

Tracking Policy and Budgetary Commitments for Drinking Water and Sanitation in the Context of the New Federal Fiscal Architecture in India

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WASH Dialogues



Centre for Budget and Governance Accountability
(www.cbgaindia.org)

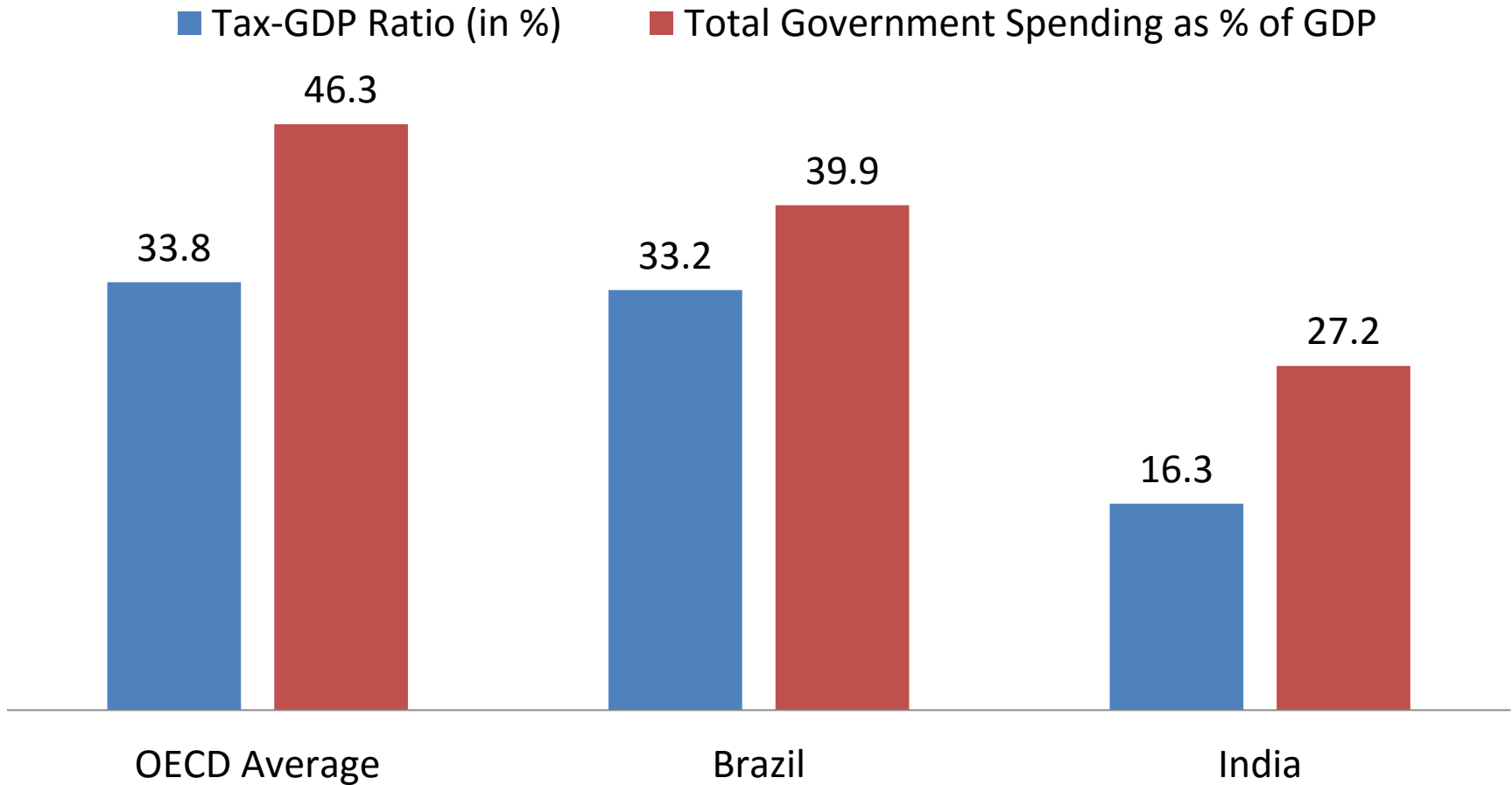
Outline of the Presentation

- I. Scope of government budget in India

- II. Key Findings from the Study
 - a) Institutional Mechanism of Fund-flows in Water & Sanitation
 - b) Adequacy of budgetary resources

- III. Issues for further research

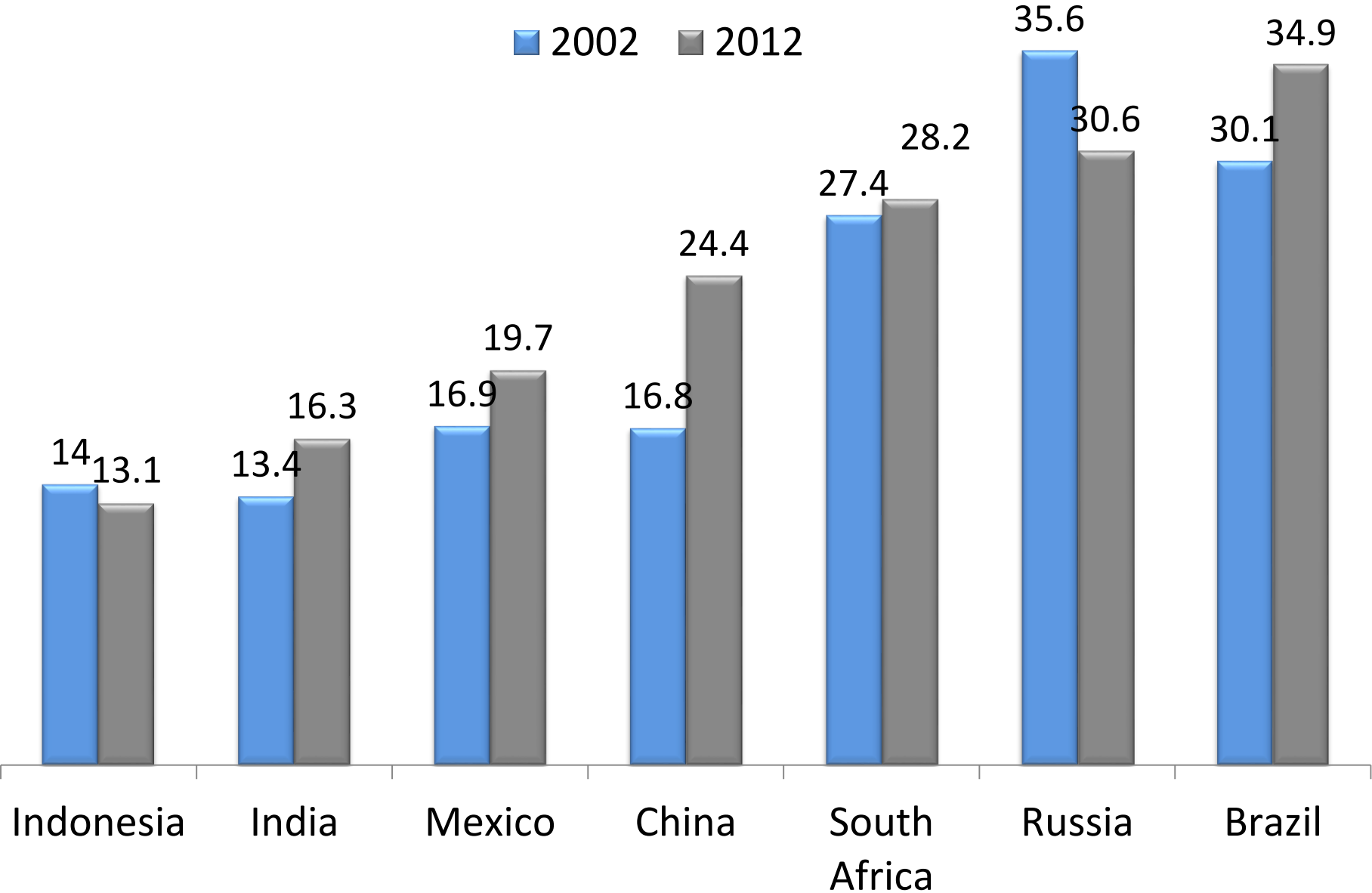
Limited Fiscal Policy Space in India



(Figures as of 2010)

Source: Compiled by CBGA from IMF, OECD and Government of India publications

Tax-GDP Ratios across BRICSAM Countries



Recommendations of 14th Finance Commission

- Enhanced states' share in divisible pool of central taxes from 32 percent to 42 percent every year for the period 2015-16 to 2019-20
- Formula for the horizontal devolution of resources from the divisible pool has two new criteria, viz. demographic changes by 2011 (i.e. the population in 2011), and forest cover in a state; dropped the criterion of fiscal discipline
- No sector specific-grants for states
- Grants to states for local bodies (urban and rural) to be Rs. 2,87,436 crore for period 2015-20
- Evolving a new institutional arrangement for:
 - (i) identifying the sectors in states for grants from the Union Government,
 - (ii) indicating criteria for inter-state distribution of these grants,
 - (iii) schemes with appropriate flexibility for the states, and
 - (iv) identifying and providing area-specific grants

Implications for Financing of State Budgets

- State's Own *Tax Revenue* and *Non-tax Revenue*
- Devolutions from the Union Govt. to States
 - (a) Share in divisible pool of Central Taxes (increased)
 - (b) Finance Commission Grants from the Union Budget
- Plan Assistance from the Union Govt. (discontinued)
- Union Budget funds for Central Schemes (slashed)
- Borrowing by States (capped) [review of FRBM Act]

Recommendations of the Sub-Group of CMs on CSS

CSS divided into Core and Optional schemes:

- *For Core Schemes*

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

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

For Union Territories: Centre: 100 %

- *For Optional Schemes*

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

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

For Union Territories: Centre: 100 %

States would be free to choose which Optional Schemes they wish to implement

Amongst the Core Schemes, those for social protection (including MGNREGA) and environment protection to form “Core of the Core”, to have the first charge on funds available

Outlay for Major Social Sector Schemes in the Union Budget

(Figures in Rs. Crore)	2014-15 BE	2014-15 RE	2014-15 Actual	2015-16 BE	2015-16 RE	2016-17 BE
<i>SSA</i>	28258	24380	24097	22000	22015	22500
<i>RMSA</i>	5000	3480	3398	3565	3565	3700
<i>MDM</i>	13215	6973	10523	9236	9236	9700
<i>ICDS</i>	18691	16967	16684	15902	15584	14863
<i>SABLA</i>	700	630	622	438	476	460
<i>IGMSY</i>	400	360	343	10	234	400
<i>NHM</i>	22731	18609	19751	18875	19122	19037
<i>NRDWP</i>	11000	9250	9190	2503	4373	5000
<i>SBM (Rural+Urban)</i>	4260	4541	3701	3625	7525	11300
<i>IAY / PMAY (Rural)</i>	16000	11000	11096	10025	10004	15000
<i>PMGSY</i>	14391	14200	9960	14291	15188	19000

Transfer of Union Resources to States (in Rs. Crore)

	2014-15 Actual	2015-16 BE	2015-16 RE	2016-17 BE
States share of taxes and duties	3,37,808	5,23,958	5,06,193	5,70,337
Non-plan grants and loans to States	77,198	1,08,551	1,08,312	1,18,437
Central Assistance to States for Plan Spending	2,70,829	2,19,647	2,16,108	2,41,900
Total Union Resources transferred to States	6,75,177	8,42,963	8,21,520	9,21,201
<i>States' share of taxes and duties as % of GDP</i>	2.7	3.7	3.7	3.8
<i>Non-plan grants and loans to States as % of GDP</i>	0.6	0.8	0.8	0.8
<i>CA to States as % of GDP</i>	2.2	1.4	1.6	1.6
<i>Total Union Resources transferred to States as % of GDP</i>	5.4	5.8	6.1	6.1

Share of States' Own Resources in Total State Budget

	Total Own Resources in total Expenditure (%)		
State	2014-15 BE	2014-15 RE	2015-16 BE
Assam	26.9	21.2	26.0
Bihar	24.6	21.8	28.4
Odisha	35.1	35.0	36.1
Uttar Pradesh	37.0	37.8	37.6
Jharkhand	33.4	37.5	37.9
Madhya Pradesh	39.2	41.2	40.9
Chhattisgarh	44.6	44.8	44.6
Rajasthan	42.4	43.0	46.1
Tamil Nadu	65.4	59.2	60.4
Maharashtra	62.7	61.0	66.2

Total Expenditure by the States as % of GSDP

	State	Total Expenditure (Rs. Crore)			Total Expenditure as % of GSDP		
		2014-15 (BE)	2014-15 (RE)	2015-16 (BE)	2014-15 (BE)	2014-15 (RE)	2015-16 (BE)
1	Maharashtra	212321.2	219074.8	230061.9	12.3	13.0	12.2
2	Tamil Nadu	153104.0	160534.0	174511.0	16.8	17.0	16.5
3	<i>Rajasthan</i>	131426.9	126111.6	137713.4	<i>22.9</i>	<i>21.9</i>	<i>20.5</i>
4	<i>M.P.</i>	117041.0	118517.6	131199.1	<i>26.0</i>	<i>25.6</i>	<i>23.4</i>
5	<i>Odisha</i>	80139.6	77557.1	84487.8	<i>25.8</i>	<i>25.0</i>	<i>24.3</i>
6	<i>Jharkhand</i>	50387.7	50839.6	55493.0	<i>25.5</i>	<i>25.7</i>	<i>24.5</i>
7	<i>Bihar</i>	116886.2	132186.9	120685.3	<i>30.4</i>	<i>34.5</i>	<i>26.5</i>
8	Chhattisgarh	54710.0	55034.4	65012.9	26.0	26.2	27.2
9	Uttar Pradesh	274704.6	263302.8	302687.3	28.1	27.0	27.4
10	<i>Assam</i>	58104.5	65028.0	66142.2	<i>31.6</i>	<i>35.4</i>	<i>31.6</i>

Key Concerns

- A reduced role of the Union Government, with an increased role of States, in financing of social sector interventions could in the long run aggravate the problem of regional disparity
- States with weaker fiscal health could witness lesser magnitudes of public spending on social sectors because of:
 - the limited ability of their governments to mobilise own sources of revenue and
 - a more acute need for them to increase spending on core infrastructure sectors for accelerating economic expansion as compared to States with better fiscal health
- Low political priority for some of the social sectors (like Women and Child Development)

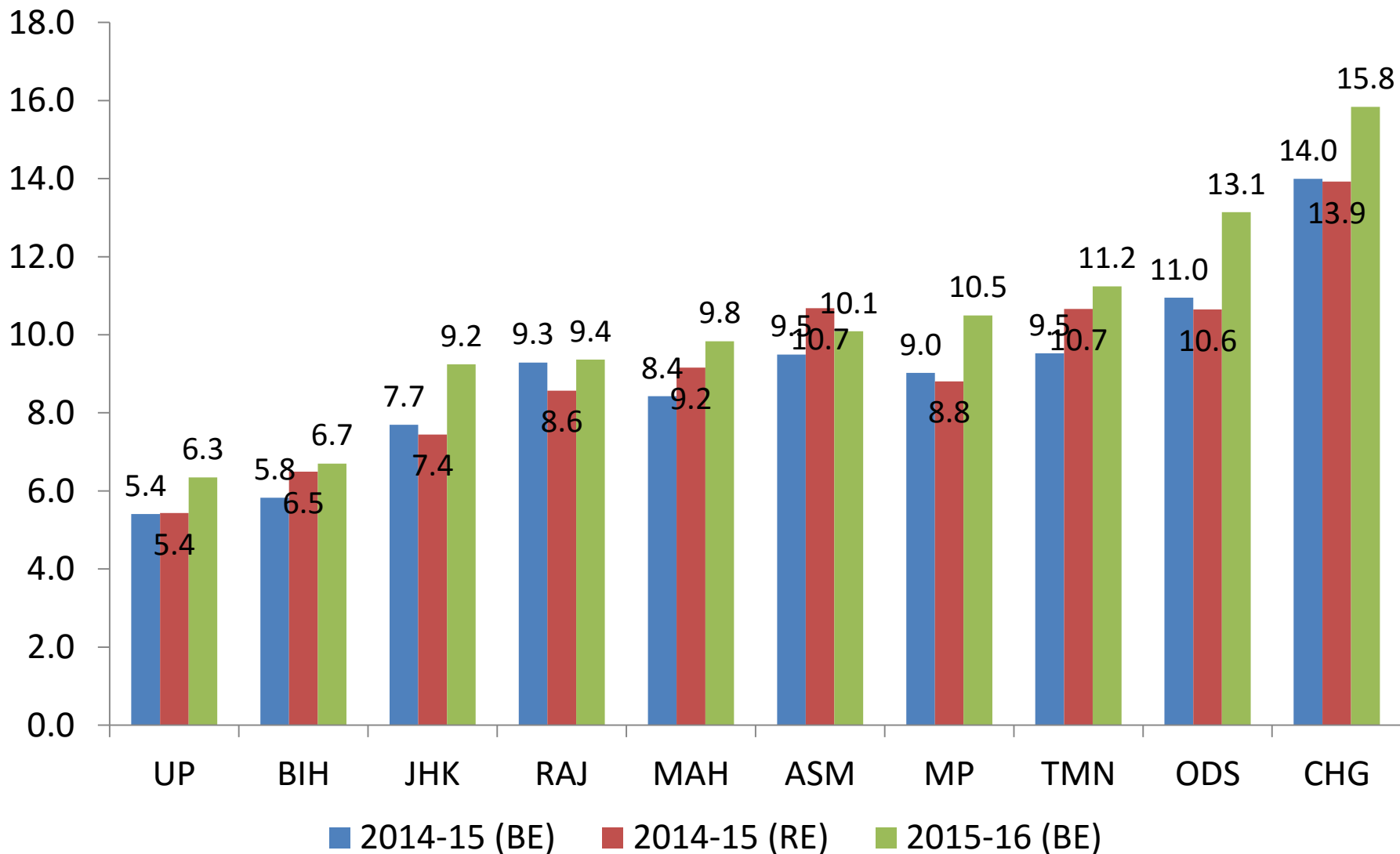
Revenue Deficit (+) / Revenue Surplus (-) as % of GSDP

	State	2014-15 (BE)	2014-15 (RE)	2015-16 (BE)
1	Uttar Pradesh	(-) 2.97	(-) 3.32	(-) 3.08
2	Assam	(-) 2.21	---	(-) 2.63
3	Bihar	(-) 2.65	1.18	(-) 2.63
4	Jharkhand	(-) 2.00	(-) 1.94	(-) 2.07
5	Chhattisgarh	(-) 1.17	(-) 1.13	(-) 1.85
6	Odisha	(-) 1.37	(-) 1.09	(-) 1.47
7	Madhya Pradesh	(-) 1.00	(-) 1.38	(-) 1.00
8	Rajasthan	(-) 0.13	0.73	(-) 0.08
9	Maharashtra	0.31	0.82	0.20
10	Tamil Nadu	(-) 0.03	0.38	0.44

Fiscal Deficit as % of GSDP

	State	2014-15 (BE)	2014-15 (RE)	2015-16 (BE)
1	Maharashtra	1.80	2.21	1.63
2	Assam	2.17	---	2.18
3	Jharkhand	2.49	2.49	2.28
4	Uttar Pradesh	2.91	2.91	2.85
5	Bihar	2.96	8.55	2.98
6	Madhya Pradesh	2.98	3.00	2.99
7	Odisha	3.12	2.94	2.99
8	Rajasthan	3.51	4.03	2.99
9	Chhattisgarh	2.74	2.74	3.00
10	Tamil Nadu	2.73	2.90	3.00

Per Capita Budget Allocations by States on *Social Sectors, Agriculture and Rural Development* (in Rs. Thousands)



Study on Budgets for Drinking Water & Sanitation

CBGA -Arghyam -'*Tracking Policy and Budgetary Commitments for Drinking Water and Sanitation*' from August to December 2015.

Objectives:

- a) Track fund flow process in water and sanitation (WATSAN) from Centre – States - Districts in seven study states: Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, Chhattisgarh, Madhya Pradesh and Odisha.
- b) Observe emergent policy and process frameworks in Centre and study States.
- c) Examine fund flow processes of different institutions involved in implementation of water and sanitation, more specifically, adequacy of budgetary resources.

- d) Deepen policy dialogue on WATSAN in the country, and highlight areas for action especially at state level.
- e) Inform States' efforts for effective utilization of budgetary resources in the sector.

Methodology:

- Review of policies, analysis of budgetary data and allocations of select states.
- Field visit to states. Meetings and discussions with 39 officials from State government line departments and sector specific NGOs.
- Secondary data analysis from state budget books, supplementary budgets, policy and scheme guidelines, detailed demand for grants, other relevant budgetary data.

Key Findings

Policy Level:

- 14th FC Recommendations: increased resource pool of a few states, with Madhya Pradesh gaining and Karnataka losing. Not translated into less spending on WATSAN (such as in Karnataka).
- AMRUT: most states prepared proposals. Anticipating funds ranging from Rs. 200 crores to Rs. 5000 crores.
- Increase in impetus towards sanitation, observed in all states. Largely due to Swachh Bharat Mission. Relative uniformity observed on SBM.

- Urban sanitation: toilets constructed in those areas which already had existing water connections
- Good practice in Madhya Pradesh. Delinking of land tenure ship and toilet construction. Not much information on on-site sanitation solutions.
- Water quality, focus more on fluoride and arsenic and not iron contamination, as found in Chhattisgarh.
- Increased focus on surface water schemes rather than ground water schemes in all study states. (Water Grid in Telangana)

Institutional Architecture and the Fund Flow Process:

For Visualisations, check the link: <http://arghyam.org/water/>

- SBM, fund transfer modalities from state-level to district-level similar. State officials favorable towards the focus on sanitation
- Electronic fund transfers (e-fms)- fund transfers directly to beneficiaries. But process not been streamlined in all states and pose issues.
- School and anganwadi sanitation handled by separate departments. No convergence with WATSAN departments. Delinking with MGNREGS.
- Procedural bottlenecks, time lag between fund installments, inability to spend funds. Scheme conditionalities and stipulations . (Eg. Chattisgarh)

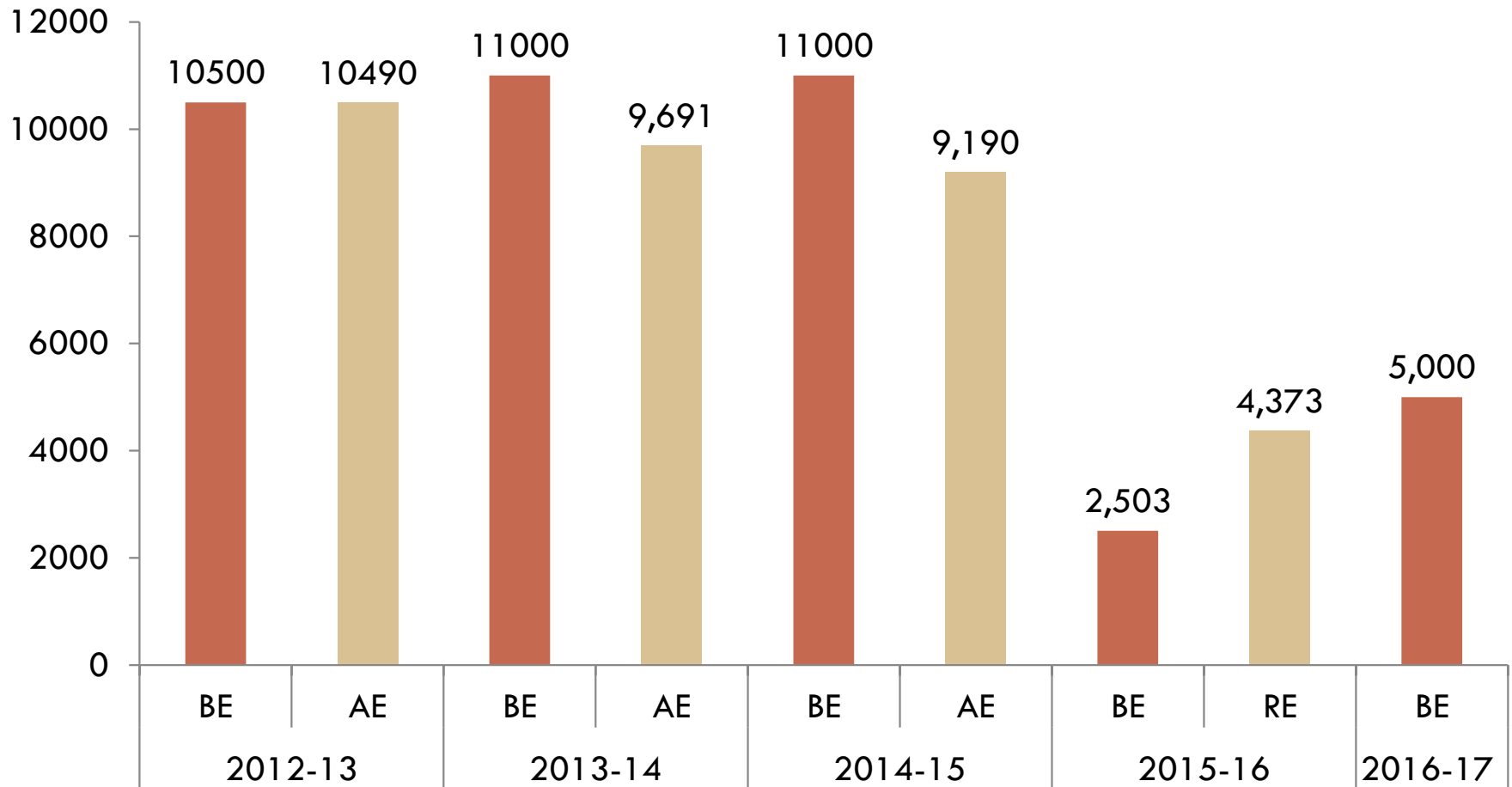
- Shortage of staff hinder timely completion of projects (Karnataka and Tamil Nadu). Demand for greater flexibility in fund utilisation in states.
- State officials wary of SBM becoming another TSC. Rush to complete targets (increased toilet construction) with scant assessment on its usage.
- Attitude of implementing officials- key to the success of SBM. Community involvement also key to success although it has shown variances in results.
- Faulty baseline surveys, lack of uniform preliminary data. (Eg. Odisha, underrepresentation of toilets due to natural disasters)

- Urban water supply: ULBs handled the water supply in most of the states. Municipal Administration and Urban Development Department – O&M. Water Boards – KUWSDB and TWAD Board. State Urban Development Agency (Chhattisgarh)
- No political strain revealed between ULBs and State line departments in implementation (Madhya Pradesh, Chhattisgarh and Odisha). Not found in the other 4 study states.

Budgets for Rural Water & Sanitation

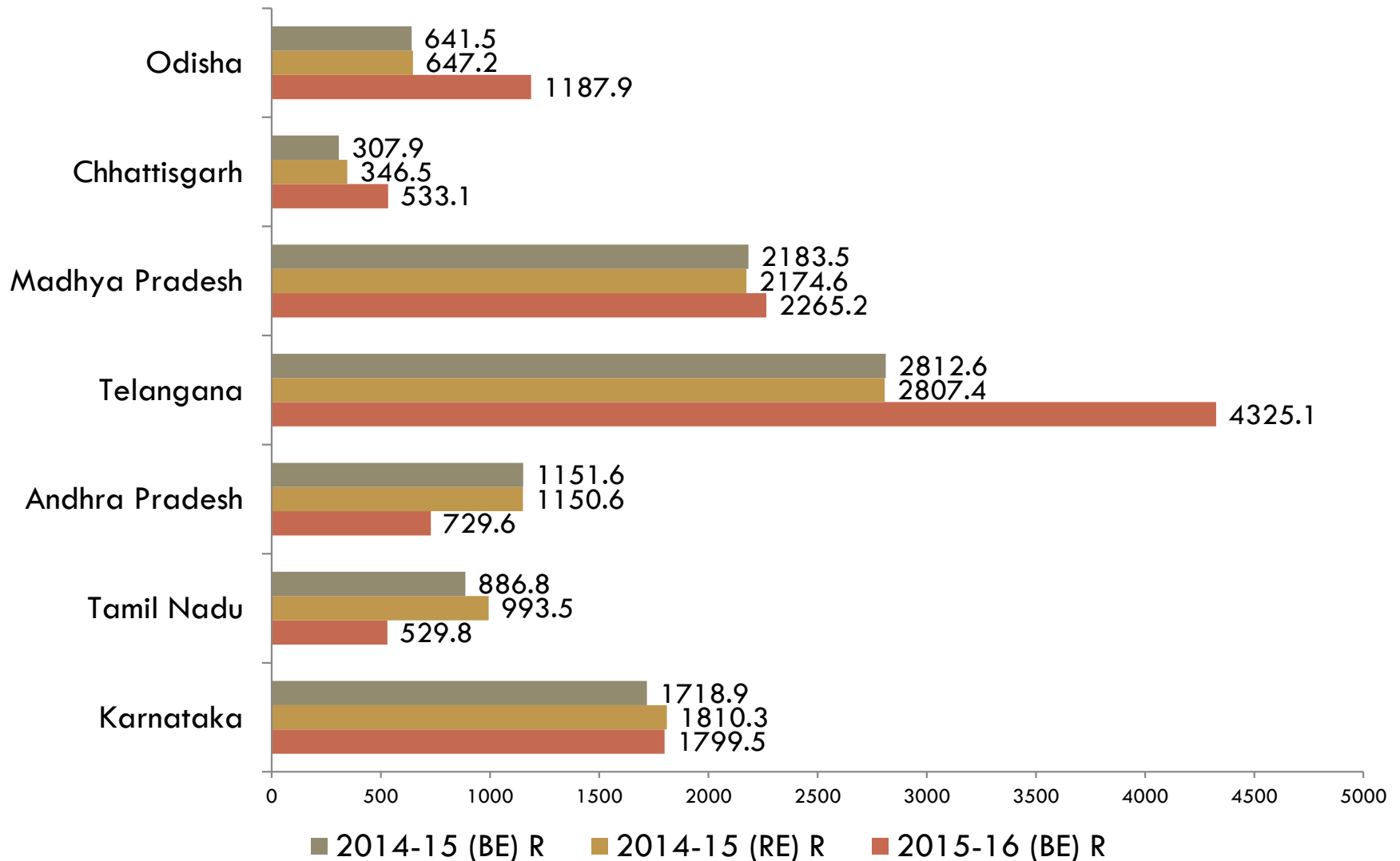
2014-15 and 2015-16

Union Government Spending on NRDWP (in Rs. crore)



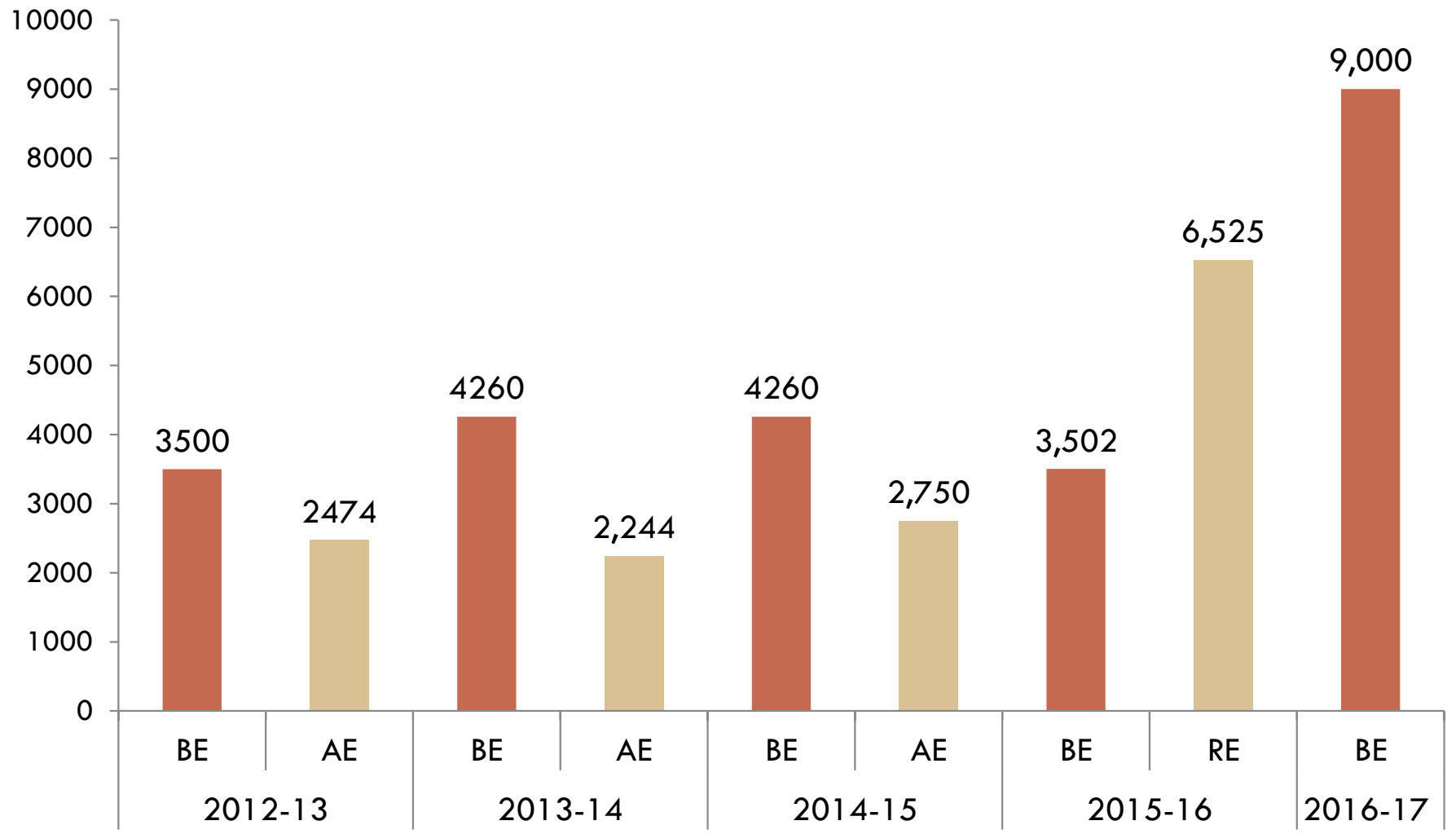
Source: Compiled by CBGA from Union Budget documents, various years

Budgetary Outlays for Rural Water (in Rs. Crore)



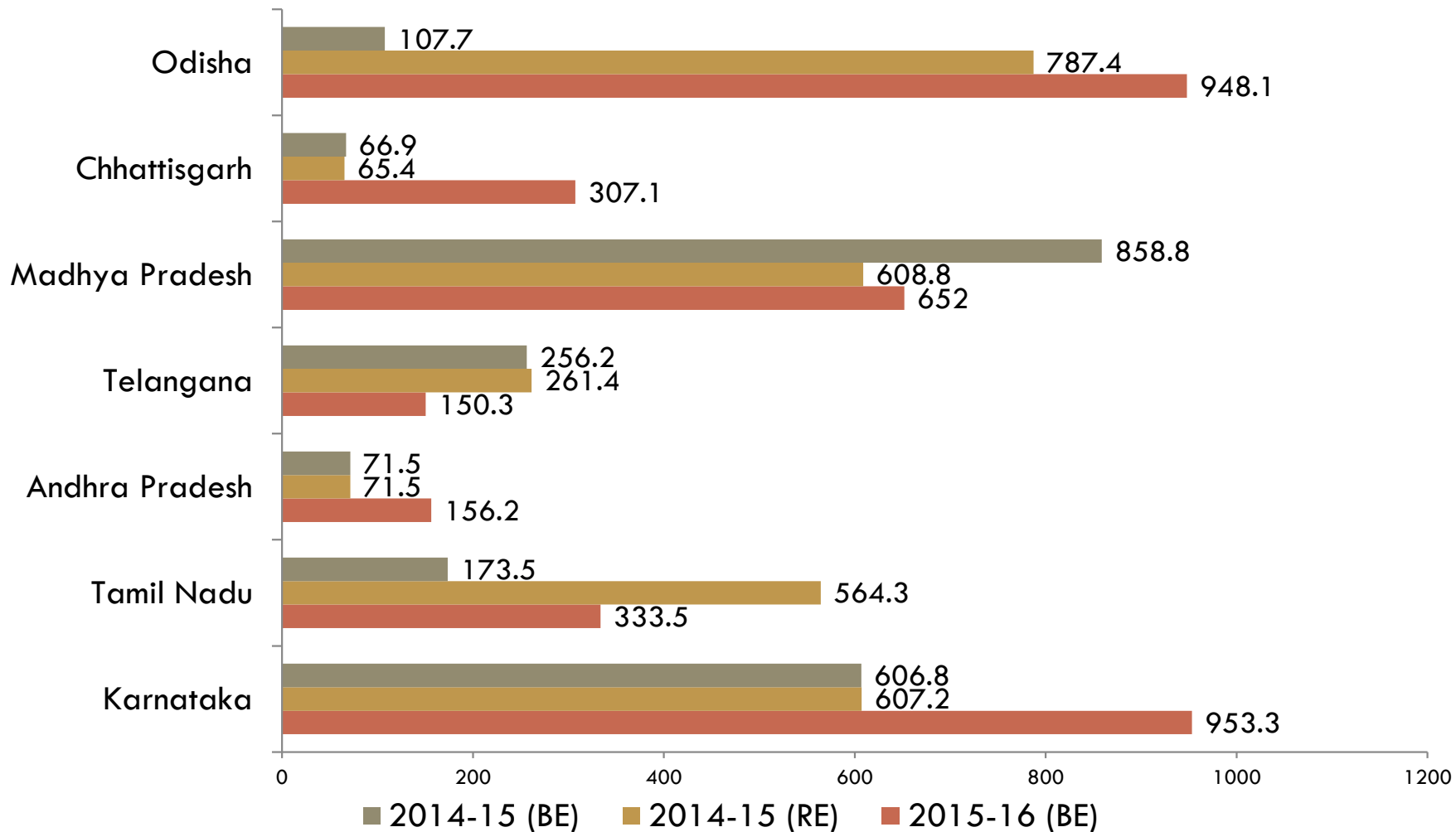
Source: Tracking Policy and Budgetary Commitments for Drinking Water and Sanitation: A Study of Select States, Centre for Budget and Governance Accountability

Union Government Outlays for SBM-R (in Rs. Crore)



Source: Compiled by CBGA from Union Budget documents, various years

Budgetary Outlays for Rural Sanitation in Select States (in Rs.crore)



Source: Tracking Policy and Budgetary Commitments for Drinking Water and Sanitation: A Study of Select States, Centre for Budget and Governance Accountability

Resource Adequacy in Budgetary Allocations:

- In the effort to prioritize sanitation, focus on drinking water has declined to some extent (Rs. 2,611 crore in 2015-16 with a sharp decline from Rs. 11,000 in 2014-15).
- A Parliamentary Standing Committee Report on Water and Sanitation had pointed out to this diminished budget allocation for drinking water allocation and had demanded for more allocation. This reduced allocation is especially worrisome since six of the seven study states are undergoing huge water crises and had declared drought.
- The overall increase in outlays for water and sanitation combined in 2015-16 as compared to 2014-15 is apparent in all the study states. There has been an increase in sanitation funding in all the states. This has come at the expense of reducing the budget for rural water especially in NRDWP. The increase in allocations for sanitation is reflected in the increased

budgets for SBM. However, this rise has been due to the new allocation on SBM (urban)

- Odisha has allocated the highest amount of funds for rural water and sanitation among the select study states. This is a positive effort. Tamil Nadu has been consistently allocating more funds for urban water as compared to rural. Chhattisgarh has allocated the highest fund for urban sanitation followed by Madhya Pradesh and Tamil Nadu.
- The budget for NRDWP in all the study states was found to be routed through the State Budget/ State Treasury, instead of being sent directly to the bank accounts of the autonomous Societies/Districts which was previously practiced. This change began in 2014-15.

- The TSP and SCSP funds are being used to enhance the Individual Household Latrine (IHHL) unit cost for SC & ST households in Karnataka.
- In Odisha, NRDWP fund had been delayed and less than 50 percent had been released from the total amount requested by the state from the Centre.
- In SBM (U), the unit cost for toilet construction of Rs. 4,000 was found to be quite low in most states. Hence, in many cases, the states and ULBs themselves had supplemented the amount (for instance, Rs. 16,000 in Odisha) from the state budget. The ratio of State-ULB Beneficiary share for IHHL construction differed in all the study states. Typically the states/ULBs were providing a larger share of funds than the Centre.

Issues for Further Research

- Reduction in the budgets of IEC component from 15 percent to 8 percent.
- Toilet construction cost of Rs. 4,000 in urban sanitation and land tenure issues
- Solid & liquid waste management
- State level schemes on water and sanitation

Thank You