Recent Changes in India's Fiscal Architecture: Implications for Development Policy and Social Inclusion

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Concept Note

The landscape of fiscal policy, development planning and budgetary processes in India has witnessed a number of changes over the last two years, and, some of these changes are still underway. The process of restructuring of central schemes, which started in 2014-15 along the lines of the B. K. Chaturvedi Committee recommendations, has been expanded in its scope this year. The abolition of the Planning Commission and formation of NITI Aayog has changed the institutional architecture of policymaking at the national level. The Expenditure Management Commission, constituted in September 2014, is also suggesting changes in the domain of public expenditure by the Union Government. However, the recommendations of the 14th Finance Commission and the consequent restructuring of the Union Budget has led to the most noticeable changes in this sphere. As a result, the debates pertaining to public policies and government finances in the country have become more intense in the recent months.

Following the recommendations of the 14th Finance Commission, the Union Government is going to share a higher magnitude of untied funds with the States during 2015-16 to 2019-20, which is on account of the share of States in the divisible pool of central taxes being raised from 32 percent to 42 percent every year. But the increased autonomy to States with higher magnitudes of untied resources has been accompanied by reductions in Union Government's financial assistance to States for their Plan spending and its budget outlays for a number of central schemes in the social sectors. This kind of a change in the composition of resources transferred from the Union Government to States is a result of the restructuring of the Union Budget in 2015-16.

In several of the social sector programmes, the States are now expected to provide additional budgetary resources from their untied funds to compensate for the reduced budget outlays by the Union Government. A NITI Aayog Sub-Group of Chief Ministers has also made recommendations on the further changes to be made in the central schemes across sectors, which pertain to changes in the Centre-State fund sharing patterns, merger of smaller schemes with umbrella programmes in some sectors, and discontinuation of Union Government funding in case of a few schemes. These recommendations too indicate the growing responsibility of States in provisioning of financial resources for development programmes in the years to come.

In this context, a number of policy analysts and social activists have raised a concern that the already resource-constrained government interventions in social sectors and agriculture could face harsher problems of shortage of funds in the coming years. This apprehension is based on the observations that – with expenditure shortfalls in a range of sectors, many States would witness an intense competition for budgetary resources between different sectors and the social sectors might not get their due priority in State Budgets; and, the problem could get worse in the poorer States with a relatively weaker fiscal health. Hence, at this point in time, there is a need for in depth discussion on the fiscal space at the subnational level and the implications of the recent changes in India's fiscal architecture for sectors like education, health, drinking water and sanitation, nutrition, and agriculture, among others.

Moreover, following the abolition of the Planning Commission and the 14th Finance Commission's suggestion for doing away with the distinction between Plan and Non-Plan budgets, it is being speculated that the Union Government would drop this categorization in its budget after 2016-17 (i.e. after the completion of the 12th Five Year Plan period). Such a step might induce some of the State Governments to follow similar changes in their budgets. However, any decision in this regard needs to factor in its implications for policy strategies for social inclusion like, the *Scheduled Caste Sub Plan* and *Tribal Sub Plan*, which have been applicable only on the Plan budgets. The future of *Gender Responsive Budgeting*, as a fiscal policy strategy for addressing the gender-based disadvantages faced by women, also needs to be deliberated at this juncture.

As regards the larger debate over increasing the autonomy of States in designing their expenditure priorities (which has been pursued by the 14th Finance Commission and the Union Government) and the need for ensuring adequate public resources for development sectors (which has been highlighted by many policy analysts and grassroots level activists), it is worth pointing out that, ideally, both of these objectives can and should go together. In other words, higher magnitudes of public resources could be provided for development sectors in the country through budgetary decisions of primarily the State Governments; however, that would require the overall magnitude of resources available to the State Governments to be augmented adequately. This in turn requires the country's tax-GDP ratio to be stepped up visibly from the prevailing level of 17 percent (the lowest among the BRICSAM countries; Brazil has increased its tax-GDP ratio from 30 percent in 2002 to 35 percent in 2012, which is the highest among the emerging economies), and, the gross central taxes - GDP ratio to be increased significantly beyond the 10.5 percent level at present.

Hence, there is a need to reflect upon the taxation policies in India and discuss the possibilities for enhancing domestic revenue mobilization capacity of the country, a topic that has also received a lot of attention globally in the discourse on financing of sustainable development. The taxation policy of a country depends to a large extent on the significance attached with fiscal policy in the overall policy paradigm in the country. Therefore, it would be worthwhile to discuss the relevance of fiscal policy for India at the current juncture before we examine more specific issues pertaining to taxation or public expenditure architecture and priorities.

However, no one can ignore the deep-rooted problems in the domain of implementation of development programmes in the country, which result from a range of factors like institutional and procedural bottlenecks that constrain fund flow within the government system, deficient planning within the programmes, very little transparency about public funds at the district and sub-district levels, weak accountability mechanisms, and limited engagement of the community with planning and implementation of development programmes. Thus, while we examine the policy issues pertaining to the fiscal architecture and priorities, we should also pay attention to the need for significant improvements in the budget accountability ecosystem in the country.

In such a backdrop, *Centre for Budget and Governance Accountability (CBGA)* is organising a two-day conference, "Recent Changes in India's Fiscal Architecture: Implications for Development Policy and Social Inclusion", which would bring together academics, policy researchers, social activists, journalists and policymakers from across the country to discuss some of the issues highlighted above. The conference aims to bring more clarity in the public discourses on issues relating to fiscal policy and budgetary processes in the country at present; it also aims to identify policy alternatives in this domain that could be pursued in the coming years.

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