# Development Expenditure in the States Post Fourteenth Finance Commission Award: How have States Spent the Award Money?


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**May, 2019**

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# Acknowledgements

I would like to express our gratitude to the Fifteenth Finance Commission (XVFC) of India, for commissioning this study. The motivation for developing the proposal came from a discussion with Shri N. K. Singh, Chairman, XVFC, about the changes in institutions and context since the Fourteenth Finance Commission gave its Award. After his further discussions with Dr Isher Ahluwalia, Chairperson, ICRIER, it was decided that ICRIER would provide research support for the Study. Both of them have provided sage counsel and advice at every step, for which I remain deeply grateful.

I am thankful to all the Members of the XVFC, Shri Shaktikanta Das, (now Governor, Reserve Bank of India,) Dr Ashok Lahiri, Dr Ramesh Chand and Dr. Anoop Singh, for their insights during the Inception Presentation that enabled us to enhance the depth and quality of our Study.

I would like to especially thank Shri Arvind Mehta, Secretary, XVFC, for his solid backing and help in reaching out to Ministries of the Government of India and the State Governments. Under his guidance, the entire Secretariat of the XVFC actively participated in the discussions on Centrally Sponsored Schemes and immensely helped in improving the quality of the findings. In particular, Shri. Anthony Cyriac, Economic Advisor, XVFC and his team members, were not only always available for discussions and clarifications, but also provided invaluable help from inception to final delivery.

My special thanks to Shri Ajay Narayan Jha, Secretary Expenditure (and now Member Finance Commission), for sparing his time for extensive discussions and for enabling us to access the data from PFMS through the Controller of Accounts. Thanks also to the Secretaries in the Department of Economic Affairs, Ministry of Finance, Ministry of Agriculture and Farmer's Welfare; Ministry of Drinking Water and Sanitation; Ministry of Health and Family Welfare; Ministry of Housing and Urban Affairs; Ministry of Rural Development; Department of School Education and Literacy, Ministry of Human Resource Development, for extending their support and designating nodal officers for assistance with data.

I would also like to place on record the facilitation provided by Chief Secretaries, Resident Representative offices of the State Governments in Delhi, Principal Secretaries (Finance) of all State Governments for addressing our requests and sharing relevant data for the successful completion of our study.

Many former colleagues went out of their way to explain, clarify and provide valuable insights about the mysterious workings of Schemes and Programmes at the Central and State government levels. In particular, I would like to mention Ms. Sujatha Rao, Shri V Srinivas, Shri Tuhin Pandey, Ms. Sujata Chaturvedi, and Shri Peeyush Kumar in this regard. I am grateful to my comrades in arms who walked the transition from Planning Commission to NITI Aayog with me – Ms. Anjali Goyal, Shri Rakesh Ranjan, and Shri Alok Kumar – for their time and patience in helping to refine the issues at early stages of the Study.

I would like to acknowledge specially, the support received from ICRIER – Dr. Isher Ahluwalia, Chairperson, ICRIER for being available for advice on matters big and small and for graciously permitting use of her personal office at ICRIER for meetings of the Project Team; Dr. Rajat Kathuria, Director and Chief Executive, ICRIER, for his unstinting support and for sparing Ms. Divya Satija and Sh. Kumar Abhishek for the Study. Without their enthusiasm, inputs and efforts, the Study could not have been completed. Most of all, we had a lot of fun working together. I would also like to acknowledge the contribution of Ms. Enakshi Panda, Intern, ICRIER, who assisted us in the primary survey analysis. A special word of appreciation to Ms. Chhaya Singh, Librarian, ICRIER, for her prompt and helpful assistance in providing research material and resources. Finally, last but certainly not the least, the entire ICRIER Administration team gets three cheers and heartfelt thanks for their ever-smiling logistic support, assistance, kindness, tea and sympathy.

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## Abbreviations

| | |
|---|---|
| ACA | Additional Central Assistance |
| AMRUT | Atal Mission for Rejuvenation and Urban Transformation |
| BE | Budget Estimate |
| C&AG | Comptroller and Auditor General |
| CASP | Central Assistance to State Plan |
| CSS | Centrally Sponsored Schemes |
| DP | Division Pool |
| FC | Finance Commission |
| FFC | Fourteenth Finance Commission |
| FRBM | Financial Responsibility and Budget Management |
| FY | Financial Year |
| GBS | Gross Budgetary Support |
| GST | Goods and Services Tax |
| GTR | Gross Tax Revenue |
| ICDS | Integrated Child Development Services |
| MDM | Mid-Day Meal |
| MGNREGA | Mahatma Gandhi National Rural Employment Guarantee Scheme |
| NCA | Normal Central Assistance |
| NE | North East |
| NER | North Eastern Region |
| NPRE | Non-Plan Revenue Expenditure |
| NRDWS | National Rural Drinking Water Mission |
| NSAP | National Social Assistance Programme |

| | |
|---|---|
| OBC | Other Backward Caste |
| OTACA | One Time Additional Central Assistance |
| PFMS | Public Financial Management System |
| PMAY | Pradhan Mantri Awas Yojna |
| PMGSY | Pradhan Mantri Gram Sadak Yojna |
| RBI | Reserve Bank of India |
| RD | Revenue Deficit |
| RE | Revised Estimate |
| RKVY | Rashtriya Krishi Vikas Yojna |
| RMSA | Rashtriya Madhyamik Shiksha Abhiyan |
| SBM | Swachh Bharat Mission |
| SC | Schedule Cast |
| SCA | Special Central Assistance |
| SDG | Sustainable Development Goals |
| SPA | Special Plan Assistance |
| SSA | Sarva Siksha Abhiyan |
| ST | Schedule Tribe |
| TFC | Thirteenth Finance Commission |
| ToR | Terms of Reference |
| UDAY | Ujwal Discom Assurance Yojna |
| XVFC | Fifteenth Finance Commission |

# Executive Summary

## 1) How much did the States Receive?

**Total Receipts**

- Total Receipts of all States has been increasing over the years. However, it is noteworthy that the annual rate of growth has shown a declining trend post 2015-16;
- Total Receipts of All States, on an average, grew by 56 percent in the first three years of the FFC Award (2015-16 to 2017-18) compared to the last three years of the TFC Award (2012-13 to 2014-15). This increase was due to higher **Central Transfers**, comprising Devolution and Grants that grew by 80 percent during the period (see Table 2.1);
- Total receipts of All States' increased by 91 percent, on account of **Devolution** and increased by 65 percent, on account of **Grants;**
- In the first three years post the FFC Award, **aggregate Central Transfers (Devolution and Grants)** to the States was Rs. 30.08 lakh crores of which, Devolution was Rs 18.07 lakh crores and Grants in Aid, comprising FC Grants, CSS and Other Transfers, was Rs. 12.01 lakh crores;
- The relative shares of Grants and Devolution in Central Transfers also changed. The share of untied transfers through Devolution increased from 57 percent to 60 percent, during the period and that of Grants, that were predominantly tied transfers, on an average, dropped from 43 percent in the last three years of the TFC Award to 40 percent in the first three years of the FFC Award;
- In the first three years of the FFC Award, the additional resources available to the States increased by Rs. 9.44 lakh crores, on an average, compared with the last three years of TFC Award. Of this amount, Central Transfers (Devolution and Grants) accounted for Rs. 4.45 lakh crores, on an average. In addition, States' Own Resources grew by Rs. 2.63 lakh crores, on an average, and Capital Receipts grew by Rs. 2.36 lakh crores, on an average, in the same period;
- However, some of the increase in resources for the States was pre-empted by the additional shares that was required for CSS in the revised sharing pattern of 60:40 for 18 States (as against an average of 67:33) from 2015-16 onwards. This change had no effect on the 8 NER States and the 3 Himalayan States as the CSS sharing pattern of 90:10 for them remained unchanged;
- Withdrawal of Block Grants (NCA/ACA/SCA/SPA, etc.) under CASP (Plan) and the discontinuation of Sector Specific TFC grants under Non Plan also impacted some States more than the others; the 11 NER and Himalayan States were affected more than the other 18 States;
- The withdrawal of Block grants under CASP were, for the most part, made up by the higher devolution amounts. However, there is no evidence to show that these higher devolution amounts, that were untied transfers, were used to fund expenditure in key sectors in Social and Economic Services in these States. Most of the States that were impacted were the

erstwhile Special Category States that have cost disabilities and low fiscal capacities. Their ability to adjust to the disruption and channelize the higher untied transfers into key priority sectors in the short term, given their low governance capacity and sensitive locations, is debatable;

- The size of increase in the resources available to All States between 2015-16 and 2017-18 was further impacted by less than projected Gross Tax Revenue (GTR) collections and also by the less than optimum increase in Divisible Pool (DP) due to steep increases in Cess and Surcharges, that are netted out of the GTR and not shared with the States;
- GTR projected in the FFC Report was Rs. 54.46 lakh crores for the first three years. However, actual collection of GTR for that period was Rs 51.18 lakh crores, a percentage variation of (-) 6.02 percent;
- Cess and Surcharges grew in the range of 4-6 percent higher than the levels at which they grew in the last three years of the TFC Award. It is estimated that had the DP continued to grow at the same rate as it did in the three years preceding the FFC Award, it **would have been greater, on average, by Rs. 1.12 lakh crores;**
- However, the rate of growth of States Own Resources declined or remained static. Prior to 2015-16, the contribution of States' Own Resources to Total Receipts of All States was, on an average, about 51 percent, which declined, on an average, to around 44 percent post 2015-16, partly on account of the fact that Central Transfers increased substantially post the FFC Award;
- Post the FFC Award, despite higher Central Transfers, States' borrowings increased. It is, therefore, fair to conclude that, other things being equal, higher Central Transfers to States may tend to act as a disincentive to States to make efforts at additional resource mobilization through tax and non-tax measures to meet their expenditures.

**Variations across States: Gainers and Losers**

- All States gained due to higher Vertical devolution. But if the changes in Horizontal devolution post the FFC Award are also taken into account, there are State-wise variations in gains / losses. This is due to changes in weights and formula adopted by the FFC *vis-a-vis* the TFC;
- Eighteen States gained in aggregate terms, on account of both Vertical and Horizontal devolution. Of these 7 are Himalayan and NER States;
- Ten States lost in aggregate terms, on account of both Vertical and Horizontal devolution of which 4 are Himalayan and NER States;
- Interestingly, if the gains and losses are computed across States in both the TFC and FFC Award, it transpires that of the 9 States that lost in the FFC Award, four States including Odisha, Andhra Pradesh (United), Bihar and Tamil Nadu, had got less than average in the TFC Award as well. Of the remaining 5 States that lost in the FFC Award, Uttar Pradesh, Rajasthan, Assam, Uttarakhand and Himachal Pradesh, had got more than average in the TFC Award. For this reason, the sense of grievance, whether justified or not, in these States was all the more post the FFC award.

**<u>Gains on the Swings and Losses on the Roundabouts: Net Additional Resources available to All States</u>**

- In sum, States lost Rs. 273,026 crores on account of withdrawal of Block Grants under Plan, and, Rs. 56,244 crores on account of discontinuation of Sector-specific TFC grants under Non Plan. The aggregate amount foregone on these two counts, is around Rs. 329,270 crores (or Rs. 3.30 lakh crores). Notwithstanding this, the net additional resources available to the States in the first three years of the FFC Award was up to Rs. 9.44 lakh crores more than what they had in the last three years of the TFC Award;
- After taking into account the factors that offset the 10 percent increase in percentage of Devolution, and the changes in Grants in Aid in the first three years, it is abundantly clear that the Net Additional Resources available to All States in the first three years of the FFC Award, of Rs 9.44 lakh crores, is significantly more than what they had received in the last three years of the TFC Award;
- In addition to the above, not only did the quantum of Central Transfers change but their composition also changed in favour of untied transfers. The increases in quantum took care of the decreases on account of changes in their composition.

## 2) How did the States spend the additional resources?

**<u>Total Expenditure</u>**

- Between 2012-13 and 2018-19, Total Expenditure grew at a CAGR of 15 percent;
- In the last three years of the TFC Award (2012-13 to 2014-15), the **aggregate receipts** of All States were Rs. 50.14 lakh crores of which **Central Transfers** to All States on account of Devolution and Grants was Rs. 16.74 lakh crores (see Table 2.1). During the same period, **aggregate expenditure** of All States was Rs. 50.18 lakh crores (see Table 3.2);
- In first three years of the FFC Award (2015-16 to 2017-18), **aggregate receipts** of States increased to Rs. 78.43 lakh crores (36 percent). This growth was predominantly due to the substantial growth in Central transfers. The **aggregate Central Transfers** to the States on account of Devolution and Grants, increased to Rs. 30.08 lakh crores from Rs 16.74 lakh crores (56 percent) during the first three years of the FFC Award (see Table 2.1). During this period, **aggregate expenditure** increased to Rs. 78.88 lakh crores (see Table 3.2). In other words, in the three initial years of the FFC Award, States spent Rs. 28.7 lakh crores, almost 57 percent higher than what was spent during the last three years of the TFC Award;
- Growth in States' Own Resources between the TFC and FFC Awards was fairly static. Hence, it can be concluded that the increase in aggregate Central Transfers enabled the States to undertake higher expenditure;
- Total Expenditure of All States incurred during the first three years of the FFC Award consisted of Revenue Expenditure of around 82 percent and the remaining 18 percent was Capital Expenditure;
- Between the last three years of the TFC Award and the first three years of the FFC Award, on an average, Revenue expenditure increased by 52 percent across Social, Economic and

General Services. Much of the increase was on account of increased expenditure on Salaries and Pensions after implementation of the Seventh Pay Commission recommendations by the States and Agricultural Loan waivers;

- Capital expenditure grew from Rs. 2.57 lakh crores to Rs 4.81 lakh crores (88 percent) in the same period. This is because of higher loans and advances extended to power projects under UDAY and higher capital outlay on Energy, Major and Medium Irrigation, Rural Development, Roads and Bridges;
- Borrowings increased by 86 percent. This trend indicates that committed liabilities of All States on account of Interest payments, Salaries and Pensions will place a heavy burden on their fiscal health unless revenues show buoyancy.

## Net additional expenditure

- Total Expenditure of All States increased by Rs. 9.56 lakh crores during first three years of the FFC Award compared to the last three years of the TFC Award;
- Post FFC Award, of the additional resources of Rs 9.56 lakh crores available to All States, on an average, 18 States accounted for 91 percent of the expenditure and the remaining 9 percent was accounted by 11 NER and Hilly States (see Table 3.7);
- All Gainers (19 States) in the FFC Award, on an average, accounted for around 49 percent of the expenditure from the additional resources available and Losers (10 States) accounted for around 51 percent of expenditure of the additional resources during 2015-16 to 2017-18 (see Table 3.7);
- Even though the 10 Loser States, had lost on account of changes in the Horizontal devolution post the FFC Award, collectively they spent a higher percentage of the additional resources available to them during the initial years of the FFC Award as compared to the Gainer States.
- Out of Rs 9.56 lakh crores, on an average, expenditure on:
  - Social Services was higher by Rs. 3.44 lakh crores and accounted for about 36 percent of the additional expenditure;
  - Economic Services was higher by Rs. 3.67 lakh crores and accounted for about 38 percent of the additional expenditure;
  - General Services was higher by Rs. 2.29 lakh crores and accounted for about 24 percent of the additional expenditure.
- Both in the last three years of TFC Award and the first three years of FFC Award, about 75 percent of the expenditure on Social Services has been in key/ priority sectors like Education, Health, Social Welfare and Drinking Water and Sanitation and Nutrition;
- Post FFC Award, of the additional Rs. 3.44 lakh crores spent on Social Services the highest expenditure was on Education (Rs. 1.17 lakh crores); however, this share went down from 47 percent of total Social Services expenditure during last three years of TFC to 45 percent of total Social Services expenditure in the first three years of FFC;

- Changes observed in the proportion of additional resources expended across sub sectors indicate that Drinking Water and Sanitation received a higher inter se priority (and increased funding) after 2015-16, perhaps on account of the boost received from the launch of Swacch Bharat Abhiyan. Concomitantly, the inter se priority (and funding) on Nutrition declined in the first three years of the FFC Award;
- Revenue expenditure across all sub-sectors in Social services is higher than Capital expenditure. Of the total expenditure, in Social Services, revenue expenditure accounted for 90 percent and capital expenditure accounted for 10 percent including Loans and Advances by the State Government;
- Both in the last three years of the TFC Award and the first three years of the FFC Award, around 78 percent of the total expenditure on Economic Services has been spent in key/priority sectors like Agriculture, Rural Development, Irrigation and Energy;
- Post FFC Award, of the average additional Rs. 3.67 lakh crores spent on Economic Services the highest expenditure was on Energy (average additional expenditure was Rs. 0.72 lakh crores post the FFC Award), and on Agriculture and allied activities (average additional expenditure was Rs. 0.62 lakh crores post the FFC Award). Their shares in average aggregate expenditures went up drastically – in Energy, it went up from 20 percent in the first three years of TFC Award to 73 percent and in Agriculture from 19 percent to 66 percent, during the same period;
- Revenue expenditure (64 percent) across all sub-sectors in Economic Services is far higher than Capital Expenditure (36 percent);
- There is no observable change in re-prioritization of expenditures across sub-sectors in Social and Economic Services between the TFC and FFC Awards. Incremental amounts have been spent largely in the same sub-sectors like Education, with Sanitation and Urban Development (Affordable Housing) gaining some ground in the post FFC Award years;

**Sub-Sector level expenditure on Key /Priority Sectors**

**Ranking of States by Expenditure across Services and Priority Sectors, 2016-17: Top 5 and Bottom 5 Spenders**

- Across Services and priority sectors, Uttar Pradesh, Maharashtra and Tamil Nadu are top spenders along with Karnataka, West Bengal, Madhya Pradesh and Rajasthan;
- Across both Social and Economic Services, expenditure by States including Haryana, Punjab, Chhattisgarh and Jharkhand, is quite low and hence these States are in the bottom rung of spenders;
- In nearly all States, the highest spending is concentrated on Education that accounts for around 16 percent of the expenditure out of the additional resources available in the FFC Award. Some States like West Bengal, Kerala, Chhattisgarh, Maharashtra, Uttar Pradesh, Rajasthan and Bihar are spending more (17-19 percent);
- At the same time States seem to be spending more or less equally across key sectors like Education, Health, Irrigation and Roads regardless of the level of indicators like maternal

and infant mortality rates, educational outcomes, connectivity and irrigation potential signifying that there is scope for redirecting expenditure to sub sectors that need it most;

**Central Plan Schemes, CSS and State Plan Schemes: Variations across States**

- Post the FFC Award, in 2015-16 the dip in Central Grants for development programmes and Schemes is mainly due to the withdrawal of Block Grants under CASP as well as the reduced central shares for CSS. However, Central Grants did pick up pace from 2016-17 onwards;
- Between 2014-15 and 2015-16, expenditure on development programmes and schemes increased in nominal terms, from Rs. 6.65 lakh crores to Rs. 8.05 lakh crores (21 percent);
- Across the 18 States and 11 States
  - Expenditure on development programmes and Schemes for the **18 States** went up by 25 percent between 2014-15 and 2015-16; ⇧
  - Expenditure on development programmes and Schemes for the **11 NER and Himalayan States** dropped by 14 percent between 2014-15 and 2015-16 ⬇

**Per Capita Expenditure**

- On the assumption that every person in the country is entitled to access an equal level of public services, it follows that there is a minimum level of public expenditure that is required to provide the basic public / merit goods to each person irrespective of where she lives. The variations in per capita expenditure across States (across the two categories of groupings studied) therefore, reflects the development imbalances across regions within the country; and also the variability in the cost of delivering services to sparse populations living in poorly connected regions vis a vis to densely populated and reasonably well connected regions;
- Therefore, Per Capita Expenditure for 18 States is **lower** than that of 11 States, primarily because the 18 States have higher populations compared to the 11 States. According to 2011 Census, 94 percent of the population lives in 18 States and only 6 percent lives in the 11 States;
  - In the first three years of the FFC Award across the 18 and 11 States, on average, Per Capita Expenditure on development programmes and schemes across 18 states is almost half of that incurred across the 11 States (see Table 3.10);
  - In the first three years of the FFC Award, on an average, Per Capita Expenditure has increased across both groups of States, but that of the 11 erstwhile Special Category States continued to remain higher than that of the 18 States during 2015-16, and 2016-17 (See table 3.10).
- Across the two groups of Gainer and Loser States, we found that the average per capita expenditure by Gainer States (Rs. 378 lakh crores) is lower than that by Loser States (Rs. 649 lakh crores) in the first three years of the FFC Award (see Table 3.10)

## Expenditure on Centrally Sponsored Schemes: Primary Survey Findings

- According to the data reported by 12 responding States during the primary survey, except Andhra Pradesh (classified under the 18 erstwhile General Category States), and Nagaland and Himachal Pradesh, (classified under the 11 erstwhile Special Category States), remaining States showed positive growth in total expenditure on all top 16 CSS;
- 6 States that responded to questions on CSS in the Primary Survey questionnaire, were spending, on average, around 36 percent on the top 16 CSS as a percentage of Total Grants from the Centre, in 2014-15 (before the FFC Award). Post FFC Award, expenditure for these 6 States dropped marginally and they spent around 32 percent in 2015-16 (see Table 3.14b);
- 4 States that responded to questions on CSS in the Primary Survey questionnaire, from the group of 11 NER and Himalayan States, were spending, on average, around 23 percent on the top 16 CSS as a percentage of total Grants from the Centre. In 2015-16, after the FFC Award, these States spent, on an average, only 11 percent (out of a higher amount);
- Within Economic Services, expenditure on Rural Development and Agriculture has been the highest in the 4 States that have responded to the Primary Survey questionnaire. However, spending on Economic Services in the 4 NER States that have responded to the Primary Survey questionnaire is low and has declined in percentage terms, post FFC Award;
- Within the group of 11 NER and Himalayan States, all Gainer States, appear to have performed poorly in terms of spending on priority sectors;
- **However, it seems premature to draw inferences based on this trend because the sample size is small and can also lead to cases of bias, such as non-response, which occurs when all respondents do not participate in the survey, as it happened in this case.**

# Introduction

The Terms of Reference (ToR) approved by the XV Finance Commission (XVFC) for the study includes, but is not restricted, to the following:

i) Pursuant to the Fourteenth Finance Commission (FFC) recommendations, the share of the taxes devolved upon States increased from 32% to 42%, thus increasing the fiscal space available to them. An overall assessment of net additional resources devolved to the States, after adjusting the change in funding patterns of Centrally Sponsored Schemes (CSS), discontinuation of certain CSS and shrinking of the divisible pool, through increase in cess / surcharge in FY 2015-16, 2016-17 and 2017-18.

ii) How have the States utilized their increased fiscal space for development programmes related to key sectors like agriculture, health, education, drinking water and sanitation?

iii) Whether the untied transfers to States proposed by FFC, have improved funding levels for crucial programmes in key sectors designed to foster sustainable development and more inclusive growth?

iv) How the pooled resources of the Centre and States together have been harnessed to meet the National Development Agenda?

A copy of the approved ToR is attached in Appendix A1.

This study examines the impact of the FFC Award on States and assesses the impact of the net additional resources received by them on their development expenditures. It analyses the outlays and outcomes of key priority sectors to see whether there were any significant changes in favour of State specific priorities and their effect on national development goals.

As background, it needs to be mentioned that despite the increase from 32% to 42%, most of the States have maintained that they have received less than the 10% increase envisaged in the FFC Award. They have contended that after adjusting for the change in sharing pattern of the Centrally Sponsored Schemes (CSS), discontinuation of some CSS, transfer of some other CSS to the States and the discontinuation of Plan Grants and the unprecedented growth in cess and surcharges (that are netted out of the Gross Tax Revenue (GTR) of the Union), the percentage increase in devolution amounts to significantly less than what they should have received post the Award.

Nevertheless, it is clear that the FFC Award diminished the fiscal space of the Union and there was a corresponding increase in the fiscal space available to the States. In the light of this fact, it is proposed to assess the expenditures of the States to ascertain whether this additional space that became available (predominantly as untied transfers) were utilised towards increasing development expenditure. In particular, whether outlays in key sectors like Agriculture, Rural Development, Education, Health, Nutrition Drinking Water and Sanitation received a fillip or not; and finally, whether the development programs were re-prioritised according to State specific needs by changing their composition and mix, thereby impacting national development goals.

The Study proposes to place the FFC Award and its consequential impact on the receipts and expenditure of the States in the context of far reaching changes that took place between 2014-15 (the last year of implementation of the Thirteenth Finance Commission (TFC) Award) and 2017-18 (the first three years of the FFC Award. It seeks to address the issues posed in the ToR by examining two questions:

1. **How much net additional resources did the States receive in the first three years of the FFC Award (2015-16, 2016-17 and 2017-18)?**

2. **How did the States spend the additional money received by them post the FFC Award?**

    - **Part 1** outlines **the context** in which the States expenditures were impacted by changes at the Union government level;

    - **Part 2** analyses the **total receipts** of All States and assesses the **net additional resources** the States received in the FFC Award, after adjusting for the change in funding patterns of CSS, discontinuation of certain CSS/ transfer of others to the States and the withdrawal of Block Grants under Central Assistance to State Plans (CASP) i.e. **Plan Transfers**. It goes on to show the variations across States due to these factors as well as due to horizontal devolution in which they emerge as either Gainers or Losers. It also outlines the effect of increase in cess / surcharge on the divisible pool of Gross Tax Revenues in FY 2015-16, 2016-17 and 2017-18.

    - **Part 3** examines changes in the **total expenditure** of All States in the three years of the FFC Award and the extent to which they (the States) have spent the additional resources available through Devolution and Grants on development programmes across key sectors like agriculture, health, nutrition, education, drinking water and sanitation. It analyses the variations across States through the prism of 18 States who were affected by changes in CSS and the 11 States who were not, but used to be major recipients of Block Grants. The positon of these States is filtered further by placing them amongst Gainers and Losers post FFC award.

    - **Part 4** discusses the broad conclusions.

## Part 1: Context

The FFC recommendations to increase the devolution to the States from 32 percent to 42 percent of the divisible pool was accepted by the Government of India (GoI). While doing so, the FFC recommended that tax devolution should be the primary source of transfer of funds to the States to enable them to effectively perform their functions. In recognition of the diminished fiscal space of the Union and the concomitant additional fiscal room available to the States, with effect from financial year (FY) 2015-16, eight (8) CSS were discontinued and some others were transferred to the States, the sharing pattern of major CSS changed to 60:40 with the expectation that States would put in higher shares. As the Explanatory Memorandum to the Action Taken on the FFC Report submitted to Parliament on February 24, 2015 stated *"It is expected that with this change in the sharing pattern concerns of the States of asymmetry in fiscal federal relations will be addressed. It is hoped that the States will use the extra fiscal space available to them to create productive assets…"*[1] (para 7 of the Memorandum).

The commencement of the FFC Award period (2015-16) also saw other far reaching changes in the institutional arrangements in the Central government. NITI Aayog replaced the Planning Commission. A subgroup of Chief Ministers constituted by the Governing Council of NITI Aayog submitted a Report on Rationalisation of CSS and inter alia, the design and implementation arrangements, sharing patterns and scope of CSS also underwent considerable modification in the first two years of the Award period (2015-16 and 2016-17). At this time, it was also decided to discontinue the Five-Year Plans after the concluding year of the 12th Five Year Plan period (2016-17). In the Union budget of 2017-18, the Plan/Non-Plan classification was also dispensed with and all expenditure was classified into Revenue and Capital.

NITI Aayog came into being on 1st January 2015. The first meeting of its Governing Council comprising Chief Ministers of all States and Lt. Governors of UTs was held on February 8, 2015 and it was decided to endorse a common National Development Agenda to achieve Vision 2022 in the 75th year of India's Independence. The Chief Ministers of all States were unanimous that in the true spirit of cooperative federalism, as 'Team India', they were collectively bound to achieve common national goals across the country.

Until 2014-15, the year preceding the FFC Award and the dismantling of the Planning Commission, revenue expenditure of the States was financed by States' Own Resources, including borrowings, Central Transfers including FC Grants under 'Non-Plan', and Block Grants, (under the then current 12th Five Year Plan) classified under 'Central Assistance to

[1] Department of Economic Affairs, Ministry of Finance, Government of India (2014), 'Explanatory Memorandum as to the action taken on the Recommendations made by the Fourteenth Finance Commission in its report submitted to the President on December 15, 2014', New Delhi, available at http://www.indiaenvironmentportal.org.in/files/file/14fcrengExpMemo.pdf (last accessed February, 18, 2019)

State Plans'(CASP) under 'Plan'.[2] The Block Grants under CASP were released under the following Heads:

i) Normal Central Assistance (NCA) apportioned according to the Gadgil Mukherjee formula endorsed by the National Development Council;
ii) Additional Central Assistance (ACA) tied to specific Schemes
iii) One Time Additional Central Assistance (OTACA) for specific projects;
iv) Special Central Assistance (SCA) given as untied grants to 8 North Eastern States and three Himalayan States (then called Special Category States); and
v) Special Plan Assistance (SPA) given to the above-mentioned Special Category States tied to specific projects.

Notwithstanding this, the bulk of CASP was channelled through CSS administered by the Line Ministries of the Government of India. In addition to the issues relating to their design and implementation noted above, the inflexible positions of the Line Ministries delayed releases, hampered efficiency of resource use, and thus materially affected their visibility and impact in the States. Moreover, in the States' view they pre-empted the Gross Budgetary Resources (GBS) for Plan expenditure and ate into the fiscal space available for Block Grants under CASP (particularly the untied component of the Block Grants).

In the Union Budget 2017-18, after the culmination of the 12$^{th}$ Five Year Plan, the Plan and Non-Plan classification of expenditure was replaced by Revenue and Capital heads. Henceforth, Transfers to States comprised transfers of the Central share of CSS, Finance Commission Grants and Other Transfers. These accompanied the institutional and structural changes that led to consequential changes in the accounting / reporting framework for Grants-in-aid category of States' Receipts in important ways. Specifically, the Consolidated Fund of the States were impacted.

The year wise changes are illustrated in Figure 1.1 and detailed below:

- **2014-15: State's share of CSS transferred directly to the Consolidated Fund of States**

Prior to 2014-15, the Union government transferred the central share of CSS through 'Society mode', under which transfers were made directly into the bank accounts of the implementing agencies which are the Societies/ autonomous bodies /non-government organisations, etc. implementing the Schemes at State and District level. Thus these funds that were directly transferred by Line Ministries of the GoI were not received into the Consolidated Funds of the States and bypassed the scrutiny of State legislatures. With effect from 2014-15, it was decided to transfer the central share of CSS funds by 'Treasury route' into the Consolidated Fund of

[2] Central Assistance to State Plans (CASP) was one part of the Plan Budget and comprised transfers to States in the form of Block Grants and the central share of Centrally Sponsored Schemes (CSS). The other component of Plan was the Central Plan that included outlays for Central Ministries. The Plan budget received Gross Budgetary Support (GBS) annually from the Ministry of Finance.

the States and **reflected as an “increase” in the Consolidated Fund of the States by as much as 60 percent in 2014-15.**

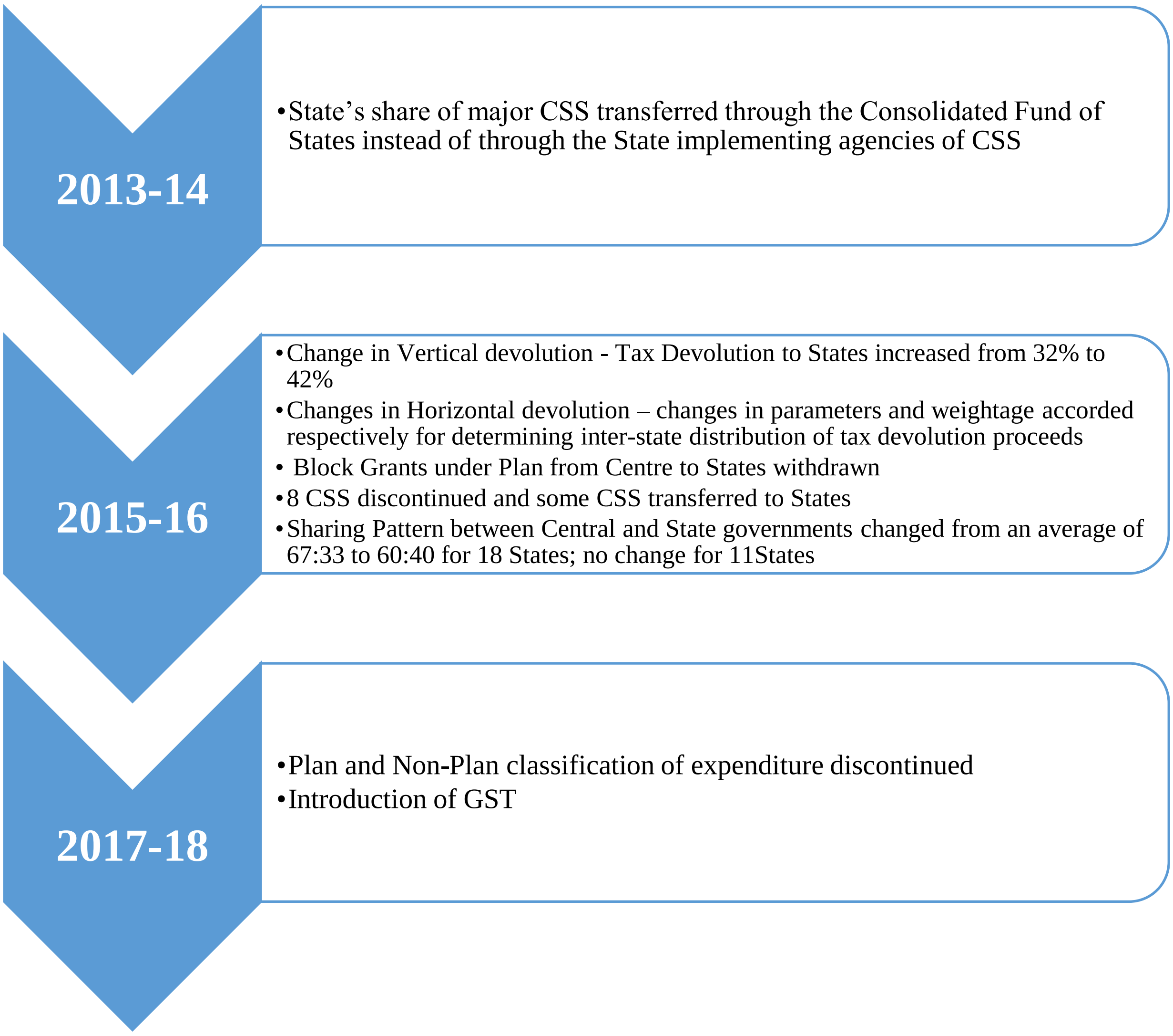
- **2015-16: Block Grants under Plan from Centre to States withdrawn**

This component of CASP that was based on the recommendations of the erstwhile Planning Commission was done away with and hereafter, only comprised grants under CSS and the FFC Award. This measure **reduced the quantum of transfers received in the Consolidated Fund of the States under the head - State Plan Schemes**.

- **2017-18: Plan and Non-Plan classification of expenditure discontinued**

Grants heretofore included State Plan Schemes, CSS and Central Plan Schemes. However, post the discontinuation of this classification of expenditure composition of Grants-in-aid changed. **Expenditure was now classified only as Revenue and Capital.**

**Figure 1.1: Rapid Changes and Impact on Consolidated Fund of States**



*Source: Compiled by Authors*

Against this backdrop, this study seeks to analyse the trends in States development expenditure following the FFC Award that increased the share of taxes devolved upon the States, thereby increasing the fiscal space available to them. It is proposed to assess the trends across the States, and track the expenditures both from their own resources and Central government transfers, after the FFC Award and to examine whether the fiscal room given to the States as untied transfers under Devolution and higher quantum of Grants has actually translated into higher outlays in key development sectors. Second, whether the development programs of the Union and the States' efforts have collectively been harnessed towards achieving common national goals.

Note that throughout the study, trends across these indicators have been presented at different levels. Averages have been computed for the last three years of the TFC Award (2012-13 to 2014-15) and the first three years of the FFC Award (2015-16 to 2017-18) to draw comparisons. These periods also span across the years in which the far-reaching changes above took place. The study also uses reference to nominal figures in line with extant accounting and budgeting practices.

## Part 2: Impact of FFC Award: Gains on the Swings and Losses on the Roundabouts

***Part 2** analyses the total receipts of All States and assesses the **net additional resources** the States received in the FFC Award, after adjusting for the change in funding patterns of **CSS,** discontinuation of certain CSS/ transfer of others to the States and the withdrawal of Block Grants under CASP i.e. **Plan Transfers**. It goes on to show the variations across States due to these factors as well as horizontal devolution in which they emerge as either Gainers or Losers. It also outlines the effect of increase in cess / surcharge on the **Divisible Pool** of Gross Tax Revenues in FY 2015-16, 2016-17 and 2017-18.*

The increase in the percentage of tax devolution from 32 percent to 42 percent to the States, under the FFC Award (2015-2020), has increased the fiscal space available to them and as a corollary, the fiscal room for the Union has effectively shrunk. The issue is whether the gross increase of 10 percent in devolution has translated into an actual increase in the same proportion in Total Receipts of the States. The general perception is that the gains due to the gross increase of 10 percent in devolution was offset by losses on account of several factors. First, the less than optimal increase in the shareable pool of taxes due to sharp increases in the non-shareable components (Cess and Surcharges) effectively reduced the total kitty of the Divisible Pool (DP). Second, the quantum of untied transfers was reduced because some CSS were discontinued and yet others were transferred to the States, thereby creating a preemptive charge on the States' exchequer. Finally, the increased State shares in major CSS meant that a higher amount had to be set aside for them; and in addition, the withdrawal of Block Grants like NCA/SCA/SPA etc. under CASP affected line departments in the recipient States and disrupted several Schemes and Programs. Due to these factors, the States contend that they while they ostensibly "gained" 10 percent in the FFC Award, they actually "lost" a substantial amount of the additional resources that should have accrued to them and hence the increase was much less than 10 percent.

This section provides an overall assessment of the **net additional resources** available to the States after adjusting for the reductions, if any, on account of the factors listed above. The specific contribution of these increases/changes are examined and the extent to which they impacted the fiscal space available to the States will be assessed. For the purpose of this study, the terms used are defined in Box 2.1.

**Box 2.1: Definitions**

- **Total Receipts** = States' Own Resources (States' own Tax Revenue *plus* States' Non-Tax Revenue) *plus* Transfers from the Centre (comprising Share of Central taxes, Grants in aid including CSS, Finance Commission (FC) Grants and Other Transfers) *plus* Capital Receipts (Non-Debt Capital Receipts *plus* Debt Capital Receipts)
- **Total Expenditure** = Revenue Expenditure (Expenditure on Social, Economic and General Services and Grants-in-Aid and Contributions by the State) *plus* Capital Expenditure (Expenditure on Social, Economic and General Services)
- **Transfers from the Centre =** Share of Central Taxes (Devolution) *plus* FC Grants (including Revenue Deficit Grants, Disaster Relief and Local Body Grants) *plus* Other Transfers
- **Tax Devolution to States** = percentage share of Divisible Pool of Shareable Taxes (out of Gross Tax Revenue (GTR))
- **Divisible Pool =** GTR *minus* Cost of tax Collection *minus* Cess and Surcharge Collection *minus* Taxes of Union Territories (UTs)

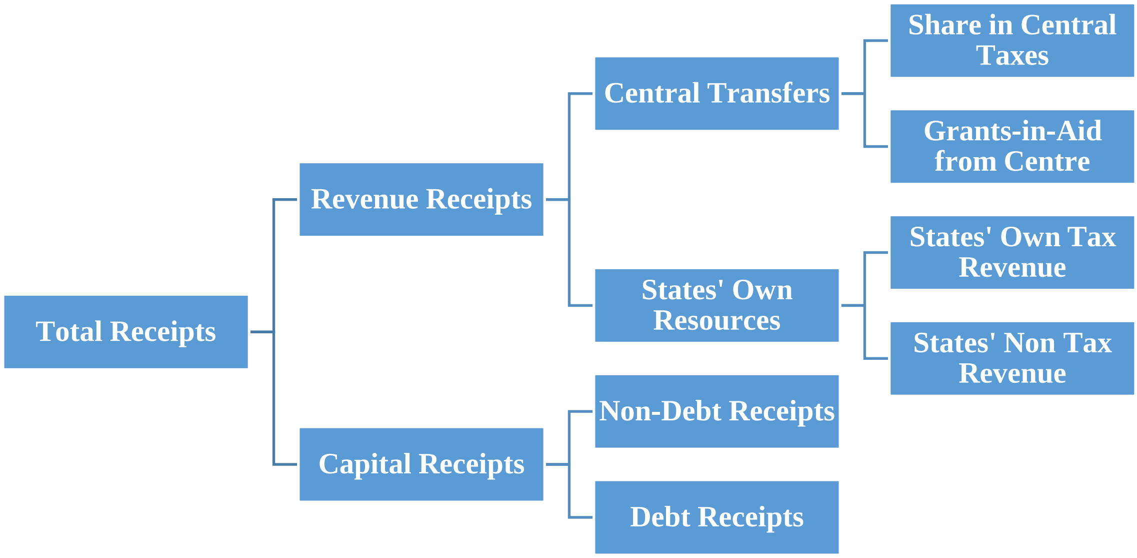
## 2.1 Total Receipts: All States

Total Receipts of States are classified as under:

- Central Transfers (Share in Central Taxes (Devolution) and Grants-in-Aid (FC Grants/CSS/Other Transfers);
- States' Own Resources (Tax and Non-Tax Revenue); and
- Capital Receipts (Non-Debt and Debt Capital Receipts).

The composition of Total Receipts is illustrated in Figure 2.1.

## Figure 2.1: Composition of Total Receipts of the States




*Source: Compiled by Authors*

## Table 2.1: Trend Analysis of Total Receipts of the States

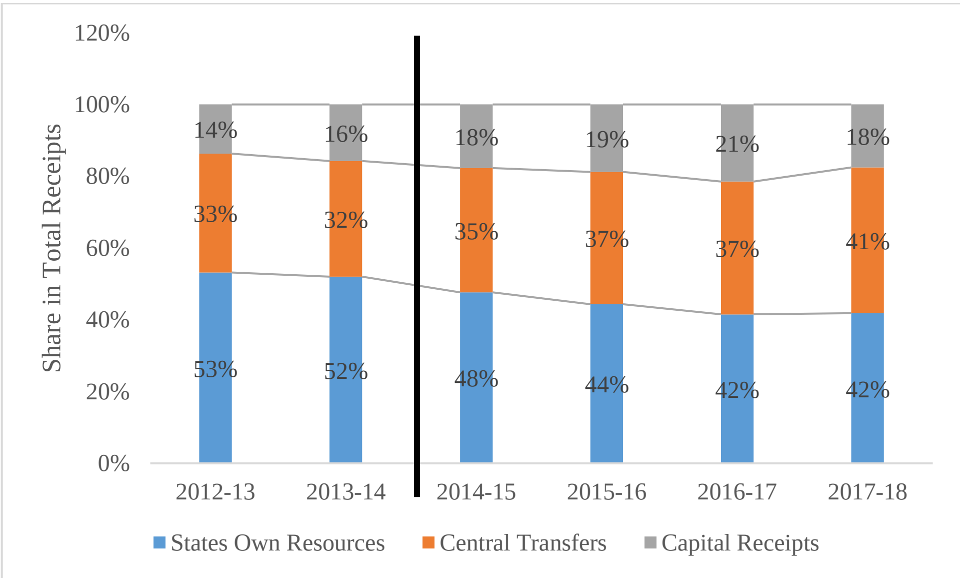
*In Rs. Lakh Crores*

| | | 2012-13 Actuals | 2013-14 Actuals | 2014-15 Actuals | 2015-16 Actuals | 2016-17 Actuals | 2017-18 (RE) | TFC Award Average (2012-13 to 2014-15) | FFC Award Average (2015-16 to 2017-18) |
|---|---|---|---|---|---|---|---|---|---|
| **1** | **States Own Resources (1=2+3)** | **7.72** | **8.45** | **9.23** | **10.01** | **10.82** | **12.45** | **8.47** | **11.09** |
| | *Y-o-Y basis* | | *9%* | *9%* | *8%* | *8%* | *15%* | | |
| 2 | Own Tax | 6.55 | 7.12 | 7.79 | 8.47 | 9.13 | 10.50 | **7.15** | **9.37** |
| 3 | Own Non-Tax | 1.17 | 1.33 | 1.44 | 1.54 | 1.70 | 1.95 | **1.31** | **1.73** |
| **4** | **Central Transfers (4=5+6)** | **4.80** | **5.24** | **6.69** | **8.32** | **9.64** | **12.13** | **5.58** | **10.03** |
| | *Y-o-Y basis* | | *9%* | *28%* | *24%* | *16%* | *26%* | | |
| 5 | Share in Central Taxes | 2.92 | 3.18 | 3.38 | 5.06 | 6.08 | 6.93 | **3.16** | **6.02** |
| 6 | Grants-in-Aid | 1.89 | 2.06 | 3.31 | 3.26 | 3.56 | 5.19 | **2.42** | **4.00** |
| **7** | **Capital Receipts (7=8+9)** | **1.99** | **2.57** | **3.44** | **4.25** | **5.60** | **5.22** | **2.67** | **5.02** |
| | *Y-o-Y basis* | | *29%* | *34%* | *23%* | *32%* | *-7%* | | |
| 8 | Non-Debt Capital Receipts | 0.07 | 0.07 | 0.20 | 0.08 | 0.16 | 0.56 | **0.12** | **0.27** |
| 9 | Debt Capital Receipts | 1.91 | 2.50 | 3.24 | 4.16 | 5.44 | 4.66 | **2.55** | **4.75** |
| **10** | **Total Receipts (10=1+4+7)** | **14.51** | **16.26** | **19.36** | **22.58** | **26.07** | **29.80** | **16.71** | **26.15** |
| | *Y-o-Y basis in Total Receipts* | | *12%* | *19%* | *17%* | *15%* | *14%* | | |

| Total Receipts including Direct Releases to States[3] | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **A** | *Direct Releases to States* | *1.05* | *1.13* | | | | | | |
| **B** | Central Transfers including Direct Release | 5.85 | 6.37 | 6.69 | 8.32 | 9.64 | 12.13 | | |
| | *Y-o-Y basis* | | *9%* | *5%* | *24%* | *16%* | *26%* | | |
| **C** | *Total Receipts including Direct Release* | **15.56** | **17.39** | **19.36** | **22.58** | **26.07** | **29.80** | **17.44** | **26.15** |
| | *Y-o-Y basis b* | | *12%* | *11%* | *17%* | *15%* | *14%* | | |

*Source: Extracted from Study of State Finances by Reserve Bank of India, various years*

**Figure 2.2: Changes in relative shares in Total Receipts, post the FFC Award**




*Source: Authors' Compilation*

**<u>Key Findings:</u>**

- Total Receipts of all States, grew by 56 percent, on an average, in the first three years of the FFC Award (2015-16 to 2017-18) compared to the last three years of the TFC Award (2012-13 to 2014-15). This increase was due to higher Central Transfers, which grew on an average, by 80 percent during the same period (see Table 2.1). the biggest contributor to growth in Central Transfers, was the increase in Tax Devolution (Devolution) percentage from 32 percent to 42 percent as part of the FFC Award;

- Both Devolution and Grants-in-Aid (Grants) increased and States received higher amounts during the first three years of the FFC Award (2015-16 to 2017-18) compared to the last three years of the TFC Award (2012-13 to 2014-15). On an average, States' receipts on

[3] For explanatory note on accounting changes and direct releases see Box 2.2

account of Devolution increased by 91 percent and on account of Grants by 65 percent, in the first three years of the FFC Award (2015-16 to 2017-18);

- Post the FFC Award, the relative share of Grants and Devolution changed. The share of Grants, on an average, dropped from 43 percent in the last three years of the TFC Award to 40 percent in the first three years of the FFC Award and Devolution increased from 57 percent to 60 percent, during the same period;

- Due to an accounting change (for details see Box 2.2), Total Receipts grew by 19 percent in 2014-15 compared to 2013-14 and Central Transfers show growth with effect from 2014-15 predominantly due to the accounting change;

- From 2014-15 onwards, CSS transfers were made through the "Treasury route" instead of the "Society mode". As a consequence, Central Transfers reported a growth of 28 percent on year-on-year (y-o-y) basis (see Table 2.1). However, on including Direct Releases that accrued to the States in the preceding years, but bypassed the Consolidated Fund of the States until 2014-15, Central Transfers actually grew by only 5 percent in 2014-15 as compared to 2013-14;

- Post FFC Award the three main variables changed:

  - Share of States' Own Resources declined ⬇
  - Share of Central Transfers increased ⇧
  - Share of Capital Receipts (debt receipts / borrowings) of States increased post the FFC Award ⇧

**Box 2.2: Accounting Change in Total Receipts post 2014-15**

It is important to note that the amount for Total Receipts for the years 2012-13 and 2013-14 does **not** include the Central Transfers on account of central share of some CSS that were routed directly to implementing agencies in the States (Society Mode) because these amounts were not reflected in the Consolidated Fund of the States. From 2014-15 onwards, the GoI discontinued this practice and instead of directly transferring the central share of some CSS directly to the implementing agencies at the State level, shares were transferred to the States through the Consolidated Fund of States (Treasury Route).

The Rangarajan Committee set up by the Planning Commission in its report[4], estimated that almost one third of the transfers to States under CSS bypassed the State Treasuries and, were therefore, outside the purview of the State budgets. As a result, from 2014-15 onwards, the last year of the TFC Award, the Consolidated Fund of the States began reflecting the CSS transfers as part of Central Transfers under Grants-in-Aid.

As the FFC report stated *"In calculating the share of transfers from the Union to the States, the standard approach used is to include only those transfers that are received in the Consolidated Funds*

[4] 'Report of the High-Level Expert Committee on Efficient Management of Public Expenditure' (July 2011).

*of States. Direct transfers to implementing agencies are not taken as part of State Finance Accounts and are captured only in the Union Government's accounts.*[5]

**We have followed this practise and for the purpose of this study, the analysis of Total Receipts will not include the the amounts released to Directly Implementing Agencies in 2012-13 (Rs 1.05 lakh crores) and 2013-14 (Rs 1.13 lakh crores), respectively, because the Total Expenditure of the States for the years 2012-13 and 2013-14 did not factor in releases to Directly Implementing Agencies as part of Total Receipts of the States.**

### ➢ 2.1.1. Central Transfers

Central Transfers are made in accordance with Article 280(3) of the Constitution and are based on the recommendations of the Finance Commission. They have two components, namely share in Central Taxes from the Divisible Pool, (or Devolution) and Grants in Aid (or Grants) from the Union's budget after netting out Devolution to States out of the Divisible Pool (DP). Grants are made under Article 275 of the Constitution of India to supplement the resources of the States out of the Consolidated Fund of India. The principles that govern Grants are also based on the recommendations of the Finance Commission.

Aggregate Central Transfers to all States in the first three years of the FFC were Rs. 30.08 lakh crores (see Table 2.1). These were higher than the aggregate amount transferred to States in the last three years of the TFC (Rs. 16.74 lakh crores). During first three years of FFC Award, on an average, share of Grants was 40 percent and that of Devolution was 60 percent. Growth reported in Central Transfers was mainly on account of higher Devolution and Grants-in-Aid and their trends are detailed in the following sub-sections.

#### ➢ Devolution

Devolution includes the distribution of net proceeds of taxes between the Union and States (Vertical Devolution) as well as the *inter se* allocation of the respective shares of States based on weights assigned to various parameters (Horizontal Devolution). It is a fraction of the Divisible Pool (see definition in Box 2.1).

The amounts transferred to the States on account of Devolution may vary under the following circumstances:

a) Change in Devolution percentage; or

b) Change in the size of the Divisible Pool (DP) of Gross Tax Revenue (GTR); or

c) Both (a) and (b)

#### a) Changes in Devolution percentage

The total amount transferred to States on account of tax devolution during the TFC Award (2010-11 to 2014-15) was Rs. 14.22 lakh crores or 32 percent of the DP (Rs 45.65 lakh crores)

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[5] Finance Commission of India (2015), Report of the 14th Finance Commission, pp. 51. Para 5.8.

and around 28 percent of the GTR prior to netting out of the non-shareable components (Rs. 51.02 lakh crores).[6]

Between 2015-16 and 2017-18, all States benefitted from a higher share in the DP that also increased due to growth in the GTR. In the very first year of the FFC Award, Devolution to States jumped from Rs. 3.38 lakh crores in 2014-15 to Rs. 5.06 lakh crores in 2015-16, recording a growth of almost 50 percent compared to the preceding year, which was the last year of the TFC Award. Subsequently, during the first three years of the FFC Award (2015-16 to 2017-18), all States collectively received almost twice the amount (Rs. 17.87 lakh crores) compared to the amount (Rs. 9.48 lakh crores) they had received during the last three years of the TFC Award (2012-2015) (see Table 2.2).

**Table 2.2: Growth in Devolution to States between 2012-13 and 2017-18**

*In Rs lakh Crore*

| | **2012-13 Actual** | **2013-14 Actuals** | **2014-15 Actuals** | **2015-16 Actuals** | **2016-17 Actuals** | **2017-18 RE** | **Total (2012-13 to 2014-15)** | **Total (2015-16 to 2017-18)** | **% Growth** |
|---|---|---|---|---|---|---|---|---|---|
| Devolution | 2.92 | 3.18 | 3.38 | 5.06 | 6.08 | 6.93 | 9.48 | 18.07 | 90% |
| *Y-o-y* basis | | *9.2%* | *6.1%* | *49.8%* | *20.1%* | *14.1%* | | | |
| **Total** Receipts | **14.51** | **16.26** | **19.36** | **22.58** | **26.07** | **29.80** | 50.13 | 78.45 | 56% |

*Source: Extracted from Study of State Finances by Reserve Bank of India, various years*

According to the FFC Report, the projected GTR for the first three years of the FFC Award was Rs. 54.46 lakh crores.[7] However, the actual GTR for the said period turned out to be only Rs. 51.18 lakh crores. So, the difference between projected and actual GTR was Rs 3.28 crores (or 6.02 percent) lower. In the first three years of the FFC Award (2015-16 to 2017-18), aggregate devolution to all States was Rs. 17.87 lakh crores (Rs 2.33 lakh Crores less than the projected amount of Rs. 20.20 lakh crores[8]).

### b) Changes in Gross Tax Revenue (GTR) and the Divisible Pool (DP)

The GTR remained buoyant between 2012-13 and 2017-18. The DP also, continued to grow post the FFC Award, but not in the same proportion as the growth in GTR. Post 2015-16, GTR grew at an average rate of 16 percent and DP grew at an average rate of 13 percent (see Table 2.3).

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6 Extracted from the Report of the 14th Finance Commission of India.
7 ibid.
8 ibid.

**Table 2.3: Computation of the Divisible Pool**

*In Rs Lakh Crores*

| S. No. | Variable | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | TFC Average (2012-13 to 2014-15) | FFC Average (2015-16 to 2017-18) | % Growth (Between TFC & FFC Average) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Actuals | Actuals | Actuals | Actuals | Actuals | RE | | | |
| 1 | Gross Tax Revenue | 10.36 | 11.39 | 12.45 | 14.56 | 17.16 | 19.46 | **11.40** | **17.06** | 50% |
| | *Y-o-y basis* | | 10% | 9% | 17% | 18% | 13% | | | |
| 2 | Taxes on Union Territories | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 | 0. 05 | **0.03** | **0.04** | 33% |
| 3 | Cost of Tax Collection | 0.08 | 0.08 | 0.1 | 0.11 | 0.13 | 0.16 | **0.09** | **0.13** | 44% |
| 4 | Cess and Surcharge Collection | 0.92 | 1.04 | 1.16 | 1.72 | 2.18 | 3.13 | **1.04** | **2.34** | 125% |
| **5** | **Divisible Pool [5=1-(2+3+4)]** | **9.3** | **10.2** | **11.2** | **12.7** | **14.8** | **16.1** | **10.23** | **14.53** | **42%** |
| | ***Y-o-y basis*** | | ***10%*** | ***10%*** | ***13%*** | ***17%*** | ***9%*** | | | |
| 6 | Tax Devolution to States | 2.92 | 3.18 | 3.38 | 5.06 | 6.08 | 6.73 | **3.16** | **5.96** | 89% |
| *7* | *Tax Devolution as a percentage of Divisible Pool* | *31%* | *31%* | *30%* | *40%* | *41%* | *42%* | | | |

*Source: Computation from Union Budget*

### c) Both (a) Change in devolution percentage and (b) Changes in GTR and DP

Changes in GTR and changes in DP, post the FFC Award, resulted in several further changes. First, as mentioned earlier, the projected GTR (Rs. 54.46 lakh crores) for the first three years and actual collection of GTR (Rs 51.18 lakh crores), had a percentage variation of (-) 6.02 percent.[9] Second, between the TFC and FFC Award, GTR grew, on average, by 50 percent but

[9] The percentage variation of the Gross Tax Revenues of the Centre between the projection of the Eleventh and Thirteenth FC was *minus* 16.5 percent and *minus* 4.1 percent respectively *"It is only in case of the Twelfth Finance Commission that the actuals are higher than projected, primarily because during the period covered by it the growth of the economy was buoyant and there was significant growth in revenue from income tax because of the Tax Information Network."* Page134-135; Chapter 8; Indian Fiscal Federalism; Reddy Y.V and Reddy G.R; Oxford University Press 2019.

the DP grew by only 42 percent i.e. less than the rate of the GTR. Nevertheless, after 2015-16, the growth in GTR has led to continuous increases in DP albeit at a lower rate.

Logically, if increases in GTR were to be fully passed on to the States, (without netting out cess and surcharges, cost of collection and taxes on UTs) by way of Devolution, the growth in GTR should be equal to growth in the DP. However, this was not so between 2015-16 and 2017-18. The GTR increased at an average rate of 16 percent between 2015-16 and 2018-19 but the DP grew at an average rate of only 13 percent, because Cess and Surcharges grew at a higher rate in the first three years of the FFC Award, compared to the last three years of the TFC Award. Since Cess and Surcharges started growing at a higher rate post 2014-15, revenues from Cess and Surcharges went up from 9.3 per cent of GTR in 2014-15 to around 16 per cent in 2017-18 (RE) (see Table 2.4a).

**Table 2.4a: Trend Analysis of Components of the Divisible Pool**

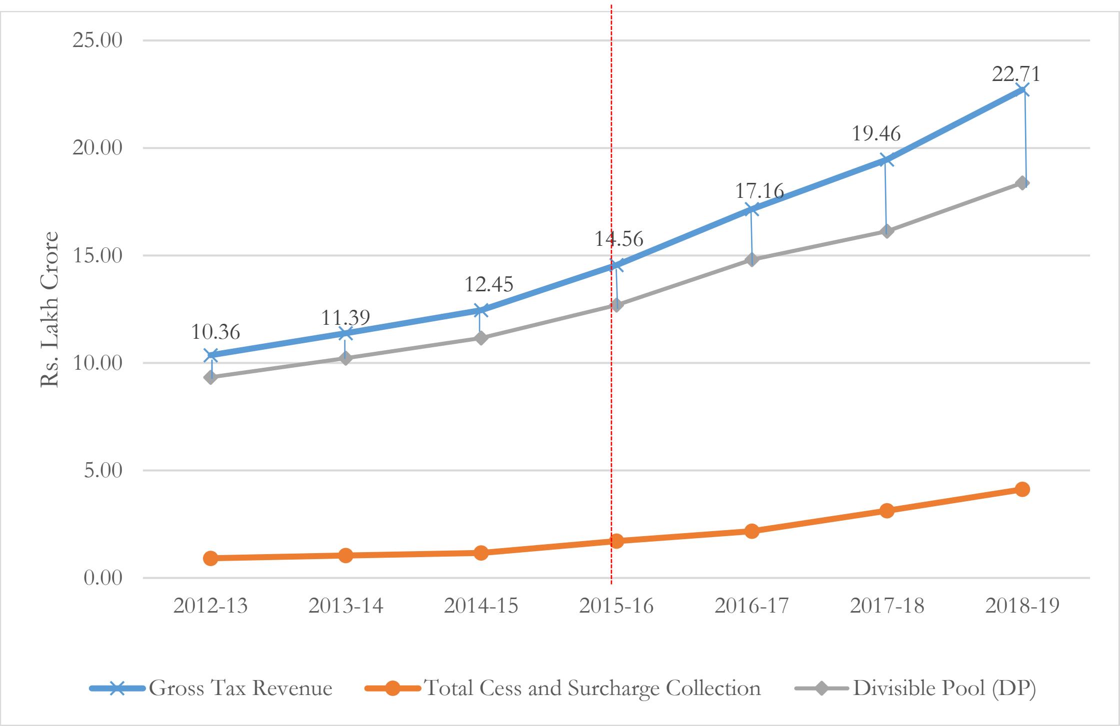
*In Rs lakh Crores*

| **S. No.** | **Variables** | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **TFC Average (2012-13 to 2014-15)** | **FFC Average (2015-16 to 2017-18)** | **% Growth (Between TFC & FFC Average)** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Actuals | Actuals | Actuals | Actuals | Actuals | RE | | | |
| 1 | Gross Tax Revenue | 10.36 | 11.39 | 12.45 | 14.56 | 17.16 | 19.46 | **11.40** | **17.06** | 50% |
| | *y-o-y trend* | | *10%* | *9%* | *17%* | *18%* | *13%* | | | |
| 2 | Taxes on Union Territories | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 | 0.05 | **0.03** | **0.04** | 33% |
| 3 | Cost of Tax Collection | 0.08 | 0.08 | 0.1 | 0.11 | 0.13 | 0.16 | **0.09** | **0.13** | 44% |
| **4** | **Total Cess and Surcharge Collection** | **0.92** | **1.04** | **1.16** | **1.72** | **2.18** | **3.13** | **1.04** | **2.34** | **125%** |
| | ***Cess and surcharges as a percentage of GTR*** | ***9%*** | ***9%*** | ***9%*** | ***12%*** | ***13%*** | ***16%*** | | | |
| **5** | **Divisible Pool (DP) [5=1-(2+3+4)]** | **9.34** | **10.23** | **11.16** | **12.69** | **14.81** | **16.12** | **10.24** | **14.54** | **42%** |
| 6 | State's Share of Union Taxes | 2.92 | 3.18 | 3.38 | 5.06 | 6.08 | 6.73 | **3.16** | **5.96** | 89% |
| **7** | **Non-Shareable GTR (1-6)** | **7.45** | **8.21** | **9.07** | **9.49** | **11.08** | **12.73** | **8.24** | **11.10** | **35%** |
| | *y-o-y trend* | | *10%* | *11%* | *5%* | *17%* | *15%* | | | |

*Source: Computation using Union Budget*

The gap between GTR and DP started to widen after 2015-16 (see Figure 2.3). Consequently, States' share in GTR fell to 34.6 percent in 2017-18 (RE) from 35.4 percent in 2016-17.[10]

**Figure 2.3: Gap between Gross Tax Revenue and Divisible Pool**




*Source: Authors' own Compilation*

## <u>An Alternative Scenario</u>

An attempt has been made to compute the amount that would have accrued to the DP and become part of the shareable pool of GTR, had the rate of growth of Cess and Surcharges post 2015-16, remained at the earlier levels. Hypothetically, had Cess and Surcharges continued to account for 9 percent of the GTR, after 2015-16 also, the size of the DP for the period 2015-16 to 2018-19 would have been Rs. 16.62 lakh crores instead of being Rs. 15.5 lakh crores and the size of the DP for the period 2015-16 to 2018-19**, would have been greater, on average, by Rs. 1.12 lakh crores** (see Table 2.4b).

[10] RBI (2017-18). RBI Report on 'State Finances, A Study Budgets of 2017-18 and 2018-19' available at https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0SF201718_FULL6EE17CFBD8004287A0CD4FDB0632AFE8.PDF

**Table 2.4b: Growth of Gross Tax Revenue and Divisible Pool: An Alternative Scenario**

*In Rs lakh Crores*

| | **Year** | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **Average (2015-16 to 2018-19)** |
|---|---|---|---|---|---|---|---|---|---|
| | | **Actuals** | **Actuals** | **Actuals** | **Actuals** | **Actuals** | **RE** | **BE** | |
| 1 | Gross Tax Revenue | 10.36 | 11.39 | 12.45 | 14.56 | 17.16 | 19.46 | 22.71 | |
| 2 | Taxes on Union Territories | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 | 0.05 | 0.05 | |
| 3 | Cost of Tax Collection | 0.08 | 0.08 | 0.10 | 0.11 | 0.13 | 0.16 | 0.16 | |
| 4a | Total Cess and Surcharge Collection (Hypothetical) | 0.92 | 1.04 | 1.16 | 1.31 | 1.54 | 1.75 | 2.04 | |
| | ***Cess and surcharges as a percentage of GTR*** | ***9%*** | ***9%*** | ***9%*** | ***9%*** | ***9%*** | ***9%*** | ***9%*** | |
| **5a** | **Divisible Pool (DP) [5=1-(2+3+4)]** | **9.34** | **10.23** | **11.16** | **13.10** | **15.44** | **17.50** | **20.45** | **16.62** |
| **4b** | **Total Cess and Surcharge Collection (Actual)** | **0.92** | **1.04** | **1.16** | **1.71** | **2.18** | **3.13** | **4.12** | |
| | ***Cess and surcharges as a percentage of GTR*** | ***9%*** | ***9%*** | ***9%*** | ***12%*** | ***13%*** | ***16%*** | ***18%*** | |
| **5b** | **Divisible Pool (DP) [5=1-(2+3+4)]** | **9.34** | **10.23** | **11.16** | **12.69** | **14.81** | **16.12** | **18.37** | **15.5** |
| | **5a-5b** | | | | | | | | **1.12** |

*Source: Computation by Authors*

**Key Findings:**

- The size of the non-sharable GTR was higher in the first three years FFC Award compared with the last three years of TFC Award mainly because the share of Cess and Surcharges in the GTR was considerably higher in the years post FFC Award. Cess and Surcharges grew, on an average, in the range of 4-6 percent in that period (see Table 2.4a);

- During the first three years of the FFC Award (2015-16 to 2017-18), Cess and Surcharge collection grew by 125 percent, on an average, compared to the last three years of the TFC Award (2012-13 to 2014-15). However, the other components (i.e. collection charges and the tax of UTs) that are netted out of the GTR for computing the DP did not increase significantly;

- Changes in DP was due to growth in GTR. While on the one hand, the growth in GTR led to increase in the size of DP, on the other hand, the significant growth in Cess and Surcharges collection, depressed the **size of the increase in DP**, since they are netted out of the GTR before computing the DP;

- To summarise, the less than optimum growth in DP was on account of two factors:

i) due to the difference in the GTR **projected** by the FFC and **the actual** GTR for 2015-16 to 2017-18; and

ii) due to the **steep increase** in Cess and Surcharges in these years. This impacted **the size of the increase** in DP negatively. As a result, the increase in tax devolution by 10 percent translated into an amount that was less than 10 percent, based on projected figures.

**Box 2.3: Cess and Surcharges**

Cess is levied for specific purposes under a law made by Parliament. Surcharge on certain duties and taxes [except Goods and Services Tax (GST)] can also be levied and increased by Parliament. Surcharges are levied on individuals and corporations and the collections accrue to the Consolidated Fund of India under Article 271 of the Constitution, which mandates that "Notwithstanding anything in articles 269 and 270, Parliament may at any time increase any of the duties or taxes referred to in those articles [except the goods and services tax under article 246A,] **by a surcharge for purposes of the Union and the whole proceeds of any such surcharge shall form part of the Consolidated Fund of India."** They can be spent for the purposes of the Union and are, in that sense, "untied". On the other hand, the revenues generated by a Cess can only be used for the designated purpose and are "tied" to that extent. Both Cess and Surcharge do not form part of the DP and the collections are not sharable with the States.[11]

The rising share of Cess and Surcharges in the GTR over the last 4 years has been met with a great deal of criticism from the States. Almost all the States have cried foul at the additional amounts accruing on account of Cess and Surcharges collections being denied to them as they are kept out of the DP and, as a result, effectively reduce the amount assigned to them by the FFC. The Union has justified this sharp increase in Cess and Surcharges on grounds that they are necessary for additional resource mobilization to meet fiscal consolidation goals and fund investments in critical sectors of national development.

The Comptroller and Audit General of India (CAG), in various reports, as also the Parliamentary Standing Committee on Finance have adversely commented on the underutilization, non-transfer of Cess and other issues relating to its accounting practices by the Central government. The Central

[11] Articles 268,269,269A and Articles 270 and 271 of the Constitution of India as amended until date by the Constitution (One Hundred and First Amendment) Act, 2016 s. 8, (w.e.f. 16-9-2016).

government, on its part, has laid the onus on slow implementation of the Schemes that they were intended for and the lack of absorptive capacity of the departments.[12]

The FFC, while agreeing that the impact of increasing Cess and Surcharges on the DP was a legitimate concern of the States, did not concur with earlier FCs that the Union government review the position and take steps to amend the Constitution to enable Cess and Surcharges to be part of the DP. Instead, it chose to increase the share of tax devolution by 10 percent of the DP, thereby changing the composition of transfers and increasing the quantum of untied resources.[13]

The issues relating to Cess and surcharge are complex and not solely related to the States' claims that they should become part the divisible pool of taxes and shared as part of devolution as untied transfers. On the one hand, the Union's contention that they are a means of additional resources to fund their obligations, especially as the fiscal space has shrunk after the FFC Award, has some merit. However, if revenues from any Cess collection are not spent for any designated purpose, or are diverted, the additional burden on taxpayers brings down real incomes without any gains as intended. On the other hand, the States' clamour for including them as part of the DP not only needs an amendment to the Constitution but also begs the question of the relative efficiency of public expenditure by the governments in the States versus that of the Union government.

In their latest report on State Finances, the RBI has flagged this issue and concluded that

*"a binding constraint emanates from the resource crunch due to the creeping encroachment of cesses and surcharges into the divisible pool of gross tax revenue. …. Going forward, these issues on fiscal federalism need to be evaluated in a post-GST framework. In a growing economy like India, which has recently undertaken structural tax reforms like the GST, inherent buoyancy could lead to more revenues for all levels of government from a medium-term perspective. It is also crucial that states are able to judiciously allocate freed untied resources to desired sectors for long-term growth with minimal leakages."*[14]

- **Grants**

Grants are a key component of Central Transfers. As mentioned earlier, State Governments receive transfers from the Union in the form of Grants-in-Aid based on principles recommended by Finance Commissions under Article 275 of the Constitution. Over the years, successive Finance Commissions (FCs) have reiterated the broad principles that have been applied by successive FCs with respect to Grants- in- aid to States. These are

1) covering fiscal gaps after devolution;
2) taking tax effort into account;
3) narrowing disparities between developed and less developed States in the availability of various administrative and social services; and

[12] Reply by the Ministry of Finance to Unstarred Question 3531 in Lok Sabha on Friday March 16, 2018.
[13] FFC Report: paras 8.10 to 8.13.
[14] RBI (2017-18). RBI Report on 'State Finances, A Study Budgets of 2017-18 and 2018-19' available at https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0SF201718_FULL6EE17CFBD8004287A0CD4FDB0632AFE8.PDF

4) taking into account the burden cast on the finances because of their 'particular' circumstances or matters of national importance'.[15]

The FFC Award entailed a shift in the composition of Central Transfers from tied transfers to untied transfers through a considerably higher percentage of Devolution. Consequently, after the Award was accepted, in 2015-16 the Union withdrew all Block Grants (e.g., NCA/SCA/SPA etc.) that was being given under CASP (Plan) from Gross Budgetary Support (GBS). This measure was necessitated on account of the reduced fiscal space for the Union post the implementation of the FFC Award and coincided with the dismantling of Planning Commission (that used to recommend Block Grants to States). It effectively reduced the quantum of transfers to States in 2015-16 under Plan grants. However, it is noteworthy that post FFC Award, the amounts of grants to the States under Article 275 of the Constitution, including FC grants, increased significantly.

**Changes in Classification of Grants:**

Grants are both general purpose grants as well as specific purpose grants that are 'tied' to a Scheme or a program. Typically, revenue deficit grants to States recommended by the FCs were under Non-Plan and considered general purpose grants. Sector-specific grants and State-specific grants recommended by the Finance Commission were considered 'tied grants' under Non-Plan. All transfers outside the Finance Commission's purview, like CSS, and transfers through the Planning Commission were "tied" specific-purpose grants as well as 'discretionary' and hence, their very *raison d'etre* has been viewed with disapproval by every FC.[16]

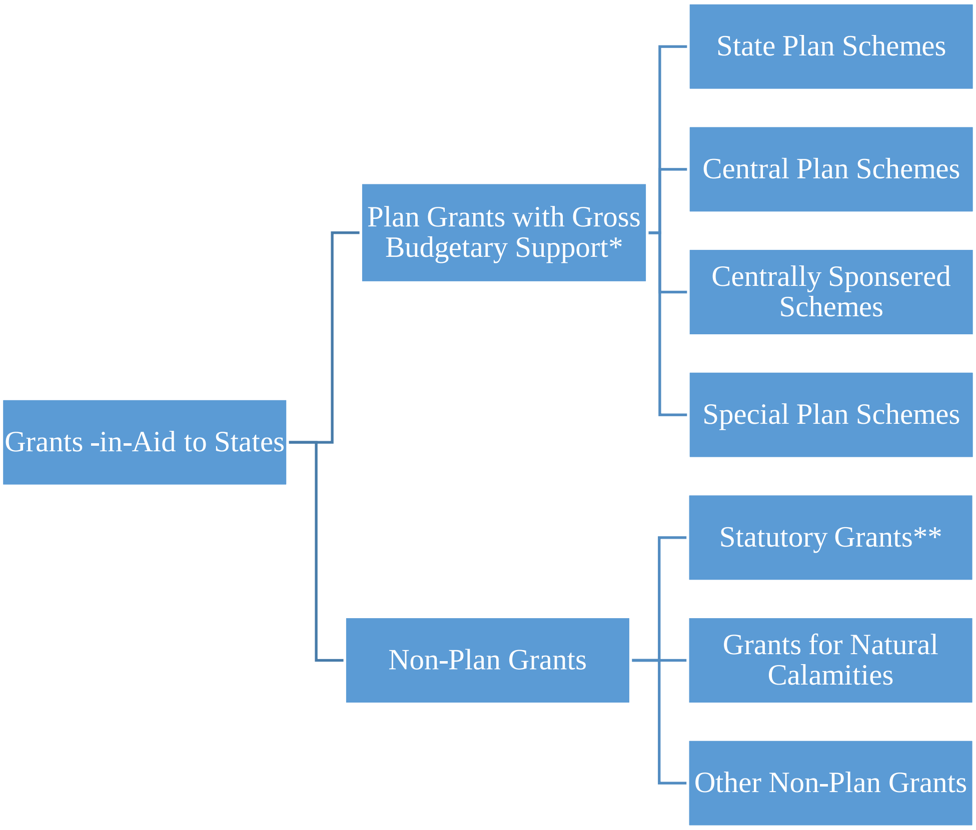
In 2017-18, the Plan / Non-Plan classification in the Union budget was discontinued and as a result, the classification of Grants-in Aid in **States' Budgets** has also changed[17]. Classification of Grants into Plan and Non-Plan Grants was discontinued and from 2017-18 onwards, Grants were classified as CSS, FC Grants and Other Transfers / Grants to States (see Figures 2.4a and 2.4b).

15 Vithal, B. P. R., and M. L. Sastry (2001). "*Fiscal federalism in India",* Chapter 9; Oxford University Press, 2001.

16 Vithal, B. P. R. (1997). "Role of Articles 275 and 282 in Federal Fiscal Transfers." Economic and Political Weekly (1997); pp. 1689-1691.

17 This change in classification has not been adopted uniformly across all State Budgets. Detailed analysis of State Budgets, as reported by the RBI and CAG Finance Accounts upto the latest available for 2016-17 shows that States like Odisha have adopted the revised classification. On the other hand, Bihar has not adopted the changed classification - the accounting of Grants-in-Aid in Bihar State Budget continues to be under the categories used prior to 2017-18. Moreover, the reporting of CSS and State Plan Schemes across States is not very clear.

**Figure 2.4a Classification of Central Grants-in-aid to States prior to 2017-18**

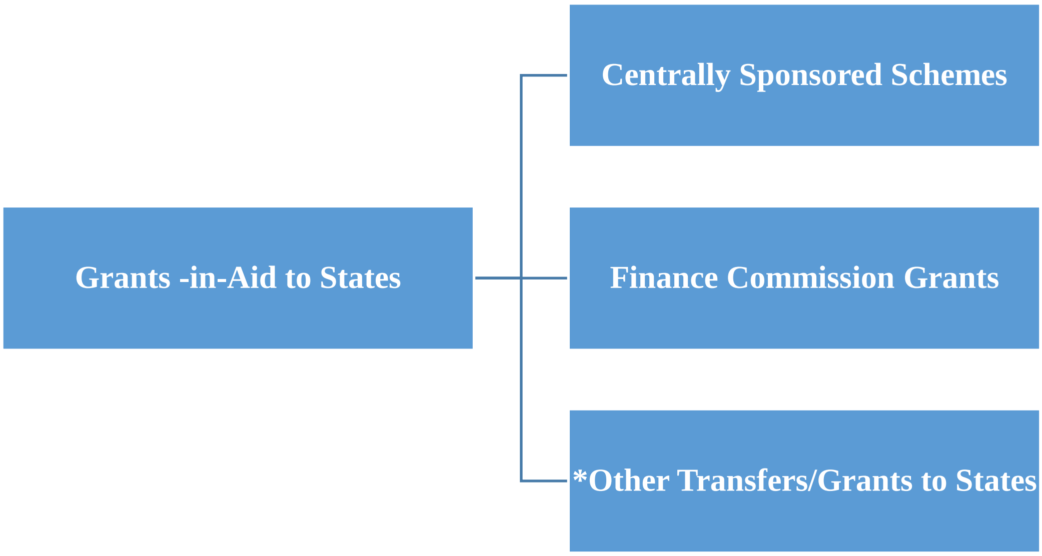



*Source: Compiled by Authors using Study of State Finances by Reserve Bank of India*

**Plan Grants comprising of Central Plan and CASP, were divided into two subheads where one of the subheads pertained to CSS and the other subhead included Block Grants such as Normal Central Assistance, Special Central Assistance, Special Plan Assistance, Backward Regions Grant Fund-State Component etc.*

***Statutory Grants to the States are Grants under article 275(1) of the Constitution, and include all FC grants. In the TFC Award (2010-11 to 2014-15), there were nine categories under FC Grants (classified as Non Plan), which were reduced to three categories in the FFC Award, namely, Revenue Deficit Grants, Local Body Grants and Disaster Relief Grants.*

**Figure 2.4b Classification of Grants-in-aid to States post 2017-18**




*Source: Compiled by Authors using CAG Rajasthan State Finance Accounts 2017-18*

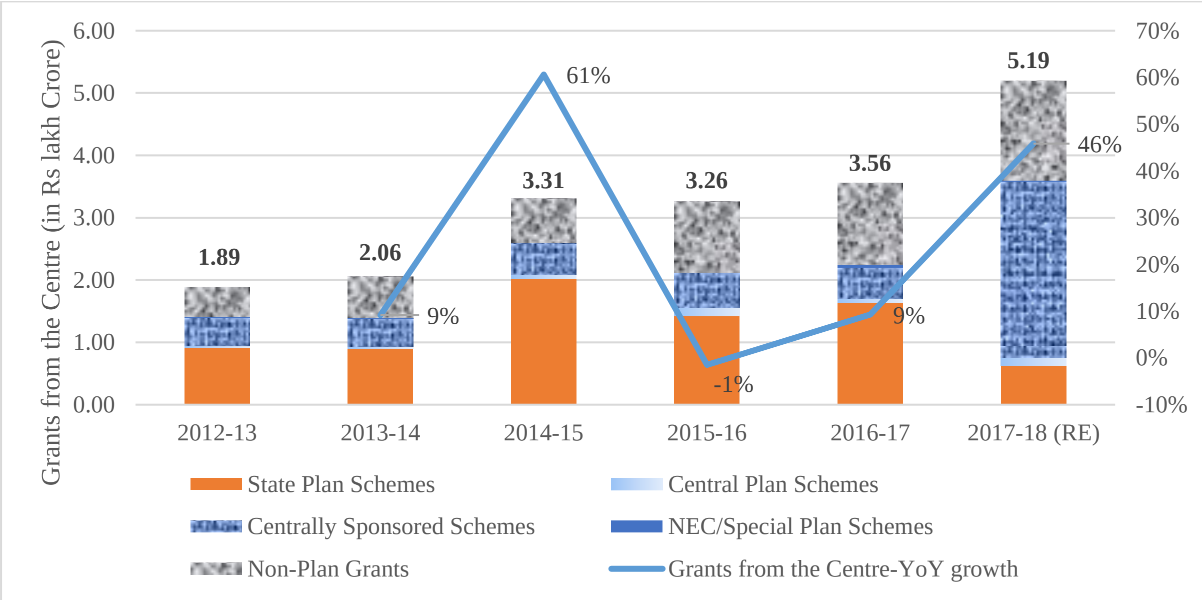
**According to the CAG State Finance Accounts reports, Other Transfers/Grants to States include Grants towards Contribution to National Disaster Response Fund, Special Assistance, and Compensation for loss of revenue arising out of implementation of Goods and Services Tax (GST).*

**Changes due to Accounting Practices**

The components of Grants have changed due to accounting changes between 2012-13 and 2014-15. Until 2014-15, they were part of Central Transfers and comprised eight-nine components across Plan / Non-Plan. Each State reflected them differently. Since 2015-16, Grants continue to be a part of central transfers but comprise only three components, namely, FC Grants (Revenue Deficit Grants to 11States, Local Body Grants and Grants for Disaster Relief), CSS and Other Transfers.

Grants have shown fluctuating trends between 2012-13 and 2018-19. While total Grants to States have increased over the years, some spurts were observed in 2014-15 and 2017-18 (RE). The spurts are attributable to two main factors viz. changes due to the shift from "Society Mode" to "Treasury Route" transfers and discontinuation of Plan / Non-Plan classification (see Figure 2.5).

**Figure 2.5: Changes in Composition of Grants to States**




*Source: Compiled by Authors using data from Study of State Finances by Reserve Bank of India, various years*

The accounting changes caused Grants to increase ostensibly by 61 percent in 2014-15 compared to 2013-14, although there was no effective increase in amount of Central Transfers. As mentioned earlier, with effect from 2014-15, CSS transfers to States under 'Society Mode' were discontinued in 2013-14 and from 2014-15 onwards, they were reflected in increase of 61 percent in the Consolidated Funds of States (from Rs. 2.06 lakh crores to Rs 3.31 lakh crores) shown under State Plan Schemes. Another sharp increase of 32 percent (from Rs 3.56 lakh crores to Rs 4.70 lakh crores) is observed in 2017-18 compared to 2016-17, after the discontinuation of the Plan/Non-Plan classification in the Union Budget. Once again, due to consequent changes in accounting practices in State budgets, some CSS transfers that were reflected under State Plan Schemes have been reclassified as CSS transfers (Illustrated in Figure 2.5).

**<u>Changes in Finance Commission Grants</u>**

Post the FFC Award in 2015-16, FC Grants grew by 37 percent on year-on-year basis, compared to 2014-15. A comparison between last three years of TFC Award (2012-13 to 2014-15) and the first three years of the FFC Award (2015-16 to 2017-18) shows that, on an average, the amount transferred under FC Grants to the States increased from Rs. 53,657 crores to Rs. 93,873 crores (a percentage increase of 75 percent).

In addition, the composition of FC Grants underwent a change (see Table 2.5a). The number of categories of FC grants reduced from 9 to 3[18] and the amounts transferred under Revenue

[18] The FFC recommended unconditional transfers to State to support Local Bodies. With that, for the first time ever 53 percent of total grants recommended were earmarked for Local Bodies." Reddy and Reddy (2019). "Indian Fiscal Federalism", Chapter 7, pp. 120. Oxford Publication

Deficit (RD) Grants and Local Body Grants increased multi-fold by 330 percent and 122 percent, respectively.

The State-wise distribution shows that 18 States account for 64 percent, on an average, of the all FC Grants and the remaining 11 NER and Himalayan States account for 36 percent on an average (for details see Appendix A, Table A1).

**Table 2.5a: Composition of Finance Commission Grants**

*in Rs. Crores*

| Composition of FC Grants | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | TFC Aggregate (2012-13 To 2014-15 | FFC Aggregate (2015-16 To 2017-18) | % Growth between FFC Total and TFC Total |
|---|---|---|---|---|---|---|---|---|---|
| | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **RE** | | | |
| Post Devolution Revenue Deficit Grants * | 11716 | 10074 | 7550 | 48905 | 41307 | 35819 | **29,340** | **126,031** | **330%** |
| Grants for Local Bodies | 14267 | 21594 | 22399 | 26918 | 45868 | 56288 | **58,260** | **129,074** | **122%** |
| Grants in Aid for State Disaster Response Funds (SDRF) (Including for Capacity Building) | 5262 | 6099 | 5765 | 8756 | 8375 | 9383 | **17,126** | **26,514** | **55%** |
| **Sub-Total (A)** | **31245** | **37767** | **35714** | **84579** | **95550** | **101490** | **104,726** | **281,619** | **169%** |
| Grants in Aid for maintenance of Roads and Bridges | 3664 | 4600 | 5956 | … | … | … | **14220** | | |
| Grants in Aid for State Specific Needs | 2634 | 3595 | 6397 | … | … | … | **12626** | | |
| Grants in Aid for Performance Incentive Grant | 360 | … | … | … | … | … | **360** | | |
| Grants in Aid for Environment | 1099 | 1050 | 6313 | … | … | … | **8462** | | |
| Grants in Aid for Governance | 1636 | 1879 | 2785 | … | … | … | **6300** | | |
| Grants in Aid for Elementary Education | 4615 | 5013 | 4648 | … | … | … | **14276** | | |
| **Sub-Total (B)** | **14008** | **16137** | **26099** | … | … | … | **56,244** | | |
| **Grand Total (A+B)** | **45253** | **53905** | **61813** | **84579** | **95550** | **101490** | **160,970** | **281,619** | **75%** |
| *Year-on-year basis* | | *19%* | *15%* | *37%* | *13%* | *6%* | | | |

*Source: Compiled by Authors using Union Budget (2014-15 to 2018-19)*

** Prior to 14th Finance Commission referred as "Grants to cover deficit on Revenue Account"*

All 29 states received Local Body Grants and Disaster Relief Grants under both the TFC Award and FFC Award. Sector-specific grants to eligible States including Grants for State-Specific Needs and Performance Incentives were not recommended by the FFC. These amounted to Rs. 56,244 crores, cumulatively, for the last three years of TFC.

The TFC extended RD Grants only to 8 out of the 11 erstwhile Special Category States. In the FFC Award, in addition to the number of recipient States being increased, the list of recipient States changed (see Table 2.5b). The FFC did not consider the Special Category States as a group and of the 11 NER and Himalayan States, Arunachal Pradesh, Sikkim and Uttarakhand were not found eligible for RD Grants (Sikkim and Uttarakhand were not included in the TFC Award also for RD grants whereas Assam received RD grants in the FFC Award).

The criteria for assessment of RD by the FFC was different and the States covered included the residual State of Andhra Pradesh (after bifurcation), Kerala and West Bengal. The total amount of RD grants to the recipient States was Rs. 29,340 crores in the last 3 years of the TFC Award and it was Rs. 126,031 crores to the recipient States, in the first three years of the FFC Award.

**Table 2.5b: List of States that received Revenue Deficit Grants**

| S. No. | 13th Finance Commission Award (2010-2015) | 14th Finance Commission Award (2015-2020) |
|---|---|---|
| 1 | Arunachal Pradesh | |
| 2 | | Andhra Pradesh |
| 3 | | Assam |
| 4 | Himachal Pradesh | Himachal Pradesh |
| 5 | Jammu & Kashmir | Jammu & Kashmir |
| 6 | | Kerala |
| 7 | Manipur | Manipur |
| 8 | Meghalaya | Meghalaya |
| 9 | Mizoram | Mizoram |
| 10 | Nagaland | Nagaland |
| 11 | Tripura | Tripura |
| 12 | | West Bengal |

*Source: Compiled by Authors*

## Changes in Centrally Sponsored Schemes (CSS) and Withdrawal of Block Grants

Grants for CSS (Central shares) reported a marginal decline in 2015-16 compared to the preceding year and dropped from Rs. 2.65 lakh crores in 2014-15 to Rs. 2.04 lakh crores in 2015-16 (see Table 2.6). This is because the Centre: State sharing pattern for CSS changed from an average 67:33 to 60:40[19] in respect of 18 States[20].

19 Niti Aayog (2015), 'Report of the Sub-Group of Chief Ministers on Rationalization of Centrally Sponsored Schemes.

20 18 states other than the 11 special category NER and Himalayan States.

**Table 2.6: Outlays for CASP and CSS**

*(In Rs. lakh Crores)*

| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|---|
| | **Actuals** | **Actuals** | **Actuals** | **Actuals** | **Actuals** | **RE** | **BE** |
| Central Assistance to State Plans of which | 1.04 | 1.08 | 2.65 | … | … | … | … |
| Block Grants and Loans | 0.83 | 0.86 | 0.66 | … | … | … | … |
| CSS | 0.21 | 0.22 | 1.99 | 2.04 | 2.41 | 2.86 | 3.06 |
| **Total** | **1.04** | **1.08** | **2.65** | **2.04** | **2.41** | **2.86** | **3.06** |

*Source: Compiled from Union Budgets, Expenditure Profiles 2014-15 to 2018-19*

Even after the change in the sharing pattern, Grants on account of CSS grew by a CAGR of 14 percent between 2015-16 and 2018-19 (BE). In 2017-18 (RE), it was Rs. 2.86 lakh crore and in 2018-19 (BE), it is Rs. 3.06 lakh crores excluding the States' shares for CSS that varied between 0 – 40 percent (see Table 2.6).

However, despite higher amounts being allocated to States on account of CSS, the Union's outlays on CSS / Union's Transfers to States on account of CSS, continued to account for 13 percent of Union's Total Expenditure before and after the FFC Award. It was expected that this percentage would decline but that did not happen indicating that the shrinking fiscal space of the Union was not allowed to impact the CSS outlays that went to the States. However, on the flip side, it must be mentioned that the numbers of CSS that were 66 in 2014-15, dipped to 28 in 2015-16 and have now expanded into 204 Schemes in 2018-19. The total outlays, however, remain static, indicating that these are now spread very thin across States and Schemes.

**Box 2.4: CSS Grants and Accounting practices in States**

Post discontinuation of Plan / Non-Plan in 2017-18, Central Transfers for development programmes and schemes are accounted under only two broad categories – Central Sector Schemes and CSS-in the Union budget. As a result, it is only after 2017-18, that the total outlays of the Centre on CSS, sourced from the Union Budget estimates, roughly matches with the amounts shown in State Budgets, sourced from RBI reports under CSS (i.e. Centre's share of CSS) (see Table 2.7a).

**Table 2.7a: Difference in Amounts of Centrally Sponsored Schemes Extracted from Union Budget *versus* RBI**

*In Rs. Lakh crores*

| **Data Source** | | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18 (RE)** | **2018-19 (BE)** |
|---|---|---|---|---|---|---|---|---|
| **Union Budget** | Central Assistance to State Plans (CASP) | 1.04 | 1.08 | 2.65 | | | | |
| **Union Budget** | Centrally Sponsored Schemes (CSS) | | | | 2.04 | 2.41 | 2.86 | 3.06 |
| **Reserve Bank of India** | Centrally Sponsored Schemes (CSS) | 0.45 | 0.45 | 0.51 | 0.56 | 0.50 | 2.83 | 3.10 |

*Source: Compiled from Study of State Finances by Reserve Bank of India, and Union Budget Estimates, various years*

Despite the discontinuation of the Plan/Non-Plan classification in the Union Budget from 2017-18, for some States, Grants-in-Aid continue to be shown in State Budgets under "Non-Plan" as Statutory/Non-Plan, Non-Statutory Grants and Grants for Natural Calamities. There is no clarity on the reasons for this practice (see Table 2.7b). While Statutory Grants and Grants for Natural Calamities are FC grants, the purpose and end-use of 'Non-Plan Non-Statutory Grants' is not explained in the respective State Budgets or in the Union Budget data. [21]

**Table 2.7b: Non-Plan Grants in State Budgets**

*In Rs. Lakh crores*

| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 (RE) | 2018-19 (BE) |
|---|---|---|---|---|---|---|---|
| **Non-Plan Grants** | | | | | | | |
| Statutory Grants | 0.31 | 0.44 | 0.44 | 0.62 | 0.84 | 0.91 | 1.06 |
| Grants for Natural Calamities | 0.06 | 0.06 | 0.06 | 0.13 | 0.11 | 0.09 | 0.08 |
| Other Non-Plan Grants | 0.12 | 0.17 | 0.22 | 0.38 | 0.37 | 0.60 | 0.85 |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

Every State has a different classification for recording Grants and the lack of a uniform format for State budgets makes the exercise of tracking changes very complex. Despite common accounting standards, the reliability and timeliness of the data varies (not to mention the variety of languages in which the budget documents are available!) The C&AG Finance Accounts reports come with a lag and are currently available only until 2016-17 for most States.

**Key Findings**

- Grants to all States increased post FFC Award. Total grants in the last three years of TFC Award were Rs. 7.26 lakh crores and in the first three years of FFC Award, they were Rs. 12.01 lakh crores (see Table 2.1). Hence between these two Awards, Grants to States increased by Rs. 4.75 lakh crores;
- Within Grants, FC grants increased from Rs. 1.61 lakh crores to Rs. 2.82 lakh crores (see Table 2.5a), and CSS increased from Rs. 2.42 lakh crores to Rs. 7.31 lakh crores between the first three years of FFC Award and last three years of the TFC Award (see Table 2.6);
- FC grants comprising Revenue Deficit Grants and Local Body grants, also increased by a total of Rs 0.97 lakh crores and Rs. 0.71 lakh crores, respectively, in the first three years of

[21] *According to the CAG State Finance Accounts reports, the Other Non-Plan Grants include Grants for Central Assistance for meeting expenditure on Intra-State Movement and Handling of Food Grains and FPS Dealers Margins under NFSA, Purchase under Modernisation of State Police Force, Grants to Naxal Affected States under Security Related Expenditure etc.*

the FFC Award over the last three years of the TFC Award. FC grants for Disaster Relief was higher in the first three years of the FFC Award by a total of Rs. 0.094 lakh crores over the last three years of the TFC Award;

- In respect of CSS and Other Transfers, it is difficult to measure the true magnitude of the increases due to the modifications that occurred in the mode of transfer in 2014-15 and the classification changes in 2017-18 after the discontinuation of Plan/ Non Plan (see Box 2.4);
- However, Rs. 273,026 crores of Block Grants, under Plan, and Rs. 56,244 crores of Sector-specific FC Grants, under Non-Plan, were withdrawn w.e.f. 2015-16.

### 2.1.2. States' Own Resources

States' Own Resources are not the key contributor to Total Receipts, and year-on-year trends are quite flat. An analysis of the States' Own Resources is given below in Table 2.8. States' own revenue generation is driven by indirect taxes. It is the indirect taxes levied on commodities and services that include Sales Tax, State Excise and other taxes such as Entertainment Tax, Taxes on Vehicles etc. The introduction of GST in 2017-18 has resulted in major changes in the area of tax mobilisation and has also brought a change in the accounting heads. Hence, the analysis is restricted to 2016-17.

**Table 2.8: Trend Analysis of States' Own Resources**

*In Rs. Lakh Crores*

| | **2012-13 Actuals** | **2013-14 Actuals** | **2014-15 Actuals** | **2015-16 Actuals** | **2016-17 Actuals** |
|---|---|---|---|---|---|
| States' Own Tax Revenue | 6.55 | 7.12 | 7.79 | 8.47 | 9.13 |
| *Y-o-y basis* | | *9%* | *9%* | *9%* | *8%* |
| States' Own Non-Tax Revenue | 1.17 | 1.33 | 1.44 | 1.54 | 1.70 |
| *Y-o-y basis* | | *13%* | *8%* | *7%* | *10%* |
| States' Own Resources | 7.72 | 8.45 | 9.23 | 10.01 | 10.82 |
| *Y-o-y basis* | | *9%* | *9%* | *8%* | *8%* |
| States' Total Receipts | 14.51 | 16.26 | 19.36 | 22.58 | 26.07 |
| *Y-o-y basis* | | *12%* | *19%* | *17%* | *15%* |
| **States Own Resources as a percentage Total Receipts** | **53%** | **52%** | **48%** | **44%** | **42%** |

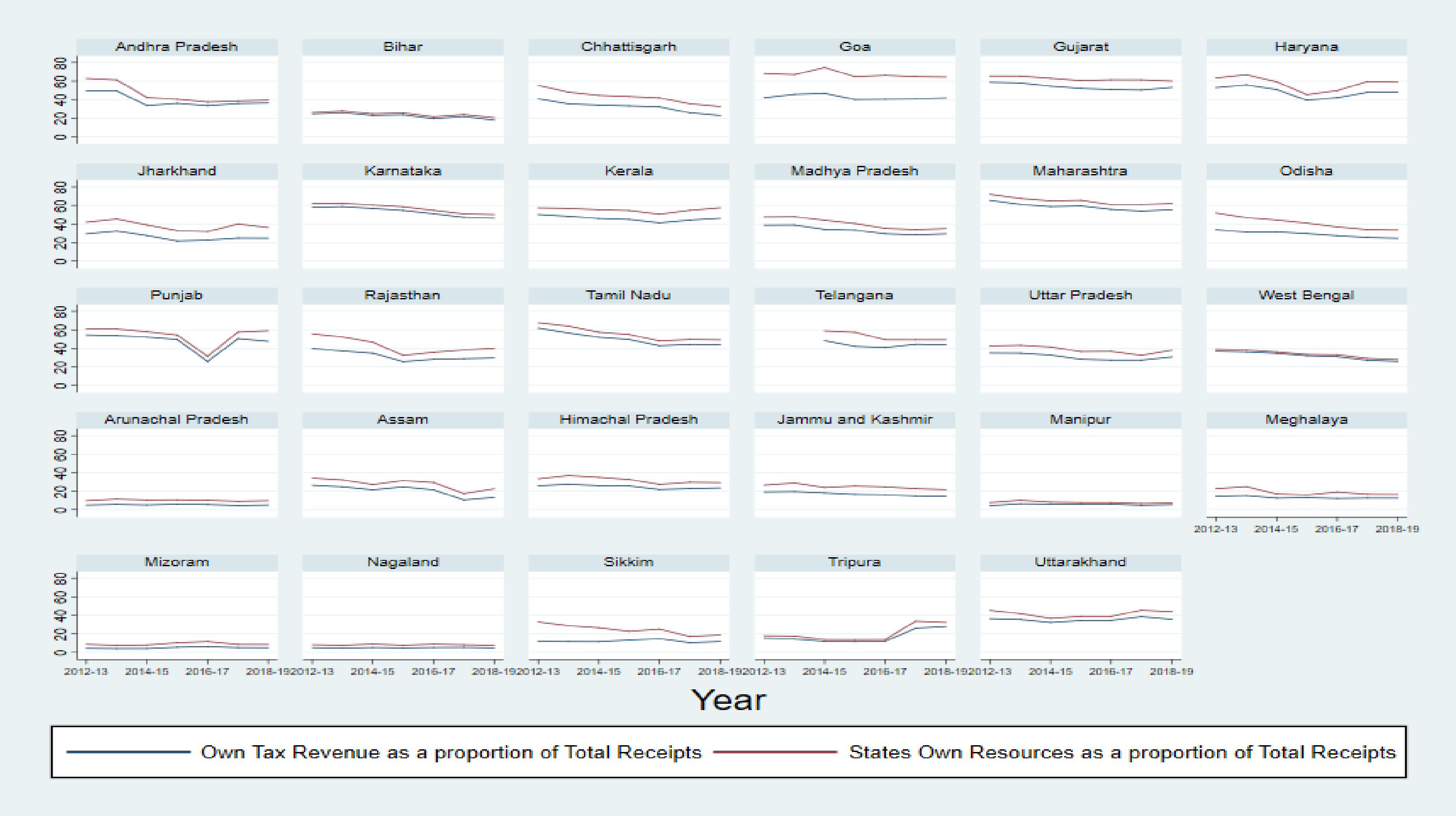
*Source: Extracted from Study of State Finances by Reserve Bank of India, various years*

The share of States' Own Resources in Total Receipts of States actually declined post the FFC Award because the share of Central Transfers increased significantly. States are now, more than ever, using Central Transfers, in addition to debt, to finance their expenditures. The share of States' Non-Tax revenue in States' Own Resources has remained constant at 15 percent between 2012-13 and 2016-17 and hence, it appears that changes in States' Own Resources are driven by changes in Own Tax Revenues.

Trends across States show that out of the 18 erstwhile General Category States[22], five have shown a continuous declining trend in States' Own Tax Revenue to Total Receipts. These include Chhattisgarh, Odisha, Tamil Nadu, Karnataka and West Bengal. However, with respect to the 11 erstwhile Special category States, apart from Assam, Jammu & Kashmir and Sikkim that have recently shown a declining trend, the remaining seven States have maintained a constant share of Own Tax Revenues to Total Receipts. Only Tripura has shown an upward trend (see Figure 2.6).

[22] CSS Sharing pattern between Centre and States for these 18 States changed to 60:40 ratio in 2015-16 and it remained unchanged at 90:10 for the 11 erstwhile Special Category States in NER and Himalayan region. Hence the study retains this grouping across the entire findings.

**Figure 2.6: State-wise Share of States' Own Tax Revenue and States' Own Resources as a Proportion of Total Receipts**




*Source: Data Extracted from Study of State Finances by Reserve Bank of India, various years*

**Key Findings:**

- Total Receipts of all States has been increasing over the years. However, it is noteworthy that the annual rate of growth has shown a declining trend post 2015-16 (see Table 2.1);
- Prior to 2015-16, the contribution of States' Own Resources to States' Total Receipts was on an average about 51 percent, which declined, on an average, to around 44 percent post 2015-16. While higher Central Transfers to States did contribute to depressing the proportion of States Own Resources in Total Receipts, it is also fair to conclude that they may also act as a disincentive to States to make efforts at additional resource mobilization through tax and non-tax measures to meet their expenditures;
- Despite significantly higher transfers from the Centre, both on account of Devolution and Grants, the decline in the rate of growth of Total Receipts is due to stagnant State's Own Resources (States' Tax and Non-Tax Revenues). Sluggish efforts at additional resource mobilisation along with the commitment to reduce Debt Receipts in recent years have further contributed to this lack of buoyancy.

## 2.2. Impact of FFC Award: Variations across States

As discussed above, all States received additional resources after the implementation of the FFC Award. This Section analyses the variations across States that affected the additional resources available to them post the FFC Award depending upon

1. Impact of Vertical devolution from 32 percent to 42 percent ⇧
2. Impact of Horizontal devolution ⇧ / ⬇
3. Impact of higher FC Grants ⇧
4. Changes in funding pattern of CSS between the Centre and the States ⬄ / ⬇
5. Discontinuation of eight CSS and transfer of others to the States ⬇
6. Discontinuation of Block Grants under CASP under Plan, and State-specific FC Grants under Non-Plan ⬇

**Impact of Vertical devolution**

Between the last three years of the TFC Award and the first three years of the FFC Award, All States' share in Vertical devolution increased by 91 percent, on an average, after the FFC Award was implemented. It went up from Rs. 3.38 lakh crores in 2014-15 to Rs. 5.06 lakh crores in 2015-16. Therefore, it is a fact that all States gained on account of Vertical devolution in the FFC Award. However, the quantum of increase varied across the States, with some States gaining more and some others less when compared to the TFC Award and there is no discernible pattern among them to understand the variations in the increase across different States (see Table 2.9).

**Table 2.9: State-wise distribution of Tax Devolution**

*(In Rs lakh Crores)*

| | State | TFC Average Award | FFC Average Award | Average growth |
|---|---|---|---|---|
| | | ***60:40 States** | | |
| 1 | Andhra Pradesh | 0.19 | 0.26 | **34%** |
| 2 | Bihar | 0.35 | 0.58 | **67%** |
| 3 | Chhattisgarh | 0.08 | 0.20 | **156%** |
| 4 | Goa | 0.01 | 0.02 | **168%** |
| 5 | Gujarat | 0.10 | 0.18 | **92%** |
| 6 | Haryana | 0.03 | 0.07 | **106%** |
| 7 | Jharkhand | 0.09 | 0.19 | **117%** |
| 8 | Karnataka | 0.14 | 0.28 | **106%** |
| 9 | Kerala | 0.07 | 0.15 | **102%** |
| 10 | Madhya Pradesh | 0.23 | 0.45 | **100%** |
| 11 | Maharashtra | 0.16 | 0.33 | **100%** |
| 12 | Orissa | 0.15 | 0.28 | **83%** |
| 13 | Punjab | 0.04 | 0.09 | **114%** |
| 14 | Rajasthan | 0.19 | 0.33 | **77%** |
| 15 | Tamil Nadu | 0.16 | 0.26 | **68%** |
| 16 | Telangana | 0.03 | 0.15 | **433%** |
| 17 | Uttar Pradesh | 0.62 | 1.07 | **72%** |
| 18 | West Bengal | 0.23 | 0.45 | **97%** |
| | | ***90:10 States** | | |
| 19 | Arunachal Pradesh | 0.01 | 0.08 | **698%** |
| 20 | Assam | 0.11 | 0.20 | **72%** |
| 21 | Himachal Pradesh | 0.02 | 0.04 | **72%** |
| 22 | Jammu & Kashmir | 0.04 | 0.10 | **133%** |
| 23 | Manipur | 0.01 | 0.04 | **166%** |
| 24 | Meghalaya | 0.01 | 0.04 | **197%** |
| 25 | Mizoram | 0.01 | 0.03 | **223%** |
| 26 | Nagaland | 0.01 | 0.03 | **199%** |
| 27 | Sikkim | 0.01 | 0.02 | **182%** |
| 28 | Tripura | 0.02 | 0.04 | **134%** |
| 29 | Uttaranchal | 0.04 | 0.06 | **77%** |
| | All States | 3.16 | 6.02 | **91%** |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

**For the purpose of analysis, States have been grouped into two categories, namely, 60:40 States (18 erstwhile General Category States) and 90:10 States (3 Himalayan and 8 NER States or the erstwhile Special Category States) based upon the revised funding CSS funding pattern applicable to them.*

## Impact of Horizontal devolution

Post FFC Award, the varying impact across the States was primarily on account of the formula and weights assigned for Horizontal devolution. Each State received a greater or lesser share in Horizontal devolution in the FFC Award as the weights and the formula used by the FFC was different from that used by the TFC.

It may be mentioned that the inter se distribution across States of net proceeds of taxes is based on a pre-determined methodology that defines the variables to be taken into account and respective weights accorded to each of them. The FFC took into account variables like 'Forest Cover' and Population Estimates according to Census 2011 / Demographic Change and attached weights to them. This gave advantage to some States that gained on this account. Unlike the TFC, the FFC did not assign any weight to the incentive associated with prudent management of public finances and attached no weightage to 'Fiscal Discipline' (see Table 2.10).

**Table 2.10: Horizontal Distribution Weights of Tax Devolution: TFC Vs FFC**

| **Variables** | **13$^{th}$ Finance Commission** | **14$^{th}$ Finance Commission** |
|---|---|---|
| | **Weights in%** | |
| Population (1971) | 25 | 17.5 |
| Population (2011) / Demographic Change | 0 | 10 |
| Fiscal Capacity / Income Distance | 47.5 | 50 |
| Area | 10 | 15 |
| Forest Cover | 0 | 7.5 |
| Fiscal discipline | 17.5 | 0 |
| **Total** | **100** | **100** |

*Source: Economic Survey 2014-15 and Report of the Fourteenth Finance Commission of India, Vol 1, pp. 95.*

**Fiscal Capacity measured by per capita GSDP acts as a proxy for the distance between states in terms of their ability to mobilise revenue through taxes.*

*** The measure of the fiscal discipline is an index arrived by comparing the improvements in the ratio of own revenue receipt to its total revenue expenditure relative to the corresponding average across states.*

The selection of the variables and the weightages attached to them by each Finance Commission inevitably affects the Inter -State distribution. States like Jharkhand, several NER States, and Arunachal Pradesh in particular, benefitted hugely in the FFC Award (see Table 2.11a). Interestingly, Arunachal Pradesh was the biggest beneficiary by far, of the change. Post the FFC Award, devolution to Arunachal Pradesh increased 5 times in 2015-16 compared with 2014-15. The inclusion of forest cover, which forms almost 80 percent of its territorial area as a parameter, resulted in a significant increase in its share in horizontal devolution.

**Aggregate impact of Vertical and Horizontal devolution**

While the majority of the States benefitted from Vertical devolution, some States, such as Andhra Pradesh (United), Assam, Bihar, Himachal Pradesh, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and Uttarakhand, did not gain substantially. Many States showed a downward trend in the share post Horizontal devolution (see Table 2.11a). For example, in the case of Bihar, if we presume in terms of an overall index that the State had a gain of 100 units in total then the decomposition of the gain on account of Horizontal and Vertical changes post FFC

Award indicates that the State gained about 142.8 units on account of vertical devolution, but on account of horizontal devolution it lost 42.8 units.

**Table 2.11a: Index of Comparison of Gains / Losses to States in Devolution: TFC Award vs FFC Award***

| | State | State-wise Share in total devolution – FFC Award | State-wise Share in total devolution – TFC Award | Gained / Lost | Gain/Loss due to Vertical devolution | Gain/Loss due to Horizontal Distribution | Sum of Column 3 and 4 |
|---|---|---|---|---|---|---|---|
| | | (column 1) | (column 2) | | (column 3) | (column 4) | |
| | | | | **17 States** | | | |
| 1 | **Andhra Pradesh | 6.74% | 6.94% | Lost | 107.5 | -7.5 | 100 |
| 2 | Bihar | 9.67% | 10.92% | Lost | 142.8 | -42.8 | 100 |
| 3 | Chhattisgarh | 3.08% | 2.47% | Gained | 64.9 | 35.1 | 100 |
| 4 | Goa | 0.38% | 0.27% | Gained | 53.9 | 46.1 | 100 |
| 5 | Gujarat | 3.08% | 3.04% | Gained | 96.7 | 3.3 | 100 |
| 6 | Haryana | 1.08% | 1.05% | Gained | 92.3 | 7.7 | 100 |
| 7 | Jharkhand | 3.14% | 2.80% | Gained | 78.2 | 21.8 | 100 |
| 8 | Karnataka | 4.71% | 4.33% | Gained | 82.7 | 17.3 | 100 |
| 9 | Kerala | 2.50% | 2.34% | Gained | 86.1 | 13.9 | 100 |
| 10 | Madhya Pradesh | 7.55% | 7.12% | Gained | 87.4 | 12.6 | 100 |
| 11 | Maharashtra | 5.52% | 5.20% | Gained | 87.1 | 12.9 | 100 |
| 12 | Orissa | 4.64% | 4.78% | Lost | 107.7 | -7.7 | 100 |
| 13 | Punjab | 1.58% | 1.39% | Gained | 76.2 | 23.8 | 100 |
| 14 | Rajasthan | 5.50% | 5.85% | Lost | 118.4 | -18.4 | 100 |
| 15 | Tamil Nadu | 4.02% | 4.97% | Lost | 207.5 | -107.5 | 100 |
| 16 | Uttar Pradesh | 17.96% | 19.68% | Lost | 129 | -29 | 100 |
| 17 | West Bengal | 7.32% | 7.26% | Gained | 98 | 2 | 100 |
| | | | | **11 States** | | | |
| 18 | Arunachal Pradesh | 1.37% | 0.33% | Gained | 24.9 | 75.1 | 100 |
| 19 | Assam | 3.31% | 3.63% | Lost | 129 | -29 | 100 |
| 20 | Himachal Pradesh | 0.71% | 0.78% | Lost | 128.9 | -28.9 | 100 |
| 21 | Jammu & Kashmir | 1.85% | 1.55% | Gained | 69.5 | 30.5 | 100 |
| 22 | Manipur | 0.62% | 0.45% | Gained | 56.6 | 43.4 | 100 |
| 23 | Meghalaya | 0.64% | 0.41% | Gained | 47.7 | 52.3 | 100 |
| 24 | Mizoram | 0.46% | 0.27% | Gained | 43.7 | 56.3 | 100 |
| 25 | Nagaland | 0.50% | 0.31% | Gained | 47.3 | 52.7 | 100 |
| 26 | Sikkim | 0.37% | 0.24% | Gained | 49 | 51 | 100 |
| 27 | Tripura | 0.64% | 0.51% | Lost | 64.1 | 35.9 | 100 |
| 28 | Uttarakhand | 1.05% | 1.12% | Lost | 118.2 | -18.2 | 100 |
| | **Total** | **100.00%** | **100.00%** | | | | |

*Source: Collated from Economic Survey 2014-15*

**The index has been constructed in such a manner that overall increase for each state is 100 units and then for the States who lost on Horizontal devolution the value in Column 4 is negative and more than 100 in Column 3 to balance it out to 100.*

*** Andhra Pradesh (United), hence Data available is for 28 States*

**Table 2.11b: Aggregate Gainers and Losers amongst States**

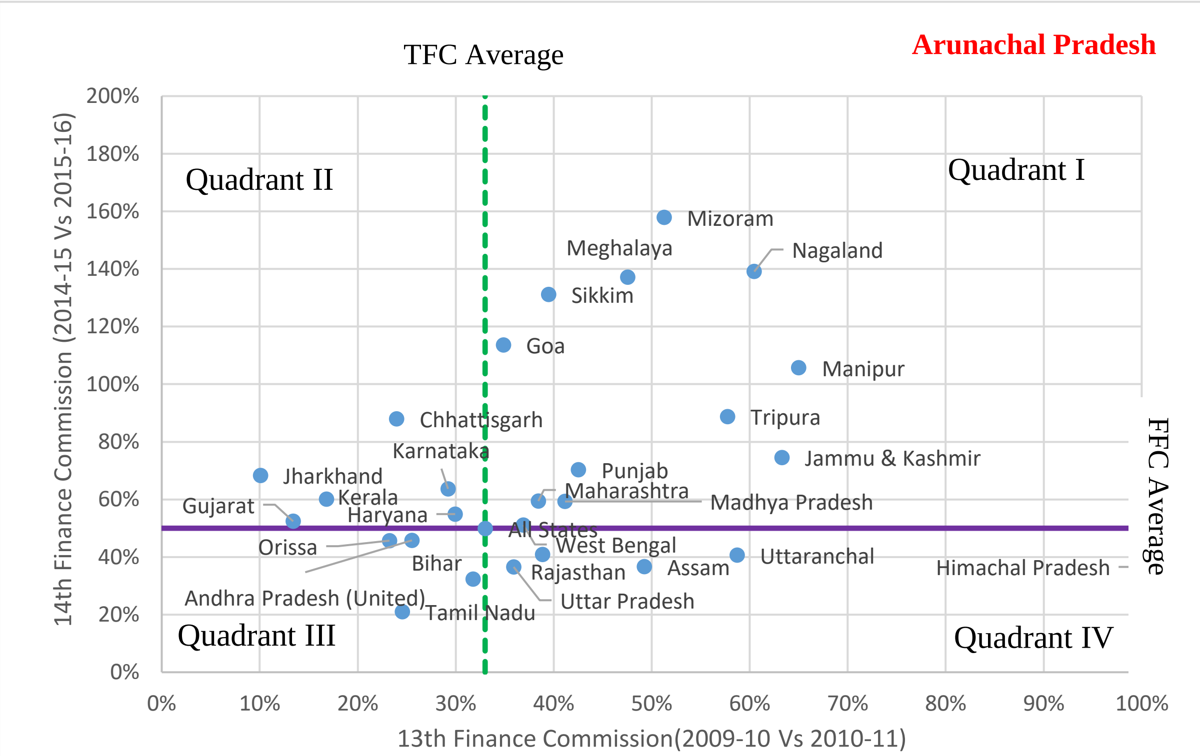
| 17 States (60:40) | States |
|---|---|
| **Gainers: 11 States** | Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab and West Bengal |
| **Losers: 6 States** | *Andhra Pradesh, Bihar, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh |
| **11 States (90:10)** | |
| **Gainers :7 States** | Arunachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, and Sikkim |
| **Loser : 4 States** | Assam, Himachal Pradesh, Tripura and Uttarakhand |

*Source: Compiled by Authors*

**Andhra Pradesh (United)*

In order to assess the impact of changes in horizontal and the Vertical devolution across the States in the TFC Award and the FFC Award, we did a comparison of the devolution amounts across States and disaggregated the overall increase in nominal values for each State between the impact of horizontal and vertical change. The State-wise impact of both changes taken together is illustrated in Figure 2.7.

**Figure 2.7: Devolution across States: TFC Award vs FFC Award**




*Source: Authors' own computation (for details see Appendix A, Table A4)*

Devolution to States, on an average, increased by 33 percent post the TFC Award (for details see Appendix A). **Hence, the reference line for the TFC Award is at 33 percent (green vertical line Figure 2.7).** The States on the right-hand side of this reference line such as Madhya Pradesh, Maharashtra, Uttar Pradesh, Rajasthan etc. gained more than the average of

33 percent and the States on the left side of line such as Bihar, Gujarat, Karnataka and Tamil Nadu etc. gained less than the average of 33 percent.

Devolution to States, on an average, increased by 50 percent across the States (for details see Appendix A). **Hence, the reference line for the FFC award is at 50 percent (Figure 2.7, Purple horizontal line).** The States below the reference line such as Bihar, Tamil Nadu and Uttar Pradesh, got **less than the average** increase in the nominal value of Devolution (50 percent) and the ones above the line such as Karnataka, Gujarat, Maharashtra, Madhya Pradesh, etc., got **more than the average** increase of 50 percent. [23]

Using the average increase reference line for TFC and FFC Award, all States can be divided into four categories, viz. the ones that got greater than average increase under both FFC and TFC (Quadrant I), the ones that got less than the average increase under both FFC and TFC (Quadrant III) and then the ones that got greater than average increase under one and less than average increase under the other (Quadrants II and IV) (see Table 2.11c).

**Table 2.11c: State-wise Analysis of Variation in Devolution to States: TFC Award and FFC Award**

| Quadrant | TFC | FFC | States |
|---|---|---|---|
| I (Greater / Greater) | Greater than the average increase | Greater than the average increase | Arunachal Pradesh[24], Mizoram, Meghalaya, Sikkim, Goa, Manipur, Tripura, Jammu and Kashmir, Punjab, Maharashtra, West Bengal, Nagaland and Madhya Pradesh (13) |
| II (Lesser / Greater) | Lesser than the average increase | Greater than the average increase | Chhattisgarh, Karnataka, Jharkhand, Kerala, Haryana and Gujarat (6) |
| III (Lesser / Lesser) | Lesser than the average increase | Lesser than the average increase | Odisha, Andhra Pradesh (United), Bihar and Tamil Nadu (4) |
| IV (Greater / Lesser) | Greater than the average increase | Lesser than the average increase | Uttar Pradesh, Rajasthan, Assam, Uttarakhand and Himachal Pradesh (5) |

*Source: Compiled by Authors*

23 TFC and FFC recommended percentage increase (32 percent and 42 percent) in the share of DP. The recommendation was independent of the size of the GTR/ Divisible Pool. However, this had ex-post impact on Devolution amounts to individual States after the vertical and horizontal devolution was aggregated across them. Devolution is impacted by increase/decrease in GTR and/or Cess and Surcharges taken together with the recommended percentage of Devolution. So, what we observe as an increase 33 percent/50 percent is essentially the increase in the nominal amount which is the outcome of all factors taken together and its effect on vertical and horizontal devolution amounts to individual States.

24 For the purpose of representational ease, we have excluded Arunachal Pradesh from the figure as the State witnessed a nominal increase of 50 percent in 2010-11 over 2009-10 and 537 percent increase in 2015-16 over 2014-15.

**Key Findings:**

**Post FFC Award**

- 18 States[25] gained on account of both Vertical and Horizontal devolution. Of these 7 are Himalayan and NER States. The largest Gainer, by far, is Arunachal Pradesh;
- 10 States lost on account of both Vertical and Horizontal devolution of which 4 are Himalayan and NER States.

**Comparing Gainers and Losers across TFC and FFC**

- 13 States got more than average increase in both the TFC and FFC Awards;
- 4 States got less than average increase in both the TFC and FFC Awards.

**The matrix of Gainers and Losers in both TFC and FFC (Figure 2.7) throws up an interesting result.** While there is nothing in common with respect to geography or demography across Gainer States and Loser States, nevertheless,

- Of the 18 States that gained in FFC Award, 6 had gained less than average in TFC;
- Of the 10 States that lost in FFC Award, 6 had gained more than average in the TFC Award;
- Assam, Himachal Pradesh, Rajasthan, Uttarakhand and Uttar Pradesh, are Losers in the FFC Award, but had gained in the TFC Award;
- Andhra Pradesh (United), Bihar, Odisha and Tamil Nadu, are not only Losers in the FFC Award but have also received less than average in both TFC Award and FFC Award.

So we conclude that in the aggregate, majority of the States (18 out of 28) gained in the FFC Award when compared with the TFC Award. However, among the 10 States that lost in FFC Award when compared to the TFC Award, 5 States (UP, Rajasthan, Assam, Uttarakhand and HP) had **gained in the TFC Award** but **lost in the FFC Award**; and 4 (AP (United) Bihar Odisha and TN) were such that they got **less in both the Awards**. Therefore, out of the 10 Loser States in the FFC Award, all except Tripura, had a grievance about their treatment in the FFC award. **This finding is relevant to an understanding of why a large number of States (9 out of 28) have expressed dissatisfaction in the FFC Award despite receiving a 10 percent increase in Vertical Devolution across the board.**

## 2.3. Net Additional Resources post FFC Award

Post the FFC Award, States received additional resources due to sizable increases in Devolution and Grants. However, these were affected, to some extent, by changes in the funding pattern of major CSS; discontinuation of some CSS; and shrinking of the DP through increases in Cess and Surcharges in 2015-16, 2016-17 and 2017-18. Taking into account all

[25] Andhra Pradesh and Telangana are treated as one unit- Andhra Pradesh (United) and hence the total number of Staes is 28 and not 29.

these changes, during the last three years of TFC, resources received by States on an average were Rs. 16.71 lakh crores and during the first three years of FFC, they went up to Rs. 26.15 lakh crores. Hence, all States gained and on an average, States received an additional Rs. 9.44 lakh crores post the FFC Award.

**Table 2.12: Net Additional Resources: All States**

*In Rs lakh Crores*

| | | **Net Additional Resources$_{TFC}$ (Average for the period 2012-13 to 2014-15)** | **Net Additional Resources$_{FFC}$ (Average for the period 2015-16 to 2017-18)** | **Net Additional Resources$_{FFC}$ *minus* Net Additional Resources$_{TFC}$** | **% Growth (Between Net Additional Resources$_{FFC}$ *minus* Net Additional Resources$_{TFC}$)** |
|---|---|---|---|---|---|
| 1 | **States Own Resources (1+2) of which** | **8.47** | **11.09** | **2.62** | **31%** |
| *2* | *Own Tax* | *7.15* | *9.37* | *2.22* | *31%* |
| *3* | *Own Non-Tax* | *1.31* | *1.73* | *0.42* | *32%* |
| 4 | **Central Transfers (4=5+6) of which** | **5.58** | **10.03** | **4.45** | **80%** |
| *5* | *Share in Central Taxes* | *3.16* | *6.02* | *2.86* | *91%* |
| *6* | *Grants-in-Aid* | *2.42* | *4.00* | *1.58* | *65%* |
| 7 | **Capital Receipts (8+9) of which** | **2.67** | **5.02** | **2.35** | **88%** |
| *8* | *Non-Debt Capital Receipts* | *0.12* | *0.27* | *0.15* | *125%* |
| *9* | *Debt Capital Receipts* | *2.55* | *4.75* | *2.2* | *86%* |
| **10** | **Net Additional Resources of States (1+4+7)** | **16.71** | **26.15** | **9.4** | **56%** |

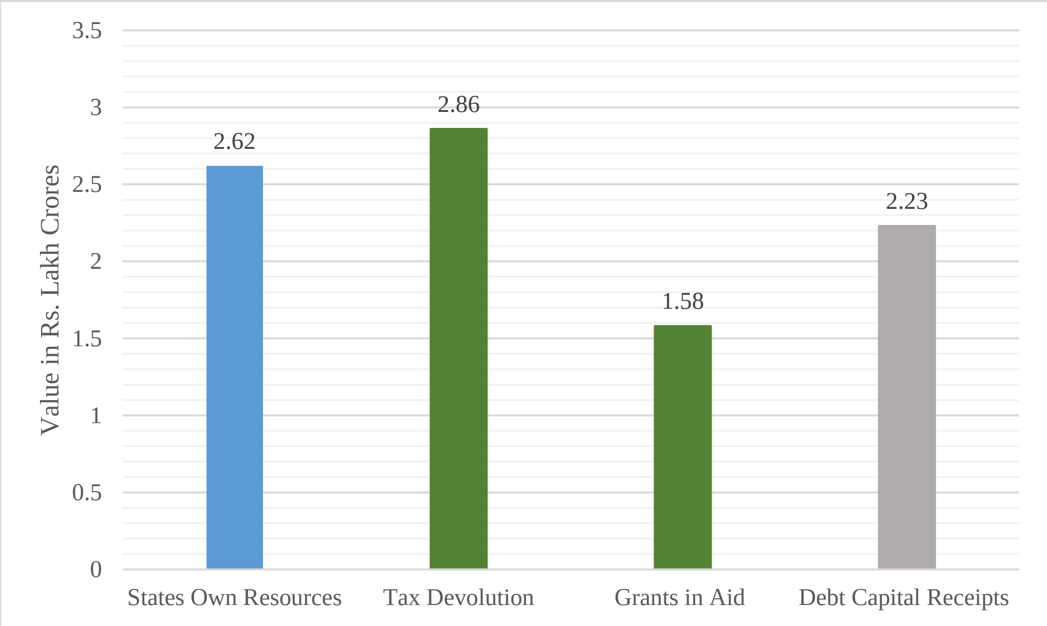
*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

*Note: Due to lack of data for the 5-year period in case of FFC Award, the calculations for Net Additional Resources in both TFC Award and FFC Award will be based on averages for the 3-year periods (TFC (last 3 years) and FFC (first 3 years) and not aggregate numbers. Statistically, this will also normalise data fluctuations, if any.*

**Key Findings:**

- States received an additional Rs. 9.44 lakh crores, on an average during the first three years of the FFC Award (see Table 2.12). This was mainly because of higher Central Transfers, which, on an average, were higher by Rs. 4.45 lakh crores during the first three years of the FFC Award compared with the last three years of the TFC Award;
- Despite higher Central Transfers, States' borrowings (Debt Capital Receipts) increased;
- Both States' Own Resources and Capital Receipts grew on an average Rs. 2.62 lakh crores and Rs. 2.35 lakh crores, respectively (see Figure 2.8).

**Figure 2.8: States Own Resources, Tax Devolution and Grants in Aid: TFC vs FFC Award**




*Source: Compiled by Authors*

➢ **An Alternative Scenario: Net additional Resources with Tax Devolution at 32% vs 42%**

Post the FFC Award, increase in Tax Devolution percentage from 32 percent to 42 percent was the most significant and unprecedented change. Hence, looking at the additional resources from the perspective of no change in tax devolution percentage, retaining it at 32 percent of DP, provides an interesting counterfactual that is germane to the fiscal space available to the Union / States.[26] Table 2.9 shows two scenarios for States' Total Receipts:

(i) Total Receipts with tax Devolution at 42 percent of DP; and

(ii) Total Receipts with tax Devolution at 32 percent of DP.

[26] This issue was flagged by Dr Ashok Lahiri, Member XVFC during the Inception Presentation made to the Commission on June 14, 2018

**Table 2.13: Net Additional Resources and Alternative Tax Devolution percentage – 42 percent vs 32 percent**

*In Rs. Lakh Crores*

| | | 2012-13 | 2013-14 | 2014-15 | TFC Award Average | 2015-16 | 2016-17 | 2017-18 (RE) | Award average |
|---|---|---|---|---|---|---|---|---|---|
| a | Tax Devolution (42%) (Actual) | 2.92 | 3.18 | 3.38 | 3.16 (Actual) | 5.06 | 6.08 | 6.93 | 6.02 (Actual) |
| b | Tax Devolution (32%) (Hypothetical) | 2.92 | 3.18 | 3.38 | 3.16 | 3.86 | 4.63 | 5.28 | 4.59 (Hypothetical) |
| | Difference (a-b) | 0 | 0 | 0 | 0 | 1.21 | 1.45 | 1.65 | 1.43 |
| **A** | **NAS - 42%** | **14.52** | **16.26** | **19.36** | **16.71** | **22.58** | **26.07** | **29.8** | **26.15** |
| **B** | **NAS - 32%** | **12.69** | **14.28** | **16.25** | **14.41** | **18.32** | **21.16** | **22.82** | **20.77** |
| | **Difference (TFC vs FFC) - Scenario 42%** | | | | | | | | **9.44** |
| | **Difference (TFC vs FFC) - Scenario 32%** | | | | | | | | **6.36** |
| | **Difference (A-B)** | | | | | | | | **3.08** |

*Source: Authors own computation*

Had tax devolution percentage continued to remain at 32 percent of DP, on an average, States would have received Rs. 6.36 lakh crores extra, in any case, during the first three years of FFC compared with the last three years of TFC. However, with tax devolution at 42 percent of DP, on an average, States' received Rs. 9.44 lakh crores (Rs. 3.08 lakh crores extra), only due to the increase in the tax devolution percentage. Conversely, in that case, Net additional Resources of States would have been less **by Rs 3.08 lakh crores** and the Fiscal Space available to the Union expanded to that extent.

## ➢ 2.4 Impact of changes in CSS

### i). Sharing pattern:

The sharing pattern of CSS was changed with effect from 2015-16, from an average of 67:33 to 60:40 across all Schemes. This change affected 18 States (erstwhile General Category States) that also happened to be large recipients of CSS allocations by the Centre. There was no change in the sharing pattern for 11 States (erstwhile Special Category States) that continued to receive CSS funding from the Centre in the proportion of 90:10 as they used to earlier. However, these erstwhile Special Category States have not been major recipients of CSS funding.

The outlays on CSS by the Centre for 60:40 States in the first three years of the FFC award were Rs 5.22 lakh crores; for the 90:10 States it was Rs 1.00 lakh crores (see Table 2.14).

**Table 2.14: Outlays on CASP / CSS between 18 (60:40) and 11 (90:10) States**

*(In Rs Lakh Crores)*

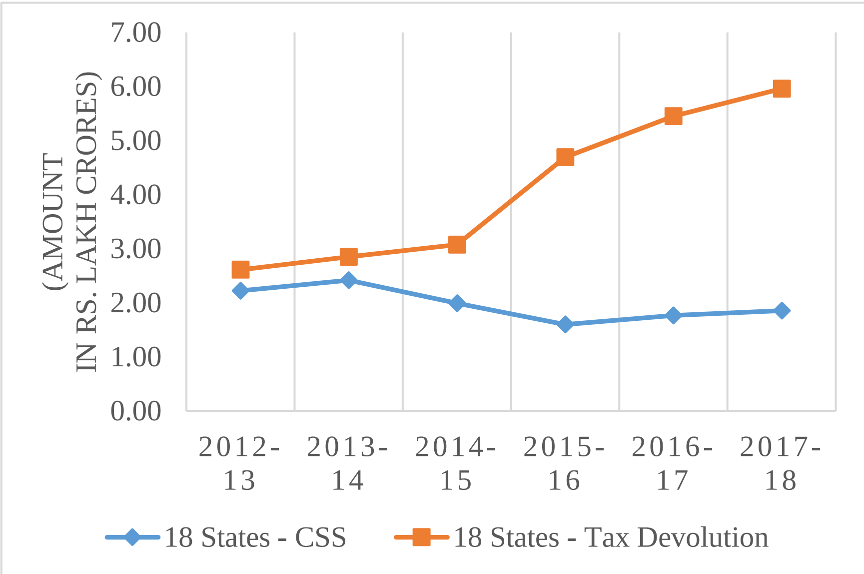
| Categories | 2012-13 Actuals | 2013-14 Actuals | 2014-15 Actuals | 2015-16 Actuals | 2016-17 Actuals | 2017-18 RE |
|---|---|---|---|---|---|---|
| **CASP / CSS** | | | | | | |
| 18 States | 2.22 | 2.42 | 1.99 | 1.60 | 1.77 | 1.85 |
| 11 States | 0.65 | 0.67 | 0.61 | 0.28 | 0.33 | 0.39 |
| **Total** | **2.87** | **3.09** | **2.60** | **1.88** | **2.10** | **2.24** |

*Source: Computed from different sources including Report of the sub-group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes', Niti Aayog, Union Budget and C&AG Finance Accounts*

*Note: There are marginal variations between the figures cited for CASP / CSS in Table 2.6 and in Table 2.14, due to limitations of availability of comparable data sets for the relevant years. However, the trends and conclusions are not affected.*

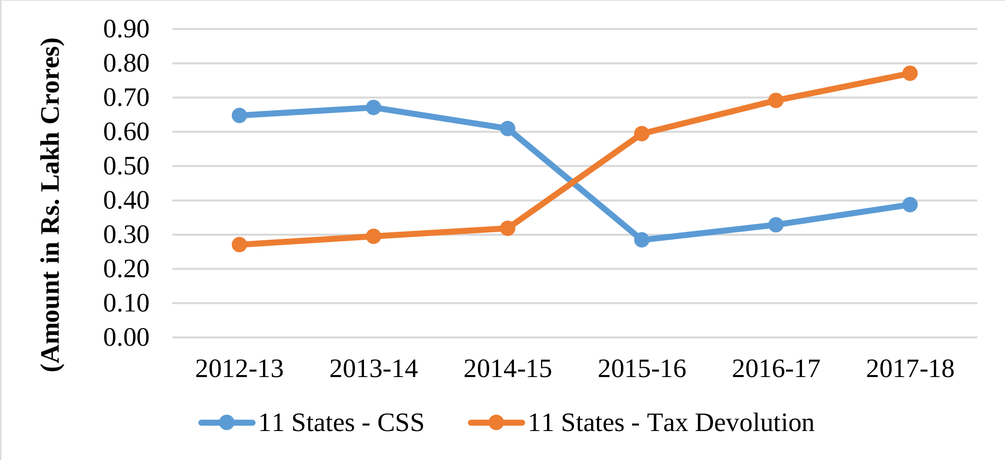
The differential impact across 18 States that received up to 60 percent share from the Centre for CSS and 11 States that received 90 percent of CSS funding from the Centre is illustrated in Figures 2.9a and 2.9b).

**Figure 2.9a: Outlays on CSS - 18 States (60:40 Sharing Pattern)**




*Source: Computed from different sources including Report of the sub-group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes', Niti Aayog, Union Budget and C&AG Finance Accounts*

**Figure 2.9b: Outlays on CSS : 11 States (90:10 Sharing Pattern)**




*Source: Computed from different sources including Report of the sub-group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes', Niti Aayog, Union Budget and C&AG Finance Accounts*

**Key Findings:**

- Nominal values of CSS outlays for 18 States were actually less also because the shares of the Centre were less than they were prior to 2015-16. CSS Outlays to 18 States were Rs. 1.99 lakh crores in 2014-15 and Rs. 1.85 lakh crores in 2017-18 (RE).
- Nominal values of CSS outlays declined for 11 States even though there was no change in the share of the Centre. It was Rs. 0.61 lakh crores in 2014-15 and Rs. 0.38 lakh crores in 2017-18 (RE) (see Table 2.14).
- Share of 18 States as a percentage of Total Outlays on CSS was 77 percent in 2014-15, and it increased to 83 percent in 2017-18 (see Table 2.14).
- Share of 11 States as a percentage of Total Outlays on CSS was 23 percent in 2014-15, and it decreased to 17 percent in 2017-18.

**ii). Discontinuation of Eight CSS**

In 2015-16, 8 CSS were discontinued. The total outlays on these Schemes was Rs. 2,796 crores in 2014-15. Furthermore, some CSS were transferred to States. The financial impact of the discontinuation of 8 CSS across different States is not clear as most of them were not being implemented in all States (see Appendix A, Table A2).

**iii). Withdrawal of Block Grants**

In 2014-15, Block Grants (NCA/SCA/SPA etc), under Central Assistance to State Plans (CASP) under the Plan budget were withdrawn. States did not receive Grants under this category from 2015-16 onwards. The withdrawal of Block grants also had an uneven impact across States.

While the Normal Central Assistance (NCA) was given to all States under the Gadgil-Mukherjee formula (and comprised 29 percent of all CASP in 2013-14), the SPA and SCA grants was allocated only to the 11erstwhile Special Category States to fund their revenue gap for Plan expenditure. In addition, several targeted Area Development Programs and Special Packages with inter State ramifications, were also funded out of Block Grants (for example, the Backward Region Grant Fund (BRGF) that comprised 10 percent of CASP and the Bihar Special Plan[27] that received 30 percent of BRGF, the Bundelkahnd package and the Integrated Action Plan for LWE districts, among others) Their discontinuation had a lasting impact on the affected States. Aggregate Block Grants in 2014-15 were Rs. 63,491 crores, the year preceding the commencement of the FFC Award (see table 2.15 a).

**Table 2.15a: State-wise Distribution of Block Grants under CASP and Losses Post Discontinuation**

*In Rs. Crores*

| | Gainer / Loser | State | 2012-13 | 2013-14 | 2014-15 | Average Block Grants – 2012-13 to 2014-15 |
|---|---|---|---|---|---|---|
| | | **60:40 States** | | | | |
| 1 | Gainer | Chhattisgarh | 2219 | 2203 | 815 | 1746 |
| 2 | Gainer | Goa | 336 | 343 | 272 | 317 |
| 3 | Gainer | Gujarat | 3493 | 2889 | 1077 | 2486 |
| 4 | Gainer | Haryana | 989 | 1137 | 411 | 846 |
| 5 | Gainer | Jharkhand | 2711 | 1751 | 1092 | 1851 |
| 6 | Gainer | Karnataka | 4076 | 4306 | 2189 | 3524 |
| 7 | Gainer | Kerala | 1918 | 1666 | 1220 | 1601 |
| 8 | Gainer | Madhya Pradesh | 7385 | 6571 | 3062 | 5673 |
| 9 | Gainer | Maharashtra | 5941 | 5663 | 1825 | 4476 |
| 10 | Gainer | Punjab | 1070 | 1531 | 849 | 1150 |
| 11 | Gainer | West Bengal | 6772 | 5196 | 2743 | 4904 |
| ***A*** | | ***Sub-Total (Gainer States)*** | ***36910*** | ***33256*** | ***15555*** | ***28574*** |
| 12 | Loser | Andhra Pradesh | 4707 | 4288 | 1387 | 3461 |
| 13 | Loser | Bihar | 5784 | 7099 | 2518 | 5134 |
| 14 | Loser | Odisha | 4018 | 4130 | 1994 | 3381 |
| 15 | Loser | Rajasthan | 2693 | 3570 | 1977 | 2747 |
| 16 | Loser | Tamil Nadu | 4403 | 5577 | 2406 | 4129 |
| 17 | Loser | Telangana | -- | 127 | 598 | 363 |
| 18 | Loser | Uttar Pradesh | 6376 | 7532 | 2821 | 5576 |
| ***B*** | | ***Sub-Total (Loser States)*** | ***27981*** | ***32323*** | ***13701*** | ***24668*** |
| | | | | | | |
| | | **Sub-Total – 18 States (A+B)** | **64891** | **65579** | **29256** | **53242** |
| | ***Loss of Block Grants*** | **Per State Average Loss of Block Grants (18 States)** | | | | **2958** |
| | | **NE and Hilly States (90:10)** | | | | |
| 19 | Gainer | Arunachal Pradesh | 2839 | 3108 | 2674 | 2874 |
| 20 | Gainer | Jammu & Kashmir | 9610 | 9074 | 9015 | 9233 |
| 21 | Gainer | Manipur | 2738 | 2692 | 2098 | 2509 |
| 22 | Gainer | Meghalaya | 1911 | 2164 | 1493 | 1856 |
| 23 | Gainer | Nagaland | 2345 | 2407 | 1932 | 2228 |
| 24 | Gainer | Sikkim | 1151 | 1511 | 1298 | 1320 |

27 The Bihar Special Plan was an obligation under the Statement of Objects and Reasons for the Bihar Reorganization Act 2000.

| | | | | | | |
|---|---|---|---|---|---|---|
| 25 | Gainer | Tripura | 2756 | 3109 | 2380 | 2748 |
| 26 | Gainer | **Mizoram** | 1964 | 1971 | 1664 | 1866 |
| ***C*** | | ***Sub-Total (Gainer States)*** | ***23350*** | ***24065*** | ***20890*** | ***24635*** |
| 27 | Loser | Assam | 6157 | 6399 | 4418 | 5658 |
| 28 | Loser | Himachal Pradesh | 4386 | 3902 | 3996 | 4095 |
| 29 | Loser | Uttarakhand | 3119 | 3752 | 3267 | 3379 |
| ***D*** | | ***Sub-Total (Loser States)*** | ***13662*** | ***14053*** | ***11681*** | ***13132*** |
| | | **Sub-Total - 11 States (C+D)** | **37012** | **38118** | **32571** | **37767** |
| | ***Loss of Block Grants*** | **Per State Average Loss of Block Grants** | | | | **3433** |
| | | **Grand Total (All States)** | **103867** | **105668** | **63491** | **91009** |

*Source: Compiled by Authors from Niti Aayog (2015). "Report of the Sub-Group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes"*

While it is a fact that these Block Grants were only 25 percent of the total Plan expenditure of Rs. 2.64 lakh crores (including Central Plan and CASP) in that year, their discontinuation did result in closing a significant avenue of untied transfers to States. In particular, the erstwhile Special Category States and Himalayan States relied hugely on Block Grants to fund development expenditure under Plan (see Table 2.15b).

**Table 2.15b: Block Grants as a Proportion of Plan Expenditure**

*In percentage*

| **State** | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** |
|---|---|---|---|---|---|
| Andhra Pradesh | 7% | 6% | 45% | 0% | 0% |
| Bihar | 13% | 16% | 6% | 1% | 0% |
| Chhattisgarh | 7% | 9% | 13% | 0% | 0% |
| Goa | - | - | - | - | - |
| Gujarat | 5% | 5% | 3% | 1% | 3% |
| Haryana | 4% | 3% | 1% | 0% | 0% |
| Jharkhand | 16% | 10% | 4% | 1% | - |
| Karnataka | 5% | 5% | 2% | 1% | 1% |
| Kerala | 1% | 7% | 3% | 0% | - |
| Madhya Pradesh | 13% | 12% | 6% | 2% | 1% |
| Maharashtra | 8% | 6% | 2% | 1% | 0% |
| Orissa | 19% | 13% | 4% | 0% | 1% |
| Punjab | 12% | 17% | 7% | 0% | 0% |
| Rajasthan | 5% | 6% | 33% | 14% | 16% |
| Tamil Nadu | 5% | 6% | 1% | 0% | - |
| Telangana | - | - | 2% | 0% | 0% |
| Uttar Pradesh | 5% | 3% | 4% | - | - |
| West Bengal | 19% | 13% | 4% | 0% | 0% |
| ***Average - 18 States*** | ***9%*** | ***9%*** | ***8%*** | ***1%*** | ***2%*** |
| Arunachal Pradesh | 91% | 71% | 60% | 14% | 3% |
| Assam | 59% | 54% | 33% | 7% | 4% |
| Himachal Pradesh | 101% | 85% | 71% | 12% | 11% |
| Jammu and Kashmir | 143% | 146% | 125% | - | - |
| Manipur | 100% | 99% | 61% | 9% | 10% |
| Meghalaya | 64% | 66% | 48% | 5% | 3% |
| Mizoram | 73% | 78% | 58% | 6% | 5% |
| Nagaland | 88% | 106% | 91% | 6% | 5% |
| Sikkim | 81% | 91% | 81% | 17% | 34% |
| Tripura | 96% | 94% | 54% | 3% | 3% |
| Uttarakhand | 53% | 57% | 38% | 10% | 15% |

| | | | | | |
|---|---|---|---|---|---|
| ***Average - 11 States*** | ***59%*** | ***59%*** | ***43%*** | ***7%*** | ***7%*** |
| **All States** | **14%** | **14%** | **12%** | **2%** | **2%** |

*Source: Compiled from State Finance Accounts by CAG*

It is a fact that these 11 States were "compensated" for their loss in receipts on account of withdrawal of Block Grants through higher devolution amounts in the FFC Award, and that their Total Receipts did not dip by an equivalent amount. However, the negative effects of the withdrawal was disruptive because the budgets of the States continued with the Plan/ Non Plan classification and found it difficult to readjust especially in the first couple of years after the Award. As the Note of Dissent by Professor Abhijit Sen to the FFC Report observes

*"The increased devolution is about a third of all current plan transfers from Centre to states and the cut will have to be allocated across plan schemes and block grants at very short notice. Quite apart from the affected Central Ministries, there will be knock-on effects on the line departments at the State level."*[28]

Recognising the disruption caused by this withdrawal, the Economic Survey in 2014-15 noted

"*To be sure, there will be transitional costs entailed by the reduction of CAS transfers. But the scope for dislocation has been minimized because the extra FFC resources will flow precisely to those States that have the largest CAS financed Schemes."*[29]

Undoubtedly, the withdrawal of these Block grants under CASP were, for the most part, made up by the higher devolution amounts. However, there is no evidence that these higher devolution amounts, that were, moreover, untied transfers, were used to fund expenditure in key sectors in these States. Most of the States that were impacted scored low on major development indices or were the erstwhile Special Category States that have cost disabilities and low fiscal capacities. Whether higher untied transfers enabled them to overcome these challenges, given their low governance capacity and sensitive locations, is debatable.

**Key findings:**

- The impact of the withdrawal of Block grants on receipts of the States has been analysed on the basis of following two groupings:
  - The 18 States and the 11 erstwhile Special Category States,
  - The Loser / Gainer States on account of changes in Horizontal Devolution post FFC Award amongst the above categories.
- The impact of the loss on Block Grants under CASP, was uniformly adverse on All States. They lost between Rs 2,500 crores to Rs 4,000 crores on this account;
- Between 2012-13 and 2015-16, the impact of withdrawal of Block Grants is greater for the 11 erstwhile Special Category States compared to the 18 erstwhile General Category States;

[28] Finance Commission of India (2015), Report of the 14th Finance Commission. A Note of Dissent by Prof. Abhijit Sen, Member (Part-Time); Vol I, pp. 262. Professor Abhijit Sen was then a Member of the Planning Commission.

[29] Economic Survey 2014-15: page 137.

- The average per State loss was Rs. 3,433 crores for the 11 States and Rs. 2,958 crores for the 18 States;
- Across both categories of States (18 and 11 States), the impact on account of withdrawal of the Block Grants is greater for Loser States than the Gainer States, thus compounding this perception of being given unfair treatment;
- Amongst the 18 States, the impact on account of withdrawal of Block grants is greater for the Loser States. Between 2012-13 and 2014-15, the average per State for the Loser States is Rs. 3524 crores whereas the average per State for the Gainer States is Rs. 2,598 crores;
- Amongst the 11 erstwhile Special Category States also, the impact on account of withdrawal of Block Grants is greater for the Loser States. Between 2012-13 and 2014-15 the average per State for the Loser States is Rs. 4,377 crores whereas the average per State for the Gainer States is Rs. 3,079 crores;
- An analysis of the total implications across States of the withdrawal of Block Grants indicates that Block grants accounted for about 12-14 percent of Plan expenditure of All States (see Table 2.15b). In some large States like Maharashtra and Tamil Nadu they accounted for less than 5-6 percent of their total Plan expenditure; but in respect of the 11 Himalayan and NER States, Block grants funded a substantial portion of their Plan expenditure, in some cases, even upto 60-80 percent;
- Impact of changes in CSS was mitigated by higher devolution amounts and higher Grants in Aid that, taken together, meant higher central transfers.
- Changes in sharing pattern of CSS impacted 18 States. However, it was offset by higher untied transfers by Devolution to enable them to put in higher shares as well as higher allocations for CSS that incentivised them to remain invested in them;
- Although there was no change in sharing pattern of CSS in 11 States, CSS allocations declined significantly in respect of these States, signalling a reduction in Central government participation;
- Discontinuation of 8 CSS had marginal impact as they were too small and, moreover, not being implemented in all States;
- Withdrawal of Block Grants under CASP was disruptive and affected the development expenditures in the erstwhile Special Category States to a significant extent;
- Discontinuation of Area Specific programs, especially BRGF and the Bihar Special Plan and several special programs with inter-State linkages that received Block Grants under CASP also had a negative impact on States that were implementing them.

The TFC Award was to transfer 32 percent of shareable taxes to the States. The total amount transferred as tax devolution during the Award period (2010-11 to 2014-15) was Rs. 14.22 lakh crores. In the last three years of the TFC Award (2012-13 to 2014-15), the aggregate amount transferred to States (Devolution and Grants) was Rs. 16.74 lakh crores. In the first three years of the FFC Award (2015-16 to 2017-18), the aggregate amount transferred to the States was Rs. 30.38 lakh crores (see Table 2.19a).

**Table 2.19a: Transfers to States**

*In Rs. Lakh crores*

| 9 | **Transfers to States** | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | **TFC Award Aggregate (2012-13 to 2014-15)** | **FFC Award Aggregate (2015-16 to 2017-18)** |
|---|---|---|---|---|---|---|---|---|---|
| | | Actuals | Actuals | Actuals | Actuals | Actuals | RE | | |
| 1 | Tax Devolution to States | 2.92 | 3.18 | 3.38 | 5.06 | 6.08 | 6.93 | 9.48 | 17.87 |
| 2 | Total Grants to States from Finance Commission | 0.45 | 0.54 | 0.62 | 0.85 | 0.96 | 1.01 | 1.61 | 2.82 |
| 3 | Aggregate transfers to States from Finance Commission (1+2) | 3.37 | 3.72 | 4.00 | 5.91 | 7.04 | 7.74 | 11.09 | 20.69 |
| 4 | Total Grants from Union to States excluding FC Grants | 1.44 | 1.52 | 2.69 | 2.41 | 2.6 | 4.18 | 5.65 | 9.19 |
| **5** | **Transfers to States (3+4)** | **4.81** | **5.24** | **6.69** | **8.32** | **9.64** | **12.12** | **16.74** | **30.08** |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

To a large extent, the additional resources by means of Central Transfers (Devolution and Grants) were untied post the FFC Award. The primacy to Devolution in the overall scheme of transfers was carefully crafted as the FFC felt that the States had come of age and should set their own priorities. Therefore, higher untied transfers should "..... *provide enhanced fiscal flexibility to the States to meet their expenditure needs and make expenditure decisions in line with their own priorities".*[30] While doing so, it was expected that the States would be guided by State specific development models as they had acquired the capabilities required to design their own development strategies based on their obligations to finance socio economic development.

After taking into account the factors that offset the 10 percent increase in tax devolution, it is abundantly clear that the Net Additional Resources available to All States in the first three years of the FFC Award is more than they had compared to the last three years of the TFC Award. In sum**, States lost on account of withdrawal of Block Grants (Rs. 273,026 crores, see Table 2.6) and discontinuation of TFC's Sector-specific grants (Rs. 56,244 crores, see Table 2.5a). Aggregate loss on these two parameters, was around Rs. 329,270 crores (or Rs. 3.30 lakh crores). But despite these amounts foregone, the net additional resources available to the States post the FFC Award was upto Rs. 9.44 lakh crores** (see Table 2.12).

[30] Extracted from the Report of the Fourteenth Finance Commission, Volume 1, Chapter 2; Para 2.28; pp. 17

**Key findings:**

- Aggregate Central Transfers to the States was Rs. 30.38 lakh crores in the first three years of the FFC Award whereas it was Rs. 16.74 lakh crores[31] in the last three years of the TFC Award. Grants in Aid comprising FC Grants, CSS and Other Transfers was Rs. 9.04 lakh crores in the first three years of the FFC Award. The percentage of devolution was 61 percent of Total Transfers and Grants in Aid were 39 percent during first three years of FFC Award, whereas in the last three years of TFC Award, this percentage was 57 percent and 43 percent respectively;
- The Net Additional Resources of States increased post the FFC Award. It increased by Rs. 9.44 lakh crores, on an average, in the last three years of FFC compared with the first three years of the TFC. The growth is mainly on account of higher Central Transfers that grew by Rs. 4.45 lakh crores, on an average. In addition, States' Own Resources grew by Rs. 2.62 lakh crores, on an average, and Capital Receipts that grew by Rs. 2.35 lakh crores, on an average, in the last three years of TFC compared with the first three years of the FFC;
- All States gained due to higher vertical devolution. However, if the changes in horizontal devolution post the FFC Award are also taken into account, there are State-wise variations in gains / losses. This is due to changes in weights and formula adopted by the FFC *vis-a-vis* the TFC;
- Post the FFC Award, grants-in- aid comprising FC grants (Revenue Deficit grants for 11 States, Local Body grants for all States and Disaster Relief Grants for all States), CSS transfers and Other Transfers also increased the resources available to the States to a greater or lesser degree;
- Post FFC Award, net additional resources available to all States were primarily by way of untied transfers through Devolution. However, some of it was pre-empted by the higher shares that was required for CSS in the revised sharing pattern of 60:40 for 18 States (as against an average of 67:33) from 2015-16 onwards. But this change had no effect on the 8 NER States and the 3 Himalayan States as the CSS sharing pattern of 90:10 for them remained unchanged;
- Withdrawal of Block grants (NCA/ACA/SCA/SPA, etc.) under CASP also impacted some States more than the others; the 11 NER and Himalayan States were affected more than the 18 other States;
- The rate of growth of States Own Resources declined or remained static while Central Transfers (Devolution and Grants) increased;
- **In sum, States lost on account of withdrawal of Block Grants (Rs. 273,026 crores) and discontinuation of TFC's Sector-specific grants (Rs. 56,244 crores);**

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31 Economic and Political Weekly (2015), Vol. No. 12, Pinaki Chakraborty, (2015) "Finance Commission's Recommendations and Restructured Fiscal Space", pp. 34.

- **Aggregate loss on these two parameters, was around Rs. 329,270 crores (or Rs. 3.30 lakh crores). But despite these, the net additional resources available to the States post the FFC Award was upto Rs. 9.44 lakh crores (see Table 2.12);**
- After taking into account the factors that offset the 10 percent increase in tax devolution, it is abundantly clear that the Net Additional Resources available to All States in the first three years of the FFC Award is more than they had compared to the last three years of the TFC Award.

From the preceding analysis, it is clear that Total Receipts of all States increased post FFC Award. All States got additional resources after 2015-16 mainly on account of higher transfers from the Centre, both through Devolution and Grants in Aid. It has also been established that there are wide variations across States on the extent to which they 'lost' or 'gained' due to higher percentage of Devolution because of the weights applied by the FFC in the horizontal devolution formula. Grants on account of FC grants (Revenue Deficit grants to 11 States, Local Body grants / Disaster Relief / CSS) increased overall but, impacted States in a differential manner. In addition, on account of the pre-emptive claims on expenditure due to changes in the numbers as well as the sharing pattern between the Centre and States for CSS and the withdrawal of Block Grants under CASP, the higher devolution percentage of 42 percent did not translate into an across the board increase to the same extent (of 10 percentage points over the TFC) in Total Receipts. But overall, as a thumb rule, it can be concluded that all States did gain anywhere upto (and in some cases, more than) 10 percent after the FFC Award. The moot question is whether the fiscal space made available to them and the additional resources, net of the countervailing effects, translated into higher allocations in key sectors that were State priorities; and whether the expenditure decisions also furthered the goals of national development.

We will analyse these issues in Part 3.

## Part 3: How did the States Spend the Additional Resources

*The preceding Section concluded that post FFC Award, All States received additional resources over and above that available in the last three years of the TFC Award was upto Rs. 9.44 lakh crores. In **Part 3**, we analyse how these additional resources were spent by them across Services and in key/priority sectors. Thereafter, we proceed to examine variations across States with respect to expenditure patterns of the net additional resources and aggregate amounts spent by them at Sector, Sub Sector and Scheme level, and also analyse the per capita expenditure in the 18 / 11 groupings of States.*

### ➢ 3.1. Classification of Expenditure

After 2017-18 onwards, Total Expenditure of All States is classified into Revenue Expenditure and Capital Expenditure that are further classified into Sector level expenditure in Social, Economic and General Services.[32] Each of these Sector/Services is further divided into Sub-Sectors e.g. Education Health, Agriculture, Rural Development etc. Broadly, both Revenue and Capital expenditure under Social and Economic Services is classified as Development Expenditure and Revenue and Capital expenditure under General Services is classified under Non- Development expenditure (see Table 3.1).

*"For analytical purposes, the heads of expenditure are categorized as 'developmental and 'non-developmental', but this is neither statutory nor prescribed under Account Rules"*[33]

Prior to the discontinuation of Plan / Non-Plan classification in the Union budget, each Sub-Sector was further classified into Plan and Non-Plan. Both Plan and Non-Plan expenditures had Revenue and Capital components. *"The capital outlay in state plans is financed by capital receipts, central loans and market borrowings."*[34] However, over time, revenue expenditures under Plan also came to be financed from borrowings because revenue receipts (from current tax revenues) invariably fell short of revenue expenditures (current expenditures) both in the Centre and the States.

The Plan budget of the Union used to be a residual, after all committed liabilities (that were under Non Plan), were met and it received Gross Budgetary Support (GBS) financed from borrowings (GBS was derided by critics as Gross "Borrowed" Support!) The Plan budget also had a large share of transfers to States under Central Assistance to State Plans (CASP), which constituted about 44 percent of total Plan expenditure in 2014-15. The grants to States under Plan were filtered through the Planning Commission while the FC Awards, until the FFC, were limited to Non- Plan Revenue Expenditures (NPRE). The FFC took the view that their ToR did not restrict them into making the distinction between Plan/Non Plan and made its Award agnostic in this respect. However, it must be pointed out that when the States presented their Memoranda to the FFC it was under the presumption that the Award would be with respect to

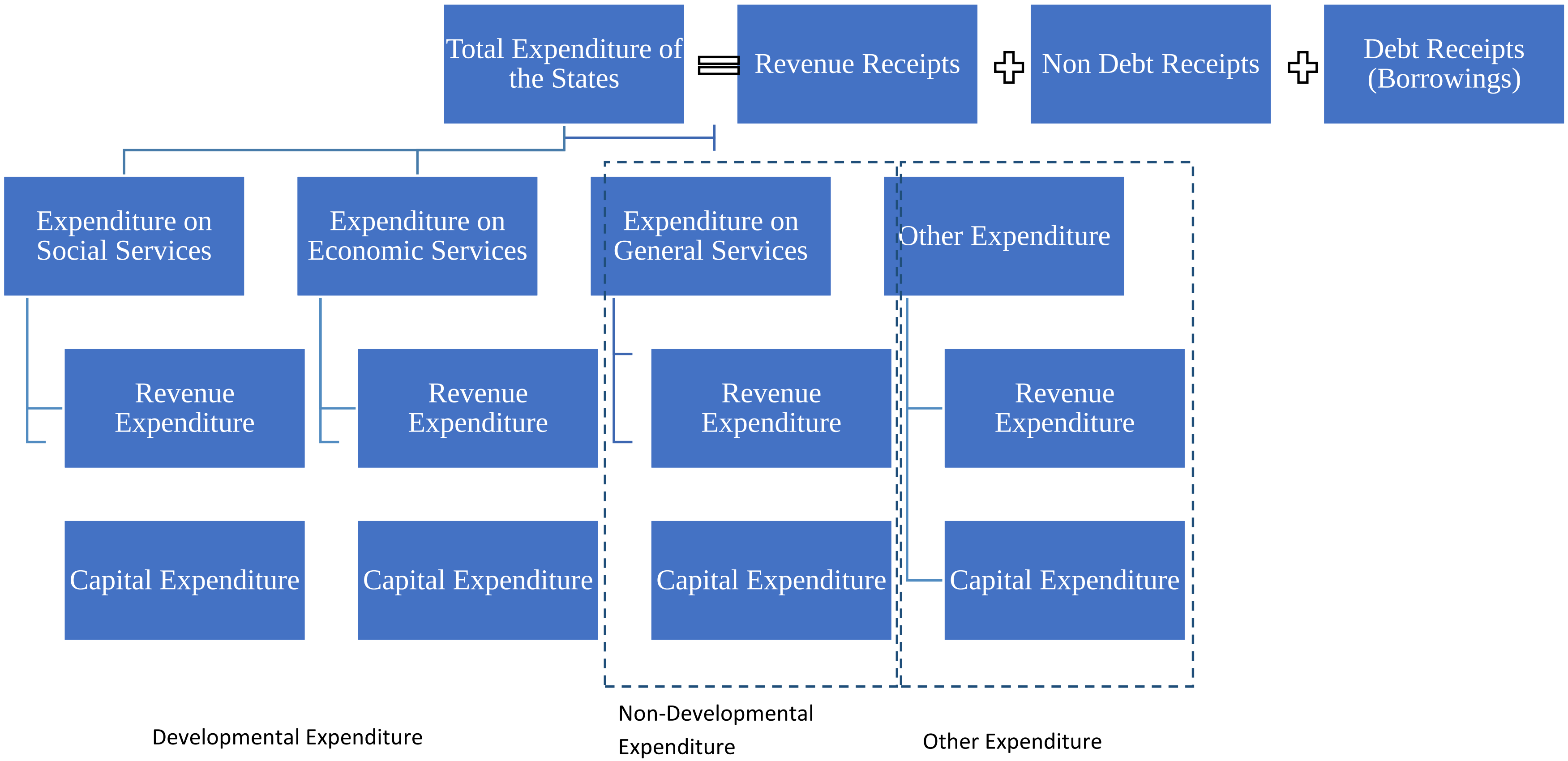
32 This classification is on the basis of the States' Expenditure Classification given in State Finance Reports of the RBI.

33 Vithal B.P.R and Sastry M.L. (2001), "Fiscal federalism in India", Chapter 20, p.266, Oxford University Press, Chapter 20, pp. 266.

34 Vithal B.P.R and Sastry M.L. (2001), "Fiscal federalism in India", Chapter 20, p.266, Oxford University Press, Chapter 20, pp. 263.

NPRE and that Plan grants would continue as before. Therefore, to the extent, the projections of States' expenditures were not on target as all of them assumed that Plan transfers would be available in addition to Central Transfers (Devolution and Grants) based on the recommendations of the FFC. The distinction of Plan/Non Plan in expenditure classification remained in the Union budget until 2016-17 and has been retained in many States even now.

**Figure 3.1: Classification of States' Total Expenditure**




*Source: Study of State Finances by Reserve Bank of India*

- **Social, Economic and General Services Expenditure:** Revenue and Capital Expenditures are divided into expenditure on account of Social and Economic Services, which falls under Development Expenditure and Expenditure on General Services, which falls under Non-Development Expenditure;
- **Revenue Expenditure:** Revenue Expenditure includes States' Operating Expenditure, for instance, Salaries, Pensions, Interest Payments, and all recurring expenditure under Schemes and Programs. Recurring expenditure on account of salaries and overheads cuts across General, Economic and Social Services;
- **Capital Expenditure**: Capital Expenditure includes expenditure for asset creation, for instance, on Infrastructure such as construction of roads, bridges, power plants and transmission lines, buildings etc. Capital expenditure is further classified into Capital Outlay and Loans and Advances by the State Government; the former is a direct method of asset creation where the government departments themselves to invest and execute projects, and latter involves extension of credit to executing agencies and organisations;
- **Other Expenditure:** This category includes Grants and Contributions by the State Government to Urban Local Bodies and *Panchayati Raj* Institutions. FC grants to Local Bodies are accounted for under this Head and released by State governments to them based on recommendations of State Finance Commissions.

**Table 3.1: Sub-Sectors***

| **Social Services** | **Economic Services** | **General Services** |
|---|---|---|
| Education, Sports, Art and Culture | Agriculture and Allied Activities | Organs of State |
| Medical and Public Health | Rural Development | Fiscal Services |
| Family Welfare | Special Area Programmes | Interest Payments and Servicing of Debt |
| Water Supply and Sanitation | Irrigation and Flood Control | Administrative Services |
| Housing | Energy | Pensions |
| Urban Development | Industry and Minerals | Miscellaneous General Services |
| Welfare of SC's, ST's and OBC | Transport and Communications | Government Servants (Other than Housing) |
| Labour and Labour Welfare | Science, Technology and Environment | |
| Social Security and Welfare | General Economic Services | |
| Nutrition | Major and Medium Irrigation and Flood Control | |
| Relief on account of Natural Calamities | Transport | |
| Government Servants (Housing) | Communications | |
| | Power Projects | |

*Source: Compiled by Authors*

**Expenditure across each sub-sector is further classified into Revenue / Capital and Plan / Non-Plan (until 2016-17)*

The XVFC is the first FC that will make its recommendations in respect of the total Receipts and Expenditure of the Union and States, in effect, encompassing both the erstwhile Plan/Non Plan Revenue Expenditures.

## ➢ 3.2. Total Expenditure: All States

Between 2012-13 and 2018-19, Total Expenditure grew at a CAGR of 16 percent. In first three years of the FFC Award (2015-16 to 2017-18), aggregate expenditure of States increased to Rs. 78.88 lakh crores (see Table 3.2). In other words, in the three initial years of the FFC Award, States spent Rs. 28.7 lakh crores, almost 57 percent more than what they spent during the last three years of the TFC Award (Rs. 50.19 lakh crores).

**Table 3.2: Trend Analysis of Total Expenditure of all States**

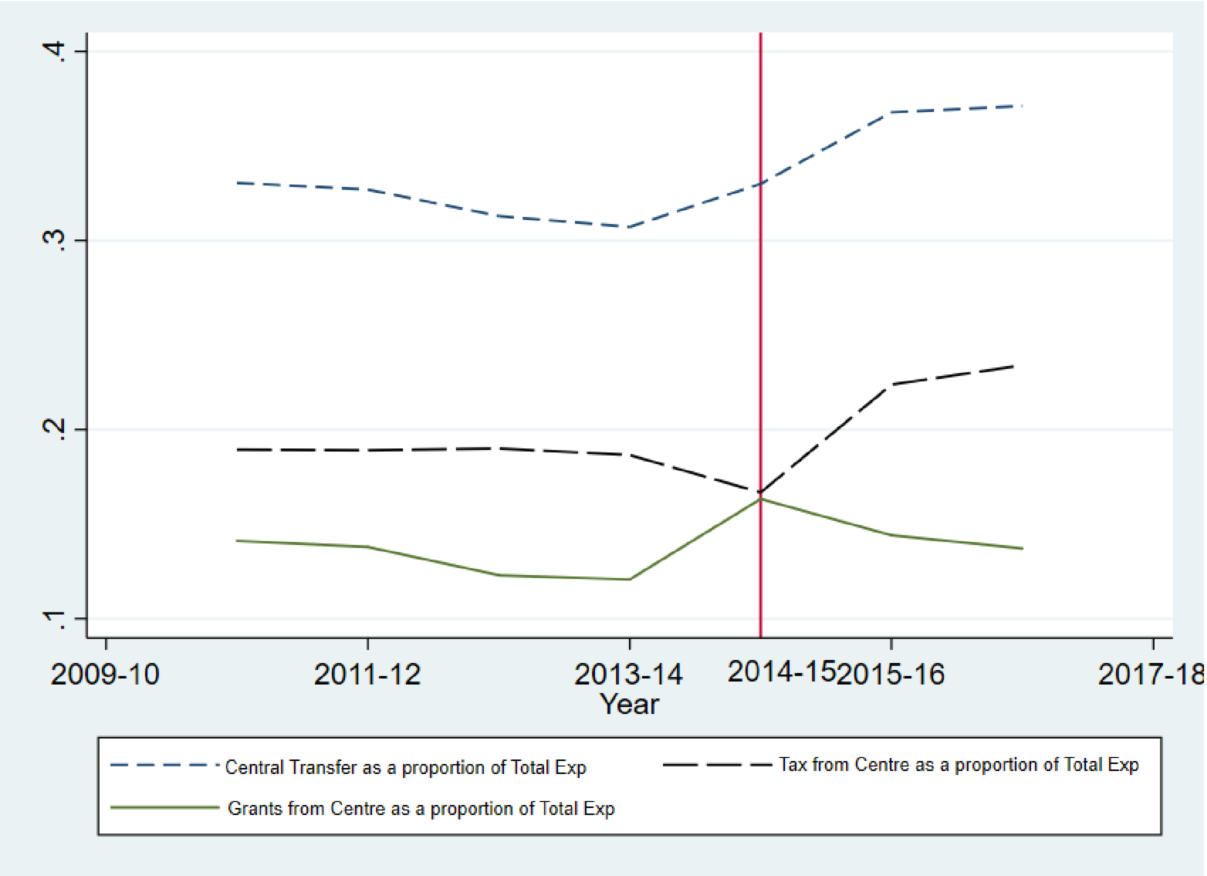
*In Rs. Lakh Crores*

| | Categories | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 (RE) | TFC Average | FFC Average | % Growth between FFC average and TFC average |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Total Expenditure (A+B)** | **14.55** | **16.24** | **19.39** | **22.62** | **25.97** | **30.29** | **16.73** | **26.29** | **57%** |
| | *y-o-y growth* | | *11.6%* | *19.4%* | *16.7%* | *14.8%* | *16.6%* | | | |
| | ***Difference (FFC Average – TFC Average)*** | | | | | | | | ***9.56*** | |
| **A** | **Revenue Expenditure (1+2+3+4)** | **12.32** | **13.8** | **16.37** | **18.38** | **20.87** | **25.19** | **14.16** | **21.48** | **52%** |
| | *-As a Proportion of Total Expenditure* | *84.7%* | *85.0%* | *84.4%* | *81.3%* | *80.4%* | *83.2%* | *84.7%* | *81.6%* | |
| 1 | Social Services | 4.85 | 5.5 | 6.33 | 7.4 | 8.35 | 10 | 5.56 | 8.58 | 54% |
| 2 | Economic Services | 2.73 | 2.95 | 4.07 | 4.41 | 5.05 | 6.13 | 3.25 | 5.20 | 60% |
| 3 | General Services | 4.38 | 4.91 | 5.51 | 6.09 | 6.91 | 8.35 | 4.93 | 7.12 | 44% |
| 4 | Grants-in-Aid and Contributions | 0.36 | 0.43 | 0.46 | 0.49 | 0.55 | 0.71 | 0.42 | 0.58 | 40% |
| **B** | **Capital Expenditure (5+6+7)** | **2.23** | **2.45** | **3.02** | **4.24** | **5.1** | **5.1** | **2.57** | **4.81** | **88%** |
| | *-As a Proportion of Total Expenditure* | *15.3%* | *15.1%* | *15.6%* | *18.7%* | *19.6%* | *16.8%* | *15.3%* | *18.4%* | |
| 5 | Social Services | 0.51 | 0.57 | 0.69 | 0.78 | 0.93 | 1.31 | 0.59 | 1.01 | 71% |
| 6 | Economic Services | 1.63 | 1.74 | 2.17 | 3.25 | 3.97 | 3.49 | 1.85 | 3.57 | 93% |
| 7 | General Services | 0.09 | 0.14 | 0.16 | 0.21 | 0.19 | 0.29 | 0.13 | 0.23 | 77% |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

As shown in Figure 3.2, until the FFC recommendations were implemented, the growth in Central Transfers was commensurate with the growth in Total Expenditure as the ratio of the two (Central Transfers as a proportion of Total Expenditure) was constant. However, post the FFC Award Central Transfers grew substantially, driven by quantum changes (growth) in Devolution and compositional changes in Grants-in-Aid. However, the visible increase in ratio was only in the first year of FFC award, after which the ratio stabilised i.e. Total Expenditure grew in proportion to Central Transfer. Contribution of Grants to Total Expenditure dropped while that of Devolution increased.

**Figure 3.2: Changes in Devolution and Grants and impact on Total Expenditure of States**




*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

**Box 3.1: Implications of changes in Accounting for States Total Expenditure**

Prior to the accounting changes implemented in 2014-15, Total Receipts of States reported in State Budgets did not include the amount directly released to implementing agencies in States (Rs. 1.05 lakh crores in 2012-13 and Rs. 1.13 lakh crores in 2013-14), as they did not pass through the Consolidated Fund of States.

For the purpose of computing the Net Additional Resources available to the States as Receipts (in Section 2.2), amounts transferred to directly implementing agencies was added to Total Receipts as reported in State Budgets. Similarly, to compute the Total Expenditure of States, the amount directly released to implementing agencies in States (Rs. 1.05 lakh crores in 2012-13 and Rs. 1.13 lakh crores in 2013-14), has been added to the Total Expenditure to take into account the expenditure by the directly implementing agencies in the States (see Table 3.3).

**Table 3.3: Comparison between Total Receipts and Total Expenditure Trends after including Direct Releases to States**

*In Rs lakh crores*

| | | | | | | | | A | B | C |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **TFC (average)** | **FFC (average)** | **TFC Average – FFC Average** |
| | **Expenditure** | | | | | | | | | |
| 1a. | Total Expenditure (without direct release) | 14.55 | 16.24 | 19.39 | 22.62 | 25.97 | 30.29 | **16.73** | **26.29** | **9.56** |
| 1b. | Total Expenditure (with direct release) | 15.56 | 17.37 | 19.39 | 22.62 | 25.97 | 30.29 | **17.44** | **26.29** | **8.85** |
| | **Receipts** | | | | | | | | | |
| 2a. | Total Receipts (without direct release) | 14.51 | 16.26 | 19.36 | 22.58 | 26.07 | 29.8 | **16.71** | **26.15** | **9.44** |
| 2b. | Total Receipts (including Direct Release) | 15.56 | 17.39 | 19.36 | 22.58 | 26.07 | 29.8 | **17.44** | **26.15** | **8.71** |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

The difference between Total Expenditure (1a) and Total Expenditure 1(b) is on account of expenditure incurred from the amounts directly released to States in the years 2012 and 2013. As a consequence of this change, the average growth in Total Expenditure between the last three years of the TFC and first three years of the FFC are different in Table 3.2 (Rs 16.73 lakh crores) and Table 3.3 (Rs 17.44 lakh crores).

Accordingly, if the expenditure incurred by the directly implementing agencies in States is taken into account, the amount of Total Expenditure changes and the additional expenditure of States, between the first three years of the FFC Award and the last three years of the TFC Award is Rs. 8.85 lakh crores (see Total Expenditure (1.b) Table 3.3).

**However, if the accounting change is not factored in, the additional expenditure of States, between the first three years of the FFC Award and the last three years of the**

**TFC Award is Rs. 9.56 lakh crores (see Total Expenditure (1.a.) of Table 3.2). We have followed this practise and for the purpose of this study, the accounting change will not be factored in on expenditure side.**

**Key Findings:**

- Between the last three years of TFC and first three years of FFC, on an average, Total Expenditure of All States grew by 57 percent, and expenditure increased, on an average, from Rs. 16.73 lakh crores in the last three years of TFC to Rs. 26.29 lakh crores in the first three years of the FFC Award;
- Of the average expenditure incurred during the first three years of the FFC Award, share of Revenue Expenditure is around 82 percent of Total Expenditure and the remaining is Capital Expenditure (18 percent);
- Between the last three years of the TFC Award and the first three years of the FFC Award, on an average, Revenue Expenditure grew from Rs 14.16 lakh crores to Rs. 21.48 lakh crores. (52 percent);
- Capital expenditure grew from Rs. 2.57 lakh crores to Rs 4.81 lakh crores (88 percent) in the same period. This is because of higher loans and advances extended to power projects under UDAY and higher capital outlay on Energy, Major and Medium Irrigation, Rural Development, Roads and Bridges;
- Between the first three years of FFC Award and last three years of TFC Award, All States received an additional Rs. 9.44 lakh crores in Total Receipts, primarily due to higher Central Transfers on account of Devolution, and Grants-in-aid; and
- In the same period Total Expenditure of All States increased by Rs. 9.56 lakh crores. The difference between Rs 9.44 lakh crores (Total additional Receipts) and Rs 9.56 lakh crores (Total additional Expenditure) is due to accounting adjustments in individual years[35].

## 3.3 Development Programmes and Schemes: Central Plan Schemes, CSS and State Plan Schemes: All States [36]

An analysis of the additional resources spent by All States at a granular level below the Sub Sector level, i.e. at Scheme level (that includes Central Plan Schemes, State Plan Schemes and Centrally Sponsored Schemes) was expected to assess the extent to which States have utilized the additional resources available for increasing outlays for Schemes in key/priority sectors; whether the higher shares in CSS has resulted in any discernible change in the level of their participation in these Schemes for better or for worse; and ascertain whether untied transfers have improved funding levels for State level programs and Schemes designed to foster sustainable development and more inclusive growth. However, a detailed analysis has not been possible due to the paucity of data from the States. But, the expenditure from Central Grants and State Plan Schemes has been disaggregated (see Figure 3.3). Therefore the analysis, both

[35] Total Expenditure exceeds Total Receipts of the State on account of withdrawals from Cash Balance Investment account.

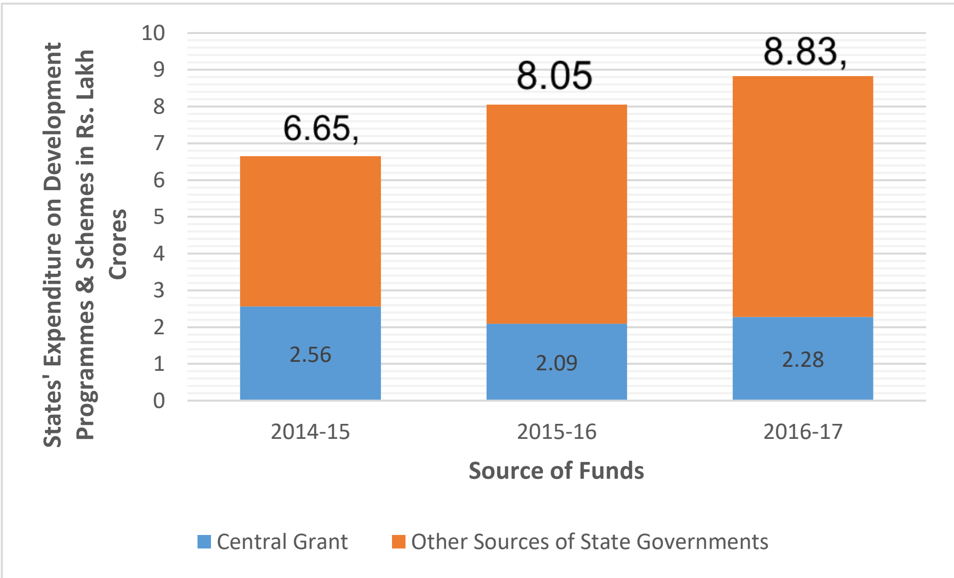
[36] The analysis is limited to the years 2014-15, 2015-16 and 2016-17, as after discontinuation of Plan/ Non Plan limited data is available only for one year, i.e. 2017-18.

at gross level (All States) and state-wise, of States' expenditure with the additional resources received, has been done using different secondary data sources. Various indicators, including the following, were identified and data was analysed:

- States Expenditure on Development Programmes and Schemes was analysed at aggregate expenditure level;
- States Expenditure on different Services (Social and Economic) and Sub-sectors across these Services was analysed at additional and aggregate expenditure level.

Further, variations across States in terms of expenditure at different levels including aggregate expenditure patterns, aggregate expenditure patterns in Social and Economic services and aggregate and per capita expenditure patterns in development programmes and schemes, was analysed. Variations across States has been analysed based on the groupings of 18 States (where CSS share changed to 60:40) and 11 Himalayan and NER States (where CSS share changed to 90:10). Within this grouping, States have been segregated according to the Gainer / loser status.

**Figure 3.3: Changes in States' Aggregate Expenditure on Development Programmes and Schemes, post the FFC Award**




*Source: State Finance Accounts by Comptroller and Auditor General of India (C&AG).*

*The numbers in the Figure 3.3 are absolute expenditure numbers in a given year.*

Expenditure on development programmes and schemes (CSS and State Plan Schemes) was around 34 percent of aggregate expenditure of All States in 2014-15. Post the FFC Award, expenditure on development programmes and schemes increased by 21 percent between 2014-15 and 2015-16 (from Rs. 6.65 lakh crores to Rs. 8.05 lakh crores). In nominal terms, States' expenditure increased post the FFC Award and so did expenditure on development programmes and schemes but its share in aggregate expenditure remained around 36 percent and 34 percent in 2015-16 and 2016-17, respectively.

In addition, according to the C&AG data, share of Central Grants spent on development programmes and Schemes declined by 18 percent between 2014-15 and 2015-16 (from Rs. 2.56 lakh crores to Rs. 2.09 lakh crores). This was mainly on account of (i) withdrawal of Block grants and (ii) Change in sharing pattern for CSS. Centre's share dropped from 67 percent to 60 percent across all CSS, on an average, between 2014-15 and 2015-16.

## ➢ 3.4 Sector level expenditure (Social and Economic and General Services) of additional resources: All States

Out of the **additional** Rs. 9.56 lakh crores spent by All States, Rs. 3.44 lakh crores was spent on Social Services, Rs. 3.67 lakh crores were spent on Economic Services and Rs. 2.29 lakh crores on General Services (see Table 3.4).

**Table 3.4: Total Expenditure between Social and Economic Services: TFC Award vs FFC Award**

*In Rs lakh crores*

| | | TFC Average (2012-13 to 2014-15) | | FFC Average (2015-16 to 2017-18) | | Difference | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Revenue | Capital | Revenue | Capital | Revenue | Capital | Total | Share in Additional Expenditure |
| | **Development Expenditure** | | | | | | | | |
| 1 | **Social Services** | 5.56 | 0.59 | 8.58 | 1.01 | 3.02 | 0.42 | **3.44** | **36%** |
| 2 | **Economic Services** | 3.25 | 1.85 | 5.20 | 3.57 | 1.94 | 1.72 | **3.67** | **38%** |
| ***A*** | ***Total – Development Expenditure*** | *8.81* | *2.44* | *13.78* | *4.58* | *4.96* | *2.14* | ***7.11*** | ***74%*** |
| | **Non-Development Expenditure** | | | | | | | | |
| 3 | **General Services** | 4.93 | 0.13 | 7.12 | 0.23 | 2.19 | 0.10 | **2.29** | **24%** |
| ***B*** | ***Total – Non-Development Expenditure*** | *4.93* | *0.13* | *7.12* | *0.23* | *2.19* | *0.10* | ***2.29*** | ***24%*** |
| | **Other Expenditure** | | | | | | | | |
| 4 | **Grants-in-Aid and Contributions** | 0.42 | | 0.58 | | 0.17 | | **0.17** | **2%** |
| ***C*** | ***Total – Other Expenditure*** | *0.42* | | *0.58* | | *0.17* | | ***0.17*** | ***2%*** |
| | | | | | | | | | |
| | **Grand Total (A+B+C)** | **14.16** | **2.56** | **21.48** | **4.81** | **7.32** | **2.25** | **9.56** | **100%** |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

**Key Findings:**

- All States spent an additional Rs. 9.56 lakh crores between the last three years of TFC and first three years of FFC. Development expenditure across Social and Economic Services took up the highest chunk of the additional resources (as much as 74 percent);
- On an average, expenditure on:
  - Social Services was higher by Rs. 3.44 lakh crores and accounted for 36 percent of the additional expenditure;
  - Economic Services was higher by Rs. 3.67 lakh crores and accounted for 38 percent of the additional expenditure;
  - General Services was higher by Rs. 2.29 lakh crores and accounted for 24 percent of the additional expenditure.

## 3.5 Sub-Sector Level Expenditure States' Additional Resources on Key / Priority Sectors: All States

The expenditure across Social and Economic services was further analysed, for selected key/priority sectors in order to assess the increase in expenditure of All States and ascertain the extent to which the additional resources of States that became available post FFC Award (predominantly as untied transfers) was utilised towards increasing Development expenditure; in particular, whether outlays of key sectors like Agriculture, Rural Development, Education, Health, Nutrition Drinking Water and Sanitation received a fillip; and finally, whether the development programs were re-prioritised according to State specific objectives as envisaged, by changing their composition and mix and thereby impacting national development goals.

**Table 3.5a: Revenue and Capital Expenditure at Sub-Sector level in key/priority sectors - Social Services**

*In Rs lakh crores*

| | Revenue Expenditure | TFC Average | Share (%) | TFC Rank |
|---|---|---|---|---|
| | Education, Sports, Art and Culture | 2.78 | 50% | 1 |
| | Social Security and Welfare | 0.64 | 12% | 2 |
| | Medical and Public Health | 0.59 | 11% | 3 |
| | Welfare of SC's, ST's and OBC | 0.41 | 7% | 4 |
| | Urban Development | 0.31 | 6% | 5 |
| | Nutrition | 0.19 | 3% | 6 |
| | Water Supply and Sanitation | 0.16 | 3% | 7 |
| | Relief on account of Natural Calamities | 0.15 | 3% | 8 |
| | Family Welfare | 0.12 | 2% | 9 |
| | Housing | 0.10 | 2% | 10 |
| | Labour and Labour Welfare | 0.07 | 1% | 11 |
| | Others* | 0.03 | 1% | 12 |
| **I** | **Total** | **5.56** | 100% | |
| | **Capital Expenditure** | | | |
| | **Capital Outlay** | **TFC Average** | **Share (%)** | **TFC Rank** |
| | Water Supply and Sanitation | 0.15 | 28% | 1 |
| | Medical and Public Health | 0.08 | 15% | 2 |
| | Urban Development | 0.08 | 15% | 3 |
| | Education, Sports, Art and Culture | 0.07 | 14% | 4 |
| | Housing | 0.06 | 11% | 5 |
| | Welfare of SC's, ST's and OBC | 0.04 | 8% | 6 |
| | Others* | 0.02 | 4% | 7 |
| | Social Security and Welfare | 0.02 | 4% | 8 |
| | Family Welfare | 0.00 | 0% | 9 |
| **II** | **Total** | **0.52** | 100% | |
| **III** | **Loans and Advances by the State Government** | **0.07** | | |
| **IV** | **Capital Expenditure (II+III)** | **0.59** | | |
| **V** | **Grand Total(I+II+III)** | **6.15** | | |

| | Revenue Expenditure | FFC Average | Share (%) | FFC Rank |
|---|---|---|---|---|
| | Education, Sports, Art and Culture | 3.89 | 45% | 1 |
| | Social Security and Welfare | 1.02 | 12% | 2 |
| | Medical and Public Health | 0.96 | 11% | 3 |
| | Welfare of SC's, ST's and OBC | 0.63 | 7% | 4 |
| | Urban Development | 0.61 | 7% | 5 |
| | Water Supply and Sanitation | 0.34 | 4% | 6 |
| | Relief on account of Natural Calamities | 0.30 | 4% | 7 |
| | Housing | 0.25 | 3% | 8 |
| | Nutrition | 0.24 | 3% | 9 |
| | Family Welfare | 0.19 | 2% | 10 |
| | Labour and Labour Welfare | 0.09 | 1% | 11 |
| | Others* | 0.05 | 1% | 12 |
| **I** | **Total** | **8.58** | 100% | |
| | **Capital Expenditure** | | | |
| | **Capital Outlay** | **FFC Average** | **Share (%)** | **FFC Rank** |
| | Water Supply and Sanitation | 0.25 | 27% | 1 |
| | Medical and Public Health | 0.14 | 16% | 2 |
| | Urban Development | 0.14 | 15% | 3 |
| | Education, Sports, Art and Culture | 0.13 | 15% | 4 |
| | Housing | 0.09 | 10% | 5 |
| | Welfare of SC's, ST's and OBC | 0.08 | 9% | 6 |
| | Social Security and Welfare | 0.03 | 4% | 7 |
| | Others* | 0.03 | 4% | 8 |
| | Family Welfare | 0.00 | 0% | 9 |
| **II** | **Total** | **0.90** | 100% | |
| **III** | **Loans and Advances by the State Government (III)** | **0.11** | | |
| **IV** | **Capital Expenditure (II+III)** | **1.01** | | |
| **V** | **Grand Total(I+II+III)** | **9.59** | | |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

**Key findings:**

- Both in the last three years of TFC and the first three years of FFC, about 75 percent of the expenditure on Social Services has been spent in key/ priority sectors like Education, Health, Social Welfare and Drinking Water and Sanitation and Nutrition;
- Revenue expenditure across all Sub-Sectors is higher than Capital expenditure. Of the total expenditure on Social services, revenue expenditure accounted for 90 percent, capital expenditure accounted for 8 percent and the remaining was by way of Loans and Advances by the State Government;
- States' additional expenditure was Rs. 9.56 lakh crores and of this, Rs. 3.44 lakh crores was spent on Social Services. The highest expenditure was on Education (Rs. 1.17 lakh crores); however, this share went down from 47 percent of Social Services expenditure during last three years of TFC to 45 percent of Social Services expenditure in the first three years of FFC;
- There has been only a marginal shift in priorities at State level between TFC and FFC. The changes, although not significant in terms of expenditure amounts, have been positive for Water Supply and Sanitation and negative for Nutrition between the last three years of TFC and the first three years of the FFC Award;
- Therefore, the inference that can be drawn is that the States chose to continue with incremental spending in key/priority sectors in Social Services perhaps due to the time period of 3 years being too short to enable them to change priorities effectively. But the changes observable in the proportion of additional resources expended indicate that Drinking Water and Sanitation received the highest priority and funding. Conversely, the emphasis on Education and Nutrition seem to have lessened because a higher proportion of additional resources was spent on Drinking Water and Sanitation and Housing between 2015-16 and 2017-18.

**Table 3.5b: Revenue and Capital Expenditure at Sub Sector level in key/priority sectors (Contd.) - Economic Services**

*In Rs lakh crores*

| Revenue Expenditure | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | TFC Average | Share (%) | TFC Rank | | | FFC Average | Share (%) | FFC Rank |
| | Agriculture and Allied Activities | 0.86 | 26% | 1 | | Agriculture and Allied Activities | 1.41 | 27% | 1 |
| | Energy | 0.74 | 23% | 2 | | Rural Development | 1.28 | 25% | 2 |
| | Rural Development | 0.63 | 19% | 3 | | Energy | 1.21 | 23% | 3 |
| | Transport and Communications | 0.37 | 11% | 4 | | Transport and Communications | 0.44 | 9% | 4 |
| | Irrigation and Flood Control | 0.30 | 9% | 5 | | Irrigation and Flood Control | 0.32 | 6% | 5 |
| | General Economic Services | 0.17 | 5% | 6 | | General Economic Services | 0.25 | 5% | 6 |
| | Industry and Minerals | 0.15 | 5% | 7 | | Industry and Minerals | 0.22 | 4% | 7 |
| | Special Area Programmes | 0.03 | 1% | 8 | | Special Area Programmes | 0.03 | 1% | 8 |
| | Science, Technology and Environment | 0.01 | 0% | 9 | | Science, Technology and Environment | 0.01 | 0% | 9 |
| **I** | **Total** | **3.25** | **100%** | | **I** | **Total** | **5.20** | **100%** | |
| **Capital Expenditure** | | | | | | | | | |
| | **Capital Outlay** | **TFC Average** | **Share (%)** | **TFC Rank** | | **Capital Outlay** | **FFC Average** | **Share (%)** | **FFC Rank** |
| | Transport | 0.56 | 34% | 1 | | Transport | 0.94 | 33% | 1 |
| | Major and Medium Irrigation and Flood Control | 0.52 | 32% | 2 | | Major and Medium Irrigation and Flood Control | 0.82 | 29% | 2 |
| | Energy | 0.25 | 15% | 3 | | Energy | 0.50 | 17% | 3 |
| | Rural Development | 0.13 | 8% | 4 | | Rural Development | 0.28 | 10% | 4 |
| | Agriculture and Allied Activities | 0.08 | 5% | 5 | | Agriculture and Allied Activities | 0.15 | 5% | 5 |
| | General Economic Services | 0.04 | 2% | 6 | | General Economic Services | 0.09 | 3% | 6 |
| | Special Area Programmes | 0.04 | 2% | 7 | | Special Area Programmes | 0.05 | 2% | 7 |
| | Industry and Minerals | 0.02 | 1% | 8 | | Industry and Minerals | 0.03 | 1% | 8 |
| | Science, Technology and Environment | 0.00 | 0% | 9 | | Science, Technology and Environment | 0.00 | 0% | 9 |
| | Communications | NA | NA | 10 | | Communications | 0.00 | 0% | 10 |
| **II** | **Total** | **1.64** | **100%** | | **II** | **Total** | **2.86** | 100% | |
| **III** | **Loans and Advances by the State Government** | **0.21** | | | **III** | **Loans and Advances by the State Government** | **0.71** | | |
| **IV** | **Capital Expenditure (II+III)** | **1.85** | | | **IV** | **Capital Expenditure (II+III)** | **3.57** | | |
| **V** | **Grand Total(I+IV)** | **5.1** | | | **V** | **Grand Total(I+IV)** | **8.77** | | |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

**Key findings:**

- Both in the last three years of the TFC and the first three years of the FFC, around 78% of the Total Expenditure on Economic Services has been spent in key/priority sectors like Agriculture, Rural Development, Irrigation and Energy;
- Post FFC Award, of the average additional Rs. 3.67 lakh crores spent on Economic Services the highest expenditure was on Energy (average additional expenditure was Rs. 0.72 lakh crores post the FFC Award), and on Agriculture and Allied activities (average additional expenditure was Rs. 0.62 lakh crores). Their shares in average aggregate expenditures went up – in Energy, it went up from 20 percent in the last three years of TFC Award to 73 percent in the first three years of FFC Award and in Agriculture from 19 percent to 66 percent, during the same period;
- Revenue expenditure (64 percent) across all Sub-Sectors is higher than Capital Expenditure (36 percent). Within this, Capital Outlays are 32 percent and Loans and Advances by the State Government are 4 percent of the Total Expenditure in Economic Services;
- Revenue Expenditure in Agriculture and Rural Development together account for more than 50 percent of total Revenue expenditure indicating the higher resources expended for farm loan waivers in Agriculture and on housing, Roads in Rural Development and Livelihoods;
- Around 50 percent of the expenditure in Economic Services, on Capital account is in two sectors i.e. Transport and Energy. It is likely that while the expenditure in Transport is on Roads and hence on creating infrastructure and assets, the higher Capital expenditure in Energy is mainly on account of States choosing to opt for the UDAY Scheme;
- There is no observable change or re-prioritization across sub-sectors between TFC and FFC Awards. Incremental amounts have been spent largely in the same sub-sectors.

## 3.6 Variations across States

In this section the analysis of variations in expenditure will be presented with reference to the following:

- Variations in expenditure patterns in the Gainer/Loser States in horizontal devolution across 18 States and the 11 NER and Himalayan States[37]. The analysis is at Aggregate Expenditure **and** Additional Expenditure levels;
- Variations in expenditure patterns in Social and Economic Services (Sector level) across the abovementioned categories of States. The analysis is at Aggregate Expenditure level;

[37] The grouping of States has been retained for ease of analysis across Total Receipts and Expenditure. The grouping is based on the shares of CSS that underwent a change for 18 States but did not affect 11 NE and Himalayan States that were categorized as Special Category States earlier, and the Gainers / Losers in aggregate Devolution after the FFC Award, amongst them. The expenditure is presented at aggregate expenditure level, additional expenditure level (compared to the last three years of the TFC Award), depending on availability of data.

- Variations in expenditure patterns in development programmes and Schemes (Central Plan, State Plan and CSS) across the same categories of States. The analysis is at Aggregate Expenditure **and** Per Capita Expenditure levels.

### 3.6.1. Variations in Aggregate and Additional Expenditure across the Gainer/Loser States in Horizontal devolution

As discussed earlier, All States gained from changes in vertical devolution. All States taken together received additional resources of Rs. 9.44 lakh crores, irrespective of whether they 'Gained' or 'Lost' on account of horizontal devolution and/or were impacted by changes in CSS and /or withdrawal of Block Grants. Correspondingly, additional expenditure increased in All States taken together by Rs. 9.56 lakh crores (see Table 3.7).

Across the 18 States, the Gainer states (11) received an additional Rs. 4.24 lakh crores and spent an additional Rs. 4.26 lakh crores. Amongst them the Loser states (7) received Rs. 3.94 lakh crores and spent an additional Rs. 4.02 lakh crores. Across the 11 NER and Himalayan States, the Gainer states (8) received an additional Rs. 0.39 lakh crores and spent an additional Rs. 0.42 lakh crores. Amongst them the Loser states (3) received Rs. 0.46 lakh crores and spent an equal amount.

**Table 3.7: Comparison of State-wise Average Aggregate Expenditure and Receipts and Additional Expenditure - TFC vs FFC Award**

*In Rs Lakh Crores*

| | | Average Aggregate Expenditure | | | Average Aggregate Receipts | | |
|---|---|---|---|---|---|---|---|
| | | A | B | | | A | B |
| | States | TFC average | FFC average | Difference (B-A) | Difference (B-A) | TFC Average | FFC Average |
| | | | **18 States** | | | | |
| Gainer | Chhattisgarh | 0.40 | 0.63 | 0.23 | 0.23 | 0.40 | 0.63 |
| Gainer | Goa | 0.08 | 0.12 | 0.04 | 0.03 | 0.08 | 0.11 |
| Gainer | Gujarat | 1.01 | 1.34 | 0.33 | 0.34 | 1.00 | 1.34 |
| Gainer | Haryana | 0.48 | 0.84 | 0.36 | 0.36 | 0.48 | 0.84 |
| Gainer | Jharkhand | 0.31 | 0.61 | 0.29 | 0.30 | 0.32 | 0.62 |
| Gainer | Karnataka | 1.08 | 1.61 | 0.53 | 0.53 | 1.08 | 1.61 |
| Gainer | Kerala | 0.67 | 1.00 | 0.33 | 0.32 | 0.68 | 1.00 |
| Gainer | Madhya Pradesh | 0.91 | 1.45 | 0.54 | 0.55 | 0.91 | 1.45 |
| Gainer | Maharashtra | 1.78 | 2.55 | 0.77 | 0.78 | 1.77 | 2.55 |
| Gainer | Punjab | 0.45 | 0.79 | 0.34 | 0.32 | 0.45 | 0.77 |
| Gainer | West Bengal | 1.00 | 1.48 | 0.48 | 0.48 | 1.01 | 1.48 |
| ***Sub-Total Gainer States*** | | ***8.17*** | ***12.42*** | ***4.26*** | ***4.24*** | ***8.16*** | ***12.40*** |
| Loser | Andhra Pradesh | 1.26 | 1.31 | 0.05 | 0.04 | 1.26 | 1.30 |
| Loser | Bihar | 0.78 | 1.33 | 0.55 | 0.48 | 0.78 | 1.26 |
| Loser | Orissa | 0.54 | 0.88 | 0.34 | 0.34 | 0.54 | 0.88 |
| Loser | Rajasthan | 0.93 | 1.67 | 0.74 | 0.74 | 0.93 | 1.67 |
| Loser | Tamil Nadu | 1.32 | 1.89 | 0.57 | 0.57 | 1.32 | 1.89 |
| Loser | Telengana* | 0.61 | 1.17 | 0.56 | 0.56 | 0.61 | 1.17 |
| Loser | Uttar Pradesh | 1.95 | 3.15 | 1.20 | 1.20 | 1.95 | 3.15 |
| ***Sub-Total – Loser States*** | | ***6.98*** | ***11.40*** | ***4.02*** | ***3.94*** | ***7.38*** | ***11.32*** |
| **Total 60:40 States** | | **15.15** | **23.83** | **8.68** | **8.58** | **15.14** | **23.72** |
| | | | **11 States** | | | | |
| Gainer | Arunachal Pradesh | 0.07 | 0.12 | 0.05 | 0.05 | 0.07 | 0.12 |
| Gainer | Jammu and Kashmir | 0.32 | 0.53 | 0.20 | 0.21 | 0.32 | 0.53 |
| Gainer | Manipur | 0.08 | 0.11 | 0.03 | 0.03 | 0.08 | 0.10 |
| Gainer | Meghalaya | 0.07 | 0.10 | 0.03 | 0.04 | 0.07 | 0.10 |
| Gainer | Mizoram | 0.06 | 0.08 | 0.02 | 0.02 | 0.06 | 0.08 |
| Gainer | Nagaland | 0.07 | 0.10 | 0.03 | 0.03 | 0.07 | 0.10 |
| Gainer | Sikkim | 0.04 | 0.05 | 0.01 | 0.01 | 0.04 | 0.05 |
| Gainer | Tripura | 0.08 | 0.12 | 0.04 | 0.02 | 0.08 | 0.10 |
| ***Total Gainer States*** | | ***0.79*** | ***1.21*** | ***0.42*** | ***0.39*** | ***0.79*** | ***1.18*** |
| Loser | Assam | 0.37 | 0.63 | 0.26 | 0.26 | 0.37 | 0.63 |
| Loser | Himachal Pradesh | 0.21 | 0.31 | 0.10 | 0.10 | 0.20 | 0.30 |
| Loser | Uttarakhand | 0.21 | 0.31 | 0.09 | 0.10 | 0.21 | 0.31 |
| ***Total – Loser States*** | | ***0.79*** | ***1.26*** | ***0.46*** | ***0.46*** | ***0.78*** | ***1.24*** |
| **Total by 90:10 States** | | **1.58** | **2.47** | **0.89** | **0.85** | **1.57** | **2.43** |
| **Grand Total** | | **16.73** | **26.29** | **9.56** | **9.44** | **16.71** | **26.15** |

*Source: Authors Computation using Study of State Finances by Reserve Bank of India, various years*

** The State of Telangana has been grouped under the loser category in terms of Horizontal Devolution on the basis of the status of its parent state Andhra Pradesh.*

**Key Findings:**

- Of the additional expenditure of Rs 9.56 lakh crores incurred by All States post FFC Award, 18 States, on an average, accounted for 91 percent of the expenditure and the remaining 9 percent was accounted by 11 States;
- Of the additional Rs. 9.56 lakh crores, expenditure by 18 States was Rs. 8.68 lakh crores and of the 11 States was Rs. 0.89 lakh crores;
- All Gainers (19 States) in the FFC Award accounted for around 49 percent of the expenditure from the additional resources available and Losers (10 States) accounted for around 51 percent of expenditure of the additional resources during 2015-16 to 2017-18;
- Across 18 States, the average per State receipts and expenditure differential between the TFC and FFC Awards for 11 Gainer States (average additional receipts / expenditure was around Rs. 0.40 lakh crores per state[38]) were lower than that of the 7 Loser States (average additional receipts / expenditure was around Rs. 0.60 lakh crores per state[39]);
- Across the 11 NE and Himalayan States, the average per State receipt and expenditure differential between the TFC and FFC Awards for 8 Gainer States (average additional receipts was around Rs. 0.05 lakh crores per state[40]) were lower than that of the 3 Loser States (average additional receipts was around Rs. 0.15 lakh crores per State[41]).

### 3.6.2. Variations in Aggregate Expenditure patterns in Social and Economic Services (Sector level) across 18/11 States

Variations across States in terms of their expenditure at the level of Services (Social, Economic and General) and across key/priority sectors (Education, Health, Drinking Water and Sanitation, Social Welfare, Agriculture, Rural Development, Irrigation and Roads), is illustrated through a ranking of States' expenditure across them. The rankings are presented across the two groups, 18 States and the 11 NE and Himalayan States. The ranks were accorded based on the State's expenditure as a proportion of the expenditure out of the additional resources available to All States. The results are presented in Tables 3.8a and 3.8b.

[38] **For 18 states** – 11 gainer states per state differential For Receipts is – Rs 4.24 lakh crores *divided* by 11 and for Expenditure is – Rs. 4.26 lakh crores *divided* by 11

[39] **For 18 states** – 7 Loser states per state differential For Receipts is – Rs. 3.94 lakh crores *divided* by 7 and for Expenditure is – Rs. 4.43 lakh crores *divided* by 7

[40] **For 11 states** – 8 gainer states per state differential For Receipts is – Rs. 0.42 lakh crores *divided* by 8 and for Expenditure – Rs. 0.39 lakh crores *divided* by 8

[41] **For 11 states** – 3 Loser states per state differential For Receipts is – Rs. 0.46 lakh crores *divided* by 3 and for Expenditure – Rs. 0.46 lakh crores *divided* by 3

**Table 3.8a: Ranking of States by Expenditure across Services and Priority Sectors, 2016-17: Top 5 and Bottom 5 Spenders: 18 States**

| Services / Priority Sectors | | | | | |
|---|---|---|---|---|---|
| 60:40 States | | | | | |
| **Top Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Social Services** | **Uttar Pradesh** | **Maharashtra** | **Karnataka** | **Tamil Nadu** | **West Bengal** |
| Health | Uttar Pradesh | Maharashtra | West Bengal | Tamil Nadu | Gujarat |
| Education | Uttar Pradesh | Maharashtra | Tamil Nadu | Rajasthan | West Bengal |
| Drinking Water | Rajasthan | Karnataka | Gujarat | Madhya Pradesh | Uttar Pradesh |
| Social Welfare | Uttar Pradesh | Andhra Pradesh | West Bengal | Karnataka | Maharashtra |
| **Bottom Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Social Services** | **Goa** | **Punjab** | **Jharkhand** | **Chhattisgarh** | **Haryana** |
| Health | Goa | Jharkhand | Punjab | Haryana | Chhattisgarh |
| Education | Goa | Jharkhand | Punjab | Haryana | Chhattisgarh |
| Drinking Water | Goa | Punjab | Kerala | Andhra Pradesh | Chhattisgarh |
| Social Welfare | Goa | Punjab | Chhattisgarh | Jharkhand | Haryana |
| | | | | | |
| **Top Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Economic Services** | **Uttar Pradesh** | **Tamil Nadu** | **Maharashtra** | **Madhya Pradesh** | **Rajasthan** |
| Agriculture | Maharashtra | Karnataka | Madhya Pradesh | Tamil Nadu | Uttar Pradesh |
| Rural Development | Bihar | Uttar Pradesh | West Bengal | Madhya Pradesh | Rajasthan |
| Irrigation | Telangana | Maharashtra | Uttar Pradesh | Andhra Pradesh | Karnataka |
| Roads | Uttar Pradesh | Karnataka | Maharashtra | Odisha | Gujarat |
| **Bottom Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Economic Services** | **Goa** | **Kerala** | **Chhattisgarh** | **Jharkhand** | **Haryana** |
| Agriculture | Goa | Bihar | Jharkhand | Haryana | West Bengal |
| Rural Development | Goa | Punjab | Kerala | Haryana | Gujarat |
| Irrigation | Goa | Kerala | Jharkhand | Haryana | Chhattisgarh |
| Roads | Goa | Punjab | Andhra Pradesh | West Bengal | Telangana |
| | | | | | |
| **General Services Top Spenders →** | **Goa** | **Chhattisgarh** | **Jharkhand** | **Odisha** | **Haryana** |

*Source: Authors' Compilation using data from Study of State Finances by Reserve Bank of India, 2017*

*For 'Top Spenders' Rank 1 means Highest Spender and for 'Bottom Spenders' Rank 1 means Lowest spender across all States in the particular Group*

**Table 3.8b: Ranking of States by Expenditure across Services and Priority Sectors, 2016-17: Top 5 and Bottom 5 Spenders: 11 NER and Himalayan States**

| Services / Priority Sectors | | | | | |
|---|---|---|---|---|---|
| 90:10 States | | | | | |
| **Top Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Social Services** | **Assam** | **Jammu & Kashmir** | **Uttarakhand** | **Himachal Pradesh** | **Tripura** |
| Health | Assam | Jammu & Kashmir | Himachal Pradesh | Uttarakhand | Arunachal Pradesh |
| Education | Assam | Jammu & Kashmir | Uttarakhand | Himachal Pradesh | Tripura |
| Drinking Water | Assam | Jammu & Kashmir | Himachal Pradesh | Uttarakhand | Arunachal Pradesh |
| Social Welfare | Assam | Uttarakhand | Jammu & Kashmir | Tripura | Himachal Pradesh |
| **Bottom Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Social Services** | **Sikkim** | **Manipur** | **Mizoram** | **Nagaland** | **Meghalaya** |
| Health | Sikkim | Mizoram | Manipur | Nagaland | Tripura |
| Education | Sikkim | Mizoram | Manipur | Nagaland | Arunachal Pradesh |
| Drinking Water | Sikkim | Nagaland | Mizoram | Manipur | Tripura |
| Social Welfare | Sikkim | Nagaland | Arunachal Pradesh | Manipur | Mizoram |
| | | | | | |
| **Top Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| Economic Services | Jammu & Kashmir | Uttarakhand | Assam | Himachal Pradesh | Arunachal Pradesh |
| Agriculture | Uttarakhand | Assam | Jammu & Kashmir | Meghalaya | Himachal Pradesh |
| Rural Development | Assam | Jammu & Kashmir | Uttarakhand | Himachal Pradesh | Manipur |
| Irrigation | Assam | Himachal Pradesh | Uttarakhand | Jammu & Kashmir | Arunachal Pradesh |
| Roads | Jammu & Kashmir | Uttarakhand | Assam | Himachal Pradesh | Arunachal Pradesh |
| **Bottom Spenders →** | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Economic Services** | **Sikkim** | **Mizoram** | **Nagaland** | **Tripura** | **Manipur** |
| Agriculture | Sikkim | Manipur | Nagaland | Mizoram | Meghalaya |
| Rural Development | Sikkim | Mizoram | Arunachal Pradesh | Manipur | Nagaland |
| Irrigation | Mizoram | Sikkim | Tripura | Nagaland | Meghalaya |
| Roads | Sikkim | Nagaland | Manipur | Mizoram | Meghalaya |
| | | | | | |
| **General Services Top Spenders →** | **Sikkim** | **Mizoram** | **Meghalaya** | **Arunachal Pradesh** | **Manipur** |

*Source: Authors' Compilation using data from Study of State Finances by Reserve Bank of India, 2017*

**Key findings:**

- Across both Social and Economic Services, Uttar Pradesh, Maharashtra and Tamil Nadu are top spenders along with Karnataka, West Bengal, Madhya Pradesh and Rajasthan;
- Expenditure by States including Haryana, Punjab, Chhattisgarh and Jharkhand, is quite low and hence these States are in the bottom rung;
- In nearly all States, the highest spending is concentrated on Education that accounts for around 16 percent of the aggregate expenditure. Some States like West Bengal, Kerala, Chhattisgarh, Maharashtra, Uttar Pradesh, Rajasthan and Bihar are spending more (17-19 percent);
- At the same time States seem to be spending more or less equally across key sectors including Health, Irrigation and Roads, regardless of the level of development indicators;
- Within the group of 11 States, all Gainer States, appear to have performed poorly in terms of spending on the priority sectors.

### 3.6.3. Variations in Aggregate Expenditure patterns on Development Programmes and Schemes across the 18/11 States

**Table 3.9: Aggregate Expenditure on Development Programmes and Schemes: Comparison between 18/11 States**

*In Rs. Crores*

| State | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|
| **60:40 States (18 States)** | | | |
| Andhra Pradesh | 19447 | 46124 | 51536 |
| Bihar | 43603 | 53581 | 60768 |
| Chhattisgarh | 27525 | 28472 | 33685 |
| Goa | -- | -- | -- |
| Gujarat | 50660 | 56317 | 59012 |
| Haryana | 17597 | 25185 | 28678 |
| Jharkhand | 17956 | 23879 | 33008 |
| Karnataka | 53740 | 60884 | 77576 |
| Kerala | 14407 | 19004 | 22813 |
| Madhya Pradesh | 38336 | 48130 | -- |
| Maharashtra | 47553 | 56221 | 62437 |
| Orissa | 29934 | 40347 | 43789 |
| Punjab | 7852 | 8044 | 9896 |
| Rajasthan | 43531 | 53633 | 64450 |
| Tamil Nadu | 52771 | 55657 | 55571 |
| Telangana | 22436 | 34830 | 57946 |
| Uttar Pradesh | 77679 | 92296 | 110280 |
| West Bengal | 39654 | 50781 | 48190 |
| **Subtotal (18 States)** | **604,681** | **753,386** | **819,635** |
| **Share in Total Expenditure on Development Programmes and Schemes** | **91%** | **94%** | **93%** |
| **NE and Himalayan States (90:10; 11 States)** | | | |
| Arunachal Pradesh | 4376 | 4687 | 4307 |
| Assam | 13218 | 12140 | 18704 |
| Himachal Pradesh | 5635 | 6061 | 7635 |
| Jammu and Kashmir | 7373 | -- | -- |
| Manipur | 3632 | 3555 | 4028 |
| Meghalaya | 3299 | 3151 | 4934 |
| Mizoram | 2945 | 2589 | 3018 |
| Nagaland | 2252 | 2182 | 2808 |
| Sikkim | 2117 | 1905 | 1971 |
| Tripura | 4788 | 5042 | 5533 |
| Uttarakhand | 10411 | 10584 | 10420 |
| **Subtotal** | **60047** | **51895** | **63358** |
| **Share in Total Expenditure on Development Programmes and Schemes** | **9%** | **6%** | **7%** |
| **All States** | **664,727** | **805,281** | **882,992** |

*Source: Authors' Compilation using data from State Finance Accounts by Comptroller and Auditor General of India (C&AG)*

**<u>Trends during first two years of FFC Award (2015-16 and 2016-17), across 18 and 11 States:</u>**

- Expenditure on development programmes and Schemes for the **18 States** went up by 25 percent between 2014-15 and 2015-16;
- Expenditure on development programmes and Schemes of the **11 States** dropped by 14 percent between 2014-15 and 2015-16;
- Central Grants for development programmes and Schemes for 18 States declined between 2014-15 and 2015-16 from Rs. 1.91 lakh crores to Rs. 1.74 lakh crores;
- Central Grants for the 11 States declined significantly between 2014-15 and 2015-16 from 0.65 lakh crores to 0.36 lakh crores;
- State-wise, share of Central Grants in expenditure on development programmes and schemes, declined post the FFC Award (see Appendix A, Table A3);
    - For the 18 States, it declined from 29 percent in 2014-15 to 22 percent in 2015-16 and 21 percent in 2016-17;
    - For the 11 erstwhile Special Category States, it declined from 29 percent in 2014-15 to 22 percent in 2015-16 and further to 21 percent in 2016-17;
- Post the FFC Award, in 2015-16 the decline in Central Grants for development programmes and Schemes is mainly due to the withdrawal of Block Grants under CASP as well as the reduced central shares for CSS. However, grants did pick up pace from 2016-17 onwards.[42]

### 3.6.3.1. Variations in Expenditure patterns on Development Programmes and Schemes: Per Capita Expenditure

At a granular level, the per capita expenditure on development programs and Schemes across States, yields some interesting insights. It is assumed that every person in the country should be given an equal share of public expenditure because there is a minimum level of expenditure that is required to provide a basic level of public goods to each person. Therefore, the variations in per capita expenditure across States reflects the regional imbalances and the wide disparities in development within the country. Since expenditure on development programmes and schemes is expected to impact the well-being of the beneficiary population, we analysed expenditure patterns by taking into account State-wise population and the per capita expenditure.

The State-wise expenditure on development programmes and Schemes shows that nominal numbers were much higher for the 18 States than those for the 11 NE and Himalayan States (See Table 3.9). However, after taking into account the variations in population, the picture is altered.

[42] Economic and Political Weekly (2015), Vol. No. 12, Pinaki Chakraborty, (2015) "Finance Commission's Recommendations and Restructured Fiscal Space", pp. 34.

**Table 3.10: Per Capita Expenditure on Development Programmes and Schemes: All States**

*In Rupees*

| | | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|
| | **18 States** | | | |
| Gainer | Chhattisgarh | 10775 | 11146 | 13186 |
| Gainer | Goa | - | - | - |
| Gainer | Gujarat | 8382 | 9318 | 9764 |
| Gainer | Haryana | 6941 | 9935 | 11312 |
| Gainer | Jharkhand | 5443 | 7239 | 10006 |
| Gainer | Karnataka | 8796 | 9965 | 12698 |
| Gainer | Kerala | 4313 | 5689 | 6829 |
| Gainer | Madhya Pradesh | 5278 | 6627 | - |
| Gainer | Maharashtra | 4232 | 5003 | 5556 |
| Gainer | Punjab | 2830 | 2900 | 3567 |
| Gainer | West Bengal | 4344 | 5563 | 5280 |
| Loser | Andhra Pradesh | 2299 | 5453 | 6093 |
| Loser | Bihar | 4189 | 5147 | 5838 |
| Loser | Odisha | 7132 | 9612 | 10432 |
| Loser | Rajasthan | 6350 | 7824 | 9402 |
| Loser | Tamil Nadu | 7314 | 7714 | 7703 |
| Loser | Telangana | 6375 | 9897 | 16465 |
| Loser | Uttar Pradesh | 3888 | 4619 | 5519 |
| | **Average Per capita expenditure - 18 States** | **5782** | **7110** | **8212** |
| | **90:10 States** | | | |
| Gainer | Arunachal Pradesh | 31620 | 33865 | 31123 |
| Gainer | Jammu and Kashmir | 10540 | - | - |
| Gainer | Manipur | 19730 | 21222 | 26733 |
| Gainer | Meghalaya | 24850 | - | - |
| Gainer | Mizoram | 33108 | 32407 | 36718 |
| Gainer | Nagaland | 16670 | 15922 | 24932 |
| Gainer | Sikkim | 48200 | 42373 | 49394 |
| Gainer | Tripura | 6130 | 5939 | 7643 |
| Loser | Assam | 678 | 610 | 632 |
| Loser | Himachal Pradesh | 6975 | 7345 | 8060 |
| Loser | Uttarakhand | 10322 | 10494 | 10331 |
| | **Per capita expenditure - 11 States** | **18984** | **18909** | **21729** |
| | ***Per capita expenditure (Gainer States)*** | ***6072*** | ***7177*** | ***8290*** |
| | ***Per capita expenditure (Loser States)*** | ***5145*** | ***6544*** | ***7768*** |
| | **All States – Average Per Capita Expenditure** | **11160** | **11357** | **13281** |

*Source: Extracted from State Finance Accounts by Comptroller and Auditor General of India (C&AG) and Handbook of Statistics on Indian States by Reserve Bank of India (2019)*[43]

➢ On comparing the two groups of States (18 states and 11 states), we found that:

43 Available at http://rbidocs.rbi.org.in/rdocs/Publications/DOCs/1TABLE23FB43AF7EAD4EEBBFB4CB48C269DCC7.XLSX

- Post the FFC Award, Per Capita Expenditure for 18 States is **lower** than that of 11 States because the 18 states have higher populations compared to the 11 States. According to 2011 Census, 94 percent of the population lives in 18 States and only 6 percent lives in the 11 States;
- Post the FFC Award, Per Capita Expenditure has increased across both groups of States, but that of 11 erstwhile Special Category States continued to remain higher than that of the 18 States during 2015-16, and 2016-17;

➢ On comparing the Gainer and Loser States, we found that:

- The average per capita expenditure of the 19 Gainer States, was Rs. 7,179 lakh crores during the first three years of the FFC award and of the 10 Loser States, was Rs. 6,486 lakh crores in the same period;
- Hence, **the average per capita expenditure by Gainer States (Rs. 378 lakh crores) is lower than that by Loser States (Rs. 649 lakh crores)**

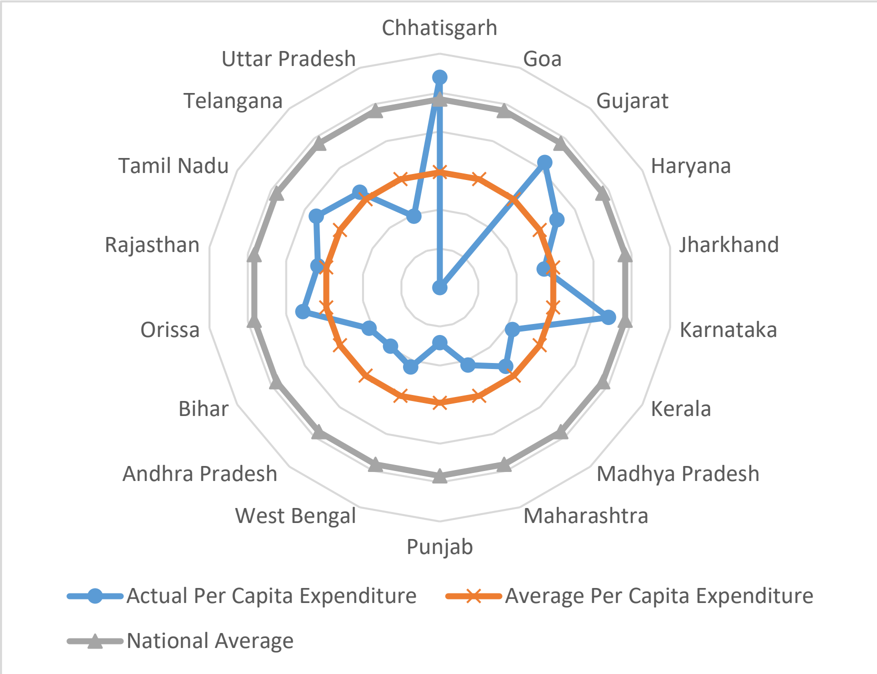
## ➢ 3.6.3.2. Variations in Per Capita Expenditure: Distance from National Average

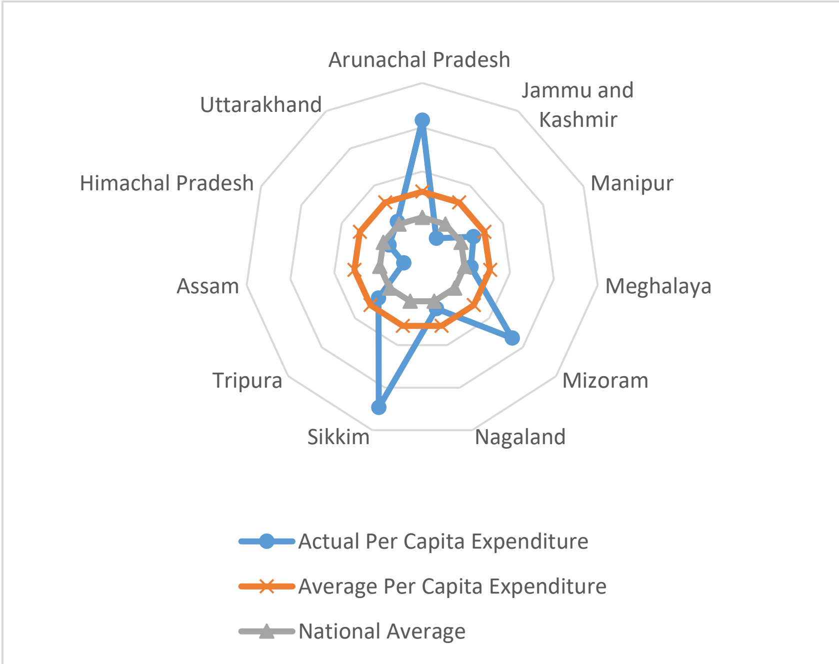
Variations in Per Capita Expenditure on development programmes and Schemes was analysed in terms of the distance between the average per capita expenditure of 18 and 11 states, respectively and actual Per Capita Expenditure of 18 and 11 states, respectively. In addition, the average Per Capita Expenditure for 18 States and 11 States, respectively, was compared with the National Average for all 29 States.

**Trends**

- In 2014-15, average per capita expenditure by 18 States was Rs. 5,782 and by 11 States was Rs. 18,984 (see Table 3.10).
- In 2015-16, average expenditure by 18 States was Rs. 7,110 and by 11 States was Rs. 18,909 (see Table 3.10).
- In 2016-17, average expenditure by 18 States was Rs. 8,212 and by 11 States it was Rs. 21,729 (see Table 3.10).

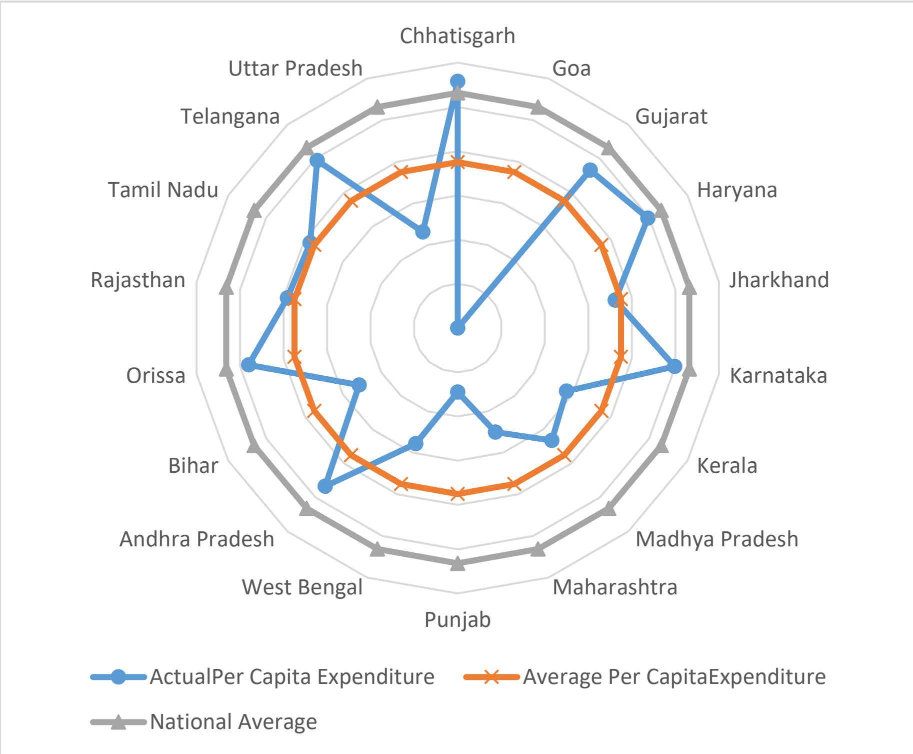
| Figure 3.3a: State-wise Distance between Actual Expenditure and Average Expenditure on Development Programmes and Schemes in 2014-15 – For 18 States | Figure 3.3b: State-wise Distance between Actual Expenditure and Average Expenditure on Development Programmes and Schemes in 2014-15 – For 11 States |
|---|---|

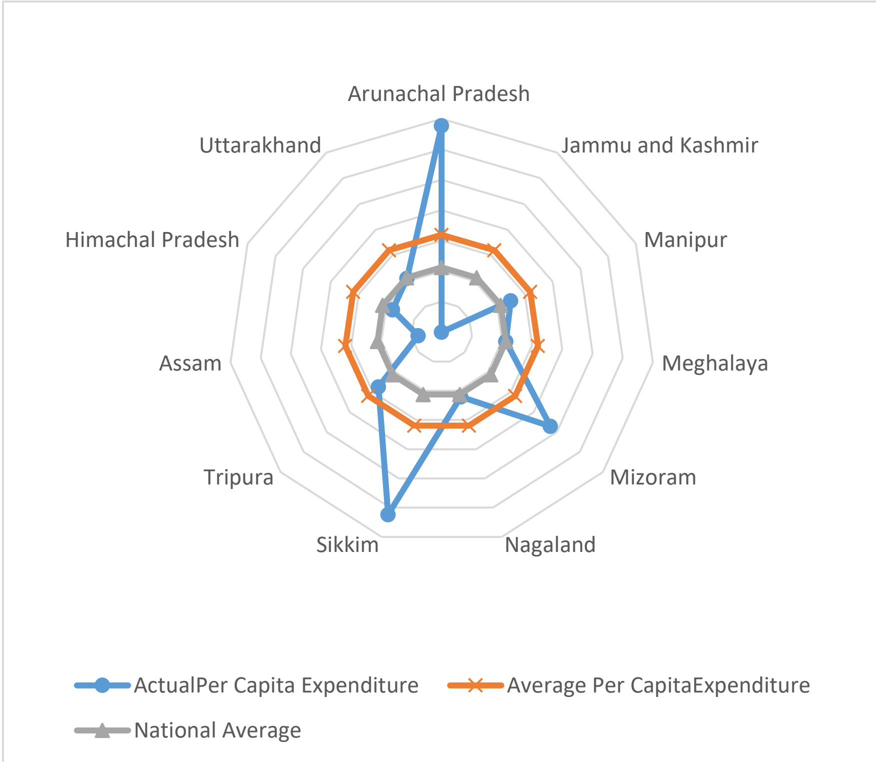



*Source: Authors' Compilation*

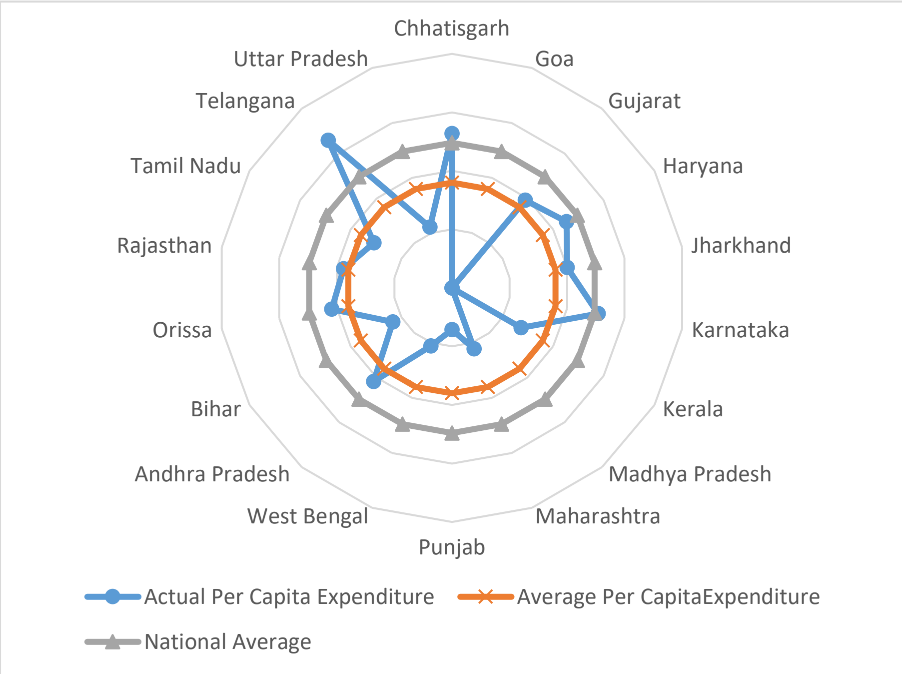
| Figure 3.4a: State-wise Distance between Actual Expenditure and Average Expenditure on Development Programmes and Schemes in 2015-16 – For 18 States | Figure 3.4b: State-wise Distance between Actual Expenditure and Average Expenditure on Development Programmes and Schemes in 2015-16 – For 11 States |
|---|---|

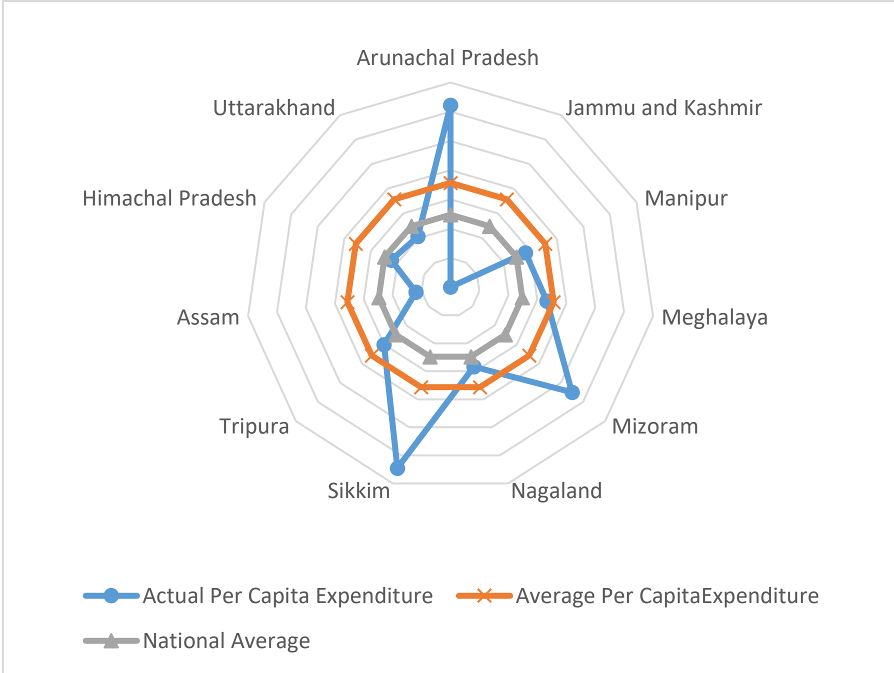



*Source: Authors' Compilation*

| **Figure 3.5a: State-wise Distance between Actual Expenditure and Average Expenditure on Development Programmes and Schemes in 2016-17– For 18 States** | **Figure 3.5b: State-wise Distance between Actual Expenditure and Average Expenditure on Development Programmes and Schemes in 2016-17– For 11 States** |
|---|---|




*Source: Authors' Compilation*

**Key Findings:**

- The divergence between 18 and 11 States is large and reflects the diversity in area, population and GSDP. For example the 18 States comprise 94 percent of the population (1.11 billion people live in the 18 States out of the total 1.21 billion[44]) and 80 percent (2,629,792 square km) of the total area in 29 States (3,287,240 square km)[45];
- According to the Population Census (2011), there are 640 districts across 28 States in India. Of which, 486 districts are across the 18 States, 133 across the 11 States and 21 across the Union Territories. Niti Aayog[46] has identified total 700 districts across 29 states in India, of which 538 districts are across 18 States and remaining 162 in 11 States. Across 18 States, 96 (18 percent) districts are covered under the Niti Aayog's Aspirational Districts Program, and 19 (12 percent) are covered under Aspirational Districts Program across 11 States[47]indicative of their low levels of development measured in comparison to average across States. The spread across 18/11 States further highlights the regional imbalances and development deficit;
- Despite all the above mentioned factors seemingly being in favour of the 18 States compared to the 11 States, it was seen that the Per Capita Expenditure on development programmes and schemes for 18 States is lower than the national average for all 29 States across the three years;
  - **On comparing with National Average (grey circle), majority of the 18 States** (in the range of 15-16 States out of 18) spent below the national average;
  - **On comparing with National Average (grey circle), majority of the 11 States,** (in the range of 8-9 States, out of 11) spent above the national average
- In the three years of the FFC Award, average Per Capita Expenditure across 18 states is almost half of that incurred across the 11 States (see Table 3.10).
- The trends are quite similar across the three years. (2014-15, 2015-16 and 2016-17)

## 3.7 Expenditure on Centrally Sponsored Schemes

According to the data extracted from C&AG, post the FFC Award, State-Wise Expenditure on CSS dropped from Rs. 81,902 crores in 2014-15 to Rs. 72,286 crores and then increased to Rs. 100,183 crores in 2016-17 (see Table 3.10a).

44 Population Census (2011)
45 Ibid.
46 Niti Aayog (2018), "Transformation of Aspirational Districts", pp. 9.
47 Extracted from https://pmawards.gov.in/public/List-of-Aspirational-Districts.pdf (last accessed May 24, 2019)

**Table 3.11: State-wise Expenditure on Centrally Sponsored Schemes**

*In Rs. Crores*

| | 18 States | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|
| | | **Actual Expenditure** | **Actual Expenditure** | **Actual Expenditure** |
| Gainer | Chhattisgarh | 7791 | 8292 | 13215 |
| Gainer | Goa | - | - | - |
| Gainer | Gujarat | 15484 | 13223 | 16833 |
| Gainer | Haryana | 2935 | 3048 | 2926 |
| Gainer | Jharkhand | 3735 | 4863 | 6419 |
| Gainer | Karnataka | 1513 | 763 | 1398 |
| Gainer | Kerala | 3793 | 3372 | 3183 |
| Gainer | Madhya Pradesh | 15879 | 18177 | - |
| Gainer | Maharashtra | 15117 | 16576 | 18036 |
| Gainer | Punjab | 495 | - | - |
| Gainer | West Bengal | 450 | 81 | 63 |
| Loser | Andhra Pradesh | 10235 | 14830 | 12377 |
| Loser | Bihar | 7 | 248 | 119 |
| Loser | Orissa | 368 | 153 | 161 |
| Loser | Rajasthan | 22272 | - | 18025 |
| Loser | Tamil Nadu | 2720 | 3240 | 4166.455 |
| Loser | Telangana | 6631 | 7259 | 11676 |
| Loser | Uttar Pradesh | 22693 | 32350 | 35947 |
| ***A*** | ***Sub-total (18 states)*** | ***64926*** | ***58080*** | ***82472*** |
| Gainer | Arunachal Pradesh | 1860 | 1801 | 2077 |
| Gainer | Jammu and Kashmir | 1589 | - | - |
| Gainer | Manipur | 319 | 170 | 1807 |
| Gainer | Meghalaya | 579 | 289 | 228 |
| Gainer | Mizoram | 948 | 1143 | 1226 |
| Gainer | Nagaland | 1272 | 1301 | 1858 |
| Gainer | Sikkim | 518 | 591 | 494 |
| Gainer | Tripura | 3007 | 3078 | 3136 |
| Loser | Assam | 1124 | - | - |
| Loser | Himachal Pradesh | 1874 | 2077 | 3439 |
| Loser | Uttarakhand | 3887 | 3757 | 3447 |
| ***A*** | ***Sub-total (11 states)*** | ***16976*** | ***14206*** | ***17712*** |
| | **All States (total (A+B)** | **81902** | **72286** | **100183** |

*Source: Extracted from State Finance Accounts by Comptroller and Auditor General of India (C&AG)*

## Expenditure on CSS: Primary Survey Findings

A primary survey of 29 States and Central Government Ministries was conducted to ascertain 'How much additional resources did States receive?' and 'How did the States spend the additional resources?' The survey was conducted in two phases between June and November 2018, using semi-structured questionnaires. The questionnaires were designed based on discussions between the XVFC Secretariat and the ICRIER research team. One of the key objectives of the survey was to assess whether after 2015-6, the 18 States spent their 40 percent (as revised) share on CSS. The questions posed were the following:

1. **How much additional resources did States receive** in the FFC award compared with the TFC Award?
    a. *Data on Central Transfers (including tax devolution and transfers for CSS and FC Grants) over a period of 2012-13 and 2017-18, was asked from State Governments.*
    b. *Data on allocations made to States on account of Central Transfers and CSS was asked from Central Government Ministries*
2. **How did the States spend the additional resources?**
    a. *States' Total Expenditure on CSS, States' Own Expenditure on CSS, States' Expenditure on State Plan Schemes; Total Expenditure on CSS, over a period of 2012-13 and 2017-18;*

A copy of the questionnaire seeking responses from the Central Ministry from the Central Ministries and the States is at **Appendix B.**

The response from the States, despite repeated follow ups, was, at best, patchy, and, it was challenging to draw robust conclusions that illustrate trends across all States (see Table 3.12). Therefore, the analysis below is based on the limited data received from the State governments and is largely at State level. A detailed note on the weaknesses in survey data responses and the limitations they imposed on the Study results are outlined in Appendix B.

**Table 3.12: Responses from States**

| Category | 18 States | 11 States | Total |
|---|---|---|---|
| State Plan Schemes | 3/18 | 4/11 | **7/29** |
| Top 16 CSS | 7/18 | 5/11 | **12/29** |
| Central Transfers to States | 5/18 | 2/11 | **7/29** |
| Others | 5/18 | 1/11 | **6/29** |

*Source: Primary Survey*

- **State Plan Schemes in priority sectors**

All States were asked to share their expenditure on State Plan Schemes across priority sectors including:

- Social Services - Health, Education, Drinking water and Sanitation and Women and Child development
- Economic Services – Agriculture and allied activities and Rural development

On this indicator**, data received from the eight States** and the results are illustrated in Tables 3.8a and 3.8b.

**Table 3.13a: percentage Distribution of States' Expenditure on State Plan Schemes across Priority sub-sectors under Social Services**

*In percentages*

| Gainer / Loser | 4 out of 18 STATES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|---|---|---|
| **Social Services** | | | | | | |
| Loser | Andhra Pradesh | 68% | 52% | 56% | 56% | 60% |
| Gainer | Jharkhand | 55% | 65% | 66% | 59% | 67% |
| Gainer | Karnataka | 52% | 60% | 59% | 60% | NA |
| Gainer | Kerala | 53% | 52% | 53% | 57% | 48% |
| **Economic Services** | | | | | | |
| Loser | Andhra Pradesh | 32% | 48% | 44% | 44% | 40% |
| Gainer | Jharkhand | 45% | 35% | 34% | 41% | 33% |
| Gainer | Karnataka | 48% | 40% | 41% | 40% | NA |
| Gainer | Kerala | 47% | 48% | 47% | 43% | 52% |
| | **Total** | **100%** | **100%** | **100%** | **100%** | **100%** |

*Source: Primary Survey Findings*

**Table 3.13b: percentage Distribution of States' Expenditure on State Plan Schemes across Priority sub-sectors under Social Services**

*In percentages*

| Gainer / Loser | 4 out of 11 STATES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|---|---|---|
| **Social Services** | | | | | | |
| Gainer | Arunachal Pradesh | 61% | 64% | 64% | 76% | 76% |
| Gainer | Mizoram | 56% | 60% | 87% | 78% | 75% |
| Gainer | Nagaland | 54% | 59% | 52% | 51% | 46% |
| Gainer | Sikkim | 76% | 82% | 83% | 80% | 75% |
| **Economic Services** | | | | | | |
| Gainer | Arunachal Pradesh | 39% | 36% | 36% | 24% | 24% |
| Gainer | Mizoram | 44% | 40% | 13% | 22% | 25% |
| Gainer | Nagaland | 46% | 41% | 48% | 49% | 54% |
| Gainer | Sikkim | 24% | 18% | 17% | 20% | 25% |
| | **Total** | **100%** | **100%** | **100%** | **100%** | **100%** |

*Source: Primary Survey Findings*

**Key findings:**

- All 8 States that have responded have reported a higher proportion of expenditure on Social Services compared to Economic Services and the trend seems to continue post the FFC Award
- Across sub-sectors, expenditure is concentrated on Education across both groups of States;
- Within Economic Services, expenditure on Rural Development and Agriculture has been the highest in the 4 out of the 18 States. However, spending in Economic Services in the 4 NER States that have responded is low and has declined in percentage terms post FFC Award.
- During the TFC Award, Kerala's highest expenditure was on Drinking Water and Sanitation, but during the FFC Award highest expenditure was on Education;
- **However, it seems premature to draw inferences based on this trend because the sample size is small and can also lead to cases of bias, such as non-response, which occurs when all respondents do not participate in the survey, as it happened in this case.**

**Expenditure on Top CSS**

Primary survey data was collected for top 16 CSS across the priority sectors. These CSS were selected because they account for around 78 percent of the total expenditure on all CSS by the Union (see Table 3.14). **Total of 12 (out of 29) States shared data on their respective expenditure on top 16 CSS.**

**Table 3.14: Expenditure on Top 16 CSS, 2017-18**

*In Rs. crores*

| S. No. | Scheme | 2017-18 RE | Share in total Expenditure on all 28 CSS |
|---|---|---|---|
| | **Economic Services** | | |
| 1 | Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGA) | 55000 | 19% |
| 2 | PMAY - Rural | 23000 | 8% |
| 3 | Pradhan Mantri Gram Sadak Yojna | 16900 | 6% |
| 4 | National Social Assistance Programme (NSAP) | 8744.57 | 3% |
| 5 | RKVY | 3050 | 1% |
| 6 | PMAY Urban | 6042.51 | 2% |
| 7 | Atal Mission For Rejuvenation and Urban Transformation (AMRUT) | NA | - |
| 8 | Smart Cities Mission | NA | - |
| | Urban Rejuvenation Mission: AMRUT and Smart Cities Mission | 8998.61 | 3% |
| | **Social Services** | | |
| 9 | National Programme of Mid-Day Meal in Schools (MDM) | 10000 | 4% |
| 10 | Sarva Shiksha Abhiyan (SSA) | 23500 | 8% |
| 11 | Rashtriya Madhyamik Shiksha Abhiyan (RMSA) | 3914.9 | 1% |
| 12 | National Health Mission | 31292.06 | 11% |
| 13 | Integrated Child Development Services (ICDS) | 19962.75 | 7% |
| 14 | National Rural Drinking Water Mission (NRDWS) | 7050 | 2% |
| 15 | Swachh Bharat Mission (SBM) - Rural | NA | - |
| 16 | Swachh Bharat Mission (SBM) - Urban | NA | - |
| | Swachh Bharat Mission | 12619.34 | 4% |
| | Total (Top 16 Schemes) | 230074.7 | 81% |
| | **Grand Total** | **285581** | **100%** |

*Source: Extracted from Union Budgets (various years)*

## Table 3.15b: Expenditure on Top 16 CSS as a Proportion of Total Grants received: 5 out of 18 States

*In Rs. Crores*

| | Andhra Pradesh | | Bihar | | Jharkhand | | Kerala | | Odisha | | Rajasthan | | Tamil Nadu | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** |
| **Total Expenditure on 16 schemes** | 14030 | 10474 | 15735 | 27623 | 5253 | 7464 | 4533 | 4742 | 6333 | 7736 | 11808 | 13069 | 11060 | 12794 |
| **Total Grant** | 31246 | 39332 | 52643 | 65897 | 15606 | 22750 | 14434 | 21516 | 26773 | 35624 | 37295 | 43081 | 31680 | 35642 |
| **Expenditure on Top Schemes as a proportion of aggregate Grants to States** | 45% | 27% | 30% | 42% | 34% | 33% | 31% | 22% | 24% | 22% | 32% | 30% | 35% | 36% |

*Source: Compiled from Data from States, PFMS and Data extracted from the Union Budget and RBI*

## Table 3.15c: Expenditure on Top 16 CSS as a Proportion of Total Grants received: 4 out of 11 States

*In Rs. Crores*

| | Mizoram | | Nagaland | | Arunachal Pradesh | | Himachal Pradesh | | Sikkim | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** | **2014-15** | **2015-16** |
| **Total Expenditure on 16 schemes** | 656 | 733 | 818 | 799 | 1159 | 1289 | 1304 | 826 | 187.32 | 208.91 |
| **Total Grant** | 3217 | 5801 | 4729 | 7109 | 3710 | 9057 | 5660 | 14211 | 2064 | 2510 |
| **Expenditure on Top Schemes as a proportion of aggregate Grants to States** | 20% | 13% | 17% | 11% | 31% | 14% | 23% | 6% | 9% | 8% |

*Source: Compiled from Primary Data of States, PFMS and Data extracted from the Union Budget and RBI*

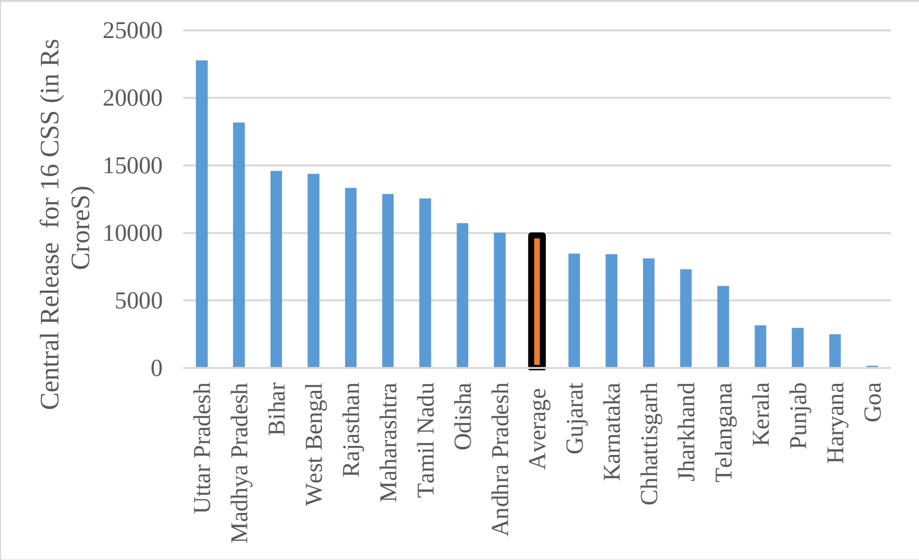
**Key findings:**

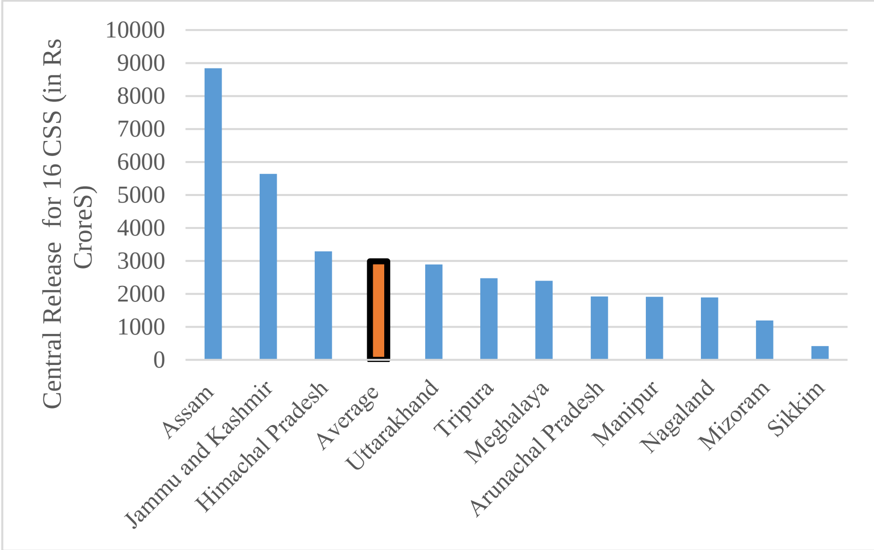
- According to the data reported by the 12 responding States, except Andhra Pradesh (classified under the 18 General category states), and Nagaland and Himachal Pradesh, (classified under the 11 erstwhile Special category states), remaining 9 States showed positive growth in total expenditure on all top 16 CSS
    - It is interesting to note that the 7, 60:40 States that responded to the Primary Survey questionnaire, were spending, on average, around 36 percent on the top 16 CSS as a percentage of Total Grants from the Centre, in 2014-15 (before the FFC Award) Post FFC Award, expenditure for these 6 States dropped marginally and they spent around 32 percent in 2015-16 (see Table 3.15b)
    - Similarly, the expenditure of the 5 erstwhile Special Category States also dropped in 2015-16. In 2014-15, on average, they spent around 23 percent on the top 16 CSS as a percentage of Total Grants from the Centre (before the FFC Award). Post FFC Award these States spent on an average 11 percent in 2015-16 (see Table 3.15c).
- However, it seems premature to draw inferences based on this trend because the sample size is small and can also lead to cases of bias, such as non-response, which occurs when all respondents do not participate in the survey, as it happened in this case.

**Top 16 CSS: State wise spending: data from PFMS and Ministries**

As the response from the States to the primary survey was not forthcoming we attempted to extrapolate results for spending on the top 16 CSS based on data from the Ministry of Finance, PFMS and from the Central Ministries, and other secondary sources. These have been shown in Figures 3.6a and 3.6b, and Table 3.16.

| Figure 3.6a: State-wise Distribution by Actual Expenditure on Top 16 Centrally Sponsored Schemes in 2016-17: For 18 States | Figure 3.6b: State-wise Distribution by Actual Expenditure on Top 16 Centrally Sponsored Schemes in 2016-17 : For 11 States |
|---|---|




*Sources: Compiled from PFMS database, Ministry of Finance*

## Table 3.16: Ranking of States by Expenditure on the Top CSS, 2016-17

| **18 General Category States** | | | | | |
|---|---|---|---|---|---|
| | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Economic Services** | | | | | |
| Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) | West Bengal | Rajasthan | Tamil Nadu | Andhra Pradesh | Uttar Pradesh |
| Pradhan Mantri Awas Yojna (PMAY)-Rural | Uttar Pradesh | Bihar | Madhya Pradesh | Odisha | West Bengal |
| Pradhan Mantri Gram Sadak Yojna (PMGSY) | Bihar | Madhya Pradesh | Odisha | Uttar Pradesh | Jharkhand |
| National Social Assistance Programme (NSAP) | Uttar Pradesh | West Bengal | Bihar | Madhya Pradesh | Odisha |
| Rashtriya Krishi Vikas Yojana (RKVY) | Odisha | Madhya Pradesh | West Bengal | Rajasthan | Telangana |
| **Social Services** | | | | | |
| Swachh Bharat Mission (SBM) -Rural | Madhya Pradesh | Uttar Pradesh | Odisha | Rajasthan | Gujarat |
| Sarva Shiksha Abhiyan (SSA) | Uttar Pradesh | Bihar | Rajasthan | Madhya Pradesh | West Bengal |
| National Health Mission (including all sub-schemes) | Tamil Nadu | Madhya Pradesh | Maharashtra | Rajasthan | Bihar |
| Rashtriya Madhyamik Shiksha Abhiyan (RMSA) | Rajasthan | Madhya Pradesh | Tamil Nadu | Chhattisgarh | Bihar |
| National Programme of Mid-Day Meals in schools (MDM) | Bihar | West Bengal | Uttar Pradesh | Maharashtra | Madhya Pradesh |
| National Rural Drinking Water Mission (NRDWS) | Rajasthan | Uttar - Pradesh | West Bengal | Maharashtra | Bihar |
| Swachh Bharat Mission (SBM) -Urban | Rajasthan | Madhya Pradesh | Tamil Nadu | Gujarat | Andhra Pradesh |
| | | | | | |
| **11 Special Category States** | | | | | |
| | **Rank 1** | **Rank 2** | **Rank 3** | **Rank 4** | **Rank 5** |
| **Economic Services** | | | | | |
| Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) | Assam | Tripura | Meghalaya | Jammu and Kashmir | Uttarakhand |
| Pradhan Mantri Awas Yojna (PMAY)-Rural | Assam | Tripura | Meghalaya | Jammu and Kashmir | Uttarakhand |
| Pradhan Mantri Gram Sadak Yojna (PMGSY) | Jammu and Kashmir | Uttarakhand | Assam | Manipur | Himachal Pradesh |
| National Social Assistance Programme (NSAP) | Assam | Uttarakhand | Tripura | Jammu and Kashmir | Himachal Pradesh |
| Rashtriya Krishi Vikas Yojana (RKVY) | Assam | Himachal Pradesh | Jammu and Kashmir | Uttarakhand | Nagaland |
| **Social Services** | | | | | |
| | | | | | |
| Swachh Bharat Mission (SBM) -Rural | Assam | Uttarakhand | Himachal Pradesh | Meghalaya | Arunachal Pradesh |
| Sarva Shiksha Abhiyan (SSA) | Jammu and Kashmir | Assam | Uttarakhand | Meghalaya | Arunachal Pradesh |
| National Health Mission (including all sub-schemes) | Assam | Jammu and Kashmir | Uttarakhand | Himachal Pradesh | Meghalaya |
| Rashtriya Madhyamik Shiksha Abhiyan (RMSA) | Assam | Himachal Pradesh | Jammu and Kashmir | Uttarakhand | Manipur |
| National Programme of Mid-Day Meals in schools (MDM) | Assam | Jammu and Kashmir | Uttarakhand | Himachal Pradesh | Meghalaya |
| National Rural Drinking Water Mission (NRDWS) | Assam | Jammu and Kashmir | Arunachal Pradesh | Uttarakhand | Himachal Pradesh |
| Swachh Bharat Mission (SBM) -Urban | Jammu and Kashmir | Assam | Himachal Pradesh | Tripura | Arunachal Pradesh |

*Source: Compiled from Data received from various Central Government Ministries*

*Note: Data on ICDS, Smart Cities Mission, PMAY (Urban) and AMRUT was not made available by respective Ministries.*

**Key Findings:**

- Across the 18 States, almost 50 percent (9 out of 18 States), spent more than their group average, on the top 16 CSS, and the remaining spent below the average;
- Among these 9 out of 18 states that spent more than their group average, the top spenders were States such as Madhya Pradesh, West Bengal, Rajasthan, Tamil Nadu, Andhra Pradesh, Uttar Pradesh, Bihar and Odisha;
- Across the 11 States, only 3 States spent more than their group average and the remaining spent below average;
- The top spenders across the 11 States were Assam, Jammu and Kashmir, Himachal Pradesh, Uttarakhand and Tripura.
- The expenditure patterns across 18 and 11 States shows a skewed distribution of spending by a few amongst each grouping on the top 16 CSS. The pattern shows no correlation of allocations in these CSS to the need, performance or outcomes in these programs. A detailed evaluation of allocation criteria is needed to align them closer to the targets and outcomes of these CSS with State specific requirements.

## Conclusion

Post FFC Award Total Receipts of All States have grown mostly on the back of higher central transfers. Within central transfers, the increase in devolution by 10 percent of the DP, has far outweighed the receipts foregone in the form of a less than projected size of GTR collections and the less than optimal size of the increase in the DP due to sharp increases in Cess and Surcharges. Grants have also increased substantially more than the amounts foregone in the streams that became unavailable due to withdrawal of Block Grants and after taking into account the claims on States' resources due to increased States' shares in CSS and discontinuation of some CSS. In this period, States Own Resources (both Tax and Non-Tax) remained static and borrowings increased. The net additional receipts of All States between 2015-16 and 2017-18 was Rs 9.44 lakh crores more than what they had in the last three years of the TFC Award.

There were however, variations across States due to the changes in weights used by the FFC in horizontal devolution. All States tend to compare their gains and losses incrementally in comparison to the previous FC. In that respect, as many as 19 States were Gainers and only 10 States were Losers in the FFC Award. But amongst the 10 Loser States, as many as 4 States had got less than average in the TFC Award as well as the FFC Award and 5 States had got higher than average in the TFC Award. So the sense of grievance amongst them, justified or not, was accentuated especially as All States got less than what they perceived as their "due" in the increase in Devolution percentage.

However, the States Own Resources, both Tax and Non-Tax, remained static and borrowings increased. At present, *prima facie*, it appears that post the FFC Award, after receiving higher devolution and grants, States have not made much effort at additional resource mobilization and continue to demand higher untied transfers from the Centre. After the introduction of GST, if revenues are buoyant, this situation may change. However, there is a view that the introduction of GST has further constrained the States powers to vary tax rates and despite the benefits of GST in enabling a nationwide indirect tax regime, they are constrained from mobilizing resources on their own steam. Moreover,

> "*There are also constraints arising from Fiscal Responsibility and Budget Management (FRBM) acts, which lay down uniform targets across states ignoring the differing fiscal needs. In short, the domain of the states, which should be unrestrained insofar as their constitutional assignment is concerned, is being constrained in more than one way.* "[48]

There is no doubt whatsoever that the net additional resources available to All States after the FFC Award in 2015-16 to 2017-18 was more than they had over the TFC Award. States spent an additional Rs 9.56 Lakh crores more than they had over the last three years of the TFC Award (2012-13 to 2014-15). Broadly, the State wise expenditure on Schemes and programs followed the earlier pattern and they spent incrementally in the same priority sectors as before. This was contrary to the expectation that higher untied transfers as Devolution would prod the States to design and implement their own Schemes suited to their requirements. In short, the

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autonomy afforded by untied transfers would enable them to reprioritize their expenditure and make them state specific. In addition, the Centre would be more circumspect in announcing new CSS as the fiscal space available has contracted.[49]

However, this expectation has been belied so far. While it is undoubtedly true that the withdrawal of Block Grants and the discontinuation of Sector specific TFC grants as well as the changes in the CSS sharing pattern affected some States more than others, there is no indication that there has been a shift towards setting State specific priorities after the FFC Award. The 18 States that were impacted by the higher sharing pattern appear to have renewed their participation in the CSS and they now also receive higher allocations from the Centre. On the other hand, the 11 NER and Himalayan States that continued to get 90 percent of shares in CSS have not only received lower CSS allocations from the Centre but also show no evidence of retaining their previous levels of engagement in CSS as well as development expenditure, in general. Moreover, since 2015-16, new CSS have been introduced every year. While the proportion of CSS expenditure to total expenditure by the Union has remained static, the number of CSS has leapfrogged from 28 in 2015-16 to over 200 in 2018-19.[50]

While expenditure in nominal amounts increased across Social and Economic Services, the inter se priorities showed higher percentage increases in urban development, education, drinking water and sanitation, irrigation and flood control and transport and communications and energy.

Within Social Services, the spending on Education has been highest, post FFC Award, by all States. This is indicative of a national consensus that has evolved due to the mandate of the Right to Education Act 2009, buttressed by the substantial funding support of the Centre to Sarva Shiksha Abhiyaan (a CSS). The higher outlays and national prominence to Swacch Bharat Abhiyan has pushed up Sanitation in the inter se priorities (and there is some indication that Drinking Water has got lower allocations). Despite primary health being a State subject, it has not moved up in the inter se priority spending list of the States and Nutrition has slid down. Within Economic Services, expenditure on Rural Development and Agriculture has been the highest in the 4 out of the 18 States. However, spending in Economic Services in the 4 NER States that have responded to the primary survey is not only low but has declined in percentage terms post FFC Award.

The ranking of States by tracking the top five and bottom five spenders has shown there is no discernible pattern in priorities across sub sectors in Economic and Social Services amongst

49 "In the context of the FFC award and Budget 2015, the larger question is not of arithmetic but a shift in policy towards greater fiscal autonomy to the states by ensuring more than 70 percent of the fund flow through the Finance Commission route and also preserving the fiscal space for the union for its own functions. It is thus about getting expenditure priorities right for each level of government. The delinking of normal central assistance and specific plan schemes from the plan grants implies that states would be the sole authority in determining their priorities, which they can with the enhanced fiscal space due to higher tax devolution. At the same time, given the overall resource envelope and larger untied and statutory transfers, the union government will have to be extra cautious in announcing big CSS with huge fiscal implications for both the union and states, especially in functions which are either primarily the domain of the states or are best delivered by the states." Economic and Political Weekly (2015), Vol. No. 12, Pinaki Chakraborty, (2015) "Finance Commission's Recommendations and Restructured Fiscal Space".

50 Khullar S., et. al. (2018), "Development Expenditure in the States Post Fourteenth Finance Commission Award: An Assessment of the Centrally Sponsored Schemes". ICRIER.

Gainers and Losers either in the 18 States or in the 11 NER and Himalayan States (see Tables 3.8a and 3.8b). Conversely, it suggests that the spending patterns of each State reflects the bargaining strength of the Line Departments in States with their respective governments, effectively buttressed by CSS infusions from the Centre. However, a common lens to assess State wise priorities and expenditure patterns is, perhaps, not appropriate given the wide disparities in levels of development across States.

Some studies have shown that in select sectors like Roads, Irrigation, Health and Education expenditure in the States is not based on an assessment of need gaps. As a result, there are States with poor indicators with low levels of funding and there are States with good indicators that are spending very high amounts in them. This pattern supports the presumption that expenditure decisions at the State level are driven more by their own pulls and pressures and the ability of State level Line Departments to negotiate higher budgets than by a dispassionate assessment of inter se priorities.[51]

The expenditure on top 16 CSS across both groupings (i.e. the 18 and 11 States) only serves to underscore the conclusion that funding from the Centre drives the priorities rather than the requirement to invest in sectors that need it most. State Schemes and CSS are a balance between State specific development goals and the national agenda. CSS in key sectors do have a well delineated design as well as uniform standards for implementation, and ensure minimum standards of delivery of services in key sectors across the country. The entitlement based legislations like National Food Security Act, National Rural Employment Guarantee Act and the Right to Education Act have further helped in ensuring that all States implement their provisions especially when these laws are translated into generously funded CSS. There is much to be said in favour of enabling the States to follow State specific models in development spending, as also about containing the proliferation CSS in recent years. At the same time it has to be acknowledged that wherever CSS have had adequate funding and have focussed on key outcomes, they have been successful in setting a common national development agenda across the diverse States of the country.

But, Economic and Social outcomes are contingent on resources and governance capacity. To that extent, CSS funding in the top 16 Schemes is an incentive for States to implement them especially as they are predominantly in human development like education, health[52], rural development (roads, housing and livelihoods[53]), sanitation and drinking water[54]. Larger States do have the capacity to design their own schemes and are better off with greater autonomy and untied transfers. But the smaller States are not able design their own schemes, or raise enough resources and to that extent, need CSS funds all the more.

Paradoxically, the increase in Central allocations in the top 16 CSS to the 18 States indicates that despite their capacity to design and implement their own Schemes with higher untied transfers, as well as higher shares required of them, they have remained invested and continued

51 CRISIL (2019), States of Growth 2.0.
52 Sarva Shiksha Abhiyan, Madhyamik Shiksha Abhiyan, National Health Mission
53 Pradhan Mantri Gram Sadak Yojana, Pradhan Mantri Awaas Yojana and Pradhan Mantri Kaushal Vikas Yojana and Ajeevika.
54 Swacch Bharat Abhiyaan and National Drinking Water Mission.

their participation in them. The steep decline in CSS shares from the Centre for the 11 States points to a trend that the Line Ministries in the Central government have retreated from those very States where the need to ensure the expansion of CSS to address national development goals is of paramount importance.

It is abundantly clear that there has been a steep increase in Revenue expenditure post the FFC Award, indicating that the untied transfers have enabled States to finance loan waivers, UDAY debt, food subsidies and across the board hikes in salaries and pensions for implementing the Seventh Pay Commission recommendations. In part, it is also due to the fact that most of the Schemes and programs being implemented in the States have an overwhelmingly large component of wages and honoraria to front line workers and the fiscal room that became available post the FFC Award, has been channelled into funding such recurring expenditures.

The trend in the States' increasing dependence on Central Transfers and debt financing, draws attention to a key issue in Centre-State financial relations. The States claim that a higher proportion of taxes is their right in view of the fact that their obligations towards socio-economic development are greater than that of the Centre. It is their view that all taxes must be shared and not devolved.[55]

The issue of relative efficiency of public expenditure across various levels has been a matter of debate amongst experts. But all indications support the view that compulsions of political economy and proximity to the people not only constrains augmenting their own tax and non - tax revenues, but also makes them dependent on Central transfers. At the same time, the efficiency of expenditure depends not only on amounts spent but also on effective deployment by the State governments and Local bodies. The design of Schemes and Programs under CSS is by the Central Ministries, and they are often not backed by optimum outlays; but the effectiveness of their outcomes on the ground depends on implementation and delivery, which is by the State machinery and hence, contingent on their capabilities and capacities. In this situation, if their success is attributed to the local governments, their failures are always laid at the door of the Central government for faulty design and inadequate funding.

The change in composition of central transfers and higher untied transfers proved a point of principle and tilted the balance in favour of States and gave them more autonomy especially as they have higher obligations towards socio economic development. But on the expenditure side, it neither translated into achieving the objective of a shift in State specific priorities towards State specific Schemes nor reinforce the national development objectives Moreover,

[55] The Economic Survey (2017-18)[55] suggests that dependence of the States on devolution and grants is a "low equilibrium trap" that continues to be maintained with mutual consent of the Centre and the States as the former uses this devolution power to influence the other tiers of government and States are both unable and unwilling to tax proximate citizens. This dependence on transfers supports the perpetuation of the cycle of poor public service delivery-low taxation-low accountability at the State and Local body level.
**Economic Survey (2017-18). "Reconciling Fiscal Federalism and Accountability: Is there a Low Equilibrium Trap?" Chapter 04; page 65; Economic Survey 2017-18 Volume 1.**

it was not only disruptive in itself but was all the more challenging for the States to readjust because in addition, it was accompanied by sweeping and rapid fire institutional and accounting changes.

But it would not be appropriate to ascribe the entire impact to the repercussions of the FFC Award. As Reddy and Reddy note "*It should be recognised that the dominant objective of federal transfers is moderating the fiscal capacity differential across States to provide comparable levels of public services at comparable levels of taxation.*"[56]However, to ensure that federal transfers that are part of the FC Awards translate into allocations into key and priority sectors on the expenditure side, institutional levers are required, that are, at present, not available. There is no gainsaying the fact that this institutional vacuum needs to be filled urgently.

**XVFC and its ToR**

The XVFC will be the first Finance Commission that will make its recommendations after the Planning Commission has been dismantled. Further, the discontinuation of the Plan/ Non Plan classification in the Union Budget and the introduction of the GST, puts the onus on the XVFC of ensuring that the respective responsibilities of the Centre and States are balanced with their claims on the resources through sharing of taxes and the gaps filled through grants from the Centre. It is expected that the XVFC (in addition to its core mandate of addressing vertical and horizontal distribution of resources) will also address issues relating to distribution of resources for correcting regional imbalances, equalisation, ensuring minimum national standards in delivery of public services and a nationwide approach to sectoral policies especially in areas that have significant inter -State ramifications. These issues used to be within the ambit of the erstwhile Planning Commission.

From the Third FC until the FFC, all FCs have fulfilled their mandate within the institutional boundaries set by the existence of Planning Commission and the Plan/ Non Plan distinction in expenditure classification. They were chary of venturing into the domain of Plan budgets and the Planning Commission, citing various grounds ranging from its omission in their Terms of Reference to the possibility that redressing development imbalances would require the introduction of a "political" dimension into their recommendations. But it is abundantly clear that NITI Aayog, that is the successor to the Planning Commission, by design, does not have any interface with budgetary support and financial allocations. Moreover, one of the chief reasons for dismantling the Planning Commission (other than the obsolescence of central planning in the post 1991 era) was that its role in financial allocations was a mere convention that was not within its remit and Plan transfers were outside the recommendations of the FC, and, therefore, did not have any sanctity.

However, it needs to be remembered that while it existed, the Planning Commission not only recommended the transfers but also followed them up with regular and systematic review of their implementation in the Centre and the States. This deepened its institutional reach and ensured that there was an inter-ministerial and inter sectoral perspective on the efficiency and effectiveness of the utilisation of budgetary resources. Consequent to the discontinuation of the

56 Reddy YV and Reddy GR : Indian Fiscal Federalism: Afterword; The Way forward: page 265

Plan/Non Plan distinction, the XVFC may now need to perform this function on a continuous basis as its recommendations will be overarching and include an assessment of all resources and spending obligations – of the Centre and States together- on all transfers, while making its recommendations.

**Methodological Note: Accounting Framework**

On the Receipts side, frequent changes have led to erosion of data quality and hampered time series and comparative analysis of different issues. Substantive accounting changes ensued from the institutional and structural changes that took place in quick succession between 2014-15 and 2016-17. More specifically, the change from 'Society Mode' to "Treasury Mode" for transfers of Central shares of CSS to States changed the States' receipts as reported in State budgets substantially post 2014-15; and the discontinuation of Plan / Non-Plan classification in the Union Budget from 2017-18 has not been fully incorporated in the States' framework of budget and accounts. As a result, there is no common data recording and reporting framework across different data sources such as Union budget, RBI, C&AG etc. Needless to say, the diverse formats across States and the Sate specific modes of budget classification presented in diverse languages makes the exercise even more challenging. Such heterogeneity in data and lack of credible information and explanation of the changes in the public domain has impacted the quality of the findings in this Study. It is now essential to implement the PFMS framework uniformly across all Ministries in the Central government and the State in a seamless manner as envisaged in its original intent and design.

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# Appendices

## ➢ Appendix A

### Appendix A1: Terms of Reference for the Study

**SCHEDULE-I**

**TERMS OF REFERENCE (ToR)**

**FOR THE STUDY: "Development Expenditure in the States Post Fourteenth Finance Commission Award: How have States Spent the Award Money?"**

The Second party to the Contract will conduct the above study in accordance with the proposal submitted by it to the First Party and would broadly cover the following:-

1. The study should assess the outlays and outcomes of development schemes and programs and any changes in their composition, mix and priorities and their consequent impact on desired national goals. Specifically, the study should include (and may not be restricted to) the following:

   *i.* Pursuant to the Fourteenth Finance Commission (FFC) recommendations, the share of the taxes devolved upon the States increased from 32% to 42%, thus increasing the fiscal space available to them. *An overall assessment of net additional resources devolved to the States, after adjusting the change in funding patterns of Centrally Sponsored Schemes (CSS), discontinuation of certain CSS and shrinking of the divisible pool, through increase in cess / surcharge in FY 2015-16, 2016-17 and 2017-18.*

   ii. How the states have utilized this increased fiscal space for development programmes related to key sectors like agriculture, health, education, drinking water and sanitation?

   iii. Whether the untied transfer to States proposed by FFC, improved the funding levels for crucial programmes in key sectors designed to foster sustainable and more inclusive growth?

   iv. How the pooled resources of the Centre and States together being harnessed to meet National Development Agenda goals?

   The evaluation study is expected to critically analyse the outlays and outcomes of development schemes and programs for the first two years of the award period i.e. 2015-16 and 2016-17 with reference to above and the ToR of the 15th Finance Commission. *To the extent possible, information may be updated till Budget Estimates of 2018-19 so as to give a comprehensive view of the progress of the development expenditure to the Commission.*

2. The total duration of the study would be 4 months from the date of signing of the Agreement. The first draft of the study should be submitted to the Commission after the expiry of two months and the Final Report shall be submitted incorporating therein the suggestions/input, if any, made by the Referee appointed by the First party or by the First party.

3. The duration for submission of the Study Report would be four months (4 months) commencing from ________ and concluding on ________. The total Agreement amount for the study project would be Rs.9,94,750/- (Rs. Nine lakhs ninety four thousand and seven hundred fifty only) inclusive of all expenses covering lead researchers, stipends for research assistants, books, contingency, printing data collection, travel cost and institutional overheads. The applicable taxes, if any, will be paid additionally. The Second Party shall indicate separately the proportion of the Agreement Amount towards expenses and towards professional fees/ charges etc. The payment shall be subject to all taxes/cess (including TDS), if any payable. It is made clear that the First party to the contract will not reimburse any other expenditure on Study Report over and above Agreement Amount plus applicable taxes.

## Table A1: State-wise Distribution of Finance Commission Grants

*(in Rs. Crores)*

| | States | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|---|---|---|---|
| | **60:40 States** | | | | | | |
| 1 | Andhra Pradesh | NA | NA | 3518 | 8199 | 7342 | 6975 |
| 2 | Bihar | NA | NA | 3192 | 2876 | 3967 | 4525 |
| 3 | Chhattisgarh | NA | NA | 1335 | 968 | 1255 | 1460 |
| 4 | Goa | NA | NA | 261 | 21 | 21 | 63 |
| 5 | Gujarat | NA | NA | 2499 | 2065 | 3118 | 3167 |
| 6 | Haryana | NA | NA | 1084 | 709 | 1444 | 1317 |
| 7 | Jharkhand | NA | NA | 1624 | 1095 | 1601 | 1583 |
| 8 | Karnataka | NA | NA | 3194 | 1741 | 2773 | 2708 |
| 9 | Kerala | NA | NA | 1694 | 5171 | 4955 | 3182 |
| 10 | Madhya Pradesh | NA | NA | 2442 | 2618 | 3874 | 3862 |
| 11 | Maharashtra | NA | NA | 55 57 | 3927 | 5263 | 6313 |
| 12 | Orissa | NA | NA | 1699 | 1678 | 2385 | 2406 |
| 13 | Punjab | NA | NA | 1863 | 747 | 1330 | 356 |
| 14 | Rajasthan | NA | NA | 3934 | 2732 | 3951 | 4262 |
| 15 | Tamil Nadu | NA | NA | 3757 | 2381 | 3264 | 1951 |
| 16 | Telangana | NA | NA | 2110 | 1078 | 1664 | 1168 |
| 17 | Uttar Pradesh | NA | NA | 5901 | 4851 | 8406 | 8849 |
| 18 | West Bengal | NA | NA | 2525 | 9890 | 6687 | 5283 |
| | **Total – 60:40 States** | NA | NA | 48190 | 52749 | 63298 | 59429 |
| | **Share of 60:40 States of the Total FC Grants** | NA | NA | 78% | 62% | 66% | 64% |
| | **90:10 States** | | | | | | |
| 19 | Arunachal Pradesh | NA | NA | 795 | 103 | 171 | 124 |
| 20 | Assam | NA | NA | 1130 | 2944 | 1729 | 1239 |
| 21 | Himachal Pradesh | NA | NA | 1109 | 8436 | 8796 | 8889 |
| 22 | Jammu & Kashmir | NA | NA | 2751 | 10489 | 11139 | 11849 |
| 23 | Manipur | NA | NA | 1827 | 2125 | 2177 | 2145 |
| 24 | Meghalaya | NA | NA | 753 | 640 | 558 | 428 |
| 25 | Mizoram | NA | NA | 1055 | 2166 | 2331 | 2482 |
| 26 | Nagaland | NA | NA | 2003 | 3212 | 3460 | 3710 |
| 27 | Sikkim | NA | NA | 515 | 46 | 66 | 67 |
| 28 | Tripura | NA | NA | 1002 | 1175 | 1205 | 1189 |
| 29 | Uttarakhand | NA | NA | 682 | 494 | 620 | 693 |
| | **Total – 90:10 States** | NA | NA | 13623 | 31830 | 32252 | 32815 |
| | **Share of 90:10 States of the Total FC Grants** | NA | NA | 22% | 38% | 34% | 36% |
| | **Grand Total – All States** | **45253** | **53905** | **61813** | **84579** | **95550** | **92244** |

*Source: Computation from Ministry of Finance Data*

**Table A2: List of CSS discontinued after 2015-16 and expenditure over the last five years**

*(In Rs Crores)*

| S. No. | Name of Scheme | 2013-14 Actuals | 2014-15 BE | 2014-15 RE | 2014-15 Actuals | 2015-16 BE | 2015-16 RE | 2016-17 BE |
|---|---|---|---|---|---|---|---|---|
| 1 | National e-Governance Action Plan (NeGAP) | 242.51 | 800 | 464 | 644.97 | ... | ... | ... |
| 2 | Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) | 194.91 | 1006 | 483 | 482.54 | ... | ... | ... |
| 3 | Scheme for setting up of 6000 Model Schools at Block Level as Bench Mark of Excellence | ... | 1193.99 | 1020.99 | 978.62 | 1 | 0.31 | ... |
| 4 | Scheme for Central Assistance to the States for developing export infrastructure and other allied activities | ... | 800 | 564.84 | 564.84 | ... | ... | ... |
| 5 | National Mission on Food Processing | ... | 175 | 124.61 | 124.61 | ... | ... | ... |
| 6 | Tourist Infrastructure | ... | 357 | 495 | | ... | | |
| | **Total** | **437.42** | **4331.99** | **3152.44** | **2795.58** | **1** | **0.31** | **0** |

*Source: Extracted from Expenditure Budgets, Union Budget, various years*

**Table A3: Total Expenditure on Development Programmes and Schemes and contribution of States' Own expenditure and Central Grant**

*In Rs crores*

| | Total Expenditure on Development Schemes | | | | Expenditure on Development Schemes financed through Central Grant | | | | Expenditure on Development Schemes financed through other Sources by the State Governments | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **State** | **2014-15** | **2015-16** | **2016-17** | | **2014-15** | **2015-16** | **2016-17** | | **2014-15** | **2015-16** | **2016-17** |
| **Andhra Pradesh** | 19447 | 46124 | 51536 | | 17103 | 11983 | 12507 | | 2344 | 34141 | 39029 |
| **Bihar** | 43603 | 53581 | 60768 | | 15875 | 16131 | 16054 | | 27728 | 37450 | 44714 |
| **Chhattisgarh** | 27525 | 28472 | 33685 | | 7420 | 5733 | 8248 | | 20105 | 22739 | 25436 |
| **Goa** | - | - | - | | - | - | - | | - | - | - |
| **Gujarat** | 50660 | 56317 | 59012 | | 8130 | 6770 | 10025 | | 42530 | 49547 | 48987 |
| **Haryana** | 17597 | 25185 | 28678 | | 3280 | 2634 | 2599 | | 14317 | 22551 | 26079 |
| **Jharkhand** | 17956 | 23879 | 33008 | | 5612 | 5652 | 7386 | | 12344 | 18227 | 25622 |
| **Karnataka** | 53740 | 60884 | 77576 | | 10985 | 8381 | 8658 | | 42755 | 52503 | 68918 |
| **Kerala** | 14407 | 19004 | 22813 | | 5524 | 3744 | 3260 | | 8883 | 15261 | 19553 |
| **Madhya Pradesh** | 38336 | 48130 | - | | 13166 | 14340 | 18490 | | 25170 | 33790 | - |
| **Maharashtra** | 47553 | 56221 | 62437 | | 12837 | 10819 | 12580 | | 34716 | 45402 | 49857 |
| **Orissa** | 29934 | 40347 | 43789 | | 10988 | 11067 | 11834 | | 18946 | 29280 | 31955 |
| **Punjab** | 7852 | 8044 | 9896 | | 3866 | 2899 | 3165 | | 3986 | 5145 | 6730 |
| **Rajasthan** | 43531 | 53633 | 64450 | | 15080 | 13487 | 13555 | | 28451 | 40146 | 50895 |
| **Tamil Nadu** | 52771 | 55657 | 55571 | | 12511 | 13427 | 13081 | | 40260 | 42230 | 42490 |
| **Telangana** | 22436 | 34830 | 57946 | | 5028 | 6416 | 6695 | | 17408 | 28414 | 51251 |
| **Uttar Pradesh** | 77679 | 92296 | 110280 | | 25883 | 23587 | 23202 | | 51796 | 68709 | 87078 |
| **West Bengal** | 39654 | 50781 | 48190 | | 17610 | 16461 | 14574 | | 22044 | 34320 | 33616 |
| **Sub-Total (60:40 States)** | **604681** | **753386** | **819635** | | **190897** | **173533** | **185914** | | **413783** | **579853** | **652211** |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Share in Total Expenditure (60:40 States)** | **91%** | **94%** | **93%** | | **29%** | **22%** | **21%** | | | | |
| **Arunachal Pradesh** | 4376 | 4687 | 4307 | | 6154 | 2376 | 1909 | | -1778 | 2311 | 2398 |
| **Assam** | 13218 | 12140 | 18704 | | 12544 | 9494 | 10444 | | 674 | 2645 | 8260 |
| **Himachal Pradesh** | 5635 | 6061 | 7635 | | 5979 | 2772 | 4287 | | -344 | 3289 | 3348 |
| **Jammu and Kashmir** | 7373 | - | - | | 12807 | 5593 | 7822 | | -5434 | -5593 | -7822 |
| **Manipur** | 3632 | 3555 | 4028 | | 3872 | 2220 | 2386 | | -240 | 1336 | 1642 |
| **Meghalaya** | 3299 | 3151 | 4934 | | 2960 | 1807 | 2516 | | 339 | 1343 | 2417 |
| **Mizoram** | 2945 | 2589 | 3018 | | 2996 | 1482 | 1434 | | -52 | 1107 | 1583 |
| **Nagaland** | 2252 | 2182 | 2808 | | 3861 | 1509 | 2008 | | -1609 | 673 | 800 |
| **Sikkim** | 2117 | 1905 | 1971 | | 2353 | 860 | 1365 | | -236 | 1045 | 606 |
| **Tripura** | 4788 | 5042 | 5533 | | 5053 | 3317 | 2786 | | -265 | 1725 | 2747 |
| **Uttarakhand** | 10411 | 10584 | 10420 | | 6062 | 4261 | 5411 | | 4349 | 6323 | 5009 |
| **Sub-Total (90:10 States)** | **60047** | **51895** | **63358** | | **64642** | **35690** | **42369** | | **-4595** | **16205** | **20989** |
| **Share in Total Expenditure (90:10 States)** | **9%** | **6%** | **7%** | | **10%** | **4%** | **5%** | | | | |
| **All States** | **664727** | **805281** | **882992** | | **255539** | **209223** | **228283** | | **409188** | **596058** | **673200** |

*Source: Authors Compilation using State Finance Accounts by Comptroller & Auditor General of India(CAG)*

### Table A4: Tax Devolution across States: TFC Award vs FFC Award

*In Rs lakh Crores*

| State | 2009-10 | 2010-11 | TFC | 2014-15 | 2015-16 | FFC |
|---|---|---|---|---|---|---|
| Andhra Pradesh | 0.12 | 0.15 | 26% | 0.15 | 0.22 | 46% |
| Telangana | | | | 0.08 | 0.12 | |
| Bihar | 0.18 | 0.24 | 32% | 0.37 | 0.49 | 32% |
| Chhattisgarh | 0.04 | 0.05 | 24% | 0.08 | 0.16 | 88% |
| Goa | 0.00 | 0.01 | 35% | 0.01 | 0.02 | 114% |
| Gujarat | 0.06 | 0.07 | 13% | 0.10 | 0.16 | 52% |
| Haryana | 0.02 | 0.02 | 30% | 0.04 | 0.05 | 55% |
| Jharkhand | 0.06 | 0.06 | 10% | 0.09 | 0.16 | 68% |
| Karnataka | 0.07 | 0.10 | 29% | 0.15 | 0.24 | 64% |
| Kerala | 0.04 | 0.05 | 17% | 0.08 | 0.13 | 60% |
| Madhya Pradesh | 0.11 | 0.16 | 41% | 0.24 | 0.38 | 59% |
| Maharashtra | 0.08 | 0.11 | 38% | 0.18 | 0.28 | 59% |
| Orissa | 0.09 | 0.11 | 23% | 0.16 | 0.24 | 46% |
| Punjab | 0.02 | 0.03 | 43% | 0.05 | 0.08 | 70% |
| Rajasthan | 0.09 | 0.13 | 39% | 0.20 | 0.28 | 41% |
| Tamil Nadu | 0.09 | 0.11 | 25% | 0.17 | 0.20 | 21% |
| Uttar Pradesh | 0.32 | 0.43 | 36% | 0.67 | 0.91 | 37% |
| West Bengal | 0.12 | 0.16 | 37% | 0.25 | 0.37 | 51% |
| Arunachal Pradesh | 0.00 | 0.01 | 50% | 0.01 | 0.07 | 537% |
| Assam | 0.05 | 0.08 | 49% | 0.12 | 0.17 | 37% |
| Himachal Pradesh | 0.01 | 0.02 | 100% | 0.03 | 0.04 | 37% |
| Jammu & Kashmir | 0.02 | 0.03 | 63% | 0.04 | 0.08 | 75% |
| Manipur | 0.01 | 0.01 | 65% | 0.02 | 0.03 | 106% |
| Meghalaya | 0.01 | 0.01 | 48% | 0.01 | 0.03 | 137% |
| Mizoram | 0.00 | 0.01 | 51% | 0.01 | 0.02 | 158% |
| Nagaland | 0.00 | 0.01 | 60% | 0.01 | 0.03 | 139% |
| Sikkim | 0.00 | 0.01 | 39% | 0.01 | 0.02 | 131% |
| Tripura | 0.01 | 0.01 | 58% | 0.02 | 0.03 | 89% |
| Uttaranchal | 0.02 | 0.02 | 59% | 0.04 | 0.05 | 41% |
| **All States** | 1.53 | 2.04 | 34% | 3.23 | 4.84 | 50% |

*Source: Compiled from Study of State Finances by Reserve Bank of India, various years*

## ➢ Appendix B: Primary Survey Challenges

A primary survey of 29 States and 10 Ministries of the Government of India that were implementing major CSS was conducted to ascertain, post FFC Award, how much additional resources did States receive and how did States spend the additional resources. The survey was conducted in two phases between June and November 2018, using semi-structured questionnaires. The questionnaires were designed and the issues were framed by the ICRIER research team.

**During Phase 1 (April to July 2018),** letters to Chief Secretaries of all States were sent by Secretary, Fifteenth Finance Commission, (a copy of the letter sent to Chief Secretaries of States requesting them to provide information to ICRIER on the following questions:

1. Amounts allocated / disbursed by the Ministries of the Central Govt. to your respective State under each Centrally Sponsored Schemes (CSS) for the period – 2014-15 to 2017-2018. (in Revised estimates (RE) / Actuals)
2. Amounts actually spent under each CSS by your respective state government for the period - 2014-15 to 2017-2018. (in RE / Actuals) ***please fill data in the excel sheet provided***
3. Where are the State's contribution for all CSS/ each CSS reflected in the State Budgets in BE/RE/ Actuals for the relevant years? ***please fill data in the excel sheet provided***
4. Amounts spent by your respective state government on development programmes and schemes (other than CSS) for the period -2015-16 to 2017-2018. (in RE / Actuals) ***please fill data in the excel sheet provided***
5. The Fourteenth Finance Commission (FFC) expected that untied transfers to States over sector specific or conditional transfers as was the practice under Plan transfers would allow fiscal room to the States to make allocations for Schemes and Sectors based on their specific priorities. Have the FFC transfers since 2015-16 improved the funding levels for crucial programmes in key sectors designed to foster sustainable and more inclusive growth?
6. Post the increase in devolution of taxes from 32% to 42% pursuant to the FFC Award, has there been any changes in allocation of resources to development Schemes and programmes, in particular, to key sectors under Social Services and Economic Services? If yes, please indicate Scheme wise details under State Plan Schemes and CSS separately.
7. Has there been any addition/ Revision in number of State Plan Schemes under Social Services and Economic Services since 2015-16? If so, details thereof.
8. The CSS were rationalised in 2015-16 and the sharing pattern with the States was revised. What has been the effect of this rationalisation on implementation of these Schemes in the State?

A copy of the issues framed and the data sheets sent to them is appended to this Appendix, see Appendix B1.

In addition, letters from Secretary, Fifteenth Finance Commission were sent to Secretaries of 10 Ministries of the Government of India that were implementing major CSS (a sample of the letter sent is given in Appendix B2) to direct officials concerned, and provide information to ICRIER on the following questions:

1. Which are the Centrally Sponsored Schemes (CSS) under your Ministry for the period - 2012-13 to 2017-2018. (date in Revised estimates (RE) / Actuals)
2. Total amount allocated / disbursed under each CSS for the period - 2012-13 to 2017-2018 by your Ministry. (date in Revised estimates (RE) / Actuals)
3. For each CSS, in what percentage is the amount divided among states?
4. State-wise allocation to each centrally sponsored schemes for the period - 2012-13 to 2017-2018 by your Ministry. (date in Revised estimates (RE) / Actuals)
5. Pursuant to the Fourteenth Finance Commission (FFC), the fiscal space for the Union government has shrunk but the scope of national development Schemes and programmes have expanded. How has this impacted their outcomes on the ground?
6. The CSS were rationalised and the sharing pattern with the States was revised consequent upon the acceptance of the key recommendations of the Sub Group of Chief Ministers' Report. What has been the effect of this rationalisation on the design and implementation of these Schemes?
7. Finally, there is an international commitment to achieve the Sustainable Development Goals 2030. How are the collective efforts of the Union and the States being harmonised to meet this commitment?

Key Ministries responded and designated nodal officers who sent data regarding the State wise allocations of their shares for major CSS. PFMS data has been made available by the Controller General of Accounts, Ministry of Finance, about Central shares transferred to each State for CSS for the relevant years.

This letter was followed up with requests to State governments sent through Resident Commissioners to designate a nodal officer to liaise with the team and to furnish the requisite information. However, despite repeated reminders personally, telephonic contacts and emails, responses were received only from 15 States. Maharashtra, Gujarat, Uttar Pradesh and West Bengal are some of the States that did not responded at all to the questionnaire. But the desired information in the format that was requested was not made available even by the States that have responded to the data questionnaire.

For the Study, it was critical to know how much each State spent on CSS (CSS-wise expenditure – Actuals- State share and Central share) over the last 5 years (2012-13 to 2017-18) to track the additional amounts spent due to increased State shares. It may be recalled that most States have represented that the changed sharing pattern of CSS has offset the net gains to the States from the increased tax devolution in the FFC Award as for most of the CSS, the State shares increased anywhere between 25-50%. In order to assess this additional "burden" on State exchequers, a supplementary question '***What was the share of each State Government in each CSS and amounts actually spent for the last 5 years (2012-13 to 2017-18)?"*** was specifically asked by letter addressed to States. A copy of the letter/email is given in Box 1.

The draft Report of ToR2 was presented to the Chairman XVFC on November 12, 2018. In the course of discussion and with a view to meet the deadline, for submission of the Report on ToR2, facilitation was sought from XVFC. Following which a second round of the Primary Survey was conducted under the guidance of the Fifteenth Finance Commission. Letters were sent by Economic Advisor, Fifteenth Finance Commission to Principal Secretary, Finance of all States (see Appendix B2). Key issues for which responses were sought during the second round were (see Appendices B3a to B3d).

1. What amounts were spent under each of the sixteen Centrally Sponsored Schemes (CSS) (see Table AB1), for the period 2013-14 to 2017-2018
2. How many CSS are being implemented in the state government during the period 2013-14 to 2017-2018? What is the total amount spent on all CSS by the State government (State's Share only) for the period 2013-14 to 2017-2018?
3. Total amount spent under all **State Plan Schemes (excluding CSS)** falling under the sectors – Agriculture, Rural Development, Women and Child Development, Drinking Water and Sanitation, Health and Education, for the period 2013-14 to 2017-2018 (see Table AB2)

## Table AB1: Round 2 Data Point - Amounts spent under sixteen CSS by the States

| | | State's Share (Amounts in Rs Crores) | | | | |
|---|---|---|---|---|---|---|
| **S. No.** | **Centrally Sponsored Schemes (CSS) - Name** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| 1 | Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGA) | | | | | |
| 2 | Pradhan Mantri Awas Yojna (PMAY) - Rural | | | | | |
| 3 | Pradhan Mantri Awas Yojna (PMAY)- Urban | | | | | |
| 4 | Pradhan Mantri Gram Sadak Yojna (PMGSY) | | | | | |
| 5 | National Social Assistance Programme (NSAP) | | | | | |
| 6 | National Programme of Mid-Day Meal in Schools (MDM) | | | | | |
| 7 | Sarva Shiksha Abhiyan (SSA) | | | | | |
| 8 | Rashtriya Madhyamik Shiksha Abhiyan (RMSA) | | | | | |
| 9 | National Health Mission (including all sub-schemes) | | | | | |
| 10 | Integrated Child Development Services (ICDS) | | | | | |
| 11 | National Rural Drinking Water Mission(NRDWS) | | | | | |
| 12 | Swachh Bharat Mission (SBM) - Rural | | | | | |
| 13 | Swachh Bharat Mission (SBM) - Urban | | | | | |
| 14 | Atal Mission For Rejuvenation and Urban Transformation (AMRUT) | | | | | |
| 15 | Smart Cities Mission | | | | | |
| 16 | Rashtriya Krishi Vikas Yojana (RKVY) | | | | | |
| | **Sub-Total (16 CSS)** | | | | | |
| | **Total (State's Share - All CSS)** | | | | | |
| | **All CSS - Number** | | | | | |

*Source: Primary Survey Questionnaire*

## Table AB2: Round 2 Data Point – Amounts on State Plan Schemes across selected sectors by the States

| | | State Plan Schemes (Amounts in rs Crores) | | | | |
|---|---|---|---|---|---|---|
| **S. No.** | **Sector** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| 1 | Agriculture and Allied Activities | | | | | |
| 2 | Rural Development | | | | | |
| 3 | Health | | | | | |
| 4 | Education | | | | | |
| 5 | Drinking Water and Sanitation | | | | | |
| 6 | Women and Child Development | | | | | |
| | **Total (State Plan Schemes)** | | | | | |

*Source: Primary Survey Questionnaire*

Even at the end of the second round, we received responses from the same set of states (15) and despite repeated follow ups, responses from some states were sketchy. Details on States-wise distribution of data shared on different data points 3are highlighted in Table AB1 and are detailed below.

Out of 29 States, following is the distribution of number of states (see Table AB3) that:

- **13 states did not share data to any question in both rounds**

**Table 1a: List of States that did not Share Data**

| S. No. | States |
|---|---|
| **1** | Assam |
| **2** | Chhattisgarh |
| **3** | Goa |
| **4** | Gujarat |
| **5** | Jammu and Kashmir |
| **6** | MP |
| **7** | Maharashtra |
| **8** | Manipur |
| **9** | Meghalaya |
| **10** | Punjab |
| **11** | Telangana |
| **12** | Uttar Pradesh |
| **13** | West Bengal |

*Source: Primary Survey Findings*

- Remaining 16 State shared partial data
- As shown in Table AB3,
    - 12 states shared data on Total Expenditure on top 16 CSS.
    - Only 8 states shared data on expenditure on State Plan Schemes for selected sub-sectors
    - Only 1 state shared data on expenditure across Social and Economic Services
    - Only 5 States provided data on Total Expenditure on all CSS
    - Only 7 States shared data on Central transfers

While some states (13) did not share any data, some shared on different data points and hence, it was challenging to harmonise the data and draw robust conclusions that illustrate trends across all states. For instance, states like Haryana and Tripura shared data on only one data point – Central transfers and did not address any of our queries on development programmes and schemes and did not share data on expenditure on either CSS, State Plan schemes or Services wise expenditure. This is mainly because there is no common format in which data is reported and recorded by States Governments across all States and the Union Government. In addition, the format in which data is reported by all state governments to the C&AG is not same across all States. Different agencies shared different data on common indicators. For instance, the data on state-wise central transfers shared by the PFMS did not match with the data reported on central transfers by some states, during the primary survey. Hence, comparing data across different sources was quite challenging. Moreover, due to the accounting changes, there have been several significant changes in the accounting of data across the union budgets and state budgets. For instance, post the discontinuation of society mode, 2017-18 onwards the full amount of central grant on account of CSS is reflected in the State budgets / consolidated Fund of States. However, before 2017-18, the CSS amount was not reported in state budgets and it was quite challenging to ascertain the exact amount States received from the Centre on account of all CSS year-wise. Similarly post the discontinuation of plan / non-plan classification, central transfers on account of FC grants was clearly reported in State budgets. However, before 2017-18, they were a part of the Plan Grants and it was difficult to cull out the exact numbers and conduct a trend analysis across these indicators and more.

Throughout the study, repeated attempts were made to extract data from multiple secondary sources and match with the data provided by some states during the primary survey. We found numerous instances of under-reporting, missing or incomplete information, etc.

Nevertheless, at best we have tried to draw conclusions based on the data shared by 16 states. As proxy, we used frameworks like RBI/CAG etc to draw conclusions across all States. In future, there is need for a common format to be adopted for data recording and data reporting across all States and the Union Government. In addition, data on States' expenditure on development and non-development sectors with detailed information on schemes and programme wise expenditure mapped to the list of schemes / programmes by which the Union reports its estimates in the Union Budget should be available in public domain on a quarterly basis. Since 2017-18, the Union Budget provides a detailed statement on the estimated targets for each of the Centrally Sponsored and Central Sector schemes, as similar formats should be followed by all State governments, maintaining a homogenous data structure. While to some extent all states provide detailed targets against CSS, central sector schemes and state plan schemes, they need to do it in a common framework which will enable research. Every five-year the union and each state government should share an outcome analysis which details their performance over the five-year period, for the said targets vis-à-vis the existing programmes and schemes.

**Table AB3: Snapshot of Data shared by States on different Data Points**

| S.No. | State | Central Transfers received | Total Expenditure on Top 16 Schemes | Total Expenditure on all CSS (with Centre and State share of Expenditure) | Expenditure on State Plan Schemes across selected sectors | Expenditure by Services / Sub-sectors |
|---|---|---|---|---|---|---|
| 1 | Andhra Pradesh | x | √ | x | √ | √ |
| 2 | Arunachal Pradesh | x | √ | x | √ | x |
| 3 | Assam | x | x | x | x | x |
| 4 | Bihar | √ | √ | √ | x | x |
| 5 | Chhattisgarh | x | x | x | x | x |
| 6 | Goa | x | x | x | x | x |
| 7 | Gujarat | x | x | x | x | x |
| 8 | Haryana | √ | x | x | x | x |
| 9 | Himachal Pradesh | x | √ | √ | x | x |
| 10 | Jammu and Kashmir | x | x | x | x | x |
| 11 | Commissioner, Jharkhand | x | √ | x | √ | x |
| 12 | Karnataka | x | x | x | x | x |
| 13 | Kerala | x | √ | x | √ | x |
| 14 | Madhya Pradesh | x | x | x | x | x |
| 15 | Maharashtra | x | x | x | x | x |
| 16 | Manipur | x | x | x | x | x |
| 17 | Meghalaya | x | x | x | x | x |
| 18 | Mizoram | x | √ | x | √ | x |
| 19 | Nagaland | x | √ | x | √ | x |
| 20 | Orissa | √ | √ | √ | x | x |
| 21 | Punjab | x | x | x | x | x |
| 22 | Rajasthan | √ | √ | √ | x | x |
| 23 | Sikkim | x | √ | x | √ | x |
| 24 | Tamil Nadu | √ | √ | √ | x | x |
| 25 | Telangana | x | x | x | x | x |
| 26 | Tripura | √ | x | x | x | x |
| 27 | Uttaranchal | √ | x | x | x | x |
| 28 | Uttar Pradesh | x | x | x | x | x |
| 29 | West Bengal | x | x | x | x | x |

*Source: Primary Survey Findings*

**Appendix B1: Letter sent to Chief Secretaries, State Governments, in Round 1 of the Survey**


अरविन्द मेहता, भा.प्र.से.
सचिव
**Arvind Mehta, IAS**
Secretary
Tel. : 011-23403312, 23701034


सत्यमेव जयते


Fifteenth Finance Commission
9th Floor, STC Building,
Jawahar Vyapar Bhawan, Tolstoy Marg,
New Delhi-110001


D.O.No.7/21/SF/XVFC-2018

Dated: 17th April, 2018.

Dear Dinesh,

As you are aware, the Fifteenth Finance Commission has been set up by the Government of India under Chairmanship of Shri N.K. Singh, vide Notification No.3755 dated 27th November, 2017 issued by the Ministry of Finance. As per the normal practice, the Commission awards studies to reputed institutions with expertise and experience on various issues mandated in its Terms of Reference.

2. The Commission has entrusted four studies to the Indian Council for Research on International Economic Relations (ICRIER), a leading think-tank in the country. These studies are important to address the Terms of Reference of the Commission. I am writing to request you to kindly direct officials concerned to provide information and to accede to requests for meetings by ICRIER.

3. The following four studies have been assigned by the Commission to ICRIER:

(i) Compilation and analysis of data on state of Municipal Finances in India: Development of Indicators;
(ii) Study of Own Revenue Sources of Metropolitan Municipal Corporations;
(iii) Development Expenditure in the States Post Fourteenth Finance Commission Award: How Have States Spent the Award Money? and
(iv) Development Expenditure in the States Post Fourteenth Finance Commission Award: An assessment of the remaining Centrally Sponsored Schemes.

From the ICRIER side, the two studies on municipal finances are anchored by Dr. Isher Judge Ahluwalia, Chairperson, ICRIER and Dr. Debarpita Roy, Fellow, ICRIER. The other two studies on development expenditure in the States are anchored by Ms. Sindhushree Khullar, Consultant, ICRIER and Ex-CEO, NITI Aayog, assisted by Ms. Divya Satija and Abhishek Kumar, Researchers of ICRIER.

contd/-.....

**Appendix B2: Sample letter sent to Secretary, Ministries of the Government of India that were implementing major CSS**

अरविन्द मेहता, भा.प्र.से.
सचिव
**Arvind Mehta, IAS**
**Secretary**
Tel. : 011-23403312, 23701034

सत्यमेव जयते

**Fifteenth Finance Commission**
**9th Floor, STC Building,**
**Jawahar Vyapar Bhawan, Tolstoy Marg,**
**New Delhi-110001**

**D.O.7/23/XVFC-2018** **April 4, 2018**

Dear Shri Pattanayak,

The Fifteenth Finance Commission has commissioned two studies to the Indian Council for Research on International Economic Relations (ICRIER), New Delhi on the development expenditure in the States subsequent to the Fourteenth Finance Commission Award. The studies are titled:

(i) Development Expenditure in the States Post Fourteenth Finance Commission Award: How have States Spent the Award Money? and,

(ii) Development Expenditure in the States Post Fourteenth Finance Commission Award: An assessment of the remaining Centrally Sponsored Schemes

2. These two studies are important in addressing the terms of reference of the Finance Commission. The ICRIER team is led by Ms. Sindhushree Khullar, IAS (Retired) and Ex-CEO, Niti Aayog who is assisted by Ms. Divya Satija and Mr. Abhishek Kumar who are researchers in ICRIER. To complete these studies, ICRIER requires data and information related to central transfers to the States, Centre's allocation to state governments for core schemes and other schemes (state-wise and scheme-wise allocations), state governments' allocation towards core schemes, etc.

3. Ms. Khullar intends to get in touch with you and the Department for information and discussions. I would like to request your favourable consideration of this request to complete the studies successfully. It is further requested that a nodal officer may be designated to enable the ICRIER team to proceed with the studies within the time frame of four months allotted to them.

With Regard

Yours sincerely,
Arvind Mehta

**( Arvind Mehta )**

**Sh. Shobhana K. Pattanayak**
**Secretary**
D/o Agriculture Cooperation and Farmers' Welfare
Krishi Bhawan
New Delhi-110001

4. I would also like to request you to designate a senior officer each for the two sets of studies, who can be contacted by ICRIER for the information sought. I would also appreciate if you could instruct the concerned to furnish information in the enclosed data formats for the two studies on municipal finances, by June 15, 2018. For further details and other requirements of information, the co-ordinators of the studies from ICRIER will directly get in touch with the designated nodal officers.

Regards

Yours sincerely,

Arvind Mehta

( **Arvind Mehta** )

**Dr. Dinesh Kumar**
**Chief Secretary**
Government of Andhra Pradesh
Building-1, 1st Floor, A.P. Secretariat,
Velagapudi, Guntur,
Andhra Pradesh

**Appendix B3a: Sector-wise Expenditure estimates for the year 2016-17 and 2017-18 by the State on Social Services and Economic Services**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014-15 | 2014-15 | 2015-16 | 2015-16 | 2016-17 | 2016-17 | 2017-18 | 2017-18 |
| **Services** | **RE** | **Actuals** | **RE** | **Actuals** | **RE** | **Actuals** | **RE** | **Actuals** |
| **Social Services** | | | | | | | | |
| Education, Sports, Art and Culture | | | | | | | | |
| Medical and Public Health | | | | | | | | |
| Family Welfare | | | | | | | | |
| Water Supply and Sanitation | | | | | | | | |
| Housing | | | | | | | | |
| Urban Development | | | | | | | | |
| Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes | | | | | | | | |
| Labour and Labour Welfare | | | | | | | | |
| Social Security and Welfare | | | | | | | | |
| Nutrition | | | | | | | | |
| Relief on account of Natural Calamities | | | | | | | | |
| Others | | | | | | | | |
| **Economic Services** | | | | | | | | |
| Agriculture and Allied Activities | | | | | | | | |
| Rural Development | | | | | | | | |
| Special Area Programmes | | | | | | | | |
| Irrigation and Flood Control | | | | | | | | |
| Energy | | | | | | | | |
| Industry and Minerals | | | | | | | | |
| Transport and Communications | | | | | | | | |
| Science, Technology and Environment | | | | | | | | |
| General Economic Services | | | | | | | | |
| **Note:** | | | | | | | | |
| **Kindly Provide us the Expenditure estimates for the year 2016-17 and 2017-18 by the State on Social Services and Economic Services along with the Sector wise breakup.** | | | | | | | | |
| **Please indicate the unit in which the data has been provided.** | | | | | | | | |

*Source: Primary Survey Questionnaire*

**Appendix B3b: Expenditure by the State on State Plan Scheme under Social Services**

The table below is meant to record the Expenditure by the State on State Plan Scheme under Social Services.

Please indicate the unit in which the data has been provided.

Please select the relevant sector (Column B) to which the Scheme is Associated.

Education, Sports, Art and Culture

Medical and Public Health

Family Welfare

Water Supply and Sanitation

Housing

Urban Development

Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes

Labour and Labour Welfare

Social Security and Welfare

Nutrition

Relief on account of Natural Calamities

Others

| Social Service Sector | State Plan Scheme Under each Sub Head of Social Services | | | | | Amount Allocated by the State under each State Plan Scheme | | | | | Amount Disbursed by the State under each State Plan Scheme | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | | 2017-18 | | 2015-16 | 2016-17 | | 2017-18 | | 2015-16 | 2016-17 | | 2017-18 | |
| | | | | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals |
| | | | | | | | | | | | | | | | |

*Source: Primary Survey Questionnaire*

**Appendix B3c: Expenditure by the State on Centrally Sponsored Scheme (CSS) under Economic Services**

The table below is meant to record the Expenditure by the State on Centrally Sponsored Scheme (CSS) under Economic Services.

Please indicate the unit in which the data has been provided.

Please select the relevant sector (Column B) to which the Scheme is Associated.

Agriculture and Allied Activities

Rural Development

Special Area Programmes

Irrigation and Flood Control

Energy

Industry and Minerals

Transport and Communications

Science, Technology and Environment

General Economic Services

| Economic Service Sector | CSS Under each sub-head of Economic Services | | | Sharing Pattern for each CSS | | | Amount Allocated by the Centre under each CSS | | | | | | Amount Disbursed by the Centre under each CSS | | | | | | Amount Allocated by the State under each CSS | | | | | | Amount Disbursed by the State under each CSS | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2015-16 | 2016-17 | 2017-18 | 2015-16 | | 2016-17 | | 2017-18 | | 2015-16 | | 2016-17 | | 2017-18 | | 2015-16 | | 2016-17 | | 2017-18 | | 2015-16 | | 2016-17 | | 2017-18 | |
| | | | | | | | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

*Source: Primary Survey Questionnaire*

**Appendix B3d: Expenditure by the State on State Plan Scheme under Economic Services.**

The table below is meant to record the Expenditure by the State on State Plan Scheme under Economic Services.

Please indicate the unit in which the data has been provided.

Please select the relevant sector (Column B) to which the Scheme is Associated.

Agriculture and Allied Activities

Rural Development

Special Area Programmes

Irrigation and Flood Control

Energy

Industry and Minerals

Transport and Communications

Science, Technology and Environment

General Economic Services

| Economic Service Sector | State Plan Scheme Under each Sub Head of Social Services | | | Amount Allocated by the State under each State Plan Scheme | | | | | | Amount Disbursed by the State under each State Plan Scheme | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2015-16 | | 2016-17 | | 2017-18 | | 2015-16 | | 2016-17 | | 2017-18 | |
| | | | | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals | RE | Actuals |
| | | | | | | | | | | | | | | | |

*Source: Primary Survey Questionnaire*

## Appendix B4: Sample Letter sent to Principal Secretaries, Finance, in Round 2 of the Survey

D.O.No. 7/21/SF/XVFC-2018 Dated:

Dear

Please refer to the D.O. letter of even no. dated 17 April 2018, from the Secretary, Fifteenth Finance Commission to the Chief Secretary (see Attachment 1) requesting information for the two studies entrusted by the Fifteenth Finance Commission to the Indian Council for Research on International Economic Relations (ICRIER). The studies are

(i) Development Expenditure in the States Post Fourteenth Finance Commission Award: How Have States Spent the Award Money? and
(ii) Development Expenditure in the States Post Fourteenth Finance Commission Award: An Assessment of the remaining Centrally Sponsored Schemes

2. The Project Leader for the above two studies is Ms. Sindhushree Khullar, Ex-CEO, Niti Aayog, and the Team Members are Ms. Divya Satija and Mr. Kumar Abhishek, ICRIER.

3. In continuation of the letter dated 17 April 2018, please furnish the response for your State to the following, in the specified format detailed in Attachments 2 and 3.

3.1 Amounts spent under each of the sixteen Centrally Sponsored Schemes (CSS) (mentioned in Attachment 2) by your State government (State's Share only) for the period 2013-14 to 2017-2018

Note: **Please furnish Actuals; in case Actuals are not available for a particular year, please provide Revised Estimates for that year**
Please furnish data in Attachment 2 format

3.2 How many CSS are being implemented in your state government during the period 2013-14 to 2017-2018?

3.2.1 What is the total amount spent on all CSS by your State government (State's Share only) for the period 2013-14 to 2017-2018

Note: **Please furnish Actuals; in case Actuals are not available for a particular year, please provide Revised Estimates for that year**
Please furnish data in Attachment 2 format

3.3 Total amount spent under all **State Plan Schemes (excluding CSS)** falling under the sectors – Agriculture, Rural Development, Women and Child Development, Drinking Water and Sanitation, Health and Education, for the period 2013-14 to 2017-2018
Note: **Please furnish Actuals; in case Actuals are not available for a particular year, please provide Revised Estimates for that year**

Please furnish data in Attachment 3 format

You are requested to furnish the desired information for your State latest by 12 November 2018 to Ms. Sindhushree Khullar, Consultant, ICRIER (Email: skhullar@icrier.res.in) and Ms. Divya Satija, Consultant, ICRIER (Email: dsatija@icrier.res.in) Address: 4th Floor, Core 6A, India Habitat Centre, Lodhi Road, New Delhi 110003, Tel: 11-430112400. The copy of the same may please be marked to a.cyriac@nic.in.

Regards

Yours sincerely

(Antony Cyriac)