

**Final Report**  
on  
**EVALUATION OF FINANCES OF STATE OF  
UTTAR PRADESH**

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**DEPARTMENT OF APPLIED ECONOMICS**  
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**LUCKNOW**

# Final Report

*on*

## Evaluation of Finances of State of Uttar Pradesh

Sponsored by



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## Preface

This report presents the findings of the research project entitled “Evaluation of Finances of State of Uttar Pradesh.” The study has been carried out under the sponsorship of the 16<sup>th</sup> Finance Commission, Ministry of Finance, Government of India on given terms of reference. The study focuses on a comprehensive evaluation of various dimensions of public finances in the state of Uttar Pradesh for the period 2012-13 to 2023-24, and relies on secondary data taken from the Reserve Bank of India Reports, Comptroller and Auditor General of India Reports, Report of 5<sup>th</sup> State Finance Commission of Uttar Pradesh, Reports of UPPCL, and Bureau of Public Enterprises. We would like to state that even though the scope of analysis has been quite constrained due to lack of availability of up-to-date datasets, sincere efforts have been made to ensure that the analysis is based on latest information available and that the accuracy in the utilised data is well maintained.

The entire report is divided into eleven different chapters which focus on specific yet crucial aspects of finances of the state government. The first chapter provides an overview of the demographic and economic transition of the Uttar Pradesh over the last decade. The second chapter delves into the examination of tax and non-tax revenues of the state and analysis of their respective buoyancies. On a similar note, the trends and patterns in state’s capital and revenue expenditures and their respective elasticities have been examined in chapter three. Another crucial aspect of finances for any state is the landscape of debt and deficit; their dynamics have been analysed and presented in chapter four. The analysis presented in these chapters have allowed us to draw important conclusions and policy implications regarding the most crucial aspects of the fiscal issues in the state.

Chapter five discusses the analysis of various aspects related to the FRBM Act and MTFP in the state and reviews the progress made towards the committed targets over the years. The PRIs and ULBs are important bodies in state governance, and state’s transfers to these bodies are crucial as they are aimed at developing autonomy, equity, and development. The progress regarding these bodies and some major decentralisation initiatives have been analysed and presented in chapter six. Chapter seven studies the implications of financial status of State Public Enterprises on the financial health of the state. Chapter eight presents the analysis and discussion on the financial, operational, and infrastructural landscape of the power sector in the state, with a focus on UPPCL’s performance. It details on the important elements that may impact state finances and have had significant influence on them over the years. This has

allowed in understanding the current challenges faced by the power sector and in decoding the possible financial implications that the state may face.

The assessment of subsidies given by the state and their impact on its finances has been done in chapter nine, followed by chapter ten which discusses the evaluation of 14<sup>th</sup> and 15<sup>th</sup> Finance Commission, their recommendations for the state and the possible influence that the implementations may have had on state's economy. Finally, the report has been concluded with chapter eleven which summarises the important findings of this research, their economic implications, and the suggestions regarding the way ahead for fiscal authorities.

We take this opportunity to sincerely thank various individuals and entities who helped us to propel this research. We are extremely grateful to the 16<sup>th</sup> Finance Commission for choosing the University of Lucknow to undertake this research initiative; the generous financial support provided for this purpose has been instrumental in the completion of this research. We would also like to acknowledge Sri Amitosh Srivastava, Chief Finance and Accounts Officer, Department of Panchayati Raj, Government of Uttar Pradesh, for his humble and genuine support in providing us the help required in collection of data and report on the SFC. We express our gratitude to the officials of the Bureau of Public Enterprises, Government of Uttar Pradesh, particularly Sri Pradeep Yadav ji and Ms. Hashmi Siddiqui ji, for helping us in data procurement. We are obliged towards the gesture.

We are thankful to Prof. Alok Kumar Rai, Hon. Vice Chancellor, University of Lucknow for making the essential administrative help available to us to advance this research. We are thankful to Prof. Archana Singh, Head, Department of Applied Economics, and Dean, Faculty of Commerce for providing us the necessary academic and administrative support. We are sincerely thankful to our family members for providing their unconditional support and letting us take time out from various obligations to complete this research within the required time.

Lastly, we express our gratitude to everyone who rendered their support during the completion of this study and made it possible.

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**Place:** Lucknow, India

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## Executive Summary

The present study attempted to analyse and evaluate the state finances of Uttar Pradesh for the period of 2012-13 to 2023-24 within the given Terms of reference (ToR). These ToRs from the commission incorporated the macro-economic perspective of the state, patterns, and productivity of the tax system prevalent in the state, expenditure components and their efficiency, the debt levels and deficit mapping, commitment towards FRBM targets, the decentralisation initiatives with devolution status, power sector reforms, subsidies, and an outcome evaluation of the flow of resources from 14<sup>th</sup> and 15<sup>th</sup> Finance commissions.

Notably, Uttar Pradesh performs low in terms of key indicators of economic progress and social development. The pace of economic progress and structural transformation remains insufficient to escape the low equilibrium trap. Persistent unemployment especially youth unemployment, insistent rural and urban poverty, and low economic well-being are likely to put significant strain on state finances, as the demand for higher expenditure grows while revenue capacity remains limited. A rise in the labour force participation rate of females during the study period is a positive sign. The state also witnessed a strong recovery from the global crisis.

Major conclusions and policy suggestions of the study under various chapters are as follows:

### **I- Trends in Revenue**

#### *Tax revenue*

The tax/GSDP ratio of the state is hovering between 7 to 8 percent. The analysis shows that OTR and GSDP are almost growing with same pace. The OTR shows a consistent upward trend, growing from Rs. 58,098.4 crore in 2012-13 to a projected Rs. 2,13,064.5 crores in 2023-24, with a noticeable jump after 2017-18. It grew at an average of 11.56 percent in 2013-14 to 2019-20, rising sharply to 15.26 percent post-2020. For the entire period, the average annual growth rate is 12.90 percent. Taxes on Commodities and Service share contribute more than 80 percent of total OTR collections.

Initially a major contributor with a 60.02 percent share in 2012-13, sales tax share declined significantly to 16.98 percent in 2023-24 due to the introduction of GST. The introduction of SGST in 2017-18 restructured revenue collection and it quickly became the largest subcategory within Commodities and Services, contributing 41.20 percent of OTR in 2023-24. SGST has become particularly significant since its introduction. Total tax revenue grew substantially over the analysis period, marking a significant expansion of the revenue base and it also highlights

a transition towards greater fiscal self-reliance for the state. Tax buoyancy for the state is 1.08, meaning OTR increased by 1.08 for every 1 percent growth in GSDP during 2013-14 to 2019-20 and it increased to 1.12, showing that OTR has higher responsiveness to GSDP growth over the whole period

### *Non-tax revenues*

Pre-pandemic growth in NTR (24.46%) was higher compared to post-pandemic growth (4.51%), indicating a slowdown in non-tax revenue generation post-2020. Over the whole period, its average annual growth rate was 17.21 percent, reflecting moderated overall growth. The analysis highlights the diminishing buoyancy of NTR over time. A one percent increase in GSDP is associated with a 0.94 percent change in NTR. Economic disruptions and the COVID-19 pandemic could be the possible reasons for this. After 2019–20, the ONTR/GSDP percentage drops sharply reaching 0.46 percent in 2023-24. Non-tax revenues from general, economic and social services are below expected level. Receipts from dividends and profits received from the PSEs are very low.

### *Suggestions*

As a solution to the low taxable capacity of the state, a multi-pronged approach is required to be followed. Along with an improved tax effort, this involves focusing on issues like governance, accountability, expenditure efficiency as well. Some possible suggestions to improve taxable capacity (Tax/GSDP ratio) are:

1. Unexploited taxes like agricultural income tax, profession tax, land revenue should be utilized for raising the tax/GSDP ratio. Underreporting of land sale value is a common practice to avoid stamp duty. Continuous updating of official circle rate and special mechanisms like average of last five land sale transactions of the same area in last three months can be taken to find out the true market price of that area. Government can also devise a mechanism through which it should try to capture the actual market rates on real time basis. These efforts will significantly increase the state's own tax revenue. Tax bases should be widened by better administration of property taxes and other taxes. Local bodies should be empowered and authorised to collect some taxes. This has been reiterated by various state finance commissions too.
2. Strengthening revenue departments institutionally is advised for the efficient enforcement of policies and regulations. Setting up dedicated data analytics units to

monitor and analyze data can help identify revenue leakages caused by evasion, fraud, incorrect claims, or processing errors.

### 2.8.2 Non-Tax Revenues

1. Reviewing and adjusting the current fees for various services, which are typically lower than those in the private sector, along with revitalizing and corporatizing State PSUs, can enhance the non-tax revenue of States (Pradhan, 2023).
2. User charges from the public transport is much lower than the potential. These are a result of high leakages due to system inefficiencies. People pay lower user charges and the collector takes the whole to their pocket. It becomes a win-win situation for user and agent. However, the loss is borne by the state government. As per few studies, these leakages are around 40 percent. Government should promote digital transactions (card system, token, and app-based payment system linked with Gpay, PayTM, etc.) like Metro train system. AI powered cameras should be installed in the public buses to auto count number of passengers to cross check the gap between collection and number of passengers. Initially greater incentives should be given on digital transactions which may be gradually reduced once substantial digitalisation is achieved in this process.
3. Receipts from dividends and profits received from the PSEs are very low. An all-round public sector enterprises (PSEs) reforms is required. Financial management of these PSEs is very poor. Faulty recruitment policy at all levels of management, high interference of government in the management of these PSEs and poor pricing policy are the reasons for ailing PSEs. The government must rationalize the financial support to PSEs. No implicit support should be given to these PSEs. The amount of investment in such PSEs must be curtailed to the minimum level.
4. Non-tax revenues from general, economic, and social services are below expected level. Low user charges (which are not regularly updated) and their realization is the main problem. User charges should be linked with some suitable input cost index. The process of periodical revision should be automatic. A committee may be setup for this purpose whose main task should be to advise to the government on revision of user charges of public services like bus fares and other administered prices while ensuring low-cost service supply to the poor. In the case of economic and social services, the recovery can be significantly improved. The state may target to increase recovery in phased manner. Initially it may target an estimated recovery rate of 25 percent of selected services which may later be increased to 30 percent and so on.

## II- Public Expenditure

The analysis of trends in capital and revenue expenditure in state and the transitions therein allowed us to understand the fiscal landscape of its economy better. Evidently, capital expenditure has shown significant growth in recent years, however, it is crucial that more resources are directed towards the developmental activities in continuous manner to stimulate growth and development. While revenue expenditure forms the major share of total expenditure (approximately 76.41 percent on average), its contribution to total expenditure gradually declined to 71.92 percent in 2023-24.

In the post pandemic period, the share of capital expenditure persistently grew, from 21.17 percent in 2020-21 to 28.08 percent in 2023-24 whereas that of revenue expenditure declined, suggesting significant shift in the expenditure pattern of the government. Capital Expenditure fluctuates more than Revenue Expenditure, indicating shifts in government priorities and budget allocations. The share of capital expenditure is nearing 30 percent, indicating a shift towards long-term asset creation. Revenue expenditure on social services (Health, Education, Welfare, etc.) declined from 6.48 percent (2012-13) to 5.77 percent (2018-19) but rose again to 6.08 percent in 2022-23, showing renewed focus on social welfare, whereas, capital expenditure on social services initially declined (from 0.92% in 2012-13 to 0.67% in 2018-19) but jumped to 1.53 percent in 2022-23, indicating increased investment in schools, hospitals, and public facilities.

The major chunk of revenue expenditure is formed by developmental expenditure (around 55 percent), followed by non-developmental expenses (around 37 to 40 percent) and grants-in-aid (around 4.3 to 6 percent). Anyhow, a decline in the share of non-developmental expenditure is observed in the recent years. Another fact that provides a positive notion about the transitions in expenditure is that the share of capital expenditure in total expenditure has grown from 17.28 percent in 2017-18 to 28.08 percent in 2023-24, indicating government's push to developmental activities in the state. The analysis of allocative efficiency of expenditures of Uttar Pradesh re-establishes that investments in social sector elements such as health and education are required to bring the state at par with NSC average.

### *Suggestions*

1. Attempts should be made to ensure that the increases in expenditures on account of loans and advances are directed towards asset creation. For the economy of the State, their underutilisation is minimised so as to realise the potential benefits.

2. Considering the growth in non-developmental revenue expenditure in recent years, efforts should be directed towards their effective management and reallocation into educational and health infrastructure.
3. Attempts can be made towards reviewing and restructuring pension schemes and administrative expenses so that potential leakages could be identified and the saved resources could be directed towards critical sectors.
4. Ensuring enhancements in developmental expenditure and capital outlay will also help improve the quality of expenditures in the state, the indicators of which have shown significant improvements in recent times.
5. Bringing down the allocation towards committed expenditure in efficient manner will help take the economy on a more stable and fiscally balanced path.

### **III - Deficits and Debt**

The current scenario of state's revenue surplus and persistent fiscal deficits puts forward a complex picture. While the increase in revenue surplus provides a positive notion that the government is able to meet its recurrent expenses, the persistent increase in fiscal deficit (majorly on account of increased capital outlay) can have mixed implications in the long-term. The shrinking primary deficit in the years of 2015-16 to 2017-18 signal a healthier economy in those years, it is safe to state that the rise in primary deficit in recent years may not be an indicator of concern as long as the value doesn't increase significantly and the government is not over-reliant on borrowings to fund expenditures.

In the recent years, the financing of deficit through market borrowings and loans from the Centre has seen significant increase, adding to the overall outstanding debt of the state government. While market borrowings are already low-cost borrowings, it has been observed that the cost of loans from Centre has also witnessed a decline in recent years which is evident in interest paid on loans from the Centre. The emerging trends suggest that government is shifting its borrowing to cheaper sources which shall reduce its effective interest burden in future. However, the benefits that can be secured will depend on the choices that the government makes because on one hand, the additionally saved funds from lower costs may be redirected by government towards developmental programmes, creating a positive economic impact, whereas on the other hand, lower cost of loans means increased borrowings by the state in the near term which can also have detrimental effects on state's economy.

The overall outstanding debt of Uttar Pradesh has grown at an average rate of 11.6 percent, growing from Rs. 225123.6 crores in 2012-13 to Rs. 747545.7 crores in 2023-24. Thus, it can be safely stated that the growth in debt of state has followed more of a linear trajectory over the last four years except for the disturbances from the pandemic related borrowings. The increase in debt brings along additional costs in form of its servicing and persistent increase in such payments can result in reduced revenue allocation to public investments which may hinder economic growth.

A significant drop is evident in the percent share of interest payments in revenue receipts and revenue expenditure. The decline in these percent share of interest payments in GSDP may suggest improvements in fiscal health, and enhanced fiscal space which may result in greater investments in public services. While the share of market borrowings has grown, this growth in share is due to the reduction of share of remaining categories in overall debt. The only exceptions are loans and advances from Central Government whose share has increased in recent years, and loans and advances from financial institutions, whose share has stayed mostly steady over the years. It can be observed that while the borrowings from central government have increased over the years, the interest paid on these borrowings has depicted a decreasing trend. On the other hand, interest payments on internal debt, which include payments on market borrowings and short-term loans from central bank, have continued to show an increasing trend. The reduction in quantum of interest paid on borrowings from central government may be due to lower borrowing costs, refinancing or change in debt structure. The decline in contingent liabilities in recent years reflects reduction in sovereign guarantees and efficient handling of such liabilities on the part of government.

#### **IV- Fiscal Management**

There is no doubt in the consistent compliance of the provisions of FRBM act and MFRP framework by UP government when it comes to the fiscal and revenue deficits. The revenue surplus of the state continues which is a positive aspect. However, the revenue situation of the state calls for some multi-dimensional reforms as tax revenue growth has not been satisfactory at the same time.

#### *Suggestion*

This primarily includes augmenting tax revenues i.e. both tax and non-tax, reprioritization of expenditure and bringing debt within sustainable levels with a consistency. Handling pension and salary liabilities as well as reducing interest payments are the other measures that need to

be taken up. The covid pandemic is gone although its aftereffects are obviously reflected in the data. While the state has done well in terms of fiscal-recovery from the phase this alone is not sufficient for long term sustainable results.

## **V - Local Bodies**

Every SFC including fifth SFC has expressed the concern that the state government must first get implemented all the accepted recommendations of the previous commissions on top priority basis, by the concerned administrative departments. The deviations from SFC recommendations in such implementations should be avoided. In addition, the delays in constituting the SFCs may be done away with. For local bodies to have adequate financial resources so that functions can be performed, transfer of funds has to be done in a timely manner. Of late, transfers to ULBs appear to have become more regular and transparent which is a positive change. A shortage of personnels when it comes to division of responsibilities for performing numerous functions at Gram panchayat level has been a consistent issue. A total of Rs. 18000 crores were devolved by the Fifth SFC to the local bodies of state, of which ULBs share was Rs. 10800.0 crores and that of RLBs Rs. 7200.0 crores. The sixth SFC of the state has been constituted but the report is yet to come out.

The 14<sup>th</sup> FC and successive SFCs too have strongly pointed out about the lack of data and the available data not being in useable form, making them “handicapped” in determining the resource gap at the level of local bodies. Due to large gaps in monitoring mechanisms and finalisation of accounts, large arrears are seen in the accounts of local bodies making it difficult to get clear data.

### *Suggestions*

1. It is pertinent that the state government ensures prompt implementation of the recommendations given by state finance commissions.
2. More constructive autonomy to urban bodies and Gram panchayats in taxation so as to effectively increase their own tax revenue should be ensured. Mere partial devolution of functions is not sufficient.
3. Maintenance and upkeep of data pertaining to local bodies is crucial and several FCs and SFCs have reiterated it.
4. Property tax/house tax has not been exploited to its full potential. The local administrations are not able to keep pace with the rapid urbanisation. Non-assessment and under-assessment are a common instance in Uttar Pradesh. Use of AI and Geo-

tagging may help state government in proper assessment of properties and houses for taxation purpose. Rationalisation of tax rates along with training of staff and their continuous monitoring, improvement in tax administration and collection are very important.

## **VI - State Public Enterprises**

The total number of public sector enterprises in the state stands at 113, out of which 107 are public companies and 6 are statutory corporations. Out of the total public companies, 41 have become inactive whereas all 6 statutory corporations are operational. Thus, the total number of working corporations stands at 72 as per the latest records. The total equity and long-term loan for both- power sector and non-power sector state enterprises stands at Rs. 371214.98 Crore, of which, the major share (approximately 89 percent) has been injected into power sector.

The energy companies have suffered losses throughout the previous decade, with the amount going as high as Rs. 12,916 crores in 2015-16. The losses have declined significantly post 2015-16 due to decline in the growth of expenditures which have grown at an average rate of 4.03 percent between 2016-17 and 2019-20. While the non-energy sector entities earned profits throughout the previous decade, the concerning aspect is that the profits of the sector have declined significantly from Rs. 997.3 crores to Rs. 331.19 crores in 2019-20 after a volatile trend. The combined losses of selected 40 companies peaked in 2015-16 with total loss amounting to Rs. 16154.2 Crore, post which they have significantly declined to as low as 1916.2 Crore in 2019-20.

The high number of inactive government companies puts forward a concerning picture of state enterprises and signals towards the requirement of efficient privatisation or restructuring policies for these entities. While the higher investment share towards energy sector displays government's focus to improve power infrastructure and related services in the state, the financial and operational issues continue to persist in power distribution companies. The persistent underinvestment in non-power sector may enhance the financial troubles of companies in the sector which may cause hinderances in their operations.

The CAG (2024) report on the state finances stated that out of the total SPEs, 41 have become inactive, which include 13 enterprises which are currently going through liquidation. During this period, 24 enterprises continued to suffer losses and 15 enterprises witnessed erosion in their net worth. As per the latest records, a total of 10 state public enterprises have witnessed complete erosion in their net worths which amounted to (-) Rs. 62,779.27 crore. In the long-

term, this may force more companies to become inactive and their maintenance will pose additional burden on state's resources. The implications of inactivity and net worth erosion on performance of state enterprises and state's economy may be multifaceted. Liquidation/dissolution of such companies may have consequences on the employment in the state which may have implications on local economies as well, since public sector companies are assumed to provide stable employment.

The power sector enterprises have been receiving major chunk of investment through the years given their crucial role in development. However, the enterprises in this sector have continuously suffered losses despite the consistent financial support. A trilemma for such enterprises is to provide services at affordable rates, lower their operational expenditures and enhance their revenue generation capacity at the same time. The prospects of resorting to policy options such as public-private partnership should be examined for such enterprises as they will not only enhance the efficiency of such enterprises but also reduce the burden on state's resources.

The non-energy sector enterprises have persistently earned profits, however, the decline in their profits in recent years may become an issue in the coming decade. These enterprises have managed to be profitable despite receiving lower investments, which suggests that more thoughtful investment in required areas can help them enhance their operational efficiency and revenue generation capacity. However, these investments must be supported with adequate structural reforms to ensure their effective utilisation. Analysis of consolidated accounts of 40 state-owned enterprises has also been done, which has put forward a concerning picture of enterprises in the state. The enterprises (all combined) have posted continuous losses throughout the decade as their expenditures have outgrown their revenues.

### *Suggestions*

1. The current investment landscape calls for careful reconsideration of investments across sector while keeping their operational efficiency and long-term sustainability in consideration.
2. Significant policy interventions, structural overhauls and financial support is required to improve the functioning of these enterprises and to allow them to significantly contribute to the overall economic development.
3. If the inefficiencies and inactiveness persist, the government may have to resolve to complete disinvestment or privatisation. The latter can allow for more effective

managerial and operational framework while both the solutions can help alleviate financial pressure from the government.

4. The enterprises (all combined) have posted continuous losses throughout the decade as their expenditures have outgrown their revenues. Moreover, the accumulated losses have been piling up with almost minimum to none deductions in them on account of earned profits. This may result in increase in requirement of government support through bailouts or subsidies, which can pose as a serious challenge in management of state's finances.

## **VII - Power Sector Reforms**

The analysis done in this chapter has revealed various positives and negatives regarding the infrastructural aspects, financial aspects, and overall performance of the sector.

Persistent power shortages have significant impact on service quality of the DISCOMS and also their finances as they often have to resort to borrowing power from other states and suppliers. Moreover, it has been observed that these corporations usually fail to meet their operational expenses and often require government bailouts, which ultimately puts pressure on the finances of the state.

The combined losses of state-owned distribution companies have been increasing at an average rate of 15% post 2015-16. The collective accumulated losses amounted to Rs. 6.77 lakh crores in the fiscal year 2022-23. The Plant load factor (PLF) in the state increased from 45.63 percent in 2012-13 to 67.01 percent in 2022-23, however, for majority of the years, the statistic stayed significantly below the national average. The T&D losses have increased significantly from 24580 in 2012-13 to 29687 in 2022-23, growing at a CAGR of approximately 1.91 percent. The effective tariff has shown an increasing trend over the years of analysis (2012-13 to 2022-23). It can be observed that highest tariffs have been from the industrial category, which increased from 6.14 per unit in 2012-13 to 8.59 per unit in 2022-23.

Thus, during the period of analysis, some improvements have been observed in the PLF of the thermal power plants in the state in the recent years. Along with that, a decline has been witnessed in AT&C losses and losses as percentage of total power available at bus bar. The improvements in these statistics suggest that there have been advancements and overhauls in electrical equipment and related elements in the distribution system. Moreover, reforms aimed to curb power thefts and wastages may have also influenced the improvements. However, an increasing trend is still observable in the T&D losses, indicating requirement of continuous

upgradation and reforms in the required areas. This will require significant financial contributions on the part of corporation as well as the state government.

The state of finances of UPPCL reflects the ineffectiveness of major reforms that the sector has been through over the years, and the operational inefficiency of the corporation. The growing expenses on account of repairs and mainenance depict the state of power infrastructure in the state, which is not up to current standards and requirements and requires significant overhaul. Despite various measures, theft of power is still a reality in the state and takes place at a considerable scale which also contributes to the revenue losses of the corporation. This situation may result in increased fiscal burden on state finances and the contingent liabilities of the state may also increase.

The analysis of financial aspects of UPPCL presents a worrisome picture of the power sector in the state. The revenue generating capacity of the corporation has remained constrained for various reasons, added to that the inability to uniformly meet operational expenditure has worsened the poor financial landscape of the corporation. The accumulated loss of the corporation has been piling up with only deduction through profit in the year of 2020-21. This situation may result in increased fiscal burden on state finances and the contingent liabilities of the state may also increase. Thus, the current state of power sector in the state calls for significant structural reforms aimed at minimization of operational costs, enhancing revenue capacity, resolving large scale power theft, and improving overall performance.

### *Suggestions*

The current state of power sector in the state calls for significant structural reforms aimed at minimization of operational costs, enhancing revenue capacity, and improving overall performance. The data suggests that discoms are incurring high degree of losses. To avoid these losses – following specific measures may be taken:

1. All the efforts should be taken to realise arrears of dues, specifically dues from the government offices and institutions. Efforts should also be made timely collections of arrears from private sector by organizing special collection camps. Strong penal measures should also be taken for the customers whose dues are overdue from a specified period.
2. For all households (upto average consumption 300 units month) and commercial connections (average consumptions upto 1000 units per month), installation of pre-paid meters should be made compulsory.

3. Rural connections should also be metered. All connections than used for farming/irrigation should be charged with some user rates (may be subsidized one).
4. Power theft should be checked regularly and remedial measures be taken to reduce such leakages.

### **VIII - State Subsidies**

The governments need to provide financial assistance to those who are not able to afford goods and services at the market prices or those sectors which initially need handholding to face market competition. Hence it becomes mandatory for the state to give subsidies although not desirable financially.

The total subsidy amount across all sectors grew significantly, from Rs. 6,350.6 crores in 2012-13 to Rs. 25,309.4 crores in 2023-24. As a percentage of GSDP, the subsidy expenditure remained at 0.77 percent in 2012-13 and rose to 0.99 percent in 2023-24, showing an increasing burden of subsidies in relation to economic output. The Power sector has the largest explicit subsidy allocation, growing from Rs. 4,385 crores in 2012-13 to Rs. 13,100 crores in 2023-24. Its share of total subsidies decreased from 69.05 percent in 2012-13 to 51.76 percent in 2023-24 yet it remains the largest component among all sectors. Agriculture and Social Welfare have seen increasing subsidy allocations, reflecting a growing focus on these areas. The overall subsidy burden as a percentage of GSDP has risen over the years, indicating that subsidies are becoming a larger part of the economy.

The government has significantly increased allocations to urban development and education, reflecting a focus on modernization and human capital. Education's share, however, has registered decline in recent years despite higher absolute amounts. Social welfare's share has increased owing to higher absolute subsidies, indicating a relative shift in focus to infrastructure and economic development.

Non-Merit subsidies have grown greatly compared to Merit subsidies, emphasizing essential services over economic incentives. The results highlight the evolving priorities of the U.P. government, with a clear emphasis on infrastructure and essential services alongside selective support for economic sectors. Merit 1 subsidies that are primarily focused on essential public services like education, health, and social welfare increased significantly from Rs. 39,071.6 crore in 2012-13 to Rs. 91,317.1 crores in 2023-24, highlighting the government's growing investment in these sectors. Subsidy amount showed sharp growth in the case of Education, Sports, Arts and Culture, increasing from Rs. 25,171 crores in 2012-13 to Rs. 55,748.6 crore

in 2023-24, a more than two times of an increase. Merit 2 subsidies target infrastructure and economic development, such as irrigation, urban development, and village industries and the total subsidy for these surged from Rs. 7,028.7 crores in 2012-13 to Rs. 50,667.3 crores in 2023-24, a more than seven times of rise and a much faster rise than merit 1 subsidies. Total non-merit subsidies increased from Rs. 11,966.6 crore in 2012-13 to Rs. 63,003.3 crore in 2023-24, growing more than five times over the past decade.

In case of implicit subsidies, we find that a significant jump has been recorded during post-covid years, i.e. a more than three times rise in five years. It implies that state is yet to fully recover from aftereffects of the Covid 19. However, if this level of implicit subsidies continues, it will put constraints on fiscal health of the state in future. Second noticeable trend is that before onset of Covid 19, the share of Merit I subsidies was declining, and it has continued to decline in recent years as well. This implies an increase in the share of non-merit subsidies, which may require policy makers to rethink the allocations as increasing share of non-merit subsidies is not a desirable trend. However, it is needed to ensure that the subsidies reach the targeted beneficiaries and serve the purpose behind their allocation.

### *Suggestions*

1. Greater efforts from the government are sought to reduce technical and commercial losses and faster recoveries of arrears. Reduction in subsidy burden through better transparency, better governance, and more commercialisation approach, will lead to release of large fiscal resources.
2. A huge amount of subsidies goes toward electricity bill to private tubewells in rural areas. It should also be regulated. Suitable tariff strategy should be adopted now in the rural areas well.
3. Distribution of subsidy should be prioritised as per the priorities of the nation. From this perspective, as per our classification of subsidies into merit I, II and non-merit, merit I items should be given the highest priority and non-merit items should be the least.
4. There has been significant decline during the last decade, yet power sector has the largest share in explicit subsidies. The analysis shows that more than 50 percent of explicit subsidies still goes to power sector. It demands for greater efforts from the government to reduce technical and commercial losses and faster recoveries of arrears.

## **IX - Outcome Evaluation: 14<sup>th</sup> and 15<sup>th</sup> Finance Commission**

The major function of central Finance Commissions is to evaluate the state of finances but strengthening cooperative federalism is among their primary responsibilities. The 14<sup>th</sup> FC increased the share of states in the Centre's divisible pool of taxes by ten percentage points, which was a radical step as 12<sup>th</sup> and 13<sup>th</sup> FCs had increased the same by only 1 and 1.5 percentage points, respectively. As far as the grants-in-aid were concerned, Uttar Pradesh benefitted mostly in terms of grants for local bodies and disaster management. The aggregate basic grant to the state Rural local bodies from 2015-20 stood at Rs. 180262.98 crores while for the Urban local bodies the same was Rs. 69715.04 crores. The aggregate performance grant to rural local bodies for the period 2015-20 was Rs. 20029.22 crores while for urban bodies it was Rs. 17428.76 crores.

The 15<sup>th</sup> FC submitted its report with a title 'Finance Commission in COVID Times' which hints about the focus on health sector related recommendations inside the report. It stated that the health condition grants will be unconditional, indeed considering the prevailing circumstances. Moreover, the total grants-in-aid support to health sector was the second one among the three major grants by the commission, first being the revenue deficit grants. Grants for local bodies have been a priority as well, again confirming the conviction of FCs about the significant role of these local governance units in primary healthcare. Grants-in-aid for the award period of 15<sup>th</sup> FC (2021-26) for the Rural local bodies of the state were Rs. 2,36,805 crores whereas for Urban bodies it is Rs. 1,21,055 crores. This also included a separate grant for Health amounting to Rs. 70,051 crores.

Anyhow, when it comes to the implementation or utilization of these grants, the state seems to have failed to match the expectations in some cases. In case of PRIs huge under-utilization was seen in 2020-21 which became zero for the two following years but again rose to the negative values of -754.71 and -719.46 crores in 2023-24 and 2024-25 respectively. For the ULB grants, this has been zero for almost all the years except 2023-24 with a negative value of -130.79 crores. Even the health-sector grants have not been spent fully in some of the years. That said, it cannot be denied that such underutilization is not always due to inefficiency but also because of lack of willingness on the part of state.

### *Suggestions*

1. An effective institutional mechanism is needed for regular monitoring and supervision of the utilization of funds from the grants given by central finance commissions so that implementation can be ensured by the state.
2. Underutilization of the grants given by the commission under different heads and for various sectors must be analysed and checked.
3. As recommended by the 14<sup>th</sup> FC, the account books by local bodies must regularly capture the income from own taxes and non-taxes, other assigned taxes, devolution and grants from the State, grants from the FCs and grants for any agency functions assigned by both Union and State Governments.

Good governance is an important tool in the hand of governments. Good governance can bring in improved transparency, greater accountability, greater confidence of general public, and streamlining the mechanism and structure of the government. It should be the envelope within which all other reforms and efforts of socio-economic progress undertaken. This must be kept in mind while formulating and implementing the policies of the state. As an indirect benefit it also keeps the general public informed and leads to less arbitrariness. Thus, an integrated information management system is very important in the state.

The availability of detailed information regarding tax & non-tax revenues, public expenditure, financial performance of PSEs, subsidies, contingent liabilities, devolution of funds to local bodies, etc. is very poor in the case of UP. The departmental websites are still not regularly updated. The information is available for a few points of time only that too not in detail. This seriously hampers the public scrutiny of the system and gives an opportunity to develop corruption and slackness. Thus, UP government must make sincere efforts to make available the data and information in public through different mechanisms.

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### List of Abbreviations

MPI	Multidimensional Poverty Index
NDP	Net Domestic Product
UP	Uttar Pradesh
HDI	Human Development Index
UPHDR	Uttar Pradesh Human Development Report
GM	Geometric Mean
UNDP	United Nations Development Program
OTR	Own Tax Revenue
GSDP	Gross State Domestic Product
NTR	Non-Tax Revenue
ONTR	Own Non-Tax Revenue
GDP	Gross Domestic Product
UPFRBM	Uttar Pradesh Fiscal Responsibility and Budget Management
GST	Goods and Service Tax
MFRP	Medium-term Fiscal Reform policy
IMSS	Integrated Mining Supervision System
PRI	Panchayati Raj Institution
ULB	Urban Local Bodies
SFC	State Finance Commission
NHRM	National Rural Health Mission
ESD	Economics and Statistics Division
PLF	Plant Load Factor
RBI	Reserve Bank of India
FC	Finance Commission
PDRD	Post Devolution Revenue Deficit
ToRs	Terms of References
PSEs	Public Sector Enterprises
SFC	State Finance Commission

# Chapter I

## State of the Economy of Uttar Pradesh

Uttar Pradesh (UP), the most populous state in India, is considered one of the most economically underdeveloped states, following Bihar. According to the 2011 Census, UP's population stands at 19.98 crore, with a decade-long growth rate of 20.09 percent. Uttar Pradesh has maintained its lead among states in bringing the maximum number of people out of multidimensional poverty in the last nine years. A report titled 'Multidimensional Poverty in India since 2005-06' released recently by Niti Aayog said that 5.94 crore people have emerged from multidimensional poverty (MDP) in UP. It said that out of these, 3.43 crore have come out of poverty in the last five years only. A study on MDP released by Niti Aayog in July 2023 said that from 37.68 percent in 2015-16, the number of multidimensional poor in UP declined to 22.95 percent in 2019-20. The current report states that this figure has come down to 17.40 percent in 2022-23. The state is also aiming to become a US\$ one trillion economy by 2027 by implementing several policy actions.

### 1.1 Demographic Profile

As per the projections made by the Technical Group of the National Commission of Population, Ministry of Health and Family Welfare, the state's total population in 2021 stood at 230.9 million, increasing by a compound growth rate of approximately 1.5 percent from 2011. The decadal growth rate of population in the state has shown a decline over the previous years, which may be on account of declining fertility rates which have plummeted from 3.3 in 2011-15 to 2.28 in 2021-25. While the trends in these indicators may imply lower burden on the state's resources, the population density (per square km) has seen a significant increase over the previous decade, showing increased urbanization in the state and signalling possible increase in pressure on state's economic and natural resources. A similar kind of notion can also be drawn out of the crude birth rate (Table 1.1) of the state, which stands greater than that of national average as of 2021.

The sex ratio remains adverse (919) with one point increase and stayed below the national average. While the crude death rate stands a little above the national average, it does not pose a serious concern with almost at the level of natural death rate i.e. 7. However, the life expectancy at birth for both the genders falls below national average displaying a worrisome picture about the health infrastructure and living conditions in the state, which require

significant improvements. Another indicator, which again indicates dismal level of health facilities in the state is infant mortality rate (46), which is much higher than national average. It is safe to state that the current demographic profile of the state provides a mixed picture from a developmental perspective and has important implications for the economic policy.

**Table 1.1: Major Demographic Indicators: Uttar Pradesh and India**

Indicator	UP	India
<b>Total Population (in million)</b>		
2001	166.0	1029.0
2011	199.6	1210.2
2021 <sup>#</sup>	230.9	1363.0
<b>Decadal rate of population growth</b>		
1991-2001	25.85	21.53
2001-2011	20.09	17.64
2011-2021 <sup>&amp;</sup>	15.56	12.56
<b>Average Annual Exponential Growth rate</b>		
1991-2001	2.33	1.94
2001-2011	1.85	1.64
2011-2021 <sup>&amp;</sup>	1.45	1.19
<b>Population Density (per sq. km.)</b>		
2001	690	325
2011	829	382
2021 <sup>&amp;</sup>	958	415
<b>Sex Ratio (Female per 1000 males)</b>		
2001	876	933
2011	918	940
2021 <sup>#</sup>	919	945
<b>Crude Birth rate (2021-25)</b>	19.4	16.0
<b>Crude Death rate (2021-25)</b>	7.3	7.0
<b>Natural Growth Rate</b>	12.1	9.0
<b>Infant Mortality Rate</b>	46	35.3
<b>Life Expectancy at birth</b>		
<b>Males</b>		
Females	66.90	69.37
Total	69.10	72.66
	68	71.05
<b>Total Fertility Rate<sup>#</sup></b>		
2011-15	3.3	2.37
2016-20	2.76	2.13
2021-25	2.28	1.94

**Sources:** Registrar General, India, Census of India; Registrar General, India, Sample Registration System, 2023; <sup>&</sup>Calculations based on data from Report of Technical Group on Population Projections, July 2020; <sup>#</sup>Report of Technical Group on Population Projections, July 2020.

The analysis reveals the requirement to allocate state's resources towards improvement of health infrastructure and basic living conditions in a decentralized manner. While the sex ratio is expected to improve with the observed growth in population, there will be need to continue women centric programmes to improve the social and economic status of females in the state. The increasing population will have both- positive and negative implications for

state's resources. It will provide demographic advantage to the state, but will also call for significant budgetary allocations towards healthcare services, education and training programmes, and other resources focusing on the female population, which may also strain the government's resources if not managed appropriately. The enhanced urbanization will call for improved infrastructural planning and development, and will also pose the challenge of conserving the limited natural resources available in the state.

The chief minister of Uttar Pradesh launched the State's Population policy for 2021-2030 under which the target of bringing down the TFR to 2.1 by 2026 and 1.7 by 2030 was fixed. Apart from this, targets of decreasing MMR to 150 and 98 as well as IMR from 32 to 22 by 2026 and 2030 respectively, were fixed as well. The policy also emphasized on increasing the use of modern contraceptives prevalence rate to 52 by 2030 which was 31.7 in 2021. Another key feature of the policy has been to conduct awareness campaigns and extensive programmes for the communities in the geographical areas with higher fertility rates. Digital tracking of newborns, health education drives and school health clubs too were among other components.

In the wake of the National Health Policy of 2017, the state conceived and developed its first State Health Policy (SHP), 2018. The state government launched *Mission Parivar Vikas* following the Union Health ministry's guidelines to seven states which sought family planning interventions for addressing maternal and infant mortalities. The written guideline stated that a total of 145 high-fertility districts in the states of Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh, Chhattisgarh, Jharkhand and Assam with the TFR of 3 and more attributed to 28 percent of India's population and 30 percent of maternal deaths and around 50 percent of infant deaths. Under this scheme, UP holds the highest number of districts i.e. 57 out of its 75 districts and it contributes most to the country's population growth. Thus, under the scheme, installing free condom boxes at strategic locations in rural and urban areas, distribution of kits for newly-weds containing condom packets, emergency contraceptive pills and a pregnancy testing kit along with Saas Bahu Sammelans in rural areas of the populous districts are some of the tools being used by the UP government to drive home the family planning message. Saas Bahu Sammelans facilitate open communication among mothers-in-law and daughters-in-law about family planning with the help of interactive exercises and games. These small steps have a big role in changing mindsets specially in the rural areas.

Considering the large population of UP, efforts and activities need to be scaled proportionately and targeted geographically so that real improvements take place in family planning initiatives and fertility and mortality outcomes (Halli et al, 2019). According to the Annual Health Report (2024-25) released by the Union Ministry of Health and Family Welfare, UP is still among the states with highest child mortality rates in the country. This is despite the efforts and improvements achieved in the recent years. The government has implemented several interventions and most of them belong to the National Health Mission 2005. Among these are Janani Suraksha Yojna (JSY) which promotes institutional deliveries by providing financial incentives to expectant mothers and Janani Shishu Suraksha Karyakram (JSSK) which entitles all pregnant women delivering at public health institutions for free treatment, diagnostics, drugs, diet, and free transportation from home to clinic and dropping back home. Promoting institutional deliveries is crucial in increasing child survival rates and the state government has rolled out the “Hausla” campaigns in its 25 high focus districts not only giving that necessary institutional delivery push but also to accelerate immunization thereby attempting to save both mother and child. Primary healthcare centres (PHCs) have been equipped with trained professionals and sterile medical conditions. Newborn Care Corners (NBCCs) have been established in these delivery facilities so that essential newborn care can be offered immediately after birth. The Janani Express (102 ambulance service) launched in 2014 has been aiming at providing free transport for pregnant women and newborn care.

The first six weeks of life being critical, programs like Home-Based Newborn Care (HBNC) and Home-Based Care for Young Children (HBYC) under which Accredited Social Health Activists (ASHAs) visit households and assist in monitoring the health and symptoms of the newborn, encouraging good practices etc. The Water, Sanitation, and Hygiene (WASH) initiatives are being used to strengthen hygiene practices during and after childbirth. Lack of sanitation, diarrhoea etc being the most common causes of child mortality, these initiatives at the healthcare facilities significantly improve child survival chances reducing infections and illnesses. Mission Indradhanush (2014) and intensified Mission Indradhanush 2.0 (2020) aim at immunisation in 272 districts specifically targeting Uttar Pradesh and Bihar to reduce neonatal mortality. The state government has been following a multi-pronged strategy to address infant mortality. However, a sustained and targeted investment in healthcare, education and grassroot implementation of policies would be essential to accelerate the rate of success.

Another policy initiative known as UP Health System Strengthening Project (UPHSSP) aims at improving the quality of health services focusing primarily on the district and block levels. Programs such as Kayakalp and LaQshya in the state focus on improving the quality of care provided during and post childbirth. These quality improvement programs are based on patient-centric care and ensure the functionality of the 11 core specialties in district hospitals. Kayakalp promotes hygiene, cleanliness, waste management, and infection control practices in public health facilities. The objective of LaQshya is to reduce preventable maternal and newborn mortality, morbidity, and stillbirths associated with delivery care in the labor rooms and maternity operation theatres.

The Drugs and Vaccine Distribution Management System (DVDMS) is functional in all the districts of Uttar Pradesh to provide end to end supply across PHCs. Some region-specific programmes like the Accredited Social Health Activist (ASHA) Mobile Application and the Sangini Supportive Supervision scheme prevail in the blocks of targeted districts. These help the ASHA workers in providing counselling to pregnant women, post-partum mothers as well as their spouses and family members. The Backward Regions Grant Fund (BRGF) is an area specific programme introduced by the Ministry of Panchayati Raj for decentralised planning. Under this scheme, out of 253 districts receiving this grant, 35 are from Uttar Pradesh. Further, among the 35 districts, the majority of districts i.e 20 are from the eastern region of the state (Kumari & Raman, 2022). More emphasis needs to be placed in enhancing the quality of healthcare services in the backward districts.

As main programmatic components of NHM, Health System Strengthening, Reproductive-Maternal- Neonatal-Child and Adolescent Health (RMNCH+A), and control of Communicable and Non- Communicable Diseases, increasing community engagement with the help of Accredited Social Health Workers (ASHA) program, constitution of Village Health Sanitation and Nutrition Committees (VHSNCs) at village level and 24\*7 services at the PHCs are being made available for service provision for Maternal and Child Health. These committees also play a significant role in encouraging intersectorality under public health measures by mediating health, sanitation, and nutrition at the grassroot levels. Collective outreach activities are being undertaken in a coordinated manner through ASHA and ANMs.

Overall, intertwined programmatic interventions that focus on concurrent enhancement in female education and improving child survival are essential to yield desired fertility and

mortality rates in several states of India (Ram and Ram, 2021). Additionally, given the high poverty rates and relatively backward socio-economic indicators in the Central and Eastern region of Uttar Pradesh, region-specific interventions are much needed. The state government has of late taken some notable steps in emphasising upon the development of these backward regions of the state. At the Global Investors Summit-2023, a special focus was seen on bringing the investment to eastern UP and Bundelkhand regions. As claimed by the government, out of total investment of Rs 33.50 lakh crores attracted, the investments of Rs. 9.54 lakh crore and Rs 4.27 lakh crore were for the two most backward regions of the states viz. eastern UP (28 %) and Bundelkhand (12%) regions respectively. For both eastern UP, also known as the purvanchal region (28 districts) and Bundelkhand (7 districts) the state government has set up the Purvanchal Vikas Samiti and Bundelkhand Vikas Samiti, chaired by the chief minister of the state. The purpose behind this is to facilitate the undertaking of various development projects for these regions. Some of these existing projects include the Defence Corridor in Bundelkhand, setting up of Jhansi Industrial Development Authority, establishing pharma park in Lalitpur and many other similar initiatives.

A health initiative titled ‘Swastha Purvanchal ek pahal’ has been launched by bringing the 28 Chief Medical Officers of the 28 districts of eastern region together under the leadership of AIIMS Gorakhpur with an objective of improving the health indicators in the eastern region. The construction of Purvanchal Expressway is yet another step which is expected to play a significant role in the industrial growth of eastern UP by facilitating the connectivity of the eastern region with the other parts of the state. Not only the travel time can be reduced but the logistic and supply challenges too can be addressed with this. Besides this, under the Aspirational Blocks Programme of the NITI Ayog, launched in 2023, 68 blocks of UP from 42 different districts of the state are covered. The program focuses on monitoring key socio-economic indicators pertaining to the major sectors namely, Health and Nutrition, Education, Agriculture and Allied Services, Drinking Water and Sanitation, Financial Inclusion, Basic Infrastructure and overall Social Development (NITI Ayog). With the help of this program, the state government is working on improving the reach of service delivery in the remote and backward areas of the state.

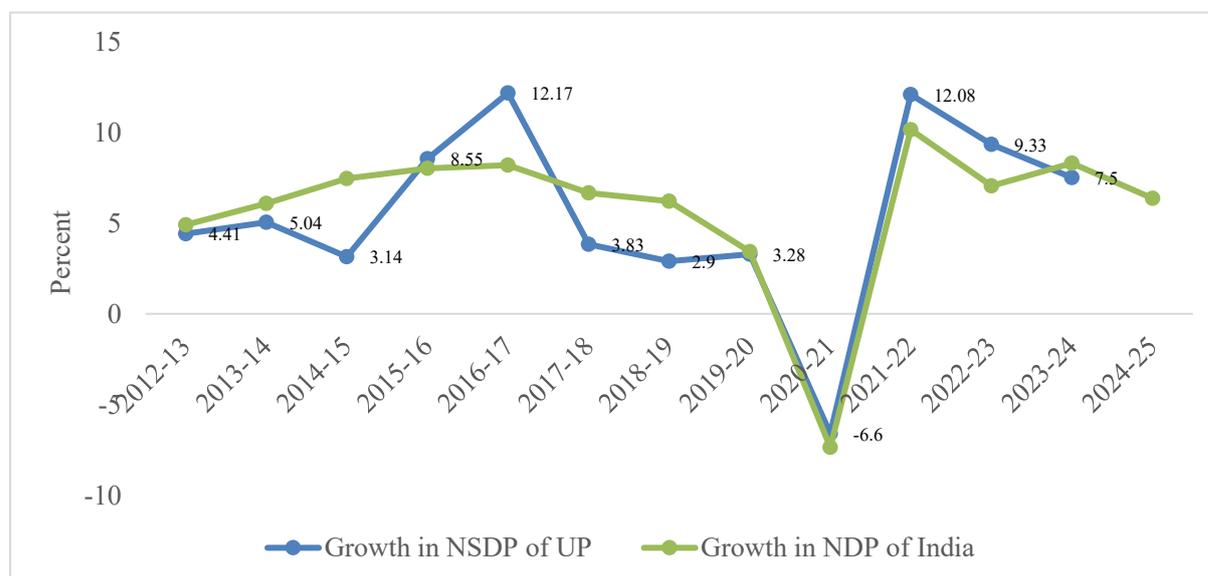
In the agricultural sector, Uttar Pradesh has identified 28 districts as particularly backward and the emphasis is on improving the productivity and infrastructure in these districts. The purpose is transformation of farming sector by resolving the challenges of unemployment, low productivity and poor infrastructure. The 28 backward districts targeted under this

scheme are: Jhansi, Lalitpur, Jalaun, Chitrakoot, Banda, Hamirpur, Mahoba, Mirzapur, Sonbhadra, Bhadohi, Varanasi, Chandauli, Ghazipur, Jaunpur, Gorakhpur, Deoria, Maharajganj, Kushinagar, Azamgarh, Mau, Ballia, Basti, Siddharthnagar, Sant Kabir Nagar, Gonda, Bahraich, Shravasti, and Balrampur. Again, the state's emphasis on eastern UP and Bundelkhand region can be noted.

## 1.2 Economy of Uttar Pradesh

The national economy cannot attain significant growth without substantial progress in Uttar Pradesh. The figure 1.1 ahead showcases the growth in net domestic product of India and state for the years 2012-13 to 2024-25 at constant prices. It can be observed that the NDP of state peaked in 2016-17, where a figure of 12.17 percent was registered which was significantly greater than that of India's for the same year (8.20 percent). However, a significant decline is seen in the following years and this situation was further worsened with the onset of Covid-19 pandemic, as a negative growth of -6.6 percent was registered in 2020-21. As the effects of the pandemic started to subside, a V-shape recovery was registered by the NDPs with that of the state closely following the trend of India's.

**Figure 1.1: Growth Rate of Net State Domestic Product (at constant prices 2011-12)**



**Note:** The growth figures of NDP for 2023-24 and 2024-25 are based on data from Press Note on First Advanced Estimates for 2024-25, MoSPI. **Source:** Authors' calculations based on data from MoSPI.

Growth rate differentials have led to a decline in UP's share in the national NDP at constant prices till 2019-20 (Graph 1.2). UP's share was approximately 8.25 percent in 2011-12, but it dropped to 7.80 percent by 2014-15, with a slight increase to 7.84 percent in 2015-16. A slight upward trend appears from 2014-15 (7.80) to 2016-17 (8.13), followed by another

decline, reaching 7.66 in 2019-20. Afterward, the values start rising again, culminating at 8.02 in 2022-23. The fluctuations reflect periods of recovery after dips, though the overall trend remains downward from 2011-12 to 2022-23.

**Figure 1.2: Share of UP's NDP in All India (at constant prices 2011-12)**



**Source:** Authors' calculations based on data from MoSPI.

**Table 1.2: Per Capita Income at Constant Prices (2011-12)**

Year	Per Capita Income		Growth Rate		Percent Share in India's Per Capita
	Uttar Pradesh	India	Uttar Pradesh	India	
2004-05	23005	44756	-	-	51.40
2005-06	23885	48245	3.83	7.80	49.51
2006-07	25300	52108	5.92	8.01	48.55
2007-08	26425	56164	4.45	7.78	47.05
2008-09	27914	59110	5.63	5.25	47.22
2009-10	29118	63313	4.31	7.11	45.99
2010-11	30890	68025	6.09	7.44	45.41
2011-12	32002	71609	3.60	5.27	44.69
2012-13	32908	74599	2.83	4.18	44.11
2013-14	34044	78348	3.45	5.03	43.45
2014-15	34583	83091	1.58	6.05	41.62
2015-16	36973	88616	6.91	6.65	41.72
2016-17	40847	94751	10.48	6.92	43.11
2017-18	41771	100035	2.26	5.58	41.76
2018-19	42333	105448	1.35	5.41	40.15
2019-20	43061	108387	1.72	2.79	39.73
2020-21	39866	101038	-7.42	-6.78	39.46
2021-22	44178	109762	10.81	8.63	40.25
2022-23	47808	116216	8.22	5.88	41.14
2023-24	50875	124600 <sup>#</sup>	6.42	7.21	40.83

**Source:** Data for Uttar Pradesh taken from MoSPI; Data for India taken from National Account Statistics, MoSPI (2014 and 2024); <sup>#</sup> Provisional Estimate taken from Handbook of Statistics on Indian Economy, RBI, 2024

UP's per capita income is the second lowest in the country after Bihar. The state's per capita income is less than half of the national level figure (Table 1.2). UP's per capita income shows a gradual decline over time, with a marginal recovery in recent years. Both UP and India generally experience positive growth rates, though UP's growth is often lower. Notably, in 2020-21, both regions saw negative growth due to economic disruptions resulted by covid-19 pandemic. Other important reasons responsible for the low growth in the state i.e. high growth rate of population, poor economic growth and slow structural transformation along with low capital investment.

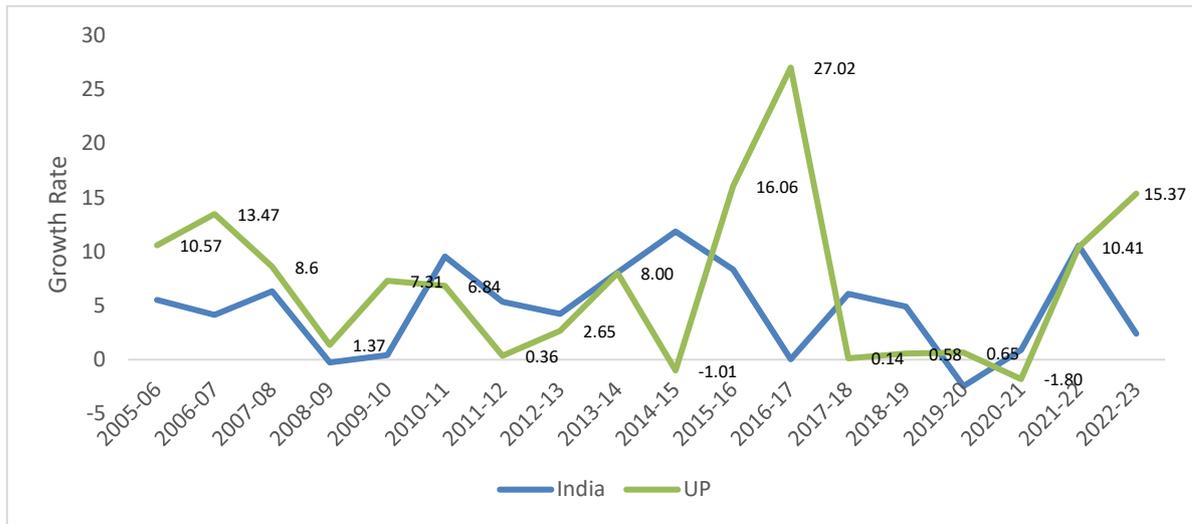
Table 1.3 highlights the rate of structural transformation in the state. Agriculture and allied activities account for approximately one-fourth of the state's total output, while the services sector contributes approximately half. However, a key area of concern is the slow growth observed in the industrial sector. Huge fluctuation can be seen in the yearly performance of industrial output in both i.e. Uttar Pradesh and India (Graph 1.3). India's industrial growth fluctuated, with significant highs in 2010-11 (9.54%), 2014-15 (11.85%) and 2021-22 (10.41%), but with also dips like 2008-09 (-0.27%), 2016-17 (0.03%) and 2019-20 (-2.45%).

**Table 1.3: Structural Changes in Uttar Pradesh (at constant prices in %)**

Sector	2011-12	2015-16	2019-20	2020-21	2021-22	2022-23	2023-24
(A) Primary	27.8	24.3	22.7	24.1	24.7	24.2	24.2
(B) Secondary	26.7	26.7	26.9	27.5	28.4	27.0	28.4
(i) Manufacturing	12.9	13.9	13.8	14.8	14.8	13.3	14.4
(ii) Construction	12.4	11.4	11.5	11.1	12.1	12.2	12.4
(iii) Electricity	1.4	1.5	1.6	1.6	1.5	1.5	1.6
(C) Tertiary	45.5	49.0	50.4	48.4	46.9	48.8	47.5

**Source:** Authors' calculations based on Gross State Value Added data from MoSPI.

UP's industrial growth is more volatile, reaching a peak in 2016-17 (27.02%) but also facing declines, such as in 2014-15 (-1.01%) and 2020-21 (-1.80%). Despite significant fluctuations, the state saw a strong recovery in 2021-22 (10.41%) and 2022-23 (15.37%). Although, both India and UP faced setbacks during global crises (2008-09, 2020-21), The state's volatility and recovery were more pronounced, contrasting with India's more consistent but moderate industrial growth.

**Figure 1.3: Growth in Industrial Sector Output at Factor Cost (at 2011-12 prices)**

**Source:** Author's calculations based on data from MoSPI.

Despite the Uttar Pradesh government's strong push through MSME promotion and schemes, such as the One District One Product (ODOP) scheme, the manufacturing sector's contribution to the state economy has not improved significantly. Major challenges and key roadblocks include insufficient infrastructure, limited access to low-cost financing, and outdated technology within MSMEs. Moreover, there exists a considerable skills gap in the workforce and a lack of well-developed industrial clusters supported by a proper ecosystem. Although there have been enhancements in road networks and expressways, these clusters still contend with unreliable power supply, inadequate last-mile connectivity, and logistics challenges. Numerous MSMEs incur high transportation expenses due to ineffective freight infrastructure. The level of formal registration under GST and the Udyam portal remains low in several districts, which restricts access to various schemes and subsidies.

It has been noted that the level of formalization under GST and the Udyam portal is still low in several districts, which restricts access to various schemes and subsidies. Regulatory challenges, complications in land acquisition, and inadequate market connections further hinder industrial development. Although, the One District One Product (ODOP) initiative has increased the visibility of traditional products, the lack of effective branding, packaging, and competitive edge in exports limits the potential for large-scale value addition. Enhancing infrastructure, providing skill development, enabling digital solutions, and improving market access are crucial for converting policy initiatives into meaningful growth in manufacturing. Consequently, initiatives such as Ease of Doing Business reforms aimed at MSMEs at the district level, enhanced market access and branding support for ODOP products, and the

integration of e-commerce for MSMEs will be beneficial and provide a strategic framework for improved public financing in Uttar Pradesh.

The "Viksit Uttar Pradesh" scheme, which aims to turn the state into a significant growth engine for India, has been introduced by the Uttar Pradesh government as part of the Viksit Bharat @2047 vision. Important areas of concentration include infrastructure development, industrial expansion, youth empowerment, and integration of rural and urban areas. The state is making significant investments in logistics parks, expressways, and industrial corridors such as the UP Defence Corridor. The ODOP plan and MSMEs are given specific attention to help foster district-level economic advantages. The Global Investors Summit, skill development projects, and digital governance reforms are examples of initiatives aimed at increasing employment and making business operations easier. In addition, initiatives are being taken to enhance urban infrastructure, education, and health. By establishing the groundwork for a Viksit Bharat by 2047, the plan aims for a \$1 trillion state economy by 2027, which is in line with the national objective.

### **1.3 Employment in Uttar Pradesh and India**

Table 1.4 highlights the labour force participation rate (LFPR) share by gender (male, female) and total person. For rural males, employment in UP fluctuated slightly, while for females, employment steadily increased. Rural areas see a consistent high male employment, while female participation rises significantly, especially in Uttar Pradesh (14.9% to 40.4%). A similar trend is observed in urban areas, though female employment in cities remains significantly lower than in rural areas. Across both rural and urban regions, female employment in UP showed a significant rise, especially between 2019 and 2021, aligning with broader national trends, though still trailing behind national averages. Overall, both UP and India experienced an upward trend in female employment, while male employment stays relatively steady. This reflects a structural shift with increased female participation, particularly in rural settings.

In recent years, the unemployment rate in the state decreased from 6.69 percent in 2017-18 to 2.6 percent in 2022-23 with marginal increase in 2023-24 to 3.4 percent. Nationally, unemployment declined from 6.5 percent in 2017-18 to 3.5 percent in 2023-24. However, the unemployment rate at the national level has been higher than the state, as shown in Table 1.5.

**Table 1.4: Labour Force Participation Rate (in %, age group 15-59)**

		Uttar Pradesh							All India						
		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Rural</b>	<b>Male</b>	77.7	76.2	78.3	80.0	79.4	83.0	82.6	80.2	80.6	81.5	81.4	82.1	84.2	84.3
	<b>Female</b>	14.9	15.3	19.6	25.9	30.6	36.5	40.4	26.6	28.3	35.4	39.2	39.3	44.3	51.2
	<b>Person</b>	46.3	44.9	48.5	52.7	54.7	59.3	60.9	53.6	54.5	58.5	60.4	60.8	64.2	67.6
<b>Urban</b>	<b>Male</b>	77.0	73.9	77.0	77.9	78.6	79.0	81.0	80.1	79.6	80.6	80.9	81.2	80.8	81.9
	<b>Female</b>	11.8	9.9	13.9	14.2	14.7	15.2	18.8	22.3	22.5	25.7	25.8	26.5	28.3	31.2
	<b>Person</b>	45.6	43.0	47.0	47.2	47.6	48.1	50.8	51.6	51.6	53.5	53.7	54.5	55.1	57.0
<b>Rural + Urban</b>	<b>Male</b>	77.5	75.6	78.0	79.5	79.2	82.2	82.2	80.2	80.3	81.2	81.2	81.8	83.2	83.5
	<b>Female</b>	14.2	14.1	18.3	23.5	27.4	32.1	35.8	25.3	26.5	32.3	35.2	35.6	39.8	45.2
	<b>Person</b>	46.1	44.4	48.2	51.5	53.2	56.9	58.6	53.0	53.6	56.9	58.4	58.9	61.6	64.3

Source: Annual Reports, Periodic Labour Force Survey (2018-19 to 2023-24)

**Table 1.5: Unemployment Rate in Percent According to Usual Principal and Subsidiary Status (PS+SS), 15-59 years**

Year	Uttar Pradesh			India		
	Male	Female	Total	Male	Female	Total
2017-18	7.5	3.3	6.9	6.6	6.0	6.5
2018-19	6.9	2.7	6.2	6.5	5.5	6.2
2019-20	5.2	2.9	4.8	5.5	4.5	5.2
2020-21	5.1	3.2	4.6	4.9	3.7	4.6
2021-22	3.6	2.0	3.2	4.8	3.6	4.4
2022-23	2.9	1.9	2.6	3.6	3.2	3.4
2023-24	3.6	2.8	3.4	3.5	3.4	3.5

Source: Annual Reports, Periodic Labour Force Survey (2017-18 to 2023-24).

The state government has been taking various steps to reap the potential benefits of demographic dividend in the state. The Uttar Pradesh Skill Development Mission which focuses on training youth (14-35 age group) for different trades and sectors viz. manufacturing, agriculture and allied, information technology etc. The targeted initiative involves tie-ups with various industries as well as educational institutions to prepare a skilled work force along with creation of employment opportunities at the same time. For this, multiple skill development centers have been set up across the state.

The Mukhyamantri Yuva Swarozgar Yojana scheme focuses on providing self-employment opportunities to educated youth (eligibility being 18-40 years of age) by offering them financial assistance for establishing and running their own businesses. Vocational Education Institutions have been set up by the Vocational Education and skill development department of the state which offer technical training programs to the youth thereby encouraging employment-based education. The Chief Minister Apprenticeship Promotion Scheme (CMAPS) of the government too provides hands on training to the youth linking them with assured employment for a specified duration. Through Yuva Udyamita Vikas Abhiyan (YUVA) youth is receiving financial help and funding for self-employment. Young people from the 18-35 age group take technical-vocational training under this and learn to become self-dependent in their work. The Yuva Hub Scheme plans to set up Yuva Hubs in each district of the state to ensure that jobless youth are able to find suitable jobs as per their qualifications. The Berojgari Bhatta Yojna provides financial assistance to educated but unemployed youth while they are in their job seeking phase.

The state government claims that its appeal to investors has improved and it has been announced that proposals worth nearly ₹40 trillion which could generate up to 15 million jobs are to be received by the state. Projects such as the Defence Industrial Corridor and semiconductor manufacturing units by companies like Foxconn and HCL in the vicinity of the upcoming Jewar Airport indicate the same. The Chief Minister Village Industries Employment Scheme was launched to promote rural employment opportunities and entrepreneurship in rural areas of the state. Borrowers age eligibility is 18 years to 50 years only. Uttar Pradesh Kaushal Satrang Yojana (Rainbow scheme) is another specific scheme launched by the Chief Minister of UP for providing skill training and job opportunities to unemployed youth. The state govt plans to provide skill development training and employment opportunities to 2.37 Lakh youth (18-40 years age). It has seven components under which Mega job fairs will be organized in each district at the district sewa yojan office.

Another name among these measures is that of Mukhyamantri Yuva Udyami Vikas Abhiyan (MYUVA) Scheme which is an initiative aimed at fostering entrepreneurship among the state's youth. It was launched in the year 2024 and attempts to empower educated and skilled young men and women by providing them with loans to establish their own enterprises. The idea is to create jobs and also contribute to the economic development of the state. The Unemployed Youth Employment Generation Programme is designed to bridge the gap between active job seekers (18-35 years age) and employment opportunities by providing them comprehensive skill development training, entrepreneurship support, and placement services. Self-reliance, direct and indirect job creation, stimulating economic growth and improving the quality of life for young citizens are the goals sought to be achieved through this scheme.

#### 1.4 Human Development

##### *Three Indicators Based HDI Estimates (UPHDR 2008 methodology based)*

The overall progress in human development over the past decade is summarized in Table 1.6, showing a gradual improvement. Over the last 15 years, the Human Development Index (HDI) has increased by only about 17 percent. The most significant improvement has been in the education sector, while the health dimension, already relatively strong compared to the others, has shown the least progress. The substantial advancements in education and health are largely due to consistent efforts by both the central and state governments. Various initiatives, such as the Sarva Shiksha Abhiyan, the Mid-Day Meal Scheme, and the Right to Free Education Act, have contributed to this improvement. Similarly, significant investments have been made in public health infrastructure at both levels of government over the last decade. However, sluggish economic growth remains a concern.

**Table 1.6: Human Development in Uttar Pradesh (UPHDR 2008 Methodology Based)**

Year	Income	Education	Health	HDI	
				AM	GM
2001	0.449	0.563	0.621	0.544	0.539
2005	0.446	0.599	0.668	0.571	0.563
2015	0.535	0.677	0.695	0.635	0.631
Change (2001-2015)	0.086	0.114	0.074	0.091	0.092
Change (2001-2015 in %)	19.15	20.25	11.92	16.73	17.07
Change (2005-2015)	0.089	0.078	0.027	0.064	0.068
Change (2005-2015 in %)	19.96	13.02	4.04	11.21	12.08

**Source:** Values of 2001 and 2005 are taken from UPHDR (2008); Values of the 2015 are taken from the Maurya and Kanaujiya (2018), while others are authors' calculations.

At the state level, the individual dimension indices for health, education, and income in 2015 were 0.695, 0.677, and 0.535, respectively. The overall HDI was 0.635 (using the arithmetic mean), and 0.631 using the geometric mean. While the state is classified as a high human development state according to the UPHDR (2008), it still falls within the lower-medium human development category by international standards. Traditionally, the HDI has been calculated using the arithmetic mean to aggregate the individual dimension indices, but since 2010, the international HDR has used the geometric mean (GM), which is considered a more accurate method. Applying the GM to calculate the HDI results in lower values.

*Five Indicators Based HDI (UNDP 2010 methodology based)*

Maurya and Kanaujiya (2018) estimated the Human Development Index (HDI) using the UNDP (2010) methodology. While most indicators align with the UNDP framework, the health dimension differs. Instead of using life expectancy at birth to assess a long and healthy life, as the UNDP does, Maurya and Kanaujiya (2018) utilized the infant mortality rate and institutional births to represent the health dimension. In their updated estimates, the overall human development score decreased compared to the three-indicator-based approach. Uttar Pradesh's HDI stands at 0.558, down from 0.635 using the previous method, reflecting a 13.80 percent higher score earlier. As a result, UP shifts from being classified as a high-medium human development state to a low-medium using international standard methodology.

### 1.5 Poverty in Uttar Pradesh

The table 1.7 presents poverty estimates (Headcount Ratio) for Uttar Pradesh and India from 2005-06 to 2022-23. It shows a significant decline in poverty levels over the years. In Uttar Pradesh, the poverty rate dropped from 69.52 percent in 2005-06 to 17.40 percent in 2022-23, reflecting major improvements in economic conditions. Similarly, India's poverty rate fell from 55.34 percent to 11.28 percent during the same period. While both Uttar Pradesh and India saw substantial reductions in poverty, Uttar Pradesh consistently had higher poverty rates than the national average throughout this period, though the gap narrowed by 2022-23.

**Table 1.7: Poverty Estimates in Uttar Pradesh and India (Headcount Ratio in %, 2004-05 to 2022-23)**

	2005-06	2015-16	2019-21	2013-14	2022-23
<b>Uttar Pradesh</b>	69.52	37.68	22.93	42.59	17.40
<b>India</b>	55.34	24.85	14.96	29.17	11.28

**Source:** Multidimensional Poverty in India since 2005-06, A Discussion Paper, NITI Aayog, 2024

## 1.6 Concluding Remarks

Uttar Pradesh lags in key indicators of economic progress and social development. The pace of economic progress and structural transformation remains insufficient to escape the low equilibrium trap. Unemployment, persistent rural and urban poverty, and low economic well-being are likely to put significant strain on state finances, as the demand for higher expenditure grows while revenue capacity remains limited. A rise in the labour force participation rate of females is a positive sign. The state also witnessed a strong recovery from the global crisis.

## **Chapter II**

### **Revenue Trends in Uttar Pradesh: Tax and Non-tax**

#### **2.1 Introduction**

The main source of funding for the government is taxation. Effectively taxing residents and collecting revenue is essential to a state's establishment and continued existence. Secondly, increased fiscal capacity means the state has easier access to the resources as it needs to deliver public goods and services. Own tax revenue of a state comprises taxes levied and collected directly by the state government, such as sales tax (now subsumed under GST, July 2017), excise duty on liquor, property tax, stamp duty, and motor vehicle tax. It is a crucial source of revenue for states to finance their developmental projects, public services, and infrastructure needs. These taxes empower states to address region-specific requirements, reduce dependency on central transfers, and ensure fiscal autonomy. By generating their own revenue, states can plan and execute policies effectively, driving economic growth and improving the standard of living for their citizens.

The level of development and growth of a state is closely linked to its potential for generating revenue. States with well-developed industrial and service sectors typically possess a greater capacity for collecting direct and indirect taxes. However, within India's federal structure, state governments have limited authority to raise revenue. Moreover, the taxes under their jurisdiction are generally less significant in terms of volume and generally exhibit low elasticity also. In this chapter, the trends, growth and composition in tax and non-tax revenue and taxable capacity of Uttar Pradesh in the last twelve years are presented.

#### **2.2 Taxable Capacity**

Taxable Capacity is the maximum capacity of the people of a country to bear the tax burden without many problems. Simply put, it is the maximum limit to which the government of a country can tax its people. Therefore, taxable capacity is the amount of tax revenue that can be raised if the tax bases are taxed at some given rate. Taxable capacity may be used in two senses: first Absolute taxable capacity and second Relative taxable capacity.

Absolute taxable capacity refers to the maximum amount of tax revenue a country or state can generate using its own tax bases. In contrast, relative taxable capacity is the maximum amount of tax revenue a state can collect in relation to a specific base, often expressed as a percentage or ratio. Dalton (1983) aptly observed that relative taxable capacity is a practical reality, whereas absolute taxable capacity is an idealized concept. The relative taxable capacity of a state is influenced by several factors, including the size of its GSDP, the rate and growth of its population, the distribution of income and wealth, administrative efficiency, and other socioeconomic elements.

Tax effort measures how effectively a government utilizes its taxable capacity to generate revenue. A smaller gap between taxable capacity and actual revenue collections indicates a higher tax effort. It is important to distinguish tax effort from fiscal effort, as the latter encompasses efforts to raise revenue through both tax and non-tax means.

### *2.2.1 Tax-GSDP Ratio*

The Tax/GSDP ratio provides a snapshot of the state's fiscal efficiency and revenue generation capacity relative to its economic size. It is calculated as:

$$\text{Tax/GSDP (\%)} = (\text{Own Tax Revenue/GSDP}) \times 100$$

Therefore, the tax/GSDP ratio is the most basic indicator of measuring tax efforts (Shome, 2012). The implied assumption involved in using such ratios for the purpose of comparing tax efforts is that GSDP is treated as an indicator of taxable capacity and thus suitable for comparisons across governmental units (Sen 1997, Maurya, Singh & Khare, 2016). Table 2.1 presents the estimates of own tax revenue/GSDP ratio of Uttar Pradesh. The tax/GSDP ratio is hovering between 7 to 8 percent. In 2023-24 (revised estimates have been taken for 2023-24), it is expected to be 8.36 percent. It implies that own tax revenue and GSDP are almost growing with same pace.

A higher Tax/GSDP ratio (e.g., 8.36 % in 2023-24) indicates a higher share of economic output being converted into tax revenue, which could reflect improved tax policies and economic activities. The dip in the ratio in some years (e.g., 6.67 % in 2016-17) may indicate challenges like tax collection inefficiencies and economic disruptions. During 2020-21 (the COVID-19

pandemic year), both GSDP and Own Tax Revenue experienced a decline, and the Tax/GSDP ratio was 7.31 percent. This aligns with global economic disruptions.

**Table 2.1: Trends in Own Tax Revenue and GSDP of U.P. (in Rs. Crore, 2012-13 to 2022-23)**

Year	Own Tax Revenue	GSDP	Tax/GSDP %
2012-13	58,098.4	8,22,393	7.06
2013-14	66,582.1	9,40,356	7.08
2014-15	74,172.4	10,11,790	7.33
2015-16	81,106.3	11,37,808	7.13
2016-17	85,965.9	12,88,700	6.67
2017-18	1,09,604.8	14,39,926	7.61
2018-19	1,22,815.7	15,82,180	7.76
2019-20	1,22,825.8	17,00,062	7.22
2020-21	1,19,897.3	16,40,097	7.31
2021-22	1,47,367.7	19,81,367	7.44
2022-23	1,74,085.0	22,84,104	7.62
2023-24	2,13,064.5	25,47,861	8.36

**Source:** Author's calculation based on data from RBI and MoSPI

### 2.3 Trends in Revenue: Own Tax Revenue

Own tax revenue means government's own income due to various taxes. The table 2.2 provides a detailed breakdown and trends of the state's own tax revenue over a period from 2012-13 to 2023-24. It categorizes the revenue into three main components: Taxes on Income, Taxes on Property and Capital Transactions, and Taxes on Commodities and Services. Over the years, the revenue shows a consistent upward trend, growing from Rs. 58,098.4 crore in 2012-13 to a projected Rs. 2,13,064.5 crores in 2023-24, with a noticeable jump after 2017-18. Similar increment has also been registered in different components of state's own tax revenue viz. taxes on income, taxes on property & capital transactions and taxes on commodities & services. The average annual growth rates of a state's Own Tax Revenue (OTR) in different time periods and its breakup into specific components has been given in table 2.3. OTR grew at an average of 11.56 percent in 2013-14 to 2019-20, rising sharply to 15.26 percent post-2020. For the entire period, the average annual growth rate is 12.90 percent. Taxes on income growth rate is not that relevant from the policy perspective as the amount is very small and is continuously declining over the selected period of analysis.

**Table 2.2: State's Own Tax Revenue (in Rs. crore)**

Items	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24*
<b>A. State's Own Tax Revenue (1 to 3)</b>	58098.4	66582.1	74172.4	81106.3	85965.9	109604.8	122815.7	122825.8	119897.3	147367.7	174087.1	213064.5
<b>1. Taxes on Income</b>	35	39.6	43.3	50.3	55.8	19.2	1.2	1.2	1	1.9	0.9	-
<b>2. Taxes on Property and Capital Transactions</b>	9546.8	10292.9	12330.6	12909	12324.1	14734	16364.3	16573.4	16772.4	20241	25128.6	30081.2
<b>i) Land Revenue</b>	804.6	772	527.2	505.3	760.1	1336.5	631.2	503.6	297.2	192.8	284.9	2743.5
<b>ii) Stamps and Registration Fees</b>	8742.17	9520.9	11803.3	12403.7	11564	13397.6	15733	16069.8	16475.2	20048.3	24843.7	27337.6
<b>3. Taxes on Commodities and Services</b>	48516.6	56249.6	61798.6	68147	73586.1	94851.6	106450.3	106251.2	103123.9	127124.8	148957.6	182983.4
<b>i) Sales Tax</b>	34870.2	39645.5	42934.6	47692.4	51882.9	31112.5	23797.8	20517.1	22127.1	27058.2	31979.2	36180
<b>a) Central Sales Tax</b>	1745.8	1793.3	1775.9	1886.9	1995.1	989.5	483.1	446.2	488.9	1004.3	393.4	794.8
<b>b) State Sales Tax/VAT</b>	32450.8	36206.2	39812.7	43161.7	48117.9	29745.3	23306.5s	20063.8	21632.1	26048.8	31577.1	34975.5
<b>c) Other Receipts</b>	673.5	1646	1346	2643.9	1769.9	377.7	8.2	7.1	6	5.1	8.6	409.7
<b>ii) State Excise</b>	9782.5	11643.8	13482.6	14083.5	14273.5	17320.3	23926.7	27324.8	30061.2	36319.6	41252.7	50000
<b>iii) Taxes on Vehicles</b>	2992.9	3441.4	3797	4409.7	5148.1	6403.6	6929.3	7714.9	6482.6	7775.8	9059.5	8314.1
<b>iv) Taxes and Duties on Electricity</b>	484.9	1048.5	1085.4	1338.3	1555.8	2124.1	2978.2	3452.5	1586.7	1365.8	2519.4	379.8
<b>v) Entertainment Tax</b>	380.3	465.7	494.7	596.6	715.6	301.8	44.2	9.5	6.2	11.3	5.9	-
<b>vi) State Goods and Services Tax</b>	-	-	-	-	-	37585.7	48801.9	47232.4	42860	54594.1	64140.9	87776.4

Note: \*Revised Estimates

Source: State Finances, Reserve Bank of India (various years)

**Table 2.3: Average Annual Growth Rate in State's Own Tax Revenue (in %)**

Items	2013-14 to 2019-20	2020-21 to 2023-24	2013-14 to 2023-24
<b>A. State's Own Tax Revenue (1 to 3)</b>	11.56	15.26	12.90
<b>1. Taxes on Income</b>	-15.68	-	-
<b>2. Taxes on Property and Capital Transactions</b>	8.52	16.43	11.40
<b>i) Land Revenue</b>	1.91	208.66	77.09
<b>ii) Stamps and Registration Fees</b>	9.52	14.54	11.34
<b>3. Taxes on Commodities and Services</b>	12.14	15.09	13.21
<b>i) Sales Tax</b>	-5.07	15.36	2.36
<b>ii) State Excise</b>	16.33	16.40	16.36
<b>iii) Taxes on Vehicles</b>	14.59	3.06	10.40
<b>iv) Taxes and Duties on Electricity</b>	36.00	-17.11	16.69
<b>v) State Goods and Services Tax</b>	-	18.11	16.51#

**Source:** Author's calculations based on data from State Finances, RBI. # average annual growth rate from 2017-18 to 2023-24.

Taxes on Property and Capital Transactions grew steadily, improving from 8.52 percent (2013-14 to 2019-20) to 16.43 percent post-2020. Over the whole period, their average annual growth was 11.40 percent. Taxes on Commodities and Services component had similar growth patterns, with a significant rise from 12.14 percent pre-2020 to 15.09 percent post-2020, averaging to 13.21 percent over the full period. Most categories showed accelerated growth post-2020, reflecting economic recovery from the pandemic and low base effect.

Table 2.4 provides the percentage share of various individual taxes in the total State's Own Tax Revenue (OTR) over the years from 2012-13 to 2023-24. It highlights the contribution of each tax type to the state's total revenue, showing trends and shifts in tax reliance. Taxes on Commodities and Service share contribute more than 80 percent of total own tax revenue collections. Initially a major contributor (60.02 % in 2012-13), sale tax share declined significantly to 16.98 percent in 2023-24 due to the introduction of GST. The introduction of SGST in 2017-18 restructured revenue collection and it quickly became the largest subcategory within Commodities and Services, contributing 41.20 percent of OTR in 2023-24. SGST has become particularly significant since its introduction.

**Table 2.4: Percent Share of Individual Taxes in Total Own Tax Revenue (in %)**

Items	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24*
<b>A. State's Own Tax Revenue (1 to 3)</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>1. Taxes on Income</b>	0.06	0.06	0.06	0.06	0.06	0.02	0.00	0.00	0.00	0.00	0.00	-
<b>2. Taxes on Property and Capital Transactions</b>	16.43	15.46	16.62	15.92	14.34	13.44	13.32	13.49	13.99	13.74	14.43	14.12
<b>i) Land Revenue</b>	1.38	1.16	0.71	0.62	0.88	1.22	0.51	0.41	0.25	0.13	0.16	1.29
<b>ii) Stamps and Registration Fees</b>	15.05	14.30	15.91	15.29	13.45	12.22	12.81	13.08	13.74	13.60	14.27	12.83
<b>3. Taxes on Commodities and Services</b>	83.51	84.48	83.32	84.02	85.60	86.54	86.67	86.51	86.01	86.26	85.56	85.88
<b>i) Sales Tax</b>	60.02	59.54	57.88	58.80	60.35	28.39	19.38	16.70	18.46	18.36	18.37	16.98
<b>a) Central Sales Tax</b>	3.00	2.69	2.39	2.33	2.32	0.90	0.39	0.36	0.41	0.68	0.23	0.37
<b>b) State Sales Tax/VAT</b>	55.85	54.38	53.68	53.22	55.97	27.14	18.98	16.34	18.04	17.68	18.14	16.42
<b>c) Other Receipts</b>	1.16	2.47	1.81	3.26	2.06	0.34	0.01	0.01	0.01	0.00	0.00	0.19
<b>ii) State Excise</b>	16.84	17.49	18.18	17.36	16.60	15.80	19.48	22.25	25.07	24.65	23.70	23.47
<b>iii) Taxes on Vehicles</b>	5.15	5.17	5.12	5.44	5.99	5.84	5.64	6.28	5.41	5.28	5.20	3.90
<b>iv) Taxes and Duties on Electricity</b>	0.83	1.57	1.46	1.65	1.81	1.94	2.42	2.81	1.32	0.93	1.45	0.18
<b>v) Entertainment Tax</b>	0.65	0.70	0.67	0.74	0.83	0.28	0.04	0.01	0.01	0.01	0.00	-
<b>vi) State Goods and Services Tax</b>	0.00	0.00	0.00	0.00	0.00	34.29	39.74	38.45	35.75	37.05	36.84	41.20

Source: Authors' calculations based on data from RBI. \*Revised Estimates

**Table 2.5: Trends in Total Tax Revenue of U.P. Government (in Rs. Crore)**

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>A. Share in Central taxes</b>	57497.9	62776.7	66622.9	90973.7	109428.3	108727.4	134072.6	117818.3	106687.0	160358.1	169745.3	197801.9
<b>(as % of TTR)</b>	49.7	48.5	47.3	52.9	56.0	49.8	52.2	49.0	47.1	52.1	49.4	48.1
<b>B. State's Own Tax Revenue</b>	58098.4	66582.1	74172.4	81106.3	85965.9	109604.8	122815.7	122825.8	119897.3	147367.7	174087.1	213064.5
<b>(as % of TTR)</b>	50.3	51.5	52.7	47.1	44.0	50.2	47.8	51.0	52.9	47.9	50.6	51.9
<b>Total TR (A+B)</b>	115596.2	129358.8	140795.3	172079.9	195394.1	218332.1	256888.2	240644.1	226584.3	307725.7	343832.4	410866.4

Source: Authors' calculation based on data from State Finances, RBI.

**Table 2.6: State's Own Non-Tax Revenue in U.P. (in Rs. Crore)**

Items	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24*
<b>Total Non-Tax Revenue (a+b)</b>	30307.8	38855.0	52626.3	54996.0	61480.9	60443.3	73089.2	125749	69592.0	63285.7	73409.1	114351.4
<b>a. State's Own Non-Tax Revenue</b>	12970.0	16449.8	19934.8	23134.7	28944.1	19794.9	30100.7	81705.1	11846.1	11436.0	13489.5	11761.1
<b>1. Interest Receipts</b>	1186.4	1619.4	2302.8	632.8	1164.9	1093.4	1712.4	1469.4	1115.5	1249.8	1259.4	212.2
<b>2. Dividends and Profits</b>	62.7	5.2	8.1	42.7	86.3	30.8	175.5	39.0	104.8	212.6	141.3	73.7
<b>3. General Services</b>	5068.8	3907.0	7122.2	6113.7	5993.3	6806.2	15365.8	73483.9	2238.9	1959.2	2300.3	1887.9
<b>4. Social Services</b>	4670.2	7158.6	6514.0	11264.4	14653.2	1571.1	871.5	978.2	1045.7	1106.6	2150.5	2117.6
<b>i) Education, Sports, Art and Culture</b>	4211.7	6414.1	5798.5	10652.1	14092.3	432.1	380.9	480.2	505.3	452.4	671.9	1000.0
<b>ii) Medical and Public Health</b>	126.9	127.8	168.4	242.0	185.7	260.5	261.5	294.0	354.4	390.6	302.3	409.5
<b>iii) Family Welfare</b>	0.3	1.0	0.3	0.5	0.2	0.3	0.5	0.3	3.3	3.5	34.5	26.4
<b>iv) Housing</b>	13.4	18.7	23.5	26.4	32.4	33.6	60.0	39.8	42.6	41.7	51.3	54.4
<b>v) Urban Development</b>	28.4	98.7	85.5	26.0	131.6	29.0	34.4	20.4	22.1	3.5	175.8	165.6
<b>vi) Labour and Employment</b>	31.8	40.0	66.8	166.6	91.2	84.8	75.3	67.5	54.2	95.3	820.6	49.0
<b>vii) Social Security and Welfare</b>	155.1	249.5	209.7	108.3	53.5	653.9	35.9	34.1	35.5	91.3	79.1	68.0
<b>viii) Water Supply and Sanitation</b>	2.2	0.1	0.1	2.0	0.4	0.0	0.1	0.0	0.0	0.0	4.7	326.5
<b>ix) Others</b>	100.4	208.7	161.4	42.4	64.3	76.5	23.0	41.9	28.3	28.3	10.3	18.3
<b>5. Economic Services</b>	1981.9	3759.6	3987.7	5081.1	7046.2	10293.3	11975.4	5734.4	7341.2	6907.8	7637.6	7469.8
<b>i) Forestry and Wildlife</b>	332.1	354.6	415.1	629.8	253.0	320.0	413.1	312.1	317.0	316.3	322.3	340.0
<b>ii) Major and Medium Irrigation Projects</b>	191.4	479.6	330.8	564.9	689.2	869.2	812.1	912.4	1085.0	1047.9	1167.2	1175.0
<b>iii) Power</b>	72.8	1060.8	967.9	1322.2	2938.9	4695.9	5735.4	1044.1	1309.0	1768.5	964.5	374.9
<b>iv) Industries</b>	738.7	912.9	1031.3	1231.4	1549.0	3259.4	3172.8	2195.8	3125.9	2658.3	3372.6	4210.3
<b>b. Grants-in-aid</b>	17337.8	22405.2	32691.5	31861.3	32536.9	40648.4	42988.5	44044.0	57745.9	51849.7	59919.6	102590

Note: \*Revised estimates

Source: State Finances, Reserve Bank of India (various years)

Share of UP in Central Taxes increased steadily from Rs. 57,497.85 crore in 2012-13 to Rs. 197801.9 crore in 2023-24, except for a dip during 2019-20 and 2020-21, likely due to COVID-19 pandemic led economic disruptions. In terms of percent of total tax revenue, it has been fluctuating between 47 to 52 percent during 2012-13 to 2023-24 (56 % in 2016-17), reflecting almost stable reliance on central tax transfers over time. Similar fluctuations were also visible in the state's OTR as percent of total tax revenue. Total tax revenue grew substantially from Rs. 1,15,596.25 crore in 2012-13 to Rs. 4,10,866.4 crore in 2023-24, marking a significant expansion of the revenue base and it also highlights a transition towards greater fiscal self-reliance for the state (Table 2.5).

## **2.4 Trends in Revenue: Non-tax Revenue**

Non-Tax Revenue is the recurring income that is earned from sources other than taxes by the government. They are the revenue receipts that are not generated by taxing the public and form a very important source of revenue for the state governments. Table 2.6 presents data on Uttar Pradesh's State Own Non-Tax Revenue from 2012-13 to 2023-24, detailing contributions from various categories and subcategories. Non-tax revenue comes from sources other than taxes, such as interest receipts, dividends, user fees, and earnings from state services. Total non-tax revenue of Uttar Pradesh grew from Rs. 12,970 crores in 2012-13 to Rs. 30,100.7 crore in 2018-19. A significant spike was observed in 2019-20 (Rs. 81,705.1 crores), followed by a sharp moderation in values after that (Rs. 11761.1 crores in 2023-24). According to the Uttar Pradesh Government's notification dated March 17, 2020, the outstanding balance in the existing Sinking Fund as of the end of March 2020 was to be transferred to the Consolidated Sinking Fund. However, on March 30, 2020, the State Government transferred the entire balance of Rs. 71,180.23 crores from the existing Sinking Fund under the Public Account to the State Government's non-tax revenue. This transfer was merely a book adjustment, with no actual cash received by the State Government. As this was an exceptional transaction with no actual cash inflow, it had an impact on the State's revenue and fiscal surplus. Consequently, the reported revenue surplus of Rs. 67,560 crores and fiscal surplus of Rs. 11,083 crores for 2019-20 should be interpreted in the context of this transfer, which was recorded as revenue without any actual cash receipt. The sharp fluctuations in total non-tax revenue emphasize the need to stabilize and broaden revenue sources to ensure fiscal resilience.

Table 2.7 shows the average annual growth rates of Non-Tax Revenue (NTR) of Uttar Pradesh, categorized into State's Own Non-Tax Revenue and Grants-in-Aid, for three periods: 2013-14 to 2019-20 (Pre-pandemic), 2020-21 to 2023-24 (post-pandemic recovery) and 2013-14 to 2023-24 (Overall period). Pre-pandemic growth (24.46%) was higher compared to post-pandemic growth (4.51%), indicating a slowdown in non-tax revenue generation post-2020. Over the whole period (2013-14 to 2023-24), the average annual growth rate was 17.21 percent, reflecting moderated overall growth. State's Own Non-Tax Revenue grew significantly during pre-pandemic at 40.15 percent but slowed down dramatically in the post-pandemic to -20.95 percent. The average annual growth is 17.93 percent for the entire period. Under the own non-tax revenue, Dividends and Profits are reflecting better returns from state-owned enterprises with 91.93 percent annual growth during 2013-14 to 2023-24. Pre-pandemic growth rate of Grants-in-Aid was 15.41 percent which surged to 26.92 percent post-pandemic.

**Table 2.7: Average Annual Growth Rate in States Own Non-Tax Revenue (in %)**

Items	2013-14 to 2019-20	2020-21 to 2023-24	2013-14 to 2023-24
<b>Total Non-Tax Revenue</b>	24.46	4.51	17.21
<b>a. State's Own Non-Tax Revenue</b>	40.15	-20.95	17.93
<b>1. Interest Receipts</b>	18.08	-23.61	2.92
<b>2. Dividends and Profits</b>	117.17	47.56	91.93
<b>3. General Services</b>	80.11	-27.49	40.98
<b>4. Social Services</b>	3.68	26.38	11.93
<b>i) Education, Sports, Art and Culture</b>	10.86	23.03	15.28
<b>ii) Medical and Public Health</b>	15.14	10.90	13.60
<b>iii) Housing</b>	21.20	8.50	16.63
<b>iv) Labour and Employment</b>	24.07	180.79	81.05
<b>v) Social Security and Welfare</b>	138.32	33.46	100.25
<b>5. Economic Services</b>	24.60	7.62	18.42
<b>i) Forestry and Wildlife</b>	6.70	2.18	5.05
<b>ii) Major and Medium Irrigation Projects</b>	34.89	6.89	24.71
<b>iii) Power</b>	215.34	-11.53	132.84
<b>iv) Industries</b>	22.67	19.78	21.62
<b>b. Grants-in-Aid</b>	15.41	26.92	19.59

Source: Author's calculation based on data from State Finances, RBI.

It is reflecting increased central transfers during and after the COVID-19 pandemic. Overall growth during 2013-14 to 2023-2024 is 19.59 percent. The increasing reliance on central assistance highlights the importance of federal support in the state's revenue structure, especially during crises.

Looking at the composition of Non-Tax Revenue (NTR), table 2.8 presents an analysis of the composition of NTR for the state from 2012-13 to 2023-24. In recent years, around 80 percent is the share of grants from the Centre and the remaining is state's own non-tax revenue. After pandemic, grants-in-aid increased rapidly whereas a reducing share of State's Own Non-Tax Revenue is seen during the same period. Before pandemic, during 2013-14 to 2019-20, share of own non-tax revenue and grant-in-aid was on an average around 44 percent and 56 percent respectively (table 2.8).

Major sources of the state's own non-tax revenues are general services, social services, and economic services, collectively accounting for more than 90 percent of the state's own non-tax revenue. Receipts from interest (earned on loans extended by the government to states and other entities) and dividends and profits from public sector companies remain relatively low but have shown a steady increase from 2013-14 to 2023-24.

## **2.5 Comparative Performance of NSC States: OTR and ONTR as % of GSDP**

Table 2.9 presents the comparison between own tax revenue (OTR) and own non-tax revenue (ONTR) as percentages of the gross state domestic product (GSDP) for non-special category (NSC) states in India, focusing on Uttar Pradesh for last six years (2018–19 to 2023–24). We find Uttar Pradesh and Telangana getting the highest rank (with 7.6% average) for OTR/GSDP, showcasing strong tax revenue generation among all 18 NSC states. We also find that Uttar Pradesh is at the 6<sup>th</sup> position among 18 NSC states in ONTR/GSDP on the basis of last six years performance.

**Table 2.8: Composition of Non-Tax Revenue (in %)**

Items	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Total Non-Tax Revenue (a+b)</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>a. State's Own Non-Tax Revenue (1 to 5)</b>	42.79	42.34	37.88	42.07	47.08	32.75	41.18	64.97	17.02	18.07	18.38	10.29
<b>1. Interest Receipts</b>	3.91	4.17	4.38	1.15	1.89	1.81	2.34	1.17	1.60	1.97	1.72	0.19
<b>2. Dividends and Profits</b>	0.21	0.01	0.02	0.08	0.14	0.05	0.24	0.03	0.15	0.34	0.19	0.06
<b>3. General Services</b>	16.72	10.06	13.53	11.12	9.75	11.26	21.02	58.44	3.22	3.10	3.13	1.65
<b>4. Social Services</b>	15.41	18.42	12.38	20.48	23.83	2.60	1.19	0.78	1.50	1.75	2.93	1.85
<b>i) Education, Sports, Art and Culture</b>	13.90	16.51	11.02	19.37	22.92	0.71	0.52	0.38	0.73	0.71	0.92	0.87
<b>ii) Medical and Public Health</b>	0.42	0.33	0.32	0.44	0.30	0.43	0.36	0.23	0.51	0.62	0.41	0.36
<b>iii) Housing</b>	0.04	0.05	0.04	0.05	0.05	0.06	0.08	0.03	0.06	0.07	0.07	0.05
<b>iv) Urban Development</b>	0.09	0.25	0.16	0.05	0.21	0.05	0.05	0.02	0.03	0.01	0.24	0.14
<b>v) Labour and Employment</b>	0.10	0.10	0.13	0.30	0.15	0.14	0.10	0.05	0.08	0.15	1.12	0.04
<b>vi) Social Security and Welfare</b>	0.51	0.64	0.40	0.20	0.09	1.08	0.05	0.03	0.05	0.14	0.11	0.06
<b>5. Economic Services</b>	6.54	9.68	7.58	9.24	11.46	17.03	16.38	4.56	10.55	10.92	10.40	6.53
<b>i) Forestry and Wildlife</b>	1.10	0.91	0.79	1.15	0.41	0.53	0.57	0.25	0.46	0.50	0.44	0.30
<b>ii) Major and Medium Irrigation Projects</b>	0.63	1.23	0.63	1.03	1.12	1.44	1.11	0.73	1.56	1.66	1.59	1.03
<b>iii) Power</b>	0.24	2.73	1.84	2.40	4.78	7.77	7.85	0.83	1.88	2.79	1.31	0.33
<b>iv) Industries</b>	2.44	2.35	1.96	2.24	2.52	5.39	4.34	1.75	4.49	4.20	4.59	3.68
<b>b. Grants-in-aid</b>	57.21	57.66	62.12	57.93	52.92	67.25	58.82	35.03	82.98	81.93	81.62	89.71

Source: Authors' calculations based on data from State Finances, RBI

**Table 2.9: Own Tax and Non-Tax Revenue as % of GSDP of Non-Special Category States**

State	2018-2019		2019-2020		2020-21		2021-22		2022-23		2023-24		Average		Rank	
	OTR/GSDP	ONTR/GSDP	OTR/GSDP	ONTR/GSDP	OTR/GSDP	ONTR/GSDP	OTR/GSDP	ONTR/GSDP	OTR/GSDP	ONTR/GSDP	OTR/GSDP	ONTR/GSDP	OTR/GSDP	ONTR/GSDP	OTR/GSDP	ONTR/GSDP
West Bengal	5.6	0.3	5.1	0.3	5.2	0.4	5.2	0.1	5.5	0.1	5.5	0.2	5.4	0.2	15	18
Jharkhand	4.8	2.7	5.4	2.8	5.7	2.5	5.9	2.8	6	3.1	6.2	3.5	5.7	2.9	13	3
Bihar	5.8	0.8	5.2	0.6	5.3	1.1	5.4	0.6	5.9	0.6	5.9	0.8	5.6	0.8	14	14
Rajasthan	6.4	2.0	5.9	1.6	5.9	1.3	6.1	1.5	6.4	1.5	7.2	1.4	6.3	1.6	7	5
Telangana	7.6	1.2	7.1	0.8	7.1	0.6	8.1	0.8	8.2	1.5	7.4	1.6	7.6	1.1	2	9
Odisha	6.2	2.9	6.0	2.7	6.3	3.6	6.1	8.1	6.1	5.6	6.3	6.2	6.2	4.8	11	1
Haryana	6.1	1.1	5.8	1.0	5.6	0.9	0.7	0.4	6.4	0.9	6.7	0.8	5.2	0.9	17	11
Maharashtra	7.4	0.6	7.1	0.5	1.8	0.3	7.1	0.6	7.6	0.5	8.1	0.6	6.5	0.5	5	15
Gujarat	5.4	0.9	4.9	1.1	4.3	0.6	5.0	0.7	5.7	0.8	5.5	0.8	5.1	0.8	18	12
Chhattisgarh	6.7	2.4	6.4	2.3	6.6	2.1	6.7	3.4	7.1	3.3	8	3.6	6.9	2.8	4	4
Punjab	6.2	1.5	0.6	1.2	5.6	0.8	6.1	0.8	6.2	0.9	6.9	1.3	5.2	1.1	16	10
Kerala	6.5	1.5	6.2	1.5	6.2	0.9	6.3	1.1	7	1.5	6.7	1.5	6.5	1.3	6	7
Uttar Pradesh	7.8	1.9	7.2	4.8	7.3	0.7	7.5	0.6	7.6	0.6	8.4	0.5	7.6	1.5	1	6
Andhra Pradesh	6.7	0.5	6.2	0.4	6.0	0.4	6.3	0.4	6	0.4	6	0.5	6.2	0.4	9	17
Tamil Nadu	6.5	0.9	6.2	0.7	5.9	0.6	5.9	0.6	6.3	0.7	6.3	1.1	6.2	0.8	10	13
Madhya Pradesh	6.3	1.6	6.0	1.1	5.7	1.0	5.8	1.3	5.8	1.6	6.4	1.3	6.0	1.3	12	8
Goa	6.8	4.0	6.3	3.6	5.6	3.8	7.0	4.6	8.8	4.3	9.2	6.2	7.3	4.4	3	2
Karnataka	6.6	0.5	6.4	0.5	6.0	0.5	6.2	0.6	6.3	0.6	6.4	0.5	6.3	0.5	8	16
Non-Special Category	6.4	1.5	5.8	1.5	5.7	1.2	6.0	1.6	6.6	1.6	6.8	1.8	-	-	-	-

**Source:** State Finances, RBI (various years); Averages and Ranks are authors' calculations based on the data.

## 2.6 Tax Buoyancy

Tax buoyancy explains the relationship between the changes in the government's tax revenue growth and the changes in Gross domestic product (GDP). There is a strong connection between the government's tax revenue earnings and economic growth.

### 2.6.1 Own Tax Buoyancy

Own Tax buoyancy has been estimated by using following double log regression equation:

$$\ln(OTR_i) = \alpha_1 + \beta_1 \ln(GSDP_i) + u_i \quad (1)$$

Where,  $\ln(OTR)$  = log of own tax revenue and  $\ln(GSDP)$  is the log of GSDP. The  $\alpha$  is the intercept and  $\beta$  is the buoyancy coefficient. Table 2.10 presents the results of a double log regression model to estimate tax buoyancy for the state's own tax revenue (OTR) during two periods: 2013-14 to 2019-20 and 2013-14 to 2023-24. Tax buoyancy is 1.08, meaning own tax revenue increased by 1.08 for every 1 percent growth in GSDP during 2013-14 to 2019-20. The model explains 96 percent of the variation in OTR, indicating a very high degree of fit. Tax buoyancy increased to 1.12, showing that OTR has higher responsiveness to GSDP growth over the longer period (2013-14 to 2023-24). The model explains 98 percent of the variation in OTR, which again is a very strong fit. The estimates demonstrate strong and increasing tax buoyancy, with OTR growing significantly faster than GSDP. This suggests effective fiscal policies and indicates that the state's revenue system is almost well-positioned to capitalize on economic growth.

**Table 2.10: Tax Buoyancy: Estimates of Double Log Regression Model**

Variable	2013-14 to 2019-20			2013-14 to 2023-24		
	$\beta$	T-statistic	R-squared	$\beta$	T-statistic	R-squared
<b>Own Tax Revenue</b>	1.08*	11.78	0.96	1.12*	25.22	0.98

Note: \*: significance at 1% level

Source: Authors' Calculation based on RBI Data

The state's tax collection has registered significant increase in the analysis period, leading to notable tax buoyancy. This can be attributed to significant expansion in state's economic activity over the previous decade and various other actions on the part of government. Some of the important actions which may have enhanced tax collection and buoyancy have been discussed below.

1. A study by Kawadia and Suryavanshi (2020) found state's tax elasticity to greater than 1 for the years 2001 to 2016, suggesting that the state has historically demonstrated higher tax elasticity. The subsequent period marked the inception of Goods and Services Tax (GST) in the country. The share of State GST in Own Tax Revenue of Uttar Pradesh has increased from 34.29 percent during its inception to 41.20 percent in 2023-24 making it the highest contributor to Tax on commodities and services and overall own tax collections. This might have been a key factor in maintaining state's high tax buoyancy in recent years.
2. In recent years, the government has also focused on spreading awareness on the consequences of tax evasion. The government has formed and used 'special disciplinary units' and 'mobile team units' for this purpose. As an example in recent time, actions against a total of 17,527 'tax evaders' were taken across various states in the country. Among those states, Uttar Pradesh topped the list as a total of 8,413 evaders were identified and acted against (The Indian Express, 2025). While the effects of such steps are not exactly quantifiable, these steps may have helped effectively curb evasion and increase revenue in the following years. The government has also made a few efforts to digitise the monitoring systems to increase compliance and transparency.
3. The state's Excise department has undertaken special drives (particularly in the liquor sector) to enhance revenue collection.
4. The state has experienced significant economic expansion over the years. A considerable amount of this expansion has been driven by mega infrastructure projects which include highways, airports, industrial corridors etc. These activities act as a catalyst for business activities and broaden the tax base leading to higher revenue.

### 2.6.2 Non-tax Buoyancy

Non-tax buoyancy measures how sensitive non-tax revenue is to changes in GSDP, a key indicator of economic activity. This has also been estimated using double log regression. The following equation was estimated:

$$\ln(\text{ONTR}_i) = \alpha_1 + \beta_1 \ln(\text{GSDP}_i) + u_i \quad (1)$$

Where,  $\ln(\text{ONTR})$  = log of own non-tax revenue and  $\ln(\text{GSDP})$  is the log of GSDP. The  $\alpha$  is the intercept and  $\beta$  is the buoyancy coefficient.

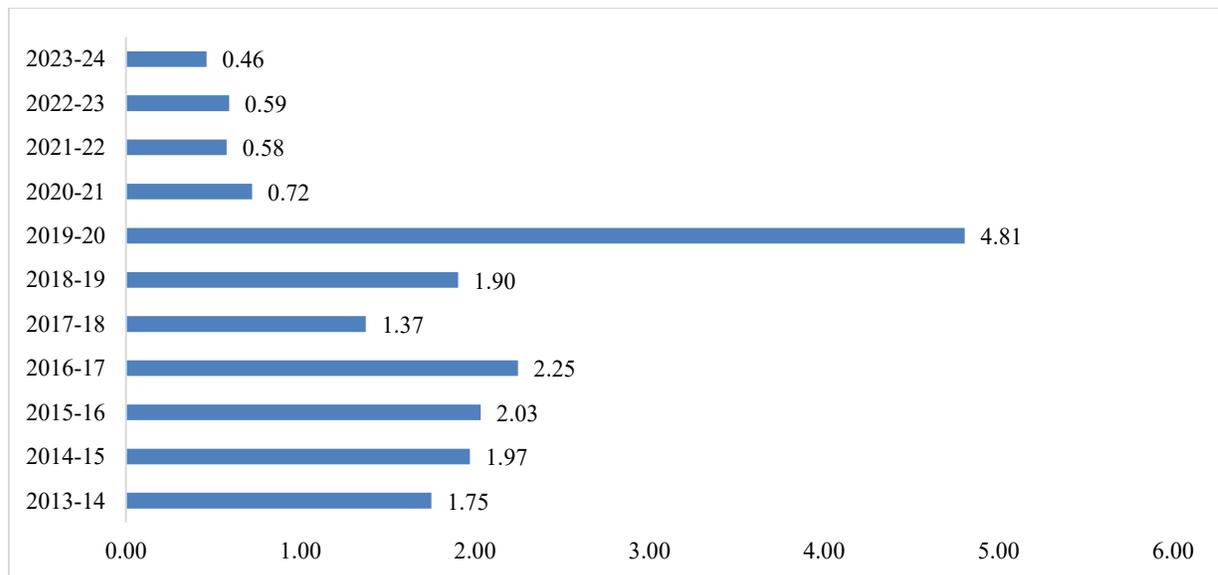
**Table 2.11: Non-Tax Buoyancy: Estimates of Double Log Regression Model**

Variable	2013-14 to 2019-20			2013-14 to 2023-24		
	$\beta$	T-statistic	R-squared	$\beta$	T-statistic	R-squared
<b>Non-Tax Revenue</b>	0.096*	11.94	0.96	0.094*	26.37	0.98

Note: \*significance at 1% level

Source: Author's Calculation based on RBI Data

During Pre-pandemic period, 2013–14 to 2019–20, with every 1 percent increase in GSDP, non-tax revenue increased by approximately 0.09 percent (Table 2.11). In the extended period (2013–14 to 2023–24) including post pandemic years, the relationship between non-tax revenue and GSDP weakened marginally. This analysis highlights the diminishing buoyancy of non-tax revenue over time. A one percent increase in GSDP is associated with a 0.094 percent change in non-tax revenue. Possible reasons include economic disruptions and the COVID-19 pandemic. The model explains 98 percent of the variation in ONTR, which is a very strong fit.

**Figure 2.1: Own Non-Tax Revenue as a Percent of GSDP**

Source: Authors' calculation based on data from RBI and MoSPI

Figure 2.1 shows the ONTR as percent of GSDP for 2013-14 to 2023-24. After 2019–20, the ONTR/GSDP percentage drops sharply and it is only 0.72, 0.58, 0.59 and 0.46 percent in 2020-21, 2021-22, 2022-23 and 2023-24 respectively (Figure 2.1). The declining trend in recent years calls for diversified and sustainable revenue strategies to boost non-tax income in the face of economic and structural constraints after covid-19 pandemic. Although, it was consistently ranged between 1.37 percent and 2.25 percent from 2012–13 to 2018–19. The non-tax revenue as

a percentage of GSDP jumps dramatically to 4.81 percent in 2019–20 (reasons cited already in section 2.4). This is an outlier, indicating extraordinary factors driving non-tax revenues during this year.

## 2.7 Cost Recovery and User Charges

Table 2.12 presents the status of Cost Recovery of Major Services in Uttar Pradesh during 2012-13 to 2023-24 for major public services. Cost recovery has been calculated for various social and economic services, defined as the ratio of own non-tax revenue generated from a service to the non-plan revenue expenditure incurred on that service.

The figures are presented as percentages. Some economic services, like forestry and irrigation, show promising recovery rates, social services remain largely subsidized, highlighting the need for reforms in revenue collection and efficiency improvements. State governments provide a range of general, economic, and social services to the public. However, the issue of user charges and cost recovery remains complex and lacks a straightforward solution. In most cases, the level of cost recovery is significantly low. Although, recovery cost of few social and economic services like Education, Sports, Art, Culture, Forestry, Wildlife and Power was in good position in few years before covid-19 pandemic, but after pandemic these are again in declining position.

The reason for sudden drop in user cost collections from 2017-18 was reduction in revenue receipts. The reason for this decline in revenue receipts, as cited by the CAG report, is '*decrease was mainly due to less receipts under tuition and other fees (89.70%) Physical Education Sports & Youth Welfare (91.55%)*'.

On other hand, a significant increase was also noticed increase in user cost collections for power. As per CAG report, the reason for rise in user cost collections during 2016-17 to 2018-19 was mainly increase in receipts (69.94%) from Government of India for share capital in UPPCL for rural electrification. In the year 2018-19, increase was also due to more receipts (Rs. 738.10 crore) on account of collection of taxes on consumption and sale of electricity.

**Table 2.12: Cost Recovery of Major Services in U.P. (in %)**

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Social Services</b>												
<b>Education, Sports, Art and Culture</b>	14.33	20.41	17.08	23.63	26.99	0.94	0.80	0.88	0.94	0.78	1.01	1.76
<b>Medical and Public Health</b>	2.50	2.34	2.74	3.60	2.35	2.74	2.52	2.62	3.08	3.17	2.26	2.49
<b>Urban Development</b>	3.03	3.82	4.60	0.83	3.25	0.54	0.47	0.21	0.14	0.02	1.21	0.71
<b>Social Welfare</b>	1.70	2.38	1.84	0.92	0.38	6.50	0.30	0.26	0.27	0.55	0.36	0.27
<b>Economic Services</b>												
<b>Crop Husbandry</b>	3.37	3.74	2.78	4.49	2.74	2.25	7.38	3.16	3.74	1.83	2.38	3.64
<b>Forestry and Wildlife</b>	76.27	73.36	79.18	118.98	45.18	51.65	64.47	46.91	52.13	50.00	45.05	42.77
<b>Major and Medium Irrigation Projects</b>	5.92	14.37	9.67	16.65	18.95	19.87	18.74	18.51	21.99	19.38	20.32	17.01
<b>Power</b>	1.58	20.44	2.29	6.03	20.45	68.68	38.27	6.04	14.89	8.64	3.46	1.20
<b>Road Transport</b>	0.17	0.15	0.27	0.19	0.31	1.25	1.58	0.04	0.20	0.06	0.05	0.01

Note: Cost Recovery = (Non tax revenue for each service/Revenue Expenditure (accounts) for respective service)/100

Source: Authors' calculation based on RBI data

In the case of social services, cost recovery would inevitably be low as it incorporates mainly welfare services like Education, Health, and other social welfare expenditures. Being a socially and economically backward region, the state government has to provide these services at low prices. The low-cost recovery in the power and road transport sectors is particularly concerning, as it reflects inadequate user charges and significant administrative inefficiencies (Rao, 2002).

## **2.8 Suggested Measures for the State Government to Enhance Revenue Capacity**

### *2.8.1 Suggestions to Improve Taxable Capacity*

As a solution to the low taxable capacity of the state, a multi-pronged approach is required to be followed. Along with an improved tax effort, this involves focusing on issues like governance, accountability, expenditure efficiency as well. Some possible suggestions to improve taxable capacity (Tax/GSDP ratio) are:

1. Unexploited taxes like agricultural income tax, profession tax, land revenue should be utilized for raising the tax/GSDP ratio. Underreporting of land sale value is a common practice to avoid stamp duty. Continuous updating of official circle rate and special mechanisms like average of last five land sale transactions of the same area in last three months can be taken to find out the true market price of that area. Government can also devise a mechanism through which it should try to capture the actual market rates on real time basis. These efforts will significantly increase the state's own tax revenue. Tax bases should be widened by better administration of property taxes and other taxes. Local bodies should be empowered and authorised to collect some taxes. This has been reiterated by various state finance commissions too.
2. Property tax/house tax has not been exploited to its full potential. The local administrations are not able to keep pace with the rapid urbanisation. Non-assessment and under-assessment are a common instance in Uttar Pradesh. Use of AI and Geo-tagging may help state government in proper assessment of properties and houses for taxation purpose. Rationalisation of tax rates along with training of staff and their continuous monitoring, improvement in tax administration and collection are very important.
3. Strengthening revenue departments institutionally is advised for the efficient enforcement of policies and regulations. Setting up dedicated data analytics units to monitor and analyze data can help identify revenue leakages caused by evasion, fraud, incorrect claims, or processing errors.

### 2.8.2 Non-Tax Revenues

1. Reviewing and adjusting the current fees for various services, which are typically lower than those in the private sector, along with revitalizing and corporatizing State PSUs, can enhance the non-tax revenue of States (Pradhan, 2023). User charges from the public transport is much lower than the potential. These are a result of high leakages due to system inefficiencies. People pay lower user charges and the collector takes the whole to their pocket. It becomes a win-win situation for user and agent. However, the loss is borne by the state government. As per few studies, these leakages are around 40 percent. Government should promote digital transactions (card system, token, and app-based payment system linked with Gpay, PayTM, etc.) like Metro train system. AI powered cameras should be installed in the public buses to auto count number of passengers to cross check the gap between collection and number of passengers. Initially greater incentives should be given on digital transactions which may be gradually reduced once substantial digitalisation is achieved in this process.
2. Receipts from dividends and profits received from the PSEs are very low. An all-round public sector enterprises (PSEs) reforms is required. Financial management of these PSEs is very poor. Faulty recruitment policy at all levels of management, high interference of government in the management of these PSEs and poor pricing policy are the reasons for ailing PSEs. The government must rationalize the financial support to PSEs. No implicit support should be given to these PSEs. The amount of investment in such PSEs must be curtailed to the minimum level.
3. Non-tax revenues from general, economic, and social services are below expected level. Low user charges (which are not regularly updated) and their realization is the main problem. User charges should be linked with some suitable input cost index. The process of periodical revision should be automatic. A committee may be setup for this purpose whose main task should be to advise to the government on revision of user charges of public services like bus fares and other administered prices while ensuring low-cost service supply to the poor. In the case of economic and social services, the recovery can be significantly improved. The state may target to increase recovery in phased manner. Initially it may target an estimated recovery rate of 25 percent of selected services which may later be increased to 30 percent and so on.

## Chapter III

### Public Expenditure in Uttar Pradesh: Trends and Pattern

#### 3.1 Introduction

The sub-national governments (just as any other government) have the responsibility of providing essential services such as healthcare, education, infrastructure, social protection etc. and carry out developmental projects in various forms to boost local economies. Public expenditure is one of the most crucial tools that allows the government to meet its objectives. Moreover, expenditure at the subnational level significantly drives the overall economic growth as it forms a major proportion of the general government expenditure. As a recent study mentions, the expenditure by state governments in India forms as much as 60 percent of general expenditure in the country, which is significantly greater than the expenditure at sub-national level in the rest of the world (Padhi et al., 2023). It is important to note that the quality of expenditure also matters as much as the quantum, and the former depends upon the composition of expenditure as well as the effectiveness of policies (Padhi et al., 2023).

In the recent years, the capital expenditure in majority of states has declined in the post pandemic period whereas the revenue expenditure has been observed to stay around pre-pandemic levels (Banka, 2022). What this reflects is that in the post-pandemic period, majority of the states shifted their resources from long-term investments. It is well established that investments in capital expenditure can help promote growth in the short as well the long-run. Moreover, for the lesser developed states like Uttar Pradesh, it is crucial to have adequate developmental expenditure while meeting the obligations of committed expenditure since it is hard to curtail them.

The analysis of expenditure patterns of the state is crucial as it allows examination of shifts in allocations, identification of inefficiencies, and assessment of effectiveness of expenditures. In this light, this chapter delves deeper into the expenditure policy and management in the state of Uttar Pradesh in the previous decade and aim to draw out important policy implications for the state's economy. The chapter includes the assessment of revenue and capital expenditures of the state and the transitions therein. Furthermore, an attempt has been made to examine the allocative efficiency of the expenditures in important sectors of the state. The important findings and their possible implications on the state's health have been summarised in the conclusion of this chapter.

### 3.2 Trends in Expenditure

The capital and revenue expenditures in the state have gone through significant transition in the period of analysis. During the period of analysis, the revenue and capital expenditure have increased more than three and five times respectively. Capital expenditure has been more volatile while revenue expenditures have fluctuated in a more controlled manner.

An interesting transition could be observed in terms of share of these categories in total expenditure. While revenue expenditure forms the major share of total expenditure (approximately 76.41 percent on average), its contribution to total expenditure declined between 2013-14 to 2016-17, from 78.82 percent to 72.86 percent. Experiencing a sudden rise in 2017-18 to 82.72 percent, it gradually declined to 71.92 percent in 2023-24 (all 2023-24 data in the chapter are revised estimates). In the post pandemic period, the share of capital expenditure has persistently grown, from 21.17 percent in 2020-21 to 28.08 percent in 2023-24 whereas that of revenue expenditure has declined, suggesting significant shift in the expenditure pattern of the government. This is essentially because the quantum of capital expenditure has grown at a much greater rate (21.64 percent aggregate) than that of revenue expenses (11.31 percent aggregate) in the last four years (authors' calculations). Table 3.1 ahead showcases the transitions in shares of capital and revenue expenditures in total expenditure.

**Table 3.1: Trends in Total Expenditure (in Crore)**

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure	Growth Rate (%)			Share in % TE	
				Revenue Expenditure	Capital Expenditure	Total Expenditure	Revenue Expenditure	Capital Expenditure
2012-13	140723.6	33718.9	174470.2	-	-	-	80.66	19.33
2013-14	158146.9	42502.7	200649.6	12.38	26.05	15.01	78.82	21.18
2014-15	171027.3	64581.1	235608.4	8.14	51.95	17.42	72.59	27.41
2015-16	212736	91213.4	297718.9	24.39	41.24	26.36	71.46	30.64
2016-17	236592.2	96832.9	324730.1	11.21	6.16	9.07	72.86	29.82
2017-18	266223.6	55599.4	321822.8	12.52	-42.58	-0.9	82.72	17.28
2018-19	301728	89482.7	391210.5	13.34	60.94	21.56	77.13	22.87
2019-20	298833	84518.7	383351.7	-0.96	-5.55	-2.01	77.95	22.05
2020-21	298543.5	80167.2	378710.7	-0.1	-5.15	-1.21	78.83	21.17
2021-22	337581.4	101781.9	439363.2	13.08	26.96	16.02	76.83	23.17
2022-23	379978.1	125927.5	505905.5	12.56	23.72	15.15	75.11	24.89
2023-24*	454771.3	177591	632362.4	19.68	41.03	25	71.92	28.08
Mean	271407.1	86993.1	357158.7	11.48	20.43	12.86	76.41	23.99
CV	34.57	44.41	36.35	64.21	147.47	80.38	4.77	17.58

Note: \*Revised Estimates

Source: State Finances: A Study of Budgets (various years), RBI, India.

As it can be observed, revenue expenditure has followed a smoother increasing trend as compared to capital expenditure. Capital expenditure has been somewhat volatile, it registered year-on-year increase from 12.38 percent to 13.34 percent between 2013-14 and 2018-19. The growth in revenue expenditures declined to -0.96 percent and -0.10 percent around the pandemic years (2019-20 and 2020-21) and increased at an average of 15.11 percent between the years 2021-22 and 2023-24.

Capital Expenditure fluctuates more than Revenue Expenditure, indicating shifts in government priorities and budget allocations. Capital expenditure has surged in specific years. The years 2013-14 (26.05%), 2014-15 (51.95%), 2015-16 (41.24%), and 2018-19 (60.94%) saw significant jumps in capital expenditure, signalling periods of infrastructure investment. The 2017-18 (-42.58%) shows a sharp drop. A renewed focus on capital spending, with 2023-24 witnessed a 41.03 percent increase—the highest since 2018-19. The share of capital expenditure is nearing 30 percent, indicating a shift towards long-term asset creation.

Table 3.2 presents government expenditure trends in relation to the Gross State Domestic Product (GSDP) over different years (2012-13, 2018-19, and 2022-23). It categorizes expenditure into Developmental, Non-Developmental, and Grants-in-Aid, further breaking down Developmental Expenditure into Social Services and Economic Services. Revenue expenditure increased from 26.19 percent in 2012-13 to 29.09 percent in 2018-19, indicating higher government spending over time. However, it declined to 26.15 percent in 2022-23, suggesting an effort to control recurrent spending. Capital expenditure grew from 5.63 percent in 2012-13 to 7.95 percent in 2022-23, indicating a focus on asset creation and infrastructure investment. Revenue developmental expenditure peaked in 2018-19 (10.02%) but slightly declined to 9.51% in 2022-23. On the other hand, capital development expenditure grew from 2.73 percent in 2012-13 to 3.88 percent in 2022-23, showing higher investments in infrastructure. Revenue expenditure on social services (Health, Education, Welfare, etc.) declined from 6.48% (2012-13) to 5.77 percent (2018-19) but rose again to 6.08 percent in 2022-23, showing renewed focus on social welfare, whereas, capital expenditure on social services initially declined (from 0.92% in 2012-13 to 0.67% in 2018-19) but jumped to 1.53 percent in 2022-23, indicating increased investment in schools, hospitals, and public facilities.

In terms of expenditure on economic services (Infrastructure, Agriculture, Industry, etc.), revenue expenditure increased from 2.59 percent in 2012-13 to 4.25 percent in 2018-19 but then declined to 3.43 percent in 2022-23, suggesting a shift towards capital investments rather

than operational costs. On the other hand, capital expenditure rose significantly from 1.80 percent (2012-13) to 3.06 percent (2018-19) but then slightly declined to 2.34 percent (2022-23). Revenue non-developmental expenditure (includes interest payments, administration), increased from 7.28 percent (2012-13) to 8.28 percent (2018-19), then declined to 6.33 percent (2022-23). Capital expenditure on non-development items remained low and stable, around 0.17 percent to 0.19 percent, since most non-developmental spending is operational rather than investment-based. Grants-in-Aid (Transfers to local bodies, institutions, and state governments), remained constant at around 0.75-0.79 percent of GSDP, showing a steady commitment to supporting lower-level governments.

**Table 3.2: Trends in Major Heads of Expenditure as percentage of GSDP**

Heads	Revenue Expenditure As % of GSDP			Capital Expenditure As % of GSDP		
	2012-13	2018-19	2022-23	2012-13	2018-19	2022-23
<b>A. Developmental Expenditure</b>	9.08	10.02	9.51	2.73	3.73	3.88
<b>1. Social Services</b>	6.48	5.77	6.08	0.92	0.67	1.53
<b>2. Economic Services</b>	2.59	4.25	3.43	1.80	3.06	2.34
<b>B. Non-Developmental Expenditure</b>	7.28	8.28	6.33	0.17	0.22	0.19
<b>C. Grants in Aid</b>	0.75	0.76	0.79	-	-	-
<b>Total</b>	26.19	29.09	26.15	5.63	7.68	7.95

Source: Author's Calculations based on data from RBI.

### 3.2.1 Trends in Revenue Expenditure

Tables 3.3 and 3.4 provide a detailed description of revenue expenditure and growth rate of each major head respectively. The growth rate estimates have been presented for three points of time i.e. 2013-14 to 2019-20 (pre-covid years), 2020-21 to 2023-24 (post-covid years) and 2013-14 to 2023-24 (full time-period). The growth in developmental revenue expenditure remained stable growing with an annual average growth rate of 12.39 percent for the entire duration. The average growth rate for two sub-periods was also around 12 percent growth. Under social services, education and health sector has recorded relatively lesser allocations during post-covid years thereby exhibiting significant drop in the growth rates in expenditure. In this period, a phenomenal increase has been observed in expenditure on housing and urban development and water supply and sanitation under Social Services. Under economic services, all the heads have experienced significant decline in growth of revenue expenditure in post-covid years except industry and minerals. The leading heads in terms of growth under non-development categories are agriculture and allied activities (37.79%), energy (36.51%), industry & minerals (68.44%) and science, technology and environment (28.84%). However, expenditure on economic services (17.18%) grew faster than social services.

The expenditure related to organs of the state under non-developmental category also increased greatly in the post pandemic period, registering an average annual increase of 20.37 percent. A possible reason for the increase in the non-developmental revenue expenditure in the latter periods could be to provide short-term stability, however, among the non-developmental revenue expenditures, a notable increase is seen in components like Pensions and Administrative Services. This increase in the committed expenditure must be balanced with increase in developmental revenue expenditure to create positive effects in the state's economy. Moreover, if there is lack of adequate revenue generation, persistent increase in committed expenditures may put additional fiscal strain on the resources of government.

Table 3.5 ahead showcases the percent share of various heads in total revenue expenditure, which allows us to analyse the transitions in composition of revenue expenditure. The major chunk of revenue expenditure is formed by developmental expenditure (around 55 percent), followed by non-developmental expenses (around 37 to 40 percent) and grants-in-aid (around 4.3 to 6 percent). However, a decline in the share of non-developmental expenditure is observed in the recent years. In the case of grants-in-aid, initially its expenditure went up to 6.39 percent 2014-15, then plummeted to 4.01 to 2018-19, after which it gradually increased to 5.21 percent to total revenue expenditure.

**Table 3.3: Total Revenue Expenditure by Major Heads of U.P. Government (Rs. Crore)**

Head Of Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24*
<b>Total Expenditure (I+II+III)</b>	140723.6	158146.9	171027.3	212736	236592.3	266223.5	301728	298833	298543.5	337581.4	379978.1	454771.3
<b>I. Developmental Expenditure (A + B)</b>	74637.7	86467	95791	130367.8	137695.3	148886.4	158570.3	166658.2	165277.6	187560.3	217290.3	260041.9
<b>A. Social Services (1 to 6)</b>	53300.3	60756.3	60905.8	82486.5	91861.1	84251.7	91311.7	103848.8	109726.7	120986.9	138927.7	153935.9
<b>1. Education, Sports, Art and Culture</b>	29382.6	31425.2	33949.1	45077.4	52219.9	46140.9	47657.4	54413.3	53485.3	58142.8	66812.4	56748.6
<b>2. Medical and Public Health</b>	5068.2	5471	6138.9	6730.3	7898.2	9499	10374.2	11207.5	11511	12323.2	13358.8	16446.9
<b>3. Family Welfare</b>	2450.7	2526.7	3936.8	4465	4963.3	5293.4	5468.5	6364.9	8321.7	7703.6	12852.2	15200.0
<b>4. Water Supply and Sanitation</b>	23	134	191	795.2	481.1	1155.3	1418.9	734.9	1921.6	1134.5	962.0	3244.3
<b>5. Housing and Urban Development</b>	937.2	2581.8	1857.4	3129.1	4054.7	5344.9	7288.8	9670.2	15730.7	14066.9	15124.0	23830.3
<b>6. Social Security and Welfare</b>	9114.4	10499.6	11403.6	11721.1	13896.6	10056.3	11814	13152.1	13130.5	16464	21777.5	25599.0
<b>7. Relief on account of Natural Calamities</b>	6302.5	454.8	487.1	5274	2832.7	747.4	599.3	1316.8	1321.5	3399	1920.6	4224.2
<b>8. Others</b>	15438.6	18617.7	14832.7	22289.6	5514.6	6010.4	6690.6	6989.1	5479.1	7753	6140.3	8642.5
<b>B. Economic Services (1 to 9)</b>	21337.4	25710.7	34885.2	47881.3	45834.2	64634.8	67258.6	62809.4	55550.9	66573.4	78362.6	106106.0
<b>1. Agriculture and Allied Activities</b>	4598.4	4604.8	5626.6	5097.8	5599.3	27265.4	12129	8582.1	8103.8	8983.8	9844.4	15152.0
<b>2. Rural Development</b>	4625.3	6595.9	6292	7714.2	13848.3	17083.6	25908.7	19449.8	18083.8	17302.7	17660.1	21485.6
<b>3. Special Area Programmes</b>	27.4	282.9	373.3	11.7	12	72.6	45.7	70.3	4	3.3	27.5	32.6
<b>4. Irrigation and Flood Control</b>	4674.1	4758.1	5348.6	5221.9	5466.1	6980.6	6769.7	8738.2	8579.6	9164.3	8871.9	11446.8
<b>5. Energy</b>	4650.2	5256.7	12340.2	22225	15439.7	7161.5	15352.1	17601.7	9085.2	20757.8	28184.4	31847.6
<b>6. Industry And Minerals</b>	368.7	486.6	1001.4	3082.2	672.5	1308.4	2024.9	2683.2	1617.6	4729.7	5120.7	12428.7
<b>7. Transport And Communications</b>	2122.9	3375.1	3173.2	3572.6	4825.9	4125.1	4532.4	5237.1	9671.6	5173.4	5877.3	10324.5
<b>8. Science, Technology and Environment</b>	32.7	118.7	37.8	37.8	62.7	56.2	65.7	55.2	36.6	38.9	53.5	83.4
<b>9. General Economic Services</b>	237.7	35.7	692.2	918.1	807.7	578.5	430	391.8	368.7	419.5	2722.8	3305.0
<b>II. Non-developmental Expenditure (A To F)</b>	59906.7	61983.5	64305.7	72227.9	88254.8	105781.7	131057.2	117674.9	119057.5	133521	144687.8	171016.4
<b>A. Organs Of State</b>	1595.7	1619.3	1896.4	1977.9	2481.6	2547.4	2977.8	3410	3105	3884.1	4203.0	6604.7
<b>B. Fiscal Services</b>	3295.3	2625.6	2829	2993.3	3470.9	4009.6	4296.3	4485.9	4123.9	4274.2	4488.1	5026.6

<b>C. Interest Payments and Servicing Of Debt (1 + 2)</b>	25182.3	25776.7	23364.4	28414.6	37708	41368.1	58446	34813	38428.5	44875.6	45508.0	51441.6
<b>1.Appropriation For Reduction Or Avoidance Of Debt</b>	8261.7	8364.3	4500	6966.8	10772.4	12232.2	26404	-	1000	2000	2500.0	2125.0
<b>2. Interest Payments</b>	16920.6	17412.4	18864.4	21447.9	26935.7	29135.8	32042.1	34813	37428.5	42875.6	43008.0	49316.3
<b>D. Administrative Services</b>	11881.1	12409.4	13875.4	14657.6	16324.1	19338.3	21658.1	25432	25155.6	29977.3	31758.0	35944.9
<b>E. Pensions</b>	17920.6	19521.2	22304.6	24149.6	28226.9	38476.5	44029.9	49603.5	48219.4	50475.1	58696.8	70764.7
<b>F. Miscellaneous General Services</b>	31.6	31.3	36	34.9	43.3	41.9	-345	-69.5	25.1	34.8	33.9	1233.9
<b>III. Grants-In-Aid and Contributions</b>	6179.2	9696.4	10930.6	10140.3	10642.2	11555.4	12100.4	14500	14208.4	16500	18000.0	23713.1
<b>1. Compensation &amp; Assignments to Local Bodies And PRI</b>	6179.2	9696.4	10930.6	10140.3	10642.2	11555.4	12100.4	14500	14208.4	16500	18000.0	23713.1

Note: \*Revised Estimates

Source: State Finances, RBI (various years)

**Table 3.4: Average Annual Growth Rate of Revenue Expenditure by Major Heads (%)**

<b>Head Of Expenditure</b>	<b>2013-14 to 2019-20</b>	<b>2020-21 to 2023-24</b>	<b>2013-14 to 2023-24</b>
Total Expenditure (I+II+III)	11.58	11.31	11.48
<b>I. Developmental Expenditure (A + B)</b>	<b>12.58</b>	<b>12.04</b>	12.39
A. Social Services	10.69	10.39	10.58
1. Education, Sports, Art and Culture	9.92	1.71	6.93
2. Medical and Public Health	12.09	10.32	11.45
3. Family Welfare	15.69	27.10	19.84
4. Water Supply and Sanitation	130.98	85.64	114.48
5. Housing & Urban Development	49.47	29.29	42.14
6. Social Security and Welfare	6.62	18.76	11.03
7. Relief on Account of Natural Calamities	125.29	58.50	101.01
B. Economic Services	18.23	15.35	17.18
1. Agriculture and Allied Activities	46.42	17.19	35.79
2. Rural Development	27.17	3.10	18.42
3. Irrigation and Flood Control	10.04	7.71	9.19
4. Energy	38.97	32.22	36.51
5. Industry And Minerals	64.17	75.91	68.44
6. Transport And Communications	15.94	31.86	21.73

7.Science, Technology and Environment	35.98	16.48	28.84
<b>II. Non-developmental Expenditure (A to E)</b>	<b>10.75</b>	<b>9.97</b>	10.47
A. Organs Of State	11.77	20.37	14.90
B. Fiscal Services	5.18	3.14	4.44
C. Interest Payments and Servicing of Debt	8.27	10.40	9.04
2. Interest Payments	11.05	9.26	10.40
D. Administrative Services	11.59	9.30	10.76
E. Pensions	15.96	9.68	13.68
<b>III. Grants-In-Aid and Contributions</b>	<b>14.36</b>	<b>13.74</b>	14.13
1. Compensation & Assignments to Local Bodies and PRI Institutions	14.36	13.74	14.13

Source: Authors' Calculations based on data from State Finances, RBI

**Table 3.5: Per cent Share of Various Heads in Total Revenue Expenditure**

Head Of Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
TOTAL EXPENDITURE (I+II+III)	100	100	100	100	100	100	100	100	100	100	100	100
<b>I. DEVELOPMENTAL EXPENDITURE (A + B)</b>	<b>53.04</b>	<b>54.68</b>	<b>56.01</b>	<b>61.28</b>	<b>58.20</b>	<b>55.93</b>	<b>52.55</b>	<b>55.77</b>	<b>55.36</b>	<b>55.56</b>	<b>57.18</b>	<b>57.18</b>
<b>A. Social Services (1 to 6)</b>	37.88	38.42	35.61	38.77	38.83	31.65	30.26	34.75	36.75	35.84	36.56	33.85
1. Education, Sports, Art and Culture	20.88	19.87	19.85	21.19	22.07	17.33	15.79	18.21	17.92	17.22	17.58	12.48
2. Medical and Public Health	3.6	3.46	3.59	3.16	3.34	3.57	3.44	3.75	3.86	3.65	3.52	3.62
3. Family Welfare	1.74	1.6	2.3	2.1	2.10	1.99	1.81	2.13	2.79	2.28	3.38	3.34
4. Water Supply and Sanitation	0.02	0.08	0.11	0.37	0.20	0.43	0.47	0.25	0.64	0.34	0.25	0.71
5. Housing & Urban Development	0.67	1.63	1.09	1.47	1.71	2.01	2.42	3.24	5.27	4.17	3.98	5.24
6. Social Security and Welfare	6.47	6.63	6.66	5.50	5.87	3.78	3.92	4.40	4.40	4.88	5.73	5.63
7. Relief on account of Natural Calamities	4.47	0.28	0.28	2.47	1.20	0.28	0.20	0.44	0.44	1.01	0.51	0.93
8. Others	10.97	11.77	8.67	10.48	2.33	2.26	2.22	2.34	1.84	2.30	1.62	1.90
<b>B. Economic Services (1 to 9)</b>	15.16	16.26	20.4	22.51	19.37	24.28	22.29	21.02	18.61	19.72	20.62	23.33
1. Agriculture and Allied Activities	3.27	2.91	3.29	2.4	2.37	10.24	4.02	2.87	2.71	2.66	2.59	3.33

2. Rural Development	3.29	4.17	3.68	3.63	5.85	6.42	8.59	6.51	6.06	5.13	4.65	4.72
3. Special Area Programmes	0.02	0.18	0.22	0.01	0.01	0.03	0.02	0.02	0.00	0.00	0.01	0.01
4. Irrigation and Flood Control	3.32	3.01	3.13	2.45	2.31	2.62	2.24	2.92	2.87	2.71	2.33	2.52
5. Energy	3.3	3.32	7.22	10.45	6.53	2.69	5.09	5.89	3.04	6.15	7.42	7.00
6. Industry And Minerals	0.26	0.31	0.59	1.45	0.28	0.49	0.67	0.90	0.54	1.40	1.35	2.73
7. Transport And Communications	1.51	2.13	1.86	1.68	2.04	1.55	1.50	1.75	3.24	1.53	1.55	2.27
8. Science, Technology and Environment	0.02	0.08	0.02	0.02	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.02
9. General Economic Services	0.17	0.02	0.4	0.43	0.34	0.22	0.14	0.13	0.12	0.12	0.72	0.73
<b>II. Non-developmental Expenditure (A To F)</b>	<b>42.57</b>	<b>39.19</b>	<b>37.6</b>	<b>33.95</b>	<b>37.30</b>	<b>39.73</b>	<b>43.44</b>	<b>39.38</b>	<b>39.88</b>	<b>39.55</b>	<b>38.08</b>	<b>37.60</b>
A. Organs Of State	1.13	1.02	1.11	0.93	1.05	0.96	0.99	1.14	1.04	1.15	1.11	1.45
B. Fiscal Services	2.34	1.66	1.65	1.41	1.47	1.51	1.42	1.50	1.38	1.27	1.18	1.11
C. Interest Payments and Servicing of Debt (1 + 2)	17.89	16.3	13.66	13.36	15.94	15.54	19.37	11.65	12.87	13.29	11.98	11.31
1. Appropriation For Reduction or Avoidance of Debt	5.87	5.29	2.63	3.27	4.55	4.59	8.75	-	0.33	0.59	0.66	0.47
2. Interest Payments	12.02	11.01	11.03	10.08	11.38	10.94	10.62	11.65	12.54	12.70	11.32	10.84
D. Administrative Services	8.44	7.85	8.11	6.89	6.90	7.26	7.18	8.51	8.43	8.88	8.36	7.90
E. Pensions	12.73	12.34	13.04	11.35	1.04	14.45	14.59	16.60	16.15	14.95	15.45	15.56
F. Miscellaneous General Services	0.02	0.02	0.02	0.02	0.02	0.02	-0.11	-0.02	0.01	0.01	0.01	0.27
<b>III. Grants-In-Aid and Contributions</b>	<b>4.39</b>	<b>6.13</b>	<b>6.39</b>	<b>4.77</b>	<b>4.50</b>	<b>4.34</b>	<b>4.01</b>	<b>4.85</b>	<b>4.76</b>	<b>4.89</b>	<b>4.74</b>	<b>5.21</b>
1. Compensation & Assignments to Local Bodies and PRI Institutions	4.39	6.13	6.39	4.77	4.50	4.34	4.01	4.85	4.76	4.89	4.74	5.21

Source: Author's Calculations based on data from State Finances, RBI

### 3.2.2 Trends in Capital Expenditure

The average annual growth rate of capital expenditure and its various components has been presented in table 3.7. Overall capital outlay registered an annual average growth rate of 22.94 percent for the entire period. It recorded faster growth in post-covid years (27.29 percent) as compared to pre-covid years (20.16 percent). Among development activities, all the activities have experienced significant jump in the post-covid years' allocations except agriculture and allied activities and transport, signifying greater thrust on capex. Discharge of internal debt and repayment of loans to centre was withheld during post-covid period due to requirement of funds of economic stabilisation and recovery from the pandemic driven shocks.

Another fact that provides a positive notion about the transitions in expenditure is that the share of capital expenditure in total expenditure has grown from 17.28 percent in 2017-18 to 28.08 percent in 2023-24, indicating government's push to developmental activities in the state. Table 3.8 ahead showcases the share of various heads in total capital expenditure of the state for various years. The major share is formed by developmental expenditure and an increasing trend is evident in the recent years after a decline during the pandemic years. Economic services (under developmental expense) contribute significantly to the overall capital expenditure; however, a decline has been registered in its share in recent years as the numbers have gone down from 55.59 percent in 2019-20 to 43.86 percent in 2023-24.

Further analysis, as shown in Table 3.2, reveals that the share of overall developmental expense (under capital expenditure) in GSDP has grown between 2012-13 and 2022-23 by registering figures of 2.73 percent in the former and 3.88 percent in the latter year. This is due to the similar increase in the share of expenditure on social services and economic services in GSDP over the period of time. The share of non-developmental expense to GSDP has shown a mild increase over the time, from 0.17 percent in 2012-13 to 0.19 percent in 2022-23, which is natural given that these are the expenses pertaining to general services.

**Table 3.6: Trends in Capital Expenditure of UP Government by Major Heads (in Rs. Crore)**

Item	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24*
<b>Total Capital Disbursements</b>	<b>33718.9</b>	<b>42502.7</b>	<b>64581.1</b>	<b>91213.4</b>	<b>96832.9</b>	<b>55599.4</b>	<b>89482.7</b>	<b>84518.6</b>	<b>80167.2</b>	<b>101781.9</b>	<b>125927.5</b>	<b>177591</b>
I. Total Capital Outlay	23834.3	32862.7	53297.3	64422.7	69789.1	39088	62463.4	59998	52237.1	71442.6	93028.4	146177.1
1. Developmental (A + B)	22429.3	29399.3	49288.6	59163.4	64061.1	36312.2	59044	57502.7	50714	69085.3	88578.8	135076.7
A. Social Services (1 to 7)	7594.5	6759.5	12754.7	11706.8	17150.5	11625.1	10589.1	10514.7	12386.3	18568.8	35049.0	57183.3
1. Education, Sports, Art and Culture	707.1	739.1	1385.2	1130.4	2018.3	938.8	992.4	1364.7	1359	1632.2	3195.6	8017.1
2. Medical and Public Health	1115.6	1318.2	1900.7	2256	2922.3	1920.6	2054.4	2123.2	1812.5	3143.9	3789.2	6317.8
3. Water Supply and Sanitation	1498.1	1493.1	2615.7	2257	3109	181.3	2221.8	2383.9	2472.5	3965.7	12227.3	20053.3
4. Housing	1281.5	1277.2	4996.3	3695.3	6662.1	5617.2	3333.2	2111.6	4359.8	7276.6	8984.1	10301.6
5. Urban Development	2243.6	703.4	871.5	1334.2	886.5	147.7	583.8	847.9	1281	1179.1	3204.5	5842.4
6. Social Security and Welfare	608.7	950.9	601.7	662.2	1109.7	421.1	413.09	667.6	300.9	353.5	943.0	1293.5
7. Others	748.7	1228.5	985.4	371.7	442.6	769.1	990.85	1015.9	800.4	1017.7	2705.3	5357.7
B. Economic Services	14834.8	22639.8	36533.9	47456.9	46911.4	24687.1	48454.9	46988	38327.7	50516.5	53529.8	77893.3
1. Agriculture and Allied Activities	888.5	518.7	1406.5	2271.8	3921.1	1614.4	2948.3	5148.6	-20835.1	8628.5	4495.1	2135.3
2. Rural Development	1051.7	1600.1	4442.9	4756.9	2249.2	2313.1	3406.7	3706.4	5163.7	3751.7	7211.4	9569.8
3. Special Area Programmes	840.3	779.1	1082	554.4	698	591.2	698.3	750.4	622.2	637	828.2	1645.7
4. Major and Medium Irrigation and Flood Control	1896.7	2955.3	4093	5051.9	5200.8	3107.3	5530.8	5933.1	5037.2	3336.4	3437.7	8323.1
5. Energy	3625.9	6650.2	10960	18809.1	11735.1	8312.9	13411.9	8248.8	10562	10884.5	10239.6	19734.4
6. Industry And Minerals	6.6	3.7	54.8	91.9	152	69.4	37.1	30.8	32.4	26.1	1393.5	1769.3
7. Transport	6454.5	10051.7	14337.7	15715.5	22653.1	8324.8	21999.9	22743.2	18566.7	22863.1	24759.0	32737.8
8. Others	70.7	81.1	147	205.5	302	354	421.9	426.7	427	389.1	2334.2	2367.7
2. Non-Developmental (General Services)	1405	3463.4	4008.7	5259.1	5727.3	2775.8	3419.4	2495.3	1523.1	2357.2	4449.6	11100.5
II. Discharge of Internal Debt	7513.9	6701.4	8050.6	16275.5	18863	13461.1	19080.1	20695.1	25174	27132.2	20970.2	19597.7
III. Repayment of Loans to the Centre	1395.2	1465.3	1360.6	1397.3	1439.7	1541	1636.5	1705.5	1603.5	1593.8	1720.2	1720.1
IV. Loans and Advances by State Governments	1003.2	1473.3	1872.6	9117.9	6741.1	1509.3	6302.6	2120	1152.6	1613.4	10208.6	10096.1

Note: \*Revised Estimates. Source: State Finances, RBI (various years)

**Table 3.7: Average Annual Growth Rate of Capital Expenditure by Major Heads (%)**

<b>Item</b>	<b>2013-14 to 2019-20</b>	<b>2020-21 to 2023-24</b>	<b>2012-13 to 2023-24</b>
Total Capital Disbursements	19.74	21.64	20.43
<b>I. Total Capital Outlay</b>	<b>20.16</b>	<b>27.79</b>	<b>22.94</b>
<b>1. Developmental (A + B)</b>	<b>20.53</b>	<b>26.28</b>	<b>22.62</b>
A. Social Services	10.59	54.90	26.71
1. Education, Sports, Art and Culture	20.26	66.59	37.11
2. Medical and Public Health	12.37	36.52	21.15
3. Water Supply and Sanitation	162.51	84.11	133.99
4. Housing	36.01	52.88	42.15
5. Urban Development	33.15	74.30	48.11
6. Social Security and Welfare	21.06	41.62	23.75
B. Economic Services	26.94	16.21	23.04
1. Agriculture and Allied Activities	51.73	-186.62	-34.95
2. Rural Development	34.73	34.22	34.54
3. Special Area Programmes	2.72	28.50	12.09
4. Major and Medium Irrigation and Flood Control	23.67	24.07	23.82
5. Energy	25.13	29.47	26.71
6. Transport	36.65	11.32	27.44
7. Others	31.47	123.13	64.80
<b>2. Non-Developmental (General Services)</b>	<b>21.00</b>	<b>63.51</b>	<b>36.46</b>
<b>II. Discharge of Internal Debt</b>	<b>21.28</b>	<b>0.04</b>	<b>13.56</b>
<b>III. Repayment of Loans to the Centre</b>	<b>3.01</b>	<b>0.34</b>	<b>2.04</b>
<b>IV. Loans and Advances by State Governments</b>	<b>87.51</b>	<b>131.50</b>	<b>103.51</b>

Source: Author's Calculations based on data from State Finances, RBI

**Table 3.8: Per Cent Share of Various Heads in Total Capital Expenditure**

Item	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Total Capital Disbursements</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>I. Total Capital Outlay</b>	70.69	77.32	82.53	70.63	72.07	70.30	69.81	70.99	65.16	70.19	73.87	82.31
1. Developmental (A + B)	66.52	69.17	76.32	64.86	66.16	65.31	65.98	68.04	63.26	67.88	70.34	76.06
<b>A. Social Services</b>	22.52	15.90	19.75	12.83	17.71	20.91	11.83	12.44	15.45	18.24	27.83	32.20
1. Education, Sports, Art and Culture	2.10	1.74	2.14	1.24	2.08	1.69	1.11	1.61	1.70	1.60	2.54	4.51
2. Medical and Public Health	3.31	3.10	2.94	2.47	3.02	3.45	2.30	2.51	2.26	3.09	3.01	3.56
3. Water Supply and Sanitation	4.44	3.51	4.05	2.47	3.21	0.33	2.48	2.82	3.08	3.90	9.71	11.29
4. Housing	3.80	3.00	7.74	4.05	6.88	10.10	3.72	2.50	5.44	7.15	7.13	5.80
5. Urban Development	6.65	1.65	1.35	1.46	0.92	0.27	0.65	1.00	1.60	1.16	2.54	3.29
6. Social Security and Welfare	1.81	2.24	0.93	0.73	1.15	0.76	0.46	0.79	0.38	0.35	0.75	0.73
7. Others	2.22	2.89	1.53	0.41	0.46	1.38	1.11	1.20	1.00	1.00	2.15	3.02
<b>B. Economic Services</b>	44.00	53.27	56.57	52.03	48.45	44.40	54.15	55.59	47.81	49.63	42.51	43.86
1. Agriculture and Allied Activities	2.64	1.22	2.18	2.49	4.05	2.90	3.29	6.09	-25.99	8.48	3.57	1.20
2. Rural Development	3.12	3.76	6.88	5.22	2.32	4.16	3.81	4.39	6.44	3.69	5.73	5.39
3. Special Area Programmes	2.49	1.83	1.68	0.61	0.72	1.06	0.78	0.89	0.78	0.63	0.66	0.93
4. Major and Medium Irrigation and Flood Control	5.63	6.95	6.34	5.54	5.37	5.59	6.18	7.02	6.28	3.28	2.73	4.69
5. Energy	10.75	15.65	16.97	20.62	12.12	14.95	14.99	9.76	13.17	10.69	8.13	11.11
6. Industry And Minerals	0.02	0.01	0.08	0.10	0.16	0.12	0.04	0.04	0.04	0.03	1.11	1.00
7. Transport	19.14	23.65	22.20	17.23	23.39	14.97	24.59	26.91	23.16	22.46	19.66	18.43
8. Others	0.21	0.19	0.23	0.23	0.31	0.64	0.47	0.50	0.53	0.38	1.85	1.33
2.Non-Developmental (General Services)	4.17	8.15	6.21	5.77	5.91	4.99	3.82	2.95	1.90	2.32	3.53	6.25
<b>II. Discharge of Internal Debt</b>	22.28	15.77	12.47	17.84	19.48	24.21	21.32	24.49	31.40	26.66	16.65	11.04
<b>III. Repayment of Loans to the Centre</b>	4.14	3.45	2.11	1.53	1.49	2.77	1.83	2.02	2.00	1.57	1.37	0.97
<b>IV. Loans and Advances by State Governments</b>	2.89	3.47	2.90	10.00	6.96	2.71	7.04	2.51	1.44	1.59	8.11	5.69

Source: Authors' calculations based on data from State Finances, RBI

### 3.3 Elasticity of Government Expenditure

The analysis of elasticities of government expenditure allows us to decode the fiscal behaviour of the government and assess how responsive are various expenditure components to changes in state's income. The table 3.9 ahead reports the elasticities of various categories of expenditures to state's income measured by GSDP for the pre-pandemic period and overall period of analysis. To derive the elasticity estimates, double log regression model has been utilised, with log of GSDP being the independent variable and log of each expenditure category being the dependent one.

For the pre-pandemic period, the analysis shows that all the mentioned expenditure categories except total revenue expenditure and total expenditure (capital expenditure<sup>1</sup> found to be insignificant), are found to be inelastic to changes in state's income. On a similar note, in the overall period of analysis (2013-14 to 2023-24), all categories of expenditure except social services are found to be inelastic to state's income (as the coefficient values are less than one). Social services are the only expenditure item whose elasticity is more than one for the entire period.

**Table 3.9: Income Elasticity of Public Expenditure, Double Log Regression Approach**

Variable	2013-14 to 2019-20			2013-14 to 2023-24		
	$\beta$	T-statistic	R-squared	$\beta$	T-statistic	R-squared
<b>Total Revenue Expenditure</b>	1.31***	14.1	0.97	0.99***	20.2	0.97
<b>Total Capital Expenditure</b>	0.73	1.4	0.28	0.97***	4.2	0.66
<b>Total Expenditure</b>	1.04***	7.2	0.91	0.99***	14.7	0.96
<b>Developmental Expenditure</b>	0.94***	4.41	0.79	0.98***	9.9	0.91
<b>Social Services</b>	0.77***	4.2	0.77	1.01***	10.5	0.92
<b>Education, Sports, Art and Culture</b>	0.79**	3.7	0.73	0.67***	7.1	0.84
<b>Non- Developmental Expenditure</b>	0.78***	4.0	0.76	0.91***	10.6	0.92
<b>Interest Payments and Servicing of Debts</b>	1.21**	3.1	0.64	0.72***	4.2	0.65

Note: \*\*\*, \*\*: significance at 1%, 5% and 10% level

Source: Author's Calculation based on data from RBI

Although, values are mostly less than one but also very close to one. It implies that expenditure items tend to grow in tandem with state's income. Moreover, a slight decrease is observable in

<sup>1</sup> The statistically insignificant coefficient for this period could be due to limited sample size or the inherent limitations of the regression model itself. A correlation analysis of Log of Capital Expenditure and GSDP produced a coefficient of 0.81, suggesting a strong positive relationship between them.

the elasticity of overall non-developmental expenditure whereas significant decline is seen in the elasticity of interest payments and servicing of debt due to decrease in these expenditures in the post-pandemic period.

### **3.4 Efficiency of Government Expenditure**

While the governments have the responsibility of providing services that maximise the welfare of state, a key challenge that they face is the limitation of financial and other resources available. Hence, it becomes even more important on the part of the government to allocate funds to different sectors in a manner that not only enhances the developmental outcomes in sectors that lag behind but also ensures that sufficient fiscal space is available for it. This can be achieved by improving the technical and allocative efficiency of resources as both these efficiencies ensure maximised developmental outcomes and welfare.

An attempt has been made to analyse the allocative efficiency of public expenditure in the state of Uttar Pradesh. For this purpose, the share of expenditure on select indicators in aggregate expenditure for the recent year 2023-24 has been derived which has been detailed in the Table 3.10 ahead. Considering the NSC states, the average expenditure on social sector components such as Education and Health stands at 13.1 percent and 5.7 percent of total expenditure. For Uttar Pradesh, the expenditure (as % of total expenditure) when compared with that of NSC states' average falls below for education (at 10.2 percent) and expenditure on health lies slightly above the average (at 6.5 percent). The expenditure on physical infrastructure in the state of Uttar Pradesh exceeds the NSC average by a significant margin and stands at 6.3 percent for Roads and Bridges and 8.2 percent for Energy. Similarly, the state's expenditure (as percent of aggregate expenditure) exceeds the NSC states' average in that of committed expenditures, with values of 11.2 percent for pensions and 5.7 percent for administrative services.

The higher values of expenditure on account of commitments also signify the strain on state's financial resources. The current figures suggest that significant improvement is required in financial allocation towards areas like education and health. While the allocation towards health sector stands above the NSC average, the transitions in demographic landscape of the state (as discussed in Chapter 1) such as population growth, call for higher allocation towards this sector. Even though the resource allocation towards physical infrastructure is significantly high, persistent investment here can help drive overall development further. Thus, it is safe to state that the expenditure has been sub-optimal with potential underinvestment in critical sectors considering the demographics of the state, which may not only affect the growth but

also hinder human development. Attempts should be made to handle the committed expenditures in a more sustainable manner so that a greater proportion could be directed towards education, health, and physical infrastructure.

**Table 3.10: Expenditure on Select Indicators as percentage of Aggregate Expenditure (2023-24)**

State	Social Sector		Physical Infrastructure		Committed Expenditure		
	Education	Health	Roads & Bridges	Energy	Interest Payments	Pension	Admin. Expenses
<b>Group A</b>							
Goa	14.5	8.7	4.3	15.4	7.3	8.4	7.2
Maharashtra	14.8	4.7	5.7	2.3	7.4	7.0	6.2
Haryana	10.3	4.5	2.6	4.9	13.1	8.3	4.5
Gujarat	13.6	5.9	5.4	5.4	9.8	8.8	3.7
Tamil Nadu	11.8	4.6	4.4	5.9	13.2	9.1	3.8
Mean	13	5.68	4.5	6.8	10.2	8.3	5.1
C.V.	0.1	0.2	0.2	0.6	0.2	0.08	0.2
<b>Group B</b>							
Kerala	11.7	4.9	1.5	0.4	14.2	13.8	3.7
Punjab	8.6	2.8	0.7	4.1	11.8	9.9	5.4
Karnataka	10	4.5	3.2	6.6	9.6	7.9	4.0
Andhra Pradesh	12.4	6	0.9	5.9	11.6	8.6	5.7
West Bengal	14.2	6	2.2	1.1	14.1	7.9	4.4
Mean	11.4	4.8	1.7	3.6	12.3	9.6	4.6
C.V.	0.1	0.2	0.5	0.6	0.1	0.2	0.1
<b>Group C</b>							
Rajasthan	18	7.2	3.4	9.6	10.4	8.2	3.4
Jharkhand	12.5	5.6	4.6	9.0	6.2	7.3	6.7
Chhattisgarh	15.2	5.9	3.9	5.1	4.5	4.8	5.3
Madhya Pradesh	12.9	5.4	3.5	11.9	7.5	7.5	3.8
Odisha	13	7.1	7.0	1.2	2.9	8.7	4.2
Uttar Pradesh	10.2	6.5	6.3	8.2	7.8	11.2	5.7
Bihar	18.5	6.1	4.1	4.9	5.8	9.3	5.6
Mean	14.3	6.3	4.7	7.1	6.5	8.1	4.9
C.V.	0.1	0.1	0.3	0.4	0.3	0.2	0.2
<b>All NSC States</b>							
Mean	13.1	5.7	3.7	6.0	9.3	8.6	4.9
C.V.	0.2	0.2	0.4	0.6	0.3	0.2	0.2

Note: 'Health' includes Expenditure on Medical and Public Health, and Family Welfare

Source: Author's Calculations based on State Finances, RBI (2023-24 Revised Estimates)

### 3.5 Quality of Expenditure

As briefed previously, it is not just the quantum of expenditure and its allocation that matters but also the quality which is a crucial determinant of growth in the state. An attempt has been made to analyse the quality of public expenditure in the state of Uttar Pradesh, for this, the trends in five indicators have been analysed based on existing studies [Padhi et al., 2023,

Banka, 2022, Misra et al., 2021]. The indicators used in the study can be divided into two broad categories based on their (positive or negative) relationship with the quality of government expenditure. The indicators which are agreed to have a positive association with the quality are: percent share of capital outlay in total expenditure (CO-TE), capital outlay as percentage of GSDP (CO-GSDP), and development expenditure as percentage of GSDP (DE-GSDP). On the other hand, the indicators- ratio of revenue expenditure to capital outlay (RE-CO), and percent share of revenue deficit in gross fiscal deficit (RD-GFD) are assumed to have a negative correlation with the government expenditure quality.

The combined figure 3.1 ahead showcases the trends in selected indicators for the period of analysis (2012-13 to 2023-24). In the figure, chart (a) shows the indicators that have positive relation with quality whereas chart (b) shows those which have a negative relation. It can be observed that there have been phases where the quality of expenditures improved significantly, as depicted through the indicators. It is safe to state that the quality peaked around the years of 2013-14, 2014-15 and 2015-16 and 2023-24 as the CO-TE, CO-GSDP, DE-GSDP registered their respective set of highest values in these years. In the year of 2023-24, both CO-TE, and CO-GSDP registered their highest values of 23.12 percent and 5.74 percent respectively. Development Expenditure as percent of GSDP peaked in 2015-16, registering a figure of 16.66 percent. In 2023-24, the RE-CO ratio registered its lowest value of 3.11 and the RD-GFD also registered its second lowest figure of -80.71 percentage. A volatile but generally decreasing trend can be observed in the indicators in graph (a) suggesting decline in the quality of expenditures between 2016-17 and 2020-21. During these years, both RE-CO and RD-GFD picked up and registered their respective highest values of 6.81 and 609.60 percent in 2017-18 and 2019-20. The sudden rise in RD-GFD was the result of covid pandemic, no other serious reason has happened except for this.

The quality of expenditures appears to have improved in the post-pandemic years as there have been improvements in percent share of capital outlays in total expenditures and GSDP of the state. However, the growth in share of developmental expenditure in GSDP has shown a little delayed growth but does reflect improvements in overall quality. Moreover, very significant decline can be observed in RE-CO ratio and share of Revenue Deficit in GFD reaffirming the quality improvements.

**Figure 3.1: Indicators Reflecting Quality of Expenditure**

Source: Authors' construction based on data from RBI.

### 3.6 Conclusion

The analysis of trends in capital and revenue expenditure in state and the transitions therein have allowed us to better understand the fiscal landscape of its economy. It is evident that capital expenditure has shown significant growth in recent years, however, it is crucial that more resources are directed towards the developmental activities in continuous manner to stimulate growth and development. Attempts should be made to ensure that the increases in expenditures on account of loans and advances are directed towards asset creation for the economy of state and their underutilisation is minimised so as to realise the potential benefits. The growth in non-developmental revenue expenditure in recent years can reduce the pace of growth and development in the state and efforts should be directed towards their effective management and reallocation into educational and health infrastructure. While a certain amount of such expenditure is necessary for the functioning of government and societal maintenance, greater growth in it can limit investments in sectors that stimulate long-term growth.

High volatility in capital expenditure implies that the burden of expenditure management is mainly undertaken through capital expenditure reduction. However, government should try to manage such expenditures by reduction in expenditures on cash transfer related schemes. Mandatory application of DBT for all such cash transfer and benefit schemes will greatly reduce the leakages in the system.

The analysis of allocative efficiency of expenditures of Uttar Pradesh has re-established that there is a requirement of increased investments in social sector elements such as education to bring the state at par with average allocation of NSC states. Furthermore, limiting the allocation

towards committed expenditure in efficient manner will help take the economy on a more stable and fiscally balanced path. Attempts should be made towards reviewing and restructuring pension schemes and administrative expenses so that potential leakages could be identified and the saved resources could be directed towards critical sectors. This will also help the state in gaining more fiscal space which will allow the state's economy to improve its responses to challenges, especially during the downturns. Ensuring enhancements in developmental expenditure and capital outlay will also help improve the quality of expenditures in the state, the indicators of which have shown significant improvements in recent times.

### Appendix 3.1: Revenue and Capital Expenditure as Percent of Total Expenditure and GSDP

Year	Revenue Expenditure		Capital Expenditure	
	As % of Total Expenditure	In GSDP	As % of Total Expenditure	In GSDP
2012-13	80.67	17.11	19.33	4.10
2013-14	78.82	16.82	21.18	4.52
2014-15	72.59	16.90	27.41	6.38
2015-16	69.99	18.70	30.01	8.02
2016-17	70.96	18.36	29.04	7.51
2017-18	82.72	18.49	17.28	3.86
2018-19	77.13	19.07	22.87	5.66
2019-20	77.95	17.58	22.05	4.97
2020-21	78.83	18.20	21.17	4.89
2021-22	76.83	17.04	23.17	5.14
2022-23	75.11	16.64	24.89	5.51
2023-24	71.92	17.85	28.08	6.97

Source: Author's Calculations based on data from State Finances, RBI.

## Chapter IV

### Analysis of Debt and Deficit

#### 4.1 Introduction

The analysis of debt and deficit dynamics of the state is crucial as they have important implications on the economic conditions in the short and long term. From a neoclassical viewpoint, persistent budgetary deficits may lead to decline in private investment through crowding out of private savings, which may cause reductions in income in the long-run. On the other hand, the Keynesian perspective rejects the thought of ‘crowding out’ of private savings and instead propagates that due to increases in income and consumption, the economy will witness increases in savings and capital accumulation (Hongyang, 2023; Bernheim, 1989).

Effective management of debt and deficit has a positive influence on the fiscal health and overall economic performance of the state. On these lines, the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act was enacted in 2004 to promote fiscal discipline in the state. Under this setup, targets were set to reduce the revenue deficit, limit the fiscal deficit and curtail debt of the state. Post the enactment of UPFRBM, improvements were witnessed in the fiscal situation of the state, especially in the context of revenue surpluses. This must have allowed the state to better service its debt. However, concerning increases were witnessed in primary deficit and debt between 2005-06 and 2012-13 (Maurya, 2019).

While the UPFRBM act has provisions to allow for flexibility during the times of crisis, in the recent years, implementation of GST reforms, covid-19 pandemic etc. must have had significant influence on the debt and deficit dynamics. This chapter presents the analysis of the trends in key indicators pertaining to debt and deficit in the state and briefs what the changes in them imply for the state’s economy for the current and upcoming period.

#### 4.2 Trends in Key Deficit Indicators

##### *4.2.1 Gross Fiscal Deficit*

The gross fiscal deficit of the state has featured a quite volatile trend over the past decade with phases of persistent increases and declines. A general increasing trend is observed between the years of 2012-13 to 2015-16 where the deficit increased from Rs. 19240 crores to Rs. 58480 crores. Subsequent to this, the deficit featured a general decline and it has come down to Rs. 27809.6 crores in 2017-18. It is important to note that in 2019-20, the state finances showed

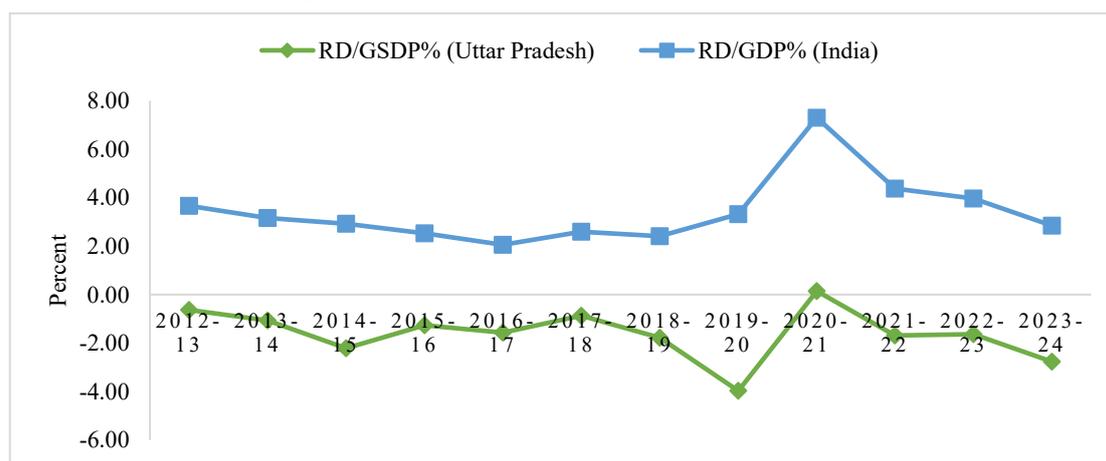
fiscal surplus<sup>1</sup> of Rs. 11082 crores. The deficit shot up to Rs. 54622 crores with the onset of pandemic in 2020-21. While there was a decline in the absolute figure in the following year, the deficit has registered persistent growth in the last two years of analysis (Table 4.1).

The fiscal deficit (as percent of GSDP) of the state has followed a distinguishable trend from that of the Centre before 2019-20. Between 2012-13 and 2015-16, the deficit as percent of GSDP grew significantly attaining a maximum value of 5.14 percent in the later year (Table 4.1). Following 2019-20, the state's deficit appears to have followed a pattern which is more in sync with that of Centre's during the pandemic years. While the deficit rose sharply to 3.33 percent of GSDP in 2020-21, a controlled decline was quickly registered in the next year. However, the deficit appears to have consistently increased in the last two years reaching 3.24 percent of GSDP in 2023-24.

#### 4.2.2 Revenue Deficit

The state of Uttar Pradesh has been in a bright spot as far as the revenues are concerned as the government has witnessed persistent revenue surpluses throughout the previous decade, except for the year of 2020-21 where it registered a revenue deficit of Rs. 2367.1 crores (Table 4.1). The surpluses appear to have followed a steady growth path and restoration to pre-pandemic levels is apparent in the recent years as a surplus of Rs. 70446 crores is evident as per the revised estimates for the year.

**Figure 4.1: Trends in Revenue Deficit (as % of GSDP)**



Source: Author's calculation based on RBI data.

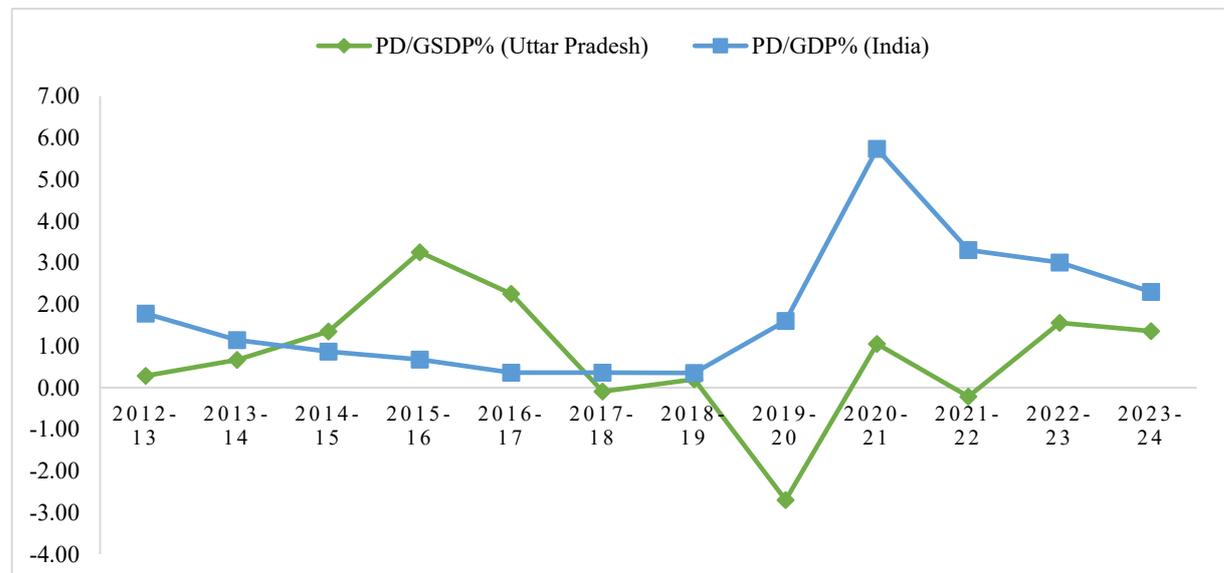
<sup>1</sup> During the year 2019-20, the State Government transferred the book balance of Rs. 71,180.23 crores of Sinking Fund to revenue receipt account. Being exceptional transaction and without any actual cash receipt, it has impacted the revenue and fiscal surplus of the State. The revenue surplus of Rs. 67,560 crores and fiscal surplus of Rs. 11,083 crores during the year 2019-20 should, therefore, be read in conjunction with the transfer of Rs. 71,180.23 crores from Sinking Fund as revenue receipt of the State without actual cash receipt.

The situation in the state has been fairly contrasting from that of the government of the country as while on one hand India's economy has persistently witnessed revenue deficits, the state's economy has registered a deficit only once over the previous decade. In 2020-21, when India's revenue deficit (as percent of GDP) peaked as it registered a value of 7.30 percent, the state registered a deficit of only 0.14 percent of GSDP (Figure 4.1). Following this, while the deficit at national level restored to pre-pandemic levels, the state's deficit (as percent of GSDP) reduced indicating surplus in the recent years.

#### 4.2.3 Primary Deficit

The trend of primary deficit of state's economy has also been more volatile than that of India's with the highest deficit to GSDP value of 3.25 percent in 2015-16 and a negative stance (highest surplus) of 2.7 percent in 2019-20. A stepwise decline to some degree is evident in the deficit from 2015-16 to 2019-20, post which the deficit has continued to be volatile and followed a growth pattern which is also different from the trend in primary deficit at national level (Figure 4.2). While the shrinking primary deficit in the years of 2015-16 to 2017-18 signal a healthier economy in those years, it is safe to state that the rise in primary deficit in recent years may not be an indicator of concern as long as the value doesn't increase significantly and the government is not over-reliant on borrowings to fund expenditures.

**Figure 4.2: Trends in Primary Deficit (as % of GSDP)**



Source: Author's calculation based on RBI data.

**Table 4.1: Trends in Revenue and Fiscal Deficit in U.P. (in Crore)**

Years	Gross Fiscal Deficit	FD/GSDP%	Revenue Deficit	RD/GSDP%	Primary Deficit	PD/GSDP%	RD/FD%
2012-13	19230.0	2.34	-5,180.0	-0.63	2320	0.28	-26.94
2013-14	23670.0	2.52	-10,070.0	-1.07	6270	0.67	-42.54
2014-15	32510.0	3.21	-22,390.0	-2.21	13650	1.35	-68.87
2015-16	58480.0	5.14	-14,340.0	-1.26	37030	3.25	-24.52
2016-17	55990.0	4.34	-20,280.0	-1.57	29050	2.25	-36.22
2017-18	27809.6	1.93	-12,511.9	-0.87	-1326.2	-0.09	-44.99
2018-19	35203.1	2.22	-28,249.6	-1.79	3189	0.20	-80.25
2019-20	-11082.7	-0.65	-67,560.1	-3.97	-45896	-2.70	609.60
2020-21	54622.1	3.33	2,367.1	0.14	17193.6	1.05	4.33
2021-22	38686.4	1.95	-33,430.1	-1.69	-4189	-0.21	-86.41
2022-23	64636.3	2.83	-37,263.4	-1.63	35560*	1.56	-57.65
2023-24*	82514.5	3.24	-70,446.5	-2.76	34628#	1.36	-85.37

Note: \*Revised Estimates; #Budget Estimates

Source: Primary Deficit taken from Handbook of Statistics on Indian States, RBI; Remaining heads taken from State Finances, RBI

**Table 4.2: Composition of Fiscal Deficit (in crore)**

Years	Revenue Deficit	Capital Outlay	Net Lending	Gross Fiscal Deficit
2012-13	-5180	23830	580	19230
2013-14	-10070	32860	880	23670
2014-15	-22390	53300	1610	32520
2015-16	-14340	64420	8390	58470
2016-17	-20280	69790	6480	55990
2017-18	-12511.9	39088	1273.5	27849.6
2018-19	-28249.6	62463.4	989.3	35203.1
2019-20	-67560.1	59998	-3520.6	-11082.7
2020-21	2367.1	52237.1	17.9	54622.1
2021-22	-33430.1	71442.6	673.9	38686.4

2022-23	-37263.4	93028.4	8871.3	64636.3
2023-24*	-70446.5	146177.1	6783.9	82514.5
<b>As per cent of Gross Fiscal Deficit</b>				
2012-13	-26.94	123.92	3.02	-
2013-14	-42.54	138.83	3.72	-
2014-15	-68.85	163.90	4.95	-
2015-16	-24.53	110.18	14.35	-
2016-17	-36.22	124.65	11.57	-
2017-18	-44.93	140.35	4.57	-
2018-19	-80.25	177.44	2.81	-
2019-20	609.60	-541.37	31.77	-
2020-21	4.33	95.63	0.03	-
2021-22	-86.41	184.67	1.74	-
2022-23	-57.65	143.93	13.72	-
2023-24	-85.37	177.15	8.22	-
<b>As per cent of GSDP</b>				
2012-13	-0.63	2.90	0.07	2.34
2013-14	-1.07	3.49	0.09	2.52
2014-15	-2.21	5.27	0.16	3.21
2015-16	-1.26	5.66	0.74	5.14
2016-17	-1.57	5.42	0.50	4.34
2017-18	-0.87	2.71	0.09	1.93
2018-19	-1.79	3.95	0.06	2.22
2019-20	-3.97	3.53	-0.21	-0.65
2020-21	0.14	3.19	0.00	3.33
2021-22	-1.69	3.61	0.03	1.95
2022-23	-1.63	4.07	0.39	2.83
2023-24	-2.76	5.74	0.27	3.24

Note: \*Revised Estimates. Source: Authors' Calculations based on data from RBI.

**Table 4.3: Financing of Fiscal Deficit**

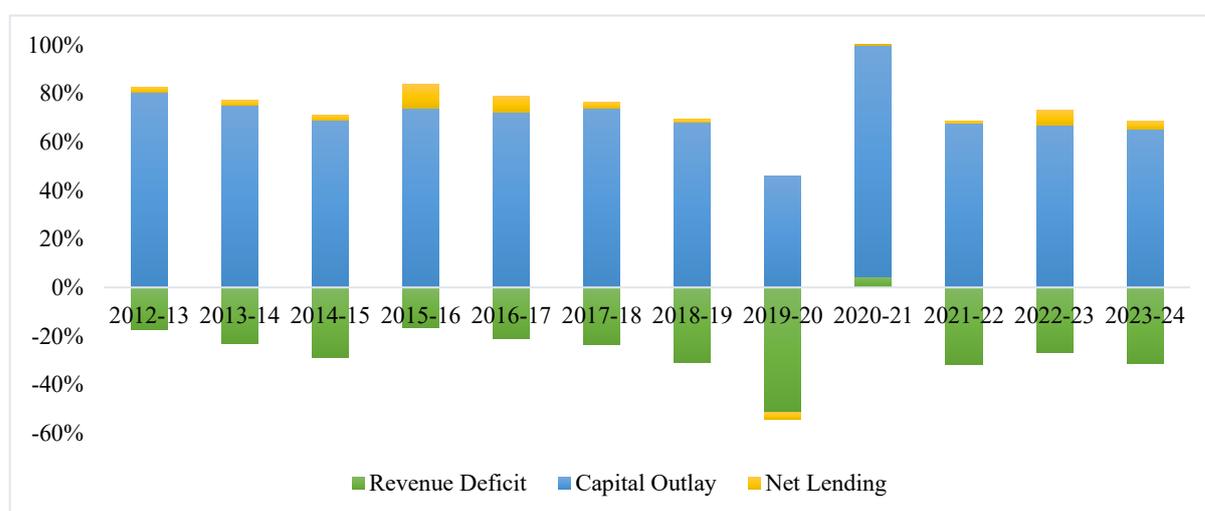
Years	Market Borrowings	Loans from Centre	Special Securities issued to NSSF	Loans from financial Institutions	State Provident Funds, etc.	Reserve Funds	Deposits and Advances	Suspense and Miscellaneous	Remittances	Others	Overall Surplus / Deficit	Gross Fiscal Deficit
2012-13	6260	-1100	2430	-100	3340	4390	1750	3540	990	-570	-1700	19240
2013-14	5050	-1080	2770	490	2360	7950	5040	-9640	-100	-330	11150	23680
2014-15	13510	-870	6320	650	1690	-2690	1050	540	1610	4560	6150	32510
2015-16	25300	-800	4340	610	1530	2560	-1540	-680	-200	29280	-1930	58480
2016-17	36900	-410	-4530	580	1620	7230	-300	590	750	14660	-1100	55990
2017-18	37178	-437.8	-4643	85.9	2530.1	8264.7	1404.4	-2205.8	-3906.3	76.4	-10537	27809.6
2018-19	33306.7	-832.2	-4871.6	3172	3645.6	13544.7	2196.3	222.7	312.7	-62.8	-15430.9	35203.1
2019-20	55825.8	-450.8	-5122.1	1177.8	3313.7	-68298.5	-2089.8	-1828.1	313.5	607.1	5468.7	-11082.7
2020-21	63499.7	6578	-5122.1	1508.2	1062.4	-499.1	1914.8	1697.9	-325.5	-6482.4	-9209.8	54622.1
2021-22	46670	9154.6	-5122.1	675	525.1	1893	-1458.7	1460.9	21.1	-4252.3	-10880.2	38686.4
2022-23	46112	7102.8	-5122.1	452.6	412.9	1191.8	3598.7	34.7	1056.6	-4388.9	14185.1	64636.3
2023-24*	67150	19218.9	-5122.1	955.3	1293.1	277.1	-2955.5	7385.3	-500	-4405	-782.6	82514.5
<b>As per cent of Gross Fiscal Deficit</b>												
2012-13	32.54	-5.72	12.63	-0.52	17.36	22.82	9.10	18.40	5.15	-2.96	-8.84	100.00
2013-14	21.33	-4.56	11.70	2.07	9.97	33.57	21.28	-40.71	-0.42	-1.39	47.09	100.00
2014-15	41.56	-2.68	19.44	2.00	5.20	-8.27	3.23	1.66	4.95	14.03	18.92	100.00
2015-16	43.26	-1.37	7.42	1.04	2.62	4.38	-2.63	-1.16	-0.34	50.07	-3.30	100.00
2016-17	65.90	-0.73	-8.09	1.04	2.89	12.91	-0.54	1.05	1.34	26.18	-1.96	100.00
2017-18	133.69	-1.57	-16.70	0.31	9.10	29.72	5.05	-7.93	-14.05	0.27	-37.89	100.00
2018-19	94.61	-2.36	-13.84	9.01	10.36	38.48	6.24	0.63	0.89	-0.18	-43.83	100.00
2019-20	-503.72	4.07	46.22	-10.63	-29.90	616.26	18.86	16.50	-2.83	-5.48	-49.34	100.00
2020-21	116.25	12.04	-9.38	2.76	1.95	-0.91	3.51	3.11	-0.60	-11.87	-16.86	100.00
2021-22	120.64	23.66	-13.24	1.74	1.36	4.89	-3.77	3.78	0.05	-10.99	-28.12	100.00
2022-23	71.34	10.99	-7.92	0.70	0.64	1.84	5.57	0.05	1.63	-6.79	21.95	100.00
2023-24	81.38	23.29	-6.21	1.16	1.57	0.34	-3.58	8.95	-0.61	-5.34	-0.95	100.00

Note: \*Revised Estimates. Source: Authors' Calculations based on data from RBI.

#### 4.2.4 Financing of fiscal deficit

As far as the financing of state's fiscal deficit is concerned, market borrowings have been the most important source and their share has increased greatly over the years, rising from 32.5 percent in 2012-13 to as much as 81.4 percent in 2023-24 (Table 4.3). The contribution of loans from financial institutions has stayed more or less steady over the years, hovering between 0.3 percent to 2.7 percent, except for the years of 2012-13, 2018-19 and 2019-20. On the other hand, the reliance on loans from Centre has grown tremendously post 2019-20, increasing its share to 23.3 percent in 2023-24. The emerging trends suggest that government is shifting its borrowing to cheaper sources which shall reduce its effective interest burden in future.

**Figure 4.3: Composition of Fiscal Deficit (percent)**



Source: Authors' construction based on data from RBI.

### 4.3 Debt Burden and Interest Liability of the State

The debt burden of a state has significant implications on its overall economic stability and growth as the increased burden does not only bring additional budgetary pressure but also impact the fiscal sustainability of the economy. The overall outstanding debt of Uttar Pradesh has grown at an average rate of 11.6 percent, growing from Rs. 225123.6 crores in 2012-13 to Rs. 747545.7 crores in 2023-24 (Table 4.4). The highest growth rates were registered between 2014-15 and 2016-17 where the debt grew at an average of 15.6 percent. The growth rate of debt has hovered around the average of 10.6 percent post 2020-21 after the increase on account of pandemic. Thus, it can be safely stated that the growth in debt of state has followed more of a linear trajectory over the last four years except for the disturbances from the pandemic related borrowings. This is observable in the share of debt in overall GSDP, as in the years of 2020-21 and 2021-22, the share in GSDP grew as high as by 34.39 percent and 31.38 percent respectively.

**Table 4.4: Total Outstanding Debt and Interest Liability of the State**

<b>Year</b>	<b>Outstanding Debt (Rs. Crore)</b>	<b>Outstanding Debt/GSDP (%)</b>	<b>IP/GSDP (%)</b>	<b>IP/RR (%)</b>	<b>IP/RE (%)</b>
2012-13	225123.6	27.37	2.06	11.60	12.02
2013-14	241685.9	25.70	1.85	10.35	11.01
2014-15	266820.7	26.37	1.86	9.75	11.03
2015-16	323935.7	28.47	1.89	9.45	10.08
2016-17	373417.3	28.98	2.09	10.49	11.39
2017-18	408716.5	28.38	2.02	10.45	10.94
2018-19	445203.2	28.14	2.02	9.70	10.61
2019-20	499967.6	29.41	2.01	9.33	11.44
2020-21	564089.5	34.39	2.28	12.64	12.54
2021-22	621835.8	31.38	2.16	11.56	12.70
2022-23	671133.9	29.38	1.88	10.31	11.32
2023-24	747545.7	29.34	1.94	9.39	10.84

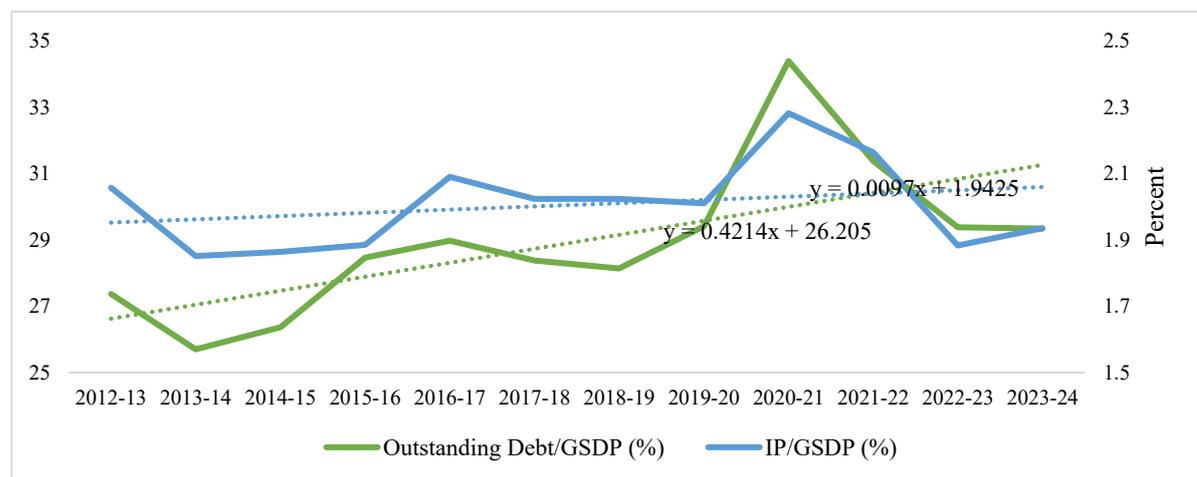
Source: Outstanding debt taken from Budget document of Uttar Pradesh and Interest liability from RBI data.

Note: IP- Interest Payment; RR- Revenue Receipts; RE- Revenue Expenditure.

This was followed by quick restoration to pre-pandemic levels as the share dropped to 29.34 percent in 2023-24. The increase in debt brings along additional costs in form of its servicing and persistent increase in such payments can result in reduced revenue allocation to public investments which may hinder economic growth. The quantum of these payments has grown significantly over the previous decade, rising from Rs.16920 crore in 2012-13 to Rs. 49316 crores in 2023-24 registering an annual average growth of 10.40 percent. This growth has not been steady throughout though, as growth rates of 13.73, 25.59, 14.55 and 14.67 percent were registered in the years of 2015-16, 2016-17, 2021-22 and 2023-24 whereas for the remaining years this value hovered between 0.3 percent and 9.5 percent (authors' own calculations).

While the interest payments have increased significantly, an observation of their share in GSDP, Revenue Receipts and Revenue Expenditure provides a positive notion about the finances of state (Table 4.4). A significant drop is evident in the percent share of interest payments in revenue receipts and revenue expenditure, as the values declined from 12.64 percent in 2020-21 to 9.39 percent in 2023-24 for the former, and from 12.54 percent in 2020-21 to 10.84 percent in 2023-24 for the latter. Similarly, the percent share of interest payments in GSDP has dropped from 2.28 percent in 2020-21 to 1.94 percent in 2023-24. The decline in these shares may suggest improvements in fiscal health, and enhanced fiscal space which may result in greater investments in public services.

**Figure 4.5: Total Outstanding Debt and Interest Payments (as percent of GSDP)**



Source: Author's calculation based on data from RBI

## 4.4 Composition and Structure of Public Debt

### 4.4.1 Public Debt of the State

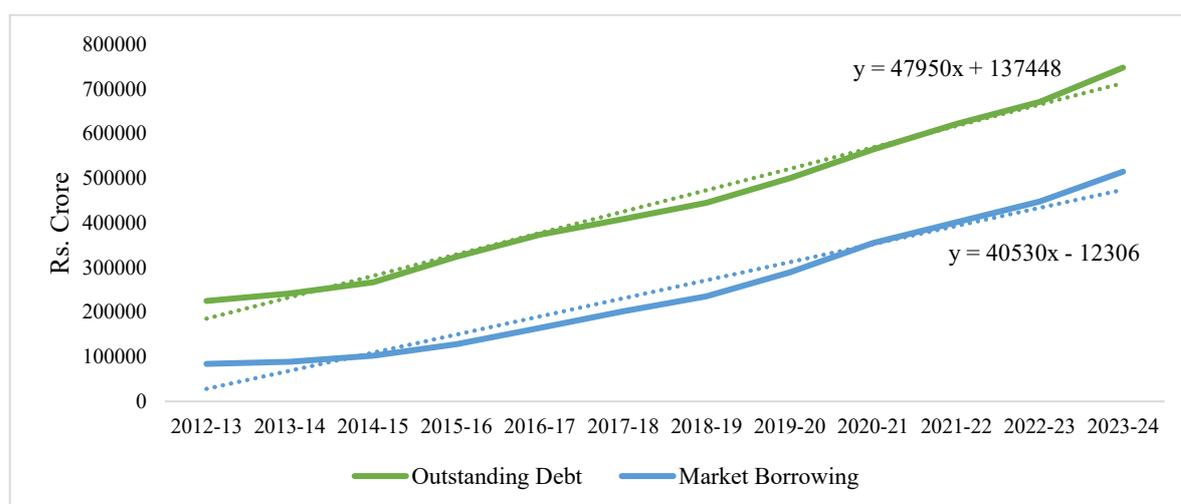
As discussed in the previous section, overall debt of the state has registered a general and persistent increase over the past decade. The share of debt in overall GSDP has grown steadily

from 27.37 percent in 2012-13 to 29.34 percent in 2023-24, with some sharp increases during pandemic period which were smoothed out in the following years. While the analysis of overall debt scenario provides decent information about the fiscal health of the state, it is also important to look at the composition of outstanding debt, i.e., the major sources from which borrowings are facilitated. The composition not only determines the quantum of interest payments but also reflects the degree of reliance of the state on various sources to meet its borrowing needs and how that has transitioned over the years.

#### 4.4.2 Changing Composition of Outstanding Debt

When it comes to outstanding debt, market borrowings constitute major share of the total, followed by debt from small savings, and provident and pension funds. Over the previous decade, Market Borrowings, on an average, have constituted almost 51.62 percent of the total outstanding debt whereas small savings, and provident and pension funds constitute 14.44 percent and 12.94 percent respectively (Table 4.5). While the share of market borrowings in overall debt has persistently increased, rising from 37.36 percent in 2012-13 to as much as 68.64 percent in 2023-24, the year-on-year growth has significantly declined in last few years, from 22.9 percent in 2019-20 to 11.5 percent in 2022-23. What this implies is that while the share of market borrowings has grown, this growth in share is due to the reduction of share of remaining categories in overall debt. The only exceptions are loans and advances from Central Government whose share has increased in recent years, and loans and advances from financial institutions, whose share has stayed more or less steady over the years.

**Figure 4.6: Trends in Public Debt**



Source: Author's calculations based on data from RBI.

**Table 4.5: Composition of Outstanding Debt (in Crore)**

Year	Market Borrowing	Small Savings	Loans & Advances from FIs	Power Bonds	Loans & Advances from CG	Provident & Pension Fund	Deposits & advances	Other liabilities	Outstanding Debt
2012-13	84103.42	56351.56	6349.9	1761.56	16400.26	41935.55	18197.31	24.04	225123.6
2013-14	89157.44	59120	6817.74	1174.37	15324.84	44297.81	25771.3	24.04	241685.9
2014-15	102666.9	65450	9280.93	5857.32	14450.24	45480.38	23617.64	23.01	266820.7
2015-16	127967.9	69970	8270.25	34872.73	13636.63	47014.66	22367.46	23.01	323935.7
2016-17	164872.3	65439.1	8910.12	49674.02	13228.04	48733.64	22747.89	23.12	373417.3
2017-18	202050.3	55736.7	7727.43	49674.02	12790.23	51263.76	24602.47	-	408716.5
2018-19	235357	55736.7	11003.27	49674.02	11958.02	54907.14	26567.19	-	445203.2
2019-20	289383	50614.6	12228.47	49674.02	11507.7	58220.8	28339.49	-	499967.6
2020-21	354683	45492.53	15342.64	43331.16	18085.16	59283.21	27871.76	-	564089.5
2021-22	401353	40370.45	15980.24	39016	35379.69	59808.33	29928.12	-	621835.8
2022-23	447465	35248.38	16359.16	34700.85	42482.5	60221.23	34656.79	-	671133.9
2023-24	514615	30126.3	17224.59	30385.7	61701.39	61514.33	31978.42	-	747545.7
<b>As Percent of GSDP</b>									
2012-13	10.23	6.85	0.77	0.21	1.99	5.10	2.21	0.00	27.37
2013-14	9.48	6.29	0.73	0.12	1.63	4.71	2.74	0.00	25.70
2014-15	10.15	6.47	0.92	0.58	1.43	4.50	2.33	0.00	26.37
2015-16	11.25	6.15	0.73	3.06	1.20	4.13	1.97	0.00	28.47
2016-17	12.79	5.08	0.69	3.85	1.03	3.78	1.77	0.00	28.98
2017-18	14.03	3.87	0.54	3.45	0.89	3.56	1.71	-	28.38
2018-19	14.88	3.52	0.70	3.14	0.76	3.47	1.68	-	28.14
2019-20	17.02	2.98	0.72	2.92	0.68	3.42	1.67	-	29.41
2020-21	21.63	2.77	0.94	2.64	1.10	3.61	1.70	-	34.39
2021-22	20.26	2.04	0.81	1.97	1.79	3.02	1.51	-	31.38
2022-23	19.59	1.54	0.72	1.52	1.86	2.64	1.52	-	29.38
2023-24	20.20	1.18	0.68	1.19	2.42	2.41	1.26	-	29.34

<b>As Percent of Outstanding Debt</b>									
2012-13	37.36	25.03	2.82	0.78	7.29	18.63	8.08	0.01	100.00
2013-14	36.89	24.46	2.82	0.49	6.34	18.33	10.66	0.01	100.00
2014-15	38.48	24.53	3.48	2.20	5.42	17.05	8.85	0.01	100.00
2015-16	39.50	21.60	2.55	10.77	4.21	14.51	6.90	0.01	100.00
2016-17	44.15	17.52	2.39	13.30	3.54	13.05	6.09	0.01	100.00
2017-18	49.44	13.64	1.89	12.15	3.13	12.54	6.02	-	100.00
2018-19	52.87	12.52	2.47	11.16	2.69	12.33	5.97	-	100.00
2019-20	57.88	10.12	2.45	9.94	2.30	11.64	5.67	-	100.00
2020-21	62.88	8.06	2.72	7.68	3.21	10.51	4.94	-	100.00
2021-22	64.54	6.49	2.57	6.27	5.69	9.62	4.81	-	100.00
2022-23	66.67	5.25	2.44	5.17	6.33	8.97	5.16	-	100.00
2023-24	68.84	4.03	2.30	4.06	8.25	8.23	4.28	-	100.00

Source: Authors' calculations based on data from RBI.

It can be observed that while the borrowings from central government have increased over the years, the interest paid on these borrowings has depicted a decreasing trend. On the other hand, interest payments on internal debt, which include payments on market borrowings and short-term loans from central bank, have continued to show an increasing trend. The reduction in quantum of interest paid on borrowings from central government may be due to lower borrowing costs, refinancing or change in debt structure. While there have been changes in the composition of interest payments, the year-on-year growth of overall interest payments has remained between the bounds of 0.31 percent and 9.9 percent between 2013-14 and 2023-24, except for the years of 2015-16, 2016-17, 2021-22 and 2023-24, where the amount grew by 13.69 percent, 25.59 percent, 14.55 percent, and 14.66 percent respectively (authors' own calculations).

A significant amount of increase in interest payments in last few years is essentially due to increase in the quantum of market borrowings. While the growth in outstanding debt and interest payments suggests that the state government has cautiously dealt with the issue of liabilities to foster fiscal sustainability, the recent surges in market borrowings and interest payments should be looked into as the interest paid on these borrowings from as much as 60 to 70 percent of total interest payments in recent years, and persistent increase in them may cause the fiscal authorities to allocate more revenue towards interest payments, leaving reduced fiscal space. Table 4.6 ahead showcases the changing composition of interest payments for the period of analysis.

**Table 4.6: Composition of Interests (Rs. Crore) 2012 to 2023**

Years	Interest Paid on Internal Loans	As % of Total	Interest Paid on Loans from Central Government	As % of Total	Others	As % of Total	Total Interest Paid
2012-13	6592.9	39.0	1327.6	7.8	9000.1	53.2	16920.6
2013-14	6945.3	39.9	1225.1	7.0	9242.0	53.1	17412.4
2014-15	7562.8	40.1	1125.0	6.0	10176.7	53.9	18864.4
2015-16	9064.8	42.3	1024.2	4.8	11358.9	53.0	21447.9
2016-17	11544.5	42.9	927.5	3.4	14463.6	53.7	26935.7
2017-18	13968.4	47.9	849.8	2.9	14317.6	49.1	29135.8
2018-19	16663.1	52.0	761.6	2.4	14617.3	45.6	32042.1
2019-20	19560.9	56.2	665.5	1.9	14586.6	41.9	34813.0
2020-21	23185.4	61.9	589.2	1.6	13653.9	36.5	37428.5
2021-22	28272.8	65.9	499.0	1.2	14103.8	32.9	42875.6
2022-23	30124.4	70.0	413.3	1.0	12470.3	29.0	43008.0
2023-24*	34550.1	70.1	307.9	0.6	14453.7	29.3	49311.7

Note: \*Revised Estimates; 'Others' include the sum of 'others' as well as remaining categories

Source: Authors' Calculations based on data from Budget Document of UP, 2024

#### 4.4.3 Debt Sustainability

The sub-national governments like that of Uttar Pradesh face immense expenditure pressure on account of supply of social and economic services, moreover, they possess constrained capacity to raise revenues which often leads to increased borrowings by these governments. This makes the sustainability of debt of sub-national government as important as that of the national government (Maurya, 2016).

An attempt has been made to assess if debt has been sustainable over the analysis period in the state of Uttar Pradesh. For this purpose, Domar's condition for Debt Sustainability has been utilized which essentially states that the nominal growth rate of GDP (here, GSDP) should be greater than the current rate of interest on public debt for debt to be sustainable (Tsuchiya, 2016). This can be numerically stated in the following manner:

$$y - r > 0 \quad 1$$

$$r_t = \frac{(IP)_t}{(D)_{t-1}} \quad 2$$

(where  $y$ =Growth of GDP or GSDP,  $r$ =Average Interest Rate,  $IP$ =Interest Payment,  $D$ =Outstanding Debt,  $t$ =time period)

Table 4.7 at the end showcases the output of the analysis of Domar's debt stability condition for the period of 2013-2023. Figure 4.7 presents the comparison between Rate of Interest and GSDP Growth to draw conclusions regarding debt stability. It can be observed that interest rate has been stable around 7-8 percent over the period of analysis, however, the GSDP growth has been quite volatile throughout. The debt sustainability condition has been fulfilled for the majority of period, except for the years of 2014-15, 2019-20 and 2020-21. In the first case, the growth plummeted to 7.59 percent, going below the rate of interest for a narrow window of one year. In 2019-20 and 2020-21 however, an initial decline of 7.45 percent deteriorated to -3.52 percent as the economy disrupted due to pandemic, this created a negative gap and the debt sustainability condition was violated. The economic conditions improved quickly in the following years, registering a V-shaped recovery and interest rates stayed steady, creating a positive gap which again indicates a stable debt scenario.

Considering that the interest rate has mostly been stable over the years and that the only period where debt stability was violated was during the exceptional events where the GSDP declined tremendously, it is safe to state that the public debt in Uttar Pradesh has been at sustainable levels in the previous decade. However, it should be noted that the Domar's condition for debt

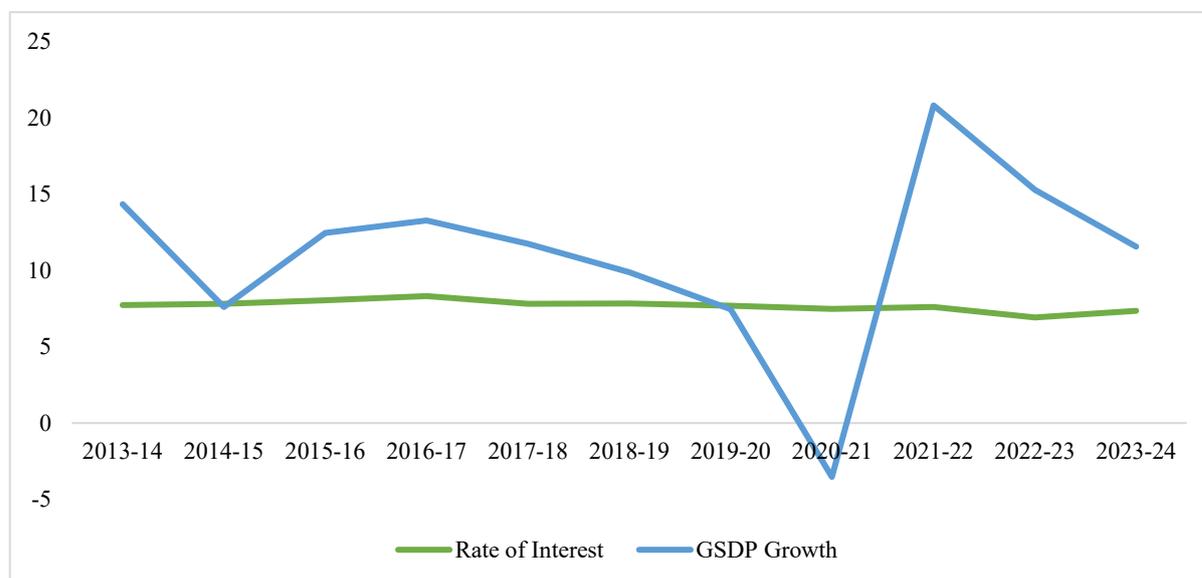
stability is a necessary condition and not the sufficient one, additional analyses may further help to draw more accurate inferences regarding debt sustainability in the state.

**Table 4.7: Domar's Condition for Debt Sustainability**

Year	IP/OD <sub>(t-1)</sub>	Effective ROI (i)	GSDP Growth	Growth/100 (n)	PD/GSDP (p)	dt-1(i-n)+p	Final Value
-	-	(i)	-	(n)	(p)		
2013-14	7.73	0.077	14.34	0.14	0.0028	-0.015	-1.53
2014-15	7.80	0.078	7.60	0.08	0.0067	0.007	0.72
2015-16	8.04	0.080	12.45	0.12	0.0135	0.002	0.18
2016-17	8.32	0.083	13.26	0.13	0.0325	0.018	1.85
2017-18	7.80	0.078	11.73	0.12	0.0225	0.011	1.11
2018-19	7.83	0.078	9.88	0.10	-0.0009	-0.007	-0.67
2019-20	7.68	0.077	7.45	0.07	0.0020	0.003	0.27
2020-21	7.49	0.075	-3.53	-0.04	-0.0270	0.005	0.54
2021-22	7.60	0.076	20.81	0.21	0.0105	-0.035	-3.49
2022-23	6.92	0.069	15.28	0.15	-0.0021	-0.028	-2.84
2023-24	7.35	0.073	11.55	0.12	0.0156	0.003	0.32

Note: OD- Outstanding Debt, IP- Interest Payments, ROI- Rate of Interest, PD- Primary Deficit, GSDP- Gross State Domestic Product, t-1: previous years' value. Source: Authors' calculations based on data from RBI.

**Figure 4.7: GSDP Growth and Rate of Interest in U.P.**



Source: Author's Calculations based on data from RBI

#### 4.5 Contingent Liabilities

The contingent liabilities of state government have showcased a generally positive yet volatile trend between 2012-13 and 2023-24. Except for the years of 2015-16, 2022-23, and 2023-24, Maximum amount guaranteed and the Outstanding amount of guarantees showed significant increase in their respective amounts.

**Table 4.8: Contingent Liabilities of UP of Government (in Crore)**

Years	Maximum Amount Guaranteed	O/s Amount of Guarantees (including interest)	Percentage of Total Amount Guaranteed to Total Revenue Receipt
2012-13	50459	43337	34.58
2013-14	69752	62822	41.47
2014-15	78023	70740	40.34
2015-16	78826	57618	34.71
2016-17	66702	55825	25.97
2017-18	74303	74841	26.65
2018-19	90662.4	110032.1	27.48
2019-20	132499.2	118696.5	36.16
2020-21	175469.2	150554	59.24
2021-22	206431.2	174218.4	55.64
2022-23	193244.8	170780.5	46.31
2023-24	184274	165556.9	35.09

Source: CAG Report on State Finance (various years).

The growth in Maximum amount guaranteed jumped significantly between 2017-18 and 2019-20, from 11.4 percent to 46.1 percent in the latter. Following this, a significant drop has been registered, turning the growth into a decline of about 5.5 percent (aggregate) in 2022-23 and 2023-24. A similar decline is observable in Outstanding amount of guarantees, as the year-on-year growth of about 47 percent in 2018-19 turned into an aggregate decline of about 2.5 percent in the last two years (authors' own calculations). As it can be observed in Table 4.8, the percentage share of total guarantees in revenue receipts witnessed a significant decrease between 2013-14 and 2017-18, where the share declined from 41.47 percent to 26.65 percent, post which it registered a continuous increase up to 2020-21, reaching as high as 59.24 percent of overall revenue receipts. The share has been declining post 2020-21, moderating to 35.09 percent in 2023-24.

The principles of fiscal management, as described in UPFRBM Act (2004), describe the responsibility of the government “to manage guarantees and other contingent liabilities prudently, with particular reference to quality and level of such liabilities.” The decline in contingent liabilities in recent years reflects reduction in sovereign guarantees and efficient handling of such liabilities on the part of government. Persistent careful handling of such liabilities can further reduce the risk exposure of the state and foster fiscal health.

#### 4.6 Conclusion

The current scenario of state's revenue surplus and persistent fiscal deficits put forward a complex picture. While the increase in revenue surplus provides a positive notion that the

government is able to meet its recurrent expenses, the persistent increase in fiscal deficit (majorly on account of increased capital outlay) can have mixed implications in the long-term. The state's economy has also witnessed persistent primary deficits during majority of the period, which may lead to increased borrowing in near future to meet expenditures.

In the recent years, the financing of deficit through market borrowings and loans from the Centre has seen significant increase, adding to the overall outstanding debt of the state government. While market borrowings are already low-cost borrowings, it has been observed that the cost of loans from Centre has also witnessed a decline in recent years which is evident in interest paid on loans from the Centre.

The current trends in changing composition of debt signal that the government has been redirecting its borrowings from costlier sources to cheaper ones such as market borrowings and borrowings from Central government, which will help in reduction of interest burden. However, the benefits that can be secured will depend on the choices that the government makes, since on one hand, the additionally saved funds from lower costs may be redirected by government towards developmental programmes creating a positive economic impact, whereas on the other hand, lower cost of loans means increased borrowings by the state in the near term which can also have detrimental effects on state's economy.

## Chapter V

### Implementation of FRBM Act and Commitment Towards Targets

#### 5.1 Introduction

*The Uttar Pradesh Fiscal Responsibility and Budget Management Act, 2004* was enacted in the state with an objective of ensuring fiscal discipline, improved overall macroeconomic management as well as transparency in the state fiscal operations. With the enactment of this act, State Government has been accorded the responsibility to maintain fiscal stability and sustainability and augment the scope for improving physical and social infrastructure along with human development. To achieve this, the act directed the State Government to achieve revenue surplus, curtail fiscal deficit and manage state debt discreetly. Further, it envisioned limits on the government borrowings and guarantees, debt and deficits, while providing for a medium-term fiscal framework. It envisaged fiscal targets for the state government to be achieved in the given time frame (Maurya, 2014).

As one of the measures for compliance, the Act also stipulates that wherever there is a prospect of either shortfall in revenue or excess of expenditure over pre-specified levels for a given year due to such new policy decisions of the State Government that affect either the State Government or its Public Sector Undertakings, then the State Government shall take steps to fully offset the fiscal impact for the current and future years before taking any policy decisions of this nature. For this, the act directs the State Government to curtail the sums authorized to be paid and applied from and out of the Consolidated Fund of the State under any Act to provide for the appropriation of such sums. This counterbalancing can also be done using interim measures for revenue augmentation or by adopting a combination of both these measures. However, the Act mandates that the State Government must give priority to protecting the “High Priority Development Expenditure” as defined in the Medium-Term Fiscal Restructuring Policy from such curtailment. Alternatively, a reduction or a partial curtailment can be done.

#### 5.2 Projections Made under MFRP

Following is a comparison of projections made under the Fiscal Policy of state government in the recent years with the respective achieved levels. Table 5.1 shows the percentage share in GSDP for different fiscal indicators drawing a comparison between the targets and actuals of year 2022-23 and table 5.2 shows the same for the years 2023-24.

**Table 5.1: Fiscal Targets for the Year 2022-23 (As percent of GSDP)**

Resources	Target	Actual	Expenditure	Target	Actual
Own tax revenue	9.04	7.71	Salary	6.34	5.29
Non tax revenue	0.60	0.60	Pension	2.91	2.60
Share in central taxes	8.29	7.52	Interest	2.23	1.91
Grants in aid from the centre	5.45	2.65	Capital outlay	6.18	4.12

Source: Authors' calculations based on data from RBI and Uttar Pradesh Budget Documents (2024-25)

**Table 5.2: Fiscal Targets for the Year 2023-24 (As percent of GSDP)**

Resources	Target	Actual	Expenditure	Target	Actual
Own tax revenue	9.01	7.58	Salary	5.40	4.98
Non tax revenue	0.50	0.56	Pension	3.00	2.45
Share in central taxes	8.39	7.95	Interest	2.09	1.86
Grants in aid from the centre	4.34	2.19	Capital outlay	6.19	4.34

Source: Authors' calculations based on data from RBI and Uttar Pradesh Budget Documents (2025-26)

**Table 5.3: Difference between FRBM Targets and Actual Performance (As Percent of GSDP)**

Year	Revenue Deficit/GSDP		Fiscal Deficit/GSDP		Outstanding Debt/GSDP		Own Tax Revenue/GSDP		Nominal GSDP Growth Rate	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2005-06	1.7	0.43	4	3.44	48.9	41.6	7.1	6.09	12	12.4
2006-07	1.1	-1.46	3.6	2.86	48.5	38.8	7.3	6.47	12	14.7
2007-08	0.6	-0.9	3.2	3.6	47.7	36.4	7.6	6.17	12	13.9
2008-09	0	-0.42	3	4.62	46.6	33.4	7.9	6.1	12	16.1
2009-10	-0.4	-1.35	5.3	3.57	40	31.7	7.6	6.13	13	17.7
2010-11	-0.1	-0.58	4.4	2.87	38.7	31.0	8.3	6.52	13	14.7
2011-12	-0.88	-1.02	2.97	2.25	32.09	28.9	7.9	7.27	13	14.2
2012-13	-0.81	-0.63	2.96	2.34	31.37	27.4	8.5	7.06	11.5	13.6
2013-14	-0.85	-1.07	2.93	2.52	31.06	25.7	8.9	7.08	11.5	14.3
2014-15	-0.86	-2.21	2.93	3.21	30.79	26.4	9.2	7.33	11.5	7.6
2015-16	-0.88	-1.26	2.92	5.14	30.54	28.5	9.6	7.13	11.5	12.5
2016-17	2.0	-1.57	3.22	4.34	30.00	28.9	7.2	6.67	11	13.3
2017-18	1.3	-0.87	2.98	1.93	29.5	28.4	6.9	7.61	11	11.7
2018-19	3.2	-1.79	2.97	2.22	29.97	28.1	9.1	7.76	11	9.9
2019-20	1.6	-3.97	2.98	-0.65	28.18	29.4	7.9	7.22	11	7.5
2020-21	-0.7	0.14	4.17	3.33	29.2	34.3	6.4	7.31	11	-3.5
2021-22	1.3	-1.69	4.27	1.95	34.9	31.5	9.2	7.44	11.2	20.8
2022-23	2.6	-1.63	3.97	2.83	34.2	29.7	9	7.62	12	15.3
2023-24	-2.9	-2.76	3.24	3.24	31.7	30.5	9.01	8.36	12	11.5

Source: RBI and Uttar Pradesh Budget Documents (various years).

As visible from the tables, the actuals have fallen below the targets for most of the indicators whether on the receipt side or the expenditure except for Own non tax revenue, which is at par with the target for the year 2022-23 and has exceeded the target in the year 2023-24. A decrease

in the salary head of revenue expenditure is noticeable. According to the official Budget documents of Uttar Pradesh, the actual expenditure on Capital outlay has been consistently lower than the original projections. This pattern is observed in all three services i.e. General, Social and Economic under Capital outlay. Looking at the previous trends (as given in the previous chapters), these targets are a bit ambitious. Table 5.3 provides a comparison of targets and actual performance of different fiscal indicators from 2005-06 to 2023-24.

### *5.2.1 Revenue deficit*

One of the prominent aspects of the revenue deficit of UP government has been its consistent revenue surplus over the last fifteen years. In fact, during most of the financial years it has performed even better than the projections. This can be seen as a regulatory effect as according to the FRBM act of the state, it should reduce revenue deficit to zero and make efforts to earn revenue surplus which it has been able to ensure.

### *5.2.2 Fiscal Deficit*

While Fiscal deficit evidently appears to have been tackled well and targets met successfully by the state over the years, a certain lack of consistency cannot be denied. In the years 2007-08, 2008-09 and 2009-10, the government was not able to meet the targets, and similar situation is seen between 2014-15 to 2016-17. The higher level of fiscal deficit is attributed to higher revenue expenditure and increase in allocation to Economic Services mainly due to meeting the liability of the UDAY scheme. However, the scenario has changed from 2017-18 onwards as the fiscal deficit was brought down and maintained below the 3 percent mandate of the FRBM Act in the recent years, except during the year 2020-21 where it crossed the 3 percent threshold due to economic disruptions from the pandemic.

### *5.2.2 Outstanding Debt*

The state has been consistently doing well in terms of outstanding debt. From 2011-12, it has been below 30 percent of state's GSDP, also resulting in decreased target levels for the years following. However, from 2015-16 it has been on an increase, albeit below the respective targets for each year. This trend, however, is broken in 2019-20 and 2020-21 with the onset of pandemic and inability to meet the targets can be seen. Perhaps owing to the pandemic, the outstanding debt targets had to be increased in 2021-22 after being relatively lower for about a decade. The positive side is that these targets were achieved. In the year 2022-23 the outstanding debt again came down to 29.7 percent of GSDP but increased slightly in 2023-24

to 30.5 percent. It is good that the state is restoring the pre-pandemic levels yet consistency has to be maintained and focus should be on reducing overall debt burden.

### *5.2.3 Own Tax revenue*

It is reflected from the table that the state has been continuously unable to meet the targets in case of own tax revenue. In fact, the difference between the target and the actual, increased for a few years. Only in the years 2017-18 and 2020-21, we get to see a higher own tax revenue than targeted by the government. Anyhow, except for these, there seems to be a failure in achieving the targets for respective years.

Overall, the consistency of the state in achieving debt and deficit targets for such a long period deserves applause but the own tax revenue failure cannot be ignored. On one hand, the government has certainly met the FRBM targets but on the other hand there is an evident shortage of revenue as compared to the desired targets. This raises concern about the mechanism being followed for implementation of FRBM as there seems to be an emphasis on expenditure side but on revenue side, more efforts might be required. A strategy for revenue augmentation is an important element of a fiscal policy and it cannot be compensated through cost cutting policies. Fiscal discipline through expenditure reduction can be one sided strategy only and it may not be sustainable especially for the state like Uttar Pradesh. State government must try to attain fiscal discipline through revenue augmentation also.

### **5.3 Analysis of MFRP of Various Departments and Aggregates**

A format of medium-term fiscal reform policy (MFRP) was ascertained under Uttar Pradesh Fiscal Responsibility and Budget Management Rules, 2006. Thereafter, MFRPs are prepared as per this format along with the presumptions made for making medium-term targets. Under MFRP, determination of five-year rolling targets of fiscal indicators with the details of significant receipts and expenditures while pointing out the underlying assumptions is done.

As per the provisions of the Act and Rules, the MFRP (2024) of Uttar Pradesh has been prepared. Under this policy, Budget estimates and Revised estimates of 2023-24, Budget estimates of 2024-25 and forecasts of following three years i.e. 2025-26, 2026-27 and 2027-28 have been presented.

Following assumptions were taken for the financial years 2025-26, 2026-27 and 2027-28: -

1. Gross State Domestic product: Taking the base year of 2011-12, advance estimates are prepared on the basis of new series of GSDP.
2. Base Year: Forecasts for various items of Receipt and Expenditure have been made by taking the financial year 2024-25 (Budget estimates) as the base year.
3. A growth rate of 13 percent per annum has been estimated normally for GST and VAT for the MFRP period.
4. Non-tax revenues are assumed to grow at 6 percent per annum from the year 2025-26.
5. Based on the Budget estimates of 2024-25, assuming the growth of 13 percent per annum in 2025-26, state's share in central taxes has been calculated for the upcoming years.
6. Grants-in-aid from the central government are assumed to grow at the rate of 10 percent per annum.
7. Revenue Expenditure: Based on the Budget estimates of 2024-25, assuming a growth of 10 percent per annum for the year 2025-26 and after that 11 and 12 percent respectively expenditure has been calculated for the upcoming years.
8. Salary expenditure on state employees and state government aided institutions' employees are assumed to grow at the rate of 10 percent per annum.
9. Pensions are assumed to grow by 10 percent per annum.
10. Estimation of expenditure on Interest on Public debt/Debt fund has been done assuming a 9 percent per annum average interest rate approximately.
11. Capital expenditure for the upcoming years has been calculated based on the Budget estimates of 2024-25 assuming normal growth rate of 16 percent.
12. Loans and Advances: A normal growth rate of 10 percent annum has been assumed for both items of recovery and debts and advances approved by the state government for the year 2024-25.
13. Redemption of Loans: Estimates of loan redemption have been determined on the basis of actual redemption obligation.
14. Indebtedness: Estimates of the conferred amounts for the year 2023-24 (Revised estimates) and 2024-25 (Budget estimates) under the 'special assistance to states for capital investment' scheme of Central government are included in the total indebtedness of the state. The estimates of next years have been taken assuming that this scheme will be continuing in the upcoming years.

The target of ending Revenue deficit has been achieved in the year 2006-07 itself and the state has continuously enjoyed the position of Revenue surplus since then. However, due to the unusual financial conditions caused by the Covid-19 pandemic, revenue loss was seen in the year 2020-21.

#### **5.4 Fiscal Policy Description of the Departments**

Sales tax department, Excise department, Transport department, Registry department, and Geology and minerals department are the main sources of revenue in the state of Uttar Pradesh. Department-wise steps taken with the perspective of increasing resources of various departments are as follows:

##### *State Taxes*

- The department of state taxes is the main department of revenue collection. The department receives payable revenue under the VAT and GST acts. GST and VAT contribute approximately 56 percent share of total tax revenue of the state.
- Uttar Pradesh Government has adopted the GST act from 1<sup>st</sup> July, 2017 under which GST revenue on the supply of goods and services is collected.
- For brick kiln constructors/manufacturers/owners Special Rate Scheme has been implemented which contributed revenue worth Rs 120 crore in 2022-23.
- For taxpayers with an annual turnover exceeding Rs. 5 crores, a facility of e-invoice has been implemented from 1<sup>st</sup> August, 2023 which shall benefit the traders.
- Facility of issuing AI based scrutiny notice has been arranged/provided.

##### *Transport Department*

- Revenue is being increased by recovering arrears by conducting special checking campaigns regularly against the registered vehicles.
- Compounding fee is also being collected through enforcement procedure by conducting special checking campaigns against unregistered operation of passenger vehicles and overloading of goods vehicles.

##### *Stamp and Registry Department*

- Revision of the valuation list was conducted after five years in majority of the districts.

##### *Excise Department*

- Excise Policy of the year 2023-24 was finalised.

- Processing fee of country made liquor, renewal fee of retailers and MGQ etc. have been increased.
- Processing fee of model shops and renewal fee of retailers have been increased.
- Processing fee of beer and renewal fee of retailers have been increased.

#### *Geology and Minerals Department*

- Mineral mapping of new mining areas rich in the sub-minerals sand/morang (moram) found on the river bed is being carried out based on the satellite images of significant/crucial districts.
- For effective control on illegal mining and transportation, an integrated mining supervision system (IMSS) has been developed using information and technology, on the 'Mine and Mitra' portal of the department.
- An increase of Rs. 50 per cubic meter has been done in the exchange fee imposed on vehicles bringing sub-minerals into the state.

### **5.5 Fiscal Sustainability of the State**

Assessment of the sustainability of fiscal condition is done on the basis of certain indicators in the form of percentage of Gross State Domestic Product

- Own tax revenue of the state is assumed to come to 9 percent in the revised estimates from the level of 10.8 percent of the estimated GSDP of the 2023-24 budget. This is assumed to increase to 10.8 percent in 2024-25.
- The state is assumed to enjoy its revenue surplus state from 2024-25 to 2027-28 continuously.
- Non-tax revenue of the state in the revised estimates of 2023-24 is 0.5 percent of the GSDP which is assumed to increase to 1.0 percent in 2024-25.
- In the Budget estimates of 2023-24, ratio of fiscal deficit to GSDP was assumed to be 3.48 which is estimated to be 3.49 percent in the revised estimates. In the Budget estimates of 2024-25, fiscal deficit is estimated to be 3.46 percent of GSDP. In the period of 2024-25 and 2025-26 it is assumed to stay within the ratio fixed under the FRBM act. No limit has been determined in the FRBM act yet for the duration of 2026-27.
- Capital outlay/Fiscal deficit ratio shows the share of net debt receipts of the government that can be used in investment and creation of assets. When this indicator is more than

100 percent, it reflects that not only the net debt of the government is being completely used on the capital outlay but also a large share of the capital outlay is being financed through revenue surplus. This ratio is assumed to be 178.8 percent in the budget of 2024-25 and a continuous growth is expected in it in the forthcoming years.

- Aggregate expenditure on salaries, pension and interest is estimated to be 52.9 percent of the revenue receipts and 60.3 percent of the revenue expenditure. This ratio is estimated to decrease to 49.5 percent and 58.4 percent by 2027-28.
- Expenditure on debt service is estimated to be 13.8 percent of the revenue receipts which is assumed to decrease to 12.2 percent by 2027-28.

Thus, a continuity in the sustainability and strengthening of fiscal condition is reflected from all the indicators. It also reflects that positive improvements are being made in the quality of public expenditure.

### **5.6 Indebtedness/ Debt Burden on the State Government**

In the budget estimates of 2023-24, debt burden of the state was calculated Rs. 7,84,113.65 crore which has a corresponding revised estimate of Rs. 7,47,545.73 crore. It was assumed to increase to Rs. 816926.02 crore in 2024-25 which would be 33.5 percent of the GSDP. As per the UP-Budget Documents 2025-26, the actual figure for outstanding debt has been stated as Rs. 7,76,783.30 crores, forming approximately 30.5 percent of GSDP. The revised estimate for 2024-25 has been stated as Rs. 8,46,095 crores, which is approximately 30.8 percent of GSDP.

### **5.7 Conclusion**

There is no doubt in the compliance of the provisions of FRBM act and MFRP framework by UP government when it comes to the deficits. However, the revenue situation of the state calls for some multi-dimensional reforms. This primarily includes augmenting tax revenues i.e. both tax and non-tax, reprioritization of expenditure and bringing debt within sustainable levels with a consistency. Handling pension and salary liabilities as well as reducing interest payments are the other measures that need to be taken up. Reducing number of jobs and vacancies is definitely not a viable solution for cutting down salary expenses given the ongoing job crises situation in the country. The covid pandemic is gone although its after effects are obviously reflected in the data. While the state has done well in terms of fiscal-recovery from the phase this alone is not sufficient for long term sustainable results.

## Chapter VI

### Analysis of the State's Transfers to Urban and Rural Local Bodies in the State

#### 6.1 Introduction

The 73<sup>rd</sup> and the 74<sup>th</sup> amendment, 1992 have been a historical step in terms of widening the scope of democratic decentralisation in India. Panchayati Raj Institution (PRI) was constitutionalized through the 73<sup>rd</sup> Constitutional Amendment Act, 1992 and Urban Local Bodies (ULB) through the 74<sup>th</sup> Constitutional Amendment Act, 1992. These amendments aimed at strengthening the urban and rural local governments in performing their civic and developmental functions. The 73<sup>rd</sup> and 74<sup>th</sup> amendments constitutionally mandate the states to devolve powers, functions, and responsibilities to these local bodies. They also provide for a revenue sharing arrangement between the ULBs and PRIs out of the own tax revenue of respective state governments.

According to Article 243I of the Indian Constitution, at the earliest during the first year of the commencement of the Constitution (seventy third amendment) Act, 1992, and thereafter at the end of every fifth year the Governor of a state shall constitute a State Finance Commission (SFC) to review the financial position of the Panchayats and to make recommendations to the Governor regarding the principles which would govern the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State; determination of the taxes, duties, tolls and fees which may be assigned as, or appropriated by, the Panchayats; and grants-in-aid to the Panchayats from the Consolidated Fund of the State.

Besides this, the commission shall also recommend the steps required for improving the financial position of the Panchayats. Further, Article 243Y of the Constitution provides that the Finance Commission constituted under Article 243I shall also make such recommendations for the municipalities. The following table 6.1 shows recent status of PRIs and ULBs in Uttar Pradesh.

**Table 6.1: Category-wise PRIs and ULBs in the State**

Panchayati Raj Institutions		Urban Local Bodies	
Gram Panchayats	57,691	Nagar Panchayats	546
Kshetra Panchayats	826	Nagar Palika Parishad	200
Zila Panchayats	75	Nagar Nigam	17

Source: Panchayati Raj Department, Directorate of Local Bodies, November 2024.

## 6.2 Devolution scheme of State Finance Commissions (SFCs)

The Uttar Pradesh Government constituted Fourth and Fifth SFCs in December 2011 and October 2015 respectively. Reports of these SFCs were submitted to the Governor in December 2014 and October 2018 and their recommendations were implemented in April 2015 and April 2020 respectively. The recommendations based on the principle of allocation/distribution as given by fifth SFC were proposed to be implemented from 1<sup>st</sup> April, 2019 (award period). According to the accepted recommendations of fourth SFC, State Government was to devolve 12.5 per cent of the net proceeds of Own Tax Revenue of the State and share it between ULBs and PRIs in the ratio of 60:40. This ratio was 55:45 as per the recommendations of the Fifth SFC. The devolution scheme of last five SFCs of Uttar Pradesh is given in table 6.2.

**Table 6.2: The Share of Local Bodies in Own Tax Revenue of the State Government as Recommended by the State Finance Commission in UP (%)**

Type of Local Body	First SFC	Second SFC	Third SFC	Fourth SFC	Fifth SFC*
<b>A. Panchayati Raj Institutions</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>6.75</b>
Gram Panchayats	2.8	3.5	3.5	2.5	4.725
Kshetra Panchayats	0.4	0.5	0.5	0.5	1.012
Zila Panchayats	0.8	1	1	2	1.012
<b>B. Urban Local Bodies</b>	<b>7</b>	<b>7.5</b>	<b>7.5</b>	<b>7.5</b>	<b>8.25</b>
Nagar Nigam	3.125	3.2	3	3	3.3
Nagar Palika Parishad	3.125	3.2	3	3	3.3
Nagar Panchayat	0.75	1.1	1.5	1.5	1.65
<b>Total Devolution</b>	<b>11</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>15</b>

Note: \*In case of within-PRIs devolution, the ratio accepted by GoUP (70:15:15) is different from original SFC Recommendations (65:10:25); Source: Report of the Fifth State Finance Commission, UP.

The devolution of shareable resources to local bodies under the first SFC was 11 percent of the net tax proceeds of state, although their original recommendation was 10 percent. The share of PRIs and ULBs was 4 and 7 percent respectively under the first commission. However, the total amount of devolution increased to 12.5 percent under second, third and fourth SFCs. The original recommendation of the last two of these SFCs was to make it 15 percent though. It's the allocation of devolved funds within ULBs and PRIs has seen some changes. In case of PRIs, the share of Gram Panchayats increased from 2.8 to 3.5 but under the fourth SFC award period it again came down to 2.5 percent. The share of Kshetra Panchayats has remained almost constant and in fourth SFC award it was 0.5 percent. Zila Panchayats have been receiving an increasing share over the years and from being at 0.8 percent in the First SFC it became 2 in the fourth SFC award period. On the other hand, shares of Nagar Nigam and Nagar Palika

Parishad have been equal under all SFCs and from being 3.125 percent in the first SFC award period it came down to 3 percent in the fourth SFC award period. The share of Nagar Panchayats which was 0.75 percent in the first SFC award period doubled to 1.5 percent under the fourth SFC.

Considering the gap between needs of and availability (of resources) for local bodies, the Fifth SFC has recommended a transfer of 15 percent out of the divisible pool of own tax revenue to rural and urban local bodies. This has to be further divided into PRIs and ULBs as 6.75 percent and 8.25 percent respectively. Within PRIs, the commission has recommended a 4.38 percent devolution for Gram panchayats and that of 0.68 and 1.68 percent to Kshetra Panchayats and Zila Panchayats respectively. However, as per the Government order (2020) of the state, the accepted ratio for devolution of funds among PRIs is different and hence the share for Zila and Kshetra Panchayats is 1.01 percent each whereas for Gram Panchayats it is 4.73 percent. Within ULBs, a share of 3.3, 3.3 and 1.65 percent has been recommended for Nagar Nigams, Nagar Palika Parishads and Nagar Panchayats respectively.

**Table 6.3: Devolution of funds to PRIs and ULBs during 2018-23 (in Rs. Crore)**

	Fourth SFC devolution			Fifth SFC devolution	
	2018-19	2019-20	2020-21 <sup>#</sup>	2021-22	2022-23
ULBs	7312.5	8700.0	8525.0	9900.0	10800.0
PRIs	4875.0	5800.0	5683.4	6600.0	7200.0
Total	12187.5	14500.0	14208.4	16500.0	18000.0

Note: <sup>#</sup> Data in table 6.3 are taken from the CAG State Finance Audit Report (SAFR-Report No. 4), 2024. From the government orders available on the websites of PRIS and ULBs, it can be figured that due to covid-2020 pandemic, there were some delays and breaks in the payments of allocations. As otherwise, the award period of Fourth SFC officially ended in the year 2019-20 according to the SFC reports.

Source: Urban Local Bodies Directorate and Panchayati Raj Directorate.

As also highlighted by the Fifth SFC report, it is noticeable that considering the percentage transfers out of state tax revenue, to the local bodies, a year-by-year increase is obviously there in the devolved funds but the matter of concern is that the share being given to local bodies from the recommendations of last three state finance commissions has been constant (12.5 percent) from 2001-02. This has been a trend despite the SFCs recommending a higher percentage every time. The increasing population of local bodies and a higher demand for public facilities and services has put a burden on the resources of these bodies (Fifth SFC Report, 2018). The fifth commission has thus recommended and emphasised that transferring 15 percent of the state net tax proceeds to local bodies will not have any negative effect on the provisions of Fiscal Responsibility and Budget Management Act (FRBM), 2016. The report

also mentions that these recommendations have been made after taking into account the services being provided by different levels of local bodies, their population, functionality and liabilities. The devolution of grants to ULBs and PRIs by fourth and fifth SFCs during 2018-19 to 2022-23 is provided in Table 6.3.

### 6.3 Own Tax and non-tax revenue of PRIs and ULBs

Table 6.4 shows own tax and own non-tax revenue received by both PRIs and ULBs over the years. It can be observed that the main source of revenue for PRIs is own non-tax while in case of ULBs it is the reverse as the share of own tax revenue is considerably higher than non-own tax revenue. In the case of ULBs, total own revenues constituted about 15.49 percent of the total revenues in 2015-16, which increased to 18.04 percent in 2018-19 but fell to 14.47 percent again in 2019-20. On the other hand, total own revenues of PRIs have a very low share in their total revenue.

It has been mentioned by the Fifth SFC that Kshetra Panchayats did not get any revenue from own sources in the duration between 2011-12 to 2015-16 and 2016-17 to 2017-18. Hence, even within PRIs, it is mainly the Gram and Zila panchayats earning from own sources.

**Table 6.4: Own Tax and non-tax revenue of PRIs and ULBs (in Rs. Crore)**

Years	PRIs		ULBs	
	Own Tax Revenue	Own Non-tax Revenue	Own Tax Revenue	Own Non-tax Revenue
2007-08	14.62	85.20	458.85	75.45
2008-09	15.02	85.75	457.96	140.95
2009-10	15.90	96.28	540.11	85.04
2010-11	15.75	124.60	565.91	84.87
2011-12	15.58	137.65	751.03	105.45
2012-13	17.94	170.21	859.26	-
2013-14	19.57	172.21	-	-
2014-15	21.35	194.90	-	-
2015-16	17.48	210.43	857.04	612.55
2016-17	-	-	921.39	751.07
2017-18	-	-	975.07	1047.11
2018-19	-	-	1313.80	871.93
2019-20	-	-	1150.58	730.30

Source: 5<sup>th</sup> State Finance Commission Report, CAG SAFR Report 2024.

#### 6.4 Allocation of funds to the ULBs and PRIs

Table 6.5<sup>1</sup> presents the funds allocated to Local bodies based on SFC recommendations from 2006-07 onwards. There is an apparent increase with time in the amounts allocated from 2006-07 to 2010-11, although the combined growth rate for the period for ULBs (22.05) is greater than for PRIs (11.62). Maximum growth is seen in the allocations made to Nagar Panchayats over the years (32.64). In 2010-11 Gram Panchayats received an allocation of Rs. 1276.8 crores which is the highest among all local bodies for this phase. The total allocation for all Local bodies increased from Rs. 2328.76 crores to Rs. 4383.51 crore.

In the period ranging from 2011-12 to 2018-19 (officially the fourth SFC award period) again an increase is witnessed, in some cases the allocation doubled over the years. While the CAGR for total allocation on ULBs is 13.12 percent, for PRIs it is 14.76. In fact, highest growth rate was experienced by the Zila Panchayat allocations with a CAGR of 27.38 as the amount increased from Rs. 372 crores in 2011-12 to Rs. 2024.6 crore in 2018-19. Growth in the allocation of funds to Gram Panchayats was recorded to be lowest among all i.e. 8.97 percent, for the period. Reason possibly is it holding the highest share every year within the PRIs throughout. The total funds allocated to all local bodies went up to Rs. 12188 crores in 2018-19 from being Rs. 4944.89 crore in 2011-12 registering a CAGR of 13.75.

In the period between 2019-20 to 2022-23 (officially the fifth SFC award period) not much change could be measured given the short period. The CAGR is almost equal for all ULBs and their sum together while there is a declining trend for the Zila Panchayat allocations under PRIs, recording a negative CAGR of -22.62 percent. On the reverse, allocations to Kshetra and Gram Panchayats witnessed a considerable rise over the years registering CAGRs of 22.97 and 20.33 percent respectively. As a trend, the SFCs have been inclined towards devolving higher shares to Gram Panchayats in the recent decade.

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<sup>1</sup> Note: The amount for allocation/devolution to ULBs/PRIs presented in Table 6.5 and 6.6 may differ due to use of different sources to collect data and use of authors' calculations due to non-availability of data for one or more year(s).

**Table 6.5: Allocation of Funds to Local Bodies on the Recommendation of the State Finance Commission: 2006-07 to 2022-23 (in Rs. Crore)**

Year	Urban Local Bodies				Panchayati Raj Institutions				Total Local Bodies
	Nagar Nigam	Nagar Palika Parishad	Nagar Panchayat	Total ULB	Zila Panchayat	Kshetra Panchayat	Gram Panchayat	Total PRIs	
2006-07	454.39	535.05	164.12	1153.56	235	117.5	822.6	1175.2	2328.76
2007-08	927.52	867.05	303.05	2097.62	288.5	144.3	1009.8	1442.5	3540.12
2008-09	915.7	915.7	318.1	2149.5	256.3	128.2	897.2	1281.7	3431.2
2009-10	931.77	858.05	299.81	2090.27	252.4	126.2	883.5	1262.1	3352.37
2010-11	1033.88	1017.57	507.96	2559.51	364.8	182.4	1276.8	1824	4383.51
<b>CAGR (2006-07 to 2010-11)</b>	<b>22.82</b>	<b>17.43</b>	<b>32.64</b>	<b>22.05</b>	<b>11.62</b>	<b>11.62</b>	<b>11.62</b>	<b>11.62</b>	<b>17.13</b>
2011-12	1246.45	1227.82	610.62	3084.89	372.00	186.00	1302.00	1860.00	4944.89
2012-13	1485.66	1476.97	734.94	3697.57	446.40	223.20	1562.40	2232.00	5929.57
2013-14	2291.92	2291.91	1145.95	5729.78	650.00	325.00	2386.07	3361.07	9090.85
2014-15	2589.97	2589.97	1294.98	6474.92	770.00	385.00	1434.05	2589.05	9063.97
2015-16	2317.82	2317.82	1158.91	5794.55	1628.26	407.07	2035.33	4070.65	9865.20
2016-17	2434.18	2434.18	1217.09	6085.45	1710.00	427.50	2137.50	4275.00	10360.45
2017-18	2778.8	2778.8	1389.4	6946.9	1852.5	463.1	2315.6	4631.3	11578.1
2018-19	2925.2	2925.2	1462.6	7313.0	2024.6	475.5	2374.9	4875.0	12188.0
<b>CAGR (2011-12 to 2018-19)</b>	<b>12.96%</b>	<b>13.20%</b>	<b>13.29%</b>	<b>13.12%</b>	<b>27.38%</b>	<b>14.35%</b>	<b>8.97%</b>	<b>14.76%</b>	<b>13.75%</b>
2019-20*	3480.0	3480.0	1740.0	8700.0	2325.1	579.3	2895.7	5800.0	14500.0
2020-21*	3410.0	3410.0	1705.0	8525.0	2182.8	545.7	2728.5	5457.0	14208.0
2021-22*	3960.0	3960.0	1980.0	9900.0	987.6	987.6	4624.9	6600.0	16500.0
2022-23*	4320.0	4320.0	2160.0	10800.0	1077.3	1077.3	5045.3	7200.0	18000.0
<b>CAGR (2019-20 to 2022-23)</b>	<b>7.47%</b>	<b>7.47%</b>	<b>7.47%</b>	<b>7.47%</b>	<b>-22.62%</b>	<b>22.97%</b>	<b>20.33%</b>	<b>7.47%</b>	<b>7.47%</b>

Sources: Fifth SFC Report; Department of Panchayati Raj, UP Government; UP Government Budget Documents; \*Due to data non-availability for allocation within ULBs and some of the PRIs, data for these years has been calculated by authors on the basis of fifth SFC ratios.

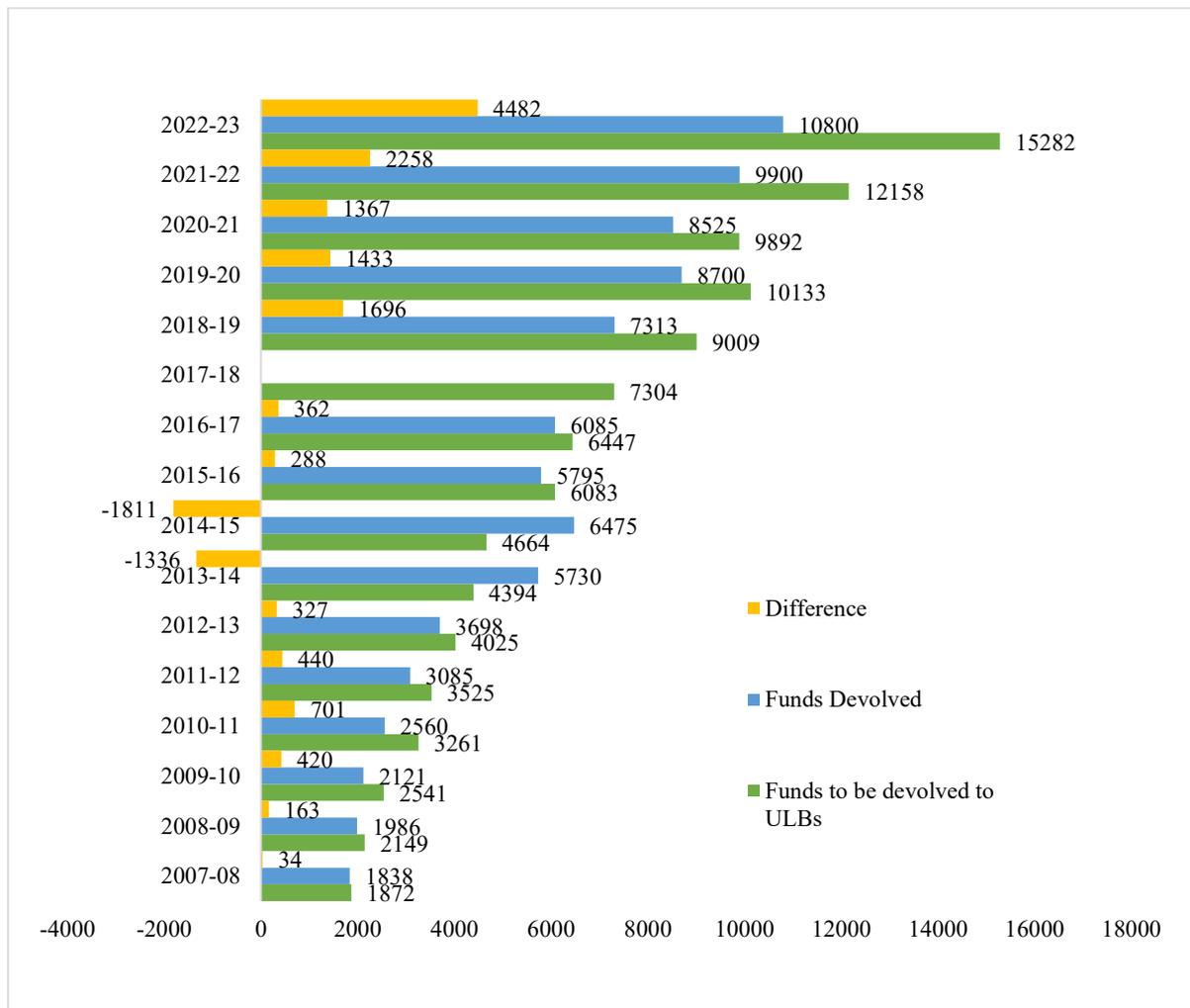
**Table 6.6: Devolution of Funds to Local Bodies on Recommendations of the State Finance Commission: 2007 to 2023 (in Rs. Crore)**

Years	Own Tax Revenue of state	Urban Local Bodies		Panchayati Raj Institutions		Funds to be devolved – Funds devolved		Total funds devolved to Local Bodies	Devolution as % of OTR of State Govt.
		Funds to be devolved	Funds Devolved	Funds to be devolved	Funds Devolved	ULBs	PRI		
2007-08	24959	1872	1838	1248	1441	34	-193	3279	13.14
2008-09	28659	2149	1986	1433	1282	163	151	3268	11.40
2009-10	33878	2541	2121	1694	1262	420	432	3383	9.99
2010-11	41110	3261	2560	2261	1788	701	473	4348	10.58
2011-12	52613	3525	3085	2893	1860	440	1033	4945	9.40
2012-13	58098	4025	3698	3195	2232	327	963	5930	10.21
2013-14	66582	4394	5730	3662	3250	-1336	412	8980	13.49
2014-15	74172	4664	6475	4079	3850	-1811	229	10325	13.92
2015-16	81107	6083	5795	4055	4071	288	-16	9866	12.16
2016-17	85966	6447	6085	4298	4275	362	23	10360	12.05
2017-18	97393	7304	NA	4870	4631	NA	239	NA	NA
2018-19	120122	9009	7313	6006	4875	1696	1131	12188	10.15
2019-20	122826	10133	8700	8291	5800	1433	2491	14500	11.81
2020-21	119897	9892	8525	8093	5683	1367	2410	14208	11.85
2021-22	147367	12158	9900	9947	6600	2258	3347	16500	11.20
2022-23	185238	15282	10800	12503	7200	4482	5303	18000	9.72

Sources: Authors' calculations based on Fifth SFC Report; CAG report on ULBs 2024; UP Government Budget Documents.

Figures 6.1 and 6.2 show the funds devolved and to be devolved along with the gap in case of ULBs and PRIs respectively from 2007-08 to 2022-23. This can also be understood from the columns given in table 6.6. The gap between the funds to be devolved and actual devolution has been increasing with time. From a small amount of 34 crores the gap increased to a high 4,482 crores in 2022-23. It is only in the years 2013-14 and 2014-15 that the gap was negative which implies that the actual devolution was higher.

**Figure 6.1: Devolution of Funds to ULBs (in Rs. Crore)**

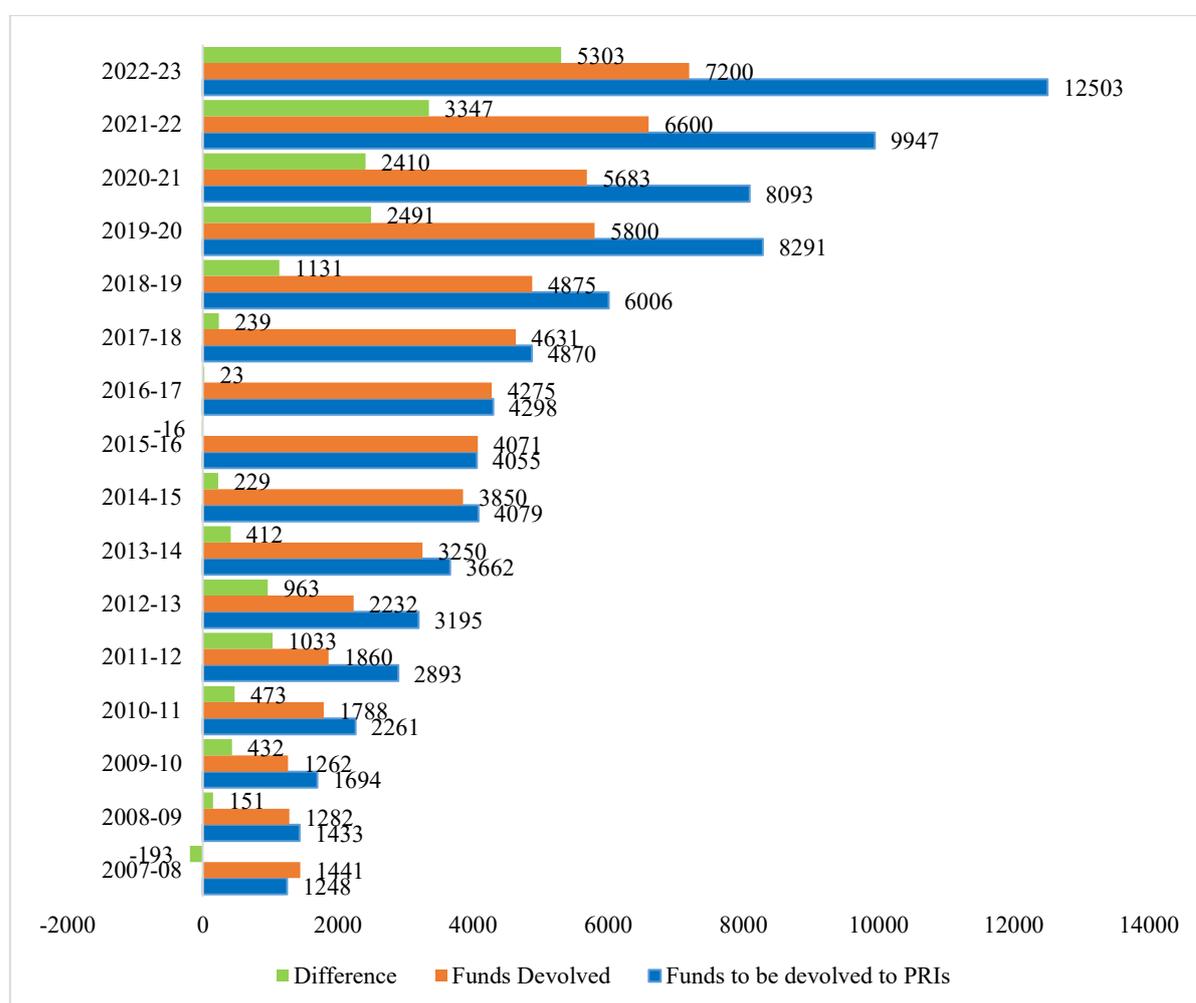


Source: Authors' Calculation

Similarly figure 6.2 shows the difference in devolution for the PRIs. In case of PRIs the gap was negative in the year 2007-08 but reached a significant high level of 5,303 crores in 2022-23. Interestingly, this gap was earlier following a mixed trend and even the degree of gap was mostly below thousand crores. But from 2018-19 onwards a widening gap which is quite huge than before has been recorded. Therefore, it indeed reflects the recommendation every SFC has been reiterating that the state government should accept the devolution scheme as given by the

state finance commissions. Instead, the government has been choosing to keep the transfer share lower than the original recommendations as a pattern. Table 6.6 also gives the total devolution to local bodies as the percentage of state's OTR. It is noticeable that in 2014-15 this share used to be 13.92 percent but in 2021-22 it came down to 11.20 and in 2022-23 it was even lower i.e. 9.72 percent. Thus, not only the annual difference in funds devolved and to be devolved has been growing but the share of total devolution in the own tax revenue of state government is falling gradually. A quite reverse of what is expected and proposed by the SFCs in their reports.

**Figure 6.2: Devolution of Funds to PRIs (in Rs. Crore)**



Source: Authors' Calculations

## 6.5 Decentralisation initiatives in the state

This section discusses the major decentralisation initiatives taken by UP government pertaining to devolution of powers and responsibilities to local bodies. The functions listed in the eleventh schedule of Constitution and their respective devolution status are given in the following table:

**Table 6.7: Status of devolution of functions and financial resources to the Panchayats**

S.No.	Function (as per XI <sup>th</sup> Schedule of the Constitution)	Undertaken by the Agriculture Department. No decentralisation to the Panchayats.	Financial allocation for the function	Remarks
1	Agriculture including agri extension	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	Functions and finances were devolved in April 1999 but were taken back in July 1999
2	Land development, land reclamation, consolidation of holding and land perseveration	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	Some functions and finances were devolved in 1999 but were take back later.
3	Small irrigation, water management and development of water segregated areas	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	
4	Animal Husbandry, Dairy and poultry farming	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	
5	Fisheries	Panchayats are engaged in only leasing out the ponds for fisheries. Remaining work is undertaking the concerned department.	Yes	Gram Panchayats earn from lease of ponds.
6	Social forestry and forestry	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	
7	Small forest produce	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	
8	Small industries including food processing industries	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	
9	Khadi, village and cottage industries	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	
10	Rural Housing	Gram Panchayats only select beneficiaries under Indira Awas and Dr. Ram Manohar Lohiya Awas schemes through an open meeting of rural houses.	No	Amount is directly transferred to the accounts of beneficiaries by the Rural Development Department. Construction and controlling are directly managed by Rural

				Development Department.
11	Drinking Water	Right of selection of locations for hand pump was given to the “water management committee” but it is not being implemented currently. Only repairing and minor repairing work of India Mark-2 Hand pump is looked after by the Gram Panchayats.	No	Gram Panchayat is receiving partial funds for maintenance of handpumps.
12	Fuel and Fodder	Gobar Gas and Bio gas plants are being operated in association with Rural Development Department and gas is being used by Gram Panchayat for lighting etc. In terms of fodder, nothing is undertaken by the Gram Panchayats.	No	Funds for gobar gas and bio gas plant are allocated by the Rural Development Department. Supply of fodder is made available by the Animal Husbandry Department.
13	Road, underpass, bridges, Ferries, waterways and other transportations	Kharanja road construction, construction of small bridges, underpass are undertaken by the Gram Panchayats. CC Road and KC drain are being constructed in association with Rural Engineering Services Department. However, ferries, waterways and communication works are not being performed by the Gram Panchayats.	Yes	Gram Panchayats get funds from Panchayati Raj Department and other sources for the construction of kharanja roads, bridges and underpasses etc. They construct these things by their own. However, they do not receive any funds for water ways and other communication means.
14	Rural electrification and distribution of electricity	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	
15	Non-conventional sources of energy	Undertaken by the respective Department. No decentralisation to the Panchayats.	No	Gram Panchayats only send proposal regarding street lightings. Works regarding non-conventional energy/alternative energy is performed by the concerned department.
16	Poverty elimination programmes	Gram Panchayats are managing MNREGA Scheme. Other Poverty elimination programmes are managed by the respective departments and their agencies.	Yes	Gram Panchayats are managing the MNREGA scheme for Poverty elimination programme. Financial assistance for this is

				provided by the Rural Development Department.
17	Education including primary and upper primary	Following the Right to Education Act and the Free and Compulsory Education Manual, 2009 under the same, all works are done by the School Management Committee (SMC).	No	Role of Gram Panchayats in the School Management Committee is limited to only sending a member.
18	Technical and professional education	No work of technical training and vocational education is being undertaken by Gram Panchayats. Rural artisan training program was supposed to take place in the Gram Panchayats but it did not.	No	
19	Adult and informal education	Gram Panchayats are not undertaking the adult and informal education related work.	No	
20	Libraries	There are no libraries in the gram panchayats. However, few magazines and newspapers are kept by some of them.	No	Gram Panchayats did not get any fund from the administration or from any department to setup libraries.
21	Cultural activities	Gram Panchayats are not undertaking any cultural activities of their own.	No	Cultural activities are organised by Yuvak Mangal Dal established by the Yuva Kalyan Department in Gram Panchayats.
22	Markets and Fares	Haat Bazaar and fairs are directly organised by Gram Panchayats.	Yes	Establishment of Haat Bazaar and promotion of cleanliness works are directly performed by the Panchayati Raj Department.
23	Health and Cleanliness which includes Hospitals, Primary Health Centres and Pharmacy	Gram Panchayats undertake the sweeping and sanitation work of PHCs with the help of Rs. 10,000 which they receive from the Health Department. However, construction of toilets and cleaning works under Nirmal Bharat Abhiyan are undertaken by the Panchayati Raj Department through Gram Panchayats. This work is not decentralized.	Yes	Every year each Gram Panchayat receives Rs. 10,000/- under the National Rural Health Mission (NRHM) for the sanitation work of Primary Health Centre. Under Nirmal Bharat Abhiyan, Panchayati Raj Department undertakes the work of construction of toilets directly.
24	Family welfare	These programmes are not being run by the Panchayats. Gram Pradhan only motivates villagers to adopt family welfare measures.	No	Family Welfare Programme is being managed by the Health Department itself.

				Gram Panchayat and Block level officers/staff only provide their support in it.
25	Woman and Child Development	Woman and child development programmes were under the Gram Panchayats but presently these are not devolved to the Panchayats.	No	Due to complaints in the distribution of Nutritional Food and other works, these rights given under decentralization were taken back in the year 2001.
26	Social Welfare which includes welfare of the specially-abled	Gram Panchayats only select the beneficiaries while pension approval and fund etc. is managed by the Viklang Welfare Department directly.	No	
27	Welfare of weaker sections especially SCs/STs	Distribution of scholarships to the children of weaker sections and SCs/STs from the Education Fund opened for the purpose in the Gram Panchayat is done by Shiksha samiti which comes under the Education Department.	Yes	Following the Right to Education Act and the Free and Compulsory Education Manual, 2009 under the same, this work is done by the School Management Committee (SMC).
28	Public Distribution System	Selection of ration shop keepers and beneficiaries for ration card are managed by Gram Panchayats through open meetings. They have an important role in this.	No	These shopkeepers manage the pickup and the Supply Department itself manages the supply of food.
29	Protection of community assets	Community assets are managed by Gram Panchayats themselves.	Yes	Gram Panchayats get funds from Panchayati Raj Department and other departments as well as from state finance and central finance commission to manage and maintain community assets which are transferred to or are available in the Gram Panchayat.

Source: 5<sup>th</sup> State Finance Commission Report, 2018, Uttar Pradesh

It can be observed from table 6.7 that most of the functions have not been devolved to the panchayats and even those devolved were done partially only. The resource devolution required to perform these functions is even more limited. These panchayats are mostly dependent on the recommendations of State and Central finance commission for receiving funds to accomplish their functional responsibilities. Along with the financial allocation based on the

recommendations of State finance commission and Central finance commission, some other funds too are being devolved to the Gram Panchayats. This assistance is made available to them under the following programmes: -

1. Poverty elimination programmes (Limited functions)
2. Operation and maintenance of rural water supply schemes (limited responsibility)
3. Operation and maintenance of rural Markets and Haats (Limited responsibilities)
4. Rural cleanliness programmes/Nirmal Bharat Abhiyaan (Limited responsibility)
5. Rural Libraries (Limited responsibility)
6. Youth Welfare Programmes (Limited responsibility)
7. Progress of different schemes of the Panchayati Raj Department and burial grounds;  
Implementation of construction of Panchayat Bhawan buildings
8. Maintenance of Lamp Posts of rural area (electric lamp posts)

It needs to be mentioned here that the 73rd and 74th amendments bestowed greater responsibilities and powers to the local bodies with an objective of positioning them as third tier of governance. However, as observed from the above table, not much of empowerment of PRIs seems to have been achieved in the state. Most of the functions have not been decentralised to the Gram panchayats. The decentralisation, as sought by the constitutional amendments aimed to ensure that new opportunities at local level allow the local bodies to effectively implement and monitor development programmes. This is not possible if the state government limits the functions of local bodies to nominal and no additional functional distribution is made to them. Moreover, even their financial resources have been partial only. Thus, the PRIs are functioning merely as government agencies and the government programmes are still planned and implemented through the line departments.

According to the state government order (GO, 2020), the PRIs are authorised to undertake the following works out of the devolved funds:

- i. Maintenance of administrative buildings
- ii. Street lights
- iii. Open defecation free state (ODF)
- iv. Payment of electricity bills of administrative buildings and public sites
- v. Construction and maintenance of the roads of panchayat
- vi. Developing and maintaining drinking water schemes
- vii. Solid and liquid waste management

- viii. Community toilets/public services
- ix. Boundaries of cremation grounds

It was also emphasised that the funds devolved under the state finance commission would be spent as a priority on development and upgradation in the infrastructure facilities of schools.

For effective local level planning at village, block, town and district levels, ESD-GIS project was launched in the state and has been in place from long. The objective behind this initiative was to set up GIS infrastructure and applications in the state to make collection and dissemination of information convenient at local level. The project was jointly initiated by Economics and Statistics Division (ESD) of Planning Department, Government of Uttar Pradesh, and NIC-UP State Unit (NIC-UPSU) with a funding of Rs. 5 crores (Yadav and Singh, 2011). The project had following broad objectives:

- Creation of GIS infrastructure
- Creation/upgradation of digital base maps
- Development of thematic planning atlases
- Satellite imagery-based application for integrated decentralised district planning
- Development of state GIS portal
- Development of multi-layered GIS system
- Human resource development

This is a cost-effective framework that helps the planners to gauge the effects of plans as well as monitor the utilisation of funds. Databases containing information on the availability of basic infrastructural facilities for each village of Uttar Pradesh is available since 1995 and is being updated annually through the SPIDER portal. These facilitate the delivery mechanism for information at local level and ultimately aid in planning, decision making and achieving equitable development.

## **6.6 Functional Devolution to the ULBs**

The XII<sup>th</sup> Schedule of Indian constitution outlines the powers, functions, and responsibilities of the ULBs. It enlists 18 functions to be particularly performed by these bodies. Out of these, 9 functions are being exclusively performed by ULBs in their own jurisdiction. Among these Roads and bridges are being undertaken in association with the respective government department and the remaining functions are independently performed by ULBs: -

- Roads and Bridges
- Water supply for domestic, industrial and commercial purposes.
- Public health, sanitation, and solid waste management.
- Provision of urban amenities and facilities such as parks, gardens and playgrounds.
- Burials and burial grounds, cremation and cremation grounds and electric crematoriums.
- Cattle pounds, prevention of cruelty to animals.
- Maintaining Vital statistics including registration of births and deaths.
- Public amenities including street lighting, parking lots, bus stops and public conveniences.
- Regulation of slaughter houses and tanneries.

The remaining nine functions are performed by government departments/ agencies:

1	Fire services	Fire Fighting Department
2	Urban forestry	Forest Department
3	Protection of environment and Promotion of ecological aspects	Environment Department
4	Safeguarding the interest of Weaker sections of society including the handicapped and mentally retarded	Urban Poverty Alleviation through SUDA and DUDA and Employment Department
5	Slum improvement and up-gradation	Urban Poverty Alleviation through SUDA and DUDA and Employment Department
6	Urban planning including town planning	Urban Development Authorities in 22 cities and by ULBs in Remaining towns.
7	Regulation of land use and Construction of buildings	Development Authorities in 22 cities, Regulated area Authorities in 95 towns and ULBs in remaining towns
8	Planning for economic and social Development	Various Government Departments
9	Promotion of culture, education and aesthetic aspects	Sanskriti Vibhag, Awas evam Shahari Niyojan Vibhag.

Again, in case of ULBs too, the functional devolution has been trimmed with curtailment of allotted functions and allowing limited financial autonomy. Many possible sources of own revenue were not optimised by the ULBs. Besides there was shortfall in release of assigned revenue to ULBs (Performance Audit Report on Implementation of 74th Constitutional Amendment Act, CAG 2024). Rather than governance bodies they have been made to being governed by the state government under its control and supervision

## 6.7 Conclusion

It is pertinent that the state government ensures prompt implementation of the recommendations given by state finance commissions. Every SFC including fifth SFC has expressed the concern that the state government must first get implemented all the accepted

recommendations of the previous commissions on top priority basis, by the concerned administrative departments. The deviations from SFC recommendations in such implementations should be avoided. In addition, the delays in constituting the SFCs may be done away with. For local bodies to have adequate financial resources so that functions can be performed, transfer of funds has to be done in a timely manner. Of late, transfers to ULBs appear to have become more regular and transparent which is a positive change. SFCs have also recommended that local bodies must be encouraged to enhance their own revenue collections. More constructive autonomy to urban bodies and Gram panchayats in taxation so as to effectively increase their own tax revenue should be ensured. A shortage of personnels when it comes to division of responsibilities for performing numerous functions at Gram panchayat level has been a consistent issue.

Data unavailability at the level of local bodies remains a continued concern. The 14<sup>th</sup> FC took it very seriously and commented that it is “inconceivable” how local bodies seek an ever-increasing share of public money and yet continue to keep themselves outside the ambit of responsibility and accountability for the public money transferred to them (Fourteenth Finance Commission Report). The FC recommended that the account books prepared by the local bodies should vividly capture their income from own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from FCs and grants for any agency functions assigned by the Union and State Governments. On the same note, successive SFCs too have expressed concern on the absence of financial data and its poor quality, wherever available.

**Appendix 6.1: Details of own revenue and expenditure of ULBs (in Rs. Crore)**

Year	Own tax revenue	Own non tax revenue	Total own revenue	Expenditure	Percentage of tax/non tax revenue to total own revenue		Percentage of own revenue to total expenditure	
					Tax	Non-tax	Tax	Non-tax
2015-16	857.04	612.55	1,469.59	9511.00	58.32	41.68	9.01	6.44
2016-17	921.39	751.07	1,672.46	9593.30	55.09	44.91	9.6	7.83
2017-18	975.07	1,047.11	2,022.18	10388.19	48.22	51.78	9.38	10.08
2018-19	1,313.80	871.93	2,185.73	11448.46	60.11	39.89	11.48	7.62
2019-20	1,150.58	730.30	1,880.88	11038.89	61.17	38.83	10.42	6.62
<b>Total</b>	<b>5,217.88</b>	<b>4,012.96</b>	<b>9,230.84</b>	<b>51,979.84</b>	<b>56.53</b>	<b>43.47</b>	<b>10.04</b>	<b>7.72</b>

Source: Karya Vivran of UD Department, CAG 2024

**Appendix 6.2: Income of ULBs (in Rs. Crore)**

	2011-12				2015-16			
	Nagar Nigam	Nagar Panchayat	Nagar Palika	Total	Nagar Nigam	Nagar Panchayat	Nagar Palika	Total
<b>Tax Revenue</b>	568.58	28.64	153.45	<b>750.68</b>	1012.14	45.66	208.18	<b>1265.99</b>
<b>Non-tax Revenue</b>	209.16	45.39	118.57	<b>373.14</b>	354.70	80.29	177.59	<b>612.59</b>
<b>SFC</b>	1030.36	556.73	1117.34	<b>2704.44</b>	2024.99	1150.50	2296.39	<b>5471.90</b>
<b>CFC</b>	67.96	37.36	87.99	<b>193.33</b>	418.57	203.04	409.74	<b>1031.36</b>
<b>Other Grants</b>	1102.55	57.72	81.07	<b>1241.35</b>	439.39	358.53	303.61	<b>1101.54</b>
<b>Total</b>	<b>2978.64</b>	<b>725.86</b>	<b>1558.45</b>	<b>5262.96</b>	<b>4249.82</b>	<b>1838.06</b>	<b>3395.52</b>	<b>9483.41</b>

Source: State Finance Commission report (UP), 2018. Department of Panchayati Raj, UP

**Appendix 6.3: Income of PRIs (in Rs. Crore)**

	2011-12				2015-16			
	ZP	KP	GP	Total	ZP	KP	GP	Total
<b>Tax Revenue</b>	13.81	0.00	2.19	<b>16.00</b>	16.71	0.00	0.77	<b>17.48</b>
<b>Non-tax Revenue</b>	113.27	0.00	0.00	<b>113.27</b>	210.43	0.00	0.00	<b>210.43</b>
<b>SFC</b>	372.00	186.00	1302.00	<b>1860.00</b>	1628.26	407.07	2035.33	<b>4070.65</b>
<b>CFC</b>	269.72	133.71	936.90	<b>1340.33</b>	97.10	48.55	2272.80	<b>2418.45</b>
<b>Other Grants</b>	111.38	0.00	0.00	<b>111.38</b>	25.45	0.00	0.00	<b>25.45</b>
<b>Total</b>	<b>880.17</b>	<b>319.71</b>	<b>2241.10</b>	<b>3440.97</b>	<b>1977.96</b>	<b>455.62</b>	<b>4308.89</b>	<b>6742.46</b>

Source: State Finance Commission report (UP), 2018. Department of Panchayati Raj, UP

## **Chapter VII**

### **Impact of State Public Enterprises Finances on the State's Financial Health**

#### **7.1 Introduction**

The state-owned enterprises are entities that not only function to enhance public welfare but also act as a crucial instrument for the government in implementing its initiatives targeted towards poverty alleviation, sustainable development and fostering economic stability in the state. These entities are owned and controlled by the state and operate in crucial sectors such as energy, transportation, agriculture, and other public services. While the major aim is to provide services at affordable costs while keeping the expenditures at sustainable levels and generating adequate revenue, it is well established and accepted that governments use these entities to pursue their social and political objectives as well. The issue, however, is that the majority of these enterprises fail to function well on efficiency parameters due to various shortcomings such as high operational costs, inadequate revenue, managerial and structural inefficiencies etc. Moreover, when these enterprises serve as tool for the government to pursue its political objectives, or when the agents (administrators) of these enterprises lack the incentive to maximise resource utilisation towards social welfare, the result is economic distortion and inefficiency in these enterprises (World Bank, 2020).

The result of these financial shortcomings of the enterprises is fiscal stress on the state government and diversion of resources from developmental and essential activities to financial grants and bailouts. Moreover, the financial instability of these enterprises may further enhance contingent liabilities of the state which further exaggerates the allocative management required in budgets. Thus, the financial health of state-owned enterprises has important implications for government's finances and its assessment is important to have useful insights into its possible impact on state's economy. In this light, this chapter focuses on assessment of key financial aspects of SPEs in Uttar Pradesh through analysis of records of various financial and operational parameters available. Furthermore, an attempt has been made to provide useful inferences and policy suggestions based on the outcomes of the analysis as well.

#### **7.2 Data & Methodology**

The data on various aspects of state public enterprises has been taken from two major sources- State Finances Audit Reports, CAG and the Bureau of Public Enterprises, Uttar Pradesh. The data from CAG reports has been collected for various years based on the availability. Despite

our best efforts, the Bureau of Public Enterprises was able to provide financial statements of forty state enterprises for the fiscal years 2012-13 to 2019-20 only due to unavailability of compiled and audited statements for the following years. To examine the financial health of the companies, four types of financial ratios have been used- Liquidity Ratios, Profitability Ratios, Leverage Ratios, and Asset Management Ratios. The Current and Quick Ratios have been derived to assess liquidity position and the ratios of Gross Profit/Loss to Total Income, Gross Profit/Loss to Capital Employed, and Net Profit/Loss to Net Worth have been used to examine the profitability of the enterprises. Similarly, Debt-Equity Ratio, and State Government Funds to Total Funds Ratio have been calculated to assess the capital structure of enterprises whereas the ratios of Value Added to Capital Employed and Valued Added to Employee have been used to examine the quality of asset management. Table 7.1 ahead lists the calculation details of mentioned ratios.

**Table 7.1: Financial Ratios**

<b>Liquidity Ratios</b>	<b>Profitability Ratios</b>	<b>Leverage Ratios</b>	<b>Asset Management Ratios</b>
Current Ratio = $(CA+L\&A)/C\ L\&P$	Gross P/L to Total Income = $G\ P\&L/TY$	D/E Ratio = $LT\ Debt/SF$	VA to CE Ratio = $VA/CE$
Quick Ratio = $(CA+L\&A-I)/(C\ L\&P-BO)$	Return on Capital Employed = $G\ P\&L/CE$	SGF to TF Ratio = $SGF/TF$	Labour Productivity or VA to E Ratio = $VA/E$
-	Net Worth Ratio = $N\ P\&L/NW$	-	-

Note: CA - Current Assets; L&A -Loans and Advances; C L&P – Current Liabilities and Provisions; I- Inventory; BO- Bank Overdraft; G P&L- Gross Profit & Loss; TY- Total Income; CE- Capital Employed; N P&L- Net Profit and Loss; NW- Net Worth; D/E- Debt/Equity; LT Debt- Long-term Debt; SGF- State Government Funds; TF- Total Funds; VA- Value Added; CE- Capital Employed. Source: Authors' Compilation.

### 7.3 Overview

Table 7.2 ahead shows the number of existing state public enterprises as of latest records, including the number of enterprises that have become inactive. The total number of public sector enterprises in the state stands at 113, out of which 107 are public companies and 6 are statutory corporations. Out of the total public companies, 41 have become inactive whereas all 6 statutory corporations are operational. Thus, the total number of working corporations stands at 72 as per the latest records.

The high number of inactive government companies puts forward a concerning picture of state enterprises and signals towards the requirement of efficient privatisation or restructuring policies for these entities. These inactive companies also strain the finances of the government as they do not generate economic returns, moreover, these companies also affect the prospects of future investments as they do not provide a positive notion about the state of public

enterprises. This situation also calls for reassessment of allocation policies for state finances, as the intention should be to divert funds towards entities that are more productive so that their efficiency could be enhanced.

**Table 7.2: Total Number of SPEs as of 30<sup>th</sup> September 2023**

Nature of SPEs	Working SPEs	Inactive SPEs	Total
<b>Government Companies</b>	66	41	107
<b>Statutory Corporations</b>	6	-	6
<b>Total</b>	<b>72</b>	<b>41</b>	<b>113</b>

Source: State Finances Audit Report, CAG, 2024

The investment landscape in public sector enterprises has been briefed in table 7.3 ahead. The total equity and long-term loan for both- power sector and non-power sector state enterprises stands at Rs. 371214.98 Crore, of which, the major share (approximately 89 percent) has been injected into power sector. This trend of imbalance in allocation of investments between power and non-power sector has been persistent over the years. As per the CAG (2016) report, the sector received as much as 95 percent of the total investments. While the higher share towards energy sector displays government's focus to improve power infrastructure and related services in the state, the financial and operational issues continue to persist in power distribution companies. Recently, the Southern-UP Power Transmission Company Ltd. was dissolved in 2022-23 after a period of inactivity; this not only raises concerns about the situation of power companies in the state but also about the effectiveness of high inflow of investments in the sector.

The persistent underinvestment in non-power sector may enhance the financial troubles of companies in the sector which may cause hinderances in their operations. In the long-term, this may force more companies to become inactive and their maintenance will pose additional burden on state's resources. Thus, the current investment landscape calls for careful reconsideration of investments across sector while keeping their operational efficiency and long-term sustainability in consideration.

**Table 7.3: Total Investment in SPEs in U.P. (in Crore) (as of 31<sup>st</sup> March, 2023)**

Particulars	Investment				Total Equity & Long-Term Loans
	Total Equity	State Gov. Equity	Total Long-Term Loans	State Gov. Loans	
<b>Power Sector SPEs</b>	256815.30	157818.01	71931.98	64.65	328747.28
<b>Non-Power Sector SPEs</b>	25673.50	11451.23	16821.20	4949.91	42494.70
<b>Total</b>	<b>282488.80</b>	<b>169269.24</b>	<b>88753.18</b>	<b>5014.56</b>	<b>371241.78</b>

Source: State Finances Audit Report, CAG, 2024.

## 7.4 Evaluation of Operating Performance

The operating performance of power sector companies further raises questions regarding the effectiveness of continued high investments in the sector. As evident in Table 7.4, the energy companies have suffered losses throughout the previous decade, with the amount going as high as Rs. 12,916 crores in 2015-16. The losses have declined significantly post 2015-16 due to decline in the growth of expenditures which have grown at an average rate of 4.03 percent between 2016-17 and 2019-20. While the non-energy sector entities have persistently earned profits throughout the previous decade, the concerning aspect is that the profits of the sector have declined significantly from Rs. 997.3 crores to Rs. 331.19 crores in 2019-20 after a volatile trend. The increase in expenditures of non-energy enterprises has been almost in sync with their revenues. The decline in profitability of non-energy firms can again be attributed to various operational and efficiency related issues which call for strategic reforms at the policy level.

**Table 7.4: Operating Performance of Energy and Non-Energy PSUs (Rs. Crore)**

Year	Financial Indicator	Non-Energy PSUs	Energy PSUs	Total PSUs
2012-13	Total Income	13758.9	33974.8	47733.7
	Total Expenditure	12761.6	37258.5	50020.1
	Net Profit/Loss	997.3	(3283.7)	(2286.4)
2013-14	Total Income	14273.8	46327.6	60601.4
	Total Expenditure	13441.1	46904.7	60345.9
	Net Profit/Loss	832.7	(577.1)	255.5
2014-15	Total Income	15380.6	46705.3	62085.9
	Total Expenditure	14908.0	59621.3	74529.3
	Net Profit/Loss	472.6	(12916.0)	(12443.4)
2015-16	Total Income	18229.5	46705.3	66232.7
	Total Expenditure	17579.2	59621.3	80388.7
	Net Profit/Loss	472.6	(12916.0)	(14156)
2016-17	Total Income	18986.36	56648.76	75635.12
	Total Expenditure	18091.36	64411.89	82503.25
	Net Profit/Loss	895	(7763.13)	(6868.13)
2017-18	Total Income	17357.72	59009.45	76367.17
	Total Expenditure	16604.8	67359.04	83963.84
	Net Profit/Loss	752.92	(8349.59)	(7596.67)
2018-19	Total Income	18303.52	66027.47	84330.99
	Total Expenditure	17880.42	74564.57	92444.99
	Net Profit/Loss	423.10	(8537.10)	(8114.00)
2019-20	Total Income	16885.53	66976.45	83861.98
	Total Expenditure	16554.34	69217.4	85771.74
	Net Profit/Loss	331.19	(2240.94)	(1909.75)

Source: Bureau of Public Enterprises, UP

Table 7.5 ahead briefs on the consolidated accounts of 40 state owned enterprises. The overall revenue and expenditures of the selected entities have grown in an almost identical manner, registering average growth of 8.7 percent and 7.9 percent between 2013-14 and 2019-20. A look at the components of expenditure reveals that the cost of sale/operations forms the major

share (approximately 97 to 99 percent) and has grown in complete sync, however, it has slightly declined in 2016-17. A significant increase was registered by expenses pertaining to interest on loans in 2016-17, where the amount increased by as much as 45.67 percent. Since then, the amount has stayed stagnant around Rs. 2200 crores with a mild decline in 2019-20. The tax provisions amount grew from Rs. 167 Crore in 2012-13 to 423.45 in 2016-17 attaining the peak, post which the amount declined to Rs. 122.15 in 2019-20.

**Table 7.5: Consolidated Results of 40 State PSUs (Rs. Crore)**

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total Income</b>	47733.7	60601.4	62085.9	66232.7	75635.1	76367.1	84330.9	83861.9
<b>Cost of Sales/Operations</b>	50540.4	60870.2	75053.2	81015.4	80505.3	81576.5	89874.9	83650.1
<b>Interest on Loan</b>	1258.4	1456.1	1421.9	1371.5	1997.9	2387.3	2207.0	2128.0
<b>Tax Provision</b>	167.8	183.3	192.9	304.3	423.45	187.51	192.44	122.15
<b>Total Expenditure</b>	51798.8	62326.3	76475.1	82386.9	82503.2	83963.8	92081.9	85778.1
<b>Net Profit/Loss</b>	-4065.2	-1724.9	-14389.2	-16154.2	-6868.1	-7596.7	-7751	-1916.2

Source: Bureau of Public Enterprises, Uttar Pradesh.

**Table 7.6 Annual Percent Change of Consolidated Results of 40 State PSUs**

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total Income</b>	27.0	2.4	6.7	14.2	1.0	10.4	-0.6
<b>Cost of Sales/Operations</b>	20.4	23.3	7.9	-0.6	1.3	10.2	-6.9
<b>Interest on Loan</b>	15.7	-2.3	-3.5	45.7	19.5	-7.6	-3.6
<b>Tax Provision</b>	9.2	5.2	57.8	39.2	-55.7	2.6	-36.5
<b>Total Expenditure</b>	20.3	22.7	7.7	0.1	1.8	9.7	-6.8
<b>Net Profit/Loss</b>	-57.6	734.2	12.3	-57.5	10.6	2.0	-75.3

Source: Authors' calculation based on data from Bureau of Public Enterprises, Uttar Pradesh

**Table 7.7: Accumulated Losses of all SPEs in U.P. (in Rs. Crore)**

Year	Accumulated Losses*
2012-13	64555.9
2013-14	77258.9
2014-15	94151.7
2015-16	91401.2
2016-17	-
2017-18	-
2018-19	169856.0
2019-20	125973.2
2020-21	71278.6
2021-22	166161.8
2022-23	172096.7

Source: \*State Finances Audit Report, CAG (various years).

While a decline is evident in the total expenditure in 2019-20, it is hard due to unavailability of data to state that the same has persisted in the following years. Moreover, the persistent poor revenue generation is the major reason of continuous losses despite the decline in the growth of total expenditures between 2015-16 and 2018-19. The combined losses of selected 40 companies peaked in 2015-16 with total loss amounting to Rs. 16154.2 Crore, post which they have significantly declined to as low as 1916.2 Crore in 2019-20. The accumulated losses of all the state SPSEs, as briefed in table 7.7, provide a concerning picture about the combined financial obligations of the selected enterprises. A simple analysis of the accumulated losses reported by CAG (2016) reveals that the accumulation of losses has grown at a significant compound annual rate of 10.30 percent from 2012-13 to 2022-23. When 2012-13 is considered as the initial point of accumulation, the losses have registered a staggering compound annual growth of 38.60 percent between 2013-14 and 2019-20.

As per CAG Report 2022–23, based on the latest audited financial statements submitted by SPSEs as of 30 September 2023, 39 SPSEs reported profits in 2022–23, up from 37 in the previous year. The total profit increased from ₹1,315.53 crore in 2021–22 to ₹2,169.50 crore in 2022–23. The six most profitable SPSEs for the year 2022–23 and their contribution in total SPSUs profits are as – Paschimanchal Vidyut Vitaran Nigam Limited (45.71%), Uttar Pradesh Jal Vidyut Nigam Limited (12.72%), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (10.86%), Uttar Pradesh State Warehousing Corporation (7.63%), Uttar Pradesh Awas Evam Vikas Parishad (6.67%) and Uttar Pradesh Rajkiya Nirman Nigam Limited (5.55%). These six SPSEs are accounted for 89.14 percent of total SPSEs profits.

With just six SPSEs contributing 89.14 percent of the total profit, there is a high concentration of profitability in a few entities. The government may consider reviewing the operational and governance models of these top-performing SPSEs to replicate their strategies in other underperforming or loss-making enterprises. The disparity in performance suggests inefficiencies or structural challenges in many SPSEs. The improvement in profitability and the existence of a few consistently strong SPSEs could make a stronger case for PPP models or strategic disinvestment in selected enterprises. Privatization or strategic stake sales in non-core or poorly performing SPSEs may be explored to support social sector investment or reduce public debt. The profitability data supports a move toward outcome-based financing and performance-linked incentives for SPSEs. Strengthening oversight mechanisms, enforcing independent audits, and greater transparency in SPSE operations are need of the day.

Table 7.8 presents the results of ratio analysis of all forty corporations for the years 2016-17 to 2019-20. The values of liquidity ratios provide a positive notion regarding the financial health of the selected companies, suggesting that the companies possess sufficient liquid assets to cover their short-term obligations. The values of current ratio range between 1.61 and 1.64 whereas those of quick ratio range between 1.32 and 1.39 for the period, indicating persistent maintenance of sufficient liquidity.

**Table 7.8: Financial Ratios of all 40 Corporations**

Measurement	Ratio	2016-17	2017-18	2018-19	2019-20
Liquidity Ratios*	Current Ratio	1.64	1.61	1.63	1.61
	Quick Ratio	1.35	1.32	1.38	1.39
Profitability Ratios <sup>#</sup>	Gross P/L to Total Income	-0.06	-0.07	-0.07	0.03
	Return on Capital Employed	-0.07	-0.08	-0.07	0.02
	Net Worth Ratio	-0.20	-0.22	-0.20	-0.04
Leverage Ratios*	Debt/Equity	0.58	0.70	0.63	0.56
	State Government Funds/Total Funds	0.69	0.64	0.64	0.65
Asset Management & Productivity Ratios*	Value Added/Capital Employed	0.18	0.16	0.15	0.14
	Value Added/Employees (in rupees)	19.68	18.58	20.46	25.08

Source: \*Bureau of Public Enterprises, UP; <sup>#</sup>Author's Calculations based on data

The moderate debt-to-equity ratio values for the period show that the companies are maintaining a balance between debt and equity to fund their options, suggesting that they are operating in a low-risk environment. The state-government funds to total funds ratio values clearly depict the high reliance of these corporations on the funds of state government to fund their operations as they constitute as much as sixty-four to sixty-nine percent of their total funds. This also, in a sense, reflects the fiscal burden of the state government and its financial obligation towards these corporations. The positive values of value added to capital ratio suggest that the companies have been generating positive economic values out of the investments made on them but the declining trend requires attention in this regard. Similarly, the value added to employee's ratio suggests that the corporations have been effectively utilising their labour and the efficiency appears to be improving as the ratio has increased from 19.68 in 2016-17 to 25.08 in 2019-20.

The negative values of gross profit/loss to total income (except for 2019-20) suggest that corporations have been unprofitable for most of the years, Similarly, consistent negative returns on capital from these corporations can be observed for the same period. A precarious financial

position is visible for the corporations between the years of 2016-17 and 2018-19, as depicted by the negative net worth ratio values. This situation, however, appears to have improved over the years as this ratio has declined from -0.20 in 2016-17 to -0.04 in 2019-20 suggesting improvements in the overall net worth of companies. Thus, while the other ratios provide a positive notion regarding the financial and operating performance of the select corporations, the profitability ratios indicate otherwise. This scenario calls for a detailed assessment of the financial performance in the years post 2019-20 to understand how the ratios have evolved but the unavailability of up-to-date data has been a major issue for this aspect of the study.

The budgetary support towards non-energy and energy sector undertakings combined has been detailed in table 7.9. It should be noted that the number of companies to which the allocations have been made vary over the years. It can be observed that the total outgo has been quite volatile over the period of analysis, its trend features a very steep decline between 2015-16 and 2017-18 where the amount decreased from Rs. 47,547.4 crore to Rs. 15,827.7 crore. However, after that it has fluctuated between Rs. 24582.6 crores to Rs. 36943.3 crores for the remaining period. The shares of equity capital, and grants and subsidy have also transitioned over the years. Grants and subsidy have grown with faster pace post 2017-18 except the covid year.

**Table 7.9: Budgetary Outgo towards SPEs in U.P. (in Rs. Crore)**

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
<b>Equity Capital</b>	5324.4	11464.9	19078.4	12205.9	8234.5	13464.8	8537.5	11097.6	11682.9
<b>Loans</b>	123.8	138.8	6083.1	3700.3	0.00	1605.9	403.3	1673.2	330.0
<b>Grants and Subsidy</b>	2890.1	3977.4	22385.9	14817.6	7593.2	18878.2	19777.8	11811.8	24930.4
<b>Total Outgo</b>	<b>8338.3</b>	<b>15587.1</b>	<b>47547.4</b>	<b>30723.8</b>	<b>15827.7</b>	<b>33948.9</b>	<b>28718.6</b>	<b>24582.6</b>	<b>36943.3</b>
<b>Loans converted in equity</b>	-	-	-	-	-	-	-	-	-
<b>Guarantees Issued</b>	-	-	-	-	-	-	-	-	-
<b>Guarantee Commitment</b>	9120.2	59822.9	22489.1	62518.9	31488.2	-	-	-	-

Note: The number of enterprises for which the parameters have been reported differ from year to year

Source: State Finance Audit Report, CAG (various years)

In the years of 2012-13 and 2013-14, equity capital formed as much as an aggregate of 68.70 percent of the total outgo. However, this changed post 2017-18 as the support through grant and subsidy grew significantly, forming an aggregate of 57.6 percent share of the total outgo between 2017-18 and 2021-22. This transition might reflect the government's response to financial and operational challenges faced by the corporations. However, persistent reliance on grants and subsidies to aid the issues of SPEs may heighten the fiscal pressure faced by the state as it will receive lesser returns due to reduced support through equities and will also have

to reduce allocation towards other important social and economic sectors which in turn can reduce the developmental effects in the long-run.

The analysis of various financial aspects through the consolidated results has provided useful insights regarding the overall revenue, expenditure, profit/loss and the financial obligations of selected public sector enterprises. The major areas of concerns include the persistent losses of energy sector entities, declining profits of non-energy sector companies and the overall accumulated losses of selected companies. While the issues in energy and non-energy sector can be dealt with sectoral reforms, the combined accumulated losses pose a significant stress on the state finances as well as the SPEs. The corporations may resort to further cut down on expenditures and enhance their revenue generating capacity, which may affect their quality of expenditures. Similarly, if the state government is required to direct its resources to cover the accumulated losses, the quality of capital expenditures might be affected and lower allocation towards economically beneficial activities could hinder growth and development in the state.

### **7.5 Inactive SPSEs**

The recent CAG (2024) report on the state finances stated that out of the total state public enterprises, 41 have become inactive, which include 13 enterprises which are currently going through liquidation. During this period, 24 enterprises continued to suffer losses and 15 enterprises witnessed erosion in their net worth. As per the latest records, a total of 10 state public enterprises have witnessed complete erosion in their net worths which amounted to (-) Rs. 62,779.27 crore.

The erosion in net worth of power sector companies has been concerning, as per the report, four out of total power sector companies witnessed complete erosion in their net worths, which stood at (-) Rs. 62,500.04 crore against equity investment of Rs. 1,36,898.47 crore. These four companies are Dakshinanchal Vidyut Vitran Nigam Ltd., Kanpur Electricity Supply Company Ltd., UPPCL and UCM Coal Company Ltd. In 2022-23, the Southern-UP Power Transmission Company Ltd. was dissolved after a period of inactivity. Similarly, six out of total non-power sector companies witnessed complete erosion in their net worths, which stood at (-) Rs. 279.3 crore against the equity investment of Rs. 143.50 crore. These corporations include Pradesiya Industrial and Investment Corporation of UP Ltd., Prayagraj City Transport Services Ltd., Aligarh Smart City Ltd., Prayagraj Smart City Ltd., Moradabad Smart City Ltd., and Noida International Airport Ltd. As per CAG Report 2022–23, one non-operational State Public Sector Enterprise (SPSE)—Southern-UP Power Transmission Company Limited—was

removed from the register of companies by the Registrar of Companies, Ministry of Corporate Affairs, in May 2022, resulting in its dissolution. No other SPSE underwent disinvestment, restructuring, or privatisation during the year.

The implications of inactivity and net worth erosion on performance of state enterprises and state's economy may be multifaceted. Liquidation/dissolution of such companies may have consequences on the employment in the state which may have implications on local economies as well, since public sector companies are assumed to provide stable employment. Moreover, these companies are assumed to provide essential public services that facilitate larger good, which otherwise become less affordable when provided by private entities. However, continuous maintenance of such companies puts financial stress on state's resources which may not have desirable outcomes in the long-run.

## **7.6 Conclusion**

This chapter aimed at assessing the financial performance of state-owned public enterprises and draws important conclusions regarding their possible implications on state's finances. The analysis has revealed various issues as well as signs of improvements in the current landscape of enterprises in the state, however, significant policy interventions, structural overhauls and financial support is required to improve the functioning of these enterprises and to allow them to significantly contribute to the overall economic development.

The first and foremost concern is regarding the number of inactive SPEs which has grown over the years and currently stands at 41. Thus, approximately 38 percent of the government companies in the state are inactive whereas no inactivity has been observed in statutory corporations. This high number of inactive companies suggests inefficiencies in their managerial and operational framework and also signifies resource drain in the state, as these entities do not contribute to revenues, dividends etc. and require financial support which ultimately enhances the fiscal stress of the government. If the inefficiencies and inactiveness persist, the government may have to resolve to complete disinvestment or privatisation. The latter can allow for more effective managerial and operational framework while both the solutions can help alleviate financial pressure from the government.

The analysis of financial performance of power sector and non-power sector and their consolidated accounts has also been carried out. The power sector enterprises have been receiving major chunk of investment through the years given their crucial role in development. However, the enterprises in this sector have continuously suffered losses despite the continuous

financial support. A trilemma for such enterprises is to provide services at affordable rates, lower their operational expenditures and enhance their revenue generation capacity at the same time. The prospects of resorting to policy options such as public-private partnership should be examined for such enterprises as they will not only enhance the efficiency of such enterprises but also reduce the burden on state's resources.

The non-energy sector enterprises have persistently earned profits, however, the decline in their profits in recent years may become an issue in the coming decade. The positive aspect is that these enterprises have managed to be profitable despite receiving lower investments, which suggests that more thoughtful investment in required areas can help them enhance their operational efficiency and revenue generation capacity. However, these investments must be supported with adequate structural reforms to ensure their effective utilisation.

Analysis of consolidated accounts of 40 state-owned enterprises has also been done, which has put forward a concerning picture of enterprises in the state. The enterprises (all combined) have posted continuous losses throughout the decade as their expenditures have outgrown their revenues. Moreover, the accumulated losses have been piling up with almost minimum to none deductions in them on account of earned profits. This may result in increase in requirement of government support through bailouts or subsidies, which can pose as a serious challenge in management of state's finances.

## Chapter VIII

### Impact of Power Sector Reforms on State's Fiscal Health

#### 8.1 Introduction

The power sector is a crucial area of interest for any sub-national government as it has direct influence on infrastructural development, availability of services and environmental sustainability. As crucial as this sector is, the financial health of this sector (especially of state-owned distribution companies) across a significant number of states has been a pressing issue. This is due to the persistent financial losses faced by these entities as they struggle to meet operational costs with revenues. Moreover, the high subsidy dependence and mounting debt translates into fiscal stress for the states as it affects the contingent liabilities.

As per recent research, the combined losses of state-owned distribution companies have been increasing at an average rate of 15% post 2015-16. The collective accumulated losses amounted to Rs. 6.77 lakh crores in the fiscal year 2022-23. A share of 15% was held by the DISCOM of state of Uttar Pradesh in these losses, forming the second highest portion (Josey et al., 2024). The financial challenges faced by these distribution companies highlight the requirement of structural reforms that aim at addressing revenue generation as well as cost management by these entities.

This chapter aims to provide an analysis of the power sector in the state of Uttar Pradesh by evaluation of the current infrastructural landscape, financial performance and operational aspects of the Uttar Pradesh Power Corporation Ltd.

#### 8.2 Assessment of the Power Sector

##### *8.2.1 Electricity Demand and Availability*

As the state has progressed and there has been increase in population and urbanization, it is natural for the power sector to witness growth in electricity demand. However, due to infrastructural limitations and hindered quality of supply, it is common to experience power shortages across the state. To meet these deficits, the authorities often procure power from other states and entities, especially during the peak demand periods which leads to additional burden on the financial resources of corporations. Table 8.1 ahead showcases the trends in electricity demand, availability and shortage/excess over the period of analysis.

It can be observed that there has been persistent shortage of electricity demanded in the previous decade. Similar situation can be observed during the peak demand phases, where even

though the shortage has declined over the years, it continues to persist. This is despite the fact that the average growth in availability of electricity (5.51 %) has been greater than that of electricity demand (4.37 %). The annual growth in available electricity increased from 7.95 percent in to 10.98 percent in 2017-18, however, it significantly declined afterwards.

Persistent power shortages have significant impact on service quality of the DISCOMS and also their finances as they often have to resort to borrowing power from other states and suppliers. Moreover, it has been observed that these corporations usually fail to meet their operational expenses and often require government bailouts, which ultimately puts pressure on the finances of the state.

**Table 8.1: Position of Electricity Demand and Availability in U.P. (2012 to 2021)**

Year	Electricity Demand (MU)			Peak Demand (MV)		
	Demand	Availability	Shortage/Excess	Demand	Availability	Shortage/Excess
2012-13	91690	76615	-15075 (16.4)	14300	12048	-2252 (15.8)
2013-14	95265	82713	-12552 (13.2)	15044	12327	-2717 (18)
2014-15	103514	87058	16456 (15.9)	15670	13003	-2667 (17)
2015-16	106433	93099	-13334 (12.5)	16988	14503	-2485 (14.9)
2016-17	112566	106061	-6505 (5.8)	17886	16110	-1776 (9.9)
2017-18	122567	117713	-4854 (3.9)	20274	18061	-2213 (10.9)
2018-19	121253	115369	-5884 (4.9)	21128	20062	-1066 (5.3)
2019-20	125456	116819	-8637 (6.9)	22599	21632	-967 (4.5)
2020-21	129320	120279	-9041 (7.5)	23917	23867	-50 (0.2)
2021-22	134351	123133	-11218 (9.1)	25117	24795	-322 (1.3)
2022-23	149766	137290	-12476(9.1)	27369	26589	-780(2.9)

Source: UPPCL Statistics at a Glance. (various years)

Note: Figures in bracket show percentages.

### 8.2.2 Plant Load Factor

The plant load factor (PLF) is an indicator of power plant's performance and operational efficiency. As per a previous study, the PLF of thermal power plants in the state has been below the national average owing to poor maintenance and slow technological upgradation (Maurya, 2019). The situation has stayed more or less the same in the period of analysis (2012-13 to 2022-23) with slight improvement post 2019-20.

As it can be observed in Table 8.2, the PLF in the state increased from 45.63 percent in 2012-13 to 67.01 percent in 2022-23, however, for majority of the years, the statistic stayed significantly below the national average. It is only post 2019-20 that it went above the national average with values (in percent) of 56.11, 54.85 and 67.01 in 2019-20, 2020-21, and 2022-23

respectively. Even though the improvements are quite recent and not by large numbers, they still reflect advancement in efficiencies of thermal power plants in the state. If such progress continues, it can lead to increased production, lower emission per unit produced, lower costs and increased revenue which can help reduce the fiscal strain on state's resources.

**Table 8.2: Plant Load Factor of Major Thermal Power Plants in U.P. and India (in per cent), 2012-13 to 2022-23**

Years	Plant Load Factor (U.P.)	Plant Load Factor (India)
2012-13	45.63	69.9
2013-14	52.75	65.60
2014-15	50.87	64.46
2015-16	56.14	62.29
2016-17	55.11	59.88
2017-18	55.67	60.72
2018-19	54.77	61.07
2019-20	56.11	54.51
2020-21	54.85	53.37
2021-22	56.01	58.87
2022-23	67.01	64.15

Source: UPPCL Statistics at a Glance, 2022-23 and Power Sector at a Glance, Ministry of Power

### 8.2.3 T&D and AT&C Losses

In the power sector, there are technical and commercial losses that occur due to issues such as infrastructural limitations, inherent limitations of equipments, uncollected dues and power theft. These losses may cause significant financial stress for any state-owned corporation which ultimately results in pressure on state's finances. Table 8.3 ahead showcases the T&D and AT&C losses for the time period 2012-13 to 2022-23. As it can be observed, the T&D losses have increased significantly from 24580 in 2012-13 to 29687 in 2022-23, growing at a CAGR of approximately 1.91 percent. The slow pace of increase suggests somewhat improvement in efficiency of the power distribution system in the state.

On a similar note, significant decline can be observed in Losses as percent to Total Energy at Bus Bar and AT&C Losses. The decreasing trend in former suggests improvements in the electrical systems in the overall power infrastructure, which may be owing to upgradation of the distribution network. The decline in AT&C losses has been notable, from 42.85 percent in 2012-13 to 14.86 percent in 2019-20 (as per the latest data available). This suggests that along with infrastructural and technological overhaul, there have been reforms that have helped curb power theft and inefficiencies in billing and collection processes.

While the important statistics discussed above suggest positive developments and improvements in overall infrastructure and operational efficiency of power sector in the state,

the need is to continue making progress in this direction. However, the financial losses faced by the distribution companies due to high operational costs and other underlying financial issues hinder the necessary development.

**Table 8.3: T&D and AT&C Losses in U.P. (2012 to 2021)**

Year	T&D Losses (M.U.)	Losses as % to Total Energy available at Bus Bar	AT&C Total Losses (%)
2012-13	24580	31.43	42.85
2013-14	24466	29.58	38.85
2014-15	23646	27.16	34.22
2015-16	24541	26.36	32.36
2016-17	27711	26.12	28.27
2017-18	31991	26.87	23.63
2018-19	27377	23.73	19.36
2019-20	25414	21.75	14.86
2020-21	25840	23.99	-
2021-22	29071	23.66	-
2022-23	29687	21.50	-

Source: UPPCL Statistics at a Glance, 2021-22 and AT & C Loss Trajectory

#### 8.2.4 Financial Performance of the Power Sector

Table 8.4 ahead showcases the Revenue and Operating Expenditure of UPPCL (Uttar Pradesh Power Corporation Ltd.) for various years. The corporation has been incurring losses over the previous decade with an exception of the year 2020-21, where it reported a profit of Rs. 5918.74 crores (as per author's calculation from the data). It can be observed that the entity has struggled to meet its operating expenses for majority of years since they have been increasing persistently, especially on account of phenomenal increases in expenses on purchase of power and repair and maintenance. The finance costs (interest payments) of the corporation have also grown significantly over the years, growing at a CAGR of approximately 54 percent.

**Table 8.4: Revenue and Operating Expenditure of UPPCL (in Rs. Crore)**

Items	2012-13	2013-14	2015-16	2016-17	2017-18	2019-20	2020-21
<b>Operating Revenue</b>							
Sale of Power	26617.01	36521.05	37273.43	40524.26	44493.16	54012.39	55028.02
Other Income	13.16	24.91	24.91	8232.51	9062.29	13966.33	12605.88
<b>Total Income</b>	<b>26630.17</b>	<b>36545.96</b>	<b>37335.53</b>	<b>48756.77</b>	<b>53555.45</b>	<b>67980.73</b>	<b>67633.90</b>
<b>Operations and Maintenance Expenditure</b>							
Purchase of Power	29557.94	33233.64	37272.98	44175.82	48419.07	57386.06	63587.53
Repair & Maintenance	6.1	5.9	13.53	1840.11	2427.26	2490.54	2318.24
Employee Cost	128.95	138.48	214.44	1369.85	1327.33	1647.94	1821.10
General Expenses	18.29	18.29	29.07	1067.83	1473.55	2291.77	2215.48

<b>Total Operations &amp; Maintenance</b>	<b>29711.28</b>	<b>33397.3</b>	<b>37530.02</b>	<b>48453.61</b>	<b>53647.21</b>	<b>63816.31</b>	<b>69942.35</b>
<b>Operating Cost – Operating Revenue</b>	<b>(3081.11)</b>	<b>3148.66</b>	<b>194.49</b>	<b>(303.16)</b>	<b>91.76</b>	<b>(4164.42)</b>	<b>2308.45</b>
<b>Appropriation Charges</b>	261.97	4118.63	-	-	-	-	-
<b>Interest</b>	198	174.6	0.019	2033.41	3446.52	5339.39	6325.52
<b>Depreciation</b>	2.13	2.29	1.67	982.05	1102.86	1264.25	2426.71
<b>Misc. Expenses</b>	-	-	15471.5	9181.00	8560.97	3692.99	(16979.42)
<b>Total Expenditure</b>	<b>30173.38</b>	<b>37692.82</b>	<b>53003.209</b>	<b>60650.07</b>	<b>66757.56</b>	<b>74112.94</b>	<b>61715.16</b>
<b>Profit/Loss</b>	<b>(3543.21)</b>	<b>(1146.86)</b>	<b>(15667.68)</b>	<b>(11893.3)</b>	<b>(13202.11)</b>	<b>(6132.21)</b>	<b>5918.74</b>
<b>Accumulated Loss</b>	-	<b>(4690.07)</b>	<b>(20357.75)</b>	<b>(32251.05)</b>	<b>(45453.16)</b>	<b>(51585.37)</b>	<b>(45666.63)</b>

(Data for 2014-15 and 2018-19 is not available)

Source: Statistics at a Glance, UPPCL (various years)

The state of finances of UPPCL reflects the ineffectiveness of major reforms that the sector has been through over the years, and the operational inefficiency of the corporation. The growing expenses on account of repairs and mainenance depict the state of power infrastructure in the state, which is not up to current standards and requirements and requires significant overhaul. Despite various measures, theft of power is still a reality in the state and takes place at a considerable scale which also contributes to the revenue losses of the corporation.

### 8.2.5 Revenue Realised

The per unit average revenue also allows us to draw information regarding the operational efficiency and financial viability of the corporation. A consistent increase in this statistic may signify improvements in revenue management by the corporation. In a previous study (Maurya, 2019), it was found that there has been a significant gap between the average revenue assessed (per unit) and cost of supply (per unit) which implied that various reforms to improve revenue capacity have not been very effective.

As evident in Table 8.5, the per unit average revenue has increased from 4.00 in 2012-13 to 5.94 in 2022-23, this may be on account of improved billing efficiency, reductions in T&D and AT&C losses. Even though there has been increase in per unit average revenue, the increase has been marginal, moreover, the increase is only effective when the average revenue exceeds the average cost of supply and helps the organization in covering at least its operational expenses, which has rarely been a case. This signifies that further reforms are required in order to improve the revenue capacity of the corporation.

**Table 8.5: Per Unit Average Revenue (Revenue Assessed/Energy Sold)**

Year	Average Revenue
2012-13	4.00
2013-14	4.68
2014-15	4.80
2015-16	5.15
2016-17	5.11
2017-18	5.15
2018-19	5.55
2019-20	5.74
2020-21	5.97
2021-22	6.00
2022-23	5.94

Source: UPPCL Statistics at a Glance, 2022-23

### 8.2.6 Effective Tariff

Analysing and understanding per unit average (effective)<sup>1</sup> tariff can help us assess the crucial aspects like cost recovery, cross-subsidization, and revenue generation by the corporation. It should be noted that while average revenue (refer table 8.5) and effective tariff (refer table 8.6) essentially represent the per unit average revenue, the category wise effective tariff allows us to understand the contribution of different categories of consumers to overall average revenue.

**Table 8.6: Consumer Category-wise Effective Tariff Per Unit (in Rs.)**

Years	Domestic	Industrial	Agricultural	Others*	Overall
2012	2.88	6.14	2.26	2.06	4.00
2013	3.15	7.45	2.46	0.34	4.68
2014	3.24	7.78	2.47	3.54	4.80
2015	3.63	0.84	2.51	3.88	5.15
2016	3.77	8.56	2.24	2.79	5.11
2017	3.75	8.61	2.28	3.84	5.16
2018	4.32	8.74	2.74	4.45	5.56
2019	4.70	8.91	2.80	4.24	5.75
2020	5.07	9.33	2.94	4.66	5.97
2021	5.10	9.18	2.69	4.60	6.00
2022	5.13	8.59	2.50	5.17	5.95

Source: UPPCL Statistics at a Glance, 2022-23

(\*Others represents the miscellaneous category in source documents)

As presented in Table 8.6, the effective tariff has shown an increasing trend over the years of analysis (2012-13 to 2022-23). It can be observed that highest tariffs have been from the industrial category, which increased from 6.14 per unit in 2012-13 to 8.59 per unit in 2022-23.

<sup>1</sup> The tariff here has been stated as effective tariff since it has been derived by Revenue Assessed by Energy Sold and it essentially represents the actual revenue raised per unit of electricity supply.

The tariffs from domestic category have also seen significant increase over the years, growing from 2.88 per unit in 2012-13 to 5.13 per unit in 2022-23.

The lowest growth can be observed in tariffs from agricultural category, for which the tariffs have almost been stagnant around 2.53 percent. The lower collection from agricultural category is a result of electricity subsidies provided to agricultural consumers to aid them against their income constraints and allow them to access power at subsidised rates. The higher yields from industrial category may depict the cross-subsidisation among various categories. The increase in tariff from domestic category has been greater between 2012-13 and 2022-23 than between 2004-05 and 2015-16, which reflects increased recovery rate from domestic category.

### **8.3 Conclusion**

This chapter aimed at assessing the current landscape of power sector in the state of Uttar Pradesh and draws important implications for the finances of state. For this purpose, an analysis of UPPCL's important statistics has been carried out. The analysis has revealed various positives and negatives regarding the infrastructural aspects, financial aspects, and overall performance of the sector. In the period of analysis, some improvements have been observed in the plant load factor of the thermal power plants in the state in recent years. Along with that, a decline has been witnessed in AT&C losses and losses as percentage of total power available at bus bar. The improvements in these statistics suggest that there have been advancements and overhauls in electrical equipment and related elements in the distribution system. Moreover, reforms aimed to curb power thefts and wastages may also have influenced the improvements. However, an increasing trend is still observable in the T&D losses, indicating requirement of continuous upgradation and reforms in the required areas. This will require significant financial contributions on the part of corporation as well as the state government.

The analysis of financial aspects of UPPCL presents a worrisome picture of the power sector in the state. The revenue generating capacity of the corporation has remained constrained for various reasons, added to that the inability to uniformly meet operational expenditure has worsened the poor financial landscape of the corporation. The accumulated loss of the corporation has been piling up with only deduction through profit in the year of 2020-21. This situation may result in increased fiscal burden on state finances and the contingent liabilities of the state may also increase. Thus, the current state of power sector in the state calls for significant structural reforms aimed at minimization of operational costs, enhancing revenue capacity, resolving large scale power theft, and improving overall performance.

## Chapter IX

### Analysis of State Subsidies

#### 9.1 Introduction

Subsidies can be categorized into those for merit goods and non-merit goods. While merit goods are generally considered deserving of subsidies, the same is not true for non-merit goods, as they are not socially justified for such support. Shrivastava and colleagues (2003) have further divided subsidies into three categories: (i) Merit I, (ii) Merit II, and (iii) Non-merit. These categories broadly represent services that require high, medium, and low levels of subsidisation, respectively. Maurya, (2014, 2019) classified all the items of the state government into three categories – Merit I, II and III. Merit I category includes - 1. Elementary Education 2. Medical and Public Health 3. Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes 4. Social welfare and nutrition 5. Soil and water conservation 6. Science, Technology and Environment.

Merit II category includes - 1. Technical Education, Sports, Art and Culture 2. Family Welfare 3. Water Supply and Sanitation 4. Housing 5. Urban Development 6. Forestry and Wild Life 7. Agricultural Research and Education 8. Other Agricultural Programmes 9. Rural Development 10. Special Area Programmes 11. Major and Medium Irrigation 12. Flood Control and Drainage 13. Energy except power 14. Village and Small Industries 15. Roads and Bridges 16. Secretariat - Economic Services. Lastly, Merit III category includes - 1. Labour and Labour Welfare 2. Relief on account of Natural Calamities and others 3. Crop Husbandry 4. Animal Husbandry 5. Dairy Development 6. Fisheries 7. Plantations 8. Food Storage and Warehousing 9. Agricultural Finance Institutions 10. Co-operation 11. Minor Irrigation 12. Power 13. Industries 14. Transport and Communications others 15. Tourism, Civil Supplies and others 16. Civil Supplies.

#### 9.2 Estimation of Subsidies

This study uses for this a basic cost recovery approach, similar to the one employed by the Reserve Bank of India (RBI) and Maurya (2014, 2019). In this approach, subsidies are calculated as the difference between revenue expenditures and cost recovery. The goal is for the state to at least recover the operation and maintenance costs of providing goods and services, especially in the case of non-merit goods and services.

Subsidies can be classified as either explicit or implicit. Explicit subsidies involve direct financial assistance to a specific sector or service, as outlined in government budgets or official documents. In contrast, implicit subsidies are often provided indirectly and may not be easily identified from the official records. As a result, a method is needed to calculate implicit subsidies more comprehensively. Two primary approaches are used to determine overall subsidies: the national income accounting approach and the unrecovered cost approach.

In the national income accounting approach, subsidies are calculated by subtracting the GDP at market prices from the GDP at factor cost plus indirect taxes. However, this method cannot be applied at the state level, as data for Gross State Domestic Product (GSDP) at market prices is usually unavailable. The second, more commonly used method treats subsidies as the unrecovered costs of delivering public services. Under this approach, subsidies are calculated as the difference between the total costs of providing goods and services and the receipts generated.

The goods and services considered in this method are generally categorized as social and economic services. Unrecovered costs are determined by calculating the excess of current costs and annualized capital costs over the receipts from relevant budgetary categories. Current costs include revenue expenditures related to the provision of services under various headings, while annualized capital costs are calculated by adding interest on borrowed funds and depreciation on physical capital, if applicable. Receipts consist of three components: revenue from user charges, interest receipts on loans, and dividends on equity investments. However, the necessary data for state-level subsidy calculations is often unavailable.

### **9.3 Explicit Subsidies**

This table 9.1 provides a detailed breakdown of subsidies allocated to different sectors in India for the years 2012-13, 2018-19, and 2023-24.

**Industries:** Subsidy allocation increased from Rs. 74.24 crore in 2012-13 to Rs. 1,369.8 crore in 2023-24. As a percentage of total subsidies, it started at 1.17 percent in 2012-13, peaked at 7.15 percent in 2018-19, and decreased to 5.41 percent in 2023-24. The increase in the subsidy allocation reflects a rising importance of this sector, but its share of total subsidies has slightly decreased over time.

**Energy:** This sector has the largest subsidy allocation, growing from Rs. 4,385 crores in 2012-13 to Rs. 13,100 crores in 2023-24. Its share of total subsidies decreased from 69.05 percent in

2012-13 to 51.76 percent in 2023-24. Despite this decrease, energy subsidies remain the largest single component of total subsidies, highlighting the continued focus on energy-related support.

Agriculture & Allied: Subsidies for agriculture increased significantly, from Rs. 1,861.1 crore in 2012-13 to Rs. 8,848.2 crore in 2023-24. The share of total subsidies in this sector grew from 29.31 percent in 2012-13 to 34.96 percent in 2023-24, indicating a steady increase in agricultural support.

**Table 9.1: Explicit Subsidy given by U.P. Government (In Rs. Crore)**

Sector	Rs. Crores			As % of Total		
	2012-13	2018-19	2023-24	2012-13	2018-19	2023-24
<b>Industries</b>	74.24	827.3	1369.8	1.17	7.15	5.41
<b>Energy</b>	4385	6200	13100	69.05	53.62	51.76
<b>Agriculture &amp; Allied</b>	1861.1	3499.8	8848.2	29.31	30.27	34.96
<b>Planning Department</b>	-	-	-	0.00	0.00	0.00
<b>Science &amp; Technology</b>	30.2	207.1	285.5	0.48	1.79	1.13
<b>Society Welfare (SC &amp; ST)</b>	295	761.6	1705.8	4.65	6.59	6.74
<b>Total Subsidy</b>	<b>6350.6</b>	<b>11563.5</b>	<b>25309.4</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>As % of GSDP</b>	<b>0.77</b>	<b>0.73</b>	<b>0.99</b>	-	-	-

Note: All values are Budget Estimates

Source: Authors' calculations based on data from Budget Documents of UP Government

Science & Technology: Subsidies for science and technology are relatively small, starting at Rs. 30.26 crore in 2012-13 and growing to Rs. 285.5 crore in 2023-24. As a percentage of total subsidies, it increased from 0.48 percent in 2012-13 to 1.79 percent in 2018-19 and then moderated to 1.13 percent in 2023-24, reflecting growing but still modest support for innovation and technology.

Social Welfare (SC & ST): Social welfare subsidies grew from Rs. 295 crores in 2012-13 to Rs. 1,705.8 crores in 2023-24. Its share of total subsidies increased from 4.65 percent in 2012-13 to 6.74 percent in 2023-24, indicating increased support for social welfare initiatives.

The total subsidy amount across all sectors grew significantly, from Rs. 6,350.6 crores in 2012-13 to Rs. 25,309.4 crores in 2023-24. As a percentage of GSDP, the subsidy expenditure remained at 0.77 percent in 2012-13, decreased to 0.73 percent in 2018-19, and then rose to 0.99 percent in 2023-24, showing an increasing burden of subsidies in relation to economic output. Energy continues to receive the largest share of subsidies, though its proportion of total subsidies has decreased. Agriculture and Social Welfare have seen increasing subsidy allocations, reflecting a growing focus on these areas. The overall subsidy burden as a

percentage of GSDP has risen over the years, indicating that subsidies are becoming a larger part of the economy.

#### 9.4 Implicit subsidies

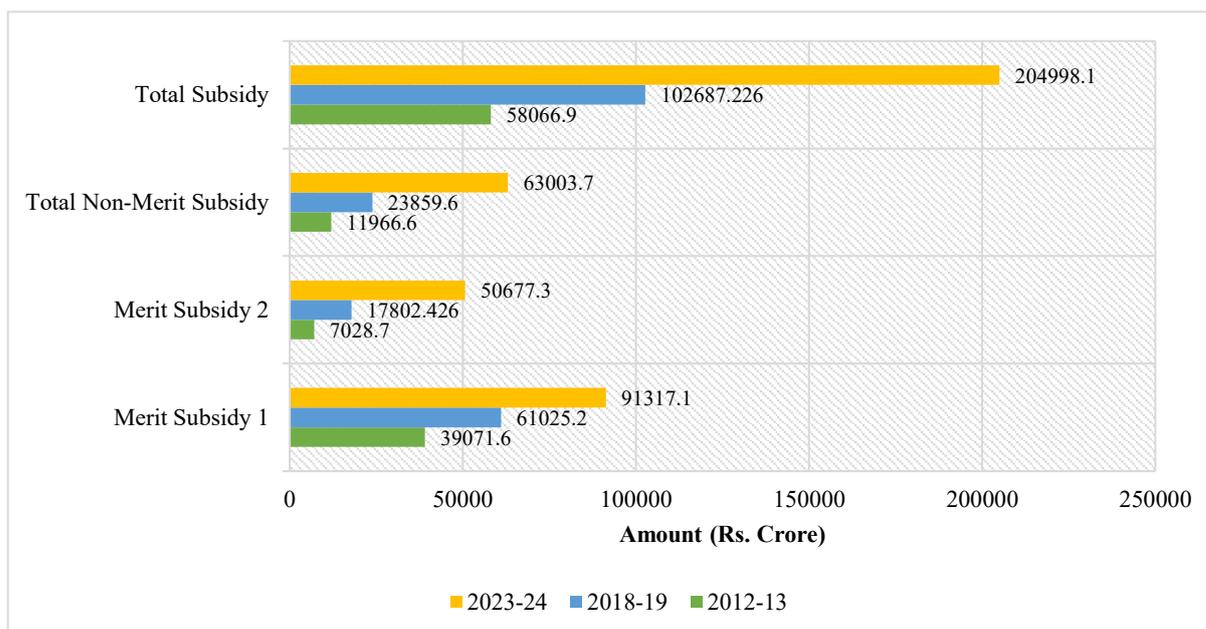
The table 9.2 provides a breakdown of implicit subsidies given by the Uttar Pradesh (U.P.) government across various sectors from 2012-13 to 2023-24, categorized into Merit 1, Merit 2, and Non-Merit Subsidy, in terms of both absolute amounts and their share as a percentage of the respective total.

**Table 9.2: Implicit Subsidy given by U.P. Government (In Rs. Crore)**

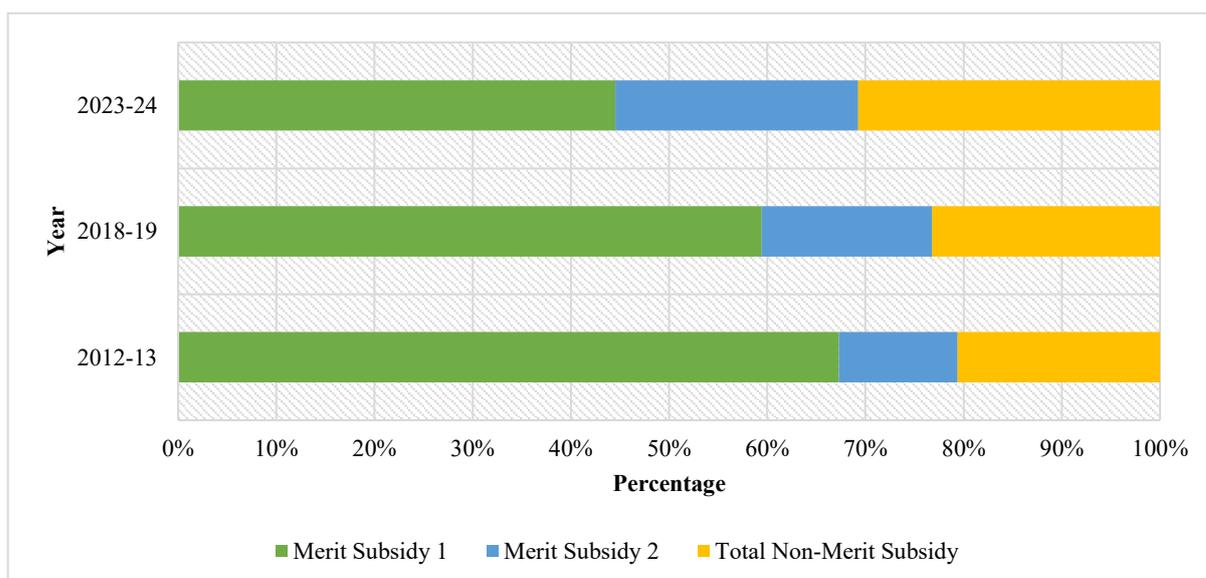
Items	Rs. Crore			As % of Total		
	2012-13	2018-19	2023-24	2012-13	2018-19	2023-24
Education, Sports, Art and Culture	25171.0	47276.5	55748.6	64.42	77.47	57.29
Medical & Public Health	4941.3	3373.3	16037.4	12.65	5.53	16.48
Social Welfare and Nutrition	8959.3	10375.4	25531.0	22.93	17.00	26.23
<b>TOTAL MERIT 1</b>	<b>39071.6</b>	<b>61025.2</b>	<b>97317.1</b>	<b>100</b>	<b>100</b>	<b>100</b>
Family Welfare	2450.3	5467.9	15173.6	34.86	30.71	29.95
Water Supply & Sanitation	20.8	1418.9	2917.8	0.30	7.97	5.76
Housing	-	-	454.5	-	-	-
Urban Development	849.5	6529.5	23155.7	12.09	36.68	45.70
Forestry and Wildlife	402.2	227.6	425.0	5.72	1.28	0.84
Other Agricultural Prog.	0.3	17.8	38.8	0.00	0.10	0.08
Major and Medium Irrigation	3042.7	3522.1	5733.3	43.29	19.78	11.32
Village and Small Industries	263.0	618.6	2768.5	3.74	3.47	5.46
<b>TOTAL MERIT 2</b>	<b>7028.7</b>	<b>17802.4</b>	<b>50667.3</b>	<b>100</b>	<b>100</b>	<b>100</b>
Labour and Employment	1099.4	930.5	1799.2	9.19	3.91	2.86
Crop Husbandry	1511.0	7669.7	7645.7	12.63	32.19	12.14
Animal Husbandry	479.4	1254.2	2555.6	4.01	5.26	4.06
Fisheries	39.7	83.7	406.6	0.33	0.35	0.65
Co-operation	1187.2	547.5	1104.7	9.92	2.30	1.75
Minor Irrigation	1022.2	2103.9	3449.7	8.54	8.83	5.48
Power	4520.6	9250.4	30775.4	37.78	38.82	48.85
Industries and Others	-10.7	-2561.4	4712.5	-0.09	-10.75	7.48
Transport and Communication	2119.5	4525.6	10323.5	17.71	18.99	16.39
Tourism, Civil Supplies and Others	-1.5	55.6	230.9	-0.01	0.23	0.37
<b>Total Non-Merit Subsidy</b>	<b>11966.6</b>	<b>23859.6</b>	<b>63003.7</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Authors' calculations based on data from State Finances, Reserve Bank of India

Figure 9.1 and 9.2 posit few interesting outcomes. Although, total subsidies increased twice in size during pre-covid 19 period they grew around three times during 2018-19 to 2023-24 period. It shows that the pandemic has affected private sector and household sector badly necessitating government intervention in the form of increased subsidy. This increased total subsidy is mainly on account of rise in merit subsidy.

**Figure 9.1 Trends in Implicit Subsidy in UP: 2012-13 to 2023-24**

Source: Author's Calculation based on data from State Finances, RBI

**Figure 9.2: Composition of Implicit Subsidy in UP (%): 2012-13 to 2023-24**

Source: Author's Calculation based on data from State Finances, RBI

However, there has been continuous changes in the composition of the total implicit subsidies. During pre-covid 19 period, the share of merit I subsidies declined by more than 10 percentage points which is mainly captured by merit II subsidies. During post-covid 19 period, the share of merit I subsidies deteriorated further. However, this change in merit I subsidies was captured by increase in share of merit II and non-merit subsidies. It implies that major reduction was seen in the case of merit I subsidies during post-covid period. In the following section, each category of implicit subsidies is discussed in detail.

#### 9.4.1 Merit 1 subsidies

Merit 1 subsidies are primarily focused on essential public services like education, health, and social welfare. The total subsidy increased significantly from ₹39,071.6 crore in 2012-13 to Rs. 91,317.1 crores in 2023-24, highlighting the government's growing investment in these sectors. Education, Sports, Art, and Culture is a major component. However, its share declined over time, from 64.42 percent in 2012-13 to 57.29 percent in 2023-24. Subsidy amount showed sharp growth in the case of Education, Sports, Arts and Culture, increasing from Rs. 25,171 crores in 2012-13 to Rs. 55,748.6 crore in 2023-24, a more than two times of an increase.

Medical and Public Health share in Merit 1 subsidies rose modestly from 12.65 percent in 2012-13 to 16.48 percent in 2023-24, reflecting consistent prioritization, however, a dip to 5.53 percent is evident in 2018-19. On the other hand, in the case of social welfare and nutrition, while the absolute subsidy rose to ₹25,531.0 crore in 2023-24, its share decreased from 22.93 percent in 2012-13 to 17 percent in 2018-19 and then increased to 26.23 percent in 2023-24, indicating relatively increased prioritization in the recent years.

#### 9.4.2 Merit 2 Subsidies

These subsidies target infrastructure and economic development, such as irrigation, urban development, and village industries. The total subsidy for Merit 2 surged from Rs. 7,028.7 crores in 2012-13 to Rs. 50,667.3 crores in 2023-24, a more than seven times of rise and a much faster rise than merit 1 subsidies. Urban Development recorded the most significant growth, with its share rising from 12.09 percent in 2012-13 to 45.70 percent in 2023-24. This reflects substantial investment in urban infrastructure and services.

In the case of major and medium irrigation, while subsidies increased in absolute terms, their share fell significantly from 43.29 percent in 2012-13 to 11.32 percent in 2023-24, indicating a shift in focus to other areas. It shows shifting of funds from irrigation to urban development. Although, urban development needs priority but should not be done at the cost of agricultural development. Forestry and Wildlife showed a notable decline in its share, from 5.72 percent in the beginning to 0.84 percent in 2023-24, implying positive revenue mobilisation from the sector. Forestry and wildlife has good potential in Uttar Pradesh and can be developed as an emerging sector for wildlife tourism in the state.

### 9.4.3 Non-Merit Subsidy

These subsidies include sectors like power, industries, and transport, often targeting economic activities with broader public or commercial benefits. Total non-merit subsidies increased from ₹11,966.6 crore in 2012-13 to ₹63,003.3 crore in 2023-24, growing more than five times over the past decade. Power consistently received the largest share, peaking at 48.85 percent in 2023-24 after it witnessed an extremely moderate increase between 2012-13 and 2018-19. On the other hand, transport and communication's share grew slightly from 17.71 percent in 2012-13 to 18.97 percent in 2018-19, only to decline to 16.39 percent in 2023-24, reflecting decreased investments in connectivity and mobility. Moreover, industries and others experienced notable fluctuations, with negative values in 2012-13 and 2018-19, but a sharp rise to Rs. 4,712.5 crores in 2023-24, suggesting industrial sector is not doing well and needs government support for revival in post-covid 19 period.

To summarise, the government has significantly increased allocations to urban development and education, reflecting a focus on modernization and human capital. Education's share, however, has registered decline in recent years despite higher absolute amounts. Social welfare's share has increased owing to higher absolute subsidies, indicating a relative shift in focus to infrastructure and economic development. Non-Merit subsidies have grown greatly compared to Merit subsidies, emphasizing essential services over economic incentives. The results highlight the evolving priorities of the U.P. government, with a clear emphasis on infrastructure and essential services alongside selective support for economic sectors.

### 9.5 Scheme-wise subsidy

Scheme-wise allocation of subsidy in details is given in the appendix 9.1 and their summary in appendix 9.2, as obtained from the State Accounts Report of CAG 2024-25. The data is given for 2023-24 and 2022-23. There are 100+ plus schemes for which the state government is providing subsidy. State is providing subsidy in several centrally sponsored schemes as part of state's share, whereas, many of the schemes are state supported only. The careful analysis shows that following schemes are the large contributor towards subsidy outgo:

1. Chief Minister Irrigation Scheme (District Plan)
2. Grants to UP Electricity Corporation for electric supply to private tube wells of farmers
3. Grant for providing crop loan to farmers on low interest rate through primary cooperative societies
4. Reimbursement of rebate in electricity rate to handloom sector

5. Power – Compensatory grant to UPPCL (the highest subsidy item from the state funds)
6. Implementation of additional energy source programmes
7. State's share in centrally sponsored schemes.

## 9.6 Conclusion

From the perspective of fiscal health, subsidies are not desirable. State is supposed to meet out their expenditure responsibilities out of their own revenues and should try to have full cost recovery. But the governments are also mandated to serve the purpose of social welfare, reduce socio-economic inequalities and inclusive growth. Thus, it needs to provide financial assistance to those who are not able to afford goods and services at the market prices or those sectors which initially need handholding to face market competition.

However, such financial assistance like subsidy, should be a targeted one and distribution of subsidy should be prioritised as per the priorities of the nation. From this perspective, as per our classification of subsidies into merit I, II and non-merit, merit I items should be given the highest priority and non-merit items the least. Although, there has been significant decline during last 10 years yet power sector has the largest share in explicit subsidies. The analysis shows that more than 50 percent of explicit subsidies still goes to power sector. It demands for greater efforts from the government to reduce technical and commercial losses and faster recoveries of arrears. Reduction in subsidy burden through better transparency, better governance and more commercialisation approach, will lead to release of large fiscal resources. Rural areas too now should be metered and suitable tariff strategy should be adopted. A huge amount of subsidies also goes toward electricity bill to private tubewells in rural areas. It should also be regulated. Agriculture and allied activities have constant share in explicit subsidies during these years.

In the case of implicit subsidies, we find that a significant jump has been recorded during post-covid years, i.e. a more than three times rise in five years. It implies that state is yet to fully recover from aftereffects of the Covid 19. However, if this level of implicit subsidies remains in future, it will put constraints on fiscal health of the state. Second trend which we should notice is that before onset of Covid 19, the share of Merit I subsidies was declining, and it has continued to decline in recent years as well. This also implies increase in the share of non-merit subsidies, which may require policy makers to think over the allocations as increasing share of non-merit subsidies is not a desirable trend.

**Appendix 9.1: Scheme-wise Subsidy for the state of Uttar Pradesh (in Rs. Lakhs)**

Department	Major Heads	Actuals for the year 2023-24			Actuals for the year 2022-23		
		State Fund Expenditure	Central Assistance including CSS/CS	Total	State Fund Expenditure	Central Assistance including CSS/CS	Total
'Namami Gange' and Rural Water	Chief Minister Minor Irrigation Scheme (District Plan)	67579.75	0.00	67579.75	54589.41	0.00	54589.41
Agriculture and Other Allied Departments	Scheme of Grant for Establishment of Solar	0.00	0.00	0.00	62.63	0.00	62.63
	National Agricultural Development Scheme	0.00	4105.90	4105.90	0.00	0.00	0.00
	Relevant State Share of Central Sponsored Schemes	0.00	0.00	0.00	5174.84	0.00	5174.84
	Relevant State Share of Centrally Sponsored Scheme	51935.59	0.00	51935.59	78489.03	0.00	78489.03
	Grant to Uttar Pradesh Electricity Corporation for electric supply to private tubewells of farmers to increase agricultural production	192000.00	0.00	1,92,000.00	1,50,000.00	0.00	1,50,000.00
	Trained agriculture entrepreneur self dependent Scheme	465.75	0.00	465.75	44.11	0.00	44.11
	National Agricultural Development Scheme(Central / State )(C+S)	0.00	0.00	0.00	0.00	7036.71	7036.71
	National Mission On Edible Oil-TBO	26.25	0.00	26.25	0.00	0.00	0.00
	Central Sponsored Schemes	0.00	0.00	0.00	0.00	7777.66	7777.66
	Oilseed seed Minikit Distribution Scheme	1420.44	0.00	1420.44	0.00	0.00	0.00
	Grant on certified seeds	6651.83	0.00	6651.83	6153.45	0.00	6153.45
	Scheme for promoting utilization of hybrid seeds	941.37	0.00	941.37	58.02	0.00	58.02
	Centrally Sponsored Schemes	0.00	22576.75	22576.75	0.00	2083.29	2083.29
	Relevant State Share of Centrally Sponsored Schemes	13252.79	0.00	13252.79	3178.03	0.00	3178.03
	Uttar Pradesh Pulses Seed Minkit Distribution Program	1837.61	0.00	1837.61	0.00	0.00	0.00
	National food security mission (C-%)	0.00	0.68	0.68	0.00	306.40	306.40
	Uttar Pradesh Millets Revitalization Program	159.15	0.00	159.15	0.00	0.00	0.00
	Insect/ Disease control through different environmental resources	1034.91	0.00	1034.91	682.70	0.00	682.70
	Vermi Compost unit	0.00	0.00	0.00	4.60	0.00	4.60
	National mission for sustainable agriculture	0.00	0.09	0.09	0.00	0.00	0.00
Central Sponsored Schemes	0.00	0.00	0.00	0.00	4406.66	4406.66	
Pt. Deen dayal Upadhyay Kishan Samridhi Yojna	1234.22	0.00	1234.22	0.00	0.00	0.00	
Centrally Sponsored Schemes	0.00	4410.18	4410.18	0.00	0.00	0.00	

Strengthening of Bio-fertilizer production laboratories / programme of encouragement of use of Bio-fertilizers	160.69	0.00	160.69	96.32	0.00	96.32
Cow-based natural farming scheme in all development blocks of Bundelkhand	1051.05	0.00	1051.05	0.00	0.00	0.00
Development plan of organic farming in District Hamirpur	0.00	0.00	0.00	383.28	0.00	383.28
Prime Minister Agriculture Irrigation Scheme	1135.05	0.00	1135.05	3423.89	0.00	3423.89
Relevant State Share of Centrally Sponsored Schemes	3669.47	0.00	3669.47	5232.73	0.00	5232.73
Distribution of Gypsum to cure the deficiency of micro-element in soil and land reclamation	180.87	0.00	180.87	181.55	0.00	181.55
Implementation of Uttar Pradesh Agriculture Export Polyc	124.83	0.00	124.83	35.25	0.00	35.25
Scheme of reimbursement of interest for Establishment of Kamdhenu Units (State Plan)	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>150.87</b>	<b>0.00</b>	<b>150.87</b>
Integrated Development Projects (Financed by N.C.D.C.)	1000.00	0.00	1000.00	1000.00	0.00	1000.00
Grant for providing crop loan to farmers on low interest rate through Primary Co-operative Agriculture Loan Societies	<b>42367.09</b>	<b>0.00</b>	<b>42367.09</b>	<b>39371.83</b>	<b>0.00</b>	<b>39371.83</b>
Dairy Development Programme	200.00	0.00	200.00	200.00	0.00	200.00
Nisadraj Boat Scheme	164.34	<b>0.00</b>	<b>164.34</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Implementation of Uttar Pradesh Potato Development Policy	23.25	0.00	23.25	18.80	0.00	18.80
Nursery	229.70	0.00	229.70	357.84	0.00	357.84
Central Directorate	10.00	0.00	10.00	10.00	0.00	10.00
District and Divisional Offices	10.41	0.00	10.41	10.40	0.00	10.40
Fruits	13892.15	0.00	13892.15	3866.00	0.00	3866.00
Centrally Sponsored Schemes	0.00	18331.61	18331.61	0.00	0.00	0.00
Central Sponsored Schemes	0.00	0.00	0.00	0.00	11909.16	11909.16
Relevant State Share of Centrally Sponsored Schemes	29568.97	0.00	29568.97	21989.16	0.00	21989.16
Incentives for production of quality based betel in the State	11.35	0.00	11.35	11.90	0.00	11.90
State Horticultural Mission Scheme (C/ S, - S.)	0.00	3679.83	3679.83	0.00	2044.22	2044.22
Relevant states share of central sponsored schemes	<b>1777.00</b>	<b>2665.42</b>	<b>4442.42</b>	<b>726.39</b>	<b>13744.44</b>	<b>14470.83</b>
Golden jubilee village self employment schemes (dist. schemes) (C-, S-)	0.00	113811.49	113811.49	0.00	47426.51	47426.51
National Rural Livelihood Mission	0.00	3639.40	3639.40	0.00	1654.02	1654.02

	Relevant State Share of Centrally Sponsored Scheme	2426.27	0.00	2426.27	272.53	0.00	272.53	
	Special Employment Scheme	601.50	0.00	601.50	622.52	0.00	622.52	
Industries Department (Handloom Industry)	Re-imburement of rebate in electricity rate to handloom weavers	488.34	0.00	488.34	492.49	0.00	492.49	
	Chief Minister Weaver Solar Energy Scheme	0.00	0.00	0.00	88.60	0.00	88.60	
	Re-imburement of rebate in electricity rate to power	134503.00	0.00	1,34,503.00	25000.00	0.00	25000.00	
	Industries Department (Handloom and Village Industries)	195.28	0.00	195.28	256.05	0.00	256.05	
	Pt. Deen Dayal Upadhyay Khadi Marketing Development Aid	1800.00	0.00	1800.00	1500.00	0.00	1500.00	
	Implementation of U.P. Start-up Policy	293.75	0.00	293.75	91.50	0.00	91.50	
	Implementation of Uttar Pradesh Electronics Manufacturing Policy	500.00	0.00	500.00	7278.15	0.00	7278.15	
	Implementation of Uttar Pradesh Information Technology and Start-up Policy	5084.38	0.00	5084.38	10.00	0.00	10.00	
	Implementation of Infrastructure and Industrial Investment Policy-	<b>19183.79</b>	<b>0.00</b>	<b>19183.79</b>	<b>12716.00</b>	<b>0.00</b>	<b>12716.00</b>	
	Aid to C.G.C.R.I. Khurja	20.00	0.00	20.00	20.00	0.00	20.00	
	Aeroplane Freight Assistance Scheme	221.21	0.00	221.21	15.00	0.00	15.00	
	Handicraft Marketing Incentive Scheme	198.50	0.00	198.50	194.42	0.00	194.42	
	Micro, Small and Medium Enterprise Promotion Policy,	3254.35	0.00	3254.35	1873.25	0.00	1873.25	
	Small Scale Industries Cluster Development Scheme(C./S.-C)	0.00	733.27	733.27	0.00	1219.15	1219.15	
	Speedy Export Development Incentive Scheme	2498.93	0.00	2498.93	2412.51	0.00	2412.51	
	Uttar Pradesh Micro and Small Scale Industries Technical Upgradation Scheme	836.73	0.00	836.73	1245.00	0.00	1245.00	
	Power Department	Grant to U.P.P.C.L. for the fourth month of and	0.00	0.00	0.00	1,25,000.00	0.00	1,25,000.00
		- as a result of providing percent discount on the basis of tariff to private tubewell consumers from .. Revenue compensation grant against amount paid of electricity tax to Uttar Pradesh Power Corporation Ltd.	230000.00	0.00	230000.00	210000.00	0.00	210000.00
Compensatory Grant to Uttar Pradesh Power Corporation Limited		1287464.00	0.00	12,87,464.0	11,01,102.4	0.00	11,01,102.4	
	Science and Additional Energy Source	3958.25	0.00	3958.25	2730.94	0.00	2730.94	

Science and Technology Department	implementation of Additional Energy Source Programmes through Non-Conventional Energy	710.00	0.00	710.00	355.00	0.00	355.00
	Implementation of Uttar Pradesh State Bio-Energy Policy-	1100.00	0.00	1100.00	0.00	0.00	0.00
	implementation of Additional Energy Source Programmes through Non-Conventional Energy Development Agency	17979.33	0.00	17979.33	19067.45	0.00	19067.45
	Incentive scheme for power generation based on solar energy sources	0.00	0.00	0.00	908.47	0.00	908.47
Social Welfare Department	Food And Nutrition Security-Krishi Unnati Yojana-National Food Security Mission (C/S-C)	1667.32	0.00	1667.32	0.00	0.00	0.00
	Sugarcane Development Scheme (District Plan)	0.00	1.59	1.59	0.00	665.95	665.95
	National Agriculture Development Scheme (C./S.-C+S)	348.64	0.00	348.64	272.84	0.00	272.84
	Centrally Sponsored Schemes	0.00	150.00	150.00	0.00	320.38	320.38
	Horticultural Development Programme	0.00	10108.51	10108.51	0.00	6406.43	6406.43
	National Mission on Agriculture Extension and Technology (C/S-C+S)	888.78	0.00	888.78	891.45	0.00	891.45
	National Gardening Mission (C/S-C+S)	0.00	0.42	0.42	0.00	0.06	0.06
	Relevant State share of Centrally Sponsored Schemes	0.00	1148.70	1148.70	0.00	583.55	583.55
	National Mission On Edible Oil-TBO	10168.58	0.00	10168.58	8415.73	0.00	8415.73
	Relevant State share of Central Sponsored Schemes	6.91	0.00	6.91	0.00	0.00	0.00
	Relevant State share of Centrally Sponsored Schemes	0.00	0.00	0.00	1736.95	0.00	1736.95
	Centrally Sponsored Schemes	1301.04	0.00	1301.04	0.00	0.00	0.00
	Farm Pond and Sprinkler Irrigation System Scheme for Rain Water Harvesting	0.00	1660.73	1660.73	0.00	1672.55	1672.55
	Technical Investment Facility to Milk Producers (District Plan)	303.13	0.00	303.13	926.41	0.00	926.41
	Grant to Milk Federations under strengthening and resurrection scheme of present Milk Federations Centrally Sponsored Schemes	137.21	0.00	137.21	138.51	0.00	138.51
	Relevant State Share of Centrally Sponsored Schemes	2677.52	45746.19	48423.71	2545.35	16552.88	19098.23
	Ambedkar Rozgar Yojna	30497.46	0.00	30497.46	20943.01	0.00	20943.01
	Chief Minister small irrigation scheme (District Plan)	595.81	0.00	595.81	624.12	0.00	624.12
	District scheme	29836.66	0.00	29836.66	27557.74	0.00	27557.74
	Development of Power-loom	142.00	0.00	142.00	142.00	0.00	142.00
Grant for employment to unemployed youth/traditional workers	0.00	0.00	0.00	155.00	0.00	155.00	
	36.59	0.00	36.59	40.34	0.00	40.34	

	Skill Reform Training	500.00	0.00	500.00	400.00	0.00	400.00
	Jhalkari Bai Kori handloom and power loom development scheme (S./La..S)	1745.23	0.00	1745.23	0.00	0.00	0.00
	Marketing Development Assistance Programme	555.00	0.00	555.00	300.00	0.00	300.00
	Product Development, Standardisation and Quality Determination	26.00	0.00	26.00	13.00	0.00	13.00
	National food security mission(C-)	0.00	0.00	0.00	0.00	8.65	8.65
	Relevant State Share of Centrally Sponsored Schemes	211.22	0.00	211.22	63.19	0.00	63.19
	Food And Nutrition Security-Krishi Unnati Yojana	27.06	0.00	27.06	0.00	0.00	0.00
	Centrally Sponsored Schemes	0.00	352.94	352.94	0.00	8.74	8.74
	National Agriculture Development Scheme	0.00	4.50	4.50	0.00	0.00	0.00
	Prime Minister Agriculture Irrigation Scheme	0.00	0.00	0.00	81.70	0.00	81.70
	Relevant State Share of Centrally Sponsored Schemes	9.60	0.00	9.60	63.95	0.00	63.95
	Centrally Sponsored Schemes	0.00	14.41	14.41	0.00	14.22	14.22
	Centrally Sponsored Schemes	0.00	7903.27	7903.27	0.00	30564.89	30564.89
	Relevant State Share of Centrally Sponsored Schemes	5268.84	0.00	5268.84	22109.91	0.00	22109.91
	Chief Minister Small Irrigation Scheme (District Scheme)	1998.09	0.00	1998.09	2457.79	0.00	2457.79
Transport Department	Subsidy on Electric Vehicles	3024.50	0.00	3024.50	0.00	0.00	0.00
	<b>Grand Total</b>	<b>2232528.55</b>	<b>2,41,045.88</b>	<b>24,73,574.4</b>	<b>19,70,254.7</b>	<b>1,56,406.52</b>	<b>21,26,661.2</b>

Source: State Accounts, CAG 2024-25.

**Appendix 9.2: Summary of Department-wise Subsidy (Rs. Lakhs)**

	Actuals for the year 2023-24			Actuals for the year 2022-23		
Department	State Fund Expenditure	Central Assistance including CSS/CS	Total	State Fund Expenditure	Central Assistance including CSS/CS	Total
'Namami Gange' and Rural Water	67579.75	0.00	67579.75	54589.41	0.00	54589.41
Agriculture and Other Allied Departments	369563.90	173221.35	542785.25	321808.67	98389.07	420197.74
Industries Department (Handloom Industry)	169078.26	733.27	169811.53	53192.97	1219.15	54412.12
Power Department	1517464.00	0.00	1517464.00	1436102.44	0.00	1436102.44
Science and Technology Department	23747.58	0.00	23747.58	23061.86	0.00	23061.86
Social Welfare Department (Special Component Plan for Schedule castes)	88948.69	67091.26	156039.95	89878.99	56798.30	146677.29
Transport Department	3024.50	0.00	3024.50	0.00	0.00	0.00
<b>Total</b>	<b>2239406.68</b>	<b>241045.88</b>	<b>2480452.56</b>	<b>1978634.34</b>	<b>156406.52</b>	<b>2135040.86</b>
<b>Share in Total (%)</b>						
'Namami Gange' and Rural Water	3.02	0.00	2.72	2.76	0.00	2.56
Agriculture and Other Allied Departments	16.50	71.86	21.88	16.26	62.91	19.68
Industries Department (Handloom Industry)	7.55	0.30	6.85	2.69	0.78	2.55
Power Department	67.76	0.00	61.18	72.58	0.00	67.26
Science and Technology Department	1.06	0.00	0.96	1.17	0.00	1.08
Social Welfare Department (Special Component Plan for Schedule castes)	3.97	27.83	6.29	4.54	36.31	6.87
Transport Department	0.14	0.00	0.12	0.00	0.00	0.00

Source: Computed from State Accounts data, CAG 2024-25.

## Chapter X

### Outcome Evaluation of State Finances in the context of recommendations of the 14th and 15th FCs

#### 10.1 Introduction

The Central Finance Commissions with their recommendations and expertise have turned out to be unique constitutional bodies over the years in the country. Each of the FCs have been faced with their own distinct goals and challenges because technically they all are constituted at different points in time. The 14<sup>th</sup> Finance Commission focused on taking the country towards greater fiscal federalism by recommending which have been seen as far-reaching changes in tax devolution. The 15<sup>th</sup> Finance Commission, in that context, had to deal with the Covid-19 pandemic as its primary and indeed an arduous challenge.

#### 10.2 14<sup>th</sup> Finance Commission

The 14<sup>th</sup> Finance Commission submitted their report in the year 2015 which became the basis for resource-sharing from 2015-2020. The commission gained popularity as “the watershed commission” as it made some significant departures from the previous commissions in various aspects. The most unprecedented step was the increase of states’ share in tax devolutions from 32 percent to 42 percent. The expectation behind this was to let states enjoy relatively larger amounts of untied funds than tied funds eventually leading to greater state expenditure autonomy. Besides this, the commission also departed from the norm in assessing revenue and expenditures of states by taking into consideration every state’s entire revenue expenditure needs and not distinguishing between plan-non plan expenditure.

The previous Finance Commissions i.e. before 14<sup>th</sup> finance commission, had been recommending grants-in-aid for mainly five purposes viz. revenue deficit, disaster relief, local bodies, sector-specific schemes, and state-specific schemes. The details of these grants under the 14<sup>th</sup> commission are as follows:

##### *10.2.1 Grants-in-aid to States*

For the award period 2015-2020, the commission recommended the grants to states for local bodies, disaster management and revenue deficit. Among these, local governance was given the highest priority with the grant amounting to Rs. 2,87,436 crores (table 10.1).

**Table 10.1: Grants-in-Aid to States (Rs. in crores)**

	<b>Grants</b>	<b>Amount</b>
<b>1</b>	Local Government	287436
<b>2</b>	Disaster Management	55097
<b>3</b>	Post-devolution Revenue Deficit	194821
	<b>Total</b>	<b>537354</b>

Source: Fourteenth Finance Commission Report.

### 10.2.2 State-wise share in grants

The commission in its review of sector-specific grants from the past, noted that the quantum of these grants has been quite small in terms of its proportion in the actual expenditure of respective states. It also added that the actual utilisation was lower than the allocations made particularly because the conditionalities were not fulfilled by the states. Thus, in framing its recommendations for grants to local bodies it took into account following factors—minimal conditionalities, increasing grants, strengthening the role of SFCs and enhanced trust on local bodies. The total demand made by Uttar Pradesh for grants in aid for the period 2015-20 to the commission was Rs. 72526 crores (Fourteenth Finance Commission report).

### 10.2.3 Grants to Local Bodies

The details of grants made by the commission to the state are discussed below. Table 10.2 presents the basic grants made to the rural and urban local bodies of the state. Clearly, the allocations increased for every next year under the award period and the trend of higher grants towards RLBs has been followed. The aggregate grant to Rural local bodies from 2015-20 stood at Rs. 180262.98 crores while for the Urban local bodies the same was Rs. 69715.04 crores. Table 10.3 shows the performance-based grants which aim to encourage the local bodies to perform better and the criteria for measuring the performance are submission of audited manual accounts and an increase in own revenues in the previous year. For ULBs measuring and publishing service level benchmarks for basic services is an additional eligibility norm. In the case of panchayats, 90 per cent of the grant was to be the basic grant and 10 per cent the performance grant. In the case of municipalities, the division between basic and performance grant was to be in the ratio of 80:20. As the table suggests, the difference between allocations for RLBs and ULBs in case of performance grants is lower in comparison to basic grants case. The aggregate grant to rural local bodies for the period 2015-20 was Rs. 20029.22 crores while for urban bodies it was Rs. 17428.76 crores. In case of RLBs the share of state grants in the aggregate grants has been 17.86 percent in both basic and performance grants while it is 11.76 percent for the ULBs.

## Grants to Local Bodies

**Table 10.2: State-wise Share - Basic Grants Uttar Pradesh (in Rs. Crore)**

Local Bodies	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
Rural Local Bodies	3862.60	5348.45	6179.65	7148.74	9659.47	32198.90
Release	3852.60	5334.60	6179.65	7148.74	9659.47	32175.06
<b>Aggregate</b>	<b>21624.46</b>	<b>29942.86</b>	<b>34596.25</b>	<b>40021.65</b>	<b>54077.76</b>	<b>180262.98</b>
Urban Local Bodies	983.60	1361.97	1573.63	1820.41	2459.76	8199.37
Release	491.80	1268.80	2111.58	NA	NA	NA
<b>Aggregate</b>	<b>8363.06</b>	<b>11580.12</b>	<b>13379.78</b>	<b>15478.00</b>	<b>20914.08</b>	<b>69715.04</b>

Source: Fourteenth Finance Commission Report

**Table 10.3: State-wise Share - Performance Grants Uttar Pradesh (in Rs. Crore)**

Local Bodies	2016-17	2017-18	2018-19	2019-20	2016-20
Rural Local Bodies	701.57	793.92	901.60	1180.57	3577.66
Release	871.87	-	-	-	-
<b>Aggregate</b>	<b>3927.66</b>	<b>4444.71</b>	<b>5047.53</b>	<b>6609.32</b>	<b>20029.22</b>
Urban Local Bodies	401.97	454.88	516.58	676.42	2049.84
Release	398.80	-	-	-	-
<b>Aggregate</b>	<b>3417.72</b>	<b>3867.64</b>	<b>4392.19</b>	<b>5751.21</b>	<b>17428.76</b>

Source: Fourteenth Finance Commission Report

### 10.2.4 State Disaster Response Fund (SDRF)

SDRF is the primary Fund available with state governments for disaster response. The commission recommended regarding this that the Union Government should expedite the development and scientific validation of the Hazard Vulnerability Risk Profiles of States (FFC Report). Table 10.4 shows the state disaster response fund allocated by the commission to the state and the aggregate allocation under the category. Overall, the total grant of Rs 3729 crores was allocated to the state under the disaster response fund which was 6.09 percent of the aggregate grant to all states during the award period of the commission. There is a very little rise seen in the grant amount over the years of the said period. Anyhow, same is the case with the aggregate allocation as well.

**Table 10.4: State Disaster Response Fund (SDRF) 2015-20 (in Rs. Crore)**

	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
<b>Uttar Pradesh</b>	675	709	744	781	820	3729
<b>Aggregate</b>	11079	11633	12215	12826	13467	61219

Source: Fourteenth Finance Commission Report.

### 10.2.5 Revenue deficit grants

Under this the commission recommended Grants-in-aid for Post-devotion Revenue Deficit for the award period of 2015-20. A total grant of Rs. 1,94,821 crore was recommended for eleven states. However, the state of Uttar Pradesh was not among these states given its revenue surplus situation back then.

### 10.2.6 Sector-Specific Grants

The 14<sup>th</sup> finance commission received requests for sector-specific grants and identified these grants under four categories. The recommendations of the commission for each of these categories are as follows:

#### 1) General Administration (Judiciary and Police)

The commission endorsed the proposal submitted by the Department of Justice (Union Government) which sought to strengthen the judicial systems in the states. However, it urged the state governments to use the additional fiscal space as provided by the commission in the devolution of taxes. For the proposal by Ministry of Home Affairs regarding Police modernisation too the commission viewed that the states have the sufficient fiscal space to provide for these expenditures according to their requirements. This will help the states in capacity building and bridging the gaps in these sectors. Under this a proposal of total state-wise required fund of Rs. 915.20 crores was made for Uttar Pradesh.

#### 2) Environment (Forests)

Taking into account the ecological benefits of forest areas and the states demands for grants for the same, the commission decided to include the area covered by forests as a significant criterion for horizontal devolution. As mentioned by the commission this devolution formula captures revenue as well as cost disability. Besides, it would enable the states to protect forests as a 'national treasure'.

#### 3) Maintenance (Irrigation, roads, and bridges)

Regarding maintenance grants for irrigation, public buildings etc., the commission provided appropriate fiscal space for these expenditures. It also urged the states to increase expenditure on maintenance of capital assets to desired levels.

4) Social Sector (Elementary education, health, drinking water and sanitation)

Under this category, while recognising the importance of these public services and their significant inter-state externalities, the commission desisted from recommending any specific-purpose grants. Rather it suggested that a distinct institutional arrangement should be introduced for this purpose.

### 10.3 15<sup>th</sup> Finance Commission

15<sup>th</sup> Finance Commission, like all other FCs in the past, recommended several grants-in-aid, states specific and sector specific grants (some of them being performance linked grants) over the 2021-26 period. However, the commission introduced a new category which it calls ‘health grants for local governments’ as well, probably owing to the covid-19 scenario. The funding under these grants shall be provided from the central resources. These grants are detailed as follows:

#### 10.3.1 Revenue deficit grants

The Central Government provides the Post Devolution Revenue Deficit (PDRD) Grant to states under Article 275 of the Indian Constitution. These grants are designed to help states cover the costs of state-level welfare programs or enhance the administration of scheduled areas. The primary objective is to address inter-state financial disparities and ensure uniform maintenance and expansion of welfare schemes across the nation. However, Uttar Pradesh does not receive this grant.

#### 10.3.2 Sector-specific grants

The 15<sup>th</sup> Finance Commission has also recommended sector-specific grants to states for eight sectors. These sectors are - (i) health, (ii) school education, (iii) higher education, (iv) implementation of agricultural reforms, (v) maintenance of PMGSY roads, (vi) judiciary, (vii) statistics, and (viii) aspirational districts and blocks. Some part of the grant is performance-based grant. However, as per the Uttar Pradesh Budget records, the state is getting health sector grants only for three categories i.e. allopathic hospitals, family welfare and public health.

### 10.3.3 State-specific grants

The Commission has also recommended state-specific grants. These grants are mainly for - social needs, administrative governance and infrastructure, water and sanitation, preservation of culture and historical monuments, high-cost physical infrastructure, and tourism.

### 10.3.4 Grants to local bodies

The commission has also made recommendation regarding financial support to the local governments i.e. panchayati raj institutions (PRIs) and urban local bodies (ULBs). The grants to local bodies will be made available to all three tiers of local government. Under PRIs, they are Zila Panchayat, Block Panchayat and Gram Panchayat. On the other hand, in the case of ULBs, they are Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat. The 15<sup>th</sup> FC has divided ULBs into million plus cities/urban agglomerations and non-million plus cities/urban areas (on the basis of population of Census 2011). Grants to million-plus cities have been divided into two categories – solid waste management and air quality management.

### 10.3.5 Disaster risk management

The last one is state disaster risk management grants. The Commission recommended retaining the existing cost-sharing patterns between the centre and states for disaster management funds.

**Table 10.5: State-wise details of grants-in-aid for 2021-26 (in Rs. Crore)**

States		Uttar Pradesh	Total	Percent Share
<b>Revenue deficit grants</b>		0	<b>2,94,514</b>	0
<b>Grants to local bodies</b>	<b>Health grants</b>	9,716	<b>70,051</b>	13.87
	<b>Rural local bodies</b>	38,012	<b>2,36,805</b>	16.05
	<b>Urban local bodies</b>	19,432	<b>1,21,055</b>	16.05
<b>Disaster Management</b>		10,685	<b>1,22,601</b>	8.72
<b>Certain sector-specific grants</b>	<b>Health</b>	6,150	<b>31,755</b>	19.37
	<b>PMGSY Roads</b>	1,465	<b>27,539</b>	5.32
	<b>Statistics</b>	114	<b>1,175</b>	9.7
	<b>Judiciary</b>	1,825	<b>10,425</b>	17.51
	<b>Higher Education</b>	893	<b>6,143</b>	14.54
	<b>Agriculture</b>	5,334	<b>45,000</b>	11.85
<b>State-specific grants</b>		3,495	<b>49,599</b>	7.05

Source: 15<sup>th</sup> Finance Commission Report Recommendations.

Table 10.5 gives the total grants-in-aid recommended by the 15<sup>th</sup> Finance Commission during 2021-26 under various sectors and heads along with the grants under corresponding sectors and heads to Uttar Pradesh. It gives a glimpse of the grants to be received by different sectors and heads as well as the share of state in the total grants from the 15<sup>th</sup> FC. Revenue deficit grant for

the state is zero for the obvious reason of it enjoying a revenue surplus status already. Grants-in-aid for the award period of 15<sup>th</sup> FC (2021-26) for the Rural local bodies of the state were Rs. 2,36,805 crores whereas for Urban bodies it is Rs. 1,21,055 crores.

Health grants for local bodies have a share of 13.87 percent in the total whereas both PRIs and ULBs hold a share of 16.05 percent each in the recommended allocations. Under Disaster management head the share in total is only 8.72 percent, logically because the state is geographically a safe zone from disasters. However, recent years have witnessed a dire scenario in terms of frequency and intensity of Floods in Uttar Pradesh with vital consequences for agricultural crops, livestock and human settlements in certain districts. Among Sector-specific grants Health with a share of 19.37 percent held the highest slice followed by Judiciary (17.51%) and Higher education (14.54%). In terms of absolute amount, Agriculture was to receive the second highest grant i.e. Rs 5334 crores although its share in the total grants recommended for all states was only 11.85 percent. Lastly, the state specific grant for UP holds a share of 7.05 per cent in the total as divided by the commission. Overall, as absolute amount, the Rural local bodies were supposed to earn the highest grant worth Rs. 38,012 crores among all other grants-in-aid heads. There appears to be an evident emphasis on the development and empowerment of local bodies under the recommendations of Finance commissions as well as State finance commissions.

### *10.3.6 Trends in devolution of transfer of resources*

Table 10.6 presents transfer of resources by the Centre under the 15<sup>th</sup> FC grants for different schemes to the state government during 2020-21 to 24-25. The figures for 2023-24 and 2024-25 are revised and budget estimates respectively. It is also important to note here that allocations for 2020-21 should not be read with remaining time-period as recommendations for this year were slightly different from their regular award period viz. 2021-22 to 2025-26. Thus, if we look at the regular award period, we notice a gradual rise in total financial allocations to the state from Rs. 12306.42 crores to 17334.19 crores in 2024-25 (that too when no allocations under health sector grants for allopathic hospitals are made in the year 2024-25).

Grants to the PRIs registered a moderate growth during this period. However, significant variation can be seen in the total grants to ULBs. Allocations rose from Rs. 1761.25 crores to Rs. 5118 crores, which is an around three times rise. Allocations to non-million plus ULBs grew faster than million-plus cities (it could be mainly because of large number of non-million plus cities which are also becoming non-attainment cities from the perspective of air pollution

as per the NCAP standards, thus, calling for greater funds). Grants in aid for state disaster response fund too has risen by around 1.5 times during the selected period.

**Table 10.6: Devolution and Transfer of Resources from the 15<sup>th</sup> FC to states (in Rs. Crore)**

Item	2020-21	2021-22	2022-23	2023-24	2024-25
<b>PRIs Grant</b>	<b>9,752.0</b>	<b>7,208.0</b>	<b>7,466.0</b>	<b>7,547.0</b>	<b>7,994.0</b>
ULBs Million Plus cities	1887.75	526.25	963.82	1183	1253
ULBs non million plus cities	2450.25	1235.00	2514	2705	3865
<b>Total ULBs Grant</b>	<b>4338</b>	<b>1761.25</b>	<b>3477.82</b>	<b>3888</b>	<b>5118</b>
<b>Grant in aid for State Disaster Response Fund</b>	<b>1933</b>	<b>1546.40</b>	<b>1401.60</b>	<b>2131.50</b>	<b>2238.75</b>
Health Sector Grants – Allopathic Hospitals	NA	1644.36	38.32	1572.27	NA
Health Sector Grants – Family welfare	NA	70.31	2223.70	268.48	1983.42
Health Sector Grants – Public Health	NA	76.10	0.02	80.36	0.02
<b>Total health sector grants</b>		<b>1790.77</b>	<b>2262.04</b>	<b>1921.11</b>	<b>1983.44</b>
<b>Total financial grants</b>	<b>16023</b>	<b>12,306.42</b>	<b>14,607.46</b>	<b>15,487.61</b>	<b>17,334.19</b>

Source: Budget documents (various years), Government of Uttar Pradesh.

**Table 10.7: Expenditure incurred by the state on specified items by the 15<sup>th</sup> FC (in Rs. Crore)**

Item	2020-21	2021-22	2022-23	2023-24	2024-25
Zila Panchayat	0.00	1081.20	1119.90	1018.84	479.64
Block level panchayat	0.00	1081.20	1119.90	1018.84	479.64+719.46 (Tied)=1199.10
Gram Panchayat	0.00	5045.60	5226.20	4754.61	2238.32+3357.48 (Tied)=5595.80
<b>PRIs</b>	<b>0</b>	<b>7208</b>	<b>7466</b>	<b>6792.29</b>	<b>7274.54</b>
ULBs Million Plus cities	1071.00	526.25	963.82	1066.50	1253.00
ULBs non million plus cities	3267.00	1235.00	2514.00	2690.71	3865.00
<b>Total ULBs Grant</b>	<b>4338</b>	<b>1761.25</b>	<b>3477.82</b>	<b>3757.21</b>	<b>5118</b>
Health Sector Grants – Allopathic Hospitals	NA	1197.98	246.34	692.30	NA
Health Sector Grants – Family welfare	NA	204.43	1099.60	2142.77	775.56
Health Sector Grants – Public Health	NA	61.22	0.00	0.02	0.02
<b>Total health sector grants</b>	<b>NA</b>	<b>1463.63</b>	<b>1345.94</b>	<b>2835.09</b>	<b>775.58</b>
<b>Total financial grants</b>	<b>4338</b>	<b>10432.88</b>	<b>12289.76</b>	<b>13384.59</b>	<b>13168.12</b>

Source: Budget documents (various years), Government of Uttar Pradesh

Health sector grants are highly volatile in terms of allocations. There were no such grants in the financial year 2020-21. Grants for allopathic hospitals significantly declined from 1644.36 crores to 38.32 crores during 2021-22 and 2022-23 before rising to 1572.27 crores in 2023-24 (with no allocations in 2024-25). Similarly, grants for family welfare increased from a meagre amount of Rs. 70.31 to a huge 2223.70 crores during 2021-22 and 2022-23 but came down to 268.48 crores in 2023-24. It again went up to 1983.42 crores in 2024-25. However, public

health only managed to get the lowest of health sector grants with high fluctuations too. For 2021-22 and 2023-24, allocations were 76.10 and 80.36 crores respectively. Surprisingly, only Rs. 2 lakhs were granted for remaining two years.

Table 10.7 presents actual expenditure incurred under each given head during the same period. We have also estimated the extent of under-utilisation or excess utilisation by deducing amount received from the Centre from actual expenditure incurred under each given head. In table 10.8, the negative amount shows under-utilisation of funds and positive values show excess utilisation which implies that state government has also provided funds from the state exchequer to support that scheme.

Evidently, in case of PRIs huge under-utilization (table 10.8) can be seen in 2020-21 which became zero for the two following years but again rose to the negative values of -754.71 and -719.46 crores in 2023-24 and 2024-25 respectively. For the ULB grants, this has been zero for almost all the years except 2023-24 with a negative value of -130.79 crores. It implies that utilization rate is higher in case of urban schemes than the rural heads. Under Health sector grants, Allopathic hospitals showed excess utilization only in 2022-23 with the value of 208.02 crores but again in 2023-24 it registered an under-utilization of -879.97 crores.

**Table 10.8: Under/excess utilisation of 15<sup>th</sup> FC scheme grants (in Rs. Crore)**

Item	2020-21	2021-22	2022-23	2023-24	2024-25
<b>PRI</b>	-9,752.00	0.00	0.00	-754.71	-719.46
ULBs Million Plus cities	-816.75	0	0	-116.5	0
ULBs non million plus cities	816.75	0	0	-14.29	0
<b>Total ULBs Grant</b>	0	0	0	-130.79	0
Health Sector Grants – Allopathic Hospitals		-446.38	208.02	-879.97	
Health Sector Grants – Family welfare		134.12	-1124.1	1874.29	-1207.86
Health Sector Grants – Public Health		-14.88	-0.02	-80.34	0
<b>Total health sector grants</b>		-327.14	-916.1	913.98	-1207.86
<b>Total financial grants</b>	-9,752.00	-327.14	-916.10	28.48	-1,927.32

Source: Budget documents (various years), Government of Uttar Pradesh.

The grants for Family welfare displayed excess utilization with Rs. 134.12 crores in 2021-22 but in 2022-23 the situation reversed with a considerable under-utilization of -1124.1 crores. Again, in 2023-24, utilization was in excess with an amount of 1874.29 crores only to become negative again in 2024-25 with a huge -1207.86 crore gap. In case of Public Health too, there

have been consistent under-utilizations but the grant amount itself being low it is not that big. Still, it is strange that even out of these already small grants, despite Public Health being a crucial sector, full amount is not being spent. Overall, the total Health sector grants draw a picture of under-utilization for most of the years. Only in 2023-24, an excess utilization with the value 913.98 crores is noted. Thus, a look at the total financial grant utilisation numbers gives evidences of more under-utilization than excess. 2020-21 with a huge negative value of -9752 crores hints of the challenges associated with the pandemic and this was brought down to -327.14 and -916.10 crores in the following years as well. Moreover, year 2023-24 was one of excess utilisation, the only one to be labelled so with a positive value of 28.48 crores. The trend for 2024-25 again appears to be moving to under-utilization with a considerable gap of -1927.32 crores.

**Table 10.9: Focus Area wise utilization of 15<sup>th</sup> FC Grant by PRIs of Uttar Pradesh (in Rs. Crore)**

Focus Area	Admin & Tech Support	Drinking Water	Education	Maintenance of Community Assets	Others	Roads	Sanitation	Grand Total
<b>Untied Grant</b>	147.07	55.72	25.53	38.31	105.81	244.98	88.91	<b>706.32</b>
<b>Tied Grant</b>	-	274.63	-	-	-	-	441.03	<b>715.65</b>

Source: Department of Panchayati Raj, UP.

In case of PRIs Tied Grant from the commission was to be utilized for sanitation and drinking water management whereas the Un-tied Grant to be utilized for basic infrastructure development and maintenance etc. Table 10.9 gives the focus area wise utilisation of these grants by the PRIs of Uttar Pradesh as reported by the Department of Panchayati Raj for the financial year 2023-24. As a total, Rs.14,21.97 crore out of total ₹ 2680.86 crore has been spent on the activities proposed for the said year by PRIs. Evidently, sanitation, drinking water and roads, have been given the highest priority. Moreover, using Rs. 328.78 crores (table 10.10) of Tied Grant of the FC, a total of 34,755 Swachh Bharat Mission (Gramin) (SBM-G) assets was created in the year 2023-24. This included expenditure on the following asset categories:

**Table 10.10: 15<sup>th</sup> FC Utilization in SBM(G) for FY 2023-24**

SBM(G) Asset category	Asset Proposed	Expenditure so far (in Rs. Crore)
Community Sanitation	9677	64.51
Faecal Sludge Management	530	3.87
Gobardhan	65	0.48

Household Sanitation	665	3.54
Liquid Waste Management	19260	225.43
Menstrual Hygiene and Waste Management	250	0.86
Plastic Waste Management	909	7.73
Solid Waste Management	2770	22.36
<b>Grand Total</b>	<b>34755</b>	<b>328.78</b>

Source: Department of Panchayati Raj, UP.

## 10.4 Conclusion

The major function of central Finance Commissions is to evaluate the state of finances but strengthening cooperative federalism is among its primary responsibilities. The 14<sup>th</sup> FC recommendations worked in favour of the states in changing the vertical balance in terms of resource sharing. Uttar Pradesh benefitted mostly in terms of the allocations it made to local bodies of the state. It has been observed that the decline in tied plan grants from the union government under the 14<sup>th</sup> FC resulted in a contraction in the volume of transfers towards the social sector leading to a lower priority to social services by the states (Choudhury et al, 2018).

The 15<sup>th</sup> FC submitted its report with a title 'Finance Commission in COVID Times' which hints about the detailed recommendations inside the report. It stated that the health condition grants will be unconditional, indeed considering the then circumstances. Moreover, the total grants-in-aid support to health sector was the second one among the three major grants by the commission, first being the revenue deficit grants. Grants for local bodies have been a priority as well confirming the conviction of FCs about the significant role of these local governance units in primary healthcare.

Anyhow, when it comes to the implementation or utilization of these grants, the state seems to have failed to match the expectations in some cases. Even the health-sector grants have not been spent fully in some of the years. That said, it cannot be denied that such underutilization is not always due to inefficiency but also because of lack of willingness on the part of state. While the intention of the Commission is to further the process of fiscal decentralisation to the sub-state level by placing eligibility conditions to the states for the local bodies to receive grants, the problem is that the states may not have the incentive to undertake the suggested reforms, as they are not going to be the losers, and the public pressure may not be strong enough to force them to undertake them (Rao, 2021). As suggested by various Finance Commissions already, an institutional mechanism needs to be in place for regular monitoring and reviewing of the utilization of these funds so that proper implementation can be ensured.

## Chapter XI

### Conclusion and Policy Suggestions

The present study attempted to analyse and evaluate the state finances of Uttar Pradesh for the period of 2012-13 to 2023-24 within the given Terms of reference (ToR). These ToRs from the commission incorporated the macro-economic perspective of the state, patterns, and productivity of the tax system prevalent in the state, expenditure components and their efficiency, the debt levels and deficit mapping, commitment towards FRBM targets, the decentralisation initiatives with devolution status, power sector reforms, subsidies, and an outcome evaluation of the flow of resources from 14<sup>th</sup> and 15<sup>th</sup> Finance commissions.

Notably, Uttar Pradesh performs low in terms of key indicators of economic progress and social development. The pace of economic progress and structural transformation remains insufficient to escape the low equilibrium trap. Persistent unemployment especially youth unemployment, insistent rural and urban poverty, and low economic well-being are likely to put significant strain on state finances, as the demand for higher expenditure grows while revenue capacity remains limited. A rise in the labour force participation rate of females during the study period is a positive sign. The state also witnessed a strong recovery from the global crisis.

#### 10.1 Conclusion

Major conclusions of the study under various chapters are as follows:

##### *10.1.1 Trends in Revenue*

The tax/GSDP ratio of the state is hovering between 7 to 8 percent. The analysis shows that OTR and GSDP are almost growing with same pace. The OTR shows a consistent upward trend, growing from Rs. 58,098.4 crore in 2012-13 to a projected Rs. 2,13,064.5 crores in 2023-24, with a noticeable jump after 2017-18. It grew at an average of 11.56 percent in 2013-14 to 2019-20, rising sharply to 15.26 percent post-2020. For the entire period, the average annual growth rate is 12.90 percent. Taxes on Commodities and Service share contribute more than 80 percent of total OTR collections.

Initially a major contributor with a 60.02 percent share in 2012-13, sales tax share declined significantly to 16.98 percent in 2023-24 due to the introduction of GST. The introduction of SGST in 2017-18 restructured revenue collection and it quickly became the largest subcategory within Commodities and Services, contributing 41.20 percent of OTR in 2023-24. SGST has

become particularly significant since its introduction. Total tax revenue grew substantially over the analysis period, marking a significant expansion of the revenue base and it also highlights a transition towards greater fiscal self-reliance for the state. Tax buoyancy for the state is 1.08, meaning OTR increased by 1.08 for every 1 percent growth in GSDP during 2013-14 to 2019-20 and it increased to 1.12, showing that OTR has higher responsiveness to GSDP growth over the whole period

#### *Non-tax revenues*

Pre-pandemic growth in NTR (24.46%) was higher compared to post-pandemic growth (4.51%), indicating a slowdown in non-tax revenue generation post-2020. Over the whole period, its average annual growth rate was 17.21 percent, reflecting moderated overall growth. The analysis highlights the diminishing buoyancy of NTR over time. A one percent increase in GSDP is associated with a 0.94 percent change in NTR. Economic disruptions and the COVID-19 pandemic could be the possible reasons for this. After 2019–20, the ONTR/GSDP percentage drops sharply reaching 0.46 percent in 2023-24. Non-tax revenues from general, economic and social services are below expected level. Receipts from dividends and profits received from the PSEs are very low.

#### *10.1.2 Expenditure*

The analysis of trends in capital and revenue expenditure in state and the transitions therein allowed us to understand the fiscal landscape of its economy better. Evidently, capital expenditure has shown significant growth in recent years, however, it is crucial that more resources are directed towards the developmental activities in continuous manner to stimulate growth and development. While revenue expenditure forms the major share of total expenditure (approximately 76.41 percent on average), its contribution to total expenditure gradually declined to 71.92 percent in 2023-24.

In the post pandemic period, the share of capital expenditure persistently grew, from 21.17 percent in 2020-21 to 28.08 percent in 2023-24 whereas that of revenue expenditure declined, suggesting significant shift in the expenditure pattern of the government. Capital Expenditure fluctuates more than Revenue Expenditure, indicating shifts in government priorities and budget allocations. The share of capital expenditure is nearing 30 percent, indicating a shift towards long-term asset creation.

Revenue expenditure on social services (Health, Education, Welfare, etc.) declined from 6.48 percent (2012-13) to 5.77 percent (2018-19) but rose again to 6.08 percent in 2022-23, showing

renewed focus on social welfare, whereas, capital expenditure on social services initially declined (from 0.92% in 2012-13 to 0.67% in 2018-19) but jumped to 1.53 percent in 2022-23, indicating increased investment in schools, hospitals, and public facilities.

The major chunk of revenue expenditure is formed by developmental expenditure (around 55 percent), followed by non-developmental expenses (around 37 to 40 percent) and grants-in-aid (around 4.3 to 6 percent). Anyhow, a decline in the share of non-developmental expenditure is observed in the recent years. Another fact that provides a positive notion about the transitions in expenditure is that the share of capital expenditure in total expenditure has grown from 17.28 percent in 2017-18 to 28.08 percent in 2023-24, indicating government's push to developmental activities in the state. The analysis of allocative efficiency of expenditures of Uttar Pradesh re-establishes that investments in social sector elements such as health and education are required to bring the state at par with NSC average.

### *10.1.3 Deficits and Debt*

The current scenario of state's revenue surplus and persistent fiscal deficits puts forward a complex picture. While the increase in revenue surplus provides a positive notion that the government is able to meet its recurrent expenses, the persistent increase in fiscal deficit (majorly on account of increased capital outlay) can have mixed implications in the long-term. The shrinking primary deficit in the years of 2015-16 to 2017-18 signal a healthier economy in those years, it is safe to state that the rise in primary deficit in recent years may not be an indicator of concern as long as the value doesn't increase significantly and the government is not over-reliant on borrowings to fund expenditures.

In the recent years, the financing of deficit through market borrowings and loans from the Centre has seen significant increase, adding to the overall outstanding debt of the state government. While market borrowings are already low-cost borrowings, it has been observed that the cost of loans from Centre has also witnessed a decline in recent years which is evident in interest paid on loans from the Centre. The emerging trends suggest that government is shifting its borrowing to cheaper sources which shall reduce its effective interest burden in future. However, the benefits that can be secured will depend on the choices that the government makes because on one hand, the additionally saved funds from lower costs may be redirected by government towards developmental programmes, creating a positive economic impact, whereas on the other hand, lower cost of loans means increased borrowings by the state in the near term which can also have detrimental effects on state's economy.

The overall outstanding debt of Uttar Pradesh has grown at an average rate of 11.6 percent, growing from Rs. 225123.6 crores in 2012-13 to Rs. 747545.7 crores in 2023-24. Thus, it can be safely stated that the growth in debt of state has followed more of a linear trajectory over the last four years except for the disturbances from the pandemic related borrowings. The increase in debt brings along additional costs in form of its servicing and persistent increase in such payments can result in reduced revenue allocation to public investments which may hinder economic growth. A significant drop is evident in the percent share of interest payments in revenue receipts and revenue expenditure. The decline in these percent share of interest payments in GSDP may suggest improvements in fiscal health, and enhanced fiscal space which may result in greater investments in public services. While the share of market borrowings has grown, this growth in share is due to the reduction of share of remaining categories in overall debt. The only exceptions are loans and advances from Central Government whose share has increased in recent years, and loans and advances from financial institutions, whose share has stayed mostly steady over the years.

It can be observed that while the borrowings from central government have increased over the years, the interest paid on these borrowings has depicted a decreasing trend. On the other hand, interest payments on internal debt, which include payments on market borrowings and short-term loans from central bank, have continued to show an increasing trend. The reduction in quantum of interest paid on borrowings from central government may be due to lower borrowing costs, refinancing or change in debt structure. The decline in contingent liabilities in recent years reflects reduction in sovereign guarantees and efficient handling of such liabilities on the part of government.

#### *10.1.4 Fiscal Management*

There is no doubt in the consistent compliance of the provisions of FRBM act and MFRP framework by UP government when it comes to the fiscal and revenue deficits. The revenue surplus of the state continues which is a positive aspect. However, the revenue situation of the state calls for some multi-dimensional reforms as tax revenue growth has not been satisfactory at the same time.

#### *10.1.5 Local Bodies*

Every SFC including fifth SFC has expressed the concern that the state government must first get implemented all the accepted recommendations of the previous commissions on top priority basis, by the concerned administrative departments. The deviations from SFC

recommendations in such implementations should be avoided. In addition, the delays in constituting the SFCs may be done away with. For local bodies to have adequate financial resources so that functions can be performed, transfer of funds has to be done in a timely manner. Of late, transfers to ULBs appear to have become more regular and transparent which is a positive change. A shortage of personnels when it comes to division of responsibilities for performing numerous functions at Gram panchayat level has been a consistent issue. A total of Rs. 18000 crores was devolved by the Fifth SFC to the local bodies of state, of which ULBs share was Rs. 10800.0 crores and that of RLBs Rs. 7200.0 crores. The sixth SFC of the state has been constituted but the report is yet to come out.

The 14<sup>th</sup> FC and successive SFCs too have strongly pointed out about the lack of data and the available data not being in useable form, making them “handicapped” in determining the resource gap at the level of local bodies. Due to large gaps in monitoring mechanisms and finalisation of accounts, large arrears are seen in the accounts of local bodies making it difficult to get clear data.

#### *10.1.6 State Public Enterprises*

The total number of public sector enterprises in the state stands at 113, out of which 107 are public companies and 6 are statutory corporations. Out of the total public companies, 41 have become inactive whereas all 6 statutory corporations are operational. Thus, the total number of working corporations stands at 72 as per the latest records. The total equity and long-term loan for both- power sector and non-power sector state enterprises stands at Rs. 371214.98 Crore, of which, the major share (approximately 89 percent) has been injected into power sector.

The energy companies have suffered losses throughout the previous decade, with the amount going as high as Rs. 12,916 crores in 2015-16. The losses have declined significantly post 2015-16 due to decline in the growth of expenditures which have grown at an average rate of 4.03 percent between 2016-17 and 2019-20. While the non-energy sector entities earned profits throughout the previous decade, the concerning aspect is that the profits of the sector have declined significantly from Rs. 997.3 crores to Rs. 331.19 crores in 2019-20 after a volatile trend. The combined losses of selected 40 companies peaked in 2015-16 with total loss amounting to Rs. 16154.2 Crore, post which they have significantly declined to as low as 1916.2 Crore in 2019-20.

The high number of inactive government companies puts forward a concerning picture of state enterprises and signals towards the requirement of efficient privatisation or restructuring

policies for these entities. While the higher investment share towards energy sector displays government's focus to improve power infrastructure and related services in the state, the financial and operational issues continue to persist in power distribution companies. The persistent underinvestment in non-power sector may enhance the financial troubles of companies in the sector which may cause hinderances in their operations.

The CAG (2024) report on the state finances stated that out of the total SPEs, 41 have become inactive, which include 13 enterprises which are currently going through liquidation. During this period, 24 enterprises continued to suffer losses and 15 enterprises witnessed erosion in their net worth. As per the latest records, a total of 10 state public enterprises have witnessed complete erosion in their net worths which amounted to (-) Rs. 62,779.27 crore. In the long-term, this may force more companies to become inactive and their maintenance will pose additional burden on state's resources. The implications of inactivity and net worth erosion on performance of state enterprises and state's economy may be multifaceted. Liquidation/dissolution of such companies may have consequences on the employment in the state which may have implications on local economies as well, since public sector companies are assumed to provide stable employment.

The power sector enterprises have been receiving major chunk of investment through the years given their crucial role in development. However, the enterprises in this sector have continuously suffered losses despite the consistent financial support. A trilemma for such enterprises is to provide services at affordable rates, lower their operational expenditures and enhance their revenue generation capacity at the same time. The prospects of resorting to policy options such as public-private partnership should be examined for such enterprises as they will not only enhance the efficiency of such enterprises but also reduce the burden on state's resources.

The non-energy sector enterprises have persistently earned profits, however, the decline in their profits in recent years may become an issue in the coming decade. These enterprises have managed to be profitable despite receiving lower investments, which suggests that more thoughtful investment in required areas can help them enhance their operational efficiency and revenue generation capacity. However, these investments must be supported with adequate structural reforms to ensure their effective utilisation. Analysis of consolidated accounts of 40 state-owned enterprises has also been done, which has put forward a concerning picture of

enterprises in the state. The enterprises (all combined) have posted continuous losses throughout the decade as their expenditures have outgrown their revenues.

### *10.1.7 Power Sector Reforms*

The analysis done in this chapter has revealed various positives and negatives regarding the infrastructural aspects, financial aspects, and overall performance of the sector.

Persistent power shortages have significant impact on service quality of the DISCOMS and also their finances as they often have to resort to borrowing power from other states and suppliers. Moreover, it has been observed that these corporations usually fail to meet their operational expenses and often require government bailouts, which ultimately puts pressure on the finances of the state.

The combined losses of state-owned distribution companies have been increasing at an average rate of 15% post 2015-16. The collective accumulated losses amounted to Rs. 6.77 lakh crores in the fiscal year 2022-23. The Plant load factor (PLF) in the state increased from 45.63 percent in 2012-13 to 67.01 percent in 2022-23, however, for majority of the years, the statistic stayed significantly below the national average. The T&D losses have increased significantly from 24580 in 2012-13 to 29687 in 2022-23, growing at a CAGR of approximately 1.91 percent. The effective tariff has shown an increasing trend over the years of analysis (2012-13 to 2022-23). It can be observed that highest tariffs have been from the industrial category, which increased from 6.14 per unit in 2012-13 to 8.59 per unit in 2022-23.

Thus, during the period of analysis, some improvements have been observed in the PLF of the thermal power plants in the state in the recent years. Along with that, a decline has been witnessed in AT&C losses and losses as percentage of total power available at bus bar. The improvements in these statistics suggest that there have been advancements and overhauls in electrical equipment and related elements in the distribution system. Moreover, reforms aimed to curb power thefts and wastages may have also influenced the improvements. However, an increasing trend is still observable in the T&D losses, indicating requirement of continuous upgradation and reforms in the required areas. This will require significant financial contributions on the part of corporation as well as the state government.

The state of finances of UPPCL reflects the ineffectiveness of major reforms that the sector has been through over the years, and the operational inefficiency of the corporation. The growing expenses on account of repairs and mainenance depict the state of power infrastructure in the

state, which is not up to current standards and requirements and requires significant overhaul. Despite various measures, theft of power is still a reality in the state and takes place at a considerable scale which also contributes to the revenue losses of the corporation. This situation may result in increased fiscal burden on state finances and the contingent liabilities of the state may also increase.

The analysis of financial aspects of UPPCL presents a worrisome picture of the power sector in the state. The revenue generating capacity of the corporation has remained constrained for various reasons, added to that the inability to uniformly meet operational expenditure has worsened the poor financial landscape of the corporation. The accumulated loss of the corporation has been piling up with only deduction through profit in the year of 2020-21. This situation may result in increased fiscal burden on state finances and the contingent liabilities of the state may also increase. Thus, the current state of power sector in the state calls for significant structural reforms aimed at minimization of operational costs, enhancing revenue capacity, resolving large scale power theft, and improving overall performance.

#### *10.1.8 State Subsidies*

The governments need to provide financial assistance to those who are not able to afford goods and services at the market prices or those sectors which initially need handholding to face market competition. Hence it becomes mandatory for the state to give subsidies although not desirable financially.

The total subsidy amount across all sectors grew significantly, from Rs. 6,350.6 crores in 2012-13 to Rs. 25,309.4 crores in 2023-24. As a percentage of GSDP, the subsidy expenditure remained at 0.77 percent in 2012-13 and rose to 0.99 percent in 2023-24, showing an increasing burden of subsidies in relation to economic output. The Power sector has the largest explicit subsidy allocation, growing from Rs. 4,385 crores in 2012-13 to Rs. 13,100 crores in 2023-24. Its share of total subsidies decreased from 69.05 percent in 2012-13 to 51.76 percent in 2023-24 yet it remains the largest component among all sectors. Agriculture and Social Welfare have seen increasing subsidy allocations, reflecting a growing focus on these areas. The overall subsidy burden as a percentage of GSDP has risen over the years, indicating that subsidies are becoming a larger part of the economy.

The government has significantly increased allocations to urban development and education, reflecting a focus on modernization and human capital. Education's share, however, has registered decline in recent years despite higher absolute amounts. Social welfare's share has

increased owing to higher absolute subsidies, indicating a relative shift in focus to infrastructure and economic development.

Non-Merit subsidies have grown greatly compared to Merit subsidies, emphasizing essential services over economic incentives. The results highlight the evolving priorities of the U.P. government, with a clear emphasis on infrastructure and essential services alongside selective support for economic sectors. Merit 1 subsidies that are primarily focused on essential public services like education, health, and social welfare increased significantly from ₹39,071.6 crore in 2012-13 to Rs. 91,317.1 crores in 2023-24, highlighting the government's growing investment in these sectors. Subsidy amount showed sharp growth in the case of Education, Sports, Arts and Culture, increasing from Rs. 25,171 crores in 2012-13 to Rs. 55,748.6 crore in 2023-24, a more than two times of an increase. Merit 2 subsidies target infrastructure and economic development, such as irrigation, urban development, and village industries and the total subsidy for these surged from Rs. 7,028.7 crores in 2012-13 to Rs. 50,667.3 crores in 2023-24, a more than seven times of rise and a much faster rise than merit 1 subsidies. Total non-merit subsidies increased from ₹11,966.6 crore in 2012-13 to ₹63,003.3 crore in 2023-24, growing more than five times over the past decade.

In case of implicit subsidies, we find that a significant jump has been recorded during post-covid years, i.e. a more than three times rise in five years. It implies that state is yet to fully recover from aftereffects of the Covid 19. However, if this level of implicit subsidies continues, it will put constraints on fiscal health of the state in future. Second noticeable trend is that before onset of Covid 19, the share of Merit I subsidies was declining, and it has continued to decline in recent years as well. This implies an increase in the share of non-merit subsidies, which may require policy makers to rethink the allocations as increasing share of non-merit subsidies is not a desirable trend. However, it is needed to ensure that the subsidies reach the targeted beneficiaries and serve the purpose behind their allocation.

#### *10.1.9 Outcome Evaluation: 14<sup>th</sup> and 15<sup>th</sup> Finance Commission*

The major function of central Finance Commissions is to evaluate the state of finances but strengthening cooperative federalism is among their primary responsibilities. The 14<sup>th</sup> FC increased the share of states in the Centre's divisible pool of taxes by ten percentage points, which was a radical step as 12<sup>th</sup> and 13<sup>th</sup> FCs had increased the same by only 1 and 1.5 percentage points, respectively. As far as the grants-in-aid were concerned, Uttar Pradesh benefitted mostly in terms of grants for local bodies and disaster management. The aggregate

basic grant to the state Rural local bodies from 2015-120 stood at Rs. 180262.98 crores while for the Urban local bodies the same was Rs. 69715.04 crores. The aggregate performance grant to rural local bodies for the period 2015-20 was Rs. 20029.22 crores while for urban bodies it was Rs. 17428.76 crores.

The 15<sup>th</sup> FC submitted its report with a title 'Finance Commission in COVID Times' which hints about the focus on health sector related recommendations inside the report. It stated that the health condition grants will be unconditional, indeed considering the prevailing circumstances. Moreover, the total grants-in-aid support to health sector was the second one among the three major grants by the commission, first being the revenue deficit grants. Grants for local bodies have been a priority as well, again confirming the conviction of FCs about the significant role of these local governance units in primary healthcare. Grants-in-aid for the award period of 15<sup>th</sup> FC (2021-26) for the Rural local bodies of the state were Rs. 2,36,805 crores whereas for Urban bodies it is Rs. 1,21,055 crores. This also included a separate grant for Health amounting to Rs. 70,051 crores.

Anyhow, when it comes to the implementation or utilization of these grants, the state seems to have failed to match the expectations in some cases. In case of PRIs huge under-utilization was seen in 2020-21 which became zero for the two following years but again rose to the negative values of -754.71 and -719.46 crores in 2023-24 and 2024-25 respectively. For the ULB grants, this has been zero for almost all the years except 2023-24 with a negative value of -130.79 crores. Even the health-sector grants have not been spent fully in some of the years. That said, it cannot be denied that such underutilization is not always due to inefficiency but also because of lack of willingness on the part of state.

## **10.2 Suggestions**

### *10.2.1 Taxable capacity*

As a solution to the low taxable capacity of the state, a multi-pronged approach is required to be followed. Along with an improved tax effort, this involves focusing on issues like governance, accountability, expenditure efficiency as well. Some possible suggestions to improve taxable capacity (Tax/GSDP ratio) are:

1. Unexploited taxes like agricultural income tax, profession tax, land revenue should be utilized for raising the tax/GSDP ratio.

2. Government can also devise a mechanism through which it should try to capture the actual market rates on real time basis. These efforts will significantly increase the state's own tax revenue.
3. Tax bases should be widened by better exploitation of land-based taxes, better administration of property taxes and other taxes. Local bodies should be empowered and authorised to collect some taxes. This has been reiterated by various state finance commissions too.
4. Setting up dedicated data analytics units to monitor and analyze data can help identify revenue leakages caused by evasion, fraud, incorrect claims, or processing errors.
5. Rationalisation of tax exemptions and tax incentives.

#### *10.2.2 Non-Tax Revenues*

6. Reviewing and adjusting the current fees for various services along with revitalizing and corporatizing State PSUs.
7. Collection of user charges from the public transport is much lower than the potential due to high leakages caused by system inefficiencies. These should be managed through digitalization and proper monitoring.
8. An all-round public sector enterprises (PSEs) reforms is required. Financial support provided to them must be rationalized by the government.
9. Non-tax revenues from general, economic, and social services are below expected level. User charges should be linked with some suitable input cost index. The process of periodical revision should be automatic. A committee may be setup for this purpose and the state may target to increase recovery in phased manner. Initially it may target an estimated recovery rate of 25 percent of selected services which may later be increased to 30 percent and so on.

### 10.2.3 Expenditure

10. Attempts should be made to ensure that the increases in expenditures on account of loans and advances are directed towards asset creation, for the economy of state their underutilisation is minimised so as to realise the potential benefits.
11. Considering the growth in non-developmental revenue expenditure in recent years, efforts should be directed towards their effective management and reallocation into educational and health infrastructure.
12. Attempts can be made towards reviewing and restructuring pension schemes and administrative expenses so that potential leakages could be identified and the saved resources could be directed towards critical sectors.
13. Ensuring enhancements in developmental expenditure and capital outlay will also help improve the quality of expenditures in the state, the indicators of which have shown significant improvements in recent times.
14. Bringing down the allocation towards committed expenditure in efficient manner will help take the economy on a more stable and fiscally balanced path.

### 10.2.4 Fiscal Management

15. This primarily includes augmenting tax revenues i.e. both tax and non-tax, reprioritization of expenditure and bringing debt within sustainable levels with a consistency. Handling pension and salary liabilities as well as reducing interest payments are the other measures that need to be taken up. The covid pandemic is gone although its aftereffects are obviously reflected in the data. While the state has done well in terms of fiscal-recovery from the phase this alone is not sufficient for long term sustainable results.

### 10.2.5 Local Bodies

16. It is pertinent that the state government ensures prompt implementation of the recommendations given by state finance commissions.
17. More constructive autonomy to urban bodies and Gram panchayats in taxation so as to effectively increase their own tax revenue should be ensured. Mere partial devolution of functions is not sufficient.
18. Maintenance and upkeep of data pertaining to local bodies is crucial and several FCs and SFCs have reiterated it.

19. Property tax/house tax has not been exploited to its full potential. Suitable tax legislations amendment should be made to potential properties under tax net. Use of AI and Geo-tagging may help state government in proper assessment of properties and houses for taxation purpose.

#### *10.2.6 State Public Enterprises*

20. The current investment landscape calls for careful reconsideration of investments across sector while keeping their operational efficiency and long-term sustainability in consideration.
21. Significant policy interventions, structural overhauls and financial support is required to improve the functioning of these enterprises and to allow them to significantly contribute to the overall economic development.
22. If the inefficiencies and inactiveness persist, the government may have to resolve to complete disinvestment or privatisation. The latter can allow for more effective managerial and operational framework while both the solutions can help alleviate financial pressure from the government.
23. The enterprises (all combined) have posted continuous losses throughout the decade as their expenditures have outgrown their revenues. Moreover, the accumulated losses have been piling up with almost minimum to none deductions in them on account of earned profits. This may result in increase in requirement of government support through bailouts or subsidies, which can pose as a serious challenge in management of state's finances.

#### *10.2.7 Power Sector*

24. The current state of power sector in the state calls for significant structural reforms aimed at minimization of operational costs, enhancing revenue capacity, and improving overall performance.

#### *10.2.8 Subsidies*

25. Greater efforts from the government are sought to reduce technical and commercial losses and faster recoveries of arrears. Reduction in subsidy burden through better transparency, better governance, and more commercialisation approach, will lead to release of large fiscal resources.

26. A huge amount of subsidies goes toward electricity bill to private tubewells in rural areas. It should also be regulated. Suitable tariff strategy should be adopted now in the rural areas well.
27. Distribution of subsidy should be prioritised as per the priorities of the nation. From this perspective, as per our classification of subsidies into merit I, II and non-merit, merit I items should be given the highest priority and non-merit items should be the least.
28. There has been significant decline during the last decade, yet power sector has the largest share in explicit subsidies. The analysis shows that more than 50 percent of explicit subsidies still goes to power sector. It demands for greater efforts from the government to reduce technical and commercial losses and faster recoveries of arrears.

#### *10.2.9 Outcome Evaluation: 14<sup>th</sup> and 15<sup>th</sup> Finance Commission*

29. An effective institutional mechanism is needed for regular monitoring and supervision of the utilization of funds from the grants given by central finance commissions so that implementation can be ensured by the state.
30. Underutilization of the grants given by the commission under different heads and for various sectors must be analysed and checked.
31. As recommended by the 14<sup>th</sup> FC, the account books by local bodies must regularly capture the income from own taxes and non-taxes, other assigned taxes, devolution and grants from the State, grants from the FCs and grants for any agency functions assigned by both Union and State Governments.

Good governance is an important tool in the hand of governments. Good governance can bring in improved transparency, greater accountability, greater confidence of general public, and streamlining the mechanism and structure of the government. It should be the envelope within which all other reforms and efforts of socio-economic progress undertaken. This must be kept in mind while formulating and implementing the policies of the state. As an indirect benefit it also keeps the general public informed and leads to less arbitrariness. Thus, an integrated information management system is very important in the state.

The availability of detailed information regarding tax & non-tax revenues, public expenditure, financial performance of PSEs, subsidies, contingent liabilities, devolution of funds to local bodies, etc. is very poor in the case of UP. The departmental websites are still not regularly updated. The information is available for a few points of time only

that too not in detail. This seriously hampers the public scrutiny of the system and gives an opportunity to develop corruption and slackness. Thus, UP government must make sincere efforts to make available the data and information in public through different mechanisms.

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