CENTRAL TRANSFERS AND FISCAL DEPENDENCY OF STATES IN INDIA: AN ANALYSIS OF THE FISCAL DEPENDENCY OF ASSAM

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ABSTRACT

In federal countries, fiscal transfers from national governments to sub-national governments are designed to correct the fiscal imbalances that arise due to mismatch in the assignment of revenue and expenditure responsibilities and the existence of regional disparities. In India, states are highly dependent on fiscal transfers from the central government because of the existence of a high degree of vertical and horizontal fiscal imbalances. This paper analyses the trend of central transfers to the state Assam and examines the dependency of the state on central transfers. The study finds high fiscal dependence of Assam on central transfers, only around one-third of revenue expenditure of the state has been met from its own revenue.

Keywords: *Fiscal Imbalance, Central Transfer, Finance Commission, Revenue Dependence, Assam.*

JEL Classification: H70, H71, H77.

1. Introduction

One major issue of debate in India's fiscal federalism has been that whereas the states of India are assigned with more expenditure responsibilities, the revenue assignment has been inadequate to meet the growing expenditure of states. While the central government enjoys greater taxing power, the states are entrusted with greater expenditure responsibilities (Rao and Singh, 2007; Heredia-Ortiz and Rider, 2005). The central government collects around 60-68 per cent of the combined revenue receipt of the centre and states whereas the states have to bear 50-60 per cent of combined revenue expenditure (Panda, 2019). Moreover, taxes that are assigned to the central government are found to be more elastic and productive than the states. During the period 2000-08, the buoyancy of central taxes was 1.49 per cent against the buoyancy of states taxes at 1.18 per cent (Thirteenth Finance Commission, 2009). Again, there are significant differences among the states in the level of development and revenue-raising capacity. So, the revenue assignment in India has both vertical and horizontal fiscal imbalances (Rangarajan and Srivastava, 2008). Consequently, fiscal transfers from the centre constitute a significant portion of the revenue receipts of states. For most of the states, central transfers constitute more than 50 per cent of the total revenue receipts of states.

In federal countries, generally, intergovernmental fiscal transfers are used to correct the vertical and horizontal fiscal imbalance among the different tiers of government. In most of the federations various forms of fiscal transfer mechanisms, such as revenue sharing, equalization grants, special purpose grants, etc., are used to address the problem of vertical as well as horizontal fiscal imbalances (Boadway and Shah, 2009). Recognizing the fiscal imbalance between the centre and the states, the Constitution of India has provided a mechanism to transfer funds from the centre to state governments by way of tax devolution and grants-in-aid. In the Indian federal set-up, the institutional mechanism for the transfer of resources from the central government to the states revolves around three institutions, viz., the Finance Commission, the erstwhile Planning Commission[1] and various ministries of the central government. The primary mode of transfer of resources from the centre to the states has been the Finance Commission. The major chunk of resources from the centre to states is transferred on the recommendation of the Finance Commission. The Constitution has made provision for the formation of a Finance Commission for every five years to recommend devolution of sharable central taxes to the States; framing down the principles of distribution and shares of individual states as well as grants-in-aid (Rao, 2018).

However, fiscal transfers in federations are associated with several shortcomings and undesirable effects. Fiscal transfers from the centre to the states, often, result in soft budget constraints and fiscal indiscipline in sub-national governments (Bhatt and Scaramozzino, 2013). Though fiscal transfer is necessary to correct the vertical and horizontal fiscal imbalances, high dependency on fiscal transfer leads to a loss in fiscal autonomy and minimum efforts on the part of sub-national governments in mobilizing revenue. Since the 1990s, the fiscal position of the states of India has deteriorated due to the rapid increase in revenue expenditure and also because of the disappointing growth of own revenue of states (Rao. 2002). The states of India have witnessed a long-term deterioration of their ability to finance their current expenditure from their own revenue (Singh and Vasishtha, 2004). Moreover, an increasing number of pan Indian schemes, which are either fully or partially funded by the central government, is also pushing the state governments more dependent on central transfers. The wide inter-regional differences in terms of economic development are such that the low-income states of India like Bihar, Orissa, Madhya Pradesh, Uttar Pradesh, etc., and the special category states[2] received a significantly high amount of central transfers to meet their expenditure requirements (Rao and Srivastava, 2014). Due to the low level of economic activities and developmental gap, the northeastern states, which are special category states, have been highly dependent on central transfers; central transfer constitutes around 90 per cent of revenue receipt of Nagaland, Manipur and Mizoram (Reserve Bank of India [RBI], 2018). Assam, which is the centre of most economic activities in the entire northeastern region, has been receiving more than 60 per cent of its revenue receipt as central transfers (Datta and Datta, 2015).

In this backdrop, attempts are made in this paper to examine the trend of central transfers to Assam during the period from 1990-91 to 2016-17 and assess the revenue dependence of the state on central transfers. The remainder of the paper is structured in the following manner. In the next section, literature has been reviewed and the third section discusses data and methodology. The results and discussion on central transfers and revenue dependence are done in the fourth section and the final section concludes the paper with remarks.

2. Review of Literature

In the theoretical literature of fiscal federalism, the fundamental objectives of intergovernmental fiscal transfers in a federation are to achieve fiscal balance, equity in distribution, and efficiency in allocation (Buchanan, 1950; Musgrave, 1961; Breton, 1965; Oates, 1972). According to many studies conducted across the world, sub-national governments' share in total public expenditure exceeds their share in total revenue, implying that grants from national governments are everywhere a major component of sub-national finance (Ambrosanio and Bordignon, 2006; Gordin, 2006). A large number of studies on state finances and intergovernmental transfers in India suggest that the existence of sharp vertical and horizontal fiscal imbalances is responsible for the weak fiscal position of states and consequently, dependence on fiscal transfers from the centre (Rao, 2002; Singh and Vasishtha, 2004; Kannan et al., 2004). The increased fiscal dependence has been contributed by the mismatched growth of expenditure of states and the mobilisation of own revenue, and also by an increase in discretionary transfers from the centre (Srivastava and Rao, 2009). Singh and Vasishtha (2004) argued that the fiscal transfer mechanism in India has not been transparent and objective; the states with political bargaining power received more transfers from the centre. Rao and Srivastava, (2014) found an increase in dependence on central transfers for all states; high-income states of India are less dependent whereas the poor states are highly dependent on central transfers.

The continued and increasing fiscal dependence of states had led to some undesirable effects. Heredia-Ortiz and Rider (2005) observed that the high dependency of states on central transfers has weakened the accountability and fiscal discipline of states. Debnath and Battacharjee (2019) found that an increase in unconditional transfers led to a decrease in tax collection of states whereas conditional transfers tend to have a positive impact on the tax collection of states. Panda (2017) found that central transfers highly influence the size and pattern of state spending, and adversely affect the budgetary efforts of states to raise their own revenue and rationalize expenditure. He suggested a review of the existing method of central transfers and framing of new modalities to make federal transfers more objective and transparent. Though the system of fiscal transfers from the centre has been able to direct more resources towards the poor states, it has been less effective in encouraging states to observe fiscal discipline (Bhatt and Scaramozzino, 2013). The fiscal transfer system in India has become gap-filling in nature, playing an accommodative role to the fiscal imbalances of states which indirectly incentivizes the states to carry on fiscal imbalance (Rao, 2005; Bhatt and Scaramozzino, 2013; Panda and Nirmala, 2013).

From the review of literature, it is evident that states of India are fiscally dependent on central transfers and the mechanism of transfer provides, indirectly, incentives to states to remain fiscally dependent. In this perspective, the goals of the present study are to investigate the trend and pattern of central transfers to Assam and examine the extent of revenue dependence of the state.

3. Data and Methodology

The study, entirely, is based on secondary sources of data. The relevant data are obtained from the reports of Indian Public Finance Statistics published by the Ministry of Finance, Government of India; State Finance: A study of Budgets, and Handbook of Statistics on Indian States published by the Reserve Bank of India; and Reports of Finance Commissions of India. Data on Gross State Domestic Product (GSDP) of Assam are obtained from Central Statistical Organization, Government of India.

The period for the study is from 1990-91 to 2016-17. The various forms of central transfers, growth and composition of revenue, etc., are examined through simple statistical measures, such as percentage, average, ratios, etc. The revenue dependency of the state is examined by measuring the revenue gap.

4. Results and Discussion

4.1 Trend and Pattern of Central Transfers to States

The main transfers of resources received by the states are the share in central taxes and grants as per the recommendations of Finance Commissions and these transfers are statutory in nature. On the other hand, the transfers received under the erstwhile Planning Commission and various central ministries are discretionary in nature. The Planning Commission provided plan grants and loans to states, and the various central ministries provide grants to states for Central Sector Schemes and Centrally Sponsored Schemes. Over the years, the nature and size of these transfers to the states have been changing. Different Finance Commissions have used different sets of criteria for both vertical sharing and horizontal distribution of revenue. Till Tenth Finance Commission different formulae were used for the devolution of income tax and union excise duties between the centre and states. The Tenth Finance Commission recommended bringing in all sharable taxes into one pool. Through the Eightieth Constitution (Amendment) Act, 2000, all shareable central taxes were brought into one divisible pool (Sury, 2010). Thus, from the Eleventh Finance Commission onwards devolution of central taxes to states has been done through one set of criteria from the shareable pool of central taxes. From Table 1 it is evident that the recent Finance Commissions have successively been increasing the share of states. The Fourteenth Finance Commission considerably increased the share of states in central taxes to 42 per cent from 32 per cent under Thirteenth Finance Commission.

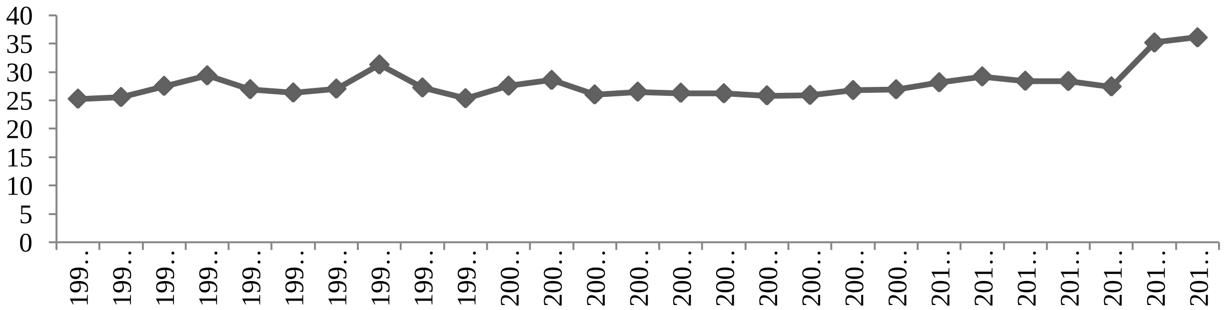
Table 1. Vertical Distribution: States Share in Divisible Pool of Central Taxes

Finance Commissions (FC)	Divisible Pool of Central Taxes		
	Gross Tax Revenue (Net of Cost of Collection, Cess and Surcharges) (%)	Income Tax (Net Proceeds) (%)	Union Excise Duties (Net Proceeds) (%)
FC-I (1952-57)		55.0	40.0
FC-II (1957-62)		60.0	25.0
FC-III (1962-66)		66.7	20.0
FC-IV (1966-69)		75.0	20.0
FC-V (1969-74)		75.0	20.0
FC-VI (1974-79)		80.0	20.0
FC-VII (1979-84)		85.0	40.0
FC-VIII (1984-89)		85.0	45.0
FC-IX:1st Report (1989-90)		85.0	45.0
FC-IX: 2nd Report (1990-95)		85.0	45.0
FC-X (1995-2000)		77.5	47.5
FC-XI (2000-05)	29.5		
FC-XII (2005-10)	30.5		
FC-XIII (2010-15)	32.0		
FC-XIV (2015-20)	42.0		

Source: Reports of Finance Commissions of India.

The share in central taxes received by states as per devolution has fluctuated around 25 per cent to 30 per cent (Figure 1) during the period of Ninth Finance Commission to Thirteenth Finance Commission (1990-91 to 2014-15). But in the first two years of the Fourteenth Finance Commission, the share of states in central taxes has increased significantly to 35.17 per cent in 2015-16 and 36.08 per cent in 2016-17 because of the increased devolution recommended. It is seen that the share of states in central taxes differs from that of Finance Commissions' recommendations. The reason being that the recommendations of Finance Commissions apply to the 'divisible pool' of central taxes which excludes revenue from cesses and surcharges, cost of collection, and certain other earmarked taxes.

Figure 1. States' Share in Central Taxes (%)

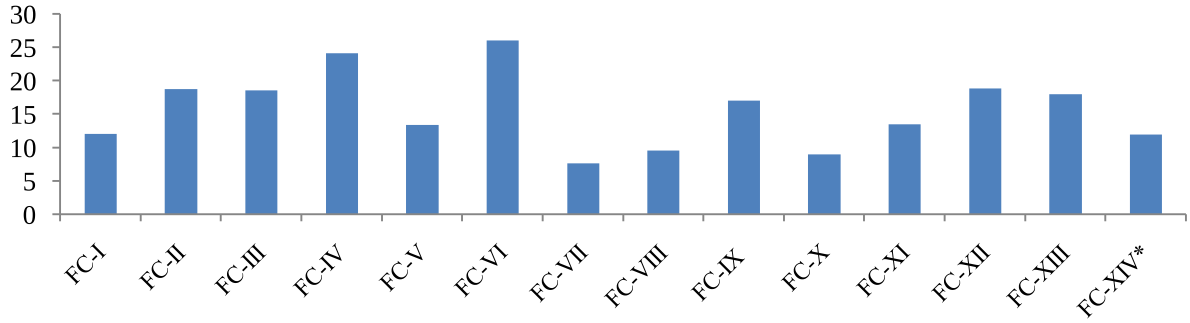


Source: Author's Calculation based on 'Indian Public Finance Statistics', 2017-18, Ministry of Finance, Government of India.

The Finance Commission also recommends grants-in-aid to states to meet assessed revenue deficit of states after tax devolution, remove disparities among the states in the provision of administrative and social services, performance grants, state-specific needs, environment-related grants, for natural disasters, etc. Most of these state-specific grants are conditional and their actual realizations depend upon fulfilling the conditions imposed (Chakraborty, 2010). The Fourteenth Finance Commission limited the number of grants to Post Devolution Revenue Deficit Grants, Disaster Relief Grant and Grants to Local Bodies (Fourteenth Finance Commission, 2014). Figure 2 shows the trend of grants by Finance Commissions to states as a percentage of total transfers to states by the Finance Commissions.

The Sixth Finance Commission recorded the highest share of grants, 26.1 per cent, and the Seventh Finance Commission accounted for the lowest share of grants at 7.7 per cent. This reflects that different Commissions have adopted different outlooks and criteria in the provision of grants to states.

Figure 2. Grants as Percentage of Total Finance Commission's Transfers to States



Note: * Calculated from the recommended transfers by Fourteenth Finance Commission.
Source: Fourteenth Finance Commission Report, Page 140 and 437.

The total central transfer of resources to states also includes grants from the erstwhile Planning Commission and various ministries of the central government. The total central transfer which was 40.33 per cent of gross revenue receipt of the centre during the Ninth Finance Commission declined significantly during the Tenth and Eleventh Finance Commission (Table 2). The main reason for the decline in central transfers was the deteriorating fiscal situation of the centre and states during the late 1990s and early 2000s which led to a decline in grants from the Planning Commission and central ministries. During Thirteenth Finance Commission, total central transfer increased to 41.33 per cent of gross revenue receipt of centre.

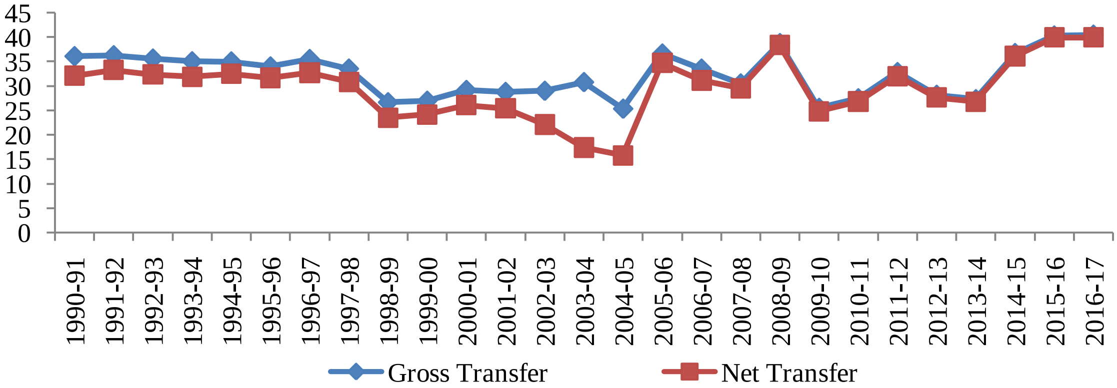
Table 2: Transfers from Centre to States as Percentage of Gross Revenue Receipts of Centre

Finance Commission	Finance Commission's Transfers			Other Transfers			Total Transfers
	Share in Central Taxes	Grants	Total FC's Transfers	Plan Grants	Non-Plan Grants	Total Other Transfers	
1	2	3	4=2+3	5	6	7=5+6	4+7
FC-IX	21.37	3.42	24.79	14.49	1.06	15.55	40.33
FC-X	22.22	2.34	24.56	10.57	0.67	11.24	35.79
FC-XII	20.59	3.88	24.47	10.1	0.7	10.8	35.27
FC-XIII	22.03	4.7	26.73	10.99	1.07	12.06	38.79
FC-XIII	23.95	3.93	27.87	12.87	0.59	13.45	41.33

Source: Fourteenth Finance Commission Report, Page 52.

The actual amounts of transfers realized by the states are the Net Transfers obtained after deducting the repayment of debt to the central government from Gross Transfer. Till 2004-05, there existed significant variation between the Gross Transfer and the Net Transfer of resources to states (Figure 3). It is seen from the figure that both Gross and Net transfer has significantly declined during the period 1998-99 to 2004-05, but the fall in Net Transfer is more than the Gross Transfer. The difference which existed between the Gross and Net transfer also widened during this period and in the year 2003-04, this difference became as high as 13.35 per cent of total receipt of centre. However, since 2005-06, this difference between the Gross and Net transfer has declined significantly and in recent years, only a nominal difference remains between the two. Since 2014-15, both Gross Transfer and Net Transfer to states have increased considerably.

Figure 3. Central Transfers to States as a Percentage of Total Receipt of Centre



Note: Gross Transfers = Share of states in central taxes + Grants to states + Loans
Net Transfers = Gross Transfer – Repayment of Loans by States.
Source: Indian Public Finance Statistics, 2017-18, Ministry of Finance, Government of India.

4.2 Trend and Pattern of Central Transfers to Assam

To meet horizontal equity in the distribution of states' share in central taxes among the states, the Finance Commissions of India have formulated criteria with different factors, such as population, income distance, area, index of infrastructure, tax effort, fiscal discipline, fiscal capacity distance, etc. Till Ninth Finance Commission, different sets of criteria were used to distribute the share of income tax and excise duties among the states. The Tenth Finance Commission applied a uniform formula for inter se distribution of income tax and union excise duties (Table 3). From Eleventh Finance Commission since all shareable central taxes were brought into one divisible pool, one set of criteria are applied in the inter se distribution of shareable taxes. From the First Finance Commission, population was taken as a common basis to determine the share of individual states, but its weightage declined from 100 per cent in First Finance Commission to 10 per cent in Eleventh Finance Commission. From Third Finance Commission 'backwardness' emerged as an important factor to determine the inter se share of taxes. 'Distance to per capita income' factor became important from Eighth Finance Commission and from Tenth Finance Commission this criterion turned to be the major factor in determining the share of each state. Recent Finance Commissions have introduced factors, such as fiscal discipline, fiscal capacity distance, demographic change, forest cover, etc., in devolution criteria. Thus, the devolution criteria have undergone significant changes over different Finance Commissions which led to changes in the share of individual states over different Finance Commissions.

Table 3. Criteria Distribution for Inter- State Share of All Taxes and Duties (%)

Finance Commi -ssion	Popul -ation	Income Distance	Area	Infra-structure	Tax Effort	Fiscal Discipl-ine	Fiscal Capacity Distance	Demog-raphic Change	Forest Cover
FC-X	20	60	5	5	10	-	-	-	-
FC-XI	10	62.5	7.5	7.5	5	7.5	-	-	-
FC-XII	25	50	10	-	7.5	7.5	-	-	-
FC-XIII	25	-	10	-	-	17.5	47.5	-	-
FC-IVX	17.5	50	10	-	-	-	-	10	7.5

Source: Reports of Finance Commissions of India.

The share of Assam in Finance Commissions' transfers to states (share in taxes and grants) has gradually declined from 4.6 per cent in First Finance Commission to 3.31 per cent in Fourteenth Finance Commission (Table 4). Assam received the highest amount of share 5.04 per cent during Fourth Finance Commission and the lowest 2.49 per cent under Seventh Finance Commission. The mean share of Assam in total transfers to states by Finance

Commissions, from First to Fourteenth Finance Commission, is calculated at 3.86. Since the Ninth Finance Commission (2nd Report), the deviation of the share of Assam from the mean share has become negative with the successive Finance Commissions. It means that the share of Assam in Finance Commission's transfers to states has declined in recent Finance Commissions.

Table 4. Share of Assam in Total Transfer by FCs to States (%)

Finance Commission	Share of Assam	Deviation from Mean Share*
FC-I (1952-57)	4.6	0.74
FC-II (1957-62)	4.33	0.47
FC-III (1962-66)	4.47	0.61
FC-IV (1966-69)	5.04	1.18
FC-V (1969-74)	3.65	-0.21
FC-VI (1974-79)	4.58	0.72
FC-VII (1979-84)	2.49	-1.37
FC-VIII (1984-89)	4.07	0.21
FC-IX 1st Report (1989-90)	4.12	0.26
FC-IX 2nd Report (1990-95)	3.73	-0.13
FC-X (1995-2000)	3.67	-0.19
FC-XI (2000-05)	3.05	-0.81
FC-XII (2005-10)	3.22	-0.64
FC-XIII (2010-15)	3.63	-0.23
FC-XIV (2015-20)	3.31	-0.55

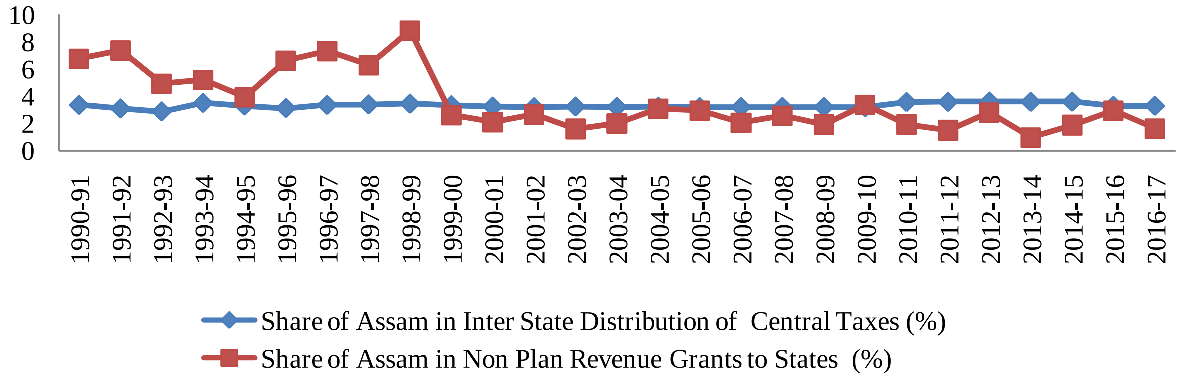
* The mean share of Assam across all Finance Commission is 3.86.

Source: 1. Thirteenth Finance Commission Report, Page No.28.

2. Report of the Fifth Finance Commission of Assam, Page No. 22.

During the study period, the share of Assam in the inter-state distribution of central taxes has remained mostly stable: the maximum share is 3.60, the minimum share is 2.87 and the mean share is 3.31 (Figure 4). However, in the first two years of the Fourteenth Finance Commission, a noticeable fall in the share of Assam in central taxes has been seen. On the other hand, the share of Assam in the inter-state distribution of non-plan revenue grants has fallen sharply from around 6 per cent during the Ninth and Tenth Finance Commissions to below 2 per cent during the Thirteenth and Fourteenth Finance Commission (Figure 4). The Fourteenth Finance Commission recommended revenue deficit grant for Assam only for two years, 2015-16 and 2016-17, as the Commission found assessed revenue deficit only for the aforesaid two years (Fourteenth Finance Commission, 2014). So, Finance Commission's grant to Assam is expected to further decline during the period of the Fourteenth Finance Commission.

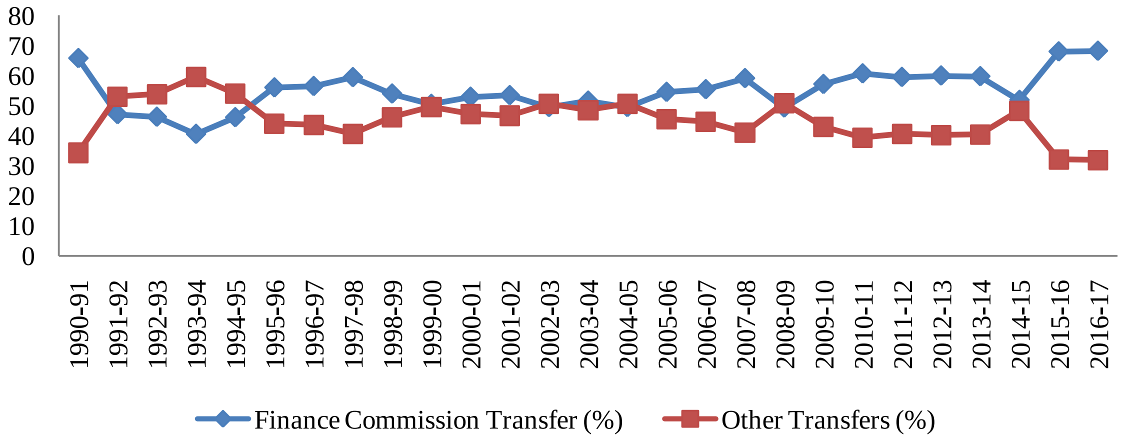
Figure 4. Share of Assam in Taxes and Grants under Finance Commissions' Transfers (%)



Source: Author's calculation based on 'Indian Public Finance Statistics', 2017-18, Government of India and 'State Finance: A Study of Budgets', RBI.

In case of other transfers, in addition to the grants received for state plan, central sector schemes and centrally sponsored schemes, Assam also receives grants for special plan scheme under North Eastern Council[3]. Other transfers received by Assam have been substantial as in some years, during the study period, other transfers accounted more than the Finance Commission's transfers in the total central transfers to Assam (Figure 5). The primary reason was that Assam, being declared as a special category state in 1991, received assistance for the state plan under loan to grants components in the ratio of 10:90. However, in the first two years of the Fourteenth Finance Commission, there is seen a steep fall in the share of other transfers in total central transfers to Assam.

Figure 5. Finance Commissions' Transfer and Other Transfers as Percentage of Total Central Transfers to Assam

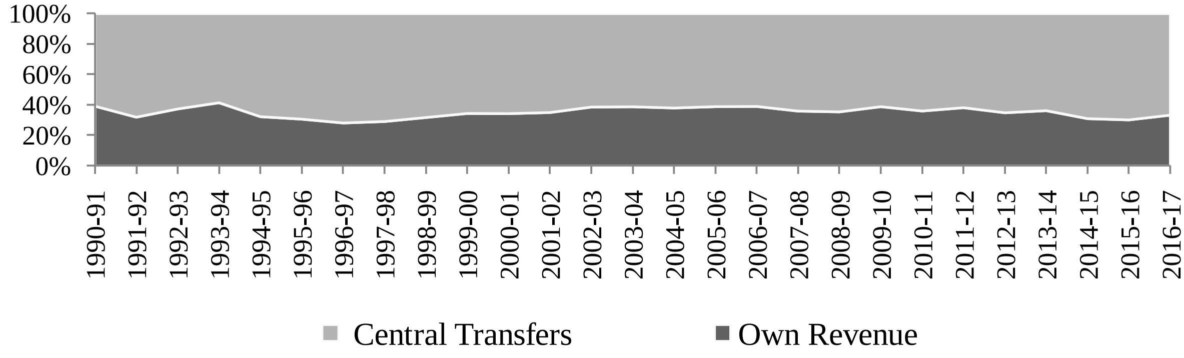


Source: Author's calculation based on 'State Finance: A Study of Budgets', various issues, RBI.

4.3 Fiscal Dependency of Assam

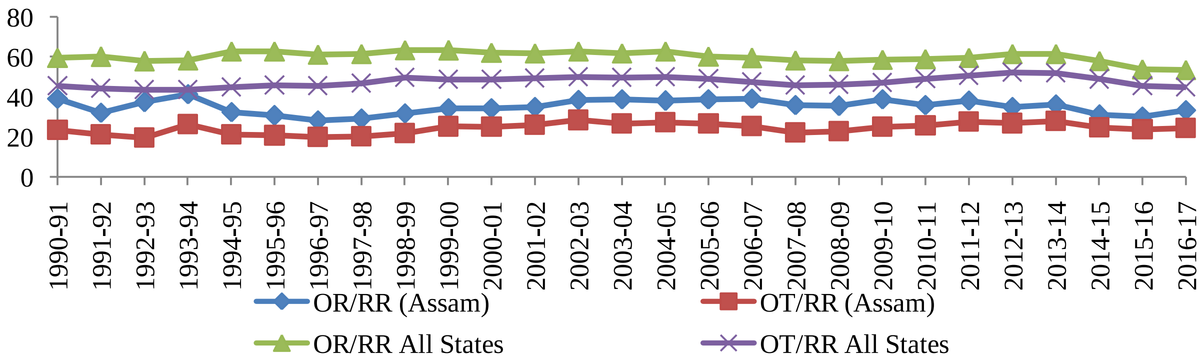
The ratio of own revenue to revenue receipt and the ratio of own tax to revenue receipt is two key parameters to measure the fiscal capability. A High ratio of own revenue to revenue receipt indicates that the state is more self-reliant and less dependent on centre transfer. From the composition of revenue receipt of Assam (Figure 6), we see that the own revenue of the state accounted only around 35 per cent of the revenue receipt of the state and around 65 per cent of revenue receipt is from central transfers and in recent years, the share of own revenue of the state has shown a further declining trend. The own tax revenue of the state, which is the principal component of own revenue, has remained smaller than the share of the state in central taxes and even the grant-in-aid received is more than the own tax revenue of the state during the study period. Figure 7 reflects that the ratio of own revenue to revenue receipt and the ratio of own tax to revenue receipt of Assam has remained far behind the ratios of All States. The ratio of own revenue to revenue receipt of Assam in comparison to the All States' ratio is significantly lower and it shows the very weak fiscal capacity of the state to mobilize resources on its own. Similarly, the ratio of own tax to revenue receipt of Assam is much lower than that of All States; whereas the own tax of Assam accounted for around 25 per cent revenue receipt of Assam, the own tax of All States accounted for around 47 per cent of revenue receipt.

Figure 6. Share of Own Revenue and Central Transfers in Revenue Receipt of Assam



Source: Author's calculation based on 'State Finance: A study of Budgets', various issues, RBI.

Figure 7. Ratio of Own Revenue to Revenue Receipt and Own Tax to Revenue Receipt (%)



Note: RR=Revenue Receipt; OR=Own Revenue; OT= Own Tax
Source: Authors' calculation based on 'Handbook of Statistics on Indian States', 2018, RBI.

The extent of revenue dependence of Assam during the study period from Ninth Finance Commission to Fourteenth Finance is presented in Table 5. It is quite clear that the revenue-dependence of Assam has been so serious that the own revenue of the state could meet only around 35 per cent of its revenue expenditure and the rest are dependent on central transfers. Consequently, the revenue gap of the state has been around 65 per cent of the revenue expenditure during the study period. During Twelfth Finance Commission (2005-10) there was a fall in the revenue gap which, primarily, was due to the squeeze in revenue expenditure as Assam implemented the Fiscal Responsibility and Budget Management Act[4] in 2005 (Borkakati and Singh, 2021). Thereafter, the revenue gap again started to rise and in recent years it has widened further. The transfer from the Finance Commission, on average, financed 60.46 per cent of the revenue gap and the total central transfer met around 60 per cent of the total expenditure of the state during the study period.

Table 5. Revenue Dependence of Assam

Finance Commission (FC)	Own Revenue as Percentage of Revenue Expenditure	Revenue Gap**	Finance Commission Transfer as Percentage of Revenue Gap	Total Central Transfer as Percentage of Total Expenditure
FC-IX 2nd Report (1990-95)	35.56	64.44	57.54	59.24
FC-X (1995-2000)	30.37	69.63	54.76	61.79
FC-XI (2000-05)	34.07	65.93	45.02	50.94
FC-XII (2005-10)	43.13	56.87	70.11	63.32
FC-XIII (2010-15)	35.90	64.10	59.80	59.23
FC-XIV (2015-20)*	34.00	66.00	75.55	66.66
Mean	35.51	64.49	60.46	60.20

Note:* Only the first two years (2015-16 and 2016-17)

**Revenue Gap is the difference between revenue expenditure and own revenue as a percentage of revenue expenditure.
Source: Author's calculation based on 'State Finance: A study of Budgets', various issues, RBI.

5. Conclusion

From the discussion above, it is clear that the fiscal dependency of Assam is quite high, and no reduction in the revenue dependency of the state has been observed over the study period. The revenue gap of the state is so high that the own revenue of the state meets just a little over one-third of revenue expenditure. The main reason for very high dependence on central transfers may be attributed to the very low Own Tax-GSDP ratio of the state. Throughout the study period, the revenue mobilisation effort of Assam has been quite dismal. The growth rate of own tax and own revenue has remained much lower than the rate of growth of share in central taxes and central transfers. Though the share of central transfers in revenue receipt of Assam shows an upward trend in recent years, the share of Assam in the inter se distribution of central taxes and grants to states has declined in recent Finance Commissions. As the Fourteenth Finance Commission recommended revenue deficit grants to Assam only for the first two years, the grants from the Finance Commission is expected to decline significantly in the coming years. The only way forward is to focus on revenue mobilisation efforts to enhance own revenue receipt. But with the introduction of GST in 2017, the states of India are left with very limited space for taxation on its own.

Notes

[1]The Planning Commission of India was abolished in 2014.
[2]In 1991, some states of India were categorized as special category states which received plan assistance from the centre in grants to loan ratio of 90:10.
[3]The North Eastern Council was formed in 1971 as a regional planning body for the coordinated economic development of northeastern states.
[4]Assam Fiscal Responsibility and Budget Management Act was implemented by Assam in 2005 which mandated eliminating the revenue deficit and limiting the fiscal deficit to 3 per cent of GSDP by 31 March, 2009. However, the Act was been amended in 2011 with a revised fiscal road map.

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