States may not get more funds, after all

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Higher devolution from the tax pool has been negated by cutbacks in existing schemes. This has not sunk in

Kahlil Gibran, the mystic Lebanese poet, in Sand and Foam , quips, "Half of what I say is meaningless; but I say it so that the other half may reach you." This may well ring true for the devolution of funds to States, following the 2015-16 Budget.

Much has been said about the increased devolution, which is expected to provide freedom to States to spend the way they like, redefine Centre-State relations, and push cooperative federalism. However, this is just one half of the story.

To understand the scenario better, one needs to take a closer look at the Budget numbers. It is true that States' share of taxes and duties collected by the Centre is expected to increase from Rs. 3.38 lakh crore (revised estimates of fiscal 2015) to Rs. 5.24 lakh crore in the next fiscal. However, total grants and loans to States and Union Territories are expected to correspondingly reduce from Rs. 3.55 lakh crore to Rs. 3.28 lakh crore.

Behind numbers

Total grants and loans to States and UTs comprise non-plan grants and loans, assistance for central and centrally sponsored schemes, and central assistance for State and UT plans.

While the first two are expected to increase by around Rs. 28,000 crore and Rs. 19,000 crore respectively, central assistance to State and UT plans bears the brunt of total reduction, with an expected decrease of around Rs. 74,000 crore (28 per cent), from Rs. 2.70 lakh crore to Rs. 1.95 lakh crore.

This means States are expected to self-fund their development plans. Interestingly, this component has seen a steady increase during the last few years, and in fiscal 2015, an increase of around 150 per cent was recorded (from Rs. 1.05 lakh crore in fiscal 2014 to Rs. 2.70 lakh crore).

Consequently, the Centre has made an absolute volte-face on its promise to help States finance their development plans, and has found the perfect alibi in increased devolution of taxes collected and recommendations of the 14th Finance Commission.

Have the States understood the Centre's intentions? Subsequent to the Union Budget, the Rajasthan and Kerala governments presented their budgets, and more will follow. A review of their budgetary documents shows that they might not have fully understood the Centre's intent.

The Centre has cut its gross budgetary support to schemes such as Sarva Shiksha Abhiyan (SSA), Integrated Child Development Service (ICDS), Rashtriya Krishi Vikas Yojana (RKVY), and Integrated Watershed Management Programme (IWMP) by Rs. 6,894 crore (around 77 per cent), Rs. 8,316 crore (51 per cent), Rs. 3,944 crore (47 per cent) and Rs. 812 crore (35 per cent), respectively.

Rajasthan has made a provision of Rs. 4,987 crore under SSA, Rs. 1,598.97 crore for nutrition, including administration and training under ICDS, Rs. 600 crore for RKVY, and Rs. 630 crore for IWMP, despite such significant cut in central assistance to these schemes. Similarly, the Kerala government expects the Centre to provide Rs. 259 crore for SSA, and Rs. 321.40 crore for RKVY during fiscal 2016.

Where's the money?

One hopes that States realise that the Centre has changed the funding patterns for these programmes. Moreover, in previous years, the Centre has not provided full support to States, as promised in the Budget.

The total budgeted central aid to State plans in fiscal 2015 was around Rs. 3.30 lakh crore, which has been revised to Rs. 2.71 lakh crore, a reduction of around 18 per cent. Consequently, estimates by States appear to be on the higher side, and might not fructify to the fullest extent. Should States wish to continue such programmes, they would have to raise resources on their own.

In addition, while the Budget documents reveal that the Centre will no more support schemes such as the National Programme for Dairy Development, Backward Region Grant Fund, Assistance for Developing Export Infrastructure and Allied Activities Schemes, National e-Governance Action Plan, and Jawaharlal Nehru Urban Renewal Mission, the Kerala government's Budget and plan documents surprisingly seem to show that it expects continued central support for such programmes during fiscal 2016. And this is not enough.

With the disbanding of the Planning Commission, and the Finance Commission making recommendations with respect to Plan as well as non-Plan items, the provisions for normal central assistance, special central assistance, and special plan assistance (hitherto made by the Plan body), amounting to over Rs. 25,000 crore, Rs. 10,000 crore and Rs. 7,000 crore, respectively, during fiscal 2015, have been removed altogether.

Again, the explanation is that States have more funds, and freedom, to spend. Consequently, the States would not have recourse to such hitherto available funds.

Need greater coordination

There seems to be a gap between Centre's and States' understanding in funding of development programmes, which needs to be urgently bridged.

There is a need for greater clarity and transparency within the States, and between States and the Centre. This is also necessary to pacify States such as Telangana and Bihar, which have raised concerns on the revised funding pattern.

The Centre needs to clearly explain the rationale and impact of the changed devolution pattern, share of different States in schemes supported by Centre, and the need for States to raise own resources, should they wish to continue the programmes that remain underfunded. Such explanatory documents must be released in the public domain, and be open to scrutiny. The NITI Aayog, currently occupied with the evaluation of social and economic schemes in partnership with the States, is probably best placed to do this task on behalf of the Centre.

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