Annex-B

REPORT
OF
SUB-GROUP
ON RESOURCES
OTHER THAN TAX REVENUES
OF STATES
FOR
11TH PLAN (2007-2012)

Report of The Sub-Group on Resources Other Than Tax Revenues of The States

Contents

COMPOSITION OF SUB-GROUP ON RESOURCES OTHER THAN TAX RESOURCES FOR 11TH PLAN (2007-2012)

COMPOSITION

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It is my pleasant duty to acknowlege the cooperation and help received from all members of the sub group in preparation of this report. All the members made valuable comments and gave important suggestions on various items of the terms of reference of the sub-group during the its three meetings. The report tries to present the consensus viewpoint. Shri Shri K.C. Badu, Special Secretary Finance, Government of Orissa contributed the material on restructuring of state level public sector enterprises. Shri B. Navnit, Deputy Secretary (Budget), Government of Tamil Nadu contributed the note on the financing of the gross fiscal deficit of the states. Dr. B.M. Joshi, Secretary Finance, U.P. Government helped in finalizing the section of Gadgil-Mukherjee formula. Prof. M.C. Purohit contributed material for mobilization of resources through user charges. Without their support it would not have been possible to finalise this report.

We also received valuable comments and suggestions from Shri EAS Sarma, chairman of the Working Group on State Finances and the chairmen of the other sub-groups Shri Vithal and Dr. Kavita Rao, which helped us in refining the projections of revenue from non-tax sources.

I am thankful to the officers of the Financial Resources Division of the Planning Commission for providing useful secretarial and research assistance and for arranging the meetings of the sub-group.

Special thanks are due to Shri S. Lakshmanan, Director, Financial Resources Division, Planning Commission and convener of the Sub-Group who discharged his onerous responsibilities with efficiency and promptness and also helped in working out projections of gross fiscal deficit.

The sub-group could not cover all the points of terms of reference for want of material on some aspects and also due to shortage of time because of other urgent preoccupations. However, we have tried to address the major issues before us and worked out the projections of revenue from non-tax revenue sources during the Eleventh Plan period and have indicated the extent of borrowing possible within the framework of the FRBM targets.

January 15, 2007

A.K. Singh
Chairman
Sub-Group on Non Tax Revenue

TERMS OF REFERENCE

- To estimate the year-wise resources (other than tax resources) of the States (including UTs with legislature) separately and combined for the Eleventh Five Year Plan (2007-12), keeping in view the implementation of the recommendations of the Twelfth Finance Commission (including replacement of Central Loans by Market Borrowings), FRBM requirements of Centre and States, Debt Restructuring, implementation of VAT, flow of CSS funds, flow of EAP funds and other relevant policy changes.
- To examine issues and implications of (a) National Small Savings and (b) Establishment of Loan Council.
- To explore the scope for new measures and suggest targets for ARM by the State Governments, including innovative instruments such as SPVs, PPP.
- To estimate the year-wise net accrual to State Provident Funds, SLR based Net Market Borrowings, proceeds from disinvestments of SLPEs and net miscellaneous capital receipts.
- To estimate the contribution of SLPEs & to suggest as to what extent investment by SLPEs through IEBR should continue to form part of the State Plan.
- To estimate the non-SLR based market borrowings through investments of bonds/debentures.
- To estimate the negotiated loans from various Finance Institutions including LIC/GIC, NABARD, REC, IDBI etc.
- To estimate the year-wise flow of external assistance available for the financing State Plans, in the light of the recent trends in utilization of external aid for EAPs, flow of FDI etc.

I. Introduction

1. The sub-group held three meetings at Yojana Bhawan, New Delhi on 14.08.2006, 8.09.06 and 13.11.06. The chairman briefed about the discussions in the sub-group in the meeting of chairman of the sub-groups with Shri EAS Sarma, Chairman of the Working Group on State Finances held on 14th November 2006. The revised draft was than circulated among the members of the sub-group for finalizations.

2. In its deliberations the sub-group took note of the fact that the resource position of the states and the centre was to be assessed in the light of the parameters laid down by the Fiscal Responsibility and Budget Management Acts passed by the Centre and the states. According to these parameters the revenue deficits have to be reduced to zero and the gross fiscal deficit has to be reduced to zero by 2008-09. Thus, If FRBM discipline is insisted upon it may pose problems for raising adequate resources to fund the 11th Five Year Plan particularly when Sixth Pay Commission is in offing.

3. The Sub Group recognized that there is an urgent need of stepping up investments in various areas, particularly social and economic infrastructure. According to the Approach paper to the Eleventh Plan, the strategy requires large increases in plan expenditure, e.g., irrigation and water conservation in rainfed areas will require extra expenditure above the normal level of 0.5% of GDP annually. In the health sector we need to increase the total expenditure by at least 1% of GDP by the end of the 11th Plan. In education, we need an increase of 0.5% of GDP by the end of 11th Plan period. It would require an increased in the budgetary resources for the Plan from an average of 7.15% of GDP (Centre and States combined) in the Tenth Plan to an average of around 9.5% in the 11th Plan period.

4. The Sub-Group was of the view that as far as possible effort should be made to adhere to the targets laid down in the FRBM Acts. Hence, determined efforts have to be made to raise resources through tax and non-tax resources and adopt innovative approaches to finance the infrastructure requirement.

5. The Sub-Group noted with satisfaction that in recent years there has been a sharp improvement in the financial position of the states. Many states already have recorded a surplus in their revenue account and combined GFD of states has come down to around 3.5 per cent of GDP. Hence, it should not be difficult to adhere to the FRBM targets. However, all states are not in an equally comfortable fiscal position and in some states GFD remains high.

II. Own Non-Tax Revenue: Issues and Projections

Revenue from non-tax sources forms an important source of resources for the state governments. These include a variety of sources of diverse nature such as dividends, interests, royalty on minerals and petroleum products, user charges from various economic and social services provided by the states. Table 1 shows the composition of ONTR of states.

Table 1: Own Non Tax Revenue of States by Source 2003-04 RE

Item	Spl.Cat. States	Non Spl. Cat. States	All States
A.		*Amount in Rs. crore*	
Dividends	23.60	250.06	273.67
Interest	193.83	9044.07	9237.90
Forestry & Wild Life	288.19	1589.93	1878.12
Other Economic Services	635.73	4487.16	5122.89
Other Social Services	135.00	3267.40	3402.40
Lottery (Net)	71.02	386.51	457.53
General Services	335.46	3915.84	4251.3
Irrigation	8.76	1376.77	1385.53
Royalty	865.68	6958.36	7824.04
Total Own Non Tax Revenue	2557.13	31276.09	33833.22
B. Percent Share in Total ONTR			
Dividends	0.92	0.80	0.81
Interest	7.58	28.92	27.30
Forestry & Wild Life	11.27	5.08	5.55
Other Economic Services	24.86	14.35	15.14
Other Social Services	5.28	10.45	10.06
Lottery (Net)	2.78	1.24	1.35
General Services	13.12	12.52	12.57
Irrigation	0.34	4.40	4.10
Royalty	33.85	22.25	23.13
Total Own Non Tax Revenue	100.00	100.00	100.00

Source: RBI Reports on State Finances

Royalties constitute about one-third of total ONTR of special category states and a little less than one-fourth of total ONTR of general category states. Interest earnings constitute about 29 per cent of ONTR in non-special category states, but only about 8 per cent in special category states. The share of economic services, social services and general services ranges between 10-15 percent. Contribution of irrigation, forestry, etc. is rather negligible.

Total ONTR of states have increased from Rs. 13,670.62 crore in 1993-94 to Rs. 33,833.22 crore in 2003-04 and were put at Rs. 39,217.83 crore in 2004-05 (B.E.). Thus, ONTR has been increasing at an annual rate of around 10 % during the period from 1993-2005. However, the growth rates have varied across different sources and states (Table 2.)

Table 2: Compound Annual Growth Rate of ONTR of States 1993-05

Special Category States		Non-Special Category States	
Name of State	**CAGR (%)**	**Name of State**	**CAGR (%)**
Arunachal Pradesh	7.15	Andhra Pradesh	10.37
Assam	22.75	Bihar*	-3.46
Himachal Pradesh	12.27	Chhattisgarh*	20.22
Jammu & Kashmir	17.31	Goa	18.37
Manipur	7.98	Gujarat	11.71
Meghalaya	15.52	Haryana	11.33
Mizoram	6.59	Jharkhand*	14.44
Nagaland	8.98	Karnataka	8.40
Sikkim	13.40	Kerala	11.04
Tripura	18.33	Madhya Pradesh*	2.96
Uttaranchal*	27.26	Maharashtra	3.28
Total-Spl.Cat.(A)	18.86	Orissa	8.08
		Punjab	21.43
		Rajasthan	6.47
		Tamil Nadu	9.58
		Uttar Pradesh*	6.63
		West Bengal	14.32
		Total-Non-Spl.Cat.(B)	**9.11**
		Grand Total (A+B)	**10.05**

Note: * Growth rates have been affected by bifurcation of states in 2000. Growth rates for these states have been calculated by splitting the ONTR for the period before 2000-01 on the basis of the share of the constituents states in the combined ONTR for 2001-02 for which data is available separately.

To construct the **base line scenario** we have projected the growth of ONTR during the Eleventh Plan period for special and non-special category states separately item-wise on the basis of the past growth rates observed for the period 1993-04 for each item of ONTR as well as the overall ONTR. It may be noted that total ONTR so projected does not match the total arrived by adding all the individual items. For the same reason the projected ONTR for all states combined does not match the total arrived at by adding the total of the two categories. The growth rate of ONTR for all states comes to 10 per cent per annum. This is the minimum growth that the states should maintain. Year wise and item wise projected ONTR for the two categories of the states are given in Table 3 and Table 4, while Table 5 presents the projected ONTR for all states. As can be seen from Table 5 the ONTR of all states is expected to go up from Rs. 52,277 crore in 2007-08 to Rs. 76,691 crore in 2011-12. The total revenue from ONTR for the entire plan is projected at Rs. 3,19,503 crore. The projection for special category states comes to Rs. 71,062 crore and that for general category states Rs. 2,60,234 crore when projected separately.

Table 3: Projected Own Non Tax Revenue of States during Eleventh Plan: Special Category States (Rs. Crore)

Item	2007-08	2008-09	2009-10	2010-11	2011-12	*Total Eleventh Plan*
Dividends	63	86	119	165	228	661
Interest	5748	7703	10325	13838	18546	56160
Forestry	387	411	438	466	496	2197
Other Eco. Services	2705	3254	3914	4708	5662	20243
Other Social Services	226	263	306	356	414	1565
Lotteries (Net)	80	86	92	99	106	462
Other General Services	400	450	505	568	639	2562
Irrigation	25	30	36	44	54	188
Royalty	1244	1404	1585	1788	2018	8040
Total ONTR	**9766**	**11608**	**13797**	**16399**	**19492**	**71062**

Notes: 1.Projected on the basis of past trend growth 1993-2005

2. Total ONTR has been arrived at by projecting on the basis of CAGR of total ONTR. Hence it does not match the total arrived by adding all the individual items

Table 4: Projected Own Non Tax Revenue of States during Eleventh Plan: Non-Special Category States (Rs. Crore)

Item	2007-08	2008-09	2009-10	2010-11	2011-12	*Total Eleventh Plan*
Dividends	342	386	437	495	559	2220
Interest	12004	12856	13768	14745	15792	69164
Forestry	1969	2029	2092	2157	2223	10472
Other Eco. Services	6846	7473	8157	8904	9720	41103
Other Social Services	3841	4269	4745	5274	5862	23994
Lotteries (Net)	777	894	1029	1184	1363	5249
Other General Services	6654	7647	8788	10100	11607	44798
Irrigation	1702	1845	2000	2168	2351	10068
Royalty	9475	10502	11640	12902	14301	58820
Total ONTR	**43388**	**47340**	**51653**	**56359**	**61493**	**260234**

Notes: 1.Projected on the basis of past trend growth 1993-2005

2. Total ONTR has been arrived at by projecting on the basis of CAGR of total ONTR. Hence it does not match the total arrived by adding all the individual items.

Table 5: Projected Own Non Tax Revenue of States during Eleventh Plan: All States (Rs. Crore)

Item	2007-08	2008-09	2009-10	2010-11	2011-12	*Total Eleventh Plan*
Dividends	385	439	500	570	649	2543
Interest	15765	17191	18745	20441	22289	94431
Forestry	2349	2432	2518	2606	2698	12603
Other Eco. Services	9269	10268	11375	12601	13959	57473
Other Social Services	4060	4521	5033	5604	6240	25459
Lotteries (Net)	847	964	1096	1248	1420	5574
Other General Services	6654	7647	8789	10100	11607	44798
Irrigation	1723	1869	2028	2200	2386	10206
Royalty	10717	11902	13218	14680	16303	66819
Total ONTR	52277	57533	63318	69684	76691	319503

Notes: 1.Projected on the basis of past trend growth 1993-2005

2. Total ONTR has been arrived at by projecting on the basis of CAGR of total ONTR. Hence it does not match the total arrived by adding all the individual items or the total by adding the estimates of the two sub-categories of states.

Table 6 present alternative scenario of ONTR during the Eleventh Five Year assuming annual growth rate of ONTR at 10% (base line scenario), 15% and 20%. Also a normative scenario is presented aiming at raising the ratio of ONTR of States from 1.48% of GSDP in 2006-07 to 2.0% of GSDP by 2011-12. The total ONTR during the Eleventh Plan according to the four alternative assumptions comes to Rs.3,19,503 crore, Rs. 3,33,860 crore, Rs. 3,48,376 crore and Rs. 4,31,351 crore respectively.

Assumptions	2007-08	2008-09	2009-10	2010-11	2011-12	Eleventh Plan
At 10.0% p.a.	52277	57533	63318	69684	76691	319503
as % of GSDP	1.44	1.40	1.36	1.32	1.28	1.35
At 15% p.a.	54626	60118	66163	72816	80137	333860
as % of GSDP	1.51	1.46	1.42	1.38	1.34	1.41
At 20% p.a.	57001	62732	69040	75982	83621	348376
as % of GSDP	1.57	1.53	1.48	1.44	1.40	1.47
Normative	58057	69860	83782	100181	119471	431351
as % of GSDP	1.60	1.70	1.80	1.90	2.00	1.82
At 13.7% (Recommended)	50618	57538	65425	74420	84679	332682
as % of GSDP	1.39	1.40	1.41	1.41	1.42	1.41

Table 6: Alternative Projections of ONTR of States During Eleventh Plan

(Rs. Crore)

The sub-group feels that an effort should be made to increase the growth rate of ONTR by 50 per cent over the past trend growth of each state subject to a minimum growth of 10 per cent and maximum growth of 15 per cent over the Eleventh Plan period. This yields a total contribution of ONTR of states of Rs. 3,32, 682 over the Eleventh Plan period implying an annual growth rate of 13.7 per cent in ONTR of states as a whole. This keeps the ratio of ONTR to GSDP of states constant at 1.4 per cent. We have used this estimate to prepare the resource position of states during the Eleventh Plan. Projections for individual states on the basis of past trends and normative growth have been given in the Appendix Table 1 and 2 respectively.

Following **suggestions** are given to mobilize resources from the non tax revenue sources:

There is sluggish growth in non-tax revenue due to weak collection from the services. The Twelfth Finance Commission have addressed this issue and recommended the application of the principle of cost recovery in case of provision of goods and services. Where it is felt that due to social considerations costs are not to be recovered, explicit subsidy should be provided. Regarding irrigation receipts TFC assumed cost recovery rates of 50%, 60%, 70%, 80% and 90% in 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 respectively. However, the sub-group feels that it may not be possible to raise recovery rates from irrigation above 50% from present 33% level. The cost recovery in case of urban water supply is also inadequate and needs to be enhanced. Similarly while transferring assets of rural water supply schemes to PRIs the 12^{th} Finance Commission have recommended for recovery of 50% of recurring cost through levy of user charges. The state governments can also enhance the user charges in sectors like fishery, veterinary services, license fees, tolls of newly constructed roads and bridges, entry fees in zoos, museums, etc. There could be security fee for the persons who demand police security.

In the education sector self financing courses can be launched on full cost recovery basis outside the state budget. Similarly, in the health sector maintenance and upkeep of hospitals can be met out of user's fee collected by the users' society for public purposes as some states like Orissa and Assam have already done. In such cases the revenue collected may be left in the hands of the user's society but should be reflected in the budget as annexure table.

It is suggested that there should be indexing of the user charges on a regular basis reflecting the increase in the cost of service.

It was felt by the sub group that capital expenditure in the areas of power, water, irrigation, health, etc. is going to create future resources, particularly when user charges are increased and services are provided efficiently.

The sub group is of the opinion that the royalties on coal, minerals, crude oil should be regularly enhanced by the Government of India and equitably shared with the states. Moreover, the royalty should be fixed on ad valorem basis to impart an element of buoyancy in earnings from royalties. The contentious issue of giving power to states to levy cess on mineral bearing land should be solved in a judicious and timely manner.

There is need for national consensus on royalty on fuel and compensation for host states allowing setting up of power plant in the Central sector. The state governments may be allowed to levy duty on generation or else a percentage of power generated should be given free of cost to the State by the generating companies as is the case in hydro-electric companies.

The group felt that it would be realistic to assume that non-tax revenue of the states in the aggregate will increase at an annual rate of 15% during the Eleventh Plan in nominal terms. The group also deliberated the parameters for projecting revenue from individual items of non-tax revenue taking the Twelfth Finance Commission assumptions as the point of reference. The following parameters were agreed upon:

- It was felt that revenue from privatization might be assumed 'nil' as there are political constraints in privatization process and whatever resources are raised through privatization may have to be spent on giving benefits to the employees.
- Recovery rates from irrigation could be increased to 50% from the present level of about 33%.

- Rate of increase in interest receipts could be projected at 5% on the outstanding loans.
- Increase in receipts from 'forestry & wild life' could be projected at 5% annually.

III. Borrowing Limits Consistent With FRBM Targets

The sub-group estimated the maximum borrowing that the states can resort to during the Eleventh Plan period consistent with FRBM targets and growth targets of the plan using appropriate assumptions. The methodology for this exercise is briefly discussed below.

The following assumptions have been made to estimate the projected GSDP during the Eleventh Plan period:

1. (a) GSDP for 2002-03 to 2004-05 as per CSO, wherever available.
   (b) GSDP for 2005-06 onwards estimated based on the growth target for 10th Plan.
   (c) For Eleventh Plan period (2007-12) two sets of estimates were made ensuring an overall growth of (i) 8.5% (with 5% inflation) and 9.0% (with 4% inflation).
2. Percentage contribution of each state to the growth target of 10th plan is maintained for the 11th plan target.
3. Calculation is done on the basis of State-wise GSDP at 1993-94 prices as available from CSO compiled in February 2006.
4. The share of states in all India GDP for the year 2002-03 is taken as weight.
5. The gap that exists between all India GDP and all-States GSDP is assumed to be maintained at 2002-03 level.
6. Gross Fiscal Deficit (GFD) as per 2006-07(B.E.) estimated from 2007-08 to reach 3.0 per cent by 2008-09 assuming a uniform rate of decline.

Statewise projections of GSDP based on the 8.5% and 9% growth rate scenario have been given in Appendix Table 3 and 4 respectively. The indicated level of GFD as percent of GSDP has been applied to the projected nominal GSDP of individual states to work out the total amount of borrowing consistent with FRBM targets. Total borrowing for all states is derived by adding the projected borrowing for each state. State wise and year wise projections of gross borrowing are indicated in Appendix Table 6 and 7. Summary table for all states is given below:

Table 7: Projected Gross Borrowing Limits of States During the Eleventh Five Year Plan (Rs. Crore)

Estimate A: Based on 8.5% GSDP Growth Rate and 5 % Inflation Rate

Category of States	Gross Borrowings	% Share
Special Category States (11 States)	40575.46	5.54
Non Special Category States (17 States)	691908.34	94.46
Total All States	732483.81	100.00

Estimate B: Based on 9.0% GSDP Growth Rate and 4 % Inflation Rate

Category of States	Gross Borrowings	% Share
Special Category States (11 States)	39862.36	5.53
Non Special Category States (17 States)	680909.37	94.47
Total All States	720771.73	100.00

Thus, the states can borrow up to Rs. 7,32,483 crore according to estimate A and up to Rs. 7,20,772 crore according to estimate B. We may take a working figure of Rs. 7, 25,000 crore as GFD of states during the Eleventh Plan. As the states revenue deficit would be reduced to zero, whole of the borrowings can be used to finance the plan. This compares with the actual borrowing (including MCR) of Rs. 2,15,592 crore in the Ninth Plan and the borrowing target (including MCR) of Rs. 2,61,482 crore during the Tenth Plan. The pre actual GFD of states is estimated at Rs.1,08,000 crore during 2005-06.

IV. Financing Gross Fiscal Deficit Through Various Sources

In the light of the Centre's decision to stop sanctioning the loan portion of the State Plan Schemes w.e.f. 1.4.2005 based on TFC recommendation, the States have to mobilize resources for funding their GFD mainly through Market Borrowings, issue of Special Securities for loans from NSSF, Negotiated Loans from Financial Institutions and Provident Fund Net and to some extent through external borrowings (back-to-back loans for EAPs). The GFD of the States is over-financed of late due to cent percent transfer from NSSF without taking into account the resource requirements of the States, which accounts almost for 62%. Therefore, a standard pattern of financing the Gross Fiscal Deficit of States has to be evolved in the backdrop of Twelfth Finance Commission recommendations and the emerging fiscal trend. The following model may be considered in this regard.

(i) **OPEN MARKET LOANS (Net):** On an average, about 15% of the GFD is financed through open market borrowings and it ranged between 13.0 and19.1 per cent (excluding open market borrowings for the purpose of prepayment of small savings loans and block loans under Debt Swap Scheme and Rural Infrastructure Development Fund) during 2000-2001 to 2004-2005. Earlier, it had been 16.1% during 1995-2000 and 16% during 1990-1995. Of all the borrowings, the interest rate on open market loans is more closely aligned to the market rates, thereby lessening the interest burden of the States due to the present low interest regime. The borrowings through auction mode encouraged by the Reserve Bank of India helps better price discovery. The Twelfth Finance Commission has also recommended that States shall be allowed to mobilize the loan portion of central assistance directly from the market, which implies that States shall be allowed to mobilize additional open market borrowings in lieu of loan portion of central assistance for financing their State Plan.

Currently, the pattern being followed for GFD financing of the States is that the total fiscal deficit minus cent percent transfer of net small savings collections from NSSF and the balance is financed by other sources including open market loans. However, the Centre does not avail the high cost NSSF loan but funds its deficit through open market loans and enjoys the reverse transfer of states' surpluses. Therefore, the present practice of financing the States' deficit primarily through NSSF loans and allotting the open market borrowings to a limited extent of the remaining deficit should be given up. Instead, based on the RBI's projected market potential for absorption of open market loans, the resources available in the market as well as the NSSF loans shall be earmarked for financing the assessed combined deficit of both the Centre and the States in a more equitable manner. In this direction, States should be allowed to finance a considerable part of their fiscal deficit through open market loans, with the Government of India also subscribing to NSSF in addition to open market loans.

The RBI is contemplating Non-Competitive Bidding in State Development Loans also to an extent of 10%. This will facilitate widening the investor base besides bringing in additional funds. Therefore, Government of India should increase the allocation under net Open Market Loans to 1/3rd of the anticipated GFD of the States. The RBI may also be requested to examine the feasibility of floating Open Market Loans with varying maturities.

ii) **BORROWINGS FROM NSSF:** From 2002-2003 onwards, the Government of India have been transferring the cent percent net small savings collections as loan to the States as against issue of Special Securities to the National Small Savings Fund. Buoyant small savings collections in the recent years coupled with the completion of the debt swap scheme in 2004-2005 has resulted in transfer of larger resources than actually required by the States. The net transfer to States during 2005-06 is Rs.89,835.91 crore constitutinges 62.5% of GFD. The net transfer to States during 2006-2007 has been estimated at Rs.86,500 crore in GoI Budget for 2006-07. This constitutes 59.23% of the GFD financing, based on TFC's nominal GDP figures.

The interest rate for the NSSF loans currently at 9.5% is the highest of all the borrowings of the States and it puts enormous strain on the interest payments. The additional resource transfer from the NSSF further heightens the problem with a negative spread of 4.5%. Therefore, sub-group is in favour of the proposal put forth by the Department of Economic Affairs before the NDC Sub-Committee on NSSF Debt of States to revert to the 80:20 ratio for sharing of small savings collections between the States and the Centre.

Considering the stability of inflows, longer tenure, modality of repayment and lesser refinancing risk, the overall NSSF borrowings by the states may be fixed at 40-45 percent of the total GFD requirements against around 60 percent at present.

iii) **NEGOTIATED LOANS FROM BANKS AND FINANCIAL INSTITUTIONS:**

This comprises loans from NABARD under RIDF/ WDF, HUDCO loans for infrastructure development, loans from NCDC for Co-operative Sector, loans from LIC for Water Supply Schemes and other similar loans. The interest rates on such loans are negotiated between the State Government/State level entities and the lenders and may depend on the creditworthiness of individual State Governments where the lenders take into account the track record of the State Governments related to the timeliness of repayment of dues. The insistence of LIC on scheme based funding rather than sector based lending, stringent clauses in the agreement on loan resetting/ prepayment and differential interest rates for different States, makes it difficult for the States to avail loans from the agency.

This source of GFD financing has been a volatile component and also a relatively costly source of funds. The State Governments resort to negotiated loans for financing of fiscal deficit only after exploiting other sources of funds. Institutional arrangement like concessional RIDF funding by NABARD has, however, become popular with the State Governments for funding of rural infrastructure. The State Governments may continue to use such concessional sources in the future.

The data on the negotiated loans are not transparently presented in the budget documents. According to the information available from the budget documents of the State Governments the institutions provided gross amounts of about Rs. 92,306 crore during the tenth plan period (2001-01 to 2005-06) averaging about Rs. 18,461 crore per annum. The net amount (net of repayments) averaged Rs. 11,037 crore per annum. Year-wise details are provided in Appendix Table 8 and 9.

Considering the option for negotiations in terms of fixing the tenure to suit the debt servicing capabilities of the States, flexible easy repayment terms with little strain on outflows, it is desirable to have at least 15% of the GFD financing through Negotiated Loans.

iv) **PROVIDENT FUNDS (Net):**

This contributes approximately 7% to 14% of GFD financing. However, this will decline in the coming years due to switching over to the Contributory Pension Scheme by most of the States. Therefore, resource availability under Provident Funds may be assumed at 5% of the GFD financing.

v) **EAP Loans:** It is difficult to estimate the volume of loans from externally funded projects. The quantum of financial assistance for externally aided projects may be assumed at 5% of GFD.

To sum up, the Sub Group favours the following pattern of debt based financing of plans broadly estimated at Rs. 7,25,000 crore :

Source of Loan	Percent share in gross borrowings	Amount of Borrowing during Eleventh Plan (Rs. Crore)
NSSF Loans	45	326250
Open Market Loans	30	217500
Institutional Loans	15	108750
Provident Fund Net	5	36250

Externally Aided Projects	5	36250
All sources	100	725000

V. Gadgil-Mukherjee Formula

The principle of distribution of Central Assistance among the States, popularly known as Gadgil formula after the name of Dr. D.R. Gadgil, the then Deputy Chairman of the Planning Commission, came to used from the Fourth Five Year Plan. The formula was updated in September 1976 by NDC. It was further modified on 31st August 1980 by NDC. A modified formula, which came to be known as ***"Gadgil-Mukherjee formula",*** was adopted by NDC in its meeting on 23rd and 24th December 1992. Since then the Normal Central Assistance (NCA) is being distributed on the basis of this formula. It does not apply to the distribution of Additional Central Assistance (ACA) under "Others" and "EAP".

The Gadgil-Mukherjee formula takes into account a number of criteria for distribution of central plan assistance including population, per capita income, performance and special problems. The weights assigned to different criteria under the formula are as follows:

(i)	Population	60%
(ii)	Per capita income	25%
	(a) Distance method	05%
	(b) Deviation method	20%
(iii)	Performance (Tax effort, fiscal management national priorities including population control, literacy, completion of EAP's and Land Reforms)	7.5%
(iv)	Special problems	7.5%

The sub-group felt that the whole exercise of distribution of NCA lacks transparency as the States do not have any information with regard to their share as per the formula or the indicators and the base year used for calculation of the share of each State in terms of performance, special problems, etc. It is not known to the States whether the database is regularly updated to arrive at fresh share of each State annually or for the Five Year Plan period. The experience shows that the NCA is allocated on an incremental basis.

The sub group felt that the whole process of distribution of Central Plan Assistance should be transparent and the formula should be applied in a non-discretionary manner. It recommends that the Planning Commission should follow the practice of the Finance Commission Reports, where all relevant information with regard to State's share in Central taxes is included in the report of the Commission.

Further, the sub Group feels that the Gadgil-Mukherjee formula needs a re-look in the light of the significant changes in the thinking about the horizontal equity. When the Gadgil formula was adopted initially the issue of horizontal equity among states was not given its due place. However, since the time of the Fifth Finance Commission a much higher priority to horizontal equity has been given. Consequently, the formula of distribution adopted by the Finance Commission and the Planning Commission for central transfers have shown increasing divergence.

The history of Gadgil formula shows that the formula has been giving more weightage to population (60%) since the time of Fourth Plan when the formula was introduced. In the Fourth and the Fifth plan only 10% weightage was given to per capita income, which was raised to 20% during Sixth and Seventh Plan and further to 25% in Eighth Plan and this weightage is continuing since then. This weightage to 25% is quite inadequate and does not serve the purpose of reduction of regional disparities.

On the other hand, the successive finance Commission have raised the weight assigned to per capita income with a view to ensure horizontal equity. The Eleventh Finance Commission gave a weight of 62.5% to income distance and a weight of only 10% to population. The Twelfth Finance Commission has increased the weight of population to 20%, while reducing the weight of income distance to 50%.

A comparison of the share of states as recommended by the Twelfth Finance Commission and their share in the CPA would be instructive in this regard. The special category states get a share of 56.45% in NPA against their share of only 8.15% in TFC tax transfers. This is so because these states get 90% plan assistance as grant and only 10% as loans. On the other hand, the share of the general category states is only 43.55% in NCA against their share of 91.85% in TFC transfers. In fact, the absolute amount of NCA for most of the states is rather insignificant in the light of their plan size. Only two states, viz. U.P. and Bihar, get more than Rs. 500 crore as NCA.

A more relevant comparison would be between the share in NCA and TFC Tax Transfers among the general category states. One does not find very stark differences in the two types of transfers (Table 9). However, the TFC shares are more equitous as compared to Plan transfers. Thus, the share of poorer states like U.P., Bihar, M.P. and Rajasthan in NCA is lower as compared to their share in the TFC transfers. On the other hand, the share of richer states like Gujarat, Punjab, Haryana and Maharashtra is somewhat higher.

It is rather odd that when balanced regional development is a major policy objective of planning, Planning Commission transfers give such a low priority to per capita income level as a criterion of distribution of resources. As the main guiding principles of central transfers are equity and efficiency, the sub-group feels that the Finance Commission and Planning Commission should move closer. Therefore, the Gadgil-Mukherjee formula should be suitably amended. *One alternative could be to adopt the inter-se shares recommended by the Finance Commission for the purpose of deciding states share in Central Plan Assistance.*

With the recommendations of the Twelfth Finance Commission the whole concept of NCA has undergone a fundamental change, as the central plan assistance will not be given in the form of loans to the states. With 70% of the loan component of NCA not coming from Government of India and the States being asked to raise this amount on their own from the market, the 30% grant component of the NCA has been reduced to a negligible percent of total plan size of States. The sub-group felt that with the new on lending policy of the Government of India on the recommendations of Twelfth Finance Commission, the concept of normal Central Assistance based on Gadgil Formula has lost much of its significance.

When the Tenth Plan was formulated, the NCA was pegged at Rs.98037.14 crore and amounted to 39% of the total central support and 17% of the States' Plan size (Rs.561573.06 crore). By the end of the Tenth Plan this situation has completely changed. In case of U.P., for instance, in the year 2006-07 the NCA (Rs.1234.43 crore) is only 6.5% of the total plan size (Rs.19000 crore). In some other states the proportion is still lower.

Table 8: Percent Share of States in NCA and TFC Tax Transfers

State	Grant Component of NCA 2006-07	Percent Share in Total NCA 2006-07	Percent Share in TFC Grant
A. Special Category States			
Arunachal Pradesh	629.28	4.48	0.29
Assam	1549.90	11.03	3.24
Himachal Pradesh	766.33	5.45	0.52
Jammu & Kashmir	1518.32	10.80	1.30
Manipur	463.31	3.30	0.36
Meghalaya	384.93	2.74	0.37
Mizoram	443.51	3.16	0.24
Nagaland	468..95	3.33	0.26
Sikkim	299.13	2.13	0.23
Tripura	654.08	4.65	0.43
Uttaranchal	756.57	5.38	0.94
Total (A)	**7934.11**	**56.45**	**8.15**
B. Non-Special Category States			
Andhra Pradesh	389.13	2.77	7.36
Bihar	687.92	4.89	11.03

Chhattisgarh	182.84	1.30	2.65
Goa	32.81	0.23	0.26
Gujarat	244.86	1.74	3.57
Haryana	108.68	0.77	1.08
Jharkhand	230.53	1.64	3.36
Karnataka	269.08	1.91	4.46
Kerala	198..08	1.41	2.67
Madhya Pradesh	436.07	3.10	6.71
Maharashtra	419.41	2.98	5.00
Orrissa	349.70	2.49	5.16
Punjab	132.36	0.94	1.30
Rajasthan	360.20	2.56	5.61
Tamil Nadu	361.45	2.57	5.31
Uttar Pradesh	1234.43	8.78	19.26
West Bengal	483.35	3.44	7.06
Total B	**6120.91**	**43.55**	**91.85**
Total A & B	**14055.02**	**100.00**	**100.00**

Source: Planning Commission, Govt. Of India and Report of the Twelfth Finance Commission

The Sub Group is of the view that the center should decide the total NCA every year and distribute it to states in a transparent manner based on objective criteria. Central assistance should not be tied and should not be linked to plan performance and size. The state should be left free to decide the size of their annual plan on the basis of their assessment of total resources available including CPA.

Table 9: Inter-se Share of General Category States in NCA and TFC Tax Transfers

State	Grant Component of NCA 2006-07 (Rs. crore)	Percent Share in Total NCA 2006-07	Percent Share in TFC Grant
Andhra Pradesh	389.13	6.36	8.01
Bihar	687.92	11.24	12.00
Chhattisgarh	182.84	2.99	2.88
Goa	32.81	0.54	0.28
Gujarat	244.86	4.00	3.88
Haryana	108.68	1.78	1.18
Jharkhand	230.53	3.77	3.66
Karnataka	269.08	4.40	4.85
Kerala	198..08	3.24	2.91
Madhya Pradesh	436.07	7.12	7.30
Maharashtra	419.41	6.85	5.44
Orrissa	349.70	5.71	5.61
Punjab	132.36	2.16	1.41
Rajasthan	360.20	5.88	6.10
Tamil Nadu	361.45	5.91	5.78
Uttar Pradesh	1234.43	20.17	20.96
West Bengal	483.35	7.90	7.68
Total General Category States	**6120.91**	**100.00**	**100.00**

Source: Planning Commission, Govt. Of India and Report of the Twelfth Finance Commission

VI. Contribution of State Level Public Enterprises (SLPEs)

SLEPs and State Government Budgets

The state level public enterprises (SLEPs) affect the budgetary position of the state government in several ways. The SLPEs' direct contribution to the state's resources for the Annual Plan in the Government sector is in the form of dividends, interest receipts and repayment of the loans and advances, made by Government to these organisations. The enterprises in the transport and energy sector through their internal and extra budgetary resources make their own Plan Outlay which is integrated with the Government sector to form the State's overall plan in the public sector.

Reduction in the direct budgetary support from the Consolidated Fund, reduction in the guarantee exposure, reduction in the liabilities of the PSUs etc. are also indirect contribution by the PSEs to the overall resources of the States for financing the State Plan Outlays.

Selective dis-investment, sale, leasing out, closure of the loss making PSEs are also to be taken as contribution by PSEs to the resources of the State for financing the State Plan Outlay.

Need for Restructuring of SLPEs

The massive investment in the State Level Public Enterprises (SLPEs) in the form of equity capital and loan raises legitimate expectation of significant contribution of these enterprises for financing the State Plan. The surplus of Government enterprises could be reinvested either for expansion of the enterprise or may be used to fund development efforts in other sectors. Successive Finance Commissions have made normative assessment of return by PSEs in the range of 3-6% of return on capital employed in these enterprises. But the actual realization has been much lower. Total dividends and profits of SLPEs amounted to Rs. 732.62 crore in the Ninth Plan and Rs. 1906.95 crore in the Tenth Plan. State wise position has been shown in the Appendix Table 10. On the other hand, the accumulated loss of SLPEs is a liability for the State Governments.

The Plan outlay of State Electricity Boards and the State Road Transport Undertakings are integrated with the State's Plan outlay and their contribution in terms of internal resources has been negative since the 5th Plan period. They mainly depend on extra budgetary resources for financing their plan. Their dependence on the State Government for budgetary support through various subsidies preempted the availability of resources of the State Government for its other plan programmes. Default in repayment / interest payment towards loans advanced by the State Government are a drag on the State's Finances.

Sharp increase in their establishment cost due to use of manpower in excess of requirement, lower capacity utilization, inefficiency, poor control and lack of commercial character contributed to the mounting losses of the SLPEs which ultimately devolves on the State Government. This has necessitated reform and restructuring of the SLPES.

In the 8th Plan period, as against the projected internal resources of State Level Public Enterprises, the actual generation turned negative to the extent of (-) Rs.2723.00 crore which implied a deterioration of Rs.6723.00 crore mainly attributable to poor financial performance of SEBs. In the 9th Five Year Plan period the internal resources of the PSEs were projected at Rs.14890.00 Crore which came down to (-) Rs.35416.00 Crore on realization and the Extra Budgetary Resources although initially projected at Rs.40140.00 crore went up to Rs.87523.00 crore. During the Tenth Five Year Plan the internal resources of the State PSUs were estimated at (-) Rs.7,760.00 Crore and their extra budgetary resources were estimated at Rs.90,444.00 Crore.

While examining the broader issue of public finance restructuring, the 11th Finance Commission (Para-3.52; Page-29) observed that "a *major drag on public finances in India has been the poor return on investments in public sector enterprises and statutory corporations*". The Commission has made a strong pitch for major structural reforms in terms of greater autonomy, deregulation, accountability and professionalism in PSEs. As regards state level PSUs the Commission have made special mention of the SEBs and state Transport Undertakings both of which are running in losses. Unbundling of SEBs into separate units looking after generation, transmission and distribution, rationalisation of tariff, and keeping subsidization and cross subsidization implicit in tariff structure at the minimum have been suggested as some of the viable options to make the enterprises commercially viable. Similarly tariff revisions in line with input costs, elimination of concessions, suitable mix of profitable and non-profitable routes, and improvement in efficiency parameters including lowering of the staff-bus ratio have been recommended for revival of the State Transport Undertakings.

Referring to the concern voiced by the 11th Finance Commission over the large amount of capital locked up in the public sector showing extremely low growth in relation to the average cost of funds to the government, the 12th Finance Commission have observed (Para-4.75; Page-84): "The problem is particularly acute in the case of the states. Out of 1103 state level public enterprises (SLPEs), 599 SLPEs are reported to be either non-functioning or running into losses. Not only the returns on government investment are non-existent or low, but also a large number of the SLPEs fail to finalise their accounts. The total amount of investment in respect of the SLPEs, where accounts were finalized, was estimated to be Rs.2,38,220 crore at the end of 2000-01. Many states have, however, taken steps for closing down many of the SLPEs and for disinvestment in others. This process should be further strengthened. In the period of restructuring, that is 2005-10, State governments should draw up a programme that includes closure of all loss making SLPEs. Reforms of State Electricity Boards and Transport Enterprises are being taken up separately. By the end of 2009-10, States should have a small but viable set of SLPEs."

In the study commissioned by the 12th Finance Commission on State Public Sector Undertakings (SPSUs) it was revealed (pp. 25-27) that the fiscal impact of SPSUs on the State Budgets averaged over 31% of State's Own Tax Revenues, whereas the figure would touch nearly 120% in case of gross fiscal impact with outstanding guarantees included. The total impact on State Finances is the sum of fiscal impact due to annual loss plus the opportunity cost of investment in SPSUs. Similarly gross fiscal impact combines total outflows plus the imputed opportunity cost of State and additional guarantees made. The study, therefore, argued for obtaining substantial fiscal benefits by restructuring of SPSUs in which the net benefits will accrue after meeting the cost of restructuring. The study rekindles the hope that if SPSUs become financially self sufficient substantial resources would become available to the States for developmental expenditure and their exposure to guarantee risk will also be minimized. In fact, as the study shows, SPSUs reform is perhaps quantitatively the most important aspect of fiscal reforms at the state level as it can free over thirty percent of the states own tax revenues for fiscal adjustment and/or development.

Attempts at Restructuring of SLPE

Closure and sale of loss making enterprises, disinvestment, privatization, restructuring, merger, modernization, downsizing of man-power are the possible way out of the present financial mess. These processes will definitely involve a cost. But in order to improve the financial health of these PSUs and to reverse their negative impact on the State finances the cost has to be borne as a part of the cost of the fiscal reform at the State level so that it can free a considerable part of the States' scarce resources for fiscal consolidation and meeting the developmental expenditure.

Attempts have been made in several states to disinvest their enterprises. An amount of Rs. 727.68 was realized through disinvestments by state governments during the Ninth Plan. Disinvestment proceeds fell to Rs. 391.55 crore in the Tenth Plan (Table 10).

Table 10: Miscellaneous Capital Receipts of Which Disinvestment during 9th and 10th Plan Period (Rs in crore)

State	9th Plan Period					10th Plan Period				
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05 (BE)	2004-05 (RE)	2005-06
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)

Gujarat	171.56	1.03	15.61	22.35	1.50	52.00	17.95		3.10	
Kerala	5.90	2.47	2.05			3.50				
Orissa		504.88						315.00		
Punjab		0.33								
All States	**177.46**	**508.71**	**17.66**	**22.35**	**1.50**	**55.50**	**17.95**	**315.00**	**3.10**	**0.00**

Source: RBI Bulletin on State Finances – A Study of Budgets

Andhra Pradesh and Orrisa states have been successful examples of privatization of public enterprises (See Box 1 and 2). Out of the thirty-two SLPE privatized at the state level in the recent years, 13 belonged to Andhra Pradesh and 9 to Orissa (see Appendix 11).

Box 1

Restructuring of State Public enterprises in Andhra Pradesh

Andhra Pradesh began to reform the state PE sector in 1999 after the State Government concluded that public resources should not be used for activities where the private sector can perform more competitively and no compelling social or environmental reasons warrant a public presence. A quasi-independent privatization secretariat and implementation committee was set up, under the direction of the State, and a cabinet committee set up to vet PEs selected for liquidation, restructuring or privatization. The procedures for evaluating PE assets, preparing tendering documents for competitive bids and evaluating and awarding bids was set up in the implementation secretariat. In parallel, the state also established procedures for providing retirement payments to PE employees who would lose their jobs, as well as elective job training and placement assistance to help laid-off workers find new employment.

Between 1999 and April 2004, Andhra Pradesh successfully liquidated, privatized or restructured 39 PEs, ranging from operating sugar factories and fertilizer factories, to agro industry and handicraft corporations. Already US $30 million in gross proceeds has been realized from the sale of assets and another $40 million from divestment. Over the next two years an additional 45 corporations, cooperatives and enterprises with minority government ownership are scheduled for processing.

Several factors have contributed to these achievements, including political support from the top, the creation of an implementation secretariat with a commitment to the programme, and technical assistance to build institutional capacity and provide advice. Part of its success comes from putting in place the Voluntary Retirement Scheme (VRS) and social safety net programme to compensate employees for the loss of jobs and assist them in finding alternative employment. As of April 2004, over 22,000 employees have taken VRS.

Delhi

Box 2

Reform Initiatives For Public & Co-Operative Enterprises In Orissa

Orissa was one of the first States to initiate the process of Public Enterprises Reform even before the Government of India announced its policy of liberalisation in 1991 with restructuring of Power Sector, sale of Charge Chrome Plant at Brahmnipal to TISCO and sale of Talcher Thermal Power Plant to NTPC. The Orissa Electricity Reforms Act was passed in January 1996 and it came into effect on 1 April 1996. The reforms involved restructuring of the sector through unbundling of generation, transmission and distribution. Privatisation of generation and distribution through competitive bidding, establishment of an independent Regulatory Commission and tariff setting both at bulk power level and retail level in a transpare & efficient manner have been the key components of reforms.

Reform in non-power sector enterprises was initiated with the objectives to eliminate budgetary support for loss making PSEs and thereby make available the funds generated for much needed programmes in the social sector, such as health and education and to achieve fiscal sustainability in accordance with the Orissa Medium Term Fiscal Reform Programme.

In the process of implementation of PE Reform Programme, DFID, UK Government has agreed to provide grant to the tune of £ 44.087 million. During the period from 1999 to 31st March, 2006 Government of Orissa has completed disinvestment in 4 enterprises and realized proceeds to the tune of Rs. 192.66 crore. In addition, Rs. 20.12 crore were realised from six enterprises by way of sale of assets. Altogether, 33,527 employees have been separated as on 31st July 2006 and an amount of Rs. 367.17 crore has been paid to these voluntary separated employees. The fiscal savings in this regard is calculated at Rs. 1,463.00 crore at an average salary of Rs. 4,330 per month at 7% discount with an average of 13 years of service left.

The Public Enterprises Reform in Orissa is successful due to several factors such as political will, transparent institutional decision mechanism, professional management support and public support. In addition generous grant of DFID to implement Voluntary Retirement scheme and well designed Social Safety Net mechanism to create re-deployment opportunities for the voluntary Retired State PSU employees contributed to the success of the Public enterprises Reform programme in the state.

Possible Scenario during 11th Plan Period

As the World Bank's Report on State Fiscal Reform in India has observed that public enterprise reforms like closure and privatization will not provide large immediate fiscal gains but will prevent the future build up of liabilities and will prevent the need for budgetary support to keep loss making enterprises afloat. The restructuring exercise through downsizing of the workforce will also help the State enterprises in reducing the establishment cost and consequent financial loss. The proceeds of disinvestment can be mainly utilized towards clearance of liabilities, which will also reduce the State Government's ultimate liability and contingent liability by way of Guarantee Risk.

The State Level PSEs should be discouraged to go in for a large plan outlay if they do not have sufficient internal resources in the form of resources and surplus in their books of accounts and their Extra Budgetary Resources should be determined on the basis of their future cash flow projection to service the loan and past track record in servicing of guaranteed loans/bonds. If they are allowed to raise extra budgetary resources without any limit and irrespective of their financial health the exposure of the State Government to the risk of default on servicing of the loans raised by these entries will increase and their finances will face severe stock.

The SLPEs themselves should not raise capital for infrastructure projects. Rather, they should scout for private partners and promote SPVs jointly to set up infrastructure projects with suitable revenue, sharing models so that private capital is employed for creation of public infrastructure and assured of economic return. This will facilitate economic development and creation of public wealth.

The PSUs in the manufacturing and trading sector should either be sold or fully privatized. The PSUs set up for the promotional and welfare purpose should be provided explicit subsidy or their services or products should be priced to earn economic return.

Part of dis-investment proceeds should be utilized to form a State Renewal Fund to meet the cost of Public Enterprise Reform i.e. VRS/VSS and also to provide a Social Safety Net for VSS/VRS retirees so that the move for downsizing will be acceptable to the workers community.

The World Bank report cited above observes that past experience shows that political commitment and institutional capacity is very important for a successful public enterprise reform programme. The recent political opposition to the various dis-investment programmes of PSUs does not augur well for carrying forward the restructuring programme in a fruitful manner in the 11th Plan period. It is, therefore, necessary to incentivise public enterprise reform in the States by providing a part of the cost of reform through plan grants based on achievement of agreed monitorable targets. These targets may include: (i) the number of PSEs to be privatized/closed/leased out/disinvested; (ii) number of employees to be given VRS; (iii) percentage of guarantee exposure reduced; and (iv) budgetary support reduced per annum.

VII. Mobilizing Resources through User Charges:

The issue of mobilizing non-tax sources has been discussed at length in the literature on public finance and debated considerably. A number of theoretical and practical issues arise in this context. First, the special characteristics of these services *viz.* externalities, non-rivalness, non-exclusion, and scale of economies in making provision are very important to be kept in mind in deciding the user charges of the public goods. Secondly, the variety of goods and services provided by the government differ vastly in nature. Pure public goods have joint-consumption with non-excludability features. Existence of such features in these services measures the publicness of services according to the degree of prevalence of one or both the features. While the benefits of public goods are expected to accrue to the society as a whole, all the goods and services provided by the government cannot be treated as pure public goods-the benefits of these goods and services are enjoyed by both the targeted and non-targeted groups. Hence, it is difficult to classify government goods and services as pure public goods or quasi-public or mixed goods. Accordingly, it may not be appropriate to apply the marginal cost pricing principle for all the services. Nevertheless, it is generally accepted that at least a part of the cost of providing these services (recurring expenses) should be recovered through appropriate user charges from the target groups.

Determination of User Charges

The determination of user charges largely depends on a variety of factors. One of the factors is the degree of publicness of these goods. If the degree of publicness of such goods is low, the cost recovery through user charges is expected to be more. In the model of optimal recoveries on quasi-public services, the unit cost of providing the services depends on the amount of funds society is willing to pay and the form of financing of the service. The willingness to pay for the services depends on the usefulness of the service. If the services are more useful, the society's willingness to pay would be more. The extent of cost of service borne by the society would depend upon the degree of publicness of the service. The full cost can be recovered if the service provided is "private" in nature. On the other hand, in the case of "public goods", the willingness to bear the cost would be almost zero. Consequently, for distinct government services there ought to be different levels of user charges.

With a view to determining the actual rate of user charges it is important to know the preferences of the society for the services. This could be attempted by segregating different types of services. It may help in: (i) measuring overall preferences of the society for each service regarding the choice between the financing of the service through budgetary allocations or through user charges, and (ii) in making a comparison between the actual cost recoveries through user charges and the desirable rate of recoveries.

To calculate the desired level of cost recovery could be derived empirically from the historical trend amongst major states. The desired level of cost recovery for each service will differ among states owing to: differences in the population density; level of living; stage of development; the socio-cultural factors; and the region specific factors. However, in practice the actual recovery rates are nowhere near the desired recovery rates in most of the services. It is also observed that there are substantial variations in the desired recovery rates. The difference in the actual recovery rates and the desired recovery rates indicates the inefficiencies in recovery enforcement. The gap between the desired recovery rate and the average recovery rate indicates the scope for upward revision of recovery rates.

The following ***principles*** are considered important in the fixation of the rates for user charges:

- *Equity*: suggesting equalization of benefit to each segment of the society. If the marginal benefits are not equal, then the society's total welfare can be increased by reassigning the service usage among different sections of the society;
- *Consumer acceptability* suggests that the pricing system should be simple and easy to understand and accepted by the consumers of the services at large. Therefore, the pricing system should not be too complex;
- *Administrative feasibility* suggest that it should be administratively feasible to discriminate rates and hence, there should be a limit for the rate differentiation;
- *Environmental considerations* suggest that the pricing system should be such that it encourages and promotes the use of environmental resources; and
- *Other Government Policies* should be duly recognized and proper regard be given to these.

Further, for setting up of norms of non-tax rates, the adequacy of the recovery rates should be compared with the best practicing States. For each of the selected service, the norm can be the preference for the highest rates in the major States. Thus, in the case of education, the desired recovery rate of Kerala, which is the highest, can be taken as the norm for education. In some of the services like public works, water supply and sanitation, and minor irrigation, the desired recovery rate of Rajasthan is the highest. This may be considered as the norm for these services.

Empirical Estimation of User Charges

While keeping in mind the above principles, it is important to relate user charges of different services provided by sub-national governments to the actual recovery rate, defined as a ratio to corresponding revenue expenditures. For a thorough study of user charges one has to go to the details available in the state budgets, which is a time consuming task. A rough measure is, however, plausible by using data source made available by the Reserve Bank of India.

Using the data source from the RBI, as a crude measure, one could estimate recovery through each of the major non-tax sources, as shown in Table 11, for two time periods *i.e.* 1993-94 and 2003-04. The calculated recovery rates, as given in the table indicate that there is a wide variation in the recovery rates amongst the different functional categories. For example, the rate varies from a low of 1.30 in Bihar in the case of social services to as high as 7.75 in Goa for the year 1993-94. A comparison of recovery rates in 2003-04 shows a remarkable change in the case of Goa showing recovery rate of 13.45. The lowest recovery rate of 1.18 percent in the case of social services is recorded in this period for West Bengal. In economic services, the lowest rate is recorded in West Bengal (7.42) in 1993-94 and Uttar Pradesh (5.14) in 2003-04. The highest recovery rate is recorded in Goa in both the years.

A comparison of recovery rates for the two time periods of 1993-94 and 2003-04 for different components of various services indicates a marked increase in recovery from some of the services (see Appendix Table 12 and 13). While the recovery rates of two time periods indicate an increase over time, it also points to the need for a disaggregated database from the state budgets for an accurate calculation of the recovery rates.

Table 11:
Recovery Rate for Social and Economic Services

States	Social Services		Economic Services	
	1993-94	2003-04	1993-94	2003-04
Andhra Pradesh	2.40	2.43	20.72	16.51
Bihar	1.30	2.40	36.61	8.38
Goa	7.75	13.45	81.22	103.21
Gujarat	3.00	2.76	18.07	33.50
Haryana	4.60	8.89	36.53	29.42
Karnataka	2.23	1.77	14.92	19.84
Kerala	2.36	2.54	19.86	10.66
Madhya Pradesh	1.92	1.53	40.83	19.83
Maharashtra	3.21	2.39	24.53	30.84
Orissa	2.90	1.74	60.08	37.90
Punjab	4.67	3.15	38.70	20.86
Rajasthan	3.57	3.54	13.14	20.27
Tamil Nadu	2.45	5.54	9.84	15.55
Uttar Pradesh	1.59	3.45	12.46	5.14
West Bengal	2.19	1.18	7.42	7.28
Major 15 States	2.55	2.96	22.26	17.64
All States	2.34	2.74	21.71	19.53

Source: Purohit, Mahesh C (2006), *Mobilizing Resources through Reform of State Non-Tax Sources for Planned Development,* Foundation for Public Economics and Policy Research, Delhi. A Report prepared for the Planning Commission, SER Unit.

Policy Imperatives

The analysis of the recovery rates given above is indicative of the fact that while the efforts of the state governments are in the right direction to recover the cost of these services, gigantic efforts have yet to be made to meet the goal.

With this objective, the government must continue its program of phased increase in user charge pertaining to power, irrigation, higher education, hospital services and other selected economic and social services. The medium term strategy should consist of the following steps:

- Full-cost recovery of inputs and services (i.e., 100% recovery of the current costs) provided to the farmers in agriculture (soil testing, etc.), horticulture (cost of seeds and seedlings supplied), animal-husbandry (artificial insemination, health and diagnostic services etc.) and sericulture (cost of *chawki* reared worms).

- For higher, technical, professional and vocational education, fees should be gradually increased to recover at least one-third of the cost with exemption for the students from low-income groups.

- Charges for medical facilities in government hospitals should be fixed at a reasonable level keeping the costs in mind with exemption to people below the poverty line.

- Many of the states have very rich forest, mines & minerals and other natural resources but there is limited scope of exploitation of such resources to maintain the balance in ecosystem. It is important that the States plan scientific extraction of natural resources; develop eco-tourism etc. to increase the revenue of the State, while protecting the traditional rights of the forest dwellers.

- For mobilizing resources through mines and minerals, it is useful to fix royalty keeping in view the increase in the price of the major and minor minerals. Following this principle, it is recommended that the state governments must revise the rates by at least 15 percent approximately-keeping uniformity in the tax at the all India level.

Appendices

Appendix 1

Projected Own-Non Tax Revenue in Rs. Crore
(Based on past trend growth rates)

States	CAGR % (1993-2004)	*2007-08*	*2008-09*	*2009-10*	*2010-11*	*2011-12*	*Total Eleventh Plan*
Special Category States							
Arunachal Pradesh	7.15	220.78	236.57	253.49	271.62	291.05	1273.51
Assam	22.75	6137.65	7534.18	9248.47	11352.81	13935.97	48209.07
Himachal Pradesh	12.27	601.70	675.52	758.40	851.44	955.90	3842.97
Jammu & Kashmir	17.31	1442.90	1692.60	1985.51	2329.11	2732.17	10182.30
Manipur	7.98	80.64	87.07	94.02	101.52	109.62	472.85
Meghalaya	15.52	214.05	247.27	285.65	329.98	381.19	1458.14
Mizoram	6.59	75.90	80.91	86.24	91.92	97.97	432.94
Nagaland	8.98	81.51	88.83	96.80	105.49	114.96	487.60
Sikkim	13.40	160.13	181.58	205.91	233.49	264.77	1045.89
Tripura	18.33	265.08	313.66	371.14	439.16	519.65	1908.69
Uttaranchal	27.26	821.36	1043.12	1324.77	1682.45	2136.71	7008.41
Total-Spl.Cat.(A)	18.86	**9895.66**	**11960.53**	**14473.82**	**17535.51**	**21268.35**	**75133.88**
Non-Spl Category States							
Andhra Pradesh	10.37	5382.30	5940.70	6557.03	7237.30	7988.15	33105.47
Bihar	-3.46	342.63	330.64	319.06	307.90	297.12	1597.34
Chhattisgarh	20.22	2225.66	2675.24	3215.64	3865.20	4645.97	16627.72
Goa	18.37	1443.19	1708.30	2022.11	2393.57	2833.27	10400.45
Gujarat	11.71	6588.59	7360.02	8221.78	9184.44	10259.81	41614.65
Haryana	11.33	2385.56	2655.83	2956.71	3291.69	3664.62	14954.41
Jharkhand	14.44	2892.69	4165.48	5998.29	8637.53	12438.04	34132.03
Karnataka	8.40	2214.55	2400.49	2602.04	2820.52	3057.34	13094.95
Kerala	11.04	1178.36	1308.47	1452.95	1613.39	1791.53	7344.70
Madhya Pradesh	2.96	1815.78	1869.52	1924.86	1981.84	2040.50	9632.50
Maharashtra	3.28	3692.65	3813.81	3938.95	4068.20	4201.69	19715.31
Orissa	8.08	1232.34	1331.87	1439.44	1555.69	1681.33	7240.67
Punjab	21.43	6175.45	7498.97	9106.14	11057.76	13427.64	47265.97
Rajasthan	6.47	2498.00	2659.53	2831.50	3014.58	3209.51	14213.12
Tamil Nadu	9.58	2499.82	2739.28	3001.67	3289.19	3604.26	15134.22
Uttar Pradesh	6.63	2227.39	2368.48	2518.51	2678.04	2847.68	12640.09
West Bengal	14.32	1985.39	2269.60	2594.50	2965.91	3390.48	13205.88
Total-Non-Spl.Cat.(B)	**9.11**	**46780.34**	**53096.22**	**60701.18**	**69962.75**	**81378.95**	**311919.44**
Grand Total (A+B)	**10.05**	**56676.00**	**65056.76**	**75175.00**	**87498.26**	**102647.31**	**387053.32**

Appendix 2

Projected Own-Non Tax Revenue in Rs. Crore
(Based on Normative Growth Rates)

States	Assumed CAGR	2007-08	2008-09	2009-10	2010-11	2011-12	*Total Eleventh Plan*

Special Category States							
Arunachal Pradesh	15	237.34	272.94	313.88	360.96	415.10	1600.21
Assam	15	4388.30	5046.55	5803.53	6674.06	7675.17	29587.60
Himachal Pradesh	15	562.34	646.70	743.70	855.26	983.54	3791.54
Jammu & Kashmir	15	1182.17	1359.49	1563.42	1797.93	2067.62	7970.63
Manipur	12	80.34	89.98	100.78	112.88	126.42	510.41
Meghalaya	15	183.63	211.17	242.85	279.28	321.17	1238.10
Mizoram	10	75.84	83.43	91.77	100.95	111.04	463.03
Nagaland	13.5	81.14	92.09	104.53	118.64	134.66	531.06
Sikkim	15	145.24	167.03	192.08	220.89	254.03	979.26
Tripura	15	211.60	243.34	279.84	321.82	370.09	1426.69
Uttaranchal	15	530.29	609.84	701.31	806.51	927.49	3575.44
Total-Spl.Cat.(A)	14.9	7678.24	8822.56	10137.69	11649.16	13386.32	51673.97
Non-Spl Category States							
Andhra Pradesh	15	5293.64	6087.69	7000.84	8050.97	9258.62	35691.76
Bihar	10	461.34	507.48	558.23	614.05	675.45	2816.56
Chhattisgarh	15	1694.89	1949.12	2241.49	2577.71	2964.37	11427.58
Goa	15	1150.79	1323.41	1521.93	1750.21	2012.75	7759.09
Gujarat	15	6250.69	7188.29	8266.53	9506.51	10932.49	42144.52
Haryana	15	2286.42	2629.39	3023.80	3477.36	3998.97	15415.94
Jharkhand	15	1612.67	1854.58	2132.76	2452.68	2820.58	10873.27
Karnataka	12	2181.11	2442.84	2735.98	3064.30	3432.02	13856.25
Kerala	15	1138.18	1308.91	1505.24	1731.03	1990.68	7674.04
Madhya Pradesh	10	2012.99	2214.29	2435.72	2679.29	2947.22	12289.52
Maharashtra	10	4055.63	4461.19	4907.31	5398.04	5937.85	24760.02
Orissa	12	1224.55	1371.50	1536.08	1720.41	1926.86	7779.41
Punjab	15	4561.07	5245.23	6032.01	6936.81	7977.33	30752.44
Rajasthan	10	2504.63	2755.09	3030.60	3333.66	3667.02	15291.00
Tamil Nadu	15	2512.61	2889.50	3322.93	3821.37	4394.57	16940.99
Uttar Pradesh	10	2241.61	2465.77	2712.35	2983.58	3281.94	13685.24
West Bengal	15	1757.63	2021.28	2324.47	2673.14	3074.11	11850.64
Total-Non-Spl.Cat.(B)	13.5	42940.47	48715.56	55288.27	62771.14	71292.83	281008.26
Grand Total (A+B)	13.7	50618.71	57538.11	65425.96	74420.30	84679.16	332682.23

Assumption: 50% increase in Past CAGR; Maximum 15%, Minimum 10%

Appendix 3

GSDP at current prices (1993-94 series (Rs. Crore)

Estimate A: 8.5% CAGR and 5% Inflation Rate

State\UT	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**Total Eleventh Plan**	**As % of All States**
Andhra Pradesh	298993	337662	381333	430653	486350	1934991	8.1
Arunachal Pradesh	4006	4505	5065	5695	6403	25674	0.1
Assam	65111	72886	81590	91333	102239	413158	1.7
Bihar	89059	100135	112589	126593	142338	570714	2.4
Chattisgarh	55796	62736	70539	79312	89176	357560	1.5
Goa	17925	20571	23608	27093	31093	120290	0.5
Gujarat	284357	329181	381071	441141	510679	1946430	8.1
Haryana	125967	142834	161959	183645	208235	822642	3.4

Himachal Pradesh	32746	37476	42889	49084	56174	218370	0.9
Jammu & Kashmir	30287	33811	37744	42135	47036	191013	0.8
Jharkhand	65025	73757	83662	94897	107641	424982	1.8
Karnataka	252647	292380	338362	391575	453157	1728120	7.2
Kerala	140630	158818	179358	202555	228752	910113	3.8
Madhya Pradesh	164880	185410	208495	234456	263648	1056889	4.4
Maharashtra	550436	632542	726896	835325	959928	3705127	15.4
Manipur	6381	7136	7981	8926	9982	40407	0.2
Meghalaya	7874	8792	9819	10965	12244	49693	0.2
Mizoram	3496	3896	4342	4839	5393	21967	0.1
Nagaland	7595	8464	9433	10513	11716	47721	0.2
Orissa	79596	89495	100626	113142	127214	510073	2.1
Punjab	136797	154490	174470	197035	222518	885311	3.7
Rajasthan	182387	207482	236031	268507	305451	1199858	5.0
Sikkim	2241	2540	2878	3262	3696	14616	0.1
Tamil Nadu	300187	341988	389610	443863	505671	1981318	8.2
Tripura	14479	16323	18402	20746	23388	93338	0.4
Uttar Pradesh	368662	415611	468539	528207	595474	2376493	9.9
Uttaranchal	25732	28871	32392	36342	40775	164112	0.7
West Bengal	333534	381096	435439	497532	568479	2216080	9.2
Delhi							
Pondicherry							
ALL STATES	**3646825**	**4150889**	**4725124**	**5379369**	**6124853**	**24027060**	**100.00**

Appendix 4

GSDP at current prices (1993-94 series (Rs. Crore)

Estimate B: 9% CAGR and 4% Inflation Rate

States	**2007-08**	**2008-09**	**2009-10**	**2010-1**	**2011-12**	**Total Eleventh Plan**	**% of all India**
A. Special Category States							
Arunachal Pradesh	3984	4454	4979	5567	6224	25207	0.11
Assam	64726	72027	80151	89192	99253	405349	1.71
Himachal Pradesh	32592	37124	42285	48165	54862	215028	0.91
Jammu & Kashmir	30104	33402	37062	41122	45628	187317	0.79
Manipur	6343	7051	7839	8715	9688	39637	0.17
Meghalaya	7826	8687	9642	10702	11879	48735	0.21
Mizoram	3475	3848	4263	4721	5229	21536	0.09
Nagaland	7548	8360	9260	10256	11360	46785	0.20
Sikkim	2229	2513	2833	3194	3600	14369	0.06
Tripura	14399	16143	18099	20291	22749	91681	0.39
Uttaranchal	25584	28538	31833	35508	39608	161071	0.68
Total (11 SCSs)	**198808**	**222147**	**248246**	**277434**	**310081**	**1256716**	**5.32**
B. Non-Special Category States							
Andhra Pradesh	297369	334005	375154	421373	473286	1901187	8.04

Bihar	88554	99003	110685	123746	138348	560336	2.37
Chattisgarh	55480	62027	69346	77529	86677	351058	1.49
Goa	17843	20384	23286	26601	30389	118503	0.50
Gujarat	283190	326483	376396	433939	500279	1920287	8.12
Haryana	125311	141349	159440	179846	202864	808809	3.42
Jharkhand	64687	72993	82365	92941	104874	417860	1.77
Karnataka	251605	289974	334193	385156	443891	1704819	7.21
Kerala	139866	157097	176452	198191	222608	894213	3.78
Madhya Pradesh	163946	183316	204973	229189	256267	1037691	4.39
Maharashtra	547961	626867	717136	820404	938542	3650909	15.44
Orissa	79144	88483	98924	110598	123648	500798	2.12
Punjab	136054	152816	171643	192790	216541	869844	3.68
Rajasthan	181468	205397	232481	263137	297835	1180319	4.99
Tamil Nadu	298698	338604	383842	435123	493255	1949523	8.25
Uttar Pradesh	366624	411030	460814	516628	579202	2334297	9.87
West Bengal	331933	377444	429196	488044	554960	2181577	9.23
Total Non-Special Cat. States	**3429733**	**3887272**	**4406327**	**4995233**	**5663466**	**22382030**	**94.68**
All States	**3628541**	**4109419**	**4654572**	**5272667**	**5973547**	**23638746**	**100.00**

Appendix 5

Gross Fiscal Deficit of States : 2001-02 to 2006-07 (Rs. Crore)

States	2001-02	2002-03	2003-04	2004-05	2005-06 RE	2006-07 BE
Andhra Pradesh	-6723.11	-7625.29	-7450.49	-8192.22	-8190.02	-8147.20
Arunachal Pradesh	-248.80	-213.90	-250.03	-386.23	-342.79	-125.69
Assam	-1448.14	-927.71	-1393.98	-2057.45	-3145.37	-1792.34
Bihar	-2583.31	-2988.06	-4457.66	-1241.80	-5038.58	-4581.75
Chhatisgarh	-1090.93	-971.73	-2203.62	-1231.55	-1314.91	-1438.75
Goa	-412.82	-379.04	-445.17	-551.05	-687.28	-761.17
Gujarat	-6510.79	-6080.31	-9143.30	-8696.44	-6649.37	-6879.95
Haryana	-2739.54	-1471.03	-2933.11	-1205.92	-1872.54	-1848.33
Himachal Pradesh	-1511.34	-2341.56	-2383.62	-1810.39	-938.25	-1001.96
Jammu & Kashmir	-1474.00	-1310.46	-1486.75	-1665.29	-1839.00	-1337.00
Jharkand	-1364.29	-1720.30	-873.48	-3019.94	-4918.44	-4864.62
Karnataka	-5869.89	-5281.31	-4501.13	-3600.00	-4764.09	-5210.56
Kerala	-3269.40	-4993.55	-5539.05	-4451.90	-5872.53	-6834.55
Madhya Pradesh	-3639.26	-4062.29	-7322.92	-6491.77	-4768.89	-4873.66
Maharashtra	-10897.74	-14289.85	-17928.51	-18620.03	-16471.95	-8419.12
Manipur	-340.32	-248.89	-285.63	-449.31	-319.24	-107.82
Meghalaya	-220.87	-161.13	-201.83	-313.21	-215.81	-85.60
Mizoram	-422.00	-315.34	-305.68	-235.31	-332.02	-121.06
Nagaland	-336.49	-494.98	157.40	-218.39	-282.66	-163.58
Orissa	-3964.25	-2816.04	-3572.81	-1365.99	-1413.63	-1675.88
Punjab	-4958.96	-4410.23	-4879.25	-4114.94	-3659.04	-3576.30
Rajasthan	-5748.37	-6114.01	-7371.80	-6145.98	-6068.78	-5140.58
Sikkim	-66.85	-9.86	-50.25	-185.55	-278.99	-270.18
Tamil Nadu	-4739.38	-6742.45	-5591.16	-5569.76	-5440.71	-5570.14

Tripura	-538.18	-536.98	-341.39	-240.31	-552.00	-626.00
Uttar Pradesh	-9911.10	-9496.90	-16648.11	-12997.61	-13167.53	-12711.51
Uttaranchal	-613.03	-890.46	-1405.37	-2171.42	-2435.99	-2837.58
West Bengal	-11804.06	-10569.10	-12870.42	-10653.21	-11225.94	-11858.30
All States	**-93447.22**	**-97462.76**	**-121679.12**	**-107882.97**	**-112206.35**	**-102861.18**

Source: State Budget Documents

Appendix 6

Gross Fiscal Deficit of States Consistent With FRBM Targets

In Eleventh Five Year Plan (Rs. Crore)

Estimate A: 8.5% Real Growth Rate

States	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**Total Eleventh Plan**	**As % of All States**
Andhra Pradesh	-9119.3	-10129.9	-11440.0	-12919.6	-14590.5	-58199	7.95
Arunachal Pradesh	-130.2	-135.1	-151.9	-170.8	-192.1	-780	0.11
Assam	-1985.9	-2186.6	-2447.7	-2740.0	-3067.2	-12427	1.70
Bihar	-3918.6	-3004.1	-3377.7	-3797.8	-4270.1	-18368	2.51
Chhatisgarh	-1673.9	-1882.1	-2116.2	-2379.4	-2675.3	-10727	1.46
Goa	-717.0	-617.1	-708.2	-812.8	-932.8	-3788	0.52
Gujarat	-8530.7	-9875.4	-11432.1	-13234.2	-15320.4	-58393	7.97
Haryana	-3779.0	-4285.0	-4858.8	-5509.4	-6247.1	-24679	3.37
Himachal Pradesh	-1064.3	-1124.3	-1286.7	-1472.5	-1685.2	-6633	0.91
Jammu & Kashmir	-1211.5	-1014.3	-1132.3	-1264.0	-1411.1	-6033	0.82
Jharkand	-3771.4	-2212.7	-2509.9	-2846.9	-3229.2	-14570	1.99
Karnataka	-7579.4	-8771.4	-10150.9	-11747.2	-13594.7	-51844	7.08
Kerala	-6047.1	-4764.5	-5380.7	-6076.7	-6862.6	-29132	3.98
Madhya Pradesh	-5193.7	-5562.3	-6254.9	-7033.7	-7909.4	-31954	4.36
Maharashtra	-16513.1	-18976.3	-21806.9	-25059.8	-28797.8	-111154	15.17
Manipur	-191.4	-214.1	-239.4	-267.8	-299.5	-1212	0.17
Meghalaya	-236.2	-263.8	-294.6	-328.9	-367.3	-1491	0.20
Mizoram	-120.6	-116.9	-130.3	-145.2	-161.8	-675	0.09
Nagaland	-227.8	-253.9	-283.0	-315.4	-351.5	-1432	0.20
Orissa	-2387.9	-2684.9	-3018.8	-3394.3	-3816.4	-15302	2.09
Punjab	-4103.9	-4634.7	-5234.1	-5911.1	-6675.6	-26559	3.63
Rajasthan	-5654.0	-6224.5	-7080.9	-8055.2	-9163.5	-36178	4.94
Sikkim	-186.0	-76.2	-86.3	-97.8	-110.9	-557	0.08
Tamil Nadu	-9005.6	-10259.6	-11688.3	-13315.9	-15170.1	-59440	8.11
Tripura	-579.1	-489.7	-552.1	-622.4	-701.7	-2945	0.40
Uttar Pradesh	-12903.2	-12468.3	-14056.2	-15846.2	-17864.2	-73138	9.98
Uttaranchal	-2238.7	-866.1	-971.8	-1090.3	-1223.2	-6390	0.87
West Bengal	-12007.2	-11432.9	-13063.2	-14926.0	-17054.4	-68484	9.35
Delhi							
Pondicherry							
ALL STATES	-121076.8	-124527	-141753.7	-161381.1	-183745.6	-732484	100.00

Appendix 7

Gross Fiscal Deficit of States Consistent With FRBM Targets In Eleventh Five Year Plan (Rs. Crore)

Estimate B: 9% Real Growth Rate

States	2007-08	2008-09	2009-10	2010-1	2011-12	Total Eleventh Plan	% of all India
A. Special Category States							
Arunachal Pradesh	-129	-134	-149	-167	-187	-766	0.11
Assam	-1974	-2161	-2405	-2676	-2978	-12193	1.69
Himachal Pradesh	-1059	-1114	-1269	-1445	-1646	-6532	0.91
Jammu & Kashmir	-1204	-1002	-1112	-1234	-1369	-5921	0.82
Manipur	-190	-212	-235	-261	-291	-1189	0.16
Meghalaya	-235	-261	-289	-321	-356	-1462	0.20
Mizoram	-120	-115	-128	-142	-157	-662	0.09
Nagaland	-226	-251	-278	-308	-341	-1404	0.19
Sikkim	-185	-75	-85	-96	-108	-549	0.08
Tripura	-576	-484	-543	-609	-682	-2894	0.40
Uttaranchal	-2226	-856	-955	-1065	-1188	-6290	0.87
Total (11 SCSs)	**-8125**	**-6664**	**-7447**	**-8323**	**-9302**	**-39862**	**5.53**
B. Non-Special Category States							
Andhra Pradesh	-9070	-10020	-11255	-12641	-14199	-57184	7.93
Bihar	-3896	-2970	-3321	-3712	-4150	-18050	2.50
Chattisgarh	-1664	-1861	-2080	-2326	-2600	-10532	1.46
Goa	-714	-612	-699	-798	-912	-3734	0.52
Gujarat	-8496	-9795	-11292	-13018	-15008	-57609	7.99
Haryana	-3759	-4240	-4783	-5395	-6086	-24264	3.37
Jharkhand	-3752	-2190	-2471	-2788	-3146	-14347	1.99
Karnataka	-7548	-8699	-10026	-11555	-13317	-51145	7.10
Kerala	-6014	-4713	-5294	-5946	-6678	-28645	3.97
Madhya Pradesh	-5164	-5499	-6149	-6876	-7688	-31377	4.35
Maharashtra	-16439	-18806	-21514	-24612	-28156	-109527	15.20
Orissa	-2374	-2655	-2968	-3318	-3709	-15024	2.08
Punjab	-4082	-4584	-5149	-5784	-6496	-26095	3.62
Rajasthan	-5626	-6162	-6974	-7894	-8935	-35591	4.94
Tamil Nadu	-8961	-10158	-11515	-13054	-14798	-58486	8.11
Uttar Pradesh	-12832	-12331	-13824	-15499	-17376	-71862	9.97
West Bengal	-11950	-11323	-12876	-14641	-16649	-67439	9.36
Total Non-Special Cat. States	**-112340**	**-116618**	**-132190**	**-149857**	**-169904**	**-680909**	**94.47**
All States	**-120466**	**-123283**	**-139637**	**-158180**	**-179206**	**-720772**	**100.00**

Appendix 8

Institutional Finance - Gross (Rs. Lakhs)

Sources	2001-02 Accts	2002-03 Accts	2003-04 Accts	2004-05 RE	2005-06 BE	Total (2001-02 to 2005-6)
1	2	3	4	5	6	7
LIC	105933	180642	277239	454256	305975	1324045
NABARD	354237	394977	370477	597446	702170	2419307
NCDC	56866	32818	173802	43413	53653	360552
OTHERS	633385	727824	870481	1477922	1417071	5126683
(Excluding LCBs)						
TOTAL*	1150421	1336261	1691999	2573037	2478869	9230587

Source: Study of State Finances, RBI.

Notes: LCBs - Land Compensation Bonds
* Includes KVIC, CWC etc.

Appendix 9

Institutional Finance – Net (Rs. Lakhs)

Sources	2001-02 Accts	2002-03 Accts	2003-04 Accts	2004-05 RE	2005-06 BE	Total (2001-02 to 2005-6)
1	2	3	4	5	6	7
LIC	86931	153564	242177	370897	240641	1094210
NABARD	246823	257644	92091	-74125	576377	1098810
NCDC	18234	-1043	137380	-15177	10920	150314
OTHERS	541138	544592	566005	648840	874552	3175127
(Excluding LCBs)						
TOTAL*	893126	954757	1037653	930435	1702490	5518461

Source: Study of State Finances, RBI.

Notes: LCBs - Land Compensation Bonds
* Includes KVIC, CWC etc.

Appendix 10

Dividends and Profits In Revenue Receipt During 9th And 10th Plan Period *(Rs in crore)*

State	9th Plan Period	10th Plan Period

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05 (BE)	2004-05 (RE)	2005-06
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Andhra Pradesh	5.34	9.42	2.91	2.02	0.57	1.34	48.68	1.39	45.54	55.21
Arunachal Pradesh	0.00	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assam	0.35	0.02	0.44	0.73	0.83	5.93	6.88	6.67	7.29	7.73
Bihar	0.00	0.00	0.35	0.05	0.09	0.09	0.01	0.01	0.04	0.07
Chhatisgarh	0.00	0.00	0.00	0.00	5.00	25.57	34.82	100.37	100.37	100.37
Goa	0.67	0.44	0.33	0.24	0.44	0.19	0.03	3.87	3.87	4.26
Gujarat	14.49	22.38	27.03	26.07	27.52	42.03	29.89	30.20	30.20	30.00
Haryana	2.38	2.21	7.78	1.81	0.40	1.73	4.11	4.20	4.50	4.80
Himachal Pradesh	0.55	0.53	0.59	0.61	0.89	0.61	0.50	0.65	0.65	0.65
Jammu & Kashmir	1.23	3.91	7.73	0.00	9.60	12.89	15.47	15.60	25.78	25.78
Jharkhand	0.00	0.00	0.00	0.00	1.00	1.12	1.12	1.20	1.20	3.00
Karnataka	5.44	6.27	6.24	2.75	5.14	14.93	16.90	3.35	3.35	16.90
Kerala	5.92	7.13	10.01	12.64	5.26	9.61	20.03	21.66	22.36	28.00
Madhya Pradesh	1.55	1.00	1.81	0.44	1.64	4.09	8.42	17.52	9.85	33.27
Maharashtra	9.33	6.01	3.96	3.95	4.53	1.86	18.93	2.34	3.53	4.03
Manipur	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.01	0.01
Meghalaya	0.03	0.03	0.60	0.01	0.11	0.01	0.18	0.03	0.03	0.03
Mizoram	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nagaland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Orissa	3.20	0.28	111.14	37.90	8.76	152.22	138.06	69.15	120.59	38.76
Punjab	2.99	1.49	9.15	2.33	1.09	0.91	1.82	1.00	1.00	2.20
Rajasthan	8.61	8.00	5.29	5.57	4.78	8.26	2.44	5.10	32.99	19.86
Sikkim	1.59	1.23	0.72	0.02	0.01	1.76	0.74	0.70	0.70	0.70
Tamil Nadu	18.45	24.29	41.95	36.53	33.45	25.99	27.20	26.39	22.59	22.57
Tripura	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20
Uttaranchal	0.00	0.00	0.00	0.02	0.02	0.04	0.04	0.05	0.05	0.29
UttarPradesh	5.76	6.19	5.89	8.74	6.39	7.84	7.88	5.92	5.92	5.92
West Bengal	1.85	0.44	1.23	3.18	3.77	1.38	0.50	1.99	0.56	0.62
NCT Delhi	4.44	4.82	4.41	8.70	7.17	7.19	6.03	7.10	7.00	7.00
All States	**94.17**	**106.12**	**249.56**	**154.31**	**128.46**	**327.60**	**390.68**	**326.47**	**449.97**	**412.23**

Source: RBI Bulletin on State Finances – A Study of Budgets

Appendix 11

Public Enterprise Reforms by States

Name of State	Approx no. of State level PEs	PEs identified for reforms	PEs in which reform process initiated	PEs privatized	PEs closed/ defunct under liquidation	PEs restructured
Andhra Pradesh	128	87	79	13	12	6
Bihar	54	6	6	0	0	0
Gujarat	54	24	24	3	6	0
Haryana	45	8	6	1	4	0
Karnataka	85	39	20	2	11	0

Kerala	111	55	40	0	10	0
Madhya Pradesh	26	14	14	1	0	0
Maharashtra	65	11	4	0	0	0
Orissa	72	33	10	9	11	0
Punjab	53	11	11	1	6	0
Rajasthan	28	10	6	1	1	0
Tamil Nadu	59	29	29	0	7	2
Uttar Pradesh	41	25	25	1	14	1
West Bengal	82	15	15	0	0	0
Total	**903**	**367**	**289**	**32**	**82**	**9**

Source : World Bank, *State Fiscal Reforms in India Progress & Prospects, New Delhi*

Note : 'Reform' here refers to privatization, closure, or restructuring.

Appendix 12

Recovery Rate of Different Components of Social Services

States	Education, Sports, Art and Culture		Medical, Public Health and Family Welfare		Water Supply and Sanitation		Housing		Urban Development		Labour and Employment		Social Security and Welfare
	1993-94	2003-04	1993-94	2003-04	2003-04	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04
Andhra Pradesh	2.06	1.53	3.75	2.00	2.58	8.08	34.32	1.70	0.78	22.64	11.31	0.88	0.54
Bihar	0.38	1.65	2.33	2.74	0.33	228.26	783.33	0.68	0.01	5.56	1.32	4.83	7.57
Goa	0.42	4.10	4.35	7.16	68.30	16.52	8.33	0.00	0.10	4.05	16.82	0.49	0.38
Gujarat	1.32	1.73	9.10	4.88	0.45	4.23	2.95	10.32	5.52	7.94	10.04	4.92	1.96
Haryana	2.62	2.13	12.72	9.16	10.56	14.17	13.10	36.13	249.83	5.01	9.16	1.38	2.84
Karnataka	1.38	0.80	5.80	3.45	0.18	12.22	22.46	1.08	0.80	12.71	15.69	0.92	1.37
Kerala	1.90	2.66	5.41	3.33	1.19	4.04	3.26	19.22	1.41	4.09	4.61	0.29	0.61
Madhya Pradesh	0.40	0.39	2.42	1.60	7.95	12.77	19.70	4.98	0.87	8.16	6.09	6.77	1.80
Maharashtra	0.86	0.70	8.33	5.96	1.10	11.59	6.21	7.72	8.18	9.65	16.76	10.48	5.78
Orissa	1.60	0.64	4.50	1.65	11.43	41.34	29.69	2.32	0.04	4.51	21.10	1.33	0.44
Punjab	0.92	1.02	12.31	6.83	10.38	27.27	NC	7.07	11.60	10.65	11.13	18.68	2.95
Rajasthan	0.31	2.17	4.00	1.62	18.53	5.64	7.36	1.07	0.90	4.13	6.48	1.69	1.33
Tamil Nadu	1.43	2.94	5.00	5.51	2.67	37.26	20.05	0.72	106.61	13.41	16.25	5.94	3.19
Uttar Pradesh	1.27	3.64	1.72	2.46	0.71	38.10	59.23	0.18	11.67	4.24	8.72	2.02	4.34
West Bengal	0.27	0.47	8.49	3.54	2.20	16.97	22.18	0.14	0.09	2.02	2.07	1.52	1.05
15 States	1.10	1.65	5.27	3.74	6.94	13.44	15.96	3.84	12.41	8.81	10.72	4.12	2.79
All States	1.02	1.58	4.77	3.38	6.18	12.52	15.10	3.33	10.01	8.46	10.02	3.70	2.64

Notes: *Recovery rates for the year 1993-94 have not been calculated owing to non-availability of data.

NC = Not calculated.

Source: Purohit, Mahesh C (2006), *Mobilizing Resources through Reform of State Non-Tax Sources for Planned Development.* Foundation for Public Economics and Policy Research, Delhi. A Report prepared for the Planning Commission, SER Unit.

Appendix 13

Recovery Rate of Different Components of Economic Services

States	Crop Husbandry		Animal Husbandry		Fisheries		Forestry and Wildlife		Co-operation	
	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04
Andhra Pradesh	1.97	1.20	1.59	0.70	14.01	8.89	97.58	29.33	10.66	39.38
Bihar	1.93	2.18	1.23	0.56	43.96	38.18	109.26	43.03	17.89	8.85
Goa	10.33	7.16	18.35	8.83	12.00	35.00	30.26	16.48	11.58	11.01
Gujarat	3.08	3.04	4.11	5.77	16.98	15.48	29.06	35.55	5.05	31.61
Haryana	4.22	3.30	8.61	1.87	11.81	9.84	25.37	35.01	25.61	30.74
Karnataka	2.91	4.12	3.09	3.03	17.53	13.72	66.75	53.82	36.42	28.77
Kerala	5.56	13.16	10.36	6.50	4.13	7.59	214.41	126.23	29.59	62.60
Madhya Pradesh	3.71	3.66	3.21	1.18	14.60	7.04	153.48	91.23	21.87	47.16
Maharashtra	6.32	4.28	3.71	6.00	11.72	17.47	70.82	25.73	39.83	24.09
Orissa	6.81	1.39	2.47	0.98	22.06	8.10	443.67	58.70	8.75	7.54
Punjab	14.71	10.59	9.65	2.18	97.48	20.19	75.64	8.33	18.30	6.86
Rajasthan	1.40	3.34	1.83	1.83	41.34	86.82	13.84	28.18	5.90	28.92
Tamil Nadu	9.71	15.04	5.94	6.10	6.85	30.79	132.92	98.90	17.58	7.94
Uttar Pradesh	4.75	33.39	3.26	4.78	5.77	10.50	123.24	51.52	10.80	13.70
West Bengal	2.43	3.49	3.43	3.11	6.74	38.71	45.27	36.41	12.06	17.92
15 States	5.84	9.48	3.96	3.30	13.52	19.53	104.48	55.00	16.03	22.33
All States	5.46	8.36	3.90	3.11	12.15	16.34	94.87	49.90	15.50	20.12

Source: Purohit, Mahesh C (2006), *Mobilizing Resources through Reform of State Non-Tax Sources for Planned Development*. Foundation for Public Economics and Policy Research, Delhi. A Report prepared for the Planning Commission, SER Unit.

Appendix 13 (continued)

Recovery Rate of Different Components of Economic Services

States	Major & Medium Irrigation projects	Minor Irrigation	Power		Village and Small Industries		Industries	
	2003-04*	2003-04*	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04
Andhra Pradesh	0.90	2.01	58.20	2.74	5.77	1.28	801.8	1058.6
Bihar	17.37	0.65	0.00	NC	1.30	1.51	2262.8	301.0
Goa	43.82	29.48	105.51	140.57	1.70	10.65	2322.5	302.0
Gujarat	94.56	7.39	0.02	3.01	1.20	5.36	2835.0	1452.9
Haryana	48.06	1.47	0.00	0.23	6.57	45.33	252.70	387.22
Karnataka	18.69	4.79	87.16	1.65	19.28	8.60	63.90	922.19
Kerala	7.51	2.04	NC	0.00	5.49	6.22	23.92	19.14
Madhya Pradesh	16.88	17.41	0.02	0.00	7.94	5.31	2049.5	4581.3
Maharashtra	153.12	10.64	324.64	0.38	5.92	11.71	764.81	277.05
Orissa	42.66	5.02	0.52	10.79	8.19	0.26	3338.9	3994.7
Punjab	3.11	0.29	NC	0.00	15.63	4.56	190.74	1157.4
Rajasthan	6.29	30.92	0.00	0.00	10.57	1.39	249.64	872.74
Tamil Nadu	2.83	18.33	NC	0.06	3.93	9.71	433.75	1997.4
Uttar Pradesh	12.18	7.56	-0.06	0.00	2.63	6.49	506.36	203.14
West Bengal	2.81	6.75	0.04	3.33	2.20	-1.41	68.86	18.43
15 States	16.32	7.72	7.36	2.64	6.59	5.98	708.64	643.16
All States	16.86	6.58	8.62	3.92	5.95	4.85	550.13	679.33

*Recovery rates for the year 1993-94 have not been calculated owing to non-availability of data.

NC = Not Calculated

Source: Purohit, Mahesh C (2006), *Mobilizing Resources through Reform of State Non-Tax Sources for Planned Development*, Foundation for Public Economics and Policy Research, Delhi, A Report prepared for the Planning Commission, SER Unit.