

Intergovernmental Fiscal transfers and Expenditure on Education in India: State level analysis, 2005 to 2020

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Abstract

There is large heterogeneity across Indian states in the public provisioning of education. The intergovernmental transfers with a mandate for equalisation have a role to play so that states can ensure these essential public goods. This study analyses the trends and patterns in intergovernmental transfers for education - school education and higher education, across three finance commission periods (2005-2020) which saw a number of important policy-induced changes in the overall fiscal framework. The 14th Finance Commission's (2015-2020) proposal of higher share of tax devolution to the states and a move towards general purpose transfers has been hailed as a major shift, which has allowed the states larger fiscal space. On the other hand, the central grants on education, particularly school education, have stagnated. Has it translated to an upward trend in spending on education in the 14th Finance Commission period vis-à-vis the earlier decade? Over time, have the public expenditure levels on school and higher education converged across states, which is the objective of equalisation? The answers to both the questions are negative. The study concludes with some policy recommendations, including restoration of financial concurrency through larger allocations on central schemes on education, and a special focus on the states at the bottom.

Key Words: Intergovernmental Fiscal Transfers, Grants, Finance Commission, Centrally Sponsored Schemes, SSA, Mid-day Meal, Education Expenditure

JEL: H52 H71 H75 H77 I21 I22 I25

¹ This paper is based on research sponsored by the World Bank on intergovernmental transfers on education. The project was initiated by our dear colleague Dr Satadru Sikdar whom we lost most tragically on May, 2021. We dedicate this study to his memory and his deep commitment to public finance and public education.

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I. Introduction

The intrinsic and instrumental role of investing in public education is well established. The case for public education can be made from various perspectives – public good, capabilities, freedoms and human rights, equity and social justice (Chattopadhyay, 2012). Public spending on children assumes greater importance in societies and economies, such as India, that are characterised with huge structural inequalities of diverse nature and need State interventions to ensure redistribution of income, opportunities and freedoms (Sen, 1992). Cross country global analysis shows that public investment and human development achievement go hand in hand; the current human development index values have a strong positive relation with past values of per capita public expenditure on health and education (UNDP, 2013). Across the Indian states, there is a strong positive correlation between public investment in education and child development and empowerment. States that spend less on education score lesser on the Education and Empowerment Index (Jha et al, 2019). From the growth perspective, researchers have noted that several Indian states could be stuck in classic low-level equilibrium trap characterised by low human development and economic growth combination, calling for policy action (Mukherjee et al, 2014).

Despite affirmation of higher spending targets across various national policies and international treaties, India's public expenditure on education has remained low. International comparisons reveal India's low rank in public spending on education and health to GDP vis-à-vis developed and emerging economies.² Even several of the South Asian neighbours with more modest growth rates have done better. That underspending has been a persistent phenomenon over many decades has translated to cumulative neglect of the public education system. Furthermore, the distribution of the public spending has been unequal across the Indian states. This reflects in the differential progress in various educational indicators at the national level. Over the years, there has been a drop in the number of out of school children particularly in the elementary age group (NSS, 2017-18). However, the percentage of children who remain out of school is still massive and a large proportion of those out of school are located in the poor and educationally backward states of India and/or belong to socio-economically marginalised groups (Bose et al, 2020a). More than 34 million children are out of school, of which about 18 million are girls. For a child belonging to the scheduled tribe community in the age group 6-17, the chances of being out of school is as high as 16%, based on current trends (NSS, 2017-18). Along with issues of access and equity, quality remains a concern, both for public education and the rapidly growing private education sector.

In higher education, the gross enrolment ratio (GER) is 27.1%, which means only a fraction of the population in the age group of 18-23 years is enrolled in higher education institutions (AISHE, 2019-20). The inter-state differences are wide; GER in higher education is 51.4% in Tamil Nadu and 14.5% in Bihar. These low enrolment levels present a challenge to the higher education system in India, a system that is highly privatised. According to the latest All India Survey of Higher Education (AISHE, 2019-20), majority of the colleges (78.6%) in the country are privately managed and funded (65.2% private unaided & 13.4% private aided). Among the universities, ratio of government to private universities is 60:40. Within the public institutions there are a large number of self-financing courses running, which means that over a period of time "the financial burden of pursuing higher education is successfully and systematically transferred from public sources to the households" (Varghese, 2021, p.13). This has serious consequences for access and equity as it further aggravates inequalities in education with social streaming of students into public and private institutions, depending on their purchasing power

² See Gol (2016).

(Majumdar, 2017). Note that higher education is associated with social, political, dynamic and technological externalities. These externalities are not confined to the boundaries of nations as higher education and research are global public goods (Stiglitz, 1999; UNESCO, 2015, cited in Tilak, 2020).³ Its supply cannot be left to market forces.

The Present Study

To address the inadequacies in public spending in education and bring about parity across various dimensions, intergovernmental transfers (IGTs) are considered crucial. IGT is a mechanism to level *the horizontal and vertical imbalances in resources*. The federal structure of India comprises governments at union, state and local levels. There is wide variation in economic structure and levels of development across jurisdictions leading to the difference in their expenditure needs and revenue capacity. Also, as per the Constitutional directives, different levels of governments have different powers and responsibilities. While the union government collects the major share of taxes, state governments are assigned the responsibility to make most of the expenditures on social services, such as education and health. Own tax and non-tax revenues of the poorer states are relatively small. Imbalances in their abilities to raise resources have led to substantial differences in quantity and standards of social and economic services across states. Under the circumstances, the IGTs can offset the differences in states' fiscal capacities. Equalisation, in this context, implies similar levels of per capita availability of the service across states and union territories. That is, delinking taxable capacity and per capita public spending on social and economic services.

This study attempts to look at the intergovernmental fiscal transfer for school and higher education and the role that it has played in bridging the gaps in expenditures across the Indian states.⁴ The period under study, 2005-6 to 2019-20 corresponds to the award periods of the 12th Finance Commission (2005-6 to 2009-10), 13th Finance Commission (2010-11 to 2014-15) and the 14th Finance Commission (2015-16 to 2019-20), respectively. The Finance Commission (FC) is a statutory decision-making body for intergovernmental fiscal transfers. Besides the important changes in IGTs across the three FCs, especially during the 14th Fc period, this period saw major policy-induced changes that have a bearing on the central transfers and expenditures on education (Section 2). The main channel for central transfers on education is via grants-in-aid (or simply, grants) through schemes of the central ministries, either Centrally Sponsored Schemes (CSS) or Central Sector (CS) schemes. The union budget is analysed to understand the overall shifts in CSS and CS scheme for school and higher education, separately (Section 3). The other channel of intergovernmental fiscal transfers on education is through the specific purpose grants on education, recommended by FCs. Different FCs have designed the transfers in different ways, presenting a set of possibilities and problems in the various designs (Section 4).

The second part of the study is devoted to exploration of the trends and patterns in IGTs and expenditure on school and higher education covering twenty states, 17 of the major states and three Special Category States (SCSs). Compilation of education grants is one of the major outputs of this work. Using the central grants data progressivity of education grants is analysed for school and higher education (Section 5). Utilisation of grants for two flagship educational schemes are studied with a view to understand the progress, if any, for the states where low levels of expenditure are often blamed to low levels of

³ There is another view on the public good nature of higher education. This view, which is widely held, argues that among the two aspects of higher education – teaching and research – the first is largely a private good whose gains can be appropriated by students through increased lifetime income. Research – and particularly university research – is a public good (Kapur and Mehta, 2017).

⁴ The analysis is limited to centre-state transfers and doesn't include the third tier.

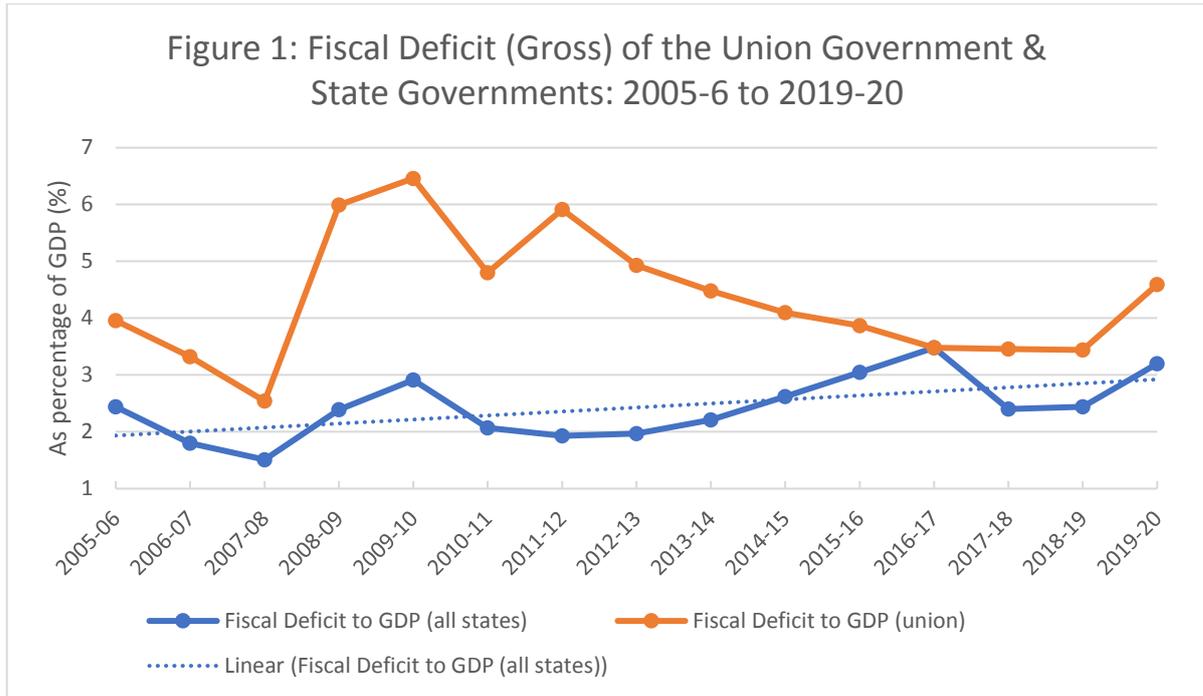
utilisation (Section 6). Section 7 analyses states expenditure on education in terms of two questions: (i) has there been an overall upward trend in spending by the 20 states in the 14th FC period vis-à-vis the earlier decade? (ii) Have the public expenditure levels on education, converged across states, for school and higher education over the 15-year period? Are we closer to the objective of equalisation? Sections 8 attempts to highlight the macroeconomic factors underlying the observed trends. The final section ties together the analysis in a set of conclusions.

II. The Macro-Fiscal Context

The macro-fiscal space, which includes the overall design of IGTs, impacts the quantum and pattern of social and economic expenditures by the union and the state governments. This impact would be felt directly or indirectly on all expenditures including educational expenditures, which makes it important to understand how this space has evolved.

Since the Fiscal Responsibility and Budget Management (FRBM) Act was passed in 2003, followed by the state Acts in the subsequent years, union and the state governments' fiscal programmes must be in accordance with these rules.⁵ All states, including the Special Category States (SCSs), are required to have a non-negative revenue account balance and fiscal deficits not exceeding 3% of GSDP. In the years following the enactment of the FRBM Act (2003), states across the board reduced their deficits very substantially, particularly on the revenue account. This trend was disturbed by the global financial crisis (2008), and the deficits mounted, more so for the union government than the states (Figure 1). The 13th FC (GoI, 2009) presented a roadmap for FRBM with higher allowances on fiscal deficit for the union government than the state governments. There was an attempt to return to the fiscal consolidation path following the recommendations of the Kelkar Committee (GoI, 2012). Most often the reduction in deficits was achieved through a cutback in expenditure growth, particularly expenditures on social services, since the committed expenditures could not be reduced and the scope for raising revenues was limited for the governments. Thus, one observes that the fiscal adjustments by the governments in response to macro fiscal rules affect both the magnitude and composition of expenditure. They have bound both the union and the state governments' ability to finance expenditure. States have found it difficult to keep within the fiscal bounds set by the FRBM rules, particularly in the period since 2015-16. The central government's fiscal deficit has transitioned through several phases, to stand at 4.6% of GDP in 2019-20, again above the FRBM target (RBI, 2020).

⁵ Refer to the glossary for explanations on technical terms



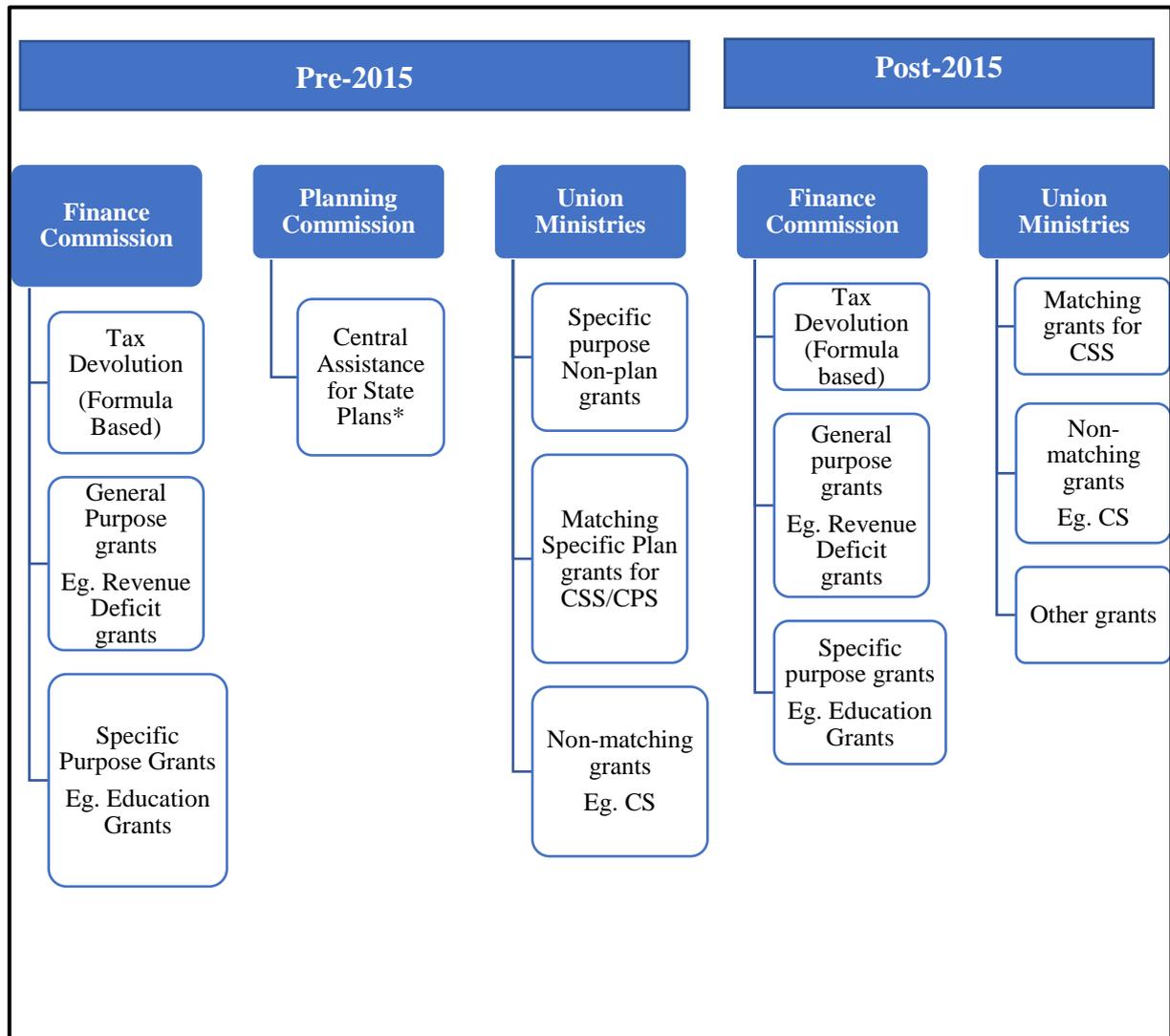
Source: RBI, State Finances, Oct 2021

Note: For the states, the figure for 2019-20 is Revised Estimate.

Intergovernmental Transfer System in India

One of the central objectives of centre-state fiscal transfers is equalisation of basic services. In the Indian context, it has been repeatedly stressed as the most important purpose for IGTs (Bagchi, 2002). There are two main channels through which the funds flow to the states. FC transfers and grants given by the ministries. Earlier a significant part of IGTs for state plans were channelled through the Planning Commission of India. Since 2015-16, this route has been subsumed within the FC with the dissolution of the Planning Commission. The institutional structure of IGTs in India is sketched in Figure 2.

Among the two existing channels, the Finance Commission channel is the major one through which the bulk of the transfers happen. The Finance Commissions are tasked with the role of assigning the central taxes between the union and the state governments and across the state governments, as well as suggest transfers to the lower tier of the government, i.e., the local governments. This is sought to be done in a manner so as to address the vertical and horizontal imbalances across different levels of governments and states. Besides taxes, FC recommends two kinds of grants, general purpose grants and specific purpose grants to states (Figure 2). An example of the latter are grants on education to states.

Figure 2: Institutional Structure of Intergovernmental Transfers in India


Source: Adapted from the Report of the 15th FC (GoI, 2020).

Note: * for details refer to GoI (2020)

Over the years, FCs have tried to raise the share of tax devolutions to the states such as to compensate the states for the vertical imbalances. The 12th, 13th, and 14th FCs have successively increased the state share in central taxes (Appendix Table A1). With a significant increase in the devolution of central taxes to the states, the 14th FC signalled a compositional shift in transfers from grants to tax devolution so as to increase the flow of unconditional transfers to the states. While the share of tax devolution increased from 32 percent to 42 percent of the divisible pool, sector-specific Finance Commission grants were dispensed with, by the 14th FC.⁶ No specific purpose grants were awarded, except for local bodies and disaster management grants.⁷ This is unlike the previous two FCs that had a far higher weightage on specific purpose grants. The argument is that tax devolutions being general purpose transfers are unconditional, formula based, with

⁶ Erstwhile plan grants/additional central assistance given by the Planning Commission have been subsumed within the tax devolution share by 14th FC.

⁷ Disaster management grant was introduced due to mandate in Terms of Reference.

need-based allocation criteria (demographics, land area, income gap etc.) that aim to preserve state autonomy as well as close horizontal fiscal imbalances, or equalise state/local fiscal capacities. As Chakraborty (2015) explains, “now that the overwhelming proportion of transfers is to flow through the FC route, it would not only enhance the fiscal autonomy of the states, it would also reduce the degree of uncertainty in fund flow to a large extent, thereby making transfers more predictable. This also would imply that the possibility of the union government resorting to the easy option of cutting discretionary plan grants to the states in order to achieve fiscal balance has been substantially reduced post the 14th FC’s award” (p. 34). These are important advantages. There are, however, equally compelling reasons for advocating in favour of the grants. These are targeted transfers that can directly address the inequalities in the revenue capacity of the states or can be used to bring about a measure of equality in the provision of basic public services like education, health, administration across states, provided they are designed well.

Schemes by the ministries have been an important arm of central transfers to states (Figure 2). As Rao (2017) notes, devolution of the divisible pool of central taxes only partially offsets the imbalances across states. It has not been able to mitigate all the differences in taxable capacities. While the tax devolution has been progressive in nature, they have not been sufficiently so. For merit goods, there has always been a strong case for additional transfer of resources to the states, which has typically taken the form of CSSs. Such schemes have been implemented by states for more than five decades, with special purpose grants intended to encourage and motivate state governments to attain national goals and objectives.

In the last decade, there have been two major developments surrounding the non-FC transfers. First, the quantum of funds flowing through non-FC channels has reduced in relative terms (refer to Figure 3). The FC transfers fall under Articles 270, 275 and 280 of the Indian Constitution, whereas the non-FC transfers are primarily made under Article 282. It is often argued that Article 282 is only a residual Article to enable the union or a state to make a grant for any public purpose (GoI, 2020). However, over the years, the transfers through the institution of the Planning Commission and for the purpose of CSS acquired a disproportionate importance in the overall transfers to states, according to many analysts. With the abolition of the Planning Commission in 2015-16, this route automatically shrunk. Furthermore, because of the higher share of the states in the tax devolution formula, the central ministries have cut-down on their allocations on various schemes. Thus, the magnitude of flows through the non-FC channel is substantially reduced, as was the intention of the 14th FC.⁸

Second, there were institutional reforms and rationalisation of schemes. Since April, 2014, the union government started routing the fund flow through state treasury rather than directly disbursing to the implementing agencies (society route). The basic motivation behind the society route was to disallow CSS transfers to be utilized by the states for their ways and means purpose, to avoid delays due to legislative approval process and delays of administrative nature. Over time, due to improvement in the state treasuries facilitated through technological interventions, the funds began to be released

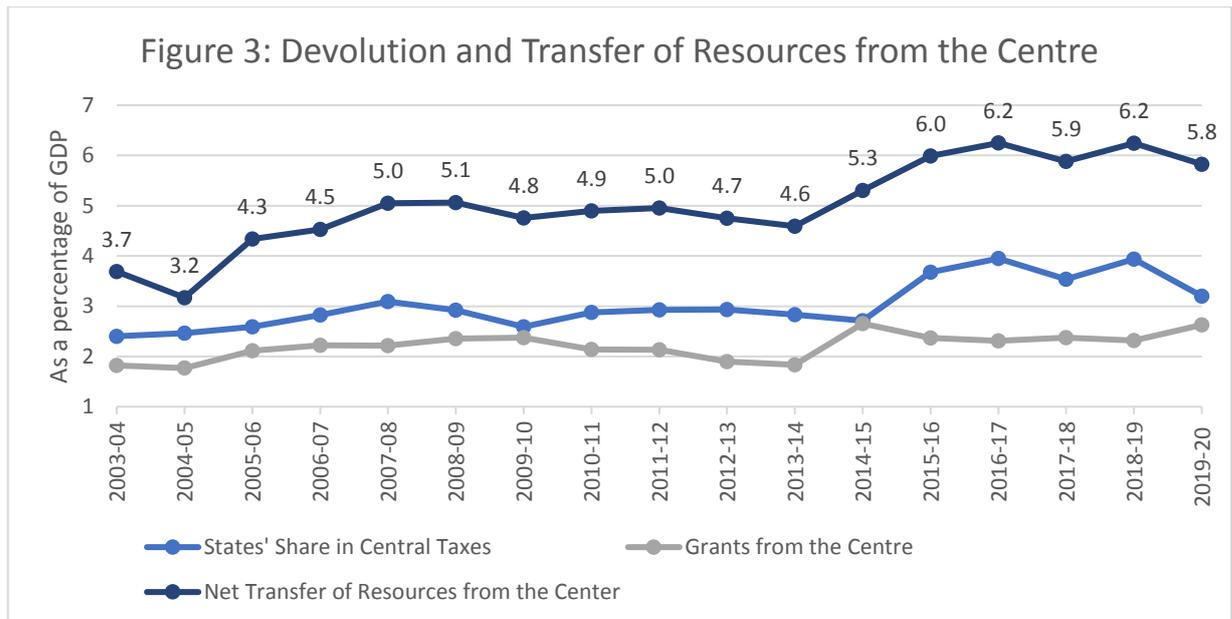
⁸ Refer to Chakraborty (2015) where he argues that post 14th FC recommendation, the states would be the sole authority in determining their priorities, which they can with the enhanced fiscal space due to higher tax devolution. At the same time, given the overall resource envelope and larger untied and statutory transfers, the union government will have to be extra cautious in announcing big CSS with huge fiscal implications for both the union and states, especially in functions which are either primarily the domain of the states or are best delivered by the states.

through treasury mode, on the recommendations of the Rangarajan Committee (GoI, 2011b).⁹

There has always been a debate on the optimal number of government schemes at both centre and states. Some of the schemes have historically evolved to cater to niche needs as these cannot be met via pan-India schemes. Over time as schemes proliferated, it was observed that multiple schemes were operational with overlapping objectives, but with parallel implementing systems. States were also raising concerns about lack of flexibility and portability in these schemes (discussed further in Section 6). Following the recommendations of the Chaturvedi Committee (GoI, 2011a) and Sub-Group of Chief Ministers appointed by NITI Aayog in 2015 (GoI, 2015), the number of CSS was rationalised.¹⁰ The latter also recommended that the schemes be divided into “Core” and “Optional” schemes and amongst the Core schemes those for social protection and inclusion should be called “Core of the Core.” The investment levels in the Core schemes should be maintained so as to ensure that the optimum size of the programme does not shrink. For the Core of the Core schemes, it recommended continuation of the existing sharing pattern between the state and the union. For the Core schemes, under which schemes on health and education were classified, the sharing pattern between the state and the union would be in the ratio of 90:10 in case of SCSs and would be raised to 60:40, for all other states. The increase in matching grants from the states has drawn criticism from scholars, who have argued that the reduction of union’s share in Core and Optional schemes, which account for about 73% of total CSS, means that the states have to contribute more funds (by way of higher state shares) for such schemes, thereby having an adverse effect on states’ untied fiscal space (Chakraborty and Gupta, 2016; Amarnath and Singh, 2019). They also question, why education and health cannot be Core of the Core scheme: “If a social protection programme like the National Rural Employment Guarantee Scheme for livelihood security is categorised as Core of the Core, why not access to health and education? Considering a multidimensional approach to poverty reduction and human development it would have been more appropriate to classify key national priorities including health and education as Core of the Core with larger central support. This would have preserved states’ fiscal autonomy, yet supporting national priority” (Chakraborty and Gupta, 2016: p.45).

⁹ The Rangarajan Committee (GoI, 2011b) emphasized that there are several advantages of the treasury mode of fund transfer: 1. the treasury accounting system is a robust system that tracks down expenditure up to the object level as vouchers for each transaction are available with the treasury Auditor General (AG). 2. The expenditure, as compiled by the Auditor General, goes through a process of validation and is audited by the CAG. 3. There is assurance on end use and the system is amenable to monitoring and review at all stages. 4. There is a well-defined system of cash management and bank reconciliation which provides information on cash flows at any point of time.

¹⁰ The Planning Commission constituted a Sub-Committee in March 2011 (Chairman: Shri B.K. Chaturvedi) to suggest restructuring of CSSs to enhance its flexibility and efficiency. The main recommendations of the Sub-Committee are (i) restructuring of the existing CSS into three categories; (ii) distribution of CSS funds on transparent, notified guidelines; (iii) focusing only on major interventions required by national development needs, (iv) flexible and untied resources to states to meet their special needs; and (v) evaluation of the CSS by a third party (GoI, 2011a). In 2015, Sub-Group of Chief Ministers appointed by NITI Aayog (GoI, 2015) recommended the reduction of the number of CSS from 72 to 28.



Source: RBI, State Finances, Oct, 2021.

Note: Grants from the centre include: 1. State Plan Schemes 2. Central Plan Schemes 3. Centrally Sponsored Schemes 4. NEC/Special Plan Schemes 5. Non-Plan Grants

Figure 3 presents the trends in tax devolution and central grants. The increased state share in the central pool of taxes has translated to higher transfers to the states. Net transfers as a proportion of GDP have risen. Grants to GDP ratio has declined and then remained at 2.3% of GDP in the last few years of the period under analysis. Overall, the states have a larger pool of revenue in the last five years (2015-16 to 2019-20) than before.

Other Fiscal Developments affecting IGTs

There has been a proliferation of cess and surcharges in union tax revenues over the years. As these levies are not shareable with states, it has resulted in effective reduction of the divisible pool of resources available for transfers to states (GOI, 2020).

The introduction of the unified Goods and Services Tax (GST) in June 2017 – a major tax reform did not lead to improvements in tax revenue growth, at least in the short term. GST was introduced in India primarily to address the complexities in the indirect tax system.¹¹ The proponents of GST argued that it is natural to expect higher revenues when these complexities are eliminated through GST. To bring states on board, the GST compensation was assured for a 5-year transition period at the rate of 14% growth, with 2015-16 as the base year.¹² GST in India, however, faced implementation glitches, which in turn impacted economic activities of various sectors.¹³ For instance, the medium and small enterprises and the export sector faced working capital constraints due to the delay in input-tax refund. The pandemic further stalled the progress in addressing GST implementation hurdles.

¹¹ The complexities are: tax cascading, high tax rates, non-admission of input-tax credits across VAT, central excise and service tax and entry taxes.

¹² The GST compensation cess and GST compensation fund were introduced via GST Compensation Act (2017).

¹³ Implementation glitches relate to GSTN portal, delay in input tax credit and non-matching of GSTR-3A and 3B.

Finally, the slowdown in economic growth (independent of the pandemic) has been a source of concern. Across the three FC periods, the average nominal GDP growth rates declined from 14.9% (2005-10), 14.4% (2010-15) and 10% (2015-20), which affects revenue collections and therefore governments' ability to spend. Note that the overall tax revenues (centre and states, combined) in India averaged around 17% of GDP for close to two decades.¹⁴ Tax-GDP ratio in India is low compared not just with developed countries, but also compared to countries with similar levels of per capita income. India's spending and tax ratios are among the lowest vis-a-vis economies with comparable purchasing power parity adjusted GDP per capita. It accounts for the low spending on health and education, a mere 5.1 percent of GDP compared to emerging market economies' average of 7.5 percent and OECD average of 11.6 percent.¹⁵ If we factor in that India is a democracy, and democracies tax and spend more because of the redistributive pressures they face, India clearly stands out as an outlier (Kapur, 2020). India's tax effort (measured as tax payers to per capita income and tax-GDP ratio) is substantially below what one might expect for democracies, undermining its ability to finance public goods.

To sum up this section, the macro-fiscal conditions that frame the government programmes – fiscal rules, intergovernmental transfers, restructuring of central grants or the tax scenario - have exerted different kinds of pulls and pressures on the union and state governments, over time. States' fiscal deficits have gone up, which within the FRBM framework creates pressures on the governments to cut-down expenditures. In the 14th FC period, tax devolution to the states increased as a percentage of central taxes and as a percentage of GDP, while central grants to GDP remained stagnant. GDP growth rate itself decelerated and tax reforms have faced many challenges. The public financing of education has to be understood against this backdrop.

III. Central Transfers and Education

A Brief Background

Education comes under the Concurrent list of the Indian Constitution. This was not always so.¹⁶ In the post-independence years, only a handful of states such as Himachal Pradesh, Tamil Nadu and Kerala chose the education sector as priority, on their own. The Directive Principles of State policy were far reaching in their vision.¹⁷ Very few states, however, adopted them. There were shortages of teachers and classrooms everywhere; single teacher schools were in large numbers. The positive impacts on enrolment and student health of the mid-day meal (MDM) programme were demonstrated for over twenty years in Tamil Nadu. Yet very few of the other states chose to implement the scheme until the Supreme Court ruling came in 2001.¹⁸

To set national priorities, and to work in concurrence – centre and states – for these objectives has been deemed crucial by many commentators over the years even as long as 50 years ago. Arguing strongly for financial concurrency, V. K. R. V. Rao (1972), then union minister for education and youth services, noted, *"In respect of universal primary education which is a Constitutional directive, some states can reach the goal in 10 years*

¹⁴ RBI Handbook of Statistics. Also see, Rao and Kumar, 2017.

¹⁵ Refer to "Fiscal capacity for the 21st century", Chapter 7, Economic Survey of India (GoI, 2016).

¹⁶ The 42nd Constitution Amendment Act (1976) shifted education from state list to the concurrent list.

¹⁷ The original Article 45 of the Indian Constitution says "The State shall endeavour to provide, within a period of ten years from the commencement of this Constitution, for free and compulsory education for all children until they complete the age of fourteen years."

¹⁸ People's Union for Civil Liberties v. Union of India & Ors, In the Supreme Court of India, Civil Original Jurisdiction, Writ Petition (Civil) No.196 of 2001

while others may need more than thirty to do so... Anything that the centre can do to reduce these imbalances will be welcome in all quarters... Centre should increase its investment in education and make larger grants available, not only for the Central sector, but also for the Centrally sponsored sector. We need not only more education, but good education as well; and if this is to be provided and greater equality in educational opportunity is to be created to promote social justice and the creation of a socialistic pattern of society more funds will have to be found for education... I recommend very strongly "financial concurrency" in education..." (1972: 182-183).

With the inclusion of education in the concurrent list in 1976, the centre was expected to play a greater role in financing education (Tilak, 1984). Govinda and Bandopadhyay (2008) highlight that the proactive manner in which the central government acted following the adoption of the National Policy on Education, 1986 stands out as a landmark innovation in education policy. This made the central government the prime mover in designing and implementing development initiatives in elementary education (EE). Operation Black Board initiated in 1987 by the central government was focused on making single teacher primary schools as two teacher schools with one of them being a lady teacher. Around the same time, the scheme for restructuring and reorganization of teacher education was launched. District Primary Education Programme (DPEP), an externally aided programme, was launched in mid 1990s to universalize EE in selected districts of the country and gradually spread to 242 districts. An important consequence of the DPEP was the relaxation of the resource constraints in education planning. Educational planning under austerity had been the characteristic feature in India for a long time, as in many developing countries. As Tilak (2002) notes, DPEP released the financial constraint for the participating districts perhaps for the first time. Mid-Day Meal (MDM), which was already in operation in a few states, was universalised in 1995 across the country through a CSS, with cooked meals replacing dry ration in 2001.

SSA, a major CSS, was conceptualized in 2000-01 as additional finances by the GoI over and above the existing state expenditures to invest in various components of education expansion, quality improvement and capacity building towards the universalization of EE in India. The first decade of the millennium witnessed unprecedented levels of attention paid to education in terms of programmes in the country and investments (Govinda and Sedwal, 2017). SSA, which worked through the system of matching grants with a declining central share through the lifecycle of the grant, accounted for more than 80 percent of plan expenditure (Sankar, 2007). This impetus however got dissipated in the next decade, as we shall see below, a phenomenon that may be termed as *a reversal of financial concurrency* (Bose et al, 2020c).

In the higher education sector, a major share of the central allocation on education goes to central universities and institutions of national importance as grants. Similarly, a major share of grants from the technical education budget goes to institutions such as the IITs. Among the publicly-funded and run higher education institutions (HEIs), there are thus hierarchies in financing which maps onto their quality. Unlike centrally-funded higher education institutions, the state HEIs confront mounting expenditures, growing enrolments, and resource shortages due to the low level of public funding.¹⁹ The state universities are provided some funds from the central government through the University Grants Commission (UGC). However, UGC's mandate allows it to fund only a limited number of institutions that are Section 12B and 2(f) (UGC Act) compliant.²⁰ There are

¹⁹ A similar pattern can be seen in financing Central schools on the one hand and other state run & local body schools.

²⁰ As of March 2012, this excluded about 33% of the universities and 51% of the colleges in the country (MHRD, 2013).

large teacher shortages in higher education – as much as 50% or more in some states. These institutions subsequently resort to higher tuition fees, self-financing courses, and various cost-saving measures that compromise academic quality, access to higher education by deprived groups and impact the mid and long-term growth and development of these institutions (Panigrahi, 2018).

To address this imbalance, Rashtriya Uchchar Shiksha Abhiyaan (RUSA) or National Scheme for Higher Education, was introduced in 2013, as a CSS with sharing ratio of 90:10 for SCSs and 60: 40 for the rest. MHRD (2013) notes that RUSA will have “a completely new approach towards funding higher education in state universities; it will be based on key principles of performance-based funding, incentivizing well performing institutions and decision-making through clearly defined norms.” That is, the fund flow system under RUSA is based on norms and parameters linked to academic, administrative and governance reforms. Essentially, the future grants are performance based and conditional upon outcomes achieved with the previous funding. While the focus on performance is important, whether conditional transfers linked to performance would serve the objectives of equity and access for the majority, remains a matter of debate (see Section IV).

The following sub-section looks at the trends in overall central spending on education including discussion on certain schemes.

Central allocations on Schemes on Education: 2005 to 2020

Focussing on the period under analysis, Table 2 presents the structure of educational spending in terms of Centrally Sponsored Schemes (CSS) and Central Sector Schemes (CS), across two levels of education, school education (SE) and higher education (HE). CSS are programmes or schemes designed by the central ministries in which the centre contributes a part of the funds and the states are required to provide certain matching contributions. Apart from the matching contributions, it is the responsibility of the states to provide the human resource requirements and the infrastructure requirement for the successful implementation of the CSS. CS schemes are those that are implemented by a central agency and 100% funded by the centre. Another important difference is the way in which the money flows in CSS versus CS schemes. Grants on CS schemes are mostly routed directly to the respective institutions/beneficiary. Expenditure is analysed across three years, 2009-10, 2014-15 and 2018-19, which coincide with the last year of each FC period.²¹

Union government’s allocation on higher education majorly comes from MHRD, now the Ministry of Education, Ministry of Tribal Affairs (MTA), Ministry of Social Justice and Empowerment (MSJ&E), and Ministry of Minority Affairs (MMA). The latter three have schemes exclusively for the education of different marginalised groups.²² Aggregating the expenditure across four ministries, central expenditure is reported for three time points corresponding to the 12th, 13th and 14th FC period.

As evident from Table 2, SE budget is dominated by CSSs, whereas HE budget flows through the CS schemes, where cost sharing with the states is not involved. Between 2009-10 and 2014-15, the central expenditure on SE doubled. Thereafter, the CSSs faced cutbacks in allocations from the central Ministries. This directly correlates to the change

²¹ The year before the last for 14th FC period, since data for 2019-20 was not available for all states when this work began.

²² Though this covers the overwhelming proportion of education expenditure, this is not an exhaustive list, there are some other ministries that have educational programmes. A more comprehensive estimate is provided in Analysis of Budgetary expenditure on education, MHRD.

in emphasis within central transfers that came about as a result of higher shares of central taxes going to the states vis-à-vis the centre or the shift from specific purpose transfers to general purpose transfers, after 2014-15 (see Section II). The share of CSS within the SE budget shrunk from 86% to 79%, even as the share of SE fell from 61% to 54% in overall centre's expenditure on education, within four years (2014-15 to 2018-19).

The overall central expenditure on higher education didn't see the kind of stagnation that was observed for SE especially after 2014-15. This is because CS schemes dominate the HE sector. Over the years, there has been a rebalancing across CSS and CS schemes for HE though even in 2018-19, 76% of overall expenditure was on CS schemes. We will review the trends in major schemes to understand the shifts better.

Table 2: Union Government's Expenditure on School & Higher Education: CSS and CS

(Units: in Rs crores)

School Education (SE)		2009-10	% of Total SE	2014-15	% of Total SE	2018-19	% of Total SE
	CSS		21794	82.0	40828	86.1	39473
CS		4778	18.0	6605	13.9	10249	20.6
Total		26572 (61.3)	100	47432 (63.4)	100	49722 (54.3)	100
Higher Education (HE)		2009-10	% of total HE	2014-15	% of total HE	2018-19	% of total HE
	CSS		1750	10.4	4100	15	10106
CS		15010	89.6	23224	85	31782	75.9
Total		16760 (38.7)	100	27324 (36.6)	100	41888 (45.7)	100
		43332		74756		91610	

Source: Expenditure budget of union government across four ministries, MHRD, Ministry of Tribal Affairs, Ministry of Social Justice and Ministry of Minorities Affairs, various years.

Note: Figures in brackets denotes proportion in overall education expenditure of the union government

School Education Schemes

Table 3 (A) and 3 (B) presents scheme-wise expenditure details of the CSSs and CS on SE, respectively.²³ The schemes are arranged in decreasing order of expenditure, and are colour-coded according to the ministry administering the schemes. The identification is helpful to trace the flow of central grants to the states in the state budgets.

²³ All the CSSs and CS on SE from the four ministries have been included. The expenditure under the schemes have been calculated from the Expenditure Budget of the Union Government. While the recent years' budget documents (2015-16 onwards) classify each of the schemes under CSS and CS, for the earlier years, schemes have been classified using the same classification as in the recent budget documents. In cases where the earlier schemes did not correspond to the recent years' scheme, the classification has been verified through other government websites. These fall under major head 3601 and 3602 grants in aid to states and grants in aid to UTs.

Table 3 (A): Centrally Sponsored Schemes on School Education

Schemes (in Rupees Crores)	2009-10	%	Schemes	2014-15	%	Schemes	2018-19	%
		Share			Share			Share
SSA	12825	58.8	SSA	24097	60.4	SSA	25615.9	64.9
MDM	6931	31.8	MDM	10523	26.4	MDM	9514.3	24.1
RMSA	549	2.5	RMSA	3398	8.5	RMSA	3399.3	8.6
Strengthening of Teachers Training Institutions	326	1.5	6000 Model Schools	980	2.5	Strengthening of Teachers Training Institutions	373.8	0.9
Schemes for PMS, Book Bank & Upgradation of Merit, ST students*	271	1.2	Pre-Matric Scholarship Scheme SC (State Plan)	499	1.3	Tribal Education*	311	0.8
6000 Model Schools	252	1.2	Tribal Education*	170	0.4	Pre-Matric Scholarship Scheme OBC	121.8	0.3
ICT in Schools	185	0.8	SPQEM	119	0.3	Pre-Matric Scholarship Scheme SC	115.6	0.3
Pre-Matric Scholarship (CUO)	80	0.4	Pre-Matric Scholarship Scheme OBC	110	0.3	SPQEM	18.3	0.0
Scheme for Construction and Running of Girls Hostels for Students of Secondary & Higher Secondary Schools	65	0.3	Pre-Matric Scholarship Scheme SC	15.1	0	Pre-Matric Scholarship (CUO)	3.1	0.0
Schemes of Hostels for ST Girls and Boys	64	0.3	School Assessment Programme	2.5	0	Access and Equity	0.2	0.0
IEDSS	55	0.3	Access and Equity	1.1	0			
SPQEM	46	0.2	Pre-Matric Scholarship (CUO)	0.9	0			
Mahila Samakhya	42	0.2	Others					
Ashram Schools in TSP Areas	41	0.2						
Pre-Matric Scholarship Scheme OBC	32	0.1						
NIOS	15	0.1						
Appointment of Language Teachers	10	0.0						
IDMI	4.5	0.0						
Access and Equity	0.5	0.0						
Total (in Rs crores)	21794	100.0		40828	100		39473.3	100.0

Note: See notes to tables 3 (B) and 4(A)

Source: Same as Table 2

MHRD
Social Justice Tribal Affairs

Table 3 (B): Central Sector Schemes/Projects and Other Central Sector Expenditure on School Education

Schemes (in Rupees Crores)	2009-10	% Share	Schemes	2014-15	% Share	Schemes	2018-19	% Share
Kendriya Vidyalaya Sangathan	2425	50.8	Kendriya Vidyalaya Sangathan	3243	49.1	Kendriya Vidyalaya Sangathan	5007	48.9
Navodaya Vidyalaya Samiti	1676	35.1	Navodaya Vidyalaya Samiti	2013	30.5	Navodaya Vidyalaya Samiti	3213	31.4
National Merit Scholarship Scheme (OSC)	251	5.2	Pre-Matric Scholarship for Minorities	1129	17.1	Pre-Matric Scholarship for Minorities	1176	11.5
Pre-Matric Scholarship for Minorities	203	4.2	NCERT	160	2.4	National Merit Scholarship Scheme (OSC)	319	3.1
NCERT	122	2.6	Central Tibetan Schools Society Administration	42	0.6	NCERT	284	2.8
NSIGSE	46	1	National Bal Bhawan, New Delhi	15	0.2	NSIGSE	165	1.6
Central Tibetan Schools Society Administration	40	0.8	Other Programmes	2	0	Central Tibetan Schools Society Administration	66	0.6
National Bal Bhawan, New Delhi	12	0.3				National Bal Bhawan, New Delhi	19	0.2
Other Programmes	2	0				Digital India e-learning	1	0
	4778	100		6605	100		10249	100

Source: Same as Table 2

Acronyms used in Table 3A and 3B: SSA: Sarva Siksha Abhiyan; MDM: Mid-Day Meal; RMSA: Rashtriya Madhyamik Siksha Abhiyan; IEDSS: Inclusive Education of the Disabled at Secondary Stage; SPQEM- Scheme to Provide Quality Education in Madrasas; NIOS: National Institute of Open Schooling; Pre-matric scholarship (CUO): pre-matric scholarship for children of those engaged in unclean operations; IDMI: Infrastructure Development in Minority Institutes; NCERT: National Council of Educational Research and Training; NSIGSE: National Scheme of incentives to Girls for Secondary education; RUSA: Rashtriya Uchchar Shiksha Abhiyan; TSP: Tribal Sub Plan.

MHRD
Minority Affairs

Three schemes, namely SSA, MDM and RMSA, account for more than 90 percent of the total expenditure made under CSSs in SE, in all the three years. SSA, one of the highest allocated schemes of school education, saw a significant rise in central expenditure between 2009-10 to 2014-15 rising from less than Rs13,000 crores to Rs 24,000 crores in 2014-15. With the enactment of the Right to Education (RTE) in 2010, the importance of SSA, which was already an existing scheme for the universalisation of elementary education, increased. However, what is to be noticed is that in the next four years, the expenditure under SSA by the centre rose just by Rs 1500 crores. Note that from 2014-15, there was a change in the sharing formula with a higher state share of 40:60 (state: centre).²⁴ Expenditure on RMSA rose from negligible levels till 2014-15 and thereafter has remained more or less stagnant till 2018-19.

²⁴ It remained at the existing 10: 90 in case of SCSs.

In 2018-19, the GoI announced Samagra Siksha Abhiyan which subsumed the three erstwhile schemes of SSA, RMSA and Teacher Education. SSA had earlier subsumed several of the schemes, such as KGBV, and now a bigger umbrella scheme was being envisaged. In Table 3(A), compared to 2009-10, the number of schemes in 2014-15 and 2018-19 are fewer. During the decade, important schemes for girls education such as NPEGEL, Mahila Samakhya, among others, were discontinued to align with the decision of restructuring and consolidating CSSs.

Amongst CS schemes for SE, depicted in Table 3(B), Kendriya Vidyalaya Sangathan run central schools, which cater to the educational needs of children of transferable central government employees, covers approximately 50 percent of the total CS expenditure under SE. The second highest expenditure has been made under Navodaya Vidyalaya Samiti, again, schools meant for niche population rather than mass education. Unlike the CSSs, expenditure on CS schemes on SE continued to grow between 2014-15 and 2018-19.

Higher Education Schemes

For higher education, CSSs are few and the expenditure is dominated by CS schemes. Table 4 (A) and Table 4 (B) present the CSSs and CS schemes on HE, respectively.

Table 4 (A): Expenditure by Union Government on CSSs on Higher Education

<i>(in Rs crores)</i> Schemes	2009-10	% Share	Schemes	2014-15	% Share	Schemes	2018-19	% Share
Post Matric Scholarship Scheme for SC	1016	58.1	Post Matric Scholarship for SC	1960	47.8	Post Matric Scholarship Scheme for SC	5928	58.7
Assistance for setting up of new polytechnics	449	25.7	Post Matric Scholarship Scheme for ST	889	21.7	Post Matric Scholarship Scheme for ST	1648	16.3
Post Matric Scholarship Scheme for OBC	173	9.9	Post Matric Scholarship Scheme for OBC	783	19.1	RUSA	1350	13.4
Schemes of Hostels for ST Girls and Boys	59	3.4	RUSA	408	9.9	Post Matric Scholarship Scheme for OBC	1000	9.9
Girls Hostels	25	1.4	Boys and girls' hostel for OBC	25	0.6	Tribal Research Institutes	100	1
Boys and Girls Hostel for SC	21	1.2	Girls Hostels	19	0.5	Boys and Girls Hostel for SC	37	0.4
Boys Hostels	6	0.4	Boys and Girls Hostel for SC	10	0.3	Boys and girls hostel for OBC	36	0.4
Modern Indian Languages	1	0	Boys Hostels	4	0.1	Grants-in-aid to UT	8	0.1
Total (in crores)	1750	100		4100	100		10106	100

Source: Same as Table 2

Note: Schemes under MHRD, Ministry of Tribal Affairs, Ministry for Minorities and Ministry for Social Justice have been considered; Post Matric Scholarship for ST in 2014-15 has been reported under 'Tribal Education' in the budget. The division into Pre and Post matric has been approximated based on the proportion of these scholarships for the year 2018-19.

MHRD
Social Justice
Tribal Affairs

It can be observed in Table 4(A) that the major expenditure incurred through CSS, made by the MSJ&E and the MTA, are on scholarships. Despite special provisions in the Indian Constitution (Article 46), the gap between marginalised groups and rest of the population remains very significant in educational achievements.²⁵ For students from marginalised communities, financial costs of education are insurmountable. Scholarships are critical to ensuring access for students from such backgrounds to education which may in turn provide opportunities for inter-generational mobility of various kinds. This is especially true of the present context when the costs of education are rising and many of the public institutions are running self-financing courses.

However, the central allocation of scholarships has not met the growing demand. Expenditure on pre-matric scholarship for SC students has reduced drastically between 2014-15 and 2018-19, whereas it increased marginally for OBCs, and remained stagnant for minorities (Table 3(A) and 3(B)).

One has to exercise caution in interpreting the scholarship figures since many a times expenditures contain accruals for other years. The substantial increase in post-matric scholarships for SCs in 2018-19 is probably due to the release of arrears from previous years (Table 4 (A)).²⁶ States have been demanding release of funds on central

²⁵ See Deshpande, A. (2013) Affirmative Action in India: Oxford India Short Introductions.

²⁶ <https://economictimes.indiatimes.com/news/politics-and-nation/central-government-arrears-for-dalit-scholarship-at-rs-8000-crore/articleshow/55969940.cms>

scholarships for a long time and there is a mounting backlog of scholarship arrears.²⁷ The growing demand for education has meant that many more students are eligible for scholarships. The number of scholarships is capped though.²⁸ For instance, in 2018-19, the Ministry of Minority Affairs received 7.3 million fresh applications and 3.5 million applications for the renewal of existing pre-matric scholarships from students belonging to minority communities, whereas scholarship was disbursed to 2.9 million fresh applicants (40%) and 2.7 million (77%) renewals.²⁹ It betrays the resource constrained nature of education financing.³⁰ It may be noted that for several of these scholarship schemes, there are new guidelines (from 2019-20) for fund-sharing between the centre and states in 60:40 ratio (90:10 for SCSs).³¹

RUSA was launched as a major flagship programme for HE in 2013. After 5 years, the central expenditure on RUSA stood at Rs 1350 in 2018-19 (Table 4(A)), low level considering the financial requirements for expansion and improvement of HE. Ostensibly, RUSA has a mandate for HE, similar to SSA's mandate for elementary education. In 2018-19, expenditure on RUSA was only about 5-6% of SSA expenditure.

Table 4(B) shows CS schemes on HE. Approximately 60 percent of expenditure on CS schemes in 2018-19 has been made for autonomous bodies which includes institutes like IITs, IIMs, IIITs, IISc, central universities and some national universities. The share of autonomous bodies has increased sharply. The decline in relative share of UGC presents a contrast. Expenditure on UGC was Rs 7655 crore in 2009-10, it increased to Rs 8906 crores in 2014-15 (and further to Rs 9315 crore in 2015-16) before being drastically slashed. The share of UGC in CS schemes dropped from 51% in 2009-10 to 38% in 2014-15 and further to 15% in 2018-19.

One has to understand the cutbacks in spending on UGC in the context of changing contours of financing education, higher education in particular, which is now increasingly being led by market-based financing even within public education.³² A case in point is the Higher Education Funding Agency (HEFA), which, was set up in 2017 to leverage funds from the market and supplement them with donations and CSR funds. These funds are to be used to finance improvement in infrastructure in top institutions and be serviced through internal accruals. HEFA aimed to mobilise Rs 1 lakh crore until 2022 from the market and offer loans to central educational institutions for infrastructure projects, but there have been major shortfalls from the targets.³³

²⁷ <https://eparlib.nic.in/bitstream/123456789/751252/1/6241.pdf>

²⁸ Kundu (2020) puts together the mismatch between demand and supply across various schemes and points to the shortfalls in allocations.

²⁹ For the academic year 2018-19, the Ministry of Minority Affairs received 7.3 million fresh applications and 3.5 million applications for the renewal of existing pre-matric scholarships from students belonging to minority communities. Scholarship was disbursed to 2.9 million fresh applicants (40%) and 2.7 million (77%) renewals. [Pre-Matric_0.pdf \(minorityaffairs.gov.in\)](#)

³⁰ There have been major institutional changes and extension of e-governance in disbursement of scholarship flows, such as introduction of National Scholarship Portal, Aadhar linked bank account, etc. There are major challenges in operationalizing these system changes as is being reported on the ground, leading to serious problems of access and equity.

³¹ <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1705424>

³² Refer to Varghese (2021)

³³ It was found that the agency has not been able to raise funds leading to the government pulling off the allocations. <https://indianexpress.com/article/india/school-education-govt-cuts-proposed-education-spending-budget7170773> and <https://economictimes.indiatimes.com/industry/services/education/dont-take-hefa-loans-for-new-educational-institutes-finmin-to-ministries/articleshow/78626932.cms?from=mdr>

Table 4(B): Major Central Sector Schemes/Project and Other Central Sector Expenditures on Higher Education

Schemes (in Rs crores)	2009-10	% Share	Schemes	2014-15	% Share	Schemes	2018-19	% Share
UGC	7655	51	UGC	8906	38	Autonomous Bodies	18874	59
Autonomous Bodies	5348	36	Autonomous Bodies	7930	34	UGC	4666	15
ACA for Education of Tribal Children	500	3.3	Improvement in Salary Scale	1800	7.8	HEFA	2263	7
Open & Distance Education and ICT	420	2.8	Student Financial Aid	1737	7.5	Student Financial Aid	1897	6
Development of Languages	208	1.4	Post-Matric Scholarship for Minorities	501	2.2	TEQIP (EAP)	535	1.7
AICTE	200	1.3	TEQIP (EAP)	399	1.7	Improvement of Salary	469	1.5
Post-Matric Scholarship for Minorities	149	1.0	Merit-cum-Means scholarship for professional courses	381	1.6	Digital India-e-learning	455	1.4
Grants-in-aid to Maulana Azad Education Foundation	115	0.8	AICTE	320	1.4	AICTE	448	1.4
RGNF for SC	105	0.7	Development of Languages	288	1.2	Post-Matric Scholarship for Minorities	355	1.1
Others	310	2.1	Open & Distance Education and ICT	213	0.9	Merit-cum-Means scholarship for professional courses	261	0.8
			RGNF for SC	168	0.7	National Fellowship SC	240	0.8
			Grants-in-aid to Maulana Azad Edu Foundation	113	0.5	Research and Innovation	205	0.6
			Others	467.11	2.0	World Class Institutions	129	0.4
						Support to National Institutes	108	0.3
						National Mission on Teachers and Teaching	103	0.3
						National Fellowship for ST Students	100	0.3
						Others	675.5	2.1
Total	15010	100		23223	100		31783	100

Source: Same as Table 2.

Note: The head 'Autonomous Bodies' comprises IITs, IIMs, IIITs, Central Universities, IISERs and few other national institutes. Others includes all the schemes from the four ministries with allocations below Rs100 crores. Acronyms used in Table 4(A) and 4(B): RUSA: Rashtriya Uchcharat Shiksha Abhiyan; UGC: University Grants Commission; HEFA: Higher Education Financing Agency; TEQIP: Technical Education Quality Improvement Programme; AICTE: All India Council for Technical Education; RGNF: Rajiv Gandhi National Fellowship; ACA for Education: Additional Central Assistance for Education.

MHRD
Social
Justice
Tribal
Affairs
Minorities

It is worth mentioning here that all the major CSSs on education are primarily funded through central cesses, and to a lesser extent through gross budgetary support. That is, the centre's contribution to the scheme is raised largely through cess, and not gross budgetary support. After elementary education cess was imposed on different taxes and duties, secondary and higher education cess came. In elementary education, about 56% to 65% of central allocation between 2014-15 to 2018-19 was financed from education cess.³⁴ Kundu (2019) notes that the financing of education being dependent on variable collections of cess every year makes the allocations uncertain. Noting the same, Sikdar (2018) argues that while it provides GoI greater fiscal space to fund important programmes, the increment of expenditures on these programmes are largely dependent upon the cess collection. Under-utilisation of cess is another issue. Though dedicated funds were created – so that the money collected is spent on the intended uses only, CAG (2017a) audit observations point to the problems of underutilisation and diversion of funds.³⁵

To sum up this section, the period under review has seen several shifts in expenditure on education by the central ministries, which is the non-FC route of IGTs. CSSs in SE have suffered from stagnant allocations in the post 2014-15 period, which is a marked contrast to the increases seen between 2009-10 and 2014-15 in SE. All the major schemes including SSA, the vehicle for implementation of RTE, have faced stagnation in expenditure in nominal terms, which translates to contractions in real terms as we shall see in the state-level analysis in following sections. This does not augur well for SE sector, particularly for the low-income and educationally lagging states. It seems as if the centre's role in financing SE is no longer significant, and it believes that RTE of children has been ensured, which is very far from the reality (Bose et, 2020a).

Adequate allocations on scholarships for the marginalised groups – an extremely important intervention from the equity perspective and part of compensatory policies of the Indian state, remain a challenge, with delays in releases, incomplete coverage of beneficiaries, short releases indicating a severe supply constrained situation. To what extent, the new financing pattern of 60: 40 in several of the scholarship schemes, augments the resource frontier and eases the supply bottleneck remains to be seen.

Expenditure share of HE schemes in central budget witnessed an increase, and within HE, expenditure has moved somewhat away from CS schemes to CSSs during 2009-10 to 2018-19. HE has a new possibility in RUSA, which is a CSS with matching shares to develop and support HEIs in states. Compared to the massive financial requirement for HE funding, however, the allocations on RUSA remained very low. Instead, the Centre has pushed market-based financing models such as HEFA. To what extent, these policies can advance the objective of equality, quantity and quality – the elusive triangle of Indian education, a la Naik (1979) – remains a moot point.

IV. Finance Commission Grants on Education: Past and the Present Approaches

In Section 2, we saw that besides the educational schemes financed by central ministries, the second route for specific purpose transfers is FC transfers on education. Compared to the former, the quantum of flows through specific purpose grant by FCs have been modest. 'Equalisation' of the standards of basic social services was postulated by the 1st FC as one of the principles to guide the grants-in-aid of the states in need of assistance contemplated under Article 275 of the Constitution. The First FC used the grants to

³⁴ CBGA (2018)

³⁵ The collections from education cess are transferred to the Prarambhik Shiksha Kosh to partially fund SSA and MDM schemes. For secondary and higher education cess, the same is done via Madhyamik and Uchchar Shiksha Kosh.

provide funds for expanding only primary education. However, this was not followed up, and not all the FCs have earmarked funds for the education sector (Bagchi, 2002).

Three of the four FCs under consideration recommended specific purpose grants (Table 5). The 14th FC didn't recommend specific purpose grants (except for Local bodies and Disaster management grant) as it took the view that higher tax devolution will take care of the additional funding (refer to Appendix Table 1A).

Table 5: Education Grants: The Finance Commissions' Recommendations

12th FC (2005-6 to 2009-10)	13th FC (2010-11 to 2014-15)	14th FC (2015-16 to 2019-20)	15th FC (2021-2 to 2025-6)
Education Grant amounting to Rs 10,172 crores for eight states: Assam, Bihar, Jharkhand, MP, Odisha, Rajasthan, UP and West Bengal.	Grant for elementary education sector of Rs 24,068 crores covering most states.	Nil	Sector specific grant of Rs 10,943 crores (Performance based grant of Rs 4,800 crores for school education. And, Rs 6,143 crores for Higher Education directed at specific technology and language interventions)

Source: FC Reports (GoI, 2004, 2009, 2014, 2020).

12th FC: Equalisation grant for education

The 12th FC recommended grants towards equalization of educational expenditures for eight states, those with the maximum distance in educational expenditure from an average value. The grant amount of Rs 10,172 crores was to be utilized only for the sector with minimum conditionalities governing the release and utilization of the grants (GoI, 2005).

The underlying principle of the 12th Finance commission grants to the states was equalization of education expenditure (level) across the states. A two-step normative measure of equalization was adopted in fixing grants for the states. In the first stage, states with low expenditure preference were identified. The ratio of revenue expenditure on education to total adjusted revenue expenditure for each state was computed. In order to make the revenue expenditures comparable across states, committed expenditure was deducted from non-plan revenue expenditure. This was necessary to obtain a measure of discretionary revenue expenditure. Next, education expenditure in the low expenditure preference states were adjusted by normatively assigning the respective group average ratio to them. After making this correction in the second stage, corrected per capita expenditure on education was worked out for each state. States with per capita education expenditure lower than the group average were recognized as states needing financial assistance. Eight such states were identified: Assam, Bihar, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal.³⁶ As we shall see in the next sections, several of these of states continue to suffer from low levels of education spending even today.

³⁶ See Appendix Table 2 for state-wise distribution of education grants as recommended by the 12th and the 13th FC.

Thus, the highlights of the 12th FC education grants include the following: (i) A transparent method of calculating the needs and identifying the states based on objective criteria, a method that can be easily replicated. (ii) Grants were targeted at certain states most deserving of additional central transfers based on need. That is, their existing levels of expenditure were inadequate, even after allowing for reprioritization, and taking into account their revenue potential. (iii) No conditions were imposed upon the states. These were specific purpose unconditional transfers. The states could spend on any of the educational heads they perceived as important. (iv) The FC candidly admitted that the quantum of transfers would in no way be adequate to fill the gaps in expenditure. Only a part, thereof, would be filled through the FC transfer.

13th FC: Grants for normative expenditure equalisation and financing the State share of SSA

The 13th FC recommended grant for EE specifically to the tune of Rs 24,068 crores, covering most states (GoI, 2009). The grant was to enable states to meet the higher matching share for SSA allocations.

The MHRD, in its Memorandum dated 16 March 2009, criticized 12th FC's principle of allocating funds to the states for the education sector as a whole and argued that within the education sector, specific attention should be provided to the elementary education sector. The MHRD also proposed that allocation of funds to the states for EE should be based on each state's actual requirement of resources and the gap between actual and the required. The Ministry prepared state-wise resource requirements for universalization of EE on the basis of alternative norms of SSA, and the soon to be enacted, RTE.

The 13th FC agreed that EE should be the focus of the education sector and fund allocation to the states should be based on actual requirements. It focused on EE in view of the fact that educating children in the 6-14 age group with elementary level schooling is a fundamental right as per the Constitution and universalization of quality elementary education creates the foundation of secondary education and skill employment. The Commission agreed that SSA has a holistic framework as it talks about gaps and needs in reference to most of the components covering infrastructure, access, human resources and the outcomes, and adopted SSA norm in estimation of fund requirements.³⁷

The proportion of SSA expenditure required to be borne by states had increased steadily over the years. Although the state's share of SSA spending was 40 percent in 2008-09, many states were not able to spend due to the massive economic slowdown. It was thought that many states would not be able to spend more than 35 percent even in the next few years. In view of the rising funding requirements by the states and the lack of fiscal capacity in fulfilling their funding requirement, it was proposed by the FC that grant to the states should be provided to meet the additional funding requirement of universalization of EE. The FC recommended 15 percent of the estimated SSA expenditure of each state should be provided as grant to each respective state during the award period of 2010-11 to 2014-15.³⁸ Aggregating across all the states, total grants for EE as recommended by the commission was Rs. 24,068 crores. To prevent the states from substituting their own allocations by the central grants, the FC recommended that grants

³⁷ The FC did not entirely follow MHRD's estimates of state-wise resource requirement due to lack of clarity on the projection method and lack of agreement on the funds required. Based on SSA norms and some revised assumptions, the FC made its own estimate of state-wise resource requirement for universalization of EE.

³⁸ The amount 15 percent was arrived at by taking the difference between the targeted state share of 50 per cent in 2011-12 and the state's required SSA share of 35 percent in 2008-09.

should be provided to a state if and only if current expenditure of the state grows by at least 8 per cent.

Thus, the key elements of the 13th FC education grants had the following features (i) it was based on a normative yardstick; (ii) it focussed on EE only (and no allocations were made on higher education); (iii) it was broad-based and given to almost all the states rather than the identified few, though the distribution of grants across the states was progressive.

The conditionality imposed by the 13th FC drew flak from scholars who regarded it as against the principles of fiscal federalism and financial relations among the various levels of government (Chakraborty, 2011). It was argued that 8% expenditure growth conditionality will do more harm than good for education spending by the states, the state's autonomy is hampered by such conditionalities. The counter-view was that the minimum conditionality was required so that the states remain committed to universalisation objectives, which is a fundamental right, and do not reduce their expenditure (Sankar, 2011).

As it happened, due to the conditions imposed, certain states were unable to get the full share of the recommended FC grant. Out of the earmarked funds of Rs 24,068 crore for elementary education to be disbursed to the states during 2010-15, the Ministry of Finance released an amount of Rs 22,159 crore during 2010-15 (CAG, 2017a). Non-fulfilment of the stipulation of 13th FC deprived 15 states of Rs1,909 crores and hence, implementation was affected. For instance, Madhya Pradesh was one of the states that couldn't meet the conditions of the grant. The state was thus denied Rs 537 crores, the recommended FC transfer for the last year in the grant period, for failing to meet the 8% nominal growth in educational spending (CAG, 2017b).

15th FC: Performance based grant

The 15th FC recommended sector specific grants to the tune of Rs 4,800 crores for school education and Rs 6,143 crores for higher education. The school education grant was to be linked to performance of the states, whereas the higher education grant was to be directed at specific technology and language interventions by the states. The union government, in its memorandum, stated equalisation and efficiency as two objectives for having performance-based incentives for states. The 15th FC agreed that adding "performance criteria to fiscal transfers may enhance transparency, accountability, provide feedback on improving policy formulation and implementation and lead to better monitoring of expenditures". The 15th FC notes that as far as feasible, incentives should be outcome-based transfers; the outcome-based indicators should be fixed against each incentive through the use of credible and verifiable data, not subject to manipulation; and, the incentives must be sufficient in size to induce the desired outcomes.

As per the 15th FC, states should be "incentivised to improve pre- primary and broader school education".³⁹ On school education, the grants of Rs. 4,800 crore (Rs.1,200 crore each year) from 2022-23 to 2025-26 is recommended for incentivising states to enhance educational outcomes based upon performance grading indicators of states prepared by NITI Aayog.⁴⁰ On higher education, the 15th FC recommended grants of Rs. 5,078 crore for

³⁹ p. 291 and 300, GoI, 2020.

⁴⁰ Category I: Rs. 200 crore incentive per year per state to be given to three states which secure the top three ranks in PGI; and Category II: Rs.200 crore incentive per year per state to be given to three states which show the highest improvement in PGI score over the previous year.

promotion of online education through the development of massive open online courses (MOOCs), direct-to-home (DTH) content development, digital classrooms and provision of devices (laptop/tablet) for 25 lakhs students belonging to socially and economically weaker sections of society. The challenge of the Covid-19 pandemic has necessitated alternative modes of delivering quality education wherever the traditional and in-person modes of education are not possible, the FC acknowledges. The remaining grants on higher education are for developing professional courses in regional languages.

Thus, for the first time in its history, the FC has recommended a performance-based grant for school education. These conditional grants to states are to provide financial incentives for best performing states judged in terms of improvement in learning outcomes and transition rates to secondary for girls. Bose et al (2020c) point to the various problems in this approach. First, a performance-based grant rather than a need-based one violates the principle of equalisation governing FC transfers. Whereas certain conditions have been imposed in the past, the principle of equalisation was always at the core of FC transfers, as evident from the foregoing discussion. Second, in putting the cart before the horse, what one is also saying is that resources and basic facilities do not matter; states must first show improvements in outcomes. It tries to separate the educational processes from outcomes. Third, when performance is defined narrowly as learning outcomes through standardised testing, as has unfortunately become the trend, it promotes assessment-centric teaching and learning (teaching to the test), rather than an overall improvement. As Bird and Smart (2009) note in another context, this approach simply cannot work. "Such a post-hoc approach is unlikely to amount to much in a world in which most local governments depend on secure (pre-committed) grant funding to carry out many of their activities, in which many grants are intended in large part to meet "needs" rather than to reward those who have already succeeded in doing so, and in which, in any case, "good performance" invariably lies in part in the eyes of the beholder." (Bird and Smart, 2009: p. 15)

There are several other issues with the 15th FC recommendations on educational grants. Though the 15th FC outlines in its guiding principles that the incentives must be sufficient in size to induce the desired outcomes, the grant amount of Rs 200 crores per state is negligible compared to states' existing budgets, particularly for bigger states such as UP or Bihar. The announcement of a welfare scheme of "distribution of laptops to 25 lakhs students" by an FC is surprising, since the FC is mandated to address the structural issues like equity and efficiency in the federal system. The health sector grants recommended by the 15th FC are unconditional "owing to the pandemic", a rationale that should extend to education sector as well. School children have borne the brunt of pandemic through extended periods of school closures, lack of any alternative learning, massive school dropouts which will be evident in the coming days, increased malnutrition and mental health issues, inability of parents to incur out of pocket expenditure, issues that become aggravated manifold in marginalised communities. These new gaps need large volumes of public investment. An unconditional grant or a grant with minimum conditions at best, but of a sufficient volume, firmly anchored in equalisation principle, is the need of the hour.

As it happens, the union government has not accepted the recommendations of the 15th FC, in this regard. It has indicated that due consideration will be given to sectors identified by the Commission while formulating and implementing existing and new CSS and CS schemes (GoI, Action Taken Report, Feb 2021).

To sum up this section, the different FCs have used various approaches for education sector grants. The 12th FC used equalisation as the core principle, whereas the 13th FC used the gap between estimated normative requirement and actual expenditure to

suggest grants for the elementary education sector that would also allow states to meet their rising matching contribution to SSA. The conditionality of minimum expenditure growth was a mechanism to ensure that states do not substitute their own expenditure with the central grants. On the other hand, the performance-based grant for school education, as recommended by the 15th FC, assumes that states need incentives to invest on education rather than resources to invest on it. And that the state must show performance, based on certain criteria, before they become eligible for grants. It fails to recognise the differential positions of the states and the vast inequalities in education spending across the states of India, which needs an equalisation effort. Though the Commission proposes grants for digital modes of learning on account of the pandemic, it fails to recognise the crisis in the school education sector which is going to have long-term adverse effects.

V. Trends in Central Grants on Education: State Level-Analysis

This section analyses the distribution of central grants across 20 Indian states. How have the different states benefited from the various central schemes and other transfers on education? How progressive has been the central grants on education?

Central grants on education here refers to the overall grants, FC and non-FC route. It includes CSSs routed outside the state treasury in addition to transfers on central schemes routed through state treasury. The data is compiled from the state budgets. The major head 1601 represents central grants to the states. The disaggregated data for 1601 is used to compile the grants in aid for SE and HE separately, for each state.⁴¹ For some of the states, some adjustments had to be made to make the data comparable.⁴² To plug the gaps, a second source of data on central grants from audited statements/ websites of the

⁴¹ Though the budgetary head 1601 is reported also in Finance Accounts (CAG), the disaggregated central grants data is not consistently reported every year by every state. Out of the 20 States, less than half report scheme wise breakdown of central grants. Even among those who report the grants, they may be reported under functional heads - elementary education, tribal education, etc., which makes it impossible to make out the schemes covered under the grant, and those that have been left out. Over the years, there have been changes in reporting styles, and yet, even in 2018-19, there are various schemes that miss mention in Finance Accounts. (Finance accounts report some of the central grants in its annexures of unaudited statements).

⁴² Adjustments/ judgements were necessary on following accounts: (i) In Karnataka, Nagaland, West Bengal etc. the allocation has not been separately mentioned for adult education and teacher education (TE), therefore the total allocation has been included. In some of the states like Punjab, the division has been given in the earlier years but not in the recent years. Wherever the bifurcation is available, only TE has been included (eg. Bihar). (ii) In a few cases like Himachal Pradesh, Madhya Pradesh and West Bengal allocation for elementary education and SSA are separately given, there could be chance of double counting. (iii) In a few cases, welfare of SC includes various components some of which are on scholarship but since no clear bifurcations are available, those data have not been included. (iv) Allocation on merit cum means scholarships have been included in higher education. The scholarship schemes which do not have a clear indication of whether its pre or post is included in HE (iv) National education mission includes RMSA as one of its components. However, in Jharkhand there is a separate allocation for RMSA and NEM which could result in double counting. (iv) Welfare of SC, ST, OBC and EBC education and others will have school education components but have been included in higher education, wherever disaggregation is not available.

respective schemes have been used, wherever required.⁴³ The following analysis is based on data from 2014-15 to 2019-20.⁴⁴

Inter-state Comparison of Central Grants on Education

With vast differences in revenue capacities vis-à-vis the needs of the states, and the central mandate of equalisation through IGTs, the central grants to states are expected to be progressive in their distribution. That is, states with lower per capita income (PCI) are expected to receive higher per child grants compared to low-income states. Does the reality of central grants concur with this expectation?

Figures 4(A) and 4(B) show the distribution of central grants on SE and HE across 17 general category states (GCSs), respectively.⁴⁵ Note that the final series on grants, especially on HE, is highly variable across years.⁴⁶ This can be due to various reasons, such as the nature of the scheme, frequent changes in allocations on schemes, non-payment followed by release of arrears in certain years, changes in matching shares, withdrawal of schemes, launch of schemes, etc. An average of two years, 2017-18 and 2018-19 is taken to minimise the variability in the grants' series. Per child central transfer on SE and HE are plotted separately against PCI of the states (average of 2017-18 and 2018-19). Figure 4(A) indicates a negative relationship between PCI and per child central grants for SE. The transfers on SE in per child terms are moderately progressive, though states such as Bihar, UP, West Bengal lie well below the trend line. For HE, the relationship between the two variables is positive, indicating that HE transfers are regressive across states (Figure 4 (B)). Grants per youth (18-23 years) on HE for a whole lot of low-income states are very low. This regressive pattern, however, is not by design. Since the GER in HE is higher in the Southern states, central grants per youth appear higher in those states compared to states where a much smaller proportion of the youth are attending HEIs.⁴⁷

The correlation coefficients reported in Table 6 confirm the above observations, which generally holds across years. (i) Transfers on school education per child are moderately progressive across states, with an average correlation coefficient around (-)0.5. (ii) There is no clear trend in the correlation coefficient between per capita central grants on SE and PCI across the six-year period to suggest whether the relationship has strengthened/weakened. (iii) The correlation coefficient between overall grants on SE (rather than per child grants on SE) and PCI has a higher negative value generally. Even though higher amounts of central grants on SE are going to the low-income states compared to high-income states, when one takes account of the larger needs of the former measured in terms of population in the relevant age bracket, the transfers fall short. This

⁴³ Data triangulation is an issue that would persist. Even for a flagship scheme such as SSA, there are differences in budgetary data between State Budgets (MH 1601), State Finance Accounts (CAG) and audit report of the scheme.

⁴⁴ The coverage of schemes under major head 1601 becomes more problematic as one goes back in time.

⁴⁵ We consider general category states only for this exercise as SCSs have a special status on account of 90:10 matching shares and generally would have higher levels of grants based on the higher cost structure, which makes it difficult to pool them together.

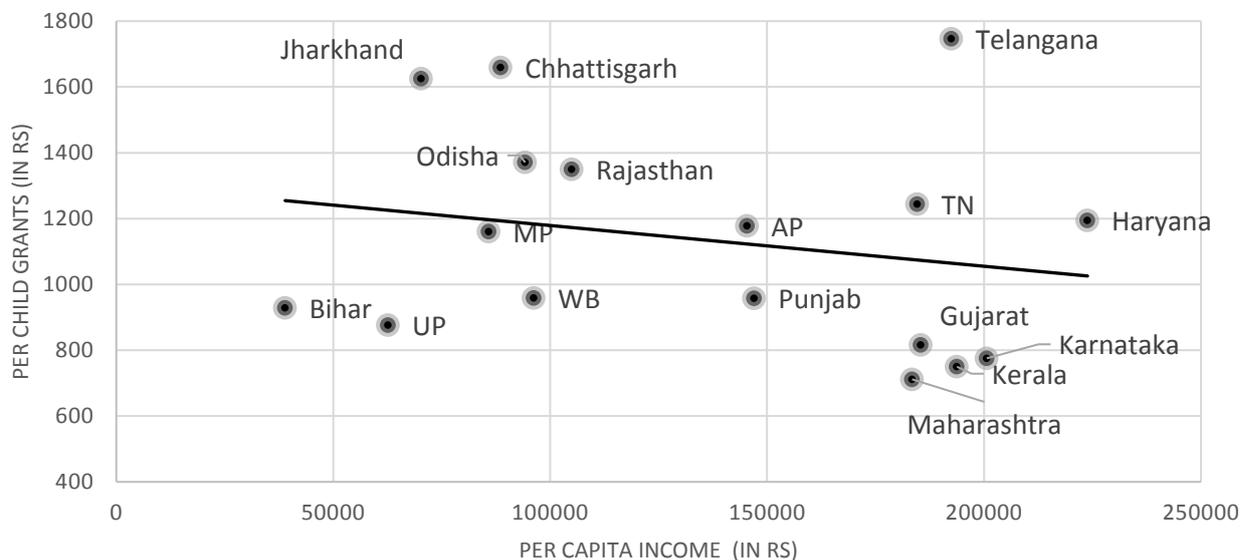
⁴⁶ As was discussed in Section III, only a part of the expenditure on HE flows through the state budgets, which when converted to per capita terms throws up small numbers, varying from year to year.

⁴⁷ One can think of per youth grants as comprising of: (Central grants per student, 18-23) X (Enrolled students/ Youth population). The second ratio is enrolment rate. Assuming central grants per student is the same across states, since enrolment rates are higher in the Southern states, it would translate to higher per youth grants in these states. For instance, the GER in HE is 51.4% in Tamil Nadu as against 14.5% in Bihar (AISHE, 2019-20).

calls for greater progressivity in central grants on education to states, a result that echoes with what many others have said (Sankar 2007; Rani, 2016; Rao, 2017).

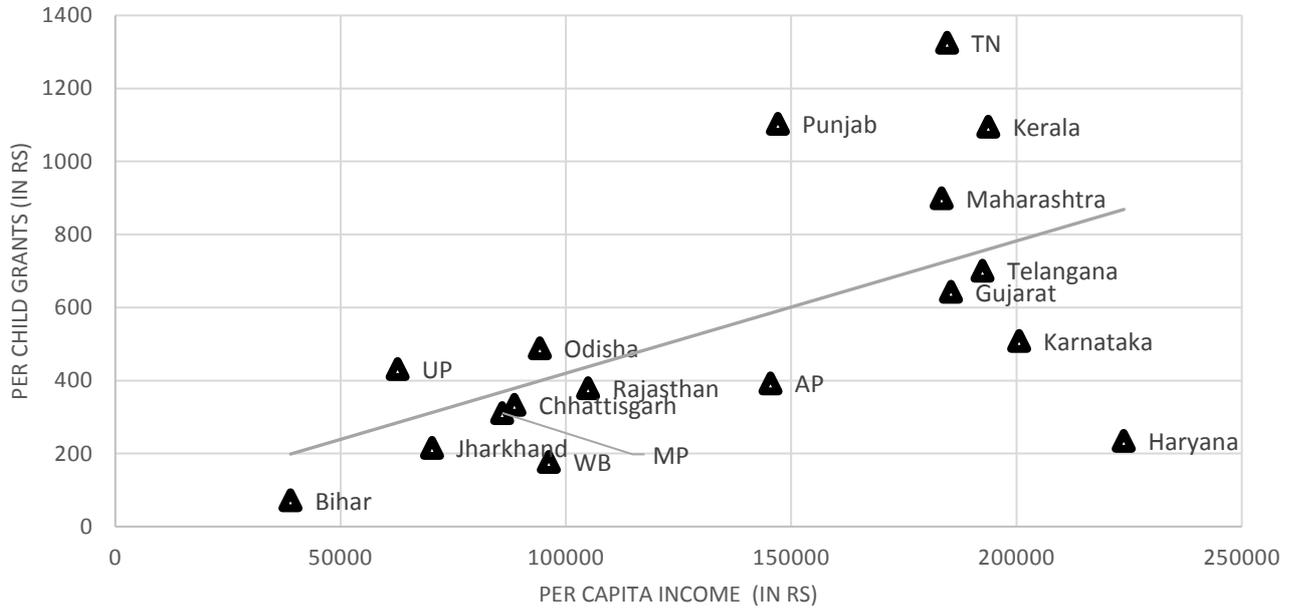
In Figure 4 (A) and 4 (B) there are eight states, clustered at the bottom, in terms of low per capita income: Bihar, UP, WB, MP, Chhattisgarh, Odisha, Jharkhand and Rajasthan. Interestingly, the per child grant varies in a broad range among these states in case of SE, which may be related to the utilisation of funds, among other things (see next section). There will be several state-specific and other determinants that need further enquiry. These eight states among the GCSs are also the states with the maximum gap in educational spending vis-à-vis the normative requirement for RTE compliant norms in elementary education as estimated in Bose et al (2020a). The additional financial requirement to bridge the gap between normative and the actual exceeds their revenue capacities including the present central transfers. *That is, the present levels of central transfers are in no way adequate to meet their normative resource requirement.* Bihar is the extreme case where the additional financial requirement is estimated at more than 10% of GSDP for 2015-16. Based on their analysis, Bose et al (2020a) make two policy recommendations: (i) a differential treatment across states in the central grants with greater flow of resources to the “focus states”, which includes the eight states of Bihar, UP, WB, MP, Chhattisgarh, Odisha, Jharkhand and Rajasthan; ⁴⁸ (ii) A big push through substantially enhanced central grants so as to meet the gap in financing, if all the states are to ensure RTE of a reasonable quality. Though their analysis is limited to elementary education, the arguments and the policy recommendations clearly hold for the education sector as a whole.

Figure 4A: Relationship between Per Child Grant on School Education and PCI for GCSs



⁴⁸ Among the SCSs, similarly there are several states them, that have a relative disadvantage. These are together called the “focus states” in Bose et al (2020a). Besides the eight GCSs, two of the SCSs, Meghalaya and Nagaland, included in this study, figure among them. We will concentrate on these “focus states” in Section VI.

Figure 4B: Relationship between Per Child Grant on Higher Education and PCI for GCSs



Source: State budgets and scheme releases reported in scheme specific websites; Population: Census of India.

Note: The graphs have been drawn on the X and Y variables, for average values of 2017-18 and 2018-19. Age-specific population projection (6-17, 18-23 age groups) based on CAGR between 2001 and 2011 has been used to arrive at per child expenditure for school and higher education, respectively.

Table 6: Correlation between Central Grants and Per capita income

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Correlation with Per Capita NSDP					
For General Category States						
Per Child Grants on School Education	-0.32	-0.88	-0.58	-0.53	-0.53	-0.48
Per Child Grants on Higher Education	0.39	0.29	0.42	0.50	0.45	0.23
Overall Grants on School Education	-0.53	-0.67	-0.64	-0.67	-0.68	-0.57
Overall Grants on Higher Education	0.44	0.11	0.43	0.47	0.39	0.29
For All States						
Per Capita Grants on School Education	-0.27	-0.47	-0.31	-0.21	-0.25	-0.32
Per Capita Grants on Higher Education	0.06	-0.01	-0.10	0.21	0.15	0.25
Overall Grants on School Education	-0.40	-0.53	-0.46	-0.45	-0.46	-0.36
Overall Grants on Higher Education	0.39	0.14	0.43	0.45	0.40	0.32

Source: Same as Figure 3(A) and 3(B)

VI. Central Grants and Utilisation: Select Schemes

The problems of unspent funds or under-utilisation in social sector schemes, especially in the major CSS, are highlighted frequently in public discourse. Whether state administrations have the capacity to absorb the fund flows is an important question to ask, as this would determine the relationship of programmes to a certain set of broadly defined individual and social outcomes.⁴⁹ In a more limited sense, the extent of utilisation would determine whether the funds released would translate to expenditure. The reverse is also true. There is linkage between under-funding/inadequacy of budgets for a sector over a long period of time and the capacity of the sector to absorb resources in the schemes at present. Implementation must be an intrinsic part of the design of the plan as Chakravarty (1987) had argued. A good plan not only derives paths to achieve the desired target but also sketches behavioural patterns that can lead the system to the target.

SSA and MDM are the two important flagship schemes of the GoI on SE that have been in operation for almost two decades. Together they comprise more than 90 percent of allocations on SE by central ministries (refer to Table 3A). It would be instructive to look at the patterns in allocation, release and expenditure on the two schemes over the study period. The capacity of utilisation varies greatly across the Indian states. The 11th Joint review mission SSA report (MHRD, 2010) noted that the fund flow and fund utilisation have improved over the years, in many states. In 2009-10, states like Kerala and Tamil Nadu utilised over 90% of the funds whereas states like Bihar, Madhya Pradesh, Chhattisgarh and West Bengal were far behind. Bihar spent around 42% and Madhya Pradesh around 57% of funds available (Kapur and Bandyopadhyay, 2010). In this context, we ask, have the lagging states improved their performance on utilisation over the years? The analysis in this section is limited to “the focus states” (as described in section V) - Bihar, UP, WB, MP, Chhattisgarh, Odisha, Jharkhand and Rajasthan and two states among SCSs, Meghalaya and Nagaland. In the absence of data in the public domain for the entire period (and all the variables), the analysis is limited to the recent decade (or a part therein).

Recent trends in Allocation and Expenditure: State-level trends

Figure 5 and 6 present the allocation and expenditure on SSA and MDM, respectively, for the ten states. A comparison of expenditure to funds allocated can provide a measure of the utilisation of funds and confirm whether the two are closing in. Allocations are based on the approved budgets in the annual work plan and budget documents. Expenditure (centre and states) on the two schemes are the audited expenditures, reported from CAG’s state finance accounts in case of MDM and audited expenditure statements for SSA.⁵⁰ The latter also provides details on available funds for SSA.⁵¹

⁴⁹ Outcomes here not limited to school performance and examination results of students, but also embrace social objectives such as reduction in gender gap in participation, improvement in nutritional status of children, etc.

⁵⁰ A word of caution on MDM expenditure is necessary. MDM is administered by different departments in different states. Also, there are multiple departments involved in the same, which means that the accounting of expenditure becomes complex. There are several budgetary heads where the expenditure may figure. To take an example: a portion of food-grain expenditure is accounted for in some states as part of PDS. It may therefore figure under budgetary head 3456 (civil supplies). Given the state specificity, it is difficult to obtain a comprehensive estimate of expenditure on MDM.

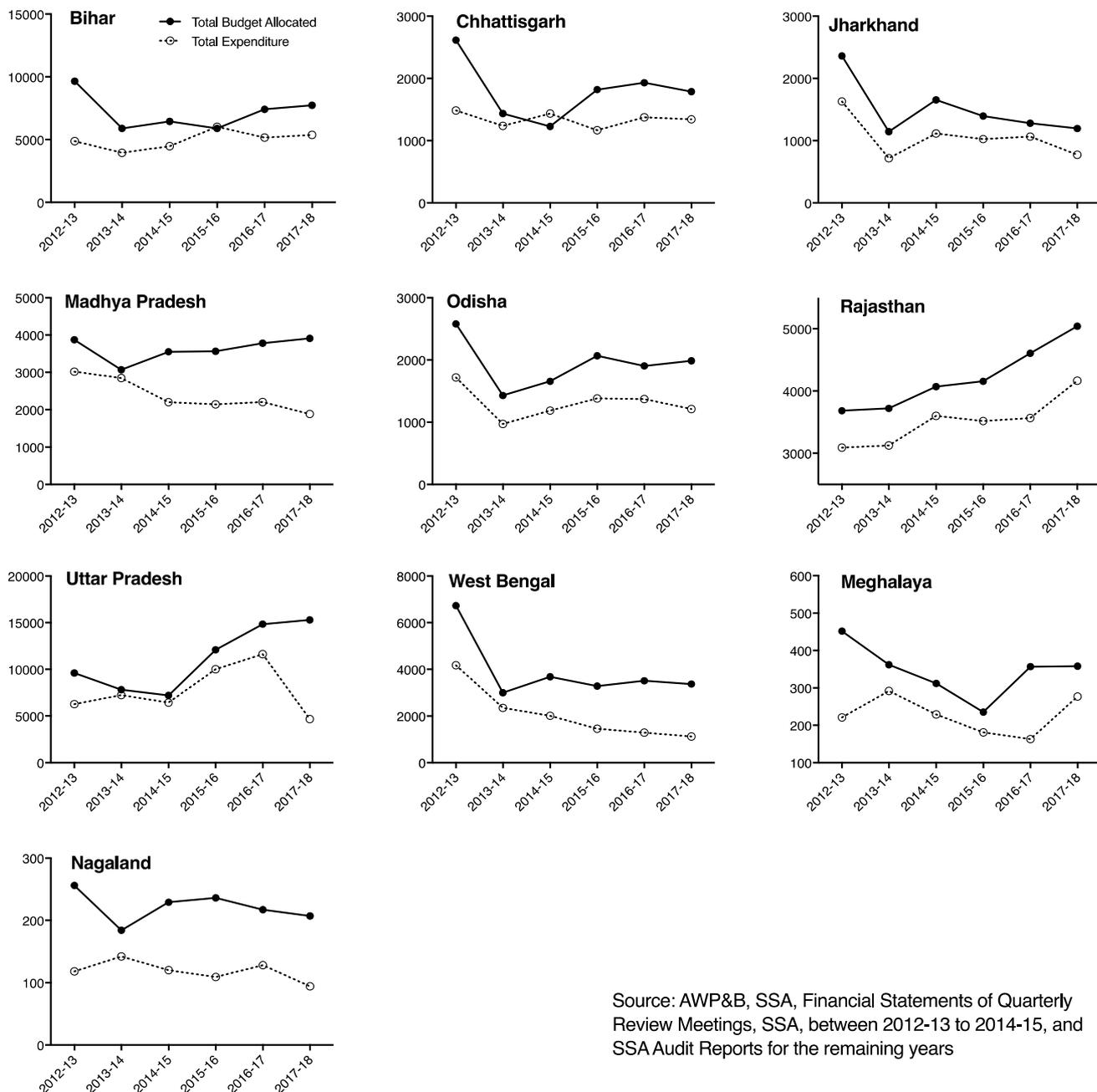
⁵¹ The series on available funds is taken from Financial Statements of Quarterly Review Meetings, SSA, between 2012-13 to 2014-15, and SSA audit reports for the remaining years. The risks of comparability problems cannot be ruled out.

SSA: Data for allocation and expenditure on SSA is analysed from 2012-13 to 2017-18.⁵² The first thing to note in Figure 5 is the stagnation in expenditure across states over the period of analysis (dotted line in Figure 5). Barring Rajasthan, and to some extent UP, expenditure on SSA shows a stagnant or declining trend. Secondly, allocation on SSA lies above expenditure, at times by a large margin. The gap between allocation and expenditure has not closed. For some of the states – WB, MP, Odisha – the gap widened over the period. It has closed somewhat in Jharkhand amidst a stagnant or declining trend in the two series. Thirdly, the ratios on expenditure to funds available or the utilisation ratios, averaged across all 10 states - has been in the range of 78- 91% in the six years (Table 7). That is, the average utilisation ratios have been reasonably high, above 85%, in four out of the six years. States have improved their utilisation of available funds, compared to the situation prevailing towards the end of the previous decade, as noted by MHRD (2010) and Kapur and Bandyopadhyay (2010). Of course, not all states have done equally well.⁵³ Fourthly, expenditure to allocation ratio is significantly below the utilisation ratio, which implies that there is a gap between the approved budgets and the funding available to the implementation agencies. Funds available to allocation ratio are nowhere close to 100%. Some states have reached 90% at best. It may be noted that the states' contribution to the release of funds is more than the mandated share in the matching grant (last column, Table 7).

⁵² From 2018-19, SSA reincarnated into Samagra Shiksha Abhiyaan, by merging with other CSSs on education. It makes the period beyond 2017-18 not directly comparable with previous years, and hence was not considered.

⁵³ The decline in utilisation ratio in Odisha from 2015-16 may be due to changes in the accounting as the funds available suddenly record steep rise due to higher advances (carry over from the previous year). We couldn't confirm this.

Figure 5: SSA budget allocation and expenditure (In Rs Crore)
(at constant price)



Source: AWP&B, SSA, Financial Statements of Quarterly Review Meetings, SSA, between 2012-13 to 2014-15, and SSA Audit Reports for the remaining years

Notes: Allocation and expenditure, Centre and State combined. Since the comparisons are within state comparisons, the graphs are plotted on different scales.

**Table 7: Utilisation of SSA Fund Flows, Centre and State combined:
2012-13 to 2019-20**

	Expenditure /Funds Available = Utilisation Ratio						Average of Six Years			
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Utilisation Ratio	Funds Available/ Allocation	Expenditure/ Allocation	State Release/ Total Release
							(1)	(2)	(3)	(4)
Bihar	87	78	95	82	81	73	83	87	71	49
Chhattisgarh	86	89	91		87	99	90	90	78	44
Jharkhand	97	98	74	82	77		86	85	70	42
MP	95	88	91	-	-	-	91	85	67	40
Orissa	100	80	100	59	65	77	80	88	68	40
Rajasthan	93	85	91	93	94	97	92	91	84	48
UP	91	93	90	92	97	92	93	79	73	45
WB	88	77	82	79	82	85	82	63	52	41
Meghalaya	79	83	72	73	64	-	74	88	67	12
Nagaland	99	99	98	66	87	87	89	62	54	11
Average Utilisation	91	87	88	78	82	87				

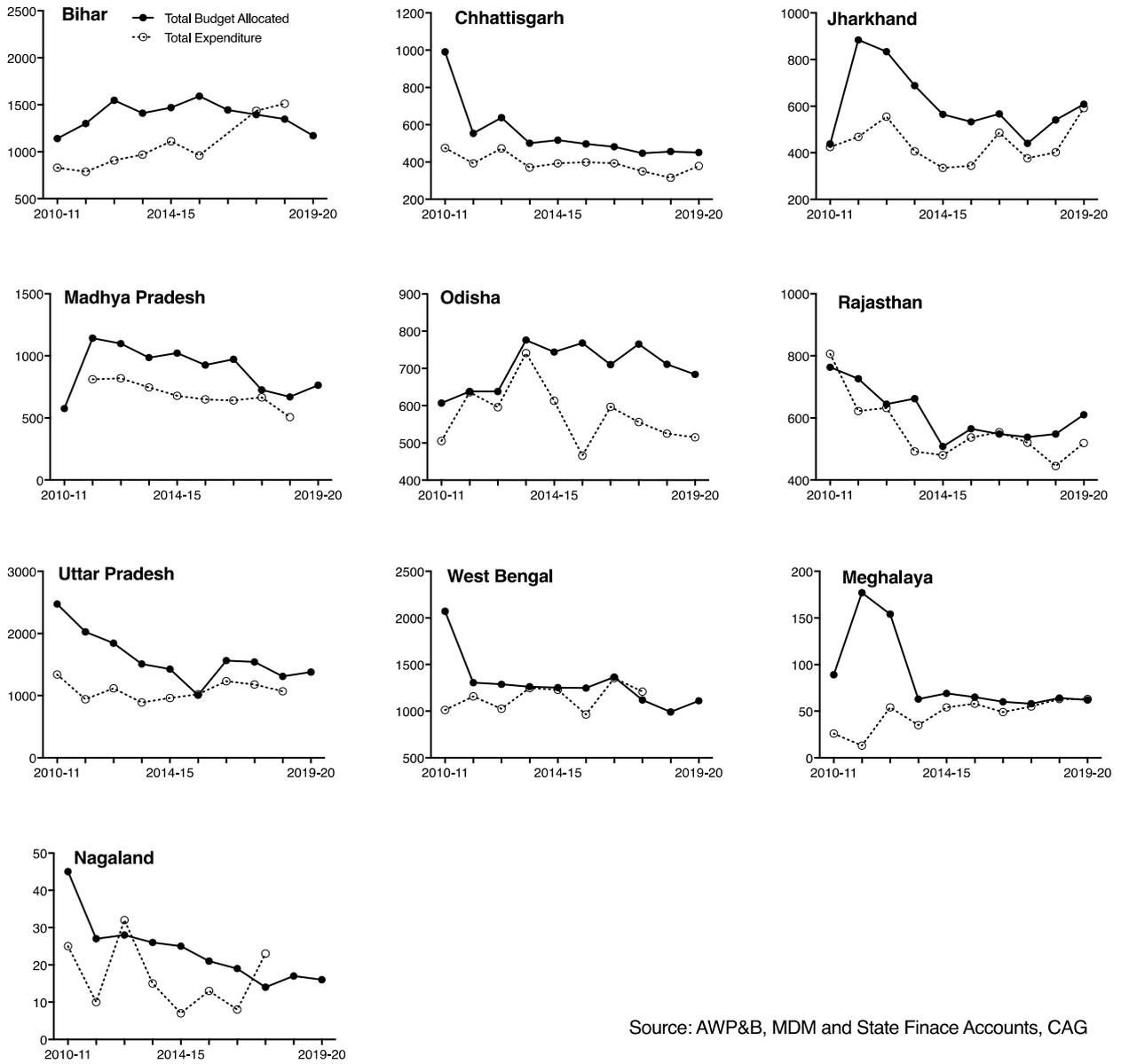
Source: AWP&B, SSA, Financial Statements of Quarterly Review Meetings, SSA, between 2012-13 to 2014-15, and SSA audit reports for the remaining years.

Notes: Allocation and expenditure, Centre and State combined. Funds available is measured as sum of opening balance, interest accrued, releases by the centre and the state and other receipts.

MDM: Data for allocation and expenditure on MDM is analysed over 10 years. Allocation to expenditure ratios (averaged across 10 states) increased from 66% in 2010-11 to 89% in the most recent year, indicating an improvement in utilisation (Table 8). The gap between allocation and expenditure has reduced on an average in all the states (for Rajasthan, it declined till 2016-17, but widened in the recent years) (see Figure 6). However, as we see, the improved utilisation takes place in a context where the allocation on MDM has a stagnant trend in Bihar, Jharkhand, Odisha and a declining trend in all the remaining seven states (the same pattern emerges for expenditure also). In other words, within an overall trend of stagnation and decline of MDM expenditure, there's been improvement in the use of funds. Inadequate budgets contributing to better utilisation cannot be ruled out.⁵⁴

⁵⁴ This is a view that emerges from district level officials, as well. CBGA (2020) notes that according to district level implementing officers, the rate or extent of utilization of funds under schemes like ICDS and MGNREGS is high as allocations for these schemes mostly fall short of actual requirements on the ground (p. 49).

Figure 6: MDM budget allocation and expenditure (In Rs Crore)
(at constant price)



Source: AWP&B, MDM and State Finance Accounts, CAG

Notes: Allocation and expenditure, Centre and State combined. Since the comparisons are within state comparisons, the graphs are plotted on different scales.

Table 8: **Expenditure to Allocation Ratio: Mid-day Meal Scheme: 2010-11 to 2019-20**

State/Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	13th FC Period (2010-15)	14th FC Period (2015-20)
Bihar	73	61	59	69	76	60		103	112		67	92
Chhattisgarh	48	71	74	74	76	80	82	78	69	84	69	77
Jharkhand	97	53	67	59	59	65	86	85	74	97	67	77
MP		71	75	76	66	70	66	92	76		72	76
Odisha	83	100	93	95	82	61	84	73	74	75	91	73
Rajasthan	106	86	98	74	94	95	101	97	81	85	92	93
Uttar Pradesh	54	46	61	59	67	102	79	76	82		57	85
West Bengal	49	89	80	99	98	77	99	108			83	95
Meghalaya	30	7	35	57	78	89	83	94	98	101	41	91
Nagaland	55	36	112	58	29	62	42				58	52
Average Across 10 states	66	62	75	72	73	76	80	90	83	89		

Source: AWP&B, MDM and State Finance Accounts, CAG.

The stagnation of central grants that we saw in union budget (Section 3), are reflected in stagnant allocation and expenditure across states (with very few exceptions) in these crucial schemes on school education in states. These schemes have an impact on scores of children and their RTE. An improvement in expenditure to allocation ratio is observed for MDM over the ten-year period, whereas the gap between allocation and expenditure on SSA increased in several states (WB, Bihar, Orissa, MP). The utilisation ratio of SSA is found to be high which accords with findings from other studies (CBGA, 2020). It is ironic that by the time the lagging states improved their implementation of the schemes, and raised their utilisation ratios, the allocations on the same began to dry up.

Improving Utilisation: Some Suggestions

The macro-level analysis cannot reveal the reasons behind the gaps in utilisation of CSS funds, and thus are of limited use. One needs meso and micro-level analysis to look at the supply bottlenecks at various levels on which there's a rich body of research evidence (Jha and Rani, 2016; CBGA, 2020; Accountability Initiative, 2013, various reports of the CAG). Though a detailed analysis is outside the scope of this study, it is worth summarising some of key implementation issues that continue to persist despite improvements over the years.

In Section 2, we discussed the key changes in the structure and design of CSSs and the fund flow mechanisms. SSA's flow of funds are routed through the treasury, which makes the fund flow channel longer, though there are important reasons for the same.⁵⁵ Another has been consolidation of SSA under an umbrella Samagra Shiksha Abhiyaan. CBPS (2020) notes that the merger is a positive initiative, but it has offered only limited flexibility for

⁵⁵ Choudhury and Mohanty (2018) find that utilisation depends on the length of the administrative chain. The longer the chain, lesser effective the system will be.

the states as expenditures continue to be rigidly classified under the same heads as before. Southern states, such as Tamil Nadu, need higher funding for secondary education. Funding needs for certain critical components, say adolescent education, training or vocationalisation, could be higher. Unless the merger comes with greater flexibility for states, it may not serve much purpose. Another recent study on Samagra Shiksha Abhiyaan, Kundu and Rastogi (2020) based on interaction with the district officials found that the merger ensured single line administration, which helped in speeding up the availability of funds and reducing delays and bottlenecks. However, preparation of the district annual plan happens in silos for elementary, secondary and teacher education. The plans get integrated at state level. There is a lack of clarity among district officials on how the convergence can be done.

Researchers have noted that within the SSA, centre-state relations are governed essentially by MHRD guidelines and state-district relations are governed by the dictates of the concerned State office. Such concentration of power is not only evident within the SSA framework but also within the structures of education department where junior functionaries often complain of an overload of programmes that are pushed down the lines without consultative process (Mukhopadhyay, Ramkumar and Vasavi, 2017). It prevents the adoption of implementation approaches that emerge from the needs elicited from lower-level institutions and their functionaries. At the school level, there has often been a conflict between norm-based allocation and the rhetoric of need-based planning. Kapur and Mukherjee (2016) note in the findings of a study of 100 government schools in Nalanda, that schools are constrained to provide only those items specified in the guidelines, whereas the requirements of the schools were quite different. There is a mismatch between what the schools require and what comes to them as tied grants. One suggestion is to provide untied block grants to SMCs (with checks and balances in place) so as to take care of diverse needs.⁵⁶ While the upper tiers of the government could identify the broad areas of expenditure taking into account schools' needs, they must not interfere with micro-planning. A broad autonomy in spending decisions with adequate checks and balances is essential. This has been reiterated by the 15th FC. CSSs, co-financed by the union government, should be flexible enough to allow states to adapt and innovate. CSS should grant states "significant latitude to tailor implementation modalities to local realities" (GoI, 2020: 279).

Predictability of the central grants are very critical and enables the subnational governments to plan local service delivery more effectively. Predictability is enhanced through the use of formula-based allocation systems driven by simple measures of equity and efficiency (Bird, 2003). Delay in the release of funds is one of the principal causes for underutilization of financial flows across schemes. This is true as much for the centre as for the states' contributions. Numerous instalments of funds flowing through one year requires the system to work more in managing the fund flow rather than focus on service delivery (Jha and Parvati, 2016). CAG performance audit (2017a) verifies occurrences of short release of funds as much as underutilization and the two are not unrelated. Further, the issue of underutilization is intimately related to the vacancies and shortages of staff, among other things. Lack of proper staff at all levels hampers various activities including implementation, planning, monitoring, reporting, training, etc. To enhance predictability, the states can be asked to prepare and submit the work plans for at least 3-year rolling

⁵⁶ When it comes to design, fiscal transfers can be either conditional or unconditional. The former leads to a more hierarchical system of accountability i.e. the centre holding the subnational accountable for proper use of central grants. The more conditions there are, the more difficult they are to meet, the less would be the utilisation (Ahmad et al, 2006; Gupta et al, 2011).

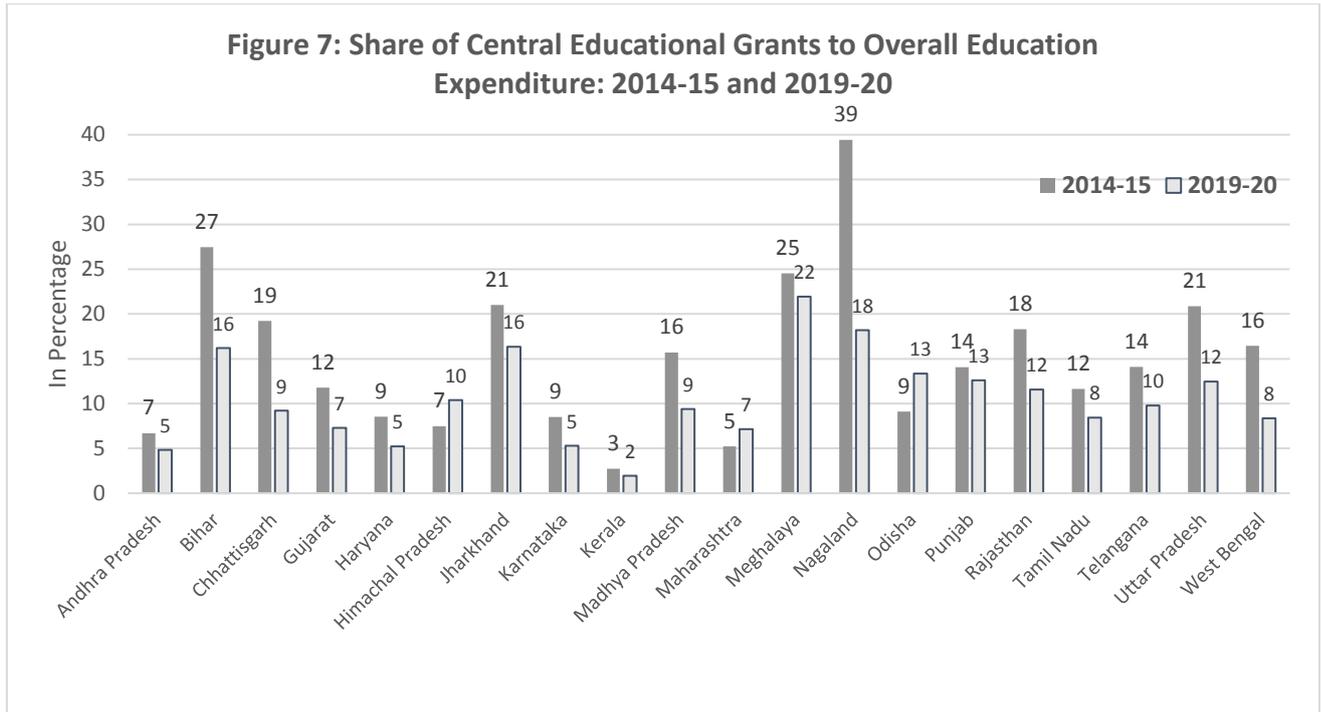
window. Ideally, it is a kind of medium-term expenditure framework for each scheme, which can be operationalised for all CSS to enhance service delivery (GoI, 2020: 369).

Most of the CSS and CS schemes in India are conceptualised as norm based and demand driven. The allocations are based on annual work plan budget (AWP&B) proposals submitted by states. However, the state plans are routinely downsized by the centre. The AWP&Bs are approved after negotiations between the centre and the state governments with the final decision taken by the SSA's Project approval board (PAB) at the central level. This is ostensibly done to ensure standardization of education delivery and supervise implementation by the states. It often results in a slugfest between central government priorities and state perceived needs. There are substantial differences between state proposals and the outlays approved by PAB and GoI allocations, every year, as has been pointed out repeatedly.⁵⁷ The gap between the state proposals and budget approved and final allocations by the GoI consistently show how demand far exceeds supply. It betrays the resource constrained situation within which the states actually operate. As Mukherjee and Sen (2007) had noted long back, if SSA is essentially a demand driven programme, then it should be left to the states to decide on the final outlay of the program rather than the centre pruning the state plans. There needs to be greater sovereignty for state proposals reflected in scheme allocations.

VII. Analysis of Expenditure on Education: Centre and State Combined

In this section, we shift the focus from central grants to overall expenditure. As pointed out earlier, the major part of education expenditure is borne by the states, with central grants on education intended to supplement states expenditure, among other things. With a greater share in the devolution of central taxes, arguably, the states have a larger resource envelope. Given the progressive nature of the devolution formula, with heavy weightage on income distance and the added criteria of present levels of population, it is fair to expect that the poorer states have a much larger fiscal space than before, making it possible to allocate more on education. Indeed, the tax devolution to states as a proportion of GSDP increased post 2014-15, though there's been a dip in the most recent year, 2019-20 (Appendix Table A2). On the other hand, the relative importance of central grants on education is more in the low-income states and this has taken a hit (Figure 7). Central grants for school education, in particular, which constitutes the bulk of central grants on education routed through the states' treasuries, is progressive and there's been a decline in allocation on central schemes in the 14th FC award period, as we saw above. What's been the impact of these two opposite changes? Has the larger tax devolution led to an acceleration in spending on education, or has the drag effect of central schemes, and other factors, prevailed? We analyse the trends in state-wise expenditure on education to explore the issue.

⁵⁷ See CAG (2017) and budget briefs on SSA by Accountability Initiative.



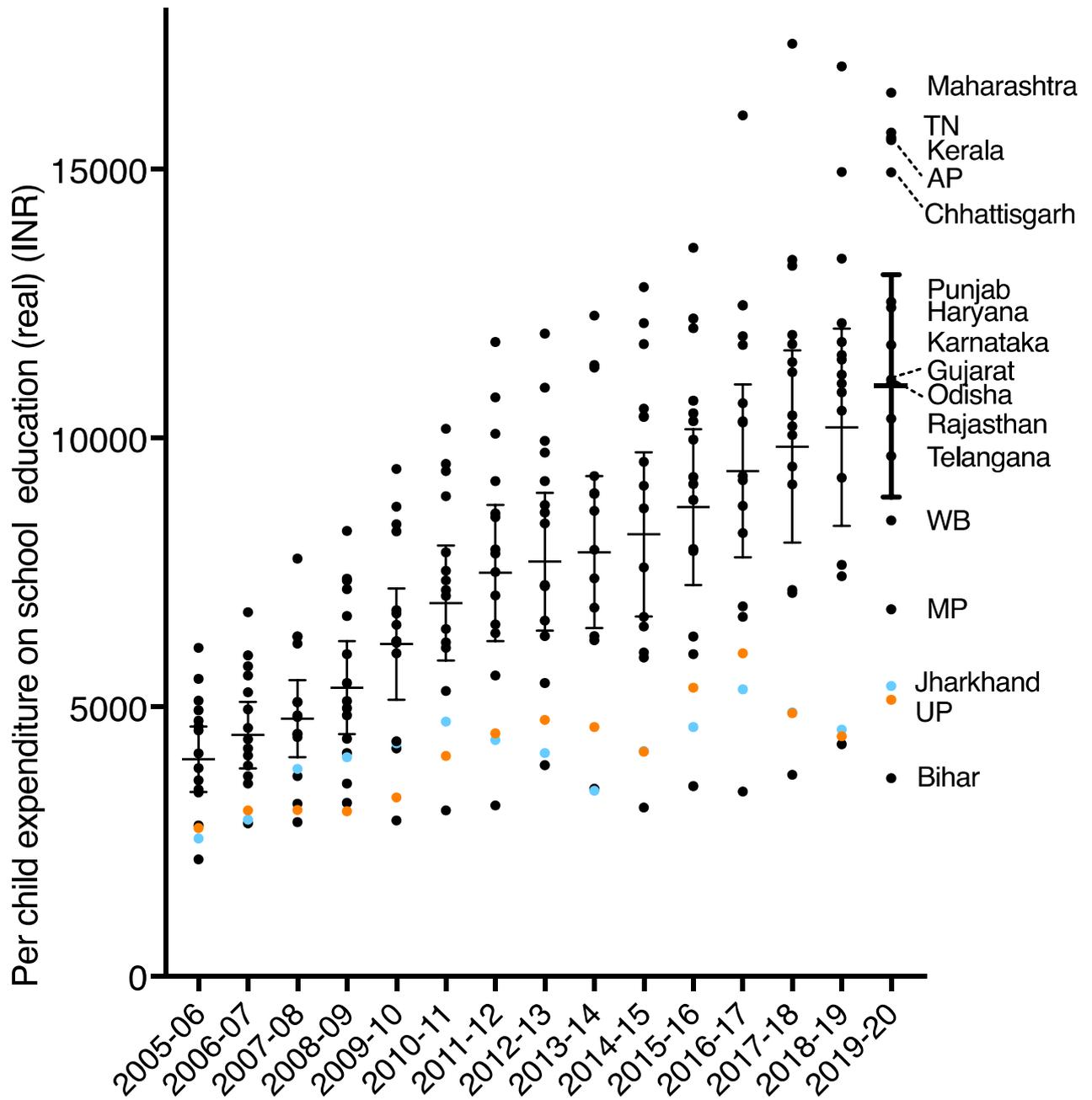
Source: State Finance Accounts and State Budgets, various years.

Note: Education expenditure is collected from Finance Accounts (CAG) and covers the expenditure on SE & HE falling under major heads 2202 and 2203. MDM expenditure, where not covered under 2202 or 2236, is added from the state budgets. Expenditure on education of marginalised groups is added. Finally, expenditure on capital account is added to obtain total expenditure. Some assumptions that were made include: (i) in case of educational expenditure by social welfare departments the entire amount under 2225 (277) which comprises mainly of scholarships and other schemes is taken under higher education expenditure. Since the major part of the expenditure under this head is on post matric scholarship and disaggregation is not available under minor head 277 in the finance accounts, our main data source, this assumption becomes necessary. (ii) Till 2013-14, central grants on SSA and RMSA flowed outside the state budgets. For the years prior to 2014-15, central release (rather than central expenditure) on these schemes have been added to state expenditure for every state. The entire central release may not be expended in the year of release though. This is particularly true of the initial years of the period of analysis coinciding with the tenth and the eleventh five- year plan. However, the utilisation has increased over the years and the unspent balances roll over to the next year as opening balance so that using Central release is a reasonable approximation for central spending for each state, in general. The above heads cover almost the entire expenditure on education going through the treasury. Most of the central sector schemes do not go through the state treasury. Expenditures on those schemes are not included here.

States and Inequality in Educational Spending

For the twenty states, educational expenditure (centre and state, combined) across 15 years has been analysed. Figure 8 and 9 depict the per child expenditure for all the GCSs on school education and higher education, respectively. For comparability over time, the expenditure is expressed at constant price, 2011-12.

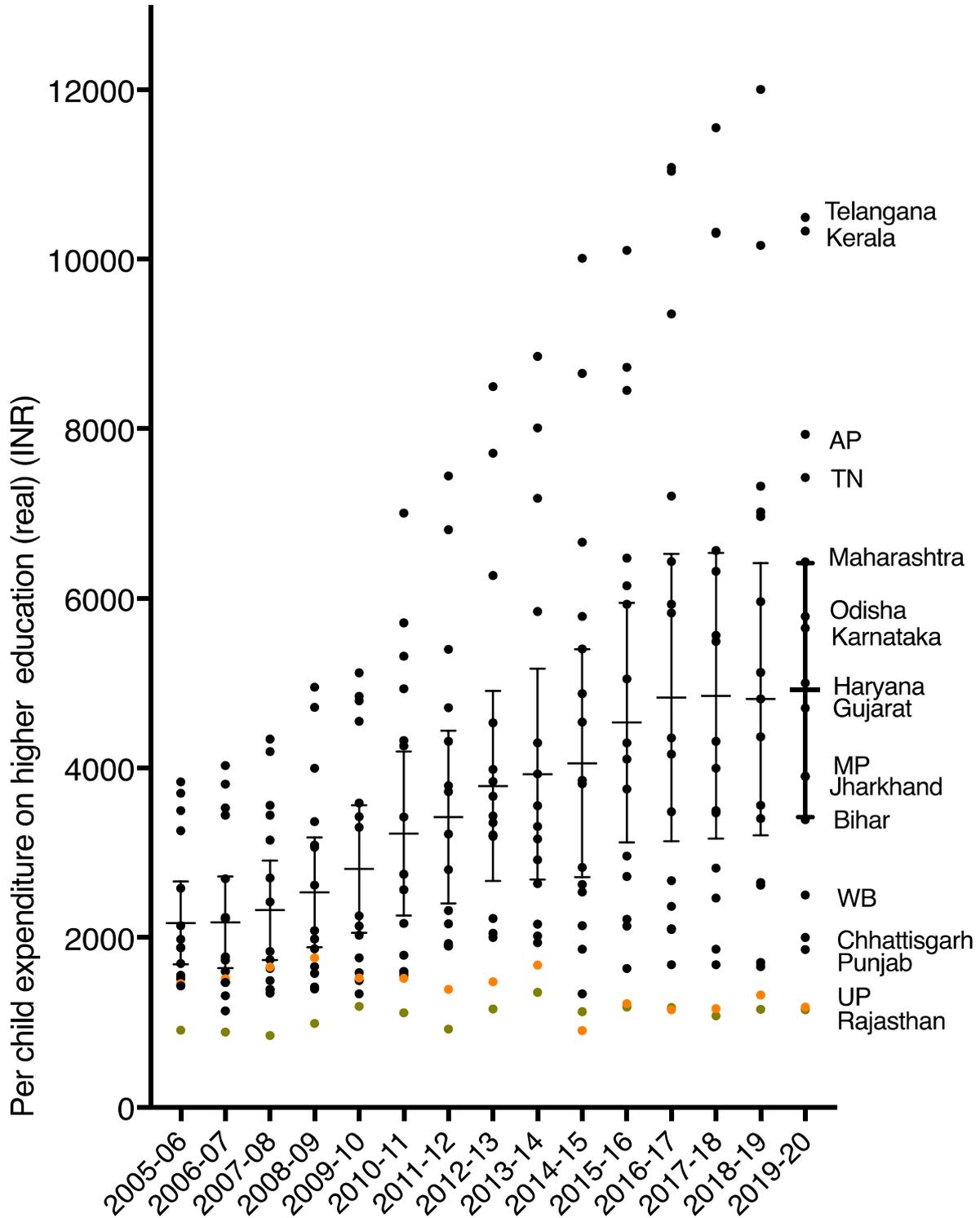
Figure 8: Inter-state Comparison of Per Child Expenditure on School Education: 2005-2020



Source: State Finance Accounts and State Budgets, various years.

Note: Mean values with 95% CI; Bihar, UP, Jharkhand are shown in different colours to trace their positions over the years. Per child expenditure is shown in constant 2011-12 price and the distribution has been drawn for the GCSs. Revenue expenditure on SE and HE, has been divided by age-specific population projection (6-17, 18-23 age groups) based on CAGR between 2001 and 2011 to arrive at per child expenditure for SE and HE, respectively.

Figure 9: Inter-state Comparison of Per Child Expenditure on Higher Education: 2005-2020



Source: State Finance Accounts and State Budgets, various years.

Note: Mean values with 95% CI. Rajasthan and UP are shown in different colours to identify their positions over the years. Per child expenditure is shown in constant 2011-12 price and the distribution has been drawn for the GCSs

The first thing to observe, from Figures 8 and 9, is the increase in educational expenditure per child over the 15-year period. Mean per child expenditure rose from Rs 4,029 in 2005-6 to Rs 10,972 in 2019-20, for school education (constant price) (Figure 8). For higher education, the rise is from Rs 2,174 to Rs 4,921. Secondly, within this overall increase, the dispersion across states has also risen very significantly. The coefficient of variation increased from 26.7% to 46.2% between the beginning (2005-6) and the end point (2019-20) in school education, and from 42.3% to 59.2% in higher education. Not only is there inequality in educational spending, the inequality is rising across states, and very sharply in the recent period. This can be seen in the relative stagnation in per child spending in states such as Bihar, Jharkhand and UP - outliers way below the lower fences - in Figure 8. These states have continued as outliers. The IGTs have not raised the educational spending of these states to a level comparable with other states. There needs to be a much larger push in terms of central grants on education, with well-designed mechanisms to ensure accountability.

Two of the educationally and economically lagging states, Chhattisgarh and Odisha, seem to have caught up with the rest on per child expenditure on school education, which shows that the trends among the focus states is not homogenous. Chhattisgarh has stayed above the mean per child education expenditure since 2009-10, and recently climbed up towards the top, whereas Odisha which was close to the lower whisker in the distribution of 17 general category states, has moved towards the average from 2014-15 onwards. These are welcome developments.

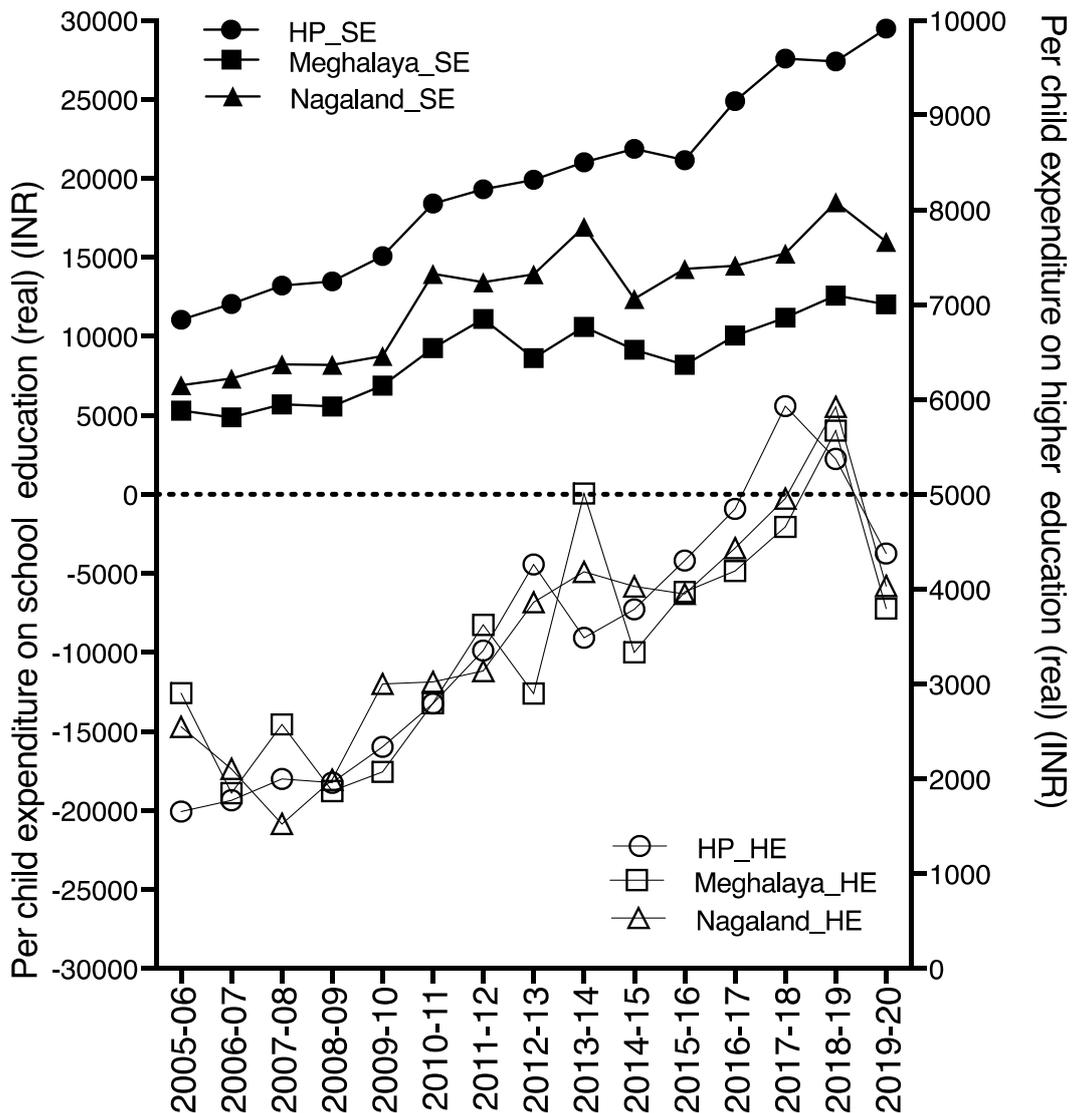
Compared to expenditure on school education, expenditure per youth in the age-group 18-23 years on higher education is much lower, even in the advanced states (Figure 9). The familiar good performers like Kerala, TN, Maharashtra, AP, Telangana are at the top, whereas a whole lot of states including Punjab have very low levels of spending per youth (18-23). Again, it must be remembered that the CS schemes, which dominate the HE spending by the centre, are not reflected in these expenditures. Notice that Chhattisgarh, which has made a significant progress in raising per child spending on school education, lies towards the bottom of the distribution in per child higher education expenditure across states. This is a general trend observed for the educationally lagging states which allocate a larger share of their resources to elementary education and may fail to allocate adequately for secondary and higher education (Varghese, 2021). Central grants on higher education, with adequate allocations can help the states to plan and prioritise the newer areas of investments required.

Figure 10 traces the per child expenditure on school education and higher education separately for the three SCSs – Himachal Pradesh, Meghalaya and Nagaland. These states have terrain related disadvantages along with low density of population which implies a higher cost structure and hence higher required expenditure. Across the three, there is significant difference in the per child expenditure between HP - a state which has for several decades been allocating a high proportion of its GSDP on education and has achievements comparable to the best GCSs, including the absence of gender differentiation – and the other two states.⁵⁸ Again, we see that the inequalities in spending on SE have grown over time across states. Higher education spending per youth in Figure 10 (right axis) by all three states is much lower than what was observed for the GCSs (Figure 9), with no significant difference across the three states on per child spending on HE.

Thus, the overall picture emerging is that of increased inequality in public spending on education rather than a convergence across states.

⁵⁸ See De et al (2011), The ongoing Schooling Revolution in Himachal Pradesh

Figure 10: Per Child Expenditure on School and Higher Education: Three SCSs



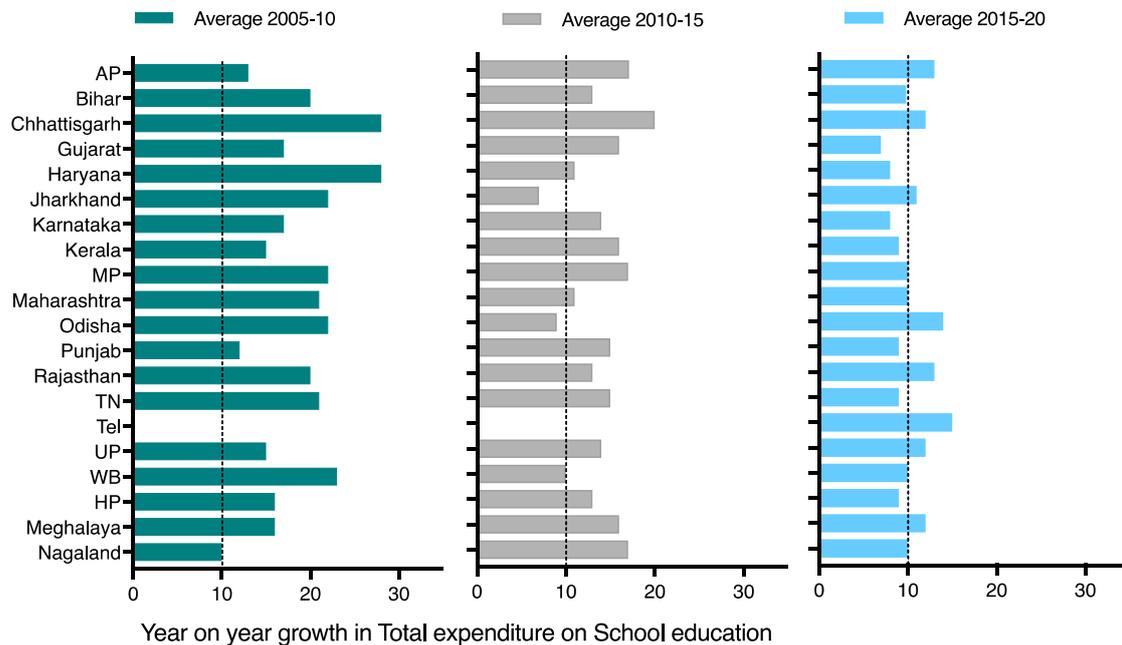
Source: State Finance Accounts and State Budgets, various years.

Note: Per child expenditure is shown in constant 2011-12 price; SE: School Education and HE: Higher education. Higher education is drawn on the right axis.

Changes in Educational Spending Across Time

To understand the changes across time, we divide the period into three segments corresponding to the three FC periods. A comparison of nominal growth in expenditure on school education across the three time periods is presented in Figure 11. Nominal year on year growth in expenditure is averaged for every 5 years. The trend shows a clear deceleration in spending in the last five years, 2015-20. The period from 2005-10 saw the highest growth rates of expenditure, followed by the next five years and the last five years have seen the lowest growth rates. Just as the growth in expenditures was generally broad-based during 2005-10, the deceleration in growth in the last five years is widespread across states. The decline in growth rates had begun between the 2010-15 period and came down further in the last five years.

Figure 11: Comparison of Average Annual (nominal) Growth in Expenditure on School Education:2005-2020



Source: State Finance Accounts and State Budgets, various years.

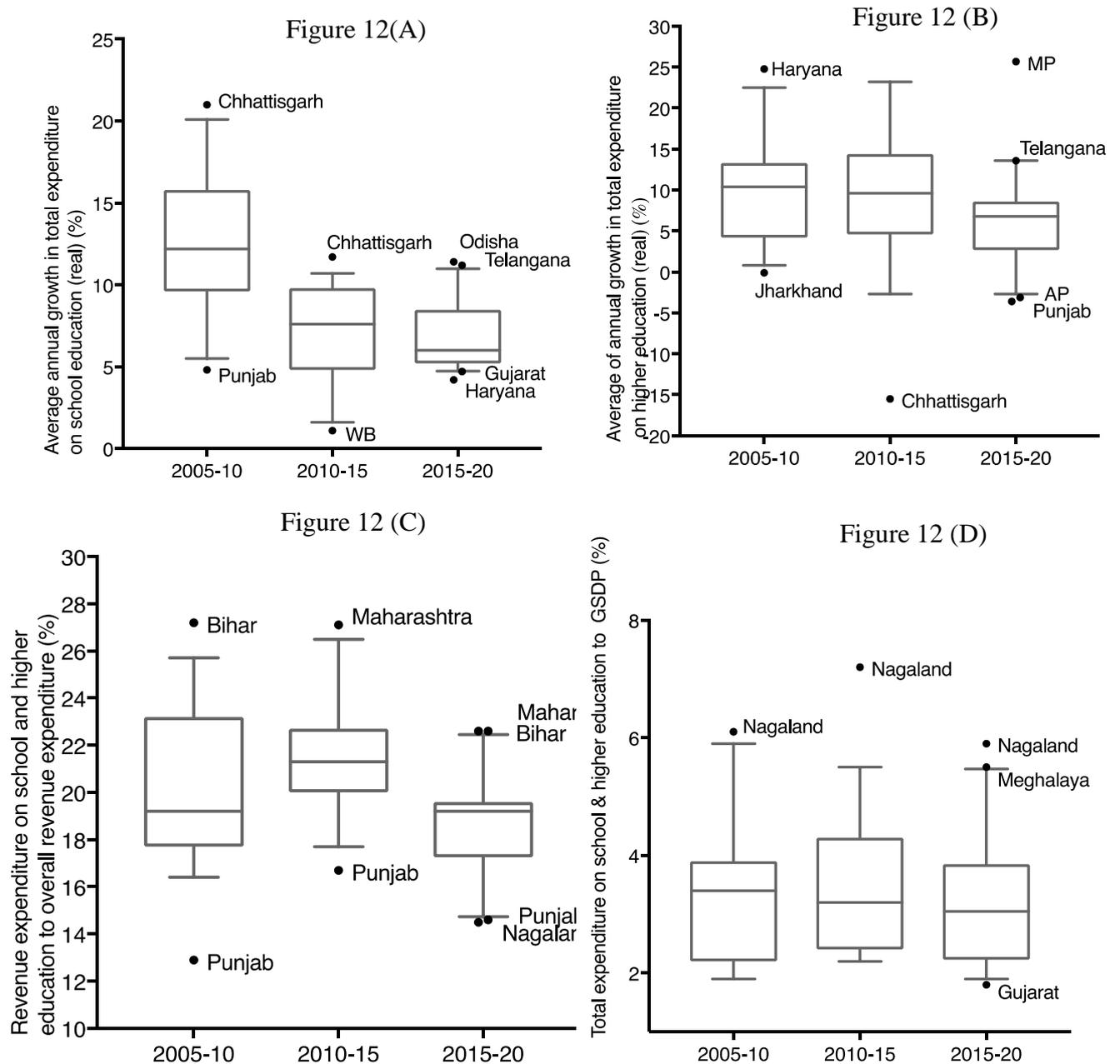
What is of great concern is the lower growth in expenditure in Bihar and several other lagging states, that have massive deficits in infrastructure, teachers and other staff, administrative capacity etc. They also have a large proportion of children who are still out of school, plus a growing population. The drop in growth in expenditure in the recent period does not augur well for the educational development of these states, in particular. As Majumdar (2017) explains it, “due to decline in total fertility rate and hence in the absolute number of children at the elementary stage, the educationally active states (the advanced states) appear to be enjoying “a demographic bonus” such that even with the current level of educational expenditure it is possible for them to improve their per capita expenditure and school quality. *Such demographic dividend is unavailable to the educationally dormant and comparatively populous and poorer states which therefore tend to fall into quality-quantity trade-off under a persistent demographic pressure.*” (emphasis ours, Majumdar, 2017:66)

The box plots in Figure 12 (A) to 12 (D) compare the distribution of expenditures across states over time, in terms of central tendencies and dispersion, over the three periods. The average (median) growth rate in expenditure on school education in real terms declined from 12 % between 2005-10, to 7.6% in 2010-15, and further to 6% in 2015-20 period (Figure 12 (A)). In 2015-20, the distribution is positively skewed. There’s been a drop in expenditure growth rates along with convergence, where lots of states are concentrated between quartile 1 (Q1) to quartile 3 (Q3) in a small range, with the median growth rate close to the lower end.

If we see the real growth rate in expenditure on higher education for the states, it was comparable between 2005-10 and 2010-15 (Figure 12 (B)). There has been a decline in average growth rates in the last period, 2015-20, with the median value coming down to 6.6% in 2015-20 compared to 10% in 2005-10 and 2010-15. There are states with negative growth rates in spending on HE which is a cause of concern. If RUSA, as a CSS on

higher education, was expected to make a significant positive difference to expenditures on HE in states, this has not happened. In recent years, MP is the surprising outlier in higher education with a real growth rate close to 25%. Overall, the recent period witnessed deceleration in educational spending for both the sectors.

Figure 12 (A) to 12(D): Comparison of Expenditure Growth and Expenditure Ratios across three FC periods



Source: State Finance Accounts and State Budgets, various years.

The ratio of educational spending (revenue account) to overall revenue expenditure provides a measure of priority given to education in the overall spending programme by the states (Figure 12(C)). There have been significant shifts in the education priority ratio across the three periods. Punjab has been a constant negative outlier with low spending priorities in all three periods, whereas Maharashtra has been a positive outlier for the last 10 years, and Bihar between 2005-10 and again 2015-20. For both Maharashtra and Bihar, note the declining priority for education in both the states over time. In fact, compared to 2005-10, the next five years saw a higher priority accorded by states to educational spending as seen in the upward shift in the median (from 19 to 21) and quartile Q1 value in 2010-15. It indicates greater priority to education. Note that this was the period of 13th FC grants on education, which had laid some minimum conditions for grant-making.⁶⁰ There's been a reversal in the last five years with a shift in the entire distribution downwards. The median value of priority in education is back to where it was in the 2005-10 period (median priority ratio is 19, 21, 19 corresponding to the three periods). The Q3 value in 2015-20, (20) lies at the same level as the Q1 value (20) in 2010-15. It appears that many states when left to themselves to determine their priorities may not pay the needed attention to expenditure on education. In such cases, specific purpose transfers may be a more effective channel of intergovernmental fiscal transfers.

A standard representation of educational expenditure is vis-à-vis the state output. The average spending on education by the states is around 3% of GSDP. The median values show a decline across the three periods, 3.4, 3.2, and 3.1, as percentage of GSDP which is in tune with the earlier results (Figure 12 (D)). The advanced states typically are located at the lower edge because of their higher GSDP. Gujarat as the negative outlier in 2015-20 has the lowest educational spending to GSDP ratio. The positive outliers are the SCSs, Meghalaya and Nagaland, which is again on the expected lines. If we exclude the SCSs, the positive outlier is Bihar. Bihar has the unenviable position of spending 5-6% of GSDP on education and yet having the lowest per child spending. The high education spending to GSDP reveal the low resource base of these states.

SCSs have been assisted with plan grants over a sustained period spanning decades within the framework of asymmetric federalism (Bhattacharya, 2016; Bose, 2019).⁶¹ The development strategy towards Bihar and other states who are lagging far behind in educational spending needs to be prioritised. Special central assistance would be necessary for such states (Bose et al, 2020a).

VIII. Why have states' spending on education suffered despite the higher general-purpose transfers during the 14th FC period?

Since the slowdown in growth of educational expenditure is all-round, the causes lie clearly in macroeconomic factors and macroeconomic policy changes.⁶²

The changes in IGTs have contributed their part, as the recent studies on social sector spending confirm. In a study covering the major Indian states, Amarnath and Singh (2019) compared the additional gains from higher tax devolution in the 14th FC period, with the

⁵⁹ The fact that education, and particularly school education has less or declining priority in central spending sends a negative signal to the states that the centre is not serious about the sector (as learnt during conversations with state officials).

⁶⁰ Refer to Section 4

⁶¹ For India, Articles 370 and 371 as well as the Sixth Schedule of the Constitution are in the spirit of asymmetric federalism. Conferring SCS to some states can be seen as an extension of this logic by incorporating an additional element of liberal central assistance into the asymmetrical arrangement.

⁶² Analysis of the state-specific factors are beyond the scope of this paper.

additional burden due to the withdrawal of certain central schemes and the change in the sharing pattern of major CSSs, calling for greater contribution from the states. In many of the states, including the low-income states, the additional burden as defined above is higher than the gains in tax devolution. Thus, consequent upon rationalization of CSSs and changes in sharing pattern, the states now need to allocate substantially higher resources towards CSSs. The latter impinges on the extent of untied space available to the states. Studying the case of Maharashtra finances, Shetty (2016) notes that the transformation that has taken place in the centre–state financial relations in the aftermath of the 14th FC recommendation ought to be reflected in the levels of total expenditure as well as the distribution amongst the priority sectors such as education, health, agriculture and physical infrastructures. However, such an expectation was not met. To derive the optimal benefits, he suggests, “some superior direction in the form of norms and yardsticks on the qualities of expenditure programmes, for instance, would be a necessary condition” (Shetty, 2016). In the absence of such direction, the state has failed to exploit its fiscal potential. Another study based in Tamil Nadu finds the per student public expenditure on secondary education flattened starting 2016-17 when the transfers for the CSS declined. Since the state has already been spending well on school education, the authors note, perhaps the implications of these reductions may not be serious (CBPS, 2020). This is not the case, however, with many other states with long histories of underspending. Only recently did these lagging states start focussing on education and they have a long way to go before they catch up, as the Figure 8 and 9 show. For them, the decline and stagnation in central grants will affect both their present and the future course.

Complementarity of Central Grants and States’ spending

Grants from the centre comprised a significant proportion of overall expenditure on education in Nagaland (39%), Meghalaya (25%), Bihar (27%), followed by UP and Jharkhand (21%), Chhattisgarh (19%) and Rajasthan (18%) in 2014-15 (Figure 7). This changes quite significantly by 2019-20 as the central grants stagnate. In Bihar, UP, West Bengal, Nagaland, MP and several other states, the decline has been very significant. What kind of impact would this change have? The following study has possible answers.

The impact of the grant mechanism for elementary education on states’ expenditure is studied in Bose et al (2020b). “Is the relationship complementary or substitutionary?”, the authors ask. A positive significant relationship indicative of complementarity is found between the central grant on SSA and the state expenditure on EE, after controlling for other factors. The period of analysis is 2005-6 to 2017-18. A positive significant relation implies that an increase in the SSA central grant has caused an upward movement in states’ expenditure on EE (net of central grants), *ceteris paribus*. The flip side is that when the SSA central grant stagnates or falls – which actually happens over a part of the period under analysis, state expenditure on EE also falls, *ceteris paribus*. One can see that the relation is driven by the tied component of SSA grant, since the relation becomes insignificant after netting out the same from states’ expenditure for the GCSs and focus states, amongst the GCSs. It is not unexpected that the matching grant will have a role in establishing complementarity. For the SCSs, with a much higher central share in SSA expenditure, a positive significant impact on the untied part of state expenditure on EEs is obtained.

The mechanism of matching shares was invented so that States have a stake in the programme and contribute proportionately. The potential for grant funds to crowd out spending that the recipient government would otherwise undertake in the targeted area is generally less for open-ended matching grants, which lower the relative price of targeted spending, than for the other forms of earmarked grants – closed ended matching and categorical block grants (Smart and Bird, 2009). That is, the design of grant matters.

Furthermore, a large number of empirical studies have confirmed the existence of “flypaper effect”, which would suggest that grants do not crowd out spending that would otherwise have been undertaken by the recipient government, but result in incremental spending (Hines and Thaler 1995).

What this implies is that central spending on education through the CSS route on EE has crowded in (and not crowded out) states’ own expenditure on EE. The matching grants helped establish this complementarity. Since the priority for education spending has gone down in the 14th FC period, the evidence presents a counterview to the idea that states should only be provided a larger fiscal space and left to decide their priorities, on education and other social sectors. Rather, along with larger tax devolution to the states, the central grants on education must be considered as important mechanisms of resource transfers and setting spending priorities.

There are other contributing factors that have added to the pressures on states’ fiscal situation. As we discussed in Section 2, the drop-in nominal growth rate and consequently lower revenues, not only impact the expenditure but also the composition of expenditure. On the revenue side, there is increased uncertainty due to GST, an important revenue source. Year on year growth in total GST revenues (gross) was 3.8% in 2019-20 (and -7% in 2020-1).⁶³ With such pale revenue mobilisation, states would be forced to contain their expenditure to meet the FRBM targets.⁶⁴ There is also the question of release of GST compensation to states, which flows as grant-in-aid. The compensation is delayed and the money is disbursed in several instalments, which adds to revenue uncertainty and can result in curbs in expenditure.⁶⁵

On the expenditure side, there are new demands that have been added. It has been argued that the Ujwal Discom Assurance Yojana (UDAY), launched in 2015-16, under which states took on the debts of electricity distribution utilities, has resulted in a deterioration of their finances (RBI, 2019). The RBI report (2019) also points at the farm loan waivers and income support such as the cash transfers to farmers for adversely impacting the state finances. Expenditure switching in favour of these schemes and away from education is part of the explanation for the observed trends.

Finally, some of the reasons lie in the evolution of the education sector itself. We mention two larger tendencies at play. The policy on rationalisation of schools, which gained momentum in the last 5-6 years, means that the government school sector is itself contracting. School rationalisation began in some states, gained momentum and was then adopted by the GoI.⁶⁶ Across several states, there have been large-scale mergers of schools in view of their low enrolments. This policy is ostensibly aimed at more efficient resource use and hence will reduce the expenditure (in contrast, say, to the previous decade). It may be noted here that ground reports indicate the adverse impact of school closure on access for girls, children from marginalised communities and young children, especially in remote locations (Rao et al, 2017). Similarly, the recent studies researching “the city” highlight the unequal access to public schools in large parts of the urban settlements, characterised by socio-spatial divisions and without access to basic services. Instead, the low-fee private schools have been allowed to mushroom, in a completely unregulated manner, and today this growing sector meets the excess demand for public schooling to a very significant extent especially at the bottom of the pyramid (Nambissan, 2020; Bose et

⁶³ Source: <https://gstcouncil.gov.in/gst-revenue>

⁶⁴ Refer to Mukherjee (2019)

⁶⁵ <https://pib.gov.in/PressReleasePage.aspx?PRID=1701719>

⁶⁶ See MHRD guidelines:

https://www.education.gov.in/en/sites/upload_files/mhrd/files/Guidelines%20for%20Rationalization.pdf

al, 2020d and 2021). The rising privatisation at all levels of education, with “the private school advantage” dominating the public discourse within the State and its institutions, the markets and the society, has influenced the policy and practice of education. The trends in expenditure observed in this paper have to be understood within the complex dynamics of public-private as well as the shifts within the public.

IX. Conclusions and Recommendations

RTE is a fundamental right at the elementary level in India, which makes it imperative that minimum spending on essential norms be guaranteed. There are important targets with respect to secondary education and higher education calling for substantial step up in public spending. As recent research underlines, the gap between the normative requirement and actual expenditure on education is particularly large in the poorer states requiring not only a higher overall fiscal push, but one that would address the unequal positions of the states (Bose et al, 2020a; 2020c). IGTs with a mandate for equalisation can play an important role so that states can ensure these essential public goods. The present paper analysed the trends and patterns in IGTs and expenditure on education across three FC periods which saw a number of policy-induced changes in the overall fiscal framework. Significantly, the 14th FC's recommendations of higher share of tax devolution to the states and the move towards general purpose transfers with simultaneous decline of allocations on CSSs marks an important shift, one that presents an opportunity to engage with IGTs in education in a more comprehensive sense.

Grants: Historically, the centre's contribution to overall spending on school education was low till the 1980s and thereafter began to rise as it initiated a number of important programs on education in the states that were centrally sponsored. This allowed for the universalisation of many of the schemes that the educationally advanced states were already undertaking. The poorer regions of the country, neither had the resources nor priority for educational development. This historical background is important as it puts into perspective the reasons why the central grants on education assumed such importance.

Across the period under analysis (2005-2020), the central grants on school education after rising over the 12th and 13th FC period, stagnated (at times even fell) in nominal terms over the 14th FC period, as a result of policy induced changes. This is described within the idea of reversal of fiscal concurrency in this paper. The picture is somewhat different for higher education which seems to have taken the place of school education in central transfers on education, especially in the last five years. Central grants for higher education are, however, channelled through Central sector schemes and these have left a large proportion of state-run HEIs without adequate funding. RUSA, a new CSS on HE, started in 2013, has a very modest allocation. The allocation on CSSs for higher education is limited largely to scholarships for marginalised sections, an important intervention from the equity and social justice perspective. These have suffered from a variety of issues like short-releases, arrears, caps on scholarships disbursed, etc. It accounts for the high year to year variation in the central grants on higher education. Thus, the picture on central grants on higher education is not significantly different (compared to school education).

The empirical results verify that the grants on school education, in per child terms, are progressively distributed across states. States with lower PCI receive higher per child central grant, though some of the states like Bihar, Uttar Pradesh and West Bengal are located way below the trend line. This calls for greater progressivity in design of the central grants. The flow of central grants to such states through CSSs needs to be enhanced substantially. The distribution of central grants for higher education reveals regressive trend across states, with higher grants to states with higher PCI. The poorer

regions miss out due to low GER, among other things. It again calls for greater fiscal push with a focus on the states at the bottom.

Allocations on two schemes, SSA and MDM that we examined at the state level reflects the overall stagnation of central grants in school education, with very few exceptions. As for utilisation of grants, there is an improvement in expenditure relative to allocation for MDM whereas the expenditure continued to be below allocation for SSA. In case of SSA, expenditure relative to funds available are high, for the ten focus states. It means that the capacity to utilise central grants has improved compared to the previous decade. It is ironic that by the time the lagging states improved their implementation of the schemes, and raised their utilisation ratios, the allocations on the same began to dry up. Of course, there is much scope for meaningful improvement. Further reforms must ensure higher flexibility in the use of funds with certain guidelines, predictability of fund flows, updation of financial norms and alignment of state plans & fund availability. The latter appears to be difficult within the stagnation of central grants that we see.

The other route of central transfers on education is through the specific purpose grants on education by the FC. After the 12th and 13th FC recommended FC grants on education and elementary education, respectively, the 14th FC did not propose specific purpose grants as it is assumed that with the increase in tax devolution, states would have the resources to spend on education. Thus, valuable space for IGTs in education remained unutilised. The 15th FC, instead of bringing back the specific purpose grants on education with equalisation of spending as the guiding principle, pushed the notion of performance-based grant for school education of a small sum. It is important that the FC route of specific purpose grant with minimum conditionality be tapped for IGTs in education.

Expenditure: If the trends in central grants raise concerns on the likely impact on the states, the trends in overall educational expenditure by states confirm these concerns. The analysis shows a deceleration in growth of expenditure on school education and higher education, declining priority to education in overall expenditure and falling share in states' income. For instance, the average spending on education by the states declined across the three FC periods, from 3.4, 3.2, and 3.1, as percentage of GSDP. The evidence suggests that the larger flow of tax devolution in intergovernmental transfers combined with lower levels of central grants through CSSs has not helped the cause of spending on education. It starved some of the key central programmes, and interventions in states, of necessary resources. And given the complementarity of central and state expenditure, it created a downward pull on state spending. Part of the slowdown in growth in education expenditure can be explained by the various other policy induced shocks and the larger macroeconomic situation, as we emphasized repeatedly.

While the decline is all round, it impacts the lagging states more since these have the largest gaps in actual expenditure versus normative levels, and a growing cohort of children who are still out of school or will be added in the coming years because of the growing population. It is no surprise therefore that one sees growing inequalities in per child and per youth spending on education across the states, a trend that has only intensified over time. Instead of a convergence, the gap in per child (and youth) expenditure across states has increased over the years. The coefficient of variation in the spread of per child expenditure on education across states increased from 26.7% to 46.2% between the beginning (2005-6) and the end point (2019-20) in school education, and from 42.3% to 59.2% in higher education. Not only is there inequality in educational spending, the inequality is rising across states, and very sharply in the recent period. While a couple of the lagging states have moved up, notably Chhattisgarh and Odisha, in school education expenditure, the ones at the bottom are very much at the bottom. Scholars warn that the differentials across states in per child spending reflects the differentials in the status of marginalised social groups (as the status of the privileged

groups among states are not very different, whether one is considering Tamil Nadu or Bihar) (Majumdar, 2017).

This analysis invites rethinking on the IGTs on education, particularly, about the policy changes in the recent period. Restoration of financial concurrency, where the centre and the states together finance educational programs in a consultative democratic and decentralized framework is the need of the hour. There is a need for a focused approach with differential treatment across states; that is, greater progressivity of transfers on education, which falls well within the framework of asymmetric federalism and has formed the backbone of special category states and their development in India. A focus on the states at the bottom is necessary with enlarged allocation and fund flows through intergovernmental transfers on education. The pandemic has only exacerbated these differences, which needs an adequate policy response.

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Appendix
Table A1: A comparison of the Finance Commission Transfers across FCs

Head	12 th FC (2005-10)	13 th FC (2010-15)	14 th FC (2015-20)	15 th FC (2021-26)
I. Vertical Distribution -Tax Devolution (As % of Divisible pool)	30.5%	32%	42%	41%
II. Horizontal Distribution Criteria (Weightage %)				
1. Income Distance	50.0	47.5	50.0	45.0
2. Population (1971)	25	25	17.5	-
3. Population (2011)	0	0	10.0	15.0
4. Area	10	10	15.0	15.0
5. Forest Cover	-	0.0	7.5	-
6. Forest & Ecology	-	-	-	10.0
7. Demographic Performance	-	-	-	12.5
8. Tax Effort	7.5	-	-	2.5
9. Fiscal Discipline	7.5	17.5	-	-
III. General Purpose Grants (Rs. Crores)	Revenue Deficit Grants: 56,858	Revenue Deficit Grants 51,800	Revenue Deficit Grants 1,94,821	Revenue Deficit Grants: 2,94.514
IV. Specific Purpose Grants	85,784 Education, Health, Maintenance of roads & bridges, Maintenance of Buildings, Maintenance of forests- Heritage Conservation State specific needs- Local bodies, Calamity Relief, etc	2,06,781 Education, Environment, Renewable energy, Water, etc	3,42,533 Local bodies and Disaster management (due to mandate in TOR).	7,22,148 Local bodies, Education, Health, Nutrition, Agriculture, PMGSY, Courts. Plus: Grants for Aspirational Districts, State Specific grants
Total Grants (III +IV)	1,42,640	2,58,581	5,37,354	10,16,662

Source: FC Reports (GoI, 2004, 2009, 2014, 2020).

 Note: The 15th FC submitted two reports covering 2020-21 and then 2021-6.

Table A2: Tax Devolution and Grants from the centre for the focus states (as percentage of GSDP)

		Tax Devolution	Grants from the centre			Tax Devolution	Grants from the centre
Bihar	2005-06	12.4	4.0	Nagaland	2005-06	4.3	31.4
	2015 -16	13.2	5.3		2015 -16	13.0	24.7
	2018-19	13.9	4.6		2018-19	13.9	24.0
	2019-20	10.4	4.4		2019-20	11.1	23.2
Chhattisgarh	2005-06	4.3	1.8	Odisha	2005-06	5.5	3.0
	2015 -16	7.0	3.6		2015 -16	7.2	4.3
	2018-19	7.7	4.1		2018-19	7.2	4.0
	2019-20	6.1	4.1		2019-20	5.7	4.5
Jharkhand	2005-06	4.7	1.6	Rajasthan	2005-06	3.5	2.0
	2015 -16	7.7	3.6		2015 -16	4.1	2.7
	2018-19	8.0	3.1		2018-19	4.4	2.1
	2019-20	6.3	3.7		2019-20	3.5	2.9
Madhya Pradesh	2005-06	4.9	2.3	Uttar Pradesh	2005-06	5.9	1.7
	2015 -16	7.1	3.4		2015 -16	8.0	2.8
	2018-19	7.1	3.5		2018-19	8.2	2.6
	2019-20	5.5	3.5		2019-20	6.6	2.5
Meghalaya	2005-06	4.2	11.9	West Bengal	2005-06	2.9	2.5
	2015 -16	13.0	9.9		2015 -16	4.7	3.5
	2018-19	14.6	7.8		2018-19	5.1	2.4
	2019-20				2019-20	3.8	2.5

Source: CAG, State Finance Accounts and 2019-20: State Budgets

Table A3: Recommendation on State-wise Distribution of Education Grants, 12th and 13th FC (in Rs crores) at current prices

State	2005-06	2006-07	2007-08	2008-09	2009-10	2005-10	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
Andhra Pradesh							170	179	188	198	207	942
Arunachal Pradesh							4	4	5	5	6	24
Assam	183	201	220	241	263	1107	31	40	49	59	59	238
Bihar	444	486	532	583	638	2684	585	699	818	946	970	4018
Chhattisgarh							136	154	173	194	200	857
Goa							2	2	2	2	3	11
Gujarat							72	85	98	113	115	483
Haryana							40	43	46	49	51	229
Himachal Pradesh							20	21	23	24	25	113
Jammu & Kashmir							80	85	90	95	99	449
Jharkhand	108	118	129	142	155	652	223	266	311	359	369	1528
Karnataka							104	119	135	152	157	667
Kerala							25	27	28	29	31	140
Madhya	76	83	91	100	109	460	320	384	452	523	537	2216
Maharashtra							131	140	149	159	165	744
Manipur							3	3	3	3	3	15
Meghalaya							9	10	10	11	12	52
Mizoram							1	1	1	1	1	5
Nagaland							1	1	1	2	2	7
Orissa	53	59	64	70	77	323	170	187	204	223	232	1016
Punjab							36	41	45	50	52	224
Rajasthan	20	20	20	20	20	100	287	320	356	394	409	1766

State	2005-06	2006-07	2007-08	2008-09	2009-10	2005-10	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
Sikkim							1	1	1	1	1	5
Tamil Nadu							111	126	141	158	164	700
Tripura							4	4	5	5	5	23
Uttar Pradesh	737	807	884	967	1059	4454	723	871	1027	1192	1227	5040
Uttarakhand							31	35	40	45	46	197
West Bengal	65	71	78	85	93	392	355	416	480	548	560	2359
All States	1686	1845	2018	2208	2415	10172	3675	4264	4881	5540	5708	24068

Source: Reports of the 12th and the 13th Finance Commission (GoI, 2004 and GoI, 2009)

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