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Evaluation of State Finances with respect to Jharkhand

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Political Map of Jharkhand

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Acknowledgement

This study *"Evaluation of State Finances with respect to Jharkhand"* has been undertaken at the instance of the Fourteenth Finance Commission, Government of India. This study broadly covers a period of ten years starting from 1st April 2002. The study covers twelve different aspects of State Finances with respect to Jharkhand.

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DR. RAMAKANT AGARWAL

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DR. ROHIT VISHAL KUMAR

Preface

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The study team consists of Dr. Ramakant Agrawal, Dr. Rohit Vishal Kumar and Shri Nirmal Mishra.

Analyses and opinions expressed in the study are those of the authors.

Place: RANCHI
Date: 03 March 2014

DR. FR. ALEX EKKA S.J.
Director

Chapter 1

Estimation of Revenue Capacities of the State

To develop fiscal policy of a state, it is important to estimate the revenue capacity of that state. When the State identifies its revenue or fiscal capacity, it is able to know better what services can be offered to the public. Moreover it also helps to know the tax rates required to fund a particular public service project.

Revenue capacity is the ability of a Government to raise tax revenue from its own sources. The capacities differ from state to state because of the differences in tax base. It has been a moot point as to what should be considered as appropriate tax base for the computation of revenue capacity. Canada has used a fiscal capacity measure called the Representative Tax System (RTS) Index for transferring resources from the centre to the provinces. This index, used first by US economists in 1960s, measures the relative revenue per capita that each province would raise if it applied a national-average tax rate (Tax-GDP ratio?) to its actual tax-base (Barrow, 2002).

The income distance criterion, measured by per capita Gross State Domestic Product (GSDP), was used by the Twelfth Finance Commission as a proxy for the difference in state's tax capacity. It simply implies that higher the per capita GSDP higher the revenue capacity of the state. For this, the Twelfth Finance Commission used a single national average tax to GSDP ratio. In contrast, the Thirteenth Finance Commission modified the formula a bit and instead used separate averages to compute the revenue capacity of states based on their categories. For the General Category states, the average tax to GSDP ratio for that category was calculated separately and for Special Category States, the average tax to GSDP ratio was calculated separately and revenue capacities measured accordingly.

The Thirteenth Finance Commission gave a number of justifications for using category averages for the calculation of states tax capacity. The Commission was of the view that overall GSDP does not truly capture the taxable base for two reasons. The first is that the sectoral composition of GSDP varies across states and the sectors are not uniform in their taxability. Agriculture, for example, is not effectively taxable in states, except where there are plantations. The second reason is that GSDP estimates presently available are at factor cost and therefore, exclude income such as that accruing in the form of remittances. The cross-state average ratio of tax-to- GSDP is higher for general category states than for the special category, where this difference encapsulates the combination of factors underlying the relative fiscal capacity of the two groups. Thus, group-specific averages are applied to the two categories so as to obtain a closer approximation to the distance in fiscal capacity between states, which is ultimately what is sought to be captured (Thirteenth Finance Commission, 2009).

We have also followed the approach of the Thirteenth Finance Commission to estimate the revenue capacity of Jharkhand. The data used for this purpose has mainly come from three sources: (1) State Finances: A study of Budgets (2) Central Statistical Organisation and (3) Finance Accounts, Government of Jharkhand.

1.1 Estimation of Revenue Capacity of Jharkhand

As stated above, we have used the methodology followed by the Thirteenth Finance Commission for estimating the revenue capacity of Jharkhand. However we have used the GSDP data as available on the website of CSO. We are conscious of the differences in the methodologies adopted by different states to estimate their respective GSDPs and therefore strictly speaking they are not comparable. However we have not made any attempt to make the GSDP numbers comparable as was done by the Thirteenth Finance Commission. We have simply used the GSDP data available on CSO website for our computations.

Here we assume that the state of Jharkhand has the fiscal capacity equal to the product of last 3-year (2009-10, 2010-11 and 2011-12) average Own Tax Revenue (OTR) to GSDP ratio for the General Category states and last 3-year (2009-10, 2010-11 and 2011-12) average per capita GSDP of Jharkhand. The outcome of the product of these two will show how much Jharkhand can potentially raise as tax revenue from its own sources. Then we will compare this potential with the actual tax revenue raised by the state to know the difference between the actual and the potential tax revenue.

All the averages used in the computations are for the 3-year period beginning from 2009-10 and ending with 2011-12 unless otherwise stated. The computation of the category average for the General category is based on data collected from RBI's State Finances: A Study of Budgets. However for Jharkhand, RBI data has not been used because they were mostly revised figures and not the actual figures. Therefore for actual figures, we used the Finance Accounts, Government of Jharkhand.

1.	The 3-year average per capita GSDP of Jharkhand	(G_J)	=	Rs. 36,677.00
2.	The 3-year average OTR-GSDP ratio for General Category States	(T_G)	=	7.0486%
3.	Fiscal Capacity of Jharkhand per capita at the average tax effort for the General Category States ($G_J \times T_G$ = Rs. 36,677 $\times$ 0.070486)	(FC_J)	=	Rs. 2,585.00
4.	The 3-year average OTR-GSDP ratio for Jharkhand State	(T_J)	=	4.9163%
5.	Actual average Tax Revenue of Jharkhand per capita ($G_J \times T_J$ = Rs. 36,677 $\times$ 0.049163)	(FC_A)	=	Rs. 1,803.00
6.	Difference between Revenue raising capacity and actual revenue raised per capita (FC_J - FC_A = Rs. $2,585.00 -$ Rs. $1,803.00$)	(D_O)	=	Rs. 782.00

The standard deviation of OTR-GSDP ratio for the General Category States was 1.29

and its this category's Coefficient of Variation (CV) was 18.3%. This simply implies that the actual tax to GSDP ratio of 17 constituent states of this category was quite different from one another. However, the most troubling discovery was that the state of Jharkhand had second lowest ranking in tax to GSDP ratio scorecard, just ahead of West Bengal but lower than Bihar. The Z-Score, or the standard score, of Jharkhand was -1.654 on this front.

The average per capita GSDP of General category states during the three year period under consideration was 56353 against Jharkhand's 36677, which is 65% of the category average.

1.2 Measures to Improve the Tax-GSDP ratio during the last five 5 years

The Commercial Taxes Department of the Government of Jharkhand has taken a number of measures during since 2008-09 in order to improve tax collections. They are mainly in the form of rate revision and registration of new dealers under the VAT Act and improvement in tax administration through computerisation of tax administration[1].

1.2.1 Measures Taken in 2009-10

The Commercial Taxes Department revised the tax rate on India Made Foreign Liquor (IMFL) due to which it was able to collect an additional 49 crores of rupees in 2009-10. The rate of sales tax on diesel was raised from 14.5% to 20% in February 2010. However, subsequently it was lowered to 18% with effect from 01-04-2010. The amendment in Jharkhand VAT Act Rules, 2006 through S.O. 27 dated 26-08-2009 and amendment relating to Road Permit through departmental notification S.O. 44 dated 19-12-2009 amending s.o. 212 dated 31-03-2006 may have improved the revenue collections subsequently.

1.2.2 Measures Taken in 2010-11

The Commercial Taxes Department withdrew the tax exemption provided to M/S Mihijam Vanaspati via Notification No 29 dated 23-06-2010. The Department also initiated steps to levy VAT at 50% at each stage of sale of IMFL through Notification No 30 dated 23-06-2010 but could not effect the changes because of problems in Implementation of the new scheme.

1.2.3 Measures Taken in 2011-12

During 2011-12, the VAT Act 2005 was amended to revise the VAT rates. The VAT rates were raised from 4% and 12.5% to 5% and 14% respectively. The Department believes that because of these rate revisions, the tax collections went up by 826 crores, from 3709 crores in 2010-11 to 4636 crores in 2011-12, an increase of 25%. The Electricity Duty Act was amended and the rates were revised with effect from 28-06-2011. This netted an additional

[1] The write-up is based on the information supplied by the Commercial Taxes Department of Government of Jharkhand

15 crores. The Jharkhand Hotel Luxury Tax Act was also amended and rates revised with effect from 24-06-2011 which resulted into an additional revenue of 3 crores. An amendment in the Jharkhand Entry Tax Act 2011 with effect from 16-07-2011 which brought 63 products under the tax net provided they were meant for local consumption. This helped the state garner additional 36 crores. However subsequently, the Honourable Jharkhand High Court has passed a judgement on 03-04-2012 declaring this tax unconstitutional. The Commercial Taxes Department has moved the Honourable Supreme Court against the judgement of the High Court.

The Professional Tax was raised substantially and the new rates came into effect from 30-01-2012 by amending Jharkhand Tax on Professions, Trades, Callings, and Employments Act 2011 through s.o. 7 dated 29th June 2012.

1.2.4 Measures Taken in 2012-13

The rates of taxes on Tobacco including tobacco products was raised to 20% with effect from 03-10-2012 via s.o. 35 dated 18-10-2012. The TDS rates on Works Contract were also raised from 2% to 4% with effect from 01-10-2012 via s.o. 24 dated 03-10-2012. This resulted into an additional tax collection of 68 crores in 2012-13. A drive was launched to register the new dealers under the VAT Act 2005. Over ten thousand new registrations were made during this drive which is expected to increase the revenue collection in future.

1.2.5 Measures taken during 2013-14

Another 6272 new dealers have been registered under the VAT Act. A composite tax in lieu of VAT is to be paid by small retailers at the rate of 0.5% of their turnover, provided their gross turnover is upto 25 lakhs per annum, they are retailing within the state and if they are registered dealers, who have been granted registration certificates in Form JVAT 108. This scheme of composition of taxes for registered but small retailers is likely to have a positive impact on state's revenues.

1.3 Suggestions for enhancing the Revenue Productivity of the tax system

1.3.1 Tax or Revenue Productivity

Tax productivity measures the extent to which revenues that should be received; given the rate and potential base of the tax are actually being realized. It captures all the factors that influence the Average Effective Tax Rate (AETR), other than the statutory tax rates. It is measured as the ratio of the effective to statutory tax rate (Kraemer & Zhang, 2004).

For instance, if statutory corporate tax rate is 30% and if effective corporate tax rate is 10%, then tax productivity is 10/30=33.33%. In other words, the tax system realises only 33.33% of what it should have actually realised. The low tax productivity occurs mainly on account of multiple exemptions and widespread tax evasion. This suggests that there is always a possibility of raising tax revenue without raising tax rates. This can be achieved by lowering tax expenditures[2] (or exemptions) and enhancing the quality of tax administration to improve compliance of tax system and increase its efficiency.

1.3.2 Tax Efficiency in Jharkhand

One way to look at tax productivity is to see it in terms of cost of tax collection. The following tables, Table 1.1 and Table 1.2, show the efficiency of tax collection for two types of taxes in Jharkhand and compare it with neighbouring states. The first tax is Taxes on Property and Capital Transactions and the second is Taxes on Commodities and Services. The Efficiency of Tax Collection is a percent, defined as the ratio of Expenditure on Tax Collection to Tax Revenue Collection. Higher the percent lower the efficiency, as it indicates that large sums of money are being spent on collecting it.

State	2007-08	2008-09	2009-10	2010-11	2011-12
Bihar	31	28	31	28	25
Jharkhand	54	56	57	34	37
Odisha	24	25	44	40	29
West Bengal	16	16	23	19	NA

Source: Accounts at a Glance 2011-12 for covered states, CAG, India
Efficiency = (Expenditure on tax collection/Revenue Collection)*100

Table 1.1: Efficiency in Tax Collection: Property & Capital Transactions (%)

State	2007-08	2008-09	2009-10	2010-11	2011-12
Bihar	1	1	1	1	1
Jharkhand	0.5	0.7	0.8	0.8	0.8
Odisha	1	1	1	1	0.8
West Bengal	1	1	1	1	NA

Source: Accounts at a Glance 2011-12 for covered states, CAG, India
Efficiency = (Expenditure on tax collection/Revenue Collection)*100

Table 1.2: Efficiency in Tax Collection: Commodities & Services (%)

It is quite clear that Jharkhand's Tax Efficiency in collecting Taxes on Property and Capital Transactions needs huge improvement as it is nowhere in comparison to the neighbouring states. However one can argue that in case of Taxes on Commodities and Services, it is more efficient than the rest of the states as its total collection from this tax is relatively low as compared to other states. For example, the state of Odisha collected over two times taxes from Taxes on Commodities and Services than Jharkhand despite the efficiency percent being the same. Ideally, the marginal expenditure on tax collection should progressively fall as tax collections go up. This is no where evident in case of the neighbouring states despite the fact that they have collected substantially more from Taxes on Commodities and Services than Jharkhand. For example, Odisha collected Rs. 17,248 crore from Taxes on Commodities and Services in 2011-12 as compared to Jharkhand's Rs. 9,403 crore, but the cost of collection for both remained at 0.8%. Ideally, Odisha's cost of collection should have fallen in terms of collection per rupee spent.

[2]Revenue losses incurred by a government due to special tax provisions like tax exemption, tax relief, tax credit or tax subsidy that are otherwise not part of the normal tax structure. Tax Expenditures assesses the costs, in terms of forgone revenue, of various tax provisions that provide tax breaks for certain taxpayers and activities

In case of Jharkhand, the efficiency has fallen during the last five years from 0.5% in 2007-08 to 0.8% in 2011-12 despite an 65% increase in collection from Taxes on Commodities and Services from 5689 crore to 9403 crore during the same period.

1.3.3 Tax-to-GSDP Ratio

Tax-to-GSDP Ratio and Tax Buoyancy can be taken indicators of Tax Productivity. A comparative analysis of Tax-to-GSDP Ratio of various states in the General Category highlights the poor performance of Jharkhand. However the state has done relatively well in terms of tax buoyancy. During 2009-2012, the highest tax- GSDP ratio was that for Karnataka at 9.5% per cent of GSDP followed by Tamil Nadu at 8.24% , and the lowest for West Bengal at 4.26 per cent, among the general category states. Jharkhand's tax- GSDP ratio was second lowest at 4.92 during this period.

States	Average OTR/GSDP (%) of the last three Years 2009-12	Average Bouyancy of the last three Years 2009-12
Andhra Pradesh	7.81	1.0409
Bihar	4.97	1.4463
Chhattisgarh	7.49	1.8952
Goa	6.48	1.4151
Gujarat	6.76	1.2553
Haryana	6.32	1.1467
Jharkhand	4.92	1.6239
Karnataka	9.51	1.3707
Kerala	7.94	1.0777
Madhya Pradesh	8.18	1.6045
Maharashtra	7.15	1.1161
Odisha	5.83	1.4549
Punjab	6.95	1.3931
Rajasthan	6.11	0.8640
Tamil Nadu	8.24	1.2080
Uttar Pradesh	7.04	1.5353
West Bengal	4.50	1.2659
Total Non special	7.05	1.2055

Table 1.3: Own Tax Revenues: Comparative Performance of States

Table 1.3 also shows the buoyancy of own tax revenues of the states with respect to their respective per capita GSDPs, which indicates the extent of increase in own tax revenues following a one per cent change in per capita comparable GSDP, taking the latter as a macro indicator of the tax base. The tax-buoyancy has been estimated over the period 2009-2012. If the tax-buoyancy is less than 1, the tax-GSDP ratio would fall over time. If the states with a low tax-GSDP ratio have a high buoyancy, they would find improvement in their tax- GSDP ratios over time. This is precisely what has happened in Jharkhand. The state has very low tax- GSDP ratio, the Z-score of tax- GSDP ratio for Jharkhand is -1.65, but the state's tax buoyancy is among the highest at 1.6239. This is highly desirable as it is expected to improve its tax- GSDP ratio going forward. The State Government needs to significantly improve its tax productivity for which it needs to take some important measures.

1.3.4 Improving Tax Compliance

Not paying the right amount of tax places an unfair burden on honest taxpayers. The objective of improved tax compliance should be to reduce and if possible close the gap between the amount of tax that should be collected under the given tax structure and the amount actually collected. What can one do to improve tax compliance? A number of steps can be taken.

Voluntary Disclosure Schemes

Such schemes provide opportunities for people to voluntarily disclose their unpaid tax liabilities and put their tax affairs in order and become compliant. For those who chose to remain non-compliant, a series of measures like hefty financial penalty and even prosecution can be initiated.

Investing in highly-skilled workforce

The Government of Jharkhand should invest in highly skilled workforce by increasing the number of tax enforcement officers tackling tax evasion and outright fraud.

Late returns and payments

The Government needs to take strong action against wilful late returns and payment of taxes in the form of hefty penalties. At the same time, the tax authorities should remain sensitive to genuine cases of temporary difficulty in filling returns and making tax payments.

Information Technology for identifying tax evasion

Information technology can enable the tax authorities to analyse tax payers data more effectively. With the right software in place, one can easily cross-match millions of data pieces to uncover hidden relationships between people and organisations that were impossible to identify earlier. For instance, to identify interstate trade in India, an IT system called Tax Information Exchange System (TINXSYS) is in operation which can cross-match millions of interstate trade in a matter of a few seconds. Tax Information Exchange System (TINXSYS) is a centralized exchange of all interstate dealers spread across the various States and Union territories of India.TINXSYS is an exchange authored by the Empowered Committee of State Finance Ministers (EC) as a repository of interstate transactions taking place among various States and Union Territories. TINXSYS will help the Commercial Tax Departments of various States and Union Territories to effectively monitor the interstate trade (Tax Information Exchange Systems, 2012).

TINXSYS can be used by any dealer to verify the counter party interstate dealer in any other State. Apart from dealer verification Commercial Tax Department officials can use TINXSYS for verification of central Statutory Forms issued by other State Commercial Tax Departments and submitted to them by the dealers in support of claim for concessions.

TINXSYS will also provide MIS and Business Intelligence Reports to the Commercial Tax Departments to monitor interstate trade movements and will enable EC to monitor the trends in interstate trade.The Tax Payer's Identification Number (TIN) is new unique registration number that is used for identification of dealers registered under VAT. It consists of 11 digit numerals and will be unique throughout the country.

1.3.5 Tax Expenditures

Tax Expenditures assesses the costs, in terms of forgone revenue, of various tax provisions that provide tax breaks for certain preferred taxpayers. Tax expenditure or revenue foregone statement was laid before Parliament for the first time during Budget 2006-07 by way of Annex-12 of the Receipts Budget 2006-07. It was well received by all quarters and gave rise to a constructive debate on the entire gamut of issues concerning fiscal policy. It also lent credence to the Government's intention of bringing about transparency in the matter of tax policy and tax expenditures. The same should be initiated in the budgets of the State Governments also so that a public debate can take place regarding the relevance and necessity of such implicit tax subsidy given to preferred tax payers.

Ideally the number of exemptions and tax preferences should be reduced to a minimum in order to improve tax productivity. By removing exemptions and deductions the governments will realise potentially more revenue. However in case such an idealistic situation is not possible, then it should be fully and publicly justified.

Chapter 2

Analysis of State's Own Non-Tax Revenues

2.1 Introduction

Non-tax sources of revenue play an important role in augmenting the states own revenues. In Jharkhand, the share of Own Non-Tax Revenue (ONTR) in States Own Revenue (SOR) has declined over the last ten years from 36% in 2002-03 to 30.4% in 2011-12. However in absolute terms, the ONTR has risen from a little over Rs. 987 crores to over Rs. 3,038 crores during this period, clocking a compounded annual growth rate (CAGR) of around 13.3 percent. The CAGR for Jharkhands GSDP at current prices during this period was slightly lower at 12.9 percent. This implies that the buoyancy of ONTR is just about 1.03, which means that the growth of ONTR has barely managed to keep pace with the growth in GSDP.

2.2 Structure of Own Non-Tax Revenue Receipts

A non-tax receipt is one for which the payee expects to get something in return. For example, if one pays user charges for using roads or irrigation facilities or educational institution or health care facility, the payee expects to receive something in return, here the right to use such services. In contrast, a tax payer does not expect anything in return. Not all non-tax receipts can be termed as receipts for quid pro quo. For example, a financial penalty is a non-tax revenue but no service is received by the payer in lieu of paying the penalty. Similarly, a charitable donation is also made without expectations of receiving corresponding material benefits.

In India, a states main sources of non-tax revenue are (i) Interest receipts, dividends and Profits and (ii) Administrative receipts in the form of General Services, Social Services and Economic Services.

2.2.1 Interest Receipts, Dividends and Profits

These include (i) interest realised on investment of cash balances (ii) interest from public sector and other undertakings and (iii) Other receipts (iv) profits from departmental enterprises and (V) dividends from non-departmental commercial enterprises.

2.2.2 General Services

Receipts from general services include State Public Service Examination fees collected by the State Public Service Commission, Police Services supplied to other governments, other parties, fees, fines and forfeitures collected by the police, sale of Jail Manufactures, Supplies and Disposals, Stationery and Printing , Rents from Office Buildings, Administration of Justice, Sale of Election forms and documents, other administrative services, contribution and recoveries towards pension and other retirement benefits, and other miscellaneous general services like sale of land and property.

2.2.3 Social Services

Non-tax receipts from social services comprise of Education, Sports, Art and Culture (ESAC), Medical and Public Health (MPH), Family Welfare, Water Supply and Sanitation (WSS), Housing, Urban Development, Information and Publicity, Labour and Employment (like Fees under Contract Labour Act and under the Factories Act), Social Security and Welfare (Relief and Rehabilitation of Displaced Persons) and Other Social Services like Welfare of Scheduled Caste, Scheduled Tribe and Other Backward Castes.

2.2.4 Economic Services

By far the most important source of non-tax revenue in Jharkhand, it comprises of crop husbandry (seeds, sale of fertiliser, receipts from vegetable and horticultural crops), animal husbandry, dairy development, fisheries (License fees, sale of fish and fish seeds), forestry and wildlife (Sale of timber and other forest produce, zoological Park), cooperation, other agricultural and rural programmes, special area programmes, Major and Medium Irrigation, Minor Irrigation, village and small-scale industries, industries, Non-ferrous Mining and Metallurgical industries (Mineral Concession Fees, Rents and Royalties), roads and bridges (Tolls on Roads), Tourism, and Others.

Year	**Non Tax Revenues**	**Other Non-Tax Revenue**				**Total Non Tax Revenue**
	Interest Receipts Dividends & Profits	General Services	Social Services	Economic Services	Total Other Non Tax Revenue	
	b	c	d	e	f = c+d+e	g=b+f
2002-03	96.08	8.51	21.51	861.04	891.06	987.14
2003-04	46.65	31.61	36.01	991.28	1058.9	1105.55
2004-05	18.63	16.84	30.09	985.89	1032.82	1051.45
2005-06	71.49	33.96	209.34	1111.73	1355.03	1426.52
2006-07	38.08	46.55	51.17	1114.59	1212.31	1250.39
2007-08	87.14	28.85	58.09	1427.30	1514.24	1601.39
2008-09	109.53	131.58	53.88	1656.76	1842.21	1951.74
2009-10	153.20	163.23	68.31	1869.34	2100.89	2254.09
2010-11	99.14	309.27	126.89	2267.59	2703.75	2802.89
2011-12	45.33	52.39	125.05	2815.46	2992.89	3038.22
CAGR	−8.01	+22.38	+21.60	+14.07	+14.41	+13.30

Source: Department of Finance, Jharkhand

Table 2.1: Composition of Own Non-Tax Revenue in Jharkhand (Rs. crore)

Year	Non Tax Revenues	Other Non-Tax Revenue				Total Non Tax Revenue
	Interest Receipts Dividends & Profits	General Services	Social Services	Economic Services	Total Other Non Tax Revenue	
	b	c	d	e	f = c+d+e	g=b+f
2002-03	9.73	0.86	2.18	87.23	90.27	100
2003-04	4.22	2.86	3.26	89.66	95.78	100
2004-05	1.77	1.60	2.86	93.76	98.23	100
2005-06	5.01	2.38	14.67	77.93	94.99	100
2006-07	3.05	3.72	4.09	89.14	96.95	100
2007-08	5.44	1.80	3.63	89.13	94.56	100
2008-09	5.61	6.74	2.76	84.89	94.39	100
2009-10	6.80	7.24	3.03	82.93	93.20	100
2010-11	3.54	11.03	4.53	80.90	96.46	100
2011-12	1.49	1.72	4.12	92.67	98.51	100
Share in 2011-12 over 2002-03	0.15	2.00	1.89	1.06	1.09	1.00

Source: Department of Finance, Jharkhand

Table 2.2: Composition of Own Non-Tax Revenue in Jharkhand (Percentage)

The composition of states ONTR is highly skewed in favour of Economic Services. In 2011-12, it contributed almost 93 percent of states ONTR of rupees 3038 crores. ONTR from Economic Services itself is highly skewed in favour of Non-ferrous Mining and Metallurgical industries (Head 0853) which includes royalties (sub-head 102). The contribution of Head 0853 in 2011-12 was 79 percent of states ONTR and of sub-head 102 (royalties) was 62.6%. This has been mainly on account of change in royalty rate structure from specific to ad valorem. The collections from royalties has gone up from rupees 800 crores in 2002-03 to rupees 1902 crores in 2011-12, clocking a compounded annual growth rate of slightly over 10 percent. The real increase in royalty collections started from 2008-09 when the new royalty regime came into effect.

The other relatively significant contributors in 2011-12 among the three services in descending order are Medical, Public Health and Family Welfare (Head 0210); Education, Sports, Art and Culture (Head 0202); Roads and Bridges (Head 1054); Water Supply and Sanitation (Head 0215), and Major, Medium and Minor Irrigation (Head 0700 and 0702).

2.3 Recovery Rate of Select Social and Economic Services

The expenses being incurred by the government on providing select social and economic services considered merit goods need to be analysed in the light of financial sustainability. Merit goods are goods (such as education, health care, water supply) which deserve public finance and should be provided to all (non-excludability principle) irrespective of capacity to pay for the services. Welfare nations all over the world spend a lot of public money on merit goods. However, in order to have continuing ability to spend large sums of money on merit goods, the governments must also try to recover at least a part of the cost of the services. The sustainability depends on the rate of recovery (RR) defined here as proportion of revenue expenditure (RE) on a certain service recovered from the user of such services. Thus RR/RE is an important indicator of the sustainability of state finances devoted towards merit goods.

Table 2.3 (pg. 12) shows revenue expenditure on six select services in Jharkhand: three selected from amongst social services and three from economic services. The revenue expenditure on social services in Jharkhand has gone up from Rs. 1,989 crores in 2002-03 to Rs. 7,365 crores in 2011-12, clocking a compounded annual average growth (CAGR) of 15.66% only. This means that the revenue expenditure on social services has increased in real terms by only 7-8% because the rate of inflation during this period has been somewhat higher than 8%.

However there has been some increase in revenue expenditure on some of the most important components of social services like Education, Sports, Art and Culture (ESAC), Medical and Public Health (MPH) and Water Supply and Sanitation (WSS). These three have recorded a CAGR of 15.8%, 17.1% and 13.7% over the ten year period.

	Social Services	Education Sports, Arts & Culture	Medical Public Health & Family Welfare	Water Supply & Sanitation Services	Economic Services	Major & Medium Irrigation	Minor Irrigation	Roads & Bridges
2002-03	1,988.94	1,083.43	182.57	106.67	820.87	16.31	20.54	60.13
2003-04	1,916.12	1,017.87	171.69	104.87	928.12	15.11	28.82	57.81
2004-05	2,572.56	1,375.01	314.32	103.44	1,509.20	12.41	26.21	80.58
2005-06	3,144.76	1,628.08	415.05	130.92	1,853.07	86.10	29.98	108.36
2006-07	3,379.86	1,738.57	353.90	130.11	1,924.62	125.71	35.98	107.37
2007-08	4,327.20	2,157.86	349.08	147.41	1,967.37	129.89	33.42	101.81
2008-09	5,474.55	3,145.93	513.01	171.47	2,532.49	171.97	46.67	204.03
2009-10	5,694.36	3,170.93	534.01	192.14	2,912.38	204.01	58.59	121.35
2010-11	6,773.38	3,802.26	599.92	279.13	4,246.47	203.18	60.91	167.29
2011-12	7,365.48	4,055.89	756.57	339.58	5,859.00	219.89	62.02	277.21

Source: Basic Data from State Finance Accounts, Jharkhand various years

Table 2.3: Revenue Expenditure on select Social and Economic Services (Rs crores)

	Social Services	Education Sports, Arts & Culture	Medical Public Health & Family Welfare	Water Supply & Sanitation Services	Economic Services	Major & Medium Irrigation	Minor Irrigation	Roads & Bridges
2002-03	1.08	0.26	2.09	3.71	104.89	104.49	1.07	10.39
2003-04	1.88	0.70	2.18	2.88	106.81	154.20	0.14	14.01
2004-05	1.17	0.24	1.68	4.32	65.33	125.14	0.57	5.26
2005-06	6.66	10.31	1.02	3.87	59.99	12.88	0.83	5.88
2006-07	1.51	0.77	2.50	4.84	57.91	40.64	1.92	8.30
2007-08	1.34	0.67	4.08	4.12	72.55	106.70	4.23	10.22
2008-09	0.98	0.66	2.11	4.57	65.42	0.09	0.75	9.46
2009-10	1.20	0.28	3.51	3.23	64.19	0.06	0.61	14.42
2010-11	1.87	0.37	3.20	3.13	53.40	3.48	4.33	12.05
2011-12	1.70	0.69	4.64	3.41	48.05	8.58	3.39	9.62
Average 2002-05	1.38	0.40	1.98	3.64	92.34	127.94	0.59	9.89
Average 2009-12	1.59	0.45	3.78	3.26	55.21	4.04	2.77	12.03

Source: Basic Data from State Finance Accounts, Jharkhand various years

Table 2.4: RR/RE on select Social and Economic Services in Jharkhand (Percentage)

The rate of recovery on social services as a whole has been in the range of 1% to 3.5% for nine of the ten years under consideration. It was exceptionally high at 6.7% during 2005-06. The average rate of recovery for the first three years, 2002-03 to 2004-05, is just 1.38% whereas the same during the last three years is just about 1.59%.

The three social services selected for the study have very low RR/RE. The ESACs RR/RE is in the range of 0.24 to 0.77% for nine out of ten years. The three year average RR/RE for the first three years and the last three years is just about 0.4 and 0.45% for ESAC. The recovery rate is slightly better in case of MPH then ESAC. It is about 2% for the first three year on an average and 3.78% for the last three years. Similarly, the 3-year average RR/RE for the first three years in case of WSS is 3.64 and for the last three years 3.78.

The RR/RE for Economic Services as a whole has declined continuously from 105% in 2002-03 to 48% in 2011-12. The healthy RR/RE in case of economic services is mainly on account of robust collections from royalties. However the RR/RE in case of MMI and MI is very poor at just about 4.04% and 2.8% on average during the last three years under consideration.

2.4 Suggestions for improving revenue through user-charges

To begin with, one must be conscious of the limited scope of increasing revenue through user charges of most basic social and economic services because of reasons of equity. The concept of equity suggests that everyone should be provided with basic social and economic services irrespective of the users ability to pay. Free access to education, health and water for all should be safeguarded at all costs. Such services should be publicly financed. The argument is that the benefit of providing merit goods free of cost accrues to the whole society and not just the direct users of such services.

The provision of social services is limited by the states ability to fund them through budgetary resources. If the state can levy some user charge to partially recover the cost of providing social and economic services, then the states ability to provide such services would improve. The question is how much should be the user charges for various social and economic services? What can be done to recover the normatively assessed user charges if the same has not been achieved so far? The question of how much is very challenging? One rule of thumb could be in terms of recovering at least maintenance cost so that the service could be provided uninterruptedly and effectively. The Twelfth Finance Commission had observed that problems concerning surface water irrigation stem from poor maintenance of irrigation networks, poor recovery of user charges from farmers which then feeds back into poor maintenance, and overstaffed irrigation administration departments such that expenditure on irrigation does not deliver commensurate benefits in terms of services delivered. This then feeds back into poor collection compliance.

One possible answer to the question *"how much"* user charges to levy could be found in terms of the average of the last ten years of the three top states in the relevant state category (General or Special Status) in terms of RR/RE. The individual states can then be positioned in terms of the distance from this norm. We have not attempted to measure Jharkhands distance from the suggested norms but we assume that the state should rank relatively low on such a scale.

One possible step that we can suggest is to improve RR/RE is to make it progressive, i.e., user charges escalate with increase in income slab. This should be specifically so in case of education and that too in case of higher and secondary education, with elementary education to remain more or less free.

There is very little scope to increase user charges for medical services especially in rural areas where majority of the population are poor. However those who can pay (appropriately defined) should pay at least partially. People with medical insurance should be asked to pay at least partial fees for medical services. This is because having medical insurance is an indicator of ability to pay.

As far as water services are concerned, the charges should be based on reliable metering system for those who directly draw water from their home installed water supply taps. The billing and collection should be timely. Moreover there should be discrimination between water used for domestic and for non-domestic purposes and the later should pay higher charges.

As far as irrigation is concerned there is very little that the state can expect. This is mainly because Jharkhand stands at the bottom of the pecking order in terms of irrigation services. Jharkhand has irrigation facilities in only 5.9% of area under cultivation as on 2009-10 whereas the same in India as a whole is about 48%. To improve user charges collection, the state should periodically revise the user charges crop wise.

Jharkhand has started levying toll to improve collections. For example, it has recently started collecting toll on the National Highway 33. However to decongest the traffic caused due to collection at major tolls, the state should think of using Information Technology enabled Services.

2.5 Profits from departmental enterprises and dividends from non-departmental commercial enterprises

Public Sector Enterprises at the State Level may be set up as "departmental undertakings" or as "companies/corporations". The departmental undertakings operate under the overall control of the Ministry/Department. The profits of departmental undertakings go into the Consolidated Fund of the State. The Company or Corporation form provides greater autonomy to such entities than departmental enterprises. Besides funding from the budget, they can raise market loans or equity finance. A statutory corporation is set up with the approval of the State Legislature whereas companies in the public sector can be formed with the approval of the state cabinet.

As per National Survey on State Level Public Enterprises 2008-09 and 2009-10, there were ten working State Level Public Enterprises (SLPEs), including one statutory corporation in the state as on 31.08.2010. Jharkhand State Electricity Board (JSEB) is statutory corporation. The remaining nine are Jharkhand Hill Area Lift Irrigation Corporation Ltd., Jharkhand Industrial Infrastructure Development Corporation, Jharkhand Police Housing Corporation Ltd., Jharkhand State Schedule Caste Cooperative Development Corporation Ltd., Jharkhand Silk Textile and Handicraft Development Corporation Ltd., Jharkhand State Forest Development Corporation Ltd., Jharkhand State Mineral Development Corporation Ltd., Jharkhand State Tribal Cooperative Development Corporation Ltd., Jharkhand Tourism Development Corporation Ltd.

During the last ten years, the state has reported receipts from profits and dividends from departmental and non-departmental commercial enterprises in only four years and that too the amounts have been insignificant. For example, in 2004-05 the total receipt under this head was just rupees 1 crore, in 2010-11 it was 0.4 crore and 2011-12, it was 1.17 crores. The state probably does not categorise the profits from departmental undertakings as non-tax receipts. In any case the amounts have been so insignificant that we can just ignore this as of now. The Thirteenth Finance Commission drew attention to the recommendation of the Tenth Finance Commission which stipulate rate of return of 6%, 4% and 1% respectively for commercial, commercial-cum-promotional and promotional enterprises. The Thirteenth Finance Commission had recommended for a 5% return on equity and a 7% rate of interest on loans irrespective of the category to which SLPEs belonged.

There are of course problems faced by SLPEs, especially the SLPEs in utility sector, where utility prices are far removed from market and are basically administered prices. Some prices, like electricity tariff, have not been revised for years together despite the setting up of State Electricity Regulatory Authority.

Chapter 3

Expenditure Pattern and Trends of the State

The total expenditure of Jharkhand state (Revenue plus Capital) increased from Rs. 6,660 crore in 2002-03 to Rs. 24,368 crore in 2011-12 - an increase of 3.65 times during the period under reference. The compound annual growth rate of total expenditure during the decade was 15.5 percent which was slightly higher than that of general category states (14.58 percent). A general classification of state expenditure is between revenue and capital expenditure. The revenue expenditure of Jharkhand has grown from Rs. 5,509 crore to Rs. 20,992 crore during the period 2002-03 to 2011-12 an increase of about 3.8 times during the reference period. The CAGR of revenue expenditure during the decade was about 16.03 percent. The total capital expenditure (outlay) was Rs. 866 crore in 2002-03 and it increased to Rs. 3,159 crore, that is about 3.7 times at a CAGR of 15.46 percent. The comparative CAGR for general category states was 21.25 percent. Thus, the revenue expenditure in comparison to capital expenditure has grown at a slightly higher rate. More importantly, the growth of capital expenditure in comparison to those of general category states has been much slower, and a matter of concern from the development perspectives of the state. Disbursements of loans and advances which was Rs. 285 crore in 2002-03, actually reduced to Rs 217 crore in 2011-12 after rising to Rs. 3,747 crore in 2005-06. Thus the share of disbursement of loans and advances in total expenditure was 4 percent in 2002-03 and jumped to 27 percent in 2005-06 but generally declined and remained at just 1 percent in 2011-12.

It is also important to note that in the total expenditure, the share of revenue expenditure was 83 percent at the beginning of the period. It reduced to 60 percent in 2005-06 but generally remained above 80 percent. In the last two years its share has been 86 percent. The share of capital expenditure was unusually higher at 19 percent in 2007-08 and 2008-09, but generally remained between 13 to 15 percent.

Item	2002-03	2003-04	2004-05	2005-06	2006-07
1. Revenue Expenditure	5509.48	5405.93	6975.91	8490.82	9063.94
2. Capital Expenditure (3+4)	1150.84	1109.26	1910.23	5585.87	1872.15
3. Capital Outlay	865.91	975.72	1333.43	1839.03	1461.34
4. Loans & Advances	284.92	133.53	576.79	3746.84	410.81
5a. Plan	2037.13	2108.92	3605.38	5062.68	4011.92
5b. Non Plan	4623.18	4406.27	5280.76	9014.01	6924.17
5. Total Expenditure (5a+5b)	6660.31	6515.19	8886.14	14076.69	10936.09

Item	2007-08	2008-09	2009-10	2010-11	2011-12
1. Revenue Expenditure	10831.97	12876.90	15128.24	17944.73	20991.59
2. Capital Expenditure (3+4)	3181.21	3469.46	3023.02	2971.87	3376.47
3. Capital Outlay	2583.55	3051.27	2703.04	2664.30	3159.37
4. Loans & Advances	597.66	418.19	319.98	307.57	217.00
5a. Plan	5953.78	7083.01	6732.57	8795.51	10943.67
5b. Non Plan	8059.40	9263.35	11418.69	12121.09	13499.79
5. Total Expenditure (5a+5b)	14013.18	16346.36	18151.26	20916.60	24368.00

Source: As provided by the State (Fiscal Indicators)

Table 3.1: States Expenditure: A Brief Summary (Rs. Crores)

3.1 Analysis of Revenue Expenditure

The revenue expenditure can be classified into three broad categories. These are development expenditure, non development expenditure and grants in aid and contributions. In the first two categories both plan and non plan expenditures are there and the third category is only in the nature of non plan expenditure. It should be noted here that the share of plan expenditure in the total revenue expenditure has steadily increased from 26 percent in 2002-03 to 36 percent 2011-12, the non plan expenditure still has a large proportion of more than 64 percent.

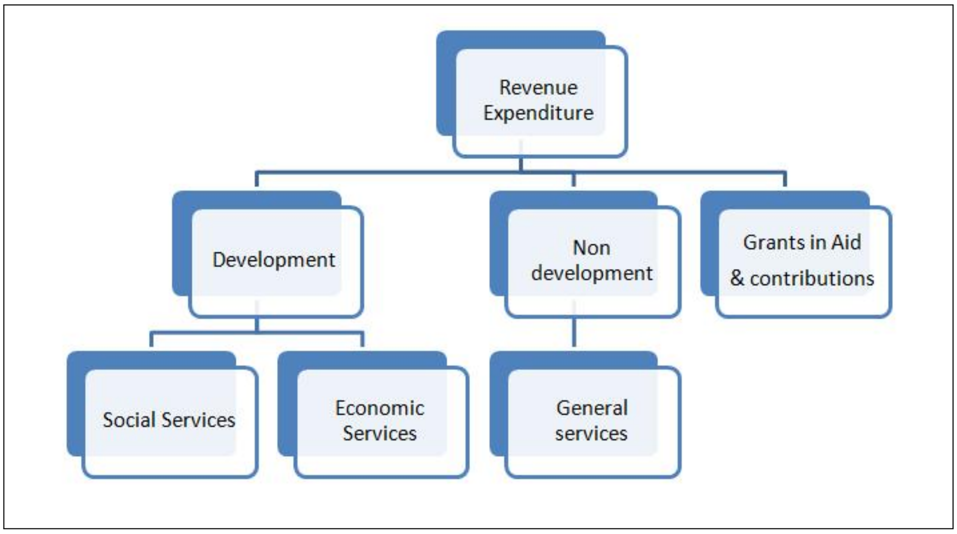

Figure 3.1: Structure of Revenue Expenditure

3.1.1 Development Expenditure

The share of development expenditure of Jharkhand in its total expenditure was 50 percent in 2002-03, which increased to 58 percent in 2006-07, and further to 63 percent in 2011-12. The rise in the share of development expenditure was largely due to faster increase in the share of economic services expenditure from 15 percent to 28 percent during the decade under reference. The share of non development expenditure on general services including interest payments which was half of the revenue expenditure, declined to 37 percent at the end of the period. FR Brief for the Annual Plan 2012-13 provides an encouraging data about rising Public Expenditure Ratio (Plan and non plan expenditure as a ratio of GSDP). This data, read along with rising proportion of development expenditure is a positive indication of trend of public expenditure of the Jharkhand Government.

Items	2002-03	2003-04	2004-05	2005-06	2006-07
I. General Services	2752	2561.18	2894.08	3492.98	3757.41
a. Organs of State	84.91	82.49	136.17	94.64	106.87
b. Fiscal Services	85.95	80.83	89.95	96.18	109.69
c. Interest Payment and Servicing of Debt	1418.95	1182.32	1141.32	1419.55	1613.38
d. Administrative Services	589.62	655.15	906.55	1225.45	1248.5
e. Pensions & Misc. General Services	519.51	560.39	620.09	657.16	678.97
II Social Services*	1935.00	1869.00	2524.00	3060.00	3327.00
III Economic Services	820.87	928.12	1509.20	1853.07	1924.62
IV Grants-in-aid and Contributions	0.72	0.52	0.07	0.01	2.05
Total Revenue Expenditure (I+II+III+IV))	5509.47	5405.94	6975.91	8490.82	9063.94

Items	2007-08	2008-09	2009-10	2010-11	2011-12
I. General Services	4537.48	4834.61	6521.30	6924.72	7767.10
a. Organs of State	129.81	148.88	291.04	273.64	284.12
b. Fiscal Services	129.05	179.08	213.34	217.95	245.47
c. Interest Payment and Servicing of Debt	1758.03	1886.88	2307.45	2227.54	2267.08
d. Administrative Services	1702.27	1631.37	2028.65	2124.49	2673.75
e. Pensions & Misc. General Services	818.32	988.40	1680.83	2081.10	2296.69
II Social Services*	4257.00	5385.00	5610.00	6707.00	7287.00
III Economic Services	136.36	151.45	152.76	177.73	303.70
IV Grants-in-aid and Contributions	0.09	35.25	0.19	0.17	0.00
Total Revenue Expenditure (I+II+III+IV))	10831.97	12876.9	15128.24	17944.74	20991.58

Source: As provided by the State *(St. Fill 3, Fiscal Indicators)*

Table 3.2: Details of Revenue Expenditure (Rs. Crores)

Social Service Expenditure

The total social service expenditure was Rs. 1935 crore in 2002-03, which increased to 7287 crore in 2011-12, that is at CAGR of 15.87 percent. Its share in revenue expenditure increased from 35 percent in 2002-03 to 42 percent in 2008-09, but came back to 35 percent in 2011-12. The share of social service expenditure in total expenditure rose from 29.05 percent in 2002-03 to 32.78 percent in 2008-09 but declined to 29.90 percent in 2011-12. The proportion of non plan expenditure on social services declined from 75.12 percent to 51.62 percent, which is a healthy development. A close scrutiny of social service expenditure further suggests that the expenditure on education has grown at a CAGR of 16.17 which is slightly faster than one observed for general category states. The non plan expenditure on education as a proportion of revenue expenditure on education constituted more than 90 percent in 2002-03, but declined to 68.81 percent in 2011-12. It is also seen that expenditure on elementary education stood at 76.35 percent in 2011-12 as against 69.57 in 2002-03.

The revenue expenditure on health has increased at a CAGR of 17.57 percent from Rs. 182.57 crore to Rs. 756 crore. The expenditure largely includes urban and rural health services. Another related component is welfare expenditure, which includes (a) family welfare, (b) welfare of SC, ST, and OBC, (c) social security and welfare and (d) social welfare.

The welfare expenditure increased from Rs. 444.08 crore to Rs. 1788.51 crore at a CAGR of 16.74 percent. Its share in social service expenditure was 22.32 percent in 2002-3 and increased to 2011-12.

Economic Services Expenditure

On the revenue account the expenditure on economic services has increased at a rapid rate. The economic services expenditure increased from Rs. 820.87 crore in 2002-03 to Rs. 5859 crore at a CAGR of 24.42 percent during the period under reference. The share of agriculture and allied activities in total economic services expenditure has seriously declined from about 34 percent in 2002-03 to 17.5 percent in 2011-12. The share of rural development increased to 28.8 percent.

3.1.2 General Services Expenditure (Non Development)

General services expenditure of the state increased from Rs. 2752 crore to Rs. 7767.10 crore during the period. Interest expenditure increased from 1418.95 crores to 2267.08 crore during the period. The share of interest payment was 51.55 percent in 2002-03 and it came down to 29.19 percent in 2011-12. The share of pension and other retirement benefits increased from 519.51 crore to Rs. 2296.69 crore. Pension expenditure grew at a CAGR of 17.95 percent during the decade. The share of pension expenditure in general services expenditure increased from 18.87 per cent to 29.57 percent implying a greater burden of pension on the state. Salaries and wages increased from 1752.71 crore to 6150.05 crore, that is, at a CAGR of 14.96 percent.

3.2 Analysis of Capital Expenditure

The total capital outlay of Jharkhand was Rs. 865.91 crore, which increased to Rs. 3159.36 crore that is at a CAGR of 15.61percent during the decade under reference, which has been much slower than the rate of growth observed for general category states during the same period. The share of plan capital expenditure stood at 98 percent in 2011-12 as against 100 percent in 2002-03. Further the share of capital outlay in total capital disbursement was 40.53 percent at the beginning of the period, which increased to 53.95 percent in 2006-07 and further to 65.84 in 2011-12.

The social services expenditure, which was merely 161.86 crore increased to1355.33 crore and declined thereafter to 866.31 crore in 2011-12. The share of social service expenditure 18.69 percent in 2002-03, which jumped to 44.41 percent in 2008-09, but came down to 27.42 percent at the end of the period. The economic services which was 673.97 crores (77.83 percent) increased to 2137.49 crore , but its share in total capital outlay declined to 68.79 percent. The general services expenditure increased in absolute terms from Rs. 30.08 crores to 155.56 crore, its share in total capital outlay fluctuated between 3 to 6 percent during the period.

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Disbursement (I to IV)	2136.33	2417.19	2712.11	5866.95	2708.24
I Capital Outlay (1 + 2)	865.91	975.72	1333.43	1839.03	1461.34
1. Developmental Outlay (a + b)	835.83	942.25	1313.45	1762.86	1388.97
a) Social Services	161.86	125.55	226.20	547.13	494.85
b) Economic Services	673.97	816.70	1087.25	1215.73	894.12
2. General Services	30.08	33.47	19.98	76.17	72.37
II Discharge of Internal Debt	127.12	426.63	131.70	129.89	674.05
III Repayment of Loans to Centre	858.38	881.31	670.19	151.19	162.04
IV Loans & Advances Made By the State	284.92	133.53	576.79	3746.84	410.81
V Total Capital Expenditure (I+IV)	1150.83	1109.25	1910.22	5585.87	1872.15
1. Developmental Expenditure (a + b)	1120.75	1075.78	1890.24	5509.70	1799.78
a) Social Services	205.87	155.17	268.32	622.19	550.47
b) Economic Services	914.88	920.61	1621.92	4887.51	1249.31
2. General Services	30.08	33.47	19.98	76.17	72.37

	2007-08	2008-09	2009-10	2010-11	2011-12
Capital Disbursement (I to IV)	3330.93	3914.68	3893.24	3963.74	4798.38
I Capital Outlay (1 + 2)	2583.56	3051.28	2703.03	2664.31	3159.36
1. Developmental Outlay (a + b)	2475.28	2875.20	2590.42	2544.27	3003.80
a) Social Services	831.56	1355.13	824.50	681.89	866.31
b) Economic Services	1643.72	1520.07	1765.92	1862.38	2137.49
2. General Services	108.28	176.08	112.61	120.04	155.56
II Discharge of Internal Debt	572.43	724.69	1067.61	1063.17	1484.30
III Repayment of Loans to Centre	174.94	138.71	122.60	236.25	154.71
IV Loans & Advances Made By the State	–	–	–	–	–
V Total Capital Expenditure (I+IV)	3181.22	3469.47	3023.01	2971.87	3376.46
1. Developmental Expenditure (a + b)	3072.94	3293.39	2910.40	2851.83	3220.90
a) Social Services	903.06	1426.97	879.49	696.77	878.71
b) Economic Services	2169.88	1866.42	2030.91	2155.06	2342.19
2. General Services	108.28	176.08	112.61	120.04	155.56

Source: As provided by the State *(St. Fill 4, Fiscal Indicators)*

Table 3.3: Details of Capital Expenditure (Rs. Crores)

3.3 Repayment of Public Debt

A remarkable aspect of state finance has been the declining proportion of repayment of public debt. The discharge of public debt was 985.5 crore with a share of 46.13 percent in total capital disbursement in 2002-03. The payment obligation increased to 1639.02 crore, but the share declined to 34.16 percent in 2011-12. Of the total repayment of public debt, internal debt repayment accounted for only 12.90 percent in 2002-03, which increased to 90.56 percent in 2011-12. The proportion of repayment of loans and advances to the central government thus declined from 87.1 percent to 9.44 percent. It should be noted that fiscal liabilities of the state has continuously increased from 8441 crore 2002-03 to 21615 crore 2007-8 and further to 30664 crore in 2011-12. The outstanding debt GSDP ratio was at 25 percent in 2011-12. The discharge of public debt was 11.04 percent out of the outstanding liabilities of the state in 2002-03 and it declined to 5.35 percent in 2011-12.

3.4 Loans and Advances by the State Government

Development loans of 284.92 crore was made by the state in 2002-03, out of which 64.93 percent (185.02 crore) were plan and 35.07 percent (99.90 crore) were non plan loans. The share of plan loans made by the state increased to 85.65 percent in 2011-12, although in absolute terms the figure did not change much from the 2002-03 level. In other words there was a decline in the share of non plan development loans during the period. Out of total development loans, the share of loans for economic services was 84.55 percent, which increased to 94.01 percent in 2011-12. There was corresponding decline in the share of loans for social services.

3.5 Efficiency of Public Expenditure

The analysis of public expenditure from the point of view of efficiency is important both from the point of view of management of public expenditure and constraints (of availability) of budgetary resources.The efficiency of expenditure basically relates to input-output ratio. "The greater the output for a given input or the lower the input for a given output, the more efficient the activity is" (Mandl, Dierx, & Ilzkovitz, 2008). However, the efficiency of expenditure without reference to particular outcomes of public expenditure is difficult to measure. Moreover, the outcome of public expenditure for each activities is difficult to separate and identify.

The concept of efficiency may be further classified into technical efficiency and allocative efficiency. The two concepts of efficiency are complementary to each other. Technical efficiency measures the pure relation between inputs and outputs, whereas, Allocative efficiency reflects the link between the optimal combinations of inputs taking into account costs and benefits and the output achieved (Mandl et al., 2008).

The Planning Commission Report on Efficient Management of Public Sector clearly identifies the lack of exclusiveness in both expenditure and outcome. The report states that "A major problem faced today is in generating scheme wise information from the accounting classification due to absence of a one-to-one correspondence with schemes and heads of accounts." (Rangarajan, 2011)

In view of the above, we have tried to analyse efficiency of expenditure, incorporating certain expenditure and outcome measures. Table 3.4 (pp. 22) presents an overview of states' own receipts and revenue expenditure. The revenue expenditure has been consistently more than double of state's own revenue receipts. In absolute terms the shortfall between revenue receipts and expenditure steadily increased from Rs. 2772 crore in 2002-3 to Rs. 10999.47 crore in 2011-12 at a CAGR of 16.55 percent. In the last five years however, the shortfall has grown at a faster pace at the CAGR of 17.57 percent A large proportion of revenue expenditure is non plan revenue expenditure and it exceeds the amount of state's own revenue receipts! The proportion of non plan revenue expenditure in total revenue receipt increased from 65 percent in 2007-08 to 75 percent in 2009-10, but declined thereafter to about 60 percent in 20011-12. This proportion was as high as 91 percent in 2002-3 and 77 percent in 2003-4. However the share of plan revenue expenditure in state's own revenue receipts improved from 37.48 percent in 2002-3 to 58.72 percent in 2007-08 percent and further to 76.52 percent in 2011-12, which suggests an improvement in quality of expenditure so far as plan expenditure is concerned.

Year	2002-03	2003-04	2004-05	2005-06	2006-07
Total Revenue Receipt	4,936.78	5,637.77	6,660.50	8,463.88	10,009.82
1. States Own Revenue Receipts (A+B)	2,737.44	3,091.77	3,435.23	4,184.56	4,438.90
A. Tax Revenue	1,750.30	1,986.22	2,382.78	2,758.04	3,188.50
B. Non Tax Revenue	987.14	1,105.55	1,052.45	1,426.52	1,250.40
2. Total Revenue Expenditure of which	5,509.48	5,405.93	6,975.91	8,490.82	9,063.94
Plan Revenue Expenditure	1,026.20	1,090.99	1,980.18	2,138.43	2,431.69
Non Plan Revenue Expenditure	4,483.27	4,314.95	4,995.73	6,352.39	6,632.25
3. Shortfall (2-1)	2,772.04	2,314.16	3,540.68	4,306.25	4,625.04
Revenue expenditure (as multiple of States own revenue receipts)	2.01	1.75	2.03	2.03	2.04
Revenue Expenditure as percentage of Total Revenue Receipts	112.00	96.00	105.00	100.00	91.00
Non Plan Revenue Exp as percentage of Total Revenue receipts	91.00	77.00	75.00	75.00	66.00

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Total Revenue Receipt	12,026.35	13,205.88	15,118.46	18,781.12	22,419.45
1. States Own Revenue Receipts (A+B)	5,074.75	5,697.99	6,754.26	8,519.52	9,992.11
A. Tax Revenue	3,473.35	3,746.19	4,500.12	5,716.63	6,953.89
B. Non Tax Revenue	1,601.40	1,951.80	2,254.14	2,802.89	3,038.22
2. Total Revenue Expenditure of which	10,831.97	12,876.90	15,128.24	17,944.74	20,991.58
Plan Revenue Expenditure	2,979.88	3,813.20	3,758.48	6,003.81	7,646.29
Non Plan Revenue Expenditure	7,852.09	9,063.70	11,369.76	11,940.92	13,345.30
3. Shortfall (2-1)	5,757.22	7,178.91	8,373.98	9,425.22	10,999.47
Revenue expenditure (as multiple of States own revenue receipts)	2.13	2.26	2.24	2.11	2.10
Revenue Expenditure as percentage of Total Revenue Receipts	90.00	98.00	100.00	96.00	94.00
Non Plan Revenue Exp as percentage of Total Revenue receipts	65.00	69.00	75.00	64.00	60.00

Source: As provided by the State *(St. Fill 1, Fiscal Indicators)*

Table 3.4: Receipts and Expenditure Behaviour (Rs. Crores)

3.6 Committed Expenditure of Jharkhand

The committed expenditure as percentage of revenue receipt were high at about 65 percent in the first two years of the study. The ratio declined to 47 percent in 2007-8. increased to 62 percent in 2009-10 but declined to 50 percent in 2011-12. The behavior of committed expenditure has been influenced largely by the dramatic increase in the salary and wages and pension expenditure, particularly in the last three years of study. A large proportion of increase in salary and wages is in the category of non plan expenditure. The government has managed to reduce the interest payments particularly in the last two years.

It is interesting to note that the proportion of salary and wages (Non plan) as percentage of non plan revenue expenditure was only 24 percent in 2002-3. It increased to 40 percent in the subsequent year. It has increased by ten percentage points from 36 percent to 46 percent during the last five years (Table 3.6). The share of interest payment has actually declined significantly from 32 percent in 2002-3 to 17 percent in 2011-12. The share of pension payment has increased by seven percentage points in the last five years. Thus, the major contributing factors of high non plan revenue expenditure are salary and wages and pension expenditure.

GDP growth at current prices was slow and declining in the first five years of study. The GSDP growth in the state has been more than 12 percent in all the five years except in 2008-09, when it recorded a poor growth of only 4.58 percent, which in real terms (2004-05 prices) was actually negative. This was due to -15 percent growths in industries that year.

Items	2002-03	2003-04	2004-05	2005-06	2006-07
Salaries & wages of which	1243 (25)	1932 (34)	2179 (33)	2547 (30)	2744 (27)
Non Plan Exp.	1079 (22)	1744 (31)	1910 (29)	2326 (27)	2518 (25)
Plan Exp.	164 (3)	188 (3)	269 (4)	221 (3)	226 (2)
Interest Payments	1419 (29)	1182 (21)	1141 (17)	1420 (17)	1613 (16)
Pension Exp.	520 (11)	560 (10)	620 (9)	657 (8)	679 (7)
Total	3182 (65)	3674 (65)	3940 (59)	4624 (55)	5036 (50)

Source: CAG Audited Report, Chapter 1, Finances of the State Government, 2007-08, p. 14

Items	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries & wages of which	2985 (25)	3948 (30)	5342 (35)	5642 (30)	6352 (28)
Non Plan Exp.	2802 (23)	3801 (29)	5154 (34)	5434 (29)	6150 (27)
Plan Exp.	183 (2)	147 (1)	188 (1)	208 (1)	202 (1)
Interest Payments	1758 (15)	1887 (14)	2307 (15)	2228 (12)	2267 (10)
Pension Exp.	818 (7)	988 (7)	1681 (11)	2081 (11)	2297 (10)
Subsidies	77 (1)	37 (0.3)	41 (0.3)	80 (0.4)	286 (1)
Total	5638 (47)	6860 (52)	9371 (62)	10031 (53)	11202 (50)

Source: CAG Audited Report, Chapter 1, Finances of the State Government, 2011-12
Note 1: Plan Expenditure on salaries also include those paid under centrally sponsored schemes
Note 2: Figures in bracket indicate percentage of Revenue Receipts
Note 3: Subsidies are included as part of committed expenditure in 2011-12 report, but not included in 2007-08 Report

Table 3.5: Committed Expenditure of Jharkhand (Rs. Crores)

Items	2002-03	2003-04	2004-05	2005-06	2006-07
Non Plan Revenue Expenditure	4484	4315	4996	6352	6632
Non Plan Exp. On salary	1079 (24)	1744 (40)	1910 (38)	2326 (37)	2518 (38)
Interest Payments	1419 (32)	1182 (27)	1141 (23)	1420 (22)	1613 (24)
Pension Exp.	520 (12)	560 (13)	620 (12)	657 (10)	679 (10)
Total	3018 (68)	3486 (80)	3671 (73)	4403 (69)	4810 (72)

Source: CAG Audited Report, Chapter 1, Finances of the State Government, 2007-08

Items	2007-08	2008-09	2009-10	2010-11	2011-12
Non Plan Revenue Expenditure	7852	9063	11369	11940	13345
Non Plan Exp. On salary	2802(36)	3801(42)	5154(45)	5434(46)	6150(46)
Interest Payments	1758(22)	1887(21)	2307(20)	2228(19)	2267(17)
Pension Exp.	818(10)	988(11)	1681(15)	2081(17)	2297(17)
Subsidies	77	37	41	80	286
Total Excluding subsidies	5378 (68)	6676 (74)	9142 (80)	9743 (82)	9743 (80)

Source: CAG Audited Report, Chapter 1, Finances of the State Government, 2011-12
Note 1: Figures in bracket indicate percentage of Non Plan Revenue Expenditure

Table 3.6: Committed Expenditure as %age of Non Plan Revenue Expenditure

The plan expenditure as percentage of GSDP has remained below 9 percent, particularly in the last five years, which needs to increase further.

The development revenue expenditure constitutes a major proportion of total expenditure with a share ranging from 44 to 54 percent in the last six years. The matter of concern is regarding development capital expenditure, whose share has declined from 18 percent to 12 percent during the last five years. Development loans have reduced to just one percent. If we view total development capital expenditure including loans and advances in the last five years, then the decline from 22 percent to 13 percent looks precarious. It is important to note that the share of development expenditure has been increasing in the last three years. In general proportion of development expenditure in total expenditure has been higher for the state in comparison to that of general category states. However, the state's expenditure on education and health as a proportion of total expenditure in the year 2011-12, has reduced, the impact of which is a matter of further study, particularly when the state is identified as

	2002-03	2003-04	2004-05	2005-06	2006-07
GSDP (at current) Prices	43836	52814	59758	60901	66935
Growth of GSDP	33.33	20.48	13.15	1.91	9.91
Growth of Real GSDP (2004-05 prices)	2.54	8.03	15.21	-3.2	2.38
Total Expenditure (Rev +Cap) of which	7645.81	7823.14	9688.02	14357.77	11772.19
	(26.02)	(2.32)	(23.84)	(48.02)	(–18.01)
Plan Expenditure (Rev+Cap)	2037.13	2108.92	3605.38	5062.68	4011.92
	(2.14)	(3.52)	(70.96)	(40.42)	(–20.75)

	2007-08	2008-09	2009-10	2010-11	2011-12
GSDP (at current) Prices	83950	87794	100621	115535	130505
Growth of GSDP current prices	25.42	4.58	14.61	14.82	12.96
Growth of Real GSDP (2004-05 prices)	20.52	–1.75	4.98	6.01	6.57
Total Expenditure (Rev +Cap) of which	14760.55	17209.76	19341.47	22216.03	26082.48
	(17.58)	(19.60)	(19.22)	(19.23)	(19.99)
Plan Expenditure (Rev+Cap)	5953.78	7083.01	6732.57	8795.51	10943.67
	(7.09)	(8.07)	(6.69)	(7.61)	(8.39)

Source: Real GSDP figures taken from "Data for use of Deputy Chairman, Planning Commission" Planning Commission, April 2012 page 103. Rest of the Data supplied by the Jharkhand Government

Table 3.7: GSDP and Revenue Expenditure

	2002-03	2003-04	2004-05	2005-06	2006-07
Development Revenue Expenditure	–	–	42	34	48
Development Capital Expenditure	–	–	14	12	13
Development Loans	–	–	6	26	4
Total	–	–	62	72	65

	2007-08	2008-09	2009-10	2010-11	2011-12
Development Revenue Expenditure	44	48	47	52	54
Development Capital Expenditure	18	18	14	12	12
Development Loans	4	3	2	1	1
Total	66	69	63	65	67

Source: Finances of the State Government, CAG Audit Report, Various Years
Note 1: CAG Data not available before 2004-05

Table 3.8: Behavior of Development Expenditure (% of aggregate expenditure)

low performance state in the matter of poverty, health profile and literacy.

Chapter 4

Analysis of Revenue and Deficit Balances of the State

The revenue deficit is defined as difference between Revenue Expenditure and Revenue Receipt. However if we go deeper into the analysis, we observe that Revenue deficit arises when the government's actual net receipts is lower than the projected receipts. On the other hand, if the actual receipts are higher than expected one, it refers to as revenue surplus. A revenue deficit or surplus does not indicate any loss of actual revenue to the state. In the last five years, the state has been comfortable with revenue surplus except a marginal deficit in 2009-10, as indicated in Table 1. This is a departure from the trend during 2002-03 to 2006 07, when three years out of five were with revenue deficit. The state actually attained the target of zero revenue deficit as prescribed in FRBM Act, in 2008-09.

The average revenue deficit during the first four years of reference period (2002-03 to 2005-06) was at 0.36% of GSDP which improved considerably during the later years. (-0.8% for 2006-07 to 2009-10 and -0.91% for 2010-11 to 2011-12). For the whole reference period, the average growth of revenue receipts was around 17.23 per cent as compared to average growth of revenue expenditure of 16.51 per cent. During the last two years i.e. 2010-11 and 2011-12 Jharkhand has not only maintained revenue surplus but has witnessed a growth of over 70 per cent in its revenue surplus, this is largely due to substantial increase in its revenue receipts. Nevertheless, it has not been able to achieve an ambitious target of more than 5000 crores (precisely 5379.11 crores) of revenue surplus for the state as given by Medium Term Fiscal Plan (Audited Report of State Finance, 2011-12).

Fiscal deficit as defined in the FRBM act 2003 is "the excess of total disbursements from the Consolidated Fund, excluding repayment of debt, over the total receipts into the Fund (excluding debt receipts) during the financial year". For the state Government, however, Fiscal Deficit is the difference between total expenditure and total revenue receipts including non debt capital receipts and public debt expenditures. Jharkhand's Fiscal Deficit has been decreasing in absolute terms in the last three years under reference. It scaled up to the highest level at Rs. 5603 crore in 2005-06. It should be noted that Jharkhand adopted the FRBM Act in 2007 and aimed at reducing the fiscal deficit in a significant manner in the coming years. Jharkhand's average fiscal deficit during the whole reference period has been slightly above the target of 3% (as per FRBM Act, 2007). However, during the last two years, 2010-11 and 2011-12 fiscal deficit is much below the 3 per cent and stood at 1.83 and 1.53 percent respectively, which is quite appreciable.

Item/ year	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Deficit	572.7	-231.83	315.41	26.94	-945.88
Fiscal Deficit	1720.3	873.48	2218.06	5603	910.52
Primary Deficit	301.35	-308.84	1076.73	4183.46	-702.86
Revenue Deficit % of GSDP	1.31	-0.44	0.53	0.04	-1.41
Fiscal Deficit % of GSDP	3.92	1.65	3.71	9.2	1.36
Primary Deficit % of GSDP	0.69	-0.58	1.8	6.87	-1.05
Revenue Deficit (Growth)		-140.48	-236.05	-91.46	-3611.21
Fiscal Deficit (Growth)		-49.22	153.93	152.61	-83.75
Primary Deficit (Growth)		-202.49	-448.64	288.53	-116.8

Item/ year	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Deficit	-1194.38	-328.98	9.78	-836.39	-1427.86
Fiscal Deficit	1942.61	3121.58	3011.01	2111.36	2000.59
Primary Deficit	184.58	1234.7	703.56	-116.18	-266.49
Revenue Deficit % of GSDP	-1.42	-0.37	0.01	-0.72	-1.09
Fiscal Deficit % of GSDP	2.31	3.56	2.99	1.83	1.53
Primary Deficit % of GSDP	0.22	1.41	0.7	-0.1	-0.2
Revenue Deficit (Growth)	26.27	-72.46	-102.97	-8652.04	70.72
Fiscal Deficit (Growth)	113.35	60.69	-3.54	-29.88	-5.25
Primary Deficit (Growth)	-126.26	568.92	-43.02	-116.51	129.37

1. Revenue Deficit = Revenue Expenditure - Revenue Receipts
2. Fiscal Deficit = Total Expenditure - (Total revenue Receipts + Non Debt Capital Receipts + Public Debt Expenditure)
3. Primary Deficit = Fiscal Deficit - Interest Payments
4. A negative sign actually denotes a surplus

Source: Compiled from data provided by Jharkhand Government

Table 4.1: Indicators of Deficit in Jharkhand (Rs. Crores)

Primary deficit is defined as a difference between fiscal deficit and interest payment. It indicates higher levels of governments spending over its current revenue. The average primary deficit for the state during the last ten years (2002-03 to 2011-12) has been 0.97% of its GSDP. The average growth of primary deficit during the period has been negative at -7.43. This is largely due to the efficient performance of state during the last two years (2010-11 and 2011-12) when the state has witnessed negative primary deficit (called as primary surplus) by controlling its current expenditure against its revenue receipts. During these two years growth of primary surplus had been over hundred percent which is a big achievement.

The average growth of public debt in last two years (2010-11 and 2011-12) has been moderate at 17% in comparison to the preceding eight years of the reference period, when the growth of public debt was nearly 25%. This has been one of the major reasons in limiting fiscal deficit. Quality of deficit is observed by highlighting ratio of revenue deficit to fiscal deficit. The ratio indicates extent to which the borrowed funds are used to finance current consumption. In case of the state of Jharkhand, the average ratio of RD/FD for the reference period of (2002-03 to 2011-12) is negative, around -26.51%. However, in the context of last five years, the ratio has lost its relative significance because the state has revenue surplus rather than deficit.

CAG provides the data for the last five years for both decomposition of fiscal deficit and financing pattern of Fiscal Deficit. Although, figures given by CAG may not match with our

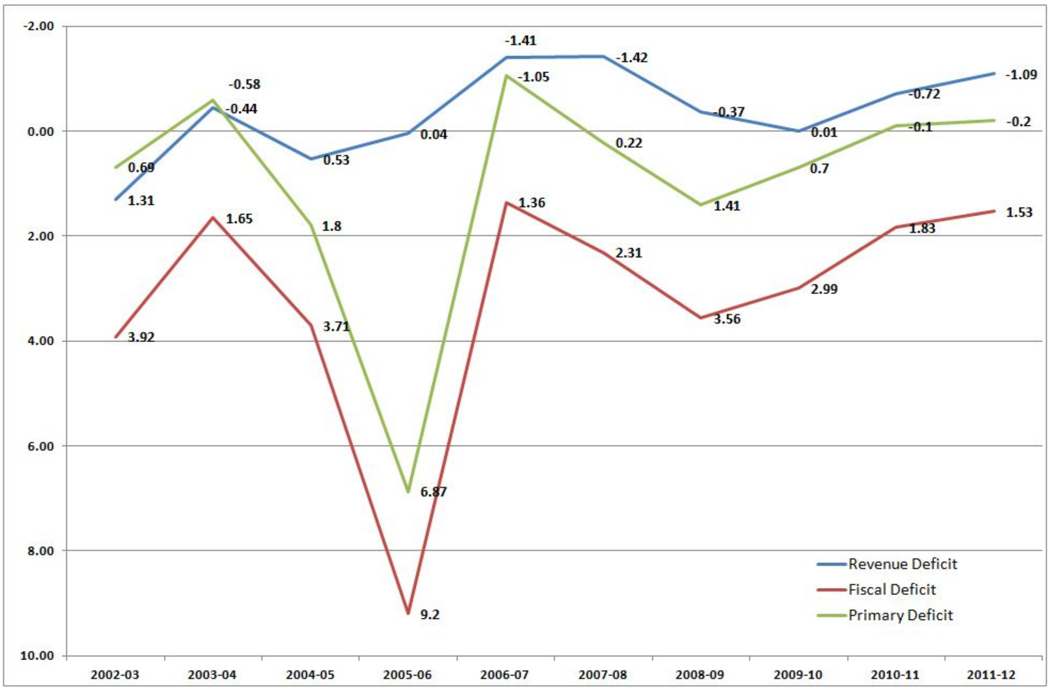

Figure 4.1: Deficits as a Percentage of Gross State Domestic Product

Item/ year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Market Borrowings	453	241	262	921	1238	1674	198	784
Loans from Government of India	513	-145	-145	-161	-136	-133	-104	-122
Special Securities Issued to NSSF	157	1634	1214	125	54	670	957	-73
Loans from Financial Institutions	-1	47	143	602	1348	180	309	443
Small Savings and PF etc	17	212	229	162	200	272	105	69
Deposits and Advances	87	358	396	625	799	273	464	1030
Suspense and Miscellaneous	-805	1790	722	-447	709	258	473	942
Remittances	75	-89	-85	-146	-11	-39	6	17
Others	-2399	-9651	-2201	262	-1087	372	-296	-5014
Overall Surplus Deficit	-2217	-5603	-910	-1943	-3114	-3011	-2112	-1924

Source: CAG Audited Report, Chapter 1, Finances of the State Government, 2011-12

Table 4.2: Financing Patterns of Fiscal Deficit (Rs. Crores)

data due to differences in interpretation of deficit itself, the analysis may be quite fruitful for analytical purposes. The decomposition shows that the net loans and advances of the Jharkhand Government has been falling, which is a healthy sign. Further , the overall surplus is well distributed among various components. The Government has attempted to finance the fiscal deficit more through loans from financial institutions, Issue of Special Securities to NSSF, deposits and advances and Suspense and Miscellaneous Accounts. As a result, Government has to rely less on market borrowings and Central Government Loans.

Balance from Current Revenues (BCR) is defined as the difference between Non-Plan Revenue Receipts (NPRR) and Non-Plan Revenue Expenditure (NPRE).

Non-Plan Revenue Receipts(NPRR) is the sum of (i) share in central taxes (ii) State's Own Tax Revenue (iii) State's Own Non-Tax Revenue and (iv) Non-Plan Grants from the Centre (Head 1601, sub-head 01) excluding Plan grants from Thirteenth Finance Commission[1].

[1]As per Guidelines for Projection of Resources for Annual Plan 2013-14 issued by the Planning Commission in November 2012, all grants awarded by 13th Finance Commission are non Plan Grants. However, for the purpose of resources estimation, M/o Finance has classified certain grants as Plan Grants. Non-Plan Revenue

Item/ year		2007-08	2008-09	2009-10	2010-11	2011-12
Balances from Current Revenues	(A)	2,906.00	3,047.00	2,086.00	4,014.00	5,368.00
Outstanding Fiscal Liabilities	(B)	21,857.82	24,233.95	27,315.01	28,805.06	30,813.77
GSDP at Current Prices	(C)	83,949.59	87,793.93	1,00,620.68	1,15,535.14	1,30,505.32
BCR as % of Outstanding Liabilities	(A / B)	13.30	12.57	7.64	13.94	17.42
BCR as %age of GSDP	(A / C)	3.46	3.47	2.07	3.47	4.11

Source: CAG Audited Report, Chapter 1, Finances of the State Government, 2011-12

Table 4.3: Trends in Balances from Current Revenues and Fiscal Liabilities

Non-Plan Revenue Expenditure (NPRE) is the sum of (i) Non-Development Expenditure (Interest + Pension + Salaries + Others) (ii) Development Expenditure (Salaries + Others) (iii) Pay and DA revision if not included in salaries earlier (iv) Non-Plan Transfers to Local Bodies (Urban Local Bodies and Rural Local Bodies).

It can be seen from table 4.3 (pp. 28) that balances from current revenues have been steadily increasing for the state. It has increased at compounded Annual average Growth Rate of 16.58% during the last four years. However BCR as percent of GSDP has held on to the range of 3.5% to 4.1% for four out of last five years. The proportion of Current Revenue Balances in relation to outstanding liabilities declined during the period 2007-08 and 2009-10. However of late, particularly in the last two years, the ratio has increased quite significantly.

Item	CAGR
Tax Revenue	**16.047**
State's Own Tax Revenue	15.933
Share in Central Taxes	16.159
Non Tax Revenue	**20.304**
State's Own Non-Tax Revenue	13.560
Grants-in-Aid	27.740
Total Revenue Receipts	**17.433**
Revenue Expenditure	**15.899**
Plan Expenditure	19.741
Non Plan Revenue Expenditure	14.197
i) Interest Payments	14.849
ii) Pensions	16.119
iii) Salaries	14.449

Table 4.4: CAGR for period 2002-03 to 2011-12

During the last ten years, the CAGR of Tax Revenue in Jharkhand has been 16.05%, OTR is slightly lower at 15.93%, Share in Central Taxes slightly higher at 16.16%. During the last ten years, the CAGR of Non-Tax Revenue in Jharkhand has been 20.03%, ONTR is way below at 13.56% and Grants-in-aid from the Centre has gone up at whopping 27.74%. Had Grants-in-aid not gone up so sharply, the Annual Plan size of the state would have been even lower than an already very inadequate size of the Plan budget. Total Revenue Receipts has clocked a CAGR of 17.43% during the last ten years.

Deficit Grant, Performance Incentive Grants, Disaster Relief Grants (including for capacity Building), Local Bodies Grants (General Basic + General Performance + Special Area Basic Grants), Grants-in-aid for Water Sector and Grants-in-aid for maintenance of Roads & Bridges as recommended by the Thirteenth Finance Commission (13FC) may be taken under Non-Plan Grants (NPG) from the Centre under NPRR. All other 13FC grants such as State-Specific Needs, Elementary Education, Maintenance of Forests, Incentive for issuing UID, District Innovation Fund, Renewable Energy and Reduction in Infant Mortality Rate as recommended by 13FC may be taken as Plan grants in the scheme of financing. Guidelines for Projection of Resources for Annual Plan 2013-14

Non-Plan Revenue Expenditure has increased by CAGR of 14.2%. Salaries, Pension and Interest payments have increased at the rate of 14.5%, 16.1% and 14.85% respectively. Salaries and Pension outgo have increased quite sharply during the last five years because of the award of sixth Central Pay Commission.

A slower growth rate of State's Own Tax and Non-Tax Revenue has prevented BCR from rising at a faster rate and hence the size of the Annual Plan of the State has been very modest all through. On top of it, the state has not been able to spend the approved Plan Outlay.

During the Eleventh Plan Period of 2007-08 to 2011-12, the total approved Plan Outlay was rupees 47431 crores. The state could spend only 38795 crores which is just 81.8% of approved Outlay[2]. The actual amount spent during 2011-12, the terminal year of the Eleventh Plan, was just 67.2% of the approved outlay of rupees 15300 crore.

[2] FR Brief for the Annual Plan 2013-14 of Jharkhand, Planning Commission

Chapter 5

The level of Debt GSDP Ratio and the uses of Debt

Debt becomes unavoidable when expenditure exceeds revenue. If the expenditure is more than revenue for a brief period, then borrowings help in tiding over the shortages effectively. However if the mismatch between expenditure and revenue become chronic, then levels of debt keep rising with time and a time may come where the governments may find it difficult to even pay interest on such accumulated debt. Such elevated levels of debt then become unsustainable and play havoc with state finances. The revenue and fiscal deficits grow with increasing levels of debt. Debt sustainability can be indicated by various measures including ratio of Interest Payment to Revenue Receipts (IP/RR), ratio of Growth of Revenue Receipts to Growth of Interest Payments and ratio of Debt to GSDP.

Borrowings that are repayable and on which interest accrues are considered as debt. Debt is also sometimes called liabilities. It is very important to estimate the correct size of debt or liabilities of a state so that right fiscal policies can be framed. The definition of the so called outstanding Liabilities is not uniform because various agencies have adopted different definitions of Outstanding Liabilities. What follows is a reproduction of the overview of different measurements of Outstanding Liabilities as contained in RBI's State Finances: A Study of Budgets 2012-13, pages 58 and 59, para 6.6 to 6.8.

There have been different approaches adopted by different bodies such as the state governments, the Reserve Bank of India, Office of the Comptroller and Auditor General of India (CAG) and the Finance Commissions (FCs), leading to differences in the measurement of debt (see table 5.1pp. 31). State debt is classified by the CAG under the three broad categories of (i) internal debt which, inter alia, includes ways and means advances (WMA) and overdrafts (OD) from the Reserve Bank, (ii) loans and advances from the central government and (iii) small savings, provident funds and obligations like reserve funds and deposits, both interest and non-interest bearing. While the broad definition of states' debt followed by the FCs includes the same heads as that by the Office of the CAG, their narrow definition excludes WMA and OD from the Reserve Bank. Dholakia and Karan (2004) excluded WMA and OD from the Reserve Bank, but included suspense, miscellaneous and contingency fund in their definition of liabilities.

There appeared to be no unanimity about the composition and the methodology for compiling the liabilities of state governments in India until 2004-05. In fact, there was a great deal of ad-hocism in the compilation of debt statistics. In view of the substantial differences in the definition and coverage of liabilities in the publications presenting states liabilities and the need for reliable and credible statistics on public debt comparable across states, a Working Group on "Compilation of State Government Liabilities" was constituted in the Reserve Bank, which submitted its report in December 2005. Based on the recommendations of the Working Group, the coverage of liabilities of the state governments was made more comprehensive, while ensuring that the compilation of states' liabilities was consistent with gross fiscal deficit. Data on outstanding liabilities reflect the latest available data on various components of debt from their respective primary sources, viz., CAG, the Reserve Bank and Ministry of Finance (MoF), and adding to this the flows on the corresponding items reported in the budget documents of the states for the revised estimates and the budget estimates of the subsequent years.

RBI	**FC (Narrow)**	**FC (Broad)**	**CAG**	**Dholakia & Karan**
Loans from the Centre	Loans from the Centre	Loans from the Centre	Loans from the Centre	Loans from the Centre
Internal Liabilities	Internal Liabilities	Internal Liabilities	Internal Liabilities	Internal Liabilities
WMA and OD from RBI		WMA and OD from RBI	WMA and OD from RBI	
State Provident Funds	State Provident Funds			State Provident Funds
	Reserve Funds	Reserve Funds	Reserve Funds	Reserve Funds
	Deposits	Deposits	Deposits	Deposits
				Contingency Fund
				Suspense
				Miscelleneous

Source: RBI's State Finances: A Study of Budgets 2012-13, pages 58

Table 5.1: Comparison of Measurement of Outstanding Liabilities of States

Under the revised coverage followed by the Reserve Bank, total outstanding liabilities comprise various items under consolidated fund, public account and contingency fund. Total budgetary liabilities of the state governments are classified under four categories, viz., (i) public debt; (ii) ways and means advances and overdrafts from the Reserve Bank or other banks; (iii) public accounts; and (iv) contingency fund. Public account liabilities relate to liabilities other than those included in the consolidated fund. These liabilities are unfunded, implying huge risks on the budgets of the states. The WMAs from the Reserve Bank are designed to meet temporary liquidity shortfalls, which are formula-based and depend on the states' total expenditures. Under contingency fund, transactions connected with the contingency fund established under Article 267 of the Constitution of India are recorded; it accounts for less than 1 percent of the total outstanding liabilities of the state governments.

5.1 Where can the state government raise loans from?

Borrowing channels for states are multiple, with most of these channels being controlled and restricted by the centre. Market borrowings, the most important of these channels, are controlled by the centre and managed by the Reserve Bank. States may not, without the consent of the central government, raise any loan if they are indebted to the central government

(Article 293). The Reserve Bank manages the domestic borrowings of 28 states through separate agreements with each of them. Cost minimisation with minimum roll-over risk remains a key objective in the management of states' market borrowings. The state governments issue dated securities, termed state development loans (SDLs), of varying tenors. As a debt manager of the states, the Reserve Bank initially underwrote states borrowings, but with financial market development, banks and financial institutions have been subscribing directly to these securities floated through a process managed by the Reserve Bank. The method of issuance of market loans has, however, migrated from the administratively controlled system to an auction-based system for all the states since 2006-07. State governments, unlike the centre, cannot borrow externally. The centre plays the role of an intermediary in the transfer of external borrowings to the states. Previously, the centre would on- end the proceeds in rupees at harder terms, after adjusting for exchange rate exposure and elongation of maturities. With the change in lending policy after 2007 in light of the Twelfth Finance Commission's (FC-XII) recommendation, the entire loan proceeds are passed through directly by the centre to the states under the same terms as given by the creditor. The states bear the currency and the refinancing risk (RBI, 2013, pp. 59)

5.2 Outstanding Liabilities and Composition of Debt of Jharkhand

An analysis of composition of debt gives an idea regarding the cost of borrowing. There are broadly four sources of borrowings: (a) Internal Debt (b) Loans from the Centre (c) Public Account and (d) contingency fund.

5.2.1 Internal debt

This broadly comprises of Market Loans, special securities issued to National Small Savings Fund (NSSF) and loans from banks and financial Institutions like LIC, GIC and public sector banks including State Bank of India.

Market loans are raised primarily through state government securities called State Development Loan. The state government securities have different interest rate profile. The rates can be as low as 5% and as high as 13% depending on interest rate scenario.

National Small Savings Fund (NSSF)[1]: The net collections through small savings schemes form the NSSF. The NSSF is then invested in central and state government securities. The

[1]The small savings schemes currently in force are : Post Office Savings Account, Post Office Time Deposits (1, 2, 3 & 5 years), Post Office Recurring Deposit, Post Office Monthly Income Account, Senior Citizens Savings Scheme, National Savings Certificate (VIII-Issue), National Savings Certificate (IX-Issue) and Public Provident Fund. Collections under various small saving schemes, net of withdrawals, during the financial year form the sources of fund for National Small Savings Fund (NSSF). The net collection is invested in Central and State Government Securities, which forms the application of funds under NSSF. Presently, the term of Central and State Government Securities is 25 years, with 5 year moratorium at 9.5 per cent interest rate. The State share is 50 per cent or 100 per cent of net collection within that State, as the State may opt. Redemption of these securities into NSSF is reinvested in Central and State Government Securities in ratio of 50:50 at the prevailing rate of interest.

state may opt for 100% or 50% of the net collections from within the state as its own share to raise loans through issue of securities to NSSF. Jharkhand has opted for 50%.

The share of internal debt in states total outstanding liabilities has gone up since 2003. The share of internal debt in total outstanding liabilities in Jharkhand at the end of March 2003 was 53.15%. This has gone up to 72.32% by the end of March 2012 (See Table below). Within the internal debt component, market borrowing has gone up from 26.05% at end March 2003 to 28.01% at end March 2012. The share of NSSF has gone up from 26.69% to 32.40% during this period. The share of loans and advances from financial institution has gone up from 0.2% to 8.55% during the period. The composition of states outstanding liabilities reveals increased reliance on Internal Debt (all three components).

5.2.2 Loans from Centre

Historically, the states depended heavily on the Centre for its borrowing requirements. This has changed. The states dependence on loans from the centre has declined sharply from 1999-2000 onwards and is around 7% as of March end 2013, which is quite a climb down from 45% in 2000. As far as Jharkhand is concerned, the loans from centre as at end March 2012 was a paltry 2024 crores out of a total liability of 30814 crores which works out to be only 6.57% whereas the same in case of All States is 7.5%.

Jharkhand's composition of outstanding liabilities as on 31st March 2012 is not very different from the composition of All States Combined in terms of broad components but within the broad component there is significant difference. Jharkhand's market loans are substantially lower and securities issued to NSSF substantially higher as compared to All States average.

Item		2003	2004	2005	2006	2007
Total Liabilities (1 to 3)		9,187.10	10,704.47	13,773.97	17,620.79	19,630.55
Internal Debt (Head 6003) of which	[1]	4,882.71	6,727.80	9,652.84	13,017.79	14,422.63
(i) Market Loans		2,393.57	2,864.42	3,312.36	3,553.22	3,814.97
(ii) Special Securities issued to NSSF		2,452.15	3,828.04	5,402.55	7,036.36	8,250.53
(iii) Loans from Banks and Fis		17.75	16.09	196.29	293.65	436.20
Loans and Advances from the Centre Head (6004)	[2]	3,558.41	3,148.64	2,991.81	2,846.40	2,701.21
Public Accounts (i to iii)	[3]	595.98	806.37	979.32	1,606.60	2,388.46
(i) State PFs		155.85	261.06	278.04	490.49	719.51
(ii) Reserve Funds		119.52	205.81	274.88	331.34	488.27
(iii) Deposits and Advances		320.61	339.50	426.40	784.77	1,180.68
Contingency Fund	[4]	150.00	21.66	150.00	150.00	118.25

Item		2008	2009	2010	2011	2012
Total Liabilities (1 to 3)		21,857.82	24,233.95	27,315.01	28,805.06	30,813.77
Internal Debt (Head 6003) of which	[1]	15,858.86	17,568.14	19,880.00	21,131.39	22,285.78
(i) Market Loans		4,735.75	5,973.49	7,647.27	7,845.24	8,630.56
(ii) Special Securities issued to NSSF		8,375.88	8,429.79	9,100.00	10,056.50	9,983.74
(iii) Loans from Banks and Fis		1,038.10	1,642.34	1,821.86	2,130.80	2,633.15
Loans and Advances from the Centre Head (6004)	[2]	2,540.26	2,404.14	2,271.51	2,167.21	2,024.41
Public Accounts (i to iii)	[3]	3,308.70	4,111.67	5,013.50	5,356.46	6,353.58
(i) State PFs		881.40	1,081.02	1,353.41	1,458.06	1,527.70
(ii) Reserve Funds		621.80	458.03	771.41	548.22	443.09
(iii) Deposits and Advances		1,805.50	2,572.62	2,888.68	3,350.18	4,382.79
Contingency Fund	[4]	150.00	150.00	150.00	150.00	150.00

As at End of March

Source: Basic data from Jharkhand Finance Accounts

Table 5.2: Composition of Outstanding Liabilities of Jharkhand (Rs. Crores)

5.2.3 Debt-GSDP Position

The debt-GSDP ratio represents the final outcome of all the budgetary transactions, particularly the borrowings contracted to finance fiscal deficits over the years, and is an important indicator of fiscal correction (Thirteenth Finance Commission, 2009, pp 57)

The overall debt-GSDP ratio of the Jharkhand has improved since end-March 2007; It has come down from 29.33 in end-March 2007 to 23.61 by end-March 2012. It has also remained lower than the recommended targets of the 13-FC for the period 2009-10 to 2011-12. It has remained within the stipulated 25% of the GSDP since end 2011.

Year (end March)	Amount (Rs. Cr.)	Annual Growth (%)	Debt/GSDP (%)
2003	9,187.10	–	20.96
2004	10,704.47	16.52	20.27
2005	13,773.97	28.67	23.05
2006	17,620.79	27.93	28.93
2007	19,630.55	11.41	29.33
2008	21,857.82	11.35	26.04
2009	24,233.95	10.87	27.60
2010	27,315.01	12.71	27.15
2011	28,805.06	5.46	24.93
2012	30,813.77	6.97	23.61

Source: Finance Accounts Various years, Jharkhand and Finance Department, Jharkhand

Table 5.3: Outstanding Liability of Jharkhand

While presenting the Jharkhand Budget 2013-14 in Parliament, Mr P Chidambaram, The Minister of Finance, Government of India had this to say regarding the fiscal position of the State of Jharkhand[2]:

> "Unlike many other States, Jharkhand appears to be on the path of fiscal prudence. But this apparently happy outcome is the result of the State's inability to raise resources or spend the resources allocated to it. The indicators of Revenue and Fiscal Deficits are within the limits prescribed by the FRBM Act. There is no Revenue Deficit. The Fiscal Deficit was 1.53% of GSDP in 2011-12, 2.20% in the current fiscal and projected to be 2.39% in 2013-14. The overall debt of the State continues to remain within the stipulated 25% of the GSDP. We should be happy, but we are not. These outcomes should be achieved after the State has been able to raise resources for the Plan and achieve its Plan targets. We hope the State will see better days now and in the future."

5.2.4 Market Loans

Market borrowing has emerged as the second most important source of financing the resource gaps of Jharkhand in recent years, the first being special securities issued to NSSF. Market borrowings are controlled by the centre and managed by the Reserve Bank. States may not, without the consent of the central government, raise any loan if they are indebted to the central government (Article 293). The Reserve Bank manages the domestic borrowings of 28 states through separate agreements with each of them. Cost minimisation with

[2] Jharkhand Budget 2013-2014 Speech of P. Chidambaram Minister of Finance March, 2013

minimum roll-over risk remains a key objective in the management of states market borrowings. The state governments issue dated securities, termed state development loans (SDLs), of varying tenors. As a debt manager of the states, the Reserve Bank initially underwrote states borrowings, but with financial market development, banks and financial institutions have been subscribing directly to these securities floated through a process managed by the Reserve Bank. The method of issuance of market loans has, however, migrated from the administratively controlled system to an auction-based system for all the states since 2006-07.

By the end of 31st March 2012, market loans accounted for 28% of the total outstanding liabilities (rupees 30814 crore) of Jharkhand. The State Government has raised 60 State Development Loans upto 2011-12. The balance on 31st March 2012 was rupees 8630.56 crores. Market Loans are long-term loans (having a term of more than 12 months) raised by the state government from open market. During 2011-12, the State Government raised State Development Loan (SDL) of rupees 500 crore @8.52% interest, another tranche of SDL of rupees 500 crore @9.05% and another tranche of SDL of rupees 254 crore bearing interest@ 9.32%. These loans will mature in August 2021, October 2021 and March 2022 respectively. The SDLs raised during the last ten years have interest rates varying from a minimum of 5.6% (which is due for repayment in 2014) to a maximum of 9.32% (due for repayment in 2022).

5.2.5 Debt Sustainability

The term **debt sustainability** has gained currency of late. This term was first used by Domar (1944) who developed a debt-sustainability framework. His hypothesis was that the growth rate of income exceeding the interest rate was a necessary condition for debt sustainability. Debt sustainability is defined as a level of indebtedness that does not generate payment difficulties and therefore is linked to the ability of the government to service its debt (Quintanilla, 2009). The analysis of debt sustainability for Jharkhand has been done on the basis of ratio of Interest Payments to Revenue Receipts.

The overall debt sustainability of Jharkhand has improved over the years as the ratio of interest payments to revenue receipts (IP/RR) declined steadily from 28.74% in 2002-03 to 10.11% in 2011-12. In absolute terms though, the interest payments have gone up from rupees 1419 crores in 2002-03 to rupees 2267 crores in 2011-12. The revenue receipts grew during this period at compounded rate of 18.3% whereas the interest payment grew by a modest 5.34%, which is why the ratio of IP/RR has declined significantly to just over 10% from 28.74% during the period. The IP/RR for all states combined during the relevant period has come down from 24.7% to 12.21%. By that reckoning, Jharkhand has done well in terms of debt sustainability.

5.2.6 Application of Debt-funds

Jharkhand's accumulated debt and other liabilities except the contingency fund stood at rupees 30656 crore by end-March 2012. Total progressive (accumulated) capital expenditure by end march 2012 stood at rupees 21531 crore, or 70% of outstanding debt and other

Financial Year	Revenue Receipts (Rs. Crores)	Interest Payments (Rs. Crores)	IP/RR (%) Jharkhand	All States Combined
2002-03	4,936.78	1,418.95	28.74	25.22
2003-04	5,637.77	1,182.32	20.97	26.00
2004-05	6,660.51	1,141.32	17.14	23.77
2005-06	8,463.88	1,419.55	16.77	19.49
2006-07	10,009.82	1,613.38	16.12	17.56
2007-08	12,026.55	1,758.03	14.62	16.01
2008-09	13,212.85	1,886.88	14.28	15.29
2009-10	15,118.47	2,307.45	15.26	15.16
2010-11	18,781.12	2,227.54	11.86	13.34
2011-12	22,419.45	2,267.08	10.11	12.21

Source: Finance Department, Jharkhand State Finances, RBI and Handbook of Statistics on State Government Finances, 2010

Table 5.4: Debt Sustainability of Jharkhand

liabilities. Apart from Capital Expenditure, the government of Jharkhand had given a total loan of rupees 7190 crore by end march 2012, taking the total to 28871 crore or 94.1% of the outstanding liabilities. Of the total rupees 21530 crore as capital expenditure, most was spent on Economic services (66.77%), followed by Social Services (29%) and General Services (4.24%).

5.3 Glossary

Net Budgetary Borrowings = Net Market Loans + Net Negotiated Loans + Net Small Savings (NSSF) + Net State PF + Net Loans from the Centre (Head 6004)

Negotiated Loans = Loans from LIC (head 103) + Loans from GIC (Head 104) + Loans from NABARD (Head 105) + Loans from SBI and other Banks (Head 107) + Loans from NCDC (Head 108) + Loans from Other Institutions (Head 109) + Ways & Means by RBI (Head110)

Public Debt = Internal Debt of the State (Head 6003) and Loans and Advances from the Centre (Head 6004)

Internal Debt of the state (Head 6003) = Market Loans (Head 101) + Negotiated Loans + NSSF (Head 111) + Other Loans

Loans and Advances from the Central Government (Head 6004) = Non-Plan Loans + Loans for State Plan + Loans for Central Plan + Loans for CSS + Ways and Means Advances

Net Public Account = Net Small Savings (PF) + Net Deposits and Advances + Net Reserve Funds + Net Suspense and Miscellaneous + Net Remittances

Outstanding Liabilities or Total Cumulative Liabilities: Sum of outstanding public debt (6003+6004) and liabilities in the Public Account as on a certain date, say as on 31st March 2012.

	Debt	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	Internal Debt of the State	4,882.70	6,727.80	9,652.84	13,017.79	14,422.63	15,858.90	17,568.14	19,880.00	21,131.39	22,285.78
2	Loans and Advances from the Central Government	3,558.40	3,148.64	2,991.81	2,846.40	2,701.21	2,540.26	2,404.14	2,271.50	2,167.21	2,024.41
3	Small Savings, PF etc.	155.85	261.06	278.04	490.49	719.51	881.40	1,081.02	1,353.40	1,458.06	1,527.70
4	Total Debt [1+2+3]	8,597.00	10,137.50	12,922.69	16,354.68	17,843.35	19,280.50	21,053.30	23,505.00	24,756.66	25,837.89
5	Total Other Obligations	233.75	199.46	-365.63	758.78	1,293.12	1,993.93	2,803.51	3,516.20	3,753.64	4,818.59
6	Total Debt and Other Obligations [5+6]	8,830.70	10,337.00	12,557.06	17,113.46	19,136.47	21,274.50	23,856.81	27,021.00	28,510.30	30,656.48

	Capital Expenditure	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
7	General Services	40.83	74.30	94.28	170.46	242.83	351.10	527.18	639.79	759.83	915.39
8	Social Services	287.31	413.80	639.06	1,186.19	1,681.04	2,512.58	3,867.72	4,692.20	5,374.11	6,240.42
9	Economic Services	1,431.70	2,272.77	3,335.67	4,551.39	5,475.76	7,089.24	8,609.31	10,375.00	12,237.61	14,375.11
10	Total Capital Expenditure [7+8+9]	1,759.90	2,760.87	4,069.01	5,908.04	7,399.63	9,952.92	13,004.21	15,707.00	18,371.55	21,530.92
11	Total Loans and Advances	5,522.70	7,525.74	10,143.02	13,822.08	16,806.26	21,913.80	6,414.83	6,713.00	6,996.47	7,190.15
12	Transfer to Contingency Fund	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00
13	Total-Capital and other expenditure [10+11+12]	7,432.60	10,436.60	14,362.03	19,880.12	24,355.89	32,016.80	19,569.04	22,570.00	25,518.02	28,871.08
	% of Total debt and other Obligations used for capital Expenditure	19.93	26.71	32.40	34.52	38.67	46.78	54.51	58.13	64.44	70.23

Source: Finance Accounts, Jharkhand Various Years

Table 5.5: Sources & Application of Funds for Expenditure (other than Revenue Account)

Chapter 6

Implementation of FRBM Act

6.1 Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted by the Parliament of India to institutionalise financial discipline, reduce India's fiscal deficit, improve macroeconomic management and the overall management of the public funds by moving towards a balanced budget. The main purpose was to eliminate revenue deficit, of the country (building revenue surplus thereafter) and bring down the fiscal deficit to a manageable 3% of the GDP by March 2008. However, due to the 2007 international financial crisis, the deadlines for the implementation of the targets in the act was initially postponed and subsequently suspended in 2009. In 2011, given the process of ongoing recovery, Economic Advisory Council publicly advised the Government of India to reconsider reinstating the provisions of the FRBM.

6.1.1 The JFRBM Act 2007

Keeping the national movement towards fiscal responsibility, and based on the recommendation of the 12th Finance commission, the state of Jharkhand also enacted the *Jharkhand Fiscal Responsibility and Budget Management Act (JFRBM) 2007* with a view to bring in fiscal discipline in the state. As per the Act, the state government would table before the legislative assembly of the state, the Annual Finance Statement of Demands and Grants of Income and Expenditure along with a Medium Term Fiscal Policy Statement (MTFP). The MTFP will set forth a three year rolling target for prescribed fiscal indicators with full details of underlying assumptions. The key objectives laid down in the JFRBM Act 2007 were as follows (Jharkhand Gazette, 2007):

1. Reduce revenue deficit to nil at the end of the 31st day of March, 2009
2. Reduce fiscal deficit to not more than 3% of the estimated Gross State Domestic Product at the end of 31st day of March 2009
3. Reduce Fiscal deficit by such percentage of Gross State Domestic Product in each of the financial year in a manner consistent with the goal set in clause (2) above

4. Generate a primary surplus of over 3% of the Gross State Domestic Product by the year ending 31st of March 2008

5. Other important monitorable fiscal targets would be:

   (a) the ratio of salaries to state's own revenues is to be reduced to 80% by the year ending 31st March 2008

   (b) the ratio of non interest committed revenue expenditure to state's own and mandated revenue is to be reduced to 55% by the year ending 31st March 2008, and

   (c) the ratio of revenue deficit to revenue receipts is to be reduced to zero percent by the year ending 31st March 2009

6. In order to bring the debt stock to a sustainable level, interest payment as a percentage of revenue receipts is to be limited to 18–25 percent

7. The total debt stock should be limited to 300% of the total revenue receipts of the state by the year ending 2007-08

6.1.2 Amendments to JFRBM Act 2007

The JFRBM 2007 act was subsequently modified in the year 2010, 2011 and 2012. In 2010 the act was modified to allow the state government to borrow market debt up to 4% of the gross state domestic product. Another modification was that the date of reducing fiscal deficit to 3% of the GSDP was extended to 31st of March 2011 (Jharkhand Gazette, 2010). In 2011 the Act was subsequently re-amended and the target of fiscal deficit to 3% of the GSDP was extended to 31st March 2012. A new clause (section 5 sub-section h) was inserted which designated the year-wise ratio of out-standing debt to GSDP (table 6.1, pp. 39). It also enacted a committee to be consituted by the state government, which will be responsible for monitoring of the state's progress on it's fiscal correction path and to review Fiscal and Outstanding Debt position of the state (Jharkhand Gazette, 2011). In 2012 the act was re-amended. Section 5(1)(a) was modified and "achieving the targets of Revenue Deficit Nil at the end of 31st March 2012 and maintaining this till financial year 2014-15" substituted. Similarly section 5(1)(b) was modified and "Reducing fiscal deficit to 3% of the estimated GSDP at the end of 31st March 2012 and maintaining this finacial year 2013-14" substituted (Jharkhand Gazette, 2012).

Financial Year	2010-11	2011-12	2012-13	2013-14	2014-15
Target	29	28.5	27.8	27.3	26.9

Table 6.1: Outstanding Debt Targets (as % of GSDP)

Keeping the key objectives in mind we analyse the fiscal prudence and performance of the state of Jharkhand in the subsequent sections.

6.2 Performance of Jharkhand

6.2.1 Sectoral Analysis

Sectoral analysis of the state suggest that there has been some amount of shift from the primary sector to the other sectors. As per the data available to us, we have calculated the sectoral contribution of the three key sectors as percentage of GSDP (2004-05 Constant Prices) and the same are presented in fig 6.1 (pp. 41).

What is interesting to note is that for the period under study, the share of primary sector has shown a slow but steady decline from 27.63% in 2005-06 to 24.56% in 2010-11 but then has suddenly shown a reversal and has climbed up back to the 2005-06 levels. The average contribution of this sector is 26.10% for the period, which is above the national average of 21.70%. The key contributors to the primary sector in the state of Jharkhand are the agriculture and allied activities, mining and quarrying and forestry. It is believed that the contribution of agriculture and mining and quarrying, and thereby of primary sector, could be more provided that the state depended less on the vagaries of weather. *Furthermore, illegal mining and quarrying is rampant in the state*. Although there are no estimates available, it is believed that if these two could be managed then we can see a potential rise in the contribution of primary sector in the state GSDP.

The secondary sector has shown an interesting trend. It rose to a high of 39.80% in 2008-09 and since then has shown a steady decline, down to 31.26%, its lowest level in 2011-12. The average contribution of this sector is 36.71% which is much higher than the all India figure of 24.14%. This indicates that the state of Jharkhand is heavily industrialised. Although government publication attribute the fall of secondary sector to the growth of tertiary sector, we believe that the reasons could be the increase in the ultra-left (*"naxalite"*) activities in the state. Imposition of levies, closure of production, abduction of workers are common news, almost on a daily basis. Such issues gravely hamper the revenues of the state and create a state of uncertainty which leads to the flight of capital from the economy. This could be a dangerous trend, because the growth of tertiary sector is in a way linked to the growth of secondary sector.

The tertiary sector has shown a steady growth from 36.78% in 2005-06 to 41.92% in 2011-12. This is a welcome development as because it opens up avenues for increasing state revenues by levying various taxes such a service tax, value added tax (VAT) etc. However, for the growth of tertiary sector to be sustainable it is required that the overall state economy grows as a healthy rate.

6.2.2 Deficit Analysis

Revenue deficit is nothing but the difference between the revenue receipts and revenue expenditure. The larger the revenue deficit, the more the government has to resort to borrowings - either internal or external or increase taxation to meet the deficit gap. **Fiscal deficit** is a more comprehensive measure of governments deficit. It can be looked upon as the sum of budgetary deficit (total government expenditure less total government earnings) and borrowings and other liabilities of the government. In other words, fiscal deficit reflects the

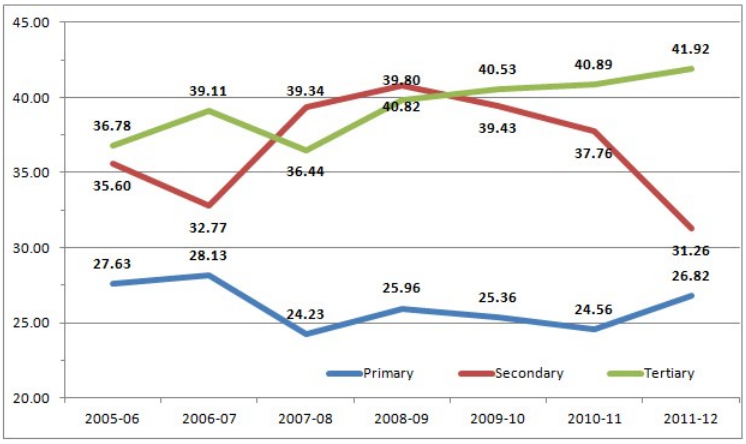

Figure 6.1: Sectoral Contribution of Sectors as Percentage of GSDP

	Amount in Rs. Crores				As %age of GSDP		
Year	GSDP	Revenue Deficit	Fiscal Deficit	Primary Deficit	Revenue Deficit	Fiscal Deficit	Primary Deficit
2001-02	32,876.64	305.10	1,364.29	796.48	0.93	4.15	2.42
2002-03	43,835.51	572.70	1,720.30	301.35	1.31	3.92	0.69
2003-04	52,813.87	-231.83	873.48	-308.84	-0.44	1.65	-0.58
2004-05	59,757.72	315.41	2,218.06	1,076.73	0.53	3.71	1.80
2005-06	60,900.54	26.94	5,603.00	4,183.46	0.04	9.20	6.87
2006-07	66,934.75	-945.88	910.52	-702.86	-1.41	1.36	-1.05
2007-08	83,949.59	-1,194.38	1,942.61	184.58	-1.42	2.31	0.22
2008-09	87,793.93	-328.98	3,121.58	1,234.70	-0.37	3.56	1.41
2009-10	1,00,620.68	9.78	3,011.01	703.56	0.01	2.99	0.70
2010-11	1,15,535.14	-836.39	2,111.36	-116.18	-0.72	1.83	-0.10
2011-12	1,30,505.32	-1,427.86	1,925.19	-341.89	-1.09	1.48	-0.26
2012-13 (RE)	1,47,840.95	-4,216.88	3,255.26	776.68	-2.85	2.20	0.53
2013-14 (BE)	1,71,095.00	-3,163.83	4,090.98	1,616.34	-1.85	2.39	0.94
2014-15 (PR)	1,95,903.78	-4,406.96	4,232.63	1,584.76	-2.25	2.16	0.81
2015-16 (PR)	2,24,309.82	-5,925.99	4,362.48	1,529.27	-2.64	1.94	0.68
2016-17 (PR)	2,56,834.75	-7,775.28	4,476.46	1,444.92	-3.03	1.74	0.56
2017-18 (PR)	2,94,075.78	-10,019.53	4,569.71	1,325.96	-3.41	1.55	0.45
2018-19 (PR)	3,36,716.77	-12,735.66	4,636.47	1,165.66	-3.78	1.38	0.35
2019-20 (PR)	3,85,540.71	-16,015.20	4,669.93	956.17	-4.15	1.21	0.25

RE: Revised Estimate; **BE**: Budgetary Estimate; **PR**: Projection
Source: Compiled from the Accounts of Government of Jharkhand

Table 6.2: Key Deficits as Percentage of GSDP

indebtedness of the government i.e. the government's ability or the inability to repay loans. **Primary deficit** is equal to the Fiscal deficit less interest payments. The concept of primary deficit was first introduced in the Government of India Budget of 1993-94. This indicates the real position of the government finances after having paid off the interest burden.

To understand the performance of Jharkhand in terms of Fiscal Responsibility, we present the Gross State Domestic Product (GSDP), Revenue Deficit, Fiscal Deficit and Primary Deficit in table 6.2 (pp. 41). For the year 2012-13 we have take the Revised Estimates (RE); for 2013-14 we have taken Budgeted Estimates (BE) and for the subsequent years we have taken the projections (PR) by the Government of Jharkhand. The table also shows the revenue deficit, fiscal deficit and primary deficit as a percentage of GSDP.

To better understand the performance we present the revenue deficit in figure 6.2 (pp. 42. From the figure it can be seen that the revenue deficit of Jharkhand has been fairly consistent in meeting the norms of budgetary prudence – even when the JFRBM Act was not in place

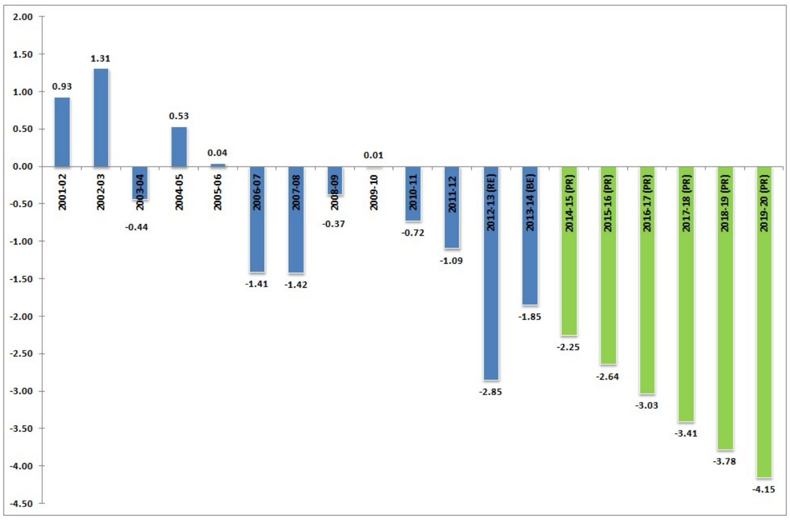

Figure 6.2: Revenue Deficit as Percentage of GSDP

(before 2007-08). Prior to 2007-08, the revenue deficit as a percentage of GSDP never exceeded 1.31% and has remained fairly in the surplus on the years of 2003-04, 2006-07 and 2007-08. In the subsequent years, the percentage has remained fairly close to zero and subsequently moved into negative providing a surplus for the state. It is projected to reach the target of 3% of surplus by the year 2016-17 and subsequently remain in surplus for the remaining years. Similarly, if we look at fiscal deficit of the state government (fig 6.3, pp. 42) we find that except for the few early years, it has more or less remained within the stipulated target of 3%. However, if we inspect the graph closely we see a cyclical pattern in the graph with a periodicity of roughly 3 years. This is a worrisome development and much will depend on the state government resolve to keep the fiscal deficit under 3% of the GSDP. If we examine the graph of primary deficit (fig 6.4, pp. 43) we again see the cyclical pattern repeated. This is obvious from the definition of primary deficit and again we can only hope that the state government will keep to its resolve.

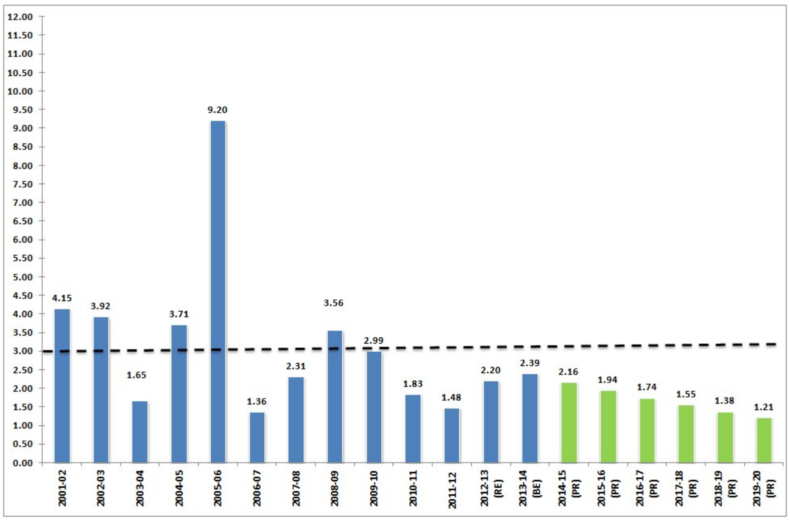

Figure 6.3: Fiscal Deficit as Percentage of GSDP

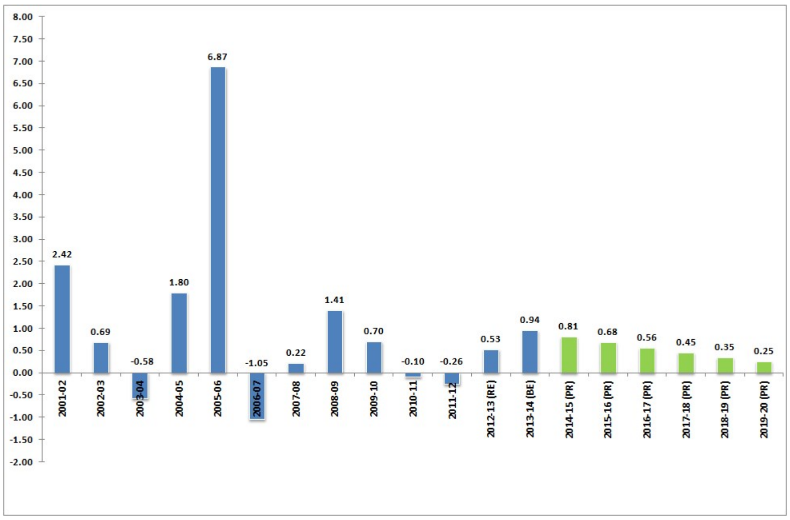

Figure 6.4: Primary Deficit as Percentage of GSDP

Much has been achieved due to various fiscal measures undertaken by the state. Commercial taxes were reformed in 2006-07, Value Added Tax (VAT) was introduced and the emphasis was shifted to resource mobilisation in form of non-tax revenues. Factors that have contributed to the bouyant growth of commercial tax collection include the resumption of economic growth after recession in 2008-09; the rollback of tax rate on diesel from 14.5% to 20% effective February 2010; enhancement of the rate of tax on foreign liquor from 35% to 50% effective September 2010 and most importantly the sanction of VAT/CST compensation from the Government of India received during 2008-09 and 2009-10. Given the low tax capability of the state as determined by the per capita income, improved revenue mobilisation has been possible through better tax administration and compliance (Government of Jharkhand, 2013, pp. 6).

On the overall, in terms of deficit management, the state government has done a commendable job of reducing the deficits and keeping them within manageable limits. Thus objectives 1–3 of the JFRBM Act 2007 seems to be well taken care of; it is now time to turn to other points in the act.

6.2.3 Salaries, Pensions and Interest Payments

Another point which is laid down in the JFRBM Act 2007 has been that the "state shall endeavour to bring down the percentage of salaries component to 80% of the total revenue receipts of the state. Furthermore the committed expenditure less interest payments would need to be brought down to 55% of the total revenue receipts of the state" (objectives 4–5). Figure 6.5 (pp. 44) gives the percentages of Committed Expenditure (CE) as a percentage of Total Revenue Receipts (TRR) and of Committed Expenditure plus Interest Payment (CE+IP) as a percentage of Total Revenue Receipts (TRR).

We find this a futile exercise as because both the objectives are found to be fulfilled. But we believe that this should be seen as a percentage of revenue expenditure because the payments form the key component of the non-plan revenue expenditure. Hence we

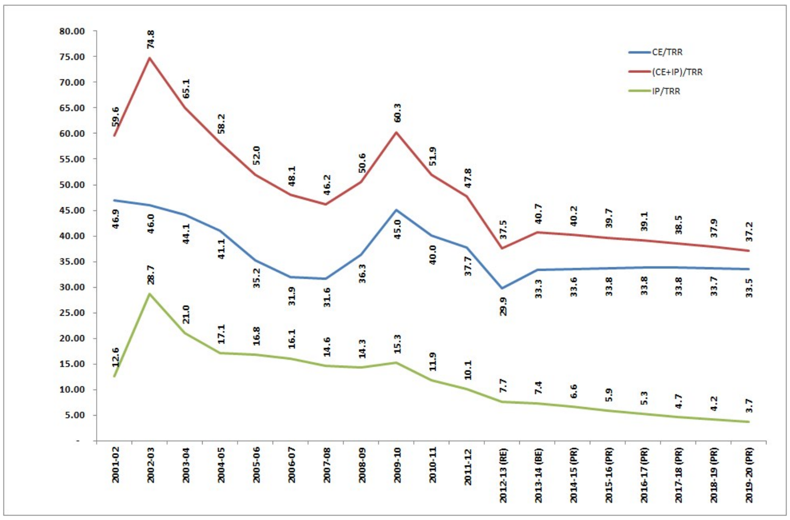

Figure 6.5: Committed Expenditure as Percentages of Total Revenue Receipts

are presenting here the committed expenditure (with and without interest payment) as a percentage of Revenue Expenditure and of Non-Plan Revenue Expenditure. The Interest Payment to Total Revenue Receipt [IP/TRR] is consistently falling and as per the projections would constitute only about 3.7% of the revenue receipts by 2019-20.

On plotting the columns 9-12 from the table (fig 6.6), we find that the ratio of committed expenditure plus interest payments to non-plan expenditure has remained exceedingly high; the average for the year 2001-02 to 2012-13 works out to about 76.83% with a standard deviation of $\pm$ 4.84% [(CE+IP)/NPE]. This indicates about three-fourth of the non plan expenditure goes into meeting the committed expenditure and interest payments of the state. If we exclude the interest payment then we see that salaries and pensions, on an average contribute to about 55% of the non-plan revenue expenditure with a standard deviation of $\pm$ 5.55% [CE/NPE].

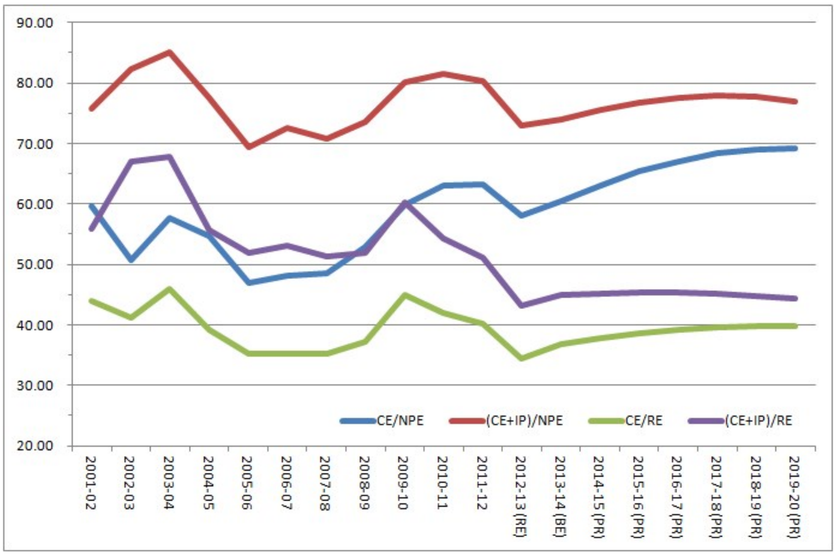

Figure 6.6: Committed Expenditure as proportions of Revenue Expenditure

This is worrisome as because the higher salary component is wont to grow in the future.

Year	Plan Expenditure	Non Plan Expenditure	Revenue Expenditure	Interest Payment	Pensions	Salaries	Committed Expenditure	CE/NPE	(CE+IP)/NPE	CE/RE	(CE+IP)/RE
(1)	(2)	(3)	(4=2+3)	(5)	(6)	(7)	(8=6+7)	(9=8/3)	(10=(8+5)/3	(11=8/4)	(12=(8+5)/4
2001-02	1,261.87	3,538.25	4,800.12	567.81	515.31	1,594.96	2,110.27	59.64	75.69	43.96	55.79
2002-03	1,026.20	4,483.27	5,509.48	1,418.95	519.51	1,752.71	2,272.21	50.68	82.33	41.24	67.00
2003-04	1,090.99	4,314.95	5,405.93	1,182.32	560.39	1,926.05	2,486.44	57.62	85.02	45.99	67.87
2004-05	1,980.18	4,995.73	6,975.91	1,141.32	620.09	2,116.54	2,736.62	54.78	77.63	39.23	55.59
2005-06	2,138.43	6,352.39	8,490.82	1,419.55	657.16	2,325.87	2,983.02	46.96	69.31	35.13	51.85
2006-07	2,431.69	6,632.25	9,063.94	1,613.38	678.97	2,517.68	3,196.65	48.20	72.52	35.27	53.07
2007-08	2,979.88	7,852.09	10,831.97	1,758.03	818.32	2,984.58	3,802.90	48.43	70.82	35.11	51.34
2008-09	3,813.20	9,063.70	12,876.90	1,886.88	988.40	3,800.67	4,789.07	52.84	73.66	37.19	51.84
2009-10	3,758.48	11,369.76	15,128.24	2,307.45	1,680.83	5,125.38	6,806.21	59.86	80.16	44.99	60.24
2010-11	6,003.81	11,940.92	17,944.73	2,227.54	2,081.10	5,434.06	7,515.16	62.94	81.59	41.88	54.29
2011-12	7,646.29	13,345.30	20,991.59	2,267.08	2,296.69	6,150.05	8,446.74	63.29	80.28	40.24	51.04
2012-13 (RE)	11,489.80	16,635.62	28,125.42	2,478.58	2,227.75	7,430.99	9,658.74	58.06	72.96	34.34	43.15
2013-14 (BE)	11,926.40	18,508.67	30,435.07	2,474.64	3,061.26	8,143.59	11,204.85	60.54	73.91	36.82	44.95
2014-15 (PR)	14,311.68	21,299.74	35,611.42	2,647.86	3,673.51	9,772.31	13,445.82	63.13	75.56	37.76	45.19
2015-16 (PR)	17,174.02	24,694.64	41,868.65	2,833.22	4,408.21	11,726.77	16,134.98	65.34	76.81	38.54	45.30
2016-17 (PR)	20,608.82	28,856.12	49,464.94	3,031.54	5,289.86	14,072.12	19,361.98	67.10	77.60	39.14	45.27
2017-18 (PR)	24,730.58	33,994.41	58,724.99	3,243.75	6,347.83	16,886.55	23,234.38	68.35	77.89	39.56	45.09
2018-19 (PR)	29,676.70	40,381.23	70,057.92	3,470.81	7,617.39	20,263.86	27,881.25	69.05	77.64	39.80	44.75
2019-20 (PR)	35,612.04	48,367.95	83,979.99	3,713.77	9,140.87	24,316.63	33,457.50	69.17	76.85	39.84	44.26

Table 6.3: Committed Expenditure and Revenue Expenditure

The implementation of the Sixth Pay Commission report with retrospective effect from 2006, has lead to a sharp jump in the salaries and pension component. With the Seventh Pay Commission on its way in a few years, this may jump up even more in the future. This is an area of concern and needs to be addressed by the state government in a prompt manner. As per the documents of the Government of Jharkhand (2013, pp. 7), the state has taken some steps to address these issues. Some of these initiatives are (i) attempt to undertake some of essential functions of the government on short term contract employment basis and on consolidated remuneration basis (ii) the introduction of Defined Contributory Pension Scheme for all employees joining after December 2004 (iii) Gradual rationalisation of subsidies and (iv) the reduction of debt servicing liabilities by loan swapping.

Detailed analysis of these components have been provided in the previous chapters (see chapter 3 pp. 16 and section 3.6 on pp. 22). As such, we deal here with some key aspects of the debt management policies of the state. The Government of Jharkhand has resorted market borrowings, primarily using Reserve Bank of India's auctions, in place of borrowings from National Small Savings Funds (NSSF) and Provident Fund. This has lead to reduction of interest payment. The debt management strategy of the government is to maintain debt at sustainable levels. The out-standing level of government debt is estimated at Rs. 24,756 crores in 2010-11 which constitutes about 23.56% of the GSDP. Thus the government has been able to achieve the debt servicing target of 29% set out by the 13th Finance Commission.

6.3 Conclusion

On the whole, if we measure the performance of the state on any fiscal parameter we see that the state is doing well. The Government of Jharkhand (2013, pp.13) also lays down sensible fiscal strategy for 2012-13 and beyond. The state aims at broadening the tax base as regards to VAT, excise, motor vehicles tax, stamps and registrations fees and other tax and non tax revenues like registration of dealers, speedy recovery of dues and disposal of cases. Furthermore expenditure management policies of the government would also focus on rationalisation of revenue expenditure specially non-plan expenditure on account of interest payment, pensions and salaries. Expenditure management policy would emphasise on capital outlays by ensuring commercial viability in critical sectors such as irrigation, power, transport and departmental undertakings. The government also wants to focus on low cost debt servicing to reduce the interest payment.

Thus as per the JFRBM Act 2007 and as per the norms of fiscal prudence, the state of Jharkhand passes with flying colours on all the parameters. However the fiscal prudence is not without criticism. The lack of stable government in the state leads to various out of budget expenditure. For example, in 2011, Jharkhand passed a Rs. 1200 crores education budget (Outlookindia.com, 2011). Similarly in December 2012, the Jhakhand government passed a supplementary budget of Rs. 524 crores (IBN Live, 2012). These expenditures would need to be curtailed if the finances of the state are to be properly managed. The real criticism came from P. Chidambaram when he said in the parliament "All the institutions in Jharkhand are virtually on the verge of collapse and we are really concerned over the situation" (The Times of India, 2013a). He further criticised the way the budget in Jharkhand is being prepared "I find that the officials never cared about preparing revised estimates and have repeated the budget estimates in that column. Although we have tried to make corrections, they are inadequate". This is something that we tend to agree, as during our course of study we found that different government documents give different estimates, and at places the totals did not add up to the published figures. **The state seriously needs to get its financial accounting in order** to provide the real picture.

Chapter 7

Analysis of State Transfers to Urban and Rural Local Bodies

7.1 State Transfers

The state of Jharkhand has been lagging behind in its work on state transfers to local bodies both urban and rural. As per the data available there were a total of 4423 *gram panchayats* in the state, 259 *panchayat samiti* and 24 *zilla parishad* up to 01.04.2013. We have tried our best to provide a clear picture regarding the state transfers in this section, but are hampered by the lack of data available to us.

The data regarding devolution and transfers to various urban and local bodies is available only for the years 2009-10 to 2012-13 and that too for the municipal corporations, municipalities and for the town panchayats. No data is available for the panchayat level from the state government on a consolidated basis. Whatever is being presented in this chapter is on the basis of data sources culled by us from various sources – both online and offline. Table 7.1 (pp. 49) gives the details of transfers to urban local bodies.

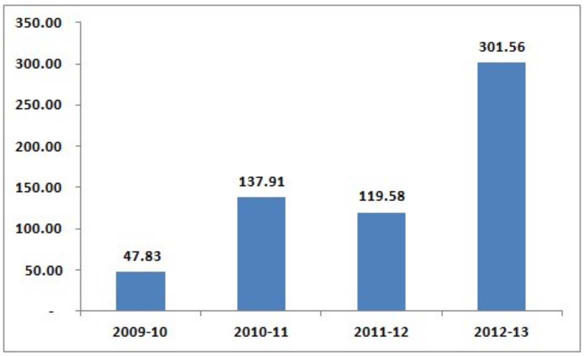

Figure 7.1: Transfer to Urban Local Bodies (%age)

As can be seen from figure 7.1 (pp. 48), the transfers to Urban Local Bodies has gone up from 47.83% in 2009-10 to 301.56% in 2012-13 as a percentage of actual transfers over the amount recommended by State Finance Commission (SFC). This is a heartening trend as it shows that the State of Jharkhand is taking state transfers seriously.

The scenario with reference to Panchayati Raj Institutions (PRI) is even more dismal. As

Year	Collection From Assigned Taxes	Amount actually passed on	Devolution		Grants-in-Aid		Others (Specify)		Total	
			Recomm-ended by SFC	Actual Transfer	Recomm-ended by SFC	Actual Transfer	Recomm-ended by SFC	Actual Transfer	Recomm-ended by SFC	Actual Transfer
Transfer of Resources to Municipal Corporations [A] (Rs. Crores)										
2009-10	–	–	–	–	77.55	24.68	–	4.24	77.55	28.92
2010-11	–	–	–	–	79.62	45.98	–	25.51	79.62	71.49
2011-12	–	–	–	–	81.68	58.50	–	10.89	81.68	69.39
2012-13	–	–	–	–	83.75	342.64	–	11.44	83.75	354.08
Transfer of Resources to Municipalities [B] (Rs. Crores)										
2009-10	–	–	–	–	68.03	32.65	–	8.31	68.03	40.96
2010-11	–	–	–	–	69.84	77.10	–	25.36	69.84	102.46
2011-12	–	–	–	–	71.65	68.22	–	29.49	71.65	97.71
2012-13	–	–	–	–	73.47	164.99	–	14.27	73.47	179.26
Transfer of Resources to Town Panchayats [C] (Rs. Crores)										
2009-10	17.63	31.03.10	–	–	47.26	20.07	–	2.29	47.26	22.36
2010-11	27.91	31.03.11	–	–	48.52	89.01	–	10.08	48.52	99.09
2011-12	32.09	31.03.12	–	–	49.78	65.36	–	10.43	49.78	75.79
2012-13	41.85	31.03.13	–	–	51.05	88.71	–	6.01	51.05	94.72
Transfer of Resources to Urban Local Bodies [A+B+C] (Rs. Crores)										
2009-10	1.03	–	–	–	192.84	77.40	–	14.85	192.84	92.24
2010-11	1.17	–	–	–	197.98	212.10	–	60.95	197.98	273.04
2011-12	1.03	–	–	–	203.12	192.08	–	50.81	203.12	242.89
2012-13	1.49	–	–	–	208.27	596.34	–	31.72	208.27	628.06

Table 7.1: Transfer of Resources to Urban Local Bodies (Rs. Crores)

per the aggregate data made available to us there has hardly been any worthwhile transfer to the PRI. Table 7.2 (pp. 50) gives the details for the transfer to PRI.

	Village Panchayat		Block Panchayat		Zilla Parishad		Total	
Year	FC	GIA	FC	GIA	FC	GIA	FC	GIA
2010-11	174.48	–	–	–	–	–	174.48	–
2011-12	112.49	–	37.50	–	37.50	7.50	187.49	7.50
2012-13	245.30	–	81.77	–	81.77	–	408.84	–

FC: Transfers from 12-FC / 13-FC; **GIA**: Grant in Aid from State

Table 7.2: Transfer to Panchayati Raj Institutions (Rs. Crores)

The major transfers to PRI has been on the basis of the recommendation of the Finance Commission. There has hardly been any transfer by the state to the PRI's. One heartening fact is that the recommendations and transfers are showing an increasing trend and as such we hope that the hands of Panchayati Raj and Urban Local Bodies will be strengthened.

In the rest of the chapter, we deal with the decentralisation initiatives of rural and urban bodies and subsequently we look at the state of affairs of Jawaharlal Nehru National Urban Renewable Mission (JNNURM) in the state.

7.2 Decentralisation Initiatives Rural Areas

Self-governing village communities have existed in India from the earliest times. In course of time, these village bodies took the form of panchayats (an assembly of five persons) which looked after the affairs of the village. They had both police and judicial powers. Custom and religion elevated them to a sacred position of authority. These village bodies, both in north and south India, had been the pivot of administration, the centre of social life, and, above all, a focus of social solidarity.

The Panchayati Raj in its current avatar can trace its origin to the year 1959 when the then Prime Minister Jawaharlal Nehru inaugurated the first panchayati raj system in Rajasthan. However the system soon fell into decline because of caste and other issues. In 1977, the Government of India appointed the Ashok Mehta Comittee to look into the functioning of panchayati raj. The report was adopted by the state of West Bengal in 1978. Subsequently it was adopted by Karnataka, Andhra Pradesh and Jammu & Kashmir. The most important thrust of the second phase was that the panchayats emerged from a development organisation at the local level into a political institution.

The state of Jharkhand saw Panchayati Raj elections taking place in December 2010, almost 10 years after the formation of the state. The Panchayat Polls were conducted in 24 districts to elect a total of 16,201 posts at the panchayat level (Institute of Social Sciences, 2011). Because of the extreme recency of the event, data about panchayati raj is not so readily available in the state. The data presented in this section are culled from various sources.

7.2.1 Major Schemes

The Department of Panchayati Raj has undertaken various schemes in Jharkhand for strengthening of Panchayati Raj in the state. These schemes are highlighted below:

Backward Region Grant Fund (BRGF)

The objectives of BRGF is to redress regional imbalances in development and to bridge key gaps in infrastrucure at the local level. The scheme also aims as stengthening the Panchayat and Municipal schemes in order to facilitate participatory planning, decision making, implementation and monitoring to reflect local need. BRGF scheme is fully sponsored by the Government of India.

Rashtriya Gram Swaraj Yojna (RGSY)

This is a centrally funded scheme in which 25% is the state fund and the remaining is the central fund for Non-BRGF districts for training and capacity building of panchayats. In case of Jharkhand, East Singhbhum is the only such district which qualifies for RGSY funding.

The objectives of the scheme are to assist States for Training and Capacity Building of elected representative of Panchayati Raj Institutions at all levels, so that they can effectively perform the functions devolved and the schemes entrusted to them. The scheme also aims to make the panchayats aware of the various welfare schemes such as National Rural Employment Guarantee Scheme (NAEGA).

Panchayat Mahila Evam Yuva Shakti Abhiyan (PMEYSA)

In order to address the empowerment of Elected Women Representatives (EWRs) and elected Yuva Representatives (EVRs) in a systematic, programmatic manner, Ministry of Panchayati Raj, Government of India introduced a new scheme Panchayat Mahila Evam Yuva Shakti Abhiyan (PMEYSA) in the 11th five year Plan period (2007-08 to 2011-12). The objective of the scheme is to enable women Panchayat leaders to come together to articulate their problems as women Panchayat leaders and to discuss issues regarding the institutional mechanisms for their empowerment.

State Plan Schemes

Besides these, the state has several continuing schemes for development of panchayati system. For example, in the "Construction/Repair/Alteration/Furnishing etc. of Panchayat Bhawan Scheme" it is proposed to proposed to construct model Panchayat Bhawan (Buildings) in all the Panchayats of the Jharkhand State. This building would function as Secretariat of Panchayat.

Another Scheme is the "Grants to the Zila Parishad for the Construction of the Bus Stand/Dak bunglows/Offices and Staff quarters" under which the various Bus Stand, Dak bunglows, Offices and Staff quarters of Zila Parishad are being constructed by giving hundred percent grants. Inter-State Bus terminal at Bahragora (East Singhbhum) is was funded under this scheme.

Under the "Capacity Building Scheme" Strengthening of Training institutes, Training expenditure of staffs & elected representatives of PRIs, Consultancy studies, expenditure on seminars, Exhibitions etc. are undertaken. Along the same lines, the Training Institutes are also being strengthened. The Central Training Institute, Brambey, Ranchi and Panchayat Training Institute, Jasidih, Deoghar are being strengthen by providing infrastructure, training materials and equipments. Besides these, all the expenditure related to training as training expenditure at CTI/PTI and SIRD, Vehicles, Equipments, Training materials, fees of consultants expenditure on seminars/exhibitions etc. are also to be covered.

Under the "Strengthening of Offices Scheme" all offices related to smooth functioning of the panchayats are being under taken at all levels namely at regional, Hedquarters and Divisional and District levels. The scheme proposes to provide required infrastructure, equipments, vehicles, furniture's etc to regional offices like Directorate of Panchayati Raj, State Election Commission, State Finance Commission, Deputy Director Offices and District Panchayat Raj offices and to meet the expenditures on major contingency expenses on Seminars and related materials organized by these offices. Similar measures are been take to strengthen the sub head Directorate of Panchayati Raj, State Election Commission, State Finance Commission Offices situated at Ranchi Capital Headquarter are being strengthened and at the district levels.

Under the "Special Grants & Prizes for PRIs Scheme" it is proposed to provide prizes and special grants to the best selected Gram Sabha/ Panchayats/ Panchayat Samiti/ Zila Parishad selected by State Government on their annual performance in planning, implementation & monitoring of development works.

7.2.2 Analysis of Expenditures

Table 7.3 (pp 53) provides the plan expenditure for the state of Jharkhand. Besides the plan expenditure, the state of Jharkhand has approved a sum of Rs. 537.79 crores on non-plan expenditure in the state. This is provided in table 7.4 (pp 54). Unfortunately non-plan expenditure on strengthening of panchayati raj is not available before 2011-12.

If we analyse the data in the plan expenditure we see that there has been a huge growth in the expenditures on decentralisation. On the overall, the outlay has grown at a CAGR of 55.69% per annum. This CAGR is deceptive as individual analysis of the growth of central outlay suggests a CAGR of 62.61% as opposed to the state outlay CAGR of 26.42%. However this growth is misleading if we analyse the individual components of the plan expenditure. The bulk of plan expenditure comes from the centrally funded schemes and not from the state funded schemes. In 2007-08 the central schemes accounted for 72.70% of the total plan expenditure; whereas the state outlay accounted for the remaining 27.30%. This has seen a drastic reversal in the subsequent years and in the outlay for 2012-13 the central government schemes account for 90.36% of the plan outlay as opposed to the state's meagre contribution of 9.64%. This is a disturbing trend as it shows the growing reliance of the state

Schemes	2007-08	2008-09	2009-10	2010-11	2011-12†	2012-13†
Central Schemes						
Backward Region Grant Fund (BRGF)	77.10	338.45	224.19	345.97	187.31	366.31
Integrated Area Plan (IAP)				350.00	510.00	510.00
Rashtriya Gram Swaraj Yojana (RGSY)			0.03		0.20	0.20
Total of Central Schemes (A)	**77.10**	**338.45**	**224.22**	**695.97**	**697.51**	**876.51**
State Schemes	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12†**	**2012-13†**
Grant to Non-BRGF Area					115.00	85.00
Construction / Renovation of Panchayat Bhavans	26.46	40.94	10.93	5.53	3.44	7.50
Bus stand / Dak Bunglow /Office Construction	1.33	0.50	0.39	4.90	9.00	
Capacity Building - Training Institutes	0.33		0.63	0.3	1.50	0.30
Capacity Building - Training Expenditure				0.01	1.00	
Special Grants and Prizes for PRI					0.30	
Strengthening of Offices - Head Quarters			1.04	1.50	0.50	0.05
Strengthening of Offices - Divisional & District			0.46	2.77	2.00	0.60
Consultancy Fees					0.50	0.04
Purchase of New Vehicles					2.00	
Establishment of Zilla Panchayat	0.73					
District Plan	0.1					
Total of State Schemes (B)	**28.95**	**41.44**	**13.45**	**15.01**	**135.24**	**93.49**
Grand Total (A+B)	**106.05**	**379.89**	**237.67**	**710.98**	**832.75**	**970.00**

Source: Budget Proposal 2012-13, Department of Panchayati Raj
†: Provisional Estimates

Table 7.3: Plan Expenditure on Decentralisation Initiatives (Rs. Crores)

on centre to put things right.

If we consider non-plan outlay for the last year the picture that emerges is equally dismal. Out of an overall increase in the non-plan outlay by Rs. 16,299.58 lakhs, performance grant to panchayats (Rs. 10,921 lakhs) account for 67% of the increase in outlay. Another 12% increment in outlay is due to the TA/DA bills of the panchayat members. In other words, approximately 80% expenditure is on account which may not have the desired impact on the decentralisation of the state. The total non-plan outlay on training and development has been a meagre Rs. 149.82 lakhs (0.91% of the increase in outlay). This is problematic as because unless the grassroots are strengthened, it would be difficult to sustain the decentralisation process.

Although a number of specific State and National Acts, Policies and Programmes have been in place for some time, these are yet to make any perceptible impact on the conditions of the people in Jharkhand. Empowerment of these institutions by devolving finances and executive powers is yet to begin in the state. The barriers to development can be partly explained due to the paternalistic approach adopted by many of the programmes, where little effort is made to strengthen self-reliance and support local decision-making capacity, which will enable the local people to advocate effectively for government support that is more responsive to their needs and priorities.

7.3 Decentralisation Initiatives Urban Areas

The 74th Constitutional Amendment Acts, 1992 made the beginning of urban decentralisation in India and for the first time gave the provision for ensuring local self governance through empowering local bodies. The amendment provided a constitutional framework for unban decentralisation and mandated that municipalities function as an effective democratic

Items	2011-12	2012-13
Non Plan: Secretariat Services		
Panchayati Raj and NREP	35.2	87.26
Non Plan: Other Village Development Programs		
Development of Panchayat Offices	115.00	125.35
Establishment of Zilla Panchayat Office	10,849.24	10,781.03
State Finance Comission	56.79	38.27
Panchayat Elections	100.00	500.00
Expenditure Related to Group Leaders	155.16	127.20
Training Expenditure		
Training of Members	185.35	225.17
Training of Group Leaders	0.50	0.50
Aid to Panchayati Raj Establishment		
Jharkhand State Clerical Examination	0.10	0.10
TA/DA for Panchayat Elected Members		2,000.00
Maintainence of Panchayat Bhavan	0.01	0.01
Aid to District Level Panchayats under 13th FC		
Training of Zilla Parishad Staff at District Level		110.00
Grant to District Panchayat	3,275.00	3,828.00
Grant to District Panchayat (Special Area)	700.00	700.00
Performance Aid to District Panchayat	1,120.00	2,626.00
Performance Aid to District Panchayat (Special Area)	110.00	700.00
Aid to Block Level Panchayats under 13th FC		
Grant to Block Level Panchayats	3,275.00	3,828.00
Grant to Block Level Panchayat (Special Area)	700.00	700.00
Performance Grant to Block Level Panchayat	1,120.00	2,626.00
Performance Grant to Block Level Panchayat (Special Area)		700.00
Aid to Gram Panchayats under 13th FC		
Grant to Gram Panchayats	9,824.00	11,484.00
Grant to Gram Panchayats (Special Area)	2,100.00	2,100.00
Performance Grant to Gram Panchayats	3,359.00	7,878.00
Performance Grant to Gram Panchayats (Special Area)		2,100.00
Non Plan: Absorption of Losses of Local Bodies	10.00	10.00
Non Plan: Loans for Other Local Development Programs	250.00	250.00
Non Plan: To Election Comission for Panchayat Elections	139.31	254.35
Total Non Plan Expenditure for Panchayati Raj	37,479.66	53,779.24

Source: Budget Proposal 2012-13, Department of Panchayati Raj

Table 7.4: Non Plan Expenditure on Decentralisation Initiatives (Rs. Lakhs)

organisation with the participation of people in planning and promoting civic services.

The 10th Finance Commission recommended an amount of Rs. 1000 crores for the municipalities for the period of 1996-2000. This allocations of funds was based on the ratio of slum population to urban population of 1070's. This transfer was conditional upon the municipalities making matching contribution and was to be used for properly identified projects. The 11th Finance Commission recommended a grant of Rs. 2000 crores for the urban local bodies for the period 2000-2005. The allocation was based on a set of multiple criteria, which includes urban population (40%), index of decentralization (20%), distance from highest per capita income (20%), revenue efforts (10%), and geographical area (10% per cent). The 12th Finance Commission raised this to a sum of Rs. 5000 crores for the period of 2005-10 (Rai & Singh, 2008).

Jharkhand was late to join the bandwagon of urban development. The Jharkhand Municipal Act 2011 was passed in February 2012 and finally brought the municipalities and urban bodies in conformity with the 74th Amendment Act. As per the Census of India (2011) Jharkhand has 11 urban agglomerations whose population is above 1 lakhs (table 7.5). As per Census of India (2001) Jharkhand has 152 small and medium towns with an urban population of 22.24%. The urban population is growing at the rate of 2.3% per annum. As per the Urban Annual Plan (2009) of the Government of Jharkhand, there are 39 Urban Local

Bodies functioning in the state. In order to bring the urban decentralisation in line with the 74th amendment, all the remaining 152 small and medium towns were declared as New Urban Local Bodies.

Name	Type	Population
Jamshedpur	Urban Agglomeration	13,37,131
Dhanbad	Urban Agglomeration	11,95,298
Ranchi	Urban Agglomeration	11,26,741
Bokaro Steel City	Urban Agglomeration	5,63,417
Deoghar	City	2,03,116
Phusro	Urban Agglomeration	1,86,139
Hazaribagh	Urban Agglomeration	1,53,599
Giridih	Urban Agglomeration	1,43,529
Ramgarh	Urban Agglomeration	1,32,441
Medininagar	Urban Agglomeration	1,19,972
Chirkunda	Urban Agglomeration	1,18,822

Table 7.5: Urban Agglomerations in Jharkhand

7.3.1 Issues in Urban Service Delivery

The state of Jharkhand faces several problems in delivering urban services. The urban bodies are unble to face the challenges of modern governance due to increasing urban population, lack of fiscal autonomy, narrow tax base, poor maintainence of existing infrastructure, lack of professionalism, and absnce of modern framework for involvement of NGOs, community and bottlenecks in mobilisation of finances.

Another issue is that there is a huge manpower shortage in the Urban Local Bodies (ULB). Most of the officers holding charge are on deputation from either engineering services or from Jharkhand Administrative Services. The technical staff are normally under dual charge along with NREP, PWD or some other schemes of the Central Government. The remaining - third and fourth class employees - are on contract basis and as such are not motivated enough. Strangely enough, none of the urban local bodies have even a sanctioned post of town planner - which is a key post in terms of urban planning.

Till 2009, election to the various post of ULB had been held only in 28 ULB of the state. For the remining the elections were in progress. One very important aspect of the delivering urban services is the capacity building programs of the ULB. This has not been undertaken at present. The strengthening of Town Planning at the secretariat level as well as the Directorate level also needs to be undertaken.

In order to meet the demands of population pressure in the urban infrastructure, Jharkhand has taken steps to cosolidate municipal bodies. In this connection, Dhanbad Municipal Corporation (DMC) has been formed by including Katras, Chatatand, Jharia, Sindri and Chirkunda Notified Area Committees. Consolidation work is also in progress in urban centers like Jamshedpur, Hazaribagh, Deoghar and Chas.

7.3.2 Schemes for Urban Renewal

Jawaharlal Nehru National Urban Renewal Mission

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is major initiative by the Government of India towards development of urban areas. The three mission cities Ranchi, Dhanbad and Jamshedpur are covered under JNNURM. Under this mission the Central Govt. would provide financial assistance varying from 50% to 80%. The balance has to be borne by the State and Urban Local Body.

The Comprehensive Development Plan (CDP) for selected three cities in Jharkhand have been submitted to Govt. of India for their approval and simultaneously the ULBs have taken initiatives to prepare the the action plan for the different sectors as identified in the CDP. The CDPs are approved by the Central Govt. The major sectors for preparation of DPR's are Water Supply Scheme, Drainage & Sewerage, Urban Transport, Solid Waste Management, River Front Development, Urban Renewal Scheme, Basic Services to Urban Poor and Slaughter House. The details of JNNURM are provided in separate section (pp. 61).

Urban Infrastructure Development Scheme for Small and Medium Towns

Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) Scheme applicable in all ULBs other than the mission cities is being covered. In this scheme Financial Assistance of 80% of the project cost could be availed from Government of India and 10% has to be borne by the State Government and balance 10% has to be borne by the ULB's. The ULB's are preparing DPRs by engaging consultants. DPR's for Water Supply Scheme at Deoghar and Chas, Solid Waste Management scheme of Hazaribag, Chas and Lohardaga has been sanctioned by Govt. of India.

Integrated Housing and Slum Development Programme

Integrated Housing and Slum Development Programme (IHSDP) is a scheme for slum development. Under IHSDP, the Central Government provides financial assistance of 80% of project cost for slum improvement including housing and infrastructure in slum area. Beneficiary contribution upto 10% to 12% is made essential of cost of housing unit. A comprehensive project proposal incorporating housing and infrastructure has to be prepared for approval of the scheme. Most of the ULBs are in process of preparing the DPR.

Basic Services to Urban Poor

Under the Basic Services to Urban Poor (BSUP) scheme, the central government provides financial assistance of 50-80% of project cost for slum improvement including housing and infrastructure in slum area. In case of housing, a beneficiary contribution upto 10-12% is made essential. The three mission cities Ranchi, Dhanbad and Jamshedpur are covered under this scheme. The financial condition of ULB's is not so sound that they bear the ULB's share from their own sources. Thus, the State government is considering the funding of ULB's share from State Plan.

Swarna Jayanti Shahri Rojgar Yojna

Swarna Jayanti Shahri Rojgar Yojna (SJSRY) scheme the Government of India and the State government provide Financial Assistance in the ratio of 75:25. Through this scheme, funds are provided for creation of employment opportunities to the unemployed in the urban areas, development of Child & Women and create wage employment.

National River Conservation Programme

Under the National River Conservation Programme(NRCP) scheme, there are three ongoing projects (i) Damodar Action Plan (ii) Swarna Rekha Action Plan and (iii) Ganga Action Plan (Phase-2). So far 40 projects under Damodar Action Plan and 7 projects under Swarnarekha Action Plan and 2 projects under Ganga Action Plan are taken up. 26 projects worth cost Rs.2400 lakhs has been forwarded to Government of India for sanction.

National Lake Conservation Programme

This is a centrally sponsored scheme for the conservation of the Lakes and Water Bodies. There is a need to conserve the lakes at different locations like Ranchi, Jamshedpur, Dhanabd, Hazaribagh, Chakulia, Simdega, Mihijam, Jamtara, Bundu, Basukinath, Lohardaga, Chakradharpur, Kharsawan, Saraikela, Deoghar, Madhupur, Chatra, Koderma, Chas, Katras etc.

National Urban Information System

Through this project the Maps of Urban Areas have to be digitalised so that the maps are available for various purposes. In the first phase, the maps for five cities i.e. Bokaro, Dhanabd, Jamshedpur, Mango, and Ranchi are being prepared by the Survey of India, Dehradun. In the next five year, there is a proposal to prepare the maps for all the towns in Jharkhand.

Integrated Low Cost Sanitation Scheme

The Ministry of Housing and Urban Poverty Alleviation, Government of India has launched a revised guideline, 2008 for the scheme of Low Cost Sanitation Scheme. The objective of the scheme is to convert/construct Low Cost Sanitation units through sanitary 2 pit pour flush latrine with super structure. The scheme is on all town coverage bases.

Modernization of Abattoir

The Ministry of Food Processing Industries, Govt. of India has launched the scheme of Modernization of Abattoir. This will be a comprehensive scheme which will include modernization of existing abattoir/ establishment of Modern Abattoir to be implemented during the 11th Five Year Plan. A scheme for construction of Modern Abattoir at Bacon Factory premises, Kanke, Ranchi.

Besides the above schemes there are various State Plans for modernisation and development of urban areas. These include (i) Strengthening, modernization and development of Urban Transport System (ii) Urban Water Supply (iii) Improvement of Sewrage & Drainage (iv) Solid Waste Management (v) City Sanitation Measures (vi) Provision of Civic Amenities (vii) Land Acquisition/development/reclamation and (viii) Consultancy and other services

The state also plans to develop the capacity building and training of the employees and strengthen the infrastructure of the of the ULBs. In this context, it proposes to set up Jharkhand Urban Planning Management Institute in the near future. It also aims at computerisation and modernisation of urban infrastructure and to actively promote and create public awareness in the state regarding urban civic sense.

The state of Jharkhand, being a tribal dominated state, also focusses on the special needs of the tribals. Special Plans for Tribals have already been dawn up by the state and a sum of Rs. 15,900 lakhs have already been ear-marked for the purpose.

7.3.3 Analysis of Expenditure

Sl No.	Types of Schemes	Eleventh Plan Projected	Eleventh Plan Actual	Annual Plan 2011-12 Actual	Annual Plan 2012-13 Approved	Annual Plan 2012-13 Anticipated
A	**Earmarked Schemes**					
i	Schemes by MOUD under JnNURM	35,000.00	32,880.00	14,573.43	9,000.00	9,000.00
	GOI ACA for above Scheme	–	35,843.00	–	17,800.00	17,800.00
B	**Centrally Sponsored Schemes**					
i	Schemes sponsored by MOHUPA	3,500.00	1,155.99	468.87	9,300.00	9,300.00
	GOI ACA for above Scheme	–	–	–	10,300.00	10,300.00
ii	Schemes sponsored by MOEF	–	–	–	2,800.00	2,800.00
iii	Schemes sponsored by MFPI	–	–	–	500.00	500.00
	Total (A+B)	**38,500.00**	**69,878.99**	**15,042.30**	**49,700.00**	**49,700.00**
C	**State Plan Schemes**					
i	ULB Share against earmarked schemes	–	–	–	–	–
ii	Urban Planning and Project Management	1,500.00	3,514.68	1,345.00	5,000.00	5,000.00
iii	Urban Water supply	46,000.00	30,379.85	11,648.15	8,000.00	8,000.00
iv	Solid Waste Management	500.00	300.00	250.00	6,000.00	6,000.00
v	Sewerage & Drainage	4,500.00	5,823.93	1,200.00	5,500.00	5,500.00
vi	Urban Transport	15,000.00	17,313.45	4,425.00	7,500.00	7,500.00
vii	City Sanitation	2,000.00	5,736.00	1,500.00	1,000.00	1,000.00
viii	Civic Amenities	5,000.00	9,204.89	2,200.00	6,500.00	6,500.00
ix	Skill up-gradation and Capacity building	500.00	2,432.00	1,400.00	300.00	300.00
x	Creation of Institutes	1,200.00	–	–	1,500.00	1,500.00
xi	Urban Land Management & Acquisition	3,000.00	3,032.73	562.41	5,000.00	5,000.00
	Total (C)	**79,200.00**	**77,737.53**	**24,530.56**	**46,300.00**	**46,300.00**
D	**New State Plan Schemes**					
i	New Capital Complex	–	–	–	1,000.00	1,000.00
ii	Urban Poverty & Social Welfare	–	–	–	2,500.00	–
iii	Urban Reforms	–	–	–	300.00	–
iv	Modernization of Urban administration	–	500.00	500.00	–	2,500.00
v	Promotion/Awards, Publicity etc.	–	5.38	5.38	–	300.00
	Total (D)	**–**	**505.38**	**505.38**	**3,800.00**	**3,800.00**
E	**Externally Aided Project**					
i	Ranchi Sewerage & Drainage System	–	–	–	–	–
F	**12th/13th Finance Commission**					
i	Development of Capital city	20,000.00	11,600.00	–	–	–
ii	Local Bodies Grants	9,800.00	5,408.70	–	–	–
	Total (F)	**29,800.00**	**17,008.70**	**–**	**–**	**–**
	Grand total (A+B+C+D+E)	1,47,500.00	1,65,130.60	40,078.24	99,800.00	99,800.00

Source: Website of Urban Development Jharkhand (`www.uddjharkhand.nic.in/budget.html`)

Table 7.6: Outlay for Urban Development (Rs. Lakhs)

We faced several problems in trying to figure out the budget for urban development as the data was not readily available. This was because the Jharkhand Municipal Act was not passed until 2012, and whatever data we could gather did not conform to statutory reporting format. The data for pre 2011-12 was available in consolidated format and for the year 2011-12 urban development budget had an annual plan. The data is presented in table 7.6 (pp. 58). The proposed outlay for the 12th five year plan is presented in table 7.7 (pp. 60).

From the analysis of the 12th FYP projection for urban development it is seen that the centrally sponsored Schemes constitute 50% of the proposed expenditure; the on-going state plan schemes constitute 40% of the proposed expenditure and New Schemes only 4% of the total proposed expenditure. This ratio seems to suggest that the state is satisfied with the current and on-going schemes rather than develop new schemes. Amongst the continuing schemes five schemes – Urban Water Supply, Urban Transport System, Civic Ameneties, Solid Waste Management and Sewerage and Drainage – account for 72% of the expenditure. This looks good on paper as it shows that the state government has got it priorities right.

However, if we analyse the past spending pattern of the state, we find that there are major divergences amongst the proposed expenditure patterns. Of the centrally sponsored schemes in the 11th FYP only 42% of the money was spent and it fell to 38% in the annual plan 2011-12. This seems to suggest a low rate of utilisation (40%) of the centrally sponsored schemes. Similarly the continuing state plan schemes showed actual utilisation of 47% during the 11th FYP and of 61% in the annual plan 2011-12. The expenditure on Urban Water Supply seems to have fallen from 39% in the 11th FYP to 17% in the 12th FYP. Similar is the case of Urban Transport which seems to have fallen in the list of priorities – down from 22% in the 11th FYP to 16% in the 12th FYP. Skills up-gradation and Capacity Building also seems to suffer from the same fate down from 3% in the 11th FYP to 1% in the 12th FYP. And so has city sanitation which is down from 7% in the 11th FYP to 2% in the 12th FYP.

In the proposed 12th FYP the planners of Jharkhand have taken a fancy to Urban Planning and Project Management (up from 5% in the 11th FYP to 11% in the 12th FYP), Solid Waste Management (up from 0% in the 11th FYP to 13% in the 12th FYP), Sewerage and Drainage (up from 7% in the 11th FYP to 12% in the 12th FYP) and Urban Land Management and Acquisition (up from 4% in the 11th FYP to 11% in the 12th FYP). Expenditure on civic ameneties has gone up marginally by +2 percentage points and Creation and Operationalisation of Institutes has also gone up by 3% points.

The New State Plan Schemes makes an interesting read and shows the whimsical nature of the planners (table 7.6 pp. 58). If we look under the column Annual Plan 2012-13 (approved) and compare it with the column Annual Plan 2012-13 (Anticipated) we see a startling change. The sum of Rs. 2,500 lakhs which was earmarked for Urban Poverty Alleviation and Social Welfare Schemes occurs under the Modernisation of Urban Administration column. Similarly a sum of Rs. 300 lakhs which was earmarked for Urban Reforms appears under the Promotion/ Awards, Publicity head. Is it the case that the planners of Jharkhand have shifted their focus from Poverty Alleviation to aggrandizement of infrastructure. If this is true, then it is a sad case indeed.

		Year wise break-up					Total
Sl.	**Name of the Projects/Scheme**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Estimate**
A.	**Centrally Sponsored Scheme (CSS) :**						
i (a)	Schemes sponsored by MOUD under JnNURM	9,000.00	10,350.00	11,903.00	13,688.00	15,740.00	60,681.00
(b)	GoI ACA for Schemes sponsored by MOUD under JnNURM	17,800.00	20,470.00	23,541.00	27,073.00	31,132.00	1,20,016.00
ii (a)	Schemes sponsored by MOHUPA	9,300.00	10,695.00	12,300.00	14,144.00	16,267.00	62,706.00
(b)	GoI ACA for Schemes sponsored by MOHUPA	10,300.00	11,845.00	13,622.00	15,665.00	18,016.00	69,448.00
iii	Schemes sponsored by MOEF	2,800.00	3,220.00	3,703.00	4,259.00	4,897.00	18,879.00
iv	Schemes sponsored by MFPI (Modernization of abattoirs etc.)	500.00	575.00	662.00	762.00	877.00	3,376.00
	Sub Total (A)	**49,700.00**	**57,155.00**	**65,731.00**	**75,591.00**	**86,929.00**	**3,35,106.00**
B.	**State Plan Schemes:-**						
(a)	**Continuing Schemes**						
i.	Urban Water Supply	8,000.00	9,200.00	10,580.00	12,167.00	13,993.00	53,940.00
ii	Urban Transport System	7,500.00	8,625.00	9,919.00	11,407.00	13,119.00	50,570.00
iii	Sewerage & Drainage	5,500.00	6,325.00	7,274.00	8,366.00	9,621.00	37,086.00
iv	Solid Waste Management	6,000.00	6,900.00	7,935.00	9,126.00	10,495.00	40,456.00
v	City Sanitation	1,000.00	1,150.00	1,323.00	1,521.00	1,750.00	6,744.00
vi	Civic Amenities	6,500.00	7,475.00	8,597.00	9,887.00	11,370.00	43,829.00
vii	Urban planning & Project Management (Mater plan, City Plan etc.)	5,000.00	5,750.00	6,613.00	7,605.00	8,746.00	33,714.00
viii	Skill up-gradation and Capacity building	300.00	345.00	397.00	457.00	526.00	2,025.00
ix	Creation & Operationalization of Institution	1,500.00	1,725.00	1,984.00	2,282.00	2,625.00	10,116.00
x	Urban Land Management & Acquisition	5,000.00	5,750.00	6,613.00	7,605.00	8,746.00	33,714.00
(b)	**New Schemes:-**						
i.	New Capital Complex	1,000.00	1,150.00	1,323.00	1,522.00	1,751.00	6,746.00
ii	Urban Reforms(e-Governance, Accounting System etc.)	300.00	345.00	397.00	457.00	526.00	2,025.00
iii	Urban Poverty Alleviation & Social Welfare	2,500.00	2,875.00	3,306.00	3,802.00	4,372.00	16,855.00
	Sub Total (B)	50,100.00	57,615.00	66,261.00	76,204.00	87,640.00	3,37,820.00
	Grand Total	99,800.00	1,14,770.00	1,31,992.00	1,51,795.00	1,74,569.00	6,72,926.00

Source: Website of Urban Development Jharkhand (`www.uddjharkhand.nic.in/budget.html`)

Table 7.7: Fund Requested for 12th Five Year Plan (2012-17, Rs. in Lakhs

7.4 Jawaharlal Nehru National Urban Renewal Mission

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched in the year 2005 with the aim of transforming key cities by providing them with assistance for upgradation of infrastructure and service ability. The objective of the mission were to create economically productive, efficient, equitable and responsive cities, with focus on improving and augmenting the economic and social infrastructure of cities and ensuring basic services to the urban poor including security of tenure at affordable prices. Other major objectives were to initiate wide ranging urban reforms with the aim to eliminate legal, institutional and financial constraints that have impeded investment in urban infrastructure and services and to strengthen municipal governments and their functioning in accordance with the provisions of the 74th Constitution Amendment Act, 1992 (Rai & Singh, 2008).

JNNURM focusses on integrated and planned development of 63 selected cities with focus on asset creation and management, efficiency in urban infrastructure and services delivery, community participation, and accountability. In the state of Jharkhand three cities namely – Ranchi, Dhanbad and Jamshedpur – were chosen for the JNNURM initiative. In this section we explore the progress of JNNURM in these three cities.

7.4.1 Dhanbad Municipal Corporation

Dhanbad Municipal Corporation (DMC) is located in the Eastern part of the Country, from 85.45 E longitude to 86.30 E longitude and from 23.32 N latitude to 24.5 latitude. Dhanbad is located about 170 km from Ranchi and about 250 km from Kolkata. The New Dhanbad Municipal Corporation was formed on 1st February 2006 by a notification of the state government. The New Dhanbad Municipal Corporation consist of urban settlements namely erstwhile Dhanbad Municipality, Jharia NAC, Sindri NAC, Chhatandh NAC, Katras NAC and 27 census towns (as per 2001 census). Besides these urban settlements there are 258 villages also form part of the new Dhanbad Municipal Corporation. The total population of new Dhanbad Municipal Corporation as per Census 2001 is 13,33,719 out which 10,65,327 persons constitutes from Urban Agglomeration (32 towns) and villages constitutes about 268,392 persons. The total area of new Municipal Corporation is around 355.77 sq.km. The literacy rates in the district of Dhanbad are high when compared to other parts of the state (about 75%).

The development of Dhanbad is largely unplanned. Due to coal mining activity large areas are unsafe. A master plan was prepared by the Mineral Area Development Authority (MADA) in 1989 with a view to ensure orderly development of Dhanbad mineral areas in the region. The plan envisaged the land use zoning for the year 2011 covering an area of 5,600 hectares.

Dhanbad is strategically located with reference to Kolkata, Patna and Delhi. This has helped the city to establish industrial units manufacturing consumer goods, engineering and plastic products. Haldia, the nearest port, is well connected with road and rail. The city is the commercial capital of Jharkhand and has abundant mineral (coking coal). At present there are 112 coal mines operating in the district which totally produce 26.7 MT of coal annually (total value of Rs.7000 million). The coal production is expected to increase to 50 MT in the next 10 years. Of the total workforce, 86% of the total workforce in Dhanbad UA is engaged in primary sector like mining.

Given its resource base, the potential for growth in mining and mineral based industries is immense and it is expected to expand. It is estimated that the about 1.5 lakh jobs are likely to be generated during the next ten years. Chemical based industries, Engineering and auto components, Power generation, Iron and steel, and steel based industries are other sectors gaining importance. IT is also an area identified for development. More than 50% of DMC is under mining activity. Due to this large areas of the region are unsafe. Wide spread pollution leading to health related problems along with receding water table and poor mining techniques are emerging as major weaknesses of the city.

As per the City Development Plan the following objectives were set under JNNURM (Infrastructure Development Corporation Limited, 2007).

- To improve the quality of life, develop eco-friendly universal services for all and economically vibrant city
- Guided urban development with open spaces and recreational facilities for the city
- Adequate supply of the potable water within easy reach to each and every household
- To develop a recyclable, cost effective, environmental friendly sewerage system and safe sanitation facilities for all
- To develop an efficient drainage system to ensure cleanliness of city.
- To develop pollution free water bodies and optimum utilization of lakes and ponds for recreational facilities in city
- To achieve environmentally sustainable Waste Management Practice
- To achieve a modern, self sustainable and environmental friendly transportation system to facilitate timely access.
- To achieve hygienic environment in slums and access to all basic services and quality housing for all slum households
- To accomplish clean, green and safe living environment for all citizens.

7.4.2 Status of Work Done

As the DMC is a newly created organisation records were not so quickly available. As per the records available (Infrastructure Development Corporation Limited, 2007) the Dhanbad Municipality had a revenue of Rs. 128 Lakhs per annum and Sindri NAC had revenues of about Rs. 36 Lakhs per annum in 2006. The collection performance with regards to property tax is at 38% of the demand. The expenditure levels have also been low and much of it being spent on establishment expenditure. Capital expenditure has been limited and mainly sourced out of grants from the state

The new municipal corporation includes 5 blocks i.e. Dhanbad Sadar Block, Jharia Block, Baliapur Block, Bhagmara block and Gobindpur block (partly). Major urban centres like erstwhile Dhanbad Municiplaity, Jharia NAC, Katras NAC, Sindri NAC and Chatanadh NAC form part of the new Municipality. The infrastructure requirements of the DMC have been proposed for the newly incorporated Dhanbad Municipal Corporation. The total investment is of Rs. 3,83,274.30 lakhs is proposed to be invested during the implementation period of JNNURM. The break-up is given in table 7.8 (pp. 63).

Item	Proposed	Percentage
Roads	1,40,615	36.69
Basic Services for Urban Poor	64,148	16.74
Sewerage and Sanitation	52,480	13.69
Storm Water Drainage	38,970	10.17
Water Supply	38,115	9.94
City Beautification	21,780	5.68
Other Development Projects	6,955	1.81
Street Lights	5,656	1.48
Solid Waste Management	5,596	1.46
Investment Sustainence Plan	3,833	1.00
Other Miscelleneous	2,126	0.55
Disaster Management Fund	2,000	0.52
Capacity building, Urban Governance	1,000	0.26
Total Proposed from JNNURM	**3,83,274**	**100.00**

Table 7.8: Proposed Expenditure under JNNURM by Dhanbad (Rs. Lakhs)

Under the JNNURM, the city of Dhanbad was allocated a total of 100 buses, each bus having a seating capacity of 38 passengers. The buse were launched with much fanfare on 18th August 2010 on six identified routes which are (i) Katras to Dhanbad station (ii) Katras More to Govindpur (iii) Jharia to Govindpur (iv) Bartand to Sindri (v) Dhanbad station to Rajganj and (vi) Mahuda to Dhanbad station. But the implementation had been tardy. With frequent manpower crunch, allegations of police high-handedness in collaboration with private bus and auto owners, frequent strikes by bus drivers and conductors, charges of under-ticketing by the authorities responsible for the buses and passengers reluctance to purchase tickets. It is estimated that at any given time only about 35 buses are in operational condition. In January 2013, the Dhanbad administration decided to give a new lease of life to this service by deciding to operate 45 buses on 13 new routes. It was also decided to increase the number of buses operating in the city to 55 and start two new services between Dhanbad and Jharia and Dhanbad and Govindpur (The Telegraph, 2013).

Implementation of other projects have also been not up to the mark. The status of two projects viz. water supply improvement and solid waste management are shown in fig. 7.2 (pp. 64). This shows the picture – hardly any progress has been made in these two projects. Where as, as per the deadline of the City Development Plan, these two projects are to be completed by March 2014.

7.4.3 Jamshedpur Urban Agglomeration

Jamshedpur is one of the oldest and the largest existing Company town in the world. It was founded by the late J.N. Tata. Jamshedpur, then known as Sakchi, was home to the first private Iron and Steel Company of India. Jamshedpur Block was established in the 1952

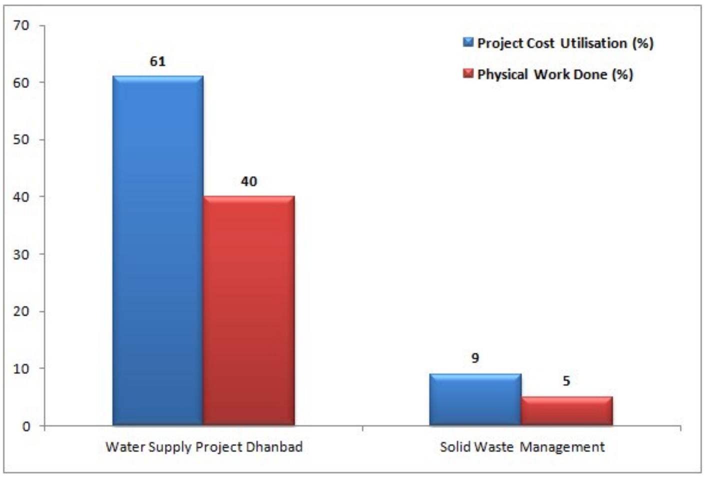

Figure 7.2: Status of JNNURM Project - Dhanbad MC

and constituted of Jugsalai Municipality, Jamshedpur NAC and Mango NAC. Tata Nagar was the sole urban node for many decades till villages within its vicinity transformed into urban agglomerations. Under JNNURM, Jamshedpur City Development Plan (CDP) was conceived for an area of about 150 Sq. Kms, with a population of approximately 12 Lakhs (2006 estimate). The area covered under Jamshedpur CDP includes three Notified Area Committees (Jamshedpur NAC, Adityapur NAC, Mango NAC), Jugsalai Municipality and eight other outgrowths Parsudih, Kitadih, Gadra, Ghorabandha, Chotagovindpur, Sarjamdahh, Bagbera and Haldubani). These areas together form the Jamshedpur Urban Agglomeration (JUA).

The area within 150 Kms radius of city is rich in minerals, including iron ore, coal, manganese and lime. Jamshedpur is situated at the confluence of two rivers Subarnarekha and Kharkai ensuring a perennial source of water supply to the township. The Tatanagar Railway Station provides good connectivity to the rest of the country. The Tata Steel Township area was planned by various planners and is now under the cicic management of Jamshedpur Utility & Services Company (JUSCO), a 100 per cent subsidiary of Tata Steel. While the area under JUSCO has developed in a planned manner the adjacent areas have continued to grow at fast pace without adequate planning. As such, the JUA shows disparate level of planning which is certainly not a healthy trend.

The city of Jamshedpur has a sound industrial base and considerable percentage of the population is engaged in industrial activities. Its industrial base includes largest steel works in the private sector in the country (TISCO) and the other major industries; TELCO, TINPLATE, Telcon works,INCAB, UCIL, HCL, Tata Agrico etc. besides the manufacturers of automobiles, agricultural equipment, locomotive parts etc. The city continues to attract many more large and medium scale industries in these sectors.

As per the City Development Plan the following was envisaged for the city under JNNURM (Frischmann Prabhu, 2007):

- Jamshedpur should develop as an environment friendly city with excellent infrastructure and sustainable development
- Jamshedpur to develop as slum free and pollution free city

- Jamshedpur to have equitable distribution of urban infrastructure and amenities
- Jamshedpur to have multi sector economic approach
- Jamshedpur to make sustainable use of resources for better future
- Jamshedpur to be promoted as a tourist hub
- To have planned residential layouts with provision of social and physical infrastructure
- To have efficient public transport and better connectivity
- To have good and modern urban Governance

7.4.4 Status of Work Done

As per the projections of the City Development Plan, a total sum of Rs. 2,67,931 lakhs was proposed for JNNURM schemes and a sum of Rs. 1,00,050 lakhs for project related to but external to JNNURM leading to a total proposal of Rs. 3,67,981 lakhs over the period 2007 to 2013. The proposed figures are given in table 7.9 (pp. 65)

Item	Proposed	Percentage
Roads	87,825	23.87
Basic Services for Urban Poor	14,150	3.85
Sewerage and Sanitation	30,727	8.35
Storm Water Drainage	16,124	4.38
Water Supply	62,203	16.90
City Beautification	3,000	0.82
Urban Ameneties	10,675	2.90
Solid Waste Management	10,000	2.72
Other Miscelleneous	23,000	6.25
Capacity building, Urban Governance	10,227	2.78
Total Proposed from JNNURM	2,67,931	72.81
Projects External to JNNURM	1,00,050	27.19
Total Proposal	**3,67,981**	100.00

Table 7.9: Proposed Expenditure under JNNURM by Jamshedpur (Rs. Lakhs)

The bus services under JNNURM were started in Jamshedpur with much fanfare on the following routes (i) NIT Junction to Mercy Hospital (ii) Transport Colony to Mercy Hospital (iii) MGM-railway station (iv) Sakchi court-Ram Mandir (v) Pardih-Sundernagar (vi) Aashiana-Baridih (vii) Kandra-railway station and (viii) Mango-Birsanagar in 2010. However the bus services ran into trouble soon after starting due to alleged harassment by Private Bus Operators. As per the latest reports, out of the 50 buses allocated to Jamshedpur only 25 are plying regularly. However regular disruption of services is routine (The Times of India, 2013b).

Similarly implementation of other projects have not been up to the mark. As per the "Project Implementation Status under UIG: Jharkhand" dated 21-01-2014, the Integrated Solid Waste Management Project for Jamshedpur UA – which has an approved cost of Rs. 3,336 lakhs and for which a sum of Rs. 417 lakhs have already been released, has a 0% utilisation rate and a 0% physical work progress status. The project is expected to be completed by March 2014.

7.4.5 Ranchi Metropolitian Region Area

Ranchi is the Capital City of the newly formed state of Jharkhand. The state of Jharkhand is known for its rich deposits of minerals, water falls, rivers, streams, lakes, dams and forests. Ranchi situated on the Chotanagpur Plateau, located at 23.23 N latitude & 85.23 E longitude. The capital lies approximately 2,140 feet above the mean sea level, on an uneven plateau topography. Many languages are spoken in the state, the prime amongst them being Hindi, Hindi, Nagpuri, Oran, Mundari & Kumali.

The population of the city has grown from 5.99 to 8.46 lakh during 1991-2001 period recording 41% decadal growth rate. The growth rate is expected to continue and it is estimated that the population in 2011 would be about 14 lakhs and about 20 lakhs in 2021. The average house-hold size in the city is about 5.85 person. About 26% of population is actively participating in the work-force. About 22% of the workforce are engaged in wholesale & retail trade, while 19% in manufacturing & repairs. Another about 22% of the is engaged in public administration, defence, social security, education and health. 25% of the total population of the city belongs to the Scheduled Caste or Scheduled Tribe (SC/ST). Approximately 34% of the total population of the city lives in slums and about 66% of the slum dwellers are SC/ST.

Ranchi is an important commercial, administrative and educational centre of the region. The city is mainly based on tertiary activity. The district has about 500 industrial units in close proximity of the city. They are mainly in the field of general engineering, foundry, electrical, steel casting, electronics, chemical, refractory, etc. With the proposal of industrial area of about 350 acres at Tupudana phase III, Namkum and Gitalsud, industrial activity is likely to expand. Creation of SEZ, educational institutions, tourism related activities, health speciality facilities and IT are seen as potential economic development opportunities.

The city of Ranchi comprises of 37 wards with a spread of 173 sq km. The land tenure is under the *"Chotanagpur Tenancy Act"* which prohibits transfer of tribal land to non-tribal people. This severely limits overall land supply within the city leading to high-rise infrastructure in an earthquake prone zone.

As per the City Development Plan for Ranchi, the following objectives were set for the city under JNNURM (Meinhardt Singapore Pte. Ltd., 2007):

- Urban Renewal of the present city
- Delineation of the Ranchi Metropolitan Region Area
- Preparation of Master Plan for Ranchi Metropolitan Regional Area
- Upgradation of RRDA into Ranchi Metropolitan Region Development Authority (RMRDA)
- Establishment of the State Capital Region (SCR) and Preparation of Comprehensive Regional Development Plan
- Enactment of a comprehensive Jharkhand State Capital Region Planning Board Act (JSCRPB) on the lines of National Capital Regional Planning Board.

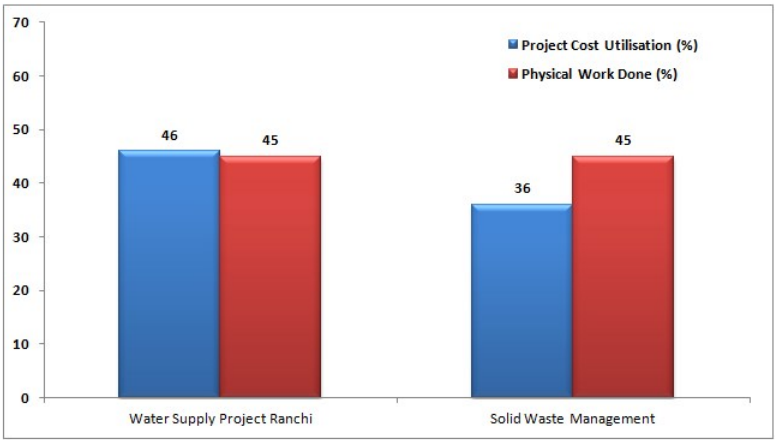

Figure 7.3: Status of JNNURM Project - Ranchi

7.4.6 Status of Work Done

The Ranchi Metropolitian Area is proposed to include the Present City of Ranchi along with the cities of Namkum, Hatia, Ratu, Kanke, Ormanjhi and Tatesilwai. The infrastructure requirements of the Ranchi Metropolitian Area have been proposed to the tune of Rs. 3,16,940 lakhs over the period of JNNURM. The break-up is given in table 7.10 (pp. 67).

Item	**Proposed**	**Percentage**
Urban Transport	1,52,210	48.02
Sewerage and Sanitation	48,800	15.40
Water Supply	29,330	9.25
Drainage Systems	16,040	5.06
Urban Renewal	15,330	4.84
Heritage Conservatism and Tourism	14,880	4.69
Basic Serives to Urban Poor	14,840	4.68
Solid Waste Management	10,980	3.46
Socio-Economic Growth	8,700	2.74
Physical and Environmental Aspects	2,300	0.73
Institutional Reforms	2,080	0.66
Financial Reforms	1,120	0.35
Disaster Management	330	0.10
Total Proposal	**3,16,940**	100.00

Table 7.10: Proposed Expenditure under JNNURM For Ranchi (Rs. Lakhs)

Implementation of various projects have been slow. As per the "Project Implementation Status under UIG: Jharkhand" dated 21-01-2014, there were two sanctioned projects for the city of Ranchi namely Water Supply Project for Ranchi with an approved cost of Rs. 28,839 lakhs and Solid Waste Management with an approved cost of Rs. 5,139 lakhs. The status of these projects are shown in fig. 7.3 (pp. 67).

Ranchi is the only city – out of the three JNNURM cities in the state – which has shown 45% work completion levels on all the project. Although this is a good sign but is not enough because the projects are to be completed within March 2014. The status of Bus services remains tardy and is plauged by same set of problems as discussed in Jamshedpur and Dhanbad. On the overall, there has hardly been much progress in terms of JNNURM activities in the state.

Chapter 8

State Public Enterprises Finances

8.1 Definition of State Level Public Enterprises

Public Sector Undertakings have always occupied an important place in Indian economy. There are Central Public Sector Units (PSUs) and then there are State Level Public Enterprises (SLPEs). The SLPEs are an important part of the public enterprise system in India. They are important instruments of public policy for the states.

The Standing Committee of Secretaries of Department / Bureau of Public Enterprises in States/ UTs defines State Level Public Enterprises (SLPEs) as (Department of Public Enterprises, 2010, pp. iii):

1. Companies under the State Government as defined under Section 617 of the Companies Act, 1956, whereby the State Government owns equity more that 50% in the total shareholding of the company
2. Statutory corporations established under the Act of State Legislature
3. Subsidiary companies of these government companies (1 and 2 above)
4. Any other enterprise so categorized by the State Government (e.g. Companies /Boards / Authority / Co-operative), where the State Government appoints the CEO

8.2 Structure of SLPE's

Public sector enterprises may be set up as 'departmental undertakings' or as 'companies' or as 'corporations'. The departmental undertakings operate under the overall control of the Ministry or the Department. Moreover, all that is earned by the departmental undertakings goes into the Consolidated Fund of the Central or the State Government, and all that is spent by these entities has to be on account of the Consolidated Fund.

The 'company' or 'corporation' form, in comparison, provides greater autonomy to these entities in decision making. Besides funding from the Government by way of budgetary support, a company or a corporation can raise loans from the bank and equity from the stock exchanges or joint venture (JV) partners (Department of Public Enterprises, 2010, pp. iii-iv).

8.3 SLPEs and 13th Finance Commission

One of the terms of reference of the 13th Finance Commission was that of ensuring the commercial viability of public sector enterprises in the states. The Finance Commission, *inter alia*, dwelt on this issue and observed that 'the financial health of the State PSEs is intricately linked to the financial performance of the States'.

The 13th Finance Commission, moreover, drew attention to the recommendations of the Tenth Finance Commission which stipulated a rate of return of 6%, 4% and 1% respectively for commercial, commercial-cum-promotional and promotional enterprises. The 13th Finance Commission, in its wisdom, had recommended for a 5% return on equity and a 7% rate of interest on loans irrespective of the category to which the SLPEs belonged.

The return on investments, in turn, depends on a number of factors. Besides, turnover (gross sales) and cost of production, prices of goods (or services) are decisive in determining the returns. A large number of SLPEs in public utilities have to operate under conditions of 'controlled/administered prices', and are unable to charge remunerative prices. Such SLPEs have, nevertheless, survived over the years with budgetary support in the form of price subsidy from the respective State/UT governments (Department of Public Enterprises, 2010, pp. iv-v).

8.4 State-level public enterprises (SLPEs), The Macro Picture

This section is reproduced from the "State Finances, A Study of Budgets 2010-11, Reserve Bank of India" (RBI, 2010-11).

State-level public enterprises (SLPEs) have been an important segment of the Indian public sector system. In the past, SLPEs have been a potent tool for State governments to implement public policy. SLPEs are engaged in diverse activities such as industrial development, financial promotion, trading, marketing, contract and construction services, tourism and production of consumer and engineering goods, agro, minerals and metals. Many SLPEs were set up to provide necessary support to growth and development processes in the States. Based on data available for 25 States and one UT for 2008-09, the total turnover of 1,212 SLPEs (working and non-working) was Rs. 3.65 lakh crore, representing about 6.5 per cent of the GDP. As on March 2007, total employment in SLPEs stood at 18.7 lakh.

As at end-March 2009, the total investment in SLPEs was estimated at Rs. 4,39,511 crore. The power sector accounts for a major portion of total investment in SLPEs. The massive investment in the SLPEs in the form of equity capital and loans raises legitimate expectations of significant contribution by these enterprises towards States' exchequers. On the contrary, they have proved to be a drag on the finances of State governments. On an aggregate basis, SLPEs of only nine States earned profits during 2008-09, while, in cumulative terms, only six States showed accumulated profits as at end-March 2009. The total losses incurred by all SLPEs during 2008-09 amounted to Rs. 9,453.2 crore. On a cumulative basis, SLPEs have accumulated losses to the extent of Rs. 68,771 crore as at end-March 2009. Since the SLPEs operating in most States are incurring losses, they depend on budgetary support from

State governments to sustain their operations. Budgetary support to SLPEs is extended in the form of equity, loans and subsidies. Despite such support, which has shown an uptrend over the years, there are no signs of any visible improvement in the performance of SLPEs. The average return on capital employed continues to be low in most States.

Based on the data provided in the CAG Audit Reports of 25 States and one UT, the total budgetary outgo (largely by State governments) towards equity, loans and subsidies/grants is estimated to be around Rs. 70,193.6 crore during 2008-09. Around 58.2 per cent of total budgetary outgo to SLPEs was in the form of subsidies, while equity and loans accounted for 31.3 per cent and 10.5 per cent, respectively. However, the return to State governments on investments in SLPEs has been negligible.

Most States do not have a dividend policy for the SLPEs. Only a few States, viz., Punjab, Haryana, Himachal Pradesh, Uttar Pradesh, Kerala and Madhya Pradesh have formulated a dividend policy. It is observed that only a few of the profit-making SLPEs have distributed dividends. For instance, of 894 working SLPEs, 440 SLPEs recorded profits in 2008-09, but only 73 SLPEs distributed a dividend that amounted to Rs. 572 crore. In other words, the dividend distribution policy, even in States where it exists, is not strictly followed by SLPEs. Thus, on average, dividends amounted to 0.5 per cent of total equity of all SLPEs (both profit and non-profit making) in 2008-09. The return is abysmally low and nowhere near the desired level of 5 per cent return on equity suggested by the Twelfth Finance commission. In addition to direct support, many State governments provide guarantees and waivers to SLPEs. During 2008-09, the total guarantees provided by State governments in respect of SLPEs were Rs. 63,707 crore, while the total guarantees committed by State governments as on March 2009 stood at Rs. 1,04,608 crores. Although States charge a fee in exchange for providing guarantees for borrowings by SLPEs, in some cases these have remained unpaid over the years. In 2008-09, the total amount waived by State governments by writing off interest and loans of SLPEs was Rs. 651 crore. All these forms of support to SLPEs have significant implications for State finances. The States with high level of subsidies to SLPEs have been Andhra Pradesh, Tamil Nadu, Gujarat, Karnataka, Maharashtra, Haryana and Punjab. The losses of SLPEs are mainly attributed to deficiencies in financial management, planning, implementation of projects, regular operations and monitoring.

As regards restructuring of SLPEs, the Thirteenth Finance commission recommends that there is a need to ensure that all working SLPEs, except those in the welfare and utility sectors, become financially viable. Loss making PSUs which function in non-core areas could be considered for closure and all State governments, in consultation with the Accountant General, should draw up a roadmap by March 2011 to close these SLPEs. Another important concern is the finalisation of SLPEs' accounts, their financial accountability and fiscal transparency. Given the contingent liabilities of the State governments for these SLPEs, any future switch-over to accrual accounting would require that the problem is tackled upfront.

8.5 Overview of State Level Public Enterprises in Jharkhand

In Jharkhand, the State Level Public Enterprises consist of State Government Companies and Statutory Corporations. As on 31st March 2012, there were 12 Government companies and one Statutory Corporation[1].

All of them were in operation. The twelve government companies and the lone statutory corporation are:

- Jharkhand State Forest Development Corporation Limited (JSFDC)
- Jharkhand Hill Area Lift Irrigation Corporation Limited (JHALCO)
- Jharkhand Industrial Infrastructure Development Corporation Limited (JIIDC)
- Jharkhand Police Housing Development Corporation Limited (JPHDC)
- Greater Ranchi Development Agency Limited (GRDA)
- Jharkhand Silk Textile and Handicraft Development Corporation Limited (JHARCRAFT)
- Jharkhand State Mineral Development Corporation Limited (JSMDC)
- Tenughat Vidyut Nigam Ltd (TVNL)
- Karanpura Energy Limited (KEL)
- Jharkhand Tourism Development Corporation Limited (JTDC)
- Jharkhand State Beverages Corporation Limited (JSBC)
- Jharkhand State Food and Civil Supplies Corporation Limited (JSFCSCL)
- Jharkhand State Electricity Board (JSEB)

The sole Statutory Corporation, JSEB, is in the Power Sector. Two Government Companies (JSFDC and JHALCO) are working in Agriculture and Allied Sector, three (JIIDC, JPHDC and GRDA) in Infrastructure sector, two (JHARCRAFT and JSMDC) in Manufacturing Sector, two (TVNL, KEL) in power sector and three (JTDC, JSBC and JSFCSL) in the Service Sector.

8.6 Total Investment in SLPEs

As on 31st March 2012, the investment (Capital and Long-term loans) in 13 SLPEs was Rs. 6192.40 crores. It grew by 142.75 percent from Rs. 2550.95 crore in 2006-07. Power sector accounted for the bulk of investments, nearly 91.19 percent, in 2011-12. The Government contributed rupees 1179.41 crore, or 5.26 percent of state's revenue receipts, towards equity,

[1]State PSUs do not include 29 Departmental Undertakings which carry out commercial operations but are part of Government Departments and the Jharkhand State Electricity Regulatory Commission (JSERC), which is an autonomous body

loans and grants during 2011-12. None of these companies/statutory corporations is listed on any of the stock exchanges.

The total paid up capital of these 13 SLPEs as on end March 2012 was Rs. 170.1 crore (Jharkhand State Government's share Rs. 170.05 crore) and Loans outstanding was Rs. 6022.2975 crores (State Government's share was rupees 5702.4 crore or 94.7%). Thus the debt to equity ratio of these 13 SLPEs was 35.40:1. Very high debt-equity ratio in Jharkhand's public enterprises poses a serious threat to the survival of these enterprises. It specially threatens the state finances and its sustainability because the state has been funding the losses by giving loans and grants. The loans and grants are essentially subsidies and should be considered as such.

8.7 Performance of SLPEs

The total turnover of these SLPEs in 2011-12 was rupees 2139.72 crores , which constituted 1.72 percent of the State Gross Domestic Product (GSDP). They incurred a total loss of Rupees 786.68 crores in 2011-12 and clocked a total turnover of rupees 2010.69 crores. The accumulated losses of these 13 SLPEs as on end March 2012 stood at staggering 6079.12 crores. They had employed 7588 employees as of end March 2012.

Out of the total SLPE of the state, JSEB holds an unique position. JSEB turnover was rupees 2010.7 crores or 94% of total SLPE turnover, Loses incurred by JSEB alone were Rs. 722.83 crores (or almost 92% of the total SLPE losses of the state) and it employs 5280 employees (or about 69.5% of the total SLPE employment) (Comptroller and Auditor General, 2013, Report No: 2, pp, i).

Five of the 13 SLPEs recorded modest profits and rest incurred losses in 2011-12. The ones which recorded profits in 2011-12 were Jharkhand State Forest Development Corporation Ltd (3.9 crores), Jharkhand Police Housing Corporation Ltd (3.18 crores), JHARCRAFT (0.25 crore), Jharkhand State Mineral Development Corporation (15.5 crores) and Jharkhand Tourism Development Corporation Limited (0.12 crore). The combined profits of these five SLPEs were 22.94 crores and four PSUs incurred aggregate loss of rupees 809.62 crores. The remaining four SLPEs did not submit their accounts to CAG, Jharkhand. Heavy losses were incurred by JSEB (722.82 crores) and TVNL (86.59 crores) for years 2010-11 and 1995-96 respectively (Comptroller and Auditor General, 2013, Report No: 2, pp, ix).

In its audited report, the CAG has observed *"the losses of working PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring"* (Comptroller and Auditor General, 2013, Report No: 2, pp, ix). A review of the latest Audit Reports of CAG shows that the state PSUs incurred losses to the tune of Rs. 4280.54 crore and infructous investment of Rs. 57.19 crore which were controllable with better management. Thus there is tremendous scope to improve the working of SLPEs and minimise losses (Comptroller and Auditor General, 2013, Report No: 2, pp, ix) .

The financial results of the PSUs have been presented in table 8.5 and table 8.6 (pp. 76–79). The percentage of PSU turnover to GSDP of the state shows the extent of PSU activities in the state economy. The following table (table 8.1 pp. 73) provides the details of PSU turnover as proportion of GSDP for the period 2006-07 to 2011-12.

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	30.77	364.90	1,552.32	1,565.52	1,442.90	2,139.72
GSDP	66,934.75	83,949.59	87,793.93	1,00,620.68	1,15,535.14	1,30,505.32
Turnover/GSDP (%)	0.045	0.430	1.770	1.550	1.250	1.640

Source: Report of CAG on PSUs for end March 2012

Table 8.1: PSUs Turnover and GSDP (Rs. Crores)

There was a significant increase in PSU turnover in 2011-12 as compared to earlier years. Other key parameters pertaining to state PSUs, as per their latest finalised accounts, are given in the following table (table 8.2, pp. 73).

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Debt	2,537.65	3,550.89	3,774.90	4,760.27	5,050.68	6,022.30
Turnover	30.77	364.90	1,552.32	1,565.52	1,442.90	2,139.72
Debt/Turnover Ratio	82.47	9.73	2.43	3.04	3.50	2.81
Interest Payments	3.61	6.00	NA	123.55	194.75	477.72
Accumulated Losses	42.90	265.45	269.30	589.81	1,646.52	6,385.11

Table 8.2: Key financial parameters pertaining to state PSUs (Rs. Crores)

8.8 Arrears in Finalisation of Accounts

The accounts of the companies for every year are required to be finalised within six months from the end of the relevant financial year under section 166, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of the statutory corporation, the accounts are to be finalised, audited and presented to the Legislature as per the provisions of the Electricity Act 2003 (Comptroller and Auditor General, 2013, Report No: 2). There has been a massive failure of PSUs on this count. Table 8.3 (pp. 73) shows the extent of arrears.

Year	**Opening Balance**	**Loan During the year**	**Loan Repayment Adjustment during the year**	**Closing Balance**	**Grants during the year Grants during the year**	**Total Financial Assistance to JSEB during the year**
2002-03	234.48	158.00	-	392.48	75.00	233.00
2003-04	392.48	725.86	-	1,118.34	85.99	811.85
2004-05	1,118.34	574.37	-	1,692.70	227.81	802.18
2005-06	1,692.70	2,234.49	-	3,927.20	364.58	2,599.07
2006-07	3,927.20	166.23	-	4,093.43	211.35	377.58
2007-08	4,093.43	288.85	-	4,382.28	78.62	367.47
2008-09	4,382.28	223.79	-	4,606.07	81.30	305.09
2009-10	4,606.07	307.58	451.03	4,462.61	401.35	708.93
2010-11	4,462.61	313.56	0.01	4,776.16	451.30	764.86
2011-12	4,776.16	164.95	-	4,941.11	751.94	916.89

Source: Director, Accounts, JUVNL. For Loans and Finance Accounts, Jharkhand Government, Various Years for Grants

Table 8.3: Loan Received from Government of Jharkhand by erstwhile JSEB (Rs. Crores)

There is a small discrepancy in terms of loans outstanding as on 31st March 2012. The CAG report reports loans outstanding equal to Rs. 4694.19 crores whereas the data sourced from the Director, Accounts, Jharkhand Rajya Urja Vikas Nigam Limited mentions it at Rs. 4941.11 crores.

Apart from loan, the state has given a total grant of around Rs. 7,887 crores to JSEB as grants or subsidies. **Thus the total fiscal implication for the state has been of the order of Rs. 12,828 crore, or 10.93 percent of total revenue receipts of the state, during the period 2002-03 to 2011-12**.

8.9 A Brief Note on Unbundling of JSEB and its State of Affairs

This section is largely reproduced from Financial Resources Brief 2012-13, Planning Commission, Government of India (Planning Commission, 2012-13).

The Jharkhand State Electricity Board (JSEB) has been unbundled into four entities with effect from 6th January 2014, a decade after The Electricity Act (2003) had mandated all Indian states to separate production and distribution activities and streamline power supply to make the power sector profitable. A holding company and three subsidiaries were formed.

Besides holding company Jharkhand Urja Vikas Nigam Limited, the three subsidiaries with specific functions included Jharkhand Vidyut Utpadan Nigam Limited (for generation), Jharkhand Vidyut Vitaran Nigam Limited (for distribution) and Jharkhand Vidyut Sancharan Nigam Limited (for transmission).

The SERC is in existence since 2004 and so far has issued two tariff orders. The first tariff order was issued in May, 2010 and the second tariff revision was done in August, 2011 and the same was implemented. In the last tariff order issued there was on an average tariff hike of 17%.

The board has a total capacity of 900 MW covering 770 MW of Patratu TPS and 130 MW of Hydro Plant. The two units of Patratu of 110 MW each is under renovations and other units are very old. The PLF of the operating units of power stations is reported to be 6.52% in 2011-12 and with the completion of R&M works, the Board has projected a PLF of about 32% for the year 2012-13. The State has to depend mostly on the purchase of power form DVC and other Central generating Station in the region to meet its energy needs. It has been stated that the State Government is planning to augment Patratu TPS by adding two units of 660 MW capacity each.

The reported T&D losses of the Board are projected to decline marginally from a level of 32.76% in 2010-11 (Actual) to 30.34% in 2012-13. The level of T&D losses would be high as there are large segments of consumers who do not have metered connection. Out of the total consumers of 28 lakhs of the board, metering is placed for only 16 lakhs consumers, which covers to the extent of nearly 58%. The State Government was requested to look into the issue of theft of energy and take some policy decisions to bring down the level of losses to some acceptable level in a time bound manner.

Average tariff for the year 2012-13 is projected to increase to Rs. 3.38 per unit as compared to Rs. 3.24 per unit in 2011-12 (RE). As against the average tariff the average cost supply for the year 2011-12 is estimated to be Rs. 6.11 per unit and would go up further to Rs. 6.82 per unit for the next year 2012-13. The domestic consumption is nearly 40% and charged at an average tariff of Rs. 1.03 unit. The reasons for high average cost of supply are high cost of power purchase (Rs. 4.75 per unit), high component of interest payable to State

Government and high level of losses. The JSEB should take suitable measures to bring down the cost of supply to reduce the gap between average cost of supply and average tariff.

The JSEB has reported a subsidy amount of about Rs. 900 crore for the year 2011-12 and has anticipated a subsidy amount of Rs. 1,200 crore for the year 2012-13. It was reported that the Board has received and amount of Rs.500 crore from the State Govt. and another Rs.250 crore is under consideration by the State Govt.

The Commercial losses of the Board (without subsidy) for the year 2011-12 (RE) are estimated at Rs. 1,566.35 crore and Rs. 2,270.38 crore in 2012-13. Taking into account the subsidy amount of Rs. 900 crore and Rs. 1,200 crore for the 2011-12 (RE) and 2012-13 respectively, the Boards losses would come down at that extent. The Net Internal resources of the Board are estimated at Rs. (-)641.01 crore for the year 2011-12 (R.E) and Rs. (-)1,090.03 crore in 2012-13.

8.10 Reforms in the Power Sector

The State formed Jharkhand State Electricity Regulatory Commission (JSERC) in 2003 under section 82 of the Electricity Act 2003 with the objective of rationalisation of electricity tariff, advising in matters related to electricity generation, transmission and distribution in the state and issue of licenses. During 2011-12, JSERC issued two orders on annual revenue requirements and 24 other orders. The first tariff order was issued in May, 2010 and the second tariff revision was done in August, 2011 and the same was implemented.

A Memorandum of Understanding (MoU) was signed in April 2001 between the Union Ministry of Power and the state government as a joint commitment for implementation of reforms programmes in the power sector with identified milestones (Comptroller and Auditor General, 2013, Report No: 2). The progress achieved so far in respect of important milestones is stated in the following table 8.4 (pp. 75).

Sl No	Milestone		Achievement
1	To reduce system losses at 18% of available energy for sale		System losses came down to 35.04% by November 2010
2	100% metering of all consumers	Single phase (urban)	87.78%
		Single phase (rural)	64.13%
		Low Tension (LT)	96.03%
		High Tension (HT)	98.14%

Table 8.4: Milestones & Achievements of Power Sector Reforms

The Jharkhand State Electricity Board (JSEB) has been unbundled into four entities with effect from 6th January 2014, a decade after The Electricity Act (2003) had mandated all Indian states to separate production and distribution activities and streamline power supply to make the power sector profitable. A holding company and three subsidiaries were formed.

Besides holding company Jharkhand Urja Vikas Nigam Limited, the three subsidiaries with specific functions included Jharkhand Vidyut Utpadan Nigam Limited (for generation), Jharkhand Vidyut Vitaran Nigam Limited (for distribution) and Jharkhand Vidyut Sancharan Nigam Limited (for transmission)

Sl.	Sector and Name of The Company	Name of The Department	Month and Year of Incorporation	Paid Up Capital: State Government	Paid Up Capital: Central Government	Paid Up Capital: Others	Paid Up Capital: Total	Loans Outstanding at close of 2011-12: State Government	Loans Outstanding at close of 2011-12: Central Government	Loans Outstanding at close of 2011-12: Others	Loans Outstanding at close of 2011-12: Total	Debt Equity Ratio for 2011-12	Manpower (Employees 31.3.12)
(1)	(2)	(3)	(4)	(5 a)	(5 b)	(5 c)	(5 d)	(6 a)	(6 b)	(6 c)	(6 d)	(7)	(8)
A.	**Working Government Companies**												
	AGRICULTURE AND ALLIED												
1	Jharkhand State Forest Development Corporation Limited	Forest & Environment	27.03.2002	5.00	-	-	5.00	-	-	-	-	-	328
2	Jharkhand Hill Area Lift Irrigation Corporation Limited	Water Resources	22.03.2002	500.00	-	-	500.00	525.00	-	-	525.00	1.05:1	236
	Sector Wise Total			**505.00**	**-**	**-**	**505.00**	**525.00**	**-**	**-**	**525.00**	**1.04:1**	**564**
	INFRASTRUCTURE												
3	Jharkhand Industrial Infrastructure Development Corporation Limited	Industry	15.12.2004	900.00	-	-	900.00	-	-	-	-	-	10
4	Jharkhand Police Housing Corporation Limited	Home	13.03.2002	200.00	-	-	200.00	-	-	-	-	-	70
5	Greater Ranchi Development Agency Limited	Urban Development	23.01.2003	2,500.00 (2450.00)	-	-	2,500.00 (2450.00)	-	-	-	-	-	12
	Sector Wise Total			**3,600.00 (2450.00)**	**-**	**-**	**3,600.00 (2450.00)**	**-**	**-**	**-**	**-**	**-**	**92**
	MANUFACTURING												
6	Jharkhand Silk Textiles and Handicraft Development Corporation	Industry	23.08.2006	950.00	-	-	950.00	-	-	725.00	725.00	0.76:1	255
7	Jharkhand State Mineral Development Corporation	Mines & Geology	07.05.2002	200.00	-	-	200.00	-	-	-	-	-	398
	Sector Wise Total			**1,150.00**	**-**	**-**	**1,150.00**	**-**	**-**	**725.00**	**725.00**	0.63:1	653
	POWER												
8	Tenughat Vidyut Nigam Limited	Energy	26.11.1987	10,500.00	-	-	10,500.00	66,500.00	-	-	66,500.00	6.33:1	633
9	Karanpura Energy Limited	Energy	19.09.2008	-	-	-	5.00	5.00	-	-	1,195.75	239.15:1	†
	Sector Wise Total			**10,500.00**	**-**	**-**	**10,505.00**	**66,505.00**	**-**	**-**	**67,695.75**	6.44:1	633

Sl.	Sector and Name of The Company	Name of The Department	Month and Year of Incorporation	Paid Up Capital State Government	Central Government	Others	Total	Loans Outstanding at close of 2011-12 State Government	Central Government	Others	Total	Debt Equity Ratio for 2011-12	Manpower (Employees 31.3.12)
(1)	(2)	(3)	(4)	(5 a)	(5 b)	(5 c)	(5 d)	(6 a)	(6 b)	(6 c)	(6 d)	(7)	(8)
	SERVICES												
10	Jharkhand tourism Development Corporation Limited	Tourism	22.03.2002	250.00	-	-	250.00	-	-	-	-	-	92
				(100.00)			**(100.00)**						
11	Jharkhand State Beverages Corporation Limited	Excise & Prohibition	26.11.2010	500.00	-	-	500.00	-	-	-	-	-	2
				(300.00)			**(300.00)**						
12	Jharkhand State Food and Civil Supplies Corporation Limited	Public Distribution & Consumer Affairs	18.06.2010	500.00	-	-	500.00	33,796.00	-	13,000.00	46,796.00	93.59:1	272
	Sector Wise Total			1,250.00	-	-	1,250.00	33,796.00	-	13,000.00	46,796.00	37.44:1	366
				(400.00)	-	-	**(400.00)**	-	-	-	-	-	
	TOTAL (A)			17,005.00	-	5.00	17,010.00	1,00,821.00		14,920.75	1,15,741.75	6.80:1	2,308
				(2850.00)	-	-	**(2850.00)**	-	-	-	-	-	
B	**Working Statutory Corporations**												
1	Jharkhand State Electricity Board	Energy	20.03.2001	-	-	-	-	4,69,419.00	-	17,069.00	4,86,488.00	-	5,280
	TOTAL (B)			-	-	-	-	4,69,419.00	-	17,069.00	4,86,488.00	-	5,280
	GRAND TOTAL (A + B)			17,005.00	-	5.00	17,010.00	5,70,240.00	-	31,989.75	6,02,229.75	35.40:1	7,588
	Share Application Money			**(2850.00)**	-	-	**(2850.00)**	-	-	-	-	-	
C	**Non Working Government Companies**												
	None	-	-	-	-	-	-	-	-	-	-	-	-
D	**Non Working Statutory Corporations**												
	None	-	-	-	-	-	-	-	-	-	-	-	-
	GRAND TOTAL (A + B + C + D)			17,005.00	-	5.00	17,010.00	5,70,240.00	-	31,989.75	6,02,229.75	35.40:1	7,588
	Share Application Money			**(2850.00)**	-	-	**(2850.00)**	-	-	-	-	-	

The Figures in brackets in Col. 5(a) and 5 (d) represent Share Application Money
Paid up capital includes Share Application Money
†: The affairs of company are managed by JSEB
Source: Data Furnished by Government Companies / Statutory Corporations

Table 8.5: Particulars of Paid Up Capital, Loans outstanding and Manpower w.r.t Government Companies & Statutory Corporations

Sl.	Sector and Name of The Company	Period of Accounts	Year in Which Finalised	Net Profit (+) / Loss (-): Profit / Loss before Interest & Depreciation	Interest	Depricia-tion	Net Profit / Loss	Turnover	Impact on Accounts Comments	Paid up Capital	Accumu-lated Profit (+) / Loss (-)	Capital Employed	ROCE	%age ROCE
(1)	(2)	(3)	(4)	(5 a)	(5 b)	(5 c)	(5 d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A.	**Working Government Companies**													
	AGRICULTURE AND ALLIED													
1	Jharkhand State Forest Development Corporation Limited	2010-11	2011-12	400.21	-	10.93	389.28	5,845.76	-	5.00	1,027.53	1,027.53	389.28	37.88
2	Jharkhand Hill Area Lift Irrigation Corporation Limited	2008-09	2010-11	-1.78	-	0.82	-2.60	160.65	-	500.00	-906.74	118.26	-2.60	-
	Sector Wise Total			**398.43**	**-**	**11.75**	**386.68**	**6,006.41**	**-**	**505.00**	**120.79**	**1,145.79**	**386.68**	**33.75**
	INFRASTRUCTURE													
3	Jharkhand Industrial Infrastructure Development Corporation Limited	2008-09	2011-12	-13.62	-	3.87	-17.49	4.36	-	500.00	77.96	609.06	-17	-
4	Jharkhand Police Housing Corporation Limited	2010-11	2011-12	323.76	-	5.84	317.92	313.44	-	200.00	1,385.26	1,583.00	318	20.08
5	Greater Ranchi Development Agency Limited	2005-06	2009-10	-	-	-	-	-	-	-	-	-	-	
	Sector Wise Total			**310.14**	**-**	**9.71**	**300.43**	**317.80**	**-**	**700.00**	**1,463.22**	**2,192.06**	**300.43**	**13.71**
	MANUFACTURING													
6	Jharkhand Silk Textiles and Handicraft Development Corporation	2010-11	2012-13	85.70	12.74	47.82	25.14	1,280.09	7.72	800.00	29.76	2,343.41	37.88	1.62
7	Jharkhand State Mineral Development Corporation	2006-07	2012-13	1,567.92	-	18.10	1,549.87	5,195.35	-	200.00	6,429.45	8,703.04	1,550	17.81
	Sector Wise Total			**1,653.62**	**12.74**	**65.92**	**1,575.01**	**6,475.44**	**7.72**	**1,000.00**	**6,459.21**	**11,046.45**	**1,587.75**	**14.37**
	POWER													
8	Tenughat Vidyut Nigam Limited	1995-96	2012-13	-487.23	8,152.82	19.30	-8,659.35	-	-	10,000.00	-38,686.73	87,032.14	-506.53	-
9	Karanpura Energy Limited	‡	-	-	-	-	-	-	-	-	-	-	-	-
	Sector Wise Total			**-487.23**	**8,152.82**	**19.30**	**-8,659.35**	**-**	**-**	**10,000.00**	**-38,686.73**	**87,032.14**	**-506.53**	**-**

Sl.	Sector and Name of The Company	Period of Accounts	Year in Which Finalised	Net Profit (+) / Loss (-): Profit / Loss before Interest & Depreciation	Interest	Depricia-tion	Net Profit / Loss	Turnover	Impact on Accounts Comments	Paid up Capital	Accumu-lated Profit (+) / Loss (-)	Capital Employed	ROCE	% RO
(1)	(2)	(3)	(4)	(5 a)	(5 b)	(5 c)	(5 d)	(6)	(7)	(8)	(9)	(10)	(11)	(
	SERVICES													
10	Jharkhand Tourism Development Corporation Limited	2004-05	2012-13	15.61	-	4.19	11.42	103.38	1.47	50.00	44.30	93.67	11.42	12
11	Jharkhand State Beverages Corporation Limited	‡	-	-	-	-	-	-	-	-	-	-	-	
12	Jharkhand State Food and Civil Supplies Corporation Limited	‡	-	-	-	-	-	-	-	-	-	-	-	
	Sector Wise Total			**15.61**	**-**	**4.19**	**11.42**	**103.38**	**1.47**	**50.00**	**44.30**	**93.67**	**11.42**	**12**
	TOTAL (A)			**1,890.57**	**8,165.56**	**110.87**	**-6,385.81**	**12,903.03**	**9.19**	**12,255.00**	**-30,599.21**	**1,01,510.11**	**1,779.75**	
B	**Working Statutory Corporations**													
1	Jharkhand State Electricity Board	2010-11	2011-12	-27,577.91	39,606.01	5,098.54	-72,282.46	2,01,069.03	10,799.00	-	-6,07,911.90	3,15,756.00	-32,676.59	
	TOTAL (B)			**-27,577.91**	**39,606.01**	**5,098.54**	**-72,282.46**	**2,01,069.03**	**10,799.00**	**-**	**-6,07,911.90**	**3,15,756.00**	**-32,676.59**	
	GRAND TOTAL (A + B)			**-25,687.34**	**47,771.57**	**5,209.41**	**-78,668.27**	**2,13,972.06**	**10,808.19**	**12,255.00**	**-6,38,511.11**	**4,17,266.11**	**-30,896.84**	

Impact of accounts comments include the net impact of comments of Statutory Auditors and CAG and is denoted by (+) increase in profit / decrease in losses and (-) decrease in profit / increase in losses
Capital Employed represents net fixed assets (including WIP) plus working capital except in case of Finance Companies
Return on Capital Employed (ROCE) has been worked out by adding profits and interest charged to profit and loss account
‡: The company has not submitted it's accounts so far
Source: Data Furnished by Government Companies / Statutory Corporations

Table 8.6: Summarised Financial Results of Government Companies & Statutory Corporations(Rs. Lakhs)

Chapter 9

Public Expenditure and Financial Management Reforms

9.1 Introduction

The Public Expenditure and Financial Accountability (PEFA) Program was founded in 2001 as a multi-donor partnership between seven donor agencies and international financial institutions to assess the condition of country public expenditure, procurement and financial accountability systems and develop a practical sequence for reform and capacity-building actions. A Steering Committee comprising these agencies manages the Program, while the Secretariat implements the PEFA activities. The donor agencies are – The World Bank, International Monitory Fund, European Commission, French Ministry of Foreign Affairs, Royal Norwegian Ministry of Foreign Affairs, Swiss State Secretariat for Economic Affairs and The Department for International Development (UK).

The Public Financial Management (PFM) framework was first issued in 2005 by the PEFA Secretariat in Washington DC, USA. The objective of the framework is to provide reliable information on the performance of PFM systems, processes and institutions over time. The PEFA PFM Performance Measurement Framework incorporates a PFM performance report, and a set of high level indicators which draw on the HIPC expenditure tracking benchmarks, the IMF Fiscal Transparency Code and other international standards. It forms part of the Strengthened Approach to supporting PFM reform, which emphasizes country-led reform, donor harmonization and alignment around the country strategy, and a focus on monitoring and results. This approach seeks to mainstream the better practices that are already being applied in some countries. The PEFA PFM framework has seen application in more than 120 countries (PEFA Secretariat, 2011).

The Framework identifies the critical dimensions of performance of an open and orderly PFM system. These core dimensions have been determined on the basis of what is both desirable and feasible to measure and define the nature and quality of the key elements of a PFM system captured by the set of high-level indicators. The dimensions are:

1. **Credibility of the budget:** The budget is realistic and is implemented as intended

2. **Comprehensiveness and transparency:** The budget and fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public

3. **Policy-based budgeting:** The budget is prepared with due regard to government policy

4. **Predictability and control in budget execution:** The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds

5. **Accounting, recording and reporting:** Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes

6. **External scrutiny and audit:** Arrangements for scrutiny of public finances and follow up by executive are operating

Against the six core dimensions of PFM performance, the set of high-level indicators measures the operational performance of the key elements of the PFM systems, processes and institutions of a country central government, legislature and external audit. In addition, the PFM-PR uses the indicator-based analysis to develop an integrated assessment of the PFM system against the six critical dimensions of PFM performance and evaluate the likely impact of PFM weaknesses on the three levels of budgetary outcomes. The set of high-level indicators captures the key PFM elements that are recognized as being critical for all countries to achieve sound public financial management. It is expected that the repeated application of the indicator tool will provide information on the extent to which country PFM performance is improving or not. In addition, the PFM-PR recognizes the efforts made by government to reform its PFM system by describing recent and on-going reform measures, which may not have yet impacted PFM performance.

The PEFA-PFM framework presents a total of 31 dimensions out of which 28 (PI-1 to PI-28) relate to the performance of the national government on fiscal framework. The remaining three (D-1 to D-3) are used to measure the impact of donor agencies on the fiscal policies. This, we feel, is somewhat redundant as grants and aids from the international donor agencies currently do not play a major role in deciding the fiscal program in India.

One drawback of the PFM framework is that it needs to be implemented at the national level. However many a country have regional or state governments which have a fair degree of autonomy in implementing their budgetary process under the larger national framework. These have been defined as Sub-National Government (SNG) by the PEFA secretariat and a modified set of guidelines released for them (PEFA Secretariat, 2013). This modified guideline adds one more dimension labelled as HLG-1 which measures the impact of transfers from the higher level national government on to the fiscal policies of the sub-national government. The full set of indicators is presented in table 9.1 (pp. 82).

Given the comprehensive nature of PEFA-PFM framework, we have tried our best to evaluate the Government of Jharkhand on the various indicators. However we are hindered by the fact that the State of Jharkhand classifies as sub national government and as such various

	A: PFM-OUT-TURNS: Credibility of the Budget
PI-1	Aggregate expenditure out-turn compared to original approved budget
PI-2	Composition of expenditure out-turn compared to original approved budget
PI-3	Aggregate revenue out-turn compared to original approved budget
PI-4	Stock and monitoring of expenditure payment arrears
	B: KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency
PI-5	Classification of the budget
PI-6	Comprehensiveness of information included in budget documentation
PI-7	Extent of unreported government operations
PI-8	Transparency of inter-governmental fiscal relations
PI-9	Oversight of aggregate fiscal risk from other public sector entities.
PI-10	Public access to key fiscal information
	C1: Policy Based Budgeting
PI-11	Orderliness and participation in the annual budget process
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting
	C2: Predictability and Control in Budget Execution
PI-13	Transparency of taxpayer obligations and liabilities
PI-14	Effectiveness of measures for taxpayer registration and tax assessment
PI-15	Effectiveness in collection of tax payments
PI-16	Predictability in the availability of funds for commitment of expenditures
PI-17	Recording and management of cash balances, debt and guarantees
PI-18	Effectiveness of payroll controls
PI-19	Competition, value for money and controls in procurement
PI-20	Effectiveness of internal controls for non-salary expenditure
PI-21	Effectiveness of internal audit
	C3: Accounting, Recording and Reporting
PI-22	Timeliness and regularity of accounts reconciliation
PI-23	Availability of information on resources received by service delivery units
PI-24	Quality and timeliness of in-year budget reports
PI-25	Quality and timeliness of annual financial statements
	C4: External Scrutiny and Audit
PI-26	Scope, nature and follow-up of external audit
PI-27	Legislative scrutiny of the annual budget law
PI-28	Legislative scrutiny of external audit reports
	D: Donor Practises
D-1	Predictability of Direct Budget Support
D-2	Financial information provided by donors for budgeting and reporting on project and program aid
D-3	Proportion of aid that is managed by use of national procedures
	HLG: Transfers from Higher Level Government
HLG-1	Predictability of transfers from higher level of Government

Table 9.1: PFM Framework for a Sub-National Government

informations would not be available on all the dimensions. For example, the Central Government is responsible for collecting the majority of the taxes and then a certain percentage of the same is given to the state governments on the basis of fixed ratio. As such the state government has very little revenue generating powers. As regards audit and accounts of the state government, the procedures are laid down by the central government and independent body known as the Comptroller and Auditor General of India does the audit. There is very little scope of sub national government on these issues. As such, **we have only attempted PI-1 to PI-10 for this exercise**, as we feel that at the state level we would not be able to do justice to the other parameters.

The framework for scoring is the guidelines issued by the PEFA secretariat. We should mention that we have not evaluated the state of Jharkhand on donor parameters. Although some developmental activities funded by the various international institutions (like Asian Development Bank) are currently going on in the state but the quantum of aid is small and does not affect the overall performance of the fiscal indicators of the state.

We would like to state that the current chapter draws heavily from the following sources - Public Finance Management Performance Management Framework (PEFA Secretariat, 2011), *Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments (PEFA Secretariat, 2013), India Public Expenditure and Financial Accountability Report (Jena & Sikdar, 2010) and Jharkhand Public Financial Management and Accountability Study (Bhattacharya, 2007).*

9.2 Evaluation on Various Parameters

In order to evaluate the PEFM framework in the context of Jharkhand we used the Annual Financial Statements, published by the Government of Jharkhand for the year 2011-12, 2012-13 and 2013-14. This provided us with the budget estimates and actuals for the year 2010-11 and 2011-12. It also provided us with the budget estimate for 2012-13 and the revised estimates for the year 2012-13.

9.2.1 Dimension 1: Credibility of the Budget

PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget

PI-1 measures the ability of the government to to implement the budgeted expenditure. This is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports), but excludes two expenditure categories over which the government will have little control. Those categories are (a) debt service payments, which in principle the government cannot alter during the year while they may change due to interest and exchange rates movements, and (b) donor funded project expenditure, the management and reporting of which are typically under the donor agencies control to a high degree. The indicator in a nutshell measures, the difference between actual primary expenditure and the originally budgeted primary expenditure (excluding debt service charges, but also excluding externally financed project expenditure).

PI-1 is calculated simply the absolute value of actual expenditure by budgeted expenditure expressed in percentage terms. Table 9.2 (pg. 84) gives the details of the data used. In this context, we see that Jharkhand has performed admirably as the actual expenditure has not exceeded the budgeted expenditure by 5% in two out of three years. As per the grading guidelines, we award "**A**" to Jharkhand on this parameter.

PI-2: Composition of expenditure out-turn compared to original approved budget

The objective of PI-2 is to carry out an assessment of expenditure outturn against the original budget at a sub-aggregate level to examine how these variations contribute to the deviations in the overall level of expenditure. For this purpose, we have not used the disaggrerate heads but the expenditures of overall head of revenue expenditure and capital expenditure on general services, social services and economic services has been used. This is because the number of heads on each level are numerous and the PEFA methodology states that we

Year	Administrative Head	Budgeted	Actual	Adjusted Budgeted	Absolute Deviation	Percent
2010-11	General Services (RE)	5,877.14	6,990.80	5,944.09	1,046.71	17.61
2010-11	Social Services (RE)	6,730.03	6,707.30	6,806.70	99.39	1.46
2010-11	Economic Services (RE)	3,943.26	4,246.47	3,988.18	258.29	6.48
2010-11	Grants in Aid	0.45	0.17	0.46	0.29	63.39
2010-11	General Services (CE)	243.56	120.04	246.34	126.30	51.27
2010-11	Social Services (CE)	1,573.55	681.88	1,591.48	909.59	57.15
2010-11	Economic Services (CE)	2,008.91	1,862.38	2,031.79	169.42	8.34
	Total Expenditure	**20,376.91**	**20,609.04**	**20,609.04**	**2,609.98**	**12.66**
2011-12	General Services (RE)	7,866.66	7,845.55	6,251.53	1,594.02	25.50
2011-12	Social Services (RE)	9,524.39	7,287.03	7,568.91	281.89	3.72
2011-12	Economic Services (RE)	6,646.17	5,859.00	5,281.63	577.37	10.93
2011-12	Grants in Aid	0.55	-	0.44	0.44	100.00
2011-12	General Services (CE)	180.02	155.56	143.06	12.50	8.74
2011-12	Social Services (CE)	2,021.79	866.31	1,606.69	740.38	46.08
2011-12	Economic Services (CE)	4,150.92	2,137.49	3,298.68	1,161.19	35.20
	Total Expenditure	**30,390.51**	**24,150.95**	**24,150.95**	**4,367.78**	**18.09**
2012-13	General Services (RE)	8,556.05	8,688.63	8,598.69	89.94	1.05
2012-13	Social Services (RE)	11,611.28	11,441.97	11,669.15	227.18	1.95
2012-13	Economic Services (RE)	7,632.67	7,994.27	7,670.71	323.57	4.22
2012-13	Grants in Aid	0.55	0.55	0.55	0.00	0.50
2012-13	General Services (CE)	308.53	313.08	310.07	3.01	0.97
2012-13	Social Services (CE)	1,867.00	1,897.11	1,876.31	20.80	1.11
2012-13	Economic Services (CE)	4,681.30	4,494.49	4,704.63	210.14	4.47
	Total Expenditure	**34,657.38**	**34,830.10**	**34,830.10**	**874.65**	2.51

CE: Capital Expenditure; RE: Revenue Expenditure. Actual and Budgeted are in Rs. Crores

	2010-11	**2011-12**	**2012-13**
PI-1 Variance Overall (%)	1.14	20.53	0.50
PI-2 Variance Composite (%)	12.66	18.09	2.51

Table 9.2: Calculations for PI-1 and PI-2

should use the 20 heads which account for 75% of the expenditure and the remaining be clubbed under others. This we find is impractical at the state level as expenditure heads have changed based on priorities (see table 9.2, pg. 84). We have also excluded the contingency fund for the state because the the paltry amount of Rs. 150 crores which was allocated in 2010-11 and in 2012-13.

The steps in calculation for each year are as follows: (i) For each budget head selected for composite variance analysis (ie excluding contingency items), calculate the "adjusted" budget (this is *the original budget for each head*, multiplied by *aggregate actual expenditure* divided by *aggregate budget*) (ii) For each budget head, calculate the absolute value of deviation between actual expenditure and adjusted budget and add them up (iii) Calculate this sum as a percentage of the total adjusted budget (ie total actual expenditure) and (iv) Establish in how many years the percentage points exceeded 5, 10 or 15, and go to the scoring PI-2 table to determine the final score.

Indicator PI-2 presents a dismal picture as we can see that the composite variance has exceeded 10% in two years. As per the guidelines, grade C is to be awarded if the "variance in expenditure composition exceeded 15% in no more than one of the last three years"; hence we award the grade **"C"** to the state.

PI-3: Aggregate revenue out-turn compared to original approved budget

As per the PEFA-PFM guidelines, an accurate revenue forecast is a key input to the preparation of a credible budget. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations and to larger fiscal deficits should spending not be reduced in response to an under-realization of revenue. On the other hand, pessimism in the forecast can result in the proceeds of an over-realization being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of under-realization are more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing revenue over-realization. It is recognized that the revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of the forecast, such as a major macroeconomic shock. For this reason, the guidelines allows for one unusual year to be excluded by focusing on significant deviations from the forecast which occur in two or more of the three years covered by the assessment. The indicator is limited to domestic revenue, which may include "windfalls" such as proceeds from the sale of assets.

For the purpose of our calculations we have defined domestic revenue as the revenues generated by the state on their own means. This is the sum of tax and non-tax revenues of the state. Grants-in-Aid and contributions have been kept out of the purview as because these depends on the largess of the central government. Table 9.3 (pp. 85) presents the data and the calculations.

	2010-11	2011-12	2012-13
Budgeted Revenue	15,436.64	18,456.12	21,197.67
Actual Revenue	14,673.87	17,162.04	21,020.38
Actual / Budgeted	95.06%	92.99%	99.16%

Table 9.3: Calculations for PI-3 (Revenues in Rs. Crores)

As can be seen from the table, the domestic revenues have varied between 92.99% and 99.16% between the last three years. As per the grading guidelines, grade C have to be given "Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the last three years". Hence we award grade **"C"** to the state of Jharkhand.

PI-4: Stock and monitoring of expenditure payment arrears

As per the PEFA-PFM Framework, the rationale for this indicator is that the expenditure payment arrears are the expenditure obligations that have to be incurred by government, for which payment to the employee, supplier, contractor or loan creditor is overdue, and is a form of non-transparent financing. A high level of arrears can indicate a number of different problems such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items and lack of information. It assumes that the outstanding payment is due under a specific legal obligation or contractual commitment. Unpaid amortization of loan principal is not considered an arrears for this indicator, since amortization is not expenditure, but a financing transaction. This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which the systemic problem is being brought under control and addressed.

As per our knowledge no such measure is available in the Indian economy. This is because the Government of India, and consequently any state government, follows cash basis of accounting system – in which the consolidated payment of expenditures does not exist. Any such expenditure at departmental level normally shows up under the budget estimate; however the ageing of the expenditure obligation is not recorded in the budget. However, expenditure obligation with respect of payments to employees (salaries, pensions etc.) are recorded and monitored at departmental level. The government does not normally default on payment of salaries and debt obligation.

As such, it is not possible for us to measure this indicator; hence we give **"NA"** on this particular parameter.

9.2.2 Dimension 2: Comprehensiveness and Transparency

PI-5 Classification of the budget

As per the documentation of PEFA-PFM framework, the budget should follow a robust classification system. A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional and program. Where standard international classification practices are applied, governments can report expenditure in Government Finance Statistics (GFS) format and track selected groups of expenditure. The international standard for classification systems is the Government Finance Statistics (GFS) which provides the framework for economic and functional classification of transactions. Under the UN-supported Classification of Functions of Government (COFOG), which is the functional classification applied in GFS, there are ten main functions at the highest level and 69 functions at the second (sub-functional) level.

The Budgetary Classification System in India is comparable to the international standard Government Finance Statistics (GFS) and the UN-supported Classification of Functions of Government (COFOG) which provides the functional classification applied to GFS. All budgetary transaction in India are classified into three funds; Consolidated fund of India, Contingency Fund, and Public Accounts. The Consolidated Fund consists of Revenue and Capital Accounts, which are further disaggregated into sectors and sub-sectors, which broadly follows the major classification groups of COFOG.

The Government of Jharkhand's overall accounting classification is in line with the uniform countrywide system of classification of accounts prescribed by the President on the advice of the Comptroller and Auditor General (CAG) of India. The existing system has a uni-dimensional coding structure which flows in one direction from funds to sector/sub-sector to functions/ programs to schemes/economic classification. The system meets the requirements of the international standard for the classification system of Government Finance Statistics (GFS).

As on date we can consider that the Budget Classification System followed by the Government of Jharkhand is comparable to the COFOG standards. Hence we award an **"A"** to the state on this parameter.

PI-6 Comprehensiveness of information included in budget documentation

The PEFA-PFM framework requires that the Annual budget documentation, as submitted to the legislature for scrutiny and approval, should allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the following elements: (a) Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate (b) Fiscal deficit, defined according to GFS or other internationally recognized standard. (c) Deficit financing, describing anticipated composition (d) Debt stock, including details at least for the beginning of the current year (e) Financial Assets, including details at least for the beginning of the current year (f) Prior year's budget outturn, presented in the same format as the budget proposal (g) Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal (h) Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year (i) Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

Sl.	Elements of Budget Documents	Provided	Remarks
1	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Yes	Estimates for GDP growth, inflation, interest rates, etc. are among a host of other assumptions are presented in the macro-economic framework
2	Fiscal deficit, defined according to GFS or other internationally recognized standard	Yes	Fiscal deficit is defined according to GFS Framework. All the budget documents contain this information.
3	Deficit financing, describing anticipated composition	Partially	At the state level deficit financing options are limited to borrowing from the Central Government or from Central Government Institutions like RBI, EPFO, Open Market etc. These information are provided
4	Debt stock, including details at least for the beginning of the current year	Yes	The budget documents provide details of loans and grants from central government
5	Financial Assets, including details at least for the beginning of the current year	No	The FRBM Act requires that the states keep an Asset Register. This is yet to be done at the State Level
6	Prior year's budget outturn, presented in the same format as the budget proposal	Yes	Always presented in budget documents as previous years actuals
7	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Always presented in the budget documents as Revised Estimates or Provisional Estimates
8	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	Yes	Always presented in the budget documents
9	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	Budget Speech of the Finance Minsiter of the state provides this information

Table 9.4: Calculations for PI-6 Indicator

Table 9.4 (pp. 87) provides the explanations for the 1-9 sub-dimensions. As we can see that 7 out of the overall 9 dimensions are being fulfilled hence as per the grading guidelines we award an **"A"** to the state. The budget documents are extremely comprehensive in nature.

PI-7 Extent of unreported government operations

The purpose of this indicator is to assess the significance of Government operations which are not reported through the state budget. The PEFA framework recommends that annual budget estimates, in-year execution reports and year-end financial statements should cover all budgetary and extra-budgetary operations of the Government. This will ensure a complete picture of Government revenues and expenditure across all categories and financing.

Being a sub-national government, the state of Jharkhand receives a large amount of assistance from the Government of India. These assistances are mainly for the centrally sponsored schemes and other key area development schemes of the state government. However, all such expenditures are reported at the state government budget. Of course this excludes direct transfers to autonomous bodies by the central government or donor bodies. If we ignore these autonomous transfers, then all the transactions are reported for in the budget.

This indicator has two dimensions which are as follows (a) The level of unreported extra-budgetary expenditure (other than donor funded projects) and (b) Income expenditure information on donor funded project is included in the fiscal reports.

On the first dimension we can say that as per the accounting standards, there is no unreported information on government operations. On the other hand, donor funding (specially from the World Bank, Asian Development Bank and other such agencies) do not give to sub-national governments directly. They give to the central government which then gives it to the state government. On these parameters we are unable to rate the state of Jharkhand. Hence we award a **"NA"**on this particular parameter.

PI-8 Transparency of inter-governmental fiscal relations

As per the PEFA-PFM framework the performance indicator set is focused on central government. Sub-National Governments (SNG) in many countries have wide-ranging expenditure responsibilities. In federal states, the fiscal relationship between the central government and the various states is typically established in the Constitution. In other cases, specific laws determine the layers of sub-national government, the expenditure responsibilities and revenue sharing arrangements. Transfers falling in these categories are usually unconditional grants. In addition, central government may provide conditional (earmarked) grants to SNG to implement selected services. However these transfers should be governed by clear cut policies. It is also crucial that SNG receive reliable information on annual allocations from central government well in advance of the completion of their own budget preparation processes.

This is a multi-dimensional parameter and it requires assessment on three parameters (a) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations) (b) Timeliness of reliable information to SN governments on their allocations from central government for the coming year (c) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

In context of the state and centre in India, grants-in-aids and contribution are of two types - plan and non-plan. State Plan assistance was initially designed to provide formula based block assistance or untied resources to the states to finance their own Plans. The plan grants are given to the states following the Gadgil formula, which contained broad state specific indicators with weights. The Finance Commission, a statutory body, is given the responsibility of recommending the share of central taxes and grants to be devolved to the states.

Another important conduit is the Planning Commission of India, which supports state plans. Central Government ministries also funds schemes in social and economic sectors, implemented by the state governments, which are called Centrally Sponsored schemes (CSS). The CSS form part of the Central Plan as they are meant to provide additional resources to the states for implementing programmes that are considered by the Government of India to be of national/regional importance. Funds transferred by the central Government form significant part of total revenue receipts of the state Governments.

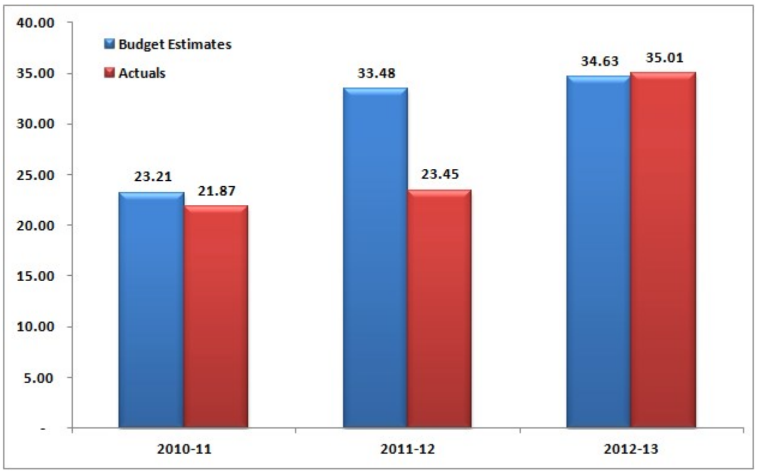

Figure 9.1: Grant in Aid as Percentage of State Revenues

Figure 9.1 (pp. 89) shows the grant in aids and contributions as a percentage of the total state revenues. The budgeted estimate averages around 30.44% and the actual spend is about 26.78% of the state revenues.

Dimension of PI-8	Rating	Reason
Transparency and objectivity in the horizontal allocation among SN governments	A	Planned Transfers are rule based and transparent in nature. Funds not utilised are returned to the Central Government at the end of Financial Year
Timeliness of reliable information to SN governments on their allocations	A	Planning Commission fixes the plans for a 5 year period. Hence the state governments are well aware of the various aspects of transfer
Extent of consolidation of fiscal data for general government according to sectoral categories	A	Fiscal Information is consistent with the Central Government Reporting Structure

Table 9.5: Calculations for PI-8 Indicator

Hence as the ratings on the three parameters is “A” we give a rating of **“A”** to the state on this parameter.

PI-9 Oversight of aggregate fiscal risk from other public sector entities

The purpose of this indicator is to assess the quality of the oversight role of the state government in the context of fiscal risk associated with the financial position of state owned and/or controlled entities. Since the state government has a formal oversight role in relation to all public sector entities and even local governments, it should monitor and manage fiscal risks arising from the activities of such entities. There may be occasions, when although the state government may not have a formal oversight role, it has to assume responsibility for financial default of autonomous entities.

As per the website of the Government of Jharkhand, the following entities are listed as Government Organisations (table 9.6, pp. 90).

Government Agencies	Year of Incorporation	Last Financial Available
Jharkhand Education Project Council	2001	FY 2012-13
Jharkhand Combined Entrance Competitive Examination Board	2001	NA
Jharkhand State Electricity Board	2001	NA
Jharkhand State Election Commission	2001	NA
Jharkhand State Pollution Control Board	2001	NA
Jharkhand State Forest Development Corporation	2002	Revenue Statement 2012
Jharkhand Space Applications Center	2003	FY 2005-06
Jharkhand State Electricity Regulatory Commission	2003	NA
Jharkhand Agency For Promotion of Information Technology	2004	NA
State Highways Authority of Jharkhand	2008	NA
Jharkhand Staff Selection Commission	2008	NA
Jharkhand Rural Health Mission Society	NA	Scheme Wise 2013-14

Source: http://www.jharkhand.gov.in/gov_org.html

Table 9.6: Government Organisations in Jharkhand

On visiting the various websites we found that most of them were in disarry and only few functioned in a proper manner. Searching these websites for financial data did not produce any kind of information except for Jharkhand Education Project Council (JEPC) and Jharkhand Space Application Center (JSAC). The JEPC data was fairly recent, however the JSAC data was seriously out of date. Jharkhand State Forest Development Corporation (JSFDC) and Jharkhand Rural Health Mission Society (JRHMS) have some details like revenue collected and expenditure but no proper departmental budget. Sadly we came to the conclusion that there is no financial information available for the government organisations; however we presume that their budgets are supported by various ministries of the state government. As per the PEFA-PFM guidelines we are awarding the state **"D"** in this parameter.

PI-10 Public access to key fiscal information

As per the PEFM-PFA guidelies, the transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest groups. This should include quality of information made available (e.g. understandable language and structure, appropriate layout, summarized for large documents) and the means used to facilitate public access. The extent to which the means are appropriate depends on the nature of the documentation and the characteristics of the relevant interest or user groups, such as access to different media.

It has six dimensions which are described and evaluated in the table 9.7 (pp. 91). On

Dimension of PI-10	Provided	Reason
Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature	Yes	Made available on the government websites almost immediately after the budget is tabled in the legislature. Printed Format is also available for purchase
In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion	Yes	The information is disseminated by the Comptroller and Auditor General of India on a monthly basis for the state and is available from their website. However the report is not comprehensive and just gives the utilisation on key indicators till date
Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit	Yes	The year-end financial statement is prepared by the CGA in the form of Finance Accounts and Appropriation Accounts. These statements are made available to the public within 6 months of completed audit. However, there have been delays in presenting this report in some years (eg in 2006) and it normally takes about 9 months for the reports to become available
External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit	Yes	External audit reports are submitted by the CAG to the Governor, as per Article 151 of the Constitution, who causes them to be laid on the floor of the state legislature. They are generally tabled within six months of the completed audit. They are released as public documents only after they are laid on the table of the state legislature
Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means	No	These information are normally available on websites of the respective departments, but are not presented by the state government
Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics)	No	These information are normally available on websites of the respective departments, but are not presented by the state government

Table 9.7: Details for PI-10 Indicator

the basis of grading guidelines of PEFM-PFA framework, we award a B to the state on these parameters and it fulfils only four out of the seven parameters.

9.2.3 Summary

Given our analysis on the ten parameters, the following picture emerges for the state (table 9.8, pp. 92). We see that out of the 10 indicators we have been only able to rank the state on 8 parameters. This provides us an insight into the PEFM framework and its inability to be applied to the sub-national government without taking the peculiarities of the central state framework into account. Out of the eight indicators, the state has done well on four parameters. As such we would say that there is much scope for improvement in the fiscal responsibility area for the state of Jharkhand.

9.3 Reforms Implemented in the State

The government of Jharkhand has taken several initiatives to improve tax collection and disbursement in the state. The state implemented the Value Added Tax (VAT) scheme on goods with effect from April 1, 2006 replacing the sales tax. The VAT covers all goods except a few items like petroleum and liquor (Bhattacharya, 2007, pp. 35).

Another improvement has been that various government departments have moved their

	A: PFM-OUT-TURNS: Credibility of the Budget	Grade
PI-1	Aggregate expenditure out-turn compared to original approved budget	**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	**C**
PI-3	Aggregate revenue out-turn compared to original approved budget	**C**
PI-4	Stock and monitoring of expenditure payment arrears	**NA**
	B: KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
PI-5	Classification of the budget	**A**
PI-6	Comprehensiveness of information included in budget documentation	**A**
PI-7	Extent of unreported government operations	**NA**
PI-8	Transparency of inter-governmental fiscal relations	**A**
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	**D**
PI-10	Public access to key fiscal information	**B**

Table 9.8: Picture of Jharkhand on PEFM PI-1 - PI-10 Parameters

records online in a bid to make the process of collection of various goods and duties more simpler and easier. Some of the initiatives are being discussed here briefly:

9.3.1 Online Revenue Generation Initiatives

Grievance Redressal Mechanism

The Grievance Redressal Mechanism located at `http://jharkhandsamadhan.nic.in/` allows the general citizen of the state to directly send in his or her grievance to the state government. The purpose of the mechanism is to provide a grievance redress and monitoring system between the Governors Secretariat and common citizens in order facilitate transparency in redress action through online means. Citizens can lodge their grievances directly to (i) The Governor's Secretariat (ii) Chief Minister's Office (iii) All Principal Secretaries and Secretaries to the Departments and to (iv) All Deputy Commissioners (DCs) Office. The system allows the petitioner to (i) lodge grievances (ii) to lodge reminders and (iii) to view action status. Upon lodging the complaints an Unique Complaint Registration number and acknowledgement is generated which can be used as future reference. The system allows the government officials to pass the grievance to the concerned office / officials down the line for speedy disposal.

E-Nibandhan Portal

The e-Nibandhan Portal located at `http://210.212.20.87/jars/website/` allows all residents of Jharkhand to obtain copies of all types of registered deeds. In addition,they can search, obtain non-encumbrance and certified copy of registered deeds including that of marriage and have access to centralized monitoring of registration activities. In the past, all these works were carried out manually facilitating dalals and agents. Millions of rupees changed hands on a regular basis leaving the coffer of the state government high and dry. This is set to change with the e-Nibandhan portal. The Portal allows the user to (i) Search for Non-Encumbrance / Certified Copy of registered deeds (ii) Online Pre-Registration including online fee payment through payment gateway (iii) Purchase E-Stamp and use it for the registration process (iv) Integration to AADHAR and (v) Integration to Payment Gateway. It is hoped that the system will make touts and agents redundant and will lead to a substantial increase in the revenues of the state.

Vasudha - Online Land Records

The state of Jharkhand along with National Informatics Center (NIC) unit of Jharkhand has created software named Vasudha with the help of the land records data available in Jharkhands districts and tehsils. Located at `http://210.212.20.94/land/` the service is currently available for the districts of Lohardaga and East Singhbhum; it is expected that the services will be soon cover the entire state. The online service allows online search of Khata number, Khasara number, process of mutation, land tax etc. and other land related documents. This service is also expected to eliminate touts and dalals and generate revenue for the state once integrated with the payment website.

e-Nagrik Sewa and Pragya Kendra

e-Nagrik Sewa (`http://www.jhr.nic.in/csc`) is an online platform for providing Government to Consumer services from the Common Services Center (CSC) or *"Pragya Kendras"* `http://210.212.20.91/csc/` at Jharkhand. The e-Nagrik Sewa software, facilitates submission of application forms by the citizens for issue of certificates like Caste, Birth, Death, Residential and Income. The citizen interface provides for the submission, tracking and monitoring of applications along with the facility to download forms and guidelines issued by the government from time to time. The Government interface provides for updating the status of the applications submitted and generates the Certificates. The system helps in creating a central repository of certificates. Authenticity of the issued certificate can be checked from anywhere. More than 7 lakh certificates have already been issued using the system. The citizen can get the certificates without facing the hassle of travelling to Circle offices again and again.

e-Nivida - Online Tender System

The e-Nivida or the online tender system located at `http://jharkhandonline.gov.in/GOVTENDER/archivetender.asp` is aimed at bringing transparency to the entire tendering process and the awards of contracts in the state government. As of now the tendering system only allows for searching of tenders and as such is of limited use. It is hoped that in the future it can be linked with online auctioning system and the payment gateway to allow submission of the earnest money deposit and the tendering fees. This will bring in revenues directly to the coffers of Jharkhand.

9.3.2 Online Transparency Enabler Initiatives

Gyanshila

The Gyanshila portal (`http://www.jharkhandonline.gov.in/notice_board.html`) allows the citizens of Jharkhand to search for any government document department-wise. These documents can be searched by Document can be search by document name and year wise.

Jharkhand Gram Vivarani

Jharkhand Gram Vivarani or the Jharkhand Village Profile is aimed at providing the correct picture of each and every village of the state through online means. This will help policy planners, government agencies, non-governmental organisation and donor agencies to get an accurate picture at the village level. Although not a revenue initiative, the portal will help in better planning and disbursement of funds by various agencies. The portal is located at `http://210.212.20.94/cmcvp/frmvp.aspx`

Kuber

The jewel in the crown is the Kuber - Management Information System of Treasury. Located at `http://jharkhand.gov.in/treasurymis/` the MIS system acts as a sophisticated data hub and holds data of all the treasuries of the state of Jharkhand. It allows government officials to generate MIS report on the fly and enable them to take correct decisions. It allows officials to see (i) The DDO Bill prepared (ii) View expenditure on DDO code (iii) View expenditure on DDO GPF number (iv) Know the GPF/CPS schedule (v) Treasury Withdrawl Report and (vi) List of all superannuating employees in the next two years. The system is sophisticated and is linked with employees mobile number. This allows all employees of the state to see their GPF/CPS status at a glance. As per the data available on the website 41.36% of all employees of the state of Jharkhand have registered their Aadhar status with Kuber, 48.21% have registered their mobile numbers but only 3.88% of the employees have registered on the employees portal. This is saddening given the fact that the service will be of great help to the various employees and would allow them to work more efficiently and effectively.

9.4 Conclusion

On the whole, the state of Jharkhand is taking initiatives to improve various aspects of revenue collection and expenditure. However much more needs to be done in order to speed up the process and bring transparency into governance.

Chapter 10

Power Sector Reforms in Jharkhand

10.1 Introduction

Any modern economy is heavily dependent on electricity for its smooth functioning. Electricity requirement and supply is a strategic input and one of a key mover for economic and social development behind any growing country. As electricity plays a very vital role in industrial production and day to day life, it has become extremely essential to boost the growth in energy segment for the growth of the country. With the growing demand in energy requirement, the annual per capita energy consumption has grown significantly. According to some estimates all India energy requirements in 2016-17 is assessed to be 1,355 billion units[1] and the corresponding peak power demand is assessed to be 1,99,540 MW.

The state of Jharkhand is no exception. The state has a total installed capacity of 3,050 MW. This includes the States generating Capacity and Allocation from Central Generating Stations as well as Private generation. Coal based generation contributes 93% of the total power generation; hydro 6% and alternative sources about 1%. This is not surprising given that Jharkhand has a huge reserve of coal. However in terms of generation, about 47% of generation is from private plants and about 43% from state and 10% from central plants. The break-up of total installed capacity of the state is provided in table 10.1 (pp. 95).

Name of Plant	**Ownership**	**Fuel Type**	**Capacity (MW)**
Patratu TPS	State	Coal	770
Tenughat TPS	State	Coal	420
Subarnarekha HPS	State	Hydro	130
Renewable	State	Others	4
Maithon RB TPS	Private	Coal	1050
Jojobera TPS	Private	Coal	360
Renewable	Private	Others	16
NTPC (Allocation)	Central	Coal + Hydro	300
Total			**3050**

Table 10.1: Jharkhand Power Generation Installed Capacity

The state of Jharkhand has enormous potential for generating power. The State being a forest covered area has plenty of biomass for electricity generation, and further, rivers and streams in hilly terrain suitable for run of river hydel projects, avoid the need for expensive

[1] 1 Billion Unit is equal to 1 Terra-watt Hour (TW-h)

dams and displacement of people. The State has Uranium mines which are very viable source for nuclear power. The coal bearing areas have number of coal washeries, making washed coal available as fuel for generating electricity from coal washery/reject. Power Sector has got high priority and encouragement to private sector participation and captive power generation projects is being provided on a very large scale. Further, captive generation has been exempted from electricity duty for 10-years from start-up. An additional 3,820 MW is expected to come up by 2014; however approximately 75% of it would be in the hands of private players or in the form of captive power plants.

10.2 Key Players in the State

The Department of Energy, Government of Jharkhand is the key department which looks after the energy requirements of the state. The department has the following key corporations or units under its control:

10.2.1 Jharkhand State Electricity Board

Jharkhand State Electricity Board (JSEB), constituted in 2001 is the vertically integrated state-owned electric utility. JSEB meets the requirement by generating its power plant and bulk purchase of power from DVC, NTPC, TVNL and NHPC. JSEB is the Transmission Utility & Distribution Licensee in its area of supply. JSEB being the state utility in generation, transmission and distribution has the highest extent of reach in the state of Jharkhand. It supplies power in the DVC command area (7 districts falling under the purview of the DVC Act) at 11kV or less and in the remaining 17 districts at both high-tension and low-tension levels. Energy sales of JSEB has increased from 2770 MUs in 2003-04 to 8400 MUs in 2012-13 at a CAGR of 13.17% p.a.

JSEB operates 2 generation plants – Patratu Thermal Power Station (PTPS) and Sikidiri Hydel Power Plant (SHPS) within the state. The current status of the plants is given below.

Patratu Thermal Power Station

Patratu Thermal Power Station(PTPS) is located in Patratu, Ramgarh and has a total installed capacity of 840 MW. However the capacity is de-rated to 770 MW owing to operational disabilities. The plant includes 10 units and the first unit was commissioned in 1966. However PTPS is not in good shape as only two units were in operation in 2012-13 with a de-rated capacity of 130 MW. The latest plant (unit no 10) was commissioned in 1986 and is aged 26 years. The average age of the various plants at PTPS is 38 years with a standard deviation of 7 years. This means that almost all the plants at PTPS are outdated and are in urgent need of modernisation.

Sikidiri Hydro Power Station

Sikidiri Hydro Power Station (SHPS) is located in Muri about 60 kms from the state capital of Ranchi. It has an installed capacity of 130 MW comprising of two 65 MW units. Before the formation of Jharkhand the plant was meant to cater to the peak demand in the state of Bihar. The plant is designed for continuous operation at reservoir level of 1925 feet. However in actuality this is not possible as the water level in the reservoir is above 1925 feet for only 3-4 months in a year. The reason being that the same reservoir is used to supply water to the town of Ranchi and that there is heavy siltation. As such the generation of Sikidiri plant has been unpredictable. A complete overhaul for the plant and the reservoir had been planned for the FY 2012-13 at a proposed cost of Rs. 110 crore.

10.2.2 Tenughat Vidyut Nigam Limited

Tenughat Vidyut Nigam Limited (TVNL) was constituted in the year 1987 as a wholly owned unit of Government of Bihar undertaking. It operates 2 thermal units of 210 MW generation capacities in the state of Jharkhand. Unit I started its commercial operation in September 1996 followed by Unit II in September 1997. The Corporation supplies 100% of the power generated to JSEB for distribution. The existing contact with JSEB expired on August 1 2010 and till date a renewed contact has not been signed. However, JSEB continues to procure power from TVNL and based on a clause of the existing contract currently all the provisions of the existing contract are applicable till new contract is entered into. The actual net generation of TVNL stands at 2277.37 MUs in 2011-12 reduced from 2453.69 MUs in 2010-11. Plant load factor for 2010-11 stands at 66.69% and for 2011-12 at 61.73%. Currently there is a litigation regarding ownership of TVNL between Government of Jharkhand and Government of Bihar pending with the Supreme Court. Actual supply to JSEB stands at an average of 1946 MUs during 2007-08 to 2011-12.

10.2.3 Jharkhand Renewable Energy Development Agency

The Jharkhand Renewable Energy Development Agency (JREDA) is incorporated as a society act in year 2001 under the administrative control of the Department of Energy, Government of Jharkhand for promoting use of renewable energy sources in the state. Being a nodal agency, JREDA is working for implementation of fiscal and financial incentives made available by the Ministry of New and Renewable Energy Sources (MNRES), Government of India and Indian Renewable Energy Development Agency (JREDA).

10.2.4 Jharkhand State Electricity Regulatory Commission

Jharkhand State Electricity Regulatory Commission (JSERC) was established by the Government of Jharkhand in August 2002 and was operationalized on 24th of April 2003 under provisions of Electricity Regulatory Commission Act 1998 (now Electricity Act, 2003) for regulating this sector. The Function of the Commission as mandated under the Act is to promote competition, efficiency and economy in the power sector and to regulate tariffs of power generation, transmission and distribution and to protect the interests of the consumers and other stakeholders.

10.2.5 Other Players in the State

Besides the above the following are the various other players in the state – either as private companies or as captive power generators:

Bokaro Power Supply Corporation Limited

Bokaro Power Supply Corporation Limited (BPSCL) is a 50:50 joint venture between SAIL and DVC formed for the purpose of supplying power in contingent situations to the Bokaro Steel Plant. The plant is *captive* in nature, located in Bokaro Steel Plant and having a total generation capacity of 302 MW.

Steel Authority of India Limited, Bokaro acts as a distribution licensee in the Bokaro Steel City. The energy requirement is met through power purchase from BPSCL and DVC. It serves around 50,000 consumers with approximate energy sales of 184 MUs. 24 The company suffers from high distribution losses of around 30%.

Damodar Valley Corporation

Damodar Valley Corporation (DVC) plays a major role in meeting the power supply demand in the Damodar valley region. It operates a total generation capacity of 4857.2 MW (Thermal & Hydro combined) of which 1604 MW (Thermal & Hydro combined) is generated within the geographical boundary of Jharkhand. The rest is produced in West Bengal. The stations which are in Jharkhand are - Bokaro 'B' and Chandrapura (both thermal) and Tilaiya and Panchet (both hydro). Damodar Valley Corporation supplies bulk power at 33 KV, 132 KV and 220 KV through a network covering more than 5500 circuit kilometers. The 7 districts that it supplies electricity includes Dhanbad, Bokaro, Giridih, Hazaribagh, Kodarma, Ramgarh and Chatara.

Maithon Power Limited

Maithon Power Limited (MPL) is a 76:24 joint venture between DVC and Tata Power located in Dhanbad having a total installed capacity of 1050 MW (2 X 525 MW). Unit I of 525 MW capacity was commissioned in September 2011 and Unit II of the same capacity was recently commissioned in July 2012. Of the first unit of capacity 525 MW, 330 MW is being sold to NDPL (Delhi) and BSES (Rajdhani) through Case I bidding; 45 MW is sold in the open market and balance 150 MW is sold to DVC as per tariff determined by Commission.

Tata Power Limited

Tata Power Limited (TPL) is the main generating station of Tata Power in Jharkhand and is located at Jojobera. The Jojobera Plant has 5 units with a total installed capacity of 547.5 MW. Unit I has a capacity of 67.5 MW followed by 120 MW each for Unit II, Unit III and Unit IV. In 2011 the commercial operation of Unit V began having an installed capacity of 120 MW. It is a *captive* power plant in which all the generation capacity is used to power steel works of Tata Steel plant located at Jamshedpur, supplying power to consumers of steel works and the city of Jamshedpur.

The **Jamshedpur Utilities and Services Company Limited** (JUSCO) is a subsidiary of Tata Steel managing the power division. The company was incorporated in August 2003 to separate the town related services and power distribution in Jamshedpur. It supplies power to Jamshedpur as a franchisee of Tata Steel Limited as well as to the district of SaraikelaKharsawan. JUSCO serves a total consumption of around 302 MUs and this has increased substantially from 212 MUs in 2010-11. Emphasis has been laid by the licensee to increase low-tension consumers by targeting domestic, non-domestic and rural customers recently.

Tata Steel Limited (TSL) is a licensee for Jamshedpur town and it manages the distribution function through JUSCO as a distribution franchisee in the area. The energy sales of TSL was approximately 1900 MUs in 2010-11 and was estimated to be around 2200 MUs in 2011-12. The approved energy sales for 2012-13 stand at 3017 MUs. The company enjoys low T&D loss ranging between 7-8%. The total number of consumers stands at around 46,036 with a total connected load of 7,22,000 units(kWh and kVA combined). TSL purchases power from Tata Power, DVC and captive plant of TSW (Tata Steel Works) for meeting is energy requirement.

Other Projects

Corporate Power Ltd. is developing a thermal power plant of 4 units constituting a total capacity of 1080 MW in the state of Jharkhand. The project is divided into 2 phases, each commissioning 2 units of 270 MW. It is expected that the power plant will be operational by 2014. **Adhunik Power Company Limited** is another private player developing 2 Units of 270 MW each in Jharkhand. The first unit was commissioned in October 2012 and the second unit is expected to be comissioned by 2014.

10.3 Power Sector Reforms in Jharkhand

In terms of power sector reforms in the state, Jharkhand is substantially lagging behind other states in the country. The Jharkhand State Electricity Reforms Transfer Scheme 2013 came into effect from 6th of January 2014. The Act divides the Jharkhand State Electricity Board into four entities namely - (i) **Jharkhand Bijli Vitran Nigam Limited** - which will be responsible for distribution of power in the state (ii) **Jharkhand Urja Utpadan Nigam Limited** - which will be responsible for generation of power in the state (iii) **Jharkhand Urja Sancharan Nigam Limited** - which will be responsible for transmission of power in the state and (iv) **Jharkhand Urja Vikas Nigam Limited** - which will act as the holding company and will hold all the shares of the above three companies.

10.3.1 Jharkhand Urja Sancharan Nigam Limited

Jharkhand Urja Sancharan Nigam Limited (JUSNL) would be the company responsible for transmission of electricity in the state of Jharkhand. As per the act, it will take over all the assets (moveable and immoveable), liabilities and proceedings concerning transmission activities of electricity belonging to JSEB or other corporations/IPPs/ generation Utilities and Grid substations of other corporations/transmission utilities/companies.

Under the act, all existing grid sub-stations of 132 KV and above (existing and under construction or proposed to be constructed) along with all equipments, protective devices, land, towers etc. would form a part of the transmission assets of JUSNL. Along with this all construction which are directly related to transmission of power would be a part of the assets of the company. JUSNL, in lieu of the reorganisation would be allowed to issue instruments such as equity shares, preference shares, debentures and other securities in favour of the State Government or the Holding Company. The formative aggregate assets and liabilities of JUSNL as on 01-04-2012 are given in table 10.2 (pp. 100).

Assets	Rs. Cr.	**Liabilities**	Rs. Cr.
Fixed Assets	492.56	Borrowings from Working Capital	0.00
Less Accumulated Depreciation	142.40	Payment Due on Capital Liabilities	0.00
Net Fixed Assets	**350.16**	Capital Liabilities	0.00
Capital Expenditure in Progress	**195.52**	Funds from State Government	0.00
Assets not in use	0.00	Contributions, Grants and Subsidies towards cost of capital	0.00
Deferred Cost	0.00		
Intangible Assets	0.00	**Total Liabilities**	**0.00**
Investments	0.00	Reserve and Reserve Funds	0.00
Investments in Subsidiaries	0.00		
Stocks	25.94		
Recieveables aganist supply of power	0.00		
Cash and Bank Balances	85.32		
Loans and Avances	0.24		
Sundry Recievables	0.38		
Total Current Assets	**111.89**		
Security Deposits from Consumers	0.00		
Other Current Liabilities	58.82		
Total Current Liabilities	**58.82**		
Net Current Assets	**53.08**		
Subsidy Received from Government	0.00	Equity Balancing Figure	**598.76**
Surplus (Deficit)	0.00	Surplus (Deficit)	0.00
Net Assets	**598.76**	**Total Funds**	**598.76**

Table 10.2: JUSNL Aggregate Assets and Liabilities as on 01-04-2012

The main functions of JUSNL would be transmission of electricity. The company will act as Transmission Licensee under the provisions of Section 14 of the Electricity Act, 2003 and the company shall also act as State Transmission Utility. JUSNL would also be responsible for planning and coordination activities in regard to intra-State Transmission, works connected with the intra-State Transmission in the State of Jharkhand, to introduce open access in transmission on payment of transmission charges and such other functions. Besides these the company shall also be responsible for Load Dispatch Functions and any other function pertaining to transmission as may be decided by the Government of Jharkhand.

10.3.2 Jharkhand Urja Utpadan Nigam Limited

Jharkhand Urja Utpadan Nigam Limited (JUUNL) would be responsible for generation of power within the state of Jharkhand. As per the Act, it will take over all the assets (moveable and immoveable), liabilities and proceedings concerning generation activities of electricity belonging to JSEB. As such Patratu Thermal Power Station (PTPS) and Subarnarekha

Hydro Power Station (SHPS) would be under JUUNL along with all associated and related assets, equipments and machines. Along with the above all civic infrastructure like Rest houses, office establishment, buildings, lands and all other assets, which are predominantly occupied/used for the activities of Generation activities would form a part of JUUNL. The formative aggregate assets and liabilities of JUUNL as on 01-04-2012 are given in table 10.3 (pp. 101).

Assets	Rs. Cr.	Liabilities	Rs. Cr.
Fixed Assets	776.54	Borrowings from Working Capital	0.00
Less Accumulated Depreciation	500.86	Payment Due on Capital Liabilities	0.00
Net Fixed Assets	**275.68**	Capital Liabilities	0.00
Capital Expenditure in Progress	**185.63**	Funds from State Government	0.00
Assets not in use	0.00	Contributions, Grants and Subsidies	0.00
Deferred Cost	0.00	towards cost of capital	
Intangible Assets	0.00	**Total Liabilities**	**0.00**
Investments	7.93	Reserve and Reserve Funds	0.00
Investments in Subsidiaries	0.00		
Stocks	149.87		
Recieveables aganist supply of power	0.00		
Cash and Bank Balances	133.32		
Loans and Avances	14.20		
Sundry Recievables	65.47		
Total Current Assets	**362.86**		
Security Deposits from Consumers	0.00		
Other Current Liabilities	370.29		
Total Current Liabilities	**370.29**		
Net Current Assets	**- 7.43**		
Subsidy Received from Government	0.00	Equity Balancing Figure	**461.82**
surplus (Deficit)	0.00	surplus (Deficit)	0.00
Net Assets	**461.82**	**Total Funds**	**461.82**

Table 10.3: JUUNL Aggregate Assets and Liabilities as on 01-04-2012

The main functions of JUUNL, as per the Act, would be to utilise all electric generating stations, projects lines and all related things for the purpose of power generation. If so required, JUUNL may also deal in purchasing, trading, manufacturing or otherwise deal in Electric power. It may also advise on the activities of other companies including subsidiaries engaged in the generation, distribution or trading of power. Besides these, JUUNL would also be responsible to enter into contract with any supplier for raw material for power generation and for joint-ventures for construction of power projects in the state.

10.3.3 Jharkhand Bijli Vitaran Nigam Limited

Jharkhand Bijli Vitaran Nigam Limited (JBVNL) would be responsible for transmission of power from below 132 KV sub-stations to the end consumers. As such, all 33 KV lines, 11 KV lines, Low-Tension Lines along with all 33 KV sub-stations along with their moveable and immoveable properties and assets would become a part of JBVNL. In addition, street lighting and signal systems owned by or leased to the Board would also be under JBVNL. Along with the above, all civil property which is directly related to the activity of distribution of power to the end consumers would also become a part of JBVNL.

Besides the above, contracts, agreements, interest and arrangements which are associated with or related to distribution activities shall also be under JBVNL. JBVNL will also have power purchase liability to the extent of Rs 1,000 Crore. This is provisional subject to final decision by the state government. All contingent liabilities to the extent they are recognized or are associated with or related to distribution activities shall also be borne by JBVNL. The formative aggregate assets and liabilities of JBVNL as on 01-04-2012 are given in table 10.4 (pp. 102).

Assets	Rs. Cr.	Liabilities	Rs. Cr.
Fixed Assets	1225.09	Borrowings from Working Capital	274.93
Less Accumulated Depreciation	587.22	Payment Due on Capital Liabilities	0.00
Net Fixed Assets	**637.86**	Capital Liabilities	142.54
Capital Expenditure in Progress	**1371.11**	Funds from State Government	0.00
Assets not in use	0.00	Contributions, Grants and Subsidies towards cost of capital	0.00
Deferred Cost	0.00		
Intangible Assets	0.00	**Total Liabilities**	**417.48**
Investments	171.41	Reserve and Reserve Funds	0.00
Investments in Subsidiaries	0.00		
Stocks	154.44		
Recieveables aganist supply of power	1221.32		
Cash and Bank Balances	605.31		
Loans and Avances	53.90		
Sundry Recievables	551.38		
Total Current Assets	**2586.35**		
Security Deposits from Consumers	371.80		
Other Current Liabilities	3530.10		
Total Current Liabilities	**3901.90**		
Net Current Assets	**-1315.55**		
Subsidy Received from Government	0.00	Equity Balancing Figure	**447.09**
Surplus (Deficit)	0.00	Surplus (Deficit)	0.00
Net Assets	**864.56**	**Total Funds**	**864.56**

Table 10.4: JBVNL Aggregate Assets and Liabilities as on 01-04-2012

The main functions and duties of JBVNL as incorporated in the Act are to undertake the activities of distribution to all consumers. It will also be responsible for maintaining, modernising and extending the current power distribution network in all aspects including amongst others various voltage lines and associated sub-stations, including distribution centres, equipments and materials connected with sub-transmission, distribution, supply of electrical energy, ancillary services, telecommunication and tele-metering equipments. JBVNL is also charged with tendering, finalising and executing Power Purchase and other agreements for sale or purchase of electricity with generating companies, trading companies, other distribution companies and Central and State generating authorities. In addition it is to undertake Rural Electrification schemes in the licensed area.

10.3.4 Jharkhand Urja Vikas Nigam Limited

Jharkhand Urja Vikas Nigam Limited (JUVNL) is the holding company of the Jharkhand Urja Utpadan Nigam Ltd (JUUNL), Jharkhand Urja Sancharan Nigam Ltd (JUSNL) and Jharkhand Bijli Vitran Nigam Ltd (JBVNL) and is vested with the assets, interest in property, rights and liabilities of Jharkhand State Electricity Board. It will primarily be an investment company and shall invest in companies in the field of electricity. These companies may be engaged in the business of generation, transmission, distribution and trading of electricity or any or all of these activities.

The Holding Company shall undertake coordination activities between the three subsidiaries, including cash/fund management for smooth functioning of the subsidiary compa-

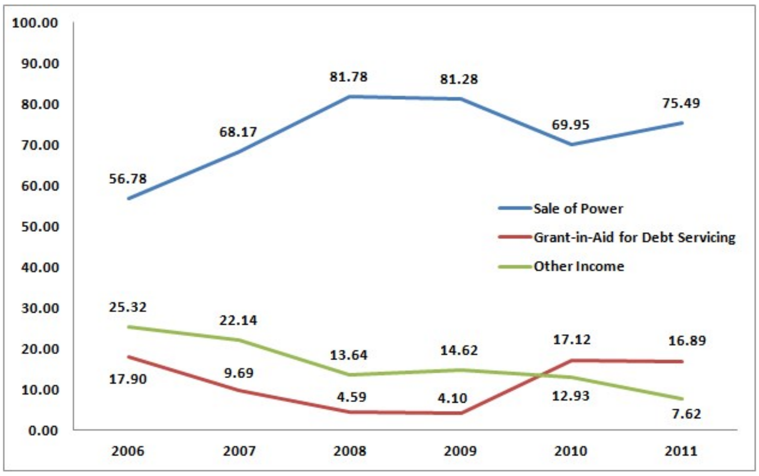

Figure 10.1: Trends in Income Component of JSEB

nies. It shall also handle all disputes between subsidiaries and shall provide all necessary support to to the subsidiary companies till finalisation of the transfer scheme. The formative aggregate assets and liabilities of JUVNL as on 01-04-2012 are given in table 10.5 (pp. 103).

Assets	Rs. Cr.	Liabilities	Rs. Cr.
Fixed Assets	6.60	Borrowings from Working Capital	0.00
Less Accumulated Depreciation	2.49	Payment Due on Capital Liabilities	0.00
Net Fixed Assets	**4.10**	Capital Liabilities	0.00
Capital Expenditure in Progress	**0.00**	Funds from State Government	0.00
Assets not in use	0.00	Contributions, Grants and Subsidies	0.00
Deferred Cost	0.00	towards cost of capital	
Intangible Assets	0.00	**Total Liabilities**	**0.00**
Investments	0.00	Reserve and Reserve Funds	0.00
Investments in Subsidiaries	1507.66		
Stocks	0.00		
Recieveables aganist supply of power	0.00		
Cash and Bank Balances	10.25		
Loans and Avances	0.75		
Sundry Recievables	0.00		
Total Current Assets	**11.00**		
Security Deposits from Consumers	0.00		
Other Current Liabilities	9.38		
Total Current Liabilities	**9.38**		
Net Current Assets	**1.62**		
Subsidy Received from Government	0.00	Equity Balancing Figure	**1513.39**
Surplus (Deficit)	0.00	Surplus (Deficit)	0.00
Net Assets	**1513.39**	**Total Funds**	**1513.39**

Table 10.5: JUVNL Aggregate Assets and Liabilities as on 01-04-2012

10.4 Impact on State Finances

The power sector reforms being just implemented, it is difficult to say what the impact would be on the finances of the state, however an attempt has been made to analyse the impact. Table 10.6 (pp. 104) gives the Profit & Loss statment for JSEB for the year ended on March 31st of the respective Years (Department of Energy, 2012).

If we look at the trends of income component (fig 10.1, pp. 103) then we see that the income from the sale of power has shown a fairly steady increase over time. In fact, the

Item	2006	2007	2008	2009	2010	2011
Income						
Sale of Power	1,155.00	1,407.00	1,391.00	1,585.00	1,634.00	2,011.00
Grant-in-Aid for Debt Servicing	364.00	200.00	78.00	80.00	400.00	450.00
Other Income	515.00	457.00	232.00	285.00	302.00	203.00
Total Income	**2,034.00**	**2,064.00**	**1,701.00**	**1,950.00**	**2,336.00**	**2,664.00**
Expediture						
Generation and Purchase of Power	1,455.00	1,628.00	1,745.00	1,923.00	2,068.00	2,691.00
Repair and Maintainence Expenses	31.00	36.00	57.00	68.00	68.00	44.00
Employee Cost	170.00	169.00	169.00	189.00	208.00	252.00
Administrative and General Expenses	31.00	32.00	34.00	55.00	41.00	49.00
Depriciation	33.00	36.00	44.00	48.00	50.00	51.00
Interest and Finance Charges	325.00	502.00	504.00	559.00	610.00	555.00
Bad Debts and Other Debts	0.00	0.00	0.00	0.00	0.00	0.00
Extra-ordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total	**2,045.00**	**2,403.00**	**2,553.00**	**2,842.00**	**3,045.00**	**3,642.00**
Less: Expenses Capitalised	11.00	15.00	41.00	102.00	150.00	159.00
Net Prior Period Credit / Charges	-234.00	55.00	12.00	-48.00	-147.00	97.00
Total	**2,268.00**	**2,333.00**	**2,500.00**	**2,788.00**	**3,042.00**	**3,386.00**
Profit / Loss Before Tax	**-234.00**	**-269.00**	**-799.00**	**-838.00**	**-706.00**	**-722.00**
Other Debits	249.00	182.00	403.00	210.00	0.00	0.00
Profit / Loss After Tax	**-483.00**	**-451.00**	**-1,202.00**	**-1,048.00**	**-706.00**	**-722.00**

Source: Detailed Power Sector Analysis of Jharkhand, Department of Energy

Table 10.6: Profit & Loss Statement of JSEB for the Year Ended March 31st (Rs. Crore)

revenues from sale of power has constituted around 72% of income with a standard deviation of about 9%. The five year CAGR works out to be about 12%. Another component which has buckled its falling trend is the grant-in-aid component, which has grown with CAGR of 4%. Income from other sources has steadily shown a decline with a CAGR of -17%. This is a disturbing trend as because JSEB would have to then rely more and more on borrowings from the Central and the State Government to meet shortfall in its expenditure. This can be seen from the share of grants-in-aid for debt servicing, which had shown an exceptional decline till 2009, but is back to 16.89% in 2011. If the trend persist in the future then we may expect more and more borrowings by JSEB from the governments.

On the expenditure front, expenses on generation an purchase of power has remained fairly steady at about 70% $\pm$ 3%. Employee cost has shown a steady decline from 8.31% in 2005-06 to 6.92% in 2010-11. About 20% of the expenditure of JSEB has been under the head of Interest and Finance Charges which is a cause for concern. If it remains within the 20% limit it is perhaps manageable, but if it increases in the future then it will impact the state finances.

Table 10.7 (pp. 105) gives the details of Loans and Grant-in-aid provided by the state government to JSEB over the period shown. In 2004-05 and 2005-06, the Government of Jharkhand issued power bonds on behalf of JSEB to the tune of Rs. 899.06 crores and Rs. 1926.85 crores respectively. The total of power bonds issued (Rs. 2,825.91 crores) were shown in state finances in the year of 2005-06. Again in the same year, the state government provided to JSEB a sum of Rs. 489.95 crores as grant for payment of outstanding interest on previously issued power bonds. As such a total of Rs. 3,315.86 crores were provided in 2005-06 by the Government of Jharkhand as special assistance to JSEB. On the other hand, in the year 2007-08 JSEB repaid the government a paltry sum of Rs. 27 crores as loan repayment.

Year	Grant-in-Aid (Non Plan)	Loans Given During the Year	Bond and Interest Payment	Loan Repayment	Loans Outstanding
(1)	(2)	(3)	(4)	(5)	(6)
2002-03	75.00	228.00	–	–	512.21
2003-04	85.99	92.60	–	–	604.81
2004-05	227.81	490.53	–	–	1,095.34
2005-06	364.58	335.26	3,315.86		4,746.46
2006-07	211.35	334.45	–	–	5,080.91
2007-08	78.62	487.30	–	27.00	5,541.21
2008-09	81.30	329.07	–	–	5,897.28
2009-10	401.35	221.44	–	–	6,057.94
2010-11	451.30	275.43	–	–	6,333.37
2011-12	751.94	164.95	–	–	6,498.32
2012-13	1,102.15	541.70	–	–	7,040.02

Source: Finance Accounts, Jharkhand Various years statements 5,7 and 8

Table 10.7: Loans & Grant-in-Aid to JSEB by Jharkhand Government (Rs. Crore)

Even if we subtract the bonds and interest payments of Rs. 3,315.86 crores, then JSEB has an outstanding of Rs. 3,724.16 in terms of grants in aid and loans given by the state government. However as per the Debt Restructuring Plan for Power Distribution Companies in the Financial Restructuring Package (FRP), which was approved by the government last year, 50% of the accumulated debt of the power distribution companies till March 2012 can be converted into bonds. These bonds will be issued by the distribution companies to the participating lenders, backed by state government guarantees.The balance 50% loans will be restructured by providing moratorium on principal and best possible terms for repayments (Business Today, 2013). This would mean an additional burden to the Government of Jharkhand of Rs. 1,862.08 crores (if bonds and interests servicing on bonds are excluded) and Rs. 3,520.01 crores (if bond and interest servicing on bonds are included).

We have also made an attempt to predict the total Grant-in-aid (non-plan) and Loans given during the year by the Government of Jharkhand [Col. (2) + Col. (3) of Table 10.7] under three different methods. In the *first method* we calculated the CAGR of Grant-in-Aid and Loans given for the above duration and used it to compute the figures for the remaining years. The CAGR of Grant-in-Aid and Loans given were 27.68% and 8.18% respectively. The sum of Grant-in-Aid and Loans by State Government formed the Total Loans and Grants. We call this method the **pessimistic method** as because the projections by this method are dismal as compared to other methods. In the *second method*, we simply calculated the CAGR of Total Loans and Grants – which was 16.62% – and predicted it for the remaining years. This we call the **realistic method**.

In the *third method* we calculated the second degree regression equation of Total Loans and Grants with respect to time and then used the regression equation to predict the future values. The regression equation was $y = 521.78 - 84.259x + 14.138x^2$ where y represented the Total Loans and Grants and x represented time with 2002-03 being taken as t_1. The R^2 or the goodness of fit measure computed for this method was 0.6544. We call this the **optimistic method**. Table 10.8 gives the Total Loans and Grants as projected by the three different methods from 2013-14 to 2019-20.

Subsequently we have compared the pessimistic scenario with the State Own Revenue (State Own Tax Revenue + State Own Non-Tax Revenue) and State Total Revenue Receipts

Year	Pessimistic	Realistic	Optimistic
2013-14	1,993.21	1,917.02	1,546.54
2014-15	2,430.62	2,235.59	1,815.74
2015-16	2,979.73	2,607.10	2,113.20
2016-17	3,670.70	3,040.35	2,438.95
2017-18	4,541.95	3,545.60	2,792.96
2018-19	5,642.49	4,134.80	3,175.26
2019-20	7,034.80	4,821.92	3,585.83

Table 10.8: Projection of Total Loans and Grants to JSEB (Rs. Crores)

Year	State Own Tax Revenue	State Own Non Tax Revenue	State Own Revenue (SOR)	Total Revenue Receipts (TRR)	Total Grants and Loans	%age of SOR	%age of TRR
(1)	(2)	(3)	(4=2+3)	(5)	(6)	(7=6/4)	(8=6/5)
2002-03	1,750.30	1,483.96	3,234.26	4,936.78	303.00	9.37	6.14
2003-04	1,986.22	1,671.82	3,658.04	5,637.77	178.59	4.88	3.17
2004-05	2,382.78	1,911.32	4,294.10	6,660.50	718.34	16.73	10.79
2005-06	2,758.04	2,529.95	5,287.99	8,463.88	699.84	13.23	8.27
2006-07	3,188.50	2,770.42	5,958.92	10,009.82	545.80	9.16	5.45
2007-08	3,473.35	3,443.17	6,916.52	12,026.35	565.92	8.18	4.71
2008-09	3,746.19	4,067.58	7,813.77	13,205.88	410.37	5.25	3.11
2009-10	4,500.12	5,070.77	9,570.89	15,118.46	622.79	6.51	4.12
2010-11	5,716.63	6,910.14	12,626.77	18,781.12	726.73	5.76	3.87
2011-12	6,953.89	8,295.63	15,249.52	22,419.45	916.89	6.01	4.09
2012-13 (PA)	8,223.81	8,346.38	16,570.19	24,757.95	1,643.85	9.92	6.64
2013-14 (BE)	10,152.40	14,093.98	24,246.38	33,598.90	1,993.21	8.22	5.93
2014-15 (FP)	11,878.31	17,665.25	29,543.56	40,018.38	2,430.62	8.23	6.07
2015-16 (FP)	13,897.62	22,165.22	36,062.84	47,794.65	2,979.73	8.26	6.23
2016-17 (FP)	16,260.22	27,840.39	44,100.61	57,240.22	3,670.70	8.32	6.41
2017-18 (FP)	19,024.45	35,003.69	54,028.15	68,744.52	4,541.95	8.41	6.61
2018-19 (FP)	22,258.61	44,052.64	66,311.25	82,793.59	5,642.49	8.51	6.82
2019-20 (FP)	26,042.57	55,492.40	81,534.97	99,995.19	7,034.80	8.63	7.04

PA: Provisional Actuals; **BE**: Budget Estimate; **FP**: Future Projected; **Col. 6** is on pessimistic projection
Source: State Revenue Accounts & Financial Projections of Jharkhand Government

Table 10.9: JSEB Grants and Loans as Percentages of State Taxes

(State Own Tax Revenue + State Own Non-Tax Revenue + Share in Central Taxes + Grants-in-Aid). As can be seen from the table 10.9 (pp. 106) the percentage of grant and aid to JSEB remains fairly consistent at around 9% of State Own Revenue (Col. 7) and around 7% of the Total Revenue Receipts.

This is a fairly acceptable state of affairs; however with the power sector reforms and the Financial Restructuring Package (FRP) which has been approved by the Central Government, it is difficult to say what the situation would be in the future. Much will depend on the following three factors (a) ability of the new companies – Jharkhand Urja Sanchar Nigam Limited (JUSNL), Jharkhand Urja Utpadan Nigam Limited (JUUNL), Jharkhand Bijli Vitaran Nigam Limited (JBVNL) and Jharkhand Urja Vikas Nigam Limited (JUVNL) – to perform and earn profits (b) interest payment on power bonds and their subsequent restructuring and (c) the populist policies which the government may decide from time to time.

Chapter 11

Analysis of Contingent Liabilities of the State

11.1 Introduction

A Contingent Liability is a potential liability. It is contingent upon the occurrence or non-occurrence of a future event. For example, if a public sector undertaking (PSU) takes a loan from a bank which is guaranteed by the government, then the loan is a potential liability of the government. This potential liability may become actual liability if the PSU fails to repay the loan. In such a case, loan must be paid by the government.

While the focus all along has been mainly on government?s direct debt obligations or liabilities, contingent liabilities pose a serious risk to states finances, especially when they become part of actual liabilities over time. The recently-announced scheme for financial restructuring of the state-owned distribution companies (discoms) is likely to increase the contingent liabilities of the state governments in the near term and may have an impact on their actual liabilities in the medium-term. Contingent liabilities arising from guarantees to state public sector utilities pose a risk to state finances, unless monitored and adequately controlled (RBI, 2013, pp. 53). The financial losses of the state power distribution companies (discoms) and contingent claims arising out of this continue to be a drag on the finances of states.

11.2 Specific areas for fiscal transparency at the state level

These include compilation and dissemination of information relating to major fiscal indicators, outstanding liabilities, contingent liabilities (dissemination and risk assessment), major tax expenditures and quasi-fiscal activities. In addition, disclosures in respect of components of liabilities, consolidated sinking fund, risk-weighted guarantees, guarantee redemption fund, assets, claims/ commitments on revenue demands raised but not realised and liabilities relating to major works and contracts including committed liabilities therein have been considered desirable to move towards greater fiscal transparency (RBI, 2013, pp. 53).

11.3 Contingent Liabilities

While the revenue accounts of several state governments continue to record surpluses, despite the moderation witnessed in some states, this needs to be seen in the light of mounting losses in state public sector undertakings (SPSUs), particularly state power distribution companies (discoms), which is a serious cause for concern not only for the SPSUs themselves but also for the banks/financial institutions that have lent to them. The scheme for financial restructuring of state discoms announced by the central government in October 2012, requires, states opting for the scheme to provide guarantees to the bonds to be issued by discoms to participating lenders. This would add to the contingent liabilities of the state governments.

At present, the Reserve Bank, on behalf of the state governments, maintains consolidated sinking fund (CSF), which provides a cushion for amortisation of the market borrowings of state governments. The Reserve Bank also maintains Guarantee Redemption Fund (GRF) to service the contingent liability arising from the invocation of guarantees issued in respect of borrowings by state-level undertakings or other bodies. As on March 31, 2012, 19 state governments and the Union Territory of Puducherry had set up CSF and 10 states had subscribed to GRF. The outstanding investments under CSF and GRF amounted to Rs. 443 billion and Rs. 43 billion, respectively, at the end of November 2012. A working group was set up by the Reserve Bank to examine various investment avenues for the funds available in the CSF so as to make it more viable (RBI, 2013).

The Twelfth Finance Commission had recommended creation of "*Sinking Fund*" and "*Guarantee Redemption Fund*" by every state. The Sinking Fund was supposed to provide a cushion for amortisation of the market borrowings of state governments and the Fund was supposed to have a corpus equal to 0.5% of total outstanding debt raised after the recommendations of the Twelfth Finance Commission came into effect. Since the Twelfth Finance Commission period, the State Government has raised debt amounting to Rs. 21947 crore by the end of 2012-13. The Sinking Fund would have had a corpus of 10.97 crores (0.05% of debt) had it been in existence. The State Government has not created Sinking Fund for amortization of any kind of loan till the end of March 2013 (Government of Jharkhand, 2012a, pp. 22).

The purpose of Guarantee Redemption Fund (GRF) is to service the contingent liability arising from the invocation of guarantees issued in respect of borrowings by state-level undertakings or other bodies. The Government of Jharkhand has not created GRF till the end of March 2013 (Government of Jharkhand, 2012b, pp. 44). Jharkhand Fiscal Responsibility and Budget Management Act, 2007 provides that

- Managing guarantees and other contingent liabilities prudently, with particular reference to level of risk of such liabilities

- Should include an assessment of sustainability relating to the policies of the State Government for the current financial year relating to expenditure, borrowing and other liabilities, lending and investments and description of other activities, such as guarantees and public sector undertakings which have potential budgetary implications.

- The statement indicating institution-wise state Government guarantees given, default by these organisations in discharging debt-servicing liabilities and contingent liability created in the State Government account on account of default of these organisations shall be placed in the Legislature.

The Guarantees given by the composite state of Bihar up-to 14.11.2000 has not been allocated between the successors states of Bihar and Jharkhand so far (March 2013). The State Government has not yet furnished detailed information with regard to guarantees given by it so far. However Fiscal correction Path of the State Government revealed that at the end of March 2012, Rs. 500 crores was outstanding in the shape of guarantees given by the government (Government of Jharkhand, 2012a, pp. 22) . No details are available regarding this guarantee (Government of Jharkhand, 2012b, pp. 63).

The Government of Jharkhand extended State Guarantee to Jharkhand State Electricity Board for purchase of electricity from DVC in 2012-13 from 79.37 crores to 157.15 crores, a net addition of rupees 77.78 crores during 2012-13.

Number of Guarantees	1
Sector	Power
Maximum amount guaranteed during the year 2012-13	77.78
Outstanding at the beginning of the year 2012-13*	79.37
Additions during the year 2012-13	77.78
Outstanding at the end of 2012-13	157.15

* Details regarding outstanding guarantee not available
Source: Finance Accounts (Volume-II)2012-13, Government of Jharkhand

Table 11.1: Statement of Guarantees given by the Government of Jharkhand (Rs. Crore)

The Cabinet Committee on Economic Affairs on 28th November approved Power Ministry's proposal of amending the debt restructuring package forelectricity distribution companies (discoms). As per the proposal, the state electricity boards of Jharkhand, Bihar and Andhra Pradesh would be allowed to convert their outstanding loans till March 2013 into bonds as part of an amendment to the discom debt restructuring package. Under the current Financial Restructuring Package (FRP), which was approved by the government in October 2012, 50 per cent of the accumulated debt of the discoms till March 2012 can be converted into bonds. These bonds will be issued by the distribution companies to the participating lenders, backed by state government guarantees. The balance 50 per cent loans will be restructured by providing moratorium on principal and best possible terms for repayments. The support under the scheme is available for all participating state-owned discoms on fulfilling short-term mandatory conditions. The accumulated losses of state power distribution companies were estimated to be about Rs 1.9 lakh crore as on March 31, 2011 and Rs 2.46 lakh crore as on March 31, 2012 (Business Today, 2013).

Implementation of the scheme in Jharkhand will help provide comfort to lenders by securing state takeover of, and guarantee for, debt besides bringing about financial discipline in the distribution sector. It will also help provide commercial orientation to the functioning of discoms and casting responsibility on state governments to ensure a steady flow of revenue to them by improving efficiency of their operations.

The Debt Restructuring Package is likely to increase the contingent liability of Jharkhand as it will have to provide guarantees to the lenders to the tune of 50% of the outstanding debt of the Jharkhand State Electricity Board. The outstanding long-term loans of Jharkhand State Electricity Board as on 31st March 2012 stood at 4864.88 crores (Comptroller and Auditor General, 2013).

Chapter 12

Analysis of Subsidies given by the State

12.1 Introduction

The justification for subsidy for the provision of certain social and economic services by the state is rooted in the concept of 'merit goods' introduced in economics by Richard Musgrave (1959). A **merit good** is a commodity which is judged by the society as so important that its provision to the consumers should not be based on the individual's ability to pay but should be based on the needs of the consumers. The prime function of government is to collect taxes in order to spend on public or collective goods that are made available to all, and indeed no one could be excluded from receiving the benefits from them (Ambirajan, 1999). Moreover consumption of a merit good also generates an external benefit to others, from which the entire society gains. This is called positive externalities in the literature.

Subsidies are justified in the presence of positive externalities because in these cases social benefits require higher consumption levels than what would be obtained on the basis of private benefits only. In addition, subsidies are sometimes justified for well defined redistributive objectives. However, the financing of subsidies induces its own costs whether these are financed through additional taxation or borrowing. The welfare gains of subsidies should be matched against the costs of financing subsidies. Over-subsidisation could adversely affect allocation of resources and environment (Srivastava, Rao, Chakraborty, & Rangamannar, 2003, pp. VIII).

The major central subsidies are food, fertiliser and petroleum subsidies. Other central subsidies include interest subsidies, postal deficit, Subsidy on the import of pulses and edible oils, support for market intervention/price support scheme for agricultural produce, Haj Subsidy and subsidy to shipyards.

There are very few explicit subsidies in Jharkhand's budgets. In fact, the state of Jharkhand made provisions for subsidy in the state budget for the first time in FY 2008-09. In 2011-12, the state spent a paltry Rs. 286 crores on budgeted subsidies on schemes run by six government departments including agriculture and industry.

12.2 Explicit Subsidies in Jharkhand

It is a common knowledge that very few expenses in state budgets are specifically marked as subsidies. While, several subsidies are explicitly stated in the central budget, the state budgets show few subsidies explicitly. There are very few expenses explicitly classified as subsidies in the budget of Jharkhand. Currently the State provides explicit subsidies for various schemes offered by Agriculture Department, Animal Husbandry Department, Dairy Development and Fisheries Department, Cooperative Department and Industry Department. The Table 12.1 (pp. 112) shows trend of explicit subsidies (in rupees crores) and also as percent of revenue receipts beginning from 2004-05 and upto 2011-12. Table 12.2 (pp. 112) shows department wise explicit subsidies from 2008-09 to 2011-12. The breakup of subsidies department-wise for earlier years is not available. The state curtailed expenditure on subsidies from Rs 469 crore in 2005-06 to Rs 37 crore in 2008-09. Subsidy of Rs 469.19 crore, Rs 211.35 crore and Rs 77.27 crore was given only to the power sector during 2005-06, 2006-07 and 2007-08 respectively. In 2008-09, subsidy of Rs 36.58 crore and Rs 0.07 crore was given for agriculture and allied activities and industries and minerals respectively. No subsidy was given either to power sector or for food during 2008-09

Year	Total Explicit Subsidies	Subsidies as % of revenue receipts
2004-05	424.00	6.00
2005-06	469.00	6.00
2006-07	211.00	2.00
2007-08	77.00	1.00
2008-09	37.00	0.30
2009-10	41.00	0.30
2010-11	80.00	0.40
2011-12	286.00	1.28

Table 12.1: Expenditure on Explicit Subsidies in Jarkhand (Rs. Crores)

Total amount of explicit subsidies in 2008-09 was a paltry Rs. 36.65 crore which increased to Rs. 286.38 crore in 2011-12. The amount of explicit subsidies in 2008-09 and 2011-12 was just 0.28% and 1.36% of total revenue expenditure of the state in the respective financial years. As per Appendix III of Finance Accounts, Volume-2, Government of Jharkhand, for 2011-12, no subsidy was given for food, power and irrigation purposes. The Economic Survey Report 2011-12 of Government of Jharkhand estimated expenditure on food subsidy of Rupees 760 crore for the year 2011-12 . Data on actual amount spent on food subsidy is not available. Therefore one can easily draw the conclusion that entry "subsidies" in the state budgets gives a very incomplete picture of subsidies.

Head	**Description**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
2401	Crop Husbandry	2,122.87	3,241.45	5,639.07	17,680.57
2403	Animal Husbandry	689.25	271.53	515.97	1,097.52
2404	Dairy Development	845.74	558.05	1,762.05	1,601.81
2425	Cooperation	–	–	–	2,829.55
2851	Village and Small Industries	6.98	17.05	38.11	–
2852	Industries	–	–	88.89	5,428.06
	Total	3,664.84	4,088.08	8,044.09	28,637.51

Source: Finance Accounts, Jharkhand

Table 12.2: Explicit Subsidies in Jharkhand (Rupees Lakh)

12.3 Implied Subsidies

Since the explicit subsidies provide a very incomplete picture of the overall budgetary subsidies, how do we capture the extent of implicit subsidies in the budget of Jharkhand? Implied subsidies are those which are not specifically marked as subsidy in state budgets. For instance, the difference between total expenditure (revenue and capital expenditure) on all social and economic services (e.g. education, health, power and agriculture) and the revenue receipts from such services is essentially subsidy, though not classified as subsidy. The receipt to expenditure ratio is essentially the recovery rate.

To estimate the implicit subsidies in the state budgets of Jharkhand, we will follow a simplified methodology suggested by a 2003 report of National Institute of Public Finance and Policy (NIPFP) on Budgetary Subsidies in India, Subsiding Social and Economic Services (Srivastava et al., 2003). To uncover the implicit subsidies in the provision of social and economic services, the following methodology is used:

$$\begin{aligned} & \text{Implicit subsidy on social and economic services} \\ = \ & \text{Unrecovered Costs of government provision of social and economic services} \\ = \ & \text{excess of costs over receipts from the concerned budgetary head} \end{aligned}$$

The costs incurred will be equal to revenue (current) expenditures[1] directly related to the provision of services classified under different heads. The receipts will be revenue receipts from user charges. The difference between costs and revenue will be taken as implicit subsidy. In terms of symbols, Subsidy is defined as $S = C - R$; where C = Revenue Expenditure on the service and R = Revenue Receipts from the service.

Whenever there is no corresponding budgetary head on receipts side of the budget, we assume that there are no receipts from that service and therefore the recovery rate will be considered zero. Recovery rate is calculated as ratio of revenue receipts to revenue expenditure on selected social or economic services. Grants-in-aid given to public sector for provision of social and economic services, like grants to Jharkhand State Electricity Board, will also be considered as implied subsidy.

12.4 Merit Goods

The classification of Merit Goods into Merit 1 and Merit 2 was attempted by the authors of the NIPFP report (Srivastava et al., 2003). We have separately computed the implied subsidies on Merit 1 and Merit 2 goods. The various social and economic services classified as Merit 1 and Merit 2 is as below:

Merit 1: Elementary education, primary health centres, prevention and control of diseases, social welfare and nutrition, soil and water conservation, and ecology and environment

Merit 2: Education (other than elementary), sports and youth services, family welfare, urban development, forestry, agricultural research and education, other agricultural pro-

[1] Capital expenditures are not included

grammes, special programmes for rural development, land reforms, other rural development

Table 12.3 (pp. 114) presents a few important metrics of subsidies. Apart from separately providing information on amount of subsidy and recovery rate for five separate groups of services (Merit 1, Merit 2, Social Services, Economic Services and Social and Economic Services), it also present the budgetary subsidies as percent of GSDP, Revenue Receipts and Fiscal Deficit.

			Services				
			Merit 1	**Merit 2**	**Social**	**Economic**	**Social & Economic**
2002-03	**Subsidy**		1045.44	807.74	1967.43	-40.17	1927.26
	Recovery Rate (%)		1.25	4.09	1.08	104.89	31.41
	Subsidy as % of	**Revenue Receipts**	21.18	16.36	39.85	-0.81	39.04
		GSDP	2.38	1.84	4.49	-0.09	4.4
		Fiscal Deficit	60.77	46.95	114.37	-2.34	112.03
2003-04	**Subsidy**		1038.01	737.75	1880.11	-63.16	1816.95
	Recovery Rate (%)		2.2	5.8	1.88	106.81	36.12
	Subsidy as % of	**Revenue Receipts**	18.41	13.09	33.35	-1.12	32.23
		GSDP	1.97	1.4	3.56	-0.12	3.44
		Fiscal Deficit	118.84	84.46	215.24	-7.23	208.01
2004-05	**Subsidy**		1448.3	914.67	2542.47	523.31	3065.78
	Recovery Rate (%)		1.42	2.42	1.17	65.33	24.89
	Subsidy as % of	**Revenue Receipts**	21.74	13.73	38.17	7.86	46.03
		GSDP	2.42	1.53	4.25	0.88	5.13
		Fiscal Deficit	65.3	41.24	114.63	23.59	138.22
2005-06	**Subsidy**		1764.73	1232.49	2935.42	741.34	3676.76
	Recovery Rate (%)		1.86	6.36	6.66	59.99	26.43
	Subsidy as % of	**Revenue Receipts**	20.85	14.56	34.68	8.76	43.44
		GSDP	2.9	2.02	4.82	1.22	6.04
		Fiscal Deficit	31.5	22	52.39	13.23	65.62
2006-07	**Subsidy**		2009.85	1487.2	3328.69	810.03	4138.72
	Recovery Rate (%)		1.01	2.22	1.51	57.91	21.98
	Subsidy as % of	**Revenue Receipts**	20.08	14.86	33.25	8.09	41.35
		GSDP	3	2.22	4.97	1.21	6.18
		Fiscal Deficit	220.74	163.34	365.58	88.96	454.55
2007-08	**Subsidy**		2687.89	1560.96	4268.93	540.07	4809
	Recovery Rate (%)		1.01	4.64	1.34	72.55	23.6
	Subsidy as % of	**Revenue Receipts**	22.35	12.98	35.5	4.49	39.99
		GSDP	3.2	1.86	5.09	0.64	5.73
		Fiscal Deficit	138.36	80.35	219.75	27.8	247.55
2008-09	**Subsidy**		3061.73	2296.52	5420.67	875.73	6296.4
	Recovery Rate (%)		0.75	2.01	0.98	65.42	21.36
	Subsidy as % of	**Revenue Receipts**	23.18	17.39	41.05	6.63	47.68
		GSDP	3.49	2.62	6.17	1	7.17
		Fiscal Deficit	98.08	73.57	173.65	28.05	201.71
2009-10	**Subsidy**		3661.4	2042.08	5626.05	1043.03	6669.08
	Recovery Rate (%)		0.54	1.64	1.2	64.19	22.51
	Subsidy as % of	**Revenue Receipts**	24.22	13.51	37.21	6.9	44.11
		GSDP	3.64	2.03	5.59	1.04	6.63
		Fiscal Deficit	121.6	67.82	186.85	34.64	221.49
2010-11	**Subsidy**		4206.33	3251.07	6580.41	1978.78	8559.19
	Recovery Rate (%)		1.59	1.5	1.87	53.4	55.5
	Subsidy as % of	**Revenue Receipts**	22.4	17.31	35.04	10.54	45.57
		GSDP	3.64	2.81	5.7	1.71	7.41
		Fiscal Deficit	199.22	153.98	311.67	93.72	405.39
2011-12	**Subsidy**		4363.28	3565.87	7240.43	3043.54	10283.97
	Recovery Rate (%)		0.6	2.34	1.7	48.05	22.24
	Subsidy as % of	**Revenue Receipts**	19.46	15.91	32.3	13.58	45.87
		GSDP	3.34	2.73	5.55	2.33	7.88
		Fiscal Deficit	226.64	185.22	376.09	158.09	534.18

Table 12.3: Budgetary Subsidies in Jharkhand from 2002-03 to 2011-12 (Rs Crore)

The recovery rate, defined as the ratio of revenue receipts (RR) from a certain service to revenue expenditure (RE) on that service (or RR/RE), has never exceeded 2.2% in case of Merit goods 1 and 6.36% in case of Merit goods 2. The lowest recovery rates for these two classes of merit goods were 0.54% in 2009-10 for merit 1 and 1.5% in case of merit 2 in 2010-11. One can look at recovery rates from the angle of user charges for a certain service. If the recovery rate is 1% in case of a certain service, it means that the user only pays 1% of the actual cost incurred by the state in providing that service.

In case of Social Services as a whole, the recovery rate has been as low as 0.98% in 2008-09 and no more than 6.66% in 2005-06. In case of economic services as a whole, the recovery rate has never been less than 48% (2011-12) and was over 100% from 2002-03 to 2004-05. This has been made possible mainly on account of significant collections from royalty. Budgetary subsidies on Merit 1 services has ranged broadly between 2 and 3 percent of GSDP during the period 2002-03 to 2011-12, whereas the same on Merit 2 services has ranged from 1.4 to 2.8 percent of the GSDP. The subsidies on Merit 1 services have been between 18.4 and 24.2 percent of the revenue receipts of Jharkhand during the reference period. The same on Merit 2 services has ranged between 13 and 17.4 percent.

12.5 Recovery Rate of Select Social and Economic Services

The expenses being incurred by the government on providing select social and economic services considered merit goods need to be analysed in the light of financial sustainability. Merit goods are goods (such as education, health care, water supply) which deserve public finance and should be provided to all (non-excludability principle) irrespective of capacity to pay for the services. Welfare nations all over the world spend a lot of public money on merit goods. However, in order to have continuing ability to spend large sums of money on merit goods, the governments must also try to recover at least a part of the cost of the services. The sustainability depends on the rate of recovery (RR) defined here as proportion of revenue expenditure (RE) on a certain service recovered from the user of such services. Thus RR/RE is an important indicator of the sustainability of state finances devoted towards merit goods (Purohit & Purohit, 2009).

	Social Services	**Education Sports Arts Culture**	**Medical, Public Health Family Welfare**	**Water and Sanitation Services**	**Economic Services**	**Major and Medium Irrigation**	**Minor Irrigation**	**Roads and Bridges**
Heads		(2202 - 2205)	(2210)	(2215)		(2700 - 01)	(2702)	(3054)
2002-03	1,988.94	1,083.43	182.57	106.67	820.87	16.31	20.54	60.13
2003-04	1,916.12	1,017.87	171.69	104.87	928.12	15.11	28.82	57.81
2004-05	2,572.56	1,375.01	314.32	103.44	1,509.20	12.41	26.21	80.58
2005-06	3,144.76	1,628.08	415.05	130.92	1,853.07	86.10	29.98	108.36
2006-07	3,379.86	1,738.57	353.90	130.11	1,924.62	125.71	35.98	107.37
2007-08	4,327.02	2,157.86	349.08	147.41	1,967.37	129.89	33.42	101.81
2008-09	5,474.55	3,145.93	513.01	171.47	2,532.49	171.97	46.67	204.03
2009-10	5,694.36	3,170.93	534.01	192.14	2,912.38	204.01	58.59	121.35
2010-11	6,773.38	3,802.26	599.92	279.13	4,246.47	203.18	60.91	167.29
2011-12	7,365.48	4,055.89	756.57	339.58	5,859.00	219.89	62.02	277.21

Table 12.4: Revenue Expenditure on select Social and Economic Services (Rs. crores)

	Social Services	Education Sports Arts Culture	Medical, Public Health Family Welfare	Water and Sanitation Services	Economic Services	Major and Medium Irrigation	Minor Irrigation	Roads and Bridges
Heads		(2202 - 2205)	(2210)	(2215)		(2700 - 01)	(2702)	(3054)
2002-03	1.08	0.26	2.09	3.71	104.89	104.49	1.07	10.39
2003-04	1.88	0.7	2.18	2.88	106.81	154.2	0.14	14.01
2004-05	1.17	0.24	1.68	4.32	65.33	125.14	0.57	5.26
2005-06	6.66	10.31	1.02	3.87	59.99	12.88	0.83	5.88
2006-07	1.51	0.77	2.50	4.84	57.91	40.64	1.92	8.30
2007-08	1.34	0.67	4.08	4.12	72.55	106.7	4.23	10.22
2008-09	0.98	0.66	2.11	4.57	65.42	0.09	0.75	9.46
2009-10	1.20	0.28	3.51	3.23	64.19	0.06	0.61	14.42
2010-11	1.87	0.37	3.20	3.13	53.40	3.48	4.33	12.05
2011-12	1.70	0.69	4.64	3.41	48.05	8.58	3.39	9.62
Average 2002-05	1.38	0.40	1.98	3.64	92.34	127.94	0.59	9.89
Average 2009-12	1.59	0.45	3.78	3.26	55.21	4.04	2.77	12.03

RR/RE=Recovery Rate/Revenue Expenditure

Table 12.5: RR/RE on select Social and Economic Services in Jharkhand (%)

Table 12.4 (pp. 115) shows revenue expenditure on six select services in Jharkhand: three selected from amongst social services and three from economic services. The revenue expenditure on social services in Jharkhand has gone up from 1989 crores in 2002-03 to 3981 crores in 2011-12, clocking a compounded annual average growth (CAGR) of 8% only. This means that the revenue expenditure on social services has declined in real terms because the rate of inflation during this period has been somewhat higher than 8%. However there has been a marginal increase in revenue expenditure on some of the most important components of social services like Education, Sports, Art and Culture (ESAC), Medical and Public Health (MPH) and Water Supply and Sanitation (WSS). These three have recorded a CAGR of 15.8%, 17.1% and 13.7% over the ten year period.

12.6 Subsidy to Jharkhand State Electricity Board

Apart from Merit 1 and Merit 2 categories of social and economic services, the state government has provided very large amounts of implied subsidies to Jharkhand State Electricity Board in the form of grants-in-aid and loans. The table 12.6 (pp. 116) shows year-wise loans and grants given to JSEB by the state government.

Financial Year	Grants-in-aid Non-Plan	Loans Given	Total Financial Assistance
(1)	(2)	(3)	(4=2+3)
2002-03	75.00	158.00	233.00
2003-04	85.99	725.86	811.85
2004-05	227.81	574.37	802.18
2005-06	364.58	2,234.49	2,599.07
2006-07	211.35	166.23	377.58
2007-08	78.62	288.85	367.47
2008-09	81.30	223.79	305.09
2009-10	401.35	307.58	708.93
2010-11	451.30	313.56	764.86
2011-12	751.94	164.95	916.89

Table 12.6: Grants-in-aid and Loans given to JSEB by Jharkhand Government (Rs. Crores)

During the period 2002-03 to 2011-12, the state has given a cumulative sum of Rs. 2729.24 crore by way of grants to JSEB. The Board's total outstanding loans received from the state government as on end March 2012 was Rs. 4941.11 crores. Thus the state has so far provided a staggering Rs. 7670.35 crore to JSEB either by way of loan or grants as on March 2012. The loans data as cited here have been sourced from Director, Accounts, Jharkhand Rajya Urja Vikas Nigam Ltd.

12.7 Size of overall budgetary Subsidies in Jharkhand

Even though the recovery rate on expenditure on social and economic services has never exceeded 2.2% of revenue expenditure, the size of implied subsidies in Jharkhand in terms of per person has gone up almost five times. In 2002-03 the total budgetary subsidies was 1927 crores, or Rs 713.7 per person as per population figures of 2001 census. Ten years down the line, the budgetary subsidies in 2011-12 stood at 10284 crore, or Rs 3316 per person as per 2011 census figures. Thus, subsidies per capita have gone up over 4.5 times during the last ten years. In terms of explicit subsidies, the state spent just about 36.6 crores in 2008-09, which has gone up to 286 crores in 2011-12, an increase of over 7.7 times in 4 years time.

12.8 Subsidy Targeting in Jharkhand

12.8.1 Industry Department

Different types of Incentives under Jharkhand Industrial Policy 2001 and subsequently under JIP-2012 are now admissible to industrial units. Provisions for Capital Investment Subsidy, Pollution Control Equipment Subsidy and Captive Energy Subsidy have been made. All cases pertaining to the above under JIP-2001 will be disposed of during this financial year. It has attracted investment of Rs. 39481.30 crore and about 151999 people got employment. Under Industrial Policy JIP-2012, incentives such as VAT Re-imbursement, CPIS, Registration Subsidy, Patent Subsidy etc. are applicable for which necessary provisions have been made in 2013-14. Subsidies are directly paid to industrial units by the State Govt. Amount of subsidies disbursed (Under JIP-2001) between 2007-08 and 2012-13 are given in table 12.7 (pp. 117)

	Financial Year Expenditure					
Name of the subsidies	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Capital Investment Subsidy	907.98	525.60	–	3,738.76	942.41	3,099.99
Interest Subsidy	176.91	127.27	–	262.55	644.25	58.39
Captive Power Generation Subsidy	9.98	13.39	–	18.81	–	–
Stamp Duty & Registration Fee Subsidy	4.82	1.00	–	1.36	–	–
Pollution Control Subsidy	–	–	–	13.10	45.96	–
Vat Subsidies	–	–	–	88.89	5,428.06	5,637.20
Total	1,099.69	667.26	–	4,123.47	7,060.68	8,795.58

Table 12.7: Subsidies disbursed under JIP 2001 by Industry Department (Rs. Lakhs)

12.8.2 Food, Civil Supplies and Distribution Department

Jharkhand is a foodgrains deficit and tribal populated State. In view of food security subsidised foodgrains are being provided to needy Below Poverty Line (BPL), Antyodaya families and Annapurna beneficiaries. Subsidies on foodgrains are being provided to targeted families/beneficiaries of different schemes like Mukhyamantri Khadayan Sahayata Yojana, Antyodya Ann Yojana, Distribution of Foodgrain to Additonal Rural BPL/Antyodaya families, Distribution of Foodgrain to APL families, Distribution of Kerosene Oil etc. Free flow refined iodised salt is provided to BPL families at the rate of 50 paise per kg per month. These schemes and the subsidies are as follows:

Name of Schemes	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Mukhyamantri Khadayan Sahayata Yojana (BPL)	–	34.14	155.15	306.85	349.11	350.94
Antyodya Ann Yojana (AAY)	14.93	70.19	236.07	104.29	119.94	116.50
Foodgrains to Additonal Rural BPL families	–	–	–	–	178.34	106.94
Foodgrains to Additonal Rural AAY families	–	–	–	–	–	14.84
Annapurna Yojana	14.28	13.88	12.95	13.11	4.12	4.16
Distribution of Foodgrains to APL families	–	–	1.12	–	1.78	0.62
Refined Iodised Salt to BPL families	–	35.14	–	–	7.77	18.78
Subsidy on Domestic LPG	–	–	22.39	20.82	–	–
Subsidy on Levy Sugar	–	–	1.62	–	–	–
Subsidy on Kerosene	–	–	–	–	0.32	0.47
Total	29.21	153.35	429.30	445.07	661.38	613.25

Table 12.8: Subsidies by Food Civil Supplies & Distribution Department (Rs. Crore)

Mukhya Mantri Khadhayan Sahayata Yojana

Most of the BPL families of the State are very poor and they live in remote, forest and hilly areas. It is observed that the BPL families living in the State could not purchase wheat and rice at present prevailing BPL rate and are facing problem of inadequate nutritional support. Hence, the Govt. of Jharkhand has decided to give subsidy to the BPL families by allowing them to purchase wheat and rice at the rate of Antyodaya i.e. Rs. 2.00 per kg for wheat and Rs. 3.00 per kg for rice. This scheme has been started from 2009-10. These quantities include the cost of foodgrains, transportation cost including Door Step Delivery and PDS commission, etc.

The subsidy on this program is Rs. Rs. 581.75 per quintal.

Annapurna Yojana (APY)

Under this scheme 10 kg of rice per month per beneficiary is given free of cost. The number of beneficiaries is 2 lakhs. The rice is distributed to the beneficiaries directly by the district administration without any intervention of PDS dealers. The State Government has ensured that the District Administration will directly do distribution of rice to the beneficiary after lifting from FCI godowns and there is no role of PDS dealers in the distribution of Annapurna rice.

Antyodaya Anna Yojna (AAY)

Under this scheme, foodgrains (wheat and rice) at the rate of 35 kg per family every month at subsidised rate (wheat at the rate of Rs. 2.00 per kg and rice at the rate of Rs 3.00 per kg) are distributed to the selected families. The number of the selected BPL families is 9,17,900. The cost of handling, transportation, dealers margin money, sales taxes etc. are borne by the State Plan.

The subsidy on this program is Rs. Rs. 314.10 per quintal.

Distribution of Foodgrains to APL Families

Foodgrains, Kerosene Oil, are being distributed to APL families. In 2009-10 Government has decided to make available APL foodgrains to PDS shop level through Door Step Delivery and enhance PDS shops commission. Distribution of Kerosene Oil Kerosene Oil is being distributed among 4799081 households of the State. Kerosene Oil is allotted to Districts at the rate of 4.72 litre per household according to their no. of households. In 2010-11, 271360195 litres of kerosene oil will be distributed to consumers. Government has decided to increase PDS commission given to PDS dealers.

The subsidies incurred by the government on this account are: distribution of foodgrains to APL families at the rate of Rs. 57.70 per quintal of rice and at the rate of Rs. 46.75 per quintal of wheat.

Distribution of Iodised Salt

Under this scheme, each BPL family will get 2 kg iodised salt per month at the subsidised rate of 25 paise per kg. 23.94 lakhs BPL families including AAY families to be benefited under this scheme.

The subsidy incurred by the goverbment under the free flow refined iodised salt to BPL families is Rs. 830.0 per quintal.

Distribution of Domestic LPG

The Government of Jharkhand has decided to facilitate the domestic LPG consumer to give subsidy of Rs. 40.00 per LPG Cylinder (14.2 kg/Rs. 2.82 per kg from 2009-10).

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