

**Outcome Evaluation Study of State Finances  
for Madhya Pradesh**

**For the Sixteenth Finance Commission**

**Indian Institute of Management Indore**



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## **Executive Summary**

This Study has been carried out to examine the State Finances of Madhya Pradesh for the period of Financial Year (FY)2013 to FY2024. The study is based on the data from various CAG reports, Reserve Bank of India's Study on State Finances, and budget documents of Madhya Pradesh government. The data taken for the State budgetary statistics are final audited figures till FY 22, revised estimates for FY23, and budget estimates for FY24. These are the latest year for which data are available from RBI's e-STATES database that is accompanied with its publication 'State Finances: A Study of Budgets'. GSDP estimates are taken from the National Statistical Commission's portal as on 1<sup>st</sup> August 2024. At many places, Madhya Pradesh's performance has been compared with 'Major States' average, a grouping of States which is broadly comparable to erstwhile General Category States (GCS). There are six chapters in the report, each dealing with specific aspects of the State finances. A summary of the analysis and major findings, based on each of the chapters, is provided below:

### **1. Revenue Resources**

Between 2012-13 and 2022-23, Madhya Pradesh demonstrated robust economic growth, with its Gross State Domestic Product (GSDP) at constant prices rising at a Compound Annual Growth Rate (CAGR) of 5.50%, outpacing the national average of 5.23%. This growth contributed to an improvement in the State's per capita GSDP, from 64% to 73% of the national average. However, despite these gains, Madhya Pradesh remains economically weaker than most other States, with only six States reporting lower per capita incomes in 2022-23. The State's lower per capita income reflects a smaller tax base, limiting its ability to generate sufficient own-tax revenues. As a result, Madhya Pradesh remains relatively more dependent on Central Government transfers to finance public services at levels comparable to other States.

With abolition of the Planning Commission, higher tax devolution through Finance Commission, and rerouting of the Centrally Sponsored Schemes through State budgets, the framework for Central transfers has undergone significant changes since 2014. Madhya Pradesh has seen a decline of nearly 1 percent of the GSDP in terms of Central resource flow to the State (FY23 and FY24 vs FY13-15). During this period, the total revenue resources for the State declined substantially from 19.53 percent to 16.46 percent of GSDP. Of the 3.07 percentage points decline, 1.5 percentage points is explained by decline in Own-Tax Revenues (OTR), 0.8 percentage point by Own-Non-Tax Revenues (ONTR), and 1 percentage point by the Central transfers.

The introduction of GST significantly affected Madhya Pradesh's revenue dynamics, with the State's own-tax revenue declining from 7.5 percent of GSDP pre-GST to 6.32 percent after its implementation. Other non-GST taxes, such as petroleum duties and property taxes, also saw reductions. Madhya Pradesh already collects higher taxes from its non-GST tax-base compared to other Major States and further expansion of these taxes may not be a solution. On the other hand, Madhya Pradesh is collecting lower tax revenues under GST, partly due to structural limitations in its economy. The State has a large agricultural sector (43 percent of GSDP), which limits the taxable base under GST. The abolition of origin-based agricultural taxes post-GST removed a potential revenue stream.

The economic shock of the COVID-19 pandemic had a significant impact on Madhya Pradesh's finances, with own-tax revenues dropping from 6.39 percent of GSDP to 5.91 percent. Central transfers also declined during this period, intensifying fiscal stress. Although the State initiated a modest recovery post-pandemic, with own-tax revenues rising by 0.4 percentage point of GSDP, the recovery lagged behind that of other States. The State's reliance on agriculture, limited industrial base, and lack of flexibility in GST rates have constrained its

revenue potential. Madhya Pradesh will need to explore new avenues to diversify its revenue base, possibly by encouraging industrial growth and improving tax compliance.

## **2. Expenditure by the State**

Per capita government expenditure in Madhya Pradesh has averaged around 93% of the average per capita spending in Major States, reflecting a reasonable level of horizontal fiscal equalization. However, this ratio declined to 88% during the 2020-24 period, suggesting that the State experienced a more severe fiscal impact from COVID-19 and a slower recovery in public finances. Despite these challenges, Madhya Pradesh has consistently prioritized capital expenditure. Between 2016-17 and 2023-24, the share of capital expenditure in total spending rose from 16 percent to nearly 19 percent. Notably, while other States reduced capital spending during the pandemic, Madhya Pradesh increased its investment expenditure. Though Madhya Pradesh's fiscal recovery was slower post-pandemic, leading to reduced public expenditure from 22.35 percent of GSDP during 2016-18 to 20.46 percent of GSDP during 2022-24.

The State has also faced faster growth in committed expenditures—such as interest payments, pensions, and salaries, straining the State's fiscal resources. The State's interest payment burden increased from 1.46 percent to 1.69 percent of GSDP between 2013-24, and pension spending also grew from 1.36 percent to 1.7 percent over the same period. The implementation of the 7th Pay Commission recommendations in 2017 further increased wage and pension costs. The introduction of the Unified Pension Scheme (UPS) will likely increase pension liabilities in the medium run. Though, as the workforce under OPS matures and their pension liabilities are fulfilled, employees under UPS will not require much budgetary burden during their retirement phase.

Social services expenditures, including healthcare, water supply, and social security, were largely protected despite the fiscal challenges. Madhya Pradesh's expenditure on social services has remained around 8.2 percent of GSDP since 2016. New initiatives, such as the Ladli Behna Scheme, launched in 2023 to provide direct benefit transfers to women, have added significant financial obligations, accounting for around 1.1 percent of GSDP. Although direct transfers are an efficient method to reach the beneficiaries, new programs should be funded through additional revenue generation or by replacing inefficient schemes.

Many social and economic programs are financed through a mix of Central transfers under Centrally Sponsored Schemes (CSS) and State resources. A decline in Central grants, appears to have contributed to the reduction in rural development spending. Additionally, the State has struggled with rising subsidy burdens, particularly in the power sector, where subsidies nearly doubled over the past decade. This reflects challenges in managing operational losses in State-run utilities, complicating fiscal management. Madhya Pradesh's growing subsidy burden and committed expenditures have further limited its capacity to allocate resources toward other developmental priorities.

### **3. Deficits and Public Debt**

Madhya Pradesh maintained consistent revenue surpluses between 2013 and 2019, reflecting its prudent fiscal management. However, the COVID-19 crisis in 2020–21 disrupted this pattern, leading to revenue deficits due to increased expenditure for pandemic relief and a sharp drop in revenue amid lockdowns. The revenue deficit peaked at 1.94% of GSDP in 2021, driving a significant fiscal deficit of 5.27%. With the economic recovery post-pandemic, the State returned to revenue surpluses, but these surpluses have declined in recent years. During 2014–2016, the reduction in Madhya Pradesh's revenue surpluses contributed to higher fiscal deficits, though capital expenditure remained stable. In 2017, additional fiscal deficits were

utilized for UDAY-related capital spending, while surplus revenue in 2019 helped reduce fiscal deficits. The COVID-19 period reversed this trend, with increased revenue deficits directly translating into higher fiscal deficits.

Despite fiscal volatility, the State has prioritized capital spending, using borrowed funds in 2021 and 2022 to stimulate economic recovery. However, the trend of funding capital expenditure through revenue surpluses has weakened, and in 2023–24, capital outlays were fully financed by borrowing. MP's revenue resources, comprising both State and Central transfers, declined from 19 percent of GSDP in 2016-18 to 16.65 percent during 2022-24. Expenditure compression could not fully offset the revenue contraction, resulting in a higher average fiscal deficit by 0.44 percent of GSDP between these two periods. The end of the compensation program presents further risks. Expenditure on power subsidies and social programs has also complicated the State's fiscal consolidation efforts.

Madhya Pradesh has consistently met its FRBM targets except for a breach in fiscal deficit limit by 0.14 percentage point during FY21. To ensure fiscal sustainability, Madhya Pradesh must improve revenue collection, particularly through better State GST (SGST) administration, and reduce inefficient subsidies. Capital investments, though beneficial for economic growth, require careful evaluation to ensure returns that can support future obligations. Central assistance through concessional loans has provided critical support, but uncertainties remain regarding their continuation. The State should aim for a gradual fiscal consolidation, reducing the fiscal deficit from 3.25 percent in FY25 to 2.5 percent by FY28. Additionally, building flexibility into the FRBM framework to address macroeconomic shocks would strengthen the State's fiscal management.

#### **4. Local Bodies**

Pursuant to 73rd and 74<sup>th</sup> constitutional amendments, rural and urban local bodies were set in the State. Major sources of funding for the local bodies are resources received from the Union and State Finance Commissions. The State has constituted State Finance Commission from time to time. However, there have been delays in preparation of the report by the Fourth State Finance Commission, and implementations of its recommendations. The recommendations of the Third State Finance Commission remained in force for 2006-18 period, while Fourth State Finance Commission remained in force only for two-year period of 2018-20. The recommendations of the Fifth Finance Commission would coincide with award period of the 15th Union Finance Commission of 2020-26. The Fourth State Finance Commission recommended to devolve 5.5 and 2 percent of the divisible pool to PRIs and ULBs respectively, which was increased to 7.75 and 2.25 percent of divisible tax revenue to PRIs and ULBs respectively.

Local bodies received funds to implement CSS along with matching grants from the State. However, both PRIs and ULBs were unable to fully utilize these allocations, resulting in savings ranging from 6% to 30%. Own-source revenues contributed only 2% to the total revenue receipts of PRIs during 2016-21. Effective governance of local bodies is essential for delivering quality basic services to the public. Strengthening the financial capacity of both ULBs and PRIs is crucial to reduce their reliance on transfers and enable them to generate more own-source revenues. Policy improvements for local bodies require robust data collection and enhanced coordination between local bodies and the State Government, facilitating regular assessments and data-driven policy interventions.

## **5. State PSUs**

Over the past eleven years, the number of State PSUs in Madhya Pradesh increased from 64 to 72, but their financial performance has worsened significantly. Annual losses surged from ₹2,487.49 crores in 2011-12 to ₹6,523.12 crores in 2021-22, and accumulated losses rose 3.8 times. The contribution of PSUs to the Gross State Domestic Product (GSDP) fell from 12.44 percent to 7.67 percent, despite a 3.25-fold increase in investments, driven primarily by the power sector, which accounts for over 90 percent of PSU turnover. While capital investments rose by 4.35 times and long-term loans by 2.65 times, the share of grants and subsidies in total outgo jumped from 67 percent in 2011-12 to 83 percent by 2018-19. Discrepancies in financial data between State finance accounts and PSU records, particularly for loans, and arrears in PSU accounts ranging from 1 to 16 years, reflect serious management challenges.

The poor financial outcomes suggest that the PSUs are failing to fulfil their intended purpose of promoting social welfare and economic development. Liquidating non-performing PSUs could help free up resources for better use, especially since many operate in sectors where private enterprises excel. To improve their performance, the State must grant PSUs more financial and administrative autonomy, reducing their dependence on government interventions. Enhanced governance and accountability measures are critical, as persistent losses, growing subsidies, and mismanagement risk becoming a long-term burden on the State's finances.

## **6. Power Sector**

The power sector in MP was unbundled in 2002 into separate generation, transmission and distribution companies. Much of the reforms in Power sector like delicensing and competitive

bidding have happened in Generation, fewer in Transmission, while Distribution continues to be the weakest link in the entire power sector value chain with issues like unsustainably low tariffs and high Aggregate Technical and Commercial (AT & C) Losses. As Distribution segment is mostly run by State Utilities, the losses on account of Distribution are thus a burden on the State Finances. High losses can be attributed to unmetered agricultural and residential sales. Despite efforts under the Ujjwal DISCOM Assurance Yojana (UDAY), which aimed to reduce AT&C losses to 15% by 2018-19, the losses remained elevated at 20.55 percent in 2022.

Under the UDAY scheme, Madhya Pradesh committed to absorbing ₹26,055 crores of DISCOM debt but assumed only ₹12,690 crores of the debt. DISCOMs struggled to issue bonds and relied on costly loans, undermining financial stability. Operational challenges persisted between 2013-14 and 2022-23, with the utilities' financial health improving slightly after 2018-19. In 2022-23, they posted a profit of ₹1,842 crores on a subsidy-realized basis, but operational losses remained high at ₹27,940 crores, or 51.92 percent of expenditure—far above the national average of 31.02 percent. Agricultural sector, accounting for 42.6 percent of electricity consumption but contributing only 3 percent of revenue, strained finances. Although DISCOMs raised tariffs periodically, these hikes lagged behind rising electricity costs, necessitating cross-subsidies and budgetary support. While Madhya Pradesh's power sector has made some progress, it continues to face significant losses, high subsidy dependence, and commercial inefficiencies. Achieving long-term sustainability requires reducing AT&C losses, enhancing operational efficiency, and narrowing the gap between tariffs and costs.

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## **Chapter 1**

### **Revenue Resources of the State**

#### **1. Introduction**

Between 2012-13 and 2022-23, Madhya Pradesh's GSDP at constant prices grew at a Compounded Annual Growth Rate (CAGR) of 5.50 percent, surpassing the 5.23 percent growth rate of all States combined. This relatively faster growth led to an increase in the State's per capita GSDP from 64 percent to 73 percent of the national average over the decade. Despite this progress, Madhya Pradesh remains among the poorer States, with only six States—Bihar, Uttar Pradesh, Jharkhand, Manipur, Assam, and Meghalaya—reporting lower per capita income in 2022-23 than Madhya Pradesh. Due to its smaller tax base, as indicated by its lower per capita income, the State is unable to generate own-tax revenues on par with the national average at similar tax efforts. Consequently, the State remains reliant on Central transfers to deliver public services at levels comparable to other States.

The framework for Central transfers has undergone significant changes since 2014. First, the Planning Commission was abolished and replaced by NITI Aayog, a think-tank without the authority to allocate funds, unlike its predecessor. Second, the dissolution of the Planning Commission, along with an expanded Terms of Reference (TOR), enabled the Fourteenth Finance Commission (FFC) to comprehensively assess the revenue needs of States, covering both plan and non-plan expenditures. Third, starting in 2014-15, the Central Government discontinued the practice of funding Centrally Sponsored Schemes (CSS) directly through implementing agencies, and instead, began routing these funds through State budgets. Additionally, the introduction of GST in July 2017 further impacted the composition of revenue resources for all States, including Madhya Pradesh.

## 2. Composition of the Revenue Resources

Table 1 provides the composition of revenue resources of the State, which includes revenue receipts and Centrally Sponsored Schemes (CSS). To provide a benchmark, composition of revenue resources for Major States (average) are also shown in the table.<sup>1</sup> Four main categories of revenue receipts by the State Governments, namely, State's own-tax revenues, share in Central taxes (tax devolution), State's own non-tax revenues, and grants from the Centre are covered. Compensation received by the State Government from the Central Government under GST compensation is captured as fifth category.<sup>2</sup> While these five categories cover the resources spent through State treasury, a sixth category of CSS bypassing State budgets is also covered. The expenditure domains for these funds fall either in the state list or the concurrent list. Further, from 2014-15 these funds are part of the states' revenue resources. Hence, to ensure comparability, it is desirable to include them for the pre-2014-15 period in the revenue resources available to the States. Thus, revenue resources for states are defined as revenue receipts plus CSS funds bypassing the State budgets.

The time-frame of 2012-13 to 2023-24 can be divided into five parts. The first part, years 2012-13 to 2014-15 (P1), covers the 13<sup>th</sup> Finance Commission's award. The second part, 2015-16 and 2016-17 (P2), covers the award period of 14<sup>th</sup> Finance Commission before implementation of GST. The third part, 2017-18 to 2019-20 (P3) covers the remaining three

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<sup>1</sup> The category of Major States used by the NSSO (National Sample Survey Organization) is broadly comparable to General Category States, except for the following two exceptions: a) Assam is a special category state but also a major state, while Goa is a general category state, but a minor category state. Thus, there are following 18 major states for the study period: Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal.

<sup>2</sup> To assure a smoother transition for states and insulate them from uncertainties about revenue mobilization in the initial years of implementation of GST, the Central Government enacted the Goods and Services Tax (Compensation to States) Act, 2017. This Act promised State Governments a minimum 14 percent annual growth rate of tax revenue based on their 2015-16 revenue collections under taxes subsumed in GST. The Central Government was obligated to compensate the State Governments if their actual revenue fell short of the promised revenue in any financial year.

years of the 14<sup>th</sup> Finance Commission's award. The Covid years of 2020-21 and 2021-22 (P4) are taken as the fourth period, while the fifth period captures post-Covid recovery phase of 2022-23 and 2023-24 (P5). Given the importance of Central transfers in the State finances and other events referred, the above scheme of classification of the time period 2012-13 to 2023-24 is followed in subsequent chapters as well.

**Table 1.1: Composition of Revenue Resources (% of Total Resources): Madhya Pradesh**

S. No.	Item	2013-15	2016-17	2018-20	2021-22	2023-24
1	State's Own Tax Revenue	39.8	37.0	36.5	36.4	38.3
2	Share in Central Taxes	26.7	36.9	35.0	34.7	36.0
3	State's Own Non-Tax Revenue	9.9	7.7	7.5	7.5	6.7
4	Grants from the Centre	16.3	18.4	19.4	18.7	17.9
	GST Compensation	0.0	0.0	1.7	2.6	1.1
5	CSS bypassing State Budgets	7.4	0.0	0.0	0.0	0.0
	Total	100	100	100	100	100

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 1.2: Composition of Revenue Resources (% of Total Resources): Major States**

S. No.	Item	2013-15	2016-17	2018-20	2021-22	2023-24
1	State's Own Tax Revenue	50.42	47.41	48.34	47.22	49.57
2	Share in Central Taxes	21.73	28.53	26.67	25.82	24.60
3	State's Own Non-Tax Revenue	8.86	8.38	8.74	7.26	7.75
4	Grants from the Centre	13.30	15.68	13.51	15.53	16.23
	GST Compensation	0.00	0.00	2.74	4.17	1.86
5	CSS bypassing State Budgets	5.69	0.00	0.00	0.00	0.00
	Total	100	100	100	100	100

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

Table 1 reports the composition of the revenue resources for Madhya Pradesh and Major States. The annual figures are calculated first and then averaged over for the relevant years for each of the five time-periods. The years for each time-period are referred to by their fiscal year endings, meaning that 2016-18 encompasses the fiscal years 2015-16, 2016-17, and 2017-18. Own-tax receipts formed 39.8 percent of the revenue resources for Madhya Pradesh in 2013-15 (P1), which declined to around 36.5 percent by 2018-20 (P3). This decline was largely compensated by the rise in the grants from the Centre through the State budget and an increased share of the Central grants. A similar trend of decline in the contribution of States'

own-tax receipts and the rise in share of Central taxes in the total revenue resources is also visible for Major States.

This trend can be explained by the increased devolution to the States through the 14<sup>th</sup> Finance Commission, which increased the share of States in the divisible Central taxes from 32 percent to 42 percent. Madhya Pradesh, being a poorer State, is expected to have a greater reliance on the share in Central taxes for its revenue resources. The State derived around 35.6 percent of its revenue resources from this channel in the 2016-24 period. Against this, the Major States average was 26.4 percent during this period. To understand the impact of institutional changes in the design of intergovernmental transfers on State level resource flow, GST implementation, and Covid-19 pandemic, components of revenue resources are explored as percentage of GSDP.

Table 2 provides the composition of revenue resources of the State as a percentage of the GSDP. It can be observed that Madhya Pradesh incurred greater tax effort compared to Major States' average before implementation of GST (i.e. prior to 2017-18). While the transition to GST has not made any significant impact on own-tax revenues (OTR) of Major States (roughly stable at 6.5 to 6.9 percent of GSDP, excluding the two years of Covid-19 pandemic), Madhya Pradesh has seen a sharp decline in OTR from roughly 7.5 percent pre-GST levels to 6.32 percent of GSDP. The decline in OTR for Madhya Pradesh is much sharper than the GST compensation received from the Centre at 0.28 percent of the GSDP during 2018-20 period. Thus, GST alone may not be blamed for decline in OTR collection of the State. A detailed analysis of the sources of decline in OTR is carried out in section 3, while discussing the composition of OTR.

**Table 2.1: Composition of Revenue Resources (% of GSDP): Madhya Pradesh**

S. No.	Item	2013-15	2016-17	2018-20	2021-22	2023-24
1	State's Own Tax Revenue	7.76	7.12	6.39	5.91	6.31
2	Share in Central Taxes	5.22	7.09	6.14	5.66	5.93
3	State's Own Non-Tax Revenue	1.92	1.49	1.32	1.22	1.10
4	Grants from the Centre	3.17	3.54	3.40	3.02	2.94
5	GST Compensation	0.00	0.00	0.28	0.42	0.18
6	CSS bypassing State Budgets	1.47	0.00	0.00	0.00	0.00
	Total	19.53	19.24	17.54	16.23	16.46
	of which: Central transfer (2+4+6)	9.9	10.6	9.5	8.7	8.9

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 2.2: Composition of Revenue Resources (% of GSDP): Major States**

S. No.	Item	2013-15	2016-17	2018-20	2021-22	2023-24
1	State's Own Tax Revenue	6.85	6.43	6.49	6.11	6.90
2	Share in Central Taxes	2.95	3.87	3.59	3.35	3.43
3	State's Own Non-Tax Revenue	1.20	1.14	1.17	0.94	1.08
4	Grants from the Centre	1.80	2.13	1.81	2.00	2.26
5	GST Compensation	0.00	0.00	0.36	0.54	0.26
6	CSS bypassing State Budgets	0.78	0.00	0.00	0.00	0.00
	Total	13.59	13.57	13.42	12.94	13.93
	of which: Central transfer (2+4+6)	5.5	6.0	5.4	5.4	5.7

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

Madhya Pradesh had a per capita income at the two-thirds level of Major States average in 2013-15 (P1), which improved to 75 percent level of Major States average by 2023-24 (P5). Thus, per capita Central transfer to Madhya Pradesh of an amount equal to Major States average would translate into transfer/GSDP ratio of 1.5 to 1.33 times compared to Major States average. Horizontal fiscal equalization would require an even higher level of transfers to compensate for the lower own-tax capacity of the State. This is visible in row 2, where State's share in Central taxes was in the range of 5 to 7 percent of GSDP compared to Major States average hovering around 3-4 percent of the GSDP.

With the implementation of the 14<sup>th</sup> FC award, Madhya Pradesh saw an increased inflow under the share in Central taxes from 5.22 percent of the GSDP during 2013-15 to 7.09 percent during 2016-17, an increase of 1.87 percent of GSDP. However, when all Central transfers covering share in Central taxes, grants from the Centre, and CSS are taken into account, the resource flow to the State increased by 0.78 percentage points only (9.9 percent to 10.6 percent of the GSDP). In the remaining period of the 14<sup>th</sup> FC award period (2018-20), the resource flow from the Centre actually declined to a level lower than seen during 2013-15. On the other hand, the resource flow from the Centre to Major States taken together saw a jump by 0.5 percentage point of GSDP during 2016-17, and then broadly stabilized at the level that prevailed during 2013-15 period.

Madhya Pradesh received around 1.47 percent of GSDP as CSS during 2013-15 compared to 0.78 percent of GSDP for Major States. It appears that the rise in the Central grants due to rerouting of CSS through State budgets has been inadequate in case of Madhya Pradesh. It is quite likely that while at the national level all States taken together may not have been much impacted by changes in the design of intergovernmental transfers on State level resource flow (broadly stable at 5.4 percent of GSDP for Major States), the impact may be uneven at individual State level. Madhya Pradesh has seen a sharper decline in Central resource flow compared to other Major States. By 2023-24, Madhya Pradesh has seen a decline of nearly 1 percent of the GSDP in terms of Central resource flow to the State.

Covid-19 crisis and associated measures to contain the spread of the pandemic required measures that significantly impacted the economic activities during 2021-22 period. However, the impact of the crisis seems to more severe on Madhya Pradesh's public finances compared to Major States. Madhya Pradesh OTR declined by 0.48 percent of the GSDP (6.39 to 5.91 percent) in comparison to 0.38 percent decline for Major States (6.49 percent to 6.11 percent).

However, the Central resource flow for Madhya Pradesh declined by 0.86 percent (9.5 percent to 8.7 percent) in comparison to roughly stable transfers to Major States at 5.4 percent of the GSDP. Some additional transfers were provided by the Centre through GST compensation program (0.14 percentage point increase for Madhya Pradesh in comparison to 0.17 percentage point increase for Major States). Clearly, the fiscal challenges for Madhya Pradesh during Covid-19 pandemic worsened due to slowdown in its OTR collection after the introduction of GST compounded by the lower transfers from the Centre. Further, the recovery in the revenue receipts after Covid-19 came through rise in OTR by 0.4 percentage of the GSDP, while the transfers from the Centre stagnated (increased only by 0.2 percentage of the GSDP).

A greater revenue effort made by Madhya Pradesh for generating non-tax revenues (ONTR) is visible in row 3. The 12-year average for non-tax revenues as a share of GSDP for Madhya Pradesh was 1.45 percent compared to 1.12 percent for Major States average. However, the ONTR collection have fallen substantially from 1.92 percent during 2013-15 to 1.1 percent of GSDP by 2023-24. Overall revenue resources of the State are around 17.92 percent of GSDP compared to Major States average of 13.49 percent of GSDP during the 12 years period. However, the total revenue resources have declined substantially from 19.53 percent during 2013-15 to 16.46 percent of GSDP by 2023-24. Of the 3.07 percentage points decline during this period, 1.5 percentage points is explained by decline in OTR, 0.8 percentage point by ONTR, and 1 percentage point by the Central transfers.

Row 1 to 6 of table 3 show per capita nominal revenue resources for Madhya Pradesh as a ratio of the per capita nominal amount for Major States. Row 7 and 8 shows the revenue effort for Madhya Pradesh as a ratio of revenue effort for Major States. The last column shows the weights of various components of revenue resources for Major States during 12-years (annual averages). It can be observed that as against a per capita income of around 67 to 70

percent of the Major States average during 2013-17 period, Madhya Pradesh derived own-tax revenues at around 77 percent of the per capita levels for Major States. Correspondingly, the row 7 shows that the State puts a higher tax effort compared to Major States. However, despite relative faster growth in state income since 2018, per capita OTR as ratio of Major State has seen some decline. Now the tax effort of the State is close to 91 percent of Major State average during 2023-24 period. The reduction in revenue effort for Own-nontax revenue is also visible, though it remains higher than Major State average throughout the 12 year-time frame. In terms of Central transfers, grants from the Centre seems to be source of decline, while share in Central taxes have remained stable on per capita basis during 2016-24. To understand the sources of decline, own-revenue collection, composition of OTR and ONTR are analysed in section 3 and 4 respectively.

**Table 3: Revenue Resources and Revenue Effort for Madhya Pradesh vs Major States**

S. No.	Item	2013-15 (P1)	2016-17 (P2)	2018-20 (P3)	2021-22 (P4)	2023-24 (P5)	Weight
A. Per Capita Revenue Resources for Madhya Pradesh as a Ratio of GCS Average							
1	State's Own Tax Revenue	0.76	0.77	0.73	0.74	0.68	48.72
2	Share in Central Taxes	1.18	1.28	1.27	1.30	1.29	25.26
3	State's Own Non-Tax Revenue	1.07	0.91	0.84	1.00	0.76	8.30
4	Grants from the Centre	1.21	1.16	1.38	1.16	0.97	14.61
5	GST Compensation			0.49	0.59	0.93	1.69
6	CSS bypassing State Budgets	1.26					1.42
	Total	0.96	0.99	0.97	0.97	0.88	100.00
B. Relative Income and Revenue Effort							
7	State's Own Tax Revenue	1.13	1.11	0.98	0.97	0.91	
8	State's Own Non-Tax Revenue	1.59	1.31	1.14	1.29	1.02	
9	Per capita GSDP Ratio	0.67	0.70	0.74	0.77	0.75	

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

### 3. The composition of Own-tax Revenues

Table 4 clearly shows that Madhya Pradesh made a higher tax effort compared to Major States average till FY2017. However, some deterioration in the revenue performance was there during 2016-17 over 2013-15 where the OTR declined from 7.76 to 7.12 percent of GSDP (a

decline of 0.64 percentage point). There was some moderation in the OTR collection for Major States as well during this period (a decline of 0.42 percentage point). However, the trend for Madhya Pradesh diverged from Major States since FY2018. OTR for Madhya Pradesh declined by 0.73 percentage points during 2018-20 compared to 2016-17, while there was a minor increase of 0.06 percentage points for Major States.

While GST was introduced in FY2018, a closer look on components of OTR reveals that out of 0.73 percentage points decline in OTR, nearly 0.51 percentage points of decline came from taxes which were not subsumed under GST (petroleum taxes: 0.21, Taxes on property and capital gains: 0.04, State Excise: 0.16, Taxes on vehicles: 0.01, Electricity duty: 0.1 percentage points). Covid-19 caused a further decline in OTR of 0.48 percentage point for Madhya Pradesh and 0.38 percent for Major States (2021-22 over 2018-20). However, post Covid recovery for Major States at 0.8 percentage point was much sharper than 0.4 percentage point of GSDP for Madhya Pradesh (2023-24 over 2021-22). The revenue slowdown for Madhya Pradesh can thus be attributed to a) slowdown in non-GST revenues during 2018-20, and b) slower post-Covid recovery, under both GST and non-GST components.

Table 5 provides component-wise tax-effort for Madhya Pradesh along with Major States. Madhya Pradesh's revenue growth slow-down in non-GST OTR observed in table 4 needs to be contextualized with the relative tax-effort measured in Table 5. Despite the slow-down in revenue growth under taxes on petroleum products, excise, and electricity duty, Madhya Pradesh's tax-effort remains higher than Major States average. Hence, the revenue slow-down can also be seen as some tax-relief from relatively higher tax burden compared to other States. To understand the possible sources of revenue augmentation, it is necessary to first measure the potential tax collection and then calculate the gap against actual revenues.

**Table 4: Composition of Tax Revenues (As % of GSDP)**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
1	Taxes on Sales, Trade etc.	4.41	4.14	3.72	3.37	3.74	4.47	4.24	4.31	3.92	4.48
1.1	State-GST (SGST)	0.00	0.00	2.16	1.92	2.30	0.00	0.00	2.45	2.41	2.90
1.2	Petroleum products	1.42	1.41	1.20	1.28	1.18	1.20	1.12	1.10	1.08	1.05
1.3	Taxes on Goods and Passengers	0.59	0.58	0.06	0.01	0.00	0.17	0.18	0.03	0.00	0.01
1.4	Other	2.40	2.16	0.29	0.17	0.26	3.10	2.95	0.73	0.42	0.52
2	Taxes on Property and Capital Transactions	1.09	0.81	0.77	0.87	0.90	0.87	0.77	0.75	0.77	0.89
3	State Excise	1.36	1.31	1.15	0.98	1.03	0.81	0.74	0.78	0.86	0.91
4	Taxes on Vehicles	0.38	0.35	0.36	0.28	0.32	0.36	0.36	0.37	0.31	0.37
5	Taxes and Duties on Electricity	0.42	0.41	0.31	0.35	0.29	0.23	0.22	0.22	0.20	0.22
6	Others (Professional, Entertainment Tax)	0.10	0.08	0.08	0.06	0.03	0.11	0.10	0.05	0.04	0.04
	Total	7.76	7.12	6.39	5.91	6.31	6.85	6.43	6.49	6.11	6.90

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 5: Tax Effort by Madhya Pradesh as Ratio of Major States Tax Effort**

S. No.	Item	2013-15	2016-17	2018-20	2021-22	2023-24
1	Taxes on Sales, Trade etc.	0.99	0.98	0.86	0.86	0.83
1.1	State-GST (SGST)			0.88	0.80	0.79
1.2	Petroleum products	1.18	1.26	1.09	1.18	1.12
1.3	Taxes on Goods and Passengers	3.52	3.29	1.86	1.61	0.38
1.4	Other	0.77	0.73	0.40	0.40	0.51
2	Taxes on Property and Capital Transactions	1.25	1.06	1.03	1.12	1.02
3	State Excise	1.67	1.76	1.48	1.14	1.13
4	Taxes on Vehicles	1.07	0.99	0.96	0.92	0.88
5	Taxes and Duties on Electricity	1.84	1.84	1.38	1.72	1.31
6	Others (Professional tax and Entertainment Tax)	0.91	0.84	1.55	1.43	0.66
	Total	1.13	1.11	0.98	0.97	0.91

Table 6 shows per capita revenue generation under SGST, petroleum taxes, excise, and electricity duty for Madhya Pradesh and Major States. Additionally, a counterfactual level of revenue collection for Madhya Pradesh is also shown which the State would have collected ‘at tax-effort comparable to Major States’. Here, comparable tax effort refers to average tax-GSDP ratio for Major States, which when multiplied by Madhya Pradesh’s GSDP has been used as a counterfactual potential tax revenues.

**Table 6: A Comparison of Revenue Effort**

Item	2013-15	2016-17	2018-20	2021-22	2023-24
<b>State-GST (SGST)*</b>					
Madhya Pradesh				2321	3460
Major States				3795	5880
At Comparable Tax-Effort				2922	4382
<b>Petroleum Taxes</b>					
Madhya Pradesh	812	1064	1206	1540	1766
Major States	1022	1206	1488	1704	2116
At Comparable Tax-Effort	686	841	1104	1312	1577
<b>Excise Tax</b>					
Madhya Pradesh	776	980	1165	1174	1544
Major States	688	800	1064	1346	1843
At Comparable Tax-Effort	462	558	789	1036	1373
<b>Electricity Duty</b>					
Madhya Pradesh	240	309	305	424	430
Major States	193	239	302	314	440
At Comparable Tax-Effort	129	167	224	242	328
Relative tax-base	0.67	0.70	0.74	0.77	0.75

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

\* SGST includes IGST settlement for SGST input tax credit

It can be seen that Madhya Pradesh collects not only lower per capita SGST compared to Major States in absolute terms, but its tax collection is lower than what it could collect at comparable tax-effort. The State is currently collecting roughly 80 percent of the potential tax revenue under SGST. The tax architecture for GST is uniform across the nation, with the same rate structure for different items. Hence, the State does not have latitude to change tax rates for

revenue mobilization. Lower revenue collection under GST could be either due to differential tax-base where the GSDP may not be perfect proxy for measuring the tax-base or tax evasion.

Agriculture accounts for nearly 42.9 percent of Madhya Pradesh's economy and the State has emerged as a major supplier to the wheat procurement program for PDS. Contribution of the State to wheat procurement for PDS programs increased from around 1.5 percent in FY2008 to a peak of around 33 percent of the total national procurement in FY2021, when the State was the largest contributor to wheat procurement. Rise in procurement of wheat from the State also created incentives for the State Government to tap origin-based taxes on procured grains. Statutory duties on wheat procured from the State was raised from 3.2 percent in 2009-10 to 9.2 percent in 2012-13, of which 5 percent was VAT (CACP, 2013 and 2016).

Undoubtedly, burden of origin-based taxes for PDS procurement were passed on to Central exchequer through food-subsidy bill. Yet this provided some revenue stream for foodgrain producing States who also need to fiscally support agriculture production and the rural population. A 5 percent levy on wheat procured for PDS could have yielded a revenue of around ₹ 1753 Cr in FY21 for Madhya Pradesh, around 10 percent of its SGST collection or 0.2 percent of GSDP. FY21 was not a normal year due to high procurement levels and lower SGST collection due to Covid-19 related lockdowns. Yet even in other years, the State could have collected around 5 percent of GST on wheat procurements alone, with a potential for taxation of non-procurement marketable surplus and other commodities. Thus, abolition of origin-based duties on agricultural output after implementation of GST could have made some impact on the States with a large agricultural sector.

While the per capita petroleum tax revenue is lower than Major State average, it is higher than what the State could collect at comparable tax rate. Further, the tax collection on per capita basis has gone up by 117 percent during 2023-24 compared to 2013-15. On the other

hand, the rise in per capita revenues for Major States during the same period has been around 107 percent. Hence, the revenue effort on this tax-base by the State seems adequate. Table 7 shows that, compared to its neighbouring States, Madhya Pradesh levies the highest tax rate on petroleum products used for road transport. Hence, a further increase in tax rate may result/increase in tax-induced cross-border shopping.

**Table 7: Actual Rates of State Taxes on Petroleum Products**

State	Petrol	Diesel
Chhattisgarh	24% VAT + Rs.2/litre VAT	23% VAT + Rs.1/litre VAT
Gujarat	13.7% VAT+ 4% Cess on Town Rate & VAT	14.9% VAT + 4 % Cess on Town Rate & VAT
<b>Madhya Pradesh</b>	<b>29 % VAT + Rs.2.5/litre VAT+1% Cess</b>	<b>19% VAT+ Rs.1.5/litre VAT+1% Cess</b>
Maharashtra	25% VAT+ Rs.5.12/Litre additional tax	21% VAT
Rajasthan	29.04% VAT+Rs 1500/KL road development cess	17.30% VAT+ Rs.1750/KL road development cess
Uttar Pradesh	19.36% or ₹ 14.85/Litre whichever is higher	17.08% or ₹ 10.41/Litre whichever is higher

Source: Petroleum Planning & Analysis Cell (accessed on 20<sup>th</sup> September 2024)

State excise forms an important source of own-tax revenues for Madhya Pradesh. The State collected higher per capita excise in absolute terms compared to Major States till phase 3 (2018-20). Even though the per capita excise revenue is lower than Major State average during 2021-24, it is higher than what the State could collect at comparable tax rate on state income as a proxy for tax-base. Since 2010, the State has restricted opening of new liquor shop and made efforts towards discouraging alcohol consumption. However, recently there has been a cut in duty on foreign liquor and the government has approved the opening of liquor shops at airports. Further, composite licenses are being approved where the same shop can sell country liquor, IMFL (Indian made foreign liquor), and foreign liquor which may expand the tax revenues. Expanding revenues from this tax-base involves both economic and social considerations.

Electricity duty is used as a tool to raise resources for cross-subsidizing different categories of consumers. Every distributor/distribution licensee (DISCOMs)/franchisee, every generating company, captive power generating plant, and producer of electrical energy are required to pay a duty calculated at the specified rate, on the units of electrical energy sold or supplied to a consumer or consumed by himself for his own purposes during the preceding month. The duty ranges between 9-15 percent of the applicable or imputed (in case of open access from other States or captive generation) tariff. Table 6 shows that Madhya Pradesh collected higher per capita duty in absolute terms compared to Major States till FY2022. Given the relatively high level of tariffs for industrial and commercial consumers (see chapter 6), further deepening of this tax base may have adverse consequences for economic environment. Agriculture and allied activities accounted for nearly 42.9 percent of GSDP FY24, while manufacturing accounted for only 7.2 percent of the GSDP. On the other hand, shares of these sectors at the national level are 19.6 percent and 14.3 percent respectively. Clearly, lower share of industry and industrial consumers is the main challenge for the State when it comes to raising more resources from electricity duty.

#### **4. Tax Administration and Revenue Measures**

Madhya Pradesh has emphasized the digitalization of revenue services to improve transparency. The Cyber Tehsil system, initially launched as a pilot project in two districts in June 2022, was rolled out across the state on 29 February 2024. This system tackles issues in updating land records and processing mutations after land purchases, reducing the need for multiple interactions by applicants. By seamlessly integrating various systems and enabling online processes, Cyber Tehsil delivers a comprehensive solution for efficient land record updates, minimized physical interactions, and prompt issuance of mutation orders, ultimately simplifying and enhancing the revenue sector's efficiency for applicants.

Land records are vital for determining ownership, assessing land value, and calculating taxes. They ensure transparency, reduce disputes, and enable efficient resource allocation. Madhya Pradesh has created an electronic database for land records, as highlighted in the Economic Survey 2022-23. This database includes 3.97 crore khasra numbers belonging to 1.51 crore landowners across 56,761 villages. Additionally, digitization of 1,37,084 mapsheets from 52 districts has been completed, with the maps integrated into the khasra data. This information is accessible on the official website, [www.landrecords.mp.gov.in](http://www.landrecords.mp.gov.in). Regular updates to the database are conducted at tehsil-based data centers. Revenue services are made available through M.P. Online and Public Service Centres, utilizing online kiosks for user convenience. These efforts enhance transparency and accessibility in land management while improving the efficiency of revenue services.

Though the budget for FY2017-18 discussed about the identification of surplus, underutilized, or unutilized land located within the premises of government institutions to ensure better utilization of such land by enhancing the resources available to the state for achieving developmental goals. By repurposing such land for higher productivity, new financial resources could be generated. To decide on such matters, a high-level committee was proposed to be constituted. However, no discussion on this matter could be found in subsequent budgets. It is desirable that the state explore the use of surplus land with government institutions to augment resources.

To promote regional connectivity in air travel, 2017-18 budget, proposed to reduce the VAT rate on the sale of aviation turbine fuel (ATF) to 1% (down from the existing 4%) at all airports and airstrips in Madhya Pradesh, except for Indore, Bhopal, Gwalior, Jabalpur, and Khajuraho. At the Gwalior, Jabalpur, and Khajuraho airports, the VAT rate on the sale of ATF was proposed to remain at 4%. At the Indore and Bhopal airports, the VAT rate on the sale of ATF

was proposed to be increased from 4% to 25%. These revisions in VAT rates on ATF were expected to generate an additional revenue of approximately ₹70 crore. These differential rates may create arbitrary arbitrage and complexity in revenue administration for a relatively very modest revenue gain. Tax harmonization with lesser number of tax-bracket should be preferred unless there are significant revenue or equity gains.

India implemented the Goods and Services Tax (GST) on July 1, 2017, which subsumed various Central (federal) and state-level indirect taxes. In Madhya Pradesh, 2,66,746 traders were migrated from erstwhile State-VAT to GST. Additionally, 1,10,000 new businesses were registered under GST, thus reflecting expansion indirect taxpayer base for the state. In 2019-20 budget, the state increased annual renewal fee for liquor shop from 15 percent to 20 percent, that was expected to translate into ₹ 1,234 Cr revenue gain compared to previous year. Under the excise policy for the FY 2024-25, the execution process of all 3,600 liquor shops of the state was done through renewal/lottery and e-tender, in which the reserve price was determined by increasing the annual price by 15 per cent. Thus, the state has been consistently raising the reserve price for the liquor shops.

With industrial development and urbanization, a significant portion of agricultural land is being converted for non-agricultural purposes. The valuation of such land is often higher than that of agricultural land. This serves as a source of revenue for the government. The use of technology and e-governance initiatives can improve both transparency and enhance collection efficiency.

The discussion on own-tax revenues of the State highlights that while there is some slow-down in the non-GST based tax revenues, Madhya Pradesh already collects higher taxes given its tax-base compared to other Major States and further expansion of these taxes may not be an easy task. On the other hand, the State is collecting lower tax revenues under GST,

probably due to the nature of its tax-base as the tax rates are uniform across the nation. Hence, a detailed study is required on how transition towards to GST may have impacted its tax-base compared to taxes-subsumed under GST. For example, whether the higher share of agriculture in the State economy acts as an impediment for GST collection.

## **5. Non-Tax Revenues**

As discussed earlier, Madhya Pradesh collects a greater share of its GSDP as non-tax revenues compared to Major States average. Interest receipts represents interest realised on the investment of cash balances. Since the interest accrued on the investment in cash balances account is more due to amount retained in the cash balances account rather than any revenue effort by the State, this can be ignored from the perspective of revenue effort. Managing cash balances at lower level is desirable, as the interest rates on cash balances are tied to treasury bills which yields lower rate than the State's borrowing cost. On this parameter, Madhya Pradesh perform better than Major State average, with lower revenues from interest receipts.

Education, sports, art, and culture contributed 0.53 percent of the GSDP as non-tax revenue receipt for the State during 2013-15. However, this has gone down over the years reaching nearly 0.17 percent of the GSDP by 2023-24. The fall for Major States in their revenue receipt from this source has been from 0.14 percent to 0.03 percent of the GSDP. Examination of finance accounts and budget documents showed that this fall is under the receipt from schools and other receipts. Forestry and industries are two major sources of own non-tax revenues for Madhya Pradesh.

**Table 8 Composition of Non-Tax Revenues (As % of GSDP)**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
1	Interest Receipts	0.14	0.08	0.08	0.09	0.02	0.25	0.16	0.16	0.10	0.09
2	General Services	0.13	0.17	0.13	0.10	0.06	0.19	0.23	0.35	0.15	0.19
3	Education, Sports, Art and Culture	0.53	0.26	0.23	0.21	0.17	0.13	0.14	0.04	0.04	0.03
4	Health	0.02	0.02	0.02	0.02	0.03	0.02	0.03	0.03	0.03	0.03
5	Forestry and Wildlife	0.23	0.16	0.16	0.13	0.12	0.03	0.03	0.02	0.02	0.02
6	Industries	0.59	0.53	0.48	0.52	0.59	0.30	0.29	0.32	0.40	0.48
7	Power	0.09	0.05	0.02	0.05	0.03	0.02	0.02	0.03	0.01	0.01
8	Irrigation	0.10	0.09	0.09	0.05	0.06	0.04	0.04	0.04	0.03	0.04
9	Petroleum	0.00	0.00	0.00	0.00	0.00	0.07	0.04	0.04	0.02	0.04
10	Urban Development	0.01	0.01	0.00	0.00	0.00	0.03	0.02	0.03	0.03	0.03
11	Others	0.09	0.12	0.11	0.06	0.03	0.12	0.14	0.11	0.10	0.11
	Total	1.92	1.49	1.32	1.22	1.10	1.20	1.14	1.17	0.94	1.08

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

With an area of 8.7 million hectares, Madhya Pradesh stands first in the country in terms of area under forest. Forests account for around 28.31 percent of the geographical area of the State against 23.13 percent for the nation (India State of Forest Report, 2021). However, there has been a decline in the forestry sector's contribution to the revenue receipts in the recent years for Madhya Pradesh as well as for Major States taken together. Trading and sale of timber accounts for nearly 60 percent of the revenues from forestry sector for Madhya Pradesh (Finance Accounts, 2023).

The State of Madhya Pradesh is richly endowed with mineral wealth. Minerals are classified as major minerals (iron ore, manganese, gold, etc.) and minor minerals (sand, granite, gravel, building stone, etc.). Important major mineral reserves in the State include coal, limestone, bauxite, manganese ore, copper ore, iron ore, rock phosphate, diamond, etc. Mines are allotted/ sanctioned for excavation of minerals in the form of Mining Lease, Quarry Lease, and Trade Quarry. The levy and collection of royalty on minerals in the State is governed by the Mines and Minerals Development and Regulation Act, 1957 (MMDR Act), the Mineral Concession Rules, 1960, the Madhya Pradesh Minor Mineral Rules, 1996, Madhya Pradesh Minerals (Prevention of Illegal Mining Transportation and Storage) Rules, 2006, etc. According to MMDR Amendment Act, 2015, all mining leases shall be granted for a period of 50 years. All mining leases granted before the commencement of the MMDR Amendment Act, 2015 shall also be deemed to have been granted for a period of 50 years. On the expiry of the lease period, the lease shall be put up for auction as per the procedure specified in the Act.

Mineral concession fees, rents, and royalties accounts for nearly 75 percent of the revenues under industries. License and royalty revenues from mining activities are of the nature of economic rent on natural resources. Economic Surveys for Madhya Pradesh provide data on the monetary value of the major mineral output of the State. The non-tax revenue receipts

recorded in the Finance Accounts amounted to around 25 percent of the value of major mineral output during 2021-22 (GoMP, 2023a). The recent judgement by the Supreme Court (in August 2024) may further increase the fiscal space for the State to raise revenues from mineral rights and mineral-bearing land. Table 9 provides the trend of receipt from the mining sector.

**Table 9: Receipt from the Mining Sector**

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Receipts	2,814	3,060	3,168	3,641	3,934	4,320	4,557	6,181	7,360	9,171
% Annual Growth	22.01	8.74	3.55	14.91	8.04	9.83	5.49	35.62	19.08	24.61

Source: Finance Accounts, CAG, various years

As per the CAG reports on revenue sector, receipts from major minerals account for nearly 75-80 percent of the total mining receipts, with coal and limestone contributing to nearly 55 percent and 11 percent of the total mining receipts. Based on the rates decided by the Ministry of Coal, the state collects various levy amounting to 18.48 percent of the mine head value of coal (royalty at 14%, District Mineral Fund (DMF) at 30% on royalty, and The National Mineral Exploration Trust (NMET) at 2% of Royalty). Economic Survey of MP reports an annual growth of around 5-8 percent in coal production, thus, the fluctuations in mining receipts can partially be attributed to volatility in the mineral prices.

Madhya Pradesh has implemented a satellite-based surveillance system (Mining Surveillance System-MSS) for the proper prevention of illegal mining and storage, which is currently operational for major mineral mines and is in the process of being extended to minor mineral mines. The state is also pursuing a project to install Artificial Intelligence unmanned i-check gates to curb the illegal transportation of minerals by applying science and technology in the field of mining. A new integrated portal, e-khanij 2.0 is being developed using the latest technology to promote e-governance and ease of doing business.

As per the recommendations of the 13th Finance Commission, water rates should be fixed in such a way that the amount required for maintenance of water resources projects is recovered and at the same time ensure that there is no additional financial burden on the farmers. Water rates for irrigation and industrial purposes have been finalized in the year 2022-23 which has been published through Madhya Pradesh Gazette Notification dated October 29, 2021. While the notification made a provision for an annual increase at 5 percent in water rates for industry, rates for agriculture are fixed. Further, the water rates for agriculture are crop specific and linked to area under cultivation.

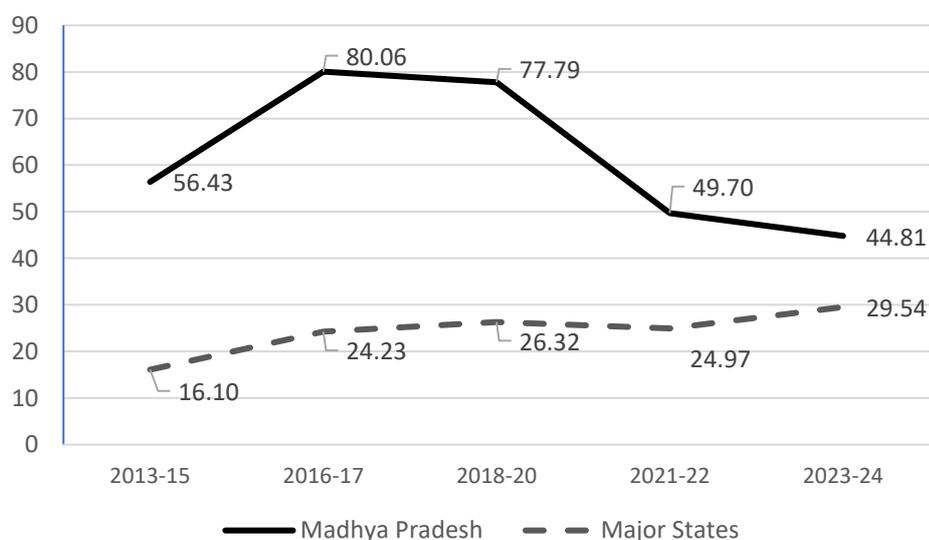
**Table 10: Summary of Revenue Generated from Water Supply (Rs Crores)**

Sr No.	Year	Irrigation	Drinking Water	Industries	Electricity (MPPGCL)	Others	Total
1	2019-20	33.7	3.24	187.46	89.69	48.47	362.56
2	2020-21	32.33	5.61	208.5	101	31.96	379.4
3	2021-22	45.23	65.01*	237.38	89.49	13.21	450.32
4	2022-23	29.35	4.13	244.66	114.51	14.61	407.26
5	2023-24	22.8	6.92	247.49	123.44	6.93	407.58

Note :- \* This includes arrears recovered from Municipal Corporations, Urban Local Bodies, District Panchayats and Gram Panchayats

Source: Economic Survey of Madhya Pradesh 2023-24

**Figure 1: Recovery Rates from Irrigation Department**



Note: recovery rate is defined as revenue receipts as a % of revenue expenditure in irrigation department

Source: Based on data from RBI (2023)

Table 10 shows that that receipts from irrigation have been falling while that from industry has gone up. Figure 1 shows that although Madhya Pradesh has higher recovery rates for irrigation sector compared to other states, it has seen a decline in recovery rates over the years (recovery rate is defined as revenue receipts as a % of revenue expenditure in irrigation department). The State needs to take measures to increase user charges and attract industries that can pay higher user charges.

## **6. Conclusion**

Despite faster growth during the last decade, transfers from the Centre in terms of share in Central taxes, grants, and funds for CSS forms an important part of revenue resources for Madhya Pradesh. The framework for Central transfers has undergone significant changes since 2014. It is quite likely that while at the national level all States taken together may not have been much impacted by changes in the design of intergovernmental transfers on State level resource flow. However, Madhya Pradesh has seen a sharper decline in Central resource flow compared to other Major States. Madhya Pradesh has seen a decline of nearly 1 percent of the GSDP in terms of Central resource flow to the State (FY23 and FY24 vs FY13-15). During this period, the total revenue resources for the State declined substantially from 19.53 percent to 16.46 percent of GSDP. Of the 3.07 percentage points decline, 1.5 percentage points is explained by decline in OTR, 0.8 percentage point by ONTR, and 1 percentage point by the Central transfers.

The analysis of own-tax revenues of the State highlights that while there is some slow-down in the non-GST based tax revenues, Madhya Pradesh already collects higher taxes given its tax-base compared to other Major States and further expansion of these taxes may not be an easy task. Given the relatively high level of tariffs for industrial and commercial consumers, further deepening of this tax base may have adverse consequences for economic environment.

Similarly, compared to its neighbouring States, Madhya Pradesh levies the highest tax rate on petroleum products used for road transport. Hence, a further increase in tax rate may result/increase in tax-induced cross-border shopping.

On the other hand, Madhya Pradesh is collecting lower tax revenues under GST, probably due to the nature of its tax-base as the tax rates are uniform across the nation. Hence, a detailed study is required on how transition towards to GST may have impacted its tax-base compared to taxes-subsumed under GST. With the introduction of GST, services have been included in the tax base of SGST, which did not form a part of tax base of States in 2015-16. However, as agriculture accounts for nearly 42 percent of the State economy, this may result in lower taxbase for GST collection. Unfortunately, the commodity/service level data along with details on input tax credit required for analysing taxbase or tax evasion are not available in public domain. Forestry and industries are two major sources of own non-tax revenues for Madhya Pradesh. Mineral concession fees, rents, and royalties accounts for nearly 75 percent of the revenues under industries. While the recent judgement by the Supreme Court on taxing mining rights may help in alleviating revenue pressure, the key to raising revenue resources lies in exploring and widening the State's revenue potential for GST collection.

## **Chapter 2**

### **Analysis of Expenditure**

#### **1. Introduction**

As noted in the previous chapter, the Central Government started to route the funds for Centrally Sponsored Schemes (CSS) through State budgets from 2014-15 onward. Hence, the expenditure on agriculture, rural development, health, education, etc. incurred through Central funds under CSS were not part of the State budget till 2013-14. A comparable analysis of expenditure of the State over the period of 2013-24 requires consistent treatment of the CSS throughout the period. In the previous chapter, resources under CSS were considered as a part of revenue resources available to the State. In this chapter also, the same approach is followed, where the Central expenditure on CSS is added to expenditure by the State to get an overall picture of the expenditure in the State. Since by inclusion of the CSS, both revenue and expenditure increase by the same amount, there is no net change in the fiscal deficit.

However, the composition of CSS in terms of capital and revenue expenditure can influence the overall figures for revenue deficit. From 2014-15 onward, entire revenue of the CSS will form a part of the budgetary revenue receipt of the State. However, a part of CSS funds is meant for capital expenditure. Thus, on account of the CSS itself, there is bound to be a 'revenue surplus' for the State, which will overstate the overall revenue surplus when compared with the previous years. Similarly, capital expenditure for 2014-15 onward is likely to be overstated compared to previous years, when the capital expenditure carried out of CSS funds did not form a part of the capital expenditure in the State finances.

The present chapter is concerned with the analysis of expenditure. In regard to this, a challenge is caused due to the rerouting of the CSS through State budgets. The composition of the expenditure by the State Government on social, economic, and general services and their

sub-classifications or distinction between revenue and capital expenditure can be calculated from the total expenditure inclusive of the CSS from 2014-15 onward. However, for years prior to 2014-15, RBI's Study on State Finances and the Finance Accounts provide the composition of the State Government's expenditure based on total expenditure exclusive of the CSS.

While the total resources transferred under CSS bypassing the State budgets could be obtained through the Finance Accounts of the State Government, the breakup of CSS in terms of sectoral composition requires certain assumptions. The broad nature of the CSS program can be associated with a particular sector (e.g., Sarva Shiksha Abhiyan with education, National Rural Health Mission with health, etc.), it is quite possible that expenditure under these schemes may cut across different sectors. More importantly, the breakup of the expenditure under CSS in terms of capital and revenue expenditure is not available in the Finance Account. A comparison of Madhya Pradesh with Major States will also be made difficult if the adjustments are carried out for Madhya Pradesh, but not for other States. Hence, this chapter takes into account the CSS while considering the aggregate expenditure. Accordingly, the CSS is shown as a separate category till 2013-14. Thus, the aggregate expenditure from 2014-15 onward will remain comparable with the earlier years. However, the composition of the expenditure in terms of sectoral classification or capital-revenue expenditure breakup will not be strictly comparable over the years. The intertemporal analysis carried out in this chapter should be contextualized in the above background.

## **2. Composition of the Expenditure**

Table 1 provides details on the composition of the expenditure by Madhya Pradesh as a percentage out of the total expenditure. Row 1 shows that revenue expenditure accounted for around 82 percent of the total expenditure during 2016-24 period compared to 85 percent of total expenditure for Major States. If it is presumed that most of the expenditure towards CSS

is also on revenue account, then a similar range of 82 percent would be reflected in 2013-15 as well. Madhya Pradesh also consistently devoted greater share of its budgetary resources towards capital expenditure compared to Major States. Further, the share of capital expenditure has increased at a much faster pace for Madhya Pradesh from 16.07 percent during 2016-17 to 18.65 percent during 2023-24. Interestingly, during 2018-22 period the share of capital expenditure for Major States declined while it continued to increase for Madhya Pradesh. It appears that Madhya Pradesh maintained its capital expenditure despite the resource constraints during the Covid-19 crisis.

Table 2 provides the composition of the States' expenditure as a share of GSDP. Table 3 provides details on the changes in the composition of the expenditure by States. Madhya Pradesh had an average expenditure-GSDP ratio of around 21.2 percent during 2013-24 period. In contrast to Madhya Pradesh, Major States have an average expenditure GSDP ratio of around 16.5 percent during this period. This is on expected lines, as being a poorer State, Madhya Pradesh needs to spend nearly 1.33 to 1.5 times of expenditure-GSDP ratio compared to Major States average to equalize per capita expenditure to their levels. Per capita government expenditure in Madhya Pradesh averaged around 93 percent of the average per capita expenditure in Major States, indicating a reasonable level of horizontal fiscal equalization. However, this ratio has declined 88 percent during 2020-24 period suggesting relatively more adverse fiscal impact of Covid-19 and inadequate recovery of public finances for Madhya Pradesh.

**Table 1: Composition of the Expenditure**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
1	Revenue Expenditure	76.36	81.29	82.74	82.21	80.31	81.20	81.04	86.31	86.56	83.26
2	Capital	12.23	16.07	17.63	16.79	18.65	12.85	14.94	13.90	12.74	15.33
3	Net Loans and Advances	5.74	2.63	-0.37	1.00	1.04	1.04	4.02	-0.21	0.69	1.41
3.1	Loan & Advances	8.04	2.96	0.72	1.03	1.07	1.69	4.52	1.42	1.17	1.72
3.2	Recovery of Loans and Advances	2.30	0.32	1.09	0.03	0.03	0.65	0.50	1.63	0.48	0.31
4	CSS	5.67	0.00	0.00	0.00	0.00	4.90	0.00	0.00	0.00	0.00
	Total (1 + 2 + 3 + 4)	100	100	100	100	100	100	100	100	100	100

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 2 Composition of Expenditure as % of GSDP**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
Economic Classification of Expenditure											
1	Revenue Expenditure	16.53	18.42	17.07	16.98	16.38	12.96	13.80	13.78	14.23	14.40
2	Capital	2.66	3.66	3.65	3.47	3.81	2.05	2.54	2.22	2.09	2.65
3	Net Loans and Advances	1.25	0.60	-0.09	0.21	0.21	0.17	0.69	-0.03	0.11	0.24
3.1	Loan & Advances	1.73	0.67	0.15	0.21	0.22	0.27	0.77	0.23	0.19	0.30
3.2	Recovery of Loans and Advances	0.48	0.07	0.24	0.01	0.01	0.10	0.08	0.26	0.08	0.05
4	CSS	1.25	0.00	0.00	0.00	0.00	0.78	0.00	0.00	0.00	0.00
	Total	21.68	22.67	20.63	20.66	20.40	15.96	17.03	15.97	16.43	17.29
Purpose Classification of Expenditure											
1	Social Services	6.90	8.16	8.07	8.00	8.31	5.60	6.12	5.89	6.21	6.74
2	Economic Services	6.58	8.22	7.30	6.93	6.18	4.43	5.19	4.81	4.60	4.82
3	General Services	4.72	4.63	4.51	4.89	5.01	4.58	4.65	4.88	5.08	5.06
3.1	Interest	1.46	1.45	1.53	1.68	1.69	1.68	1.76	1.86	1.94	1.82
3.2	Pension	1.36	1.40	1.34	1.55	1.70	1.49	1.50	1.66	1.77	1.68
4	Transfer to local bodies	0.99	1.07	0.84	0.64	0.68	0.40	0.38	0.42	0.43	0.42

**Table 3: Changes in the Expenditure Composition over Previous Period as % of GSDP**

S. No.	Item	Madhya Pradesh				Major States			
		2016-17	2018-20	2021-22	2023-24	2016-17	2018-20	2021-22	2023-24
1	Revenue Expenditure	1.89	-1.35	-0.09	-0.60	0.84	-0.01	0.44	0.17
2	Capital	1.00	0.00	-0.18	0.34	0.49	-0.32	-0.13	0.56
3	Net Loans and Advances	-0.65	-0.68	0.29	0.01	0.52	-0.72	0.15	0.13
3.1	Loan & Advances	-1.05	-0.52	0.06	0.00	0.50	-0.54	-0.03	0.10
3.2	Recovery of Loans	-0.41	0.16	-0.23	0.00	-0.02	0.17	-0.18	-0.02
4	CSS	-1.25	0.00	0.00	0.00	-0.78	0.00	0.00	0.00
	Total	0.99	-2.04	0.02	-0.25	1.07	-1.05	0.46	0.86
1.1	Social Services	1.27	-0.09	-0.07	0.32	0.52	-0.22	0.31	0.54
1.2	Economic Services	1.63	-0.92	-0.37	-0.75	0.75	-0.38	-0.21	0.22
1.3	General Services	-0.09	-0.12	0.38	0.12	0.07	0.23	0.20	-0.02
1.3.1	Interest	-0.02	0.08	0.16	0.01	0.08	0.10	0.08	-0.13
1.3.2	Pension	0.04	-0.06	0.21	0.15	0.01	0.15	0.11	-0.09
1.4	Transfer to local bodies	0.07	-0.22	-0.21	0.05	-0.02	0.04	0.01	-0.01

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

Note: 2016-17 is calculated as the difference over 2005-08. For 2010-14, the difference is calculated over 2008-10. Considering 2014-15 as an abnormal year of lower expenditure, the figures for change for 2014-15 and 2015-16 are calculated against 2010-14.

The overall expenditure by Madhya Pradesh (including CSS) accounted for 21.68 percent of the GSDP during 2013-15, which increased to 22.67 percent for the next two years, an increase of 0.99 percentage points of GSDP. A similar rise of 1.07 percentage points in the expenditure-GSDP ratio for Major States is also visible during this period. In case of Madhya Pradesh, this entire rise can be explained by the rise in capital expenditure, while nearly half of the incremental expenditure for Major States was devoted towards capital expenditure. In the subsequent period of 2018-20, Madhya Pradesh experienced a sharp contraction in the expenditure by 2.04 percentage points of GSDP in comparison to 1.05 percentage point contraction for Major States. It may be recalled from the previous chapter, Madhya Pradesh saw a decline in Central transfers and own-revenue collection from this period onward. Thus, the revenue slowdown impacted the expenditure capacity as well. However, in contrast to decline in capital expenditure for Major States, Madhya Pradesh maintained its capital

expenditure during 2018-20. Despite the revenue challenges discussed in the previous chapter, Madhya Pradesh maintained and even increased its capital expenditure during 2020-24 period.

The share of expenditure on interest payment for Madhya Pradesh as percent of GSDP has been consistently lower than Major States. However, the interest burden has increased at a much faster pace for Madhya Pradesh from 1.46 percent of GSDP during 2013-15 to 1.69 percent of the GSDP during 2023-24 (0.23 percentage point increase). On the other hand, this share has gone up by 0.13 percentage point for Major States during this period, though with sharp jumps during 2018-22 period and then some decline during 2023-24 period. Similarly, Madhya Pradesh has seen a faster rise of expenditure on pension from 1.36 percent to 1.7 percent of GSDP, an increase of 0.34 percentage points (2013-15 vs 2023-24). During the same period, Major States have seen a rise in pension expenditure by 0.19 percentage points of GSDP. Clearly, Madhya Pradesh experienced relatively higher growth in committed liabilities.

Higher level of capital expenditure and rising committed expenditure on interest payment and pension liabilities meant decreased availability of resources for other expenditures. While the overall expenditure of Madhya Pradesh remained stable during the Covid-19 crisis period of 2021-22, there was decline in expenditure on Economic Services. Further, the space to expand expenditure on Social Services was limited. On the other hand, overall expenditure and expenditure on social services increased for Major States during this period. In the subsequent period of 2022-24, the total expenditure for Madhya Pradesh declined by 0.25 percentage point of GSDP owing to decline in the expenditure on Economic Services (0.75 percentage point) permitting some expansion for capital expenditure and Social Services. Thus, the revenue challenges for Madhya Pradesh, compared to Major State average, are translating into constraints on expenditure. A more detailed sectoral analysis of Social, Economic, and General Services is carried out in the next section.

### **3. The composition of Expenditure on Social and Economic Services**

Table 4 provides the break-up of expenditure on social services by Madhya Pradesh and Major States. After inclusion of CSS in State budget from 2015-16 onward, expenditure on Social Services has been broadly stable for Madhya Pradesh at around 8.2 percent of GSDP. The State has increased allocation towards health, water supply, sanitation, and social security. On the other hand, some expenditure was curtailed on education and nutrition. However, it may be noted that expenditure on education has declined for Major States category as well. Despite the resource constraints, Madhya Pradesh has done relatively well in protecting its allocation for Social Services.

Madhya Pradesh introduced Ladli Behna Scheme in 2023 which currently provides Direct Benefit Transfer (DBT) to nearly 1.29 Crores married women in the age group of 21 to 60 years. In FY24, the expenditure on this scheme amounted to ₹ 14,716, which has been raised to ₹ 18,984 in FY2025 budget. At around 1.1 percent of GSDP and 5 percent of the total budget, Ladli Behna Scheme has become a significant part of the public finances of the State. While DBT is among the most efficient route to reach the citizens, in the interest of fiscal discipline, any new program should either be funded by raising additional revenue resources or replacing existing inefficient programs.

Table 5 provides the break-up of expenditure on economic services by Madhya Pradesh and Major States. Unlike the relatively stable expenditure on social services, expenditure by the State on economic services, as a share of GSDP, has declined from 8.22 percent in 2016-17 to 6.18 percent during 2023-24 (a decline of 2.03 percentage point). On the other hand, the expenditure for Major States saw a decline of 0.37 percentage point during this period. Rural development and irrigation and flood control explain nearly half of the decline in expenditure on Economic Services by the State.

**Table 4 Expenditure on Social Services as % of GSDP**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
1	Education, Sports, Art and Culture	3.16	3.33	3.29	3.01	3.16	2.62	2.67	2.54	2.50	2.50
2	Medical and Public Health and Family Welfare	0.88	0.96	1.00	1.09	1.15	0.71	0.82	0.84	0.99	1.04
3	Water Supply and Sanitation	0.38	0.50	0.49	0.73	0.69	0.25	0.35	0.33	0.33	0.40
4	Housing	0.09	0.09	0.06	0.04	0.02	0.12	0.12	0.08	0.08	0.10
5	Urban Development	0.38	0.77	0.75	0.66	0.53	0.37	0.45	0.46	0.53	0.62
6	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	0.62	0.59	0.54	0.50	0.61	0.44	0.46	0.47	0.46	0.62
7	Social Security	0.61	0.68	0.60	0.70	0.93	0.61	0.68	0.66	0.71	0.82
8	Nutrition	0.26	0.23	0.17	0.12	0.10	0.18	0.17	0.14	0.13	0.15
9	Relief on account of Natural Calamities	0.30	0.56	0.21	0.39	0.17	0.14	0.22	0.15	0.26	0.14
10	Others	0.20	0.45	0.96	0.76	0.96	0.16	0.20	0.23	0.21	0.35
	Total	6.90	8.16	8.07	8.00	8.31	5.60	6.12	5.89	6.21	6.74

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 5 Expenditure on Economic Services Expenditure as % of GSDP**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
1	Agriculture and Allied Activities	1.63	1.55	1.76	1.49	1.30	0.84	0.90	1.11	1.03	1.01
	of which: Forestry and Wild Life	0.45	0.35	0.26	0.24	0.23	0.12	0.11	0.10	0.09	0.10
2	Rural Development	1.31	1.71	1.30	1.32	1.02	0.69	1.01	0.90	0.86	0.88
3	Irrigation and Flood Control	1.19	1.35	1.14	1.09	0.89	0.79	0.76	0.65	0.57	0.60
4	Energy	1.07	2.04	1.81	1.93	1.85	0.88	1.19	0.95	0.88	0.85
5	Industry and Minerals	0.42	0.59	0.30	0.31	0.40	0.16	0.17	0.16	0.17	0.22
6	7.Transport and Communications	0.87	0.88	0.93	0.74	0.66	0.83	0.89	0.81	0.85	0.92
7	Tourism	0.03	0.04	0.02	0.02	0.02	0.02	0.03	0.02	0.02	0.03
8	Others	0.06	0.06	0.04	0.03	0.04	0.22	0.24	0.21	0.23	0.31
	Total	6.58	8.22	7.30	6.93	6.18	4.43	5.19	4.81	4.60	4.82

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

A closer examination of data (not reported in the table) suggests that the decline in expenditure on irrigation is largely related to curtailment of capital expenditure. As some of the expenditure on irrigation and flood control are of lumpy nature, details at project level are required to understand the trends in expenditure. Rural development programs are largely concerned with employment programs and support to local bodies. These programs are generally funded by a mix of Central transfers under CSS and State support. From the analysis of Finance Accounts of 2016-17 and 2019-20, it appears that decline in the Central resource flows under Central grants referred in the previous chapter are also causing decline in expenditure on rural development.

#### **4. Composition of Expenditure on General Services**

Table 6 provides break-up of expenditure on General Services. The overall size of the general expenditure for Madhya Pradesh declined from 4.72 percent to 4.51 percent of GSDP (2013-15 vs 2018-20), before rising to 5.01 percent of GSDP during 2023-24. Expenditure on General Services for Madhya Pradesh increased by 0.29 percent of GSDP during 2023-24 compared to 2013-15, in comparison to 0.48 percentage point rise for Major States. As discussed before, combined interest and pension expenditure for Madhya Pradesh increased by 0.57 percent of GSDP during this period in comparison to relatively smaller increase for Major States at 0.32 percent of their GSDP.

Madhya Pradesh's expenditure on general services excluding interest and pension has declined from 1.89 percent of the GSDP during 2013-15 to 1.62 percent during 2023-24, a decline by 0.28 percentage point. Fiscal services (-0.23 percentage point) and police (-0.11 percentage point) were the main contributor to this decline, while capital expenditure on general services increased by 0.06 percentage point. In comparison, expenditure on general services excluding interest and pension for Major States average has increased by 0.16 percentage point during this period.

**Table 6 Expenditure on General Services Expenditure as % of GSDP**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
1	Organs of State	0.20	0.16	0.18	0.15	0.20	0.13	0.12	0.13	0.13	0.14
2	Fiscal Services	0.55	0.47	0.38	0.53	0.32	0.19	0.17	0.15	0.16	0.15
3	Interest Payments and Servicing of Debt	1.46	1.45	1.53	1.68	1.69	1.68	1.76	1.86	1.94	1.82
4	Administrative Services	1.09	1.05	0.99	0.86	0.98	0.93	0.91	0.91	0.94	0.99
	of which: Police	0.74	0.73	0.70	0.62	0.64	0.63	0.62	0.63	0.65	0.65
5	Pensions	1.36	1.40	1.34	1.55	1.70	1.49	1.50	1.66	1.77	1.68
6	Capital Expenditure	0.05	0.10	0.10	0.10	0.11	0.10	0.13	0.10	0.10	0.16
7	Others	0.00	0.00	0.00	0.01	0.01	0.05	0.05	0.07	0.04	0.12
	Total	4.72	4.63	4.51	4.89	5.01	4.58	4.65	4.88	5.08	5.06
	of which: General services excluding interest and pension expenditure	1.89	1.78	1.64	1.65	1.62	1.40	1.39	1.36	1.37	1.57

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 7 Loans and Advances as % of GSDP**

S. No.	Item	Madhya Pradesh					Major States				
		2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
1	Loans and Advances by State Governments	1.73	0.67	0.15	0.21	0.22	0.27	0.77	0.23	0.19	0.30
a	Social Services	0.02	0.01	0.04	0.12	0.12	0.07	0.07	0.09	0.09	0.12
b	Power Projects	1.55	0.48	0.06	0.07	0.07	0.13	0.52	0.05	0.03	0.04
2	Recovery of Loans and Advances	0.48	0.07	0.24	0.01	0.01	0.10	0.08	0.26	0.08	0.05
a	Power Projects	0.46	0.02	0.21	0.00	0.00	0.06	0.05	0.22	0.05	0.02
3	Net Loan and Advances	1.25	0.60	-0.09	0.21	0.21	0.17	0.69	-0.03	0.11	0.24

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

The overall expenditure on general services (excluding interest and pension) by Madhya Pradesh is comparable to Major States average in 2023-24, suggesting that per capita absolute expenditure by Madhya Pradesh is around 75 percent of the Major States average. There is one major exception to this rule, namely the fiscal services. Despite sharp decline, the expenditure on fiscal services by Madhya Pradesh as a share of GSDP is roughly twice the share for GCS average. Even on per capita basis, expenditure on fiscal services is nearly 60 percent higher than the Major States average. It should be recalled that Madhya Pradesh's revenue mobilization is relatively more dependent upon state excise, petroleum products, and electricity duty. The greater expenditure on fiscal services could partly be due to the nature of the tax base being exploited by the State. There has been some moderation in revenue effort for these tax sources in the recent years (see chapter 1, table 5 and 6), which could have resulted in relatively sharper decline in expenditure on fiscal services.

## **5. Loans and Advances**

Table 7 provides break-up of expenditure on loans and advances by Madhya Pradesh and Major States. Row 1 shows that Madhya Pradesh provided a much higher share of its GSDP as loans and advances in 2013-15. This was largely driven by the power sector. Power sector also accounted for most of the loan recovery by the State. However, even on the net basis (item 3), Madhya Pradesh provided greater budgetary resources towards loans and advances. However, the expenditure towards loans and advances declined in the subsequent years to a level comparable to Major States average. Given that this issue is directly associated with PSUs, specifically power sector, this issue will be explored in chapter 5 and 6.

## 6. Committed Expenditure

The Committed Expenditure mainly consists of interest payments, expenditure on salaries and, pensions. The rising trend of interest and pension burden for Madhya Pradesh was discussed in section 2. Madhya Pradesh implemented the recommendations of the 7<sup>th</sup> Pay Commission from July 2017. The pay arrears pertaining to 1<sup>st</sup> January 2016 to June 2017 were paid from the year 2018-19 in three equal annual instalments. Thus, arrears were for 18 months which were to be paid on for three years at 6 months equivalent of the pay hike per year. Thus 2017-18 is expected to experience a rise in the wage bill due to the revision of the salary. Since the revised pay was paid for nine months of the financial year, the next year (2018-19) can also be expected to show a jump in the wage bill when the full implications of the 7<sup>th</sup> Pay Commission in terms of current wages and arrears are accounted for, which lasted till 2020-21. From 2021-22 year onward, the wage bill stabilized at a new level, and can be expected grow at the 'normal' rate; where the change in wage bill will come from 'Dearness Allowance', the net increment in the workforce, and change in the seniority profile of the workforce.

Table 8 shows that expenditure on wages declined from 4.26 percent of GSDP in 2013 to 3.53 percent of GSDP in 2017. Subsequently, the implementation of the 7<sup>th</sup> Pay Commission's recommendations led to rise in wage bill to 4.52 percent of GSDP by 2024. Increase in pension bill can be attributed to both the implementation of 7<sup>th</sup> Pay Commission's recommendations as well as additional workforce coming under New Pension Scheme. The pension bill includes both expenditure on current retirees as well as employer's contribution by the State Government towards NPS. Madhya Pradesh introduced New Pension Scheme (NPS) for government employees appointed on or after January 1, 2005. Currently, the employer's (government's) contribution is mandated at 14 percent of the basic plus dearness allowance. Upon retirement, employees under NPS will not be paid pension through budgetary resources,

but from the corpus built using the employer’s and employee’s contributions during the working life of the employee. In this sense, NPS is a defined contribution scheme. Madhya Pradesh contributed ₹ 2469 Crores and ₹ 3390 Cores in 2022 and 2023 respectively, accounting for 14.5 percent and 17.2 percent of the total pension bill in these years. Clearly, the burden for NPS contribution will rise as the greater share of workforce comes under NPS.

**Table 8: Composition of Committed Expenditure for Madhya Pradesh**

Item	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
As % of GSDP												
Wages	4.26	4.18	4.43	4.04	3.53	3.53	3.67	3.54	4.45	3.90	4.20	4.52
Interest	1.46	1.45	1.47	1.50	1.40	1.52	1.53	1.53	1.68	1.69	1.66	1.73
Pension	1.30	1.35	1.42	1.45	1.35	1.28	1.44	1.30	1.55	1.56	1.71	1.69
Total	7.02	6.98	7.33	6.98	6.28	6.33	6.64	6.37	7.68	7.15	7.57	7.94
As % of Revenue Expenditure												
Wages	25.76	26.29	25.81	21.92	19.18	19.70	21.49	21.85	25.56	23.57	25.86	27.38
Interest	8.85	9.15	8.58	8.11	7.60	8.48	8.97	9.45	9.66	10.19	10.19	10.48
Pension	7.86	8.49	8.30	7.84	7.36	7.13	8.46	8.01	8.91	9.41	10.54	10.21
Total	42.47	43.93	42.69	37.87	34.13	35.32	38.92	39.32	44.12	43.17	46.60	48.08

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

In August 2024 the Central Government has announced introduction of Unified Pension Scheme (UPS), which will enhance the employer’s contribution to 18 percent of the basic plus dearness allowance. UPS guarantees 50% of the average basic pay of the past 12 months preceding the date of retirement as the guaranteed pension for the employee. In case of any shortfall in the pension that can be provided from the corpus built using the employer’s and employee’s contributions during the working life of the employee, the government is required to fill the gap. Madhya Pradesh is expected to implement the UPS in line with the Central Government, thus involving greater budgetary allocation towards employer’s contribution. However, it should be noted that as the workforce under OPS matures and their pension liabilities are fulfilled, employees under NPS/UPS will not require further budgetary burden during their retirement phase (budgetary burden will be only to the extent of the shortfall of

annuity from the guaranteed minimum pension of 50 percent of the preceding salary). Thus, pension burden for the Madhya Pradesh (also for Centre and other States) is expected to show an inverted U-shaped curve peaking when number of retirees under OPS will peak along with peak number of employees working under NPS/UPS.

As discussed before, interest burden on past borrowing has seen an increasing trend over the past decade. However, it remains lower than the Major States average. Committed expenditure accounts for nearly 7.5 percent of the GSDP and around 45 percent of the revenue expenditure during 2020-24 period. 'Union and State Finances at a Glance 2020' published by the CAG provides some comparative details on committed expenditure across States. This report by the CAG calculates committed expenditure for Madhya Pradesh at 37 percent of the revenue expenditure compared to 45 percent for All States, with only three Major States - Karnataka, Gujarat, and Maharashtra, - reporting lower share of committed expenditure in revenue expenditure compared to Madhya Pradesh. This indicates Madhya Pradesh has been able to control its committed expenditures, providing fiscal space for other development programs.

## **7. Subsidies**

The Economic and Purpose Classification, published by the Department of Economics and Statistics, defines subsidy as grants on current account which are received by the private industries from the government. These may take the form of direct payments to producers. Transfers by the public authorities to private industries for investment purpose is classified as 'capital transfers' rather than subsidies. The losses accrued by the departmental undertakings are treated as the imputed subsidy. This publication is available only for FY2014 and FY2018. According to Economic and Purpose Classification for FY2018, subsidies accounted for nearly 10 percent of the total expenditure. Table 9 shows that agriculture, mining, energy, and

transport sector dominates the overall subsidy expenditure. To obtain a comparable long-term series of subsidy for these sectors, revenue expenditure figures given in the State budget net of the revenue receipt can be used. Since this amount represents support given through State budget for the current operations of the recipient sectors, this can be treated as imputed subsidy.

**Table 9: Composition of Subsidies (% of total)**

S. No.	Item	2017-18
1	Education	1.75
2	Social Welfare Services	2.88
3	Agriculture, forestry, fishing & hunting	10.99
4	Mining, manufacturing & construction	9.77
5	Energy	59.94
6	Transport	11.82
7	Others	2.86
	Total	100

Source: Economic and Purpose Classification of Madhya Pradesh Budget, Department of Economics and Statistics

Irrigation, power, and transport department meet their operational losses through the budgetary support. However, for mining sector the component of subsidy is difficult to calculate due to large presence of royalty and other mining rights in the non-tax revenues. Hence, imputed subsidy for first three sector are presented in Table 10 as percentage of GSDP. As noted before, these three sectors accounted for nearly 85 percent of the total subsidy expenditure in FY2018 according to the Economic and Purpose Classification for Madhya Pradesh. Table 10 shows that compared to Major States, Madhya Pradesh provides lower subsidy on irrigation. In case of power sector, Madhya Pradesh incurred subsidy of 0.77 percent of the GSDP compared to 0.6 percent for Major States during 2013-15. Subsequently, the subsidy burden for Madhya Pradesh nearly doubled for the next ten years, while remained stable for Major States. In case of the power sector, it is quite possible that the stated figures for the subsidy are different than the actual subsidy, given that States generally underpay distribution companies for the subsidy. It is only after a few years when the distribution

companies start facing troubles in their cash flows, the State either provide them fresh loans or waive the previous loans to reduce the interest expenditure of the distribution companies. This issue will be explored in chapter 6, where power sector reforms are discussed.

**Table 10: Subsidies on Irrigation, Power, and Transport Sector (as a % of GSDP)**

Item	Madhya Pradesh					Major States				
	2013-15	2016-17	2018-20	2021-22	2023-24	2013-15	2016-17	2018-20	2021-22	2023-24
Irrigation	0.08	0.02	0.02	0.05	0.07	0.24	0.15	0.12	0.11	0.11
Power	0.77	1.58	1.34	1.82	1.41	0.60	0.76	0.62	0.71	0.63
Transport	0.31	0.21	0.13	0.12	0.13	0.32	0.28	0.24	0.26	0.26

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

The State is providing support to relatively smaller power consumers through targeted subsidy programs. Under the Atal Grih Jyoti Yojana, more than 1 crore domestic consumers with a monthly consumption of up to 150 units are provided a maximum bill of ₹100 for the first 100 units consumed, while the difference in the amount is covered by the state government as a subsidy to the distribution companies. For consumption between 101 to 150 units, the applicable tariff rate is charged as per the tariff order. This subsidy program seems to be designed appropriately as it comes with a ceiling and have feature of self-selection of eligible beneficiaries. For the financial year FY24, ₹6,402.61 crore were spent on this scheme.

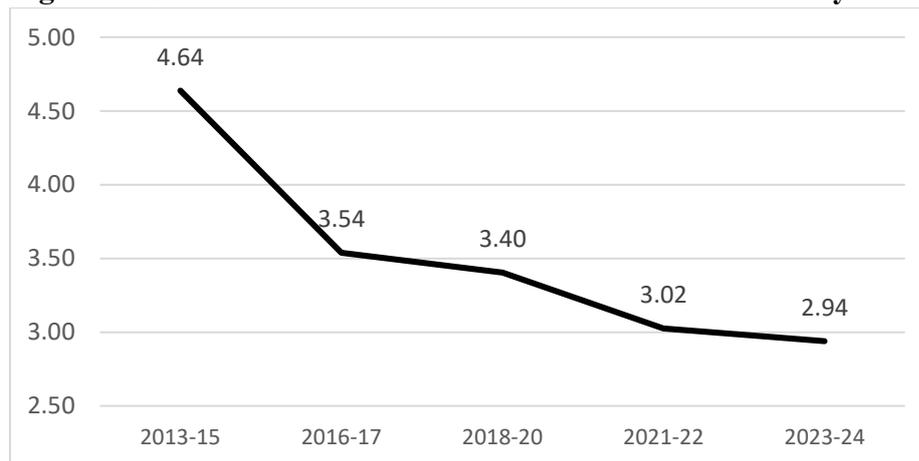
Under the Atal Krishi Jyoti Yojana, unmetered permanent agricultural pump connections of up to 10 horsepower are being provided electricity at a flat rate of ₹750 per horsepower per year, while unmetered permanent agricultural pump connections exceeding 10 horsepower are being charged ₹1,500 per horsepower per year. Additionally, metered permanent agricultural pump connections up to 10 horsepower and temporary agricultural pump connections are also being given concessions in energy charges. The difference in the amount, as per the prescribed rates, is being paid by the state government as a subsidy. Approximately 26.59 lakh agricultural consumers are benefiting from this scheme. For the FY24, ₹13,212 crore were spent on this scheme. The scheme lacks progressivity as smaller

consumer and larger consumer receives same per unit subsidy. Further, it does not provide incentives for optimizing power and more importantly water consumption. There is need to meter the unmetered connections. The State should redesign the scheme to incorporate variable rate of subsidy or may consider giving a lump sum transfer to farmer, who then can be required to make payments at the cost of supply. This will provide support to eligible beneficiaries without distorting the price mechanism.

### 8. Central Grants and Centrally Sponsored Schemes

As mentioned in the previous chapter, starting in 2014-15, the Central Government discontinued the practice of funding Centrally Sponsored Schemes (CSS) directly through implementing agencies, and instead, began routing these funds through State budgets. Madhya Pradesh used to publish resource flow from centre to implementing agencies during 2007-08. This publication was stopped from the year 2014-15 due to the direct central assistance received by the state institutions through the state budget. Hence, to ensure comparability, CSS bypassing the state budget for pre-2014-15 period are included in the central grants.

**Figure 1: Central Grants and CSS Funds Provided to Madhya Pradesh (as % of GSDP)**



Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

Figure 1 shows the resource flow from the Centre to Madhya Pradesh through various Centrally Sponsored Schemes and other grants to the state government. Grants from the Centre

to State government shows declined from 4.64 percent during 2013-15 period to 2.94 percent of the GSDP 2023-24. As discussed earlier, the rise in transfers through the 14<sup>th</sup> and 15<sup>th</sup> Finance Commission has been inadequate to compensate for the decline in central grants. In FY24, Madhya Pradesh received ₹ 24,042 Cr as Government of India share that amounted to roughly 11 percent of the overall revenue receipt of the State. Further, the State provided matching grants of ₹ 13,939 Cr towards the CSS. Thus, the average share across schemes was around 65:35 for the Centre and State respectively.

Major schemes covered under CSS are: Mahatma Gandhi National Rural Guarantee Program (MGNREGS), Poshan 2.0, Jal Jeevan Mission, PM Awas Yojna, PM Gram Sadak Yojna, PM-Poshan, National Health Mission, etc. There are a total 87 CSS under which the State received central support, of which some the schemes were less than allocation of ₹ 5 Cr. Such thin spread of resources leads to loss of focus, inflexibility, and wastage. Hence, there is need to consolidate the number of schemes. To avail funds under CSS, the states may commit their funds through matching grants to a particular domain despite their own priorities being different. There should be a minimum threshold funding size for the approval of a CSS. As these schemes are under concurrent/state subjects, the Centre may provide an overall ceiling under which the states can be permitted to choose which schemes they want to utilise based on their needs.

In addition to the CSS routed through the state budgets, the CAG also compiles a list of the Central schemes running outside the state budgets: such as PM Kisan Samman Nidhi (PM-KISAN), Ayushman Bharat, - food subsidy, fertilizer subsidy, metro projects, national highways, etc. This data is captured from R-07 Report in Public Financial Management System (PFMS) portal of Controller General of Accounts. However, while comparing across years, it appears that the list of schemes covered are not comparable (e.g. fertilizer subsidies are reported

for 2022, but not for 2023 and 2024). In FY24, for the schemes covered by the CAG in this reporting, Madhya Pradesh received ₹ 25,567 which is quite comparable to CSS fundings. Given the magnitude of these funds flowing outside the state budget, but relevant for welfare at regional level, there is need to capture this data on a comparable and consistent basis to understand the overall resource transfer from the Centre to States.

## **9. Improving Efficiency and Productivity of Public Expenditure**

Efficiency in government expenditures is critical in democracy for motivating citizens to contribute to taxes. Allocative efficiency refers to the optimal allocation of resources to areas that generate the highest social and economic benefits, while technical efficiency emphasizes minimizing waste and ensuring value for money. Madhya Pradesh has attempted to leverage scale and technology to improve the coverage, quality, and cost efficiency of public services. The Aadhaar-enabled Public Distribution System (AePDS) has been implemented in Madhya Pradesh to ensure efficient and transparent distribution of ration materials. Since October 2019, ration distribution in the state has been conducted through biometric verification of eligible families, facilitated by the installation of POS machines at all 26,284 fair price shops. This system enhances accountability and reduces pilferage.

As per the UDISE+ Report 2021-22, Madhya Pradesh has almost 160 lakh children enrolled in 1.25 lakh schools. Thus, on an average, 125 students are registered per school in the State. Smaller school requires higher resources per child and does not provide enough scale/class size to provide quality education. The State has launched CM RISE (Respect, Integrity, Strength, and Excellence) schools in an integrated manner (from KG to class 10th or 12th), with the goal of providing a high-quality school in approximately 15 km range of each settlement, so that quality education can be provided to the students by improving the educational environment. The target is to develop total 9200 schools at four levels: district, development block, cluster,

and groups of villages. At the district level, each district will have one CM Rise School (a total of 52), with 2,000 to 3,000 students per school. At the development block level, there will be 261 schools, with 1,500 to 2,000 students per school. Similarly, at the cluster level, there will be 3,200 schools, with 1,000 to 1,500 students per school. At the level of groups of villages, there will be 5,687 CM Rise Schools, with 800 to 1,000 students per school. Children residing within a radius of 15 to 20 kilometers will study in these schools, and the government will provide bus or van facilities to transport them to and from school. A total of 274 schools covering 2.5 lakh student have started in the phase 1. The State intends to cover 9200 schools under this program in the next 10 years (GoMP, 2024a)<sup>3</sup>.

Crop survey or fasal girdawari involves survey of the agricultural lands and the crops cultivated on them. Madhya Pradesh is the first state to implement the crop “e-Girdawari” project that aims to better implement and streamline the process of Girdawari operations through Artificial Intelligence/Machine Learning (AI/ML). In the crop girdawari process, optical satellite data has been used for the rabi season while radar (SAR) data has been used for Kharif season due to cloud presence. The Machine Learning (ML) model is designed to predict wheat, gram, mustard, cotton and pea for the rabi season and paddy and soybean for the Kharif season. Data from this exercise is used for estimation of the area under different crops that also helps in better procurement management.

JAM Trinity – *Jan Dhan, Aadhaar*, and Mobile – allows the use of Direct Benefit Transfer (DBT) – the system of delivering welfare benefits directly to the bank or postal accounts of the targeted beneficiaries. Madhya Pradesh has leveraged DBT and other governance reforms to remove duplicate/fake beneficiaries and plug leakages. Currently, DBT is being used for 151

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<sup>3</sup> 275 CM Rise schools operated in the state Programme to start 9,200 CM Rise Schools in the next 10 years <https://www.mpinfo.org/Home/TodaysNews?newsid=20240204N13&fontname=FontEnglish&LocID=32&pubdate=02/04/2024>

schemes by 25 departments in the state. Major schemes implemented through DBT are: Mukhyamantri Ladli Behena Yojana, Mukhyamantri Kisan Kalyaan Yojana, Mukhyamantri Udhya Kranti Yojana, Pratibha Kiran, and Mukhya Mantri Jan Awas Yojana. The State has transferred cumulatively ₹ 1,22,684 Cr through DBT approach. The State has developed a common integrated database of residents and families, known as Samagra Population Register (SPR) consisting of integrated database of around 1.8 Cr families and 8.0 Cr residents which is used for identification of the eligible beneficiaries and provide benefits by using a single and common platform. These measures help in avoiding leakages and provide transfers in more efficient manner to the beneficiary.

In line with the PM-Kisan program, the State has also launched Mukhya Mantri Kisan Samman Nidhi scheme in FY 2020 that provides income support to farmers in the state. The eligible farmers receive financial assistance of Rs. 4,000 per farmer per year, subject to a maximum of 5 acres per farmer. The assistance is provided in three instalments of Rs. 2,000 each, and it is aimed at helping farmers with their agricultural expenses, including seeds, fertilizers, and other inputs. For the FY 2024, ₹4555 crore were spent on this scheme in comparison to ₹4930.8 crore spent by the Centre on PM-Kisan program in the state. Eligible farmers receive support from both the programs. These income support programs along can play a role of universal basic income in the rural areas. However, there is need to link these transfers to inflation to protect purchasing power while also avoiding the one-time hikes that are likely to place before elections. The State also contributed 1203 Cr towards Prime Minister Agriculture Insurance Scheme which provide insurance cover for over 90 lakhs farmers against crop failure at a low premium rate.

## 10. Conclusion

With per capita income at around 67 to 75 percent of the Major States average, Madhya Pradesh needs to have public expenditure as a share of GSDP at 1.33 to 1.5 times the level observed for Major States average. Per capita government expenditure in Madhya Pradesh averaged around 93 percent of the average per capita expenditure in Major States, indicating a reasonable level of horizontal fiscal equalization. However, this ratio has declined 88 percent during 2020-24 period suggesting relatively more adverse fiscal impact of Covid-19 and inadequate recovery of public finances for Madhya Pradesh.

Madhya Pradesh has consistently allocated more resources to capital expenditure compared to other Major States. Between 2016-17 and 2023-24, the share of capital expenditure in total spending increased from 16% to nearly 19%. Notably, during the pandemic period (2018-22), while other states cut back on capital spending, Madhya Pradesh ramped up its capital expenditure. The State has seen a faster growth in committed expenditures—such as interest payments, pensions, and salaries—compared to other States. Interest payments grew from 1.46% of GSDP in 2013 to 1.69% by 2024, while pension liabilities surged from 1.36% to 1.7% of GSDP over the same period. The implementation of the 7th Pay Commission further intensified the financial burden, especially between 2018 and 2021, as wage and pension commitments peaked. Despite these pressures, Madhya Pradesh maintained spending on social services allocating around 8.3% of GSDP to this sector in 2023-24.

Madhya Pradesh launched the Ladli Behna Scheme in 2023, providing direct benefit transfers (DBT) to married women in the age group of 21 to 60 years at a cost of roughly 1.1% of the State's GSDP. While DBT is among the most efficient route to reach the citizens, in the interest of fiscal discipline, any new program should either be funded by raising additional revenue resources or replacing existing inefficient programs. While Madhya Pradesh

maintained high levels of capital investments, the share of expenditure on economic services declined over the years. As a proportion of GSDP, economic services spending dropped from 8.22% in 2016-17 to 6.18% in 2023-24, driven largely by reduced funding for rural development and irrigation projects.

Many social and economic sector programs are generally funded by a mix of Central transfers under CSS and State support. It appears that decline in the Central resource flows under Central grants referred in the previous chapter are also causing decline in expenditure on rural development. Madhya Pradesh also struggled with growing subsidy burdens, particularly in the power sector, where subsidy burden nearly doubled over the decade. This trend reflects challenges in managing operational losses of state-run utilities, further complicating fiscal management. Compared to other States, Madhya Pradesh's subsidy burden and committed expenditures have grown considerably, limiting the State's ability to channel resources toward other developmental priorities.

## **Chapter 3**

### **Analysis of Deficits and Public Debt**

#### **1. Analysis of Deficits**

Table 1 provides details on the composition of fiscal deficit as a share of GSDP. The table is divided into two parts. The first part shows composition of fiscal deficit into revenue deficit, capital outlay, net-lending, and non-debt capital receipts. The second section of the table shows the annual changes in the variables as a percentage point of the GSDP. The first row of table 1.1 shows that Madhya Pradesh had consistent revenue surpluses from 2013 to 2019. Onset of the Covid-19 crisis created fiscal pressures that led to revenue deficits during 2020 and 2021. A very large revenue deficit at 1.94 percent of GSDP in 2021 reflects increased expenditure requirements to address Covid-19 crisis combined with revenue contraction due to lockdowns. Along with post-Covid recovery, Madhya Pradesh returned to revenue surpluses for the next three years, though the surpluses have shown a declining trend. Madhya Pradesh has done better compared Major States average where they faced revenue deficit across all years except a small revenue surplus of 0.13 percent of GSDP in 2013.

The reduction in Madhya Pradesh's revenue surpluses during 2014 to 2016 period also led to some increase in fiscal deficit, while capital expenditure remained broadly stable. Unlike Madhya Pradesh, Major States, on average, experienced an increase in fiscal deficit that was used to fund both revenue deficit and capital expenditure in this period. Madhya Pradesh maintained fiscal prudence till 2019. In 2017, the State used additional fiscal deficit to fund capital expenditure related to UDAY borrowings, while in 2019, incremental revenue surpluses were used to reduce fiscal deficit. On the hand, during 2020-2021, increase in revenue deficit for Madhya Pradesh translated into increase in fiscal deficit without much impact on capital outlay. However, the revenue deficit at 1.94 percent coupled with capital expenditure at 3.33

percent of GSDP translated into a very large fiscal deficit of 5.27 percent of GSDP in 2021. In comparison, revenue deficit at 2.02 percent of GSDP accounted for a larger part of the fiscal deficit at 4.11 percent for Major States in this year. This co-movement of fiscal and revenue deficit is also visible in opposite direction during Covid recovery phase of 2022-24, when reduction in revenue deficit led to improvement in fiscal deficit.

Year 2017, 2022, and 2023 showed higher level of capital expenditure compared to trend. Capital expenditure for 2017 was funded through borrowing largely made to meet obligations under UDAY program. Capex push during 2021 and 2022 was given as a stimulus after Covid-19. Thus, it can be argued that the State has broadly protected capital expenditure and fiscal volatility has been absorbed on the revenue side of the budget. However, the earlier trend observed till 2019 of some sizable revenue surpluses that partly funded capital outlay and controlled fiscal deficit, is no longer there. In 2023-2024, capital outlay has been entirely funded by higher fiscal deficit.

From the macroeconomic perspective, the capital expenditure contributes to multiplier effect. However, capital outlay, while socially desirable, may create problems of fiscal sustainability if the yield on capital investment cannot be captured by the government to fund future obligations. Hence, individual capital expenditure should be analysed carefully for their rate of returns both at societal and project level. On the other hand, given the overall slow-down in the investment in the economy in the last decade, States can play important role in addressing the investment slowdown. Recognizing these concerns and to support post-Covid recovery, the Centre launched the 'Scheme for Special Assistance to States for Capital Expenditure' providing concessional interest-free 50-year loans to States to increase capital expenditure during FY21-FY25. Under this, Madhya Pradesh received ₹ 7,360 crores in 2022-23, amounting to 0.59 percent of GSDP.

**Table 1.1: Composition of Fiscal Deficit (Madhya Pradesh)**

S. No.	Item/Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Variables as % of GSDP													
1	Revenue (+ Deficit/ -Surplus)	-1.96	-1.34	-1.31	-1.06	-0.58	-0.64	-1.06	0.30	1.94	-0.44	-0.12	-0.03
2	Capital Outlay and net Lending	4.44	3.59	3.68	3.67	4.84	3.77	3.67	3.25	3.33	4.02	3.92	4.12
3	Non-Debt Capital Receipts	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.00	0.00
4	Fiscal Deficit (1+2-3)	2.47	2.25	2.37	2.60	4.26	3.13	2.61	3.55	5.27	3.43	3.80	4.09
Annual Change as Percentage point of GSDP													
5	Revenue (+ Deficit/ -Surplus)		0.62	0.03	0.25	0.48	-0.06	-0.42	1.36	1.64	-2.38	0.32	0.09
6	Capital Outlay and net Lending		-0.85	0.08	-0.01	1.18	-1.07	-0.10	-0.42	0.08	0.69	-0.10	0.20
7	Fiscal Deficit (1+2-3)		-0.22	0.12	0.23	1.66	-1.13	-0.53	0.95	1.71	-1.84	0.37	0.29

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 1.2: Composition of Fiscal Deficit (Major States)**

S. No.	Item/Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Variables as % of GSDP													
1	Revenue (+ Deficit/ -Surplus)	-0.13	0.15	0.44	0.09	0.37	0.25	0.16	0.68	2.02	0.56	0.67	0.27
2	Capital Outlay and net Lending	2.19	2.14	2.32	3.15	3.30	2.26	2.34	1.96	2.14	2.27	2.81	2.98
3	Non-Debt Capital Receipts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.01	0.04	0.15
4	Fiscal Deficit (1+2-3)	2.06	2.29	2.76	3.24	3.67	2.51	2.50	2.63	4.11	2.82	3.44	3.10
Annual Change as Percentage point of GSDP													
5	Revenue (+ Deficit/ -Surplus)		0.28	0.29	-0.35	0.28	-0.12	-0.09	0.52	1.35	-1.47	0.11	-0.40
6	Capital Outlay and net Lending		-0.05	0.18	0.83	0.15	-1.04	0.08	-0.39	0.19	0.12	0.54	0.17
7	Fiscal Deficit (1+2-3)		0.23	0.47	0.48	0.43	-1.16	-0.02	0.14	1.48	-1.30	0.62	-0.34

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

**Table 2: Fiscal Indicators for Madhya Pradesh (as % of GSDP)**

S. No.	Item	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue Side													
1	Own Tax Revenues	8.03	7.63	7.62	7.43	6.80	6.88	6.28	6.02	5.75	6.06	6.27	6.34
2	Own Non-Tax Revenues	1.84	1.75	2.16	1.58	1.40	1.25	1.60	1.12	1.05	1.40	1.11	1.09
3	Share in Central Taxes	5.46	5.17	5.02	7.10	7.09	6.30	6.79	5.34	4.96	6.36	5.98	5.88
4	Grants from the Centre	3.16	2.68	3.67	3.39	3.69	4.15	3.10	2.96	3.15	2.90	2.95	2.93
5	GST Compensation	0.00	0.00	0.00	0.00	0.00	0.00	0.35	0.49	0.56	0.28	0.06	0.31
6	CSS	1.64	2.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	Total Revenue resources	20.12	19.35	18.47	19.50	18.98	18.57	18.12	15.91	15.46	17.01	16.36	16.56
8	of which Total Central Transfers	10.26	9.96	8.69	10.48	10.78	10.45	10.24	8.78	8.66	9.55	8.99	9.12
9	Non-Debt Capital Receipts	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.00	0.00
Expenditure Side													
10	Revenue Expenditure	16.53	15.90	17.16	18.44	18.40	17.93	17.06	16.21	17.40	16.57	16.24	16.53
11	of which: Interest Payment	1.46	1.45	1.47	1.50	1.40	1.52	1.53	1.53	1.68	1.69	1.66	1.73
12	Capital Outlay	4.44	3.59	3.68	3.67	4.84	3.77	3.67	3.25	3.33	4.02	3.92	4.12
13	Total Expenditure	22.61	21.60	20.84	22.10	23.24	21.71	20.73	19.47	20.73	20.58	20.16	20.64
Deficit Indicators													
14	Revenue (+ Deficit/ -Surplus)	-1.96	-1.34	-1.31	-1.06	-0.58	-0.64	-1.06	0.30	1.94	-0.44	-0.12	-0.03
15	Fiscal Deficit	2.47	2.25	2.37	2.60	4.26	3.13	2.61	3.55	5.27	3.43	3.80	4.09
16	Primary Fiscal Deficit	1.01	0.79	0.89	1.10	2.86	1.61	1.08	2.02	3.59	1.74	2.14	2.35

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

Table 2 provides details on various fiscal indicators that permits identification fiscal challenges faced by Madhya Pradesh. The revenue resources for the State declined from the range of around 19 percent in 2016-18 period to around 16.65 percent of GSDP during 2022-24. Of this, decline in Central transfers (excluding GST compensation) accounted for nearly 1.35 percentage point of GSDP, while the remaining decline was on account of own revenues. With the end of GST compensation program, the revenue challenges for the State may worsen further, however, it will be dependent upon how the currently levied GST compensation cess is integrated with the GST rates. On the expenditure side, revenue expenditure declined from the range of around 18.26 percent in 2016-18 period to around 16.45 percent of GSDP during 2022-24, while capital expenditure remains unchanged. With expenditure compression falling short of revenue compression, the fiscal deficit on average increased by around 0.44 percent of GSDP over the two periods. The deterioration of the revenue surpluses can largely be traced to declining revenue receipts along with expenditure towards power subsidies and new programs.

## **2. Implementation of FRBM Act and Outcome Evaluation**

The time-period from 1998-99 to 2004-05 has been particularly challenging for the State Governments, where their debt GSDP ratio increased from 21 percent to 37.5 percent from 1998 to 2005. Debt-GSDP ratio for Madhya Pradesh also increased from 22 percent at an alarming level of 39.5 percent by 2005. With objectives to ensure prudence in fiscal management by progressive elimination of revenue deficit and reduction in fiscal deficit, the State brought Madhya Pradesh Rajkoshiya Uttardayitva Evam Budget Prabandhan Adhiniyam, 2005 (FRBM Act). While the underlying fiscal deficit target under FRBM has usually been 3 percent, there has been additional limits provided by the Union Finance Commissions and Central Government to incentivize States to undertake various reforms (e.g. in power sector, food distribution system, urban local bodies, etc.) and to meet exigencies like Covid-19.

Further, the State also amended its FRBM Act providing that the borrowings under Ujjwal Discom Assurance Yojana (UDAY), for financial reconstruction of the Companies of the Energy Department shall not be reckoned against the normal permissible net borrowing ceiling of the State.

**Table 3: Debt and Deficit Indicators for Madhya Pradesh (+ Deficit/ -Surplus)**

Item/Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue Deficit	-1.96	-1.34	-1.31	-1.06	-0.58	-0.64	-1.06	0.30	1.94	-0.44	-0.12	-0.03
Fiscal Deficit	2.47	2.25	2.37	2.60	4.26	3.13	2.61	3.55	5.27	3.43	3.80	4.09
Primary Fiscal Deficit	1.01	0.79	0.89	1.10	2.86	1.61	1.08	2.02	3.59	1.74	2.14	2.35
Debt-GSDP Ratio	23.49	21.93	22.66	23.60	24.02	23.84	23.52	22.79	30.73	29.75	29.33	30.66
Prescribed Limit												
Fiscal Deficit	3	3	3.5	3.5	3.5	3.25	3.25	3.25	5	4.5	4	3.5
Debt-GSDP Ratio	36.8	36	35.3	24.87	25.34	25.49	25.63	25.75	31.3	31.7	32.9	33.3
Additional Allowance*					1.16	0.64	0.06		0.14	0.14	0.59	0.63

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data. and FRBM Statements for Madhya Pradesh (2024). CAG (2022) for obligations under UDAY.

Prescribed limit includes the additional space recommended by the Finance Commissions and Central Government to undertake power sector and other reforms.

Additional allowance for 2017 to 2019 is towards borrowings under UDAY. Additional allowance for 2021-2024 is on account of 50-years interest free loans provided by the Centre for capital expenditure.

The experience of the State in meeting the FRBM targets has been reasonably well. As shown in table 3, the State consistently had a revenue surplus till the Covid-19 affected public finances in 2020. Except for a breach in fiscal deficit limit by 0.14 percentage point in 2021, the fiscal deficit and debt –GSDP ratio have also remained within the prescribed limits when the additional fiscal space for UDAY borrowings and capital expenditure funded through interest free 50-years loan from the Centre are taken in account. However, with the uncertainty regarding the future of interest free loans from the Centre for capital expenditure, revenue challenges, and additional commitments towards social sector, Madhya Pradesh need to focus on improving its SGST collection and curtailing mistargeted/unproductive subsidies.

### 3. Debt Profile

The debt profile of the States has substantially changed in its composition since 1991. Table 4 provides the long-term composition of the outstanding liabilities of Madhya Pradesh from 1991 onward for selected years. There is a distinct trend of decline in the share of loans from the Centre and rise in share for market borrowings in the outstanding liabilities of the State. Loans from the Centre which accounted for 47 percent of the outstanding liabilities of the State on March 1991, has fallen to 8.9 percent by March 2019, which subsequently increased to 15.9 percent of the total liabilities by 2024.

**Table 4: Composition of the Outstanding Liabilities: Madhya Pradesh (%)**

Year/Component	Loans & Advances from Centre	Special Securities issued to NSSF	Market Loans	Provident Funds etc.,	Others	Total
1991	47.0	0.0	8.5	26.3	18.1	100
1995	43.1	0.0	12.4	30.0	14.6	100
1999	42.0	0.0	15.5	26.6	15.8	100
2004	28.8	13.4	20.6	16.8	20.5	100
2008	16.0	26.7	26.8	14.3	16.2	100
2013	13.7	18.8	36.0	11.4	20.1	100
2016	10.7	15.8	44.0	10.7	18.8	100
2019	8.9	12.2	54.4	8.5	16	100
2021	10.5	10.5	55.6	6.8	16.6	100
2024	15.9	10.2	57	4.2	12.7	100

Source: Basis data RBI (2023) for the absolute amounts, and mospi.nic.in for the GSDP data.

In the past Central Government has provided loans to States under various heads like assistance for the State plan, loans for Centrally Sponsored Schemes, on-lending of the small saving collection, and external loans. Prior to 1999-00, a part of the proceeds from the small saving collection was on-lent by the Centre to the States. Since 1999-00, States borrow from the proceeds of small saving collection directly, by issuing special securities to the NSSF, which is part of the public account of the Centre. As a part of Normal Central Assistance (NCA), General Category States (GCS) received NCA as grant and loan mix in 30:70 ratio.

While the Special Category States (SCS) received NCA as 90:10 mix. The practice of these loans was stopped from 2005-06 onward after the recommendations of the 12th Finance Commission in this regard. Further, the States were encouraged to directly borrow from the market. All this led to decline in the Madhya Pradesh's (as for other States) borrowings from the Centre. However, in the recent years, interest free loans provided by the Centre for capital expenditure have contributed to State's increased borrowings from the Centre.

Special securities issued to National Small Saving Fund (NSSF) emerged as an important source of borrowings in the early 2000s, though its share in the outstanding liabilities has been declining since 2006 (peaked at 27 percent share). As these borrowings are relatively expensive compared to market borrowings, there is a preference towards the latter route of funding. The State is currently borrowing 50 percent NSSF proceeds within its territory. Borrowings under UDAY are also included in the market borrowings, as they owed to financial institutions and interest rates are market determined.

#### **4. Contingent Liabilities and Off-Budget Borrowings**

The State Government provides guarantees for the discharge of certain liabilities like loans raised by Statutory Corporations, Government Companies, Joint Stock Companies, Cooperative Institutions, local bodies, firms, and Individuals etc. These Guarantees constitute contingent liabilities on the State's revenues. As per the Madhya Pradesh State Government Guarantee Rules, 2009 (replacing Madhya Pradesh State Government Guarantee Rules, 1976) sanction orders of the guarantees are issued by the Finance Department instead of the concerned Administrative Department. The maximum amount guaranteed during 2023-24 was ₹ 69,403 crores with an outstanding guarantee at the year-end being ₹ 44,315 crores.

The FRBM Act 2005, mandates that the State Government shall limit the annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 percent of the total revenue receipts in the year preceding the current year. For example, the total outstanding guarantees at the end of 2023-24 at ₹ 27,530 crores were 19.12 percent of the total revenue receipt. The State has been able to meet the FRBM requirement in this regard over the years. Table 5 shows the sectoral composition of guarantees provided. It is the food and civil supply department along with power sector which have been provided the largest share of the State's guarantee.

**Table 5: Sectoral Composition of the Guarantees Provided by the State (%)**

S. No.	Sector	Maximum for the year 2023-24	Outstanding as on March 2024
1	MP food and civil supply department	42.36	66.27
2	Power	23.68	16.93
3	Co-operative	9.59	4.27
4	Urban development & housing	9.48	8.11
5	Narmada Valley Development	5.76	3.99
6	Public work department	5.76	0.00
7	Others	3.36	0.43
	Total	100.00	100.00

Source: Madhya Pradesh FRBM Statement (2024-25)

The 12th Finance Commission recommended that States should set up Guarantee Redemption Funds (GRF) through earmarked guarantee fees. This should be preceded by risk weighting of guarantees. The fund should be maintained outside the consolidated fund of the States in the public account, which should not be used for any other purpose, except for meeting contingent liabilities on account of the guarantees provided. Accordingly, guarantee fee is charged from the borrowing institutions. The proceeds of the fees so realized are credited to the revenue of the Government. As on March 2024, the accumulated balance in the GRF is ₹ 1087.74 crores, which are then invested in the Central Government securities.

The borrowings of the State Government are governed by Article 293 (1) of the Constitution of India. Off budget borrowings are usually incurred through government owned or controlled public sector enterprises of departmental commercial undertaking, which raise the resources through market borrowing, though the debt needs to be serviced directly from the budgetary resources in future. As the actual expenditure in current year is not part of the budget while debt servicing in the future becomes charged expenditure, this expenditure can evade legislative control. Further, states can exploit off-budget liabilities to evade FRL limits. Considering the effect of bypassing the Net Borrowing Ceiling (NBC) through such borrowings, the Union government decided to take state government off-budget borrowings into account for determining the net borrowing ceiling in March 2022. Table 1 provides the details on off-budget borrowings made by Madhya Pradesh during 2019-20 to 2022-23. These borrowings were made by Madhya Pradesh Urban Development Co. Limited, Power Distribution Companies (DISCOMs), Housing Department, Narmada Basin Projects Company Ltd. The magnitude of the off-budget borrowings is relatively smaller for the State, and shows a declining trend as a proportion of the fiscal deficit.

**Table 6: Off Budget Borrowings by Madhya Pradesh**

Item	2020	2021	2022	2023
Amount (Cr)	797.05	1,255.00	533.78	564.4
As % of Fiscal Deficit	2.42	2.52	1.42	1.19

Fiscal deficit excludes Off-budget borrowings

Source: State Finances Audit Report by the CAG (2024)

## 5. Fiscal Deficits and Debt Roadmap for 2026-31

This section discusses the debt roadmap for the State during 2026-31. Section 5.1 discusses the theoretical framework used for debt sustainability analysis. Section 5.2 discusses the assumptions used for growth rate, interest rate, and target debt-GDP ratio. Using these, the target fiscal deficits and debt level during 2026-31 for the State are discussed in section 5.3.

## 5.1 Theoretical framework

Let  $D$  be the absolute amount of the existing stock of government debt.  $FD$  be the fiscal deficit for the year. Subscript  $t$  denotes the current year and  $t-1$  denotes the previous year. Then

$$D_t = D_{t-1} + FD_t \quad (1)$$

The fiscal deficit can be decomposed into primary fiscal deficit, denoted by  $PD$ , and the interest payment on the existing stock of government debt at the end of the previous year on which interest burden accrue at the nominal interest rate of  $i$ .

$$D_t = D_{t-1} + iD_{t-1} + PD_t \quad (2)$$

To convert the fiscal variables as a percentage of GDP, divide equation (2) by  $Y_t = Y_{t-1} (1 + g)$ , where  $Y$  refers to nominal GDP,  $g$  refers to growth rate of the nominal GDP. Small letters, unless specified, denote variables as % of GDP.

$$d_t = \frac{d_{t-1}}{1 + g} + \frac{id_{t-1}}{1 + g} + pd_t \quad (3)$$

$$d_t = \frac{d_{t-1}(1 + i)}{1 + g} + pd_t \quad (4)$$

To measure the incremental change in debt-GDP ratio over two consecutive years, we subtract previous year's debt-GDP ratio from the current year's debt-GDP ratio.

$$d_t - d_{t-1} = \frac{d_{t-1}(1 + i)}{1 + g} - d_{t-1} + pd_t \quad (5)$$

$$d_t - d_{t-1} = \frac{d_{t-1}(1 + i) - d_{t-1}(1 + g)}{1 + g} + pd_t \quad (6)$$

$$d_t - d_{t-1} = \frac{d_{t-1}(i - g)}{1 + g} + pd_t \quad (7)$$

Equation (7) shows that there are three sources of change in debt-GDP ratio. While economic growth contributes in reducing the debt-GDP ratio, higher interest rate and primary fiscal deficit contribute to increase in debt-GDP ratio. The key to debt sustainability lies in maintaining a stable debt-GDP ratio at a targeted level that is debt GDP ratio should not change over the years. By putting  $d_t = d_{t-1} = d^*$  in equation (7), we get:

$$\frac{d^*(i - g)}{1 + g} + pd_t = 0 \quad (8)$$

Sustainable level of primary fiscal deficit can be calculated as follows:

$$\frac{d^*(g - i)}{1 + g} = pd_t \quad (9)$$

Equation (9) shows that in case the interest rate exceeds the growth rate then there is no space for primary fiscal deficit. In fact, to maintain the existing debt-GDP ratio, primary fiscal surplus needs to be generated. Any primary fiscal deficit will lead to explosion of the debt-GDP ratio. On the other hand, if the growth rate exceeds interest rate, then there can be a space for primary fiscal deficit. By rearranging equation 9, we get the sustainable level of debt-GDP ratio, associated with given levels of growth rate, interest rate, and primary fiscal deficit.

$$d^* = pd_t \frac{(1 + g)}{g - i} \quad (10)$$

By adding interest payment as share of GDP to both sides of equation (9), we can also calculate the sustainable level of fiscal deficit as:

$$\frac{d^*(g-i)}{1+g} + \frac{id_{t-1}}{1+g} = pd_t + \frac{id_{t-1}}{1+g} \quad (11)$$

$$\frac{d^*g}{1+g} = fd_t \quad (12)$$

## 5.2 Assumptions for Growth Rate, Interest Rate, and Target Debt-GDP ratio

The theoretical framework discussed above can be used to determine the feasible primary and gross fiscal deficit consistent with a level of debt. To calculate this, the variables required are effective interest rate, growth rate, and targeted level of fiscal deficit.

*Interest Rate:* Market borrowings and NSSF accounted for 57 and 10.2 percent of the outstanding liabilities for Madhya Pradesh at the end of FY2024. With effect from April 2016, the Central Government permitted States to opt out from the mandatory borrowings from the NSSF. However, Madhya Pradesh is among the four States that opted to borrow from NSSF. The State is currently borrowing 50 percent NSSF proceeds within its territory. Hence, to determine the effective interest rate, we focus on the interest rate applicable on market borrowings and NSSF. Effective interest rates on the outstanding market borrowing and NSSF securities as of March 2023, for which interest payments were made during 2023-24, were at 7.02 percent and 7.41 percent respectively. Interest rate on the fresh market loans and NSSF in FY24 on borrowing made till 14<sup>th</sup> October 2024 were 7.2 percent and 7.7 percent respectively. Given this, the effective interest rate on the State's outstanding liabilities from market/NSSF can be expected to remain in the range of 7.5 percent during the period of 2026-31.

*Nominal Growth Rate:* Madhya Pradesh's economy has grown at the CAGR of 13.23 percent in nominal and 6.36 percent at constant prices during 2011-12 to 2021-22, implying a GSDP deflator at the rate of 6.46 percent. While nominal growth rate is relevant for the framework discussed in previous section, the timeframe of 2026-31 is unlikely to have an

inflation rate in the range of 6.5 percent, given the commitment of the Monetary Policy Committee to maintain CPI inflation at 4 percent (+/- 2 percent). It should be noted that a 4 percent CPI may not translate into an equivalent implicit GSDP deflator. CPI used in India is based on Laspyres index where price of a fixed basket from the initial base year is tracked over the years to derive inflation, which is likely to have upward bias due to not accounting for the substitution effect. On the other hand, GSDP deflator is based on Passhce index where price of the basket for current year is tracked over the years, which is likely to understate inflation, since the items with higher inflation may see a fall in their weights (Eurostat, 2016).

Agriculture sector has grown at 7.72 percent at constant prices and shown inflation based on implicit GSDP deflator at 9.1 percent during 2011-22 to 2021-22. This sector accounted for nearly 44 percent share of GSDP at current prices for Madhya Pradesh in FY22. The State has benefited from both higher real agricultural growth rate and its sectoral inflation, which raised the nominal GSDP. Despite such commendable performance of agricultural sector in the recent past, it may be hazardous to anticipate similar price and volume growth in the sector in coming years. If in addition to 4 percent aggregate inflation, the inflation targeting regime is also able to converge the inflation for all sectors, particularly for food items, in the range of 4 percent then Madhya Pradesh's GSDP deflator is likely to be closer to the national GSDP deflator. Given high weight of food & beverages in the CPI basket, inflation targeting regime has a greater incentive to focus on food inflation, which in turn will reduce GSDP deflator for Madhya Pradesh. In light of above discussion, it may be prudent to presume that with a CPI target of 4 percent inflation, the upper limit of GSDP deflator will be in the range of 3.5 to 4 percent both at national and state levels. Added to this inflation, the real GDP growth rate of 7 percent gives a nominal GSDP growth rate of around 10.5 percent.

*Fiscal deficit:* The FRBM Act implemented by the State initially set a target for fiscal deficit at 3 percent of the GSDP, though this target has been adjusted in practice to account for various reforms linked incentives and economic uncertainties during Covid-19 crisis. Combined fiscal deficit in the range of 6 percent for Union and States were set during the mid-2000s, in an environment of higher domestic savings and availability of foreign funds. The 12<sup>th</sup> Finance Commission noted that “The transferable savings of the household sector of 10 per cent of GDP combined with an acceptable level of current account deficit of 1.5 per cent would be adequate to provide for a government fiscal deficit of 6 per cent, an absorption by the private corporate sector of 4 per cent, and by non-departmental public enterprises of 1.5 per cent of GDP” (TFC, 2005).

However, the savings rates have declined in the recent years, in response to which, the FRBM Review Committee report (GoI, 2017) noted that “a total of around 10% of GDP of household savings and external borrowing would be available for the public and private sectors in the medium-term, which the Committee assumed to be allocated equally between the two. This would lead to a combined fiscal deficit of the Centre and the States of 5% of GDP, and at the same time ensure an investment of 5% of GDP. The 5% general government deficit, divided equally between the Centre and the States, would imply a 2.5% deficit for the Centre in the medium-term” (Ibid).

However, Covid-19 crisis necessitated fiscal stimulus by both the Centre and States. Accordingly, the 15<sup>th</sup> FC gave a revised glide path to States with a target of 3 percent fiscal deficit plus an additional incentive-based space of 0.5 percent GSDP to be reached by FY24. The target for the Union Government was to reach fiscal deficit at 4 percent by FY26. While these measures were necessary as a countercyclical measure, fiscal stringency is required during normal times to be able to use countercyclical measures during the crisis periods. In line

with the falling nominal growth rate in an inflation targeting regime and declining saving rate, there is a need to adopt FRBM Committee's recommended target of fiscal deficit at 2.5 percent.

Interest free concessional 50-years loans provided by the Centre under 'Scheme for Special Assistance to States for Capital Investment can be excluded from the targeted fiscal deficit limit. There are three rationales for exclusion of these loans from the fiscal deficit limit: a) these loans are generous enough to be treated comparable to grants, and should ideally be converted to grants by Centre, b) macroeconomic stabilization is mainly a responsibility of the Centre, and such programs can be used for countercyclical policy, and c) such infrastructure focussed capital expenditure have both short-run demand side multipliers and long run supply side externalities spilling across the nation.

### **5.3 Sustainable Levels of Debt and Deficits for Madhya Pradesh**

Applying the nominal growth rate of 10.5 percent, interest rate of 7.5 percent, and 2.5 percent fiscal deficit as the targeted fiscal deficit, we obtain a terminal debt-GDP ratio of 26.3 percent. The fiscal deficit of 2.5 percent can be divided into primary fiscal deficit of 0.71 percent and interest payment of 1.79 percent of the GSDP. In FY24, the interest burden was budgeted to be around 1.73 percent of GSDP, close to the terminal level of interest burden. Excluding the capital expenditure financed through concessional loans from the Centre, fiscal deficit and primary fiscal deficit stood at 3.46 and 1.72 percent of GSDP during FY24. Thus, there a need for consolidation by around 1 percent of GSDP in primary fiscal deficit to meet the target of 2.5 percent fiscal deficit on a sustainable basis.

While ambitious, it may be recalled that primary fiscal deficit for the State averaged 0.93 percent of GSDP during 2014-16 period. With some revenue efforts, particularly on SGST to move closer to tax-GSDP ratio comparable to Major States average, along with some

expenditure side reforms particularly in power sector, the State should be able to achieve the target of 2.5 percent fiscal deficit. Additionally, there is a case for more Central transfers as the State has suffered decline in Central transfers after rerouting of CSS through State budgets. Given the prevailing fiscal challenges, it may be desirable for the State to follow a path of moderate fiscal stringency rather than a very strict path. The State may aim for a glide path towards fiscal deficit, targeting 3.25% of GSDP in FY25, followed by an annual reduction of 0.25 percentage points over the next three years to reach 2.5% of GSDP by FY28, and maintain it at that level thereafter.

**Table 7: Suggested Fiscal Deficit Targets**

Year	2025	2026	2027	2028	2029	2030	2031
Fiscal Deficit as % of GSDP	3.25	3	2.75	2.5	2.5	2.5	2.5

Centre should also consider providing transfers related to macroeconomic and fiscal stabilization function. For example, in an event of macroeconomic shock of more than 3 percent decline in the growth rate of GSDP compared to last three-years average, the State should be provided an additional transfer of 0.5 percent of GSDP considering the probable revenue shortfall due to lower tax base. Interest free concessional 50-years loans provided by the Centre under ‘Scheme for Special Assistance to States for Capital Investment can be redesigned to serve this function. Currently, the State FRBM Act mentions that revenue deficit and fiscal deficit may exceed the limits specified on grounds of shortfall in the central tax devolutions in relation to the budgetary estimates of the Union of India and/or unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or such other exceptional grounds as the State Government may specify. While the States should be permitted to build escape clause in the FRBM framework at State level to address macroeconomic shocks. Any escape clause should come with criteria and conditions to revert to fiscal discipline during normal times, which is currently not provided in the Act.

## 6 Conclusion

The analysis suggests that the State had consistently maintained revenue surpluses during the last decade, except for Covid-19 affected FY21 and FY22. However, the magnitude of the revenue surpluses has declined in the recent years. Further, declines in the revenue surplus were in general accompanied by a rise in fiscal deficit, while the State has focused on protecting capital expenditure. The earlier trend observed till 2019 of some sizable revenue surpluses that partly funded capital outlay and controlled fiscal deficit, is no longer there. In FY24, capital outlay has been entirely funded by higher fiscal deficit. Madhya Pradesh has consistently met its FRBM targets except for a breach in fiscal deficit limit by 0.14 percentage point during FY21. The deterioration of the revenue surpluses can largely be traced to declining revenue receipts along with expenditure towards power subsidies and new programs.

Considering recent macroeconomic trends in growth, inflation targeting, and savings rates, the State should aim to achieve a fiscal deficit of 2.5 percent of GSDP by FY28, aligning with the levels seen during FY13–16. This would help to stabilize the debt-to-GSDP ratio at 26.3 percent in the long-run. With enhanced revenue efforts, particularly improving SGST collections to align with the tax-to-GSDP ratio of Major States, along with targeted expenditure reforms, the State can meet this fiscal target. Additionally, there is a case for increased Central transfers, as the State has experienced a decline in such transfers during the rerouting of CSS funds through State budgets. Given the fiscal challenges, it may be prudent for the State to follow a path of moderate fiscal discipline rather than overly strict austerity. The State could adopt a fiscal deficit glide path, starting with 3.25 percent of GSDP in FY25, followed by a gradual annual reduction of 0.25 percentage points over the next three years, reaching 2.5 percent of GSDP by FY28, and maintaining it at that level thereafter.

## Chapter 4

### Analysis of the State's Transfers to Local Bodies

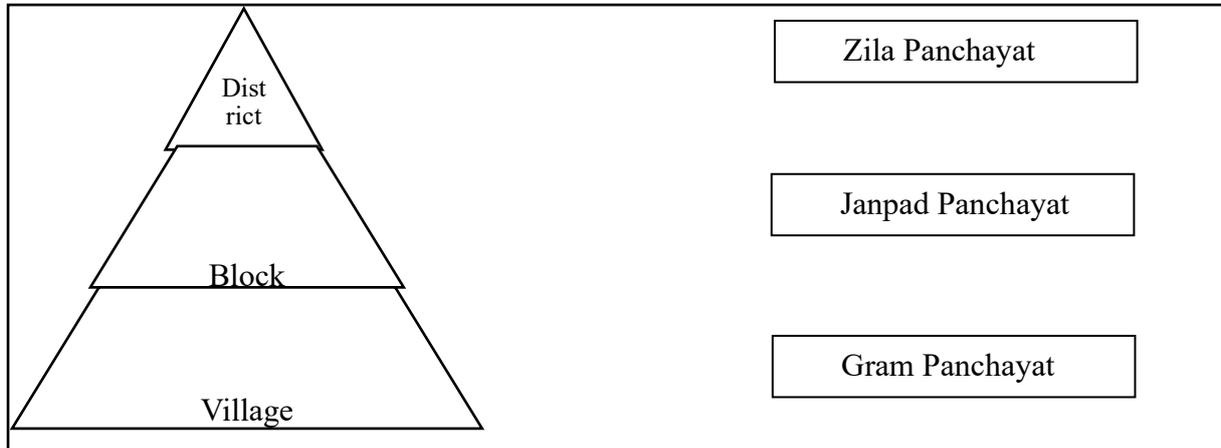
Decentralization involves the delegation of budgetary, administrative, and political duties to local urban and rural bodies. Essentially, decentralization serves as an approach to promote political stability and improve the delivery of public goods and services. Devolution of resources to local bodies is expected to result in a more accurate alignment of the local population's wants with the provision of services. The reason for this is that local authorities possess a superior understanding of local circumstances and are more readily available compared to leaders of Union or State Government. (Buchanan, 1950; Tiebout, 1954).

The Panchayati Raj Institutions (PRIs), which include Zila Panchayats, Janpad Panchayats, and Gram Panchayats, were established as rural local governing bodies in accordance with the 73rd amendment to the Constitution Act in 1992. Similarly, Urban Local Bodies (ULBs) such as Municipal Corporations, Municipal Councils, and Nagar Parishads, have been established as local governing authorities for urban regions in accordance with the 74th amendment. As a result, the State legislatures were obligated to empower and assign tasks to Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to enable them to function as self-governing bodies. It was anticipated that these organizations would experience empowerment not only in terms of their functionality but also in terms of their finances. This is significant because PRIs and ULBs have the responsibility of delivering essential civic amenities, including education and healthcare services, as well as the construction and upkeep of public infrastructure, at a local level. Annexure 1 and 2 provide details of devolution of functions to PRIs and ULBs respectively by the State Government.

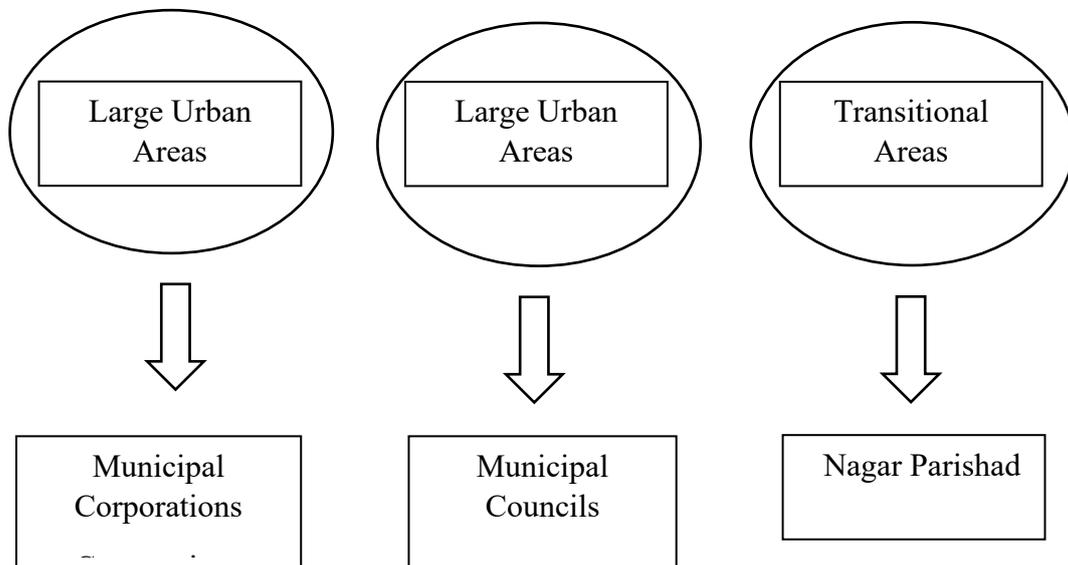
## 1. Administrative Set-Up

Panchayats follow the three-tier system as depicted in Figure 1:

**Figure 1: Administrative set-up of PRIs**



**Figure 2: Administrative set-up of ULBs**



Zila Panchayat (ZP) works at the district level, Janpad Panchayat (JP) is functional at the block level, and Gram Panchayat (GP) is operational at the village level. ZP is responsible for coordinating and supervising the activities of GP and JP. Analogously, ULBs comprises of three

segments, Municipal Corporation for large urban areas, Municipal Councils for smaller urban areas, and Nagar Parishads for areas in transition from a rural to an urban area (Figure 2).

**Table 1: Number of PRIs and ULBs in Madhya Pradesh**

		2005-06	2014-15	2015-16	2021-2022
<b>PRIs</b>	Zila Panchayat	48	51	51	51
	Janpad Panchayat	313	313	313	313
	Gram Panchayat	23051	22823	22825	22809
<b>ULBs</b>	Municipal Corporations	14	16	16	16
	Municipal Councils	87	98	98	99
	Nagar Parishad	237	264	265	292

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh.

As is evident in Table -1, there is an increase in number only for Nagar Parishads in the last eight years which is only a marginal increase. However, the number of Gram Panchayats has fallen over the last eight years. Panchayat and Rural Development Department oversees the activities of PRIs and is also responsible for guiding the all the three tiers to facilitate the smooth functioning and implementation of PRIs arrangements. Following standing committees of PRIs are constituted based on section 46 & 47 of Madhya Pradesh Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993.

**Figure 3: Standing Committees of PRIs**

<p>Standing Committees of GP:</p> <ul style="list-style-type: none"> <li>• General Administrative</li> <li>• Construction and Development</li> <li>• Education, Health, and Social Welfare</li> </ul>	<p>Standing Committees of ZP and JP:</p> <ul style="list-style-type: none"> <li>• General Administrative</li> <li>• Agriculture</li> <li>• Education</li> <li>• Communication and Works</li> <li>• Cooperation and Industries</li> </ul>
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On the other hand, ULBs are entrusted with powers subject to administrative control by the Urban Development and Housing Department.

## **2. Sources of Funds**

Local bodies typically lack adequate financial resources to effectively provide their essential services. The lack of funds is resolved by the grants provided by the State and Central Government, in accordance with the recommendations of the finance commission. PRIs and ULBs primarily rely on three sources of finance: government grants recommended by the Union and State Finance Commissions, own revenues, and other grants (which encompass assigned revenues to ULB bodies and grants schemes provided by the government of India and State share). The former comprises of funds allocated through the Union Finance Commission (UFC) and the share of divisible tax revenue determined by the suggestion of the State Finance Commission (SFC).

The 14<sup>th</sup> Union Finance Commission recommended that grants should be divided into two parts that are (i) An unconditional basic grant (ii) conditional performance grant. The allocation for the basic grant and performance grant has been divided based on a ratio of 90:10 for gram panchayats and 80:20 for Municipalities. The performance grant was contingent upon revenue enhancement, with the criteria, including the amount of incentive to be awarded, to be established by State Governments. To qualify for performance funds, local governments must demonstrate a growth in their own revenue sources and submit audited yearly financial statements. Municipalities were also required to annually report the service level benchmarks pertaining to fundamental urban services. Furthermore, the Ministry of Panchayati Raj (MoPR) established additional criteria for obtaining performance grants, including the completion of the Gram Panchayat Development Plan, the presentation of sector-specific expenditures on a dashboard, and the allocation of scores to Gram Panchayats based on (a) the percentage

increase in their own source revenue, (b) the open defecation free (ODF) status of the Gram Panchayats, and (c) the immunization rates within the Gram Panchayats.

The 15th Union Finance Commission report included several additions. The commission allocated grants to all three levels of panchayat, as well as to regions governed by the fifth and sixth schedules of the constitution and to cantonment boards in metropolitan areas. Fifty percent of the grants allocated to rural local authorities were contingent upon (a) sanitation and the upkeep of Open Defecation Free (ODF) status and (b) the provision of drinking water and rainwater harvesting. The grants were designated for a single year; hence no performance criteria were required for their disbursement.

### ***Revenues***

The sources of revenue for Municipal Corporations and Municipal Councils, as outlined in the MP Municipal Corporation Act of 1956 and the MP Municipal Council Act of 1961, include property tax, sanitary cess, lighting tax, fire tax, user charges, income from municipal enterprises such as land, markets, and shops, as well as grants-in-aid from the State Government as compensation for the abolition of octroi and passenger tax. PRIs obtain financial support according to the recommendations of Union Finance Commissions (UFCs) and State Finance Commissions (SFCs) established periodically. Additionally, PRIs generate their own revenue through taxes and fees in accordance with the stipulations of the PRI Act.

The source of revenue (In rupees crore) for PRIs are given in Table – 2 below. The trends in Table 2 clearly indicates that there has been an increase in the grants released based on the Union Finance Commission (UFC). Contrary to this, there is an opposite trend that shows a decline in the size and share of the funds released that based on recommendations of the State Finance Commission (SFC). The data presented in the table indicates that from a total receipt of Rupees 20,982 crore, the PRIs were able to generate merely two percent of the total receipts,

with the remainder coming from grants provided by the SFC and UFC. The revenue generated by PRIs comprises the collection of Water tax (71 percent), Property tax (22 percent), and Swachhata tax (6.43 percent) by Gram Panchayats (CAG,2023). Despite an Online Monitoring system, the own revenues of PRIs are merely 2 percent which clearly indicates a failure in developing own-tax revenues.

**Table -2: Release of UFC, SFC grants and own revenue of PRIs: 2016-2021 (Rs Cr)**

Year	UFC Grant (% of Total Revenue)	SFC Grant (% of Total Revenue)	Own Revenue	Total
2016-17	2,026(59%)	1,414(41%)	Data Not available from Panchayat Raj Directorate. Data taken from Panchayat Darpan Portal	3,440
2017-18	2,341(66%)	1,214(34%)		3,555
2018-19	2,708(63%)	1,597(37%)		4,305
2019-20	3,660(74%)	1,285(26%)		4,945
2020-21	3,984(91%)	393(9%)		4,377
<b>Total</b>	14,719 (70%)	5,903(28%)	360 (2%)	20,982

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh.

In the case of ULBs, the 14th Union Finance Commission mandated that States must disburse grants to urban local bodies (ULBs) within fifteen days of the funds being credited to their accounts by the Union Government. In the event of a delay, the State Government is required to disburse the instalment along with interest at the Reserve Bank of India's bank rate, funded from its own resources. Additionally, the 15th Finance Commission mandated to disburse grants to the ULBs within ten working days of receipt from the Union Government.

According to Section 87 of the Madhya Pradesh Municipal Corporation Act, 1956, and Section 105 of the Madhya Pradesh Municipalities Act, 1961, Urban Local Bodies generate their own revenue through various means such as taxes, rent, fees, and the issuance of licenses. The State comprises 407 Urban Local Bodies (ULBs), including 16 Nagar Palik Nigams (NN), 99 Nagar Palika Parishads (NPP), and 292 Nagar Parishads (NP). All NNs, 58 NPPs with total receipts above one crore (Property Tax and Rent), and 50 NPs with total receipts surpassing 50 lakhs (Property Tax and Rent) were selected for sampling (CAG,2023). Out of these, three NNs, six NPPs and seven NPs were chosen using the simple random sampling without replacement

method. Table -3 represents total receipts (Property tax and Rent) of these units during 2018-19 to 2021.

**Table -3: Total Receipts (Property Tax and Rent) of ULBs during 2018-19 and 2020-21.**

ULBs	ULBs Considered for Selection		ULBs Audited	
	No.	Receipt (Property Tax and Rent)	No.	Receipt (Property Tax and Rent)
<b>Nagar Palika Nigam (NNs)</b>	16	1,682	3	426
<b>Nagar Palika Parishad (NPPs)</b>	58	208	6	35
<b>Nagar Parishads (NPs)</b>	50	43	7	5

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh.

**Table 4: Major Sources of Own-Tax Revenues of MCs (In Rupees Crore)**

	<b>Octroi +Passenger Tax</b>	<b>Property Tax &amp; Rent</b>	<b>Composite Tax</b>	<b>Water Tax</b>
<b>2011-12</b>	237	56	38	35
<b>2015-16</b>	452	75	48	32
<b>(2018-2021 annual aveage)</b>	-	116.5	-	36.5

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh.

Table 4 provides details on the composition of own revenues for ULBs audited by the CAG. As is evident, we can see a huge increase in collection from property tax and rent. The octroi and passenger tax which used to be separate earlier is now under the umbrella of Goods and Services Tax (GST). Tax Compliance needs improvement in terms of implementation and decentralization. The data of budgets for Urban Local Bodies (ULBs) needs to be maintained for effective analysis and of operations of ULBs. Based on the latest Fifth State Finance commission report of Madhya Pradesh that came in 2019, 17 Zila Panchayats and 128 Janpad Panchayats, and have reported no income from their own sources which as per the commission is stated prima facie as “erroneous and worrisome”.

### ***Grants to ULBs and PRIs***

Table 5 presents recommendations by Union Finance Commissions (UFCs) over the years regarding the grants to be allocated to PRIs and ULBs. In the latest State Finances Audit Report of the Comptroller and Auditor General for Madhya Pradesh (2022), the data for period 2017-2021 has been given in aggregate so, in this report annual average has been taken for four years. There has been a significant increase in recommendations of grants to both ULBs and PRIs. There is a reduction of performance grants that needs to be allocated to PRIs for the years 2017-2021.

**Table 5: Recommendations of Union Finance Commission (₹ in crore)**

<b>Transfers to Local Bodies</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2017-18 to 2020-21 (Annual average)</b>	<b>2021-2022</b>
<b>Local Bodies</b>	<b>1,721</b>	<b>1,960</b>	<b>4,872</b>	<b>4,394</b>
<b>Grants to PRIs</b>	<b>1,224</b>	<b>1,463</b>	<b>3,445</b>	<b>2,944</b>
<b>General Basic Grants to PRIs</b>	728	1,463	3,173	2,944
<b>General Performance Grants to PRI</b>	495	-	272	0.00
<b>Grants to ULBs</b>	<b>444</b>	<b>496</b>	<b>1,426</b>	<b>1,450</b>
<b>General Basic Grants</b>	264	496	739	0.00
<b>General Performance Grants to ULBs</b>	180	-	208	0.00
<b>Million Plus Cities</b>	-	-	149	452
<b>Non – Million Plus cities</b>	-	-	330	998
<b>Special Areas Grant to Local Bodies</b>	<b>53</b>	-	-	-

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh.

Madhya Pradesh appointed 1<sup>st</sup> and 2<sup>nd</sup> State Finance Commission who gave recommendations for 1996-2001 and 2001-06 period respectively. The third SFC gave recommendations for 2006-11 but, its recommendations remained in force for 2006-18 period. Recommendations of

the 4<sup>th</sup> SFC remained in force for 2018-20. The purpose was that the award period for 15<sup>th</sup> UFC and 5<sup>th</sup> SFC can be synced from 2021 onward. As per the recommendations of Third State Finance Commission, four and one percent of divisible tax revenue were to be devolved to PRIs and ULBs respectively. This was increased to 5.5 and 2 percent of the divisible pool by the 4<sup>th</sup> SFC. Recognizing the growing responsibilities of local bodies, the 5<sup>th</sup> SFC recommended for devolution of 7.75 and 2.25 percent of divisible tax revenue to PRIs and ULBs respectively. Divisible fund refers to previous year own tax revenue minus 10 percent of expenditure for tax collection minus deductions of assigned revenue to PRIs and ULBs. The devolution for 11 years from period 2011-2022 shown in Table 6.

**Table 6: Devolution of Funds from the Divisible Fund to ULBs and PRIs (₹ in crore)**

Year	Expected	Actual	Excess (Short)
<b>ULBs</b>			
2011-12	174	141	(33)
2012-13	202	202	-
2013-14	239	170	(69)
2014-15	256	270	14
2015-16	289	271	(18)
2017-18	319	326	7
2018-19	321	309	(12)
2019-20	368	305	(63)
2020-21	427	300	(127)
2021-22	415	330	(85)
<b>PRIs</b>			
2011-12	696	568	(128)
2012-13	809	809	-
2013-14	957	809	(148)
2014-15	1027	591	(436)
2015-16	1,157	910	(247)
2017-18	1,278	1,099	(179)
2018-19	1,284	923	(361)
2019-20	1,473	381	(1,092)
2020-21	1,711	329	(1,382)
2021-22	1,660	295	(1,365)

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh.

In both ULBs and PRIs, there is clear evidence (Table 6) for increasing trend in shortfall of devolution of funds to ULBs and PRIs. Relatively, PRIs are facing huge shortfall of funds. The reason cited in the report State Finances Audit Report for Madhya Pradesh (CAG,2022), for this shortfall is the Covid 19 Pandemic. The situation highlights the shortage of funds for the smooth functioning of ULBs and PRIs. Few data discrepancies in terms of marginal difference in the amount number has been found in the CAG (2023) reports as well. (Refer Table 2 and Table 6)

Table 7 and 8 depict the receipts and expenditure of PRIs and ULBs respectively. In the case of PRIs, the Grants in Aid has increased by 33 % from period 2015-16 to 2019-20. In the case of ULBs, in the same period, the increase for ULBs is 66 % but declined a year after, majorly due to Covid 19 pandemic. In the recent data (Table 7 and Table 8), the savings rate (Unspent Funds) has varied between 5% to 25 % for period between 2019-2021 for PRIs and between 6% and 32% for ULBs for the same period. CAG Report (2023) mentions that this was mainly due to considerable unspent balances in the revenue head, without giving any further insights in this issue.

**Table 7: Receipts and Expenditure of PRIs (₹ in crore)**

Year	Grants in Aid			Actual Expenditure			Unspent Funds	Unspent funds (%)
	Revenue	Capital	Total	Revenue	Capital	Total		
2011-12	7,670	241	7,911	6,698	365	7,063	848	11
2012-13	8,949	346	9,295	8,386	345	8,731	563	6
2013-14	10,753	214	10,966	9,151	91	9,242	1,724	16
2014-15	18,871	77	18,948	13,209	13	13,222	5,726	30
2015-16	21,045	111	21,155	15,273	2	15,275	5,880	28
2019-20	28,216	4,524	32,740	20,600	4,064	24,663	8,077	25
2020-21	21,370	4,115	25,485	21,005	3,189	24,194	1,291	5
<b>Total</b>	<b>1,16,873</b>	<b>9,627</b>	<b>1,26,500</b>	<b>94,322</b>	<b>8,069</b>	<b>1,02,391</b>	<b>24,109</b>	

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh

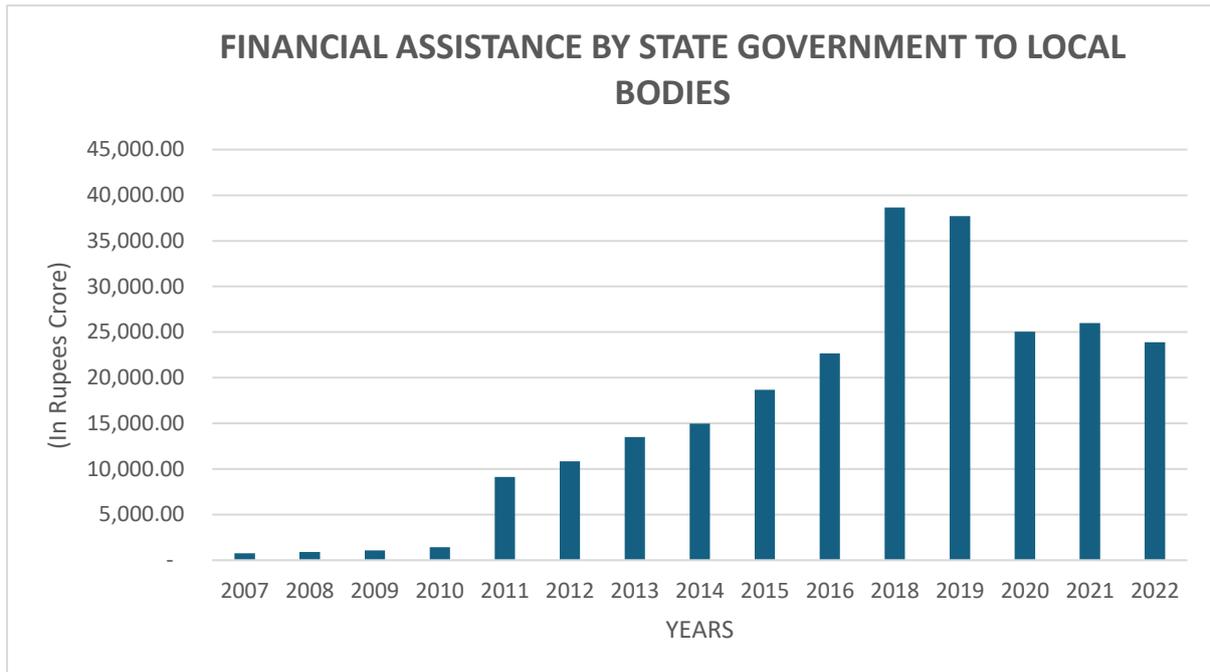
**Table 8: Receipts and Expenditure of ULBs (₹ in crore)**

Year	Grants in Aid			Actual Expenditure			Unspent Funds	Unspent Funds (%)
	Revenue	Capital	Total	Revenue	Capital	Total		
2011-12	4,148	208	4,356	3,743	153	3,896	461	11
2012-13	5,272	215	5,487	4,880	139	5,018	469	9
2013-14	6,548	124	6,672	5,436	53	5,489	1,183	18
2014-15	6,719	33	6,752	5,282	13	5,294	1,458	22
2015-16	8,897	366	9,263	8,351	140	8,490	773	8
2016-17	13,097	942	14,038	10,847	247	11,094	2,945	21
2017-18	13,218	1,670	14,888	12,008	667	12,675	2,213	15
2018-19	16,673	1,722	18,395	12,745	875	13,620	4,775	26
2019-20	15,489	1,621	17,110	10,525	1,094	11,618	5,491	32
2020-21	12,383	1,912	14,295	11,567	1,881	13,447	847	6
<b>Total</b>	<b>1,02,443</b>	<b>8,814</b>	<b>1,11,257</b>	<b>85,383</b>	<b>5,260</b>	<b>90,641</b>	<b>20,615</b>	

Source: CAG Reports on Local Bodies for Government of Madhya Pradesh

Figure 4 reveals the financial assistance given by the State Government of Madhya Pradesh to local bodies. The data clearly suggest that there has been a significant increase in the assistance provided by the State Government, but it declined after the 2019 due to the Covid 19 pandemic. (CAG,2023)

**Figure 4: Financial Assistance to Local Bodies (₹ in crore)**



Source: CAG Reports on Local Bodies for Government of Madhya Pradesh.

### 3. Accounts and Audit

Table 9 presents the number of PRIs and ULBs which were audited during 2016-2021. The proportion of performance audit varies from 0.08% (Gram Panchayat) to 19.6% (Zila Panchayat). In the case of ULBs, it varies from 13.3 % (Nagar Parishad) to 37.5% (Municipal Corporations). In the latest report for local bodies (CAG,2023), the performance audit has been done considering different indicators.

**Table 9: Number of PRIs and ULBs which were audited during 2016-21 CAG report for local bodies (2023)**

		<b>Total Number</b>	<b>Performance Audit</b>	<b>Proportion (%)</b>
<b>PLIs</b>	Zila Panchayat	51	10	19.6%
	Janpad Panchayat	313	20	6.38%
	Gram Panchayat	22809	20	0.08
<b>ULBs</b>	Municipal Corporations	16	6	37.5%
	Municipal Councils	99	18	18.1%
	Nagar Parishad	292	39	13.3%

*Source:* CAG Reports on Local Bodies, Government of Madhya Pradesh

Looking at the PRIs, the audit on the infrastructure works revealed that the funds allotment of ₹475.56 Crores (86 %) out of ₹552.50 crores have remained unutilized because of a provision imposed by the department regarding new works until circulation of new scheme guidelines. The audit revealed that the 163 works that were selected, only 14 of them (8.6%) were completed within prescribed time. The audit of Urban Local Bodies (ULBs) indicated that 77% have not attained the objective of 100% water connections, and 37% have not met the target for toilet coverage. Similarly, 62% and 52% of ULBs have not met the established standards for solid waste segregation and the acquisition of recyclable materials from that waste, respectively.

As of March 2021, the latest report on local bodies (CAG,2023) highlighted that around Rupees ₹1754. 10 crore was recoverable in the form of tax which includes property tax, composite tax, education and development cess for ULBs. It included ₹ 638.20 crore as arrears and only 30% of the amount (₹550.59 crore) was recovered. In the case of non-tax revenue, (Water Charges, license fees, land and building rent etc.), an amount of ₹174.71 crore (56.97%) have been recovered from 31 ULBs against the total demand of ₹306.66 crore which included ₹215.59

crore as arrears of previous years. As of March 2021, the entire unpaid tax and non-tax revenue amounted to ₹1,335.46 crore.

#### **4. Recommendations for Improving Governance in Local Bodies**

The latest Fifth State finance commission of Madhya Pradesh for period 2020 -2026 gave certain recommendations for improving local governance –

- (i) Delimitation of Gram Panchayats with as limited population as possible and provisions for additional special grants for new division/district for a period of 5 years for infrastructure works and providing basic services.
- (ii) Recommended additional special tourism grants for smaller urban and rural local bodies since municipal bodies with important tourist destinations are rich. The amount of the grant has been specified as Rupees 1 crore for each Municipal Corporation/Municipal Council of 13 urban areas and Rupees 50 lakh annually for respective district Panchayats.
- (iii) Urban Local Bodies (ULBs) with population of more than a lakh have been advised to get their credit ratings for smooth financing of loans through Municipal Bonds and other instruments. In 2023, Indore Municipal Corporation Launched its first green bonds for financing green infrastructure Projects.
- (iv) The Panchayat and Rural Development Department and Urban Development and Housing Department are advised to reintroduce annual statistical data collection from subordinate local bodies, verify, compile, and publish it.

#### **5. Urbanization in Madhya Pradesh**

Urbanizing India's towns, villages, and small cities is crucial for making India an economic powerhouse. Madhya Pradesh is the second largest state in terms of geography and the fifth

largest in terms of population. Based on the 2011 census, 27.63 percent of its population lives in an urban area. Speeding up the urbanization process in the state can benefit the state economy and contribute to the nation's GDP.

The economic survey (2023-2024) highlighted that with support from the central government, various schemes were being launched in association with the national mission on sustainable habitat, which is being implemented under the Atal Mission for Rejuvenation and Urban Transformation, the Swachh Bharat Abhiyan, and the Smart Cities Mission. Urban Development and Housing Department's annual report (2022-2023) mentioned the Chief Minister's Urban Infrastructure Development Scheme, which was launched in 2012 for the development of urban foundational infrastructure. It was planned to be rolled out in four phases, and currently, the fourth phase is going on in which focuses on road construction, urban transportation, sports infrastructure, park development, and office building construction.

To provide homes under the central government scheme of Pradhan Mantri Awas Yojana – Urban, 4,67,397 housing units were approved between 2018-2019 and 2023-2024 for both the components of the scheme (Beneficiary Led Construction and Land Pool Housing). Grants amounting to Rs. 15,489.82 crores were disbursed. To increase connectivity within the cities, Rs. 6941.40 crores and Rs. 7500.80 crores were approved in 2018 for the Bhopal and Indore Metro rail projects, respectively. A recent notification by the government stated that policies like the transfer of development rights (TDR), the integrated township policy 2025, and the green floor area ratio (FAR) will be implemented for ensuring sustainable urban growth. These policies will help integrate the two regions, the first of which includes the cities of Indore, Ujjain, Dewas, and Dhar. The second region comprises Bhopal, Sehore, Raisen, Vidisha, and Biora (Rajgarh). These policies seek to convert these clusters into substantial economic hubs, increasing the state's jobs, business, and investment prospects.

Increasing urbanization is an important driver of rising energy demands. (Jones, 1989). In February 2025, Reuters reported that National Thermal Power Corporation Limited (NTPC) plans to invest more than 2 trillion rupees (\$23.07 billion) in renewable energy projects in the state. This will help the state increase its energy capacities, leading to better implementation of urbanization reforms.

The state still has a long way to go in urbanizing its cities. Based on a summary report by Niti Aayog on its state profile, the state's life expectancy (67.4 years) is still below the national average (70 years). Regarding household access to electricity, the state performs at par with the national average but lags in access to safe drinking water and sanitation facilities. Proper implementation of these policies with relevant data-driven insights can be a catalyst in urbanizing Madhya Pradesh's cities and helping them improve their GSDP and increase their growth rate.

## **6. Conclusion**

Pursuant to 73rd and 74<sup>th</sup> constitutional amendments, rural and urban local bodies were set in the State. Major sources of funding for the local bodies are resources received from the Union and State Finance Commissions (UFCs&SFCs). The State has constituted SFCs but with some irregular frequency. The recommendations of the latest Fifth State Finance Commission report are for the period 2020-2026. There has been shortfall in resource transferred to local bodies compared to recommendations made by SFCs.

Effective governance of local bodies is prerequisite for providing quality basic services to the public. Both the ULBs and PRIs should be strengthened in terms of their financials that their dependence on transfers reduce they are able to increase their own sources of revenue. Improvements in policy measures for local bodies can only be made with robust data collection

and coordination among between different local bodies and the State Government. This will help in conducting regular assessments and data backed relevant policy measures.

## Annexure 1: Devolution of Functions to Panchayati Raj Institutions

S. No.	Function
1	Agriculture, including agricultural extension
2	Land improvement, implementation of land reforms, land consolidation and soil conservation
3	Minor irrigation, water management and watershed development
4	Animal husbandry, dairying and poultry
5	Fisheries
6	Social forestry and farm forestry
7	Minor forest produce
8	Small scale industries, including food processing industries
9	Khadi, village and cottage industries
10	Rural housing
11	Drinking water
12	Fuel and fodder
13	Roads, culverts, bridges, ferries, waterways and other means of communication
14	Rural electrification, including distribution of electricity
15	Non-conventional energy sources
16	Poverty alleviation programme
17	Education, including primary and secondary schools
18	Technical training and vocational education
19	Adult and non-formal education
20	Libraries
21	Cultural activities
22	Markets and fairs
23	Health and sanitation, including hospitals, primary health centres and dispensaries
24	Family welfare
25	Women and child development
26	Social welfare, including welfare of the handicapped and mentally retarded
27	Welfare of the weaker sections, and in particular of the Scheduled Castes and Scheduled Tribes
28	Public distribution system
29	Maintenance of community assets

**Annexure 2: Devolution of Functions to Urban Local Bodies by State Government**

S. No.	Function
1	Urban Planning including Town Planning
2	Regulation of land-use and construction of buildings
3	Planning for economic and social development
4	Roads and bridges
5	Water supply for domestic, industrial and commercial purposes
6	Public health sanitation, conservancy and solid waste management
7	Fire services
8	Urban forestry, protection of the environment and promotion of ecological aspects
9	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded
10	Slum improvement and up-gradation
11	Urban poverty alleviation
12	Provision of Urban amenities and facilities such as parks, gardens, playgrounds
13	Promotion of cultural, educational and aesthetic aspects
14	Burials and burial grounds; cremations, cremation grounds and electric crematoriums
15	Cattle pounds, prevention of cruelty to animals
16	Vital Statistics including registration of birth and deaths
17	Public amenities including street lighting, parking lots, bus stops and public conveni
18	Regulation of slaughter houses and tanneries

## Chapter 5

### Impact of State Public Enterprises on State Finances

#### 1. Introduction

The State Public Sector Undertakings (PSUs) (comprises of government companies and statutory corporations)<sup>4</sup> are established to maintain a balance between their respective commercial activities and welfare of the people. Profits and dividends earned by State PSUs are one of the revenues sources for the State. The State has a considerable stake in PSUs. Apart from capital contributions, the State Government also provides loans, grants, subsidies, and besides acts as a guarantor for PSUs borrowings. Hence, analysing the financial health of PSUs deserves particular attention for the State Government. The chapter addresses this purpose and considers data from the last eleven years 2012-13 to 2021-22 to investigate the position of PSUs in Madhya Pradesh. For simplicity, 2012-13 will be referred to as 2013, 2013-14 will be referred to as 2014 and so on.

In 2022, there were 72 PSUs out of which 69 (96 %)<sup>5</sup> were government companies and rest are statutory corporations. The government companies include 15 companies which are unoperational, of which duration of inactivity varies from three to 32 years. No PSU was listed on the stock exchange. They accommodate various industries such as power, manufacturing, finance, service, infrastructure, etc. The working PSUs registered a turnover of ₹ 89,699.74 crores and contributed nearly 7.67% of Gross State Domestic Product (GSDP). Also, they incurred an aggregate loss of ₹ 6,523.12 crores during the same year. As per the latest finalised accounts, out of 72 PSUs, 32 PSUs for which accounts were finalized reported that, 13 PSUs earned a profit of ₹ 1,797.34 crores, and 11 PSUs incurred a loss of ₹ 6,523.12 crores. Eight

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<sup>4</sup> The government pays minimum capital of 51% for a company to be called as government company while government contributes full capital in statutory corporations.

<sup>5</sup> The report states that 60 are government companies and 9 are government controlled other companies.

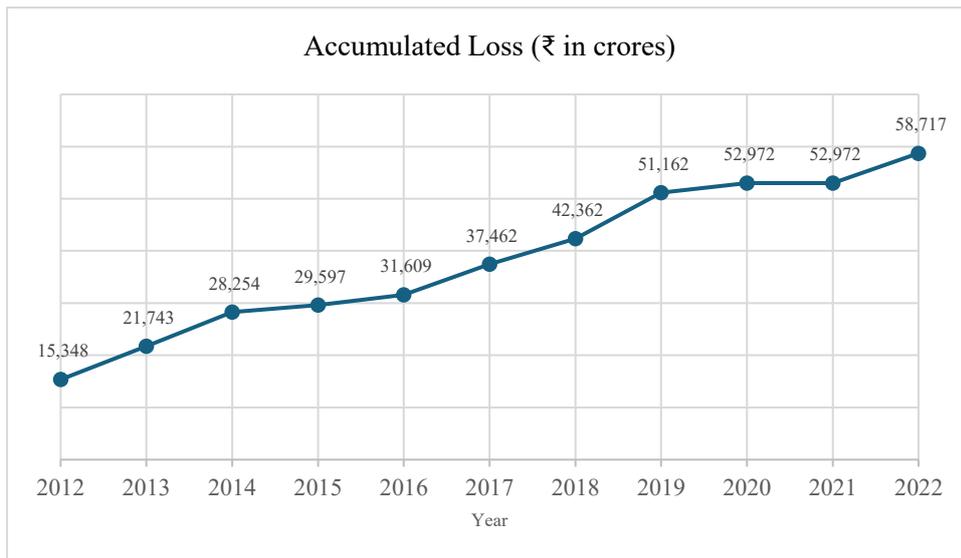
PSUs prepared their accounts on 'no profit no loss' basis. In spite of the formulation of dividend policy in 2005, which requires all PSUs to pay at least 20 percent return on profit after tax, the State Government of Madhya Pradesh received the dividend of ₹ 25.95 crore from only five PSUs. Therefore, 27 profit-making PSUs did not pay dividend violating the dividend policy. This observation has been made by the CAG for earlier years as well. However, there are no details available on action taken on this issue in the CAG reports. Persistence of this issue in the CAG reports suggest either the State Government has been unable to force the SPSUs to release mandated dividends, or it has chosen to ignore this issue. This highlights the unnecessary and unproductive expenditure on the shoulders of State Government.

## **2. Financial Performance of PSUs**

The number of PSUs have significantly increased during the last eleven years. From 2012, the PSUs increased from 64 to 72 in 2022. Most of the new PSUs were established in power sector and highlights the focus of government towards accelerating the power sector reforms. Table 1 captures the financial performance of PSUs in Madhya Pradesh for the last eleven years. It is witnessed that although turnover is increasing, so does debt, interest payments and more crucially accumulated loss. The accumulated loss has increased from ₹ 15,348 Crores (2012) to ₹ 58,716.7 Crores (2022) over a period of eleven years. The trend is depicted in Figure 1. The major contributor of loss in the latest year was Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL), Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPaKVVCL) and Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL). This depicts the deteriorating operational and financial performance of PSUs in Madhya Pradesh. The present situation of PSUs is worrisome not only for PSUs but the government of Madhya Pradesh as well. Further, the percentage of PSUs' turnover to State GDP has started to decrease post 2016 from 13.86% to

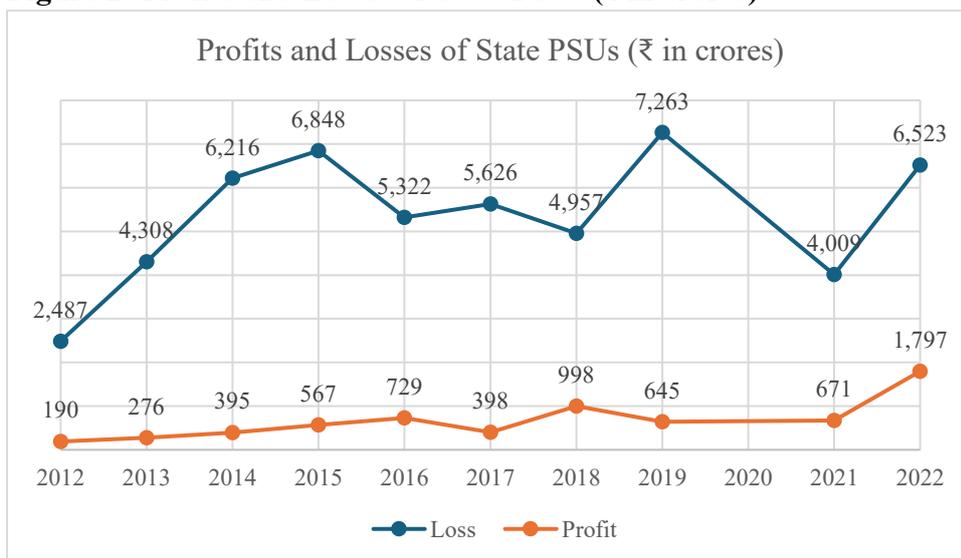
7.67 percent indicating a negative marginal contribution of PSUs to State GDP. Lastly, interest payment has systematically increased from ₹ 1,601.69 to ₹ 5,674.47 from 2012 to 2022 apart from a drastic rise in 2020 and 2021.

**Figure 1 Accumulated Loss by PSUs (₹ in crores)**



Source: CAG Reports on Public Sector Undertakings and CAG Reports of State Finances, Government of Madhya Pradesh.

**Figure 2: Profits and Losses of State PSUs (₹ in crores)**



Source: CAG Reports on Public Sector Undertakings and CAG Reports of State Finances, Government of Madhya Pradesh.

**Table 1 Performance of PSUs in Madhya Pradesh (₹ in crores)**

Year	Debt	Turnover	Debt/Turnover ratio	State GDP	% of Turnover to State GDP	Interest Payments	Implicit Interest rate on Debt (Interest as % of Debt)	Accumulated Loss
2012	21,671.00	37,949.30	0.57:1	3,05,158	12.44	1,601.69	7.40	15,348.30
2013	28,932.20	58,237.30	0.50:1	3,61,270	16.12	2,715.97	9.40	21,743.30
2014	34,988.50	59,860.10	0.58:1	4,34,730	13.77	3,382.32	9.70	28,254.00
2015	37,178.90	61,264.40	0.61:1	5,08,006	12.06	4,064.62	10.90	29,597.30
2016	46,322.00	78,315.90	0.59:1	5,65,053	13.86	4,616.10	10.00	31,609.10
2017	54,459.87	79,662.70	0.68:1	6,39,220	12.46	3,563.82	6.54	37,461.72
2018	47,888.25	81,694.55	0.59:1	7,07,047	11.55	4,391.68	9.17	42,362.43
2019	54,264.57	92,696.40	0.59:1	8,09,327	11.45	4,826.96	8.90	51,161.95
2020	-	-	-	9,27,855*	-	7,236.99	-	52,971.59
2021	-	99,211.48	-	9,17,555	10.81	7,236.99	-	52,971.59
2022	-	89,699.74	-	11,69,004	7.67	5,674.47	-	58,716.70

Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

Note: (i) All figures relate to all PSUs, but turnover which is for working PSUs and (ii) % of turnover to State GDP shows the range of PSUs activities in the State economy. (iii) The information post 2019 is taken from CAG Reports on State Finances, Government of Madhya Pradesh. (iv) The (-) indicate missing information. (v) \* State GSDP is extracted from Ministry of Statistics and Programme implementation, GOI.

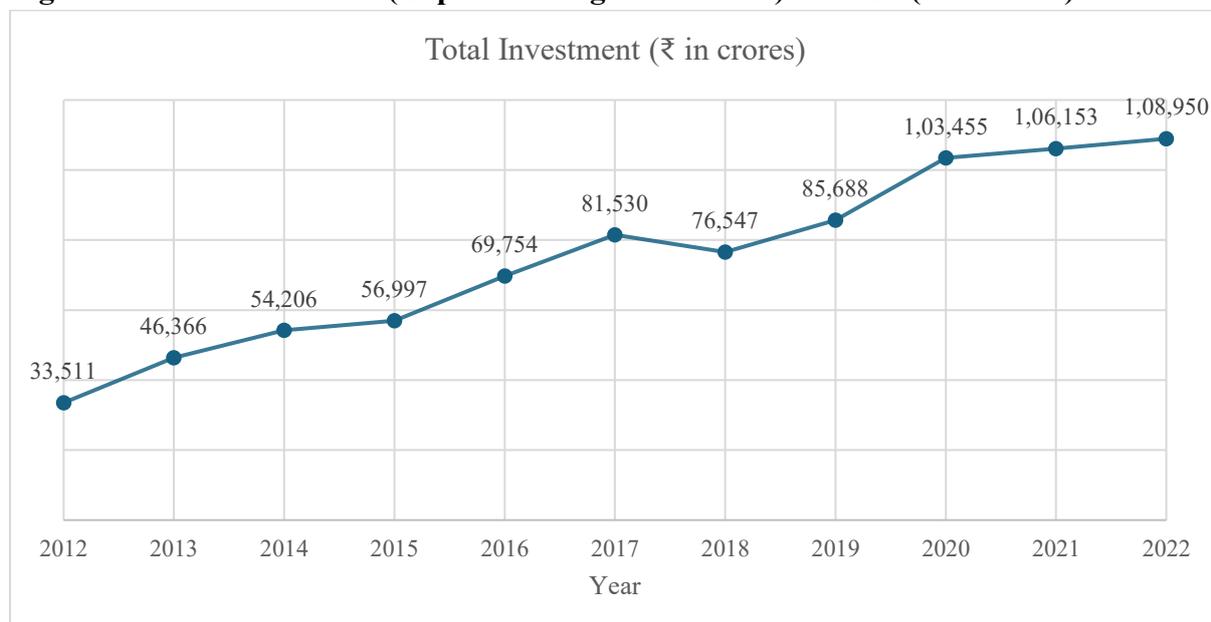
Overall increase in accumulated losses incurred by PSUs in the last eleven years is depicted in Figure 1. Figure 2 represents trends in profits and losses of State PSUs. The trend shows a mixed pattern wherein losses steadily increased from 2012 to 2015 and experienced a decrease 2016 onwards till 2018. The major loss-making PSUs are in the power sector (three PSUs) incurring a loss of ₹ 7,158.48 crore. Post 2019, the reports do not bifurcate financial performance based on power and non-power sector. However, the report indicates that in 2022, there were 13 profit-making PSUs, 11 loss-making PSUs, and 8 no-profit no-loss making PSUs. The three PSUs which contributed to 93.10 percent in profits for 2021-22 are: Madhya Pradesh Power Transmission Company Ltd. (₹ 1,072.27 crores), Madhya Pradesh Warehousing and Logistics Corporation (₹ 301.15 crores), and Madhya Pradesh Power Generating Company Ltd. (₹ 299.98 crores). Also, in the last eleven years, i.e., from 2012 to 2022 profit increased 9.45 times while the losses increased only 2.62 times. But, due to a more substantial base value of the loss, the absolute loss outweighs profits and consequently results in overall losses incurred by PSUs.

### **3. Investment in PSUs**

The total investment in PSUs is depicted in Table 2. The investment has increased 3.25 times in the last eleven years. The trend of total investment is illustrated in Figure 3. Despite the poor performance of PSUs, State Government continues to provide financial assistance in the form of capital and long-term loans which have increased 4.35 and 2.65 times respectively from 2012 to 2022. In 2021-22, ₹ 1,179.83 crores increase in equity capital investment was registered out of which 60 percent of equity capital investment was registered in Madhya Pradesh Power Transmission Company Limited (₹ 711.92 crores) while rest of it was registered in Madhya Pradesh Metro Rail Company Limited (₹ 427.91 crores), Madhya Pradesh Power

Generating Company Limited (₹ 30 crores), and Madhya Pradesh State Assets Management Company Limited (₹ 10 crores).

**Figure 3: Total Investment (Capital + Long-term Loans) in PSUs (₹ in crores)**



Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

**Table 2 Investment in PSUs (₹ in crores)**

Year	Total Investment	Capital	Long-Term Loans
2012	33,511.30	11,840.31	21,670.93
2013	46,365.90	17,433.68	28,932.22
2014	54,206.20	19,217.58	34,988.55
2015	56,997.40	19,818.50	37,178.97
2016	69,754.40	21,096.96	48,657.38
2017	81,529.50	26,390.85	55,138.65
2018	76,547.14	27,729.66	48,817.48
2019	85,687.61	29,976.18	55,711.43
2020	1,03,455.08	47,824.47	55,630.61
2021	1,06,152.75	49,794.15	56,358.60
2022	1,08,949.63	51,517.44	57,432.19

Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

Note: (i) The information post 2019 is taken from CAG Reports on State Finances, Government of Madhya Pradesh.

#### 4.1. Sector-Wise Turnover in PSUs

Table 3 presents the sector-wise turnover in PSUs. The table indicates the turnover is mainly concentrated in the power sector. Out of the total turnover, 98% was directed towards the power sector in the latest year. The corresponding figure is 82% for 2021. Thus, implies the domination of power sector in Madhya Pradesh PSUs.

**Table 3: Sector-wise Turnover in PSUs**

Sector	Number of State PSUs		Turnover (₹ in crore)		% share of turnover in Gross SGDP	
	2021	2022	2021	2022	2021	2022
Power	7	7	81,962.91	88,423.00	8.93	7.56
Agriculture and Allied	3	2	997.96	1,013.19	0.11	0.09
Services	12	8	15,925.79	58.36	1.74	0
Infrastructure	9	9	79.73	23.5	0.01	0
Manufacturing	6	5	180.07	120.08	0.02	0.01
Finance	2	1	65.02	61.61	0.01	0.01
Total	39	32	99,211.48	89,699.74	10.81	7.67

Source: CAG Reports on State Finances, Government of Madhya Pradesh  
Note: Number of state PSUs includes PSUs covered in the CAG reports which stands at 39 and 32 for 2021 and 2022 respectively.

#### 4. Budgetary Outgo and Grants/Subsidies

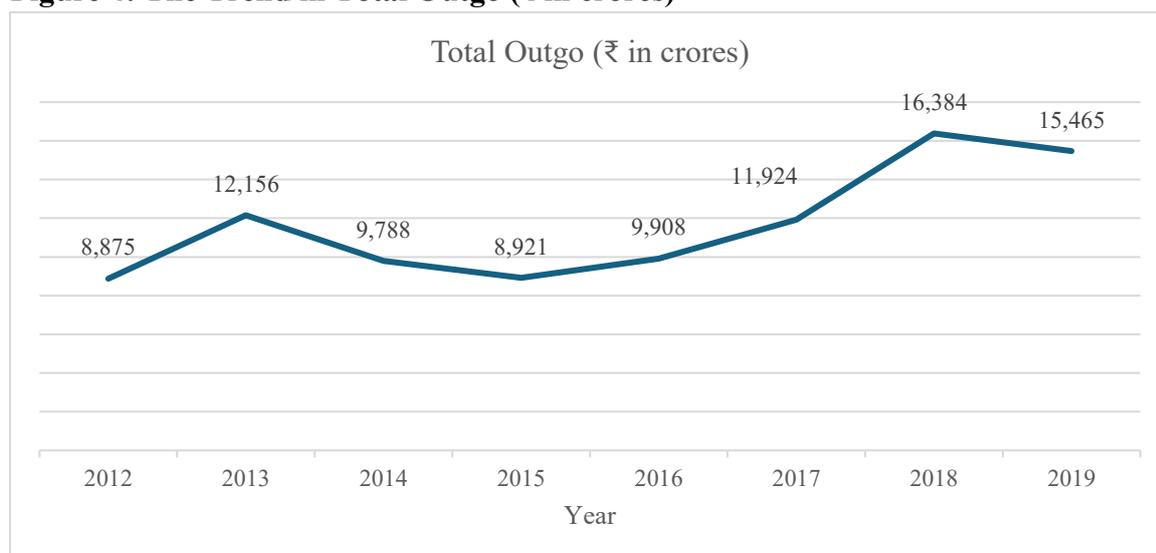
The budgetary outgo, in the form of equity capital and loans, and grants/subsidies from the State Government of Madhya Pradesh to the working PSUs for last eleven years is provided in Table 4, and the subsequent trend is depicted in Figure 4. It may be noted that the magnitude of grants/subsidy has increased substantially since 2012 from ₹ 5,981.37 to ₹ 32,768.78 in 2022. Budgetary outgo has although increased substantially in the last eleven years, the trend was not linear. For example, the outflow once peaked in 2013 after which it falls till 2015 and rises again in subsequent years.

**Table 4: Budgetary Outgo and Other Grants/Subsidies (₹ in crores)**

Year	Equity Capital Outgo	Loans	Other grants/subsidy	Total Outgo
2012	1,147.38	1,745.99	5,981.37	8,874.74
2013	1,418.65	2,148.50	8,588.93	12,156.10
2014	1,544.67	3,786.50	4,456.45	9,787.62
2015	803.10	2,060.14	6,058.22	8,921.46
2016	468.57	1,216.82	8,222.61	9,908.00
2017	307.51	3,511.91	8,104.38	11,923.80
2018	4,938.94	490.62	10,954.93	16,384.49
2019	1,863.89	675.16	12,926.12	15,465.17
2020	-	-	20,058.08	-
2021	1,742.23	-	20,414.17	-
2022	1,179.83	-	32,768.78	-

Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

Note (i) The information post 2019 is taken from CAG Reports on State Finances, Government of Madhya Pradesh. (ii) The (-) indicate missing information.

**Figure 4: The Trend in Total Outgo (₹ in crores)**

Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

Additionally, in 2021-22, the State Government has provided a guarantee amounting to ₹ 5,091.49 crore for loans taken by nine PSUs. Moreover, the guarantee outstanding by State Government stands at ₹9,107.71 crore for five PSUs whereas guarantee committed is ₹ 2,160.10 crore for 3 PSUs for the year 2021-22.

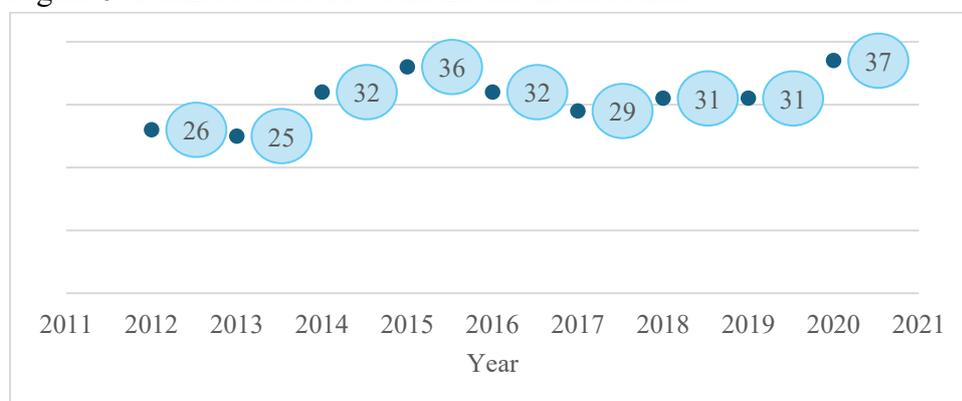
## 5. Discrepancy between Finance Accounts vis-à-vis Records of PSUs

Every year CAG highlights the difference in the equity, loans, guarantees outstanding as per finance Accounts vis-à-vis records of PSUs. This difference from 2012 onwards is indicated in Table 5. It was noted that the differences in 2019 accrue to PSUs in the power sector. For instance, out of the total difference of ₹ 5,281.73 crores in equity, ₹ 4,936.35 crores are registered in the power sector. Among the non-power PSUs, the major difference was observed for Madhya Pradesh Industrial Development Corporation (₹ 982.50 crore) towards guarantee. Despite noting these discrepancies year after year no corrective measures were taken either by the State Government or PSUs. There should be a mechanism to resolve these differences promptly.

## 6. Arrears in the Finalization of Accounts

As per the Companies Act 2013, companies are required to finalize their financial statement within six months from the end of the relevant financial year. Table 6 provides the details of the progress made by working PSUs in concluding their respective financial statements and figure 5 depicts the trend in number of PSUs with arrears in accounts. It also sheds light on the data on the arrears in the finalization of accounts.

Figure 5: Number of PSUs with Arrears in Accounts



Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

**Table 5 Differences in amount as per State Finance Accounts and Record of PSUs (₹ in crores)**

Year	Equity			Loans			Guarantees		
	State	PSUs	Difference	State	PSUs	Difference	State	PSUs	Difference
2012	9,038.64	11,412.70	2,374.04	1,220.99	11,579.40	10,358.40	3,900.24	2,429.15	1,471.09
2013	9,414.00	12,355.80	2,941.75	21,190.60	17,072.80	4,117.85	6,281.62	5,303.11	978.51
2014	4,160.69	13,283.40	9,122.70	30,686.30	20,859.30	9,827.06	8,115.21	7,873.52	241.69
2015	4,511.22	16,291.90	11,780.70	15,017.40	24,692.40	9,675.02	15,676.60	8,958.90	6,717.72
2016	8,783.96	14,298.80	5,514.79	17,883.40	30,938.60	13,055.20	6,071.84	5,907.42	164.42
2017	17,231.86	14,668.29	2,563.57	22,723.87	33,349.22	10,625.35	11,462.86	3,709.32	7,753.54
2018	27,820.13	20,100.38	7,856.30	34,281.33	28,310.95	6,143.10	4,454.96	3,901.27	1,065.43
2019	32,089.99	26,808.26	5,281.73	35,357.67	30,289.35	5,208.50	7,945.86	9,418.91	1,465.15
2020	27,671.70	27,717.49	45.79	33,490.50	28,546.00	4,944.50	3,432.34	4,240.50	808.16
2021	-	-	-	-	-	-	-	5,297.52	-
2022	-	-	-	-	-	-	-	9,107.71	-

Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

Note: (i) The information post 2019 is taken from CAG Reports on State Finances, Government of Madhya Pradesh.

(ii) The (-) indicate missing information.

**Table 6 Arrears in the Finalization of Accounts**

S. No.	Particulars	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	Working PSUs	55	55	58	58	58	55	58	55	54
2	Accounts finalised during the year	50	49	47	59	56	48	54	51	17
3	Accounts in arrears	63	64	84	77	79	54	56	57	75
4	Average arrears per PSU (3/1)	1.15	1.16	1.45	1.33	1.36	0.98	0.97	1.04	1.39
5	PSUs with arrears in accounts	26	25	32	36	32	29	31	31	37
6	Extent of Arrears (in years)	1 to 8	1 to 9	1 to 10	1 to 11	1 to 12	1 to 13	1 to 14	1 to 15	1 to 16

Source: CAG Reports on Public Sector Undertakings and CAG Reports on State Finances, Government of Madhya Pradesh.

## 7. Conclusion

The total number of State PSUs in the State of Madhya Pradesh has increased from 64 to 72 in the last eleven years. The overall losses incurred by PSUs has increased dramatically from 2011-2012 (₹ 2,487.49 crores) to 2021-2022 (₹ 6,523.12 crores). Moreover, the accumulated losses have increased by 3.8 times in the last eleven years. Meanwhile, PSUs' turnover share to Gross State Domestic Product decreased from 12.44 percent to 7.67 percent during the last eleven years. On the upside, the investment in the State PSUs has increased 3.25 times in the last eleven years. This increase is mainly attributed to Power Sector as its turnover contributes more than 90 percent in the total share of PSU turnover to state's GDP. Both, capital and long-term loans have significantly increased while capital has increased by 4.35 times whereas long-term loans rose by 2.65 times. The share of grants/subsidy in total outgo has increased dramatically from 2011-2012 (67%) to 2018-2019 (83%). The differences in the amounts of equity, loans, guarantees outstanding as per State finance accounts vis-à-vis records of PSUs is quite substantial in the last few years specifically for the loans segment. On an average, every year, 30 working PSUs experienced arrears in their respective financial accounts with having extent of arrears ranging from 1 to 16 years.

Our examination of the financial performance of State public sector undertakings (PSUs) and their effect on the State Government highlights significant issues. PSUs are consistently incurring substantial losses each year with only marginal improvements in their contribution to the state GDP. Despite these poor results, the State Government continues to invest heavily through capital and long-term loans. Additionally, the share of grants and subsidies in the budget has surged dramatically over the past decade specially post 2019,

particularly in the power sector. Furthermore, delays in finalizing accounts and discrepancies between State finance records and PSU figures regarding equity, loans, and guarantees raise serious concerns about potential mismanagement and fraud.

The analysis suggests that the fundamental goal of establishing PSUs, i.e., to enhance social welfare and stimulate economic growth which is dubious in the current scenario. Several steps could be taken to address the current issues with PSUs. First, it is essential to focus on liquidating non-performing PSUs to redirect financial and administrative resources more effectively. Second, PSUs are operating in sectors where private enterprises are already performing well, leading to a potential waste of resources. Lastly, the State should grant PSUs greater flexibility in their financial and administrative decisions. This approach would not only lessen the State's burden but also foster a sense of autonomy within the PSUs.

## Chapter 6

### Impact of Power Sector Reforms on State Finances

#### 1. Introduction

With few changes in transmission, reform in the power sector—including delicensing and competitive bidding—have mostly occurred in the generating segment. Still the weakest link in the power sector value chain, nevertheless, the distribution segment suffers from problems including unsustainably low tariffs and significant Aggregate Technical and Commercial (AT&C) losses. State utilities mostly control the distribution sector; hence the ensuing losses seriously affect State budgets. The average AT&C losses for distribution utilities in MP have varied; they peaked in 2020-21 at 41% then dropped to 20.55% in 2022-23. Substantial numbers for agricultural sales and unmetered sales for both residential and agricultural users help to explain the high AT&C losses in MP. Although the State under the UDAY program targeted to reduce AT&C losses to 15% by 2018-19, the real losses despite some progress - remains higher. Table 1 shows MP's AT&C losses from 2013–14 to 2023–24.

**Table 1: Aggregate Technical and Commercial Losses (%)**

Item	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
AT & C losses (%)	28.03	32.55	30.45	28.12	29.61	36.01	30.38	41.47	22.55	20.55	23.28

Source: Power Finance Corporation (PFC) Report on “The Performance of State Power Utilities for the years 2013-14 to 2023-24”.

#### 2. Unbundling of power sector in Madhya Pradesh

Following the split of Madhya Pradesh and Chhattisgarh, the Madhya Pradesh State Electricity Board (MPSEB) was formed on November 1, 2000, replacing the earlier Madhya

Pradesh Electricity Board (MPEB) that had been in place since November 1, 1956. The State Government enacted (February 2001) the Madhya Pradesh Vidyut Sudhar Adhiniyam, 2000 (MPVSA 2000) which inter alia provided for re-organisation of electricity industry. The State Government accordingly formulated (30 September 2003) the Madhya Pradesh Power Sector Reforms Transfer Scheme, 2003 (MPPSRT Scheme 2003) for unbundling of Madhya Pradesh State Electricity Board (MPSEB) into five power sector companies wholly owned by the government. The responsibility of energy generation has been assigned to one company (sl.no.1), while one has been assigned the job of energy transmission (sl.no.2). Energy distribution in each of the other three regions is handled by the corresponding firms (sl. no.3-5). An entity known as MP Power Trading Co. Ltd. (TRADECO) was spun off from the rest of MPSEB in June 2006. Afterwards, MP Power Trading company Ltd is now known as MP Power Management Company Ltd. (sl. no. 6), per an order from the GoMP. In addition, all of Madhya Pradesh's DISCOMs have been assigned to report to the MP Power Management Company, which serves as its parent organisation. The assets, liabilities, and current proceedings of MPSEB were merged into M.P. Power Management Company. This leaves us with the following six operating firms:

1. MP Power Generation Co. Ltd. Jabalpur.
2. MP Power Transmission Co. Ltd. Jabalpur.
3. MP Poorv Kshetra Vidyut Vitaran Co. Ltd. Jabalpur.
4. MP Madhya Kshetra Vidyut Vitaran Co. Ltd. Bhopal.
5. MP Paschim Kshetra Vidyut Vitaran Co. Ltd. Indore.
6. MP Power Management Co. Ltd., Jabalpur.

The involvement of the private sector in the distribution sector is quite limited, and power is sold via distribution utilities controlled by State Governments. M.P has considered the option

of privatising the distribution network in a few locations, notably Ujjain, as a means to boost revenue collection and reduce theft and losses. The Electricity (Amendment) Bill, 2022 was presented in the Lok Sabha in August 2022 with the purpose of modifying the 2003 Act. The Bill aims to eliminate the need of possessing a network for the dissemination of power. If implemented, this bill may create space for service delivery and reduction in AT&C through competition.

### **3. Power Sector Reforms**

The Madhya Pradesh Power Management Company (MPPMCL) is responsible for procuring electricity for distribution firms (DISCOMs). When DISCOMs' revenue is inadequate to cover operational expenses and power purchase commitments, they generally seek loans from multiple sources, including the Government of Madhya Pradesh, Power Finance Corporation Limited, and Rural Electrification Corporation Limited. To resolve the outstanding loans of power distribution companies and improve the financial feasibility of distribution companies, the Government of India implemented Ujjwal Discom Assurance Scheme (UDAY) on November 20, 2015. The States were required to take over 50% of DISCOM debt in 2015-16 and 25% in 2016-17. States were allowed to issue non-SLR State development loan (SDL) bonds in the market or directly to banks / FIs holding the DISCOM debt to the appropriate extent. Non-SLR bond issued by the State could have a maturity period of 10-15 years with a moratorium on repayment of principal upto 5 years as required by the State.

Madhya Pradesh had signed a Memorandum of Understanding with the Ministry of Power, Government of India on August 10, 2016 to participate in the UDAY scheme. Under the UDAY

scheme, the State Government committed to take over distribution companies' debt of ₹ 26,055 crores which was about 75% of the total debt at ₹ 34,739 crores as of September 30, 2015. The scheme also provided for the balance debt of ₹ 8,684 crores to be re-priced at coupon rates 3 per cent less than average previous interest rate. The restructuring of debt could provide an annual saving in interest cost of around ₹ 2,215 crore for distribution companies.

Regarding the implementation of the UDAY scheme, the CAG (2022) in its reported noted that clause 7.1 (h) of the UDAY scheme rules mandates that the State Government must furnish 25% of the debt takeover as equity support and 75% as a grant. In the Memorandum of Understanding (MoU), the equity support was specified at 29.05% (₹7,568 crore) of the total takeover, with 4.05% designated for conversion to a grant after five years—this conversion remained outstanding as of December 2021. As a result, this non-compliance led to a revenue shortfall of ₹1,054.25 crore for the DISCOMs in the fiscal years 2016-17 and 2017-18.

The GoMP finally assumed just ₹12,690 crore of the ₹26,055 crore in debt it had pledged to take on under the MoU. Furthermore, the DISCOMs neglected to issue bonds for funding their deficits and instead chose to get loans with elevated interest rates. Consequently, owing to the inability to assume debts and the supplementary load of working capital loans, the outstanding debt levels of the DISCOMs only marginally diminished following the Scheme's conclusion (as of 31 March 2020) to ₹34,727.04 crore, in contrast to the pre-UDAY figure of ₹34,739 crore. Owing to the inadequacy in debt assumption and the execution of related operations specified in the MoU, the DISCOMs persisted in shouldering a debt liability of ₹13,365 crore. Consequently, although the GoMP partially assumed the debt, the overall debt condition of the DISCOMs improved only slightly, while accumulated losses surged by 48.50% from 2015-16 to 2019-20.

Under the UDAY scheme, targets have been set to improve the operational efficiency of distribution companies. The scheme includes 100% feeder metering, metering of distribution transformers, consumer indexing, C.I. There is a provision for mapping work to be done. According to the provisions of the scheme, in the first phase, there is a plan to install smart meters in the premises of consumers with consumption of more than 500 units per month and in the second phase, in the premises of consumers with consumption of 200 units to 500 units. By implementing the set targets of UDAY scheme, efforts have been made to improve the financial viability of distribution companies by reducing AT&C losses. Sources (Annual Administrative report 2022-23, Department of Energy MP). CAG (2022) noted that the DISCOMs could have potentially improved their operational efficiency via infrastructure enhancements, including the installation of smart meters, energy audits, and metering of feeders and distribution transformers—strategies outlined in the action plan developed by the Energy Department of GoMP in July 2018. Nonetheless, their performance in these essential domains remained inadequate.

Under the Deen Dayal Upadhyaya Gram Jyoti Yojana, a total of 50 projects worth Rs. 2,886 crores were approved for feeder bifurcation, metering, distribution system strengthening and rural electrification works. The scheme included works of 145 sub-stations (33/11 kV), 2,1590 km of 11 kV line, 25,633 km of LT line with provision for intensive electrification of villages including 20,393 mazras / hamlets and works of intensive electrification of 46 villages under Sansad Adarsh Gram Yojana. Under the scheme, along with intensive electrification of 19,557 villages and providing connections to all beneficiaries living below the poverty line, 145 sub-stations (33/11 kV), 21815 km of 11 kV line, 25888 km of LT line were sanctioned. The work of LT line and intensive electrification has been completed in all 46 Sansad Adarsh

Grams. The work of all 50 projects has been completed and the work completion reports of those projects have been sent to REC Limited.

#### **4. Cost Recovery and Losses**

The judgement handed down by the Appellate Tribunal for Electricity (ATE) in 2011 concerning the action taken by the State Electricity Regulatory Commissions (SERCs) ensured periodic tariff revisions by DISCOMs. Despite the fact that tariff increases were implemented at the appropriate time and on a regular basis, they were not proportional to the rising cost of electricity, which had a negative impact on the State utilities' financial health. In accordance with UDAY, the gap between the average cost of supply (ACS) per unit of electricity and the average revenue realised (ARR) per unit of power were to be eliminated by the end of the 2018-2019 fiscal year; however, the actual situation is drastically different. In the fiscal year 2017-18, the revenue grant under the UDAY plan was recorded as income at a total of ₹ 15,100 crore, whereas in the fiscal year 2016-17, it was recorded at ₹ 13,833 crore.

A breakdown of the ACS-ARR Gap (in kilowatt-hours) over the period of 2013-2014 to 2023-2024 is shown in table 2. Two substantial trends are evident in an overall evaluation of Madhya Pradesh (MP) State Utilities' financial performance during the 2013-14 to 2023-24. Initially, MP has encountered an exceptionally high level of losses during this time, which increased till 2018-19. Secondly, there has been a substantial improvement during the last two years, as evidenced by a decrease in losses. Improvements were notable in 2022-23. The industry cut its losses and became profitable on subsidy realised basis.

**Table 2: Cost of Supply and Revenue Realization (₹ /KWh)**

Item	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ACS-ARR Gap (subsidy booked basis)	1.25	0.88	0.9	0.25	0.8	0.99	0.24	0.52	0.38	0.3	0.51
ACS-ARR Gap (subsidy/revenue on realized basis)	1.21	0.98	0.99	0.39	0.78	1.3	0.69	1.23	0.26	-0.2	0.17
<b>Revenue Gap Adjusted for UDAY Grant and Regulatory Income</b>											
ACS-ARR Gap (subsidy/revenue on realized basis)			0.87	0.81	0.88	1.39	0.79	1.23	0.26	-0.2	0.17

Source: Power Finance Corporation (PFC) Report on "The Performance of State Power Utilities for the years 2013-14 to 2015" and PFC Interim Report on "Performance of State Power Utilities for the years 2014-15 to 2023-24"

CAG (2022) also noted that commercial losses persisted at elevated levels, mostly attributable to inadequate enhancements in billing and collection efficiency. The primary factors contributing to the shortfall in billing efficiency targets included elevated distribution losses due to the absence of Smart meters and Distribution Transformer (DT) meters, a significant occurrence of provisional billing, and billing inaccuracies, such as the application of incorrect tariff categories. Billing efficiency experienced a slight enhancement from 76.55% in 2015-16 to 79.59% in 2019-20, while collection efficiency declined from 97.08% to 85.78% in the same year. The primary factors contributing to the negative ACS-ARR gap were the rise in power purchase costs, staff expenses, and interest and finance charges.

The audited financial documents by CAG (2022) indicate that the power purchase cost for the fiscal year 2014-15 was ₹3.73 per unit. The DISCOMs mistakenly estimated this cost at ₹3.45 per unit for 2014-15 and ₹3.59 per unit for 2015-16. The subsequent forecasts of power purchase prices in the MoU, based on an assumed annual increase of four percent, resulted in

an underestimation of total power purchase expenses by ₹7,022 crore in the following years.

In a similar vein, the real staff expenditure for 2014-15 amounted to ₹2,386 crore, whereas the MoU erroneously estimated it at ₹2,352 crore for 2015-16, resulting in an underreporting of personnel expenditures by ₹1,664 crore for the entire duration included by the MoU.

**Table 3: Losses in Power Sector (₹ Crore)**

Item	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenue on subsidy received basis (excluding for UDAY grants and Regulatory Income) (₹ Crore)	16,386	17,638	19,845	20,650	31,783	32,251	36,330	37,228	47,849	55,652	57,252
Profit/(loss) on accrual basis (PAT)	-6,941	-6,065	-5,630	-1,421	-5,064	-7,159	-1,744	-4,152	-3,315	-2,683	-4,886
Profit/(loss) on accrual basis as percentage of Aggregate Revenue (%)	-42.36	-34.38	-28.37	-6.88	-15.93	-22.2	-4.8	-11.15	-6.51	-4.82	-8.53
Profit/(loss) on Tariff subsidy received basis	-6,947	-6,115	-5,629	-1,073	-4,970	-9,390	-5,028	-9,884	-2,354	1,842	-1,662
Profit/(loss) with tariff subsidy received excluding Regulatory income and Revenue Grant under UDAY for loan takeover	-9,141	-10,383	11,047	-8,157	-12,914	10,143	-5,762	-9,884	-2,354	1,842	-1,662

Source: Power Finance Corporation (PFC) Report on "The Performance of State Power Utilities for the years 2013-14 to 2023-24"

Table 3 shows MP State Utilities' revenues and profit/losses during 2013-14 to 2023-24. The grant that was awarded to MP State Utilities via the UDAY Scheme was recognised as income in the company's profit and loss statement from the years 2016 through 2023. As these were onetime transfers, the analysis is carried out excluding regulatory income and revenue grants under UDAY for loan takeover. Total revenue on subsidy received basis (excluding for UDAY grants and Regulatory Income) and profit/loss on the accrual basis for MP Utilities shows that the firms had difficulties during the years 2017-2018 and 2018-2019, as seen by the considerable rise in losses as a proportion of sales during both years. There are a number of potential causes for these

difficulties, including but not limited to higher operating expenses, inadequate subsidies, and other financial stresses. In 2022, the aggregate losses have witnessed a significant decrease, as assessed in percentage terms. As discussed before, the industry cut its losses and became profitable on subsidy realised basis in 2022-23 amounting to ₹ 1,842 Crores. However, industry remained lossmaking in 2023-24.

## 5. Liabilities in Power Sector

The liabilities of the power sector's can be seen in table 4. There are two tables: table 4a covering the years 2013–14 through 2016–17 consist of total outstanding debt for entire power sector, and table 4b covering the years 2017–2022–23 providing breakup of liabilities from generation, transmission and distribution sector.

**Table 4(a): Outstanding Debt of Power Sector (₹ Crore)**

Item	2014	2015	2016	2017
Total Outstanding Debt (₹ Crore)	41,198	48,677	54,209	54,261
State Government Loans (₹ Crore)	18,152	30,010	23,458	25,891
State Govt. Loans as percentage of Total Outstanding Debt (%)	44.01	61.65	43.27	47.71

Source: Power Finance Corporation (PFC) Report on "The Performance of State Power Utilities for the years 2013-14 -2016-17

Power generating liabilities were rather consistent, reaching a high of ₹15,984 crore in 2020-21 and then falling to ₹14,506 crore the following year. A rise of almost 256% from 3,122 crore in 2017–18 to 11,115 crores in 2022–23 was seen in transmission liabilities. Additionally, trading obligations went up and down, peaking at ₹4,594 crore in 2020-21 and settling at ₹3,356 crore in 2022-23. The overall rise in total liabilities, which was mainly caused by growing transmission and distributions obligations, increased from 57,918 crore in 2017-18 to 74,674 crore by 2022-23. The percentage of overall sector liabilities owed to State Government

fell from 52.83% to 46.71%, suggesting that other liabilities in the sector grew faster, as State Government loans went up from ₹30,599 crore to ₹34,882 crore.

**Table 4(b): Liabilities from Generation, Transmission and Distribution Sector (₹ Crore)**

Liabilities	2018	2019	2020	2021	2022	2023
Liabilities from Generation (₹ Crore)	14,110	15,369	15,984	15,953	15,183	14,506
Liabilities from Transmission (₹ Crore)	3,122	3,915	5,079	5,378	6,778	11,115
Liabilities from Trade (₹ Crore)	1,166	2,243	2,956	4,594	3,361	3,356
Total Liabilities from GENCOs/TRANSCOs and Trading utilities	18,398	21,527	24,019	25,925	25,322	28,977
Total Liabilities from Distribution utilities	40,686	45,512	48,208	45,521	48,376	49,053
Total (G,T,D) (₹ Crore)	57,918	64,796	69,271	66,852	70,337	74,674
State Government Loans (₹ Crore)	30,599	31,857	33,662	35,669	35,668	34,882
State Govt. Loans as percentage of Total G T & D Liabilities (%)	52.83	49.17	48.59	53.36	50.71	46.71

Source: Power Finance Corporation (PFC) Report on "The Performance of State Power Utilities for the years 2017-18- 2022-23

## 6. Expenditure and Composition of Sectoral Sales for Discoms

Table 5a compares Madhya Pradesh's electricity distribution firms (Discoms) financial performance for 2022-23 with that for Gujarat, Punjab, and All India. Madhya Pradesh's operational performance is significantly challenging, as indicated by its financial data. The State's revenue from operations was a mere ₹25,870, while it recorded an expenditure of ₹53,810. This leads to an operational loss of ₹27,940, which is a significant 51.92% of the total expenditure, at a level somewhat comparable to Punjab. Operational losses as share of total expenditure at All-India average was 31.02 percent, while neighbouring Gujarat had controlled operational losses at 13.55 percent of the total expenditure. Madhya Pradesh's Discoms received a tariff subsidy of ₹27,185 and booked a tariff subsidy of ₹22,660, emphasising the critical role these subsidies play in sustaining its operations of the DISCOMs. Table 5b shows that state discoms in Madhya Pradesh continued to report large operational losses, at ₹31,149

crore, or 52.87% of their total expenditures in 2022-23. Punjab and Gujarat, on the other hand, reported smaller losses, at 42.22% and 6.31% of spending, respectively. Madhya Pradesh's total revenue on subsidy received basis (57,252 crore) barely met its expenses (58,914 crore), despite the state receiving ₹26,859 crore in tariff subsidies. Madhya Pradesh's discoms continue to rely significantly on subsidies, exposing significant operational and financial inefficiencies, in contrast to Gujarat, which demonstrated a superior cost-revenue balance.

**Table 5a: Expenditure and Revenues of State Discoms in Cr (2022-23)**

Item	India	Madhya Pradesh	Punjab	Gujarat
Expenditure	10,23,587	53,810	44,090	84,976
Revenue From Operation	7,06,046	25,870	21,990	73,463
Operational Profit (Loss)	-3,17,541	-27,940	-22,100	-11,513
As % of Expenditure	-31.02	-51.92	-50.12	-13.55
Tariff Subsidy Booked	1,69,532	22,660	15,501	10,478
Other Income and Revenue Grants	68,086	2,597	1,823	1,919
Total Revenue on subsidy booked basis	9,67,325	51,127	39,314	85,859
Tariff Subsidy Received	1,83,227	27,185	18,902	10,478
Total Revenue on subsidy received basis	9,57,359	55,652	42,715	85,859

Source: Power Finance Corporation (PFC) Report on "The Performance of State Power Utilities for the 2022-23"

**Table 5 b: Expenditure and Revenues of State Discoms in Cr (2023-24)**

Item	India	Madhya Pradesh	Punjab	Gujarat
Expenditure	10,65,240	58,914	43,164	77,699
Revenue From Operation	7,49,811	27,765	24,940	72,792
Operational Profit (Loss)	-3,15,429	-31,149	-18,224	-4,907
As % of Expenditure	-29.611	-52.871	-42.22	-6.31
Tariff Subsidy Booked	2,10,784	23,635	17,631	10,757
Other Income and Revenue Grants	81,432	2,629	1,394	1,425
Total Revenue on subsidy booked basis	10,42,960	54,028	43,965	84,974
Tariff Subsidy Received	2,05,300	26,859	18,277	10,537
Total Revenue on subsidy received basis	10,36,543	57,252	44,611	84,754

Source: Power Finance Corporation (PFC) Report on "The Performance of State Power Utilities for the 2023-24"

**Table 6a: Sales of output (%) for 2019-20 & 2020-21**

Category	2020- 21				2019-20			
	India	Madhya Pradesh	Punjab	Gujarat	India	Madhya Pradesh	Punjab	Gujarat
Domestic	31.57	27.85	30.81	16.34	29.43	26.37	29.44	15.07
Commercial	8	5.08	6.6	6.09	10.29	5.78	8.45	0.39
Agricultural	23.89	42.6	26.24	25.31	21.42	42.02	24.01	23.33
Industrial	25.28	18.67	33.03	47.63	28.2	19.16	36.54	56.67
Others	11.27	5.8	3.31	4.63	10.66	6.22	1.56	4.54
Gross Energy sold (MU)	9,61,385	58,828	49,729	79,758	9,87,976	55,753	48,050	80,732
A& T losses	22.32	41.47	18.03	11.91	20.73	30.38	14.35	11.79

Source: Power Finance Corporation (PFC) Report: "The Performance of State Power Utilities for the years 2020"

Table 6a shows the composition of sale of electricity to different sectors of economy for 3 States and All-India average in 2019-20 to 2020-21. This comparison shows that Madhya Pradesh had the highest share for agricultural sales at 42.6%, even higher than Punjab. On other hand, industrial consumption at 18.67 percent was lower than other two States and All-India average. Table 7 shows composition of revenue receipts for power sector. Agricultural sector accounting for nearly 42 percent of the power consumption in Madhya Pradesh contribute only 3 percent of the revenue. Thus, the burden is shifted to other consumers as cross-subsidy or budgetary tariff subsidy. Similar data from PFC's publication are not available for subsequent years. However, data for 2021-22 and 2022-23 (Table 6b and Table 6c) taken from All India Electricity Statistics General Review also show persistent financial pressures from low yielding consumers where agriculture continued to account for nearly 40 percent of the total consumption for Madhya Pradesh.

**Table 6 b: Electrical Energy Sales (%) to Ultimate Consumers Category wise/state wise Utilities (2022-23)**

		Total (All India)	Madhya Pradesh	Gujarat	Punjab
Domestic		27.94	25.40	14.24	29.93
Commercial		9.27	6.13	5.54	7.42
Industrial Power	Low & Med. Voltage	7.15	2.18	11.59	1.57
	High Voltage	25.90	17.75	48.12	32.05
Public Lighting		0.67	0.61	0.16	0.27
Traction		2.38	3.89	0.78	0.78
Agriculture		19.29	39.32	17.33	23.59
Public Water Works & Sewage Pumping		2.45	2.95	1.90	0.00
Miscellaneous		4.96	1.76	0.34	4.39
<b>Total Energy Sold (GWh )</b>		<b>1264102.81</b>	<b>70422.49</b>	<b>124100.8</b>	<b>58532.41</b>

Sources: All India Electricity Statistics General Review 2024

**Table 6 c: Electrical Energy Sales (%) to Ultimate Consumers Category wise /state wise Utilities (2021- 22)**

		Total (All India)	Madhya Pradesh	Gujarat	Punjab
Domestic		29.77	26.40	15.71	27.65
Commercial		8.51	5.58	4.79	6.76
Industrial Power	Low & Med. Voltage	6.72	2.18	16.02	5.37
	High Voltage	26.68	16.27	47.26	31.40
Public Lighting		0.83	0.64	0.17	0.30
Traction		1.92	3.57	0.71	0.48
Agriculture		20.01	40.49	12.95	23.50
Public Water Works & Sewage Pumping		2.32	2.84	2.08	1.20
Miscellaneous		3.24	2.02	0.32	3.33
<b>Total Energy Sold (GWh )</b>		<b>11,41,484.97</b>	<b>65,502.03</b>	<b>1,06,469.10</b>	<b>53,489.47</b>

Sources: All India Electricity Statistics General Review 2023

**Table 7: Revenue composition (%) for 2019-2020 & 2020-21**

Category	2020-21				2019-20			
	India	Madhya Pradesh	Punjab	Gujarat	India	Madhya Pradesh	Punjab	Gujarat
Domestic	22.67	13.8	24.05	15.07	21.22	17.15	22.08	14.01
Commercial	11.82	6.7	8.58	0.41	14.07	7.47	9.57	0.31
Agricultural	3.89	3.06	0	2.69	2.81	2.41	0	2.27
Industrial	31.3	22.12	33.6	65.05	33.07	24.27	32.17	67.84
Others	8.68	4.8	-1.25	2.15	9.06	3.53	7.13	2.17
Tariff Subsidy	21.63	49.53	35.02	14.63	19.15	45.17	29.05	13.39
Revenue (cr)	6,04,599	39,559	31,565	47,233	6,22,022	37,028	31,714	49,891

Source: Power Finance Corporation (PFC) Report: "The Performance of State Power Utilities for the years 2020"

Madhya Pradesh has launched several new schemes. Atal Grih Yojana according to the State Government's 19.08.2019 decision, the Atal Grih Jyoti Yojana helps all home customers who consume up to 150 units per month. Distribution companies get State Government subsidies for the first 100 units consumed by qualified consumers, who pay a maximum of ₹ 100. Electricity Regulatory Commission rates apply. Consumer LV up to 30 units per month and 100 watts combined are covered. Poor Scheduled Caste/Tribe customers pay ₹ 25 per month and get State assistance. This intends to cover almost 85% of the State's domestic consumers. Hence, in addition to agriculture, domestic consumption also receives subsidy from State finances, while their share in revenue receipt for DISCOMs has declined in 2021.

## 7. Solar Agricultural Pump

Given the high share of agricultural sector in power consumption, use of solar-based irrigation technology can be helpful in increasing environmental sustainability and finances of the power sector. Under PM-KMSY (Pradhan Mantri Krishak Mitra Surya Yojana) the state set aside ₹447 crore in the 2025–2026 budget to provide solar pumps to 40 lakh farmers. Farmers can contribute up to 40% of the cost, with the program offering a minimum 30% subsidy each by central and state governments. Farmers may be required to pay only 5–10% up front thanks to bank financial help; the rest 30% can be borrowed. This project intends to irrigate

6.57 lakh hectares and supply potable water to 44 lakh people, with a focus on drought-prone areas like Bundelkhand and the Betwa basin. However, the eligibility criteria mandate that applicants must own agricultural land and not have existing electric pumps in operation. Since the purpose of such program should be to reduce grid-power consumption, it is desirable to extend the scheme to farmers with electric pumps.

Separately, the state is targeting to install 52,000 solar irrigation pumps of 5KW each with a combined capacity of about 250 MW. Farmers can purchase these pumps on a first-come, first-served basis, and the federal government (30%), state governments (30%), and farmers (40%) split the price. Currently, the state spends around ₹50,000 per pump, hence the subsidy cost is expected to be recovered in two years, as these pumps will not require power from grid. By decreasing problems like power interruptions during peak seasons, the effort seeks to make farmers independent of the grid.

The state is also implementing the Mukhyamantri Solar Pump Scheme as a state-run initiative that offers solar pumps with a horsepower range of 1 to 10 HP. Subsidies range from 65% to 90%, depending on the pump's capacity. For example, a farmer must contribute ₹34,000 for a 3 HP DC submersible pump and ₹68,000 for a 5 HP AC submersible pump. In order to lessen dependency on diesel pumps and encourage environmentally friendly irrigation techniques, the program gives priority to regions without electrical infrastructure.

## **8. Conclusion**

In 2002, Madhya Pradesh split its electricity industry into generating, transmission, and distribution businesses. MP's power sector has undergone significant reforms, primarily in the generation segment through delicensing and competitive bidding. However, the distribution segment continues to face severe challenges, including unsustainably low tariffs and substantial AT&C losses. High losses can be attributed to unmetered agricultural and residential sales.

Despite efforts under the UDAY scheme, which aimed to reduce AT&C losses to 15% by 2018-19, the losses remained elevated at 20.55% in 2022.

Under UDAY scheme the State Government committed to absorb ₹26,055 crores of DISCOM debt (75% of the total debt as on September 2015). However, the State ultimately assumed only ₹12,690 crores, falling short of its pledge. The DISCOMs' inability to issue bonds and their reliance on high-interest loans limited improvements in debt levels. The UDAY program also aimed to enhance operational efficiency through infrastructure investments, including smart meters, energy audits, and better metering systems. However, CAG's 2022 audit highlighted insufficient progress. Operational performance showed significant challenges between 2013-14 and 2022-23. The financial health of MP's utilities deteriorated until 2018-19, but losses reduced in subsequent years. By 2022-23, the industry reported a profit on a subsidy-realized basis, amounting to ₹1,842 crores. Yet, commercial losses remained high due to ineffective billing and collection processes.

In 2022-23, Madhya Pradesh recorded an operational loss of ₹27,940 crores, equivalent to 51.92% of its expenditure, a figure comparable to Punjab. Across India, the average operational loss was lower at 31.02%, and Gujarat managed to restrict its losses to 13.55%. A substantial share of MP's electricity—42.6%—was consumed by agriculture, contributing only 3% of DISCOM revenue. While DISCOMs have undertaken periodic tariff revisions, tariff increases failed to keep pace with rising electricity costs, negatively impacting State utilities. This imbalance necessitated cross-subsidies and government support. MP's power sector has seen some improvements but continues to grapple with high losses and reliance on subsidies. Reduction in AT&C, operational efficiency, and reducing gap between cost and tariffs are crucial to ensuring the sector's long-term sustainability.

## **Chapter 7**

### **Recommendations**

Madhya Pradesh has seen significant revenue slow down after the implementation of GST. The State already collects higher taxes from its non-GST tax-base compared to other Major States and further expansion of these taxes may not be a solution. The State's reliance on agriculture, limited industrial base, and lack of flexibility in GST rates have constrained its revenue potential. Madhya Pradesh will need to explore new avenues to diversify its revenue base, possibly by encouraging industrial growth and improving tax compliance.

The State has explored differential tax rates on ATF for different tax rates which confusion and complexity. Tax harmonization with lesser number of tax-bracket should be preferred unless there are significant revenue or equity gains. With industrial development and urbanization, a significant portion of agricultural land is being converted for non-agricultural purposes. The valuation of such land is often higher than that of agricultural land. This serves as a source of revenue for the government. The use of technology and e-governance initiatives can improve both transparency and enhance collection efficiency.

Despite the fiscal challenges, social services expenditures, including healthcare, water supply, and social security has remained stable around 8.2 percent of GSDP since 2016. New initiatives, such as the Ladli Behna Scheme, launched in 2023 to provide direct benefit transfers to women, have added significant financial obligations, accounting for around 1.1 percent of GSDP. Similarly, the State introduced a direct benefit transfer program under Mukhya Mantri Kisan Kalyan Yojna that amounts to nearly 0.4 percent of GSDP. Although direct transfers are an efficient method to reach the beneficiaries, new programs should be funded through additional revenue generation or by replacing inefficient schemes. Preferably, while

announcing a new scheme, its details on its fiscal implications in terms of taxation or fiscal deficit should be provided to legislators and disseminated to public.

Madhya Pradesh has consistently met its FRBM targets except for a breach in fiscal deficit limit by 0.14 percentage point during FY21. To ensure fiscal sustainability, Madhya Pradesh must improve revenue collection, particularly through better State GST (SGST) administration, and reduce inefficient subsidies. The State should aim for a glide path towards fiscal deficit, targeting 3.25% of GSDP in FY25, followed by an annual reduction of 0.25 percentage points over the next three years to reach 2.5% of GSDP by FY28, and maintain it at that level thereafter. The State may also amend its FRBM Act to bring more clarity regarding the use of escape clause on conditions when fiscal deficit may be permitted to exceed the limits specified and the criteria/trajectory to revert to fiscal discipline during normal times. The State should provide details on off-budget borrowings in the annual FRBM reports. State needs to require local bodies to report their accounts through an appropriate common software which will improve public finance statistics both for reporting and analytical purposes.

Much of the reforms in Power sector have happened in generation sector, while distribution continues to be the weakest link in the entire power sector value chain with issues like unsustainably low tariffs and high Aggregate Technical and Commercial (AT & C) Losses. Although DISCOMs raised tariffs periodically, these hikes lagged behind rising electricity costs, necessitating cross-subsidies and budgetary support. Subsidies that are designed with a ceiling in the cost/provision and have feature of self-selection of eligible beneficiaries are more desirable. The State should redesign the energy subsidy provision for agriculture to incorporate variable rate of subsidy or may consider giving a lump sum transfer to farmer, who then can be required to make payments at the cost of supply.

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