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Changing Landscape of Intergovernmental Fiscal Transfers, an Impact Assessment of Social Sector Priorities of Meghalaya and West Bengal

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Abstract

The system of intergovernmental fiscal transfers in India has undergone a considerable change following the implementation of the recommendations of the Fourteenth Finance Commission (FFC), the elimination of the distinction between plan and non-plan expenditures with the abolition of the Planning Commission and the rationalisation of the centrally sponsored schemes as recommended by the Subgroup of Chief Ministers constituted by NITI Aayog. The net gain to states consequent upon the changed landscape of fiscal transfers and also the impact of these changes on state-specific fiscal priorities, more especially towards social sector is supposed to differ in magnitude. The purpose of this paper is to take a stock of the changes in the system of intergovernmental fiscal transfers consequent upon recent developments and to quantify the impact of the changed fiscal transfers on the social sector priorities of Meghalaya and West Bengal. The analysis indicates that there has not been any significant impact of changed composition of Central transfers on the relative fiscal priorities of Meghalaya and West Bengal towards social sector, rather an upward tendency is observed in these expenditures. While a positive net fiscal space is found for West Bengal during 2015-16 and 2016-17, for Meghalaya, the positive net fiscal space is observed only during 2015-16.

Key Words: Fiscal Transfers, Fiscal Space, Social Sector, Meghalaya, West Bengal.

Introduction

Intergovernmental fiscal transfers are a dominant feature of subnational finance in most federations, and India is not an exception in this respect. While these transfers are supposed to mitigate the vertical as well as horizontal fiscal imbalances, designing and implementing an equitable and incentive compatible transfer system has been a challenging task for most federations including India (Rao, 2017). Historically, India's system of intergovernmental fiscal transfers has been complex and fragmented, characterised by multiple institutions and modes of delivery. With more than six types of major transfer channels, most funding went through the Finance Commission (Article 280, Constitution of India) and the Planning Commission (Centre for Global Development and Accountability Initiative, 2015). Transfers through the Finance Commission (tax devolution and grants in aid) are thus Constitutionally mandated (Articles 270, 272 and 275) vand are mostly general purpose and unconditional in nature. On the other hand, funds transferred through the erstwhile Planning Commission and through Central Ministries are specific purpose conditional grants of discretionary nature given to states mostly by way of centrally sponsored schemes (CSS). Further, many CSS interventions are in the social sector and development of infrastructure, and over time, transfers through CSS have increased significantly.

The system of intergovernmental fiscal transfers in India has undergone a considerable change following the implementation of the recommendations of the Fourteenth Finance Commission (FFC), the elimination of the distinction between plan and non-plan expenditures with the abolition of the Planning Commission and the rationalisation of the centrally sponsored schemes as recommended by the Subgroup of Chief Ministers (NITI Aayog, 2015). As a result of these developments in Centre-state fiscal relations, scholars have begun to analyse the net gain to states consequent upon the changed landscape of fiscal transfers and also the impact of these changes on state-specific fiscal priorities, more especially towards social sector (Odisha Budget and Accountability Centre, 2015 (as cited in Choudhury et al., 2016); Kotasthane and Ramachandra, 2015, 2016; Accountability Initiative, 2016; Chakraborty, 2016; Shetty, 2016; World Bank, 2016; Kotia and Chowdhury, 2016).

The purpose of the present chapter is two-fold, first to take a stock of the changes in the system of intergovernmental fiscal transfers consequent upon the recent developments, and second, an attempt is made to quantify the impact of the fiscal transfers on the social sector priority of Meghalaya and West Bengal.

2. Changing Landscape of Central Fiscal Transfers to States

2.1. Recommendations of the Fourteenth Finance Commission

The Fourteenth Finance Commission(FFC) was appointed on 2nd January, 2013 under the chairmanship of Dr. Y. V. Reddy. The report of the FFC covering the five-year period from April 1, 2015, was laid on the Table of the House on the 25th February 2015 along with explanatory memorandum on the action taken by the Government on the recommendations of the Commission. The major recommendations, which have been accepted in principle by the Government, and which have important implications for the Centre-State fiscal relation are as follows:

- The FFC has radically enhanced the share of states in the Central divisible pool[1] from 32 per cent (recommended by Thirteenth Finance Commission) to 42 per cent. This is the biggest ever increase in the vertical tax devolution. However, the increased devolution of 42 per cent takes care of entire revenue expenditure needs of states (including plan and non-plan) as contrary to the practice of earlier Finance Commissions which took care of only non-plan revenue account of states. Being quite aware of the limited fiscal space available with the Union Government, the FFC has also recommended that a commensurate reduction takes place in Central Assistance to State Plans, which flow through centrally sponsored schemes and block grants. These recommendations reflect the demand from the states for an increase in the untied transfers in the form of tax devolution and a reduction in the conditional grants through CSS (in terms of both numbers and outlays).
- The FFC has also proposed a new horizontal formula (Table 1) for the distribution of the states' share in divisible pool among the states. There are changes, both in the variables included/excluded as well as the weights assigned to them. Relative to the Thirteenth Finance Commission (ThFC), the FFC incorporated two new variables, namely, 2011 population and forest cover while excluded fiscal discipline variable.

[1] The divisible pool can be thought of as the sum of all Union taxes and duties, excluding collection costs, surcharges and specific-purpose cesses.

- The FFC has recommended that grants to local bodies should be only for basic services and functions assigned to them under relevant legislation. The FFC has worked out a total grant of Rs.2.87 lakh crores to local bodies for five years of its award period.

Table 1.

Horizontal Tax Devolution Formula in ThFC and FFC

Variable/Criterion	Weight Accorded (%)	Weight Accorded (%)
	ThFC	FFC
Population (1971)	25	17.5
Population (2011)	0	10
Fiscal Capacity/Income Distance	47.5	50
Area	10	15
Forest Cover	0	7.5
Fiscal Discipline	17.5	0
Total	100	100

Source: Reports of the Thirteenth and Fourteenth Finance Commissions, Government of India.

2.2. Abolition of the Planning Commission

The era of development planning in India started with the setting up of the Planning Commission in 1950. Though the Planning Commission did not have a constitutional or a statutory mandate, it had an important position and role to play in the development process. It controlled plan expenditure and managed transfers to the states on subjects that were in the concurrent list of the Indian Constitution. However, the dichotomy of plan and non-plan expenditures had several problems associated with it (Government of India, 2011). The era of Five-Year Plan has thus ended in the country with the completion of the Twelfth Five-Year Plan and following this development, the distinction between plan and non-plan expenditures is eliminated. The National Institution for Transforming India, also called the Niti Aayog was formed via a resolution of the Union Cabinet on January 1, 2015, thus replacing the erstwhile Planning Commission.

2.3. Rationalisation of Centrally Sponsored Schemes

Another important development, complementary to the FFC's recommendations, is the rationalisation of Centrally Sponsored Schemes. Though the attempt to address issues relating to CSS and their restructuring were made time and again in the past (Government of India, 2011), concerns of states over lack of flexibility in CSS, adverse implication of counterpart funding requirement of CSS on states' finances and questionable utility of operating large number of CSS with thinly spread resources at the field level remained unresolved. Owing to these and other concerns of state governments raised from time to time, Government of India had restructured CSS in June 2013, and in the Union Budget 2014-15, provisions were made for 66 CSS which included 17 large CSS which were called 'flagship' schemes. The rationalisation also provided for flexibility to the States in implementation of these schemes. In accordance with the view of many States, it also mandated that Central Assistance under CSS would flow to the Consolidated Funds of the States and that the fund flows would be classified as part of Central Assistance to State Plan (CASP). Notwithstanding the restructuring undertaken in the budget 2014-15, the then prevailing arrangements for designing and implementation of CSS fell short of expectations. The States contended that the proliferation of CSS and the gradual reduction in untied Block Grants under Plan led to shrinking fiscal space for States. Moreover, there was an overwhelming emphasis on a process-centric approach and lack of flexibility in designing and implementing the CSS that had diffused the focus on their outcomes.

The Sub-Group of Chief Ministers on the rationalisation of CSS was, therefore, constituted on March 9, 2015 by the Prime Minister in pursuance of the decision taken in the first meeting of the Governing Council of the NITI Aayog held on February 8, 2015. The terms of Reference (ToR) of the Subgroup were as under

(i) To examine the existing CSSs and recommend measures for ensuring that their implementation is streamlined and adequately flexible.

(ii) In the light of the 14th Finance Commission (FFC) recommendations, the increased devolution of taxes to States, and the higher revenue deficit grants, to suggest reforms of the schemes which are being continued under

CSS.

(iii) To recommend appropriate measures for coordination between the Centre and the States and among the States for achieving the objectives of the schemes.

(iv) Any other measures related to the schemes to strengthen the national development agenda and ensure outcomes.

The Subgroup of Chief Ministers submitted its report to the Government in October 2015 and the implementation has come into effect from Union Budget 2016-17. The two major recommendations of the Subgroup were with regard to the reduction in the number of CSS and their reclassification and change in the fund sharing pattern.

- As regards the number of CSS, the Subgroup recommended that the existing CSS should be restructured and their number should be reduced to a maximum of 30 schemes. All these schemes would be 'Umbrella Schemes', with every scheme having a large number of components with a uniform funding pattern. As far as possible, except for a few core components, the decision to implement components within a scheme should be left to the State Government, thereby allowing States maximum choice among components. If there are multiple schemes in a sector, the approach should be to consolidate all such schemes into a single 'Umbrella Scheme'.
- On the classification of CSS, The Subgroup proposed that all CSS form the part of national agenda and, therefore, be classified as 'Core Schemes' and 'Optional Schemes'. Core Schemes would include MGNREGA as well as schemes for social inclusion along with public utility services, like education (including Midday Meal), health, nutrition, women and children, housing for all (urban and rural), livelihood, jobs and skill development, etc (see NITI Aayog, 2015 for detail). Among the

Core Schemes, MGNREGA and schemes for social inclusion would be categorised as 'Core of the Core Schemes' and would be given utmost priority. All Non-Core Schemes would be grouped as 'Optional Schemes'. While it would be mandatory for states to participate in Core Schemes, they may choose all or some of the Optional Schemes for implementation.

- With respect to the budgeting for Core and Optional Schemes, the Subgroup proposed that the entire funds available for CSS should be divided by the Ministry of Finance in two broad categories: funds for Core Schemes and funds for Optional Schemes. Whereas the allocation of funds for Core Schemes may be made through Central Ministries as demand for grants, the funds for Optional Schemes may be a lumpsum amount to be given to states for implementing schemes of their choice.
- With regard to the funding pattern of various CSS, the Subgroup recommended that there should be no CSS with less than 50% share from the Central Government. The changed funding pattern in case of Core and Optional Schemes, as recommended by the Subgroup is as under:

A) For 8 North Eastern and Himalayan States of Himachal Pradesh, J&K and Uttarakhand (11 States) :

i) Core Sector Schemes: Centre 90%, State 10%.

ii) Optional Schemes: Centre 80%, State 20% (however, schemes presently having Centre's share below 80% would remain at the same level).

B) For Other States :

i) Core Sector Schemes: Centre 60%, State 40% (however, schemes presently having Centre's share below 60% would remain at the same level).

ii) Optional Schemes: Centre 50%, State 50%.

C) For Union Territories: 100% Central Funding through NITI/Ministry of Finance. Non Plan transfers to UT may continue with Ministry of Home Affairs Budget.

3. Impact Assessment of Central Transfers on States' Priority for Social Sector

The recent developments in the Centre-State fiscal relations, as discussed in the preceding section raised a number of concerns. While untied devolution grants to states has increased significantly as a result of the FFC award, there has been a corresponding decrease in the tied grants in the form of Central Assistance to State Plans (CASP)[2] (Figure 1). Has there been a net gain or net loss to states as a result of the changed composition of Central transfers? Has the net gain/loss been uniform across states? Even if states are overall better of in terms of resources they receive through transfers, how would they prioritise for their physical and social infrastructures out of their extra resources? These are a few questions which are increasingly being investigated in the literature (see preceding section for a few works on this). In this section, an attempt is made to quantify the impact of the changed landscape of Central Government fiscal transfers to states on the fiscal space of Meghalaya and West Bengal and their priority for social sector with special reference to major flagship CSS.

[2] This comprises of all assistance to states by the Union, including assistance under CSS and other forms of discretionary assistance by the erstwhile Planning Commission in the form of normal Central assistance (NCA), special Central assistance (SCA) and special plan assistance (SPA).

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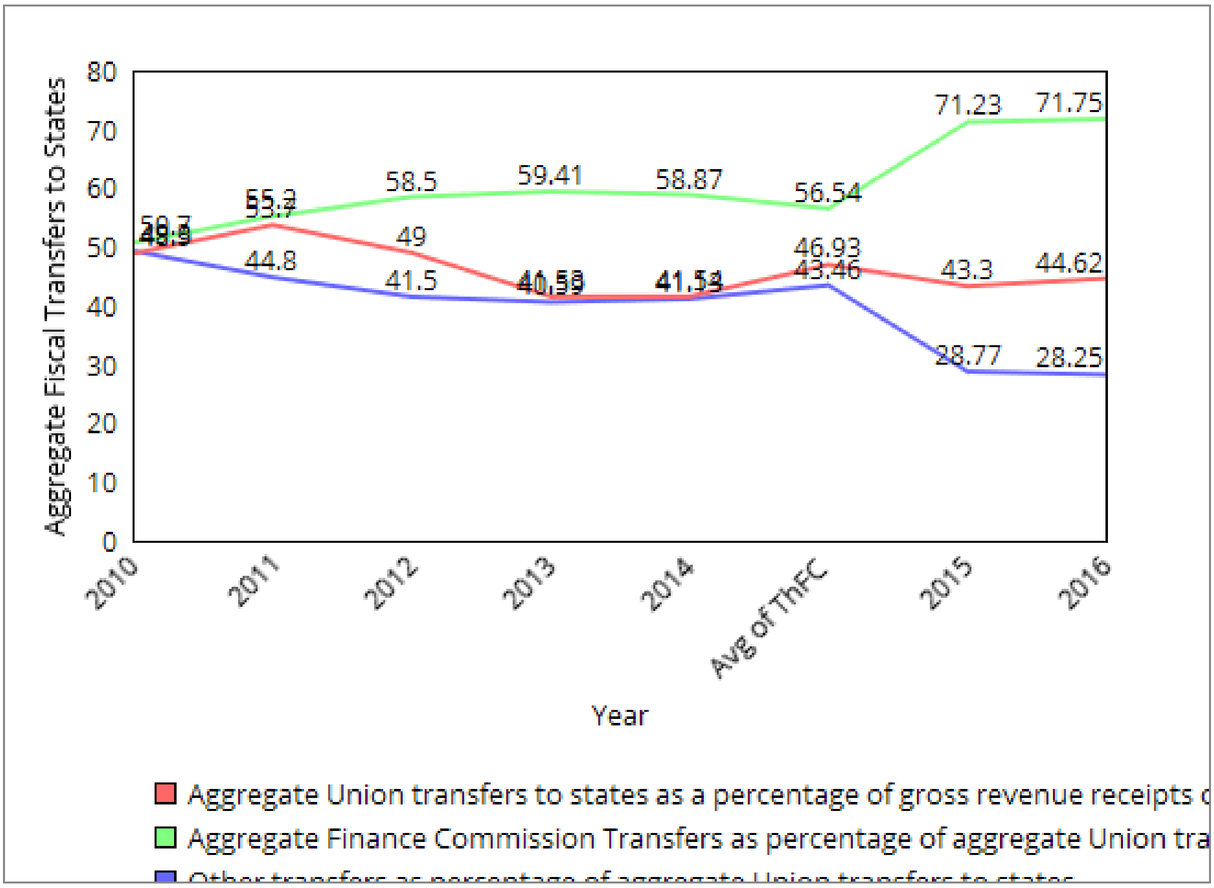
Figure 1.

Trends and Structure of Union Transfers to States



Source: Report of the Fourteenth Finance Commission (page: 159) and Union Budget Documents.

It has been noted in Chapter 3 that while Meghalaya, being a SC state largely depends on Central Government transfers, West Bengal's increasing dependence on transfers has also been observed, especially after the state enacted FRL in 2011. This can be seen from the trends in Table 2.

Table 2.

Trends in Own Revenues of and Central Transfers to Meghalaya and West Bengal (as per cent of GSDP)

	Avg of ThFC Period	2014-15	2015-16	2016-17
Own Revenues				
Meghalaya	5.86 (22.4)	5.52 (19.94)	4.95 (18.26)	6.58 (20.93)
West Bengal	5.48 (48.94)	5.69 (47.44)	5.6 (40.42)	5.27 (41.09)
Central Transfers				
Meghalaya	20.34 (77.58)	22.15 (80.03)	22.17 (81.74)	24.85 (79.07)
West Bengal	5.73 (51.06)	6.31 (52.56)	8.26 (59.58)	7.56 (58.91)
Share in Central Taxes				
Meghalaya	5.62	5.95	12.62	13.75

West Bengal	3.51	3.41	4.7	4.86
Grants				
Meghalaya	14.73	16.2	9.55	11.1
West Bengal	2.22	2.9	3.56	2.7

Note: Figures in parentheses indicate corresponding shares in total revenue receipts of two states. Indicators are averaged for the period 2010-11 to 2014-15 to get the single figure of each indicator during the award period of the Thirteenth Finance Commission. However, figure corresponding to the year 2014-15 has been mentioned separately, because in this year, direct transfers were merged in states' budgets.

Source: State Finances, Study of State Budgets (various years) and Handbook of Statistics on Indian States, Reserve Bank of India.

It should be noted from the table that the share in Central taxes has increased for both Meghalaya and West Bengal in the years 2015-16 and 2016-17 over the period of Thirteenth Finance Commission. Moreover, the inter-se shares of these states in the net proceeds of Central taxes have also increased in FFC as against ThFC. For example, in ThFC, the inter-se shares of Meghalaya and West Bengal in the net proceeds of Central taxes were 0.408 and 7.264 respectively and they rose to 0.642 for Meghalaya and 7.324 for West Bengal in FFC period. It should, however, be noted that this additional increased devolution of Central taxes to states as recommended by the FFC has been accompanied by a reduction in the other component of Central Government fiscal transfers, Viz., conditional grants, for, these grants have been restructured following the recommendations of the FFC and the rationalisation of the Centrally Sponsored Schemes (CSS) (as discussed in Section 4.2 of this chapter). As stated earlier, most of CSS grants are meant for social sector schemes, and a reduction of these grants would put more burden on states' resources and their priority for social sector is quite likely to be influenced. However, a glance of Table 3 suggests that there has not been any significant impact of changed composition of Central transfers on states' relative priorities for social sector, rather an upward tendency is observable in these expenditures. Do trends presented in Table 3 suggest that the enhanced devolution of Central taxes to states provided enough fiscal space to Meghalaya and West Bengal to keep their relative priorities towards social sector unaffected? In order to understand this, let us compare the increased devolution for Meghalaya and West Bengal with their plan grants.

Table 3.

Trends in Expenditure on Social Sector/Social Services of Meghalaya and West Bengal

	2014-15	2015-16	2016-17
Expenditure on Social Services (% of GSDP)			
Meghalaya	11.76 (35.83)	10.36 (36.08)	12.53 (37.02)
West Bengal	6.16 (36.07)	6.77 (37.87)	6.88 (40.01)
Social Sector Expenditure (% of GSDP)			
Meghalaya	14.21 (43.3)	14.29 (38.7)	15.25 (41.7)

West Bengal	7.94 (46.5)	8.61 (46.9)	8.33 (47.8)

Note: Figures in parentheses indicate the corresponding shares in total expenditures of the two states. In this table, the distinction between social services and sector is as per the Reserve Bank of India definition. Expenditure on social services includes expenditure categories like education, health, nutrition, water supply and sanitation, social security, family welfare and welfare of SCs, STs, OBCs and relief on account of natural calamities. Social sector expenditure, on the other hand, comprises of expenditure on social services and expenditures on rural development, food storage and warehousing.

Source: Same as for Table 2.

Table 4.

Tax Devolution and Grants in Aid to Meghalaya and West Bengal – 2012-13 to 2016-17

	Meghalaya	Meghalaya	Meghalaya	Meghalaya	West Bengal	West Bengal	West Bengal	Wesst Bengal
	2013-14	2014-15	2015-16	2016-17	2013-14	2014-15	2015-16	2016-17
Tax Devolution (in Rs. Crores)	1302	1382 (80)	3276 (1894)	3911 (635)	23175	24594 (1419)	37164 (12570)	44625 (7461)
Tax Devolution (per cent of Revenue Receipts)	20.77	21.49 (0.72)	46.51 (25.02)	43.75 (-2.76)	31.8	28.43 (-3.37)	33.87 (5.44)	37.87 (4)
Tax Devolution (per cent of revenue expenditure)	23.45	22.1 (-1.35)	51.61 (29.51)	46.91 (4.7)	25.25	23.73 (-1.52)	31.28 (7.55)	33.32 (2.04)
Structure of Grants (in Rs. Crores)								
Non-Plan Grants	921.41 [26.96]	803.71 [21.35]	673.86 [27.16]	2.96 [0.09]	3790.06 [31.97]	3271.07 [15.67]	11753.18 [41.66]	10217.44 [41.21]
Of which A)	733.86 [21.47]	589.03 [15.65]	618 [24.91]	0.54 [0.02]	1701.69 [14.36]	2251.13 [10.78]	9499.23 [33.67]	6280.15 [25.33]

Statutory Grants								
B) Other Non-Plan Grants	187.55 [5.49]	214.68 [5.7]	55.86 [2.25]	2.43 [0.08]	2088.38 [17.62]	1019.94 [4.88]	2253.94 [7.99]	3937.29 [15.88]
Plan Grants	2495.91 [73.04]	2960.38 [78.65]	1807.39 [72.84]	3153.7 [99.91]	8063.43 [68.03]	17609.57 [84.33]	16461.23 [58.34]	14573.53 [58.79]
Of which A) State Plan Schemes	2046.28 [59.88]	2580.18 [68.55]	1240.15 [49.98]	0 [0]	4149.11 [35]	17250.24 [82.61]	14996.68 [53.15]	14443.04 [58.26]
B) Central Plan Schemes	31.65 [0.93]	8.89 [0.24]	270.44 [10.9]	0 [0]	187.37 [1.58]	365.58 [1.75]	1464.55 [5.19]	130.49 [0.53]
C) Centrally Sponsored Schemes	348.4 [10.2]	293.44 [7.8]	196.36 [7.91]	0.2 [0.01]	3726.95 [31.44]	-6.25 [-0.03]	0 [0]	0 [0]
D) NEC/Special Plan Schemes	69.58 [2.04]	77.87 [2.07]	100.44 [4.05]	3153.5 [99.9]	NA	NA	NA	NA
Total Grants	3417.32 [100]	3764.08 [100]	2481.25 [100]	3156.66 [100]	11853.49 [100]	20880.64 [100]	28214.41 [100]	24790.97 [100]

Notes: Figures in parentheses indicate change between two years, while figures in brackets are the percentage shares in total grants. NA: not applicable.

Source: Same as for Table 2.

Table 4 reveals an upward movement in the absolute tax devolution of both Meghalaya and West Bengal over the years with a sharp jump in 2015-16 and 2016-17 as against 2014-15. However, this jump in the absolute tax devolution in 2015-16 as against 2014-15 is more pronounced for Meghalaya as compared to West Bengal suggesting that Meghalaya has benifitted more from the enhanced tax devolution due to the criterion of forest cover considered by FFC. as percentage of revenue receipts and revenue expenditures, the tax devolution reflected a decline in case of Meghalaya while an increase for West Bengal between 2015-16 and 2016-17. A major part of Union grants to states are plan transfers in the form of Central support to states for smooth operation of various kinds of schemes. These plan transfers accounted for 73.04 per cent, 78.65 per cent and 72.84 per cent of the aggregate grants of Meghalaya in 2013-14, 2014-15 and 2015-16 respectively, and their share reached the peak of 99.91 per cent in 2016-17. In case of West Bengal, the share of plan grants in aggregate Union grants to the state was 68.03 per cent in 2013-14 which jumped to 84.33 per cent in 2014-15, then fell sharply to reach at 58.34 per cent in 2015-16 and rose marginally to 58.79 per cent in 2016-17. The two major components of plan grants are State Plan Schemes and Centrally Sponsored Schemes. It may be noticed from Table 4 that the grants under State Plan Schemes rose sharply in 2014-15 over 2013-14 from 59.88 per cent to 68.55 per cent for Meghalaya and from 35 per cent to 82.61 per cent for West Bengal. This sharp increase in grants under state plan schemes in 2014-15 over 2013-14 (as revealed from Table 4) is on account of the fact that prior to 2014-15, the Union Government used to provide direct funding to district implementing agencies to finance some of the big-ticket Centrally Sponsored Plan Schemes. This practice was, however, discontinued since 2014-15 and since then funds for all schemes are routed through the states' budgets as a component of the state plan schemes. The shares of State Plan Schemes in aggregate grants fell in 2015-16, both for Meghalaya as well as for West Bengal on account of restructuring of conditional grants following FFC's recommendations and also suggestions made by the Subgroup of Chief Ministers of States (NITI Aayog, 2015). In 2016-17, grants under State Plan Schemes accounted for 58.26 per cent for West Bengal as against 53.15 per cent in 2015-16. But in case of Meghalaya, from a share of 49.98 per cent in 2015-16, the percentage share of State Plan Schemes fell to 0 in 2016-17. It may, however, be noted from Table 4 that Meghalaya enjoyed a substantial portion (99.9 per cent) of its aggregate grants in the form of NEC/Special Plan Schemes in 2016-17.

In respect of grants under Centrally Sponsored Schemes, it may be noted that Government of India initiated the process of rationalisation of CSS in 2013-14 whose impact is visible since 2014-15. In case of Meghalaya, grants under CSS as percentage of aggregate grants fell from 10.2 per cent in 2013-14 to 7.8 per cent in 2014-15, then rose marginally to 7.91 per cent in 2015-16 and became almost negligible in 2016-17. For West Bengal, the impact is more pronounced as the share of grants under CSS fell so rapidly as to become negative (-0.03 per cent) in 2014-15 and no grant under this head was registered for the state in 2015-16 and 2016-17.

In order to assess the impact of the changing composition of plan transfers on the relative priorities of Meghalaya and West Bengal towards social sector, it is desirable to examine the trends in the composition of plan grants (scheme wise) and estimate additional fund requirements for the two states with respect to schemes for which Central support is delinked and schemes for which Central support is reduced due to the change in the sharing pattern of funds between Centre and States. However, it may be noted that for either of Meghalaya and West Bengal, no significant evidence of falling social sector expenditure is found in our case (either as percentage of GSDP or relative to total expenditure). This simply implies that the enhanced tax devolution has enabled both the states to continue prioritising for social sector relative to other areas, at least at the earlier pace, and without impacting their resources. Therefore, the only interest of this analysis is to know how much net fiscal space is generated for Meghalaya and West Bengal as a result of the enhanced tax devolution which can be spent on social and economic services.

It is found from Table 4 that for Meghalaya, the increase in the absolute tax devolution in 2015-16 over 2014-15 is of the order of Rs.1894 crores, while an increase of Rs.635 crores in 2016-17 over 2015-16. Similarly, the increased absolute tax devolution of West Bengal in 2015-16 over 2014-15 and 2016-17 over 2015-16 was Rs.12570 crores and Rs.7461 crores respectively. If these increased tax devolutions of Meghalaya and West Bengal are compared with their respective reduced plan grants[3] (in absolute terms), it may be seen that while Meghalaya's increased tax devolution in 2015-16 over 2014-15 was Rs.1894 crores, the reduction in its plan grants over this period was around Rs.1175.6 crores, thus leaving a net fiscal space of about Rs.718.4 crores. When this net fiscal space of Meghalaya was added to its additional tax devolution in 2016-17 of Rs.635 crores, it made up to Rs.1353.4 crores which fell short of Rs.1706.8 crores reduction in plan grants to the state in 2016-17 over 2015-16. The additional requirement of fund was thus a burden on the state's resources which was partly taken care of by NEC/Special Plan Schemes (not considered in this fiscal space calculation but given in Table 4). However, here two points deserve special attention:

(a) In the calculation of net fiscal space available to the sample states, total plan grants are considered. But the total plan grants given to a particular state comprise of grants for schemes relating to social as well as economic services. Thus it is expected that if only that part of plan grants, which is meant for social sector schemes alone is considered instead of total plan grants in the calculation of net fiscal space, Meghalaya would be in a more comfortable position than it looks above.
(b) It may also be recalled from Table 2 that the own revenues to GSDP ratio for Meghalaya improved from 4.95 per cent in 2015-16 to 6.58 per cent in 2016-17. So did its share in total revenue receipts from 18.26 per cent to 20.93 per cent over the same period.

When it comes to West Bengal, the state looks far comfortable with its net fiscal space. The reduction in total plan grants to the state in 2015-16 over 2014-15 was just Rs.1148.34 crores as against increased tax devolution of Rs.12570 crores. In 2016-17, total plan grants fell by an amount of Rs.1887.7 crores over 2015-16, while the incremental tax devolution in 2016-17 was Rs.7461 crores.

4. Concluding Observations

In recent years, states have been given greater fiscal autonomy with enhanced tax devolution which now covers both plan and non-plan revenue expenditure needs of the states and reduction in conditional grants which gives freedom to states to choose among schemes for implementation. This paper attempted to quantify the impact of the changed composition of Central Government fiscal transfers on the social sector priorities of Meghalaya and West Bengal. From the analysis of the impact assessment of the changed composition of Central Government fiscal transfers, it is found that there has not been any significant impact of changed composition of Central transfers on relative priorities of Meghalaya and West Bengal for social sector, rather an upward tendency is observable in these expenditures. As a result of enhanced tax devolution and reduced plan grants, Meghalaya had a net positive fiscal space in the year 2015-16, but this became negative in 2016-17 because of large reduction in plan grants to Meghalaya which offset the sum of net fiscal space of 2015-16 and additional tax devolution in 2016-17 for the state. However, the plan grants considered under calculation of net fiscal space did not take into account NEC/Special plan grants for reasons of comparison of Meghalaya with West Bengal. Also, the continuous improvement in Meghalaya's own revenues position enables it to carry forward the social

[3] NEC/Special Plan Schemes are not considered while calculating the increases in Plan Grants of Meghalaya for purposes of comparison with West Bengal.

sector programmes without much effort. Unlike Meghalaya, West Bengal recorded a large positive net fiscal space in both the years Viz., 2015-16 and 2016-17.

In view of the changed landscape of the intergovernmental fiscal transfers and the positive net fiscal space generated for Meghalaya and West Bengal, how states will set their relative priorities for different activities/services will largely depend upon their level of development, efficiency with which they utilise public money and above all, on the institutional setup which govern mechanisms for the implementation of schemes and/or effective delivery of various public services. The task to prioritise for human development would be more difficult for states that are fiscally weak – states whose effort to raise own revenues are insufficient and they largely depend on Central transfers. The past trends suggest that significant proportions of plan funds were diverted to meet non-plan requirements. Though the distinction between plan and non-plan expenditures has been done away with, the inherent classification of public funds, Viz., to create additional productive capacity and to maintain the existing productive capacity remains intact.

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