

A Study on Grants from the Centre to Tamil Nadu – A Post-Reform Approach

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ABSTRACT

This paper “A Study on Grants from the Centre to Tamil Nadu – A Post-Reform Approach,” examines the growth trend of central grants received by the Government of Tamil Nadu during the post-reform period. It is a positive and time series study and it is based on secondary data. The main objective of this study is to assess the pattern and growth trend of grants transferred from the Central Government to the State Government of Tamil Nadu. This study is based on the hypotheses that “Grants-in-aid received by Tamil Nadu have increased at a faster rate than its share of central taxes during the post – reform period” and “Plan grants to Tamil Nadu have increased at a faster rate than non-plan grants during the post-reform period”. This study concluded that the flow of central grants to Tamil Nadu has experienced fluctuations and an overall decline in relative importance during the study period. This trend reflects changes in the structure of intergovernmental fiscal transfers and the evolving framework of Centre–State financial relations. Also, this study has concluded that the reduced significance of grants may have increased the State’s reliance on other sources of revenue to meet its developmental and administrative expenditure requirements..

Keywords: N/A .

INTRODUCTION

In a federal system, financial relations between different levels of government play a crucial role in ensuring balanced economic development and effective public administration. In India, the Constitution establishes a framework for fiscal federalism by defining the financial responsibilities and resource-sharing arrangements between the Union and State governments. Since the revenue-raising powers of the centre are greater than those of the States, various mechanisms have been developed to address the resulting fiscal imbalance.

Grants-in-aid constitute an important component of Centre–State financial relations. These transfers are provided by the Union Government to support states in meeting their expenditure obligations, reducing regional disparities, and promoting socio-economic development. The constitutional basis for such transfers is primarily found in Articles 275 and 282 of the Constitution of India. Grants may be statutory, based on the recommendations of the Finance Commission, or discretionary, aimed at supporting specific developmental programmes and public welfare activities.

Tamil Nadu, one of India's most economically advanced states, has consistently relied on a combination of its own revenue sources and transfers from the centre. Grants-in-aid have played a significant role in financing local bodies, social sector programmes, infrastructure development, disaster management, and other state-specific needs. Over the years, the pattern and magnitude of grants have undergone considerable changes due to economic reforms, recommendations of successive Finance Commissions, and evolving fiscal policies at the national level.

The post-reform period has witnessed important transformations in intergovernmental fiscal transfers, including changes in tax devolution, centrally sponsored schemes, and Finance Commission grants. An examination of grants-in-aid received by Tamil Nadu provides valuable insights into the nature of Centre–State financial relations and the effectiveness of fiscal transfers in supporting the state's development objectives. Therefore, this study attempts to analyse the trends, composition, and significance of grants-in-aid from the Centre to Tamil Nadu during the post-reform period

STATEMENT OF THE PROBLEM

Grants-in-aid constitute an important source of financial assistance from the Central Government to the States in India. As provided under Articles 275 and 282 of the Constitution, these transfers are designed to address vertical and horizontal fiscal imbalances, promote balanced regional development, and assist states in meeting their growing expenditure responsibilities. Since the revenue-raising powers of the Union Government are greater than those of the States, grants-in-aid serve as an essential instrument for ensuring fiscal stability and enabling states to deliver public services efficiently. These grants support various sectors such as education, health, rural development, infrastructure, social welfare, and poverty alleviation.

Tamil Nadu is one of India's most economically advanced and industrialized states, with a relatively strong tax base and significant own-source revenue. Despite its fiscal strength, the state continues to depend on grants-in-aid from the Centre to finance welfare programmes, infrastructure development, social sector schemes, and centrally sponsored schemes. The state's expanding population, rapid urbanization, increasing demand for public services, and commitment to social welfare have resulted in rising expenditure requirements, making central assistance an important component of its fiscal framework.

The post-reform period, beginning with the economic liberalization policies introduced in 1991, brought significant changes in India's fiscal federal structure. Reforms in taxation, the recommendations of successive Finance Commissions, the restructuring of centrally sponsored schemes, and the introduction of the Goods and Services Tax (GST) have altered the pattern of fiscal transfers between the Centre and the States. These developments have influenced both the magnitude and composition of grants-in-aid received by Tamil Nadu. While certain periods witnessed substantial increases in grants due to special assistance, disaster relief, and scheme-based allocations, other periods experienced slower growth because of changes in transfer mechanisms and fiscal policies.

Moreover, the abolition of the Planning Commission and the establishment of the NITI Aayog, along with the enhanced tax devolution recommended by the Fourteenth Finance Commission, significantly changed the nature of central assistance to states. Although higher tax devolution was expected to reduce states' dependence on grants, concerns remain regarding the adequacy and predictability of grants-in-aid, particularly for states like Tamil Nadu that contribute substantially to national revenue but often receive a relatively lower share of central transfers based on population and income-distance criteria.

In recent years, there has also been a growing debate on Centre–State fiscal relations, especially concerning the allocation of grants, the conditions attached to centrally sponsored schemes, and the extent to which grants address the developmental needs of individual states. Tamil Nadu has repeatedly expressed concerns regarding the decline in discretionary grants, changes in allocation criteria, and the mismatch between its expenditure commitments and the financial support received from the Central Government of India. These issues raise important questions about the effectiveness of grants-in-aid as a tool for fiscal equalization and development support.

Against this background, it becomes necessary to undertake a comprehensive analysis of grants-in-aid received by Tamil Nadu during the post-reform period. Such an analysis would help to identify trends in the growth of grants, examine their composition and distribution, evaluate their contribution to the state's revenue receipts, and assess their role in supporting economic and social development. Understanding these aspects is important for evaluating the effectiveness of fiscal transfers and for suggesting measures to strengthen Centre–State financial relations. Therefore, the present study seeks to examine the nature, growth, trends, and significance of grants-in-aid from the Centre to Tamil Nadu during the post-reform period and to assess their impact on the state's fiscal position and developmental progress. Moreover, this study finds answer to the following research questions.

1. What are the major components of grants-in-aid received by the state government of Tamil Nadu from the central government of India?
2. Is there a significant growth trend in grants-in-aid transferred to Tamil Nadu during the study period?
3. How did grants-in-aid from the Centre to Tamil Nadu has changed during the post-reform period?
4. To what extent have grants-in-aid contributed to the revenue resources of Tamil Nadu?
5. Are grants-in-aid adequate to meet the increasing developmental and welfare expenditure needs of Tamil Nadu?
6. What role do grants-in-aid play in supporting the socio-economic development of Tamil Nadu?

OBJECTIVES

The general objective of the study is to find out the growth trend of grants-in-aid received by the state government of Tamil Nadu. The specific objectives are

1. To examine the impact of economic reforms on grants-in-

aid to Tamil Nadu.

2. To analyse the trends and growth of grants-in-aid received by Tamil Nadu from the Central Government during the study period.
3. To evaluate the changing composition and pattern of grants-in-aid transferred to Tamil Nadu.
4. To assess the contribution of grants-in-aid to the overall revenue receipts of the Government of Tamil Nadu.
5. To study the significance of central grants in supporting the developmental and welfare expenditure of Tamil Nadu.

HYPOTHESES

The study is based on the following two hypotheses,

1. The increase in non – plan grants received by Tamil Nadu is greater than the increase in plan grants during the study period.
2. During the post-reform period, grants-in-aid received by Tamil Nadu grew faster than its share of central tax devolution.

METHODOLOGY

The present study is based on the positive approach to public finance and relies entirely on secondary data. The data relating to grants-in-aid received by the Government of Tamil Nadu from the Central Government have been collected from various official sources, including the Reserve Bank of India (RBI) website, Finance Commission Reports, State Budget Documents, and publications of the Government of India and the Government of Tamil Nadu.

To analyse the trend and growth of grants-in-aid during the post-reform period from 1991–92 to 2020–21, both absolute and per capita grants have been considered. Population data required for estimating per capita grants were obtained from the Census of India reports for the year 1991, 2001, and 2011. Population figures for the intervening years were estimated using the decadal population growth rates.

The study employs descriptive and statistical techniques such as percentages, growth rates, and trend analysis to examine the pattern and significance of grants-in-aid. In order to measure the long-term growth of grants-in-aid, the Compound Annual Growth Rate (CAGR) has been estimated. The exponential growth function used for the analysis is:

$$Y = ab^x$$

where X = Year and Y = Value

GRANTS FROM CENTRE TO TAMIL NADU

Grants from the centre are an important component of the financial relationship between the union government and the state governments in India. Since states often face a mismatch between their expenditure responsibilities and revenue resources, the central government provides grants to support their development activities and fiscal stability. These grants help states to meet their administrative expenses, implement welfare programmes, and undertake infrastructure and social sector projects. The Constitution provides for such assistance mainly under Articles 275 and 282, while the recommendations of the Finance Commission play a significant role in determining the allocation of grants. In Tamil Nadu, central grants constitute a valuable source of revenue that supports development in different sectors such as education, health, rural development, and social welfare.

TABLE – 1 TOTAL GRANTS FROM CENTRE TO TAMIL NADU

Year	Amount (Rs. in Crores)	Per Capita (in Rs.)	% of Grants from Centre in Tamil Nadu	% of central government received by Tamil Nadu in total grants distributed by the Government of India
1991-92	733.59	131.33	39.61	4.82
1992-93	821.79	145.41	57.28	4.63
1993-94	1008.27	176.37	58.89	4.76
1994-95	877.58	151.77	53.18	4.39

1995-96	784.01	134.07	47.73	3.73
1996-97	926.88	156.75	51.14	4.00
1997-98	1051.14	175.81	48.37	4.34
1998-99	1069.85	177.00	48.05	4.48
1999-00	1384.75	226.65	50.51	4.52
2000-01	1539.89	249.37	47.37	4.08
2001-02	1381.54	221.38	47.02	3.21
2002-03	1586.84	250.37	46.03	3.47
2003-04	2122.75	329.86	50.34	4.13
2004-05	2649.75	405.61	54.54	4.66
2005-06	3020.47	455.56	53.73	3.94
2006-07	3325.65	494.33	49.28	3.52
2007-08	6531.77	957.04	66.41	6.01
2008-09	7135.01	1030.70	55.54	5.49
2009-10	5514.21	785.51	52.31	3.65
2010-11	6840.02	961.04	59.52	4.18
2011-12	7286.31	1009.93	56.18	3.91
2012-13	6499.48	887.56	49.79	3.44
2013-14	9122.28	1227.58	49.40	4.43
2014-15	18589.27	2465.62	69.00	5.62
2015-16	19259.62	2518.39	68.35	5.91
2016-17	19838.21	2557.85	66.68	5.57
2017-18	14679.44	1866.66	57.69	3.62
2018-19	23368.21	2931.21	62.20	5.31
2019-20	27783.37	3438.32	68.31	5.20
2020-21	32576.98	3978.28	75.76	5.06
CAGR	14.91	13.31		

Note : CAGR – Compound Annual Growth Rate

Source : 1. Absolute Amount - Hand Book of Statistics on Indian Economy and RBI Bulletin & Web.site

2. Per capita amount,

Percentage

– Computed by the Researcher

CAGR

Table - 1 presents the total grants from centre to Tamil Nadu. In absolute terms, it has sharply increased from Rs. 733.59 crores in 1991 – 1992 to Rs. 32576.98 crores in 2020 – 2021 at the compound annual growth rate of 14.91 per cent. In per capita terms, it has increased from Rs. 131.33 in 1991 – 1992 to Rs. 3978.28 in 2020 – 2021 at the compound annual growth rate of 13.31 per cent. The share of grants to Tamil Nadu in total non – tax revenue has sharply increased from 39.61 per cent in 1991 – 1992 to 75.76 per cent in 2020 – 2021.

The share of total grants received from centre in total grants of India has increased from 4.82 per cent in 1991 -1992 to 5.06 per cent in 2020 – 2021.

Grants-in-aid from the central government to Tamil Nadu have showed a moderate increase during the post-reform period mainly because of higher Finance Commission grants, expansion of centrally sponsored schemes, and increased Central support for education, health, rural development, local bodies, and infrastructure. Economic reforms have strengthened fiscal federalism and increased the flow of need-based and performance-oriented transfers to the States. As a result, Tamil Nadu has received gradually higher grants to support development programmes and improve public service delivery.

PLAN GRANTS TO TAMIL NADU

Plan grants were financial transfers provided by the central government to Tamil Nadu government to support planned development programmes under the five-year plans. These grants were intended to finance projects in sectors such as agriculture, education, health, irrigation, rural development, and infrastructure. Although plan grants were not specifically mentioned in the Constitution of India, they were largely provided under Article 282, which empowers the union and the states to make grants for any public purpose, and through Central Assistance recommended by the Planning Commission. Plan grants played an important role in promoting balanced regional development and implementing centrally sponsored schemes until the plan-non-plan classification was abolished from the Union Budget with effect from 2017–18.

Table - 2 PLAN GRANTS TO TAMIL NADU

Year	Amount (Rs. in Crores)	Per Capita (in Rs.)	% to Plan Grants in Tamil Nadu	% of central government received by Tamil Nadu in plan grants distributed by the Government of India
1991-92	557.37	99.78	30.09	4.67
1992-93	671.53	118.83	46.81	4.66
1993-94	848.08	148.35	49.53	4.71
1994-95	795.76	137.62	48.22	4.57
1995-96	657.06	112.36	40.00	4.38
1996-97	783.41	132.48	43.23	4.38
1997-98	930.53	155.64	42.82	4.96
1998-99	907.60	150.16	40.76	4.45
1999-00	1166.23	190.88	42.54	4.76
2000-01	1275.28	206.52	39.23	5.18
2001-02	1213.25	194.41	41.29	4.14
2002-03	1132.08	178.62	32.84	3.72
2003-04	1590.56	247.16	37.72	4.29
2004-05	1688.92	258.53	34.77	4.03
2005-06	1730.33	260.98	30.78	3.88
2006-07	2525.95	375.46	37.43	4.21
2007-08	3068.87	449.65	31.20	4.13
2008-09	4508.53	651.29	35.09	4.87
2009-10	3714.01	529.07	35.23	3.58
2010-11	4027.47	565.87	35.05	3.51
2011-12	4700.92	651.58	36.24	3.50
2012-13	5188.50	708.53	39.75	3.70
2013-14	5927.78	797.70	32.10	4.27
2014-15	12511.45	1659.48	46.44	4.82
2015-16	13427.48	1755.78	47.65	6.33
2016-17	13082.01	1686.74	43.97	5.84
2017-18	10982.97	1396.61	43.17	4.39
2018-19	14819.02	1858.84	39.45	6.03
2019-20	12391.95	1533.56	30.47	5.07
2020-21	NA	NA	NA	NA
CAGR	13.20	11.74		

Note : 1. CAGR – Compound Annual Growth Rate

2. Data for the year 2020 – 2021 is not available because of the abolition of planning commission in 2016 - 2017

Source : 1. Absolute Amount - Hand Book of Statistics on Indian Economy and RBI Bulletin & Web.site

2. Per capita amount,

Percentage – Computed by the Researcher

CAGR

Table – 2 shows the plan grants to Tamil Nadu. In absolute terms, it has increased from Rs. 557.37 crores in 1991 – 1992 to Rs. 12391.95 crores in 2020 – 2021 at the compound annual growth rate of 13.20 per cent. In per capita terms, it has increased from Rs. 99.78 in 1991 – 1992 to Rs. 1533.56 in 2019 – 2020 at the compound annual growth rate of 11.74 per cent. The share of plan grants to Tamil Nadu in total non – tax revenue of Tamil Nadu has slightly increased from 30.09 per cent in 1991 – 1992 to 30.47 per cent in 2019 – 2020.

The share of plan grants in total grants in India has increased from 4.67 per cent in 1991 – 1992 to 5.07 per cent in 2019 – 2020.

Plan grants from the centre to Tamil Nadu has declined in the year 2017 – 2018 because of abolition of planning commission in 2016 – 2017 because funds for ongoing development programmes and centrally sponsored schemes continuous to be released during the transition to the new budgeting system after the abolition of the planning commission. However, plan grants has declined sharply in 2019 – 2020 because the plan and non – plan classification had been abolished from the Union Budget with effect from 2017 – 18. Therefore, central assistance was no longer reported as plan grants but was reclassified

as Finance Commission grants, centrally sponsored scheme (CSS) transfers, and other transfers to states. Therefore, the decline reflects a change in budget classification rather than a reduction in the overall flow of central assistance.

NON – PLAN GRANTS TO TAMIL NADU

Non-plan grants refer to financial assistance provided by the Central Government to meet the routine and recurring expenditure of state governments. These grants are intended to support essential government functions, maintain public services, and address fiscal imbalances between the centre and the states. In Tamil Nadu, non-plan grants have played an important role in supplementing state finances, particularly for revenue deficit assistance, disaster relief, local body development, and other statutory purposes. Such grants help the state to maintain administrative efficiency and ensure the continuous delivery of public services without placing excessive pressure on its own revenue resources.

Table – 3NON – PLAN GRANTS TO TAMIL NADU

Year	Amount (Rs. in Crores)	Per Capita (in Rs.)	% To Non – Plan Grants in Tamil Nadu	% of central government received by Tamil Nadu in non - plan grants distributed by the Government of India
1991-92	176.22	31.55	9.51	5.38
1992-93	150.27	26.59	10.47	4.47
1993-94	160.19	28.02	9.36	5.08
1994-95	81.82	14.15	4.96	3.18
1995-96	126.95	21.71	7.73	2.12
1996-97	143.47	24.26	7.92	2.73
1997-98	120.61	20.17	5.55	2.21
1998-99	162.25	26.84	7.29	4.67
1999-00	218.52	35.77	7.97	3.58
2000-01	264.61	42.85	8.14	2.01
2001-02	168.29	26.97	5.73	1.22
2002-03	454.76	71.75	13.19	2.98
2003-04	532.19	82.70	12.62	3.74
2004-05	960.83	147.08	19.78	6.45
2005-06	1290.14	194.59	22.95	4.01
2006-07	799.70	118.87	11.85	2.32
2007-08	3462.89	507.38	35.21	10.09
2008-09	2626.49	379.41	20.44	7.03
2009-10	1800.20	256.44	17.08	3.82
2010-11	2812.55	395.17	24.48	5.75
2011-12	2585.39	358.35	19.93	4.95
2012-13	1310.99	179.03	10.04	2.71
2013-14	3194.50	429.88	17.30	4.76
2014-15	6077.82	806.14	22.56	8.51
2015-16	5832.15	762.61	20.70	5.13
2016-17	6757.20	871.24	22.71	5.11
2017-18	3696.46	470.05	14.53	2.37
2018-19	8549.19	1072.38	22.76	4.40
2019-20	15391.42	1904.76	37.84	5.30
2020-21	NA	NA	NA	NA
CAGR	19.36	17.70		

Note : 1. CAGR – Compound Annual Growth Rate

2. Data for the year 2020 – 2021 is not available because of the abolition of planning commission in 2016 - 2017

Source :1. Absolute Amount - Hand Book of Statistics on Indian Economy and RBI Bulletin & Web.site

2. Per capita amount,
Percentage – Computed by the Researcher
CAGR

Table – 3 depicts the non – plan grants to Tamil Nadu at current price, non – plan grants has increased from Rs. 176.22 crores in 1991 – 1992 to Rs. 15391.42 crores in 2019 – 2020 at the compound annual growth rate of 19.36 per cent. In per capita terms, the non – plan grants has increased from Rs. 31.55 in 1991 – 1992 to Rs. 1904.76 in 2019 – 2020 at the compound annual growth rate of 17.70 per cent. The share of non – plan grants of Tamil Nadu to total non – tax revenue has increased from 9.51 per cent in 1991 – 1992 to 37.84 per cent in 2019 – 2020.

During the study period, the share of non – plan grants to Tamil Nadu in total grants of India has slightly decreased from 5.38 Per cent in 1991 – 1992 to 5.30 per cent in 2019 – 2020. As per table 2 & 3 non-plan grants grew more rapidly than plan grants. (In absolute terms, the CAGR of plan grants 13.20 per cent where as its in 19.36 per cent in non – plan grants. In per capita terms, the CAGR of plan grants 11.74 per cent and it is 17.70 per cent in non – plan grants. Hence, the growth rate of non – plan grants is higher than the plan grants). Therefore, the first hypothesis, “The increase in non-plan grants received by Tamil Nadu is greater than the increase in plan grants during the study period” is proved.

Non-Plan grants from the centre to Tamil Nadu has increased sharply in 2007–2008 mainly because of the implementation of the recommendations of the Twelfth Finance Commission (2005–2010), which enhanced grants for post-devolution revenue deficit, local bodies, disaster relief, and state-specific needs. These recommendations resulted in a temporary rise in central grants during the initial years of the award period. However, after 2007–2008, non-Plan grants has gradually declined as Tamil Nadu's fiscal position improved and its dependence on revenue deficit grants reduced. The Twelfth Finance Commission promoted fiscal discipline by linking financial assistance and debt relief to the reduction of revenue deficits and fiscal deficits. Consequently, the State became eligible for lower general non-Plan grants, while a greater share of central assistance was channelled through specific-purpose and centrally sponsored schemes rather than general non-Plan grants.

CENTRALLY SPONSORED SCHEME

Centrally Sponsored Schemes (CSS) are development programmes financed jointly by the central and state governments. These schemes are designed to achieve national objectives in key sectors such as education, health, agriculture, rural development, housing, and social welfare. In Tamil Nadu, centrally sponsored schemes play a significant role in supporting economic and social development by providing additional financial resources for implementing various welfare and infrastructure projects. Through these schemes, the state receives assistance from the centre while sharing a portion of the expenditure, thereby improving public services and promoting inclusive growth.

TABLE - 4CENTRALLY SPONSORED SCHEME TO TAMIL NADU

Year	Amount (Rs. in Crores)	Per Capita (in Rs.)	% of Centrally Sponsored Scheme in Tamil Nadu	% of central government received by Tamil Nadu in Centrally Sponsored Scheme distributed by the Government of India
1991-92	278.91	49.93	15.06	6.03
1992-93	364.25	64.45	25.39	6.64
1993-94	440.81	77.11	25.75	6.70
1994-95	279.34	48.31	16.93	6.15
1995-96	268.12	45.85	16.32	5.51
1996-97	223.73	37.84	12.34	4.27
1997-98	392.50	65.65	18.06	7.14
1998-99	465.76	77.06	20.92	7.86
1999-00	513.87	84.11	18.74	7.32
2000-01	539.23	87.32	16.59	7.51
2001-02	479.68	76.86	16.33	5.72
2002-03	463.10	73.07	13.43	5.34
2003-04	596.68	92.72	14.15	6.04
2004-05	562.14	86.05	11.57	5.38
2005-06	677.32	102.16	12.05	5.09
2006-07	627.15	93.22	9.29	3.60
2007-08	821.97	120.44	8.36	3.76
2008-09	1029.73	148.75	8.02	3.98
2009-10	1331.08	189.62	12.63	5.14
2010-11	1727.18	242.67	15.03	5.26
2011-12	1916.00	265.57	14.77	4.44

2012-13	2199.40	300.35	16.85	4.84
2013-14	2315.36	311.58	12.54	5.14
2014-15	974.32	129.23	3.62	1.92
2015-16	716.71	93.72	2.54	1.29
2016-17	2035.18	262.41	6.84	4.05
2017-18	10982.97	1396.61	43.17	5.03
2018-19	14820.27	1858.99	39.45	6.78
2019-20	12463.86	1542.46	30.65	5.26
2020-21	12483.68	1524.50	29.03	4.98
CAGR	12.75	11.18		

Note : CAGR – Compound Annual Growth Rate

Source :1. Absolute Amount - Hand Book of Statistics on Indian Economy and RBI Bulletin & Web.site

2. Per capita amount,

Percentage

CAGR

– Computed by the Researcher

Table – 4 present the grants for centrally sponsored scheme in Tamil Nadu. In absolute terms, grants for centrally sponsored scheme of Tamil Nadu has increased from Rs. 278.91 crores in 1991 – 1992 to Rs. 12483.68 crores in 2020 – 2021. In per capita terms, grants for centrally sponsored scheme has increased from Rs. 49.93 in 1991 – 1992 to Rs. 1524.50 in 2020 – 2021. During the post reform period, absolute and per capita receipts from grants for centrally sponsored scheme to Tamil Nadu obtained 12.75 per cent and 11.18 per cent growth rate respectively. The share of grants for centrally sponsored scheme of Tamil Nadu to aggregate non – tax revenue has increased from 15.06 per cent in 1991 – 1992 to 29.03 per cent in 2020 – 2021.

The share of grants for centrally sponsored scheme in total grants in India has decreased from 6.03 per cent in 1991 – 1992 to 4.98 per cent in 2020 – 2021.

The decline in Centrally Sponsored Scheme (CSS) transfers from the centre to Tamil Nadu during 2014 – 2015 and 2015 – 16, compared with 2013 – 14, was primarily the result of changes in the fiscal transfer mechanism introduced following the implementation of the 14th Finance Commission's recommendations. From 1st April 2015, the share of states in the divisible pool of central taxes was increased from 32 per cent to 42 per cent, providing states with greater fiscal autonomy. Consequently, the union government reduced its reliance on scheme-based transfers by rationalising and restructuring several centrally sponsored schemes and revising their funding patterns. This led to a temporary decline in CSS assistance during 2014 – 15. In the subsequent years, CSS transfers has increased steadily as the revised schemes became fully operational and the Central Government expanded financial support for flagship programmes in sectors such as rural development, health, sanitation, housing, and infrastructure.

"Even as the 14th Finance Commission's award has given welcome flexibility to States... the fiscal space ... has shrunk on account of cuts in CSS in the Central Budget of 2015 – 16."

TABLE – 5 COMPONENTS OF CENTRE TRANSFERS TO TAMIL NADU IN POST REFORM PERIOD

Year	Share in Central taxes (Rs. in crores)	Percentage	Total Shareable Central Taxes of India	Grants – in – Aid (Rs. in crores)	Percentage	Total Grants from Centre in India	Loan (Rs. in crores)	Percentage	% of Loan from Centre in India	Total Transfer Resources (Rs. in crores)	Percentage
1991-92	1189.47	42.75	7.06	733.59	26.36	4.82	859.52	30.89	6.58	2782.58	100
1992-93	1419.68	44.14	6.90	821.79	25.56	4.63	974.27	30.30	7.44	3215.74	100
1993-94	1552.62	42.55	6.93	1008.27	27.64	4.76	1087.76	29.81	7.55	3648.65	100
1994-95	1735.40	42.17	6.97	877.58	21.32	4.39	1502.29	36.51	7.80	4115.27	100
1995-96	1805.59	50.46	6.22	784.01	21.91	3.73	988.40	27.63	5.04	3578.00	100

1996-97	2165.50	49.23	6.18	926.88	21.07	4.00	1306.70	29.70	5.49	4399.08	100
1997-98	2728.30	52.32	6.75	1051.14	20.16	4.34	1434.85	27.52	4.66	5214.29	100
1998-99	2408.98	47.11	6.11	1069.85	20.93	4.48	1634.30	31.96	4.05	5113.13	100
1999-00	2667.00	52.82	6.04	1384.75	27.43	4.52	997.15	19.75	4.62	5048.90	100
2000-01	2783.75	51.52	5.49	1539.89	28.50	4.08	1080.04	19.98	5.77	5403.68	100
2001-02	2870.07	55.58	5.50	1381.54	26.75	3.21	912.31	17.67	3.74	5163.92	100
2002-03	3047.57	54.87	5.38	1586.84	28.57	3.47	919.58	16.56	3.38	5553.99	100
2003-04	3544.20	52.98	5.28	2122.75	31.73	4.13	1023.00	15.29	3.92	6689.95	100
2004-05	4236.39	52.02	5.39	2649.75	32.53	4.66	1258.60	15.45	4.81	8144.74	100
2005-06	5012.74	59.15	5.33	3020.47	35.64	3.94	441.68	5.21	4.96	8474.89	100
2006-07	5780.94	61.28	4.81	3325.65	35.26	3.52	326.86	3.46	5.72	9433.45	100
2007-08	8065.27	52.45	5.33	6531.77	42.48	6.01	778.86	5.07	10.74	15375.90	100
2008-09	8510.80	51.00	5.28	7135.01	42.75	5.49	1043.20	6.25	14.89	16689.01	100
2009-10	8756.19	57.23	5.31	5514.21	36.04	3.65	1029.85	6.73	12.70	15300.25	100
2010-11	10913.97	56.84	4.97	6840.02	35.62	4.18	1447.00	7.54	15.27	19200.99	100
2011-12	12714.95	60.03	4.97	7286.31	34.40	3.91	1179.74	5.57	11.91	21181.00	100
2012-13	14519.69	64.88	4.98	6499.48	29.04	3.44	1360.35	6.08	12.14	22379.52	100
2013-14	15852.76	58.75	4.98	9122.28	33.80	4.43	2011.34	7.45	18.50	26986.38	100
2014-15	16824.03	45.56	4.98	18589.27	50.33	5.62	1517.09	4.11	12.77	36930.39	100
2015-16	20353.86	49.66	4.02	19259.62	46.99	5.91	1370.83	3.35	10.95	40984.31	100
2016-17	24537.76	53.07	4.04	19838.21	42.91	5.57	1859.74	4.02	10.47	46235.71	100
2017-18	24364.14	58.29	4.03	14679.44	35.12	3.62	2752.70	6.59	14.11	41796.28	100
2018-19	30035.27	53.88	4.02	23368.21	41.92	5.31	2339.75	4.20	8.76	55743.23	100
2019-20	26392.41	46.99	4.06	27783.37	49.47	5.20	1989.69	3.54	6.76	56165.47	100
2020 - 21	24924.52	36.45	4.19	32576.98	47.65	5.06	10869.94	15.90	7.00	68371.44	100
CAGR	12.29			14.91			3.46			11.96	

Note : CAGR – Compound Annual Growth Rate

Source : 1. Absolute Amount - Hand Book of Statistics on Indian Economy and RBI Bulletin & Web.site

2. Percentage

CAGR

– Computed by the Researcher

Table – 5 reveals the share of central taxes, grants – in – aid and loan from centre in the total transfer of resources of Tamil Nadu. The share of central taxes has increased from Rs. 1189.47 crores in 1991 – 1992 to Rs. 24924.52 crores in 2020 – 2021, at the compound annual growth rate of 12.29 per cent. Grants from centre has increased from Rs. 733.59 crores in 1991 – 1992 to Rs. 32576.98 crores in 2020 – 2021, at the compound annual growth rate of 14.91 per cent. Loan from centre has increased from Rs. 859.52 crores in 1991 – 1992 to Rs. 10869.94 crores in 2020 – 2021, at the compound annual growth rate of 3.46 per cent. The total transfer of resources has increased from Rs. 2782.58 crores in 1991 – 1992 to Rs. 68371.44 crores in 2020 – 2021, at the compound annual growth rate of 11.96 per cent.

The percentage of share in central taxes has decreased from 42.75 per cent in 1991 – 1992 to 36.45 per cent in 2020 – 2021. The percentage of grants from centre has increased from 26.36 per cent in 1991 – 1992 to 47.65 per cent in 2020 – 2021. The percentage of loan from centre has decreased from 30.89 per cent in 1991 – 1992 to 15.90 per cent in 2020 – 2021.

Moreover, the share of central taxes to Tamil Nadu in total shareable taxes of India has decreased from 7.06 per cent in 1991 – 1992 to 4.19 per cent in 2020 – 2021. The share of grant from centre in total grants in India has increased from 4.82 per cent in 1991 – 1992 to 5.06 per cent in 2020 – 2021. The share of loan from centre to Tamil Nadu in total loan in India has sharply increased from 6.58 per cent in 1991 – 1992 to 7.00 per cent.

After the 1991 Indian Economic Reforms, the share of loans from the centre has declined, mainly because states became less dependent on central borrowing. Financial reforms allowed states to raise funds directly from the market, reducing the need for central loans. At the same time, recommendations by the Finance Commission of India increased tax devolution and grants instead of loans. The centre also promoted fiscal discipline and introduced debt restructuring scheme, further lowering reliance on its loans.

The share of loans from the centre has increased in 2020 – 2021 mainly due to the economic impact of the COVID – 19 Pandemic. State revenues fell sharply because of lockdowns and reduced economic activity while their spending needs rose for health services and relief measures. To support them, the centre expanded borrowing limits and provided more loans. Since market conditions were uncertain, states relied more on central assistance, leading to a higher share of loans from the centre. As per table

5 grants-in-aid grew at a faster rate than Tamil Nadu's share in central taxes during the study period. Therefore, the second hypothesis, "During the post-reform period, grants-in-aid received by Tamil Nadu grew faster than its share of central tax devolution" is proved.

CONCLUSION

The analysis of grants from the centre to Tamil Nadu during the post-reform period indicates that central grants have continued to play an important role in supporting the state's finances and developmental activities. Although the pattern and composition of grants have changed over time due to economic reforms, Finance Commission recommendations, and policy changes, these transfers have remained a significant source of revenue for the state. The trend shows fluctuations across years, reflecting changes in fiscal priorities and intergovernmental financial arrangements. Overall, central grants have contributed to reducing fiscal imbalances and strengthening Tamil Nadu's capacity to implement welfare and development programmes during the post-reform era.

This study on grants-in-aid from the centre to Tamil Nadu during the post-reform period reveals that these transfers have remained an important component of the state's revenue resources. Although Tamil Nadu possesses a relatively strong own-revenue base, central grants have continued to support developmental programmes, welfare schemes, local bodies, and other public services. Overall, central grants have played a significant role in supporting the socio-economic development of Tamil Nadu and have remained an important instrument in maintaining cooperative fiscal federalism during the post-reform era..

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