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Reforming Centrally Sponsored Scheme

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This article is based on “Leaning on the states” which appeared in The Indian Express on 24/09/2019. It talks about the restructuring of centrally sponsored schemes.

Recently, the union government has amended the terms of reference (ToR) issued to the Fifteenth Finance Commission, asking it to examine a **separate mechanism for funding of defence and internal security**.

The amendment is based on the rationale that if Union government is required to contribute through Centrally Sponsored Scheme (CSS), on the matters of the State List, then the states too should contribute to items like defence in the Union List.

It has triggered a debate to relook at the assignment system and redesigning of the CSS.

What is CSS?

- The constitutional assignments between the central and subnational governments in federations are done broadly on the basis of their **respective comparative advantage**.
 - The subjects pertaining to National Importance like defence, communication are in the federal domain.
 - Public services which directly affect the public are in the domain of sub-national governments. For example, subjects like education, health etc,
- However, **due to the inadequacy of funds**, financing is done either fully or partially by the Union to ensure that a **minimum standard** of such services is provided across the country.
- Therefore, in the Indian context apart from special grants, the Union government provides two kinds of financial help to states i.e. **Central sector (CS) and Centrally sponsored scheme (CSS)**.

- The difference between a CS and a CSS is that for the former, all expenditure is borne by the Union government. For a CSS, part of the expenditure is borne by the Union government and states bear the rest.
- The CSS is a **shared cost programme** and is meant to ensure a minimum standard of service across the country.

Should CSS be re-looked?

- The present CSS basket has an expiry date of March 31, 2020, which is **co-terminus with recommendations of the 14th Finance Commission**.
Therefore, from April 1, 2020, we will have a new CSS basket and government needs to plan for that CSS basket in advance since the 2020-21 Union and state budgets will need to factor in the new CSS basket.
- The ToR for the 15th Finance Commission mentions a re-examination of CSS.
The Commission may consider proposing measurable **performance-based incentives for states**.
- NITI Aayog's 2015 Sub-Group of Chief Ministers also recommended rationalisation of CSSs. "Rationalisation" suggests more than restructuring. It implies a rationale for the continuation of existing schemes, scrapping of some, and even introduction of fresh ones.
- According to the former Planning Commission's 2001 **B K Chaturvedi report**, restructuring in CSS should be done, to resolve some of the structural problems:
 - CSS has **multiple objectives** and service delivery standards are not clearly defined.
 - In principle, there should be consultations with states in designing the schemes, **but this is hardly done**.
 - "The **one-size-fits-all**" approach cannot succeed in a large and diverse country like India.

Should States financially contribute to the matters of Union list

Constitutionally it is permissible as, under Article 282, both the Union or a State through the law may make any grants for any public purpose, to each other.

- However, defence is a **national public good**. Therefore, it is the primary responsibility of the Center to defray the cost of protecting all the people of the nation.
- Expenditure responsibilities of the states are much larger than their revenue potential. Asking states to share defence expenditure will result in erosion of critical welfare schemes.

Way Forward

- Restructuring and Rationalisation of CSS, should not mean mere rearrangement. As it has been observed over the period of time that most of the CSS have been repackaged and retained.
- Since the schemes are implemented by states, they should have substantial flexibility to ensure that the schemes benefit the targeted groups.
- Restructuring of the CSS which will entail constitutional amendment in Seventh Schedule should be done after thorough deliberations with all stakeholders.
- This revision should not be done without consultation with states, **Interstate Council** can be the ideal platform to discuss these issues.

Drishti Mains Question

There is a need for revision of the assignment system and redesign of centrally sponsored schemes. Discuss.