1. Discuss the various mechanisms of central assistance to states like Andhra Pradesh. Mention some concerns of the state governments.

Introduction

In India, the central government provides financial assistance to states like Andhra Pradesh through various mechanisms designed to promote balanced regional development and address specific needs. These mechanisms include tax devolution, grants-in-aid, centrally sponsored schemes, and special assistance programs.

Mechanisms of Central Assistance:

1. Tax Devolution:

- **Finance Commission Recommendations:** A constitutionally mandated Finance Commission, established every five years, recommends the distribution of divisible taxes between the central and state governments. For instance, the Fifteenth Finance Commission's recommendations are applicable up to the financial year 2025-26.

2. Grants-in-Aid:

- **Article 275 Grants:** These are discretionary funds provided by the central government to state governments for specific purposes or schemes, aiming to address regional disparities and developmental gaps.

3. Centrally Sponsored Schemes (CSS):

- **Joint Funding Initiatives:** CSS are programs where both the central and state governments share funding responsibilities. They cover various sectors, including health, education, and infrastructure, to ensure uniform development across states. Under Pradhan Mantri Awas Yojana (PMAY) 2.0 scheme, 58,578 houses were constructed in the State under PMAY Urban and 17,197 houses under PMAY Rural Andhra Pradesh.

4. Special Assistance Programs:

- **Capital Expenditure Support:** The central government provides special assistance to states for capital expenditure to encourage infrastructure development and economic growth. Central Government released 15,000 crores for Amaravathi development.

Concerns of State Governments:

1. Fiscal Centralization:

- **Limited Autonomy:** State governments often express concerns over the centralization of financial powers, which can restrict their ability to address local needs effectively. The central government's control over significant revenue sources may limit states' fiscal autonomy. For Instance, the central government collects 60-68% of combined revenue receipts.

2. Borrowing Constraints:

- **Conditional Borrowing Limits:** States are subject to borrowing limits set by the central government. While these are intended to maintain fiscal discipline, they can constrain states' capacity to finance their development projects, especially during economic downturns. The States will be allowed a fiscal deficit of 3.5 per cent of GSDP of which 0.5 per cent will be tied to power sector reforms. For instance, the Kerala government complaint Finance Commission allocation rate had now dipped to 1.9% from 2.5% and 3.9% previously. Even if the State is paid according to the 2.5% rate, it should get ₹8,000 to ₹9,000 crore extra

3. Delayed Fund Transfers:

- **Impact on Project Implementation:** Delays in the disbursement of central funds can hinder the timely execution of state projects and schemes, affecting development outcomes and public service delivery. For Example, the Polavaram Project on River Godavari, Petrochemical University in Kakinada.

4. Scheme Design and Flexibility:

- **One-Size-Fits-All Approach:** Centrally designed schemes may not always align with the specific needs of individual states like Andhra Pradesh. States often seek greater flexibility to tailor programs to their unique socio-economic contexts. Telangana, Odisha, Kerala, Punjab and Delhi states are not implementing the Ayushman Bharat-Pradhan Mantri Jan Aarogya Yojana (AB-PMJAY) schemes.

5. Political Considerations:

- **Perceived Bias in Fund Allocation:** There are concerns that political factors may influence the allocation of central assistance, leading to perceptions of favouritism or neglect, which can affect cooperative federalism. For instance, The Union government has introduced several key initiatives for Bihar in the FY26 Budget, including a new makhana board, a greenfield airport, and financial aid for the Western Koshi Canal Project in the Mithilanchal region.

Conclusion

Addressing these concerns requires a balanced approach that respects the fiscal autonomy of states while ensuring national objectives are met. Enhanced dialogue between central and state governments, timely fund transfers, and flexibility in scheme implementation can contribute to more effective and harmonious fiscal federalism.

2. Discuss the major recommendations of the Finance Commission regarding the devolution of taxes and grants to states. Highlight various concerns raised by the state governments, especially the southern states.

Introduction

The Finance Commission of India plays a pivotal role in defining the financial relationship between the central and state governments, primarily through recommendations on tax devolution and grants. The Fifteenth Finance Commission (XVFC), covering the period from 2021 to 2026, has made several key recommendations in this regard.

Major Recommendations of the Fifteenth Finance Commission:

1. Tax Devolution:

- **Share Allocation:** The XVFC recommended that 41% of the divisible pool of central taxes be devolved to the states, slightly reduced from the 42% suggested by the Fourteenth Finance Commission. This adjustment accounts for the financial implications of the erstwhile state of Jammu and Kashmir's reorganization.

2. Grants-in-Aid:

- **Total Grants:** The Commission proposed a total of ₹10.33 lakh crore in grants to states over the five years.
- **Local Bodies:** A significant portion, amounting to ₹4.36 lakh crore, is earmarked for local governments to enhance grassroots governance.
- **Health Sector:** An allocation of ₹1.06 lakh crore is designated for health, aiming to bolster the sector's infrastructure and services.
- **Disaster Management:** Approximately ₹1.6 lakh crore is set aside for disaster management, emphasizing preparedness and resilience.

Concerns Raised by State Governments, Especially Southern States:

1. Use of 2011 Population Data:

- **Impact on Southern States:** The adoption of 2011 Census data for determining state shares has been contentious. Southern states, which have successfully implemented population control measures, argue that this penalizes them, as their slower population growth results in a reduced share of tax devolution.

2. Declining Share in Tax Devolution:

- **Statistical Decline:** The collective share of the five southern states—Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, and Kerala—in central tax devolution decreased to 15.8% during 2021-26, down from 18.62% in 2014-15.
- **State-Specific Impacts:** For instance, Andhra Pradesh's share was reduced to 4.11% and Revenue Deficit Grant ₹30,497 crores resulted in high dependence on deficit grants.

3. Perceived Inequity in Resource Distribution:

- **Redistribution Concerns:** Southern states express concerns that the current devolution formula disproportionately favours states with higher population growth, potentially disincentivizing effective governance and development efforts.

4. Special Grants and Revenue Deficit Grants:

- **Discontinuation Issues:** The XVFC recommended special grants to certain states to offset reductions in tax devolution. However, not all eligible states received these grants, leading to concerns about equitable treatment.

Conclusion

The Fifteenth Finance Commission's recommendations aim to balance national development priorities with fiscal federalism, several state governments, particularly from the south, have raised concerns about the criteria and outcomes of tax devolution and grants. Addressing these issues may require a more nuanced approach like focusing on the Sustainable Development Goals, Poverty, and Education etc, that considers both demographic changes and the developmental achievements of individual states.