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**Issues and Challenges of Fiscal
Federalism in India: An Analysis on
the Centrally Sponsored Schemes**

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Issues and Challenges of Fiscal Federalism in India: An Analysis on the Centrally Sponsored Schemes

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Abstract

Intergovernmental transfers from the union government to the states are crucial for addressing the vertical and horizontal fiscal imbalances that characterize India's federal structure. The fundamental mismatch between the revenue capacity and expenditure needs of sub-national governments necessitates an uninterrupted flow of these transfers. These transfers operate through two main channels: unconditional and conditional transfers. The unconditional transfers are recommended by the Finance Commission (FC), these include tax devolution and general-purpose grants-in-aid. Whereas, the conditional transfers are provided through the Centrally Sponsored Schemes (CSS) and Central Sector Schemes by various union ministries, these are specific-purpose, conditional grants. The present study analyses the structure of these conditional and unconditional transfers over time. The study finds a considerable increase in non-statutory (tied) transfers, particularly evident after the abolition of the Planning Commission. The CSS constitute the largest portion of these non-statutory grants. Although the number of CSS has increased over time, the overall financial allocation has fallen during the last few years. A significant structural shift occurred in 2023-24: the number of CSS schemes was first raised to 75 and then further to 82, while the previous rationalized categorization of 'Core of Core' and 'Core' schemes was simultaneously discontinued. The state wise analysis shows that states such as Kerala, Haryana, and Punjab receive the lowest per capita CSS amount compared to other states. The problem is compounded by implementation issues, as evidenced by the significant gap between the budgeted and actual CSS flows to Kerala. The fundamental issue remains that CSS are often uniformly designed, suffering from the widely criticized 'one size fits for all' approach. The increased reliance on tied transfers raises the important concern of whether the diverse developmental needs and regional

specificities of the states are adequately taken into account while designing and implementing these centralized schemes.

Key Words: Vertical and Horizontal Imbalance, Federal fiscal relationship, Finance Commission grants, Non-statutory grants, Centrally Sponsored Schemes (CSS)

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1. Introduction

Fiscal federal transfers are critical for the development of sub-national governments in federal countries like India. India's federal system operates within a framework where fiscal powers are shared between the union and state governments. However, the design of this fiscal federalism is fraught with long-standing issues and challenges that continually shape inter-governmental relations. Inter-governmental transfers are intended to provide public goods and basic services across different regions, guided by principles of equity and efficiency (Bird and Smart, 2002; Kohli, 2024). The twin problems associated with fiscal federalism are the vertical and horizontal fiscal imbalances (Rao & Singh, 2004; Kelkar, 2019; Ramakumar, 2024; Mohan & Ramakumar, 2024; Chakraborty & Chakraborty, 2018; Chakraborty, 1998; Rangarajan & Srivastava, 2008). Like in other federal countries, growing fiscal imbalances in resource sharing pose a major challenge for India as well. In the Indian federal set-up, transfers include general-purpose and specific-purpose transfers. The general-purpose transfers are recommended by the Finance Commission (FC), a constitutional body, while specific-purpose transfers are routed through various Union Ministries (Gupta et al, 2025; Rao, 2017). Tax devolution is based on criteria developed by the FC, which currently (under the Fifteenth FC) weighs factors such as demographic performance, income, population and area, forest and ecology, and tax and fiscal efforts (Finance Commission, 2019).

The grants-in-aid include statutory Finance Commission grants and non-statutory grants. The non-statutory grants, in turn, include Centrally Sponsored Schemes (CSS), Central Sector Schemes, and other grants. While statutory grants are generally

unconditional, the non-statutory grants are largely discretionary in nature (Rao, 2017). These fiscal imbalances raise several concerns regarding the developmental needs of the states, as resource transfer plays a significant role in their revenue mobilization. This is particularly important at a juncture where state-level development is key to meeting the targets of Sustainable Development Goals (SDGs) and other national development indicators. This context has become even more significant following the abolition of the Planning Commission and the subsequent removal of plan grants to the states. Of late, many discussions have centered on the growth of discretionary transfers, issues pertaining to the central design of schemes (often criticized as a 'one-size-fits-all' approach), and their impact on state finances (Varghese and Anilkumar, 2023 & Kumar, 2022). Given this context, the present study explores the nature and composition of federal transfers in India by examining both general-purpose and specific-purpose transfers to the states. Specifically, the study analyzes in detail the structure of discretionary transfers, mainly focusing on the Centrally Sponsored Schemes (CSS) and their changing nature in India.

2. Review of Studies

The review of literature presented in this study covers both the analytical and empirical works on different aspects of the fiscal federalism such as constitutional provisions on resources sharing, vertical and horizontal fiscal imbalances in resource devolution and issues pertain to the conditional and unconditional grants.

2.1 Analytical Studies

The theory of fiscal federalism is anchored in Richard Musgrave's three functions of the public sector: allocation, distribution, and stabilisation. Specifically, the allocation function, which advocates for the decentralized provision of public goods to better match with local preferences and needs, owes a significant intellectual contribution to the work of Wallace Oates. Despite these theoretical underpinnings, the major practical issue confronting fiscal federal transfers is the presence of vertical and horizontal fiscal imbalances. In India, these twin problems are the results of both the constitutional assignment of powers and the subsequent execution of federal fiscal arrangements over time. These imbalances have been consistently high and, in fact, have been increasing (Mohan & Ramakumar, 2024). The vertical imbalance arises from the delink between revenue-raising and expenditure requirements between the union and states, which affects fiscal responsibility and management at both levels (Rao & Sen, 1995).

The horizontal imbalance, on the other hand, stems from the difference in fiscal capacities and fiscal needs among sub-national governments, resulting in varying resource gaps across states. The persistent spending pressure, combined with insufficient revenue generation at the state level, has further intensified states' reliance on intergovernmental transfers. Although several reforms have been adopted, a satisfactory resolution to India's fiscal imbalances remains elusive today (Darshini and Gayithri, 2024). The Indian Constitution provides the primary mechanism for resource sharing. According to Article 270 (post-80th Constitutional Amendment), the net proceeds of all taxes levied by the union government excluding surcharges and cesses are shareable with the states. However, transparency in the calculation of these net

proceeds has been a point of concern (Ramakumar, 2024). The Article 280 mandates the President of India to appoint the FC every five years. Based on its terms of reference, the FC recommends the portion of the divisible pool to be devolved and each state's share of the devolved amount (Karthik and Christabell, 2023; Gupta, et,al, 2025). Subsequent FCs has progressively refined the devolution criteria in an attempt to address the existing fiscal imbalances.

Overall, the transfer of resources to states comprises tax devolution, statutory grants (under Article 275 based on FC recommendations), and discretionary grants. These transfers are further classified into tied (conditional) and untied (flexible) grants. The tied grants come with specific schemes and conditionalities, leaving state governments with no flexibility in spending. An example is the Centrally Sponsored Schemes (CSS). Whereas, the untied grants such as tax devolution and FC-recommended post-devolution revenue deficit grants, have no conditionalities attached, allowing states greater autonomy. While statutory grants (both tax devolution and unconditional grants) are decided by the FC, the non-statutory (discretionary) grants are provided by respective union ministries (Isaac et al., 2019). The quantum of these discretionary transfers is often influenced by factors like fiscal performance, economic capacity, and political alliances (Nayak and Satpathy, 2021).

The existing literature offers a rich debate on the design and impact of these transfers. Unconditional transfers (like tax devolution) are praised for promoting state autonomy, as they allow states to allocate funds according to their own priorities. In contrast, conditional transfers are earmarked for specific purposes and cannot be diverted. Conditional transfers, particularly the

CSS, are frequently criticized because states are often compelled to invest in central schemes to secure funding, even if those schemes do not align with their unique developmental needs or priorities (Varghese and Anilkumar, 2023; Saxena et al, 2023; Das and Mitra, 2013).

2.2 Empirical Studies

The state governments in India are heavily dependent on union transfers to meet their growing expenditure requirements, a situation that highlights the severe vertical fiscal imbalance. As quantified by the 15th FC, the union government generates 63% of resources but accounts for only 38% of the expenditure, while the states, generating only 37% of revenue, are burdened with 62% of the expenditure. Addressing this and the associated horizontal and developmental imbalances, Kelkar (2019) argues for a fundamental re-examination of the existing fiscal federal system, including constitutional provisions for sharing GST proceeds with local self-governments. Empirical evidence underscores the severity of this issue: a study on 24 major Indian states (1995-96 to 2014-15) revealed that a one percentage point decline in Vertical Fiscal Inequality (VFI) corresponded to an average 15 percentage point decline in the state governments' primary deficit as a proportion of Net State Domestic Product (NSDP) (Koley & Mandal, 2019).

A major factor exacerbating the vertical imbalance is the union government's increasing reliance on cesses and surcharges, for which no constitutional provision mandates sharing with the states. Though originally intended as temporary measures to mobilize resources for specific schemes, their share has recently surged to between 25% and 30% of the union government's gross

tax revenue. This practice significantly reduces the size of the divisible pool. For instance, a case study on the education cess highlights the strain: while state governments contribute a significant 15% to 20% of their total expenditure to education, the union government accounts for less than 10%. Furthermore, nearly half of the Union Ministry's education expenditure is raised through this cess, which is a substantial one-fourth of the total public expenditure on education (Union and States combined) (Motkuri & Revathi, 2023). This mechanism raises critical questions about how states are expected to raise additional resources to meet their growing educational obligations.

While tax share and grants-in-aid are crucial for state development, the mechanism designed to address horizontal fiscal imbalances is also subject to criticism. The devolution criteria used by the FC, which are meant to ensure the equitable provision of public services at comparable costs, have been criticized for ignoring state-specific factors in favour of common ones like population, poverty, and backwardness (Sarma, 1997). Specifically, the use of old population census data and per capita Gross State Domestic Product (GSDP) for measuring income distance has been largely criticized (Srivastava, 2010). The FC attempts to achieve equity by assigning a higher weight to the income distance criterion, assuming that per capita income positively correlates with fiscal capacity. However, empirical evidence suggests the opposite: that fiscal capacity often declines with rising per capita income, effectively penalizing high-income states through the income distance criterion (Joseph & Kiran, 2025). Even after post-fiscal adjustments, the revenue gap still persists in a majority of states due to growing expenditure needs and poor revenue performance. Despite these challenges, analysis for the period 1981-82 to 2016-17 shows that some states, like Odisha,

Karnataka, Tamil Nadu, and Uttar Pradesh, have made strides in reducing their basic resource gap, with Odisha being a notable outperformer in reducing fiscal dependency. Conversely, states like West Bengal, Punjab, and Kerala face higher levels of debt and guarantees (Darshini and Gayithri, 2024).

Beyond tax devolution, grants-in-aid play a significant role in states finances. However, the most debated issue regarding grants in recent times is the design and implementation of Centrally Sponsored Schemes (CSS). These grants are intended to bridge vertical fiscal imbalances, yet the major criticism is the union government's tendency toward a 'one-size-fits-all' central design and uniform implementation across all states. This approach is problematic because Indian states have attained different levels of development and possess varied spending priorities. For example, a socially developed state like Kerala has achieved high levels of development in sectors like education and health. Consequently, basic schemes aimed at primary improvement in these social sectors may not align with its specific, advanced developmental needs. Similarly, all other states have unique requirements and priorities that are often overlooked by centrally-designed, discretionary schemes.

3. Data Sources

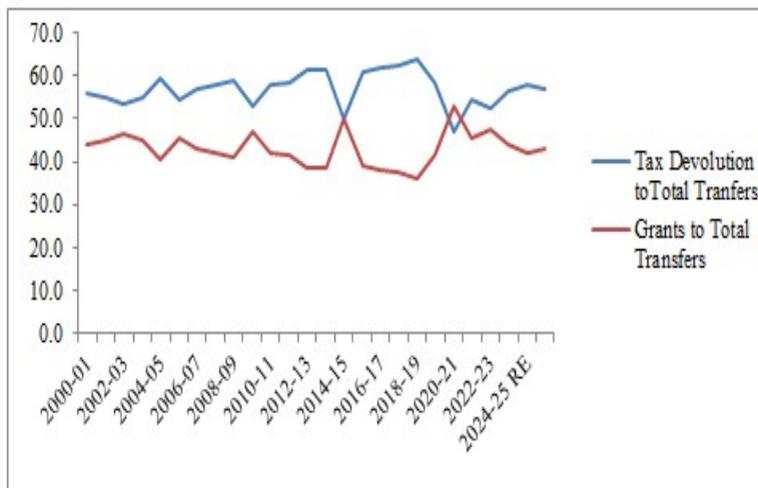
The data for this study were drawn from the publications of Controller and Auditor General (CAG) and the state governments. Information on Finance Commission (FC) grants and non-statutory grants, along with the total expenditure of the union government, was sourced from the Budget at a Glance, published annually as part of the Union Budget documents (Government of India, various years). Scheme-wise and total

Centrally Sponsored Schemes (CSS) data were collected from the Expenditure Profile section of the Union Budget (Government of India, various years). To analyze state-level variations, state-wise CSS data were compiled from the Finance Accounts of the respective state governments, published by the Additionally, specific budgeted CSS information for Kerala, Karnataka, and Tamil Nadu was gathered from their respective state budgetary documents: the Budget in Brief (Government of Kerala), Budget volumes (Government of Karnataka), and Budget documents (Government of Tamil Nadu). The data on budget outlay of CSS for the period 2024-25 has been collected from the Annual Plan Proposals 2024-25, Kerala State Planning Board, Government of Kerala.

4. Resource Transfers to the States by the Union Government

As discussed above, transfers to the states comprise tax devolution and grants from the Union government. Figure 1 illustrates the changing share of these two components in the total transfers from the Union to the states. In 2000-01, tax devolution constituted the larger share at 56% of total transfers, with the remaining 44% being grants-in-aid. While tax devolution generally remains the higher proportion, grants-in-aid temporarily surpassed it in 2020-21, accounting for 53% of the total transfers compared to 47% for tax devolution. Since then, however, tax devolution has shown an increasing trend while the share of grants-in-aid has declined.

Figure 1: Transfers from the Union government to the States in India (in percentage)



Source: Authors' construction using Budget at a glance, Union Budget, various years, Government of India

Note: A-Accounts, RE-Revised Budget and BE-Budget Estimate

4.1 Statutory and Non-Statutory Grants

The grants from the union government to the state governments are classified into two types: statutory and non-statutory grants. The statutory grants are recommended by the FC and are referred to as non-plan grants. These include a set of transfers such as post-devolution revenue deficit grants, grants for local bodies (rural and urban), grants for the health sector, grants for the incubation of new cities, grants for shared municipal services, and grants-in-aid for disaster relief (SDRF and State Disaster Mitigation Fund), along with schemes under the Provision to Article 275(1) of the Constitution. In contrast, non-statutory grants are tied (conditional) grants and cannot be used for

purposes other than those specified. This category encompasses Centrally Sponsored Schemes (CSS), Central Sector Schemes, assistance to states from the NDRF, externally aided projects, special assistance (as loans for capital expenditure or under the demand-transfer to the states), and special central assistance to tribal areas (Union Budget, 2025-26).

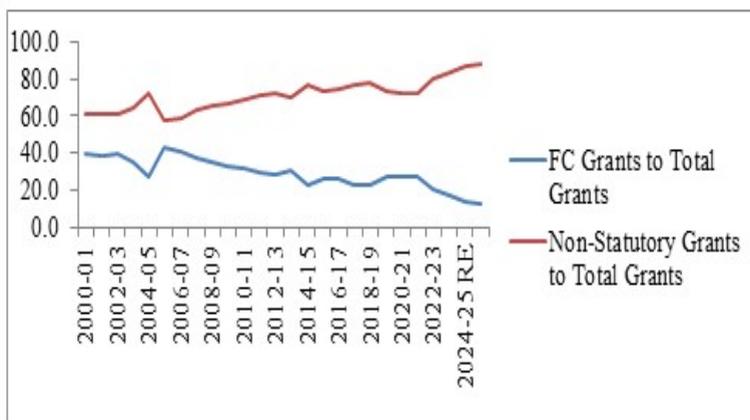
As shown in Table 1, the share of non-statutory grants in the union government's total expenditure has significantly increased from 7.4% in 2000-01 to 18.7% in 2025-26 (Budget Estimate). Over the same period, the share of statutory FC grants has declined sharply from 4.8% to 2.6. This trend is more stark when considering total grants. In 2023-24 (and projected for 2025-26 BE), non-statutory grants constitute a high proportion of 83% (rising to 88% in BE 2025-26) of total grants from the union to the states, while FC grants represent a diminishing share (only 17%, dropping to 12.4% in BE 2025-26) (Figure 2). The substantial and increasing size of these non-flexible, tied grants, particularly the CSS and Central Sector Schemes, suggests an excessive centralisation of resource transfers. This is a major concern because CSS are typically uniformly designed, suffering from the problem of 'one size fits all,' which limits the fiscal autonomy and flexibility of states to address their specific developmental priorities.

Table 1: Statutory (FC grants) and non-statutory grants in total expenditure (in percentages)

Year	FC Grants to Total Expenditure	Non-Statutory Grants to Total Expenditure
2000-01	4.8	7.4
2001-02	4.6	7.2
2002-03	4.7	7.3
2003-04	3.9	7.1
2004-05	2.9	7.6
2005-06	6.7	9.1
2006-07	6.1	8.8
2007-08	5.1	8.7
2008-09	4.9	9.2
2009-10	4.7	9.5
2010-11	4.2	9.2
2011-12	4.0	9.7
2012-13	3.6	9.4
2013-14	3.9	8.9
2014-15	4.6	15.6
2015-16	4.8	13.2
2016-17	4.9	14.0
2017-18	4.4	14.7
2018-19	3.9	13.4
2019-20	4.7	12.7
2020-21	5.3	13.9
2021-22	5.5	14.4
2022-23	4.1	16.4
2023-24A	3.4	16.4
2024-25 RE	2.7	17.1
2025-26 BE	2.6	18.7

Source: Authors' calculation using Budget at a glance, Union Budget, various years, Government of India

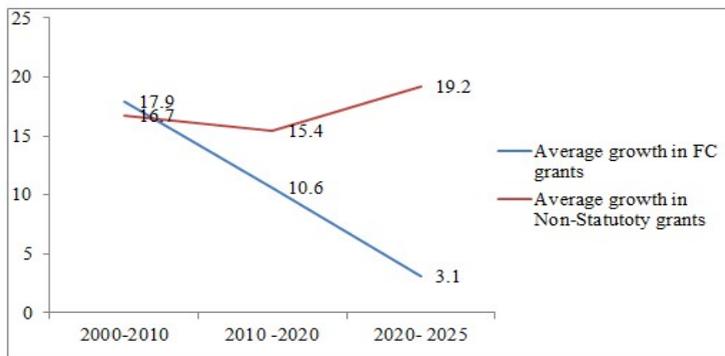
Figure 2 : Statutory grants and non-statutory grants (in percentages)



Source: Authors construction using Budget at a glance, Union Budget, various years, Government of India

Figure 3 illustrates the contrasting average growth rates of Statutory (FC) grants and Non-statutory grants across three periods: 2000-10, 2010-2020, and 2020-25. The data clearly reveal the declining prominence of FC grants. Specifically, the average growth rate of FC grants has significantly fallen from 17.9% in 2000-10 to just 3.1% in 2020-25. Conversely, the growth rate for non-statutory grants has accelerated over the same period, increasing from 16.7% to 19.2%, highlighting the union government's increasing reliance on discretionary, conditional transfers.

Figure 3: Growth rate of FC and Non-statutory grants (in percentages)



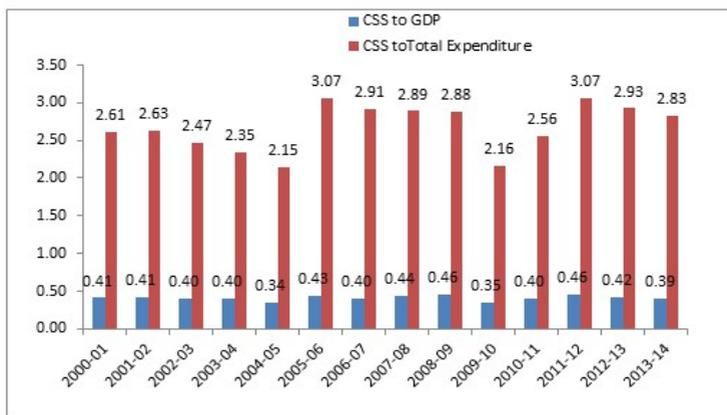
Source: Authors construction using Budget at a glance, Union Budget, various years, Government of India

4.2. Centrally Sponsored Schemes

The structural issue of high vertical fiscal imbalances persists in India, where states control only 37% of resources but bear responsibility for 62.4% of the expenditure (as noted by the 15th Finance Commission). To address this gap, the constitutional federal fiscal framework employs various channels for resource transfer. Among these methods, the Centrally Sponsored Schemes (CSS) represent a major mechanism for transferring resources to states to meet citizen welfare and development goals. The CSS are designed and funded by the union government on subjects that fall under both the State and Concurrent lists, with implementation being carried out by the state governments. These transfers are typically backed by Article 282 of the Indian Constitution, which provides for discretionary spending by the union (Chakraborty & Gupta, 2025). However, the CSS mechanism has attracted significant criticism.

Many schemes are seen as intruding upon the powers of state governments, effectively allowing the union government to exercise a high degree of control over the financial use by states (Kumar, 2022). While these schemes primarily target critical areas like poverty alleviation, rural development, primary sector growth, unemployment reduction, and programs for vulnerable groups, their effectiveness is hampered. They are widely criticized for poor implementation due to their large number and the inherent flaw of a "one-size-fits-all" design (Saxena et al., 2023; Das and Mitra, 2013).

Figure 4: Ratio of Centrally sponsored Schemes to GDP and Total Expenditure for the period 2000-01 to 2013-14 (in percentages)

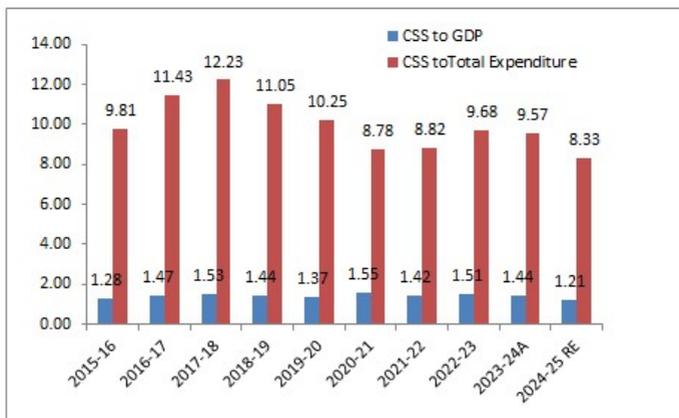


Source: Authors construction using Budget at a glance, Union Budget, various years, Government of India & Ministry of Statistics and Programme Implementation (MOSPI), Government of India

Following figures (Figures 4 & 5) illustrate the ratio of Centrally Sponsored Schemes (CSS) to both the Gross Domestic Product (GDP) and the total expenditure of the union government across

the periods before and after the abolition of the Planning Commission. During this phase, the average share of CSS accounted for 0.41% of GDP and 2.68% of the union's total expenditure. It is noteworthy that no separate earmarking for CSS was explicitly available in 2014-15 due to the transitional changes. Following the abolition of the Planning Commission, the size and prominence of CSS increased substantially. The average ratio of CSS to GDP rose significantly to 1.42%, and its ratio to the union's total expenditure also climbed sharply to 10%. However, both Figure 4 and Figure 5 indicate that, despite this overall increase, a decline in the ratio of CSS to total expenditure has been observed in the last few years.

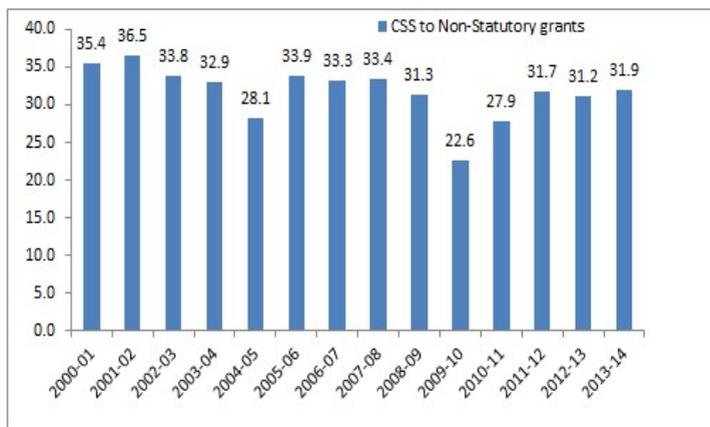
Figure 5: Ratio of Centrally sponsored Schemes to GDP and Total Expenditure for the period 2015-16 to 2024-25 RE (in percentages)



Source: Authors construction using Budget at a glance, Union Budget, various years, Government of India & Ministry of Statistics and Programme Implementation (MOSPI), Government of India

The proportion of Centrally Sponsored Schemes (CSS) within the total non-statutory grants across two key periods is given in Figure 6 and 7. In the pre-Planning Commission abolition period (2000-01 to 2013-14), the share of CSS was relatively consistent, ranging between 35.4% and 31.9%, with an average of 31.7%. In sharp contrast, the post-Planning Commission period (2015-16 to 2025-26 BE) shows a significant surge, with the share ranging from a high of 74.2% down to 54.4%, maintaining a much higher average of 67.9%. This dramatic increase demonstrates that following the abolition of the Planning Commission, the share of CSS in total non-statutory grants more than doubled, rising from an average of 31.7% to 67.9%.

Figure 6: Ratio of CSS to Non-statutory grants from 2000-01 to 2013-14 (in percentages)



Source: Authors construction using Budget at a glance, Union Budget, various years, Government of India

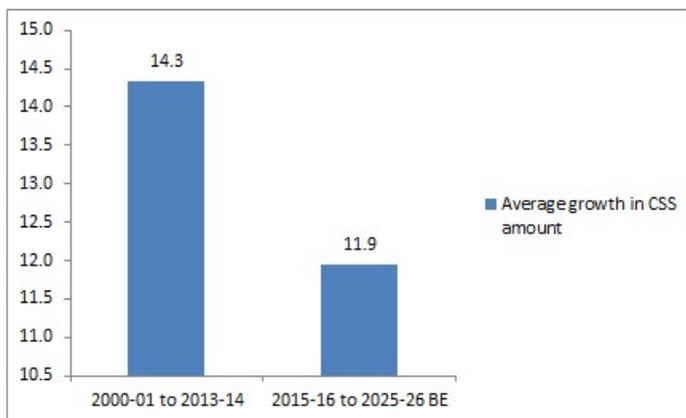
Figure 7 : Ratio of CSS to Non-statutory grants from 2015-16 to 2025-26 BE (in percentages)



Source: Authors construction using Budget at a glance, Union Budget, various years, Government of India

Although the share of CSS in total non-statutory grants has increased sharply in the post-Planning Commission period, the growth rate of the amount of CSS has actually declined, especially in the most recent years. As illustrated in Figure 8, the average growth rate of the CSS amount was 14.3% during the period 2000-01 to 2013-14, but it subsequently fell to 11.9% during the post-abolition period of 2015-16 to 2025-26 (Budget Estimate).

Figure 8: Growth in CSS amount (in percentages)



Source: Authors construction using Budget at a glance, Union Budget, various years, Government of India

4.3 Classifications of CSS

The CSS currently constitute a significant portion of federal transfers. According to the 2025-26 Budget Estimate (BE), CSS represent 20% of the total fiscal transfers to states, a slight decline from 22% recorded during 2022-23. The structure and number of these schemes have undergone substantial rationalization over the past two decades. The number of schemes varied widely, ranging from 188 in 2002-03 to 147 in 2011-12. In 2011, a Committee chaired by Shri B. K. Chaturvedi was appointed to restructure the CSS with the aim of enhancing flexibility, scale, and efficiency. Following its recommendations, the number of schemes was initially reduced from 147 to 66. Further rationalization occurred in 2016, where a Sub Group's recommendations led to the restructuring of the 66 schemes into just 28 umbrella schemes (Chakraborty & Gupta, 2025, Varghese and Anilkumar, 2023; Das

and Mitra, 2013). These 28 schemes are categorized into 'Core of Core' schemes, which constitute below 30% of the total CSS amount, and the remaining 'Core Schemes'. When examining the growth rate, Table 2 shows that the growth rate of the CSS amount peaked at 18% in 2016-17. Following this, the growth rate has declined, though there was a remarkable increase during the COVID-19 period. However, the post-COVID period has seen a contraction, registering an average growth rate of -2.9% during the period from 2022-23 to 2024-25.

Table 2: Share of core of core and core schemes in total CSS (in crore and percentages)

Year	Core of the Core Schemes (crore)	Core Schemes (crore)	Total (crore)	Growth rate (%)	Share of core of core schemes in CSS (%)	Share of core schemes in CSS (%)
2015-16	58142.8	145597.6	203740.4		28.5	71.5
2016-17	69549	172198.6	241295.6	18.43	28.6	71.4
2017-18	78016.47	208180.3	285447.8	18.30	27.1	72.9
2018-19	84038.2	212614.1	296028.9	3.71	28.2	71.8
2019-20	93628.3	216454.3	309552.7	4.57	30.1	69.9
2020-21	165628.8	219258.2	383975.7	24.04	42.9	57.1
2021-22	118551.8	337171.5	454365.9	18.33	25.8	74.2
2022-23	111234.4	326837.7	437556.3	-3.70	25.4	74.6
2023-24			444547.2	1.60		
2024-25(RE)			415322.1	-6.57		
2025-26 (BE)			541850.2	30.47		

Source: Authors calculation using Expenditure profile, Union Budget, various years, Government of India

Following the rationalization efforts, the structure of Centrally Sponsored Schemes (CSS) underwent continuous change. Initially, in 2015-16, the 28 umbrella schemes were categorized into 6 'Core of the Core' schemes and 22 'Core Schemes'. This system of classifying schemes as 'Core of the Core' and 'Core' continued until 2022-23, during which time the total number of CSS schemes incrementally rose to 75 due to the addition of more schemes under the 'Core' category.

It is important to highlight that a further significant shift occurred in 2023-24, where the total number of CSS schemes was further increased to 82, and 'Core of the Core' and 'Core' categorization was discontinued. This act spoiled the original spirit of restructuring of CSS with the aim of enhancing flexibility, scale, and efficiency with the recommendations of Shri B. K. Chaturvedi Committee and subsequent Sub Group's recommendations. This rapid increase in the number of centrally-designed schemes, coupled with the abandonment of the rationalized categorization, suggests an apparent trend toward increased centralization and intrusion into states' autonomy. This practice poses a threat to the spirit of co-operative federalism by sidelining the local and specific interests of states. Consequently, 'one-size-fits-all' approach inherent in these numerous CSS directly affects the fiscal health and developmental priorities of the states (Table 3).

Table 3: Change in the number of CSS from 2015-16 to 2025-26 (in numbers)

Year	No. of Core of Core Schemes	No. of core Schemes	Total CSS Schemes
2015-16	6	22	28
2016-17	6	23	29
2017-18	6	24	30
2018-19	6	25	31
2019-20	6	30	36
2020-21	6	44	50
2021-22	6	52	58
2022-23	6	69	75
2023-24			82
2024-25			82
2025-26			82

Source: Authors compilation using Expenditure profile, Union Budget, various years, Government of India

Table 4 provides the specific details of the schemes classified under the 'Core of Core' and 'Core Schemes' categories in 2015-16. The 'Core of Core' schemes which include key programs like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the National Social Assistance Programme (NSAP) are fully funded by the union government. In contrast, the 'Core Schemes' mandate a sharing of funds with the states. For these schemes, the general funding pattern stipulates that the union government contributes 60% of the required funds, with the remaining 40% to be met by the respective state governments (Jha et al., 2021).

Table 4: Type of CSS under core of the core and core category in 2015-16

Categories	
Core of the Core Schemes	
1	National Social Assistance Program
2	Mahatma Gandhi National Rural Employment Guarantee Program
3	Umbrella Scheme for Development of Schedule Castes
4	Umbrella Programme for Development of Scheduled Tribes
5	Umbrella Programme for Development of Minorities
6	Umbrella Programme for Development of Other Vulnerable Groups
Core Schemes	
7	Green Revolution
8	White Revolution
9	Blue Revolution
10	Pradhan Mantri Krishi Sinchai Yojna
11	Pradhan Mantri Gram Sadak Yojna
12	Pradhan Mantri Awas Yojana (PMAY)
13	National Rural Drinking Water Mission
14	Swachh Bharat Mission
15	National Health Mission
16	National Health Protection Scheme
17	National Education Mission
18	National Programme of Mid Day Meal in Schools
19	Integrated Child Development Services
20	Mission for Protection and Empowerment for Women
21	National Livelihood Mission - Ajeevika
22	Jobs and Skill Development
23	Environment, Forestry and Wildlife
24	Urban Rejuvenation Mission: AMRUT and Smart Cities Mission
25	Modernisation of Police Forces
26	Infrastructure Facilities for Judiciary
27	Border Area Development Programme
28	Shyama Prasad Mukherjee Rurban Mission

Source: Authors compilation using Expenditure profile, Union Budget, various years, Government of India

The details regarding the allocation for the 'Core of Core' and 'Core' categories of CSS are presented in Table 5. Analysis of the 'Core of Core' schemes shows a volatile trend in their share of total CSS: it stood at 30% in 2019-20, then sharply increased to 43% during the COVID year (2020-21) and subsequently declined sharply to 26% in 2021-22. The allocation to key schemes also shows a decline. The budget for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), a critical 'Core of Core' program, has been consistently reduced: the actual allocation of Rs.98,468 crore in 2021-22 fell to Rs.89,154 crore in 2022-23 (RE), and further decreased to Rs.86,000 crore in the latest Budget Estimate. It implies that the streamlining of CSS backs to square and this is largely against the interests of states. This affects the flexibility and efficiency of the schemes.

Table 5: Structural changes in CSS (in crores and percentages)

Sl. No	Categories	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Core of the Core Schemes								
1	National Social Assistance Program	8692.4	42443.1	8152.23	9651.3	9476.4	9652	9652
2	Mahatma Gandhi National Rural Employment Guarantee Program	71686.7	111169.5	98467.9	90805.9	89153.7	86000	86000
3	Umbrella Scheme for Development of Schedule Castes	1742.4	1297.61	1428.4	5157.83			
4	Umbrella Programme for Development of Scheduled Tribes	1711.3	1670.8	1744.7	3830.3			
5	Umbrella Programme for Development of Minorities	4204.8	3172.1	3779.2	222.75			

6	Umbrella Programme for Development of Other Vulnerable Groups	5590.7	5875.7	4979.4	1571.59			
	Total Core of the Core Schemes	93628.3	165628.81	118551.8	111234.38			
	Core Schemes Total	216454.3	219258.19	337171.5	326837.73			
	Grand Total	309552.7	383975.7	454365.9	437556.3	444547.2	415322.1	541850.2
	Share of Core of Core Schemes (%)	30.25	43.14	26.09	25.4			
	Share of Core Schemes (%)	69.75	56.86	73.91	74.6			
	No. of Core of Core Schemes	6	6	6	0	0	0	0
	No. of core Schemes	30	44	53	0	0	0	0
	Total CSS Schemes	36	50	59	75	82	82	82

Source: Authors calculation using Expenditure profile, Union Budget, various years, Government of India

At present, CSS are implemented by various concerned union ministries and departments (Appendix Table 1). In 2023-24, CSS spending was highly concentrated among a few departments. The Department of Rural Development was the highest spender, utilizing 33.7% of the total CSS amount (an actual expenditure of Rs.1,49,714 crore). The second-highest spender was the Department of Drinking Water and Sanitation, accounting for 17.2% (Rs.76,538 crore). While, the department of school education and Literacy has been utilized 9.7 percent of the CSS (Rs 43420.9 crore) department of health and family welfare (9.7 %) and department of housing and urban affairs spent 9.7% and 8.6% respectively occupying 3rd and 5th places. Together, these five departments collectively accounted for a commanding 85% of the total CSS expenditure during the year 2023-24.

4.4 States' share in CSS

Table 6 details the state-wise share of CSS across two distinct periods: 2000-01 to 2014-15 and 2015-16 to 2023-24. The data show that the CSS share has declined for the majority of states, with notable exceptions being Bihar, Jharkhand, and Uttar Pradesh, which registered an increase. For instance, Kerala's share saw a reduction, falling from 3.8% to 1.9% during the specified periods. To facilitate a more accurate comparison of the resource flow across states, the analysis is further refined by considering the per capita CSS received by each state, the details of which are presented in Table 7.

Table 6: Average share of CSS to States (in percentages)

States	2000-01 to 2014-15	2015-16 to 2023-24
Kerala	3.8	1.9
Andhra Pradesh	12.4	11.7
Bihar	6.9	7.7
Gujarat	5.2	4.5
Haryana	2.9	1.4
Jharkhand	3.0	3.4
Karnataka	9.1	5.2
Tamil Nadu	7.1	6.8
Madhya Pradesh	9.4	7.3
Maharashtra	11.4	10.5
Odisha	5.6	4.9
Punjab	2.8	1.6
Rajasthan	10.2	6.5
Telangana		2.5
Uttar Pradesh	10.4	24.2

Source: Authors calculation using Finance Accounts, CAG

As Table 7 indicates, there is significant variation in the per capita distribution of CSS across states. States such as Kerala (Rs 1178), Haryana (Rs 1092), and Punjab (Rs 1148) received the lowest per capita CSS amounts compared to other states. Although the per capita share for these states has increased over time, it remains among the lowest. Conversely, states like Odisha, Madhya Pradesh, Rajasthan, Andhra Pradesh, Jharkhand, and Tamil Nadu have a higher per capita CSS. Not all states maintained upward momentum, however; Karnataka experienced a decline in per capita CSS, falling from Rs.1,902 in 2017-18 to Rs. 1,615 in 2023-24.

Table 7: Per capita CSS to states (in Rs.)

State	Per capita CSS		
	2010-11	2017-18	2023-24
Kerala	218	962	1178
Andhra Pradesh	472	3121	2839
Bihar	206	1279	1725
Gujarat	206	1479	1567
Haryana	176	918	1092
Jharkhand	300	2421	1919
Karnataka	267	1902	1615
Tamil Nadu	239	1522	1937
Madhya Pradesh	313		3560
Maharashtra	253	1059	1575
Odisha	292	202	3737
Punjab	238	1116	1148
Rajasthan	241	2349	2081
Telegana		1745	1705
Uttar Pradesh	257	1322	1943

Source: Authors calculation using Finance Accounts, CAG and Census 2011, Government of India

4.5 Gap between Actual and Budgeted CSS

A matter of serious concern in Kerala is the wide gap between the budgeted and the actual receipt of Centrally Sponsored Schemes (CSS). As shown in Table 8, the state's estimated budget for CSS was consistently high, yet the actual realization was less than 50% on average from 2016-17 to 2024-25. For instance, in 2023-24, the budget estimate was Rs.8,212.3 crore, but the actual amount received was only Rs.3,919 crore (47.7%). This low realization rate suggests potential reasons related to the nature of CSS itself.

Given Kerala's advanced achievements in sectors like health and education, the lack of consideration for state-specific needs means that many basic central schemes may simply not align with the state's developmental priorities, leading to challenges in implementation or utilization, and thus, low actual fund flow.

Table 8: CSS in Kerala -actual and budgeted difference (in crore and %)

Year	Budgeted (in crore)	Actual (in crore)	Difference in actual and budgeted (in crore)	Difference in actual and budgeted (%)
2015-16	4329.2	3684.1	645.1	85.1
2016-17	6472.7	3101.5	3371.2	47.9
2017-18	7995.0	3268.4	4726.6	40.9
2018-19	8018.8	3770.1	4248.7	47.0
2019-20	9094.7	3262.7	5832.0	35.9
2020-21	9099.3	5141.9	3957.4	56.5
2021-22	9355.9	3801.0	5554.9	40.6
2022-23	9217.8	4588.0	4629.8	49.8
2023-24	8212.3	3919.0	4293.3	47.7
2024-25 RE	8470.0	4368.0	4102.0	51.6
2025-26 BE	9107.0			

Source: Authors calculation using Budget in brief, various years, Government of Kerala

In order to analyse the extent of the difference between budgeted and actual realization of Centrally Sponsored Schemes (CSS), a comparative analysis was conducted for the neighboring states of Karnataka and Tamil Nadu. In Karnataka, the gap between budgeted and actual CSS has steadily decreased since 2017-18. On average, the actual realization rate was high, standing at around 90% from 2015-16 to 2023-24 (Table 9). In 2023-24, the state not only met but exceeded its budget estimate (BE) of Rs.7,501 crore, with an actual realization of Rs.9,814.3 crore. Similarly, Tamil

Nadu showed a strong realization rate, with the average actual receipt of CSS from 2017-18 to 2023-24 being approximately 87%. For the year 2023-24, against a budget estimate of Rs.16,289.5 crore, the state realized Rs.13,971.6 crore, representing an 86% realization rate (Table 10). When compared to its neighbours states of Karnataka and Tamil Nadu, Kerala's actual realization of CSS is significantly lower. The difference between Kerala's low utilization (around 50% on average) and the high utilization rates of its neighbours (87% to 90% on average) is a matter of serious concern. Therefore, the reasons for Kerala's persistently low realization rate must be thoroughly explored to develop effective strategies aimed at reducing the gap between budgeted and actual CSS funds.

Table 9: CSS in Karnataka -actual and budgeted difference (in crore & %)

Year	Budgeted (in crore)	Actual (in crore)	Difference in actual and budgeted (in crore)	Difference in actual and budgeted (%)
2015-16	634.0	137.2	496.7	21.6
2016-17	576.5	440.3	496.7	21.6
2017-18	11648.3	11617.2	31.1	99.7
2018-19	11713.1	10393.4	1319.6	88.7
2019-20	10099.8	12213.5	-2113.8	120.9
2020-21	9897.5	9827.5	70.0	99.3
2021-22	8514.7	12656.8	-4142.1	148.6
2022-23	11721.0	11628.1	92.9	99.2
2023-24	7501.0	9814.3	-2313.3	130.8
2024-25 RE	9270.1	6484.0	2786.2	69.9
2025-26 BE	8667.1			

Source: Authors calculation using Budget volume, various years, Government of Karnataka

Table 10: CSS in Tamil Nadu -actual and budgeted difference (in crore & %)

Year	Budgeted (in crore)	Actual (in crore)	Difference in actual and budgeted (in crore)	Difference in actual and budgeted (%)
2015-16	315.8	716.7	-400.9	226.9
2016-17	1185.6	2035.2	-849.6	171.7
2017-18	12806.9	10983.0	1823.9	85.8
2018-19	14604.9	14820.3	-215.3	101.5
2019-20	13365.2	12463.9	901.4	93.3
2020-21	15819.8	12483.7	3336.1	78.9
2021-22	18040.9	17250.6	790.4	95.6
2022-23	21325.3	15269.6	6055.7	71.6
2023-24	16289.5	13971.6	2317.9	85.8
2024-25 BE	16542.9	12927.4	3615.5	78.1
2025-26 BE	16660.8			

Source: Authors calculation using Budget publications, various years, Government of Tamil Nadu

4.6 Burden on the State Government

Considering the large discrepancy between the budgeted and actual realization of Centrally Sponsored Scheme (CSS) funds, it's crucial to examine the additional financial burden incurred by states due to the revised funding ratios between the union and state governments.

Following the abolition of the Planning Commission, particularly starting in 2016-17, the funding pattern of most CSS was

significantly changed. Before this period, the Union government's funding ratios for various schemes in major states were typically 90%, 80%, or 75%. The remaining shares 10%, 20%, or 25%, respectively were to be financed by the major states. However, from 2016-17 onwards, the state funding share for most schemes was sharply increased to 40% (Varghese and Anilkumar, 2023). This substantial rise in the states' mandated share for financing CSS increases the financial burden on state governments.

To quantify this increased burden, a case study was conducted using eight selected CSS schemes from Kerala's list. The additional burden was calculated by comparing the state's required share under the new funding ratios against what it would have paid under the old ratios. In 2024-25, the state's expenditure on these selected schemes under the new ratio was Rs.7,588.2 lakhs. Had the old ratio been in place, the expenditure would have been only Rs.3,361.6 lakhs. For this specific period, the state had to incur an additional expenditure of Rs.4,226.6 lakhs to finance these CSS, demonstrating the direct financial strain caused by the revised funding arrangements (Table 11).

Table 11: Budget outlay of Centrally Sponsored Schemes in 2024-25 (in Lakhs)

Sl. No	Name of the Scheme	Ratio of union and states share		State share in new ratio	states share in the old ratio	States additional burden
		Old	New			
1	Pradhan Mantri Gram Sadak yojana	100-00	60-40	8468	0	8468
2	Pradhan Mantri Krishi Sinchai Yojana (PMKSY)	75-25	60-40	1000	625	375
3	Mid Day Meal	75-25	60-40	38214	15178.5	23035.5
4	Project Directorate of Samagra shiksha Abhiyan	75-25	60-40	22600	14125	8475
5	Integrated Child Protection Scheme	90-10	60-40	700	437.5	262.5
6	Deendayal Antyodaya Yojana -	75-25	60-40	2300	1437.5	862.5
7	National Ayush Mission	75-25	60-40	2000	1437.5	562.5
8	District Institute of Education and Training	75-25	60-40	600	375	225
	Total			75882	33616	42266

Source: Calculated using Annual Plan Proposals 2024-25, Kerala State Planning Board, Government of Kerala

5. Conclusion

The study's findings reveal a shift in India's federal transfers, indicating a move toward increased central control through non-statutory (tied) grants following the abolition of the Planning Commission. The share of non-statutory grants in the Union's total expenditure has significantly increased from 7.4% in 2000-01 to 18.7% in 2025-26 (BE). Conversely, the FC grants share declined from 4.8% to 2.6% over the same period. The non-statutory grants now constitute the vast majority of all grants, representing 83% in 2023-24 (up from 61% in 2000-01 and projected to be 88% in 2025-26 BE), while FC grants have shrunk to only 17% (down from 40% in 2000-01). The average growth rate of FC grants sharply declined from 17.9% (2000-10) to 3.1% (2020-25), whereas the non-statutory grants' growth rate increased from 16.7% to 19.2% in the corresponding periods. The growth rate of the CSS amount was 18% in 2016-17 but declined thereafter. Although there was a spike during the COVID-19 period, the average growth rate registered a concerning -2.9% decline from 2022-23 to 2024-25. A major change occurred by increasing the number of CSS schemes to 75 in 2022-23 and then to 84 in 2023-24, simultaneously discontinuing the 'Core of Core' and 'Core' categorization. This reversal, where 'Core of Core' schemes constituted below 30% of the total CSS amount, leads to excessive centralization and posing a threat to fiscal federalism and cooperative federalism.

The design of CSS sidelines states' local and specific interests, as the 'one size fits for all' approach negatively affects the fiscal health of the states. Most states, including Kerala, have seen a decline in their CSS share between the 2000-01 to 2014-15 and 2015-16 to 2023-24 periods. Kerala's share, for example, dropped

from 3.8% to 1.9%. States like Kerala, Haryana, and Punjab have the lowest per capita CSS allocations, despite an increasing trend in the absolute amount. Conversely, states such as Odisha, Madhya Pradesh, Rajasthan, Andhra Pradesh, Jharkhand, and Tamil Nadu receive higher per capita CSS. There is a consistent gap between the budgeted and actual CSS receipts in some states. In Kerala, the actual realization averaged less than 50% of the estimated budget from 2016-17 to 2024-25, highlighting a failure to align scheme design with state-specific needs.

The study presents the following suggestions for improving the effectiveness of CSS; (1) ensuring flexibility in the implementation of CSS by considering the needs and requirement of the states (2) states should get the freedom to utilize the CSS funds considering regional disparities and diverse needs. (3) the 'one size fits for all' approach in CSS implementation has to be avoided. (4) there is a need to increase the size of the CSS funds and also provide more funds to core of core schemes so as to reduce the burden of states (the core of core schemes is fully funded by union government) (5) reduce the number of schemes so as to avoid duplication of schemes and thereby increase the effectiveness of CSS implementation and (6) any deviation from the existing CSS should be done with the consensus and mutual agreement of the states. This will promote co- operative federalism and reduces discretionary nature of fund transfer.

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Appendix Table 1: Centrally Sponsored Schemes in 2023-24 (in numbers, crore and percentages)

Sl No	Ministries/Department	No of Schemes	Allocation (crore)	% Allocation
1	Department of Agriculture and Farmers Welfare	3	11459.9	2.6
2	Ministry of Ayush	1	869.3	0.2
3	Department of Food and Public Distribution	2	8719.2	2.0
4	Ministry of Co operation	2	303.2	0.1
5	Department of School Education and Literacy	5	43240.9	9.7
6	Department of Higher Education	1	186.1	0.0
7	Ministry of Environment and Climate Change	3	529.6	0.1
8	Department of Fisheries	1	1148.2	0.3
9	Department of Animal Husbandry and Dairying	1	559.5	0.1
10	Ministry of Food Processing and Industries	1	778.8	0.2
11	Department of Health and Family Welfare	9	43148.2	9.7
12	Ministry of Home Affairs	1	0	0.0
13	Police	4	2979.8	0.7
14	Ministry of Housing and Urban Affairs	12	38152.2	8.6
15	Department of Water Resources, River Development	6	8040.9	1.8
16	Department of Drinking Water and Sanitation	2	76538.3	17.2
17	Law and Justice	2	1260.9	0.3

Sl No	Ministries/Department	No of Schemes	Allocation (crore)	% Allocation
18	Ministry of Minority Affairs	2	189.2	0.0
19	Ministry of Panchayat Raj	1	886.8	0.2
20	Department of Rural Development	5	149714.1	33.7
21	Department of Land Resources	1	1564.6	0.4
22	Ministry of Skill Development and Entrepreneurship	4	525.7	0.1
23	Department of Social Justice and Empowerment	7	8629.3	1.9
24	Ministry of Tourism	1	5.3	0.0
25	Ministry of Tribal Affairs	1	3279.3	0.7
26	Ministry of Women and Child Development	3	24721.9	5.6
27	Others	1	17115.9	3.9
	Grand Total	82	444547.1	100.0

Source: Authors calculation using Expenditure profile, Union Budget, various years, Government of India