

Design Elements of Centrally Sponsored Schemes: An Explanation for Variability in Centre-State Fund Transfers

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States receive transfers from the centre through the Finance Commission (FC), (erstwhile) Planning Commission and from the central ministries which run the central sector (CS) and centrally sponsored schemes (CSS). While FC transfers are largely formulaic, transfers by central ministries are not determined through a formula and have remained “discretionary”.

Discretionary transfers to states, co-incident with the presence of coalition governments at the centre, have led to a debate in academic literature about whether political considerations may affect discretionary transfers in India. However, the data findings have not been conclusive. We present an alternative view of how the inherent design elements of scheme-based transfers can create differentials in the transfers to different states. Using the examples of two major schemes in India, we attempt to identify design level rigidities that could potentially lead to differences in state-level transfers.

I Introduction

The per capita transfers received by different states from the centre show a huge variation. Examination of data on fourteen large states reveals that the average total transfers per capita received by Haryana from 2004-2005 to 2013-2014 stood at only ₹ 1720 whereas that received by Odisha stood at ₹ 3648 (Table 1). The total transfers received by states are from three routes: Finance Commission (FC), (erstwhile) Planning Commission (PC) and from the central ministries which run the central sector (CS) and centrally sponsored schemes (CSS). While FC transfers are largely formulaic, PC transfers increasingly became more formula-driven over a period of time. However, transfers by central ministries to drive the central sector and centrally sponsored schemes in states are not determined through a formula and have remained “discretionary”. Discretionary transfers to states, co-incident with the presence of coalition governments at the centre, have led to a debate in academic literature about whether political considerations may affect discretionary transfers.