National Institute of Public Finance and Policy

The Impact of Recent Developments in Inter-Governmental Fiscal Relations on Public Spending in India*

Ananya Kotia† *Sahana Roy Chowdhury*‡

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†National Institute of Public Finance and Policy, New Delhi. Email: ananyakotia@gmail.com

‡National Institute of Public Finance and Policy, New Delhi and International Management Institute, Kolkata. Email: sahanaisi@gmail.com

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1 Introduction

This report studies the changes in India's fiscal architecture over the past two years. The implementation of the recommendations of the The Fourteenth Finance Commission of India (2014) (FFC) has led to significant changes in the fiscal relationship between the Centre and the States. First, there has been a significant rise in the States' share in the divisible pool of Central taxes from Rs. 3.38 lakh crores (actuals[1]) in 2014-15 to Rs. 5.06 lakh crores in 2015-16 (RE). Given the substantially higher tax devolution, the Centre has had to adjust other grants and central assistance to States in order to preserve its fiscal space. For instance, the total non-devolution grants and loans to States fell by 6 per cent in the year following the implementation of the FFC recommendations. Although modest, this decrease in Central grants may have complementary ramifications on the allocation of funds for Centrally Sponsored Schemes (CSS), that help States to finance key development programmes. How have the Central and the State Governments reacted to these conflicting policy shifts? What is the net-impact of these reforms on the fiscal space of the Central and State Governments?

Before attempting to answer these question, it is important to take note of several additional, complementary reforms that have been implemented along with those that affect untied tax devolution and tied grants to the States. For instance, the FFC has recommended a new formula for the horizontal distribution of the divisible pool of Central taxes among different States. States such as Karnataka, Jharkhand, and Madhya Pradesh have gained significantly on account of the change in the formula of horizontal distribution, which now assigns a higher weight to forest cover. Moreover, the FFC also recommended a change in the

[1] In this report, actuals refers to the actual expenditure and receipts, RE refers to revised budget estimates and BE refers to budget estimates.

structure of specific-purpose Central transfers, known as grants-in-aid. There is considerable heterogeneity in the impact of these recommendations on different States. For example, Government of India (2015) shows that after scaling by Net State Domestic Product (NSDP), the gains from higher tax devolution and other Finance Commission grants vary considerably across States. Though the gains are less than 1 per cent of NSDP for States like Gujarat, Tamil Nadu, Maharashtra, and Haryana, States like Himachal Pradesh, the North Eastern States, Bihar, and Chattisgarh have gained substantially from FFC recommendations.

Another important reform, that is complementary to the FFC, was recommended by a sub-group of Chief Ministers constituted by the NITI Ayog (NITI Ayog, 2015). Its most significant suggestion was to change the funding pattern of CSS so that the State's share of the total allocation for CSS rises. Therefore, in addition to a fall in non-devolution Central grants, the new funding pattern for CSS adds to the State's fiscal burden, that may, in part, lower the net gains from higher tax devolution. Henceforth, we collectively refer to these fiscal developments as the FFC-CSS reforms.

A major challenge in analysing these developments is that they have all been implemented either simultaneously, or within just one year of each other. This simultaneity puts a premium on our ability to analyse their impact and predict future outcomes. Furthermore, as has been discussed in related studies[2], several gaps in the availability of data make it difficult to conduct any rigorous analysis of the impact of the FFC-CSS reforms on spending by the Centre and the States.

Though these challenges prevent us from making precise conclusions, we present below our preliminary analyses and suggestions for future research that may be conducted if more data is available. Our analysis can be summarized in three

[2]See for instance, Accountability Initiative (2015).

key findings. First, we find that the rise in Central transfers to the States in the form of increased tax devolution have been accompanied by a fall in CSS and other grants to the States. This confirms earlier findings (Accountability Initiative, 2015) that have reported reductions in the quantum of money transferred to the States through CSS and other grants. However, the rise in untied transfers to the States dominates the fall in tied Central grants, with a potentially adverse impact on the fiscal space of the Central Government. While much has been written about the impact of the FFC-CSS reforms on State budgets, its impact on public spending by the Centre is less discussed.

Second, we study the impact of the FFC-CSS reforms on aggregate Central allocations for 13 Flagship CSS. We subsequently estimate the additional fiscal burden on the States on account of the change in the sharing pattern of CSS. Back-of-the-envelope calculations reveal that in aggregate, the States are at a loss of almost Rs. 40,000 crores as a result of the new funding pattern. Last, we assess the impact of the FFC-CSS reforms on expenditure on social services[3] by four States for which data is easily available, namely Odisha, Madhya Pradesh, Rajasthan, and Bihar. In particular, we compare expenditure in three social services– health and family welfare, water and sanitation, and nutrition with baseline projections to assess the impact of the recent fiscal developments. The results are mixed and vary considerably by State.

The rest of the report is organized as follows. We begin with a systematic characterisation of the FFC-CSS reforms in Section 2. Section 3 discusses some of the challenges mentioned above. Sections 4 and 5 study how these developments have

[3]'Social services' is an expenditure head in the State Finance Accounts published by the Comptroller and Auditor General of India (CAG) and includes sub-heads such as Education, Sports art and Culture, Education, Sports art and Culture, Health and Family Welfare, Water Supply, Sanitation, Housing and Urban Development etc.

affected the Centre and States respectively, and outlines research plans that can be implemented once more data is available. Section 6 presents a brief conclusion.

2 Change in the Fiscal Architechture in India

The recommendations of the Fourteenth Finance Commission (FFC) and the sub-group of Chief Ministers on the Rationalization of Centrally Sponsored Schemes (CSS) set up by NITI Ayog in 2015 (chaired by Shivraj Singh Chouhan, Chief Minister of Madhya Pradesh) have marked a shift in the the fiscal architecture of Centre-State relations in India (see Table 1 for a time line of these developments).

Table 1: The FFC and the sub-group of Chief Ministers

FFC	Constituted:	January 2, 2013
	Report Tabled:	December 15, 2014
	Recommendation Accepted:	February 24, 2015
	Implemented:	Union Budget 2015-16: February 28, 2015
Sub-group of CMs	Constituted:	March 9, 2015
	Report Submitted:	October 2015
	Implemented:	Union Budget 2016-17: February 29, 2016

This shift can be broadly categorized into six changes that have been implemented in the past two years.

1. **An increase in untied transfers to States.**

   The FFC has radically enhanced the share of the States in the central divisible pool from the current 32 per cent to 42 per cent which is the biggest ever increase in vertical tax devolution. The previous two Finance Commissions viz. Twelfth (period 2005-10) and Thirteenth (period 2010-15) had recommended a State share of 30.5 per cent (increase of 1 percentage point) and

32 per cent (increase of 1.5 percentage point), respectively in the divisible pool of central taxes.

This has resulted in a dramatic rise in the increase of untied transfers from the Centre to the States, from Rs. 3,37,808 crore (2014-15 Budget Actuals) to Rs. 5,06,193 crore (2015-16 Budget RE).

2. **An offsetting decrease in tied transfers to the States.**

   Keeping in view the Union Government's expenditure responsibilities, the FFC saw little scope of raising aggregate transfers from the Centre to the States that stand at about half of the gross revenue receipts of the Union at present. The emphasis, therefore, was on altering the existing composition of transfers by increasing untied flows, and at the same time, lowering tied transfers. The former would have the desired impact of enhancing the fiscal flexibility of the States. However, to ensure that its fiscal space is secured, the Union Government has sought a commensurate reduction in Central Assistance to States (CAS) known as "plan transfers."

3. **A change in the formula for horizontal distribution of central transfers.**

   The FFC has also recommended a new formula for the horizontal distribution of the divisible pool among the States. The formula has changed on account of (1) variables included and excluded, and (2) a re-assignment of weights of the variables (see Table 2 for details).

4. **A change in the grants-in-aid from the Centre to the States.**

   The previous Finance Commissions recommended grants-in-aid for five pur-

Table 2: Weights According to the Horizontal Devolution Formula in the 13th and 14th Finance Commissions

	TFC	FFC
Population (1971)	25	17.5
Population (2011)	0	10
Fiscal capacity	47.5	50
Area	10	15
Forest Cover	0	7.5
Fiscal Discipline	17.5	0
Total	**100**	**100**

Source: Reports of 13th and 14th Finance Commission

poses - revenue deficit, disaster relief, local bodies, sector-specific schemes, and state-specific schemes. The FFC has recommended changing the categories under which these grants are awarded, as well as the disbursement of funds under such grants (see Table 3). Sector-specific and state-specific grants have been discontinued and the FFC has suggested that a separate institutional arrangement be introduced for the purpose of achieving the objectives of the discontinued grants.

Table 3: A Comparison of the Recommendation for Grants-in-aid to the States by the TFC and FFC for their respective award periods (Rs. crores)

	TFC	FFC
Local Government	87519	287436
Disaster Management	26373	55097
Revenue Deficit	518005	194821
Other grants	152889	-
Total	**318581**	**537354**

Source: Reports of 13th and 14th Finance Commission

Note: Other TFC grants-in-aids included grants for performance incentive (Rs. 1500 crores), elementary education (Rs. 24068 crores), environment (Rs. 15000 crores), improving outcomes (Rs. 14446crores), maintenance of roads and bridges (Rs. 19930 crores), State-specific grants (Rs. 27945 crores), and implementation of model GST (Rs. 50000 crores).

5. **A consolidation of CSS.**

In 2014-15, out of 66 CSS, almost 86% of the Central assistance was accounted for by only 17 schemes (known as 'Flagship Schemes'). However, since even in the low-budget schemes, some Central assistance was available, the States felt compelled to implement all of them, in the temptation to earn the matching assistance. The large number of schemes resulted in spreading the resources too thin.

The sub-group of Chief Ministers therefore decided that the number of schemes should be reduced to a maximum of 30 (see Table 4 and the Appendix for details). If there are multiple schemes in a sector, it recommended consolidating them into a single 'Umbrella Scheme'. As far as possible, the decision to implement sub-components within a scheme was left to the State Government, thereby allowing States choice among components.

Table 4: Rationalization of CSS as Recommended by the Sub-Group of Chief Ministers

Schemes	**Number of schemes**
(a) Schemes to be implemented un-altered	17
(b) Schemes to be implemented with a changed sharing pattern	33
(c) Schemes de-linked from Union support: States may decide to continue these from their own resources	8
(d) Other schemes which are part of devolution to the States or have been re-structured in (a), (b) and (c) above.	8
Total	**66**

6. **A change in the funding pattern of CSS**

Along with a reduction in the number of schemes, the sub-group of Chief Ministers also recommended a change in the funding pattern of some of the CSS.

The sub-group proposed that there should be no CSS with less than 50%

Central funding.[4] It reorganizes CSS into three broad groups.

(a) *Core of the core schemes* which have compulsory participation by States and continue without any change in the funding pattern.

(b) *Core schemes* which have compulsory participation by States and have a changed funding pattern.

(c) *Optional schemes* from which States can chose which to implement.

Table 5: Proposed Funding Pattern of CSS by the sub-group of Chief Ministers, NITI Ayog

	Core Schemes	**Optional Schemes**
North Eastern and Himalayan States	90:10	80:20
Other States	60:40	50:50
Union Territories	Funded entirely by Centre	Funded entirely by Centre

Note: North Eastern states include the states of Arunachal Pradesh, Assam, Meghalaya, Manipur, Mizoram, Nagaland, Sikkim and Tripura. Himalayan states include the states of Himachal Pradesh, Jammu and Kashmir, and Uttarakhand

Table 5 details the proposed funding pattern for Core and Optional Schemes. Each of these changes has a bearing on the evolution of public spending by the centre and the States. This is discussed in Sections 4 and 5, after a brief discussion of some of the data challenges that we encountered.

[4]After the FFC award, the Expenditure Department, Ministry of Finance, Government of India held that there is no need to have a separate funding pattern of schemes for Special Category States. Special assistance may be given to them for creation of physical infrastructure through NITI Aayog (See ¶4.3 of the report of the sub-group of Chief Ministers for details).

3 Challenges

This section gives a brief description of the data gaps impede a more formal analyses of the issues discussed above (see Accountability Initiative (2015)) for a detailed discussion).

While trying to understand whether States have increased or decreased expenditure in the social sector, the biggest challenge lies in the fact that budget actuals are not available for post-FFC years (2015-16 and 2016-17). Furthermore, the revised estimates of the 2015-16 Union and State budgets revealed large differences from their earlier budget estimates. This may be indicative of the the uncertainties of transition that prevail in the immediate aftermath of a wide-ranging policy shift such as the FFC-CSS reforms. These uncertainties make it difficult to identify reliable trends from the available Union and State budget data.

Data accessibility also hinders any efforts to understand the impact of FFC and CSS restructuring. While many states have progressed to online digital systems of budget record keeping, some states still do not publish their budgets online. Even in the case where budgets are available online, granular estimates on revenue and expenditures, and supplementary budgets are often unavailable. In addition, there is currently no database containing collated state-wise allocations for CSS.

Lastly, even in the case where state budget documents are available online, these documents are, more often than not, poorly formatted PDF documents. As a result, many times it is not possible to read or search the text within the document. In addition, given that the data for each State's budget is not presented in a standardised format, comparisons across states are difficult.

4 Centre's Perspective

Though a number of studies[5] have tried to assess the impact of the FFC on State budgets, its impact on the Union budget and the Centre's fiscal space has received lesser attention. As discussed in the previous section, one of the aims of the FFC was to enhance the fiscal autonomy of the States while preserving the fiscal space of the Centre. This meant that the rise in the untied Central transfers had to be accompanied by a decrease in tied transfers to the States. The Economic Survey 2015-16 lays down several ways in which this can be achieved. These include

1. Proportionate cuts across the states in CAS transfers.
2. Ensuring the implementation of schemes that are legally backed and then proportionately cutting the residual.
3. Equal per-capita distribution of CAS transfers.
4. Implementing the legally-backed schemes and then distributing the remaining amount in line with the FFC formula for tax devolution.

The manner in which the Central government achieves this balance may have important implications for public spending by the States and the Centre. For example, since the CSS are funded by CAS, a reduction in CAS would have a (downward) level shift in the allocation of funds for CSS. Furthermore, the heterogeneous treatment of various CSS (e.g., giving primacy to the legally-backed CSS such as the Mahatma Gandhi National Rural Employment Guarantee Act) may have their own sectoral implications.

[5] See for instance, Chakraborty (2016), Accountability Initiative (2015), and Odisha Budget and Accountability Centre (2015).

Figure 1: Composition of Resources Transferred from the Centre to the States

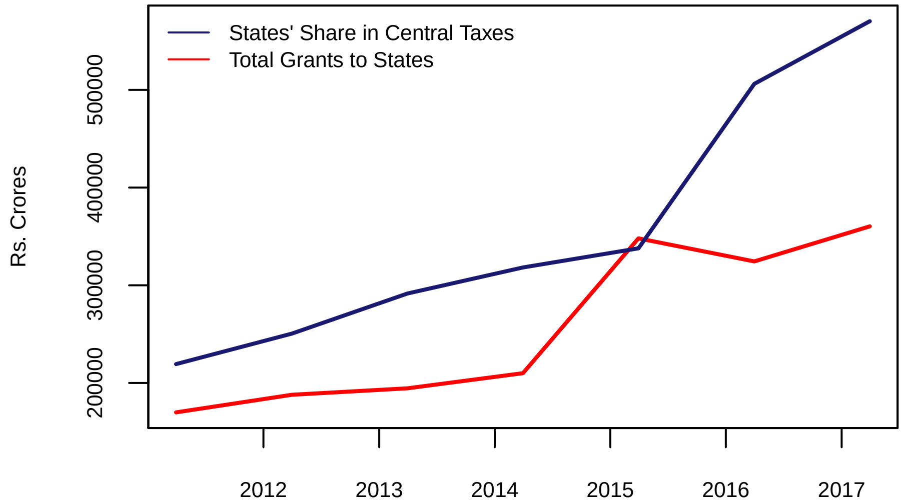


Figure 1[6] is indicative of this balancing adjustment by the Centre. In 2015-16, there was a sizeable jump of almost 50 per cent (Rs. 1,68,385 crores), as compared to a year earlier, in the States' share of Central taxes and duties. At the same time, the total planned grants and loans to the States fell (albeit only by 6 per cent). This shift in the composition of the resources transferred to the States, is also reflected in Figure 2, which shows the evolution of the States' share in Central taxes and total Central grants, as per cent of the Centre's revenue receipts. The impact of the FFC can be easily seen in the divergence in the two components after 2014-15.

These figures also show that the gain for the States in the form of higher vertical tax devolution is much more than the loss due to the the decrease in grants to the states, that form a part of CAS. This asymmetry may have potential adverse implications for the fiscal space of the Centre.

[6]In all the figures, the years represent the calendar years in which particular financial years end. For example 2017 refers to the financial year 2016-17.

Figure 2: Composition of Resources Transferred from the Centre to the States

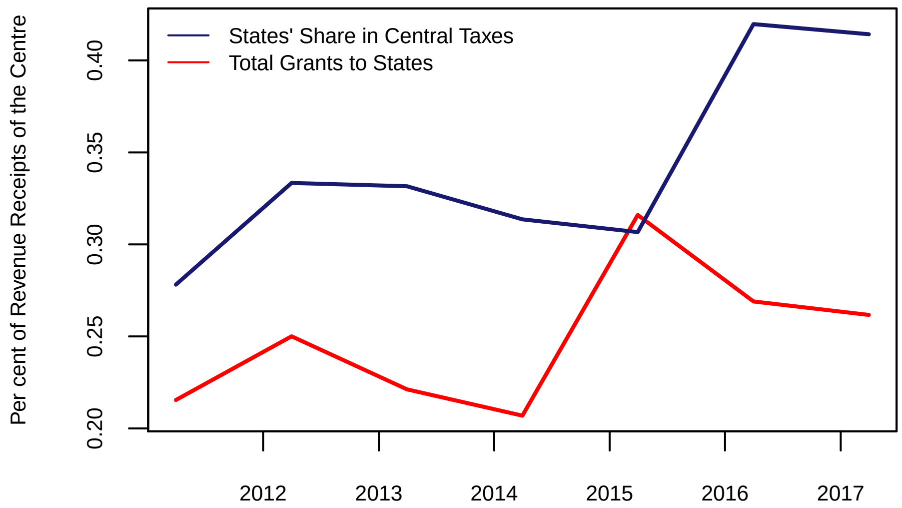


Figure 3: Net Resources Transferred to the States

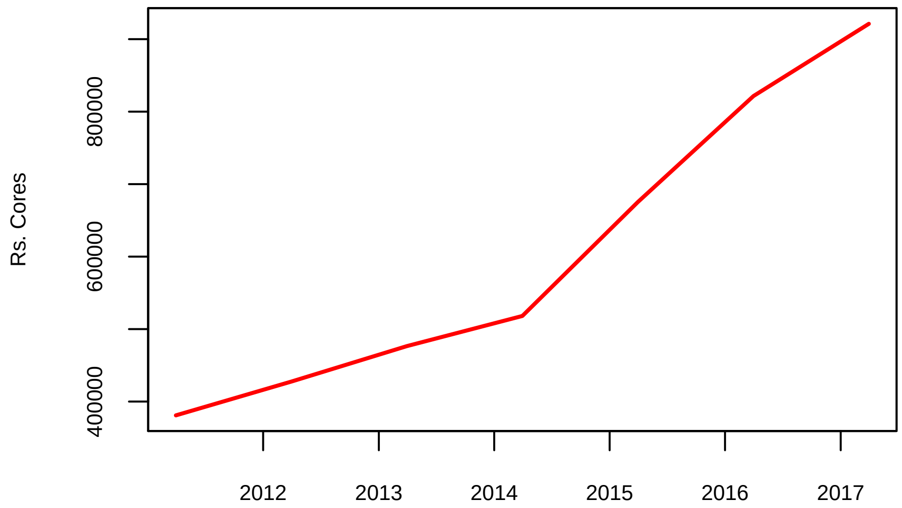
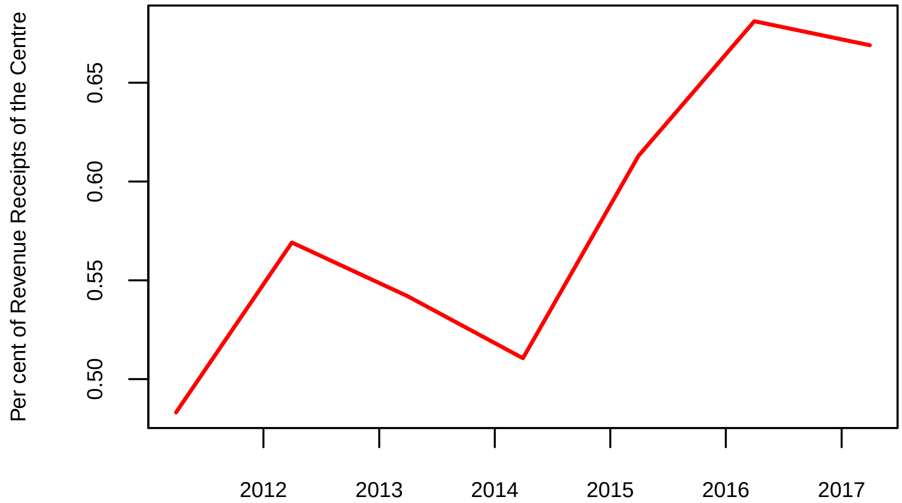


Figure 4: Net Resources Transferred to the States



Since only two Union Budgets have been presented since the implementation of the FFC recommendations, and only one Budget after the report of NITI Ayog's sub-group of Chief Ministers on the Rationalization of CSS, the lack of data availability puts a premium on our ability to comprehensively assess the implications of these reforms on the Centre's fiscal outcomes and its fiscal strategy going forward.

Though it is easy to see that in aggregate, States have benefited greatly from the FFC-CSS reforms, these aggregate trends may mask considerable inter-state heterogeneity. Furthermore, even though the reforms have enhances the States' fiscal space, its utilisation, especially in light of cuts in Central allocation and the funding pattern of CSS, remains to be seen. The next section discusses some of these issues.

5 States' Perspective

How have the States responded to the various developments mentioned above? This section details our analysis and future research plans to assess various aspects of this question.

5.1 FFC and CSS Restructuring: Net-gain?

Have the States gained as a result of the various fiscal developments since the implementation of the recommendations of the FFC? Can we quantify such gains? To what extent do the revenue gains (due to an increase in the share of Central tax devolution, changes in the formula for it's horizontal distribution, and changes in the structure of grants-in-aid) get offset by the reduction in tied transfers (due to a fall in the CAS and the restructuring of CSS)?

As a first pass, we use data from the Union Budget, 2016-17 to answer the following question. Given the budget estimates of the Centre's contribution towards each CSS in 2016-17, and given that the States' share in the funding of CSS has risen, how much more do States need to allocate out of their own-revenues in order to maintain the same level of allocation of funds for each CSS as in the last pre-FFC year (2014-15)?[7]

In Table 6 (also see the companying Table 7 for a list of acronyms), we consider data for 13 flagship CSS for the year 2014-15 and 2016-17[8]. These 13 schemes account for over 85 per cent of the total CSS allocation in 2016-17. For each of

[7]Note that we do not use data for 2015-16 as the new funding pattern of CSS were only implemented in 2016-17.

[8]We use 2014-15 as the pre-FFC year and 2016-17 as the post FFC year. 2015-16 is omitted because it did not reflect the rationalisation of the CSS.

these schemes data for the Centre-State funding pattern, as well as the budgeted allocation by the Centre towards its share is available for each year. Using this data, we calculate the following.

1. **Old fund, old pattern (F):** Scheme-wise, aggregate allocation by the States towards their share in 2014-15 (this is our baseline scenario).

2. **Old fund, new pattern (G):** The counter-factual, scheme-wise, aggregate allocation by the States towards their share in 2014-15, *had the new funding pattern been implemented in 2014-15.*

3. **New fund, old pattern (H):** The counter-factual, scheme-wise, aggregate allocation by the States towards their share in 2014-15, *had the old funding pattern continued in 2016-17.*

4. **New fund, new pattern (I):** Scheme-wise, aggregate allocation by the States towards their share in 2016-17.

The simple calculations above can help us compute the net (aggregate) gain or loss for the States in different scenarios, as follows.

1. The counter-factual scenario of only the funding patten of the schemes changing but the allocation of funds remaining the same as in 2014-15 (F-G = J).

2. The counter-factual scenario of only the allocation of funds for the schemes changing but the funding pattern remaining the same as it was before the FFC-CSS reforms (F-H = K).

3. The actual scenario of both the allocation of funds for the schemes as well as the funding pattern changing. (F-I = L).

Table 6: Assessing the Impact the FFC and the CSS Rationalization on the Spending of States

Schemes	2014	2016	Old pattern	New pattern	Old fund old pattern	Old fund new pattern	New fund old pattern	New fund new pattern	F-G	F-H	F-I
A	B	C	D	E	F	G	H	I	J	K	L
MGNREGA	33353	38500	75,25	75,25	11118	11118	12833	12833	0	-1716	-1716
PMGSY	6657	19000	100	60,40	0	4438	0	12667	-4438	0	-12667
NSAP	10547	9500	100	100	0	0	0	0	0	0	0
KUY	16463	7580	75,25	60,40	5488	10975	2527	5053	-5488	2961	434
PMKSY	13456	5717	50,50	50,50	13456	13456	5717	5717	0	7739	7739
NHM	21650	20037	85,15	60,40	3821	14433	3536	13358	-10613	285	-9537
SSA	9194	22500	65,35	60,40	4950	6129	12115	15000	-1179	-7165	-10050
MDM	4318	9700	75,25	60,40	1439	2879	3233	6467	-1439	-1794	-5027
ICDS+	17858	16120	50,50	50,50	17858	17858	16120	16120	0	1738	1738
SBA+	15026	16300	75,25	60,40	5009	10017	5433	10867	-5009	-425	-5858
H	18376	20075	75,25	60,40	6125	12251	6692	13383	-6125	-566	-7258
NLM	3433	3325	75,25	60,40	1144	2288	1108	2217	-1144	36	-1073
URM	7040	7296	50,50	50,50	3520	7040	3648	7296	-3520	-128	-3776
	177371	**195650**			**73928**	**112882**	**72962**	**120978**	**-38955**	**965**	**-47049**

Note: Data is in crores of rupees. See Table 7 below for a list of scheme acronyms.

Table 7: Scheme Acronyms

MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
PMGSY	Pradhan Mantri Gram Sadak Yojana
NSAP	National Social Assistance Programme
KUY	Krishi Unnati Yojana
PMKSY	Pradhan Mantri Krishi Sinchai Yojana
NHM	National Health Mission
SSA	SSA
MDM	MDM
ICDS+	Integrated Child Development Schemes and related programmes
SBA+	Swachh Bharat Abhiyaan [includes National Rural Drinking Water Programme]
H	Housing for All : Urban and Rural
NLM	National Livelihood Mission : Urban and Rural
URM	Urban Rejuvenation Mission

As seen in the last row of Table 6, if only the funding pattern of the schemes had changed, the States would have had to employ an additional Rs. 38,955 crores to maintain CSS allocations at 2014-15 levels. However, it is important to note that the total central allocation for the 13 schemes rose by Rs. 18279 crores from 2014 to 2016, which is a gain for States. But in order to get this extra Rs. 18279 crores, the States have to make additional own-contributions of Rs. 47049 crores (sum of column L). This "loss" to the States is greater, in aggregate, than the gain due to a rise in CSS funding, and is driven primarily by the new, unfavourable funding patter. However, this aggregate analysis masks several scheme-specific gains for States. For example, For example, for MGNREGA, the Central allocation has increased by Rs. 5147 crores. In order to get this additional allocation, States have to come up with Rs. 1716 crores of their own. Since the funding pattern for MNREGA is unchanged, the States continue to get three rupees from the Centre for each rupee of their own, they get a net benefit of Rs. 3431 crores.

Column K shows that in the counter-factual scenario of only the allocation of funds changing but the funding pattern remaining the same, the States would actually gain marginally. This is suggestive of the the fact that the fall in CAS grants to the States (see Figures 1 and 2) may be driven by the adverse change in the funding pattern of the CSS, rather than any significant change in the allocation of Central funds towards CSS.

A similar exercise can be carried out at the State-level by an analysis of the State budgets and CSS-wise allocation of funds. However, CSS-wise allocation and expenditure data is not reported by any State. The States receive Central assistance (particularly funds for CSS) in a disaggregated manner. For instance, from a visit to the Finance and Planning Ministries in Uttarakhand, we learnt that Central funds for each CSS are sent to the respective line-ministry in the State. These are then broken up into a number of grants (over 500 in Uttarakhand) and subsequently disbursed to implementing agencies. The mapping of individual grants to particular CSS is made difficult by the fact that in some cases, a single grant may cater to more than one CSS. Furthermore, several small grants (in whole or in part) may add up to make the total allocation for a given CSS.

We have been in correspondence with the Governments of Rajasthan and Uttarakhand to gain access to sufficient data in order to be able to collate CSS-wise allocation and expenditure for pre and post-FFC years and hope to get access to these data soon.

5.2 Post-FFC Expenditure Pattern

Have the recent fiscal reforms triggered a visible shift in the States' social-sector expenditure? In particular, has there been any notable shift in health spending?

Given the heterogeneity in the impact of the FFC-CSS reforms on the States, each State has had a unique experience in aligning its fiscal strategy to the new, post

Figure 5: Rajasthan

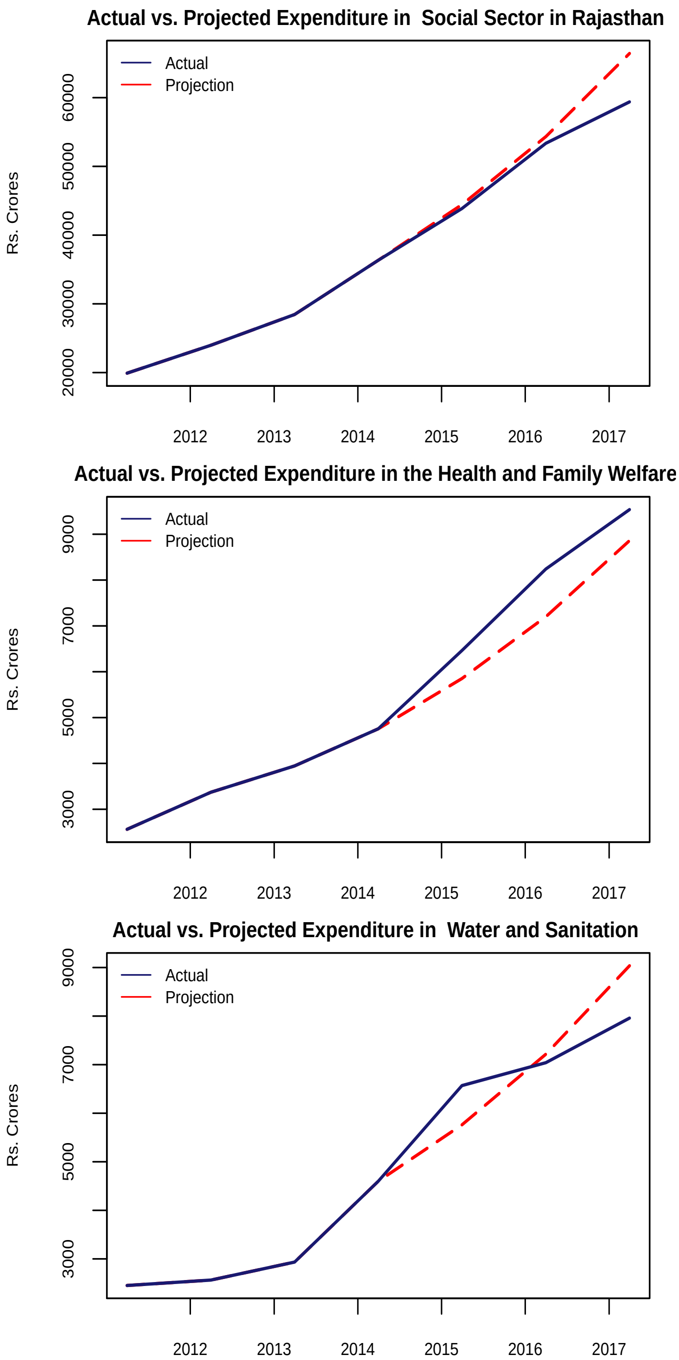


Figure 6: Madhya Pradesh

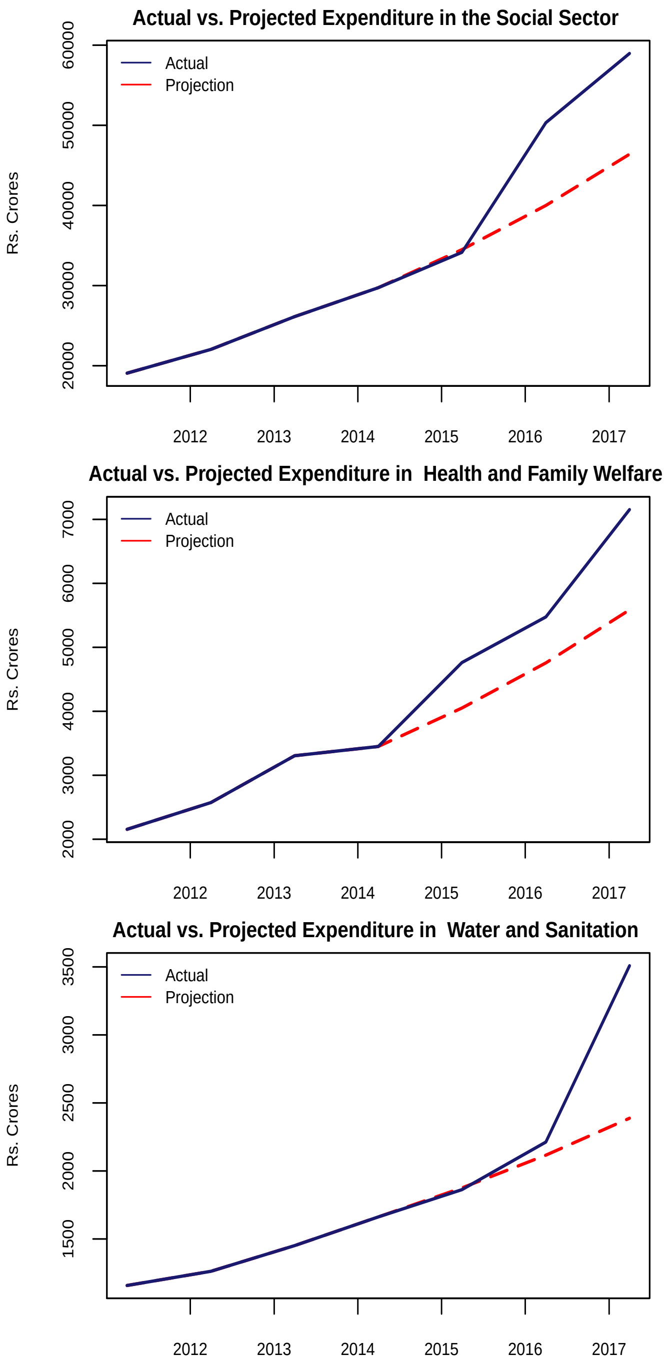


Figure 7: Bihar

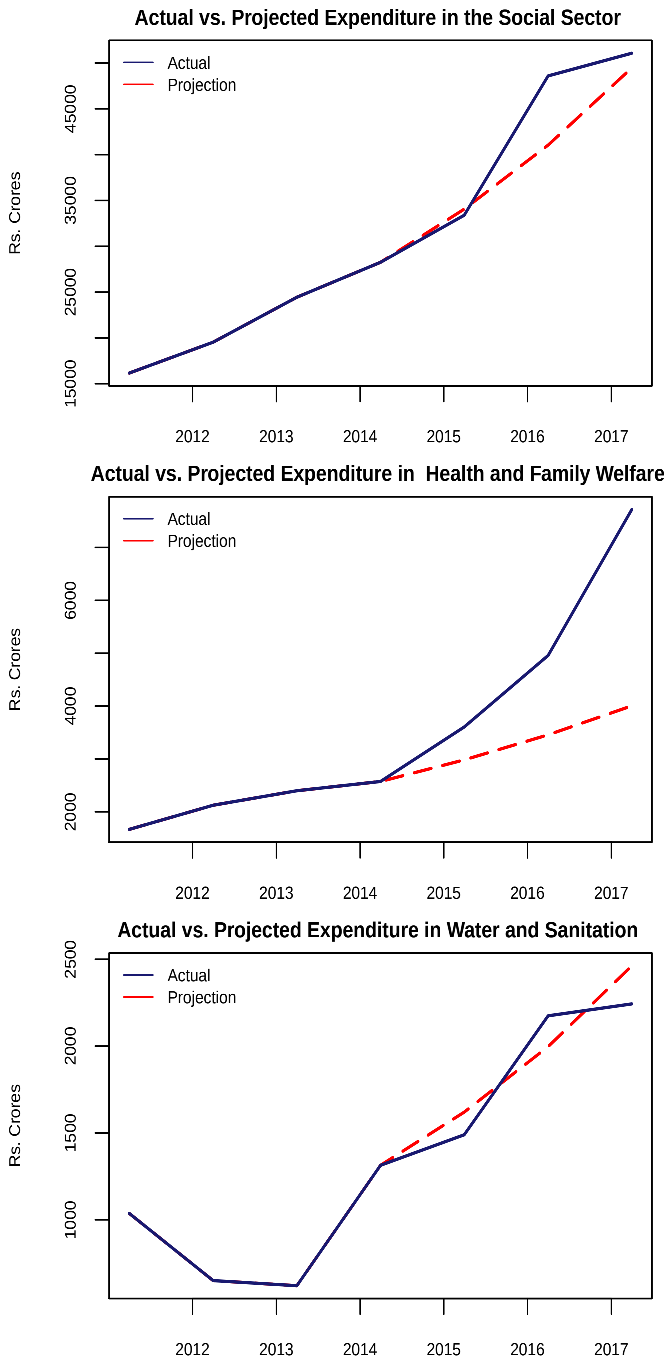
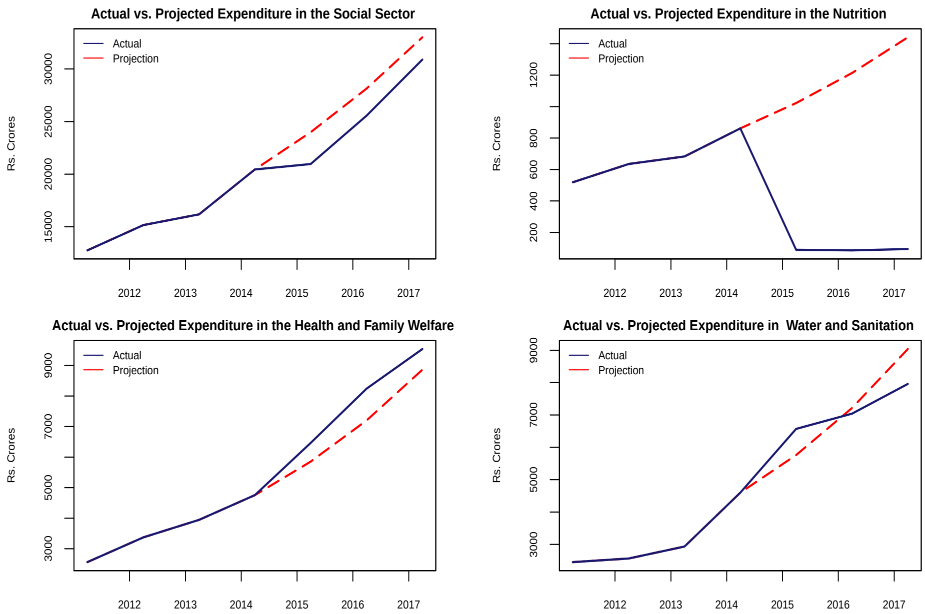


Figure 8: Odisha



FFC fiscal arrangement. The answers to the above questions depend crucially on the magnitude of the net impact of FFC-CSS reforms on the States' budgets. There is a growing body of State-specific studies that inform our current understanding of these issues. Chakraborty (2016) uses State budget data from Bihar to shows that the fiscal space created by an absolute increase in tax devolution should be able to cover the erosion of Bihar's fiscal space due to the decline in central grants. Odisha Budget and Accountability Centre (2015) compares the sources and magnitude of gain in State resources (increased share in tax devolution and Department of Justice grants) to the magnitude of resources losses (decrease in some grants-in-aid, rationalization of CSS) to conclude that Odissa has accrued a net-gain of over Rs. 1,500 crores on account of the FFC-CSS reforms in the year 2015-16.

We have chosen a sample of four states- Rajasthan, Odisha, Madhya Pradesh and

Bihar, for which adequate data is available.[9] For this exercise, we use the data from the Finance Accounts of the Comptroller and Auditor General (CAG) of India and State Budget documents. In particular, we have focused our analysis on expenditure made under three sectors: Health and Family Welfare, Water and Sanitation, and Nutrition. Data for expenditure on nutrition is only available for Odisha.

We compare the expenditure in these sectors for the post-FFC years of 2016-17 (BE) and 2015-16 (RE) with our back-of-the-envelope projections of how much the States would have spent, had the expenditure in these sectors grown at the same rate as the previous five years (2010-14).

The figures below reveal a mixed picture. For instance, though Madhya Pradesh seems to have increased expenditure more than the projections in all the three sectors, the aggregate social sector expenditure in Rajasthan and Orisa is less than the projections in the post-FFC years. Notably, all the four States have shown above-projection spending for Health and Family Welfare.

This analysis can benefit greatly from the availability of data for each scheme at the State level. Furthermore, a clearer trend might emerge once the revised and actual budget estimates for 2016-17 (the first year since the rationalization of the CSS) are made available in the coming years.

[9]The selection of these States is also interesting in that they are all part of the so-called 'BIMARU' States that have historically lagged behind in social sector expenditure.

6 Conclusion

The report provides an overview of recent changes in the Centre-State relations as a result of the implementation of the FFC recommendations and the complementary changes in the structure of tied grants. There has been a dramatic rise in resource transfer due to an increase in States' share in the divisible tax pool. Though this has unambiguously increased the fiscal autonomy of the States, it is not clear how the States plan to utilize this revenue windfall.

Will the States use it to make up for the additional own-resources required to fund CSS with the changed funding pattern? Or will they choose to use it for other purposes such as their own development schemes or to run down the State debt? A comprehensive analysis of the priorities and preferences of the States, and the likely trend of sub-national spending can be conducted once sufficient time has elapsed for the States to assimilate these developments. Nonetheless, this report makes an effort to trace any visible shift in the spending pattern of States by studying the social-sector spending in Rajasthan, Odisha, Bihar and Madhya Pradesh.

The next steps will be to analyse State budgets to find the net-gains of States out of increased Central devolution and the changing pattern of tied and untied Central grants, and also to understand the States' responses in terms of expenditure prioritization.

Appendix

The Appendix contains the allocation of CSS as in the 2016-17 Union Budget, after the rationalization and consolidation of the schemes.

Table 8: Assistance for Core of the Core Schemes *(in crores of rupees)*

Mahatma Gandhi National Rural Employment Guarantee Scheme	38500.00	68.52%
National Social Assistance Programme	9500.00	16.90%
Umbrella Programme for Development of Scheduled Castes	3917.89	6.97%
Umbrella Scheme for Development of Scheduled Tribes (Vanbandhu Kalyan Yojna and Umbrella Scheme for education of ST children)	1759.22	3.13%
Umbrella Scheme for Development of Backward Classes and other vulnerable groups	1264.54	2.25%
Umbrella Scheme for Development of Minorities	1245.00	2.22%
a) Multi-Sectoral Development Programme for Minorities	1125.00	2.00%
b) Education Scheme for Madrasas and Minorities	120.00	0.21%
Core of the Core Schemes	**56186.65**	**100.00%**

Source: Expenditure Budget Vol. I, 2016-2017, Statement 16A: Central assistance for state/union territories and centrally sponsored schemes

Table 9: Assistance for Core Schemes *(in crores of rupees)*

National Education Mission (NEM)	28010.00	16.57%
Pradhan Mantri Awas Yojna (PMAY)	20075.00	11.88%
National Health Mission (NHM)	20037.00	11.86%
Pradhan Mantri Gram Sadak Yojna	19000.00	11.24%
Integrated Child Development Scheme	16119.90	9.54%
Green Revolution	12979.79	7.68%
Swachh Bharat Abhiyan (SBA)	11300.00	6.69%
National Programme of Mid-day Meals in Schools	9700.00	5.74%
Urban Rejuvenation Mission	7295.50	4.32%
Pradhan Mantri Krishi Sinchai Yojna (PMKSY)	5717.13	3.38%
National Rural Drinking Water Programme	5000.00	2.96%
Member of Parliament Local Area Development Scheme	3950.00	2.34%
National Livelihood Mission (NLM)	3325.00	1.97%
Modernisation of Police Forces	1753.90	1.04%
Rashtriya Swastha Suraksha Yojna ({rssy})	1500.00	0.89%
White Revolution	1273.46	0.75%
Forestry and Wildlife (F&WL)	755.02	0.45%
Infrastructure Facilities for Judiciary	625.01	0.37%
Blue Revolution	575.34	0.34%
Core Schemes	**168992.05**	**100.00%**

Source: Expenditure Budget Vol. I, 2016-2017, Statement 16A: Central assistance for state/union territories and centrally sponsored schemes

Table 10: Central Assistance for Optional Schemes *(in crores of rupees)*

Border Area Development Programme	990.00	62.30%
National River Conservation Programme	352.00	21.43%
Shyama Prasad Mukherjee Rurban Mission	300.00	18.27%
Total allocations to Optional Schemes	**1642.00**	**100.00%**

Source: Expenditure Budget Vol. I, 2016-2017, Statement 16A: Central assistance for state/union territories and centrally sponsored schemes

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