

Bridging the Data Gaps in India

The Case of Capital Spending

ANOOP SINGH, RADHA MALANI AND SHRUTI GUPTA

This paper is the next part in a series examining fiscal transparency and reporting challenges within India's Public Financial Management (PFM) ecosystem. Building on our previous analyses of off-budget borrowing and subsidy spending, it extends the methodologies developed in earlier papers to critically examine capital expenditure (capex) reporting practices in India. While reported capex has risen significantly in recent years, a deeper examination reveals inconsistencies, data gaps, and misclassifications that diminish the accuracy, accountability and effectiveness of these estimates. This paper examines key issues surrounding capex in India, focusing on central- and state-level practices, transparency and reporting challenges, alignment with international standards, adjusted capex estimates and actionable policy recommendations.

Capex plays a pivotal role in economic development and fiscal policy, involving investments in durable assets that enhance productivity, generate employment and foster private-sector participation. However, India's current reporting practices often obscure the true nature and impact of these investments.

India's Capex Landscape

- Trends in capex: The paper analyses capex trends at both the Centre and state levels. The Centre prioritises national infrastructure, such as highways, railways and defence, while the states focus on public services like irrigation, health and education. Since 2000, reported capex has risen from approximately 2% to nearly 8% of GDP. However, as this paper explains, this figure is overstated.
- Central government initiatives: Since 2014, the Centre has emphasised public investment in transport, energy and urban infrastructure. However, key trends include a rise in loans and advances to State governments, driven by schemes such as the Scheme for Special Assistance to States for Capital Investment.
- State-level capex: In FY 2024, states collectively budgeted Rs 14 lakh crore for capex, but only slightly more than half was directed towards tangible asset creation. The remaining 42% was allocated to debt repayment, highlighting a misalignment between reported spending and actual capital outlays.



- Financial and non-financial asset creation: A significant portion of reported capex comprises loans, advances and debt repayment, none of which is directly linked to asset creation. For instance, 48% of states' and 68% of the Union's reported capex in FY 2024 represented support to other entities, such as public sector enterprises (PSEs) or other governments. This complicates the straightforward aggregation of reported capex by the Centre, states, and PSEs when estimating public capital spending.

These practices are inconsistent with both India's official definitions of capex and international standards, underscoring the need for improved transparency and alignment.

International Reporting Standards

International frameworks, such as the International Monetary Fund's (IMF) Government Finance Statistics Manual (GFSM) 2014 and the Fiscal Transparency Code 2019, provide benchmarks for reporting public finance data, including capex. These standards emphasise accrual-based accounting, granular and timely reporting, transparency in debt-financed spending and outcome-based evaluations to ensure consistency and transparency across countries.

India's current fiscal reporting practices diverge significantly from these international standards owing to several factors:

- Cash-Based Accounting: India's reliance on cash-based accounting, as opposed to accrual-based systems, limits the accuracy and comprehensiveness of fiscal reporting.
- Exclusion of Off-Budget Finances: Off-budget expenditures and public-private partnerships (PPPs) are often excluded from official reports, creating hidden fiscal risks.
- Inadequate Disclosure: Insufficient transparency around debt financing, contingent liabilities and PPPs further complicates the assessment of public investments.
- Misclassification of Expenditure: Financial assets (e.g., loans and equity infusions) are included in capex, while revenue expenditures are often misclassified as capital spending, particularly at the sub-national level.

As a result, India lags behind most G20 economies, including China, Brazil, South Africa and Canada, in fiscal transparency and reporting. These countries have made significant strides in aligning with GFSM standards, offering valuable lessons for India.

Adjusted Capital Spending

To align with international standards, capex should be limited to the acquisition of non-financial assets. Consequently, this paper adjusts central and state capex to align

with the Government Finance Statistics Manual (GFSM) 2014 definition of "net acquisition of non-financial assets" and disaggregates public sector capital spending into government and PSE expenditures. Key findings include the following:

- Central Government: Adjusted capex as a percentage of gross domestic product (GDP) has declined in recent years, contrary to the trend in reported spending. Central PSEs' capital spending has also decreased, leading to an overall reduction in public sector capital investment since its peak in FY 2018.
- State Governments: Adjusted capex diverges significantly from reported capex, falling by as much as five percentage points as a percentage of Gross State Domestic Product (GSDP) in some cases. These discrepancies highlight the need to exclude loans and capital infusions to PSEs from capex calculations, and to address systemic data gaps.

Data Gaps

Capex reporting in India is beset by several data gaps that impede public accessibility, oversight and accountability of public funds. Key issues include:

- Inconsistencies in Reporting: Maintenance costs, grants, subsidies and other operational expenses are often misclassified as capex, inflating reported figures without corresponding increases in tangible assets.
- Incompleteness of Data: Not all capital expenditures are captured in official reports, particularly those related to off-budget financing and public-private partnerships, which are frequently excluded. This obscures the true extent of public investment and creates hidden fiscal risks.
- Fragmented and Untimely Reporting: Delays in reporting and the lack of integrated databases hinder timely analysis and monitoring of capex projects.
- Lack of Granularity: Insufficient detail on the nature, location and progress of capex projects limits the ability to assess their impact and effectiveness. Contingent liabilities and debt-financing costs are also not adequately disclosed.
- Underutilisation of Funds: Allocated capex is often underutilised owing to bureaucratic delays, procurement challenges and poor coordination.
- Mismanagement: Delayed approvals, inefficient procurement and poor project implementation further erode the value of capex investments.

Looking Ahead: Agenda for Transparency Reforms

To enhance transparency and accountability in capex reporting, India must undertake comprehensive reforms, including:

- **Harmonising Definitions:** Establish a uniform classification of capex across the Centre and state governments to ensure consistent treatment of financial and non-financial assets;
- **Enhancing Granularity:** Provide detailed, sectoral and project-specific breakdowns of capex to facilitate transparency, accountability and outcomes evaluation;
- **Integrating Off-Budget Spending:** Consolidate expenditures by special purpose vehicles (SPVs) and PSEs into fiscal accounts to provide a comprehensive view of public investment;
- **Consolidating General Government Data:** Report financial data at the general government level to eliminate

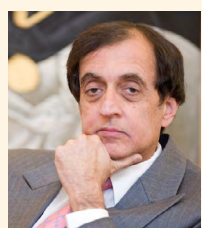
inter-governmental transfers and reveal net investment in non-financial capital assets; and

- **Strengthening Auditing:** Expand the role of the Comptroller and Auditor General of India (CAG) in auditing capex to ensure proper classification, verification of assets, and accountability for delays and cost overruns.

Conclusion

India's journey towards a transparent, efficient and outcome-driven capex framework presents both challenges and opportunities. While progress has been made in increasing budgetary allocations and implementing major infrastructure projects, significant gaps in reporting, transparency and fund utilisation remain. Addressing these challenges requires comprehensive reforms to align with global best practices, bridge data gaps and leverage technology. By doing so, India can transition to a more accountable and effective capex framework, ensuring that public funds are utilised optimally for long-term development goals.

About the authors



Anoop Singh is Distinguished Fellow at NITI Aayog, Government of India. He is also Distinguished Fellow at the Centre for Social and Economic Progress (CSEP), New Delhi. He has recently been Member, 15th Finance Commission of India, in the rank of Union Minister of State, a constitutional body that recommended tax sharing and grant transfers between the Union and the States for the period 2021-2026.

Before that he has been Adjunct Professor at Georgetown University; Managing Director and Head of Asia Pacific Global Regulatory and Strategy Policy, JP Morgan; and Member of the Working Party of the Robert Triffin International (RTI) on the reform of the international monetary system. At the International Monetary Fund, he was Director of the Asia and Pacific Department; Director of the Western Hemisphere Department; and Director of Special Operations.

He holds degrees from the universities of Bombay, Cambridge, and the London School of Economics. His additional work experience includes being Special Advisor to the Governor of the Reserve Bank of India. His recent publications include *Asia and the Changing Global Economy* (2022).



Radha Malani is a Research Analyst with the Growth, Finance and Development vertical. She holds a Master's in Public Policy from the Lee Kuan Yew School of Public Policy, National University of Singapore. She has completed the Young India Fellowship at Ashoka University and a Bachelor's in Economics from Indraprastha College for Women, Delhi University. Previously, Radha has worked with the Asian Venture Philanthropy Network, EdJustice Foundation, the Ministry of Women and Child Development, Government of India and a political consultancy. She is also a voracious consumer of podcasts and feminist literature and enjoys discussing politics and gender.



Shruti Gupta is a Research Associate in the Fiscal Governance team within the Growth, Finance, and Development vertical. She holds a Master's degree in Economics from Ashoka University. Her research focuses on Public Finance Management, with a particular emphasis on addressing fiscal challenges in India. She aims to build a career in the domain of public policy.

Independence | Integrity | Impact

Centre for Social and Economic Progress

6, Dr Jose P. Rizal Marg, Chanakyapuri, New Delhi - 110021, India



Centre for Social and
Economic Progress



@CSEP_Org



www.csep.org