नीति आयोग

**National Institution for Transforming India (NITI)**
**Project Appraisal and Management Division**

# NITI BRIEF # 1

## Overview: National Development Agenda, Fourteenth Finance Commission and the Union Budget 2015-16

The first meeting of the Governing Council of NITI was held on 8th February 2015. The meeting endorsed the outline of a National Development Agenda and agreed to function as an organic Team India. Later in the month, the recommendations made by the Fourteenth Finance Commission (FFC) in its report submitted to the President on December 15, 2014 has been presented to Parliament; the Economic Survey 2014-15 and the Budget 2015-2016 have also been presented. In the following, we present an overview of the implications of the FFC recommendations and the Union Budget 2015-16 for the national development agenda. Alongside, we also bring out the key elements of the outlook presented in the Economic Survey 2014-15.

2. The discussion is divided into following sections:

**I. Highlights of the Fourteenth Finance Commission**
**Economic Survey 2014-15**
**Union Budget 2015-2016**

**II. NITI in the Fourteenth Finance Commission and Union Budget 2015-16.**

**III. Impact of Fourteenth Finance Commission and Union Budget 2015-16 on National Development Agenda.**

**IV. The Challenge: Translating Outlays into Outcomes-road ahead from April 2015 to March, 2016.**

**V. FAQs.**

# I. Highlights of Fourteenth Finance Commission

1.1 Appointed every five years, the Finance Commission is a Constitutional body with the broad mandate to define the center-state fiscal relations. Its most important task is to recommend the division of tax revenues collected by the Center (excluding cetain items such as cess) called the "divisible pool" between the Center and States and the share to be allocated to each State. But it also make recoemndations on other tax related issues as per the terms of references.

1.2 Fourteenth Finance Commission (FFC) recommendations covering five years period beginning 1.4.2015 were tabled in the House on 25th February, 2015 along with an Explanatory Memorandum on the Actions Taken by the Government.

1.3 An important recommendation of FFC is the devolution of a signifcantly higher share of **42%** of the divisble pool to States compared with the **32%** share recommended by the Thirteenth Finance commission. Accordingly, the total devolution to the States in 2015-16 will be **Rs 5.26 lakh crores**, which is **Rs. 1.78 lakh crores more than in 2014-15**.

1.4 The larger devolution is a respponse to the demand by States for increased flow of untied fiscal resources in place of tied resources that come with Centrally Sponsored Schemes. ***The government has accepted this recommendation.***

1.5 The horizontal devolution formula[1] recommended by the 14th Finance Commission incorporates two new variables, the 2011 population and forest cover. At the same time, it does not take into account fiscal discipline, a criterion included by the Thirtenth Finance Commission in its formula.

1.6 As per the terms of reference, the FFC also provides revenue deficit grants to the 11 States so identified. The total revenue deficit grant over the five years to these states is Rs. 1,94,821 crore. ***This recommendation has been accepted in principle.*** The institutional arrangements for the implmentation of thi recommendation is yet to be put in place.

1.7 Focus on local bodies has been an ongoing concern and the FFC has recommended that grants to local bodies should be only for basic services and functions assigned to them under relevant legislation. The Commission has recommended grants of Rs 2.87 lakh cr in total over the five years.

**Table 1 Devolution formula in 13th and 14th Finance Commission**

| Variable | Weights accorded | |
|---|---|---|
| | TFC | FFC |
| **Population (1971)** | 25 | 17.5 |
| **Demographic Change (population 2011)** | 0 | 10 |
| **Fiscal Capacity/ Income Distance** | 47.5 | 50 |
| **Area** | 10 | 15 |
| **Forest Cover** | 0 | 7.5 |
| **Fiscal discipline** | 17.5 | 0 |
| | 100 | 100 |

*Source: Economic Survey 2014-15*

**Table 2**

| | Basic Grant (Rs. in cr) | Performance Grant (Rs. in cr) |
|---|---|---|
| **Gram Panchayats** | 1,80,263 | 20,029 |
| **Municipalities** | 69,715 | 17,428 |

***The Government has accepted this recommendation.***
*(Source: Explanatory Memorandum as to the Action Taken on the Recommendations Made by the 14th Finance Commission in its report submitted to the President on December 15, 2014, Department of Economic Affairs, Ministry of Finance)*

1.8 Other recommendations by FFC concern GST, Fiscal Consolidation Roadmap and Pricing of Public Utilities, Public Expenditure Management. ***These recommendations are under examination.***

## 2 Economic Survey 2014-15

2.1 The Economic Survey was presented in the Parliament on 27th February 2015.

2.2. The main points made are that the economy is poised to take-off and has the potential to achieve a double-digit growth following the decisive political mandate for policy reforms and a benign external environment. The latest indicators, emerging from the recently revised estimates of national income brought out by the Central Statistics Office, point to the fact that the revival of growth had started in 2013-14 and attained further vigour in 2014-15.

**Table 3: Key Indicators**

| Data Categories | Unit | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **GDP (constant market prices) Growth Rate** | % | - | 5.1 | 6.9 | 7.4 (AE) |
| **Savings Rate** | % of GDP | 33.9 | 31.8 | 30.6 | na |
| **Capital Formation rate** | % of GDP | 38.2 | 36.6 | 32.3 | na |
| **Index of Industrial Production (growth)** | % | 2.9 | 1.1 | -0.1 | 2.1[b] |
| **Inflation** | | | | | |
| **WPI(year on year)** | % | 8.9 | 7.4 | 6.0 | 3.4[b] |
| **CPI (IW) (year on year)** | % | 8.4 | 10.4 | 9.7 | 6.2[b] |
| **Current Account Balance/GDP** | % | -4.2 | -4.7 | -1.7 | -1.9[c] |
| **Gross Fiscal Deficit** | %of GDP | 5.7 | 4.8 | 4.5[d] | 4.1[e] |
| **Revenue Deficit** | %of GDP | 4.4 | 3.6 | 3.2[d] | 2.9[e] |
| **Primary Deficit** | %of GDP | 2.7 | 1.8 | 1.2[d] | 0.8[e] |

Note:
*b: April-December 2014; c: April- September 2014; d: Fiscal indicates for 2013-14 are based on the provisional actual; e: Budget Estimates*

2.3 It may be seen from Table 3 that the GDP growth rate is showing an increasing trend. Declining rates of savings and capital formation are a matter of concern. WPI inflation has declined from an average of 8.9 in 2011-12 to 3.4 in 2014-15. CPI has also exhibited a declining trend from 2012-13 onwards. The current account deficit has contracted from 4.7

percent of GDP in 2012-13 to an estimated 1.9 percent in the current fiscal year.

2.4 according to the survey, in the short run, growth will receive a boost from the cumulative impact of reforms, lower oil prices, likely monetary policy easing facilitated by lower inflation and improved inflationary expectation and forecasts of a normal monsoon in 2015-16. Using the new series with 2011-12 as the base year, GDP growth at constant market prices is expected to accelerate to between 8.1 and 8.5 percent in 2015-16.

2.5 The survey states that medium-term prospects will be conditioned by the “balance sheet syndrome with Indian characteristics” that has the potential to hold back rapid increases in private sector investment. Private investment must be the engine of long-run growth. However, there is a case for reviving targeted public investment as an engine of growth in the short run to complement and crowd-in private investment.

2.6 India can balance the short-term imperative of boosting public investment to revitalize growth with the need to maintain fiscal discipline. Expenditure control, and expenditure switching from consumption to investment, will be key.

2.7 India faces an export challenge, reflected in the fact that the share of manufacturing and services exports in GDP has stagnated in the last five years. According to the survey, the external trading environment is less benign in two ways: partner country growth and their absorption of Indian exports has slowed, and mega-regional trade agreements being negotiated by the major trading nations in Asia and Europe threaten to exclude India and place its exports at a disadvantage.

2.8 India is increasingly young, middle-class, and aspirational but remains stubbornly male. Several indicators suggest that gender inequality is persistent and high. In the short run, the renewed emphasis on family planning targets, backed by misaligned incentives, is undermining the health and reproductive autonomy of women.

3. Skill India to Complement Make in India

3.1 What should we ‘Make in India’? Sectors that are capable of facilitating structural transformation in and emerging economy must:

- Have a high level of productivity.

- Show convergence to the technological frontier over time.
- Draw in resources from the rest of the economy to spread the fruits of growth.
- Be aligned with the economy's comparative advantage; and
- Be traceable.

3.2 Registered manufacturing, construction and several service sectors-particularly business services-perform well on these various characteristics. A key concern with these sectors however is that they are rather skill-intensive and do not match the skill profile of the Indian labour force.

3.3 India could bolster the "Make in India" initiative, which requires improving infrastructure and reforming labour and land laws by complementing it with the 'Skilling India' initiative. This would enable a larger section of the population to benefit from the structural transformation that such sectors will facilitate.

4. A National Market for Agricultural Commodities

4.1 Markets in agricultural products are regulated under the Agricultural Produce Market Committee (APMC) Act enacted by State Governments. India has not one, not 29, but thousands of agricultural markets.

4.2 APMCs levy multiple fees of substantial magnitude, that are non-transparent, and hence a source of political power.

4.3 The Model APMC Act, 2003 could benefit from drawing upon the 'Karnataka Model' that has successfully introduced an integrated single licensing system. The key here is to remove the barriers that militate against the creation of choice for farmers and against the creation of marketing infrastructure by the private sector.

## 5. Union Budget 2015-16

5.1 The Union Budget 2015-16 was presented on 28th Feb 2015. The headline numbers for Plan Expenditure are as under:

**Table 4: Plan Expenditure (Rs. Crore)**

| | 2013-14 (Actuals) | 2014-15 (BE) | 2014-15 (RE) | 2015-16 (BE) | % change in 2015-16 (BE) | |
|---|---|---|---|---|---|---|
| | | | | | **Over 2014-15 (RE)** | **Over 2014-15 (BE)** |
| **A) Central Plan Expenditure, of which** | 453327 | 575000 | 467934 | 465277 | -0.6% | -19.1% |
| **A1) Budgetary support for Central Plan** | 340479 | 236592 | 189766 | 260493 | 37.3% | 10.1% |
| **A2) Central Assistance to States/ UT plans** | 112849 | 338408 | 278168 | 204784 | -26.4% | -39.5% |
| **B) IEBR*** | 263095 | 247941 | 237045 | 317889 | 34.1% | 28.2% |
| **C) Central Plan outlay (A1+B)** | 603573 | 484532 | 426811 | 578382 | 35.5% | 19.4% |

*Internal Generation and Extr-budgetary Resources

*(Source: Statement 1 and 2, pg. 3, Expenditure Budget Vol. I, 2015-2016, Ministry of Finance)*

5.2 The **Central Plan 2015-16** stands at Rs 5.78 lakh cr, exceeding the B.E. 2014-15 by Rs 93,849 cr. The Central Plan includes Gross Budgetary Suppoer (GBS) of Rs 260493 cr and Internal Extra Budgetary Resources (IEBR) [of PSUs] of Rs 317889 cr

5.3 A substantial part of the increase– Rs 69,948 cr- is from Internal Generation and IEBR of Public Sector Enterprises. The IEBR allocations of a few Ministries have also reflected a steep rise. Eg., Department of Telecommunications: Rs 11,684 cr, Ministry of Road Transport and Highways: Rs 33,695 cr, Railways: Rs 24,516 cr, Ministry of Power: Rs 3,863 cr.

5.4 Increase in GBS is Rs 23,902 cr. The Ministries that have received significant enhancement in GBS allocation include infrastructure Ministries like Roads and Highways (Rs 13765 cr) and Railways (Rs 9900 cr).

5.5 **Central Assistance to State Plans 2015-16** stands reduced to Rs 2,04,784 cr as compared with Rs 3,38,408 cr budgeted in 2014-15 i.e Rs. 1.33 lakh crore less offset by higher devolution from the divisible pool to States.

5.6 Keeping in view national priorities and legal obligations, only 8 CSS have been delinked from Centre support. However, 20 major Programs, that subsume nearly 50 Schemes, have been categorized as Schemes to be run with the "Changed Sharing Pattern". It is expected that State Governments would enhance their contribution in the Centrally Sponsored Schemes so that the intended benefits of the Scheme and overall outlay of the schemes are maintained.

5.7 The Block grant component has been reduced from Rs.78,126 crore in 2014-15 (BE) to Rs.27,233 crore in 2015-16 (BE). The allocation for Block grants given by the erstwhile Planning Commission to States/ UTs in terms of Normal/ Additional Central Assistance/ Special Plan Assistance, etc. has been discontinued in 2015-16. Table 5 below summarizes the provisions under Central Assistance to State Plan 2015-16.

## Table 5

| | Central Assistance to State Plans (CASP) | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Category** | **No. of Programmes** | **Amount (in Rs. Crore)** | | | | |
| | | | **BE 2014-15** | **RE 2014-15** | **BE 2015-16** | **Variation (5-4)** | **Variation (5-3)** |
| | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| **A** | Schemes to be fully supported by Union Government | 34 | 118537.7 | 105761.34 | 118512.21 | 12750.87 | -25.49 |
| **B** | Schemes to be run with the Changed Sharing Pattern | 20 | 138524.25 | 103021.65 | 78229.8 | -24791.85 | -60294.45 |
| **C** | Schemes delinked from Union Support | 8 | 5928.99 | 4585.64 | 1 | -4584.64 | -5927.99 |
| **D** | Other Schemes | 31 | 67773.14 | 58355.05 | 0 | -58355.05 | -67773.14 |
| | **Total Central Assistance to State Plans (A to D)** | | 330764.08 | 271723.68 | 196743.01 | -74980.67 | -134021.1 |
| **E** | Union Territory Plan | | 7644.41 | 6444.15 | 8041 | 1596.85 | 396.59 |
| | **GRAND TOTAL (A to E)** | | **338408.49** | **278167.83** | **204784.01** | **-73383.8** | **-133624** |

*(Source: Statement 16,pg. 57-63, Expenditure Budget VOL.I, 2015-16, Ministry of Finance)*

## II NITI in Fourteenth Finance Commission

2.1 The Explanatory Memorandum to the Action Taken on the recommendations made by the FFC in its report submitted to the President on December 15, 2014 States:

> ***It is expected that with this change in the sharing pattern, concerns of the States of asymmetry in fiscal federal relations will be addressed. It is hoped that the States will use the extra fiscal space available to them to create productive capital assets, and that "Team India" in NITI will provide the required guidance and monitoring in this regard. (paragraph 7)***

## NITI and the Union Budget 2015 -16

2.2 In the Budget speech of the Union Minister of Finance, Shri Arun Jaitley, inter-alia, stated that:

> *While the farmer is no longer in the clutches of the local trader, his produce still does not command the best national price. To increase the incomes of farmers, it is imperative that we create a National agricultural market, which will have the incidental benefit of moderating price rises. I intend this year to work with the States, in NITI, for the creation of a Unified National Agriculture Market.*(Para 33)

> *I also intend to establish, in NITI, the Atal Innovation Mission (AIM). AIM will be an Innovation Promotion Platform involving academics, entrepreneurs, and researchers and draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India. The platform will also promote a network of world-class innovation hubs and Grand Challenges for India. Initially, a sum of Rs. 150 crore will be earmarked for this purpose.* (Para 48); and

> *With this objective, Government is establishing a mechanism to be known as SETU (Self-Employment and Talent Utilisation). SETU will be a Techno-Financial, incubation and Facilitation Programme to support all aspects of start-up businesses, and other self-*

*employment activities, particularly in technology-driven areas. I am setting aside Rs. 1000 crore initially in NITI Aayog for this purpose. (Para 50)*

NITI will process these initiatives and develop them further in this year.

## III(A) Impact of Fourteenth Finance Commission recommendations and Union Budget 2015-2016 on National Development Agenda

3.1 The FFC recommendations are in line with the spirit of cooperative federalism, which is the central theme in national development and achievement of national goals. Every State stands to gain under the FFC. The FFC transfers are progressive, in that states with lower per capita NSDP have received larger transfers per capita. Extra fiscal space provided to the State Governments is expected to translate into a more focussed approach on designing and implementing Schemes for priority sectors like Agriculture, Education, Health, Rural Development etc. by respective State Governments, fully taking in to consideration State specific requirements. Economic Survey 2014-15 (Table 10.2) indicates the incremental benefits that each state has derived from the FFC recommendations.

3.2 The transfer of funds to states, along with responsibility of higher funding share in more than 20 Central government Programs, will see the emergence of significant changes in Scheme design and implementation mechanisms being adopted by respective States. However, some states may need to strengthen their capacity for designing, implementing and monitoring schemes. NITI will develop into a Resource Hub on Scheme templates and best practices as a ready reference point that will be available to all States and Ministries.

3.3 States like Arunachal Pradesh, Chhattisgarh, Madhya Pradesh, Karnataka and Jharkhand are the major gainers due to change in the horizontal devolution formula which now gives greater weight to a State's forest cover. The impact of the change in horizontal devolution will play out during the course of the year. At this stage, no comments are possible.

3.4 Review of progress of Infrastructure Projects is now being accorded top most priority with the Prime Minister chairing meetings with concerned Ministries and NITI Aayog at regular intervals. Progress in infrastructure projects requires intensive and active cooperation of State Governments with the Centre. Translating the budgetary outlays of 2015-16 into actual visible physical progress at the field level and early commissioning of projects has to be a priority activity. NITI will coordinate between Ministries and State Governments to push for timely resolution of hurdles faced in implementation of projects on the ground. This will require close monitoring of project timelines at each stage of the project lifecycle through the available platforms like the Online Computerised Monitoring System (OCMS) of MOSPI and the Project Monitoring Group of the Cabinet Secretariat together with State Empowered Committees that have been set up in pursuance of the decision taken by the Governing Council of NITI.

3.5 A critical indicator captured in the Economic Survey 2014-15 is the somewhat bleak scenario for investment. From a peak of 24% of GDP in the last quarter of 2009-10, the rate of growth of Gross Physical Capital formation is nearly Zero. The Survey states that at the end of December 2014, stalled projects stand at about 8.8 lakh crores (7% of GDP). The private sector stalled projects mostly fall in the area of manufacturing and infrastructure, while Government stalled projects are predominantly in the infrastructure sector. The private sector concerns relate to unfavourable market conditions while various regulatory and statutory clearances are mostly stalling infrastructure projects. However, despite stalling of projects, the equity market appears to be unaffected. But the area of concern is the impact of stalled projects on the balance sheet of public sector banks.

3.6 The policy lesson of the Economic Survey is that public investment may need to be better leveraged to rejuvenate the favourable environment for attracting private sector investment in the short-term. The Public-Private Partnerships framework needs to be revisited to address problems and lessons learnt especially in the Roads and Port Sector. NITI will take the process farther to evolve a PPP-Version 2 especially in infrastructure sectors like Highways, Inland Waterways Ports and Power.

## III(B)The Vision in Union Budget 2015-16

3.7 The Union Budget 2015-16 captures the national priorities enunciated by the Government. These were also identified as priorities in the First Meeting of the Governing Council. These include, Swachh Bharat Mission, Namami Gange, Pradhan Mantri Krishi Sinchayee Yojana, Beti Bachao Beti Padhao, Make in India, Labour Reforms- Shram Suvidha Portal, Apprenticeship Protsahan Yojana, Skill India, Housing for All with 24/7 Electricity, Drinking Water and Sanitation by 2022, National Solar Mission, Smart Cities Mission, Sagar Mala, Jan Dhan Yojana, Digital India and Direct Benefits Transfer (DBT) under PAHAL.

3.8 The Union Budget 2015-16 makes adequate provisions for these Programs, that hold great potential for transforming India.

3.9 In addition to the key programmes, a seven year perspective, coinciding with the 75th year of Independence i.e. 2022 is indicated for achieving select targets for development of the nation and its citizens. These are to be achieved on the platform of Team India, guided by the Central Government. They include:

(i) A roof for each family in India. The call given for '**Housing for all' by 2022** would require Team India to complete 2 crore houses in urban areas and 4 crore houses in rural areas.

(ii) Each house in the country should have **basic facilities of 24-hour power supply, clean drinking water, a toilet, and be connected to a road**.

(iii) At least **one member from each family should have access to the means for livelihood and, employment** or economic opportunity, to improve his or her lot.

(iv) Substantial reduction of poverty. All our schemes should focus on and centre around the poor. Each of us has to commit ourselves to this task of **eliminating absolute poverty.**

(v) **Electrification, by 2020, of the remaining 20,000 villages** in the country, including by off-grid solar power generation.

(vi) **Connecting each of the 1,78,000 unconnected habitations by all weather roads**. This will require completing 1,00,000 km of roads currently under construction plus sanctioning and building another 1,00,000 km of road.

(vii) **Good health** is a necessity for both quality of life, and a person's productivity and ability to support his or her family. Providing medical services in each village and city is absolutely essential.

(viii) **Educating and skilling our youth to** enable them to get employment is the altar before which we must all bow. To ensure that there is a senior secondary school within 5 km reach of each child, we need to upgrade over 80,000 secondary schools and add or upgrade 75,000 junior/middle, to the senior secondary level. We also have to ensure that education improves in terms of quality and learning outcomes.

(ix) **Increase in agricultural productivity** and realization of reasonable prices for agricultural production is essential for the welfare of rural areas. We should commit to increasing the irrigated area, improving the efficiency of existing irrigation systems, promoting agro-based industry for value addition and increasing farm incomes, and reasonable prices for farm produce.

(x) In terms of **Communication**, the rural and urban divide should no longer be acceptable to us. We have to ensure **connectivity to all** the villages.

(xi) Two-thirds of our population is below 35. To ensure that our young get proper jobs, we have to aim to make India the manufacturing hub of the world. The **Skill India** and the Make in India programmes are aimed at doing this.

(xii) We also have to encourage and grow the spirit of entrepreneurship in India and support new start-ups. Thus can our **youth turn from being job-seekers, to job-creators**.

(xiii) The **Eastern and North Eastern regions** of our country are lagging behind in development on many fronts. We need to ensure that they are on par with the rest of the country.

(Budget speech of Shri Arun Jaitley, Minister of Finance).

## IV. Challenge: Translating Outlays into Outcomes - Road ahead from April 2015 to March, 2016

4.1 Each target will translate in to public expenditure by both Centre and States, as well as sourcing peoples' participation in funding and implementation.

4.2 The steps required are:

- Establishing adequate availability of funds
- Ensuring timely processing of expenditure proposals covering-design, approvals at appropriate level
- Ensuring steady pace of progress in the year to achieve agreed milestones. It has been the experience that funds constraint is not the only limitation faced in achieving outcomes. Under utilization of budgeted funds has been rampant in many Mission Mode Programs leading to revised estimates being lower than budget estimates year after year

4.3 Several schemes have crossed the stage of EFC appraisal and Cabinet Approval. The next stage is translating the scheme in to expenditure packages – physical assets and activities. The area of implementing the combined expenditure packages are also earmarked for priority monitoring with timelines. Similar action is proposed in other Mission mode schemes.

4.4 Most of the key Programs cut across Ministries and Departments. These programs require several Ministries to pool their resources in a structured manner for field level convergence. For example, under Namami Gange, Ministry of E&F is responsible for afforestation, Ministry of Urban Development for sanitation and sewerage treatment plants, Ministry of Water Resources for Effluent treatment plants, Tourism for water front development and Shipping for inland waterway transport on the river and so on. The nodal Ministry is Ministry of Water Resources.

4.5 Intensive coordination is required amongst the Ministries to design projects and expenditure packages to translate and deliver programme objectives at the field level. The platform for coordination between Ministries and between Central Ministries and States has to be identified for timely implementation of expenditure packages.

Atleast for a few select National Programs like Swachh Bharat Mission, Namami Gange, Pradhan Mantri Krishi Sinchayee Yojana coordination could be through NITI Aayog under the Prime Minister.

In other select programs, coordination platform needs to be identified. Options are Cabinet Secretariat, Minister led monitoring Committees, NITI Aayog.

4.6 Sharing best practices and designs: There is an urgent need to fast track roll out of Programs that are a national priority by ensuring there are no delays in re-inventing the wheel. Certain States have progressed well. The successful implementation mechanisms need to be shared across States and easy access to such information ensured.

## V. FAQs:

### 1) How do FFC and Union Budget 2015-16 impact categories like Plan and Non Plan expenditure?

The FFC has taken a holistic view of Revenue Expenditure of States, without making any distinction between Plan and Non-Plan expenditure (para 7.28 of 14th FFC Report refers). While assessing expenditure of the State Governments, the contribution from Centre towards Centrally Sponsored Scheme Grants has been excluded but share of States in Centrally Sponsored Schemes has been included. Based on this approach, devolution of 42% has been recommended by FFC, which has translated in to an additional transfer of Rs 1.78 lakh crores to States.

However, in the Union Budget for 2015-16, the Central Government has continued to reflect public expenditure under Plan and Non-Plan categorisation. This distinction is expected to continue for the present at least till the end of 12th Plan. **In the Union Budget, Central Assistance to State Plan to States is kept at Rs**

**2.04 lakh cr. This is over and above additional transfer of Rs. 1.78 lakh crore under 14th FFC award.**

## 2) What does Plan expenditure in the Union Budget comprise?

**Plan expenditure had two components:**

a) Central Plan; and

b) Central Assistance to State Plans of which Centrally Sponsored Schemes (CSS) are implemented by the States out of scheme based allocations made by Central Ministries. In the past, this component also included Block Grants comprising, inter-alia, Normal Central Assistance (NCA) to all States; Additional Central Assistance to General Category; Special Central Assistance and Special Plan Assistance (SPA) to Special Category States; One Time ACA and Other ACA; and Externally Assisted Projects (EAPs) where Central Government in addition to providing sovereign guarantee to loans form World Bank and Asian Development Bank also contributed 90% share of the loans given to Special Category States by these International Agencies. Following the FFC, these items have been subsumed in the larger 42% devolution of the divisble pool to States and no longer appear in the plan expenditures.

## 3) What is the devolution formula in 13th and 14th Finance Commission?

**Table 1**

| Variable | Weights accorded | |
|---|---|---|
| | **TFC** | **FFC** |
| **Population (1971)** | 25 | 17.5 |
| **Demographic Change (population 2011)** | 0 | 10 |
| **Fiscal Capacity/ Income Distance** | 47.5 | 50 |
| **Area** | 10 | 15 |
| **Forest Cover** | 0 | 7.5 |
| **Fiscal discipline** | 17.5 | 0 |
| | 100 | 100 |

*Source: Economic Survey 2014-15*

**Where:**

a) **Population** is the population of the State as per the 1971 census;
b) **Demographic Change** are changes in population since 1971;

c) **Income Distance** is computed by calculating the difference between 3 year average (2010-10 to 2012-13) GSDP for each State with respect to the State with highest per capita GSDP;

d) **Forest Cover** has been used as there is an opportunity cost in terms of area not available for other economic activities;

e) **Area** has a floor limit at 2% for smaller States in deciding the horizontal devolution.

### 4) What is Divisible Pool?

The Divisible pool is the portion of gross tax revenue which is distributed between the Centre and States. The divisible pool consists of all taxes, except surcharge (for example, for education) and cess (for example on coal) levied for specific purpose, net of collection charges.

### 5) What does "Increase in Fiscal Space" for States mean?

**a) The Government has accepted FFC award of 42%** of the divisible pool to States as against the previous share of **32%**. Based on B.E. of net Tax Receipts for 2015-16, States share is **Rs 5.26 lakh crores**[1]**. This is about Rs. 1.78 lakh crores more than in 2014-15. This represents increase in untied funds available to the State Governments (though not necessarily in gross funds).**

b) **In addition,** 11 States have been identified for **revenue deficit grant** of Rs. 1,94,821 crore over five years beginning with 2015-16. In 2015-16, the amount is likely to be Rs 48, 906 cr[2]

c) **In addition** the Commission has worked out the total **grant to local bodies** as Rs 2.87 lakh cr for five years. In 2015-16, Grant for Local Bodies is expected to be Rs 37,333 cr[3]

**Table 2 Grants to Local Bodies**

| in Rs. Crore | Basic Grant | Performance Grant |
|---|---|---|
| **Gram Panchayats** | 1,80,263 | 20,029 |
| **Municipalities** | 69,715 | 17,428 |

[1] Explanatory Memorandum to Action Taken on Recommendations made by the Fourteenth Finance Commission in its report submitted to the President on December 15, 2014.

[2] Press Note on Fourteenth Finance Commission

[3] Press Note

*(Source: Explanatory Memorandum as to the Action Taken on the Recommendations Made by The 14th Finance Commission in its report submitted to the President on December 15, 2014, Department of Economic Affairs, Ministry of Finance)*

d) Despite the higher devolution of 42% and FFC recommendation of transferring 30 Centrally sponsored schemes to the States, the Union Budget 2015-16 has delinked only 8 schemes from Central Assistance to State Plan (CASP) and retained Rs 2.04 lakh crore under CASP in 2015-16, over and above additional devolution of Rs 1.78 lakh crore to States.

## 6) What is Gadgil-Mukherjee formula?

Block Grants under Normal Central Assistance (NCA), given in the past but now discontinued in view of the increased devolution of the divisible pool to States, were based on the Gadgil-Mukherjee formula. The Gadgil-Mukherjee formula had been endorsed by the National Development Council and has the following components.

**Table 3**

| Variable | Gadgil-Mukherjee Formula |
|---|---|
| **(a) Population (1971)** | 60% |
| **(b) Per Capita Income** | 25% |
| **(i) For States with Lower than National Average (20)** | |
| **(ii) For all States (5)** | |
| **(c) Performance (Tax Effort, Fiscal Management, National Objectives)** | 7.5 % |
| **(d) Special Problems** | 7.5 % |
| Total | **100** |

## 7) What are Special Category States?

Special Category Status for plan assistance has been granted in the past by the National Development Council(NDC) to some Sates that are characterized by a number of features necessitating special consideration. These features include: (i) hilly and difficult terrain, (ii) low population density and / 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. At present there are 11 States that have Special Category Status. These are the eight States in the NER and three States in the Himalayan region i.e, Uttarakhand, Himachal Pradesh and Jammu and Kashmir.

**8) What is the Impact of Union Budget on Central Assistance to State Plan?**

**Table 4 Central Plan Outlay-GBS (in Rs. Crore)**

| | 2014-15 (BE) | 2014-15 (RE) | 2015-16 (BE) | % change in 2015-16 (BE) |
|---|---|---|---|---|
| | | | | **Over 2014-15 (RE)** |
| **1) Central Assistance to States/ UT plans** | **338408** | 278168 | **204784** | -26.4% |
| **2) Budgetary support for Central Plan** | 236592 | 189766 | 260493 | 37.3% |
| **Total Central Plan Expenditure (1+2)** | 575000 | 467934 | 465277 | -0.6% |

a) While increase in transfer of funds to States as per 14th FFC award is (**Rs 1.78 lakh cr**, the Central Assistance to State Plan has been reduced by Rs **1,33,624** cr.)

b) This includes a new categorization of nearly 20 Programmes that are listed as Schemes where “funding pattern” will undergo a change. Some of these include multiple Schemes. A change in funding pattern could imply that State Governments may have to expend more amounts out of their available 14th FFC devolutions. However, this is also in line with their expressed demand for more untied funds and freedom to design schemes as per State specific requirements.

## 9) How will the 12th Five Year Plan (2012-17) continue for the remaining two years (2015-16 and 2016-17)?

The 12th Five Year Plan is in the third year of implementation and the Mid-Term Appraisal (MTA) is being done. The M.T.A will indicate the Road Map for a transition over 1-2 years (remaining 2 years of the 12th Plan) during which programs and policies need to become more strategic and long term for which NITI will work closely with the Central and State Governments. **A milestone would be 2022 (75th year of independence) which has been termed as the 'A Amrut Mahotsav' by the Finance Minister in his Budget Speech on 28th Feb 2015.**

## 10) What is the change in the Procedure for Annual Plan discussions w.e.f. 2015-16?

(i) In the erstwhile Planning Commission every year Annual Plans of States were decided on the basis of

- Letter from the Secretary, Planning Commission between Oct-Dec. each year to Chief Secretaries requesting for intimating their Draft Annual Plans.
- Resource discussions between Adviser (FR), Planning Commission and State Finance Secretaries by way of letters/Video Conferences/ Meetings to decide the quantum of Plan resources comprising Own Resources of the States, Borrowings and Additional Resource Mobilization (ARM) measures.
- Thereafter, Chief Ministers and the then Deputy Chairman and Members of the Planning Commission had Annual Plan discussions preceded by discussions at the official levels.
- At these discussions the Plan size of every State was decided on the basis of review of resources, progress of schemes and new proposals.
- The Plan size for larger States comprised States' Own Resources including Borrowings, Central Assistance to State Plans. Formula based Normal Central Assistance and One Time Additional Central Assistance as Block Grants plus some Centrally Sponsored Schemes.

- For the 8 North-Eastern States and J&K, H.P, and Uttrakhand the Plan size had, in addition to the above, Untied Block Grants (Special Central Assistance) and Tied Block Grants (Special Plan Assistance) Assistance to these States under Centrally Sponsored Schemes was being given to the extent of 90% Central Government share and 10% of their own contribution.

(ii) Since 2014-15, the Annual Plan process has been simplified by communicating Block grants to State Governments through letters. CSS amounts are disbursed by Ministries.

**(iii) The interaction between State Government and NITI will shift in favour of interaction between the States and Centre on program implementation after the FFC recommendations as each State will now have more space for determining its priorities and higher degree of predictability of resources available.**

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