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

ANNEXURE II

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.

regard to the fact that the principles of Central assistance for State Plans in a federal democracy such as ours can be formulated only on the basis of a national consensus, the room for re-adjustment of principles of Central assistance will be comparatively small. While weightage for social and economic backwardness may increasingly receive greater recognition in the principles of distribution of Central assistance, one cannot expect it to be of such an order as to offset fully the effects of the serious shrinkage in Central resources bound to be caused by the liquidation of any significant part of outstanding Central loans. It may be relevant in this connection to mention that apprehensions of this nature have been expressed to us. The Government of Assam, in their Memorandum, has pointed out that they recognised that :

> "writing-off of all outstanding debts will not be correct solution of the problem as this will mean a corresponding reduction in the resources available to the Centre for financing the national Plan and all the States and the financially weaker States in particular will be victims of this policy......"

The suggestions put forward by most of the State Governments for a large scale write-off of debt cannot therefore be upheld.

6. The conversion of the whole or part of the outstanding debt into grant on the basis of a distinction between productive and unproductive debt does not appear to be a practicable proposition for another important reason. In the course of their discussions with us, the State Governments were generally inclined to concede that loans for such purposes as irrigation and power projects, industrial enterprises and road transport could be considered productive. But on a closer look at the working results of the so called 'productive' schemes, the proposed classification between productive and unproductive debt would seem to have almost a touch of irony about it. There are transport schemes which do not cover even working expenses let alone depreciation and interest. There are electricity projects that are unable to provide even for depreciation. There are irrigation projects, receipts from which are inadequate to meet even the costs of maintenance. There are also many industrial enterprises which incur losses. There is practically no State in which the returns from productive schemes are large enough to provide for both payment of interest and amortisation. We would, therefore, be pursuing with of the wisp if we seek to formulate any scheme of debt relief on the basis of a distinction between productive and unproductive debt.

7. We also found that it would be a futile exercise to regulate debt relief with reference to the relative position of assets and liabilities of the State Government. The one formidable snag in this approach is that some of the assets and liabilities shown in Finance Accounts of the States cannot be taken at their face value. Thus, for example, loans to cultivators, sick mills, refugees, repatriates, figure as assets in the books of the States; but no reliable estimate can be made of the extent to which these loans would be eventually recoverable. As against this the present value of some assets, as for example, Government buildings and forests will be much higher than is apparent from the Finance Accounts of the States. It may also be worthwhile to mention here that no comprehensive inventory has been made of assets such as lands and buildings held by the State Governments. To this extent the Finance Accounts do not reveal a complete picture of the "wealth" of the State Governments. We are, therefore, led to the view that a practical scheme of debt relief cannot be framed with reference to the relationship between the assets and liabilities of the State Governments.

8. A scheme, commanding the widest measure of agreement and meeting some of the pressing needs of the States, can be framed only on the basis of scrutiny of the numerous categories of loans, the purposes for which they have been utilised, the relative position of the States and the schedule of repayment actually arising in our forecast period. Such an approach is also enjoined on us by the terms of reference.

9. Any scheme of debt relief in the present context of Centre-State financial relations should subserve both short-term and long-term objectives. The long-term objective should be to determine afresh the period of repayment of different categories of loans with due regard to the nature of the scheme and the relative debt burden of the States. But the more immediate and pressing short-term objective that cannot be over-looked is to enable States to have a reasonable Fifth Plan. This can be facilitated only by reducing their non-Plan capital gaps to manageable limits. We are fully conscious of the fact that our proposals for debt relief are concerned primarily with mitigating the burden of repayment in the Fifth Plan period and that they do not make an enduring contribution to the long-term issues of a more satisfactory creditor-debtor relationship between Centre and States. In justification of this approach, we would urge that most of the States, particularly the financially weaker and backward States, should be vitally interested in securing as much relief as possible in the next five years so that they could take on a Fifth Plan of reasonable dimensions. This would strengthen their economies and enable them to service their large Central debt in future.

10. The consolidation of the numerous outstanding Central loans and simplification of their terms of repayment have also engaged our attention. The loans given by the Centre to the States and expected to be outstanding in 1973-74 number over 12,000. The terms of these loans such as rate of interest, period of repayment, period of grace and the like also reveal a bewildering variety. The introduction of an element of order and coherence in the present chaotic situation would deserve to be given the highest priority irrespective of whether or not the States need debt relief. It was quite a task to obtain within the time available to us details of all current loans, examine each one of them and then classify them under certain broad and meaningful categories. This work could be completed in time only because of the unstinted co-operation we received from the Finance

Departments of the State Governments, State Accountants General and the Union Ministries. Perhaps, the scheme of consolidation of Central loan we have outlined may admit of even further simplification. But what we have proposed is an essential first instalment of reform that will make an immediate and perceptible contribution to the simplification of the enormous accounting work entailed by the recovery of interest and instalments of principal on thousands of loans.

11. As a first step in the formulation of a scheme of debt relief, we requested the State Governments to furnish item-wise details of all loans expected to be outstanding at the end of 1973-74 and in respect of which one or more instalments were due for repayment in the Fifth Plan period. This information was obtained in three parts :—

(a) Loans obtained upto 1971-72 and likely to be outstanding at the end of 1973-74 together with the corresponding schedule of repayment over the Fifth Plan.

(b) Loans obtained during 1972-73 and likely to be outstanding at the end of 1973-74 together with corresponding schedule of repayment over the Fifth Plan, and

(c) Loans likely to be received in 1973-74 in respect of which repayment would arise in the Fifth Plan period.

Data on loans drawn by the States from the Centre upto the end of 1971-72 and the schedule of repayment of such loans over the Fifth Plan period were verified for us by the State Accountants General. Similar information furnished by the State Governments on loans obtained by them in 1972-73 has also been verified through the State Accountants General. But it should be recognised that data on loans of 1972-73 may well undergo some marginal changes when the accounts for the year are finalised. As regards loans likely to be obtained by the States in 1973-74, we have relied mainly on the data supplied by the State Governments based on their anticipation of receipts of loans for the year. But we have also had these figures cross-checked with reference to the information furnished by the Ministry of Finance on block loans, special accommodation and loans for natural calamities obtained upto the end of August, 1973 and have made corrections to the extent necessary in the data furnished by the State Governments. Statewise estimates of loans for 1973-74, as furnished by the State Governments together with modifications made by us, are indicated in Table 3 in Appendix XIV. To the extent that the actuals of 1973-74 turn out to be different, our estimates of the relief likely to be secured by the States under the scheme outlined in this Chapter will also undergo some changes.

12. While information has been obtained on all loans outstanding, it would have been virtually impossible to spell out revised terms for each of these loans individually with reference to whatever considerations may be considered relevant. It is needless also to emphasis that in such an item-wise approach, there is a very real risk of losing sight of the larger considerations. We have, therefore, classified the loans outstanding into certain broad but well-defined categories and have proposed for each category a suitable revised pattern of repayment so as to afford in the process some relief to the States.

13. It will be useful at this stage to invite attention to some of the implications of our terms of reference in so far as they pertain to the revision of the terms of repayment of Central loans. Our terms of reference stipulate that in suggesting revision of the terms of repayment of outstanding loans we should have regard for the purposes for which the loans have been utilised. This seems to imply that all the States would be entitled to a measure of relief with reference to the nature of the scheme for which the loans have been obtained. Even apart from this, we are convinced that it would be grossly unfair and would amount to penalising prudent financial management, if relief to certain States were denied only on the ground that they are relatively better off or have non-Plan surpluses. While under our scheme of rescheduling, States which are surplus get significantly smaller relief than the others, none-the-less they do emerge with their surpluses on non-Plan capital account somewhat enlarged. This cannot be helped. At the same time, our terms of reference require that we should have regard among other things to the relative position of the States and their position on non-Plan account. It is, therefore, clear that relief cannot be on a uniform basis and that a degree of discrimination is inevitable. We delineate in some detail later in this Chapter the precise manner in which such discriminating relief is to be assured to the States in need of it. All that we would like to point out at this stage is that the final scheme of debt relief emerging from our proposals is an amalgam of uniform relief in respect of certain categories of loans and discriminatory relief based on certain valid principles in regard to others.

14. For purposes of analysis and determination of the treatment to be accorded to the thousands of loans outstanding, we have found it convenient to draw a distinction between non-Plan and Plan loans. We should hasten to add that this distinction is made only for purposes of facilitating analysis and should not be considered as hard and fast one. In fact some of the non-Plan loans such as small savings loans and Central loans in lieu of open market loans have been used for financing the Plan. It is also possible to argue that in essence even special accommodation loans and loans for clearance of overdrafts have been used for Plan programmes because in their absence the States would have been compelled to curtail their Plan outlays appreciably. All the same the distinction between Plan and non-Plan loans still serves a useful purpose. While Plan loans have generally been subject to agreed ceilings determined on the basis of certain principles uniformly applicable to all States, non-Plan loans have been generally advanced as and when the needs arose as in the case of drought relief or on the basis of performance of the States concerned as in the case of small savings loans.

NON-PLAN LOANS

15. Confining our attention for the present to non-Plan loans we have found it convenient to classify these loans into the following categories :

(i) Small savings loans

(ii) Loans in lieu of open market borrowings

(iii) Loans for strengthening of Police and provision of amenities :

(a) Scheme for modernisation of Police, and

(b) Police housing.

(iv) Loans for relief and rehabilitation of

(a) Goldsmiths,

(b) Displaced persons from Pakistan,

(c) Repatriates from Burma and Sri Lanka etc., and

(d) Loans for other relief and rehabilitation schemes.

(v) Pre-autonomy debt

(vi) Miscellaneous non-Plan loans

(vii) Loans for clearance of overdrafts

(viii) Loans for meeting gaps in resources

(ix) Loans for relief of distress caused by natural calamities, and

(x) Special accommodation loans.

Small Savings Loans :

16. Most of the State Governments have urged that loans given to them towards their share of the net collections under small savings scheme in the respective States should be treated as loans in perpetuity. They have argued that as their entitlement to these loans is now worked out with reference to the net collections under small savings scheme, it is only fair that the Union Government should not insist on repayment of the loans. A critical analysis of the evolution of the sharing arrangements on small savings schemes leaves us with the impression that these loans have been given to the States largely as an inducement to join the Centre in a co-operative effort to mobilise small savings. Net collections within the States would thus seem to be only a convenient yard-stick for determining the quantum of loans given to each State. There is, therefore, no strong justification for treating these loans as loans in perpetuity. We would also like to stress that treatment of small savings loans as loans in perpetuity would confer disproportionally larger benefits on some of the advanced States and defeat the crucial objective of any properly designed scheme of debt relief which should have regard both to the purposes for which the loans have been utilised and the need for relief as adjudged by its relative economic condition and the overall position on non-Plan account and the like. Repayment of small savings loans by the States during the Fifth Plan period are estimated at about Rs. 462 crores. If these loans are treated as loans in perpetuity, it would considerably affect the resources at the disposal of the Central Government and impair its capacity to help backward States. We should also remember that small savings collections in recent years have shown a sharp spurt mainly because the provident funds, particularly subscription under Employees' Provident Fund Act, have been permitted to be invested in Post Office Time Deposits. Nearly 60 per cent of the net collections of small savings are atributable to the investments made by the provident funds. In the mobilisation of funds from this source at any rate, the State Governments cannot claim to play any active part. We have indicated in Chapter XVI the reasons for excluding repayment of small savings loans from the estimates of non-Plan capital gaps. We have, therefore, decided to leave small savings loans outside the scope of debt relief.

17. Certain State Governments have represented to the Government of India that in view of the manner in which the terms of reference of the Commission relating to the review of debt position of States had been worded, the Commission may consider changes in terms of repayments of Central loans only as a means of giving relief to such of those States which have a non-Plan capital gap, or an overall non-Plan gap, with a view to bridging such gap. These States have, therefore, suggested to the Ministry of Finance that small savings loans given by the Central Government to the States may be considered independently and changes in their repayments to the Centre suggested on their merits by the Commission. The Ministry of Finance, vide its letter dated September 13, 1973 (Appendix III) informed the Commission that the Government of India, having considered the representation of the States agreed that "the small savings loans stand on a different footing and may be considered on merits independent of non-Plan capital gap or overall non-Plan gap of States".

18. We have given careful consideration to the communication from the Ministry of Finance. As indicated above, we had, on our own decided that small savings loans stood on a different footing. We have not only excluded small savings loans for the purposes of determining the non-Plan capital gap of the States but also from our scheme of debt relief. We have also specifically indicated above our reasons why we do not consider that the demand of the State Governments for treatment of small savings as loans in perpetuity is jusified.

Loans in lieu of open market borrowings:

19. The Government of India decided, with the concurrence of State Governments, on a policy of Centralised market borrowings on behalf of all States in 1963-64 in pursuance of which a sum of Rs. 100 crores was raised in that year and distributed among the States. The repayment of these loans, which is a Central liability, falls due in 1975-76. State Governments, in turn, have to repay to the Government of India the amounts advanced to them as their share of market borrowings in that year. We have considered how this category of loan should be dealt

with. We suggest that the target of gross market borrowings by States in 1975-76 may be so set that out of the proceeds of the fresh loan the State Governments may be enabled to repay to the Centre the outstanding amounts. On the assumption that this recommendation would be accepted, we have excluded this category of loan from our scheme of debt relief.

20. The Central Government took over the repayment liability in respect of Hyderabad Development Loans amounting to Rs. 11.26 crores which are due for repayment in 1974-75. We suggest that, in respect of these loans too, the same approach may be followed as for the loans advanced to the States out of the Centralised market borrowings. Accordingly the repayments on these Hyderabad Development Loans have been excluded from our scheme of debt relief.

Loans for strengthening of Police and provision of amenities:

21. The amounts outstanding under the scheme of modernisation of police force are estimated at Rs. 12.82 crores at the end of 1973-74. The schemes financed by these loans are clearly unproductive and do not generate any additional revenues out of which the loans can be repaid. This aspect of these loans is also recognised by the Government of India by the offer of an element of grant in its scheme of assistance. While we have as a matter of principle refused to propose any large scale conversion of loan into grant, we feel that a measure of relief to all the States in respect of this category of loans is clearly called for. Keeping this in view, we propose that all loans granted to the States for modernisation of their Police forces might be consolidated and made repayable over 25 years. We also propose the same terms for loans given to Madhya Pradesh and Uttar Pradesh for anti-dacoity operations.

22. Government of India have also been granting to the States loans for a long time for provision of housing facilities to Police personnel. In the course of our discussions with the State Chief Ministers, Inspectors General of Police and other senior officials connected with maintenance of law and order, considerable stress was laid on the need for a substantial step up in outlays on Police housing it is hardly necessary to emphasise that provision of proper housing facilities has an important bearing on the morale and efficiency of the Police force. Capital outlay on police housing is, however, by and large unremunerative, as the accommodation is let out mostly on rent-free basis. We, therefore, suggest that the loans already given to the State Governments for police housing and outstanding at the end of 1973-74 should be consolidated and made repayable over a period of 25 years.

Loans for relief and rehabilitation :

23. We have classified these loans under four broad categories:

(a) Loans to goldsmiths;

(b) Loans to displaced persons from Pakistan;

(c) Loans to repatriates from Burma, Sri Lanka etc; and

(d) Other relief and rehabilitation loans.

According to the revised terms enforced since August 1970, repayments of loans obtained for rehabilitation of goldsmiths are to be in proportion to the recoveries made by the State Governments from individual recipients subject, however, to the condition that any losses on account of non-recovery of loans will be shared by the Centre and the State Governments in the ratio of 50 : 50. The terms and conditions governing various loans for relief and rehabilitation of displaced persons have undergone changes from time to time. The present terms of repayment of loans differentiate amongst (a) loans given to displaced persons from 'West' Pakistan; (b) loans given to such displaced persons from erstwhile East Pakistan who migrated upto 31st December, 1963; and (c) those who came to India on or after 1-1-1964. Loans to persons affected by Indo-Pak hostilities of 1965 and also loans given to repatriates from Burma and Sri Lanka carry specific terms which are different from those given for other categories. In the case of these categories of loans there is a procedure for sharing of losses ranging from 10 per cent in respect of displaced persons from 'West' Pakistan to 100 per cent in the case of migrants from erstwhile East Pakistan after 1-1-1964. We feel that there is no logical basis for these distinctions and these should be done away with both in the interests of simplification and *inter se* justice among the States.

24. In the data furnished by most States no provision has been made for repayment of these loans, presumably on the basis that they would be called upon to pay to the Centre only such amounts as they themselves recover, the question of determination of losses being put off till the closing of the accounts of each loan. Some States, however, have made provisions for repayment to the Centre of these loans; but it is by no means certain that these loans would actually be recovered by the State Governments concerned. These loans have been given to large number of persons and the amounts involved are small in each case. It is also generally recognised that there is large risk of default on most of these loans. The procedure for the eventual sharing of the losses in respect of these loans would, in practice, prove unworkable since some State Governments might well keep the loan accounts indefinitely open so that the question of apportionment of losses may not arise at all. It has to be conceded that in all these cases the States have been rather involuntary borrowers. The States have had no control over the events or policies which led to the flow of refugees or repatriates. We, therefore, propose that in respect of all these loans, the States need repay to the Centre only such sums as they recover from the beneficiaries. The ceiling on shareable losses should also be removed. The Gold Control Order was also the result of a Central decision taken in national interest and the States were in effect only the conduits through which the financial assistance was canalised to displaced goldsmiths in order to mitigate their hardship. For these loans also we propose the same terms. In regard to loans under National Loan Scholarship Schemes also the same treatment may be accorded.

25. We would, in fact, go a step further and urge that as a measure of incentive to the States to recover as much as possible of these loans given under difficult circumstances and often in relaxation of the normal standards of scrutiny, they should be allowed to retain half the principal and the whole of the interest they may manage to recover. The loss to Central Government implicit in this suggestion is largely notional because very little of the amounts due is being recovered at present.

Pre-autonomy Debt :

26. Pre-autonomy debt, as the term itself indicates, dates from 1937 when under the Government of India Act, 1935 the provincial cash balances were separated from the Central cash balance. All the loans from the Central Government to the provinces then outstanding were consolidated into one loan and made repayable in ninety half-yearly instalments, that is in 45 years. The outstanding balances against the provinces had later to be allocated to the successor States in the ratio of their respective population, as and when the provinces underwent reorganisation of their territorial limits. From the information furnished to us it is seen that as at the end of 1973-74 about Rs. 10.32 crores would be outstanding against various States, of which Rs. 5.91 crores would fall due for repayment over the Fifth Plan period. This debt, now thirty-six years old, represents the consolidation of a number of loans given over a long period prior to 1937. The provinces on whom the debt burden devolved have also undergone extensive territorial reorganisation. It is also likely that most of the investments on which the loans had been utilised would by now have depreciated and the book value would almost be nil. We, therefore, suggest that the loans outstanding against some of the States as their share of pre-autonomy debt be written-off the accounts.

Miscellaneous non-Plan loans :

27. There are a number of non-Plan loans of a miscellaneous nature which are individually and collectively insignificant. We have found it convenient to set out our detailed proposals for consolidation and revision of terms of repayments of these loans in Annexures I and II to this Chapter. Our proposals on these miscellaneous loans will confer relief on the different States as under:—

(Rs. lakhs)

States	Amount
1. Andhra Pradesh	49
2. Assam	35
3. Bihar	51
4. Gujarat	34
5. Haryana	3
6. Himachal Pradesh	—
7. Jammu and Kashmir	34
8. Kerala	4
9. Madhya Pradesh	11
10. Maharashtra	20
11. Manipur	1
12. Meghalaya	1
13. Mysore	184
14. Nagaland	—
15. Orissa	2
16. Punjab	17
17. Rajasthan	23
18. Tamil Nadu	22
19. Tripura	—
20. Uttar Pradesh	288
21. West Bengal	23
TOTAL	732

Our recommendations in regard to loans for (a) clearance of overdrafts; (b) meeting gaps in resources; (c) natural calamities; and (d) special accommodation are given later in the Chapter.

PLAN LOANS

28. The loans advanced to the States as part of the Plans account for the bulk of the outstanding debt. These loans have been sanctioned for a variety of developmental purposes and in conformity with the principles of Central assistance as formulated from time to time. The patterns and procedures of Central assistance to State Plans have also undergone material changes from time to time. In this process of evolution of arrangements for channelling loan assistance to the States for financing the Plan, 1969-70 constitutes a water-shed. Prior to the commencement of the Fourth Plan, while there was an agreed ceiling on aggregate Central assistance for State Plans, loans and grant assistance within the ceiling was allocated, as far as possible, to specific schemes or heads of development. It is not necessary here to trace all the different steps in process of liberalisation of patterns and procedures of determination and release of Central assistance for State Plans. It may suffice for our present purposes to point out that till 1969-70, despite the gradual relaxation of Central control over Plan outlays through specific patterns of assistance, there was some attempt to link central assistance, loan or grant, to specific schemes or heads of development. After the Central assistance had been allocated to specific schemes or heads of development, whatever remained of the agreed ceiling of Central assistance was extended as a miscellaneous development loan. We have found it both convenient and proper to consider these Plans loans advanced for specific schemes or purposes as constituting a distinct category by themselves and for which a separate set of arrangements for consolidation and revision of terms could be proposed. Though since 1969-70 Central assistance for State Plans has been in the form of block loans and grants, assistance for Centrally sponsored and Central schemes still continues to be related to specific schemes or programmes. We have, therefore, considered it appropriate to classify the loans advanced under the Centrally sponsored and Central schemes to States under the corresponding heads of development, just as we have done in the case of loans given to States for State Plan Schemes prior to 1969-70.

29. On a detailed analysis of the particulars furnished by the State Governments, we have classified the Plan loans given for specific schemes or programmes under the following broad heads:

(1) Agricultural production and allied schemes.
(2) Medium and large industries.
(3) Small Scale industries including handlooms, handicrafts, coir etc.
(4) Housing.
(5) Water supply, drainage and slum clearance.
(6) Education (excluding National Loan Scholarships Schemes).
(7) Medical and Public Health.
(8) Community Development, National Extension Service, and Co-operation.
(9) Transport and Communications.
(10) Employment Schemes:
   (a) Rural Works Programme.
   (b) Rural manpower programme.
   (c) Schemes for educated unemployed.
   (d) Other schemes.
(11) Welfare of Scheduled Castes, Scheduled Tribes and Backward Classes.
(12) Rural electrification.
(13) Inter-State transmission lines.
(14) Flood control.
(15) Investigation of Irrigation and Power projects; and
(16) Multi-purpose river valley schemes, major and medium irrigation and power development.

Besides these specific purpose loans, Miscellaneous Development Loans and Block Loans have also been given for financing State Plans.

30. At an early stage of this exercise, we had further sub-divided these groups into narrower and more specific categories of loans. We also examined the terms of repayment in respect of each such category separately. But ultimately we refrained from suggesting consolidation of loans by such sub-groups of loans, as the resultant scheme of debt relief would have been far less tidy without any compensating advantages.

31. The amounts outstanding as on 31-3-1974 against the loans under each of the categories mentioned above are indicated in Table 4 of Appendix XIV. It may be mentioned that after we had classified the amounts outstanding under the different heads, we had them verified from the State Governments and have reconciled discrepancies, if any, to the maximum extent possible. We have super-imposed changes, if any, in respect of loans in 1972-73 and 1973-74 for which additional data were supplied by the State Accountants General and the Ministry of Finance. The figures as set out could, therefore, be taken as representing an agreed classification of the amounts left to be repaid of the numerous loans for specific purposes advanced from time to time as part of the State Plans upto 1969-70 and as part of all Centrally sponsored schemes upto 1973-74.

32. The terms fixed for these specific purpose loans in the past have had varying periods of repayment; they have also been outstading for varying periods of time depending upon when they were drawn, and have enjoyed different periods of grace in some cases. The life that these have yet to run also naturally varies. It would, therefore, be difficult to apply whatever period of repayment that may now be prescribed from the dates on which the loans were originally drawn. Such extensive reopening of the terms of repayment of every individual loan will be administratively difficult and cause great confusion. We have given considerable thought as to how a scheme of consolidation of these numerous loans could be drawn up and the periods of repayment so determined as to assure the States the desired relief in their repayment obligations particularly in the Fifth Plan period. To start with, we tabulated available information on the amounts of loans yet outstanding pertaining to the different sectors of development mentioned in paragraph 29 and also the actual amounts falling due for repayment in respect of each such category of loans. The information thus tabulated helped us to determine the average period of repayment still left of all the loans taken together under a broad category. With reference to this average period of repayment and the purposes for which the loans had been taken, whether for quick yielding or long gestation projects or provision of social services, we have prescribed a suitable revised period of repayment. In this process, all the States would benefit, though the extent of benefit will depend upon when its loans were drawn and the average period of currency of the loans still outstanding. But it is our belief when all the specific purpose loans are taken together, these variations would by no means be significant. The variations also get ironed out in our other proposals involving discriminatory relief. We, therefore, suggest that all the loans given for specific purposes as part of the State Plans prior to 1969-70 and for Centrally sponsored/Central schemes upto and inclusive of 1973-74 be consolidated at the end of 1973-74 and made repayable as shown against each category:

Head of Development to which specific purpose loans relate.	Revised period of repayment suggested
1. Agricultural production and allied schemes	15 years
2. Medium and large industries.	15 ,,
3. Small Scales Industries including handlooms, handicrafts, coir, etc.	25 ,,
4. Housing	25 ,,
5. Water Supply, Drainage and Slum Clearance	25 ,,
6. Education (excluding National Loan Scholarship Schemes).	25 ,,
7. Medical and Public Health	25 ,,
8. Community Development, National Extension Service & Co-operation	15 ,,
9. Transport and Communications	25 ,,

Head of Development to which specific purpose loans relate.	Revised period of re-payment suggested
10. *Employment Schemes :*	
(a) Rural Works Programme	25 years
(b) Rural Manpower Programme	25 ,,
(c) Schemes for educated unemployed	25 ,,
(d) Other schemes	25 ,,
11. Welfare of Scheduled Castes, Scheduled Tribes and Backward Classes.	25 ,,
12. Rural Electrification	25 ,,
13. Inter-State Transmission lines	25 ,,
14. Flood Control	25 ,,
15. Investigaton of Irrigation and Power Projects	25 ,,

Multi-purpose River Valley Schemes, major and medium irrigation and power development :

33. Prior to 1969-70, i.e. before the schemes of block loans came into existence, Government of India was giving specific loans earmarked for certain major irrigation and power projects including multi-purpose river valley projects. Details of such loans obtained by the State Governments prior to 1969-70 and expected to be outstanding at the end of 1973-74 will be found in Table 30 in Appendix XIV. On a scrutiny of the terms prescribed for these loans, it is seen that while the terms vary widely, the periods of repayment by and large are fairly long and make due allowance for time lag in the execution of the projects and the accrual of benefits therefrom. If despite these comparatively easy terms of repayment, some of the States have run into financial difficulties, the reasons for this perhaps lie elsewhere. It is possibly the considerable escalation in the cost of some of these projects and the delay in execution on account of constraint of resources that are responsible for the difficulties faced by the States. Even so, as repayments of these loans do contribute to the strain on ways and means position of some of the States, we consider that a further measure of relief would not be inappropriate. At the same time the relief has to be necessarily selective depending upon the stage of execution of the project, the amounts outstanding, the terms already in force for the repayment of the loans, the aggregate debt burden of the State concerned in relation to its general economic position and other relevant factors. We have, therefore, made a project-wise analysis for settling the lines on which loans for multi-purpose river valley projects and certain specified major and medium irrigation projects can be consolidated and terms of repayment fixed. The results of our analysis are set out in detail in Annexure III to this Chapter.

34. On the basis of the proposals outlined in Annexure III, States are estimated to secure relief as under in the repayment of loans in the Fifth Plan period :

(Rs. crores)

	Amount of relief
1. Andhra Pradesh	7.92
2. Bihar	14.31
3. Gujarat	—2.04
4. Haryana	7.64
5. Kerala	1.43
6. Madhya Pradesh	10.22
7. Maharashtra	0.13
8. Mysore	0.49
9. Orissa	4.84
10. Punjab	6.67
11. Rajasthan	26.74
12. Uttar Pradesh	9.64
13. West Bengal	5.12
TOTAL	93.11

Loans for clearance of overdrafts :

35. We may now consider how the medium term loans given by the Government of India for clearance of overdrafts to State Government are to be dealt with. It is not necessary at this stage to refer in any great detail to the circumstances in which certain States had run into large overdrafts with the Reserve Bank of India. The State Governments concerned have argued before us that these overdrafts had become inevitable on account of certain special factors such as revision of scales of pay and allowances of the employees not taken into account by the Fifth Finance Commission, heavy incidence of repayment of loans to the Government of India, escalation in costs of projects and the like. Whatever be the merits of these arguments, there can be no doubt that these overdrafts amount to a compulsory loan on the Government of India by the State Governments. It is also true, as pointed out by the last Finance Commission, that no country with a unified currency system can afford to have more than one independent authority taking measures which result in increase of money supply. Unauthorised overdrafts run counter to this fundamental principle of sound monetary management.

36. It was the widespread concern about the dangerous consequences to the national economy of the continuing resort to overdrafts by certain State Governments that led the Government of India to formulate some arrangements for orderly liquidation of overdrafts as they stood at the end of 1971-72. The essence of these arrangements was that subject to the State Government's agreeing to repayment of

certain stipulated percentages of the outstanding overdrafts in 1972-73 and 1973-74, the Central Government took over the responsibilty for clearing the balance of the overdrafts through special medium term loans to the State Governments. The loans thus advanced to the State Governments are repayable in six years beginning from 1973-74. In other words, the outstanding balance of the loans given for clearance of overdrafts at the end of 1973-74 is to be repaid within the Fifth Plan period. We understand that after these arrangements came into force, the State Governments have generally refrained from running into unauthorised overdrafts and no occasion had arisen in which the Reserve Bank of India has had to suspend payments on behalf of the State Governments. Even in the few cases in which the State Governments had again run into serious ways and means difficulties, they have been enabled to tide over them through special loans for covering gaps in resources after mutual consultation between the State Governments and the Central Government.

37. While we are anxious to ensure that no State is allowed to resort to overdrafts with impunity, we feel that unless the period of repayment of the loans already given to them for clearance of overdrafts is fixed realistically, there is a real risk of the States concerned being faced with serious problem of repayment in the Fifth Plan period or in the alternative in facing serious erosion of the resources for the Plan. Government of India's hands in enforcing fiscal discipline would be strengthened if the terms of repayment of loans given for liquidation of overdrafts are fixed with due regard to the anticipated financial position of the State Governments. Among the recipients of these special loans for clearance of overdrafts, some are faced with such large non-Plan capital gaps as cannot be reduced to manageable limits, unless some relief is provided also under overdraft loans. There are also a few other States which, though they had run into overdrafts, had otherwise maintained fairly high standards of fiscal management if some of the other indices such as tax effort, control over non-developmental expenditure and Plan performance are taken into account. Having regard to all these considerations, we propose that all loans given for clearance of overdrafts and outstanding at the end of 1973-74 as listed in Table 32 of Appendix XIV should be made repayable in 15 years.

Loans for meeting gaps in resources :

38. The Centre has also given loans to certain States in 1972-73 for meeting gaps in resources. These loans are indistinguishable from similar loans given for liquisidation of overdrafts. The only difference is that these loans for covering gaps in resources had been given in an attempt to avoid the overdrafts that might otherwise have arisen. The terms laid down by the Ministry of Finance for the repayment of these loans are also the same as those for clearance of overdrafts. More liberal terms were allowed only in the case of Andhra Pradesh on the ground that the State could not make up for the shortfall in its resources for the Plan in view of the disturbed conditions in 1972-73. We, however, feel that uniform treatment should be accorded to all loans given for meeting gaps in resources, whatever be the circumstances in which special gaps had arisen. Accordingly we recommend that the loans given for meeting gaps in resources of certain States, details of which as furnished to us by the Ministry of Finance are set out in Table 34 of Appendix XIV be lumped together for each State and made repayable within a period of 15 years.

39. Governments of Uttar Pradesh and Assam were given non-Plan loans of the order of Rs. 6 crores and Rs. 0.11 crore, respectively in 1972-73 as a special case since these States raised additional resources in that year over and above the targets fixed for them for the year. These loans carry the same terms as Block Loans. We recommend that the amount outstanding at the end of 1973-74, *viz.*, Rs. 5.6 crores in the case of Uttar Pradesh and Rs. 0.10 crore in the case of Assam be added to their outstanding Block Loan and accorded the terms indicated for the Block Loan later in the Chapter.

40. Among the newly formed States, Himachal Pradesh, Manipur and Tripura would have large amounts outstanding at the end of 1973-74 on loans obtained by them while they were Union Territories. A significant part of Meghalaya's debt burden relates to loans which have devolved on it as its share in the loans obtained by the composite Assam State. Jammu and Kashmir and Nagaland have certain loans which were given to them earlier to enable them to balance their non-Plan budgets. Details of these loans expected to be outstanding at the end of 1973-74 have been set out in Table 35 in Appendix XIV. We consider that all these loans should be merged into one loan for each State and made repayable within a period of 20 years. Keeping in view, however, the magnitude of the non-Plan gaps of Manipur, Meghalaya, Nagaland and Tripura and the comparatively small relief accruing to these States from other categories of loans we recommend moratorium* for a period of 3 years each for Manipur, Meghalaya and Tripura and 2 years for Nagaland.

PROPOSALS FOR DISCRIMINATORY DEBT RELIEF

41. As indicated earlier in this Chapter, the debt relief scheme drawn up entirely on principles uniformally applicable to all States would fail to meet the needs of the situation. If, therefore, the scheme of relief is to be equitable and all States are to be enabled to embark on the Fifth Plan without too wide a non-Plan capital gap there is no escape from a discriminatory approach in the revision of the terms of the outstanding loans. As the same time discrimination should be confined to certain select identifiable groups of loans which account for a significant portion of the amounts falling due for repayment in the Fifth Plan period. From this stand point, we have selected, besides loans for irrigation and power projects discussed earlier, the loans for natural calamities, special accommodation loans, Miscellaneous Development Loans and Block Loans given since 1969-70 as pre-eminently suitable for discriminatory treatment.

*Wherever we have recommended moratorium in this Chapter for any loan, it should be taken to apply only to repayment of principal of a loan and not to interest.

42. We also gave some thought to the principles on the basis of which the relative capacity of the States to service outstanding debt can be assessed. One way of assessing such relative capacity would be to determine the relationship between State tax revenues and outstanding debt. This approach is, however, open to the objection that it might place the States that have been vigorous in mobilisation of tax and non-tax revenues at a disadvantage *vis-a-vis* the States that have been tardy in raising resources. For purposes of comparision of the relative capacity of the States, it would, therefore, be more equitable to relate the burden of debt as reflected in the amount falling due for repayment in the Fifth Plan period to State Domestic Product (the average for 1967-68 to 1969-70—the three latest years for which the figures are available). The following table shows the relative ranking of the States on the basis of their relative debt burden worked out according to the principle mentioned above:

	Percentage
1. Punjab	6.5
2. Gujarat	6.8
3. Maharashtra	6.9
4. Uttar Pradesh	7.9
5. Tamil Nadu	8.7
6. West Bengal	9.3
7. Madhya Pradesh	9.6
8. Bihar	10.7
9. Haryana	11.0
10. Andhra Pradesh	13.4
11. Mysore	14.9
12. Meghalaya	15.2
13. Kerala	17.1
14. Orissa	20.7
15. Assam	24.8
16. Tripura	26.1
17. Rajasthan	31.4
18. Himachal Pradesh	33.2
19. Manipur	40.7
20. Nagaland	48.4
21. Jammu and Kashmir	90.8

43. On the basis of the relative burden of debt as emerging from the above table we have found it convenient to group the States into the following three categories:

Group A.—States whose ratio of amounts falling due for repayment to the Centre in the Fifth Plan period to State Domestic Product is less than 10 per cent.

Group B.—States whose ratio of amounts falling due for repayment to the Centre in the Fifth Plan period to State Domestic Product is between 10 and 20 per cent.

Group C.—States whose ratio of amounts falling due for repayment to the Centre in the Fifth Plan period to State Domestic Product is above 20 per cent.

44. In framing our proposals for consolidation and re-phasing of repayment of the categories of loans listed in paragraph 41, we have borne in mind the grouping of States as indicated in the above Table.

Loans for relief of distress caused by natural calamities :

45. The loan assistance from the Government of India to the State Governments for natural calamities has registered a tremendous increase in recent years. Though most of the State Governments have urged that these loans should be converted into grants, we do not recommend any such conversion. Apart from depleting the resources of the Central Government for providing relief for natural calamities which may arise in future, we also apprehend that conversion into grants may amount to condonation, without scrutiny of the undoubted waste that has occurred in relief expenditure in recent years. Also, a good portion of the relief expenditure has ostensibly been on creation of assets such as roads and minor irrigation works. When similar schemes taken up as part of the Plan have been financed on the basis of loans, we do not consider it appropriate to recommend write-off of loans given under the scheme for assistance for natural calamities.

46. The ends of justice will be met if these loans for natural calamities which are now repayable in 10 years are suitably rephased so as to provide a measure of relief to the States, the relief being regulated with reference to the relative position of the States. We, therefore, suggest that all loans given by the Government of India for natural calamities and outstanding at the end of 1973-74 should be consolidated into one loan in respect of each State and made repayable in 15 years from 1974-75 in the case of States in Group A, in 20 years in the case of States in Group B and in 25 years in the case of States in Group C.

Special Accommodation Loans :

47. Government of India have advanced, what have come to be known as, special accommodation loans to a number of States during the Fourth Plan period. At the time of the finalisation of the Fourth Plan, it was found that in the case of certain States the size of their Plan would not be equal even to Central assistance for the Plan and additional resource mobilisation. The State Governments had then represented that unless additional resource mobilisation undertaken by them was reserved for augmenting the size of the Plan, the requisite measure of public support for additional tax effort might not be forthcoming. After careful consideration of the representations of the States, the Planning Commission persuaded the Union Ministry of Finance to extend special accommodation loans to such States to cover Non-Plan gaps in their resources subject to condition that gaps in resources of individual States would be contained within the agreed figures and the States concerned would make an effort to increase their Plan outlay through mobilisation of additional resources.

48. Annexure IV furnishes figures of special accommodation loans actually released to the States during 1969-70 to 1972-73. The Annexure also

shows uncovered non-Plan gaps in 1973-74 as assessed by the Planning Commission and the Ministry of Finance. While the Centre's budget estimates for 1973-74 do not provide, in full, the amounts needed to cover these gaps, adequate non-Plan assistance would have to be provided to the States in 1973-74 to take care of these gaps so that these liabilities do not flow into the Fifth Plan period. Consequently, we have assumed that special accommodation loans in 1973-74 will be equal to the assessed uncovered gap in respect of each State. (This should not, however, be construed as a recommendation by the Commission for grant of special accommodation loans equal to non-Plan capital gaps in 1973-74. Of course the relief which the States would get under the scheme drawn up by us will depend on the actual releases).

49. Special accommodation loans are recoverable in 10 annual instalments beginning from 1974-75. Though these special accommodation loans have also been given in effect on consideration of the ways and means difficulties experienced by the States concerned, they can be distinguished from the overdrafts loans on the ground that these were given after mutual consultation and after close and critical scrutiny of the resources and needs of the States. If the existing terms of repayment of these special accommodation loans are strictly adhered to, most of the States concerned will again face acute ways and means problems and the kind of situation which necessitated special accommodation loans may well recur in the Fifth Plan period. We consider it essential to give a little longer time to the States concerned to strengthen their resource base so that they may be able to repay the special accommodation loans without having to curtail their Plan outlays too drastically. We, therefore, recommend that all special accommodation loans outstanding at the end of 1973-74 may be consolidated into one loan in respect of each State and made repayable in 25 years in the case of all States except Madhya Pradesh and Tamil Nadu. For these two States we recommend a period of repayment of 15 years as the amounts involved are not large. Having regard to the magnitude of the non-Plan Capital gaps of Andhra Pradesh, Orissa and Rajasthan and the special problems faced by Assam, Jammu & Kashmir, Manipur and Meghalaya we propose a moratorium for 5 years for the repayment of these loans.

Miscellaneous Development Loans :

50. The Miscellaneous Development Loans in force till 1968-69 have been used in many States mostly for irrigation and power projects with long periods of gestation. They have also been used to some extent for financing Plan outlays on social services. We consider it equitable to prescribe a suitably longer period of repayment of such loans. At the same time a discriminatory approach among the States has been adopted. We suggest that all outstanding amounts in respect of Miscellaneous Development Loans at the end of 1973-74 may be aggregated into one loan in respect of each State and made repayable in 15 years in the case of Group A States, 20 years in the case of Group B States and 25 years in the case of Group C States. No moratorium is suggested for any State in respect of this category of loan.

Block Loans :

51. Of the several categories of loans from the Centre to the States outstanding, Block Loans are by far the most important from the point of view of the burden of repayment liability arising in the Fifth Plan period. This is understandable because Block Loans came into existence only in 1969-70 and are repayable in 15 years starting from the anniversary of the loan. Only about 10 per cent of the loan amounts released during the Fourth Plan period would have been repaid within the Plan period itself.

52. In view of their magnitude, Block Loan call for a selective rescheduling with reference to the relative position of the States. Since 1969-70, with the disappearance of specific purpose loans, all kinds of Plan schemes whether quick yielding or involving long gestation periods have been financed through Block Loans. From this stand-point there is a strong case for spreading the repayment of the Block Loans over a much longer period than at present in the case of all States, particularly in the case of States whose debt burden and, therefore, also non-Plan capital gap is comparatively heavy. For this purpose we have placed Gujarat, Maharashtra and Punjab which have non-Plan capital surpluses in a separate class. We suggest that in their case, it would suffice if the outstanding amount of Block Loans is consolidated as at the end of 1973-74 into one loan and made repayable within 15 years. This will give them some relief because the average period of repayment of outstanding Block Loans at the end of 1973-74 is now less than 15 years. In the case of other States, longer period of repayment is necessary in order to keep their non-Plan capital gaps within manageable limits. We suggest that in the case of the remaining States the Block Loans may be aggregated into one loan in respect of each State and made repayable in 20 years in the case of Group A States, 25 years in the case of Group B States and 30 years in the case of Group C States. Even after softening of terms of repayment of Block Loans, we find that Andhra Pradesh and Rajasthan would have fairly big gaps on non-Plan account. We, therefore, suggest a moratorium of two years in the repayment of the consolidated Block Loans in the case of these two States. In the case of Assam and Manipur, having regard to their special problems and also the magnitude of the non-Plan capital gaps, a moratorium of 5 years would be justified.

53. During the Fourth Plan period, some States have been given loans for certain specific projects, over and above the ceiling of Central assistance for Plan Schemes, with a view to accelerate the pace of execution of these projects. Details of these loans are given in Table 38 in Appendix XIV. As the terms of repayment of these loans are the same as prescribed for Block Loans, we suggest that the amounts outstanding in respect of these loans be aggregated with the Block Loans and accorded the same terms of repayment as suggested by us for Block Loans.

54. In addition to Block Loans for the Fourth Plan schemes, Andhra Pradesh has been given certain special loans for development of Telengana and West Bengal has been helped with special loans for development of Calcutta Metropolitan District. In regard to special loans for Telengana development, we recommend the same terms as for Block Loans, namely repayment of the consolidated loan in 25 years with moratorium of two years. As regards loans for development of Calcutta Metropolitan District, while suggesting repayment over a period of 20 years analogous to Block Loans, we propose a moratorium of 5 years to give adequate time for the developmental programmes financed out of these loans to make their impact on the regeneration of Calcutta and the economy of West Bengal.

AGGREGATE DEBT RELIEF

55. The combined impact of the several proposals for revision of the terms of Central loans indicated in the Chapter would be to reduce the repayment obligations of the States during the Fifth Plan period to the extent of Rs. 1970 crores. To this extent, the non-Plan capital gaps of the States get reduced. The States would be enabled to finance a larger proportion of their Plans out of their own resources. Also the complaint now frequently voiced by many of the State Governments that there is very little net flow of Central loan assistance to the States for the implementation of the Plan would have been partially redressed. Though we have not suggested any significant conversion of loans into grants for the reasons already explained, the rephasing of repayments of some of the quantitatively important categories of loans such as Block Loans, special accommodation loans and Miscellaneous Development Loans would give the States relief to varying extent in the subsequent Plan periods also. Above all to the extent the States, particularly the weaker States, get some respite, they should have a bigger Fifh Plan. Their resources potential would be considerably strengthened and they should be able to meet their repayment obligations in the Sixth and subsequent Plan periods with far less difficulty. Our estimates of State-wise relief expected to accrue from the proposals for revision of the terms of Central loans are as follows:

(Rs. crores)

State	Estimated relief in repayment of loans to Government of India during Fifth Plan period on the basis of our proposals.*
1	2
1. Andhra Pradesh	191.20
2. Assam	162.49
3. Bihar	133.35
4. Gujarat	36.25
5. Haryana	33.14
6. Himachal Pradesh	34.57
7. Jammu and Kashmir	133.43
8. Kerala	109.77
9. Madhya Pradesh	87.16
10. Maharashtra	66.58
11. Manipur	15.23
12. Meghalaya	7.64
13. Mysore	127.04
14. Nagaland	5.84
15. Orissa	157.32
16. Punjab	15.18
17. Rajasthan	258.14
18. Tamil Nadu	87.05
19. Tripura	14.35
20. Uttar Pradesh	150.77
21. West Bengal	143.12
TOTAL	1969.62

*1. The total relief has been worked out on the basis of grouping of loans suggested by us and agreed to by the State Governments. The consolidation of loans would have to be done on the basis of actual balances (as against figures rounded in lakhs of rupees by us) against each loan outstanding at the end of 1973-74 and consequently the final debt relief may be marginally different from that indicated in the Table.

2. In working out the State-wise estimates of debt relief, we have gone by the figures of debt furnished to us by the State Governments and certified by State Accountants General. We understand that the allocation of debt liability between successor States following States' reorganisation/bifurcation is, in several cases, provisional and has been determined on the basis of population pending final settlement. The scheme of debt relief recommended by us is without prejudice settlement of inter-State claims.

These estimates may undergo some change, but not of a material nature, when the final figures of Central loans advanced to the States in 1972-73 and 1973-74 turn out to be different from those adopted for purposes of this exercise on the basis of the information furnished by the Ministry of Finance and the State Governments.

56. The loans recommended by us for consolidation may be so consolidated with effect from 31st March, 1974. They may be repaid in equal annual instalments falling due for repayment each year on the 31st of March. With a view to avoid ways and means difficulties for the States, the amounts annually payable by way of principal may be recovered in four equal instalments on the 1st July, 1st October, Ist January and 31st March each year. Since it would take some time to obtain data regarding actuals for 1973-74 and for issue of necessary sanctions, repayments falling due in the early part of 1974-75, on the basis of the existing terms, may be deferred and recoveries falling due in 1974-75 on the basis of the consolidated loans as recommended by us, be made in two instalments on September 30, 1974 and March 31, 1975 together with interest on total amount outstanding as on April 1, 1974, in the case of first instalment and on

the balance outstanding in the case of the second instalment. With a view to simplify accounting, the instalments of principal falling due may be rounded to rupees one hundred and of interest to rupees ten in each case.

57. We would urge that our proposals for debt relief should be viewed in their totality and accepted as a 'package' both by the Government of India and the State Governments. It is possible to argue for softer or harder terms of repayment in respect of particular categories of loans. But any such variation will upset the delicate balance that we have sought to maintain between several valid but at times conflicting considerations such as the need to give every State some minimum relief, containment of non-Plan gaps within limits, and a measure of discrimination between States in relation to their relative debt burden. It is our belief that the end result of this complex exercise will be to enable all States to start the Fifth Plan on a hopeful note. We should also add that the residual non-Plan capital gaps should not cause any State great concern, because fresh capital receipts such as net market borrowings, net small saving collections, depreciation reserves of commercial enterprises which were hitherto being set off against non-Plan capital gaps have been excluded by us. Also non-Plan capital gaps can be minimised, if not altogether eliminated, by greater dynamism in recovery of loans and higher scale of subscriptions to Provident Fund. We have no doubt that the substantial relief accruing to the States under our proposals will inspire more vigorous and imaginative action on these lines.

58. We are not oblivious of the dent that our recommendations would make on Central resources for the Plan. But in assessing the scale of relief we have proposed for the next five years, it should be remembered that it looks large only because it represents the first systematic and major attempt to come to grips with the debt problem of the States which has been allowed to become far too complex over a long period. The more pressing difficulties that arose from time to time in the discharge of the repayment obligations by States were met largely through improvised solutions which often piled up problems for the future. In order to 'protect' the agreed size of the State Plans, the Centre had to give over Rs. 1500 crores during the Fourth Plan period over and above the approved Central assistance for the Plan. This assistance was extended to the States in such forms as special accommodation loans, loans for clearance of overdrafts, loans for meeting gaps in resources and loans for natural calamities. All this assistance was, except in name, debt rescheduling. Our proposals represent, in effect, a summation, in one single operation, of the numberous small decisions that should have been taken on several classes of loans over a period of time. If we may say so, 'the bill of cost' we have presented looks heavy only because a large part of it is in the nature of arrear claims for debt relief which could have been met in the earlier Plan periods. We have no doubt that the Union Government would view the over-all figure of debt relief emerging from our proposals in this perspective.

59. It will also be wrong to think that the relief suggested by us would undermine the resource base of the Plan. Our proposals would, in fact, enable the States to finance a larger proportion of their Plans from their own resources and, thus, foster a greater sense of self-reliance and financial responsibility on the part of the States. The States should also realise that the debt relief optration cannot be an annual or quinquennial affair and that they should make the best use of respite provided to them to strengthen their finances, improve the working results of the commercial enterprises, including in particular irrigation and power projects, and exercise the utmost economy in non-development expenditure. If simultaneously the Centre could also fix the terms of repayment of fresh loans with due regard to the pattern we have recommended for existing loans, the problem of repayment of Central debt will cease to be the irritant it has been in our federal polity.

60. Before we conclude, we would only like to refer briefly to the special grievances voiced by some States about certain specific categories of loans. We have taken note of these special grievances to the extent possible in framing our debt relief scheme. It is obviously not possible to tailor the terms of repayment of every class of loan to meet the particular point of view of each of the States concerned. It may be worth while, however, to refer to some of the specific loans in respect of which the State Governments have vehemently pleaded for relief.

61. The Government of Jammu and Kashmir pleaded for special treatment of loans for relief and rehabilitation of the displaced persons in the Chhamb area. In terms of the proposals made by us, the Government of Jammu and Kashmir will be liable to repay only such amounts as they are able to recover from the displaced persons and that too only to the extent of half the amounts recovered. They should, therefore, have no grievance on this account. The Government of Kerala were unhappy about the present terms of loans for anti-sea erosion works. Having regard to the fact that these are comparable to loans advanced for flood control, we would suggest that the outstanding amount at the end of 1973-74 be made repayable over 25 years. The plea of Madhya Pradesh about writing-off of loans received from the Centre for anti-dacoity operations will, in a large measure, be met by our suggestion to treat it like other loans for modernisation of police force.

62. Orissa has sought to make out a special case for review of the terms of Central loans for Hirakud multi-purpose project. Central loans amounting to Rs. 82.42 crores secured by the Government of Orissa during 1948-62 for the execution of the Hirakud multi-purpose project (Stage I) would be outstanding at the end of 1973-74 and the repayment of loans will only commence in 1988-89. We have suggested a period of repayment of 25 years for flood control loans beginning from 1974-75. For irrigation and power projects, too, our suggestions envisage consolidation of existing loans into a 25-year loan with varying periods of moratorium for the Fifth Plan period. We do not propose any change in terms of

the loans for Hirakud (Stage I) as these terms are already quite generous. Outstanding loans in respect of Hirakud (Stage II) are estimated at Rs. 3.98 crores at the end of 1973-74 of which Rs. 3.57 crores would fall due for repayment during the period 1974—79. For these loans we recommend a period of repayment in 30 years with a moratorium for 5 years.

63. We, however, feel that the grievance of Government of Orissa about the loan for construction and development of Paradeep Port is genuine. Paradeep, as a major port, is now under the control of a Port Trust, which under the Constitution comes within the purview of the Central Government. The assets created by the State Government with the loan have been taken over by the Government of India but the State Government is required to repay the loan to Centre with interest. The annual burden of repayment of loan with interest is about Rs. 2 crores. Whatever be the circumstances in which the Government of India were constrained to take over the Paradeep Port under its control, we do not see any justification for the State Government being burdened with repayment of a loan covering expenditure incurred specifically for the development of a major port which constitutionally comes within the responsibility of the Government of India. We, therefore, recommend that the outstanding amount of about Rs. 4.14 crores under this loan should be taken over by the Central Government. The amounts already recovered from the Government of Orissa need not, however, be refunded to them. Nor is there any case for adjustment of the interest already paid by the State Government against the loan outstanding, because such interest payments have been taken into account by the earlier Commissions in determining the grants made.

64. The Government of West Bengal has drawn our attention to the pre-partition loan outstanding against the State. It has been represented to us that a sum of Rs. 195 lakhs being the share of the pre-partition outstanding loan was allotted to West Bengal. No payment either of principal or of interest of this loan has so far been made by the State Government. The loan is, however, still outstanding against the State Government in the books of the Accountant General, West Bengal. The State Government has, therefore, suggested that this should be written-off. We do not consider it equitable that West Bengal should be burdened with this pre-partition debt. It is also relevant to mention that no amount has actually been recovered during the last 25 years. The continuance of this loan on the books therefore serves no purpose. We, accordingly, recommend that West Bengal should be absolved of the responsibility for repayment of this loan. Likewise West Bengal is required to repay a ways and means advance of Rs. 2.5 crores on pre-partition account. This ways and means advance is equal to 50 per cent of the debt balance of the Government of undivided Bengal with the Reserve Bank of India at the time of the Partition. Under the Indian Independence (Rights, Property and Liabilities) Order, 1947 the whole amount became the liability of the Government of West Bengal. But the Government of India and the Government of Pakistan repaid it under an agreement on a 50 : 50 basis and the Government of India thereupon decided that this amount of Rs. 2.5 crores should be treated as a ways and means advance to West Bengal. West Bengal has also paid interest amounting to Rs. 1.25 crores on this loan during the last 25 years. The liability for this debt was accepted by the Government of India under an agreement with Pakistan and the State Government has, therefore, urged that this liability should not be passed on to the Government of West Bengal. They have also argued that interest of Rs. 1.25 crores already paid should also be refunded to them. Here again it seems to us that it is not fair to burden the Government of West Bengal with repayment of this loan which is a legacy of partition. We, therefore, suggest that the recovery of outstanding loans of Rs. 2.5 crores should be waived. The request about interest already paid cannot, however, be accepted, since such payments have already been taken into account by the earlier Finance Commissions while recommending devolution to the States.

65. If we have not referred specifically to the special pleas made by States in respect of other select loans, it is only because they are either not sustainable or they have been, to the extent considered necessary, accommodated within the over-all scheme of debt relief proposed by us.

MISCELLANEOUS NON-DEVELOPMENT LAONS

ANDHRA PRADESH

1. A loan amounting to about Rs. 1 lakh is expected to be outstanding at the end of 1973-74 in respect of fire services and water mains in Vijayawada. The whole of the amount is repayable during the Fifth Plan period. The amount is so small that no revision in terms of repayment is called for. But for simplification of accounting procedure, we recommend that this amount may be merged with Miscellaneous Development Loan outstanding against Andhra Pradesh. This will incidentally give marginal relief to the State Government.

ASSAM

2. Certain Miscellaneous loans, details of which are not available, are estimated to be outstanding to the tune of Rs. 30 lakhs. Of this Rs. 11 lakhs would fall due for repayment during the Fifth Plan period. In the interest of simplification we suggest that these loans may be merged with the Miscellaneous Development Loan and made repayable in 25 years.

3. Assam was also given a non-Plan loan of Rs. 11 lakhs in 1972-73 as a special case in recognition of additional resource mobilisation undertaken by the State Government over and above the target fixed for the State Government for that year. Of this Rs. 10 lakhs would be outstanding at the end of 1973-74. We recommend that this amount may be merged with Block Loans and made repayable in 30 years with a moratorium of five years.

MADHYA PRADESH

4. Loans for anti-dacoity operations amounting to Rs. 47 lakhs would be outstanding at the end of 1973-74. Of which Rs. 20 lakhs would fall due for repayment during the Fifth Plan period. We recommend that these loans may be made repayable in 25 years as in the case of other loans for Police.

MAHARASHTRA

5. A loan amounting to Rs. 86 lakhs in respect of "Refund of sugar cane cess" would be outstanding at the end of 1973-74. Of this Rs. 43 lakhs would fall due for repayment during the Fifth Plan period. It would be convenient to add this amount to Miscellaneous Development Loan and thus make it repayable in 15 years.

6. A loan amounting to Rs. 23 lakhs in respect of "Pensioners of Pakistan" would be outstanding at the end of 1973-74. The State Government has not paid any amount so far and the amount is payable only after an agreement is reached with Pakistan. As in the case of West Bengal's pre-partition debt, we recommend that Maharashtra too may be absolved of the responsibility for repayment of this amount.

MYSORE

7. A loan of Rs. 5 lakhs of which details are not available is expected to be outstanding at the end of 1973-74 of which Rs. 2 lakhs are repayable in the Fifth Plan period. We recommend that this may be merged with Miscellaneous Development Loan.

UTTAR PRADESH

8. The loan for anti-dacoity operations amounting to Rs. 7 lakhs outstanding at the end of 1973-74 may be made repayable like similar loans in the case of Madhya Pradesh in 25 years.

9. The State Government received a loan of Rs. 6 crores in 1972-73 as a special case for having exceeded its target of additional taxation as compared to the agreed estimates with the Planning Commission. This amount may be merged with Block Loans and made repayable in a period of 20 years.

10. Miscellaneous loans, in respect of which details are not available, amounting to Rs. 147 lakhs would be outstanding at the end of 1973-74. Of this Rs. 90 lakhs would fall due for repayment during 1974—79. These loans may be merged with Miscellaneous Development Loan and made repayable in 15 instalments.

11. Thirteen States have indicated loans in respect of housing for All-India Service Officers. Total amount outstanding is Rs. 130 lakhs and amount falling due is estimated at Rs. 87 lakhs. These loans may be made repayable in 15 instalments for all States. This would give relief of the order of Rs. 43 lakhs over the period 1974—79.

12. We have dealt with various miscellaneous loans for which details have been made available separately as indicated above. If, however, these loans fall within distinct categories like Block Loans, loans for natural calamities, agriculture and allied schemes etc., terms for such categories of loans should be made

applicable to the respective States. The difference in any case in the aggregate debt relief would be only marginal.

13. Based on the above proposals, estimates of debt relief to various States under Miscellaneous non-Development Loans would work out as follows :—

(Rs. lakhs)

States	
1. Andhra Pradesh	10
2. Assam	9
3. Bihar	2
4. Gujarat	3
5. Haryana	2
6. Himachal Pradesh	—
7. Jammu & Kashmir	1
8. Kerala	3
9. Madhya Pradesh	11
10. Maharashtra	20
11. Manipur	—
12. Meghalaya	—
13. Mysore	2
14. Nagaland	—
15. Orissa	1
16. Punjab	—
17. Rajasthan	7
18. Tamil Nadu	8
19. Tripura	—
20. Uttar Pradesh	103
21. West Bengal	—
TOTAL . . .	182

ANNEXURE II

MISCELLAENOUS LOANS OF A DEVELOPMENT NATURE

ASSAM

1. Total amount outstanding at the end of 1973-74 is estimated at Rs. 662 lakhs, of which Rs. 81 lakhs would fall due for repayment over the Fifth Plan period. Details of these loans are not available. It is suggested that these may be marged with the Miscellaneous Development Loan and made repayable in 25 years.

GUJARAT

2. Rs. 2 lakhs would fall due for repayment in respect of a loan of Rs. 7 lakhs outstanding at the end of 1973-74. This loan was obtained by the State Government for payment of survey charges to the Ministry of Defence. For simplification of accounting procedure we recommend that this may be merged with Miscellaneous Development Loan and made repayable in 15 years.

KERALA, MANIPUR, MEGHALAYA AND ORISSA

3. Nominal amounts are outstanding against these States in respect of loans obtained for various development purposes. Details of these loans are not available. These loans may be merged with Miscellaneous Development Loan and the terms applicable to each State be applied to such loans also.

MYSORE

4. Total amount of Rs. 295 lakhs would be outstanding at the end of 1973-74, in respect of Hatti Gold Mines. Out of this, an amount of Rs. 176 lakhs would fall due for repayment over the Fifth Plan period. As this mine has been taken over by the Government of India, this liability may be assumed by the Central Government.

PUNJAB, HARYANA AND UTTAR PRADESH

5. These States have indicated loans for the development of border areas. The amounts outstanding may be merged with Block Loan of the respective States.

6. Thirteen State Governments have indicated loans for Centrally Sponsored and other schemes in 1973-74 for which details are not yet available. Repayments indicated amount to Rs. 10.09 crores. We recommend that all these loans may be governed by the terms recommended by us for the particular categories of loans. For the purpose of debt relief we have assumed repayments for all these loans in 20 instalments. Changes in the quantum of relief actually available to the States would be marginal.

7. Our proposals are based on figures rounded off to Rs. one lakh. There may be some loans which may not have come within our estimation since the amounts outstanding may be less than rupees one lakh in each case. We recommend such loans, if any, may be merged with Miscellaneous Development Loan in respect of each State and the terms proposed by us for Miscellaneous Development Loan applied to the consolidated loans.

8. Based on the above proposals, estimates of debt relief to various States under this class of loans would work out as shown below:

(Rs. lakhs)

States	
1. Andhra Pradesh	39
2. Assam	—44
3. Bihar	49
4. Gujarat	31
5. Haryana	1
6. Himachal Pradesh	—
7. Jammu & Kashmir	33
8. Kerala	1
9. Madhya Pradesh	—
10. Maharashtra	—
11. Manipur	1
12. Meghalaya	1
13. Mysore	182
14. Nagaland	—
15. Orissa	1
16. Punjab	17
17. Rajasthan	16
18. Tamil Nadu	14
19. Tripura	—
20. Uttar Pradesh	185
21. West Bengal	25
TOTAL	550

LOANS FOR MULTI-PURPOSE RIVER VALLEY PROJECTS, MEDIUM AND MAJOR IRRIGATION SCHEMES AND POWER PROJECTS

These loans relate to the period prior to 1969-70. Since then, all Plan schemes including multi-purpose schemes and major irrigation and power projects are being financed through Block Loans. There is no escape from providing discriminatory relief to the States in regard to loans outstanding under these heads. It is obviously not possible for the Commission to undertake a detailed examination of the present stage of execution, the time likely to be taken for completion and the flow of benefits, nor it is possible for us to undertake an investigation of the causes for escalation in costs of these projects. We have tried to form a judgment on the progress of the projects with reference to expenditure incurred so far in relation to the revised estimates of the projects. Broadly speaking, the existing terms of repayment of loans for multi-purpose river valley projects, medium and major irrigation schemes and power projects seem to be reasonable. The terms provide for varying periods of moratorium and sufficiently long periods of repayment. Because of the long periods of moratorium provided for some loans, the amounts actually falling due for repayment in the Fifth Plan period are, in some cases, negligible though the total amount outstanding is fairly large. Any proposals we may frame for consolidating the loans for multi-purpose projects etc. and staggering their repayment would result in an appreciable increase in the instalments falling due for repayment in the Fifth Plan period. We have sought to avoid this as far as possible. But the States should have really no cause for complaint even if there are minor anomalies because our proposals taken as a whole would provide them substantial relief. Our suggestions on how individual loans under this category can be dealt with are given below :—

ANDHRA PRADESH

Nagarjuna Sagar Project:

2. The terms of repayment seem to be fairly liberal—repayble in 20 annual instalments from the 21st year of the drawal of the loan. Some of the loans for Nagarjuna Sagar Project had a moratorium of 10 years and were made repayable in 20 years thereafter. The project, started in 1956, is nearing completion. For purposes of administrative convenience, all the existing loans under this head may be consolidated and made repayable in 30 years including a period of moratorium of five years which will cover the Fifth Plan period. This would mean that the State would get relief in repayment during the Fifth Plan period amounting to Rs. 7.76 crores —but will have to make some larger repayments during the subsequent Plan periods. But as a package, the course suggested should commend itself to the State Government.

Tungabhadra Project:

3. The amount outstanding under this scheme is Rs. 1.82 crores. Though the existing terms of repayment for the project are fairly liberal, *viz.* moratorium for 10 years and repayment thereafter in 20 annual instalments, as the amount outstanding is only small, *i.e.* Rs. 1.82 crores, it would be convenient to add this amount to liabilities under Block Loan and extend it the same treatment as Block Loan.

Balimela Power Project:

4. As in the case of Tungabhadra Project the amount outstanding may be merged with Block Loan and made repayable over 25 years with a moratorium for two years.

BIHAR

(i) *Damodar Valley Corporation*:

5. Loans drawn up to 1962-63, from the inception of the project in 1948-49, have on the average run a life of 12 years already. Likewise, loans drawn after 1962-63 have already run on an average 5 to 6 years. Keeping this in view, it might suffice if all loans under this category and outstanding at the end of 1973-74 are consolidated and made repayable in 30 years with a moratorium for the Fifth Plan period. This would give Bihar relief of Rs. 3.22 crores.

(ii) *Kosi Project*:

6. The amount outstanding under this head is Rs. 46.57 crores. The work on Western Kosi Canal is yet to start. Having regard to this and the relative debt burden of Bihar, all loans under this head may be consolidated and made repayable in 30 years with a period of grace for the Fifth Plan period. This will provide the State relief to the extent of Rs. 1.5 crores during the Fifth Plan period.

(iii) *Gandak Project*:

7. The loan outstanding under this head is Rs. 36.38 crores. This project, though started in 1960, is expected to be completed only in the Fifth Plan period. Having regard to the fact that the project is yet to be completed and the present terms provide for repayment in 20 annual instalments from 11th anniversary or in other words, repayment is spread over 20 years, we suggest that all loans under this head may be bulked together and made repayable in 30 years, with moratorium for the Fifth Plan period. This would give the State relief to the extent of Rs. 1.71 crores for the forecast period.

(iv) *Tenughat Project*:

8. Though the project is intended to supply water to Bokaro, we cannot accept the argument of the State Government that the liability should be taken over entirely by the Central Government. It is generally recognised to be part of the State Government's responsibility to provide the necessary infrastructure facilities needed for Central and other industrial projects. If we concede the request of Bihar, we well be faced with similar requests from other States also. The amount outstanding under

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this head at the end of 1973-74 is Rs. 28.34 crores. The present terms envisage repayment of these loans in 15 to 17 annual instalments from the 8th anniversary; or, in other words, the loans are repayable in 25 years. The project seems to have been taken up in 1964 and the loans would have had an average life of 5 years by the end of 1973-74. It would suffice if all loans outstanding under this head are consolidated and made repayable in a period of 30 years with a period of grace of 5 years. The State will then not have to repay any amount during the Fifth Plan period and would thus secure a relief of Rs. 7.67 crores.

(v) *Sone High Canal:*

9. It is seen that the work on this project was taken up in 1968-69 or so, *i.e*, just before the commencement of the Fourth Plan. when the system of Block Loan came into existence. It would, therefore, be appropriate to merge the amount outstanding under this head, *viz*. Rs. 70 lakhs with the Block Loan for Fourth Plan schemes and make it repayable in 25 years as proposed elsewhere. No doubt this may increase marginally the loan repayment liability during the Fifth Plan period. But, as Bihar would in terms of other proposals, be getting adequate debt relief, the addition of about Rs. 14 lakhs (one fifth of Rs. 70 lakhs outstanding) to the repayment liability should not pose any serious difficulty.

(vi) *Patratu Power Station:*

10. The amount outstanding at the end of 1973-74 is Rs. 38 lakhs only. As in the case of loan for Sone High Canal, the amount outstanding may be a merged with Block Loan and made repayable in 25 years.

(vii) *Other Schemes:*

11. An amount of Rs. 20 lakhs in respect of other Irrigation and Power Schemes would be outstanding at the end of 1973-74 of which Rs. 10 lakhs would fall due for repayment. The amounts outstanding under these schemes may be merged with Miscellaneous Development Loan and made repayable in 20 years.

GUJARAT

(i) *Nagarjuna Sagar Project:*

12. The amount outstanding under this head is only Rs. 8 lakhs. This amount may be merged with Block Loan and made repayable in 15 instalments.

(ii) *Koyna Project:*

13. All loans under this head may be consolidated and made repayable in 20 years. The same terms are proposed for Maharashtra. Total relief to the State over the Fifth Plan period would be marginal.

(iii) *Ukai Power Project:*

14. The loan outstanding under this head is Rs. 25.74 crores and the project is expected to be completed only during the Fifth Plan period. The existing terms of loans envisage repayment in 17 annual instalments with a moratorium for 8 years. The amount falling due for repayment in the Fifth Plan period is small, *viz*. Rs. 3.01 crores only. We recommend consolidation of the loans at the end of 1973-74 into one loan repayable in 25 years from 1974-75. This would no doubt increase the repayment liability of the State during the Fifth Plan period but considering the amount of relief to the State under other heads, this should not cause any undue concern.

(iv) *Other Schemes:*

15. An amount of Rs. 22 lakhs in respect of 'other' schemes would be outstanding at the end of 1973-74. Of this Rs. 10 lakhs are expected to fall due for repayment over the Fifth Plan period. We recommend that these amounts may be merged with Miscellaneous Development Loan and made repayable in 15 instalments.

HARYANA

(i) *Beas Project:*

16. This project started in 1961-62 is expected to be completed only during the Fifth Plan period. The existing terms of the loan drawn upto 1969-70 provide for repayment in 25 years with a moratorium of 8 years. The loans would have had a currency on the average of 6 years by the end of 1973-74. Having regard to this, it may suffice if all the loans under this head are consolidated and made repayable in 30 years with a moratorium of 5 years. This would give Haryana a relief of the order of Rs. 6.05 crores, Punjab to the extent of Rs. 6.55 crores and Rajasthan Rs. 7.95 crores in the Fifth Plan period. It should be distinctly understood that our recommendations are confined to loans given prior to 1969-70—the project has been financed since 1969-70 through Block Loan for which we have recommended suitable terms of repayment elsewhere—nor will our recommendations apply to the further loans likely to be needed by the project during the Fifth Plan.

(ii) *Bhakra Nangal Project:*

17. These loans are repayable in one lump sum after 15 years of the drawal of the loan. In view of the fact that the project has already been completed, it may not be necessary to provide for any softening of the terms. The repayment liability during the Fifth Plan period is fairly large, *viz*., Rs. 18.61 crores. But since Punjab and Haryana have fully amortised these loans in the past, the repayment of these loans should not pose any problem.

(iii) *Gurgaon Canal Project:*

18. The amount out standing under this head is Rs. 57 lakhs only of which only Rs. 2 lakhs are repayable during the Fifth Plan period. The amount outstanding may be merged with Block Loan and made repayable in 25 years.

(iv) *Delhi Thermal Station:*

19. The amount outstanding under this head is Rs. 1.62 crores only of which Rs. 49 lakhs are repayable over the Fifth Plan period. The amount outstanding may be merged with Block Loan and made repayable in 25 years.

(v) *Bhakra Right Bank Power Project:*

20. The existing terms stipulate repayment in 20 years with a moratorium for 5 years. The project has been completed. The loan may be merged with Block Loan and made repayable in 25 years.

KERALA

(i) *Vaigai Project* :

21. The amount outstanding under this head is Rs. 11 lakhs only which may be merged with Block Loan and made repayable in 25 years.

(ii) *Iddikki Hydel Project* :

22. This project, estimated to cost Rs. 68 crores, was started in 1963 and is expected to be completed in the Fourth Plan period. A significant part of the cost of this project has been financed in the Fourth Plan period through Block Loan. It will, therefore, be appropriate if the amount outstanding at the end of 1973-74 on these loans, viz. Rs. 12.88 crores, is added to the Block Loan of the State and made repayable in 25 years along with other Block Loans.

(iii) *Other Schemes* :

23. Outstanding loans in respect of other specific irrigation and power schemes amounting to Rs. 60 lakhs may be merged with Miscellaneous Development Loan and made repayable in 20 years.

MADHYA PRADESH

(i) *Chambal Project* :

24. This project has been financed by loans, the terms of repayment of which vary widely depending upon the period when they were drawn. The amount outstanding at the end of 1973-74 is fairly large, viz., Rs. 55.87 crores, and the amount falling due for repayment in the Fifth Plan period is Rs. 9.47 crores. At the same time, this project, which was started in 1954, has now been completed and all the five units have been commissioned. Having regard to this, it might suffice if all the loans for this project are consolidated and made repayable in 30 years with a period of grace of 5 years. This would mean that no repayment will fall due in the Fifth Plan period and the State would get relief of Rs. 9.47 crores.

(ii) *Satpura Thermal Station* :

25. This project was completed in 1969-70. Of the total cost of the project of Rs. 39 crores, only Rs. 3.83 crores would be outstanding at the end of 1973-74. We recommend that the amount outstanding under this head may be added to the Block Loans. In terms of the formula recommended by us all Block Loans outstanding at the end of 1973-74 would be repayable in 20 years in the case of Madhya Pradesh.

(iii) *Bagh Project* :

26. The amount outstanding under this head is Rs. 52 lakhs, the amount falling due for repayment in the Fifth Plan period is only Rs. 1 lakh. We recommend that it may be merged with Block Loan for Plan schemes.

(iv) *Kharkhera Project* :

27. As in the case of loans for Satpura and Bagh projects, the amount outstanding under this head may be merged with Block Loan and made repayable in 20 years.

(v) *Other Schemes* :

28. State Government has indicated a loan of Rs. 92 lakhs in respect of 'arrear payments on power schemes in the State Plan'. Amount falling due for repayment is Rs. 25 lakhs. We recommend that the outstanding amount may be merged with Miscellaneous Development Loan and made repayable in 15 instalments.

MAHARASHTRA

(i) *Nagarjuna Sagar Project* :

29. The amount outstanding under this head is only Rs. 16 lakhs and the amount falling due for repayment in the Fifth Plan period is negligible. The amounts outstanding may be merged with Block Loan.

(ii) *Koyna Project* :

30. The amount outstanding under this head at the end of 1973-74 is Rs. 28.53 crores while the amount falling due for repayment in the Fifth Plan period is Rs. 7.60 crores. The terms, as now in force, envisage repayment in 20 years while the period of moratorium varies. Stage I and Stage II of the project have already been completed. Having regard to the overall position on capital account, it would suffice if all the loans under this head are consolidated and made repayable over a period of 20 years.

(iii) *Bagh Project* :

31. The amount outstanding under this head is only Rs. 1.2 crores of which Rs. 1 lakh is repayable in the Fifth Plan period. The amount outstanding may be merged with Block Loan for State Plan.

(iv) *Tarapore Power Project* :

32. The amount outstanding is Rs. 40 lakhs only out of which Rs. 25 lakhs would fall due for repayment over the Fifth Plan. The amount outstanding may be merged, with Block Loan.

(v) *Other power schemes* :

33. Outstanding amount of Rs. 1.82 crores may be merged with Miscellaneous Development Loan.

MYSORE

(i) *Koyna and Nagarjuna Sagar Projects.*

34. Having regard to the comparatively small amounts outstanding under this head, these may be merged with Block Loan.

(ii) *Ghatprabha Irrigation Projects* :

35. The amount outstanding is Rs. 8.20 crores and the amount falling due is Rs. 0.51 crore over the period 1974–79. The loans outstanding may be consolidated and made repayable in 30 years with a period of grace of 5 years. The State will then get relief to the extent of Rs. 51 lakhs during the Fifth Plan period.

ORISSA

(i) *Hirakud Project* :

36. We propose no change in the terms of repayment of loans for Stage I of the Project. For Stage II, it will be appropriate to prescribe the same terms as suggested for Damodar Valley Corporation; in other words, all loans may be consolidated and made repayable in 30 years with a period of grace of 5 years. This would give them relief to the extent of Rs. 3.57 crores during the Fifth Plan period.

(ii) *Delta Irrigation and Salandi Irrigation* :

37. The amount outstanding under this head may be added to the Block Loan for State Plan schemes.

(iii) *Balimela Power Project :*

38. Though this project was taken up in 1961-62 and financed upto 1969 through specific loans, it has been financed since then through Block Loan for Plan schemes. It will, therefore, be appropriate to merge the amount outstanding under this head with Block Loan for State Plan schemes. As recommended separately, Block Loans in the case of Orissa may be made repayable in 30 years.

(iv) *Other Power Schemes :*

39. The amount outstanding may be merged with Miscellaneous Development Loan and made repayable in 25 years.

PUNJAB

(i) *Bhakra Nangal Project* :

40. As indicated under Haryana, no revision in terms of repayment is necessary as the project has been completed.

(ii) *Beas Project* :

41. The outstanding loans drawn upto 31-3-1969 may be consolidated and made repayable over 30 years with a period of grace of 5 years, e.g. the same terms and conditions as in the case of Haryana. Relief to Punjab on this basis would be Rs. 6.55 crores.

(iii) *Harika Project* :

42. The amount outstanding under this head is very small, being only Rs. 31 lakhs. This may be merged with Block Loan.

(iv) *Bhakra Right Bank Power Project* :

43. This project has been completed. In view of the fact that Punjab would even otherwise have a non-Plan capital surplus, there does not appear to be strong justification for further softening of the terms. However, in the interest of administrative convenience, all the loans outstanding under this head may be consolidated and made repayable in 15 years like Block Loan.

RAJASTHAN

(i) *Beas Project* :

44. The formula suggested for Haryana and Punjab, viz. period of repayment of 30 years with a grace for the Fifth Plan period, may be applied to Rajasthan too in regard to loans drawn upto 31-3-1969. This would give them relief to the extent of Rs. 7.95 crores during the Fifth Plan period.

(ii) *Bhakra Nangal Project* :

45. Though the relative economic position of Rajasthan and its non-Plan capital gap would justify differential treatment, we may leave the terms as they are as the project has already been completed. Rajasthan will be getting substantial relief under other heads, more particularly under special accommodation loans and overdraft loans and as such there is no strong case for relief in respect of this project.

(iii) *Chambal Project* :

46. The formula suggested in the case of Madhya Pradesh, viz. repayment in 30 years with a moratorium for the Fifth Plan may be applied here also. This would give Rajasthan relief to the extent of Rs. 8.86 crores during the Fifth Plan Period.

(iv) *Rajasthan Canal* :

47. The project, which was started in 1958, is yet to be completed. The amount outstanding under this head is Rs. 55.04 crores and the amount falling due for repayment in the Fifth Plan period is Rs. 8.49 crores. Having regard to this and the relative economic position of Rajasthan, we recommend that all loans outstanding under this head may be consolidated and made repayable in 30 years with a period of grace of 5 years.

(v) *Gurgaon Canal* :

48. The amount outstanding under this head and the amount falling due for repayment in the Fifth Plan period are small. The outstanding amount may be merged with Block Loan.

(vi) *Satpura Thermal Project* :

49. The outstanding amount may be added to the Block Loan for Plan schemes as proposed for Madhya Pradesh for the same project.

UTTAR PRADESH

(i) *Rihand Dam Project* :

50. The amount outstanding under this head is Rs. 25.25 crores while the amount falling due for repayment during the Fifth Plan period is Rs. 6.55 crores. The project, which was started in 1952-53, has also been brought to beneficial use. Under the existing terms the loans are generally repayable in 30 years with a moratorium of 10 years. It is recommended that the outstanding loans are aggregated and made repayable in 30 years with a period of grace for the Fifth Plan Period.

(ii) *Gandak Project* :

51. We propose the same terms as for Bihar for this project, viz., repayment in 30 years with a period of grace for 5 years.

(iii) *Ramganga Project* :

52. The amount outstanding at the end of 1973 is Rs. 21.21 crores while the amount falling due for repayment in the Fifth Plan period is Rs. 2.55 crores. The loan is repayable in 25 years with a moratorium of 8 years. We may provide for the consolidation of these loans and their repayment in 30 years with a period of grace of 5 years. This will give the State relief to the extent of Rs. 2.53 crores in the Fifth Plan period.

WEST BENGAL

(i) *Damodar Velley Corporation* :

53. The formula suggested in the case of Bihar might apply. The outstanding amount may be made repayable in 30 years with a period of grace for 5 years.

(ii) *Kangsabati Project* :

54. Though the cost of this project is estimated at Rs. 46 crores and it will be completed only by the end of 1973-74, the loan outstanding is only Rs. 7.72 crores. It is suggested that the outstanding loans are consolidated and made repayablein 30 years with a period of grace of 5 years during the Fifth Plan period. This will give the State relief to the tune of Rs. 1.06 crores during the Fifth Plan period.

(iii) *Other power schemes* :

55. The outstanding amounts may be merged with Miscellaneous Development Loan and made repayable in 15 years.

56. Based on the recommendations made in the preceding paragraphs, debt relief in respect of various Irrigation and Power projects, including Multi-purpose River Valley Projects would be as shown below:—

States	(Rs. lakhs)
1. Andhra Pradesh	792
2. Assam	—
3. Bihar	1,431
4. Gujarat	—204
5. Haryana	647
6. Himachal Pradesh	—
7. Jammu & Kashmir	—
8. Kerala	143
9. Madhya Pradesh	1,022
10. Maharashtra	13
11. Manipur	—
12. Meghalaya	—
13. Mysore	49
14. Nagaland	—
15. Orissa	484
16. Punjab	667
17. Rajasthan	2,674
18. Tamil Nadu	—
19. Tripura	—
20. Uttar Pradesh	964
21. West Bengal	512
TOTAL	**9,311**

V ANNEXURE 1

Special accommodation Loans released to States during 1969-70 to 1972-73 and the estimated Non-plan Gaps in 1973-74.*

(Rs. crores)

State	Estimated gap in resources during the period 1969-74 £	69-70 Acttss.	70-71 Accts.	71-72 Accts.	72-73 Accts.	Total 69-73 Accts.	73-74 B.E.	Estimated non-Plan gaps in 73-74**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Andhra Pradesh	11.50	21.71	24.82	—	—	46.53	—	—
2. Assam	115.00	48.54	25.41	16.49	16.50	106.94†	8.06	18.69
3. Himachal Pradesh	—	—	—	—	6.15	6.15	7,76	9.98
4. Jammu & Kashmir	97.66	56.92	6.43	42.86	7.29	113.50	8.35	29.77
5. Kerala	67.78	17.88	17.30	8.61	13.00	56.79	7.49	22.55
6. Madhya Pradesh	34.75	1.50	—	—	—	1.50	—	—
7. Manipur	—	—	—	—	—	—	—	2.99
8. Meghalaya	—	—	0.20	—	4.60	4.80‡	2.64	2.64
9. Mysore	105.22	15.60	18.05	12.07	11.50	57.22	9.46	16.50
10. Orissa	155.00	28.78	26.38	20.21	38.80	114.17	35.52	35.52
11. Rajasthan	135.32	60.41	22.65	24.06	20.26	127.38	14.49	27.37
12. Tamil Nadu	—	7.00	—	—	—	7.00	—	—
13. West Bengal	73.00	6.16	25.41	—	16.09	47.66	25.29	38.29
TOTAL	795.23	264.50	166.65	124.30	134.19	689.64	119.06	204.30

*The figures of special accommodation loans are as certified by State Accountants General.

£As worked out at the time of the finalisation of the Fourth Plan.

**As worked out during discussions in the Planning Commission on Annual Plan for 1973-74.

†Of this Rs. 2 crores is allocable to Meghalaya.

‡Excluding Rs. 2 crores in respect of loan obtained by the composite Assam.