Rising Revenue Gap of the States – Dimensions of the Problem and Possible Approaches for a Solution

N. J. Kurian & Sushmita Dasgupta[1]

Abstract

This paper seeks to provide a brief insight into the problem of rising revenue gap of States. The tentative conclusion is that in spite of the tax devolutions from Centre and the non-plan grants from the Finance Commission, the States are unable to bridge the non-plan revenue deficit (NPRD) and this has reached alarming levels in recent years. This problem is further accentuated by the full transfer of committed liabilities on the non-plan side at the end of each five-year plan. Moreover, there is significant difference between devolution recommended by Finance Commissions and the actual devolution after the award of the Ninth Finance Commission, with actual devolution falling short of projections. Bifurcation of revenue deficit into NPRD and plan revenue deficit (PRD) clearly reveals that it is the NPRD, which is primarily responsible for the rising revenue gap. However, PRD as percentage of GDP shows marginal improvement. Within the NPRD, the main culprits are wage bills, interest payments and pension payments. The paper also reveals that even high income States like Gujarat, Goa, Haryana, Maharashtra and Punjab have a ballooning NPRD as a proportion of GSDP.

The enduring solutions to the problem, however, lie in fiscal measures (pertaining to tax revenue, non-tax revenue, expenditure) and also non-fiscal measures (like changing the mind set and work culture of the economy at large by introducing social audit, citizens' charter, performance audit, etc., which can be made possible through greater decentralisation, public participation and awareness).

I. <u>Introduction:</u>

1. Rising revenue gap of states has been a matter of serious concern. The Finance Commissions have been recommending non-plan gap grant for states to bridge the non-plan revenue deficit. But in spite of this, the Balance from Current Revenues (BCR) of the states have persistently deteriorated. The situation has been made worse by a full transfer of committed liabilities to the non-plan side, at the end of each Five Year Plan.

2. The structure of fiscal federalism of India itself has an-inbuilt inequity between the revenue raising power and expenditure responsibilities of the states vis-à-vis the Central government. The Seventh Schedule of the Constitution of India clearly lays down the functions and finances of Union and States. Under Union list are matters affecting the country as a whole and those relating to inter-State relations. Under State list are all matters closely connected with life and welfare of the people such as local government, public services that are of immediate concern to the people, such as public health and sanitation, public order, police, agriculture, irrigation, water supply, land rights, fisheries,

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[1] The authors are respectively Adviser and Director in the Financial Resources Division of the Planning Commission. The views expressed in the paper, however, are personal. Assistance provided by Shri K. Guite, (Senior Research Officer) in the Financial Resource Division, is gratefully acknowledged.

industries and minor minerals. Finally, the concurrent list has all matters relating to economic and social planning, which includes virtually all items under economic and social services. In the event of conflict between the Centre and the States, the former has overriding powers.

3. With regard to assignment of taxing powers, the Constitution gave the Centre the power to levy taxes on income other than agricultural income, both individual and corporate, customs duty and all excise taxes on production except on liquor. On the other hand, States were assigned land revenue, agricultural income tax, sales tax, excise duty on alcohol, stamps and registration duty, as well as taxes on profession, entry of goods, consumption and sale of electricity, entertainment, transport of goods and passengers etc. Since more important and productive taxes were assigned to the Centre, Constitution also provided for devolution of a part of Centre's revenues to the states mandatorily, and has also made provision for giving grants-in-aids to the states in need of assistance. To ensure autonomy of the States, Constitution provides for setting up of an independent Finance Commission, to determine the quantum and methodology of State-wise allocation of tax devolution and grants-in-aid to the States. The Finance Commissions, on the whole, adopted the practise of assessing the revenue needs of the states vis-à-vis their own sources of revenue and have attempted to fill the gap between them while moving towards achievement of fiscal balance.

4. The second channel of transfer of resources to the states is through the Planning Commission. The Planning Commission provides a package of assistance to the states, which comprises both grants and loans. The responsibility of the Commission is to look after the developmental needs of the states. The resource base of the states gets affected in important ways by the dispensation of development funds by the Commission. The Commission provides developmental grants to the states as part of an overall assistance package. This package is determined as a composite of loan and grants. The composition of this package is different for special category states and non-special category states. For special category states, 90% of the assistance is in the form of grant and only 10% in the form of loan. On the other hand, for non-special category states, 70% of assistance is in the form of loan and the remaining 30% in the form of grant. The higher grant component for special category states is in recognition of their weak fiscal position and backward nature of their social and economic infrastructure. In the case of non-special category states, the share of loan of 70% was arrived at way back in 1968, when the Gadgil Formula was evolved. At that time roughly 70% of the plan expenditure was of capital nature and it was expected that capital expenditure will generate assets which will in turn generate revenues to the exchequer to service this debt. However, over the years the share of capital expenditure in the states has come down significantly and now it is even less than 50%.

5. The original Gadgil Formula has undergone revisions three times. As per the present version, 30% of total assistance is earmarked for the special category states, the remaining 70% is distributed among non-special category states according to a set of criteria with different weights. Sixty percent of the share is allocated in proportion to the population of the states as per 1971 census. Out of the remaining 40% weightage, 25% is

assigned to per-capita income, 7.5% is assigned to performance and the balance 7.5% is earmarked for special problems of the states. Out of the 25 percentage points allocated on the basis of per capita income, 20% is allocated exclusively to the poorer states whose per capita income is below the national average. The balance 5% is allocated amongst all the non-special category states on the basis of a distance formula from the highest per capita income state. Criteria for assigning performance-oriented share include tax effort, fiscal management, improvement in literacy level, improvement in life expectancy and implementation of land reforms.

6. Of late external assistance is another major source of funding for development activities of the states. It is important to note that as per the Constitution of India the State Governments are not allowed to borrow abroad. All the borrowings of the State Governments from multilateral and bilateral sources have to be routed through the Central Government. In other words all state borrowings from abroad are treated as sovereign debt of the country. Such borrowings are routed through the Central Budget as part of the plan assistance to the States. Indeed, even a hundred per cent loan from a multilateral agency is passed on to the State Government by the Centre on the terms and conditions as the Gadgil Formula based Central Assistance, i.e. 70% loan and 30% grant for non-special category states and 10% loan and 90% grant in the case of Special Category States.

7. The third channel of resource transfer is through Central Plan Schemes and Centrally Sponsored Schemes from the individual Central Ministries / Departments. The Central Sector Schemes and the Centrally Sponsored Schemes are in the nature of close-ended specific purpose transfers with or without matching requirements and are also included in the plan schemes.

II. Interdependence of Finance Commission and Planning Commission:

8. The two main bodies that intermediate between the Centre and States in the matter of fiscal transfers namely the Finance Commission and the Planning Commission follow their approaches in a segmented way without any effective coordination. The plan generates three major liabilities for States beyond the plan period. They are interest liability for plan borrowings, cost of maintenance of assets created during the plan and salaries of those who are employed in plan schemes and remain in the government after the plan period. For these liabilities the State Governments look for central funds under the Finance Commission transfers. In making the assessment of the needs of State Governments on the non-plan revenue account, both interest payments and committed liabilities on staff as well as assets of the state governments are usually taken into account by the Finance Commissions. Since the plan is linked to a programme of borrowing, a larger plan is typically linked with a larger borrowing programme and, therefore, leaves relatively large future liabilities.

9. Given other things, the larger interest and committed liabilities, the larger would be the entitlement of a State in the form of Finance Commission grants. It is implicit in this approach that larger plan outlays financed by larger borrowing create larger State

specific liabilities, which generate larger claims for additional fiscal transfer through the Finance Commissions. The methods of working out transfer by the Planning Commission and the Finance Commission thus create a circuit of adverse incentives because in both cases a fragmented view is taken without addressing the issue in its totality. The Finance Commission looks at only the non-plan revenue expenditure without paying much attention to the linkage of interest payments with past fiscal deficits and accumulated debt stock. The Planning Commission looks only at new schemes; it looks at the scope of borrowing in the plan period without considering what future liabilities are being created and how that may be financed beyond the plan period. Projects financed by external assistance which is transmitted to the States on the same terms and conditions as normal central assistance also create similar liabilities regarding interest payments and maintenance.

10. An often-repeated critique is that the plan assistance, by mixing grants and loans combines two modes of resource transfer which need to be governed by entirely different sets of principles. Grants should be limited to projects where social returns exceed economic returns like primary education and primary health. On the other hand, loans should be on the basis of the capacity of a State to absorb and service the loan and in respect of projects which can generate returns commensurate with the cost of the loan. By mixing the two together, the Centre is burdening the States with debt that they cannot service, but cannot afford to forego either, because by forgoing the loan the component of grant will also have to be foregone. The artificial dichotomy between plan and non-plan expenditure also induces a number of inefficiencies. There is an undue emphasis on taking up new schemes while incomplete projects of the past plans and maintenance of assets created in the past get little attention. While old assets are left to degenerate fast due to inadequate maintenance, new assets do not get completed to contribute to output. A principal reason for low returns to government investment is the delay in getting the projects completed. This is one of the major reasons for the inefficiency of Government expenditure, as a whole.

11. Another frequently repeated view is "loan grant ratio should reflect the capital-revenue share in the State plans". This needs a closer scrutiny. [2]For this view to make logical sense, the following axioms will have to hold:

- (i) Capital expenditures yield returns to State Governments, while revenue expenditures do not;
- (ii) The returns on all capital expenditures are potentially sufficient to fully service the debt, including both interest and amortisation, at least in the long run;
- (iii) The Centre does not receive any returns from State Plan expenditures, except by way of loan servicing.

12. None of the above axioms is true. In the first place, all State government expenditure on real goods and services (excluding subsidies and transfers which would

[2] The authors acknowledge the thoughtful contribution of Dr. Pronab Sen, Adviser, Planning Commission, on the issue of whether "loan grant ratio should reflect capital revenue share".

include such items as interest payments and pensions) contribute to the over all level of economic activity through the multiplier process and thereby yield returns to the State government by expanding the tax base. It is certainly true that capital expenditures have higher long-run multipliers than revenue, but that is only a matter of degree. The short-run multipliers are roughly the same. Secondly, capital investments on non-commercial activities, such as in almost all forms of social and physical infrastructure, normally yield fairly low levels of direct returns, and certainly not enough to service the capital costs. In most instances, even recovering the operation and maintenance costs can prove difficult. Thirdly, the Central Government is as much a beneficiary of the incremental growth process created by the State Plan expenditures as the States.

13. Thus, instead of the principle of state bearing the capital costs and the Centre bearing the revenue expenses under the State Plan, a more appropriate principle would be to apportion the responsibility on the basis of incremental tax shares, which represents the relative benefits accruing from State Plan expenditures. (At the moment, every additional rupee of GDP increases the tax receipts of the Centre by about 10 paise and that of the States by about 6 paise. Adjusting for tax devolution as per the 11th Finance Commission, the Centre gets about 7 paise net while the States get about 9 paise). On this basis, the loan grant ratio on all Plan transfers taken together should be 60:40 after taking into account the Finance Commission award. If this alternative principle was to be accepted, then the Centre is already giving a far more favourable treatment to the States than is justified.

14. It appears inappropriate to treat Plan financing independently from the larger economic and budgetary processes and the nature of Centre-State fiscal relations. For instance, the incremental economic activity created by Central Plan expenditures gives rise to revenues for the State without any corresponding expenditure. Should adjustments be made for these? In the absence of well-defined principle for making these adjustments, it is suggested that where the entire combined Plan of the Centre and the States is financed by debt, the guiding principle for determining the loan-grant ratio should be the relative ability of the two tiers of government in servicing their debt liabilities in the future.

III. Dimension of the problem of revenue gap and reasons thereof:

15. The problem can be explained in terms of some important indicators.

a) Devolutions by the Finance Commission:

An alarming trend which has emerged of late is the significant difference in the devolution recommended by the Finance Commissions and the actual devolutions. The following table clarifies this.

Table 1

Share of the States in Central Taxes

(Rs. Crore)

	Year	**Projected**	**Actual**	**Amount of Difference**	**Percentage Difference**
FC	*1*	*2*	*3*	*4*	*5*
NFC	1990-91	14000	14535	535	3.8
NFC	1991-92	15592	17197	1605	10.3
NFC	1992-93	17370	20522	3152	18.1
NFC	1993-92	19353	22241	2888	14.9
NFC	1994-95	21567	24840	3273	15.2
TFC	1995-96	30874	29285	-1589	-5.1
TFC	1996-97	35317	35061	-256	-0.7
TFC	1997-98	40390	43548	3158	7.8
TFC	1998-99	45931	39145	-6786	-14.8
TFC	99-2000	51931	43481	-8450	-16.3
EFC	2000-01	54059	51688	-2371	-4.4
EFC	2001-02	63026	52841	-10185	-16.2
EFC	2002-03	73493	56141	-17352	-23.6

NFC,TFC,EFC are the Ninth, Tenth and Eleventh Finance Commissions

After the award period of the Ninth Finance Commission, there has been a shortfall in the actual devolutions vis-à-vis projections. The gap has been more or less steadily increasing and it was as high as 24% last year.

b) Balance from Current Revenues (BCR) or Non-Plan Revenue Gap

16. The non-plan revenue deficit after incorporating the tax devolution from the Centre and also non-plan grants of the Finance Commission reveals a huge gap in recent years for all states taken together (Annex-1). For the Ninth Plan period, Karnataka is the only state with a non-plan revenue surplus. For the rest of the states it is negative. It is also observed that West Bengal and U.P. account for 18% and 19% respectively, of the total non-plan revenue gap during the Ninth Plan period. For 2002-03 (RE), except for Goa and Sikkim and the newly formed state of Jharkhand, the non-plan revenue gap is negative for all states. In 2003-04 (Approved Plan), except for Andhra Pradesh, Madhya Pradesh, Sikkim and Jharkhand, it is negative for all states

17. Table 2 below shows the Non-Plan Revenue Deficit (inclusive of tax devolution of Centre and all non-plan grants) as a percentage of Gross Domestic Product (GDP) for all states and union territories taken together has deteriorated from (-) 0.4% in 1996-97 to (-) 2.2% in 2001-02 (RE). It is expected to improve marginally to (-) 1.58% in 2002-03 (BE).

Table: 2 – Revenue Deficit & Non Plan Revenue Deficit of States

Income Category	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02 (RE)	2002-03 (BE)
1. High Income							
(a) RD as % of GSDP	-1.21	-1.54	-2.62	-2.57	-3.60	-3.68	-2.43
(b) NPRD as % of GSDP	0.00	-0.51	-1.43	-1.56	-2.67	-3.08	-2.07
(c) is (a) – (b)	-1.21	-1.03	-1.18	-1.01	-0.93	-0.60	-0.36
2. Middle Income							
(a) RD as % of GSDP	-2.06	-1.38	-2.89	-3.88	-3.30	-2.96	-2.76
(b) NPRD as % of GSDP	-0.50	0.22	-1.10	-2.23	-1.72	-1.60	-1.28
(c) is (a) – (b)	-1.56	-1.59	-1.78	-1.65	-1.58	--1.36	-1.48
3. Low Income							
(a) RD as % of GSDP	-1.86	-1.77	-4.16	-4.19	-3.11	-.3.72	-2.21
(b) NPRD as % of GSDP	-0.82	-0.89	-3.20	-3.18	-2.28	-2.73	-1.64
(c) is (a) – (b)	-1.04	-0.88	-0.96	-1.01	-0.83	-0.99	-0.57
4. Special Category							
(a) RD as % of GSDP	3.14	1.68	-1.50	-2.48	-3.86	-3.20	-2.44
(b) NPRD as % of GSDP	-3.50	-5.32	-6.62	-8.34	-8.39	-8.26	-6.37
(c) is (a) – (b)	6.63	7	5.12	5.86	4.53	5.07	3.93
5. All States / UT							
(a) RD as % of GDP	-1.30	-1.17	-2.73	-3.06	-2.79	-2.89	-2.16
(b) NPRD as % of GDP	-0.42	-0.43	-1.78	-2.21	-2.04	-2.21	-1.58
(c) is (a) – (b)	-0.88	-0.74	-0.95	-0.85	-0.75	-0.68	-0.58

(Source: RBI State Finances Various Issues)

Note: Both GSDP and GDP are taken at factor cost to make them comparable
RD: Revenue Deficit
NPRD: Non-Plan Revenue Deficit or BCR
PRD: Plan Revenue Deficit

18. For the sake of convenience of analyses, the states have been classified into High-income states, Middle-income states and Low-income states on the basis of per capita Net State Domestic Product (NSDP) as in 1999-2000. The Special Category States have been grouped separately and these are the states which are given special status in dispensing of normal Central Plan assistance. The States with per-capita NSDP greater than 15% of average are classified as high income and those with less than 10% are classified as low income. Accordingly,

- High Income States - Gujarat, Goa, Haryana, Maharashtra & Punjab
- Middle Income States – Andhra Pradesh, Karnataka, Kerala, Tamil Nadu & West Bengal
- Low Income States – Bihar, Chattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan & Uttar Pradesh.
- Special Category States–Arunachal Pradesh, Assam, Himachal Pradesh, J&K, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, & Uttaranchal

19. For High-income states, although in 1996-97, the Non-Plan Revenue Deficit (NPRD) as a percentage of GSDP was non-existent, it gradually deteriorated to (-) 3.1% in 2002-02(RE) and is expected to marginally improve to (-) 2.1% in 2002-03(BE).

20. The Middle-income states started from (-)0.5%, NPRD as a percentage of GSDP in 1996-97 which gradually reached a peak level of (-)2.2% in 1999-2000 and thereafter shows an improvement and is expected to be (-)1.3% in 2002-03(BE).

21. The Low-income states had a much higher NPRD as a percentage of GSDP in 1996-97 i.e. (-)0.8% as compared to high income and middle income states. This deteriorated significantly and reached a peak level in 1998-99 of (-) 3.2% and thereafter improved to (-)2.7% in 2001-02 (RE) and is expected to be (-)1.6% in 2002-03(BE).

22. The Special Category States had the worst NPRD as a percentage of GSDP i.e. (-)3.5% in 1996-97 when compared with High, Middle and Low income states. This further deteriorated significantly and reached a peak level of (-)8.4% into 2000-01 and thereafter there is a marginal improvement to (-)8.3% in 2001-02(RE) and this is expected to be (-)6.4% in 2002-03 (BE).

23. When we look across all categories in 2001-02 (RE), the maximum NPRD as a percentage of GSDP is for Special Category States, followed by High-income states, Low-income states and Middle-income states, in that order. Therefore it appears that Middle-income states are the best performers in terms of NPRD as a percentage of GSDP.

c) Revenue Deficit:

24. Revenue deficit (RD) as a proportion of GDP for all the states and Union Territories was (-)1.3% in 1996-97 which deteriorated gradually and peaked in 1999-

2000 to (-)3.1% and thereafter shows improvement. It is expected to be (-)2.9% in 2001-02 (RE) and (-)2.2% in 2002-03 (BE). It is interesting to note that the difference between RD and NPRD gives the Plan Revenue Deficit (PRD). From 1996-97 onwards, the PRD as a proportion of GDP is (-)0.88% and has improved gradually to (-)0.68% in 2001-02(RE) and is expected to be (-)0.58% in 2002-03 (BE). This deficit is arising primarily because the plan revenue receipts and the plan revenue expenditure of the states are not properly aligned. The Table 2 above also shows that PRD as a percentage of GSDP is the worst for Middle-income states, followed by High-income and Low-income states. However, all the Special Category States show a plan revenue surplus mainly due to huge plan resource transfers from the Centre to them mainly as grant. The Special Category States have a peculiar feature where NPRD as a proportion of GSDP is a high negative number whereas on the Plan side, they have a revenue surplus.

d) Non-plan revenue expenditure as a proportion of total revenue receipts:

25. For all states taken together, the non-plan revenue expenditure to total revenue receipts was 92.9% in 1996-97 which gradually increased to 108.6% in 1999-2000 and thereafter, there is a gradual decline to 104% in 2001-02 (RE) which is further expected to decline to 97.8% in 2002-03 (BE). The state specific profile may be seen at Annex-6. It is clearly evident from here that for the states of West Bengal, Uttar Pradesh, Uttaranchal, Tamil Nadu, Rajasthan, Orissa, Punjab, Maharashtra, Madhya Pradesh, Kerala, Gujarat and Bihar, the non-plan revenue expenditure as a proportion of total revenue receipts exceeds 100% in 2001-02 (RE) which is an unsustainable situation.

III.I Reasons for growing revenue gap:

The reasons for this exist both on the revenue side and on the expenditure side.

Revenue side:

26. In the table below we observe that States' Own Tax Revenue as a percentage of GDP has grown only marginally from 5.7% in 1996-97 to 6.36% in 2001-02 RE. States' Own Non-Tax Revenue as a proportion of GDP has fallen from 1.9% to 1.5% during the same period. As regards Centre, we find Gross Tax Revenue as a proportion of GDP has fallen from 10.4% to 8.9% in 2001-02 RE. However, the Centre's Non-Tax Revenue as a percentage of GDP shows a marginal growth from 2.6% to 3.2% in 2001-02 RE. It may be mentioned here that a major part of non-tax revenue of the Centre is interest receipts from the States. So, if this amount is netted out, there may not be any growth in the Centre's non-tax revenue as percentage of GDP. Thus, it is evident both at the State level and at the Central level, the Tax and Non-Tax revenues have not helped in augmenting the revenue resources of the Centre and the States.

Table 3: Tax and Non-Tax Revenues of Centre and States (as a percentage of GDP*)

Category	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02(RE)	2002-03 (BE)
1.SOTR	5.72	5.84	5.57	5.82	6.15	6.36	6.67
2.SONTR	1.89	1.76	1.51	1.70	1.64	1.52	1.69
3.CGTR	10.35	10.01	9.00	9.75	9.83	8.93	9.92
4.CNTR	2.62	2.75	2.81	3.02	2.92	3.24	3.25

Note*:* *(RBI State Finances, Various issues and Receipts Budget 2003-04 Govt. of India.*
SOTR: States' Own Tax Revenue
SONTR: States' Own Non-Tax Revenue
CGTR: Centre's Gross Tax Revenues.
CNTR: Centre's Non-Tax Revenues.
GDP- GDP at factor cost has been taken to retain comparability with other Tables.*

27. Annex 2 gives major components of States' Own Tax Revenue and Non-Tax Revenue as a proportion of total revenue receipts. It is observed that Sales Tax, which is the most important component of tax revenue of the States, has increased marginally from 28.7% in 1996-97 to 29.5% in 2001-02(RE). State Excise, the next major component of States' Own Tax Revenue has increased marginally from 5.8% 1996-97 to 6.6% in 2001-02 (RE). Stamps and Registration, which is the third major component of States' Own Tax Revenue, has stagnated around 4% during the time period 1996-97 to 2001-02 (RE). Profession Tax is less than 1% of revenue receipts during the above mentioned time period. As regards components of Non-Tax Revenue, General Services as a proportion of total revenue receipts, has fallen from 8.9% in 1996-97 to 6% 2001-02 (RE). Social Services have increased marginally as a proportion of total revenue receipts from 0.8% in 1996-97 to 0.9% in 2001-02 (RE). Economic Services as a proportion of revenue receipts have fallen from 5.7% in 1996-97 to 4.6% in 2001-02 (RE).

28. States' own tax revenue as a proportion of total revenue receipts were 45.8% in 1996-97 which rose to 48.4% in 2001-02 (RE) and is expected to be 49% in 2002-03 (BE) (Annex 3). This proportion is highest in Maharashtra (74.6%) followed by Tamil Nadu (68.35%) and lowest in Mizoram (1.6%). The table below gives the classification of states in terms of four categories, namely, A, B, C and D with respect to 2001-02 (RE). (Group A being high performer, Group B medium performer, Group C low performer and Group D poor performer). It is observed that with a few exceptions, maximum states are covered in the last two categories.

Table: 4 Own tax revenue as a percentage of total revenue

Group	Names of States
A	Haryana, Karnataka, Maharashtra, Tamil Nadu, Kerala
B	Andhra Pradesh, Gujarat, Punjab
C	Rajasthan, Uttar Pradesh, West Bengal, Madhya Pradesh
D	Arunachal Pradesh, Assam, Bihar, Chattisgarh, J&K, Jharkhand, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Goa, Himachal Pradesh and Uttaranchal

Group A- High performer with 60% and above
Group B – Medium performer with 50-59%
Group C - Low performer with 40-49%
Group D – Poor performer with less than 40%

These are the states whose own tax revenue is less than 50% of total revenue receipts. This is the group for which urgent steps in terms of tax effort has to be made to ensure a reasonable rise in tax revenue. It is also observed that the NPRD as a percentage of GSDP is high not only for states in-group C and D of Table 4 but also in states group A and B. This means that even the high performers and the medium performers in terms of own tax revenue need to improve their tax effort in order to ensure a sustainable quantum of NPRD.

29. States Own Non-tax Revenue (SONTR) as percentage of total revenue receipts for all states taken together is 11.6% in 2001-02 (RE). This may be seen at Annex-4 The table clearly show that over time this has fallen from 15.7% in 1996-97 to 11.6% in 2001-02 (RE) and is expected to be 12.4% in 2002-03 (BE). SONTR as a proportion of total revenue receipts is highest for Goa (58.9%) followed by Punjab (32.6%) in 2001-02 (RE) and the lowest being for Manipur (3%). However, it may be noted that both Goa and Punjab have inflated non-tax revenue on account of gross receipts from lotteries. When adjusted for this, Punjab and Goa would actually fall in category B, instead of A. classification of states in terms of the four categories already mentioned above.

Table – 5 : States' Own Non-Tax Revenue as a Percentage of Total Revenue Receipts

Group	Names of States
A	Goa and Punjab
B	Sikkim, Jharkhand, Haryana, Chattisgarh and Gujarat
C	Rajasthan, Maharashtra, Andhra Pradesh and Arunachal Pradesh
D	Assam, Bihar, J&K, Karnataka, Kerala, Tamil Nadu, Madhya Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Himachal Pradesh, Uttar Pradesh, West Bengal and Uttaranchal

Group A - 25% or above
Group B – 15% to less than 25%
Group C –10% to less than 15%
Group D - less than 10%

30. It is observed that with a few exceptions, maximum states are in the last category i.e. where SONTR as a proportion of total revenue receipts is less than 10%. The main reason for a fall in contribution of SONTR as a proportion of total revenue are:

- Very low user charges for the services provided by various state governments and also non revision of user charges over long spell of time to keep pace with the increase in average cost of providing the services
- Net recovery from both, power and irrigation projects is negative for most states
- Delayed revision of coal royalty by the Centre

31. The states share in Central taxes as a proportion of total tax revenue has fallen over time and this is evident from Annex-5. In 1996-97 for all states taken together, this was 34% and it gradually deteriorated to 30% by 2001-02 (RE) and is expected to be 29.9% in 2002-03 (BE). The main reason for falling share in Central taxes is falling tax buoyancy of the Central government arising due to shortfall in revenue mobilisation by the Centre in spite of rising GDP. It is also observed that there are significant inter-state differences in the share of Central taxes as a percentage of total tax revenue. For instance, for high performing states in terms of own tax revenue (Haryana, Karnataka, Maharashtra, Tamil Nadu and Kerala) and also for medium performers (Andhra Pradesh, Gujarat and Punjab): the Central tax as a percentage of total tax revenue is in the range of only 9% to 26% in 2001-02 (RE). As against this, for low performing and poor performing states in terms of own tax revenue it forms a significant proportion and ranges between 41% and 88%. Another noteworthy observation is, the shortfalls in Finance Commission's actual devolutions as already given in Table-1 drastically affects the fiscally weaker states (like the special category states and the states of Rajasthan, U.P., West Bengal, Madhya Pradesh, Orissa, Bihar) which depend heavily on Central devolutions.

Expenditure side:

32. The non-plan revenue expenditure (NPRE) as a proportion of total revenue receipts has been increasing phenomenally as already discussed before (Annex-6**).** For all states taken together, it was 92.9% in 1976-97 and it exceeded 100% by 1998-99 and continued to exceed till 2001-02 (RE). This reflects an unsustainable fiscal situation of the states. In 2002-03, it is expected to improve marginally to 97.7%. The states whose NPRE as a proportion of total revenue receipts exceeded 100% in 2001-02 (RE) are Bihar, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttaranchal, Uttar Pradesh and West Bengal. The fact that even high income states like Gujarat, Maharashtra and Punjab are falling into the above category shows urgent need to contain the ballooning NPRE of the prosperous states.

33. Another reason for the rising revenue gap is the rising expenditure on wages, interest and pension as a proportion of total revenue receipts. Details given at Annexe-7 It is evident from here that wages, interest and pension payments as a proportion of total revenue receipts was 66.04% in 1996-97 for 23 states and this increase to 88% in 1999-

2000. Thereafter it declined to 83% in 2000-01 and is expected to be 82.3% in 2001-02 (RE) (this excludes the data of newly formed states of Uttaranchal, Jharkhand, Chattisgarh and also the states of Manipur and Goa for which data was not available). For some states like West Bengal, Orissa, Kerala and Himachal Pradesh, this proportion was more than 100% of total revenue receipts in 2000-01. For the states of Assam, Bihar, Uttar Pradesh, Punjab, Rajasthan and Tamil Nadu, it exceeds 80%.

34. Actually, the problem of rising non-plan revenue expenditure came into existence due to the wage revision by the States after the Fifth Pay Commission recommendations and this led to pension revision also. This obviously led to high non-plan revenue gap in the absence of matching increase in State's Own Revenues. As a result of this, the borrowings by the States increased which impacted the interest payments. It would be pertinent to add that the States already had a huge debt stock and these new liabilities compounded the problem.

35 In this connection it may be mentioned that items of wage bill, interest and pension payments are items of committed liability of the states and have to be met irrespective of the level of revenue receipts in the immediate future. They also form a major part of non-plan revenue expenditure of the states and their unabated growth accentuates the problem of revenue gap of the states.

36. Interest payment as a proportion of total revenue receipts of the states was 17.1% in 1996-97 and has gradually risen to 24.1% in 2001-02 (RE). The state specific profile may be seen at Annex-8.

37**.** Pension payment as a proportion of total revenue receipts was 6.6% in 1996-97 and has gradually risen to 10.5% in 2001-02 (RE). The state specific profile may be seen at Annex-9.

38. Wage bill as a proportion of total revenue receipts was 42.2% in 1996-97 which peaked to 54% in 1999-2000. This was mainly due to the implementation of the Fifth Pay Commission recommendations. Thereafter, this reduced to 49.5% in 2000-01**.**
(Annex 10)

39. It is evident from above, that the Wage Bill followed by interest payment has the maximum draining effect on the revenue receipts of the States.

IV. <u>Possible Approaches for a Solution</u>

40 The Finance Commission's methodology is to assess the fiscal position of the Centre and the States, projecting revenues, non-plan expenditure of the States for the ensuing five years, augmenting the projected revenues by recommending share of Central taxes to individual states, based on chosen general economic indicators and filling the remaining gaps between non-plan expenditures and revenues with grants-in-aid. This is called as the gap-filling approach. However, in spite of equity objective of Finance Commission, the non-plan revenue deficit continues to exist and widen. There exist

significant inter-state differences in the revenue raising capacity, economic characteristics, revenue collection efficiency. There is a serious criticism of Finance Commission's Gap-Filling Methodology. It is argued that States' can gain more by lowering tax effort and indulging in profligate spending (Rao 2002). Moreover, the Finance Commission's grants are unconditional and, therefore, are unlikely to impact the socio-economic conditions of the States.

41. Although the Finance Commission's transfers are supposed to alleviate horizontal and vertical imbalances in the revenue capacity of the constituents of federation – so that they can provide basic public services to their citizens at a reasonable level (EFC), yet there is significant asymmetry in the arrangement in the Indian Federalism. There are wide differences in the economic characteristics of the States in terms of population density, per capita NSDP, percentage of population below poverty line (Rao 2002).

42. It is also said that revenue sharing between Centre and the States cannot be decided in isolation, but must be anchored to macro-economic framework, where fiscal adjustments take place along with prudent and efficient fiscal management, consistent with provision of basic services to all at a minimum level of balanced regional development. (EFC)

43. No sustained improvement in State finances is possible unless root cause of the problem that affects public finances is correctly diagnosed and addressed upfront by a designed plan-of-action. (EFC)

44. The possible solutions to the problem of revenue gap lie in a holistic approach and multi-pronged strategy, which not only addresses the tax effort of the state and the Centre, but also impinges upon the non-resource issues like proper governance, accountability, expenditure efficiency through performance audit, etc. Moreover, there is need for proper monitoring of both resource and non-resource issues. While the resource issues can be governed better by centralised agencies, the non-resource issues are best handled through greater decentralisation. The real challenge, now, is not only to contain the revenue gap, but also to fill it by enhancing the capacity of non-borrowed resources of the States, i.e. basically the States' Own Tax Revenue and Non-Tax Revenue.

45. The possible enduring solutions to the problem (some of the suggestion given below have already been given by the Advisory Group on Tax Policy, Expenditure Reforms Commission, Working Group on Tenth Plan) are:

1. <u>Resource Issues</u>

(a) Tax Revenue

- Unexploited taxes like agricultural income tax, profession tax, land revenue, etc. could raise 'Tax-GDP ratio'. The amounts collected through taxation of land/farm income may be passed on to the local bodies for improving and strengthening the civic services. Local bodies may also be involved in collection of these taxes;

- Services are emerging as a fast growing sector of the economy and constituting over 50% of GDP, they should be brought increasingly under the tax net for improving buoyancy of indirect taxes;
- Tax bases of the States and local bodies need to be widened by better exploitation of land-based taxes, better administration of property taxes and other taxes;
- The state should levy profession tax with a view to supplementing the resources of local bodies or they should empower the local bodies to levy it. These rates should be revised from time to time;
- Property tax / House tax has not been exploited to its full potential. The relevant tax legislations should be suitably modified to delink the tax from Rent Control Laws. Where a property has been let out, property tax should be made recoverable from the occupant.
- All tax exemptions and tax incentives should be abolished;
- Rationalisation of sales tax and introduction of broad-based value added tax;

(b) Non Tax Revenue:

- Low non-tax revenue is a major reason for fiscal ills. So the States must minimise support to public enterprises. Such support, if extended, must be explicit. There should be no more investment in public enterprises;
- User charges should be index-linked to changes in input costs and the process of periodic revision should be automatic. An autonomous tariff commission should be appointed to advise the government on revision of power tariff, railway tariff, bus fares and other administered prices so that there link to cost is maintained while protecting interests of consumers.

  Within user charges there is specific policy suggestion for general services and social services. In case of general services, although people are entitled to them, some linkages to cost needs to be considered to improve recovery. As regards social services, this is an area where recovery can be significantly improved, specially in case of education, health and urban water supply. The States' should strive to achieve at least 30% recovery of the current cost.

(c) Expenditure

- The composition of government expenditure should be restructured in favour of priority areas like elementary education, primary health care, water supply, sanitation and infrastructure, like roads and bridges. Expenditure on salaries, pensions, interest payments and subsidies require a tight reign.
- As regards pension, States may be persuaded to set up pension funds which are to be contributed by the employees themselves so that it is not a burden on the States' resources.
- As regards interest payments, states have already entered the debt-swap scheme of the Government of India under which they are swapping high-

cost debt in favour of low-cost debt. But this is only a short-term measure. A more secure solution to the problem would be, if the states' outstanding liabilities as a percentage of revenue receipts can be contained to a sustainable level. This, in turn, would require not only enhancing non-borrowed resources of the states, but also expenditure compression on universal subsidies;

- Abolition of vacant posts in the government except primary school teachers and health workers; (Medium Term Fiscal Restructuring Programme – MTFRP);
- Redeployment of work charged establishments for new capital works. Practice of engaging new work-charged staff and daily-wage workers to be stopped forthwith; (MTFRP);
- Tapering off of subventions to grant-in-aid institutions. Registration of new grants-in-aid institutions in secondary and higher education to by phased out gradually; (MTFRP);
- Subsidy reforms to focus on selected sectors which would yield maximum results. In particular, attention can be focussed on food and fertiliser subsidies at the Central level and subsidies relating to agriculture, irrigation, power, industries and transport sectors at the State level. (Srivastava 2003)

46. Since fiscal management of many states is critically dependent on Central tax devolution, perhaps it may be appropriate for the 12th Finance Commission to examine the possibility of recommending the absolute minimum amount of devolution besides recommending the percentage share of the States. This may put a pressure on the Centre to improve their tax buoyancy and also ultimately help to reduce the revenue gap of States.

47. It may be mentioned here that the Office of the Comptroller and Auditor General of India has developed a composite index of fiscal health of the States in 2003. It captures multi-dimensional measures of state finances and seems to serve a useful purpose in benchmarking and comparison over time and across states which in many ways are rather similarly placed. These indicators not only capture the static situation but also the process as well and their movement over time, providing policy options. They capture the four major components of state finances, namely – resource mobilisation, expenditure management, management of fiscal imbalances and management of fiscal liabilities. The finance Commission may like to consider linking a part of the non-plan grants to the composite index of fiscal health of states. The States showing a higher index may get an incentive grant on the lines similar to medium-term fiscal reforms programme. The logistics of monitoring this grant may be worked out between Comptroller and Auditor General Office and the Ministry of Finance. As more and more non-plan grants get linked to performance, it will give a message to the poor performing states that poor performance is not a license for having access to grants.

2. Non-Resource Issues

48. In the context of development, good governance may be defined as the capacity of the Government to manage resources efficiently and formulate, implement and enforce such policy and schemes that are in the interest of the poor and facilitate development. (Tenth Plan Document)

49. Governance should be so designed as to bring in improved transparency, greater accountability and streamlining the structure of government. Improved transparency would result in improving the flow of information to general public on modes of decision-making and hence lead to less arbitrariness as decisions come under closer public scrutiny. In the context of states and Centre, good governance would also mean a need to redesign structures of government (i.e. government should concentrate only on areas of key concern and move out of areas where private sector can operate better) so as to reduce distortions and allow it to optimally perform key tasks. The governance reforms at the state level include multi-faceted strategy based on decentralisation, civil service renewal, responsive government, tackling corruption, strengthening of laws and fiscal and environmental sustainability. (Tenth Plan Document)

50. From past experience of well-performing and not so well performing states, we all know that each of the above mentioned issues have a significant impact on the revenues and expenditure of the states. There is also a remarkable difference in the mindset of the bureaucracy manning the well-performing states vis-à-vis the badly performing. However, it is very difficult to convert improvements due to any of the non-resource issues on the fiscal health of the states into some tangible numbers so that incentive linked grants can be given. Therefore, tangible solutions to the problem of reducing revenue gap still remains in terms of taking tax, non-tax and expenditure measures already discussed above. However, the non-resource issues cannot be ignored totally. Influencing them would mean totally changing the mindset and the work culture of the economy at large by introducing social audit, citizens' charter, performance audit, etc. which can be made possible through greater decentralisation, greater public participation and awareness.

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Annex-1

STATE-WISE BCR : NINTH PLAN & 2002-03 & 2003-04 (AP)

			(Rs.crore)
States	**Ninth Plan Realisation**	**2002-03 (LE/RE)**	**2003-04 (AP)**
	(at 1996-97 Prices)	(At current Prices)	
1	2	3	4
1. Andhra Pradesh	-1,925.27	-534.16	788.38
2. Arunachal Pradesh	-401.78	-106.41	-91.97
3. Assam	-3,006.46	-1,222.16	-966.32
4. Bihar	-6,705.87	-1,424.57	-842.64
5. Chattisgarh		167.36	473.47
6. Goa	-231.35	100.63	220.19
7. Gujarat	-10,942.39	-4,902.31	-3,032.06
8. Haryana	-2,356.76	-534.83	-230.98
9. Himachal Pradesh	-3,366.85	-1,244.00	-2,123.42
10. Jammu and Kashmir	-4,623.00	-789.64	-904.00
11. Jharkhand		397.28	1,166.68
12. Karnataka	1,973.63	-1,405.13	-34.55
13. Kerala	-4,333.16	-269.83	-454.70
14. Madhya Pradesh	-2,478.56	-133.36	798.41
15. Maharashtra	-161.83	-3,131.88	-1,099.29
16. Manipur	-1,075.14	-321.36	-378.94
17. Meghalaya	-580.22	-219.20	-169.12
18. Mizoram	-580.98	-295.03	-326.19
19. Nagaland	-1,103.56	-330.20	-291.22
20. Orissa	-4,656.65	-1,893.22	-2,255.26
21. Punjab	-8,466.82	-3,391.40	-2,283.72
22. Rajasthan	-8,492.46	-3,179.10	-3,169.23
23. Sikkim	-390.70	1.70	5.40
24. Tamil Nadu	-6,480.88	-1,339.57	-1,127.58
25. Tripura	-1,579.82	-609.72	-512.72
26. Uttaranchal		-1,506.76	-1,340.99
27. Uttar Pradesh	-22,051.03	-6,634.72	-5,381.48
28. West Bengal	-20,672.19	-8,790.91	-7,913.80
All States	**-114,690.11**	**-43,542.50**	**-31,477.65**

Source: Financial Resource Division, Planning Commission

Annex 2

MAJOR COMPONENTS OF STATES' OWN TAX AND NON-TAX REVENUES

(As percent of total revenue receipts)

Item	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)	2002-03 (BE)
1	2	3	4	5	6	7	8
A. State's Own Tax Revenue*	46.52	47.70	50.44	49.51	49.58	49.12	49.15
of which							
1. Agricultural Income Tax	0.07	0.11	0.14	0.07	0.04	0.05	0.05
2. Profession Tax	0.59	0.53	0.67	0.78	0.78	0.79	0.86
3. Stamps & Registration Fees	4.10	4.19	4.21	4.13	4.07	4.29	4.33
3. Land Revenue	0.70	0.64	0.58	0.52	0.59	0.81	0.87
4. Sales Tax	28.74	28.68	30.10	30.07	30.83	29.46	29.83
of which							
(i) State Sales Tax	23.17	22.73	24.25	23.01	24.58	23.57	23.90
(ii) Central Sales Tax	3.55	3.69	3.50	4.48	4.30	3.50	3.55
5. Taxes on Vehicles	2.69	2.85	2.85	2.97	2.80	2.73	2.75
6. State Excise	5.76	6.62	7.59	7.25	6.74	6.61	6.65
B. State's own Non-Tax Revenue* (1 to 3)	15.40	14.35	13.70	14.42	13.22	11.72	12.44
1. General Services	8.94	8.47	7.37	7.50	7.43	6.15	6.89
2. Social Services	0.78	0.99	1.00	1.07	0.97	0.94	0.92
3. Economic Services	5.68	4.89	5.32	5.84	4.82	4.63	4.63

Source: RBI State Finances, Various issues.

*includes NCT, Delhi

Annex-3.

STATES OWN TAX REVENUE TO TOTAL REVENUE RECEIPTS

States	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)	2002-03 (BE)
							(Percent)
1. Andhra Pradesh	43.61	51.40	55.83	53.61	54.18	52.63	52.42
2. Arunachal Pradesh	1.11	1.20	1.19	1.39	2.16	2.01	2.67
3. Assam	19.89	20.39	21.81	25.30	25.06	23.76	25.54
4. Bihar	26.77	25.32	28.84	28.92	25.78	23.90	23.42
5. Chattisgarh					39.82	39.09	39.57
6. Goa	37.41	32.97	31.12	37.34	34.71	31.83	31.71
7. Gujarat	62.74	59.24	59.77	58.72	57.48	53.29	54.49
8. Haryana	35.43	40.17	56.94	61.00	65.59	62.81	62.18
9. Himachal Pradesh	20.68	21.94	24.74	16.69	23.92	22.03	23.93
10. Jammu and Kashmir	9.12	7.93	9.69	10.48	13.79	12.50	14.40
11. Jharkhand						34.04	30.74
12. Karnataka	59.95	60.42	61.83	60.00	61.01	63.51	63.23
13. Kerala	63.44	63.23	64.59	65.39	67.24	66.12	65.17
14. Madhya Pradesh	40.98	40.54	45.02	43.89	41.26	40.58	40.20
15. Maharashtra	60.84	67.53	65.34	68.32	66.71	74.62	71.99
16. Manipur	3.77	4.17	3.45	3.74	4.70	3.80	4.67
17. Meghalaya	10.55	10.62	10.58	10.91	10.48	10.35	11.39
18. Mizoram	1.06	1.18	1.16	1.28	1.74	1.60	2.53
19. Nagaland	3.86	3.71	3.13	3.77	3.96	3.50	3.61
20. Orissa	31.30	30.70	32.65	28.96	31.64	32.06	29.99
21. Punjab	49.11	47.94	56.68	52.86	52.20	51.57	47.83
22. Rajasthan	41.32	42.72	45.91	46.28	42.74	45.47	49.28
23. Sikkim	1.90	2.08	1.94	2.05	7.63	5.92	3.48
24. Tamil Nadu	66.75	63.93	67.49	66.87	67.06	68.35	70.10
25. Tripura	5.83	6.65	6.62	7.09	7.67	7.72	7.80
26. Uttaranchal					31.95	32.10	36.85
27. Uttar Pradesh	39.34	39.83	45.51	43.74	44.38	41.51	42.80
28. West Bengal	51.77	50.03	50.86	49.96	40.75	43.37	48.01
All States*	**45.75**	**46.65**	**49.72**	**48.89**	**48.85**	**48.44**	**48.90**

Source: RBI State Finances, Various Issues

* does not include NCT,Delhi

Annex-4

STATES' OWN NON-TAX REVENUE TO TOTAL REVENUE RECEIPTS

(Percent)

States	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)	2002-03 (BE)
1. Andhra Pradesh	14.52	12.92	12.95	14.53	14.08	13.36	13.77
2. Arunachal Pradesh	8.16	6.83	7.03	6.64	6.63	6.86	7.56
3. Assam	8.35	8.81	10.03	9.19	9.34	8.34	8.26
4. Bihar	12.30	12.92	12.33	13.98	7.08	3.53	2.76
5. Chattisgarh					15.31	16.37	16.22
6. Goa	42.84	52.57	56.76	51.58	53.67	58.99	58.98
7. Gujarat	16.27	19.96	21.71	21.00	21.28	22.93	23.32
8. Haryana	51.79	44.61	27.71	21.83	21.90	22.60	21.88
9. Himachal Pradesh	7.38	10.23	8.91	28.43	5.81	5.41	5.68
10. Jammu and Kashmir	5.71	5.34	6.28	7.34	4.41	4.39	4.96
11. Jharkhand						15.73	12.71
12. Karnataka	13.95	11.91	13.09	12.48	11.20	7.61	8.86
13. Kerala	8.36	7.75	7.75	6.68	7.55	7.18	7.55
14. Madhya Pradesh	19.72	17.94	15.71	18.70	12.62	10.40	10.49
15. Maharashtra	19.50	17.92	16.44	15.58	18.93	10.51	13.44
16. Manipur	6.45	4.75	3.56	4.02	3.99	2.97	3.73
17. Meghalaya	6.44	4.30	6.13	8.90	7.66	7.77	7.22
18. Mizoram	6.98	6.76	4.66	4.76	4.88	3.88	5.31
19. Nagaland	3.86	3.25	4.44	4.28	3.09	3.24	3.23
20. Orissa	11.24	11.68	12.23	12.17	9.93	8.70	8.68
21. Punjab	34.93	37.11	26.19	31.62	31.30	32.55	34.17
22. Rajasthan	18.00	16.11	15.77	16.08	13.61	12.37	11.90
23. Sikkim	71.59	71.59	70.90	68.98	33.50	24.68	57.50
24. Tamil Nadu	7.40	8.26	8.11	8.31	9.34	8.30	6.85
25. Tripura	3.98	3.23	3.55	5.28	5.77	4.77	5.61
26. Uttaranchal					6.83	6.84	6.05
27. Uttar Pradesh	8.22	7.35	8.49	9.36	7.86	5.90	6.20
28. West Bengal	5.07	4.97	4.10	5.75	8.36	8.57	10.10
All States*	**15.66**	**14.93**	**13.88**	**14.53**	**13.29**	**11.61**	**12.42**

Source: RBI State Finances, Various Issues

* Does not include NCT, Delhi

Annex-5

SHARE IN CENTRAL TAXES TO TOTAL TAX REVENUE

(Percent)

States	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)	2002-03 (BE)
1. Andhra Pradesh	37.58	32.41	27.42	27.07	27.38	25.78	25.37
2. Arunachal Pradesh	95.21	96.06	96.07	96.05	84.82	83.53	80.06
3. Assam	60.52	62.58	57.85	54.19	54.31	52.78	49.56
4. Bihar	64.43	62.93	62.36	58.36	69.14	71.63	71.73
5. Chattisgarh					40.48	40.22	40.97
6. Goa	23.10	21.00	21.37	17.30	16.98	15.76	16.26
7. Gujarat	16.23	19.29	17.74	16.94	14.82	13.58	14.33
8. Haryana	16.78	18.54	13.33	12.99	7.41	9.11	9.15
9. Himachal Pradesh	51.64	57.76	55.97	59.77	31.20	32.44	34.50
10. Jammu and Kashmir	68.04	75.52	73.50	68.06	46.29	45.94	46.61
11. Jharkhand						51.37	50.53
12. Karnataka	23.07	25.34	21.70	21.59	22.16	19.95	19.75
13. Kerala	24.17	22.03	22.91	22.81	21.27	22.33	21.39
14. Madhya Pradesh	39.11	42.16	36.47	36.01	45.89	42.03	41.85
15. Maharashtra	16.26	11.21	17.06	13.13	12.37	9.59	9.99
16. Manipur	88.21	89.63	91.46	90.65	76.90	80.66	81.32
17. Meghalaya	73.90	79.50	77.38	76.84	58.06	56.60	58.46
18. Mizoram	96.30	96.88	96.89	96.73	85.87	87.60	84.79
19. Nagaland	89.29	92.90	93.38	92.17	59.57	70.18	70.23
20. Orissa	53.85	52.38	53.27	50.64	54.39	53.60	54.67
21. Punjab	16.18	17.75	15.25	13.92	12.81	10.97	10.26
22. Rajasthan	36.11	33.38	33.27	32.53	34.86	33.36	32.07
23. Sikkim	78.85	76.72	79.86	79.11	52.18	63.61	64.50
24. Tamil Nadu	21.34	23.90	20.02	19.63	18.48	18.04	17.63
25. Tripura	84.17	85.66	84.47	83.85	65.28	64.20	62.42
26. Uttaranchal					28.72	31.36	27.61
27. Uttar Pradesh	49.05	50.41	42.18	44.31	45.17	46.97	46.79
28. West Bengal	36.23	40.29	36.06	36.91	41.72	40.89	36.78
All States	**33.69**	**34.04**	**31.45**	**30.79**	**30.88**	**30.21**	**29.85**

Source: RBI State Finances: Various Issues

Annex-6

NON-PLAN REVENUE EXPENDITURE TO TOTAL REVENUE RECEIPTS

(Percent)

States	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)	2002-03 (BE)
1. Andhra Pradesh	111.17	88.11	93.80	91.80	96.73	89.60	84.46
2. Arunachal Pradesh	48.58	48.38	50.22	53.52	63.58	45.80	50.09
3. Assam	70.41	70.87	74.95	95.12	91.26	99.89	83.77
4. Bihar	94.66	93.15	105.70	108.98	110.56	111.23	99.71
5. Chattisgarh					70.05	81.29	82.80
6. Goa	86.42	92.59	103.05	106.84	105.74	96.04	93.15
7. Gujarat	94.27	95.67	105.60	106.74	120.97	130.48	114.96
8. Haryana	99.87	101.25	114.07	108.39	94.16	98.06	94.41
9. Himachal Pradesh	75.10	85.58	100.74	73.99	100.02	92.98	97.95
10. Jammu and Kashmir	86.26	80.70	97.21	97.04	109.31	76.15	82.10
11. Jharkhand						71.46	67.98
12. Karnataka	81.49	80.98	88.20	94.84	89.08	94.03	93.62
13. Kerala	90.38	90.67	98.86	119.79	113.81	103.45	90.40
14. Madhya Pradesh	90.08	83.89	103.50	101.56	90.02	103.75	77.00
15. Maharashtra	87.50	96.57	102.43	105.79	116.81	109.09	103.60
16. Manipur	65.45	70.14	67.71	104.11	90.00	79.79	89.45
17. Meghalaya	61.92	74.89	75.72	76.17	71.08	70.89	68.53
18. Mizoram	66.31	70.88	62.48	68.97	90.27	71.75	71.08
19. Nagaland	78.95	91.53	81.41	77.35	80.55	77.20	75.38
20. Orissa	87.85	90.24	113.53	112.70	101.56	105.59	96.96
21. Punjab	114.40	114.66	134.77	125.65	116.21	127.13	114.01
22. Rajasthan	93.36	93.59	118.10	120.40	106.03	109.03	108.90
23. Sikkim	85.84	87.91	92.78	90.94	70.41	58.43	75.41
24. Tamil Nadu	90.03	94.35	107.05	112.61	103.53	104.03	103.24
25. Tripura	61.90	69.62	67.19	77.69	83.46	84.73	78.79
26. Uttaranchal					73.29	105.09	104.38
27. Uttar Pradesh	99.46	107.75	129.38	114.71	110.52	107.42	101.65
28. West Bengal	105.91	109.24	131.94	166.59	131.10	126.29	123.01
All States	**92.88**	**93.62**	**106.24**	**108.63**	**106.21**	**104.18**	**97.77**

Source: RBI State Finances: Various Issues

Annex 7

WAGE BILL, INTEREST AND PENSION PAYMENTS TO TOTAL REVENUE RECEIPTS

(Percent)

States	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)
1. Andhra Pradesh	64.65	59.47	67.26	69.16	71.27	69.74
2. Arunachal Pradesh	33.46	42.88	46.05	57.94	58.73	44.20
3. Assam	71.09	75.62	84.84	107.57	96.07	88.23
4. Bihar	79.71	77.96	94.60	96.74	99.13	100.39
5. Haryana	42.26	49.26	77.23	80.31	72.45	69.68
6. Himachal Pradesh	74.12	83.34	98.52	72.88	101.43	96.49
7. Jammu and Kashmir	59.44	60.84	78.79	78.95	79.71	68.70
8. Karnataka	49.98	54.03	57.99	63.04	59.00	62.12
9. Kerala	72.78	70.28	81.33	104.04	103.03	92.01
10. Madhya Pradesh	60.93	61.99	80.26	75.27	66.51	71.18
11. Maharashtra	58.69	63.68	67.84	82.79	78.16	74.78
12. Meghalaya	56.39	70.88	68.04	69.83	64.98	63.50
13. Mizoram	43.65	53.64	50.06	62.30	73.30	62.72
14. Orissa	79.22	91.36	117.68	97.44	104.12	98.79
15. Punjab	77.51	81.23	116.71	101.73	82.62	93.99
16. Rajasthan	67.88	69.66	91.60	94.02	81.70	87.55
17. Sikkim	12.94	13.89	21.96	21.50	39.77	35.35
18. Tamil Nadu	62.56	64.70	80.50	86.07	82.06	86.78
19. Tripura	52.08	66.34	63.74	78.24	77.01	79.13
20. Uttaranchal					42.88	71.21
21. Uttar Pradesh	77.10	85.12	101.72	91.17	87.66	88.91
22. West Bengal	90.43	95.12	117.82	152.71	115.33	106.82
23 States	**66.04**	**69.33**	**83.45**	**87.76**	**82.94**	**82.25**

Source: Wage Bill is as per respective State Governments. Interest, Pension and Total Revenue Receipts are from RBI State Finances: Various Issues.

Annex-8

INTEREST PAYMENTS TO TOTAL REVENUE RECEIPTS

							(Percent)
States	**1996-97**	**1997-98**	**1998-99**	**1999-00**	**2000-01**	**2001-02 (RE)**	**2002-03 (BE)**
1. Andhra Pradesh	16.43	15.56	18.54	18.45	19.47	21.91	24.79
2. Arunachal Pradesh	6.58	7.17	7.71	7.91	12.57	8.52	10.23
3. Assam	14.52	14.77	11.55	19.74	15.35	19.43	20.05
4. Bihar	23.10	21.75	25.95	22.75	20.85	26.93	23.84
5. Chattisgarh					15.30	17.58	16.33
6. Goa	12.41	10.67	12.54	14.51	14.31	12.62	12.74
7. Gujarat	16.65	16.93	17.75	20.20	19.90	23.78	26.70
8. Haryana	11.84	13.91	18.20	23.54	22.69	21.57	22.39
9. Himachal Pradesh	15.71	17.14	21.54	16.07	26.21	28.01	32.98
10. Jammu and Kashmir	6.54	17.56	14.74	15.32	15.56	15.84	18.18
11. Jharkhand						12.93	12.60
12. Karnataka	12.56	13.13	14.40	15.59	16.11	17.82	17.51
13. Kerala	17.95	18.07	20.09	24.58	25.86	22.80	20.18
14. Madhya Pradesh	13.74	14.75	16.17	16.20	17.64	18.76	16.86
15. Maharashtra	12.71	14.29	16.90	19.33	17.67	20.17	20.38
16. Manipur	7.98	9.13	10.16	12.34	16.95	12.37	14.08
17. Meghalaya	7.62	8.74	8.35	10.14	10.04	11.65	10.75
18. Mizoram	7.24	9.68	9.53	10.89	12.22	11.29	14.08
19. Nagaland	10.55	13.06	13.62	14.24	13.66	14.88	15.95
20. Orissa	25.18	27.89	32.61	21.04	33.13	37.24	30.36
21. Punjab	29.35	29.11	40.26	35.31	24.99	32.72	24.80
22. Rajasthan	20.54	22.44	26.14	28.86	26.93	30.90	30.45
23. Sikkim	2.85	3.36	3.64	4.49	9.12	7.89	4.36
24. Tamil Nadu	12.34	12.98	14.88	16.60	17.05	18.75	18.63
25. Tripura	10.71	11.08	11.09	12.87	13.80	14.90	16.41
26. Uttaranchal					10.53	18.81	19.35
27. Uttar Pradesh	25.34	26.69	31.74	30.49	30.13	32.17	31.04
28. West Bengal	23.58	26.69	31.42	40.83	36.15	40.05	41.82
All States	**17.09**	**18.20**	**20.82**	**22.01**	**21.93**	**24.07**	**23.72**

Source: RBI State Finances: Various Issues

Annex 9

PENSION PAYMENTS TO TOTAL REVENUE RECEIPTS

(Percent)

States	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)	2002-03 (BE)
1. Andhra Pradesh	8.97	8.23	9.63	9.86	12.21	10.36	9.97
2. Arunachal Pradesh	1.45	2.04	3.46	3.86	4.95	3.42	3.95
3. Assam	5.55	5.73	6.72	10.71	11.94	8.86	8.26
4. Bihar	8.35	7.98	11.02	11.32	14.46	17.42	16.96
5. Chattisgarh					1.32	6.26	6.71
6. Goa	2.96	2.68	5.49	5.55	5.83	5.48	6.10
7. Gujarat	6.30	6.85	9.71	10.84	9.14	8.52	7.82
8. Haryana	4.03	4.37	9.69	10.18	8.68	8.29	6.76
9. Himachal Pradesh	6.35	7.60	9.60	11.98	12.84	12.78	13.66
10. Jammu and Kashmir	3.25	3.49	8.29	7.49	8.28	8.31	9.65
11. Jharkhand						8.51	10.13
12. Karnataka	7.45	7.62	8.66	11.93	10.68	11.01	10.34
13. Kerala	12.26	12.83	16.03	22.77	22.10	18.08	15.19
14. Madhya Pradesh	6.81	6.69	10.07	9.06	7.04	9.27	8.22
15. Maharashtra	4.10	4.53	4.38	6.29	7.18	7.17	6.45
16. Manipur	5.67	6.25	6.01	13.57	12.17	11.72	13.55
17. Meghalaya	2.81	3.16	4.21	4.25	4.86	5.06	5.10
18. Mizoram	2.20	2.35	2.20	2.87	4.78	4.30	4.76
19. Nagaland	3.74	3.94	4.04	4.66	6.17	6.82	6.68
20. Orissa	5.90	6.84	10.43	11.70	12.06	15.33	15.11
21. Punjab	6.26	6.84	12.49	15.26	11.91	10.49	7.93
22. Rajasthan	6.48	7.05	10.25	13.65	13.65	13.45	14.12
23. Sikkim	0.43	0.46	1.04	1.08	2.12	2.01	1.47
24. Tamil Nadu	8.95	9.47	11.86	16.47	15.98	15.93	14.90
25. Tripura	4.35	5.36	5.44	7.71	9.03	9.53	10.62
26. Uttaranchal					0.56	7.08	8.68
27. Uttar Pradesh	5.58	6.00	10.22	9.59	8.74	8.08	8.48
28. West Bengal	7.59	8.76	10.78	15.50	13.34	12.07	11.70
All States	**6.55**	**6.91**	**9.35**	**11.18**	**10.95**	**10.54**	**10.10**

Source: RBI State Finances, Various Issues.

<u>Annex 10</u>

WAGE BILL TO TOTAL REVENUE RECEIPTS

(Percent)

States	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (RE)
1. Andhra Pradesh	39.25	35.68	39.08	40.84	39.59	37.46
2. Arunachal Pradesh	25.43	33.68	34.87	46.17	41.22	32.27
3. Assam	51.03	55.12	66.56	77.12	68.79	59.94
4. Bihar	48.26	48.24	57.63	62.68	63.81	56.03
5. Chattisgarh						
6. Goa						
7. Gujarat						
8. Haryana	26.39	30.98	49.34	46.59	41.07	39.82
9. Himachal Pradesh	52.05	58.59	67.38	44.83	62.38	55.70
10. Jammu and Kashmir	49.65	39.79	55.75	56.14	55.88	44.56
11. Jharkhand						
12. Karnataka	29.98	33.28	34.94	35.52	32.21	33.28
13. Kerala	42.58	39.38	45.21	56.69	55.07	51.13
14. Madhya Pradesh	40.38	40.56	54.01	50.01	41.82	43.14
15. Maharashtra	41.88	44.86	46.56	57.17	53.32	47.44
16. Manipur						
17. Meghalaya	45.96	58.99	55.48	55.44	50.08	46.79
18. Mizoram	34.20	41.62	38.33	48.54	56.31	47.13
19. Nagaland						
20. Orissa	48.15	56.64	74.64	64.70	58.93	46.23
21. Punjab	41.90	45.29	63.96	51.16	45.72	50.78
22. Rajasthan	40.86	40.17	55.21	51.51	41.13	43.20
23. Sikkim	9.67	10.07	17.28	15.93	28.53	25.45
24. Tamil Nadu	41.27	42.25	53.77	53.00	49.03	52.10
25. Tripura	37.01	49.90	47.21	57.66	54.18	54.70
26. Uttaranchal					31.79	45.32
27. Uttar Pradesh	46.19	52.43	59.75	51.10	48.79	48.65
28. West Bengal	59.25	59.66	75.61	96.39	65.84	54.71
22 States	**42.21**	**43.97**	**52.83**	**54.23**	**49.48**	**46.65**

Source: From Respective State Governments