Recent Changes in the Fiscal Architecture in India and Implications for Financing Climate Change Interventions

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The recent changes in the institutional and fiscal architecture of the country following the constitution of NITI Aayog and release of report of the Fourteenth Finance Commission, have implications for public financing of a range of social sector as well as environment related government interventions in the country. Constitutionally, both Union and the State Governments are responsible for delivering on subjects falling in concurrent list and most of the subjects pertaining to Climate Change interventions such as promotion of clean energy resources, adaptation strategies in agriculture and other developmental sector, are part of concurrent list. Hence, given the shared responsibility of Union and State Governments on this issue, the present paper examines the overarching changes in the country's fiscal architecture due to the recommendations of the 14th FC and the report of the NITI Aayog constituted Sub-group of Chief Ministers and, how it would affect Government financing of environment and climate change related programmes.

Box 1: The Debate following the Report of the 14th FC and Restructuring of the Union Budget in 2015-16

There has been an intense debate around two objectives or priorities, following the report of the 14th FC and restructuring of the Union Budget in 2015-16:

(i) The objective of increasing the autonomy of the State Governments in setting the spending priorities in their budgets; and

(ii) That of ensuring adequate budgetary resources for critical sectors such as the social sectors and development programmes for the vulnerable sections of the population (taking into account both the Union Budget and State Budget outlays for these sectors).

While a major push has been given to the first objective, i.e. greater autonomy of State Governments in setting their spending priorities, in the recommendations of the 14th Finance Commission and the consequent restructuring of the Union Budget in 2015-16, apprehensions have been raised that the second objective may get compromised in the coming years at least in some of the States with relatively poor fiscal health and lower levels economic development. This is largely because of the limited ability of such States to expand their fiscal space with own revenue collection and the fact that they also face bigger shortages of funds for other sectors such as general administration, law and order, and infrastructure. Hence, the competition for budgetary resources could be more intense in these States and the social sectors may not be given the priority for resources that are needed; this could aggravate the problem of regional disparity in the longer run. However, both of the above-mentioned objectives could be pursued together if the tax-GDP ratio of the country is stepped up visibly.

THE CONTEXT

The landscape of fiscal policy and budgetary processes in India has witnessed a number of changes over the last year and some more changes are still underway. For instance, the process of restructuring of central schemes, which had been started in 2014-15, 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. However, the recommendations of the Fourteenth Finance Commission (14th FC) and the consequent restructuring of the Union Budget has led to the most noticeable changes in this sphere.

The changes in the fiscal architecture of the country following the recommendations of the 14th FC, which were accepted by the Union Government in February 2015 and adopted for implementation from 2015-16 onwards, have implications for public financing of a range of social sector as well as environment related government interventions in the country.

Based on the recommendations of the 14th FC, the Union Government would 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 different sectors. In several of the development programmes, especially the social sector schemes, 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. There has been an intense debate on the fiscal space available to the two tiers of governance, viz. the Union and the State Governments, following this kind of restructuring (See Box 1).

In this context, the NITI Aayog constituted a Sub-group of Chief Ministers of States to develop, through a consultative process, a roadmap for "Rationalization of Centrally Sponsored Schemes"; this Sub-group (led by the Chief Minister of Madhya Pradesh) submitted its Report to the Union Government in October 2015. The said report provided further clarity on the guiding principles for rationalization of Centrally Sponsored Schemes(CSS) and the revised fund sharing pattern (between Union and States) in the CSS.

We may note here that most of the subjects pertaining to climate change issues such as, promotion of clean energy resources, climate change adaptation strategies in agriculture and other development sectors, and so on, are part of the Concurrent List in the Constitution of India. Both the Union and the State Governments are responsible for delivering on subjects falling in the Concurrent List. Hence, it is pertinent to delve deeper into this debate of restructuring of Union Budget and State Budgets from the lens of public spending on climate change interventions in the country.

In such a backdrop, the present Discussion Paper examines how the restructuring of Union Budget and State Budgets (in terms of their responsibilities for financing of different sectors) would affect government financing of environment and climate change related programmes. The paper does this by addressing the following questions:

i. What are the overarching changes in the country's fiscal architecture due to the recommendations of the 14th FC and the report of the NITI Aayog constituted Sub-group of Chief Ministers and what could be their possible implications?

ii. What are the specific recommendations of the 14th FC pertaining to environment, ecology and climate change related matters, and, what could be their implications in the coming years?

1. Implications of Some of the 14th FC Recommendations

The 14th FC, like its predecessors, made recommendations on following three core matters **(See Box 2);**

i. the Distribution between the Union and the States of the *Net Proceed of Central Taxes*[1] called the "divisible pool" (vertical devolution) and the allocation between the States of the respective shares of such proceeds (horizontal devolution);

ii. the principles which should govern the *Grants–in-aid*[2] of the revenues of the States out of the Consolidated Fund of India and the sum to be paid to the States which are in need of assistance by way of Grants-in-aid of their revenues; and

[1] The 'divisible pool' of central taxes consists of the total revenue collected from central taxes (like corporate tax, personal income tax, customs, excise, service tax etc.)excluding the collections from Surcharges and Cess levied for specific purposes, taxes collected from the Union Territories, and the cost of tax collection by the Centre.

[2] Grants -in- aid refer to the grants to be given by the Union Government to those States, which are considered by the FC to be in need of further financial assistance to meet their expenditures even after getting their due sharea in central taxes.

Box 2: Key Recommendations of the 14th Finance Commission

- The 14th FC has enhanced the share of States in the divisible pool of central taxes from 32 percent to 42 percent every year for the five year period 2015-16 to 2019-20.
- The 14th FC formula for the horizontal devolution of resources from the divisible pool has incorporated two new criteria: demographic changes by 2011 (i.e. the population in 2011) and forest cover; it has dropped the criterion of fiscal discipline.
- The 14th FC has not recommended any sector specific-grants for States, unlike the 13th FC.
- The 14th FC recommended evolving a new institutional arrangement, with the overarching objective of strengthening cooperative federalism, for: (i) identifying the sectors in the States that should be eligible for grants from the Union Government, (ii) indicating criteria for inter-State distribution of these grants, (iii) helping design schemes with appropriate flexibility being given to the States regarding implementation and (iv) identifying and providing area-specificgrants.
- The 14th FC recommended distribution of grants to States for local bodies (urban and rural) based on 2011 population with a weight of 90 percent, and, area with a weight of 10 percent. Total size of this grant for all States to be Rs. 2,87,436 crore for period 2015-20.

iii. the measures needed to augment the *Consolidated Fund of a State*[3] to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the State FC.

The sections below discuss some of the possible implications of the key recommendations made by the 14th FC.

1.1. Quantum of resources to be transferred from Centre to States: Is it a Zero-Sum Game?

The 14th FC has increased the share of States in the divisible pool of central taxes from 32 to 42 percent, which undoubtedly would imply a higher devolution of untied funds from the Union to the State Governments every year. Despite the changes in the proportions for different States in the horizontal distribution of this share in central taxes, every State will receive a higher magnitude of central tax revenue as compared to what they got in the period of the 13th FC (i.e. 2010-11 to 2014-15).

However, while this increase in share of States in central taxes is being adopted from 2015-16, the total magnitude of central taxes (i.e. the gross central taxes to GDP ratio) is not showing any appreciable increase. In other words, the overall pool of resources available at the central level (as compared to the size of the country's economy or the GDP) is expected to remain more or less stagnant (at around 10.5 percent of GDP) over the coming years. Hence, the Union Government would be cutting down its expenditures in some domains in order to be able to give the States a higher share in the divisible pool of central taxes. This reduction of Union Government spending would happen primarily in two areas: Central Assistance for State & UT Plans (a combination of untied and tied funds given to States until 2014-15 to assist them in financing their Plans) and Union Budget outlays for development programmes or schemes in a range of sectors (with the expectation that the States would compensate for such reductions by increasing their State Budget outlays for those programmes or schemes, which they consider necessary in their context).

Thus, the higher magnitude of States' share in central taxes has come at the cost of discontinuation of Central Assistance for State

[3] Consolidated Fund of a State refers to that pool of funds, which, after the required legislative approval through enactment of the State Budget for a financial year, belongs to the State Government. The State Government takes out money from the Consolidated Fund to execute its approved budget. The most important feature of this Fund is that the Government cannot take out any money from the same without prior approval or authorization by the legislature.

Table 1.1: Changes in the Quantum of Resources Transferred from Centre to States (in Rs. Crore)

Sl. No	Items	2013-14 (Actual)	2014-15 (BE)	2014-15 (RE)	2015-16 (BE)
1	States' Share of Central Taxes and Duties	318,230	382,216	337,808	523,958
2	Total Non-Plan Grants	60,551	69,936	80,258	108,551
3	Total Plan Grants	138,353	323,563	262,913	207,147
4=1+2+3	Resources Transferred to States and UTs (Grants)	517,134	775,715	680,979	839,656
5	Direct release of Central Assistance for State/UT Plans to implementing agencies (Under Members of Parliament Local Area Development Scheme)	3,937	3,950	3,950	3,950
6	Direct release of Central Plan to State/District level autonomous bodies/implementing agencies	112,708	-	-	-

Source: Compiled by CBGA from Union Budget Documents, 2015-16
Note: Revised Estimates abbreviated as RE and Budget Estimates as BE in above Table

and UT Plans and reduced funding shares of the Union Government in centrally sponsored schemes in a host of sectors. **Table 1.1** shows that the total resources transferred from the Union Government to States in 2015-16 (Budget Estimates or BE) would be higher than that in 2014-15. The net increase in the spending capacity of the State Governments, resulting from the changes introduced in Centre-State sharing of resources in 2015-16, would be to the tune of around Rs. 1.58 lakh crore (for all States taken together) as compared to the 2014-15 (Revised Estimates or RE) figure, but it would be around Rs. 64000 crore (for all States taken together) if we compare the 2015-16 (BE) figures with 2014-15 (BE) figures. On an average, therefore, the net increase in resources transferred to a State in 2015-16 would be Rs. 5000 crore, if compared with 2014-15 (RE), or a smaller amount of Rs. 2000 crore when compared with 2014-15 (BE) figures.

Implications: Given that the total magnitudes of the State Budgets for many of the larger States are now in the range of Rs. 1 lakh crore to Rs. 2 lakh crore, an increase of Rs. 2000 crore to Rs. 5000 crore could hardly be viewed as a substantial increase in the spending capacity of the States. Thus, the changes in 2015-16 have not really led to any substantial increase in the total quantum of resources being transferred from the Union to the States; however, it has led to a change in the composition of the State Budget in favour of greater autonomy or flexibility for the State Governments. The greater degree of autonomy or flexibility available to the States(in terms of setting their expenditure priorities), combined with the reduction in the funding share of the Union Government in a host of centrally sponsored schemes, implies that the priorities in the State Budgets would have a stronger role now in determining the overall allocation of budgetary resources in a range of development sectors in the country.

Table 1.2: Classification of CSS

Classification of CSS	Distribution of original 66 CSS	Remarks
A. Schemes to be implemented without any change in their fund sharing pattern	17	Some of these schemes are reformulated with addition of new components, or taken up in Central Sector
B. Schemes to be implemented with a changed pattern of sharing of resources between Centre and States	33	
C. chemes delinked from Union support: States may decide to continue from their own resources	8	
D. Other schemes which are part of devolution to the States or have been re-structured in (A), (B) and (C) above.	8	
Total	**66**	

Source: Union Budget 2015-16 and NITI Aayog Report of the Subcommittee of Chief Ministers on Restructuring the CSS

Box 3: NITI Aayog constituted Sub-Group of Chief Ministers on Rationalization of Centrally Sponsored Schemes

NITI Aayog constituted a Sub-Group of Chief Ministers on the rationalisation of CSS with the objective of examining the existing CSS and recommending measures for ensuring that their implementation is streamlined and adequately flexible. The major recommendations, in its report released in October 2015, were as follows:

- CSS will be divided into Core and Optional schemes.
- From now onwards, the sharing pattern would be:

  For Core Schemes

  For the eight NE and three Himalayan States - Centre 90 % : State 10 %

  For all other (general category) States - Centre 60 % : State 40 %

  For Union Territories: Centre: 100 %

  For Optional Schemes

  For the eight NE and three Himalayan States - Centre 80 % : State 20%

  For all other (general category) States - Centre 50 %: State 50%

  For Union Territories: Centre: 100 %
- Funds for Optional Schemes would be allocated to States by the Union Ministry of Finance as a lump sum and States would be free to choose which Optional Schemes they wish to implement.
- Amongst the Core Schemes, those for social protection (including MGNREGA) and environment protection (e.g. wildlife conservation and greening) to form "Core of the Core", which would have the first charge on funds available for the National Development Agenda.

1.2. Will the State Governments be able to increase budgetary spending on their own programmes and schemes?:

The Union Budget 2015-16 announced new categorization of 66 Centrally Sponsored Schemes (CSS) where 17 schemes would continue to be implemented without any change in their fund sharing pattern (category A)and 33 schemes would be implemented with a changed pattern of sharing of resources between Centre and States (category B). The detailed list of category A and B is given in **Appendix 1.** Category A comprises the schemes, which represent national priorities especially those targeted at poverty alleviation, schemes mandated by legal obligations, schemes for socially disadvantaged groups and those backed by cess collection. **Table 1.2** provides the classification of the 66 schemes being implemented with full or partial support of the Centre.

The NITI Aayog report, released in October 2015, further classified the CSS schemes as 'Core' and 'Optional' **(See Box 3)**. As per the report, Core Schemes would have compulsory participation by States, whereas amongst the Optional Schemes, States could choose some or all of them. The Core Schemes would include schemes such as MGNREGA as well as Schemes for Social Inclusion as in category A and category B. Further, the report states that among the Core Schemes, schemes intended for Social Inclusion would be "the Core of the Core" and shall be the first charge on funds available. The list of the Core of the Core Scheme is given in **Appendix 2.**

The Union Government also decided to discontinue eight schemes, which included the Backward Regions Grant Fund (BRGF) and some other schemes falling in category C and D as per **Table 1.2**. The detailed list is provided in **Appendix 3**. The NITI Aayog's report, further clarified on fund sharing pattern of CSS between the two tiers of governance; it has changed the sharing pattern of several central sector schemes (i.e. those central schemes, which had 100 percent central share earlier) to a new fund sharing ratio of 60 : 40 (for Centre : State).

Implications: The decision to increase the matching contribution of States in some of the erstwhile central sector schemes(i.e. those central schemes, which had 100 percent central share earlier) would require the States to contribute a matching share(or a higher matching share)to be able to avail of the Union Budget outlays under these schemes. For example, now the National Afforestation Programme has a changed sharing pattern of funds; the funding pattern for this scheme has been modified to 60 : 40 (Centre : State) from the earlier practice of 100 percent funding coming from the Union Budget. Accordingly, in the Union Budget 2015-16 (BE) there is a substantial reduction of 71 percent in budgetary allocation for National Afforestation Programme (NAP). Therefore, the States' contribution would need to go up to more than 50 percent of the total budget for the scheme, if the total outlay for NAP in 2015-16 is to be maintained at last year's budgeted level. Hence, the expectation of higher contribution from States for some of the erstwhile central sector schemes (as well as the higher fund shares in a host of CSS) could limit the autonomy available to States for increasing budgetary spending on their own programmes and schemes to some extent. **Table 1.3** shows the allocations for schemes with direct relevance for Climate Change interventions, such as renewable energy and forest protection, in the Union Budget 2015-16.

In case of schemes related to renewable energy, the Union Ministry of New and Renewable energy is implementing the schemes through Central financial assistance in the form of loan and subsidies to State Governments. Changes in the fiscal architecture of the country and rationalisation of CSS may not have much impact on the mechanisms of funding for promotion of renewable energy as States are not required necessarily to make matching contributions for renewable energy schemes.

1.3. Collections from Cess and Surcharge not a part of the Divisible Pool of Central Taxes:

The quantum of funds collected from different types of cess levied by Union Government for specific purposes, such as coal cess, has been growing over the years. Union Budget 2015-16 announced an increase in the Clean Energy Cess to Rs. 200 per ton of coal. The proceeds from this cess are meant for augmenting the National Clean Energy Fund (NCEF)[4] as well as for financing of various clean energy interventions. Coal cess receipts have been estimated at Rs. 13,118 crore in Union Budget 2015-16, which is double in comparison to Rs. 6,857 crore in 2014-15(BE)[5]. However, in accordance with Article 270 of the Constitution, there would be no statutory transfer of the proceeds from cess

[4] National Clean Energy Fund was announced in the Union Budget 2010-11. It started asa non-lapsable corpus under the Public Accounts of India, formed through the levy of a Clean Energy Cess of Rs. 50 per tonne on coal produced domestically and imported to India. It's been revised in Budget 2015-16as Rs. 200 per ton of coal.The cess came into effect from July 2010.

[5] Receipt Budget Document, Union Budget documents of various years.

Table 1.3: Union Budget Allocations for Restructured Programmes and Schemesrelated to Climate Change interventions

Restructuring in Schemes and Programs	Criteria for Categorization of Schemes	Programmes and schemes related to Ecology, Environment & Climate Change	2014-15 (BE)	2014-15 (RE)	2015-16 (BE)	Percent change in 2015-16 (BE) over 2014-15(BE)
Schemes that continue to be fully supported by Union Government	(i) Schemes of national priorities especially those targeted at poverty alleviation, (ii) Schemes mandated by legal obligations and obligations for food security, (iii) Schemes backed by *Cess collection* and, (iv) Schemes which are targeted to benefit the socially disadvantaged group which includes SCs, STs, Muslims and physically challenged sections of the population.	Various Schemes of Ministry of New and Renewable Energy*	2307.75	2136.02	2654.68	15.0
		Project Tiger	161.0	161.92	136.5	-15.2
		Project Elephant	29.1	14.0	13.7	-52.9
		Additional Central Assistance for Externally Aided Projects **	15500.0	11900.0	16000.0	3.2
Schemes with changed pattern of sharing between Union and States	Schemes where States to contribute higher share.	National Afforestation Program	253.5	190.86	74.0	-70.8
		National Plan for Conservation of Aquatic Eco-Systems (NPCA)	72.50	34.62	32.50	-55.2
		National Mission on Sustainable Agriculture (Central)	1511.6	1330.39	300.0	-80.14
Centrally Sponsored Schemes delinked from Union		None of the schemes on Renewable energy, Forest and Wild Life Conservation is under this category	–	–	–	–

Source: -Expenditure Budget Volume II, Union Budget 2015-16
Note: -Annexure providing indicative list of schemes under 3 categories.
* Budget figures presented for MNRE schemes include amount received from NCEF and budgetary support. Names of the MNRE schemes included above are: Grid interactive Distributive Power, RE for Rural Applications, RE for Urban, Industrial and Commercial Applications, Research Design and Development in RE and Supporting Programme. This is based on the assumption that the Centre may continue to support fully to the MNRE schemes since most of the Schemes of MNRE receive a portion of allocation from coal cess collected under National Clean Energy Fund (NCEF).
** An example ofExternally Aided Projects is River Conservation Project.

Table 1.4: Outlays for Ministry of New and Renewable Energy (MNRE)

Budget Year	Gross Budgetary Support (GBS) (in Rs. Crore)	Amount met from NCEF (in Rs. Crore)	Total Outlay of MNRE (including GBS, NCEF and IEBR*) (in Rs. Crore)	Percent share of NCEF in outlay of MNRE
2010-11	973.9		2374.7	0.0
2011-12	1184.0	160.8	3711.4	4.3
2012-13	1088.6	125.8	3108.7	4.0
2013-14	383.1	1218.8	3065.7	39.8
2014-15 (BE)	941.0	1578.0	5519.0	28.6
2014-15 (RE)	541.0	1978.0	5865.6	33.7
2015-16 (BE)	287.7	2500.0	6160.7	40.6
2015-16 (BE + Supplementary Grants) **	287.7	3003.0	6663.7	45.1

Source: Expenditure Budget Vol. II of Various Years, Ministry of New and Renewable Energy and First Supplementary Demands for Grants for Expenditure of Central Government 2015-16
Note: *Internal and Extra Budgetary Support (IEBR) constitutes the resources provided by the PSUs (from their own resources). IEBR support was Rs. 3000 crore in 2014-15 BE, Rs. 3347 crore in 2014-15 RE and Rs. 3373 crore in 2015-16 BE.
**Supplementary grant is for meeting the expenditure under the Schemes of MNRE such as; (1) Grid Interactive and distributed Renewable Power for Solar Power with Rs. 250 crore for Green Energy Corridors with Rs.100 crore (2) Off-Grid/Distributed and Decentralised Renewable power for Solar Power with Rs. 150 crore (3) Construction of office building in New Delhi and Institute at

and surcharges to States as these are levied for specific purposes and should not form part of the divisible pool of central taxes. Thus, any increase in the proceeds from the cess does not imply any automatic resource augmentation for the States; nonetheless, the States do get additional resources when the NCEF funds flow to them through the Union Ministry of New and Renewable Energy. The share of NCEF's contribution in the total outlay of the Union Ministry of New and Renewable Energy increased from 29 percent in 2014-15 (BE) to 41 percent in 2015-16 (BE) **(see Table 1.4).**

Table 1.5: Transfer to NCEF from the Revenue collected from Clean Energy Cess

Budget Year	Tax Revenue from Clean Energy Cess* (in Rs. Crore)	Transfer to NCEF# (in Rs. Crore)
2010-11	1066.5	...
2011-12	2579.5	1059.6
2012-13	3053.2	1500.0
2013-14	3471.9	1650.0
2014-15 BE	6857.5	4700.0
2014-15 RE	6217.6	4700.0
2015-16 BE	13118.0	4700.0

Source: *Receipt Budget of the Union Government, Various Years
#Union Budget documents of Various Years for Department of Economic Affairs, Ministry of Finance

Implications: Over the years, the built up of corpus in NCEF has increased, but these funds have not been utilized fully or in some cases a part of the funds has been used for 'budget substitution' in other areas. **Table 1.5** shows the gaps in funds transferred to NCEF from the total revenue collected from the Clean Energy Cess. The main purpose for which the cess corpus has been constituted is that of improving the availability of financial resource to States, since the proceeds from the cess cannot be part of the divisible pool of central taxes (the divisible pool of central taxes is the pool in which States get a share as per the FC recommendations). This gives rise to a question as to whether the entire proceeds from the Clean Energy Cess should not be transferred to the NCEF in order to ensure that States do get the higher magnitudes of resources for promoting clean energy adequately.

2. 14th FC Recommendations pertaining to Ecology, Environment and Climate Change

Besides the three core matters indicated earlier, the Terms of Reference (ToR) of the 14th FC included a number of other concerns of national importance. One of the mandates mentioned in ToR of the Commission was to consider the need to balance the management of Ecology, Environment and Climate Change, consistent with sustainable economic development, while laying its recommendations. The following section lists recommendations made by the 14th FC in compliance of this mandate, along with the possible implications of its recommendations.

2.1 Recommendations in consideration of Ecology, Environment and Climate Change

(i) 'Forest Cover' included as a Criterion for the Distribution of the Divisible Pool of Central Taxes among States:

The criteria and weights assigned by the 14th FC for inter-se distribution of the States' share of the divisible pool of central taxes among the States differ from those of the 13th FC **(Table 2.1)**. The report of the 14th FC highlights that while there is a need to address the concerns of people living in forest areas and ensure a desirable level of services for them, at the same time, it is necessary to compensate the States for the opportunity costs in terms of the area not available for other economic activities and loss of potential revenue generation from it. In view of this argument, forest cover has been assigned 7.5 percentage weight in the devolution formula of the 14th FC. This recommendation is in contrast to the previous FCs' (12th and 13th FCs) recommendations of providing specific purpose grants-in aids of Rs. 1000 crore and Rs. 5000 crore respectively for forests.

Implications: Inclusion of forest cover as a criterion for horizontal distribution of tax devolution will certainly benefit States with a relatively larger forest cover like Arunachal

Table 2.1: Criteria & Weight accorded in the Tax Devolution Formula in 13th and 14th Finance Commission: Distribution of the Divisible Pool of Central Taxes among States

Criteria	Weights accorded	
	13th FC	14th FC
Population (1971)	25	17.5
Demographic Change (population 2011) *	0	10
Fiscal Capacity/ Income Distance	47.5	50
Area	10	15
Forest Cover *	0	7.5
Fiscal discipline **	17.5	0

Source: - Report of 13th and 14th FC.
Note:-*Newly included in the 14th FC criteria. **Dropped in the 14th FC criteria

Pradesh, Uttarakhand, Madhya Pradesh, Chhattisgarh, Maharashtra and Odisha; while States like Bihar and Rajasthan (with poor forest cover),which are also economically weaker States, would not benefit in terms of their shares in the total amount of States' share in divisible pool of central taxes. There is also a view that one should not expect higher tax devolution to forest rich States to lead towards higher allocation of budgetary resources in those States for protection of forests in the coming years, as a large part of the fund devolution to States will be as untied funds and it depends mainly on the State Governments' priorities as to whether they want to step up the spending on protection of forests or not.

(ii) Withdrawal of Specific Purpose Grants to States:

The 14th FC has recommended doing away with any form of specific purpose grants to States. Hence, the performance based grants such as those recommended by the 13th FC amounting to Rs. 15,000 crore, which included Forest Protection, Renewable Energy and Water sectors, have not been included under the 14th FC.

Implications: Previous Finance Commissions had viewed grants-in-aid as a means to cater to certain common as well as specific needs of the States, which meet the objectives of reducing disparities in the standards of various administrative and social services across States enabling particular States to meet special financial needs emerging from their specific circumstances and in providing resources for specific activities considered to be national priorities. Deviating from there commendations of the previous FCs, the 14th FC recommended doing away with any sector specific grant-in-aid. While the recommendation to provide more untied funds to States is welcome, in the past, specific purpose grants have also incentivized States to strengthen their interventions in the domain of environment, climate change and renewable energy. In this context, doing away with such incentives completely might affect the adequacy of financial resources for some of the sectors like renewable energy. In this context, States, which have ample potential for harnessing renewable energy but are constrained by financial resources for doing so, might face a challenge. Such problems of shortage of resources, however, would not arise if a State Government steps up its budgetary priority for renewable energy significantly.

(iii) A part of the Mining Royalty to be shared with the Local Bodies:

Another recommendation relevant for local environmental conditions has been with regard to disbursement to local bodies. It has been recommended that a part of the income from royalties is to be shared with local bodies under whose jurisdiction mining takes place.

Implications: Local bodies require financial resources to serve their responsibilities for local environmental improvement. The above recommendation would certainly support local bodies with added financial revenue in the form of royalties.

(iv) Expanded Role of the Inter-State Council includes Environment issue:

The 14th FC recommends expanding the present role and scope of Inter-State Council[6] (ISC) for developing new institutional mechanism for coordination between Union Government and State Governments. Three of its new roles include: strengthening Cooperative Federalism, integrating economic and environmental concerns in decision making, and identifying and recommending resources for inter-state infrastructure schemes in North-Eastern States. Environmental concerns have now been included in the expanded role of the Inter-State Council to improve partnering of Union Government and State Governments to address the global concern

[6] The Inter-State Council is a temporary Constitutional body for resolving disputes and coordination between the Union and the States, or between States of the Union under the Ministry of Home Affairs. Article 263 of the Constitution of India provides for the establishment of an Inter-State Council (ISC). It can be established 'at any time' if it appears to the President that the public interests would be served by the establishment of such a Council. PM is Chairman of ISC with Chief Ministers of all States and UTs, and, 6 cabinet rank ministers as its members. It was last constituted in September 2013; only ten meetings of the ISC have been held since Independence. Source: http://interstatecouncil.nic.in/welcome.html

of climate change and resolve issues arising from Natural Resource Management.

Implications: The above recommendation of the 14th FC for expanding role of Inter-State Council for integrating economic and environmental concerns in decision making is certainly important for improving participation among the States on climate change and environmental issues. However, the 14th FC also pointed out in its report that there are functional in efficiencies with ISC such as irregularity in conduction of meetings and under staffing. The report mentions that, "while Inter-State Council is mandated to meet three times in a year, it has met only ten times since its establishment in 1990 and twice in the last ten years." Hence, it is imperative to strengthen the ISC so that it can efficiently deliver its expanded role of integrating environmental issues in decision making. This could be done by providing adequate staff with suitable qualifications to tackle environmental issues and by providing it functional autonomy.

2.2. Recommendation for Improving Financial Position of Power Utilities and Its Possible Implications

State Governments have stakes in the power distribution utilities; therefore, the implications of the finances of the utilities directly and indirectly fall on the respective States. The aggregate losses (without accounting for subsidy) for all the utilities increased from Rs. 64,463 crore in 2009-10 to Rs. 74, 291 crore in 2010-11 and to Rs. 92,845 crore in 2011-12. Power sector has long faced questions of financial sustainability on account of below-cost tariffs to different consumer groups, supply of un-metered, free electricity to agriculture and high aggregate technical and commercial (AT&C) losses. These factors have weakened the finances of State Utilities, lowered the ability to attract private investment in the sector and resulted in heavy reliance upon government support for both investment and working capital.

On account of the grim situation of power sector, many a times power generators are not interested to invest in alternate sources of energy like renewable energy. Infusion of clean energy in power sector is important to combat the Greenhouse Gas (GHG) emissions from coal based power plants, which contribute 43 percent in total GHG emissions from the country. It is imperative to financially strengthen the power sector as it has a bearing on encouraging investment for alternative clean energy sources. To ensure improved financial performance of the power sector, the 14th FC made following recommendations:

(i) The 14th FC recommends for 100 percent electricity metering to be achieved in a time bound and statutory manner for all consumers. The rationale reported in the 14th FC report for such a recommendation is that the State Government is the sole owner of power distribution entities in States and the financial health of these entities directly affects the fiscal position of the States. Meters are necessary for measuring consumption levels, distribution losses and ultimately for financial management.

(ii) The Commission urges all the **States to constitute State Electricity Regulatory Commission (SERC) fund** as per provision stated in section 103 of the Electricity Act 2003. The report of the 14th FC states that this is important to financially strengthen the SERC, in order to effectively carry out their statutory responsibilities.

(iii) Apart from above, the 14th FC recommends that the Electricity Act, 2003 be suitably amended to facilitate levy of penalties for delays in the payment of subsidies by State Governments to power utilities for subsidizing a certain section of consumers. It is felt by the 14th FC, that the timely payment of subsidies is extremely important from the fiscal transparency perspective and for serving the consumers in need of these subsidies.

Implications: Power generators have not shown much progress with installation of Renewable Energy (RE) technologies, particularly when we compare their achieved potential of 33 GW till date with the revised national target of adding of 175 GW of RE capacities by 2022. Major reason of such a lag in achievement of target is the poor financial condition of Power distribution Utilities to purchase power from alternate sources of energy such as Renewable Energy. State Governments require budgetary support in order to ensure that there is greater equity in access to energy in the country, the potential for RE is tapped adequately in most States and grid connectivity for RE generated is enhanced.

Given this scenario of non-availability of enough finances for development of RE, above recommendation of the 14th FC on strengthening power utilities, may improve their overall financial condition and hence may encourage a part of investment in alternate sources of energy such as Renewable Energy. However, the 14th FC could have made direct recommendation for incentivizing those power generation or distribution utilities, which are generating revenue through selling RE or meeting their RPO targets as this could be one of the ways of improving financial condition of power distribution companies.

Concluding Remarks

The 14th FC has come up with the significant recommendation for an increase in the States' share in the divisible pool of central taxes from 32 percent to 42 percent every year during 2015-16 to 2019-20. However, the net increase in the spending capacity of the State Governments in 2015-16 would be modest for most States since the Union Government has also reduced the Central Assistance to States for plan spending and its budget outlays for the CSS. The greater degree of autonomy or flexibility available to the States (in terms of setting their expenditure priorities), combined with the reduction in the funding share of the Union Government in a host of CSS, implies that the priorities in the State Budgets would have a stronger role now in determining the overall allocation of budgetary resources in a range of development sectors in the country.

One of the major programmes for ecology and environment, viz. National Afforestation Program (NAP), has a changed fund sharing pattern now; the pattern of funding for this scheme has been changed to 60 : 40 (Centre : State) from the earlier practice of 100 percent funding coming from the Union Budget. Therefore, the States' contribution would need to go up to more than 50 percent of the total budget for the scheme, if the total outlay for NAP in 2015-16 is to be maintained at last year's budgeted level.

In case of schemes related to renewable energy, the Union Ministry of New and Renewable energy is implementing the schemes through Central financial assistance in the form of loan and subsidies to State Governments. Changes in the fiscal architecture of the country and rationalisation of CSS may not have much impact on the mechanisms of funding for promotion of renewable energy as States are not required necessarily to make matching contributions for renewable energy schemes. However, the question arises whether State Governments will be able to deliver their share of the responsibility such as providing evacuation infrastructure for the RE capacity created, land acquisition clearances, maintenance of RE system after transfer of installed capacity etc., with the fiscal space available to them now?

In other words, along with greater autonomy for setting the spending priorities in their budgets, do the States also have adequate magnitudes of overall resources that could enable them to invest in various aspects of RE that require greater government support?Such problems of shortage of resourceswould not arise if a State Government steps up its budgetary priority for renewable energy significantly. However, keeping in mind the shortage of public resources across a range of sectors, especially in the poorer States, it is unlikely that many States would be able to increase substantially their budgetary support for RE and other interventions relating to environment and climate change. The continued role of the Union Government in this domain, therefore, would be important for addressing challenges in those States or regions that lag behind the others.

Appendix 1: Schemes in Category A and Category B

S.No.	List of 66 CSS approved by the Cabinet for the 12th plan	Proposed Umbrella Programmes /Ministries
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA)	1. National Rural Employment Guarantee Scheme
2	National Social Assistance Programme (NSAP)	2. National Social Assistance Programme
3	National Programme for persons with disabilities	3. National Programme for Persons with Disabilities
4	Scheme for Development of Scheduled Castes	4. Umbrellla Programme for Development of Scheduled Castes
5	Umbrella scheme for Education of ST students	5. Umbrella Programme for Development of Scheduled Tribes
6	Minorities including Multi Sectoral Development Programme for providing Education to Madrasas/Minorities	6. Multi Sectoral Development Programme for Minorities
7	Scheme for Development of Other Backward Classes and denotified, nomadic and semi-nomadic Tribes	7. Umbrella Programme for Development of Other Vulnerable Groups
8	Scheme for development of Economically backward Classes (EBCs)	
9	Pradhan Mantri Adarsh Gram Yojana (PMAGY)	8. Krishi Unnati Yojana
10	National Food Security Mission	
11	National Horticulture Mission	
12	National Mission on Sustainable Agriculture	
13	National Oilseed and Oil Palm Mission	
14	National Mission on Agriculture Extension and Technology	
15	Rashtriya Krishi Vikas Yojana (RKVY) (ACA)	
16	National Livestock Management Programme	9. Rashtriya Pashudhan Vikas Yojana + Fisheries
17	National Livestock Health and Disease Control Programme	
18	National Plan for Dairy Development	
19	National Rural Drinking Water Programme	10. Swachh Bharat Abhiyan (Grameen) 11. National Drinking Water Mission

20	Nirmal Bharat Abhiyan	
21	National River Conservation Programme (NRCP)	12. Environment, Forestry & Wildlife
22	National Afforestation Programme (National Mission for a Green India)	
23	Conservation of Natural Resources and Ecosystems	
24	Integrated Development of Wild Life Habitats	
25	Project Tiger	
26	National Health Mission including NRHM	13. National Health Mission including AYUSH, NACO and Medical Research
27	Human Resource in Health and Medical Education	
28	National Mission on Ayush including Mission on Medicinal Plants	
29	National AIDS & STD Control Programme	
30	Border Area Development Programme (BADP) (ACA) (MHA/M/o Finance)	14. Border Area Development Programme
31	National Urban Livelihood Mission	15. National Livelihood Mission – Rural 16. National Livelihood Mission - Urban
32	National Rural Livelihood Mission (NRLM)	
33	Rajiv Awas Yojana including JNNURM part of MoHUPA	17. Housing for All- Rural (RD) 18. Housing for All- Urban (HUPA)
34	Indira Awaas Yojana (IAY)	
35	Sarva Siksha Abhiyan	19. National Education Mission
36	Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	
37	Support for Educational Development including Teachers Training & Adult Education	
38	Rashtriya Uchhtar Shiksha Abhiyan	
39	Scheme for providing education to Madrasas, Minorities and Disabled	
40	National Service Scheme	20. National Service Scheme
41	National Programme Nutritional Support to Primary Education (MDM)	21. Mid Day Meal Programme
42	Integrated Child Development Services (ICDS)	22. Integrated Child Development Scheme and related programmes like maternity benefits, SABLA, KSY etc.
43	Integrated Child Protection Scheme (ICPS)	23. Integrated Child Protection Scheme
44	Development of Infrastructure Facilities for Judiciary including Gram Nyayalayas	24. Infrastructure Facilities for Judiciary

45	Pradhan Mantri Gram Sadak Yojana (PMGSY)	25. Pradhan Mantri Gram Sadak Yojana
46	Integrated Watershed Management Programme (IWMP)	26. Pradhan Mantri Krishi Sinchai Yojana
47	Accelerated Irrigation Benefit & Flood Management Programme (merging AIBP and other programmes of water resources such as CAD, EMP etc.) (ACA) + DAC	
48	Jawaharlal Nehru National Urban Renewal Mission (JNNURM) (ACA)	27. Atal Mission for Rejuvenation and Urban Transformation (AMRUT) 28. Swachh Bharat Abhiyan Shahari 29. Smart Cities Mission
49	National Mission for Empowerment of Women including Indira Gandhi Mattritav Sahyog Yojana	Transferred to Central Sector and IGMSY made a sub-scheme of ICDS
50	Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (SABLA)	To be implemented through ICDS machinery

Appendix 2: Core of the Core Schemes

Sl. No.	Scheme	Categorization in BE 2015-16	Allocation in BE 2015-16 (including central sector components) [in Rs. Core]
1	MGNREGA	A	33,700
2.	National Social Assistance Programme	A	9000
3	National Programme for persons with disabilities	A	5
4	Scheme for development of scheduled caste (it has components in Central Sector also)	A	2649
5	Umbrella Scheme for education of ST children	A	1155
6	For Minorities: (has schemes in both CSS and CS) CSS: 1. Multi Sector Development Programme for Minorities- CSS (Rs. 1244 cr) 2. Scheme for providing education to Madrasas/Minorities – CSS (Rs. 375 cr)	A	3474 CSS: 1619 CS: 1855
7.	Welfare of other Backward classes	A	1094

Appendix 3: Schemes in Category C and D

S.No.	List of 66 CSS approved by the Cabinet for the 12th plan	Proposed Umbrella Programmes /Ministries
51	National Land Record Modernisation Programme	To be transferred to Central Sector (Digital India Initiatives)
52	Assistance to States for Infrastructure Development for Exports (ASIDE)	Delinked from Union Support
53	Backward Regions Grant Fund (District Component (ACA)	Delinked from Union Support
54	Rajiv Gandhi Panchayat Sashastrikaran Yojana	Delinked from Union Support
55	Backward Regions Grant Fund (BRGF) (State Component)	Delinked from Union Support.
56	National Scheme for Modernization of Police and other forces	Delinked from Union Support.
57	Scheme for setting up of 6000 Model Schools at Block level as Benchmark of Excellence	Delinked from Union Support
58	National E-Governance Action Plan (NeGAP) (ACA)	Transferred to Central Sector (as part of Digital India)

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