The 14th Finance Commission’s (FFC) recommendations, accepted by the Union Government in February 2015, set the stage for a radical overhaul of India’s fiscal architecture. The recommendations were designed to enhance the fiscal autonomy of states by increasing the vertical tax devolution of the divisible pool of taxes from 32% to 42% (Finance Commision, 2015). Consequently, the Ministry of Finance (MoF) allocated ₹5.06 lakh crore Revised Estimate (RE) as tax devolution in the FY 2015-16. This was significantly higher than the FY 2014-15 allocation of ₹3.38 lakh crore. This increase in devolution was accompanied by several changes in the mode of state transfers, including cuts in Centrally Sponsored Schemes (CSSs), the Union Government’s primary vehicle for financing social sector investments in the country.

What are the implications of these changes? Did increased tax devolution result in enhancing the fiscal space available to states? Or was this offset by cuts in CSSs and other grants? How have states responded to these changes? Have we seen any changes in the investment patterns of states? Crucially, has the changed fiscal structure resulted in any visible shifts in social sector investments at the state level?

Based on an analysis of 19 state budgets, this brief presents a preliminary evaluation of the impact of the FFC recommendations on state finances and social sector expenditure.

### Methodology and Data Gaps

Before describing the results, it is important to highlight the data constraints. Although the country has recently completed its first budget cycle (Budget FY 2015-16) since the implementation of the FFC recommendations, a rigorous assessment of the real impact of these recommendations is limited by the gaps in available data.

#### Accounting Gaps

The MoF does not collate state-wise CSS allocations. These are made through independent negotiations with line ministries. At the time of creating budgets, state governments estimate how much money they expect to receive from the Government of India (GoI) for implementing CSSs, based on indicative allocations in the current Five Year Plan. State budget documents reflect these estimates. However, in practice there can be significant differences between estimated CSS allocations and actual monies received. For the purpose of this analysis, we have used estimates available in the state budgets.

This analysis also restricts itself to the Consolidated Fund of states, because the impact of the FFC recommendations is mainly on receipts and expenditures through the Consolidated Fund. Estimating the full fiscal position of a state requires data for Public Accounts and off-budget transactions, which is often not readily available (Dholakia & Karan, 2004).

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**SUMMARY**

**STATE OF SOCIAL SECTOR EXPENDITURE IN 2015-16**

**Introduction**

The 14th Finance Commission’s (FFC) recommendations, accepted by the Union Government in February 2015, set the stage for a radical overhaul of India’s fiscal architecture. The recommendations were designed to enhance the fiscal autonomy of states by increasing the vertical tax devolution of the divisible pool of taxes from 32% to 42% (Finance Commision, 2015). Consequently, the Ministry of Finance (MoF) allocated ₹5.06 lakh crore Revised Estimate (RE) as tax devolution in the FY 2015-16. This was significantly higher than the FY 2014-15 allocation of ₹3.38 lakh crore. This increase in devolution was accompanied by several changes in the mode of state transfers, including cuts in Centrally Sponsored Schemes (CSSs), the Union Government’s primary vehicle for financing social sector investments in the country.

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Three Kinds of Estimates

Revenue and expenditure at the state level can be measured in three ways:

(i) Through Budgeted Estimates (BE), which are allocations made at the start of the financial year.

(ii) Through Revised Estimates (REs), which are determined every year in December when the government revisits its planned allocations. The REs are based on fiscal performance through the year and a projection of expenditure likely to be incurred at the end of the financial year.

(iii) Through an analysis of Actual Expenditures (or Actuals), which are audited by the Comptroller and Auditor General of India.

Accurate analysis of the impact of the FFC would require Actuals for FY 2014-15 and FY 2015-16. However, Actuals have a two-year lag period. For instance, at the start of FY 2016-17, Actuals are available only for FY 2014-15. Thus we have used REs for FY 2015-16 as the most realistic estimate of government expenditure currently available.

Limitations of Current Analysis

There are several limitations to our analysis that need to be considered.

First, budget data is of poor quality. There are significant differences between BEs, REs and Actuals for any given year. For instance, Union Government estimates of total resources devolved to states in FY 2014-15 was ₹7.79 lakh crore in BE, ₹6.84 lakh crore in RE and ₹6.71 lakh crore in Actuals. This trend is seen across states and departments, in both receipt and expenditure estimates.

As FY 2015-16 Actuals are not yet available, our analysis uses REs. There are likely to be differences between REs and Actuals.

Second, there was uncertainty in state budgets due to the manner of implementation of the recommendations of the FFC. The announcement of the changes was made only on 24th February 2015, and as a result at least five major states had not accounted for the changes in their budgets. The GoI also responded to its reduced fiscal space by cutting allocations for a number of CSSs and other central grants. In addition, it entrusted the NITI Aayog with the responsibility for undertaking a long due overhaul of CSSs, the recommendations of which were only made public in October 2015. Subsequently the MoF issued a notification to increase the state share for a number of schemes (Ministry of Finance, 2015a). The Union and state governments accommodated these changes by passing supplementary budgets through the financial year.

Finally, other policy changes from 2014 to 2016 have also affected budgets. FY 2014-15 was a particularly unusual year due to fiscal constraints which were recognised late in the financial year. These led to sharp contractions of expenditure, with non-plan expenditure reduced by 10% across every department in October 2014 (Ministry of Finance, 2014). A state-wise comparison with years prior to FY 2014-15 would help assess the real extent of the change, but is not possible due to changes in the fund flow mechanism. Till 2014, funds for many CSSs were transferred directly to implementing agencies, thus bypassing state budgets. In FY 2013-14, for instance, such direct transfers stood at ₹11,2,708 crore.

In addition, FY 2015-16 saw the introduction of the Ujwal DISCOM Assurance Yojana, or UDAY scheme (Press Information Bureau, 2015). This scheme required states to bring into their budgets 50% of the outstanding debt of power distribution companies in FY 2015-16, and finance this by means of special power bonds. Five states – Rajasthan, Uttar Pradesh, Jharkhand, Haryana and Chhattisgarh – had together budgeted nearly ₹1 lakh crore for the scheme in FY 2015-16 RE. Due to the special nature of this scheme, we have excluded it from the analysis.

In addition, our analysis, thus, reflects not just the changes introduced by the FFC and the subsequent changes in Union transfers to states, but also the uncertainty in implementation and other policy changes. Nevertheless, it remains important as it offers a baseline of the impact of the FFC on state revenues and expenditures.
Changes in the Quantum of Fiscal Devolution and Transfers

As expected, FY 2015-16 saw a significant increase in the quantum of taxes devolved from the Union Government to states over the previous financial year. In FY 2015-16 RE, tax devolution to state governments accounted for 3.7% of Gross Domestic Product (GDP) compared with 2.7% in FY 2014-15 Actuals. Contrary to widely held fears, the overall transfer of funds from the Union to the states (tax devolution and union transfers) also saw a marginal increase, from 5.4% of GDP in FY 2014-15 Actuals to 6.1% in FY 2015-16 RE.

There was some variation in the quantum of increases in Union Government transfers at the state level. As Graph 1 below highlights, all the 19 states studied received at least 20% more funds from the GoI in FY 2015-16 RE compared to FY 2014-15 Actuals. Himachal Pradesh, Haryana, Jharkhand, Telangana and Chhattisgarh received at least 60% more from the Union Government in FY 2015-16 RE than in the previous year. Even Bihar, a state widely argued to have lost out on Union transfers owing to the changes in the devolution formula proposed by the FFC, received 29% more in FY 2015-16 RE.

While most of this increase was driven by an increased share in taxes, for a few states, other FC grants also contributed. It is important to note that the FFC gave 11 states a total of ₹48,905 crore as additional grants to meet revenue deficits. These grants accounted for a significant portion of the revenue receipts of some states. However, these grants decrease every year: ₹41,308 crore in FY 2016-17 to ₹34,206 crore in FY 2019-20. It will be interesting to see the subsequent impact of these decreases on the revenue pool of these states.

Changes in the Structure of State Finances

The increased tax devolution was expected to alter the structure of state finances with most states receiving a larger proportion of ‘untied’ funds from the Union Government. As Graph 2 below highlights, untied funds did increase in 10 states. However, they remained unchanged in two (Bihar and Odisha). Moreover, seven states—Telangana, Uttarakhand, Haryana, Uttar Pradesh, Maharashtra, Tamil Nadu and Jharkhand—received marginally more in tied funds in FY 2015-16 RE than FY 2014-15 Actuals.
The move to implement the FFC recommendations was accompanied by an effort to restructure and streamline monies transferred to states. Many programmes were discontinued, and budgetary allocations for many CSSs were reduced. Combined with the revised fund-sharing ratio between the Union and state governments for CSSs, these cuts in CSSs and other grants offset the gains from the increased tax devolution, according to many state governments and others.

For instance, in the report of the Sub-Group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes, the state of Andhra Pradesh noted, “The reduction of the Central share for key schemes such as SSA, National Health Mission, ICDS etc, will have adverse effect on the State development indicators.” In the same report, Bihar had noted, “14th Finance Commission has done more harm that good to the state. As per the recommendations there is a reduction in the resources of the State and thus it is imperative that additional resources are devolved to maintain the previous level of funding under CSS” (NITI Aayog, 2015).

Similarly, the Chief Minister of Assam, in his budget speech of FY 2015-16, said, “[T]here would not be much room for the States to implement their own schemes without a major disruption due to sudden cessation of many ongoing developmental programmes. Consequently, the States would hardly have any scope to use their own resources for the State Specific schemes.” (Government of Assam, 2015).

**GRAPH 2: TIED AND UNTIED UNION FUNDING TO STATES**

<table>
<thead>
<tr>
<th>State</th>
<th>FY 2014-15 Actuals</th>
<th>FY 2015-16 RE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamil Nadu</td>
<td>40% 60%</td>
<td>47% 53%</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>24% 76%</td>
<td>28% 72%</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>33% 67%</td>
<td>42% 58%</td>
</tr>
<tr>
<td>Haryana</td>
<td>43% 57%</td>
<td>56% 44%</td>
</tr>
<tr>
<td>Kerala</td>
<td>35% 65%</td>
<td>16% 84%</td>
</tr>
<tr>
<td>Karnataka</td>
<td>36% 64%</td>
<td>30% 70%</td>
</tr>
<tr>
<td>Telangana</td>
<td>31% 69%</td>
<td>46% 54%</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>42% 58%</td>
<td>24% 76%</td>
</tr>
<tr>
<td>Gujarat</td>
<td>39% 61%</td>
<td>37% 63%</td>
</tr>
<tr>
<td>Odisha</td>
<td>36% 64%</td>
<td>36% 64%</td>
</tr>
<tr>
<td>West Bengal</td>
<td>38% 62%</td>
<td>28% 72%</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>32% 68%</td>
<td>37% 69%</td>
</tr>
<tr>
<td>Bihar</td>
<td>26% 74%</td>
<td>26% 74%</td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>45% 55%</td>
<td>40% 60%</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>34% 66%</td>
<td>27% 73%</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>38% 62%</td>
<td>35% 65%</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>43% 57%</td>
<td>60% 40%</td>
</tr>
<tr>
<td>Punjab</td>
<td>35% 65%</td>
<td>31% 69%</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>47% 53%</td>
<td>24% 76%</td>
</tr>
</tbody>
</table>

*Source:* Collated from individual state budget documents.

*Note:* Untied grants includes Grants in Aid from Finance Commissions, Normal Central Assistance (NCA) and tax devolution. Tied grants includes grants for CSS and other Additional Central Assistance, Special Central Assistance. Some of the other grants may not specifically be for a particular scheme but their proportions would be very small. NCA has been collated from Ministry of Finance and thus constitutes actual releases.
However, through much of FY 2015-16, the GoI introduced a number of supplementary budgets that significantly enhanced the overall pool of CSS monies available to state governments in key schemes (see table 1 below). In aggregate, CSSs and similar schemes categorised as Central Assistance to State Plans increased by over ₹11,000 crore between FY 2015-16 BE and RE, from ₹2.05 lakh crore to ₹2.16 lakh crore.

**Table 1: Union Government supplementary allocation to CSSs in 2015-16 (in ₹ crore)**

<table>
<thead>
<tr>
<th>Scheme</th>
<th>FY 2015-16 BE Initial Allocation</th>
<th>FY 2015-16 with Supplementary</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Health Mission</td>
<td>18,895</td>
<td>18,895</td>
</tr>
<tr>
<td>Integrated Child Development</td>
<td>8336</td>
<td>15,486</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swachh Bharat Mission-Gramin</td>
<td>2625*</td>
<td>8915**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Ministry of Finance (various years); Ministry of Finance (2015b; 2015c).

**Note:** * Excludes 1000 crores which was transferred to SBM-Urban. ** Includes additional expenditure for transfer of Swachh Bharat Cess to Rashtriya Swachhta Kosh. Does not include ₹250 crore for a World Bank Project for SBM-Gramin.

Thus when compared with FY 2014-15 Actuals, most state governments saw an increase in the quantum of CSS transfers. In Haryana, the quantum of CSSs and other grants doubled compared with FY 2014-15 Actuals, whilst in Uttarakhand and Jharkhand, they nearly doubled. CSSs and other grants, however, decreased significantly in Kerala, Himachal Pradesh and Andhra Pradesh.

One of the key structural issues with CSSs has been the lack of clarity on the effects on inter-state distribution of financial resources. Our analysis suggests that while CSSs to some fiscally stronger states, such as Kerala and Himachal Pradesh, have reduced, sharp increases have been seen in other fiscally stronger states such as Haryana and Maharashtra. The NITI Aayog’s report on restructuring CSSs called for “transparent criteria based on development needs, population, potential of the State in that sector, special needs” (NITI Aayog, 2015). Such a framework would help ensure that CSS funding responds to both states’ needs and their performance.
**State Responsiveness: Changes in Expenditure Portfolio Post the FFC**

How have state governments responded to the increased fiscal autonomy?

An important concern expressed at the start of the 2015-16 budget year was that the reductions in CSSs coupled with greater autonomy to state governments could result in lowering the investments in the social sector at the state level. Data from FY 2016-17 state budgets, however, suggests that rather than lowering social sector expenditure, such spending increased significantly between FY 2014-15 Actuals and FY 2015-16 RE in most states.

Since FY 2014-15 was a year of fiscal stress, comparison with earlier years would help assess the real effect. A state by state comparison is not possible due to the changes in the fund flow mechanism described earlier. However, the aggregate effect can be estimated. To assess this, we added the amounts spent by every state government to the all-India off-budget transfers from FY 2006-07 to FY 2013-14 to obtain all-India state expenditures. For FY 2014-15 Actuals and FY 2015-16 RE, we used our analyses of states which account for 92% of state government expenditure. Thus we obtained a time series of social services expenditure data over the past decade.

**Source:** Collated from individual state budget documents.
As a proportion of total state government expenditure, social services rose steadily from 32.9% to 38.2% in 2013-14, then fell sharply to 36.1% in 2014-15. In 2015-16 RE, states planned to spend 38.2% of expenditure on social services, comparable to 2013-14.

A state-wise analysis is possible only for FY 2014-15 Actuals and FY 2015-16 RE. Looking at the data state-wise, the highest increases were visible in many of the poorest states including Bihar (46%) Chhattisgarh (49%) and Jharkhand (53%). Telangana nearly doubled its social sector expenditure at 86% compared with FY 2014-15 Actuals.
In per capita terms (using Census 2011 population), REs for some poorer states were higher than for wealthier states. For instance, Chhattisgarh intended to spend ₹9,877 per capita on the social sector in FY 2015-16 RE, compared with Kerala that planned to spend ₹8,590 per capita. Similarly, Odisha intends to spend ₹200 more per capita than Punjab.

In order to understand the prioritisation of the social sector, it is useful to also compare the change in the proportionate share of the sector in total expenditures during the same period.

**GRAPH 7: PER-CAPITA SOCIAL SECTOR EXPENDITURE FY 2014-15 ACTUALS AND FY 2015-16 RE (IN ₹)**

Source: Collated from individual state budget documents. Population figures are based on Census 2011.

Note: Social sector has been defined as per the Comptroller Auditor General of India and does not include expenditure on rural development and warehousing. Only expenditures undertaken from the Consolidated Fund have been accounted, net of recoveries.

**GRAPH 8: CHANGE IN COMPOSITION OF EXPENDITURE: FY 2014-15 ACTUALS TO FY 2015-16 RE**

Source: Collated from individual state budget documents.

Note: Social sector has been defined as per the Comptroller Auditor General of India and does not include expenditure on rural development and warehousing. Only expenditures undertaken from the Consolidated Fund have been accounted, net of recoveries.
As indicated in Graph 8, only two states in our sample have seen a decrease in the proportionate share of social services to total expenditures, namely West Bengal (-1%) and Odisha (-2%). Sharp increases in the share of social services of over 5% are seen in Uttar Pradesh, Madhya Pradesh, Andhra Pradesh and Telangana. No change is seen in Kerala, and the other 12 states show modest increases in the share of social services.

As mentioned earlier, our analysis excludes the UDAY scheme, which five states—Rajasthan, Uttar Pradesh, Jharkhand, Haryana and Chhattisgarh—had budgeted for. Including this scheme has the following effects: the proportion of state expenditure on social services in FY 2015-16 RE stands at 36.6% (as opposed to 38.2% excluding the scheme). The five states show sharp spikes in the share of economic services, at the expense of social and general services.

Finally, for the few states where comparable Cross State Domestic Product (GSDP) figures are available, a comparison of the social sector as a proportion of the GSDP further suggests increases in social sector spending. For instance, in Madhya Pradesh and Bihar, social sector spending increased from 7.6% and 8.1% of GSDP in FY 2014-15 Actuals, respectively, to 10% in both states in FY 2015-16 RE.

**Table 2: % spent on social sector as a proportion of GSDP**

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15 Actuals</th>
<th>FY 2015-16 RE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madhya Pradesh</td>
<td>7.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Bihar</td>
<td>8.1%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Odisha</td>
<td>7.5%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>6.2%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Telangana</td>
<td>3.8%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Uttarakhandi</td>
<td>6.2%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Source: Collated from individual state budget documents and Ministry of Statistics and Programme Implementation (2016).

To understand the impact of greater fiscal autonomy on state level investment patterns, we analysed a few detailed state budgets. The picture, as expected, is varied.

In FY 2015-16 RE, both Karnataka and Maharashtra increased their investment in the sector Water Supply, Sanitation, Housing and Urban Development by 44% and 66%, respectively, compared with FY 2014-15 Actuals. While Karnataka focused specifically on Housing, with the budget increasing by 91%, Maharashtra increased investments for Water Supply and Sanitation by over 100%.

Uttar Pradesh and Rajasthan prioritised Welfare of Scheduled Castes, Scheduled Tribes & Other Backward Classes and Social Welfare & Nutrition. Rajasthan increased investments in these sectors by 37% and 35%, respectively. In Uttar Pradesh, investment in Welfare of Scheduled Castes, Scheduled Tribes & Other Backward Classes more than doubled and that for Social Welfare & Nutrition increased by 70%, driven primarily by increases in funds for Relief on Natural Calamities.

In Bihar, expenditure on Labour & Labour Welfare increased by 78% in FY 2015-16 RE compared with the previous year. In FY 2016-17 BE, the state intends to further prioritise this area budget, with allocations more than doubling.
Discussion and Conclusion

On balance, the FFC recommendations and subsequent devolution of funds to state governments have created an important structural change in the dynamics of fiscal transfers in India. Most states are now receiving a significantly larger share of untied funds from the Union, and despite budget cuts and changes in the devolution formula, overall Union transfers to state governments in FY 2015-16 RE increased marginally by 1% of GDP when compared to the previous years. An important concern following these changes related to their impact on social sector investments. Our analysis suggests that there has been no significant drop in social sector investments, and that they have in fact increased when compared to the previous years.

More importantly, the allocation of budgets following the changes suggest that state governments are responding positively to the availability of greater untied resources by allocating funds according to their priorities.

The thrust of the FFC was to increase the autonomy of the states. However, our analysis also highlights some important concerns that need to be addressed if this is to be realised.

- **Improving the quality of the state budget data:** Anyone familiar with state budgets will concur that the quality of their data makes studying them a huge challenge. This has made it impossible to undertake any long-term time-series analysis. Now that state governments are expected to finance the bulk of their Constitutional responsibilities, the study of state budgets is essential to build a national level understanding of government investments. Thus the Union and state governments must urgently address gaps in state accounting systems and improve transparency of state budget documents.

- **Significantly improving the quality of the budget-making process and the debates in state legislatures:** Data collected by PRS Legislative Research highlights that state assemblies sit for very short periods of time: Chhattisgarh, Bihar and Karnataka all sat for an average of 31 days over many years in the previous decade. In 2008, the Karnataka assembly sat for a mere 17 days! When the assembly does sit, the budget is one of the key items to be discussed. However, the quality of debate is limited: there is a very brief gap between tabling of the budget and the discussion, leaving state legislators little time for analysis and preparation. Moreover, state legislators, like Members of Parliament, have no budget, staff or institutional support to enable them to navigate the legislative process and participate in an informed discussion. With state governments gaining greater autonomy in resource allocation, improving the quality of budget discussions and strengthening the functioning of state legislatures are vital.

- **The role of the Union:** An important question that remains unanswered is that of the role of the Union Government, particularly in promoting national priorities. The FFC sought to address a long-standing imbalance between constitutionally assigned responsibilities and financial allocations at the state level. One instrument through which this was done was the CSS. CSS were designed as tightly controlled, one-size-fits-all programmes that cast the Union Government in the role of a planner, financer and monitor. Two consequences followed from this:

  i. First, new Union ministries and departments proliferated to manage these large schemes. As anyone familiar with the Indian state will point out, ministries are incentivised to control financial resources thus making CSSs vital to their existence. However, if the FFC recommendations are to be implemented to their full potential, CSSs
need to be reduced. This poses an important challenge: short of closing down these ministries and departments, what should their role be in a changing world where “financing” is no longer central? The FFC recommended resurrecting the Inter-State Council as an effective coordination mechanism between the Union and states which could be a platform for discussion to resolve this problem. The Union government is yet to follow through on this recommendation. In addition, the NITI Aayog set up a sub-committee to look into reforming CSSs as they currently exist. However, neither the Committee nor the Aayog have directly addressed the question of the role of Union ministries. In the interim, ministries have been left with the only tool they are familiar with – lobbying for more funds. We speculate that this could be one reason why, despite cuts in CSSs in the FY 2015-16 BEs, most ministries saw a budget increase in the REs presented later in the year. These increases were transferred to state governments as CSSs. Until the question of the role of the Union in this changed scenario is resolved, it is inevitable that Union ministries will re-appropriate their roles as planners, financers and monitors.

ii. Second, CSSs by design cast GoI officials as “programme managers”, who controlled budgets and ensured that state governments followed guidelines. While States disliked the centralised approach, in the context of cuts to CSSs, the widely held perception is that greater tax devolution has resulted in states “losing” out on financing earmarked for social sector spending. And in an ironic twist states have begun arguing for more rather than less funds through CSSs.

This perception, coupled with the fact that excessive central control also reduced state governments’ administrative capacity, has left many states struggling to design programmes and make effective plans. Thus, strengthening the narrative that the Union has absolved itself of its responsibility towards the social sector. Changing this narrative requires significant investments in building state level capacity and deepening the role of the Union in incentivizing performance at the state level.

For the moment, reforms related to the nature of Union interventions in programmes have been restricted to the re-organization of CSS. This process has resulted in consolidating CSS into 28 “umbrella” programmes. This grouping seems to be superficial: most programmes retain last year’s allocations, but have been grouped under a common name. Moreover, the Union government changed the share of financial contribution expected from states for CSS. This, as many commentators have noted (see for instance Chakraborty and Gupta 2016) runs the risk of reducing the “untied” fiscal space available to state governments, as they will have to use funds received from the tax devolution to finance their share of the schemes. Added to this, the GoI has increasingly begun to use cesses to increase its revenue pool. Constitutionally, revenue received through cesses are not shared with states. Thus the Union is likely to retain its financial power over key mandates (for a detailed discussion on this see Chakraborty and Gupta 2016).

In summary, there is an urgent need for a serious debate on the role of the Union government, one that goes beyond the current effort of tinkering with financing instruments. Instead, it must return to first principles to determine what the optimal allocation of functions across all levels of government within a federal structure ought to look like. Extensive discussion is also required on how to guarantee autonomy to states while ensuring accountability for performance. In the absence of such an effort, the FFC will likely go down in India’s history as little more than a missed opportunity.
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