BRIEFS

India's States Increase Health Spending, But Will They Spend Effectively?

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An Analysis of Fiscal Reforms on State Health Budgets in Bihar and Uttar Pradesh

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Anit Mukherjee , Amanda Glassman and Rifaiyat Mahbub

Key takeaways

- Bihar and Uttar Pradesh, two states of India with a combined population of 300 million and low health outcomes, have received greater fiscal transfers from the Central government over the last two years following the implementation of the 14th Finance Commission recommendations and are **set to spend more on social services—including health.**

- Public budgets for health have increased significantly for Bihar (70 percent) and substantially for Uttar Pradesh (30 percent), both in absolute terms and as a proportion of revenue expenditure in both states. The ability of state governments to **spend such significant budget increases and how they spend it should be closely monitored**.

- Government of India **should use is own programs to incentivize states through performance or outcome-based payment mechanisms**. The increases in state budgets for health should be accompanied by efforts to assure its timely execution, increased efficiency, and improved outcomes**.**

In this brief, we assess the net effects of the 2015 fiscal reforms on budgets in two of the poorest states in India—Bihar and Uttar Pradesh—comparing revenues and budgets in general and for health pre- and post-reform.

Introduction

Since 2015, India has devolved an increasing share of its national tax yield to state governments and undertaken reforms to other kinds of centre-to-state grants, namely by:

- Increasing the vertical tax devolution of the divisible pool of taxes from 32 percent to 42 percent following the recommendations of the 14th Finance Commission, resulting in increased flow of untied funds to state treasuries; and,

- Revising the states' co-share for Centrally Sponsored Schemes (CSS) such as the National Health Mission (NHM) from 25 to 40 percent, which increased their matching contribution to tied funds from the Centre.

Together, these reforms aim to enhance the ability of states to establish their own budget priorities utilizing the increased fiscal space and to improve effectiveness and accountability for spending CSS transfers at the state level.

The net effects of both reforms on state budgets in general and state budgets for health was uncertain. Several state governments were concerned that cuts in central grants might lead to a net decline in central fund transfers that would neutralize the increase in the share of tax devolution on states' budgets, and on budgets for health in particular.

For the health sector, where India has historically spent very little, the increased revenue via the tax devolution was considered good news but some health experts worried that states would give little priority to health[1] under these conditions of greater autonomy. Further, the NHM, the largest CSS in the health sector, was flat-lined in the budget following the 14th FC recommendations.

We find that the two states have much more to spend in general and are budgeting more for health in 2015-2016 as compared to previous fiscal years. In Bihar, the 70 percent budget increase for health is related entirely to the CSS (NHM) increase rather than greater state-level contributions resulting from increased devolution. However, the reason behind this increase in expenditure and its sustainability is unclear and therefore needs to be tracked over the long term.

Key finding 1: Bihar and UP have much more to spend via increased tax devolution as well as grants-in-aid

Both Bihar and Uttar Pradesh received considerably greater revenues from increased tax devolution in 2015-16 compared to 2013-14 and 2014-15. For 2015-16, both states experienced a large increase in tax devolution. Compared to 2014-15, Bihar reported a 37.3 percent increase in receipts from tax devolution while Uttar Pradesh reported a 30.2 percent increase as per the 2015-16 revised estimates. This sharp jump coincides with the central government adopting the 14th FC recommendations. Apart from the increase in the devolution ratio, this is due in part to the inclusion of state's 2011 population with a weight of 10 per cent in the devolution formula, compared to previous Finance Commissions that had considered only the 1971 population. UP and Bihar, being two of India's most populous states, benefitted from this change in the 14th FC formula.

Budget figures for 2016-17 indicate that the upward trend continued in the current financial year. There was a 15 percent increase in revenues from Bihar's share of central taxes compared to 2015-16, while Uttar Pradesh experienced a 9.8 percent increase. This is higher than 6.5 percent for both states in 2013-14 and 2014-15, the two years preceding the implementation of the 14th FC recommendations. The new devolution formula, therefore, has significantly augmented state spending capacity both for 2015-16 and 2016-17 budgets.

Predictability of intergovernmental fiscal transfers is important to enable states to prioritize their budgetary allocation decisions. Did states accurately forecast their revenues following the change in fiscal devolution formula and the restructuring of CSS? Comparing the 2015-16 budget estimates with the revised estimates, we find that Bihar correctly projected the revenue from tax devolution but underestimated the quantum of grants-in-aid. In contrast, Uttar Pradesh underestimated the share of central taxes but overestimated the grants-in-aid. It would be interesting to track these figures in the next budget to understand whether states are making more accurate budget forecasts over time, adjusting to the new devolution world post 14th FC.

Key finding 2: Bihar and UP are budgeting more for health

As a country, India spends approximately 1 percent of its GDP on public expenditure on health out of which nearly three-quarters comes from the states' own resources. There is huge disparity in per capita public expenditure on health which the 12th Finance Commission tried to bridge by providing partial equalization grants. Over the last decade, the National (Rural) Health Mission has also tried to address financing needs and bridge the gap between states.[2] However, the most effective solution remains greater expenditure by states through their own budgetary provisions. In the wake of the 14th Finance Commission devolution, states have the opportunity (but not the obligation) to prioritize health and implement programs that are customized to their state-specific needs and thereby improve health outcomes.

Is there evidence that states increased expenditure on health after the implementation of 14th FC recommendations? To answer this question, we compiled component-wise disaggregated state-level health expenditure data in UP and Bihar for health and family welfare departments from 2013-14 to 2016-17. A closer look at the Bihar and Uttar Pradesh budgets demonstrates that health sector budgets have indeed increased, and quite significantly in the case of Bihar. However, the data also shows interesting differences between the two states in terms of its distribution of health allocation.

Table 3: Budget Expenditure on Health and Family Welfare, Bihar

In Rs.Crore	2013-14	2014-15	2015-16 (RE)	2016-17 (BE)	Avg. change 2014-15 to 2016-17 (%)	o Change%) 2015-16 t 2016-17 (
Health Services - Allopathy	1402.48	2419.04	2936.05	5778.02	69.4	96.8
Health Services - Other systems	29.33	35.21	67.53	89.80	77.5	33.0
Medical Education and Training	247.46	387.90	456.73	568.18	23.2	24.4
Public Health	73.49	73.25	113.76	112.24	26.6	-1.3
Family Welfare	48.53	372.83	414.55	244.51	-17.2	-41.0
Total (Health + Family Welfare)	1801.29	3288.23	3988.62	6792.75	53.3	70.3

Source: Government of Bihar, Budget Documents, Detailed Demand for Grants – Health and Family Welfare

Table 4: Budget Expenditure on Health and Family Welfare, Uttar Pradesh

In Rs.Crore	2013-14	2014-15	2015-16 (RE)	2016-17 (BE)	Avg. change 2014-15 to 2016-17 (%)	Change 2015-16 to 2016-17 (%)
Health Services - Allopathy	3358.72	4240.55	5244.40	6259.60	23.8	19.4
Health Services - Other systems	700.71	767.59	951.89	1262.44	32.2	32.6
Medical Education and Training	2255.21	2324.46	2836.26	4218.91	40.8	48.7
Public Health	374.18	362.58	578.33	714.72	48.6	23.6
Family Welfare	2385.17	3421.95	4782.26	5377.84	28.6	12.5
Total (Health + Family Welfare)	9073.99	11117.13	14393.14	17833.51	30.2	23.9

Source: Government of Uttar Pradesh, Budget Documents, Detailed Demand for Grants – Health and Family Welfare

Bihar's health sector budget (including family welfare) increased by an average of 53 percent between 2014-15 and 2016-17, comparing the pre-14th FC expenditure with the latest budget allocation. The increase has been steeper between 2015-16 and 2016-17—the latest budget figures are over 70 percent higher in absolute terms than the first year of the 14th FC devolution. In 2016-17, Bihar's health sector accounted for 6.2 per cent of its total revenue expenditure compared to 4.5 per cent in 2014-15. The major share of this increase has been for rural and urban health services, especially allopathy, whereas the allocation for family welfare declined for two consecutive budget years. In Bihar, therefore, there is a clear prioritization of increased resources towards health system delivery in the post 14th FC devolution period.

In Uttar Pradesh, the health sector has not experienced as large increases in budgetary allocations as Bihar. The increase in expenditure has been more even, with relatively greater allocation for medical education and training as well as public health. The overall health and family welfare budget has increased by 30 percent between 2014-15 and 2016-17, and by a relatively modest 23 per cent over the two fiscal years following the 14th FC recommendations. In 2016-17, UP's health sector accounted for 7 per cent of its total revenue expenditure compared to 6.5 percent in 2014-15. Although not as significant as Bihar, there is evidence of prioritization of health in public expenditure in the context of increased fiscal devolution post-14th FC.

Key finding 3: Budgetary impact of NHM in the post-14th FC devolution context is uncertain

The increase in health sector allocations post increased devolution is indeed encouraging, especially in the case of Bihar which is a state that is heavily dependent on central transfers. However, data on NHM remains one important constraint in our analysis.

As we mentioned above, 2015-16 budget signaled an intention to restructure CSS following the recommendations of the 14th FC. However, the roadmap was not clear to most states until the end of the fiscal year. This created uncertainty among states on the flow of funds through CSS in general and NHM in particular. We have been able to collect information on NHM allocations from 2014-15 to 2016-17 from the budget documents in Bihar for the pre- and post-14th FC period. We see clearly that Bihar was conservative in estimating the quantum of resources from NHM in 2015-16 budget. However, the NHM receipts were much higher than expected, which is reflected in the revised estimate for health expenditure in fiscal 2015-16 being almost Rs.600 crore more than the budget estimates.

More interestingly, actual NHM allocations in 2016-17 budget are almost four times that of the 2015-16 revised estimates, with the total allocations increasing from Rs.1014.17 crore to Rs.3707.98 crore within one fiscal year. Our calculations indicate that almost all the increase in the total health budget is related to the projected increase in NHM expenditure. In other words, because NHM increased so dramatically, almost none of the increased devolution spending made its way to the health sector budget and no additional state efforts were made on the health budget, a finding seemingly inconsistent with the new NHM co-sharing policy.

The substantial increase in NHM allocation raises a few issues. First, given that Central allocation for is more or less stagnant, is the strategy of depending on NHM to increase health expenditure sustainable? Second, considering that the total NHM expenditure in 2014-15 in Bihar was around Rs.1450 crore, would the state be able to plan, prioritize, and utilize the increase in resources effectively? Finally, what incentives exist for Bihar to allocate more from the increased fiscal space and increase health expenditure in the long run? The ambition of 2016-17 will need a reality check when the next budget is presented next year.

Table 5: NHM allocations in Bihar, 2014-15 to 2016-17

NHM Allocations	2014-15 (A)	2015-16 (BE)	2015-16 (RE)	2016-17 (BE)
Rural Health Services	**812.36**	**351.98**	**853.73**	**2057.77**
Hospitals & Dispensaries	702.36	87.58	587.58	1532.99
SC Sub-plan	100.00	224.40	224.40	454.78
ST Sub-plan	10.00	40.00	41.75	70.00
Urban Health Services	**86.92**	**159.44**	**160.44**	**1650.21**
Hospitals and Dispensaries	53.00	102.00	102.00	1398.24
SC Sub-plan	30.84	50.00	51.00	215.00
ST Sub-plan	3.08	7.44	7.44	36.97
Total NHM	**899.28**	**511.42**	**1014.17**	**3707.98**

Source: Government of Bihar, Budget Documents, Detailed Demand for Grants

Policy implications

Given the fiscal reforms, **it is important for states to accurately estimate fiscal transfers from the Centre**. NHM allocations, co-sharing policies and expenditure **reporting should ideally be rule-based, transparent and consistently applied across states and time to improve transparency and predictability of budgetary allocations**, permitting health policymakers to plan for the medium-term.

Government of India should use NHM allocations to **incentivize states to allocate more from increased fiscal space and move towards performance or outcome-based payment mechanisms**. The increases in state budgets for health—regardless of source—should be urgently accompanied by efforts to assure **timely budgetary execution and greater expenditure efficiency.**

The connection between NHM and RSBY was not visible in the two states' budgets, despite national policy pronouncements. **States could use their increased fiscal space to reform health financing arrangements, including their own priority setting, cost effectiveness, and delivery mechanisms—for example, leveraging and expanding RSBY.**

Endnotes

[1] The Hindu, 'States Unlikely to Bridge Gap in Funding'. May 21, 2015 (http://www.thehindu.com/news/national/states-unlikely-to-bridge-gap-in-f...)

[2] Fan, Victoria et.al.(2015). Review of Intergovernmental Fiscal Transfers for Health: Lessons Learned and Looking Ahead. Accountability Initiative and Center for Global Development. Available at: http://www.cgdev.org/sites/default/files/CGD-AI%20Consultative%20Review%...