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Integrating Government Transfers and Grants with SDGs

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Abstract

Government transfer and grants play a crucial role in performing allocating, distributive and regulatory functions. India is one of the signatory members and fully support for the implementation of Sustainable Development Goals (SDGs) which was established by the United Nations in 2015. This commentary evaluates how various centrally sponsored programs are standing out in fulfilling SDGs particularly, sustainable goal 1, 2, 3, 5, 8 and 10. Further, states and union territories performance has been assessed by looking at sustainable index score that revealed disproportionate state-wise situation. Thus, the commentary comes up with the suggestive measures to achieve the targets of SDGs, and development outcomes particularly by shedding light on mechanism of vertical transfer along with creating competitive environment amongst the states, in order to align with SDG target achievements in the long run.

Keywords: Flexible inflation targeting; India; supply shocks; expectations channel; market imperfections; coordination

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1. Introduction

The United Nations' Sustainable Development Goals (SDGs), established in 2015, serve as a global framework to address social, economic, and environmental challenges. India, being one of the signatories to the SDGs, has recognized the importance of aligning its policies and programs with the targeted goals to ensure the well-being and prosperity of its citizens. This commentary aims to comprehend the implication of government transfers and grants in achieving the target of SDGs. Further, the commentary shall come up with a structural mechanism and framework of fiscal transfer allocation among the different Indian states after aligning with state specific SDGs' attainment and performances. This commentary will therefore also posit a criterion for such an allocation process for Indian states.

Government transfers and grants refer to financial resources provided by the government to individuals, households, communities, and organizations for poverty alleviation, social protection, education, healthcare, infrastructure development, and environmental conservation. These transfers could be in the form of cash transfers, subsidies, and grants, or other types of financial assistance. The design, degree, structure, framework of government transfer and grants is significantly governed by the fiscal externalities where the government's decision on taxation and expenditure affects well-being by changing consumer or producer prices (Dahlby, 1996). Further, we have the 'grants economy' that integrate transfer mechanisms (the bilateral and unilateral transfer) in the economic activities. The grants economy acts as a macroeconomic 'regulator', where benefits are transferred to the recipient in the form of output maximization, infrastructure development, employment generation, etc.

Such steps would help in fulfilling the SDGs. Transfers and grants promote social welfare through allocative, distributive, stabilizing, and regulatory functions (Musgrave, 1959; Oates, 1972). The Indian government recognizes the significance of these financial instruments in achieving inclusive and sustainable development, and has implemented various programs and initiatives to address the SDGs. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Garib Kalyan Anna Yojana, National Food Security Mission, Beti Bachao Beti Padhao (BBBP) scheme, the Mahila Shakti Kendras (MSKs), and Skill Development Mission are some of the centrally sponsored programs intended to align with the SDGs (NITI Aayog, 2024).

2. Integrating Government Transfers and Grants with the SDGs

One of the primary goals that the government intends to address through transfers and grants is the elimination of poverty. India has a significant population living below the poverty line, and the transfer mechanism could play a crucial role in reducing poverty rates. MGNREGS, for example, guarantees a minimum number of days of employment to rural households, providing them with a source of income and reducing their vulnerability to poverty. Further, PMJDY ensures financial inclusion for people with low incomes by opening bank accounts and enabling them to access government transfers and subsidies directly. These kinds of initiatives contribute to poverty alleviation, income generation, and improved livelihoods, thereby supporting Goal 1, Goal 2 (Zero Hunger), and Goal 3 (Good Health and Wellbeing).

In India, education is another crucial sector addressed by government transfers and grants, which aligns with Goal 4 (Quality Education). The Sarva Shiksha Abhiyan (SSA) and the Mid-Day Meal Scheme (MDM) are prominent examples of government programs that provide financial assistance to ensure access to education and promote quality learning outcomes. The SSA focuses on universalizing elementary education, while the MDM scheme provides free meals to children in government schools, addressing both educational and nutritional needs. These initiatives have improved educational outcomes along with the overall development of children.

Healthcare is another crucial aspect, aligning with Goal 3. The National Health Mission (NHM) and Ayushman Bharat are significant government initiatives to improve healthcare access. The NHM focuses on strengthening healthcare infrastructure, providing essential drugs and supplies, and promoting maternal and child health services. Ayushman Bharat is a health insurance scheme that offers financial protection for vulnerable populations, particularly those below the poverty line. These programs have led to improved healthcare access, reduced out-of-pocket expenses, and enhanced health outcomes, contributing to the achievement of Goal 3.

Furthermore, various programs, such as the BBBP scheme and MSK initiative, aim to empower women, promote their rights, and ensure active participation in social and economic development. These programs provide financial assistance for education, skill development, and entrepreneurship, fostering gender equality and women's empowerment.

Although government transfers and grants have demonstrated significant impacts on SDG fulfilment, yet transparent governance, efficient targeting mechanisms, and robust monitoring systems are essential to maximizing the impact of these financial instruments on SDG attainment.

3. National and State-wise SDGs Attainment: Current Situation

SDG1 aims to end extreme poverty (people surviving on less than USD 1.25 a day) from everywhere across all dimensions by 2030. The performance of states and union territories has been evaluated through five indicators:

- percentage of the population that lives below the poverty line (head count ratio)
- percentage of households with any member covered by health insurance,
- percentage of persons who demanded employment under MGNREGA,
- percentage of the population receiving social protection benefits under Pradhan Mantri Matru Vandana Yojana, and
- percentage of households living in *kacha* houses.

According to NFHS-5 (2019–2021), in India, 4.6% of households live in *kacha* houses, with Arunachal Pradesh having the highest percentage (28.6%) of such households, and Kerala the lowest (0.3%).

Regarding maternity benefits, 46.29% of the total enrolled beneficiaries have social protection benefits under the PMMVY in 2023–2024. The states and UTs that are leading in providing 100% protection are Tamil Nadu, Punjab, Ladakh, Dadra & Nagar Haveli, and Daman & Diu. In contrast, Bihar and Arunachal Pradesh are lagging behind in securing an SDG index score [1]of less than 50. Such differences could be due to disparity in resource distribution (horizontally and vertically), where the percentage change in Grants-in-Aid from the Centre to Bihar is -5%, and for Arunachal Pradesh, it is -27%.

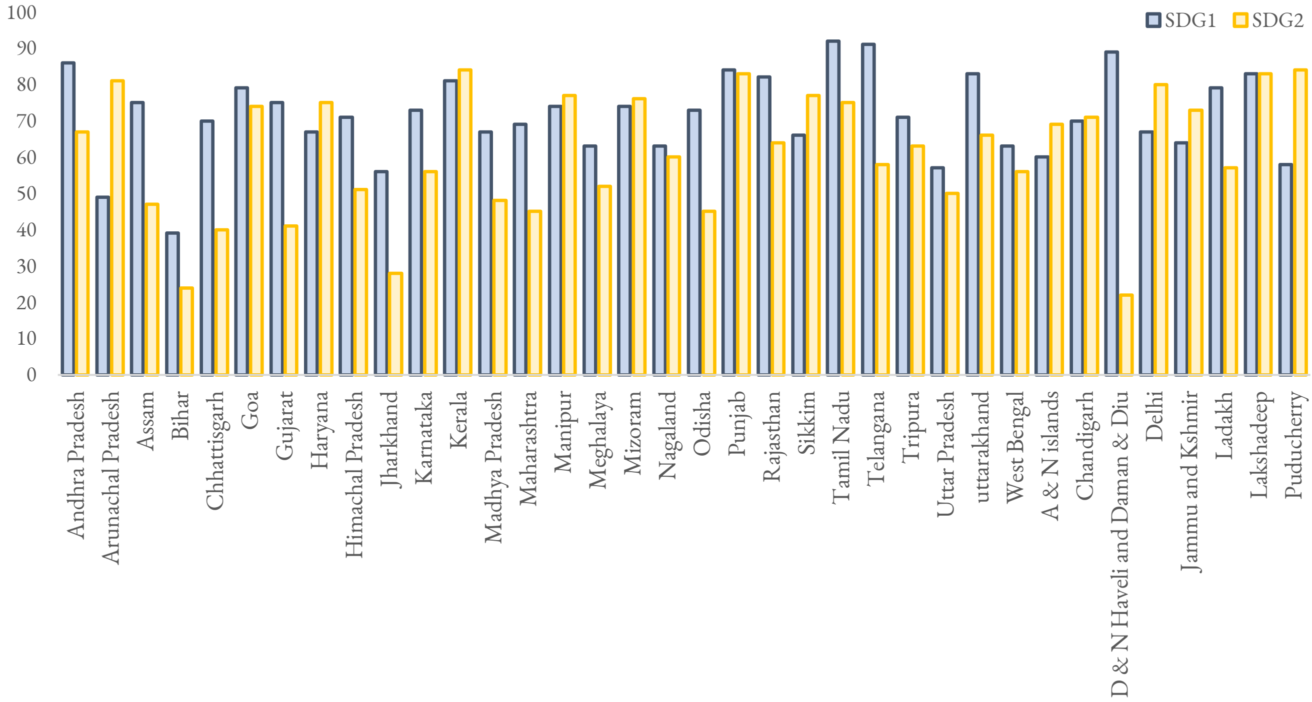
SDG 2 intends to end all forms of hunger and malnutrition by 2030, including children having sufficient and nutritious food all year. This comprises sustainable agriculture, supporting small-scale farmers, and equal access to land, technology, and markets. It also requires international cooperation to ensure investment in infrastructure and technology to improve agricultural productivity. The goal targets doubling agricultural productivity, maintaining genetic diversity of seeds, plants, and animals, and strengthening the capacity for climate change-adaptive agriculture.

States and UTs performance are measured using seven indicators:

- beneficiaries (%) covered under the National Food Security Act (NFSA), 2013,
- percentage of children (<5 yrs) who are underweight and stunted,
- percentage of pregnant women aged 15 to 49 years who are anaemic,
- percentage of women (aged 15–49 years) whose Body Mass Index (BMI) is below 18.5,
- rice and wheat produced per unit area (three-year average) (kg/ha), and
- Gross Value Added (constant prices) in agriculture per worker (in lakh rupees/worker).

Kerala and Puducherry are leading in getting the highest SDG index. In contrast, Madhya Pradesh, Assam, Maharashtra, Odisha, Gujarat, Chhattisgarh, Jharkhand, and Bihar have secured SDG index of less than 50. The figure below illustrates the detailed SDGs attainment index of all states and UTs.

Figure One: Index Score of States/ UTs

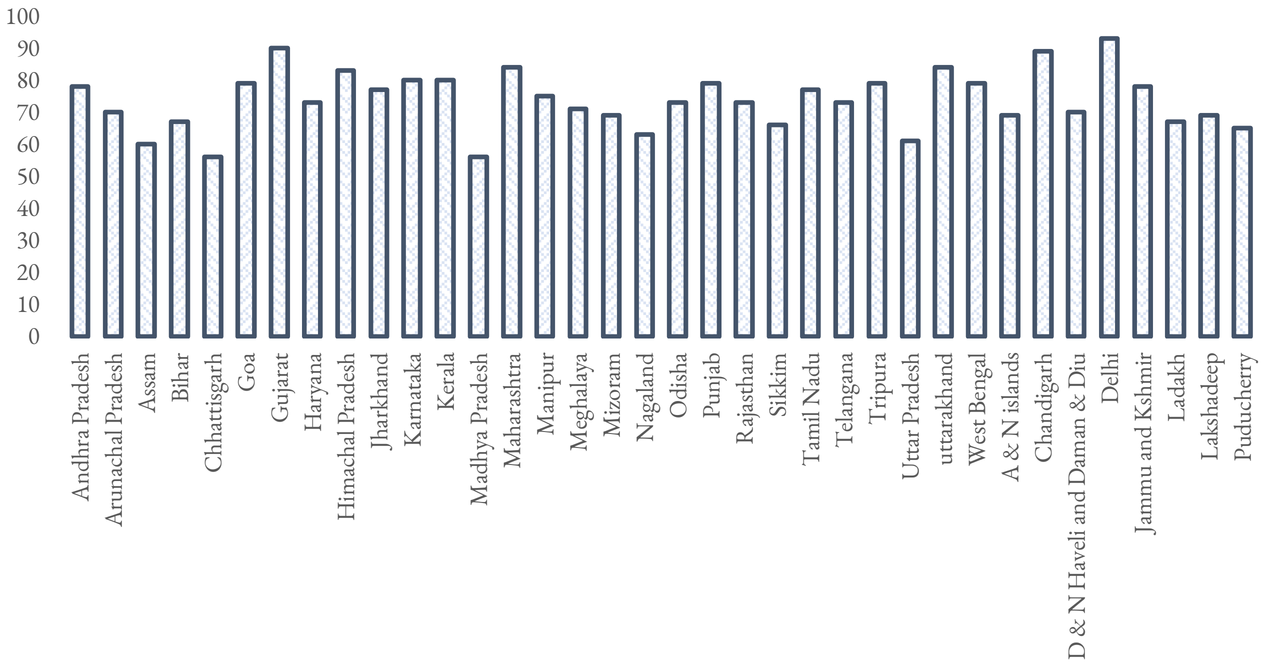


Source: NITI Aayog Report (2023-24)

SDG 3 emphasizes good health, economic and social equalities, rapid urbanization, and combating climate and environmental threats. It also calls for a focus on abating mental health problems. SDG 3 highlights universal health coverage, which includes access to quality healthcare services and safe, effective, quality, and affordable medicines. The good part is that Gujarat and Delhi (Figure Two) are the top performers in these parameters, and there are no aspirants[2] that means states have achieved all the targets or are nearing the target outlined by the SDGs. Kerala, Maharashtra, Telangana, Andhra Pradesh, Tamil Nadu, Jharkhand, Gujarat, and Karnataka have achieved the national target of a maternal mortality ratio of less than 97 per 100,000 live births.

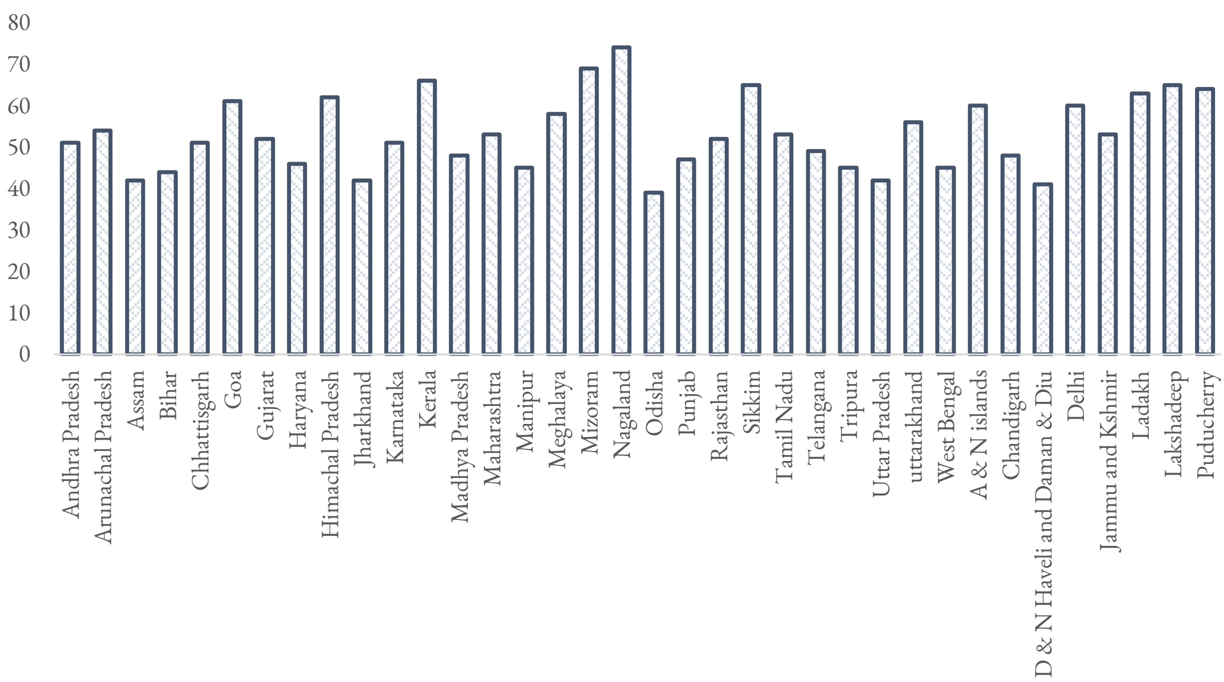
SDG 5 targets to end all forms of discrimination and violence against all women and girls everywhere, including trafficking and sexual exploitation. It also seeks to eradicate all inhuman practices, including child (early and forced) marriage and female genital mutilation. Figure three demonstrates an astonishing result where 12 states and two UTs are in the aspirant category indicating states are yet to achieve SDG targets. The average wage earned by Indian women is around three-fourths of that of men among regular-wage employees (PLFS 2022–2023). State-wise, Rajasthan has the highest female-to-male wage ratio at 0.91, followed by Goa at 0.90. Odisha has the lowest ratio at 0.59. Delhi is the best performer, with a female-to-male wage ratio of 1, followed by Ladakh at 0.87.

Figure Two: Index Score of States/ UTs



Source: NITI Aayog Report (2023-24)

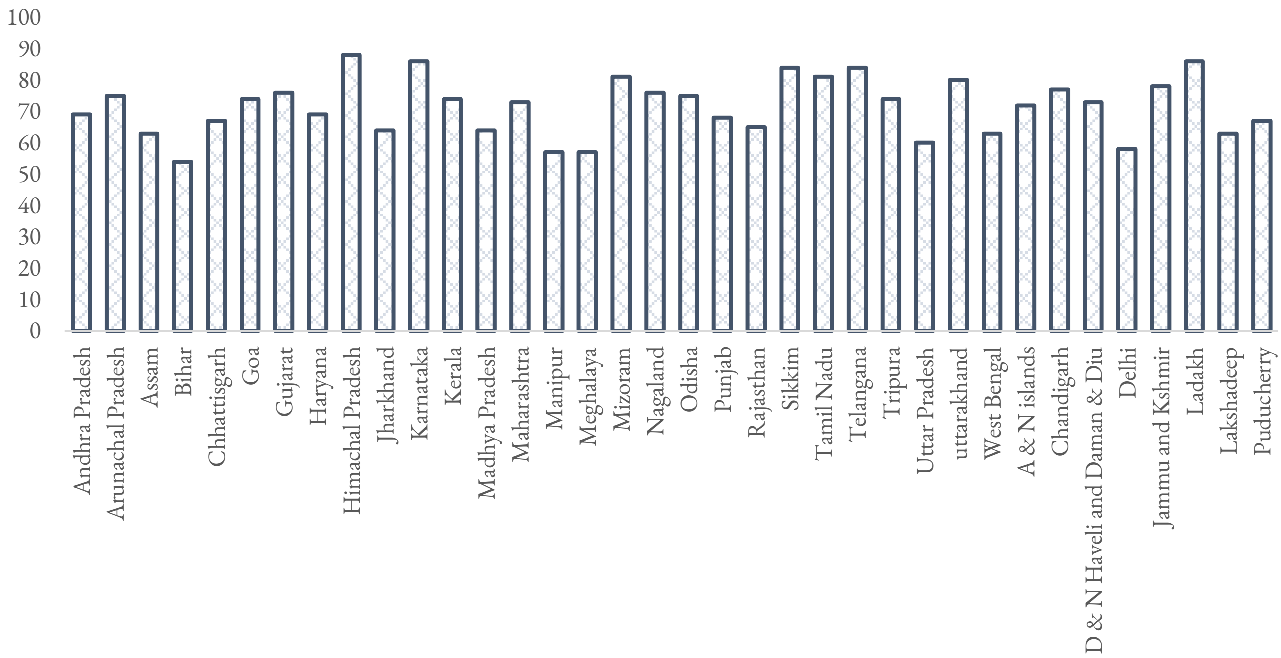
Figure Three: Index Score of States/ UTs



Source: NITI Aayog Report (2023-24)

SDG 8 calls for sustained economic growth, targeting a minimum annual GDP growth of 7% in the least developed countries. It also seeks to foster development-oriented policies that encourage productive activities, decent job opportunities, entrepreneurship, creativity, innovation, and the formalization and expansion of micro, small, and medium-sized enterprises (MSMEs). By 2030, it the aim is to achieve full and productive employment, decent work for all women and men, including young people and persons with disabilities, and equal pay for work of equal value. Around 53.9% of salaried employees employed in the non-agricultural sector do not have social security benefits. Mizoram, with 11%, is the best-performing state; Chhattisgarh has 68.9% of employees without social security benefits.

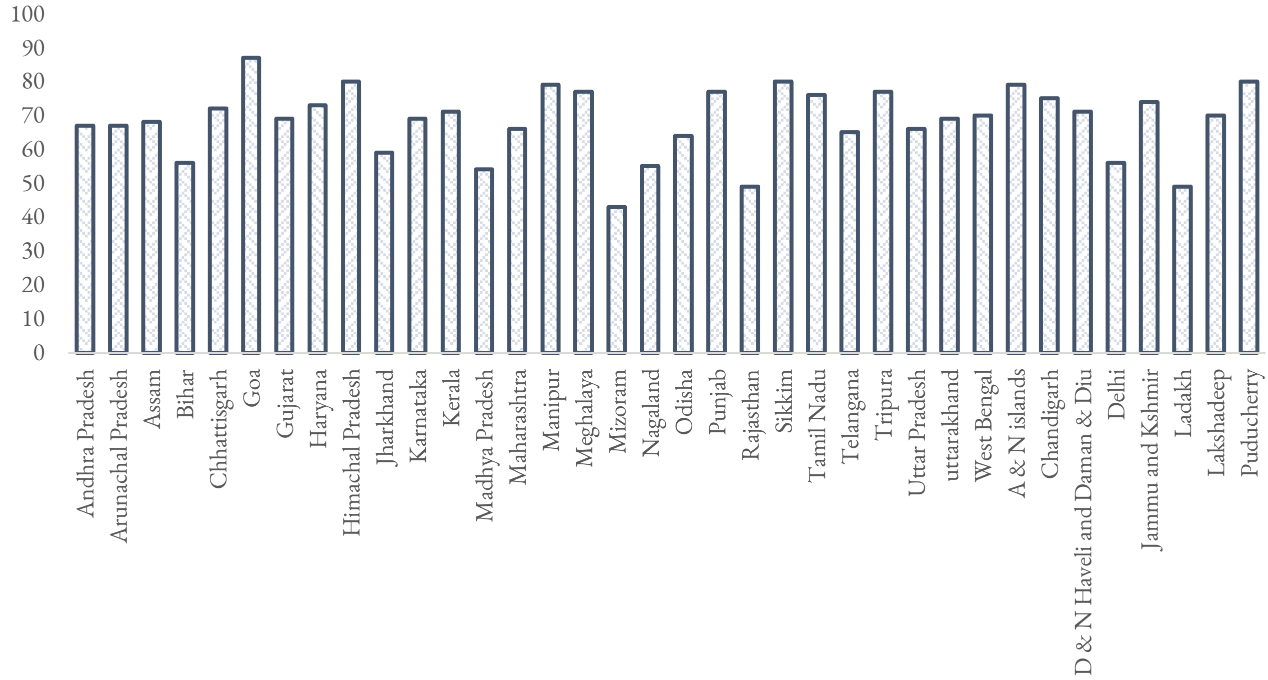
Figure Four: Index Score of States/ UTs



Source: NITI Aayog Report (2023-24)

SDG 10 talks about reducing income inequalities, ensuring access to equal opportunities, and promoting social and political inclusion for all, irrespective of age, sex, disability, race, ethnicity, origin, religion, or economic or any other status relevant within a society. Goa and Puducherry are the top performers. However, Rajasthan, Mizoram, and Ladakh have index scores of less than 50.

Figure Five: Index Score of States/ UTs

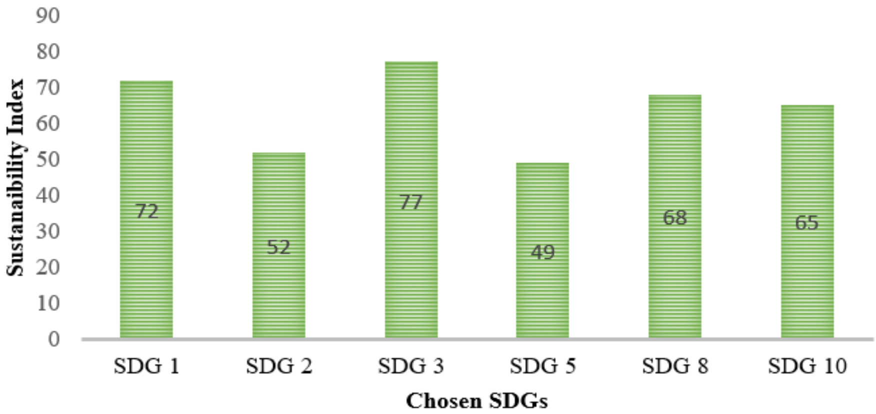


Source: NITI Aayog Report (2023-24)

4. Discussion and Insight

The Fifteenth Finance Commission (FC-XV) was constituted on 27 November 2017 for the period 2020-25. The FC assigned with the dual responsibility of ascertaining the allocation of net tax revenues between the Union and the States, as well as evaluating and providing recommendations on the structure of fiscal rules governing various grants. There are five types of grants, and these are revenue deficit grants, grants for local governments, grants for disaster management, sector-specific grants, and state-specific grants. It is being observed that the size of the grants varied from 26.1% of total transfers under the FC-VI to 7.7% of total transfers under the FC-VII. While the FC-XIII recommended grants amounting to 15.15% of total transfers, the FC-XIV recommended 11.97% of total transfers as grants-in-aid. Hence, a significant variation is apparent in the distribution of grants that may have a direct impact on the SDGs attainment, specifically SDG 5 (Gender Equality) and SDG 2 (Zero Hunger), where sustainability index values are 52 and 49, respectively, and are comparatively low (Figure six) for India.

Figure Six: SDGs attainment in India



Source: NITI Aayog Report (2023-24)

Considering the Global Gender Gap 2024 report, India has a Gender Gap Index score of 0.9, 1.0, and 0.9 in enrolment in primary, secondary, and higher education, respectively, that may have a substantial impact on SDG 5 (Talukder, 2024). Further, enrolment rates fall sharply with age, starting from 103% at the primary level, to 54% at the higher secondary level, and 28% at the higher education level (2021-22).

Between the ages of 14-17, enrolment falls sharply, from 73 to 42%, indicating unwillingness of the students to undertake the transition from secondary to higher secondary level along with minimal disparity of male female enrolment rates.. A strong gender parity in education does not mean that if 50% of students drop out, they get immediately absorbed into informal labour markets, as many of them are unprepared job seekers, which thereafter can impact poverty, inequality, and hunger, thereby impacting SDG1, SDG2, and SDG 10.

Considering the report of National Council of Applied Economic Research authored by Jayanta Talukder in 2024 who states that the Indian labour market is more likely to absorb a male school dropout in a job rather than a female school dropout. Hence, there is a need for evaluation and innovation of the labour market, to create new labour-intensive jobs for women. Moreover, fund transfers may have cascading impacts on the attainment of SDG5, where a persistent absence of a proper female washroom can impinge upon the female labour force participation rate in the Indian labour market. If the states fail to provide public services, then federal fiscal transfers stand out essential to balance the vertical and horizontal fiscal imbalance. Thus, it would be helpful in aligning with the achievement of SDGs. Hence, there is a need for the states to deliver public services towards the attainment of SDG5, SDG1, SDG2, SDG 10.

The FC of India uses resource distribution criteria like population, poverty, backwardness, income distance, inverse income, area, infrastructure, fiscal discipline, tax effort, and forest cover of states (T. Lakshmanasamy, 2022).

These criteria may not be helpful in allocating sufficient financial resources to achieve SDG targets because if we take the example of Bihar, we could observe a backward pull in achieving SDG 1 and

SDG 2. Odisha is lagging in promoting gender equality, having the lowest female-to-male wage ratio at 0.59. Similarly, Mizoram and Rajasthan failed to provide decent living conditions for workers.

Table One (below) has been constructed to reveal the marginal increase in total transfer in terms of percentage of GDP. The data reveals a constant transfer rate; therefore, increasing the transfer percentage is necessary to enhance allocative and distributive efficiency for SDG target achievement.

Table One: Transfer to the States

Finance Commission	Total transfers (in percentage of GDP)
FC-XII (2005-10)	6.03
FC-XIII (2010-15)	5.76
FC-XIV (2015-19)	6.30
FC-XV (2020-21)	6.43

Source: Finance Commission Report (2021-26)

Looking at vertical transfer (Table Two) for the aspirant states like Bihar, Arunachal Pradesh, Jharkhand, Bihar, Assam, Maharashtra, Odisha, Gujarat, Chhattisgarh, Haryana, Uttar Pradesh, Tripura, Rajasthan, and Mizoram (Figure Seven), there have been disparities in the resource distribution. Such disparity might be lessened by giving more resources to the states, particularly in key sectors like social welfare, nutrition, rural development, health and family welfare, climate-resilient roads and bridges, infrastructure, and agriculture when certain states will be able to lobby more with the centre in seeking and receiving these resources.

One of the consequences of integrating state specific grant transfers to states can be an enhancement of the disparities between the states which can happen from such fiscal transfers to a state under discretionary heads of the SDG and not following a formulaic transfer. Such a transfer will be contingent upon the political alignment between the centre and the state government. Further, the actionable impact of such a fiscal transfer based on SDGs at the local level for the recipient state government under the discretionary head can unknowingly become dependent on local political factors. Therefore, to mitigate such unintended consequences a constant, regulatory oversight will be required within the federal structure deciding the fiscal transfer based on the SDGs.

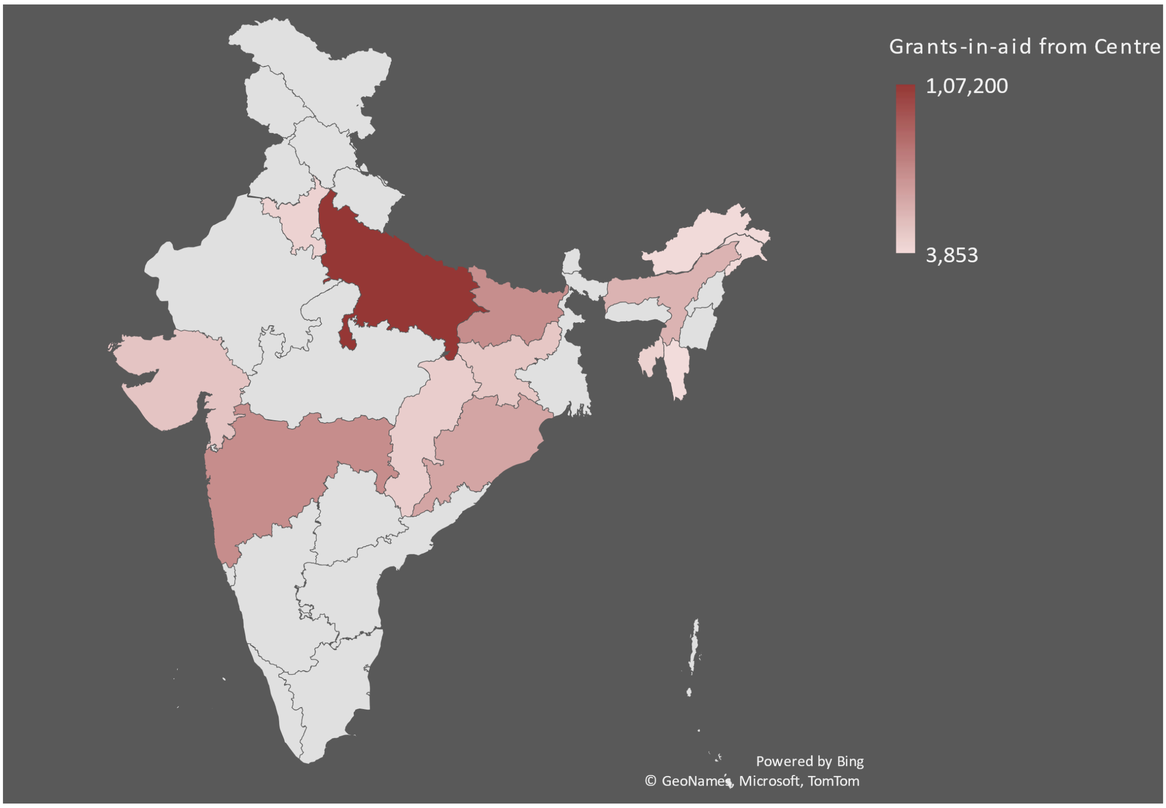
Table Two: Vertical Transfers to the Aspirant States

Aspirant States	Grants-in-aid from the Centre (in Rs crore)
Bihar	52,161
Arunachal Pradesh	4,798
Jharkhand	16,961
Bihar	52,161
Assam	28,924
Maharashtra	52,715
Odisha	37,768
Gujarat	18,783

Chhattisgarh	13,148
Haryana	9,512
Uttar Pradesh	1,07,200
Tripura	10,098
Mizoram	3,853
Arunachal Pradesh	52,161

Source: PRS Legislative Research (2024-25)

Figure Seven: Aspirant States Receiving Grants in Aid from Centre (in Rs crore)

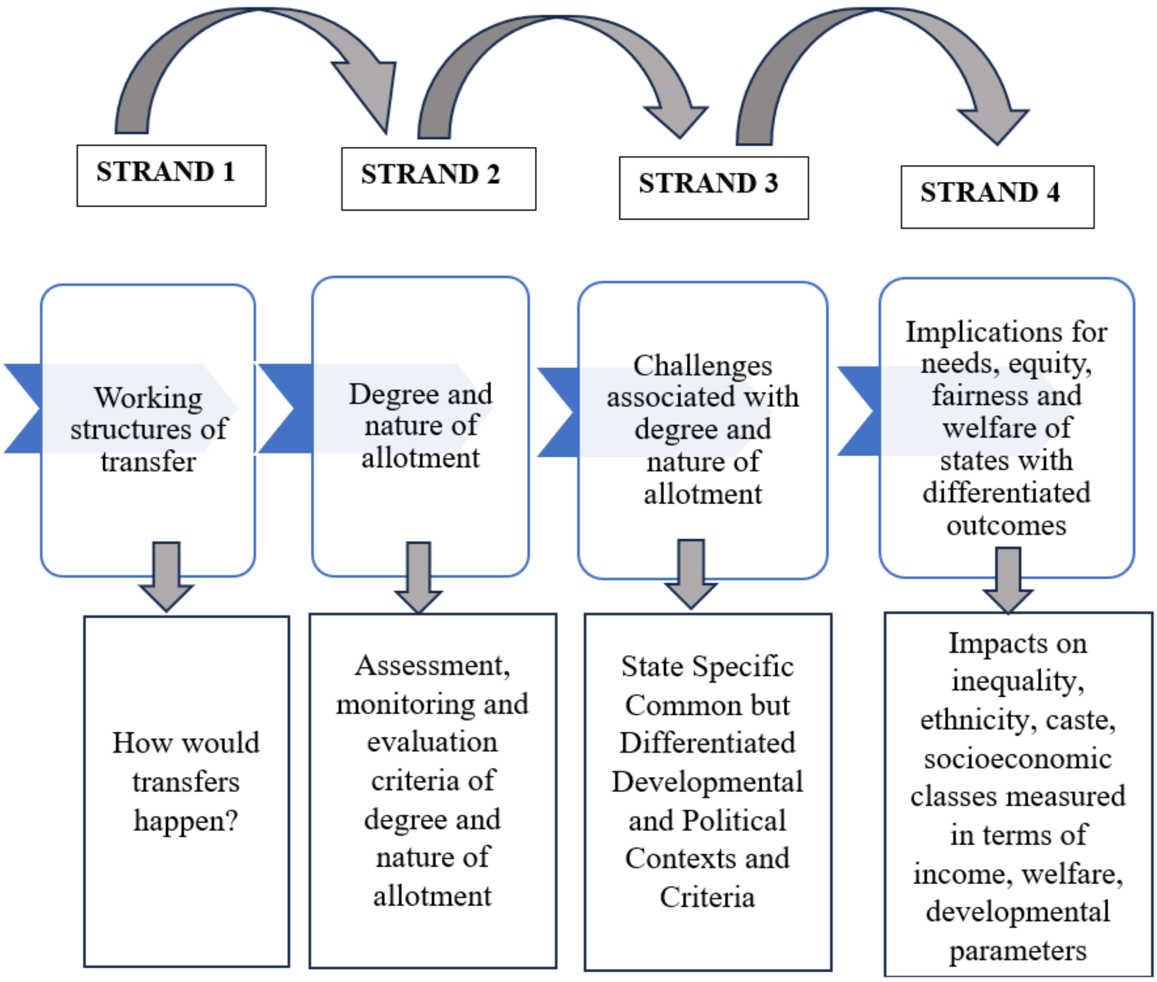


Source: Authors' Creation

5. Structural Framework of Resource Transfer Based on SDG Achievement

The proposed new framework (Figure Eight) has four key strands and elements, dealing firstly with the process of transfer, secondly evaluation, monitoring, and assessment of the transfer, third the state-specific, common-but-differentiated criteria of transfer, and lastly the impact of the transfer on the inequality, fairness, development, and welfare of states. By complementing fiscal transfers with robust monitoring and evaluation criteria and mechanisms, the framework functions more like a process flow, starting from the transfer's cause and ending with its impact on the states.

Figure Eight: Transfer Structural Framework



Within the above proposed framework, the following institutional and governance structure will be followed to respond to the various strands:

Strand 1: Transfers will happen by means of a new independent regulatory commission complemented by constant guidance and direction from an advisory body, the steering committee. The advisory body will comprise independent experts, policy makers, and state representatives.

Strand 2: Assessment and monitoring will be done by an Independent regulatory body, which will continuously assess, monitor, and evaluate the criteria, degree, nature, and extent of allotment across states of India based on the SDG Matrix. Within this matrix, a functional mapping of the existing centrally sponsored scheme addressing SDG will be completed first, and then they will be considered with the weightage of 50%. The remaining 50% weightage will be given to the additional grants, which will be linked to the SDGs, and which are over and above the existing Centrally Sponsored Scheme-based transfer linked to SDG and based on the performance of state. The body will also review and revise the SDG matrix of resource allocation on an annual basis.

Strand 3: The development position of each state across the SDG indicators will be mapped and measured, and then a common, normalized norm (by giving equal weights to the SDG Indicators) of common-but-differentiated state indicators will be developed and measured to ascertain the degree and nature of allotment and outcomes.

Strand 4: State-specific inequality, ethnicity, caste, and welfare indicators will be identified, and impacts on these indicators from the transfer processes will be regularly monitored and disseminated through a dashboard to create a transparent SDG-centric transfer process across states of India. In this process of indicator identification and in assessing the impact on them, equal weightage will be given to all indicators.

Hence, as per the above-proposed framework, in order to achieve the targets of SDGs, vertical transfer from the centre has to be differentiated based on states' SDG performance rather than criteria-based resource distribution. In the past, previous finance commissions recommended fiscal grants for states based on SDG indicators focussing on health and nutrition. Recommendations of 15th Finance Commission for state transfer focussed on performance-based grant with an emphasis on climate change, biodiversity and ecological benefits for states.

However, this SDGs-centric fiscal transfer of 15th finance commission lacked a holistic approach of assessing ecosystem service solutions for future by integrating local community, social networks and culture, appropriate social, environmental and governance safeguards. The proposed SDG-centric state-specific fiscal transfer will give a weightage to the local community, social networks and culture, appropriate social, environmental and governance safeguards as one of the deciding criteria or means for deciding the volume of transfer. Further, a weightage will be also assigned on how the safeguards and institutions to maintain the safeguards are performing across the states, which will decide their long-term rate of receipt of fiscal transfers from the Centre.

This state-specific, situation-based resource transfer supported by the above proposed framework and transparent system of a dashboard will also create a situation where the announcement of vertical transfers for states (based on their SDG achievement status) could create competition amongst states for providing social, environmental, governance safeguards, institutions at the local level for communities, and incentives for states to implement more developmental activities, create strong local institutions to reduce inequality at the local level that will ultimately align with SDG target achievements in the long run for the future.

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Notes

[1] SDG India index was started by NITI Aayog in 2018 for monitoring and to track the progress of Sustainable Development Goals (SDG) implementation within India. The SDG index score act as a strategic instrument for States/UTs to commence dialogues concerning SDGs and the associated challenges in their attainment.
[2] The States are categorized into four classifications based on the score of each state across all 16 SDGs. A state with a score of 100 designated as an Achiever. Any state achieving a score of 65 or more will be designated as a Front Runner and states above 50 are classified as Performers. The state comes under Aspirant category when the Index score is less than 50.