local level committees (such as School Management Committee (SMC), or Village Health and Sanitation Committee (VHSC)). However, weak capacity at the grassroots level and rigid guidelines has rendered the planning process inefficient and often even redundant. Consequently, the implementation of CSS has been riddled with accountability failures.

Recognition of these weaknesses in implementation has resulted in a number of sub-committees, including the B.K Chaturvedi Committee and the Rangarajan Committee, calling for a consolidation of CSS and provision of increased flexibility to States. In 2014, following the recommendations, 10 percent of allocations were deemed to be converted into Flexi-funds, to enable states to undertake new innovative schemes in the particular area covered by the CSS.

In December 2014, following repeated requests from States, the Fourteenth Finance Commission paved the way for a radical re-haul of the inter-governmental fiscal transfer system. Specifically, the FFC increased the tax devolution to states from 32 percent to 42 percent of the divisible pool of Union taxes.

This has two important implications. First, states now have an additional Rs. 1.8 lakh crores in untied funds—money they can use as they choose—compared with the previous financial year. To put this in perspective, in 2010-11, tax devolution to states accounted for 44 percent of total transfers from the Union. In 2015-16, this is as high as 62 percent. In addition, grants-in-aid recommended by the 14thFinance Commission, adding up to 13 percent of total transfers, have also been made substantially untied, relative to previous Commissions. Second, central tied grants, which in 2010-11 accounted for 46 percent of total transfers to states, now account for 25 percent. This has resulted in a significant reduction in financial support by the Union government for social sector programmes in Budget 2015, a decrease in the number of CSS and talk of a changed sharing ratio for some existing CSS, with states being required to put in additional amounts. (*See Table 1 below*)

Table 1: Union Budget: CSS Categorisation

Type of Scheme	No. of Schemes	Change from last year
Discontinued/delinked from Central support though states can continue to fund (Backward Regions Grant Fund, Jawaharlal Nehru National Urban Renewal Mission, National E-Governance Plan, Rajiv Gandhi Panchayat Sashaktikaran Abhiyan, National Scheme for the modernisation of Police)	8 + 16	-100%
States will need to shoulder a greater share of resources (Integrated Child Development Services, National Health Mission, Sarva Shiksha Abhiyan, Rashtriya Krushi Vikas Yojna, Swachh Bharat Mission)	24	-44%
Centre to continue to bear full share (Mahatma Gandhi National Rural Employment Guarantee Scheme, National Social Assistance Plan, Member of Parliament Local Area Development Scheme, Integrated Child Protection Scheme)	31	0%

Source: Union Budget 2015-16

These changes have raised many serious concerns about the implications of the reduced spending on the social sector. Concerns have been raised with respect to equity, the need to safeguard national priorities, state capacity as well as the ability of states to finance key social sector programmes.

As the debate on what the future holds for social sector spending in the states evolves, it will become imperative to ensure that the key weaknesses and challenges that existed in implementation of social sector programmes are not repeated. Accountability Initiative has been working on tracking social sector spending across key CSS. The next section looks at some of the past trends and points to key challenges that have existed in implementing CSS.

Key Challenges of Implementation of Social Sector Programmes

1) ***Mismatch between State priorities and Union Government allocations***

   Financial and administrative implementation of most CSS is tightly controlled by the Union government, which determines priorities within schemes through a mechanism of approval of plans at a line-item level. Previous data trends for schemes indicate that there are large gaps between plans proposed by States and approvals by the Union. Consequently, budgetary allocations rarely reflect needs and priorities on the ground, resulting in difficulties in implementation and spending

   In 2014-15, for instance, the Union government approved only 58 percent of total proposals by States for the Sarva Shiksha Abhiyan (SSA). Similarly for the National Health Mission (NHM), 81 percent of proposed funds for Reproductive and Child Health (RCH) Flexipool and less than 60 percent for Mission Flexipool were approved.

   Specifically for Rajasthan, in 2013-14, only 67 percent of funds proposed by the state under SSA were approved. Similarly, for NHM, only 34 percent of funds for RCH Flexipool and 44 percent for Mission Flexipool were approved in 2014-15.

2) ***Delays in release of funds by Union Government***

These gaps in planning are exacerbated by the fact the fund-transfer system for CSS is extremely opaque and slow. There is usually a significant mismatch between budget allocations and the funds that are actually released. Even when funds are released, there are significant delays, resulting in money reaching the service delivery point towards the end of the financial year. Lack of transparency in fund flows means that different levels (states, districts and the service delivery point) have no prior information on the quantum and timing of money they will receive making it difficult to plan spending.

For instance, in 2014-15, till February the Union Government had released only 33 per cent of total budgeted allocations for the Swachch Bharat Mission (SBM), and only 15 percent in the first two quarters of the financial year. Similarly, only 29 per cent of allocations were released for the NHM in the first quarter of the 2014-2015, whilst 43 percent had been released for SSA.

Specifically for SSA in Rajasthan, while the state government released more than its share in 2012-13, the Union government released only 65 percent. In 2013-14 too, only 88 percent of the Union government's share and 77 percent of the state government's share was released.

Delay in release of funds to states, has consequences at the school level as well. Data collected and analysed by Accountability Initiative in collaboration with the ASER Centre, reports that even annual school grants do not reach every school. At an All India level, only 80 percent of schools received school maintenance grant (SMG) and 68 percent the school development grant (SDG) in 2013-14.

Rajasthan fares lower with only 51 percent of schools receiving the SMG and 53 percent receiving the SDG in 2013-14. In terms of timing, between April-September (halfway through the financial year), only 29 percent of schools in 2014-15 received the SMG and 31 percent received the SDG.

Table 2a: Do School get their grants?

% of schools which received:	**All India**	**Rajasthan**
Maintenance grants in 2011-12	86	80
Maintenance grants in 2013-14	80	51
School Development grants in 2011-12	79	70
School Development grants in 2013-14	68	53

Source: PAISA National Report 2014 (in collaboration with ASER)

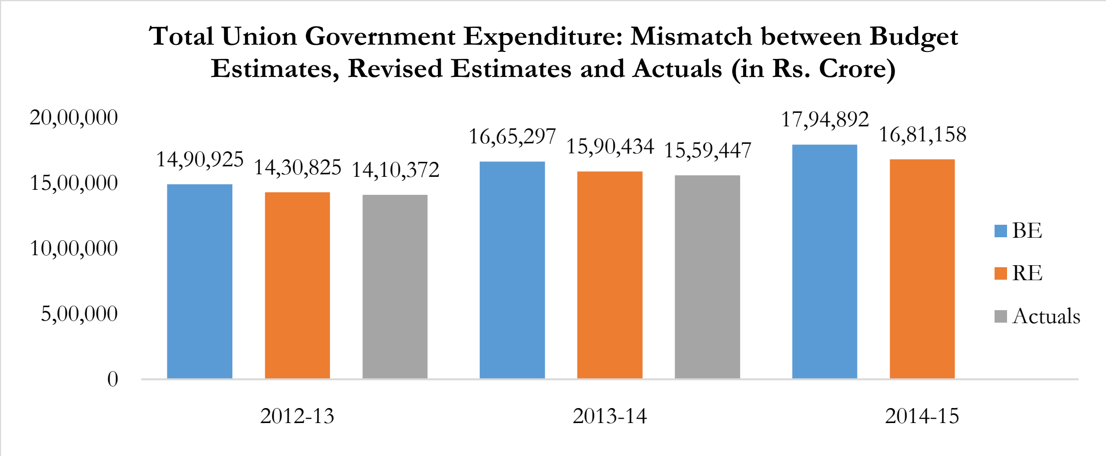
Table 2b: When do Schools get their Money?

% of schools which received:	**All India**	**Rajasthan**
Maintenance grants in Apr - Sep 2012	56	17
Maintenance grants in Apr - Sep 2014	41	29
School Development grants in Apr - Sep 2012	51	13
School Development grants in Apr - Sep 2014	34	31

Source: PAISA National Report 2014 (in collaboration with ASER)

3) Difficulties in Expenditure

Most states find it very difficult to spend their allocated budgets in any given year, resulting in a mismatch between budget estimates (anticipated requirement at the start of the financial year), revised estimates (including expenditure incurred till December and expected expenditure till March) and actual expenditures.



Source: Union Budget

If one looks at specific ministries, between April 2007 and March 2013 for instance, of the Rs 1.69 lakh crores allocated for the Ministry of Health and Family Welfare, only 69 percent was spent. Similarly, for Ministry of Human Resource Development, 90 percent of allocated funds were spent in 2013-14.

Delay in release of funds and weak capacity to spend results in large unspent balances across schemes and states. In Rajasthan for instance, at the start of financial year 2013-14, 300 crores of uncommitted unspent funds were available under NHM. Similarly, the SSA in Rajasthan spent only 85 percent of funds available in 2013-14.

4) Lack of linkages with outcomes

Finally, one of the greatest limitations of the past model of financing has been the lack of linkage between finances and outcomes. Data on performance—whether learning levels, usage of sanitation facilities or quality of health facilities—is rarely collected. Even when data exists, it is not part of the annual planning exercise. Consequently, the entire delivery architecture—whether financed through the centre or states — is incentivised to plan, budget and spend money with no consideration for the outcomes of this spending.

Conclusion

The proposed effort to restructure CSS in line with the 14th Finance Commission's recommendations is a unique opportunity to address some of these imbalances. With States bearing a larger share of these schemes, the Union will need to be more flexible and allow States to design and implement schemes according to their needs and priorities. Even schemes that are deemed to be of national priority, such as the SSA or the NHM, will have to be re-designed. It is our contention that a well-designed restructuring can go a long way in addressing these concerns. The trick is going to be how to balance State autonomy with a focus on social sector priorities.