



CSS and Fiscal Federalism

For Prelims: [Centrally Sponsored Schemes \(CSS\)](#), [Fiscal Federalism](#), [Article 282](#), [Articles 270 & 275](#), [Finance Commission](#), [Appropriation Act](#), [Consolidated Fund of India](#), [Planning Commission](#), [NITI Aayog](#), [Seventh Schedule](#), [Inter-State Council](#). .

For Mains: Centrally sponsored schemes (CSS) and issues arising from their implementation.

[Source: FE](#)

Why in News?

The Centre cut the **2025-26 centrally sponsored schemes (CSS)** outlay to states by **Rs 91,000 crore (18% of the budget estimate for the schemes)** after finding **Rs 1.6 lakh crore in unspent funds** from past transfers.

- Many states have termed this decision as **contrary to fiscal federalism** and raised questions on the **viability of Article 282**.

What is Article 282?

- About Article 282:** It allows both the **Union and States** to make grants for **any public purpose**, even if the purpose is **outside their legislative jurisdiction**.
 - Unlike **tax devolution (Articles 270 & 275)**, grants under **Article 282** are **discretionary** and **not** bound by [Finance Commission \(FC\)](#) recommendations.
 - Initially intended for **unanticipated contingencies**, successive central governments have used it to introduce **CSSs**.
 - Articles 270 and 275** mandate that the FC determines the States' share in Union tax revenues.
- Judicial Stand:** In the **Bhim Singh Case, 2010**, the [Supreme Court \(SC\)](#) upheld the **Union's power** to provide **discretionary grants** under **Article 282**, even beyond **FC recommendations (Article 275)**.
 - Grants can be made **even for subjects beyond Parliament's legislative competence**, provided they serve a **public purpose**.
 - Citing **Ram Jawaya Kapur Case, 1955**, the SC ruled that [Appropriation Acts](#), authorizing expenditure from the [Consolidated Fund of India \(CFI\)](#), legally justify grants under **Article 282**.

How CSS Pose Challenge to Fiscal Federalism?

- Discretionary CSS Funding:** Grants under **Article 282** the Union or a State can grant funds for any **public purpose**, even if it lacks legislative authority over it.
 - The [NITI Aayog](#) 2015 (like earlier [Planning Commission](#) which guided grants though they lacked constitutional status), continues to influence CSS design.
- Erosion of States' Fiscal Autonomy:** CSSs have **strict fund utilization conditions**, limiting

states' flexibility to adapt them to local needs.

- E.g., under the [Poshan Abhiyaan](#), States cannot modify target groups or key nutrition indicators.
- **Resource-Expenditure Asymmetry:** The [15th Finance Commission \(2021-26\)](#) highlighted the Union holds **63% of resources but spends 38%**, while **states get 37% but bear 62% of expenditure**.
 - It makes states **reliant on CSS funds** and limit state-specific initiatives.
- **Prioritization Issues:** CSS funds require states to provide **matching grants, diverting their resources** from state-priority sectors.
- **Threat to Cooperative Federalism:** During Constitutional debates, [Dr. BR Ambedkar](#) emphasized a **co-equal partnership** between the Union and states but over-reliance on discretionary CSS grants undermines the constitutional intent of [cooperative federalism](#).
 - E.g., CSS guidelines mandate **“branding”** to highlight **central leadership**, reinforcing central control.
- **Pushing Union’ Policies:** CSSs have increasingly been used as **political instruments** to control states.
 - E.g., the Ministry of Finance’s **2022 guidelines** included a **Rs 50,000 crore interest-free loan** for states willing to disinvest public sector enterprises, a move opposed by several states.
- **Proliferation of CSS Funding:** CSS fund releases rose from **7.5%** of total transfers in **2014-15 to 47% in 2022-23**, reducing FC recommended transfers.
 - As opposed to the [Seventh Schedule of the Constitution](#), many CSSs operate in areas under the [State List](#), leading to Central encroachment into State jurisdictions.

What is CSS?

- **About:** CSSs are **jointly funded** by the Centre and states, **implemented by states**, and cover sectors under the **State and Concurrent Lists** of the Constitution.
 - They **supplement the efforts of State Governments**, as the **Central Government has greater financial resources**.
 - All transfers to States for CSSs are being routed through the **Consolidated Fund of the State**.
- **Types:** CSS is divided into **three main categories**:
 - **Core of the Core Schemes:** These schemes are the **most crucial** for social inclusion and protection. E.g., [MGNREGA](#).
 - **Core Schemes:** These schemes focus on **various developmental sectors** such as **agriculture, infrastructure, education, health, and rural development**.
 - E.g., [Mid-Day Meal Scheme](#) (School Nutrition Programme), [Pradhan Mantri Gram Sadak Yojana](#) (Rural Roads) etc.
 - **Optional Schemes:** States are **free to choose** the ones they wish to implement.
 - Eg: [Border Area Development Programme](#) etc.
- **Funding Pattern:** The Centre allocates about **12%** of its budget to **CSS**, with funding shared in **varying** Centre-State ratios:
 - 60:40 (Majority of Schemes)
 - 80:20 (Some Schemes)
 - 90:10 (For North-Eastern & Special Category States)
- **Difference Between CSS and Central Sector Schemes:**

Feature	Centrally Sponsored Schemes (CSS)	Central Sector Schemes
Implementation	By State Governments	By Central Government
Funding Source	Shared funding (Centre & State)	Fully funded by Centre
Examples	MGNREGA , PMAY , Swachh Bharat Mission	National Rural Health Mission , PM-KISAN

Way Forward

- **Judicial Clarity on Article 282:** The SC should **evaluate** whether **CSS** affects **federal balance** and establish the special circumstances under which **discretionary grants can be**

used.

- **Rationalisation of CSS:** Merge similar CSS into effective **Umbrella Schemes** and conduct **regular impact assessments** to eliminate ineffective ones.
- **Review Funding Mechanism:** Revise the **fund-sharing pattern** to ease states' financial burden, especially for **general category states**, and restore support for backward regions after **Backward Regions Grant Fund (BRGF)** discontinuation.
- **Strengthening Cooperative Federalism:** Establish regular **Centre-State consultations** via the **Inter-State Council** and **NITI Aayog**, and grant states more flexibility in **adapting CSS to local needs**.

Drishti Mains Question:

Discuss the impact of Centrally Sponsored Schemes (CSS) on fiscal federalism in India. How do discretionary grants under Article 282 affect states' financial autonomy?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which of the following statements is/are correct regarding Smart India Hackathon 2017? (2017)

1. It is a centrally sponsored scheme for developing every city of our country into Smart Cities in a decade.
2. It is an initiative to identify new digital technology innovations for solving the many problems faced by our country.
3. It is a programme aimed at making all the financial transactions in our country completely digital in a decade.

Select the correct answer using the code given below:

- (a) 1 and 3 only
- (b) 2 only
- (c) 3 only
- (d) 2 and 3 only

Ans: (b)

Q. Consider the following statements: (2011)

In India, a Metropolitan Planning Committee

1. is constituted under the provisions of the Constitution of India.
2. prepares the draft development plans for the metropolitan area.
3. has the sole responsibility for implementing Government sponsored schemes in the metropolitan area.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only

(d) 1, 2 and 3

Ans: (a)

Mains

Q. How have the recommendations of the 14th Finance Commission of India enabled the States to improve their fiscal position? (2021)

Q. The concept of cooperative federalism has been increasingly emphasized in recent years. Highlight the drawbacks in the existing structure and the extent to which cooperative federalism would answer the shortcomings. (2015)

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