

West Bengal State Finances A Report

Prepared for Fourteenth Finance Commission,
Govt. of India

Prepared By

Prof. Sugata Marjit
RBI Professor of Industrial Economics
Centre for Training and Research in Public Finance and Policy
(CTRFPF)
Centre for Studies in Social Sciences, Calcutta

With Support from

Dr. Joydeb Sasmal
Dr. Jayanta Dwibedi
Shri Koushik Kr. Hati

First Draft
November, 2013

INDEX

Chapters	Contents	Page Number
	Introduction	i - iii
Chapter: I	Assessment of Revenue Profile of the State: Tax Revenue	3 - 16
Chapter: II	Assessment of Revenue Profile of the State: Non-Tax Revenue	17 - 26
Chapter: III	Expenditure Pattern of the State	27 - 36
Chapter: IV	Analysis of Deficit	37 - 41
Chapter: V	Debt Analysis	42 - 51
Chapter: VI	Implementation of FRBM Act	52 - 55
Chapter: VII	Fiscal Performance Index	56 - 79
Chapter: VIII	Performance of State Public Sector Enterprises	80 - 100
Chapter: IX	Analysis of State Subsidy	101 - 105

Introduction

West Bengal is one of the most densely populated states of India, with a population density of 903 per sq. km. whereas the national average is 382 per sq. km. The dismal state of government finance of West Bengal is frequently being highlighted in the last couple of years. As shown in Reserve Bank of India reports on state finance, West Bengal has fared poorly in most parameters when its finances are compared with those of other states. Its performance in this area is even worse than that of the so-called backward states. West Bengal is at present in a dire state of fiscal and financial stringency manifested in high and rising revenue and fiscal deficit. A number of factors are said to be responsible for the present state of State finance and the debt problem.

The time period under consideration captures the performance of the state from 2002-03 to 2011-12. The period has a historical and political significance unlike any other state. It marks the last decade of the rule of the last regime and make the beginning of the new Government, now in power for the last two and half years. Thus certain new initiatives of the new Government to improve the fiscal condition of the state have not been included in the preliminary draft. At the same time the inherited fiscal burden is not likely to be streamlined anytime soon. However a careful scrutiny of the fiscal scenario and related administrative issues over the last decade will provide some clue to possible remedial policies.

Evaluation of state finance has to be done in terms of a bench mark or valid reference point. A natural candidate seems to be to use national average as benchmark. But averaging across states with fairly large variations in economic and social attributes cannot do justice to the performance of a state. Therefore, along with the national average, as a comparable national yard stick, we take Andhra Pradesh as the reference point because of its proximity with West Bengal in terms of its geographical area, GSDP, Per Capita GSDP and Population. Later we introduce the concept of a “Fiscal Performance Index”, drawing from the idea of a standard HDI, to provide a measure of overall fiscal scenario.

The critical issue that stands out in the fiscal history of the state is extremely delayed implementation of the FRBM Act. Such late awakening politically intentional or otherwise has had a crippling effect on the fiscal strategy of the state which naturally depicts a damaging picture when compared to those who have adopted it on time. This is a glaring mistake of missed opportunity and a story of strategic shifting of debt burden on to the next regime. Implementation of late and staggered adoption of FRBM one felt on the extent of deficit and fiscal discipline. We shall highlight some of these in later section of the report.

At a Glance: Andhra Pradesh and West Bengal

Indicators	Andhra Pradesh	West Bengal
Population	84665533	91347736
GSDP at 2004-05 Prices	₹ 4050.46 Billion	₹ 3291.37 Billion
Growth Rate of GSDP	7.82	6.26
Per Capita GSDP 2004-05 Prices	₹ 47840	₹ 36031
Revenue Deficit	₹ 0 (Surplus of ₹ 7.80 Billion)	₹ 172.44 Billion
Debt Burden	₹ 1395.1 Billion	₹ 2077.02 Billion
Annual Interest Payment	₹ 114.12 Billion	₹ 160.97 Billion
<p>West Bengal and Andhra Pradesh are said to be of similar “size” in terms of population, area or volume of economic activities. In spite of that Andhra Pradesh tends to perform much better than West Bengal in any of the areas of fiscal management. It is alarming to note that Revenue deficit of the state of West Bengal is the highest among the five highly-indebted states of today’s India and consequently the state has become the top most indebted state among all general category sates of the country. Whereas our benchmark sate of this discussion, namely Andhra Pradesh have shown significant improvement in her state finance by reducing her revenue deficit to zero and running in surplus since 2006-07. If we go on finding the root cause of this increasing deficit for West Bengal, it can be seen that on the one side the actual tax collection is far below the potential tax collection (reflected by Tax-GSDP Ratio), causing shortfall of revenue earning and on the other side inefficiency to spend money causing rise in expenditure. Statistically Speaking, in 2011-12 financial year, West Bengal managed to collect 8 per cent of her GSDP as Tax Revenue, whereas Andhra Pradesh have collected 11 percent of the same in the same financial year. Similar such discrepancies can be observed if we go on looking at the other indicators of fiscal performance.</p>		

The report is structured as follows. The next chapter talks on the volume of revenue receipt and its components followed by another chapter on the spending pattern. After that the analysis of debt and consequent repayment related discussion. Having discussed the three broad areas of state finance, namely, receipt, expenditure and debt in three major chapters, the next chapter highlights the overall fiscal performance of the two states by developing a composite index of overall fiscal performance using the individual indicators used in three aforesaid chapters. After this, elaborate study has been made on implementation of FRBM Act, Impact of State Public Enterprises on state's fiscal health, power sector reform and subsidies given by the states in separate chapters of the report. Moreover, this evaluation study critically analyses the overall state finances over the period from 2002-13 to 2011-12.

Chapter – I

Broad Content

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

Assessment of Revenue Profile of the State: Tax Revenue

In this section we evaluate the revenue generating capacity of the state, estimating and analysing various fiscal parameters that are considered to be the indicators of the tax effort of a state. To review the situation of West Bengal in right perspective, we have compared the state's performance with similar general category states in general and Andhra Pradesh in particular. We choose Andhra Pradesh as the reference state because of its similarity with the state of West Bengal in terms of its size, demography and per capita income.

Total Revenue

Total revenue of the state grew at a compounded annual growth rate (CAGR) of 16.88% over the period 2002-03 to 2011-12 as compared to an average of 17.23% for all general category states (GCS). Table 1 presents the relative performance of the state as compared to other GCS.

Table 1: Comparison of CAGR of Revenue Receipt of West Bengal with other General Category States for the period 02-03 to 11-12.

States	CAGR of Total Revenue
Andhra Pradesh	17.37%
Bihar	19.18%
Chhattisgarh	19.88%
Goa	14.19%
Gujarat	14.88%
Haryana	16.22%
Jharkhand	14.87%
Karnataka	17.38%
Kerala	15.73%
Madhya Pradesh	18.89%
Maharashtra	16.75%
Odisha	18.95%
Punjab	12.13%
Rajasthan	17.56%
Tamil Nadu	16.99%
Uttar Pradesh	19.44%
West Bengal	16.88%
All GCS	17.23%

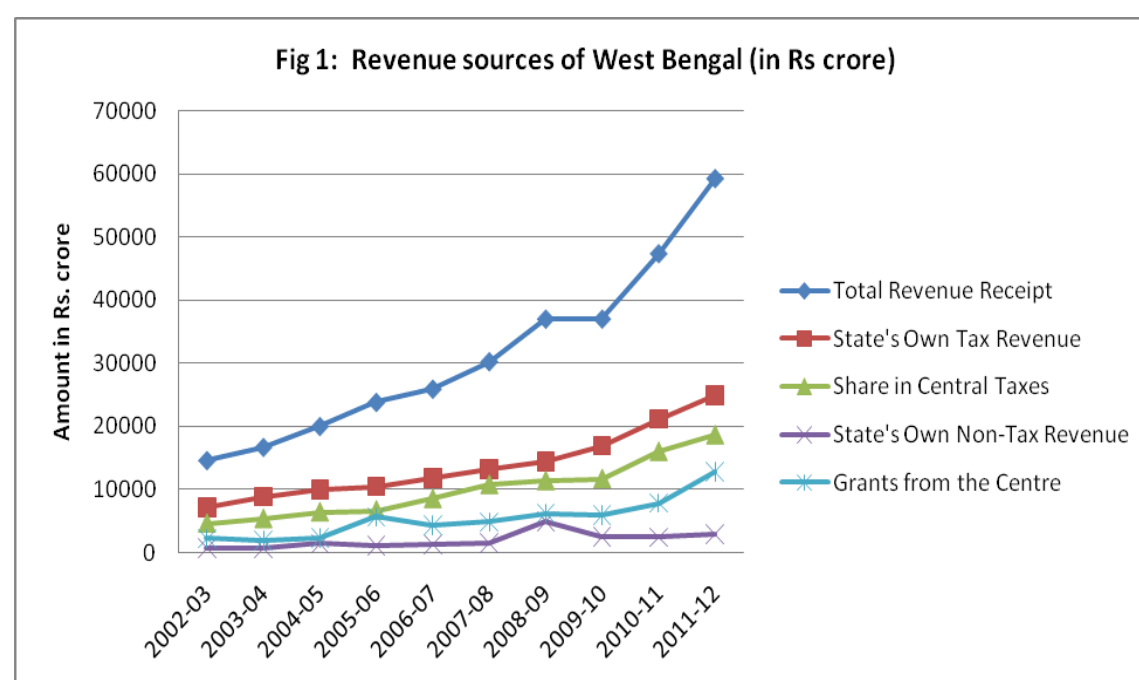
Source: Calculation based on RBI data

From the table above it is clear that the revenue performance of the state for the last ten years was somewhat satisfactory as compared to many similar category states. To have a clearer picture we now present the sources of revenue and see how they are changing over the years.

Table 2: Sources of revenue over the years

Sources of Revenue (% of Total Revenue)	2002-03		2011-12		CAGR (2002-03 to 2011-12)	
	WB	GCS	WB	GCS	WB	GCS
State's own tax revenue	48.51%	54.10%	42.16%	51.90%	15.07%	16.69%
Share in central taxes	31.58%	21.58%	31.43%	23.16%	16.82%	18.43%
State's own non-tax revenue	4.50%	13.06%	4.86%	9.47%	17.86%	13.11%
Grants from the Centre	15.41%	11.26%	21.56%	15.47%	21.33%	19.47%
Total Revenue	100%	100%	100%	100%	16.88%	17.23%

Source: Calculation based on RBI data



Source: State Finance: A Study of Budgets, Reserve Bank of India

Though revenue receipt of the state government has increased satisfactorily over the last ten years, its dependence on Central Grants has increased significantly during the same period. The share of state's own tax revenue in total revenue receipts declined sharply from 48.51% to 42.16% whereas there has been a marginal decline in this share for the GCS from 54.1% to

51.9%. This, coupled with state's poor performance in generating revenue from non-tax sources (only less than 5% of the total revenue generated from this source as compared to more than 10% for an average GCS) resulted in increasing dependence on Central Grants. Share of Central Grants in total revenue receipts increased sharply from 15.41 % in 2002-03 to 21.56% in 11-12.

Own Tax Revenue

Own tax revenue is undoubtedly the most important source of revenue for a state government. The fiscal performance of a state is best judged by its performance in generating own tax revenue as this source of revenue gives the state maximum flexibility in generating revenue and allocating expenditure. West Bengal's own tax revenue grew at a CAGR of 15.07 % as compared to 17.39 % for AP and 16.69% for all GCS. Table 3 presents the relative performance of the state as compared to other GCS.

Table 3: Comparison of CAGR of Own Tax Revenue and GSDP of West Bengal with other General Category States for the period 02-03 to 11-12

States	CAGR of OTR	CAGR of GSDP
Andhra Pradesh	17.39%	15.63%
Bihar	18.37%	15.27%
Chhattisgarh	18.22%	16.36%
Goa	17.27%	16.67%
Gujarat	17.77%	16.72%
Haryana	15.95%	17.11%
Jharkhand	13.53%	12.78%
Karnataka	17.85%	15.26%
Kerala	15.37%	14.39%
Madhya Pradesh	17.27%	14.46%
Maharashtra	15.95%	16.26%
Odisha	18.67%	16.67%
Punjab	15.14%	13.58%
Rajasthan	16.24%	17.66%
Tamil Nadu	17.22%	15.76%
Uttar Pradesh	16.60%	13.62%
West Bengal	15.07%	14.00%
All States	16.69%	15.43%

Source: Calculation based on RBI and CSO data

Efficiency of revenue generating performance of a state can be judged by comparing its tax effort with the tax effort of similar level of governments. We define tax effort as the ratio of actual tax revenue of a government to its taxable capacity. Taxable capacity of a country is

generally measured in terms of GDP with an implicit assumption that GDP is the closest possible proxy for the tax base of an economy. In case of states within a country GSDP is taken as the proxy for the base and therefore the tax effort of a state is generally measured in terms of tax to GSDP ratio. Finance Commission of India also uses Tax-GSDP ratio as the most important indicator in analysing the revenue generating capacity of a state and in their reports they evaluate states in terms of this particular ratio.

Accepting GSDP as an appropriate index of the tax base of a state we evaluate a state's tax effort in terms of its OTR-GSDP ratio. However, to make OTR-GSDP ratios comparable over time one needs to estimate comparable current price GSDP. In our study we have analysed tax effort of different states for the period 2002-03 to 2011-12 and therefore we need to use current price GSDP data from two benchmark series i.e. 1999-00 and 2004-05. To get a comparable series we have adopted the splicing method (as used by CSO) where a conversion factor is calculated for a common year in the two series and then that factor is applied to the old series keeping the growth rates in the old series constant. The implicit assumption here is that there is an error in the old benchmark series whose relative size is constant over time. In our case we have taken 2004-05 as the common year at which the two series overlap. The conversion factor calculated from this year's data then applied to 2002-03 and 2003-04 data to convert them to the new benchmark series. This comparable GSDP data then used to estimate OTR-GSDP ratio of different states for the period mentioned earlier. Table 4 presents the tax-GSDP ratio of the state of West Bengal for the last ten years. To review the situation of West Bengal in right perspective, we have compared the state's performance with similar category states.

Table 4: Own Tax Revenue as a % of GSDP for the period 2002-03 to 2011-12

OTR-GSDP	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
West Bengal	4.21	4.65	4.76	4.51	4.47	4.38	4.22	4.24	4.45	4.58
Andhra Pradesh	7.12	6.85	7.23	7.50	7.95	7.89	7.82	7.38	7.91	8.15
Bihar	4.03	4.81	4.30	4.57	4.47	5.34	5.78	4.92	4.98	5.12
Chhattisgarh	6.52	6.07	6.74	8.20	8.61	8.83	9.56	7.17	7.63	7.52
Goa	6.71	6.90	6.74	8.02	8.59	8.56	9.70	6.05	6.38	7.03
Gujarat	6.26	6.18	6.37	6.41	6.51	6.65	6.40	6.20	6.85	6.78
Haryana	7.47	7.48	7.77	8.34	8.49	7.66	6.39	5.91	6.34	6.83
Jharkhand	5.15	4.61	4.02	4.74	4.67	4.23	5.79	5.53	5.16	5.47
Karnataka	8.09	8.99	9.64	9.51	10.25	9.60	8.91	9.06	9.47	9.88
Kerala	7.77	7.73	7.52	7.15	7.77	7.80	7.89	7.60	8.06	8.39
Madhya Pradesh	6.72	6.24	6.88	7.33	7.24	7.44	6.90	7.58	8.23	8.36
Maharashtra	7.08	6.87	7.37	6.89	6.86	6.94	6.90	6.81	7.01	6.91
Odisha	5.33	4.99	5.37	5.88	5.96	5.30	5.38	5.51	5.76	6.21

Punjab	6.93	6.81	7.17	8.27	7.09	6.50	6.41	6.10	7.42	7.83
Rajasthan	6.48	5.96	6.59	6.95	6.79	6.81	6.47	6.17	6.07	5.81
Tamil Nadu	8.38	8.40	8.84	9.05	8.94	8.44	8.39	7.62	8.44	9.38
Uttar Pradesh	5.89	5.72	6.02	6.43	6.84	6.52	6.44	6.47	6.88	7.43
GCS average	6.61	6.56	6.90	7.07	7.19	7.04	6.91	6.65	7.06	7.29

Source: Calculation based on RBI and CSO data

For West Bengal the OTR-GSDP ratio has been very low compared to similar states as well as the national average. For the period 2002-03 to 2011-12 the OTR-GSDP ratio for West Bengal remained below 5% compared to nearly 7% for an average general category state. Furthermore the OTR-GSDP ratios for the state show a declining trend with only sign of slight improvement from 2010-11 onwards. For other similar states, however, this has increased significantly. For example, Andhra Pradesh experienced an increase in its OTR-GSDP ratio from 7.12% in 2002-03 to 8.15% in 2011-12. For an average GCS also this ratio has increased from 6.61% to 7.29% during the same period. Our estimates of OTR-GSDP for all the general category states show that the state of West Bengal scores the lowest on OTR to GSDP ratio and this is true for all the years except 2002-03 and 2004-05 where it was marginally higher than Bihar. To see whether tax revenue collection shows sensitivity to the performance of the economy we have estimated tax buoyancy for the state of West Bengal and compared it with the general category state's average. Tax buoyancy helps to understand whether the pace in growth of tax collection has been commensurate with pace of growth in the tax base. We have estimated tax buoyancy following the methodology adopted by the Ministry of Finance, Government of India. If T is a time-series of tax collections and B is a tax base, then regressions of the form $\log T = \alpha_0 + \alpha_1 \log B + u$ are used in order to estimate α_1 , which can be interpreted as the tax buoyancy, i.e. the average percentage change in T for a one percent change in B. In our case we have taken OTR as the tax collected and GSDP as the tax base to estimate tax buoyancy. Our estimates for the period 2002-03 to 2011-12 and a broader time series data from 1990-91 to 2011-12 are presented in Table 5.

Table 5: Tax buoyancy

	2002-03 to 2011-12		1990-91 to 2011-12	
	Tax buoyancy	T-statistics	Tax buoyancy	T-statistics
West Bengal	0.98	25.9	0.96	35.6
Average GCS	1.07	44.64	1.09	56.68

Source: Calculation based on RBI and CSO data

Own tax revenue of the state shows a buoyancy of less than one as compared to higher than 1 tax buoyancy for an average general category state for both the periods. This finding suggests that the low OTR-GSDP ratio would continue to be the case even in future if the tax system fails to capture the growth sectors of the economy and the tax administration and collection efforts slow down over time.

Very poor revenue generating performance of the state is surprising because in terms of per capita income West Bengal is somewhere at the middle of the rank but it scores lowest in terms of its revenue generating capacity when ranked among all 17 general category states. Table 6 presents OTR-GSDP ratio against current price per capita income of all general category states for the year 2011-12.

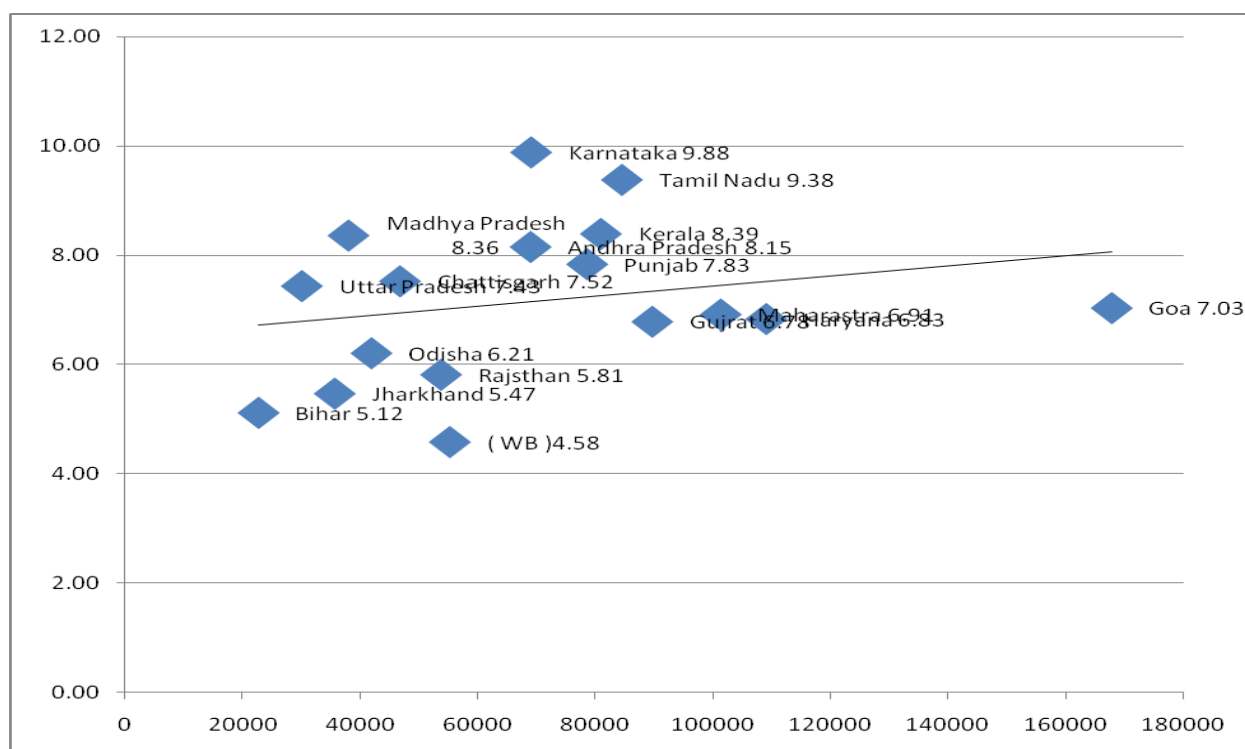
Table 6: Own Tax Revenue to GSDP ratio and per capita income 2011-12

State	Current price per capita income (2011-12)	Rank on per capita income	OTR-GSDP (2011-12)	Rank on tax effort (OTR-GSDP)
Andhra Pradesh	68970	9	8.15	5
Bihar	22691	17	5.12	16
Chattisgarh	46743	12	7.52	7
Goa	167838	1	7.03	9
Gujarat	89668	4	6.78	12
Haryana	109064	2	6.83	11
Jharkhand	35652	15	5.47	15
Karnataka	69051	8	9.88	1
Kerala	80924	6	8.39	3
Madhya Pradesh	37994	14	8.36	4
Maharashtra	101314	3	6.91	10
Odisha	41896	13	6.21	13
Punjab	78594	7	7.83	6
Rajasthan	53735	11	5.81	14
Tamil Nadu	84496	5	9.38	2
Uttar Pradesh	30051	16	7.43	8
West Bengal	55222	10	4.58	17

Source: Calculation based on RBI and CSO data

Figure 2 plots the OTR-GSDP ratio of all general category states against their respective per capita income for the year 2011-12.

Fig.2: Own Tax Revenue to GSDP ratio and per capita income 2011-12



It is evident that states like Karnataka, Tamil Nadu, Madhya Pradesh, Kerala, Andhra Pradesh and Uttar Pradesh emerge as the best performing states in terms of own tax collection in relation to their tax base. West Bengal, followed by Gujarat and Maharashtra are the worst performers in terms of their tax collection in relation to their taxable capacity. Among all the generally category states West Bengal is the worst performer even with a moderate 10th ranking in terms of its per capita income. Despite having a mid-level per capita income and a satisfactory growth of income, it is puzzling why the own tax collection was so poor? This prompts us to go deep into the problem and analyse why the OTR-GSDP ratio is so low in West Bengal.

One possible reason behind poor tax effort of West Bengal could be its economic structure itself. West Bengal economy is predominantly an informal economy with low and declining organised manufacturing sector. In the following section we look into the sectoral decomposition of West Bengal GSDP and we compare this with that of similar category states.

Structure of the economy and tax collection

We compare the sectoral composition of GSDP of West Bengal with other similar category states by dividing different sectors into easy to tax sectors (like manufacturing, particularly

organised manufacturing) and hard to tax sectors (like agriculture and services). Table 7 shows that in case of WB, manufacturing sector contributes only 9.7 % to GSDP (2011-12) compared to 19.1% in Tamil Nadu, 17.4 % in Punjab, 10.8 % in Andhra Pradesh and 12.2% in Uttar Pradesh. All the similar category states, except Kerala, have much stronger manufacturing sector contribution. Within the manufacturing sector share of organised/registered manufacturing is only 52% in WB compared to 75% in AP. In terms of tax collection registered manufacturing is the easiest to tax and probably one can consider it as the most appropriate tax base. In case of WB the organised manufacturing sector contributes only 5.1% to GSDP compared to 8.1 % in case of AP, 13.6 % in Tamil Nadu and 11.8 % in Karnataka. Share of industry in the GSDP is the lowest in West Bengal (18%) among the comparable states indicating a poor industrial performance which might be responsible for poor tax collection. Assuming that agriculture and services are sectors which are hard to tax, we find contribution of hard to tax sectors in the GSDP in case of WB is as high as 82% compared to 73.4% in Andhra Pradesh, 69.9 % in Tamil Nadu and 73% in Karnataka. The share of this hard to tax sector in the West Bengal GSDP is in fact highest when compared with other similar states.

Table 7: Sector Composition of GSDP of West Bengal and other states

2011-12							
States	Agriculture	Industry	Services	Agri+ Services	Manufacturing	Registered Manufacturing	Trade and hotels
Andhra Pradesh	22.4%	26.6%	51.0%	73.4%	10.8%	8.1%	12.7%
Gujrat	19.9%	38.0%	42.1%	62.0%	26.7%	21.8%	17.5%
Karnataka	16.1%	27.0%	56.9%	73.0%	15.5%	11.8%	14.1%
Kerala	15.1%	21.7%	63.2%	78.3%	7.3%	3.3%	22.7%
Madhya Pradesh	25.9%	28.5%	45.6%	71.5%	11.8%	8.3%	11.9%
Maharashtra	12.0%	30.6%	57.2%	69.3%	18.9%	13.6%	14.5%
Odisha	17.4%	35.9%	46.7%	64.1%	13.8%	12.0%	13.0%
Punjab	29.8%	26.5%	43.7%	73.5%	17.4%	10.0%	11.7%
Rajasthan	29.1%	27.7%	43.2%	72.3%	12.3%	7.8%	14.0%
Tamil Nadu	12.2%	30.1%	57.8%	69.9%	19.1%	13.6%	15.9%
Uttar Pradesh	28.9%	21.9%	49.3%	78.1%	12.2%	7.0%	11.8%
West Bengal	22.0%	18.0%	60.0%	82.0%	9.7%	5.1%	17.2%

Source: Calculation based on CSO data

Over the years West Bengal economy has experience rapid informalisation of its economic activities. Share of industry, particularly registered manufacturing, has shrunk drastically.

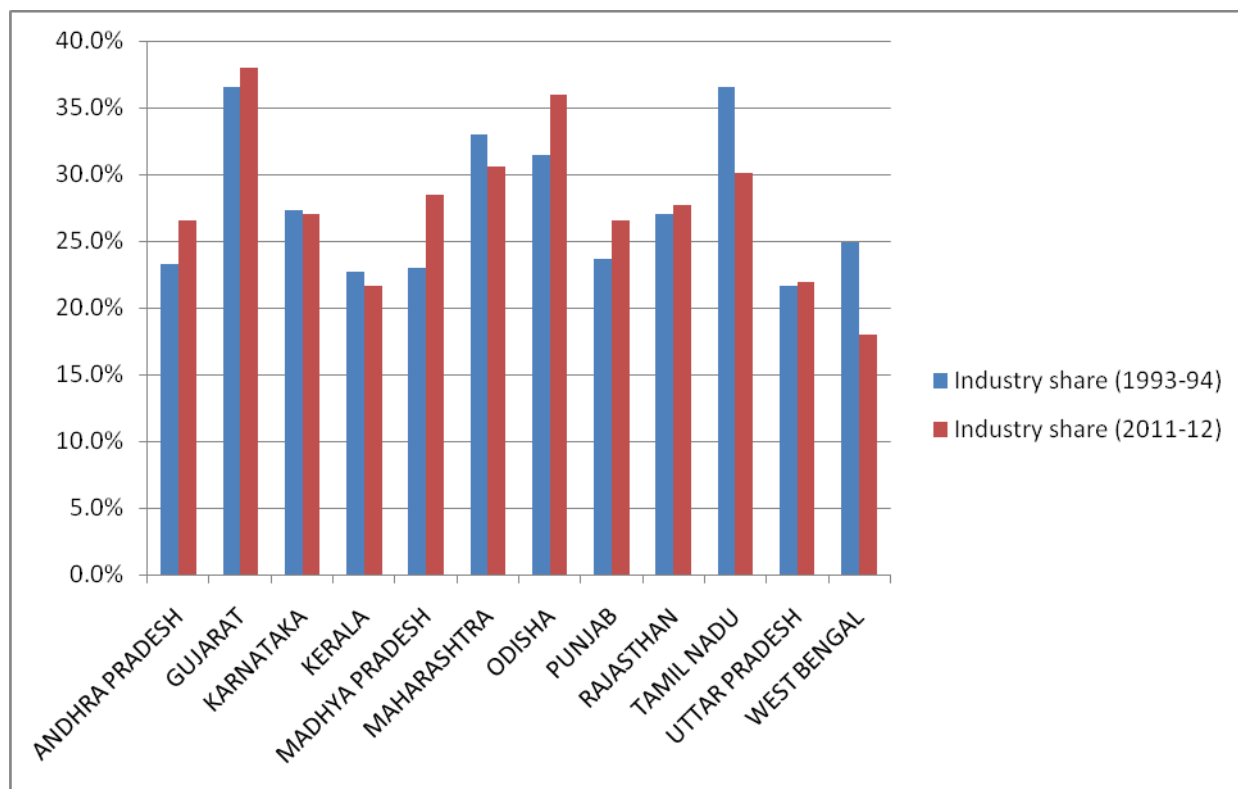
Though significant structural changes have taken place for all the states and the national economy away from agriculture to services, most of the other states experienced a moderate rise in the share of industry. In case of West Bengal share of industry declined consistently over the years (Fig. 3). Poor manufacturing performance along with decline in the share of agriculture compelled a vast educated unemployed labour force to set up small businesses depending on their own means. A huge number of the job seekers absorbed in the informal sector, mostly in retail trading and small transport business. As can be seen from table 7, trade (mainly retail trade) and hotels accounted for 17.2% of West Bengal GSDP which is the highest among the general category states. As noted by Sarkar (2006)¹ “People dependent on the informal sector for their livelihood do not always live by the formal laws and norms. Some lives illegally on government or railway land, others encroach upon city streets to sell their ware. A third group, owning shops or small business, is exposed to the local thugs because it is too costly to get protection from the formal legal system. All these people need political protection.” Chatterjee (2009)² terms this as “managing illegalities”. Some researchers argue that political control over these informal businesses crippled the state tax administration, preventing it to generate tax revenue from these economic activities. As noted by Datta (2010)³, selling sand collected from riverbeds or stones from quarries are a big business but these businesses have not generated sufficient revenue for the government. The system of governance in West Bengal, banking on informalisation, managing illegalities and merging the barrier between the state machinery and political management, has been taking its toll on government revenue.

¹ Sarkar, A (2006): “Political Economy of West Bengal”, *Economic & Political Weekly*, Vol 41, No 4.

² Chatterjee, P (2009): “The Coming Crisis of West Bengal”, *Economic & Political Weekly*, Vol 44, No 9.

³ Datta, D (2010): “West Bengal Government Finances: A Critical Look” *Economic & Political Weekly*, Vol 44

Fig. 3: Share of industry in GSDP over the years.



Source: Calculation based on RBI data

Consumtion and tax collection

Under the existing federal fiscal structure, the States’ rights to collect taxes are largely confined to indirect taxes, predominantly commodity taxes like sales tax/VAT and other indirect levies. Own Tax Revenue (OTR) of a state mainly comprises taxes on professions & trades, taxes on property and capital, taxes on commodities and services (including Value Added Tax (VAT), state excise, motor vehicles and passenger tax) and clearly most of them are not directly related to gross income of a state. Being indirect in nature they are expected to be more closely related to consumption than income.

In this section we analyse different components within OTR of WB and compare them with that of AP and GCS average to see which are the most poorly performing items within the tax avenues. We consider the contribution of different components for the year 2011-12 to see which are the laggards.

Table 8: Tax components within OTR and their relative performance

	Share in OTR (WB) (2011-12)	CAGR (WB) (2002-03 to 2011-12)	Tax to GSDP (WB) (%)	Tax to GSDP (AP) (%)	Tax to GSDP (GCS) (%)
State's Own Tax Revenue (1-3)	100	15.07%	4.58	8.15	7.29
1. Taxes on Income	1.8%	7.7%	0.08	0.1	0.06
2. Taxes on Property and Capital Transactions	16%	12.54%	0.73	0.67	0.96
3. Taxes on Commodities and Services	82.20%	15.88%	3.77	7.38	6.28
Of which					
State Sales Tax (including VAT)	59.30%	16.88%	2.72	5.1	3.98
State Excise	8.94%	16.60%	0.41	1.38	0.94
Taxes on Vehicles	3.75%	15.83%	0.17	0.43	0.37

Source: Calculation based on RBI data

In terms of contribution, state sales tax (now VAT) contributed maximum (59.3 %) to the total tax collection of the state and taxes on property and capital transaction is the second most important contributor. State excise also contributed a sizable 8.9 % to the state's own tax revenue in 2011-12. This is however much lower than 16.9% in case of Andhra Pradesh, more than 16 % for Madhya Pradesh, Tamil Nadu and Uttar Pradesh. Apart from taxes on income and taxes on property and capital transaction, other items performed moderately during the last decade as captured in terms of CAGR in table 8. This demonstrates scope for further improvement in tax collection particularly through taxes on property and capital transaction by rationalising the tax structure.

We now turn our attention to explore any possible relationship between tax collections by states and their consumption behaviour. As mentioned earlier major components of OTR are indirect in nature and are directly related to consumption than income. We now analyse the consumption data for West Bengal and other similar states to see whether they can throw some additional light on resolving the tax puzzle. We have estimated monthly per capita consumption expenditure (MPCE) for a state from weighted average of rural and urban MPCE data of 66th Round of NSSO, 2009-10. We have taken projected rural and urban population (from NSSO 66th round) data as appropriate weights to estimate combined MPCE of a state. Table 9 plots

estimated per capita consumption and per capita own tax collection by general category states to see whether consumption can be viewed as a better tax base for a state.

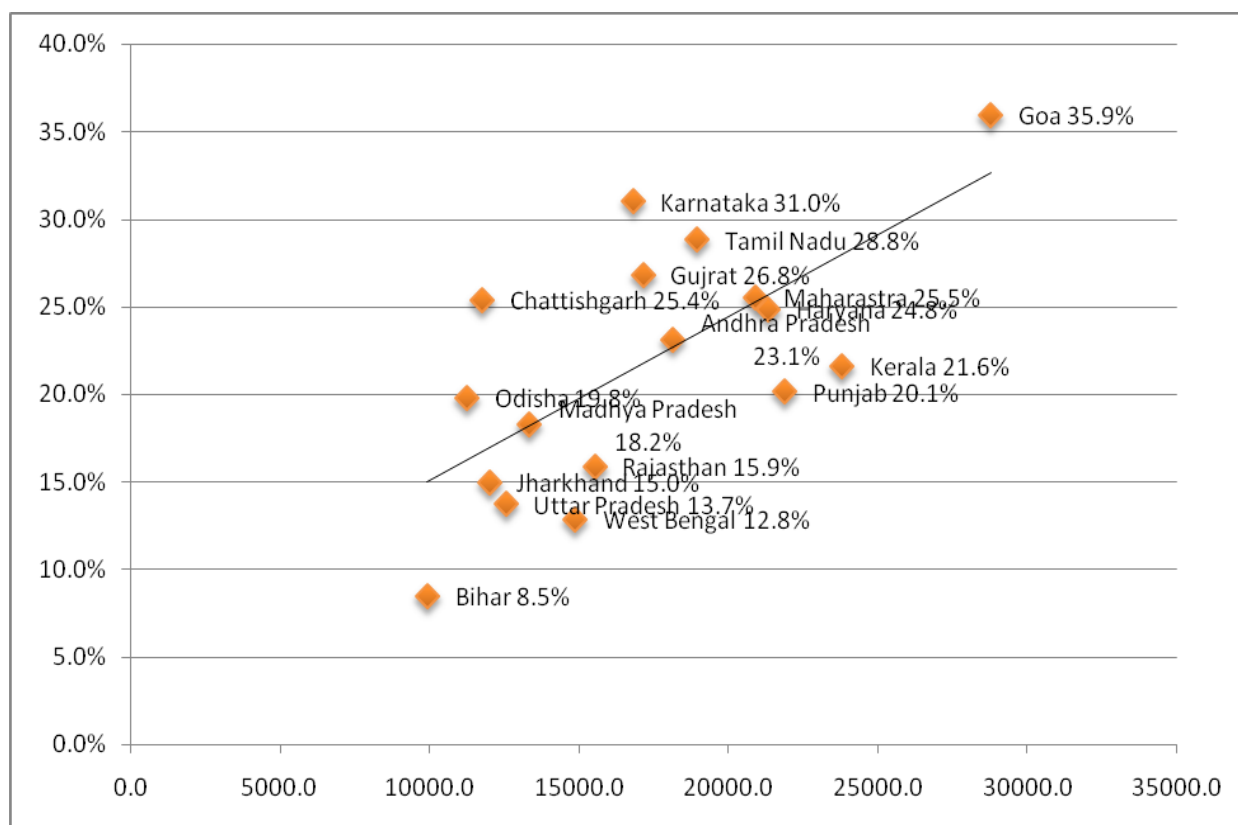
Table 9: Consumption and tax collection

States	Per capita OTR (yearly) (2009-10)	Per capita consumption (yearly)	OTR-Consumption ratio	Rank on Per capita cons.	Rank on OTR-cons ratio
Andhra Pradesh	4196.0	18141.5	23.1%	7	8
Bihar	841.3	9937.8	8.5%	17	17
Chhattisgarh	2983.7	11760.8	25.4%	15	6
Goa	10342.4	28780.0	35.9%	1	1
Gujarat	4602.6	17153.2	26.8%	8	4
Haryana	5298.6	21337.7	24.8%	4	7
Jharkhand	1795.5	12009.9	15.0%	14	14
Karnataka	5209.3	16802.9	31.0%	9	2
Kerala	5142.2	23794.7	21.6%	2	9
Madhya Pradesh	2437.7	13357.3	18.2%	12	12
Maharashtra	5331.8	20892.4	25.5%	5	5
Odisha	2227.3	11265.7	19.8%	16	11
Punjab	4407.8	21887.4	20.1%	3	10
Rajasthan	2465.9	15532.9	15.9%	10	13
Tamil Nadu	5459.9	18952.4	28.8%	6	3
Uttar Pradesh	1722.5	12554.5	13.7%	13	15
West Bengal	1909.0	14878.7	12.8%	11	16

Source: Calculation based on RBI data and NSSO (66th round) data

To get a clearer picture we now plot OTR-Consumption ratio against per capita consumption expenditure (Fig 4) of different states.

Fig 4: Consumption and tax collection



States like Karnataka, Tamil Nadu, Andhra Pradesh and Gujarat performed well in terms of own tax collection in relation to their average consumption. West Bengal and Bihar are the two worst performers in terms of their tax collection in relation to their taxable capacity. Among 17 generally category states West Bengal ranked 16 in terms of its tax effort even with a moderate 11th ranking in terms of its per capita consumption. So even with a mid level state in terms of per capita consumption West Bengal failed miserably in generating its own tax revenue. An assessment of tax effort of the state based on a different tax base approach gives no better result for the state.

We must mention here that it is not just average consumption that affects taxable capacity of a state. Consumption pattern and the tax structure together play a crucial role in determining tax collection. For example, let us consider the case of consumption of cereals and pulses and tax structure of West Bengal and Andhra Pradesh. These two consumption items form a part of basic diet of these two states. Our estimates from NSSO 66th round consumption data show monthly per capita consumption of cereals and pulses in West Bengal is around Rs. 196 in rural areas and Rs. 210 in urban areas whereas the corresponding figure for Andhra Pradesh in Rs.

212 and Rs. 272. While, cereals and pulses are taxed @5% in Andhra Pradesh, same are exempted from tax in West Bengal. With population of more than 8 crore one can easily estimate the type of loss in tax revenue in West Bengal due to a different tax structure. Similarly, consumption of many commodities can be considered where Andhra Pradesh exceeds West Bengal causing direct effect on Taxable Capacity. For example, difference in per capita consumption of electricity and number of household using electricity as source of lighting, gives an edge in the consumption of electrical appliances, electronic items and electrical goods which directly increases the taxable capacity as these goods are usually taxed at higher rates (13.5% /14.5%). This is also true for consumption of alcohol as well. Our estimation from NSSO 2009-10 (66th round) shows, in Andhra Pradesh an individual from rural area spends 2.68% of his total consumption expenditure on alcohol and the corresponding figure for the urban area in 1.12%. For West Bengal the corresponding figures are much lower at .64% and .26%. Assuming a similar kind of recorded alcohol consumption in both the states, one can easily argue that the difference in consumption pattern must have significantly affected excise revenue collection. Future research in this area should analyse the level and pattern of consumption spending of different states along with their tax structure to evaluate the tax effort more correctly.

Appendix Tables

Appendix table 1 : Revenue sources of West Bengal (in Rs crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Revenue Receipt	14525.5	16608.5	19918.2	23725.9	25828.3	30167.4	36904.4	36921.7	47264.2	59143.9
State's Own Tax Revenue	7046.4	8767.9	9924.4	10388.4	11694.8	13126.3	14419.2	16900.0	21128.7	24934.0
Share in Central Taxes	4586.7	5341.7	6384.9	6668.3	8505.6	10729.1	11321.8	11648.2	15955.0	18587.8
State's Own Non-Tax Revenue	654.3	605.8	1345.7	1018.8	1248.8	1473.1	4966.4	2438.1	2380.5	2872.5
Grants from the Centre	2238.0	1893.1	2263.2	5650.4	4379.2	4838.9	6197.1	5935.4	7800.0	12749.5

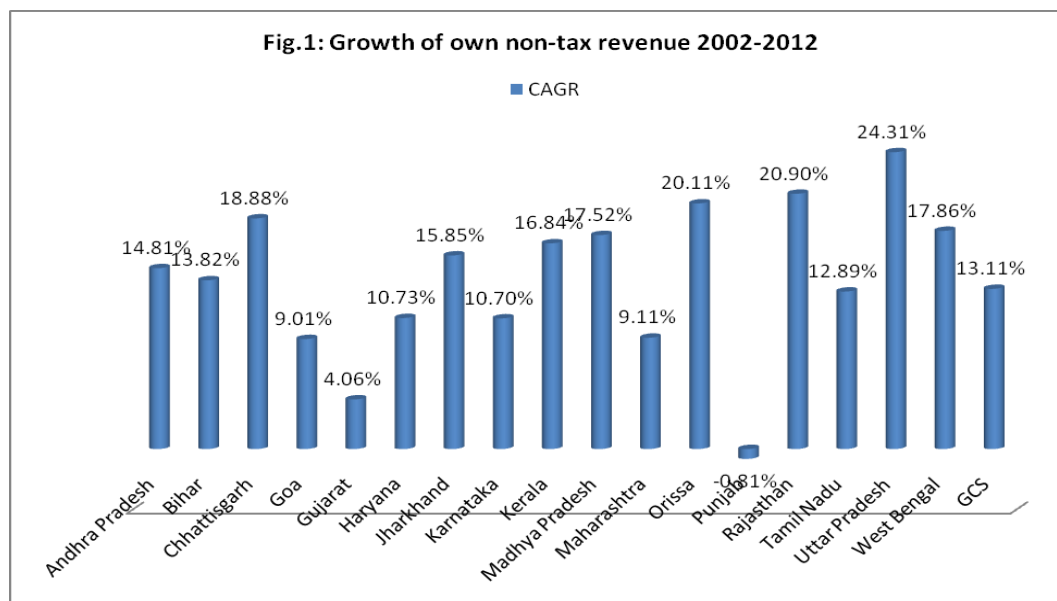
Chapter – II

Broad Content

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

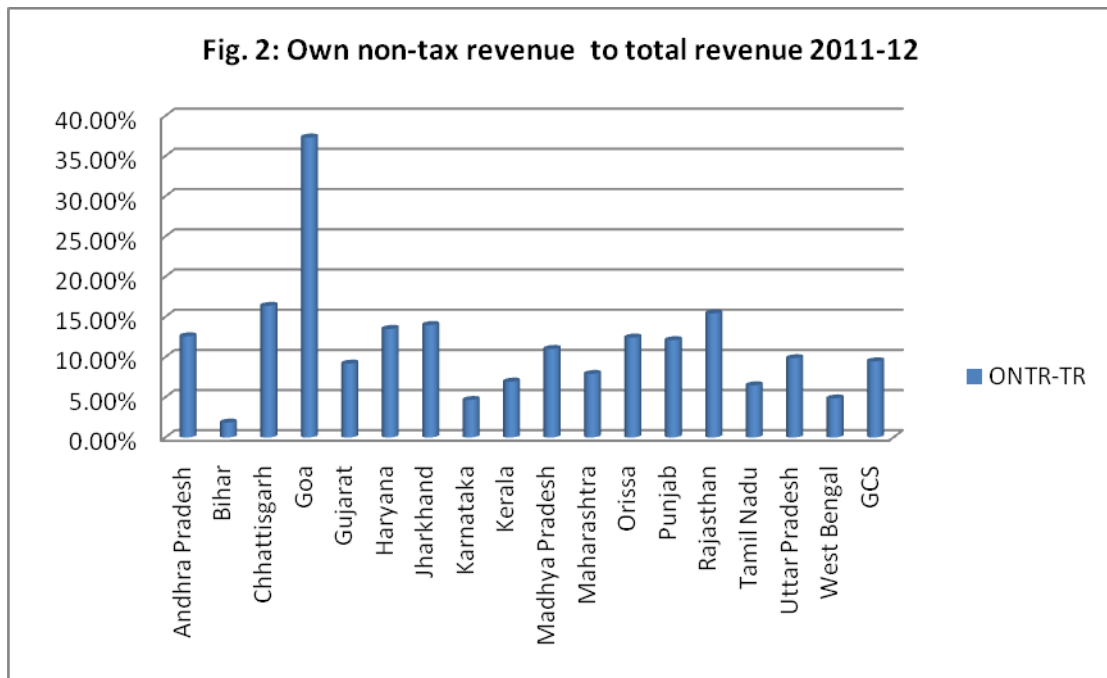
Assessment of Revenue Profile of the State: Non- Tax Revenue

West Bengal's non-tax revenue grew from INR 2892.3 crore in 2002-03 to INR 15622 crore in 2011-12 with a compounded annual growth rate of 20.61% which looks impressive when compared against other general category states which grew at an average rate of 17.56%. This impressive performance however was largely due to central grants which saw a CAGR of 21.33% during this period. The own non-tax revenue (ONTR) of the state grew at a CAGR of 17.86% which is better than similar states like Andhra Pradesh (14.81%), Tamil Nadu (12.89%), Karnataka(10.70%) and GCS average (13.11%) (Fig 1). Even with a moderate ONTR performance the share of ONTR in total non-tax revenue (NTR) has fallen from 22.62% in 2002-03 to 18.39% in 2011-12. Clearly the share of Central Grants in NTR has increased over the years.



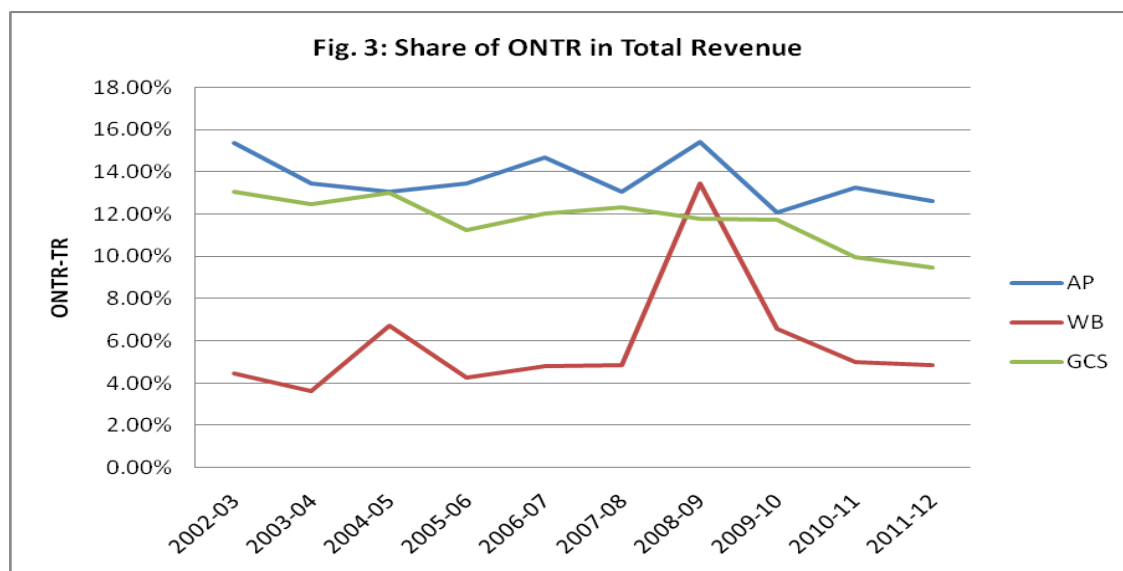
Source: State Finance: A Study of Budgets, Reserve Bank of India

Own non-tax revenue of the state accounted for only 4.86% of total revenue in 2011-12 which is lower than majority of general category states except Bihar and Karnataka (Fig. 2).



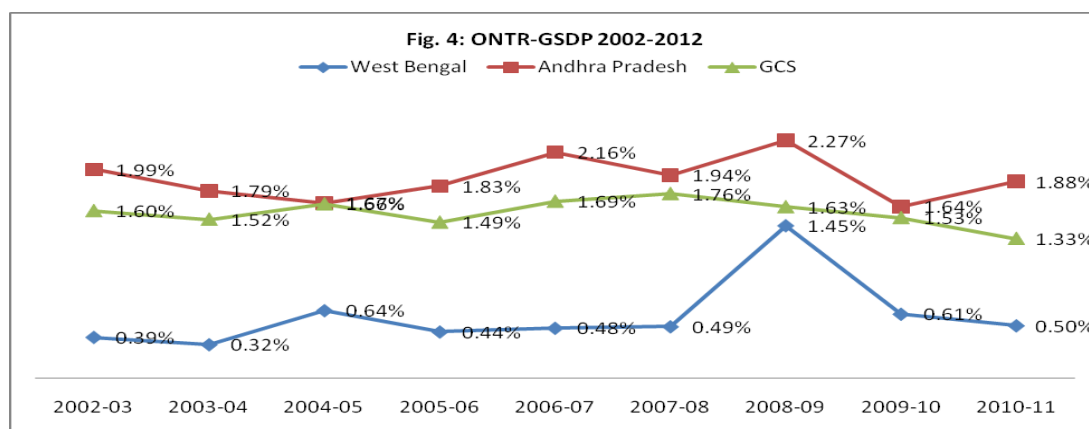
Source: State Finance: A Study of Budgets, Reserve Bank of India

Furthermore, ONTR share in total revenue has not improved significantly during the last 10 years (Fig. 3)[note that there was a sudden jump in 2008-9 due to an onetime book adjustment on account of writing off loans to West Bengal State Electricity Board]. As mentioned in the previous chapter, with a declining share of own tax revenue in total revenue, state's reliance on grants from the centre has increased substantially. This calls for an immediate and substantive improvement in own non-tax revenue collection to ease state's reliance on central grants.



Source: State Finance: A Study of Budgets, Reserve Bank of India

To assess a state's revenue generation through non-tax route we have to analyse components within ONTR which comprises of receipts from a variety of sources including interest on loans extended by the state, dividends on equity investments made, user charges and tariffs for services provided by the government, royalty from minerals, forestry and wildlife, commercial operations undertaken by the states and other levies imposed by administrative departments. Clearly most of them are expected to be positively associated with state's overall economic performance and it would be natural to assume that GSDP is the appropriate base to assess ONTR performance. Own non-tax revenue as a percentage of GSDP is an important indicator of the efficiency in mobilization of these revenues for a state. We have estimated ONTR-GSDP ratio for West Bengal for the years 2002-03 to 2011-12 and compared them with other general category states to evaluate its comparative performance.



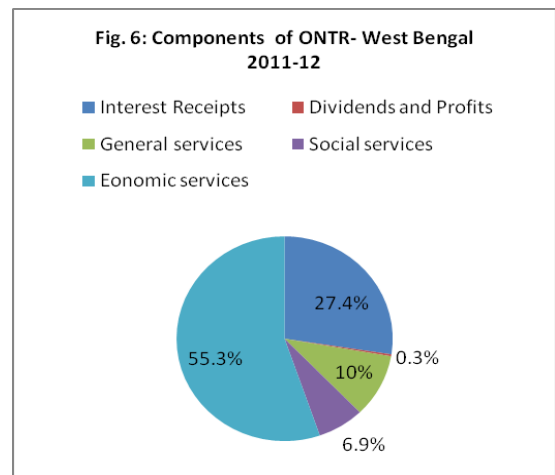
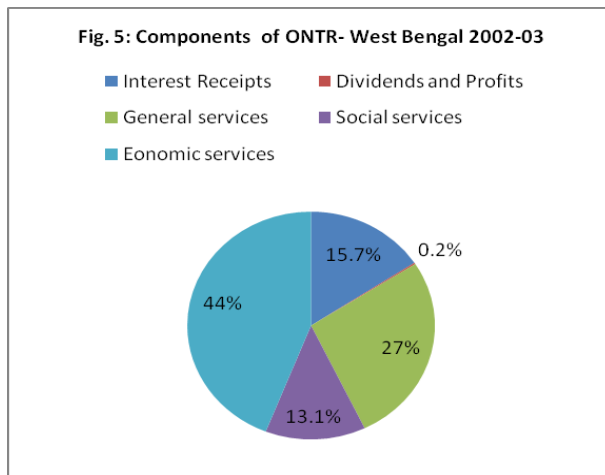
Source: Calculation based on RBI and CSO data

In terms of ONTR- GSDP ratio, West Bengal ranked 16th (only above Bihar (see Appendix table 2)) out to 17 general category states in 2011-12. The ONTR-GSDP ratio for West Bengal remained around 0.5% compared to around 1.55% for GCS average during 2002-03 to 2011-12. The only silver lining is that it shows a slightly increasing trend whereas many similar category states and GCS on an average have shown a declining trend during this period (Fig 4). We have estimated buoyancy of ONTR for the state of West Bengal and compared it with the general category state's average to assess whether the pace in growth of non-tax mobilisation has been commensurate with pace of growth in the state economy. It is observed that buoyancy of ONTR for the state was higher at 1.4% than GCS average of 0.91% (0.98% for AP) for the period 2002-03 to 2011-12. This finding suggests that state's ONTR performance has improved marginally during the last decade compared to other generally category states. However, with a very low base, the state needs to do more to bring itself to the national average level.

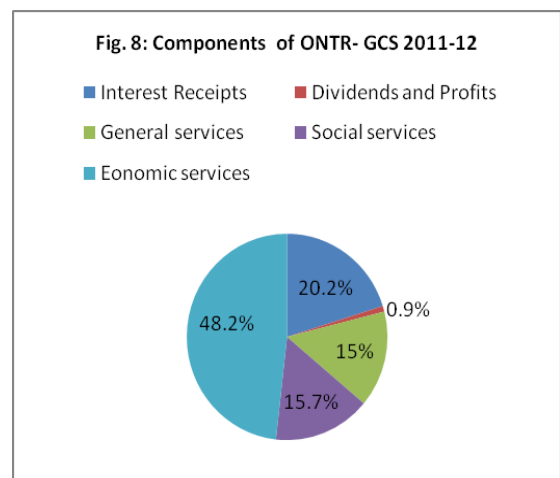
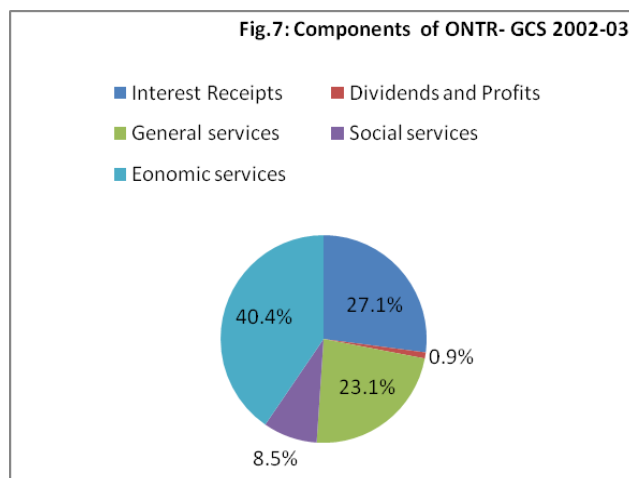
Components of States' Own Non-tax Revenue

Own non-tax revenue of a state are classified under different heads which are further disaggregated to different departmental levels. In our analysis we have used RBI data on state finance and we analyse ONTR disaggregating them to five broad categories. They are interest receipts, dividends and profits, general services, social services and economic services (data on contribution of fiscal services in ONTR is extremely irregular and insignificant and so dropped).

We have compared the share of major heads in ONTR of West Bengal with combined GCS for two years (2002-3 and 2011-12) to capture the temporal movement and compare them with similar category states.



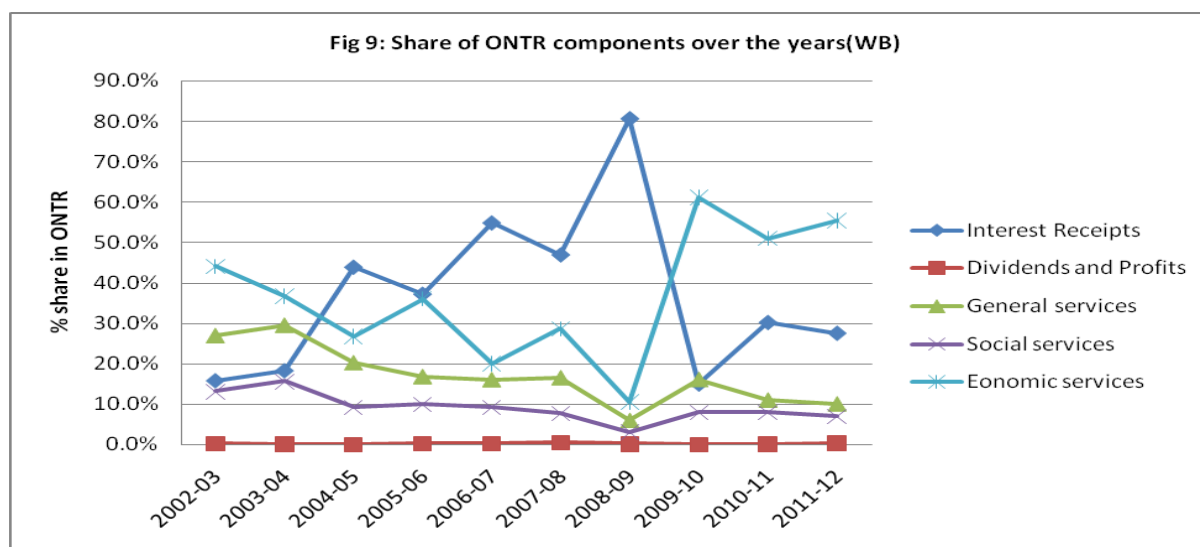
Source: State Finance: A Study of Budgets, Reserve Bank of India



Source: State Finance: A Study of Budgets, Reserve Bank of India

Interest Receipts

A sizable portion of ONTR of the state comes from this category on loans forwarded by the state government mainly to different government departments and state public sector undertakings. For West Bengal the relative share of interest receipts in ONTR has increased during the last decade from 15.7 % to 27.4 % with an annual compounded growth rate of 25.4%. In case of an average GCS this share has declined sharply from 27.1% to 20.2% (with a CAGR 9.5%). Revenue generation from this head is however misleading in nature as it merely denotes book transfers and that too internal transfer from other States Government departments.



Source: State Finance: A Study of Budgets, Reserve Bank of India

Dividends and Profits

For most of the general category states revenue generation under this head is very low mainly due to very poor performance of the state PSUs. In case of West Bengal this is particularly more severe. There are 90 state public sector undertakings (of which 72 are working) in the state with an employed capital of Rs. 39535.91 Cr. as on 31st March 2011¹. Only 30 of them reported profit aggregating Rs. 550.58 Cr. during 2010-11. 40 state PSUs reported loss (One reported no profit no loss and no financial statement was available for another one) amounting to Rs. 812.38 Cr. during 2010-11. In the year 2001-02, accumulated profit was Rs.213.27 Cr. against accumulated loss of Rs. 7275.37 Cr., while in the year 2010-11 the figures were Rs.3562.96 Cr. and Rs. 8610.07 Cr. respectively. This provides us a clear picture of the distress caused to the treasury. The loss figure is substantially subsidized by the State Government. On the other hand,

¹ Based on CAG Report on West Bengal "Audit Report No. 4 (Commercial) for the year ended 31 March 2011"

in the absence of any clear and transparent dividend policy the State suffered. This has resulted in a very poor share of dividends and profits in ONTR which is only 0.3% in 2011-12 which is marginally higher compared to 0.2% in 2002-03.

General services

Revenue from general services as percent to states' ONTR has shown downward trend over the years from 27% in 2002-03 to only 10% in 2011-12. Revenue under this head comes mainly from Police, Jails, Supplies and disposals, Stationery and printing, Public works and other administrative miscellaneous services. Sluggishness in collecting user charges by administrative departments resulted in a slow rate of growth of revenue (5.6%) during this period.

Social services

Major portion of receipts from social services came from education, sports, art and culture (36 % of social services receipts in 2011-12), public health services (33%) and urban development (9%). Water supply and sanitation and family welfare services contributed only very little to the overall receipts under this head. Government's inability and in some cases unwillingness to collect appropriate user charges for the services rendered, resulted in a falling share of social services receipts from 13.1% in 2002-03 to 6.9 % in 2011-12. As these services are characterized by positive externalities (most of them can be termed as quasi-public services), it is very difficult for a government to charge substantially to cover its cost as they are politically unacceptable.

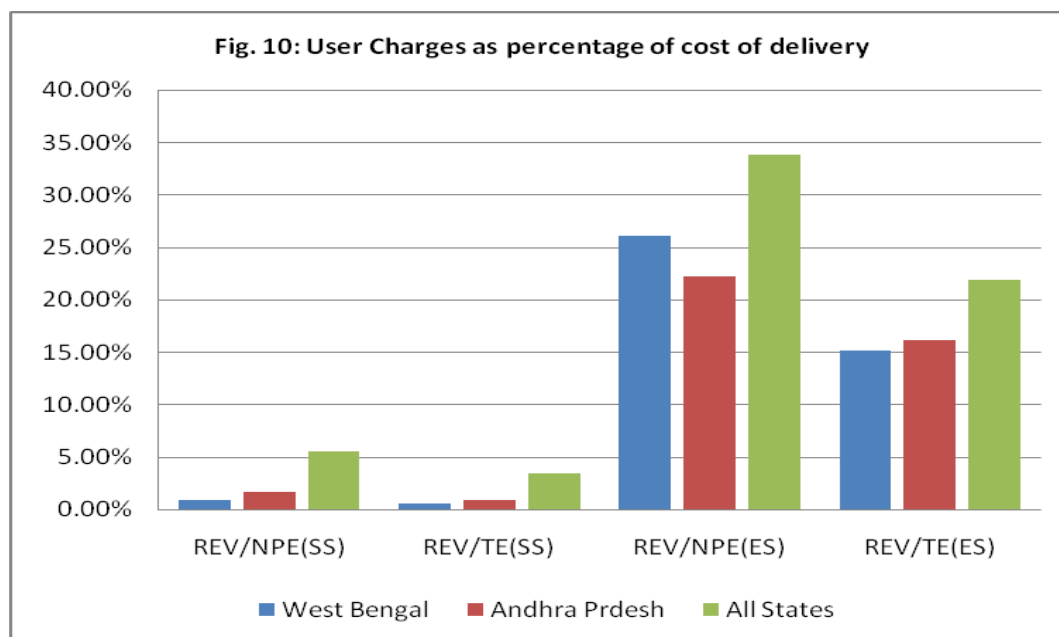
Economic Services

In 2011-12 about half of the state's ONTR collected from these services. The share of these services has shown a rising trend during the last decade from 44% in 2002-03 to 55.3% in 2011-12 with a CAGR of 20.9%. Other general category states have also shown a rising trend under this head. For an average GCS the share of economic services increased from 40.4% to 48.2% during the reference period. Our analyses of different components within economic services show that most of them like crop husbandry, animal husbandry, dairy development, fisheries, forestry and wild life, irrigation, village and small scale industries, industries, roads and bridges, and tourism performed badly during this period. Other economic services contributed nearly 90% to the overall receipts under economic services. Government's inability to levy appropriate user charges for many of these economic services caused the revenue collection to suffer and created adverse economic effects as well. State government should look at full cost revenue

realization of these economic services not just for revenue generation but for sustainable quality services as well.

Revenues from User Charges

To assess how far the state government has been able to levy user charges to cover the cost of providing different services, we have estimated revenue to cost ratio for two specific services provided by the state using 2011-12(RE) data. We have estimated the ratio of revenue to non plan expenditure (REV/NPE, this is perhaps the closest proxy of cost of provisioning) and revenue to total expenditure (REV/TE) for social services (SS) and economic services (ES) provided by the state. To evaluate the performance of West Bengal in right perspective, we have compared them with the state of Andhra Pradesh and national average.



Source: Calculation based on State Finance: A Study of Budgets, Reserve Bank of India

It is evident that in case of social services, West Bengal performed poorly compared to Andhra Pradesh and all India average. In case of economic services the state performed marginally better than Andhra Pradesh but both the states are well below the national average. The state should review its tariff structure, particularly for different economic services, to make the revenue collection efficient and provisioning of different services sustainable over time.

Appendix Tables

Appendix Table 1: Share of ONTR in Total Revenue

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Andhra Pradesh	15.3%	13.4%	13.1%	13.5%	14.7%	13.0%	15.4%	12.1%	13.2%	12.6%
Bihar	2.8%	3.3%	2.7%	2.9%	2.2%	1.9%	3.5%	4.7%	2.2%	1.8%
Chhattisgarh	17.7%	18.9%	17.2%	13.9%	12.7%	14.6%	14.1%	16.8%	16.9%	16.4%
Goa	56.7%	44.7%	40.1%	35.1%	35.2%	35.4%	35.0%	42.2%	41.7%	37.3%
Gujarat	22.4%	17.9%	15.3%	13.4%	16.0%	12.9%	13.2%	13.1%	9.4%	9.2%
Haryana	20.9%	22.6%	22.8%	17.7%	25.6%	25.8%	17.6%	13.1%	13.4%	13.5%
Jharkhand	13.0%	15.5%	16.8%	17.0%	14.1%	13.8%	13.6%	15.2%	15.6%	14.0%
Karnataka	7.9%	14.3%	16.8%	12.8%	10.9%	8.2%	7.3%	6.8%	5.8%	4.7%
Kerala	6.4%	6.8%	6.1%	6.1%	5.2%	5.7%	6.4%	7.1%	6.2%	6.9%
Madhya Pradesh	12.2%	10.4%	22.6%	10.7%	10.3%	8.9%	10.0%	15.4%	11.0%	11.0%
Maharashtra	14.5%	10.3%	10.0%	12.3%	12.1%	21.3%	12.0%	9.6%	7.8%	7.9%
Odisha	11.4%	11.6%	11.4%	10.9%	14.4%	12.1%	12.9%	12.2%	14.4%	12.4%
Punjab	36.5%	38.4%	38.8%	26.7%	23.7%	27.3%	27.9%	25.5%	19.3%	12.1%
Rajasthan	12.0%	13.4%	12.1%	13.1%	13.4%	13.2%	11.6%	12.9%	13.7%	15.4%
Tamil Nadu	8.9%	8.8%	7.8%	7.7%	8.4%	7.0%	10.4%	9.0%	6.6%	6.5%
Uttar Pradesh	6.9%	7.2%	7.2%	6.5%	10.8%	8.5%	8.7%	14.1%	10.1%	9.9%
West Bengal	4.5%	3.6%	6.8%	4.3%	4.8%	4.9%	13.5%	6.6%	5.0%	4.9%
GCS	13.1%	12.5%	13.0%	11.2%	12.0%	12.3%	11.8%	11.7%	10.0%	9.5%

Source: Calculation based on RBI data

Appendix table 2: States' Own Non-Tax Revenue as a % of GSDP

State	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Andhra Pradesh	1.99%	1.79%	1.67%	1.83%	2.16%	1.94%	2.27%	1.64%	1.88%	1.87%
Bihar	0.47%	0.64%	0.54%	0.67%	0.57%	0.55%	1.08%	1.02%	0.50%	0.42%
Chhattisgarh	2.68%	2.64%	2.60%	2.49%	2.48%	3.17%	3.19%	3.06%	3.25%	3.25%
Goa	11.59%	7.04%	5.74%	5.57%	6.10%	6.57%	7.08%	5.94%	6.76%	6.28%
Gujarat	2.63%	1.81%	1.52%	1.37%	1.74%	1.40%	1.39%	1.26%	0.93%	0.93%
Haryana	2.43%	2.62%	2.66%	2.26%	3.57%	3.36%	1.77%	1.23%	1.29%	1.47%
Jharkhand	2.17%	2.33%	2.05%	2.28%	2.14%	1.90%	2.50%	3.00%	2.71%	2.77%
Karnataka	0.99%	2.12%	2.68%	1.98%	1.80%	1.24%	1.02%	0.99%	0.83%	0.69%
Kerala	0.72%	0.77%	0.69%	0.68%	0.61%	0.69%	0.77%	0.80%	0.72%	0.87%
Madhya Pradesh	1.78%	1.36%	3.95%	1.78%	1.84%	1.70%	1.69%	2.80%	2.20%	2.26%
Maharashtra	1.40%	0.97%	0.99%	1.22%	1.29%	2.47%	1.30%	0.96%	0.77%	0.79%
Odisha	1.78%	1.65%	1.73%	1.80%	2.54%	2.05%	2.14%	1.97%	2.46%	2.32%
Punjab	4.90%	5.17%	5.53%	4.18%	3.12%	3.45%	3.32%	2.86%	2.35%	1.45%
Rajasthan	1.63%	1.70%	1.68%	1.92%	2.01%	2.08%	1.68%	1.71%	1.84%	2.08%
Tamil Nadu	1.09%	1.10%	1.01%	1.01%	1.10%	0.94%	1.42%	1.05%	0.82%	0.87%
Uttar Pradesh	0.88%	0.96%	1.04%	1.00%	1.94%	1.52%	1.52%	2.60%	1.86%	1.98%
West Bengal	0.39%	0.32%	0.64%	0.44%	0.48%	0.49%	1.45%	0.61%	0.50%	0.53%
GCS	1.60%	1.52%	1.66%	1.49%	1.69%	1.76%	1.63%	1.53%	1.33%	1.33%

Source: Calculation based on RBI data

Appendix table 3: Share of different components in ONTR

States	Interest Receipts		Dividends and Profits		General Services		Social Services		Economic Services	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
Andhra Pradesh	48.7%	61.0%	0.0%	0.2%	5.0%	2.8%	9.2%	3.0%	37.1%	33.1%
Bihar	9.0%	35.8%	0.0%	0.1%	30.8%	14.5%	17.7%	4.5%	42.5%	45.1%
Chhattisgarh	10.0%	6.7%	2.7%	0.1%	8.7%	1.2%	3.3%	1.0%	75.3%	91.1%
Goa	0.2%	0.2%	0.0%	0.0%	36.0%	3.7%	6.5%	5.6%	57.3%	90.4%
Gujarat	42.2%	12.1%	1.1%	2.1%	14.1%	9.0%	6.1%	14.5%	36.6%	62.3%
Haryana	18.5%	19.9%	0.1%	0.2%	35.5%	6.3%	8.6%	34.9%	37.4%	38.7%
Jharkhand	5.8%	2.8%	0.1%	0.0%	2.2%	9.1%	3.3%	4.2%	88.6%	83.9%
Karnataka	2.7%	13.0%	1.2%	1.9%	27.3%	12.9%	14.6%	10.7%	54.2%	61.4%
Kerala	5.3%	6.6%	1.4%	2.9%	38.6%	56.6%	15.7%	10.1%	39.0%	23.8%
Madhya Pradesh	2.0%	22.4%	0.3%	0.5%	13.8%	4.9%	5.5%	26.2%	78.5%	46.1%
Maharashtra	39.3%	18.2%	0.0%	0.8%	15.2%	15.9%	7.3%	14.2%	38.1%	50.8%
Odisha	7.9%	6.8%	15.8%	5.0%	6.3%	2.5%	7.8%	2.4%	62.1%	83.3%
Punjab	22.6%	4.7%	0.0%	0.2%	67.5%	66.2%	2.4%	7.9%	7.5%	21.0%
Rajasthan	38.7%	18.9%	0.5%	0.7%	11.2%	7.8%	12.5%	6.8%	37.1%	65.8%
Tamil Nadu	30.6%	32.3%	1.4%	0.9%	20.9%	13.2%	14.1%	29.3%	33.1%	24.3%
Uttar Pradesh	26.9%	6.4%	0.4%	0.4%	16.5%	33.4%	18.8%	38.7%	37.4%	21.1%
West Bengal	15.7%	27.4%	0.2%	0.3%	27.0%	10.0%	13.1%	6.9%	44.0%	55.3%
GCS	27.1%	20.2%	0.9%	0.9%	23.1%	15.0%	8.5%	15.7%	40.4%	48.2%

Source: Calculation based on State Finance: A Study of Budgets, Reserve Bank of India

Appendix table 4: CAGR of different components in ONTR (West Bengal)

States	CAGR (2002-03 to 2011-12)				
	Interest Receipts	Dividends and Profits	General Services	Social Services	Economic Services
Andhra Pradesh	17.7%	38.5%	7.5%	1.4%	13.4%
Bihar	32.7%	32.1%	4.7%	-2.2%	14.6%
Chhattisgarh	13.6%	-21.2%	-4.9%	4.2%	21.4%
Goa	10.4%	21.5%	-15.3%	7.0%	14.7%
Gujarat	-9.4%	12.4%	-1.0%	14.7%	10.4%
Haryana	11.6%	20.7%	-8.7%	29.5%	11.2%
Jharkhand	6.7%	-6.7%	36.0%	18.9%	15.2%
Karnataka	31.9%	16.9%	1.9%	7.0%	12.2%
Kerala	19.8%	26.7%	21.9%	11.2%	10.6%
Madhya Pradesh	54.0%	27.1%	4.7%	39.8%	10.8%
Maharashtra	0.2%	52.5%	9.7%	17.5%	12.6%
Odisha	18.1%	5.7%	8.4%	5.5%	24.1%
Punjab	-16.8%	27.8%	-1.0%	13.5%	11.2%
Rajasthan	11.6%	23.8%	16.1%	13.1%	28.9%
Tamil Nadu	13.6%	7.1%	7.3%	22.5%	9.1%
Uttar Pradesh	6.0%	23.5%	34.5%	34.7%	16.7%
West Bengal	25.4%	22.9%	5.6%	9.8%	20.9%
GCS	9.5%	12.2%	7.9%	21.1%	15.4%

Source: Calculation based on State Finance: A Study of Budgets, Reserve Bank of India

Appendix table 5: Estimation of User Charges as percentage of cost of delivery 2011-12 (RE)

WEST BENGAL					
	Non Plan Exp. (INR million)	Total Exp. (INR million)	Revenue (INR million)	REV/NPE (INR million)	REV/TE (INR million)
Social Services	213670.4	338479.4	1992.1	0.93%	0.59%
Economic Services	60840.9	104791.2	15876	26.09%	15.15%
ANDHRA PRADESH					
Social Services	228155.4	406797.7	3681.7	1.61%	0.91%
Economic Services	181757.5	251231.6	40428	22.24%	16.09%
All STATES					
Social Services	2789061.1	4588187.2	154872	5.55%	3.38%
Economic Services	1569526.9	2428545.5	531510	33.86%	21.89%

Source: Calculation based on State Finance: A Study of Budgets, Reserve Bank of India

Chapter – III

Broad Content

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

Expenditure Pattern of the State

The report has been prepared on the basis of RBI data. Like other states annual total expenditure of West Bengal at current prices for the period under consideration has been broadly classified under two categories (1) Revenue and Capital Expenditures and (2) Plan and Non-Plan Expenditures.

In the first category of classification the Revenue Expenditure includes wages and salaries, pension, interest payment on loan, subsidy etc. which are clubbed under current account of the fiscal budget. Components under this head are pre-committed expenditures. The capital expenditures on the other hand are mainly for capital investment and long term growth. However revenue expenditure includes both developmental and non-developmental expenses. For example, payment of salary to the engineers of a power plant is included under revenue expenditure but it is a part of developmental expenditure of the Govt. In any case, both revenue and capital expenditures have developmental and non-developmental components.

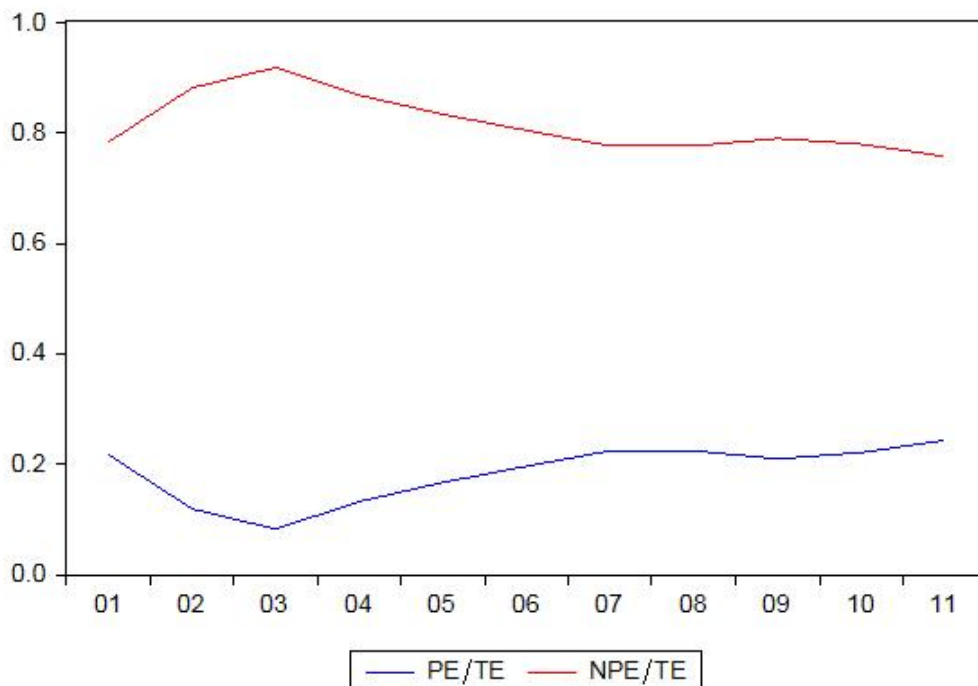
In the second category of classification, the state expenditures are classified under two broad heads – (a) Plan Expenditure and (b) Non-Plan Expenditure. Both plan and non-plan expenditures have developmental and non-developmental components. The revenue account of the State Govt. has both plan and non-plan expenditures. Similarly, the capital account also include both plan and non-plan expenditures although the capital account does not include any non-developmental plan expenditure.

With reference to the TOR(iii) of the study, the pattern and trend of plan and non-plan expenditures of the state (PE and NPE respectively) have been evaluated as ratio of total expenditure (TE) over the period i.e. PE/TE and NPE/TE show the trend of expenditure in the last ten years.

Table1. Share of PE and NPE as ratio of total expenditure (TE) in West Bengal over the period from 2001-02 to 2011-12.

YEAR	PE/TE	NPE/TE
2001	0.22	0.78
2002	0.12	0.88
2003	0.08	0.92
2004	0.13	0.87
2005	0.17	0.83
2006	0.20	0.80
2007	0.22	0.78
2008	0.22	0.78
2009	0.21	0.79
2010	0.22	0.78
2011	0.24	0.76

Figure1. Share of PE and NPE as ratio of total expenditure (TE) in West Bengal over the period 2001-02 to 2011-12.



The trend shows that the share of plan expenditure remains very low in the state from 2003-04 onwards and it is not healthy for the development of the state. The share of NPE has remained 95% and above

from 2003-04 to 2007-08. In the last 3 years there has been marginal improvement in the share of PE which has increased from 5% in 2009-10 to 7% in 2011-12.

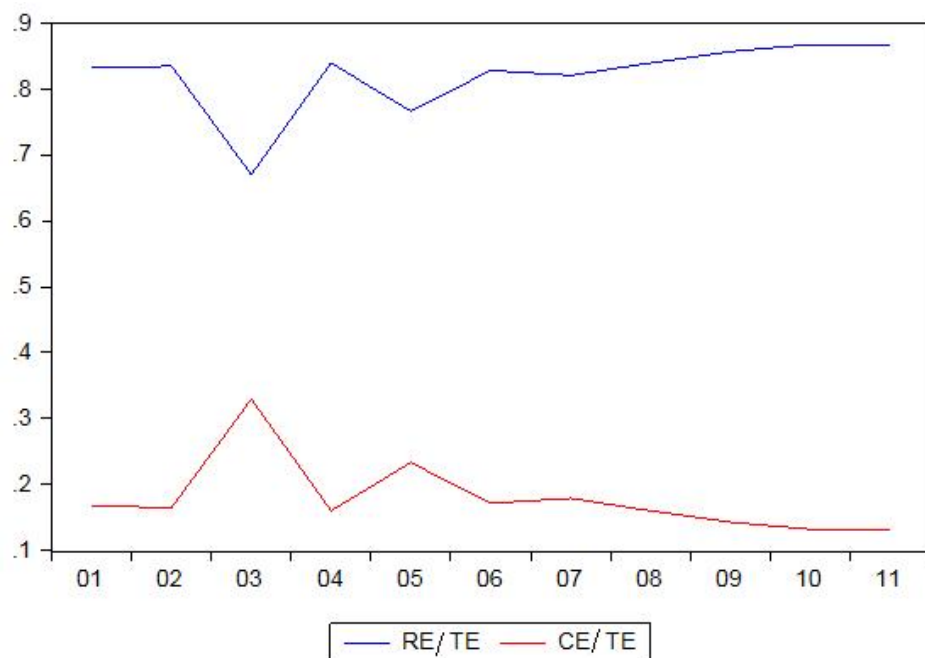
The pattern and trend of revenue expenditure (RE) and capital expenditure (CE) are evaluated by the ratio of RE and CE in total expenditure (TE) for the period under consideration i.e. RE/TE and CE/TE have been considered for this purpose.

Table2. Share of RE and CE in total expenditure (TE) of West Bengal for the period from 2001-02 to 2011-12.

YEAR	RE/TE	CE/TE
2001	0.83	0.17
2002	0.84	0.16
2003	0.67	0.33
2004	0.84	0.16
2005	0.77	0.23
2006	0.83	0.17
2007	0.82	0.18
2008	0.84	0.16
2009	0.86	0.14
2010	0.87	0.13
2011	0.87	0.13

It is evident from Table2 that the share of capital expenditure to total expenditure has remained low in the state for the whole period although in the last 3 – 4 years it has further declined. The share of both RE and NPE has remained high in the total expenditure of the state. It gives an indication that non-plan components in capital expenditure are high.

Figure2. Share of RE and CE in total expenditure (TE) of West Bengal for the period from 2001-02 to 2011-12.



We have evaluated the trend of the following major components of expenditure under the above heads: (i) interest payment and debt servicing (IPDS) under RE, (ii) repayment of central loan (RCL) under CE and (iii) expenditure on infrastructure (INF) both under TE and PE. That is, we have considered IPDS/RE, RCL/CE and INF/TE. Here, infrastructure includes (a) irrigation and flood control, (b) energy and (c) transport and communication. The expenditure on these three heads of infrastructure may be both plan and non-plan expenses. So, we have estimated a separate ratio of expenditure on infrastructure under plan head only i.e. INF(P)/PE has been considered.

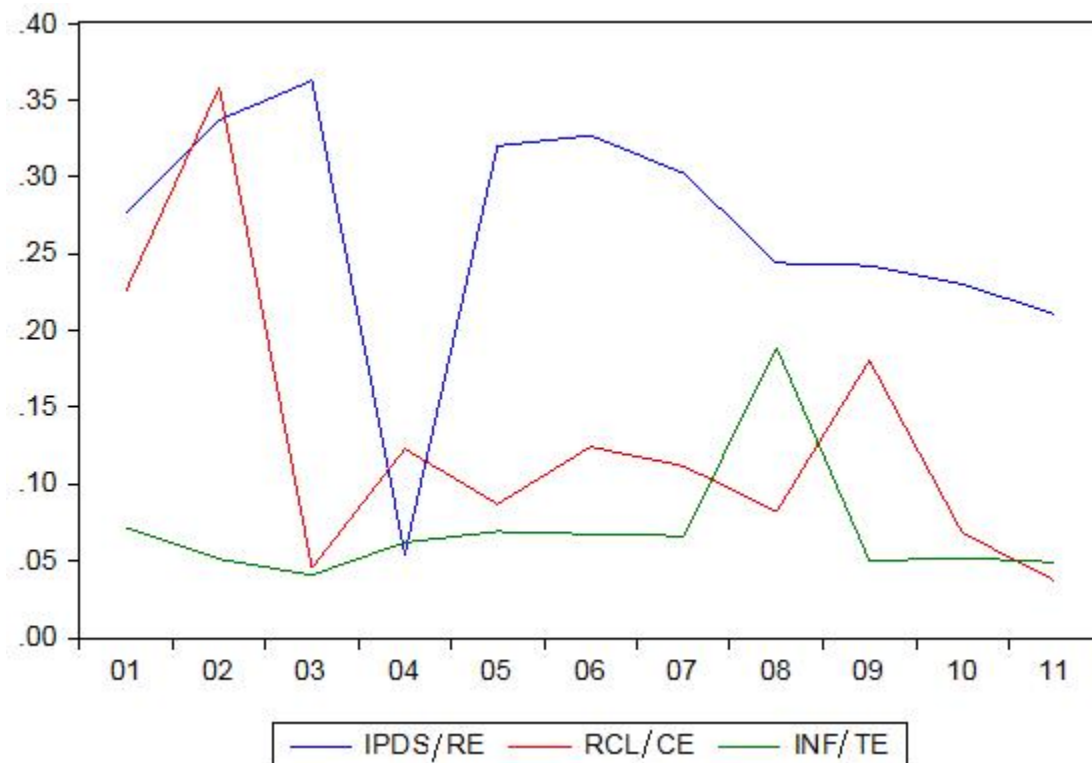
Table3. Share of IPDS in RE, RCL in CE, INF in TE and INF(P) in PE in West Bengal over a period from 2001-02 to 2011-12.

YEAR	IPDS/RE	IPDS/NPE	RCL/CE	RCL/NPE	INF/TE	INF(P)/PE
2001	0.28	0.30	0.23	0.05	0.07	0.16
2002	0.34	0.32	0.36	0.07	0.05	0.18
2003	0.36	0.27	0.05	0.016	0.04	0.20
2004	0.05	0.05	0.12	0.02	0.06	0.18
2005	0.32	0.29	0.09	0.02	0.07	0.21
2006	0.33	0.34	0.124	0.026	0.07	0.18

2007	0.30	0.32	0.112	0.026	0.07	0.19
2008	0.24	0.26	0.082	0.017	0.19	0.16
2009	0.24	0.26	0.18	0.032	0.05	0.12
2010	0.23	0.26	0.068	0.012	0.05	0.13
2011	0.21	0.24	0.037	0.006	0.05	0.11

The figure in Table3 are very revealing. One-fourth or more of RE is spent for interest payment and debt servicing. In the last 2 years there has been some marginal improvement in this aspect. The repayment of central loan (RCL) is an important component of capital expenditure. (RCL/CE) has slightly declined for the last 5 years. The most important component of Govt. spending is the expenditure on infrastructure. The figures show that expenditure share on infrastructure both in total expenditure (TE) and plan expenditure (PE) has declined in the last 5 years.

Figure3. Share of (a) IPDS in RE, (b) RCL in CE and (c) INF in TE in West Bengal over the period from 2001-02 to 2011-12.



So far as allocative and technical efficiency in expenditures is concerned there is little scope for rigorous econometric analysis for this short span of analysis. As alternative measures ratios, percentages and

growth rates of major heads and components on various aspects of expenditure have been compared with similar states like Andhra Pradesh (AP) and national averages (all states). The share of capital expenditure (CE) in total expenditure (TE), the share of plan expenditure (PE) in total expenditure (TE), the expenditure on infrastructure (INF) in total expenditure (TE), interest payment and debt servicing (IPDS) in revenue expenditure (RE) and repayment of central loan (RCL) in capital expenditure (CE) of West Bengal have been compared with the figures of AP and all states. More clearly, CE/TE, PE/TE, INF/TE, IPDS/RE, RCL/CE of WB, AP and all states have been compared.

Table4. Share of CE, PE and INF in TE in West Bengal (WB), Andhra Pradesh (AP) and All States (AS) for the period from 2001-02 to 2011-12.

Year	CE/TE			PE/TE			INF/TE		
	WB	AP	AS	WB	AP	AS	WB	AP	AS
2001	0.17	0.20	0.17	0.22	0.32	0.21	0.07	0.21	0.14
2002	0.16	0.24	0.19	0.12	0.28	0.21	0.05	0.18	0.14
2003	0.33	0.26	0.28	0.08	0.29	0.19	0.04	0.17	0.16
2004	0.16	0.34	0.27	0.13	0.26	0.21	0.06	0.18	0.14
2005	0.23	0.28	0.22	0.17	0.30	0.26	0.07	0.26	0.17
2006	0.17	0.27	0.23	0.20	0.35	0.29	0.07	0.27	0.18
2007	0.18	0.28	0.23	0.22	0.39	0.31	0.07	0.30	0.19
2008	0.16	0.23	0.23	0.22	0.47	0.34	0.18	0.26	0.19
2009	0.14	0.25	0.21	0.21	0.36	0.31	0.05	0.26	0.16
2010	0.13	0.20	0.20	0.22	0.34	0.33	0.05	0.23	0.15
2011	0.13	0.21	0.21	0.24	0.36	0.34	0.05	0.23	0.16

The literature suggests that allocation of more funds to capital and plan expenditure specially on infrastructure is effective for long term growth. But in comparison to the figures in AP and national (all states) average, the share of plan expenditure in total expenditure and expenditure share on infrastructure is much low in West Bengal. In that sense, allocative efficiency in the state is low. Here we are not in a position to examine the technical efficiency due to of such spending in the state due to lack of data.

Figure4a. The share of CE in total expenditure (TE) in AP, AS (all states) and WB.

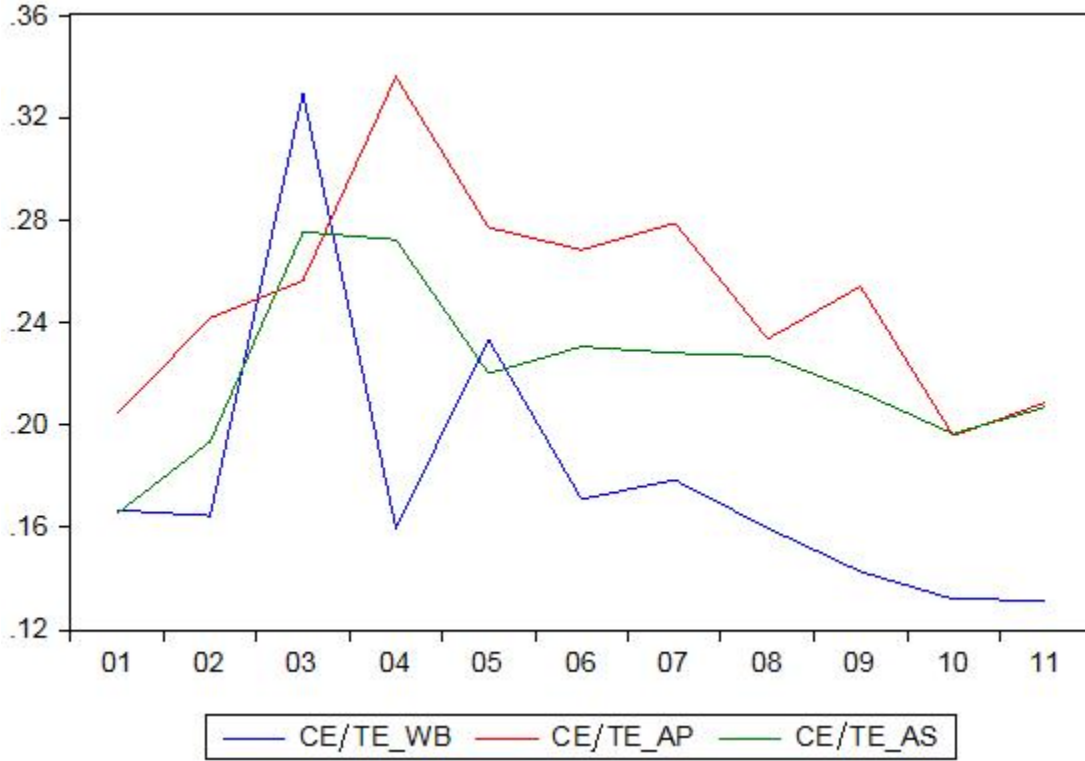


Figure4b. The share of PE in total expenditure (TE) in AP, AS (all states) and WB.

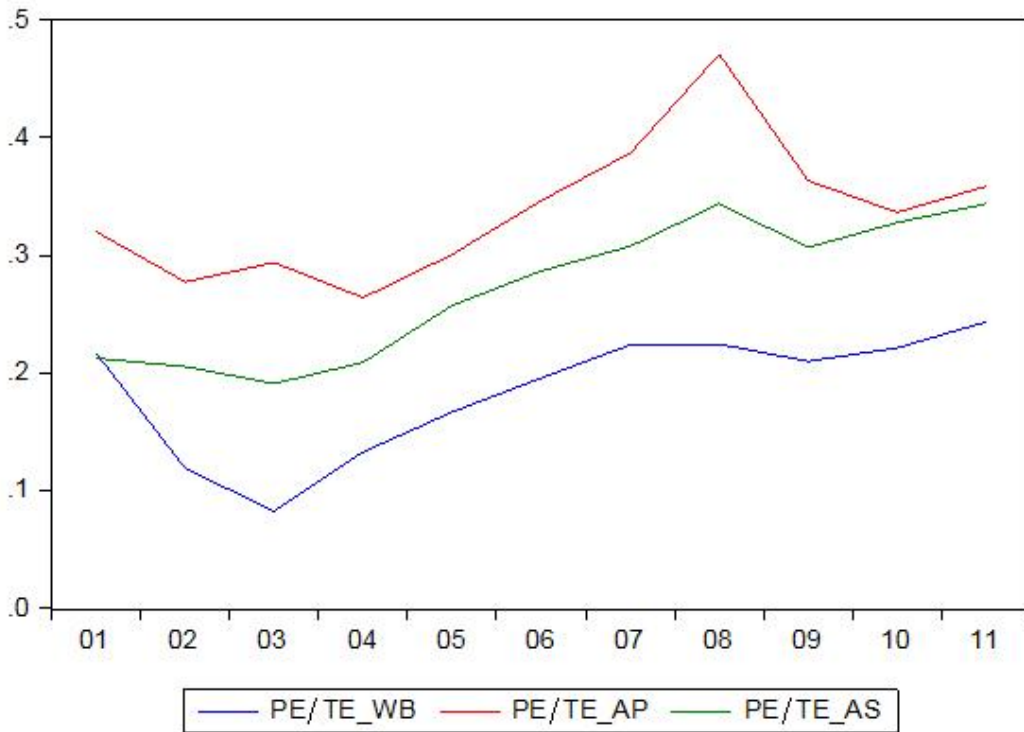
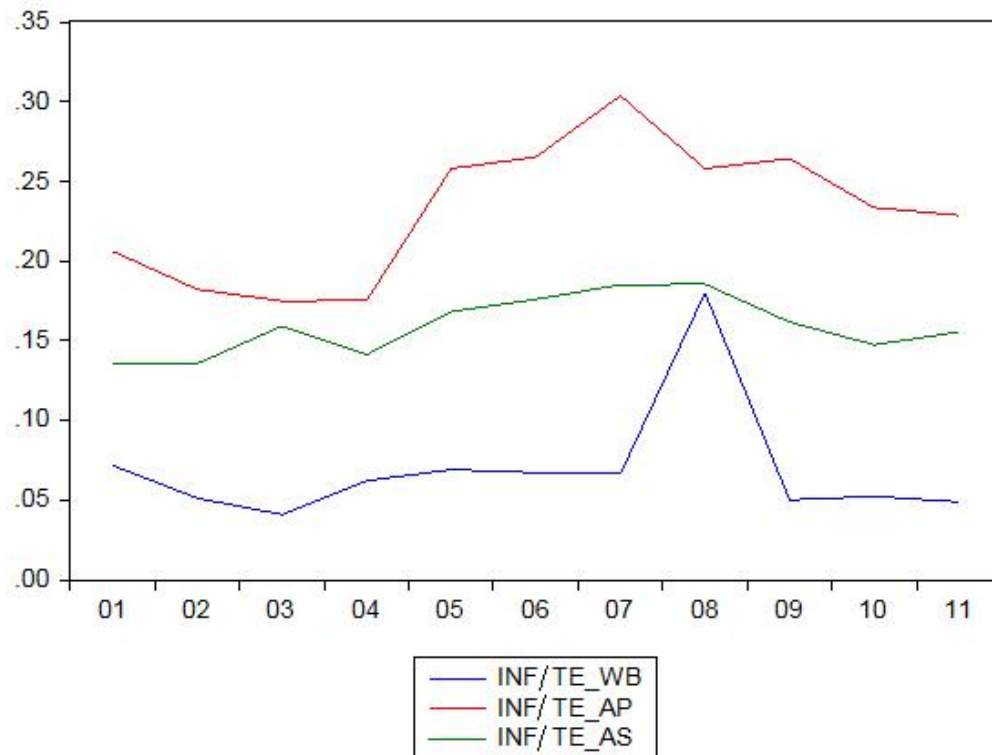


Figure4c. The share of expenditure on INF in total expenditure (TE) in AP, AS (all states) and WB.



The other parameters of efficiency in expenditure pattern is the ratio of interest payment and debt servicing (IPDS) in RE and repayment of central loan (RCL) in CE.

Table5. Share of IPDS in RE and RCL in CE in AP, AS (all states) and WB.

YEAR	IPDS/RE			RCL/CE		
	WB	AP	AS	WB	AP	AS
2001	0.28	0.19	0.20	0.23	0.19	0.22
2002	0.34	0.24	0.21	0.36	0.28	0.34
2003	0.36	0.23	0.22	0.05	0.11	0.08
2004	0.05	0.23	0.23	0.12	0.28	0.24
2005	0.32	0.21	0.21	0.09	0.043	0.066
2006	0.33	0.18	0.20	0.124	0.08	0.10
2007	0.30	0.15	0.18	0.112	0.05	0.048
2008	0.24	0.13	0.16	0.082	0.04	0.037
2009	0.24	0.15	0.15	0.18	0.07	0.037
2010	0.23	0.12	0.14	0.068	0.04	0.036
2011	0.21	0.12	0.14	0.037	0.03	0.029

Table5. shows that the interest payment and debt servicing (IPDS) as percentage of RE is much higher in WB compared to the national average and the figure in AP although there has been little improvement in this aspect in the state in 2011-12. This debt burden might be one cause of low allocation of funds to plan expenditure.

Figure5a. The share of IPDS in RE of WB as compared to national average (all states) and AP

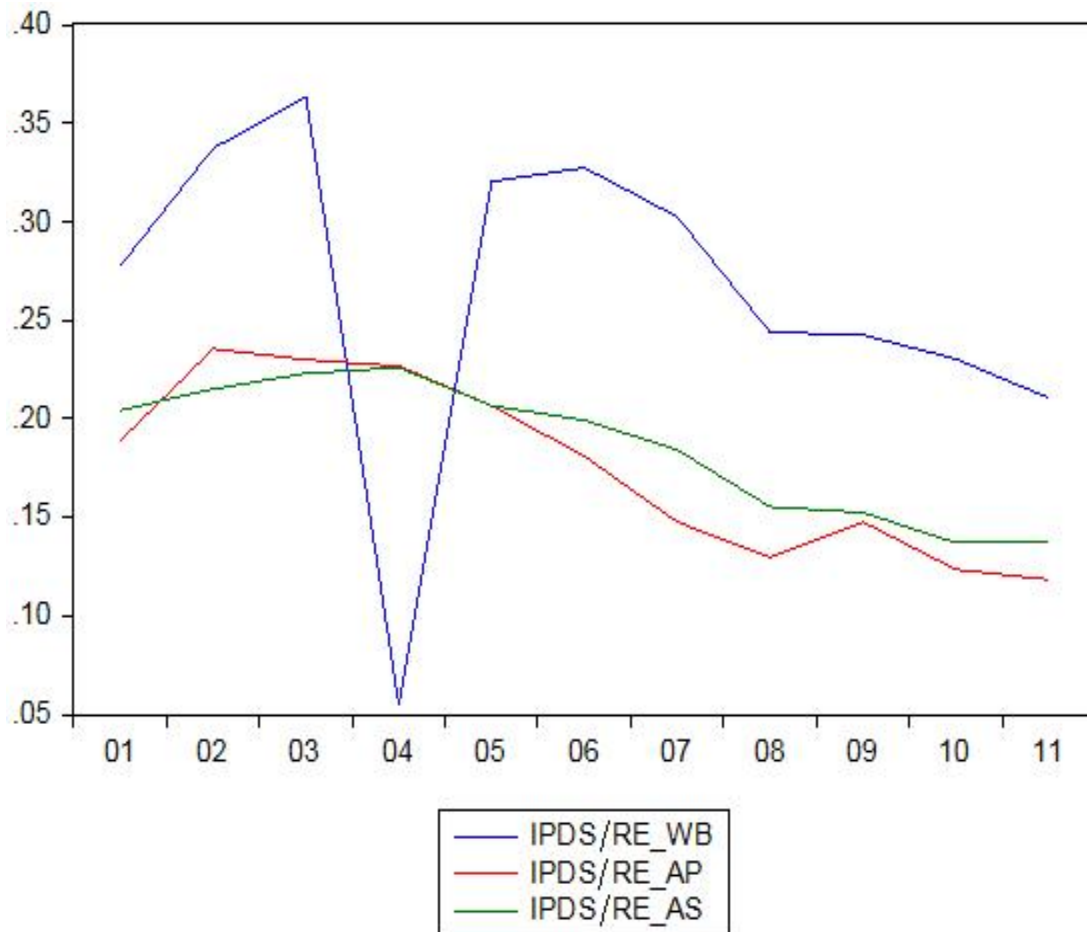
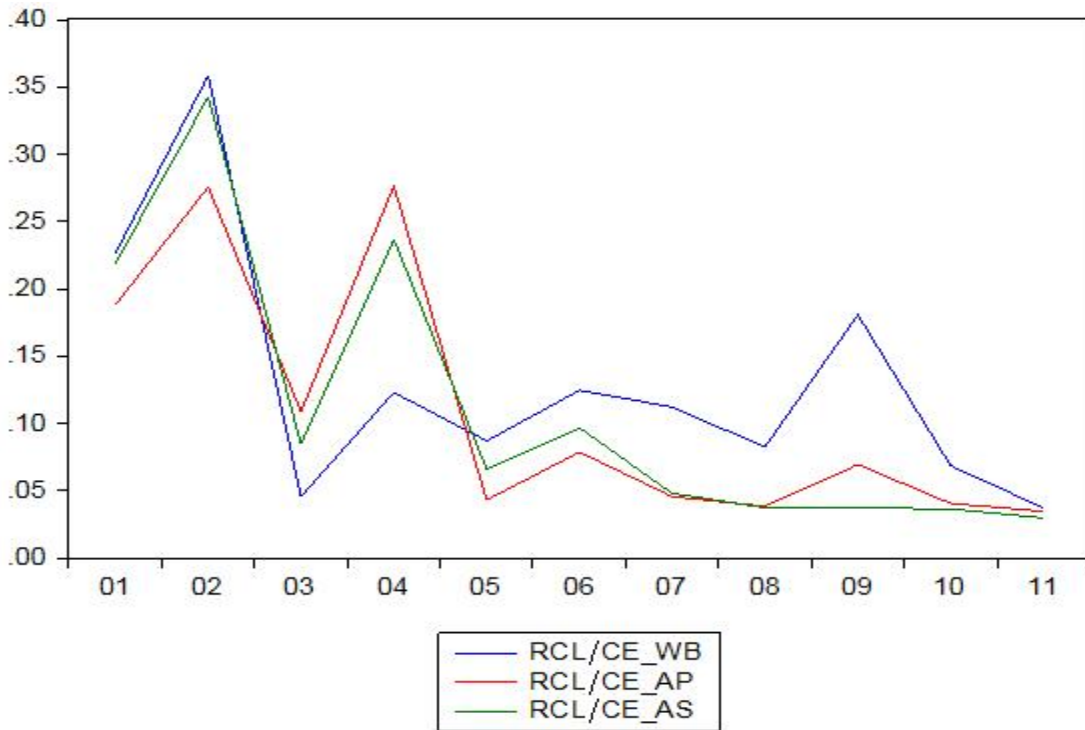


Figure5b. The share of RCL in CE of WB as compared to national average (all states) and AP



So far as efficiency of expenditure pattern is concerned 3 measures may be suggested to improve the fiscal position and allocative efficiency in the state: (i) more funds should be allocated to plan expenditures, (ii) expenditure share for infrastructure should be increased and (iii) measures should be taken to reduce the debt burden (IPDS) of the state so that more fund is available for development purposes.

Chapter – IV

Broad Content

Analysis of Deficits- Fiscal and Revenue along with Balance of Current Revenues for Plan financing.

Analysis of Deficit

The deficit in the Govt. budget is categorized as – (i) Gross Fiscal Deficit (GFD), (ii) Revenue Deficit (RD) and (iii) Primary Deficit (PD). The GFD is the difference between aggregate disbursements (net of debt repayments) and recovery of loans and revenue receipts and non-debt capital receipts. Revenue Deficit is the difference between revenue expenditure and revenue receipts. Primary Deficit is gross fiscal deficit (GFD) less interest payments.

In the present study, we have considered GFD of WB as ratio of (i) gross state domestic product (GSDP), (ii) total expenditure (TE) and (iii) plan expenditure (PE) for the period under consideration and they have been compared with the figures of similar state Andhra Pradesh (AP) and best performing states like Gujrat and Maharashtra. Similar comparisons have been done with respect to revenue deficit (RD) also.

Table6. Percentage of GFD in GSDP, TE and PE in WB and AP over the period from 2001-02 to 2011-12.

YEAR	GFD/GSDP		GFD/TE		GFD/PE	
	WB	AP	WB	AP	WB	AP
2001	8.00	4.00	42.00	22.00	194.00	68.00
2002	6.00	4.00	38.00	22.00	321.00	80.00
2003	7.00	4.00	10.00	5.00	407.00	63.00
2004	5.00	4.00	8.00	5.00	240.00	66.00
2005	4.00	3.00	7.00	4.00	142.00	57.00
2006	4.00	2.00	5.00	4.00	142.00	29.00
2007	4.00	2.00	6.00	4.00	109.00	30.00
2008	4.00	2.00	6.00	9.00	89.00	25.00
2009	6.00	3.00	9.00	6.00	154.00	45.00
2010	4.00	2.00	7.00	8.00	114.00	32.00
2011	4.00	3.00	7.00	11.00	101.00	41.00

Figure6a. Ratio of GFD in GSDP in WB and AP over the period from 2001-02 to 2011-12.

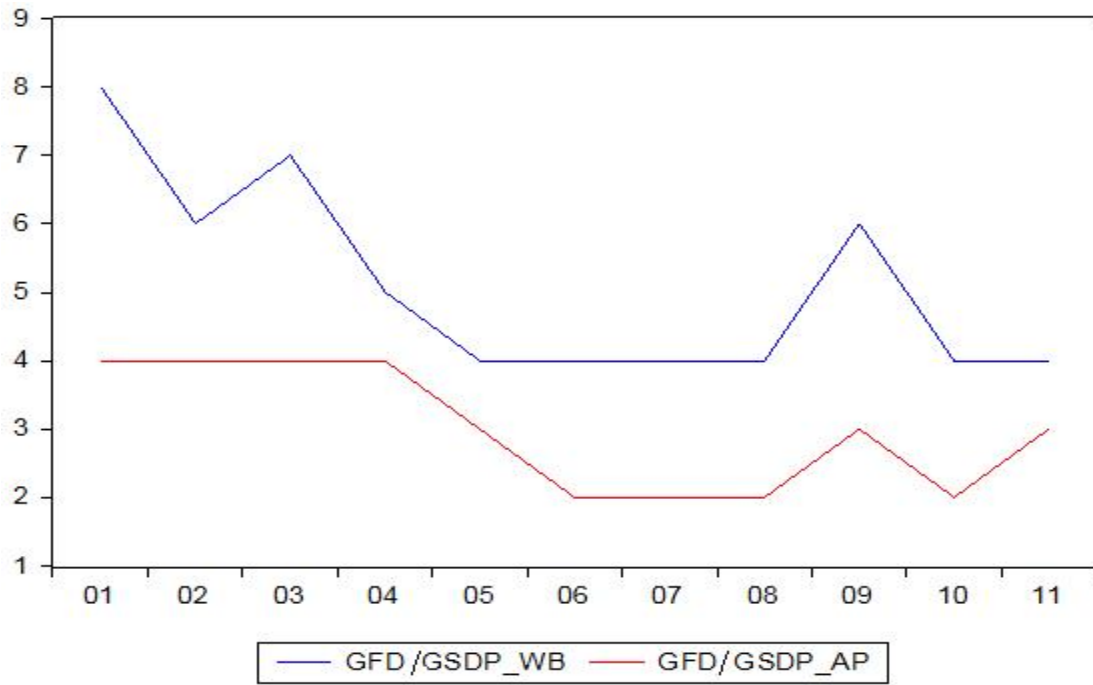


Figure6b. Ratio of GFD in TE in WB and AP over the period from 2001-02 to 2011-12.

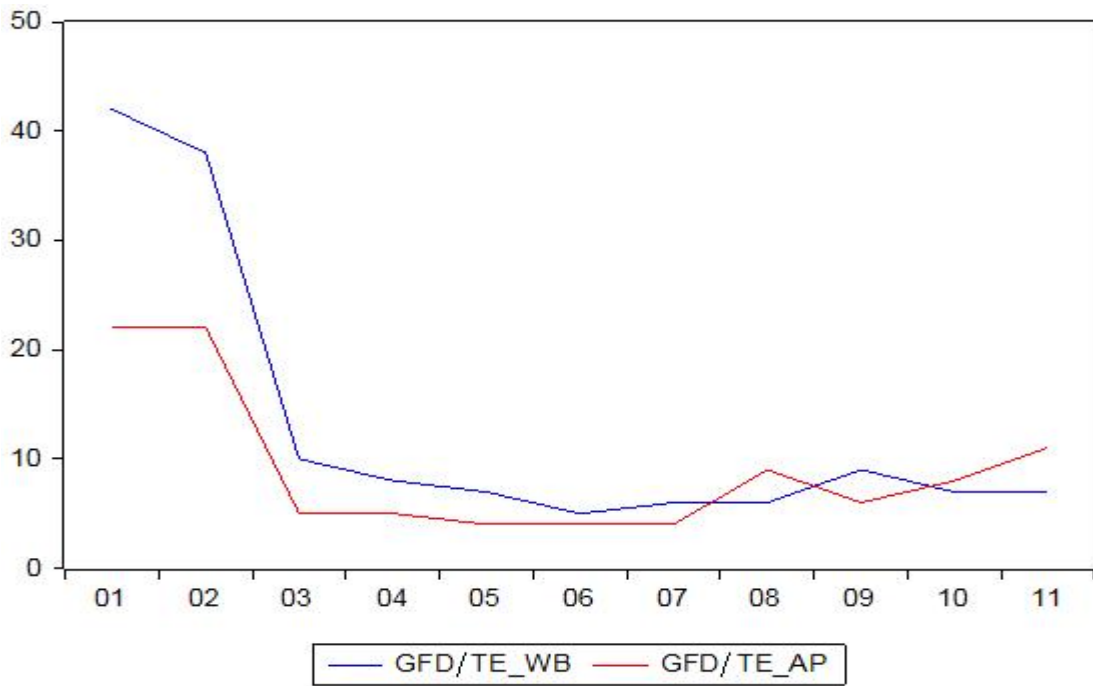
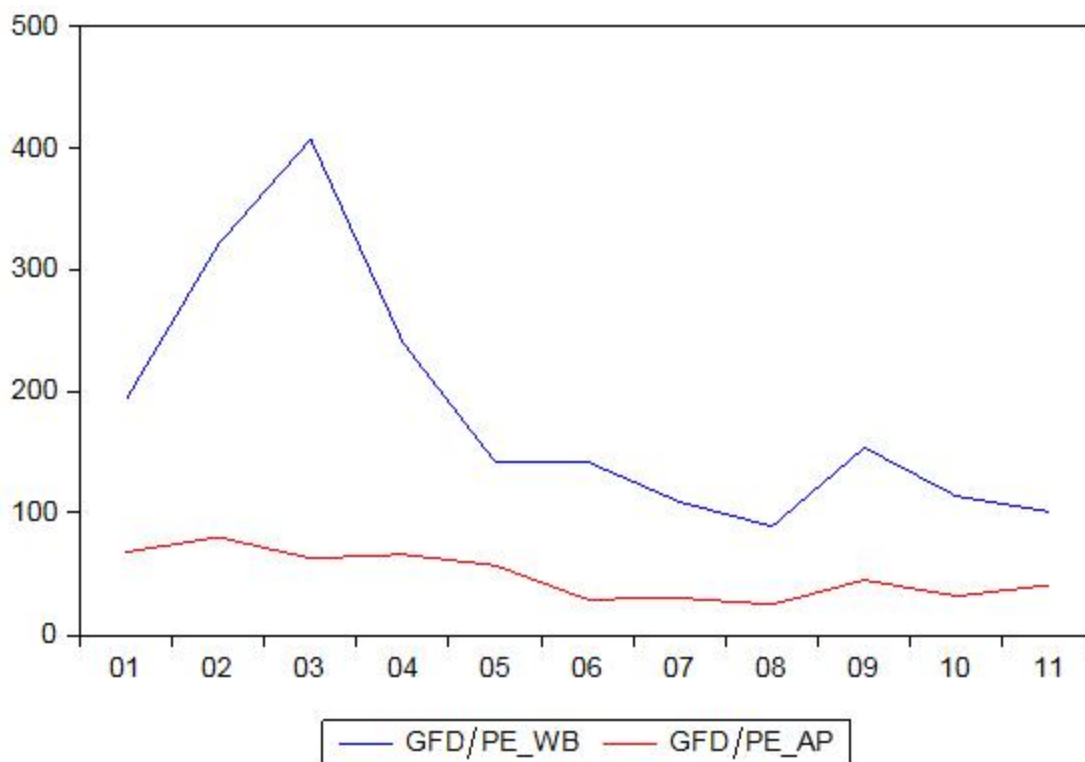


Figure6c. Ratio of GFD in PE in WB and AP over the period from 2001-02 to 2011-12.



The gross fiscal deficit (GFD) as ratio of GSDP and TE has slightly declined in WB in the last ten years although the ratio is higher than that in AP. That means, WB depends more on public borrowing to meet its expenses. However in the last two years, the fiscal balance of WB has marginally improved. Although the position of WB in respect of GFD as ratio of PE has improved in the last 3 years, it is lagging behind AP. In case of AP, the ratio is less than one. That means, PE is greater GFD. But in WB, it is greater than one implying that the state is to depend on public debt for plan expenditure.

Table7. Percentage of revenue deficit (RD) in GSDP and TE in WB and AP for the period from 2001-02 to 2011-12.

YEAR	RD/GSDP		RD/TE	
	WB	AP	WB	AP
2001	5.71	1.71	31.54	9.27
2002	5.18	1.69	31.16	8.88
2003	4.87	1.45	7.40	2.15
2004	3.94	1.14	6.35	1.41
2005	3.21	0.03	5.53	0.032
2006	3.18	-0.93	3.78	-2.02
2007	2.72	-0.04	4.14	-0.08

2008	3.71	-0.48	5.54	-1.87
2009	5.41	-0.26	7.84	-0.53
2010	3.63	-0.43	6.04	-1.70
2011	3.17	-0.12	5.43	-0.49

Figure7a. Ratio of revenue deficit (RD) in GSDP in WB and AP for the period from 2001-02 to 2011-12.

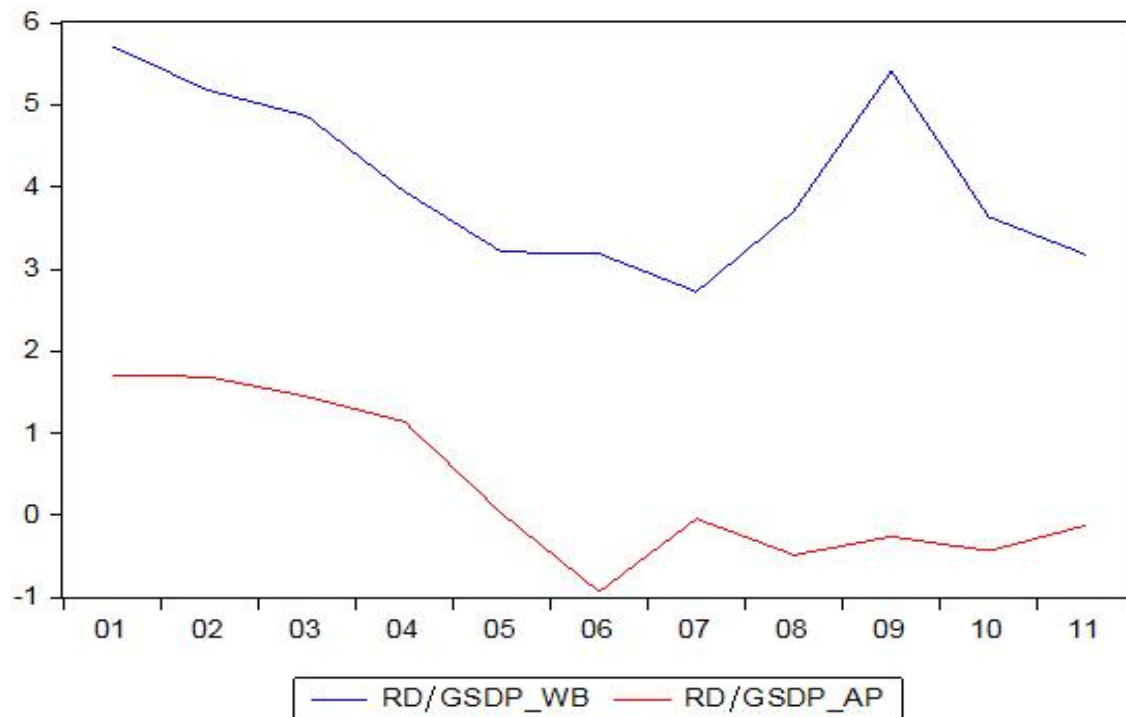
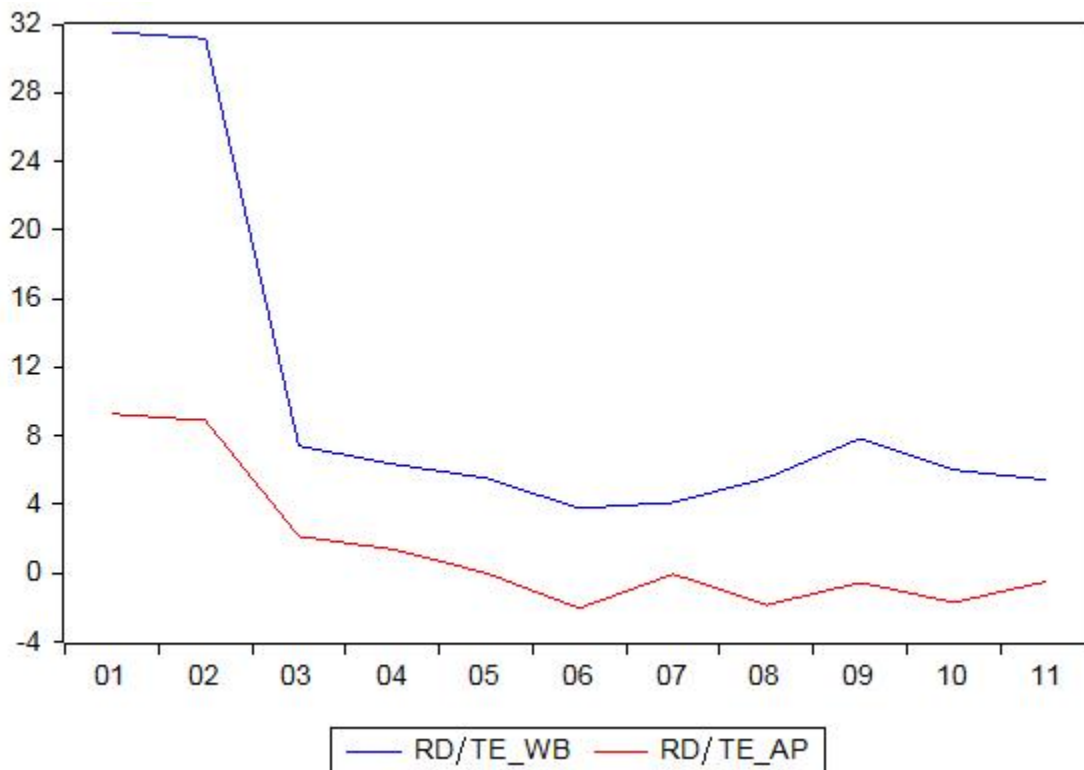


Figure 7b. Ratio of revenue deficit (RD) in TE in WB and AP for the period from 2001-02 to 2011-12.



The Table 7 and Figures 7a & 7b indicate that WB has revenue deficit throughout the period in consideration although in the last 2 years ratio of RD has declined both in terms of GSDP and TE. The implication is that revenue receipts falls short of revenue expenditures. On the other hand, from 2006-07 onwards, AP has revenue surplus. WB has to depend fully on borrowing for capital expenditure and development expenses.

We have also considered two best performing states like Gujrat and Maharashtra. In Gujrat, GFD/GSDP has declined from 8.06 in 2001-02 to 0.02 in 2011-12. The same ratio has declined from 0.04 to 0.02 in Maharashtra during the same period. GFD/PE has declined from 1.83 to 0.48 in Gujrat and from 2.30 to 0.55 in Maharashtra over the period from 2001-02 to 2008-09. The implication is that both states have been able to mobilize sufficient resources for plan expenditures from their own sources.

Chapter – V

Broad Content

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

Debt Analysis

This chapter looks carefully at the state of the Debt burden of West Bengal as it has evolved over the current period of study. Apart from the overall analysis of the debt scenario we shall again compare the outcome with Andhra Pradesh, the benchmark state for West Bengal. The total debt burden of West Bengal is 2261.93¹ Billion Rupees implying that the debt burden of every citizen of the state is more than twenty thousand rupees which indeed is an alarming figure. However, the per capita debt figure is still below to that of the national average² of Rs. 33000. In 2012-13, The Revenue Deficit of the state is the highest among the five highly-indebted states of Maharashtra, Uttar Pradesh, West Bengal, Gujrat and Andhra Pradesh³. According to a report published in Business Line (July 12, 2011), “there is little doubt that West Bengal is reeling under huge debt burden, to the extent that its annual interest payment is greater than the development expenditure”. Debabrata Datta in his article “West Bengal Government Finances: A Critical Look” published in Economic and Political Weekly in 2010 pointed out that not only has West Bengal performed poorly in most parameters compared to the bigger states, its performance in this area is even worse than the so-called backward states. That West Bengal government is on the bankruptcy is well pointed out by these statistics. Therefore, it is not unusual for one to want to go deeper into the state of public finances of the nation’s fourth most populous state in order to see how different indices of state finances have fared over the last ten years or so as to get a clearer picture of the actual plight of government finances. Having discussed the revenue and expenditure scenario over last ten years in initial chapters of the report, this chapter focuses on the level of indebtedness of the state. Apart from the discussion on the source wise volume of debt and interest payment thereof, we use the concept of Debt to GSDP ratio, Interest payment and Debt Servicing to Total Revenue Receipt and Expenditure, etc. Not all debt or interest payments are unproductive if the debt is incurred for creating debt servicing capacities or assets which will provide future returns. But the problem is that the debt is often used to cover revenue or non-plan expenditure which in effect acts like government consumption. As is previous chapters, here again Andhra Pradesh is considered to be a reference state.

¹ Budget Section, Dept. of Finance, Govt. of West Bengal, various issues

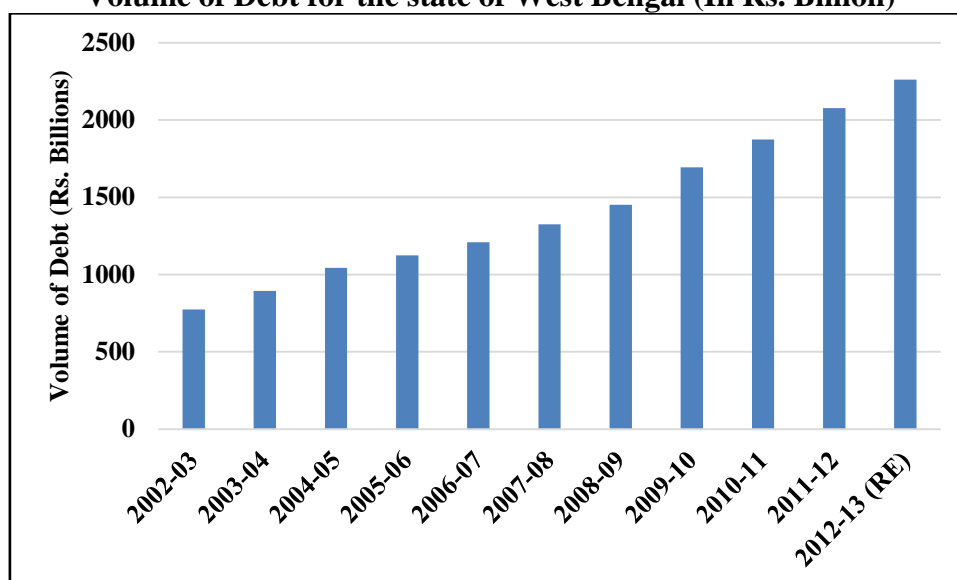
² According to the Ministry of Finance, GoI, the per capita debt in India was estimated at nearly Rs 33,000 at the end of March 2012

³ In terms of absolute volume of debt as available in RBI Report on State Finance

I. Volume of Debt

The debt burden of the state at present stands at Rs. 226193.37 crore as on 31st March 2013⁴, recording a CAGR of 11.64% over the ten year period 2002-12. This naturally calls for large debt related obligations, with a repayment liability to be discharged in future. The state has recently enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2010, with the commitment to progressively eliminate Revenue Deficit by 2014-15, and reduce Fiscal Deficit and Debt Ratio by 2013-14 and 2014-15 respectively. However, in present days, the state seems to have crossed the alarming level of indebtedness as shown in Figure: 1. The level of debt has grown exponentially over the years, especially after 1999-2000. In 1998-99, Bengal had a total debt of close to thirty two thousand crores, whereas in 2012-13, it has exceeded the level of two lakh twenty five thousand crores (nearly seven fold increase in fourteen years).

Figure: 1
Volume of Debt for the state of West Bengal (In Rs. Billion)



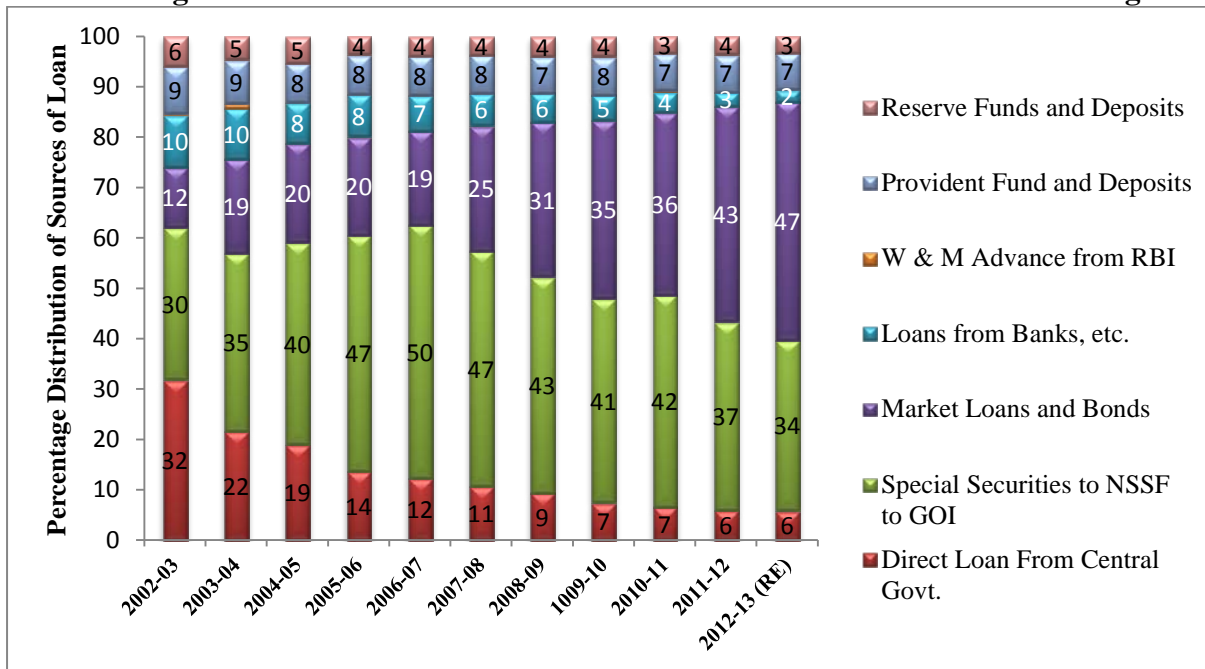
Source: Budget Section, Dept. of Finance, Govt. of West Bengal

Note: RE – Revised estimate

However, if we look at the sources of loan over the years, it can be seen that among all other sources, Central Government used to be prime source of loan for Govt. of West Bengal earlier (Figure: 2). Nowadays, state seems to be increasingly dependent on Market loans and Bonds rather than depending on Central Govt. to finance her budget. In 2002-03, nearly a third of total volume of state's loan used to come from centre, whereas, in 2012-13 it has reduced to 6 per cent only.

⁴ Revised Estimate provided by Budget Section, Dept. of Finance, Govt. of West Bengal.

Figure: 2
Percentage Distribution Loan from Different Sources for the state of West Bengal



Source: State Finance: A Study of Budgets, Reserve Bank of India

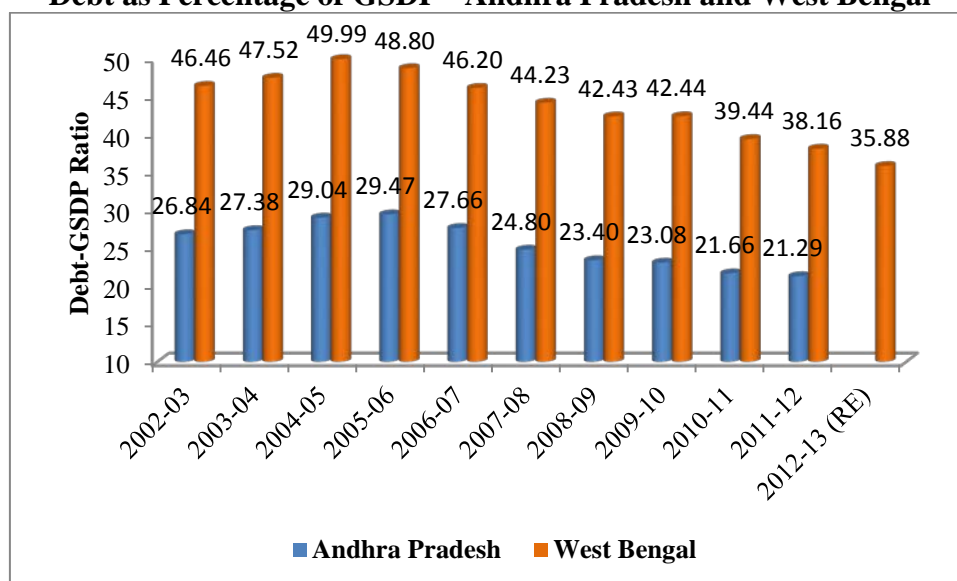
Note: RE – Revised estimate

The contribution of Market Loan and Bonds as loan source to Bengal Govt. has shown a more than fourfold increase, from 11 per cent in 2002-03 to 47 per cent in 2012-13. Apart from this, Special Securities to NSSF of Govt. of India is also a largest source of loan to the state Government.

II. Debt to GSDP Ratio

The Debt-to-GSDP Ratio is one of the important indicators of the fiscal health of an economy. It is the amount of debt of a state as percentage of its Gross State Domestic Product (GSDP). Lower is the ratio; better is the fiscal health of the state. We compare the Debt-GSDP Ratio of West Bengal with that of Andhra Pradesh. Figure: 3 postulate the comparative diagram of the two states. It is quite clear that Andhra Pradesh is in a much comfortable position in terms of managing her level of indebtedness relative to total volume of production as compared to West Bengal. The Debt – GSDP ratio was highest in 2004-05 and is falling slowly later on. However, the rate of fall is not that encouraging. In order to have the ratio to decrease the rate of growth of GSDP has to be higher that of debt. For West Bengal, though the GSDP growth rate has managed to surpass the growth rate of Debt, the difference between the two growth rates is marginal enough to be worried about. To talk of the level of indebtedness of the two states, in 2012-13, West Bengal seems to have nearly 37 per cent of her GSDP as debt whereas it is 20 per cent for Andhra Pradesh.

Figure: 3
Debt as Percentage of GSDP - Andhra Pradesh and West Bengal



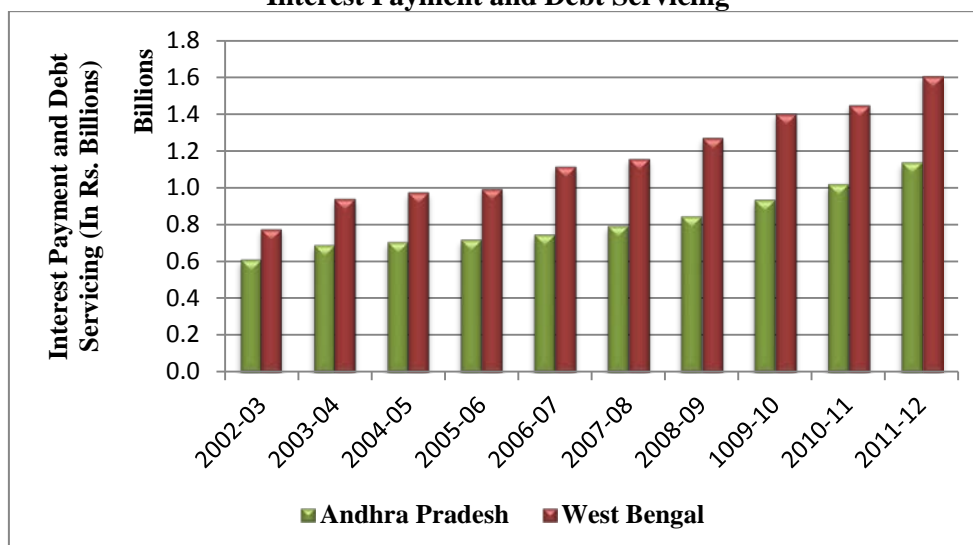
Source: State Finance: A Study of Budgets, Reserve Bank of India

Note: Volume of Debt for 2012-13 for Andhra Pradesh is not available as on 1st October 2013

III. Interest Payment and Debt Servicing

Following sharp rise in the absolute volume of debt, the yearly interest payment has also gone up to an alarming level. In 2002-03, West Bengal used to spend nearly 78 Billion Rupees as interest payment against a total debt burden of close to 655 Billion Rupees. In 2012-13, the interest payment has increased to more than Rs. 160 Billion against the total debt of 1690 Billion Rupees. Compared to West Bengal, our reference state of discussion, namely, Andhra Pradesh is in a much healthy position as the amount spent in repaying loan is substantially low, obviously due to low volume of debt.

Figure: 4
Interest Payment and Debt Servicing



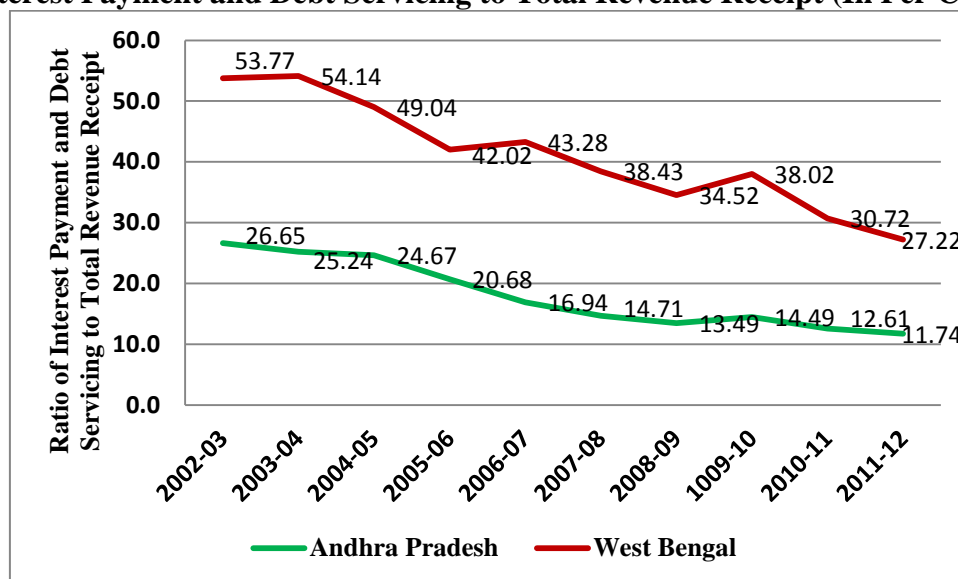
Source: State Finance: A Study of Budgets, Reserve Bank of India

To say on interest payment to different sources of loan, payment to Internal Debt is increasing at an increasing rate and this is true for both West Bengal and Andhra Pradesh. The yearly report titled 'State Finance: A Study of Budgets' published by Reserve Bank of India provides the figure for interest payment to four prime sources of loan. These are namely, Interest on Loan from Central Government, Interest on Internal debt, Interest on Small Savings & Provident Fund and any other sources of loan. Out of the four classified sources, in the latest available year, West Bengal spent 87 per cent of its total interest payment in repaying Internal Debt, remaining 13 per cent in repaying the other three. The share of interest payment for internal debt has gone up to this high from a level of 51 per cent in 2002-03, whereas the interest payment to centre has decreased significantly as share for the same has fallen to only 4 per cent in 2011 from 41 per cent in 2002-03. It is quite clear that the state has started relying more on Internal Debt as compared to direct loan from the Central Government. The pattern is similar for Andhra Pradesh as well.

IV. Cost of Loan versus Capacity to Repay

Repayment of Loan taken from various sources is getting increasingly difficult as the amount spent in repaying is rising substantially. This basically raised the non-development expenditure, leaving small scope for the money to be spent in developmental purpose. So, it is really important to look as to how much percentage of states total revenue receipt is spent in servicing debt and paying interest. As we see from Figure: 5, in 2002-03, West Bengal used to spend about 54 per cent of her total revenue receipt in servicing debt and paying interest, whereas, in 2011-12, they could reduce it half of the figure for that of 2002-03. But comparing with Andhra Pradesh, the ratio is significantly high and it is quite prominent that West Bengal has to spend more than double of what Andhra Pradesh is spending to finance her loan. It is significant to note that the ratio Interest Payment and Debt Servicing to Total Revenue Receipt is coming down over the years. Apparently, it seems like interest payment is falling due to fall in absolute volume of debt. But we have already seen in our previous discussion, volume of debt is increasing at a near exponential rate. So, this fall in the ratio is expected to be resultant of a sharp rise in revenue receipt. Following, this if we control for this rise in revenue receipt, we may clearly see that interest payment is rising over the years.

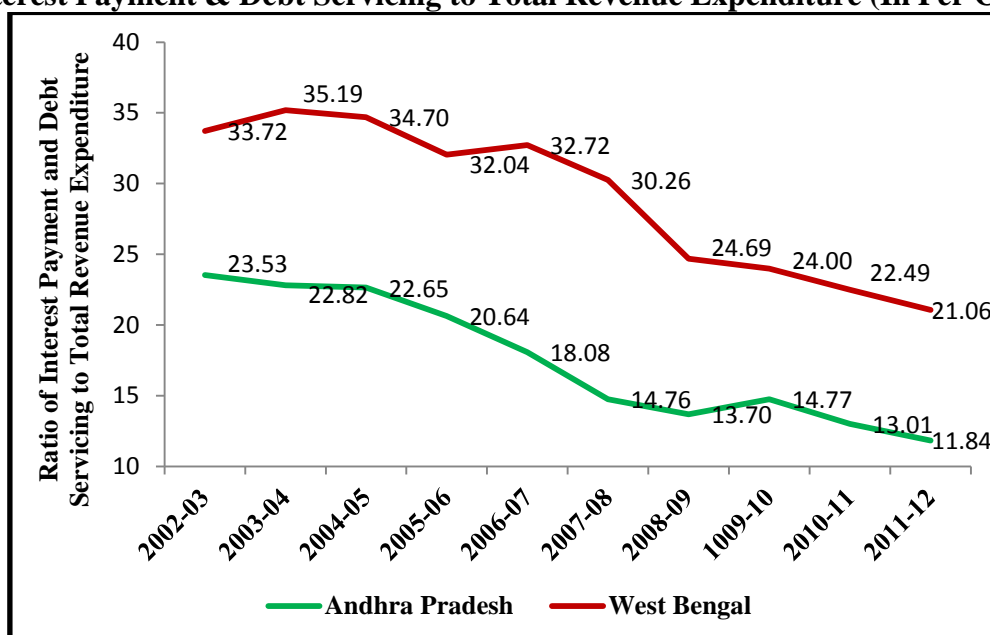
Figure: 5
Interest Payment and Debt Servicing to Total Revenue Receipt (In Per Cent)



Source: State Finance: A Study of Budgets, Reserve Bank of India

As against revenue receipt, West Bengal has incurred 21 per cent of her total expenditure in servicing of debt and paying interest in 2011-12 (Figure: 6). This basically shows to what extent the burden of debt is hampering the scope for development of the state in terms of inadequate funding for development expenditure after paying for interest and debt servicing.

Figure: 6
Interest Payment & Debt Servicing to Total Revenue Expenditure (In Per Cent)

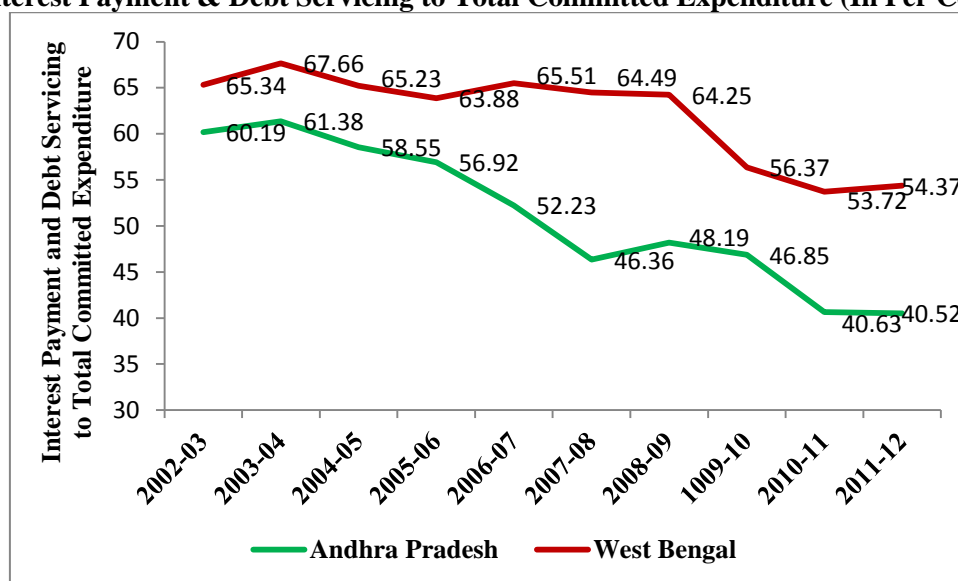


Source: State Finance: A Study of Budgets, Reserve Bank of India

Also, if we express the amount spent in Debt Servicing and Interest Payment as percentage of the expenditure incurred in meeting commitment, then we may see that in 2011-12, more than half the total committed expenditure goes in repayment of loan and rest goes in paying the

others. It is to be mentioned that Committed Expenditure includes payment towards Pension, Administrative Services and Interest Payment & Debt Servicing.

Interest Payment & Debt Servicing to Total Committed Expenditure (In Per Cent)

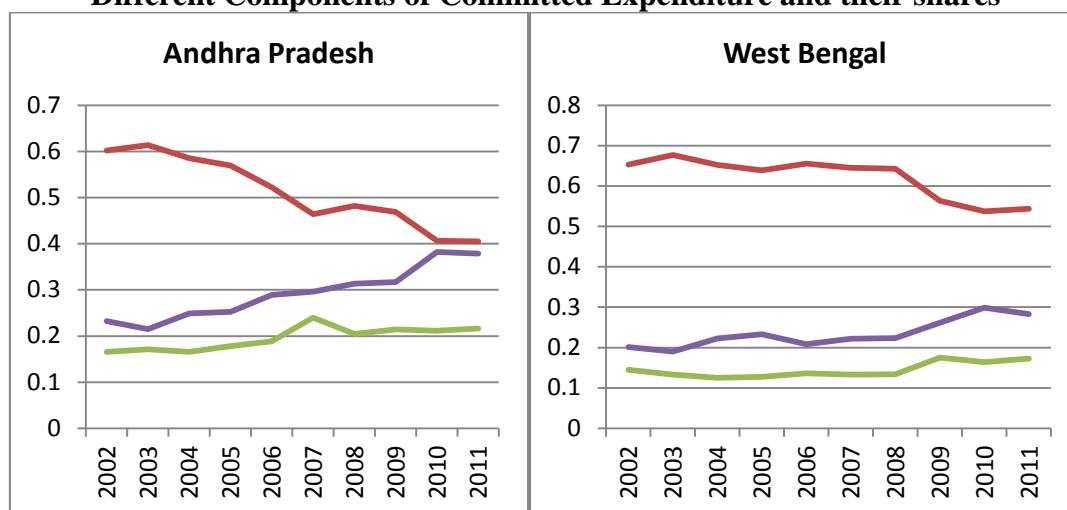


Source: State Finance: A Study of Budgets, Reserve Bank of India

Compared to West Bengal, Andhra Pradesh has managed to bring the ratio down to 0.41 in 2011 as against 0.60 in 2002-13. The gap in this context is widening between the two states.

Figure: 8

Different Components of Committed Expenditure and their shares



- Ratio of Interest Payment & Debt Servicing to Total Committed Expenditure
- Ratio of Expenditure on Pension to Total Committed Expenditure
- Ratio of Expenditure on Administrative Services to Total Committed Expenditure

Though the percentage share of Interest Payment and Debt Servicing is falling over the years, the share of the other two components viz. expenditure on Administrative Services and Pension is rising (Figure: 8).

IV. Rank Analysis of West Bengal

In the last section, of this chapter we have tried to reflect on the relative position of West Bengal in terms of indebtedness. We use the concept of Debt-GSDP Ratio to measure the level of indebtedness of a state. Higher ratio represents poor fiscal health and vice versa. Following this, we ranked each state in each year of our reference period of discussion, viz. 2002-03 to 2011-12. We considered 17 general category states; special category states and the union territories are not a part of this calculation. States being 17 in number, for a particular year states are ranked in a scale of 1 to 17. State with highest Debt-GSDP Ratio in a particular year is given the HIGHEST rank i.e. 1 indicating highest indebted state and the state with Lowest Debt-GSDP Ratio is given the LOWEST rank i.e. 17 implying lowest indebted state. Accordingly, a downward movement in the scale i.e. from 17 to 1 indicates movement from a situation of lower indebtedness to higher indebtedness.

Table: 1

Rank analysis of some Major States in terms of Debt-GSDP Ratio

Year	Andhra Pradesh	Gujrat	Haryana	Maharashtra	Madhya Pradesh	Tamil Nadu	Uttar Pradesh	West Bengal
2002-03	11	8	14	13	10	15	4	6
2003-04	11	8	14	13	10	15	3	5
2004-05	11	9	15	12	7	14	2	5
2005-06	10	11	13	12	7	16	2	5
2006-07	11	10	15	13	7	16	2	3
2007-08	11	10	16	12	7	15	2	3
2008-09	12	9	16	13	8	15	1	2
2009-10	12	9	17	13	8	15	2	1
2010-11	12	11	16	14	7	15	2	1
2011-12	12	9	16	14	7	15	2	1

Note: 17 General Category states are considered and are ranked in a scale of 1 to 17 with 1 for state with highest Debt-GSDP Ratio and 17 for state with lowest Debt-GSDP Ratio.

We present the ranks of some major states for each year of our reference period of discussion in Table: 1. West Bengal as provided in the Table has been the worst state since last three years among all seventeen states considered for discussion. Form 6th most indebted state in 2002-03, West Bengal has become the highest indebted state in 2009-10 and is maintaining the spot for three years. West Bengal is followed by Uttar Pradesh, the 2nd most indebted state. Among the larger states, Haryana, Tamil Nadu, Maharashtra and Andhra Pradesh is in a much low level of indebtedness.

Appendix Tables

Appendix Table: 1
Composition of Debt for the state of West Bengal

(Rupees in Crore)

State Debt as on	Central Loan		Market Loans and Bonds	Loans from Banks, etc.	W & M Advance from RBI	Provident Fund and Deposits	Reserve Funds and Deposits	Total Debt
	Direct Loans	Special Securities to NSSF of GOI						
31.03.2002	23717.36	14845.25	6887.16	6836.79	2100.8	6923.81	4271.98	65583.15
31.03.2003	24653.71	23430.73	9294.58	8075.5	162.33	7301.42	4595.93	77514.2
31.03.2004	19335.85	31580.67	16678.6	9017.01	830.5	7752.6	4163.03	89358.26
31.03.2005	19752.79	41808.36	20697.28	8302.17	0.0	8273.16	5471.33	104305.1
31.03.2006	15441.8	52533.86	21965.39	9496.14	0.0	8838.48	4082.8	112358.5
31.03.2007	14784.11	60778.57	22612.51	8587.98	0.0	9393.74	4734.7	120891.6
31.03.2008	14160.64	61714.66	33156.07	8484.62	0.0	10011.3	4945.93	132473.2
31.03.2009	13575.32	62234.52	44502.34	8340.1	0.0	10581.24	5841.64	145075.2
31.03.2010	12566.8	68665.12	59910.73	8345.09	0.0	13068.51	6741.34	169297.6
31.03.2011	12317.96	78753.54	68159.41	7605.11	606.09	13739.45	6205.84	187387.4
31.03.2012	12227.49	77764.73	88763.36	5942.39	0.0	15539.02	7465.05	207702.0
31.03.2013 (RE)	13185.62	76682.23	106757.3	5601.84	0.0	16470	7496.39	226193.4

Source: Budget Section, Dept. of Finance, Govt. of West Bengal.

Note: RE – Revised Estimate

Appendix Table: 2
Interest Payment and Avoidance of Debt

(Rupees in Lakh)

Year	Interest on Loans from the Centre (1)	Interest on Internal Debt (2)	Interest on Small Savings, Provident Funds, etc. (3)	Interest on Others (4)	Interest Payment (5) = 1+2+3+4	Debt Avoidance (6)	Interest Payment and Debt Servicing (7 = 5+6)
2002-03	317881	387259	34049	27457	766647	14400	781047
2003-04	324296	500895	38900	63796	927887	14400	942287
2004-05	243989	593644	39995	84698	962325	14400	976725
2005-06	160582	705406	37177	72111	975276	21600	996876
2006-07	181170	812454	38434	55831	1087888	30000	1117888
2007-08	171051	871464	36019	59822	1138356	21000	1159356
2008-09	118918	991332	41763	54886	1206899	67200	1274099
2009-10	166416	1070235	45427	48434	1330512	73200	1403712
2010-11	40370	1241513	50961	48886	1381730	70000	1451730
2011-12	65613	1408428	64000	71690	1609731	0	1609731

Source: State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 3
Comparative Fiscal Indicators

Year	Debt as Percentage of GSDP		Interest Payment & Debt Servicing to Total Revenue Receipt (In Per Cent)		Interest Payment & Debt Servicing to Total Revenue Expenditure (In Per Cent)	
	Andhra Pradesh	West Bengal	Andhra Pradesh	West Bengal	Andhra Pradesh	West Bengal
2002-03	26.84	46.46	26.65	53.77	23.53	33.72
2003-04	27.38	47.52	25.24	54.14	22.82	35.19
2004-05	29.04	49.99	24.67	49.04	22.65	34.70
2005-06	29.47	48.80	20.68	42.02	20.64	32.04
2006-07	27.66	46.20	16.94	43.28	18.08	32.72
2007-08	24.80	44.23	14.71	38.43	14.76	30.26
2008-09	23.40	42.43	13.49	34.52	13.70	24.69
2009-10	23.08	42.44	14.49	38.02	14.77	24.00
2010-11	21.66	39.44	12.61	30.72	13.01	22.49
2011-12	21.29	38.16	11.74	27.22	11.84	21.06

Source: Authors' calculation based on data obtained from State Finance: A Study of Budgets, Reserve Bank of India

Chapter – VI

Broad Content

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

Fiscal Responsibility and Budget Management (FRBM) Act

About FRBM

The Indian Parliament, in August 2003, passed the Fiscal Responsibility and Budget Management (FRBM) Act, which imposes stringent fiscal discipline on the central government as well as on the state governments in their overall fiscal and macroeconomic management operations. The primary objectives behind having an FRBM, as highlighted by the Act, were (a) to maintain transparency in fiscal management systems in the country, (b) to bring inter-generational equity in debt management and (c) to bring long term fiscal stability in the economy. The main purpose was to eliminate revenue deficit of the country, building revenue surplus thereafter and bring down the fiscal deficit to a 3 per cent of the GDP by March 2008. Accordingly, the act provided for three statements to be presented by the government namely; (a) the Medium Term Fiscal Policy statement, (b) Fiscal Policy Strategy Statement and (c) Macro Economic Framework statement.

Major Targets of FRBM Act:

- Elimination of Revenue Deficit by March 2009
- Reduction of Fiscal Deficit to an amount equivalent to 3 % of GDP by March 2008
- Reduction of Revenue Deficit by an amount equivalent of 0.5 per cent or more of the GDP at the end of each financial year, beginning with 2004-05
- Reduction of Fiscal Deficit by an amount equivalent of 0.3 per cent or more of the GDP at the end of each financial year, beginning with 2004-05

As recommended by the Twelfth Finance Commission, states that introduce FRBM Act will receive substantial debt relief (Rs 32,000 crores across all the states).

Enactment of FRBM in States of India and its Impact

Following the recommendation of 12th Finance Commission, the first five states to introduce FRBM Act are Karnataka, Kerala, Punjab, Tamil Nadu, and Uttar Pradesh respectively. Karnataka being first state to implement the act is said to be the most successful and so is the other states. Let's pay a little attention on the fiscal performance of these five states along with some other major states after implementation of the Act. If we leave aside West Bengal due to delayed implementation of the act, then as reflected in Table: 1, except for Kerala and Punjab, every other state could bring their revenue deficit to zero. Apart from that there has been a significant reduction in the ratio of Debt to GSDP for all states.

Table: 1
Comparative Study of Revenue Deficit and Indebtedness of Some Major States
(Revenue Deficit is expressed in Rs. Lakh)

States	Indicators	2002-03	2005-06	2008-09	2011-12
Andhra Pradesh	Revenue Deficit	-305397	-6410	0	0
	Debt/GSDP	26.83	29.46	23.40	21.29
Gujarat	Revenue Deficit	-356480	-39863	-6574	0
	Debt/GSDP	30.29	29.15	27.27	23.38
Karnataka	Revenue Deficit	-264575	0	0	0
	Debt/GSDP	23.54	22.64	19.52	20.17
Madhya Pradesh	Revenue Deficit	-116940	-3168306	0	0
	Debt/GSDP	29.15	35.88	27.83	24.39
Rajasthan	Revenue Deficit	-393392	-66002	-82680	0
	Debt/GSDP	42.64	42.16	33.41	23.87
Tamil Nadu	Revenue Deficit	-485096	0	0	0
	Debt/GSDP	21.73	21.71	18.41	17.91
Uttar Pradesh	Revenue Deficit	-511731	-126798	0	0
	Debt/GSDP	43.85	46.48	40.42	33.61
Kerala	Revenue Deficit	-412217	-312918	-371171	-547166
	Debt/GSDP	30.69	31.93	28.85	26.64
Punjab	Revenue Deficit	-375395	-124195	-385620	-558437
	Debt/GSDP	44.24	43.33	32.06	28.85
West Bengal	Revenue Deficit	-863533	-739092	-1470893	-1726051
	Debt/GSDP	46.46	48.80	42.43	38.16

Source: Authors' calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India and Ministry of Finance, GoI

West Bengal having implemented the act in 2010 have experienced a sharp fall in her Debt-GSDP Ratio within a year of implementation of the act (refer Table: 1 & 2). So, the

experience in India at the state level with fiscal responsibility legislation is fairly positive. Few states which are far from the target are also expected to be closer as the debt burden has started falling in comparison to their GSDP.

Delayed Implementation of FRBM Act in West Bengal

Though almost all States have enacted the Fiscal Responsibility and Budget Management Act between September 2002 and May 2007 West Bengal had a delayed implementation of the same. Though the Twelfth Finance Commission had recommended the states to enact the legislation to bring down the fiscal deficit to sustainable levels and revenue deficit to zero by 2008-09, the then Govt. of West Bengal implemented it only in July 2010. According to a report by Comptroller and Auditor General, due to delayed enactment of the fiscal responsibility legislation, the state could not avail of total relief of Rs 3157.90 crore during 2005 to 2010 on account of debt relief, relief on interest payment and debt waiver on outstanding government of India loans.

How Close is West Bengal to the Target?

Even late, West Bengal Government started working as per the guidelines of the act since July 2010.

Table: 2
West Bengal: Achieving Targets of FRBM

Year	Revenue Deficit as % of GSDP	Fiscal Deficit as % of GSDP	Debt as % of GSDP
Targeted Value	= 0 % of GSDP by 2014-15	= 3 % of GSDP by 2014-15	= 34.3 % of GSDP by 2014-15
2004-05	3.94	5.69	49.99
2005-06	3.21	4.17	48.80
2006-07	3.18	4.37	46.20
2007-08	2.72	3.81	44.23
2008-09	4.30	3.96	42.43
2009-10	5.41	6.26	42.44
2010-11	3.73 (3.6)	4.23 (3.5)	39.44 (40.6)
2011-12	3.24 (1.6)	4.07 (3.5)	38.16 (39.1)
2012-13 (RE)	2.22 (1.1)	3.48 (3.5)	35.88 (37.7)

Source: Authors' calculation based on data from State Finance, Reserve Bank of India and Ministry of Statistics and Programme Implementation, Government of India

Note: Figures in the parentheses are the targets set as per West Bengal FRBM Act for respective years for the three indicators; RE – Revised Estimate

We don't have sufficient data to test the impact of the act on the West Bengal Govt. finances for now as it's been just three years the act is implemented and we are constrained with only

one year final accounts data for 2011-12 and one year revised estimate data for 2012-13. So, with this, it is really not feasible to comment on the effectiveness of such an Act. But still we try to see the trend of the specific parameters as displayed in Table: 2. It can be observed that the revenue deficit which was at the staggering high has started coming down significantly and the other parameter, namely, the Fiscal Deficit as percentage of GSDP is expected to meet the target as reflected in 2012-13 revised estimates. Debt as percentage of GSDP has also improved and is close to the target set by the state for the first five years. This trend is expected to continue unlike the other states that have opted for FRBM Act earlier.

To summarize, we may see that two of the three targets set by the West Bengal Fiscal Responsibility and Budget Management Act, 2010, namely, Fiscal Deficit as percentage of GSDP and Debt as percentage of GSDP have met their respective targets so far. But achieving the target for Revenue Deficit seems to be a distant reality.

Chapter – VII

Broad Content

FISCAL PERFORMANCE INDEX

Fiscal Performance Index (FPI)

So far in the first few chapters of the report we have focused both on the earning and spending profile of the states of West Bengal and Andhra Pradesh in terms of Revenue Receipts and Revenue Expenditure over last ten years. Added to that, the volume of debt mainly caused by deficit arising out of excess of expenditure over receipts is also been viewed critically. Revenue Receipt, Expenditure or Debt burden being individual indicators of fiscal performance is not expected to capture the overall fiscal performance of a state. So, we tried to develop a composite index of fiscal performance for each state by combining individual indicators of revenue receipt, revenue expenditure and indebtedness in terms of relative performance of all states. The composite index is named as **Fiscal Performance Index (FPI)**. A total of six performance indices have been combined to have this composite index. The individual indices are namely Own Tax Earning Performance Index, Own Tax Spending Performance Index, Development Expenditure Performance Index, Commitment Capacity Performance Index, Committed Expenditure Performance Index, and Debt Performance Index.

It is significant to note that out of the six individual indicators, three have positive characteristic and three have negative features. Any indicator is meant to be positive when increasing value represents better performance and negative if it happens to be the opposite. Accordingly, the three positive indices are namely **Own Tax Earning Performance Index**, **Own Tax Spending Performance Index** and **Development Expenditure Performance Index**. The rest three indices are negative. Irrespective of the dimension of the individual indices, we intend to develop the composite index as positively directed with higher value representative of better performance and vice versa. To do this, all negative individual indices are to be converted into positive by taking inverse of the indicator variable by which the individual index is composed of. These indicator variables for each and every index are summarized in Table: 1. Finally, the simple arithmetic mean of these six indices would give us the composite index of fiscal performance, i.e. Fiscal Performance Index.

Table: 1

Individual Indices and the Indicator Variables

	Indices	Indicator Variable Used
1	Own Tax Earning Performance Index	$\frac{\text{Own Tax Revenue}}{\text{GSDP}}$
2	Own Tax Spending Performance Index	$\frac{\text{Own Tax Revenue}}{\text{Total Revenue Expenditure}}$
3	Development Expenditure Performance Index	$\frac{\text{Development Expenditure}}{\text{Non Development Expenditure}}$
4	Commitment Capacity Performance Index	$1 - \frac{\text{Committed Expenditure}}{\text{Total Revenue Receipt}}$
5	Committed Expenditure Performance Index	$1 - \frac{\text{Committed Expenditure}}{\text{Total Revenue Expenditure}}$
6	Debt Performance Index	$1 - \frac{\text{Debt}}{\text{GSDP}}$

Method to Construct Individual Fiscal Performance Indices:

$$FPI_i = \frac{x_{ijt} - \min(x_{it})}{\max(x_{it}) - \min(x_{it})}$$

i stands for individual indices, j stands for state and t stands for time point.

x_{ijt} = Value of i^{th} indicator variable for j^{th} state at time point t .

$\min(x_{it})$ = Minimum value of i^{th} indicator across all states at time t .

$\max(x_{it})$ = Maximum value of i^{th} indicator across all states at time t .

For the purpose of our study, we have considered 17 general category states. So, our $j = 1, 2, 3, \dots, 17$ and the period of our study is from 2002-03 to 2011-12. So, our $t = 2002-03, 2003-04, \dots, 2011-12$. Accordingly, we would get values of all indices along with the composite FPI for all states for each year starting from 2002-03 and ending in 2011-12. Here, in our work, we will report the same for Andhra Pradesh and West Bengal only and compare between the two.

Table: 2
Indices of Fiscal Performance – Executive Summary for Andhra Pradesh & West Bengal

Year	Own Tax Earning Performance Index		Own Tax Spending Performance Index		Development Expenditure Performance Index		Commitment Capacity Performance Index		Committed Expenditure Performance Index		Debt Performance Index		Fiscal Performance Index	
	AP	WB	AP	WB	AP	WB	AP	WB	AP	WB	AP	WB	AP	WB
2002-03	0.76	0.10	0.72	0.27	0.59	0.16	0.71	0.00	0.50	0.00	0.77	0.32	0.67	0.14
2003-04	0.58	0.11	0.64	0.27	0.47	0.00	0.75	0.00	0.57	0.00	0.80	0.37	0.64	0.12
2004-05	0.57	0.13	0.67	0.29	0.50	0.03	0.70	0.00	0.63	0.00	0.65	0.25	0.62	0.12
2005-06	0.61	0.04	0.26	0.11	0.56	0.12	0.67	0.26	0.59	0.00	0.74	0.33	0.57	0.14
2006-07	0.61	0.07	0.72	0.28	0.60	0.08	0.73	0.00	0.64	0.00	0.71	0.12	0.67	0.09
2007-08	0.68	0.03	0.61	0.24	0.74	0.15	0.69	0.00	0.68	0.00	0.72	0.09	0.69	0.09
2008-09	0.77	0.00	0.69	0.13	0.79	0.37	0.76	0.00	0.69	0.14	0.67	0.02	0.73	0.11
2009-10	0.65	0.00	0.78	0.10	0.58	0.22	0.79	0.00	0.47	0.00	0.64	0.00	0.65	0.05
2010-11	0.69	0.00	0.70	0.15	0.63	0.26	0.72	0.00	0.57	0.05	0.66	0.00	0.66	0.08
2011-12	0.67	0.00	0.68	0.21	0.57	0.15	0.68	0.00	0.60	0.15	0.61	0.00	0.64	0.09

Note: AP – Andhra Pradesh, WB – West Bengal

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

As Table: 2 explores, West Bengal is lagging behind Andhra Pradesh in all indices of Fiscal Performance. Table: 3 explore the relative rank of these two states among all other general category states considered for this calculation. The table quite clearly shows that West Bengal has performed the poorest in terms of overall FPI and is at the bottom (ranked 17) among all other states. However the rank varies for individual indices. Whereas, Andhra Pradesh has improved her rank in terms of the Fiscal Performance Index from 7 in 2002-03 to 5 in 2011-12 and has shown similar improvement for several other indices. Performance Indices for other states and their relative rankings are summarized in Appendix Tables.

Table: 3
Relative Ranking of Andhra Pradesh and West Bengal among all General Category States

Year	<i>Rank of the States According to</i>													
	Own Tax Earning Performance Index		Own Tax Spending Performance Index		Development Expenditure Performance Index		Commitment Capacity Performance Index		Committed Expenditure Performance Index		Debt Performance Index		Fiscal Performance Index	
	AP	WB	AP	WB	AP	WB	AP	WB	AP	WB	AP	WB	AP	WB
2002-03	6	16	6	13	7	16	10	17	10	17	7	12	7	17
2003-04	7	15	7	13	5	16	7	17	9	17	7	13	7	17
2004-05	6	15	7	13	6	16	9	17	9	17	7	13	7	17
2005-06	7	16	6	14	6	16	7	16	9	17	8	13	7	17
2006-07	4	16	6	15	6	16	7	17	8	17	7	15	6	17
2007-08	3	16	7	15	5	15	9	17	6	17	7	15	7	17
2008-09	4	17	7	16	3	14	5	17	4	15	6	16	4	17
2009-10	5	17	5	16	5	14	7	17	8	17	6	17	6	17
2010-11	5	17	7	15	6	14	6	17	8	16	6	17	7	17
2011-12	5	17	8	15	5	14	6	17	6	16	6	17	5	17

Note: AP – Andhra Pradesh, WB – West Bengal

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

APPENDIX

Appendix Table: 1
Indicators of Fiscal Performance for the Year 2011-12

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2011-12	Karnataka	1.00	0.99	0.73	0.87	0.83	0.66	0.85
2011-12	Chhattisgarh	0.55	0.38	1.00	1.00	1.00	1.00	0.82
2011-12	Tamil Nadu	0.91	1.00	0.32	0.62	0.51	0.75	0.68
2011-12	Haryana	0.42	0.74	0.64	0.65	0.66	0.88	0.67
2011-12	Andhra Pradesh	0.67	0.68	0.57	0.68	0.60	0.61	0.64
2011-12	Madhya Pradesh	0.71	0.50	0.46	0.88	0.75	0.48	0.63
2011-12	Maharashtra	0.44	0.94	0.43	0.59	0.51	0.73	0.61
2011-12	Goa	0.46	0.38	0.72	0.75	0.73	0.38	0.57
2011-12	Gujarat	0.42	0.96	0.35	0.55	0.38	0.52	0.53
2011-12	Orissa	0.31	0.28	0.42	0.68	0.50	0.59	0.46
2011-12	Rajasthan	0.23	0.43	0.42	0.63	0.52	0.50	0.46
2011-12	Jharkhand	0.17	0.12	0.50	0.67	0.56	0.59	0.43
2011-12	Kerala	0.72	0.75	0.04	0.25	0.22	0.38	0.39
2011-12	Bihar	0.10	0.00	0.42	0.62	0.50	0.42	0.34
2011-12	Uttar Pradesh	0.54	0.35	0.13	0.49	0.23	0.08	0.30
2011-12	Punjab	0.61	0.69	0.00	0.02	0.00	0.28	0.27
2011-12	West Bengal	0.00	0.21	0.15	0.00	0.15	0.00	0.09

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 1.1
Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2011-12

<i>Rank of the States According to</i>								
Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2011-12	Karnataka	1	2	2	3	2	5	1
2011-12	Chhattisgarh	7	11	1	1	1	1	2
2011-12	Tamil Nadu	2	1	13	10	9	3	3
2011-12	Haryana	11	6	4	8	5	2	4
2011-12	Andhra Pradesh	5	8	5	6	6	6	5
2011-12	Madhya Pradesh	4	9	7	2	3	11	6
2011-12	Maharashtra	10	4	8	12	10	4	7
2011-12	Goa	9	12	3	4	4	13	8
2011-12	Gujarat	12	3	12	13	13	9	9
2011-12	Orissa	13	14	11	5	11	8	10
2011-12	Rajasthan	14	10	9	9	8	10	11
2011-12	Jharkhand	15	16	6	7	7	7	12
2011-12	Kerala	3	5	16	15	15	14	13
2011-12	Bihar	16	17	10	11	12	12	14
2011-12	Uttar Pradesh	8	13	15	14	14	16	15
2011-12	Punjab	6	7	17	16	17	15	16
2011-12	West Bengal	17	15	14	17	16	17	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 2
Indicators of Fiscal Performance for the Year 2010-11

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2010-11	Karnataka	1.00	1.00	1.00	0.96	1.00	0.70	0.94
2010-11	Chhattisgarh	0.63	0.46	0.96	1.00	0.97	1.00	0.84
2010-11	Madhya Pradesh	0.75	0.48	0.60	0.94	0.86	0.47	0.68
2010-11	Tamil Nadu	0.79	0.88	0.45	0.62	0.49	0.82	0.67
2010-11	Maharashtra	0.51	0.98	0.56	0.66	0.51	0.77	0.67
2010-11	Haryana	0.38	0.74	0.68	0.64	0.64	0.93	0.67
2010-11	Andhra Pradesh	0.69	0.70	0.63	0.72	0.57	0.66	0.66
2010-11	Goa	0.38	0.42	0.78	0.87	0.72	0.51	0.61
2010-11	Gujarat	0.48	0.83	0.61	0.58	0.53	0.59	0.60
2010-11	Orissa	0.26	0.27	0.62	0.81	0.61	0.58	0.53
2010-11	Rajasthan	0.32	0.45	0.50	0.65	0.45	0.44	0.47
2010-11	Jharkhand	0.14	0.08	0.63	0.71	0.62	0.59	0.46
2010-11	Kerala	0.72	0.81	0.18	0.36	0.18	0.39	0.44
2010-11	Bihar	0.11	0.00	0.40	0.71	0.32	0.30	0.31
2010-11	Uttar Pradesh	0.49	0.28	0.22	0.49	0.12	0.11	0.28
2010-11	Punjab	0.59	0.56	0.00	0.17	0.00	0.30	0.27
2010-11	West Bengal	0.00	0.15	0.26	0.00	0.05	0.00	0.08

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 2.1
Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2010-11

Year	State	<i>Rank of the States According to</i>						
		Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2010-11	Karnataka	1	1	1	2	1	5	1
2010-11	Chhattisgarh	6	10	2	1	2	1	2
2010-11	Madhya Pradesh	3	9	9	3	3	11	3
2010-11	Tamil Nadu	2	3	12	12	11	3	4
2010-11	Maharashtra	8	2	10	9	10	4	5
2010-11	Haryana	12	6	4	11	5	2	6
2010-11	Andhra Pradesh	5	7	6	6	8	6	7
2010-11	Goa	11	12	3	4	4	10	8
2010-11	Gujarat	10	4	8	13	9	7	9
2010-11	Orissa	14	14	7	5	7	9	10
2010-11	Rajasthan	13	11	11	10	12	12	11
2010-11	Jharkhand	15	16	5	7	6	8	12
2010-11	Kerala	4	5	16	15	14	13	13
2010-11	Bihar	16	17	13	8	13	15	14
2010-11	Uttar Pradesh	9	13	15	14	15	16	15
2010-11	Punjab	7	8	17	16	17	14	16
2010-11	West Bengal	17	15	14	17	16	17	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 3
Indicators of Fiscal Performance for the Year 2009-10

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2009-10	Karnataka	1.00	1.00	0.84	0.94	0.77	0.81	0.89
2009-10	Chhattisgarh	0.61	0.42	1.00	1.00	0.87	0.99	0.81
2009-10	Tamil Nadu	0.70	0.93	0.47	0.72	0.45	0.87	0.69
2009-10	Haryana	0.35	0.70	0.71	0.71	0.60	1.00	0.68
2009-10	Maharashtra	0.53	0.95	0.55	0.73	0.50	0.71	0.66
2009-10	Andhra Pradesh	0.65	0.78	0.58	0.79	0.47	0.64	0.65
2009-10	Madhya Pradesh	0.69	0.59	0.49	0.93	0.62	0.50	0.64
2009-10	Rajasthan	0.40	0.41	0.39	0.99	1.00	0.26	0.58
2009-10	Goa	0.38	0.43	0.66	0.79	0.54	0.58	0.56
2009-10	Gujarat	0.41	0.76	0.53	0.62	0.40	0.54	0.54
2009-10	Jharkhand	0.27	0.19	0.43	0.80	0.33	0.61	0.44
2009-10	Kerala	0.70	0.80	0.15	0.44	0.14	0.39	0.44
2009-10	Orissa	0.26	0.27	0.44	0.75	0.36	0.47	0.43
2009-10	Bihar	0.14	0.00	0.44	0.77	0.35	0.17	0.31
2009-10	Uttar Pradesh	0.46	0.33	0.18	0.62	0.04	0.04	0.28
2009-10	Punjab	0.39	0.48	0.00	0.38	0.10	0.29	0.27
2009-10	West Bengal	0.00	0.10	0.22	0.00	0.00	0.00	0.05

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 3.1

Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2009-10

Year	State	<i>Rank of the States According to</i>						
		Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2009-10	Karnataka	1	1	2	3	3	4	1
2009-10	Chhattisgarh	6	11	1	1	2	2	2
2009-10	Tamil Nadu	2	3	9	11	9	3	3
2009-10	Haryana	13	7	3	12	5	1	4
2009-10	Maharashtra	7	2	6	10	7	5	5
2009-10	Andhra Pradesh	5	5	5	7	8	6	6
2009-10	Madhya Pradesh	4	8	8	4	4	10	7
2009-10	Rajasthan	10	12	13	2	1	14	8
2009-10	Goa	12	10	4	6	6	8	9
2009-10	Gujarat	9	6	7	14	10	9	10
2009-10	Jharkhand	14	15	12	5	13	7	11
2009-10	Kerala	3	4	16	15	14	12	12
2009-10	Orissa	15	14	10	9	11	11	13
2009-10	Bihar	16	17	11	8	12	15	14
2009-10	Uttar Pradesh	8	13	15	13	16	16	15
2009-10	Punjab	11	9	17	16	15	13	16
2009-10	West Bengal	17	16	14	17	17	17	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 4

Indicators of Fiscal Performance for the Year 2008-09

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2008-09	Chhattisgarh	0.55	0.56	1.00	1.00	1.00	1.00	0.85
2008-09	Karnataka	1.00	0.95	0.75	0.82	0.75	0.83	0.85
2008-09	Haryana	0.46	0.75	0.84	0.69	0.75	0.95	0.74
2008-09	Andhra Pradesh	0.77	0.69	0.79	0.76	0.69	0.67	0.73
2008-09	Tamil Nadu	0.89	0.88	0.48	0.65	0.45	0.87	0.70
2008-09	Maharashtra	0.57	1.00	0.55	0.70	0.46	0.75	0.67
2008-09	Goa	0.52	0.59	0.76	0.75	0.65	0.56	0.64
2008-09	Madhya Pradesh	0.57	0.52	0.51	0.83	0.64	0.50	0.59
2008-09	Gujarat	0.47	0.83	0.59	0.61	0.43	0.52	0.57
2008-09	Orissa	0.25	0.34	0.64	0.82	0.58	0.45	0.51
2008-09	Jharkhand	0.34	0.24	0.54	0.65	0.43	0.64	0.47
2008-09	Rajasthan	0.48	0.47	0.47	0.54	0.35	0.28	0.43
2008-09	Kerala	0.78	0.74	0.16	0.22	0.04	0.46	0.40
2008-09	Uttar Pradesh	0.47	0.34	0.36	0.54	0.26	0.00	0.33
2008-09	Bihar	0.03	0.00	0.50	0.71	0.36	0.13	0.29
2008-09	Punjab	0.47	0.50	0.00	0.15	0.00	0.33	0.24
2008-09	West Bengal	0.00	0.13	0.37	0.00	0.14	0.02	0.11

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 4.1

Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2008-09

Year	State	<i>Rank of the States According to</i>						
		Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2008-09	Chhattisgarh	7	9	1	1	1	1	1
2008-09	Karnataka	1	2	5	4	2	4	2
2008-09	Haryana	13	5	2	9	3	2	3
2008-09	Andhra Pradesh	4	7	3	5	4	6	4
2008-09	Tamil Nadu	2	3	12	10	9	3	5
2008-09	Maharashtra	6	1	8	8	8	5	6
2008-09	Goa	8	8	4	6	5	8	7
2008-09	Madhya Pradesh	5	10	10	2	6	10	8
2008-09	Gujarat	12	4	7	12	11	9	9
2008-09	Orissa	15	13	6	3	7	12	10
2008-09	Jharkhand	14	15	9	11	10	7	11
2008-09	Rajasthan	9	12	13	14	13	14	12
2008-09	Kerala	3	6	16	15	16	11	13
2008-09	Uttar Pradesh	10	14	15	13	14	17	14
2008-09	Bihar	16	17	11	7	12	15	15
2008-09	Punjab	11	11	17	16	17	13	16
2008-09	West Bengal	17	16	14	17	15	16	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 5
Indicators of Fiscal Performance for the Year 2007-08

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2007-08	Karnataka	1.00	0.93	0.92	0.87	0.89	0.85	0.91
2007-08	Chhattisgarh	0.52	0.58	1.00	1.00	1.00	1.00	0.85
2007-08	Haryana	0.64	0.86	0.94	0.86	0.84	0.93	0.85
2007-08	Tamil Nadu	0.78	0.91	0.43	0.68	0.51	0.92	0.71
2007-08	Goa	0.51	0.53	0.96	0.82	0.84	0.53	0.70
2007-08	Maharashtra	0.50	1.00	0.56	0.78	0.55	0.77	0.69
2007-08	Andhra Pradesh	0.68	0.61	0.74	0.69	0.68	0.72	0.69
2007-08	Madhya Pradesh	0.60	0.49	0.50	0.84	0.72	0.42	0.59
2007-08	Gujarat	0.45	0.84	0.42	0.57	0.37	0.62	0.55
2007-08	Rajasthan	0.48	0.46	0.56	0.66	0.54	0.28	0.50
2007-08	Jharkhand	0.00	0.11	0.58	0.51	0.55	0.80	0.42
2007-08	Orissa	0.20	0.33	0.40	0.71	0.39	0.40	0.40
2007-08	Kerala	0.67	0.64	0.07	0.19	0.13	0.53	0.37
2007-08	Uttar Pradesh	0.43	0.32	0.35	0.58	0.40	0.00	0.35
2007-08	Punjab	0.42	0.41	0.00	0.31	0.35	0.39	0.32
2007-08	Bihar	0.05	0.00	0.48	0.72	0.46	0.00	0.28
2007-08	West Bengal	0.03	0.24	0.15	0.00	0.00	0.09	0.09

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 5.1
Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2007-08

<i>Rank of the States According to</i>								
Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2007-08	Karnataka	1	2	4	2	2	4	1
2007-08	Chhattisgarh	7	8	1	1	1	1	2
2007-08	Haryana	5	4	3	3	3	2	3
2007-08	Tamil Nadu	2	3	11	10	10	3	4
2007-08	Goa	8	9	2	5	4	9	5
2007-08	Maharashtra	9	1	7	6	7	6	6
2007-08	Andhra Pradesh	3	7	5	9	6	7	7
2007-08	Madhya Pradesh	6	10	9	4	5	11	8
2007-08	Gujarat	11	5	12	13	14	8	9
2007-08	Rajasthan	10	11	8	11	9	14	10
2007-08	Jharkhand	17	16	6	14	8	5	11
2007-08	Orissa	14	13	13	8	13	12	12
2007-08	Kerala	4	6	16	16	16	10	13
2007-08	Uttar Pradesh	12	14	14	12	12	16	14
2007-08	Punjab	13	12	17	15	15	13	15
2007-08	Bihar	15	17	10	7	11	17	16
2007-08	West Bengal	16	15	15	17	17	15	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 6
Indicators of Fiscal Performance for the Year 2006-07

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2006-07	Karnataka	1.00	0.98	0.83	0.94	1.00	0.92	0.95
2006-07	Haryana	0.69	0.89	1.00	0.89	0.92	0.95	0.89
2006-07	Chhattisgarh	0.54	0.71	0.89	1.00	0.98	1.00	0.86
2006-07	Tamil Nadu	0.76	1.00	0.40	0.70	0.57	0.97	0.73
2006-07	Goa	0.59	0.62	0.89	0.82	0.82	0.58	0.72
2006-07	Andhra Pradesh	0.61	0.72	0.60	0.73	0.64	0.71	0.67
2006-07	Maharashtra	0.44	0.86	0.41	0.72	0.69	0.81	0.65
2006-07	Jharkhand	0.10	0.16	0.92	0.74	0.87	0.80	0.60
2006-07	Madhya Pradesh	0.50	0.51	0.44	0.82	0.71	0.46	0.57
2006-07	Gujarat	0.38	0.82	0.41	0.63	0.43	0.65	0.56
2006-07	Rajasthan	0.43	0.51	0.42	0.62	0.47	0.30	0.46
2006-07	Kerala	0.58	0.71	0.12	0.40	0.34	0.58	0.45
2006-07	Uttar Pradesh	0.44	0.41	0.27	0.63	0.40	0.04	0.36
2006-07	Punjab	0.47	0.55	0.00	0.42	0.31	0.25	0.33
2006-07	Orissa	0.30	0.36	0.20	0.59	0.21	0.26	0.32
2006-07	Bihar	0.00	0.00	0.40	0.68	0.44	0.00	0.25
2006-07	West Bengal	0.07	0.28	0.08	0.00	0.00	0.12	0.09

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 6.1
Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2006-07

<i>Rank of the States According to</i>								
Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2006-07	Karnataka	1	2	5	2	1	4	1
2006-07	Haryana	3	3	1	3	3	3	2
2006-07	Chhattisgarh	7	8	3	1	2	1	3
2006-07	Tamil Nadu	2	1	11	9	9	2	4
2006-07	Goa	5	9	4	4	5	9	5
2006-07	Andhra Pradesh	4	6	6	7	8	7	6
2006-07	Maharashtra	10	4	9	8	7	5	7
2006-07	Jharkhand	15	16	2	6	4	6	8
2006-07	Madhya Pradesh	8	11	7	5	6	11	9
2006-07	Gujarat	13	5	10	12	12	8	10
2006-07	Rajasthan	12	12	8	13	10	12	11
2006-07	Kerala	6	7	15	16	14	10	12
2006-07	Uttar Pradesh	11	13	13	11	13	16	13
2006-07	Punjab	9	10	17	15	15	14	14
2006-07	Orissa	14	14	14	14	16	13	15
2006-07	Bihar	17	17	12	10	11	17	16
2006-07	West Bengal	16	15	16	17	17	15	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 7
Indicators of Fiscal Performance for the Year 2005-06

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2005-06	Maharashtra	0.50	1.00	0.55	1.00	0.80	0.87	0.79
2005-06	Chhattisgarh	0.63	0.25	1.00	0.87	1.00	0.96	0.79
2005-06	Karnataka	1.00	0.34	0.63	0.83	0.95	0.96	0.78
2005-06	Haryana	0.77	0.37	0.65	0.77	0.74	0.96	0.71
2005-06	Tamil Nadu	0.91	0.38	0.40	0.70	0.59	0.99	0.66
2005-06	Goa	0.64	0.22	0.80	0.73	0.76	0.70	0.64
2005-06	Andhra Pradesh	0.61	0.26	0.56	0.67	0.59	0.74	0.57
2005-06	Jharkhand	0.08	0.08	0.80	0.65	0.78	1.00	0.56
2005-06	Gujarat	0.40	0.30	0.35	0.58	0.33	0.75	0.45
2005-06	Rajasthan	0.51	0.20	0.47	0.63	0.51	0.33	0.44
2005-06	Kerala	0.54	0.24	0.26	0.46	0.33	0.66	0.42
2005-06	Punjab	0.76	0.22	0.00	0.60	0.48	0.29	0.39
2005-06	Madhya Pradesh	0.58	0.00	0.42	0.00	0.72	0.53	0.38
2005-06	Uttar Pradesh	0.41	0.16	0.27	0.58	0.36	0.19	0.33
2005-06	Orissa	0.30	0.13	0.18	0.54	0.12	0.29	0.26
2005-06	Bihar	0.00	0.02	0.25	0.56	0.22	0.00	0.17
2005-06	West Bengal	0.04	0.11	0.12	0.26	0.00	0.33	0.14

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 7.1
Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2005-06

Year	State	<i>Rank of the States According to</i>						
		Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2005-06	Maharashtra	11	1	7	1	3	6	1
2005-06	Chhattisgarh	6	7	1	2	1	4	2
2005-06	Karnataka	1	4	5	3	2	3	3
2005-06	Haryana	3	3	4	4	6	5	4
2005-06	Tamil Nadu	2	2	10	6	8	2	5
2005-06	Goa	5	9	2	5	5	9	6
2005-06	Andhra Pradesh	7	6	6	7	9	8	7
2005-06	Jharkhand	15	15	3	8	4	1	8
2005-06	Gujarat	13	5	11	12	13	7	9
2005-06	Rajasthan	10	11	8	9	10	12	10
2005-06	Kerala	9	8	13	15	14	10	11
2005-06	Punjab	4	10	17	10	11	14	12
2005-06	Madhya Pradesh	8	17	9	17	7	11	13
2005-06	Uttar Pradesh	12	12	12	11	12	16	14
2005-06	Orissa	14	13	15	14	16	15	15
2005-06	Bihar	17	16	14	13	15	17	16
2005-06	West Bengal	16	14	16	16	17	13	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 8
Indicators of Fiscal Performance for the Year 2004-05

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2004-05	Karnataka	1.00	0.96	0.52	1.00	1.00	0.79	0.88
2004-05	Haryana	0.67	0.97	0.43	0.84	0.79	0.81	0.75
2004-05	Tamil Nadu	0.86	1.00	0.39	0.77	0.65	0.80	0.74
2004-05	Goa	0.48	0.49	1.00	0.90	0.97	0.60	0.74
2004-05	Chhattisgarh	0.48	0.52	0.76	0.92	0.89	0.83	0.73
2004-05	Maharashtra	0.60	0.85	0.39	0.78	0.96	0.74	0.72
2004-05	Andhra Pradesh	0.57	0.67	0.50	0.70	0.63	0.65	0.62
2004-05	Jharkhand	0.00	0.13	0.83	0.81	0.91	1.00	0.62
2004-05	Madhya Pradesh	0.51	0.47	0.41	0.91	0.76	0.51	0.59
2004-05	Gujarat	0.42	0.70	0.50	0.61	0.62	0.60	0.58
2004-05	Kerala	0.62	0.67	0.31	0.47	0.50	0.54	0.52
2004-05	Rajasthan	0.46	0.45	0.42	0.64	0.56	0.28	0.47
2004-05	Punjab	0.56	0.40	0.00	0.54	0.56	0.21	0.38
2004-05	Orissa	0.24	0.25	0.11	0.51	0.19	0.23	0.25
2004-05	Uttar Pradesh	0.36	0.28	0.11	0.39	0.23	0.11	0.25
2004-05	Bihar	0.05	0.00	0.10	0.62	0.15	0.00	0.15
2004-05	West Bengal	0.13	0.29	0.03	0.00	0.00	0.25	0.12

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 8.1
Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2004-05

<i>Rank of the States According to</i>								
Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2004-05	Karnataka	1	3	4	1	1	5	1
2004-05	Haryana	3	2	7	5	6	3	2
2004-05	Tamil Nadu	2	1	10	8	8	4	3
2004-05	Goa	10	9	1	4	2	8	4
2004-05	Chhattisgarh	9	8	3	2	5	2	5
2004-05	Maharashtra	5	4	11	7	3	6	6
2004-05	Andhra Pradesh	6	7	6	9	9	7	7
2004-05	Jharkhand	17	16	2	6	4	1	8
2004-05	Madhya Pradesh	8	10	9	3	7	11	9
2004-05	Gujarat	12	5	5	12	10	9	10
2004-05	Kerala	4	6	12	15	13	10	11
2004-05	Rajasthan	11	11	8	10	12	12	12
2004-05	Punjab	7	12	17	13	11	15	13
2004-05	Orissa	14	15	13	14	15	14	14
2004-05	Uttar Pradesh	13	14	14	16	14	16	15
2004-05	Bihar	16	17	15	11	16	17	16
2004-05	West Bengal	15	13	16	17	17	13	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 9
Indicators of Fiscal Performance for the Year 2003-04

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2003-04	Karnataka	1.00	0.90	0.30	0.91	0.80	0.88	0.80
2003-04	Chhattisgarh	0.33	0.38	1.00	1.00	1.00	1.00	0.78
2003-04	Haryana	0.66	0.95	0.37	0.81	0.65	0.92	0.73
2003-04	Goa	0.41	0.47	0.85	0.93	0.83	0.77	0.71
2003-04	Tamil Nadu	0.85	1.00	0.28	0.66	0.49	0.94	0.70
2003-04	Maharashtra	0.62	0.90	0.24	0.76	0.75	0.89	0.69
2003-04	Andhra Pradesh	0.58	0.64	0.47	0.75	0.57	0.80	0.64
2003-04	Gujarat	0.40	0.68	0.56	0.74	0.62	0.74	0.62
2003-04	Madhya Pradesh	0.42	0.28	0.55	0.72	0.78	0.79	0.59
2003-04	Kerala	0.83	0.81	0.25	0.52	0.42	0.65	0.58
2003-04	Jharkhand	0.00	0.22	0.44	0.83	0.54	0.97	0.50
2003-04	Rajasthan	0.44	0.44	0.30	0.58	0.44	0.44	0.44
2003-04	Punjab	0.68	0.41	0.00	0.59	0.49	0.26	0.41
2003-04	Uttar Pradesh	0.33	0.08	0.46	0.41	0.59	0.29	0.36
2003-04	Orissa	0.06	0.06	0.15	0.38	0.22	0.32	0.20
2003-04	Bihar	0.11	0.00	0.12	0.56	0.19	0.00	0.16
2003-04	West Bengal	0.11	0.27	0.00	0.00	0.00	0.37	0.12

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 9.1
Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2003-04

Year	State	<i>Rank of the States According to</i>						
		Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2003-04	Karnataka	1	4	10	3	3	6	1
2003-04	Chhattisgarh	13	11	1	1	1	1	2
2003-04	Haryana	5	2	8	5	6	4	3
2003-04	Goa	10	8	2	2	2	9	4
2003-04	Tamil Nadu	2	1	11	10	12	3	5
2003-04	Maharashtra	6	3	13	6	5	5	6
2003-04	Andhra Pradesh	7	7	5	7	9	7	7
2003-04	Gujarat	11	6	3	8	7	10	8
2003-04	Madhya Pradesh	9	12	4	9	4	8	9
2003-04	Kerala	3	5	12	14	14	11	10
2003-04	Jharkhand	17	14	7	4	10	2	11
2003-04	Rajasthan	8	9	9	12	13	12	12
2003-04	Punjab	4	10	17	11	11	16	13
2003-04	Uttar Pradesh	12	15	6	15	8	15	14
2003-04	Orissa	16	16	14	16	15	14	15
2003-04	Bihar	14	17	15	13	16	17	16
2003-04	West Bengal	15	13	16	17	17	13	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 10
Indicators of Fiscal Performance for the Year 2002-03

Year	State	Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2002-03	Karnataka	0.97	0.90	0.73	0.80	0.70	0.88	0.83
2002-03	Chhattisgarh	0.57	0.56	1.00	0.96	0.84	0.95	0.81
2002-03	Tamil Nadu	1.00	0.91	0.63	0.71	0.63	0.94	0.80
2002-03	Haryana	0.83	1.00	0.56	0.81	0.61	0.89	0.78
2002-03	Maharashtra	0.72	0.92	0.46	0.76	0.78	0.88	0.75
2002-03	Madhya Pradesh	0.74	0.57	0.76	0.86	0.72	0.69	0.72
2002-03	Andhra Pradesh	0.76	0.72	0.59	0.71	0.50	0.77	0.67
2002-03	Jharkhand	0.18	0.25	0.87	0.89	0.72	1.00	0.65
2002-03	Gujarat	0.53	0.62	0.73	0.73	0.62	0.65	0.65
2002-03	Kerala	0.91	0.75	0.45	0.47	0.41	0.63	0.60
2002-03	Goa	0.23	0.26	0.45	1.00	1.00	0.66	0.60
2002-03	Rajasthan	0.62	0.43	0.47	0.53	0.41	0.22	0.45
2002-03	Uttar Pradesh	0.49	0.48	0.33	0.57	0.31	0.18	0.39
2002-03	Punjab	0.78	0.47	0.00	0.49	0.39	0.16	0.38
2002-03	Orissa	0.28	0.23	0.34	0.54	0.26	0.00	0.27
2002-03	Bihar	0.00	0.00	0.27	0.46	0.15	0.06	0.16
2002-03	West Bengal	0.10	0.27	0.16	0.00	0.00	0.32	0.14

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Appendix Table: 10.1

Relative Ranking of the States in terms of the Fiscal Performance Indices for the Year 2002-03

Year	State	<i>Rank of the States According to</i>						
		Own Tax Earning Performance Index	Own Tax Spending Performance Index	Development Expenditure Performance Index	Commitment Capacity Performance Index	Committed Expenditure Performance Index	Debt Performance Index	Fiscal Performance Index
2002-03	Karnataka	2	4	5	6	6	6	1
2002-03	Chhattisgarh	10	9	1	2	2	2	2
2002-03	Tamil Nadu	1	3	6	9	7	3	3
2002-03	Haryana	4	1	8	5	9	4	4
2002-03	Maharashtra	8	2	10	7	3	5	5
2002-03	Madhya Pradesh	7	8	3	4	5	8	6
2002-03	Andhra Pradesh	6	6	7	10	10	7	7
2002-03	Jharkhand	15	15	2	3	4	1	8
2002-03	Gujarat	11	7	4	8	8	10	9
2002-03	Kerala	3	5	11	15	11	11	10
2002-03	Goa	14	14	12	1	1	9	11
2002-03	Rajasthan	9	12	9	13	12	13	12
2002-03	Uttar Pradesh	12	10	14	11	14	14	13
2002-03	Punjab	5	11	17	14	13	15	14
2002-03	Orissa	13	16	13	12	15	17	15
2002-03	Bihar	17	17	15	16	16	16	16
2002-03	West Bengal	16	13	16	17	17	12	17

Source: Authors' own calculation based on data from State Finance: A Study of Budgets, Reserve Bank of India

Chapter – VIII

Broad Content

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

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

Performance of State Public Sector Enterprises

Overview

The State PSUs assume a critical position in the state economy of West Bengal. The state has 90 PSUs at present (2010-2011) contributing nearly 5 per cent of GSDP and catering to various segments of industries viz. agriculture and allied, financing, infrastructure, manufacturing, power, service and transport. State PSUs can be classified into two broad categories namely, Government owned companies and statutory companies. The share of Government owned companies is quite large in the state (80 out of 90). 17 Government owned PSUs are non-working and 1 statutory PSU is non- working as of 31st March, 2011. Total capital employed in the PSUs amounted to Rs. 39,535.42 Crores. In the year 2010-11, out of 72 working PSUs, 30 PSUs earned Profit of Rs. 550.58 Crores and 40 PSUs incurred Loss of Rs.812.38 Crores. One working PSU prepared their accounts on a 'no Profit no Loss' basis, while another PSU has not submitted their accounts yet. Despite the fact that 30 PSUs earned a profit of Rs. 550.58 Crores, the State Government received a dividend of only Rs. 1.1 Crores.

Type of PSUs	Working	Non-Working	Total
Government Companies	63	17	80
Statutory Companies	9	1	10
Total	72	18	90

Section II: Year: 2010-2011:

Industry	No. of units	Employment	Turnover (INR Cr.)	Profit/Loss (INR Cr.)
Agriculture and allied	12	6,590	326.46	-25.62
Financing	11	906	965.03	27.95
Infrastructure	10	1,007	792.49	12.3
Manufacturing	32	6,618	4566.46	-75.36

Power	7	31,015	15463.37	159.85
Service	14	21,413	1134	-379.64
Miscellaneous	4	556	71.58	-5.62
TOTAL	90	68,105	23,320.90	-285.72

Turnover and Profit/Loss figures in INR Crores.

From the above table we see that the aggregate of the PSUs concerning to Financing, Infrastructure and Power netted a profit while the others recorded a loss on an aggregate basis. The employment in Financing and Infrastructure are relatively quite moderate with 906 and 1,007 manpower respectively. The profit gained by these two industries adds up to a meager Rs. 40.25Crores. The Power Industry's performance is supreme of all with a net profit of Rs.159.85Crores and a turnover of Rs.15463.37Crores circumscribing 31,015 workers. The power industry alone accounts for 66 % (45%) of the total turnover (employment) of all the industries. Thus, it can be concluded that the performance of the power sector was by far the most productive in the financial year of 2010-2011. On the other hand, Service sector PSUs was the worst hit with a loss of Rs. 379.64 Crores encompassing 21,413 workers. Transport bodies constituted the mainstay in this huge loss, contributing to 97% of the total figure. The Calcutta Tramways Company Limited alone accounts to 53% of the total loss. Agriculture & allied and Manufacturing PSUs also registered negative profits.

Now, in the next table we show transport sector as a separate industry altogether and continue the study keeping this format to analyze the effect of Transport sector PSUs on the overall performance of the State PSUs.

Industry	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
Agriculture & Allied	-25.62	326.46	6,590
Financing	27.95	965.03	906
Infrastructure	12.30	792.49	1,007
Manufacturing	-75.36	4566.46	6,618
Power	159.85	15463.37	31,015
Service	-6.53	665.64	1,180

Transport	-371.27	469.87	20,233
-----------	---------	--------	--------

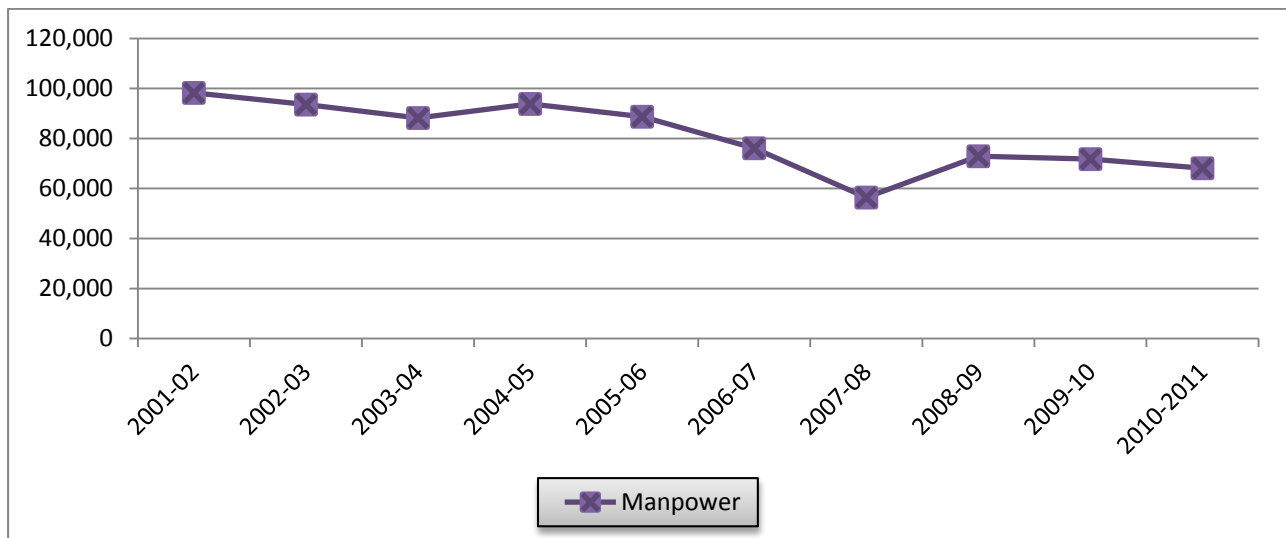
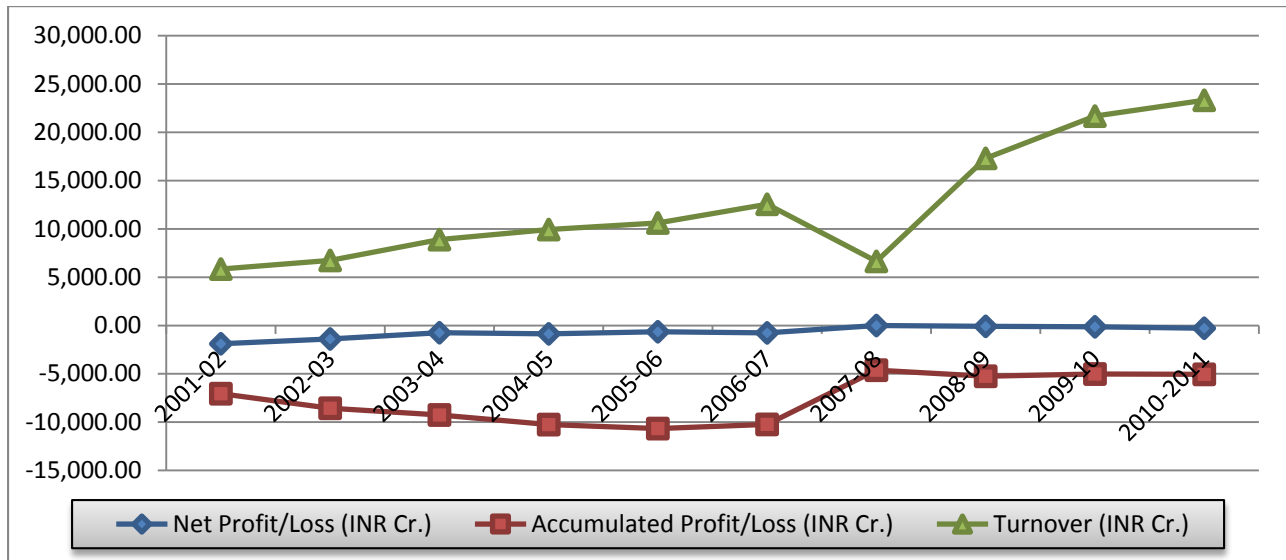
The above table shows the performance of the PSUs classified in terms of respective industries in the year of 2010-11. We observe that power sector outshines the others in all the aspects with a net profit of Rs. 159.85 Cr., turnover of Rs. 15463.37 Cr. and with a huge employment of 31,015 workers. On the other front, Transport industry remains to be a concern from the net loss perspective. The turnover of Agriculture and allied PSUs i.e. Rs. 326.46 Cr. is the lowest of all industries.

Section III: PSU Aggregates:

Year	Net Profit/Loss (INR Cr.)	Accumulated Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-1,886.21	-7,062.10	5,841.42	98,236
2002-03	-1,391.69	-8,557.90	6,749.28	93,600
2003-04	-749.17	-9,256.95	8,896.59	88,176
2004-05	-863.67	-10,260.13	9,935.41	93,813
2005-06	-651.41	-10,671.41	10,623.53	88,707
2006-07	-765.37	-10,232.99	12,550.90	76,097
2007-08	-7.51	-4,617.69	6,639.43	56,417
2008-09	-77.21	-5,248.69	17,304.15	72,930
2009-10	-139.98	-5,019.44	21,674.57	71,752
2010-2011	-285.72	-5,047.12	23,320.90	68,105

From the above table we see that PSUs suffered net loss from the year of 2001-02 till 2010-2011. But it can be said that the loss have been experiencing a downward trend. On the other hand, Turnover continues to rise over time quite significantly, i.e. from Rs. 5,841.42 Cr. to Rs. 23,320.90 Cr. in 2010-11. There is a contraction in the labour sector in PSUs over time as manpower decreased from 98,236 in 2002-03 to 68,105 in 2010-2011. Accumulated profit in the year 2001-02 was Rs.-7,062.10Cr. This figure touched its lowest point to Rs -10,671.41Cr. in the

year 2005-06 despite the contraction of labour in PSUs from 98,236 in 2001-02 to 88,707 in 2005-06. This clearly suggests the presence of inefficiency in the PSUs during this period. There has been an improvement since 2005-06 as the accumulated loss in the year 2010-11 fell to Rs. 5047.12Cr. compounded with a labour force of 68,105.

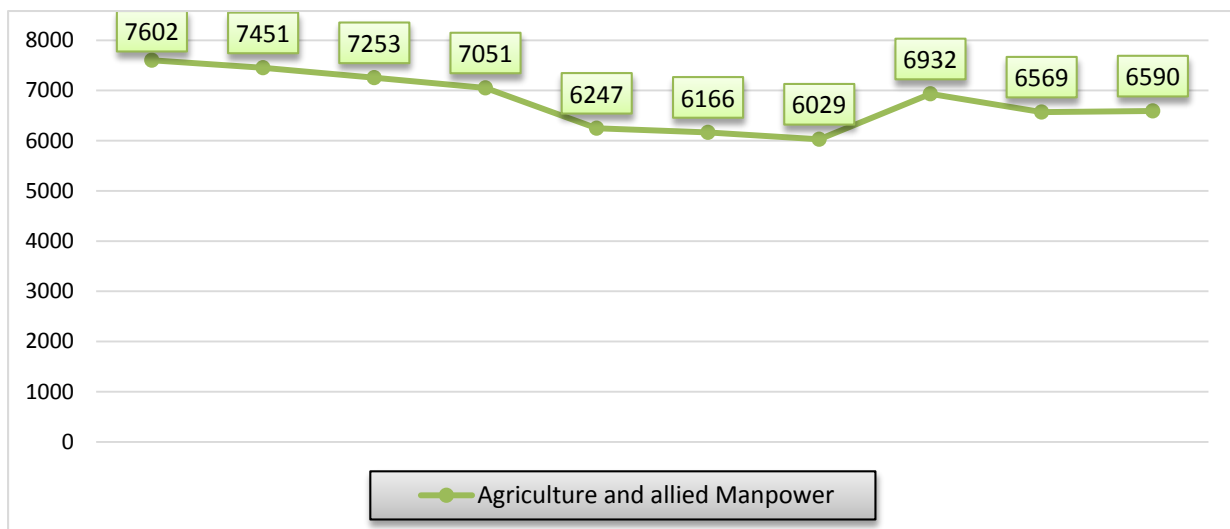
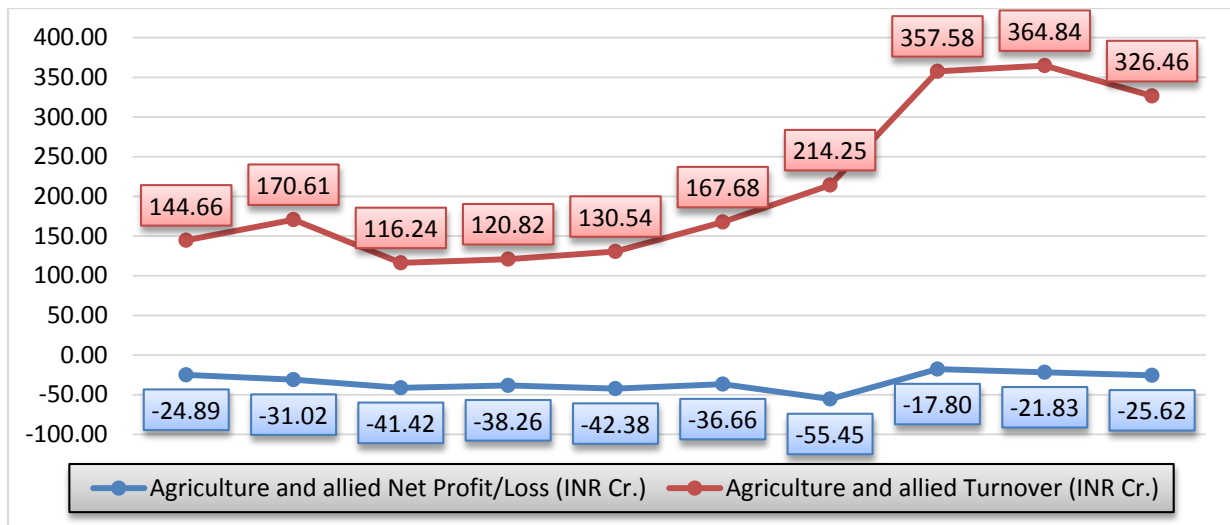


Source: CAG State Audit Report.

Agriculture and Allied:

Year	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-24.89	144.66	7602
2002-03	-31.02	170.61	7451

2003-04	-41.42	116.24	7253
2004-05	-38.26	120.82	7051
2005-06	-42.38	130.54	6247
2006-07	-36.66	167.68	6166
2007-08	-55.45	214.25	6029
2008-09	-17.80	357.58	6932
2009-2010	-21.83	364.84	6569
2010-2011	-25.62	326.46	6590

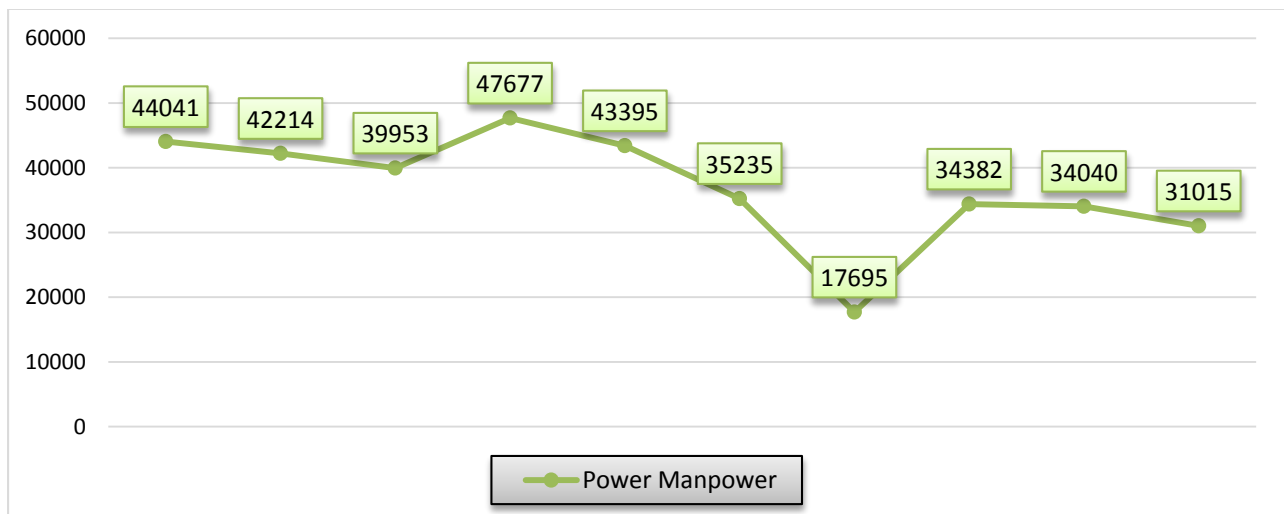
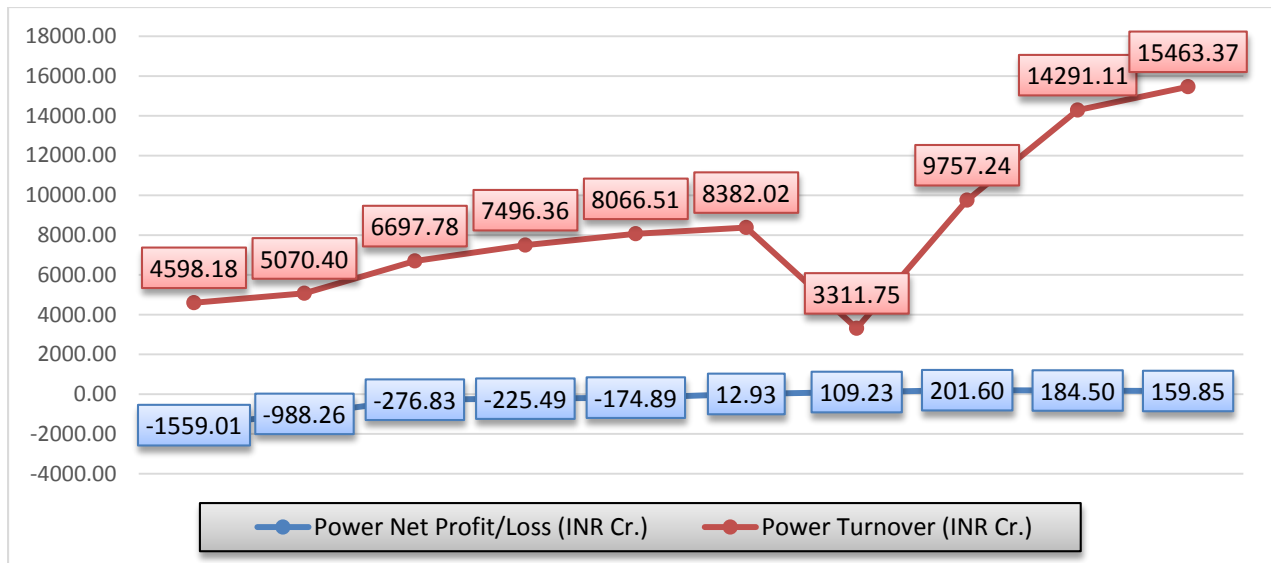


Source: CAG State Audit Report.

In the agriculture and allied sector we see that Turnover shows an increasing trend from 2003-04 to 2009-2010. Turnover dropped to Rs. 326.46 Cr. in 2010-11. Net loss has increased from Rs. 24.89 Cr. in 2001-02 to Rs. 55.45 Cr. in 2007-08. On the other hand, Manpower was curtailed from 7,602 in 2002-03 to 6,029 in 2007-08. This signifies a serious drawback in the system as one expects the net loss to decrease with the diminution in employment. However, post 2007-08 employment has been raised along with a decrease in net loss. The turnover although displays a significant movement rising from a figure of Rs.144.66 Cr. in 2001-02 to Rs.326.46 Cr. in 2010-11. This clearly indicates that this sector should implement cost cutting measures despite doing well on the sales front.

Power:

Year	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-1559.01	4598.18	44041
2002-03	-988.26	5070.40	42214
2003-04	-276.83	6697.78	39953
2004-05	-225.49	7496.36	47677
2005-06	-174.89	8066.51	43395
2006-07	12.93	8382.02	35235
2007-08	109.23	3311.75	17695
2008-09	201.60	9757.24	34382
2009-2010	184.50	14291.11	34040
2010-2011	159.85	15463.37	31015

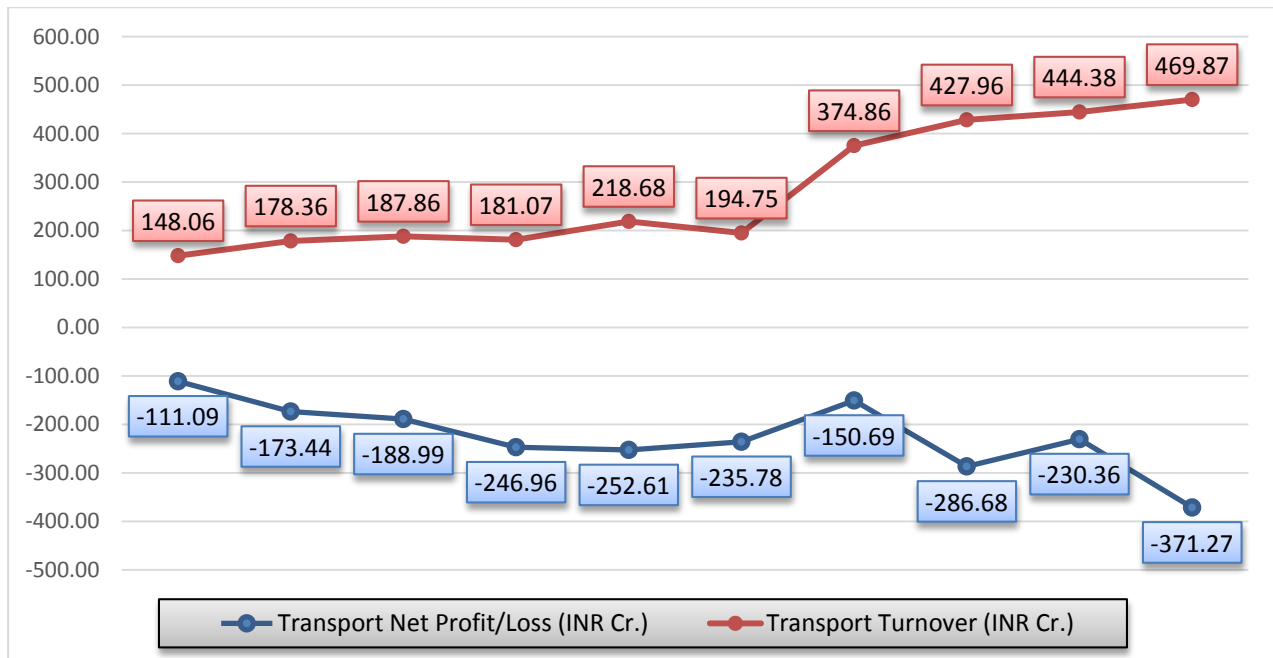


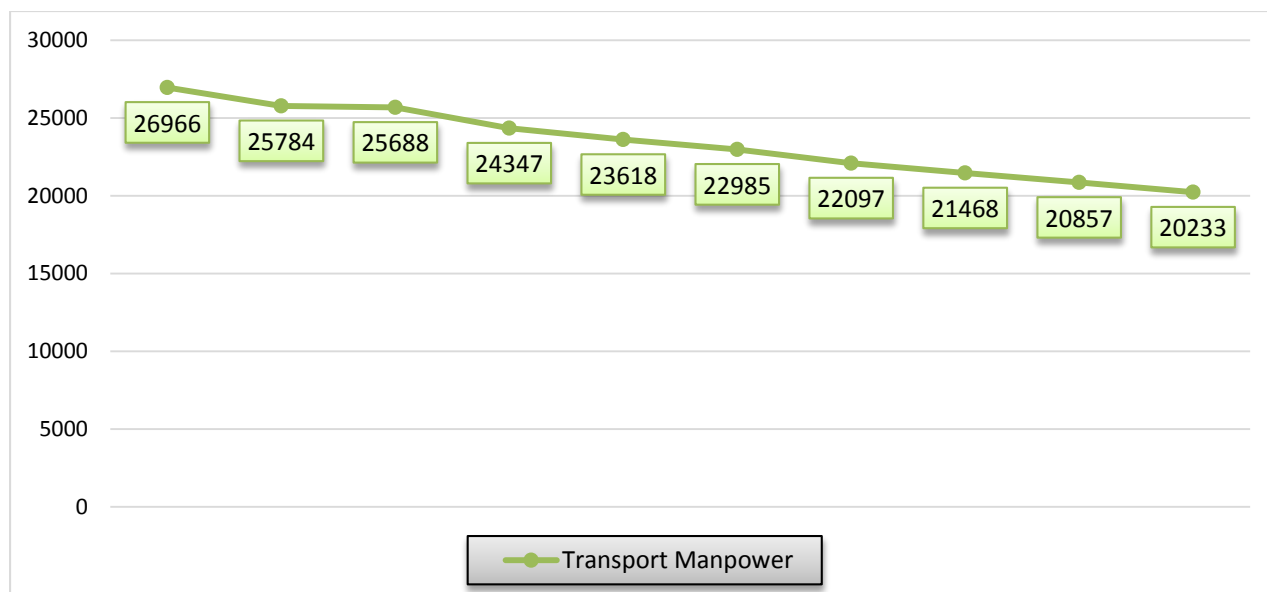
Source: CAG State Audit Report.

In the power sector, turnover was on the rise till 2006-07 before it slumped to Rs. 3311.75 Cr. in 2007-08 but continued to rise afterwards as the figure touched Rs. 15463.37 Cr. in 2010-11. There has been a significant shrinkage in employment as 44,041 in 2001-02 was reduced to 17,695 in 2007-08. Expansion of the labour sector occurred post 2007-08. The last recorded figure was 31,015 in 2010-11. The power industry can be seen upon as a perfect model by other industries since it managed to strike a balance between net profit and turnover. The most important aspect of the power sector being that it emerged as a profit making industry after being immersed in heavy net loss of Rs. 1559.01 Cr. in the year 2001-02. The power sector recorded a net profit of Rs. 159.85 Cr. in 2010-11.

Transport:

Year	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-111.09	148.06	26966
2002-03	-173.44	178.36	25784
2003-04	-188.99	187.86	25688
2004-05	-246.96	181.07	24347
2005-06	-252.61	218.68	23618
2006-07	-235.78	194.75	22985
2007-08	-150.69	374.86	22097
2008-09	-286.68	427.96	21468
2009-2010	-230.36	444.38	20857
2010-2011	-371.27	469.87	20233





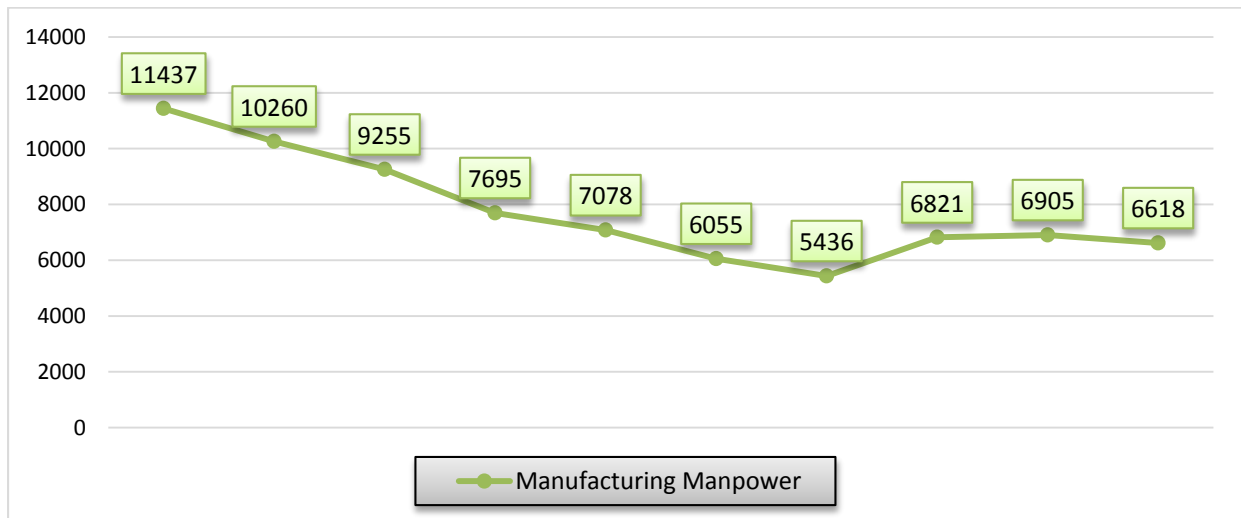
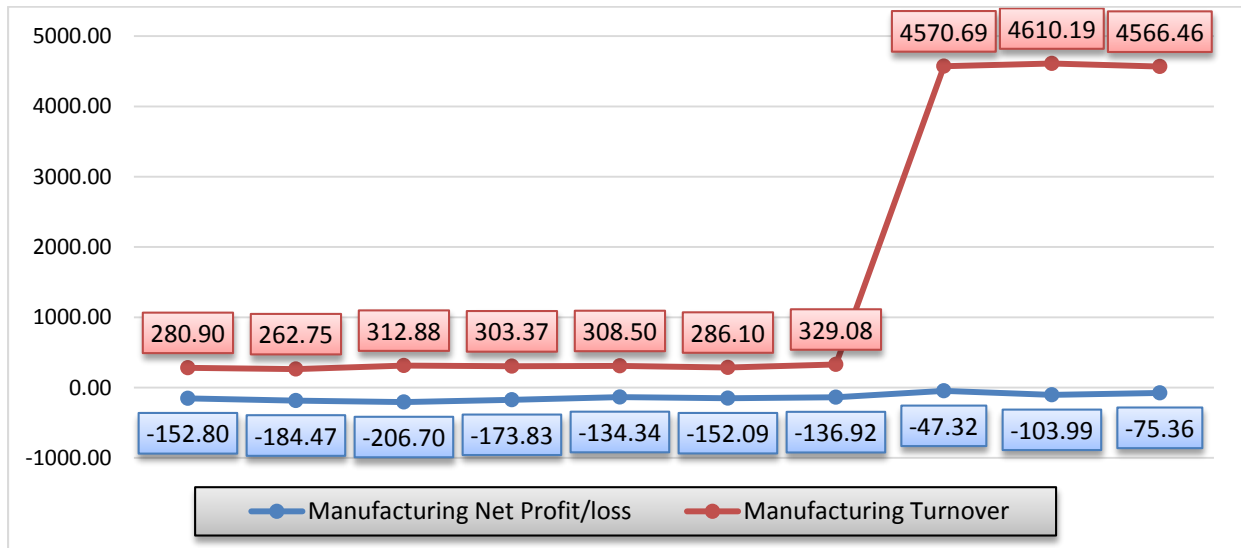
Source: CAG State Audit Report.

Transport sector fared poorly on all grounds till 2006-07. In the year 2006-07 the transport industry recorded a net loss of Rs. 235.78 Cr., turnover of Rs 194.75 Cr. with a manpower of 22,985. In 2007-08 there was an upturn on turnover and net profit. Infact, Turnover remained somewhat same from 2002-03 to 2006-07, which clearly indicates the stagnancy of the sector. 2007-08 onwards, the transport sector became a heavy loss making machinery with the contraction of labour. In 2010-11, net loss was at a peak of Rs. 371.27 Cr. with the lowest employment of 20233. Turnover however continued to rise at a fast pace with the figure touching Rs. 469.87 Cr. in 2010-11. This again brings to the fore the issue of high operational cost.

Manufacturing:

Year	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-152.80	280.90	11437
2002-03	-184.47	262.75	10260
2003-04	-206.70	312.88	9255
2004-05	-173.83	303.37	7695
2005-06	-134.34	308.50	7078
2006-07	-152.09	286.10	6055
2007-08	-136.92	329.08	5436

2008-09	-47.32	4570.69	6821
2009-2010	-103.99	4610.19	6905
2010-2011	-75.36	4566.46	6618



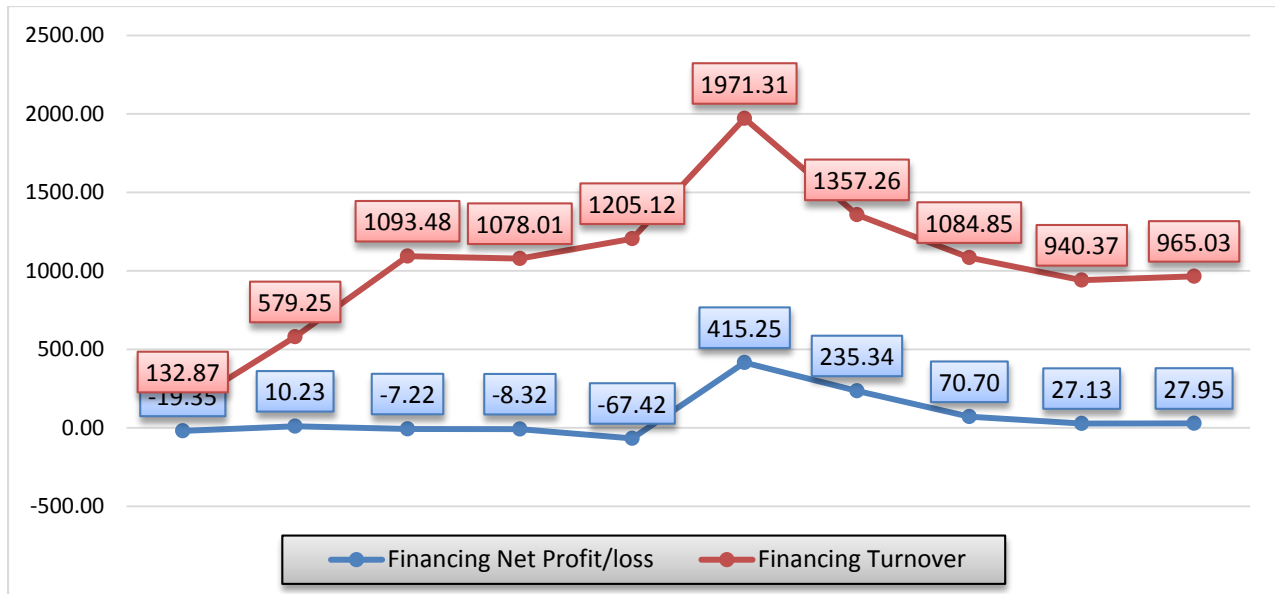
Source: CAG State Audit Report.

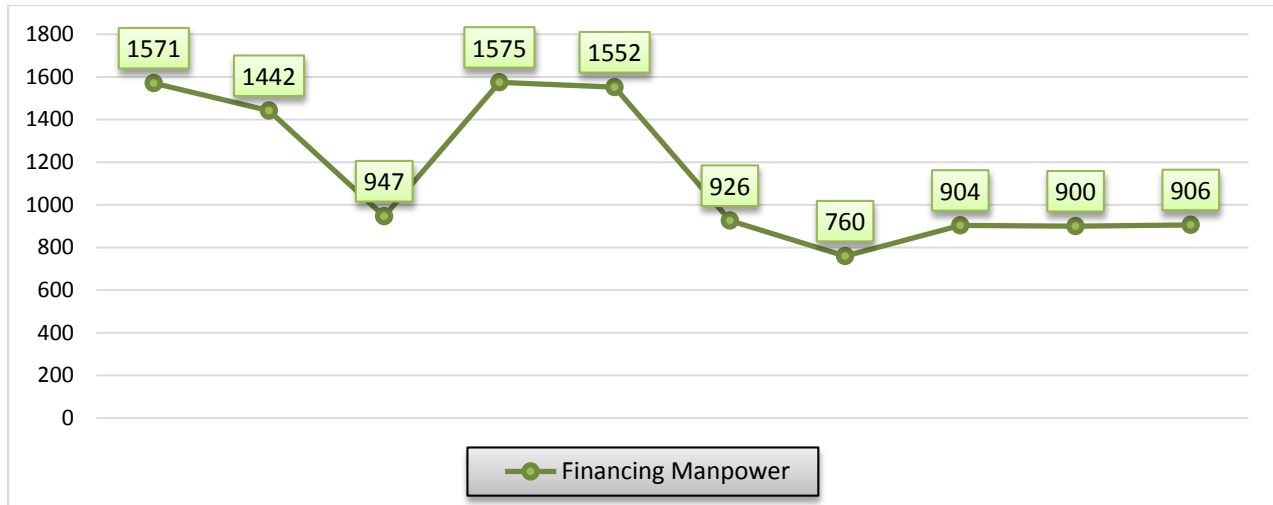
Manufacturing PSUs despite being a loss making entity displays an improvement in its performance over the years. The net profit figure raised from Rs. -152.90 Cr. in the year 2001-02 to Rs. -75.36 Cr. in 2010-11. Turnover gradually increased from Rs.280.90 Cr. to Rs 329.0813 Cr. during 2001-08 period. The figure then suddenly skyrocketed to Rs. 4570.69 Cr. in 2008-09

and maintained its momentum with the latest figure being Rs. 4566.46 Cr. in 2010-11. Employment shrunk considerably from a figure of 11,437 in 2001-02 to 6,618 to 2010-11. It is to be noted that the rate of increase of net profit was slower than the rate of decrease in manpower.

Financing:

Year	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-19.35	132.87	1571
2002-03	10.23	579.25	1442
2003-04	-7.22	1093.48	947
2004-05	-8.32	1078.01	1575
2005-06	-67.42	1205.12	1552
2006-07	415.25	1971.31	926
2007-08	235.34	1357.26	760
2008-09	70.70	1084.85	904
2009-2010	27.13	940.37	900
2010-2011	27.95	965.03	906



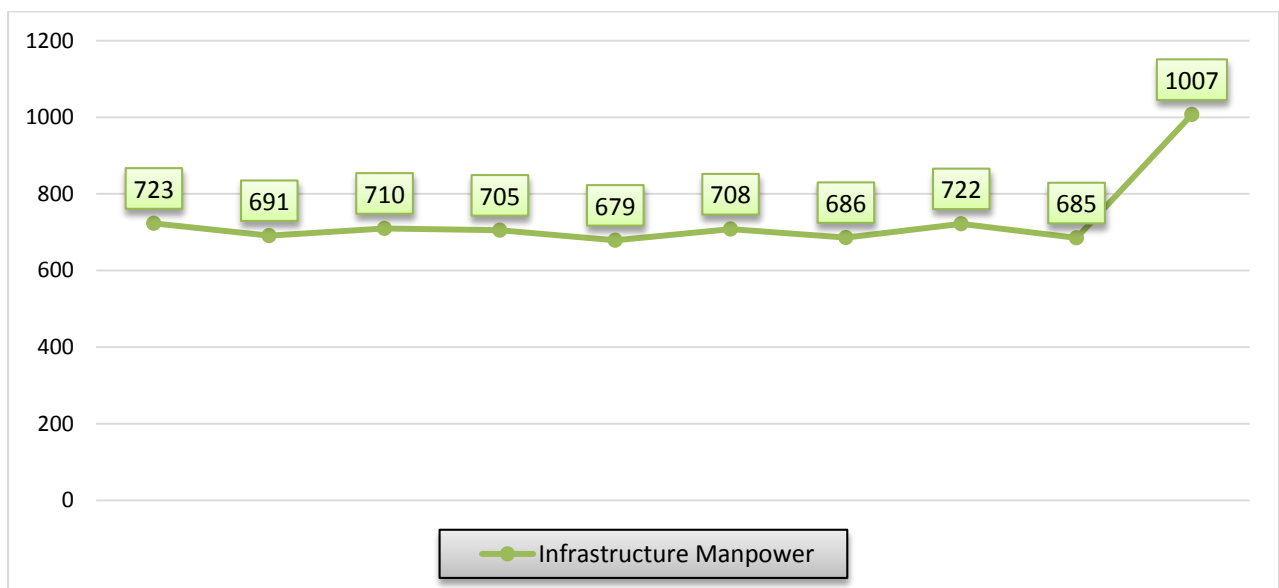
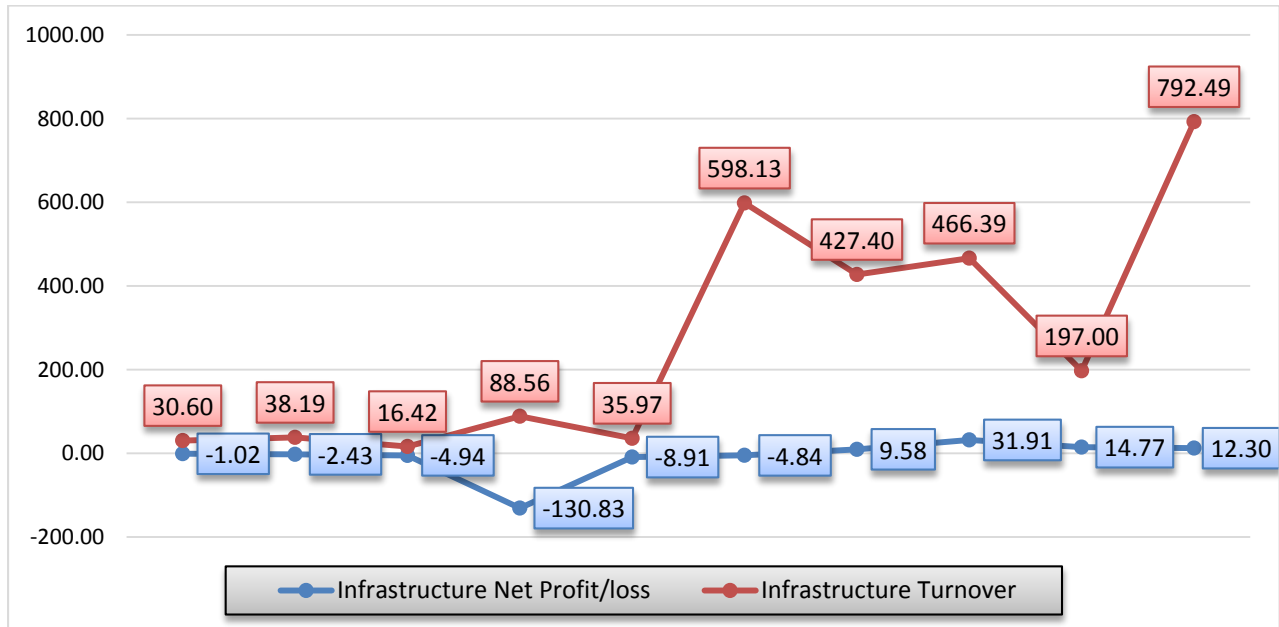


Source: CAG State Audit Report.

Financing PSUs exhibits an increasing trend in net profit as well as in turnover. Manpower is on the decline during the period 2001-11. Net profit starting from a modest figure of Rs.-19.35 Cr. in 2001-02 touched its peak at Rs. 415.2492 Cr. in 2006-07 before touching down upon Rs. 27.95 Cr. in 2010-11. Infact, turnover also touched its peak in the year 2006-07 at Rs. 1,971.3065. In the year 2004-05, employment reached its pinnacle at 1,575 with a corresponding net loss of Rs. 8.3169 Cr. In the subsequent years manpower was curtailed and the PSUs started earning profits.

Infrastructure:

Year	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-1.02	30.60	723
2002-03	-2.43	38.19	691
2003-04	-4.94	16.42	710
2004-05	-130.83	88.56	705
2005-06	-8.91	35.97	679
2006-07	-4.84	598.13	708
2007-08	9.58	427.40	686
2008-09	31.91	466.39	722
2009-2010	14.77	197.00	685
2010-2011	12.30	792.49	1007



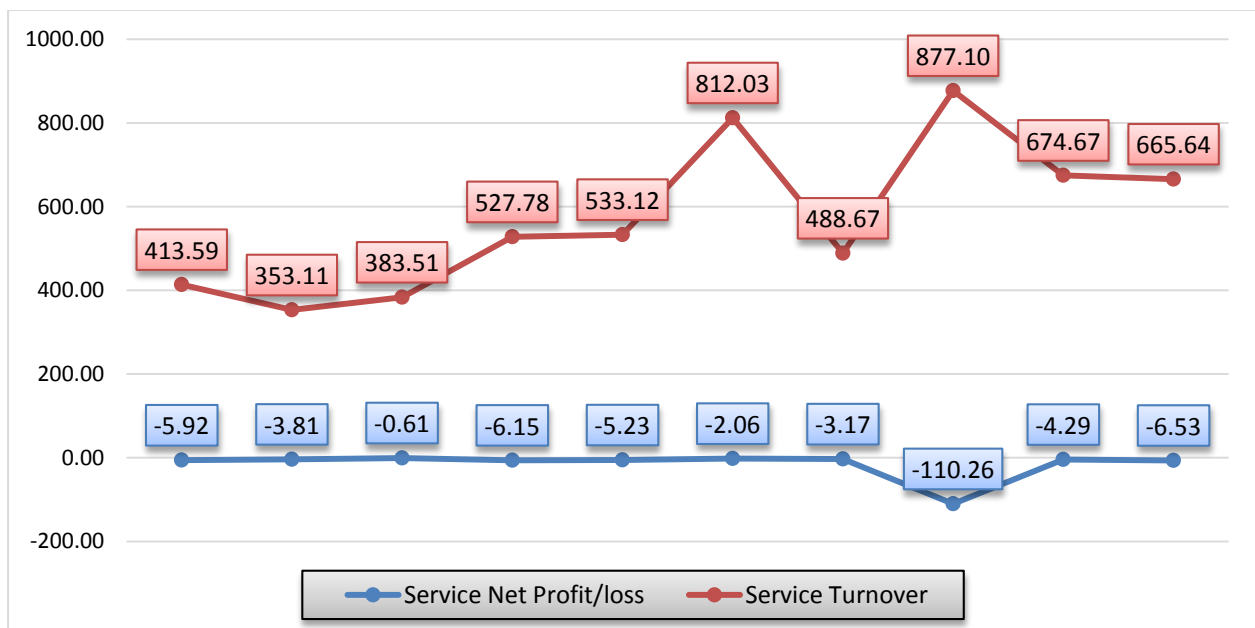
Source: CAG State Audit Report.

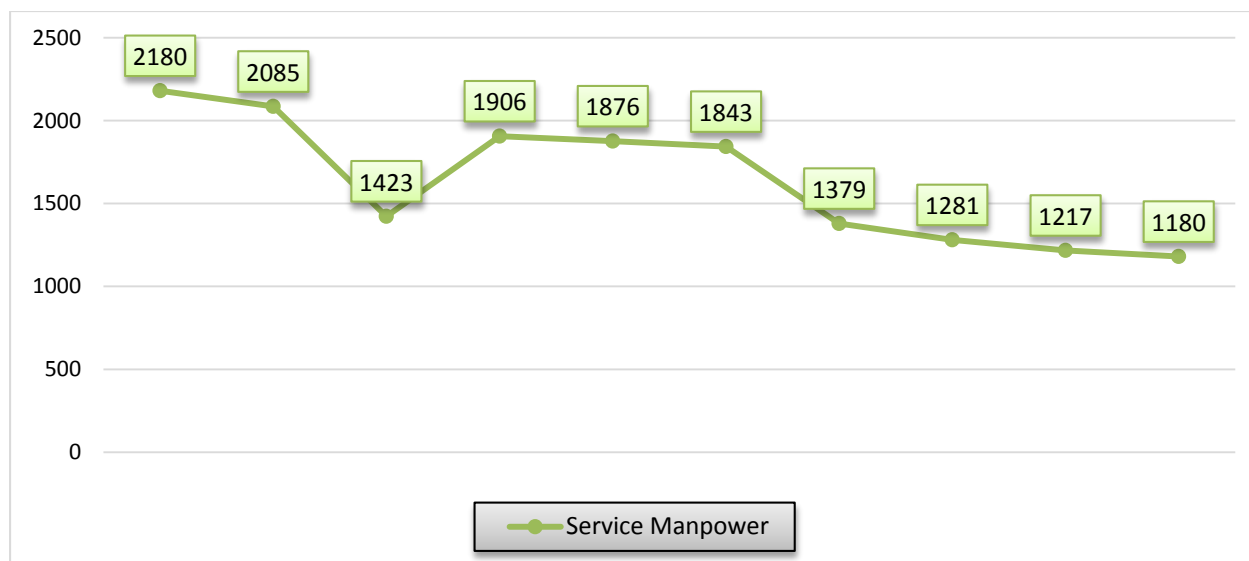
Infrastructure PSUs transformed themselves collectively into a profit making body in the year 2007-08 with a net profit of Rs. 9.5836 Cr. before being a loss making entity in the earlier years. The net loss was at a maximum of Rs. 130.8338 Cr. in the year 2004-05. Turnover consistently displayed a zigzag movement with the maximum being Rs. 792.49 Cr. in the year 2010-11.

Manpower remained almost the same throughout till the year 2009-10. The figure increased to 1,007 in the year 2010-11.

Service:

Year	Net Profit/Loss (INR Cr.)	Turnover (INR Cr.)	Manpower
2001-02	-5.92	413.59	2180
2002-03	-3.81	353.11	2085
2003-04	-0.61	383.51	1423
2004-05	-6.15	527.78	1906
2005-06	-5.23	533.12	1876
2006-07	-2.06	812.03	1843
2007-08	-3.17	488.67	1379
2008-09	-110.26	877.10	1281
2009-2010	-4.29	674.67	1217
2010-2011	-6.53	665.64	1180





Source: CAG State Audit Report.

Net profit figure of the Service sector PSUs remained almost constant throughout the period 2002-08. The figure which was Rs. -3.81 Cr. in 2002-03 read Rs.-3.1744 Cr. in the year 2007-08. Net profit was at its lowest in the year 2010-11 with a figure of Rs.-110.26 Cr. Turnover exhibited an increasing trend, reaching its peak in the year 2008-09 at Rs. 877.10 Cr. Manpower, on the other hand was drastically reduced to 1423 in 2003-04 from 2085 in 2002-03 after which the figure settled eventually to 1180 in 2010-11.

Section IV:

Year	Working PSUs	Non-working PSUs	Total
2001-02	76	8	84
2002-03	75	9	84
2003-04	74	10	84
2004-05	73	13	86
2005-06	71	14	85
2006-07	66	20	86
2007-08	69	21	90
2008-09	72	23	85
2009-10	72	20	82
2010-11	72	18	90

From the above table we notice that the total number of state PSUs has increased from 84 in 2001-02 to 90 in 2010-11. Over the years, number of working PSUs has decreased from 76 in 2001-02 to 72 in 2010-11, while number of non-working PSUs has increased from 8 to 18 during the same period. During 2006-07, the scenario was pretty worse with only 66 operating PSUs and 20 non-operating PSUs. Since 2007-08, the situation has improved considerably as number of working PSUs raised from 66 to 72 in 2010-11. During the period 2002-03, there was a decrease in profit of 6 PSUs amounting to Rs. 18.83 Cr. and there was an increase in losses of 24 PSUs amounting to Rs. 914.37 Cr. According to the latest data available, there was a decrease in profit of 11 PSUs amounting to Rs. 326.73 Cr. and there was an increase in losses of 23 PSUs amounting to Rs. 85.41 Cr during the period 2010-11.

Year	Number of Profit making PSUs(Accumulated)	Number of Loss making PSUs(Accumulated)	Accumulated Profit(INR Crores)	Accumulated loss(INR Crores)
2001-02	16	65	213.27	-7275.37
2010-11	28	59	3562.95	-8610.07

In 2001-02 number of profit (loss) making PSUs were 16(65) while in 2010-11 the figure was 28(59) respectively. Thus, it can be concluded that over the years, transformation of loss making PSUs into profit making ones are taking place at a moderate pace. This trend is significant in the wake of the current fiscal deficit of the state. In the year 2001-02, Accumulated Profit (loss) was Rs.213.27 Cr. (Rs.-7275.37 Cr.) respectively while in the year 2010-11 the figure was Rs.3562.96 Cr. (Rs.-8610.07 Cr.) respectively. Both the accumulated loss and profit figures have spiraled upwards but it is to be noted that the accumulated profit have increased significantly while the net loss has also increased but not that rapidly. This provides us a clear picture of the distress caused to the treasury. The loss figure is substantially subsidized by the State Government. On the other hand, The State Government is entitled to receive dividends from the profit margin which is denied by the PSUs. In fact, the Government receives a meager amount of it. These two scenarios add to the woes of fiscal burden of the State.

Section V: Restructuring:

First Phase:

The restructuring of the State PSUs occurred in two phases. The first phase was initiated in February 2001 when The State Government constituted a high level Committee on Public Sector Restructuring (CPSR) to scrutinize the problems and prospects of each undertaking separately. This committee was entrusted with the duty of preparing an action plan for revival of potentially viable units and to determine the modality best suited for recovery of Government's investment in unviable units and was asked to report within May 2001. In October 2001 the Government decided to classify loss making manufacturing enterprises into three categories viz. (i) structurally unviable enterprises which may not continue indefinitely in public interest, (ii) unviable enterprises requiring capital investment from private partners, and (iii) potentially viable enterprises to retain under management of Government for restructuring them. It is to be noted that no disinvestment, privatization or restructuring had taken place during the year 2001-2002. The State Government entered into an agreement with the Department of International Development, United Kingdom in December 2002. The agreement enabled the State Government to receive a grant of £ 20 million which was earmarked for restructuring costs, separation-related expenditure and re-training of employees laid off as a result of privatisation. In January 2003, the Government appointed M/s Price Waterhouse Coopers for business optimisation studies of 14 loss incurring units. However, no disinvestment, privatisation or restructuring had taken place during the year 2002-03. Starting from May 2003, the State Government decided to close eight Government companies, privatise 11 companies while restructuring four companies within Government sector. This process continued till December 2004. Due to the process of restructuring, the Government had to shell out Rs 42.33 crores to 953 employees of three companies under Early Retirement Scheme till September 2004. In January 2005, the Government undertook financial re-structuring of three companies by transforming Government loan and interest of Rs 841.73 crores into equity. Further in June 2005, The Government sought help from reputed consultancy firms for their expertise to re-structure the West Bengal State Electricity Board, The Durgapur Projects Limited and the West Bengal Power Development Corporation Limited. During October 2005 to August 2006 eight more

PSUs were closed after paying compensation of Rs 16.66 crores to 2,252 employees. As a part of the process of restructuring, the Government also paid Rs 30.94 crores to 835 employees of three other companies under the Early Retirement Scheme. Further, the Government undertook financial restructuring in respect of four companies during the period May 2005-January 2006 by way of conversion of Government loan and interest of Rs 393.66 crore into equity and had written off loan and interest of Rs 47.76 crores. During the year 2006-07, the Government disinvested 74 per cent equity of Engel India Machines & Tools (1987) Limited and West Bengal Chemical Industries Limited in favour of two private enterprises.

Second Phase:

In the second phase, starting from January 2006, the Government took up restructuring of another 22 loss making PSUs and appointed three consultants in August 2006 for business optimisation studies. During October 2006 to September 2007 two more PSUs were closed after paying compensation of Rs 9.06 crores to 170 of their employees. During the year 2006-07, the Government disinvested 74 per cent equity of West Bengal Agro Textile Corporation Limited and 90 per cent equity of Apollo Zipper India Limited in favour of two private enterprises. The Government crippled by the mounting losses and paucity of resources, entered (October 2003/February 2004) into agreements with the Department for International Development, Government of the United Kingdoms (DFID) for an externally aided programme namely, DFID to support Public Sector Enterprises Restructuring Programme Prelude Phase and Phase I. In the prelude and first phase, out of 31 State Public Sector Enterprises (SPSEs) identified, 197 SPSEs were closed, four restructured, while another four were disinvested between December 2003 and December 2007. Of the remaining four SPSEs, three were under process of restructuring as of March 2008, while one was handed over to a co-operative society. The second phase, to be implemented from 2007-08 to 2010-11, will cover SPSEs in the Power and Transport sectors as well as 23 SPSEs in other sectors. The restructuring only in the Power Sector SPEs was under progress. The State Government undertook (August 2007) second phase of Public Sector Restructuring programme with the financial assistance from Department of International Development, Government of United Kingdom. The second phase to be implemented from 2007-08 to 2010-11, will cover PSUs in the transport sector as well as 14 PSUs and three Department Undertakings (DUs) under six Departments which envisaged restructuring and

retention of 10 PSUs under Government ownership, conversion of four PSUs into Joint Ventures, closure of one PSU and Corporatisation of one DU and conversion of two DUs into Joint Ventures. Among them the Government had decided to disinvest majority of shares in four PSUs and retained 10 PSUs after restructuring and business optimisation process. Though reform in power sector companies were completed in 2009-10, further developments on reform of transport and other sectors are awaited.

As per record, a total of 18 PSUs remain idle till 31st March, 2011. These PSUs need to be shut down as their existence amounts to significant loss from the treasury. During 2010-11, The State Government financed two non-working PSUs incurring an expenditure of Rs. 46.50 lakh towards salary and establishment expenditure. The process of voluntary winding up has been completed in one company and started in three companies. Closure of seven companies has been initiated while the State Government is yet to take a decision on closure regarding six non-working PSUs.

Reforms in Power Sector:

On 5 May 2001, A Memorandum of Understanding (MOU) was signed between Government of India and the Government of West Bengal for the joint implementation of reforms in power sector. The State Government waived a subsidy amount of Rs.714.63 crores receivable by West Bengal State Electricity Board (WBSEB) for the restructuring of WBSEB into West Bengal State Electricity Distribution Company Limited (WBSEDCL) and West Bengal State Electricity Transmission Company Limited. The objective of the restructuring was outlined as 'to facilitate the State-Owned Power Utilities increasing their commercial efficiency and achieving higher levels of customer services on a sustainable basis within the framework of Electricity Act, 2003.', which vowed to provide electricity to each and every individual of India. PWC was entrusted upon the duty to carry out a three phase study to suggest a detailed framework to meet the objectives. The Power Department placed proposals on the basis of the study. The following restructuring steps were taken with the passing of West Bengal Power Sector Reforms Transfer Scheme, 2007.

- i. Restructuring of WBSEB into two corporate successor entities namely WBSETCL for Transmission and State Load Dispatch functions and WBSEDCL for distribution, Hydel Generation and Trading functions.
- ii. Restructuring of DPL for separating Coke Oven business into a separate company and sharing business with strategic investors with transfer of retail water supply business to Durgapur Municipal Corporation.
- iii. The State Government waived an amount of around of Rs. 6780 Cr. of debt held by WBSEB and entered into a one time cross settlement through an adjustment of Rs. 2725 Cr. of Government loans against receivables from WBSEB.
- iv. Reconstruction of Boards of Management of WBSEB, DPL, WBPDCCL in order that the Boards comprise atleast 50% non executive directors and one third independent Directors. The above entities were empowered with autonomy and were told to adopt well established practices of corporate governances and transparency.
- v. Rs. 127 Cr. of Guarantee Fees payable by WBSEB to Government was waived off and a total of Rs. 8120 Cr. were adjusted through write-off.
- vi. A cumulative loan of Rs. 2072 Cr. to WBSEDCL and Rs. 1037 Cr. to WBSETCL with an interest rate of 8.5% p.a. payable in 20 years was offered.
- vii. The dues of WBSEB to WBPDCCL by the State Government were taken care off with the simultaneous adjustment of the amount against the outstanding loans of WBPDCCL by the State Government.

The restructuring programme in the Power sector reaped benefits as the new and restructured units are performing quite satisfactorily and WBPDCCL, WBSEDCL and WBSETCL are earning profit. Though WBSEDCL claimed to achieve target of 100 per cent and 99.69 per cent metering of all distribution feeders and consumers respectively, aggregate transmission and distribution loss recorded in 2009-10 at 25.27 per cent was way above the target agreed to in the MOU. WBSETCL was adjudged the Best Transmission System Availability Award with Gold Shield by the Ministry of Power, Government of India in the year 2007-08 for making transmission system available for more than 99.87%. It also won 'Power Line Awards 2012' in

the category of 'Best Performing Transmission Company' in India. WBSEDCL received Power Excellence Award and India Tech Excellence Award in 2010 for power sector reforms and initiatives in West Bengal. The Company ranked 2nd in All India ranking of power distribution companies in March, 2013 as per rating conducted by the Power Finance Corporation with the help of ICRA and CARE.

Chapter – IX

Broad Content

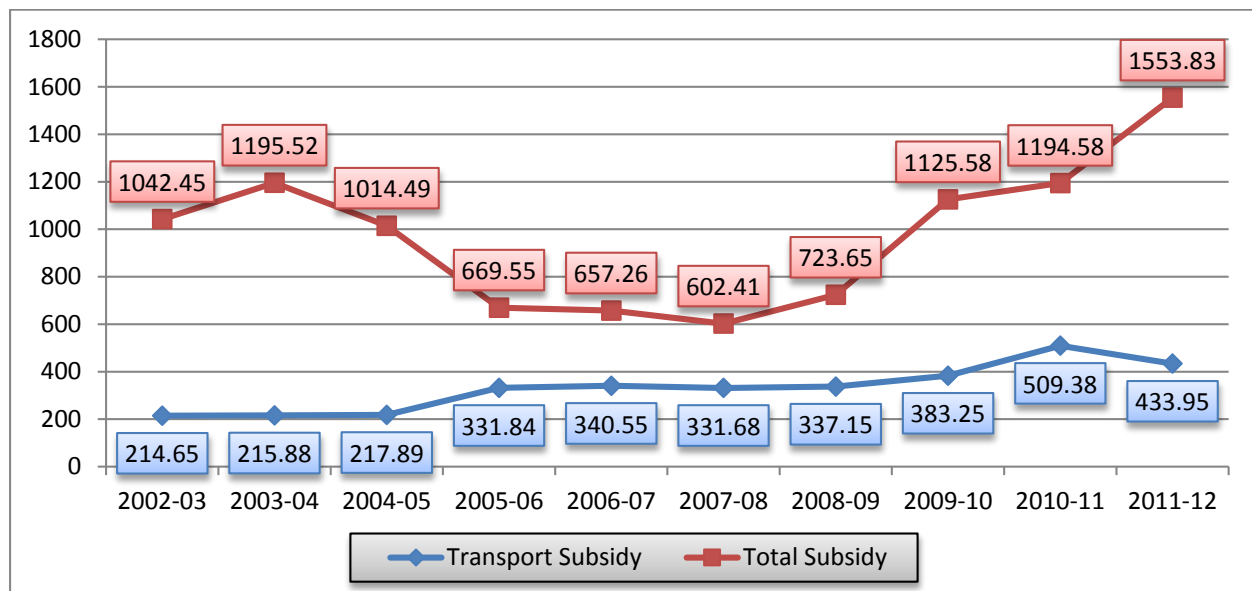
**Subsidies given by the States (Other than Central subsidies),
its targeting and evaluation**

SUBSIDIES GIVEN BY THE STATE:

The State Government provides subsidy to those sectors which has a strong linkage to the economy or in other words which involves positive externality. The State also takes up the responsibility of subsidising the loss making enterprises. However, subsidy needs to be financed. They may be financed through taxation or borrowings. High taxation leads to deadweight loss. It is in this context that we examine the role of transport subsidy on the total subsidy of the State over the years (2002-2012). Later on, we find the ratio of total subsidy with respect to total revenue, own tax revenue and GSDP over the period 2002-2011.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Subsidy	-03	-04	-05	-06	-07	-08	-09	-10	-11	-12
1.Transport Subsidy	214.65	215.88	217.89	331.84	340.55	331.68	337.15	383.25	509.38	433.95
2.Total Subsidy	1042.45	1195.52	1014.49	669.55	657.26	602.41	723.65	1125.58	1194.58	1553.83
Ratio (1:2) expressed in percentage.	20.59	18.06	21.48	49.56	51.81	55.06	46.59	34.05	42.64	27.93

Figures in INR Crores.



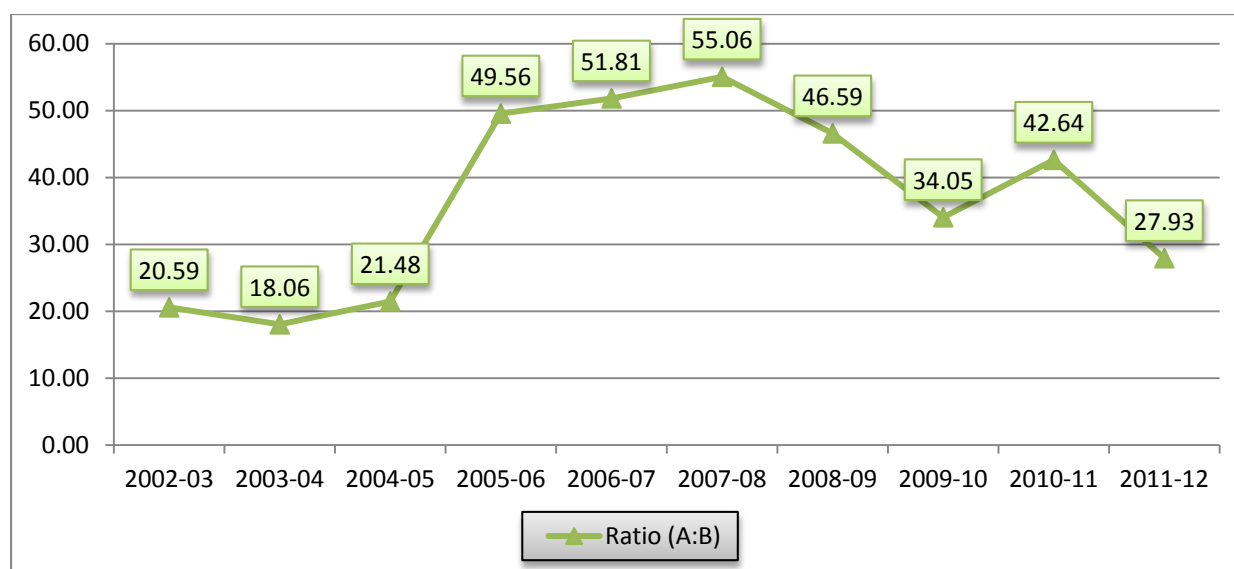
Source: Budget Section, West Bengal Government.

Total subsidy of the State Government was Rs. 1042.45 Cr. in the year 2002-03 which rose to Rs. 1195.52 Cr. in 2003-04. The figure then took a downward dip starting from Rs. 1014.49 Cr. in 2004-05 to its lowest point Rs. 602.41 Cr. in 2007-08. From the year 2008 onwards, total subsidy of the State Government has been experiencing an increasing trend. The figure which was Rs.

723.65 Cr. in 2008-09 experienced a steep rise to Rs. 1125.58 Cr. in 2009-10 before settling down to Rs. 1553.83 Cr. in 2011-12.

On the other front, Transport Subsidy has been on an increasing trend since 2002-03 with the exception in the year 2007-08, where there was a fall from Rs. 340.55 Cr. in 2006-07 to Rs. 331.68 in 2007-08. Transport Subsidy experienced a sharp increase in the year 2010-11 when from a figure of Rs.383.25 Cr in 2009-10 it reached to Rs. 509.38 Cr. in the subsequent year. In the last recorded year i.e. 2011-12, the figure dropped to Rs. 433.95 Cr.

It is to be noted that the movement of the two series, Total subsidy and Transport subsidy has been quite similar from the year 2007-11. Apart from that, the two series exhibit different trends over this period. It is quite important to capture the movement of Transport subsidy in context with the Total subsidy. We plot the ratio figure expressed in percentages in the following figure.



Source: Budget Section, West Bengal Government.

As we see from the above figure, transport subsidy constituted 21.48% of the total subsidy till 2004-05, which is about 1/5th of the total subsidy. The proportion of transport subsidy jumped to 49.56% in 2005-06 and continued its increasing trend till 2007-08 when it touched the maximum of 55.06%. The figure dropped considerably to 34.05% in 2009-11. The ratio was 27.93% in 2011-12 before it rose to 42.64% in 2010-11.

It can be seen that from 2007-08 onwards the ratio is experiencing a downward trend except in 2010-11. Although the ratio last recorded is about ¼ of the total subsidy, it is evident that the

ratio is falling in the recent years. The significant improvement though falls flat if we compare the ratio of the two terminal years in the study. Over a period of 10 years, the situation has deteriorated as the ratio rose from 20.59% in 2002-03 to 27.93% in 2011-12.

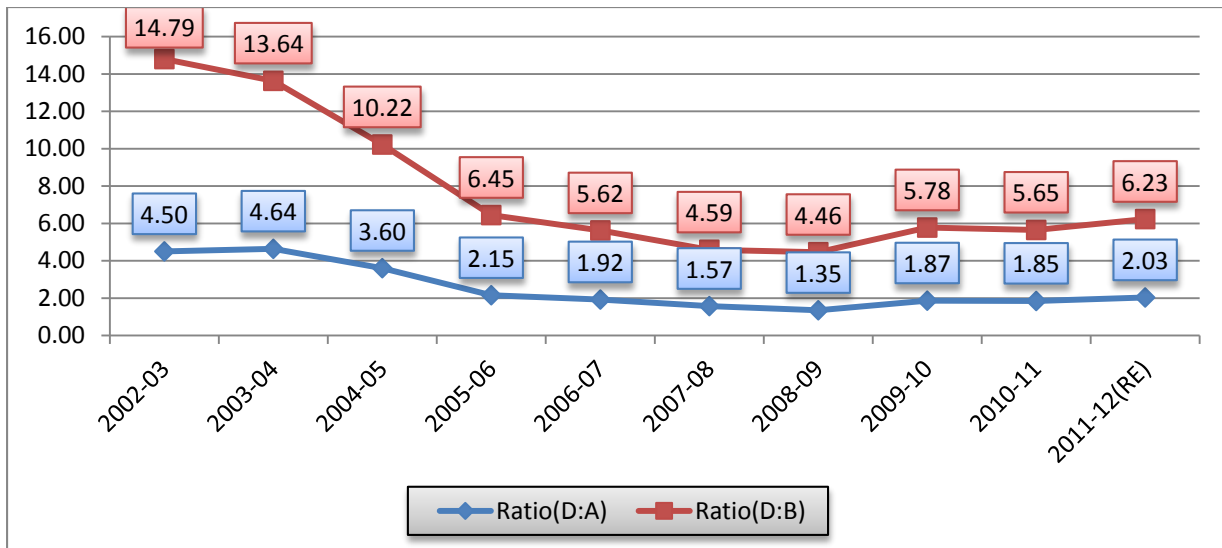
Year	A. Revenue Expenditure	B. Own Tax Revenue	C. GSDP	D. Total Subsidy
2002-03	23161	7046	182013	1042
2003-04	25757	8768	194920	1196
2004-05	28146	9924	208656	1014
2005-06	31117	10388	230245	670
2006-07	34161	11695	261682	657
2007-08	38314	13126	299483	602
2008-09	53455	16223	341942	724
2009-10	60253	19476	398880	1126
2010-11	64538	21130	475146	1195
2011-12(RE)	76417	24930	544282	1554

Figures in INR Crores.

Revenue Expenditure, Own Tax revenue and GSDP data are given in the above table from 2002-03 to 2011-12(RE). Now, we will examine from the ratio of Total subsidy to the above variables over time.

Year	Ratio(D:A)	Ratio(D:B)	Ratio(D:C)
2002-03	4.50	14.79	0.57
2003-04	4.64	13.64	0.61
2004-05	3.60	10.22	0.49
2005-06	2.15	6.45	0.29
2006-07	1.92	5.62	0.25
2007-08	1.57	4.59	0.20
2008-09	1.35	4.46	0.21
2009-10	1.87	5.78	0.28
2010-11	1.85	5.65	0.25
2011-12(RE)	2.03	6.23	0.29

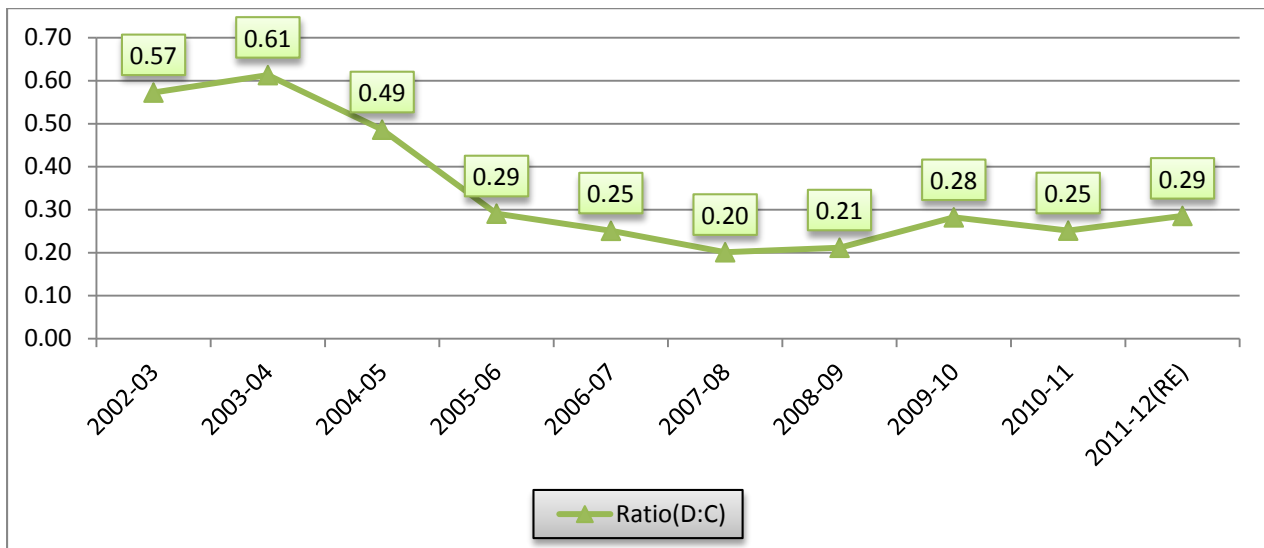
Ratios expressed in percentages.



Source: Budget Section, West Bengal Government.

The ratio of total subsidy to revenue expenditure was 4.50% in the year 2002-03 which rose to 4.64% in 2003-04. The ratio took a dip downwards afterwards as it slumped to 3.60% in 2004-05 and continued to fall till 2008-09. The ratio then moved upwards and up scaled to 1.85% in 2010-11.

The ratio of total subsidy to own tax revenue was 14.79% in the year 2002-03. The ratio began to fall afterwards and continued till 2008-09 when the ratio read 4.46%. The ratio however began to escalate from 2009-10 and continued till 2010-11 when it reached a figure of 5.65%.



Source: Budget Section, West Bengal Government.

The ratio of total subsidy to GSDP was .57% in 2002-03. The ratio reached its peak in 2003-04 when the figure reached .61%. Post 2003-04 there has been a downturn of the ratio as the figure dropped considerably to .20% in 2007-08. The ratio then moved upwards to .28% in 2009-10 and fell again to .25% in 2010-11.

Therefore, by examining the above ratios it can be concluded that subsidy as a percentage of the three variables mainly Tax revenue, Own Tax revenue and GSDP is on the decline but the total subsidy figure has been on the rise over the years which needs to be curtailed. A detailed roadmap should be drawn keeping the transport sector in mind as it continues to sweep in the maximum subsidy.