CHAPTER XIV

NON-PLAN CAPITAL GAP OF THE STATES

14.1 Paragraph 9 of the President's Order reads as follows :-

> "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 1988-89. 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 1983-84 and suggest appropriate measures to deal with the non-Plan capital gap, 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".

This paragraph of our terms of reference is verbatim the same as the like paragraph in the case of the Seventh Finance Commission. However, it is worth noting that it is much wider than the corresponding paragraph in the terms of reference of the Sixth Finance Commission. Whereas that Commission was only asked to "suggest changes in the existing terms of repayments" of Central loans we, like the Seventh Finance Commission, have been asked to "suggest appropriate measures to deal with the non-Plan capital gap" as a whole.

14.2 By the said terms of reference we are required :-

(i) to make an assessment of the non-Plan capital gap of the States on a uniform and comparable basis for 1984-89;

(ii) to undertake a general review of the States' debt position with particular reference to outstanding Central loans as on 31.3.1984;

(iii) to suggest appropriate measures to deal with the non-Plan capital gap having regard inter alia to the considerations mentioned.

We will deal with these matters seriatim.

I - Assessment of the non-Plan capital gap

14.3 We have studied the methodology of the Sixth and Seventh Finance Commissions as to the assessment of the non-Plan capital gap of the States on a uniform and comparable basis. In the Memoranda submitted to us, most of the State Governments have not suggested any substantial change in the methodology followed by the previous Commissions. Broadly speaking, the methodology we have adopted in the estimation of the non-Plan capital gaps is as follows :-

(a) Capital expenditure outside the Revenue Account, including outlays required for administrative buildings, will, by and large, form part of the Plan;

(b) Net receipts from fresh market loans will be treated as a Plan resource. Consequently, repayments of such loans have been ignored for the purposes of working out the non-Plan capital gaps. Repayment of loans to the Life Insurance Corporation and other financial institutions, however, have been treated as non-Plan liability and taken into account by us in working out the non-Plan capital gaps;

(c) While no recoveries of loans have been assumed from the State Electricity Boards, recoveries of other loans have been assumed on a normative basis;

(d) The repayment of all outstanding Central loans, including small savings loans and over-draft loans, during the forecast period have been treated as a non-Plan liability for the purposes of working out the non-Plan capital gaps.

(e) In working out the non-Plan capital gaps, transactions under Cash Balance Investment Accounts have been ignored. No drawals have been assumed against State Governments' cash balances.

Further details of the manner in which the non-Plan capital gaps of the States have been worked out by us are indicated in Annexure XIV-1.

14.4 The State-wise position of non-Plan capital gaps, as reassessed by us, is set out in the following table :-

Table 1 : Non-Plan Capital Gaps as re-assessed

		(Rs. Crores)			(Rs. Crores)
1.	Andhra Pradesh	432.88	12.	Manipur	46.47
2.	Assam	365.11	13.	Meghalaya	16.62
3.	Bihar	865.29	14.	Nagaland	20.44
4.	Gujarat	226.18	15.	Orissa	340.99
5.	Haryana	209.50	16.	Punjab	259.17
6.	Himachal Pradesh	49.61	17.	Rajasthan	668.61
7.	Jammu & Kashmir	259.10	18.	Sikkim	3.64
8.	Karnataka	220.53	19.	Tamil Nadu	199.13
9.	Kerala	249.81	20.	Tripura	19.47
10.	Madhya Pradesh	503.28	21.	Uttar Pradesh	800.37
11.	Maharashtra	328.74	22.	West Bengal	721.25

TOTAL ALL STATES : 6806.19

Itemised details on the basis of which these gaps have been worked out may be seen in Annexure XIV-2.

14.5 Although to comply perfectly with paragraph 9 of the President's Order, it would, probably, be necessary for us to take into account the loans likely to be obtained by the States from the Centre during the forecast period, and, the repayment thereof during the same period, we have not done so because of the difficulties in estimating the same. We have also not taken this into account for the purposes of debt relief.

Shri G. C. Baveja has reservations in this regard and he is of the view that to make a more realistic assessment of non-Plan capital gaps for the period 1984-89, it would be proper to estimate future loans on the basis of past trends and provide for repayments on the basis of existing terms during the forecast period.

II - A GENERAL REVIEW OF THE STATES' DEBT POSITION

14.6 The following table gives the picture of the estimated indebtedness of the State Governments as at the end of 1983-84. For facility of comparison, corresponding estimates of outstanding debt as at the end of 1978-79 as estimated by the Seventh Finance Commission are also indicated in the table :

Table 2 : Estimated Outstanding debt of the State Governments

		(Rs. crores) As at the end of 1978-79*	1983-84
(1)	Internal Debt		
	(a) Market loans	2572	4236
	(b) Other loans	776	1724
(2)	Central loans	13463	27059
(3)	Unfunded debt	1974	4387
	TOTAL :	18785	37406

* Seventh Finance Commission Report Chapter 11, Paragraph 17.

It would be seen that the States' indebtedness has doubled in the last five years, i.e. from Rs. 18, 785 crores at the end of 1978-79 as estimated by the Seventh Finance Commission to Rs. 37,406 crores at the end of 1983-84.

14.7 Our terms of reference require us to review the States' debt position with particular reference to the Central loans advanced to them and likely to be outstanding as at the end of 1983-84. As is apparent from the above Table, Central loans have also doubled from Rs. 13,463 crores to Rs. 27,059 crores in the last five years. The Statewise position in regard to the total outstanding debt, outstanding Central loans, Central loans falling due for repayment during 1984-89 and the non-Plan capital gaps during the corresponding period is shown in Annexure XIV-3. The Annexure also shows the ratio of these items to the State Domestic Product (average for 3 years 1976-77 to 1978-79).

14.8 The phenomenal growth in the States' indebtedness testifies to the compulsions for financing a large part of the plan outlays through borrowings. The States' revenue resources have failed to keep pace with their growing requirements on revenue account and most of the State Governments are dependent upon the Centre's transfers to meet their revenue requirements. In this situation, there is no alternative but to finance developmental outlays mainly through borrowings. The position of the Central Government is not materially different from that of the States in this respect, as it also depends heavily on borrowed funds, since its commitments on revenue account are larger than its revenue receipts. Our views in regard to the growth in public debt are set out in a later part of this Chapter.

14.9 The position in regard to the outstanding Central loans as at the end of 1983-84 and repayments falling due during the forecast period for the major components of the Central loans is shown below :

Table 3 : Outstandings of Central Loans and Repayments

(Rs. Crores)

		Outstandings as on 31.3.1984	Repayment falling due during 1984-89
1.	Loans consolidated by the Seventh Finance Commission		
	(a) 15-year loans	1785.63	892.84
	(b) 30-year loans	6364.87	1273.01
2.	Small Savings loans		
	(a) Loans received upto 1978-79	2293.41	585.67
	(b) Loans received during 1979-80 to 1983-84	4677.16	374.98
3.	Plan loans including Central and Centrally sponsored schemes	8780.58	3332.03
4.	Hirakud (Stage I) Loans to Orissa	82.42	1.62
5.	Loans for drought relief	615.48	231.97
6.	Loans to clear overdrafts	2242.58	1992.90
7.	Relief and Rehabilitation loans	144.62	3.02
8.	Loans under the National Loans Scholarship Schemes, etc.	71.99	
	TOTAL :	27058.74	8688.04

The State-wise position is given in Annexures XIV-4(i) and XIV-4 (ii).

14.10 In their Memoranda to us, several State Governments have made suggestions for reduction of their outstanding debts and, in particular, the repayment burden during the period covered by our recommendations. Andhra Pradrsh has proposed that loans and advances from the Centre consolidated by the Seventh Finance Commission, and, also those not consolidated, but outstanding as on 31.3.1984, may be written off. It has also proposed that no relief may be provided on overdraft loans and that all other loans given after 1978-79 be consolidated into one loan repayable over 30 years. Assam would like that loans for Brahmputra Flood Control be written-off, and that repayments of loans for power projects and social and economic services should commence after the gestation period is over. Bihar has proposed that loans given to the States for all major irrigation and flood protection schemes may be converted into grants. Haryana has proposed write-off of all loans given for power development. Several States have proposed write-off of loans for famine relief, rehabilitation of displaced persons, repatriates, etc. and loans under the National Loans Scholarship Schemes. Himachal Pradesh has proposed write-off of the overdraft loans. Jammu & Kashmir would like 75 per cent of the outstanding Central loans as on 31-3-1984 to be converted into grants-in-aid and the repayment period for the remaining 25 per cent to be fixed at 30 years. Karnataka would like overdraft loans to be converted into long term loans and it has also suggested that there should be two categories of loans viz., non-productive, which should be written-off and productive which should be made repayable in 30 years. Madhya Pradesh and Punjab have proposed that all loans be consolidated into one loan. These States have proposed that the loan thus consolidated may be made repayable in 50 years and 30 years respectively. Orissa, Uttar Pradesh and Tripura would like repayment liabilities in excess of the recoveries of loans and advances to be charged to revenue account and have requested provision of adequate revenue surpluses to discharge their debts.

14. 11 Several State Governments have also proposed a change in the present pattern of Plan assistance in which the ratio of loan and grant component is 70:30. Andhra Pradesh and Tamil Nadu would like this ratio to be 50:50. Haryana and Karnataka would go further and would like this ratio to be fixed at 30:70 for all States. However, Bihar would restrict this liberal pattern to only those States whose per capita income is below the all States' average. Gujarat has proposed that, in future, all Plan assistance should be by way of grants-in-aid.

14. 12 Suggestions have also been made by several State Governments in regard to interest rates. Assam has proposed that loans for power projects and social and economic services should be interest free during the gestation period. Karnataka would like that no interest is charged on loans given for relief and rehabilitation of displaced persons and repatriates and under the National Loans Scholarship Schemes. Gujarat and Rajasthan have proposed that loans in respect of externally aided projects should carry the same terms as the Central Government obtains from the foreign creditors.

14. 13 Assam has supported the classification of Central loans into the three categories viz. productive, semi-productive and non-productive evolved by the Seventh Finance Commission. Karnataka has proposed that the outstanding loans may be classified into only two categories viz. non-productive and productive.

14. 14 Assam, Gujarat, Haryana and Rajasthan have proposed that small savings loans may be treated as 'loans in perpetuity'. Andhra Pradesh, Karnataka and Tamil Nadu have proposed that the States' share of net small savings collection should be given as grants and not as a loan. Uttar Pradesh and Maharashtra have proposed that recoveries of small savings loans may be made from States only in those years when the gross collections of small savings are less than the repayments/withdrawals.

III. MEASURES TO DEAL WITH NON-PLAN CAPITAL GAPS

14. 15 Before we come to the specific measures to deal with the non-Plan capital gaps of the States as reassessed by us in Section I of this Chapter, we would like to indicate our general approach to the problem of the States' indebtedness to the Centre.

14. 16 We see nothing basically wrong in the growth of public debt. With the expanding public functions, no Government, particularly in developing economy, can undertake large scale programmes of development without recourse to borrowing. We think, however, that it is but right that the borrowed funds should be used for investment purposes and not for consumption. Investments financed by borrowed funds, need not be strictly productive in commercial sense, but, they should subserve a genuine public purpose. In our view, investments in roads, buildings for schools, hospitals, etc. are as desirable as investments in productive assets which yield commercial returns. While it is, no doubt, preferable that public debt is discharged through public savings, in the event of such savings being inadequate or or required for achieving a better social or economic goal, there is no harm in discharging old debts by taking fresh loans.

14.17 The relationship between the Union and the States is one of partnership, in which loans constitute an important mechanism for transfer of resources. The resources made available by the Union Government to the States are returned to the Union to be redeployed for the benefit of the same or some other States which may be in need of assistance. Thus, the loan funds constitute a pool of resources re-cycled between theUnion and the States in accordance with their respective emerging requirements.

In general, we are not in favour of write off of loans since such a write off would reduce the pool of resources available with the Union for re-cycling. In a growing economy, normally, loan receipts would exceed the repayments in any year and hence, a situation should not arise in which the capacity of the States to discharge their debts is impaired. So long as the liability for repayme nts to the third parties is fully provided for, the indebtedness of the States to the Union could continue to grow without any detrimental effect on the national economy.

14.18 We do not consider the loan transactions between the States and the Union as merely a debtor-creditor relationship. Most of the loans given by the Union to the States have been used to create capital assets. Returns, if any,form these assets are also required by the States for further development. In these circumstances, the States have no option but to seek assistance from the Union for their developmental reouirements. The Centre, in turn, has to view each State's requirements in the perspective of total national needs and provide for them. In fact, this is precisely what has been happening and the growing volume of Central assistance for the Plan is an indication of the partnership between the Union and the States in the common endeavour for further economic development.

14.19 The most pernicious problem, which has manifested itself in Union-States financial relations, is overdrafts. The phenomenon of overdrafts has been disturbing the financial balance between the Union and the States and the States inter-se for over a decade now. In a statement made by the Union Finance Minister in Parliament in July, 1982, a package of measures was announced to tackle the problem of mounting overdrafts of State Governments. In that statement, the Finance Minister announced that the Overdraft Regulation Scheme introduced in 1972 and modified in 1978 would be rigidly enforced. In order to enable the State Governments to start the year 1982-83 with a clean slate, medium term loans amounting to Rs. 1743 crores were advanced to various States to clear the overdrafts taken from the Reserve Bank of India as at the end of 1981-82. Simultaneously, the Reserve Bank of India doubled the ways and means limits of the States so that they would have a larger cushion against temporary imbalances between their receipts and expenditures. Out of the loans of Rs. 1743 crores advanced to the States, Rs. 1593.60 crores would fall due for repayment during the period covered by our recommendations. The problem of overdrafts has persisted even after the medium term loans given to the States in June, 1982. The Centre has again given in 1983-84 loans of Rs. 499.12 crores to certain States to help them in tackling the problem of overdrafts at the close of 1983-84. The loans are intended to cover part of such overdrafts. The normal terms prescribed are that these would be repayable in five years commencing from 1985-86, with a moratorium on principal and interest in 1984-85. This is subject to the condition that the concerned State Governments would restrict the closing deficits at the end of 1983-84 to a certain agreed amount, failing which the entire loan would be recovered in 1984-85 itself. The actual closing deficit for 1983-84 would be known only after the Reserve Bank of India furnishes this information in due course. We have assumed that there would be no defaults by the State Governments and have, therefore, provided for recovery according to the normal terms which amount to Rs. 399.30 crores during the forecast period.

14.20 We have not suggested any change in the terms of repayment of overdraft loans and have kept such loans outside our scheme of debt relief. This is because any modification in the terms of repayment of such loans in favour of the States would amount to condoning laxity in fiscal management. The problem of overdraft had been examined, in detail, by the Fifth Finance Commission and they has made certain suggestions in regard to this matter. Overdrafts taken as an additional resource for financing either the State Plans or for meeting non-Plan expenditures, are objectionable and the States which manage their finances well are the worst sufferers in this situation, since, with the shrinkage in the Central resources on account of the need to clear the overdraft of the defaulting States, the available pool of resources which could be equitably distributed amongst the States, gets reduced.

14 21 Unauthorsed overdrafts are a sign of financial indiscipline in that the concerned State Government over-spends without any regard to the availability of resources. There may be genuine difficulties in certain cases which need to be resolved through dialogue with the Union Government but not by running into overdrafts. We are of the view that fresh liabilities should be kept in alignment with the availability of resources and any inescapable requirements which may arise during the year should be met by

specific measures of additional resource mobilisation and/or economy in expenditure. The practice to run into overdrafts is unhealthy in a federal structure like ours where, apart from a need of accelerated development, there is also an urgent need to reduce regional disparities. Thus overdrafts are a negation of the planning process and hence should be dealt with strictly.

14.22 In the scheme to cover the non-Plan capital gaps, we have, therefore, not suggested any relief on the outstandings of the overdraft loans and have assumed full recoveries in respect of these loans on the basis of the existing terms during the period covered by our recommendations.

14.23 Small savings collections are a major source for financing the Plan. The Centre's revised estimates for 1983-84 place the receipts from this source at Rs. 2,200 crores. Under the existing arrangement a two-third share of the net receipts in a State is passed on as loan to that State. The present terms and conditions of small savings loans to the States envisage their repayment in 25 years with a five-year initial moratorium. The total small savings loans outstanding at the end of March, 1984 are estimated at about Rs. 6,971 crores against which a repayment of about Rs. 960 crores would fall due during 1984-89.

14.24 While dealing with the non-Plan capital gaps, the Sixth Finance Commission treated the small savings loans as a separate category. The scheme of debt relief proposed by that Commission also did not take into account the repayment liabilities in respect of small savings loans and it considered that such repayments should be taken care of through fresh mobilisation of small savings.

14.25 The Seventh Finance Commission recommended that small savings loans may be treated as 'loans in perpetuity'. One Member of the Commission, however, had reservations regarding this recommendation. The Central Government did not accept the recommendation to consider the small savings loan to the States as loans in perpetuity. Nevertheless, in order not to disturb the order of the debt relief recommended by that Commission for the five years 1979-84, the Central Government decided that the State Governments will not be required to make any repayment during 1979-84 on account of such small savings loans as were outstanding at the end of 1978-79

14.26 There is a difference of opinion amongst us regarding the question whether any relief need be accorded in the repayment of small savings loans outstanding at the end of 1983-84 during the period 1984-89. Shri Justice T. P. S. Chawla, Dr. C. H. Hanumantha Rao and Shri A. R. Shirali, constituting the majority, are of the view that these loans have enjoyed a moratorium for a long enough period already and that no further relief in their repayment during the forecast period would be justified, except in respect of the repayments due in 1984-85 for the special reasons stated hereinafter. Shri Y. B. Chavan, and Shri G. C. Baveja, are of the view that there should be no repayment in respect of these loans throughout the forecast period. They have given a minute of dissent on this issue which is appended.

14.27 The majority of the Commission is in full agreement with the views of the Sixth Finance Commission reproduced below:

"Small Savings Loans :

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 cooperative effort to mobilise small sevings. 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 dis-proportionally 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 attributable 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 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."

The majority only wish to add that they agree with the reasons given by the Sixth Finance Commission in para 13 of Chapter XVI and para 18 of Chapter XVII of their Report for treating small savings loans separately, and excluding them from their general scheme of debt relief.

14.28 Coming to the merits, the majority think that the existing terms of repayment of small savings loans are already very liberal, and, besides, any relief in respect of such loans would, in general, benefit the better off States as is apparent from the following table:--

Table 4 : Per Capita S.D.P. and outstandings of Small Savings Loans.

(arranged in descending order of Per Capita S.D.P.)

(In Rupees)

	States	Per capita SDP 1976-79 (Average)	Per capita outstanding Small Saving loans at the end of 1983-84
	1	2	3
1.	Punjab	2250	142
2.	Haryana	1895	160
3.	Maharashtra	1670	257
4.	Gujarat	1590	220
5.	West Bengal	1247	272
6.	Himachal Pradesh	1230	260
7.	Karnataka	1202	101
8.	Tamil Nadu	1165	87
9.	Kerala	1162	45
	Average (All States)	1139	129
10.	Rajasthan	1127	78
11.	Sikkim	1100	28
12.	Nagaland	1100	28
13.	Jammu & Kashmir	1100	126
14.	Tripura	1082	55
15.	Meghalaya	1046	73
16.	Andhra Pradesh	1006	64
17.	Assam	960	132
18.	Orissa	918	65
19.	Madhya Pradesh	895	60
20.	Uttar Pradesh	870	106
21.	Manipur	859	10
22.	Bihar	755	108

14.29 In determining the Central assistance for the Plan, the needs of the less advanced States are a guiding factor. It is only as an exception to this rule that small savings loans are given on the basis of the collection principle. This does not, however, mean that the money initially granted as loans should not be available for recycling for ever, which would be the result if repayments are not required to be made. It is important to emphasize that if the loans are repaid to the Centre the money returned can be deployed wherever necessary according to progressive criteria.

14.30 The majority does not consider that any distinction can be drawn between the small savings loans and other Central loans to States simply on the ground that small savings loans are given on the basis of net collections, i.e. gross receipts less repayments to depositors. If such a distinction were to be accepted, it would have to be applied in respect of all loans in general granted by the Centre since the latter also in effect come out of the net borrowings of the Centre.

14.31 Moreover, small savings collections are generated as a result of the cooperative effort of both the Centre and the States. It is only fair to recognise that the net collections of small savings are to a considerable degree attributable to certain policy decisions taken by the Centre, such as the income tax concessions on investment in certain small savings instruments and the prescribed pattern of investment of the moneys accruing under the provisions of the Employees' Provident Fund Act.

14.32 No doubt, the States play an important part in the mobilization of small savings, but for this they are suitably compensated by the grant of a large portion of the net collections as loans on very liberal terms. Our estimates for the forecast period indicate that nearly Rs.9,800 crores would be given to the States as loans against small savings collections whereas only Rs.960 crores would be required to be repaid during that period. These figures indicate the extent of benefit which would flow to the States.

14.33 As pointed out earlier, the majority felt that the small savings loans in respect of which repayment is due during the forecast period have already enjoyed moratorium for a long period extending from five to ten years and no further moratorium in their repayment would be justified. If such moratorium were to be granted for the forecast period and if all succeeding Commissions do the same, then the small savings loans will never be repayable and will in effect become "loans in perpetuity" - a concept which we find totally untenable. As mentioned already, the last Commission had made such a recommendation but it was rejected by the Central Government.

14.34 Accordingly, the majority of the Commission recommends that no relief in the repayment of small savings loans is necessary and these be required to be repaid according to the existing very liberal terms. However, we agree that in respect of 1984-85 there is a special consideration. It would be recalled that we were unable to complete our report by 31st October, 1983 and had made an interim report. In that report we had recommended that the moratorium granted by the Central Government in respect of repayments of small savings loans during 1979-84 be continued for one more year. In the meantime, the annual Plans of the States for 1984-85 have, in most cases, been finalized. In order not to disturb the resource calculations for the annual Plan for 1984-85, we recommend that during this year only the States may not be required to make any repayment of small savings loans.

14.35 The following table gives the estimates of non-Plan capital gaps for the years 1984-89 after excluding the repayment of overdraft loans and small savings loans to which we have referred earlier.

Table 5: Estimates of Non-Plan Capital Gap

(Rs. crores)

State	Non-Plan capital gap as indicated in para 14.4 of section I of this Chapter	Non-Plan Capital gap excluding repayment of overdraft loans and small savings loans	State	Non-Plan capital gap as indicated in para 14.4 of section I of this Chapter	Non-Plan capital gap excluding repayment of overdraft loans and small savings loans
1. Andhra Pradesh	432.88	384.97	12. Manipur	46.47	13.13
2. Assam	365.11	274.00	13. Meghalaya	16.62	7.54
3. Bihar	865.29	441.30	14. Nagaland	20.44	9.21
4. Gujarat	226.18	81.78	15. Orissa	340.99	260.81
5. Haryana	209.50	93.79	16. Punjab	259.17	118.86
6. Himachal Pradesh	49.61	19.44	17. Rajasthan	668.61	319.20
7. Jammu & Kashmir	259.10	250.24	18. Sikkim	3.64	3.63
8. Karnataka	220.53	177.32	19. Tamil Nadu	199.13	95.59
9. Kerala	249.81	107.78	20. Tripura	19.47	3.05
10. Madhya Pradesh	503.28	294.07	21. Uttar Pradesh	800.37	653.44
11. Maharashtra	328.74	82.37	22. West Bengal	721.25	161.12
			Total - All States	6806.19	3852.64

14.36 A good index of the capacity of a State to meet its repayment obligations to the Centre is the level of its development as measured by State Domestic product. The following table contains the indices in this regard in respect of various States:—

Table 6: Central loans excluding small savings and overdraft loans outstanding at the end of 1983-84 as percentage of State Domestic Product (Average 1976-79)

Category	Name of State	Percentage	Category	Name of State	Percentage
Group 1	Punjab	10.8	Group 3	Bihar	33.5
	Maharashtra	12.1		Rajasthan	36.3
	Gujarat	15.3		Orissa	43.5
	Haryana	17.1		Assam	56.6
	Tamil Nadu	17.5			
	Karnataka	19.1	Group 4	Tripura	14.5
				Meghalaya	16.6
Group 2	West Bengal	21.5		Himachal Pradesh	18.0
	Kerala	22.1		Nagaland	39.2
	Madhya Pradesh	27.5		Manipur	49.7
	Uttar Pradesh	29.6		Sikkim	56.3
	Andhra Pradesh	31.3		Jammu & Kashmir	140.6

The details of the calculations are indicated in Annexure XIV-5.

Based on the above ratios, we have categorised the States into the following groups:

Group 1 - Six States with ratios upto 20 per cent.

Group 2 - Five States with ratios above 20 per cent but less than 33 per cent.

Group 3 - Four States with ratios above 33 per cent.

Group 4 - Seven hill States having special problems.

14.37 Our terms of reference require us to have regard, inter-alia, to the overall non-Plan gap of the States. The following table gives the State-wise position in this regard.

Table 7: Non-Plan Capital Gap as per cent of Revenue Surplus (Rs. crores)

States	Non-Plan Revenue position before devolution	Revenue Surplus after devolution (including revenue gap grants)	Non-Plan Capital gap (excluding re-payment of small savings and overdraft loans)	Total Non-Plan Gap (3+4)	Non-Plan Capital Gap as percentage of Revenue Surplus: Before devolution (Per Cent)	After devolution (Per Cent)
1	2	3	4	5	6	7
Group 1						
1. Maharashtra	(+)3790.48	(+)6407.78	(-) 82.37	(+)6325.41	2.2	1.3
2. Tamil Nadu	(+) 774.12	(+)3217.19	(-) 95.59	(+)3121.60	12.3	3.0
3. Gujarat	(+)1034.13	(+)2451.31	(-) 81.78	(+)2369.53	7.9	3.3
4. Punjab	(+)1147.55	(+)1758.70	(-) 118.86	(+)1639.84	10.4	6.8
5. Haryana	(+) 965.95	(+)1393.92	(-) 93.79	(+)1300.13	9.7	6.7
6. Karnataka	(+) 351.71	(+)2064.68	(-) 177.32	(+)1887.36	50.4	8.6
Group 2						
7. Madhya Pradesh	(-) 801.77	(+)1986.34	(-) 294.07	(+)1692.27		14.8
8. Kerala	(-) 635.43	(+) 623.51	(-) 107.78	(+) 515.73		17.3
9. Uttar Pradesh	(-)2113.59	(+)3802.01	(-) 653.44	(+)3148.57		17.2
10. Andhra Pradesh	(-) 845.98	(+)1908.80	(-) 384.97	(+)1523.83		20.2
11. Bihar	(-)3152.50	(+) 853.32	(-) 441.30	(+) 412.02		51.7
12. Rajasthan	(-)1240.63	(+) 297.55*	(-) 319.20	(-) 21.65		107.3
Group 3						
13. West Bengal	(-)3034.33		(-) 161.12	(-) 161.12		
14. Orissa	(-)1663.80		(-) 260.81	(-) 260.81		
15. Assam	(-)1444.46		(-) 274.00	(-) 274.00		
Group 4						
16. Himachal Pradesh	(-) 713.77		(-) 19.44	(-) 19.44		
17. Jammu & Kashmir	(-) 995.39		(-) 250.24	(-) 250.24		
18. Manipur	(-) 422.73		(-) 13.13	(-) 13.13		
19. Meghalaya	(-) 341.30		(-) 7.54	(-) 7.54		
20. Nagaland	(-) 484.04		(-) 9.21	(-) 9.21		
21. Sikkim	(-) 92.65		(-) 3.63	(-) 3.63		
22. Tripura	(-) 502.46		(-) 3.05	(-) 3.05		

* Net surplus in 1984-89 after adjusting the deficit of Rs. 9.70 crores in 1984-85

On the basis of their position in the foregoing table, the States again fall into four distinctive groups. The first group comprises six States which have surpluses even before devolution. These surpluses are also larger than their non-Plan capital gaps. The next group of six States also have revenue surpluses but only after devolution. These surpluses are also larger than their non-Plan capital gaps except in the case of Rajasthan. The third group comprising three States has no revenue surpluses even after devolution. The last group consists of the seven hill States which have no revenue surplus and are further characterised by a relatively weak revenue base and significant non-Plan capital gaps in relation to their resources.

14.38 It would be seen that the composition of the groups indicated in the preceding paragraph is almost the same as in the case of groups under para 14.36 above except in the case of Bihar, Rajasthan and West Bengal. We notice that —

(i) the non-Plan capital gaps of Bihar and Rajasthan as a percentage of their revenue surplus after devolution are much higher than those of other States; and

(ii) though West Bengal's percentage outstandings of Central loans, excluding small savings and overdraft loans, are smaller, it has not been left with any surplus after devolution.

Taking note of all these considerations, we have grouped the States as follows:—

Group 1	Group 2	Group 3	Group 4
Maharashtra	Uttar Pradesh	Bihar	Jammu & Kashmir
Punjab	Madhya Pradesh	Rajasthan	Himachal Pradesh
Gujarat	Andhra Pradesh	West Bengal	Tripura
Haryana	Kerala	Orissa	Manipur
Tamil Nadu		Assam	Meghalaya
Karnataka			Nagaland
			Sikkim

14.39 On the basis of the above classification, we have formulated our debt relief proposals in respect of Central loans which are intended to grant relief on a progressive basis to all States. While considering rescheduling of repayment as a measure of relief, we considered that the maximum period for which repayment may be rescheduled should not exceed thirty years. We are of the view that the States in Groups 1 and 2 may be given debt relief to the extent of not more than 35 per cent and 55 per cent respectively of their reassessed non-Plan capital gaps. We have provided this level of relief by way of rescheduling the terms of repayment of the outstanding loans. Considering the overall non-Plan gaps, we are of the view that States in Groups 3 and 4 may be given debt relief of 75 per cent and 85 per cent respectively of their reassessed non-Plan capital gaps. We have granted this order of relief, to the extent possible, by rescheduling the terms of repayment of outstanding loans and, for the balance, by recommending a write off of certain specified sums out of the amounts due to be repaid to the Centre by different States in each of the years covered by our recommendations.

14.40 The detailed manner in which the scheme of debt relief would be operated in respect of various categories of loans in different States is given in the subsequent paragraphs. We wish to add here that the uncovered gaps left by us should be covered by the State Governments from their own resources.

14.41 For the purposes of providing debt relief in respect of Central loans outstanding as at the end of 1983-84 to States our recommendations are as follows:—

(a) Loans for relief and rehabilitation of displaced persons, repatriates, etc. as outstanding at the end of 1983-84 are estimated at Rs. 144.62 crores. Under the existing terms, the State Governments are required to repay to the Centre only such amounts which they are able to recover from individual loanees. In the period covered by our recommendations, the State forecasts estimate repayments to the Centre of only about Rs. 2 crores. We recommend that in so far as the Central Government is concerned the outstanding loans against the States may be written off. As States would be relieved of their burden to repay to the Centre, the amounts they had borrowed, we should recommend to them to pass on this benefit to the displaced persons, repatriates, etc. to whom loans have been given from the funds borrowed from the Centre as indicated above.

(b) Loans given under the National Loans Scholarship Schemes outstanding on 31.3.1984 against all States may continue to be recovered on the basis of the existing terms under which repayment to the Centre is limited to the recoveries effected by the States.

(c) We do not recommend any change in the terms and conditions of the loans given to the States in 1982-83 and 1983-84 to clear overdrafts in respect of any State.

(d) We recommend that all small savings loans (both pre 1979-80 and those given to the States during 1979-84) outstanding as on 31.3.1984 be repaid by States according to the terms and conditions applicable to such loans. For 1984-85, however, there will be a moratorium on repayment of such loans. Shri Y.B. Chavan and Shri G.C. Baveja, however, recommend that there should be no repayment of small savings loans during 1984-89.

(e) As regards the outstandings as on 31.3.1984 of the pre-1979 loans consolidated into 15-year loans and 30-year loans on the recommendations of the Seventh Finance Commission, we recommend as follows :-

(i) such outstandings against Uttar Pradesh be consolidated into one new loan repayable in 25 equal annual instalments commencing from 1984-85;

(ii) such outstandings against the States of Andhra Pradesh, Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Orissa, Rajasthan and Sikkim be consolidated into one new loan for each State, repayable in 30 equal annual instalments commencing from 1984-85; and

(iii) in respect of such outstandings against Haryana, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Nagaland, Punjab, Tamil Nadu, Tripura and West Bengal, no change be made in the existing terms and conditions of repayment.

(f) We do not recommend any change in the existing terms and conditions of loans to Orissa for Hirakud (Stage I) in respect of which a repayment of Rs.1.62 crores is due from the State Government during 1984-89.

(g) In respect of the outstandings as on 31.3.1984 of all other loans received by the State Governments during 1979-84, we recommend that they be consolidated into one loan for each State on that date and made repayable from 1984-85, as follows:-

(i) in 15 equal annual instalments by the States of Gujarat, Maharashtra and Tamil Nadu;

(ii) in 20 equal annual instalments by the States of Karnataka, Punjab and Tripura;

(iii) in 25 equal annual instalments by the States of Haryana, Kerala, Uttar Pradesh and West Bengal; and

(iv) in 30 equal annual instalments by the States of Andhra Pradesh, Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan and Sikkim.

(h) In respect of the repayments to be made to the Centre by the States named in column 1 of the table below during the period 1984-89, the amounts mentioned in column 2 thereof may be written off. For this purpose, in each of the five years of the forecast period 1984-89, the amount shown in column 3 of the table below may be written off against the repayments due to the Centre in that year.

Table 8 : Amounts of repayments to be written off.

(Rs. in crores)

Name of the State	Total amount to be written off during the five years 1984-89	Amount to be written off in each of the five years 1984-89
1	2	3
1. Assam	49.75	9.95
2. Bihar	76.45	15.29
3. Himachal Pradesh	5.60	1.12
4. Jammu & Kashmir	85.10	17.02
5. Manipur	3.55	0.71
6. Meghalaya	2.90	0.58
7. Nagaland	1.80	0.36
8. Orissa	76.50	15.30
9. Rajasthan	97.85	19.57
10. Sikkim	0.60	0.12
11. Tripura	0.40	0.08
12. West Bengal	4.70	0.94
TOTAL :	405.20	81.04

On the basis of the aforesaid recommendations, the total debt relief to the States during the forecast period works out to Rs.2285.39 crores. The State-wise amount of relief and its percentage to non-Plan capital gap as assessed is indicated in Annexure XIV-6. The amounts indicated do not include relief under small savings loans in 1984-85 under the majority recommendations and in 1984-89 under the minority recommendations.

14.42 Shri A.R. Shirali subscribes generally to the scheme of consolidation and rescheduling of debts recommended in para 14.41 but has reservations in regard to the quantum of relief proposed, particularly in regard to the write-off recommended in certain cases. He feels that the precise extent of relief in the case of any particular State should be left to be determined according to the needs of financing of the Plan outlay of that State. He is also of the opinion that the size of the Annual Plan for 1984-85 having already been settled in the case of most States, the scheme of rescheduling of debts and consequent relief should be given effect to from 1985-86, His note of dissent is appended.

14.43 The next question which we had to consider was the rate of interest in respect of the loans recommended to be consolidated and rescheduled. Normally, the longer the period of a loan, the higher the rate of interest. Taking this into account and also having regard to the interest rate structure prevailing during the period 1979-84, we recommend that the loans consolidated and rescheduled by us may carry the rates of interest shown in the following table :-

Table 9 : Rates of Interest

	Category of loans	Period of repayment	Rate of Interest (Per cent)
(a)	Pre-1979 loans consolidated and rescheduled(under items (i) and (ii) of sub-para (e) of para 14.41)	25 & 30 years	4.75
(b)	1979-84 loans consolidated and rescheduled(under sub-para(g) of para 14.41)	15 years	6.00
		20 years	6.25
		25 years	6.50
		30 years	6.75

The interest payable by the State Governments on the Central loans has been calculated in accordance with this recommendation and provisions therefor have been made in the revenue forecasts of the States to which a reference has been made in Chapter III. It may be mentioned here that by working out the interest payable at the rates recommended by us an amount of Rs.550.01 crores has to be additionally paid by the States during the forecast period, which has been taken into account in Chapter III while computing the interest payments. This increase is due to the fact that in the scheme of rescheduling recommended by us, the repayment of loans will be spread over longer period, the outstandings would be higher every year and so also the interest payable. The additional amount to be paid by the States to whom grants-in-aid under Article 275(1) have been recommended works out to Rs.171.30 crores and this additional liability has, therefore, been met by grants. In the case of other States, the additional liability has been absorbed in their overall surpluses.