

Impact of the Recommendations of the
Fourteenth Finance Commission (FFC) on
State-level Health Expenditures:

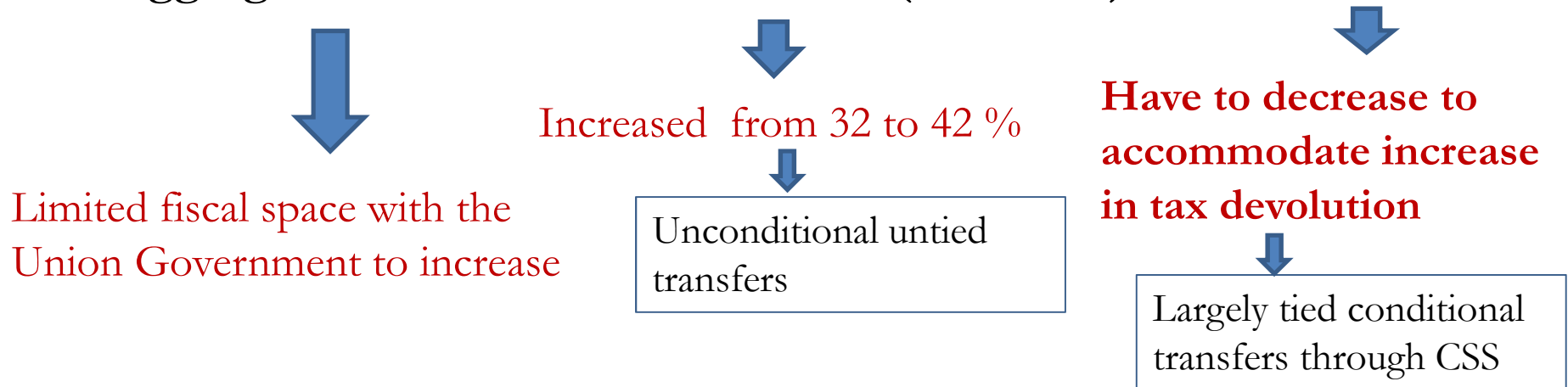
Transfers and Social Sector Expenditures
(including Health)

National Institute of Public Finance and Policy

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Why do we expect changes with the recommendations of FFC?

- Recommendation by FFC - **An increase in the share of States in divisible pool (DP) from 32 to 42 per cent**
- **Aggregate Transfers = Shared Taxes (From DP) + Grants-in-aid**



- Union Government's expenditure on subjects in the 'State' and Concurrent' list has increased over the years. (FFC)
- **Expected to increase expenditure autonomy at the State-level**

Questions for Empirical Investigation

Some of the questions addressed in existing studies include:

- (a) What has been the net gain in resources (after compensating the loss if any) in States ?
- (b) What has been the change in composition of transfers to States?
- (c) What has been the impact on social sector expenditures ?
- (d) How have individual States used the increased untied resources to meet their fiscal priorities.

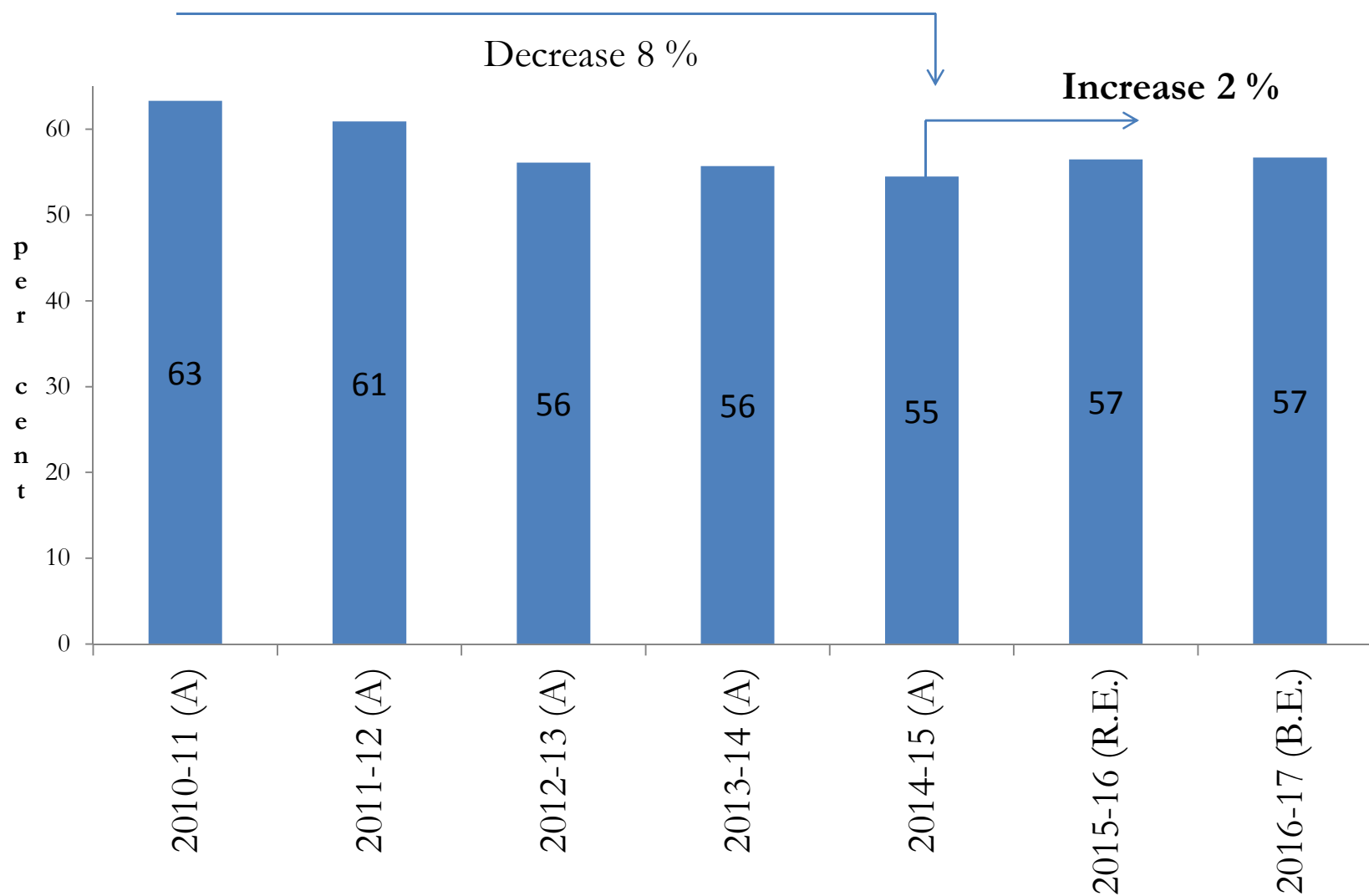
We revisit some of these questions here using a different approach.

What has been the net gain/loss of resources in States following the FFC recommendations?

Evidence suggests **Net Gain in Resources in States**

- State-specific studies:
 - **Bihar** (Chakraborty 2016) , -- **Odisha** (Odisha Budget and Accountability Centre 2015), -- **Maharashtra** (Shetty 2016), -- **Karnataka** (Kotasthane and Ramachandra 2015, 2016)
- Studies on a set of States (19/20 States):
 - **Accountability Initiative (2016), World Bank (2016)**
- **Much of the inference has been based on a comparison between 2014-15 (last year of TFC) and 2015-16 (first year of FFC)**

Resources transferred to States as a share of Gross Tax Revenues of the Union Government



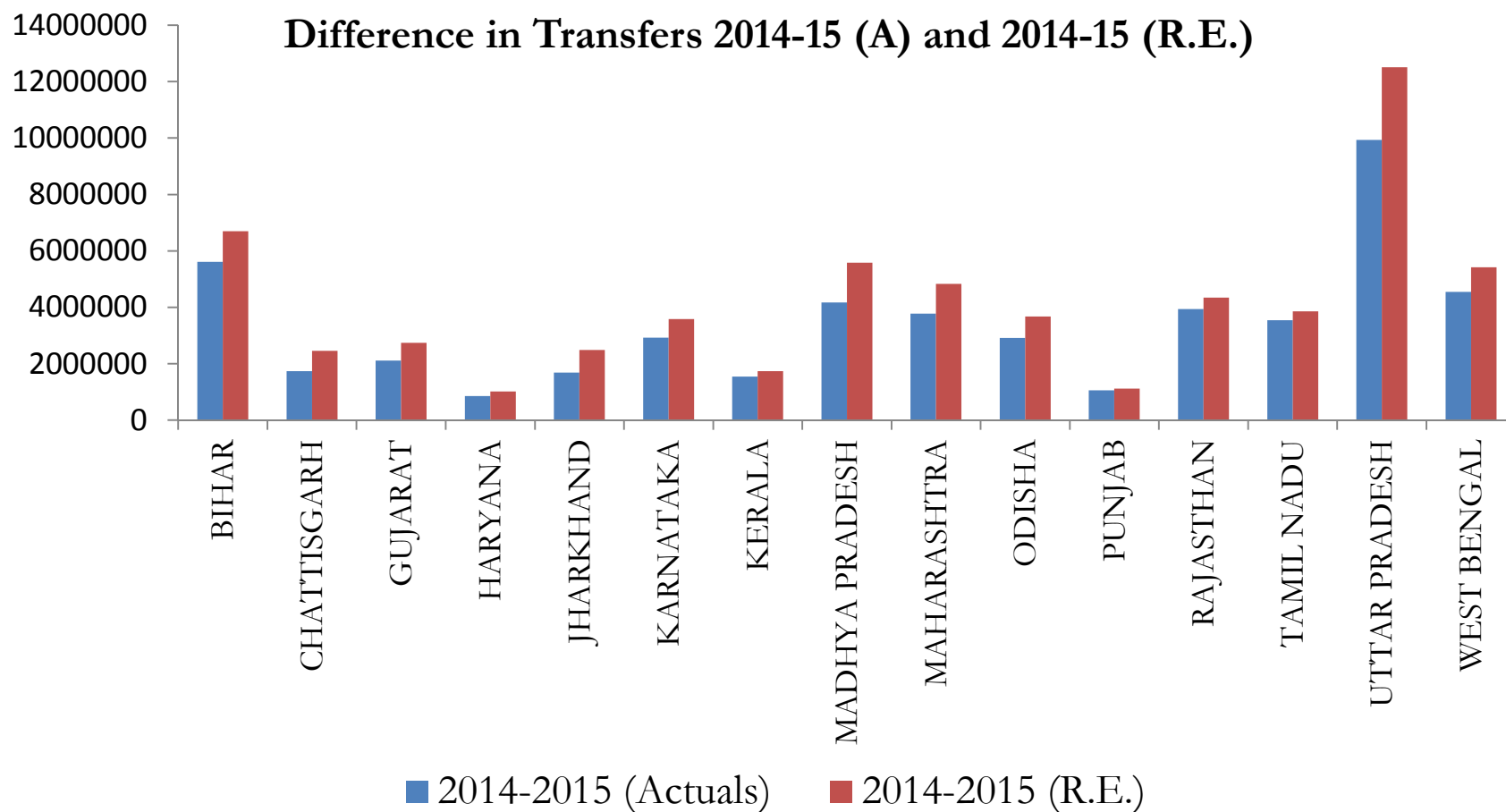
Existing evidence is also partly biased due to systematic differences in the estimates used for analysis

Comparisons made between

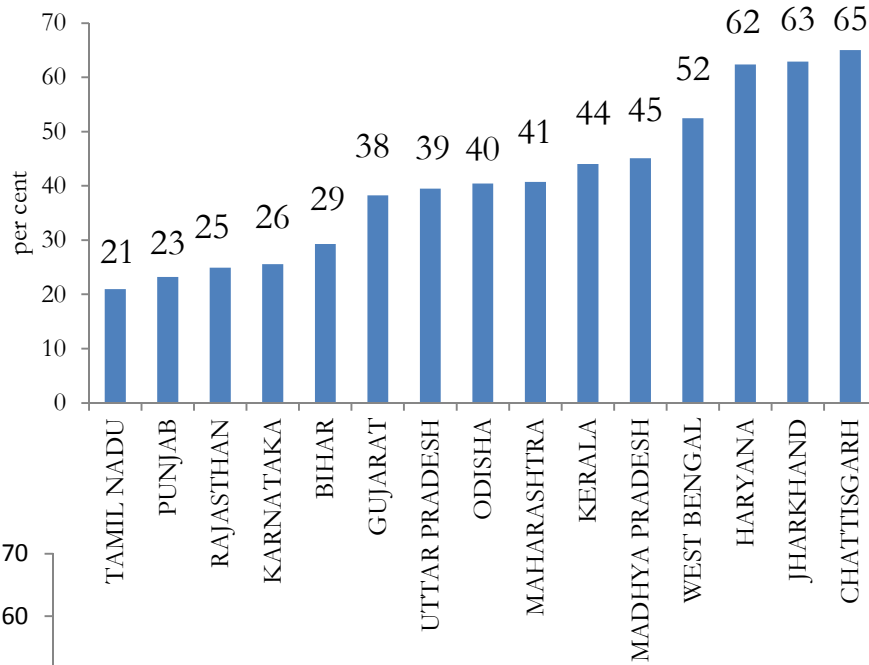
Actuals Vs. Revised Estimates (R.E.)

Revised Estimates (R.E.) Vs. Budget Estimates (B.E.)

The gains in States are inflated if one compares Actuals and R.E.

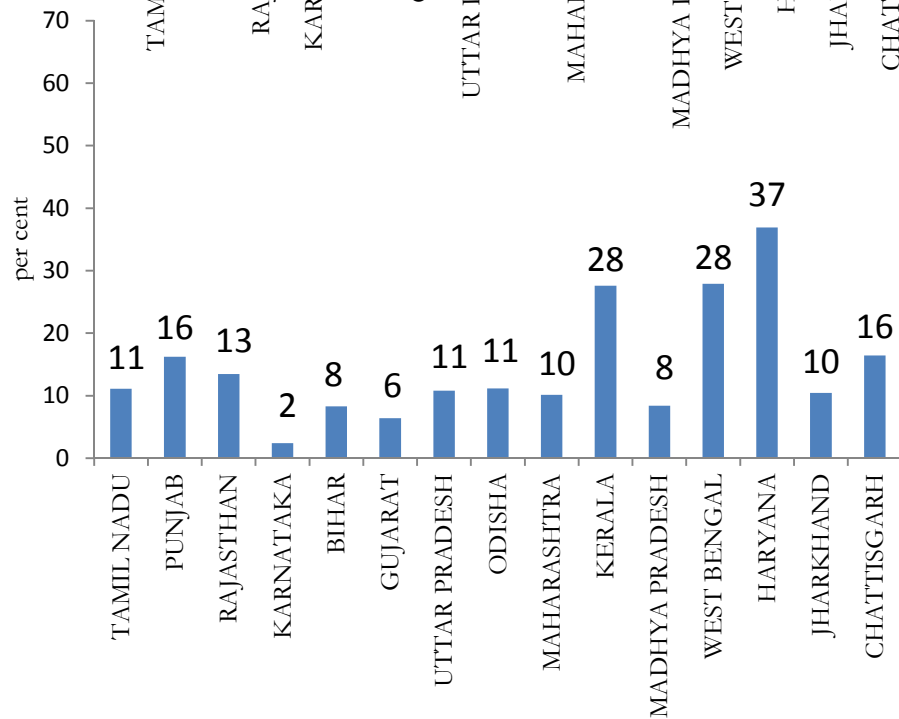


Percentage change in Central transfers



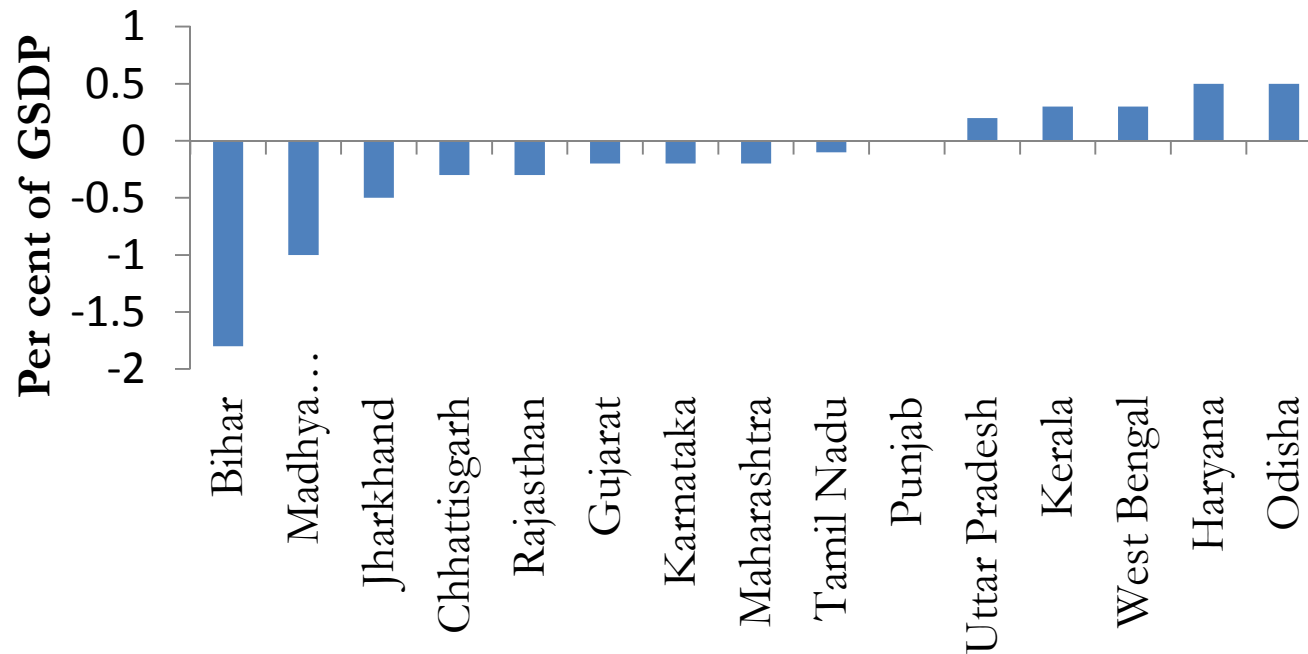
2014-15 (Actuals) and 2015-16 (R.E.)

(Accountability Initiative 2016)



2014-15 (R.E.) and 2015-16 (R.E.)

Central Transfers as per cent of GSDP



World bank (2016) measures transfers as per cent of GSDP, but finds that transfers were 'unambiguously positive' due to different estimates used for comparison ('Actuals' and 'Revised Estimates').

Decomposing the Effects of Tax Devolution

$$D_{it} = f(\alpha_{it}, \beta_t, DP_t) \quad \text{where}$$

D_{it} = Tax devolution to state 'i' at time 't'

DP_t = Divisible pool at time 't'

β_t = Share of the States in the divisible pool

α_{it} = Share of State 'i' at time 't' in the pool of resources for States

Devolution effect: The growth in devolution that was brought about by increase in the share of States in the divisible pool from 32 to 42 per cent

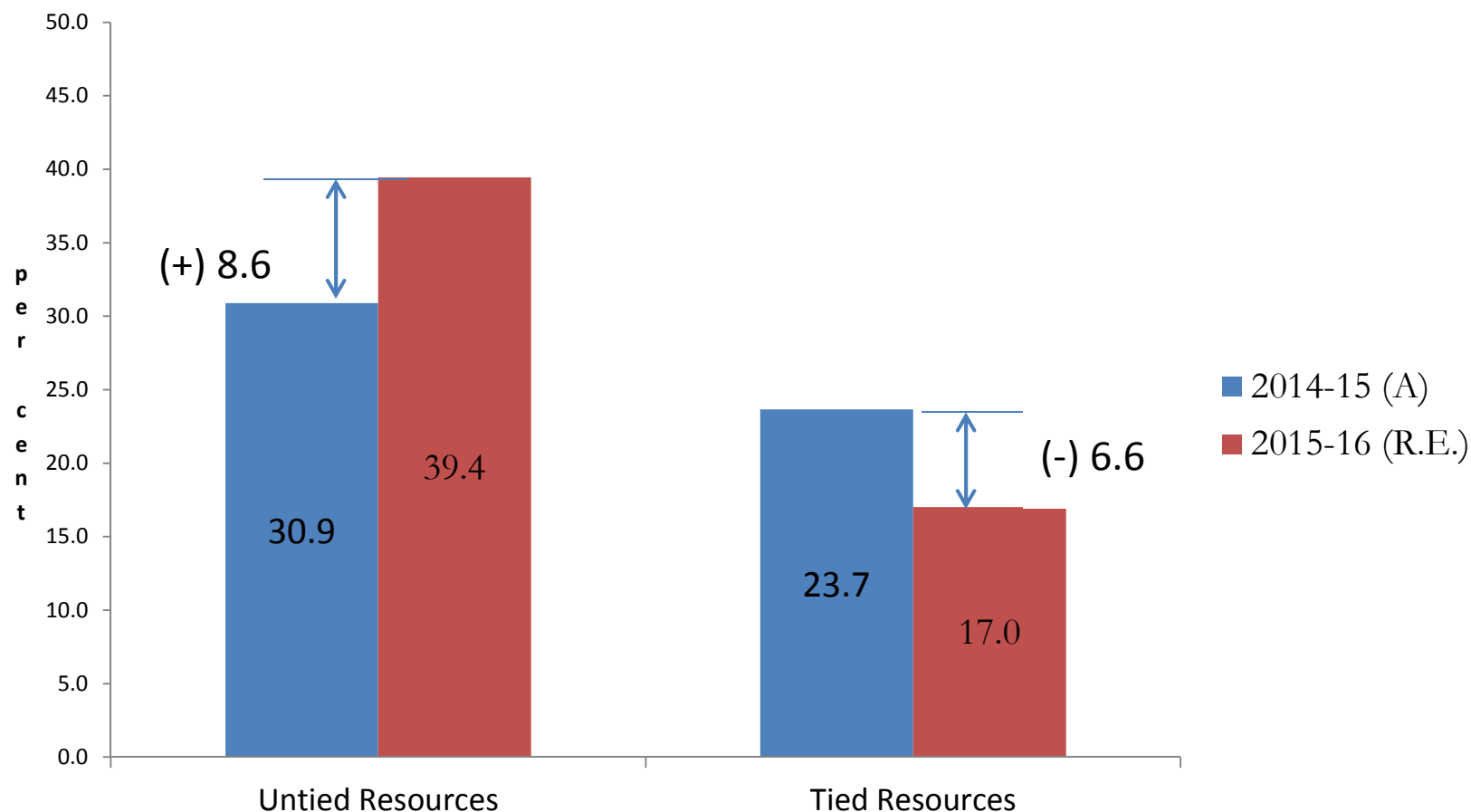
Share effect: The growth (+/-) in devolution that was brought about by changes in the share of States between the TFC and FFC period.

Divisible pool effect: The growth in devolution that was brought by change in the size of the divisible pool.

States	Decomposition of the Growth of Tax Devolution				Change in Grants (Rs. Crore)	Percentage change in net transfers
	Overall Growth	Devolution effect 32 to 42 %	Share Effect (Changes in States' share)	Divisible pool effect (Change in size of the divisible pool)		
Bihar	28.3	27.2	-12.2	13.3	-7118	8.3
Chhattisgarh	62.5	27.2	22.1	13.3	-2713	16.4
Gujarat	41.8	27.2	1.4	13.3	-3469	6.4
Haryana	43.8	27.2	3.4	13.3	2048	36.9
Jharkhand	51.8	27.2	11.4	13.3	-4012	10.5
Karnataka	49.0	27.2	8.5	13.3	-7710	2.4
Kerala	47.0	27.2	6.6	13.3	-389	27.6
Madhya Pradesh	46.3	27.2	5.8	13.3	-7737	8.4
Maharashtra	46.5	27.2	6	13.3	-5677	10.1
Odisha	37.5	27.2	-2.9	13.3	-1995	11.1
Punjab	53.1	27.2	12.7	13.3	-790	16.2
Rajasthan	34.1	27.2	-6.3	13.3	-2263	13.4
Tamil Nadu	19.3	27.2	-21.1	13.3	-37	11.1
Uttar Pradesh	31.3	27.2	-9.1	13.3	-5419	10.8
West Bengal	41.3	27.2	0.8	13.3	1446	19.1

What has been the changes in
composition of transfers to States?

Changes in Composition of Transfers as proportion of Gross tax Revenues of the Union Government

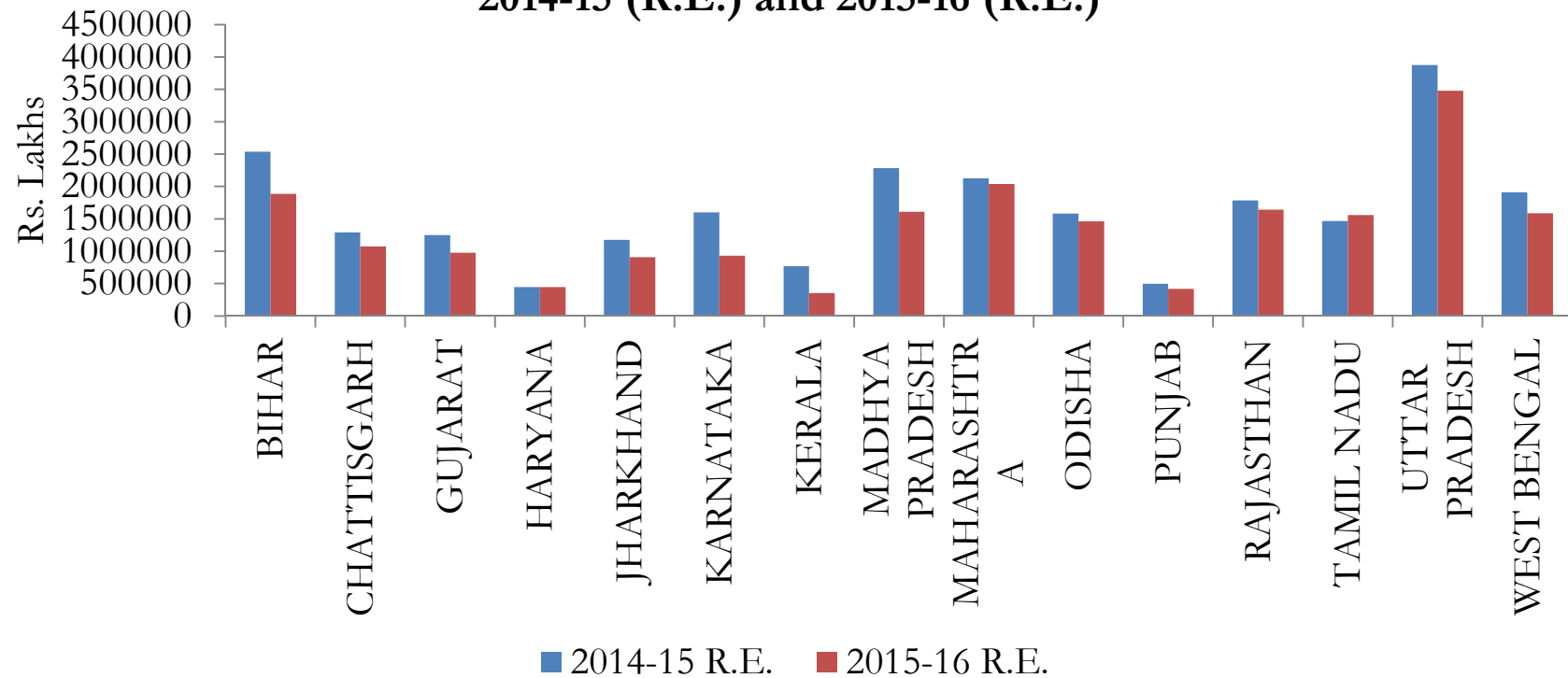


Untied Resources: States' share in taxes + Normal Central Assistance + Revenue deficit grants + Compensation for VAT/CST

Tied Resources: All excluding those included in Untied

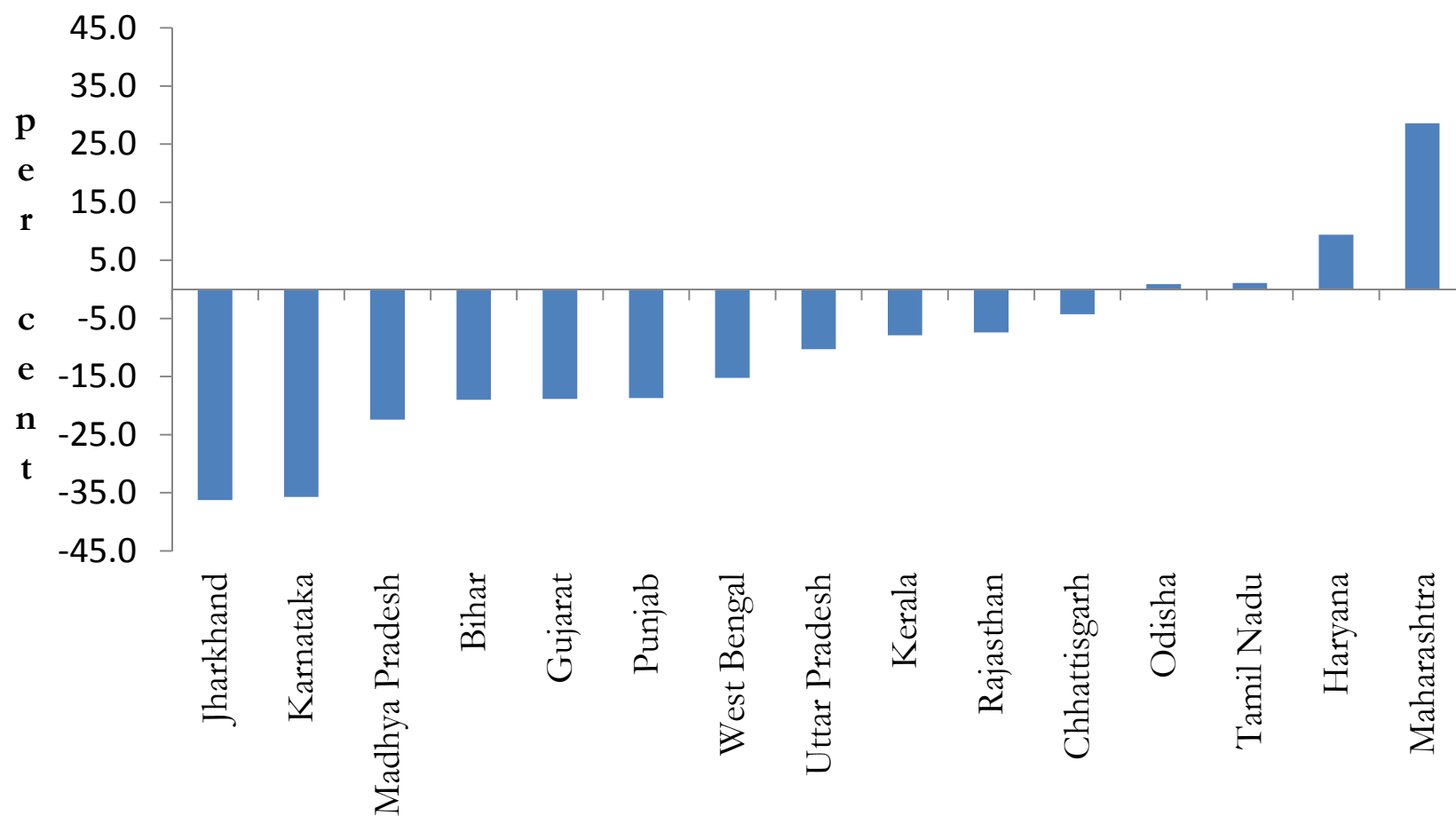
Receipts of Tied Plan Grants in States

2014-15 (R.E.) and 2015-16 (R.E.)

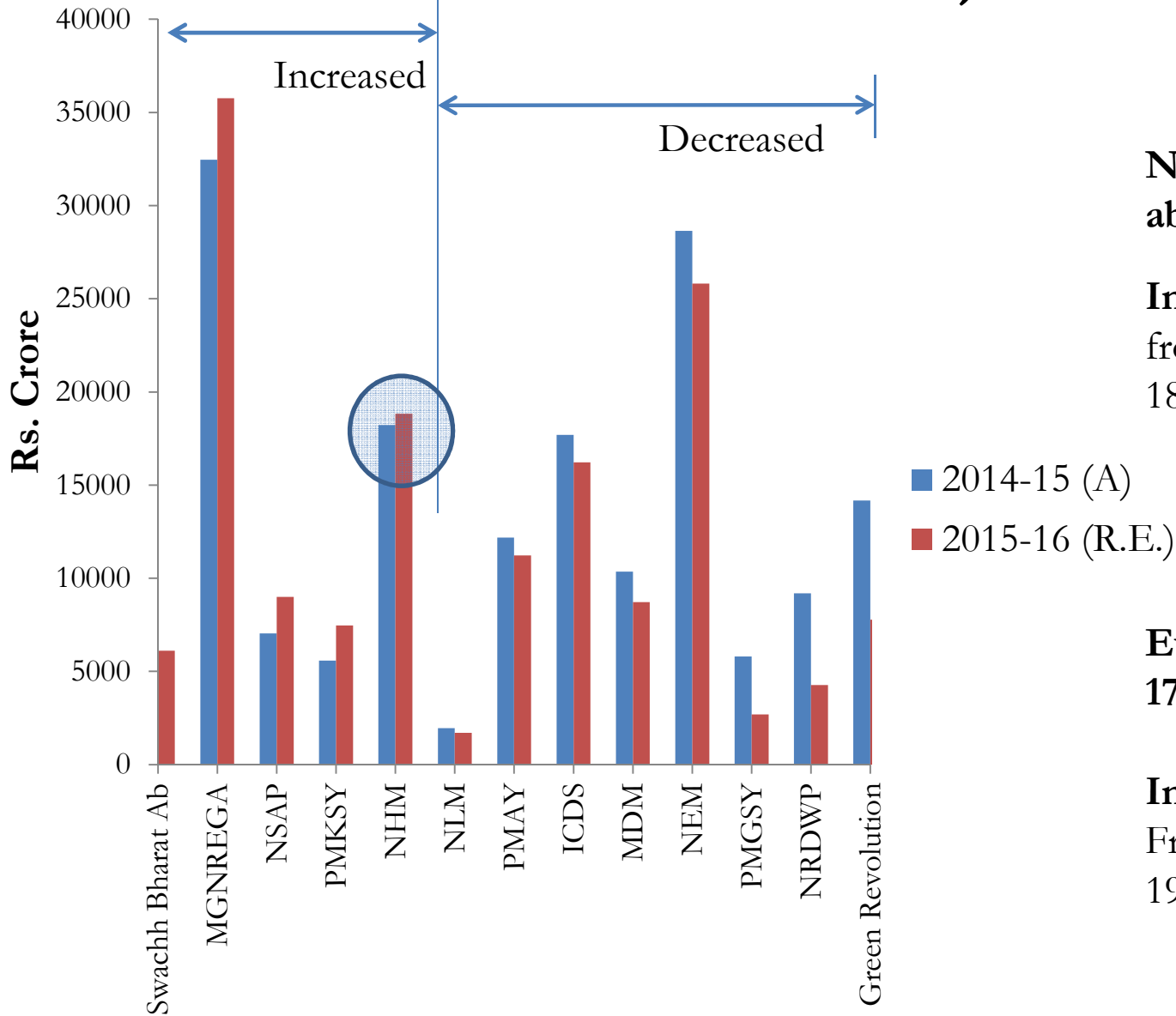


This is in contrast to Accountability (2016) in which CSS+ is found to have increased in a majority of States. This is driven by the fact that comparisons in the AI study is made between 'Actuals' and 'Revised Estimates'.

Percentage Change in Grants for Social Sector (2014-15 R.E. and 2015-16 R.E.)



Decline in Resources for Major CSS schemes



NHM: No decline in absolute terms

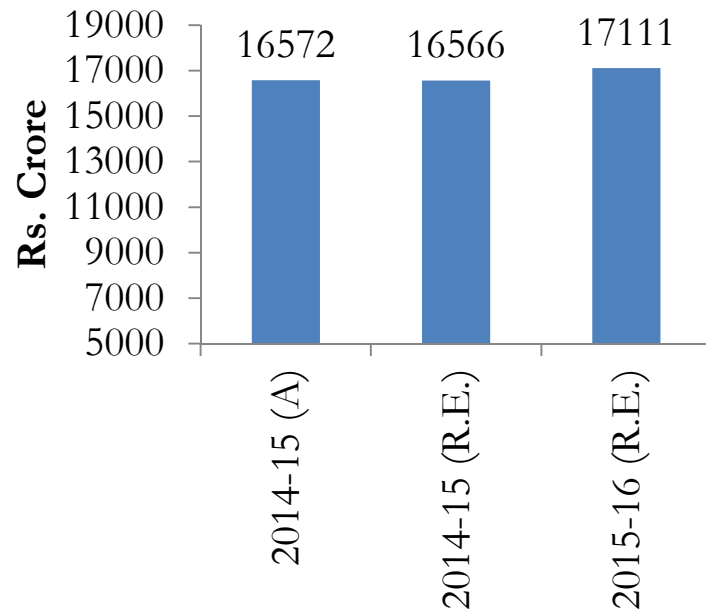
In State plans: Increased from 18220 Cr (2014-15A) 18827 Cr. (2015-16 R.E.)

Even in 2015-16 and 2016-17 (BE-BE)

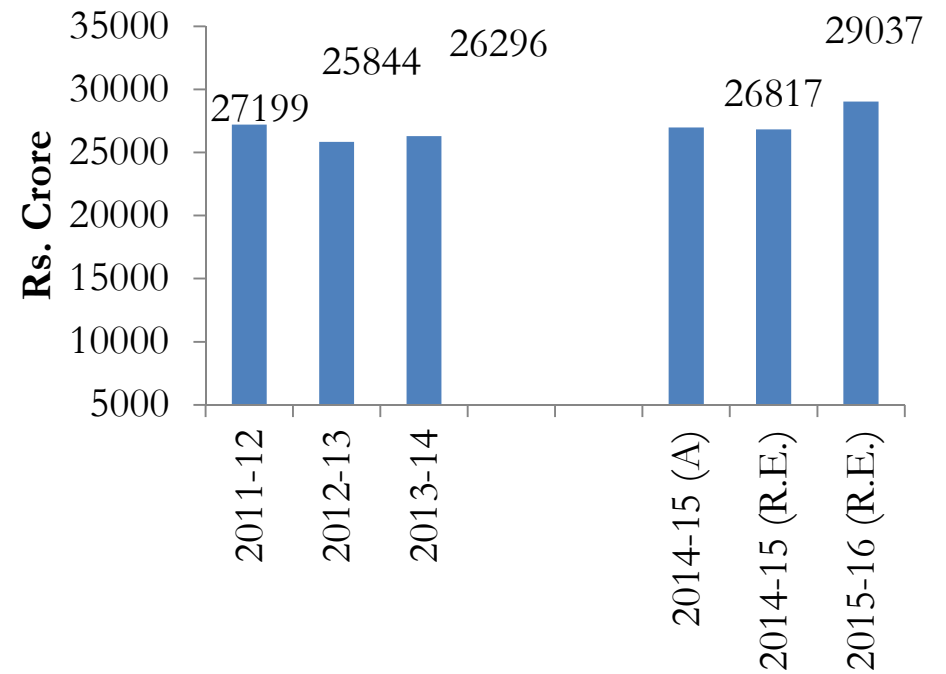
In State Plans: Increased From 18300 Cr to 19353 Cr

No decline in Union Government's expenditure or transfers to States for health in absolute terms

Transfers to States for Health

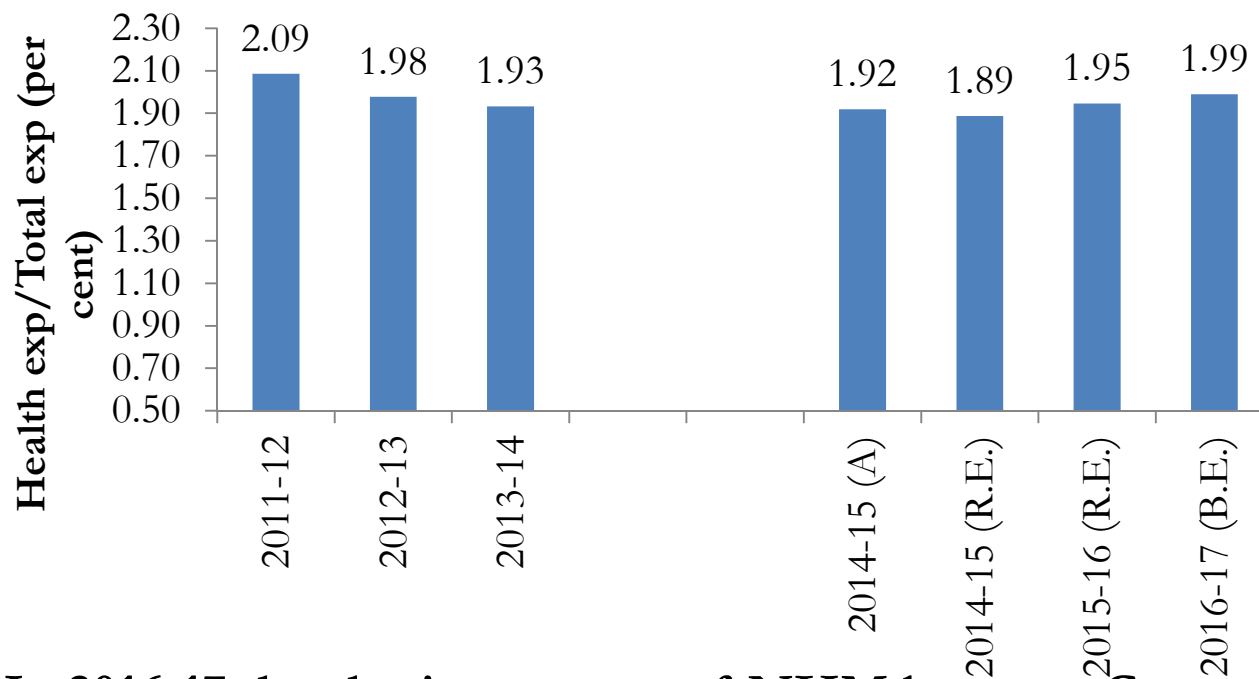


Total Expenditure on Health



At Constant (2011-12 prices)

Health expenditure as a share of total expenditure of the Union Government

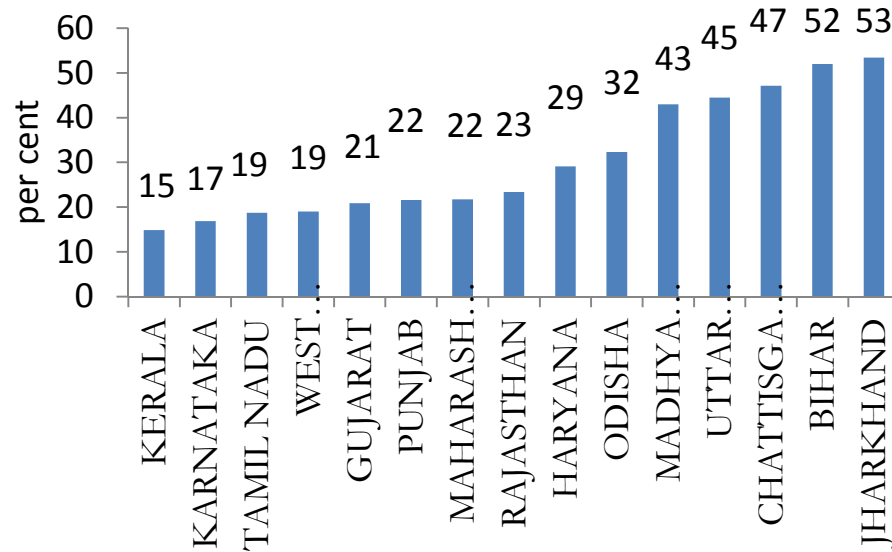


- In 2016-17 the sharing pattern of NHM between Centre and States have changed from 75:25 to 60:40
- NHM allocation in State plans
 - 2015-16 (B.E.) : 18300 Crore
 - 2016-17 (B.E.) : 19353 Crore
- Part of the increased untied resources will be used up to meet the additional requirement of contribution

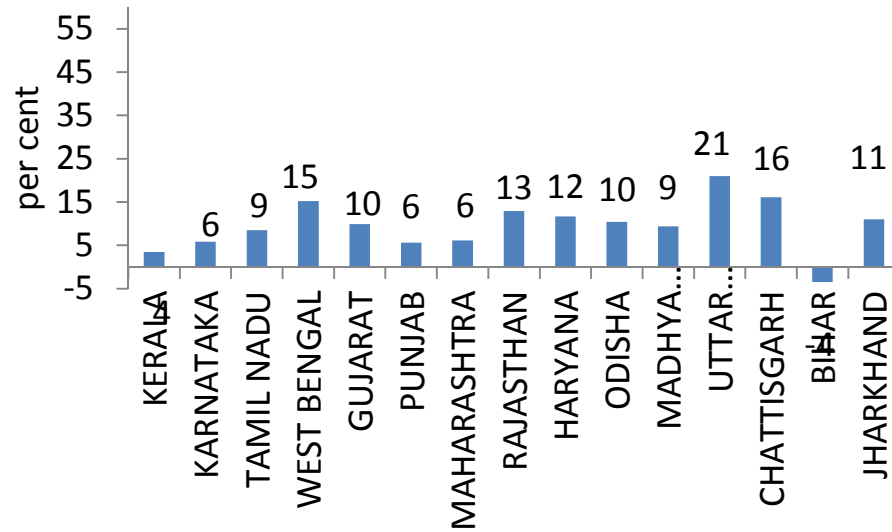
How social sector expenditures fared in States ?

(Existing evidence indicates significant increase)

Exp. on Social Services (incl. Health) (% increase over previous year)

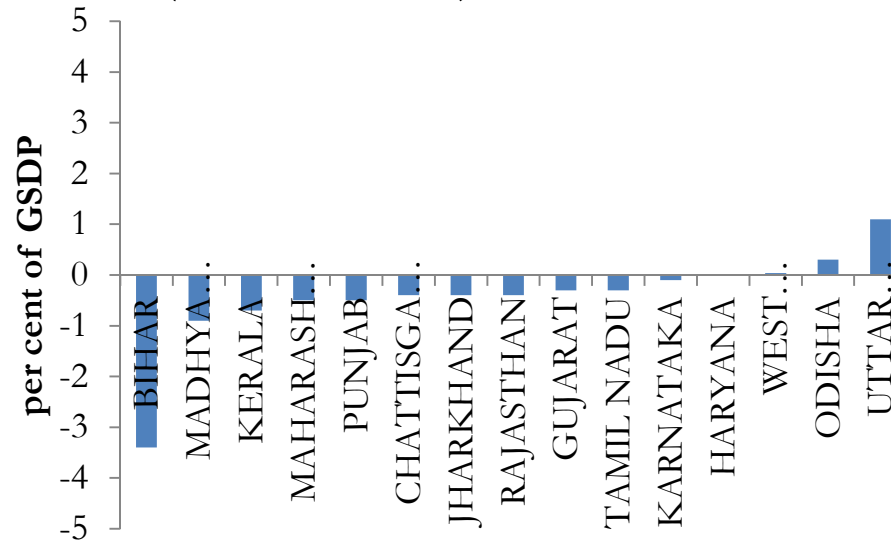


2014-15 Actuals vs 2015-16 (R.E.)

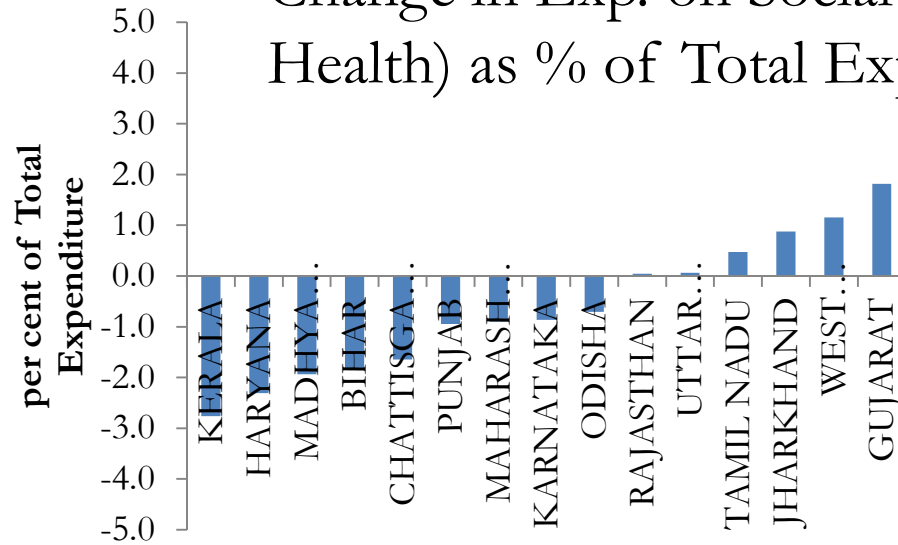


2014-15 R.E. vs 2015-16 (R.E.)

Change in Exp. on Social Services (incl. Health) as % of GSDP



Change in Exp. on Social Services (incl. Health) as % of Total Expenditure



**Social services have received a lower priority
over economic services in most major States**

Changes in social services vs economic services (as % of GSDP)

	Bihar		
	2014-15 (R.E)	2015-16 (R.E.)	Change
Total Revenue Receipts	23.8	20.6	-3.2
Central Transfers	16.7	14.9	-1.8
Total Expenditure	31.8	26.3	-5.5
Social Services (incl. Health)	16.5	13.1	-3.35
Economic Services	7.08	5.98	-1.1
	West Bengal		
Total Revenue Receipts	12.0	12.6	0.5
Central Transfers	6.8	7.6	0.8
Total Expenditure	15.0	14.7	-0.3
Social Services (incl. Health)	7.3	7.4	0.04
Economic Services	2.1	2.1	0.03

Changes in social services vs economic services (as % of GSDP)

	Odisha		
	2014-15 (R.E)	2015-16 (R.E.)	Change
Total Revenue Receipts	20.5	21.5	1.0
Central Transfers	11.9	12.3	0.4
Total Expenditure	23.4	24.5	1.1
Social Services (incl. Health)	10.7	11.0	0.31
Economic Services	6.5	7.5	0.94
	Rajasthan		
Total Revenue Receipts	16.8	15.8	-1.0
Central Transfers	7.6	7.3	-0.3
Total Expenditure	20.9	20.1	-0.8
Social Services (incl. Health)	10.4	10.0	-0.39
Economic Services	5.4	5.4	-0.08

Changes in social services vs economic services (as % of GSDP)

	Chhattisgarh		
	2014-15 (R.E)	2015-16 (R.E.)	Change
Total Revenue Receipts	22.0	23.4	1.4
Central Transfers	11.0	11.4	0.4
Total Expenditure	24.5	26.1	1.7
Social Services (incl. Health)	11.9	12.3	0.38
Economic Services	8.0	8.9	0.83
	Madhya Pradesh		
Total Revenue Receipts	20.6	18.3	-2.3
Central Transfers	11.0	10.0	-1
Total Expenditure	22.1	21.1	-1
Social Services (incl. Health)	10.8	9.9	-0.91
Economic Services	5.7	5.7	0.01

Changes in social services vs economic services (as % of GSDP)

	Jharkhand		
	2014-15 (R.E)	2015-16 (R.E.)	Change
Total Revenue Receipts	22.2	21.5	-0.7
Central Transfers	12.6	12.2	-0.4
Total Expenditure	24.2	23.0	-1.1
Social Services (incl. Health)	12.4	12.0	-0.38
Economic Services	5.6	4.9	-0.68
	Uttar Pradesh		
Total Revenue Receipts	22.9	23.2	0.3
Central Transfers	12.8	13.0	0.2
Total Expenditure	25.7	28.4	2.7
Social Services (incl. Health)	10.3	11.4	1.12
Economic Services	6.8	8.4	1.63

Changes in social services vs economic services (as % of GSDP)

	Gujarat		
	2014-15 (R.E)	2015-16 (R.E.)	Change
Total Revenue Receipts	11.5	10.5	-1.0
Central Transfers	3.2	2.9	-0.2
Total Expenditure	13.9	12.7	-1.2
Social Services (incl. Rural Dev)	6.0	5.8	-0.3
Economic Services	4.1	3.5	-0.6
	Haryana		
Total Revenue Receipts	10.1	10.7	0.6
Central Transfers	2.2	2.7	0.5
Total Expenditure	13.4	14.1	0.7
Social Services (incl. Rural Dev)	5.8	5.8	-0.02
Economic Services	3.4	4.4	1.0

Changes in social services vs economic services (as % of GSDP)

	Karnataka		
	2014-15 (R.E)	2015-16 (R.E.)	Change
Total Revenue Receipts	15.9	16.0	0.1
Central Transfers	5.2	5.0	-0.2
Total Expenditure	18.6	18.7	0.1
Social Services (incl. Rural Dev)	7.8	7.7	-0.1
Economic Services	5.6	5.9	0.3
	Kerala		
Total Revenue Receipts	12.8	12.1	-0.7
Central Transfers	3.5	3.8	0.3
Total Expenditure	15.9	15.0	-0.8
Social Services (incl. Rural Dev)	6.1	5.3	-0.7
Economic Services	2.4	2.4	-0.05

Changes in social services vs economic services (as % of GSDP)

	Maharashtra		
	2014-15 (R.E)	2015-16 (R.E.)	Change
Total Revenue Receipts	10.7	10.1	-0.6
Central Transfers	2.9	2.7	-0.2
Total Expenditure	12.9	12.0	-0.9
Social Services (incl. Rural Dev)	5.8	5.3	-0.5
Economic Services	3.1	2.8	-0.2
	Punjab		
Total Revenue Receipts	12.2	11.2	-1.1
Central Transfers	3.2	3.2	-0.02
Total Expenditure	15.1	14.1	-1.1
Social Services (incl. Rural Dev)	5.1	4.6	-0.5
Economic Services	3.3	3.2	-0.1

Summary of observations

- Share of resources transferred to States in the first two years under FFC is marginally higher in comparison to 2014-15, but lower than the average transfers in the 13th FC period.
- Although grants for the social sector have fallen in most of the major States, States have compensated for this fall and increased expenditure on social sectors.
- Social sector expenditures as per cent of GSDP however, have fallen in most of the major States. Expenditure on social services (including health) have received a lower priority over expenditure on economic services in the first year of the FFC award period (Note that the base year of comparison was one of the lowest in TFC period)
- In the context of health, expenditure has been maintained approximately at the same level (in absolute terms) by the Union Government despite a reduction in tied grants.
- With State's share increased in the second year (2016-17) on NHM, and indications of the Union Govt. retaining similar spending on health, the States' autonomy in re-prioritizing expenditures towards health has been lowered.

Note of caution

- The observations here provide only a preliminary indicative glimpse – much of the inference is based on Revised Estimates, not Actual figures of transfers, expenditures and GSDP.
- State-wise analysis is based on a year to year comparison of 2014-15 and 2015-16. If the figures for any of the two years is affected by unusually high or low values in any States, the relative loss or gain of resources and expenditures at the State-level may be different.
- It is likely that 2015-16 the first year of the FFC period was a year of transition to a new regime of Centre-State fiscal relations -- over the medium term, the impact of FFC may play out differently -- one needs to examine this over a longer period of time.