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Fiscal Transfers from Centre to Andhra Pradesh

R. Sudarsana Rao

CENTRE FOR ECONOMIC AND SOCIAL STUDIES
Begumpet, Hyderabad-500016

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ABSTRACT

Andhra Pradesh being a major state has been getting fiscal transfers through successive Finance Commissions and also through the Planning Commission. An analysis of aggregate fiscal transfers as a proportion of GDP reveals that it has hovered around 4.5% during the Eleventh and Twelfth Finance Commission periods.

Though the aggregate sates' share in central taxes and duties has increased by successive Finance Commissions, the share in central tax revenue of Andhra Pradesh has been declining from the Eleventh Finance Commission onwards. The decline in the percentage share has increased from 0.209 during Eleventh Finance Commission to 0.419 during Thirteenth Finance Commission. This is mainly due to the criteria adopted, factors incorporated and weights given by successive Finance Commissions for inter se distribution. The criteria and methodology followed by the THFC have led to a decline in the state's share. The state would have fared better in its tax share entitlement had the THFC given higher weightage to population and area as suggested by Andhra Pradesh in its Memorandum. As far as the average devolution as a percentage of GSDP is concerned the state has fared better compared with other Southern and middle income states of Karnataka, Kerala and Tamil Nadu.

An analysis of articles 275 (1) grants reveals that the state was not eligible to get grants-in aid for several services like education and health under TFC and for purposes like coastal development and tourism under THFC due to the methodology they have adopted.

The state received financial assistance for State Plan Schemes under Gadgil formula, Modified Gadgil Formula and Mukherjee Formula, considerable amount of resources under the Externally Aided Projects and for several Centrally Sponsored Schemes. In view of the fact that 80-90 CSS would be continued in the Twelfth Five Year Plan, the state need to take necessary initiative to bag as much as possible of these schemes which provides financial flexibility to the state

An analysis of growth rates of different components of fiscal transfers has been made. A comparison of percentage of total transfers under the three Finance Commissions (EFC, TFC, and THFC) of Southern states reveals that the Mean Percentage share of Andhra Pradesh is slightly higher than the other Southern states of Karnataka, Kerala and Tamil Nadu. The fiscal dependency in terms of percentage of central transfers in revenue expenditure of the state is the lowest in 2002-2003 and highest in 2009-2010. The growing fiscal dependency is evident in the growing importance of fiscal transfers from the centre to the state. The progressive criteria followed by inter se distribution by both the commissions placed the state of Andhra Pradesh at disadvantaged position as far as the central fiscal transfers are concerned.

Introduction

Andhra Pradesh is one of the major states in the Indian Union. It has been considered as a Non-Special Category state for providing central assistance for plan purposes and other fiscal transfers as recommended by both the Finance Commission and Planning Commission. The fiscal transfers to Andhra Pradesh have increased from Rs. 7 crores during 1956-57 to Rs.8543 crores in 1999-2000. Besides substantial growth of fiscal transfers from centre to the state of Andhra Pradesh, the size, nature and criteria of fiscal transfers from centre to states have undergone substantial change in the last few decades especially in the post-reform period. Moreover, the Twelfth Five Year Plan has been launched from 1 April 2012 and fiscal transfers are an important component of state finances. Therefore, it is pertinent to make an attempt to analyse the central fiscal transfers to Andhra Pradesh during 2002-03 to 2011-2012.

Objectives:

Following are the specific objectives of the Paper

1. To make a critical analysis of Finance Commission transfers to Andhra Pradesh during 2002-03 to 2011-2012.
3. To study various types of plan transfers from the centre to Andhra Pradesh
4. To examine the fiscal implications of the criteria for inter se distribution of statutory and non-statutory fiscal transfers.

Methodology:

The study is based on secondary sources of data and information and pertains to the period 2002-03 to 2011-2012. The chosen period covers the last three years of the Eleventh Finance Commission (2002-03 to 2004-2005), the Twelfth Finance Commission (2005-06 to 2009-2010) and first two years of the Thirteenth Finance Commission (2010-11 to 2011-12).

Required data and information have been obtained from various Reports of the Union Finance Commission, Socio-Economic Survey and Budget-Documents, Government of Andhra Pradesh, Documents of Planning Commission and Publications of Reserve Bank of India such as Annual Reports on the Study of State Finances and Monthly Bulletins. Simple Statistical tools like percentages, exponential growth rates, trend lines and bar diagrams have been used to analyse various aspects of fiscal transfers. The Gross

State Domestic Product (GSDP) data of Revised, Provisional, Quick and Advance Estimates have been used for the years 2007-08, 2008-09, 2009-2010 and 2010-11 respectively. With regard to fiscal variables Revised Estimates for 2011-12 have been used.

The paper is divided into four Sections. Section-I presents the Constitutional arrangement for fiscal transfers in India. Section-II deals with an analysis of Finance Commission transfers while Section-III makes an analysis relating to central plan assistance to State Plan Schemes and Centrally Sponsored Schemes (CSS). Growth and impact on state finances and important conclusions are presented in Section IV.
Section-I

The Constitutional Arrangement:
The Indian Union at present consists of 28 States and 7 Union Territories. The powers and functions have been divided between the center and state governments, in the Constitution just like in any other federation in the world.

The powers and functions of the Union and States have been enumerated in the seventh schedule in the Union List, State List and Concurrent List. The Eleventh and Twelfth schedules have been appended after the 73rd and 74th Amendments of the Constitution in 1992. The Union List contains 97 functions of national importance like Defense, National Highways, Railways, Atomic Energy, Navigation, Posts and Telegraphs etc. 66 items such as Law and Order, Public Health, Agriculture, Irrigation; Power, Rural and Community Development, Fisheries and Forests have been entrusted to the state governments. 47 items such as Economic and Social Planning, Industrial and Commercial Monopolies, Labour Welfare and Social Justice etc. have been enumerated in the Concurrent List over which both the center and states can make legislation. In case of a conflict, the legislation made by the centre does prevail.

As it is inevitable, taxing powers are also distributed in the constitution between the centre and states. The states have been given exclusive tax powers in respect of Land Revenue, Taxes on Agriculture Income, Estate Duty in respect of Agriculture Land, Excise Duties on goods containing alcoholic liquors for human consumption, taxes on the sale or purchase of goods other than news papers, Taxes on Entertainments, Stamp Duty in respect of documents other than those specified in the Union List etc. On the other hand, centre has the taxing power on Income other than agriculture income, Customs Duties, Excise Duties, Corporation Tax etc. having a nationwide economic base. All the thirteen items of taxing powers of the central government can be divided into four categories on the basis of their levy, administration and the accrual of revenue.

I. Taxes levied, collected and retained by the central government - Corporation Tax and Customs Duties.

II. Taxes levied and collected by the centre but may be shared with the states-the net proceeds from Income Tax under Article 270 and the net proceeds from Union Excise Duties under Article 272 respectively.

III. Taxes levied and collected by the centre but whose net proceeds are assigned to the states the entire eight items under Article 269 of the constitution such as Estate Duty, Taxes on Railway Passenger Fares and Freights, Consignment Tax etc.

IV. Taxes levied by the centre but collected and appropriated by states such as Excise Duties on Medicinal and Toilet Preparations etc.

Besides the division of tax powers between the Union and state governments, clear provisions have been made in the Constitution with regard to borrowing. As per Article 292 the central government can borrow funds within and outside the country as per the limits imposed by the Parliament from time to time. The states, under Article 293(3), can borrow funds within India. Clause (2) of Article 293 states that the centre can provide loans to any state subject to the conditions laid down by Parliament. It has become, in practice, that the states cannot undertake borrowings without the prior permission of the centre if there is an outstanding loan from the centre or an outstanding loan for which the centre has given a guarantee.

The above mentioned constitutional fiscal arrangements have led to fiscal imbalances of both the types. The built- in advantage of tax power sharing to the central government, due to the productive and elastic tax powers with a nation wide base, has led to the existence of vertical federal fiscal imbalances. In fact, the very division of powers and functions has led to the vertical fiscal imbalances in India. Entrusting expensive and expansive functions to the states with very limited scope of taxation coupled with disparities in endowment of economic resources and the differentials in the cost of provision of public services have led to the existence of horizontal federal fiscal transfers from the centre to the states. Provision has been made under Article 280 for setting up of a Finance Commission for every five years or earlier if the President of India feels it necessary. Under Article 280 Clause (3) the Finance Commission has to render the following functions.

a) Distribution of net proceeds from Income Tax under Article 270 and the optional distribution of Union Excise Duties under Article 272 between the centre and the states and the inter se distribution by evolving criteria, of the net proceeds set a part for states' purpose (This arrangement was in practice until the 80th Constitution Amendment)[a].

b) Allocation of Grants-in-Aid under Article 275(1) to be made to states in need of revenues after determining the total quantum of grants-in-aid.

c) Any other matter referred to the Commission by the President of India in the interest of sound finance.

Within the above fiscal framework, so far Thirteen Finance Commissions have given their recommendations. They recommended shared tax revenue and grants-in-aid to the states. Besides the Finance Commission, Government of India constituted the Planning Commission in March 1950. Even though the Planning Commission, a non-statutory body, was originally established to formulate and evaluate the five year plans, has recommended central assistance for plan purposes in the form of loans and grants using Article 282 of the Constitution. Notwithstanding the criticism against the predominant role of the Planning Commission, its functions have an important bearing on the size and nature of fiscal transfers in India. Besides these fiscal transfers made by these two commissions, several central ministries have been channelizing grants and loans for various schemes known as Central Sector Schemes(CSS) and Centrally Sponsored Schemes. These fiscal transfers are known as discretionary transfers. The following Table-1 shows the magnitude and growth of the fiscal transfers made by the centre to states and Union Territories.

Table-1 Growth of Central Fiscal Transfers To States and Union Territories

Rs. in Croress

Plan Periods/ Years	Finance Commission	Planning Commission	Other Grants	Total
Forth Plan (1969-74)	5420	2050	930	8390
Fifth Plan (1974-79)	11090	4840	540	16470
Sixth Plan (1980-85)	25870	14280	1510	41650
Seventh Plan (1985-90)	55740	32030	3520	91310
Annual Plan 1991-92	20640	11250	1020	32940
Eighth Plan (1992-97)	146570	84840	5840	237310
1997-98	42091	18764	3780	64635
1998-99	40840	20380	2060	63280
1999-00	46109	24519	4114	74742

Source: State Finances - A Study of Budgets (various years), Reserve Bank of India Bulletins

Aggregate Fiscal Transfers:

The aggregate fiscal transfers to states have been increasing over the period. They have increased as a percentage of gross tax revenue receipts of the centre from an average of 31.4 per cent in the period of the Sixth Finance Commission to 38.1 per cent for the Seventh Finance Commission. It has further increased to 40.3 per cent during the Tenth Finance Commission period before it has declined to 35.8 per cent during the Tenth Finance Commission. This proportion has hovered around 33 per cent during the Eleventh and Twelfth Finance Commission periods[1]. However, fiscal transfers as a percentage of GDP at market prices, show a decline from about 5 per cent during the period covered by the Eighth Finance Commission to about 4.9 and 4.1 per cent respectively during the Ninth and Tenth Finance Commission periods[2]. During the Eleventh and Twelfth Finance Commission periods, it has hovered around 4.5 per cent. This is mainly due to a declining ratio of center's gross tax revenues relative to Gross Domestic Product. However, in recent years the share of revenue receipts of the states in the combined revenue receipts of the centre and states after transfers has not only improved but also became stable at around 62-64 per cent. Similarly the states share in the combined revenue expenditures also remained stable in the range of 56 to 58 per cent[3] unlike during the early decades of fiscal transference. Just like the size of and the required criteria for inter se distribution of vertical fiscal transfers, their horizontal distribution is also equally important to achieve the objective of equity and efficiency across the states. Andhra Pradesh, being a major state has been included in the general category states and is also a front runner in initiating fiscal reforms, received all types fiscal transfers from the centre right from the advent of Five Year Plans and from the inception of the Union Finance Commissions.

Fiscal Transfers to Andhra Pradesh:

Like any other state in the Indian federation, Andhra Pradesh also has been receiving shared tax revenue, grants-in-aid and loans for plan and non-plan purposes through the Finance Commission, Planning Commission and from different Union Ministries during the period under reference. What follows is an analysis of the nature and growth of fiscal transfers to Andhra Pradesh during 2002-03 to 2011-12. A critical analysis of the Finance Commission transfers to Andhra Pradesh is presented followed by Plan transfers during the chosen period.

Section-II

Finance Commission Transfers:

The Eleventh Finance Commission (EFC) was constituted in July 1998 and submitted its report in June 2000. The Commission while taking stock of the deteriorating financial situation of the states and centre observed that both the centre and states were struggling with fiscal problems like rising revenue and fiscal deficits, mounting debt and interest burden, declining tax GDP and GSDP ratios at the centre and states respectively taking into consideration the resource position and the needs of the centre as well as the states, increased the percentage of tax devolution to 28 per cent of the net proceeds of all taxes and duties of the Union Government, except the taxes and duties referred to in Articles 268 and 269, and the surcharges and cesses for each of the five years[b]. It also recommended that 1.5 per cent of all shareable Union taxes and duties in lieu of the erstwhile Additional Excise duties. Hence, the states' total tax share effectively comes to 29.5 per cent of the net proceeds of all shareable central taxes and duties. As Andhra Pradesh government has not restored the imposition of Sales Tax on the three commodities, it was entitled to the 29.5 per cent share. The Twelfth Finance Commission (TFC) has increased this share by hiking one percentage point by fixing it at 30.5. The Commission has treated the Additional Excise Duties in lieu of Sales Tax on textiles, tobacco and sugar as part of the general pool of central taxes. The TFC has not accepted the suggestion of the Government of Andhra Pradesh for a further hike in the aggregate share of states. However, it has increased the indicative ceiling on overall central revenue transfers from 37.5 per cent as fixed by the EFC to 38 per cent to the dismay of the state governments which demanded for ending up of such a ceiling. The states' share has been further raised to 32 per cent by the Thirteenth Finance Commission (THFC). Though the aggregate states' share in central taxes and duties has increased by the successive Finance Commissions, the share in central tax revenue of Andhra Pradesh has been declining from Eleventh Finance Commission onwards.

Table-2 Share in Central Taxes to Andhra Pradesh

Item/ Finance Commission	**XI** **2002-05**	**X II** **2005-10**	**XIII** **2010-12**
Percentage of Tax share to all states from the Union Taxes.	29.5	30.5	32.0
A.P states Percentage share in total tax share	7.701 (-0.209)	7.356 (-0.345)	6.937 (-0.419)

Source: Reports of the Union Finance Commission

It may be seen from Table-2 that the share in central tax revenue as recommended by the EFC is 7.701 which has declined by 0.209 per cent compared to the Tenth Finance Commission. It has further declined to 7.356 and 6.937 during TFC and THFC. The decline in the states share is by 0.345 percentages in between EFC and TFC while the decline is 0.419 in between the TFC and THFC. It is also pertinent to note that the decline in percentage of Andhra Pradesh tax share is increasing causing a reduction in the tax devolution from the divisible pool. This is mainly due to the criteria evolved, factors incorporated and the weights given by successive Finance Commissions for inter se distribution.

Criteria for Inter-Se Distribution:

Successive Finance Commissions have been suggesting different criteria and also have been tinkering with the weights given to different factors. The Table 3 shows the criteria and weights given to different factors by different Finance Commissions. Recognizing that population is a basic indicator of need for the provision of goods and services and ensures equal per capita fiscal transfers, the weightage given to this factor has been reduced by the EFC to 10 per cent from the existing 20 per cent as recommended by the Tenth Finance Commission. Similarly the weightage given to tax effort has been reduced from the 10 per cent to 5 per cent by the EFC. Also it has increased the weightage given to income distance to 62.5 per cent from the existing 60 per cent. All these changes in the weights given to the above factors caused a decline in the relative share of Andhra Pradesh during the EFC period.

Table-3 Criteria and Weights Adopted by Finance Commissions

In percentages

Criteria/weights	XI	XII	XIII
Population	10	25	25
Income Distance	62.5	50	
Area	7.5	10	10
Total Effort	5.0	7.5	
Fiscal Discipline	7.5	7.5	17.5
Fiscal capacity Distance			47.5
Index of infrastructure	7.5		
Total	100	100	100

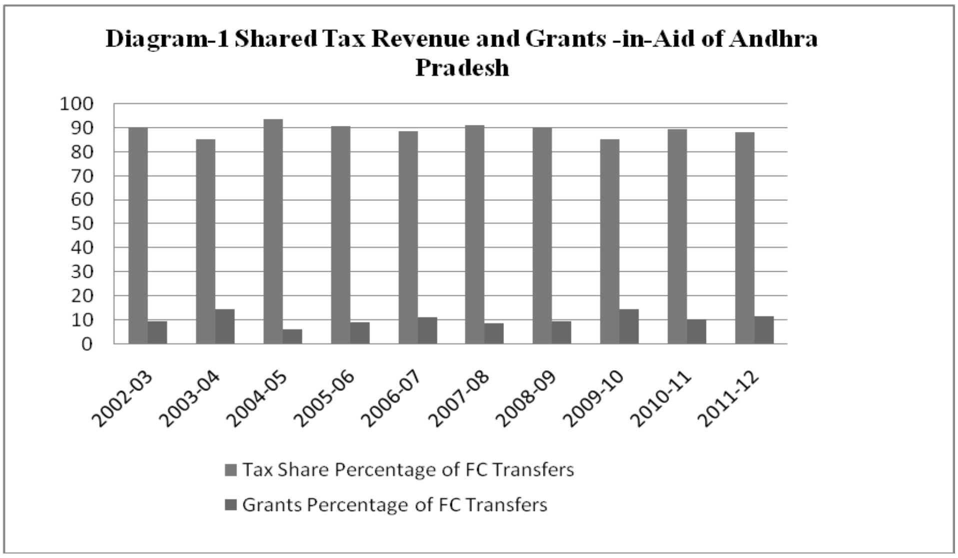
Source: Reports of the Union Finance Commissions

The share of Andhra Pradesh in the share of central taxes has further declined to 7.356 per cent as recommended by the TFC - a decline by 0.345 per cent when compared with previous commission (as shown in Table- 2). This is again due to the changes effected by the commission with regard to income and other factors. Though the increase in the weightage given to population, area and tax effort are in favor of the state, the upper ceiling imposed with regard to area factor reduced the relative share of Andhra Pradesh.

The THFC which was appointed in November 2007 under the chairmanship of Dr.Vijay Kelkar submitted its recommendations in December 2009 which have become effective from April 2010 to March 2015. The THFC has used four indicators - population, Area, Index of Fiscal Discipline and Fiscal Capacity Distance - in its horizontal distribution formula. While it has retained the same weightage to population (25%) and geographical area (10%) as given in the TFC, it has increased the weightage given to Fiscal Discipline factor from the existing 7.5 per cent to 17.5 per cent and introduced a new factor Fiscal Capacity Distance with a weightage of 47.5 per cent in the place of income factor. The Fiscal Capacity Distance factor benchmarks the states according to their respective tax capacities with a prescriptive tax effort. The Commission has worked out the average tax - GSDP ratios separately for each and every state in the general category as well as special category. Also it has calculated the group - specific average of tax - GSDP ratio to obtain the potential tax effort of the state concerned. This has been used to estimate the per capita fiscal capacity at comparable levels of taxation. The fiscal distance of each state has been computed by the distance of its estimated per capita revenue from that of Haryana. Then the THFC has estimated the per capita revenue entitlement of each state on the basis of its fiscal distance[4]. The state of Andhra Pradesh would have fared better in its tax share entitlement had the THFC given higher weightage to population (30%) and Area (15%) as suggested by AP in its Memorandum[5] as the state is the fifth largest in population among all the states in the country.. Also the state would have got higher tax share had the THFC taken the original share of geographical area (8.395) instead of the adjusted share (7.134). However, the average devolution as percentage of GSDP has increased slightly from 2.80 to 3.34 registering an increase of 0.54 per cent[6]. This percentage increase of the state is more when compared with the other southern middle income states of Karnataka (0.48), Kerala (0.19) and Tamil Nadu (0.51).

Grants - in - Aid:

The Finance Commission is required to make recommendations and the principles that should govern Grants - in- aid of revenues of states out of the Consolidated Fund of India. It also recommends the sums to be paid to states which are in need of revenues under Article 275 of the Constitution, for purposes other than those specified in the provisos to clause (1) of that Article. Using these provisions successive Finance Commissions recommended Grants - in - aid for non - plan purposes (except the Third and Ninth Finance Commissions) like revenue deficit grants, specific purpose grants, grants for upgradation of essential social and administrative services. The quantum as well as the types of grants varied across successive Finance Commissions. The size of the grants has increased over successive Finance Commissions though the increase is not consistent. For instance, they vary from 7.7 per cent of the total transfers under the seventh Finance Commission, 26.1per cent under the Sixth commission and 6.65 per cent and 8.48 per cent under Eighth and Ninth Commissions respectively[7]. The Figure -1 shows the relative size of grants and shared tax revenue in the total transfers to Andhra Pradesh made by Finance Commissions.



The EFC recommended an amount of Rs.58587 crores to all the states of which Andhra Pradesh got an amount of Rs. 2031 crores. As the state has been assessed to have revenue surplus on its Non - Plan Revenue Account, it was not - eligible to get any Non - Plan Revenue Deficit grants. However, it is surprising that relatively richer states like Punjab and West Bengal were awarded deficit grants though Andhra Pradesh was not eligible for such grants. Besides these grants, the Finance Commission awarded grants for other purposes like up gradation and special problems, local bodies and calamity relief expenditure etc. The Government of Andhra Pradesh got Rs.285.23 crores for upgrading the essential public services and for special problems of the state. Continuing the practice of providing grants to local bodies of the Tenth Finance Commission consequent upon the 73rd and 74th Constitution Amendments, it has recommended an amount of Rs.760.24 crores to Panchayati Raj Institutions and Rs.164.6 crores for Municipal governments for the five year period 2000-05. Further, it recommended Rs.820.80 crores to the state to meet the relief expenditure that arises due to natural calamities. It is interesting to note that the state obtained only 3.47 per cent of the total grants - in - aid awarded to all the states.

The TFC followed a normative basis encompassing both the revenue and expenditure heads taking 2003-04 as the base - year. Taking adequate care to improve the tax - GDP and tax - GSDP ratios of the centre and states respectively, it recommended both general (unconditional) and conditional grants. While awarding the conditional grants care was taken to see that the gap pertained only to the deficiency in fiscal capacity and not due to other factors or priorities[8]. The commission recommended a total amount of Rs.142640 crores of which Rs.56856 crores are grants for filling the Non - Plan Revenue gap of Kerala, Orissa (2005-06), Punjab (3years) and West Bengal (two years) besides the special category and newly formed states. Andhra Pradesh was not eligible to get these grants having a surplus of Rs.37779.30 crores during 2005-10 on its Non - Plan Revenue Account. Besides these grants, the TFC recommended an amount of Rs.15000 crores for maintenance of Roads and Bridges, Rs. 5000 crores for maintenance of Public Buildings, Rs. 1000 crores for maintenance of Forests and Rs.625 crores for Heritage Conservation. It also recommended conditional grants to Health (Rs 5887 Crores) and Education Sectors (Rs. 10,172 crores). The following Table-4 shows the specific purpose and upgradation grants awarded to Andhra Pradesh.

Table: 4 Grants - in - Aid Awarded by Twelfth Finance Commission to Andhra Pradesh

Sl.No	**Purpose**	**Grants- in-aid (Rs.crs)(2005-10)**
1	Maintenance of Roads & Bridges (2006-10)	980.12
2	Maintenance of Public Buildings (2006-10)	242.53
3	Maintenance of Forest Area	65.00
4	Heritage Conservation(2006-10)	40.00
5	Local Bodies	1587.00
	(i) Panchayati Raj Institutions	374.00
	(ii) Municipal Governments	1213.00
6	Calamity Relief 1425.00	
7	Safe Drinking Water Supply(2006-10)	352.00
8	Road Construction in Remote Areas(2006-10)	175.00
Total		**5214.50**

Source: Report of the Finance Commission, 2004

Andhra Pradesh has been awarded only 3.66 per cent in the total grants-in-aid to all states. This is mainly due to non- eligibility of the state for revenue - gap grants and for Education and Health. Twelfth Finance Commission has recommended an amount of Rs.10,171 crores to eight states - Assam, Bihar, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, and West Bengal for the development of education while seven states - Assam, Bihar, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, for the development of health. Andhra Pradesh did not receive upgradation grants for these two important social services though the rank of Andhra Pradesh in Human Development Index has declined from 9th to 10th between 1991 and 2001. Similarly the rank in the development Index regarding health Sector of Andhra Pradesh also has declined from 11th to12th rank.

The commission has taken per capita expenditure on education and health of the states and recommended grants to states which have fallen below the national average. Had it considered the physical indicators like literacy levels and health indicators, Andhra Pradesh would have got grants - in - aid under this head. For instance, the literacy level of Andhra Pradesh (61.11% in 2011) is less than some of these states like Assam (64.28%), Madhya Pradesh (64.11%) and Orissa (63.61%), West Bengal (69.22%). Of course, all these states are relatively backward states compared to Andhra Pradesh.

Regarding grants for relief expenditure, the Commission followed more or less, the methodology adopted by its predecessor. In spite of the requests made by some states including Andhra Pradesh, it has made any changes neither in the method of determining the size of the Calamity Relief Fund (CRF), nor its composition of sharing between the centre and states. In fact this demand of states merits consideration in view of the hiatus between the central grant and the actual expenditure for calamity relief operations. For instance, the central grant, accounts for less than 50 per cent of actual expenditure incurred by Andhra Pradesh during the period 2000-01 to 2004-05. This suggests a change in the criteria adopted by the Finance Commissions in determining the size of CRF as well as an increase in the grant component. Andhra Pradesh along with Punjab, Uttar Pradesh and Himachal Pradesh urged for an increase of CRF at least by 10 per cent per annum and for a reduction of states share by 10 per cent to the Calamity Relief Fund. Neither of the suggestions has been accepted by the Commission. Better if Commissions consider physical factors like length of coastal line, rainfall etc. and proneness to calamities instead of average expenditure on calamity relief in the preceding years of the states.

The THFC has recommended ten broad types of grants-in-aid surpassing its predecessors with regard to the coverage and conditionality of grants-in-aid following more or less, the same approach of the past Union Finance Commissions. Considering grants-in-aid as an important instrument, the commission has made the whole scheme of transfers by using grants to correct the cost disabilities faced by many states. The following Table - 5 shows the grants-in-aid recommended by the THFC for a variety of purposes.

Table - 5 **Grants to States Awarded by the Thirteenth Finance Commission**

Sl.	Proposes		Rs. in Crores
1	Local Bodies		87519
2	Disaster Relief (including for capacity building)		26373
3	Post-devolution Non-plan Revenue Deficit		51800
4	Performance Incentive		1500
5	Elementary Education		24068
6	Environment		15000
	(a) Protection of Forests	5000	
	(b) Renewable Energy	5000	
	(c) Water Sector Management	5000	
7	Improving Outcomes		14446
	(a) Reduction in Infant Mortality Rates	5000	
	(b) Improvement in Supply of Justice	5000	
	(c) Incentive for Issuing UIDs	2989	
	(d) District Innovation Fund	616	
	(e) Improvement of Statistical Systems at State and District Level	616	
	(f) Employee and Pension Data Base	225	
8	Maintenance of Roads and Bridges		19930
9	State-specific		27945
10	Implementation of Model GST		50000
	Total		**318581**

Source ; Report of the Finance Commiossin,2009, Vol.

The Commission recommended a total of Rs 318581 crores as grants-in-aid constituting 18.03 per cent in the total transfers recommended by the commission for the period 2010-11 to 2014-15. Besides grants-in-aid to Local Bodies, Disaster Relief, Revenue Gap Grants, Grants for up gradation of services, Protection of Environment, it has recommended Rs.27945 crores for implementation of State-Specific needs and an amount of Rs.50000 for implementation of the impending model Goods and Services Tax. Especially making grants for improving outputs and outcomes, to increase the public expenditure efficiency and the attempts, though modest, to incentivise performance for better governance and delivery of public services is a good beginning. Similarly making the grants 'forward looking and linking them with the attainment of goals' with regard to purposes like renewable energy, water sector management and reduction of infant mortality is appreciable. Of course, the large scale use of grants for a variety of purposes, the conditionality imposed, the inadequacy of monitoring mechanism for several purposes of grants-in-aid have been criticised[9]. But it is pertinent to note that the award of the specific purpose grants by the Commission is quite in conformity with the constitutional propriety of the Union Finance commission and absence of conditions does lead to substitution or diversion effects as the past experience shows.

Of the total grants-in-aid Andhra Pradesh has been recommended an amount of Rs 13532 crores (excluding the grants relating to GST implementation, IMR and Renewable Energy) constituting 5.23 per cent in the total grants given to all the states. This is much higher than that of its immediate predecessors. The state has been awarded grants-in-aid of all types except the post Devolution Non -Plan Revenue Deficit grants and grants for performance incentive. Table-6 shows the grants-in-aid awarded by the TFC to Andhra Pradesh for the period 2010-15.

Table - 6 Grants - in- Aid to Andhra Pradesh Recommended by Thirteenth Finance Commission

Sl.No.	Purpose	Amount (Rs. In crores)
1	Local Bodies	7195.10(8.22)
2	Disaster Relief (including Capacity Building)	2138.70 (8.11)
3	Elementary Education	942.00 (3.91)
4	Improvement in Justice Delivery	270.70 (5.41)
5	Incentive for Issuing UIDs	126.10 (4.22)
6	District innovation Fund	23.00 (3.73)
7	Improvement of Statistical Systems at State & District Level	23.00 (3.73)
8	Employee and Pension Data Base	10.00 (4.44)
9	Forests 268.60 (5.37)	
10	Water Sector Management	284.00 (5.68)
11	Maintenance of Roads & Bridges	981.00 (4.92)
12	State Specific Needs	1270.00 (4.54)
Total		**13532.20(5.23)**

Note: 1. The total grants-in-aid does not include GST compensation grants, grants for reduction in IMR and Renewable energy grant as state-wise allocation is not available 2. Figures in brackets indicate the percentage to the total of that type of grant amount awarded to all states
Source: Report of the Thirteenth Finance Commission, Vol.I, Chapter 12, 253.

The commission has awarded about 8 per cent of the total grant amount awarded to local Bodies and Disaster Relief to Andhra Pradesh, besides grants for up gradation and improving of services and for environmental protection. An amount of Rs.1270 crores have been awarded to state specific needs like Provision of Drinking Water in the Rural Areas (Rs.550 crores), Seed Bank Scheme (Rs 100 crores), Police Training(Rs 113 crores) , Construction of Prisons(Rs.90 crores), Development of Culture (Rs 60 crores), Fire and Emergency Services (Rs.17 crores), Heritage Conservation(Rs 100 crores), Establishments of Primary Health Centers (Rs.200 crores), Strengthening the Pollution Control Board and Establishment of a Centre for Innovations in Public Systems (Rs.20 crores each). This shows the coverage and improvement of the public services, their delivery mechanisms and governance. However, the THFC has not recommended grants to the state under this category to specific purposes like Coastal Area Development, in view of its long coast line of about 1000 kms and for the development of Tourism in view of the State's large potential for eco-tourism and temple tourism.

SECTION-III

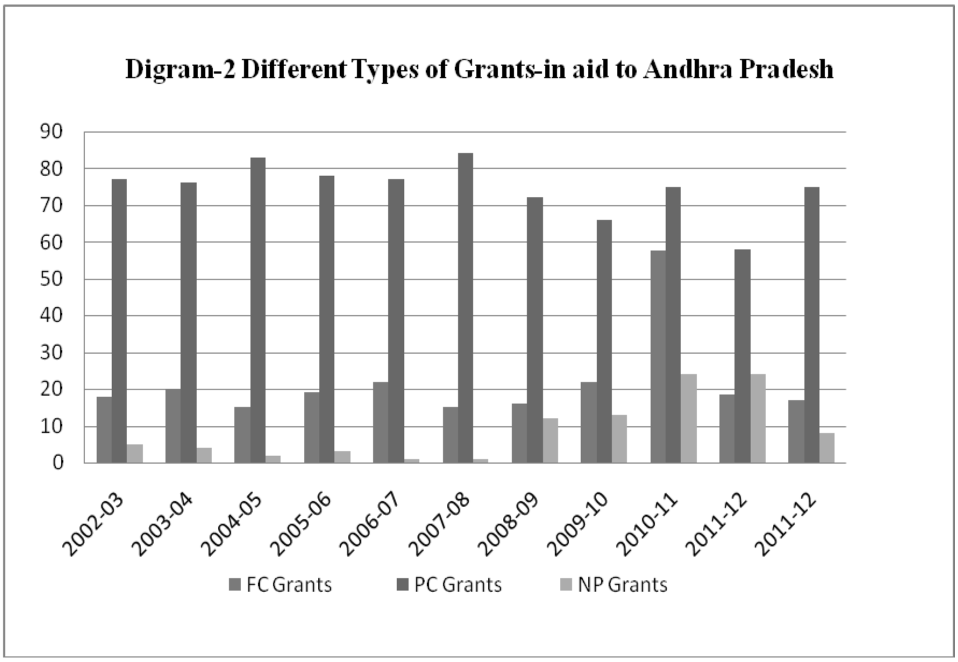
Transfers through the Planning Commission:

The government of India constituted the Planning Commission, a non - statutory body, in March 1950 by an executive order. Though originally aimed to formulate and evaluate the Five Year Plans for economic development, the Planning Commission transferred fiscal resources under Article 282 of the Constitution by providing grants and loans in the form of central assistance for State Plan Schemes. In fact the overwhelming influence of the Planning Commission in the sphere of centre-state financial relations has downgraded the Finance Commission's role in the process of fiscal adjustment[10]. The Planning Commission provides financial resources in the form of grants and loans to State Plan Schemes, Centrally Sponsored Schemes, Central Sector Schemes (CSS), Additional Central Assistance and Externally Aided Projects (EAP). The following diagram shows the amount of grants recommended by the Planning Commission besides the loan component.

It may be noted that the plan grants are considerable in size in comparison with other forms of grants. Andhra Pradesh being a major state under the general category has been provided loans and grants for all the above mentioned plan programmes during the last Eleven Five Year Plans. What follows is an analysis of fiscal transfers for plan purposes from Centre to Andhra Pradesh during the period 2002-03 to 2011-12.

State Plan Schemes

Andhra Pradesh along with other major states were provided assistance for State Plan



Schemes which is known as 'Schematic Pattern of Assistance' during the three Five Year Plans and three Annual Plans without any objective formula. It received the central assistance for state plan schemes since the fourth five year plan under the Godgil Formula[c]. The Gadgil Formula has injected an element of equalization especially through the uniform loan-grant ratio of 70:30 to all the general category states including Andhra Pradesh. The plan assistance for Andhra Pradesh has been given under the Gadgil Formula during the Fourth and Fifth five year plans. The Gadgil Formula was modified in 1980 by withdrawing the weightage given to irrigation and power projects commitments and instead doubled the weightage given to per capita income. Andhra Pradesh received central assistance for its State Plan Schemes on the basis of Modified Gadgil Formula during the Sixth and Seventh Five year plans. In fact this change in criteria was against the interests of the state as it lost its share apportioned to that factor. In view of the states demand and to make the formula of central assistance more equalizing, it was revised again in 1990 and allocation was made only for the year 1991-92. The formula which was revised in 1991 is popularly known as Gadgil -Mukherjee Formula which has been in operation since the Eighth Five Year Plan onwards. The main features of the Gadgil- Mukherjee Formula are as follows.

Gadgil - Mukherjee Formula: 1991

I. Set apart funds required for Externally Aided Projects from the total central assistance.

II. Provide reasonable amounts for Special Area Programmes such as Hill Areas, Tribal Areas, Border Areas, NEC and other programmes

III. 30 per cent for the Special Category States from the balance

IV Balance amount is to be distributed among the Non-Special Category States as per the following criteria and weights.

Sl.No	Criteria	Weights %
1	Population (1971)	60
2	Per Capita Income (a)Deviation Method 20%	
	(b) Distance Method 5%	25
3	Performance (a) Tax Effort	
	(b) Fiscal Management	
	(c) Progress in Respect of National Objectives	7.5
4	Special problems	7.5

Source: Department of Planning, Govt. of A.P.

The Government of Andhra Pradesh got the central assistance for state plan schemes during 2002-03 to 2011-12 under the Gadgil Mukharjee Formula. The resources transferred from the Planning Commission may be seen in Table -7

The Planning Commission transferred Rs. 3540 crores in 2002-03 while it has increased to Rs.8328 crores in 2011-12 (RE). Out of this, Rs. 1612 crores in 2002-03, which has increased to Rs. 5775 crores, in 2011-2012(RE) have been provided under Normal Plan Assistance under Gadgil - Mukherjee Formula. It may be noted from the Table 7 that the loan component of the Normal Plan Assistance has been discontinued on the basis of the recommendations of the Twelfth Finance Commission since 2005-06. The Twelfth Finance Commission recommended 'that the system of imposing a 70:30 between loans and grants for extending plan assistance to general category states should be done away with'[11]. Subsequently the Planning Commission is confined to extend plan grants and the states have been given the liberty to decide how much and from whom they would like to borrow. This important change is expected to ensure greater fiscal discipline and also removes the structural obligation to borrow from the centre. Hence the non- existence of the central plan loan component since 2005-06. Besides the Normal Plan Assistance, the Planning Commission extends assistance for Externally Aided Projects. This assistance is also given in the form of loans and grants which differ across projects. The assistance extended to Andhra Pradesh was Rs. 1928 crores in 2002-03 which increased to Rs 2553 crores in 2011-12 (RE). Of the total assistance for Externally Aided Projects provided to the state, a larger proportion is in the form of loans, contributing to the states mounting indebtedness. The other important part of central assistance for Plan purposes is the assistance for Central Sector and Centrally Sponsored Schemes.

Table:7 Resource Flows from the Centre to Andhra Pradesh 2002-2012.

(Rs. Crores)

SI.	Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)
1	2	3	4	5	6	7	8	9	10	11	12
I	Finance Commission	4770	5947	6473	7640	9972	12247	13065	14197	17055	20163
	a. Tax share (Devolution)	4316	5069	6059	6951	8866	11184	11802	12142	15237	17804
	b. Grants	454	878	415	689	1106	1063	1263	2055	1818	2359
II	Planning Commission	3540	5463	3164	1946	2681	4692	4434	5119	5558	8328
	a.Normal Plan Assistance	1612	2411	1936	1154	2062	3313	3873	4163	3247	5775
1	Grants	593	1067	811	1154	2062	3313	3873	4163	3247	5775
2	Loans 1019	1344	1125	-	-	-	-	-	-	-	
	b. Externally Aided Projects	1928	3052	1228	792	619	1379	561	956	2311	2553
1	Grants	578	1288	524	295	310	485	166	91	72	50
2	Loans 1350	1764	704	497	309	894	395	865	2239	2503	
III	Centrally Sponsored Schemes	780	995	898	1385	1415	2144	1752	2029	2399	4494
	a. Grants	776	988	888	1370	1410	2135	1752	2029	2399	4494
	b. Loans	4	7	10	15	5	9	-	-	-	-
IV	Non-Plan Grants	138	167	44	90	58	104	961	1220	2365	1082
V	Non-Plan Loans	2836	3551	4878	4885	3997	190	-12	1016	2247	-1005
	a. Small Savings (Net)	2661	3548	4875	4875	3997	184	-14	1016	2247	-1005
	b. Others	175	3	3	10	-	6	2	-	-	-
	Total 12064	16124	15458	15946	18123	19377	20200	23581	29624	33062	

Included Rs.75 crores Plan Grants booked by AG under Non-Plan.
Excludes Rs.703.08 crores booked by the A.G.,A.P. both in receipts and expenditure side
Excludes the amounts reimbursed by Government of India towards loss due to VAT.
Source: - Finance Department, Govt. of India

Centrally Sponsored Schemes:

The Central Government ministries provide assistance, generally on the basis of recommendation of the Planning Commission, to states for Centrally Sponsored Schemes (CSS) in the form of specific purpose grants under Article 282 of the Constitution. The objective of CSS is to provide additional resources to states for expenditure which the centre considers to be of national priority, though the schemes are implemented in the states domain. For CSS, the outlay, objectives, and the nature of the schemes are determined by the centre and states can not alter them. In view of the possible erosion of fiscal autonomy of the states, the National Development Council decided that the total allocation for CSS should not exceed 1/6 of the block assistance given for State Plan Schemes. But since then, the CSS have grown in number as well as in the size of allocations. The states are also required to make matching contribution which was as much as 50 per cent during 80s but later has been reduced to 25 per cent in the 90s. Some of the important CSS are like the Pradhan Mantri Gram Sadak Yojana (PMGSY), Sarva Siksha Abhiyan (SSA), Mid-Day Meals (MDD) and Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), which are provided 100 per cent grant from the centre. The following Table shows the enormous growth of these schemes both in number and allocations.

Table -8 Number and Allocation of Centrally Sponsored Schemes

(Rs. Crore)

Plan	GBS	No. of Schemes	CSS to GBS	% of CSS to GBS	Central Assistance to States and UTs	% of Central Assistance
1	2	3	4	5	6	7
Ninth Plan* (1997-2002)	3,16,286	360	99,001.68	31.30	1,38,394	43.75
Tenth Plan* (2002-07)	594,649.00	155	229,763.14	38.64	2,03,117.00	34.15
Eleventh Plan (2 007-12)	15,88,273.24	147	660,506.00	41.59	3,97,418.93	25.02

* At Constant Prices.

Source: Planning Commission, Government of India

The Table 8 shows the number and the amount of allocation and its percentage in Gross Budgetary Support (GBS) and in the central Assistance to states and Union Territories during the Ninth, Tenth and Eleventh Five Year Plans. It may be noted that the number is as high as 360 during the Ninth Plan which has declined to 147 during the Eleventh Five Year Plan. Similarly their proportion in the GBS has increased from 31.30 per cent during the Ninth plan to 41.59 per cent during the Eleventh Five Year

Plan. The abnormal growth of allocation of expenditure on CSS is evident by the exponential growth rate it obtained compared to the growth of allocation for State Plan Schemes as presented in Table: 9

Table: 9 Growth Rates of Allocation on CSS and Central Assistance for State Plan Schemes

Items	R^2	b	T-value	N
CSS	0.747	0.337	4.859*	10
State Plan Schemes	0.755	0.107	4.963*	10

Note: *Indicates 1% level of Significance

Source: Basic Data from Planning Commission, Government of India

Government of Andhra Pradesh has been getting a large number of these schemes and the State's implementation performance is also comparatively better among the states. It may be seen in Table-7 that the total amount of assistance for CSS has increased from Rs 780 crores in 2002-03 to Rs. 4494 crores in 2011-12 (RE). It may also be observed that the loan component of these schemes is rather negligible. No doubt, there are problems associated with these schemes like lack of freedom and flexibility in both design and implementation, requirement of matching contributions etc. But the amount of funds devolved to the state for CSS is considerably large. As has been demanded by several states including Andhra Pradesh, there is a need to restrict the number of these schemes in such a way that the states enjoy more flexibility and freedom to the extent that the funds are not diverted or misutilised. The resources thus saved need to be pooled in the Normal Central Assistance to be distributed on the basis of the Gadgil-Mukherjee Formula during the Twelfth Five Year Plan. In view of the fact that at least 80-90 CSS would be continued in the Twelfth Five Year Plan, the state need to take adequate initiative to bag as much as possible of these schemes. Of course, an increased share in the Flagship Programmes (CSS) where the grant component is 100 per cent will provide financial flexibility to the state.

Section-IV

Growth and Impact

The total fiscal transfers--Shared tax revenue, grants and loans-- have increased from Rs. 12064 crores in 2002-03 to Rs. 33062 crores in 2011-12 (R.E). In order to analyse the relative importance in terms of growth of fiscal transfers, exponential growth rates for different components of fiscal transfers to Andhra Pradesh for the ten year period since 2002-03 have been calculated. The following Table 10 shows the growth rates and their significance levels for shared tax revenue and different types of grants. It may be seen in the table that shared tax revenue and all types of grants put together have increased by 9.8 per cent while shared tax revenue recorded a growth rate of 15.1 per cent. It may be noted that the growth rate of total grants -in-aid at 18.2 per cent is grater than the growth rate of shared tax revenue.

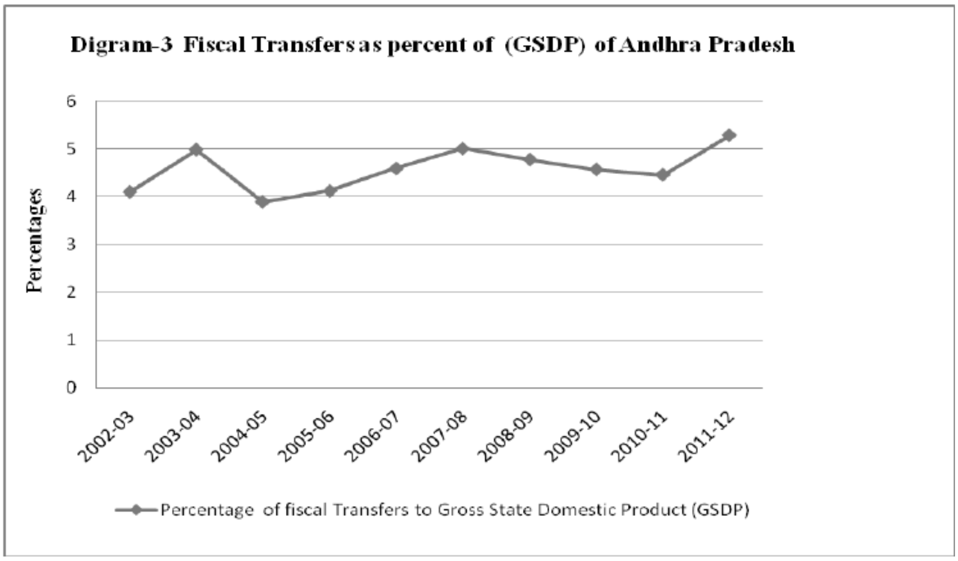
Table:10 Growth Rates of Shared Tax and Grants during 2002-03 to 2011-12

Items	R^2	b	t-value	N
1. Shared Tax	0.98	0.151	20.44*	10
2. Grants	0.90	0.182	8.48*	10
a) FC Grants	0.83	0.180	6.26*	10
b) PC Grants	0.76	0.159	5.047*	10
3. CSS Grants	0.896	0.165	8.29*	10
4. NP Grants	0.60	0.372	3.47*	10
Total Transfers	**0.93**	**0.098**	**10.279***	**10**

Note: * denotes 1% level of Significance

Source: Basic Data from Socio-Economic Survey, Govt. of A.P.

This may be due to the fast growth of Non-Plan Grants. The growth rate of plan grants (15.9 percent) is lower than the Finance Commission Grants. Though the total fiscal transfers to the state and their components recorded good growth during the Tenth and Eleventh Five Year Plans, their proportion as GSDP of the state is not much encouraging. It may be noted from the diagram that the central revenue transfers were 4.10 percent of GSDP in 2002-03 which has increased to 4.98 in 2003-04 and further declined to 3.89 in 2004-05 (Fig 3).



Since then it has hovered around 4-5 per cent. The decline in many of the years is mainly due to a decline in the states' share in the total shareable taxes. It may be noted that fiscal transfers as a per cent of GSDP in between 2007-08 and 2010-11 was lower than 5 per cent though it has exceeded 5 per cent in 2011-12 (Revised Estimates). The share of Andhra Pradesh in central tax and grants was only 4.3 per cent in the First Finance Commission and increased to as high as 9.4 per cent under the Third Finance Commission and declined later. Infact, there has been an improvement in the share of fiscal transfers as percentage of central gross revenue receipts; it has increased from about 25 per cent under Third Finance commission to about 40 per cent for Twelfth Finance Commission period. It may also be noted that this kind of decline in shared tax revenue is not only in the case of Andhra Pradesh but also in the case of other middle income states like Karnataka, Kerala, Tamil Nadu and West Bengal[12]. A comparison of percentage of total transfers under the three Finance Commissions of Southern States reveals that the Mean percentage of share of Andhra Pradesh is slightly higher, as shown in Table-11 compared to other Southern States of Karnataka, Kerala and Tamil Nadu.

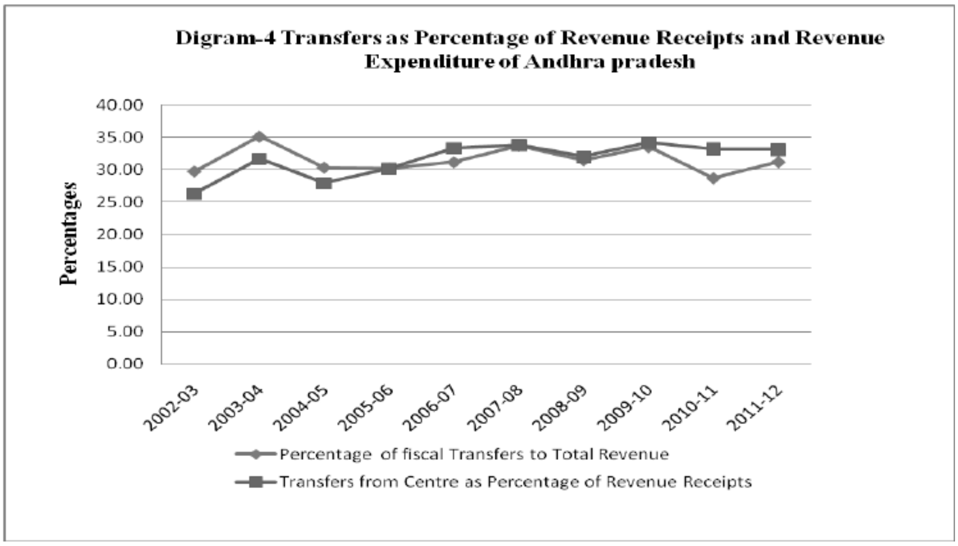
Table-11 Share in Total Transfers as Recommended by Successive Finance Commissions.

State	**Finance Commission**				
	X	XI	XII	XIII	Mean
Andhra Pradesh	7.98	7.13	6.66	6.94	7.18
Karnataka	4.64	4.53	4.16	4.33	4.42
Kerala	3.41	2.83	2.59	2.34	2.79
Tamil Nadu	5.89	4.97	4.85	4.96	5.17

Source: Report of the Thirteenth Finance Commission, Vol-1, P.28.

The central transfers, both shared tax revenue and grants-in-aid have an important characteristic in the sense that they have an impact on the revenue receipts and revenue expenditure of the receiving state. The share of these transfers in revenue receipts and expenditure indicates the dependency of the state on fiscal transfers from the Centre. This dependency may differ over time. So an analysis has been made to observe trends in dependence of the State during the period 2002-2012. The following Figure 4 shows that the percentage of fiscal revenue transfers in revenue receipts of Andhra Pradesh is the highest in 2003-04 and lowest in the preceding year. In rest of the years, it has been oscillating between 30-33 per cent and the annual average being 32.07 per cent over the period. It may be noticed that it has marginally increased between the years covered under Eleventh Finance Commission period and Twelfth Finance Commission period. Similarly central transfers as a percentage of revenue expenditure as shown in the diagram, indicate an increase over the period. The percentage of central transfers in revenue expenditure of the state is the lowest (26.31) in 2002-03 while it is the highest in 2009-10 (34.20). The percentage has increased over the years consistently implying the growing importance of fiscal transfers.

It follows that the percentage of fiscal transfers in revenue receipts and the dependence on these transfers to finance revenue expenditure of Andhra Pradesh declined during the study period compared to the period of earlier Finance Commissions. This is partly due to the declining share of the state in the All-States share of central taxes and also due to better revenue efforts of the State in the post-fiscal reform period. It is pertinent to note that equalization efforts of the Finance Commissions by adopting a more progressive criterion for inter se distribution placed the state of Andhra Pradesh at relatively disadvantaged position as far as the central fiscal transfers are concerned.



Conclusions:

There exists both vertical and horizontal federal fiscal imbalances in India right from the adoption of fiscal federalism. This is mainly due to the very division of revenue powers and functions in between the union and state governments and the differences in tax bases and endowment of resources across states. The Constitution made adequate provisions for fiscal adjustment through fiscal transfers by the Finance Commission under Article 280 to reduce both vertical and horizontal fiscal imbalances. Andhra Pradesh being a major state has been getting fiscal transfers through successive Finance Commissions and also through the Planning Commission. An analysis of aggregate fiscal transfers as a proportion of GDP reveals that it has hovered around 4.5% during the Eleventh and Twelfth Finance Commission periods except in the year 2011-12 in which it has exceeded 5 per cent.

The states' share from central tax revenue has increased from 29.5% under the Eleventh Finance Commission period to 32% during the Thirteenth Finance Commission period. Though the aggregate sates' share in central taxes and duties has increased by the successive Finance Commissions, the share in central tax revenue of Andhra Pradesh has been declining from the Eleventh Finance Commission onwards. The decline in the percentage share is continuous right from 0.209 per centage points during EFC to 0.419 per centage points during THFC. This is mainly due to the criteria adopted, factors incorporated and weights given by successive Finance Commissions for inter se distribution. Though the increase in weightage given to population, area and tax effort are in favour of the state, the upper ceiling imposed with regard to Area factor has reduced the state's share in the tax devolution. The criteria and methodology followed by the THFC have led to a decline in the state's share. The state would have fared better in its tax share entitlement had the THFC given higher weightage to population and area as suggested by Andhra Pradesh in its Memorandum. Also the state would have got higher tax share, had the THFC taken the original share of geographical area instead of the adjusted share. The average devolution as percentage of GSDP has increased slightly from 2.80 to 3.34 registering an increase of 0.54 per cent. This percentage increase of the state is more when compared with other Southern and middle income states of Karnataka, Kerala and Tamil Nadu.

As far as Article 275(1) grants -in -aid are concerned, the state was not eligible to get Non-Plan Revenue Deficit grants under the EFC, TFC and THFC. However, the state has been awarded grants-in-aid for up-gradation of essential social and administrative services, local governments, and special problems and to meet calamity relief expenditure. The state was not eligible for grants-in-aid for Education and Health under the TFC mainly due to the criteria adopted by the commission. Had the Commission considered physical indicators like literacy levels and health, Andhra Pradesh would have got grants-in aid for these two services. With regard to grants for relief expenditure, there has been a wide gap between the central grants and the actual expenditure of calamity relief operations. The request of Andhra Pradesh along with states like Punjab, Uttar Pradesh and Himachal Pradesh to increase the Calamity Relief Fund and a reduction of states' contribution to CRF has not been accepted. The state would have benefited, had the commission considered physical factors like length of coastal line, rainfall etc. and proneness to calamities instead of average expenditure on calamity relief in the preceding years of the states. The innovative practices of the THFC for awarding grants-in-aid are laudable and the considerations to abate substitution and diversion effects of grants are well within the Constitutional propriety of the Finance Commission. Though THFC has recommended grants-in-aid for a variety of specific purposes, its non-awarding of grants to Andhra Pradesh for specific purposes like Coastal Area Development in view of its long coast line of about 1000 kms and for the development of Tourism in view of the state's large potential for eco and temple tourism is conspicuous.

The Planning Commission provides financial resources in the form of grants and loans to State Plan Schemes, Centrally Sponsored Schemes, Central Sector Schemes (CSS), Additional Central Assistance and Externally Aided Projects (EAP). Andhra Pradesh has been getting financial resources in terms of loans and grants to all the programmes mentioned above. The state received financial assistance for State Plan Schemes under Gadgil and Modified Gadgil Formula and Mukherjee Formula since the Fourth Five Year Plan. The loan-grant ratio (70:30) as recommended by the Gadgil Formula to all the general category states has been done away with consequent upon the recommendation of the TFC. This important change is expected to ensure greater fiscal discipline and also removes the structural obligation to borrow from the centre. The state has been getting considerable amount of resources under the Externally Aided Projects of which a large proportion is in the form of loans, contributing to the state's mounting indebtedness. Similarly the state is getting several Centrally Sponsored Schemes. In spite of the ceiling imposed on the total assistance of Centrally Sponsored Schemes by the National Development Council, the number as well as the size of allocation has increased over the plan period. Several states including Andhra Pradesh has demanded to restrict the number and the schemes in such a way that the states enjoy more freedom and flexibility in the design and implementation of these schemes. The resources thus saved need to be pooled in the Normal Central Assistance to be distributed on the basis of Gadgil-Mukherjee formula. In view of the fact that 80-90 CSS would be continued in the Twelfth Five Year Plan, the state need to take necessary initiative to bag as much as possible of these schemes. It is pertinent to note that an increased share in flagship programmes with 100%grant component will provide financial flexibility to the state.

An analysis of growth rates of different components of fiscal transfers reveals that shared tax revenue recorded a growth rate of 15 percent while total grants-in-aid obtained a growth rate of 18 per cent during the period 2000-03 to 2011-2012 (RE). This is mainly due to the fast growth of grants-in-aid for CSS and Non-Plan grants. It is interesting to note that the growth rate of Finance Commission grants is greater than the Plan grants. A comparison of percentage of total transfers under the three Finance Commissions (EFC, TFC, and THFC) of Southern states reveals that the Mean Percentage share of Andhra Pradesh is slightly higher than the other Southern states of

Karnataka, Kerala and Tamil Nadu. The fiscal dependency in terms of percentage of central transfers in revenue expenditure of the state is the lowest in 2002-2003 and highest in 2010-2011. The growing fiscal dependency is evident in the growing importance of fiscal transfers from the centre to the state. However, the percentage of fiscal transfers in revenue receipts and their proportion in revenue expenditure of Andhra Pradesh has declined during the study period compared to the period of earlier Finance Commissions. This may be due to its declining share in All States' share of Central tax revenue and also due to the better fiscal performance of the state during the post-reform period. Also a more progressive criteria followed by inter se distribution by both the commissions placed the state of Andhra Pradesh at disadvantaged position as far as the central fiscal transfers are concerned.

Notes:

a. 80th Constitution Amendment Act 2000, consequent upon the recommendations of the Tenth Finance Commission, changed the pattern of sharing of Union Taxes in a fundamental way. As per this amendment, Article 272 was abolished and Article 270 was changed substantially. The amended Article 270 provides for sharing of all the taxes and duties referred to in the Union List except surcharges and duties.

b. The Tenth Finance Commission recommended an Alternative Scheme of sharing besides the traditional scheme of sharing. Under the Alternate Scheme of devolution it recommended that the States may be given a share in the total net proceeds of all Central taxes excluding Surcharges and Cesses instead of a share from the two taxes of Personal

   Income Tax and Union Excise Duties. The Alternate Scheme of sharing was accepted by the Government of India. The Alternate Scheme of sharing came into effect through the Eightieth Constitution (Amendment) Act, 2000.

c. Gadgil Formula for Central Assistance for the distribution of State Plan Schemes was adopted by the National Development Council at its meeting held on 13, September 1968. Accordingly the Central Plan Assistance was distributed. Under Gadgil Formula Central Assistance for State Plan Schemes for the Fourth Five Year Plan was distributed 60 per cent on the basis of population of the state, 10 per cent each on the basis of Per capita State Income and Tax Effort, 10 per cent to states having spillover commitments of major irrigation and power projects and 10 per cent for Special Problems of states.

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