Central Assistance to North Eastern States: A Comparative Analysis

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In Light of the Fourteenth Finance Commission Recommendations

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Table of Contents

List of Figures

List of Tables

List of Abbreviations

BE	Budget Estimates
CASP	Central Assistance to State Plans
CPC	Central Pay Commission
CSO	Central Statistical Office
CSS	Centrally Sponsored Schemes
FFC	Fourteenth Finance Commission
GDP	Gross Domestic Product
NCA	Normal Central Assistance
NDC	National Development Council
NE	North Eastern
NEC	North Eastern Council
NER	North Eastern Region
NLCPR	Non-Lapsable Central Pool of Resources
PESA	Panchayats (Extension to Scheduled Areas) Act
PRI	Panchayati Raj Institution
RDG	Revenue Deficit Grant
RE	Revised Estimates
SCA	Special Central Assistance
SDRF	State Disaster Response Fund
SFC	State finance Commission
SGDP	State Gross Domestic Product
SPA	Special Plan Assistance
TFC	Thirteenth Finance Commission

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Abstract

The purpose of our study, titled "Central Assistance to North Eastern States: A Comparative Analysis", is to assess the impact of change in recommendations of the Fourteenth Finance Commission and Union Budget 2015-16 on the North Eastern States of India. The study mainly focuses on the revised pattern of Central Assistance that is allotted to the NE States for the period 2015-16 (first year of the FFC term) as compared to 2014-15 (final year of the TFC term).

In this project, the components of Central Assistance that we seek to look into are Block Grants, Grants-in-Aid and (prospective) data on Centrally Sponsored Schemes (CSS). Through this analysis, we have made an attempt to address the various claims regarding the adverse impact of the changed pattern of financial assistance.

Background on North Eastern States

North East India comprises of the eastern-most region of our country which includes the seven sister states – Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, as well as the Himalayan state of Sikkim. This region is generally considered to be a backward enclave in a progressing economy and one of the most challenging regions of the country to govern. Some of the larger cities in these states are Guwahati, Agartala, Dimapur, Shillong, Aizawl and Imphal. This region is a melting pot of culture with people belonging to diverse religions like Hinduism, Islam, Buddhism, Christianity and Animism.

These eight states are officially recognised under the North Eastern Council (NEC) which was constituted in 1971 as the acting agency for their development. Acknowledging the special requirements of the region and the need for significant levels of government investment, the North Eastern states had been categorized as Special Category states till the 13th Finance Commission recommendations, and Central Plan assistance to these states was provided on liberal terms.

A look into the State Gross Domestic Product (SGDP) at Constant Prices and Growth in SGDP gives us the following insight:

Table 1: SGDP Growth Rate for NE States for 2010-2011 and 2014-2015

S. No.	State	Growth in State Gross Domestic Product (at Constant Prices)				
		2010-11	2011-12	2012-13	2013-14	2014-15
1	Arunachal Pradesh	3.80	5.56	-1.60	8.91	7.04
2	Assam	5.23	4.63	5.15	7.50	6.41
3	Manipur	-0.58	9.67	7.04	6.21	NA
4	Meghalaya	8.57	12.50	3.80	9.76	9.10
5	Mizoram	17.18	-2.55	7.23	7.78	NA
6	Nagaland	9.35	8.32	6.45	6.52	6.80
7	Sikkim	8.70	10.77	7.62	7.87	NA
8	Tripura	8.12	7.24	11.16	9.23	NA
	All-India (average)	**8.91**	**6.69**	**4.47**	**4.74**	**NA**

Source:

1. For States – Directorate of Economics and Statistics of respective State Governments (SFC)
2. For All India – Central Statistical Office (CSO)
3. Base year – 2004-05 (since state estimates are available only for base year 2004-05, the all-India estimate used is also for the same)

It is observed that the growth rate in the North Eastern States has been well above the national average for the year 2013-14. However, this does not mean that these States have become self-sustaining, or developed, when it comes to their GDP. This observation could solely be a consequence of low base for these states. Additionally, the possibility of data discrepancy cannot be ruled out. For instance, the total of the States' and Union Territories' GDP does not add up to the National GDP for the years considered above (as noticed from the CSO data). There seems to be an unaccounted value difference of about Rs. 2 lakh crore: the aggregate of all the States' and Union Territories' GDP falls behind the National GDP estimate by this amount.

Special Category States

Eleven of the twenty nine states of India comprise of what is collectively called the "Special Category States". These states are Arunachal Pradesh, Assam, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand. Eight of these states constitute the entire North-Eastern part of India. By and large, these impoverished and mostly resource starved states lay at the periphery of India's economic development. They were created at different points of times in the history of independent India to accommodate the socio-economic as well as the ethno-cultural aspirations of their respective peoples who were at a disadvantage in various ways. These disadvantages arose not simply from the remoteness of their locations or the inaccessibility of their hilly terrains with sparsely populated habitation, nor due to their historical circumstances alone. They were caused also by the shortage of capital and natural resources within their boundaries, lack of any viable physical and social infrastructure for economic growth and development, high cost of production with low availability of resources and hence low economic base, coupled with high transport costs leading to high delivery cost of public services. Centuries of economic deprivation and neglect coupled with isolation from the mainstream of Indian States had resulted in widespread poverty, unemployment and economic backwardness of the people living within their territories.

The special category status is granted to a state by the National Development Council (NDC) on recommendation of the erstwhile Planning Commission. The rationale for special status is based on certain pivotal features like: (i) hilly and difficult terrain; (ii) low population density or sizeable share of tribal population; (iii) strategic location along borders with neighbouring countries; (iv) economic and infrastructural backwardness; and (v) non-viable nature of state finances.

To supplement the States in meeting their basic needs as well as in overcoming the inherent administrative and geographical backlogs, the Union government extends various grants, loans and financial aid to them. This is known by the comprehensive and all encompassing term "Central Assistance to States".

Central Assistance to States

The offer of financial assistance from the centre to the states for implementing planned development has been extremely important right from the beginning of the Indian Planning Process. There was an imbalance between responsibilities assigned to the states and the revenue possessed by them to carry out these responsibilities. The states were highly dependent on the Union Government for financing their development plans because the extra resources on which states could bank on were largely concentrated with the Union Government. This led to a need for a separate body to look into the division of resources. Therefore the Finance Commission was appointed in 1951 for the allocation of revenue between the central and the state governments. The Planning Commission which was formed soon after the framing of the constitution looked into problems of financing development, which had added to the old problem of financial relations.

Under Article 275 of the Constitution, every state is entitled to a share of all central taxes in the union list which are pooled together to form what is known as the divisible pool of central taxes. These are shares between the Center and the States as per the recommendations of the Finance Commission constituted once in five years under Article 280 of the Constitution. Article 275 thus provides a mechanism for automatic devolution of resources of the centre to the states. The finance commissions also determine the interstate share depending on a number of factors with the objective of removing inter-regional disparities and promoting better fiscal management.

Apart from a share in the central taxes, states also receive money by the way of grants from the Center, given for both Plan and non-Plan purposes. Among the plan grants, there are separate grants for the state's own plan schemes, central plan schemes and centrally-sponsored schemes (CSS). The non-plan grants are covered by recommendations of the finance commissions under Article 275 and include statutory grants to finance the non-plan revenue deficit of the states (although this provision has been changed from 2015 onwards: the FFC has given a grant for the total revenue deficit of states – known as RDG), for modernization of agriculture as well as for relief for natural calamities and other public purposes. Plan transfers do not have any such statutory authority and are often discretionary in nature, made under Article 282 of the Constitution which enables grants to be given for any public purpose.

Following the recommendations of FFC and Union Budget 2015-16, the status of special category states of North Eastern Region appears to have been discontinued. According to recent claims, this would adversely affect the NE states which are already known to be suffering from backwardness and underdevelopment.

Fourteenth Finance Commission: Review and Outcomes

The Finance Commission was set up under article 280 of the Constitution with the motive of making recommendations regarding the division of funds between the Centre and the States. It is constituted every five years by the President of India to review the state of finances.

The Fourteenth Finance Commission (FFC) was constituted on 2nd January, 2013 under the chairmanship of Dr. Y.V. Reddy, and it submitted its report on 15th December, 2014. The recommendations for the period from 1st April, 2015 to 31st March, 2020 were presented for discussion on February 24, 2015.

Objectives of the Finance Commission

- The Finance Commission lays down the mechanism for the distribution of net proceeds of Union taxes between the Centre and the States – vertical devolution ; and
- At the next level, it specifies the allocation between the States in the form of respective shares of proceeds – horizontal devolution
- Recommending the principle and quantum of grants-in-aid (in the form of general purpose grants) to States on a need and performance basis.

The FFC is of the view that tax devolution should be the main route of transfer of resources to States since it is formula based and thus conducive to sound 'cooperative federalism'. Also, if the formula based transfers do not meet the requirements of any specific State, then they are to be supplemented with grants-in-aid, distributed in a fair and just manner.

Methodology used for vertical devolution

With regard to vertical distribution, FFC has recommended that the States' share in the net proceeds of the Union tax revenues be 42%. This is a big jump from 32% recommended by the Thirteenth Finance Commission (TFC), and is the largest ever change in the percentage of devolution; as the past Finance Commissions have recommended an increase in the range of 1-2%. FFC has taken the view that tax devolution should be primary route of transfer of resources to States. It may be noted that in reckoning the requirements of the States, the FFC has ignored the Plan and Non-Plan distinction; it sees the enhanced devolution of the divisible pool of taxes as a "compositional shift in transfers from grants to tax devolution" (Para 8.13 of FFC Report). Thus, basically the FFC Report expects the CSS, in fact Central Assistance to State Plans as a whole, to reduce and be replaced by greater devolution of taxes.

Methodology used for horizontal devolution

The FC, to achieve its goal of unified development, has always relied on a criterion that leads to an efficient and equitable distribution of resources among States. For this, the FC has always given importance to the following factors: (a) need based indicators such as population and income; (b) cost disability indicators, such as area and infrastructure distance; (c) fiscal efficiency indicators like tax effort and fiscal discipline. The FFC has continued to allocate funds along the above lines, while keeping in mind the approaches suggested by different States for horizontal devolution.

- ***Population and Demographic Change***
  In making its recommendations, the Commission uses 1971 as the base year for population. However, it also takes into account the demographic changes that have taken place subsequent to 1971. This has been accomplished through taking the population of 2011 as an additional parameter with an appropriate weightage.
- ***Income Distance***
  The FFC uses the distance of actual per capita income of a State from the State with the highest per capita income as a measure of fiscal capacity. This marks a change from the TFC, which relied on the distance between per capita taxable capacity for each State and the State with the highest per capita taxable capacity.
- ***Area***
  The administrative costs increase with increase in area but at a decreasing rate. Hence, larger the State area, larger the funds allocated to it. However, the small States do incur very high costs; so a floor limit of 2% (out of the total 15% weightage given to area) has been assigned for them.
- ***Forest Cover***
  The FC is of the view that additional funds are needed for maintenance of forests as they provide huge ecological benefits. Along with this, there is also an opportunity cost incurred as the forest cover cannot be used for any economic activity. Therefore, this parameter has been given due weightage starting with the FFC recommendations.

The following are the weights attached to different parameters that are used for deciding on the allocation to various states in FFC, as compared with TFC:

Table 2: Parameters of Horizontal Devolution

Variable	**TFC weights (in %)**	**FFC weights (in %)**
Population (1971)	25	17.5
Demographic Change-Population (2011)	0	10
Income Distance	47.5	50
Area	10	15
Forest Cover	0	7.5
Fiscal Discipline	17.5	0
Total	**100**	**100**

Source: Report of the Thirteenth and Fourteenth Finance Commissions

Grants-in-Aid

The previous Finance Commissions recommended grants-in-aid for five purposes: revenue deficit, disaster relief, local bodies, sector-specific schemes and state-specific schemes. Starting from the FFC, grants-in-aid for state-specific projects or schemes will not be considered, as these are best identified, prioritized and financed by the respective States.

(i) Post-Devolution Revenue Deficit Grant:

Finance Commissions in the past have recommended grants to cover the non-Plan revenue deficits. Their objective has always been to give grants to those States which are projected to have post-devolution non-Plan revenue deficit in any year, on a normative basis. But this time the FFC has taken a comprehensive approach to the assessment of expenditure needs by taking both Plan and non-Plan expenditure in the revenue account, therefore grants are intended to cover the entire post-devolution revenue deficit. The normatively assessed post-devolution revenue deficit for a State signifies the existence of a vertical imbalance that is yet to be corrected and an assessed need that is still to be met.

Only those states which incur a Post-Devolution Revenue Deficit have been given the Revenue Deficit Grant (RDG). This grant completely covers the existing vertical imbalance, post devolution. A total of eleven States – Andhra Pradesh, Assam, Himachal Pradesh, Jammu and Kashmir, Kerala, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and West Bengal – reported a post-devolution revenue deficit in 2015-16 which led to the receipt of RDG by them. We see that six of these states are the North Eastern States of India.

Arunachal Pradesh and Sikkim were not entitled to RDG because they had a post-devolution revenue surplus.

Table 3: Grants-in-Aid for Revenue Deficit [2015-16]

State	Post-Devolution Revenue Deficit(+)/Surplus(-) (in Rs. Crore)	Revenue Deficit Grant (RDG) (in Rs. Crore)
Arunachal Pradesh	-3394	0
Assam	2191	2191
Manipur	2066	2066
Meghalaya	618	618
Mizoram	2139	2139
Nagaland	3203	3203
Sikkim	-266	0
Tripura	1089	1089
Total		**11,245**

Source: Report of the Fourteenth Finance Commission

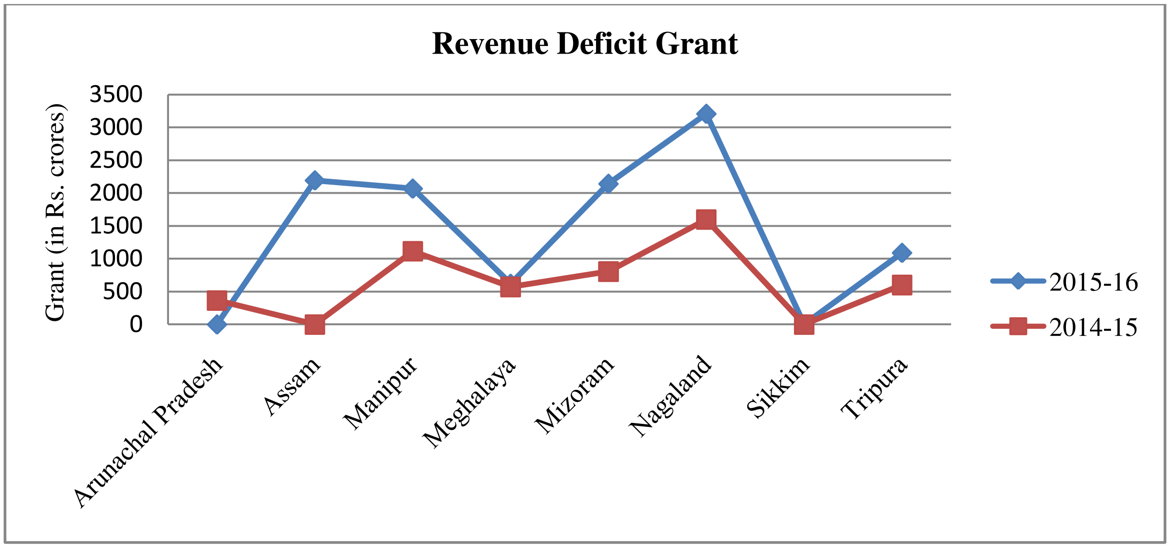

Figure 1: A comparison of RDGs received by the NE states between 2014-15 and 2015-16

The revenue deficit grant for 2015-16 is higher than that for 2014-15 because the grant in 2015-16 was given for the deficit in the revenue account of the states while that in 2014-15 was given for deficit only in the non-plan revenue of the states. Arunachal Pradesh's RDG was discontinued on this account in 2014-15.

Meghalaya received the same RDG for both years. This points to the fact that its revenue deficit in 2015-16 was the same as its non-plan revenue deficit in 2014-15. This could mean that either its non-plan revenue deficit decreased or that it had a surplus in the plan part of its revenue account.

Sikkim did not receive an RDG for both the years because it had a surplus in both its non-plan revenue account as well as its revenue account.

(ii) Grants for Disaster Relief

The State Disaster Relief Fund (SDRF) is determined using the data on past expenditures by States on Disaster Relief, and has also taken state-specific disaster occurrence into consideration while determining the amount to be devolved.

Table 4: State Disaster Relief Fund (Union's Share)

State	State Disaster Relief Fund (in Rs. crores)	
	2014-15	2015-16
Arunachal Pradesh	40.2	47
Assam	288.56	414
Manipur	7.9	17
Meghalaya	16.03	22
Mizoram	9.36	15
Nagaland	5.44	9
Sikkim	24.89	28
Tripura	21.12	28
Total	**413.5**	**580**

Source: Reports of the Thirteenth and Fourteenth Finance Commissions

Table 4 shows the funds allocated for State Disaster Relief by the Union Government. For both the years compared above, Assam received the highest relief funds while Nagaland, the lowest. As compared to the year 2014-15, the current year 2015-16 shows an increase of 40.27% in the funds allocated for State Disaster Relief.

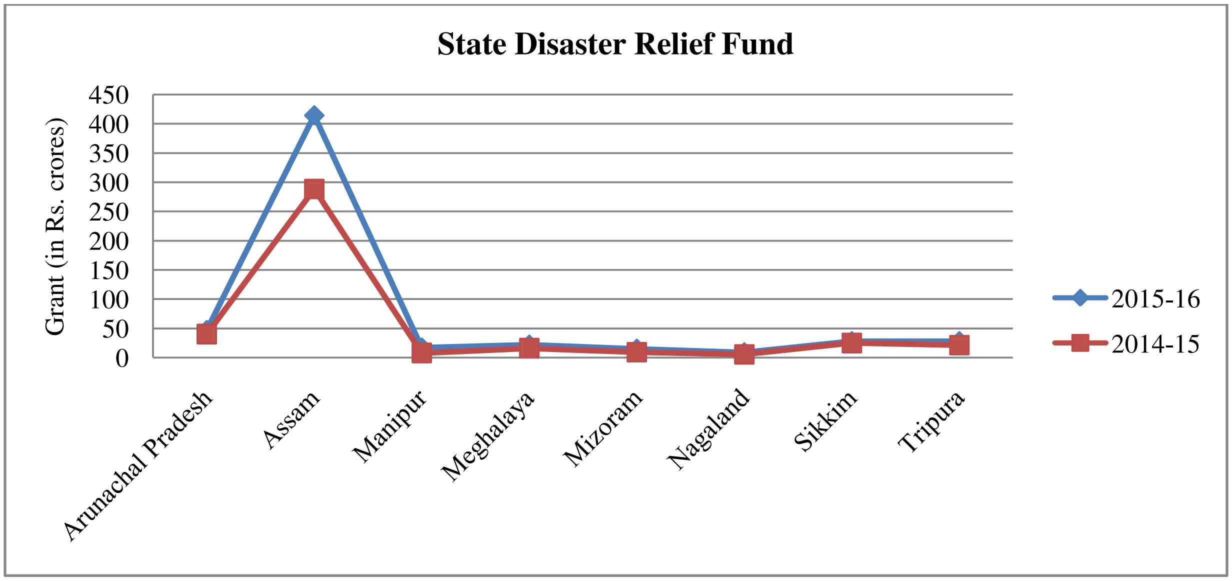

Figure 2: A comparison of SDRF received by the NE states between 2014-15 and 2015-16

SDRF for all north eastern states except Assam has remained more or less the same for 2013-14 (TFC) and 2014-15 (FFC). This could possibly be because the method of allocation has more or less remained the same for both the periods.

SDRF for Assam might have increased because either its expenditure on disaster management increased significantly from 2013-14 to 2014-15, or because more severe disasters are expected to occur in these regions.

(iii) Grants to Local Bodies

FFC has recommended distribution of grants to States for local bodies using 2011 population data with weight of 90% and area with weight of 10%. The grants to States will be divided into two, a grant to duly constituted Gram Panchayats and a grant to duly constituted Municipal bodies, on the basis of rural and urban population. FFC has recommended grants in two parts; a basic grant, and a performance grant, for duly constituted Gram Panchayats and municipalities. The ratio of basic to performance grant is 90:10 with respect to Panchayats and 80:20 with respect to Municipalities.

This grant is awarded to the local authority based on the following two criteria: (a) Existence of an audited account of the local body for the previous year. (b) Increase in its revenue over the previous year.

The ToR of the Finance Commissions require them to recommend "the measures needed to augment the Consolidated Fund of a State to supplement the resources of Panchayats and

Municipalities in the state, on the basis of recommendations made by the Finance Commission of the State".

The 73rd and 74th Constitutional Amendment Acts empowered Panchayats and Municipalities with a vision of local self-governance. The Fifth Schedule and Sixth Schedule areas, because of their constitutional immunity against overarching laws, did not fall in its domain legally. Part IX of the Constitution, which laid the ground rules for Panchayats is not applicable to these Fifth and Sixth Schedule Areas. Hence, they did not have the provision for a Panchayat Raj Institution (PRI).

While village-level democracy became a real prospect in other areas, the Fifth Schedule areas remained bereft of that privilege. It was for this reason, that in 1996, PESA (Panchayats Extension to Scheduled Areas) was enacted under the Fifth Schedule, which extended Panchayat rule to the tribal areas. The fundamental spirit of PESA is that it does not delegate powers but devolves them to the village-level Gram Sabhas, paving the way for participatory democracy.

However, the Sixth Schedule Areas (tribal areas within Assam, Meghalaya, Mizoram and Tripura) still remain outside the purview of the 73rd Amendment or PESA and hence, in place of a PRI, these areas have other local bodies like Village Councils and Village Development Boards to cater to the needs of rural areas.

Table 5: Number of Rural and Urban Local Bodies in NE States

State	**Rural Local Bodies**		**Urban Local Bodies**	
Assam	Gaon Panchayat	2201	Municipal Corporation	1
	Anchalic Panchayat	191	Municipalities	30
	Zilla Parishad	21	Town Committee	101
Meghalaya	-	-	Municipal Boards	6
	-	-	Town Committees	3
Mizoram	Village Councils	913	Municipality	1
Nagaland	Village Development Boards	1219	Municipalities	3
			Town Councils	16
Tripura	Gram Panchayat	624	Municipal Corporations	1
	Block Panchayat	35	Nagar Panchayats	9
	Zilla Panchayat	8	Municipalities	10

Source: Consolidated Report of Local Bodies, Local Government Directory (2011 census updated)

From the above break up of Local Government Bodies, we see that Meghalaya, Mizoram and Nagaland do not have Panchayats at the rural level. It is for this reason that these states have not been allocated any grant-in-aid for their rural local bodies, as the provision for this grant only pertains to Panchayati Raj Institutions.

Table 6: Grants to Local Bodies (in Rs. Crores) [2015-16]

State	Rural Local Bodies		Urban Local Bodies		Total Grant to Local Bodies	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Arunachal Pradesh	90.9	88.52	86.75	23.42	177.65	111.94
Assam	559.3	584.80	1426.24	93.14	1985.54	677.94
Manipur	93.2	22.25	94.42	16.57	187.62	38.82
Meghalaya	126.2	0	105.45	3.03	231.65	3.03
Mizoram	93.3	0	126.43	11.54	219.73	11.54
Nagaland	104.1	0	229.04	12.23	333.14	12.23
Sikkim	55.7	16.03	38.35	4.79	94.05	20.82
Tripura	108.7	36.24	145.42	21.41	254.12	57.65
Total					**3483.5**	**933.97**

Source: Report of the Fourteenth Finance Commission

Table 6 shows the Grants to Local Bodies (rural and urban) that the Centre has allocated for the year 2015-16. We see that out of the seven NE States and Sikkim, Assam is the recipient of highest Local Body Grants, followed by Arunachal Pradesh; while Meghalaya ranks lowest in this list.

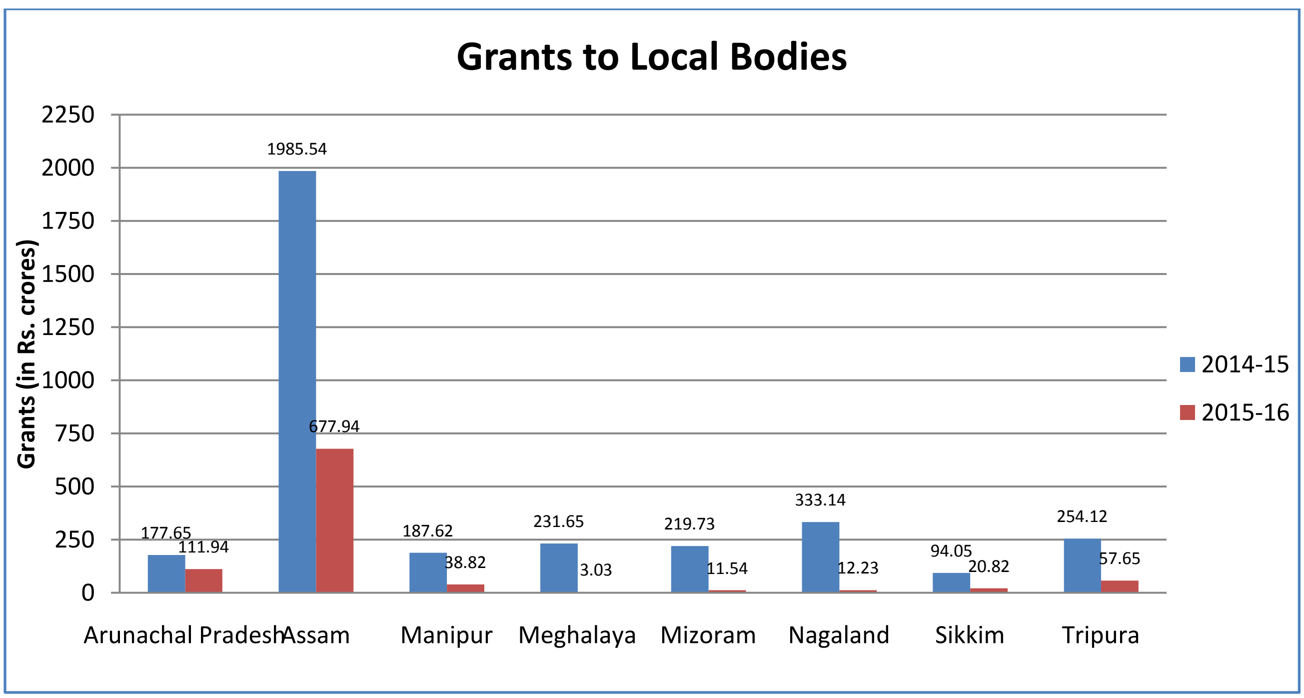

Figure 3: A comparison of Grants to Local Bodies received by the NE States between 2014-15 and 2015-16

Local body grants to the North Eastern States of India have been drastically reduced as per the FFC recommendation. This has been a source of widespread criticism by the concerned Chief Ministers of States.

Consequences of the devolutions under FFC

- The FFC recommendations are in tandem with the present government's ideology of "Cooperative Federalism" that has been recognised as the National Development Agenda. By increasing the share of States in pool of Union taxes, the FFC seeks to confer greater autonomy to States in carrying out their finances and formulating their budgets. The intention behind this increase in fiscal freedom of States is to allow them to implement policies on a priority basis and according to State-specific needs. Although, it cannot be ignored that this increase in the share might not have the intended consequences if the Union tax revenue falls.

- An important outcome of the above devolution (vertical) is that the fiscal space of the Centre will be reduced owing to the greater net proceeds (32% to 42%) that are now being passed on to the States. This would have to be counter-balanced by a decrease in other transfers from the Union Government to the State Government.

- A comparison of the expected share in the Union tax divisible pool for the eight NE states is summarized below:

Table 7: Share of States in the Union tax divisible pool (%)

State	TFC	FFC
Arunachal Pradesh	0.33	1.37
Assam	3.63	3.31
Manipur	0.45	0.62
Meghalaya	0.41	0.64
Mizoram	0.27	0.46
Nagaland	0.31	0.50
Sikkim	0.24	0.37
Tripura	0.51	0.64

Source: Economics Division of Credit Analysis &Research Limited [CARE]

It can be seen from Table 7 that all the North Eastern States, barring Assam, would be getting a relatively higher share under the new formula for the next five years. The increase for Arunachal Pradesh is the most profound due to the inclusion of forest cover as a determinant factor in the formula used to distribute the share of Union taxes amongst States.

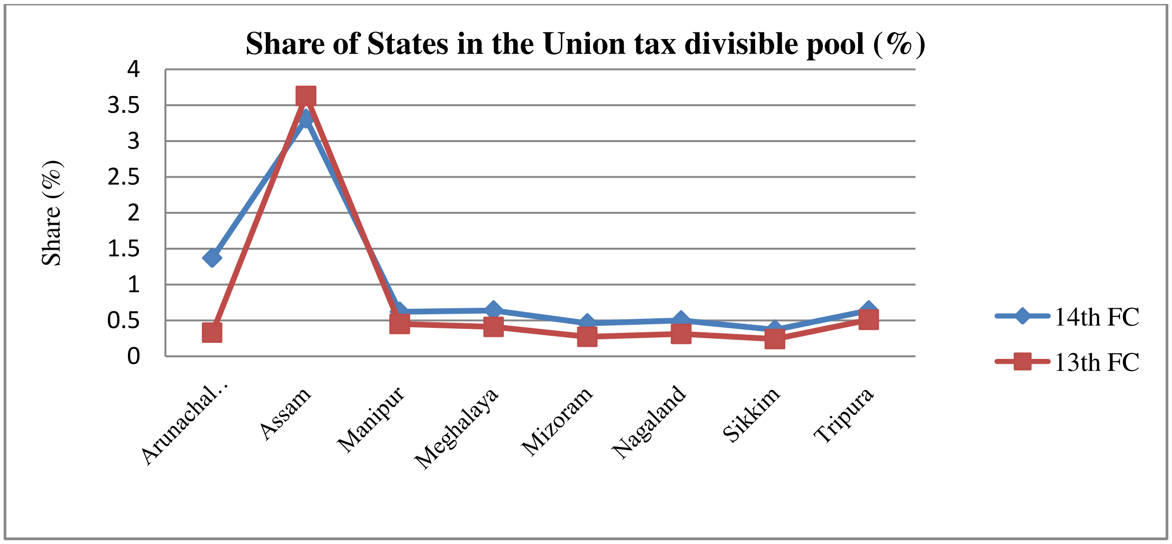

Figure 4: A comparison of % share of NE States in Union tax divisible pool between 2014-15 and 2015-16

The graph for the Union tax devolution share to NE states for FFC lies above that for TFC for Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura, highlighting the fact that these states have received a higher share under the new recommendation. This means that despite a ten percentage point increase in share of Union tax devolution to States, Assam receives a lesser share of the total pool of central taxes. This is due to a revision in the formula for inter-state (horizontal) devolution pattern.

To conclude, successful implementation of the FFC will be a major step in the direction of moving towards the new government's objective of cooperative federalism. The pivotal increase of ten percentage points (32% to 42%) in the devolution of Union Tax proceeds to the States (vertical devolution) along with a revised formula for determining the interstate share of Central Assistance (horizontal devolution) is expected to move the country towards greater fiscal federalism, conferring more fiscal autonomy on the States.

Resolution by the Chief Ministers of NER regarding the Recommendations of FFC and Union Budget 2015-16

In this section, we have tried to address the concerns put forward by the Governments of the North Eastern States due to the changes in composition of central assistance that have been introduced by FFC and Union Budget 2015-16.

The following are some of the issues that were raised in the concerned resolution:

1. It has come to notice that the status of Special Category Status of NER is going to be discontinued as per the FFC recommendations and the Union Budget 2015-16. This would adversely affect the NE States which are already known to be suffering from backwardness and underdevelopment.
2. As the Union Budget 2015-16 does not include provision for NCA, SCA and SPA, this will affect the finances of the NE States. It has been requested to continue funding under SPA and SCA to NE States.

These issues have been looked into by NITI Aayog with the following view –

1. Even though the FFC has analyzed the NE States without any mention of the Special Category Status, they have given them due attention by recognizing their special needs in terms of social and economic infrastructure, with inter-state significance. Due to the high dependence of the NE States on Central Transfers, most of these states are facing significant deficits in infrastructure. Therefore, FFC has not only considered the objective of balancing the revenue account, but also of generating surpluses for capital investment.

2. The recommendations of FFC which have been accepted by the Union Government provides for higher tax devolution of 42% for 2015-20 as against 32% allotted previously. This is in alignment with the Fiscal Federalism objective of the government as it provides more autonomy to states by increasing the quantum of untied funds available, utilization of which is left at the discretion of each State.
   In addition to this percentage increase, FFC has considered revenue expenditure needs of States without Plan and Non-Plan distinction. Instead of just receiving Non-Plan Revenue Deficit Grants, States will be allotted grants for overcoming the deficits in their total Revenue (plan and non-plan).

State Specific Issues Regarding the Implications of FFC and Union Budget 2015-16

Tripura

"The Government of Tripura had already placed its budget for the year 2015-16 on February 10, 2015 which was passed on March 4, 2015 by the State Assembly. This budget was passed taking into consideration the receipts from Central Government under Normal Central Assistance (NCA), Special Central Assistance (SCA) and Special Plan Assistance (SPA) which it had been receiving during the previous years. Tripura State claims to have received Rs. 10, 635 crore during the last five years (2010-11 to 2014-15) under NCA, SCA and SPA as a Special Category State. No provision has been made by the Union Budget 2015-16 in this regard which would drastically affect the position of state finances.

Also, the State Government could not implement the Sixth Central Pay Commission (CPC) recommendations for the employees and pensioners due to the adverse award of the TFC. Due to this, the actual expenditure of the State continued to be on the lower side. Based on the assumption of implementation of Sixth CPC pay structure for employees and pensioners, the State Government projected its expenditure on the Non-Plan account for the award period (2015-16 to 2019-20) to the FFC. However, the FFC while making its projections for revenue expenditure took into consideration the trend growth of actual expenditure, which as mentioned above, is lower for Tripura.

Issue raised by the State Government

(1) Pre-devolution Gap as per State Government: Rs. 48, 291. 72 crore
(2) Pre-devolution Gap as per FFC: Rs. 30, 501 crore

Shortfall: Rs 17,790.72 crore"

- The figure of Rs. 30,501 crore for the Pre-devolution Gap as per FFC has been obtained by Finance Commission from State records. So the claim raised by the Government of Tripura highlighting a shortfall of Rs. 17,790.72 crore calculated on the basis of considering Rs. 48,291.72 crore as the Pre-devolution gap, without providing any official breakup that supports this amount is questionable in itself.

Mizoram

Issue raised by the State Government

- "The following are the expected fund flow to Mizoram during 2015-16 from the Fourteenth Finance Commission and NITI Aayog:

Table 8: Expected Fund Flow to Mizoram (2015-16)

S. No.	Sources	Amount (Rs in Crore)
1	Share of Union Taxes	2413.71
2	Revenue Deficit Grant	2139.00
3	Urban Local Body Grant	11.54
4	State Disaster Risk Fund	17.00*
Total		**4581.25**

*According to FFC records, Mizoram has been allotted Rs. 15 Crore as SDRF, hence there is a mismatch of Rs. 2 Crore.

- Plan and non-Plan funds received by the State during the year 2014-15 and expected to be received in 2015-16 are as follows:

Table 9: Plan and non-Plan Funds received by Mizoram in 2014-15 and 2015-16 (expected funds)

Year	Plan (in Rs. Crore)	Non-Plan(in Rs. Crore)	Total
2014-15	3140	5014.25	8154.25
2015-16	1967.41(CSS)	4581.25(FFC Grant)	6802.95
		Decreased	(-) 1351.30

The Plan figure of 2014-15 includes block grants such as NCA, SPA, SCA, NLCPR, NEC Plan Schemes, and CSS (BE). Other than CSS, NLCPR and NEC Plan Schemes, the three grants—(i) NCA: Rs 896.58 crore, (ii) SPA: Rs. 520.00 crore, (iii) SCA: Rs. 200.00 crore—totalling Rs 1616.58 crore formed 49.23% of total Plan budgeted expenditure. Discontinuation of these grants in 2015-16 would adversely affect the development activities of the State."

- It is not entirely fair to compare Plan Figures of 2014-15 with 2015-16 because discontinuation of certain funds does not always entail a loss. The very fact that these funds have been dropped out, points to pivotal changes in the devolution scheme that have to be taken into consideration in their entirety. Hence it would be more reasonable to compare the total funds received by the State, as done in Table I.

  Also, if we individually look at the Plan figures for both the years under consideration, while the 2014-15 amount includes NCA, SPA, SCA, NLCPR, NEC Plan Schemes and CSS, the 2015-16 estimate is only a rough measure of the expected CSS allocation without any credible backing (this decision is still pending for consideration). Further, this measure does not include grants for NLCPR and NEC Plan Schemes (as no concrete decision has been made on the distribution scheme for 2015-16 as of yet) which raises questions on comparability.

  Moreover, under Non Plan funds for the year 2014-15, the amount received appears to be inflated as no break up into sanctioned sources has been given for the same. To get a true sense of the whole scenario, it would be more appropriate to look at homogenous subcategories (Table I).

Sikkim

Issue raised by the State Government

"The fiscal scenario of Sikkim is likely to get adversely affected on the following aspects:

According to the Sikkim Government, the central flow of funds under the approved FFC award for the year 2015-16 is likely to result in an anticipated shortage of Rs. 350 crores. The increase in fiscal space to the state by increasing share of tax devolution of the divisible pool from 32% to 42% would be entirely offset with the discontinuation of NCA, SPA, SCA and delinking of the 8 schemes from support of the union government."

- A comparative analysis of the central assistance to Sikkim for the year 2014-2015 and 2015-16 is as follows:

Table 10: Distribution of Central Assistance to Sikkim (2014-15)

S. No.	Sources	Amount (in Rs. Crore)
1	Share of Union Taxes	809.33
2	Revenue Deficit Grant	0
3	Local Body Grant	94.05
4	State Disaster Risk Fund	24.89
5	Block grants (NCA, SPA, SCA)*	1298.10
Total		**2226.40**

*Without considering CSS

Table 11: Distribution of Central Assistance to Sikkim (2015-16)

S. No.	Sources	Amount (in Rs. Crore)
1	Share of Union Taxes	1924.69
2	Revenue Deficit Grant	0
3	Local Body Grant	20.82
4	State Disaster Risk Fund	28.00
5	Block grants (NCA, SPA, SCA)*	0
Total		**1973.51**

*Without considering CSS

From Table 10 and Table 11, we see that the total allocation of Central funds has diminished by Rs. 252.89 crores in the year 2015-16, along with a corresponding decrease in all the individual components except for the Share of Union Taxes. (This can further be verified from Table I.)

This points to the observation that Sikkim might bear the brunt of the discontinuation of NCA, SCA and SPA. Thus, the issue raised by the Government of Sikkim deserves special attention.

Fourteenth Finance Commission Implications on the North Eastern States

The following table represents a comparative analysis of the Central Assistance provided to the NE States in the year 2014-15 and 2015-16.

- Column (2) and (10) depict the Block Grants (NCA, SPA, SCA) that were given for the year 2014-15 and 2015-16 respectively
- Column (3) and (7) depict the share of states in the net proceeds of the shareable Central taxes and duties for the year 2014-15 and 2015-16 respectively
- Column (4) and (8) depict the Revenue Deficit Grant (RDG) provided for the year 2014-15 and 2015-16 respectively. These were given with the intention of helping states reduce their fiscal burden
- Column (5) and (9) depict the Grants-in-aid for the year 2014-15 and 2015-16 respectively. These include grants for Local Government Bodies/Disaster Relief and other Non Plan grants
- Column (6)[=(2)+(3)+(4)+(5)] and (12)[=(7)+(8)+(9)+(10)] depict the Total Central Assistance released to each of the NE States

We observe that, for the year 2014-15, amongst all the seven NE States and Sikkim, Assam received the highest total funds (in absolute terms) from the Center followed by Tripura and Manipur while Sikkim was the lowest in this order. In Column (4), for Assam and Sikkim the RDG is zero due to the fact that these states had a Post Devolution Revenue Surplus.

Similarly, for the year 2015-16, we see that Assam received the highest funds (in absolute terms) followed by Arunachal Pradesh while Sikkim ranked the lowest here as well. In Column (8), RDG is zero for Arunachal Pradesh and Sikkim which is decided upon by the above mentioned criteria.

From Column (12), we clearly see that all North Eastern States apart from Sikkim and Tripura stand to gain from the new scheme of financial devolution. Sikkim and Tripura show a decrease in the total funds received for the year 2015-16, under the criteria used for comparison, with respect to 2014-15. This is particularly note worthy owing to the fact that Sikkim and Tripura stand to lose when we have compared the BE for 2015-16 with RE of 2014-15. As is usually the case, actual devolution of funds is lower than the proposed allocation. Thus, Sikkim and Tripura might lose in actuality too.

An important fact to mention here is that in our analysis we have not included any data on CSS because the allocation of funds for the year 2015-16 has not been finalized yet. So for comparability purposes, we have excluded it from the previous year data as well. Similarly, NEC Plan schemes and NLCPR have not been incorporated in the given table, due to data unavailability issues.

Table I : Distribution of Central Assistance and Impact on NE States in the Light of Union Budget and Fourteenth Finance Commission Awards

2014-15 (Revised Estimates)						2015-16 (Budget Estimates)					
States	Block grants	State wise Distribution of Net Proceeds of Union Taxes and Duties for 2014-15 (RE)@	Revenue Deficit Grant (RDG)	Grants for Local bodies +Disaster Relief*	Total (2014-15)	State wise Distribution of Net Proceeds of Union Taxes and Duties for 2015-16(BE)#	Revenue Deficit Grant (RDG)	Grants for Local bodies +Disaster Relief ^	Block grants (SPA, SCA, NCA)	Total (2015-16)	Fund flow to States in 2015-16 over 2014-15 without considering CSS in both the years (Total Additional Kitty available to States)
1	2	3	4	5	6	7	8	9	10	11	12
Arunachal Pradesh	2673.6	1109.98	364	217.85	**4365.39**	7231.74	0	158.94	0	**7390.68**	**3025.29 (69%)**
Assam	4417.7	12283.71	0	2274.1	**18975.53**	17400.88	2191	1091.94	0	**20683.82**	**1708.29 (9%)**
Manipur	2098	1526.95	1114	195.52	**4934.42**	3238.08	2066	55.82	0	**5359.90**	**425.48 (9%)**
Meghalaya	1493.3	1381.69	571	247.68	**3693.69**	3370.84	618	25.03	0	**4013.87**	**320.18 (9%)**
Mizoram	1663.8	910.67	804	229.09	**3607.59**	2413.72	2139	26.54	0	**4579.26**	**971.67 (27%)**
Nagaland	1932.4	1062.69	1595	338.58	**4928.68**	2613.71	3203	21.23	0	**5837.94**	**909.26 (19%)**
Sikkim	1298.1	809.33	0	118.94	**2226.4**	1924.69	0	48.82	0	**1973.51**	**-252.89 (-11%)**
Tripura	2380.4	1730.13	600	275.24	**4985.77**	3369.08	1089	85.65	0	**4543.73**	**-442.04 (-9%)**
Total	**17957**	**20815.15**	**5048**	**3897**	**47717.47**	**41562.74**	**11306**	**1513.97**	**0**	**54382.71**	**6665.24**

% figures represent percentage gain/loss.

Sources:

1. @Annexure 10a of Receipts Budget 2015-16.
2. #Annexure 10 of Receipts Budget 2015-16.
3. ^Fourteenth Finance Commission Report (Vol.2; Annex 9.1, 10.2)
4. *Thirteenth Finance Commission Report (Vol.2; Annex 11.2)

Implications of Including CSS Data on North Eastern States

As mentioned before, Table I has been constructed by completely ignoring the provision for CSS, NLCPR and NEC Plan Schemes for both the periods under consideration (2014-15 and 2015-16) due to the issue of non-availability of data. However, to make our analysis of the implications of FC and Union Budget awards even more comprehensive, we further seek to analyze the plausible implications from data on prospective CSS that has been sourced from internal exercises of the Ministry of Finance. It is imperative to bring to forefront that this data, for the year 2015-16, has not been given an official approval yet but is our best shot at attempting to carry out further analysis.

Following comparison includes CSS data for the year 2014-15 (RE) and 2015-16 (prospective):

Table II : Distribution of Central Assistance (including CSS) and Impact on NE States in the Light of Union Budget and Fourteenth Finance Commission Awards

Sl. No.	States	2014-15 (RE)			2015-16 (BE)			Fund flow to States in 2015-16 over 2014-15 with CSS in both years
		Block Grant	CSS	CASP (2014-15)	Block Grant	CSS (Prospective)	CASP (2015-16)	
1	Arunachal Pradesh	2673.60	1618.4	**5983.79**	0	3236	**10626.68**	**4642.89 (78%)**
2	Assam	4417.70	8044.30	**27019.83**	0	9397	**30080.82**	**3060.99 (11%)**
3	Manipur	2098	1624	**6558.42**	0	2807	**8166.90**	**1608.48 (25%)**
4	Meghalaya	1493.30	1339.70	**5033.39**	0	2136	**6149.87**	**1116.48 (22%)**
5	Mizoram	1663.80	1208.20	**4815.79**	0	2166	**6763.26**	**1947.47 (40%)**
6	Nagaland	1932.40	1595.60	**6524.28**	0	2660	**8497.94**	**1973.70 (30%)**
7	Sikkim	1298.10	608.90	**2835.30**	0	1438	**3411.51**	**576.21 (20%)**
8	Tripura	2380.40	2325.60	**7311.37**	0	3548	**8091.73**	**780.36 (11%)**

% figures represent percentage gain.

Source:

1. CSS and Block Grants Data for 2014-15 as per NITI Aayog records
2. CSS and Block Grants Data for 2015-16 is pro-rata allocation

The columns for CASP (2014-15 and 2015-16) in the above table comprise of the "Total" calculated figure (from Column (6) and Column (11) respectively, mentioned in Table I) and CSS data.

After carrying out the analysis post CSS inclusion (by taking prospective CSS into account for 2015-16), we see that none of the NE States lose from the new scheme of financial devolution. This is in stark contrast to our conclusion from Table I (where we did not consider CSS) which stated that Sikkim and Tripura would be adversely affected in 2015-16.

Sikkim and Tripura which seemed to display a decrease in fund flow of 11% and 9% respectively, now stand to gain 20% and11% (approx).

From Table II, we conclude that Arunachal Pradesh would witness the maximum percentage gain in terms of funds received if the proposed CSS share is officially implemented. This could possibly be because of the inclusion of Forest Cover as a factor while determining the pattern of Horizontal Devolution of Central Assistance to States. (A weight of 7.5 percent has been allotted to Forest Cover.)

However, the Prospective data on CSS for the year 2015-16 has been taken from internal sources and has not been appraised yet. Given that a similar CSS devolution pattern is followed for the year 2015-16, only then would we be able to firmly conclude that all the NE States would benefit from increased availability of funds.

But as seen in the past, actual devolution has a high probability of falling short of the allotted or proposed figures. For an illustrative purpose, we study the trend of the divergence between the proposed and actual (or revised) CSS figures for the year 2014-15.

Table 12: A Comparison of CSS (BE) and CSS (RE) for the year 2014-15

Sl. No.	States	CSS (BE)	CSS (RE)	Shortfall (%)
1	Arunachal Pradesh	1871.24	1618.4	**13.51**
2	Assam	11125.50	8044.30	**27.70**
3	Manipur	2413.92	1624	**32.72**
4	Meghalaya	1883.16	1339.70	**28.86**
5	Mizoram	1500.56	1208.20	**19.48**
6	Nagaland	1867.55	1595.60	**14.56**
7	Sikkim	1161.90	608.90	**47.60**
8	Tripura	2776.93	2325.60	**16.25**

There is a significant amount of negative divergence between the budget estimates and revised estimated for CSS data as exhibited by Table 12. We can expect to observe a similar direction of divergence in CSS data for 2015-16.

The usual downward trend in revised figures can be assigned to the following reasons:

- Unsuccessful implementation of Central plans in States
- Corruption in allocation channels
- Poor performance of States in the past
- Low absorption capacity of States
- Unavailability of credible data while estimating future projections
- Actual tax revenue realised by the Centre might be lower than the expected

Relative Significance of Block Grants to Centrally Sponsored Schemes: A Brief Assay

In this section, we attempt to gauge the relative importance of Block Grants and CSS in NE States financing pattern. By virtue of the recommendations of FFC and Union Budget 2015-16, we know that block grants (NCA, SCA and SPA) have been discontinued from the year 2015-16.

Table 13: Relative comparison between Block Grants and CSS as a ratio of CASP

Sl. No	State	2014-15		2015-16	
		Block Grant to CASP ratio	CSS to CASP ratio	Block Grant to CASP ratio	CSS (Prospective) to CASP ratio
1	Arunachal Pradesh	0.45	0.27	0.00	0.31
2	Assam	0.16	0.30	0.00	0.31
3	Manipur	0.32	0.23	0.00	0.34
4	Meghalaya	0.30	0.27	0.00	0.35
5	Mizoram	0.35	0.25	0.00	0.32
6	Nagaland	0.30	0.25	0.00	0.31
7	Sikkim	0.46	0.22	0.00	0.42
8	Tripura	0.33	0.32	0.00	0.44

Source : For Block Grants (2014-15): Ministry of Finance records

For the year 2014-15, we find that Block Grants formed a significant proportion of the CASP for the NE States. As compared to the CSS to CASP ratio, we observe that all the NE States, apart from Assam, received a higher proportion of funds through Block Grants than through CSS. Since block grants are untied and discretionary transfers from the Union Government to the State Governments as compared to transfers in the form of CSS (which can either be used to fund Central projects or special State projects), they constitute a higher proportion of CASP than CSS does.

But with the discontinuation of Block Grants in 2015-16, we find that the prospective CSS to CASP ratio has witnessed an increase for all the NE States. One of the probable reasons for this increase could be an attempt to compensate for the discontinuation of funds received through Block Grants. (Although the main reason for this discontinuation is that these funds have been subsumed in the increased Union Tax Devolution)

Conclusion

After a comparative analysis of the central funds allocated to the NE States, we can say that even after discontinuation of Block Grants—NCA, SCA and SPA—the states stand to gain owing to increased Union Tax Devolution. Along with this increase, Revenue Deficit Grant is now being provided for both Plan and non-Plan purposes which makes it more comprehensive.

We can firmly conclude about a net gain for all the States only after considering the prospective sharing pattern for CSS. Given that the proposed CSS allocations are followed, all NE States are bound to receive more funds through Central Assistance. However, going by the trend that the actual funds allocated are always less than the amount proposed, this conclusion should be taken with a grain of salt.

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