

CHAPTER-II

HISTORICAL PERSPECTIVE

2.1 The practice of providing Central Assistance to the States to finance development schemes had been in vogue even before the advent of Five Year Plans. On the termination of the World War II, the Central and the Provincial Governments had embarked on certain development projects which received Central Assistance in the form of what were known as post war development grants. Though some of these grants were stopped by 1950-51, grants for schemes like Grow More Food Scheme continued. In the First Five Year Plan, many schemes which should have appropriately found place in the State sector were included in the Central sector because the exact distribution of their financial liability had not been decided upon. Some such schemes/projects taken up in the first Plan were multipurpose river valley schemes like Damodar Valley, Bhakra Nangal, Hirakud and community development projects and projects for special minor irrigation, local works etc. However, there was no clear criterion for distribution of Central Assistance to the States.

2.2 At the commencement of the Second Five Year Plan, majority of the schemes for which funds were provided in the Central sector and were implemented by the States outside their plan, were transferred to the State and included in the State Plans. As per Second Plan, there were large transfer of resources from Centre to States as the resources of all the States taken together were estimated to be short of the requirement by as much as 60%. Similar was the case in the Third Plan also. However, the

Central Assistance in the first three Plans to the States was determined on the basis of needs, problems, past progress, lags in development, contribution to achievement of major national target, potential for growth and contribution in resources by States towards their development programmes, population, area, level of income etc. The quantum of Central Assistance was decided in the light of gap in resources of each individual State.

2.3 At the end of the Third Five Year Plan, there were as many as 92 development plans sponsored by Centre, of which 35 were under Agriculture (including cooperation), 16 under General Education and the rest under other heads of development. For most of these schemes, the prescribed patterns were rather complicated. For a number of such schemes the staffing patterns, scales of pay and designs of buildings, equipment etc. were laid down which were often at variance with those prevalent in the States. The matter was considered by sub-committee of the NDC constituted in 1967 which recommended reduction in number of Centre assisted schemes to minimum. The Committee approved the following criteria for the classification of Plan schemes as Centrally Sponsored:

- (i) A limited number of important schemes to be implemented as matters of national policy such as Family Planning, Resettlement of landless agricultural workers;
- (ii) Schemes such as those for specialized research and training which would benefit more than one State or might be of all-India significance;

- (iii) Pilot projects for research and development;
- (iv) New schemes introduced after the Plan has been finalized.

2.4 The Planning Commission had discussions with the Central Ministries and 36 schemes originally classified as Centrally Sponsored in the Draft Outline of the Fourth Five Year Plan were transferred to the State sector. Accordingly the number of CSS in the Fourth Plan stood at 90, as against 147 included in the Draft Fourth Five Year Plan. The funding pattern for the various schemes differed. Of the total schemes, 59 CSS were eligible for 100% assistance, 12 schemes for 75%, 3 schemes for 60% and 15 schemes for 50% assistance outside the State Plans. Many States observed in the NDC meetings that the pattern of assistance has resulted in inequitable distribution of Central Assistance as better of States were able to get more funds compared to other States (Annexure-II). Accordingly, concept of block assistance for State Plans was introduced.

2.5 In 1968, the NDC Committee recommended a cap on the value of the Centrally Sponsored Schemes as $1/6^{\text{th}}$ of the Central Plan assistance to States. However, the Central Ministries continued to introduce new schemes and the financial limit came to be exceeded. The number of CSS increased from 45 in 1969 to 190 at the end of the Fifth Five Year Plan. Considering the criticism voiced by States in the NDC at the time of consideration of Sixth Five Year Plan, large number of CSS (72) were transferred to the State sector as part of the State Plan schemes and the resultant savings of about Rs.2,000 crore were given to the States as additional block assistance on a formula known as Income Adjusted Total Population Formula. However, the Sixth Five Year Plan also witnessed

proliferation of CSS both in terms of number and quantum of funds. The number of CSS increased to 201 at the end of the Sixth Five Year Plan in 1985. The total assistance of Rs. 9,318 crore was allocated to CSS, 35% of total Central Assistance to States. This assistance was provided scheme-wise.

2.6 The State Governments again raised the issue of proliferation of CSS in the 32nd Meeting of the NDC while discussing the approach to the Seventh Five Year Plan in July, 1984. In the meeting, the Prime Minister and Chairperson of the NDC opined that “Managing the flexibility in implementing various plan schemes is easier said than done. There could be areas within States which needed special attention but the special problems of such areas should not hold back the overall programme of development. However, with the cooperation of the States, it needs to be seen how this flexibility could be managed.”

2.7 To resolve various issues concerning CSS, NDC constituted an Expert Group under the Chairmanship of Shri K. Ramamurty. The Group looked into various issues relating to CSS particularly need for revision of ceiling in regard to total assistance for CSS and for reducing the number/coverage of schemes as well re-examination of criteria for introducing a CSS. The Expert Group suggested the following criterion for CSS:

- (i) It should relate to demonstration, pilot project, survey and research; or
- (ii) It should have a regional or inter-state character; or
- (iii) It should aim at building an institutional framework for the country as a whole or for a region; or

- (iv) It should be in the nature of pace setter with a definite timeframe within the objectives outlined and sought to be realized.

3. NDC – Sub-Committee

3.1 The Report of the Group was considered by NDC in November, 1985 and it was felt that the criteria suggested by the Expert Group are too broad and that fulfilment of an important national objective as one of the criterion. Accordingly, NDC constituted a Committee under the Chairmanship of Shri P.V. Narsimha Rao, Minister of Human Resource Development, to review the criteria for taking up new CSS; ceiling of 1/6th or 1/7th of Central Plan Assistance for CSS keeping in view the plan objective of poverty alleviation and employment generation; consultation mechanism for starting new CSS; examination of CSS under implementation with a view to drop or transfer some of them with the modalities of transfer of funds involved and suggesting periodical review mechanism for schemes transferred to State Plans etc.

3.2 The Committee in its very first meeting in November, 1986 approved a set of modified criteria for the retention of existing and initiation of new CSS as indicated below:

- The fulfillment of an important national objective such as poverty alleviation or minimum standards in education; or
- The programme has a regional or inter-State character; or
- The programme or scheme should be in the nature of a pace setter or should relate to demonstration, survey or research.

3.3 As for the existing CSS, the Committee felt that schemes of national importance viz. anti-poverty programmes, rural water supply, family welfare and programmes intended to promote human resource development and sustain improvement in quality of life like education which were of national importance may be retained as CSS. Schemes other than those having high national importance could be considered for transfer to the State Plans. As for the new schemes, the Committee recommended that they should be introduced with the approval of the Full Planning Commission.

3.4 The Committee constituted a Group of officials headed by Shri J.S. Bajjal, the then Secretary, Planning Commission to work out the details, in the light of above guidelines, regarding retention of CSS, mode of transfer of schemes to State Plans, allocation of outlays for the scheme proposed to be transferred. After intensive consultation with all stakeholders viz. Central Ministries/Departments and State Governments, the Group evolved a definition of CSS and decided to exclude the schemes funded by autonomous bodies. The Group felt that area development schemes were in the nature of Special Central Assistance to State Plans and need not be considered as CSS. It decided to omit NEC, Tribal Area Plan, Border Area Development and Hill Area Development Programme etc. from the scope of CSS. The total CSS after merging, weeding and dropping came to 236. The main recommendations contained in the report of Group of Officials submitted in 1987 are as under

- (i) The total number of CSS under implementation as on 1st April, 1985 is 262. Excluding 24 schemes being implemented by autonomous bodies, the Group recommended the transfer of 113 schemes

involving a Seventh Plan outlay of Rs.1,260.72 crore to the States. 125 schemes with a Seventh Plan outlay of Rs.14,104.17 crore are to be retained.

- (ii) The transfer should be effective from the Eighth Plan. If transfer is desired from an earlier date, it could be from 1st April, 1988 for the remaining two years of the Plan. The updated figure of Rs.800 crore available for 113 schemes to be transferred could be distributed to the States according to the modified Gadgil Formula.
- (iii) Central assistance to the States in respect of transferred schemes should be governed by the formula applicable to Central assistance to State Plans in the Eight Plan period. The Special Category States should, however, continue to enjoy the special dispensation as here-to-fore.
- (iv) All the retained schemes should be critically examined and evaluated with regard to their thrust and content before their inclusion in the Eighth Plan. This examination should be carried out by the administrative Ministries/Departments in consultation with the Ministry of Finance and the Planning Commission.
- (v) States should have flexibility in the matter of implementation of schemes to enable them to achieve the objectives in a cost effective manner keeping in view the special conditions and circumstances of each State.
- (vi) There should be no mid-plan introduction of schemes. In other words, all the schemes to be implemented in a given Plan period should have been included in the Five Year Plan. In exceptional

cases, new schemes may be introduced to meet any emergent situation or to give effect to a new thrust in national policy (e.g. New Education Policy) but these should, as far as possible, be 100 per cent Centrally funded.

(vii) There should be prior consultation with the States not sectoral but with Finance and Planning Departments before introduction of new schemes and financial arrangements should be carefully worked out if the schemes are not 100 per cent Centrally funded. In order that a broad view may be taken instead of a sectoral one by a particular Ministry, all new schemes should be approved by the full Planning Commission.

(viii) The Group felt that while it is necessary to limit CSS both in terms of number and financial outlays, it may not be practicable to lay down any ceiling. A rigorous procedure for fulfilling the criteria proposed by the NDC Committee, prior consultation with the States and approval of the Full Planning Commission should however, ensure that the propensity for proliferation of schemes is kept in check.

3.5 The Final Report of the Narsimha Rao Committee, submitted in 1988, incorporated the above recommendations. The report was considered in NDC meeting in 1990 wherein the Prime Minister and Chairman of NDC stated that the Government was actively considering decentralisation of the CSS but felt that such decentralisation should not be restricted to Centre and State capital alone but percolate down to Panchayat level or at appropriate level associated with a particular scheme for the benefit of the people.

3.6 The recommendations of the Narsimha Rao Committee to transfer 113 CSS to States with a combined Seventh Plan outlay of Rs.1,260.75 crore formed the basis of discussions on Central Assistance through CSS in the 43rd NDC meeting held in December, 1991. NDC decided that the exact pattern of funding for each CSS transferred to the States would be maintained at the 1991-92 level and that the Central share of funds for the transferred scheme would be released to the State outside the formula of Central assistance. The then Deputy Chairman, Planning Commission also indicated that the Commission was willing to transfer more responsibilities to the States provided they are willing to take up the same. It was reaffirmed that only those schemes that have inter-state or regional character or are in the nature of pace setter and ones relating to setting of demonstration or research project would be taken up by Centre.

3.7 The issue of provision of Central Assistance to States through CSS and rationalisation of CSS with the objective of providing flexibility to States continued to be discussed in successive NDCs. The NDC in its 46th meeting observed that States did not indicate to the Planning Commission the usefulness or otherwise of the 113 schemes identified for transfer to the States even after lapse of two years. The NDC provided an option to the State Governments to revive defunct schemes in consultation with Planning Commission and observed that all the schemes should be transferred with resources. It was also decided that new CSS would be initiated with the approval of the Full Planning Commission. All the CSS were to be transferred as per the pattern of financing which prevailed before the transfer of these schemes.

3.8 The issue of transfer of CSS to the States along with resources again came up for discussion in the 47th NDC meeting held in January, 1997. While discussing the Draft Approach to the Ninth Five Year Plan, several Chief Ministers (Punjab, Delhi, Tripura, UP, Haryana) desired that CSS along with funds may be transferred to the States particularly relating to those sectors which come within the purview of the State List. However, the Central Ministries kept introducing new schemes. The total number of schemes increased to 360 in the last year of Ninth Five Year Plan and accounted for about 60% of Central assistance. NDC observed that the better off States benefit more through the CSS as they have better resource matching and implementation capabilities compared to poor States.

3.9 The Planning Commission undertook Zero Based Budgeting (ZBB) exercise in the beginning of the Tenth Five Year Plan and 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.

3.10 The divergence of opinion on the issue of transfer of CSS was visible in the 48th meeting of NDC in February, 1999. It transpired that this divergence of opinion was not only among the States but also between the States on the one hand and the Central Ministries/Departments on the other. The differences pertained not only to the selection of schemes to be transferred but also to the modalities of transfer e.g. Chief Minister, Andhra Pradesh suggested abolition of all CSS with transfer of funds to the States in true spirit of cooperative federalism. Chief Minister, Arunachal

Pradesh proposed that Union Government should finance 100% CSS. Chief Ministers of other NE States suggested retention of few important schemes as CSS and others to be transferred to States with full funding. The issue of providing flexibility in usage of Central Assistance through CSS was raised by Bihar. The NDC decided to constitute a Sub-Committee under the Chairmanship of Deputy Chairman, Planning Commission. The Status Report of Sub-Committee of NDC on transfer of CSS was placed before the NDC in 49th meeting in 2001 wherein NDC directed Planning Commission to take note of suggestions made by Chief Ministers for identifying more schemes for transfer to the States with flexibility.

4. Varma Committee

4.1 Subsequently, on the recommendation of the 51st NDC meeting the Planning Commission set up an Expert Group in October 2005 under the Chairmanship of Shri Arvind Varma, ex- Secretary, GoI to develop concrete proposals for restructuring the CSS in consultation with the Ministries/ Departments concerned. The Committee in its report submitted in September, 2006 recommended that:

- (a) A new CSS should be introduced only with the approval of the Full Planning Commission and in consultation with States.
- (b) Planning Commission should undertake ZBB exercise at least once every five years in consultation with the States.
- (c) A new CSS should be approved only if annual outlay is more than Rs.300 crore. Existing CSS with less than Rs. 300 crore annual outlay should be wound by 31st March, 2007 and the amount transferred to the States via the Normal Central Assistance route.

- (d) Planning Commission should notify terminal dates, targetted outcomes and outcome measurement strategy for all existing CSS. All new CSS should have start and closure dates, and in the absence of a specified date of closure, would come to a close at the end of that Plan period. The issue of terminal liabilities should be addressed by the Central and State Governments around the time of termination of the CSS.
- (e) All CSS funds should be routed through the State Budget. In the interests of practicality, States should make provision in anticipation of the Central releases.
- (f) Any funds not transferred via the State budget should be subject to annual expenditure certification by the Indian Audit and Accounts Department like all CSS for which funds are released through the State budget.

4.2 The Expert Group Report was considered by the Planning Commission while preparing the Eleventh Five Year Plan. The need for providing adequate flexibility in the design of CSS taking into account the State level realities and priorities was recognised but the transfer of CSS to States and UTs was not found desirable since CSS are designed to serve specific national objectives cutting across States/UTs. It was felt that the ZBB exercise of reducing CSS from 155 in 2006-07 to 82 in 2007-08 would serve the purpose. Planning Commission recommended development of scheme-wise reliable information system with the help of Chief Controller of Accounts attached with each Ministry at CGA level with the objective of monitoring scheme-wise, State-wise releases and expenditure.

4.3 The issue of proliferation of CSS, top down approach, provision of flexibility to States to mould schemes according to local requirements, flow of funds, accountability, enforceability, implementation, involvement of PRIs etc. continue to be relevant even today. These issues pose a challenge to both policy planner and the implementing agency viz. Central Ministries/Departments and State Governments. To address some of these concerns, Planning Commission had constituted a sub-committee under the Chairmanship of Shri B.K. Chaturvedi, Member, Planning Commission, to look into the restructuring of CSS to enhance its flexibility, scale and efficiency, vide Order No. M-12043/4/2011-PC dated 5th April, 2011. (Annexure – VIII)