CHAPTER XVI

ASSESSMENT OF NON-PLAN CAPITAL GAP OF STATES

I-Methodology

The assessment of non-Plan capital gaps of States has been referred to the Finance Commission for the first time. It is clear from the terms of reference that determination of the non-Plan capital gaps of States is considered an essential prelude to the formulation of proposals for revision of the terms of outstanding Central loans. As the survey of non-Plan capital gaps has been brought within the ambit of enquiry of the Finance Commission for the first time, we did not have the benefit of the views of the earlier Commissions on the conceptual and other problems involved in this exercise. We, therefore, thought it fit to begin with an analysis of the nature and scope of the different categories of transactions relating to both receipts and disbursements generally figuring in capital account and to indentify, in the light of such analysis, which of them could be considered to be of non-Plan nature. We had also to take a view on treatment of items like contribution of State enterprises and their borrowings which, though not directly reflected in State budgets, are reckoned as resources for the Plan. The question whether cash balances and negotiable securities held by State Governments should also be taken in reduction of their non-Plan capital gap, also came up for consideration.

2. The capital transactions of the States are recorded in the budget against the various heads indicated in Annexure I to this Chapter. In the light of our analysis of the scope of receipts and disbursements accommodated under these various heads of account, we indicate below briefly which of them, in our judgment, should be taken into account in computing the non-Plan capital gap and which of them should be left out.

***92. Payment of compensation to landholders, etc. on the abolition of zamindari system.**

3. The bulk of the compensation payments to landholders is met out of the zamindari abolition fund created by various State Governments. Provision under this major head on capital account is now rather insignificant except in a few States such as West Bengal. But it is a legitimate non-Plan capital liability, as most of the compensation payable for the abolition of intermediaries has already been disbursed and the residual amounts shown in the forecasts presented to us are needed to complete the reforms. While the provision sought for completion of the processes of abolition of intermediaries such as zamindaries and jagirdaris posed no problems in view of the firm basis of the commitments already entered into, our approach to similar estimates of financial implications of the recent land reform measures had to be defined with care, in view both of the tentative character of the estimates presented to us and the widely varying requirements of the States.

4. Many of the State Governments have invited our attention to the legislation for imposition of ceilings on agricultural holdings, which has either been enacted or is on the anvil, and have urged that the compensation likely to be needed for payment in cash or in bonds to the landholders for the excess lands to be taken over in pursuance of such legislation should be treated as non-Plan capital liability. Since it is not possible for us to make any firm judgment on the extent of surplus land likely to be available or satisfy ourselves on the extent of compensation likely to be paid for the excess lands thus taken over, we are not in a position to estimate the resources likely to be needed by the States to implement the various proposals already indicated or under consideration for the imposition of ceilings. As we have been asked to assess the non-Plan gap of the States on as uniform and comparable a basis as possible, it will obviously not be correct for us to discriminate between States that have already completed all the legislative measures connected with the ceilings on land holdings and those in which the process is still in a preliminary stage.

5. Past experience indicates that estimates of surplus land may prove wide off the mark and that the pace of take over of surplus land cannot also be predicted in advance. Whatever financial assistance is necessary for payment of compensation for surplus land, should, therefore, be provided only on the basis of close and critical review of the progress of implementation of land reforms. Such tied assistance cannot be visualised within the framework of any scheme of debt relief. We would, therefore, suggest that Government of India should, in consultation with States, assess their net financial requirements for smooth implementation of land reforms and arrange to meet them. In computation of the non-Plan capital gap, we have left out of consideration the requirements for land reforms for the various reasons indicated above.

*References are to Heads of Account as in force in 1973-74.

the State Governments during the five-year period would be as indicated in the Table below :

(Rs. Crores)

States	Non-Plan revenue surplus/deficit on the basis of the existing standards of essential administrative and social services		Provision allowed for upgradation of the standards of essential administrative and social services	Net Revenue deficit after devolution of revenues	Net Revenue surplus after devolution of revenues
	Without devolution* of revenues	After devolution* of revenues			
1	2	3	4	5	6
1. Andhra Pradesh	723.39	153.31	52.62	205.93	..
2. Assam	421.60	236.51	18.02	254.53	..
3. Bihar	677.93	(—) 60.51	166.79	106.28	..
4. Gujarat	23.99	(—)344.65	9.19	..	335.46
5. Haryana	(—)124.14	(—)244.80	21.45	..	223.35
6. Himachal Pradesh	204.06	160.96	..	160.96	..
7. Jammu & Kashmir	214.95	156.16	17.33	173.49	..
8. Karnataka	124.45	(—)259.19	26.45	..	232.74
9. Kerala	473.44	202.40	6.53	208.93	..
10. Madhya Pradesh	383.05	(—)160.52	50.34	..	110.18
11. Maharashtra	(—) 40.52	(—)752.05	3.63	..	748.42
12. Manipur	126.91	113.43	1.10	114.53	..
13. Meghalaya	86.02	73.17	1.50	74.67	..
14. Nagaland	135.01	128.18	0.66	128.84	..
15. Orissa	520.26	247.67	57.06	304.73	..
16. Punjab	(—)186.45	(—)355.42	13.94	..	341.48
17. Rajasthan	536.49	203.10	27.43	230.53	..
18. Tamil Nadu	354.04	(—)184.53	..	..	184.53
19. Tripura	130.19	110.50	2.00	112.50	..
20. Uttar Pradesh	1058.89	(—) 91.33	290.16	198.83	..
21. West Bengal	750.70	162.63	72.23	234.86	..
TOTAL	6594.26	(—)504.98	838.43	2509.61	2176.16

NOTE : Negative sign indicates surplus.

* Devolution for this purpose has been taken to cover the States' share of Income-tax, Union duties of excise, Additional Excise Duties, Estate Duty on property other than agricultural land, grant in lieu of tax on passenger fares and grant on account of wealth tax on agricultural property.

23. In the light of the foregoing, we recommend that the following State Governments be paid the sums specified against each of them as grants-in-aid of their revenues under the substantive part of Clause (1) of Article 275 of the Constitution for each of the five years covered by our recommendations :

(Rs. Crores)

States	Total amount to be paid in the five years	Grants-in-aid to be paid in				
		1974-75	1975-76	1976-77	1977-78	1978-79
1. Andhra Pradesh	205.93	42.83	43.47	41.89	39.45	38.29
2. Assam	254.53	49.66	51.33	50.60	51.35	51.59
3. Bihar	106.28	18.78	23.92	21.12	21.53	20.93
4. Himachal Pradesh	160.96	31.72	32.02	32.15	32.42	32.65
5. Jammu & Kashmir	173.49	34.57	34.65	34.73	34.83	34.71
6. Kerala	208.93	43.85	43.46	41.19	40.92	39.51
7. Manipur	114.53	21.05	21.97	22.85	23.84	24.82
8. Meghalaya	74.67	13.61	14.23	14.90	15.63	16.30
9. Nagaland	128.84	23.77	24.68	25.72	26.77	27.90
10. Orissa	304.73	56.97	60.11	61.00	62.56	64.09
11. Rajasthan	230.53	49.30	48.57	46.05	44.30	42.31
12. Tripura	112.50	20.66	21.53	22.44	23.45	24.42
13. Uttar Pradesh	198.83	21.61	33.91	39.23	49.10	54.98
14. West Bengal	234.86	53.29	49.27	46.57	44.55	41.18
TOTAL	2,509.61	481.67	503.12	500.44	510.70	513.68

6. We then have a number of heads of account relating to capital outlay for various developmental purposes. These are :

94—Capital outlay on improvement of public health.

95—Capital outlay on schemes of agricultural improvement and research.

96—Capital outlay on industrial and economic development.

98—Capital outlay on Multipurpose River Schemes.

99—Capital outlay on Irrigation, Navigation, Embankment and Drainage works (commercial).

100—Capital outlay on Irrigation, Navigation, Embankment and Drainage works (non-commercial).

101—Capital outlay on Electricity Schemes.

103—Capital outlay on Public Works.

109—Capital outlay on other works.

114—Capital outlay on Road and Water Transport Schemes.

119—Capital outlay on Forests.

7. The provisions contemplated under these heads are essentially in the nature of outlays which should result in creation of tangible assets and from the economic standpoint should be classified as investment expenditure. We have, therefore, taken the view that for this purpose the expenditure on these heads will be accommodated in the State Plans. No non-Plan capital liability as such will arise under these heads.

120—Payment of commuted value of pensions

8. Payment of commuted value of pensions (major head of account—120) was hitherto being classified under capital account. But Government of India have decided recently in consultation with the Comptroller and Auditor General that the payment of commuted value of pensions should be charged straightaway to revenue instead of being debited initially to capital and then written back to revenue account over a period of years. In view of this change in accounting practice, we have considered it appropriate to exclude this item from capital account and provide for the reasonable requirements of the States for payment of commuted value of pensions in the revenue account itself. The amounts involved in any case are not large.

124. Capital outlay on schemes of Government Trading

9. The next major head—124—relates to Capital outlay on schemes of Government trading. As at present, provisions under capital outlay on State trading reflect the net impact on ways and means position of State Governments' trading transactions in various commodities. The ways and means position of State Governments will be adversely affected both on account of additions to stock and trading losses. The "Approach to Fifth Plan" makes it clear that all additions to stocks or inventories should form part of the Plan and be treated as Plan outlay. We agree with this approach. Even otherwise, cash credit from banks will be available to the States against inventories such as stocks of foodgrains or fertilisers, whether held as buffer or for operational purposes. The losses or profits arising from schemes of Government trading should appropriately be transferred to revenue account, as such losses do not add to the assets of the State Governments while profits, if any, constitute non-tax revenues. Thus it is clear that the entire provision under capital outlay on State trading schemes, whether it relates to additions to stock or losses or profits on such schemes, should be ignored in assessing the non-Plan capital gap.

125. Appropriation to the Contingency Fund

10. Major head—125—on capital account relates to appropriations to Contingency Fund. A Contingency Fund has been set up under Article 267 of the Constitution by all State Governments. This fund which is in the nature of an imprest is intended to enable the executive to meet unforeseen expenditure arising in the course of a year pending its authorisation by the Legislature. By its very nature, there can be no net additional liability on the capital budget of the State Governments on account of transactions under Contingency Fund, since the amounts spent from the Fund are to be recouped in the same or in the next financial year through legislative authorisation. Neither receipts nor disbursements under this head need therefore be taken into account while working out the non-Plan capital gaps of the States.

O.I. Permanent Debt

11. This head accommodates mainly loans raised by the State Governments from open market. In some of the State budgets, small amounts in respect of compensation bonds are also charged under this head. As regards market borrowings, the practice so far has been to show net receipts on account of loans from public—i.e. fresh loans minus repayment of maturing loans—as a resource for the Plan. In the case of States having overall non-Plan deficits, receipts under this head are now set off against non-Plan deficit and as such are not available to them for financing their Plans. We are of the view that net market borrowings which constitute a draft on the savings of the community should be considered as available for creation of new assets and not for the discharge of Central loans or other liabilities on capital account of the State Governments. We have, therefore, excluded market borrowings—both receipts from fresh loans and repayment of maturing loans—in arriving at the non-Plan capital gap of the States. These net market borrowings will accordingly be available to the States for financing Plan programmes.

O.II. Floating Debt

12. Receipts and disbursements under this head relate to loans of short-term duration, i.e. of less than 12 months. The range of variations between receipts and disbursements should be small. We have, therefore, considered it appropriate to leave out this item in working out non-Plan capital gap.

O. III. Loans from the Government of India

13. The various categories of loans received from the Government of India in respect of which repayments have to be made by the State Governments are listed in Annexure I. Ways and Means advances, as the term implies, are intended to enable the State Governments to tide over temporary difficulties caused by the uneven flow of receipts and disbursements within a financial year. Loans obtained from the Government of India for meeting such difficulties have to be discharged within a financial year and do not therefore materially affect the non-Plan capital gaps of States. Short-term loans are advanced by the Central Government for purchase and distribution of fertilisers, pesticides and seeds which are generally repayable within six months. As these liabilities are essentially of short-term nature and are mostly covered by specific assets such as fertilisers or seeds, it will be both convenient and proper to leave out completely the receipts and disbursements pertaining to short-term loans. Of the remaining loans from the Government of India, loans against share of small savings are made available to the States on the basis of net collections within the State. Net receipts from small savings should be considered as available to the States for the financing of the Plan, as otherwise their incentive for mobilising small savings will be considerably impaired. It is also proper to urge that small savings constitute a draft on the savings of the community and should, therefore, be matched by the creation of new assets as part of the Plan. However, if fresh receipts accruing to the States as their share of small savings collections during the Fifth Plan period are to be excluded in computing the non-Plan capital gap, it is only proper that the repayment of past loans obtained by the States against their share of small savings collections should also be similarly excluded. We feel that this might incidentally act as a spur to more strenuous efforts by States to mop up small savings, so that fresh collections may always be in excess of the repayment of past small savings loans to the Government of India. We have, therefore, excluded both receipt of fresh loans from the Government of India against the States' share of small savings and repayments by State Governments of the past loans obtained from the Government of India as their share of small savings from the present exercise of computation of non-Plan capital gaps of the States. The scheme of debt relief proposed later in the Report also does not take into account liabilities arising out of repayment of small savings loans since, as mentioned earlier, such repayment should be taken care of through fresh mobilisation of small savings. However, the repayment of all other loans—loans for State Plan schemes, loans for Centrally sponsored schemes, special accommodation loans, loans for clearance of overdrafts—have to be treated as legitimate non-Plan capital liability for the State Governments. The liability for repayment of these loans is, in fact, largely responsible for the non-Plan capital gap of the States. All fresh loan receipts from the Government of India for State Plan schemes or Centrally sponsored schemes, however, have to be excluded in determining the non-Plan capital gap for these are, by definition, intended for financing the Plan. We have not assumed any fresh loans from the Government of India in the nature of special accommodation loans or for clearance of overdrafts. Nor have we assumed any non-Plan loans for relief purposes in view of our recommendations in Chapter XIV that the present arrangements for provision of Central assistance for relief expenditure should be given up and that relief schemes should be fully integrated with the Plan.

O.IV. Other Loans

14. These loans are received by State Governments from various autonomous bodies like the National Cooperative Development Corporation, Life Insurance Corporation and Reserve Bank of India. All these loans are, in most cases, for Plan schemes. It would, accordingly, be necessary to exclude fresh receipts of all Plan loans from these bodies while working out the non-Plan capital gap of the States. We have also excluded repayment of past loans taken from such bodies in computing the non-Plan capital gap. In our view, like small savings loans, only net additional amount raised by the State Governments should be treated as a Plan resource.

15. Most of the State Governments have also made arrangements for cash credit advances from the State Bank of India and commercial banks. These credits, which are generally of short-term duration are covered by stocks of commercial commodities such as food, fertilisers, seeds and pesticides held by State Governments and are repaid when inventories are liquidated or when ownership is passed on to cooperative societies and other organisations. These cash credits do not represent any net burden on the State Governments. They have accordingly been left out in arriving at the non-Plan capital gap of State Governments.

Q. Loans and Advances by State Governments

16. Loans and advances are given by State Governments for various purposes to individuals and institutions. In particular, loans are advanced by State Governments on a fairly large scale to Panchayati Raj institutions, Municipal Corporations, State Electricity Boards and Housing Boards. Most of these loans relate to specific Plan programmes and should, therefore, be accommodated in the Plan. Almost all the loans given to other agencies or groups of individuals would also qualify for inclusion in the Plan, as they are linked to certain developmental objectives. We have, accordingly, excluded all such loans in assessing the non-Plan capital gap of the States. Loans are also given by State Governments to Government servants. These loans are mainly for purchase of conveyance and for house building purposes. Advances for purchase of conveyances and for other consumption purposes have to be treated as part of the non-Plan liability of the State Governments. As loans to Government servants for construction of houses result in creation of fresh assets and augment facilities for residential accommodation, it is only proper that all such loans should be brought within the purview of the Plan. Recoveries of loans and advances given to individuals and institutions should be set off against the non-Plan capital gap. We have scrutinised the forecasts furnished by the State Governments of recoveries of loans and advances with reference to

amounts of loans outstanding under different categories and taken a view on how much of the arrears could be recovered over the period of the Fifth Plan with reasonable efforts on the part of the States. Such recoveries, as reassessed by us have been taken in reduction of the non-Plan capital gap of the States.

R. Inter-State Debt Settlement

17. The net figures under this head should also be taken into account for determining the non-Plan capital gap of the States.

S. Unfunded debt—State Provident Fund

18. The essential distinction between receipts and outgoings on Public Account from those forming part of the Consolidated Fund is that in respect of the former group of transactions, the Government only acts as a banker. The disbursements on Public Account do not need the vote of the legislature and are not included in the Appropriation Act which authorises drawal of money from the Consolidation Fund. Unfunded debt is the first item of significance under Public Account. Receipts and disbursements on account of provident fund of employees are accounted for under this head. We are of the view that the anticipated net receipts under State Provident Funds should be set off against the non-Plan capital gap.

T. Deposits and Advances

19. These deposits and advances belong to various statutory bodies and corporations, local bodies and individuals such as contractors, litigants in courts, etc. In view of the steadily rising trend in the growth of public transactions, there is an overall net accretion to these deposits and funds from year to year. These deposits are in the nature of banking transactions and credits, in fact, represent a liability for the Government. Debits on the contrary represent discharge of corresponding liability. The magnitude of net resources accruing to the State Governments from these deposits will, in part, depend upon the regulations laid down by the State Governments in regard to custody of funds of autonomous bodies and local bodies under its control. In some States, for example, State Electricity Boards, Housing Boards and Municipalities are required to keep the surplus funds with State Governments, while in certain other these institutions are allowed to keep their funds with approved commercial banks. In the case of States where these funds are banked with Government, there will naturally be larger accretions under deposits and advances as compared to others where these deposits are allowed to be kept elsewhere. As we are asked to assess the non-Plan capital gap of the States on a uniform basis, we thought it necessary to examine the practices in vogue in each State and take into account only those deposits in respect of which the practices were uniform in all States. From the information obtained by us from the States, it is seen that the only class of deposit common to all States is civil deposits. The receipts under civil deposits are closely linked to the administrative, regulatory and developmental functions of the Government. They consist of deposits made by litigants in courts, security deposits of contractors with various State Departments and the like. They thus represent regular receipts of the State Governments on capital account and may be expected to conform to some pattern. The accretions under civil deposits should, therefore, be legitimately set off against the non-Plan capital gap of the State. While working out the non-Plan capital gap we have taken note of only civil deposits and have left out other categories of deposits such as deposits of local bodies, electricity boards, etc., as the practices in regard to them vary widely. Net receipts, if any, would therefore be available for supplementing other resources for the Plan.

Sinking Funds

20. Sinking Funds are built out of appropriations from current revenues. In certain states, part of the appropriations from current revenues is also invested in securities. We have elsewhere taken the view that provision for appropriation for reduction or avoidance of debt need not be treated as a legitimate charge on revenue account. Consistent with this decision we have decided to leave net accretions to Sinking Funds out of the present exercise.

Other Funds

21. Some States make large provisions towards various funds on the expenditure side of the revenue budget. The provision so earmarked are then transferred to Public Account. From the Public Account the funds are retransferred to revenue account to the extent necessary for meeting specific purposes either of maintenance or developmental nature. Thus, for example, a State may make a provision of Rs. 10 crores in a year towards the Road Fund and then retransfer, say, Rs. 2 crores to the revenue account for meeting the cost of maintenance of roads, the balance being utilised either for fresh road works or other Plan programmes. Transfers of this nature are particularly large in some of the States with substantial revenue surplus. We have analysed the nature of these funds and have taken the view that provisions in revenue account towards the funds should be allowed only to the extent dictated by the needs of current maintenance as reflected in the concerned heads of expenditure. In other words, if the forecasts of States disclose that States have to draw on the Road Fund only upto Rs. 2 crores for maintenance of roads per year, then the provision for the Road Fund is also to be restricted to the same figure. There will thus be no net accretion to the fund on the capital account which could be set off against the non-Plan gap.

Suspense and Remittances

22. We have looked into past trends under Suspense and Remittance heads, and feel that the net receipts or disbursements under these items should be left completely out of consideration in working out the non-Plan capital gap figures, because the receipts and disbursements under these heads are expected to balance over a period of time.

Depreciation Reserves of autonomous enterprises

23. Depreciation reserves and retained profits of State Electricity Boards, State Road Transport Corporations and other autonomous corporations form part of the resources of the Plan. But in the Fourth Plan period, the contribution of public enterprises at pre-Plan tariffs was taken as part of the States' non-Plan budgets and in the case of States having overall non-Plan gaps, it was not available for financing the State Plans. Most of the State Governments have

urged that depreciation reserves of autonomous corporations are intended for either replacement of their existing assets or for acquisition of new assets and expansion. It would be unfair to set them off against the non-Plan capital liability or, in other words, for the discharge of loan repayments to the Government of India. We consider that this plea of the State Governments is reasonable and have, therefore, excluded the net accretions to depreciation reserves of autonomous corporations in the appraisal of the non-Plan capital gaps of the States.

Cash balances

24. We have carefully considered whether the opening and closing cash balances of State Governments and the securities held by them should be set off against their non-Plan capital gaps. The cash balances of State Governments are not expected to be large because these balances, in excess of certain limits, will always be kept invested in treasury bills and/or securities. We feel that to set off the value of such securities against the non-Plan capital liability of the States would be to penalise them for past prudence. We have, therefore, ignored the value of securities held by the State Governments in determining the non-Plan capital gap.

25. To conclude, in working out the non-Plan capital gap of the States, we have taken the following receipts and disbursements on capital account:

(a) *Capital Receipts*

(i) Recoveries of loans and advances.

(ii) State provident funds.

(iii) Civil deposits.

(iv) Inter-State debt settlement.

(b) *Capital Disbursements*

(i) Repayment of loans to Centre (excluding small savings loans).

(ii) Loans to Government servants for purchase of vehicles.

(iii) Compensation bonds (to the extent they relate to abolition of intermediaries).

26. The difference between the capital receipts and capital disbursements, as set out above, constitutes the non-Plan capital gap.

II

NON-PLAN CAPITAL GAP: ASSESSMENT

Recoveries of loans & advances

27. The forecasts of receipts and disbursements furnished by the State Governments had to be reassessed by us on a uniform and comparable basis. In view of the falling standards of performance of State Governments in effecting recoveries of loans disbursed by them to third parties, we considered it desirable to obtain information on loans likely to be outstanding at the end of 1973-74 categorywise and to determine the amounts that could be recovered by the State Governments given the necessary will and determination. In so estimating recoveries of loans, we had to leave out the loans advanced by the State Governments to State Electricity Boards, because the latter in view of their poor working results, can hardly be expected to repay any loans to the State Governments during the Fifth Plan period. The Electricity Supply Act also accords low priority to the repayment of loans by the State Electricity Boards. We have, therefore, not taken credit for any recoveries in respect of loans by the State Governments to the Electricity Boards. In respect of other loans we have assumed that the State Governments should be able to recover 90 per cent of the amounts falling due for repayment in the period from 1974-75 to 1978-79.

28. While the State Governments have furnished us figures of loans likely to be outstanding as at the end of 1973-74, they could not generally supply similar information on the amounts actually falling due for recovery during each of the five years of the Fifth Plan period. This is presumably because the detailed accounts of many categories of these loans are kept at district and lower levels. We have, therefore, been constrained to make some broad estimates Statewise of the amounts falling due for recovery during the Fifth Plan period. Loans have been advanced by the State Governments for a variety of purposes. The terms of repayment are also diverse. While some loans are repayable within comparatively short periods of five to seven years, the period of repayment of other loans such as those for water supply schemes and the like may be for longer periods. But as against this, it should be remembered that a significant percentage of the outstanding loans at the end of 1973-74 would have been advanced a number of years back and the period of repayment yet left would be relatively short. Keeping this in view, we have assumed that the residuary period of repayment of loans would on the average be 10 years as at the end of 1973-74, and that on this basis 50 per cent of the outstanding amounts would fall due for repayment during the five years of the forecast period. This would mean that allowing for default up to 10 per cent the recovery of loans could be estimated at 45 per cent of the amounts outstanding at the end of 1973-74.

29. Our discussions with the representatives of some of the State Governments revealed that this assumption about the balance of the period of repayment of outstanding loans would not be far wide off the mark. In making this assumption, we derive support also from the observed relationship between Central loans outstanding against the State Governments and the actual schedule of repayment as indicated by the State Governments for the Fifth Plan prriod. The repayments of loans due from the State Governments to the Government of India during the Fifth Plan period work out to approximately 50 per cent of the Central loans outstanding in 1973-74. In other words, the outstanding loans have on the average a further period of 10 years to run. We should normally expect the pattern of repayment of loans advanced by the States to third parties to conform to the terms of their own borrowings from the Government of India.

30. We have reassessed the recoveries of loans and advances to be made by State Governments on the lines indicated above. Where the State Government's own estimates were higher than warranted by our norms, we have adopted their higher estimates without any change. Statewise figures of recoveries of loans and advances as reassessed by us in this manner are indicated below:

Recoveries of loans and advances : 1974-79

(Rs. lakhs)

States	As assumed by the State Governments in their forecasts	As reassessed
1	2	3
1. Andhra Pradesh	40,00	50,50
2. Assam	4,18	12,35
3. Bihar	50,00	50,00
4. Gujarat	39,75	54,11
5. Haryana	14,39	14,39
6. Himachal Pradesh	4,33	4,33
7. Jammu & Kashmir	12,31	12,31
8. Kerala	14,13	26,67
9. Madhya Pradesh	26,92	41,22
10. Maharashtra	1,71,03	1,71,03
11. Manipur	2,45	2,45
12. Meghalaya	30	31
13. Mysore	36,25	74,66
14. Nagaland	2,12	2,12
15. Orissa	21,89	21,89
16. Punjab	61,50	61,50
17. Rajasthan	27,00	33,22
18. Tamil Nadu	59,21	59,21
19. Tripura	3,43	3,43
20. Uttar Pradesh	90,77	90,77
21. West Bengal	22,50	94,20
TOTAL	7,04,46	8,80,67

It appears to us that in many of the States there is no effective monitoring of the loans advanced to third parties and arrears are allowed to accumulate to serious proportions. A more energetic and purposeful drive for recovery of the loans due to State Governments should be accorded high priority in any programme for mobilisation of resources for the Plan. While there is room for improvement in the present pace of recovery of loans in almost all the States, Andhra Pradesh, Assam, Kerala, Madhya Pradesh, Mysore, Rajasthan and West Bengal would, in particular, have to put forth special efforts if the assumptions made by us in regard to recovery of loans in their cases are to materialise. To the extent their efforts fall short of our minimum expectations, they run the risk of the resource base of their Plans being eroded.

State Provident Funds

31. We have reassessed the forecasts of receipts indicated under this head by the State Governments on the basis of a growth rate of 5 per cent per annum on the actual net receipts in 1971-72. In Madhya Pradesh, 50 per cent of the additional dearness allowance allowed by the State Government, in the past, is at present credited to the provident funds of the employees. The State Government have argued that it would not be realistic to assume continuance of the existing arrangements indefinitely and that, therefore, no credit should be assumed during the Fifth Plan period for this extraordinary element in the accrual of subscriptions to the provident fund even though the State Government's initial forecast to the Commission had assumed such credits. The point made by the State Government is valid and we have accordingly made suitable downward adjustments in the figures furnished by the State Government under State Provident Fund. Statewise estimates of accruals to provident fund as reassessed by us will be found in Annexure II.

Civil Deposits

32. The net accretion under Civil deposits fluctuates considerably from year to year. Accordingly, we have considered it expedient to project the receipts for the forecast period on the basis of average net credits during the four years ending with 1971-72.

Inter-State debt settlement

33. We have taken the estimates of inter-State debt settlement as indicated by the State Governments in their forecasts.

Repayment of loans to Centre

34. Repayment of loans to Central Government, which constitute by far the most important element under capital disbursements, were verified for us by the State Accountants General with reference to the terms of repayment of outstanding loans. In respect of loans to be received by the State Governments in

1973-74, we have been guided by the State Governments' own estimates except to the extent that clearer indications to the contrary were available from the information obtained from the Ministry of Finance. The category-wise details of loans outstanding in each State are indicated in Appendix XIV. As explained earlier, repayment of small savings loans to the Central Government have been excluded since these repayments in terms of our recommendations could be effected out of fresh loans to be received by the State Governments towards their share of small savings collections.

Loans to Government Servants

35. As regards loans to Government servants for purchase of vehicles, we have taken the actuals of 1971-72 as the base and allowed for an increase of 5 per cent per annum.

Compensation bonds

36. Provision for compensation bonds has been made in the forecasts of only a few of the State Governments. The estimates as indicated by the State Governments and as finally adopted by us in the light of our discussions with the State Governments are indicated in Annexure II.

37. On the basis of the several assumptions spelt out in some detail in the preceding paragraphs, the non-Plan capital gaps of State Governments are expected to be of the order indicated below :—

Non-Plan Capital Gaps during the Fifth Plan period

(Rs. lakhs)

States	Non-Plan Capital Gap as reassessed
1. Andhra Pradesh	2,24,31
2. Assam	1,75,22
3. Bihar	1,48,63
4. Gujarat	22,35
5. Haryana	53,81
6. Himachal Pradesh	40,20
7. Jammu & Kashmir	1,42,30
8. Kerala	1,25,61
9. Madhya Pradesh	74,52
10. Maharashtra	(—)45,87
11. Manipur	15,31
12. Meghalaya	7,71
13. Mysore	1,31,99
14. Nagaland	5,74
15. Orissa	1,72,00
16. Punjab	(—)18,51
17. Rajasthan	2,88,46
18. Tamil Nadu	90,93
19. Tripura	14,25
20. Uttar Pradesh	1,72,38
21. West Bengal	1,53,28
TOTAL	19,94,62

These gaps are exclusive of the liabilities anticipated on account of repayment of fresh loans from the Centre for the period 1974-75 to 1978-79.

CAPITAL EXPENDITURE OUTSIDE THE REVENUE ACCOUNT

92. Pa ment of compensation to landholders, etc. on the abolition of the Zamindari System.

94. Ca ital outlay on improvements to public health.

95. Capital outlay on schemes of agricultural improvement and research.

96. Capital outlay on industrial and economic development.

98. Capital outlay on multipurpose river schemes.

99. Capital outlay on irrigation, navigation, embankment and drainage works (Commercial).

100. Capital outlay on irrigation, navigation, embankment and drainage works (Non-Commercial).

101. Capital outlay on electricity schemes.

103. Capital outlay on public works.

109. Capital outlay on other works.

114. Capital outlay on road and water transport schemes.

119. Capital outlay on forests.

120. Payments of commuted value of pensions.

124. Capital outlay on schemes of Government trading.

125. Appropriation to the contingency Fund.

0 Public Debt.

I. Permanent Debt.

II. Floating Debt.

III. Loans from the Central Government.

A. Ways and means advances.

B. Short-term loans for purchase and distribution of fertilisers.

C. Short-term loans for pesticides and seeds.

D. Loans against share of small savings.

E. Other Loans.

IV. Other loans.

Q. Loans and advances by the State Government.

Advances to cultivators

Short-term Loans to co-operative Central Land Mortgage Bank and the Industrial Investment Corporation.

Loans under the State Aid to Industries Act.

Other Loans (Local Bodies, Government servants etc.).

R. Inter-State Settlements.

(*a*) State loans bearing interest.

(*b*) Other transactions.

TOTAL I—Consolidated Fund.

II. Contingency Fund.

III. Public Account

S. Unfunded Debt.

State Provident Funds

Savings Bank Deposits.

Others.

T. Deposits and Advances.*

I. Deposits Bearing Interest—

Deposits of depreciation reserves of Government commercial concerns and other deposits.

Electricity Board deposits.

Housing Board deposits.

Small Industries Corporation.

Agro-Industries Corporation.

Deposits of Khadi and Village Industries Board.

Deposits of Local Funds.

II. Deposits not bearing interest—

(*a*) Sinking Funds—

Appropriation for reduction or avoidance of debt—

Sinking Funds.

Sinking Fund investment account.

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*This is only illustrative. The Major Heads of Account in this Section differ from State to State.

(*b*) Reserve Funds
Famine Relief Fund—

A. Famine Relief Fund.

B. Investment Account Zamindari Abolition Fund
Depreciation Reserve Fund—Government Non-commercial undertakings
Depreciation Reserve Fund—
Road Transport.
Investment Account.
Insurance Fund of commercial concerns.
Hindu Religious and Charitable Endowment Fund
Investment Account.
Sugarcane Cess Fund.
State Agricultural Credit Relief and Guarantee Fund.
Fund for the improvement of milk Supply.

C. Other Deposit Accounts—
Deposits of Local Funds—
District Funds.
Library Funds.
Municipal and other funds.
Other Miscellaneous Funds.
State Khadi and Village Industries Board Deposits.
Departmental and Judicial Deposits—
Civil Deposits.
Other Accounts—
Subventions from Central Road Fund.
Deposit Account of the grant made by the Indian Central Cotton Committee.
Deposit Account of the grant made by the Indian Council of Agricultural Research.
Deposit Account of grants made by the Indian Central Oil Seeds Committee.
Deposit Account of Grants made by the Indian Central Coconut Committee.
Deposit Account of Grants made by the Indian Central Arecanut Committee.
Deposit Account of Revolving Fund under World Food Programme 348.
Deposit Account of Grant made by the Council of Scientific and Industrial Research.
Deposit Account of the Grant From the Ford Foundation for Package Programme.
Deposit Account of Grant. made by the National Co-operative Development Corporation and Ware-Housing Board.
Other Deposit Accounts

III. Advances not bearing interest—
Departmental Advances.
Permanent Advances
Accounts with the Government of Pakistan.
Accounts with the Reserve Bank.

IV. Suspense—
Cash Balance Investment Account
Cheques and Bills.
Departmental and Similar Accounts
Other Suspense Accounts.

V. Miscellaneous—
Miscellaneous Government Account.

Non-Plan Capital Gap : 1974—79

(Rs. Lakhs)

States	Capital Receipts					Capital Disbursements				Non-plan Capital Gap (10—6)
	Recoveries of loans and advances.	State Provident Funds	Civil deposits	Inter-State Debt settlement (net)	Total (2 to 5)	Repayment of loans to Centre*	Loans to Government servants for conveyance	Compensation bonds	Total (7 to 9)	
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh	5,050	2,250	380	—	7,680	29,866	200	45	30,111	22,431
2. Assam	1,235	662	430	68	2,395	19,872	45	—	19,917	17,522
3. Bihar	5,000	2,950	1,280	—	9,230	23,463	295	335	24,093	14,863
4. Gujarat	5,411	3,000	1,000	—	9,411	11,432	114	100	11,646	2,235
5. Haryana	1,439	1,165	470	—	3,074	8,310	145	—	8,455	5,381
6. Himachal Pradesh	433	1,350	594	—	2,378	6,334	57	7	6,398	4,020
7. Jammu & Kashmir	1,231	1,204	200	—	2,635	16,765	100	—	16,865	14,230
8. Kerala	2,667	3,959	130	—	6,756	19,132	185	—	19,317	12,561
9. Madhya Pradesh	4,122	5,010	800	—	9,932	17,284	100	—	17,384	7,452
10. Maharashtra	17,103	8,738	1,460	—	27,301	22,539	175	—	22,714	—4,587
11. Manipur	245	55	25	—	325	1,846	10	—	1,856	1,531
12. Meghalaya	31	95	70	(—)68	128	891	8	—	899	771
13. Mysore	7,466	1,600	757	—	9,823	22,822	200	—	23,022	13,199
14. Nagaland	212	136	50	—	398	967	5	—	972	574
15. Orissa	2,189	1,669	203	—	4,061	21,031	230	—	21,261	17,200
16. Punjab	6,150	2,541	1,200	—	9,891	7,890	150	—	8,040	-1,851
17. Rajasthan	3,322	2,775	100	—	6,197	34,605	38	400	35,043	28,846
18. Tamil Nadu	5,921	3,050	1,070	—	10,041	18,716	310	108	19,134	9,093
19. Tripura	343	270	3	—	616	2,006	35	—	2,041	1,425
20. Uttar Pradesh	9,077	6,910	812	—	16,799	31,912	225	1,900	34,037	17,238
21. West Bengal	9,420	2,806	1,585	—	13,811	25,994	145	3,000	29,139	15,328
TOTAL	**88,067**	**50,195**	**12,620**	—	**1,52,882**	**3,43,677**	**2,772**	**5,895**	**3,52,344**	**1,99,462**

*Excluding share in Small Savings.

CHAPTER XVII

REVISION OF TERMS OF REPAYMENT OF OUTSTANDING CENTRAL LOANS TO THE STATES

Paragraph 5 of the Presidential Order setting up the Commission defines the task of the Commission in regard to the assessment of the non-Plan capital gap and the review of the debt position of the States in the following words :—

> "The Commission may make an assessment of the non-Plan capital gap of the States on a uniform and comparable basis for the five years ending with 1978-79. In the light of such an assessment, the Commission may undertake a general review of the States' debt position with particular reference to the Central loans advanced to them and likely to be outstanding as at the end of 1973-74 and suggest changes in the existing terms of repayment having regard *inter-alia* to the overall non-Plan gap of the States, their relative position and the purposes for which the loans have been utilised and the requirements of the Centre."

2. The total debt burden of the States including public debt and unfunded debt rose from Rs. 449 crores in 1952 to Rs. 9,568 crores in 1972 and is expected to be Rs. 11,670 crores by the end of March, 1974. The bulk of the outstanding debt of the State Governments is accounted for by the loans obtained by the States from the Central Government. In 1952, loans taken from the Central Government constituted just over 53 per cent of the total debt of the State Governments; but by the end of 1972 these had risen to over 70 per cent. In absolute terms, the outstanding loans from the Central Government would have gone up from Rs. 196 crores at the end of March, 1951 to Rs. 8,536 crores by the end of 1973-74. These figures testify to the phenomenal increase in the States' debt to the Centre. Though the burden of servicing of loans owed by the States to the public and autonomous financial institutions cannot be altogether ignored, we are primarily concerned with the analysis and treatment of the problem of repayment of Central loans.

3. While the mounting debt liabilities of the States have attracted considerable attention in various forms in recent years, we would like to observe that there is nothing intrinsically alarming about this growth of public debt. The continuous increase in the indebtedness of the States to the Centre only reflects the assistance provided by the Centre to the States year after year for financing not only their Plan outlays but also for meeting the non-Plan needs such as those arising from relief expenditure on natural calamities. In other words, the magnitude of the debt burden of any State as at the end of the Fourth Plan is also a measure of the assistance that the State concerned has secured from the Centre.

4. On this question of creditor-debtor relationship between Centre and States, the memoranda of State Governments propound a common theme. They urge that a broad distinction should be drawn between productive and unproductive debt and that on the basis of such a classification a significant percentage of the debt should be written off. One State has suggested 50 per cent write-off. Support for such views can also be found in some passages of the report of the Study Team on Centre-State relations of the Administrative Reforms Commission. Taking a composite view of Central and State finances, it is true that the clearance of the debt liabilities of the States to the Centre in whole or in part would hardly make any difference to the resources position. But this and similar arguments in favour of write-off overlook one important point. Recoveries of old loans enable the Centre to re-lend the amounts so realised to States on the basis of criteria that can be revised from time to time to promote certain national priorities and to bring about a progressive reduction of regional disparities.

5. To write-off old loans on the ground that they have been utilised for unproductive purposes or for any other reason would be to reduce the pool of resources available with the Centre. Since a significant part of the loans outstanding had been obtained by relatively advanced States at a time when the emphasis on accelerated growth of backward areas was less pronounced, the scaling down of debt, however, carefully designed, would help the advanced States to a greater extent than these States which, on account of inadequate capacity for implementation of developmental programmes or lack of suitable schemes, had not been able to draw on their due share of Central loan assistance in the past. It can no doubt be argued that even if write-off of a portion of the existing debt benefits the advanced States relatively more, it can be offset by re-adjustment of the relative shares in the Central assistance for Plans to the required extent. Thus, while write-off of debt will leave the Centre with less resources for financing a new Plan, this reduced amount can be distributed with a more pronounced slant in favour of the backward States. In the extreme case, where write-off of a portion of debt is found to confer on an advanced State resources adequate for fulfilling a reasonable Plan, fresh Central assistance for the Plan may be denied to it altogether. We do not deny that action on these lines is, in principle, possible. Nevertheless, having