Evaluation of Rajasthan State Finances

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PREFACE

The study is sponsored by XV Finance Commission as part of the Commission's work. The study attempts a broad analysis of the trends in the state's revenues and expenditures. Data is taken from official budget documents and financial statements for different years. The Reserve Bank's study of State Finances for the year 2016-17 is taken as a reference point although the statistical results in the current study are slightly different from the RBI study mainly on account of methodology differences with respect to classification in some budget categories. In some cases data in the State documents differ as revisions in estimates such as GSDP or revised estimates are made by the Directorate of Economics and Statistics of the Government of Rajasthan We did not track some of these changes as differences were found to be relatively small and did not influence the trend of the category being analyzed. Data shown under final accounts is taken except for 2017-18 and 2018-19 where revised estimates and budget estimates respectively are considered. It is hoped that the results will assist in forecasting trends for the future.

I take this opportunity to gratefully acknowledge the assistance provided by Dr. M.S Rathore, Director of Centre of Environment and Development Studies (CEDS), Jaipur for making data available from the data archives maintained at the Centre. Discussion with Prof. Rathore provided many insights into ground realities as well as why research in the State is suffering. Without easy access to CEDS data and the assistance provided by the Senior Research Officer of the CEDS, Shri Ladu Lal Sharma, it would not have been possible to complete the work on time.

Shri P. R. Agarwal, IAS who has been assigned to prepare the State's Memorandum for the Finance Commission provided help in approaching the Finance Department of the Government for seeking clarifications and for discussion on several issues. I thank him for his assistance.

Comments sent by the Finance Commission have been considered and a few additions have been included in the final report. However, we have not been able to provide a detailed analysis of the state public sector undertakings. The Bureau of Public Enterprises does not provide a comprehensive analysis in recent years. Individual reports for a few undertakings are available but they are also not up to date except for a few.

I hope that the analysis will be found useful by the Commission.

M S Rathore, Director

Kanta Ahuja

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EXECUTIVE SUMMARY

The broad objective of the study is to provide an analysis of the State Finances over a period of 10 years starting from 1st April, 2006.as per the TOR. The study is primarily based on the documents of the Finance Department of the Government of Rajasthan. RBI's Study of State Finances for 2016-17 and 2017-18 was used extensively to provide, especially, a benchmark for fiscal variables. Reports for 2017-18 and 2018-19 were available after the draft report was prepared and have also been considered. Government of Rajasthan documents that have been used extensively are Annual Budgets presented to the Legislature and Economic Review published annually by the Directorate of Economics and Statistics of the State Government. Currently the Economic Review is available only up to 2016-17. In view of the fact that the long term series is revised by the FD frequently and by Directorate of Economics and Statistics (DES) in the case of GSDP, and without specifying the details this study uses the series provided in DES publication Economic Review 2017-18. (Para number 1-7)

Chapter II analyses the growth of principal sources of revenue. (Para 8 to 16)

Revenue receipts including non-debt capital has doubled from Rs 17888 crores in 2004-05 to Rs 35385 crores in 2009 -10 implying a compound growth rate of 14% per annum. Between 2009-10 and 2015-16 the rate of growth is even higher, recording approximately 300 % increase in 6 years. Revenue receipts increase from Rs 35385 crore in 2009-10 to 2014 to Rs 100285 crore in 2015-16.

Revenue receipts to GSDP ratio and Composition and growth of revenue receipts. Tables 2.2 and 2.3

i. Revenue receipts show an increase from around 13% of GSDP to a little over 14% after 2014-15.

ii. Share of own taxes in GSDP has declined from above 9 per cent preceding 2014-15 to a little over 6 per cent after 2014-15.

iii. Non tax revenues from the mining sector and from petroleum royalties went up significantly to above 2 per cent of GSDP.

iv. Share of central taxes in revenue receipts has gone up from 3.5 % to around 4.5 % of GSDP although the state's share in total tax devolved to the non special category states remains between 5 to 6 per cent even after the XIV Commission award.

Share of own taxes in total tax revenue - Table 2.7 and Figure 4.

v. Share of own taxes in total tax receipts is 60% or above throughout the period and in total revenue receipts it is above 55%.

vi. Sales tax and duty/VAT on gas, petrol and alcohol are the two major categories of state commodity taxes contributing 60% to 65% and 15% respectively or a total of 80 % of own taxes.

vii. Motor vehicles tax and electricity duty are two other important sources of revenue for the state. Stamp duty, motor vehicle tax and electricity duty contribute remaining 20 % of taxes.

viii. Growth of State GSDP at constant prices exceeds the all India level between 1999 and 2000 and 2005 to 2015 but slows down between 2012 and 2015 and is lower (5.1%) than the all India growth rate (8.5%).

ix. The state has been able to sustain a share of 40% in revenue receipts and around 6% in GSDP. This implies that the tax buoyancy ratio has been maintained above 1.0 altough it is below the buovancy level achieved during the early nineties. This implies an unrealized potential for raising revenues by setting a target for tax buoyancy ratio above 1.5 instead of the current level of just 1.0 or less.

x. Mineral sector is the highest revenue earning sector despite the fact that the case for increasing royalties fixed by the Centre on major minerals is strong in view of the importance of this sector in the state economy (Table 2.8).

xi. Property taxes can be a growing component of revenue. Such a tax is direct and likely to be made more progressive and more buoyant. At the same time, it is the most complex tax to implement. Stamp Duty and Registration Fee contributes about 7 to 8 % of own taxes of the state. Its share in total has, at best, remained constant. The conflicting demands to provide incentives for locating industries in the State on the one hand and availability of land without adequate infrastructure results in state foregoing some part of potential revenue by giving exemptions and concessions.

xii. Impact of GST on state finances has not been estimated except to suggest that the share of sales tax and excise provides a basis for future projection.

xiii. Central tax shares are a more stable source of revenue. Until 2017 Rajasthan has been getting 2.13 per cent of 42% that is distributed by the Centre. This amounts to 5.6 per cent of the total devolved on the non special category states. Central share in revenue has increased from 3.5% to 4.5% of GSDP.

xiv. In the State budget for 2018-19, central share is projected at Rs.43,300 crores compared to the states own tax revenue of Rs 58099 crores. State, tax revenue includes the estimated share in GST. State's tax revenue is estimated to increase by Rs. 14,000 crores between 2016-17 (actual receipts) and 2018-19 (BE).

Non-Tax Revenue Receipts (Para 17 to 23)

i. Sources of non-tax revenues are, besides interest and profits from state undertakings, fees and revenue generated by general, social and economic services provided by the state. The lack of a clear distinction between public/merit services and private benefit services in the welfare state ideal adopted by India has resulted in almost all services and most of the public undertakings to be heavily subsidized directly or indirectly. Private participation is being encouraged but entrepreneurs manoeuvre for concessions by putting one state government against the other. It becomes not only a zero sum game situation in which individual state governments lose revenue sources and also lose some part of benefits that may not necessarily be location specific.

ii. Petroleum sector, although it is capable of giving revenues and other direct and indirect benefits to states that have oil and gas resources, and to the state exchequer, is a new example of investments benefitting the state but only partially. All major investments in irrigation projects have been made by the centre as benefits accrue beyond the location of the project. This principal could be applied to projects like an oil refinery. As an example, Gujarat has benefitted from the oil sector by investments made by the Centre in ONGC. In short there is a case for greater central investments in big projects not only as part sharing but in total funding of projects that have an all India context.

iii. Privatization of public services now provided by the government does not have adequate legal or regulatory institutions/processes that exist, for example in the financial sector. Privatization in many cases may have resulted in greater provision of services but the fees are high and counter to the goal of creating an inclusive society. Examples are private hospital charges, fees in private schools, colleges and institutions of higher education.

iv. A committee that includes health experts and health administrators including insurance and health and education economics experts could go into the details of a complete overhaul of no cost and low cost social services and find ‘out of the box’ solutions. The Committee may also study international experience of alternative social services models.

v. Tables 2.11 and 2.12 and Fig. 9 of growth rates do not yield a smooth trend of growth in any of the non-tax revenue sources. Reasons for uneven growth indicate to the absence of a medium term to long term view about changes in rates and fees especially in social services. Also the peaks and the troughs in the growth rate is likely to have been influenced by political change in government.

vi. Discussion following the Tables is concerned with some issues regarding privatization of medical and education services and suggest the view that In these services particularly, education, the state has moved not only towards greater privatization but also part withdrawal of the state from many essential services – withdrawal by neglect but without fulfilling the norms of quality or efficiency in provision of services..

vii, The comments made above are pertinent for economic services that include many diverse sectors from crop husbandry, and irrigation to forests and wild life. In most of these services, it is necessary to distinguish between private and public costs and benefits so that fees for the service is part of the cost being incurred by the state. An agency that provides a service must have the authority and willingness to charge reasonable fees failing which many undesirable and unwanted indirect effects emerge. Example is provision of water for irrigation and drinking without appropriate services being provided at one end nor adequate fees being charged to cover cost at the other end. Subsidized power in agriculture has a serious external diseconomy of excessive withdrawal from ground reservoirs. Almost all blocks in the state are now categorized as ‘dark zones’.

viii. Central grants are included as non-tax revenue. Table 2.12 and Fig 11 show the share of grants that constitute as much as 60% of non tax revenues of the State. This rate shows some year to year variation but in general, and barring two years (2011-13 and 2013-14) the share has been around 60% of non-tax revenue throughout the period.

Social Services (Para 25)

Revenue receipts from individual social service sectors shown in Table 2.13 shows that the total receipts from these services have been less than Rs. 1500 crore annually even in

2016-17. This level was preceded by an amount varying between Rs 200 crore to Rs.800 crore between 2004-05 and 2014-15.

Economic Services (Para 26)

This group of services is again a diverse group including crop husbandry, irrigation and mining resources. Revenue from this group has increased rapidly after the discovery of oil and gas in 2010-11. It increased from less than Rs.2000 crore in 2009-10 to Rs 9000 crore in 2013-14 after which there is a decline because of falling oil prices. Table 2.14 and Figure 12 provide the composition and share of individual economic services in revenue receipts. The analysis of the table reveals:

i. Rajasthan has not been successful in raising revenue from irrigation. This is a wider political economy question of support to the farming sector

ii. Major source of revenue is from mining sector. Receipts are received as royalties from diverse mining resources that the state has. But there is scope of increasing rates and revenue from this sector through stricter administrative controls especially, to prevent leakage of revenue.

iii. Petroleum royalties now provides a substantial part (more than one-third) of the revenue from economic services. It now totals more than Rs 3500 crores.

Chapter III Revenue and Capital Expenditure Table 3.1 (Para 27 to 33)

i. Distinction between current and capital expenditure assumes that the former is consumption and the latter is investment. However, education and health is equally, if not even more important than physical infrastructure and could be categorized as 'human capital formation.' financed out of capital expenditure. This is particularly so for Rajasthan that continues to have low social indicators for women and for youth.

ii. Rajasthan spends a little over 10% of the total as capital expenditure. At the same time, the Table also shows that interest payments on debt used primarily for investment exceeds capital outlays in most of the years. This implies that investments made earlier have failed to generate the expected revenue to service debt not necessarily because investments were not productive but because the state did not take due care to ensure that surpluses accrue to the state. On the other hand, expenditure in health, education and skill formation could give results better than the results from loss making public investments.

iii. Revenue expenditure to GSDP ratio constitutes above 15% and capital outlay only about 4% even though the ratio has been between 2.5% and 3% throughout the period reviewed. The State compares favourably with other states in terms of capital outlay to GSDP ratios but one needs to examine data of Gross Capital Formation before drawing a firm conclusion.

Growth and composition of revenue expenditure

i. The shares among general, social and economic services have not varied much from year to year. Their shares are one-third in general services, two fifths in social and one fifth in economic services. The total expenditure accounts to Rs.1571184 crore in the BE of 2018-19. Annual growth rates of the three services are shown in Table 3.6. Average levels for five years are shown in Table 3.7.

ii. Table 3.8 shows expenditure on general services. This is important in the context of the perception commonly shared that government expenditures tend to be wasteful. This is not borne out in Table 3.8 in which the largest shares are in interest payments and debt servicing (above 40%) and on pensions (above 35% and growing at a fast pace). About one-third expenditure is on general services.

iii. In social services (Fig 17 and Table 3.10), the largest share is accounted for by education (50%) and less than 20% by Medical and Health and followed by water supply and sanitation. Table 3.12 shows the rural and urban distribution of expenditure on water supply. Urban to rural expenditure on water supply is in the ratio 60:40.

iv. As a percentage of GSDP education accounts for a little over 3% (constant throughout the period); medical and health accounts for only 1% and social services as a whole for only a little above 6%. This is a significant finding in the context of the priorities that should have been given to the two sectors and what has actually been given by the State.

v. Economic services as a group accounted for about a third of revenue expenditures but within the group, the share of agriculture has reduced and that for rural development has increased to about 38%. (Table 3.13 and 3.14) Expenditure on irrigation (combined with energy) has increased to 48%; 15 to 16 % increase is due to UDAY..

Cost Recovery (Para 36 to 40)

The issue of recovery of costs for services provided by the state has been discussed in the public finance literature for long. This issue is complex. Earlier approach regarded all cost under-recoveries as implicit subsidies except making a distinction between merit goods and non merit goods. Later, use of the term implicit subsidies was replaced by the term user charges and now the term currently in use is 'cost recovery'. Distinction between merit and non-merit goods or public services to be provided in the budget and services that have private benefits ought to be paid for by the user or the consumer. Cost recovery cannot be a general principal applicable to all services. The State needs to give much greater attention to many civic services, environment protection and safe drinking water to name just a few instead of showcasing big projects like road safety, metro rail or oil refinery or other high visibility activities for tourists. Such projects do have an important place but it should not be at the cost of essential human services.

Cost recovery ratios are no doubt very low but people would pay for services as they do now albeit privately, if they can be assured minimum quality standards in services being provided.

Explicit Subsidies (Para 41)

The state government has been subsidizing the power sector by providing explicit subsidy of more than Rs. 8000 crore annually. The position with regard to the power sector subsidy after the UDAY scheme was implemented is not clear. Loans and advances are being shown in the budget for the DISCOMS and an amount of Rs 12,000 crore is shown as a grant to them each year after the launch of the scheme. Who will bear th interest burden on loans is not clear.

Another form of subsidy is in the form of lower or exempted interest rates on loans or exemption from taxes or concessions in fees charged. Every year the budget introduces new schemes to achieve different objectives. Budget provisions for them are also made. However, at the end of the year we were unable to get scheme wise details of the concessions announced. The amount spent is not available in the detailed finance documents. 2018-19 budget includes a provision of Rs 8000 crore for agricultural loan waiver, tax relief of Rs 650 crore and a provision for social welfare schemes of Rs 44,135 crore.

Agriculture and Rural Services (Para 42)

Table 3.17 shows the distribution among agriculture and related sectors that are important for providing income and livelihoods to a large number of rural households.

i. The total expenditure shown under the Head Crop Husbandry shows a declining trend. Decline of RS 1300 crore in the last two years is a cause of concern. Except for Co-operation and animal husbandry, all shares have declined.

ii. The sub-sectors within agriculture and allied sectors also include, among other sub sectors, animal husbandry, dairy development and co-operation (Table.3.17). Data shown below shows that the share of the two sectors does not exhibit a trend in either direction. The share increases in some years and declines in others.

iii. Currently the share of animal husbandry and dairying is budgeted at 15-16 % in the 2018-19 budget.

iv. Share of soil conservation should have gone up on account of the ‘Soil Card’ scheme announced by the PM. Data does not show an increase under this head – in fact the share has decreased from above 7% in 2006 to less to only 1.66 per cent in 2015-16 and the falling trend continues in the subsequent two years. Decline in share is from a declining total.

v. Interestingly, Co-operation records an increase from 12 % to 32% in the 2018-19 budget. Presumably this increase is due to the way in which the loan waiver announcement will be administered. The government has already announced raising an off budget loan through NAFED by giving a guarantee of Rs 5000 crore.

vi. Forestry and wild life is important for the state firstly because forest year of the state land records is only 8%; and secondly because the state has wild life sanctuaries, a desert sanctuary and a bird sanctuary. Protecting these areas often results in displacement of human settlements of the area.

vii. Rajasthan known as a desert state may not regard fisheries as an important sector but less well known is the fact that many water bodies in south and east Rajasthan produce fish that is largely taken for sale to Gujarat and Mahrashtra. It is also emerging as an additional source of income in canal irrigated areas.

viii. Poultry is also important in some parts of the state. Goat husbandry is important for the preference for mutton and also goats provide a profitable low cost activity. The proportion of expenditure (0.5%) for dairy development and less than one per cent

(0.24%) for fisheries indicates that the activities are not getting the attention that they deserve.

ix. On the basis of cases of adulteration reported daily, it is obvious that the function of food safety is not being adequately performed. Regulation of vegetables using sewage water, of dairies using oxytocin, antibiotics in poultry, certification of organic, weights and measures are just examples of functions that should be part of public services. Concerned citizens or affected persons should not have to go to courts for redressal if the government takes up some of these responsibilities adequately.

x. Agricultural research, and Warehousing and Storage is another relatively neglected area. It is in these minor budget sectors, not only is the share small but also a major part must be going into administrative expense in wages, salaries and transport. This premise is based upon the composition of expenditure in industries (Table 3.18) that shows almost the entire expenditure on administration and a small amount going into specific industries.

Expenditure on Industries (Para 43)

The role of the Industries Department and of the state has undergone a change with liberal industrial policies. Promotional role and development of infrastructure is the responsibility of the states' Industrial Development Corporation. The role of the state finance corporation has also reduced as the function is increasingly being performed by banks and by NBFCs. Government expenditure is basically on general administrative responsibilities and on promotion, training and efforts towards productivity enhancement activities. In the classification shown in Table 3.15, absence of agro processing does not appear. This is a sector for which specific type of assistance may be required. (e.g. developing a cold chain for increasing the shelf life of fruits and vegetables).

Annexure 1 discusses briefly classification of expenditures and argues for uniformity and simplicity. Although revenue and capital expenditure need to be distinguished from accounting as well as for analytical purposes, but

i. to then reclassify expenditures into development and non-development is not necessary now that plan and non-plan distinction is not made anymore ;

ii. to include capital and revenue expenditure together to derive ratios to GSDP for some variables like social sector expenditure gives different non-comparable estimates and is confusing; and

iii. O & M expenditure is not shown uniformly for all services.

Annexure 2 Provides all expenditure values in absolute RS crore terms. There is need also to use million and billion as the units as is now being done in RBI reports. Equivalence of crores to billion or vice versa need to be given in each report to familiarize users as there are two values for billion used as a unit.

Fiscal Impact of UDAY Scheme (Para 44 to 55)

Chapter IV discusses the scheme in detail and emphasizes the following points:

i. The fiscal impact is unfavourable in the short run as well as in the long run. Deficits due to UDAY are likely to continue until 2026-27.
ii. The accounting adjustments made in the budget for the scheme are questionable. The present method of accounting is not transparent enough to derive any conclusion on which way the scheme is going.
iii. DISCOM losses have reduced but grants and advances continue to be provided. Other operational parameters show improvement but they are much behind the timeline targets of the Scheme.
iv. Fiscal impact will ultimately depend upon the extent to which the performance of the DISCOMS improves.

Fiscal Deficit and Public Debt (Para 56 to 75)

Chapter V contains a brief description of the FRBM Act enacted in 2005 in the State. It is operating and the MTFS targets are being fixed. On the debt front the deficit targets are not being met since the State slipped into revenue deficits after 2013-14. Further, the Rules attached to the Act that requires the assumptions underlying the revenue and expenditure targets are not being spelt out. As a result the State could not take advantage of Debt Consolidation and Relief Facility (DCRF) recommended by the 14th Finance Commission that required a state to restrict interest payments to 10% of revenue receipts, debt to GSDP ratio of 25% or less and balance or surplus on the current account.

Table 5.1 give the main fiscal parameters from 2007-08 to 2016-17. Comparable data for all the parameters for 2017-18 and 2018-19 was not available at the time of writing On the basis of Tables 5.1 and 5.2 the following conclusions are derived to assess the issue of debt sustainability.

Rate of growth of Revenue Receipts- Own Taxes

i. Rate of growth of revenue receipts has been highly varied. Range is from 29.8 in 2010, 24.1 in 2010-11 to less than 10 percent in 2008, 2015, 2016 and only 5.7 % in 2009-10. This is largely the result of change in central share of taxes as well as grants received

ii. Rate of growth of own tax revenue is also volatile and has ranged between 10 to 26 per cent. The tax to GSDP ratio begins to fall in 2008-09 and in the years following, this ratio has not increased to the pre-2008 levels despite increased revenue from petroleum royalties and VAT on petrol and diesel. Without these two sources, the revenue situation of the state would have been bleak in terms of the fiscal deficit ratios forecasted in the FRBM targets.

Committed Expenditures: Tables: 5.5 and 5.6 show the shares of different components of committed expenditure viz interest, salaries and pensions. It also shows public debt as a ratio of GSDP. Expenditure on organs of the state could also be included in the non-discretionary component of expenditure in which case another 4% would be added to the current level. Expenditure on organs of the state could also be included in the non-discretionary component of expenditure in which case another 4% would be added to the current level. Even if this is excluded, the share of three components – interest, salaries and pensions exceeds marginally the total revenue expenditure.

i. **Wages and Salaries**. The share of wages in revenue receipts and in revenue expenditure has been around 27% and 30% respectively and has been contained within a narrow range.

ii. **Pensions** have increased .The rate of growth (CAGR) of pensions has gone up from 14% to more than 17% in 2018-1 9 and is likely to remain at this level of more than Rs 15000 crore .

iii. **Interest.** The share of interest payment in expenditure had been going down from above 13% to about 11% because of debt restructuring and slight softening of interest rates. It has gone up again to 14% in 2016-17 because of UDAY and is likely to remain at this level until the market loans taken under UDAY are repaid in 10-15 years. As a ratio of interest payment to debt, average interest rate on debt is currently 6.7%.

iv. The absolute level of deficit and debt is shown in Table 5.2.

Table 5.3 shows the fiscal deficit and debt ratios. In terms of sustainability of debt the following points emerge

i. Debt has remained within the prescribed threshold limits. After 2010-11 this ratio has remained below 25% in Rajasthan. Increase in 2015 and 2016 is due to UDAY debt

ii. Debt situation improved because of fiscal management and greater reliance on guarantees to para- state bodies..

Indicators that show improvement are:

i. Own revenue to revenue expenditure that remained above 50%; (Table 5.1)

ii. Revenue receipts to GSDP that remained above 13% from 2009 to 2016. Revenue receipts include central transfers and grants.

iii. Expenditure on salaries and wages that remained within the narrow range of 26 to 27.5%.

On the negative side

i. Rates of growth of GSDP as well as of revenue receipts record sharp falls after 2013-14.

ii. Tax buoyancy ratio of own taxes/GSDP ratio has declined quite sharply

Non-discretionary or Committed Expenditure

i. **Interest** burden is determined by the average rate at which the centre borrows money from different sources. Interest rates have been high in the past but have moderated significantly in recent years.

ii. Currently the average interest on debt is 6.7%. This has helped in containing the interest burden on the state. Interest has been below 15 % of revenue expenditure since 2011 but has gone up as the share of market loans in total borrowing has increased.

iii. In 2016, interest accounted for 16% of revenue expenditure. For keeping interest on market loans low, credit rating of the State for SDLs and for units that borrow on the basis of state guarantee from financial institutions is important.

iv. An improvement in the 'Ease of Doing Business" indicator,(Reference: GoR, Directorate of Economics and Statistics, Annual Statistical Abstracts) This is a reflection of the efforts made by the State to manage not only fiscal parameters but also economic development indicators that appear in the state's statistical data albeit with a time lag. However, Rajasthan has slipped on this indicator in data released in June 2018 by the World Bank.

v. **Wages and Salaries.** Share of salaries and wages has been contained despite increase in salaries and dearness allowance. But the methods of contract employment and outsourcing and freezing posts, change in rules regarding payment of allowances and legal hurdles are some of the reasons. They are not a long term solution as relaxations are announced every 4 to5 years before elections and the situation reverts back to increases in share of salaries.

vi. Total number of employees reported in the budget document has remained constant at 9.5 lakhs for 7 years. It is not clear whether this number includes other employees that are covered by the 7th Pay Commission. This is again another instance where the requirements of FRBM Act are not fulfilled.

vii. Pensions are determined by the age profile of retired and retiring employees as well as by pensions recommended by the Pay Commissions from time to time. The government has used the tactic of postponing fiscal burden by delaying announcement of increase in salaries/allowances and pensions and making part of the increase to be deposited in GPF accounts of employees.

Debt sustainability requires that the rate of growth of revenue receipts (currently 12%) continue to remain higher than the growth rate of debt. (Currently 12%) Table 5.4 shows the revenue to GSDP (14.4%) and debt to GSDP (25.4% without UDAY) ratios along with growth rates of revenue receipts (8.7% currently and own taxes 3.9%)

Available RBI data on composition of debt and guarantee amounts are shown in Tables 5.8 to 5.10. Table 5.10 also shows the absolute levels of deficits and debt. Table 5.9 shows the repayment as a ratio of debt raised annually. This ratio is as high as 30% of debt raised.

Financing of Deficits

Increase in liabilities between 2016 and 2017 is Rs 23000 crore. (230 billion) and Increase in revenue deficit for the same period is Rs 12160 crore with UDAY debt. This means that revenue deficit is more than 50 % of debt raised in 2017. Debt plus guarantees add up to 2328+ 946=Rs. 3374 billion or Rs.3374400 crore net of repayment. Besides interest, debt has to be repaid in 2016-17.

It is argued that because of the uncertain and somewhat negative international situation, the state could use credit rating to lower interest rates and prevent slippage on EoDB indicator to attract investment within as well as from external sources.

Budgetary Processes and Control - CAG and RBI

A few comments of the CAG and RBI that were considered relevant and pertinent in the context of generating a scenario for the future are reproduced in these paragraphs. Chapter IV on UDAY contains a future projection of fiscal parameters for the period up to 2026-27. As the assumptions need to be made for the goals that the State sets for itself, the NIPFP generated scenario may need to be altered. Therefore, it is suggested that similar methodology be used to generate alternative scenarios by making pessimistic, optimistic or negative assumptions. This needs to be done by the Finance and Planning Departments. The caveat is provided by the CAG and by the RBI with respect to budgetary processes that need to be improved. CAG comment is "...it appears that the revenue deficit/surplus is first targeted and the other estimates of revenue and expenditure are forecasted to fit into the surplus/deficit number that is required". Final numbers are out of line of the budget estimates both for revenue receipts as well as for revenue expenditure. To quote from the CAG Report (page vi.) "The estimation of expenditure and receipts for containing fiscal parameters within the desirable limits should be more realistic. Regular control over expenditure and management are required."

RBI commenting on the doubtful credibility of state budgets calls it 'fiscal marksmanship' by Finance Departments of state governments. Besides having a poor predictive power, RBI states that budget analysis "at the consolidated states level exhibits a large systematic component in some of the expenditure items, particularly capital outlays, reflecting expedient adjustments necessitated by unanticipated shortfalls in meeting committed targets". RBI recommends that the states adopt the PEFA framework (Public Expenditure and Financial Accountability).

In this context there is need for a more systematic analysis of public finance at the state level. Unfortunately, the government has not considered this important. Either a research institution be assigned the work or the Planning or Finance Departments create a cell for analysis with the help of experts from institutions such as NIPFP or NCAER or NITI Aayog. A state level unit or cell is needed for analytic work related to the state economy by involving a more analytical and academic approach to analysis. Academia needs to be involved because the current methodologies of teaching and research have not trained adequate number of persons by imparting the necessary skills.

Local Bodies and PRIs (Para 76 to 85)

Chapter VI is a descriptive analysis of the funds being released to local bodies and PRIs and a description of a few recommendations of the Fifth State Finance Commission that are being implemented by the state government.

Analysis of the State Commission points to the following main issues:

1. Capacity to spend even the small allocated amounts needs to be strengthened by more intensive training efforts.
2. Skill enhancement in all administrative processes but particularly in finance and in use of computers and software.
3. Governance and relationship between political leadership at the local level and administrative staff needs strengthening..
4. Raising own resources for civic functions must become mandatory.

State Enterprises and Special Projects (Para 86 to 93)

Chapter VII is a description of the developments in State Enterprises, Externally funded projects and PPP mode activities. These chapters have been summarized from government sources only. So no comments can be made about the credibility and accuracy of the reported data except those that are in CAG or RBI Reports or analysis done by individual scholars/researchers.

Government website has a list of 28 companies and 6 Corporations/Boards while the CAG Report for 215-16 says that there were 43 companies, 7 statutory corporations, 2 Rural Banks and 26 Joint stock entitities in addition to co-operative banks and societies.

Conclusions are familiar viz that no roadmap has been prepared by the government about disinvestment or about how they can be made profitable to earn at least minimum return on investments that are already locked in the enterprises. Rate of return reported by CAG was an average of 0.2 %.

Loans and advances continue to be given even to loss making entities – pro forma interest is apparently recorded as interest income on the revenue side and as capital expenditure on the capital side. Finance Commission may look into it and in consultation with RBI suggests a clear picture without waiting for the CAG to report. Such a practice would not be irregular from the audit point of view but is questionable from an economic analysis perspective.

Accumulated losses of only 2 corporations, and 18 joint stock companies amounted to Rs. 73,650 crore on an investment of Rs 25,012 crore in 2015.

Only three enterprises (RSMML, RAJSICO and Vitran Nigam) have been profitable entities. Only 2 companies accounted for 92% of dividends of Rs498 crores in 2001-02. Despite this new companies have been incorporated to perform functions specifically assigned to them but their finances are neither reported to the Legislature nor are they shown in the FD financial statements.

Bureau of Public Enterprises does not appear to be a functional body although it continues to exist. Only a list of enterprises was available on the website although some individual entities have websites that are neither complete nor up to date.

This chapter comments briefly on PPP mode projects that are being supported vigoursly by the government especially in the roads and transport sector. However since the beginning of this approach in 1998, of the 153 projects, 68 have been completed and the remaining are 'in the pipeline" or incomplete. Details of how much has been the contribution of the government or about revenue earned is not shown explicitly. Power sector accounts for 90% of reported cost of the incomplete projects and urban infrastructure for 'in the pipeline' projects although in the road sector the toll taxes that currently go entirely to the private investors are a source of discontent among vehicle owners. The demand is therefore, voiced often on public forums is that the cost and Jaipur to Delhi road with a distance of less than 250 km has about six toll stoppages first in Rajasthan and then in Haryana and the NCR region

In the health sector, positive feedback is rarely given by users except in the context of private hospitals and/or by the beneficiaries of the Bhamashah Yojana. The government had proposed partial privatization of government schools but it could not be done because of criticism.

It is necessary to have a clear approach to what ought to be the responsibility of the state. Primary health care and school education are legitimate responsibility of the state. Countries move from free education at primary level to free education to higher classes up to school leaving stage. Similar is the case with health services where by allowing private practice in government hospitals, privatization gets extended from private hospitals to government hospitals. Government services suffer by default.

Path to Fiscal Consolidation- Some Suggestions (Para 94 to 105)

An objective assessment of the outcomes of the large number of policies / projects/ expenditure requires more detailed evaluation studies by non state agencies. In school education, agencies like Pratham have been doing this work in which achievements as well as failures are highlighted for corrective action. Such studies seem to have been replaced by workshops and seminars under corporate bodies like CII or FICCI. While the contributions are useful, but the wealth of, especially socio-economic studies dealing with longer term structural issues are rare at the state level. Earlier such studies were sponsored by the Planning Commission and its Programme Evaluation Organization. These types of works are not being encouraged anymore as there is lack of financial support. Social Science research does not find place in any research or innovation initiatives. A framework and a budget for social sciences is required that could be part of the Niti Ayog framework or part of the state government supported framework. As a social scientist this gap is keenly felt and needs to be bridged.

Co-operative federalism requires a greater role of the state governments not only as implementing bodies of central programmes but also in planning and policy making. However on the expenditure side FRBM Acts do not provide a framework for public expenditure management (MTEF) that was mentioned initially in the central FRBM Act.

States now have been given more resources and powers to take action according to the state's environment and available resources. At the same time, local social and economic pressures on almost all fronts on an election to election mode continue to mount. Instead of priorities set by the Planning Commission and NDC or through more than 100 centrally sponsored schemes, we now have more than 40 schemes with very attractive acronyms like HRIDAY, Jan Dhan, Beti Bacchao, Sukanyaa, Swachchta Abhiyan, Indradhanush, SETU,UDAAN, UDAY, Swadesh Darshan for Neat Himalayas and so on . Centre also has a lottery scheme for consumers – Lucky Grahak ! Broadly, the schemes are determined, partly on the basis of social and economic considerations (e.g. primary education or public health or senior citizens, or women empowerment, rural employment, or for Daliits SC/ST, but the focus and content is mostly based on what are basically political economy choices. Therefore their outcomes are difficult to evaluate unless the outcomes are supported by objective socio economic analysis.

Now that Niti Aayog has replaced Planning Commission, and has done extensive studies with the help of Indian Economic Service Officers and/or Consultants hired for specific tasks as is done by international agencies like the World Bank or ADB etc. These agencies also employ their own staff who produces policy briefs, analysis and evaluation either done by themselves or especially commissioned by them. Government and its data gathering agencies like CSO or NSSO or Census provide easy access to data to them for expert analysis and comparison with experience in other countries. This has improved greatly for researchers in India. But there is little demand (i.e. funding) for such work. Research in such matters is now determined by supply of funds only when the concerns of research may be more academic in nature whose benefits are not immediately visible. In any case they are questioned and contested by other researchers. How to use the findings for policy making depends on the users. Unfortunately there is not much appreciation or understanding about the nature and use of social research by policy makers except in a few select institutions like RBI or ICRIER and a few others of this type. State level studies are more, not less important now that the states are required to play a more active and constructive role in policy making. One size fits all is no longer necessary. Nor is it desirable.

At the state level, besides local data analysis that is available or can be collected through survey methodology, there is need for a deeper understanding of local environment, culture and history. This is particularly so when dealing with issues like child marriage or child vaccination and nutrition practices or management of local resources in a fragile environment. In this context, neglect of social science teaching and research, inadequate attention to new techniques available in data science and lack of jobs in the government that could absorb persons with such skills, it appears that the structure of teaching and research with an understanding of socio-economic issues makes it difficult to come to a firm conclusion about the outcome of government schemes in social sectors. Either there are adulatory statements or declarations on public for about how much money is being allocated or spent, number of beneficiaries etc. On the negative side there are negative press reports of such matters like child marriages, harassment of women, school drop-outs, bad roads and breakdown of law and order. Official statements are of a political nature and talk about successes, money spent or legacy issues trying to apportion blame to past mistakes.

State level research institutions are neither funded adequately nor are they governed efficiently. They get some resources from the Centre and /or state governments, but these are inadequate. They do get research grants from agencies like UNICEF or UNDP or from the State government but the bidding procedures of assigning such work to them disqualifies them *ab initio* as they are unable to fulfill minimum requirements of 'turnover' of business or of staff and infrastructure. International or a few high powered consultancy agencies are awarded contracts and get grants in the mode of contractor. However, objectivity or diversity of views is missing from such sponsored studies except in areas where technical expertise is required.

Rajasthan has been the ground where NREGA originated, RTI and Minimum Wage legislation for all public works, identification of gaps in child budgets, poverty studies, Social Inputs in Area Development, and many more evaluation studies of government programmes were done in which relatively firm conclusions about the programme and changes were suggested.

Private sector funding has also been raised by institutions. For example, the Tata Foundation, Wipro, Dalmias, Mahindra and Mahindra are few of such examples. However raising funds through the CSR route for research is a very difficult task and requires a basic infrastructure and staff and expertise in fund raising. Furthermore, examples of wrong doing in approving a project and releasing money have also come to light. Where there is understanding of the need for research and financial support is provided, the PPP mode has been able to do well. Three examples may be cited. One is the analysis of PRATHAM, an NGO researching school education. The second is Water Management Studies supported by international and national bodies. Third is a UNICEF and State Government innovative project to deal with the problem of Severe Malnutrition among children named POSHAN.

We conclude the study by stating that fiscal trends do not fully show the many positive developments that have taken place in the state over many years. Deficits and debt are important in the context of fiscal policy. They influence the development strategies and the outcomes in future years. Dealing with fiscal stress can become a major challenge for development policy. At the same time we hope that the study would be useful for the Commission's work. And more important, that some suggestions about provision of public services will be accepted.

CHAPTER I

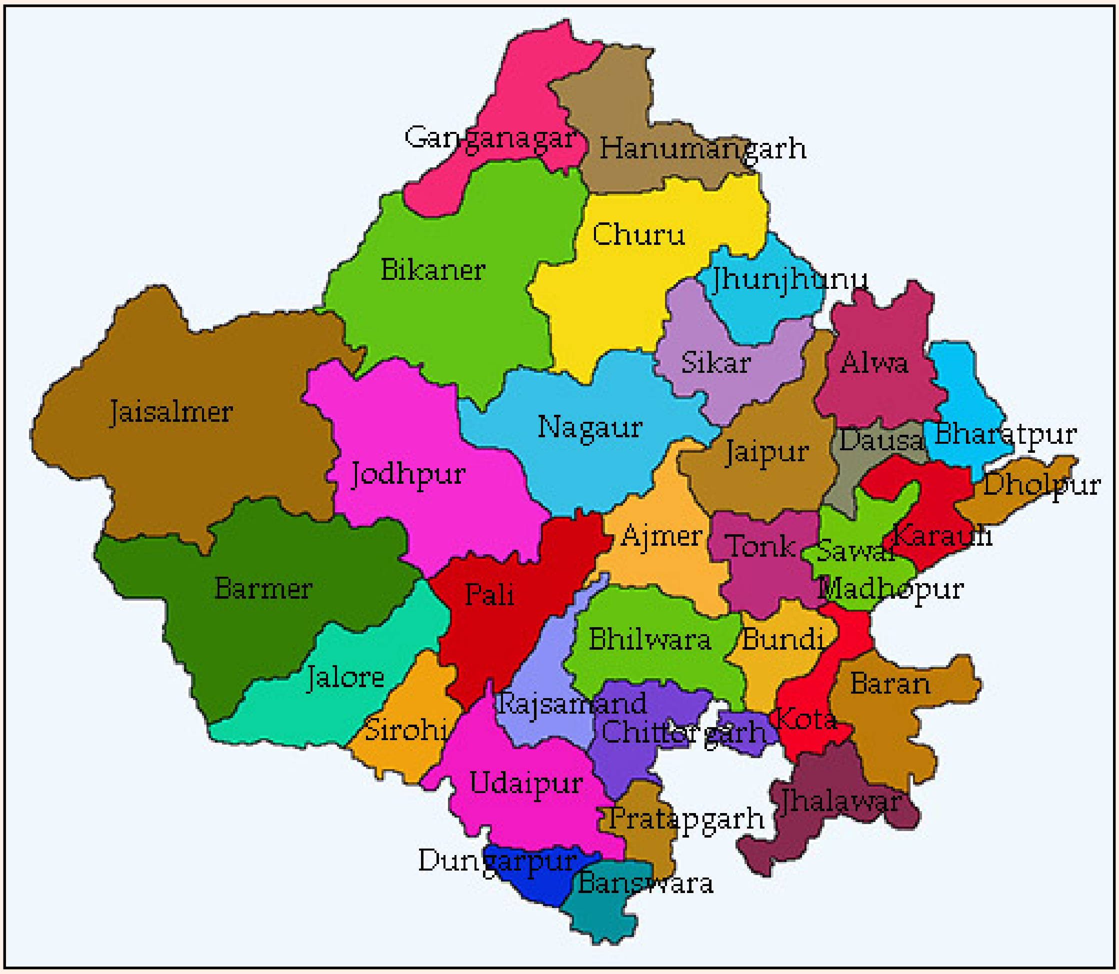
INTRODUCTION

1.1 Introduction

1. Rajasthan has a geographical area of 34.3 million hectare and supports a population of 68.5 million human and 54.6 million livestock. Over 60 per cent of Rajasthan's geographical area is arid and the remaining is semi Rajasthan -arid and is characterized by recurrent droughts. Rural urban distribution of population is 75:25. Rural areas comprise 37889 villages and 56057 habitations. Urban settlements number 222, although the number of cities with relatively large urban agglomeration is few. Despite expansion of canal irrigation from Indira Gandhi Canal in west Rajasthan and from Chambal Mahi river systems in south Rajasthan as well as growth of ground water exploitation the state suffers from chronic water scarcity. Quantity and duration of rainfall is uncertain. Uneven distribution of rainfall and relative lack of perennial rivers results in water scarcity for drinking, irrigation and non-agricultural uses. This influences intra-regional regional disparities in social and economic development. Implication of this skewed distribution of rainfall is the need for creating and maintaining water storage capacity in lakes and tanks to maintain supply during summer months. High frequency of droughts is another feature that affects both state revenues as well as pressure on expenditure on drought relief measures. Available data shows that between 1901 and 2003 i.e. over 102 years there were only 9 years when no district or village was affected by drought. This is a serious challenge for the government as well as for people. At the same time, population of the State has grown faster than in the rest of India although the rate has slowed down in 2011 from 2.56 in 2001 to less than 2.00 now.

2. Population growth even with a slower rate of growth resulting from improvement in education of girls, higher average age at marriage and better health infrastructure resulting in lower IMR and MMR will continue for some more time in future. Migration out of the state has slowed down and in- migration is being recorded. This will increase demand for and water. Competition over limited supplies of water for various uses in agriculture, urban and industrial supply, recreation, wildlife, human consumption and maintenance of environmental quality is becoming more intense. Local farm economies face massive shortfalls of irrigation water endangering even the meager subsistence that they obtain from cultivation. Migration to urban or peri-urban areas is putting increasing pressure on urban services and facilities. Rajasthan is an attractive destination for Indian and foreign tourists. Better air and rail

connectivity and location of religious centres like Pushkar and Dargah in Ajmer, wild life sanctuaries and history provides many attractions for tourists. Some export sectors such as garments, gems and jewellery and craft products are important foreign exchange earners for the country. Industrial growth has been relatively slow but is picking up as infrastructure develops. Scarcity of water and frequent droughts continue to remain problems for the state. In the social sector, education especially of girls has improved as have public health indicators. Besides development of infrastructure in power, tele-communication and upgrading available facilities, social sector and human development are likely to continue to be focus areas in future. The western border with Pakistan and development of infrastructure for defense and security is another challenge for the state administration.



Map of Rajasthan

1.2 Objectives

3. The broad objective of the study is to provide an analysis of the State Finances over a period of 10 years starting from 1st April, 2006.

Specifically, the ToR states that the study should include (and may not be restricted to) the following:

i. Estimation of revenue capacities of State and measures to improve the tax-GDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.

ii. Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

iii. Expenditure pattern and trends separately for Revenue and Capital, and major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.

iv. Analysis of Deficits – Fiscal and Revenue.

v. The level of Debt: GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc.

vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.

vii. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.

viii. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

ix. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.

x. Analysis of contingent liabilities of the State.

xi. Subsidies given by the States (Other than Central subsidies), its targeting and evaluation.

xii. Outcome Evaluation of State Finances in the context of recommendations of the 14th Finance Commission.

xiii. Determination of a sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

The evaluation study is expected to critically analyze the overall States' finances over the ten-year period with reference to above.

1.3 Recommendations of the XIV Finance Commission

4. The major recommendations of the XIV Finance Commission that have a major impact on the state finances are:

i. An increase in the share of taxes to be distributed among states increased from 32% to 42 %.

ii. Weights assigned for distribution were changed as follows:

Population 1971 Census	17.5%
Demographic Change	10.0 %
Income distance	50.0 %
Area	15.0 %
Forest cover	7.5 %

Rajasthan was assigned a share of 5.495 % of total shareable tax pool and a 5.467% share of service tax that was assigned only to those states that were levying service tax before 2014-15

iii. Fiscal deficit was to be aimed at 3% of GSDP with conditional limited flexibility of 0.25% above the limit.

iv. Additional borrowing up to 0.25% of GSDP could be undertaken if interest payments are less than 10% of their revenue receipts in the previous year.

v. Compensation for shortfall in receipts as a result of GST would be for 5 years – 100% for first three years; 75% for fourth year and 50% for the fifth year.

vi. Amendments to FRBM Act are recommended. Amendments to be made to incorporate flexible limits on fiscal deficit and provide statutory ceiling on the sanction of new capital works are recommended.

vii. Debt ceiling ratio has to be determined on the basis of 3 year average of GSDP. NSSF debt taken prior to 2015 would have to be discharged by the State and the interest burden was to taken over by the Union Government.

viii. For managing and improving the efficiency of public expenditure, analysis of outcomes is important. Earlier it was suggested that there should be an outcome budget analysis for the entire budget. This did not materialize but outcome budgets for specific sectors such as education, health, children and gender outcomes are available in official documents. The general recommendation of the Commission is that the accountability for outcomes should be for the sector/department incurring the expenditure.

ix. The Commission has made far reaching recommendations that have to be adopted by the State government. Recommendations for the non-tax sector are particularly relevant for Rajasthan. These pertain to a. state public enterprises; and b. Cost recovery arrangements to be made for irrigation, drinking water and services provided by the government.

x. State enterprises should give a return of at least 8% per annum on capital invested as this rate represents the cost of borrowing capital that can be taken as the opportunity cost of capital. Further state enterprises should be prioritized as i) priority or ii) non-priority. Disinvestment in a transparent manner that is conducive to the market valuations of capital invested should be the mechanism for disinvestment. State should relinquish its share in the non-priority enterprises in a phased manner.

xi. The Commission recommended that a Water Regulatory Authority for fixing water rates to cover O&M costs be set up. Cost for irrigation that is currently based on crop area should also consider, besides O&M costs, the benefits from irrigation. The aim should be volumetric pricing both for irrigation as well as for drinking water including water supply for public use. The move towards metering for drinking water is to be completed by March 2017.

xii. Subsidies given by the state government for public utilities must be transparent. Suitable institutional mechanisms to achieve the above results have to be created.

1.4 Methodology

5. The study is primarily based on the documents of the Finance Department of the Government of Rajasthan. RBI's Study of State Finances for 2015-16 was used extensively to provide especially, a benchmark for fiscal variables. Government of Rajasthan documents

that have been used extensively are Annual Budgets presented to the Legislature and Economic Review published annually by the Directorate of Economics and Statistics of the State Government. Currently the Economic Review is available only up to 2016-17. For 2017-18, the Budget document of 2018-19 has been used. This means that for the last two years, Revised Estimates (RE) for 2017-18 and Budget Estimates (BE) for 2018-19 were incorporated wherever classification used by the earlier budgets were consistent. Basically, the study analyses trends and composition of fiscal variables. Data from 2004-05 to 2018-19 BE was compiled to get a consistent series. Results obtained were compared with data compiled by earlier studies and current studies of NCAER and NIPFP and IDS studies.(See List of References) Although by and large our compiled series was consistent with other studies that have used government data but because of revisions not explicitly mentioned in the newer reports. Numbers downloaded earlier have to be corrected and conclusions redrawn. Explanations of some categories are not specified except in general definition terms. Examples are non-debt capital receipts and remittances in the table about capital receipts. (Appendix III in RBI Report 2016-17. Remittances are shown in identical amounts on the Revenue (Appendix III) side as well as on the Capital Expenditure side in Appendix IV. The amounts exceed Rs 1 lakh crore on both sides). Classification of revenues and expenditures follows the standard practice of the RBI but without some of adjustments made by the RBI as our access to data was limited to the Finance Department data and reports. However a caveat is in order. This is that the series of main results have been revised many times during the [period covered by us. In effect, tabulation and analysis had to consider not only budget estimates BE revised estimates RE and final Accounts. The official revisions are made generally for three years (previous two years BE and RE and current year BE). Earlier year data get revised by the DES or the Planning Department of the Government after a considerable time lag. This is particularly the case with GSDP numbers that change results for the entire series. For GSDP numbers data is taken from Economic Review 2017-18 page 200. The Table is appended. As a result, comparability of results with earlier studies is affected. It is now a standard practice to use the GSDP numbers to derive ratios for most fiscal parameters. This is considered necessary for comparability across states and over time. However, even a small change in the ratio may mean a large change in the absolute amounts. We have therefore annexed the absolute number tables with each chapter. In this context if future estimates are required, we have also considered the last five year data to study changes that may have taken place or are in the process of implementation. UDAY, GST and capital expenditure in the PPP mode are examples of this. The last five years have seen the following changes:

i. Implementation of the XIV Finance Commission,

ii. Replacing the Planning Commission framework with Niti Aayog,

iii. Change in the pattern of funding for centrally sponsored schemes (CSS),
iv. Removal of plan and non-plan categories in financial accounts,
v. Introduction of UJWAL or the UDAY Yojana for the power sector and its incorporation in the budget as ‘with UDA’ and ‘without UDAY’ categories in state budget financial statements.
vi. Introduction of many new welfare schemes by te Centre and the State Government.
vii. Change in approach and strategies of economic policies.

Two elections of Parliament and state legislature with the third one of state legislature is less than three months away. Elections of other state assemblies (Bihar, UP, Karnataka in particular) also influences state policies.

6. Review of secondary research and analysis was undertaken before the statistical analysis. Following resources were particularly useful for the work for this Report. The following has been used extensively and quoted in our analysis:
   1. NCAER Forum 2018. Article by Neelhkanth Misra and Prateek Singh
   2. NIPFP Working Paper 211 by Chakraborty et al.
   3. PRS study of State Finances by Aravind Gayam and Vatsala Khullar, Oct. 2016. Prs website prs India.org/Report.
   4. Economic and Political Weekly, March 2018, Challenges Before the XV Finance Commission, Article by V Bhaskar
   5. NIPFP, Restructuring State and Local Finances. By Indira Rajaraman, OP Mathur and D. Majumdar, August 2005
   6. The latest CAG Report on State Finances 2015-16 provided many insights into the working of the financial transactions of the government.
7. Besides the change in the Union government combined with implementation of the XIV Finance Commission recommendations were factors that had major implications for state budgets in general and in Rajasthan in particular. Following changes during the last five years finances are noteworthy:
   i. Removal of central funding for the Central Sponsored Schemes (CSS).
   ii. Removal of plan-non-plan distinction in revenue and expenditure categories.
   iii. Change in the distribution of funds that were earlier going directly to local bodies to be made directly in the Consolidated Fund of the State.
   iv. Introduction of the UJJWAL or the UDAY scheme for the power sector and its incorporation in the budget as ‘With UDAY’ and ‘Without UDAY’ requires several adjustments in trend analysis.

Annexure 1.1: Key Indicators of the State vis-à-vis India

Indicators	Year	Unit	Rajasthan	India
Geographical Area	2011	Lakh Sq. Km.	3.42	32.87
Population	2011	In crore	6.85	121.06
Decadal Growth	2001-2011	Percentage	21.3	17.7
Population Density	2011	Per Sq. Km.	200	382
Urban Population to total Population	2011	Percentage	24.9	31.1
SC Population to total Population	2011	Percentage	17.8	16.6
ST Population to total Population	2011	Percentage	13.5	8.6
Sex Ratio	2011	Female Per'000Male	928	943
Child Sex Ratio (0-6 year)	2011	Female Children Per'000 Male	888	919
Literacy Rate	2011	Percentage	66.1	73
Literacy Rate (Male)	2011	Percentage	79.2	8.9
Literacy Rate (Female)	2011	Percentage	52.1	64.6
Work Participation Ratio	2016*	Percentage	43.6	39.8
Birth Rate	2016*	Per 1,000 Population	24.3	20.4
Death Rate	2016*	Per 1,000 Population	6.1	6.4
Infant Mortality Rate	2016*	Per 1,000 Live Birth	41	34
Maternal l Mortality Rate	2011-13*	Per Lakh Live Birth	244	167
Expectation of Life at Birth	2011-15*	Year	67.9	68.3
Gross Domestic Product at constant prices (base year 2011-12) (A)	2017-18 AE	Rs. in crore	641940	8736039
Per-capita income at constant prices (base year 2011-2012) (A)	2017-18 AE	Rs.	76146	NA
Road Length per 100 Sq. Km. of Area	March,2011	Km.	71	115
Railway Route Length per 1000 Sq Km. of Area	March,2011	Km.	16.9	19.61
Percentage of Forest Area to Reporting Area	2008-09	Percentage	7.96	22.8

Source: Economic Review 2017-18, Government of Rajasthan

Terms of Reference of the XV Finance Commission

Terms of Reference of XV Finance Commission

- To look at the conditions that may be imposed by the Central government while providing consent to States when they borrow under Article 293(3).
- To propose measurable performance-based incentives to States in respect of a number of areas such as the implementation of flagship schemes, progress towards replacement rate of population growth, a control or lack of it in incurring expenditure on populist measures
- Promoting ease of doing business

These terms of reference have raised some questions. Some have raised questions of constitutional propriety. An article from the Hindu that summarized these issues is reproduced below. Our Report has not gone into these issues as these are beyond the brief given in our ToR.

i. Term of reference which asks to examine whether revenue deficit grants be provided at all, questions the very objective of Article 275 which enables the Commission to give grants to offset post-devolution gaps between normatively assessed revenues and expenditures.

ii. The ToR seek to reduce the role of Article 275, which is a legitimate channel for grants, and asks the Commission to leave it more fiscal space to expand grants under Article 282, which is questionable.

iii. Asking the Commission to take into account the performances in implementation of various Central schemes is equally contentious. Performances must be built into the implementation of schemes and not into the tax devolution formula.

CHAPTER II

REVENUE RECEIPTS

2.1 Analysis of Revenue Receipts from 2004-15 to 2018-19

8. This Chapter provides In Tables 2.1, 2.2, 2.3 and 2.4. statistical tabulation of revenue receipts, their growth over time and their composition from 2004-05 to 2016-17. Main results /findings are summarized as brief points below Table 2.3. Revenue receipts including non-debt capital has doubled from Rs 17888 crores in 2004-05 to Rs 35385 crores in 2009 -10. This implies a compound growth rate of 14% per annum. Between 2009-10 and 2015-16 the rate of growth is even higher, recording approximately 300 % increase in 6 years. Revenue receipts increase from Rs 35385 crore in 2009-10 to 2014to Rs 100285 crore in 2015-16. Components that show increase are a) growth in non debt capital receipts and b) the policy driven changes in grants in aid. The share of non-debt capital receipts increased from 0.72 to 2.14 % within one year in 2011-12 and earlier in 2007-08 These receipts are relatively small amounts that result from accounting adjustments made in the capital receipts as well as in capital expenditure accounts and include loan repayment. In today's language it would not be wrong to call these receipts as 'bail out' for the state by adjustments (rescheduling or part write offs) of state government borrowings from the central government for plan development or for drought relief and famine relief works[1].

9. Until the XIV Finance Commission award, the state received, apart from grants for the state Plans, revenue deficit grants in addition to ad hoc grants from the Finance Ministry under Article 275. Drought relief and famine relief works had to be financed. State borrowing during these years was high. From the point of view of state finances, revenue expenditure on such rural works constituted a significant share in total revenue expenditure necessitating excessive borrowing. State Five year and Annual plans were also financed largely by borrowing in one form or another. Debt overhang situation is seen in 2006-17. Grants constituted as much as about 30% of revenue receipts in 2006-07 and 2007-08. The share went up again after five years in 2011-12. It appears again in the form of the UDAY scheme for the State DISCOMS. Seventy five per cent of the accumulated debt of Rs 80,000 crores

1The need for works that were initially meant for providing purchasing power to rural workers in distress because of crop and/or monsoon failure, Over time it became necessary that for more sustainable drought relief, productive assets for the rural community should also be created. This required execution capability at the local level as well as higher cost for material inputs for construction of durable assets however minor they were. It also meant hiring of contractors. Despite the misuse, wastage and corruption often reported in evaluation studies particularly of famine relief works, the outcome for the state has been a continuous increase in revenue expenditure and borrowing. By hindsight, this appears to be wasteful not because it was not needed but because of poor planning and/or execution of such works. Now such works are implemented under MGNREGA or other rural employment schemes. Implementation and planning of these schemes is now much improved on account of awareness among workers (RTI and NGO activism) and practical guidelines issued by the Central Ministry of Rural Development.

has been passed on to the state government in two years -2015-16 and 2016-17. Debt situation and the UDAY scheme is discussed in detail in Chapters IV and V. Again in 2014-15, the pattern of funding of CSS was changed and funds that were routed directly to the Panchayati Raj Institutions were received as grants in the Consolidated Fund of the State. The shares of every other component change as an adjustment to the changed pattern of funds received from the Central Government.

Table 2.1: Revenue Receipts **(Rs Crore.)**

Years	Total Revenue Receipts	Own Tax Revenue	Share in Central Taxes	Non-Tax Revenue	Grants-in aid
2004-05	17764	8415	4305	2146	2897
2005-06	20839	9880	5300	2738	2921
2006-07	25592	11609	6760	3431	3793
2007-08	30781	13275	8527	4054	4924
2008-09	33469	14943	8999	3888	5638
2009-10	35385	16414	9258	4558	5154
2010-11	45928	20759	12855	6294	6020
2011-12	57011	25377	14977	9175	7482
2012-13	66913	30503	17102	12134	7174
2013-14	74470	33478	18673	13575	8744
2014-15	91327	38673	19817	13229	19607
2015-16	100285	42713	27916	10928	18728
2016-17	109026	44372	33556	11616	19483
2017-18 RE	134693	51817	37028	16659	29189

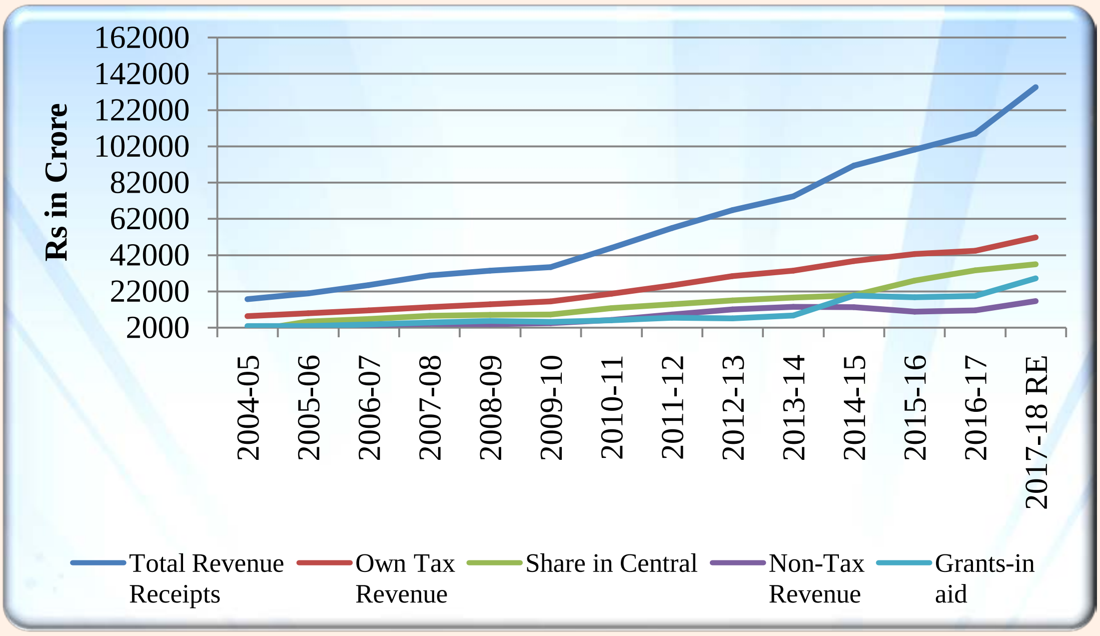


Figure 1: Growth in Total Revenue Receipts 2004-05 to 2018-19

Table 2.2: Revenue Receipts as percentage of GSDP **(Percentages)**

Years	Total Receipts (With UDAY)	Total Receipts (Without UDAY)	Revenue Receipts	Own Tax Revenue	Non Tax Revenue	Grants in Aid	Share in Central Taxes	GSDP
2004-05		23.95	13.91	9.96	1.68	2.27	3.37	127746
2005-06		19.28	14.65	10.67	1.92	2.05	3.73	142236
2006-07		18.78	14.96	10.74	2.01	2.22	3.95	171043
2007-08		18.94	15.80	11.19	2.08	2.53	4.38	194822
2008-09		18.91	14.49	10.37	1.68	2.44	3.90	230949
2009-10		18.26	13.31	9.66	1.71	1.94	3.48	265825
2010-11		16.03	13.57	9.93	1.86	1.78	3.80	338348
2011-12		15.05	13.11	9.28	2.11	1.72	3.44	434837
2012-13	16.45	16.45	13.56	9.65	2.46	1.45	3.47	493551
2013-14	17.09	17.09	13.51	9.46	2.46	1.59	3.39	551031
2014-15	18.94	18.94	14.83	6.28	2.15	3.18	3.22	615695
2015-16	24.90	19.04	14.67	6.25	1.60	2.74	4.08	683758
2016-17	21.29	18.34	14.36	5.84	1.53	2.57	4.42	759235
2017-18 RE	23.03	21.22	16.27	6.26	2.01	3.53	4.47	827648

Note: GSDP numbers are taken from GoR document, Economic Review 2017-18 page 200. Numbers from FY 05 to FY 11 are based upon the 2004-05 series and numbers from FY 12 to FY 18 are based on 2011-12 series and are revised estimates. This needs to be remembered as the ratios to GSDP for various variables get altered if the series used is not revised for the entire period as is the case if a consistent trend series for the entire period has to be derived. This Report uses GSDP numbers shown in Table 2.2. 2017-18 numbers have not been considered in analysis. See note on the State Budget 2018-19 in Methodology discussed in Chapter 1.

10. Table 2.2 shows components of revenue as a percent of GSDP. Revenue receipts show an increase from around 13% of GSDP to a little over 14% after 2014-15. However the share of own taxes in GSDP has declined from above 9 per cent preceding 2014-15 to a little over 6 per cent after 2014-15. Non tax revenues from the mining sector and from petroleum royalties went up significantly. This could have led to complacency on the tax front. The election year political economy considerations must have played a part. Share of central taxes in revenue receipts has gone up from 3.5 % to around 4.5 % although the state’s share in total tax devolved to the non special category states remains between 5 to 6 per cent after the XIV Commission award. GSDP ratios show small year to year changes but the striking conclusion is that the overall structure has changed with respect to share in union grants and share in central taxes, both having gone up from less than 2% of GSDP before 2013-14 to approximately 2% in case of grants and to above 4 % in share of central taxes during the same period.

2.2 Composition and Growth of Own Revenues

11. Composition of revenue receipts is shown in Table 2.3 and annual growth rates of revenue receipts are shown in Table 2.4. Share of own taxes in revenue receipts has varied between 40% to 45% until 2013-14. After this the share records a consistent decline. The share of central taxes also first declines in 2015-16 and then increases significantly to almost 31% in 2016-17 but grants remain less than 20% of revenue during the next two years. Share of non-tax revenue increases until 2014-15 and then begins to decline to less than 11 % in 2016-17. For this reason the RE and BE of more than doubling the share of non tax revenue in total is questionable.

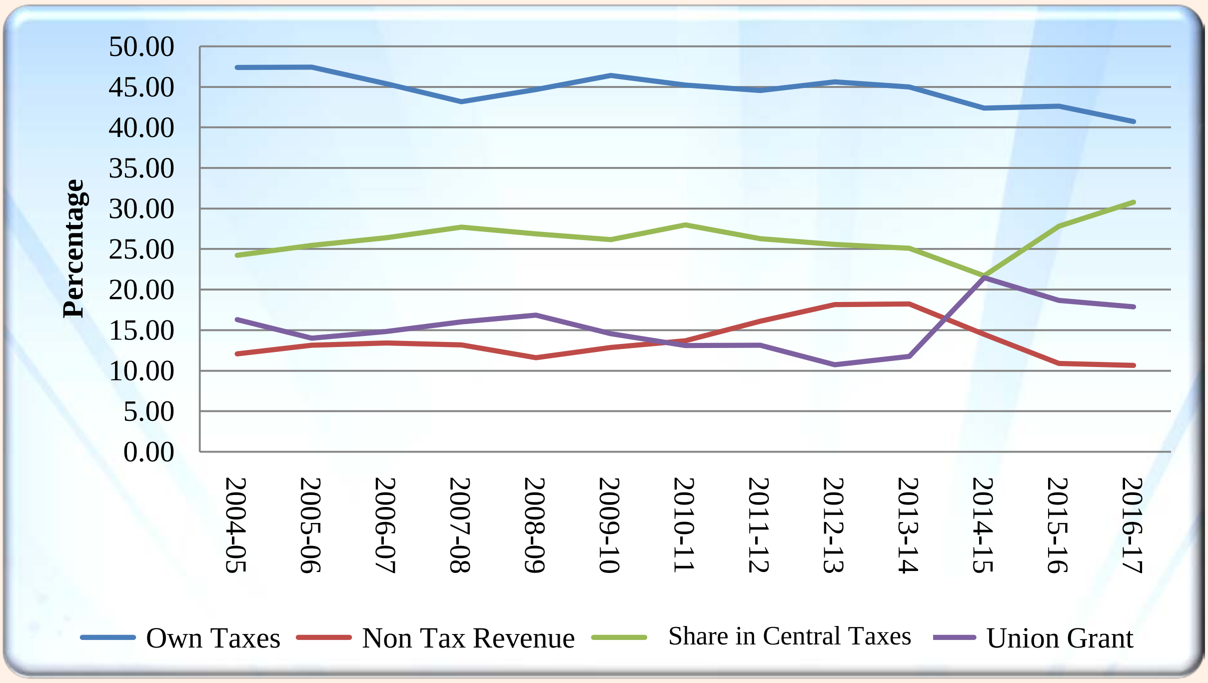


Figure 2: Composition of Revenue Receipts 2004 to 2016

Table 2.3: Composition of Revenue Receipts (Percent)

Years	Revenue Receipts (%)	Percent Share in Revenue Receipt: Own Taxes	Non Tax Revenue	Share in Central Taxes	Union Grant	Non Debt Capital Receipts (%)	Revenue Receipt + Non-debt Capital (Rs. Crore)
2004-05	99.30	47.37	12.08	24.24	16.31	0.70	17888
2005-06	98.87	47.41	13.14	25.43	14.02	1.13	21077
2006-07	98.03	45.36	13.41	26.41	14.82	1.97	26106
2007-08	94.53	43.13	13.17	27.71	16.00	5.47	32563
2008-09	99.72	44.65	11.62	26.89	16.85	0.28	33562
2009-10	99.66	46.39	12.88	26.16	14.57	0.34	35506
2010-11	99.28	45.20	13.70	27.99	13.11	0.72	46260
2011-12	97.86	44.51	16.09	26.27	13.12	2.14	58256

2012-13	98.37	45.59	18.13	25.56	10.72	1.63	68022
2013-14	99.56	44.95	18.23	25.07	11.74	0.44	74797
2014-15	98.90	42.35	14.49	21.70	21.47	0	92346
2015-16	98.55	42.59	10.90	27.84	18.67	1.45	101757
2016-17	98.43	40.70	10.65	30.78	17.87	1.57	110767
2017-8(RE)	NA	38.47	27.49	12.37	21.67	NA	134692
2018-19 (BE)	NA	38.31	28.56	13.45	19.69	NA	151663

12. Share of own taxes in revenue receipts have varied between 40% to 45% until 2013-14. After this the share records a consistent decline. The share of central taxes also first declines in 2015-16 and then increases significantly to almost 31% in 2016-17 but grants remain less than 20% of revenue during the next two years. Share of non-tax revenue increases until 2014-15 and then begins to decline to less than 11 % in 2016-17. For this reason the RE and BE of more than doubling the share of non tax revenue in total is questionable.

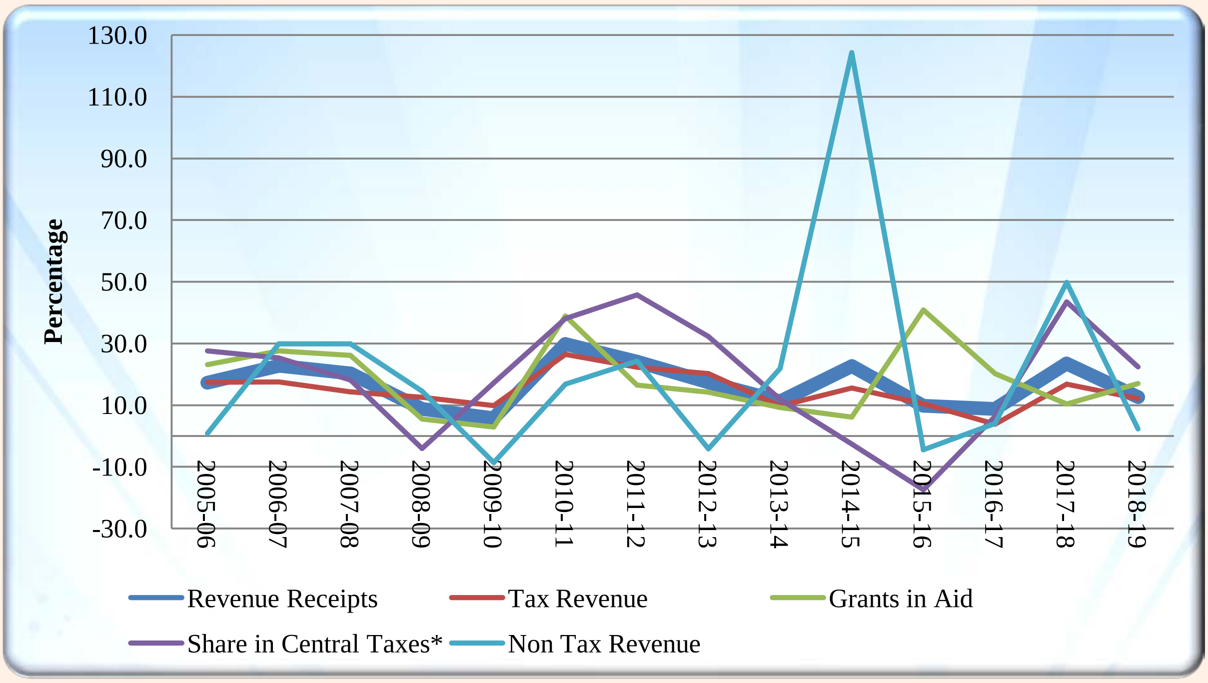


Figure 3: Annual Growth Rates of Revenue Receipts 2005-06 to 2018-19

i. From 2009 to 2013-14 the doubling time has reduced to about four years implying an average compound growth rate of over 17 per cent per annum. After this, next 3 years record a slower growth that falls to less than 4 per cent in 2016-17. As pointed out earlier estimates for the next two years have not been considered

ii. In fact growth of all major components of state's own revenue including non tax revenue shows a fall in growth rate between 2013-14 and 2014-15 with the sharpest decline in growth of non tax revenue.(Table 2.4)

iii. Annual growth in share of central taxes increases until 2013-14 but declines sharply from 14.5 % in 2014-15 (and above 16% before it) to 10.9 and 10.6% in the next two years. Reason could be that there were two budgets before and after the state election results.

iv. Variability in central grants is the outcome of policy and the result of recommendations of Finance Commission. Barring 2008-09, growth rate of non-tax revenue including grants was the highest among all revenue receipt categories until 2012-13. Grants have been shown in Table 2.4 but in financial accounts of RBI as well as of the State Finance Department they are treated as part of non tax revenue. Therefore discussion is included in the section on non tax revenue (Section 2.6)

v. In view of the annual variations in tax revenues, Table 2.5 shows the average receipts from individual taxes for 5 years

Table 2.4: Annual Growth Rates of Revenue Receipts **(Percent)**

Years	Total Revenue Receipts	Own Tax Revenue	Share in Central Taxes	Non-Tax Revenue	Grants-in aid
2004-05	NA	NA	NA	NA	NA
2005-06	17.3	17.4	23.1	27.6	0.8
2006-07	22.8	17.5	27.6	25.3	29.8
2007-08	20.3	14.4	26.1	18.2	29.8
2008-09	8.7	12.6	5.5	-4.1	14.5
2009-10	5.7	9.8	2.9	17.2	-8.6
2010-11	29.8	26.5	38.9	38.1	16.8
2011-12	24.1	22.3	16.5	45.8	24.3
2012-13	17.4	20.2	14.2	32.2	-4.1
2013-14	11.3	9.8	9.2	11.9	21.9
2014-15	22.6	15.5	6.1	-2.5	124.2
2015-16	9.8	10.4	40.9	-17.4	-4.5
2016-17	8.7	3.9	20.2	6.3	4.0
2017-18 RE	23.5	16.8	10.3	43.4	49.8
2018-19 BE	12.6	12.1	17.0	22.4	2.3

2.3 State's Own Taxes

13. In view of the annual variations in tax revenues, Table 2.5 shows the average receipts from individual taxes for 5 years as the absolute numbers could be useful for generating a scenario for the future. For this reason the RE of 2017-18 and BE of 2018-19 has been considered even though the credibility of these numbers is doubtful at this point.

Table 2.5: Average Annual Receipts from State Taxes 2014-15 to 2018-19 (Rs. Crore)

Total State Tax Revenue	**50293**
State Goods and Services Tax	15900
Land Revenue	406
Stamps & Registration Fee	4039
State Excise	7446
Sales Tax	27290
Taxes on Vehicles	3810
Taxes on Goods & Passengers	957
Taxes & Duties on Electricity	2025
Other Tax on Income & Expenditure	1
Taxes on Goods & Services	114
Tax on immovable property	7
Tax on Agriculture Income	0
Service Tax	0
Other Taxes	0
Total Centre and State Tax Revenue	78772

Table 2.6: Composition of Own Tax Receipts: 2004 to 2018-19 (Per cent)

Years	Total State Tax Revenue (Rs. Crore)	Land Revenue	Stamps & Registration Fee	State Excise	Sales Tax	Taxes on Vehicles	Taxes & Duties on Electricity	Other Taxes	State Goods and Services Tax*
2004-05	8414.8	0.8	9.7	15.2	57.0	9.7	5.3	2.3	0.0
2005-06	9880.2	0.9	10.4	15.4	56.6	9.2	4.8	2.7	0.0
2006-07	11608.2	1.0	11.1	13.7	57.9	8.8	4.4	3.0	0.0
2007-08	13274.7	1.2	11.6	13.6	58.4	8.8	4.4	2.0	0.0
2008-09	14943.5	1.1	9.1	14.5	59.6	8.1	4.4	3.2	0.0
2009-10	16414.3	0.9	8.3	14.0	61.9	8.4	4.3	2.2	0.0
2010-11	20758.1	1.1	9.4	13.8	60.8	7.8	4.4	2.8	0.0
2011-12	25377.1	0.8	10.4	13.0	62.1	7.6	4.3	1.7	0.0
2012-13	30502.7	1.0	10.9	13.1	60.9	7.5	5.1	1.5	0.0
2013-14	33477.7	1.0	9.3	14.9	63.4	7.5	2.8	1.1	0.0
2014-15	38672.9	0.7	8.2	14.4	62.5	7.3	4.0	2.8	0.0
2015-16	42712.9	0.6	7.6	15.7	61.7	7.5	4.5	2.4	0.0
2016-17	44371.7	0.7	6.9	15.9	64.4	8.2	1.7	2.3	0.0
2017-18 RE	51816.7	1.1	7.8	15.1	37.6	8.3	6.8	0.8	22.6
2018-19 BE	58099.1	1.0	7.3	16.0	26.9	8.4	4.2	0.0	36.1

**For 2016-17 the State Goods and Services tax on a value added basis is shown separately. VAT tax introduced in 2006 is shown as part of Sales Tax for earlier years. Roughly about 60 per cent of VAT is on petrol and other products that are not subsumed in GST with effect from 2017-18.*

Table 2.7: Share of own taxes in total State and Central taxes.

Years	Total Tax Revenue (Rs. Crore)	Own Tax Revenue	Share in Central Taxes	Share of Own Taxes in Total Tax Receipts (%)	Share in Total Revenue (%)
2004-05	12720	8415	4305	66.16	59.45
2005-06	15180	9880	5300	65.09	60.55
2006-07	18369	11609	6760	63.20	58.76
2007-08	21802	13275	8527	60.89	56.30
2008-09	23942	14943	8999	62.41	56.27
2009-10	25672	16414	9258	63.94	59.27
2010-11	33614	20759	12855	61.76	58.90
2011-12	40354	25377	14977	62.89	60.61
2012-13	47605	30503	17102	64.08	63.72
2013-14	52151	33478	18673	64.19	63.18
2014-15	58490	38673	19817	66.12	56.83
2015-16	70629	42713	27916	60.48	53.49
2016-17	77928	44372	33556	56.94	51.35
2017-18 RE	88845	51817	37028	58.32	50.84

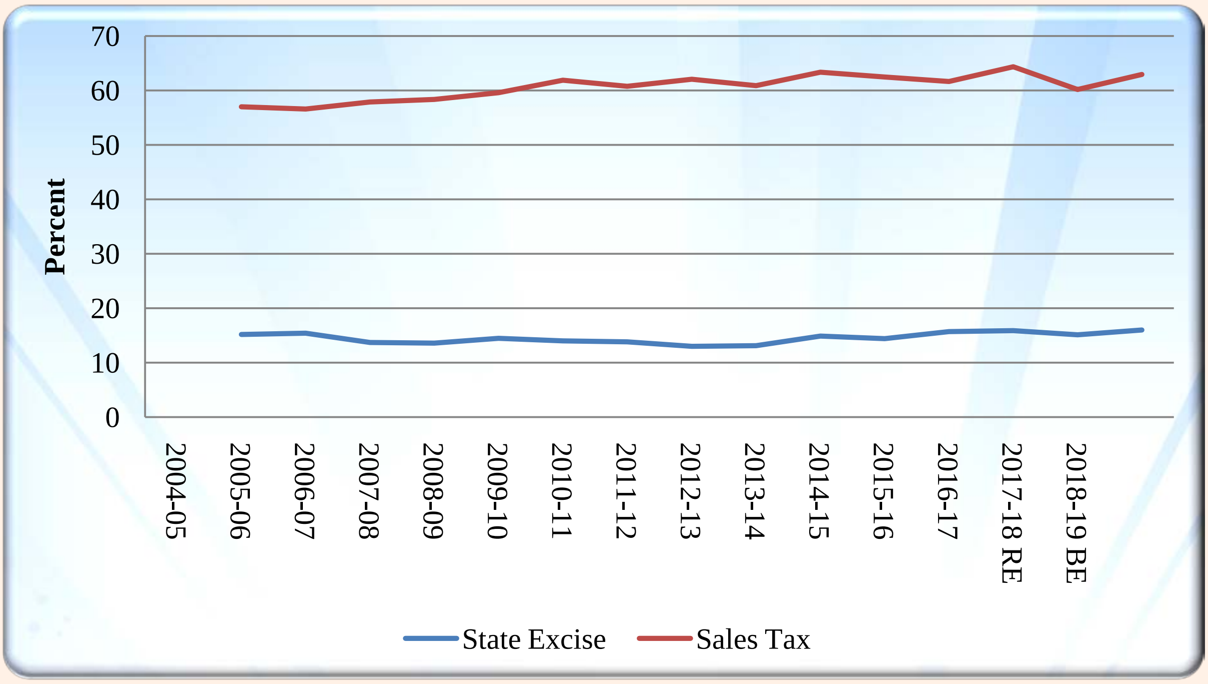


Figure 4: Composition of Own Tax Receipts: 2004-05 to 2018-19

14. Taxes levied by the state are primarily commodity taxes. Sales tax and duty on petrol and alcohol are the two major categories of state commodity taxes. Motor vehicles tax and electricity duty are two other important sources of revenue for the state. Land revenue and property taxes are a relatively small proportion of own taxes. An important component in this category is Stamps and Registration Fee. Table 2.6 and Fig 4 shows the share of individual state taxes in own tax receipts. And share of own taxes in total tax receipts is shown in Table 2.7. It can be seen in this table that the share own taxes in total tax receipts is falling after maintaining significantly above 60 per cent sharebefore 2013-14. Although the share of own taxes in revenues above 50-55% is a positive feature but the decline in the share indicates that there is revenue potential that could be realized. *Growth of State GSDP exceeds the all India level and this has been achieved through growth of the services and construction sectors. Both these sectors have the potential for generating higher revenues for the State. The state has been able to sustain a share of 40% in revenue receipts and around 6% in GSDP. This implies that the tax buoyancy ratio has been maintained above 1.0 altough it is below the buovancy level achieved during the early nineties. This implies an unrealized potential for raising revenues by setting a target for tax buoyancy ratio above 1.5 instead of the current level of just 1.0 or less.*

i. Importance of commodity and service taxes in state revenues is well known. Most states, in general, have avoided levying income and wealth taxes even when such taxes lie within their purview.

ii. Sales tax has constituted between 60 to 65% of state revenues. In the RE of 2017-18, revenue from sales tax and VAT that came into force with effect from 2006 is recorded in two different categories. VAT is also a commodity tax levied on a value added basis on petrol, diesel, tobacco, drugs and commodities not subsumed in the new GST Act. For analysis, the two taxes – sales and VAT- have been taken together although VAT on exempted goods constitutes a little less than thirty per cent of VAT receipts in 2016-17.

iii. Excise taxes and VAT on alcohol, drugs, petrol and commodities not subsumed in the GST Act provide as much as 15 to 16 % of revenue.

iv. The level and the share are important now that the states have to be compensated for the loss in revenue as a consequence of GST. The XIV Finance Commission has recommended 100% compensation for five years. Growth of 14% per annum defined in specific manner to exclude IGST and CGST has been assured to the states at the time of introducing GST in 2017. Together, these two viz sales and excise taxes are currently, 80 percent of state's own tax revenues.

The GST compensation is likely to be on the basis of 65% of state sales tax and 15% of state excise if petroleum and alcohol excise is incorporated in GST as is being discussed currently. On the other hand, revenue from customs may fall if the Re depreciates further and/or if crude oil prices increase further necessitating a reduction in import duties.

The State Budget for 2018-19 expects the share from GST to increase but as the situation is still not clear, no figure is included in the budget estimates. However, the pre GST share of state excise (mainly on petroleum products and drugs, pharmaceutics and alcohol) was 15% of total tax revenues of the State. This may provide a basis for estimation for Rajasthan in addition to a share of 60% revenue from sales tax and state value added tax.

v. The 2018-19 budget expects share of income and corporate taxes to be around 55% of total central share. This implies that the share of GST would have to be at least 25% of central taxes received by Rajasthan.

vi. Stamp duty, motor vehicle tax and electricity duty contribute remaining 20 % of taxes.

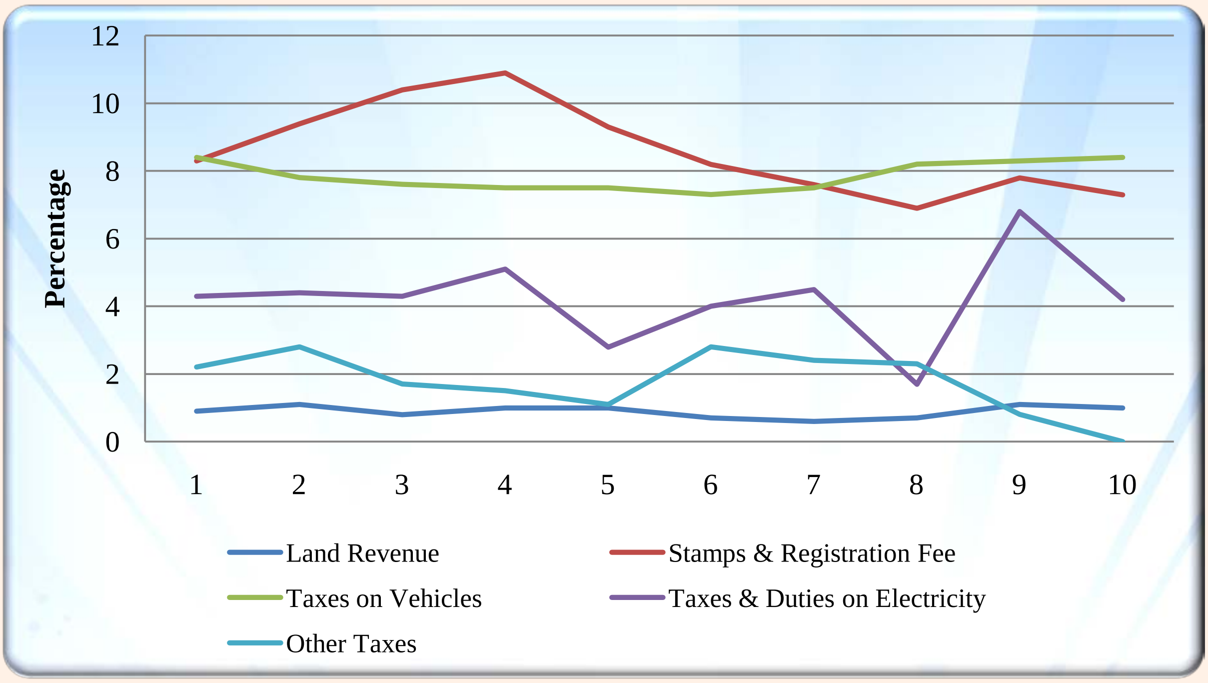


Figure 5: Composition of Non commodity Taxes 2004 to 2018-19

Table 2.8: Revenue from growth sectors- transport, mineral sector and petroleum sectors **(Rs crores)**

Years	Mines*	Petroleum*	Transport**
2003-04	513		
2004-05	645	7	817
2005-06	814	7	908
2006-07	1196	8	1023
2007-08	1226	9	1164
2008-09	1275	8	1213
2009-10	1612	110	1373
2010-11	1929	1630	1612
2011-12	2366	3435	1927
2012-13	2838	5070	2283
2013-14	3088	5953	2498
2014-15	3635	4849	2829
2015-16	3782	2341	3199
2016-17	4233	2331	3622
2017-18 BE	5200	3500	4050
2017-18 RE	4900	2900	4300
2018-19 BE	5800	3500	4900

*Both sectors are non-tax revenue sources, **Motor Vehicle Tax*

Data available for GST for Jaipur shows that the average per month receipts from April to September 2018 have been Rs. 808 crores. This is about seven percent less than the target.

vii. Mineral sector is an important revenue earning sector with prospects of growth in future. The sector earns revenue in the form of royalties and also from profits of the state undertaking-RSMML. However, growth in mining is constrained by environment restrictions on the grant of new leases. Also workers in stone quarries, limestone and other mines suffer from health problems due to damage to lungs from silicosis and dust. Workers also have low wages without social security for themselves or their families. In view of the contribution made by this sector, state government needs to provide labor welfare measures to reduce hardship and distress. Many of the workers are poor and deprived migrants from other states like Gujarat and Madhya Pradesh.

viii. Property taxes can be a growing component of revenue. Such a tax is direct and likely to be made more progressive and more buoyant. Stamp Duty and Registration Fee contributes about 7 to 8 % of own taxes of the state. Its share in total has, at best, remained constant. Stamp Duty on purchase of property that was 5% of purchase value has been reduced to 3 % with effect from March 2017. Registration fee has also been reduced to only 0.25%. Land records have been digitized. Minimum purchase values are set on the basis of rates for different areas set by the Stamps and Registration Department district level committees (DLC rates). An Urban Development Tax that is to be a onetime tax valid for 10 years has also been announced but collections are meager as the issues regarding ratable values, ownership, and exemptions have not been addressed. This has since been changed into an annual tax. Exemptions and concessions to give a boost to the real estate sector are also the argument for reducing duty rates and/or for giving concessions to address the issue of slum clearance. In Jaipur alone it is reported that only 700 assesses owe Rs 350 crores to the municipality and the total arrears of the tax run into Rs 700 to Rs 800 crores. Main defaulters are government institutions themselves. In suggesting property taxes, we need to be aware that the property tax is described as the ‘most hated tax’. At the same time, the fact that urban development is the most dynamic sector and also in need of huge infrastructure development requires huge funds for providing needs of a growing population and with cities having an equally huge backlog of services and infrastructure.

ix. It has been noted that the level and share of this component varies with the level of urbanization. (NCAER 2017). States that have large metro cities such as Maharashtra or Gujarat, Karnataka and Delhi are able to generate significant revenues from this source. Rajasthan has not tapped into this source as is evident from the almost stagnant share of 7 to 8 percent in total from property based taxes (Stamp duty and Registration fees). In fact the share from this tax has declined from 10 to 11 per cent earlier to only 7 to 8 per cent in recent years.

x. Quite apart from the level of urbanization, the main reason seems to be absence of political will. Land allotment for non-agricultural uses is mired in political controversies. Low density of population and relatively slow urbanization and industrialization could be an advantage in land allotments but it is difficult to determine how much can be raised. The two factors – one positive and the other negative - viz plentiful land on the one hand and lack of infrastructure on the other in areas where land is available cancel each other. Furthermore, the state has been giving tax concessions on land and on sales tax to attract large industrial units to the state. The quantum of such tax benefits and concessions are not reported explicitly but are available with the Finance Department.

xi. Even in urban local bodies, land and property taxes that have been levied are not collected adequately because of governance and political issues. Arrears in these taxes are heavy and contested by tax payers. As a result, neither the state government nor local bodies are able to tap into this resource adequately.

xii. Sharp fluctuations in share of property taxes and in electricity duty indicate absence of a stable medium to long term clarity in these taxes. It also indicates problems of tax compliance by tax payers as well as in tax collection. Simplification and digitization of vehicle, sales and excise taxes have been positive from the point of view of revenue yield. It could be extended to property taxes as well.

2.4 Share in Central Taxes and Union Grants

15. Tables 2.9, 2.10 and Figure 6 show the trends in revenue from central tax share. Tax reform has been undertaken during the last two decades on the basis of expert analysis and recommendations. This process continues through the research and analysis of two important institutions viz NCAER and NIPFP as well as by a few scholars elsewhere. Inputs are readily available from international institutions as well as from the vibrant economics community in Delhi. These are policy determined and grow on the basis of Finance Commission recommendations and central government budgets.

Table 2.9: Composition of Central Share of Taxes -2004 TO 2018 (Percentages)

Years	Share of Central Taxes (Rs. Crore)	Corporation Tax	Income Tax	Union Excise Duty	Tax on Goods & Services	Custom duty	Service Tax	Other Taxes
2004-05	4305.61	28.46	18.32	27.82	-0.05	20.08	5.31	0.06
2005-06	5300.08	27.61	19.46	26.02	-0.01	19.50	7.37	0.05
2006-07	6760.37	31.21	18.95	20.71	-0.01	19.50	9.59	0.03
2007-08	8527.60	31.74	21.30	18.04	0.00	18.90	9.99	0.03
2008-09	8998.72	32.79	20.59	16.67	0.00	19.12	10.80	0.03
2009-10	9258.13	41.15	22.92	11.27	0.00	14.00	10.56	0.09
2010-11	12855.62	39.09	20.66	12.72	0.00	17.49	9.97	0.08
2011-12	14977.04	39.36	19.99	11.22	0.00	17.34	11.94	0.15
2012-13	17102.84	35.92	21.51	11.29	0.00	16.62	14.60	0.06
2013-14	18673.07	33.63	22.15	11.52	0.00	16.32	16.29	0.09
2014-15	19816.97	34.92	24.94	9.13	0.00	16.17	14.74	0.09
2015-16	27915.93	31.38	21.76	13.36	0.00	15.99	17.42	0.09
2016-17	33555.86	32.00	22.24	15.72	0.00	13.77	16.19	0.07
2017-18 RE	37028.03	30.61	25.85	7.63	23.89	7.37	4.65	0.00
2018-19 BE	43309.66	28.86	25.00	5.07	34.85	5.68	0.34	0.20

Table 2.10: Five Year Average Annual Revenue from Central Taxes 2014-15 to 2018-19 BE (Rs. Crore)

Share in Central Taxes	32325
Goods and Services Tax	7546
Corporation Tax	10051
Income Tax	7776
Wealth Tax	10
Union Excise Duty	3167
Other Tax and Duties on Commodities & Services	6

Tax on Goods & Services	0
Custom duty	3495
Other Tax on income & expenditure	15
Estate Duty	0
Service Tax	3018

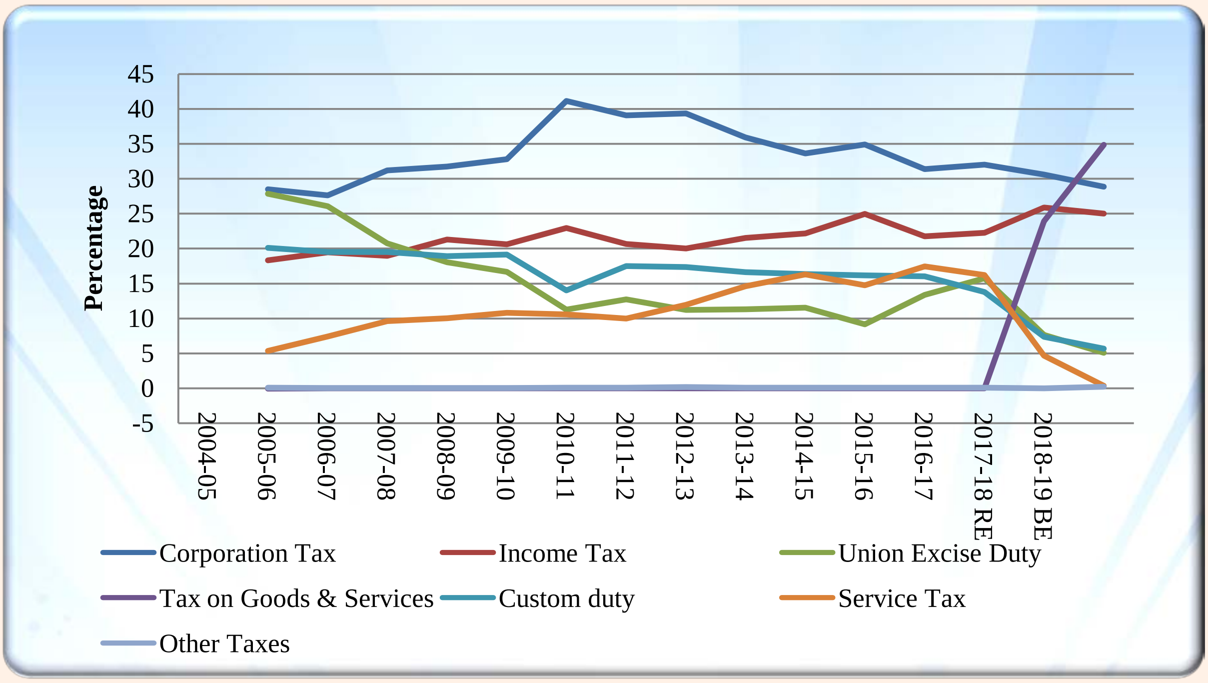


Figure 6: Trends in Share of Central Taxes 2004 to 2018

16. Figure 6 shows the trends in the growth of central taxes

i. Central tax shares are a more stable source of revenue. Until 2017 Rajasthan has been getting 2.13 per cent of 42% that is distributed by the Centre. This amounts to 5.6 per cent of the total devolved on the non special category states.

ii. In the State budget for 2018-19, central share is projected at Rs.43,300 crores compared to the states own tax revenue of Rs 58099 crores. State, tax revenue includes the estimated share in GST. State's tax revenue is estimated to increase by Rs. 14,000 crores between 2016-17 (actual receipts) and 2018019(BE).

iii. Until 2016 -17, Union excise contributed 10 to 16 % of central share of taxes.

iv. Share of income taxes and corporation taxes have provided a relatively stable growth revenue source –contributing 20 to 25 % and Corporate taxes contributing above 30% share in central taxes received by Rajasthan during the last five years.

v. The share of Income Tax is budgeted at 25% and of Corporation tax at 29% in the State Budget for 2018-19.

2.5 *Non-Tax Revenue Receipts*

17. Taxes are compulsory levies that tax payers do not like and therefore try to avoid or evade. Therefore, public finance theory recommends

a) Fees or other forms of levies where a direct *quid pro quo* relationship may exist or could be established could become a more tax payer compliant source of raising revenue.

b) The planning model that was adopted in India, both by the centre as well as by the states, governments took over the function of providing a large number of goods and services through direct public investment. This was expected to provide additional revenues as well. The hope was that profits from public enterprises could be directly ploughed back for reinvestment, growth and for redistributive state activities.

c) A third, equally important, reason was the acceptance of the ideal of a welfare state borrowed largely from England and from Western Europe. This ideal and the theory underlying it is the distinction that is made, even now, between public goods and services and private goods and services. This distinction had two principal bases viz. exclusion and externality.

18. Without getting into the detailed theoretical basis of this distinction, governments entered into activities for provision of services that could unambiguously be characterized as public services such as public transport or constructing major irrigation works or airports or for providing merit goods such as primary education and public health services. They also entered in production activities as well as for providing other services that were commercial such as running tourist and luxury hotels for dignitaries as well as for other designated VIPs or officials. Most of these services continue to be heavily subsidized. State Guest Houses in the capital and circuit houses in many cities could also be included in this category. None of the three arguments remained absolutely valid in the changing Indian economy in which personal incomes started rising. This meant that more and more persons not only acquired the capacity to pay, they also demanded more efficient services even if they were provided at higher cost.

19. Besides the above rationale, the mixed economy model, in any case, permitted private provision of many of these services e.g. private schools (euphemistically called public

schools), private air-conditioned buses and cars and so on. Such examples multiplied as the economy became more and more ***'mixed up'*** rather than, ideologically, being only a 'mixed economy' of socialism on one side and capitalist markets on the other.

20. Quite apart from this, an important factor was that capital, that was characterised as shy and risk averse, has over the years emerged as an entrepreneurial, skilled and keen to take risks category of investors. Such investors showed keenness to invest if allowed freedom from many unnecessary regulations. At the same time, the model that suited private investors has been used also to manoeuvre for concessions by putting one state government against the other. This certainly became a negative sum game situation in which individual state governments lost revenue sources as well as a large part of benefits from investment while others reaped the benefits. Regional imbalances were the outcome. This is bound to happen even more frequently as states become a part of an integrated India. Implication is that the race for tax concessions and preferential rates for land allotment or subsidies must be replaced by a market economy approach in which comparative advantages exist either due to geographical advantages or availability of specific resources and human skills and not on the basis of advantages created by distorting market signals. Each state is currently holding such road shows at fairly high cost to attract investment. The outcome of such exercises can only become evident in the medium to long term. Petroleum sector, although it is capable of giving revenues and other direct and indirect benefits to states that have oil and gas resources, and to the state exchequer, is a new example of investments benefitting the state but only partially. All major investments in irrigation projects have been made by the centre as benefits accrue beyond the location of the project. This principal could be applied to a project like an oil refinery. As an example, Gujarat has benefitted from the oil sector by investments made by the Centre in ONGC. In short there is a case for greater central investments in big projects besides investment in infrastructure. Another factor needs to be considered. If India is

21. Conceptually instead of talking about market failures and wrong doings of capitalists as a class, the new talk was to show, with evidence, that government failures are more restrictive to growth than private business. In fact, evidence about why public enterprises were not able to generate commercial profits was once again the socialist ideal that regarded "profits" as a "capitalist exploitation" and therefore neither necessary nor desirable. Revenue expenditures in the form of high wages, salaries and provision of employee benefits was

often given priority over earning a surplus above the cost of production. Social cost- benefit analysis that was meant for power, irrigation or forestry or transport projects involving large investments from public resources that had a long gestation period was applied to justify not only public expenditure but also public losses and inefficiency of different types (e.g. railways running late or air delays and poor services in most public services). International evidence from many countries such as Thatcher's policies in UK and US policies under Reagan succeeded in influencing IMF and World Bank recommendations towards liberalisation, free trade and market economies for the less developed countries like India. Liberalization, privatization and globalization (LPG) became the new *mantras*.

22. This conceptualisation of market failures and government failures has now (since the early eighties and, notwithstanding dissenting views of many), become standard part of public finance theory and of development theories. It needs to be pointed out that market failures continue as the regulatory institutions have either not been created or remain ineffective. Political economy considerations restrict the creation of a competitive market economy. The financial sector, arguably, has suffered from failures of different types (scams) despite relatively efficient regulatory institutions and legal processes. Unfortunately, public services provided by the budget do not have similar kinds of legal or regulatory processes. Privatization in many cases has resulted in greater provision of services but the fees are high and counter to the goal of creating an inclusive society. Examples are private hospital charges, fees in private schools, colleges and institutions of higher education. All this is necessary to note for examining the extent to which the state has succeeded in raising non-tax revenue on the one hand and providing efficient services on the other.

This Section deals with non-tax revenues of the state giving the composition, growth and share of individual sources of non-tax revenue. The issue of state enterprises will be taken up separately in Chapter V.

Table 2.11: Composition of Non-tax Revenue **(Per cent)**

Years	Interest receipts, Dividends & Profits	General Services	Social Services	Economic Services	Total Non-Tax Revenue (Rs. Crore)
2004-05	36.91	12.83	10.92	39.34	2146.15
2005-06	36.99	17.73	8.54	36.74	2737.67
2006-07	31.55	20.21	7.44	40.80	3430.61
2007-08	27.75	28.44	7.03	36.77	4053.93
2008-09	31.87	21.54	8.05	38.53	3888.46
2009-10	26.82	22.28	7.80	43.09	4558.22
2010-11	20.61	9.45	8.35	61.59	6294.12
2011-12	19.31	7.96	6.19	66.53	9175.10
2012-13	17.51	9.23	5.31	67.95	12133.59
2013-14	15.96	9.90	5.22	68.92	13575.25
2014-15	16.09	11.10	6.11	66.70	13229.50
2015-16	19.03	11.34	9.45	60.18	10927.88
2016-17	17.23	10.91	11.40	60.46	11615.56
2017-18 RE	29.96	9.73	8.83	51.47	16659.28
2018-19 BE	31.35	12.16	8.02	48.47	20397.42

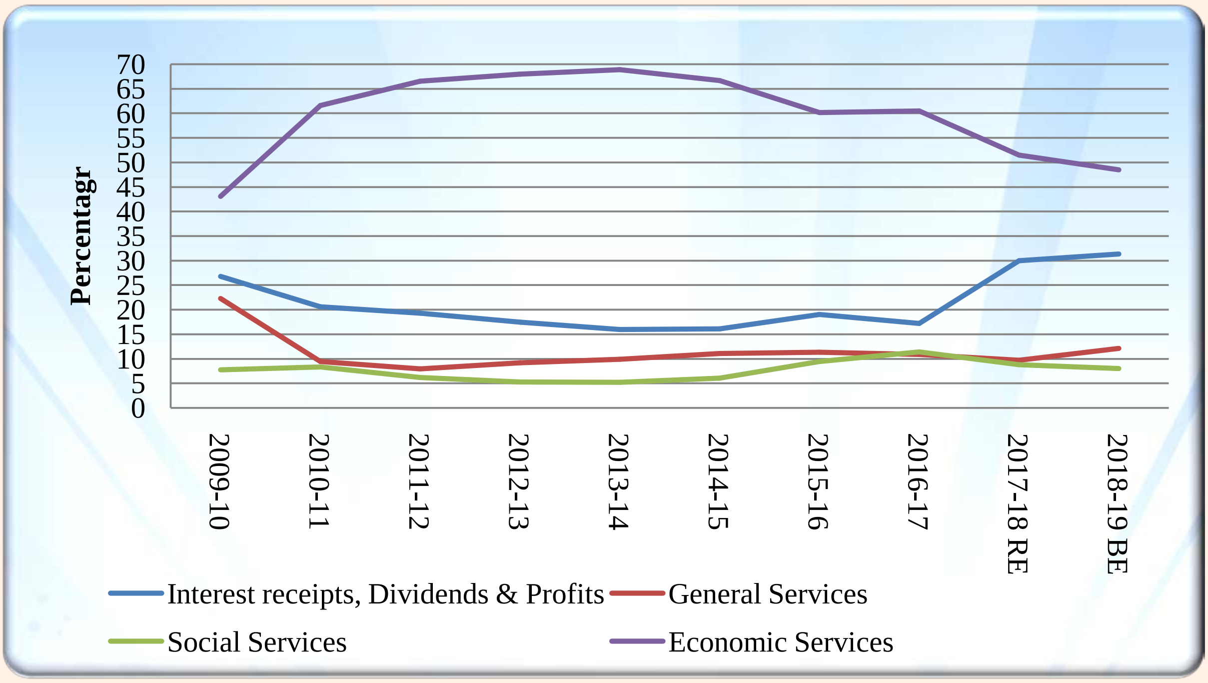


Figure 7: Composition of Non-tax revenue 2009-2018

Table 2.12: Annual Growth Rate of Non-tax revenue **(Percent)**

Years	Interest receipts, Dividends & Profits	General Services	Social Services	Economic Services	Total Non-Tax Revenue
2004-05	-	-	-	-	-
2005-06	27.86	76.23	-0.18	19.11	27.56
2006-07	6.87	42.85	9.19	39.17	25.31
2007-08	3.95	66.32	11.64	6.51	18.17
2008-09	10.15	-27.35	9.81	0.51	-4.08
2009-10	-1.34	21.25	13.62	31.08	17.22
2010-11	6.11	-41.46	47.74	97.37	38.08
2011-12	36.58	22.90	8.06	57.47	45.77
2012-13	19.87	53.30	13.44	35.07	32.24
2013-14	2.02	19.98	9.91	13.48	11.88
2014-15	-1.77	9.21	14.17	-5.68	-2.55
2015-16	-2.30	-15.57	27.79	-25.48	-17.40
2016-17	-3.78	2.26	28.20	6.80	6.29
2017-18 RE	149.41	27.97	11.11	22.10	43.42
2018-19 BE	28.12	52.89	11.15	15.31	22.44

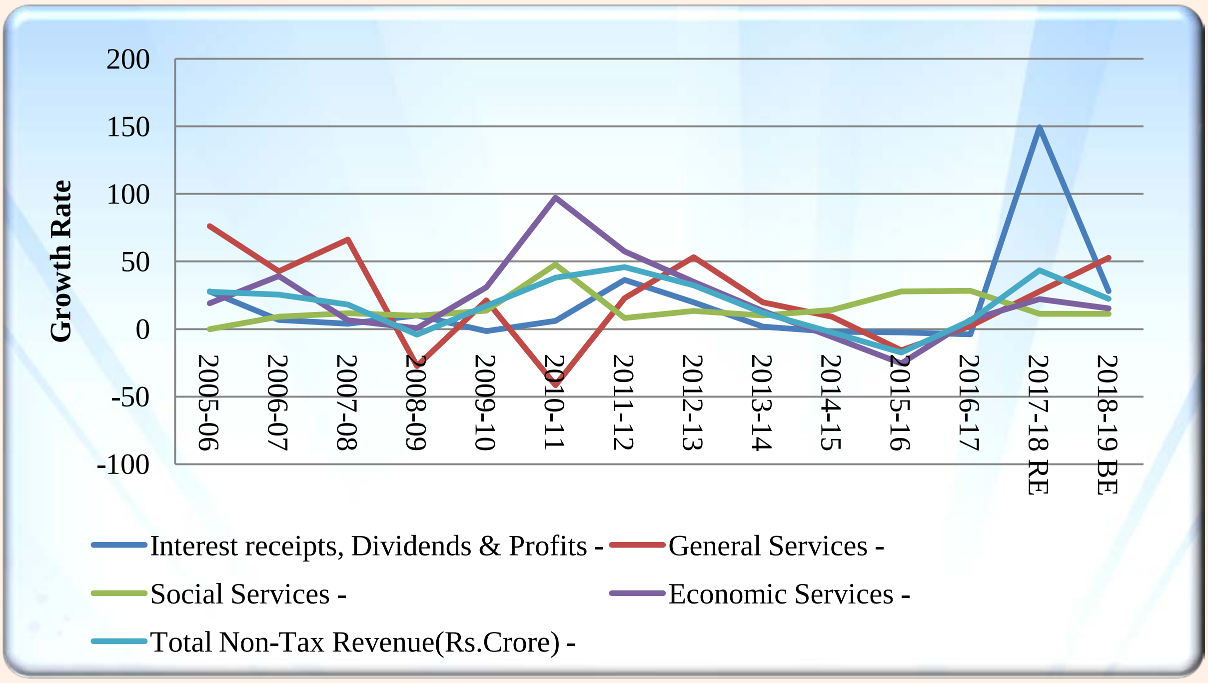


Figure 8: Growth Rate of Non-tax Revenue 2005-06-2018-19

23. Tables 2.11and 2.12 and the 10 year graph (Fig. 8) of growth rates do not yield a smooth trend of growth in any of the non-tax revenue sources. Reasons for the uneven growth rates are not evident in the data. Change in policies point to the absence of a medium term to long term view about rates and fees to be charged especially in social services. Also the peaks and the troughs in the growth rate is likely to have been influenced by political change in government. In economic services, *ad valorum* rates in mining and in petroleum are market determined. Receipts from services help us to examine the extent to which receipts cover the cost or the expenditure incurred for providing services.

i. Interest receipts are largely book transfers and internal departmental transfers resulting from pro forma interest charges that do not yield cash revenue. Dividends are from equity investments in state undertakings and other commercial enterprises. Profits are the contribution from state enterprises. Contribution of state enterprises is small as most except RSMML, RSIICO and Vidyut Utpadan Nigam are not profit earning enterprises.

ii. Major general services consist of Public Service Commission, Police, Jails, Supplies, Printing and Stationery, public works and others.

iii. Social services include education with sports, arts and culture, Medical and Public Health, Water Supply with Sanitation, Housing and Urban Development.

iv. The classification of all services including some that may not be regarded as public services e.g housing and urban services (called urban development in the classification) needs to be re-examined. Public services like government schools up to Class VIII or Class X or child health (vaccination and nutrition) provided by PHCs and government hospitals are public services for provision of no cost services.

    a. District or referral hospitals could be subsided but only for identified beneficiaries (as in the currently operative Bhamashah Health Insurance Scheme of the state government) instead of providing facilities to all including well paid government officers and employees as is the practice now.

    b. A Committee that includes health experts and health administrators including insurance and health economics experts could go into the details of a complete overhaul of no cost and low cost social services and find ‘out of the box’ solutions’. Permitting private practice in government run teaching and research hospitals can also be re-examined although the resistance that it might generate can be foreseen. A change, however, is required.

c. Government hospitals, not only provide free medical and surgical infrastructure to doctors who, in turn, are allowed to charge fees – completely unregulated- from patients needing their services. Canada provides health insurance to all but the doctor’s income is regulated and the social security taxes paid by everyone during working life are quite high often reducing the take home pay by more than thirty per cent. This is their method of paying for social security in which no one is denied benefits as is the case in the insurance model of the US. Similar situation exists in many countries of western Europe. Where governments have tried to reduce benefits as in Greece and Portugal, they have met with severe resistance as transition from one set of rules to another is difficult. India is going through the phase of transition but without a clear road map for the future.

v. In this context, fees for some services have been increased. Water rates for domestic and industrial use have also been revised but as shown in Table 2.9, this has not increased the growth rate of revenue from this source. In medical services fee related payments have been introduced but autonomous societies have been formed to receive fees for such services. Therefore, they are not reflected in the financial statements of the State government. Informal discussion with medical staff indicates that the societies are mostly in deficit and require funding from the state as beneficiaries include those for whom the services are/should not be free. The objective should be to reduce health services costs in general and for the needy and informal sector workers and their families in particular. This is a state subject and if resources are needed as grants from the Centre, the state should present a comprehensive scheme for it before the Finance Commission or the Niti Aayog or any other central body to comment and take action. State needs must be looked after by the State without waiting for the Centre to bring their proposals.

vi. In education, the state has moved not only towards greater privatization but also part withdrawal of the state from many essential services – withdrawal by neglect but without fulfilling the norms of quality or efficiency in provision of services..

vii. Economic services include many diverse sectors. These include Agriculture, Animal husbandry, Fisheries, Forestry, Co-operation, Major and Minor irrigation, Mines and Minerals and Tourism. In economic services, the mining sector is the most important revenue earning sector. Besides royalties from many mineral resources of the state, crude oil and petroleum resources now provide substantial revenue to the state. However crude oil and gas prices are volatile and have been falling in recent years. As a result, revenue from this source has not grown.

viii. Comments made above for social sectors are relevant for economic services as well. The main point is to distinguish clearly between private and public costs and benefits when providing services so that fees for the service recovers part of the cost. Permitting private practice to medical personnel especially doctors is a policy matter that may have increased both private costs as well as public cost without the increased cost being reflected in the revenue receipts from medical and health services.

ix. Water and sanitation could become at least 70% private to be paid for by the beneficiary households. The remaining 30% cost could be regarded as cost of a public service to be provided on merit and welfare consideration. Otherwise a water rate is also regarded as a compulsory impost like a tax that no one likes to pay. Others would pay if services are assured. And many more make private investments and incur heavy costs in arrangements for water supply such as digging a tube well, constructing roof top overhead tanks, surface storage tanks, obtaining water tankers, installing pump sets and booster pumps that withdraw water from the water pipes affecting supply to others and then using excessive filtered water for gardens, plants and non-drinking water uses[2].

x. Another undesirable impact is digging deep tube wells wherever the water table permits. This results in further exhaustion of the water table through excessive discharge of groundwater.

Detailed analysis of each of these sources of non-tax revenue requires a more comprehensive study. There are more than 100 departmental services classified under 35 major heads. In fact, in the public finance literature relating to state finances there are not many studies that deal with non-tax revenues. The most detailed study is of NIPFP that was

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[2]In the present system aimed at providing piped water to consumers, private expenditure on personal household storage, pump sets, purchasing water through private tankers, household and community RO systems is already being incurred because water supply is neither regular nor safe for drinking. In European countries, the norm is that at least 3% of income should be the fee for access to public water supply. As incomes are difficult to assess accurately, India can think of some other norm provided the state is able to fulfill its role of providing safe drinking water and water for other consumer needs. The norm could also be a per head norm but again if people, mostly women, have to stand in long lines and carry heavy water pitchers on their head, how can the state levy a water fee? **Government failure in such essential services is the most serious government failure.**

completed in 1993.(NIPFP, 1993). Analysis in the present Report is a macro analysis of the non-tax revenue and expenditure sector.

2.6 Central Grants

24. Table 2.13 and Figure 9 shows grants received from the Centre. Comments are given below:

Table 2.13: Share of Central Grants in Total Non-tax Revenue **(Percentages)**

Years	Total Non-Tax Revenue	Grants-in-aid	Total Non-Tax Revenue & Grants-in-add (Rs. Crore)
2004-05	42.56	57.44	5043.16
2005-06	48.38	51.62	5658.88
2006-07	47.49	52.51	7223.57
2007-08	45.15	54.85	8978.30
2008-09	40.82	59.18	9526.63
2009-10	46.93	53.07	9712.60
2010-11	51.11	48.89	12314.45
2011-12	55.08	44.92	16656.66
2012-13	62.84	37.16	19307.51
2013-14	60.82	39.18	22319.60
2014-15	40.29	59.71	32837.00
2015-16	36.85	63.15	29656.27
2016-17	37.35	62.65	31098.48
2017-18 RE	36.34	63.66	45847.79
2018-19 BE	40.59	59.41	50254.74

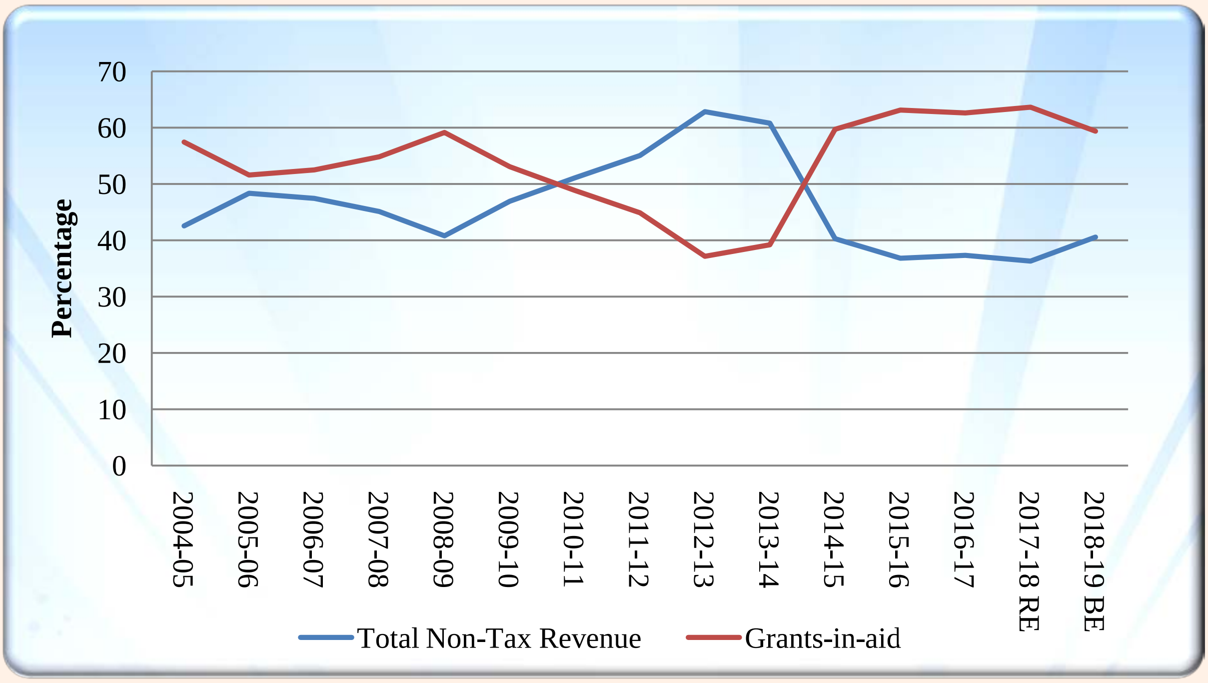

Figure 9: Share of Central Grants in Total non-tax revenue

i. Grants from the Centre are received as State Plan and Central Plan grants (now discontinued); statutory grants and grants for natural calamities and others. Such grants continue to remain an important component of revenue receipts.

ii. The share of grants in total receipts was above 60 % in 2016-17.

iii. The state has been receiving 7-8 per cent of the Central grants given to all non-Special category states.

iv. State's share in central taxes is 5.5 to 6 per cent of the total devolving to non-special category states.

2.7 Social Services

25. Revenue from social services is shown in Table 2.14. Revenue receipts from water, sanitation, housing and urban development account for the largest share. These sectors require incurring besides maintenance costs, expenditure that is of a capital nature. With increase in other social services like nutrition and child welfare, other sectors have increased their share in revenue receipts. Despite this, the total revenue receipts are very small.

Table 2.14 Revenue Receipts and Share of Social Services sectors **(Percent)**

Years	Social Services (Rs. Crore)	Education, Arts & Culture	Medical, Health & Family Welfare	Water supply, Sanitation Housing & Urban Development	Other
2004-05	234.29	12.37	12.82	72.46	2.35
2005-06	233.87	10.53	7.28	78.91	3.28
2006-07	255.35	12.42	12.09	72.74	2.75
2007-08	285.08	9.55	13.92	72.93	3.60
2008-09	313.05	14.22	11.87	70.51	3.40
2009-10	355.69	11.00	15.98	69.11	3.91
2010-11	525.49	11.26	8.69	60.45	19.60
2011-12	567.84	10.44	10.49	48.88	30.19
2012-13	644.14	12.95	14.99	41.89	30.17
2013-14	707.99	13.55	9.28	37.69	39.48
2014-15	808.33	10.01	14.46	35.93	39.60
2015-16	1032.96	17.05	11.58	37.33	34.04
2016-17	1324.27	12.77	9.49	43.20	34.55
2017-18 RE	1471.41	12.42	10.37	46.93	30.28
2018-19 BE	1635.43	12.69	10.72	46.74	29.85

2.8. *Economic Services*

26. Economic services are a group of diverse services from agriculture, forestry, irrigation and manning. Now crude oil and natural gas is also included among economic services. Most of them, except a few such as wild life or minor irrigation, are expected to generate revenues. Agriculture and allied services as well as irrigation are taken up separately (Table 2.15).

Table 2.15: Receipts from and Share of Economic Services **(Per cent)**

Years	Total Economic Services (Rs. Crore)	Minor Irrigation	Forestry and Wild Life	Industries, Village and Small Industries	Major and Medium Irrigation Projects	Non-Ferrous, Mining & Metallurgical Industries	Petroleum	Others
2004-05	844.35	3.09	4.67	0.08	6.69	76.43	0.00	9.05
2005-06	1005.73	1.83	3.98	0.10	4.65	80.94	0.00	8.49
2006-07	1399.69	1.10	3.23	0.21	4.33	85.48	0.00	5.64
2007-08	1490.75	0.91	3.91	0.31	3.89	82.28	0.00	8.70
2008-09	1498.36	1.16	3.85	0.09	3.61	85.13	0.00	6.15
2009-10	1964.10	1.15	2.87	0.39	2.49	82.09	5.63	5.39
2010-11	3876.61	0.46	2.40	0.13	2.22	49.77	42.05	2.96
2011-12	6104.45	0.30	1.23	0.07	1.50	38.76	56.28	1.86
2012-13	8245.09	0.19	1.11	0.04	1.06	34.43	61.49	1.69
2013-14	9356.16	0.13	0.83	0.09	0.86	33.01	63.63	1.45
2014-15	8824.59	0.16	1.01	0.16	0.76	41.20	54.96	1.75
2015-16	6575.86	0.26	2.03	0.17	1.05	57.52	35.61	3.36
2016-17	7022.87	0.14	1.61	0.15	1.61	60.29	33.20	3.01
2017-18 RE	8575.03	0.39	2.03	0.16	1.05	57.14	33.82	5.41
2018-19 BE	9887.62	0.38	1.44	0.14	1.10	58.66	35.40	2.88

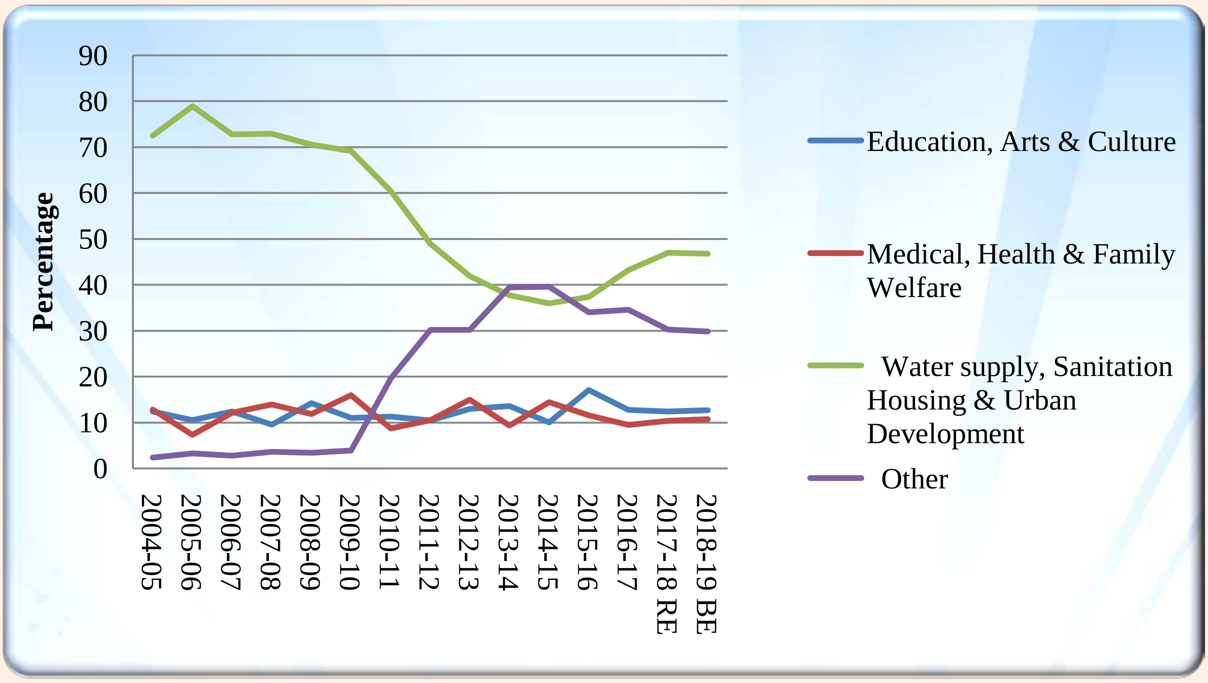

Figure 10: Share of Social Services sectors in Revenue receipts 2004-05 to2018-19

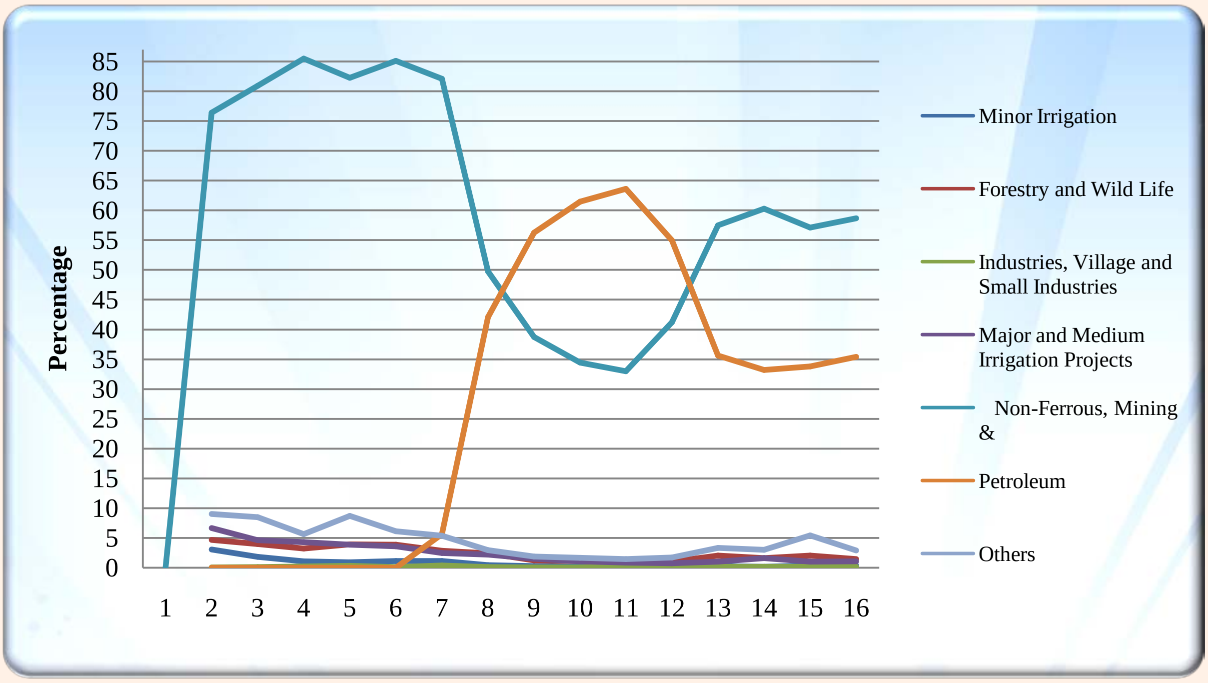

Figure 11: Share of Economic Services 2004-05 to 2018-19

i. In economic services sector the state has not been successful in raising revenue from irrigation that provides private benefits to the farmers. This is a wider question of what type of support the farming sector should get. India has opted for input subsidies for a long time but transition from input to product or output subsidies is a complex issue.
ii. Major source of revenue is from mining sector. Receipts are received as royalties from diverse mining resources that the state has.
iii. With the discovery of oil and gas reserves and extraction from them, petroleum is now providing a substantial part (more than one-third) of the revenue from economic services. It now totals more than Rs 3500 crore. However the contribution of petroleum is affected by change in crude prices and has been falling since 2013-14.
iv. The state hopes to generate further revenue from the oil refinery that is now under construction.

CHAPTER III

PUBLIC EXPENDITURE – REVENUE AND CAPITAL

3.1 Public Expenditure - Revenue and Capital Expenditure

27. In view of growth in public debt, an important aspect is to examine whether the debt is used for financing revenue expenditure or if it is used for capital expenditure. The latter is expected to generate new sources of revenue in future. Distinction between revenue and capital is important in an accounting sense as well as in the context of economic development. Creating physical infrastructure is the most important objective of capital outlays. Capital outlays were classified under plan and under non-plan and in each a distinction between revenue account and capital account was further made. Another classification that continues to be made is between development and non-development expenditure. Current practice continues with the distinction between development and non-development expenditure but the distinction between plan and non-plan has been discontinued. We have followed the current practice but have not used the distinction between development and non-development expenditure. However, identification of non-discretionary or committed expenditure on salaries, pensions and interest payment has been made especially in the context of examining debt and deficits.

28. When the state was constituted in 1948 with the amalgamation of feudal states and then in 1956 when Ajmer Merwara that was a Part C state under the central government, it inherited low levels, not only, of economic infrastructure but also of social infrastructure of schools and health facilities. With relatively low levels in human development indicators, the state continues to give priority to human and social development. This requires considerable deployment of human power to provide the necessary services. Despite emphasis given to human development, the state, continues to lag behind all India levels. Like Alice in Wonderland the state has to run faster even to remain at the starting level. In short, if we take any indicator in education or health or gender, the initial level and the change from that position would be even more important not only to evaluate performance of the state but also to examine why the levels of revenue expenditure (salaries and wages mainly) continue to be high. In fact if the shortage of skilled (wo) manpower in education and public health sectors, is considered in terms of a benchmark, a case can be made for increasing the size of manpower and therefore of revenue expenditure especially in education and health services. of the State Revenue receipts or expenditure together cannot be the only factor to be

considered in evaluating performance. If capital outlay alone is considered, then Rajasthan that barely spends 10 to 12 per cent of expenditure as capital outlay would be considered as a poorly performing state compared with many other states. At the same time, the share of interest payments continues to be even higher than capital outlay (except in some years) even after debt restructuring in 2006 and 2011-12. (Table 3.1) The sharp changes seen in 2015-16 – decrease in revenue expenditure and the increase in loans and advances - are the result of financing under UDAY.

Table 3.1: Share of Revenue and Capital Expenditure in Total Expenditure (Percent)

Years	Revenue Expenditure (Without UDAY)	Interest payment	Capital Outlay (Without UDAY)	Loans & Advances(With UDAY)	Total Expenditure (Rs crore)
2004-05	82.82	25.98	14.51	3.22	100.00
2005-06	81.97	24.23	16.38	2.02	100.00
2006-07	82.97	22.85	15.99	1.25	100.00
2007-08	80.98	20.40	18.22	0.99	100.00
2008-09	84.61	18.15	14.55	0.99	100.00
2009-10	87.61	16.87	11.30	1.24	100.00
2010-11	89.06	16.42	10.42	0.58	100.00
2011-12	86.70	14.71	11.50	2.07	100.00
2012-13	82.90	13.14	13.95	3.80	100.00
2013-14	83.91	12.00	15.19	1.07	100.00
2014-15	84.91	11.07	14.46	0.74	100.00
2015-16	64.45	11.30	13.34	34.45	100.00
2016-17	80.94	13.90	10.81	10.20	100.00

Table 3.2: Revenue and Capital Expenditure Ratio of SGDP

Years	Revenue Expenditure (Without UDAY) %	Capital Outlay Net (Without UDAY) %
2004-05	15.6	8.5
2005-06	15.1	4.0
2006-07	14.9	4.0
2007-08	14.8	4.5
2008-09	15.1	3.8
2009-10	13.3	3.2
2010-11	12.3	2.6
2011-12	12.9	2.2
2012-13	13.7	2.5
2013-14	15.4	3.6
2014-15	15.5	3.4
2015-16	15.6	2.8
2016-17	17.2	4.0

Capital outlay to SGDP ratio in Table 3.3 shows the Rajasthan situation is comparable to other states but is somewhat lower in 2016-17.

Table 3.3: Ratio of Capital Outlay to SGDP – Comparison with other states (Percent)

State	2014-15	2015-16 RE	2016-17 BE
Andhra	2.2	2.1	2.2
Bihar	4.9	6.4	6.4
Gujarat	2.7	2.6	2.4
Madhya Pradesh	2.5	3.2	4.8
Uttar Pradesh	5.1	6.4	5.6
Rajasthan	**2.6**	**3.5**	**3.1**
All Non Special Category States	2.2	2.7	2.8

Source: Reserve Bank of India, Report on State Finances 2016-17, page 147

3.1.1 Sectoral Capital Outlay in the State Budget

29. Infrastructure development has been a focus of development initiatives ever since Rajasthan was created with the present boundaries in1956. Besides power, communication and institutional structures for social sectors (particularly education and health) roads and connectivity for villages and habitations scattered over vast areas was crucial. It became even more important as realization of the importance of the state as a border state became evident over the years. A large part of this development was taken up under the plans and under centrally sponsored schemes for creation of employment and for rural development. Therefore, without incorporating data of plan outlays, it is not possible to give comparable data for the entire period included in this report. This becomes apparent when data subsequent to 2017-18 is considered. In this year, classification of plan and non-plan data was discontinued and a schematic sectoral statement was presented by the government in the Economic Review for 2017-18. (Table 3.4 below)

A further issue is that road and bridge development is taken up under assistance from international and national bodies, e.g. World Bank, NABARD and central government programmes. Operational details and physical targets/achievements are reported, but the budgetary implication on an annual basis is not reported either in the budget statements or in the Annual Economic Review.

Many projects are now being reported under the PPP (Public-Private Partnership) mode and the operational and financial arrangements are not uniform. Rajasthan government has entrusted major road construction projects to a Corporation (Rajasthan State Road Development and Construction Corporation) that was earlier involved only in construction of buildings. Financial results reported by them are consolidated for roads and buildings. The Corporation has been reporting financial surpluses and has been paying a relatively small dividend to the State Government.

Table 3.4: Schematic Budget Outlay 2017-18 **(Rs. crore)**

Major head/ Sector	Schematic Budget Outlay 2017-18	Per cent of Total
Agriculture & Allied Services	4483.	5.52
Rural Development	10685.	13.17
Special Area Programme	260.00	0.32
Irrigation and Flood Control	2627.58	3.24
Power	16706.77	20.59
Industry & Minerals	1440.24	1.77
Transport	6381.50	7.86
Scientific Services	63.82	0.08
Social & Community Services	35357.60	43.57
Economic Services	1850.59	2.28
General Services	1300.90	1.60
Total	**81157.97**	**100.00**

Source: Government of Rajasthan, Economic Review 2017-18

3.2 Growth and Composition of Revenue Expenditure

30. Table 3.5 shows the growth and composition of revenue expenditure in three broad categories viz general, social and economic services. (Fig 12). Growth in all categories shows continuous increase albeit at varying rates. Only exception is expenditure on economic services that falls in 2016-17 to rise again in the next two year RE and BE. Total revenue expenditure more than doubled from Rs 29000 crores to Rs 63000 crores between 2007 and 2011-12. This gives a doubling time of five years or a CAGR of 14%. Growth accelerated after 2012 after which the doubling time reduced to four years and expenditure increased from Rs 63000 to Rs 118000 crores between 2012 and 2016. Year on year (YoY) growth rates are shown in Table 3.5 and composition of three categories are shown in Table 3.4. Composition of revenue shows that the share of expenditure on general services has decreased from above 40 percent during 2004-05 to 2006-07 to an almost continuous decline (except for 2014 and 2015) to below 30 percent. However, since 2016-17 the share has increased to above 33 per cent in the current year budget. The share of economic services has remained around 20 to 22 per cent throughout the period reviewed in the Table. Since 2015-16 share of economic services records a decline due mainly to UDAY accounting. (See Chapter for details of UDAY)

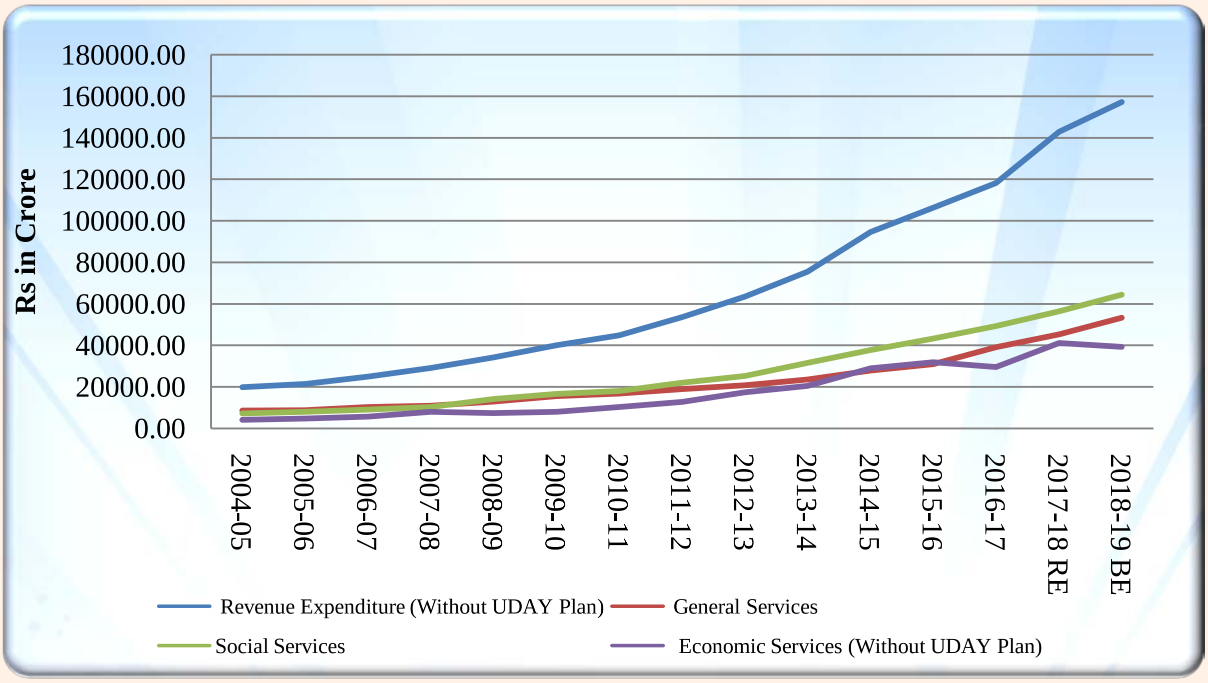

Figure 12: Growth of Revenue Expenditure 2004-05 to 2018-19

Table 3.5: Composition of Revenue Expenditure **(Percent)**

Year	Total (with UDAY) (Rs. Crore)	Total (Without UDAY) (Rs. Crore)	Expenditure on General Services	Expenditure on Social Services	Expenditure on Economic Services With UDAY	Expenditure on Economic Services Without UDAY)
2004-05		19906.18	43.47	35.91		20.62
2005-06		21499.21	41.03	37.18		21.78
2006-07		24953.80	41.50	35.80		22.69
2007-08		29127.65	37.55	35.02		27.43
2008-09		34295.60	37.84	40.98		21.19
2009-10		40132.19	39.04	41.10		19.86
2010-11		44873.35	37.35	39.88		22.77
2011-12		53653.31	35.38	40.87		23.75
2012-13		63461.79	32.71	39.86		27.43
2013-14		75509.59	31.24	41.70		27.06
2014-15		94541.97	29.48	39.93		30.59
2015-16		106239.2	29.19	40.80		30.00
2016-17	127140.1	118140.1	33.18	41.79	30.33	25.03
2017-18 RE	154858.5	142858.5	31.76	39.48	34.28	28.76
2018-19 BE	169118.4	157118.4	33.96	41.02	30.33	25.01

Table 3.6: Annual Growth rates of Revenue Expenditure **(Percent per annum)**

Year	General Services	Social Services	Economic Services	Total Revenue Expenditure
2004-05	NA	NA	NA	NA
2005-06	1.95	11.85	14.08	8.00
2006-07	17.39	11.76	20.93	16.07
2007-08	5.62	14.16	41.07	16.73
2008-09	18.62	37.77	-9.04	17.74
2009-10	20.73	17.37	9.71	17.02
2010-11	6.97	8.49	28.19	11.81
2011-12	13.27	22.53	24.70	19.57
2012-13	9.37	15.35	36.60	18.28
2013-14	13.62	24.49	17.39	18.98
2014-15	18.15	19.91	41.52	25.21
2015-16	11.30	14.82	10.21	12.37
2016-17	26.40	13.89	-7.24	11.20
2017-18	15.73	14.25	38.95	20.92
2018-19	17.61	14.27	-4.33	9.98

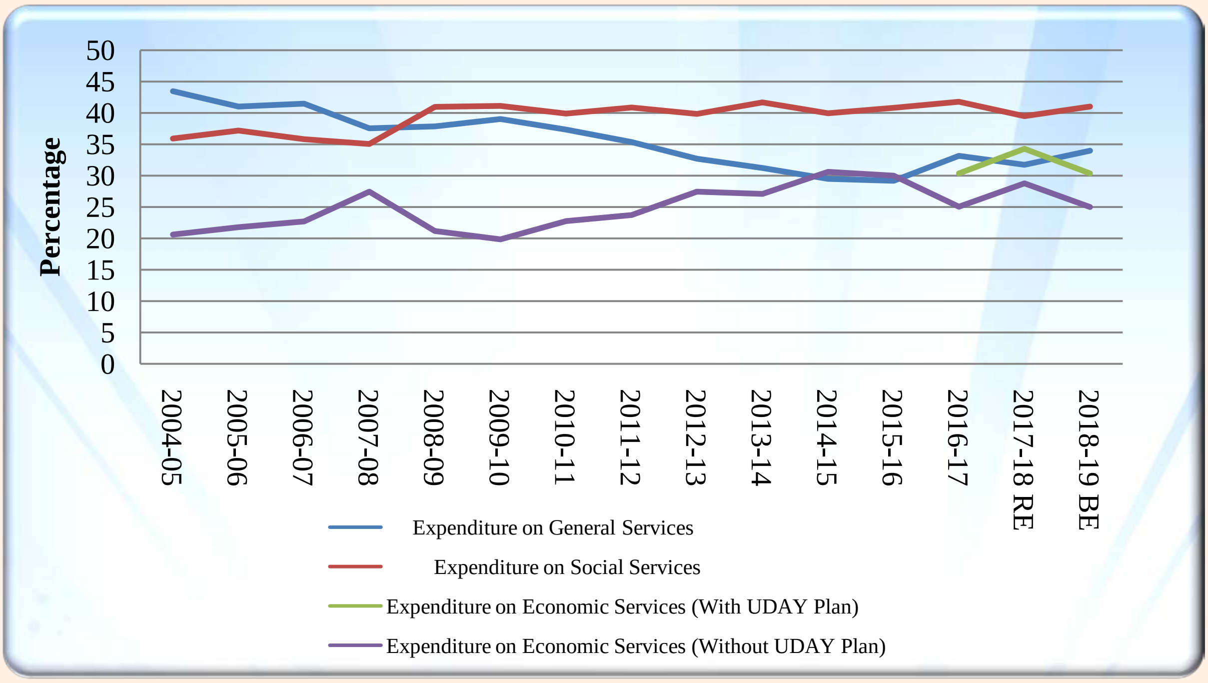

Figure 13: Share of Services in Total Expenditure 2004 to 2018-19

Table 3.7: Average Revenue Expenditure 2014-15 to 2018-19 **(Rs. Crore)**

Revenue Expenditure (With UDAY Plan)	**56372.78**
Revenue Expenditure (Without UDAY Plan)	50332.06
General Services	16245.75
Social Services	20441.93
Economic Services (With UDAY Plan)	17100.54
Economic Services (Without UDAY Plan)	13644.39

31. Table 3.6 shows the annual growth rates of components of revenue expenditure. Expenditure on general services have recorded above 15% YoY growth after 2013-14. with larger growth in 2016-17and in 2009-10 possibly on account of the way in which Pay Commission awards are implemented by first delaying increased payments and then by releasing arrears when further delays are not feasible.

i. Social Services expenditures now accounts for about 40 % of revenue expenditure. The peaks are due to expenditure for special programmes financed by central grants. For example, in 2008-09, central grants constituted 60% of non-tax revenue and expenditure on social services constituted 37$ of revenue expenditure.

ii. This is likely to have been the case in economic services that included grants under CSS schemes like MNREGA or for rural housing. Changes in Central government policies have an effect on the growth of expenditure.

3.3 Expenditure on General Services

32. General services consist of almost all the administrative services of the government. This includes Police, Jails, Supplies, Printing and Stationery, Public works, others and Public Service Commission. It also includes expenditure on the Chief Minister and the cabinet, legislature, judiciary and Governor and services to be provided to that office. These are termed as ‘services to ‘organs of the state’ and could, arguably, be considered non-discretionary expenditure. Table 3.8 shows the composition of expenditure on general services. Expenditure on general services currently constitutes around 30% of total expenditure. This has fallen from above 40 per cent before 2007 to about 30 per cent now. Decline in this share has been almost continuous. The major constituents of general services category are also shown in the Table.

Table 3.8: Composition of Expenditure on General Services. **(Percent)**

Years	Organs of State	Fiscal Services	Interest payment and servicing of Debt	Administrative Services	Pension & Misc. general Services	Grants-in-aid and contribution	Total	Percentage of expenditure on general services to total expenditure
2004-05	2.41	4.97	59.77	13.88	18.96	0.01	100.00	43.47
2005-06	2.39	4.58	59.06	15.08	18.87	0.02	100.00	41.03
2006-07	2.17	4.33	58.44	14.42	20.58	0.07	100.00	41.50
2007-08	2.24	4.79	54.33	14.90	23.58	0.15	100.00	37.55
2008-09	3.12	5.02	47.97	17.96	25.74	0.20	100.00	37.00
2009-10	2.98	4.60	43.21	17.82	31.27	0.12	100.00	39.04
2010-11	3.18	4.70	43.97	17.06	30.96	0.13	100.00	37.35
2011-12	2.65	5.67	41.58	16.64	32.02	1.44	100.00	35.38
2012-13	2.66	4.97	40.17	16.75	34.17	1.28	100.00	32.71
2013-14	3.39	4.76	38.42	17.50	34.87	1.05	100.00	31.24
2014-15	3.20	5.11	37.54	17.38	36.77	0.00	100.00	29.48
2015-16	2.55	5.51	38.72	16.91	36.32	0.00	100.00	29.19
2016-17	2.26	5.60	45.09	14.97	32.08	0.00	100.00	30.83
2017-18RE	2.48	5.21	43.61	14.46	34.24	0.00	100.00	29.30
2018-19 BE	2.71	4.95	40.13	14.33	37.88	0.00	100.00	31.55

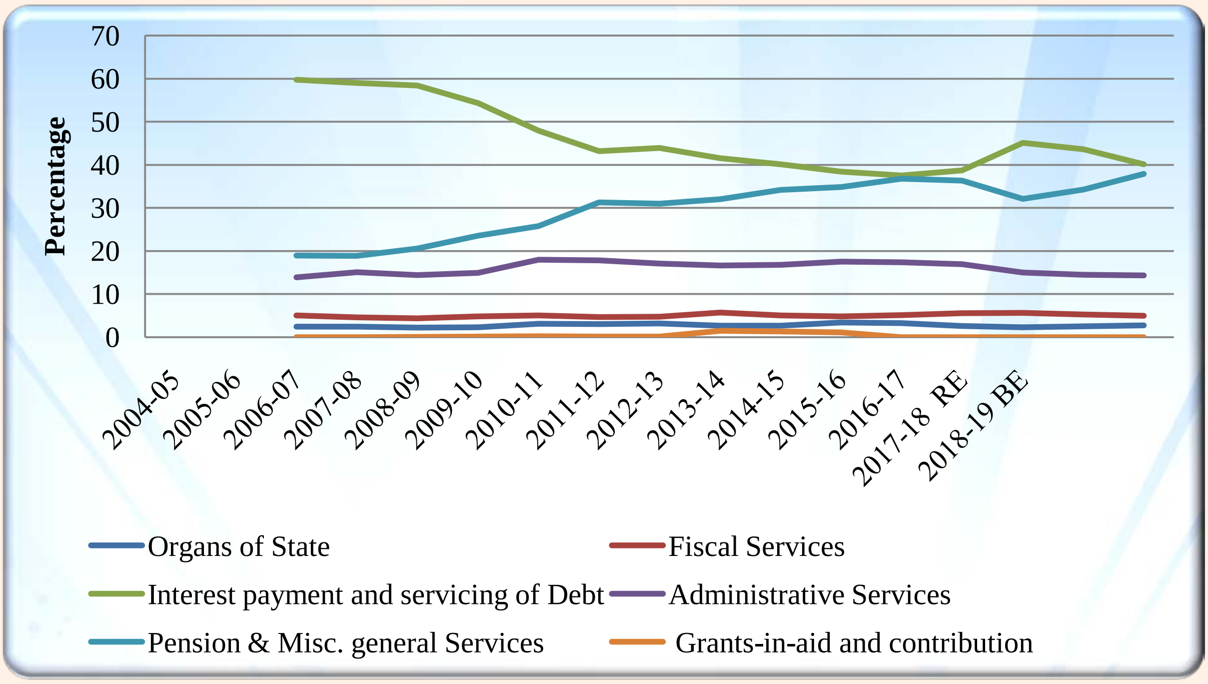

Figure 14: Growth and Composition of Expenditure on General Services 2004-05 To 2018-19

Table 3.9: Cost of collection of taxes **(Per centage)**

Years	Collection of taxes on property & Capital transactions	Collection of taxes on Commodities and services	Other
2004-05	48.16	26.03	25.81
2005-06	55.19	32.20	12.61
2006-07	51.25	47.03	1.72
2007-08	48.45	50.60	0.95
2008-09	53.74	45.75	0.51
2009-10	55.73	43.77	0.50
010-11	52.19	47.68	0.13
2011-12	42.78	57.08	0.14
2012-13	51.04	48.78	0.18
2013-14	48.54	51.31	0.15
2014-15	43.47	56.42	0.12
2015-16	37.20	62.71	0.10
2016-17	32.13	67.78	0.09
2017-18 RE	34.29	65.61	0.11
2018-19 BE	33.80	66.09	0.12

The main categories of general expenditure are:

i. Organs of the State: The share in the category has varied between 2.4 to 3.4% of total between 2004-05 and 2018-19.

ii. Fiscal services (collection of taxes). This represents the cost of collection of taxes. Although the total share remains at about 5 % throughout the entire period reviewed above the share of collection of commodity taxes has increased. Two third of the cost of collection is on account of commodity taxes and the remaining one-third is cost on land and property tax. NIPFP (2005) study found that the cost of such services is reasonable compared to other Indian states.

iii. Interest and debt servicing is the largest component of expenditure under general services. Its share in this category is 40% or above.

iv. Administrative services: The share of administrative services in total expenditure records a decline from about 17% of total since 2009-09 to about 14.5%% of total after 2016-17.

v. Pensions: Share of pensions shows an increase after 2009-10 and the share in the revised estimates for 2017-18 is 34.2% and is budgeted to increase to 37.9 % in 2018-19.

3.4 Expenditure on Social Services

33. Figure 15 and Table 3.10 show the structure of expenditure on social services that account for more than 35% of revenue expenditure that is spent on different services like education, health and social welfare.

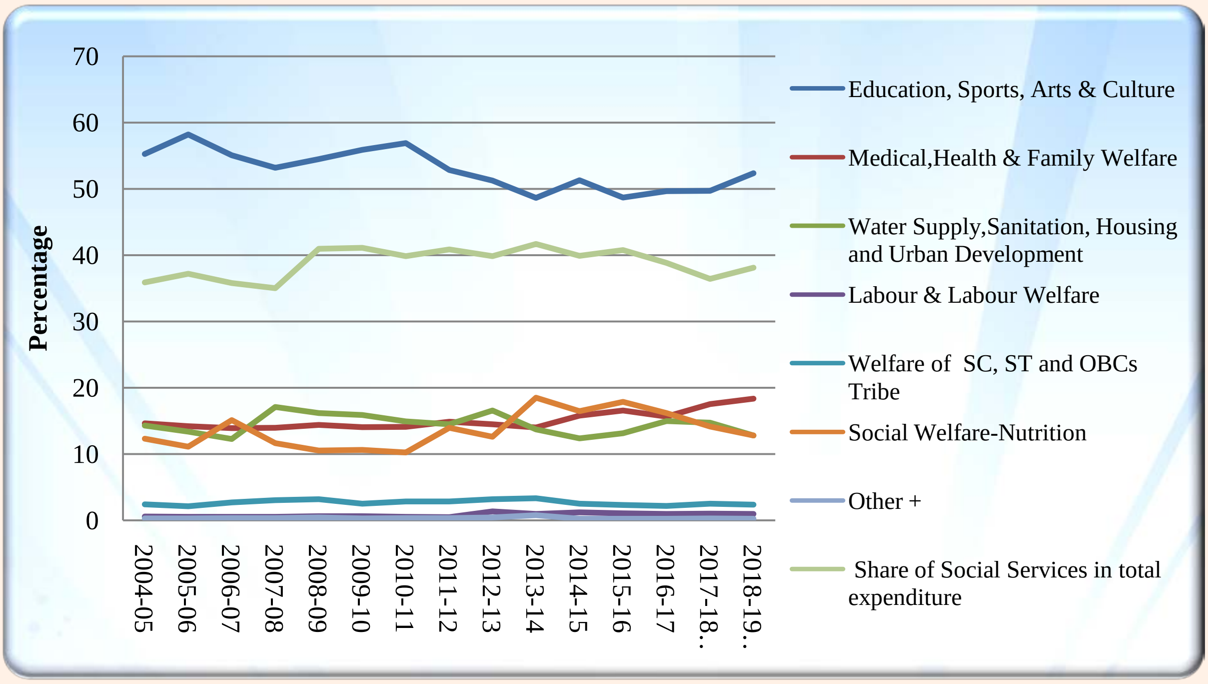

Figure 15: Growth and Composition of Expenditure on Social Services in Total Expenditure

Table 3.10: Composition of Expenditure on Social Services and share of social services in total expenditure **(Percentages)**

Year	Education, Sports, Arts & Culture	Medical, Health& Family Welfare	Water Supply, Sanitation, Housing and Urban Development	Labour & Labour Welfare	Welfare of SC, ST and OBCs Tribe	Social Welfare-Nutrition	Other +	Total	Share of Social Services in total expenditure
2004-05	55.26	14.68	14.31	0.61	2.46	12.37	0.31	100.00	35.91
2005-06	58.19	14.22	13.40	0.59	2.16	11.14	0.30	100.00	37.18
2006-07	55.04	13.94	12.27	0.57	2.72	15.13	0.33	100.00	35.80
2007-08	53.17	14.01	17.12	0.59	3.08	11.65	0.37	100.00	35.02
2008-09	54.46	14.42	16.22	0.67	3.20	10.57	0.45	100.00	40.98
2009-10	55.85	14.09	15.89	0.64	2.56	10.67	0.29	100.00	41.10
2010-11	56.90	14.11	14.95	0.57	2.86	10.27	0.34	100.00	39.88
2011-12	52.84	14.92	14.49	0.52	2.89	14.01	0.35	100.00	40.87
2012-13	51.21	14.54	16.61	1.36	3.20	12.62	0.46	100.00	39.86
2013-14	48.62	14.02	13.72	0.99	3.35	18.53	0.78	100.00	41.70
2014-15	51.29	15.82	12.39	1.20	2.56	16.49	0.25	100.00	39.93
2015-16	48.67	16.57	13.15	1.10	2.35	17.92	0.25	100.00	40.80
2016-17	49.62	15.67	15.00	1.00	2.23	16.21	0.27	100.00	38.83
2017-18 RE	49.66	17.53	14.74	1.02	2.56	14.20	0.28	100.00	36.42
2018-19 BE	52.32	18.37	12.82	1.00	2.42	12.82	0.25	100.00	38.11

i. As can be seen from Table 3.10 the social services sector is a large sector comprising a large number of social services from maternity and child health services to education, sports, culture, water supply, sanitation and housing. Urban development is also included along with social welfare and labour welfare. Total social services expenditure constitute between 35% to 40% of the total. The smallest share goes to labour welfare followed by welfare of SC/ST and tribal population.

ii. Social services expenditure has constituted between 35 to 40% share in total expenditure. It is currently budgeted at 38 % of total. There is some reduction in the total share of social services after 2013-14 although the reduction cannot be attributed to any specific sub sector. Medical, social welfare and nutrition record increase while water supply records a decline. The decline is possibly due to the high cost of infrastructure expenditure in this sector relative to revenue expenditure.

iii. Expenditure on education accounts for about half of the total expenditure and its share in social services has declined marginally since 2014-15 and quite substantially since 2004-05 when its share was above 50%.

iv. Medical and health accounts for 14 to 16% of total in this category although the last two years record an increase of 2 to 3 percentage points in its share.

v. Social welfare and nutrition also takes up 14 to 18% of the sector expenditure.

vi. Water supply is of crucial importance in Rajasthan but the data includes housing and urban development in the category. Therefore without decomposing the expenditure in the category, the priority to sub sectors within the category cannot be determined. However, data (Table 3.9) shows that the distribution between urban and water supply is roughly in the ratio of 60:40.

vii. Table 3.8 shows the share of education, medical and health and social services as a whole as a percentage of GSDP. This shows clearly that despite the importance of education and health, the share of these sectors has remained virtually constant during the last decade and a half.

Table 3.11: Education, Medical and Other Social Services Revenue-Expenditure as % of GSDP.

Years	Education, Sports, Arts & Culture	Medical, Health & Family Welfare	Water Supply, Sanitation, Housing and Urban Development	Social Welfare-Nutrition	Total
2004-05	3.6	1.0	0.9	0.8	6.6
2005-06	3.6	0.9	0.8	0.7	6.2
2006-07	3.3	0.8	0.7	0.9	6.0
2007-08	3.2	0.8	1.0	0.7	6.0
2008-09	4.0	1.1	1.2	0.8	7.3
2009-10	3.5	0.9	1.0	0.7	6.2
2010-11	3.0	0.7	0.8	0.5	5.2
2011-12	2.8	0.8	0.8	0.7	5.3
2012-13	2.7	0.8	0.9	0.7	5.3
2013-14	3.0	0.9	0.8	1.1	6.1
2014-15	3.1	1.0	0.8	1.0	6.1
2015-16	3.1	1.1	0.8	1.1	6.3
2016-17	3.2	1.0	1.0	1.1	6.5
2017-18 RE	3.3	1.2	1.0	1.0	6.7

Table 3.12: Urban and Rural distribution of Expenditure on Water Supply.

Year	Urban Water Supply	Rural Water Supply
2004-05	61.01	38.99
2005-06	61.66	38.34
2006-07	64.15	35.85
2007-08	68.26	31.74
2008-09	58.04	41.96
2009-10	55.47	44.53
2010-11	57.64	42.36
2011-12	57.95	42.05
2012-13	62.17	37.83
2013-14	63.47	36.53
2014-15	58.82	41.18
2015-16	82.03	17.97
2016-17	46.81	53.19
2017-18 RE	61.72	38.28
2018-19 BE	53.02	46.98

3.5 Economic Services

34. Table 3.13 shows expenditure on Economic Services that are a composite of many services that includes, besides irrigation and rural services, transport, industry and science and technology. Therefore, the composition is as important as the level of each category. Agriculture and Allied activities, rural development and special rural area development programmes now include more than 80% of the expenditure (without UDAY)on economic services.

35. With Uday, the share increases further as UDAY by itself accounts for more than 15 % of the total. This takes the share of economic services to more than 48% from the 34% share without UDAY. This must be noted as this also increases the share of development expenditure from 74.5 per cent in 2014-15 to 81% in 2015-16 and then reverts to 74.9% in 2016-17. As these ratios are used for temporal and interstate comparisons, such one-time additions that will, most likely, increase the interest and repayment burden for at least 10 years may be considered separately from the general state finances.

Table 3.13: Composition of Expenditure on Economic Services

Years	Agriculture and Allied Activities	Rural Development and Special Area Programme	Industries and Minerals	Irrigation, Flood Control and Energy (With UDAY Plan)	Irrigation, Flood Control and Energy (Without UDAY Plan)	Transport	Science, Technology and Environment	General Economic Services	Total (With UDAY Plan)	Total (Without UDAY Plan)	Percentage of Eco. Services Expenditure to total Expenditure
2004-05	15.16	22.21	1.46		50.60	6.79	0.11	3.67		100.00	20.62
2005-06	18.17	19.89	1.93		45.44	10.82	0.11	3.66		100.00	21.78
2006-07	15.60	16.97	1.77		48.32	12.16	0.07	5.11		100.00	22.69
2007-08	11.84	17.97	1.30		51.51	8.24	0.08	9.06		100.00	27.43
2008-09	17.71	28.78	1.68		34.96	12.05	0.10	4.72		100.00	21.19
2009-10	20.11	29.73	1.62		35.16	11.56	0.12	1.69		100.00	19.86
2010-11	27.14	25.88	1.46		33.05	8.41	0.21	3.85		100.00	22.77
2011-12	20.43	28.56	1.56		34.67	9.99	0.31	4.48		100.00	23.75
2012-13	17.52	27.46	1.22		41.23	7.59	0.18	4.80		100.00	27.43
2013-14	17.24	24.42	1.33		43.51	7.88	0.09	5.52		100.00	27.06
2014-15	13.79	35.98	0.84		37.47	6.38	0.16	5.38		100.00	30.59
2015-16	12.61	38.27	1.02		40.26	4.73	0.12	3.00		100.00	30.00
2016-17	17.39	37.68	1.51	48.73	33.13	5.70	0.14	4.46	100.00	100.00	30.33
2017-18 RE	13.93	43.22	0.89	48.24	33.12	5.80	0.07	2.98	100.00	100.00	34.28
2018-19 BE	20.93	38.10	0.84	48.66	32.98	4.26	0.09	2.80	100.00	100.00	30.33

Table 3.14: Share of Expenditure on Agriculture, Rural Development, Irrigation and Power. **(Per cent)**

Years	Agriculture and Allied Activities	Rural Development and Special Area Programme	Irrigation, Flood Control and Energy (With UDAY Plan)	Irrigation, Flood Control and Energy (Without UDAY Plan)
2004-05	15.16	22.21		50.60
2005-06	18.17	19.89		45.44
2006-07	15.60	16.97		48.32
2007-08	11.84	17.97		51.51
2008-09	17.71	28.78		34.96
2009-10	20.11	29.73		35.16
2010-11	27.14	25.88		33.05
2011-12	20.43	28.56		34.67
2012-13	17.52	27.46		41.23
2013-14	17.24	24.42		43.51
2014-15	13.79	35.98		37.47
2015-16	12.61	38.27		40.26
2016-17	17.39	37.68	48.73	33.13
2017-18 RE	13.93	43.22	48.24	33.12
2018-19 BE	20.93	38.10	48.66	32.98

3.6 Cost Recovery in Services and Subsidies

36. In the Chapter dealing with non-tax revenues (2.5paras 13 to16), it has already been discussed that raising revenue from public services is not a simple matter of recovering the cost of providing a service. Put in another way, the question is whether and the extent to which government should subsidize services provided by it. Does the government give subsidies? The answer would depend upon how subsidies are defined. One view regards provision of services by the government without recovery of cost as an implicit subsidy. To determine if such under recovery of cost is justified or not, a distinction is made between merit goods and non merit goods/services.(NIPFP) The argument is that under recovery of cost in non-merit goods is a subsidy and must be replaced by moving towards a system of levying user charges. The earlier approach of regarding all under recovery of costs as subsidies is now replaced by the concept of user charges so as to recover cost of providing services. This approach would require making a distinction between private goods/services and public /merit goods/services. Without a clearly accepted social and political ideology, a road map for cost recovery from services that are currently classified as social services cannot be drawn up. As mentioned before, the road map must first classify that a public service, even when free is not necessarily a social service. Parks are public places if they are maintained at

public cost largely in residential colonies where the not-poor category live, then why cannot a park fee be levied on residents of that area. Park provides a place to jog or walk in the morning but it also provides a green area of relatively clean air for everyone. When a property fee is not paid why should a maintenance fee or a cess not be charged annually or on a monthly basis by a Society made responsible for maintaining the park? It is one of the paradoxes of federal and local finance that, the closer the state is to the tax payer the more difficult it is to levy a tax or a cess even though the responsibility of providing essential services has to be given to the local authority. When such arrangements work in housing complexes there is no reason why they cannot be made in other parts. Exclusion would be a problem. Therefore, possibly everyone could pay or it could be factored in as a Cess in property taxes. As of now some parks are well maintained as public parks but some restrictions on entry could be tried. Fiscal responsibility requires that the level at which expenditure is incurred must also have the authority, willingness and capacity to raise revenue. If exclusion and access is a problem, examples from other countries who have successfully maintained such services at the local level could be tried.

37. What would be needed for urban areas and in 'Smart Cities' is strong urban bodies with community involvement? Failure to have this most important component may not give even partial cost recovery. Further, detailed analysis is required for different components that are currently clubbed together. For example, putting museums, heritage sites, sports together with primary education distorts the total picture. State withdraws from an essential service in the name of cost recovery when it could raise revenue elsewhere within the group clubbed under the head "education",

38. Where fairly large amounts are earned for example in heritage and tourist sites or in museums and Art Centres, again foreign collaboration for adopting an appropriate model could be tried. Philanthropy rather than privatization would be a better alternative. Many of the Art galleries and museums in many different parts of the world are supported by philanthropic foundations. India now has a long list of billionaires who could do the same instead of building temples and religious statues without approval of the community. In the solutions being attempted now e.g. privatization of monuments; the state loses a revenue source without ensuring environment protection. In Rajasthan, tourism is expected to generate and promote development. It has done so to a large extent. But time has now come not for promotion of tourism but managing tourism such that it does not destroy the ecology

and environment in an already fragile economy. India manages the Kumbh mela in Allahabad that surprises everyone. Temples like Vaishno Devi, Tirupati and Sai temple in Shirdi have done so remarkably well. This is the result of joint effort of the government and Trusts. All this took place when the phrase 'PPP Mode' was not in vogue Involving communities is more important instead of expressions like 'public participation in planning' or involving 'stake holders in decision making'. In services what is needed are models of Government Community Participation or GCP mode of running services that exist and are successful to more services.

39. In other countries e.g. Bali in Indonesia, they are thinking of not allowing tourists to some of their sites in order to protect the environment. Pollution by plastics is just one part of it but destruction and damage to sea life, wild life and natural habitats are just few of the problems. The point is that the state must go beyond the financial side and find solutions for more efficient and effective management of tourism and of haphazard urbanization that violates town planning norms.

Table 3.15: Cost Recovery in Services

Years	Total Recovery*	General	Social	Economic	Total Recovery**
2004-05	10.78	3.18	3.28	0.71	6.80
2005-06	12.73	5.50	2.93	0.53	8.02
2006-07	13.75	6.69	2.86	0.56	9.41
2007-08	13.92	10.54	2.79	0.34	10.06
2008-09	11.34	6.46	2.23	0.61	7.72
2009-10	11.36	6.48	2.16	0.49	8.31
2010-11	14.03	3.55	2.94	0.58	11.14
2011-12	17.10	3.85	2.59	0.47	13.80
2012-13	19.12	5.40	2.55	0.48	15.77
2013-14	17.98	5.70	2.25	0.47	15.11
2014-15	13.99	5.27	2.14	0.28	11.74
2015-16	10.29	4.00	2.38	0.55	8.33
2016-17	9.83	3.23	2.68	0.57	8.14
2017-18 RE	11.66	3.57	2.61	0.44	8.17
2018-19 BE	12.98	4.65	2.54	0.53	8.91

*Note: total includes interest & profit, ** Note: Total Without interest & profit

40. Table 3.15 and Table 3.16 shows that hardly 10 to 12 % of the expenditure is recovered by way of non-tax revenue. Absence of cost recovery in irrigation and water supply has attracted the attention of policy makers for long but without success in generating revenues. A solution being tried in some parts of Rajasthan not merely to recover cost but to augment and manage available water resources – tanks and seasonal rivers and rivulets- is being attempted through involving the community in the effort. In canal irrigation Water User Associations have been constituted for managing water flow to all users but the objective as of now is not merely to recover O&M costs of canal irrigation specially when users of water perceive government costs as high and wasteful to justify their unwillingness to pay or share costs. Similarly for ground water pumping, the job is given to the DISCOMS to bridge the gap between ACS and ARR. This will be reflected in the finances of the state only when the DISCOM operations do not have to be supported through grants and/or subsidies in some form.

Table 3.16: Cost Recovery in Water Supply **(Number)**

Year	Urban Water Supply Schemes	Rural Water Supply Schemes
2004-05	38	59
2005-06	38	61
2006-07	37	67
2007-08	39	83
2008-09	35	48
2009-10	35	44
2010-11	44	60
2011-12	34	46
2012-13	29	48
2013-14	26	46
2014-15	27	39
2015-16	9	43
2016-17	1	1
2017-18 RE	0	0
2018-19 BE	51	58

41. **Explicit Subsidies:** The state government has been subsidizing the power sector by providing explicit subsidy of more than Rs. 8000 crore annually. This is more than 97% of the amount shown as subsidies that were given for gas distribution, food supply and crop husbandry. Latest details that we were able to procure were as given in CAG Report of 2015-16. The position with regard to the power sector subsidy after the UDAY scheme was implemented is not clear. Loans and advances are being shown in the budget for the DISCOMS and an amount of Rs 12,000 croreis shown as a grant to them each year after the launch of the scheme.

Another form of subsidy is in the form of lower or exempted interest rates on loans or exemption from taxes or concessions in fees charged. Detailed analysis of such explicit and implicit subsidies requires a comprehensive study. Every year the budget introduces new schemes to achieve different objectives. Budget provisions for them are also made. However, at the end of the year we were unable to get scheme wise details of the concessions announced the amount spent is not available in the finance documents that provide detailed statistics of budget expenditures. 2018-19 budget includes a provision of Rs 8000 crore for loan waiver, tax relief of Rs 650 crore and a provision for social welfare schemes of Rs 44,135 crore.

3.7 Agriculture and Rural Services

42. Agriculture and related activities are important for development as well as for a large section of people who derive their livelihood from agriculture and related activities. Table 3.17 shows the distribution among agriculture and related sectors.

Table 3.17: Expenditure on Agriculture and Allied Sectors

(Per cent)

Years	Crop Husbandry	Soil and Water Conser-vation	Animal Husb-andry	Dairy Develo-pment	Fisheries	Forestry and Wild Life	Food, Storage and Ware-housing	Agriculture Research and Education	Co-operation	Other Agriculture Programmes
2004-05	26.04	13.02	20.66	0.15	1.16	25.18	-0.03	9.40	4.01	0.40
2005-06	42.72	7.40	16.62	0.31	0.93	20.82	0.00	7.37	3.49	0.34
2006-07	42.57	6.80	16.92	0.20	0.98	21.24	0.47	6.67	3.81	0.35
2007-08	44.62	3.32	18.16	0.38	0.92	21.29	0.07	6.46	4.42	0.35
2008-09	43.20	3.33	18.08	0.00	0.87	24.23	0.02	4.84	4.75	0.68
2009-10	40.75	3.29	17.68	0.10	0.80	26.04	0.00	6.03	4.96	0.35
2010-11	63.62	1.43	11.26	0.04	0.45	15.31	0.00	4.02	3.65	0.21
2011-12	56.66	1.84	13.85	0.02	0.49	16.92	0.00	4.55	5.43	0.23
2012-13	50.26	0.79	14.78	0.04	0.41	16.19	0.00	4.27	13.05	0.21
2013-14	43.17	1.34	16.38	4.16	0.38	17.39	0.00	4.17	12.80	0.21
2014-15	45.96	1.50	14.45	0.33	0.33	17.81	0.00	4.07	15.33	0.21
2015-16	43.76	1.66	14.85	0.10	0.34	19.55	0.00	4.49	15.05	0.21
2016-17	51.67	1.26	15.11	0.00	0.24	15.45	0.00	4.25	11.84	0.18
2017-18 RE	49.86	1.23	18.14	0.09	0.23	14.06	0.00	4.17	12.03	0.18
2018-19 BE	36.84	0.63	15.66	0.05	0.24	10.45	0.00	3.24	32.75	0.14

i. The total expenditure shown under the Head Crop Husbandry shows a declining trend. Decline of RS 1300 crore in the last two years is a cause of concern. Except for Co-operation and animal husbandry, all shares have declined.

ii. The sub-sectors within agriculture and allied sectors also include, among other sub sectors, animal husbandry, dairy development and co-operation.(Table.3.17) Animal husbandry and dairying is of importance in Rajasthan on account of the importance of livestock in the state's economy. Data shown below shows that the share of the two sectors does not exhibit a trend in either direction. The share increases in some years and declines in others.

iii. Currently the share of animal husbandry and dairying is budgeted at 15-16 % in the 2018-19 budget.

iv. Share of soil conservation should have gone up on account of the 'Soil Card' scheme announced by the PM. Data does not show an increase under this head – in fact the share has decreased from above 7% in 2006 to less to only 1.66 per cent in 2015-16 and the falling trend continues in the subsequent two years. Decline in share is from a declining total.

v. Interestingly, Co-operation records an increase from 12 % to 32% in the 2018-19budget. Presumably this increase is due to the way in which the loan waiver announcement will be administered. The government has already announced raising an off budget loan through NAFED by giving a guarantee of Rs 5000 crore.

vi. Forestry and wild life is important for the state firstly because forest year of the state land records is only 8 %; and secondly because the state has wild life sanctuaries, a desert sanctuary and a bird sanctuary. All these geographies require the state to pay greater attention to the preservation of wild life through creation of infra structure of water and forest, human population of these areas to be resettled and alternative employment for households displaced from the mining areas that are within forest areas in which mining is no longer permitted due to Supreme Court orders.

vii. Rajasthan known as a desert state may not regard fisheries as an important sector but less well known is the fact that many water bodies in south and east Rajasthan produce fish that is largely taken for sale to Gujarat and Maharashtra on the west and as far as East UP and West Bengal in the west by contractors from these states as fresh water fish is preferred by many fish eaters Consumption of fish within the state is limited to a small population that has migrated from western districts and possibly from Bangladesh and to a small proportion of the non-vegetarian population that consumes meat and chicken as well as fish. With the increase in canal irrigation, inland fisheries is now developing in some parts of the state (Ajmer, Jaipur, Ganganagar, Hanumangarh, Alwar and Udaipur) as an additional source of income. Doubling farm incomes would require diversification into high value output of all types including fisheries in the state.

viii. Similarly, animal husbandry and dairying includes many other animal products. Dairying has been successful by the initiative of farmers who adopted the new technologies when market and price situation improved. Poultry developed during the seventies and early eighties in a big way as long as corn meal at cheap rates was available due to PL480 imports from the US. The activity declined as the scale needed to be very large to compete with Maharashtra and Andhra Pradesh but a few poultry farms that specialize in providing hybrid chicks and as a byproduct, chicken meat in markets still survive e.g. in Pushkar and in Udaipur. Private enterprise takes over but initial state support must not be ruled out. The proportion of expenditure (0.5%) for dairy development and less than one per cent (0.24%) for fisheries indicates that the activities are not getting the attention that they deserve. This year, Saras dairy of Rajasthan is finding it difficult to find markets for ghee despite a reduction in prices. The state could set up more laboratories for testing the quality of food products in general and milk products in particular. This is an important regulatory function not being adequately performed today. When Ajmer was a Part C State, the British had set up a laboratory and appointed an England trained public health doctor just for testing milk and milk products in Ajmer under the Municipal Council of the city. But from cases of adulteration reported daily, it is obvious that the function of food safety is not being adequately performed. Regulation of vegetables using sewage water, of dairies using oxytocin, antibiotics in poultry, certification of organic produce weights and measures are just examples of functions that should be part of public services. Concerned citizens or affected persons should not have to go to courts for redressal if the government takes up some of these responsibilities.

ix. Agricultural research, and Warehousing and Storage is another relatively neglected area. It is in these minor budget sectors, not only is the share small but also a major part must be going into administrative expense in wages, salaries and transport. This premise is based upon the Composition of expenditure in industries (Table 3.18) that shows almost the entire expenditure on administration and a small amount going into specific industries.

3.8 Expenditure on Industries

43. The role of the Industries Department and of the state has undergone a change with liberal industrial policies that have been adopted since 1991. Promotional role and development of infrastructure is the responsibility of the states Industrial Development Corporation that acquires land and develops infrastructure in the industrial estates developed by it. The role of the state finance corporation has also reduced as the function is increasingly being performed by banks and by NBFCs. Government expenditure is basically on general administrative responsibilities and on promotion, training and efforts towards productivity enhancement activities. In the classification shown in Table 3.18, absence of agro processing does not appear. This is a sector for which specific type of assistance may be required. (for example developing a cold chain for increasing the shelf life of fruits and vegetables).

Table 3.18: Expenditure on Industries

(Per cent)

Years	Part A							Part B				
	General	Direction and Administration	Industrial Productivity	Industrial Education, Research and Training	Tribal Area Sub-Plan	Special Scheme Organisation	Grant-in-Aids to Public Sector And other Undertakings	Consumer Industries	Leather Trading Scheme	Sugar	Others	New Items
2004-05	98.95	61.30	31.71	4.81	1.84	0.33	0.00	1.05	6.24	0.00	93.76	0.00
2005-06	99.22	57.29	33.24	7.31	1.82	0.34	0.00	0.78	0.14	0.00	99.86	0.00
2006-07	99.42	45.58	48.67	4.05	1.45	0.25	0.00	0.58	0.14	0.00	99.86	0.00
2007-08	99.53	52.61	37.07	8.59	1.38	0.35	0.00	0.47	0.06	0.00	99.94	0.00
2008-09	98.87	79.40	16.77	1.57	2.00	0.26	0.00	1.13	41.33	0.00	58.67	0.00
2009-10	99.30	76.42	20.33	1.22	1.80	0.23	0.00	0.70	17.69	0.00	82.31	0.00
2010-11	99.67	60.58	12.82	14.55	11.86	0.19	0.00	0.33	0.00	0.00	100.00	0.00
2011-12	99.65	44.84	30.34	13.79	3.58	7.46	0.00	0.35	34.10	0.00	65.90	0.00
2012-13	99.67	57.19	14.28	17.68	5.25	5.60	0.00	0.33	0.00	0.00	100.00	0.00
2013-14	99.68	53.51	32.91	6.49	3.49	3.60	0.00	0.32	0.00	0.00	100.00	0.00
2014-15	99.71	46.38	44.31	4.87	2.49	1.96	0.00	0.29	0.00	0.00	100.00	0.00
2015-16	99.63	62.47	22.96	5.23	2.99	2.17	4.18	0.37	0.00	0.00	100.00	0.00
2016-17	99.67	76.24	21.07	0.00	2.13	0.56	0.00	0.33	0.00	0.00	100.00	0.00
2017-18 RE	99.83	50.27	29.96	4.06	3.95	4.02	7.73	0.17	0.06	0.00	99.94	0.00
2018-19 BE	99.79	59.75	31.70	0.05	4.29	4.20	0.00	0.21	0.05	0.00	99.95	0.00

Annexure I to Chapter III

III.1: Classification of Expenditures

Financial statements continue to make classifications used by the Reserve Bank. Distinction between revenue or current expenditure is a standard accounting distinction. It is of practical importance in determining income tax liability on income and also for assessing how much is being spent on creating assets that will become productive in future. However, in classifying expenditure – revenue as well as capital – into the two categories of development expenditure and non-development expenditure – the assumption was that at least some part of current expenditure is as important in the development context as capital investment is. An attempt is made by the states to show a larger part of expenditure as development expenditure, presumably, to demonstrate priorities. By definition development expenditure is not considered wasteful while non- development has a negative prefix and is considered less important if not entirely wasteful. As a result, misclassification is also possible. While sectoral classifications are justified and clearly understood, the classification of expenditure as development or non-development can now be dispensed with. Plan and non-Plan distinction has been discontinued but the development/non-development classification continues in the RBI analysis as well as in state budgets. It is time now that this distinction be discontinued and replaced by a more fine tuned classification of the RBI classification shown in the Tables below. RBI Tables combines sectoral revenue and capital expenditure. It may be useful to retain the distinction in the combined sectoral tables.

Annex. Table AIII.1: Development and Non Development Expenditure

Years	Total Revenue Expenditure Rs crore	Total Revenue Expenditure (Without UDAY Plan)	Development Expenditure (Without UDAY Plan)	Non-Development Expenditure	Percentage of Development Expenditure to total Expenditure
2007-08	35971	100.0	62.45	37.55	62.45
2008-09	40536	100.0	62.16	37.84	62.16
2009-10	45805	100.0	60.96	39.04	60.96
2010-11	50386	100.0	62.65	37.35	62.65
2011-12	61882	100.0	64.62	35.38	64.62
2012-13	76557	100.0	67.29	32.71	72.6
2013-14	89986	100.0	68.76	31.24	73.4
2014-15	113460*	100.0	70.52	29.48	74.5*
2015-16	164827*	100.0	70.81	29.19	80.9*
2016-17	157087*	100.0	66.82	33.18	69.17*
2017-18 RE	154858	100.0	68.24	21.32	70.7
2018-19 BE	169118	100.0	66.04	33.96	68.45

**These numbers are from the Budget document of 2018-19 and are different from the earlier documents. Hence the percentages also change. This is the point that has been made in the context of accounting for UDAY. Change in the ratios can be seen from the year 2012-13 with the account numbers presented in the 2014-15 budget.*

RBI in its Report on State Finances gives a different classification of expenditures for the sake of comparison over a longer time and for making inter -state comparisons. RBI Statement on three components is given in the Table below.

Annex. Table A III.2: Revenue Expenditure **(Rs Billion)**

Years	Expenditure on Wages and Salaries	Expenditure on Operations and Maintenance	Social Sector
2001-02	53.0	8.5	72.2
2002-03	52.8	11.2	77.3
2003-04	57.5	11.4	80.3
2004-05	62.6	12.2	92.3
2005-06	68.2	12.7	98.4
2006-07	72.9	15.2	109.2
2007-08	79.9	16.6	125.8
2008-09	117.0	20.2	146.8
2009-10	140.3	20.7	194.3
2010-11	145.7	21.9	215.8
2011-12	158.5	27.3	227.9
2012-13	176.0	–	278.5
2013-14	–	–	337.0
2014-15	236.2	4.7	419.0
2015-16 (RE)	272.5	6.2	548.2
2016-17 (BE)	295.1	6.9	674.7

Source: RBI, State finances a study of budgets of 2016-17.

Annex. Table A III.3: Share of Education and Social Sectors*

Years	Education	Medical	Social Sector
2000-01	18.8	5.2	41.3
2001-02	18.2	5.2	40.7
2002-03	15.5	4.2	37.3
2003-04	14.1	4	35.7
2004-05	13.8	3.7	34.1
2005-06	17.2	4.4	40.1

2006-07	15.6	4.1	39.5
2007-08	14.6	4.0	38.9
2008-09	17.9	4.8	45.2
2009-10	19.0	4.8	44.3
2010-11	19.1	4.8	42.4
2011-12	17.8	5.1	42.6
2012-13	16.1	4.8	41.5
2013-14	16.3	5.0	44.5
2014-15	16.7	5.6	47.1
2015-16 (RE)	12.4	4.6	37.4
2016-17 (BE)	14.9	5.6	43.4

*RBI classification includes capital expenditure in the total Source: RBI, State finances a study of budgets of 2016-17.

Expenditure on education in Rajasthan is reported as 3.5% in Shastri and Singh (2018) study as percentage of GSDP compared to a high of 5.2% in UP and a low of 1.6% in Karnataka.(year is not mentioned)Table AIII.4 below shows Rajasthan situation for revenue expenditure only. It is to be noted that the share in social services, individually as well as in total have remained more or less constant. This is an unexpected finding as the expectation has been that the state should have been spending more on education and health to come out of its description as a 'Bimaru' state.

Annex. Table A III.4: GSDP Ratio of Expenditure on Social Services. (Percentage)

Years	Education, Sports, Arts & Culture	Medical, Health & Family Welfare	Water Supply, Sanitation, Housing and Urban Development	Total Social Services
2004-05	3.09	0.82	0.80	5.60
2005-06	3.27	0.80	0.75	5.62
2006-07	2.87	0.73	0.64	5.22
2007-08	2.78	0.73	0.90	5.24
2008-09	3.31	0.88	0.99	6.08
2009-10	3.47	0.87	0.99	6.20

2010-11	3.01	0.75	0.79	5.29
2011-12	2.66	0.75	0.73	5.04
2012-13	2.62	0.75	0.85	5.12
2013-14	2.78	0.80	0.78	5.71
2014-15	3.14	0.97	0.76	6.13
2015-16	3.09	1.05	0.83	6.34
2016-17	3.23	1.02	0.98	6.50
2017-18 RE	3.38	1.19	1.00	6.82

Annexure A2 to CHAPTER III

IIIA.2 Tables with figures in Rs crore

Annex. Table AIII.2.1: Non Tax Revenue Expenditure **(Rs Crore)**

Years	Revenue Expenditure (Without UDAY Plan)	General Services	Social Services	Economic Services (Without UDAY Plan)
2004-05	19906	8653	7148	4105
2005-06	21499	8822	7994	4683
2006-07	24954	10356	8935	5663
2007-08	29128	10939	10200	7989
2008-09	34296	12976	14053	7267
2009-10	40132	15666	16494	7972
2010-11	44873	16759	17895	10220
2011-12	53653	18982	21928	12744
2012-13	63462	20761	25293	17408
2013-14	75510	23588	31486	20436
2014-15	94542	27868	37753	28920
2015-16	106239	31016	43348	31874
2016-17	118140	39203	49372	29565
2017-18 RE	142859	45370	56406	41082
2018-19 BE	157118	53361	64456	39302

Annex. Table AIII2.2: Revenue Expenditure General Services **(Rs. Crore)**

Year	Organs of State $	Fiscal Services	Collection of taxes on property & Capital transactions	Collection of taxes on Commodities and services	Other	Interest payment and servicing of Debt	Administrative Services #	Pension & Misc. general Services	Grants-in-aid and contribution	Total
2004-05	209	430	207	112	111	5172	1201	1641	1	8653
2005-06	211	404	223	130	51	5210	1330	1665	2	8822
2006-07	224	448	230	211	8	6052	1494	2131	8	10356
2007-08	245	524	254	265	5	5943	1630	2580	17	10939
2008-09	405	651	350	298	3	6224	2330	3340	26	12976
2009-10	467	721	402	315	4	6769	2791	4899	19	15666
2010-11	532	788	411	376	1	7369	2860	5189	21	16759
2011-12	503	1077	461	615	1	7892	3159	6078	273	18982
2012-13	552	1031	526	503	2	8340	3477	7095	265	20761
2013-14	799	1123	545	576	2	9063	4129	8224	249	23588
2014-15	891	1424	619	804	2	10463	4843	10247	0	27868
2015-16	792	1708	635	1071	2	12008	5244	11264	0	31016
2016-17	887	2195	705	1488	2	17677	5868	12577	0	39203
2017-18 RE	1125	2362	810	1550	3	19786	6563	15534	0	45370
2018-19 BE	1446	2641	893	1745	3	21413	7646	20215	0	53361

Annex. Table AIII2.3: Revenue Expenditure in Social Services (Rs. Crore)

Year	Education, Sports, Arts & Culture	Medical, Health & Family Welfare	Water Supply, Sanitation, Housing and Urban Development	Labour & Labour Welfare	Welfare of SC/ST Tribes and Other Backward classes	Social Welfare-Nutrition	Others	Total
2004-05	3950	1049	1023	43	176	884	22	7148
2005-06	4652	1137	1071	47	173	890	24	7994
2006-07	4917	1245	1096	51	243	1351	30	8935
2007-08	5423	1429	1746	60	314	1188	38	10200
2008-09	7653	2027	2280	94	450	1485	63	14053
2009-10	9212	2324	2621	106	422	1760	48	16494
2010-11	10182	2525	2675	102	512	1838	61	17895
2011-12	11586	3271	3177	113	634	3071	76	21928
2012-13	12952	3678	4201	344	810	3192	115	25293
2013-14	15308	4414	4320	311	1056	5833	244	31486
2014-15	19363	5973	4679	452	965	6226	95	37753
2015-16	21097	7182	5698	477	1018	7767	108	43348
2016-17	24498	7738	7406	495	1100	8003	131	49372
2017-18 RE	28013	9889	8314	573	1447	8012	159	56406
2018-19 BE	33721	11839	8262	646	1562	8266	160	64456

Annex. Table AIII2.4: Expenditure on Rural and Urban Water Supply (Rs. Crore)

Year	Urban Water Supply Schemes	Rural Water Supply Schemes
2004-05	449	287
2005-06	485	302
2006-07	498	278
2007-08	538	250
2008-09	634	458
2009-10	703	565
2010-11	720	529
2011-12	825	599
2012-13	920	560
2013-14	1012	582
2014-15	1076	754
2015-16	NA	901
2016-17	NA	NA
2017-18 RE	NA	NA
2018-19 BE	1486	1317

Annex. Table AIII 2.5: Expenditure on Economic Services

Rs. Crore

Year	Agriculture and Allied Activities	Rural Development and Special Area programme	Industries and Minerals	Irrigation, Flood Control and Energy (With UDAY Plan)	Irrigation, Flood Control and Energy (Without UDAY Plan)	Transport	Science, Technology and Environment	General Economic Services	Total (With UDAY Plan)	Total (Without UDAY Plan)
2004-05	622	912	60	-	2077	279	5	151	-	4105
2005-06	851	931	90	-	2128	507	5	171	-	4683
2006-07	883	961	100	-	2736	689	4	289	-	5663
2007-08	946	1436	104	-	4115	658	6	724	-	7989
2008-09	1287	2091	122	-	2540	876	7	343	-	7267
2009-10	1603	2370	129	-	2803	922	9	135	-	7972
2010-11	2774	2645	149	-	3378	860	21	393	-	10220
2011-12	2603	3640	199	-	4419	1273	39	571	-	12744
2012-13	3051	4781	212	-	7178	1321	31	835	17408	17408
2013-14	3522	4991	272	-	8892	1610	19	1129	20436	20436
2014-15	3989	10405	242	10837	10837	1844	46	1557	28920	28920
2015-16	4021	12198	325	12831	12831	1506	38	955	31874	31874
2016-17	5140	11141	445	18794	9794	1686	41	1318	38565	29565
2017-18 RE	5722	17754	364	25608	13608	2383	27	1224	53082	41082
2018-19 BE	8226	14972	332	24961	12961	1674	37	1099	51302	39302

CHAPTER IV

UJWAL DISCOM ASSURANCE SCHEME - UDAY SCHEME

Fiscal Impact

Note: This Chapter has used NIPFP (2018) study by Chakraborty et al. for the analysis and forecasts for impact on State Finances.

4.1 UDAY Scheme

44. The Government of India launched UDAY in November 2015 which aims at the financial turn around and revival of DISCOMs. It is a tripartite agreement between Ministry of Power, State governments and DISCOMs. Over the years, DISCOMs have accumulated huge losses resulting in increasing debt and high interest burden. Several factors have contributed to the deteriorating financial position of the state power sector despite reforms taken in recent years. One of important reforms was the separation of generation of power and the transmission and distribution of power. The RSEB was unbundled into 5 companies viz Rajasthan Rajya Vidyut Utpadan Nigam Ltd, Rajasthan Rajya Vidyut Prasaran Nigam Ltd, Jaipur Vidyut Vitran Nigam Ltd, Jodhpur Vidyut Vitran Nigam Ltd, and Ajmer Vidyut Vitran Nigam Ltd. The Government of Rajasthan has signed MoU with the Government of India and the DISCOMS in January 2016. As on September 30, 2015, the outstanding debt of DISCOMs in Rajasthan was Rs.80529 crores. Rajasthan had the largest amount of accumulated debt of all DISCOMS of India. The debt was estimated to be 8.8 % of GSDP.

45. The objective of the scheme is to take the debt and interest burden off the balance sheets of the DISCOMs in order to enable them to focus on improving operational efficiency and on reducing the gap between the cost of power and revenue raised by their operation. The objective of the scheme is to set free DISCOMs of their debt in the next 2-3 years through the following four initiatives:

1. Improving operational efficiencies
2. Reduction of cost of power;
3. Reduction in interest cost of DISCOMs; and
4. Enforcing financial discipline on DISCOMs through alignment with State finances.

46. Reducing T&D losses through a number of technical improvements to increase revenues is integral to the scheme. The impact on the DISCOMs is likely to take place over

the medium term. Be as it may the immediate impact of financial restructuring is on fiscal parameters of the State Government even though the UDAY debt will not be included in the fiscal deficit for two years in order not to exceed the limits of deficit under FRBM Act Under UDAY, the participating state would take over the debt of the DISCOMS in two years for which the state can issue non-SLR State Development Bonds in the market or directly to the banks/financial institutions holding the DISCOM debt who will get government bonds. 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.

Table 4.1: UDAY financial arrangements upto 2017-18

Particulars	Amount in Rs crore
Outstanding Debt as on 30-09-2015	80520
50% debt taken over by GoR	40059
FRP Bonds taken over by GoR	2700
Debt taken over 0n 17-03-16	28455
Debt taken over on 31-03-16	8894

47. UDAY Scheme aims to achieve long term financial sustainability by reducing the interest burden on the DISCOMS and through measures to improve operational efficiency and eliminate commercial losses within a short span of two to three years. DISCOMs receive support from the state government in various ways. In FY15 the support from the state amounted to 2.4% of GSDP. This includes; i. subsidies for supply of power to agriculture; ii. Interest subsidies on loans contracted by them, and iii. rebalancing of the debt-equity ratio by converting part of the debt to equity. Rebalancing of debt to equity was done first in FY12. This increased state support to DISCOMs from 1.2% of GSDP to 2.2%. Under UDAY a similar process will continue as the transfer of debt will take the form of interest free loan from the state repayable over a five year period up to FY20 through equal sized equity injections. The state further proposed additional support to the DISCOMs by financing their operational losses from FY 16 and FY 17 amounting to approximately 1.4% of GSDP. The

accounting adjustments could be according to the MoU of the UDAY scheme accepted by the state government.

The accounting adjustments are made by the Government under which losses are to be funded by the state in a gradual manner without any accommodation by way of relaxation of deficit constraints under FRBM beyond two years FY 15-16 and the amount of loan contracted in FY 15-16 is converted into a loan of Rs.34329 crore and equity of Rs.5700 crore. This amount totals the debt of Rs. 40049 crore taken over in FY 15-16. In FY 16-17 for the debt of Rs.22372 crore taken over, the adjustment is under loan to the DISCOMS of Rs.10372 crore, equity of Rs. 3000 crore and a grant of Rs.9000 crore. In FY 17-18 a similar exercise of showing Rs.3000 crore as equity and Rs.12000 crore as grant is undertaken. Grants are included in public revenue expenditure for UDAY in the State budget and equity is shown as capital outlay. It is not clear who will bear the interest burden of the amounts shown as Loans and advances to the DISCOMs.

48. This appears as a rather convoluted attempt at financial engineering for improving and/or cleaning up the balance sheets of the DISCOMs although the scheme recognizes that the real issue is about improving operational efficiency in the power sector. As mentioned above, the scheme has spelt out detailed goals/targets for this Two of the most important ones are i. to reduce losses by bridging the gap between the average cost of supply (ACS) and the average revenue realization (ARR) and ii. to reduce the T&D losses. As for reducing the gap between ACS and ARR, the progress to date is that the gap is of 0.15 paisa per unit (Rs 6.22 minus 6.07) and the target is for eliminating the gap by FY19. It is expected that the gap in FY 19 will be reduced only to Re.0.11. Regarding reduction in AT&C losses, the target under UDAY is to bring it down to 15%. This is unlikely to be achieved as the present loss shows a loss of 19.68% that may reduce to 18.50 by the end of the year. Financials of DISCOMS currently show an annual loss of RS 2400 crore despite the reduction of interest cost to UDAY.

49. These accounting adjustments are reflected in the state budget and equity is shown as capital outlay and grants are shown as revenue expenditure. These amounts are added to the revenue deficits in the state budget but the market loans against the debt taken over is not included in the fiscal deficit without UDAY so as to remain within the debt ceiling of 3% prescribed in the FRBM Act. This exemption of not including UDAY debt in fiscal deficit for

two years is part of the scheme.

50. The impact on state finances is immediate and will continue until the bonds are redeemed in 10 to 15 years. Operational efficiency initiatives, however are not likely immediately but would become evident over a longer period although the targets imply a time line of 3-5 years when it is already the third year of operation of the scheme. The long term fiscal impact is brought out in the NIPFP study. The forecasts for the future are reproduced from the NIPFP study in Table 4.2

We may note that the assumptions underlying the forecasts of Table 4.2 are optimistic with respect to revenue receipts and relatively conservative with respect to expenditures; yet, revenue deficits continue until FY 27 of GSDP to 2.5% in 10 years. The fear that UDAY will have an unfavourable impact on state capex is also borne out. Table 3.1 (para 24) has already shown that the share of capital expenditure has declined from 14.5 % in FY15 to 10.3% in FY 17 and outstanding liabilities continue to increase throughout the 10 year period even without UDAY debt. Another aspect emerging clearly from the estimates in the Table is the decline in capital expenditure ratio from above 3% of GSDP in FY 17 to 2.5% in FY 27.

Table 4.2: State Finances 2017-18 BE to 2026-27* **(Per cent of GSDP)**

	2017-18BE	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Revenues	15.73	15.91	16.13	16.37	16.65	16.95	17.29	17.66	18.06	**18.49**
Own Tax Revenue	6.59	6.71	6.84	6.97	7.11	7.25	7.40	7.56	7.73	**7.90**
Own Non-Tax Revenue	1.75	1.65	1.55	1.45	1.36	1.28	1.20	1.13	1.06	**1.00**
Central Transfers	7.38	7.56	7.75	7.95	8.18	8.42	8.68	8.96	9.27	**9.60**
Share in Central Taxes	4.50	4.75	5.02	5.30	5.59	5.91	6.24	6.59	6.96	**7.35**
Grants	2.88	2.81	2.73	2.66	2.58	2.51	2.44	2.38	2.31	**2.25**
Expenditure Revenue Expenditure	17.36	17.75	17.84	17.93	18.01	18.09	18.16	18.23	18.28	**18.32**
General Services	5.31	5.62	5.63	5.64	5.64	5.64	5.63	5.61	5.58	**5.53**
Interest Payment (with UDAY)	2.37	2.65	2.63	2.61	2.59	2.56	2.51	2.46	2.39	**2.31**

Pension	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71	**1.71**
Others	1.23	1.26	1.29	1.32	1.35	1.38	1.41	1.44	1.48	**1.51**
Social Services	6.37	6.45	6.53	6.61	6.69	6.78	6.86	6.95	7.03	**7.12**
Education	3.24	3.39	3.54	3.70	3.87	4.04	4.23	4.42	4.62	**4.83**
Health	0.73	0.77	0.81	0.84	0.88	0.93	0.97	1.02	1.07	**1.12**
Others	2.40	2.29	2.18	2.07	1.94	1.81	1.66	1.51	1.35	**1.18**
Economic Services	5.68	5.68	5.68	5.68	5.67	5.67	5.67	5.67	5.67	**5.67**
Capital Expenditure	3.09	2.71	2.68	2.66	2.64	2.62	2.59	2.57	2.55	**2.53**
Revenue Deficit	**1.63**	**1.83**	**1.71**	**1.55**	**1.36**	**1.14**	**0.88**	**0.57**	**0.22**	-0.18
Revenue Deficit (with-out UDAY)	**0.18**	**1.37**	**1.34**	**1.27**	**1.15**	**0.98**	**0.76**	**0.50**	**0.18**	-0.19
Fiscal Deficit	**2.99**	**4.61**	**4.45**	**4.27**	**4.05**	**3.80**	**3.51**	**3.17**	**2.80**	2.38
Fiscal Deficit (without UDAY)	2.99	4.14	4.08	3.98	3.83	3.64	3.39	3.10	2.76	2.37

51. To examine the impact of UDAY on the state finances, the state budget data from 2016-17 to the budget of 2018-19 was examined in detail. The amounts shown for UDAY as revenue expenditure in the three years are Rs. 9000, Rs 12000 and Rs 12000 for three years respectively. The same amount is shown as revenue expenditure on economic services and the same amount is shown as addition to revenue deficit. It is not clear whether the accounting adjustments are in fact writing off the accumulated losses of the DISCOMs to the tune of Rs 33000 crore to date through grants financed out of market loans taken by the government.

Besides the long term impact two aspects of the Scheme are a cause for concern. These are

1. The impact on state debt; and
2. Accounting for the market loans. Loan first appears as part of total revenue. Then the receipts are allocated. Of the allocation categories, revenue expenditure, capital outlay, loans and advances and the amounts are then shown as development expenditure and also as revenue deficit.

52. The study by NIPFP regarding the longer term impact of UDAY on state finances has shown that the fiscal deficit ratio with the UDAY liabilities would continue to add to the deficit ratio without UDAY until 2026-27. The outstanding liabilities to GSDP ratio will

continue to remain high and may not fulfill the benchmark of 20 per cent of GSDP ratio to be achieved no later than 2022-23 recommended by the FRBM Review Committee (Government of India 2017). Applying the same methodology to the 2018-19 optimistic budget estimates of receipts and expenditure, the future scenario does not improve mainly on account of the current level of revenue deficit even without UDAY and because of the increase in market loans that have already been incurred and the additional guarantees that are in the pipeline due to debt waiver and softening of administrative actions in the election year.

4.2 UDAY in Budget Finance Statements

53. UDAY scheme has become part of the fiscal operations of the state government. The scheme postulates that75 % of DISCOM debt will be taken over by the state. Against this bonds will be issued. However when trying to understand the impact of the scheme on fiscal parameters, the numbers for UDAY are listed and/or combined in ways that are not clear in the context of the likely impact on state finances in future. To illustrate, the total disbursements for UDAY in the two years is recorded as follows:

Table 4.3: Disbursements for UDAY **(Rs. crore)**

	2015-16	2016-17	2017-18
Land and advances	34350	10372	
Capital Outlay	5700	3000	3000
Revenue expenditure		9000	
Total	40050	22372*	

*Difference between debt with UDAY and without Uday is 22372. Growth of debt between 2015-16 and 2016-17 was 45616 or 21% with Uday and 23244 or 14% without Uday. Even the arithmetic of these numbers appears to be incorrect. Differences are not minor as the debt in the Finance accounts is about 5500 crores in 2015-16 and 2000 crores in 2016-17. Market loans raised under the scheme are not specifically mentioned. Numbers quoted in the research studies are not the same. And Finance Statements do not show UDAY loans and other loans and the ‘with UDAY’ and ‘without UDAY’ distinction is dispensed with. It is likely that some notional accounting adjustments are made in the accounts. But with and without UDAY accounting means that the difference must be explained by UDAY accounts. This is not possible with the present method of accounting.

54. The point that needs to be emphasized is that this method of accounting/ budgeting showing with Uday and without Uday categories in some items but not in all is not transparent. It appears to hide the actual deficit ascribed to UDAY but is in actual fact an overall deficit. Another point needs to be added. Debt to GSDP ratio numbers conceal many things that are not brought out openly or clearly in the budget statements. With and without UDAY budgeting adopted by the State government becomes apparent by examining whether the numbers are consistent.

2015-16	**2016-17**		
Debt of the DISCOMS	80,500cr		
50%	40,250 cr	plus	20125 cr
Budget	40050 cr	plus	22372 cr Diff 2253

55. Revenue deficit goes up by an additional Rs.9000 crores with UDAY. At the same time revenue deficits without UDAY have been increasing since 2013-14 from Rs.1039 crore in 2013-14 to Rs.3215crore, Rs.5954crore and Rs. 9114 crores in the succeeding three years respectively. In short, revenue deficit has increased nine times within three years (from Rs 1039 cr to Rs 9114 cr) without UDAY and has doubled in one year from Rs 9114 crore to Rs 18114 crore with UDAY. Absolute numbers do matter although the ratios to GDP may not look that big. Increase in revenue deficit continuously for four years and with the additional liabilities of UDAY requires at least two things: 1. improvement in the performance of DISCOMS and 2. reduction in the revenue deficit of the State government. Present scenario shows some improvement in DISCOMS but the results are below the time line targets of UDAY Revenue deficits in DISCOMS continue to grow.

CHAPTER V

FISCAL DEFICIT AND PUBLIC DEBT

5.1 Fiscal Responsibility and Budget Management Act. (FRBM)

56. FRBM Act was brought into effect from July 2004 in the context of widespread concern about rates of inflation associated with growing budget deficits of the central and state governments. Monetary and banking reforms were one side of the reforms and the second was fiscal policy reforms in direct and indirect taxes. FRBM Act of the Central Government is part of this process. The objective of the Act is to ensure macro-economic stability by fostering fiscal discipline and effective management of expenditure in order to achieve a more balanced budgetary outcome. Concepts of revenue deficit, primary deficit and budget or fiscal deficits were defined and analyzed. Indian government had introduced fiscal and monetary reforms with the advice of well known experts in the field and recommended by international agencies like the IMF and the World Bank. Elimination of revenue deficit (RD) and reduction of fiscal deficit (FD) to 3 per cent of GDP by 2008-09 were the stated goals.. State governments have also enacted similar legislation as apart from the deficits of the central budget, the states had also been borrowing from the Reserve Bank of India, thereby increasing the total deficit in the economy to levels that were regarded as unsustainable.

57. Fiscal consolidation has been a major objective of successive Finance Commissions. The 11th Commission recommended the creation of a Fiscal Reform Incentive Fund to assist the states in their efforts to reduce deficits. The 12th Commission recommended a Debt Consolidation and Relief Facility linked to a statutory route to eliminate revenue deficit and reduce fiscal deficit. The 13th Commission carried this approach further and worked out goals to be achieved by each state. These targets required each state (except W. Bengal, Punjab and Kerala) to achieve zero RD, achieve fiscal deficit of 3 % of GSDP and a debt target of 24.3 % by 2014-15. For Rajasthan the goal was zero RD for each year up to 2014-15; FD of 3 % of GSDP and overall debt to be reduced each year from a level of 40.4% in 2010-11 to 36.5 % in 2014-15.

58. Rajasthan enacted the FRBM Act in 2005. Targets incorporated in the Act are to

i. Achieve zero RD by 2011-12 and a revenue surplus thereafter;

ii. Achieve fiscal deficit of 3 % of GSDP by 2011-12; and

iii. Restrict total outstanding debt to 36.5, 36.0, 35.5,35,0 and 34.0 for each year from 2015-16 to 2019-20.

Budget Statements do show FRBM mid term plan and the targets are reported. Except for the zero revenue target, other targets are achieved. Review meetings as provided in the Rules of the Act are also held. However the Act and the Rules also specifythat assumptions underlying the financial aggregates should also be recorded in Forms attached to the relevant Rules. These details were not available on the website and were not accessible.

59. As shown in Table 5.1 that summarize long term trends of the relevant and significant parameters summarized in earlier chapters, Rajasthan was able to record a revenue surplus in three years – 2010-11, 2011-12 1n2 2012-13. But it has reverted back to revenue deficits for each year after 2012-13 (See Table 5.2).

Table 5.1: Fiscal Parameters

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016 -17
Rate of Growth of Revenue Receipts (%)	20.3	8.7	5.7	29.8	24.1	17.37	11.3	22.63	9.81	8.72
Rate of Growth of own Tax Revenue (%)	14.4	12.6	9.8	26.5	22.3	20.2	9.75	15.52	10.45	3.88
Revenue Receipts to GSDP ratio(%)	15.8	14.5	13.3	13.4	13.7	13.56	13.51	14.83	14.67	14.36
Own Tax Revenue to GSDP ratio (%)	6.8	6.5	6.2	6.1	6.1	6.18	6.08	6.28	6.25	5.84
Expenditure on Salary & Wages Rs crore	8072	11703	14030	14570	15847	17595	20604	23498	25872	30016
(i) as % of Revenue Receipts	26.2	35	39.7	31.7	27.8	26.3	27.67	25.73	25.8	27.53
(ii) as % of Revenue Exp.(net of Interest Payments & Pension	39.1	47.3	49.3	45	39.8	36.46	35.13	31.56	31.03	30.89
Expenditure on Interest Payments Rs crore	5943	6224	6769	7369	7892	8340	9063	10463	12008	17677
(i) as % of Revenue Receipts	19.3	18.6	19.1	16	13.8	12.46	12.17	11.46	11.97	16.21
(ii) as & of Revenue Expenditure	20.4	18.2	16.9	16.4	14.7	13.14	12	11.07	11.3	13.9
Debt & Other Liabilities Rs crore	77138	84023	91533	99285	106560	117809	129910	147609	209386	255002
(a). Debt & Other Liabilities (Without UDAY scheme									169336	192580
as % of GSDP	39.6	36.4	34.4	29	25.6	23.87	23.58	23.97	30.62	33.59
as % of GSDP (Without UDAY Scheme)									24.77	25.37

Source: Government of Rajasthan, Economic Review 2012-13 and 2017-18

5.2 Growth Rate of Revenue Receipts

60. A. **Own Taxes**

i. Rate of growth of revenue receipts has been highly varied. Range is from 29.8 in 2010, 24.1 in 2010-11 to less than 10 percent in 2008,2015,2016 and only 5.7 % in 2009-10. This is largely the result of change in central share of taxes as well as grants received

ii. Rate of growth of own tax revenue is also volatile and has ranged between 10 to 26 per cent. On account of introduction of GST the share in 2016-17 is only 3,88 % for non-VAT/GST taxes that are levied by the state (viz petroleum and alcohol). It may also be noted that the tax to GSDP ratio begins to fall in 2008-09 and in the years following, this ratio has not increased to the pre-2008 levels despite increased revenue from excise revenue from alcohol and petroleum royalties. Without these two sources, the revenue situation of the state would have been bleak in terms of the fiscal deficit ratios forecasted in the FRBM Act of the State and reiterated each year in the review meetings for FRBM.

61. B **Committed Expenditures**

Expenditure on salaries, pension and interest payment is regarded as non-discretionary or committed. This has been the reason for growing fiscal deficit number of employees rose and some of it was found to be wasteful or inefficient.

i. **Wages and Salaries**. The share of wages in revenue receipts and in revenue expenditure has been around 27% and 30% respectively and has been contained within a narrow range.

ii. **Pensions** have increased. (Not shown in the above Table) The rate of growth (CAGR) of pensions has gone up from 14% to more than 17% in 2018-19.

iii. **Interest.** The share of interest payment in expenditure had been going down from above 13% to about 11% because of debt restructuring and slight softening of interest rates. It has gone up again to 14% in 2016-17 because of UDAY and is likely to remain at this level until the market loans taken under UDAY are repaid in 10-15 years. As a ratio of interest payment to debt average interest rate on debt is currently 6.7%. (Ref PRS Study on State Finances 2016)

Table 5.2: Revenue & Fiscal Defici (RS. Crore)

Years	GSDP (At current prices* Rs. Crore	Revenue Surplus (+) Deficit (-) (With UDAY)	Revenue Surplus (+) Deficit (-) (Without UDAY Scheme)	Fiscal Deficit (With UDAY)	Fiscal Deficit (Without UDAY Scheme)
2004	127746	0.00	-2143	0.00	-6146
2005	142236	0.00	-660	0.00	-5150
2006	171043	0.00	638	0.00	-3970
2007	194822	0.00	1653	0.00	-3408
2008	230949	0.00	-827	0.00	-6974
2009	265825	0.00	-4747	0.00	-10299
2010	338348	0.00	1055	0.00	-4126
2011	434837	0.00	3357	0.00	-3626
2012	493551	0.00	3451	0.00	8535
2013	551031	0.00	-1039	0.00	15189
2014	615695	0.00	-3215	0.00	19000
2015	683758	0.00	-5954	63070	23020.00
2016	759235	-18114.00	-9114	46318	23946.00
	827648				

*(At current prices on 2011-12 Series) (Base year 2004-05 for 2007-08 to 2011-12

Table 5.2 a: Deficit Indicators of State Governments: State-wise (Per cent)

State	2015-16		2016-17		2017-18 (RE)		2018-19 (BE)	
	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP
I. Non-Special Category	0.1	3.3	0.4	3.7	0.4	2.9	0	2.6
Andhra Pradesh	1.2	3.6	2.5	4.4	0.5	3.4	-0.6	2.6
Gujarat	-0.2	2.2	-0.5	1.4	-0.5	1.7	-0.4	1.7
Madhya Pradesh	-1.1	2.7	-0.6	4.3	-0.1	3.4	0	3.3
Maharashtra	0.3	1.4	0.4	1.7	0.6	1.8	0.5	1.8
Uttar Pradesh	-1.3	5.2	-1.6	4.5	-1.4	3.1	-1.8	3
Rajasthan	**0.9**	**9.2**	**2.4**	**6.1**	**2.4**	**3.5**	**1.9**	**3**
All States	0	3.1	0.3	3.5	0.4	3.1	-0.2	2.6

RE: Revised Estimates. BE: Budget Estimates. RD: Revenue Deficit. GFD : Gross Fiscal Deficit. PD: Primary Deficit. GSDP: Gross State Domestic Product. # As percentages to GDP

Source RBI Report on State Finances 2018-19

Comparison of deficit indicators with other states is done on the basis of deficit to GSDP ratios. All the states shown in the Table 5.2a above have a gross fiscal deficit. Rajasthan GFD continues to be higher than the all –state average of 2.6%. The state shows a relatively large fiscal deficit in 2015-16 and in 2016-17 because of borrowing under the UDAY scheme.

5.3 Fiscal Parameters and Debt Sustainability

62. Revenue and Fiscal Deficits

Table 5.3: Fiscal deficit & debt to GSDP ratio

Years	Fiscal Deficit to GSDP (%) (Without UDAY)	Debt & Other Liabilities (with UDAY)	Debt & Other Liabilities (Without UDAY) (Rs. Crore)	Debt as % of GSDP (with UDAY)	Debt as % of GSDP (Without UDAY)
2004-05	-5.3		49861		52.2
2005-06	-4.1		50407		53.5
2006-07	-2.8		59796		50.1
2007-08	0.0		77138		39.6
2008-09	-1.5		84023		36.4
2009-10	-3.9		91533		34.4
2010-11	-1.2		99285		29.0
2011-12	-0.9		106560		25.6
2012-13	1.7		117809		23.9
2013-14	2.8		129910		23.6
2014-15	3.1		147609		24.0
2015-16	3.4*	209386	169336	30.6	24.8
2016-17	3.1*	255002	192580	33.6	25.4

*9.2 and 6.1 during 2015-16, 2016-17 respectively with UDAY..

1. In terms of the debt sustainability indicators viz. Debt to GSDP ratios, Table 5.2 shows that has remained within the prescribed limits the ratio after 2010-11. Between 2004-05, the growth of debt was indeed alarming in that the debt ratio was above 50% from 2004 to 2006.(Table 5.3) After the debt relief plan recommended by the Tenth and Eleventh Finance Commissions and the emphasis on the FRBM recommendations for the states, this ratio has remained below 25% in Rajasthan. Increase in 2015 and 2016 is due to UDAY debt.

2. The debt situation improved as a result of fiscal management (or could be errors of budgeting and forecasting of revenue and expenditure pointed out by CAG as well as by Shastri and Singh (2017). It is also due to off budget guarantees for debt raised by para state institutions.

3. Indicators that show improvement are:

i. Own revenue to revenue expenditure that remained above 50%; (Table 5.1)

ii. Revenue receipts to GSDP that remained above 13% from 2009 to 2016. Revenue receipts include central transfers and grants.

iii. Expenditure on salaries and wages that remained within the narrow range of 26 to 27.5%.

63. On the negative side, rates of growth of GSDP as well as of revenue receipts record sharp falls after 2013-14. Tax buoyancy ratio of own taxes/GSDP ratio has declined quite sharply. However, even with the decline in the two ratios, fiscal deficit is below the growth rate of both variables indicating either that off budget borrowings in the form of guarantees issued to state undertakings have been used to finance revenue as well as capital expenditure or that capital expenditure in the budget has not increased. It is also due to more financing of capital expenditure in the public-partnership (PPP) mode.

Table 5.4: Rate of Growth of Revenue Receipts and Revenue to GSDP ratios

Years	Rate of Growth of Revenue Receipts (%)	Rate of Growth of own Tax Revenue (%)	Revenue Receipts to GSDP ratio (%)	Own Tax Revenue to GSDP ratio (%)
2004-05	15.2	16.1	15.4	7.3
2005-06	17.3	17.4	16.8	8.0
2006-07	22.8	17.5	18.0	8.2
2007-08	20.3	14.4	15.8	6.8
2008-09	8.7	12.6	14.5	6.5
2009-10	5.7	9.8	13.3	6.2
2010-11	29.8	26.5	13.4	6.1
2011-12	24.1	22.3	13.7	6.1
2012-13	17.4	20.2	13.6	6.2
2013-14	11.3	9.8	13.5	6.1
2014-15	22.6	15.5	14.8	6.3
2015-16	9.8	10.5	14.7	6.3
2016-17	8.7	3.9	14.4	5.8

Revenue receipts to GSDP ratio remained above 13 per cent between 2009 and 2016 but own tax to GSDP ratio remained around 6 %. In fact a fall in the ratio to just a little above 6 per cent since 2008 is observed.

5.4 Non-discretionary or Committed Expenditure

64. Tables: 5.5 and 5.6 show the shares of different components of committed expenditure viz interest, salaries and pensions. It also shows public debt as a ratio of GSDP. Expenditure on organs of the state could also be included in the non-discretionary component of expenditure in which case another 4% would be added to the current level.

a. **Interest** burden is determined by the average rate at which the centre borrows money from different sources. Interest rates have been high in the past but have moderated significantly in recent years. The LIBOR has been 2 to 3 percent only and World Bank loans are at nominal rates with a long repayment period. Nevertheless, since the state governments negotiate debts from international agencies by their own efforts, the centre has now been charging the same rates as are charged by the international agencies. Debt from the Central government is charged at much higher rate. Currently the average interest on debt is 6.7%. This has helped in containing the interest burden on the state. Interest has been below 15 % of revenue expenditure since 2011 but has gone up as the share of market loans in total borrowing has increased. In 2016, interest accounted for 16% of revenue receipts and 14% of revenue expenditure (Table 5.6). For keeping interest on market loans low, credit rating of the State for SDLs and for units that borrow from financial institutions is important. Therefore if there has been an improvement in the 'Ease of Doing Business" indicator, (Rajasthan has slipped on this indicator in data released in June 2018 by the World Bank)it is a reflection of the efforts made by the State to manage not only fiscal parameters but also economic development indicators that appear in the state's statistical data albeit with a time lag. (Reference: GoR, Directorate of Economics and Statistics, Annual Statistical Abstracts)

b. Share of salaries and wages has been contained despite increase in salaries and dearness allowance. The method used is euphemistically called 'outsourcing' or using contractual persons for activities in which number of employees was fairly large. What was meant to be a means to improve work ethic especially of regular (permanent) employees became a method of employing high salaried skilled officers as Consultants after retirement. Engineers. Architects, Administrators with specialized experience on fixed remuneration or on per diem basis recommended in international contracts became an accepted practice even in services where this could be detrimental to efficiency. Services are now hired not only on contract but also through a process of auction or bidding.

c. Ban on employment of Class IV employees and a blanket ban on new recruitment in all departments and in aided institutions, long delays in recruitment through Public Service Commission have succeeded in keeping the expenditure on salary of wages and salaries below and within a suggested limit of 30% of revenue expenditure. The total number of employees in the public sector including government has remained constant at 9.5 lakhs for the last 7 years. FRBM Act requires this number to be specifically included in the budget statements but it is not clear whether government employees or all public sector employees or government supported institutions is included in the reported number. Statistical Abstracts that come out after some lag may contain this data.

d. On the basis of comparison with other states, NIPF (2005) study (Reference: NIPFP, 2005 Report 'Restructuring of State-Local Finances for Rajasthan', Indira Rajaraman et al) did not find excess numbers in most government departments. In fact, on the basis of objective inter- state norms there is need to have a fresh look at this aspect of government activities.

e. The State government also made some changes in rules for newly recruited employees that delayed the payment of allowances and retirement benefits for initial two years or during probationary period.

f. Pensions are determined by the age profile of retired and retiring employees as well as by pensions recommended by the Pay Commissions from time to time. The government has used the tactic of postponing fiscal burden by delaying announcement of increase in salaries/allowances and pensions and making part of the increase to be deposited in GPF accounts of employees. However this will have a small impact as borrowing will increase by the same amount. New Pension Scheme has also been adopted so that pension is now determined by the employee contribution and the length of service. In financial statements, pensions are clubbed with other miscellaneous expenses and are part of expenditure on General Services. As a proportion of expenditure on general services, pensions account for around 40% of expenditure on general services.

g. Pensions amounted to Rs 15533crore in 2017-18 and Rs 20214 crore in 2018-19. Doubling time has reduced from about 4-5 years from 2010-11 to 2014-15 (or a CAGR of 14.5 %) to 3-4 years from 2014-15 to 2018-19 (or a CAGR of about 17%).

h. Another strategy that is adopted is not to honour fully the grants and/ or concessions and subsidies announced in the budget or may even have been customary in the form of approval of Block grants. A common complaint is that expenditure bills remain pending not just by a few months but sometimes for years.

Table 5.5: Composition of Committed/Non-discretionary Expenditure (Per cent)

Years	Expenditure on Salary & Wages	Expenditure on Interest Payments	Pensions	Total Rs. Crore
2004-05	47.4	39.9	12.7	12962
2005-06	50.1	37.8	12.1	13766
2006-07	48.5	37.5	14.0	15206
2007-08	48.6	35.8	15.5	16594
2008-09	55.0	29.3	15.7	21272
2009-10	54.6	26.3	19.1	25697
2010-11	53.7	27.2	19.1	27127
2011-12	53.1	26.5	20.4	29816
2012-13	53.3	25.3	21.5	33029
2013-14	54.3	23.9	21.7	37911
2014-15	53.2	23.7	23.2	44207
2015-16	52.6	24.4	22.9	49144
2016-17	49.8	29.3	20.9	60270

Table 5.6: Share of Committed Expenditure in Revenue and in Expenditure

Years	Expenditure on Wages & Salaries			Expenditure on Interest		
	Expenditure on Salary & Wages (Rs. Crore)	as % of Revenue Receipts	as % of Revenue Exp.(net of interest Payments & Pension	Expenditure on Interest Payments (Rs. Crore)	as % of Revenue Receipts	as % of Revenue Expenditure
2004-05	6150	34.6	46.9	5172	29.1	26.0
2005-06	6892	33.1	47.1	5210	25.0	24.2
2006-07	7374	28.8	43.0	5702	22.3	22.9
2007-08	8072	26.2	39.1	5943	19.3	20.4
2008-09	11703	35.0	47.3	6229	18.6	18.2
2009-10	14030	39.7	49.3	6769	19.1	16.9
2010-11	14570	31.7	45.0	7369	16.0	16.4
2011-12	15847	27.8	39.8	7892	13.8	14.7
2012-13	17595	26.3	36.5	8340	12.5	13.1
2013-14	20604	27.7	35.1	9063	12.2	12.0
2014-15	23498	25.7	31.6	10463	11.5	11.1
2015-16	25872	25.8	31.0	12008	12.0	11.3
2016-17	30016	27.5	30.9	17677	16.2	13.9

5.5 Composition of Debt

65. Composition of debt is important as it influences the average interest rate and the repayment schedule. Interest rate would be influenced by the market as market borrowings take the place of borrowing from the Centre. Also as credit ratings for state borrowing become more important, the state will need to pay greater attention not only to the level of borrowing but also its structure. (Table 5.5) aspect is important to determine the borrowing capacity of the State. Debt ratios have been dealt with above. The state has not been availing of Ways and Means advances from the RBI on an annual basis.

Table 5.7: Composition of Outstanding Liabilities **(Rs. Billion)**

Years	2015	2016	2017
SDLs	665.3	751.9	894.4
Compensation and other bonds	-	452.1	452
NSSF	201.2	200.4	187.7
Loans from banks and FIs	67.8	78.7	90.1
Internal Debt	**934.7**	**1483**	**1624.2**
Loans from Centre	70.2	108.7	159.1
Provident Fund	322.5	355.3	391.7
Reserve Fund	12.9	7.7	7.8
Deposit and Advances	135.7	138.5	140.6
Contingency Fund	5.0	5.0	5.0
Outstanding Liabilities	**1,480.9**	**2098.1**	**2328.3**

Source: RBI, State finances a study of budgets of 2016-17, Page, 101 -103.

Share of SDLs or market borrowings has reached 40% of total by 2017. This has implication for the future in terms of an inflexible maturity profile and also in terms of the interest rate that has to be paid to financial institutions. In case of dollar denomited loans from international institutions, exchange rate may increase the debt burden further in terms of domestic currency needed for repayment.

5.6 Guarantees

Table 5.8: Outstanding Guarantees of State Governments **(Rs. Billion)**

Year	Rs. Billion
2001-02	129.1
2002-03	148.2
2003-04	172.4
2004-05	127.0
2005-06	131.0
2006-07	147.1
2007-08	197.7
2008-09	277.7
2009-10	390.7
2010-11	506.9
2011-12	607.1
2012-13	NA
2013-14	NA
2014-15	945.8
2015-16 (RE)	NA
2016-17 (BE)	NA

Note: RBI, State finances a study of budgets of 2016-17, Page,140.

Table 5.9: Total Public Debt and Repayment

Years	Raised	Repaid	Net Receipts	Repaid as % of Raised
2009-10	8796.42	2945.08	5851.35	33.48
2010-11	7977.35	3317.24	4660.11	41.58
2011-12	5918.40	3490.42	2427.98	58.98
2012-13	9955.00	4706.71	5248.29	47.28
2013-14	14491.44	4115.62	10375.82	28.40
2014-15	18140.82	4960.04	13180.77	27.34
2015-16	20948.40	4959.03	15989.37	23.67
2016-17	21516.66	5014.57	16502.09	23.31
2017-18 RE	31471.05	11676.34	19794.71	37.10
2018-19 BE	40878.82	16835.70	24043.13	41.18

Note: Include loans from Central Govt.

Table 5.10: Absolute Revenue and Fiscal Deficits (Rs. Crore)

Years	GSDP (At current prices* (Rs. Crore)	Revenue Surplus (+) Deficit (-) (With UDAY)	Revenue Surplus (+) Deficit(-) (Without UDAY Scheme)	Fiscal Deficit (Without UDAY)	Fiscal Deficit (With UDAY Scheme)	Primary surplus (+)/ Deficit (-) (With UDAY)	Primary surplus (+)/ Deficit (-) (Without UDAY Scheme
2004-05	127746	0.00	-2143	0.00	-6146	0.0	-974
2005-06	142236	0.00	-660	0.00	-5150	0.0	60
2006-07	171043	0.00	638	0.00	-3970	0.0	1732
2007-08	194822	0.00	1653	0.00	-3408	0.0	2535
2008-09	230949	0.00	-827	0.00	-6974	0.0	-750
2009-10	265825	0.00	-4747	0.00	-10299	0.0	-3530
2010-11	338348	0.00	1055	0.00	-4126	0.0	3243
2011-12	434837	0.00	3357	0.00	-3626	0.0	4266
2012-13	493551	0.00	3451	0.00	8535	0.0	-195
2013-14	551031	0.00	-1039	0.00	15189	0.0	-6126
2014-15	615695	0.00	-3215	0.00	19000	0.0	-8537
2015-16	683758	0.00	-5954	23020.00	63070	-11012.0	-51062
2016-17	759235	-18114.00	-9114	23946.00	46318	-6269.0	-28641

*(At current prices on 2011-12 Series) (Base year 2004-05 for 2007-08 to 2011-12

5.7 Financing of Fiscal Deficit- A Few Conclusions from Data

66 Tables above do show that the State fisc is under stress. Increase in liabilities between 2016 and 2017 is Rs 23000 crore. (230 billion) and Increase in revenue deficit for the same period is Rs 12160 crore with UDAY debt. This means that revenue deficit is more than 50 % of debt raised in 2017. Debt plus guarantees add up to 2328+ 946=Rs. 3374 billion or Rs.3374400 crore net of repayment. While interest is considered on an annual basis, expected schedule of debt repayment is known, it could be considered in forecasting fiscal scenario for the next 5 years. Rescheduling has been an option for soft loans from the Centre or from international agencies. After 2008 recession, international financial markets had large amounts available for investment as the interest rates in the emerging markets were far better than the zero or negative interest rates of the developed economies of the US and W. Europe. Credit ratings for India were also fairly good and China emerged as another source of finance investment. SDLs raised by the state are basically market loans in which RBI reviews of the market determine the terms on which such loans are raised by the State.

67. For borrowing from financial institutions and banks, time has come for the states In need of additional borrowing to consider credit rating for itself. Credit rating can become an indicator for analyzing the state borrowing plans. Index for ease of doing (EoDB) business constructed by the World Bank is now being used in this context. The methodology for constructing the Index is based upon 10 sub indicators that include legal framework for enforcing contracts and the ease of getting permits for power or land rights. Ranking from 1 to 190 puts India at 100. This is an improved on this index. category. Rajasthan has been among the top 5 states ranked on this index. It has slipped from 6th position in 2016-17 to 9th position recently. Events like Resurgent Rajasthan and industrial fairs and events are held to attract investment to the state but as happens in such events MoUs are signed but only a few are converted into actual investment despite the state spending large amount on industrial promotion. This index is based on reforms and on user feedback. Rajasthan ‘s score on reforms is above 94% but its score on user feedback is only 66% Local bodies and ULBs have not been able to undertake reforms as they were expected to. This is the reason for Rajasthan slipping to the 9th position in 2018.

68. All these factors are changing now as interest rates are hardening and the protectionist policies now being adopted in many cases almost threaten the international economic

architecture. Not only are oil prices rising, there is also a slowdown of exports. This does not present a very rosy picture for India and within India for a less developed state like Rajasthan that suffers from a fragile natural environment and scarcity of water. Solar energy and oil and gas resources in west Rajasthan provide a positive outlook.

5.8 Budgetary Processes and Control- CAG and RBI Comments

69. Forecasting future scenario. Forecasting is not easy in the best of situations. Future prospects are uncertain and in any case, an exercise to forecast has not been attempted but an approach to forecasting the budget is discussed in this section. In Chapter IV on the power sector and UDAY scheme, some forecasts for the future are shown. With the assumptions made in the NIPFP study, the state will continue to be in deficit until 2025-26 mainly because of the increase in debt burden of the UDAY scheme (Table 4.2). Revenue deficit situation at present is also a cause of concern. Informal discussion shows that the State expects major increases in revenue receipts if the refinery becomes operative soon and as a result of process improvements due to digitization that has already made an impact on state finances.

70. Current fiscal parameters and the growth rates that could be used to estimate future values are shown below. Assumptions could be made reasonably for example, that revenue deficit would be zero in five years. This then could be estimated for the required increase in revenue receipts and for required reduction in the growth of revenue expenditure. The Finance Department could do this exercise as part of the FRBM Rules and draw up a path for fiscal consolidation within 5 -7 years. It could also generate alternative scenarios regarding changes in the fiscal parameters that would be required to achieve a given objective. NIPFP (2005) report can be used to do this exercise. It is suggested that the Report, considered old today, has not been given due attention by the State Government. However, though old its analysis is still relevant for policy in the changed context.

Parameters	Growth Rate	2016-17
GSDP (Rs. cr.)	11.20%	759235
Own revenue (Rs. cr.)	11%	44372
Central transfers (Rs. cr.)=statutory share of taxes+grants	6.50%	53039
Revenue receipts(RR) (Rs. cr.)=own revenue+central transfers		97411
RR/GSDP%	-0.20% pa	12.8

Revenue expenditure(Rs. cr.)	15.00%	127140
Revenue deficit (RD) (Rs. Cr.)	Time required to bring it to zero	-29729
Revenue deficit (RD) without UDAY		-9114
(RD/RR)%	-6.0% pa	-30.5
(RD/GSDP)%		-3.9
Capital expenditure(Rs. cr.)		29945
Capital expenditureto GSDP Ratio		3.9
Total expenditure (Rs. cr.)		157085
(Fiscal deficit/GSDP)%		3.2
(fiscal deficit/GSDP)% with Uday		6.1
Fiscal deficit(Rs. cr.)		23946
Total debt(Rs. cr.)		255002
Total interest payment (Rs. cr.)		17677
Interest rate%		6.9
(Debt/GSDP)%		33.6
(Interest paid/GSDP)%		2.3
(Interest paid/RR)%		18.1

The World Bank Study (2017) projects three scenarios for the State for 2020. These are shown below. Power sector improves fiscal balance and capital expenditure. This strengthens the fiscal situation further if revenue also increases.

Parameter	Scenario 1 Business as usual	Scenario 2 Power sector improves	Scenario 3 Revenue also increases
Revenue as % of GSDP	17.1	17.1	19.9
Expenditure as % of GSDP	21.5	20.1	22.8
Debt as % of GSDP	38.4	31.4	31.0
Fiscal Balance as % of GSDP	Minus 4.3	Minus 3.0	Minus 2.9
Power Sector cap as % of GSDP	3.6	0	0
Capital expenditure as % of GSDP (excl. power)	2.7	4.3	7.1

5.8 Budgetary Processes and Control- CAG and RBI Comments

71. Some comments of the CAG that are pertinent in the context of fiscal management are reported in the paragraphs below. These are summarized below as the issue commented on is of a general nature on the process of budget formation that needs to be looked into not only by the government but also by the Finance Commission for making suggestions to the State. They are also relevant in the context of forecasting. A budget is essentially a forecast for one year but policies have to consider the medium to long term.

72. According to the CAG, two aspects of budget formation and reporting need to be addressed.

One is the consistent disparity between BE and RE and finally between RE and Accounts. CAG suggests that a better system for analysis is required to make forecasts both for revenue and for expenditure. As pointed out by CAG, it appears that the revenue deficit/surplus is first targeted and the other estimates of revenue and expenditure are forecasted to fit into the surplus/deficit number that is required. Final numbers are out of line of the budget estimates both for revenue receipts as well as for revenue expenditure. To quote from the CAG Report (page vi.) “The estimation of expenditure and receipts for containing fiscal parameters within the desirable limits should be more realistic. Regular control over expenditure and management are required.”(emphasis in the Report). The CAG further found that Rs 19109 crore had to be surrendered in 2014-15 and there were unspent balances in some accounts. Therefore,” Efforts should be made to, submit realistic budget estimates keeping in view the trends of expenditure in order to avoid large scale savings/excesses, re-appropriations and surrenders at the end of the year….”.

73. RBI in its latest Report of State Finances 2017-18 and 2018-19 has questioned the credibility of budget estimates of state governments. RBI calls it *'fiscal marksmanship'*. This results in poor predictive power of estimates *vis-a-vis* actual outcomes. To quote, RBI states that budget analysis "at the consolidated states level exhibits a large systematic component in some of the expenditure items, particularly capital outlays, reflecting expedient adjustments necessitated by unanticipated shortfalls in meeting committed targets". RBI recommends that the states adopt the PEFA framework (Public Expenditure and Financial Accountability) PEFA is a methodology for assessing public financial management performance on the basis of 94 characteristics across 31 key components of public financial management. Details and the methodology is available from PEFA Secretariat. Washington DC 2016.

74. Operation of PD Accounts. According to CAG Report, Rule 260(1)of GF &AR provides that no money shall be deposited in government accounts without the orders of the government. Yet the CAG found that Rs 21504 crores comprising 19.6 % of expenditure of the Rajasthan government was held in Personal Deposit Accounts. A large part of the disbursements were made in the month of March and some on the last day of March. What is important is that such disbursements are not part of the budget approved by the legislature. CAG also found that Rs 2838 crore remained unspent in 2014-15.

75. In this context there is need for a more systematic analysis of public finance at the state level. Unfortunately, the government has not considered this important. Either a research institution be assigned the work or the Planning or Finance Departments create a cell for analysis with the help of experts from institutions such as NIPFP or NCAER or NITI Aayog. A state level unit or cell is needed for analytic work related to the state economy. Such a mechanism existed earlier by Planning Commission supporting state level studies on different aspects of socio-economic policies. But this, is no longer supported either by the Centre or by the State. It appears the need or the importance of socio-economic research is not given the importance it deserves. Does a Mumbai based research institution like the TISS have to go to Bihar and discover the horror it discovered in the relief and welfare home operating in the state. This type of work and analysis has to be done at the state level. Otherwise, we cannot derive any conclusion that is based either on government reports and publicity material or in the day to day reports appearing in the Press. Research and think tanks tend to be critical often, but they still serve a useful role in highlighting weaknesses of policies or its implementation.

CHAPTER VI

FINANCIAL ASSISTANCE TO LOCAL BODIES AND GRANTS TO INSTITUTIONS

6.1 State Finance Commission

76. Rajasthan has been a pioneering state in the establishment of panchayati raj in the country but their emergence as an essential component of the federal structure became possible after the 73rd and 74th amendments to the Constitution were enacted. Central and State Finance Commissions have made recommendations about how finances are to be allocated to them. Recommendations of the XIV Finance Commission are operative until 2018-19. At the State level, the Fourth State Commission gave its report in 2014-15. At present the 5th State Commission is functioning and has submitted two interim reports so far suggesting some changes in the funding pattern. XIV Finance Commission recommended that local bodies should be given 7.182% of state's own tax revenues net of cost of collection. Distribution of the divisible amount among districts and urban bodies is recommended by the State Finance Commission. It has recommended the 2011 Census rural to urban population ratio of 75.1 :24.9 for distribution among panchayati raj institutions and urban local bodies.. For district wise distribution following weights are used by the State Commission:

Population	50%
Area	15%
Child Sex Ratio	10%
Deprivation*	10%
SC, ST, IMR, Girls Education & decile in population growth	
5% for each of the five parameters	

*Deprivation is determined on the basis of Socio Economic and Caste Census (SECC) 2011 of the central government.

77. XIV Finance Commission had also recommended that grants to local bodies be given in two parts viz basic grant and a performance grant for maintaining proper accounts and timely auditing. Devolutions directly to the gram panchayats was also made. This has been changed by the directions of central government. Grants now flow through the consolidated fund of the State government. XIV Finance Commission did not make any recommendation for the other two tiers of PRIs viz zila parishads and panchayat samitis. Performance grants were not given until 2016. With the submission of the State Commission's Interim Reports for two years several changes have been introduced. Distribution to the Zila Parishads is

allocated 5%, Panchayat Samitis 15% and gram panchayats 80%. Further, 85% of the allocation to each is given for basic and development functions, 10% for improvement in standards of administration and performance in national and state priority schemes. An incentive grant of 5 % for performance has also been introduced.

78. For ULBs especially, the XIV Commission suggested that self assessment of property tax and a tax on vacant land be introduced. Tax on advertisements and entertainment tax on newer forms of entertainment could be considered. The State government has been experimenting with property tax system but the results are not encouraging. Jurisdictional differences among different institutions and the responsibility for collection and other administrative details continue to plague the property tax regime. Urban local bodies are most affected by these matters and as pointed out in Chapter II the contribution of such urban taxes remains relatively small and has not increased.

79. Analysis of the V State Commission on the basis of survey data collected from 180 gram panchayats showed that the average revenue per annum was only Rs 50 lakh. Of this they were found to be spending less than 5% on civic services. Principal sources of revenue for panchayats were, issuing of pattas (land ownership documents) (89%), license fees (33%), rent from assets (19%), income from fairs (5%) and royalties from minor minerals (6%) of the total revenue of Rs506 crores in a 5 year period from 2010 to 2015. Expenditure on development was financed out of central grants for MNREGA and from central and state finance commission grants. MP-LAD and MLA-LAD also provide untied funds for panchayat works. Even with this small amount, the Sarpanch and the Panchayat Samiti have become important for the rural population. Nothing can get done without their support. Capacity building through training and meetings has been given importance and most panchayats – more than 80% - had computers and access to internet. These have become important as the schemes for direct benefit to people (Bhamashah Yojana of the State) require working computers and network access. Inadequate number of skilled staff, in particular, and functional staff, in general, continues to be a problem. As a result a serious problem admitted by the State Finance Commission is relatively large amounts of unspent balances ranging from Rs 1 lakh to Rs 25 lakh and as much as Rs 2.52 crore in one case in 2016.

6.2 Urban Local Bodies

80. Rajasthan has 7 Municipal Corporations, 34 Municipal Councils and 146 municipalities. State Finance Commission has altered the criteria for distribution among local bodies by increasing the weight of population to 55% and of area to 15%. Of the total urban devolution, 70% is recommended for ULBs and the remaining 30% for the municipalities to be distributed on the basis of population. Categorization of municipalities as Category II III and IV has been discontinued.

81. In the context of financial resources, the case of municipalities is only slightly better than that of PRIs. Municipalities have to levy an obligatory Urban Develo0ment Tax. This yields about 9 % of their revenue but their own taxes give less than 2 % of their receipts. In short about 90% revenue is from grants from the Centre and the State government. Civic functions are, predictably, not adequately performed. Sanitation and solid waste disposal remain major problems despite the continuous implementation of Prime Minister's Swachata Abhiyan that had a positive impact on sanitation in urban areas.

82. Out of 7 Corporations four have been selected for the Smart City project for infrastructure improvements, digitiasation for efficient administration and improvement of civic services. Smart City Project will have a total expenditure of Rs 6000 crore in 5 years to be funded by the Centre, State government and local bodies

Table 6.1: Grants to PRIs and Urban Local Bodies **(Rs. Crore)**

Institutions	2015-16	2016-17	2017-18
ULBs	433	776	692
PRI's	1472	2305	2657
Total	1905	3082	3350

XIV Finance Commission has recommended that 7.182 per cent of own tax revenue has to be released to urban bodies and Panchayat Raj Institutions. The state has been releasing this amount. Performance grants amounting to 569 crore have been given to PRIs in 2016-17 and 2017-18. Rs 177 crore was given to ULBs in 216-17.

CAG data for such grants before 2014-15 is shown in Table 6.2

Table 6.2: Financial Assistance to local Bodies etc. **(Rs. Crore)**

Institutions	2010-11	2011-12	2012-13	2013-14	2014-15	
					Allotment	Actual
(A)Municipal Corporations	1130	1340	12255	2324	2451	2451
PRI's	4365	6218	7675	8953	13832	13833
(A)Total	5495	7558	9930	11277	16283	16283
Educational Intuitions	**1506**	**2013**	**2302**	**2236**	**1128**	**1128**
Development Agencies	354	75	118	195	6	6
Hospitals & Other Charitable Institutions	117	72	84	124	169	169
Other Institutions	**2743**	**2618**	**3781**	**4929**	**10747**	**10740**
(B) Total	4720	4779	6288	7486	12052	12045
Total(A+B)	10215	12337	16218	18763	28335	28329
Revenue Expenditure	44873	53654	63462	75510	105387	94542
Assistance as of Total	23	23	26	25	27	30

Source: CAG Report 2015-16

83. Total amount in 2014-15 was Rs 28,329 crore which was 30 per cent of revenue expenditure. This amount is bigger than is shown in Table 1. Of this Rs.16283 crore was given to local bodies and Rs. 12045 to other institutions. During 2014-15, grants to PRIs were given mainly for Sarva Shiksha Abhiyan, and for MGNREGA and to Panchayat Samitis for primary schools and on the basis of recommendation of the State Finance Commission. Performance grants were not given in 2014-15.

84. During the next three years the State Government has been giving grants as recommended by the XIV Finance Commission. Central Ministry of Rural Development gave a Report on Performance Based Payments for Rural Development Programmes. Action on the recommendations has to be initiated by the State Finance Commission. State Finance Commission is functioning and playing an active role in the functioning of the local bodies especially of PRIs. Main focus in this area has so far been on PRIs and the village, block and district level local bodies. Urban local bodies continue to have financial and governance

issues in every sector in which they are expected to play an important role in achieving the goal of efficient local self government.

85. Analysis of the State Commission interim report points to the following main issues:

1. Capacity to spend even the small allocated amounts needs to be strengthened by more intensive training efforts.
2. Skill enhancement in all administrative processes but particularly in finance and in use of computers and software.
3. Governance and relationship between political leadership at the local level and administrative staff.
4. Raising own resources for civic functions.

CHAPTER VII

STATE ENTERPRISES, PUBLIC PARTNERSHIP PROJECTS – PPP MODE OF OPERATION AND SPECIAL PROJECTS

7.1 State Enterprises

86. This Chapter, basically, is a summary of review of secondary data and information. This is because current or recent data that could facilitate analysis was not available at the time of completing this Draft Report. A Bureau of Public Enterprises has been in existence for many years but it appears to be completely non-functional. A matter of concern is whether the balance sheets and P&L accounts are presented is as necessary for companies incorporated under the Companies Law. Filing of returns is necessary but it appears that state enterprises get away without the requisite filings. A complete list of state enterprises was accessed from the CAG Report of 2015-16 and supplemented from the PRS study as both had access to data not available for the present Report.

87. A list of the Corporations and companies under government control is appended. Findings from available research studies and remarks of the CAG in its Report for 2015-16 are reported below.

88. Findings of CAG Report (2015-16) supplemented by available research studies are reported in the following text:

i. According to the CAG, of the total investment, Rs 27,909 crore was in 43 government Companies, 7 Statutory Corporations, 2 Rural Banks, 25 Joint Stock Companies and in Co-operative Banks and Societies.

ii. Returns on this investment in 2014-15 was only Rs.63.33 crore or only 0.2 per cent. The average cost of investment in terms of interest on borrowed funds was 7.5 per cent.

iii. According to the NIPFP (2005) Report, only 2 companies viz RSMML and RSWC accounted for 92% of the dividends of Rs 498 crores in 2001-02). The Report further goes on to say that none of the State undertakings were able to fulfill the norms of returns stipulated by the Planning Commission (2002))*for different categories of state undertakings. These norms were 12% for manufacturing, 10% for trading companies and 9% for services companies. In Rajasthan the returns were uniformly below the all India averages for all categories of state undertakings for the period, 1990 to 1998-99 studied in the Planning

Commission Report. Final Report of the Study Group on Reforms in State Public Sector Undertakings. Vol I, Planning Commission 2002)

Table 7.1: Average Rates of Return over 1990-91 to 1998-99

Category of PSU	Rajasthan	All India
Manufacturing	4.09	4.75
Financial	0.49	7.21
Utility	8.68	5.21
Trading and Services	5.80	16.75
Promotional	6.02	1.99

iv. Accumulated losses of 2 corporations and 18 Government Companies and 6 Joint Stock Companies were Rs 73,650 crore on an investment of Rs 25,012 crore in 2015. Investment in the power companies was 86% of total and they accounted for 97% of the accumulated losses. RSRTC, the transport Corporation alone accounts for almost 60 percent of accumulated losses but continues to get loans (probably never to be repaid) from the State Government.

v. Since 2015 major reforms in the power sector are being implemented to clean their balance sheets. In the remaining companies there is no firm data to make any comment. It is not certain how many of the Corporations are contributing to the State budget in the form of dividends and profits although they might be fulfilling their role in providing services and paying taxes if applicable to them. Housing Board and the Transport Corporation were expected to become financially viable but both are accumulating losses. The electricity companies have been heavily subsidized in the past and are now in the process of financial restructuring of their debts. The outcome shows improvement in some respects but it is too early to come to a firm conclusion.

vi. A Bureau of Public Enterprises (BPE) has been in existence for many years but at present it is not in a position to provide consolidated data on the financial position of the enterprises. It has also not, so far, prepared a road map for the public sector companies. Even the closure of the Land Development Corporation has not been completed even though it has been in a moribund status for many years.

vii. Mining company RSMML has been a consistent and the most profit earning unit of this sector and is regular in reporting its results on their website.

viii. Loans and advances continue to be given to loss making companies as well.

ix. Many of the Companies registered as public enterprises are basically facilitators for development in some sectors e.g. solar power or natural gas and crude oil extraction. In other cases, as for example the Beverages Corporation performs most of the functions of the Excise Department and earns revenue for the government. This is recorded as Excise under taxes that includes the revenue earned by the Beverages Corporation. The Medical Services Corporation, in a similar fashion is performing all functions related to purchase of equipment, medical supplies and hiring of services under the umbrella of the Corporation rather than by the State Medical Department. This is conducive for greater flexibility in decision making within government rules but without the red tape and constraints considered part of departmental operations.

x. PRS Report on State Finances (2018) makes the following comments on state entities especially incorporated for specific purposes:

   a. Finances of such entitities and audit is undertaken by the CAG but their finances are not approved by the legislature prior to the expenditure incurred.

   b. Some of the enterprises may not have a revenue model. State government may provide guarantees for loans taken by them from the market. Debt does not appear on the books of the state government.

   c. Contributions or grants for the operations of such entities are also not reported specifically.

7.2 Grants to 'Other Institutions'

89. Interestingly, in the data reported by CAG in the Table 'Financial assistance to local bodies (Table 7.1)', the largest amount is being given under the category 'Other Institutions'. Furthermore, educational institutions including many state sponsored universities get a total of Rs 1000 crores, an amount that is almost half of the grants being given to them in 2012-13. Despite the fact that educational institutions have been permitted by the state to raise fees and to start courses on a self financing basis and are being given more funds by the Central agencies (UGC, AICTE), these institutions are suffering from a huge shortage of staff in all categories. Many private institutions have been permitted but in general, the quality of education and the performance of students is suffering. These issues have to be considered more seriously at every level. Private model of providing education at high cost to the students and withdrawal of the State from an important role in the provision of higher education purely on financial and budgetary considerations may not be the best way for

restoring quality of education and for promoting research that is essential for all knowledge based societies.

7.3 Private –PPP - Mode Projects

90. Rajasthan Government has been adopting the PPP modes of operation since 1998-99 when the BOT and BOOT modes were adopted in the roads sector. Progress initially was slow but in later years, government has moved aggressively in favour of privatisation and PPP modes in many sectors. Beginning in this direction was made by setting up of the Special Schemes Organization during the eighties when public investments with loan and aid from international organizations was sought by adopting the approaches of project formulation and of benefit-cost analysis. Newer concepts such as rates of return, CAGR for non monetary benefits and IRR were adopted for project formulation. All this has become standard practice in project formulation of public investment. In this respect, Rajasthan government has played a pioneering role in familiarizing public agencies of the need to adopt semi-commercial methods of analysis. Table 7.2 below shows the position as reported by the Government.

Table 7.2: Sector- Wise PPP Projects as on December 31, 2017

S. N.	Sector	Projects Completed so far		Projects under implementation		Projects under planning or in pipeline	
		No.	Rs. Crore	No.	Rs. Crore	No.	Rs. Crore
1	Roads (SH &NH)	55	5036.03	21	4577.33	70	8142.39
2	Urban Infrastructure*	22	392.36	10	269.08	16	13000.5
3	Power	4	5499.32	14	48317.49	2	98.78
4	Water	1	46	-	-	2	2165
5	IT	1	54.01	-	-	-	-
6	Social*	57	541.42	22	236.31	11	850.03
7	Others	13	50.09	1	0.55	3	622.3
	Total	**153**	**11619.23**	**68**	**53400.76**	**104**	**24879**

*Note: Projects for Operation of Public Convenience in various cities, Run-a-PHCs & attached Sub -centres, Operation of C T Scan Machines, Installation & Operation of CT Scan/MRI Machines, Operation of Haemodialysis and Operation of Government Secondary schools have been shown as single project in respective category.

Source: Economic Review 2017-18, Govt. of Rajasthan.

7.4 Externally Aided Projects

91. Details of the externally aided projects as given in the official Economic Review are given below

Table 7.3: Financial Overview of Ongoing Externally Aided Projects **(Rs. Crore).**

S. N.	Name of Project/Funding Agency/Project Period	Total Project Cost	Expenditure During 2017-18 up to Dec.2017	Total Expenditure Science inception to Dec.2017	Percentage of Expenditure Completed	% of Cost Completed
1	Rajasthan Urban Sector Development Investment Program (ADB)February, 2008 to June,2017	1762.00	64.54	1669.46	3.66	94.75
2	Mitigating Poverty in Western Rajasthan (IFAD) December, 2008 to December, 2017	291.00	38.82	485.05	13.34	166.68
3	Rajasthan Rural Livelihood Project (WB) June, 2011 to October, 2018	870.00	156.32	743.47	17.97	85.46
4	Rajasthan Forestry & Biodiversity Project Phase-II (JICA) October, 2011 to March, 2019	1152.53	44.75	926.26	3.88	80.37
5	Reorganization Jodhpur Water Supply Project (AFD) February, 2012 to August, 2018	735.45	41.13	354.02	5.59	48.14
6	Rajasthan Agriculture Competitiveness Project (WB) July, 2012 to April, 2019	832.50	53.26	126.27	6.40	15.17
7	Rajasthan Rural Water Supply and Fluorosis Mitigation Project -Nagaur (JICA) January, 2013 to January, 2020	2938.00	357.	1328.59	12.16	45.22
8	Rajasthan Road Sector Modernization Project (WB) March, 2014 to December, 2018	1362.00	39.41	991.16	2.89	72.77
9	Jaipur Metro Rail Line-1 Phase B (ADB)	1126.00	94.35	530.46	8.38	47.11

	June, 2014 to March 2018					
10	Rajasthan Renewable Energy Transmission Investment Program (ADB) November, 2014 to June, 2018	1466.16	138.60	1274.17	9.45	86.91
11	Intra State Transmission System in Rajasthan Under Green Energy Corridors Project (KfW) October,2015 to December,2019	1018.30	97.58	147.75	9.58	14.51
12	Rajasthan Urban Sector Development Program (RUIDP Phase-III) (ADB) November,2015 to December,2019	3672.00	179.18	345.67	4.88	9.41
13	Rajasthan Water Sector Livelihood Improvement Project (JICA) October,2017 to October, 2024	1069.40	0.64	2.17	0.06	0.20
14	Rajasthan State Highway Investment Programme (ADB) November, 2017 to March,2022	2452.36	85.50	307.92	3.49	12.56
	Total	**20747.7**	**1391.3**	**9232.42**	**6.71**	**44.50**

Projects are part of the Plan. Details of individual projects with respect to state share, loan and grant component is available but have to be compiled. Projects listed at Sr numbers 1, 2, 5 and 8 are nearing completion but the remaining projects have a long way to go.

92. PP Projects as well as externally funded projects have helped in financing infrastructure development in some sectors. Roads and urban infrastructure projects have been the main beneficiaries although in the road sector the toll taxes that go entirely to the private investors are a source of discontent among vehicle owners. The demand is therefore, voiced often on public forums is that the cost and returns collected by private owners should be made transparent and reduced. Jaipur to Delhi road with a distance of less than 250 km has about six toll stoppages.

93. In the health sector, positive feedback is rarely given. The government had proposed partial privatization of government schools but it could not be done because of criticism. The point made earlier in the Chapter dealing with public expenditure in services that it is necessary to have a clear approach to what ought to be the responsibility of the state. Primary health care and school education are legitimate responsibility of the state. Countries move from free education at primary level to free education to higher classes up to school leaving stage. Similar is the case with health services where by allowing private practice in government hospitals, privatization gets extended from private hospitals to government hospitals.

List of Public Sector Enterprises in Rajasthan

I Corporations/Boards

1. Road Transport Corporation
2. Rajasthan Financial Corporation
3. Land Development Corporation
4. Housing Board
5. Warehousing Corporation.
6. Agriculture Marketing Board

II **Registered Companies**

1-5 Five Power Companies
6. Industrial Development and Investment Corporation
7. Mines and Minerals Ltd.
8. Small Industries Corporation
9. Handloom Development Corporation
10. Paryatan Nigam
11. Hotels Corporation
12. Seeds Corporation
13. Agro-Industries Corporation
14. Road Development and Construction Corporation Ltd.
15. Jal Vikas Nigam
16. Ganganagar Sugar Mills
17. Renewal Energy Corporation
18. Beverages Corporation
19. Jaipur City Transport Services
20. Barmer Lignite Mining Company
21. Giral Lignite Power Ltd
22 Solar Park Development Company
23. Power Finance and Financial Services Corporation
24. Ex-Serviceman Corporation
25. RajComp Info Services Corporation
26. Medical Services Corporation
27. Food and Civil Supplies Corporation
28. State Gas Ltd,

CHAPTER VIII

PATH TO FISCAL CONSOLIDATION-
SOME SUGGESTIONS

94. The objective of examining state finances is to suggest what fiscal steps need to be taken during the next 5-10 years in order to achieve fiscal consolidation. Fiscal consolidation needs to be defined specifically in terms of the level of debt that is sustainable to service the debt and repay it on time. However, in whatever way the ratio is defined, raising revenues and checking growth of expenditure is integral to the task so that the state does not get into a debt trap of borrowing to pay for current expenditure with little left for capital expenditure and growth.

Trends in the fiscal parameters have been shown in Chapter IV. and in the specific chapters dealing with the main issues.

8.1 Revenue Receipts

1. Except for three years between 2010 and 2012, revenue growth has slowed down after a negative fall of about 26% in 2014-15.
2. Increase, if any, from the share of GST revenue and rising revenue from petroleum are two expectations.
3. Property based taxes have to be introduced and collected in a growing urban economy.
4. Changes in share of non-debt capital receipts and grants-in-aid in total revenue is the main feature of composition of revenue receipts indicating a long term fiscal stress requiring borrowing or higher grants in aid.
5. Despite changes in tax structure introduced in the annual budgets, the composition of taxes remains stable with sales tax (including VAT) and excise on alcohol constituting70-80% of tax receipts. Motor vehicles tax and electricity duty are two other important taxes (Table 1.4).
6. Property based taxes – stamp duty and Registration constitutes between 7 to 8 per cent of tax revenues. Share has remained relatively stable.
7. Excise taxes and VAT on alcohol, drugs, petrol and commodities not subsumed in the GST Act provide as much as 15 to 16 % of revenue.

8. Non-tax revenue from some services and from state undertakings must increase. Accumulated debts of these undertakings and non payment of interest due from them has been a feature for a long time.

8.2 Public Expenditure and Public Debt

95. The state spends an increasing amount on services. Some services require increases. A big part of expenditure on general services is a committed expenditure and increases with every increase in wages. In social and economic services there is need to distinguish between essential public services that any modern state must provide and private services that beneficiaries must pay for even where the state provides such services. This confusion and lack of clarity between private and public goods and services has become a drain on the exchequer. It is also a political issue that is taken up for political gain/loss. It is suggested that the Finance Commission, Central Government, Niti Aayog and researchers from academia be asked to take up this issue. The taxation side of public finance has been reformed to a considerable extent. But this is not the case with the expenditure side. Privatization only for commercial or financial reasons is not the only answer.

96. Change in this area requires that the state must put greater focus on essential and new services for sustainability of fragile ecosystems instead from withdrawing from them altogether through privatization. Water stress in the state is serious in most parts of the state. Water management, rain harvesting, restoration of tanks and their catchment areas require community involvement.

97. At present, the state does not have an institutional structure such as Niti Aayog or the erstwhile planning structures that look to the long term and macro needs of the economy. The State may be asked to examine the need for strengthening the economic policy planning structures in the state. The World Bank study (2017) gives a similar suggestion in reiterating the need for evidence based analysis for policy making and for enhancing analytical capacity across the board.

98. A World Bank study (2017) requested by the Government of Rajasthan, while commenting on the positive aspects of growth of the state economy including fiscal consolidation after introduction of FRBM Act concludes that two aspects need the attention of the State. These are i. continued pressures in the power sector; and ii. rising needs of development and social expenditures. These could threaten fiscal sustainability in that the

FRBM ceilings might be breached. Debt situation is not satisfactory the trends indicate that it may continue for some more time.

8.3 Outcome Impact- Policies and Projects

99. An objective assessment of the outcomes of the large number of policies / projects/ expenditure requires more detailed evaluation studies by non state agencies. In school education, agencies like Pratham have been doing this work in which achievements as well as failures are highlighted for corrective action. Such studies seem to have been replaced by workshops and seminars under corporate bodies like CII or FICCI. While the contributions are useful, but the wealth of, especially socio-economic studies dealing with longer term structural issues are rare at the state level. Earlier such studies were sponsored by the Planning Commission and its Programme Evaluation Organization. These types of works are not being encouraged anymore as there is lack of financial support. *Social Science research does not find place in any research or innovation initiatives. A framework and a budget for social sciences is required that could be part of the NitiAyog framework or part of the state government supported framework. As a social scientist this gap is keenly felt and needs to be bridged*.

Co-operative federalism requires a greater role of the state governments not only as implementing bodies of central programmes but also in planning and policy making.

100. This cannot be said about expenditures in the budget. States now have been given more resources and powers to take action according to the state's environment and available resources. At the same time, local social and economic pressures on almost all fronts on an election to election mode continue to mount. Instead of priorities set by the Planning Commission and NDC or through more than 100 centrally sponsored schemes, we now have more than 40 schemes with very attractive acronyms like HRIDAY, Jan Dhan, Beti Bacchao, Sukanyaa, Swachchta Abhiyan**,** Indradhanush, SETU,UDAAN, UDAY, Swadesh Darshan for Neat Himalayas and so on. Centre also has a lottery scheme for consumers – Lucky Grahak. Broadly, the schemes are determined, partly on the basis of social and economic considerations (e.g primary education or public health or senior citizens, or women empowerment, rural employment, or for Daliits SC/ST, but the focus and content is mostly based on what are basically political economy choices. Therefore their outcomes are difficult to evaluate unless the outcomes are supported by objective socio economic analysis.

101. Now that Niti Aayog has replaced Planning Commission, and has done extensive studies with the help of Indian Economic Service Officers and/or Consultants hired for specific tasks as is done by international agencies like the World Bank or ADB etc. These agencies also employ their own staff who produces policy briefs, analysis and evaluation either done by themselves or especially commissioned by them. Government and its data gathering agencies like CSO or NSSO or Census provide easy access to data to them for expert analysis and comparison with experience in other countries. This has improved greatly for researchers in India. But there is little demand (i.e. funding) for such work. Research in such matters is now determined by supply of funds only when the concerns of research may be more academic in nature whose benefits are not immediately visible. In any case they are questioned and contested by other researchers. How to use the findings for policy making depends on the users. Unfortunately there is not much appreciation or understanding about the nature and use of social research by policy makers except a few in select institutions like RBI or ICRIER and a few others of this type. State level studies are more, not less important now that the states are required to play a more active and constructive role in policy making. One size fits all is no longer necessary. Nor is it desirable.

102. At the state level, besides local data analysis that is available or can be collected through survey methodology, there is need for a deeper understanding of local environment, culture and history. This is particularly so when dealing with issues like child marriage or child vaccination and nutrition practices or management of local resources in a fragile environment. In this context, neglect of social science teaching and research, inadequate attention to new techniques available in data science and lack of jobs in the government that could absorb persons with such skills, it appears that the structure of teaching and research with an understanding of socio-economic issues makes it difficult to come to a firm conclusion about the outcome of government schemes in social sectors. Either there are adulatory statements or declarations on public fora about how much money is being allocated or spent, number of beneficiaries etc. On the negative side there are negative press reports of such matters like child marriages, harassment of women, school drop-outs, bad roads and breakdown of law and order. Official statements are of a political nature and talk about successes, money spent or legacy issues trying to apportion blame to past mistakes.

103. State level research institutions are neither funded adequately nor are they governed efficiently. They get some resources from the Centre and /or state governments, but these are

inadequate. They do get research grants from agencies like UNICEF or UNDP or from the State government but the bidding procedures of assigning such work to them disqualifies them *ab initio* as they are unable to fulfill minimum requirements of 'turnover' of business or of staff and infrastructure. International or a few high powered consultancy agencies are awarded contracts and get grants in the mode of contractor. However, objectivity or diversity of views is missing from such sponsored studies except in areas where technical expertise is required.

104. Rajasthan has been the ground where NREGA originated, RTI and Minimum Wage legislation for all public works, identification of gaps in child budgets, poverty studies, Social Inputs in Area Development, and many more evaluation studies of government programmes were done in which relatively firm conclusions about the programme and changes were suggested.

105. Private sector funding has also been raised by institutions. For example, the Tata Foundation, Wipro, Dalmias, Mahindra and Mahindra are few of such examples. However raising funds through the CSR route raised for research is a very difficult task and requires a basic infrastructure and staff and expertise in fund raising. Further examples of wrong doing in approving a project and releasing money have also come to light. Where there is understanding of the need for research and financial support is provided, the PPP mode has been able to do well. Three examples may be cited. One is the analysis of PRATHAM, an NGO researching school education. The second is Water Management Studies supported by. Third is a UNICEF and State Government innovative project to deal with the problem of Severe Malnutrition among children named POSHAN.

We conclude the study with the usual disclaimer about errors that may still remain. At the same time we hope that the study would be useful for the Commission's work. And more important, that some suggestions about provision of public services will be accepted.

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Most of the above studies are available on net resources and have been downloaded. Newspaper articles from Hindu, Economic Times and web resources like The Wire have also been used if the material had researched references included in the articles.

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