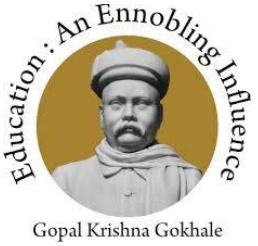
Report

On

State Finances of Maharashtra

Submitted to the 15th Finance Commission

by



Gokhale Institute of Politics and Economics, Pune

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ACKNOWLEDGEMENTS

The 15th Finance Commission was constituted in November 2017 under the Chairmanship of Shri N. K. Singh. It has been given the task of recommending the vertical devolution of taxes as well as the formula for inter-se allocation of the shared taxes. It also will recommend grants-in-aid to States. In order to do so, the Finance Commission has to carry out an in-depth analysis of the finances within each state of the country.

Gokhale Institute of Politics and Economics was given the task of analyzing the state of finances for Maharashtra. I am glad to state that our team has come out with a fairly insightful report based on in-depth analysis of the state finances of Maharashtra.

At the outset itself, I would like to thank Shri N. K. Singh and the entire team of the 15th Finance Commission for having entrusted Gokhale Institute of Politics and Economics with such a prestigious and relevant task.

The data requirements for the project were huge. In the course of the past 4 months, our team met with a number of officials from different departments of the Government of Maharashtra. I would like to thank the following officials, experts and economists with whom we held meetings and telephonic consultations regarding data requirements.

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3. Shri. U.P.S. Madan, Principal Secretary, Finance Department, Government of Maharashtra
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18. Shri Vijay Mandke MAFCO Ltd
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20. Smt. Nilima Pardhi, MHADA
21. Shri Akhilesh Shukla, Manager-Accounts & IT, MTDC
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The entire team at GIPE worked extremely hard to get the project completed on time. A special word of thanks is due to Dr. K.S. Hari and Smt. Manasi V. Phadke for having cheerfully prepared successive drafts of this report! Thanks to Dr. Naresh Bodkhe for preparing drafts and helping us to get much needed data from various departments of Maharashtra government. I thank Dr. Pradeep Apte for sharing his insights on Public Finance so generously with us. I would also like to thank our young Research Assistants Shri Vishal Gaikwad, Ms. Saishwari Patil and Shri Kuljeet Singh Nimbalkar for having tirelessly worked on this project. Thanks to Shri Vilas M. Mankar for taking up the editing and formatting work of the project professionally.

I am sure that the insights presented in this report will serve as a useful input into the decisions of the 15th Finance Commission.

Rajas Parchure
Officiating Director

31st August, Pune.

STUDY ON STATE FINANCES OF MAHARASHTRA

Executive Summary

Maharashtra is a high income State of the Indian Union. It is a leading industrial State and also one of the most urbanized States in India. It is also known as the host State to several leading educational institutions in the country. Maharashtra contributes around 15 per cent of the Gross Domestic Product of India. Service sector contributes 57 per cent of the state income, followed by industrial sector with 33 percent and remaining 9 per cent originates in the agriculture and allied sectors. However, high inter regional disparity has been a characteristic feature of the State since its inception in 1960. The state seems to have faltered in translating its high economic growth into commensurate human development.

Given this broad macroeconomic background, the present study gives an analysis of the State Finances of Maharashtra during the ten year period from 2006-07 to 2015-16. The specific objectives of the study are:

(1) Estimation of revenue capacity of the state.
(2) Analysis of states own non-tax revenues
(3) Analysis of expenditure pattern and trends separately for revenue and capital accounts.
(4) Analysis of Deficits- Fiscal and Revenue
(5) Study of the level of Debt and its sustainability
(6) Review of Implementation of FRBM Act
(7) Analysis of the States transfers to Urban and Rural Local Bodies.
(8) Study on the impact of State Public Enterprises on fiscal health of the state.
(9) Impact of Power Sector reforms on State's Fiscal Health.
(10) Analysis of contingent liabilities of the state.
(11) Analysis of Subsidies given by the State Government, its targeting and evaluation
(12) Outcome evaluation of State Finances based on 14th FC recommendations
(13) Determination of a sustainable debt roadmap for 2020-25.

Data Sources

The study is based on the data collected from the following secondary databases:

(1) Estimation of State Domestic Product, Central Statistical Organisation, Government of India.
(2) Finance Accounts, Government of Maharashtra, Comptroller and Auditor General of India, Various years.

(3) *Budget Documents, Government of Maharashtra, Department of Finance, Various Years.*
(4) *State Finances: A Study of Budgets, Reserve Bank of India, Various Years.*
(5) *Report of the Comptroller and Auditor General of India on State Finances, Government of Maharashtra, Various Years.*
(6) *Report of the Comptroller and Auditor General of India on State Public Sector Enterprises in Maharashtra, Various Years.*
(7) *Report of the Comptroller and Auditor General of India on Local Bodies in Maharashtra, Various Years.*
(8) *Report on the Performance of State Power Utilities, Power Finance Corporation, Various Years.*
(9) *Annual Report of Maharashtra State Electricity Distribution Company Ltd., Maharashtra State Electricity Transmission Company Ltd and Maharashtra State Power Generation Company Ltd. for Various Years.*

Methodology

The study has made use of trend and ratio analysis to understand the temporal movement of various indicators. The trend growth rates have been estimated for analysing the growth performance of different variables. The elasticity coefficients and buoyancy indicators were estimated to understand the responses of tax collection in the state to its GSDP growth. Budget effort and the C efficiency were estimated in order to understand performance of the state in tax collection. The methodology used by Balbir Kaur et.al. (2014) has been used for analyzing the debt sustainability. In this framework, various indicators of sustainability such as ratio of interest payments to revenue expenditure, primary revenue balance to GSDP, primary revenue balance to interest payments etc. have been computed. Any deviation from the glide path in each of the indicators shows breach in the debt sustainability of the State. The debt sustainability roadmap for the state indicates how the State debt levels would behave under a Business As Usual (BAU) scenario as well as under scenarios wherein the values of revenue and expenditure items change. Sensitivity analysis is undertaken for understanding the trend in a dynamic framework. Sensitivity to indicators such as change in the growth rate of GST, change in revenue expenditure and capital expenditure, change in non-tax receipts etc. has been analyzed.

Major Findings of the Study

The State is a front runner in terms of better fiscal management in the country since the enactment of state FRBM Act in 2006. The fiscal deficit of the state continues to be well within the limit of 3 per cent of GSD. The debt stock to GSDP ratio is also well within the 17.5 per cent limit set by the Maharashtra Fiscal Responsibility and Budgetary Management Rules (MFRBM, 2011). The State seems to have made a conscious effort to change the composition of debt from high-cost debt towards lower cost borrowings in the past 10 years.

And yet, a revenue deficit of 0.5 per cent of GSDP continues to be a worrisome factor for Maharashtra; the revenue deficit to GSDP ratio has increased even as the fiscal deficit to GSDP ratio has fallen. This indicates that debt is being used for revenue expenditures. Revenue expenditures show rigidities due to the presence of high levels of salary and interest payments. Good debt management has led to a lower ratio of interest payments to GSDP, but interest payments continue to be higher than the Primary Revenue Balance. This indicates that while debt has been managed well, more stringent steps would be required to achieve complete sustainability. Complete sustainability would require a huge increment in the revenue generation capacity of the State. The tax to GSDP ratio for the State stands at about 6.24, which is far lesser than other comparable, large-sized developed States. It is also worrisome to note that the targeted Budget Estimate of the tax-GSDP ratio shows a secular decline over the past decade. Non-tax revenues are less than 1 per cent of the GSDP. Creative solutions at the policy level are required for generating higher tax and non-tax collections. Debt sustainability should be addressed through higher revenue generation rather than through expenditure contraction. Given the rigidities in the revenue expenditure, expenditure contraction will occur only at the cost of capital expenditure, which is not healthy for the State.

The pace of decentralization needs to be increased. As of March 2015, only 14 functions out of the indicated 29 functions have been fully transferred to the local bodies. The State Government

allocates about 20 per cent of its revenues to local bodies; within the allocated funds, there is a heavy bias towards Panchayat Raj Institutions which receive 78 per cent of the allocated funds. The ratio of funds allocated to Urban Local Bodies is far lesser than the ratio of population residing within the urban areas in Maharashtra. PRIs show extremely high level of dependence on grants received from upper tiers of the Government. PRI budgets show higher levels of expenditure on the revenue account; however the Capex spending by PRIs has increased in the award period of the 13th FC. Education as well as health and sanitation are the primary expenditure items on PRI budgets. The utilization rates of the FC grants are very good. Urban bodies show high level of reliance on own sources of revenues, which is an encouraging trend. Outcome evaluation of the local bodies reveals that there are constraints in terms of maintenance of accounts in specified formats leading to audit arrears. Going ahead, financial capacity building within local bodies for ensuring compliance with the accounts formats, timely issuance of Utilization Certificates etc. will have to be strengthened on an urgent basis. Paucity of data continues to be the major challenge in the analysis of local bodies.

Public Sector Enterprises have been largely loss-making, thereby affecting the non-tax revenues of the State. Given that PSEs are set up with social objectives, monetary profits or losses may not be the correct way to assess the contribution of the company to the State economy. However, policy level deliberations are needed to improve the service delivery and to enhance the reach of the PSEs to beneficiaries.

On the positive side, the State has consciously reduced contingent liabilities. The contingent liabilities to GSDP ratio shows a secular fall in the past decade and stands at only 0.4 per cent of GSDP in 2015-16. Co-operative Institutions continue to have dominant shares in the receipt of guarantees. Within the co-operative sector, guarantees given to sugar and cotton co-operatives are the highest. The State needs to ensure systematic assessment or rating of the project before giving guarantees.

Subsidies show a rising trend in the past decade and account for around 6 per cent of the State budget in 2015-16. Actual subsidies given by the State exceed the budgeted estimates by nearly

58 per cent. 64.30 per cent of the total subsidies are given by the Department of Industries, Energy and Labour Department alone in the form of power subsidies to agriculture and the textile sector. Subsidies show an inverted structure in that highest proportions of subsidies are given by Departments catering to economic services. In contrast, Departments in charge of catering to social expenditure programs give extremely low level of subsidies.

Going ahead, the debt roadmap seems to be sustainable even under the Business As Usual (BAU) scenario. Under the BAU scenario, fiscal deficit and revenue deficit as a percentage of GSDP stand at 1.69 per cent and 0.63 per cent respectively in 2025. However, GST could well be a game- changer in this respect. With introduction of GST, fiscal deficit and revenue deficit as a percentage of GSDP would stand at 1.4 per cent and 0.34 per cent respectively in 2025.

Normative assessments of state finances by successive Finance Commissions have led to Maharashtra being projected as a revenue surplus State. Hence, Maharashtra has not received grants to cover post-devolution revenue deficits. It is to be noted that even with GST collections, there are issues within the state finances that could well lead to occurrence of revenue deficits in the run-up to 2025.

Overall, Maharashtra exhibits "fiscal sustainability". However, the underlying pattern is one of low revenue collections, lower expenditures and limited debts, which lead the State towards fiscal sustainability. The State perhaps needs to re-set its thinking on such a pattern of sustainability. There is a need to aggressively re-orient the revenue collection policy, which could make higher social sector spending and higher capital expenditure sustainable.

Chapter - 0

Introduction

The 15th Finance Commission was constituted in November 2017 under the Chairmanship of Shri N. K. Singh. The Terms of Reference given to the 15th Finance Commission include giving recommendations for:

(i) The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;

(ii) The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants-in-aid of their revenues under Article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and

(iii) The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

The 15th Finance Commission needs to review the state of finances in each of the States, the tax and fiscal consolidation efforts by the States, the potential impact on own revenues of the State due to implementation of the GST, the expenditure patterns within the States, management of subsidies and contingent liabilities by the States etc. The task of analyzing the State of Finances for Maharashtra was given to Gokhale Institute of Politics and Economics, Pune by the 15th Finance Commission.

Objectives of the Study

The broad objective of the study is an in-depth analysis of the State Finances of Maharashtra since 2006-07. The specific objectives of the study are:

1. Estimation of revenue capacity of the state.
2. Analysis of states own non-tax revenues
3. Analysis of expenditure pattern and trends separately for revenue and capital accounts.

4. Analysis of Fiscal and Revenue Deficits
5. Study of the level of Debt and its sustainability
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Chapter Scheme

The macroeconomic background of Maharashtra state is discussed in chapter 1. In Chapter 2-14, detailed study of each specific 13 objectives listed in the previous section is done. Chapter 14 gives some of the priorities areas that require special grants from the Finance Commission. Chapter 15 gives the conclusions of the study.

CHAPTER - 1

SOCIO- ECONOMIC PROFILE OF MAHARASHTRA

1.1. Introduction

Maharashtra occupies the western and central part of India and has a long coastline stretching nearly 720 kilometers along the Arabian Sea. Maharashtra's total geographical area is 3.08 lakh sq. km and it has a forest cover of 61,358 sq.km which is over 20 per cent of its geographical area. The Western Ghats zone which is 12.2 per cent of state's geographical area comprises of the Malabar Plains and the Western Ghat mountains. The state receives moderate rainfall and has a large drought prone rain shadow area. Substantial geographical area of the state continues to depend on monsoons for rain fed agriculture.

Maharashtra, comprising 9.4 per cent of India's geographical area, is its second largest state in terms of area and with a population of 11.24 crore (9.3 per cent of total population of India) is also the second largest state in terms of population. It is highly urbanized with 45.2 per cent people residing in urban areas. Mumbai, the capital of Maharashtra, is the financial capital of India. It houses the headquarters of most of the major corporate & financial institutions. India's main stock exchanges & capital market and commodity exchanges are located in Mumbai. Maharashtra is one of the most industrialized states of India and has been a pioneer in chemical, automobile & textile industries. The basic fact sheet for the state is given in Table 1.1.

Table 1.1: Maharashtra Fact Sheet

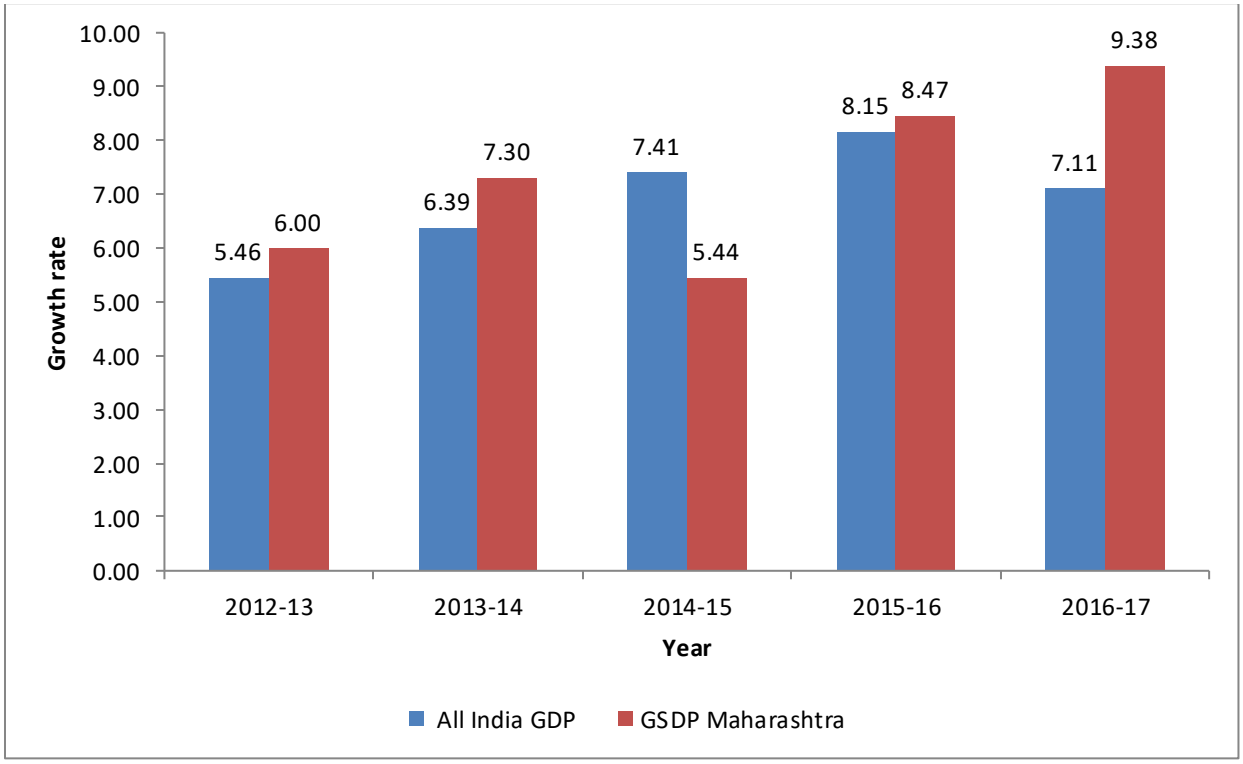
Variable	Value
No. of Districts	36
GSDP 2016-17 (Current Prices 2011-12 series) Crores	22,67,788
Percapita Income 2016-17 (Current Prices 2011-12 series) Rs.	1,88,896
Population, total (crore) (2011)	11,23,74,333
Population growth (decennial %) (2011)	15.99
Rural Population (54.8%) (2011)	61,556,074
Urban Population (45.2%) (2011)	50,818,259
Scheduled Caste persons (11.8%) (2011)	1,32,75,898
Scheduled Tribes persons (9.4%) (2011)	1,05,10,213
Literacy rate (2011)	82.34
Density (per sq.Km) (2011)	365
Sex Ratio (2011)	929
Education: Primary Schools (2017)	1,04,971
Enrollment in 000	15,986
Secondary Schools incl. higher secondary	25,737
Enrollment in 000	6,615
Health: Hospitals (2016)	1,402
Dispensaries	3,087
Beds per lakh population	108
Birth rate	15.9
Death rate	5.9
Infant Mortality Rate	19
Total Road length km (2016)	3,03,359
motor vehicles in 000	29,186
Local Self Govt. Institutions (2017-18)	
Zilla Parishads	34
Gram Panchayats	27,855
Panchayat Samitees	351
Municipal councils	236
Municipal Corporation	27
Nagar Panchayat	124
Cantonment Boards	7

Source: Maharashtra Economic Survey 2017, Government of Maharashtra

1.2. Status of the Economy- Composition and Trends

Maharashtra belongs to a high income state of the Indian Union. The Gross State Domestic Product (GSDP) of the have recorded marginally higher growth rate compared to all India average during the period 2011-12 to 2016-17[1]. The average growth rate for the state GSDP was 6.94 per cent compared to the all India average of 6.78 per cent. Except 2014-15, all other years the state has recorded a higher growth rate than that of all India average growth (Figure 1.1.). The lower growth rate in 2014-15 is due to a negative growth in the agriculture and allied sectors due to drought in the state. As a result of the successive years of better growth performance the state produce 14.89 per cent of the total domestic product of the country (Figure 1.2.)

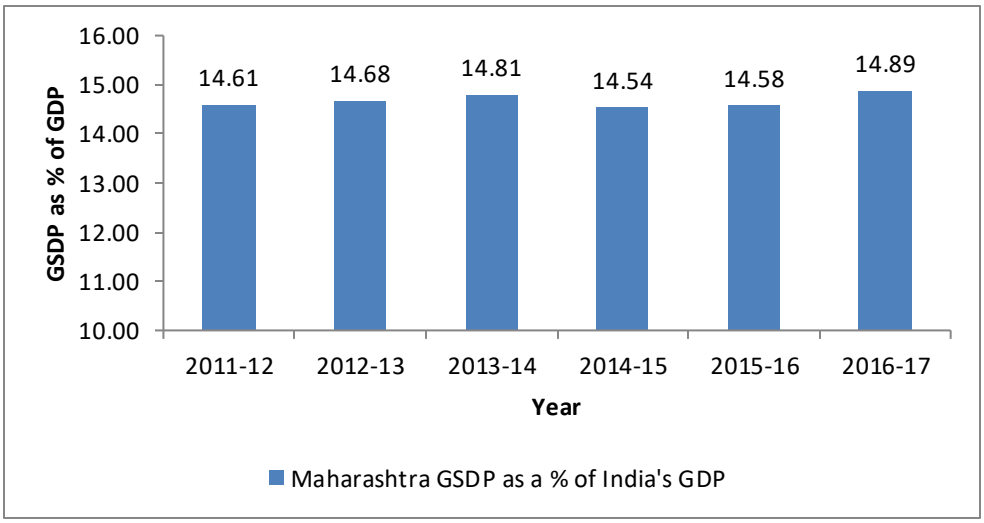
Figure 1.1: Comparison of Maharashtra's GSDP growth with India's GDP growth rate (2011-12 prices)



Source: Estimated using CSO Estimates of State Domestic Product

[1] The Central Statistical Organization have revised the state GSDP and India's GDP numbers with base year 2011-12 onwards with the new methodology. The back series for the state GSDP with 2011-12 prices are not available and hence our analysis is restricted for the period 2011-12 to 2016-17.

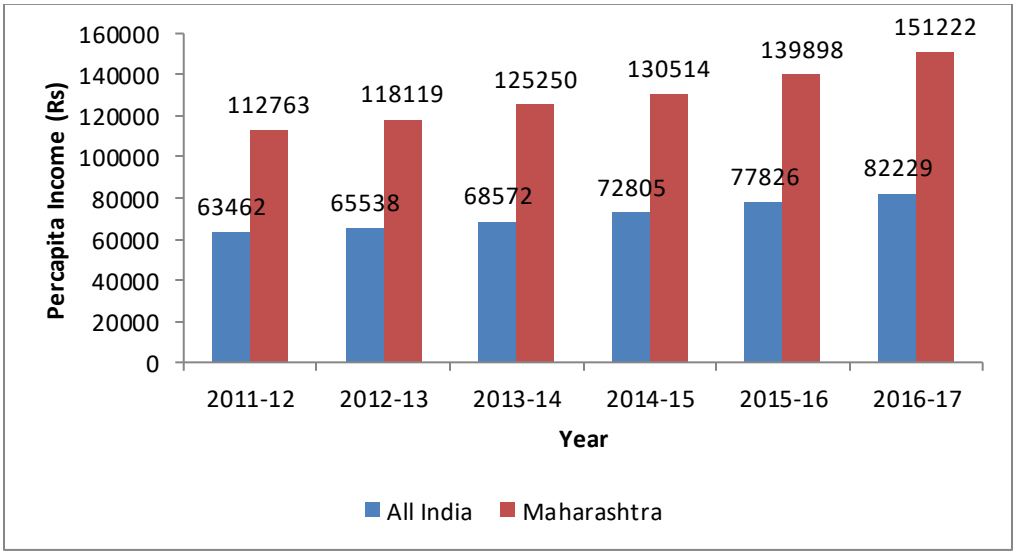
Figure 1.2: Share of Maharashtra GSDP in India's GDP



Source: Estimated using CSO Estimates of State Domestic Product

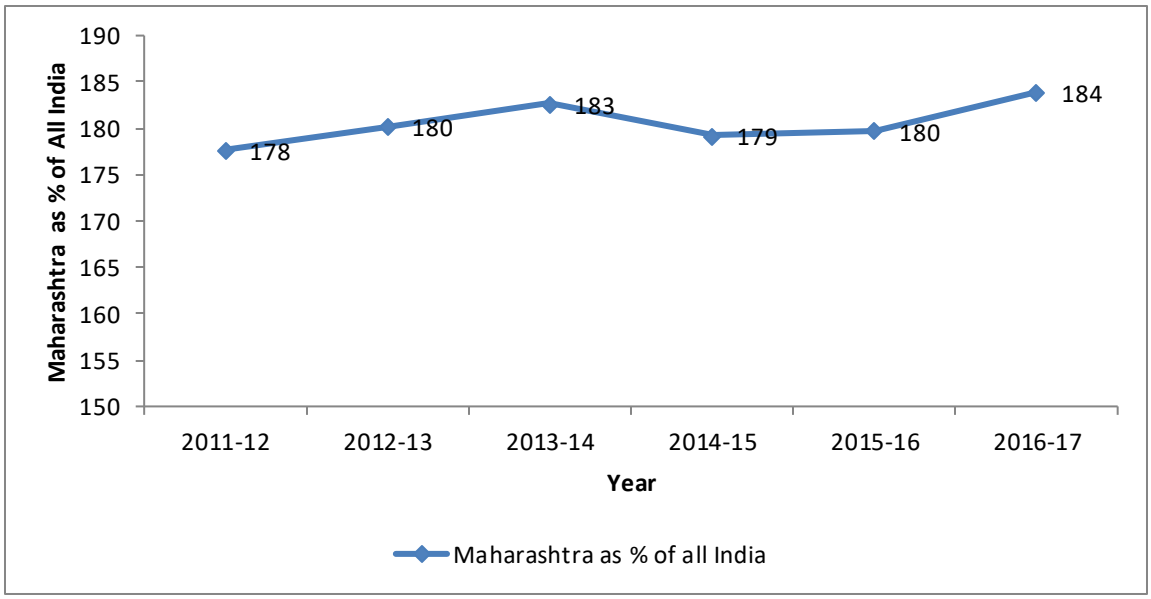
The high GSDP growth along with a lower population growth rate in Maharashtra compared to the all India average helped the state to retain a better position for the state in terms of percapita Income. The state percapita income has historically been higher compared to the all India average. The trend continued during the period 2011-12 to 2016-17 as well. The percapita income of the state is currently 84 per cent more than the percapita income at the all India level. (Figure 1.3 and Figure 1.4).

Figure 1.3: Percapita Income Maharashtra and All India (2011-12 Prices)



Source: CSO Estimates of State Domestic Product

Figure 1.4: Maharashtra Percapita Income as percentage of all India

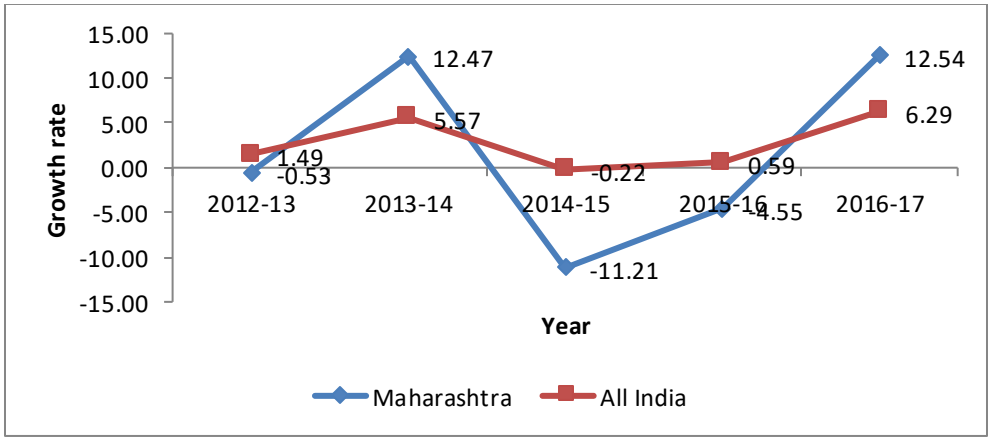


1.3. Growth Rates of Various Sectors

Agriculture and Allied Sectors

The growth rate of value added in the agriculture and allied sector for Maharashtra have been lower than all India average during the period 2011-12 to 2016-17. While the all India average was 2.74 per cent the Maharashtra's state average was only 0.17 per cent. Maharashtra shows huge fluctuations in its agricultural sector value added as shown in Figure 1.8. This is mainly due to fluctuations in monsoon in the state. The consecutive drought year of 2014-15 and 2015-16 had resulted in a negative growth of this sector's value added.

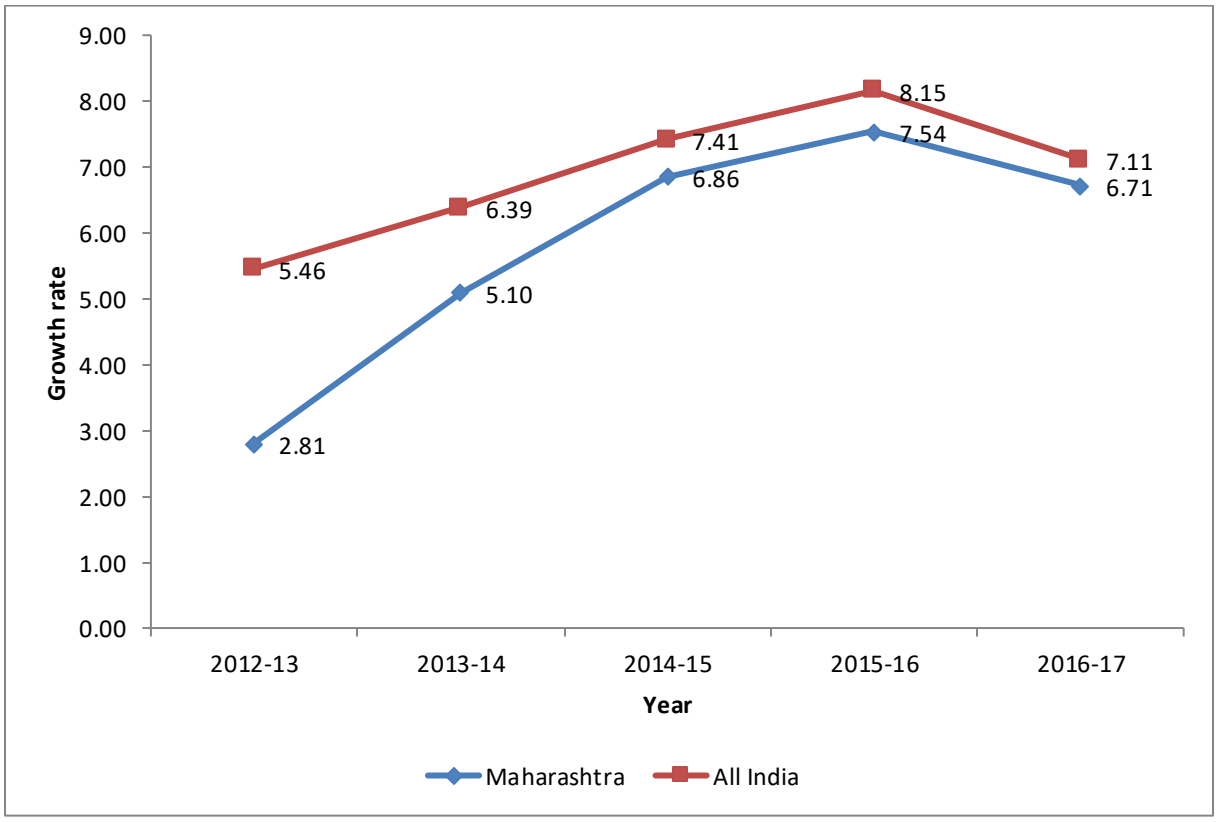
Figure 1.5: Growth rate of agriculture and allied sectors GVA (2011-12 prices)



Industrial Sector

Maharashtra, historically one of the most industrialised state in the country has recorded a slower growth compared to all India average during the period 2011-12 to 2016-17(Figure 1.9). The growth rate picked up from 2.81 percent during 2012-13 to reach 6.71 per cent during 2016-17, but surprisingly it is lower than the national average of 7.11 per cent. This will have an implication on the total revenue generation in the state.

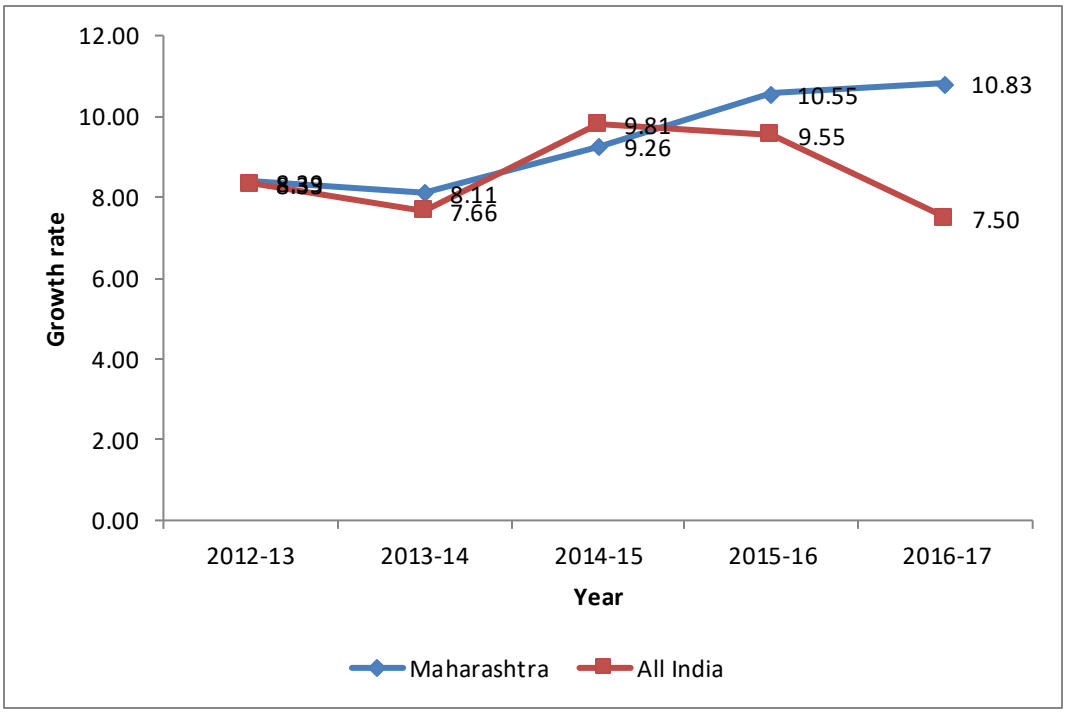
Figure 1.6: Growth rate of Industrial Sector GVA (2011-12 prices)



Service Sector

Service sector of Maharashtra had grown at 9.43 per cent compared to the all India average of 8.57 per cent. Except during 2014-15 the state have recorded higher growth in service sector compared to all India. The growth rate increased from 8.11 per cent in 2012-13 to 10.83 per cent during 2016-17. The higher growth rate of service sector is likely to provide more tax revenue to the state since the introduction of Goods and Services Tax.

Figure 1.7: Growth rate of Service Sector GVA (2011-12 prices)



Growth rate of Subsectors

The aggregate GSDP growth rate of Maharashtra at 6.94 per cent for the period 2011-12 to 2016-17 is marginally higher than the all India growth rate of 6.80 per cent. This is reflected in the higher per capita income growth of the state too. The primary sector of Maharashtra has fared poorly compared to the all India growth rates. While the crop sector recorded a negative growth rate, all other sub sectors within agriculture and allied activities have recorded a slower growth pace than the all India growth rates. On the other hand, manufacturing sector and major subs sectors of the service sector have a slightly better growth rate in Maharashtra compared to the all India growth rate. The construction sector, Electricity, gas and water supply and trade, repair, hotels and restaurants in Maharashtra have recorded a slower growth pace. Public administration is another sector within the service sector that recorded slower growth pace. Higher growth in Communication and services related to broadcasting, Financial services and Real estate, ownership of dwelling and professional services helped the state to achieve a growth rate slightly ahead of all India growth rate.

Table 1.2: Sub Sectoral Growth Rate 2011-12 to 2016-17 (2011-12 Constant Prices)

S. No.	Sector	Maharashtra	All India
1	Agriculture, forestry and fishing	0.17	2.40
1.1	Crops	-1.26	0.45
1.2	Livestock	4.02	6.44
1.3	Forestry and logging	1.02	2.42
1.4	Fishing and aquaculture	1.60	7.16
2	Mining and quarrying	1.86	7.20
3	Manufacturing	7.97	7.65
4	Electricity, gas, water supply & other utility services	4.14	5.43
5	Construction	1.23	2.76
6	Trade, repair, hotels and restaurants	4.24	8.67
7	Transport, storage, communication & services related to broadcasting	10.47	7.69
7.1	Railways	5.44	6.70
7.2	Storage	10.39	2.65
7.3	Communication & services related to broadcasting	12.95	11.39
8	Financial services	8.26	7.32
9	Real estate, ownership of dwelling & professional services	11.54	10.62
10	Public administration	3.85	4.92
11	Other services	10.36	7.51
12	TOTAL GSVA at basic prices	6.90	6.64
13	GSDP/GDP	6.94	6.80
14	Per Capita GSDP/GDP	5.76	5.54

Source: Estimated using CSO data

1.4. Structural Composition of Gross State Value Added

Service sector contributes more than half of the gross value added of the Maharashtra Economy. This is followed by more than 30 per cent contribution from the Industrial Sector. The agriculture and allied Sectors contributes less than 10 per cent to the state value added. The state is more service oriented compared to the national average during the year 2016-17(Figure 1.8 and 1.9)

Figure 1.8: Sectoral Composition of GSVA, Maharashtra 2016-17

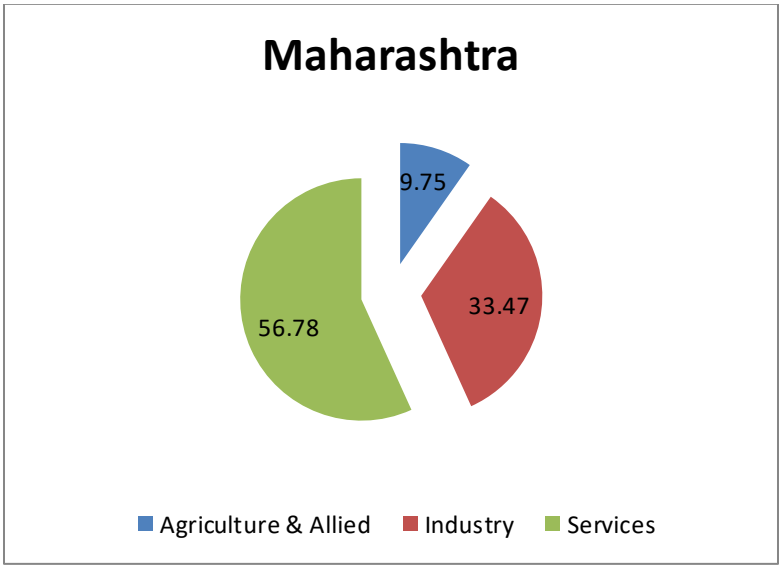
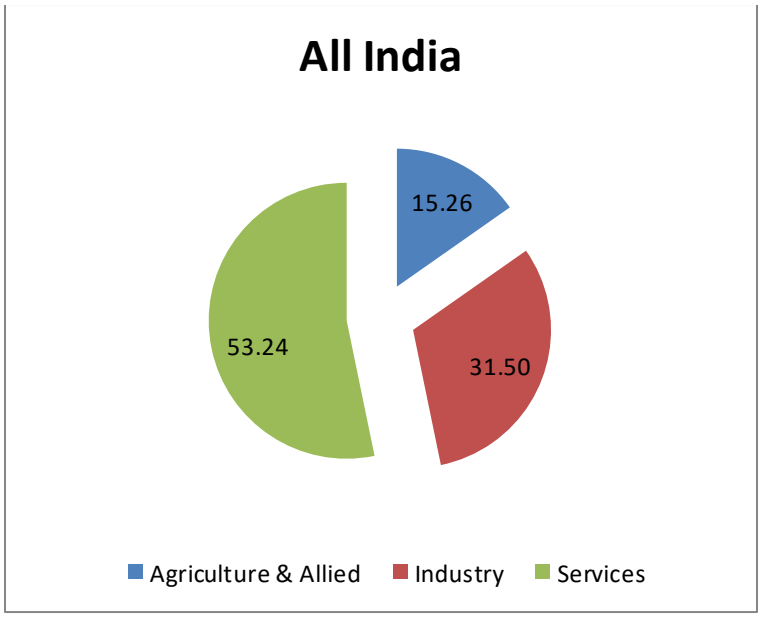
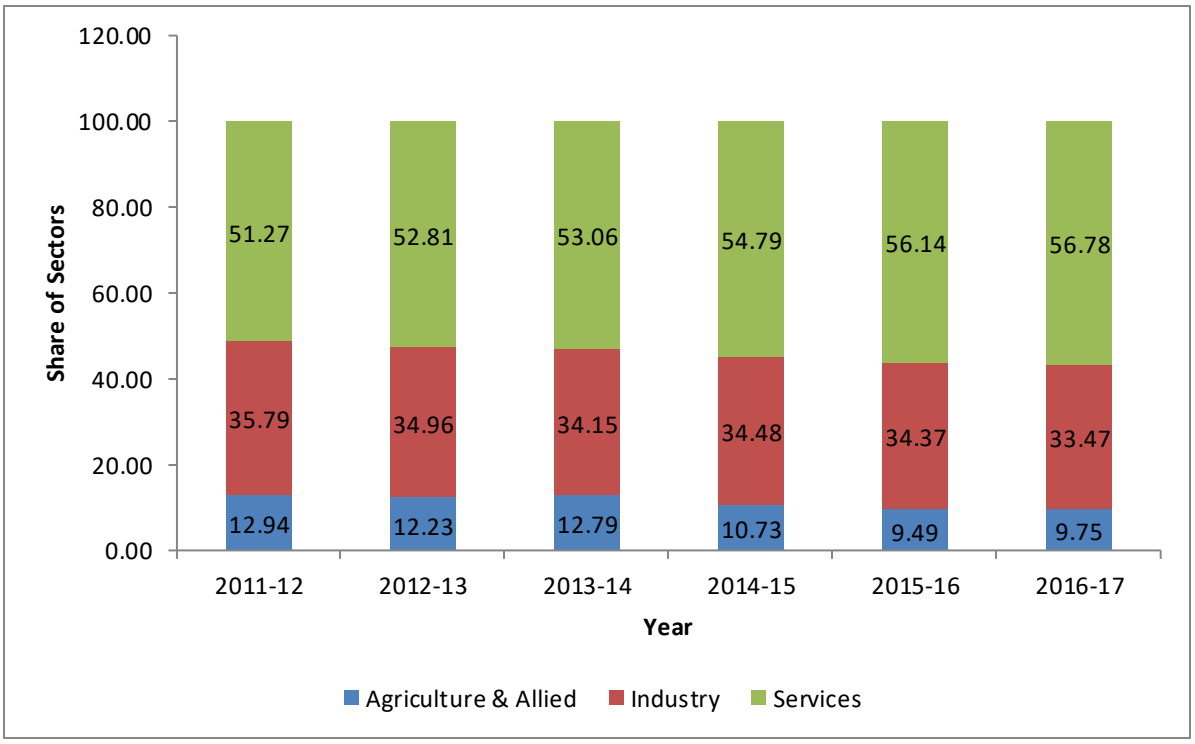


Figure 1.9: Sectoral Composition of GSVA, All India 2016-17



During the period 2011-12 to 2016-17 the share of agriculture sector declined from 12.94 percent to 9.75 percent of the gross value added of the state. The industrial sector also recorded a decline from 35.79 per cent to 33.47 per cent. This was compensated by a higher contribution from the service sector. The service sector share increased from 51.27 per cent to 56.78 per cent (Figure 1.10)

Figure 1.10: Structural Composition of Maharashtra GSVA



Source: Estimated using CSO Estimates of State Domestic Product

1.5. The Case of Delayed Structural Transformation

Economic growth leads to a shift in the structure of production from agriculture to industry and then to services. The Maharashtra economy had undergone a theoretical sectoral shift in the income dimension but failed to translate this into transformation in the more important employment dimension. Theoretically the structural shift in income should be followed by a shift in employment for a complete structural change to happen. The manufacturing sector, which constituted the major share in the secondary sector NSDP, is expected to absorb more labour from the agricultural sector. How far this sector has been successful in absorbing labour force from agriculture becomes a relevant question. The NSSO surveys give the Industrial distribution of the workers among various sub sectors of the economy over a period of time through its Quinquennial surveys.

When one looks at the Maharashtra figures, the speed at which this transformation happening is very slow (Table 1.3.). Although nearly half the workers are depending on the agricultural sector

for their livelihood, their contribution to output or the sectoral product has been very low as we observed in the previous section. The secondary sector failed to absorb the workers and the additional workers were mainly absorbed in the tertiary activities. The sub-sectoral distribution of the workforce indicates that agriculture and allied activities provide the maximum employment opportunities in the regional economy. Public administration is the second leading subsector followed by manufacturing sector. Maharashtra thus gives a classic case of delayed structural transformation in employment.

Table 1.3. Sectoral Distribution of the Workforce in Maharashtra (UPSS) (in per cent)

Sector	2004-05	2009-10	2011-12
Agriculture and Allied	**55.74 (58.5)**	**50.38 (51.19)**	**49.10 (48.90)**
Manufacturing	11.78 (11.73)	11.62 (11.56)	12.17 (12.6)
Electricity, Gas, Water Supply	0.28 (0.27)	0.43 (0.31)	0.46 (0.52)
Construction	4.87 (5.57)	5.35 (9.62)	6.28 (10.6)
Industry	**17.34 (18.14)**	**17.70 (22.09)**	**19.05 (24.26)**
Trade, hotels and Restaurants	10.80 (10.24)	11.80 (11.34)	11.25 (10.96)
Transport, Storage and Communication	4.51 (3.83)	5.29 (4.50)	6.14 (4.83)
Finance, Insurance and Real Estate	2.80 (1.55)	4.45 (2.29)	2.08 (1.10)
Public Administration and Other Services	8.81 (7.74)	10.34 (8.58)	12.37 (9.95)
Service Sector	**26.92 (23.36)**	**31.88 (26.72)**	**31.85 (26.84)**

Note: Figures in parenthesis are all India

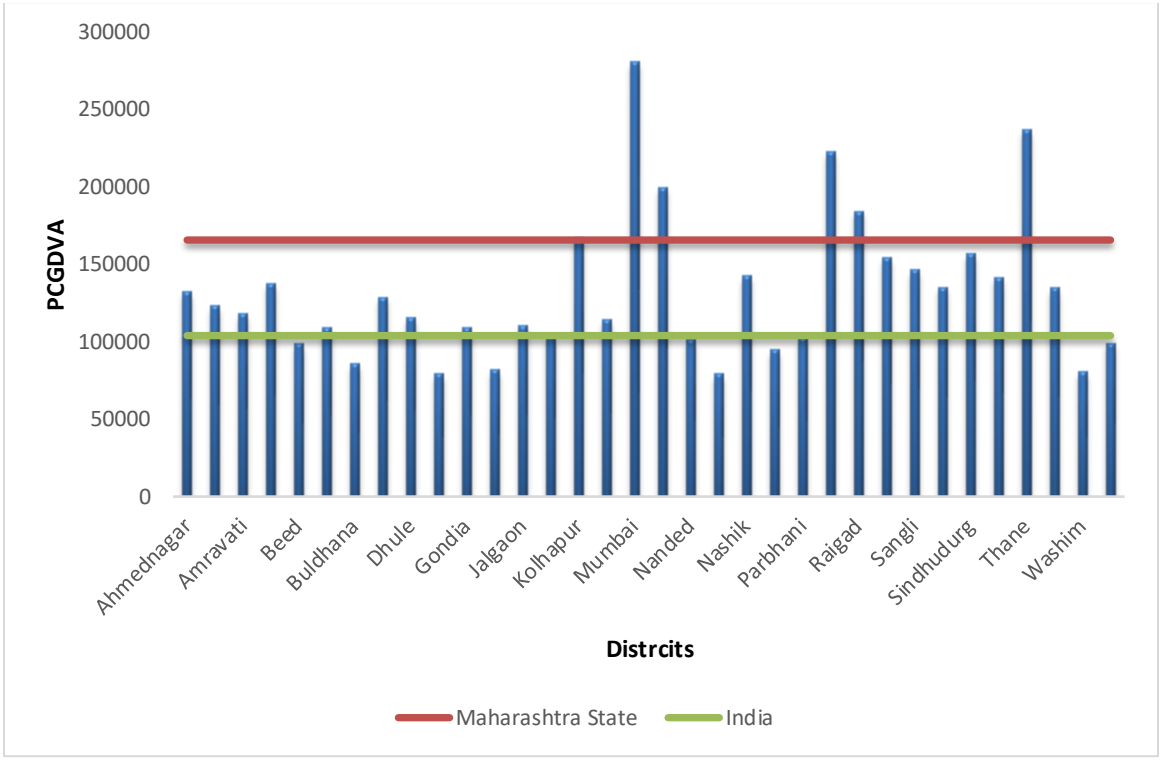
Source: NSSO Quinquennial Survey on Employment and Unemployment various rounds.

1.6 Inter District Disparities

Though the state has a high GSDP, the per capita Gross District Value Added (at Current prices) shows large inter district disparities in the state. Maharashtra's per capita income at current

prices for 2016-17 was estimated at Rs. 1, 65,491 as compared to the national per capita income of Rs. 103870. The highest per capita gross district value added was registered for Mumbai (city and suburb) at Rs. 2,79, 965 compared to Rs. 78,531 for Nandurbar district. Mumbai, the capital city of the state is having a per capita income three and half times higher than the tribal district of Nandurbar. Only five districts of the state, namely, Mumbai, Pune, Nagpur, Raigad and Thane have higher than the state average. Ten districts fall below the national average also in terms of per capita income. This clearly shows the higher degree of inter-regional inequality in Maharashtra. The problem of regional disparity in economic development has been a characteristic feature of Maharashtra and its origins date back to the time of formation of the state. The state of Maharashtra was formed in I960 by merging the contiguous Marathi speaking areas of the then Bombay, Madhya Pradesh and Hyderabad regions. Among these, Bombay region was better developed even during colonial times, whereas Hyderabad and Madhya Pradesh regions were relatively backward.

Figure 1.11: Per Capita Gross District Value Added at Current Prices (Rs.)



1.7. Social Sector Development in the state

Having examined the high economic growth in Maharashtra and regional inequality we seek to examine the more important dimension of human development in Maharashtra. Here also studies had identified wide inter-regional disparities in the levels of achievement.

1.7.1. Demographic and Health Indicators

In 50 years after the formation of the state, Maharashtra's population increased from 39.6 million in 1961 to 112.3 million in 2011. The demographic details of the state are given in Table 1.4. The first three decades actually witnessed the population doubling itself. The state recorded above replacement level growth rate of population till the last decade. It has now come down to below 2 per cent level. The density of population in the state is relatively low given the vast area of the land available in the rural areas. The Sex ratio in Maharashtra is not favorable to women and the ratio is slightly decreasing over the years. Maharashtra is the second most populated state after Uttar Pradesh in India.

Table 1.4: Population Size, Growth Rate, Sex Ratio and Density of Population in Maharashtra

Year	Population (million)	Growth Rate (%)	Sex Ratio	Density (Per sq.km)
1961	39.6	-	936	129
1971	50.4	2.44	930	164
1981	62.8	2.22	937	204
1991	78.9	2.29	934	257
2001	96.8	2.04	922	314
2011	112.3	1.50	925	365

Source: Census of India, Various Years

Urbanisation

Maharashtra, the second most urbanised state in India with 42.4 per cent of the population living in towns and cities and metropolis like Mumbai. The huge urban population accounts for 14.4 per cent of India's entire urban population. Till 1991, Maharashtra was the most urbanised state,

and now Tamil Nadu is the most urbanised state with 43.9 per cent of its population in urban areas. The percentage of urban population can be considered as important developmental indicator influencing the demographic transition. Across Maharashtra, there are sharp variations in the levels of urbanisation, in terms of both numbers of cities and towns as well as populations contained therein. The Konkan region is the most urbanised region in Maharashtra with two districts, Mumbai and Mumbai suburban, being 100 per cent urban and Thane district having 73 per cent urban population. Marthwada is the least urbanised and Western Maharashtra is more urbanised than Vidharbha.

Longevity

The life expectancy level in the state increased from 69.9 years in 2006-10 to 71.6 years in 2010-14. This level was higher than 67.9 years recorded for All-India. Female life expectancy in Maharashtra was 73.6 years, higher than the level of 69.6 years for all India.

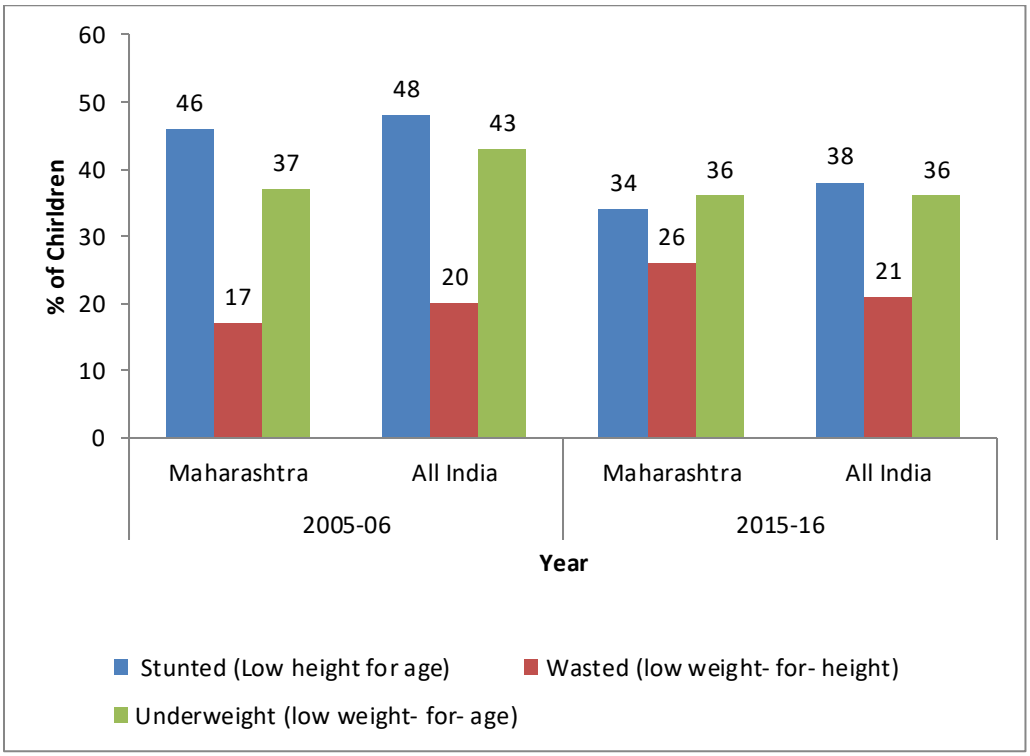
Infant Mortality

In terms of infant mortality rate (IMR), the reduction has been from 35 per thousand live births in 2006 to 21 per thousand live births in 2015, compared to an all India reduction from 57 to 37 per thousand live births.

Nutritional Level

The nutritional indicator of the state, especially of Children has fared slightly better than the all India average as given in Figure 1.12. The proportion of children having low weight for height (Wasted) have increased in the state over a period of ten years. The underweight children are at par with the all India level. Only significant improvement happened in the proportion of children below five who are stunted. Being one of the richest state in India, the progress made by the state is not encouraging on nutritional indicators.

Figure 1.12: Trends in Children's Nutritional Status (percentage of children under five years)



1.7.2. Human Development Index

A major proportion of the total expenditure of the state government in India is going to the social sectors like education and health care since the improvement of educational and health outcome is the fundamental responsibility of the state government. Maharashtra has attained a better human development outcome compared to the all India average as per the India Human Development Report 2011 data given in Table 1.5. But failed to translate itself to the top performer in human development in India. The state ranks fourth in the human development. But this aggregate achievement in average human development conceals the inter regional issues of human development in Maharashtra.

Table 1.5: State wise HDI 2011

S. No.	State	HDI	Rank HDI
1	Andhra Pradesh	0.485	11
2	Assam	0.474	12
3	Bihar	0.447	18
4	Chhattisgarh	0.449	17
5	Gujarat	0.514	8
6	Haryana	0.545	5
7	Himachal Pradesh	0.558	3
8	Jharkhand	0.464	15
9	Karnataka	0.508	10
10	Kerala	0.625	1
11	Madhya Pradesh	0.451	16
12	**Maharashtra**	**0.549**	**4**
13	Orissa	0.442	19
14	Punjab	0.569	2
15	Rajasthan	0.468	13
16	Tamil Nadu	0.544	6
17	Uttar Pradesh	0.468	14
18	Uttarakhand	0.515	7
19	West Bengal	0.509	9
20	India	0.504	

Source: India Human Development Report, 2011

From Figure 1.13 and Figure 1.14. We can see the large inter regional disparity across the state in terms of human development index.

Figure 1.13: District wise Human Development Index for Maharashtra- 2011

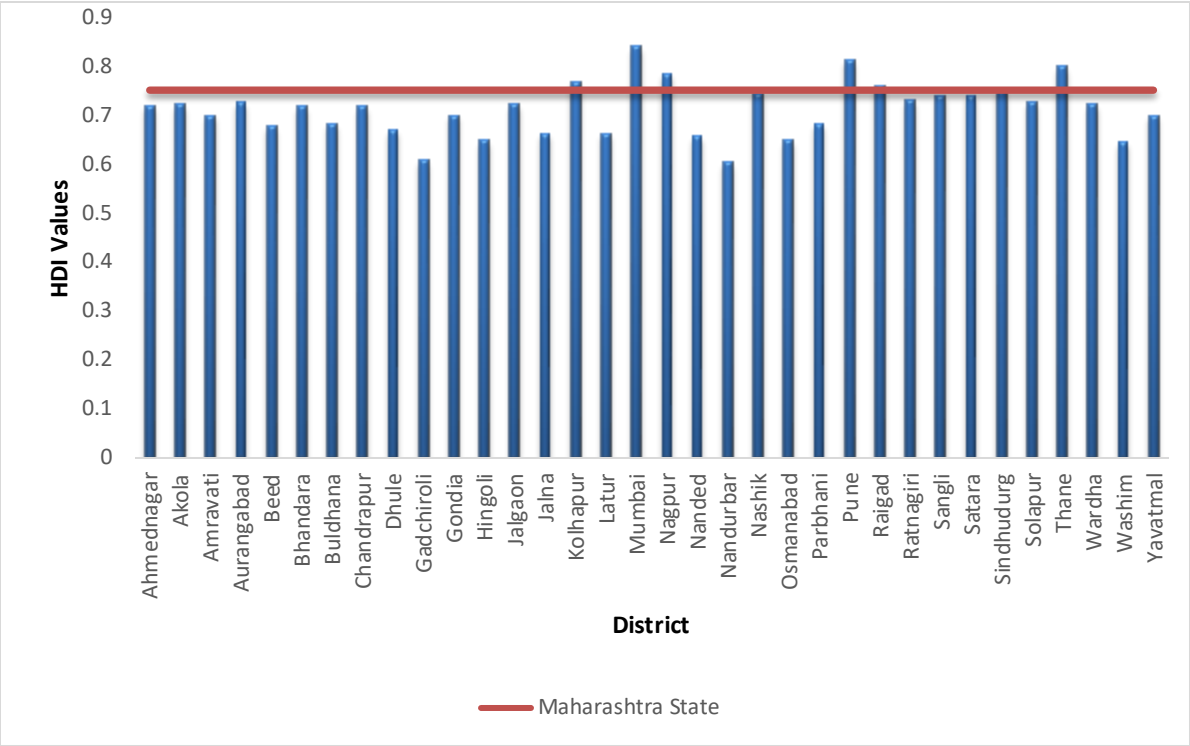
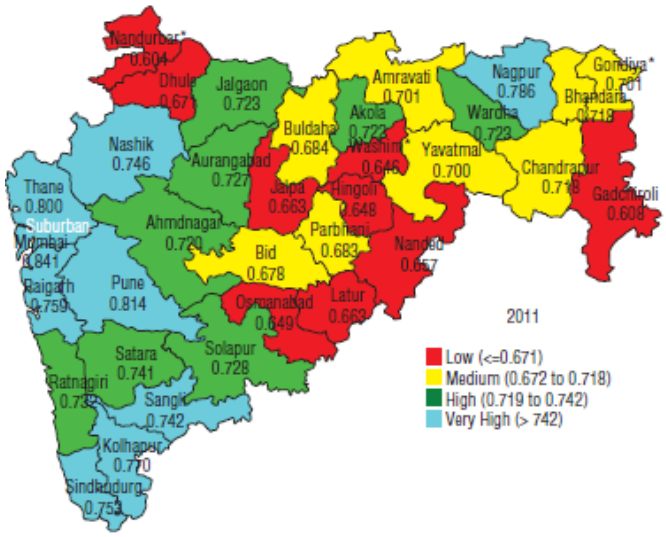


Figure 1.14: District wise Human Development Index for Maharashtra- 2011



1.8. **Agrarian Distress in Maharashtra:**

The agrarian distress has been the important issue in Maharashtra economy especially in the Vidarbha and Marathwada regions. As far as the farmer's suicides are concerned, the state has

highest number of suicides. The incidence is concentrated in the vulnerable regions of Vidarbha and Marathwada. While the number of suicides per lakh hectare of net sown area is 26.35 in Vidarbha and Marathwada, the corresponding figure for the rest of Maharashtra is 7.25. Primary data collected from these two regions indicated that soyabean and cotton were the major crops of sample households and together constituted 62.78 per cent of their gross cropped area (Shroff et al 2018). Looking across all crops, the net returns to farmers were negative indicating that farming is an unviable economic activity. Crop failures due to droughts year after year coupled with low prices make farmers defaulters in the credit market and a vicious cycle is perpetuated.

Farmers' suicides in Maharashtra have increased many folds. The number of farmers committed suicides were only 62 in 2001 which has increased to 2376 in 2006 and further it rose to as high as 3228 in 2015, the highest in India. The incidence of suicides was more on Vidarbha region of the state. The share of Vidarbha in total suicides which was 83.87 per cent in 2001 which has declined to 39.12 in 2016 majorly due to the distress started spreading to other regions of Maharashtra and their shares increased accordingly. Since 2014 the share of Marathwada in total suicides was less than 16 per cent and it reached 34.74 per cent in 2016, while that of Vidarbha was 39.12 per cent. Thus, Vidarbha and Marathwada together accounted for 73.86 per cent of suicides among farmers in 2016.

In the Table 1.6, Region-wise suicides per lakh hectare of gross cropped area (GCA) and per lakh hectare of net sown area (NSA) are indicated. It can be observed that suicides are concentrated in Vidarbha and Marathwada as compared with the rest of Maharashtra. In fact, they are more than thrice higher as compared with the rest of Maharashtra. This indicates that distress is more localized in selected regions and not uniform in the entire state. The suicides in Vidarbha and Marathwada regions were 0.49 per lakh hectare (GCA) whereas rest of Maharastra was only 0.09 per lakh hectare (GCA) which increased to 18.08 and 5.82 per lakh (GCA), respectively in Vidarbha-Marathwada and Rest of Maharashtra. Almost a similar observation is noted in case of suicides per lakh hectare of Net Sown Area (NSA).

Table 1.6: Region-wise Suicides per lakh hectare GCA and per lakh hectare NSA

Years	Vidharbha and Marathwada		Rest of Maharashtra		Maharashtra	
	Suicide per lakh ha GCA	Suicide per lakh ha NSA	Suicide per lakh ha GCA	Suicide per lakh ha NSA	Suicide per lakh ha GCA	Suicide per lakh ha NSA
2001	0.49	0.64	0.09	0.10	0.28	0.35
2002	1.05	1.42	0.08	0.09	0.54	0.69
2003	1.50	2.01	0.16	0.19	0.80	1.02
2004	4.68	6.77	0.51	1.04	2.88	3.67
2005	4.73	6.29	0.83	1.12	2.61	3.48
2006	17.18	22.84	4.31	5.78	10.17	13.58
2007	14.80	19.68	3.94	5.29	8.88	11.87
2008	12.98	17.92	4.61	5.61	8.69	11.24
2009	11.17	15.47	3.21	3.93	7.10	9.21
2010	12.39	17.18	3.22	3.95	7.70	10.01
2011	10.19	14.65	2.99	3.71	6.55	8.72
2012	9.93	14.41	2.81	3.44	6.37	8.47
2013	8.75	12.71	2.46	3.03	5.61	7.47
2014	13.10	19.29	3.81	4.72	8.47	11.41
2015	21.43	31.22	6.39	7.95	13.87	18.61
2016	18.08	26.35	5.82	7.25	12.18	16.34

Source: Shorff, Kajale and Bansode (2018), '*Agrarian distress in Maharashtra'*, Arthvijnana.

Many studies have observed that the Western Vidarbha and Marathwada are water stressed regions with many districts receiving even less than half the normal rainfall of Maharashtra, especially in Marathwada. Therefore, top priority must be given to the completion of incomplete irrigation projects and watershed management strategies along with the promotion of water saving technologies.

1.9. Conclusion

This chapter tried to give an overview of the economic growth at the aggregate and sectoral level at Maharashtra in a comparative perspective with all India. We found that the growth rates of Maharashtra economy during the period 2011-12 to 2016-17 was marginally ahead of India's growth rate. On percapita income Maharashtra is way ahead of all India average. But interregional income inequality is a major characteristic feature of the state. Similar inequality is clearly visible in the human development indicators as well. Even though the state has performed better than the national average on many social indicators, the state failed to translate its higher economic growth into higher human development and be in a virtuous growth path.

Major Findings

- Maharashtra is a leading state of India in terms of per capita income, industrialization, urbanization and the share of services in Gross Domestic Product (GSDP).
- However, Maharashtra exhibits an extreme pattern on lopsided growth: Urban/Metropolitan Maharashtra and Western Maharashtra enjoy very high income and human development indices, whereas large areas of north, north eastern and eastern Maharashtra have virtually stagnated.
- The state failed to translate the high income transformation to employment transformation. 49.10 per cent of the workers are still depending on agriculture for livelihood.
- Maharashtra is the third most drought prone state in India having only 18 per cent of irrigated land. It is the state with highest number of farmer's suicide in India.

Chapter - 2

TRENDS IN TAX REVENUE

2.1. Total Receipts and Major Components:

Total receipts of the state government are broadly categorised into Revenue receipts and Capital receipts. Revenue receipts comprise of tax revenue, non-tax revenue, share in central government taxes and grants-in-aid from the centre. Capital receipts comprise of public debt, loans from central government, recovery of loans by state government and public account. The temporal analysis is carried out for the period 2006-07 to 2017-18(RE) and for the sub periods as 12th Finance Commission (2006-07 to 2009-10), 13th Finance Commission (2010-11 to 2014-15) and 14th Finance Commission (2015-16 to 2017-18(RE)). The trend in the total receipts and its component is given in Table 2.1.

Table 2.1: Total Receipts and its Major Components (Rs. Crores)

Period	Year	Total Receipts	Revenue Receipts	Capital Receipts	Total Receipts as percentage of GSDP	Revenue Receipts as percentage of GSDP	Capital Receipts as percentage of GSDP
12th FC	2006 - 2007	77281	62195 (80.48)	15086 (19.52)	13.22	10.64	2.58
	2007 - 2008	83091	79583 (95.78)	3508 (4.22)	12.13	11.62	0.51
	2008 - 2009	108046	81271 (75.22)	26776 (24.78)	14.33	10.78	3.55
	2009 - 2010	117293	86910 (74.10)	30383 (25.90)	13.71	10.16	3.55
	Average	**96428**	**77490**	**18938**	**13.35**	**10.80**	**2.55**
13th FC	2010 - 2011	129607	105868 (81.68)	23739 (18.32)	12.35	10.09	2.26
	2011 - 2012	149623	121286 (81.06)	28336 (18.94)	11.69	9.47	2.21
	2012 - 2013	164789	142947 (86.75)	21842 (13.25)	11.29	9.79	1.50
	2013 - 2014	188749	149822 (79.38)	38928 (20.62)	11.44	9.08	2.36

Period	Year	Total Receipts	Revenue Receipts	Capital Receipts	Total Receipts as percentage of GSDP	Revenue Receipts as percentage of GSDP	Capital Receipts as percentage of GSDP
13th FC	2014 - 2015	211354	165415 (78.26)	45939 (21.74)	11.87	9.29	2.58
	Average	**168824**	**137068**	**31757**	**11.73**	**9.55**	**2.18**
14th FC	2015 - 16	223268	185036 (82.88)	38233 (17.12)	11.24	9.31	1.92
	2016-17	256993	204693 (79.65)	52300 (20.35)	11.39	9.07	2.32
	2017-18 (RE)	323702	257605	66097	12.97	10.32	2.65
	Average	**267988**	**215778**	**52210**	**11.86**	**9.57**	**2.30**
2006-07 to 2017-18 Average		**169483**	**136886 (80.77)**	**32597 (19.23)**	12.24	9.94	2.33

Note: Figures in parenthesis are as a proportion of total receipts
Source: Government of Maharashtra, Budget in Brief, Various Years

From Table 2.1, it is clear that the total receipts as a percentage of GSDP is showing a declining trend during the period 2006-07 to 2017-18 (RE). The total receipts have improved from 13.22 percent of GSDP in 2006-07 to 14.33 percent in 2008-09 and have shown a trend reversal henceforth. It declined to 11.24 in 2015-16 and is showing a slight improvement in the last two years. This decline in the total receipts are mainly due to the decline in the revenue receipts of the state. As a proportion of GSDP the revenue receipts have declined from 10.64 in 2006-07 to 9.07 percent in 2016-17. This clearly indicates that the revenue receipts of the state failed to keep pace with the GSDP growth. The declining trends in the revenue receipts affect the overall fiscal health of the state.

The capital receipts as a percentage of GSDP, which constitute the borrowings of the government, had shown a fluctuating trend, but are keeping pace with the GSDP growth. The proportion of the revenue and capital receipts remained around 80:20. This is a good indication that only one fifth of the total receipts are from capital account or the borrowing of the government, while a major proportion comes from revenue receipts.

The sub period analysis gives a clear picture on the declining trends in various receipts of the state government. Table 2.2. Indicates that all the receipts have shown a down ward trend during the 13th FC period compared to the 12th FC. The revenue receipts of the state remained stagnant at 9.5 percent during the13th and 14th FC period and this lead to a decline in the overall receipts of the state government during the last three years. From the component wise analysis one can conclude that the decline in the capital receipts is a positive trend, but the decline in the revenue receipts is a worrisome trend for the state exchequer.

Table 2.2: Total Receipts and Components as Percentage of GSDP

Period	2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
Total Receipts	12.24	13.55	11.73	11.86
Revenue Receipts	9.94	10.80	9.55	9.94
Capital Receipts	2.33	2.55	2.18	2.30

The analysis of the growth rate of various components explains the story more clearly. The total receipts had recorded a growth rate of only 12.14 percent for the entire period, less than the GSDP growth of 13.51 percent. The revenue receipts had a growth rate of 11.89 percent the capital receipts had recorded a growth rate of 16.62 per cent. The decline in the growth rate of revenue receipts have pulled down the growth rate of total receipts below the growth rate of GSDP, which lead to a scenario where the government's income is growing less than proportionately with the growth of state income.

Table 2.3: Total Receipts and Major Components: Growth rate

Period	2006-07 to 2017-18 (RE)	12th FC	13th FC	14th FC
Total Receipts	12.14	13.55	11.73	11.24
Revenue Receipts	11.89	10.80	9.55	9.57
Capital Receipts	16.62	2.55	2.18	1.92
GSDP	13.51	13.59	15.92	12.10

Our final indicator to track the progress in the receipts is the coefficient of income elasticity. This gives the percentage change in tax receipts that accompanies a one percentage change in income. Table 2.4 gives this elasticity component for major components of receipts. The total receipts and revenue receipts gives an expected elasticity of less than one, indicating the slow growth rate of those two variables in relation to GSDP. This slow growth rate of revenue receipts needs to be analyzed in detail and that is attempted in the next section.

Table 2.4: Total Receipts and Major Components: Elasticity

Item	2006-07 to 2017-18(RE)	12th FC	13th FC
Total Receipts	0.85***	1.18***	0.90***
Revenue Receipts	0.84***	0.85***	0.84***
Capital Receipts	1.12**	2.81	1.15

Revenue Receipts

In this section we try to have a disaggregate analysis of the revenue receipts of the government of Maharashtra. The revenue receipts of the state government comprises of own tax revenue, non-tax revenue, share in central taxes and grant in aid from central government.

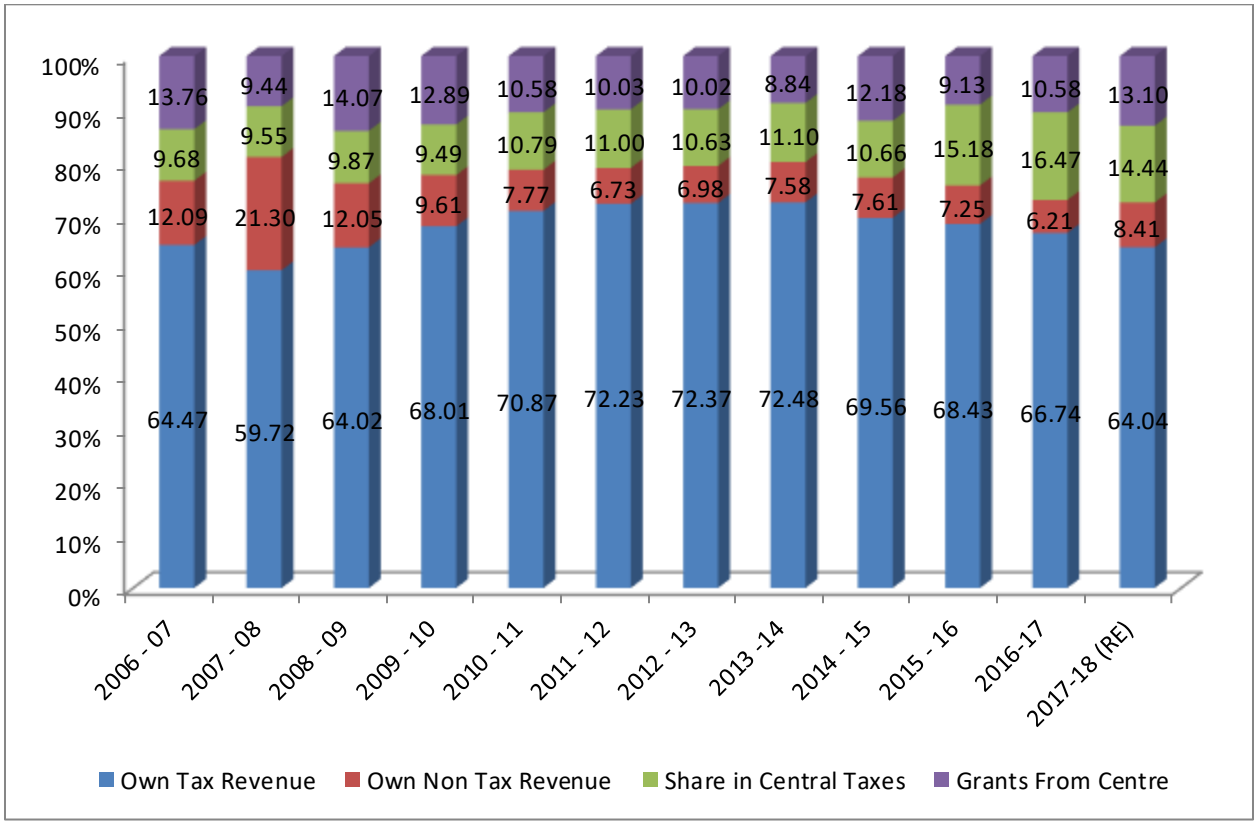
Table 2.5: Revenue Receipts and its Components

Period	Year	Total Revenue Receipts	Own Tax Revenue	Own Non Tax Revenue	Share in Central Taxes	Grants From Centre
12th FC	2006 - 07	62195	40099 (64.47)	7518 (12.09)	6023 (9.68)	8555 (13.76)
	2007 - 08	79583	47528 (59.72)	16948 (21.30)	7597 (9.55)	7510 (9.44)
	2008 - 09	81271	52030 (64.02)	9790 (12.05)	8018 (9.87)	11432 (14.07)
	2009 - 10	86910	59106 (68.01)	8353 (9.61)	8248 (9.49)	11203 (12.89)
13th FC	2010 - 11	105868	75027 (70.87)	8225 (7.77)	11420 (10.79)	11196 (10.58)
	2011 - 12	121286	87608 (72.23)	8168 (6.73)	13343 (11.00)	12167 (10.03)
	2012 - 13	142947	103449	9984	15192	14322

Period	Year	Total Revenue Receipts	Own Tax Revenue	Own Non Tax Revenue	Share in Central Taxes	Grants From Centre
			(72.37)	(6.98)	(10.63)	(10.02)
	2013 -14	149822	108598 (72.48)	11352 (7.58)	16630 (11.10)	13241 (8.84)
	2014 - 15	165415	115064 (69.56)	12581 (7.61)	17630 (10.66)	20141 (12.18)
14th FC	2015 - 16	185036	126628 (68.43)	13423 (7.25)	28086 (15.18)	16899 (9.13)
	2016-17	204693	136616 (66.74)	12709 (6.21)	33715 (16.47)	21653 (10.58)
	2017-18 (RE)	257605	164979 (64.04)	21671 (8.41)	37203 (14.44)	33752 (13.10)

Source: Government of Maharashtra, Budget in Brief, Various Years

Figure 2.1: Revenue Receipts and its major components



From Table 2.5 and Figure 2.1 we can infer that the major component of the revenue receipt of the state is the own tax revenue. It constitutes around 67.75 percent of the total revenue receipts

of the state during the period 2006-07 to 2017-18(RE). This was followed by share in central taxes at 11.57 percent, grants from the Centre at 11.22 percent and own non-tax revenue at 9.47 percent respectively. The proportion of own tax revenue in the total revenue receipts have increased from 64.06 percent during the 12th FC period to 71.50 percent during the 13th FC period and reverted back to 66.41 percent during the first three years of the 14th FC period. The real decline in the own tax revenue of the state is due to the decline in the non- tax revenue. The proportion of the same almost halved from 13.76 percent during the 12th FC period to 7.33 percent during 13th FC period and remained stagnant at 7.29 percent during the first three years of the 14th FC period. The Central devolution of taxes on the other hand had shown an increasing trend. The share of central taxes increased from 9.65 percent during the 12th FC period to 10.83 percent during the 13th FC period and increased further to reach 15.36 percent during 14th FC period. Central grants had declined from 12.54 percent to 10.33 percent and increased slightly to reach 10.94 during the award period of the last three finance commissions.

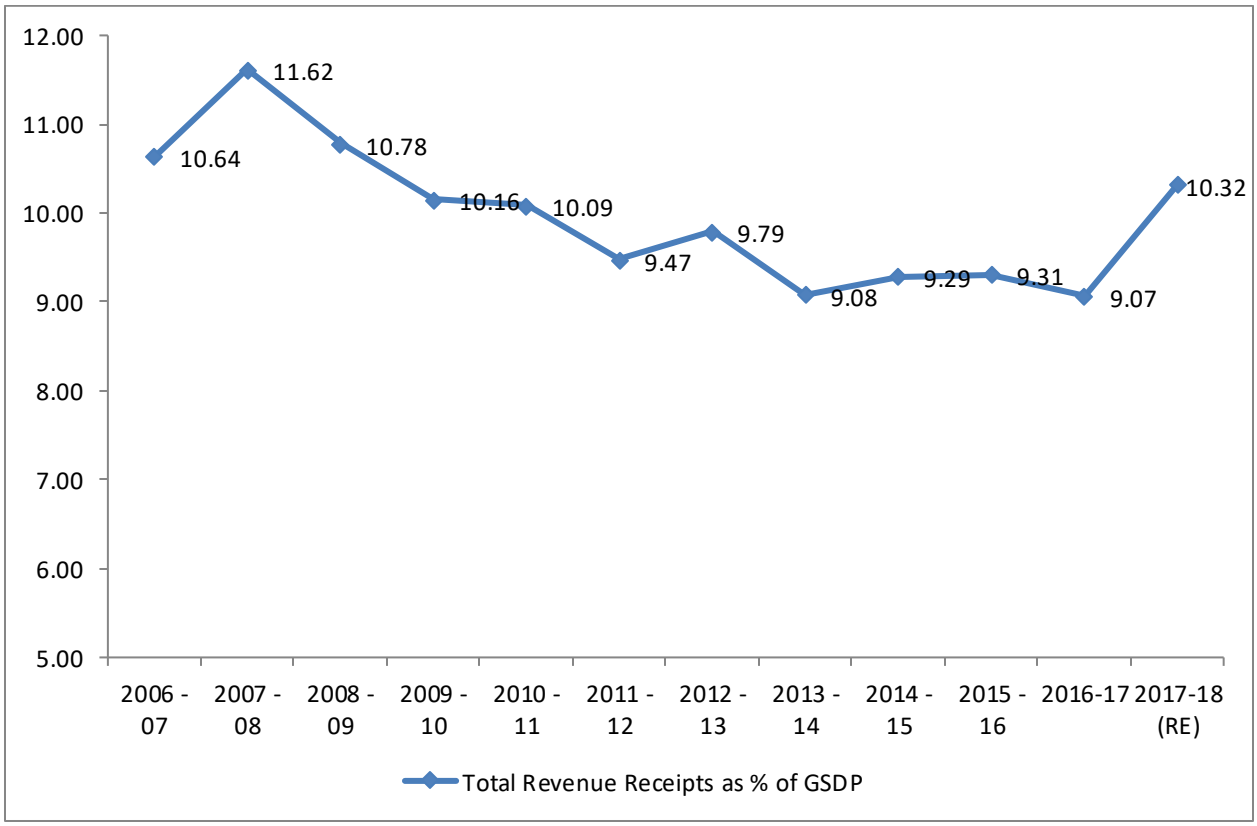
The above analysis seems to suggest that there is a decline in the effort of the state government to improve its tax revenue as well as the non- revenue. The huge decline in the non-tax revenue is a worrisome factor for the state. A detailed analysis of the same will be done in the next chapter. The share in Central taxes in total revenue receipts shows an increasing trend and this gives more untied funds available to the state government. The decline in the own tax effort of the state government is to a great extend getting balanced by the increased availability of the tax share from the union government.

Table 2.6: Revenue Receipts as a Percentage of GSDP

Item	2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
Total Revenue Receipts	9.97	10.80	9.55	9.57
Own Tax Revenue	6.73	6.90	6.83	6.35
Own Non Tax Revenue	0.97	1.51	0.70	0.70
Share in Central Taxes	1.14	1.04	1.03	1.47
Grants From Centre	1.12	1.35	0.99	1.05

As a proportion of GSDP the total revenue receipts of the constitute 9.97 percent, with own tax revenue being 6.73 percent, share in central taxes at 1.14 percent , grants from Centre at 1.12 percent and own non- tax revenue at 0.97 percent respectively. The decline in the own tax revenue and non-tax revenue across the three previous finance commission periods are clearly visible from the Table 2.6. The own tax revenue declined from 6.90 percent to 6.83 percent and further down to 6.35 percent of GSDP during the last 12 years. The own non- tax revenue of the state as a percentage of GSDP halved from 1.51 percent during the 12th FC period to 0.70 percent during the 13the FC period and remained stagnant at 0.70 percent during the first three years of the 14th FC period. Thus the major that pull down the total revenue receipts is the decline in the own non- tax revenue. The increasing devolution of central taxes and grants has acted as shock absorbers for the state exchequer.

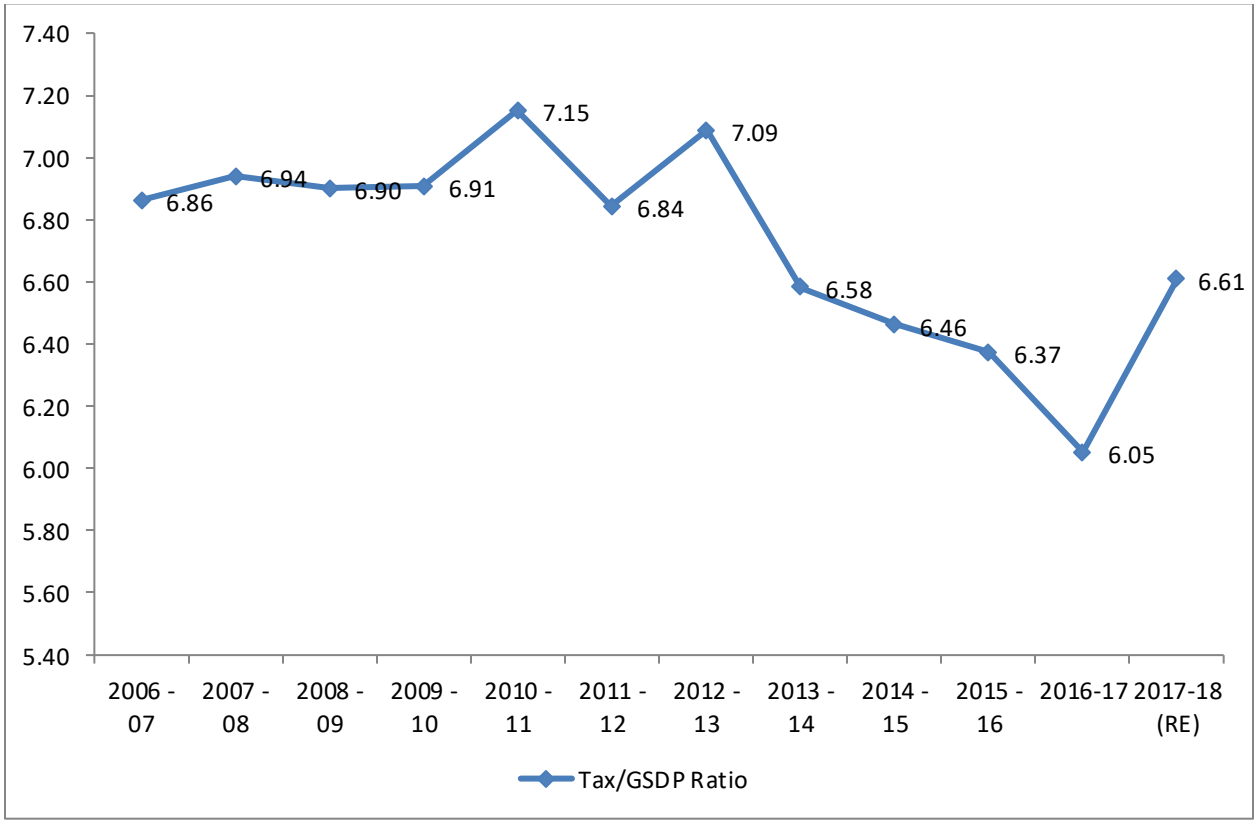
Figure 2.2: Total Revenue Receipts as percentage of GSDP



Own Tax Revenues

A substantial component of Own Revenue Receipts of the state is Own Tax Revenue, hence in this section we analyse the own tax revenue of the government of Maharashtra for the period 2006-07 to 2017-18(RE). The declining trend in the tax/GSDP ratio of the state is clear from Figure 2.2. Tax/ GSDP ratio of the state remained less than 7 percent (the proportion for the major states of India), which is a worrisome trend for the state of Maharashtra.

Figure 2.3: Tax/GSDP Ratio of Maharashtra



The summary statistics on the states own tax revenue receipts reiterates the slow growth recorded in the own tax revenue of the state (Table 2.7.). Like most of the state of India, taxes on commodities and services constitute the major component of revenue for the state. Around 80 percent of the own revenue receipts comes from this head. This is followed by 18 percent revenue from taxes on property and transactions. Taxes on Income and Expenditure (mainly professional tax) constitute a meager 2 percent of the total own tax revenue of the state (Table 2.8). Among the individual taxes, the sales tax/VAT on average constitute around 58.19 percent

of the total own tax revenue of the state. The category of stamp duties and registration fees is a distant second at 16.72 per cent followed by state excise and motor vehicle taxes.

Table 2.7: State's Own Tax Revenue

(Rs. Crores)

S. No.	Item	2006-07 to 2017-18(RE)		12th FC		13th FC		14th FC	
		Mean	CV	Mean	CV	Mean	CV	Mean	CV
	States Own Tax Revenue	93061	0.42	49691	0.16	97949	0.17	142741	0.14
1	Taxes on Income and Expenditure	1835	0.18	1477	0.11	1963	0.11	2101	0.13
2	Taxes on Property and Transactions	16542	0.39	9070	0.21	17920	0.16	24208	0.07
2.1	Land Revenue	1208	0.63	561	0.18	1098	0.1	2249	0.37
2.2	Stamp and Registration Fee	15334	0.38	8506	0.21	16821	0.16	21959	0.04
3	Taxes on Commodities and Services	747683	0.44	39143	0.16	78065	0.17	116431	0.16
3.1	Sales Tax	54551	0.46	28560	0.13	56631	0.17	85741	0.22
3.2	State Excise	8281	0.43	4188	0.14	9072	0.22	12419	0
3.3	Taxes on Vehicles	4349	0.43	2221	0.16	4639	0.17	6702	0.09
3.4	Taxes on Goods and Passengers	960	0.59	620	0.59	738	0.38	1786	0.09
3.5	Taxes and duties on Electricity	4959	0.46	2487	0.28	5178	0.15	7891	0.13
3.6	Entertainment Tax	504	0.47	416	0.16	589	0.22	480	1
3.7	Other Taxes and Duties	1075	0.58	648	0.19	1216	0.39	1410	0.73

Table 2.8: Share of various taxes on State's Own Tax Revenue

Sr. No.	Item	2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
1	**Taxes on Income and Expenditure**	**2.22**	**2.99**	**2.02**	**1.51**
2	**Taxes on Property and Transactions**	**17.96**	**18.17**	**18.33**	**17.07**
2.1	Land Revenue	1.24	1.14	1.14	1.55
2.2	Stamp and Registration Fee	16.72	17.04	17.19	15.52
3	**Taxes on Commodities and Services**	**79.82**	**78.84**	**79.64**	**81.43**
3.1	Sales Tax/VAT	58.19	57.68	57.73	59.64
3.2	State Excise	8.84	8.41	9.19	8.81
3.3	Taxes on Vehicles	4.66	4.48	4.74	4.71
3.4	Taxes on Goods and Passengers	1.01	1.19	0.75	1.26

3.5	Taxes and duties on Electricity	5.30	4.94	5.38	5.58
3.6	Entertainment Tax	0.68	0.84	0.61	0.36
3.7	Other Taxes and Duties	1.31	1.31	1.23	1.06

The states own tax revenue as a percentage of GSDP given in Table 2.9. It points to the stagnation in the own tax revenue collection of the state. Over the last three Finance Commission periods there was no significant improvement in any of the component of the own tax revenue of the state. This clearly suggest that either no significant effort has been made on the part of the state government to boost its performance or that there is no further scope for improvement given the existing provisions.

Table 2.9: State's own Tax revenue as percentage of GSDP

		2006-07 to 2017-18(RE)	**12th FC**	**13th FC**	**14th FC**
	State's Own Tax Revenue	6.73	6.90	6.83	6.35
1	Taxes on Income and Expenditure	0.15	0.21	0.14	0.09
2	Taxes on Property and Transactions	1.21	1.25	1.25	1.08
2.1	Land Revenue	0.08	0.08	0.08	0.10
2.2	Stamp and Registration Fee	1.13	1.18	1.17	0.98
3	Taxes on Commodities and Services	5.37	5.44	5.43	5.17
3.1	Sales Tax	3.92	3.98	3.94	3.79
3.2	State Excise	0.59	0.58	0.63	0.56
3.3	Taxes on Vehicles	0.31	0.31	0.32	0.30
3.4	Taxes on Goods and Passengers	0.07	0.08	0.05	0.08
3.5	Taxes and duties on Electricity	0.36	0.34	0.37	0.35
3.6	Entertainment Tax	0.04	0.06	0.04	0.02
3.7	Other Taxes and Duties	0.04	0.09	0.08	0.07

Table 2.10: State's Own Tax Revenue: Growth Rate

		2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
	States Own Tax Revenue	12.55	12.54	10.7	14.32
1	Taxes on Income and Expenditure	4.44	8.19	6.77	-8.35
2	Taxes on Property and Transactions	11.90	15.03	9.98	6.15
2.1	Land Revenue	15.10	12.29	4.21	40.38
2.2	Stamp and Registration Fee	11.6	15.24	10.39	3.24
3	Taxes on Commodities and Services	12.90	12.12	10.96	16.62
3.1	Sales Tax/VAT/ GST	12.93	10.46	11.36	23.79
3.2	State Excise	13.21	13.91	14.56	0.13
3.3	Taxes on Vehicles	13.05	11.64	10.58	10.53
3.4	Taxes on Goods and Passengers	14.51	52.42	11.09	9.93
3.5	Taxes and duties on Electricity	13.26	20.89	0.63	2.93
3.6	Entertainment Tax	6.19	12.76	-3.44	0.17
3.7	Other Taxes and Duties	4.97	11.54	14.72	-52.77

The growth rate of own tax revenue showed huge fluctuations as clear from Figure 2.4 and Figure 2.5. For the entire period own tax revenue recorded a growth rate of 12.55 percent. Among the various taxes, the land revenue recorded the highest growth with 15.10 percent followed by taxes on goods and passengers. But the bases of these taxes are relatively low. The major contributor of the tax revenue, sales tax/VAT recorded a growth rate of 12.93 percent only, lower than the growth rate of GSDP. The introductions of GST during the financial year 2017-18 have pushed the revenue from this category. This has resulted in a higher growth rate of own tax revenue also during the 14th FC period compared to the previous FC periods. 20.76 percent growth in the own tax revenue during the year 2017-18 (RE) is mainly due to a huge spike on taxes on Commodities and Services as a result of introducing Goods and Services Tax in the state.

Figure 2.4: Own Tax Revenue Growth Rate

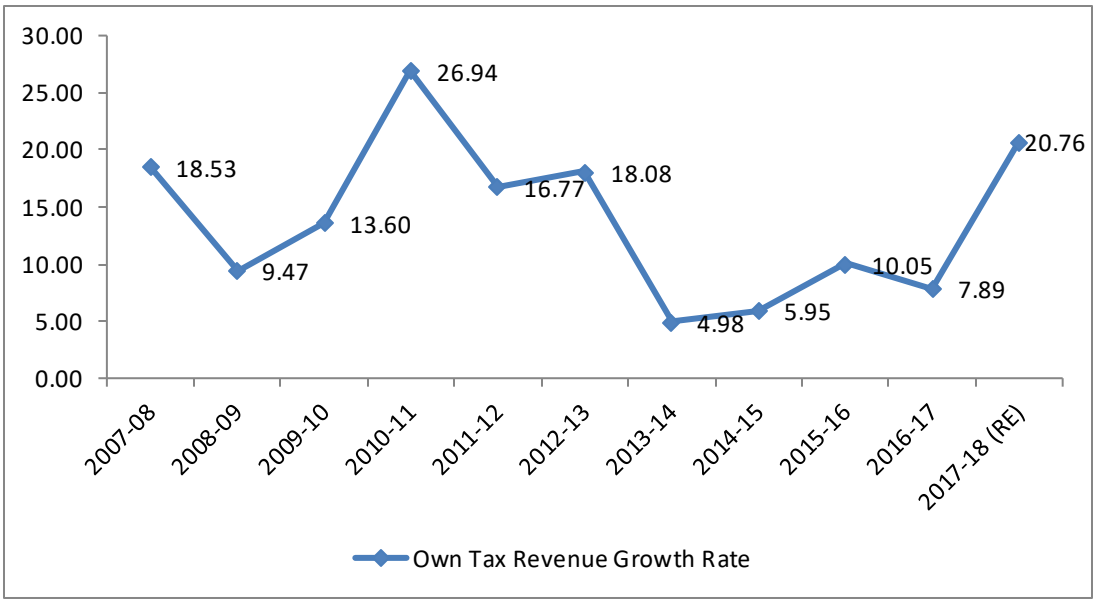
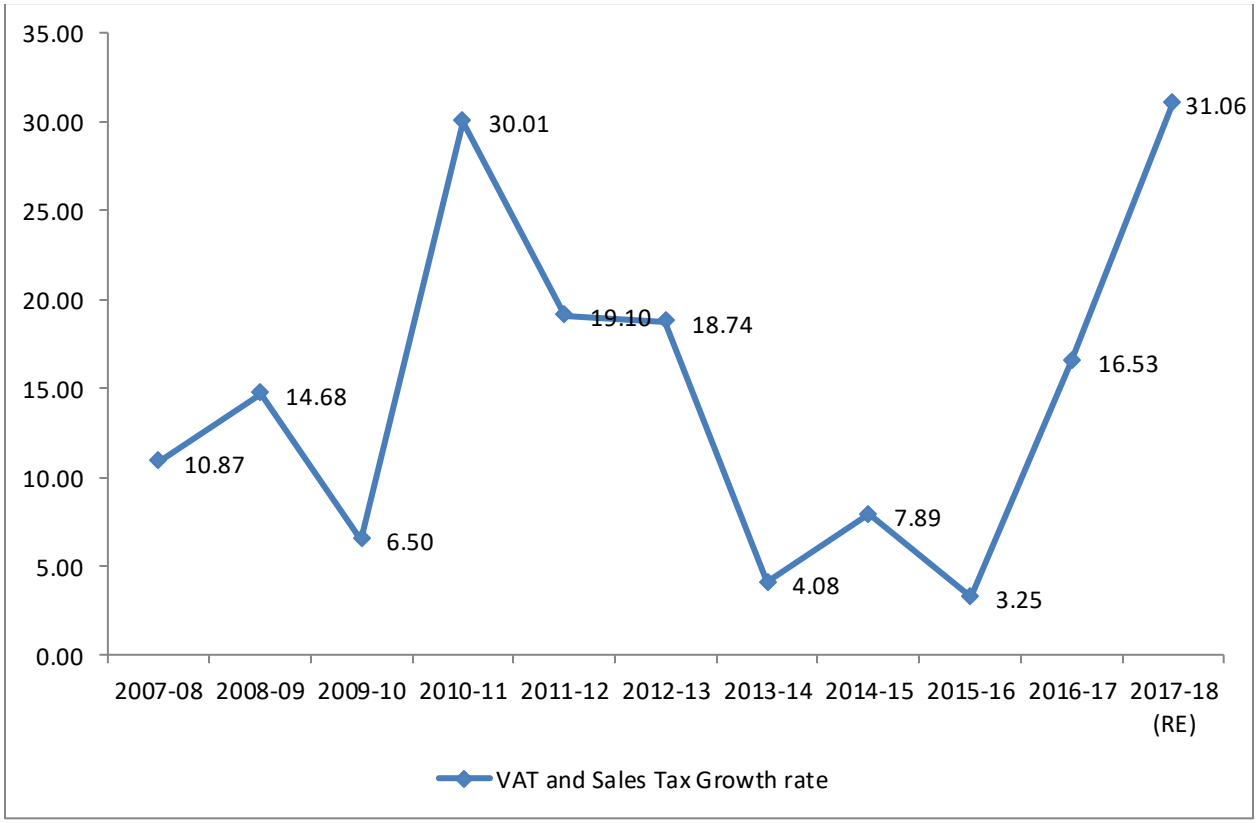


Figure 2.5: VAT and Sales Tax Growth rate



In order to understand the responsiveness of the own tax revenue with that of the domestic income growth, we have estimated the tax buoyancy for the aggregate taxes as well as the individual taxes for our study period. The results are given in Table 2.11. Buoyancy of aggregate own tax revenue is 0.93 with a maximum of 1.13 recorded during the first three years of the 14th FC award period. 13th FC award period recorded the lowest tax buoyancy in the state. Among the sub items, except land revenue and taxes on goods and passengers all other taxes recorded buoyancy less than one, indicating the failure of the revenue to keep pace with the income growth of the state. Taxes on income and expenditure that mainly consist of professional tax recorded the lowest buoyancy and had shown a negative trend in recent years. Sales tax/ VAT the major contributor to state exchequer improved its buoyancy over the FC periods. It improved from 0.83 during the 12th FC to 1.82 during the 14th FC period, mainly due to higher receipts from Goods and Services Tax. The additional revenue mobilization requires the state to focus on the specific taxes like professional tax, entertainment tax and other taxes and duties that record very low and falling tax buoyancy.

Table 2.11: Tax Buoyancy

S. No.	Item	2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
	States Own Tax Revenue	0.93	1.01	0.82	1.13
1	Taxes on Income and Expenditure	0.33	0.68	0.52	-0.81
2	Taxes on Property and Transactions	0.89	1.24	0.75	0.46
2.1	Land Revenue	1.09	0.97	0.25	2.54
2.2	Stamp and Registration Fee	0.87	0.97	0.78	0.23
3	Taxes on Commodities and Services	0.96	0.97	0.85	1.31
3.1	Sales Tax	0.96	0.83	0.87	1.82
3.2	State Excise	0.99	1.12	1.13	1.00
3.3	Taxes on Vehicles	0.97	0.94	0.82	0.87
3.4	Taxes on Goods and Passengers	1.03	4.17	0.64	0.83
3.5	Taxes and duties on Electricity	0.99	1.75	0.13	-0.08
3.6	Entertainment Tax	0.46	1.04	-0.1	5.44
3.7	Other Taxes and Duties	0.41	0.94	0.99	-9.33

The analysis so far reveals that the revenue account of the budget has witnessed slippage due to slow down of own tax revenue growth since 2011-12, when revenue expenditure growth rose. Before we proceed to estimate the potential for commodity tax, there are two palpable indicators, which gives a basic idea about the states own tax effort.

A. Budget Effort

Budget Effort measures the ratio of actual collections of sales tax/ VAT to budget estimates. If the ratio is above 100, the budget effort is efficient and if it is below 100, the budget effort is ineffective. From Table 2.12, one can conclude that majority of years the budget effort of the state is efficient. The last three years recorded a slight dip in the budget effort that will be corrected once the GST is in full pace.

Table 2.12: Budget Effort of Sales Tax/VAT in Maharashtra

Item/Year	Actual (A)	Budget (B)	Budget Effort (A/B*100)
2006-07	24131	26314	91.70
2007-08	26753	27485	97.34
2008-09	30681	29039	105.65
2009-10	32676	27006	121.00
2010-11	42483	35986	118.05
2011-12	50596	46000	109.99
2012-13	60080	53361	112.59
2013-14	62530	62422	100.17
2014-15	67466	69089	97.65
2015-16	69661	74616	93.36
2016-17	81174	81437	99.68

B. C-Efficiency

C-efficiency, estimates the overall gap, that is enforcement gap and policy gap together. In the foregoing paragraph, we measured the enforcement effort only given the rates and exemptions (See Committee Report of GST, Government of India 2015).

$$\text{C-efficiency} = \frac{\text{Actual Collections}}{\text{Standard Rate} \times \text{Tax Base}}$$

The standard rate of VAT in Maharashtra has been 12.5 percent for different financial years under consideration. We use the GSDP at current prices as the tax base as time series of annual Consumption Expenditure is not available.

Table 2.13: C-efficiency of Sales Tax/ VAT in Maharashtra

Year	Sales Tax	GSDP	C- efficiency
2006-07	24131	584498	0.33
2007-08	26753	684817	0.31
2008-09	30681	753969	0.32
2009-10	32676	855751	0.30
2010-11	42483	1049150	0.32
2011-12	50596	1280369	0.31
2012-13	60080	1459628	0.32
2013-14	62530	1649695	0.30
2014-15	67466	1780721	0.30
2015-16	69661	1986721	0.28
2016-17	81174	2257032	0.28

The C-efficiency has been on an average 0.31 for Maharashtra during the period 2006-07 to 2016-17 (we have excluded 2017-18 due to introduction of GST, which is a structural change). The average C- efficiency is about 0.6 for high income countries and 0.57 for emerging market economies and 0.31 for low income countries (GOI 2015). Surprisingly, Maharashtra, the richest state in India, with an average C-efficiency of 0.31 during 2006-07 to 2017-18(RE) falls in the low income country category in terms of C- efficiency. This implies that greater efforts for compliance is called for at the enforcement level, as in the post GST, harmonized tax rate and exemption scenario, scope for policy efforts should be limited. Maharashtra should attempt to reach the C- efficiency at least above that of emerging market economies, being the richest state of India.

Devolution of Central Taxes and Grants

The detailed trends of central devolutions are given in Table 2.14 and Table 2.15. The central devolution has remained slightly above 2 percent of GSDP during the last 12 years. Total devotion has declined from 2.39 percent during 12th FC to 2.02 percent 13th FC due to a decline both in the share of central taxes as well as the decline in the grants. During the 14th FC period, due to higher devolution of the taxes, the overall devolution has also improved to 2.52 per cent of GSDP. Maharashtra, being a high per capita income state, a higher share in tax devolution from the Centre cannot be expected in future, as a major portion of taxes from the divisible pool is distributed based on distance of percapita income of a state from that of average of highest three percapita income states. With the changing pattern of financing of the Centrally Sponsored schemes, the grant disbursement in the near future is uncertain to predict. In the proximate future, the rise in the share of taxes, after the award of 14th FC is likely to be accompanied by a decline in share of grants and a reasonable expectation will be 2.5 percent of GSDP, as Central devolution.

Table 2.14: Trends in Central Devolution of Taxes and Grants to Maharashtra

	Year	Share in Central Taxes as a Proportion of GSDP	Central Grants as proportion of GSDP	Total Central Devolution as Percentage of GSDP
12th Finance Commission Period	2006 - 07	1.03	1.46	2.49
	2007 - 08	1.11	1.10	2.21
	2008 - 09	1.06	1.52	2.58
	2009 - 10	0.96	1.31	2.27
13th Finance Commission Period	2010 - 11	1.09	1.07	2.16
	2011 - 12	1.04	0.95	1.99
	2012 - 13	1.04	0.98	2.02
	2013 -14	1.01	0.80	1.81
	2014 - 15	0.99	1.13	2.12
14th Finance Commission Period	2015 - 16	1.41	0.85	2.26
	2016-17	1.49	0.96	2.45
	2017-18 (RE)	1.49	1.35	2.84

Table 2.15: Central Devolution of Taxes and Grants to Maharashtra as Percentage of GSDP

	2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
Share in Central Taxes as a Proportion of GSDP	1.14	1.04	1.03	1.47
Central Grants as proportion of GSDP	1.12	1.35	0.99	1.05
Total Central Devolution	2.27	2.39	2.02	2.52

Reform Initiatives and the suggestions for improving revenue productivity

- A major policy reform during the last five years was the implementation of Goods and Services Tax (GST) from 1st July 2017. Before the implantation of GST, State followed incremental approach in revenue targeting and no major policy reform was introduced for increased revenue mobilisation. This has led to a scenario where one of the richest state in India, ended up having own tax revenue/GSDP ratio less than all states average. The implementation of GST is likely to change this scenario. Maharashtra being a state with service sector dominance and Mumbai being the financial capital of the country will be able to mobilise more GST. Maharashtra has a tax base of 16 per cent of GST (Economic Survey 2017-18, Government of India). The increased collection of
- Computerization and online payment system is being implemented in most of the departments in Maharashtra as part of the reform process. But still major effort required for digitalisation of land records, that will make more transparency on the title deeds, property transfer, better realisation of land revenue. The land lease rates need periodic revision for better realisation of revenue.
- The professional tax collection in the state is very low. The administration of this tax has been with the commercial taxes department unlike many other states. There is an urgent need for transferring this tax to local bodies for better administration. The rate of tax may be periodically revised.
- The commercial tax department has introduced an Amnesty scheme since 2015-16. This is only partially success, and still huge arrear payments are pending. Immediate attention of the state government is required for realisation of these arrears.

Major Findings

- Tax revenue as a percentage of GSDP has shown a declining trend for a decade from 2006-2016. This could be due to the industrial recession post 2010. This is true also for revenue receipts and capital receipts. Buoyancy of revenue receipts and total receipts has also declined. This may to a great extent will reverse post Goods and Services Tax (GST) implementation in Maharashtra.
- Share in Central Taxes as a proportion of GSDP showed a significant increase during the 14th Finance Commission award period but the state's share in the central grants continues to remain low.

Chapter - 3

TRENDS IN OWN NON- TAX REVENUE

Non- tax revenue of the state governments in India include (a) revenue from assets- common property resources for which government the government acts as a custodian and charges fees, renewable natural resources from where the government receives royalties and assets created from earlier investments like Public Sector Undertakings, irrigation, roads and loans given by the state government, from where the government receives dividends and interest. (b) Revenue from the sale of goods and services provided directly by the government which yields revenue in the form of user charges and (c) revenue from sale of licenses and permits for regulated activities such as permits for vehicles, etc.

Table 3.1 indicates that the mean non-tax revenue have recorded an absolute decline even on nominal terms during the 13th FC period compared to the 12th FC period, mainly because of the decline on revenue from General Services. There is a trend reversal during the first three years of the 14th FC period.

Table 3.1: Gross Non-Tax Revenue: Summary Statistics (Rs. Crores)

Item	2006-07 to 2017-18(RE)		12th FC		13th FC		14th FC	
	Mean	CV	Mean	CV	Mean	CV	Mean	CV
Interest Receipts, Dividends and Profits	2463	0.45	1578	0.40	2540	0.45	3515	0.14
General services	2770	1.09	5010	0.96	1359	0.20	2134	0.25
Social Services	2117	0.95	794	0.30	1817	0.48	4381	0.69
Economic Services	4377	0.27	3270	0.23	4347	0.04	5904	0.16
Non Tax Revenue	11727	0.36	10652	0.40	10062	0.19	15934	0.31

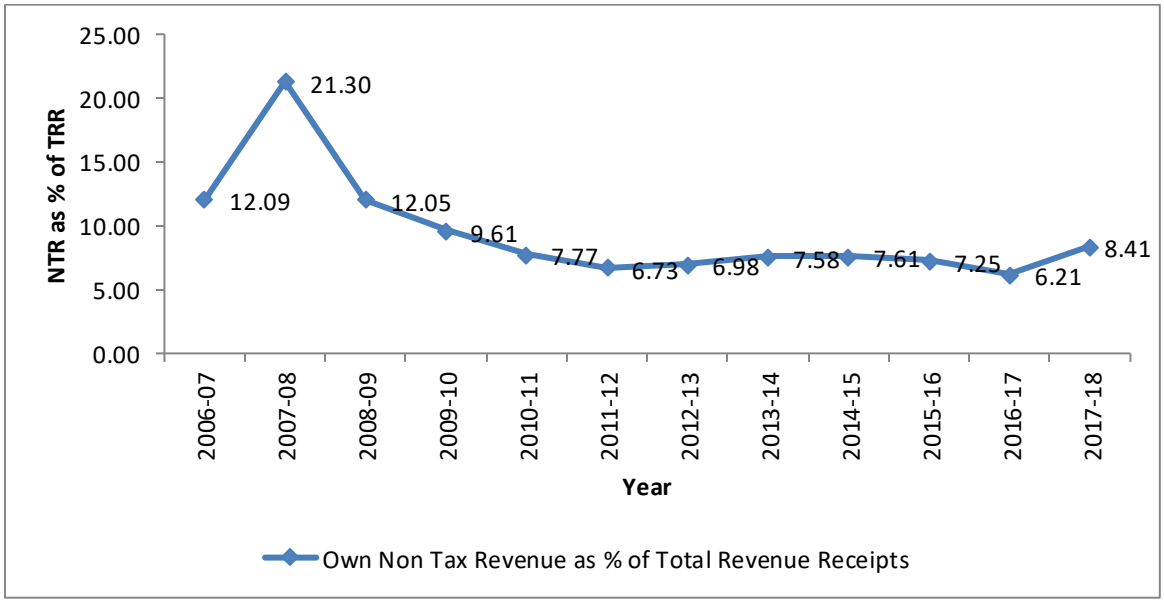
Source: Government of Maharashtra, Budget documents, Various Years

A major caveat needs to be noted down here is that the non-tax revenue of the State increased by (Rs 9,430 crore) 125 per cent over the previous year from Rs 7,518 crore in 2006-07 to Rs 16,948 crore in 2007-08, mainly due to sharp increase in receipts booked under Major Head 'Miscellaneous General Services' (Rs 9,909 crore). Owing to the fact that surplus amount lying

in various statutory reserve funds in Public Account which cannot be utilised for any other purposes mentioned in Acts under which these funds are maintained, State Government through Resolutions dated 10 and 15 March 2008 issued in pursuance to Maharashtra Ordinance No. II of 2008 dated 22 February 2008 and ratified vide Maharashtra Act No. V of 2008 dated 19 March 2008 and cabinet decision dated 3 May 2007 respectively, transferred Rs 10,868 crore from 18 such funds to Consolidated Fund of the State under the above mentioned Major Head as non-tax receipts during the year. Besides, a credit entry of Rs 467.54 crore (debt relief of Rs 339.97 crore for 2007-08 and Rs 108.23 crore for 2006-07, interest relief of Rs 19.34 crore for 2006-07) was also booked under Major Head 'Miscellaneous General Services' on account of debt waiver received from Government of India under DCRF. As a result, non-tax receipts of the State recorded an impressive increase of 125 per cent during 2007-08 over the previous year

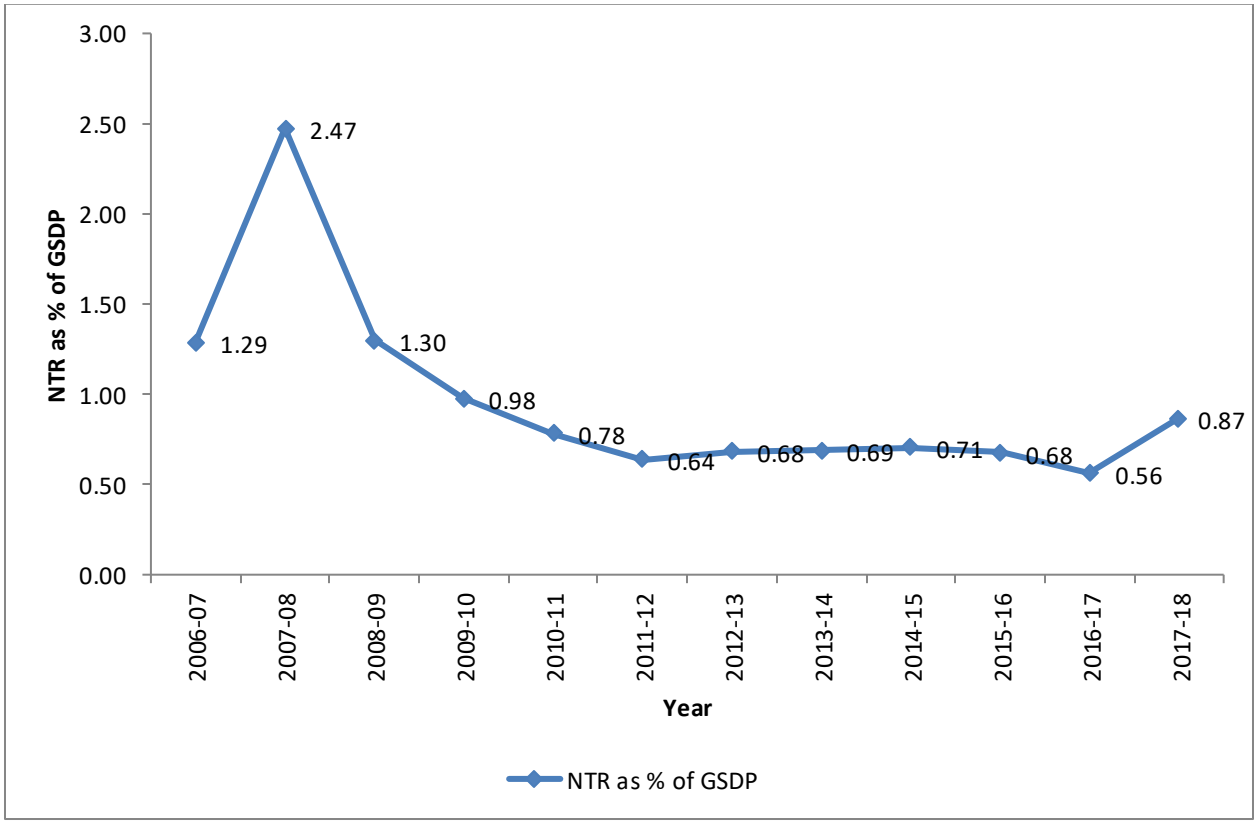
From Figure 3.1, we can infer the long term declining trends in the own- non tax revenue as a percentage of total revenue receipts. As explained in the previous paragraph there was a sharp upturn in the non- tax revenue through book adjustment in 2007-08 and henceforth the trend is that of a decline. It declined from 21.30 percent of total revenue receipts in 2007-08 to a meager 6.2 per cent in 2016-17. A slight improvement to 8.41 percent is noticed during the 2017-18 (RE).

Figure 3.1: Gross Own Non Tax Revenue as % of Total Revenue Receipts



Gross non-tax revenue as a percentage of GSDP in Figure 3.2 shows a similar picture of decline in Non- Tax Revenue. As a percentage of GSDP it has declined form 1.29 percent to hardly 0.56 percent during the 12 year period from 2006-07 to 2017-18. We can conclude from this figure that like the tax revenue discussed in the previous chapter, the non- tax revenue receipts of the government of Maharashtra failed to keep pace with that of its GSDP growth. Details of the same are explored in the following sections.

Figure 3.2: Gross Non-Tax Revenue as percentage of GSDP



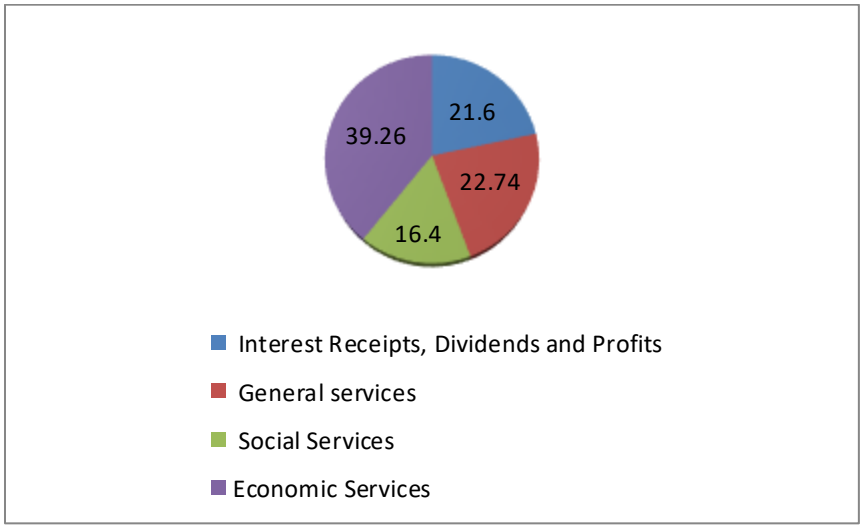
The non- tax revenue of the government mainly accrue from four categories, Interest Receipts, Dividends and Profits, General Services, Economic Services and Social Services. From Table 3.2 and Figure 3.3, we can infer that over the past 12 years, Economic Services (Irrigation, Crop and Animal Husbandry, Dairy, Rural Development, Industries, Indian Railways, Tourism etc.) have contributed the maximum share towards non tax revenue in Maharashtra. This is followed by General services.

Table 3.2: Percentage Share of Various Components of Non-Tax Revenue

	Interest Receipts, Dividends and Profits	General services	Social Services	Economic Services
2006-07	33.39	26.98	7.29	32.35
2007-08	7.62	70.49	3.86	18.03
2008-09	11.11	45.31	9.15	34.41
2009-10	17.04	19.52	12.89	50.55
2010-11	17.83	20.93	10.76	50.48
2011-12	17.01	15.49	14.82	52.68
2012-13	25.15	11.18	20.93	42.73
2013-14	34.83	9.81	15.67	39.69
2014-15	26.86	12.54	24.78	35.81
2015-16	23.37	13.93	22.03	40.66
2016-17	26.17	13.99	18.40	41.43
2017-18 (RE)	18.84	12.71	36.21	32.25

Source: Government of Maharashtra, Budget documents, Various Years

Figure 3.3: Average Share of Various Components of Non- Tax Revenue (2006-07 to 2017-18(RE)



The proportional contribution of various components has performed differently over the last three Finance Commission award periods. The share of social services has picked up the maximum pace and has increased from 8.30 percent to 25.55 per cent. General services on the other hand had a decline of its contribution from 40.57 per cent during the 12th FC period to 13.54 percent during the first three years of the 14th FC award period. Economic Services had shown some fluctuations. Its share had increased from 33.83 percent during 12th FC period to 44.28 percent during 13th FC period but declined to 38.12 percent during the last three years, 14th FC period (Table 3.3).

Table 3.3: Percentage Share of Various Components of Non-Tax Revenue

Item	2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
Interest Receipts, Dividends and Profits	21.60	17.29	24.34	22.79
General services	22.74	40.57	13.99	13.54
Social Services	16.40	8.30	17.39	25.55
Economic Services	39.26	33.83	44.28	38.12

Source: Government of Maharashtra, Budget documents, Various Years

The gross non- tax revenue of the state have recorded a meager growth of 5.06 percent on nominal terms during the period 2006-07 to 2017-18(RE), when the GSDP of the state was growing at 13.51 percent (Table 3.4). This is mainly due to the huge fluctuations in the non-tax revenue during the 12th FC period due to book adjustment by the state. This has resulted in a negative growth in the non- tax revenue during the 12th FC. The growth rate picked up momentum during the 13th FC and kept pace at 23.95 percent during the 14th FC period. The General Services recorded a negative growth rate. The highest growth rate was recorded in the social services.

Table 3.4: Growth rate of Various Components of Non- Tax Revenue

Growth rate	2006-07 to 2017-18(RE)	12th FC	13th FC	14th FC
Interest Receipts, Dividends and Profits	10.19	-18.75	27.15	13.17
General services	-7.48	-16.44	-3	19.34
Social Services	19.95	23.39	29.03	48.78
Economic Services	7.15	17.52	2.09	12.35
Non Tax revenue	5.06	-0.23	11.79	23.95

Cost Recovery

Own non-tax revenues from social and economic services can be treated as recoveries by the government for the services provided. Under revenue expenditure, the Government makes outlays in the form of current expenditure for provision of these services. Comparing the recoveries with these outlays, the recovery rates can be computed to indicate the extent of subsidization of these services by the government. The recovery rates for economic and social services are generally low for almost all states in India. Maharashtra's case is not different from all India pattern. As clear from Table 3.5. and Figure 3.4 the recovery rate of the services in Maharashtra is very low and kept declining over the period of last three Finance Commission award periods. Marginal improvements were recorded in the social services but the economic and general services recorded a continuous fall in recovery rates.

Figure 3.4: Cost Recovery of Services (percent)

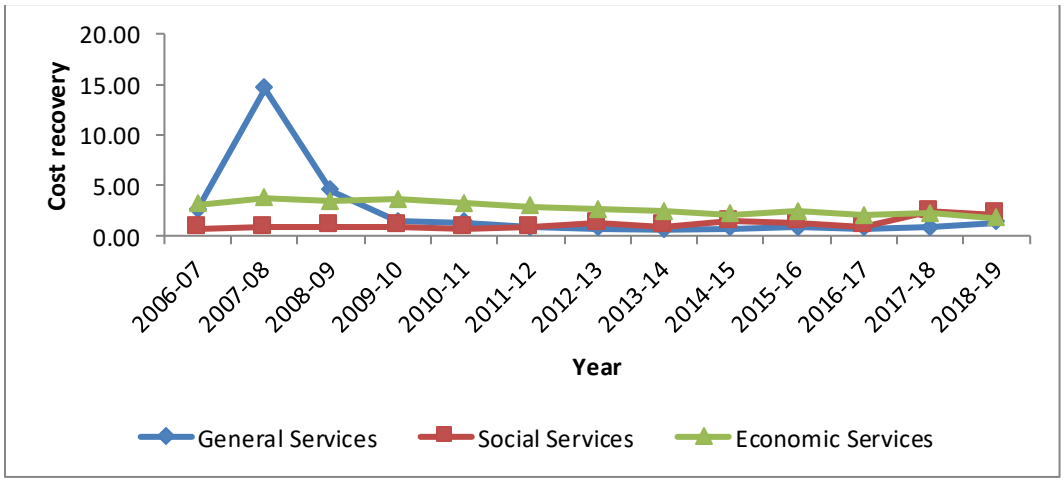


Table 3.5: Cost Recovery (Per cent)

Item	2006-07 to 2017-18(RE)	12 FC	13 FC	14 FC
General	2.36	7.33	1.01	1.10
Social	1.17	1.06	1.24	2.03
Economic	2.71	4.39	3.18	2.49

The recovery rates reported here have an upward bias because of exclusion of costs from the calculations. In some cases, such as irrigation, where investment requirements are considerable, the bias would be significant. In order to arrive at a better estimate of the extent of cost recovery, the same needs to be estimated separately for merit goods and non-merit categories. Merit goods and services are those goods and services that have strong externalities associated with their provision. Non-merit ones are the others. While low recoveries may have some justification in case of merit goods and services, it is hard to defend very low recovery rates for non- merit categories.

Given the aggregate picture on own-non tax revenue and its major components, we will now proceed to analyse some of the individual items on own- non tax revenue that have implication on the state budget. Toll Receipts and dividends and profits from the Public Sector Undertakings are two such items.

Toll Receipts

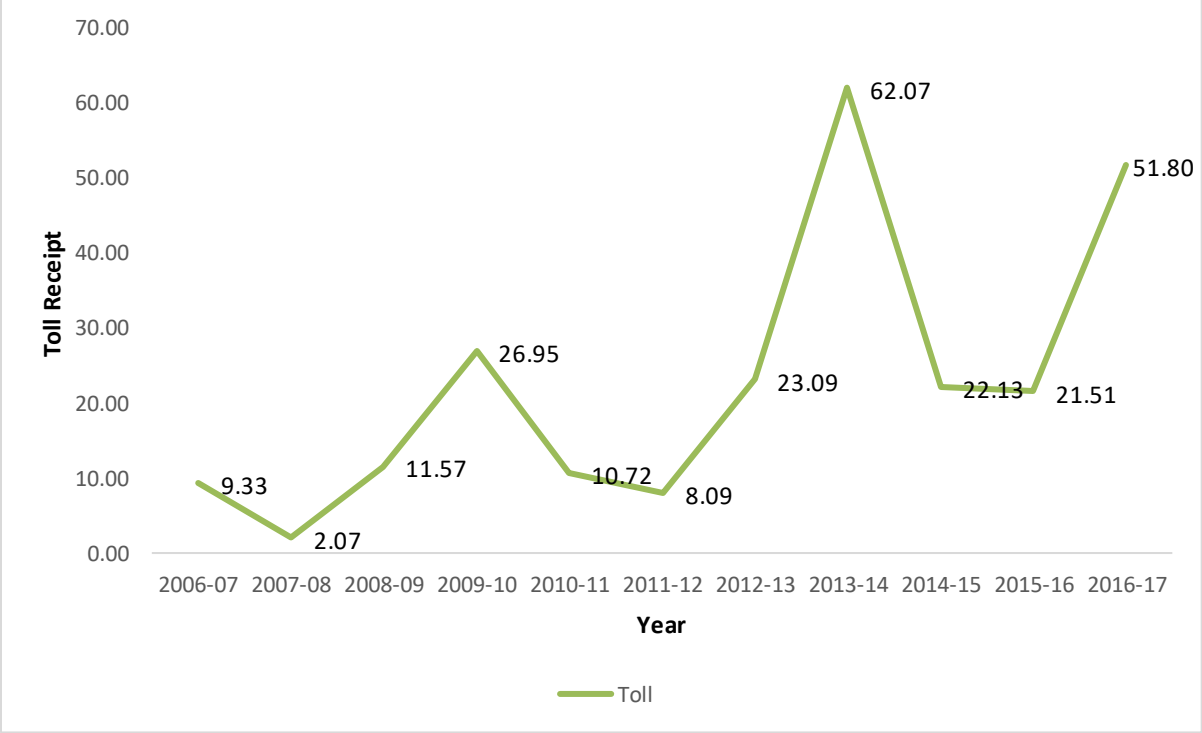
Toll charges or toll taxes are user charges are levied by the state governments for recovering the cost of construction of roads and bridges upholding the concept of the "user-pays". Tolls are paid only when a particular facility is used and tolls paid cover operating and maintenance costs as well as debt retirement of the facility. The toll receipts for the period 2006-07 to 2017-18(RE) are given in the Table 3.6 and Figure 3.5. From the table it is clear that the volume of receipts under toll is very minimal in Maharashtra. The trend indicates a long run upward movement with fluctuations. But the amount of revenue realised through tolls are no way near the operations and maintenance cost of roads and bridges in the state.

Table 3.6: Toll Receipts (Rs. Crore)

Year	Toll Receipts
2006-07	9.33
2007-08	2.07
2008-09	11.57
2009-10	26.95
2010-11	10.72
2011-12	8.09
2012-13	23.09
2013-14	62.07
2014-15	22.13
2015-16	21.51
2016-17	51.80

Source: CAG Finance account

Figure 3.5: Toll receipt (Rs. Crore)



Dividends from Public Sector Undertakings

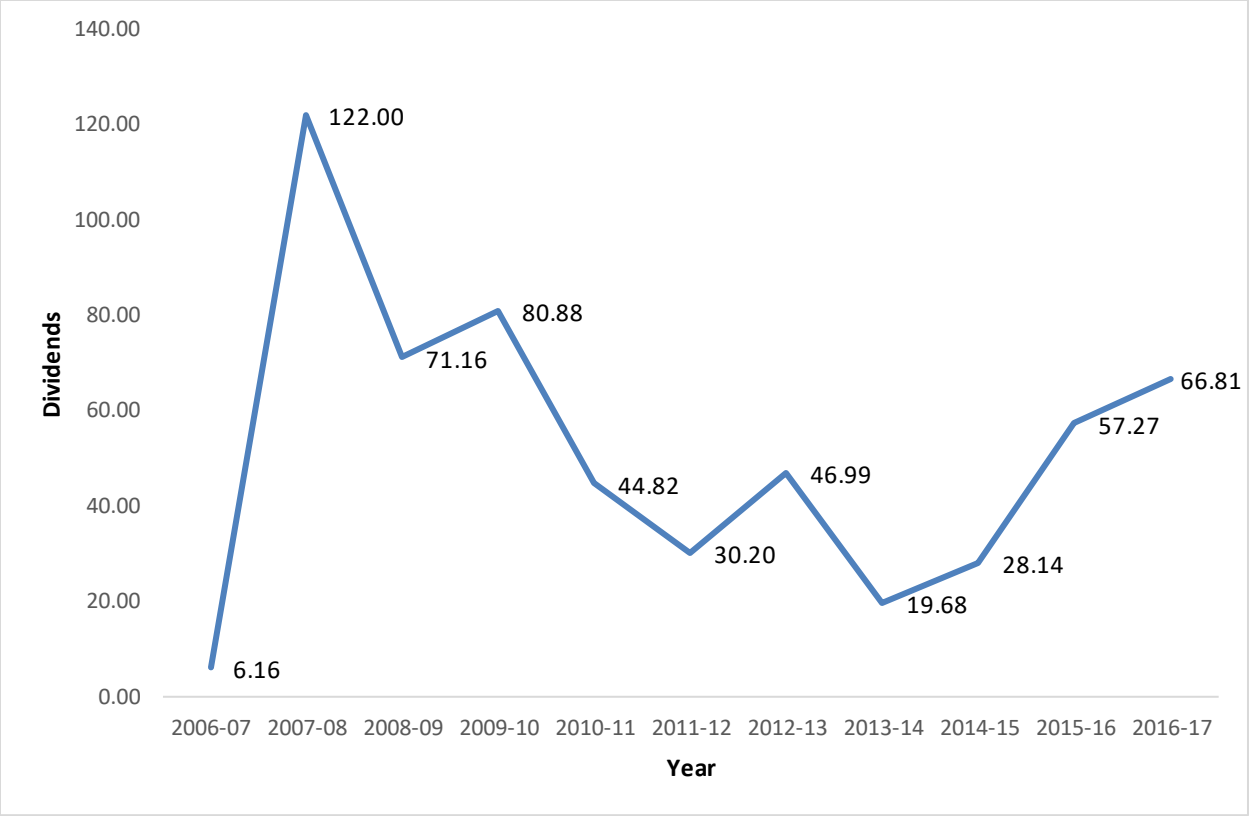
The State Public Sector Undertakings (PSU's) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view, the welfare of the people. In the State of Maharashtra, PSUs are mainly in the sectors like power and infrastructure. Dividends from PSUs are very nominal indicating the poor performance of the PSUs over the years. Majority of the PSUs in the state are loose making. The results of the same are given in Table 3.7 and Figure 3.6. 2007-08 onwards majority of the PSU's are on loss, but due to political economy factors the government kept on increasing the investment on such loss making entities and currently they are make huge revenue loss to the state exchequer.

Table 3.7: Dividends from PSUs and other Investments (Rs. Cr)

Year	Dividends
2006-07	6.16
2007-08	122.00
2008-09	71.16
2009-10	80.88
2010-11	44.82
2011-12	30.20
2012-13	46.99
2013-14	19.68
2014-15	28.14
2015-16	57.27
2016-17	66.81

Source: CAG Finance account

Figure 3.6: Dividends from PSU & Other Investment (Rs. Cr.)



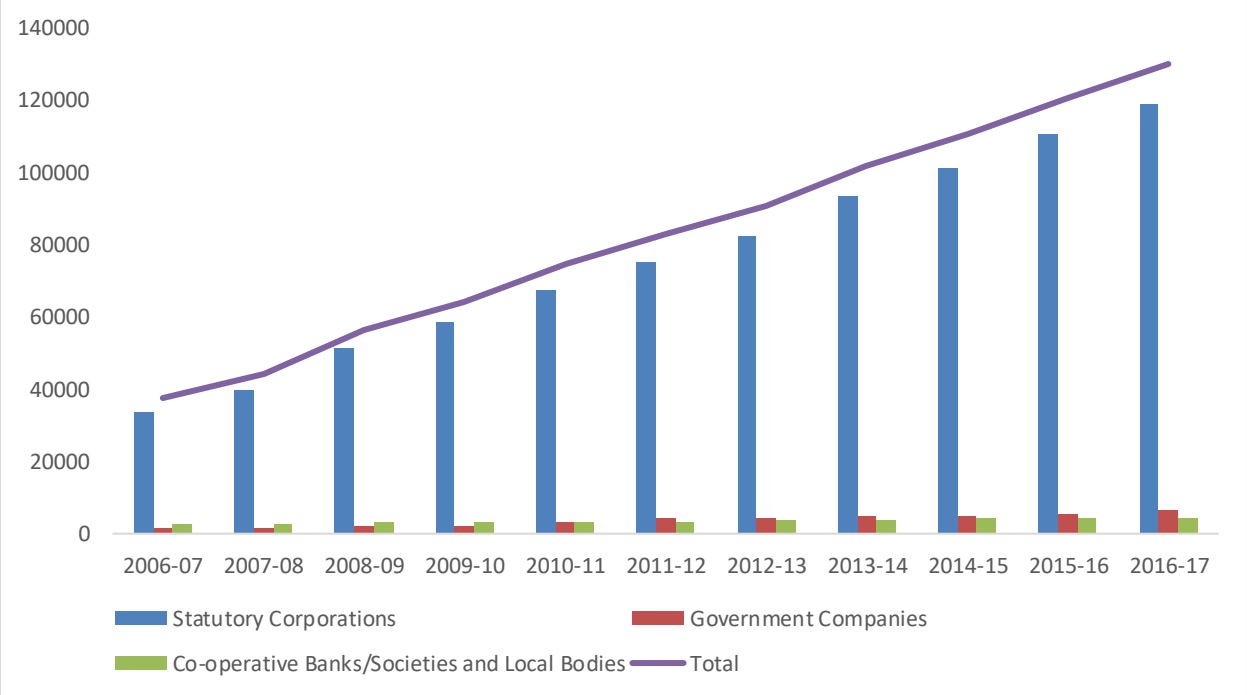
The long term trends on the state investments in Public Sector Undertakings are given in Table 3.8. Even when these firms generate a very meager dividends and profits, the investment kept on increasing in these firms. A major portion of the investments are in the Statutory corporations many of them are loss making entities. Figure 3.7 clearly depicts that investment in statutory corporations has shown a steady increase and have more than tripled during the period of our analysis. The government companies also recorded a similar increase while the pace of growth in co-operative banks and societies and local bodies are relatively low.

Table 3.8: Total Investment at the end of year in Public Sector Undertakings (Rs. Crores)

	Statutory Corporations	Government Companies	Co-operative Banks/Societies and Local Bodies	Total
2006-07	33428.32	1509.00	2577.80	37531.49
2007-08	39897.66	1627.86	2714.37	44256.26

	Statutory Corporations	Government Companies	Co-operative Banks/Societies and Local Bodies	Total
2008-09	51235.57	2124.68	2979.92	56368.38
2009-10	58601.71	2361.92	3202.58	64192.68
2010-11	67531.34	3444.26	3379.47	74391.39
2011-12	75358.66	4139.52	3471.50	83016.00
2012-13	82535.77	4486.93	3608.82	90677.84
2013-14	93265.06	4796.44	3755.23	101867.20
2014-15	101429.24	5034.85	4157.13	110671.69
2015-16	110582.23	5357.46	4320.81	120310.97
2016-17	119172.06	6440.86	4320.40	129983.79

Figure 3.7: Investment at the End of the Year in PSUs (in Cr)

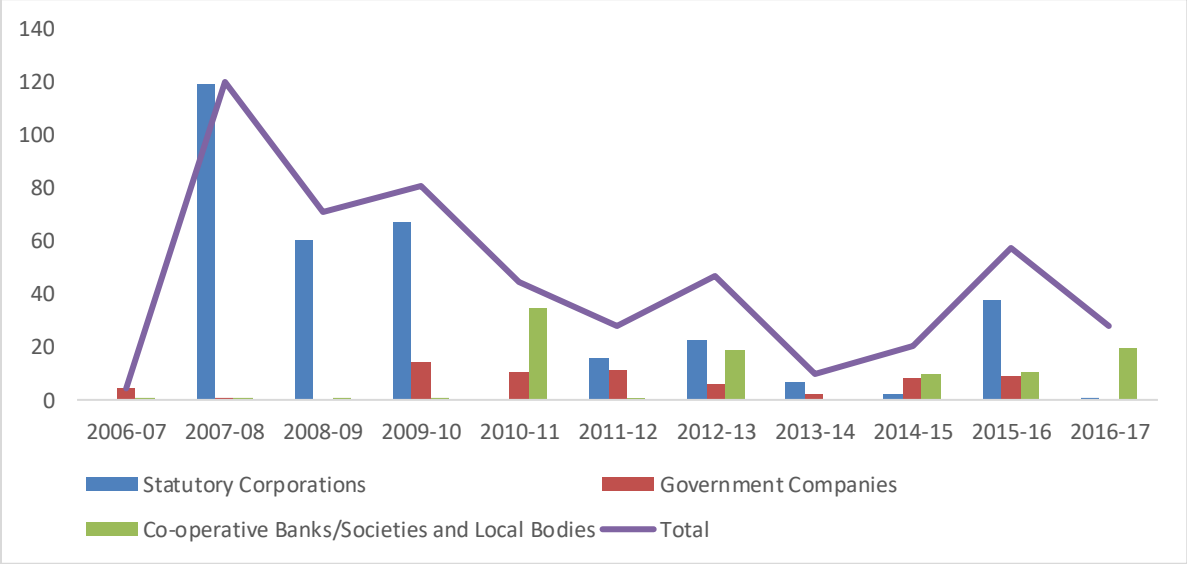


The disaggregate analysis of dividends and profits indicate a trend of declining dividends in all categories of public sector undertakings in the state. Major reforms are required on the state Public Sector Undertakings, otherwise they will remain as while elephants eating the public money. A detailed analysis of the working of the PSUs are undertaken in the forthcoming chapters.

Table 3.9: Dividend/ Interest Received During the Year from PSUs (in Cr)

Year	Statutory Corporations	Government Companies	Co-operative Banks/Societies and Local Bodies	Total
2006-07	0	4.29	0.03	4.34
2007-08	119.25	0.55	0.03	119.86
2008-09	59.95	0	0.01	71.16
2009-10	66.70	14.15	0.02	80.88
2010-11	0	10.14	34.36	44.52
2011-12	16.08	11.33	0.76	28.19
2012-13	22.52	5.71	18.73	47.00
2013-14	7.00	2.40	0	9.43
2014-15	2.32	8.11	10.00	20.43
2015-16	37.87	9.12	10.25	57.27
2016-17	0.25	0	19.45	27.91

Figure 3.8: Dividend/ Interest Received During the Year from PSUs (Cr)



Departmentally managed commercial undertakings

Activities of quasi-commercial nature are performed by the departmental undertakings of certain government departments. Table 3.10 gives the details of such units. The maximum numbers of units are in the agriculture, animal husbandry, diary development and fisheries department. These undertakings continue to be largely loss making. The amounts of loss have started coming down from 2012-13 onwards but the quantum of loss is still huge for this enterprise. The undertakings in Food and Civil Supplied too recorded losses in all the years. Only the undertakings in the revenue and forest department could make a profit.

Table 3.10: Departmentally Managed Commercial Undertakings

AGRICULTURE, ANIMAL HUSBANDRY, DAIRY DEVELOPMENT & FISHERIES					
Year	**Total Nos.**	**No. of Profit Making Units**	**Govt. Capital (Mean) Lakh**	**Turnover (in Lakh)**	**Net proft /Loss (in Lakh)**
2006-07	46	5	31934.45	61232.2	-12461.45
2007-08	46	4	32359.79	60225.5	-12286.96
2008-09	46	5	34824.81	52664.9	-13451.23
2009-10	46	5	57721.22	42520.1	-17882.44
2010-11	46	3	43875.44	41498.1	-29472.34
2011-12	46	5	44841.22	31461.8	-35892.7
2012-13	46	3	2611.87	4413.74	-1581.91
2013-14	46	4	3465.57	3291.95	-2064.97
2014-15	46	5	3838.17	4247.46	-2306.42
2015-16	46	5	3964.5	3798.75	-1825.32
REVENUE AND FORESTS DEPARTMENT					
Year	**Total Nos.**	**No. of Profit Making Units**	**Govt. Capital (Mean) Lakh**	**Turnover (in Lakh)**	**Net proft /Loss (in Lakh)**
2006-07	1	1	1857.85	826.24	383.32
2007-08	1	1	1857.85	826.24	383.32
2008-09	1	1	1857.85	826.24	383.32
2009-10	1	1	1857.85	826.24	383.32
2010-11	1	1	1857.85	826.24	383.32
2011-12	1	1	1857.85	826.24	383.32
2012-13	1	1	1857.85	826.24	383.32
2013-14	1	1	1857.85	826.24	383.32
2014-15	1	1	1857.85	826.24	383.32
2015-16	1	1	1857.85	826.24	383.32

FOOD, CIVIL SUPPLIES AND CONSUMER PROTECTION DEPARTMENT					
Year	**Total Nos.**	**No. of Profit Making Units**	**Govt. Capital (Mean) Lakh**	**Turnover (in Lakh)**	**Net proft /Loss (in Lakh)**
2006-07	2	1	81347.05	114571	-646.06
2007-08	2	1	88187.45	116408	-6617.81
2008-09	2	1	47103.41	99799.2	-4317.83
2009-10	2	1	96969.72	154060	-6538.53
2010-11	2	1	127564.92	154060	-16422.46
2011-12	2	0	146635.78	128775	-12035.16
2012-13	2	1	146635.78	253217	-12035.16
2013-14	2	1	146635.78	253216.73	-12035.16
2014-15	2	1	146635.78	253216.73	-12035.16
2015-16	2	1	183975.51	248559.41	-6765.77

Major Findings

- Huge decline in the non-tax revenue as a percentage of GSDP.
- The Cost Recovery rate of the services in the state is very low and kept declining over a period of time. Marginal improvements were recorded in the social services but the economic and general services recorded a continuous fall in recovery rates.
- Majority of the Public Sector Units are under loss and the amount of dividends and profits realised is very low. Statutory corporations lead the list of loss making entities. But the government kept on increasing its investment in PSU's.

Chapter - 4
TOTAL EXPENDITURE: TREND AND PATTERN

4.1: Total Expenditure: Pattern and Trend

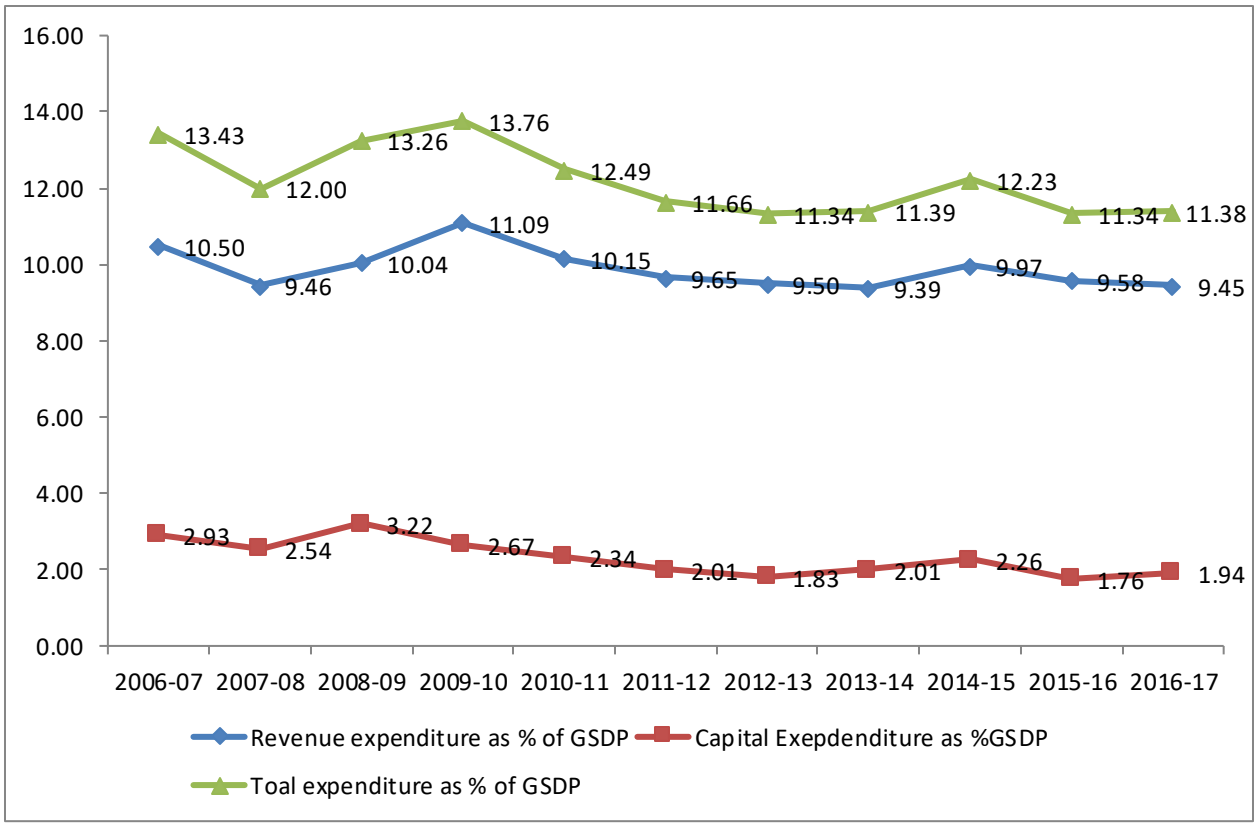
The Total Expenditure of the government of Maharashtra indicates the size of the budget. In the standard classification of budget, the total expenditure is classified into revenue expenditure and capital expenditure. Another classification, that is relevant for a developing economy like India, is the classification of expenditure into Development Expenditure and Non- Development Expenditure. We first analyze the total expenditure and its trends for the period 2006-07 to 2015-16. Details are given Table 4.1 and Figure 4.1. Total Expenditure as a percentage of GSDP has shown a declining trend over a period of time in Maharashtra. This indicates that the government expenditure has recorded a slow pace compared to the income growth of the state. The state's average total expenditure stands at 12.25 percent of GSDP during the 2006-07 to 2017-18 (RE). The share has declined from 13.11 percent during the 12th FC period to 11.82 per cent during the 13th FC period and further declined to 11.34 per cent of GSDP during the 14th FC period. Major proportion (more than 80 per cent) of the government expenditure is revenue expenditure. Government spends hardly less than 20 percent of its expenditure as capital outlay. Figure 4.1 clearly indicates the trend decline in total expenditure as a percent of GSDP and the corresponding decline in revenue and capital expenditure. The degree of decline is more severe on capital expenditure compared to revenue expenditure. This will have serious implications on the future development of the state.

Table 4.1. Total Expenditure and its Components: Long term trend (Rs. Crores)

	Year	Revenue Expenditure	Capital Expenditure	Total Expenditure	Total Expenditure as Percent of GSDP
12th FC	2006-07	61,385 (78.19)	17,121 (21.81)	78,506	13.43
	2007-08	64,780 (78.81)	17,414 (21.19)	82,194	12.00
	2008-09	75,694 (75.71)	24,278 (24.29)	99,972	13.26
	2009-10	94,916 (80.59)	22,865 (19.41)	117,781	13.76
	Average	**74,194 (78.33)**	**20,419 (21.67)**	**94,613**	**13.11**
13th FC	2010-11	106,459 (81.26)	24,546 (18.74)	131,005	12.49
	2011-12	123,554 (82.80)	25,674 (17.20)	149,228	11.66
	2012-13	138,736 (83.84)	26,733 (16.16)	165,469	11.34
	2013-14	154,902 (82.40)	33,080 (17.60)	187,982	11.39
	2014-15	177,553 (81.54)	40,195 (18.46)	217,748	12.23
	Average	**140,241 (82.99)**	**30,046 (17.01)**	**170,287**	**11.82**
14th FC	2015-16	190,374 (84.50)	34,913 (15.50)	225,287	11.34
	2016-17	213,229 (82.99)	43,693 (17.01)	256,922	11.38
	2017-18 (RE)	272,448 (84.18)	52,149 (16.11)	323,652	12.77
	Average	**225,350 (83.89)**	**43,585 (16.21)**	**268,620**	**11.34**
2006-07 to 2017-18(RE)		**139,503 (81.40)**	**30,222 (18.62)**	**169,646**	**12.25**

Note: Figures in parenthesis are as a percent of Total Expenditure
Source: Government of Maharashtra, Budget documents.

Figure 4.1. Government Expenditure as a percent of GSDP



The declining trend is a result of the slow growth rate of government expenditure compared to the GSDP growth as visible from Table 4.2. The government expenditure recorded an average growth rate of only 12.51 percent compared to GSDP growth rate of 13.51 per cent during the period 2006-07 to 2017-18 (RE). While revenue expenditure recorded a growth rate of 13.27 percent, the capital expenditure could grow only at 10.45 percent. The decline in the growth rate of capital expenditure during the first year of the 14th FC period has resulted in a decline of the overall expenditure to 10.45 per cent.

Table 4.2. Growth rate of Expenditure

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure	GSDP
12th FC	15.92	11.77	14.71	13.59
13th FC	13.36	12.26	13.09	15.92
14th FC	15.67	9.38	14.49	12.50
2006-07 to 2017-18 (RE)	13.27	10.45	12.51	13.51

4.2. Composition of Expenditure

Having analyzed the aggregate expenditure in the previous section, we will look into the disaggregate components of revenue and capital expenditure in order to have a broader understanding of the composition of state expenditure. In terms of the composition, within revenue expenditure, the share of general services has come down over a period of time, economic services remained stagnant, while that of social services have increased. The decline in the general services expenditure is mainly due to the decline in the interest payments. The expenditure on the head Pension has increased while the proportion of salary after showing an increase till 2013-14 has come down during the last two years. Among the Social Services, the shares of education and health care have shown marginal improvement over the period of time. The expenditure on irrigation, diary and power has come down drastically, but there was an increase on transport expenses, that kept the expenditure on economic services constant.

Table 4.3. Composition of Revenue Expenditure (Per Cent)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
General Services	40.90	36.81	35.12	33.79	35.42	34.68	34.36	34.85	34.07	35.93	35.98
Salary	32.39	35.32	32.34	36.31	39.21	36.80	38.41	38.56	34.99	35.96	33.80
Interest	18.99	18.84	16.25	14.87	14.70	14.17	13.75	13.69	13.50	13.77	13.23
Pension	5.77	6.47	6.81	6.46	8.34	8.50	8.27	8.38	8.03	8.66	8.94
Social Services	38.38	41.33	41.02	43.20	45.35	44.36	44.72	45.76	43.34	48.88	46.10
Education	20.06	21.06	21.73	23.40	25.31	24.18	24.40	24.69	22.36	24.02	22.84
Health	3.22	3.70	3.64	3.46	3.74	3.63	3.86	4.00	4.43	5.44	4.24
Economic Services	19.06	20.43	22.21	21.46	18.12	20.13	19.86	18.07	21.23	21.27	19.19
Irrigation	2.47	2.54	2.56	2.46	2.37	2.19	1.86	1.77	1.40	1.48	1.51
Dairy	1.17	0.92	0.90	0.61	0.48	0.43	0.45	0.41	0.21	0.26	0.18
Power	4.24	5.27	3.71	4.36	3.40	4.47	3.94	3.70	6.13	4.92	2.70
Transport	1.13	3.48	3.56	3.40	3.21	3.40	3.04	3.05	3.13	3.25	2.47

Source: Government of Maharashtra, Budget documents.

Economic services claim bulk of the capital expenditure in the government's budget. Irrigation sector still dominates the capital expenditure of Maharashtra. But its share has come down from 31.09 percent to 24.58 over the period 2006-07 to 2016-17. The share of power sector after showing an increase till 2012-13 has recorded a decline since then. Transport sector on the other

hand has shown an increase from 8.62 per cent to 11.63 per cent with wide fluctuations. The share of Social Services has doubled over the period of 2006-07 to 2016-17. But even with this increase, the capital expenditure on social services is hardly 11.18 per cent of the overall capital expenditure. The general services expenditure also increased over the corresponding period to reach 5.70 per cent from 1.42 percent.

Table 4.4. Composition of Capital Expenditure (Per Cent)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
General Services	1.42	1.96	1.89	3.11	2.21	3.10	3.37	3.14	2.15	5.70	4.32
Social Services	5.09	4.26	8.50	6.47	5.05	8.17	6.82	6.87	4.87	11.18	10.74
Education	0.66	0.86	1.59	0.77	0.57	0.60	0.62	0.31	0.24	0.81	0.33
Health	0.45	0.51	1.40	0.94	0.74	1.58	1.72	1.67	1.17	2.57	1.40
Economic Services	52.44	59.75	67.34	66.64	65.92	58.37	54.88	50.51	41.55	64.54	55.90
Irrigation	31.09	38.15	46.41	35.06	37.20	31.28	27.03	23.82	17.44	24.58	19.35
Power	4.67	4.62	3.70	7.47	8.58	7.25	7.23	5.01	3.34	4.42	2.74
Transport	8.62	8.76	8.89	14.25	10.22	10.96	11.67	13.87	9.20	15.03	11.63

Source: Government of Maharashtra, Budget documents.

4.3 Committed Expenditure

The committed expenditure of the state government on revenue account mainly consists of interest payments, expenditure on salaries and wages and pensions. These are the expenditure government have the compulsion to make provision every year. From Table 4.5. we can infer that around 60 percent of the revenue expenditure of the state is going as committed expenditure. 35.15 per cent are on salaries, 9.20 percent on pensions and interest payments take away 14.22 percent of the revenue expenditure. The committed expenditure has increased from 59.58 percent during the 12th FC period to 61.16 per cent during the 13th FC period mainly due to increase in the salary and pension expenses. A major positive development during the period of 14th FC period is the decline in salary expenses. This is mainly due to the ban on government of Maharashtra recruitment since 2015. Expenses on pension remained stagnant during this period.

Interest payments as a proportion of revenue expenditure have also shown a positive scenario. It has come down from 18.08 percent to 12.99 percent of the total revenue expenditure

Table 4.5: Committed Expenditure of Government of Maharashtra (Rs. Crores)

Year	Revenue Expenditure	Salary	Pension	Interest Payments	Total of committed expenditure
12th FC	74194	25427 (**34.09**)	5520 **(7.40)**	13195 **(18.08)**	44141 **(59.58)**
13th FC	140241	52473 **(37.60)**	13514 **(9.60)**	19480 **(13.96)**	85467 **(61.16)**
14th FC	225350	74780 **(33.18)**	21474 **(9.53)**	29274 **(12.99)**	125528 **(55.70)**
2006-07 to 2017-18 (RE)	139503	49034 **(35.15)**	12839 **(9.20)**	19834 **(14.22)**	81707 **(58.57)**

Committed expenditure as a per cent of the revenue receipts of the state is a good indicator of the foreseen expenditure of the government. Total committed expenditure as a percent of revenue receipts has come down during the period 2006-07 to 2017-18(RE) with some fluctuations. It has increased from 59.58 per cent during 12th FC period to 61.16 per cent during the 13th FC but has come down to 56.19 per cent during the 14th FC award period. A positive development here is that the interest payments as a percent of total revenue receipts have continuously recorded a decline. It has come down from 17.15 per cent to 14.24 per cent during the 13th FC period compared to 12th FC period and further came down to 13.63 per cent during the 14th FC period.

Table 4.6: Committed Expenditure as a Percentage of Revenue Receipts

FC	Year	Salary	Pension	Interest Payments	Total Committed Expenditure as a percentage of Revenue Receipts
12th FC	2006 - 2007	31.97	6.62	19.27	58.62
	2007 - 2008	28.75	5.88	16.25	62.51
	2008 - 2009	30.12	7.79	16.03	57.91
	2009 - 2010	39.66	7.99	17.07	59.27
	Average	**32.62**	**7.07**	**17.15**	**59.58**
13th FC	2010 - 2011	39.43	9.34	14.78	63.20
	2011 - 2012	37.49	9.63	14.43	60.42
	2012 - 2013	37.28	9.40	13.34	61.84
	2013 - 2014	39.87	10.14	14.15	62.06
	2014 - 2015	37.56	10.51	14.49	58.28
	Average	**38.33**	**9.80**	**14.24**	**61.16**
14th FC	2015 - 2016	36.99	10.08	13.93	59.29
	2016-2017	35.21	10.63	13.94	57.39
	2017-18 (RE)	32.54	9.32	13.01	51.88
	Average	**34.91**	**10.01**	**13.63**	**56.19**

The committed expenditure of the state has recorded a growth rate of 12.54 per cent during the period 2006-07 to 2017-18 (RE) slightly lower than the growth rate of total revenue expenditure. The interest payments have recorded the lowest growth of 9.30 per cent followed by salary at 13.12 per cent and pension expenses are growing at 16.36 per cent as shown in Table 4.7.

Table 4.7: Growth rate of Expenditure

Year	Revenue Expenditure	Salary	Pension	Interest Payments	Total of committed expenditure
12th FC	15.92	20.96	19.53	7.52	16.37
13th FC	13.36	12.67	20.60	10.10	13.03
14th FC	15.67	10.59	11.45	11.91	11.00
2006-07 to 2017-18 (RE)	13.27	13.12	16.36	9.30	12.54

It is important to not only view the overall proportions and growth rates of revenue and capital expenditure, but also to identify the exact components within the revenue and capital expenditure that exhibit high or low growth rates. We now take a detailed look at the Developmental and Non-Developmental Expenditure components within the Revenue and Capital Accounts.

4.4. Developmental and Non-Developmental Expenditure: Patterns and Trends

Government Expenditure can also be classified as Developmental and Non-Developmental Expenditure. Developmental Expenditure refers to the expenditure undertaken by the Government for providing Social Services (Education, Public Health, Family Welfare, Water Supply and Sanitation, etc.) or Economic Services (Agriculture, Rural Development, Irrigation, Transport, etc.). In other words, expenditure of the Government on creating economic (or social) growth or development is called as Developmental Expenditure. The expenditure on social and economic services may be towards creation of relevant assets, in which case it would be classified as Developmental Expenditure under the Capital Account. Optionally, the expenditure on social and economic services might be in the nature of recurrent maintenance expenses, in which case it will be classified as Developmental Expenditure under the Revenue Account. Thus, in the budget documents, we find Developmental and Non-Developmental Expenditure to be classified in the Revenue Account and Capital Account separately.

We firstly summarize the overall trends in the Total Developmental and Non-Developmental Expenditure. From Table 4.8 it is clear that on an average about 67.85 per cent of the total

expenditure are on development heads and the remaining 32.15 per cent are non-developmental expenditure during the period 2006-07 to 2015-16. The proportions have remained almost the same throughout the last three FC award periods (Figure 4.2). Both development and non-development expenditure had almost equal growth as is clear from Table 4.9.

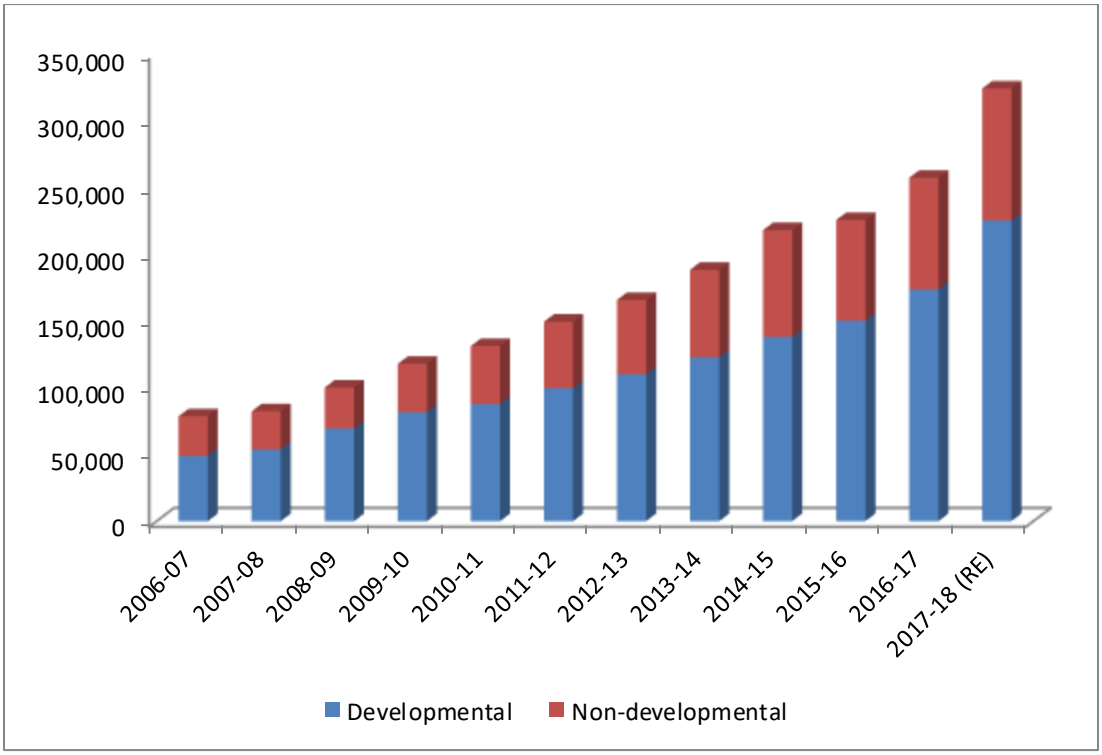
Table 4.8: Development and Non Development Expenditure (Rs. Crores)

FC	Year	Developmental	Non-developmental	Total
12th FC	2006-07	48,693 (62.02)	29,813 (37.98)	78,506
	2007-08	53,648 (65.27)	28,546 (34.73)	82,194
	2008-09	69,263 (69.28)	30,709 (30.72)	99,972
	2009-10	81,535 (69.23)	36,246 (30.77)	117,781
	Average	**63,285 (66.45)**	**31,329 (33.55)**	**94,613**
13th FC	2010-11	87,678 (66.93)	43,328 (33.07)	131,005
	2011-12	99,417 (66.62)	49,811 (33.38)	149,228
	2012-13	109,884 (66.41)	55,585 (33.59)	165,469
	2013-14	122,589 (65.21)	65,393 (34.79)	187,982
	2014-15	137,731 (63.25)	80,016 (36.75)	217,748
	Average	**111,460 (65.68)**	**58,827 (34.32)**	**170,287**
14th FC	2015-16	149,912 (66.54)	75,375 (33.46)	225,287
	2016-17	173,425 (67.50)	83,496 (32.50)	256,922
	2017-18 (RE)	224,965 (69.51)	98,687 (30.49)	323,625
	Average	**182,767 (67.85)**	**85,853 (32.15)**	**268,611**

Table 4.9: Growth rate of Development and Non Development Expenditure

Year	Development Expenditure	Non-development Expenditure	Total
12th FC	19.00	7.12	14.71
13 FC	11.07	17.22	13.09
2006-07 to 2015-16	12.48	12.58	9.65

Figure 4.2: Developmental and Non-Developmental Expenditure (Rs.Crores)



4.4. Components of Developmental Expenditure: Social Sector Spending

We have examined the patterns and trends in Developmental Expenditure in the previous section and came to know that expenditure on Developmental activities is 66 per cent of the Total Expenditure from 2006-07 to 2017-18 (RE). A higher proportion of Developmental Expenditure is routed through the Revenue Account. The Developmental spending carried out on Revenue Account is 4.3 times higher than that carried out on the Capital Account.

In this section, we examine the pattern and trend in one of major component of Developmental Expenditure, namely Social Sector Expenditure. It includes expenditure on activities such as education, public health and sanitation, family welfare, etc.

Social Sector Expenditure:

Social sector spending is an important component within the developmental spending of the government of Maharashtra. In this section, we take a disaggregated view of only this component of developmental expenditure.

Table 4.10: Social Expenditure (Rs. crores), Summary Statistics, Trend Growth Rate, Elasticity and Proportion to Dev Expenditure, Total Expenditure and GSDP

Period	Average Social Service Expenditure	Trend Growth Rate	Elasticity	Share in Development Expenditure	Share in Total Expend	Share in GSDP
12 FC	29000	0.04	1.60	45.62	30.33	3.98
13 FC	57115	10.45	0.79	51.33	33.72	3.98
14 FC	95166	11.44	0.93	50.44	34.48	4.16
2006-07 to 2017-18	57256	14.23	1.04	49.77	33.08	4.04

Of the Developmental Expenditure, around 50 per cent of the expenditure is social sector spending. It is interesting to note that the share of social sector spending in total expenditure has marginally increased from the 13th FC to the 14th FC. When the 14th FC increased the share of the States in Central taxes to 42 per cent, one of the apprehensions of policy makers was that the additional resources would not be used for socially relevant activities by the States. There was thus great apprehension about the allocative efficiency that State fiscal authorities would exhibit after the 14th FC[1]. However, we find that the share of social sector spending within the Development Expenditure of Maharashtra actually rises, albeit marginally, in the 14th FC period.

Social sector expenditure shows a trend growth rate of 14.23 per cent during the period 2006-07 to 2017-18 (RE). The growth rate of this component is actually higher in the 14th FC period as compared to the 13th FC period.

Having said that, it is important to point out that social sector spending in Maharashtra has been lesser than that done in other States. An RBI report[2] compiles the social sector spending across 19 "Non-Special Category States" from 2010 to 2013. It concludes that the average social sector spending done by these States stood at 7 per cent of respective GSDPs. In the same time period (broadly the time period under the 13th FC), we find that social sector spending in Maharashtra stands at 4 per cent of GSDP. Thus, whilst it is encouraging to note that social sector spending as a percentage of developmental spending in Maharashtra has been increasing, the fact is that Government of Maharashtra is not spending enough on the social sector.

The elasticity of social sector spending is slightly higher than unity. This implies that as the GSDP increases, the Government of Maharashtra increases its spending on the social sector more than proportionately. However, in downswing times, when the GSDP growth rate reduces, the Government reduces the social sector spending more than proportionately. Thus, the social sector stands to lose out especially during downswing periods, when such spending should actually be enhanced.

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[1] Social Sector Spending of States Pre- and Post- 14th Finance Commission, Alok Kumar, Ajay Nema, JagatHazarika, HimaniSachdeva, NitiAayog Report, http://niti.gov.in/writereaddata/files/document_publication/Social%20Sector%20Expenditure%20of%20States_%20Paper.pdf

[2] Cyclicality of Social Sector Expenditures: Evidence from Indian States, BalbirKaur, SangitaMisra and Anoop K. Suresh, RBI Report, https://rbi.org.in/scripts/bs_viewcontent.aspx?Id=3050

We now examine how much of the social sector spending is routed through the Revenue and Capital Accounts.

Table 4.11: Social Expenditure (In Rs. Crore) and Share in Revenue and Capital Account

FC	Year	Revenue	Capital	Total
12 FC	2006-07	20609 (96.20)	813 (3.80)	21423
	2007-08	24358 (97.31)	673 (2.69)	25031
	2008-09	28130 (93.48)	1961 (6.52)	30092
	2009-10	38054 (96.45)	1400 (3.55)	39455
	Average	**27788** (95.86)	**1212** (4.14)	**29000**
13 FC	2010-11	44110 (97.46)	1151 (2.54)	45261
	2011-12	49172 (96.28)	1902 (3.72)	51074
	2012-13	55235 (97.15)	1619 (2.85)	56854
	2013-14	62280 (96.66)	2152 (3.34)	64432
	2014-15	66138 (97.33)	1815 (2.67)	67953
	Average	**55387** (96.97)	**1728** (3.03)	**57115**
14 FC	2015-16	82116 (95.67)	3718 (4.33)	85834
	2016-17	89174 (97.18)	2584 (2.82)	91758
	2017-18 (RE)	104704 (97.03)	3202 (2.97)	107906
	Average	**91998** (96.63)	**3168** (3.37)	**95166**
2006-07 to 2017-18	**Average**	55340 (96.52)	1916 (3.48)	57256

Over the entire period from 2006-07 to 2015-16, 96.40 per cent of the social sector spending is carried out on the Revenue Account. A bland interpretation of this trend is that even if social sector spending as a proportion of Developmental Expenditure has risen, the rise in spending is not associated with a proportional increment in social sector assets. However, a deeper examination of the accounting standards of Centre and States gives an interesting counter-view. States apply for and budget for Centrally Sponsored social sector schemes; State share of the spending is often recorded as a Revenue Account Expenditure. For example, under MNREGA, the guidelines state that 25 per cent of the cost of semi-skilled and skilled labour and machinery has to be borne by the States. Such expenditures are recorded as Revenue Account spending, but they have an important bearing on capital creation in the State in the long run. Thus, even if the apparent spending on social sector assets as mentioned in the Capital Account stands at only 3.50 per cent of the total social sector expenditure, the actual asset creation could be higher.

Another related issue here is that of compliance with the FRBM targets. The FRBM Act envisages that the Revenue Account deficit be brought down to zero over a period of time. This puts pressure on social sector spending, most of which is accounted for under the Revenue Account. We offer a deeper analysis of this problem in Section 6 of this report.

Table 4.12: Trend Growth Rate of Social Sector Spending within Revenue and Capital Account

FC	Social Sector Spending in Revenue Account	Social Sector Spending in Capital Account
12 FC	19.83	27.00
13 FC	10.46	10.34
14 FC	12.15	-7.47
2006-07 to 2017-18	14.32	12.12

The growth rate of social sector spending in the Revenue Account stands at about 14.32 per cent whereas that in the Capital Account stands at about 12.12 per cent only as given in Table 4.12

Table 4.13: Elasticity of Social Sector Spending within Revenue and Capital Account

FC	Elasticity: Social Sector Spending in Revenue Account	Elasticity: Social Sector Spending in Capital Account
12 FC	1.58**	2.01
13 FC	0.78***	0.87*
14 FC	0.99*	-0.64
2006-07 to 2017-18	1.05***	0.87***

The elasticity of social sector spending within the Revenue Account stands at 1.05 over the entire period from 2006-07 to 2017-18(RE) while that of capital account is less than one.

Components of Social Sector Expenditure

In this section, we take a disaggregated view of the seven components of social sector spending as mentioned in the Budget documents. This helps us to compare the trend and pattern in Education, Medical and Public Health, Water Supply and Sanitation, Housing, Urban Development, Welfare of Scheduled Castes and Tribes and Social Security and Welfare. The following tables give the summary statistics for the components as well as the shares of the expenditure on the components within the total social sector expenditure undertaken by the state.

Table 4.14: Share of Expenditure on different components within the Total Social Sector Expenditure

Share in Social Sector Spending							
Period	**Education**	**Medical and Public Health**	**Water Supply and Sanitation**	**Housing**	**Urban Development**	**Welfare of SC/ ST**	**Social Security and Welfare**
12 FC	56.45	9.66	4.92	3.99	9.30	11.73	3.95
13 FC	59.31	10.35	2.45	3.19	7.81	12.31	4.59
14 FC	52.23	12.36	5.22	1.66	10.55	13.29	4.69
2006-07 to 2017-18	56.58	10.62	3.97	3.07	8.99	12.36	4.40

The top three components on which the Government of Maharashtra carries out social sector expenditure are Education, Welfare of SCs/ STs and Medical and Public Health, necessarily in that order. Urban Development is a close fourth. We have already mentioned that the expenditure allocated to social sector as a share within developmental expenditures has risen marginally after the 14th FC recommendations were accepted. Thus, after the united component of transfers increased, the State has chosen to increase the allocation given to the social sector. However, this increment in allocation has not been uniform across various components of social sector spending. Increased allocation to water supply and sanitation is a reflection of the demand-supply gaps in both of the subjects. A World Bank Report[3] on Water Supply and Sanitation in Maharashtra states that the State has managed to cover more than 98000 habitations with water supply systems. However, every year at least 3-5 habitations slip into "Partially covered" status from a "Fully covered" status. This requires new investments and augmentation of existing systems, both of which require huge expenditures. As of 2011, the Water Supply and Sanitation Department claims that 72 per cent of the households had access to functioning toilets.

[3] Maharashtra Rural Water Supply and Sanitation Program (2014-2020): A Technical Assessment, World Bank Report, February 2014

Re-allocation of expenditure towards urban development is in sync with the huge urbanization trend witnessed in Maharashtra in the past decade. According to Population Census figures, the urban population in Maharashtra grew by 23.6 per cent between 2001 and 2011.

We now examine the expenditure[4] on various social sectors as a percentage of GSDP.

Table 4.15: Percentage of expenditure on social sector components to GSDP

FC	Education	Medical and Public Health	Water Supply and Sanitation	Housing	Urban Devmt	Welfare of SC/ ST	Social Security and Welfare
12 FC	2.25	0.39	0.24	0.13	0.30	0.43	0.15
13 FC	2.36	0.40	0.10	0.16	0.36	0.49	0.18
14 FC	2.20	0.49	0.19	0.06	0.37	0.53	0.20
2006-07 to 2017-18	2.28	0.42	0.17	0.12	0.34	0.48	0.18

Maharashtra spends 2.28 per cent of GSDP on education, 0.48 per cent of GSDP on welfare of SCs/ STs and OBCs and 0.42 per cent of GSDP on medical and public health.

Table 4.16: Trend Growth Rate of social sector components

FC	Education	Medical and Public Health	Water Supply and Sanitation	Housing	Urban Devmt	Welfare of SC/ ST	Social Security and Welfare
12 FC	**19.64**	**18.22**	**-14.21**	**41.38**	**32.50**	**20.74**	**21.89**
13 FC	**10.13**	**17.08**	**07.02**	**(14.21)**	**06.67**	**15.11**	**09.83**
14 FC	**7.77**	**12.60**	**7.57**	**38.67**	**28.09**	**15.10**	**-4.35**
2006-07 to 2017-18	**13.48**	**17.03**	**12.94**	**4.87**	**15.54**	**15.90**	**15.87**

[4] Maharashtra Budget Analysis 2018-19, PRS Legislative Research, www.prsindia.org/administrator/uploads/general/1520930143~~Maharashtra%20Budget%20Analysis%202018-19.pdf

Table 4.16 indicates the clear trend that the education and health care expenditure on Maharashtra has recorded a slower growth rate during the 14th FC period compared to the previous FC periods. Higher growth rates are recorded in the sub category of Housing and Urban Development. On Social Security and Welfare there is a negative growth rate, which is a worrying factor for a state that has very weak social security network.

We next compute the elasticities of the various components of social sector spending with respect to the GSDP.

Table 4.17: Elasticity of expenditures of various components of social sector with respect to GSDP

Elasticity							
FC	**Education**	**Medical and Public Health**	**Water Supply and Sanitation**	**Housing**	**Urban Devmt**	**Welfare of SC/ ST**	**Social Security and Welfare**
12 FC	1.15**	1.45***	-1.05	3.39***	2.61**	1.62**	1.70**
13 FC	0.76***	1.25***	0.44	-0.93*	0.51***	1.14***	0.72***
14 FC	0.63*	0.99	0.61	3.11	2.31*	1.23*	-0.35
2006-07 to 2017-18 (RE)	0.99***	1.24***	0.89***	0.38*	1.11***	1.16***	1.16***

It is very interesting to note that the expenditures on education, health and welfare of SC/ST/OBC, and social security and welfare, all of which are very important in terms of protecting the vulnerable sections of society, show elasticity co-efficients that are higher than one. This implies that when the GSDP increases by one percent, the Government of Maharashtra increases the expenditure for vulnerable sections more than proportionately. However, in downswing periods, when the vulnerability quotient of the population rises, the Government of Maharashtra reduces the expenditure on these very sectors more than proportionately. We have already shown in Table 4.13that the overall elasticity for social sector spending stands at 1.05. Thus, Government of Maharashtra tends to reduce the overall social sector spending more than

proportionately in downswings. However, maximum reduction takes place through cutting budgets allocated to the vulnerable sections of the society, which is worrisome. Thus, allocative efficiency of the budget in terms of protection of the vulnerable sections of society depends on the GSDP cycle; budgets reflect high allocative efficiency in periods of high growth, but show poor efficiency in downswings.

Quality of Expenditure

The availability of better social and physical infrastructure in the state generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects viz. adequacy of expenditure (adequate provisions for providing public services), efficiency of expenditure and its effectiveness (assessment of outlay-outcome relationship for selected services).

Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the state governments are largely state subjects. Enhancing human development levels requires the states to step up their expenditure on key social services like education, health care and sanitation. Low fiscal priority is attached to particular sector if the ratio of expenditure under a category to aggregate expenditure is lower that the respective national average. The Fiscal priorities given by the state government for development expenditure, social expenditure and capital expenditure during selected years are given in Table 4.18. The general category state average has recorded a huge decline in the aggregate expenditure as a percentage of GSDP during the period 2007-08 to 2015-16. Maharashtra's expenditure has also declined but less than proportionately than that of other states average. When it comes to development expenditure as a percentage of aggregate expenditure Maharashtra's share have come down as compared to that of the general category states. The social sector expenditure within the total expenditure has increased in the case of general category states and Maharashtra as well. Maharashtra on average spend more than 3 per cent of aggregate expenditure on social sector compared to the general category states on social sector during 2015-16, which is a welcome sign for the overall development of the state. The Capital expenditure as a per cent of total expenditure has declined in the case of Maharashtra as well as the general category states average. Maharashtra spends

only 10.70 per cent of its total expenditure on capital outlay, whereas the general category states average is 14.90 percent, almost 40 percent more than that of Maharashtra in 2015-16. Further, it should be noted that the capital expenditure of Maharashtra have declined from 14.83 per cent to 10.70 per cent during the ten year period of our analysis. This expenditure compression on the capital outlay will adversely affect infrastructure growth and the overall growth of the economy in the long run. Maharashtra's expenditure on Education, Health and Family welfare are slightly better than the average for other general category states.

Table 4.18. Fiscal Priority of Maharashtra State

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education, Sports, Art and Culture/AE	Health and Family Welfare/AE
General Category States Average (Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Maharashtra Average (Ratio) 2007-08	13.11	67.60	35.92	14.83	17.80	3.59
General Category States Average (Ratio) 2015-16	10.10	70.60	36.30	14.90	15.60	4.50
Maharashtra Average (Ratio) 2015-16	10.90	66.70	39.80	10.70	20.10	4.70

AE: Aggregate Expenditure; DE: Development Expenditure
SSE: Social Sector expenditure; CE: Capital expenditure
Development expenditure includes development revenue expenditure, development capital expenditure and loans and advances disbursed

Efficiency of Expenditure use and its effectiveness

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the state government to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods. Apart from improving the allocation towards, development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (GSDP), the better would be the quality of expenditure. Table

4.19 shows the trends in development expenditure. The capital expenditure to total expenditure ratio has declined from 27.78 per cent to 20.50 per cent during the period 2008-09 to 2010-11. The ratio has further come down to 15.10 per cent during 2015-16. This reiterates that a major proportion of the expenditure of the state on social and economic services is being allocated on revenue heads. The expenditure efficiency of the state thus declined over a period of 10 years. The operation and maintenance expenses on the revenue head is improving over a period of time still the major expenditure continues to be on wages and salaries.

Table 4.19 Efficiency of expenditure use in selected social and economic services (in per cent)

Social/Economic infrastructure	2008-09			2010-11			2015-16		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S and W	O & M		S and W	O & M		S and W	O & M
Social Services (SS)									
Education, Sports, Art and Culture	0.79	76.68	0.05	0.52	83.01	0.06	0.30	76.80	0.30
Health and Family Welfare	9.87	63.2	0.01	3.93	73.36	0.01	6.50	50.30	1.30
Water Supply, Sanitation, Housing and Urban Development	10.03	6.47	0.34	4.83	2.72	4.53	9.00	0.60	3.00
Total (SS)	6.24	51.83	0.38	*2.51*	*58.31*	*0.76*	*3.00*	*50.80*	*1.50*
Economic Services (ES)									
Agriculture and Allied Activities	16.89	26.63	0.05	19.98	48.44	0.16	24.40	25.30	0.00
Irrigation and Flood Control	85.32	30.8	0.56	78.36	36.44	20.7	74.50	40.10	27.00
Energy	24.23	0.53	0.02	36.77	0.54	0	12.60	0.20	0.20
Transport	44.52	2.16	1.5	42.33	1.69	3.91	46.00	0.90	32.30
Total (ES)	49.30	17.11	2.77	*45.62*	*21.53*	*3.45*	*33.00*	*16.70*	*6.70*
Total (SS+ES)	27.78	39.63	3.14	**20.50**	**47.81**	**1.53**	**15.10**	**40.00**	**3.10**

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S and W: Salaries and Wages; O & M: Operations and Maintenance

Major Findings

- Better expenditure control in state during the period 2006 to 2016, especially on revenue account. But failed to increase the capital outlay.
- The committed expenditure continues to be very high in the state due to higher interest payments.
- The income elasticity of total expenditure stands at 0.8. This implies that the Expenditure is rigid downwards; even with a cyclical downturn in GSDP, the total expenditure does not reduce proportionately. Social sector spending on education, health, welfare of SC/ST/OBC and family welfare are associated with high elasticities. Thus, during a downswing, the allocations to the vulnerable sections of society decrease more than proportionately, which is worrisome.

CHAPTER - 5

ANALYSIS OF FISCAL AND REVENUE DEFICITS

5.1 Introduction

The ToRs of the Finance Commissions mandate them to recommend grants to cover Revenue Deficits of States. More specifically, most of the earlier FCs were asked to recommend grants to cover the Non-Plan Revenue Deficit (NPRD) of the States. After giving equalizing transfers through tax sharing, grants are given to cover the "projected" Revenue Deficits of States so that minimum levels of services can be provided in each State.

The 14th FC Report stated that it was expecting the State of Maharashtra to run Revenue Account surplusespost devolution of taxes. Hence, no grants were given to cover the post-devolution Revenue Deficit. In fact, we find that the 12th and the 13th FCs too expected Maharashtra to run Revenue Surpluses post devolution of taxes from the Centre. However, the actual facts have been different from the projected Revenue balances given by the FCs. In the time period from 2006-07 to 2015-16, we find that Maharashtra has only run a Revenue Account surplus in 4 years (2006-07, 2007-08, 2008-09, 2012-13), and has run a Revenue Deficit in the other 6 years.

In this chapter, we examine the trends in the revenue and fiscal deficits of the State.

5.2 Definitions

Fiscal deficit is defined as the excess of Total Expenditure over the Total Receipts net of debt receipts of the Government. Thus, Fiscal Deficit (FD) reflects the total borrowing requirements of the Government of Maharashtra.

While this is a very useful indicator in that it indicates the quantum of debt required to balance the accounts, it is often more meaningful to examine the genesis of the FD. To the extent that the proportion of Revenue Deficit (RD) in the overall deficit is high, the debt taken by the Government is used for servicing current year expenses. To the extent that a larger proportion of the FD is created on the Capital Account, it indicates that the debt taken by the Government will

be used for creation of assets. The latter case creates higher possibilities of the debt of the Government being productive and sustainable.

Thus,

FD = (Total Expenditure) - (Revenue Receipts + Non-Debt creating Capital Receipts)

RD = (Revenue Expenditure) – (Revenue Receipts)

Table5.1 and Figure 5.1 show the trends in RD and FD from 2006-07 to 2018-19 in Rs. crores as well as percentage of GSDP.

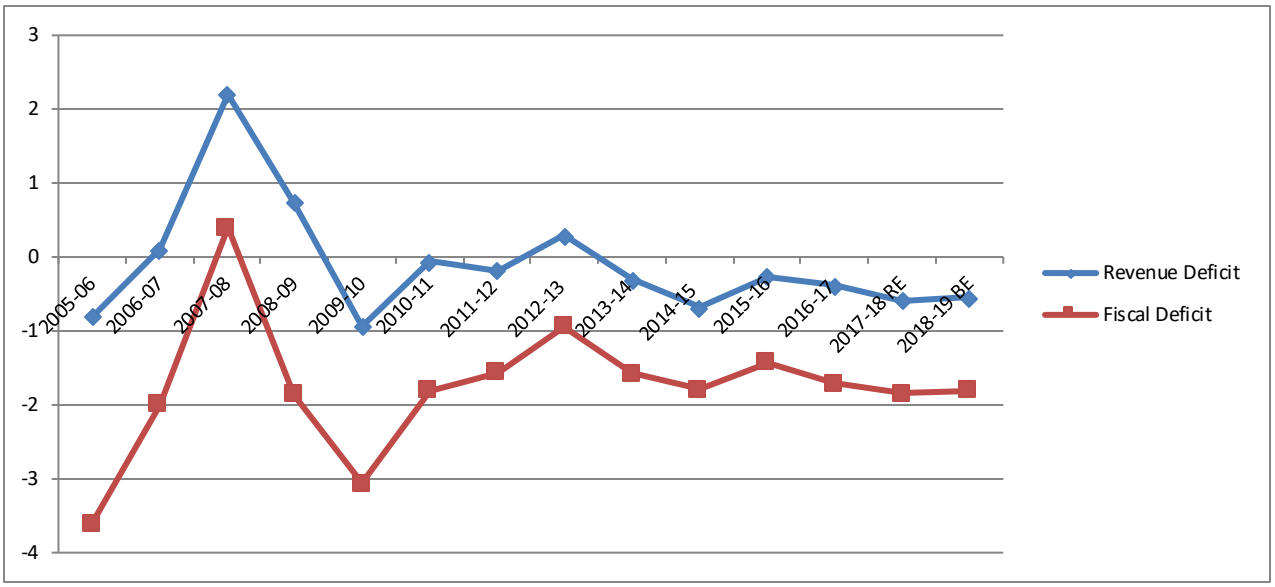
Table 5.1: Revenue Deficit and Fiscal Deficit[1] from 2006-07 to 2018-19 (Rs. Cr.)

Year	Revenue Surplus (+)/ Deficit (-)	Fiscal Surplus (+)/ Deficit (-)
2006-07	810 (0.10)	-11553 (-2.00)
2007-08	14803 (2.20)	2821 (0.40)
2008-09	5577 (0.74)	-14017 (1.86)
2009-10	-8006 (0.94)	-26181 (3.06)
2010-11	-591 (0.06)	-18857 (1.80)
2011-12	-2268 (0.18)	-19969 (1.56)
2012-13	4211 (0.29)	-13739 (0.94)
2013-14	-5081 (0.31)	-26018 (1.58)
2014-15	-12138 (0.68)	-31827 (1.79)
2015-16	-5338 (0.27)	-28381 (1.43)
2016-17	-8536 (0.38)	-38616 (1.71)
2017-18 (RE)	-14843 (0.59)	-46201 (1.85)
2018-19 (BE)	-15375 (0.55)	-50586 (1.81)

Note: Figures in parantheses indicate percentage of GSDP;
Source: Various Budget Documents

[1] In this chapter, deficits have been denoted in negative signs and surpluses have been denoted in positive signs.

Figure 5.1: RD, FD (% of GSDP) from 2006-07 to 2018-19



5.3 Trends in Revenue Deficit in Maharashtra

Table 5.1shows that there are instances of revenue account surpluses in the years 2006-07, 2007-08, 2008-09 and 2012-13.

The Revenue Surplus increases sharply from 2006-07 to 2007-08. However, the quantum of the surplus reduces in 2008-09 and after 2008-09, the Revenue Account starts showing a deficit. These trends could be due to the global financial crisis that caused the growth rate of the GSDP in real terms to fall sharply from 10.79 per cent in 2007-08 to 1.32 per cent in 2008-09. Except for 2012-13, the revenue account is seen to be in a deficit upto 2018-19.

If we were to arrange this data as per the period of different FCs, some interesting facts emerge.

Table 5.2: Revenue Deficits (Rs. Cr.) and % to GSDP arranged by FCs

FC	Average Revenue Deficit (-)/ Surplus (+)	% to GSDP
12thFC	1868.4	0.26
13thFC	-3173.4	0.18
14thFC (2015-16 to 2018-19 BE)	-11023	0.45

The period of the 12th FC encompasses years of revenue surpluses as well as revenue deficits; the latter emerged in the wake of the global financial crisis. However, the impact of the surpluses outweighs that of the deficits. Thus, we find that the period of the 12th FC broadly reflects surpluses. The health of the Revenue Account definitely shows deterioration from the 12th FC to the 13th FC.As a percentage of GSDP, state account shows a surplus of 0.26 per cent in 12th FC and a deficit of 0.18 per cent in 13th FC. In the period of the 14th FC (2015-16 to 2018-19 BE), we find that the RD worsens further to 0.45 per cent of GSDP. Such a sharp increase in the RD is a matter of concern since it indicates an ever-rising gap between the day-to-day expenses and receipts of the GoM.

5.4 Approach of FCs to cover the Revenue Deficits of States

All Finance Commissions upto the 13th FC were mandated to give grants-in-aid to cover, amongst other heads, the Non-Plan Revenue Deficit (NPRD). Apart from the NPRD, FCs have also given sector-specific grants reflective of the mandates given to them in respective ToRs. State-specific grants have also been given by various FCs upto the 12th FC. The rationale for providing State-specific grants was as follows. Tax devolutions were based certain criteria such as income distance, population etc. and hence did not cover cost disabilities of States. Tax devolutions also normally did not account for expenditure profligacy of States or for differentials in the tax-GSDP ratios of particular States. State-specific grants allow equalization across these kind of differentials. Since the 12th FC, grants-in aid have also been given for local bodies.

The approach of the 14th FC has been different from its predecessors in a number of ways. The 14th FC increased the tax devolution share of States from 32 per cent to 42 per cent. In the formula to calculate share of States inter-se, assessments of taxes and expenditures included variables that would capture economy in expenditure and measures taken to improve tax collection. This would eliminate the need to give State specific transfers. The 14th FC also did not give any sector specific transfers. This decision was based on its view that there were other channels (such as Centrally Sponsored Schemes) through which sector specific transfers could be given. Further, the FC observed that multiple channels of supporting social sectors led to gaps in monitoring and evaluation of the same. Hence, the 14th FC discontinued all sector-specific as well as State-specific grants. After working out the post-devolution Revenue Deficits of States, general purpose grants would be given to cover the same. Apart from grants to fill the RDs (only

eleven States were estimated to be in deficits), the 14th FC has only given grants for local bodies and for Disaster Management.

5.5 Comparison of RD Projections given by12th, 13th, and 14thFC to Actual RD

In this section, we compare the Revenue Deficits for Maharashtra as estimated by the 12th, 13th, and 14thFC for the purpose of giving gap-filling grants to the actual RD position experienced by the State.

Table 5.3: Post-devolution Revenue Deficit (-) or Surplus (+) as estimated by 12th, 13th and 14th FCs, Grants given to Maharashtra to cover RD, Actual Revenue Account Position of the State (Rs. Cr.)

Year	Projected post-devolution Revenue Deficit (-)/ Surplus (+) as per respective FCs	Grants given to cover Revenue Deficit	Actual Revenue Deficit (-)/ Surplus (+)
2006-07	7835.51	0	810
2007-08	10370.49	0	14803
2008-09	14912.94	0	5577
2009-10	20218.41	0	-8006
2010-11	24926	0	-591
2011-12	31581	0	-2268
2012-13	34283	0	4211
2013-14	43964	0	-5081
2014-15	55108	0	-12138
2015-16	26281	0	-5338
2016-17	28924	0	-8536
2017-18 (R.E)	32140	0	-14843
2018-19 (BE)	36069	0	-15375
2019-20	40861	0	NA

We find it particularly relevant to report that the 12th, 13th and 14th FCs have estimated that post-devolution, the State of Maharashtra would always be in a position of Revenue Surplus. *However, barring 4 years, the State of Maharashtra has always experienced Revenue Deficits. Clearly, in calculation of the post devolution Revenue Account position, successive FCs have*

either over-estimated the revenue creation capacities or under-estimated the expenditure requirements of the State.

5.6 Possible reasons for under-estimating the revenue deficit of Maharashtra under the 14th FC:

The Report of the 14th Finance Commission outlines the procedure used to project the revenue balance of the States in the award period. We feel that some of the procedures lead to over-estimation of revenues and under-estimation of expenses for the State of Maharashtra. Such issues are given below.

- The procedure used by the 14th FC to calculate the tax revenues of States was as follows. The trend growth rate of taxes from 2004-05 to 2012-13 was applied to the taxes collected in 2013-14. This helped to create an estimate of the tax collection in 2014-15. This was compared to the BE for taxes for the fiscal year 2014-15. The higher estimate was chosen as the tax collection for 2014-15 and the tax/GSDP ratio for each State was calculated. The 14th FC observes that the average tax/GSDP ratio calculated in this manner for all States stands at 8.26 per cent. Given that tax effort needs to be recognized and awarded, those States having tax/GSDP ratio of higher than 8.26 per cent were assumed to have a tax buoyancy of only 1.05. However, those States having a tax/GSDP ratio of less than 8.26 per cent were assumed to have a tax buoyancy of 1.5.

  Maharashtra has a tax/GSDP ratio of 6.8. Hence, whilst projecting the tax collections for Maharashtra, it was assumed that the tax buoyancy would be 1.5. However, such high tax buoyancy would not have been possible at all for a State such as Maharashtra, wherein 55 per cent of the GSDP is contributed from the services sector. Upto 2017, service taxes were collected by the Centre and hence, Maharashtra tax revenues have not been very buoyant. Given that the tax collections would not exhibit the assumed buoyancy of 1.5, the actual taxes collected by Maharashtra have been far lower than that assumed by the 14th FC.

- From 2004-05 to 2012-13, the growth rate of pensions has been around 20 per cent in most States in India. The high growth rate is attributable to the acceptance of the recommendations of the Sixth Pay Commission in that time-period. From 2013-14 to

2014-15, the growth rate falls to 13.8 per cent. The 14th FC assumes that pension payments in its award period will grow only by 10 per cent, quoting that "the past pension growth needs to be further moderated". We feel that this is an unrealistic assumption given the commitment of the state towards implementation of Seventh Pay Commission Report and creates unrealistically low Revenue Expenditure estimates.

- From 2006-07 to 2015-16, social sector spending on education and health has shown an average growth rate of 16.7 per cent and 16.1 per cent respectively across all States. Given that such expenditure is "largely driven by personnel", the 14th FC applies a growth rate of 13 per cent on the social sector expenditures of 2014-15 to arrive at the baseline expenditure for 2015-16. It then applies a normative 10 per cent growth rate on the baseline number to project the social sector expenditures for 5 years.

  Firstly, there is no justification for assuming a 10 per cent growth rate on social sector spending. In a State like Maharashtra with huge regional imbalances, social sector spending cannot be compromised. The spending in Maharashtra on health is actually much lower than any other comparable large-sized State. Given these facts, we feel that assuming a 10 per cent growth rate on social sector spending is restrictive and unrealistic. We also wish to point out that while salary components within social sector expenditure have to be reduced, the reductions cannot happen overnight. For large States, the sheer number of administrative units to run social sector schemes is quite large and this precludes salary reductions from taking place. Finally, reduction in salary also has implications for the quality of employment in these crucial interventions and hence cannot be rushed indiscriminately.

  Thus, our analysis shows that the State has been showing revenue imbalances in the past 10 years. These imbalances manifest themselves in Revenue Deficits. Successive FCs since the 12th FC have however failed to correctly project the Revenue Deficits. Thus, Maharashtra has been in an unenviable position of being projected to be a Revenue Surplus State, due to which it has never received any grants to cover Revenue Deficits. The 15thFC will have to create a new methodology for carefully projecting main components of Revenue Receipts and Revenue Expenditures realistically for all States.

5.7 Trends in Fiscal Deficit in Maharashtra

We now examine the trends and patterns in the fiscal deficit (FD) position of the State from 2006-07 to 2018-19 (BE). Examination of FD helps in understanding how the debt position of the State has changed over a period of time. This analysis serves as a useful building block in ultimately commenting on the debt sustainability of the State.

Table 5.4: Fiscal Deficits (Rs. Cr.) and Percentage to GSDP arranged by FC

FC	Fiscal Deficit (-)/ Surplus (+)	% to GSDP
12th FC	-13312	2.02
13th FC	-22082	1.53
14th FC (2015-16 to 2018-19 BE)	-40946	1.7
2006-07 to 2018-19	-24339	1.75

It is interesting to note that while the Revenue Account balance has broadly worsened from 2006-07 to 2018-29, the FD balance has broadly improved. This implies that on an average, capital account savings must have been higher than the revenue dissavings during the past 10 years. Since the borrowings of the Government (as indicated by the FD) have declined, the capital savings must have resulted from a slowdown in capital expenditure. This is a worrisome trend.

From 2006-07 to 2017-18, about 92 per cent of the borrowing is used for capital expenditure, whereas about 8 per cent of the same is used for servicing revenue account payments. We further observe that the proportion of the Revenue Deficit to the Fiscal Deficit stands at 18.04 per cent in the period of the 13th FC. This proportion becomes 25.85 per cent in the 14th FC. Thus, while the FD of the GoM since 2006-07 has declined, a higher proportion of the debt taken has been diverted for use on the Revenue Account. On one hand, this could have a grave implication that debt taken by the State Government is not being used productively for building capital assets. However, we also note from Chapter 4 that 66 per cent of Revenue Account Expenditure is

Developmental Expenditure. We also note the presence of several expense items on the Revenue Account such as grants to local bodies, which are given to support creation of capital at the grassroot level.

Thus, in the past ten years, Fiscal Deficits have bettered even as Revenue Deficits have worsened. Debt taken by the Government of Maharashtra and the usage to which it is put is a relevant issue from an FC perspective since it ultimately helps us to assess sustainability of debts. We will hence explore this issue more deeply in the next chapter.

Major Findings

- Successive Finance Commission's have projected post devolution revenue surpluses for Maharashtra. But in reality, the state has had revenue deficits in most years – the gap between the projections and the actuals is rather large, nearly of the order of Rs. 40,000 to Rs. 50,000 crores. The state has thus not received grants to cover revenue deficits.
- Fiscal deficit as a proportion of GSDP has declined but during the last 3 to 4 years revenue deficit has increased from 0.16 per cent to 0.45 per cent. It shows that greater resort is being taken to capital receipts to finance revenue account expenditures.

CHAPTER - 6

THE LEVEL OF DEBT

6.1 Introduction

Sustainability of the debt taken by the States is an important issue for the Finance Commission. If the debt stock is too high, it creates a pressure on the interest payments, thereby causing Revenue Deficits in the current year. Given that FCs are mandated to fill revenue account gaps, they are particularly sensitive to factors such as debt that could tip the revenue account into a deficit position.

In this chapter, we examine the trends and patterns in the debt taken by the Government of Maharashtra for the period of 2006-07 to 2018-19 (BE).

6.2 Definitions

We classify the total debt stock of the Government of Maharashtra as per the Overall Debt Position as reported by the Finance Department, in the Budget Documents. Following are the main components of the total debt stock (1+2+3+4):

1. Public Debt (a + b)
   a. Internal Debt (Market Loans, WMA from the RBI, Negotiated loans from Banks and FIs)
   b. Loans and Advances from the Central Government
2. Provident fund, Small Savings etc.
3. Other interest-bearing obligations (a + b)
   a. Reserve funds
   b. Deposits bearing interest
4. Off-budget debt stock

All loans raised under the head "Public Debt" are part of the Consolidated Fund of the State which is established under Article 266 (1) of the Constitution. Article 266 (2) provides for setting up the Public Fund. Moneys in the Public Account are those funds wherein the Government acts like a banker, and are not subject to vote by the State Legislature. Receipts and disbursements pertaining to Provident funds, Small Savings (Insurance funds and Pension funds), Reserve

Funds and Deposits and Advances (Civil deposits, deposits made by PRIs etc.) are part of the Public Account. Since data on debt taken from Provident Funds and Small Savings under Public Account are reported separately from other interest-bearing obligations by the Government, we follow the same convention.

Before 2005-06, Government companies and Corporations had taken loans from banks and Financial Institutions to implement State-Plan programmes projected outside the State Budget. The liabilities of the companies, if not honoured, would ultimately become liabilities of the State Government since the Government was a guarantor to such loans. Such contingent liabilities have been termed as "Off-Budget debt stock". The CAG Report on State Finances (2016) notes that "off-budget borrowings are not permissible under Article 293 (3) of the Constitution of India. As per the Medium Term Fiscal Policy Statement 2008-09, the State Government had completely stopped off-budget borrowings from the year 2005-06. There were no new off-budget borrowings during the years 2006-07 to 2018-19." We can see that by 2018-19 (BE), Rs. 50 crore was outstanding on account of off-budget borrowings made prior to 2005-06.

Figure 6.1: Components of the Total Debt Stock of Government of Maharashtra

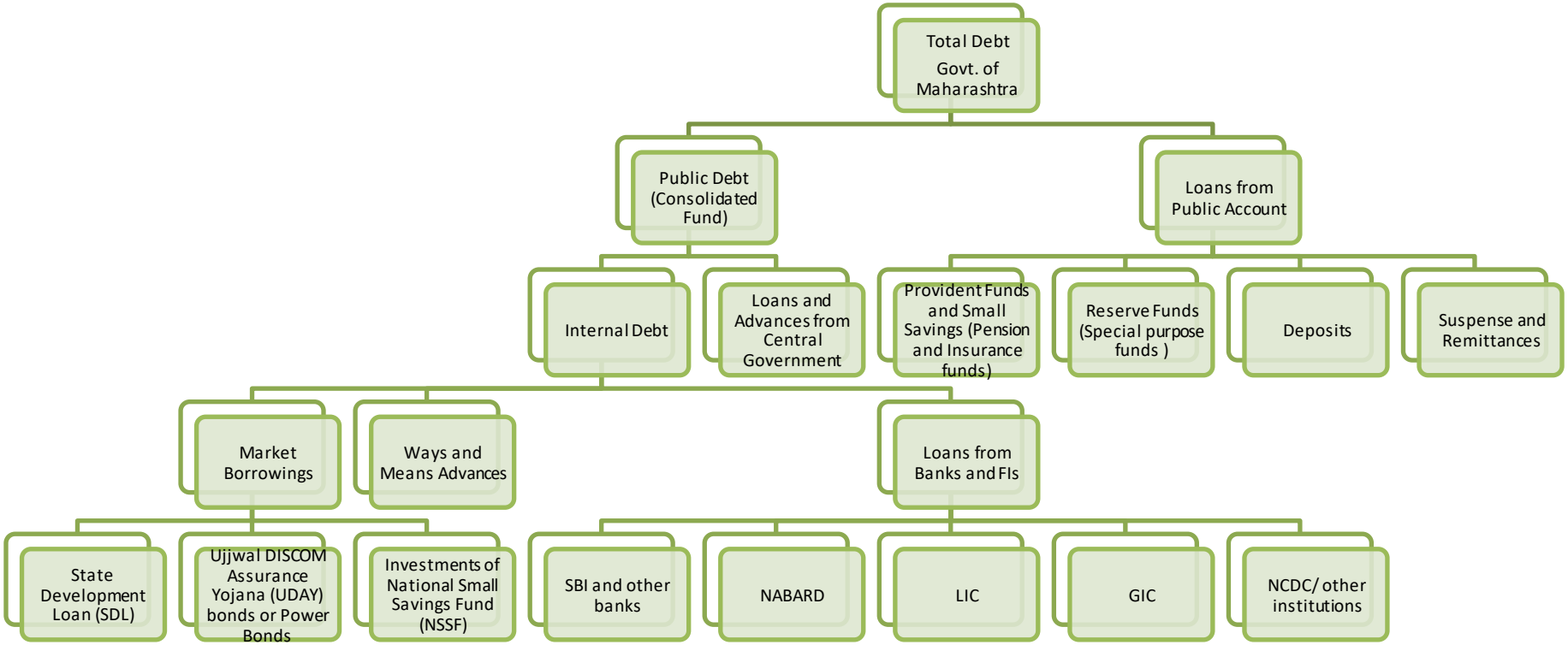
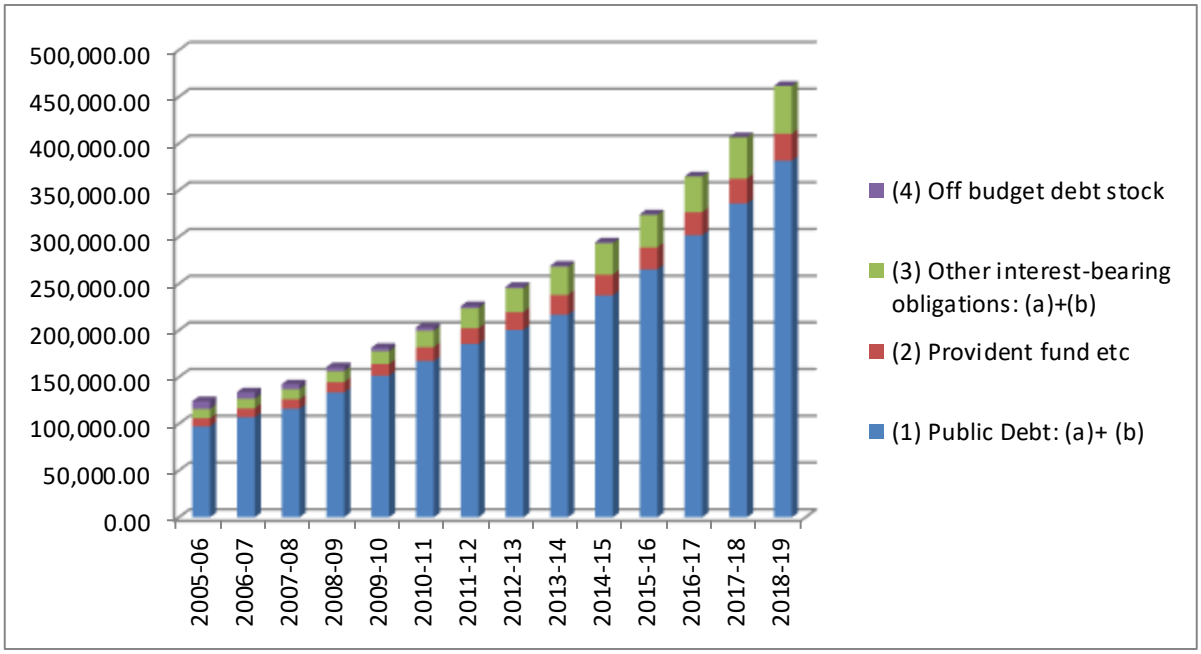


Table 6.1: Total Debt Stock and Components (Rs. crores) from 2006-07 to 2018-19

	Consolidated Fund	Public Account			
Years	**(1) Public Debt**	**(2) Provident fund etc.**	**(3) Other interest-bearing obligations**	**(4) Off budget debt stock**	**Total Debt Stock: (1)+(2)+(3)+(4)**
2006-07	107144 (80%)	9411 (7%)	10375 (8%)	6793 (5%)	1,33,723
2007-08	116206 (82%)	10096 (7%)	10866 (8%)	5214 (4%)	1,42,3823
2008-09	133695 (83%)	10899 (7%)	11679 (7%)	4400 (3%)	1,60,673
2009-10	151434 (83%)	12689 (7%)	13628 (8%)	3696 (2%)	1,81,447
2010-11	167400 (82%)	14711 (7%)	17680 (9%)	3306 (2%)	2,03,097
2011-12	185394 (82%)	16972 (8%)	21531 (9%)	2079 (1%)	2,25,976
2012-13	200467 (81%)	19159 (8%)	25654 (10%)	1412 (1%)	2,46,692
2013-14	216909 (81%)	21053 (8%)	30164 (10%)	1229 (0%)	2,69,355
2014-15	237455 (81%)	22313 (8%)	33483 (11%)	1011 (0%)	2,94,261
2015-16	265388 (82%)	23521 (7%)	34743 (11%)	550 (0%)	3,24,202
2016-17	301837 (83%)	24645 (7%)	38285 (10%)	50.5 (0%)	3,64,818
2017-18	335939 (83%)	26563 (7%)	44257 (11%)	50.5 (0%)	4,06,811
2018-19 (BE)	381582 (83%)	28834 (7%)	51339 (11%)	50.5 (0%)	4,61,806

Source: Various Budget documents

Figure 6.2: Components of Total Debt Stock of GoM from 2005-06 to 2018-19 (Rs. Cr.)



We now re-arrange the debt stock data by Finance Commissions.

Table 6.2: Total Debt Stock and Components by FCs (Rs. Cr.)

		(1) Public Debt	(2) Provident fund etc.	(3) Other interest-bearing obligations	(4) Off budget debt stock	Total Debt Stock: (1)+(2)+(3)+(4)
12th FC	Mean	127120	10774	11637	5026	154556
	% to Total Debt Stock	82.25	6.97	7.53	3.25	
13th FC	Mean	201525	18842	25702	1807	247876
	% to Total Debt Stock	81.30	7.60	10.37	0.73	
14th FC (2015-16 to 2018-19 BE)	Mean	265388	23521	34743	550	389409
	% to Total Debt Stock	82.48	6.65	10.83	0.05	
2006-07 to 2018-19 (BE)	Mean	178149	16082	20980	2969	252829
	% to Total Debt Stock	81.72	7.3	9.2	1.7	

Tables 6.1 and 6.2 indicate that amongst the components of total debt stock, Public Debt accounts for nearly 82 per cent. Borrowings from Provident funds and small savings account for 7 per cent of total debt stock. Borrowings from other interest bearing liabilities (Reserve Funds and Deposits) account for 10 per cent. Thus, debt from Public Accounts (Provident Funds and Small Savings, Reserve Funds and Deposits) accounts for 17 per cent of the total debt stock. The data indicates clearly the reduction in the off-budget debt achieved by the Government after 2005-06.

6.3 Public Debt

We now analyze further the composition of Public Debt as well as debt taken from Public Accounts. Public debt is made up of internal debt and loans and advances from the Central Government.

Table 6.3: Composition of Public Debt

		Internal debt to Public Debt (%)	**Loans and advances from Central Government to Public Debt (%)**
12th FC	2005-06	91.32	8.68
	2006-07	92.03	7.97
	2007-08	92.72	7.28
	2008-09	93.70	6.30
	2009-10	94.22	5.78
13th FC	2010-11	94.57	5.43
	2011-12	95.27	4.73
	2012-13	95.60	4.40
	2013-14	95.90	4.10
	2014-15	96.40	3.60
14th FC	2015-16	96.90	3.10
	2016-17	97.39	2.61
	2017-18	97.67	2.33
	2018-19	97.99	2.01

Table 6.4: Composition of Public Debt by FC

	Internal debt to Public Debt (%)	Loans and advances from Central Government to Public Debt (%)
12th FC	93.17	6.83
13th FC	95.55	4.45
14th FC	97.49	2.51
2005-06 to 2018-19	95.12	4.88

The data on public debt shows that the State Government has substituted loans and advances from the Central Government with internal debt. We find that the share of internal debt rises from 93 per cent in 2006-07 to 97.5 per cent in 2018-19 (BE) whereas that of loans and advances from the Central Government falls steadily from 6.8 per cent to 2.5 per cent of Public Debt in the same time period.

Internal Debt

Internal Debt has 3 main components: 1) Market loans 2) Ways and Means Advances from the RBI and 3) Loans from Banks and Financial Institutions. Market loans taken by the State Government further have three main components: State Development Loans (SDL), Power sector bonds and loans taken from the National Small Savings Fund (NSSF).

The RBI also gives loans to State Governments to handle temporary mismatch in the cash requirements. This loan is called as a Ways and Means Advance and the rate of interest on the WMA is linked to the repo rate.

The State Governments also borrow from banks and Financial Institutions like SBI and other banks, LIC, GIC, NABARD, and NCDC.

From 2006-07 to 2018-19, the Government of Maharashtra has not resorted to WMA. We examine the market loans and loans from banks and Financial Institutions at a disaggregated level in the table below.

Table 6.5: Loans from Market and from Agencies from 2006-07 to 2016-17 (Rs. Cr.)

Internal Debt	Market Borrowings				Loans from Agencies					
Years	SDLs	Power Bonds	Compensation and other bonds	NSSF	Loans from LIC	Loans from GIC	Loans from NABARD	Loans from SBI and other banks	Loans from NCDC	Loans from other institutions
2006 - 2007	19,967	917	3	71,376	2,336	-8	787	2	551	3,076
2007 - 2008	27,711	815	3	72,851	2,086	-8	1,625	2	566	2,605
2008 - 2009	44,678	764	3	73,279	1,836	-10	1,978	2	590	2,416
2009 - 2010	59,289	662	3	76,030	1,583	-6	2,712	2	544	1,964
2010 - 2011	69,880	510	–	81,180	1,330	–	3,250	–	370	2,250
2011 - 2012	89,400	410	–	80,010	1,640	–	3,510	–	600	760
2012 - 2013	1,05,820	310	–	79,080	1,140	–	3,610	–	460	1,000
2013 - 2014	1,25,030	250	–	76,790	930	–	4,080	–	400	760
2014 - 2015	1,47,390	100	–	75,990	720	–	3,970	–	300	5,590
2015 - 2016	1,76,490	–	–	75,700	510	–	3,860	–	220	420
2016-17	2,12,910	–	–	72,860	350	–	4,090	–	40	250

Source: RBI Study on State Budgets

The composition of market loans shows several interesting trends.

- It is seen that the issuance of SDLs by the GoM has risen steadily in the past ten years. SDLs are coupon bearing securities issued by State Governments. The coupon on SDLs is slightly higher than the GOI securities. The spread (60-65 bps for all States) on the SDL issued by any State Government depends on the overall market perception of fiscal prudence of the State. We could not get the data on Weighted Average Yield (WAY) rates for the SDLs issued by Maharashtra. The following table shows the WAY for SDLs issued by all States in the market.

Table 6.6: WAY on SDLs for all States (2008-09 to 2018-19)

	Weighted average yield on State Dev Loan
2008-09	7.87
2009-10	8.11
2010-11	8.39
2011-12	8.79
2012-13	8.84
2013-14	9.18
2014-15	8.58
2015-16	8.28
2016-17	7.48
2017-18	7.8
2018-19	7.8

The WAY rates may be used as a proxy to estimate the cost of market borrowing for the GoM.

- Data shows that the amount of debt under "Power bonds" falls throughout the data period, implying that redemption of bonds was higher as compared to issuance in the period. Power sector bonds pertain to the quasi corporate bonds that used to be issued by the DISCOMs with a State Guarantee (India Infoline, n.d.). Since the State Government used to stand guarantor, the bonds became a part of the total outstanding liabilities of the Government. Issuance of power sector bonds by DISCOMs continued till 2014-15. From 2015-16 onwards, UDAY bonds were directly issued by the State Government and would be included in the SDL itself.

- The (erstwhile) NSSF investment is also included in the market borrowing program of the State Government. The National Small Savings Fund used to invest its surplus in items of expenditure on the Central and State budgets till 31th March 2016. These investments were treated as loans taken by the State Government and were reflected in the market borrowing program of the State Governments. However, with effect from 1st April 2016, the NSSF will place its investible surplus only with the Central Government. Exclusion of State Governments from NSSF investments was a recommendation of the 14th FC. The 14th FC observed that NSSF investments carried a higher interest rate than market borrowings (See Table 6.7) and hence created higher interest outgoes for the State Governments. Exclusion of State Governments from the NSSF implies that the composition of the internal debt would reflect higher market borrowings carrying lower interest rates.

Table 6.7: Rates of Interest for various loan components

Loan Agency	Rate of Interest
Open Market Borrowings	5.90% - 9.79
OMB- Uday Bond	7.33% - 7.38%
NSSF	9.50% - 10.50%
NABARD-RIDF	4.75% - 8.75%
NABARD-LTIF	6%
LIC	9.00% - 9.15%
HUDCO	8.25% - 12.25%
NCDC	9.75% - 13.00%
Block Loan/EAP Loans	6.75% - 13.00%
Off Budget Borrowings	8.00% -8.25%

Source: Finance Department, GoM

- In Maharashtra, we see that the compositional shift away from NSSF had started much before the recommendations of the 14th FC. This implies that the debt management was being conducted in a cost-effective manner, with the State Government moving away from high interest NSSF investments towards more cost-effective market borrowings.

- Under loans from agencies, there are several compositional shifts which indicate good debt management.

- The data shows that the State Government has increased its borrowing from NABARD. NABARD provides low cost loans to State Governments from Rural Infrastructure Development Fund for specific projects classified under Agriculture, Social Sector and Rural Connectivity. Increased borrowing from NABARD indicates a positive trend for two reasons: One, it indicates that loans are being directed towards Agriculture and Social Sector spending, and two, it indicates that the State Government is also cost-conscious and has shifted the composition of borrowings towards low-cost borrowings (Tables 6.5 and 6.7).

- In the given time-period, we also find that the debt stock of the GoM with the LIC shows a continuous decline i.e. the redemption is again higher than exposure to new loans. This again is a correct move since LIC has been a high cost lender for the State Government (Tables 6.5 and 6.7).

- Debts taken by the GoM from National Co-operative Development Corporation (NCDC) increase till 2011-12, after which they fall. State Governments take loans from NCDC and pass on the loans to the co-operative societies. If the societies default on the payments, the State Government has the liability to repay the debt back to the NCDC. Several CAG reports on Maharashtra State Finances point out that the State Co-operation Department has not been doing enough to get better recovery of dues from the co-operatives. This has put a strain on the health of the exchequer.

Loans taken in Public Accounts

We now look at the share of different components within the Public Accounts.

Table 6.8: Share of Components (%) within Debt from Public Accounts

Ratio to Debt from Public Accounts			
Years	**Provident funds and Small Savings**	**Reserve funds**	**Deposits bearing interest**
2006-07	89.24	0.09	10.67
2007-08	89.64	0.70	9.66
2008-09	48.27	0.54	51.18
2009-10	48.22	0.66	51.12
2010-11	45.42	0.86	53.72
2011-12	44.08	1.02	54.90
2012-13	42.75	0.56	56.68
2013-14	41.11	0.34	58.56
2014-15	39.99	0.23	59.78
2015-16	40.37	0.24	59.39
2016-17	39.16	0.70	60.14
2017-18	37.51	4.61	57.88
2018-19	35.97	7.91	56.13

Source: various CAG reports

This dataset also shows a very interesting compositional shift.

- Within debt from Public Accounts, the share of debt from Provident funds and Small Savings has fallen sharply from 89 per cent in 2006-07 to 36 per cent in 2018-19. Provident Funds and Small Savings such as Insurance or Pension Funds supply loans at very high interest rates to State Governments. Hence, this move is compositionally a correct move to shift to lower cost debt.

- In the same time period, debt taken from Deposits and Advances maintained by the Government has increased.

Thus, the data show very interesting shifts in the composition of the debt stock of Government of Maharashtra. The proportion of loans taken as Public Debt is much higher than the proportion taken as loans from Public Accounts. Further, within Public Debt, the Government has shifted its borrowing source away from the Central Government loans towards market borrowings. Within Public Accounts, the State Government shows a major compositional shift in borrowings away from Provident Fund towards Deposits and Advances.

Summing up, we may say that the GoM seems to have managed the composition of its debt from 2006-07 to 2018-19 quite well. It has shifted away from high cost sources of borrowing to low cost sources.

6.4 Interest Payments to Revenue Expenditure

Compositional shifts in debt imply a change in the cost of borrowing as well as a change in the maturity structure of the debt. Both these factors have an impact on the interest outgo of the Government. We hence examine the interest outgo of the State Government over the data period from 2006-07 to 2017-18 (RE).

Table 6.9: Interest payments as a percentage of Revenue Expenditure (2006-07 to 2017-18)

	Interest Payments	Revenue Expnd	Interest Payments as % of Revenue Expnd
2005-06	10523	52,279.85	20.13
2006-07	11983	61,385.28	19.52
2007-08	12932	64,780.05	19.96
2008-09	13027	75,693.91	17.21
2009-10	14838	94,915.97	15.63
2010-11	15648	1,06,459.37	14.70
2011-12	17505	1,23,554.19	14.17
2012-13	19076	1,38,735.98	13.75
2013-14	21207	1,54,902.42	13.69
2014-15	23965	1,77,553.12	13.50
2015-16	25771	1,90,374.05	13.54
2016-17	28532	2,13,228.73	13.38
2017-18	33518	2,72,448.26	12.30

Table 6.10: Interest Payments as a Percentage of Revenue Expenditure (Arranged by FC)

	Interest Payments to Revenue Expenditure (Average)
12th FC	18.49
13th FC	13.96
14th FC (Upto 2017-18 RE)	13.07
2005-06 to 2017-18	15.5

Table 6.10 indicates that the interest payments as a percentage of Revenue Expenditures have fallen from around 18.5 per cent in the period of the 12th FC to around 13 per cent in the period of the 14th FC.

Interest payments as a percentage of Revenue Expenditure is actually one of the useful indicators of debt sustainability. Reduction in the ratio indicates that the Government has managed to reduce at least one of the components of its committed expenditures and hence gets more space on the Revenue Account to carry out Developmental Expenditure.

It is tempting to associate the reduction in this ratio to the reduction in the debt:GSDP ratio (See Section 6.4). However, it is important to note that the reduction in the interest outgo ratio may well also reflect a compositional shift towards components of debt which carry lower costs of borrowing. The following table elucidates.

Table 6.11: Average rate of interest on Government borrowings (%)

Year	Average rate of interest on Government borrowing (per cent)
2006-07	7.78
2007-08	7.74
2008-09	7.29
2009-10	7.61
2010-11	7.49
2011-12	7.51
2012-13	7.42
2013-14	7.52
2014-15	7.80
2015-16	7.70

Source: Various CAG reports

From 2009-10 onwards, we find that the average cost of borrowing for the GoM reduces secularly. It is interesting to note that the CPI as well as WPI inflation levels were rising in the period from 2009-10 to 2013-14. Thus, interest rates in India actually increased in that time period. Hence, the reduction in the average cost of borrowing from 2009-10 reflects compositional shifts rather than a benign interest rate regime.

It is thus undeniable that the composition of the debt structure in Maharashtra shows a shift towards those debt components which carry lower interest rates. Better debt structures, together with an overall reduction in the Debt/GSDP ratios have helped the interest payments as a percentage of Revenue Expenditures to fall.

6.5 Public Debt to GSDP

The legal framework for total debt of the Government of Maharashtra is the Maharashtra Fiscal Responsibility and Budgetary Management Act (MFRBMA) 2005. The MFRBMA envisaged adherence to the following three objectives in order to bring about fiscal prudence in budgetary management.

i. Progressive elimination of Revenue Deficits
ii. Reduction in Fiscal Deficits
iii. Prudent Debt Management for fiscal sustainability

The Rules of the Act were amended in 2008 and again in 2011. Under the Rules given in 2008, the State Government was given the target of maintaining the Public Debt to GSDP upto 26.1 per cent in 2011-12. From 2011-12 to 2015-16, the State Government was to bring the Public Debt to GSDP ratio to 17.6 per cent. We find that the debt management of the Government of Maharashtra was in line with the numbers indicated in the Rules in the said period.

Figure 6.3: Debt to GSDP ratio (2006-07 to 2018-19)

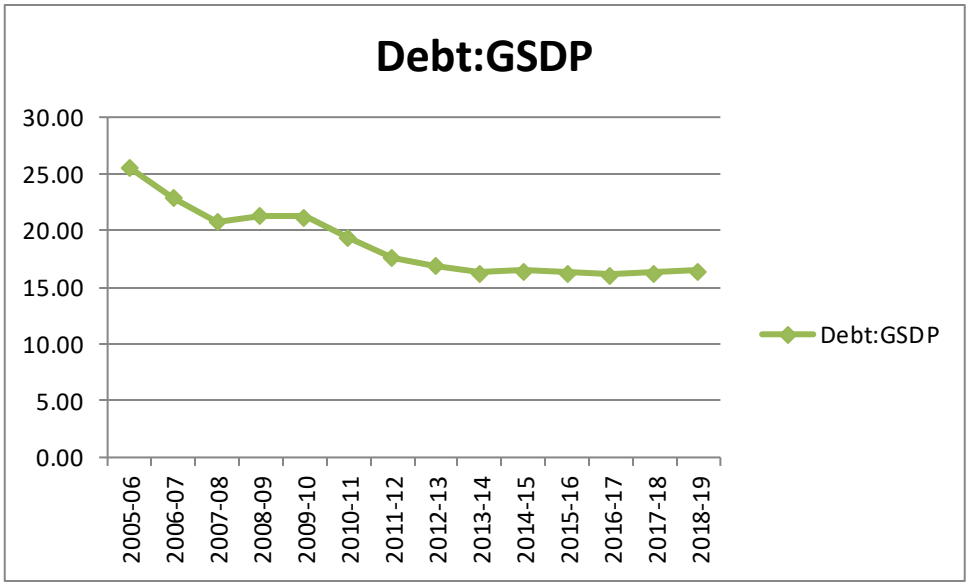


Table 6.12: Debt Stock and Components as a percentage to GSDP (2006-07 to 2018-19) by FCs

	Ratio to GSDP								
	(1) Public Debt (a+b)	**(a) Internal debt of the State Government**	**(b) loans and advances from Central Govt.**	**(2) Provident fund etc**	**(3) Other interest-bearing obligations: (a+b)**	**(a) reserve fund**	**(b) Deposits bearing interest**	**(4) Off budget debt stock**	**Total Debt Stock: (1)+(2)+(3)+(4)**
12 FC	18.14	16.83	1.31	1.56	1.70	0.01	0.71	0.94	22.35
13 FC	14.13	13.50	0.64	1.31	1.77	0.02	1.75	0.14	17.35
14 FC	13.46	13.12	0.34	1.09	1.76	0.10	1.67	0.01	16.32

Table 6.11 indicates that the total debt stock of the GoM to GSDP shows a secular fall from an average of 22.35 per cent during the 12th FC period to an average of 16.32 per cent in the 14th FC period. This is well within the limits set by the Maharashtra Fiscal Responsibility and Budgetary Management Rules (MFRBMR), 2011. Since the total debt has risen in absolute terms (Table 6.1) and yet has fallen as a percentage of GSDP (Table 6.13), the elasticity of

total debt with respect to GSDP is lesser than 1. We show the elasticities of the different components of total debt in the following table. [1]

Table 6.13: Elasticities of Debt Stock and Components with respect to GSDP (2006-07 to 2018-19) by FCs

	12 FC	13 FC	14 FC	2006-07 to 2018-19
I. Public Debt (a+b)	0.54**	0.36***	0.95***	0.544***
(a) Internal debt of the State Govt.	0.65***	0.42***	1.00***	0.61***
(b) loans and advances from central government	0.76***	0.87***	0.80**	0.76***
II. Public Account (2+3)	0.19	1.05***	0.69	0.80***
(2) Provident fund etc	0.27	0.64***	0.24	0.53***
(3) Other interest-bearing obligations: (a)+(b)	0.12	1.36***	0.97	1.01***
(4) Off budget debt stock	3.59***	4.59***	-15.48	5.05***
Total Debt Stock: (1)+(2)+(3)+(4)	0.32*	0.44***	0.89***	0.52***

As was expected, the elasticity of the total debt stock stands at 0.52, indicating that the rate of growth in Debt stock has been far lesser as compared to the growth rate of the GSDP. It is interesting to note that the elasticity of total Debt stock is higher in the period of the 14th FC (0.89) as compared to the 13th FC. This implies that the debt stock rose almost proportionately with respect to the GSDP in that period. This is consistent with our observation in Chapter 5 that the Fiscal Deficit (which indicates the changes in debt stock or total borrowings of the Government) increased in the period under the 14th FC.

The above table also shows that the elasticity associated with loans from Public Account is higher than that associated with Public Debt. This implies that the growth rate of loans from Public Accounts has been higher than the growth rate of Public Debt.

[1]Since the budget numbers are available upto financial years 2018-19 (BE), elasticity calculations have been carried out using data upto 2018-19.

6.6 Has Debt been used for Capital Expenditure?

A relevant query within the ambit of debt analysis is regarding the usage of borrowed funds: Have borrowings been used for Capital Account Expenditure?

We carry out a simple ratio analysis to understand the usage of borrowed funds. The following table shows Capital Expenditures as a percentage of Capital Receipts taken by the GoM.

Table 6.14: Capital Expenditure as a percentage of Capital Receipts

Year	Capital Receipts	Capital Expenditure	Capex as % of Capital Receipts
2006 - 07	15086	17,120	113.48
2007 - 08	3508	17,413	496.40
2008 - 09	26776	24,278	90.67
2009 - 10	30383	22,865	75.25
2010 - 11	23739	24,546	103.39
2011 - 12	28336	25,674	90.60
2012 - 13	21842	26,732	122.39
2013 - 14	38928	33,079	84.97
2014 - 15	45939	40,194	87.49
2015 - 16	38233	34,912	91.31
2016 - 17	52300	43,692	83.54
2017-18(RE)	66097	52,148	78.89

The table shows that in 2006-07, 2007-08, 2010-11 and 2012-13, capital expenditures have been higher than capital receipts. In all of the above mentioned years except in 2010-11, the Revenue Account is seen to be in a surplus. (See Chapter 5 for details). Thus, it seems to be the case for 2006-07, 2007-08 and 2012-13 that Revenue Account surpluses were used together with capital receipts to finance capital expenditures. In 2010-11 however, the Capex is higher than Capital Receipts whereas the Revenue Account is also in surplus. This implies that some off-budget source such as drawing down of cash balances might have been used by the State Government to support the Capital Expenditure in that year.

For all other years except the four years mentioned above, Capex accounts for about 85 per cent of the Capital Receipts.

6.7 Sustainability of Debt:

We now comment on the sustainability of debt taken by the Government of Maharashtra.

C. Rangarajan and D. K. Srivastava (2005) define debt sustainability thus: "Sustainability can be seen as the capacity to keep balance between costs of additional borrowing with returns from such borrowing, which could be in the form of higher growth that results in higher government revenues that can be used for servicing the additional borrowing. Sustainability issues should be viewed for combinations of debt and fiscal deficit, and not in isolation for either debt or fiscal deficit."

There are multiple variables that help us to understand the sustainability position of debt taken by the Government. Different scholars have created different indicators to understand debt sustainability. We attempt to present different indicators of sustainability of debt in Table 6.14 using the methodology used by Balbir Kaur et.al. (2014). We also highlight those years in which the sustainability indicators were breached in any way. Finally, we try to identify those years in which maximum breaches to sustainability have occurred. Were there any special circumstances in those years that caused the debt sustainability indicators to breach the regular path? If so, what were these factors? Was the quantitative breach justified under those special circumstances? We also present some comments on the qualitative factors in some years wherein sustainability of debts might have been suspect.

Table 6.15: Fiscal Sustainability Indicators for Maharashtra (2006-07 to 2018-19)

Indicator	Description	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Rate of nominal growth of GSDP (Y) should be more than rate of growth of debt (D)	Y-D > 0	12.55	10.69	-2.75	0.57	10.67	10.77	4.83	3.83	-1.3	1.39	1.08	-0.9	-1.52
Real output growth (y) should be higher than real interest rate*	y-r > 0	0.66	2.63	5.88	5.09	4.48	2.11	3.29	3.18	-3.15	-4.17	NA	NA	NA
Primary Balance should be in Surplus	(PB/GSDP) *100> 0	0.02	2.19	-0.23	-1.41	-0.31	-0.19	0.37	-0.29	-0.44	-0.13	-0.45	-0.51	-0.58
Primary Revenue Balance (PRB) as % to GSDP should be greater than zero	(PRB/GSDP)*100> 0	2.19	4.05	2.47	0.8	1.44	1.19	1.6	0.98	0.66	1.03	0.89	0.74	0.68
Primary Revenue Balance (PRB) should be in surplus and adequate to meet interest payments (IP)	PBR/GSDP > 0 and |(PBR/IP) *100| >100	106.76	214.47	142.8	46.04	96.22	87.04	122.07	76.04	49.35	79.29	70.08	55.72	55.29
Interest Burden defined by Interest Payments (IP) to GSDP ratio should decline over time	IP/GSDP	2.05	1.89	1.73	1.73	1.49	1.37	1.31	1.29	1.35	1.3	1.26	1.32	1.23
Interest Payments as a proportion of Revenue Expenditure should decline overtime	IP/RE	19.52	19.96	17.21	15.63	14.7	14.17	13.75	13.69	13.5	13.54	13.38	12.30	11.41
Interest Payments as a proportion of Revenue Receipts should dedine overtime	IP/RR	19.27	16.25	16.03	17.07	14.78	14.43	13.34	14.15	14.49	13.93	13.93	13.01	12.02
Total Debt to GSDP ratio should decline over time		22.88	20.79	21.31	21.2	19.36	17.65	16.9	16.33	16.52	16.32	16.16	16.05	16.52

Source: Budget Documents; highlighted cells indicate breach in sustainability

Real Interest Rate = Nominal Interest Rate less Inflation. Average cost of borrowing as available in the CAG reports was assumed to be the nominal interest rate. The inflation rate for Maharashtra was calculated using the Rural and Urban CPI available with the RBI. Population weights as given in 2001 and 2011 Census were used to calculate the overall CPI.

Table 6.16: Number of breaches in the sustainability indicators from 2006-07 to 2018-19

Years	No. of breaches in the sustainability path indicators
2006-07	0
2007-08	1
2008-09	2
2009-10	3
2010-11	2
2011-12	2
2012-13	0
2013-14	3
2014-15	7
2015-16	4
2016-17	2
2017-18 RE	3
2018-19 BE	4

Table 6.17: Indicators and frequency of observed breaches

Indicator	Frequency of observed breaches
Rate of nominal growth of GSDP (Y) should be more than rate of growth of debt (D)	4
Real output growth (y) should be higher than real interest rate*	2
Primary Balance should be in Surplus	10
Primary Revenue Balance (PRB) as % to GSDP should be greater than zero	0
Primary Revenue Balance (PRB) should be in surplus and adequate to meet interest payments (IP)	9
Interest Burden defined by Interest Payments (IP) to GSDP ratio should decline over time	1
Interest Payments as a proportion of Revenue Expenditure should decline overtime	2
Interest Payments as a proportion of Revenue Receipts should decline overtime	3
Total Debt to GSDP ratio should decline over time	2

Based on the indicators given above, we make the following observations on the sustainability of debt taken by GoM.

- The indicator on which the Government falls short of sustainability definitions consistently is the one of Primary Balance. In six years out of 10 years, the Primary Balance of the State is in a deficit. By definition, the Primary Balance = (Revenue Receipts + Non-debt creating Capital Receipts) less (Revenue Expenditure net of Interest Payments + Capital Expenditure). If Primary Balance is negative, it indicates that the Revenue Receipts are not performing well and/ or Revenue Expenditures other than interest payments tend to be rigid.
- The GoM does not perform well on the indicator pertaining to Primary Revenue Balance (PRB) either. The Primary Revenue Balance of the GoM is positive in all ten years from 2006-07 to 2018-19, which is encouraging. It implies that if we net out interest payments, the Revenue Receipts are enough to accommodate the other Revenue Expenditure items. However, in six out of ten years, the PRB is not enough to accommodate interest payments. This implies that the Revenue Earnings are not buoyant enough and/or interest payments are extremely high.
- The above two points lead us to conclude that a pincer movement is required to create more prudential budgeting. On one hand, the Revenue Expenditures have to be curtailed and targeted towards the right sectors. On the other hand, the GoM will have to seriously look at the possibility of raising more revenues. This could be done through increments in the profession tax (See Chapter 2 for more details) or through increments in user-charge based revenue sources (See Chapter 3 for more details).
- The two years in which no breach of any sustainability indicator took place are 2006-07 and 2012-13. The reason for the superior performance in both the years is the higher tax collection in both the years (See Chapter 1). Higher tax collections were reflected in Revenue Receipts and hence, the Primary Revenue Balance was not only positive but was enough to accommodate the interest payments outgo. This highlights the importance that the GoM ought to give to increasing tax collections.
- Finally, the maximum number of breaches to sustainability seem to occur in 2014-15. The drought conditions in that fiscal, together with the fact that it was an election year, could have created the deviation in the sustainability path.

In the next chapter, we discuss implementation of the FRBM Act in Maharashtra.

Major Findings

- The Debt to GSDP ratio in Maharashtra shows a secular decline from 2006-07 onwards. Within Public Debt, there is a huge compositional shift away from loans from the Central Government towards internal debt. Issuance of SDLs dominates amongst the sources of internal debt.
- The state government has reduced its borrowings from the longer term debt towards shorter term debt. Since short term debt normally carries lower interest rates, this has a favourable impact on the interest payments to GSDP ratio

CHAPTER – 7

IMPLEMENTATION OF THE FRBM ACT

The Government of Maharashtra has enacted the Fiscal Responsibility and Budgetary Management Act, 2005. The Act envisages "progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability (CAG Report No.2, 2017)".The first set of rules pertaining to the Act was created in 2006.

The FRBM Act was amended in 2006 and was titled Fiscal Responsibility and Budgetary Management Act, 2006. Its rules (Maharashtra Fiscal Responsibility and Budgetary Management Rules i.e. MFRBMR) were created in 2008. However, the MFRBMR 2008 were not different from MFRBMR 2006 in terms of fiscal targets.

The Rules were again amended in 2011. It is pertinent to note that the Rules as created in 2008 and as created later in 2011 envisage a different set of fiscal targets. The Rules were again amended in 2012. MFRBMR 2011 and MFRBMR 2012 do not differ from each other in terms of fiscal targets.

Thus, broadly, the State's indicators pertaining to fiscal discipline have been different before 2011 and after 2011. Let us examine the fiscal indicators mentioned in MFRBMR 2006 and MFRBM 2008.

According to MFRBMR 2008, following were the main fiscal targets envisaged for the State:

1. Reduce the revenue deficit by one *per cent* or more of the GSDP in the first year, 1.5 *per cent* or more in the first two years, two *per cent* or more in the first three years, beginning from the financial year 2005-06 and the entire deficit by 2008-09.
2. Reduce the fiscal deficit by an amount equivalent to 0.3 *per cent* or more of the GSDP at the end of each financial year beginning with the financial year 2005-06 until the fiscal deficit is brought down to not more than three *per cent* of the GSDP. The fiscal deficit in 2008-09 and thereafter should not exceed three *per cent* of GSDP.

However, as per the 2012 MFRBMR, following are the major fiscal targets for the State:

1. The fiscal deficit of the State Government shall not exceed three per cent of GSDP in 2010-11 and thereafter.
2. The State Government shall maintain the outstanding debt to GSDP upto 26.1 per cent in 2011-12, 25.8 per cent in 2012-13, 25.5 per cent in 2013-14, 25.3 per cent in 2014-15 and 17.6 per cent in 2015-16.

It is interesting to note that the new MFRBM Rules of 2011 do not create a target around reduction of Revenue Deficits at all.

The MFRBMA requires the Government to table the Medium Term Fiscal Policy Statement (MTFPS) as well as the Fiscal Policy Strategy Statement along with the Budget before the Legislature. The MTFPS is a key document that presents three year rolling targets pertaining to the management of deficits and debts. The MTFPS, read together with the current year's budget, helps us to understand how the Government plans the glide path towards the desired targets as set in the MFRBMR.

Thus, there are four sets of numbers that need to be examined to get a view of implementation of the FRBM Act: The Budget Estimates presented by the Government for the upcoming year, the rolling target set by the Government for the next fiscal as given in the MTFPS, the targets set under the MFRBMR, 2011 and the actual numbers achieved. The main focus of the chapter is to examine the track record of the State Government in adhering to the fiscal targets set by it

i) for the upcoming year (BE)
ii) for the next fiscal (MTFPS) and
iii) within the limits set by the MFRBMR.

Since the MTFPS documents were available from 2006-07, the rolling targets were only available from 2007-08 onwards. Hence, the comparisons of actual to targets have been carried out from 2007-08 onwards.

7.1 Fiscal Marksmanship of the GoM: Comparing the Actual Performance with Budget Estimates

Fiscal marksmanship refers to the accuracy with which the Actual numbers (pertaining to revenue and expenditure) of the Government match the budgeted numbers as given in the

Budget. Since each budget is seen to be a logical step in the glide-path towards achieving the MFRBMR targets, any deviation from the same may be construed to be a movement away from the sustainable glide-path envisaged under the MFRBMR.

The following table shows the BE for several variables pertinent to the FRBM, together with the actual figures for those variables.

Table 7.1: Budget Estimates vs. Actual Figures (2007-08 to 2015-16)

Indicator	BE vs. Actuals	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue surplus (+)/Deficit (-) as percentage of GSDP	Target	0	-0.15	0.89	0.86	0	0.01	0.01	-0.25	-0.2
	Actuals	2.2	0.74	-0.94	-0.06	-0.18	0.29	-0.31	-0.68	-0.27
Fiscal Surplus (+)/Deficit (-) as percentage of GSDP	Target	-1.97	-2	-3.33	-2.74	-1.93	-1.72	-1.57	-1.87	-1.63
	Actuals	0.4	-1.86	-3.06	-1.8	-1.56	-0.94	-1.58	-1.79	-1.43
Tax Revenue as percentage of GSDP	Target	9.38	9.25	7.46	8.43	8.23	8.12	8.15	8.4	8.45
	Actuals	9.33	7.77	7.76	8.09	8.42	8.96	8.29	7.48	7.73
Total Debt Stock as percentage of GSDP	Target	25.53	24.09	23.29	23.71	19.17	18.84	17.6	18.17	17.46
	Actuals	24.09	20.79	20.91	19.01	18.84	18.64	17.84	16.59	16.2

Source: Various Budget Documents (for BE) and CAG Reports (for Actuals)

We have a number of rather grim observations on fiscal marksmanship of the Government of Maharashtra:

- The targets for Revenue Deficits have not been met for a number of years. The actual Revenue Deficits have been higher than the targeted deficits for almost all years since 2009-10.
- It is immediately obvious that a big source of pressure on Revenue Deficits is the poor tax/GSDP ratio. The targeted tax/GSDP ratio has not been met in five of the nine years in the dataset. While this is a problem in itself, there seems to be an even more worrisome trend in tax collection: *We find that the Government is targeting a poorer tax/GSDP ratio*

year on year. The reduction in the targeted tax/GSDP ratio indicates extremely poor commitment to improve tax collections and/or to create a policy environment in which tax collections can increase.

- Despite these issues however, the targets for Fiscal Deficits have been mostly met by the Government. If the Government is unable to meet the Revenue Deficit target but is able to meet the Fiscal Deficit target, then it implies that the Capital Account must be in surplus. This is possible either with higher borrowings or with lesser Capex.
- Given that the Government has also met the debt-related targets (the Budget Estimates for Debt/GSDP ratio fall secularly), the obvious implication of the above data is that Capital Expenditure must have been compromised to achieve budget targets. This is a worrisome trend indeed.
- Thus, in terms of Fiscal Deficit as a percentage of GSDP and Debt/GSDP ratio, which are the two variables on which the MFRBMR insists on meeting targets, we find that the fiscal marksmanship of the Government is good. However, when it is viewed together with the underlying trends in targets and achievements, we find that there are two major issues with the fiscal health of the GoM: Its tax collections as well as tax collection aspirations are extremely low, and the entire brunt of fiscal adjustment falls on the Capital Expenditure.

7.2 Adherence to MTFPS targets

The MTFPS is a key document that presents three year rolling targets pertaining to the management of Revenue Deficits as well as pertaining to use of debt for creation of capital assets. The target set for the immediately upcoming year is the Budget Estimate (BE). In Section 7.1, we have already commented on whether the targets set in the BE stand achieved by the State.

We now comment on whether the targets set for the next fiscal year are met by the Government. The following table illustrates.

Table 7.2: MTFPS Targets vs. Actual Figures (2007-08 to 2015-16)

Indicator	Target under MTFPS vs. Actuals	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue surplus (+)/Deficit (-) as percentage of GSDP	Target	-0.48	0	-0.16	0.45	0.42	0	0	0.01	0
	Actuals	2.2	0.74	-0.94	-0.06	-0.18	0.29	-0.31	-0.68	-0.27
Fiscal Surplus (+)/Deficit (-) as percentage of GSDP	Target	-2.16	-3	-2.12	-2.5	-3	-1.91	-1.73	-1.57	-1.88
	Actuals	0.4	-1.86	-3.06	-1.8	-1.56	-0.94	-1.58	-1.79	-1.43
Tax Revenue as percentage of GSDP	Target	10.11	9.42	9.16	8.16	8.48	8.24	8.14	8.19	8.41
	Actuals	9.33	7.77	7.76	8.09	8.42	8.96	8.29	7.48	7.73
Total Debt Stock as percentage of GSDP	Target	25.65	23.81	23.1	22.85	23.8	18.57	18.56	17.29	18.11
	Actuals	24.09	20.79	20.91	19.01	18.84	18.64	17.84	16.59	16.2

Source: MTFPS documents for various years (for targets) and various CAG reports (for Actual numbers)

In the Budget for 2007-08, the BE for Revenue Deficit was zero and the BE for Fiscal Deficit was (-) 1.97 per cent of the GSDP (See Table 6.1). The MTFPS presented with Budget 2007-08 envisaged that in the next fiscal year 2008-09, the Revenue Deficit would again be zero and that the Fiscal Deficit would be (-) 3 per cent of the GSDP (See Table 7.2). In this section, we examine the extent of the fiscal marksmanship of the Government of Maharashtra regarding its future glide-path. Following are our observations:

- We find that in six out of nine years, the Government is not able to achieve the targeted Revenue Deficit position indicated in the glide-path. This has two implications for fiscal health of the State. First, it implies that the Government takes an overly optimistic view about the future and hence sets unrealistic targets for itself in the future. This indicates that the Government is not willing to recognize the challenges in its revenue account trajectory. Second, it could imply that targets are not overly optimistic, but the Government fails to achieve the targets due to lack of will/ policy initiatives to enhance tax and non-tax revenues or due to excessive revenue expenditure.

- It is again extremely worrisome that the Government of Maharashtra sets lowered tax/GSDP ratio targets for itself in the medium term.
- The Government envisages the debt/GSDP ratio to fall in the medium term in the same time period as it envisages the tax/GSDP ratio to fall. This can only happen if expenditure is curtailed. However, given that the Revenue Deficit targets have not been met, it seems to be the case that the Revenue Expenditures have not been curtailed significantly. This implies that the Capex must have been compromised to meet the medium term debt targets.

7.3 Is fiscal marksmanship is an adequate measure to assess the Government's budget-skills?

The above two sections highlight that the Government of Maharashtra largely seems to have adhered to the targets mentioned in the MFRBMR: Fiscal deficit should be less than 3 per cent and debt/ GSDP ratio should be less than 17.6 per cent. One would be tempted to claim that the fiscal marksmanship of the Government of Maharashtra has been remarkable. For most of the years since 2007-08, our Fiscal Deficit targets have always been met and the debt/GSDP ratio too has never exceeded target. However, when we view the disaggregated trends in the data, the fault lines come to light.

The first true systemic issue within State finances is that the revenue generation capacity of the State is seriously low. The tax to GSDP ratio for the State is far lesser than other comparable, large-sized developed States. Despite this fact, the Government has lowered the target on tax/GSDP ratio. This is the first grim and extremely worrisome trend in the budget statistics. Despite lowered targets, it has not been able to meet the tax/GSDP ratio envisaged for the medium term. This really speaks volumes about the lack of creative policy making in the tax-space in Maharashtra. Further, non-tax revenues are less than 1 per cent of the GSDP. No creative solutions at the policy level are visible for generating higher non-tax collections.

Even when the revenues have not been up to the mark, the Fiscal Deficit targets have been adhered to. Thus, the finances of Maharashtra show an underlying pattern of low revenue collections, lower expenditures and limited debts, leading to fiscal sustainability. The State perhaps needs to re-set its thinking on such a pattern of sustainability. There is a need to

aggressively re-orient the revenue collection policy, which could make higher social sector spending and higher Capex sustainable.

Fiscal marksmanship only refers to the ability of the Government to adhere to targets. Whether the targets are set optimally or realistically is not really taken into account whilst assessing the marksmanship of the Government. To conclude, our assessment is that while implementation of FRBM has been fairly successful, there remains considerable headroom for betterment of finances through an aggressive revenue generation policy.

Major Findings

- The state government has been able to adhere to targets for Fiscal Deficit and Debt/GSDP. However, it fails to comply with the Revenue Deficit targets.
- A huge proportion of the borrowings of the state are increasingly being used for financing of the existing debt and this reduces the capital expenditure of the state.
- Thus, fiscal marksmanship in Maharashtra comes at a heavy price: The capital expenditure has been suffering even though FRBM targets are met.

CHAPTER - 8
FINANCES OF LOCAL BODIES

8.1 Structure of Local Bodies in Maharashtra

Local bodies in Maharashtra consist of Panchayati Raj Institutions and Urban Local Bodies. In conformity with the provisions of the 73rd and 74th Constitutional Amendment, the State Government established a three tier system of Panchayati Raj Institutions comprising Zilla Parishads at the district level, Panchayat Samitis at the block level and Village Panchayats at the village level. There are Municipal Corporations, Municipal Councils and Nagar Panchayats for governing the urban population in the State.

Table 8.1: Number of local bodies in Maharashtra

ULBs and PRIs	Number of local bodies in Maharashtra
Municipal Corporations	27
Municipal Councils	236
Nagar Panchayats	124
Zilla Parishads	34
Panchayat Samitis	351
Gram Panchayats	27854

Successive FCs have been sensitive about augmenting the Consolidated Funds of States so that the resource needs of the local bodies (LBs) can be met. Apart from FC grants, LBs also receive transfers from the State Government. Analysis of State's transfers to urban and rural local bodies (LBs) from 2006-07 to 2015-16[1] entails an understanding of the quantum of funds transferred to the local bodies as well as of the qualitative aspects of the transfers. Transfer of funds to local bodies can be analyzed against the backdrop of the recommendations Central and State Finance

[1] Data on finances of local bodies has been availed through CAG reports, which present data only till 2015-16. Hence, this chapter analyzes data trends only till 2015-16.

Commissions. In this chapter, we firstly lay down the approach of successive FCs to local bodies and highlight the major recommendations of the 4th State Finance Commission of Maharashtra (2011-16). The quantum of funds transferred and the changes in the qualitative aspects of the same are brought out in the context of the recommendations.

8.2 Finance Commissions, Devolution of funds to LBs and Recommendations of the 4th SFC in Maharashtra

The history of FCs recommending grants to LBs begins with the Tenth FC. Actually, the TORs of the 10th FC did not explicitly mention grants to support local bodies. However, since the 73rd and 74th Constitutional Amendments had been recently enacted (1992), the 10th FC recommended grants to be given to the State Governments for strengthening the LBs within the States. Since there were no data sources (such as reports of the State Finance Commissions) based on which the assessment of the need of the LBs could be carried out, the 10th FC recommended ad hoc grants to local bodies.

The TORs of the 11th FC had explicit references to the LBs. The TORs stated that the FC should assess the resources required for augmenting the Consolidated Funds of States so as to supplement the resources of the LBs in the State. Interestingly, the TORs to the 11th FC also explicitly mentioned that the State Finance Commission (SFC) Reports be used as a primary data source in the assessment. The 11th FC highlighted a number of issues connected with the SFC Reports. First, the time periods of the Central FC and the SFCs are not synchronized. Second, there was extreme diversity in approach and data compilations of the different SFCs. Thirdly and importantly, a huge delay on parts of State Governments to table the Action Taken Reports (ATRs) in respective Legislatures was observed. Given these constraints, the SFC reports were not too helpful in assessment of needs of local bodies. Subsequently, the 11th FC also recommended ad hoc grants.

Even the 12th FC gave grants on an ad-hoc basis citing that the data furnished by the SFCs as well as the State Governments on matters related to the budgetary needs and performances of LBs was highly insufficient.

The grants given by the 10th, 11th and 12th FCs to augment the Consolidated Funds of States with grants for LBs were 1.38 per cent, 0.78 per cent and 1.24 per cent of the divisible pool of taxes

respectively. It is with the 13th FC that the amount of grants to LBs showed a quantum leap. The 13th FC transferred 2.28 per cent of the total divisible pool of taxes to the States (over and above the tax share) as grants-in-aid for augmenting the resources of the LBs under Article 275. It divided the grants into two components: a basic grant and a performance grant. The 14th FC went a step further and transferred 4 per cent of the total divisible pool of taxes to the States (over and above the tax share) as grants-in-aid for augmenting the resources of the LBs under Article 275. The structure of the basic and performance based grant was retained.

This review indicates that FCs have been increasingly sensitive about augmenting the Consolidated Funds of States so that the resources of the LBs can be strengthened. While doing so, they have re-iterated some of the issues in assessing the needs of ULBs and PRIs. These issues have to do with non-synchronous time periods between the FCs and SFCs, lack of standardized data, inconsistent and incomplete data received from SFCs as well as State Governments, lack of audited reports of LBs, delays in tabling the Action Taken Reports (ATRs) by the State Governments, etc.

Successive FCs have also highlighted the common themes emerging from the SFC Reports. These are:

- SFCs have highlighted the need for complete and consistent data to facilitate assessment of the resources and needs of the LBs
- They have emphasized the need for compilation of Accounts in a standardized manner and the requirement to carry out timely audits of the same
- Almost all SFCs have stated that LBs need to be encouraged to generate their own revenues
- LBs also have to improve the delivery of basic services

Similar themes also appear in the Report of the 4th State Finance Commission of Maharashtra. Following are some of the main observations and recommendations of the 4th State Finance Commission of Maharashtra pertinent to transfer of funds:

1. The Commission "strongly recommends devolution of at least 40 per cent of State Revenue from tax and non-tax revenue to local self-government. (4th Maharashtra SFC

Report, pg 571).” However, this recommendation has not been accepted by the State Government.

The actual “allocation” of funds by the State Government stands at about 20 per cent of Total Revenue (Report of CAG on Local Bodies for year ended March 2016). Please note that the “allocation” done by the State Government is not the same as devolution. The State Government allocates 20 per cent of its own tax and non-tax revenue to the LBs, which includes transfers for payment of salaries, scheme transfers etc. The 4th SFC has given the opinion that paucity of funds at the level of the LBs has translated into poor service delivery outcomes.

2. The 4th SFC also has recommended that the State Government should decide the percentage of allocation to PRIs and ULBs separately. The allocation percentage of PRIs and ULBs should depend on the percentage of population residing in the rural and urban areas. After setting aside 20 per cent for performance grants, 55 per cent of the divisible pool should be transferred to PRIs and 45 per cent to the ULBs. Amongst Municipal Corporations and Municipal Councils, the ratio of devolutions should be 40:60. Between the Zilla Parishads, Panchayat Samitis and Gram Panchayats, the ratio of devolution should be 30 per cent, 20 per cent and 50 per cent.

3. The State Government should publish the next year’s allocation list with details of names of PRIs and ULBs and the amounts allocated as Appendices and Annexures in regular State Budgets to Legislatures as recommended by 13th FC.

4. Devolution of functions without appropriately providing financial resources to carry out the same is meaningless. Hence, revenue sources of the local bodies should stand enhanced. To this end, the 4th SFC has recommended that Acts related to PRIs and ULBs need to be amended so as to incorporate provisions for application of user charges and for taking away freezing limits for the rates of fines and penalties. Political compulsions often restrain elected representatives from increasing taxes or applying user charges. So, the decision to levy the service charges for maintenance and capital expenditure should be vested in the Commissioners/ Chief Officers of ULBs and the CEOs of Zilla Parishads (4th Maharashtra SFC Report, pg 66).

8.3 Comparison of recommended devolution with the actual allocation to LBs

In this section, we compare the actual "allocations" done by the State Government in each year with the recommended "devolutions" by the relevant State Finance Commission for that year.

The CAG publishes Report no. 5 on local bodies, which we have used as the data source for compiling the data on actual allocation by State Government to LBs. The 3rd and the 4th SFC had recommended that 40 per cent of the total tax and non-tax revenue of the State be devolved to local bodies. However, this recommendation was not accepted by the State Government. We calculate the amounts that would have been transferred to LBs in general and to PRIs and ULBs in particular, under the recommendations of the 3rd and the 4th SFC. We compare this to the amounts actually allocated by the State Government.

Table 8.2: Comparison of Recommended Amounts to the Actual Amounts allocated to LBs

Sr. No	Head	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	State total revenue (Tax and Non-tax revenues)	47617	64476	61820	67459	83252	95776.2	113433	119950	127645	140031
2	Recommended Transfer Amount (40 per cent)	19047	25791	24728	26984	33301	38310.5	45373.2	47980	51057.9	56012.4
3	Actual Allocation to PRIs	7321 (15.38)	8007.3 (12.42)	10502 (16.99)	11727 (17.38)	13261 (15.93)	14294.7 (14.93)	16444.4 (14.5)	18185 (15.16)	18769.4 (14.7)	18239.9 (13.02)
4	Actual Allocation to ULBs	2652 (5.57)	1351.3 (2.1)	1651.5 (2.67)	1708.9 (2.53)	4350 (5.23)	4871.33 (5.08)	4401.93 (3.88)	5179.7 (4.32)	5172.3 (4.05)	9187.23 (6.56)
5	Total Allocation to PRIs and ULBs	9974 (20.95)	9358.6 (14.51)	12153 (19.66)	13436 (19.92)	17611 (21.16)	19166.1 (20.01)	20846.4 (18.38)	23364 (19.48)	23941.7 18.75	27427.1 (19.58)
4	Percentage of allocation to State revenue (Tax and Non-tax revenues)	20.95	14.51	19.66	19.92	21.16	20.01	18.38	19.48	18.75	19.58

Source: CAG Report 2012-13 and 2015-16

Figure 8.1: LB allocations in Maharashtra as a percentage of State Total Revenues and comparison to Recommended Transfers

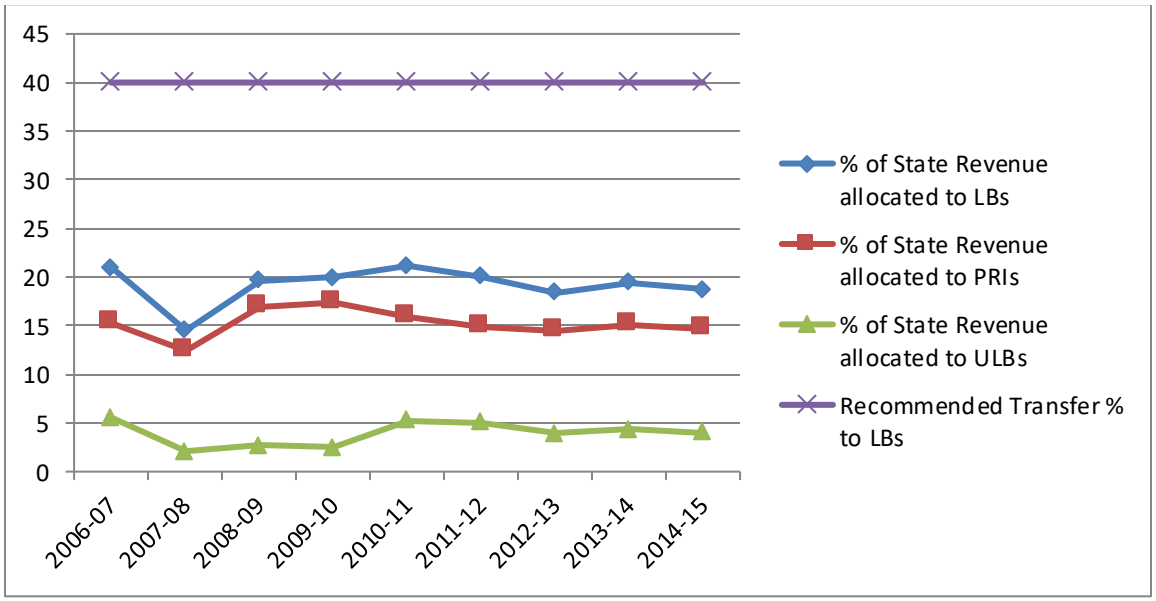


Table 8.3: Average percentage of Allocation to LBs to the Total Revenue of State Government and to GSDP

Average Allocation to LBs (2006-07 to 2015-16)	LBs	PRIs	ULBs
% to Total Revenue of State Government (exclusive of shared taxes and grants in aid from Centre)	19.24	15.04	4.20
% to GSDP	1.50	1.18	0.32

The total amounts actually allocated to the LBs seem to stand at about 20 per cent from 2006-07 to 2015-16 i.e. the actual allocations are only a half of the recommended transfers. There were two reasons for the State Government not accepting the recommendations of the SFC. The first reason was that even though it seemed to be the case that the State Government was only allocating 20 per cent of the tax and non-tax revenue with the LBs, it was actually transferring a higher level of funds to the LBs through grants towards natural calamities, rehabilitation of farmers and assistance for increased electricity bills to farmers. The second reason was that the recommendation would create pressure on state finances, which were already under duress.

Table 8.3 also shows that the share of the rural local bodies is fairly high in the total allocations to the LBs. PRI allocations stand at nearly 78 per cent of the total allocation, whereas urban

bodies get only 22 per cent of the total allocations. It is pertinent here to recall the recommendation of the 4th SFC. The 4th SFC has recommended that the percentage of transfers allocated to the PRIs and ULBs should reflect the population residing in rural and urban areas respectively. It has accordingly recommended that the rural and urban local bodies get 55 per cent and 45 per cent of the total State Revenues. We find that there is a huge deviation from the recommendations of the 4th SFC and that the ULBs are not getting enough share of the total transfers.

Table 8.3 also indicates that allocations to LBs in Maharashtra State account for only about 1.5 per cent of the GSDP. It might be fruitful to compare this with the averages from other countries.

Table 8.4: Allocations to LBs as a percentage of GDP in Developed, Developing and Emerging Economies

Countries	**Transfers to LBs as a % of GSDP**
Developed countries (number of countries)	5.5 (25)
Developing countries (number of countries)	2.2 (73)
Transition economies (number of countries)	2.9 (22)
Maharashtra (% of GSDP)	1.5

Source: Bahl and Wallace (2007)

Transfers to LBs in developing economies stand at about 2.2 per cent of the GDP. However, in Maharashtra, the (apparent) transfers account for only 1.5 per cent of the GSDP.

8.3 Analysis of finances of PRIs

In this section, we present the total receipts and expenditures of the PRIs from 2006-07 to 2014-15.

Table 8.5: Total Receipts (Rs. crores), Expenditures (Rs. crores) and Deficit/ Surplus Position of PRIs (Rs. Cr) from 2006-07 to 2014-15

Years	Total Receipts	Total Expnd	Deficit (-) / Surplus (+)
2006-07	11797	11413	384
2007-08	12170	11492	678
2008-09	17183	16031	1152
2009-10	21164	20033	1131
2010-11	24308	23485	823
2011-12	29152	27668	1484
2012-13	36510	32353	4157
2013-14	37844	35672	2172
2014-15	42402	41132	1270

Source: Compiled from various CAG reports; Note: Data for 2015-16 not available

The receipts as well as expenditures of the PRIs show a CAGR of about 17 per cent. The PRIs manage their expenditures within their revenue limits.

Table 8.6: Revenue Composition of Zilla Parishads

Year	Govt. grants	Own tax and non-tax revenue	Total Receipts	Share of Govt. Grants in Total Receipts	Share of Own Tax and Non-tax Revenues in Total Receipts
2006-07	7784	332	8116	95.91	4.09
2007-08	8246	344	8590	96.00	4.00
2008-09	11825	985	12810	92.31	7.69
2009-10	15240	759	15999	95.26	4.74
2010-11	17721	934	18655	94.99	5.01
2011-12	19762	1079	20841	94.82	5.18
2012-13	21630	1706	23336	92.69	7.31
2013-14	23423	1774	25197	92.96	7.04
2014-15	26473	3841	30314	87.33	12.67

Source: Various CAG reports

Figure 8.2: Sources of Revenues as percentage of Total Revenue Receipts in Zilla Parishads

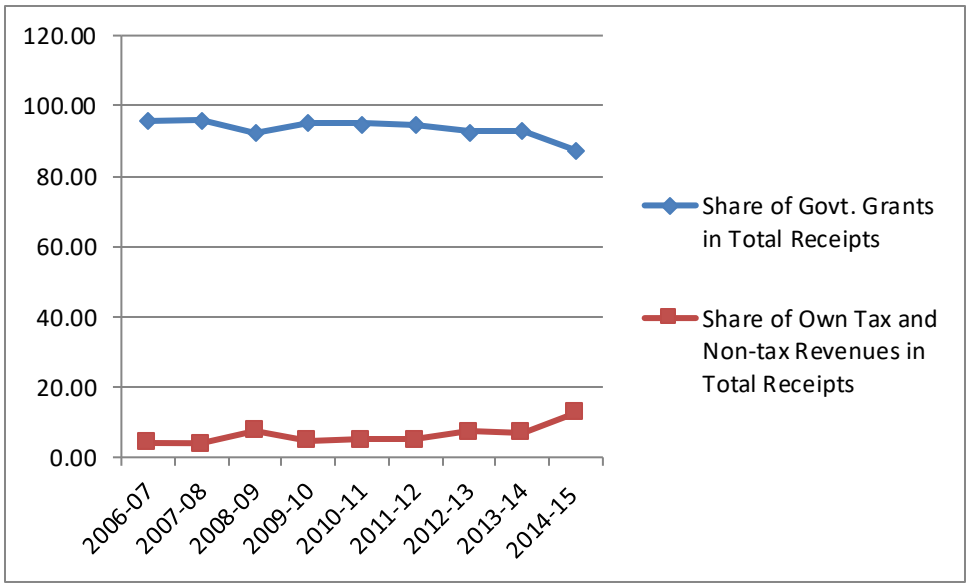
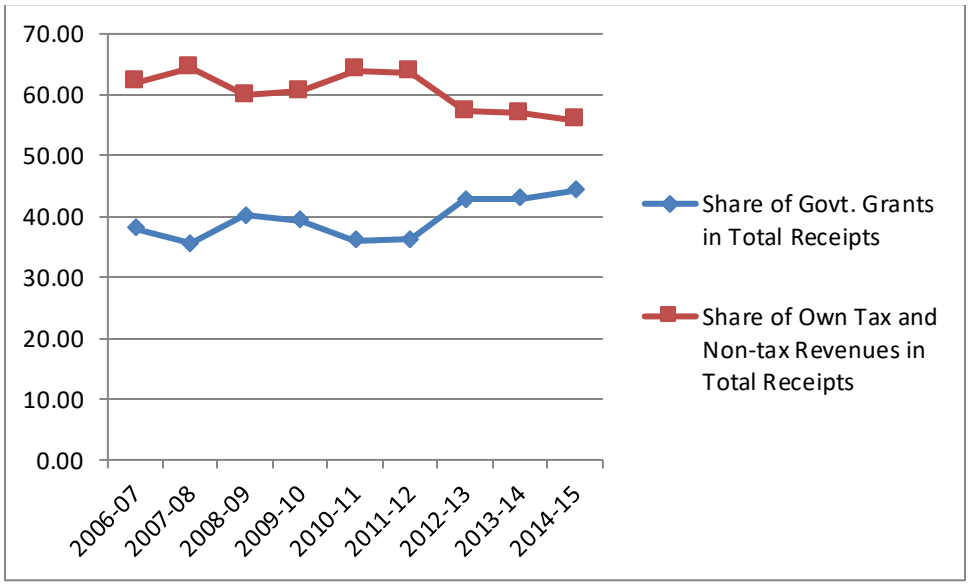


Table 8.7: Revenue Composition of Gram Panchayats

Year	Govt. grants	Own tax and non-tax revenue	Total Receipts	Share of Govt. Grants in Total Receipts	Share of Own Tax and Non-tax Revenues in Total Receipts
2006-07	376	614	990	37.98	62.02
2007-08	377	682	1059	35.60	64.40
2008-09	524	783	1307	40.09	59.91
2009-10	627	965	1592	39.38	60.62
2010-11	618	1096	1714	36.06	63.94
2011-12	1163	2043	3206	36.28	63.72
2012-13	1235	1649	2884	42.82	57.18
2013-14	1229	1627	2856	43.03	56.97
2014-15	1899	2393	4292	44.25	55.75

Source: Various CAG reports

Figure 8.3: Sources of Revenues as percentage of Total Revenue Receipts in Gram Panchayats



Historically, within the Zilla Parishads, the share of own revenue sources (tax and non-tax) has been extremely poor and there is a heavy dependence on Government grants. From 2006-07 to 2015-16, the share of Government grants declines marginally from 95 per cent to 87 per cent. In the context of Gram Panchayats, we find that share of Government grants in total receipts is lower (around 40 per cent), but it rises marginally from 38 per cent to 44 per cent from 2006-07 to 2015-16.

We next examine the Total Expenditures in a disaggregated format to identify the proportion of expenditures on Revenue and Capital Account.

Table 8.8: Revenue Expenditure, Capital Expenditure and Total Expenditure of ZPs and PSs

Years	Revenue Expenditure	Capital Expenditure	Total Expnd	Percentage Expnd on Revenue Account	Percentage Expnd on Capital Account
2006-07	8161	2314	10475	77.91	22.09
2007-08	8494	1923	10417	81.54	18.46
2008-09	11661	3118	14779	78.90	21.10
2009-10	15309	3365	18674	81.98	18.02
2010-11	17454	4548	22002	79.33	20.67
2011-12	20507	4114	24621	83.29	16.71
2012-13	21835	8168	30003	72.78	27.22
2013-14	23398	8935	32333	72.37	27.63
2014-15	28701	8212	36913	77.75	22.25

Source: Compiled from various CAG reports

On an average, 78.43 per cent of the Total Expenditure of ZPs and PSs is on Revenue Account items and only 21.57 per cent is towards asset building programs at the level of ZPs and PSs. No major compositional shift over the past 10 years in terms of shares of revenue and capital expenditures.

Table 8.9: Revenue Expenditure, Capital Expenditure and Total Expenditure of GPs

Years	Revenue Expenditure	Capital Expenditure	Total Expnd	Percentage Expnd on Revenue Account	Percentage Expnd on Capital Account
2008-09	1244	8	1252	99.36	0.64
2009-10	1337	22	1359	98.38	1.62
2010-11	1392	5	1397	99.64	0.36
2011-12	3043	4	3047	99.87	0.13
2012-13	2006	344	2350	85.36	14.64
2013-14	2836	503	3339	84.94	15.06
2014-15	3583	636	4219	84.93	15.07

Source: CAG Report no.5 for 2013-14 (pg.5) and CAG Report no.5 for 2014-15 (pg 5)

From 2006-07 to 2015-16, on an average, 93 per cent of the Total Expenditure of Gram Panchayats is on Revenue Account items and only about 7 per cent is towards asset building activities. However, the capital expenditure has increased sharply after 2011-12, which is encouraging. Thus, in the award period of the 13th FC, we find that the average expenditure on capital account is 11 per cent of the total expenditure.

We next compile the component-wise expenditure carried out by all PRIs on the revenue and capital accounts.

Table 8.10: Components of Revenue and Capital Expenditures (Rs. crores) within PRIs

Sr. No.	Components	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1	Education	4800	7309	8499	9827	10954	10639	13774
2	Health and Sanitation	1722	1778	2308	2335	2004	1980	2279
3	Public Works	1234	1573	2092	2531	2247	2381	3052
4	Social Welfare	522	589	1075	1177	903	947	1089
5	Irrigation	455	438	852	516	783	644	548
6	Animal Husbandry	167	219	262	295	326	416	435
7	Agriculture	129	182	283	205	352	380	369
8	Public lighting	65	90	81	106	72	66	86
9	Forest	5	5	28	28	1	3	8
10	Administration	1142	1372	1590	2156	2327	2076	3158
11	Rural Water Supply	0	0	0	0	402	405	1063
12	Women and Child	0	0	0	0	574	465	465
13	Other revenue expenditure	2664	3092	5069	4374	2896	5832	5958
14	Capital expenditure	3126	3387	4986	4118	8512	9438	8848
	Total	16031	20034	27125	27668	32353	35672	41132

Source: CAG Report no.5 for 2013-14 (pg.6) and CAG Report no.5 for 2014-15 (pg 6)

Table 8.11: Components of Revenue and Capital Expenditures (%) within PRIs

Sr. No.	Components	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1	Education	29.94	36.48	31.33	35.52	33.86	29.82	33.49
2	Health and Sanitation	10.74	8.87	8.51	8.44	6.19	5.55	5.54
3	Public Works	7.70	7.85	7.71	9.15	6.95	6.67	7.42
4	Social Welfare	3.26	2.94	3.96	4.25	2.79	2.65	2.65
5	Irrigation	2.84	2.19	3.14	1.86	2.42	1.81	1.33
6	Animal Husbandry	1.04	1.09	0.97	1.07	1.01	1.17	1.06
7	Agriculture	0.80	0.91	1.04	0.74	1.09	1.07	0.90
8	Public lighting	0.41	0.45	0.30	0.38	0.22	0.19	0.21
9	Forest	0.03	0.02	0.10	0.10	0.00	0.01	0.02
10	Administration	7.12	6.85	5.86	7.79	7.19	5.82	7.68
11	Rural Water Supply	0.00	0.00	0.00	0.00	1.24	1.14	2.58
12	Women and Child	0.00	0.00	0.00	0.00	1.77	1.30	1.13
13	Other revenue expenditure	16.62	15.43	18.69	15.81	8.95	16.35	14.49
14	Capital expenditure	19.50	16.91	18.38	14.88	26.31	26.46	21.51

Figure 8.4: Components of Expenditures (%) within PRIs

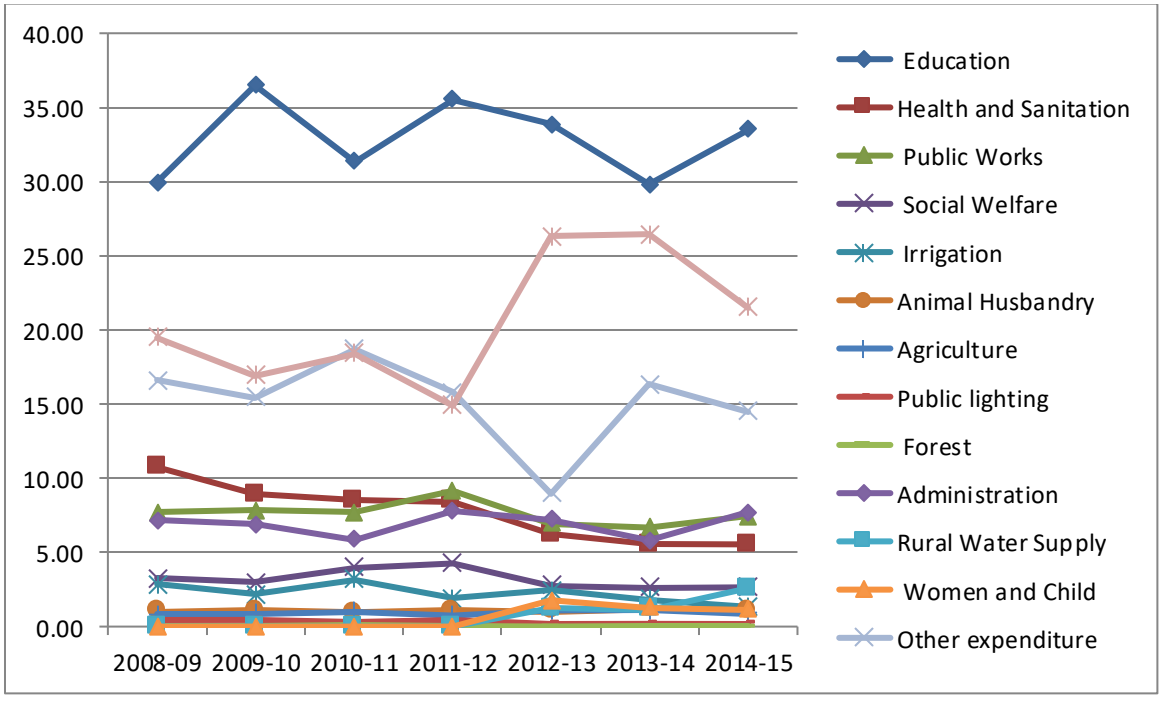


Table 8.12: Average percentage of expenditure on components

Sr. No.	Components	Average Percentage of Total Expnd
1	Education	32.92
2	Health and Sanitation	7.69
3	Public Works	7.64
4	Social Welfare	3.22
5	Irrigation	2.23
6	Animal Husbandry	1.06
7	Agriculture	0.94
8	Public lighting	0.31
9	Forest	0.04
10	Administration	6.90
11	Rural Water Supply	0.71
12	Women and Child	0.60
13	Other expenditure	15.19
14	Capital expenditure	20.56

We find that 32.92 per cent of the total spending of PRIs is on education and 7.69 per cent of the total spending is on health and sanitation. PRIs spend 7.64 per cent on public works and 6.9 per cent of their total expenditure on administration.

8.4 Analysis of finances of ULBs

In this section, we present the total receipts and expenditures of the ULBs from 2006-07 to 2014-15.

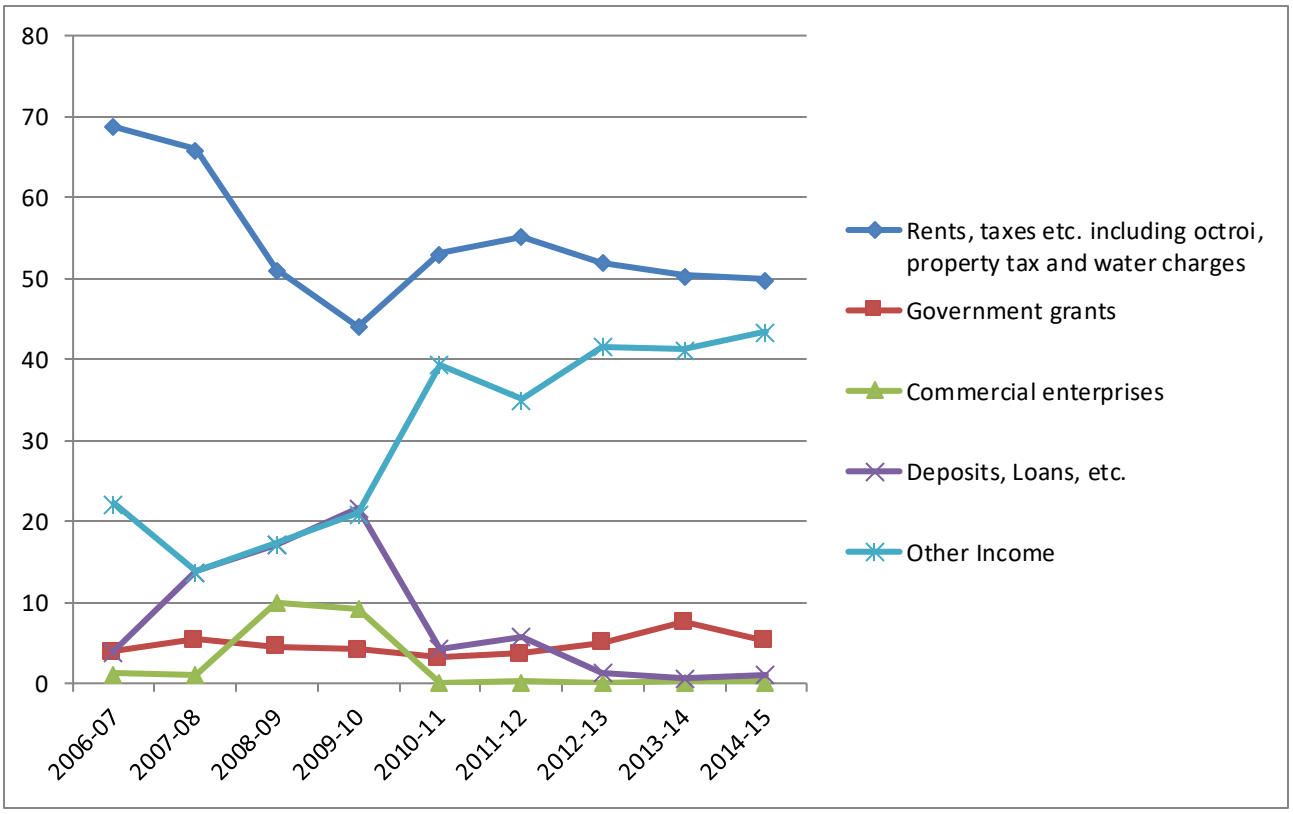
Table 8.13: Total Receipts (Rs. crores) including loans and Total Expenditures (Rs. crores) of ULBs

Items	Total Receipts	Total Expenditure	Deficit (-)/ Surplus (+)
2006-07	16217	14820	1397
2007-08	18348	16728	1620
2008-09	23973	24278	-305
2009-10	28860	28308	552
2010-11	30137	27558	2579
2011-12	32235	28647	3588
2012-13	37046	34568	2478
2013-14	40012	37229	2783
2014-15	43355	41229	2126

Table 8.14: Revenue Composition of ULBs

Item	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Average %
Rents, taxes etc. including octroi, property tax and water charges	11147 (68.74)	12094 (65.91)	12253 (51.11)	12712 (44.04)	15989 (53.05)	17800 (55.22)	19233 (51.92)	20173 (50.42)	21647 (49.93)	54.48
Government grants	636 (3.92)	990 (5.4)	1084 (4.52)	1217 (4.22)	972 (3.23)	1198 (3.72)	1867 (5.04)	3036 (7.59)	2302 (5.31)	4.77
Commercial enterprises	199 (1.22)	198 (1.08)	2387 (9.96)	2650 (9.18)	13 (0.04)	82 (0.25)	17 (0.05)	75 (0.19)	89 (0.21)	2.46
Deposits, Loans, etc.	640 (3.95)	2525 (13.76)	4111 (17.15)	6242 (21.63)	1280 (4.25)	1853 (5.75)	496 (1.33)	251 (0.63)	477 (1.1)	7.73
Other Income	3595 (22.17)	2541 (13.85)	4138 (17.26)	6039 (20.93)	11883 (39.43)	11302 (35.06)	15433 (41.66)	16477 (41.18)	18840 (43.45)	30.55
Total	16217	18348	23973	28860	30137	32235	37046	40012	43355	

Figure 8.5: Revenue Composition (%) of ULBs



The revenue composition of ULBs shows a sharp contrast to that of PRIs. Within the ULBs, the own revenue sources (Rents, Taxes etc., Income from Commercial Enterprises, Other Income) account for nearly 87.22 per cent of the total receipts, Government grants account for a meagre 4.77 per cent of the total receipts and loans and deposits account for 7.72 per cent of the total receipts.

We could not find relevant time-series data on the expenditure composition of the ULBs and hence that analysis has not been carried out in this report.

Finally, we offer an overview of the Audit reports on ULBs in Maharashtra. A common theme across audit reports from 2007-08 to 2015-16 is the lack of compliance in maintaining accounts in prescribed formats. This inhibits examination of revenue and expenditure sources and also creates a data lapse on the performance of the grassroot tiers of governance.

The CAG has pointed out to severe inefficiencies within the GoM as well as within the ULBs in terms of not complying with audit standards and formats for maintaining data. The following points elucidate.

- "The Government of Maharashtra adopted National Municipal Accounts Manual (NMAM) for implementation from 2005-06. However, the notification for the implementation of Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements was issued by GoM for the Municipal Councils only. No such Account code was prepared by the Director, Municipal Administration (DMA) for the Municipal Corporations even after 10 years of adoption of NMAM for implementation from 2005-06. Further, the notification for the implementation of Maharashtra Municipal Account Code, 2013 was issued by GoM in November 2014 i.e. after a delay of nearly two years (CAG Report No.5, 2014-15, pg 29)".
- By March 2015, CAG observed that "despite lapse of more than eight years (December 2006 to March 2015), none of the 36 (observed) Municipal Councils could switch over to DEAS on accrual basis under the Tally package".
- The GoM published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements of all the Municipal Councils. However, the same is not being followed.
- The Audits of the Local Bodies are carried out be Director, Local Fund Authority (DLFA) from 2015-16 onwards. However, DLFA could carry out Audits only upto 2012-13 for most Municipal Corporations as well as Municipal Councils. CAG states that the arrears in audits are due to non-submission of accounts in required formats.
- CAG reports have also pointed out instances of diversion of FC grants to other items of expenditure in a few Councils/ Corporations. This is a serious issue in itself and again points to the need to expedite adoption of accounting standards by the ULBs. Once the standards are adopted and audits occur in a timely manner, such instances can be brought to light speedily and remedial actions can also occur more quickly.

To conclude, the State Government allocates only about 20 per cent of its own tax and non-tax revenue with the local bodies. Within the allocations, the share of PRIs stands at 78 per cent. Thus, Urban Local Bodies do not get a share in the allocations reflecting their share in the population of Maharashtra.

PRIs are excessively dependent on State Government transfers. This implies that while the State Government has devolved funds and functions to PRIs, not much action has been taken on devolution of tax handles to the PRIs.

The dependence of ULBs on Government transfers is lower. However, the accounts of the ULBs are not being maintained in a manner expected by DLFA and hence there are audit arrears. This also implies a delay in highlighting serious instances of deviations (in revenues or expenditures) and a delay in terms of corrective actions.

Major Findings

- The actual "allocation" of funds to LBs stands at about 20 per cent of the Total (own tax and non-tax) Revenue of the State. Within the allocation to LBs, 78 per cent of the funds are allocated to PRIs, leaving the Urban local bodies (ULBs) with only 22 per cent of the allocated funds. Thus the share of allocated fund for ULBs (22 per cent) is far lesser than the share of urbanized population (45 per cent).
- Paucity of disaggregated data on local bodies continues to be a major challenge in Maharashtra.

Chapter - 9
IMPACT OF PSU FINANCES ON STATE FINANCE

Introduction

Public sector had been considered as one of the major instruments of state intervention in economic activity in the development process of a developing country. It used to be an effective instrument to regulate the pace and composition of private economic activity in a mixed economy. The objective was to achieve efficiency along with the social objective of growth with equitable distribution by setting some of the "core" economic activities in the public sector. Investment in the utility or infrastructure sector was not considered attractive to the private sector in a resource-scarce developing economy during the initial years of planned development and so, the public sector was to take the lead. Similar reasons also guided investment in the capital-goods industries and other segments of the economy.

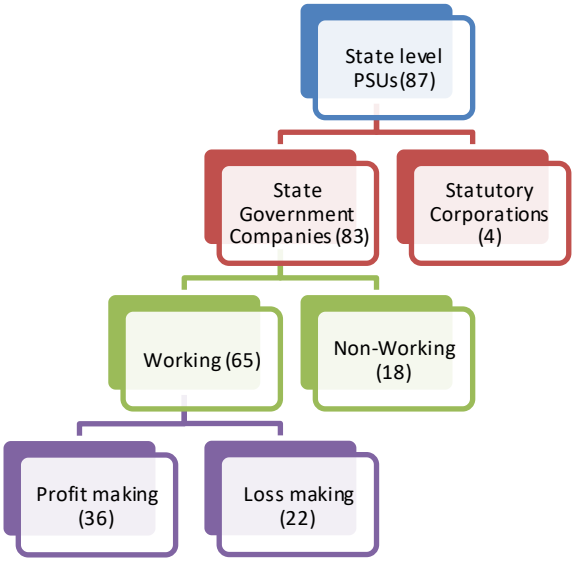
State Public Sector Units (PSUs) are commercial enterprises owned by the State Government. The State-run PSUs are subject to inherently conflicting objectives, wherein they have to run as per commercially viable principles, whilst on the other hand contributing to public services. The conflict may potentially manifest itself in terms of the pricing policy of the commodities/ services provided by the PSUs being sub-optimally low. Optionally, the coverage of the services provided by the PSUs may be too huge. Many other political economy factors that influence the day to day operation of the PSUs did not allow the PSU to deliver a profit. Loss-making PSUs put strain on the Revenue Account of the State Exchequer. Since the large scale economic reforms undertaken in the Indian economy since 1991, efforts were made for either disinvestment of the loss making PSUs or to make them more efficient through policy intervention. Maharashtra being an industrial state was one of the pioneers that tried the restructuring process. But due to some of the inherent problems in this sector, the process has remained unsuccessful for the last 25 years. It may not be easy to shut down the units either due to the social objective at hand, or the sheer number of employees that the unit supports, or because it is not possible to dispose the physical assets of the PSUs easily, or simply due to out of political compulsions. All these factors make State-run PSUs a complex topic, and one with

great impact on State finances. In this chapter, we explore the nuances of the finances of State run PSUs in Maharashtra.

9.1 Understanding the contribution of PSUs to the Maharashtra economy

One of the major difficulties one encounter while analyzing the performance of the PSUs in Maharashtra is the lack of updated audited accounts of these enterprises. The Audit Reports of the Comptroller and Auditor General (CAG) are the only reliable documents available regarding the combined performance of all the PSUs in Maharashtra. This chapter mainly depends on these reports for understanding the performance of this sector. As shown in figure 9.1. there are 87 PSUs in Maharashtra, out of which 83 are state government companies and rest four are statutory corporations. Out of the 83 state government companies, 65 are working companies and 18 are non-working companies. Further out of 65 working companies only 36 are making profits and 22 are loss making. The losses made by these 22 companies and the loss making corporations bypass the profit earned by the other 36 companies and the PSUs as a whole have been incurring accumulated losses over the period of our analysis, 2006-07 to 2015-16.

Figure 9.1: Structure of PSUs in Maharashtra



Even though the accumulated losses of these enterprises were increasing over the period of the time, the government has increased its contribution to these firms via equity participation and subsidies as well as guarantees that adds to drain on state exchequer. The total number of PSUs

have increased from 76 to 87 due to the addition of 11 new PSUs in Maharashtra during the period 2006-07 to 2015-16 as shown in table 9.1.

Table 9. 1. Total number of PSUs

Year	Government companies	Statutory Corporations	Total
2006-07	72	4	76
2007-08	73	4	77
2008-09	76	4	80
2009-10	81	4	85
2010-11	81	4	85
2011-12	82	4	86
2012-13	83	4	87
2013-14	83	4	87
2014-15	83	4	87
2015-16	83	4	87
2016-17	83	4	87

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Various years.

9.2: Stake of Government of Maharashtra

The Government of Maharashtra has high financial stake in the PSUs. This stake is mainly three types

(1) **Share Capital and Loans**- In addition to the share capital contribution, government also provides financial assistance by way of loans to the PSUs from time to time.

(2) **Special Financial Support**- Government provides budgetary support by way of grants and subsidies to the PSUs.

(3) **Guarantees**- Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

9.2.1: Investment in State PSUs

The investment profile of the state PSUs, as given in Table 9.2 and Figure 9.2, indicates huge investment flow to the PSUs over a period of time. The total investment has increased almost seven times over a period of 10 years. This clearly indicates that huge money have been transferred to this sector either via equity participation or as loan to these enterprises over a period of time. There was a huge incremental investment in the year 2015-16 mainly due to the increase in investment in the power sector.

Table 9. 2. Total Investments in PSUs (Rs. Crores)

Year	Government Companies	Statutory Corporations	Total
2006-07	22,576	1,987	24,563
2007-08	26,455	2,034	28,488
2008-09	45,288	1,980	47,268
2009-10	48,635	1,915	50,550
2010-11	56,122	2,268	58,390
2011-12	76,070	2,276	78,346
2012-13	91,594	3,025	94,620
2013-14	93,789	3,348	97,137
2014-15	97,270	4,250	1,01,520
2015-16	1,71,274	4,048	1,75,321

Note: The huge quantum jump in investment in 2015-16 is due to changes in asset classification of power distribution company MSEDCL

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Various years.

Figure 9. 2. Total investments in PSU's (Rs. Crores)

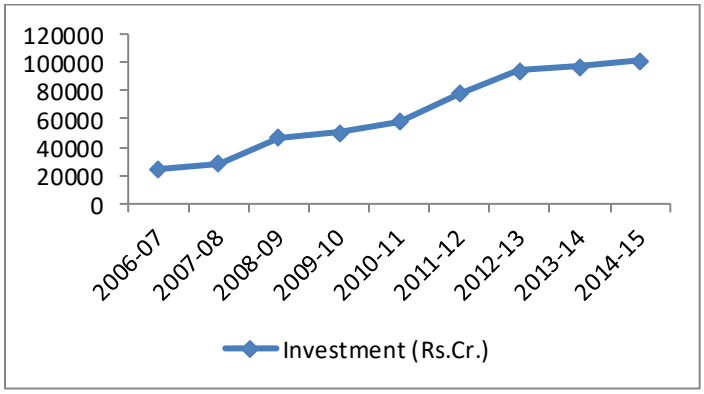


Table 9.3. Annual incremental investment (Rs. Crores)

Year	Government Companies	Statutory corporations	Total
2007	3,879	47	3,926
2009	18,833	-54	18,780
2010	3,347	-65	3,282
2011	7,487	353	7,839
2012	19,948	9	19,957
2013	15,524	749	16,274
2014	2,195	323	2,518
2015	3,481	901	4,382
2016	74,004	-202	73,802

Note: The huge quantum jump in investment in 2015-16 is due to changes in asset classification of power distribution company MSEDCL

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Various years.

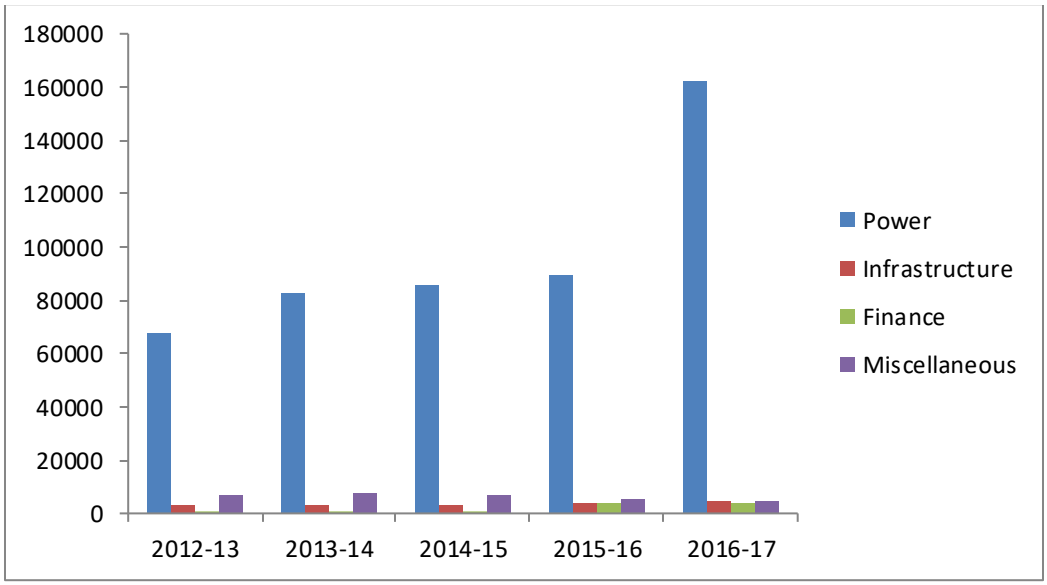
The sectoral distribution of investment, given in Table 9.4 and Figure 9.3,clearly shows that more than 90 per cent of the investment is done in the power sector. Other infrastructural sectors get a relatively nominal share. The power sector investment has kept on increasing over a period of time as well. The financial performance of the power sector will thus affect the overall outcome of the PSUs in the state. The detailed analysis of the power sector is done in Chapter 10 of this report.

Table 9. 4. Sector wise investment in PSUs

Year	Power	Infrastructure	Finance	Miscellaneous	Total
2012-13	67840	2797	648	7061	78346
	(87)	(4)	(1)	(9)	
2013-14	82891	3174	675	7880	94620
	(88)	(3)	(1)	(8)	
2014-15	86000	3347	676	7114	97137
	(89)	(3)	(1)	(7)	
2015-16	89106	3712	3605	5096	101520
	(88)	(4)	(4)	(5)	
2016-17	162063	4492	3849	4917	175321
	(92)	(3)	(2)	(3)	

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Various years.

Figure 9.3. Sector wise investments in PSU's (Rs. Crores)



9.3. Budgetary Implications of Public Sector Undertakings

In this section we look into the subsidies and grants received by the PSUs from the government as well as the guarantees received and commitment. The total outgo of money from the public exchequer to the PSUs is given in Figure 9.4. The trend indicates that the budgetary support to the PSUs has shown a cyclical tendency. The budgetary outgo came down from Rs. 5510 crores to Rs. 2314 crores during the period 2009-10 to 2010-11. But during the period 2010-11 to 2012-13 it increased more than threefold and touched Rs. 9991 crores in 2012-13. This has come down Rs. 1382 crores during 2014-15 and again increased to Rs. 4157 crores in 2015-16. From Figure 9.5 we can observe that the total budgetary outgo of the state is moving in line with the grants and subsidies released to these enterprises. The details of the outgo given in table 9.4 implies that more than equity capital and loans every years, the subsidies and grants constitute a major chunk of the transfer from the government to PSUs. Since 2011-12 onward the government reverted back to the scheme of given guarantees for the loan taken by the PSUs as well.

Figure 9.4. Budgetary outgo towards State PSUs

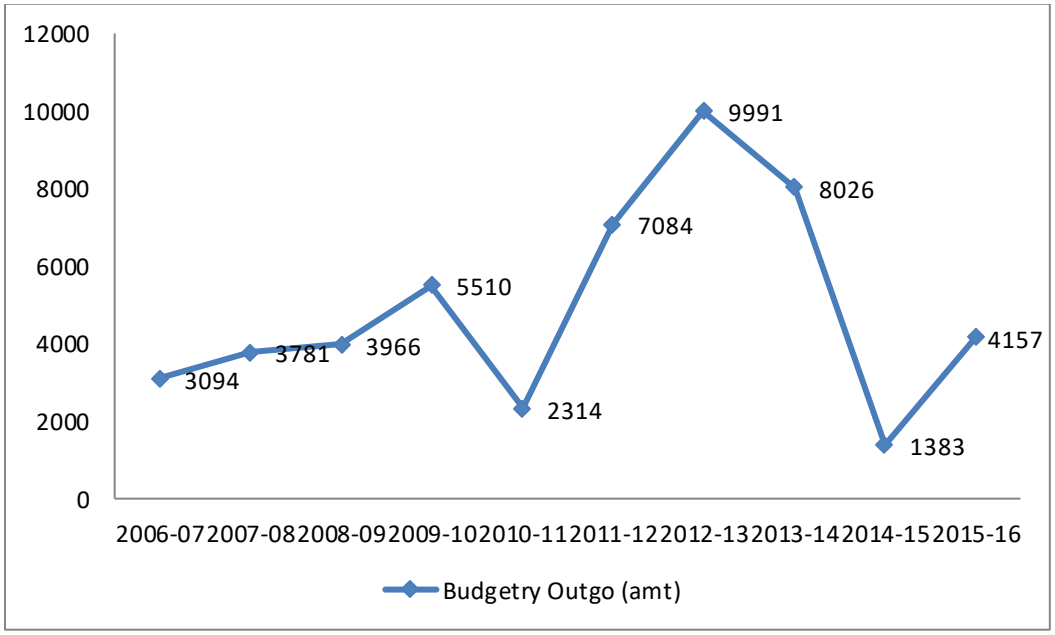


Figure 9.5. Grants/ Subsidy received by State PSUs

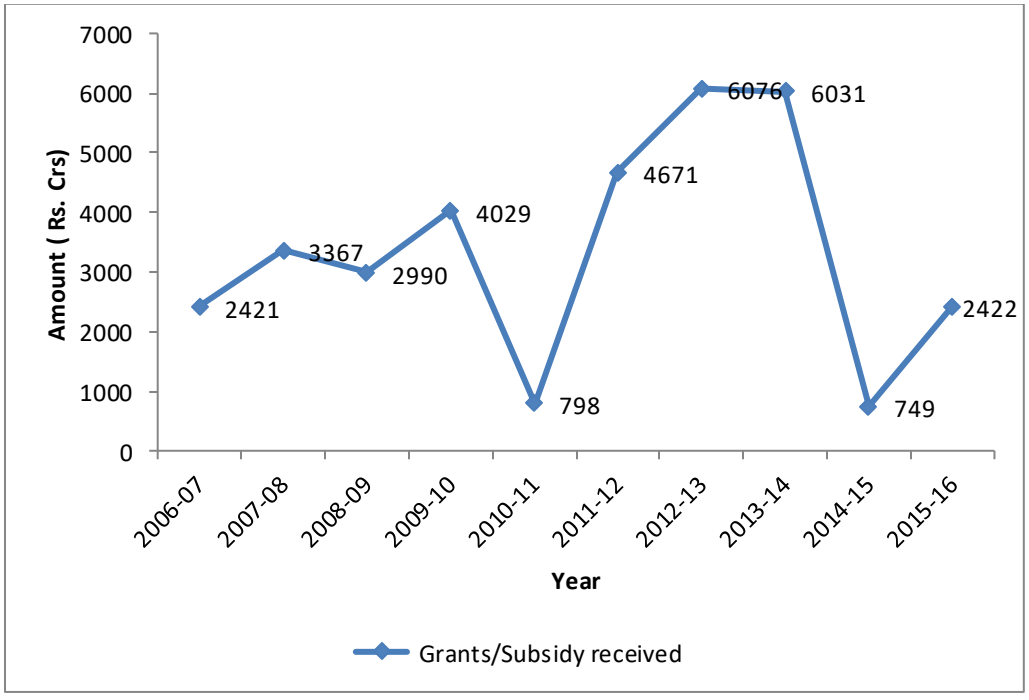


Table 9.5. Budgetary Implications of PSUs

(Rs. Crores)

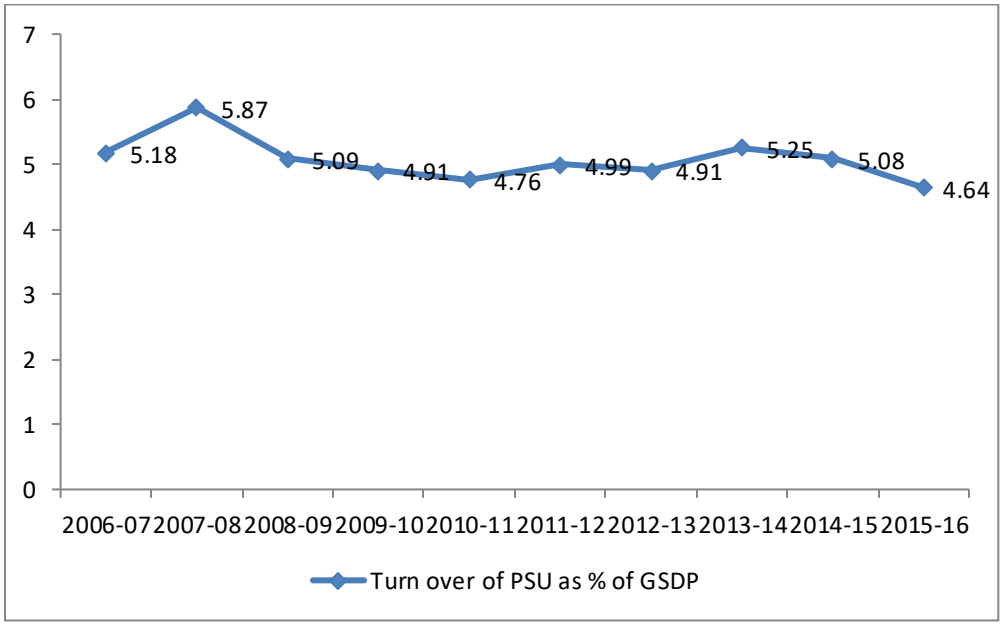
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Equity capital outgo	578.65	327.75	862.42	1415.52	1202.27	2132.89	1813.56	1994.72	624.47	1528.54
2. Loans given	94.30	86.58	113.78	65.40	313.34	280.66	2100.99	-	10.00	206.82
3. Grants/Subsidy received	2420.75	3366.77	2989.64	4028.94	797.97	4670.58	6076.02	6031.39	748.52	2421.65
4. Total Outgo (1+2+3)	3093.70	3781.10	3965.84	5509.86	2313.58	7084.13	9990.57	8026.11	1382.99	4157.01
5. Loan repayment written off	-	-	-	7.72	24.50	17.88	0.24	0.00	-	-
6. Waiver of interest	-	-	-	1.95	2.76	0.38	0.51	0.22	0.36	-
7. Guarantees issued	-	-	-	-	-	-	152.00	190.00	88.37	11.08
8. Guarantee Commitment	-	-	-	-	-	-	1283.47	2679.16	2540.30	2200.53

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended 31 March 2016

9.4. Financial Performance of Public Sector Undertakings

The total turnover of the PSUs in the state has shown a declining tendency over a period of time as shown in Figure 9.2. Total turnover as a percentage of GSDP has declined from 5.18 per cent to 4.64 per cent. The total turnover contributed by the 65 working PSUs stood at about Rs.93400 crores in 2015-16. Thus, PSUs contributed to about 4.64 per cent of the GSDP of Maharashtra in 2015-16.

Figure 9.6. Turnover of PSU's as percentage of GSDP



A key characteristic feature of the PSUs in Maharashtra is the huge volume of accumulated losses over a period of time. The statistics given in Table 9.5 and Figure 9.6 indicate that over a period of ten years from 2006-07 to 2015-16 the accumulated loss of the PSUs has increased fourfold in the state. During the year 2014-15 to 2015-16, the loss of the PSUs has more than doubled from Rs. 9072 crores to Rs. 18027 crores. Of the 65 working PSUs, 55 per cent of units showed a profit of Rs. 3097 crores whereas 45 per cent incurred an overall loss of Rs. 9832 crores in 2015-16. Three PSUs showed an instance of no profit no loss in their accounts, and four PSUs had not finalized their accounts. The PSUs recorded an overall loss position of Rs.6700 crores in 2015-16. The loss position of the PSUs in the financial year 2015-16 was higher than the Revenue Deficit of Rs.5338 crores recorded for that fiscal year. The losses of the PSUs in 2015-16 were also equal to 23 per cent of the fiscal deficit for that year. The total accumulated losses of the PSUs stood at Rs. 18,027 crore as on 31st March 2016.

The key financial results available about the PSUs in the state indicate the poor performance of these firms. The return on the capital employed remained either negative or very low (Table 9.6). The interest payments of these firms have kept on increasing over a period of time.

Table 9.6 Accumulated Loss of PSUs (Rs. Crores)

Year	Accumulated Loss
2006-07	4739
2007-08	6639
2008-09	7007
2009-10	8539
2010-11	9615
2011-12	11552
2012-13	11219
2013-14	10036
2014-15	9072
2015-16	18027

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended 31 March 2016

Figure 9.7. Accumulated Loss of PSUs (Rs. Crore)

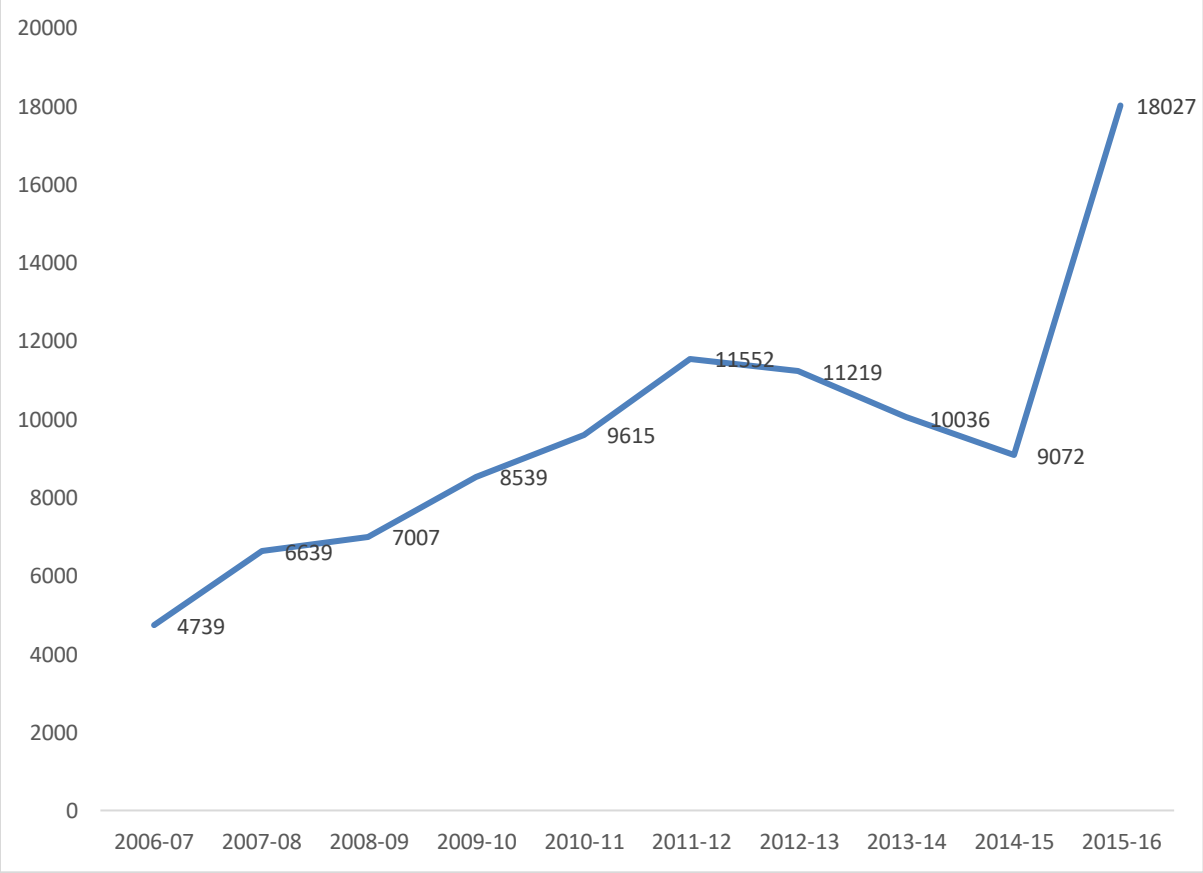


Table 9.7. Key Parameters of State Public Sector Units

Year	Return of Capital Employed (Per Cent)	Debt	Turnover	Deb/Turnover Ratio	Interest Payments
2006-07	Negative	18,828	26397	0.71:1	1183
2007-08	0.89	27,035	34685	0.78:1	2355
2008-09	7.52	25,834	35495	0.73:1	2198
2009-10	2.61	27,705	40873	0.68:1	2510
2010-11	4.83	34,345	49058	0.70:1	2580
2011-12	7.23	47,416	62315	0.76:1	3403
2012-13	6.62	59,053	67383	0.88:1	4062
2013-14	10.42	58,911	77462	0.76:1	7014
2014-15	9.19	54,477	85639	0.64:1	6064
2015-16	Negative	55,068	91398	0.60:1	5983

9.5. Dividends from Public Sector Undertakings

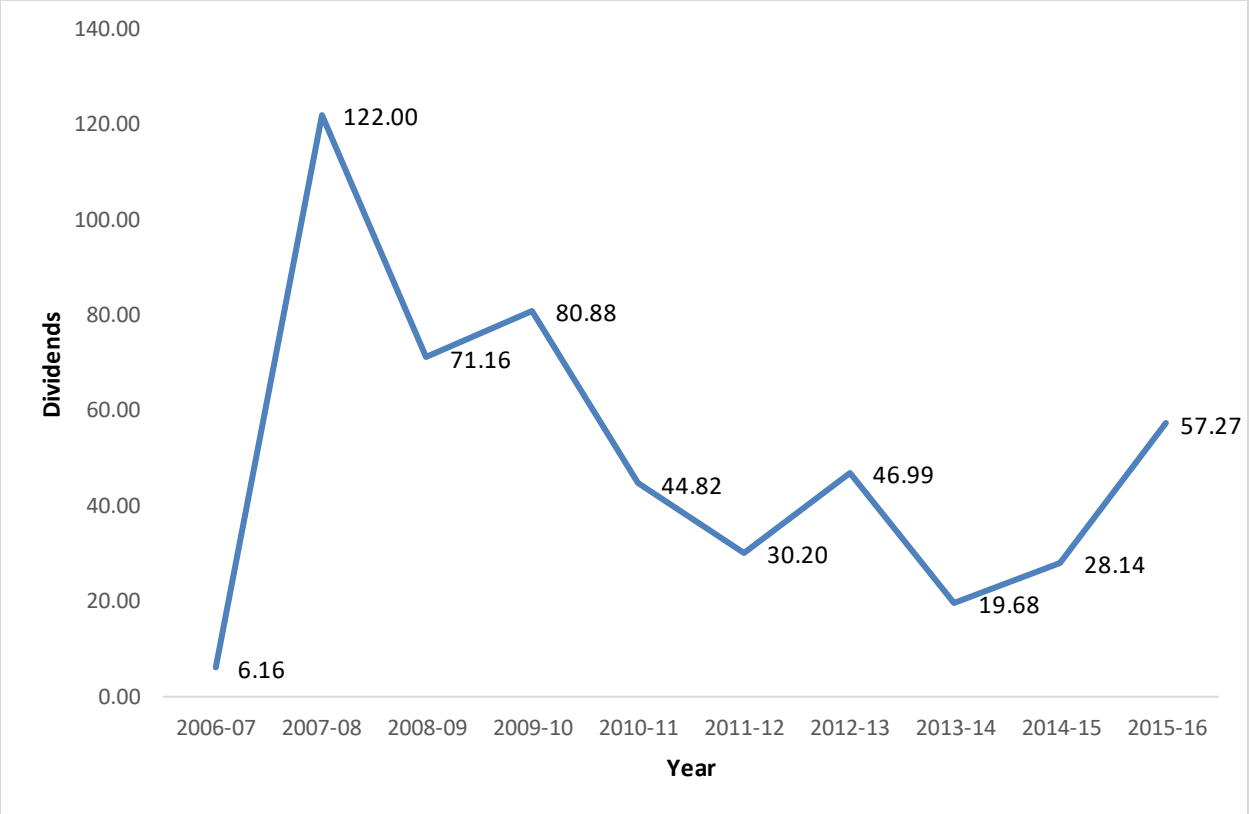
Dividends from PSUs are very nominal indicating the poor performance of the PSUs over the years. Majority of the PSUs in the state are loos making and the few profit making firms are transferring a very nominal amount to the exchequer as dividend. The results of the same are given in Table 9.7 and Figure 9.7.

Table 9.8: Dividends from PSUs and other Investments (Rs. Cr)

Year	Dividends
2006-07	6.16
2007-08	122.00
2008-09	71.16
2009-10	80.88
2010-11	44.82
2011-12	30.20
2012-13	46.99
2013-14	19.68
2014-15	28.14
2015-16	57.27

Source: CAG Finance account

Figure 9.8: Dividends from PSU & Other Investment (Rs. Cr.)



The analysis of dividends and profits indicates a trend of declining dividends in all categories of public sector undertakings in the state. Major reforms are required on the state Public Sector Undertakings; otherwise they will remain as white elephants eating the public money.

9.6. Restructuring of the Public Sector Undertakings

From the analysis in the previous sections we can make a clear inference that the PSUs in Maharashtra are incurring huge loss over a period of time and this has resulted in a burden on the state exchequer via subsidies and other guarantees transferred to them. Government of Maharashtra needs to make some proactive policy initiates on an emergency basis to save this sector from future loss as well as to make them financially viable. The government may initiative the following reform measure to reinvent the PSUs of the state. This should be done in a time bound manner so that the PSUs can generate at least a working profit by the 2025.

(1) Audit updating and Finalization of Accounts

Absence of audited finalized accounts is a major difficulty in analyzing the financial performance of these firms. The financial statements of the companies for every financial year are required to be finalized within six months from the end of relevant financial year end in accordance with the provisos of section 129(2) and placed before the Annual General Meeting of the company in terms of section 96(1) of the Companies Act 2013. Table 9.8. provides details of progress made by working PSUs in finalization of accounts as per CAG report for year ending March 2016. The table clearly indicates the huge extent of arrears in finalization of accounts of PSUs, which makes any change in the organizational structure of it impossible. Government of Maharashtra should immediately appoint independent auditors to finalise the audited accounts of its PSUs on a war footing so that the drain of resources can at least be controlled in the future.

Table 9.9. Position relating to finalization of accounts of working PSUs

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Number of Working PSUs	65	65	65	65	65
2	Number of Accounts Finalized during the year	82	74	78	64	57
3	Number of accounts in arrears	138	129	116	125	129
4	Number of working PSUs with arrears in accounts	53	52	51	54	57
5	Extent of arrears (numbers in years)	1 to 12 years	1 to 7 years	1 to 8 years	1 to 16 years	1 to 17 years

(2) Winding up of Non-Working PSUs

There were 22 non-working PSUs as on 31st March 2016 having a total investment of Rs. 938.94 crores towards capital and long term loans. Since the non- working PSUs are not contributing to

the State economy and meeting the intended objectives, these PSUs may either be considered to be closed down or revived. During 2015-16, nine non-working PSUs incurred an expenditure of Rs. 61.32 crores towards establishment expenses. As per the CAG report no. 2 of 2017, during the years 2015-16, no non- working company was finally wound up. The companies which had taken the route of winding up by court order were under liquidation for a period ranging from five years to 22 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted and pursued vigorously. The government may take a decision regarding winding up of 20 non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. For this purpose, the government of Maharashtra may commission a detailed study on the present status of the PSUs in terms of their social and economic rationale in the changed economic scenario from centralized planning to that of economic liberalization and act as per the findings of the study.

(3) Disinvestment of PSUs

Maharashtra is a pioneering state in initiating the process of disinvestment of the PSUs at the state level through the setting up of Maharashtra Board for Restructuring State Enterprises (MBRSE), which was set up under Section three of the Maharashtra State Enterprises (restructuring and other special provision) Act, 2000. The Act mandated that the recommendations of the board, a quasi-judicial body like the State Electricity Regulation Commission is binding upon the state government. However, the state government had failed to comply with the schedule of disinvestment and closure and restructuring orders issued in respect of eight public sector enterprises. In 2003 the Act was revoked and henceforth there were no serious efforts from the government for restructuring the PSUs.

Studies on the effect of different types of disinvestment in Central PSUs reveal that strategic sale using the first-priced sealed-bid method currently employed cannot always be counted upon to maximize efficiency and revenues (Ram Mohan, 2003). This is especially because under the strategic sale there is a danger of a large stake being sold cheaply. Further, there is also an element of irretrievability in strategic sale. On the contrary, empirical evidence in public sector disinvestment in India and other countries points towards the sale of government shares through an initial public offer (IPO) especially because the share issue privatisation (SIP) is consistent with post-privatisation improvement in performance in firms privatised through this route. Naib

(2003) examined the impact of divestiture in Indian state-owned enterprises and points out that in the case of partial divestiture, where divested equity is thinly spread with the majority shareholding still with the government, there has been no improvement in terms of profitability and operational efficiency. He suggests that strategic sale, where management control passes to the strategic partner will free the enterprises from political/bureaucratic controls, enabling them to take decisions in line with the market demands. In profitable PSUs, however, equity should also be offered to the public and the employees (Naib, 2003). Learning from the results of these analyses, the Government of Maharashtra has tremendous scope for formulating an efficient method of restructuring the PSUs in the State. The method followed could differ across the nature and scope of the enterprises – especially on the basis of their strategic importance and performance.

Major Findings

- The accumulated losses of the state PSUs are rising at a compound growth rate of 14 per cent per annum. Immediate reform initiatives are required to bring down the growth rate of losses below the growth of revenue receipt of the state government.
- PSU disinvestment programmes needs to be actively pursued in those cases where no public service is being performed.
- Audited accounts of many PSU are having a huge time lag and the available figures are having serious accounting/ reporting errors that makes intertemporal and inter firm comparison difficult.

Chapter - 10

IMPACT OF THE POWER SECTOR REFORMS ON THE FISCAL HEALTH OF THE STATE

Introduction

In this chapter, we review the financial and operational performance the power sector in Maharashtra since adoption of the Electricity Act 2003 and the factors that contributed to the recent crisis in the power sector. The focus of the section is on overall performance of the sector and its impact on state finances. We have tried to analyse the power sector in view of recent crisis and its impact on state resources. Before moving further, we must take a look at the pre and post reforms status of the power sector in the state.

10.1: Pre reform era in MSEB

Historically, the power sector of Maharashtra, except Mumbai, was served by Maharashtra Electricity Board (MSEB), set up in 1960. MSEB was responsible for generation, transmission and distribution of power to all the consumers in the state except Mumbai. The power distribution in Mumbai and its suburbs is done through four distributors, namely, Tata Power Company Ltd., Bombay Electric Supply and Transport undertaking (BEST) Reliance Energy and Maharashtra State Electricity Distribution Company Ltd.

MSEB was the largest state electricity board in the country in terms of units of power sold till 2005-06 when it was unbundled. The generation capacity of MSEB has grown tremendously over a period of time. It was 760 MW in 1960-61 and it reached 9771 MW in 2001-02. MSEB's thermal power stations were also efficient as they achieved high power availability of 86 per cent and plant load factor of 74 per cent in 2001-02. At present the installed capacity of the MSGCL (erstwhile MSEB) 13602 MW in 2017-18. The MSEB's customer base has expanded manifold. It was 1,07,833 in 1960-61, which grew to 14,009,089 in 2001-02. By 2001-02 MSEB had a large transmission and distribution network of 6.67 lakh ckt kms.

10.1.1: Why were reforms needed in the power sector?

The MSEB from its inception onwards moved with a greater social objective than the commercial orientation in its operations. This sector has been always important instrument in the large scale industrialisation of the state and a means of attracting investment to the state. Government of Maharashtra was subsidising this sector seeing its potential as the major driver of infrastructure and industrial growth in the state. The drought prone agrarian sector of the state also required state support for thriving its operations, especially in bad years. In this backdrop the state liabilities on this sector have sky rocketed. Tariffs for domestic, power looms and agricultural segments were lower than the average cost of supply and were cross subsidized by industrial and commercial customers. This has widened the gap between average cost of supply and average revenue realisation.

The fragmented structure of the tariffs has led to more and more high paying industrial consumers setting up their own captive generation stations. This has led to decline in consumption of power from MSEB grid by industrial and commercial consumers. But at the same time consumption by subsidised consumers has grown over the years. Share of electricity sold to agricultural customers has grown from 25 per cent in 1993-94 to 34 per cent in 1998-99. During the same period the share of the industry fell from 35 to 32 per cent.

Further, the low tariffs for subsidised consumers led not only to deterioration in financial performance but also to wasteful consumption from this consumer. The impact of lack in commercial focus of company was reflected in both quality of supply as well as performance of MSEB.

The non-commercial approach of the MSEB has led to deterioration in the financial health of MSEB. MSEB was making commercial profits without subsidy till 1994-95. This profit declined over time and MSEB reported commercial losses of Rs. 1479 crores (without subsidy) in the year 1999-00. But a huge subsidy of Rs. 2084 crores given by the state government has helped MSEB to register a commercial profit of Rs. 605 crores. MSEDCL was finding it difficult to invest in maintenance and upgradation of power sector infrastructure with this deteriorating financial health. That has resulted in further decline in the quality of supply and increase in technical losses. Thus MSEB was trapped in downward spiral and found it very difficult to escape from

declining financial health. Therefore, the power sector reforms were very much needed in the state of Maharashtra.

10.2: Major Reforms in the power sector in Maharashtra:

In the backdrop of deteriorating financial health of the power sector (MSEB) and its potential impact on the state finances, the government of Maharashtra announced the power sector reforms in the form of the white papers in August 2002, indicating the reforms to be undertaken and time frame for the same. Simultaneously, the government constituted the State Electricity Restructuring Committee and the Energy Review Committee to review the performance of the power sector in the state and suggested reforms to improve the scenario. Summary of the various suggestions given in the white paper published in August 2002 is as follows. These reforms suggestions are classified in three groups, namely, internal reforms, independent regulatory mechanism and structural changes.

- **Internal Reforms:** These reforms were expected to focus on human resources, implementing loss reduction measures and anti-theft measures. It also includes the consumer grievance redressal systems to improve quality of demand side management.
- **Independent Regulatory Mechanism:** Government of Maharashtra set up Maharashtra Electricity and Regulatory Commission (MERC) under the provision of Electricity Regulatory Commissions Act 1998. The government committed to ensure smooth and independent functioning of MERC. Tariff rationalisation was also considered as an important measure to ensure recovery of cost of power supply.
- **Structural Changes:** It was identified that the vertical integration of MSEB catering to diverse needs had inherent limitations and hence government proposed that MSEB be structured in order to promote and encourage efficiency, autonomy and accountability in decision making and functional specialisation.

The government also identified some milestones in the white paper issued.

Legislative milestone: Government identified the legislative milestones by making anti-theft legislation effective from October 2002 and also by passing the Maharashtra Electricity Bill in December 2002. Government also identified the measures to improve the efficiency of the power

sector; to develop consumer charter of rights in six months; to reduce technical losses by one per cent and commercial losses by three per cent per year in urban areas and in rural areas technical losses to be reduced by 0.5 per cent, whereas commercial losses by two per cent per year. Further government would adopt measures to increase overall collection efficiency up to 94 per cent in next two years. Efforts should be made to ensure that all agricultural consumers be metered by December, 2004 (power sector white papers 2002).

The Central Government set up Ahluwalia Committee to study the power sector crisis in India. The Committee recommended that the utilities pursue reforms and technical improvements to improve their viability. The Committee also strongly emphasized the need to link the bailout to incentives to implement reforms. The Committee recognized that the arrears were not due to one-off events but rather to the non-viability of the financial and operational model of the utilities. These recommendations set the stage for the landmark Electricity Act, 2003, and the continuing substantive reform and policy measures put in place in the years since. The Act paved the way for delicensing of thermal power generation, introduction of power trading, adoption of multiyear tariff principles, and promotion of rural electrification and renewable energy. The Act's most important focus was to move the sector toward enhanced competition, accountability, and commercial viability.

As per the Electricity Act, 2003 the states were required to restructure MSEBs by atleast separating the transmission activities. Government of Maharashtra unbundled the MSEB in June 2005 into one holding and three subsidiary companies. The new entities formed were MSEB holding company, Maharashtra State Generation Company Ltd (MSGCL), Maharashtra State Electricity Transmission Company Ltd (MSETCL) and Maharashtra State Electricity Distribution Company Ltd. (MSEDCL).

The Electricity Act, 2003, and Subsequent Policies of the Government of India[1]

Before moving further, we must take a look at the provisions of the act and subsequent policies of the government. One of the fundamental goals of the Electricity Act, 2003, was to improve power sector performance and efficiency by establishing a market-based industry structure. The comprehensive act tackles major issues in generation, transmission, distribution, and trading. The reform requirements of the 2003 act were subsequently crystalized into policies such as the

[1] Compiled from various documents including the Wold Bank Study number 92490 'Beyond Crisis: Financial Performance of India's Power Sector, 2015.

National Electricity Policy (2005), Integrated Energy Policy (2005), the Rural Electricity Policy (2006), and the National Tariff Policy (2006). Salient features of the act and subsequent policies are as follows:

1. Introduce Competition:

Unbundling of the SEBs: Distribution, generation, transmission, and dispatch functions are required to be independently operated.

Delicensing of generation: The license requirement from CEA to build/operate generation plants was removed (except for hydropower projects above a given threshold, currently Rs 10 billion), making it easier for any generation company to enter the market.

Open Access: State Electricity Regulatory Commission (SERC) must provide a notification of non-discriminatory open access, which permits the sale of electricity directly to consumers outside of power purchase agreements with distributors, providing choice and network access to power procurers and end-users.

Introduction of Power Trading: Establish ceilings on trading margins to allow trading of electricity. SERCs issue trading license for intrastate trade, while intrastate trading is licensed by the Central Electricity Regulatory Commission (CERC). SERCs must also introduce scheduling discipline into this multi-seller market by establishing intrastate availability-based tariffs.

2. Enhance Accountability and Transparency

Establish State Electricity Regulatory Commissions (SERC): State power sectors must be independently regulated by SERCs, whose powers and responsibilities include setting tariffs, passing, and in some cases implementing regulations. SERCs are meant to be independent from the state and central governments, though the centre will continue to direct national electricity and tariff policy.

Establish National Appellate Tribunal: The central government established this entity to oversee the implementation of reforms throughout the country and address any disputes or appeals against the orders of the Electricity Act.

Corporatization of Utilities: Utilities are required to register as corporate entities, thereby becoming subject to the requirements of the Companies Act.

3. Achieve Cost Recovery and Commercial Viability

Improvement in Operational Efficiency: State utilities are required to achieve 100 percent metering within two years, adopt stringent measures to deter electricity theft, and reduce cross–subsidies in a phased manner.

Competitive Procurement: The Tariff Act (2006) specified that distribution licensees procure long-term power through tariff-based bids under a multiyear tariff framework with a control period of three to five years. Two different procurement modes (Case I and Case II) were developed.

Progress Tariff-Setting: SERCs are required to establish tariff-setting mechanisms to bring tariffs to cost-recovery levels. Ultimately, SERCs should also issue multiyear tariffs to increase pricing certainty.

4. Accomplish Universal Access to Electricity/Rural Electrification

Universal Access: The Rural Electricity Policy (2006) set an ambitious goal of providing electricity for all by 2009 and required state governments to formulate a Rural Electrification Plan within six months of passing the policy.

Affordability and Availability: The Rural Electricity Policy also aimed for high-quality, reliable power available at reasonable rates and a minimum lifeline consumption of 1 kilowatt hour per household per day by 2012.

5. Improve Customer Service and Affordability of Supply

Plug Revenue Leakages: Meet aggregate technical and commercial reduction targets set by SERC in order to reduce retail tariffs.

Establish and Maintain Service Standards: Establish and enforce standards of performance. Establish Consumer Grievance Redressal Forum (CGRF) and appoint an ombudsman.

6. Promote Renewable Energy/Energy Efficiency Initiatives

Renewable Energy Framework: SERCs are required to specify a percentage of overall purchases from renewable sources for the distribution licensee(s) in their states. This renewable purchase obligation (RPO) guarantees a minimum percentage of renewables in the state's energy consumption mix.

Incentives to Promote Renewables Energy Generation and Energy Efficiency:
Notification of regulations on renewable energy and energy efficiency, including feed-in tariffs, time-of-day tariffs, and time-of-day metering.

10.3: The current status of power sector in Maharashtra:

As mentioned earlier, the Maharashtra State Electricity Board (MSEB) has been restructured into four new companies in 2005. Due to high level of consumer dissatisfaction caused by low quality of supply and high losses, number of initiatives focussing on three areas (1) Initiatives to improve quality of supply (2) Initiatives to minimise AT&C losses and (3) Customer Centric initiatives were taken.
Let us now have a look at the present status of the power sector in Maharashtra. Table 1 gives us a detailed picture of the source-wise installed capacity of the power generation.

Installed capacity:

The installed capacity of power sector for generating electricity in Maharashtra as on 31st March 2015 was highest in India. However, in terms of installed capacity per lakh population, the State ranks 5th after Chhattisgarh, Gujarat, Himachal Pradesh and Punjab (Economic Survey of Maharashtra 2016-17). The total installed capacity as on 31st March 2016 in the State was 32,332 MW comprising of public sector 36.1 per cent, private sector 57.1 per cent (of which 36.1 per cent non-renewable and 21.0 per cent renewable) and Public-Private Partnership 6.9 per cent. The installed capacity has increased by 3.3 per cent during 2015-16 and the Central sector allocation to the State has increased by six per cent than the previous year. The installed capacity of the state was around 14 per cent of the total national capacity. The private sector contribution has almost doubled during the last five years. The source-wise installed capacity is given in Table 10.1 below.

Table 10.1: Source-wise installed capacity (in MW)

Source	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Thermal	6425	6925	6925	6925	9665	10366	13946	17206	18,436	19,066
Renewable	1653	2002			3408	4198	4789	6465	6,717	7,400
Hydro	2450	2450	2344	2469	3066	3066	3066	3066	3,066	3,066
Natural gas	852	852	852	852	2714	2740	3072	3112	3,072	3,072
Central sector allocation	2531	5040			5376	5792	6521	6627	6,627	7,026
In the State	15453	16614	10121	10246	18853	20370	24873	29849	31,291	32,604

Source: Economic Survey, Government of Maharashtra, Various Years

Electricity Generation:

The electricity generated in the State was highest in India during 2014-15 and in terms of per capita generation, the State ranks 6th. Still, as far as the potential generation capacity of the state is concerned, the state is not able to realize the full generation potential due to various reasons, such as poor quality of coal and non-availability of gas leading to forced shutdowns. Total electricity generated (including renewable sources) in the State was 1,13,787 Million Units (MUs) during 2015-16 which was 9.6 per cent higher than the previous year. The total electricity generated in the State during 2016-17 upto December was 82,441 MUs.

During the financial year 2015, MSPGCL's generation capacities recorded a PLF of only about 65 percent only. MSEDCL has signed PPAs totalling 5,465 MW with independent power producers (IPPs), out of which around 4,345 MW of capacity has been commissioned as of March 2015.

Table 10.2: Source-wise electricity generated (in MU)

Source	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Thermal	41261	43958	42061	41744	52796	59482	66075	71686	84,882	94,482
Natural gas	4028	3730	4432	5109	18729	17207	10242	6055	4,626	5,302
Hydro	5651	4606	3906	4199	6374	6851	5980	6763	5,856	5,045
Renewable	1893	2584	-	-	5118	5925	5842	7483	8,415	8,958
Central Sector Allocation	22168	22383	-	-	29982	36755	34382	39900	30,401	29,179
In the State	73129	79721	50399	51052	83017	89465	88139	91987	1,03,779	1,13,787

Source: Economic Survey, Government of Maharashtra, Various Years

Maharashtra is one of the states with the highest installed capacity of renewable energy (RE) sources in its overall energy mix. The share of RE sources in installed capacity was 25.5 percent in financial year 2016. In terms of energy, the share of RE sources was 9.4 percent in 2016. In order to boost the growth of RE generation, MERC has issued renewable purchase obligation (RPO) regulations and has set specific targets for solar, mini/micro HEPs and other non-solar RE sources. The state has planned to add RE generation capacity (including solar) totalling to 14,400 MW over the next five years.

Electricity Consumption:

Aggregate consumption of electricity through MSEDCL, Tata Power, Reliance Infrastructure, BEST in the State during 2015-16 was 1,16,743 MUs, higher by 3.4 per cent over the previous year. The consumption of electricity by the industrial sector was largest (34.5 per cent), followed by agriculture (24.2 per cent) and domestic sector (23.1 per cent) in the State. These three sectors together accounted for 81.8 per cent of the total electricity consumption. The details of sector wise electricity consumed are given in Table 3. It is observed that the demand from the commercial consumers has come down last three years. At the same time demand from the railways has also fallen sharply. Another major important change in the consumption pattern, which has an impact on the overall revenue generation of the sector, is the decline in the industrial consumption and increase in the agricultural sector consumption of electricity. The

industrial consumption declined from 48.87 per cent to 34.46 per cent during the 10 year period between 2005-06 to 2015-16, while the agricultural share has increased from 16.12 per cent to 24.19 per cent. This involves huge subsidy from the government account as well. Another subsidised sector, the public service, also increased its share in total consumption resulting in more revenue loss for the MSEDCL.

Table 10.3: Source-wise electricity consumption (in MU)

Sector	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Industrial	26535 (48.87)	30323 (44.55)	28850 (39.52)	30866 (39.00)	34416 (39.38)	36486 (37.75)	38110 (37.86)	38949 (37.82)	41522 36.79)	40231 (34.46)	33833 (31.20)
Agriculture	9749 (16.12)	12676 (18.62)	12733 (17.44)	13925 (17.60)	19546 (22.36)	21041 (21.77)	22831 (22.68)	23679 (22.99)	26407 (23.40)	28236 (24.19)	28272 (26.07)
Domestic	14284 (23.62)	15553 (22.85)	16878 (23.12)	18171 (22.96)	16257 (18.60)	21693 (22.45)	20984 (20.85)	21725 (21.09)	25428 (22.53)	27001 (23.13)	26874 (24.78)
Commercial	6940 (11.47)	6661 (9.79)	9102 (12.47)	10546 (13.33)	11527 (13.19)	11768 (12.18)	12635 (12.55)	12469 (12.11)	12504 (11.08)	13182 (11.29)	12872 (11.87
Public Services	672 (1.11)	752 (1.10)	2560 (3.51)	2658 (3.36)	2829 (3.24)	3270 (3.38)	3576 (3.55)	3634 (3.53)	4183 (3.71)	4287 (3.67)	4504 (4.15)
Railways	1987 (3.29)	2024 (2.97)	2110 (2.89)	2119 (2.68)	2188 (2.50)	2229 (2.31)	2389 (2.37)	2389 (2.32)	2443 (2.16)	1795 (1.54)	113 (0.10)
Other	318 (0.53)	82 (0.12)	761 (1.04)	854 (1.08)	633 (0.72)	157 (0.16)	140 (0.14)	144 (0.14)	368 (0.33)	2011 (1.72)	1987 (1.83)
All	60485 (100)	68071 (100)	72994 (100)	79139 (100)	87396 (100)	96644 (100)	100665 (100)	102989 (100)	112855 (100)	116743 (100)	108455 (100)

Source: MSEDCL Annual Report, Various Years

Installed capacity of renewable energy:

As far as potential and installed capacity of renewable resources in Maharashtra is concerned, as on 31st October 2017, it was 7779 MW. The potential capacity of wind power is very high at **21,450** MW but the installed capacity is less than fifty percent it. The state needs to increase the installed capacity to reach the potential of the wind energy. Power generation from the Bagasse cogeneration is about the 70 per cent of the potential capacity. The biggest observation we can note here is the gap between potential and installed capacity of Solar sector is highest. The potential of Solar is very high up to 7,500 MW but the installed capacity is only 624 MW, which is less than 10 per cent of the potential.

Table 10.4: Potential and Installed capacity of renewable resources (in MW)

Source	Potential Capacity	Installed capacity			
		2015	2016	2017	31st Oct 2017
Wind	9,400	4,444	4,662	4,769	4,775
Bagasse co-generation	2,500	1,415	1,415	1,849	1,849
Small Hydro Projects (SHP)	732	294	302	304	304
Biomass	831	200	200	215	215
Urban solid waste	287	3	3	3	3
Industrial waste	200	32	34	9	9
Solar	7,500	329	362	383	624
Total	**21,450**	**6,717**	**6,978**	**7,532**	**7,779**

Table 10.5: Distribution Companies in Maharashtra

Licensee	License Area	Number of Consumers	Energy Sales (MU)
MSEDCL	Entire State	2,31,28,000	90,433 (82%)
R-Infra	Suburban Mumbai	23,91,639 (Retail)	7675 (7%)
BEST	Town Area Mumbai	10,10,299	4419 (4%)
Tata Power	Suburban Mumbai and Town Area (Parallel License)	4,92,610	6261 (7%)
	Total	2,70,22,548	1, 08, 788 (100%)

Source: MERC Order, 2015

There are four distribution licensees in Maharashtra i.e. Maharashtra State Electricity Distribution Company Ltd (MSEDCL), Reliance Infrastructure Limited (RInfra), Bombay Electricity Supply and Transport (BEST), and Tata Power Company (TPC); the latter three operate in Mumbai and its suburbs. Out of the total load of 20,147 MW at the state level, about 17,694 MW was supplied by MSEDCL during 2015, while the remaining 2,453 MW was supplied by the other three distribution licensees. The utilities in Mumbai have already achieved 100 percent electrification and supply power 24×7 to their consumers. Out of total energy sales

in Maharashtra 82 percent is done by MSEDCL alone and remaining 18 percent by all other three distribution companies, mostly in Mumbai and Suburban areas. MSEDCL has largest consumer base in Maharashtra, out of total 2.7 core consumers, it manages supply to 2.3 crore consumers.

Table 10.6: Consumer Categories and Consumption (MUs)

(Percentage)

Users	Rel (Infra)	TPC	BEST	MSEDCL
Other	3	14	2	37
Industrial	8	28	7	35
Commercial	31	37	49	7
Domestic	58	21	42	20

Source: MERC Order, 2015

Out of MSEDCL's 23.1 million consumers, 15 million are residential, 3.7 million agricultural, 1.47 million commercials, 3,82,000 are industrial and high-tension power consumers, with a monthly consumption of 1 MW or above. The financial position of MSEDCL has been adversely impacted over the past few years, primarily due to factors such as less than 100 percent collection efficiency and mounting bad debts. MSEDCL provides electricity to agricultural consumers amounting to over 26 percent of its total sales. The subsidy given to agricultural and power loom consumers by the government has been a matter of intense political debate in Maharashtra. Even after the reforms, the government not only retained the subsidy for these sections, but consistently increased the amount of subsidy. Despite the subsidy given by the government, the residual recovery from the agricultural sector is only around 38 percent of the billed amount.

10.5: Outcome of the Reform:

The overall impact of reforms and initiatives taken by MSEDCL has started producing favourable results. In this section we will analyse few key indictors on performance in order to understand the outcome of reforms.

10.5.1: Aggregate Technical and Commercial Losses

Energy losses occur in the process of supplying electricity to consumers due to technical and commercial reasons. The technical losses are due to energy dissipated in the conductors, transformers and other equipment used for transmission, transformation, sub-transmission and distribution of power. These technical losses are inherent in a system and can be reduced to a certain level. Pilferage by hooking, bypassing meters, defective meters, errors in meter reading and in estimating un-metered supply of energy are the main sources of the commercial losses. When Commercial losses are added to Technical losses, it gives Transmission & Distribution (T&D) loss. There is another component of commercial losses, which is attributable to non-recovery of the billed amount, which is reflected in collection efficiency. T&D losses together with loss in collection give us Aggregate Technical & Commercial (AT&C) losses. Ideally, reduction of technical losses should be the parameter for evaluation of performance of Discoms. However, the technical losses of the discoms are not available and also it involves a cumbersome process to calculate the technical losses, which vary based on various factors like loading pattern etc. Now, only the T&D losses and AT&C losses are available as the performance parameter for achieving energy efficiency by DISCOMs. Out of the two parameters, T&D loss parameter seems to be appropriate parameter which reflects energy savings to a greater extent as compared to AT&C losses.

High AT& C losses and Transmission losses have been a characteristic feature of the electricity distribution companies in India and this to a great extent contributes to the overall losses of these enterprises. MSEDCL is not an exception to this. The losses of the MSEDCL in transmission, distribution and AT&C have shown a declining trend since 2006-07 to 2013-14 but increased again during the years 2014-15 and 2015-16. This is mainly due an increase in the increase in the distribution losses (Figure 10.1). International experience suggests that technical losses should be no more than about 10 percent. Distribution losses have fallen since 2003, when average losses were about 32 percent, and 18 states reported losses above this average. Both technical and distribution losses have come down to 21.50 percent and 17.37 percent respectively in the year 2015-16. But still it is way high than the expected losses. MSEDCL should work more to reduce these losses to improve financial health of the company.

Figure 10.1: Transmission, Distribution and AT &C Losses

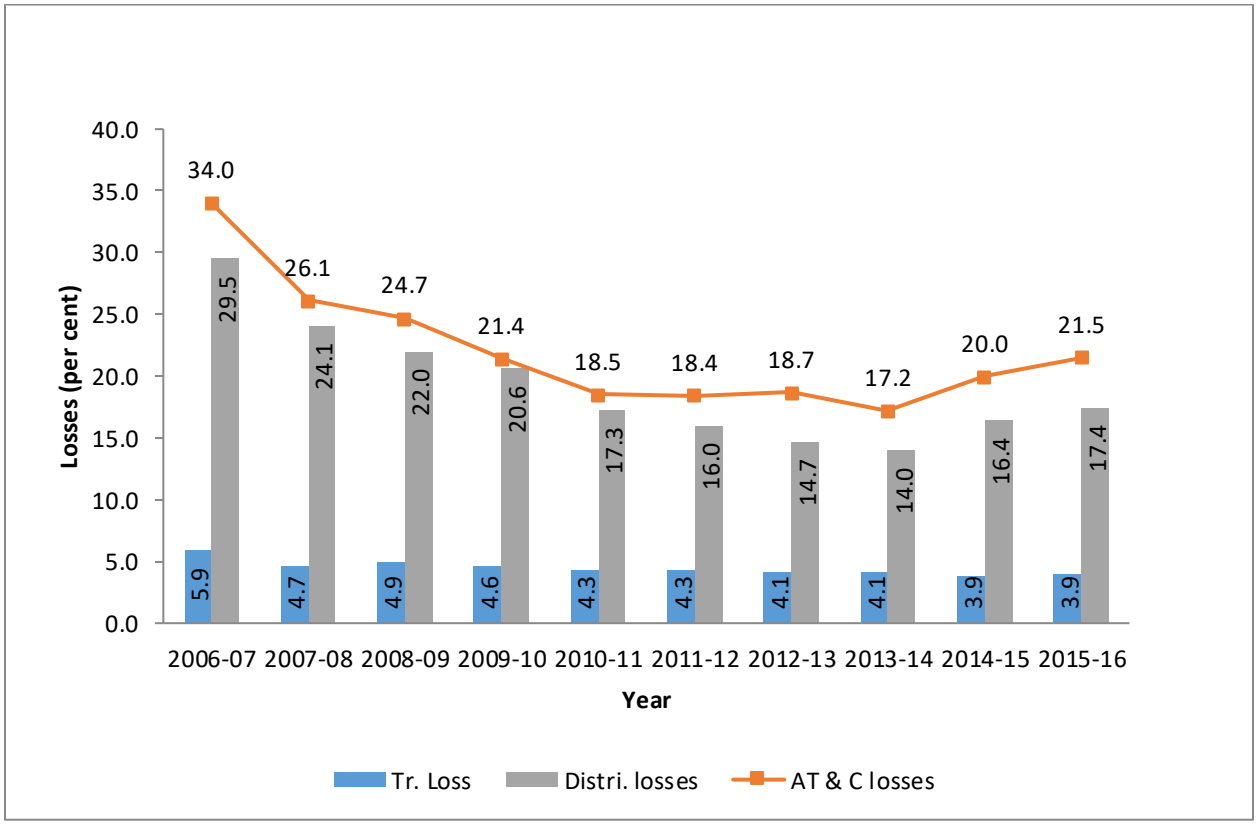


Table 10.7: Comparative Distribution Losses of Four companies:

Licensee	Distribution losses (in percent)			
	2014-15	2015-16	2016-17	2017-18+
MSEDCL	16.4	17.4	14.7	14.6
Tata power	1.08	0.63	0.85	0.75
Reliance infrastructure	9.47	9.24	8.77	8.86
BEST	6.53	5.83	5.42	5.00

10.5.2: Supply and shortfall of electricity at average peak demand

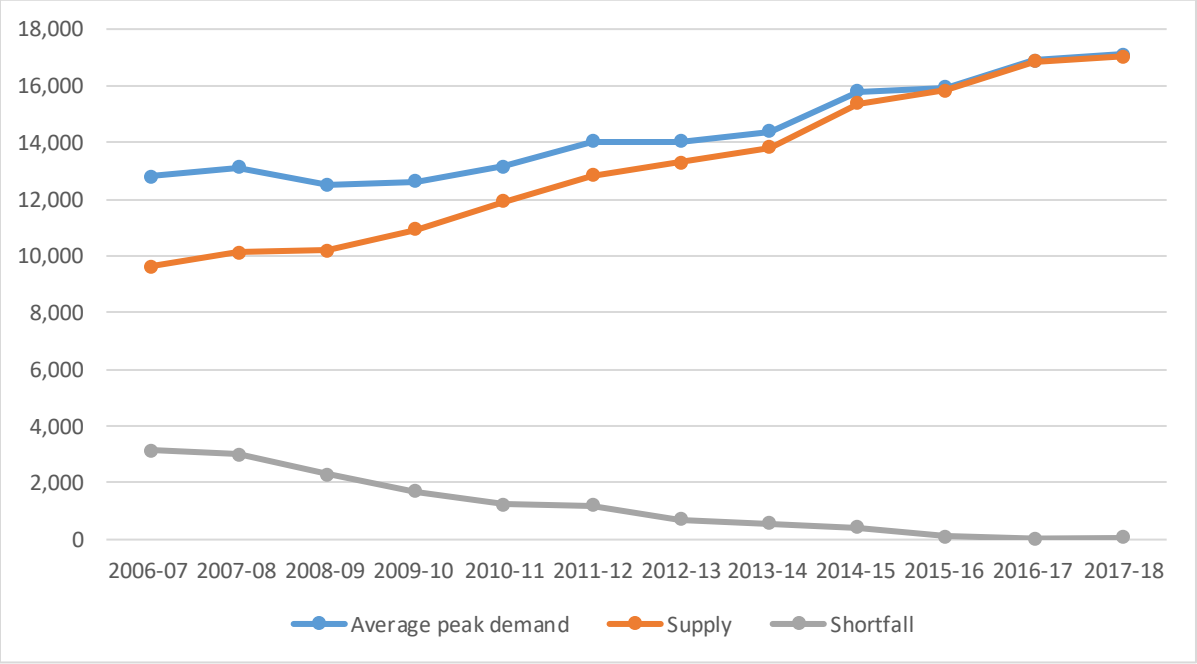
As outcomes of the reforms, along with reduced distribution losses, the gap between the average peak demand for power and the supply of power has almost come down to only 98MW, which

was ranging from 2000 MW to 4000MW. This is a major outcome that can be noted here. This has provided relief from the load shedding to the consumers.

Table 10.8: Shortfall of Power Supply at Average Peak Demand (in MW)

Year	Average peak demand	Supply	Shortfall
2006-07	12,797	9,638	3,159
2007-08	13,137	10,130	3,007
2008-09	12,507	10,203	2,304
2009-10	12,624	10,921	1,703
2010-11	13,157	11,917	1,240
2011-12	14,043	12,841	1,202
2012-13	14,032	13,309	723
2013-14	14,406	13,830	576
2014-15	15,812	15,392	420
2015-16	15,948	15,850	98

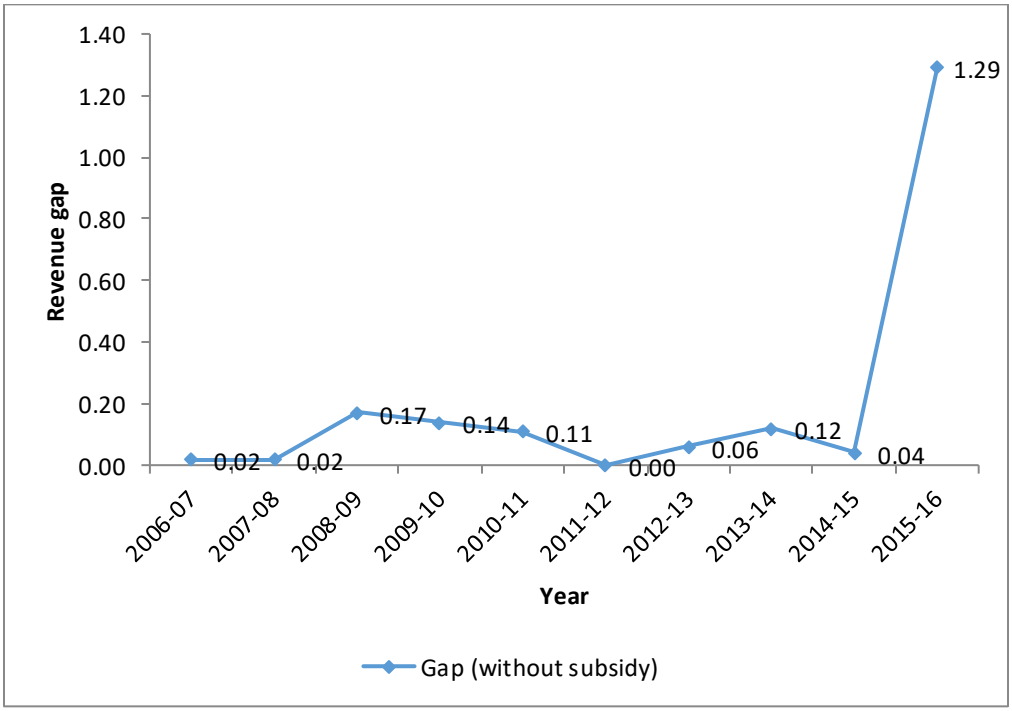
Figure 10.2: Shortfall of Power Supply at Average Peak Demand



10.5.3: Gap between the Costs and Revenue:

The gap between average cost of supply and revenue received indicates the revenue gap per unit of power. As given in figure 10.3, the gap has remained stagnant around 0.15 during the period 2006-07 to 2014-15. But it shoots up to 1.29 in 2015-16, resulting in a huge loss to the MSEDCL in this year. A detailed analysis of the cost structure of MSEDCL, as given in Table 10.10, indicates the increase in that power purchase cost is a major item on the cost side. This constitutes around 80 per cent of the cost till 2014-15. It has proportionally declined in 2015-16, when other costs made a huge increase to 17.7 per cent. The interest cost is another item which kept on increasing over a period of time along with the depreciation cost. These increased costs have made the revenue gap to the MSEDCL, which affected the operational profit of this establishment.

Figure 10.3: Revenue Gap (Rs/kWh)



10.9: Cost Structure of MSEDCL (Percentages)

Year	Power Purchase	Employee Cost	O&M Cost	Interest Cost	Depreciation	Admin & Gen Exp.	Other Exp.
2006-07	81.8	9.5	2.3	3.0	2.7	0.8	0.4
2007-08	81.2	7.9	2.6	2.6	2.6	1.1	1.5
2008-09	78.9	9.2	2.1	3.1	2.4	1.2	3.1
2009-10	79.5	6.3	2.0	3.1	2.8	1.1	5.7
2010-11	81.6	5.9	1.5	3.1	3.1	0.8	4.3
2011-12	86.0	5.6	1.4	4.3	1.2	1.2	2.7
2012-13	81.7	6.7	1.3	4.6	2.1	1.0	2.7
2013-14	74.0	7.5	1.5	5.4	3.2	0.9	7.5
2014-15	84.7	7.8	1.6	4.9	2.9	1.2	3.1
2015-16	66.6	5.8	0.8	4.2	3.9	1.0	17.7

Source: Annual Reports, MSEDCL

The long term debt burden of MSEDCL is given in Table 10.11. From the table we can conclude that the total repayment of the loan has increased fourfold over a period of ten years. The long term debt burden of the MSEDCL has increased from Rs. 2650 crores to Rs. 13357 crores in ten years. This has resulted in a huge spurt of interest payments. The huge jump in the interest payments is visible from Figure 10.4. This increase in the interest payments has resulted in a higher per unit cost of production. Many years the MERC did not fully accommodate this higher interest payments in their cost calculations, while fixing the price of electricity distributed and this resulted in an increase in the gap between average cost and revenue of this utility.

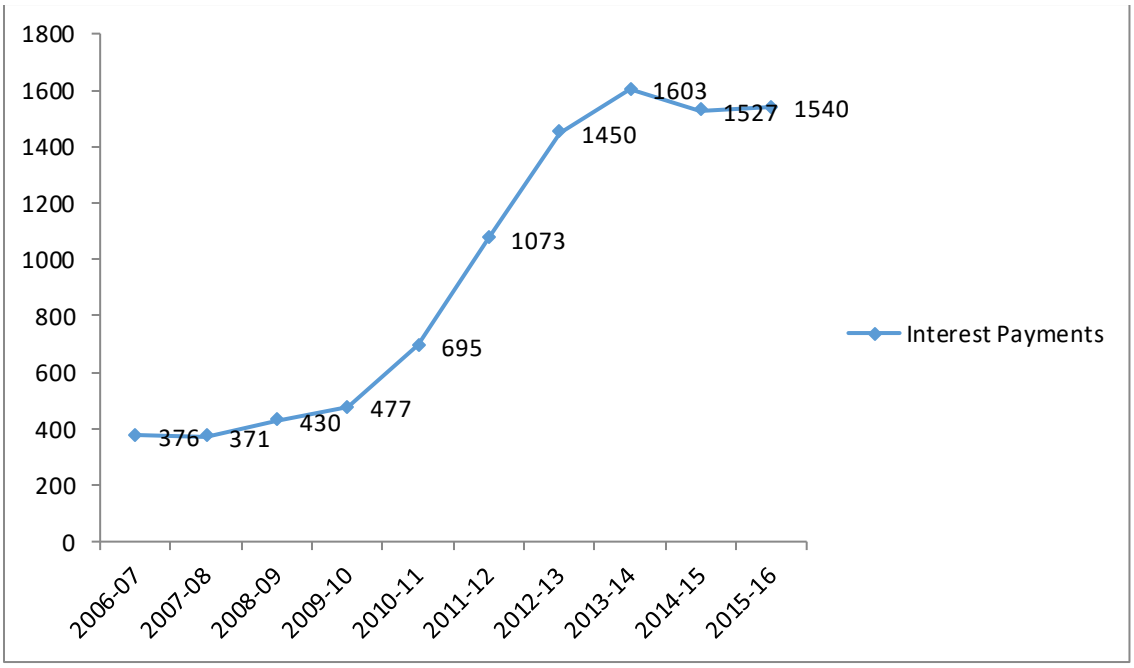
Table 10.10: Details of Long Term Loans

(Rs. In Crores)

Financial year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total repayment	334	378	403	351	555	893	1236	1534	1662	1694
Closing Balance	2650	3653	4045	5180	8233	11496	13817	13171	12666	13357
Interest	376	371	430	477	695	1073	1450	1603	1527	1540

Source: Annual Reports, MSEDCL

Figure 10.4: Interest Payments of MSEDCL



10.5.4.Overall Financial Performance of Power Sector

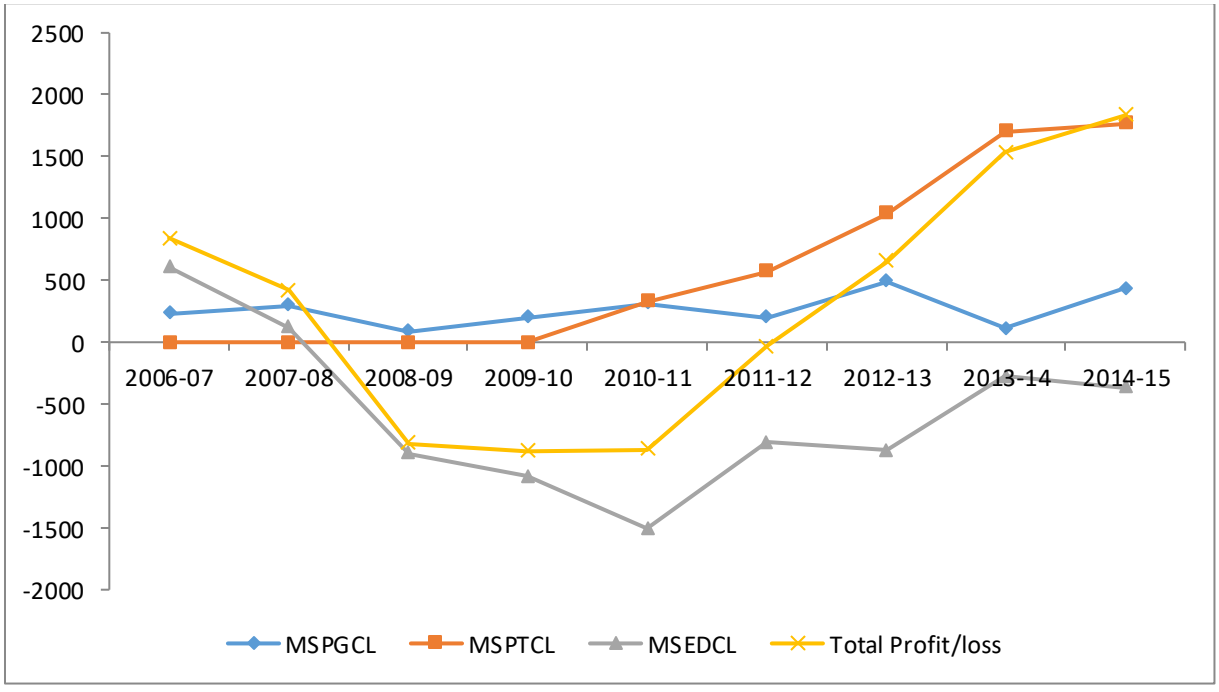
The power sector companies are the largest public sector undertakings in Maharashtra in terms of total investment and hence the financial performance of these companies has a direct impact on the fiscal health of state. Huge subsidy is also provided to this sector considering the externality of this sector. In this section, we analyse the profit/loss of the three companies in the power sector of the state. The overall performance of these sectors started off positively in the years 2006-07 and 2007-08 with an overall profit due to the profit in power generation as well as distribution as given in Table 10.5 and Figure 10.5. The power generation company MSGCL has consistently maintained its profits and the annual profits increased from Rs. 234 crores to Rs. 1335 crores. The power transmission company MSETCL has also recorded profit except the year 2015-16, the year in which they recorded a huge loss of Rs. 4256 crores. The power distribution company MSEDCL after the initial profits for two years has consistently made losses during the period 2009-10 to 2015-16. The profits made by the other two companies were not sufficient enough to compensate for the huge losses MSEDCL is incurring every year. Hence five out of ten years the sector made a financial loss to the state exchequer, since the government of Maharashtra is the highest share holder of these companies.

Table 10.11: Profit after Tax for Power Sector in Maharashtra

Year	MSGCL	MSETCL	MSEDCL	Total Profit/loss
2006-07	234	0	606	840
2007-08	300	0	117	417
2008-09	84	0	-902	-818
2009-10	203	0	-1085	-882
2010-11	309	329	-1505	-867
2011-12	200	570	-807	-36
2012-13	488	1038	-871	655
2013-14	111	1703	-280	1534
2014-15	436	1764	-366	1834
2015-16	1335	-4256	-3384	-6305

Source: Annual Reports of MSEDCL, MSGCL, MSETCL

Figure 10.5. Profits/loss of the power Sector (Rs. Crores)

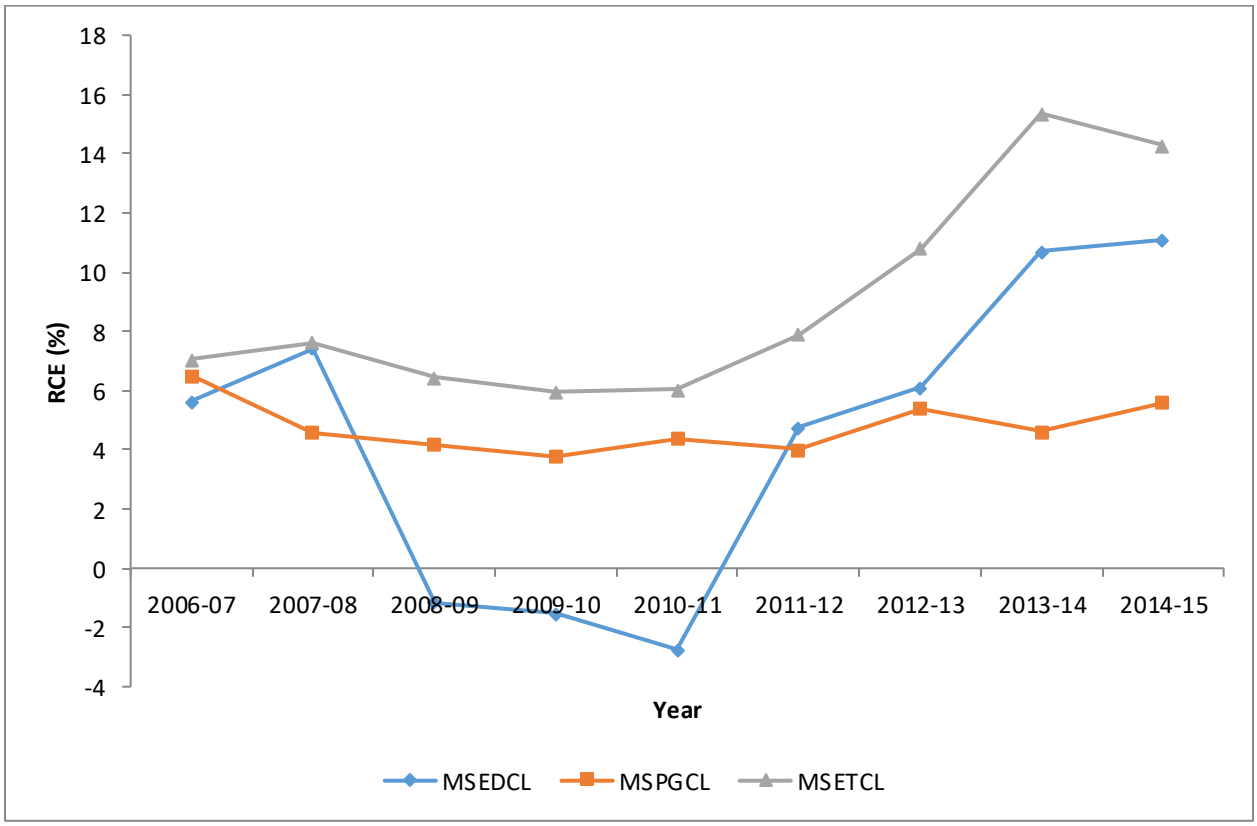


Return on Capital Employed (ROCE)

Return on capital employed (ROCE) is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is especially useful when

comparing the performance of companies in capital intensive sectors such as power utilities. This is because ROCE considers debt and other liabilities as well. This provides a better financial indication of performance for companies with significant debt. The results of the three power sector companies are given in Figure 10.6. The return on capital employed has increased consistently for the power generation company MSGCL and transmission company MSTCL during the period 2006-07 to 2014-15. MSEDL on the other hand has recorded negative returns during 2008-09 to 2010-11 and improved its performance during 2011-12 t0 2014-15. During the year 2015-16 all the companies have recorded a negative return on capital employed indicating the overall loss of this sector.

Figure 10.6. Return of Capital Employed



Debt-Equity Ratio

One of the major reasons for the loss made by the power companies is the huge dependence on borrowings for its working capital since the companies failed to generate their own operating profits. This is reflected in the increase in the debt equity ratio of these companies.

Table 10.12: Debt Equity Ratio

Utility	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
MSEDCL	1.47	1.51	1.83	4.02	9.94	16.11	40.04	33.66	40.1	0.83
MSGCL	1.04	1.36	2.2	2.67	2.89	2.87	3.00	2.95	2.83	1.94
MSTCL	0.62	0.73	0.99	1.29	1.76	1.86	1.68	1.24	0.89	0.67

Financial Burden on State Exchequer via Subsidy

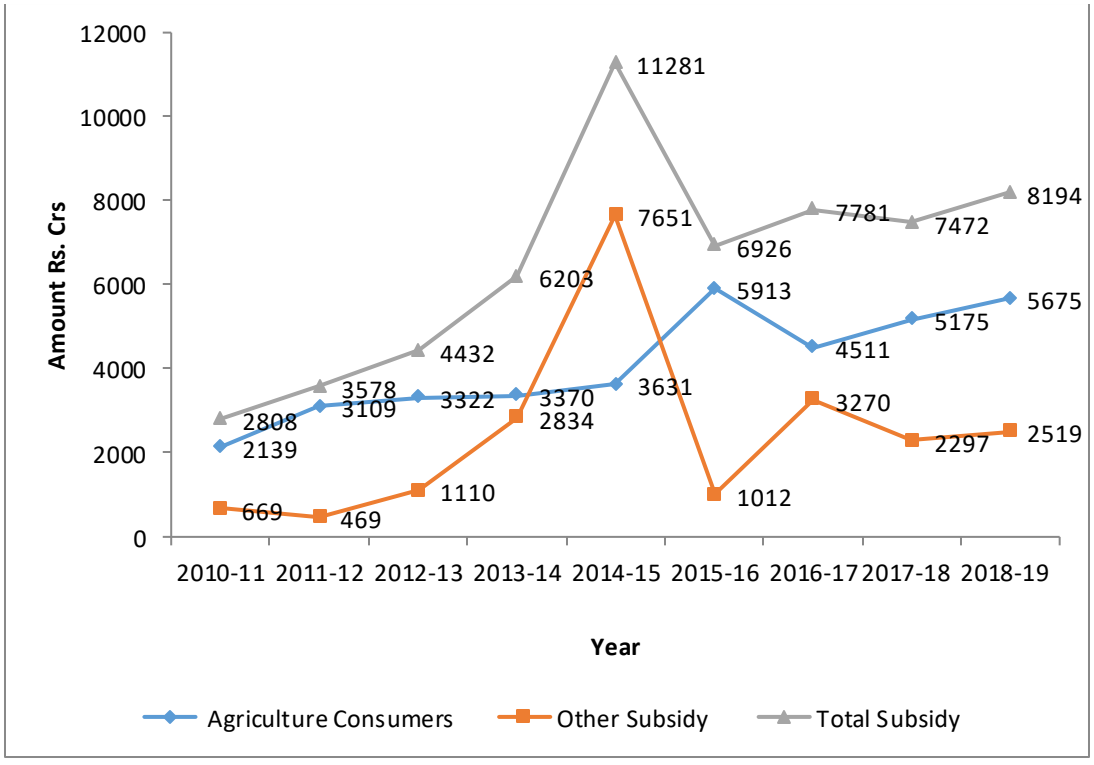
Considering the huge positive externality of this sector apart from equity participation and provision of soft loans, huge subsidy is being transferred from state budgets to this sector and this adds as a burden on the state budgets. Maharashtra being a drought prone area has always provided huge subsidy to the agricultural sector consumers for electricity as it is clear from Table 10.7. and Figure 10.7. Due to data availability we have taken the data for the period 2010-11 to 2018-19 for this section. Around 70 per cent of the subsidy goes to the agricultural consumers. The overall subsidy has increased fourfold during the period 2010-11 to 2018-19. The year 2014-15 received the highest subsidy of Rs. 11281 cores. These subsidies are direct burden on the state exchequer and needs to be rationalised. On the one hand it leads to drain of resources from the state budget and on the other it leads to overutilization of water resources and will have an impact on the water recharge and overall eco system of the state.

Table 10.13: Subsidy released for MSEDCL

Year	Agriculture Consumers	Other Subsidy	Total
2010-11	2139 (76.17)	669 (23.83)	2808
2011-12	3109 (86.91)	469 (13.09)	3578
2012-13	3322 (74.95)	1110 (25.05)	4432
2013-14	3370 (54.32)	2834 (45.68)	6203
2014-15	3631 (32.18)	7651 (67.82)	11281
2015-16	5913 (85.38)	1012 (14.62)	6926
2016-17	4511 (57.97)	3270 (42.03)	7781
2017-18	5175 (69.26)	2297 (30.74)	7472
2018-19	5675 (69.26)	2519 (30.74)	8194

Source: Ministry of Finance, Government of Maharashtra

Figure 10.7. Subsidy released for MSEDCL



Cross Subsidisation in Pricing by MSEDCL

Apart from the direct subsidy given by the state government to the agricultural sector, the MSEDCL also follows the policy of cross subsidisation in the pricing of power. The domestic, agricultural and public lighting are the sectors that receive cross subsidy by charging higher prices for consumer categories Non Domestic, Industrial HT, Railway and Bulk supply as given in Table 10.8. This cross subsidy has resulted in many of the industrial HT consumers to move to captive power generation and overall period of time this have reduced the percentage of industrial HT consumers in the state as discussed in the previous section. This has got a direct implication on the revenue generation of the MSEDCL.

Table 10.14: Percentage of Cross Subsidy across Sectors

Year	Domestic	Non Domestic	Agricultural	Industrial HT	Industrial LT	Public Lighting	Public Water Works	Bulk Supply	Railway	Inter State	Others
2006-07	1.34	-1.96	8.16	-6.16	0.00	0.13	0.58	-1.53	-0.57	0.00	0.00
2007-08	2.11	-2.06	11.24	-10.47	0.00	0.17	0.23	-0.52	-0.70	0.00	0.00
2008-09	1.91	-5.02	11.09	-7.64	1.47	0.18	0.89	-4.05	-0.55	0.00	0.00
2009-10	2.14	-5.30	11.65	-7.55	1.31	0.14	0.78	-2.61	-0.57	0.00	0.00
2010-11	1.55	-5.57	12.85	-7.48	0.66	0.20	0.77	-2.37	-0.62	0.00	0.00
2011-12	1.49	-5.39	15.07	-9.50	-1.75	0.18	0.35	0.50	-0.93	0.00	0.00
2012-13	2.52	-5.05	12.86	-1.76	0.47	0.20	0.84	0.00	-0.79	-0.02	-9.29
2013-14	1.47	-5.38	11.17	-5.16	0.32	1.11	0.84	-0.61	-0.84	0.00	-2.92
2014-15	-0.45	-5.92	14.21	-7.94	-2.37	0.07	0.27	4.73	-0.81	-0.50	-1.35
2015-16	-2.21	-6.33	14.37	-6.51	-1.85	0.05	0.23	5.28	-0.42	-0.54	-2.06

Weak Realisation of Arrear Payments

Accumulated arrear in payment by different category of consumers is yet another problem faced by the MSEDCL. The company has to realise a pending arrear of Rs. 28106 crores as on 31st March 2016. More than half of the payments to be made are by agricultural consumers followed by the disconnected consumers. Due to specific political economy reasons of the state MSEDCL failed to collect the arrears from the agricultural sector, especially the sugar sector and that affects the fiscal health of the MSEDCL as well as the overall fiscal health of the state.

Table 10.15: Arrears to be realised as on March 2016

Category	Total Arrears (Crores)	Percentage of Arrears
Residential	1029	3.66
Commercial	344	1.22
HT-Industrial	392	1.39
LT-Industrial	170	0.60
Power loom	940	3.34
PWW	1221	4.34
Street Light	2021	7.19
Agriculture	14882	52.95
Others	60	0.21
P.D. Consumers	6047	21.51
Grand Total	28106	100

Ujwal DISCOM Assurance Yojana (UDAY)

The Government of India launched Ujwal DISCOM Assurance Yojana (UDAY) which aims at the financial turnaround and revival of DISCOMs. It is a tripartite agreement between Ministry of Power, State governments and DISCOMs. It is optional for all States; however, States are encouraged to be a part of the scheme and benefit from the same. Over the years, DISCOMs have accumulated a loss of Rs. 3.8 lakh crores and outstanding debt of Rs. 4.3 lakh crores as on March 2015 (Press Information Bureau, 2015). The increase in the debt has been mainly because

of non-revision of tariff commensurate with the increase in cost of supply. Moreover, inadequate subsidy receipt and non-improvement of efficiency level are also the factors responsible for the enormous increase in power debt. In spite of having surplus power generation, DISCOMs are not able to provide electricity to the customers due to their debt liabilities. Against this backdrop, the Government of India launched UDAY in November 2015. Measures of operational efficiency improvements include compulsory smart metering, upgradation of transformers, meters, etc., energy efficient measures like LED bulbs, agricultural pumps, fans and air conditioners. These improvements are likely to bring down the gap between average revenue realized (ARR) and average cost of supply (ACS) from 22 per cent to 15 per cent by 2018-19. Increased supply of cheaper domestic coal, coal linkage rationalization, liberal coal swaps from inefficient to efficient plants, coal price rationalization based on gross calorific value (GCV), supply of washed and crushed coal, and faster completion of transmission lines are some of the ways to reduce cost of power.

UDAY seeks to set free DISCOMs of their debt in the next 2-3 years through the following four initiatives: (i) improving operational efficiencies of DISCOMs; (ii) reduction of cost of power; (iii) reduction in interest cost of DISCOMs; and (iv) enforcing financial discipline on DISCOMs through alignment with State finances. It has direct fiscal implications on State finances as States have to take over 75 per cent of DISCOM debts. If these impacts are large, States might squeeze developmental expenditure given their FRA targets of deficits. A large debt exposure can bring the issue of fiscal sustainability at the centre stage.

Debt Restructuring Mechanism of the UDAY Scheme

Under this scheme, States are expected to take over 75 per cent of DISCOM debts as on 30th September, 2015 over two years - 50 per cent in 2015-16 and 25 per cent in 2016-17 (Press Information Bureau, 2015). This will reduce the interest taken over by States to around 8-9 per cent from the current 14-15 per cent. States have issued non-SLR State Development Loan (SDL) bonds in the market or directly to the respective banks/Financial Institutions (FIs) holding the DISCOM debt (maturity period of these bonds are 10-15 years). DISCOM debts that are not taken over by the States are being converted into loans or bonds with interest rate not more than the bank's base rate plus 0.1 per cent by banks/FIs. Moreover, States are expected to take over the future losses in a graded manner. States accepting UDAY and complying with the

operational guidelines will be given additional/priority funding through Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS), Power Sector Development Fund (PSDF) or other such schemes of Ministry of Power and Ministry of New and Renewable Energy.

Implementation of UDAY Scheme in Maharashtra

Maharashtra State Electricity Distribution Company Ltd (MSEDCL) has participated in the UDAY scheme and signed the MOU with the Government of Maharashtra in the month of October 2016. As per the MOU, the Government of Maharashtra has taken over the 75 per cent of the medium and short term loan of Rs. 6,613 crs outstanding as on 30.09.2015. The amount of Rs. 4,959.75 crs is released to MSEDCL in the month of February 2017. The amount will be converted into the grant in five equal yearly instalments of Rs. 991.75 crs. Till the amount is converted into grant; interest will be paid to the Government of Maharashtra by MSEDCL on the outstanding amount every year at an average rate of 7.36 per cent. For balance 25 per cent medium/short term loans as on 30.09.2015 of Rs. 1653 crs, MSEDCL will raise bonds with guarantee from state government. On the receipt of the above amount MSEDCL was able to discharge the short term liabilities toward power purchase. Annual savings on the interest cost due to the receipt of funds under UDAY scheme are expected to be Rs. 83.09 crs. As per the MOU, MSEDCL has to comply the operational parameters as specified in the schemed document such as reduction in AT& C losses, reduction in gap between average cost of supply (ACS) and average revenue realised (ARR). The state has made consistent improvement in the operational parameters under UDAY. Unlike many other states the financial implications of the UDAY scheme will not be huge on the state exchequer. The annual financial burden will be less than Rs. 1000 crores for the five-year period starting 2018-19.

Major Findings

- The reform initiatives undertaken in the power sector have improved the overall physical performance of the sector. The gap between the power demand and supply has come down drastically in the state. The AT& C and TDS losses have come down over the period 2006-2016.
- The losses made by the state power distribution company MSEDCL is still very huge. The non-metered consumption of agricultural sector lead to a heavy subsidy on the state exchequer.
- The compound annual growth rate of subsidies at 18.7 per cent must be brought at least below the growth rate of revenue receipts.
- The UDAY scheme will not lead to huge liability on the state exchequer.

CHAPTER - 11

ANALYSIS OF CONTINGENT LIABILITIES

Introduction

State Governments often face hard budget constraints. They have had (especially before the introduction of the GST) very few productive tax bases, and face limits in terms of the loans and advances they can get from the Centre. They are "permitted to undertake only domestic borrowings upon the security of the Consolidated Fund of the State and within limits, and they cannot raise any loans without the consent of the Central government so long as they are indebted to the Centre (Article 293 of the Constitution) (RBI, 2012)". With limited borrowing capacities and almost systemic revenue deficits, State Governments have had to generate capital savings to balance the budget. This implies that the investment done by the State Government is ultimately bears the brunt of the hard budget constraints faced by the State Governments. In response to the issue, State Governments have resorted to issuing guarantees on behalf of public sector companies or co-operative societies, which then contribute to critical infrastructural and social sector development within the State. These and such guarantees are called as contingent liabilities.

Such guarantees, if invoked due to default on behalf of the company or co-operative society, have the potential to destabilize the fiscal maths of the budget. The usual indicators of fiscal "risk" such as Revenue Deficits or Fiscal Deficits typically concentrate on the current revenue streams and expenditures of the Government. Hence, the "conventional deficit provides an over-optimistic indicator of Government's long run ability to pay because it does not factor in the expected future cost of entitlements and contingent liabilities assumed by the Government (Blejer and Cheasty, 1993)." In all fairness, it should also be noted that the conventional Expenditures of the Government on the Revenue and Capital Account too provide an under-optimistic indicator of the Government's commitment to development of infrastructure and social indicators.

Thus, observations on contingent liabilities, together with the observations on trends in public debt, should help the Finance Commission to get a view of the overall or "Extended Debt" of the

Government of Maharashtra, which includes the total debt stock as well as guarantees issued by the Government.

11.1 Definitions

The CAG Reports on Maharashtra State Finances define contingent liabilities thus: "Guarantees have been given by the Government for the discharge of certain liabilities like loans raised by Statutory Corporations, Government Companies, Joint-Stock Companies, Co-operative Institutions, Local Bodies, Firms etc. These guarantees constitute contingent liabilities on the State Revenue."

Contingent liabilities may classified as explicit or implicit. Explicit guarantees are contractual obligations of the Government and are driven by explicit laws or contracts. Thus, standing as a guarantor to a loan taken by a co-operative society from KVIC is an explicit guarantee. Implicit guarantees often involve moral obligations to the society and may not be covered by any contract. Instances of Public Works initiated by the Government following occurrences of natural disasters are implicit guarantees. The Government Accounting Standards Advisory Board (GASAB) treats "Letters of Comfort" issued by the State Governments to be implicit guarantees. A letter of comfort issued by the State Government to the Public Sector Undertakings is actually not a guarantee of the loan taken by the Undertaking from a Financial Institution. It is but a reassurance given to the lending institution that the State Government is aware of the credit that is being lent to it by the Financial Institution. From 1st April 2003, Letters of Comfort have been definitionally included in the implicit guarantees given by the Government.

The RBI had set up a Technical Committee to look into certain issues pertaining to guarantees given by the State Governments. The Committee recommended interventions pertaining to setting up of a Guarantee Reserve Fund, prescribing limits on guarantees, ensuring greater selectivity in providing guarantees, standardization of disclosure norms for State budgets on the guarantees provided, etc. As per the scheme introduced in 2001, the States had to contribute an amount equal to 1/5th of the outstanding invoked guarantees and likely invocation as a result of incremental guarantees issued during the year. The RBI also set up an internal working group on 'Information on state government guaranteed advances and bonds' in 2003. This group recommended that disclosure of information on guarantees and contingent liabilities should be preceded by rating of the projects guaranteed by the Government. The Report of the Fiscal

Responsibility Legislation at the State Level (2005) recommended fixing a limit on annual incremental risk-weighted guarantees in relation to their GSDP/total revenue receipts. Many States incorporated this recommendation in their FRL although this was not mandated by the 12thFC for receiving debt relief. The 12th FC had recommended that the net incremental investment in the Guarantee Reserve Funds of the State Governments would be made into a conditionality for availing of the WMA from the RBI. Accordingly, Guarantee Reserve Funds were set up in a few States in 2006. Some State Governments set up limits on guarantees by benchmarking the contingent liabilities that could be issued in any year to Revenue Receipts in that year's budget.

Maharashtra, however, has refrained from taking any such step in a formal manner. The Maharashtra Fiscal Responsibility and Budgetary Management Act, 2005 does not include any provision for laying down the limits of giving of guarantee by the executive power of the State.

The State Government had actually created a Guarantee Reserve Fund in 1963-64 itself. However, that was closed down in 1990. The Medium Term Fiscal Policy Statement for the year 2009-10 stated the intent of setting up a Guarantee Reserve Fund to meet the contingent liabilities arising from the guarantees given by the Government. However, no such Fund has been set up till date (The State Government has not availed of WMA facility either).

Since the Fund has not been set up, receipts of guarantee fees are directly shown as Revenue Account receipts. In the presence of the Fund, they would have shown up in increments to the Fund amounts. Since the guarantee fees are directly accounted for as Revenue Receipts, the Revenue Deficit is underestimated to that extent.

Whilst the reluctance to give a formal legislative format to limit the issue of guarantees seems worrisome, it is extremely interesting to note that the State Government has actively reduced the outstanding contingent liabilities from 2005-06 to 2015-16.

11.2 Trends in Contingent liabilities issued by the GoM

In this section, we examine the trends in the stock of outstanding guarantees of the GoM. An increment in the stock implies the issuance of fresh guarantees, whereas reduction in the stock implies that more guarantees have been retired than have been issued. Table 11.1 shows the outstanding guarantees given by the GoM from 2006-07 to 2015-16

Table 11.1: Outstanding liabilities (Rs. Cr.) and ratio to Revenue Receipts

Year	Outstanding Guarantees	Revenue Receipt	Outstanding liabilities as % of Revenue Receipts
2006-07	74640	62,195	120.01
2007-08	58276	79,583	73.23
2008-09	51471	81,271	63.33
2009-10	42683	86,910	49.11
2010-11	15041	1,05,868	14.21
2011-12	15041	1,21,286	12.40
2012-13	9246	1,42,947	6.47
2013-14	7235	1,49,822	4.83
2014-15	7000	1,65,415	4.23
2015-16	7807	1,85,036	4.22
2016-17	7306	204693	3.6

The data in Table 11.1 shows interesting trends. There has been a sharp reduction in the contingent liabilities given by the government from 2006-07 to 2016-17. In terms of percentage of Revenue Receipts, the contingent liabilities have reduced from 120 per cent of the Revenue Receipts to 4 per cent of Revenue Receipts. While the reduction is remarkable, it is to be noted that contingent liabilities can still put pressure on the fiscal maths of the government in 2015-16. If contingent liabilities are invoked, then 4.22 per cent of the Revenue Receipts stand compromised. This can potentially double the Revenue Deficit of the state and increase the Fiscal Deficit of the state by 33 per cent. Hence, even though the reductions in outstanding guarantees have been quite sharp, the implications of the same need to be examined more acutely.

We next calculate the "Extended" Debt Stock of the Government, which is defined as the summation of the debt Stock and the stock of outstanding liabilities.

Table 11.2: Debt to SGDP, Outstanding Guarantees to SGDP and Extended Debt to SGDP

Years	Debt:GSDP	Outstanding guarantees as % of GSDP	Extended Debt (Debt Stock + Stock of Outstanding liabilities) to GSDP
2006-07	22.88	12.77	35.65
2007-08	20.79	10.07	30.86
2008-09	21.31	7.38	28.69
2009-10	21.20	5.13	26.33
2010-11	19.36	1.46	20.82
2011-12	17.65	1.20	18.85
2012-13	16.90	0.67	17.57
2013-14	16.33	0.49	16.82
2014-15	16.52	0.45	16.52
2015-16	16.32	0.40	16.72
2016-17	16.16	0.30	16.46

Source: Various CAG Reports on State Finances

Figure 11.1: Debt to SGDP, Outstanding Guarantees to SGDP and Extended Debt to SGDP

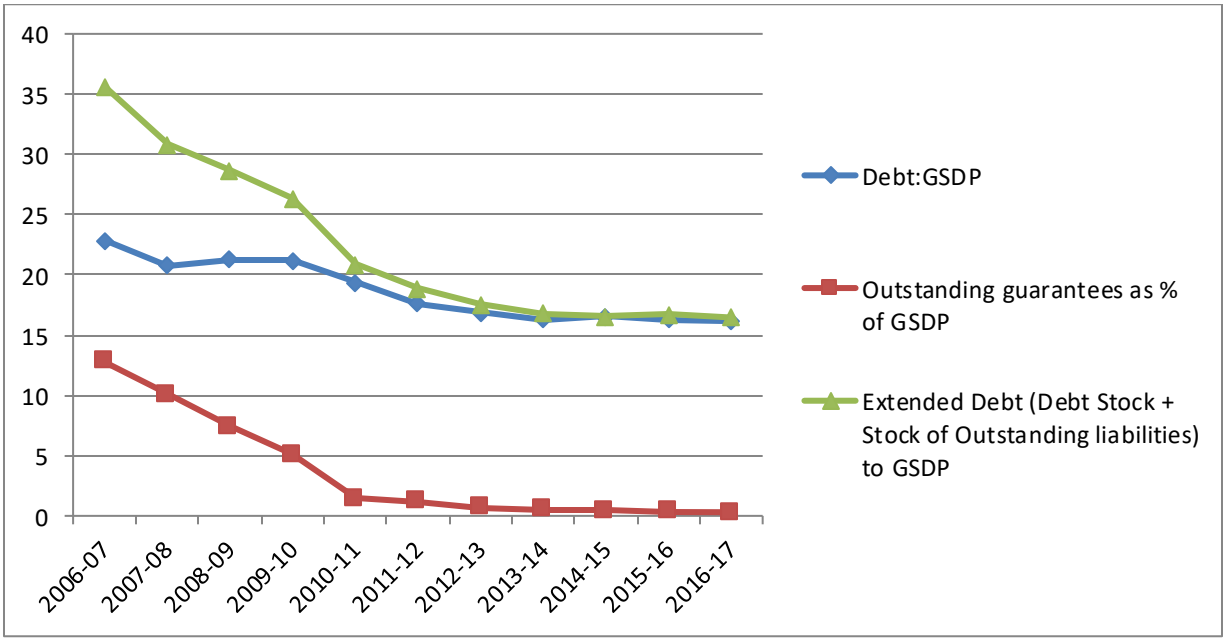


Table 11.2 and Figure 11.1 show that the Extended Debt to GSDP ratio shows a secular decline over the past 10 years. The outstanding guarantees as a ratio to GSDP fall sharply from 12.77 per cent in 2006-07 to 0.3 per cent in 2016-17. Thus, not only has the State Government reduced the debt stock to GSDP ratio, but it has also reduced its exposure to the stock of contingent liabilities sharply. As has been said earlier, the reduction in the stock of outstanding liabilities has occurred despite any legal framework which mandated this process to happen.

11.3 Analysis of Guarantee fees

The Government also charges fees for guarantees given to Corporations, co-operative societies and firms. The fee structure largely depends on the constitution of the firm and the nature of operations of the firm.

For guarantees given before 1st November 1988, between 1st November 1988 and 1st April 1997 and after 1st April 1997, the Government charged Rs.0.50, Re.1 and Rs.2 per Rs.100 guarantee per annum. This rate is applicable to all institutions/bodies except co-operative institutions dealing with cotton procurement scheme and consumer co-operative institutions dealing with scheme of distribution of essential commodities which are charged guarantee fee at the rate of Rs. 0.20 per Rs.100 per annum for guarantees given prior to 01 November 1988 and Rs.0.50 per Rs.100 per annum for guarantees given on or after 01 November 1988. For co-operatives serving small and marginal farmers, landless labourers, economically weaker sections of society and scheduled castes and scheduled tribes people, the fees would be Rs. 0.20 per Rs. 100 per annum for guarantees given on or after 01 November 1988 and at the rate of ` 0.50 for guarantees given on or after 01 April 1997. Co-operative institutions dealing with agricultural credit to weaker section, co-operatives of handloom weavers and marketing co-operatives dealing with foodgrains procurement programme have been exempted from payment of guarantee fees altogether.

Institutions defaulting in the repayment of loans and interest, are charged fees at the rate of Rs.2 per Rs.100 per annum in respect of new guarantees given after the November 1988 and at the rate of Rs.4 per Rs.100 per annum for guarantees given on or after 01 April 1997. The co-operatives entitled to the concessional rate are charged fees at the rate of Re.1 per Rs.100 per annum with effect from 01 April 1997. The fees realized are credited to the Revenue Account and hence form a source of receipts for the Government.

Following table shows the data on the receipts from guarantee fees and the receivables.

Table 11.3: Guarantee fees received and receivable (Rs. Cr.)

	Received	Receivable
2006-07	205	5114
2007-08	3734	5749
2008-09	559	1520
2009-10	551	374
2010-11	551	300
2011-12	128	60
2012-13	82	92
2013-14	68	NA
2014-15	47	NA
2015-16	29	NA
2016-17	9.87	1465

Source: Various CAG Reports, Finance Accounts of CAG

The 12th FC had recommended that guarantee fees received by the Government could be converted into a Guarantee Reserve Fund, through which the invoked guarantees could be paid. However, the Fund has not been created by the Government. The fees received by the Government are directly shown as Revenue Receipts; to that extent, the Revenue Deficit of the Government stands understated.

The above table shows that guarantee fees received as well as receivable have reduced over the past 10 years. This is in keeping with the reduction in guarantees issued by the State Government. However, we find a sharp increase in the receivables in 2016-17. This needs to be examined more deeply.

11.4 Sectoral distribution of Guarantees

The Finance Accounts of the Auditor General give a fairly disaggregated view of the sectors towards which the guarantees have been extended by the State Government. The Auditor Reports show a change in reporting the sectoral distributions after 2009-10. Hence, we present the data for sectoral distribution of guarantees only for the period after 2009-10.

Table 11.4: Sector-wise Share in Total Guarantees (Percent)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
State Financial Corporation	19.91	38.09	38.09	30.17	32.89	27.76	20.79
Urban Development and Housing	0.53	0.00	0.00	0.54	0.00	0.25	0.26
Roads & Transports	8.51	15.20	15.20	14.38	17.33	15.37	15.43
Power	37.21	15.03	15.03	13.51	13.41	8.68	4.77
Municipalities/local bodies	2.46	2.84	2.84	4.07	4.92	4.19	4.06
Co-operatives	31.07	28.73	28.73	37.18	31.27	43.58	54.70
Other Institutions	0.30	0.11	0.11	0.15	0.19	0.16	0.00

Source: Finance Accounts, Auditor General

Figure 11.2: Sector-wise Share in Total Guarantees (Percent)

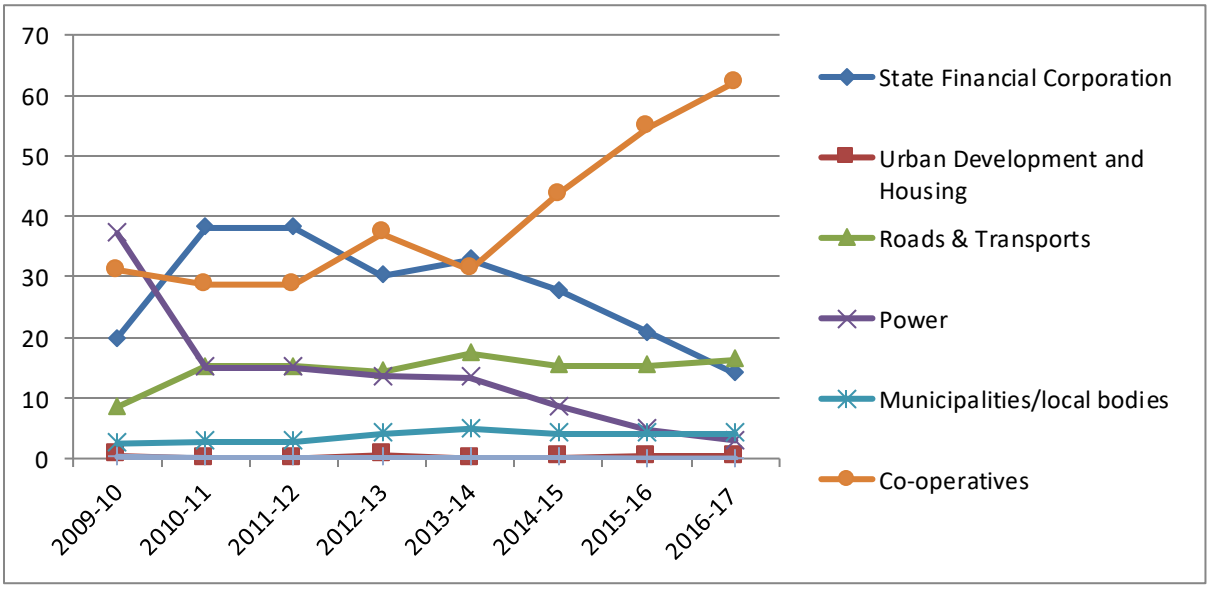


Table 11.4 indicates that the Co-operative Institutions and Maharashtra State Finance Corporation (MSFC) have dominant shares in the receipt of guarantees. Within the co-operative sector, the details given in Finance Accounts suggest that the guarantees given to sugar and cotton co-operatives are the highest (See Table 11.5). Given the poor track record of the sugar co-operatives in returning the borrowed funds from the co-operative banks, high exposure to the

guarantees of sugar co-operative societies signals high vulnerability of the State Government. The high exposure of Government to outstanding guarantees given to the sugar co-operatives is also indicative of the politically strong sugar lobby within Maharashtra. As has been said earlier, if the guarantees are invoked, they have the potential to double the Revenue Deficit and increase the Fiscal Deficit by 33 per cent. Thus, it seems to be the case that good politics is driving out good economics in Maharashtra.

The CAG report also mentions the guarantees given to specific institutions by the Government (See Table 11.5). However, the sums of such amounts are lesser than the total guarantees given by the Government in any particular year (See Table 11.1).

Table 11.5: Guarantees given to specific institutions/ sectors (Rs. Cr.)

Guarantee given to	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Maharashtra Agro Industries Dev. Corpn.			457.5	150	260	335	150	140			
Sugar cooperatives	7	189	136.48	34.66	375.65	209.4				23	
Cotton cooperatives			1100	500	260					700	400
Gas and Power		450	300								
Adivasi Finance			25	25							
Handicapped Fin			25								
Mah State Other Backward Fin			50						138.07		
Anna BhauSatheDev Corp			50						60.5		
Co-op marketing			0	318		337.15	100	285	735	10	110
State Coop bank	157									467.62	495
Special Assistance								50			
Minority								15			
Leather industry									31.15		
Maulana Azad Minority Dev Corp						30					
Vidarbha Mar Fed.						190	100				
Other co-operative soc.	1214										
Krishna Valley Corp		731									
Govt companies	4										
Handloom corp		3.5									
SC/ST finance									28.2		
Total	1382	1373	2143.98	1027.66	895.65	1101.6	350	490	992.92	1200.6	1005

The risks of providing guarantees to different sectors are different. Hence, guarantees given to the different sectors have different probabilities of showing up as "invoked guarantees" in Government accounts. More data on sectoral risk is required in order to assess the extent to which contingent liabilities could be invoked.

Major Findings

- Outstanding contingent liabilities as a percentage of GSDP have fallen from 15 per cent in 2006-07 to 0.3 per cent in 2015-16
- Co-operative Institutions and Maharashtra State Finance Corporation (MSFC) have dominant shares in the receipt of guarantees. Within the co-operative sector, the details given in Finance Accounts suggest that the guarantees given to sugar and cotton co-operatives are the highest: Good politics drives out good economics.
- More data on sectoral risk are needed to create insights on the probability of contingent liabilities getting invoked. The State Government needs to undertake risk rating of projects before issuing guarantees for the same.

Chapter - 12

ANALYSIS OF STATE GOVERNMENT SUBSIDIES

12.1 Introduction

The extent of subsidies given by the State Governments has a direct impact on the levels of Revenue Deficit. Given that Finance Commissions are required to make grants towards closing Revenue Deficits, they are sensitive towards all State Government expenses that might create unnecessary pressure on Revenue Deficits. Different FCs have also commented on the need for expenditure compression by States in general and reduction in subsidies in particular. The 12th and 13th FC even linked conditional transfers to State level fiscal reforms, an important part of which was consolidation of expenditures on subsidies.

This chapter evaluates the extent to which the Maharashtra State Government has given subsidies in the past ten years and also offers a commentary on which sectors the subsidies have been largely directed towards.

12.2 Data Sources

Subsidies are to be recorded as Expenditure in the Revenue Account. However, there is no separate head in Revenue Expenditure of State Budgets under which the amount of subsidies given by the State Government is stated. The Reports of the Comptroller and Auditor General (CAG) of India on State Finances for different years carry the details on subsidies. We have used the data on subsidies as given in the CAG reports in this chapter[1]. The data on Department-wise composition of subsidies from 2006-07 to 2015-16 is available in the Finance Accounts of the respective years.

12.3 Trends and Patterns in Subsidies given by the Government

In this section, we present an analysis of the trends and patterns in the subsidies given by the Government.

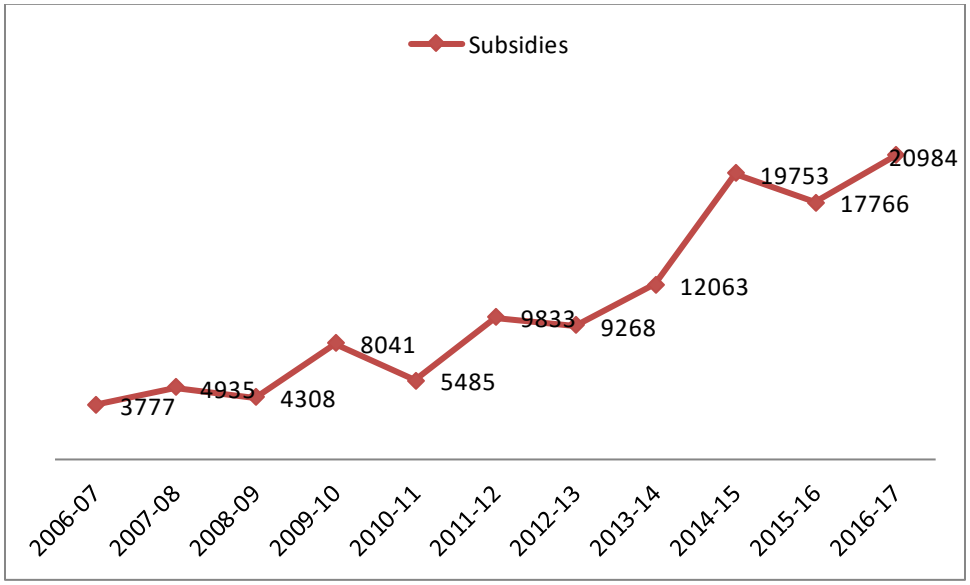
[1] Since CAG reports only present the data till 2016-17, analysis of subsidies has only been carried out till 2016-17. For some disaggregated variables, data are only available till 2015-16.

Table 12.1: Subsidies (Rs. Cr.), Ratio of Subsidies to Revenue Receipts, Revenue Expenditure, Total Expenditure and GSDP

Year	Subsidies	% to Revenue Receipts	% to Revenue Expenditure	% to Total Expenditure	% to GSDP
2006-07	3777	6.07	6.15	4.81	0.65
2007-08	4935	6.20	7.62	6.00	0.72
2008-09	4308	5.30	5.69	4.31	0.57
2009-10	8041	9.25	8.47	6.83	0.94
2010-11	5485	5.18	5.15	4.19	0.52
2011-12	9833	8.11	7.96	6.59	0.77
2012-13	9268	6.48	6.68	5.60	0.63
2013-14	12063	8.05	7.79	6.42	0.73
2014-15	19753	11.94	11.13	9.07	1.11
2015-16	17766	9.60	9.33	7.89	0.89
2016-17	20984	10.00	9.84	8.16	0.93

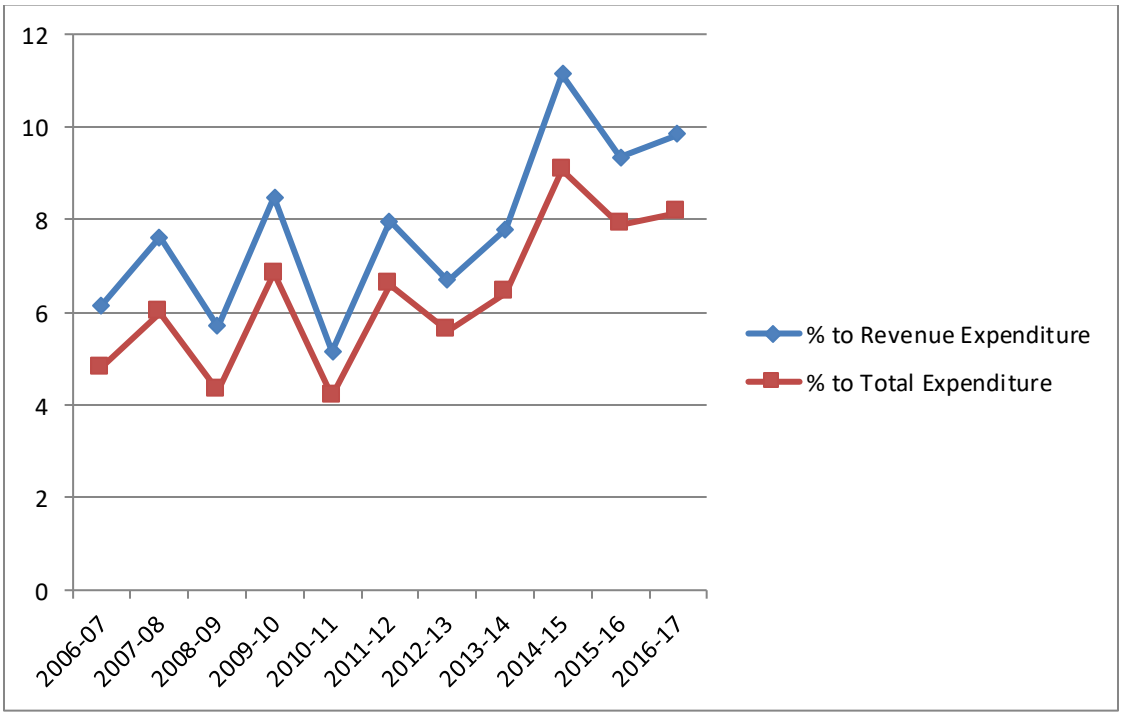
It is interesting to note that even in absolute terms, subsidies given by the Government from 2006-07 to 2015-16 do not show a steady increment and exhibit cyclical behaviour. There has been a particularly sharp increase in subsidies after 2013-14. See Figure 9.1.

Figure 12.1: Subsidies from 2006-07 to 2015-16(Rs. Cr,)



As a percentage of Revenue Expenditure and of the size of the budget too, subsidies show an increasing trend with cyclicality. See Figure 12.2.

Figure 12.2: Ratio of Subsidies to Revenue Expenditure and Total Expenditure



From 2006-07 to 2016-17, the Total Expenditure of the Government shows a trend growth rate of 12.51 per cent. Thus, the size of the budget increases by 12.51 per cent. In the same time period, Revenue Expenditure increases more than proportionately, with a trend growth rate of 13.45 per cent. The expenditure on subsidies grows considerably faster with a trend growth rate of 17.82 per cent. A faster growth rate of subsidies as compared to that of the Revenue Expenditure as well as Total Expenditure implies that the share of subsidies within these components would increase.

Table 12.2: Subsidies as a percentage of Revenue Expenditure and Total Expenditure by FCs

	% of Revenue Expenditure	% of Total Expenditure
12th FC	6.98	5.48
13th FC	7.74	6.37
14th FC (2015-16 and 2016-17)	9.58	8.02
2006-07 to 2016-17	7.8	6.35

Table 12.2 shows that the share of subsidies within Revenue Expenditure and Total Expenditure grows steadily from 12th FC to 14th FC.

12.4 Department-wise Composition of Subsidies

We next examine subsidies by Departments so as to identify those Departments which have given higher level of subsidies vis-a-vis others. The data on disaggregated Department-wise subsidies are only available after 2009-10. Before 2009-10, the disaggregated data on subsidies are available as per the subsidies given for General, Economic and Social Services. We examine the Department-wise data available from 2009-10 onwards.

Table 12.3: Subsidies given by different Departments from 2009-10 to 2015-16 (Rs. Cr.)

Department	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Home Department	798.84 (9.92)	437.34 (7.97)	676.01 (6.88)	828.49 (8.94)	1377.19 (11.42)	1526.59 (7.73)	1116.36 (6.28)
Revenue and Forest Department	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	3.83 (0.02)
Agriculture, Animal Husbandry, Dairy Development and Fisheries	139.54 (1.73)	151.27 (2.76)	105.92 (1.08)	324.83 (3.5)	1562.54 (12.95)	2470.30 (12.51)	2120.02 (11.93)
Industry, energy and Labour department	4107.61 (51.03)	3839.18 (70.00)	7539.76 (76.68)	7226.92 (77.97)	7543.18 (62.53)	13011.28 (65.87)	10685.29 (60.15)
Rural Development and Water Conservation Department	28.96 (0.36)	18.54 (0.34)	13.50 (0.14)	10.09 (0.11)	12.83 (0.11)	16.56 (0.08)	100.32 (0.56)
Food, Civil Supplies and Consumer Protection	908.25 (11.28)	604.82 (11.03)	326.23 (3.32)	312.93 (3.38)	201.00 (1.67)	902.77 (4.57)	1089.76 (6.13)
Social Justice and Special Assistance Department	508.27 (6.31)	18.13 (0.33)	6.01 (0.06)	48.30 (0.52)	282.59 (2.34)	272.44 (1.38)	553.95 (3.12)
Planning Department	83.78 (1.04)	119.53 (2.18)	145.44 (1.48)	137.42 (1.48)	156.36 (1.30)	323.20 (1.64)	395.39 (2.23)
Tribal Development Department	107.29 (1.33)	129.04 (2.35)	200.85 (2.04)	215.38 (2.32)	403.07 (3.34)	655.02 (3.32)	400.17 (2.25)
Co-operation, Marketing and Textiles Department	1304.06 (16.20)	158.86 (2.90)	50.46 (0.51)	145.99 (1.58)	301.68 (2.50)	349.11 (1.77)	609.88 (3.43)
Water Supply and Sanitation Department	9.03 (0.11)	2.31 (0.04)	3.70 (0.04)	1.53 (0.02)	0.00 (0.00)	15.00 (0.08)	4.90 (0.03)
Various Department	37.70 (0.47)	0.62 (0.01)	764.42 (7.77)	16.50 (0.18)	222.64 (1.85)	210.54 (1.07)	685.73 (3.86)

Department	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Maharashtra Legislature Secretariat	0.27 (0.00)	0.34 (0.01)	0.42 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Housing and Special Assistance Department	15.22 (0.19)	4.56 (0.08)	0.06 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
TOTAL	8048.80	5484.54	9832.76	9268.38	12063.07	19752.81	17765.60

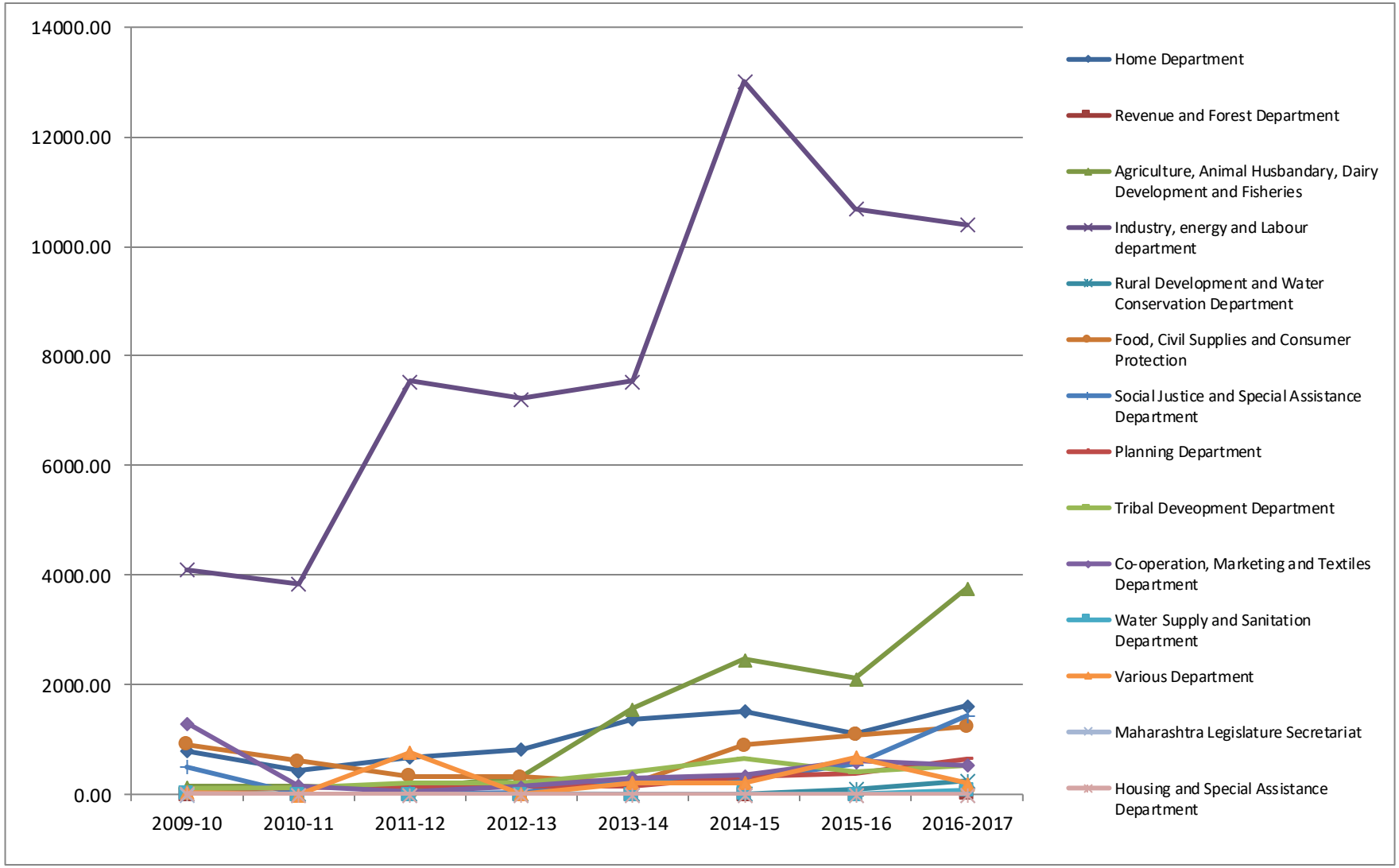
Source: Various CAG Reports; data available till 2015-16 only
Note: Figures in parantheses show percentage of total subsidies given in that year

Table 12.4: Summary Statistics for Department-wise Subsidies from 2009-10 to 2015-16 (Rs. Cr.)

Department	Average	Average % in Total Subsidies
Home Department	1047.95	8.37
Revenue and Forest Department	1.41	0.01
Agriculture, Animal Husbandry, Dairy Development and Fisheries	1330.52	8.08
Industry, energy and Labour department	8044.37	64.30
Rural Development and Water Conservation Department	56.19	0.36
Food, Civil Supplies and Consumer Protection	697.91	5.92
Social Justice and Special Assistance Department	390.89	2.62
Planning Department	250.76	1.81
Tribal Development Department	331.63	2.45
Co-operation, Marketing and Textiles Department	432.78	3.94
Water Supply and Sanitation Department	14.27	0.09
Various Departments	267.65	2.02
Housing and Special Assistance Department	2.48	0.03

Source: Compiled from various CAG Reports; data available till 2015-16 only

Figure 12.3: Subsidies given by different Departments (Rs. Cr.)



We find that the Department of Industries, Energy and Labour gives the highest proportion of subsidies followed by the Department of Agriculture, Animal Husbandry, Dairy Development and Fisheries. Within the Department of Industries, Energy and Labour, the big ticket subsidies have been given for transmission and distribution licenses for reduction in agriculture and powerloom tariffs. Thus, even though the subsidies are given to the Department of Industries, Energy and Labour, they actually benefit the agriculture sector as well as the textile sector. High amount of subsidies are also given to Medium and Large industries under Graded Package Scheme of Incentives. Some of the big subsidies given by Department of Agriculture are in the form of grants to Zilla Parishads for the Integrated Cereal Development Program, Micro Irrigation Schemes, financial assistance under RKVY, Assistance to farm families under Scheduled Caste Sub-Plan to bring them above poverty line, National Horticulture Mission, provision of stability of dryland farming, etc. The highest proportion of subsidies are thus given by those departments which cater to economic services.

However, subsidies by departments catering to social services are extremely low. The departments of Social Justice and Assistance, Tribal Development, Water Supply and Sanitation as well as Housing and Special Assistance, which cater to social services, together account for only 5.19 per cent of the total subsidies being given in the State.

We calculate the growth rate of subsidies for Departments which broadly cater to General Services, Economic Services and Social Services. Please note that these are broad classifications and are hence only indicative. For example, the Department of Agriculture gives subsidies to bring the Schedule Caste farm families above the poverty line; these subsidies are actually in the nature of social sector subsidies. Hence, the following classification is to be seen as merely indicative.

Also note that the Planning Department gives subsidies that cater to economic as well as social services. For example, subsidies given towards irrigation are in the nature of subsidies towards economic services. On the other hand, subsidies given by the Planning Department towards sanitation are in the nature of subsidies for social sector. Hence, the Planning Department has not been classified into a Department catering to any one kind of service. Subsidies given under the head "Various Departments" have not been described in the Finance Accounts and hence preclude classification in the table below.

Table 12.5: CAGR of Subsidies given for General Services, Economic Services and Social Sector

Nature of Service	Department	CAGR
General Services	Home Department	10.66
	Maharashtra Legislature Secretariat	7.99
Economic Services	Agriculture, Animal Husbandry, Dairy Development and Fisheries	60.15
	Industry, Energy and Labour department	14.19
	Rural Development and Water Conservation Department	35.97
	Food, Civil Supplies and Consumer Protection	4.52
	Co-operation, Marketing and Textiles Department	-11.78
Social Services	Social Justice and Special Assistance Department	16.01
	Tribal Development Department	26.04
	Water Supply and Sanitation Department	36.01
	Housing and Special Assistance Department	-100.00

It is seen that the CAGR of subsidies for economic and social sectors is fairly comparable. Thus, compositionally, subsidies towards social sector services have been lower than subsidies towards economic services. Further, social sector subsidies do not show higher growth rates as compared to other subsidies, indicating that the gap between social sector subsidies and economic sector subsidies has persisted in the past ten years.

12.5 Comparing FCP targets of subsidies to Actual

As per the Maharashtra Fiscal Responsibility and Budgetary Management (Amendment) Act 2006, the State Government is required to table the Medium Term Fiscal Policy Statement (MTFPS) together with the Budget. The State Government presents three year rolling targets on a number of fiscal indicators in the MTFPS. It has also created its own Fiscal Correction Path (FCP) from 2007-08 to 2017-18 in which the targets for subsidy reduction have been presented. Comparison of the FCP targets with the actual subsidies given each year is interesting. CAG Reports separate the subsidies given for power from the other subsidies, given the huge proportion of total subsidies that power subsidies occupy. We use the same pattern of presentation of data in Table 12.6.

Table 12.6: CAGR of Subsidies given for General Services, Economic Services and Social Sector (Rs. Cr.)

Years	Description	Subsidies			Proportion of Actuals to Targets		
		Power	General	Total	Power	General	Total
2007-08	Projections in FCP	1611	740	2351	1.73	2.90	2.10
	Actuals	2791	2144	4935			
2008-09	Projections in FCP	1611	740	2351	1.28	3.03	1.83
	Actuals	2063	2245	4308			
2009-10	Projections in FCP	1611	740	2351	2.08	6.33	3.42
	Actuals	3354	4687	8041			
2010-11	Projections in FCP	3131	4818	7949	1.00	0.49	0.69
	Actuals	3131	2354	5485			
2011-12	Projections in FCP	3000	4100	7100	1.72	1.14	1.38
	Actuals	5163	4670	9833			
2012-13	Projections in FCP	3240	4428	7668	1.46	1.03	1.21
	Actuals	4729	4539	9268			
2013-14	Projections in FCP	3499	4782	8281	1.51	1.42	1.46
	Actuals	5276	6787	12063			
2014-15	Projections in FCP	10500	10089	20589	1.00	0.92	0.96
	Actuals	10500	9253	19753			
2015-16	Projections in FCP	4963	9724	14687	1.55	1.03	1.21
	Actuals	7717	10049	17766			

The proportion of actual subsidies given by the Government in all of the past ten years is higher than the target set in the FCP. On an average, the actual total subsidies exceed the target by 58 per cent. Power subsidies exceed the target by 48 per cent whereas the subsidies other than power exceed target by 103 per cent. This implies an almost complete failure in terms of fiscal marksmanship.

Thus, there remains scope for targeting the subsidies better; the scope exists in terms of simply adhering to the set targets of subsidies.

Major Findings

- Subsidies account for about 7.5 per cent of the Revenue Expenditure and 6 per cent of the total budget size. The share of subsidies within the expenditure has kept on rising since 2006-07.
- Major proportion (64.30 per cent) of the subsides are given to the department of Industry, Energy and Labour.
- The highest proportions of subsidies are thus given by those Departments which cater to economic services. In contrast, Departments in charge of catering to social expenditure programs give extremely low level of subsidies
- The targets for subsidies set in the FCP were exceeded every year. The actual subsidies exceed the targets by around 58 per cent.

CHAPTER - 13

OUTCOME EVALUATION OF STATE FINANCES

Introduction

Any intervention aimed at growth and development creates outputs, outcomes and impacts. Outputs are often physical manifestations of the intervention. In other words, output is what the intervention produces. Outcomes pertain to the level of performance achieved because of the output. Long ranging effects due to the intervention are termed as impacts.

It is an interesting task to translate the intervention of the Finance Commissions into an output- outcome- impact framework. Higher devolution of funds to States (42 per cent of divisible pool) and grants for local bodies are output indicators of the recommendations of the 14th FC. The level to which the funds could actually reach the local bodies and could enhance their resources is the outcome indicator of the intervention. This outcome is critically dependent on the systems created at the level of the State that facilitate this transfer. Has the State defined the fund flow mechanism appropriately? Does it monitor the fund flow to the local bodies? Does it carry out Monitoring and Evaluation (M&E) activities so that the funds are utilized for the correct purposes and so that "outcome" can dovetail into "impact"? These are the questions that have to be examined in order to carry out an outcome evaluation of State finances in context of the recommendations of the 14th FC.

13.1 Recommendations under the 13th and 14th FC

It is important to note that there were specific purposes for which the 13th FC had recommended grants. Thus, grants-in-aid under the 13th FC were given not only to cover post-devolution Revenue Deficits, but also for local bodies, disaster relief, elementary education and capacity building. Further, some grants were associated with improvement in certain outcomes. Thus, there were grants for improvement in justice delivery and statistical systems, incentive grants for using UIDs and for innovation at the grassroot level. There were also environment related grants for forests and management of water resources. Finally, the 13th FC gave grants for roads and bridges as well as for state-specific purposes. The transfers received by Maharashtra under all the different heads in the award period of the 13th FC have been given below.

Table 13.1: Transfers received by Maharashtra under 13th FC

S. No.	Transfer Components	Maharashtra (2010-15)	Total (2010-15)
1	Share in Central Taxes and Duties	75286	1448096
2	Grants-in-Aid		
a	Post devolution NPRD	0	51800
b	Performance Incentive	0	1500
c	Local bodies (Basic + Performance grant+ Special Areas)	8743	87519
d	Disaster Relief	1834	25848
e	Elementary education	744	24068
f	Capacity Building	25	525
3	Improving outcomes		
a	Improvement in justice delivery	542	5000
b	Incentive for using UIDs	317.4	2989
c	District Innovation Fund	35	616
d	Improvement of statistical systems at State and District level	35	616
e	Employee and Pension database	10	225
4	Environment related grants		
a	Forest	309	5000
b	Water sector management	368	5000
5	Maintenance of roads and bridges	2103	19930
6	State specific	1235	27945
	Total transfers		1706676

However, all the specific purpose grants were done away with by the 14th FC. The rationale given by the 14th FC was that grants for specific purposes were also given under the CSS route. When there are two sanctioning agencies for the same purpose, it creates a problem of accountability and monitoring. The 14th FC increased the unconditional tax devolutions to States and reduced the sector-specific grants. It thus gave grants-in-aid to cover only three heads: Grants to cover Revenue Deficits, grants to local bodies (LBs) and those given for disaster relief. The grants received by Maharashtra under all the different heads in the award period of the 14th FC have been given below.

Table 13.2: Transfers received by Maharashtra under 14th FC

S. No.	Components of Grants-in-aid	Maharashtra (2015-20)	Total (2015-20)
a	Post devolution RD	0	194821
b	Local bodies	27447	287436
c	Disaster Management	7376	55097

To the extent that grants have not been defined for specific purposes, outcome evaluation really implies assessment of whether systems were created effectively for transferring grants to local bodies (since these make up more than 50 per cent of the total grants recommended under the 14th FC).

The route of fund transfer of FC funds in Maharashtra is as follows: The grants from the Government of India as recommended by the Finance Commission are transferred to the State Government Finance Department. The Finance Department in turn transfers the funds to the Rural Development and Water Conservation Department (RD). The RD transfers the funds to the Zilla Parishads, which then further transfer the funds to the Gram Panchayats.

One way of carrying out outcome evaluation of the recommendations of the 14th FC would be to contrast the recommendations of the FC regarding fund flow mechanisms, utilization and other accountability criteria with the processes that exist on the field.

Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, empowers the CAG to carry out audits of all local bodies including Gram Panchayats. Audit reports bring out the field realities against a backdrop of the recommendations very clearly. Using the Annual Technical Inspection Report on Local

Bodies released by the CAG in 2017, we attempt to compare the recommendations of the 14th FC to the field realities within PRIs and ULBs.

Table 13.3: Comparison of the Recommendations of the 14th FC for PRIs to field realities in Maharashtra

	Recommendation	Reality
1	The State should release the grants recommended by the FC to the local bodies within 15 days of receipt	The State Government released entire grants of Rs. 4,165.93 crore received under 14th Finance Commission during 2015-17. During 2016-17, the Finance Department, GoM delayed the release of 14th FC grants (Rs.1,123.88 crore) by nine days for which an interest of Rs. 1.87 crore was paid to the GPs. However, bigger delays in disbursal of grants have been observed at the level of the RD and ZP. The CAG reports an instance of a delay of 393 days in the funds getting released from the ZP to the GP
2	As per GoI guidelines of 14th FC, the GoI should release the instalments of grants after receipt of the Utilization Certificate (UC) for the previous instalment.	The GoI had released Rs. 4,165.93 crore grants during the period 2015-17 and the GoM had furnished UCs for the said amount. Further grants were accordingly released during 2017-18. However, CAG reports state that there were instances of unspent balances with local bodies despite UCs having been issued by them.
3.	Local bodies should be required to spend the grants only on the basic services within the functions assigned to them under relevant legislations.	Appropriately, various works such as construction of road, gutter, development of sources of drinking water, repair works, installation of RO system, installing of water meter, solid waste management, fixing of paver block, construction of GP building, Anganwadi, installation of LED/solar light etc. were done in Gram Panchayats under 14th FC. However, CAG has reported many instances of work orders being issued without specifying the time period for completion of the project. CAG also reports instances of time overruns for many projects. Works also have been issued without tenders

Table 13.4: Comparison of the Recommendations of the 14th FC for ULBs to field realities in Maharashtra

	Recommendation	Reality
1	As per GoI 14th FC guidelines of October 2015, the States should release the grants to the ULBs within fifteen days of it being credited to their account by the GOI.	The first instalment of General basic grant of Rs. 595.62 crore was released to the ULBs with a delay ranging from 35 to 87 days for which UDD paid an interest of Rs.5.83 crore to the ULBs in November 2015
2	As per GoI guidelines of 14th FC, the GoI shall release the instalments of grants after receipt of the utilization certificate for the previous instalment	However, there are instances of unspent balances lying with the ULBs. There was also an instance of a Municipal Council transferring the funds received to Fixed Deposits instead of utilizing the funds for enhanced service delivery
3	A minimum of fifty per cent of grants received under 14th FC shall be utilized on solid waste collection, treatment and transportation, Municipality's share for construction of private and Public Toilets under Swachh Bharat Abhiyan and Urban afforestation.	Two issues have been observed with this stipulation. Firstly, work contracts for solid waste management have been awarded to bidders without justifiable credentials. Secondly, there was an issue wherein a Municipal Corporation deposited the funds received from the 14th FC into an FD. On maturity, the funds are to be credited to the FC account. However, only part funds were credited to the FC account and the balance funds were diverted to Escrow account of the Corporation.

The above mentioned points serve to indicate that the institutional mechanisms for transferring funds from the State Government Finance Department to local bodies are still evolving. Capacity building within the lower tiers of PRIs will go a long way in sensitizing Accounts officers to accessing funds seamlessly. This should involve training of the finance officers so as to sensitize them towards an informal MIS framework. M&E activities of all funds transferred under the FC route should be made mandatory. If M&E reveals presence of gaps, some mechanism has to be devised to temporarily suspend further grants to the local body pending plugging of the gap. Continuous thrust on capacity building and sensitization programs will help seamless and quick transfer of funds to the lower tiers of governance, thereby bettering the expected outcome of the FC intervention.

Major Findings

- Resources of local bodies have definitely been enhanced due to the grants of the 14th FC. Utilization rates of the FC grants have also been more than 95 per cent.
- However, the fund flow mechanism is from the Finance Department to Rural Development Department and from there to the Zilla Parishads. The Zilla Parishads then transfer the funds to the Gram Panchayats. This leads to some delays.
- The second tranche of fund transfer is given only after Utilization Certificates are issued by the lower tier. However, there are cases wherein Utilization Certificates have been issued but the funds remain unutilized
- Continuous thrust on capacity building and sensitization programs will help seamless and quick transfer of funds to the lower tiers of governance, thereby bettering the expected outcome of the Finance Commission intervention.

Chapter - 14

DETERMINATION OF A SUSTAINABLE DEBT ROADMAP

Debt Sustainability Analysis (DSA) is an important cornerstone of the debate in Public Economics. DSA helps to identify the vulnerabilities of a State and to take timely actions to prevent the debt burden from becoming unsustainable (Cottarelli and Moghadam, 2011). Sustainability of debt has to be assessed over a period of time. The gap between Government expenditures and revenues leads to debt creation, which then dynamically feeds into expenditures in the form of interest payments for the next years. If used correctly, debt also leads to asset creation and hence can generate a revenue stream over a period of time. Since borrowings done in one year have implications for Government revenues, expenditures and revenue deficits in the next few years, debt sustainability has to be viewed as a dynamic process rather than a static one.

There are a number of indicators that can be used to assess the "sustainability" of debt. In Chapter 6 on the Debt Profile of Maharashtra, we have examined various indicators of debt sustainability. Following are our main observations regarding debt:

- Debt/GSDP ratio in Maharashtra shows a secular fall over the past 10 years and is lesser than 17 per cent in 2016-17
- Debt/GSDP ratio is well within the limits of 17.6 per cent mandated by the MRFBMR, 2012
- Interest outgo as a percentage of Revenue Expenditures also falls secularly from2005-06 to 2016-17. However, interest payments continue to be a source of worry in terms of the budget. This is because the Primary Revenue Balance in the State is not enough to compensate for the interest payments.
- This, in fact, is the only variable wherein Maharashtra currently falters in the sustainability indicators.
- If the Primary Revenue Balance is to compensate for interest payments, an increment in Revenue Receipts and/or reduction in Revenue Expenditure is needed. We feel that there is limited scope for further compression in Revenue Expenditure and hence, the onus of bettering the PRB largely falls on Revenue Receipts.

- Within Revenue Receipts, own tax revenues are the biggest source of receipts. However, buoyancy of own tax revenue has been at less than 1. This is largely due to the fact that services, which contribute to more than 50 per cent of the GSDP, were taxed by the Centre. This will however change with the introduction of the GST. It is hence important to identify the impact that introduction of the GST could have on Revenue Receipts and on the ability of PRB to finance interest payments.

In this chapter, we attempt to create a debt roadmap for Maharashtra. We initially create a "Business As Usual (BAU)" forecast of the debt levels. If major revenue and expenditure items continue to grow at the current trend growth rates, the level of borrowing that could be required from 2020-25 is called as the BAU forecast. The BAU debt forecast is termed as F0 in this chapter.

Next, we account for the potential increment in tax collection due to introduction of the GST. An increment of 14 per cent in the GST revenue of the States has been provided for constitutionally. We hence assume that the growth rate of GST revenue will be 14 per cent. For the other taxes not subsumed within the GST, we assume that the trend growth rate as calculated from 2006-07 to 2015-16 will continue. We analyze the impact that the introduction of GST could have on the debt levels of the State. This is the F1 forecast. If GST collections deviate positively from the 14 per cent assured growth rate to a growth rate of say, 15 per cent, then the potential debt that the State will have to take will be lower. Similarly, debt levels would be sensitive to and would respond positively to increased non-tax revenue and reduced expenditure levels. We carry out sensitivity analysis on the F1 forecast to identify the sensitivity of the debt levels to changes in the GST growth rate over 14 per cent, non-tax revenue, revenue expenditure and capital expenditure. These are termed as F1-S1, F1-S2, F1-S3 and F1-S4respectively. Finally, we offer comments on whether forecasts under F0, F1 and the different sensitivity scenarios under F1are "sustainable".

14.1 Methodology and Forecasts under F0

- In order to create a forecast on fiscal variables from 2020 to 2025, we first need to identify the baseline year on which the trend can be applied. In all of the forecasts created by us, we have used2018-19 as the baseline year.The Budget Estimates for tax revenue,

non-tax revenue, Revenue Expenditure and Capital Expenditure for 2018-19 have been used as baseline figures on which F0 has been created.

- No forecasts were developed for Capital Receipts other than debt. This is because the amount for this particular item is very meagre, and hence it does not impact the overall fiscal position of the State significantly.
- We calculated the trend growth rates of own tax revenue (12.69 per cent), non-tax revenue (9.1 per cent), Revenue Expenditure (13.03 per cent) and Capital Expenditure (8.91 per cent) from 2005-06 to 2016-17. Using the trend growth rates, we forecast the values for 2018-19 based on the RE for 2017-18. The forecasted values were then compared to BE 2018-19. For each of components, it was observed that the trend forecast calculated by us was lower than the BE 2018-19. This implied that there were some changes that the Government was including in its Budget calculations for 2018-19 which were creating a differential over the trend. It would not be correct to ignore these observations and hence, we decided to use BE 2018-19 as the baseline values for all our projections.
- In order to forecast the values of Revenue receipts from the baseline of BE 2018-19, we needed to forecast the values of 4 components: Own tax revenue, own non-tax revenue, shared taxes from the Centre and grants received from the Centre. The forecasts of the former two components were determined from the trend growth rates. The values of the latter two variables are actually determined by Finance Commissions and hence to that extent, forecasting these values using trend growth rates would be erroneous. However, in the absence of any knowledge of how the 15th FC would view vertical and horizontal sharing of taxes as well as grants-in-aid, we had to undertake a trend-based forecast of these values as well. We calculated the trend growth of shared taxes as well as grants under the 12th and 13th FCs separately. The average values of the trend growth rates for both the variables (16.52 per cent for shared taxes and 10.82 per cent for grants)were taken as the growth rates for these two components. Each component i.e. Own tax revenue, own non-tax revenue, shared taxes from the Centre and grants received from the Centre were forecasted separately and were summed to derive the forecasted value of the Revenue Receipts under F0.

- The forecasted values of Revenue Expenditures and Capital Expenditures were added to derive the forecasted value of Total Expenditures under F0.

Tables 14.1and 14.2 show the F0 forecast for Revenue Deficit and Fiscal Deficit respectively.

Table 14.1: Revenue Deficits under F0

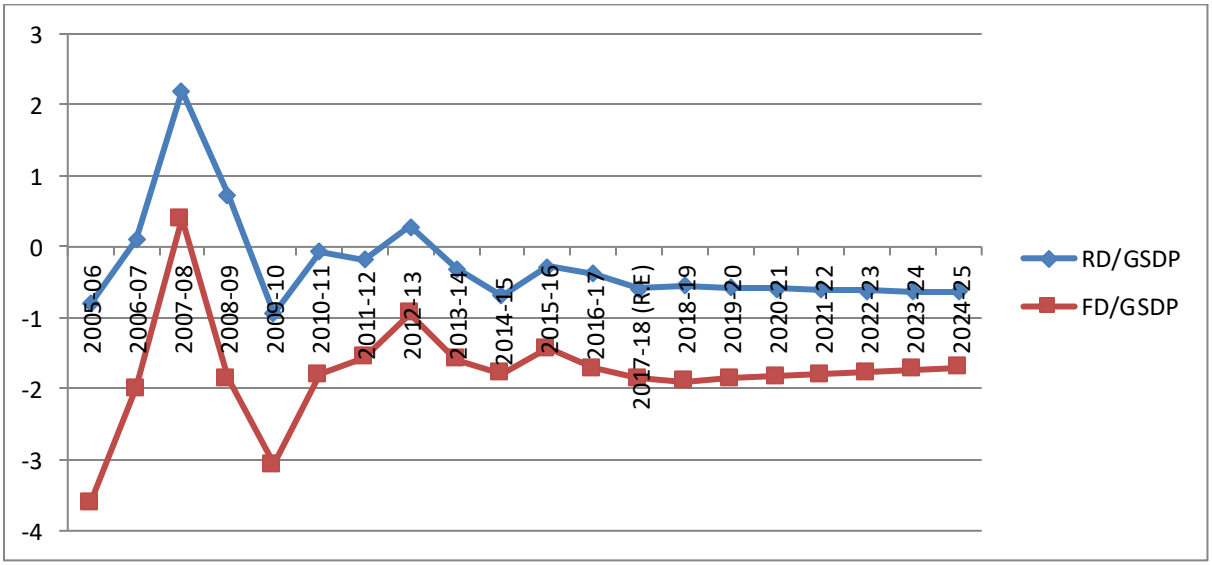
Year	Own tax Rev	Own Non-tax Rev	Shared tax	Grants	Revenue Receipts	Revenue Expnd	Revenue Deficit	RD as % of GSDP
2018-19	188039	22784	43514	31628	285965	301342	-15377	0.55
2019-20	211901	24857	50703	35050	322511	340607	-18096	0.57
2020-21	238791	27119	59079	38843	363832	384988	-21156	0.59
2021-22	269094	29587	68838	43045	410565	435152	-24587	0.61
2022-23	303242	32280	80210	47703	463435	491852	-28417	0.62
2023-24	341723	35217	93461	52864	523266	555940	-32674	0.63
2024-25	385088	38422	108901	58584	590995	628380	-37384	0.63

Table 14.2: Fiscal Deficits under F0

Year	Revenue Receipts	Revenue Expnd	Capital Expnd	Total exp	Fiscal Deficit	FD/GSDP
2018-19	285965	301342	37476	338818	-52853	1.89
2019-20	322511	340607	40815	381422	-58911	1.86
2020-21	363832	384988	44452	429440	-65608	1.83
2021-22	410565	435152	48412	483564	-72999	1.80
2022-23	463435	491852	52726	544578	-81143	1.76
2023-24	523266	555940	57424	613364	-90098	1.73
2024-25	590995	628380	62540	690920	-99925	1.69

The calculations above show that if the current trends in receipts and expenditures of the Government were to continue into the future, the Fiscal Deficits as a percentage of GSDP would show a gradual decline whereas the Revenue Deficits would continue to worsen. This is in keeping with the data trends from 2005-06 to 2018-19. Graph 14.1 elucidates.

Figure 14.1: Revenue Deficit and Fiscal Deficit as percentage of GSDP under F0



14.2 Methodology and Forecasts under F1

- Under F0, the trend growth rate of taxes from 2005-06 to 2016-17 (12.69 per cent) was applied to the baseline tax collection of 2018-19 to develop the tax forecasts. However, GST may well be the game changer here. Firstly, GST will introduce the buoyancy in the tax collections that was missing in the data series from 2005-06 to 2016-17. Secondly, a 14 per cent growth rate has been constitutionally assured to the States and hence the growth rate of taxes increases by nearly 150 bps under the GST scenario. Please note that within the "own tax revenue", there are other taxes that show growth rates of less than 14 per cent. Hence, even when the GST shows a growth rate of 14 per cent, the own tax revenues show a growth rate of about 13.51 per cent. We now develop the F1 forecasts accounting for the impact of the introduction of the GST.

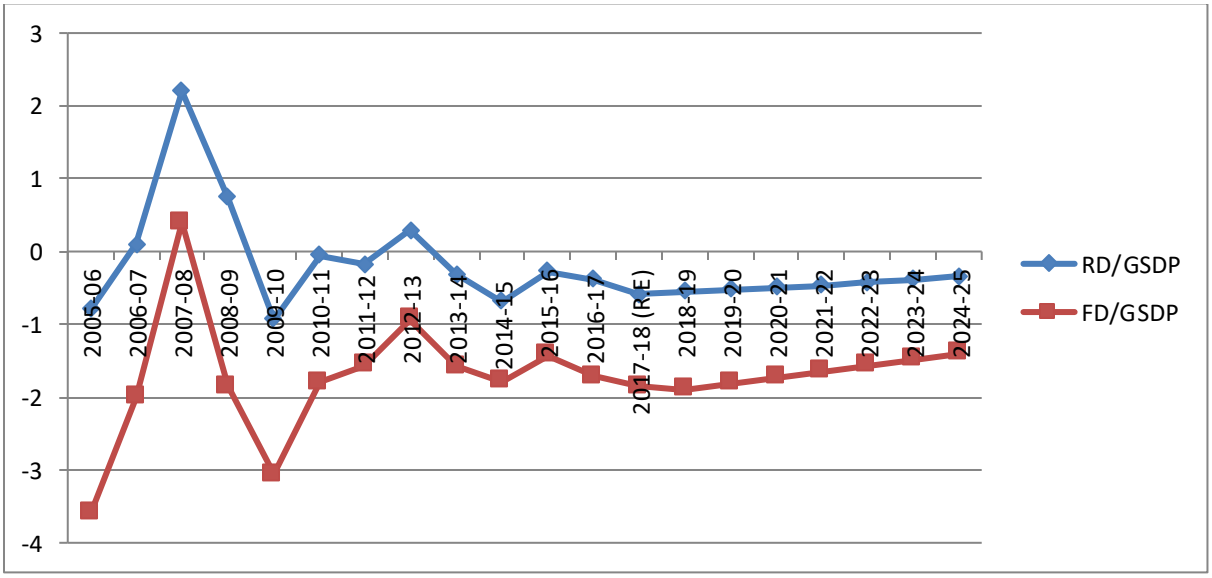
Table 14.3: Revenue Deficits under F1

Year	Own tax Rev	Own Non-tax Rev	Shared tax	Grants	Revenue Receipts	Revenue Expnd	Revenue Deficit	RD as % of GSDP
2018-19	188039	22784	43514	31628	285965	301342	-15377	0.55
2019-20	213395	24857	50703	35050	324005	340607	-16602	0.52
2020-21	242190	27119	59079	38843	367230	384988	-17758	0.50
2021-22	274890	29587	68838	43045	416361	435152	-18791	0.46
2022-23	312027	32280	80210	47703	472220	491852	-19632	0.43
2023-24	354207	35217	93461	52864	535750	555940	-20191	0.39
2024-25	402115	38422	108901	58584	608022	628380	-20357	0.34

Table 14.4: Fiscal Deficits under F1

Year	Revenue Receipts	Revenue Expnd	Capital Expnd	Total exp	Fiscal Deficit	FD/GSDP
2018-19	285965	301342	37476	338818	-52853	1.89
2019-20	324005	340607	40815	381422	-57417	1.81
2020-21	367230	384988	44452	429440	-62210	1.73
2021-22	416361	435152	48412	483564	-67204	1.65
2022-23	472220	491852	52726	544578	-72358	1.57
2023-24	535750	555940	57424	613364	-77615	1.49
2024-25	608022	628380	62540	690920	-82898	1.40

Figure 14.2: Revenue Deficit and Fiscal Deficit as percentage of GSDP under F1



It can be seen that a growth rate of 14% increment in GST nearly halves the Revenue Deficit in 2025 and also reduces the Fiscal Deficit by about 30 bps.

14.3 Sensitivity analysis for F1

We now carry out a sensitivity analysis for the F1 forecasts to identify the reduction in Revenue Deficits and Fiscal Deficits that can potentially arise from following scenarios:

F1 - S1: GST rising at 15 per cent (Growth rate under F1 is 14 per cent)

F1 - S2: Non-tax revenue rising at 10per cent (Growth rate under F1 is 9 per cent)

F1 - S3: Revenue Expenditure rising at 12 per cent (Growth rate under F1 is 13 per cent)

F1 - S4: Capital Expenditure rising at 10 per cent (Growth rate under F1 is 9 per cent)

Table 14.5: Sensitivity Analysis for Revenue Deficits

	F0- Baseline	F1 - GST	F1-S1: GST grows at 15%	F1-S2: NTR grows at 10%	F1-S3: Expnd grows at 12%	F1- S4: Capex grows at 10%
2020-21	-0.50	-0.50	-0.44	-0.48	-0.30	-0.50
2021-22	-0.46	-0.46	-0.38	-0.44	-0.17	-0.46
2022-23	-0.43	-0.43	-0.31	-0.40	-0.04	-0.43
2023-24	-0.39	-0.39	-0.24	-0.36	0.09	-0.39
2024-25	-0.34	-0.34	-0.16	-0.31	0.22	-0.34

Table 14.6: Sensitivity Analysis for Fiscal Deficits

	F0- Baseline	F1 - GST	F1-S1: GST grows at 15%	F1-S2: NTR grows at 10%	F1-S3: Expnd grows at 12%	F1- S4: Capex grows at 10%
2020-21	-1.83	-1.73	-1.68	-1.72	-1.54	-1.76
2021-22	-1.80	-1.65	-1.57	-1.64	-1.36	-1.69
2022-23	-1.76	-1.57	-1.45	-1.55	-1.19	-1.62
2023-24	-1.73	-1.49	-1.34	-1.46	-1.01	-1.54
2024-25	-1.69	-1.40	-1.22	-1.37	-0.84	-1.47

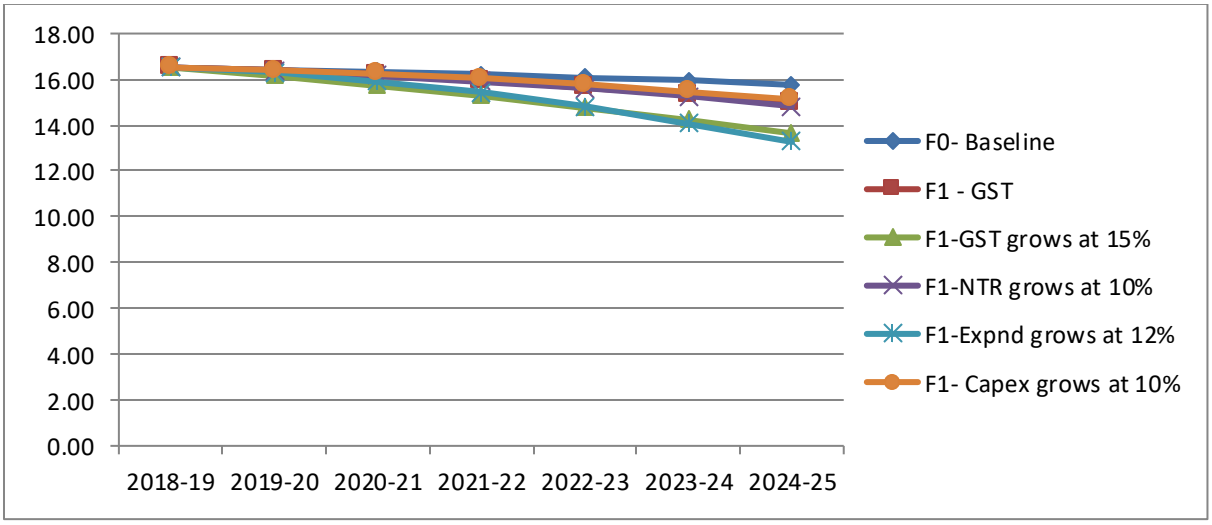
The Sensitivity Analysis reveals some extremely interesting results. It shows that while an increment in GST growth from 14 per cent to 15 per cent will definitely reduce the RD as well as the FD, the most robust reductions in the deficit measures are associated with a reduction in Revenue Expenditure! The trend growth rate for Revenue Expenditure stands at 13.03 per cent. If a 100 bps reduction in growth rate of Revenue Expenditure be achieved, the Revenue Deficits actually move into a Revenue Surplus in 2023-24 and the Fiscal Deficits reduce sharply to 0.84 per cent of GSDP. Of course, whether such expenditure compression is possible or desirable is an issue by itself. We comment on this question later in the chapter.

The Fiscal Deficit level shows the increment in debt stock. We now calculate the debt stocks that will be held by the Government under each of the scenarios.

Table 14.7: Debt/GSDP ratio under each of the forecast scenarios

	F0- Baseline	F1 - GST	F1-S1: GST grows at 15%	F1-S2: NTR grows at 10%	F1-S3: Expnd grows at 12%	F1- S4: Capex grows at 10%
2020-21	16.34	16.21	15.74	16.19	15.93	16.24
2021-22	16.23	15.96	15.28	15.93	15.42	16.03
2022-23	16.09	15.66	14.78	15.61	14.81	15.77
2023-24	15.93	15.32	14.23	15.24	14.08	15.47
2024-25	15.76	14.93	13.64	14.83	13.27	15.13

Figure 14.3: Debt/GSDP ratio under each of the forecast scenarios



Even under the F0 scenario, the debt to GSDP ratio would gradually decline from 16.34 per cent in 2020 to 15.76 per cent in 2025. Thus, even under the BAU scenario, the debt stock levels would well be under the limit of 17.6 per cent of GSDP as mandated under the MFRBM. Thus, if the sustainability indicator is that Debt Stock to GSDP should fall across time, then we find that the debt roadmap for Maharashtra from 2020-15 is sustainable for all forecast scenarios.

However, the debt stock reduction will be maximal under the scenario where the Revenue Expenditures grow at only 12 per cent. This result is in keeping with the earlier results wherein the Revenue Deficits and the Fiscal Deficits show maximum response to expenditure compression. The results show that if Capex grows at a higher rate of 10 per cent compared to the current rate of 9 per cent, the debt stock to GSDP does not reduce rapidly. However, to the extent that Capex itself feeds into better GSDP numbers (which we have not allowed for in this model), the reduction in debt/GSDP ratio might be understated in the above analysis.

We now examine whether the interest outgo associated with the above debt levels as a percentage of Revenue Expenditures would fall from 2020-25. By applying an 8 per cent interest rate to the debt stock, we work out the interest outgo associated with the different scenarios and examine if the interest payments as a percentage of Revenue Expenditures fall from 2020-25.

The following table elucidates.

Table 14.8: Interest payments to Revenue Expenditure from 2020-25 under each of the forecast scenarios

Years	F0- Baseline	F1 - GST	F1- S1: GST grows at 15%	F1- S2: NTR grows at 10%	F1-S3: Expnd grows at 12%	F1- S4: Capex grows at 10%
2020-21	12.18	12.08	11.74	12.07	12.09	12.11
2021-22	12.12	11.92	11.42	11.90	11.84	11.98
2022-23	12.04	11.73	11.06	11.69	11.50	11.81
2023-24	11.95	11.49	10.67	11.44	11.06	11.60
2024-25	11.85	11.22	10.26	11.15	10.54	11.37

In this case, we find that the interest payments as a percentage of GSDP fall secularly under all forecast scenarios.Please note that in this case, the F1-S3 scenario does not generate the best possible numbers. This is because in the F1-S3 scenario, it is assumed that the Revenue Expenditure itself grows slowly. Thus, if the sustainability indicator is that interest payments to Revenue Expenditures should fall across time, then we find that the debt roadmap for Maharashtra from 2020-25 is sustainable for all forecast scenarios.

The only indicator wherein Maharashtra has not performed well historically is that the interest payments have been higher than the Primary Revenue Balance (PRB). We next examine how the forecasts under different scenarios perform under this indicator.

Table 14.9: Interest Payments (Rs.crores) from 2020-2025 under each of the forecast scenarios

Years	F0- Baseline	F1 - GST	F1- S1: GST grows at 15%	F1-S2: NTR grows at 10%	F1- S3: Expnd grows at 12%	F1- S4: Capex grows at 10%
2020-21	46906	46515	45184	46462	45708	46619
2021-22	52746	51891	49680	51780	50141	52113
2022-23	59237	57680	54408	57482	54515	58073
2023-24	66445	63889	59343	63573	58734	64516
2024-25	74439	70521	64446	70049	62679	71456

Table 14.10: Primary Revenue Balance (Rs.crores) from 2020-2025 under each of the forecast scenarios

Years	F0- Baseline	F1 - GST	F1- S1: GST grows at 15%	F1- S2: NTR grows at 10%	F1- S3: Expnd grows at 12%	F1- S4: Capex grows at 10%
2020-21	25750	28757	29490	29154	34934	28861
2021-22	28159	33100	34434	33727	43138	33321
2022-23	30820	38048	40189	38929	52568	38441
2023-24	33771	43698	46899	44859	63416	44326
2024-25	37055	50163	54733	51634	75906	51099

Table 14.11: Interest Payments less PRB (Rs. crores) from 2020-15 under each of the forecast scenarios

Years	F0-Baseline	F1 - GST	F1-GST grows at 15%	F1-NTR grows at 10%	F1-Expnd grows at 12%	F1- Capex grows at 10%
2020-21	21156	17758	15694	17309	10773	17758
2021-22	24587	18791	15246	18053	7003	18791
2022-23	28417	19632	14219	18553	1947	19632
2023-24	32674	20191	12444	18714	-4682	20191
2024-25	37384	20357	9713	18416	-13227	20357

It can be seen that interest payments continue to be higher than the PRB in the forecasts. This underscores the importance of increasing the Primary Revenue Balance. We again re-iterate that the increment in PRB primarily needs to be done through increment in the revenue streams, rather than through expenditure compression.

14.4 Forecast under best case scenario

We now carry out an exercise to compute the values of Revenue Deficits, Fiscal Deficits, Debt/GSDP, Interest Payment/ Revenue Expenditures and Interest Payments less PRB under the best possible scenario for Maharashtra. The best possible scenario is described by the GST revenues increasing by 15 per cent, Non-tax revenue increasing by 10 per cent, Revenue Expenditure growing at 12 per cent only, and Capex growing at 10 per cent.

Table 14.12: Sustainability indicators from 2020-25 under the best forecast scenario

Year	RD/GSDP	FD/GSDP	Interest	PRB	Interest Payments less PRB	Debt/GSDP
2020-21	0.23	1.49	45522	37262	8260	15.86
2021-22	0.07	1.29	49730	47011	2720	15.30
2022-23	-0.10	1.09	53756	58300	-4544	14.60
2023-24	-0.27	0.89	57472	71378	-13906	13.78
2024-25	-0.44	0.69	60718	86531	-25812	12.85

14.5 Impact on debt roadmap if the Fiscal Deficit stands at 3 per cent of GSDP

The debt: GSDP ratio stands at about 16.5 per cent and the Fiscal Deficit to GSDP ratio stands at 1.89 per cent in 2018-19. The debt limit under the MFRBMR, 2011 stands at 17.6 per cent. Also, the MFRBMR, 2011 mandate the fiscal deficit of the Government to be less than 3 per cent of GSDP. This implies that the State Government is not utilizing the entire headroom available to it in terms of raising debt. If the Government were to borrow funds to the full extent of 3 per cent of GSDP i.e. if the Fiscal Deficit of the State Government were to be 3 per cent of the GSDP and the additional borrowings were utilized for Capital Expenditure, what would be the possible impact on the debt roadmap of the Government of Maharashtra?

There are a number of assumptions that we will make in order to carry out this exercise. Historically, only about 20 per cent of the borrowings are utilized for capital expenditure. However, we assume that the additional borrowings (3 per cent less 1.89 per cent equals 1.11 per cent in 2018-19) is entirely used for Capex. We further assume that this might increase the growth rate of the GSDP from the trend growth rate (calculated from 2006-07 to 2018-19) of 14.02 per cent to 14.2 per cent. Under such a scenario, we now project the debt to GSDP ratio when the Fiscal Deficit stands at 3 per cent of GSDP per year and the GSDP is growing at 14.2 per cent.

Table 14.13: Debt to GSDP projections if Fiscal Deficit grows at 3 per cent of GSDP

Year	Total Debt Stock	GSDP	Debt/GSDP
2018-19	461807	2796086	16.52
2019-20	557601	3193130	17.46
2020-21	666997	3646555	18.29
2021-22	791928	4164365	19.02
2022-23	934600	4755705	19.65
2023-24	1097530	5431016	20.21
2024-25	1283597	6202220	20.70

The calculations show that raising the borrowings to the maximum permissible limit of 3 per cent of GSDP would render the Debt/GSDP ratio to be 20.7 per cent, which is much higher than the currently permissible limit of 17.6 per cent. Clearly, raising the borrowings of the State Government would have to be restricted to less than 3 per cent of GSDP over the next 5 years.

We then carry out an exercise to determine the maximum borrowing that the State Government may undertake without breaching the debt/GSDP ratio of 17.6 per cent. We find that if the State Government restricts its borrowings to 2.3 per cent of the GSDP, then the debt/GSDP ratio stays under the permissible limits of 17.6 per cent. This is of course under the assumption that the entire additional borrowing would be utilized for Capex and that the efforts of the State Government would create GSDP growth rate of 14.2 per cent. Following table elucidates.

Table 14.14: Debt to GSDP projections if Fiscal Deficit grows at 2.3 per cent of GSDP

Year	Total Debt Stock	GSDP	Debt/GSDP
2018-19	461807	2796086	16.52
2019-20	535249	3193130	16.76
2020-21	619120	3646555	16.98
2021-22	714900	4164365	17.17
2022-23	824281	4755705	17.33
2023-24	949195	5431016	17.48
2024-25	1091846	6202220	17.60

Thus, the State Government presently has a fiscal deficit of about 1.89 per cent of the GSDP. Our calculations suggest that some headroom does exist (of about 0.4 per cent of GSDP) to raise further borrowings and utilize those for asset creation. A fiscal deficit of about 2.3 per cent of the GSDP is seen to be compatible with the 17.6 per cent limit set under the MFRBMR, 2011.

Based on all of the exercises carried out above, we wish to make the following observations regarding the sustainability of the debt roadmap of Maharashtra to the FC:

- The State finances of Maharashtra are fairly "well-managed"; even under the BAU forecast, we find the debt roadmap to be "sustainable" for most sustainability indicators.

- Under the BAU scenario, the debt to GSDP ratio will be around 15.75 per cent in 2025. Under the best case scenario, the State might be even able to reduce the debt to GSDP ratio to about 12.85 per cent in 2025.
- The only indicator on which the state finances have under-performed historically is that the interest outgo tends to be normally higher than the Primary Revenue Balance. Going ahead, this is the only indicator which may not show compliance to sustainability. In the best case scenario however, we find that the interest payments are lower than the PRB and the debt roadmap becomes completely sustainable.
- We find that the sustainability indicators respond extremely favourably to expenditure compression; even if the growth rate of expenditure were to reduce from the trend growth rate of 13 per cent to 12 per cent, all sustainability indicators perform favourably.
- *Having said this, we wish to state that sustainability does not necessarily imply optimality*. Expenditure compression may not be the best way to achieve sustainability. The State Government currently has a low tax/ GSDP ratio, which has led it into a low earnings profile. The State Government curbs its expenditures to match the low level of earnings. The low income, lower expenditure scenario also implies a low addition to debt stock and hence the debt/GSDP levels seems to be at around 16 per cent. Thus, Maharashtra is sustainable. *The question is whether its earning, spending and borrowing patterns are optimal.*
- We feel that given the high level of per capita income in Maharashtra, there is a lot of headroom to increase the revenue earnings of the State. The State Government also needs to undertake administrative and policy level reforms to increase the tax collection of the State. Non-tax revenue collections are languishing. Not only is the level of the non-tax revenue very low at less than 1 per cent of GSDP, but the growth rate in the same is also extremely low at about 9 per cent. There is an urgent need to revamp the non-tax revenue collections through application of higher user charges on a few services. Another area wherein the non-tax collections can be improved is that of dividends of the PSUs. While the dividends of the PSUs have increased, we find that there is no serious structural attempt to rationalize the cost structures within the PSUs so as to make them profitable. If these concerns are addressed seriously, then the revenue receipts of the State can be much higher. The State Government should target a higher tax and non-tax revenue collection.

Higher revenues would make higher capital expenditures viable, even while maintaining the debt stocks at about 16 per cent of GSDP.

- On the other hand, we find that while there is limited scope for expenditure compression, there remains scope for changing the composition of expenditure. Subsidies can be targeted better. There is also the issue of contingent liabilities, which can potentially be invoked and can disturb the fiscal maths of the Government. Hence, the contingent liabilities need to be incurred only on rated projects.
- Finally, our calculations show that a fiscal deficit of about 2.3 per cent to GSDP is compatible with the target of keeping the debt/GSDP ratio at 17.6 per cent. The fiscal deficit in 2018-19 stands at 1.89 per cent. Thus, there is headroom of about 0.4 per cent of GSDP to raise higher borrowings and utilize these for critical asset creation programs of the State.

To conclude, the debt road-map of Maharashtra is sustainable even under BAU forecast. The GST regime will help the State in its fiscal management greatly. If revenue reforms are undertaken aggressively, the State has great potential to be a better performer and to spend more on relevant social sector programs, while at the same time not compromising on sustainability.

Major Findings

- The debt roadmap seems to be sustainable even under the Business As Usual (BAU) scenario. The BAU scenario assumes that the major revenue and expenditure components of the budget will continue to grow at trend growth rates up to 2025.
- Under the BAU scenario, fiscal deficit and revenue deficit as a percentage of GSDP stand at 1.69 per cent and 0.63 per cent respectively in 2025.
- GST could well be a game- changer in this respect. With introduction of GST, fiscal deficit and revenue deficit as a percentage of GSDP would stand at 1.4 per cent and 0.34 per cent respectively in 2025.
- If revenue generation policies are handled creatively and aggressively, the State can show a higher adherence to sustainability while at the same time not compromising on much-needed social sector spending.
- In 2018-19, the fiscal deficit stands at 1.89 per cent of GSDP. A fiscal deficit of about 2.3 per cent is seen to be compatible with the debt/GSDP ratio of 17.6 per cent as mandated by the MFRBMR, 2011. Thus, there exists some headroom to raise further debt and utilize it for creation of critical assets within the State.

Chapter - 15

PRIORITY PROJCTECTS FOR SPECIAL GRANTS FROM THE FINANCE COMMISSION

In this chapter we discuss some of the specific projects that are of national importance undertaken in the state of Maharashtra for which 15th Finance Comission may consider awarding special grants.

Irrigation Sector

In terms of net irrigated area, the state performs well below that of the national average. The net irrigated area in the state being 18 percent compared to an all India average of 48 per cent. The agricultural sector of the state thus depends on the vagaries of monsoon. Paradoxically the state is having the highest number of irrigation dams in the country. 50 per cent of the dams in India are in Maharasthra. But the dams are in different stages of their completion and the heavy investment the state made historically have failed to translate into a high irrigated cultivation in the state. In this context, the present section attempts to analyse the public investment in the irrigation sector and the future investment demands of the sector.

Fom Table 15.1, it is clear that a major component of the expenditure on the irrigation sector is for capital expenditure. But there is a long run shift away from capital expenditure to that of revenue expenditure on the irrigation sector. The overall trend is that of a stagnation as clear from Figure 15.1.. The irrigation sector historically used to be one of the major secotr of capital expenditure in Maharahstra. In 2006-07 about 30 per cent of the overall capital expenditure of the state was spend on irrigation sector. As clear from Figure 15.2. this has increased to 43.50 per cent in 2008-09 and started declining henceforth. The proportion has come down to 19.97 per cent in 2016-17 indicating a huge shift away from irrigation in overall capital outlay of the state. This prefence shift will have an impact on the ongoing prjoects in the sector.

Table 15.1. Annual Investment in the Irrigation Sector (Rs. Crores)

Year	Major Irrigation		Minor Irrigation		Aggregate Expenditure		
	Revenue	Capital	Revenue	Capital	Revenue	Capital	Total
2006-07	1054	5035	437	268	1491 (21.95)	5303 (78.05)	6794
2007-08	1160	6415	466	198	1626 (19.74)	6613 (80.26)	8239
2008-09	1432	10335	485	226	1917 (15.36)	10561 (84.64)	12478
2009-10	1659	7172	652	782	2311 (22.51)	7954 (77.49)	10265
2010-11	1743	8000	747	1029	2490 (21.62)	9029 (78.38)	11519
2011-12	1927	7266	713	738	2640 (24.80)	8004 (75.20)	10644
2012-13	1783	6146	709	1044	2492 (25.74)	7190 (74.26)	9682
2013-14	1942	6693	737	1144	2679 (25.48)	7837 (74.52)	10516
2014-15	1714	5789	712	1081	2426 (26.10)	6870 (73.90)	9296
2015-16	1795	6826	922	1146	2717 (25.42)	7972 (74.58)	10689
2016-17	1746	7648	762	1079	2508 (22.32)	8727 (77.68)	11235

Source: Comptroller and Auditor General, Report on State Finacnes, Various Issues

Figure 15. 1. Annual Expenditure on Irrigation (Rs. Crores)

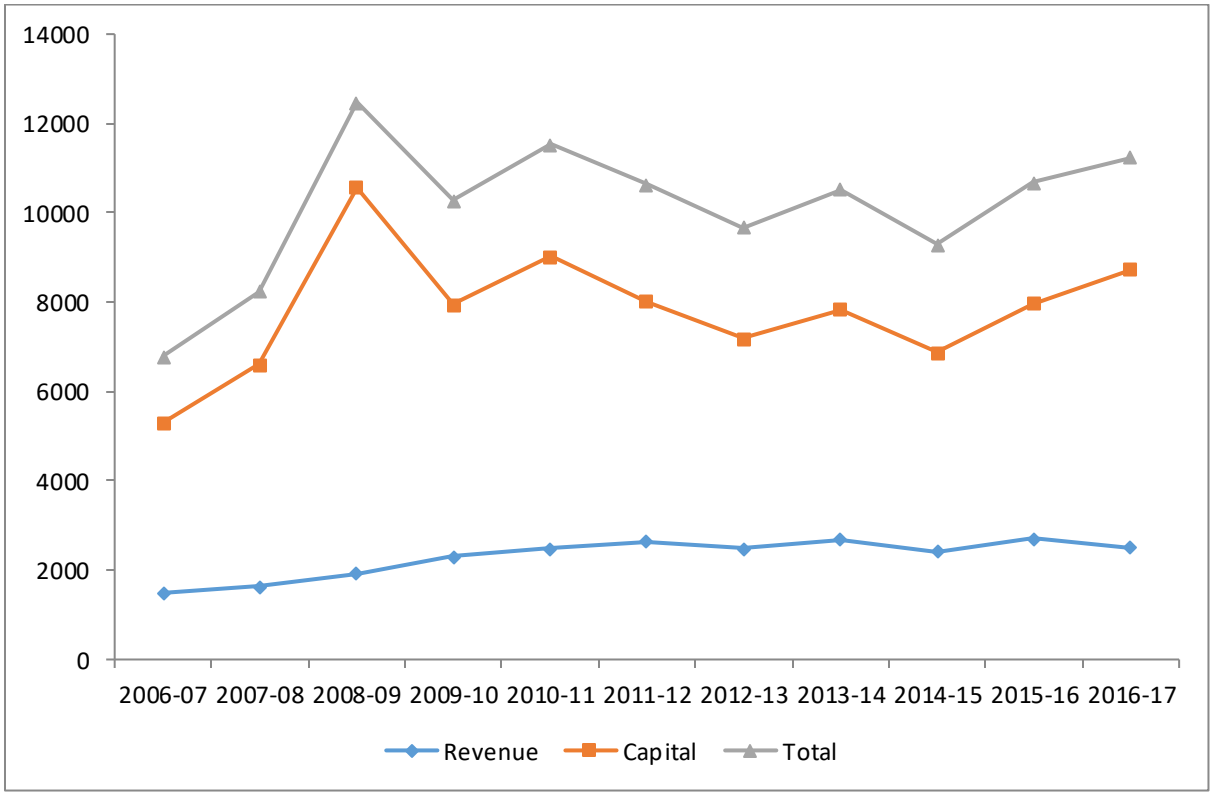
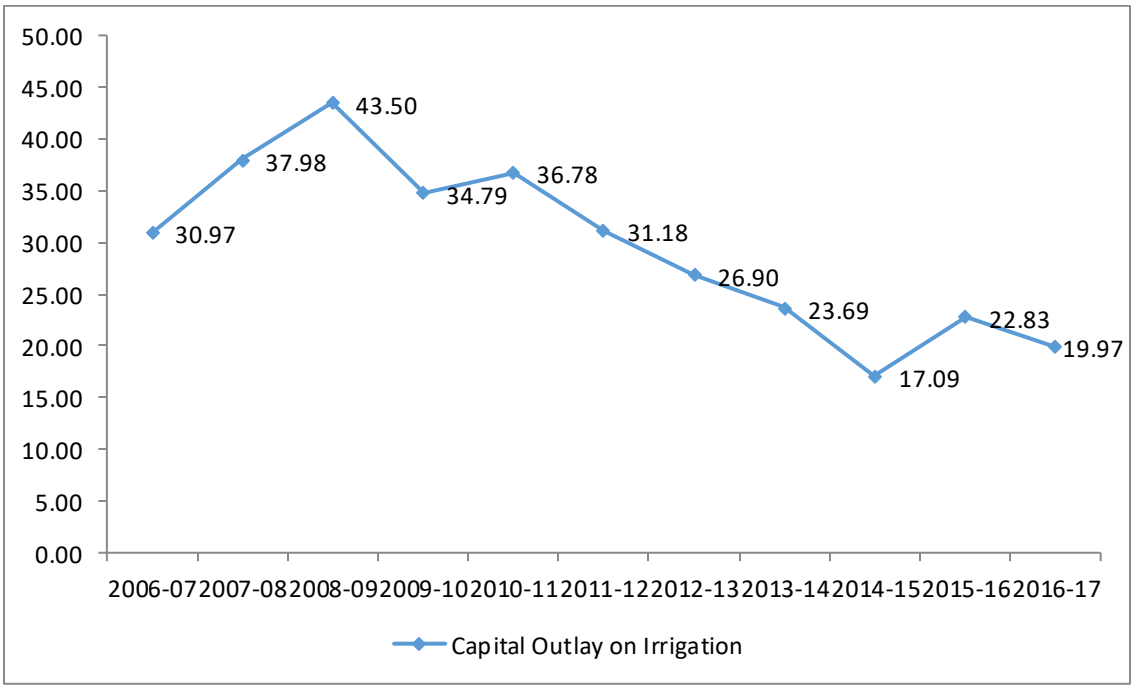


Figure 15.2. Capital Outlay on Irrgation sector as a percent of Aggregate Capital Outlay



There are 428 on going irrigation projects in five Irrigation Development Corporations under Water Resources Department of Maharashtra government. The summarised position of the projects as on 31st March 2017 is given in Table 15.2.

Table 15.2 Age Profile of On-going Projects under Water Resource Department

Age Profile	Major	Medium	Minor	Total
More than 30 years	28 (42.42)	18 (20.69)	31 (11.27)	77 (17.99)
More than 20 Years Up to 30 Years	18 (27.27)	21 (24.14)	31 (11.27)	70 (16.36)
More than 15 years up to 20 years	9 (13.64)	15 (17.24)	24 (8.73)	48 (11.21)
More than 10 years up to 15 years	2 (3.03)	5 (5.75)	44 (16.00)	51 (11.92)
More than 5 years up to 10 years	3 (4.55)	24 (27.59)	127 (46.18)	154 (35.98)
Up to 5 years	0	4 (4.60)	1 (0.36)	5 (1.17)
Work not started	6 (9.09)	0	17 (6.18)	23 (5.37)
Total	66 (15.42)	87 (20.33)	275 (64.25)	428 (100)

Note: Figures in paranthesis are percentage to total
Source: Comptroller and Auditor General, Report on State Finacnes, Various Issues

Out of the 428 ongoing irrigation projects in Maharashtra, 64.25 per cent are minor irrigation projects followed by 20.33 per cent medium and 15.42 per cent major irrigation projects. Among the 66 ongoing major irrigation projects almost 70 per cent of them are under construction stage for more than 20 years. Another 13.64 per cent are under construction for more than 15 years but less than 20 years. Almost 10 per cent of the projects are yet to be started after approval. More than 45 per cent of the medium irrigation projects are also under

construction for 20 years or more and 27.59 per cent are under construction for 5 years up to 10 years. In the category of minor irrigation projects a major proportion of the projects (46.18 per cent) are having a delay of more than 5 years up to 10 years only. From this we can conclude that the time overrun is severe in the case of all types of irrigation projects.

The huge delay in the completion of the irrigation projects have led to a scenario of huge time and cost overrun in this sector. Many of the project costs were escalated multiple times and became uneconomical. The state needs to allocate Rs. 1,77,802 crores as on March 2017 for the completion of the existing 428 projects immediately (Table 15.3). But in the year 2016-17, the state allocated only Rs. 8727 crores, less than 5 per cent of the requirement. This insufficient allocation of the funds will lead to further time cost overrun in this important sector of the state.

Table 15.3.Actual Expenditure and Estimated Cost in respect of all on-going projects (Rs, Crores)- March 2017

Irrigation Development Corporation	Number of Projects	Original Administrative Approval	Expenditure	Estimated Cost
Godavari Marathwada Irrigation Development Corporation	63	4665	16117	34522
Tapi Irrigation Development Corporation	35	3117	4874	13932
Vidharbha Irrigation Development Corporation	220	11344	29358	66909
Maharashtra Krishna Valley Development Corporation	54	9281	18576	43687
Konkan Irrigation Development Corporation	56	1483	7858	18752
Total	428	29889	76784	177802

Source: Finance Accounts, Comptroller and Auditor General of India, Various Years.

The growing regional imbalance in Maharashtra is a reflection of the stagnated levels of irrigation within the state. If the state attempts to finance their required funds from borrowing that will lead to violation of the FRBM requirement. In this specific context the 15th Finance Commission may consider giving special grants for the state, with stringent conditionalities for the timely completion of these projects.

Projects of National Importance

Maharashtra, due to its geographical position as the centre of India, has been undertaking various infrastructural projects of national importance by its own as well as a part of national policy. Being a coastal state and having Mumbai port, the state also acts as the trade route for many other Indian states. The state being the highest recipient of foreign domestic investment also has the added responsibility to maintain world class infrastructure facilities. In order to meet the growing infrastructural needs of the country, the state has to incur huge capital expenditure in the future. Given the existing fiscal health of the state, the huge public investment on infrastructure by the state is a difficult proposition without adequate support from the Union government. Following are the list of major infrastructure projects that have substantial positive externalities for the whole of India.

1. **Multi Model International Hub and Airport at Nagpur (MIHAN)**

In order to remove the regional disparity in the state, Govt. of Maharashtra has decided to develop a composite project called 'Multi-Model International Passenger and Cargo Hub Airport at Nagpur' (MIHAN). The project comprises of developing the existing domestic airport of Nagpur as an international passenger and cargo hub airport, along with a huge Special Economic Zone (SEZ), which is abutting to the boundary of the airport.Nagpur, the Second capital of Maharashtra has a strategic central location in India. It is the largest city in Central India and the 3rd largest city in Maharashtra after Mumbai and Pune. Nagpur is also on the center of international aviation routes. Nagpur district has a population of over 4.6 million (as per the census of 2011) and it is a 9th largest Urban agglomeration in India.The MIHAN project is spread over on above 4300 Ha. of land of which Airport is on about 1360 Ha. SEZ is on about 2000 Ha. and area outside SEZ comprising of R&R, PAP, Residential, Commercial and others SEZ related facility on about 1000 Ha. The total direct cost for the government of Maharashtra

for the project is Rs. 2581 crores. There are additional cost involved in terms of land acquisition and rehabilitation that also the state government has to bear for which additional grants may be sanctioned.

2. Samruddhi Mahamarg (Mumbai- Nagpur)

This six-lane access-controlled corridor between Nagpur and Mumbai is of 701 kilometers (kms) and will cost around Rs 46,000 crore. This expressway will have service roads on both sides that will basically connect the underpasses. 10 districts of Maharashtra will be direct beneficiaries and 14 districts and the neighboring states will be indirect beneficiaries of this road. The central and eastern India will have an easy connectivity with Mumbai. The project promises to transform the economy of drought prone regions of Vidarbha and Marathwada even as it brings benefits to North Maharashtra, part of Western and Konkan regions as well.

Maharashtra State Road Development Corporation is the nodal agency responsible for executing the project which comprises building a completely greenfield expressway, designed for speeds up to 150 km/h on flat terrain and up to 100 km/h on the mountainous terrain of the western ghats section. The state government also plans to build 24 townships along the route which will include state-of-the art healthcare facilities, skill management centres, IT parks and educational institutions. A total of 20,820 hectares of land is to be acquired for the project across 10 districts, out of which 8,520 hectares will used for the highway, while 10,800 hectares would be for building townships.

3. Sagarmala Project

The Sagarmala Programme is the flagship programme of the Ministry of Shipping to promote port-led development in the country through harnessing India’s 7,500 km long coastline, 14,500 km of potentially navigable waterways and strategic location on key international maritime trade routes. Sagarmala aims to modernize India's ports so that port-led development can be augmented and coastlines can be developed to contribute in India's growth. It also aims for transforming the existing ports into modern world class ports and integrate the development of the ports, the industrial clusters and hinterland and efficient evacuation systems through road, rail, inland and coastal waterways resulting in ports becoming the drivers of economic activity in coastal areas.

Maharashtra having a long coastal area is one state that has taken great initiatives by itself to undertake the renovation of 47 small and medium ports in the state, which involves an investment of Rs. 400 crores. The details of the same are given from Table 15.1 to Table 15.4.

Table 15.4 Ongoing Projects under Sagarmala

S. No.	Project Name	Capacity Addition (MTPA)	Investment Required (INR in Crores)
1.	Offshore Container Terminal	7.7	600
2.	Additional Crude Oil Jetty at JawaharDweep, JD 5	20.0	811
3.	Bunkering Terminal at JawaharDweep	2.0	50
4.	Capital dredging of 5th Oil Berth	–	66
Projects to be Completed by Year 2020			
5.	Handling of Steel Cargo at OCT	4.0	100
6.	Development of Marina at Victoria and Princess Dock	–	200
7.	Setting up of a Floating Storage & Regasification Unit (FSRU)	5.0	2,740
8.	Upgradation of Cruise Terminal at BPX	–	54
9.	Dry Docking Facility at Indira Dock	–	50
Projects to be completed by Year 2025			
10.	Extension of OCT berth by 300 m	4.5	150
Projects to be Completed by Year 2030			
11.	Extension of OCT berth by another 600 m	2.5	100

4. Magnetic Maharashtra

The state hopes for investments of almost Rs 10 lakh crore (almost $156 billion) with as many as 5,000 Memorandums of Agreement, wishing to generate employment opportunities for nearly 35 lakh people in the state. One of the major requirement for fulfilling this project that is of national importance also is to have world class infrastructure facility. The cost involved in land acquisition is a major financial responsibility on the state government. The Finance Commission may provide special grants for this mega investment project of the state.

CHAPTER - 16
CONCLUSIONS

This report presents the state of finances in Maharashtra. All aspects of State finances, from revenue generation capacity to composition and quantum of expenditure, from debt management by the State to fiscal marksmanship, and from devolution by the State to local bodies to sustainability analysis are presented in the report. This chapter presents the main conclusions of the study.

1. The State is a front runner in terms of better fiscal management in the country since the enactment of state FRBM Act in 2006. The fiscal deficit of the state continues to be well within the limit of 3 per cent of GSD. The debt stock to GSDP ratio is also well within the 17.5 per cent limit set by the Maharashtra Fiscal Responsibility and Budgetary Management Rules (MFRBM, 2011). And yet, despite an apparent movement towards consolidation, some fault-lines are visible within the fiscal framework of the State.

2. The first systemic issue with the finances in Maharashtra is that the revenue to GSDP ratio of the State has been declining. The total receipts had recorded a growth rate of only 12.14 percent for the past decade, less than the GSDP growth of 13.51 percent. This decline mostly reflects a fall in the tax to GSDP ratio of the State. The tax to GSDP ratio of Maharashtra is at about 6.8 and is lower than other comparable large-sized States. It is particularly disheartening to note that even the targeted tax to GSDP ratio in successive budget documents has shown a decline. Non-tax revenues are dismally low and contribute to less than 1 per cent of the GSDP. There are no visible initiatives taken by the Government at a policy level to increase the tax- GSDP ratio or to address the problem of the low non-tax revenue. Thus, low revenue receipts are the Achilles Heel of the State finance of Maharashtra.

3. As compared to revenues, expenditures of the State show a higher growth rate of about 14 per cent. About 66 per cent of the expenditure is on the Revenue Account, but of that, nearly a half is spent on development activities. Amongst the chief items of committed

expenditures, viz., salary, pension and interest payments, it is heartening to note that interest payments as a percentage of the revenue expenditures have been falling continuously over the past decade. This indicates good debt management by the State. Growth in salary and pension payments also seems to have been controlled by the State Government.

4. An analysis of deficits in Maharashtra shows that Fiscal Deficits have broadly been declining whereas Revenue Deficits have increased. This implies that on an average, capital account savings must have been higher than the revenue dissavings during the decade. Since the borrowings of the Government (as indicated by the FD) have declined, the capital savings must have resulted from a slowdown in capital expenditure. This is a worrisome trend. It indicates that the State is adhering to targets of lower borrowing at the cost of carrying out lower asset building programs. Further, it is disheartening to note that the revenue deficit as a proportion of capital deficit has kept on increasing in the past 10 years. This implies that borrowed funds are being increasingly used for Revenue Expenditure, which is again a worrisome trend.

5. It is interesting to note that 12th, 13th and the 14th FC have expected Maharashtra to run a revenue surplus in their normative assessments of the State. However, in 6 out of the past 10 years, Maharashtra has run a revenue deficit. Clearly, the normative assessments of the State by the earlier FCs have overestimated the potential revenue collections of the State while underestimating the expenditures.

6. Where Maharashtra scores handsomely is in terms of managing its debt burden. The debt to GSDP ratio of the State stands at about 16 per cent, which is well within the limit of 17.6 per cent as recommended under the Maharashtra Fiscal Responsibility and Budgetary Management Rules (MFRBMR), 2011. The proportion of Public Debt in the debt stock stands at about 83 per cent whereas that of borrowings from Public Account stands at 17 per cent. Within Public Debt, there is a huge compositional shift away from loans from the Central Government towards internal debt. Issuance of SDLs dominates amongst the sources of internal debt, indicating that the State has successfully shifted to a market borrowing program. Within loans on Public Accounts, there is a huge

compositional shift away from loans from high cost Provident Funds towards loans from Civil and other Deposits carrying lower costs. The GoM has reduced its borrowings from longer term debt towards shorter term debt. As a result of compositional shifts, the State has managed to reduce its interest obligations significantly.

7. Prudential debt management has created a sustainable debt profile for Maharashtra in the past one decade. Fiscal sustainability of a State can be assessed through certain indicators. Some such indicators are lower fiscal deficits, reduction in interest payments to GSDP ratio, having a positive Primary Revenue Balance (PRB), PRB being higher than the interest payments, etc. We find that Maharashtra scores well on almost all indicators of fiscal sustainability except for the fact that its interest payments continue to be higher than the PRB. It is tempting to hence conclude that interest payments need to be further reduced and hence debt to GSDP ratio too should be further lowered. However, our assessment is that debt has been managed fairly well. The problem is not that interest payments are too high, the problem is that the PRB is too low. And the main reason for the Primary Revenue Balance not performing is that the revenue generation capacity of the State is extremely low currently.

8. The Government of Maharashtra passed the Fiscal Responsibility and Budgetary Management Act in 2005. The Maharashtra Fiscal Responsibility and Budgetary Management Rules (MFRMBM) in 2008 envisage adherence to Revenue Deficit and Fiscal Deficit targets. However, MFRBMR 2011 only mentions adherence to Fiscal Deficit and Debt/GSDP targets. The Government has been broadly able to adhere to targets for Fiscal Deficit and Debt/GSDP. However, in six out of nine years, the Government has not able to achieve the targeted Revenue Deficit position indicated in the glide-path of the MTFPS. Adherence to fiscal deficit targets while increasing the revenue deficits implies that the capital expenditure of the State must have been compromised. Further, it is extremely worrisome to note that successive budgets have targeted a lower tax to GSDP ratio. This is incomprehensible in a State as well-off as Maharashtra. Despite lowered targets, it has not been able to meet the tax/GSDP ratio envisaged for the medium term. This really speaks volumes about the lack of creative policy making in the tax-space in Maharashtra. Further, non-tax revenues are less than 1 per cent of the GSDP.

No creative solutions at the policy level are visible for generating higher non-tax collections.

9. Successive FCs have been sensitive about augmenting the Consolidated Funds of States so that the resource needs of the local bodies (LBs) can be met. Apart from the FCs directly giving grants to the LBs, the State also transfers funds to the LBs. The actual transfer to LBs stands at 20 per cent of the Total (own tax and non-tax) Revenue of the State. Within the devolution to LBs, 78 per cent of the funds are transferred to PRIs, leaving the Urban Local Bodies (ULBs) with only 22 per cent of the devolved funds. Thus, one finds that the share of urban bodies in the transfers by the State does not really reflect the share of population residing within the urban areas. Given the rapid pace of urbanization witnessed in Maharashtra, the 4th SFC had recommended that at least 45 per cent of the devolved funds be transferred to ULBs.

10. It is also seen that the pace of decentralization has not been very encouraging. As on 31st March 2011, the State Government had transferred 11 functions and 154803 functionaries to PRIs. As on 31st March 2015, the State Government had transferred 14 functions and 154840 functionaries to PRIs.

11. Examination of finances of the PRIs reveals heavy dependence on transfers from the Central and State Government. Own revenues of PRIs are dismally low and account for only 7.56 per cent of their total revenues. Thus, devolution of functions has taken place without decentralization of tax handles.

12. The 14th FC had recommended specific grants for local bodies. Institutional mechanisms to facilitate smooth fund flows to local bodies are still evolving in Maharashtra. There have been instances of delays in the funds flowing from the Rural Development Department to Zilla Parishads and from Zilla Parishads to the lower tiers. Financial capacity building within local bodies for compliance with the accounts formats, issuance of Utilization Certificates etc. is imperative.

13. Public Sector Enterprises continue to be largely loss-making, thereby affecting the non-tax revenues of the State. Of the 87 PSEs in the State, 55 State Government companies are making losses. The accumulated losses in 2015-16 stood at Rs.18000 crore. Given that PSEs are set up with social objectives, monetary profits or losses may not be the correct way to view the contribution of the company to the State economy. However, there seem to have been no policy level deliberations to improve the service delivery or penetration of the PSEs, which is worrisome.
14. The reform initiatives undertaken in the power sector have improved the overall physical performance of the sector. The gap between the power demand and supply has come down drastically in the state. The AT& C and TDS losses have come down over the period 2006-2016. The losses made by the state power distribution company MSEDCL is still very huge. The non-metered consumption of agricultural sector lead to a heavy subsidy on the state exchequer. The compound annual growth rate of subsidies at 18.7 percent must be brought at least below the growth rate of revenue receipts. The UDAY scheme will not lead to huge liability on the state exchequer.
15. On the positive side, the State has consciously reduced contingent liabilities, which have the ability to severely disrupt the fiscal maths of the State. The contingent liabilities to GSDP ratio shows a secular fall in the past decade and stands at only 0.4 per cent of GSDP in 2015-16. Co-operative Institutions continue to have dominant shares in the receipt of guarantees. There is no systematic assessment or rating of the project whilst giving guarantees. Within the co-operative sector, guarantees given to sugar and cotton co-operatives are the highest. Thus, good politics seems to be driving out good economics.

16. Subsidies show a rising trend in the past decade and account for around 6 per cent of the State budget in 2015-16. Actual subsidies given by the State exceed the budgeted estimates by nearly 58 per cent. 64.30 per cent of the total subsidies are given by the Department of Industries, Energy and Labour Department alone in the form of power subsidies to agriculture and the textile sector. Subsidies show an inverted structure in that highest proportions of subsidies are given by Departments catering to economic services.

In contrast, Departments in charge of catering to social expenditure programs give extremely low level of subsidies.

17. Going ahead, the debt roadmap seems to be sustainable even under the Business As Usual (BAU) scenario. Under the BAU scenario, fiscal deficit and revenue deficit as a percentage of GSDP stand at 1.69 per cent and 0.63 per cent respectively in 2025. However, GST could well be a game- changer in this respect. With introduction of GST, fiscal deficit and revenue deficit as a percentage of GSDP would stand at 1.4 per cent and 0.34 per cent respectively in 2025.
18. Normative assessments of State finances by successive Finance Commissions have led to Maharashtra being projected as a revenue surplus State. Hence, Maharashtra has not received grants to cover post-devolution revenue deficits. It is to be noted that even with GST collections, there are systemic issues within the state finances that could well lead to occurrence of revenue deficits in the run-up to 2025.

Overall, Maharashtra has exhibited "fiscal sustainability" in the past decade. However, the finances of Maharashtra show an underlying pattern of low revenue collections, lower expenditures and limited debts, leading to fiscal sustainability. The State perhaps needs to re-set its thinking on such a pattern of sustainability. There is a need to aggressively re-orient the revenue collection policy, which could make higher social sector spending and higher capital expenditure sustainable. Thrust on revenue generation in the future will go a long way in terms of correcting the underlying issues in State finances and will reinforce the positive trends promoting prudential debt management and fiscal sustainability.

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