

Interstate Distribution of Central Expenditure and Subsidies

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Preface

This study has been undertaken at the instance of the Thirteenth Finance Commission. The research team for the study was led by Pinaki Chakraborty; other members of the team being Anit Mukherjee and H K Amar Nath.

The Governing Body of the Institute does not take any responsibility for the contents of this study; it belongs to the authors only.

M. Govinda Rao
Director

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This report does not in any way represent the views of NIPFP. All remaining errors are the sole responsibility of us.

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Interstate Distribution of Central Expenditure and Subsidies

The objective of the system of intergovernmental fiscal transfers is to correct both vertical imbalances and horizontal inequalities in the distribution of federal resources. The vertical imbalance arises due to the asymmetric assignment of functional responsibilities and financial powers between different levels of governments and horizontal inequalities are the existing disparities in the revenue capacity across the constituent units of federation. The extents of these imbalances are different across federations and so also the design of transfers. In India, institutional mechanism of federal transfers revolves around three institutions, viz., *Finance Commission*¹, *Planning Commission* and various ministries of the *central government*. However, given the system of transfers so evolved over the years, a large part of the transfer of resources has fallen outside the ambit of Finance Commission. The Planning Commission transfers in the form of plan grants and discretionary transfers in the form of centrally sponsored schemes (hereafter CSS) have become important channels of transfers. By nature, most of these grants are conditional specific purpose grants and a significant quantum of them are discretionary².

As increasing proportion of resources transferred to the states stayed outside the ambit of statutory transfers recommended by the Finance Commission, the system of transfer as evolved over the years is said to have introduced an element of *ad hocism* and *arbitrariness*. In case of Finance Commission transfers also, it increasingly became skewed towards tax devolution, which by nature is entitlement to all the states. Increasing share of tax devolution in total transfers through Finance Commission, in turn, left little scope for fiscal equalization grants to play its role in equalizing fiscal capacities across states. The Twelfth Finance Commission (TFC) has emphasized the need for a greater role of equalization grants in the present scheme of transfers to correct for

² Our estimates show that for the year 2006-07, the share of discretionary grants in total grants is as high as 48.42 per cent. This does not include grants going to the implementing agencies bypassing the state budget.

cost disabilities and redistributive consideration that are not adequately addressed through tax devolution³.

Of-late, the central government has also been directly spending on various services, which are primarily in the states functional domain, like health, education and rural developments.⁴ Although, direct central spending are not transfers, they have significant impact in equalizing the quality of public services across states. For example, in a state where education expenditure is low and if the state is lagging behind in the educational attainment compared to the rest of the country, direct central spending on education in this particular state is one method of bringing in equalization in the provision of education services in the country. Other methods could be grants to the states, which could be tied or untied to overcome the cost and fiscal disabilities so that individual states are able to provide comparable levels of public services. Offsetting fiscal disabilities through direct central spending over the years have become an important policy tool in India, which is seen in proliferation of various centrally sponsored schemes and also direct spending on various services by the central government which are in the overlapping functional jurisdictions of centre and states or exclusively in the functional domain of the states in India.

There is no study so far, which examined the nature of direct central spending in states and its impact on fiscal equalization. Rao (1997) examined the nature of non-transparent intergovernmental transfers and how it has impacted in offsetting the fiscal disabilities across states. This study examines the impact of direct spending by the central government across states and its impact on fiscal equalization. This also brings to the light the distribution of central expenditures at the state level and in turn enables us to comment on the regional expenditure distribution policy of the central government.

³ The Share of grants recommended by TFC for the period between 2005-06 and 2009-10 is 18.87 per cent of the total Finance Commission transfers which is substantially larger than the share of grants recommended by the earlier Finance Commissions (TFC Report: P-5)

⁴ The share of central spending on these three categories of expenditures has increased from 30.83 per cent in 2000-01 to 41.9 per cent in 2006-07 and further to 46.3 per cent in 2007-08.

No known empirical work has directly examined the spatial distribution of Central expenditure (transfers plus direct spending) at State level in India⁵. Despite the growing intervention of Central government in the state subjects in the recent years, there is very little understanding of the pattern of central government expenditure at state level. A few questions firm up at the outset. What is the level and pattern of central government expenditure to the states and its distribution? What is the net effect of these public expenditures at the state level? Have these central transfers and direct central spending led to fiscal equalization or the one acted against the other in achieving horizontal equity? We try to address some of these issues by analyzing the interstate distribution of public expenditure by the Central government.

The challenges of undertaking such an analysis are many. The most formidable challenge is the complete absence of state wise data on direct central expenditure, except grants given to the states. Yet another major constraint is that all central expenditures cannot be spatially partitioned. Also, one has to be extremely careful in doing such analysis as the spatial apportioning of certain categories of expenditures may not be relevant/ appropriate. For example, defense expenditures and expenditures that have economy wide implications even if the government spending is in a specific geographical location needs to be excluded from spatial portioning across states. In this study, we concentrate on those expenditures, which can be spatially distributed without violating the principles defined above and also fall in the functional domain of the states or in the overlapping functional jurisdictions. For the purpose of our study, we term these direct expenditures of the central government as quasi fiscal transfers.

⁵ Existing studies are heavily skewed to the analysis of spatial inequality and fiscal transfers at the aggregate level, leaving behind the incidence of direct spending of Central government to the States and below-State levels largely unexplored. Empirical studies are also rich in fiscal transfers related issues, though whether transfers are fiscally equalizing is rarely attempted in Indian context. With regard to direct spending of Central government to States, a few studies attempted micro level 'expenditure tracking analysis' of selected centrally sponsored schemes in selected States through primary surveys. At below State level, studies have conducted on the impact of grants on local expenditure. The benefit incidence analysis (BIA) of public expenditure across poor and non-poor has also been attempted by a few authors (Lanjouw and Ravallion, 1998). At the global level, a few studies have estimated the incidence of Central expenditure across Provinces, mainly in terms of household fiscal transfers, which is absent in the context of India.

II. Conceptual Framework

As mentioned, an important guiding principle in allocating financial resources in a federal system is to enable the states to provide comparable levels of public services at comparable tax effort. When the states are at different levels of fiscal capacity, they can incur comparable levels of expenditures on social and physical infrastructure only when central transfers offset the fiscal disability of low fiscal capacity states. This makes the issue of designing a transfer system critically important. Despite fiscal transfers driven by various progressivity criteria recommended by successive Finance Commissions, the expenditure inequality across states has increased and more sharply in recent years⁶ (Rao, Singh: 2005, Bagchi: 2003, Bagchi & Chakraborty: 2005). Low resources base and inability of the transfer system to offset fiscal disability of low taxable capacity poorer states have resulted in low per-capita expenditures on basic social and economic services in these states vis-à-vis high income states. One of the main reasons for the increase in fiscal inequality is attributed to the multiple channels of transfers. It has often been argued that the fiscal equalizing effects of the Finance Commission transfers often get offset by the channels of transfers which are discretionary, be it plan transfers outside normal central assistance, or the centrally sponsored schemes. Also, one is unclear, what would be the effect if one also takes into consideration the interregional resources flows arising out of the direct spending by the central government.

As all public expenditure incurred by the Central government cannot be spatially partitioned, we need to define the subset of government expenditure that can be considered as quasi fiscal transfers and can be partitioned across states. Thus, we identify categories of central expenditure having no direct sub-national level incidence and expenditures which are quasi-fiscal transfers in nature. The subset of government expenditures considered in the present study excludes expenditure under *General Services* and 'direction and administration' and *secretariat services* from all heads of expenditure. This we term as the adjusted net expenditure. This is the public expenditure residuum, we try to examine incidence at sub-national levels and define as quasi fiscal transfers. Also in these categories all the expenditure heads could not be considered because of the non availability of data according to the spending across states.

⁶ Fiscal inequality has not only persisted, it seems to have aggravated in recent years due to the increasing spatial inequality. It is well established now that in post-reform India, regional inequality has increased (Alhuwalia: 2002).

Other than the adjusted net expenditure under social and economic services, total grant to the states is also a major component of the central expenditure. All grants as a percentage of total expenditure of the centre constituted 20.9 per cent in 2006-07. It needs to be noted here, due to the multiple channels of transfers; the transfer of grants is a complex one and needs a careful analysis. We analyse in detail this component of the central expenditure and also investigate econometrically whether these explicit grants transfers are fiscal equalizing, categorizing them as formula based and non-formula based transfers. The idea behind this classification is that formula based transfers are largely driven by the criteria of equity and need. So this component of the transfers should be fiscally equalizing even when one is unsure of the effect of the rest of the transfers on fiscal equalization.

To start with, total grants are classified into two broad categories, viz., grants given to the states and grants given under CSS directly to district level implementing agencies and local bodies. Again the grants given to the states are categorized into formula based and non-formula based grants. The formula based grants are the sum of statutory grants recommended by the Finance Commission and the plan grants under normal central assistance. The residual is the non-formula based grants, largely CSS and plan grants outside the normal central assistance. The direct transfer to the districts is added to the non-formula based grants to the states to quantify the aggregate amount of non-formula based grants to a state. The recent phenomenon of direct Central government spending via CSS at the district level across states is unclear and we have analysed in detail to examine its incidence at the state level as its effect on fiscal equalization.

In addition to grants, there are programme-specific direct spending by individual Ministries/Departments of Central government at the state level subsumed in the adjusted net expenditure under social and economic services. As there is no state-wise data on this part of the central spending, the challenge is to partition these expenditures at the state level before one examines the nature of these spending and consequent impacts.

To arrive at the abovementioned categorization of aggregate spending at the Central government level and its state-wise distribution, yet another significant step in the analysis is to

comb all the Ministries/Departments at the aggregate level to examine their importance in relation to the aggregate central spending. It is important to note that all the Ministries/Departments do not have significant share in aggregate central budgetary spending. The idea is to select only those Ministries/ Departments whose expenditure share is high and also their expenditure functions fall in the overlapping functional domain or in the exclusive functional domain of the states. Therefore, we start with an analysis of relative importance of each Ministries/Departments in terms of expenditure allocation in the aggregate central spending. The threshold minimum expenditure for the purpose of selection of Ministries/ Department for further analysis of their expenditure distribution at the state level can be decided *ex-ante* (predetermined as a thumb rule) or it can also be determined *ex-post* (derived from disaggregated level of expenditure analysis across all Ministries/Departments in terms of its intensity in the aggregate allocation). The latter is preferred to former as expost categorization of Ministries/Departments in terms of their significance in spending is better inferred from the expenditure data and thereby a comparatively better threshold can be arrived at in the iterative procedure of delineating the Ministries/Departments for further analysis.

All Ministries/Departments which appear above the threshold minimum expenditure though are significant in terms of expenditure allocations, may not be amenable for spatial partitioning. For instance, the Ministries like Finance, Defense etc may have significant expenditure allocations in the total Central government expenditure, but irrelevant to take up for the analysis of inter-State distributional impact of Central spending. The determinants of the majority of these categories of expenditure are not necessarily fiscal equalizing components of spatial need-based requirements; however these expenditure are positively related to economic growth and in turn can have the spillover effects to all sub-national units and that is beyond the scope of this study. Also they do not fall in the overlapping or exclusive functional domain of the states. This argument has its rubric on the positive externalities of 'equity and efficiency' arguments of the non-rival and non-excludable public good which surpass the spatial dimensions.

The following steps are followed in finding out the spatial distribution of central expenditure.

- a. To identify the central spending amenable for spatial partitioning.

- b. Divide the identified central expenditure into four categories:
- i. Direct spending in states via CSS
 - ii. Direct spending at sub state level through various CSS not going through the state budget
 - iii. Direct programme-specific spending of each ministries and departments including grants and subsidies given to institutions for spending at the state level.
 - iv. And other expenditures residually determined and largely administrative in nature.

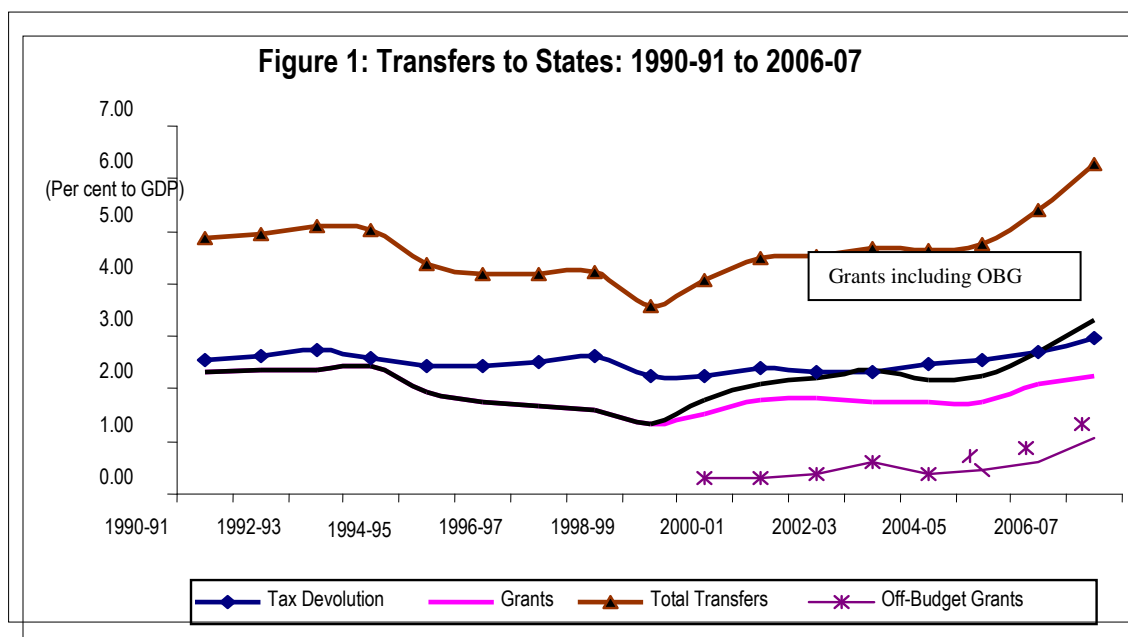
Above categorization of central government expenditure is done to examine the following specific issues:

1. Interstate distribution of Central spending, including direct spending and fiscal transfers in the form of grants.
2. Programme-specific spending and its distribution across states.
3. Selected institution-specific expenditure pattern financed by Central budgetary allocation and their state wise distribution.
4. Whether the transfers and direct spending individually and in aggregate are progressive or otherwise.

Data for the analysis is derived mainly from the Detailed Demand for Grants across Ministries/Departments, Expenditure Budget (Volume I and II), Union Budget documents, the data posted in individual Ministries/Department in terms of direct Central government spending and Finance Accounts. The analysis pertains to the year 2005-06 and 2006-07. Before we go into the distribution of direct central expenditure at the state level, in the next section, we analyse the nature of explicit fiscal transfers to the states in the form of grants through an exploratory data analysis. As mentioned earlier, grants to the states is a major component of the central government expenditure and any analysis of the central expenditure at the state level would remain incomplete without detailed examination of the patterns of grants to the states. In the next section we deal with the transfer of grants to the states, which is a part of the explicit central transfers.

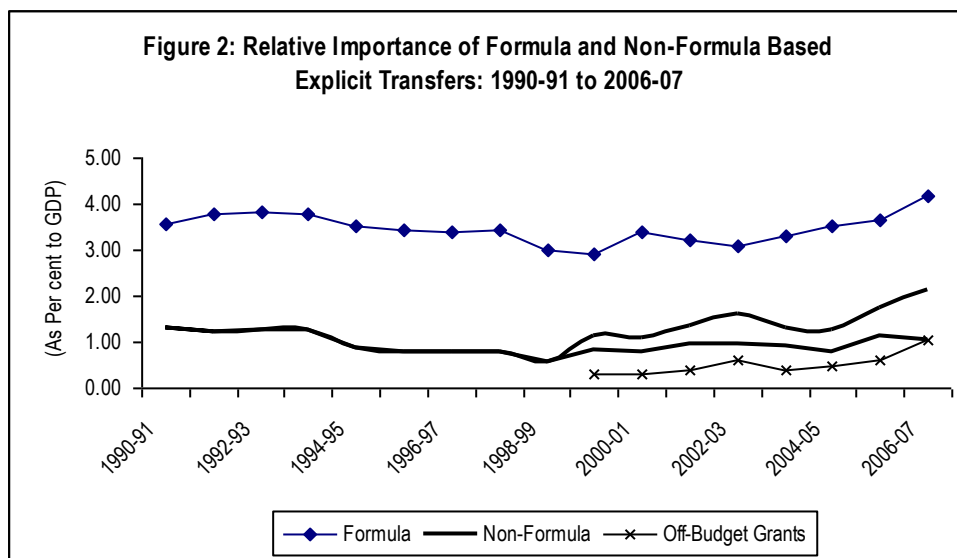
III. Explicit Fiscal Transfers to the States

Explicit fiscal transfers to states consist of tax devolution and grants. Grants comprise of finance commission grants, plan grants and grants for central sector schemes and centrally sponsored schemes and special plan schemes for the north-eastern states. The quantum of vertical transfers in the form of tax sharing and grants, as a percentage of GDP declined from 4.73 to 3.79 per cent during 1990-91 to 1999-00. Tax devolution declined mainly due to the tax reforms induced fall in central tax revenues. However, the tax devolution to GDP ratio started increasing slowly thereafter and more sharply from 2004-05. After a steady decline during the 1990s', grants to the states also increased sharply from 1999-00 onwards. In recent years, there has been a major change in the transfer design where in a significant amount of the total grants is going directly to the district level implementing agencies bypassing the state budget, which we term as the off-budget grants. As evident from the Figure 1, this component of the grant has increased from 0.29 per cent to 1.06 per cent of GSDP during 1999-00 to 2006-07. When these off-budget grants are added with the budgetary grants given to the states, the transfer of grants show an even sharper increase during 1999-00 to 2006-07 and in the year 2006-07, the transfer of grants in aggregate was much higher than the tax devolution.



This aggregate quantum of explicit transfers and its movement does not show the nature of its distribution across states. We need to examine the nature of this distribution across various categories of explicit transfers. As there are several categories of explicit transfers having different weights in the total transfers, we thought it would be appropriate to divided them in two categories, viz., formula based transfers and non-formula based transfers. The formula based transfers is defined as the aggregate of tax devolution, statutory grants recommended by the Finance Commission and plan grants under normal central assistance given to the states under the *Gadgil formula*. The residual is the non-formula based transfers to the states. Presumably, the statutory transfers affected through Finance Commissions' recommendations and the plan grants under normal central assistance would be progressive as distribution formula of these grants are by and large equity and need driven. Non-formula based grants are discretionary and we need to examine how these grants are being distributed across states and also we need to look at the net effect of these transfers on fiscal equalization.

The formula based and non-formula based transfers shown in Figure 2 reveal that relative importance of non-formula based transfers in total transfer has increased sharply in recent years. The share of formula based transfers in total transfers declined sharply from 73 per cent in 1990-91 to 66.3 per cent in 2006-07. In this context it is important to examine the state specific distribution of formula and non formula based transfer in per-capita term.



As evident from Table 1, the major component of formula based transfers is tax devolution and in per-capita term, the tax devolution to low income states is much higher than the high and middle income states. The other component of the formula based transfers is the plan grants under the normal central assistance distributed under the *Gadgil formula*. In case of distribution of formula based plan grants also one observes that in per-capita terms, the transfer is much higher to many low income states vis-à-vis high income states. However, there are exceptions. The per-capita grant to Bihar is lower than the all-state average per-capita. It is important to note that many of the high and middle income states get higher per-capita formula based grant when compared with some of the low income states. Unlike tax devolution, the distribution of formula based grant across states is not as progressive. From the slope of the trend line fitted through the scatter plot of per-capita tax devolution and formula based grants vis-à-vis state level per-capita income it appears that per-capita tax devolution is more progressive than the formula based grants. This has also been proved in our econometric exercise (Section V).

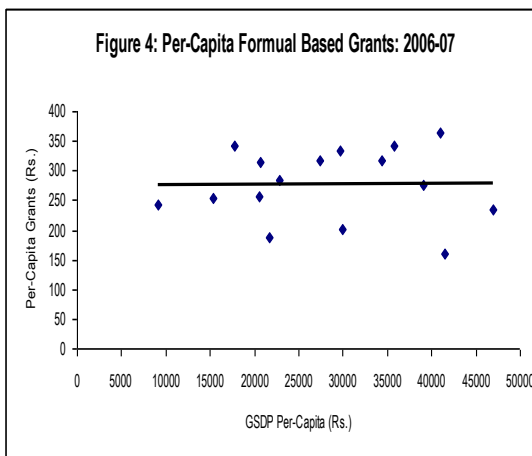
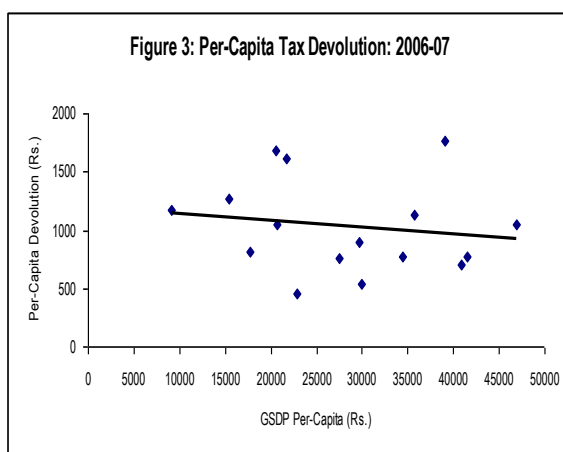


Table 1: Formula and Non-Formula Based Transfers: Per-capita State wise – 2006-07 (in Rs.)

	Formula Based Transfers		Non-Formula Based Transfers			
	Tax Devolution	Formula Based Grants	Plan Grants Outside Normal Central Assistance	Centrally Sponsored Schemes	Other Non-Plan Grants	Direct Transfers to Districts
General Category States	1070.8	284.5	44.1	141.3	134.8	290.0
Andhra Pradesh	1091.6	333.0	21.0	161.3	96.1	306.0
Bihar	1450.6	242.6	40.5	106.3	183.3	324.1
Chattisgarh	1403.2	283.3	178.6	173.3	135.6	661.9
Goa	1963.0	201.2	140.5	91.6	123.2	95.3
Gujarat	797.9	274.7	42.1	107.7	145.7	159.2
Haryana	549.7	235.1	34.5	158.2	55.0	220.6
Jharkhand	1370.1	188.8	142.9	164.2	18.1	451.0

Karnataka	948.7	200.2	39.0	222.7	387.8	297.9
Kerala	951.3	342.5	22.1	104.4	151.6	116.3
Madhya Pradesh	1205.6	341.2	68.8	216.1	40.7	568.6
Maharashtra	569.6	365.4	16.0	100.1	327.6	178.3
Orissa	1585.1	314.1	59.3	185.0	246.6	454.4
Punjab	580.2	160.4	33.6	123.7	512.4	122.9
Rajasthan	1073.9	255.5	47.6	221.5	77.9	432.8
Tamil Nadu	977.1	317.0	73.9	95.8	21.5	189.8
Uttar Pradesh	1252.8	252.8	35.0	116.9	18.9	249.6
West Bengal	991.7	317.1	20.2	128.2	45.1	211.1
Special Category	1375.6	2861.1	169.3	421.4	895.5	616.7
Arunachal Pradesh	2946.9	10886.4	1236.4	2717.9	1030.4	2599.3
Assam	1349.3	1114.5	128.4	249.3	39.2	620.9
Himachal Pradesh	933.2	2066.8	132.9	470.6	3578.3	548.7
Jammu & Kashmir	1213.2	5128.8	3.9	458.2	395.0	517.3
Manipur	1698.4	7327.9	224.4	579.3	135.4	396.7
Meghalaya	1797.3	2226.5	292.6	428.7	1899.0	731.6
Mizoram	2813.0	11245.5	780.0	1649.9	776.8	1486.2
Nagaland	1219.4	3094.6	644.3	806.8	4093.8	452.5
Sikkim	4595.6	7401.8	607.2	1739.8	1096.6	984.3
Tripura	1502.9	5987.9	257.1	550.9	141.9	677.4
Uttaranchal	1216.4	1513.1	86.5	163.9	1547.5	461.2

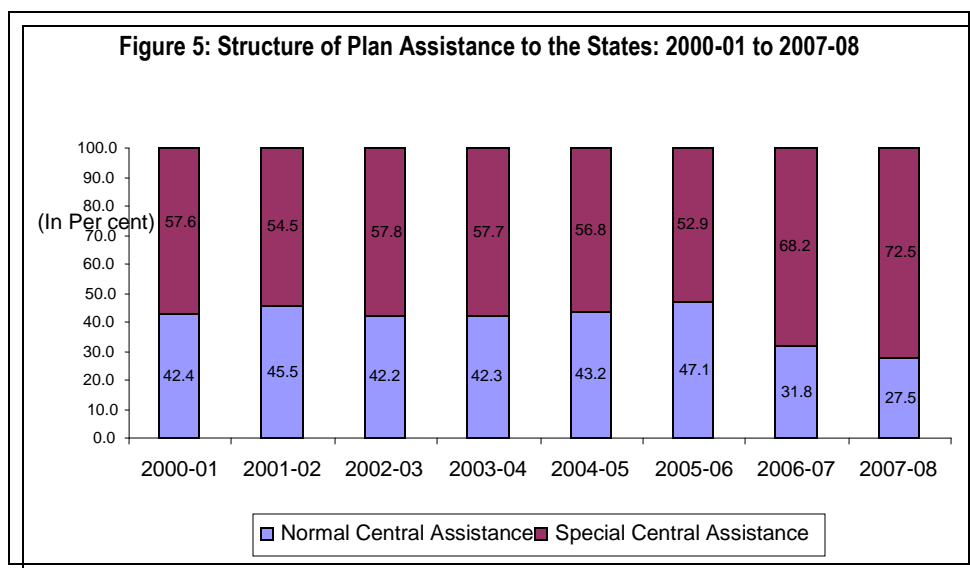
Source (Basic Data): Finance Accounts of the Respective States

Changing Pattern of Plan Assistance to the states

While analyzing the explicit fiscal transfers, it is critical to examine closely the changing nature of plan assistance to the states. It is hardly noticed that within the plan assistance, the share of normal central assistance through Gadgil formula is coming down and the share of the rest special plan assistance is on the increase⁷. As plan assistance outside normal central assistance special plan assistance is not formula based, and one does not have a clear idea of the nature of distribution of the se grants, falling outside the Gadgil formula. Thus, our objective is two fold:

- (i). a closer examination of the pattern of the quantum of normal central assistance in recent years
- (ii) to analyse how the rest of the central plan assistance is distributed to the states and its nature.

⁷ The major components of the rest of the Plan Assistance comprise of Special Plan Assistance, Special Central Assistance, Additional Central Assistance for Externally Aided Projects and other grants for specific projects under the state plan.



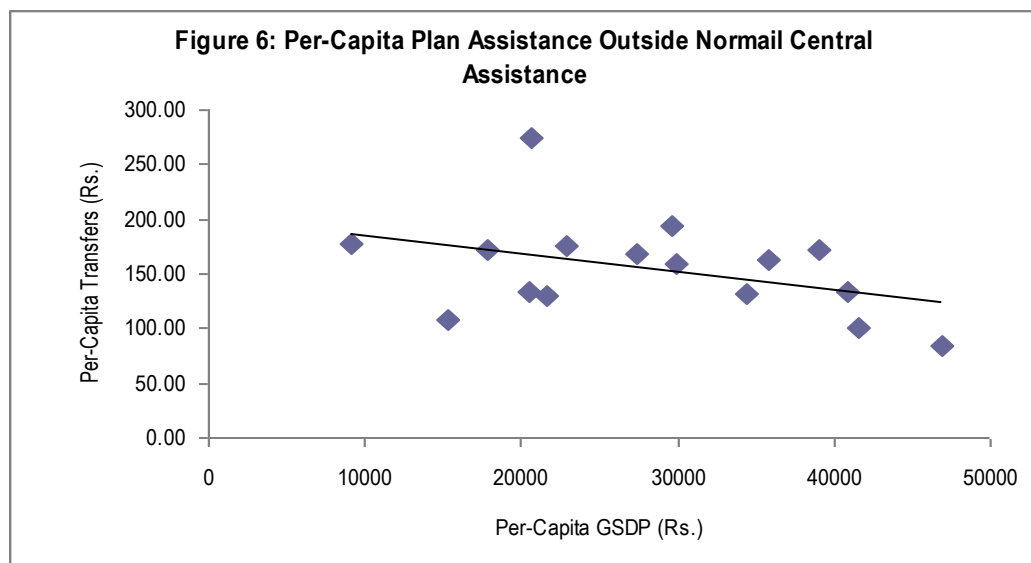
As evident from Figure 5, when we look at, the share of normal central assistance to the states in total plan assistance has declined to 27.5 per cent in 2006-07. This was 42.4 per cent in 2000-01. The estimates of plan assistance outside the normal central assistance show an erratic pattern in the per-capita state wise distribution. It needs to be noted that the plan assistance reported in Table 2 is cumulative one and is not comparable with the figures given in Table 1. As evident from Table 2, Goa received largest per-capita transfers in some years. Maharashtra received lowest per capita plan transfers outside normal assistance in the year 2004-05 and 2005-06, though a quantum increase in the transfers is noted for 2006-07 and 2007-08 (Table 2). The per-capita plan assistance outside the normal central assistance when plotted against per-capita state income, it appears to have a negative relationship indicating some degree of progressivity. Whether this is statistically significant is tested econometrically in section V.

Table 2: Cumulative Per capita Plan Transfers outside Normal Assistance (in Rs.)

	2004-05	2005-06	2006-07	2007-08
General Category States	110.2	83.6	123.9	201.0
ANDHRA PRADESH	106.0	117.3	222.7	335.8
BIHAR	91.8	95.8	162.3	168.0
CHHATTISGARH	92.2	69.7	158.3	194.1
GOA	333.2	35.7	49.7	253.0
GUJARAT	95.5	165.5	136.1	310.1
HARYANA	46.6	21.6	60.0	85.1
JHARKHAND	91.3	74.4	46.2	83.6

KARNATAKA	105.0	101.4	149.4	213.4
KERALA	133.8	79.5	113.2	196.7
MADHYA PRADESH	108.9	92.9	140.3	226.6
MAHARASHTRA	67.3	60.4	179.0	267.1
ORISSA	246.8	166.6	187.4	326.4
PUNJAB	32.8	65.8	85.5	147.7
RAJASTHAN	104.9	66.2	86.1	131.2
TAMILNADU	67.5	43.4	139.6	246.9
UTTAR PRADESH	54.2	44.6	58.5	62.1
WEST BENGAL	94.5	121.1	132.5	169.4
Special Category	1163.8	859.2	970.1	1773.5
ARUNACHAL PRADESH	978.7	1052.9	1513.1	4514.8
ASSAM	328.7	365.8	302.2	361.6
HIMACHAL PRADESH	940.5	812.7	860.7	1397.6
JAMMU AND KASHMIR	1578.8	1524.4	2107.5	2644.4
MANIPUR	1535.3	1922.7	1841.1	3444.7
MEGHALAYA	639.1	315.7	462.0	613.2
MIZORAM	2173.8	1243.0	1135.8	2750.8
NAGALAND	720.5	667.6	618.0	814.0
SIKKIM	2472.7	841.1	912.1	1720.9
TRIPURA	666.6	384.0	493.9	555.4
UTTARAKHAND	767.3	321.0	424.4	691.0

Source: http://finmin.nic.in/the_ministry/dept_eco_affairs/dea.html



Transfers By-Passing the State Budget

The other major component of non-formula based transfer from the centre is direct transfer to districts and other implementing agencies by-passing the state budget. As evident from the table

this is a new development in the design of transfers in India. As per the budget estimates 2007-08, the aggregate resource flow from the centre to the states, constituted more than 7.26 per cent of GDP; resources that are going directly to districts and other implementing agencies amounted to 1.22 per cent of GDP. This is higher than any other components of grants transfers and constituted 37.5 and 34.8 per cent of tax devolution to the states in the year 2006-07 and 2007-08 respectively. It is important to examine what constitutes these flows. As evident from the Table 3, around 93 per cent of this flow is through three central ministries, viz. Ministry of Rural Development (55 per cent), Ministry of Human Resource Development (29 per cent) and Ministry of health and Family Welfare (11 per cent). Out of this, transfers on account of Sarva Siksha Abhiyan and NREGA together constituted almost half of the total. Of the total centrally sponsored schemes to districts, Ministries of rural development, health, human resources and agriculture constitute around 98 per cent. In particular, Ministry of Rural Development constitute the single largest share of CSS to districts; with little more than half percent of total. So we concentrate on state wise district level spending in these three Ministries which captures 95 percent of the direct spending in the districts by the centre.

**Table 3: Central Level Transfers to Districts/Implementing Agencies:
Ministry Wise Distribution**

Ministry/ Department	Share in Total	
	2006-07	2007-08(RE)
Agriculture	3.82	4.57
Health and Family Welfare	10.73	11.40
<i>Of which NRHM</i>	7.98	8.39
Human Resources	28.45	28.01
<i>Of which SSA</i>	24.85	23.45
Rural Development	55.18	53.69
<i>Of which NREGA/SGRY/IAY/PMGSY/SGSY</i>	47.19	41.01
Chemicals and Fertilizers	Nil	Nil
Shipping and Road Transport	Nil	Nil
Consumer Affairs, Food & Civil Supplies	Nil	Nil
Other Ministries		
Tourism	0.04	0.10

Commerce and Industry	1.01	1.11
Environment and Forests	0.67	0.77
Women and Child Development	0.00	0.02
New and Renewable Energy	0.09	0.33
Total	100.00	100.00

Source: Union Budget Documents, 2008-09

The inter-State pattern of district transfers reveals that in per capita terms, Chattisgarh received highest level of transfers at Rs 662 followed by Madhya Pradesh at Rs 569 and Jharkhand at Rs 451 for the year 2006-07 (Table 4). The State which receive the district level CSS above the all State average were Andhra Pradesh, Bihar, Chattisgarh, Jharkhand, Madhya Pradesh, Orissa and Rajasthan (Table 5 and 6).

Table 4: Per-Capita Direct Transfers to Districts/ Implementing Agencies
(In Rs)

States	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Andhra Pradesh	51.72	58.53	65.85	67.38	113.33	174.97	305.97
Bihar	36.45	54.62	38.90	70.26	211.30	205.62	324.08
Chhattisgarh	47.72	85.20	92.71	110.52	193.94	282.54	661.94
Goa	68.25	71.01	12.48	22.64	26.47	92.94	95.30
Gujarat	41.28	44.88	60.00	66.41	84.36	125.96	159.25
Haryana	39.21	52.09	52.31	73.66	112.53	121.38	220.65
Jharkhand	69.38	105.65	70.79	153.46	196.69	291.17	451.03
Karnataka	39.04	68.59	77.51	80.48	118.59	171.77	297.94
Kerala	29.34	45.16	28.41	49.90	80.17	94.33	116.26
Madhya Pradesh	55.91	78.15	81.38	124.37	154.15	239.91	568.57
Maharashtra	33.58	61.96	41.89	62.15	98.22	155.46	178.33
Orissa	80.87	97.24	90.80	126.13	186.41	283.78	454.44
Punjab	14.88	42.29	37.14	48.18	45.85	109.59	122.88
Rajasthan	68.24	69.81	90.52	78.23	129.94	262.02	432.79
Tamilnadu	41.94	58.43	67.81	71.68	119.16	149.00	189.80
Uttar Pradesh	25.98	36.79	24.76	33.90	89.16	206.62	249.56
West Bengal	30.71	44.23	35.44	53.18	115.66	133.62	211.12
Max/MIN ratio	5.44	2.87	7.43	6.78	7.98	3.13	6.95
CV	0.39	0.31	0.44	0.45	0.43	0.38	0.56

Source: From Respective Ministries

As evident from Table 4, the per capita district level transfers have increased sharply over the years. However, the distribution of states in transfer per-capita did not change much. During the period, the States above the per capita district level remained the same, however with the upper

bound outliers of States with more than Rs 500 from one State (Chattisgarh) in 2006-07 to two States (Chattisgarh and Madhya Pradesh) in 2007-08. Similarly, the States lie below the State average per capita transfers remained the same with change in one of the State in the category of lower bound outlier States; being Goa and Kerala in 2006-07 and Goa and Punjab in 2007-08/ (Table 5). The scatter plot of per-capita income and the district level transfers shows that transfers to low income states are much higher than high income states and the trend line fitted on the scatter sloped downward.

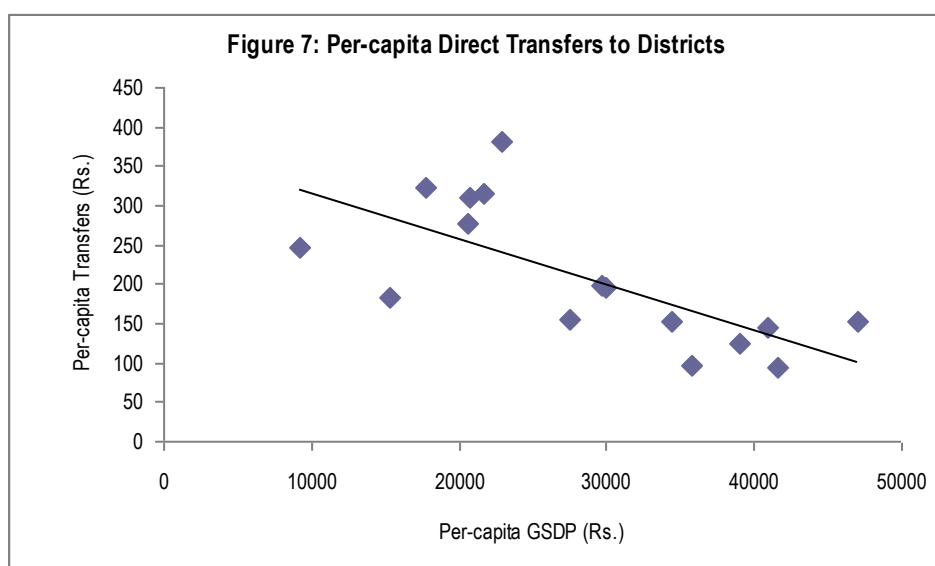


Table 5: Categorization of States above/below State Average District level Transfers

States	2005-06	2006-07
ABOVE STATE AVERAGE		
Category I (500>x> 900)	Chattisgarh	Chattisgarh, Madhya Pradesh
Category II (State AVG > x > 500)	Andhra Pradesh, Bihar, Jharkhand, Madhya Pradesh, Orissa, Rajasthan	Andhra Pradesh, Bihar, Jharkhand, Madhya Pradesh, Orissa, Rajasthan
BELOW STATE AVERAGE		
CATEGORY I (100>X>STATE AVG)	Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh, West Bengal	Gujarat, Haryana, Kerala, Karnataka, Maharashtra, Tamil Nadu, Uttar Pradesh, West Bengal
CATEGORY II (0>X>100)	Goa, Kerala	Goa, Punjab

Source: (Basic data): Respective Ministries.

Thus, if we look at the distribution of these transfers, they are largely progressive (Table 5) as per capita transfers to low-income states have been several fold higher than the middle and high income states. Though, these transfers have the inherent problem of central discretions both with regard to the allocation and quantum, the data reveals a positive discretion in favour of the low-income states. But the larger question is can these transfers be justified on the ground of progressivity bypassing the authority of the state! If the authority of the states is bypassed on the functions that are in their domain, the accountability will be lost. As mentioned by Rao (2007, p. 1253), this kind of transfers have been “undermining the role of systems and institutions in the transfer system. In fact, even under the transfers for state plans, normal assistance, which is given according to the Gadgil formula, constituted less than 48 per cent. Thus, we have a situation where the grants system has become predominantly purpose specific with a cobweb of conditionalities specified by various central ministries. Furthermore, quite a considerable proportion of grants which used to be given to the states now directly goes to autonomous agencies. This raises questions about the capacity to deliver public services by these autonomous agencies, mechanisms to augment the capacity and as the funds do not pass through states’ consolidated funds, of accountability.”

Regarding the allocation of these funds, an element of uncertainty continues. Since these tendencies have increased over time and states are also accepting these deviations from what the Constitution of India has envisaged without resistance, central intervention on state subject would continue to grow. N. C. Saxena, as member of the National Advisory Council in an insightful paper on CSS, observed that “Gol has increased its control over the State sector in three ways, firstly through substantial funding of CSS, the budget for which is about 60 percent of the Central Assistance; secondly much of it goes straight to the districts, thus bypassing the States and placing district bureaucracy directly under the supervision of the Gol; and thirdly more than half of Central Assistance is given in the form of ACA, which is often not formula based but where the Gol Ministries have a great deal of control over the State allocations and releases.”

IV. Distribution of Central Expenditure to States

When we talk about incidence of Central government expenditure on States, first step is to delineate the expenditure that does not have any impact at sub-national levels and those which cannot be spatially distributed. As mentioned earlier, expenditure items excluded are general service expenditure, expenditure on secretariat services and direction and administration from all the categories of services. The estimates arrived at after netting out the various expenditures work out to be 16.04 per cent of GDP (Table 6). Within the adjusted Central government expenditure, general services constitutes the single most larger component at 7.15 per cent of GDP; closely followed by social and economic services at 5.53 per cent of GDP for the year 2006-07 and grants in aid to states at 3.06 per cent of GDP. Out of the total grants, 1.06 per cent flows directly to the districts bypassing the state budget.

Table 6: Adjusted Central Government Expenditure

Adjusted Central Government Expenditure	2006-07
Total Expenditure Net of Adjustments	16.04
General Services	7.15
Social and Economic Services	5.53
Grants in Aid	3.36
Through Consolidated Funds of States	2.30
Directly to the Districts	1.06
Adjusted Items	1.28

Source: Union Budget documents, 2008-09

The distribution of central spending across Ministries/ Department reveals that only 10 Ministries/Departments out of 53 have budgetary allocations above 1 percent of the total allocations. The point further to note is that only 4 Ministries/Departments have allocation higher than 5 per cent of the aggregate budgetary allocation. The Ministry of Finance is the only Ministry which has allocation as high as 41 per cent (Table 7) of the total allocation. The 43 Ministries / Departments with less than 1 per cent of total expenditure is taken out of the analysis. This is done for the purpose of manageability and also due to their relative insignificance in total spending.

Table 7: Distribution (%) of Ministries/ Departments According to the Share of Expenditure: 2008-09

Percentage Share of Spending	Total Expenditure (In Rs. Crore)	Number of Ministries/ Departments	Aggregate Share in total spending
0 to ≤0.1	5125.26	13	0.68
≥0.1 to ≤ 0.5	29736.82	18	3.96
≥0.5 to ≤ 1.0	63615.84	12	8.47
≥1.0 to ≤ 5.0	141962.91	6	18.91
≥5.0 to ≤20.0	204667.55	3	27.26
≥20.0	305774.66	1	40.72
Total	750883.04	53	100

Source: Union Budget Document: 2008-09

Within the Ministries/Departments which have allocations above one per cent of the total budget, we take out Finance and Defense and home though they have significant budgetary allocations (Table 8). Most of the Finance Ministry expenditures are transfers to states and defence and home are part of the general services expenditures. So for the purpose of our spatial distribution of central expenditures across states, we focus on Ministry of Agriculture (1.93 per cent), Health and Family Welfare (2.41 per cent), Shipping, Road Transport and Highways (2.47 per cent), Chemicals and Fertilizers (4.2 per cent), Consumer Affairs, Food and Public Distribution (4.4 per cent), Human Resource Development (5.15 per cent) and Rural Development (5.65 per cent).

Table 8: Ministry-wise Allocation and their Distribution: 2008-09

Ministry	Allocation (In Rs. Crore)	Percentage Distribution
Agriculture	14476.88	1.93
Health and Family Welfare	18123	2.41
Shipping, Road Transport and Highways	18549.89	2.47
Home Affairs	25923.18	3.45
Chemicals & Fertilizers	31547	4.20
Consumer Affairs, Food and Public Distribution	33342.95	4.44
Human Resource Development	38702.87	5.15
Rural Development	42429.86	5.65

Defence	123534.82	16.45
Finance	305774.66	40.72
Other Ministries	98477.92	13.11
Total	750883.04	100.00

Source: Union Budget Document: 2008-09

After identifying these seven Ministries for detailed analysis, we have analyzed their *Detailed Demand for Grants* (hereafter DDG) for the year 2006-07, to examine the nature of their spending and to devise a method to see in what way their spending can be portioned across states. We have reclassified the DDG of each of the Ministries into four broad categories:

- a. Transfers to States via CSS
- b. Direct CSS Transfers to Districts
- c. Grants, Subsidies and Contribution and Programme Specific Spending other than CSS
- d. Other Expenditures

As evident from Table 9, taking all these Ministries together, the CSS explains 40 per cent of their total expenditure. In other words, the estimates reveal upfront that distribution of CSS explains a major chunk of the total expenditure of these Ministries and their state wise distribution is already discussed in the last section. But our objective is to look into the direct expenditure and its distribution across states. So we concentrate on the rest of the expenditure and within that we exclude the other expenditure category, which is largely administrative in nature. The residual expenditure is 55.08 per cent and 3.92 per cent respectively for programme specific spending and administrative expenditure. The disaggregated estimates across Ministries reveal that the direct CSS transfers to below State level is as high as 84 per cent of the total allocation in Ministry of Rural Development; 39.62 per cent in the Ministry of Health; and 47.10 in case of Human Resources. While in case of grants, subsidies and programme specific spending, the spending is as high as 99 per cent in case of Consumer affairs, Food and Civil Supplies and Chemicals and Fertilizers, which needs further investigation; and in case of Shipping and road transport it is 71.80 per cent. The administrative expenditure is relatively insignificant with less than one per cent of the total; except for Agriculture (15.75 per cent), Health (20.50 per cent) and Shipping and Road Transport (9.74 per cent).

Table 9: Distribution of Spending under Various Programme Heads
(In Per cent)

Ministry	Total	Transfers to States via CSS	Direct CSS Transfers to Districts	Grants, Subsidies and Contributions and programme specific spending other than CSS	Other Expenditures
Agriculture	100	16.60	17.94	49.70	15.75
Health	100	21.98	39.62	17.90	20.50
Human Resources	100	18.69	47.10	33.58	0.63
Consumer Affairs, Food & Civil Supplies	100	0.25	0.00	99.18	0.57
Rural Development	100	10.74	83.57	5.03	0.66
Chemicals and Fertilizers	100	0.00	0.00	99.90	0.10
Shipping and Road Transport	100	18.46	0.00	71.80	9.74
Total All Ministries	100	10.09	30.91	55.08	3.92

Source: Detailed Demand for Grants of respective Ministries 2008-09

As our focus now is on the state specific spending under the category “*Grants, Subsidies and Contribution and Programme Specific Spending other than CSS*”, the category of direct spending, we first examine the major broad heads of expenditure in this category. As evident from Table 10, Ministry of Agriculture spends directly on crop insurance (15 per cent), gives grants to NAFED (13.3) for agricultural marketing operation, Agricultural Research Institutes and PUSA (53.5 per cent) and other expenditures (18 per cent).

Among all the Ministries, the Ministry of Chemicals and Fertilizers spends 36.52 per cent of the total programme specific spending by seven Ministries. The Ministry of Food and Consumer Affairs constitutes the second major chunk of the expenditure; with 31.33 per cent of the aggregate spending by the selected seven Ministries/Departments. Within Food and Consumer Affairs, subsidy to FCI food grains constitutes 86 per cent of total; followed by subsidy to states on decentralized procurement of food grains at 12.6 per cent. The third largest Ministry is Shipping and Surface Transport at 11.59 per cent of the total spending of these seven Ministries. Within the Ministry of Shipping and Surface Transport, the Central Road Fund constitutes 90.71 per cent (Table 10). While the Human Resource Development Ministry’s spending in total programme

specific spending constitutes 10.31 per cent of total. Within MoHRD, Kendriya Vidhyalayas and Navodaya Vidyalayas constitute 21.54 per cent of total MoHRD programme specific spending allocation; while distribution of spending on Central Universities at 18.33 per cent, UGC at 16.61 per cent, IITs at 13.85 per cent. IISC, AICTE and IIMs each constitute around 1 per cent only of total. The health Ministry spends around 2.75 per cent of the total programme specific spending by three Ministries. Within the health Ministry, grants under NRHM is the highest (26.2 per cent), ICMR (18.5 per cent) and NACO (13.4 per cent).

Table 10 : Various Programme Specific Spending by Ministries

	(In.Rs. Crore)	Distribution within the Ministry	Distribution in total
Ministry/Department	2006-07		
<i>I. Agriculture</i>			
Crop Insurance	634.4	15.0	0.82
NAFED	560.0	13.3	0.73
Agriculture research Institutes at States and PUSA	2259.2	53.5	2.93
Others	768.0	18.2	1.00
Total	4221.6	100.0	5.47
<i>II. Human Resource Development</i>			
Central Universities	1458.1	18.3	1.89
UGC	1321.3	16.6	1.71
Kendriya VidhyalayaS & Navodaya Vidyalayas	1713.0	21.5	2.22
IISC Bangalore	155.0	2.0	0.20
IITs	1101.5	13.9	1.43
AICTE	91.4	1.2	0.12
IIMs	69.5	0.9	0.09
Others	2043.3	25.7	2.65
Total	7953.0	100.0	10.31
<i>III. Rural Development</i>			
FCI for Food Grains	1368.4	87.9	1.77
Others	189.2	12.1	0.25
Total	1557.6	100.0	2.02
<i>IV. Shipping and Surface Transport</i>			
Central Road Fund	8113.5	90.7	10.52
Calcutta Port Trust Subsidy	341.8	3.8	0.44
Inland Waterways Authority	114.3	1.3	0.15
Border roads Bhutan Comp Allowance	93.7	1.1	0.12
Cochin Shipyard	70.0	0.8	0.09
Hindustan Shipyard	40.5	0.5	0.05
Hoogly port trust Subsidy	32.9	0.4	0.04
Others	137.5	1.5	0.18
Total	8944.2	100.0	11.59

V. Food and Consumer Affairs			
subsidy FCI food grains	20786.2	86.0	26.95
STATES on Decentralized procurement food grains	3041.4	12.6	3.94
Others	340.6	1.4	0.44
Total	24168.2	100.0	31.33
VI. Ministry of Health and Family welfare			
Grants in Aid Under NRHM	556.2	26.2	0.72
All India Institute of Medical Sciences	457.3	21.5	0.59
Indian Council of Medical Research	394.0	18.5	0.51
States Aids Control Societies under NACO	283.9	13.4	0.37
PG inst of Medical Research Chandigarh	231.0	10.9	0.30
Total	2124.3	100.0	2.75
VII. Ministry of Chemicals and Fertilizers			
Subsidies Nitrogenous	11910.4	42.3	15.44
Subsidies Indegenous Controlled fert	6648.2	23.6	8.62
Imported fertilizers	5071.1	18.0	6.57
Subsidies Imported Controlled fert	3649.9	13.0	4.73
Fertiliser Freight Subsidy	740.0	2.6	0.96
Other Grants	151.0	0.5	0.20
Total	28170.5	100.0	36.52
Grand Total (I+II+III+IV+V+VI+VII)	77139.4		100.00

Source: Detailed Demand for Grants for Various Ministries 2008-09

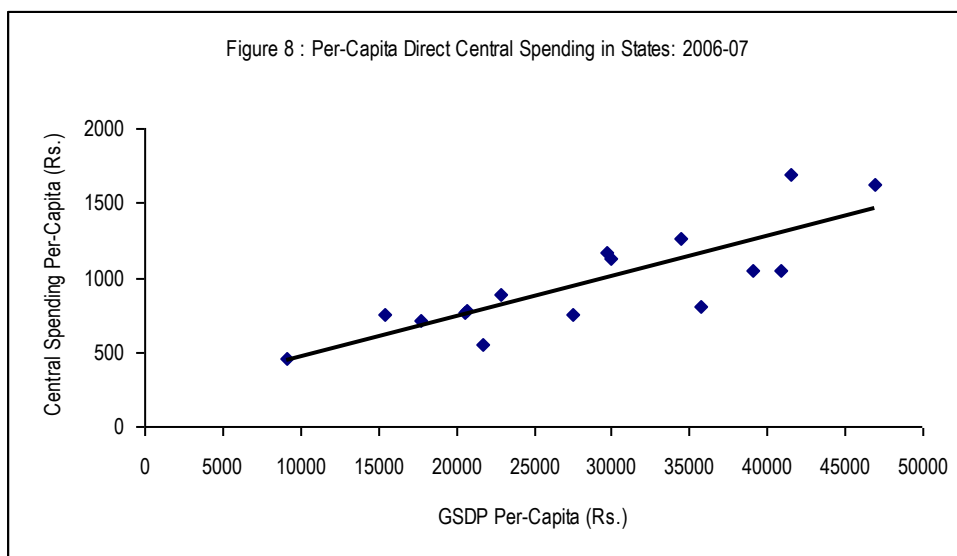
Having identified these spending we have collected information on programme specific spending on states from the Ministry of Agriculture, Human Resource Development, Food and Consumer Affairs and Shipping and Surface Transport. We also have collected information from Fertilizer Association of India to collect state wise distribution of fertilizer subsidy. Also we have collected information from Agricultural Insurance Corporation on state wise disbursement of claims of agricultural insurance, from NAFED on agricultural marketing operation, and from UGC on grants to the states for Universities and colleges. Having obtained the specific information we have arrived at the distribution of direct spending in the specific programmes by respective Ministries in each state. The pattern of these spending is given in Table 11. As evident from the Table 11, the bulk of the expenditure is on petroleum subsidy, followed by fertilizer and food. The other spending are much less in per capita term in three categories, viz., Agricultural Marketing and Insurance, Central Road Fund and School and Higher Education. The per-capita distribution of this expenditure reveals highly regressive pattern (See Figure 8). We have also specifically looked into the pattern of three major subsidies, viz., food, petroleum and fertilizers across states for the year 2006-07 and 2007-08. It is observed that there has been a significant increase in these three major

subsidies in absolute volume as well as in per-capita terms and the pattern of their distribution across states continues to be regressive.

Table 11: State-wise Per-capita Direct Central Spending by Ministries
(In Rs.)

	Petroleum Subsidy	Food	Fertiliser	Agricultural Marketing and Insurance	Central Road Fund	School and Higher Education	Total
General Category States	450.25	170.11	243.47	11.52	12.83	25.65	913.84
Andhra Pradesh	489.01	276.17	361.93	25.13	5.80	24.34	1182.37
Bihar	226.82	68.22	149.45	8.32	2.50	10.18	465.49
Chattisgarh	335.58	291.00	245.87	0.38	9.97	14.81	897.62
Goa	1646.55	52.20	60.69	0.00	0.00	50.28	1809.72
Gujarat	632.93	79.08	294.58	16.32	17.41	13.09	1053.42
Haryana	867.49	59.02	610.53	52.70	24.00	26.14	1639.88
Jharkhand	320.80	145.23	55.11	17.97	3.47	14.56	557.13
Karnataka	550.83	248.73	297.86	2.35	19.21	16.94	1135.91
Kerala	520.09	199.83	69.85	0.55	9.16	27.18	826.67
Madhya Pradesh	334.12	141.45	211.54	4.66	12.11	36.41	740.28
Maharashtra	623.71	141.82	243.92	2.13	20.33	21.93	1053.84
Orissa	339.81	288.18	129.31	0.61	12.90	22.82	793.63
Punjab	842.46	18.38	791.04	0.54	23.09	39.45	1714.97
Rajasthan	429.15	61.71	177.21	73.46	21.31	21.81	784.66
Tamil Nadu	624.63	396.61	194.25	7.60	19.67	31.64	1274.40
Uttar Pradesh	317.99	149.26	245.96	1.34	10.42	37.46	762.44
West Bengal	350.84	185.78	183.13	3.82	7.80	28.67	760.04
Special Category	435.57	294.70	75.63	0.13	15.66	74.99	896.68
Arunachal Pradesh	506.37	298.45	3.15	0.00	87.69	136.58	1032.25
Assam	332.41	304.67	55.71	0.05	6.44	53.27	752.55
Himachal Pradesh	553.30	319.99	83.48	0.00	18.04	57.29	1032.09
Jammu & Kashmir	556.60	329.34	89.75	0.00	26.46	45.92	1048.07
Manipur	310.34	177.62	75.42	0.00	12.53	149.22	725.13
Meghalaya	577.65	270.74	20.23	0.00	22.15	283.34	1174.10
Mizoram	478.72	392.61	10.59	0.00	39.65	448.13	1369.70
Nagaland	228.75	330.85	0.22	0.00	11.04	107.60	678.47
Sikkim	702.40	439.08	0.00	0.00	24.23	31.40	1197.11
Tripura	320.43	382.32	51.39	0.32	8.51	41.38	804.36
Uttaranchal	585.31	177.99	180.07	0.72	19.84	72.65	1036.58

Source (Basic Data): 1. Fertilizer Statistics 2008, Fertilizer of Association of India, New Delhi, 2. Ministry of Petroleum and Natural Gas, Government of India, 3. Annual Report 2008, University Grants Commission, New Delhi, 4. NAFED and Agricultural Insurance Corporation, Government of India



V. Econometric Investigation

As mentioned earlier, in our approach, we further subdivide the total transfer into ‘formula-based’ and ‘non formula-based’ transfers. The first category includes tax devolution, statutory grants from the Finance Commission and state plan grants as per the Gadgil formula. The second category is the residual which includes other state plan grants, Central plan scheme grants, Centrally Sponsored Scheme (CSS) and special plan scheme grants. All these are routed via the state budget, and therefore reflected in the Finance Accounts of the respective state governments. The resources going to the implementing agencies directly at the state and the district level are also added to the non-formula grants.

Apart from central transfers through state budgets and direct spending at the district level going outside it, we look at other expenditure incurred by the Centre but which can be in the domain of the states. We call this group of transfers as ‘quasi-fiscal transfers’ (QFT). The main constituents of QFT are subsidies for food, fertilizer and fuel, procurement by NAFED from states, crop insurance, central road fund and spending by UGC in each state. The major distinguishing feature of QFT is that it is non formula-based, and the expenditure incidence in a state is dependent on many factors which may not be purely based on the principles of equity as in the case of formula based transfers.

For the purpose of our econometric exercise, we obtained data on all the categories for two years – 2005-06 and 2006-07. The state-wise distribution of the various transfers is discussed in Section III and Section IV. Using this dataset, we undertake a preliminary econometric exercise to examine whether the variation in transfers across states can be explained by differences in per capita GSDP proxied for fiscal capacity of individual states. Since these are all different modes of transfers following the horizontal equity principle, we set up the null hypothesis of no relation between the transfers (dependent) and per capita GSDP. We normalize by taking log of the variables and pool the data for two years for which it is available. The regressions are run without any state or year dummies in order to see the unconstrained estimates of the explanatory variables. In Table 12, we present the results for the pooled estimates using log of per capita GSDP as the explanatory variable. We run the regressions using constant but do not report the results here.

Table 12: Regressions using Per Capita GSDP

	Explanatory Variable: log Per Capita GSDP		
	Coefficient	p-value	Adj. R-squared
Tax Devolution	-0.588	0.000	0.42
Tax Devolution + Formula Grants	-0.514	0.000	0.37
Non-formula Grants	0.111	0.521	0.01
Quasi Fiscal Transfers	0.652	0.000	0.71
Non-formula Grants + QFT	0.408	0.000	0.30

We divide the transfers into three basic categories: (i) Tax devolution, (ii) Formula-based grants (block grants and finance commission non-plan grants), (iii) non formula-based grants constituting Centrally Sponsored Schemes, non formula plan grants and direct transfer to districts that go outside the state budget, and (iv) quasi-fiscal transfers that are expenditure carried out by the Central government directly in the states, including subsidies on food, fuel and fertilizer, agricultural crop insurance, central road fund, UGC grants.

The regression results indicate a very different picture for formula-based and non formula based transfers. Tax devolution singly and in conjunction with other formula grants are equalizing, with per capita GSDP explaining nearly 40 percent of the variations across states in both cases.

On the other hand, the rest of the transfers that are provided to states on the basis of demand with considerable discretion on the part of the Centre are not equalizing in nature. Quasi

fiscal transfers and total non formula grants (including QFT) are both positive and significant vis-à-vis per capita GSDP.

Table 13: Regressions using Time Dummy

	Ln per capita GSDP		Time Dummy		Adj. R-squared
	Coefficient	p-value	Coefficient	p-value	
Tax Devolution	-0.626	0.000	0.278	0.000	0.54
Tax Devolution + Formula Grants	-0.552	0.000	0.279	0.003	0.52
Non-formula Grants	0.056	0.713	0.402	0.005	0.20
Quasi Fiscal Transfers	0.646	0.000	0.051	0.438	0.70
Non-formula Grants + QFT	0.377	0.001	0.226	0.011	0.43

To check whether the transfers have changed significantly in the two years, we use a time dummy for 2006-07 and regress the transfers on both per capita GSDP and the dummy variable. Interestingly, we find that the latter is significant in all regression except for QFT. This also indicates a structural impact of the introduction of VAT and the launching of various flagship programme and a quantum jump in the transfers going via the non-formula route, which had an impact on both the formula and non formula based transfers. The fit of the regressions improve significantly in all the cases, especially for non formula and total transfers. Moreover, the coefficient of total transfer is now weakly significant at 10 percent level, with more than one-third of the variations explained by per capita GSDP and the differences in the two years in the data.

VI. Policy Conclusions

On the basis of the above analysis, it can be concluded that the transfer system has undergone significant changes over the years, with an overwhelming influence of the transfers going outside the statutory channels. The effect of these changes through multiple channels of transfers is mixed in achieving horizontal equity and it appears that one is in conflict with the other. Our econometric result on this seems robust as this has been corroborated by the exploratory data analysis. On top of that when we add the direct central spending in the states through its own programme in seven selected ministries, the net effect becomes highly regressive. To conclude, it should be emphasized that any design of transfers in the context of Indian federation would remain cosmetic, unless drastic redistribution takes place in the horizontal allocation of resources.

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Appendix

Table A1.1: Transfers to States
(Rs. Crore)

	Tax Devolution	Total Grants	Formula Based	Non-formula Based	Off budget Grants	GDP at Market Prices (Memo Item)
1990-91	14478.0	13215.4	20235.5	7458.0		569624
1991-92	17076.5	15407.5	24624.7	7859.4		654729
1992-93	20632.7	17672.8	28699.1	9606.3		752591
1993-94	22444.3	21109.6	32804.8	10749.1		865805
1994-95	24880.3	19748.9	35707.5	8921.6		1015764
1995-96	29036.9	20851.7	40705.9	9182.7		1191813
1996-97	34842.4	23022.9	46993.9	10871.4		1378617
1997-98	40032.8	24394.1	52593.8	11833.1		1527158
1998-99	39458.7	23454.5	52678.9	10234.4		1751199
1999-00	43933.6	29490.0	57186.7	16236.8	5674.1	1952035
2000-01	50771.5	37471.9	71486.2	16757.2	6246.0	2102314
2001-02	53046.6	41594.0	73013.9	21626.7	8797.1	2278952
2002-03	56830.4	43364.3	76189.2	24005.6	14989.7	2454561
2003-04	68041.4	48384.7	91343.9	25082.3	10995.4	2754621
2004-05	79747.6	55238.5	110277.4	24708.7	14967.6	3149412
2005-06	96529.6	75220.5	131278.4	40471.8	22136.9	3580344
2006-07	122345.1	93201.6	171946.4	43600.3	43815.6	4129173

Source: Finance Accounts, Annual Reports of Respective Ministries for Off Budget Grants

Table A1.2: Formula and Non formula Based Transfers: 2006-07

State	Formula Based Grants				Non Formula Based Grants							
	Tax Devolution	Fin.com Non Plan	State Plan Grants	Total	Total (7 to 10)	Plan Grants Outside Normal central Assistance	Centrally Sponsored Schemes	Other Non-plan Grants	Direct Transfers to Districts			
									Total	Rural Development	MHRD	Ministry of Health
1	2	3	4	5	6	7	8	9	10	11	12	13
Major States	112650.3	7147.5	22290.2	142088.0	63140.2	4563.4	14618.7	13944.5	30013.7	18859.9	9589.1	1564.6
Andhra Pradesh	8866.0	374.0	2330.6	11570.5	4746.0	170.4	1309.7	780.8	2485.1	1903.4	462.5	119.2
Bihar	13291.7	4.0	2218.7	15514.3	5994.1	370.9	974.2	1679.4	2969.6	1766.4	1077.4	125.8
Chattisgarh	5045.7	0.0	645.9	5691.6	2620.5	407.3	395.1	309.1	1509.0	945.5	501.8	61.8
Goa	312.1	0.0	32.0	344.1	71.6	22.3	14.6	19.6	15.2	6.8	7.2	1.1
Gujarat	4426.1	444.9	1078.9	5949.9	2522.5	233.7	597.3	808.1	883.4	641.7	148.1	93.6
Haryana	1295.6	0.0	554.2	1849.8	1104.1	81.4	372.9	129.7	520.0	229.3	256.5	34.3
Jharkhand	4050.9	173.6	384.7	4609.2	2295.3	422.5	485.5	53.7	1333.6	771.9	515.2	46.5
Karnataka	5374.3	0.0	1134.1	6508.4	5366.8	220.8	1261.6	2196.7	1687.8	1061.3	542.1	84.4
Kerala	3212.0	575.7	580.7	4368.5	1331.3	74.7	352.4	511.7	392.5	284.1	63.8	44.6
Madhya Pradesh	8088.5	659.6	1629.7	10377.8	5999.5	461.6	1450.1	273.1	3814.7	2569.3	1108.8	136.6
Maharashtra	6022.9	0.0	3863.6	9886.6	6577.2	169.3	1058.2	3463.9	1885.7	1250.2	521.6	113.9
Orissa	6220.4	0.0	1232.7	7453.1	3709.7	232.5	726.1	967.8	1783.4	1276.4	440.1	66.9
Punjab	1565.7	105.2	327.4	1998.3	2138.5	90.7	333.7	1382.6	331.6	160.3	128.8	42.4
Rajasthan	6760.4	644.6	964.1	8369.1	4908.7	299.5	1394.4	490.4	2724.5	1828.3	758.1	138.1
Tamil Nadu	6393.9	738.4	1336.0	8468.3	2493.2	483.3	627.2	140.7	1242.0	770.7	373.3	97.9
Uttar Pradesh	23218.3	2343.4	2341.3	27903.0	7790.9	649.4	2166.1	350.4	4625.0	2316.7	2066.5	241.8
West Bengal	8505.6	1084.0	1635.7	11225.3	3470.2	172.9	1099.8	386.8	1810.7	1077.6	617.4	115.7

Table A1.2: Contd...

Jammu & Kashmir	Formula Based Grants				Non Formula Based Grants							
	Tax Devolution	Fin.com Non Plan	State Plan Grants	Total	Total (7 to 10)	Plan Grants Outside Normal central Assistance	Centrally Sponsored Schemes	Other Non-plan Grants	Direct Transfers to Districts			
									Total	14811.6	4442.51	0
1	2	3	4	5	6	7	8	9	10	11	12	13
Special Category	9694.8	5975.3	14188.2	29858.4	14820.2	1192.8	2969.6	6311.3	4346.4	2669.4	1196.7	480.3
Arunachal Pradesh	347.1	262.9	1019.5	1629.6	893.4	145.7	320.2	121.4	306.2	203.7	71.4	31.1
Assam	3899.0	580.2	2640.4	7119.6	2999.1	370.9	720.5	113.3	1794.3	1034.2	514.6	245.4
Himachal Pradesh	629.2	0.0	1393.5	2022.6	3189.3	89.6	317.3	2412.5	370.0	277.2	62.5	30.3
Jammu & Kashmir	1414.1	2555.8	3422.3	7392.2	1602.0	4.5	534.1	460.4	602.9	350.7	220.8	31.4
Manipur	436.3	891.7	990.8	2318.9	343.2	57.7	148.8	34.8	101.9	81.3	0.1	20.5
Meghalaya	447.2	0.0	554.0	1001.1	834.0	72.8	106.7	472.5	182.0	119.6	42.9	19.5
Mizoram	288.1	559.0	592.5	1439.6	480.6	79.9	168.9	79.5	152.2	85.3	34.4	32.4
Nagaland	316.9	8.1	796.2	1121.2	1558.7	167.4	209.7	1064.0	117.6	71.8	23.2	22.6
Sikkim	269.3	0.0	433.7	703.0	259.5	35.6	102.0	64.3	57.7	35.4	4.0	18.2
Tripura	515.8	1117.6	937.5	2570.8	558.5	88.2	189.1	48.7	232.5	166.2	53.3	13.0
Uttarakhand	1131.8	0.0	1407.9	2539.7	2102.0	80.5	152.5	1439.9	429.2	243.9	169.3	15.9

Source: Same as in Table A1

Table A2: Cumulative Plan Transfers Outside Normal Assistance
(Rs. Crore)

STATES	2004 - 05	2005-06	2006-07	2007-08
General Category States				
Andhra Pradesh	843.0	942.5	1809.1	2755.1
Bihar	814.2	864.1	1486.8	1563.7
Chhattisgarh	203.8	156.4	360.9	449.0
Goa	47.6	5.3	7.5	39.7
Gujarat	513.8	904.4	755.1	1745.8
Haryana	105.9	49.9	141.5	204.2
Jharkhand	261.8	216.6	136.5	250.7
Karnataka	581.1	567.8	846.4	1222.6
Kerala	439.9	263.5	378.2	662.7
Madhya Pradesh	705.1	612.4	941.0	1546.6
Maharashtra	690.1	629.1	1893.0	2866.8
Orissa	946.0	646.3	733.1	1289.5
Punjab	83.9	170.5	224.5	392.6
Rajasthan	636.4	409.4	541.9	840.9
Tamil Nadu	435.1	281.6	913.8	1627.6
Uttar Pradesh	967.2	810.6	1083.9	1173.2
West Bengal	793.1	1027.3	1136.5	1468.1
Special Category States				
Arunachal Pradesh	112.5	122.5	178.2	538.2
Assam	924.2	1042.7	873.3	1058.9
Himachal Pradesh	597.6	522.2	559.3	917.8
Jammu And Kashmir	1692.0	1658.1	2325.6	2959.6
Manipur	348.2	441.4	428.1	810.5
Meghalaya	155.1	77.6	115.0	154.4
Mizoram	202.2	117.1	108.2	265.5
Nagaland	150.1	140.8	131.9	175.9
Sikkim	140.9	48.6	53.5	101.0
Tripura	223.3	130.2	169.5	192.9
Uttarakhand	691.7	294.0	394.9	653.1

Source: <http://finmin.nic.in/stateloan/monthyear18.asp?dept=2>

Table A3: Central Level Transfers to Districts: Ministry wise Distribution

Ministry/ Department	Rs. Crore		Share in Total	
	2006-07	2007-08(RE)	2006-07	2007-08(RE)
Agriculture	1675.08	2345.04	3.82	4.57
Health and Family Welfare	4701.33	5844.67	10.73	11.40
Of which NRHM	3496.15	4298.32	7.98	8.39
Human Resources	12467.03	14357.19	28.45	28.01
Of which SSA	10886.11	12020.24	24.85	23.45
Rural Development	24177.61	27521.43	55.18	53.69
Of which NREGA/SGRY/IAY/PMGSY/SGSY	20677.11	21019.35	47.19	41.01
Chemicals and Fertilizers				
Shipping and Transport				

Consumer Affairs, Food and Civil Supplies				
Other Ministries				
Tourism	17.38	50	0.04	0.10
Commerce and Industry	444.04	569.22	1.01	1.11
Environment and Forests	292.58	392.95	0.67	0.77
Women and Child Development	0	10	0.00	0.02
New and Renewable Energy	40.55	169.3	0.09	0.33

Source: Union Budget 2008-09

Table A4: Direct Transfers to Districts
(Rs. Crore)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Andhra Pradesh	321.8	391.0	448.0	511.8	529.7	897.5	1406.2	2485.1
Bihar	418.1	298.5	460.9	332.9	612.2	1873.4	1853.9	2969.6
Chattisgarh	0.3	98.8	178.1	198.4	240.9	432.5	641.4	1509.0
Goa	2.1	9.1	9.9	1.8	3.3	4.0	14.5	15.2
Gujarat	178.7	206.8	230.4	312.4	351.6	453.8	688.2	883.4
Haryana	63.9	81.8	111.8	114.2	164.1	255.5	280.9	520.0
Jharkhand	0.4	185.2	288.1	196.3	432.8	563.8	847.8	1333.6
Karnataka	199.1	205.1	365.7	418.3	439.9	655.1	961.8	1687.8
Kerala	89.8	93.0	144.4	91.9	163.2	265.1	315.3	392.5
Madhya Pradesh	389.9	334.9	477.1	507.1	790.0	997.6	1581.2	3814.7
Maharashtra	371.2	322.6	606.8	416.3	627.5	1007.4	1619.2	1885.7
Orissa	292.1	295.4	360.5	340.5	478.3	711.0	1100.6	1783.4
Punjab	28.3	36.2	104.1	93.1	123.1	119.3	290.3	331.6
Rajasthan	243.7	381.2	400.5	528.2	465.6	788.3	1619.8	2724.5
Tamil Nadu	269.0	259.7	366.6	429.4	457.9	767.6	967.5	1242.0
Uttar Pradesh	630.1	427.2	619.7	424.8	584.3	1590.7	3757.7	4625.0
West Bengal	209.6	245.4	357.1	290.3	441.1	970.4	1133.7	1810.7

Source : Compiled from the web sites of respective ministries

Table A5: Adjusted Central Government Expenditure
(Rs. Crore)

	2006-07
Total Expenditure Net of Adjustments	664924.07
General Services	296223.94
Social and Economic Services	229418
Grants in Aid	139282
Through Consolidated Funds of States	95466
Directly to the Districts	43816
Adjusted Items	
a) Secretariat Social Services	150
b) Secretariat Economic Services	921
c) Direction and administration	1418
d) Transfer to Funds	6980
e) Contra Entries	

**Table A6: Distribution of Spending under Various Programme Heads
(Rs. Crore)**

Ministry	Total Expenditure	Capital Expenditure (incl. Gross Lending)	Total Revenue Expenditure	Transfers to States via Centrally Sponsored Schemes	Direct Transfers to Districts	Grants, Subsidies and Contributions and programme specific spending other than CSS	Administrative Expenditure
Agriculture Ministry	8393.35	2.26	8391.09	1393.30	1505.72	4170.58	1321.49
Ministry of Health	12228.60	361.15	11867.46	2608.72	4701.33	2124.30	2433.11
Ministry of Human Resources ⁽¹⁾	23683.49	0.00	23683.49	4426.24	11155.16	7953.04	149.06
Ministry of Consumer Affairs, Food and Civil Supplies ⁽²⁾	24576.76	208.89	24367.86	59.88	0.00	24168.16	139.83
Ministry of rural development ⁽³⁾	30992.77	0.00	30992.77	3329.89	25901.23	1557.60	204.06
Ministry of Chemicals and Fertilizers ⁽⁴⁾	28748.06	548.32	28199.74	0.00	0.00	28170.55	29.18
Ministry of Shipping and Road Transport	25037.50	12580.60	12456.90	2298.98	0.00	8944.21	1213.71
Total Expenditure of 7 Ministries	153660.53	13701.21	139959.31	14117.00	43263.44	77088.43	5490.44

Notes

1. Excludes Transfers to Funds to the tune of Rs. 893500 Lakh
2. Excludes Rs. 25000 Lakh on account of write off of loans
3. Excludes special securities issued to FCI Rs. 1620000 lakh, transfers to funds Rs. 869425 and Rs. 372562 lakh
4. Excludes Rs. 70414 lakh against waiver of loans to HFCL, MFL. FACT, FCI and PDIL

Table A7: Distribution of Direct Central Spending Across States in 2006-07
(Rs. Crore)

	Petroleum	Food	Fertilizer	Agricultural Marketing and Insurance	Central Road Fund	School and Higher Education
Major States	46592.14	17603.20	25194.42	1191.78	1327.87	1984.71
Andhra Pradesh	3971.66	2243.00	2939.52	204.14	47.10	163.34
Bihar	2078.38	625.10	1369.46	76.22	22.91	58.44
Chattisgarh	765.03	663.40	560.52	0.87	22.72	20.58
Goa	261.80	8.30	9.65	0.00	0.00	4.55
Gujarat	3511.17	438.70	1634.20	90.55	96.60	49.54
Haryana	2044.58	139.10	1438.96	124.22	56.57	36.80
Jharkhand	948.50	429.40	162.95	53.14	10.26	23.84
Karnataka	3120.27	1409.00	1687.26	13.29	108.81	67.23
Kerala	1756.00	674.70	235.82	1.87	30.92	62.52
Madhya Pradesh	2241.69	949.00	1419.28	31.27	81.24	138.33
Maharashtra	6595.10	1499.60	2579.19	22.49	214.95	172.82
Orissa	1333.52	1130.90	507.45	2.38	50.63	56.10
Punjab	2273.21	49.60	2134.47	1.47	62.30	68.75
Rajasthan	2701.52	388.50	1115.58	462.45	134.12	86.34
Tamil Nadu	4087.24	2595.20	1271.07	49.73	128.74	168.68
Uttar Pradesh	5893.36	2766.30	4558.39	24.93	193.14	609.45
West Bengal	3009.11	1593.40	1570.64	32.78	66.86	197.41
Special Category	3069.68	2076.87	533.00	0.93	110.39	392.10
Arunachal Pradesh	59.65	35.16	0.37	0.00	10.33	9.43
Assam	960.54	880.36	160.98	0.15	18.60	105.86
Himachal Pradesh	373.04	215.73	56.28	0.00	12.16	25.29
Jammu & Kashmir	648.77	383.87	104.61	0.00	30.84	30.68
Manipur	79.73	45.63	19.38	0.00	3.22	36.17
Meghalaya	143.72	67.36	5.03	0.00	5.51	64.37
Mizoram	49.02	40.20	1.08	0.00	4.06	43.86
Nagaland	59.45	85.99	0.06	0.00	2.87	26.69
Sikkim	41.16	25.73	0.00	0.00	1.42	0.92
Tripura	109.97	131.21	17.64	0.11	2.92	9.47
Uttaranchal	544.63	165.62	167.56	0.67	18.46	39.36

Source: Basic Data from Respective Ministries, UGC, KVS, NAFed, Agricultural Insurance Company

**Table A8: Per capita Petroleum, Food and Fertilizer Subsidies across States: 2006-07 & 2007-08
(in Rupees)**

	2006-07			2007-08		
	Petroleum Subsidy	Food	Fertilizer	Petroleum	Food	Fertilizer
General Category States	450.25	170.11	243.47	678.77	249.57	371.12
Andhra Pradesh	489.01	276.17	361.93	801.34	435.52	577.40
Bihar	226.82	68.22	149.45	301.92	211.09	238.42
Chattisgarh	335.58	291	245.87	508.90	73.31	345.61
Goa	1646.55	52.2	60.69	2825.00	0.00	47.88
Gujarat	632.93	79.08	294.58	909.40	179.26	492.94
Haryana	867.49	59.02	610.53	1538.66	144.54	937.28
Jharkhand	320.8	145.23	55.11	472.00	321.67	85.44
Karnataka	550.83	248.73	297.86	841.29	349.48	476.25
Kerala	520.09	199.83	69.85	807.02	291.81	125.41
Madhya Pradesh	334.12	141.45	211.54	485.71	290.33	317.07
Maharashtra	623.71	141.82	243.92	956.69	256.97	371.20
Orissa	339.81	288.18	129.31	499.50	341.85	209.03
Punjab	842.46	18.38	791.04	1368.80	68.05	1168.61
Rajasthan	429.15	61.71	177.21	664.86	194.58	262.44
Tamil Nadu	624.63	396.61	194.25	985.54	466.27	317.03
Uttar Pradesh	317.99	149.26	245.96	449.14	119.43	350.78
West Bengal	350.84	185.78	183.13	470.53	267.12	265.14
Special Category	435.57	294.7	75.63	613.19	379.31	108.70
Arunachal Pradesh	506.37	298.45	3.15	775.00	0.00	2.83
Assam	332.41	304.67	55.71	432.44	484.95	83.49
Himachal Pradesh	553.3	319.99	83.48	883.33	639.39	131.08
Jammu & Kashmir	556.6	329.34	89.75	739.52	544.35	122.45
Manipur	310.34	177.62	75.42	446.15	0.00	29.73
Meghalaya	577.65	270.74	20.23	940.00	0.00	9.32
Mizoram	478.72	392.61	10.59	710.00	0.00	7.60
Nagaland	228.75	330.85	0.22	377.27	0.00	0.23
Sikkim	702.4	439.08	0	1050.00	0.00	0.00
Tripura	320.43	382.32	51.39	422.86	0.00	39.97
Uttaranchal	585.31	177.99	180.07	855.79	193.68	283.64

Table A9: Petroleum, Food and Fertilizer Subsidies across States: 2006-07 & 2007-08
(In Rupees Crore)

	2006-07			2007-08		
	Petroleum	Food	Fertilizer	Petroleum	Food	Fertilizer
Major States	46592	17603	25194	26342	559838	71644
Andhra Pradesh	3972	2243	2940	3580	30120	6587
Bihar	2078	625	1369	1980	9323	2832
Chattisgarh	765	663	561	173	24422	1201
Goa	262	8	10	0	90974	452
Gujarat	3511	439	1634	1011	39444	5129
Haryana	2045	139	1439	344	44936	3662
Jharkhand	949	429	163	965	23261	1416
Karnataka	3120	1409	1687	2006	33698	4829
Kerala	1756	675	236	998	38144	2760
Madhya Pradesh	2242	949	1419	2012	18030	3366
Maharashtra	6595	1500	2579	2747	43154	10227
Orissa	1334	1131	507	1364	21390	1993
Punjab	2273	50	2134	181	42013	3641
Rajasthan	2702	389	1116	1257	21699	4295
Tamil Nadu	4087	2595	1271	3096	35594	6544
Uttar Pradesh	5893	2766	4558	2280	15737	8574
West Bengal	3009	1593	1571	2348	27899	4136
Special Category	3070	2077	533	2731	307857	4415
Arunachal Pradesh	60	35	0	0	25764	93
Assam	961	880	161	1450	21090	1293
Himachal Pradesh	373	216	56	422	43160	583
Jammu & Kashmir	649	384	105	675	25512	917
Manipur	80	46	19	0	21855	116
Meghalaya	144	67	5	0	26405	235
Mizoram	49	40	1	0	30548	71
Nagaland	59	86	0	0	25744	83
Sikkim	41	26	0	0	32384	63
Tripura	110	131	18	0	28179	148
Uttaranchal	545	166	168	184	27216	813