Chapter 16

State Finances

16.1 Introduction

In the late nineties, almost all states went through a difficult phase in respect of state finances. In a comparative perspective, however, Uttar Pradesh's fiscal imbalance has been one of the worst. As already mentioned, the ratio of revenue to fiscal deficit in undivided Uttar Pradesh (Uttar Pradesh) was 74.76 per cent in 1998-99, which was the highest among the NSC states in that year. Thus, while the experience of growing fiscal imbalance during the nineties is shared by all states, Uttar Pradesh's finances proved to be particularly vulnerable to the impact of rise in revenue expenditure claims on salaries, pensions and interest payments.

With partitioning of the state, composition of resources and the expenditure have changed significantly. Therefore, in this study, the analysis of historical patterns relate to Uttar Pradesh as it actually existed, that is Uttar Pradesh until November 8, 2000, and reorganised Uttar Pradesh after that date. Projections have been done for the new Uttar Pradesh.

The chapter is organised in the following manner: Section 16.2 presents an overview of state finances with respect to the effects of reorganisation of Uttar Pradesh, expenditure trends and deterioration of fiscal condition. Section 16.3 discusses the tax and non-tax revenue receipts. The growth of expenditures is discussed in Section 16.4. Section 16.5 deals with the fiscal management, performance of budget estimates and the last Section 16.6 discusses fiscal prospects in the state.

16.2 Overview of State Finances: Growing Fiscal Imbalance

16.2.1 Effects of Reorganisation of Uttar Pradesh

The reorganisation of Uttar Pradesh, with the carving out of Uttaranchal in November 2000, has affected the two new states asymmetrically in terms of the fiscal implications.

The undivided Uttar Pradesh (Uttar Pradesh) was the most populous among Indian states with 16.7 per cent of the nation's population in the 1991 Census. Even after the reorganisation in 2000 that carved out Uttaranchal, Uttar Pradesh (UP) is still the most populous among Indian states. According to the 2001 Census, Uttar Pradesh's population accounted for nearly 16.4 per cent of the all-state population. The state also saw the largest volume of government expenditure (revenue and capital), which constituted 18.45 per cent of the gross state domestic product (GSDP) (comparable at factor cost and current market prices) in 2002-03. (This, however, constituted only 10.23 per cent of the all-state aggregate government expenditure in 2002-03.) While proximity to National Capital Territory of Delhi (NCT), Punjab and Haryana, may be economically and fiscally advantageous to Uttar Pradesh, its large size, high population density, large agricultural sector, narrow industrial base and relatively low literacy rate constrain the growth of its economy, and in turn, the health of state finances.

In the context of state finances, the partitioning of the state has affected the two new states asymmetrically. Uttar Pradesh has the larger share of population (about 95 per cent) relative to the share in area (about 82 per cent). Its population density has become higher than earlier whereas Uttaranchal has a much lower population density. Uttar Pradesh has also lost out in terms of forest share and hydel energy sources. It has, however, a much larger share of industry and agriculture. These changes affect both tax and non-tax revenue resources. The expenditure profile is also asymmetrically affected.

The Uttar Pradesh Reorganisation Act, 2000 delineated the criteria of distribution of revenues, authorisation of expenditure and apportionment of assets and liabilities. As per the notification of the Ministry of Finance, Government of India, 96.7 per cent of the tax devolution to UUP was assigned to the new Uttar Pradesh, and the rest, i.e., the 3.3 per cent to Uttaranchal. This arrangement was necessitated due to the fact that the Eleventh Finance Commission (EFC) had already submitted its report before the reorganisation took place. The calamity relief fund was divided on the basis of the geographical area of the two states. The total of the cash balances in all treasuries of the state of UUP and the credit balance of the state with the Reserve Bank of India (RBI) and any other bank were divided between the two states on the basis of their respective population size. According to provisions, tax arrears should be collected and distributed according to the location of the assessing authority. Loans should be realised on the basis of the location of public sector enterprises. For the apportionment of liabilities, public debt as on November 5, 2000 has to be divided on per capita terms between the two states. The GPF and EPF balances have also to be divided on the basis of the number of employees in the two states, as allotted.

In this analysis, a review of State Finances over the period 1987-88 to 2004-05 BE is undertaken. Data on the basis of actuals are available up to 2002-03. For 2003-04, revised estimates and for 2004-05, Budget estimates are available. GSDP has been compiled for UUP. In analysing fiscal trends up to 2002-03, the following considerations qualify the overall review:

(i) GSDP has been estimated for UUP up to November 8, 2000, and for the new Uttar Pradesh beyond that.

(ii) Ratios to GSDP and other fiscal aggregates relate to the same entity, whether UUP or Uttar Pradesh.

(iii) The year 2000-01 is the change over year.

(iv) Our analysis, in general, is up to 2002-03, for which accounts data are available. In all the tables, however, data for 2003-04 RE and 2004-05 BE are also given. Salient features of changes in these two years are also taken note of.

(v) The year 2003-04 RE requires separate attention because of one-time provisions related to the electricity sector both on the revenue side and capital, side.

16.2.2 Fiscal Imbalance: Growing Deterioration

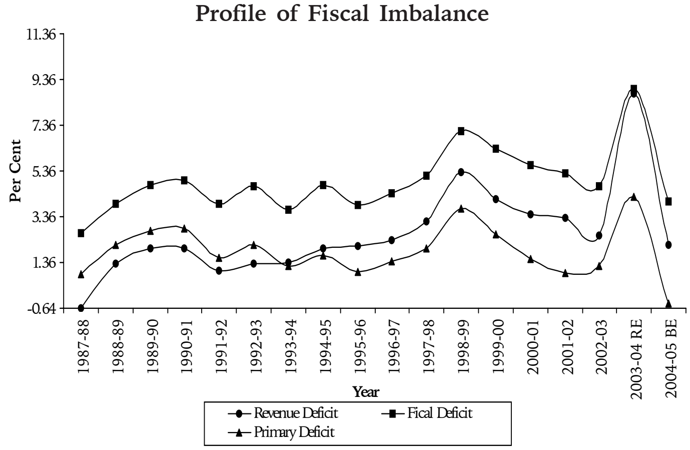
The finances of UUP show marked deterioration in revenue and fiscal balance relative to GSDP towards the end of the nineties. The profile of fiscal imbalance after bifurcation, after a brief period of improvement has started deteriorating again. The quality of fiscal deficit has worsened considerably over the years. Relative to other states, fiscal imbalance in Uttar Pradesh is among the largest.

The outstanding feature of UUP's finances was the mounting fiscal imbalance where the revenue surplus of 0.66 per cent of GSDP in 1987-88 transformed into a deficit in 1988-89 reaching a peak of 5.31 per cent in 1998-99. Up to 1998-99, the deteriorating fiscal situation can clearly be divided into three phases: the first from 1987-88 to 1990-91, the second from 1991-92 to 1995-96, and the last from 1996-97 to 1998-99. The year 1999-00 could possibly be seen, in this pattern, as the beginning of another phase of improvement. In 1999-00, it improved to 4.12 per cent of GSDP. The fiscal deficit increased from 2.64 per cent of GSDP in 1987-88 to a peak of 7.11 per cent in 1998-99. It marginally improved to 6.31 per cent in 1999-00. In fact, after the reorganisation of Uttar Pradesh, the trend towards improvement was further strengthened until 2003-04, when a sharp deterioration occurred.

The three phases mentioned above and the position after that in the profile of fiscal imbalance as shown by revenue, fiscal, and primary deficit is shown in Figure 16.1. In 1987-88, there was a revenue surplus of 0.65 per cent of GSDP. It turned into a revenue deficit in the next year which continued to rise up to 1990-91. In the second phase, although the revenue account remained in deficit, the position of fiscal deficit visibly improved during 1991-92 to 1995-96. Since 1996-97, the profile of fiscal imbalance sharply deteriorated with the rise in revenue as well as fiscal deficits. However, another phase of improvement is visible from 1999-00 to 2004-05, with the exception of 2003-04 RE, where the sharp deterioration is due to the power sector adjustments as already mentioned earlier.

FIGURE 16.1

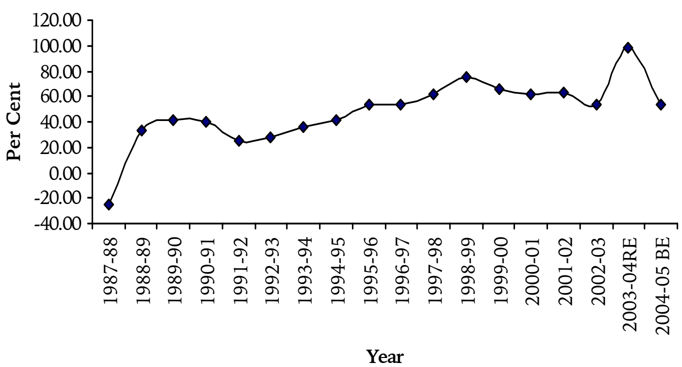
Profile of Fiscal Imbalance



Further, the share of revenue deficit in fiscal deficit, which is indicative of the quality of fiscal deficit, had also sharply deteriorated. In 1990-91, nearly 40 per cent of fiscal deficit was claimed by revenue deficit. This share rose to nearly 75 per cent in 1998-99. After that, it has started to fall showing improvement in the utilisation of fiscal deficit, with 2003-04 RE being an exception. In 2003-04 RE the revenue deficit accounted for nearly 98 per cent of fiscal deficit. This, however, was due to one-time adjustments in the electricity sector, as already mentioned. The dimensions of fiscal imbalance, based on some key fiscal indicators, are summarised in Table 16.1. It appears that in both the earlier phases, fiscal deterioration started with salary revisions in tandem with the Fourth and Fifth Central Pay Commissions. In the late nineties, the deterioration is sharper, combining the influence both of salary revision and interest payments which had risen following the steadily rising fiscal deficit combined with the rising cost of borrowing in the nineties.

FIGURE 16.2

Revenue Deficit as % to Fiscal Deficit



As already mentioned, the ratio of revenue to fiscal deficit in UUP was 74.76 per cent in 1998-99, which was the highest among the NSC states in that year. The rising share of the claims on salaries, pensions and interest payments in revenue expenditure rendered the state's financial position vulnerable. The outstanding liabilities of the state government show an explosive growth since 1999-00. It rose from a level of 38.31 per cent of GSDP in 1998-99 to 53.76 per cent in 2003-04 RE.

16.2.3 State Finances: Core Trends

Relative to GSDP, every major component of revenue receipts, i.e., own tax revenues, central transfers, and own non-tax revenues fell during 1987-88 to 1999-00. This was accompanied by an unhealthy structural shift in expenditure; while interest payments, pensions and salary expenditures rose sharply, capital expenditure fell.

Since fiscal imbalance is the outcome of changes in revenue and expenditure profiles, we now look at these in terms of relevant aggregates. From 1987-88 to 1998-99, the revenues of the state relative to GSDP declined by about three percentage points from 13.3 to 10.4 per cent. There has been an improvement since then. The revenue receipts in 2003-04 RE and 2004-05 BE are estimated at 14.2 and 14.3 per cent of GSDP. If actually realised, these would be the highest levels of revenue effort seen since 1987-88. The relevant magnitudes are given in Table 16.2. This improvement has been mainly due a rise in own tax revenues and also due to the marginal increase in transfers from the Centre.

TABLE 16.1

Fiscal Imbalance: The Key Indicators

(Per Cent to GSDP)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Revenue Deficit	-0.66	1.32	1.97	1.98	1.00	1.28	1.34	1.99	2.06
Fiscal Deficit	2.64	3.92	4.73	4.94	3.92	4.69	3.68	4.73	3.85
Primary Deficit	0.83	2.15	2.75	2.85	1.56	2.11	1.23	1.66	0.93
Revenue Deficit/Fiscal Deficit	-24.86	33.55	41.53	40.04	25.54	27.34	36.29	42.02	53.43
Outstanding Debt*	29.53	29.02	30.59	31.26	31.41	33.15	33.96	34.20	34.54
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
Revenue Deficit	2.34	3.16	5.31	4.12	3.73	3.54	2.52	8.72	2.15
Fiscal Deficit	4.38	5.17	7.11	6.31	5.87	5.51	4.68	8.93	4.04
Primary Deficit	1.39	1.97	3.74	2.58	1.76	1.15	1.20	4.21	-0.42
Revenue Deficit/Fiscal Deficit	53.38	61.03	74.76	65.35	63.42	64.25	53.88	97.67	53.15
Outstanding Debt*	33.75	36.05	38.31	45.68	43.85	48.78	50.04	53.76	51.75

Source (Basic Data): *Finance Accounts of Uttar Pradesh* & *Budget Document (2004-05)* of Uttar Pradesh.

Note: * Includes Reserve Fund and Deposits.

TABLE 16.2

State Finance of Uttar Pradesh: An Overview

(Per Cent to GSDP)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Revenues	13.25	11.69	11.93	12.76	12.49	13.85	12.87	12.20	12.78
Own Tax Revenues	5.18	4.50	4.67	5.10	4.84	4.92	4.80	4.84	4.81
Own Non-tax Revenues	1.02	0.93	0.87	0.62	0.61	0.88	0.77	0.79	1.51
Share in Central Taxes	4.70	3.88	4.41	3.75	3.81	4.33	4.16	3.95	4.48
Grants	2.36	2.39	1.97	3.29	3.24	3.73	3.15	2.62	1.98
Contra Entries	0.63	0.61	0.69	0.63	0.89	0.92	1.23	1.08	0.60
Expenditures	16.16	16.00	16.73	18.29	16.67	18.63	16.69	17.76	16.76
Revenue Expenditure of which:	12.60	13.01	13.90	14.74	13.49	15.14	14.21	14.19	14.84
Interest Payment	1.81	1.77	1.99	2.09	2.37	2.58	2.45	3.06	2.92
Pension	0.31	0.33	0.33	0.37	0.41	0.60	0.49	0.49	0.64
Capital Expenditure (Net) of which:	3.56	2.99	2.84	3.55	3.18	3.50	2.48	3.57	1.93
Capital Outlay	2.76	2.03	1.85	1.90	0.99	1.61	1.10	1.11	0.99
Net Lending	0.53	0.57	0.91	1.07	1.93	1.80	1.24	1.63	0.80
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
Revenues	11.55	11.76	10.39	11.99	13.41	13.31	13.52	14.21	14.32
Own Tax Revenues	4.64	4.78	4.83	5.34	6.78	5.48	6.29	6.03	6.26
Own Non-Tax Revenues	0.73	0.64	0.67	0.92	0.82	0.69	0.75	0.65	0.57
Share in Central Taxes	4.51	4.90	3.56	4.25	4.28	5.40	5.34	5.47	5.80
Grants	1.67	1.44	1.32	1.48	1.53	1.74	1.14	2.05	1.68
Contra Entries	0.24	0.24	0.23	0.22	0.25	0.26	0.19	0.17	0.15
Expenditures	16.10	17.15	17.96	18.45	19.45	19.01	18.31	28.80	18.61
Revenue Expenditure of which:	13.89	14.91	15.70	16.12	17.14	16.85	16.05	22.93	16.46
Interest Payment	2.99	3.20	3.37	3.72	4.12	4.36	3.48	4.72	4.46
Pension	0.66	0.72	1.09	1.17	1.19	1.27	1.36	1.56	1.61
Capital Expenditure (Net) of which:	2.21	2.24	2.26	2.34	2.31	2.16	2.27	5.87	2.15
Capital Outlay	1.06	1.14	1.28	1.44	1.80	1.88	1.87	5.20	1.90
Net Lending	0.99	0.88	0.51	0.75	0.34	0.09	0.29	-4.99	-0.01

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

During 1987-88 to 1998-99, the general fall in revenue receipts was accompanied by a rise in expenditure from 16.16 per cent of GSDP in 1987-88 to 18.45 per cent in 1999-00. Within this margin of increase in the ratio of aggregate expenditure to GSDP, a large structural change needs to be highlighted. This relates to committed expenditures like interest payments, pensions and salaries, which increased, and capital expenditure, and non-interest and non-pension revenue expenditures, which fell. Most of the increase was due to only two components of expenditure, namely, interest payments and pensions, which went up respectively by margins of 1.81 and 0.86 percentage points of GSDP between 1987-88 to 1999-00. On the other hand, capital expenditure became a casualty of the adjustment process, falling from 3.56 to 2.34 per cent of GSDP over 1987-88 to 1999-00, a decline of 1.22 percentage points. In 2003-04 RE, the revenue expenditure increased sharply from 16.1 per cent of GSDP to 22.9 per cent. This was due partially to a rise in interest payments from 3.5 percent of GSDP in 2002-2003 to 4.7 per cent in 2003-04 RE. Pension payments also increased from 1.4 to 1.6 per cent of GSDP between these years. A larger part of the increase was due, however, to adjustments in the power sector involving writing off and securitisation of debt in respect of the power sector entities. Appendix A-16.5 gives details of power sector restructuring in Uttar Pradesh.

The structural changes in the fiscal profile of Uttar Pradesh are summarised in Table 16.3 where a comparison is made in respect of selected fiscal aggregates, considered relative to GSDP, in 2004-05

BE and three benchmark years, *viz.*, 1987-88, 1990-91 and 1999-00. Except for non-tax revenues, the resultant structural changes are the same in the two comparisons. Compared to 1990-91, the emergent picture indicates that:

1. Own tax revenues declined over the years but reached the same level as in 1990-91. Throughout 2000-01 to 2004-05 BE (except 2001-02), the tax-GSDP ratio remained above six per cent of GSDP. This represents a significant improvement in Uttar Pradesh's tax-GSDP ratio.
2. Own non-tax revenues increased by 0.30 percentage points (although compared to 1987-1988, this shows a fall of 0.10 percentage points); own non-tax revenue fell as a percentage of GSDP in recent years after reaching a peak in 2001-02.
3. Central transfers fell by 1.31 percentage points.
4. Interest payment increased by 1.63 percentage points during 1990-91, and 1999-00 and continued to rise reaching a level of 4.5 per cent in 2004-05 BE.
5. Pensions increased by 0.80 percentage points during 1990-91 to 1999-00, and have continued to rise as a percentage of GSDP.
6. Capital expenditure fell by 1.22 percentage points between 1990-91 and 1999-00. In 2004-05 BE these are estimated at 2.15 per cent of GSDP.
7. Revenue deficit increased by 2.14 percentage points in 1999-00 (by 4.78 percentage points as compared to 1987-88).
8. Fiscal deficit increased by 1.37 percentage points in 1999-00 (3.67 w.r.t. 1987-88); it has come down in recent years (except 2003-04) and was estimated at 4.0 per cent of GSDP in 2004-05.
9. Outstanding debt rose by 14.41 percentage points between 1990-91 to 1999-00. It has continued to rise since then.

Since 1999-00 and up to 2002-03, one notable change is the improvement in own tax revenues at 6.3 per cent of GSDP. On the side of expenditure, in total expenditures, no significant change is noticeable. Although interest payments fell in 2002-03, these are estimated to rise again in 2004-05.

Thus, the profile of the major fiscal aggregates over 1987-88/1990-91 to 1998-99 reveals falling: (i) own tax revenues; (ii) non-tax revenues; (iii) capital expenditures relative to GSDP, accompanied by rising; (iv) interest payments; (v) pensions; (vi) revenue deficit; (vii) fiscal deficit; and (viii) outstanding debt. The picture since 1999-00 shows improvement in own revenues, but expenditures still show a rising trend. As a result, there is no improvement in fiscal imbalance. The Eleventh Finance Commission (EFC) had placed Uttar Pradesh among the five fiscally most vulnerable NSC states. This picture has not changed for the better in recent years. The superimposition of cyclical phases on

TABLE 16.3

Fiscal Profile of Uttar Pradesh: Summary of Structural Changes (During 1999-2000 to 2002-03)

(Percentage Points w.r.t. GSDP)

	1987-88	*1990-91*	*1999-00*	*1999-00 Minus*		*2002-03*	*2002-03 Minus*
				1987-88	*1990-91*		*1999-00*
Own Tax Revenues	5.18	5.10	5.34	0.17	0.25	6.29	0.95
Own Non-tax Revenues	1.02	0.62	0.92	-0.10	0.30	0.75	-0.16
Central Transfers	7.06	7.04	5.73	-1.33	-1.31	6.47	0.74
Interest Payment	1.81	2.09	3.72	1.92	1.63	3.48	-0.25
Capital Expenditure	3.56	3.55	2.34	-1.23	-1.22	2.27	-0.07
Revenue Deficit	-0.66	1.98	4.12	4.78	2.14	2.52	-1.60
Fiscal Deficit	2.64	4.94	6.31	3.67	1.37	4.68	-1.63
Outstanding Debt*	29.53	31.26	45.68	16.15	14.41	50.04	4.37

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

Note: *Includes Reserve Fund and Deposits.

long-term deterioration path may be attributed to one-time shocks of salary revisions twice (connected with Fourth and Fifth Central Pay Commission Reports). The deterioration became sharper in the latter part of the nineties because of a rise in nominal interest rates. The long-term deterioration occurred because of higher interest payments, higher pension liabilities, and decline in the share of central transfers. We now examine the central problem in Uttar Pradesh's state finances, namely, the rise in debt and other liabilities.

16.2.4 Debt and Contingent Liabilities

Borrowing at ever-increasing costs, and using most of it for current expenditures, led to high and unsustainable debt for UUP.

The effective interest rate obtained by dividing interest payment by the outstanding liabilities at the end of the previous year shows the average cost of borrowing. The cost of borrowing has steadily increased for the state until 1999-00. After that with a fall in nominal interest rates in general and also partly due to the debt swap scheme, there has been a decline in the average cost of borrowing. In more recent years, the debt-swap extended by the Central government has also helped Uttar Pradesh with a reduction in its effective interest rate. Table 16.4 shows that effective interest rate rose from 8.61 per cent in 1987-88 to 13.48 per cent in 1999-00. It has fallen since and was estimated to be 10.06 per cent in 2003-04 RE. However, going by the 2004-05 BE, the effective interest rate will be as high as 13.73 per cent. The fall in interest rates occurred in the case of market borrowing as well as on central loans. The sharp increases in the interest rates in 1996-97 and 1997-98, when the average cost of borrowing had become 14.05 per cent and 15.69 per cent, are especially notable.

For many years, a double damage to UUP state finances was caused due to the high cost borrowing and the use of these borrowings mostly for current expenditures. As shown in Table 16.2, a growing proportion of fiscal deficit has been used for financing revenue deficit, and correspondingly, a lower and lower proportion of borrowed resources became available for capital outlay and lending. The changing composition of fiscal deficit is shown in Table 16.5.

We have noted in Table 16.3 that the debt-GSDP ratio of UUP rose from 29.53 per cent in 1987-88 to 45.68 per cent in 1999-00. It rose further to 53.76 per cent of GSDP by 2003-04 RE. As an undivided state, it had the fifth highest debt-GSDP ratio among the NSC states after Orissa (37.79 per cent), Punjab (34.58 per cent), Goa (34.21 per cent), and Bihar (33.14 per cent) at the end of 1998-99 as per the Eleventh Finance Commission (EFC) report. The new Uttar Pradesh also has one of the highest debt-GSDP ratios among the general category states.

TABLE 16.4

Effective Rate of Interest: Selected Debt Instruments

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Internal Debt of the State Government	11.83	10.72	10.33	9.20	11.08	10.14	5.37	15.95	11.03
Market Borrowing	8.20	11.27	11.23	9.78	11.67	10.13	4.71	17.62	11.05
Loans and Adv. from the Central Government	7.28	7.75	8.33	8.92	9.73	9.97	10.48	11.06	11.43
Small Savings, Provident Funds, etc.	10.47	9.87	10.29	11.99	10.76	11.52	10.69	11.17	11.18
Total	**8.61**	**8.87**	**9.63**	**10.14**	**11.11**	**11.43**	**10.35**	**13.40**	**12.52**
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
Internal Debt of the State Government	14.50	14.84	13.86	12.89	6.49	3.38	13.24	7.07	13.05
Market Borrowing	14.05	15.69	13.10	12.60	7.68	4.12	11.64	11.09	11.40
Loans & Adv. from the Central Government	11.73	10.07	12.25	12.53	6.12	5.10	12.90	12.88	12.61
Small Savings, Provident Funds, etc.	11.55	20.44	12.48	11.29	5.62	5.01	8.76	8.74	14.86
Total	**13.55**	**13.54**	**13.79**	**13.48**	**6.68**	**4.89**	**13.45**	**10.06**	**13.73**

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

TABLE 16.5

Composition of Fiscal Deficit: 1987-88 to 2004-05

(Per Cent)

Years	*Capital Outlay*	*Net Lending*	*Revenue Deficit*	*Total Fiscal Deficit*
1987-88	104.74	20.12	-24.86	100.00
1988-89	51.83	14.62	33.55	100.00
1989-90	39.16	19.31	41.53	100.00
1990-91	38.39	21.57	40.04	100.00
1991-92	25.16	49.29	25.54	100.00
1992-93	34.23	38.43	27.34	100.00
1993-94	29.98	33.73	36.29	100.00
1994-95	23.50	34.48	42.02	100.00
1995-96	25.78	20.79	53.43	100.00
1996-97	24.10	22.53	53.38	100.00
1997-98	22.01	16.95	61.03	100.00
1998-99	18.03	7.22	74.76	100.00
1999-00	22.83	11.83	65.35	100.00
2000-01	32.11	6.12	63.42	100.00
2001-02	35.87	1.62	64.25	100.00
2002-03	39.95	6.16	53.88	100.00
2003-04 RE	58.25	-55.92	97.67	100.00
2004-05 BE	47.04	-0.19	53.15	100.00

Source: *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

The change in the structure of public debt in UUP showed a movement towards higher cost sources in the nineties away from borrowing from the central government and increasing dependence on market borrowing and small savings and provident funds. The structure of liabilities as highlighted in Table 16.6 shows a shift towards high cost market borrowing until the nineties. The recent lowering of interest rates would help in easing out this burden, facilitated further by swapping high cost debt to the centre with new borrowing at a lower rate.

16.2.5 Decentralisation: Finances of Local Bodies

Effective decentralisation can help improve the quality of governance. GoUP should take urgent steps to facilitate urban services and rural infrastructure.

Management of expenditure responsibilities could be significantly improved by decentralising functions and financial activities to the local bodies. With the 73rd and 74th Amendments to the Constitution, the management of local body finances has become an integral component of state finances. There are 59607 *Panchayati Raj* Institutions (rural local bodies) and 689

TABLE 16.6

Structure of Outstanding Debt of the Central Government: 1987-88 to 2004-05

(Per Cent)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Internal Debt of the State Government	20.37	21.97	22.45	22.47	21.36	21.87	23.67	22.18	22.00
Market Borrowing	17.42	18.16	18.62	18.59	19.24	19.70	20.56	20.77	21.51
Ways and Means Advances	0.00	0.00	1.92	1.89	0.60	1.47	2.84	1.23	0.37
Others	2.84	3.72	1.84	1.94	1.42	0.61	0.18	0.15	0.10
Loans & Adv. from the Central Government	69.44	67.75	66.08	65.02	65.90	64.94	62.89	64.35	64.10
Small Savings, Provident Funds, etc.	10.19	10.28	11.47	12.50	12.74	13.19	13.44	13.47	13.90
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Other Obligations (including Reserve Funds and Deposits)	18.98	18.85	20.17	20.63	21.31	22.20	21.25	22.97	23.67

	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
Internal Debt of the State Government	23.40	22.49	23.95	32.73	36.55	41.95	46.00	56.82	59.53
Market Borrowing	21.60	21.55	21.47	19.21	21.90	22.16	23.34	0.00	0.00
Ways & Means Advances	1.25	0.00	1.17	3.42	0.09	1.06	-0.04	0.00	0.00
Others	0.52	0.92	1.29	10.09	14.54	18.72	22.70	0.00	0.00
Loans & Adv. from the Central Government	62.74	62.61	61.15	54.13	50.06	45.47	40.27	29.98	26.85
Small Savings, Provident Funds, etc.	13.86	14.90	14.90	13.14	13.39	12.58	13.73	13.20	13.62
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Other Obligations (including Reserve Funds and Deposits)	24.54	24.24	22.48	18.94	23.03	23.73	22.63	23.22	22.20

Source: *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

urban bodies, namely *nagar palikas* in Uttar Pradesh (Appendix A-16.16). Prior to the 73rd and 74th Amendments to the Constitution the state government had been giving grants-in-aid to the third-tier administrative units. The First State Finance Commission set up in October 1994 reviewed the position and reported that the system of passing on assistance through grants-in-aid was unsatisfactory. The Commission recommended that the local bodies be given a regular share of taxes, duties, tolls and fees levied by the state government, all pooled together. The share of urban local bodies was fixed at 7 per cent and that of the *Panchayati Raj* Institutions at 3 per cent of such pooled gross revenue. The *inter se* distribution among them was to be on 80 per cent population and 20 per cent area. The Commission also recommended that all outstanding loans and interest thereon should be converted into grants.

The state government accepted the recommendations but stipulated that funds from taxes would be released taking into account the performance profile of the local bodies. The recommendations of the First Finance Commission were in force till March 2001. The Second Finance Commission has also given its recommendations now.

The EFC made specific recommendations based upon a formula of five variables with different weights assigned (Appendix A-16.16). Based on these criteria, the EFC recommended grants-in-aid to be passed on to the local bodies. At the same time, the EFC noted that the database as well as the maintenance of village level records were not adequate and, therefore, earmarked specific funds amounting to Rs. 7184.47 lakh distributed to the *panchayats* and municipalities as 'first charge' out of the grants recommended. Details are given in Appendix A-16.16.

16.2.6 Summary

The central problem in Uttar Pradesh's state finances is accumulation of liabilities relative to GSDP. This itself is the result of large primary deficits and increasing interest payments. The accumulated liabilities have resulted in a vicious circle, where fiscal imbalance and higher debt accumulations leads to larger fiscal imbalance. The Uttar Pradesh Government enacted a Fiscal Responsibility and Budget Management Act (FRBM) in 2004 with a view to controlling the growth in debt and eliminating revenue deficit. In the next chapter, we consider in detail, the revenue profile of the state, tax and non-tax. Own revenue performance is the key to effective reduction in fiscal imbalance and for honouring the enacted FRBM.

While in this section, we provided an overview of the fiscal profile of UUP, some of the important determinants of the deteriorating fiscal position will be considered in the subsequent sections. In the next section, we consider the tax and non-tax revenues of UUP in greater detail.

16.3 Revenue Receipts: Tax and Non-tax

16.3.1 Tax Revenues: Recent Improvements

The buoyancy of own tax revenues is close to 1. Relative to other NSC states, the tax-GSDP ratio in Uttar Pradesh shows scope for augmentation. However, with sales tax constituting the core of state taxes, there is a marked growth in revenues in the recent past, following the introduction of uniform floor rates. Services and agriculture are under-taxed.

On the interstate ladder of tax-GSDP ratios a group of 15 general category states, considering the average over the period 2000-01 to 2002-03, Uttar Pradesh is the fourth lowest in relative ranking with Orissa, Bihar and West Bengal constituting the tail end. The growth rates year-wise and trend growth rate (TGR) of the main state taxes are shown in Table 16.7.

For the period prior to reorganisation, the TGR of total own tax revenues was 13.74 over 1987-88 to 1999-2000. There is also considerable volatility in the year-to-year growth in almost all taxes. The TGR for sales tax is higher than the average TGR by a little less than one percentage point. The TGRs of state excise duties and stamp duty and registration fees are also higher than the TGR of aggregate own tax revenues. In comparing growth rates in the period after reorganisation, it should be noted that 2001-02 growth rates are negative due to the reorganisation of the state and are not comparable with previous years or latter years. The high growth rates in 2000-01 and 2002-2003 are particularly noteworthy.

The structure of Uttar Pradesh's economy has a direct bearing on its tax-GSDP ratio. With the share of industry being below 20 per cent of GSDP in 1999-2000 (Appendix A-16.11), the tax base has been uncomfortably narrow for commercial taxes. The share of industry has fallen further in the subsequent years. The share of agriculture and allied activities was 35.8 per cent in 1999-00. It has also fallen further to 31.6 per cent by 2002-03. The share of the service sector

TABLE 16.7

Growth Rate of Tax Revenues

(Per Cent Per Annum)

	1988-89	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*
State's Own Tax Revenues	3.88	18.53	29.14	10.60	11.12	6.32	18.06	12.11	15.31
Sales Tax	14.27	22.67	25.65	12.98	6.45	6.34	21.23	13.87	17.07
State Excise Duties	-31.55	24.80	71.70	-1.27	23.63	8.17	15.42	4.89	14.18
Taxes on Vehicles	75.74	-11.73	7.72	8.86	10.72	-4.34	9.71	16.10	11.22
Stamp Duty and Registration Fees	0.58	23.20	15.98	23.76	3.43	15.45	18.80	16.35	19.09
Other Taxes	23.70	1.32	4.08	10.68	20.88	-5.17	8.35	12.75	2.48
	1997-98	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*	*TGR(1988-2000)*
State's Own Tax Revenues	10.97	13.03	18.85	30.50	-15.75	23.56	7.97	17.00	13.74
Sales Tax	13.30	13.28	14.39	19.99	0.73	15.59	6.69	18.41	14.56
State Excise Duties	6.14	16.18	30.34	5.28	-12.38	30.27	-0.20	17.65	14.36
Taxes on Vehicles	19.39	26.83	142.36	6.05	-7.37	23.02	-26.32	10.00	13.59
Stamp Duty and Registration Fees	9.25	7.93	14.13	7.83	12.56	45.43	7.28	14.98	14.62
Other Taxes	8.28	7.78	-15.95	332.04	-86.70	41.26	141.38	12.02	6.83

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

Note: TGR refers to trend growth rate for the period 1987-88 to 1999-00.

has increased from about 43 per cent in 1993-94 to more than 50 per cent in 2002-03. Both agriculture and services have remained under-taxed in Uttar Pradesh, as in most other states. Many agricultural commodities have enjoyed exemptions in sales tax. While the services represent a potential growth area for taxation, its utilisation for a better tax yield would depend on how services are handled for taxation by the central government and assignments are made to the states under the amended Article 268A.

Table 16.8 gives the estimated buoyancies of major categories of tax revenues with respect to GSDP for two periods *viz.*, 1987-88 to 1999-00 and 1987-88 to 2002-2003. For more recent years, annual buoyancies are also given. The overall buoyancy of own tax revenues is more than unity. Sales tax, stamp duty and registration fees and state excise duties have buoyancies that are marginally above unity. The central sales tax buoyancy is little less than one in 1987-88 to 2002-03. In the case of other taxes, the buoyancies are rather low.

16.3.2 Own Tax Revenues

Sales tax predominates the profile of tax revenues, its relative importance has increased while that of state excise duties has gone down.

TABLE 16.8

Buoyancy of State Taxes

	W.r.t GSDP		*Annual Buoyancy*	
	1987-88 to 1999-00	*1987-88 to 2002-03*	*2001-02*	*2002-03*
Own Tax	1.011(36.01)	1.108(23.76)	-3.74	3.13
Sales Tax	1.091(55.86)	1.178(30.93)	0.63	3.41
Central Sales Tax*	0.754(5.33)	0.994(6.041)	-3.99	-13.20
State Excise Duty	1.051(11.21)	1.093(15.15)	-2.94	4.02
Motor Vehicle Tax	0.979(5.66)	1.310(7.37)	-1.75	3.06
Stamp Duty and Registration Fee	1.072(38.54)	1.172(21.86)	2.98	6.03
Other Taxes	0.525(12.52)	0.519(2.60)	-20.57	5.48

Source (Basic Data): *Finance Accounts of Uttar Pradesh*.

Note: Figures within parentheses are t-values.

*Central Sales Tax was very low at Rs. 258 lakh for 2002-03. This has been excluded in the estimation of buoyancy.

The structure of tax revenues has shifted towards sales tax due to the below unity buoyancies of other taxes. There is a marginal improvement in the share of stamp duties and registration fees during 2000-01 to 2003-04 RE. Relative share of other taxes has gone down substantially during the nineties. This trend has continued in the more recent years also (Table 16.9).

TABLE 16.9

Structure of State's Own Tax Revenues

(Per cent)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
State's Own Tax Revenues									
Sales Tax (Excluding CST)	44.22	48.11	50.78	49.35	49.26	48.23	48.57	49.96	51.53
Central Sales Tax	3.75	4.66	3.84	3.79	5.03	3.77	3.45	3.45	2.72
State Excise Duties	24.85	16.37	17.24	22.92	20.46	22.76	23.16	22.64	21.19
Taxes on Vehicles	2.57	4.35	3.24	2.70	2.66	2.65	2.38	2.22	2.29
Stamp Duty and Registration Fees	12.59	12.19	12.67	11.38	12.73	11.85	12.87	12.95	13.44
Other Taxes	12.02	14.31	12.24	9.86	9.87	10.73	9.57	8.79	8.84
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
State's Own Tax Revenues									
Sales Tax (Excluding CST)	52.83	52.84	54.05	49.73	44.99	54.81	55.76	51.86	52.61
Central Sales Tax	2.25	3.39	2.30	4.51	4.88	4.82	0.02	3.26	3.18
State Excise Duties	20.98	20.06	20.62	22.62	18.25	18.98	20.01	18.49	18.60
Taxes on Vehicles	2.21	2.38	2.67	5.45	4.43	4.87	4.85	3.31	3.11
Stamp Duty and Registration Fees	13.88	13.66	13.04	12.53	10.35	13.83	16.28	16.17	15.89
Other Taxes	7.85	7.66	7.31	5.17	17.11	2.70	3.09	6.90	6.61
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

The major problems in the case of sales taxes are: (i) levy of tax mostly at first point; (ii) extensive evasion; (iii) undervaluation; (iv) problems related with consignment transfers; (v) classification disputes; and (vi) multiplicity of tax rates. However, Uttar Pradesh, like other states, should also be embarking upon state level value added tax (VAT) replacing the existing commercial taxes with effect from April 1, 2005. With the agreement among the states to eliminate incentives, reduce tax rates and implement the value added tax, the state administration will have to gear up to exploit the full potential of the state's tax base. The major tasks ahead include: (i) introduction of state level VAT; (ii) training of officials and dealers; (iii) coordination with other states introducing VAT; (iv) exhaustive computerisation; and (v) publicity.

The recently published White Paper on VAT prepared on the basis of recommendations of the Empowered Committee has suggested two core rates, *viz*., 4 and 12.5 per cent. Depending on the structure of exemptions, and the number of commodities put under the 4 and 12.5 per cent rates, the revenue impact of VAT in Uttar Pradesh will be determined. The larger the number of commodities placed under the higher rate, particularly of high value added nature, the larger would be the revenue benefit to the state. Uttar Pradesh should endeavour to develop such a structure over the medium term, where the exemptions and the 4 per cent rate items are limited and most commodities are taxed at 12.5 per cent. A full-fledged information system, encompassing trade flows among dealers and processing it for purposes of assessing proper tax liabilities and input tax rebates, needs to be established.

Experience in other states has shown that lowering of stamp duty rates can have a significant positive impact on tax revenue generated from this source, especially when accompanied by credible valuation procedures of properties. In an earlier study, the Uttar Pradesh Resource Mobilisation and Taxation Reforms Committee (1996) had observed that high rates of stamp duty, complicated and non transparent system of registration, paucity of stamps, lack of rational and scientific system of valuation, requirement of large number of no objection certificates (NOCs) and absence of efficient executive machinery are some of the reasons for extensive evasion and avoidance of stamp duty. State excise duties are undoubtedly a potentially high-yielding source for larger revenue mobilisation.

16.3.3 Non-tax Revenues: Overall Stagnation but Some Recent Gains

Rate revisions led to gains in the royalties on minerals in recent years, but revenue from forests declined sharply in relative terms. With most forests falling on the side of Uttaranchal, forestry would no more be a significant source of non-tax revenue for Uttar Pradesh.

There are four non-tax revenue sources, which together account for 64 per cent of the total non-tax revenues. These are: interest receipts, receipts from the general services, receipts from education, sports, and culture in social services, and receipts from royalties from minerals in the category of economic services. Considered together, own non-tax revenues of UUP have steadily fallen relative to GSDP, as already indicated in Table 16.2. There is a relative fall in the ratio even after the formation of a separate state.

Over 1987-88 to 1999-00, relating to UUP, interest receipts grew at the TGR of 7.17 per cent and receipts from education, sports, art and culture grew at the TGR of 14.9 per cent while revenues from major and medium irrigation grew at a TGR of 7.72 per cent per annum (Table 16.10). After the formation of the new state, the share of interest receipts in total non-tax revenues has increased. Receipts from the general services showed a growth of above 7 per cent in 2002-2003, and mineral royalties including fees and rents showed a growth of above 41 per cent. In the case of royalties, this higher growth is the result of revision of royalty rates and payment of arrears. In fact, between 1992-93 and 1993-94, and again between 1993-94 and 1994-95, the amounts received had nearly doubled. This trend has continued in Uttar Pradesh.

The importance of forestry and wildlife, has come down in Uttar Pradesh. Revenues from this source have come down in absolute terms from Rs. 160.52 crore in 1999-00 to about Rs. 86.27 crore in 2002-03. As a result, the relative importance of this source in total non-tax revenues has gone down from 25.84 to 5.63 per cent during 1987-88 to 2002-03. In the case of forestry and wildlife, revenues, just as in many other states, have stagnated after the Supreme Court decision linking felling of trees to scientific management of forests. Since most forests were in Uttaranchal, the remaining forests in Uttar Pradesh are likely to make only a small contribution to its non-tax revenues. The profile of non-tax revenues in terms of the relative shares of the major sources and their respective growth rates are given in Table 16.10. It is also shown that the share of interest receipts in non-tax revenues fell from 26.90 to 8.71 per cent in 2002-03. Table 16.10 indicates that the largest contribution to non-tax revenue is from the Economic Services group. At the same time, Social Services as a whole have recorded the highest trend growth rate (13.88 per cent) over the 13-year period prior to reorganisation. The share of economic services in non-tax revenues has gone down in 2002-03 as compared to 1999-00.

TABLE 16.10

Structure and Growth of Non-Tax Revenues

(in Per Cent)

	Share			TGR
	1987-88	*1999-00*	*2002-03*	*1987-88 to 1999-00*
Interest Receipts	26.90	5.06	8.71	7.17
Dividends and Profits	0.91	0.36	0.51	5.45
General Services	26.69	20.63	20.55	7.48
Social Services of which:	12.34	18.38	23.48	13.88
Education, Sports, Art and Culture	5.39	8.51	16.67	14.89
Others	6.95	9.86	6.81	12.96
Economic Services of which:	46.20	55.58	46.74	11.40
Forestry and Wildlife	25.86	9.93	5.63	3.68
Major and Medium Irrigation	4.40	2.48	5.88	7.72
Mineral Concession Fees, Rents and Royalties	1.09	11.14	16.94	41.06
Road and Bridges	1.99	1.50	1.17	9.05
Others	12.86	30.52	17.11	10.55
Total Non-Tax Revenue (Rs. Lakh)	**38983**	**161683**	**153156**	**12.76**

Source (Basic Data): *Finance Accounts of Uttar Pradesh*.

Note: Interest receipts excludes contra entries in irrigation. Receipts from lotteries are taken net of payments.

In the Economic Services group, while at the beginning of the period, the sale of timber and other forest produce contributed the largest share, by the end of 1993-94 the Mineral Concession Fees, Rents and Royalties had become the largest contributor to non-tax revenues. This may, in part, be due to certain discrete revisions in the royalty rates. In the Social Services group, Secondary Education has continued to be the largest contributor in terms of fees collected.

Table 16.11 shows interest recoveries as percentage of loans and advances. Not only are the recovery rates low, but these have also fallen over time. A similar pattern is indicated with reference to state government

TABLE 16.11

Recovery of Interest on Loans and Advances and Dividend Returns on Equity Investments of the Government of Uttar Pradesh

(Rs. Crore)

Year	*Loans and Advances*	*Interest Receipts**	*Interest Receipts as % of Loans and Advances*	*Equity Invested*	*Dividend Received*	*Dividend as % of Equity Investment*
1	*2*	*3*	*4=3/2 in %*	*5*	*6*	*7= 6/5 in %*
1987-88	4763.20	104.88	2.202	1083.15	0.77	0.071
1988-89	4967.09	23.81	0.479	1214.77	0.19	0.016
1989-90	5230.59	52.14	0.997	1376.38	0.02	0.002
1990-91	5709.90	56.46	0.989	1396.03	0.28	0.020
1991-92	6371.61	38.00	0.596	1427.34	0.45	0.031
1992-93	7769.85	103.40	1.331	1691.99	3.15	0.186
1993-94	9195.85	69.80	0.759	1711.16	2.66	0.156
1994-95	10263.79	138.73	1.352	1994.92	2.23	0.112
1995-96	11907.36	154.70	1.299	2027.94	0.23	0.011
1996-97	12817.95	150.41	1.173	2112.48	0.37	0.018
1997-98	14159.60	133.18	0.941	2367.87	0.05	0.002
1998-99	15444.01	56.25	0.364	2357.72	4.46	0.189
1999-00	17596.20	81.77	0.465	2413.59	5.05	0.209
2000-01	18218.86	66.53	0.365	3962.89	6.27	0.158
2001-02	18379.63	59.15	0.322	4033.27	6.24	0.155
2002-03	18964.83	133.45	0.704	9049.70	7.26	0.080

Source (Basic Data): Finance Accounts of Uttar Pradesh.

Note: *Interest receipts excludes contra entries.

TABLE 16.12

Revenue Expenditure and Receipts from General and Social Services

(Rs. Crore)

Year	*General Services**			*Social Services*		
	Expenditure	*Receipts*	*Ratio of Receipt to Expenditure (Per Cent)*	*Expenditure*	*Receipts*	*Ratio of Receipt to Expenditure (Per Cent)*
1987-88	927.58	104.03	11.215	1766.48	48.12	2.724
1988-89	1144.16	158.68	13.869	2200.11	39.80	1.809
1989-90	1529.30	193.26	12.637	2905.25	89.47	3.080
1990-91	1746.60	211.62	12.116	3392.91	69.71	2.055
1991-92	2067.51	463.51	22.419	3441.38	94.43	2.744
1992-93	2474.09	605.19	24.461	4047.64	153.25	3.786
1993-94	2946.47	855.21	29.025	4053.08	64.29	1.586
1994-95	3387.04	1034.10	30.531	4681.25	81.97	1.751
1995-96	4099.84	1318.69	32.164	5499.08	101.55	1.847
1996-97	3363.93	193.69	5.758	6374.19	142.54	2.236
1997-98	4056.85	191.74	4.726	7501.42	166.03	2.213
1998-99	4194.87	333.42	7.948	8882.30	221.77	2.497
1999-00	4843.70	333.37	6.883	8677.02	297.13	3.424
2000-01	5539.37	261.72	4.725	9217.96	325.63	3.533
2001-02	5566.68	333.60	5.993	9336.59	283.24	3.034
2002-03	5772.03	314.77	5.453	10308.04	359.63	3.489
2003-04 RE	6374.42	413.53	6.487	11813.76	272.81	2.309
2004-05 BE	7667.45	498.93	6.507	11574.73	180.85	1.562

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Documents* (2004-05) of Uttar Pradesh.

Note: *Excluding Interest Payments (2049) and Pension & Other Retirement Benefits (2071). These two together have increased from Rs. 814 crore in 1987-88 to Rs. 15619.84 crore in 2004-05.

TABLE 16.13

Revenue Expenditure and Receipts on Economic Services

(Rs. Crore)

Year	*Economic Services*			*Total Services**		
	Expenditure	*Receipts*	*Ratio of Receipt to Expenditure (Per Cent)*	*Expenditure*	*Receipts*	*Ratio of Receipt Expenditure (Per Cent)*
1987-88	1513.98	180.10	11.896	4208.04	332.25	7.896
1988-89	1904.34	253.20	13.296	5248.61	451.68	8.606
1989-90	1966.73	258.04	13.120	6401.23	540.77	8.448
1990-91	2762.80	192.22	6.957	7902.30	473.55	5.993
1991-92	2711.14	222.59	8.247	8220.03	781.53	9.508
1992-93	3411.20	341.24	10.004	9932.93	1099.68	11.071
1993-94	3517.58	438.37	12.462	10517.13	1357.87	12.911
1994-95	3503.74	390.47	11.144	11572.03	1506.54	13.019
1995-96	3634.84	511.87	14.082	13233.76	1932.11	14.600
1996-97	4216.14	495.66	11.756	13954.26	831.89	5.962
1997-98	4276.24	443.14	10.363	15834.51	800.91	5.058
1998-99	4820.77	481.41	9.986	17897.94	1036.60	5.792
1999-00	5752.35	898.55	15.621	19273.07	1529.05	7.934
2000-01	5572.03	822.69	14.765	20329.35	1410.04	6.936
2001-02	5349.73	620.33	11.596	20253.00	1237.17	6.109
2002-03	5883.21	715.84	12.167	21963.27	1390.23	6.330
2003-04 RE	18878.24	736.17	3.900	37066.42	1422.51	3.838
2004-05 BE	6461.62	728.53	11.275	25703.81	1408.31	5.479

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Document (2004-05)* of Uttar Pradesh.

Note: *Equals the sum of General [excluding Interest Payments (2049) and Pension & Other Retirement Benefits (2071)], Social and Economic Services.

investments. State government investment in UUP more than doubled between 1987-88 and 1999-00. There has also been an increase after the formation of Uttar Pradesh. The dividend receipts have been extremely volatile up to 1997-98 but thereafter there has been a steady increase. However the rates of return on the equity invested, even in the best year (1999-00) is less than 0.2 per cent (it being less than 0.1 per cent in most years between 1987-88 and 1998-99) indicating an extremely low rate of return. The government of Uttar Pradesh has recently decided to control and abolish budgetary support to state government undertakings.

An analysis of the revenue receipts relative to current costs (revenue expenditure) in General (other than interest payments and pensions), Social and Economic Services (Tables 16.12 and 16.13) reveals that while there had been some improvement in this ratio in the early nineties, the effort seems to have lost steam by the middle of the decade. In fact, for all the broad services aggregates, this ratio had fallen to below 1987-1988 levels, showed some signs of recovery in 1999-00 but thereafter the trend seems mixed.

It is thus clear that not only a significant portion of current costs remain unrecovered, but also the relevant percentage of recovery has steadily come down over the years, pointing out to the growth of expenditures without corresponding growth in non-tax revenues. This necessitates an examination of implicit subsidies, which is discussed in a later section (16.3.4).

16.3.4 Resource Transfers from the Centre: Debilitating Fall

Resource transfers from the Centre to UUP fell significantly both because transfers relative to GDP fell for all states, and also the share of UUP in the transfer to states fell during the nineties. There has been some improvement in recent years.

As given earlier in Table 16.2, resource transfers from the Centre to Uttar Pradesh fell during the period under review. Table 16.14 shows that the share of UUP in total central transfers to states fell from 14.42 per cent in 1987-88 to 12.30 per cent in 1998-99 after a peak in 1992-93 at 16.56 per cent. It marginally increased to 13.75 per cent in 1999-00. It reached 14 per cent in 2001-02 but declined to below 13 per cent in the subsequent year. In 2003-04 RE, it is estimated to improve to 14.5 per cent. Disaggregation into the components of central transfers reveals that the contribution of share in central taxes has increased while that of grants has declined. This is due to the

TABLE 16.14

Composition of Central Transfers

(Per Cent)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Central Transfers									
Share in Central Taxes	66.51	61.87	69.10	53.28	54.08	53.73	56.91	60.11	69.32
Article 275(1) Grants	3.08	1.57	1.69	13.03	11.74	11.83	12.74	13.67	10.51
Plan Grants	30.07	34.42	27.73	32.42	31.42	32.60	29.37	25.26	19.95
Other Non-Plan Grants	0.34	2.14	1.48	1.26	2.76	1.84	0.98	0.96	0.21
Total Grants	33.49	38.13	30.90	46.72	45.92	46.27	43.09	39.89	30.68
Total Transfers (Rs. Crore)	2712	2882	3351	4371	5094	6369	6282	6626	7347
Total Transfers/GSDP	7.06	6.27	6.39	7.04	7.04	8.06	7.30	6.57	6.46
Share of Uttar Pradesh in all State Rev. Transfs.	14.42	13.89	15.27	15.71	15.43	16.56	14.54	14.68	14.44
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
Central Transfers									
Share in Central Taxes	72.96	77.29	72.94	74.18	73.66	75.57	82.42	72.74	77.56
Article 275(1) Grants	4.68	1.12	4.06	0.00	1.29	0.00	0.29	0.00	0.00
Plan Grants	22.15	21.29	22.75	22.58	23.44	21.06	14.34	20.48	17.72
Other Non-Plan Grants	0.22	0.30	0.26	3.24	1.61	3.36	2.95	6.78	4.72
Total Grants	27.04	22.71	27.06	25.82	26.34	24.43	17.58	27.26	22.44
Total Transfers (Rs. Crore)	8404	9281	7994	10082	10530	13475	13137	17205	19274
Total Transfers/GSDP	6.18	6.34	4.88	5.73	5.82	7.14	6.47	7.53	7.48
Share of Uttar Pradesh in all State Rev. Transfs.	14.34	12.54	12.30	13.75	11.75	14.05	12.91	14.51	NA

Source: Finance Accounts of Uttar Pradesh and *Budget Document (2004-05)* of Uttar Pradesh.
Indian Public Statistics 2003-04, Ministry of Finance, Department of Economic Affairs, Economic Division.

fact that, while both shares in central taxes and central grants declined as a percentage of GSDP, the fall in grants was steeper. While revenue augmentation will serve to restore Uttar Pradesh's fiscal health, expenditure restructuring is also critically important as discussed in the next section.

16.4 Expenditures: Growth of Committed Expenditures

16.4.1 Trends in Revenue Expenditures

Interest payments and pensions are growing much faster than GSDP and revenues. The share of economic services in total revenue expenditure has fallen by more than 10 percentage points during the nineties; and that of social services, by a little more than 2 percentage points.

The structure of revenue expenditures has undergone a significant change during 1987-88 to 2002-03. In considering the expenditure trends, it is appropriate to consider the period up to 1999-00, while Uttar Pradesh was undivided as distinct from the period afterwards. As per the TGR estimated over the period 1987-88 to 1999-00 (Table 16.15), interest

TABLE 16.15

Growth Profile of Revenue Expenditure: A Disaggregated Analysis

(Per Cent Per Annum)

	Trend Growth Rates 1987-88 to 1999-00	*Annual Growth Rates 2002-03**
General Services	18.64	-3.68
Interest Payment	20.68	-14.12
Pension	26.27	15.03
Others	14.98	3.69
Social Services	13.66	10.40
Education	14.41	0.41
Medical and Public Health	11.70	18.24
Family Welfare	8.17	3.68
Other Social Services	13.85	38.07
Economic Services	10.65	13.07
Irrigation	10.98	35.28
Roads and Bridges	10.54	25.76
Others	10.39	5.65
C. & A. to Local Bodies	29.34	25.50
Total Expenditure	**15.19**	**3.99**

Source: *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

Note: *Growth for 2001-02 is not relevant because the previous year related to the old state for part of the year. Growth rate for 2003-2004 RE is also not comparable because of one-time adjustments in the power sector, both on the revenue and capital accounts.

payments grew by about 21 per cent per annum, while pension payments grew by about 26 per cent per annum on an average. Revenue expenditure on education grew by 14 per cent, while that on medical and public health grew by about 12 per cent per annum. Expenditure on economic services grew at a TGR of about 11 per cent. The growth in expenditure was thus dominated by the growth in interest payments and pensions. There was a fall in the growth of interest payments after the bifurcation, because of a fall in the nominal interest rates. The pre-emptive claims of committed expenditures of interest payments and pensions is also clearly brought out by the changes in the structure of revenue expenditure indicated in Table 16.16. The share of interest payment in total revenue expenditure increased from about 14.2 per cent in 1990-91 to more than 23 per cent in 1999-00, and that of pensions increased from 2.52 per cent to more than 7 per cent, during the same period. Correspondingly, the shares of social services and economic services have both gone down, the latter by a much larger margin of about 10 percentage points.

TABLE 16.16

Changing Structure of Revenue Expenditure of Uttar Pradesh

(Per Cent)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
General Services	34.94	34.19	35.81	34.22	37.80	37.42	38.53	42.76	46.06
Interest Payment	14.34	13.63	14.29	14.20	17.53	17.06	17.27	21.59	19.71
Pension	2.48	2.57	2.39	2.52	3.00	3.96	3.48	3.48	4.29
Others	18.12	18.00	19.13	17.50	17.26	16.40	17.78	17.69	22.07
Social Services	36.51	36.81	39.86	37.09	35.28	33.83	33.16	32.72	32.60
Education	19.78	21.26	25.57	22.99	20.62	20.95	19.29	20.04	20.05
Medical and Public Health	5.85	5.81	5.59	5.16	4.90	4.97	5.59	4.54	4.67
Family Welfare	2.16	1.98	1.80	1.63	1.49	1.20	1.96	1.73	1.29
Water Supply and Sanitation	2.22	2.31	1.98	2.22	1.73	1.48	1.58	1.58	1.52
Other Social Services	6.50	5.44	4.91	5.08	6.52	5.23	4.74	4.83	5.06
Economic Services	27.35	28.33	23.83	27.52	25.12	26.72	26.45	22.85	19.71
Irrigation	6.05	5.95	5.93	4.78	5.69	6.28	5.81	6.43	5.96
Roads and Bridges	2.10	2.46	1.71	2.14	2.09	1.66	2.43	1.89	1.57
Others	19.21	19.92	16.19	20.60	17.34	18.78	18.21	14.54	12.18
C. & A. to Local Bodies	1.20	0.67	0.51	1.16	1.80	2.03	1.85	1.66	1.62
Total Expenditure	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
General Services	44.07	44.86	44.73	47.46	49.57	50.89	47.31	39.26	54.43
Interest Payment	21.51	21.47	21.46	23.11	24.38	25.86	21.43	20.42	26.82
Pension	4.74	4.82	6.95	7.27	7.08	7.52	8.35	6.77	9.68
Others	17.82	18.57	16.32	17.08	17.12	17.51	17.52	12.07	17.92
Social Services	33.76	34.34	34.56	30.60	30.15	29.37	31.29	22.38	27.05
Education	20.52	19.21	22.30	20.15	20.02	19.01	18.42	12.62	15.30
Medical and Public Health	4.57	5.03	3.96	3.72	3.74	3.43	3.92	3.07	3.89
Family Welfare	1.55	1.48	0.84	0.76	0.87	0.83	0.83	0.98	1.27
Water Supply & Sanitation	1.59	2.42	1.54	1.10	0.98	1.52	0.82	1.33	1.23
Other Social Services	5.54	6.20	5.92	4.87	4.54	4.57	7.31	4.38	5.37
Economic Services	20.59	17.97	17.31	18.90	16.73	15.54	16.90	35.29	14.34
Irrigation	5.86	4.79	4.11	2.72	2.88	2.73	3.55	1.29	1.66
Roads and Bridges	1.56	1.41	1.23	1.53	1.73	1.71	2.07	1.03	1.22
Others	13.18	11.77	11.97	14.64	12.12	11.10	11.28	32.97	11.46
C. & A. to Local Bodies	1.58	2.83	3.40	3.04	3.55	2.96	3.58	2.62	3.45
Total Expenditure	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: *Finance Accounts of Uttar Pradesh* and *Budget Documents*.

There is sharp increase in the ratio of interest payment to total revenue expenditure in post-division years. By 2001-02, it had increased to about 26 per cent. After some decline, it is estimated at about 27 per cent in 2004-05 BE. This together with a pension payment of 9.7 per cent, nearly 37 per cent of the revenue expenditure is claimed by interest payments and pensions only.

However, as shown in Figure 16.3, the ratio of interest payment to revenue deficit in Uttar Pradesh is lower than that of a number of the NSC states. Figure 16.4 shows plan expenditure as a percentage of plan outlay for Uttar Pradesh relative to other NSC states. Uttar Pradesh's performance is shown to be worse than states like Andhra Pradesh, Tamil Nadu, West Bengal and Kerala but better than most other NSC states.

16.4.2 Capital Expenditures: Steady Fall

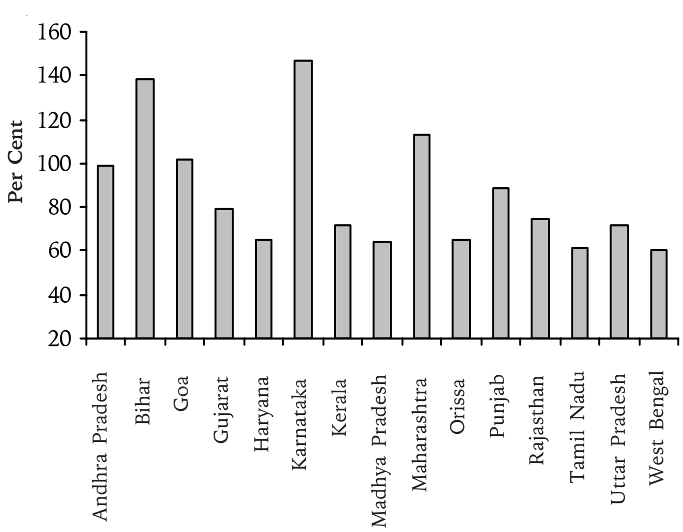
The burden of adjustment of falling revenue receipts fell significantly on capital expenditures, which have steadily declined relative to GSDP. Most of this decline was in capital outlay.

In the pre-division years, capital expenditure as a per cent of GSDP declined from 3.51 to 2.19 during 1987-1988 to 1999-00. Most of this decline was in capital outlay that fell from 2.72 per cent of GSDP in 1987-88 to 1.35 per cent in 1999-00 (Table 16.2). Table 16.17 shows year-wise growth rates for different components of capital expenditure indicating considerable volatility. The TGRs over 1987-88 to 1999-00 show that the capital outlays grew sluggishly as compared to the other components. In considering growth rates in the post-division years, growth rates in 2003-04 RE jumped up because of one time capital outlay as part of power sector restructuring. Even prior to that, capital expenditure shows volatile growth.

Table 16.18 shows changes in the composition of capital expenditure and highlights the fall in the share of capital outlay which declined from about 51.62 per cent of total capital expenditure in 1987-88 to 42.67 per cent in 1999-00. On the other hand, repayments continued to accelerate claiming an increasing share of total capital expenditures and peaking in 1998-99 with a share of 63 per cent in capital expenditure. This trend has been further strengthened in the post-division years.

FIGURE 16.3

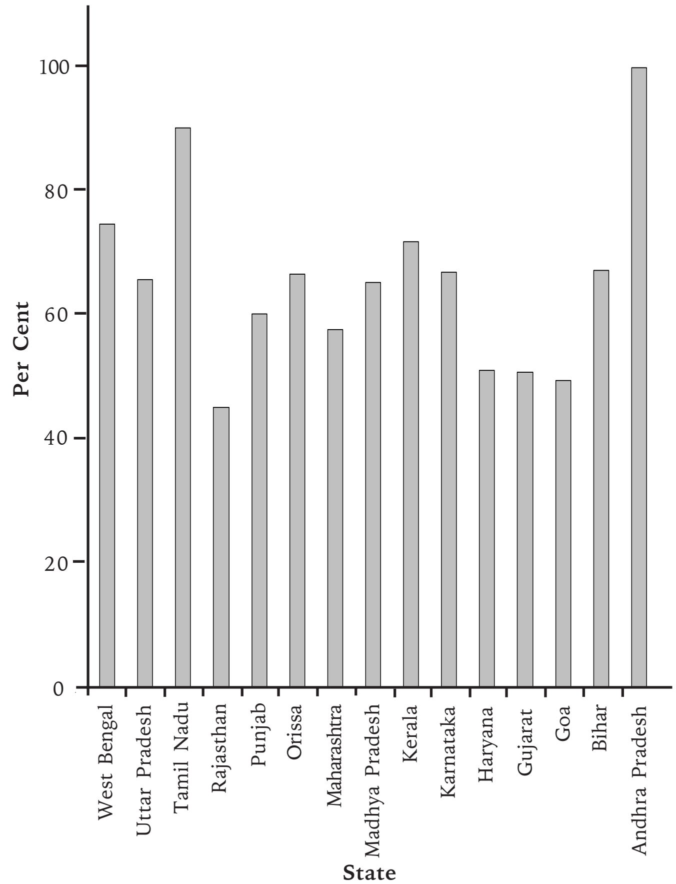
Interest Payment as % of Revenue Deficit: Uttar Pradesh in Comparison to NSC States



Source: Reserve Bank of India Bulletin, *State Finances: A Study of Budgets*, various years.

FIGURE 16.4

Plan Expenditure as % to Plan Outlay: NSC States



Source: Reserve Bank of India Bulletin, *State finances: A Study of Budgets*, various years.

TABLE 16.17

Growth of Capital Expenditure: A Disaggregated Analysis

(Per Cent Per Annum)

	1988-89	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*
Capital Outlay	-12.01	4.05	21.16	-39.39	77.98	-25.29	18.02	0.82	27.10
Loans and Advances	43.43	17.07	99.26	54.37	-5.72	-20.69	109.40	-57.20	47.56
Repayment of Loans and Advances	-21.33	45.89	104.56	18.33	-30.95	67.87	-21.26	-17.73	-31.33
Capital Expenditure (Net of Rep.)	0.43	8.22	48.22	4.29	20.27	-22.80	68.77	-39.16	37.02
Total Capital Expenditure	**-6.85**	**18.86**	**67.76**	**10.23**	**-2.99**	**6.50**	**22.91**	**-32.17**	**9.97**
	1998-99	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*	*TGR 1987-88 to 1990-00*	
Capital Outlay	25.74	20.81	28.98	8.81	6.72	213.41	-58.87	7.29	
Loans and Advances	-0.62	-1.63	-41.70	-42.70	52.81	89.14	-57.90	12.73	
Repayment of Loans and Advances	259.82	-70.80	11.50	44.29	85.20	50.33	-30.28	11.30	
Capital Expenditure (Net of Rep.)	12.79	11.09	1.88	-2.49	12.66	191.68	-58.76	9.07	
Total Capital Expenditure	**98.45**	**-40.40**	**4.84**	**12.83**	**43.05**	**115.03**	**-47.96**	**10.31**	

Source (Basic Data): *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

TABLE 16.18

Composition of Capital Expenditure

(Per Cent)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Capital Outlay	51.62	48.76	42.68	30.82	16.95	31.10	21.82	20.95	31.14
Loans and Advances	14.92	22.98	22.63	26.88	37.65	36.59	27.25	46.42	29.29
Repayment of Loans and Advances of which:	33.46	28.26	34.69	42.30	45.40	32.32	50.94	32.63	39.58
Central Loans	17.95	20.17	18.93	11.74	10.99	11.96	12.72	11.11	17.73
Internal Debt	15.51	8.09	15.75	30.55	34.41	20.36	38.22	21.52	21.84
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04 RE*	*2004-05 BE*
Capital Outlay	35.99	33.22	21.05	42.67	52.49	50.62	37.76	55.04	43.51
Loans and Advances	39.30	32.10	16.08	26.54	14.76	7.49	8.00	7.04	5.70
Repayment of Loans and Advances of which:	24.72	34.68	62.87	30.80	32.75	41.89	54.23	37.92	50.80
Central Loans	18.81	17.42	10.04	18.90	24.57	20.40	36.20	31.93	37.70
Internal Debt	5.91	17.26	52.84	11.90	8.18	21.49	18.03	5.99	13.10
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: *Finance Accounts of Uttar Pradesh* and *Budget Documents* (2004-05) of Uttar Pradesh.

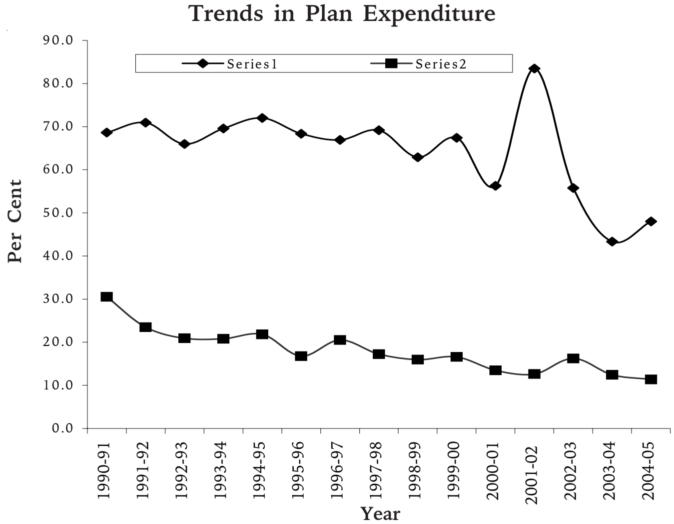
16.4.3 Plan Expenditure: High Revenue Intensity

High revenue intensity in plan expenditures of over 65 per cent indicates that plan schemes have relatively large salary expenditure. At the same time, the share of plan revenue expenditure has been falling in total revenue expenditure.

Trends in plan expenditure point out to two disturbing features: (i) high and unacceptable revenue intensity, and (ii) falling plan revenue expenditure as proportion of non-plan revenue expenditure (Figure 16.5). In the post-division years, there has been a fall in the share of plan revenue expenditure to total plan expenditure. There has also been a fall in the ratio of plan expenditure to non-plan revenue expenditure. Table 16.19 provides a profile of growth of plan and non-plan revenue expenditures, as also plan capital outlay. The ratio of plan revenue expenditure to total plan has also been indicated for the decade of the nineties and beyond. This ratio has been in the range of 62 to 72 per cent up to 1999-00. It may be recalled that the desirable ratio is only 30 per cent in relation to which the grant–loan proportions of plan assistance were determined in the Gadgil Formula. In the post-division years, plan revenue intensity fell. It is estimated to be 48 per cent in 2004-05 BE. As such, there has been an improvement in the composition of plan expenditure in the post-division years. The high revenue-intensity only reflects the relatively large salary expenditures in the plan schemes. Table 16.19 also indicates that the TGR of plan revenue expenditure was 7.84 per cent whereas that for non-plan revenue expenditure was 14.21 per cent. It is because of the much higher growth of the latter, that the ratio of plan to non-plan revenue expenditure fell from 30.55 per cent in 1990-91 to about 16 per cent in 1998-99. In 1999-00, there was an improvement in this ratio, but it is still nearly 14 percentage points below that in 1990-1991.

FIGURE 16.5

Trends in Plan Expenditure



Note: Series 1: Revenue Plan Expenditure as % of Total Plan Expenditure
Series 2: Plan Revenue Expenditure as % of Revenue Non-Plan Expenditure.

16.4.4 Structure of Government Employment

Control on growth in number of government employees will provide necessary reduction in growth of committed expenditure that is needed for carrying fiscal correction required in the Fiscal Responsibility and Budget management Act (FRBMA).

Immediately prior to the bifurcation of the state, according to a statement brought out by the Uttar Pradesh Government, regarding approved posts and

TABLE 16.19

Trends in Plan Expenditure in Uttar Pradesh

(Rs. Crore)

Year	*Plan Revenue Expenditure*	*Non-Plan Revenue Expenditure*	*Plan Capital Outlay*	*Total Plan Col. (2+4)*	*Plan Revenue Expenditure as % of Total Plan*	*Plan Revenue Expenditure to Non-Plan Revenue (%)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1990-91	2267.03	7421.17	1035.65	3302.68	68.64	30.55
1991-92	1977.02	8422.18	809.67	2786.69	70.95	23.47
1992-93	2196.8	10493.94	1133.88	3330.68	65.96	20.93
1993-94	2285.72	10994.41	1000.44	3286.16	69.56	20.79
1994-95	2763.54	12660.12	1074.69	3838.23	72.00	21.83
1995-96	2524.44	15031.42	1168.39	3692.83	68.36	16.79
1996-97	3267.94	15939.76	1614.48	4882.42	66.93	20.50
1997-98	3262.62	18932.41	1455.64	4718.26	69.15	17.23
1998-99	3589.8	22485.05	2118.59	5708.39	62.89	15.97
1999-00	4090.39	24657.34	1976.44	6066.83	67.42	16.59
2000-01	3686.01	27346.6	2862.28	6548.29	56.29	13.48
2001-02	3564.66	28215.25	706.98	4271.64	83.45	12.63
2002-03	3574.82	29363.68	3361.38	6936.20	51.54	12.17
2003-04 RE	4627.49	48170.58	6041.25	10668.74	43.37	9.61
2004-05 BE	4364.69	38421.02	4725.52	9090.21	48.02	11.36
TGR (1990-00)	7.835	14.206	9.728			

Source: *Reserve Bank of India Bulletin on State Finances* (various issues).

employees actually in position, as on April 1, 2000, there were 804480 approved posts and 687031 positions were actually occupied. Table 16.20 below lists all departments where the number of approved positions is more than 10000.

Table 16.20 indicates that in terms of actual employees the highest percentage share is that of the home department (police) followed by agriculture and allied activities, medical and public health, followed by the revenue department. Irrigation also has a large share of about seven per cent. There is considerable variation in the ratio of actual to approved employment across departments. The lowest of these ratios is for forestry and the highest is for the home department.

TABLE 16.20

Staff Strength in the Departments of State Government as on April 1, 2000

Departments	*Approved*	*Actuals*	*Actuals Per Cent of Approved*	*Per Cent Share in Total Approved*	*Per Cent Share in Total Number of Employees Actual*
Home (Police)	187447	175619	93.690	23.30	25.56
Law and Justice	22810	20042	87.865	2.84	2.92
Revenue	78600	68207	86.777	9.77	9.93
Public Works	40386	35734	88.481	5.02	5.20
Education	37667	30135	80.004	4.68	4.39
Medical and Public Health	106965	89237	83.426	13.30	12.99
Agriculture and Allied Activities	145478	117948	81.076	18.08	17.17
Forestry	11797	8209	69.585	1.47	1.19
Irrigation	52841	45650	86.391	6.57	6.64
All Others	132286	104459	78.965	16.44	15.20
Total	**804480**	**687031**	**85.401**	**100.00**	**100.00**

Source (Basic Data): *Uttar Pradesh Budget 2000-01*, Volume 6.

A more recent data indicates that the total number of approved posts, covering both gazetted and non-gazetted posts, as on April 1, 2003 in different departments is 892839.

16.4.5 Subsidies as Unrecovered Costs

Cost recoveries are dismally low at 4 per cent of estimated costs in social and economic services. The estimated unrecovered costs amounted to 10 per cent of GSDP in 1998-99. There is scope for increasing user charges in various services provided by the government.

Although considerable subsidies are paid out, very few are shown explicitly in the state budget. In order to obtain an idea of unrecovered costs or implicit subsidies, we need to calculate the cost of providing services.

The state government provides an extensive range of social and economic services, which are private in nature, some of which may have significant positive externalities, but the cost recoveries are dismally low. In calculating the costs, a distinction is made between current costs and capital costs. The current costs consist of the revenue expenditure on a Major Head from which the following items are deducted: transfers to individuals and net transfers to funds. The capital costs are annualised capital costs obtained by applying a depreciation rate along with the effective cost of borrowing on capital assets in departmental services and by applying the effective cost of borrowing on accumulated equity investment and loans extended by the government. The methodology for estimating depreciation costs is given in Srivastava and Amar Nath (2001). An earlier NIPFP study, with 1993-94 as the reference year, estimated that unrecovered costs amounted to 10.56 per cent of the GSDP for the state. In the present study, a similar estimate for 1998-99 shows unrecovered costs as a little less than 10 per cent per cent of GSDP.

As shown in Table 16.21, the aggregate recovery rate is 4 per cent. The aggregate subsidies amount to a little more than Rs. 17100 crore which is 10 per cent of GSDP and marginally less than 66 per cent of revenue expenditure. This pertains to 1998-99 for which a comparative study of state level subsidies was done by the NIPFP. Table 16.22 shows the relative share of individual services in total unrecovered costs. The highest share is in the education sector among the social services. In the economic services, agriculture and allied activities, irrigation and flood control, energy and transport are the main services responsible for the bulk of unrecovered costs.

A break-up of the total estimated subsidies indicates that more than 49 per cent of subsidies are in social services and 51 per cent in economic services. The recovery rate in social services is 2.15 per cent whereas that in the economic services was 5.73 per cent. These recovery rates are extremely low and indicate scope for

TABLE 16.21

Estimates of Unrecovered Costs: 1998-99

(Rs. Crore)

	Cost	Unrecovered Cost	Recovery Rate	Unrecovered Cost as Per Cent of		
				Revenue Expenditure	GSDP	Fiscal Deficit
Social Services	8598	8413	2.15	32.26	4.93	50.58
Economic Services	9229	8700	5.73	33.37	5.09	52.31
Total	**17827**	**17113**	**4.00**	**65.63**	**10.02**	**102.89**
Memo Items						
GSDP 1998-99 (at Current Prices)			171767			
Revenue Expenditure			26075			
Fiscal Deficit			16633			

Source: Srivastava, D. K., C. Bhujanga Rao, Pinaki Chakraborty and T. S. Rangamannar (2003). *Budgetary Subsidies in India: Subsidising Social and Economic Services*, National Institute of Public Finance and Policy, March.

increasing user charges in various services provided by the government. Table 16.23 shows that the recovery rates are extremely low with respect to even current costs. In social services these are just 2.31 per cent and that in economic services 13.17 per cent. In sectors like agriculture and irrigation and transport there is much scope for improvement.

The relative shares of subsidies (Table 16.22) in the economic services group indicates that agriculture accounts for 16 per cent of the subsidies, irrigation accounts for 15 per cent and transport a little more than 6 per cent. On the social services, the highest claims on subsidies are from the education sector. About 60 per cent of the total subsidies on general education are on elementary education. Considering that elementary education is considered a high merit good, there is little scope for increasing fees in this sector. Secondary education, university and higher education and technical education offer greater scope for increasing cost recoveries. These account for more than 13 per cent of the total social sector subsidies. Medical and public health also account for about five per cent of the subsidies, of which 4 per cent are on medical services. Thus, nearly 18 per cent of the subsidies on the social services and nearly 40 per cent of the subsidies on the economic services constitute areas where there is much scope for increasing the recovery rates.

TABLE 16.22

Relative Share of Individual Services in Total Unrecovered Cost

(Per Cent)

Social and Economic Services	*Relative Share in Total Unrecovered Cost*	*Social and Economic Services*	*Relative Share in Total Unrecovered Cost*
Social Services	**49.16**	Information and Broadcasting	0.18
General Education	31.15	Welfare of SCs, STs, & Other BCs	4.43
Elementary Education	18.55	Labour and Employment	0.41
Secondary Education	9.70	Social Welfare and Nutrition	1.34
University and Higher Education	2.38	**Economic Services**	**50.84**
Other General Education	0.53	Agr., Rural Dev. & Allied Activi.	15.91
Technical Edu., Sports, Art and Culture	1.02	Irrigation and Flood Control	15.09
Medical and Public Health	5.08	Energy	10.08
Public Health	0.98	Industry and Minerals	3.15
Medical	4.10	Transport	6.33
Family Welfare	1.02	Science, Tech. and Environment	0.04
Water Supply and Sanitation	2.44	General Economic Services	0.24
Housing	0.74		
Urban Development	1.33	**Social and Economic Services**	**100.00**

Source: Srivastava, D. K., C. Bhujanga Rao, Pinaki Chakraborty and T. S. Rangamannar (2003). *Budgetary Subsidies in India: Subsidising Social and Economic Services*, National Institute of Public Finance and Policy, March.

TABLE 16.23

Major Head-wise Unrecovered Costs: 1998-99

(Rs. Crore)

Social and Economic Services	*Cost*			*Receipts*	*Receipts/Total Costs*	*Receipts/ Current Costs*
	Current	*Capital*	*Total*			
Social Services	7996	602	8598	185	2.15	2.31
General Education	5379	43	5422	91	1.67	1.68
Elementary Education	3173	1	3174	0	0.01	0.01
Secondary Education	1725	23	1749	88	5.06	5.12
University and Higher Education	391	17	409	2	0.48	0.51
Other General Education	90	1	91	0	0.06	0.06
Technical Education, Sports, Art and Culture	139	47	186	11	5.78	7.75
Medical and Public Health	782	121	902	33	3.66	4.23
Public Health	164	5	169	2	1.25	1.30
Medical	618	115	733	31	4.22	5.00
Family Welfare	162	23	185	11	5.82	6.66
Water Supply and Sanitation	396	23	419	1	0.13	0.14
Housing	13	118	131	4	3.05	31.23
Urban Development	143	87	230	2	0.84	1.35
Information and Broadcasting	31	3	34	3	10.36	11.35
Welfare of SCs., STs., and Other BCs.	625	134	758	0	0.01	0.01
Labour and Employment	83	0	83	12	14.95	14.95
Social Welfare and Nutrition	244	3	247	17	6.95	7.03
Economic Services	4017	5213	9229	529	5.73	13.17
Agriculture, Rural Dev. and Allied Activities	2249	679	2928	205	7.00	9.11
Irrigation and Flood Control	1317	1349	2666	85	3.17	6.42
Energy	0	1765	1765	40	2.29	*
Industry and Minerals	82	613	695	156	22.42	190.05
Transport	317	790	1107	23	2.11	7.38
Science, Technology and Environment	7	0	7	0	0.00	0.00
General Economic Services	45	16	62	20	32.90	44.85
Social and Economic Services	**12013**	**5814**	**17827**	**714**	**4.00**	**5.94**

Source: Srivastava, D. K., C. Bhujanga Rao, Pinaki Chakraborty and T. S. Rangamannar (2003). *Budgetary Subsidies in India: Subsidising Social and Economic Services*, National Institute of Public Finance and Policy, March.

Notes: Surplus sectors if any are not included.
*Current budgetary costs are nil.

16.5 Fiscal Management: Predictive Performance of Budget Estimates

An efficient budgetary system is at the core of an efficient fiscal intervention in the national or state level economy. Such a system should be transparent and consistent with state-level and macro considerations that may require effective limits on revenue deficits and borrowing. It should also augment the efficacy of fiscal intervention at the state level in providing public goods like general administration and law and order, merit goods like education and health, and needed private goods and services that cover areas like irrigation and agriculture.

16.5.1 Estimation Errors: Summary Indicators

Comparisons of budget estimates with corresponding realisations show large errors. The average estimation error in the case of revenue deficit was 361 per cent of the actual during 1990-91 to 1999-00.

An essential aspect of sound fiscal management is reliability of budget estimates. However, Uttar Pradesh, like several other states, shows large margins of estimation errors. In this chapter, the predictive quality of nine major fiscal indicators is analysed. These are: own tax revenues, own non-tax revenues, share in central taxes, plan revenue expenditure, non-plan revenue expenditure, capital receipts, capital expenditure, revenue deficit, and fiscal deficit. This analysis incorporates information up to 1999-00 for the calculation of prediction errors. The latter years cannot be used because of non-comparability with the earlier years.

Often there are large divergences between budget estimates, revised estimates and actuals. This is true of central government as well as many state governments. Many a times, systematic biases of underestimation and overestimation have been noted. Errors also creep in because of misprediction of the relevant economic prospects including that of GSDP growth as well as growth of central revenues. Improvement in the predictive accuracy of budget estimates would make these more reliable.

Two summary indicators are used to describe predictive accuracy on average over the period 1990-91 to 1999-00. These are root mean square error (RMSQ) and Theil's inequality coefficient (I). These are defined as:

$$RMSQ = [\Sigma (P_t - A_t)^2/n]^{1/2}$$

$$I = [\Sigma (P_t - A_t)^2/\Sigma A_t^2]^{1/2}$$

where P stands for budget estimates and A stands for corresponding actuals.

Both indices use the square of the prediction error implying that overestimates and underestimates are considered equally bad. The Root Mean Square Error (RMSQ) shows the average size of the error, whether positive or negative, over the sample period. The 'I' co-efficient relates error to the actual level of realisations. The higher the magnitude of these summary statistics, the larger is the prediction error.

Table 16.24 gives the estimated values of these summary statistics describing prediction performance over the nineties. Looking at the inequality coefficient, it would appear that the worst prediction is that of revenue deficit, followed by fiscal deficit. The best predictions are those of tax revenues (own as well as share in central taxes). The quality of estimating own non-tax revenues in relative terms is much worse. Details of estimates are given in Annexure A-16.13.

TABLE 16.24

Predictive Quality of Budget Estimates

Variable	*RMSQ*	*I*
Own Tax Revenue	55575.3	0.0928
Own Non-Tax Revenue	35599.3	0.2229
Share in Central Taxes	32776.3	0.0655
Plan Revenue Expenditure	77233.4	0.2531
Non-Plan Revenue Expenditure	78680.0	0.0497
Capital Receipts	163286.2	0.1998
Capital Expenditure	98587.4	0.5784
Revenue Deficit	58384.6	2.7639
Fiscal Deficit	117193.3	0.0783

16.5.2 Analysis of Prediction Errors

There has generally been an underestimation of revenues on own tax and non-tax accounts up to 1996-97, and overestimation of non-plan expenditure up to 1995-96. Some of these trends have been reversed in the late nineties.

Cases where actuals turn out to be lower than estimates are instances of overestimation. In these cases, percentage errors would have a negative sign. On the other hand, cases where actuals are higher than corresponding budget estimates, percentage errors would appear with a positive sign. These are cases of underestimation. In comparative terms, estimation of own non-tax revenue, plan revenue expenditure, capital expenditure and revenue deficit, suffer from large errors in terms of deviations of actuals from budget estimates as percentage of actuals. The direction of error in selected variables is summarised in Table 16.25 and Appendix A-16.13.

Predictability in the estimations of receipts and expenditures, whether revenue or capital, has a salutary effect on the financial management of the government. Large deviations lead to inefficiencies in budget management and unnecessary recourse to ways and means advances.

TABLE 16.25

Observations on Nature of Errors

Own Tax Revenue	Overestimation since 1997-98; in previous years underestimation.
Own Non-tax Revenue	Generally underestimation.
Share in Central Taxes	Generally underestimation.
Plan Revenue Expenditure	Almost always overestimated; large margins of error after 1995-96.
Non-plan Revenue Expenditure	Overestimation in the early nineties; underestimation in the late nineties.
Capital Receipts	Overestimation in the mid-nineties; underestimation in recent years.
Capital Expenditure	Almost always overestimation; performance generally less than what is budgeted.
Revenue Deficit	Large margins of error, especially since 1996-97.
Fiscal Deficit	Well predicted in the mid-nineties; margins of error has increased in recent years.

The methodology of budget estimation should change. The general tendency to apply some growth factor to all budgeted magnitudes should be discontinued. The estimation methods should take into account the interdependence among fiscal variables. For example, interest payments should be related to outstanding debt stock. Pension expenditures need to be determined by properly working out the number of pensioners likely to join the pensioner stream in the budget year, and the likely increase in average pension, etc.

16.5.3 Budgeting Reforms

The existing budget system in Uttar Pradesh suffers from certain inadequacies. Some of the important deficiencies include:

(i) poor predictive accuracy of the budget and revised estimates;

(ii) lack of adequate framework for ensuring consistency with desirable medium term fiscal targets;

(iii) lack of capacity to undertake intra-year adjustments;

(iv) lack of suitable procedures for evaluating budgetary outcomes and impact on the state economy; and

(v) inadequate attention to accruals of claims and payments as well on assets and liabilities including contingent liabilities.

In evaluating budgetary outcomes, the concept of performance budgeting takes budgetary analysis beyond expenditures and attempts to link these to outputs and outcomes. Under a performance budget, governmental operations are divided into functions, programmes and activities. A function refers to: (i) major division of work of the government such as education, health agriculture, etc., (ii) programmes refer to broad categories within a function that identify projects or accomplishments in respect of the budgets of a function, (iii) activity consists of the collection of homogenous types of work in a programmes. The primary concern in a performing budget is to bring out end of objectives associated with the monetary allocation in the budget. It relates the costs of providing a service and the results and accomplishment in financial as well as physical terms. It would enhance the quality and impact of government expenditures, if performance budgeting is undertaken, in the first instance, for departments that spend more than five per cent of the total budget in a given year.

16.6 Fiscal Prospects

In this chapter, fiscal prospects for Uttar Pradesh are considered in the light of recent fiscal trends and the targets stipulated in the FRBM of 2004. The TFC recommendations would also have an important bearing on the state finances. The budget estimates for 2004-05 provide the latest available set of budget numbers for Uttar Pradesh. This may be used as the base year with some adjustments. Nominal magnitudes are studied relative to GSDP at current prices.

16.6.1 Fiscal Responsibility Act and Other Reform Initiatives

The fiscal situation of the state calls for multi-dimensional reforms, augmenting tax revenues with distortion-minimising tax reforms, reducing interest payments, curbing growth of government employment, introducing a new strategy for handling pension liabilities, revamping state level public enterprises, curbing contingent liabilities and bringing debt within sustainable limits.

16.6.1.1 Fiscal Responsibility Act

The Government of Uttar Pradesh (GoUP) enacted an FRBM (Act Number 5 of 2004) in February of 2004. (Annexure A-16.18). The Act aims at ensuring fiscal stability and sustainability while enhancing the scope of improving social and physical infrastructure as well human development. It emphasises, for this purpose, the need for achieving revenue surplus, reduction in fiscal deficit, and prudent management of debt. It envisages limits on fiscal and revenue deficits as well as government guarantees. It also places emphasis on the need for greater transparency and provides for a medium term fiscal framework. It specifically provides that the GoUP shall:

i. Reduce revenue deficit to zero by the end of 2008-09.

ii. Reduce revenue deficit as percentage of GSDP in each financial year beginning April 1, 2004 in a manner consistent with eliminating revenue deficit by 2008-09.

iii. Reduce fiscal deficit to not more than three per cent of GSDP by the end of 2008-09.

iv. Reduce fiscal deficit as a percentage of GSDP in each year beginning April 1, 2004 so as to achieve the target of reducing fiscal deficit to no more than three per cent of GSDP by 2008-2009; and to ensure that within a period of 14 financial years beginning from 2004-05, that is by 2017-18, the total liabilities of the state government do not exceed 25 per cent of GSDP of that year.

The guarantees are also to be limited as provided by appropriate Rules framed under the Act or any other suitable law or rule.

16.6.1.2 Other Recent Initiatives

The Government of Uttar Pradesh signed an MoU with the Government of India for initiating fiscal reforms in 1999-00. It also embarked upon a medium-term fiscal policy and accountability strategy, which was placed before the legislature in March 2000. Following the creation of Uttaranchal, this policy was subsequently amended and the new policy is called Medium Term Fiscal Restructuring Policy (MTFRP). This was supplemented by two legislations for reforms in the power sector and the public sector. The main steps, which have been taken under these policy reforms may be listed as follows:

i. The Uttar Pradesh State Electricity Regulatory Commission has been established. The Regulatory Commission has undertaken periodic tariff reviews.

ii. Trade Tax Act has been amended to check under-valuation of imported goods by the traders.

iii. Computerisation in commercial tax administration has been undertaken.

iv. Entry tax is also levied although only on those items where trade tax is not levied.

v. Motor vehicles tax for life time levy on personal four wheel vehicles has been converted from specific to *ad valorem* rates.

vi. Computerisation has been undertaken in the administration of stamps and registration duties.

vii. Certain user charges have been hiked up including power tariffs and higher and technical education.

viii. Floor rates in the case of trade tax were introduced.

ix. Trade tax incentives for attracting new investments have been abolished.

x. On the expenditure side, leave encashment facility to class I and class II employees has been withdrawn and foreign travels have been banned.

xi. Grants-in-aid to the secondary and higher secondary schools have been frozen at the 1998-1999 levels.

xii. A ban on new educational institutions for inclusion in the grant list was imposed.

xiii. Transfer of unspent money to personal ledger accounts has been stopped.

xiv. On the planning side, all departments have been asked to review existing schemes and scrap those schemes which are identified to be unproductive.

xv. The erstwhile Uttar Pradesh State Electricity Board was divided into three corporations, *viz*., Uttar Pradesh Rajya Vidyut Utpadan Nigam Ltd. for thermal generation; Uttar Pradesh Jal Vidyut Nigam Ltd. for hydro generation; and Uttar Pradesh Power Corporation Limited for transmission and distribution. There was a further division of the distribution companies for catering to the needs of different zones and serving as profit centres.

xvi. Under the reform of public enterprises, a Divestment Commission was constituted.

In many respects, the existing programme initiatives will have to be supplemented and strengthened. The foremost objective of fiscal reforms should be considered as achieving the targets of Uttar Pradesh's FRBMA. We have discussed below the important dimensions and feasible policy action for these reforms. We have drawn up a medium term fiscal profile for Uttar Pradesh's finances that ensures not only the achievement of the FRBMA targets but also sufficient increase in capital expenditure by the government aimed at strengthening infrastructure in the state, with a view to attracting investment and strengthening the growth pulse of the state economy.

16.6.2 Fiscal Reforms in the Medium-term

In this section, we examine the fiscal prospects for Uttar Pradesh under a medium-term correction path that is consistent with the targets of the FRBM of Uttar Pradesh up to 2008-09. An important input in these projections would be the impact of the recommendations of the Twelfth Finance Commission

(TFC) on the state finances. Equally important would be the macro-economic prospects of the country, particularly the performance of the Centre in regard to Central taxes and the success of the centre in achieving the targets of Centre's own FRBM and the related Rules.

It is shown that a desirable path of adjustment would promote growth of the state economy by facilitating an increase in capital expenditure focused on infrastructure, particularly state roads and the power sector. Equally important is human development in the state, which needs to be encouraged by emphasising expenditure on health and education. The adjustment that is required is an increase in revenue effort (revenue relative to GSDP) which should come from all the three major categories, namely, own tax revenues, own non-tax revenues, and transfers from the Centre. On the expenditure side, there is a need to reduce subsidies and containing the growth of salary expenditures. Most importantly, there is scope for reduction in interest payments because of the progressive reduction in the size of debt and the average cost of borrowing. The situation would improve progressively as the revenue and fiscal deficits are reduced and the debt-GSDP ratio falls.

In the context of the TFC recommendations, the following changes would be important for Uttar Pradesh's state finances:

i. The share of all states in the shareable pool of Central taxes including the additional excise duties has been increased for 29.5 to 30.5 per cent.

ii. Uttar Pradesh's share in the shareable pool of Central taxes has been increased from 19.137 per cent under the recommendations of EFC to 19.264 per cent under TFC recommendations.

iii. The state will be the recipient of earmarked grants for health and education as well as for the maintenance of roads and bridges, government buildings, and forests.

iv. Under TFC recommendations, grants meant for local bodies, natural calamities and state specific needs have also been increased. The details of various grants are given in Table 16.26.

v. Uttar Pradesh should be eligible for the restructuring of its debt to the Central government under the terms and conditions specified by the TFC. In particular, Uttar Pradesh already has an FRBM which provides for reducing the fiscal deficit of the state to 3 per cent of GSDP and eliminating the revenue deficit by 2008-09. The immediate benefit of restructuring should come in terms of reduction in the interest rate, which will be fixed at 7.5 per cent. Uttar Pradesh can also avail of the benefit of debt write-off under the proposed scheme, whereby the benefit is linked to the reduction in revenue deficit in absolute terms.

TABLE 16.26

Grants for Uttar Pradesh Recommended by the Twelfth Finance Commission

(Rs. Crore)

	2005-06	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*Total*
Health	367.63	409.90	457.04	509.60	568.21	2312.38
Education	736.87	806.87	883.52	967.45	1059.36	4454.07
Roads and Bridges	0.00	600.79	600.79	600.79	600.79	2403.16
Buildings	0.00	150.07	150.07	150.07	150.07	600.28
Forests	4.00	4.00	4.00	4.00	4.00	20.00
Heritage Conservation	0.00	12.50	12.50	12.50	12.50	50.00
State Specific Needs	0.00	200.00	200.00	200.00	200.00	800.00
Local Bodies Rural	585.60	585.60	585.60	585.60	585.60	2928.00
Local Bodies Urban	103.40	103.40	103.40	103.40	103.40	517.00
Calamity Relief	221.95	228.36	235.10	242.15	249.55	1177.11
Total	**2019.45**	**3101.49**	**3232.02**	**3375.56**	**3533.48**	**15262.00**

Source: *Report of the Twelfth Finance Commission*, 2005.

The Uttar Pradesh government came out with its 2005-06 Budget in February 2005, including the MTFRP. Neither the budget estimates nor the fiscal restructuring programme incorporate the likely impact of the TFC recommendations. The MTFRP is based on an implicit assumption of a growth rate of nine per cent per annum until 2008-09. Given that growth rate has picked up substantially in the economy as a whole, the assumed growth rate in MTFRP, as appended in the 2005-06 Budget documents, appears to be too low. In the projections given below, a nominal growth of 12 per cent per annum is assumed consistent with the TFC assumptions.

Table 16.27 provides a fiscal profile of adjustment until 2008-09, taking into account the impact of the main TFC recommendations. Its main features provide for supporting a higher growth through capital expenditure and investment in human development, particularly in health and education. It is assumed that the effective interest rate for the overall debt will fall substantially in 2005-06 to 8.5 per cent and continue to fall gradually after that until it reaches a level of 7.5 per cent in 2008-09. It is indicated that while capital expenditure and revenue expenditure on education and health should increase with respect to GSDP, other components of revenue expenditures are projected to fall relative to GSDP. Of particular importance is the fall in interest payments by a margin of a little more than one percentage point between 2004-05 and 2008-09.

TABLE: 16.27

Fiscal Adjustments in the Medium-term: A Suggested Path

(Per Cent to GSDP)

	2004-05	*2005-06*	*2006-07*	*2007-08*	*2008-09*
Own Tax Revenues	6.66	6.94	7.09	7.24	7.40
Own Non-tax Revenues	0.91	0.85	0.88	0.90	0.92
Transfers from the Centre	8.77	9.18	9.23	9.30	9.40
Share in Central Taxes	6.69	6.68	6.83	6.99	7.18
Non-Plan Grants	0.52	1.08	1.00	0.93	0.87
Plan Grants	1.56	1.42	1.40	1.37	1.35
Total Grants	2.08	2.50	2.40	2.30	2.22
Total Revenue Receipts	**16.34**	**16.98**	**17.19**	**17.44**	**17.72**
Interest Payments	4.63	4.10	4.00	3.64	3.52
Pensions	1.69	1.57	1.57	1.57	1.57
Other General Services	3.05	3.44	3.28	3.14	3.00
Total General Services	9.37	9.11	8.85	8.35	8.09
Education	3.20	3.58	3.83	4.11	4.40
Health	0.74	0.86	1.00	1.16	1.34
Other Social Services	2.14	1.75	1.71	1.66	1.62
Total Social Services	6.08	6.19	6.54	6.92	7.36
Total Economic Services	3.16	2.90	2.36	2.08	1.53
C. & A. to Local Bodies	0.78	0.78	0.77	0.76	0.74
Total Revenue Expenditure	**19.39**	**18.98**	**18.53**	**18.11**	**17.72**
Capital Outlay	2.08	2.40	2.28	2.55	2.82
Loans and Advances	0.27	0.32	0.32	0.31	0.31
Total Capital Expenditures	2.35	2.72	2.60	2.87	3.13
Non-Debt Capital Receipts	0.28	0.14	0.13	0.13	0.13
Fiscal Deficit	5.82	5.14	3.80	3.40	3.00
Revenue Deficit	3.05	2.00	1.33	0.67	0.00
Primary Deficit	1.19	1.04	-0.20	-0.24	-0.52
Outstanding Liabilities	56.27	55.97	54.35	52.50	50.44
GSDP	100.00	100.00	100.00	100.00	100.00

Source (Basic Data): Uttar Pradesh Budget Documents, *Report of TFC*, and projections.

The expenditure on education is projected to increase from 3.2 per cent of GSDP in 2004-05 to 4.4 per cent in 2008-09 and that on health from 0.74 per cent to 1.34 per cent. Capital outlay is allowed to increase by a margin of 0.74 percentage points during this period. These increases are consistent with reducing fiscal deficit from 5.8 per cent of GSDP in 2004-05 to 3 per cent in 2008-09. The revenue deficit is reduced from 3 percent of GSDP in 2004-05 to 0 in 2008-09. The ratio of outstanding liabilities including reserve funds and deposits, which stand at 56.3 per cent in 2004-05 will fall by a margin of 6 percentage points by 2008-09. This is mainly due to the emergence of a primary surplus in 2006-07. It will, however, take several more years for the debt-GSDP ratio to come down to the levels recommended by the TFC.

16.6.3 Reforming State Finances: 15-fold Reform Strategy

A 15-fold strategy of fiscal reforms relating to five areas of intervention is suggested for achieving Uttar Pradesh's FRBMA targets and strengthening the growth pulse of the state economy.

Fiscal reforms are suggested with a view to serving three primary objectives: (i) restoring revenue account balance and bringing debt and fiscal deficit to sustainable levels; (ii) increasing the productivity of government to serve growth and governance objectives better; and (iii) reducing the structural vulnerability of state finances, keeping in view the long-term prospects.

Given the FRBMA, a five-part 15-points strategy of fiscal reforms relating to five areas of fiscal management is suggested as detailed below.

16.6.3.1 Objectives and Overall Strategies

- Fiscal support to growth through investment in infrastructure and human development.
- Fiscal support to poverty alleviation through direct and indirect intervention.

16.6.3.2 Revenue Augmentation

- Implementation of VAT and rationalisation of the system of commodity taxation.
- Cost-related user charges for augmentation of non-tax revenues.

16.6.3.3 Expenditure Reforms

- Pension reforms.
- Salary and employment related reforms.

- Subsidy reforms.
- Capital expenditure augmentation.
- New plan strategy.
- Improving efficacy of government expenditure.

16.6.3.4 Fiscal Discipline and Budget Management

- Rule-based control of revenue and fiscal deficit according to FRBMA.
- Debt-related reforms including curbing of contingenment liabilities.
- Budgeting reforms.

16.6.3.5 Public Sector Reforms

- Strengthening power sector reforms.
- Reforming other (SLPEs) including disinvestment.

These reforms are individually discussed below. The basic reform needed in each case is also summarised in Table 16.28 at the end of this section.

16.6.3.1 Objective and Overall Strategies

Fiscal Support to Growth through Investment in Infrastructure and Human Development

State government has a critical role to play in sectors like health and education as also in developing physical infrastructure in sectors like roads, power and irrigation. It is investment in these sectors that will strengthen growth and attract investment from outside. With higher growth, the revenues accruing to the government will also increase. Expenditure has to be restructured such that capital expenditure is increased but focussed on the infrastructure, and revenue expenditure can also be increased in sectors like health and education. We recommend that the revenue expenditure on health and education taken together should increase at least by 1 percentage point of GSDP taking the revenue expenditure on these two sectors to well above 4.0 per cent of GSDP by 2008-09. Care should be taken to emphasise augmentation of non-salary expenditure in these sectors. Additional support to this sector should also come from an increase in capital expenditure.

Fiscal Support to Poverty Alleviation

Ranking among the higher poverty-incidence states in rural and urban poverty, according to the poverty estimates provided by the Planning Commission for 1999-00, Uttar Pradesh accounts for the largest number of poor in the country: about 31 per cent of the total number of rural and urban poor. This is far higher than the share of population of the combined state in total population. Apart from the benefits of growth on poverty alleviation, direct fiscal intervention is needed that may consist of state level employment generation schemes and capacity building in rural and urban areas through education and health.

16.6.3.2 Revenue Augmentation

Distortion Minimising Augmentation of Tax Revenues

Government should prepare for implementing VAT which should be revenue-neutral in the short-run and revenue-augmenting (with respect to GSDP) in the longer run.

As already discussed, sales taxes constitute the core of state taxes. With the introduction of uniform floor rates, and some reduction in exemptions, there has been higher growth in sales taxes in recent years. The following key tasks now need to be addressed:

- Implementation of VAT replacing existing sales taxes.
- Determining the revenue impact of the proposed structure of state VAT rates of 4 and 12.5 per cent suggested by the Empowered Committee.
- Revamping tax administration through simplification of forms and procedures.
- Comprehensive computerisation of tax administration.

After several rounds of discussion, the empowered committee of Finance Ministers has finalised its recommendations regarding the implementation of state level VAT. Accordingly, a *White Paper* (excerpts at Appendix A-16.14) on State Level VAT has been brought suggesting two core rate categories of 4 per cent and 12.5 per cent with some special rates. States are planning to embark upon this reformed regime and Uttar Pradesh should also join this initiative without reservations.

The share of the industrial sector in Uttar Pradesh is only about 22 per cent and a large part of output (GSDP) comes from services. For a better coverage of services at the state level, appropriate changes are required, enabling the states to share in this potentially large and growing tax base. Given the magnitude of the GSDP of the state economy, such changes would be especially beneficial. The Government of India, *vide* a constitutional amendment has placed taxation of services under Article 268A. This has taken the sharing of service tax raised by the Central government outside of the purview of recommendations of the Finance Commission. It is also up to the Centre to assign certain services for taxation by the states.

User Charges and Non-tax Revenues

Recoveries should be targeted relative to cost. In the first instance, targets can relate to current costs.

To garner additional revenues through non-tax sources, fees for a variety of general administrative services, and various user charges for publicly provided services should be brought under a reform regime. Fees and user charges should be linked to input costs, particularly current costs, for which estimates should be prepared for each department/service. Norms should be determined on a case to case basis for services. Maximum attention should be paid to the removal of inefficiencies in the system, which hike up the costs. Further, attention should be paid to the quality of services. With better quality, it is easier to persuade the users to pay a higher portion of costs as user charges.

Most user charges require legislative/departmental clearance for revision upwards. While input costs continuously increase, upward revisions of user charges are few and far between, giving rise to continuous rise in the implicit subsidy and/or fall in the quality/quantity of publicly provided services. Mechanisms should be put in place for automatic upward revision of user charges linked to an index of costs, which would need to be prepared separately for different services.

The state government particularly needs to look into the profile of user charges in relation to the costs of providing various general, social and economic services, particularly when the services are private in nature although publicly provided. Six areas need focused attention: education, health, agriculture, irrigation, power, and transport. An autonomous body in the nature of a user charges commission should be set up to determine the principles according to which user charges should be linked to costs. Such a regulatory body is already functioning in the case of the power sector. This body should also protect the interests of consumers by monitoring quality of services and suggesting ways and means for reducing inefficiencies in the governmental provision of private goods/services.

The GoUP needs to set up a User Charges Commission which should look after the user charges as well as other fees and tariffs except the electricity tariffs which are being looked after by the Uttar Pradesh Electricity Regulatory Commission. The user charges commission should be an autonomous body so that it can examine both the costs of providing services and the quality of services and then fix the rates and user charges accordingly. It should revise these charges periodically.

16.6.3.3 Expenditure Reforms

Pension Reforms

Pensions constitute an everincreasing fiscal liability. Pension reforms should be initiated to bring its budgetary costs under control.

In the context of pensions, new initiatives are needed. First, a Funded Pension Scheme with contributions from the employees, in the case of all new employees, should be brought in place. Secondly, the formula for commutation of a portion of pension entitlement should be revised taking into account the change in the interest rate from the period when the formula was originally worked out. In this context, the initiatives taken by the Central government and some states like Madhya Pradesh should be reviewed for adoption. The feasibility of keeping provident funds in a separate account should be examined. At present, transactions to and from provident funds to the budget are merely accounting entries. A separate public provident fund for state government employees would lead to greater transparency in transactions. Pension reforms would yield benefits only in the long-term perspective. These reforms however are needed to make state finances less vulnerable to exogenous decisions regarding pensions by making these self-sustaining.

Salary (Government Employment) Reforms

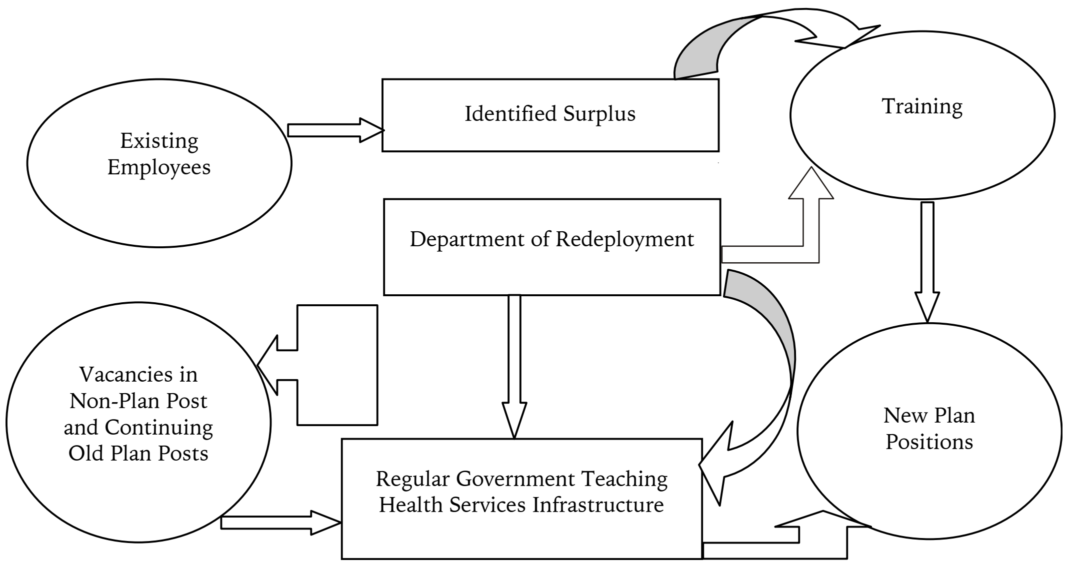
Salary related reforms, including reform in government employment strategy, should constitute the core of fiscal reform.

In order to contain the growth of salary bill, all posts that are presently vacant should be reviewed and a significant number of these should be abolished. In addition, a survey should identify department-wise surplus staff. Further, only a fraction of positions should be filled-up on superannuation of employees.

Reforms in management of government employment are critical to restoring Uttar Pradesh's state finances to health. This reform should consist of not only curbing the growth of employment in the government sector but also its productive redeployment. Although Uttar Pradesh has experimented with identification of surplus staff earlier also, it should now take this issue

FIGURE 16.6

Training and Redeployment



up at a much larger scale. As a first step, Department of Administrative Reforms should identify surplus staff in consultation with the concerned Ministry/ Department. These staff should be attached to the Department of Administrative Reforms or a newly created Department of Redeployment. Apart from regular salary, no other expenditures need to be incurred on this staff because they will have no duty other than waiting for redeployment. This should result in immediate savings. The next step is the process of redeployment. The Department of Redeployment should be keeping elaborate biodata of all such attached staff. No fresh appointments should be made without reference to the Department of Redeployment. More generally, all posts in the Tenth Plan should be filled up with such redeployable staff. Vacancies that arise due to retirement of staff from non-plan or continuing plan schemes should also be filled from this pool. The role of the Department of Redeployment and Training is explained in Figure 16.6. The issue of growth in the number of government employees should be freshly examined after the adjustment period in Uttar Pradesh's FRBMA, if the specified targets are successfully achieved.

Attempt should be made to arrange for adequate retraining of these staff so that their redeployability increases. Those who are willing and able can also be directed towards teaching and health administration jobs.

Subsidy Reforms

Subsidy reforms should lead to reduction in volumes, lower costs, greater transparency and better targeting.

Subsidy as a budgetary instrument of promoting social welfare has been overused, and sometimes abused, leading to inefficiencies. The cost of subsidies has generally been underestimated because most subsidies are hidden or implicit. In state budgets, only a very small fraction of subsidies is shown explicitly as subsidies. The state government should explicitly show its subsidies in the budget as much as possible, so that their volumes and continued validity may be discussed each year in the legislature. Many subsidies arise because the government may be participating in the provision of purely private goods where its presence is not warranted either economically or technologically. In the few areas like health and education, where subsidies are justified because of large externalities, government should rationalise the subsidy structure, so that subsidies are given more to the economically poorer sections. Subsidies should have a specific time span, after which its utility should be reassessed, and the duration revised; it should be withdrawn in stages. Subsidy reforms should be approached from both the expenditure and revenue sides. On the expenditure side, reducing costs of providing services by reducing operational inefficiency could reduce subsidies without affecting service levels. On the receipts side, one has to target higher recovery rates by linking prices (user charges) to costs. At first, these linkages may be fixed with reference to current costs. Input-linked user charges (already discussed), partial privatisation of generation and distribution (in electricity), proper metering, setting up bodies for autonomous tariff revisions in power and transport, fees for health and education, should lead to better cost recoveries, and lower implicit subsidies. The subsidy regime should be limited, transparent, and properly targeted.

New Plan Strategy

The planning strategy should emphasise not the plan size but its productivity. Projects should be selected on the basis of cost-benefit analysis; and potential contribution to output and non-government employment opportunities.

The planning strategy should be completely overhauled. As already noted, the revenue component of plan expenditures has become unduly large. A large part of that relates to salary expenditures. Plans have become scheme-based without a proper backing of cost-benefit analysis. Schemes became employment-intensive and employment generated only salary burdens without formation of productive assets and contribution to output. Salaries became exogenously driven and completely delinked to productivity. The consequence was that the plan, which was meant to be the core of development strategy, actually became a major fiscal liability. This adverse dynamics must be reversed by a paradigm shift in preparing a plan. The new plan must consist of a list of projects where each project is backed by a cost-benefit analysis and each project is ranked on a scale of contribution to output and contribution to non-government employment. The practice of determining plan size first, and then finding projects or schemes for the plan size as an after thought, must be reversed. Plan size should not be determined by the capacity of the state to borrow. Rather, it should be determined by the selection of such projects as can produce a rate of return higher than the cost of borrowing.

Capital Expenditure Augmentation

Capital expenditure relative to GSDP should be augmented, focusing on infrastructure, especially roads and bridges, power, and information technology.

Capital expenditure relative to GSDP should be increased by at least one percentage point of GSDP. This should be mainly on infrastructure capital outlay covering power, roads and bridges and information technology, especially communications and large bandwidth. Investment in infrastructure will lend support to higher GSDP growth.

16.6.3.4 Fiscal Discipline and Budget Management

Targeted Deficits

Management of deficits (revenue and fiscal) in annual budgets should be according to predetermined medium-term targets as prescribed by Uttar Pradesh's FRBMA.

The FRBMA has already prescribed targets for 2008-2009. It is essential to follow a path of annual adjustments so as to meet these targets. As fiscal deficit is reduced along a targeted path, and as interest rates have already been lowered on central loans, small savings, provident funds, etc., and as the market rates are also going down, it is expected that interest payments relative to GSDP would go down. This would facilitate adjustment for achieving FRBMA targets.

Management of Debt

A lowering of the debt-GDP ratio would help achieve reduction in revenue deficits by reducing interest payment liability.

The FRBMA has also provided for curbing the issuance of guarantees. Limits to guarantees should be fixed relative to GSDP. Further, the debt-GSDP ratio should be put on a path of successive reduction year after year until it reaches a sustainable level in the context of the achievable growth rate and the prevalent interest rate. The high-cost debt incurred in the late nineties may be prematurely retired using fresh borrowing at lower costs. The debt-swap scheme offered by the Central government has been useful in this regard. New borrowing agreements should provide for a 'put' option or flexible interest rates.

Budgeting Reforms

Budgeting reforms would augment efficacy of fiscal intervention.

The state should undertake budgeting reforms with a view to imparting greater transparency and control. Important elements should include the following:

i. There is need to formulate a medium-term fiscal policy. This may be done in the context of the FRBMA. This medium-term policy should be presented to legislature along with the budget.

ii. A separate schedule, indicating major head-wise number of employees, and salaries and allowances should be presented in the budget along with proposed reforms.

iii. Separate schedule on pensions and terminal benefit outflows along with number of pensioners. There should be an estimate of the likely pension bill for the next five years.

iv. A major head-wise schedule of subsidies, making as many subsidies explicit as possible.

v. A schedule of year-wise and project-wise outstanding guarantees (this has been initiated in Uttar Pradesh).

vi. Computerisation of budgeting methodology and procedures should be undertaken; and quarterly flows of receipts and expenditures also should be announced and monitored.

vii. Statement on the deviations between actuals and budget estimates should be presented, and an analysis of factors explaining the deviation should be undertaken leading to continuous improvement in estimation methodology.

16.6.3.5 Public Sector Reforms

SLPE reform should be a contextual combination of privatisation (disinvestment/outright sale) along with minimising budgetary implications of managing the power, transport and irrigation sectors whilst developing them.

Power Sector Reforms

In 1998, the GoI enacted the Electricity Regulation Commissions Act to set up Electricity Regulation Commissions both at the Centre and in the states to rationalise tariff, adopt transparency, promote efficiency and ensure fair rate of return to investors. As a sequel to this the Uttar Pradesh Electricity Reforms Act, 1999 was enacted. Accordingly, the Uttar Pradesh State Electricity Board (UPSEB) was reorganised into three corporations, *viz*., the Uttar Pradesh Power Corporation Ltd. (UPPCL) as a principal successor to the UPSEB, the Uttar Pradesh Rajya Vidyut Utpadan Nigam Ltd. (UPRVUNL) and the Uttar Pradesh Jal Vidyut Utpadan Nigam Ltd. (UPJVUNL).

The Expert Group headed by Shri MS Ahluwalia, in its report in May 2001 recommended, besides paring off the dues after verification, a one-time settlement of arrears through a scheme of writing off 50 per cent of the interest/surcharge arrears and securitising the balance interest and principal in long-term bonds. For future, SEBs will continue to get power facility from CPSUs on prompt payment without the backlog of arrears. The SEB's have to enter into an agreement with CPSUs to ensure regular power purchases. In the July 2001 report, the Committee recommended reforms, which involve huge investments for a Modified Accelerated Power Development Programme for the Tenth Plan. The Economic Survey of the GoI for 2001-2002 reported that in 2000-01 a new plan scheme known as the Accelerated Power Development Programme (APDP) was initiated to promote financial assistance to states to undertake renovation and modernisation programme of thermal and hydel power stations. The Uttar Pradesh Government signed an MoU with the Central government in this regard. The MoU is a joint commitment to undertake reforms in a time-bound manner. The Uttar Pradesh government, as part of agreed restructuring has made adjustments in the 2003-2004 Budget, which involved writing off debt as well as securitisation of some dues.

Since power is a key component of infrastructure, Uttar Pradesh must attract private sector players in all three fields, *viz*., generation, transmission, and distribution in the light of the new and recently announced electricity policy by the Central government. The private sector can play an effective role at least in the generation and distribution in the first instance.

Reforming Other SLPEs

Government should undertake a comprehensive disinvestment programme in respect of SLPE's other than power, particularly when these are unproductive.

Keeping in view the investments made by the state government over the years in its SLPEs, their lacklustre performance has become the biggest fiscal liability on state finances. The government must initiate comprehensive disinvestment and privatisation programme for SLPEs. Those that are beyond redemption and where there are no takers, should be closed down. The interest of employees should be protected by a VRS, which should largely be financed by sale of assets, including land, wherever feasible. A Disinvestment Committee under the Chief Minister should be set up to expedite the process.

16.6.4 Monitoring Process of Reforms and Mid-course Corrections

Once reforms decided upon and undertaken, a monitoring mechanism should be in place to a review their progress.

The progress of reforms needs to be monitored each year. As soon as deviations from the expected reform

TABLE 16.28

Fiscal Reforms: Actions and Targets

Sphere	Desired Action
Fiscal Support to the Growth	Invest in infrastructure, social and economic.
Fiscal Support to Poverty Alleviation	Short-term; state level employment generation scheme; medium-term; capacity enhancement through targeted expenditure on health and education in high poverty incidence districts.
Tax Revenues	Prepare for implementing VAT w.e.f. 1.4.2005.
Non-tax Revenues	Set up User Charges Commission: link rates of return to current costs in general social, and economic services; Commission should examine all fees, tariffs and user charges for government services, and establish a link with costs and quality.
Pension Reforms	For all new employees, introduce a funded pension scheme; for immediate relief on pension burden revise commutation rules (as in Madhya Pradesh).
Salary (Government Employment) Reforms	Set up a department of redeployment; identify surplus staff in all departments; introduce a VRS for surplus staff, which is not redeployed in one year; all new plan posts should be filled up only by the surplus on existing non-plan and plan side.
Subsidy Reforms	After prices are revised upwards for government services, desirable subsidies (health and education) should be given explicitly; other subsidies should be abolished.
Capital Expenditure Augmentation	Focus on infrastructure (health, education, power, and roads).
New Plan Strategy	Size of the plan should be de-emphasised; focus should be on plan productivity.
Power Sector	Facilitate private participation within the framework of new power policy.
Efficacy of Government Expenditure	More effective monitoring mechanism, improvement in the ratio of non-salary component of revenue Expenditure.
Public Sector Reforms	Disinvest extensively; close down unviable units; increase competition in power sector; set up a Disinvestment Committee; introduce VRS.
Revenue and Fiscal Deficits	Progress regarding UP's FRBMA targets should be monitored and annual targets should be fixed in the light of the medium-term targets.
Management of Debt	FRBMA in place specifying long-term debt-GSDP target. A target for 2008-09 should also be announced.
Budgetary Reforms	Capacity building in budget preparation; ongoing evaluation of quality of budget estimates.

path are observed policy corrections should be introduced immediately. An essential feature of reforms is that revenue deficit, as a percentage of revenue receipts, should decline by a margin of five percentage points or more each successive year. If this looks like slipping in a year, a corrective measure should be taken in the light of the relative efficacy of different policy measures in effecting revenue deficit.

Fiscal slippage could be from two sources. One, due to external circumstances beyond the control of the state government, and two, due to inadequate reform measures. The state government has less control on the revenue side as it depends on external circumstances affecting the economy. If slippage on the revenue side is encountered, it should be counter-balanced by an adequate expenditure side action. The expenditure side is largely under the control of the government except for interest payments and pensions. Harder action on the expenditure side could take the form of complete freezing of new recruitment, compulsory retirement of surplus staff, freezing of DA at current levels, freezing of grants to aided institutions at current levels, reduction in growth rate of non-salary expenditure, and reduction in subsidies. In all these cases action has already been contemplated in the reform scenario. Further action should be resorted to only in the case of revenue side slippage.

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APPENDIX A-16.1

Finances of Uttar Pradesh (Revenue Receipts): 1987-88 to 2004-05

(Rs. Crore)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Total Revenue Receipts (I+II+III)	**5090.4**	**5373.0**	**6258.6**	**7918.7**	**9030.3**	**10949.4**	**11072.8**	**12302.7**	**14529.0**
I. Total Tax Revenues (A+B)	3792.4	3848.8	4764.0	5490.9	6251.9	7308.1	7707.2	8861.2	10562.1
A. Own Tax Revenue	1988.7	2065.7	2448.6	3162.1	3497.4	3886.3	4132.0	4878.3	5468.9
Total Sales Tax	954.0	1090.2	1337.4	1680.4	1898.5	2021.0	2149.2	2605.4	2966.8
Sales Tax (Excluding CST)	879.4	993.9	1243.4	1560.4	1722.7	1874.5	2006.8	2437.2	2818.1
Central Sales tax	74.7	96.3	94.0	120.0	175.8	146.5	142.5	168.3	148.7
State Excise Duties	494.2	338.2	422.1	724.8	715.6	884.7	957.0	1104.6	1158.6
Taxes on Vehicles	51.1	89.8	79.3	85.4	93.0	103.0	98.5	108.1	125.5
Stamp Duty and Registration Fees	250.3	251.8	310.2	359.7	445.2	460.5	531.6	631.5	734.8
Other Taxes	239.0	295.7	299.6	311.8	345.1	417.2	395.6	428.6	483.3
B. Share in Central Taxes	1803.8	1783.1	2315.4	2328.8	2754.5	3421.8	3575.2	3982.9	5093.2
II. Non-tax Revenues	389.8	425.4	459.0	386.0	439.2	694.1	658.9	798.8	1713.2
Fiscal Services	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.1
Interest Receipts	104.9	23.8	52.1	56.5	38.0	103.4	69.8	138.7	154.7
Dividends and Profits	3.6	18.4	1.1	1.8	3.0	2.8	4.8	9.3	3.5
General Services	53.2	90.2	58.2	65.8	80.1	92.7	81.6	178.3	941.6
Social Services	48.1	39.8	89.5	69.7	94.4	153.3	64.3	82.0	101.6
Economic Services	180.1	253.2	258.0	192.2	223.6	341.2	438.4	390.5	511.9
III. Total Grants	908.1	1098.8	1035.6	2041.7	2339.2	2947.2	2706.7	2642.7	2253.7
Plan Grants	815.5	992.0	929.3	1417.1	1600.5	2076.4	1845.0	1673.5	1465.4
Non-Plan Grants	92.7	106.8	106.3	624.7	738.7	870.8	861.7	969.2	788.3
Adjusted Items as Contra Entries (a+b)									
a. State Lotteries	50.9	68.5	135.1	145.8	383.4	512.5	773.6	855.9	377.1
b. Interest Earning from Irrigation	190.7	210.7	229.5	245.6	260.9	214.3	285.0	234.7	309.1
Unadjusted Revenue Receipts	**5331.9**	**5652.2**	**6623.2**	**8310.1**	**9674.6**	**11676.2**	**12131.4**	**13393.2**	**15215.2**

	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02**	*2002-03*	*2003-04 RE*	*2004-05 BE*
Total Revenue Receipts (I+II+III)	**15700.0**	**17220.0**	**17007.0**	**21100.2**	**24284.7**	**25113.6**	**27439.3**	**32478.2**	**36876.7**
I. Total Tax Revenues (A+B)	12437.5	14172.0	13740.4	16879.8	20025.5	20519.3	23598.7	26303.0	31081.3
A. Own Tax Revenue	6306.0	6998.0	7910.1	9401.1	12268.8	10336.0	12770.7	13788.3	16131.9
Total Sales Tax	3473.2	3934.9	4457.7	5099.2	6118.4	6163.1	7123.7	7600.4	9000.0
Sales Tax (Excluding CST)	3331.2	3697.9	4275.4	4675.2	5519.2	5664.7	7121.2	7150.4	8486.2
Central Sales Tax	142.0	237.1	182.3	424.1	599.2	498.4	2.6	450.0	513.8
State Excise Duties	1322.9	1404.1	1631.3	2126.3	2238.5	1961.4	2555.0	2550.0	3000.0
Taxes on Vehicles	139.5	166.6	211.3	512.1	543.1	503.0	618.8	456.0	501.6
Stamp Duty and Registration Fees	875.1	956.0	1031.8	1177.6	1269.8	1429.3	2078.7	2230.0	2564.0
Other Taxes	495.3	536.3	578.0	485.9	2099.1	279.2	394.4	951.9	1066.3
B. Share in Central Taxes	6131.5	7174.1	5830.3	7478.7	7756.6	10183.3	10828.0	12514.7	14949.4
II. Non-tax Revenues	989.9	940.6	1103.3	1616.8	1486.0	1302.7	1531.6	1484.5	1470.6
Fiscal Services	0.8	0.7	4.3	0.1	0.7	0.0	0.0	0.0	0.0
Interest Receipts	150.4	133.2	56.3	81.8	66.5	59.2	133.5	56.1	56.5
Dividends and Profits	6.8	5.8	6.2	5.9	8.7	6.4	7.8	5.9	5.9
General Services	193.7	191.7	333.4	333.4	261.7	333.6	314.8	413.5	498.9
Social Services	142.5	166.0	221.8	297.1	325.6	283.2	359.6	272.8	180.8
Economic Services	495.7	443.1	481.4	898.6	822.7	620.3	715.8	736.2	728.5

Contd. ...

...Contd. ...

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
III. Total Grants	2272.6	2107.4	2163.2	2603.6	2773.2	3291.5	2309.0	4690.7	4324.8
Plan Grants	1861.1	1975.6	1818.3	2276.4	2468.0	2838.1	1883.8	3524.4	3415.1
Non-Plan Grants	411.5	131.8	345.0	327.2	305.2	453.4	425.3	1166.3	909.6
Adjusted Items as Contra Entries (a+b)									
a. State Lotteries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Interest Earning from Irrigation	328.6	351.2	371.7	394.9	0.0	0.0	0.0	0.0	0.0
Unadjusted Revenue Receipts	**16028.6**	**17571.1**	**17378.7**	**21495.1**	**24743.3**	**25597.9**	**27821.2**	**32860.1**	**37258.6**

Source: Finance Accounts of Uttar Pradesh and *Budget Document (2004-05)* of Uttar Pradesh.

Note: *Data pertains to divided Uttar Pradesh.

APPENDIX A-16.2

Structure of Central Revenue Transfers: 1987-88 to 2004-05

(Rs. Crore)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Total Transfers (I+II)	**2711.9**	**2881.8**	**3351.0**	**4370.5**	**5093.8**	**6369.0**	**6281.9**	**6625.6**	**7346.9**
I. Sharing of Central Taxes	1803.8	1783.1	2315.4	2328.8	2754.5	3421.8	3575.2	3982.9	5093.2
Income Tax other than Corporation Tax	462.6	489.2	713.1	691.9	858.0	1157.6	1311.3	1439.0	2008.7
Union Excise Duties	1324.2	1277.0	1587.9	1613.8	1873.4	2241.1	2240.8	2520.8	3025.3
Grants in Lieu of Tax on Railway Passenger Fare	17.0	17.0	14.4	23.2	23.2	23.2	23.2	23.2	59.2
II. Total Grants	908.1	1098.8	1035.6	2041.7	2339.2	2947.2	2706.7	2642.7	2253.7
Article 275(1) Grants	83.4	45.3	56.7	569.5	598.1	753.4	800.2	905.8	772.5
Plan Grants	815.5	992.0	929.3	1417.1	1600.5	2076.4	1845.0	1673.5	1465.4
Other Non-Plan Grants	9.3	61.5	49.6	55.1	140.6	117.4	61.5	63.4	15.8

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02*	2002-03	2003-04 RE	2004-05 BE
Total Transfers (I+II)	**8404.1**	**9281.5**	**7993.5**	**10082.5**	**10529.8**	**13474.9**	**13137.0**	**17205.3**	**19274.1**
I. Sharing of Central Taxes	6131.5	7174.1	5830.3	7478.9	7756.6	10183.3	10828.0	12514.7	14949.4
Income Tax other than Corporation Tax	2410.1	3761.0	2585.6	2948.2	@	@	@	@	@
Union Excise Duties	3662.3	3353.9	3185.5	4530.7	@	@	@	@	@
Grants in Lieu of Tax on Railway Passenger Fare	59.2	59.2	59.2	0.0	@	@	@	@	@
II. Total Grants	2272.6	2107.4	2163.2	2603.6	2773.2	3291.5	2309.0	4690.7	4324.8
Article 275(1) Grants	393.3	103.7	324.3	0.3	135.8	0.3	37.5	0.0	0.0
Plan Grants	1861.1	1975.6	1818.3	2276.4	2468.0	2838.1	1883.8	3524.4	3415.1
Other Non-Plan Grants	18.2	28.1	20.7	326.9	169.4	453.1	387.8	1166.3	909.6

Source: *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

Notes: *Data pertains to divided Uttar Pradesh.

@ Due to the Constitution Amendment the tax specific transfers have been stopped.

APPENDIX A-16.3

Finances of Uttar Pradesh (Revenue Expenditure): 1987-88 to 2004-05

(Rs. Crore)

	1987-88	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
I. General Services	**1690.5**	**2043.7**	**2610.2**	**3130.5**	**3687.6**	**4476.8**	**4709.5**	**6117.6**	**7771.0**
Interest Payment	693.8	814.6	1041.9	1298.9	1710.3	2041.6	2111.1	3088.6	3324.9
Pension	120.0	153.4	174.1	230.9	293.1	473.6	425.5	497.8	723.4
Police	328.4	411.3	522.7	644.1	672.5	778.2	873.5	987.2	1101.1
Election	3.7	5.2	26.2	9.8	31.6	15.0	28.6	86.2	108.7
Others	544.6	659.3	845.4	946.8	980.1	1168.4	1270.7	1457.8	2513.0
II. Social Services	**1766.5**	**2200.1**	**2905.2**	**3392.9**	**3441.4**	**4047.6**	**4053.1**	**4681.2**	**5499.1**
Education	957.1	1270.7	1863.6	2103.1	2011.9	2507.0	2358.1	2866.4	3383.2
Medical and Public Health	282.9	347.3	407.8	472.0	478.5	594.8	683.5	650.2	787.1
Family Welfare	104.4	118.6	131.6	149.4	145.8	143.0	239.4	248.0	218.1
Water Supply and Sanitation	107.6	138.2	144.3	203.3	168.8	176.5	193.4	225.7	256.6
Other Social Services	314.5	325.2	358.1	465.1	636.5	626.3	578.8	691.0	854.1
III. Economic Services	**1323.3**	**1693.6**	**1737.2**	**2517.2**	**2450.2**	**3196.9**	**3232.6**	**3269.0**	**3325.8**
Irrigation	292.5	355.4	432.6	436.8	555.1	751.2	709.9	919.1	1004.9
Roads and Bridges	101.4	147.3	124.5	195.9	204.0	198.8	297.2	270.4	265.7
Others	929.4	1190.9	1180.1	1884.5	1691.1	2246.9	2225.5	2079.5	2055.2
IV. C. and A. to Local Bodies	**58.1**	**40.1**	**36.8**	**106.3**	**175.7**	**242.7**	**226.4**	**237.5**	**273.8**
Total Expenditure (I+II+III+IV)	**4838.4**	**5977.6**	**7289.5**	**9146.9**	**9754.9**	**11964.0**	**12221.6**	**14305.4**	**16869.7**
Adjusted Items as Contra Entries (a+b)									
a. State Lotteries	50.9	68.5	135.1	145.8	383.4	512.5	773.6	855.9	377.1
b. Interest Earning from Irrigation	190.7	210.7	229.5	245.6	260.9	214.3	285.0	234.7	309.1
Unadjusted Revenue Expenditure	5079.9	6256.8	7654.0	9538.4	10399.2	12690.7	13280.1	15396.0	17555.9
	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02*	2002-03	2003-04 RE	2004-05 BE
I. General Services	**8319.4**	**9799.9**	**11497.7**	**13457.5**	**15155.2**	**16178.4**	**15582.7**	**20731.0**	**23287.3**
Interest Payment	4061.0	4689.3	5516.6	6553.1	7452.6	8220.0	7059.5	10782.8	11476.6
Pension	894.4	1053.7	1786.3	2060.7	2163.3	2391.7	2751.1	3573.8	4143.3
Police	1291.9	1589.2	1623.9	1765.0	1997.6	1944.2	2039.1	2256.8	2366.6
Election	86.0	81.0	23.6	64.1	35.6	66.0	37.1	38.4	77.5
Others	1986.0	2386.6	2547.3	3014.5	3506.2	3556.5	3695.8	4079.2	5223.3
II. Social Services	**6374.2**	**7501.4**	**8882.3**	**8677.0**	**9218.0**	**9336.6**	**10308.0**	**11813.8**	**11574.7**
Education	3873.6	4196.1	5731.4	5712.3	6119.3	6042.4	6067.1	6661.4	6544.3
Medical and Public Health	862.6	1099.6	1018.0	1054.6	1143.1	1092.0	1291.2	1621.3	1663.2
Family Welfare	292.4	322.3	215.9	215.5	267.1	264.1	273.8	519.4	543.5
Water Supply and Sanitation	299.5	528.3	395.3	312.8	300.8	484.7	268.7	699.6	525.3
Other Social Services	1046.0	1355.2	1521.6	1381.7	1387.6	1453.4	2407.3	2312.1	2298.5
III. Economic Services	**3887.6**	**3925.1**	**4449.0**	**5357.4**	**5113.4**	**4865.4**	**5501.3**	**18496.3**	**6079.7**
Irrigation	1105.6	1045.3	1056.3	771.1	881.1	853.7	1154.9	675.0	705.7
Roads and Bridges	294.2	308.1	316.8	434.7	527.5	536.5	674.7	541.1	515.3
Others	2487.8	2571.7	3075.9	4151.6	3704.8	3475.2	3671.6	17280.2	4858.6
IV. C. and A. to Local Bodies	**298.0**	**617.5**	**874.0**	**860.9**	**1084.6**	**927.9**	**1164.6**	**1375.1**	**1462.1**
Total Expenditure (I+II+III+IV)	**18879.2**	**21843.9**	**25703.1**	**28352.8**	**30571.2**	**31308.4**	**32556.6**	**52416.1**	**42403.8**
Adjusted Items as Contra Entries (a+b)									
a. State Lotteries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Interest Earning from Irrigation	328.6	351.2	371.7	394.9	0.0	0.0	0.0	0.0	0.0
Unadjusted Revenue Expenditure	19207.7	22195.0	26074.8	28747.7	31029.9	31792.7	32938.5	52798.1	42785.7

Source: *Finance Accounts of Uttar Pradesh* and *Budget Document (2004-05)* of Uttar Pradesh.

Note: *Data pertains to divided Uttar Pradesh.

APPENDIX A-16.4

Capital Account: 1987-88 to 2004-05

(Rs. Crore)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Capital Receipts (I+II)	**2504.90**	**2202.2**	**2848.4**	**5692.1**	**6489.7**	**4601.0**	**5576.9**	**5971.0**	**4413.3**
I. Recovery of Loans and Advances	103.0	176.7	36.1	365.2	187.0	68.6	117.4	838.6	151.7
II. Misc. Capital Receipts	2401.9	2025.50	2812.4	5326.9	6302.7	4532.4	5459.4	5132.3	4261.6
Capital Expenditure (I+II+III)	**2056.8**	**1915.8**	**2277.2**	**3820.3**	**4211.0**	**4085.2**	**4350.7**	**5347.3**	**3627.2**
I. Capital Outlay	1061.6	934.1	972.0	1177.6	713.8	1270.4	949.1	1120.1	1129.4
II. Loans and Advances	306.9	440.2	515.4	1026.9	1585.2	1494.6	1185.4	2482.2	1062.3
III. Repayment of Loans and Advances (i+ii*+iii)	688.2	541.4	789.9	1615.8	1912.0	1320.2	2216.2	1745.0	1435.6
i) Central Loans of which:	369.3	386.5	431.1	448.7	462.8	488.4	553.5	594.1	643.3
Small Savings Loans	0.0	0.0	0.0	11.2	30.0	46.7	70.9	105.4	146.0
ii) Internal Debt of which:	1041.5	181.1	748.2	2748.0	3719.2	1937.5	2689.7	1469.4	792.3
Ways and Means Advances	722.5	26.1	389.4	1580.9	2270.0	1105.7	1027.0	318.5	0.0
iii) Internal Debt Net of Ways and Means Advances	319.0	155.0	358.8	1167.1	1449.2	831.8	1662.7	1150.9	792.3

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02*	2002-03	2003-04 RE	2004-05 BE
Capital Receipts (I+II)	**5258.8**	**7003.7**	**17680.4**	**27586.8**	**24282.1**	**20486.8**	**24026.2**	**45261.3**	**14006.3**
I. Recovery of Loans and Advances	225.8	327.2	762.2	262.8	295.9	365.6	219.1	12937.5	660.5
II. Misc. Capital Receipts	6032.9	6676.5	16918.2	27324.0	23986.2	20121.2	23807.0	32323.8	13345.8
Capital Expenditure (I+II+III)	**3988.7**	**5019.9**	**9962.0**	**5937.6**	**6225.1**	**7024.0**	**10047.6**	**21605.0**	**11242.9**
I. Capital Outlay	1435.4	1667.6	2097.0	2533.3	3267.5	3555.6	3794.4	11892.1	4891.3
II. Loans and Advances	1567.5	1611.6	1601.6	1575.6	918.6	526.4	804.3	1521.3	640.5
III. Repayment of Loans and Advances (i+ii*+iii)	985.9	1740.7	6263.4	1828.7	2039.0	2942.1	5449.0	8191.6	5711.1
i) Central Loans of which:	750.1	874.3	999.9	1122.3	1529.7	1433.0	3637.5	6898.4	4238.7
Small Savings Loans	204.8	242.4	272.8	312.7	386.9	444.5	2528.3	5648.6	2817.2
ii) Internal Debt of which:	265.8	1587.9	8582.2	16171.5	17383.1	10247.8	14005.7	16293.3	11472.3
Ways and Means Advances	30.0	721.5	3318.7	15465.1	16873.9	8738.6	12194.3	15000.0	10000.0
iii) Internal Debt Net of Ways and Means Advances	235.7	866.4	5263.5	706.4	509.3	1509.2	1811.4	1293.3	1472.3

Source: (Basic Data) *Finance Accounts of Uttar Pradesh* and *Budget Document* (2004-05) of Uttar Pradesh.

Note: *Data pertains to divided Uttar Pradesh.

APPENDIX A-16.5

Structure of Debt: 1987-88 to 2004-05

(Rs. Crore)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Outstanding Debt (I+II+III)	**9187.8**	**10821.5**	**12811.6**	**15397.9**	**17869.2**	**20388.7**	**23009.2**	**26562.8**	**29976.1**
I. Internal Debt of the State Government	1871.3	2377.6	2876.4	3460.2	3816.9	4459.0	5445.9	5892.2	6596.2
Market Borrowing	1600.2	1965.7	2385.9	2862.5	3438.3	4016.2	4731.3	5517.0	6448.9
Ways and Means Advances	0.3	0.3	245.4	291.0	107.2	299.4	654.1	326.0	109.6
Others	260.9	402.4	235.9	298.8	252.9	124.9	40.6	41.1	29.2
II. Loans and Advances from the Central Government	6380.3	7331.8	8466.2	10012.5	11776.5	13240.9	14470.1	17092.7	19214.7
III. Small Savings Provident Funds, etc.	936.3	1112.1	1469.1	1925.2	2275.7	2688.8	3093.1	3577.9	4165.2

Contd. ...

...Contd. ...

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Other Obligations**	**2152.7**	**2514.3**	**3237.4**	**4001.6**	**4840.4**	**5816.5**	**6208.5**	**7920.0**	**9295.1**
Total (includes Reserve Funds and Deposits)	**11340.6**	**13335.9**	**16049.0**	**19399.5**	**22709.6**	**26205.2**	**29217.7**	**34482.9**	**39271.1**
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02**	*2002-03*	*2003-04 RE*	*2004-05 BE*
Outstanding Debt (I+II+III)	**34626.6**	**40007.5**	**48624.1**	**65135.2**	**61103.0**	**70191.8**	**78562.3**	**94362.5**	**103710.4**
I. Internal Debt of the State Government	8103.4	8997.1	11646.0	21319.9	22332.8	29449.0	36142.4	53620.1	61742.0
Market Borrowing	7480.8	8620.3	10439.8	12513.7	13384.6	15553.7	18334.2	0.0	0.0
Ways and Means Advances	433.8	0.0	570.6	2225.5	56.1	746.1	-30.7	0.0	0.0
Others	180.4	368.0	626.5	6571.8	8885.0	13141.7	17831.5	0.0	0.0
II. Loans and Advances from the Central Government	21724.6	25048.0	29735.1	35257.3	30589.7	31914.0	31634.4	28288.8	27846.7
III. Small Savings, Provident Funds, etc.	4798.6	5962.4	7243.0	8558.0	8180.5	8828.9	10785.5	12453.6	14121.7
Other Obligations**	**11261.2**	**12797.3**	**14100.9**	**15221.2**	**18281.9**	**21844.5**	**22977.0**	**28535.7**	**29586.3**
Total (includes Reserve Funds and Deposits)	**45887.8**	**52804.8**	**62725.0**	**80356.4**	**79384.9**	**92036.3**	**101539.3**	**112898.2**	**133296.7**

Source: *Finance Accounts of Uttar Pradesh* and *Budget Document (2004-05)* of Uttar Pradesh.

Notes: *Data pertains to divided Uttar Pradesh.

**Data for the years 2003-04 RE and 2004-05 BE has been obtained from other sources.

APPENDIX A-16.6

Outstanding Contingent Liabilities: 1987-88 to 2002-03

(Rs. Crore)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
Total Guarantees	**2012**	**2299**	**3222**	**3530**	**4257**	**4852**	**5135**	**5300**
Working Capital Raised by Uttar Pradesh Finance Corporation	12	12	12	12	12	299	338	338
Statutory Corporation and Bonds	827	1074	1586	1811	2205	2263	2447	2447
Government Companies	181	185	162	165	217	354	388	386
Cooperative Bank and Societies	920	975	1389	1469	1719	1755	1561	1651
Municipalities and Development Authorities	70	51	66	66	97	174	396	473
Other Institutions	2	2	7	7	7	7	5	5
	1995-96	*1996-97*	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02**	*2002-03*
Total Guarantees	**4723**	**4726**	**4726**	**5704**	**7421**	**7421**	**6997**	**6270**
Working Capital Raised by Uttar Pradesh Finance Corporation	338	338	338	338	338	338	781	781
Statutory Corporation and Bonds	2474	2483	2483	2636	3421	3420	285	256
Government Companies	494	494	494	982	1332	1333	2602	1565
Cooperative Bank and Societies	752	746	746	1036	1546	1547	3053	2946
Municipalities and Development Authorities	660	660	660	707	777	777	270	716
Other Institutions	5	5	5	6	6	6	5	5

Source: *Finance Accounts of Uttar Pradesh*.

Note: *Data pertains to divided Uttar Pradesh.

APPENDIX A-16.7

Schedule of Salary and Wages of Employees in Uttar Pradesh

(Rs. Lakh)

Department	*2002-03*			*2003-04 RE*		
	Non-Plan	*Plan*	*Total*	*Non-Plan*	*Plan*	*Total*
Excise	1.13	2148.88	2150.01	0.00	2855.63	2855.63
Housing	6.01	1099.63	1105.64	0.00	1235.16	1235.16
Industry (Small Industries and Export Promotion)	11.36	2845.88	2857.24	15.13	3326.77	3341.90
Industry (Minerals and Metals)	0.00	624.13	624.13	0.00	733.24	733.24
Industry (*Khadi* and Village Industries)	0.00	6.56	6.56	0.00	10.70	10.70
Industry (Handlooms)	0.00	400.82	400.82	33.76	503.43	537.19
Industry (Stationary and Printing)	0.08	3117.07	3117.15	0.00	3171.52	3171.52
Energy	0.00	506.01	506.01	0.00	616.85	616.85
Agri. and Other (Floriculture and Silk Promotion)	24.80	3410.79	3435.59	36.26	3884.68	3920.94
Agri. and Allied (Agriculture)	1021.35	17051.06	18072.41	759.99	21713.24	22473.23
Agri. and Allied (Land Dev. and Water Resources)	3898.11	0.00	3898.11	1200.33	0.00	1200.33
Agri. and Allied (Rural Dev.)	45.68	28831.83	28877.51	32.77	33217.80	33250.57
Agr. and Allied (*Panchayat Raj*)	30.54	38295.86	38326.40	11.71	43411.66	43423.37
Agri. and Allied (Animal Husbandry)	40.78	12242.56	12283.34	124.19	13988.94	14113.13
Agri. and Allied (Dairy Dev.)	1.36	584.17	585.53	0.00	609.87	609.87
Agri. and Allied (Fisheries)	0.44	1162.30	1162.74	7.69	1412.43	1420.12
Agri. and Allied (Cooperation)	25.58	2269.87	2295.45	0.00	2831.17	2831.17
Labour (Training and other Exp.)	0.00	19.41	19.41	0.00	93.34	93.34
Labour (Public Service Commission)	0.00	609.66	609.66	0.00	707.06	707.06
Food and Provisions	0.00	7923.96	7923.96	0.00	9643.43	9643.43
Sports	0.00	472.72	472.72	0.00	528.85	528.85
Sugarcane Dev. (Sugarcane)	3.80	4050.71	4054.51	0.00	4654.74	4654.74
Sugarcane Dev. (Sugar Industry)	0.03	441.53	441.56	0.00	494.47	494.47
Home (Jails)	2.16	5895.18	5897.34	0.00	6540.39	6540.39
Home (Police)	75.21	180526.08	180601.29	0.00	198417.45	198417.45
Home (Civil Defence)	99.88	2521.14	2621.02	0.00	3120.42	3120.42
Home (Political Pension and Other Retirement Benefits)	7.27	1794.35	1801.62	0.00	2093.04	2093.04
Vigilance (Governor Secretariat)	0.00	174.48	174.48	0.00	223.30	223.30
Vigilance (Directorate of Rev. Sp. Inform. and Other Exp.)	0.00	51.18	51.18	0.00	67.80	67.80
Health (Medical, Education and Training)	13.21	4473.33	4486.54	47.55	6349.38	6396.93
Health (Allopathy)	198.38	50579.09	50777.47	526.35	60075.18	60601.53
Health (Ayurveda and Unani)	27.83	10129.39	10157.22	0.00	12511.34	12511.34
Health (Homeopathy)	1.52	4543.25	4544.77	0.00	5588.75	5588.75
Health (Family Welfare)	25192.66	0.00	25192.66	36739.74	2135.66	38875.40
Health (Public Health)	466.61	14273.84	14740.45	43.68	15128.19	15171.87
Urban Development	0.48	380.49	380.97	0.96	440.49	441.45
Civil Aviation	0.00	247.51	247.51	0.00	261.74	261.74
Language	0.00	7.37	7.37	0.00	8.38	8.38
Planning	40.67	2580.39	2621.06	33.90	3278.72	3312.62
Election	0.00	661.72	661.72	0.00	837.61	837.61
Judiciary	869.65	21804.03	22673.68	1831.50	28775.18	30606.68
Transport	0.12	2284.95	2285.07	0.00	2645.91	2645.91
Tourism	12.75	336.09	348.84	63.79	370.24	434.03
Environment	0.00	54.26	54.26	0.00	60.93	60.93
Administrative Reforms	0.00	130.17	130.17	0.00	96.81	96.81

Contd. ...

...Contd. ...

Department	*2002-03*			*2003-04 RE*		
	Non-Plan	*Plan*	*Total*	*Non-Plan*	*Plan*	*Total*
Technical Education	45.50	2982.14	3027.64	95.89	3318.44	3414.33
Muslim Waqf	0.00	315.02	315.02	5.12	434.90	440.02
Women and Child Welfare	4190.07	1577.54	5767.61	4525.79	1767.28	6293.07
Revenue (District Admn.)	0.00	12842.04	12842.04	0.00	15302.52	15302.52
Revenue (Natural Calamities.)	0.00	2.09	2.09	0.00	2.77	2.77
Revenue (Revenue Council and other Exp.)	376.15	49374.68	49750.83	0.00	57748.13	57748.13
Public Works (Establishment)	0.00	35099.07	35099.07	59.53	40062.17	40121.70
Public Works (Directorate of Estate)	0.00	888.92	888.92	0.00	1049.19	1049.19
Forestry	0.35	9294.63	9294.98	0.00	10521.82	10521.82
Finance (Interest Payments and Servicing of Debt)	0.00	48.95	48.95	0.00	68.88	68.88
Finance (Treasury and Accounts Admn.)	0.00	3772.31	3772.31	0.00	4955.13	4955.13
Finance (State Lotteries)	0.00	54.99	54.99	0.00	54.53	54.53
Finance (Audit Accounts, Small Savings, etc.)	22.38	4360.54	4382.92	0.00	5421.11	5421.11
Finance (Group Insurance)	0.00	59.08	59.08	0.00	71.73	71.73
Vidhan Parishad Secretariat	0.00	445.31	445.31	0.00	556.28	556.28
Vidhan Sabha Secretariat	0.00	1038.09	1038.09	0.00	1085.13	1085.13
Education (Primary Education)	7.89	5310.66	5318.55	16.19	7104.10	7120.29
Education (Secondary)	89.51	21223.29	21312.80	254.41	23977.72	24232.13
Education (University and Higher Education)	30.06	3470.01	3500.07	120.22	4408.70	4528.92
Education (State Council and Education Training)	824.33	2134.27	2958.60	2363.38	1085.55	3448.93
Labour (Labour Welfare)	21.75	5893.40	5915.15	29.97	6557.93	6587.90
Labour (Employment Exchange)	44.23	5685.45	5729.68	24.50	7287.02	7311.52
Secretariat Admn.	6.34	9325.24	9331.58	10.24	10401.21	10411.45
Social Welfare (Disabled and BC Welfare)	2.50	469.22	471.72	8.35	571.58	579.93
Social Welfare (Social Welfare and SC Welfare)	23.22	2464.69	2487.91	0.00	2744.48	2744.48
Social Welfare (ST Welfare)	2.09	155.00	157.09	4.85	174.84	179.69
Vigilance	0.00	904.54	904.54	0.00	1082.86	1082.86
Social Welfare (Special Component Plan for SC's)	0.00	0.00	0.00	84.74	0.00	84.74
General Administration	0.00	119.84	119.84	0.00	0.00	0.00
Public Enterprises	0.00	104.27	104.27	0.00	118.99	118.99
Information	0.40	1127.41	1127.81	0.02	1355.36	1355.38
Army Welfare	10.96	451.49	462.45	0.00	544.38	544.38
Institutional Fin. (Directorate)	0.00	119.06	119.06	0.00	149.12	149.12
Institutional Fin. (Commercial Taxes)	0.00	13337.44	13337.44	0.00	14925.14	14925.14
Institutional. Fin. (Entertainment and Betting)	0.00	587.66	587.66	0.00	677.65	677.65
Institutional Fin. (Stamps and Registration)	0.00	1475.14	1475.14	0.00	1758.47	1758.47
Cultural	0.07	444.61	444.68	1.91	501.21	503.12
Irrigation (Establishment)	7381.39	41678.47	49059.86	7393.13	52407.11	59800.24
Total	**45198.64**	**670200.26**	**715398.90**	**56507.54**	**778925.32**	**835432.86**

Source: *Budget Document* (2004-05) of Uttar Pradesh, Vol. 2, Part 1, February 2004.

APPENDIX A16.8

Position of Loans Given by the State Government as on April 1, 2003

(Rs. Crore)

Description of Loans@	*Over Due as on 1.04.2002*		*Current Due (Year 2002-03)*		*Total Payable Amount (Year 2002-03)*	
	Principal	*Interest*	*Principal*	*Interest*	*Col. 1+3 Principal*	*Col. 2+4 Interest*
	1	*2*	*3*	*4*	*5*	*6*
Corporations and Municipalities	314.89	174.92	23.75	21.99	338.64	196.91
Town Area Committees	0.36	0.82			0.36	0.82
Notified Area Committees	0.12	0.30			0.12	0.30
District Boards	1.11	2.12			1.11	2.12
Improvement Trust and Development Board	330.60	14.06	6.76	3.71	337.36	17.77
Join Stock Companies	0.55	1.39			0.55	1.39
Cooperatives	115.00	28.03	3.30	7.29	118.30	35.32
Miscellaneous	629.87	57.47	92.00	35.14	721.87	92.61
Rampur Rajya	0.02	0.02			0.02	0.02
Cooperative Institutions and Banks	666.91	88.15	200.70	38.67	867.60	126.82
State Electricity Boards *	0.00	0.00				
Water Corporation/Water Board	370.75	325.62	74.74	7.40	445.50	333.02
Housing Development Board	52.60	318.10		68.84	52.60	386.93
Total	**2482.78**	**1010.99**	**401.25**	**183.03**	**2884.02**	**1194.02**

Description of Loans@	*Returns to the Heads (Year 2002-03)*		*Over Due as on 1.04.2003*	
	Principal	*Interest*	*Principal*	*Interest*
	7	*8*	*9*	*10*
Corporations and Municipalities	0.44	0.06	338.20	196.85
Town Area Committees			0.36	0.82
Notified Area Committees			0.12	0.30
District Boards			1.11	2.12
Improvement Trust and Development Board	14.45	1.35	322.92	16.42
Join Stock Companies			0.55	1.39
Cooperatives	0.68	0.35	117.62	34.97
Miscellaneous	69.70	5.31	652.17	87.29
Rampur Rajya			0.02	0.02
Cooperative Institutions and Banks	17.82	15.26	849.78	111.57
State Electricity Boards *				
Water Corporation/Water Board	0.20	0.04	445.30	332.97
Housing Development Board	15.78	4.24	36.83	382.70
Total	**119.06**	**26.62**	**2764.96**	**1167.40**

Source: *Budget Document* (2004-05), Vol. 2, Part 1.

Notes: *Pursuant to a notification dated January 14, 2000, the loans and recoveries have been rescheduled. Therefore, outstanding of earlier years are not shown.; @ in the description of loans notification, Uttaranchal part is also included.

APPENDIX A-16.9

Statement of Guarantees Extended by the State Government till 31st March, 2003

(Rs. Crore)

Name of Department	*Maximum Amount of Guarantees Extended*			*Amount of Unpaid Guarantees as on 31st March 2003*			*Interest Paid on Guarantees Extended*	*Amount Involved Guarantees*
	Bond	*Loan*	*Total*	*Bond*	*Loan*	*Total*		
Housing Department	176.66	676.36	853.03	47.26	46.36	93.62	50.87	
Department of Industry	1364.62	336.51	1701.13	852.09	210.51	1062.60	485.28	67.94
Sugarcane Development Department		40.28	40.28		9.65	9.65	10.15	40.28
Industry (Sugar Industry) Department		147.30	147.30		548.59	548.59	64.80	
Department of Cooperatives		4227.69	4227.69		199.67	199.67	1.19	
Food and Supplies Department		2.50	2.50		2.02	2.02	0.19	2.02
Department of Energy		2533.33	2533.33		1196.15	1196.15	6.58	
Department of Social Welfare		54.47	54.47		42.30	42.30		
Department of Transport		172.17	172.17		106.92	106.92		
Udyan and Khadya Prasanskaran Department		0.57	0.57		0.56	0.56	1.57	
Department of Backward Classes Welfare		52.65	52.65		7.78	7.78	0.17	
Minority and Muslim Waqf Department		59.70	59.70		59.70	59.70	0.69	
Dairy Development Department		129.83	129.83		33.52	33.52	6.17	
Department of Medical		5.00	5.00		3.44	3.44	6.52	
Urban Employment and Eradication of Poverty Department		187.55	187.55		167.96	167.96	12.56	
Department of Rural Development		340.20	340.20		65.09	65.09	16.64	
Department of Urban Development		41.37	41.37		1.87	1.87	1.42	
Total	**1541.28**	**9007.48**	**10548.76**	**899.35**	**2702.08**	**3601.43**	**664.80**	**110.24**

Source: *Budget Document (2004-05)*, Vol. 2, Part 1 of Uttar Pradesh.

APPENDIX A-16.10

Statement of Arrears: Tax and Non-Tax

(Rs. Crore)

Arrear Items	*Arrears at the End of Previous Financial Year as on 1.04.2002*	*Recoveries Made in 2002-03 against Col. 3/Amounts Reduced in Appeal or Written Off*	*Arrears as on 1.04.2003*
Land Revenue	21.97	4.13	30.54
Land Revenue Tax	0.49	0.06	0.43
Irrigation Duty	84.75	23.17	116.12
(i) Agriculture Income Tax			
(ii) L.L.H.T.			
(iii) Tax on Large Holdings	0.08		0.08
Consolidation Duty	5.02	0.18	5.03
Commercial Tax	5883.21	2450.12	5496.36
Entertainment and Taji Tax	6.35	0.84	8.02
Receivables from Forest	11.55	1.51	11.21
Road Tax	4.10	3.03	4.13
Goods Tax	4.15	3.17	4.31

Contd. ...

...Contd. ...

Arrear Items	*Arrears at the End of Previous Financial Year as on 1.04.2002*	*Recoveries Made in 2002-03 against Col. 3/Amounts Reduced in Appeal or Written Off*	*Arrears as on 1.04.2003*
Passenger Tax	7.83	5.33	8.65
Purchase Tax on Sugarcane			
(i) By Sugar Mills+	12.22		12.22
(ii) By *Khandsari* Units	0.40	0.04	0.37
Electricity Duty	15.04	0.09	39.38
Excise Duty	36.32	0.54	36.77
Sales Tax on Motor Vehicles	0.43		0.43
Land and House Tax+	0.08		0.08
Profession Tax	2.97		2.97
C.D.F., Aligarh+	0.05		0.05
Receivables under Animal Farms, etc.	1.97	0.37	1.97
Total	**6098.9851**	**2492.5687**	**5779.1172**

Source: *Budget Document (2004-05)*, Vol. 2, Part 1 of Uttar Pradesh.

Note: +On account of lack of information, earlier year's data is furnished.

APPENDIX A-16.11

Sectoral Composition of GSDP: Uttar Pradesh

(Per Cent)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
				(At Current Prices)						
Agriculture and Allied Activities	39.03	37.97	36.42	36.66	34.92	35.32	35.79	34.90	33.49	31.63
Agriculture	37.94	37.13	35.79	36.02	34.14	33.70	34.31	33.30	31.78	29.82
Forestry and Logging	0.63	0.42	0.24	0.30	0.44	1.26	1.11	1.21	1.32	1.40
Fishing	0.46	0.42	0.39	0.33	0.34	0.36	0.36	0.39	0.40	0.41
Industry	18.01	20.02	20.27	20.50	19.99	19.83	19.23	17.38	17.48	17.93
Mining and Quarrying	0.76	0.80	0.92	0.86	0.91	1.01	1.11	1.20	0.99	1.23
Manufacturing-Registered	7.99	9.67	9.09	10.67	8.91	8.37	8.04	7.33	7.59	7.26
Manufacturing-Unregistered	5.67	5.78	6.11	5.32	6.08	5.89	5.85	5.62	5.66	5.66
Electricity, Gas and Water Supply	3.59	3.77	4.15	3.65	4.09	4.56	4.22	3.23	3.24	3.78
Services	42.95	42.01	43.31	42.84	45.09	44.85	44.98	47.71	49.03	50.45
Construction	4.20	3.97	4.37	4.32	4.87	5.42	5.42	5.48	5.73	5.94
Railways	1.84	1.67	1.72	1.51	1.59	1.56	1.52	1.36	1.46	1.59
Transport by other Means	2.94	2.91	2.83	2.93	3.16	3.24	3.40	3.49	3.41	3.43
Communication	0.56	0.72	0.72	0.74	0.65	0.68	0.73	0.87	1.03	1.26
Trade, Hotels and Restaurants	13.51	13.79	14.18	14.77	15.00	13.80	13.23	14.80	14.93	15.28
Banking and Insurance	2.53	2.58	2.92	3.15	3.41	2.98	3.07	3.28	3.52	3.81
Real Estate, Ownership of Dwellings and Business Services	6.85	6.29	5.98	5.38	5.38	5.36	5.69	6.23	6.40	6.68
Public Administration	4.44	4.07	4.33	4.10	4.79	4.81	5.08	5.06	5.14	5.01
Other Services	6.08	6.01	6.24	5.94	6.25	7.00	6.84	7.14	7.41	7.45
GSDP at Current Prices (Rs. Crore)	**80451**	**94019**	**106249**	**127778**	**137561**	**153853**	**165324**	**173669**	**188687**	**202904**
				(At 1993-94 Prices)						
Agriculture and Allied Activities	39.03	37.97	37.21	36.74	34.93	35.10	36.17	35.54	34.95	32.38
Agriculture	37.94	37.10	36.45	35.90	33.88	33.17	34.27	33.57	32.96	30.28
Forestry and Logging	0.63	0.42	0.30	0.42	0.61	1.42	1.39	1.43	1.42	1.47
Fishing	0.46	0.46	0.46	0.42	0.45	0.51	0.50	0.55	0.57	0.63
Industry	18.01	19.98	20.08	21.20	20.61	19.95	18.80	18.43	18.57	19.13
Mining and Quarrying	0.76	0.80	0.92	0.93	0.95	0.98	1.07	1.03	0.93	1.24
Manufacturing-Registered	7.99	9.76	9.31	11.35	9.81	9.25	8.70	8.36	8.57	8.53
Manufacturing-Unregistered	5.67	5.72	6.13	5.54	6.39	6.12	5.96	5.85	5.94	6.25
Electricity, Gas and Water Supply	3.59	3.70	3.71	3.38	3.46	3.61	3.07	3.18	3.13	3.11
Services	42.95	42.05	42.72	42.07	44.46	44.95	45.02	46.03	46.48	48.49
Construction	4.20	3.98	4.44	4.19	4.89	5.40	5.40	5.74	6.05	6.50
Railways	1.84	1.64	1.70	1.59	1.68	1.79	1.76	1.74	1.77	1.87
Transport by other Means	2.94	2.95	2.94	2.94	3.18	3.16	3.28	3.42	3.32	3.44
Communication	0.56	0.73	0.79	0.85	0.78	0.84	1.00	1.28	1.51	1.87
Trade, Hotels and Restaurants	13.51	13.40	13.22	13.31	12.79	12.88	12.95	12.67	12.55	12.95
Banking and Insurance	2.53	2.61	2.61	3.34	4.17	3.58	3.56	3.77	3.74	3.86
Real Estate, Ownership of Dwellings and Business Services	6.85	6.62	6.49	5.97	6.12	6.10	5.91	5.98	5.87	6.05
Public Administration	4.44	4.05	4.29	4.03	4.74	4.61	4.80	4.79	4.84	4.87
Other Services	6.08	6.06	6.23	5.85	6.12	6.59	6.36	6.64	6.85	7.08
GSDP at 1993-94 Prices (Rs. Crore)	**80451**	**85106**	**88244**	**97719**	**97634**	**100321**	**105833**	**107038**	**111673**	**111830**

Source: Central Statistical Organisation, released on 30.11.2004.

APPENDIX A-16.12

Uttar Pradesh State Series from 1987-88 to 2004-05

(Rs. Crore)

GSDP (Current Prices)	*1987-88*	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*
Old Series Uttar Pradesh (1980-81 Base)	34352.42	41101.59	46925.52	55505.71	64677.23	70704.35	79481.20	90267.03	101518.56
Uttar Pradesh (1993-94 Base)							80451.08	94019.12	106249.46
Uttaranchal (1993-94 Base)							5582.44	6809.49	7448.54
Constructed Series*	38403.86	45949.01	52459.80	62051.91	72305.10	79043.04	86033.52	100828.61	113698.00
	1996-97	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04*	*2004-05*
Old Series Uttar Pradesh (1980-81 Base)	117975.06	129977.42							
Uttar Pradesh (1993-94 Base)	127778.00	137560.73	153852.83	165324.21	173668.82	188687.08	202903.95		
Uttaranchal (1993-94 Base)	8168.78	8917.94	9862.80	10600.66	12091.54	13011.56			
Constructed Series*	135946.78	146478.67	163715.63	175924.87	181056.25	188687.08	202903.95	215861.90	235289.47

Source: GSDP data released by CSO.

Notes: Conversion factor was obtained by taking the ratio of new GSDP to old GSDP (average of 1993-94 to 1996-97). This works out to 1.117937 to arrive at GSDP of combined Uttar Pradesh for the year 2000-01, the GSDP of Uttaranchal was multiplied by (223/365) the number of days of undivided Uttar Pradesh existed in the financial year plus the GSDP of Combined Uttar Pradesh. GSDP for 2003-04 and 2004-05 are projected based on the trend growth rate estimated for the period 1990-91 to 1999-00.

* Relates to Uttar Pradesh as it existed, i.e., UUP up to 8.11.2000 and Uttar Pradesh from 9.11.2000.

APPENDIX A-16.13

Predictive Performance of Budget Estimates

Budget estimates are compared with corresponding actuals for the following nine variables: own tax revenues, own non-tax revenues, share in central taxes, plan revenue expenditure, non-plan revenue expenditure, capital receipts, capital expenditure, revenue deficit, and fiscal deficit.

Comparisons are made over the period 1990-91 to 1999-00. Last year revised estimates were used as given in the latest RBI *Bulletin on State Finances*. Percentage error is calculated by taking the estimation error, i.e., differences of actual from the budget estimate as percentage of the actual. Average percentage error is calculated with reference to the period 1990-91 to 1999-00, and the sub-periods, *viz*., 1990-91 to 1994-95, and 1995-96 to 1999-00.

For each table, there is a corresponding Figure. The horizontal axis represents the line of perfect forecast. If error is zero, all points will be on the horizontal axis. Excess of actual over budget estimate (case of underestimation) is represented by points above the horizontal axis. Correspondingly, cases of overestimation, are shown by points below the axis.

Table A-16.13.1

Own Tax Revenue

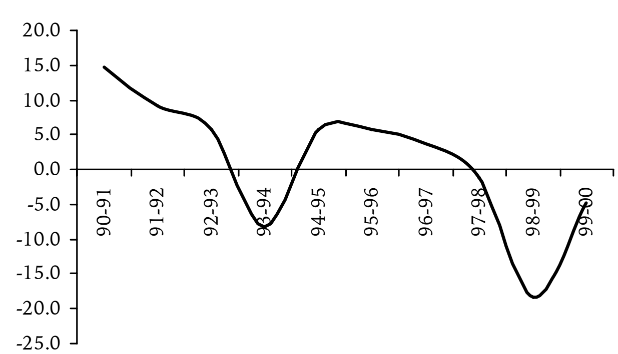
(Rs. Lakh)

	BE *(B)*	*Actual* *(A)*	*% Error* *(A-B)/A*100*
1990-91	269966	316212	14.62
1991-92	317183	349738	9.31
1992-93	366507	388634	5.69
1993-94	447209	413201	-8.23
1994-95	460122	487831	5.68
1995-96	515546	546892	5.73
1996-97	606965	630597	3.75
1997-98	707591	699796	-1.11
1998-99	936949	791011	-18.45
1999-00	1045680	996957	-4.89
Avg. % error (1990-91 to 1999-00)			1.21
Avg. % error (1990-91 to 1994-95)			5.42
Avg. % error (1995-96 to 1999-00)			-2.99

Figure A-16.13.1

Percentage Error: Own Tax Revenues

(Rs. Lakh)



Root Mean Sq. Prediction Error	55575.3
Theil's Inequality Coefficient	0.0928

Table A-16.13.2

Own Non-Tax Revenue

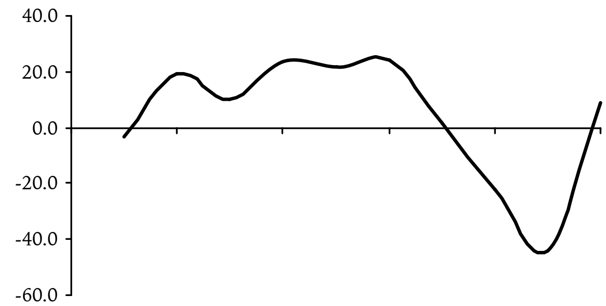
(Rs. Lakh)

	BE (B)	*Actual (A)*	*% Error (A-B)/A*100*
1990-91	269966	316212	14.62
1990-91	80303	77747	-3.29
1991-92	87236	108348	19.49
1992-93	127553	142090	10.23
1993-94	131740	171750	23.30
1994-95	147820	188933	21.76
1995-96	181524	239941	24.35
1996-97	129741	131849	1.60
1997-98	157760	129171	-22.13
1998-99	212205	147506	-43.86
1999-00	179192	196459	8.79
Avg. % error (1990-91 to 1999-00)			4.022
Avg. % error (1990-91 to 1994-95)			14.297
Avg. % error (1995-96 to 1999-00)			-6.252

Figure A-16.13.2

Percentage Error: Own Non-Tax Revenues

(Rs. Lakh)



Root Mean Sq. Prediction Error	35599.3
Theil's Inequality Coefficient	0.2229

Table A-16.13.3

Share in Central Taxes

(Rs. Lakh)

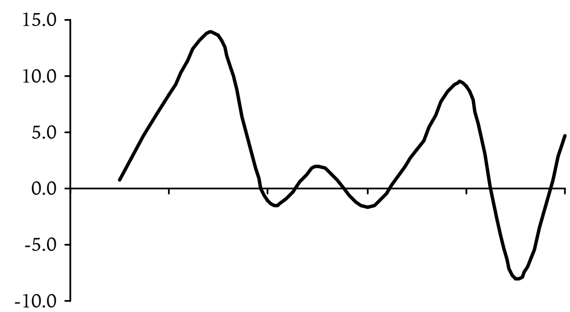
	BE (B)	*Actual (A)*	*% Error (A-B)/A*100*
1990-91	228839	230565	0.75
1991-92	250501	273136	8.29
1992-93	293441	339860	13.66
1993-94	359146	355207	-1.11
1994-95	388320	395976	1.93
1995-96	512073	503402	-1.72
1996-97	586485	607238	3.42
1997-98	646474	711491	9.14
1998-99	623557	577112	-8.05
1999-00	685912	719206	4.63
Avg. % error (1990-91 to 1999-00)			3.093
Avg. % error (1990-91 to 1994-95)			4.704
Avg. % error (1995-96 to 1999-00)			1.483

Source: *RBI Bulletins*; figures under 1999-00 actuals are revised estimates.

Figure A-16.13.3

Percentage Error: Share in Central Taxes

(Rs. Lakh)



Root Mean Sq. Prediction Error	32776.3
Theil's Inequality Coefficient	0.0655

Table A-16.13.4

Plan Revenue Expenditure

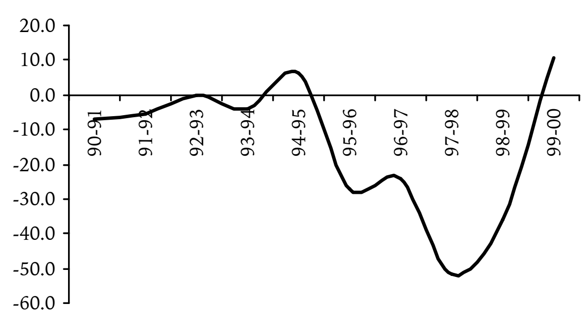
(Rs. Lakh)

	BE (B)	*Actual (A)*	*% Error (A-B)/A*100*
1990-91	228839	230565	0.75
1990-91	226703	211730	-7.07
1991-92	208281	197702	-5.35
1992-93	220352	219680	-0.31
1993-94	238007	228572	-4.13
1994-95	259379	276354	6.14
1995-96	320516	252444	-26.97
1996-97	406165	326794	-24.29
1997-98	495399	326262	-51.84
1998-99	487207	358980	-35.72
1999-00	459948	514292	10.57
Avg. % error (1990-91 to 1999-00)			-13.90
Avg. % error (1990-91 to 1994-95)			-2.14
Avg. % error (1995-96 to 1999-00)			-25.65

Figure A-16.13.4

Percentage Error: Plan Revenue Expenditure

(Rs. Lakh)



Root Mean Sq. Prediction Error	77233.4
Theil's Inequality Coefficient	0.2531

Table A-16.13.5

Non-Plan Revenue Expenditure

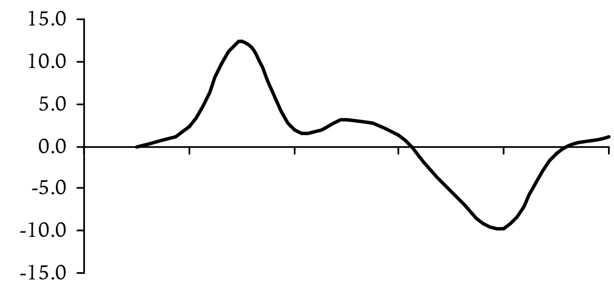
(Rs. Lakh)

	BE *(B)*	*Actual* *(A)*	*% Error* *(A-B)/A*100*
1990-91	742117	742106	0.00
1991-92	821875	842218	2.42
1992-93	919916	1049394	12.34
1993-94	1079273	1099441	1.83
1994-95	1226941	1266012	3.09
1995-96	1483584	1503142	1.30
1996-97	1679542	1593976	-5.37
1997-98	2077440	1893241	-9.73
1998-99	2270138	2248505	-0.96
1999-00	2516240	2542554	1.03
Avg. % error (1990-91 to 1999-00)			0.595
Avg. % error (1990-91 to 1994-95)			3.935
Avg. % error (1995-96 to 1999-00)			-2.745

Figure A-16.13.5

Percentage Error: Non-Plan Revenues Expenditure

(Rs. Lakh)



Root Mean Sq. Prediction Error 78680.0

Theil's Inequality Coefficient 0.0497

Table A-16.13.6

Capital Receipts

(Rs. Lakh)

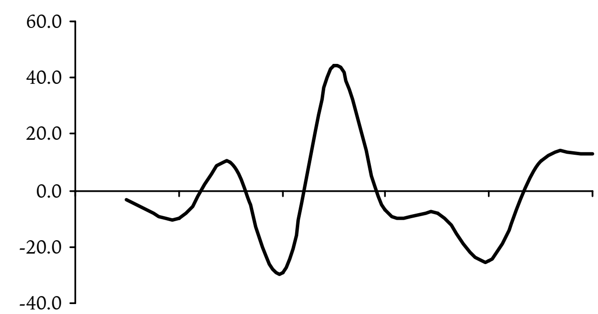
	BE *(B)*	*Actual* *(A)*	*% Error* *(A-B)/A*100*
1990-91	402056	388439	-3.51
1991-92	428020	389606	-9.86
1992-93	422047	467828	9.79
1993-94	458007	354174	-29.32
1994-95	491252	879613	44.15
1995-96	680923	638638	-6.62
1996-97	759718	701661	-8.27
1997-98	1041971	835726	-24.68
1998-99	1130144	1265531	10.70
1999-00	1247399	1435112	13.08
Avg. % error (1990-91 to 1999-00)			-0.454
Avg. % error (1990-91 to 1994-95)			2.251
Avg. % error (1995-96 to 1999-00)			-3.159

Source (Basic Data): *RBI Bulletins*; figures under 1999-00 actuals are revised estimates.

Fgiure A-16.13.6

Percentage Error: Capital Receipts

(Rs. Lakh)



Root Mean Sq. Prediction Error 163286.2

Theil's Inequality Coefficient 0.1998

Table A-16.13.7

Capital Expenditure

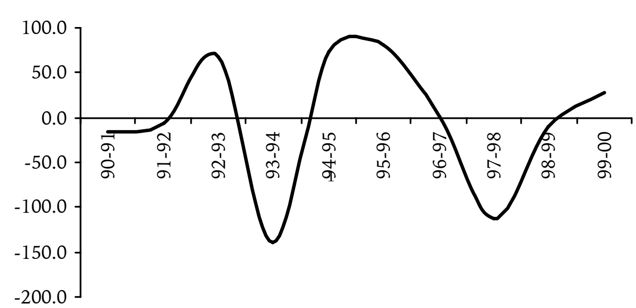
(Rs. Lakh)

	BE *(B)*	*Actual* *(A)*	*% Error* *(A-B)/A*100*
1990-91	62862	54187	-16.01
1991-92	63543	59768	-6.32
1992-93	56150	170966	67.16
1993-94	67426	28206	-139.05
1994-95	71573	276727	74.14
1995-96	30426	160932	81.09
1996-97	159188	160136	0.59
1997-98	255807	119989	-113.19
1998-99	261253	238100	-9.72
1999-00	168736	234164	27.94
Avg. % error (1990-91 to 1999-00)			-3.34
Avg. % error (1990-91 to 1994-95)			-4.02
Avg. % error (1995-96 to 1999-00)			-2.66

Figure A-16.13.7

Percentage Error: Capital Expenditure

(Rs. Lakh)



Root Mean Sq. Prediction Error 98587.4

Theil's Inequality Coefficient 0.5784

Table A-16.13.8

Revenue Deficit

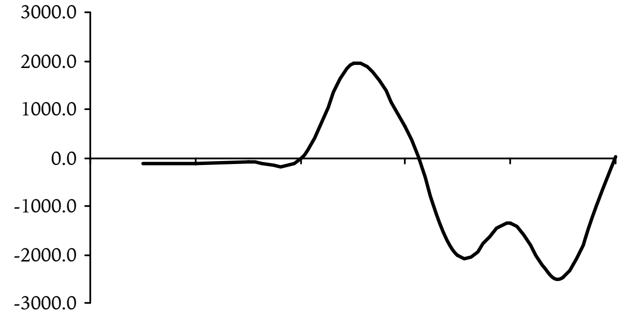
(Rs. Lakh)

	BE *(B)*	*Actual* *(A)*	*% Error* *(A-B)/A*100*
1990-91	-16441	-6925	-137.42
1991-92	-12608	-5682	-121.89
1992-93	-35141	-18243	-92.63
1993-94	-26139	-19898	-31.36
1994-95	-33325	1789	1962.77
1995-96	105373	-19297	646.06
1996-97	83427	3936	-2019.59
1997-98	52700	3608	-1360.64
1998-99	91953	3562	-2481.50
1999-00	-39365	-56891	30.81
Avg. % error (1990-91 to 1999-00)			-360.539
Avg. % error (1990-91 to 1994-95)			315.894
Avg. % error (1995-96 to 1999-00)			-1036.973

Figure A-16.13.8

Percentage Error: Revenue Deficit

(Rs. Lakh)



Root Mean Sq. Prediction Error 58384.6
Theil's Inequality Coefficient 2.7639

Table A-16.13.9

Fiscal Deficit

(Rs. Lakh)

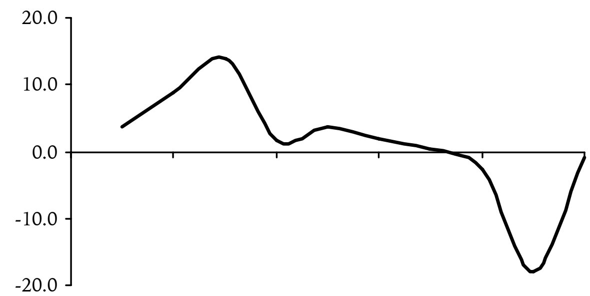
	BE *(B)*	*Actual* *(A)*	*% Error* *(A-B)/A*100*
1990-91	801174	831010	3.59
1991-92	881415	967461	8.89
1992-93	1004597	1167618	13.96
1993-94	1193719	1213142	1.60
1994-95	1289142	1339323	3.75
1995-96	1491185	1521521	1.99
1996-97	1597806	1602857	0.32
1997-98	1803205	1757111	-2.62
1998-99	2047970	1737869	-17.84
1999-00	2283107	2264549	-0.82
Avg. % error (1990-91 to 1999-00)			1.282
Avg. % error (1990-91 to 1994-95)			6.359
Avg. % error (1995-96 to 1999-00)			-3.796

Source (Basic Data): *RBI Bulletins*; figures under 1999-00 actuals are revised estimates.

Figure A-16.13.9

Percentage Error: Fiscal Deficit

(Rs. Lakh)



Root Mean Sq. Prediction Error 117193.3
Theil's Inequality Coefficient 0.0783

APPENDIX A-16.14

Excerpts from the White Paper on State Level Value Added Tax by the Empowered Committee of Finance Ministers, Dated January 17, 2005

Registration, Small Dealers and Composition Scheme

Registration of dealers with gross annual turnover above five lakh rupees will be compulsory. There will be provision for voluntary registration. All existing dealers will be automatically registered under the VAT Act. A new dealer will be allowed 30 days time from the date of liability to get registered.

Small dealers with gross annual turnover not exceeding five lakh rupees will not be liable to pay VAT. States will have flexibility to fix threshold limit within five lakh rupees.

Small dealers with annual gross turnover not exceeding Rs. 50 lakh who are otherwise liable to pay VAT, shall however have the option for a composition scheme with payment of tax at a small percentage of gross turnover. The dealers opting for this composition scheme will not be entitled to input tax credit.

Tax Payer's Identification Number (TIN)

The Tax Payer's Identification Number will consist of 11 digit numerals throughout the country. First two characters will represent the State Code as used by the Union Ministry of Home Affairs. The setup of the next nine characters may, however, be different in different States.

Return

Under VAT, simplified form of returns will be notified. Returns are to be filed monthly/quarterly as specified in the State Acts/Rules, and will be accompanied with payment challans. Every return furnished by dealers will be scrutinised expeditiously within prescribed time limit from the date of filing the return. If any technical mistake is detected on scrutiny, the dealer will be required to pay the deficit appropriately.

Procedure of Self-assessment of VAT Liability

The basic simplification in VAT is that VAT liability will be self-assessed by the dealers themselves in terms of submission of returns upon setting off the tax credit. Return forms as well as other procedures will be simple in all States. There will no longer be compulsory assessment at the end of each year as is existing now. If no specific notice is issued proposing departmental audit of the books of accounts of the dealer within the time limit specified in the Act, the dealer will be deemed to have been self-assessed on the basis of returns submitted by him.

Because of the importance of the concept of self-assessment in VAT, provision for 'self-assessment' will be stated in the VAT Bills of the states.

Coverage of Goods under VAT

In general, all the goods, including declared goods will be covered under VAT and will get the benefit of input tax credit.

The only few goods which will be outside VAT will be liquor, lottery tickets, petrol, diesel, aviation turbine fuel and other motor spirit since their prices are not fully market determined. These will continue to be taxed under the Sales Tax Act or any other State Act or even by making special provisions in the VAT Act itself, and with uniform floor rates decided by the Empowered Committee.

VAT Rates and Classification of Commodities

Under the VAT system covering about 550 goods, there will be only two basic VAT rates of four per cent and 12.5 per cent, plus a specific category of tax-exempted goods and a special VAT rate of one per cent only for gold and silver ornaments, etc. Thus the multiplicity of rates in the existing structure will be done away with under the VAT system.

Under exempted category, there will be about 46 commodities comprising of natural and unprocessed products in unorganised sector, items which are legally barred from taxation and items which have social implications. Included in this exempted category is a set of maximum of 10 commodities flexibly chosen by individual states from a list of goods (finalised by the Empowered Committee) which are of local social importance, without any inter-state implication. The rest of the commodities in the list will be common for all the states. Under 4 per cent VAT rate category, there will be the largest number of goods (about 270), common for all the states, comprising basic necessities such as medicines and drugs, all agricultural and industrial inputs, capital goods and declared goods. The schedule of commodities will be attached to the VAT Bill of every state. The remaining commodities, common for all the states, will fall under the general VAT rate of 12.5 per cent.

In terms of decision of the Empowered Committee, VAT on AED items relating to sugar, textile and tobacco, because of initial organisational difficulties, will not be imposed for one year after the introduction of VAT, and till then the existing arrangement will continue. The position will be reviewed after one year.

It needs to be carefully noted that although introduction of VAT may, after a few years, lead to revenue growth, there may be a loss of revenue in some states in the initial years of transition. It is with this in view that the Government of India had agreed to compensate for 100 per cent of the loss in the first year, 75 per cent of the loss in the second year and 50 per cent of the loss in the third year of introduction of VAT, and the loss would be computed on the basis of an agreed formula. This position has not only been reaffirmed by the Union Finance Minister in his Budget Speech of 2004-05, but a concrete formula for this compensation has also now been worked out after interaction between the Union Finance Minister and the Empowered Committee.

As mentioned earlier, there is also a need, after introduction of VAT, for phasing out of Central Sales Tax (CST). However, the states are now collecting nearly Rs. 15 thousand crore every year from CST. There is accordingly a need of compensation from the Government of India for this loss of revenue as CST is phased out. Moreover, while CST is phased out, there is also a critical need for putting in place a regulatory framework in terms of Taxation Information Exchange System to give a comprehensive picture of interstate trade of all commodities. As already mentioned, this process of setting up of Taxation Information Exchange System has already been started by the Empowered Committee, and is expected to be completed within one year. The position regarding CST will be reviewed by the Empowered Committee during 2005-06, and suitable decision on the phasing out of CST will be taken.

It is also essential to bring imports into the VAT chain. Because of the set-off, this will not result in any tax cascading effect, but will only improve tax compliance. A proposal for VAT on imports, including the collection mechanism with adequate safeguards for the protection of interest of landlocked states, is being discussed with the Government of India.

APPENDIX A-16.15

The States' Fiscal Reforms Facility (2000-01 to 2004-05) (As Notified)

Background

The finances of state governments have shown considerable deterioration in the decade starting 1990-91. A very high Gross Fiscal Deficit (GFD) to GDP ratio has marked this period, for all the states taken together. The debt of states has also gone up as has the Revenue Deficit. The table below summarises the major trends in states' finances over this period:

A-16.15.1

Major Trends in State Finances

Indicator	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-2000(RE)*
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
Revenue Deficit as % of GSDP	-0.53	-0.83	-0.88	-1.60	-1.50	-3.19	-3.57
Gross Fiscal Deficit as % of GSDP	-2.80	-3.24	-3.15	-3.36	-3.58	-5.24	-5.78
Revenue Deficit as % of GFD	19.05	25.55	28.06	57.61	41.96	60.86	61.83
Debt* as % of GSDP	22.20	21.68	21.69	21.62	22.48	23.99	25.87
Guarantees** as % of GSDP	6.78	6.72	7.30	8.79	10.23	11.52	13.80

Source: Reserve Bank of India.

Notes: *Debt outstanding at the end of each year and includes internal debt, loans from Centre and PF & small savings.

** Guarantees outstanding at the end of each year and pertains to 17 major states.

GSDP state's new series (1993-94=100) as applied except in case of Jammu & Kashmir and Nagaland where old series is used (1980-81=100).

Fiscal reforms at state level have thus become an urgent component of overall economic reforms. Restructuring of Indian Public Finance requires the collective action of the Central and state governments. In recognition of this reality, one of the crucial terms of reference of the EFC was to review 'the state of finances of the Union and the States and suggest ways and means by which the Governments collectively and severally may bring about a restructuring of the Public Finances so as to restore budgetary balance and maintain macro-economic stability'.

The EFC Reports

The reports mainly deal with grants to states in the context of revenue deficit in the accounts of the states. In respect of revenue deficit grants of states, the Commission's recommendations in their three Reports are summarised below:

- In the Interim Report submitted on January 15, 2000, the Commission had recommended a lump sum provision of Rs. 11000 crore in the Central Budget 2000-01 for revenue deficit grants to states without giving state-wise breakup.
- In the Main Report submitted on July 7, 2000, the Commission recommended revenue deficit grants of Rs. 35359 crore for 15 states during 2000-05. The remaining 10 states were revenue surplus in the Commission's assessment. The Commission was asked to draw up a monitorable fiscal reforms programme and to recommend how to link the release of revenue deficit grants to progress in implementing the programme.
- Since only 15 states were assessed to be in revenue deficit, the fiscal reforms programme should have normally covered only the 15 states assessed to be in revenue deficit. Instead, in the Supplementary Report submitted on August 30, 2000, the majority view in the Commission has recommended monitorable fiscal reforms programme for all states. It has been recommended that 15 per cent of the revenue deficit grants meant for 15 states during 2000-05 and a matching contribution by Central government be credited into an Incentive Fund from which fiscal performance based grants should be made available to all 25 states. Release of performance based grants from an Incentive Fund to be set up by withholding 15 per cent of the Rs. 35359 crore deficit grants for 15 states and an equal matching contribution by Government of India with year-wise phasing as follows:

(Rs. Crore)

Year	*Withheld Portion of the Revenue Deficit Grants*	*Contribution of the Centre*	*Total Fund*
2000-01	1523.06	598.48	2121.54
2001-02	1080.43	1041.11	2121.54
2002-03	994.64	1126.91	2121.55
2003-04	861.74	1259.81	2121.55
2004-05	843.99	1277.55	2121.54
Total	**5303.86**	**5303.86**	**10607.72**

- The Commission has also recommended that the grants for specific purposes like upgradation, special problems and local bodies, which remain unutilised due to non-observance of conditionalities attached to the release of these grants may also be credited to the Incentive Fund during 2004-05.

The important features of the scheme proposed by the EFC in the Supplementary Report are as follows:

i. Eighty-five per cent of the revenue deficit grant recommended by the Commission and accepted by the Government of India may be released to the relevant states without linking it to performance under the monitorable fiscal reforms programme. Only 15 per cent of the revenue deficit grant to which a state is entitled may be withheld and linked with the progress in performance.

ii. The Incentive Fund should comprise of two parts. The first part would comprise 15 per cent of the withheld part of the grants recommended to cover the deficit of the states on non-plan revenue account. Depending on the performance of a state in the implementation of the monitorable programme, the withheld amount would be released to it on a proportionate basis. The second part of the Fund would be created by contribution from the Central government, equivalent to 15 per cent of the revenue deficit grants recommended by the Commission.

iii. The incentive component is recommended to be provided to all the states. The initial eligibility of the states has been worked out on the basis of the population as per the 1971 Census. The amount will be available to a state in proportion to the level of performance in the implementation of the monitorable fiscal reforms programme for each year.

iv. If any state is unable to get the full amount initially earmarked for it in any year, such amount will not lapse but will continue to be available in subsequent years to the same state. During the first four years, no amount of this Fund earmarked for assistance/incentive to a state, would be transferred to another state. However, if any state is not able to draw the amount indicated on the basis of the performance of the first four years, the amount undisbursed to a state would form part of the common pool and would be distributed to the performing states in the fifth year on a pro-rata basis in addition to the amounts to which they are initially entitled. The same would apply to the undrawn amount of the withheld portion of the grants to cover non-plan revenue deficit. Every state, irrespective of the assessed deficit or not, would be entitled to get the assistance on a pro-rata basis related to performance from the additions to the Fund. This additional entitlement can go up to 100 per cent of their initial eligibility indicated for the state concerned.

v. The witheld amount of grants releasable in 2004-05 may be released to the concerned assessed state on the basis of a review of performance. In case any amount remains unreleased to a state, it would be added to the Fund and would be available to the remaining states. The balance amount in the Fund at the end of 2005-06 will lapse to the Central government.

vi. The Commission had recommended grants for specific purposes like upgradation, special problems and local bodies in the Main Report. There are certain specific conditionalities for releasing these grants. The progress in the implementation of the identified schemes may be reviewed by the Monitoring Agency. If the Agency is satisfied that a state has not taken effective steps to implement these in the first four years, and is not in a position to utilise the amount either in full or in part, the same may be added to the Incentive Fund in the fifth year.

vii. In addition to the incentives for better performance, Central government may also consider the fiscal reforms programme linked assistance by way of extended ways and means advance and additional open market borrowings. The scope and dimension of such facilities should be drawn up by the Central government bearing in mind the centre's fiscal position and the macro-economic implications of this facility. This facility should also be extended to all states linked to monitorable fiscal reforms programme drawn up for the state.

viii. The disbursements from the Incentive Fund as well as the utilisation of the grants recommended by the EFC in the Main Report will be subject to review by the TFC.

Fiscal Objectives Set by the EFC

Chapter 3 of the EFC's Main Report lays down the broad parameter of fiscal correction in the state sector. Starting with the base-year of 1999-2000, each state is expected to take effective steps for revenue augmentation and expenditure compression over the five-year period so as to broadly achieve the following objectives:

- State GFD as an aggregate, to fall to 2.5 per cent of GSDP.
- Revenue deficit of all states, in an aggregate, falling to zero.
- Interest payments, as a percentage of revenue receipts of the state sector as a whole—18 to 20 per cent.

In the Supplementary Report the EFC has also suggested the following objectives:

i. Increases in wages and salaries should not exceed five per cent or increase in the consumer price index whichever is higher.

ii. Increase in interest payments (in absolute terms) may be limited to 10 per cent per year.

iii. Explicit subsidies to be brought down by 50 per cent over the next five-year period with a view to eliminate subsidies altogether by 2009-10.

Medium-term Fiscal Restructuring Policy

Given the broad contours of the fiscal objectives sketched above, the state governments should draw up a Medium-term Fiscal

Restructuring Policy (MTFRP). The policy needs to dovetail time bound action points such as:

a. Fiscal Objectives and Reforms

- Widening the tax base.
- Increasing tax rates on a year to year basis.
- Pricing services such as irrigation, water charges, bus fares, to an identified base, computing the subsidy element and preparing a schedule to reduce the subsidy element.
- Indexation of prices/user-charges to major input costs such as POL, Dearness allowance, etc..
- Abolition of vacant posts in government except primary school teachers, health workers.
- New teachers to be appointed on contract basis as in Rajasthan and Madhya Pradesh.
- Work charged establishment to be redeployed for new capital works. Practice of engaging new work charge staff and daily wage workers to be stopped forthwith.
- Tapering off subventions to GIA Institutions. Registration of new grants-in-aid institutions in secondary and higher education to be phased out over five years.

b. Power Sector Reforms

Power sector reforms would aim at reducing the negative contribution of the SEBs to states revenues. While the Ministry of Power is separately working out a set of monitorable reform milestones, the basic ingredients would include:

- Achieving an average tariff equal to the cost of power within two years.
- Setting up of State Regulatory Electricity Commissions (SRECs).
- Implementing the awards of the SRECs.
- Unbundling of basic services—generation, transmission and distribution or setting up separate profit centres.
- Reducing T&D losses by five per cent every year.
- Metering up to 11 KV sub-station level.

c. Public Sector Restructuring

The Public Sector Restructuring Component should have two basic subsets. Each state should identify the need of continuing certain activities within the state domain. This would be regardless of whether the PSE is making profits or commercial losses. Primary among these would be PSEs that are in manufacturing activities such as electronics. Wireless, textiles and tractors to cite a few examples. A road map for PSRP would be:

- identify PSEs with a view to determining the need for government to continue as owners;
- for loss making PSES, a comprehensive VRS package to be drawn-up;
- a time-bound road map for winding up such PSEs be laid down;
- for commercially profitable PSES, government to decide—either through a High Powered Committee or otherwise—the extent of dilution in government share holding. Depending on the nature of PSE, government share holding should be reduced to:
- Zero per cent-total privatisation.
- Twenry-six per cent giving shareholders rights in AGMs and EGMS.
- Forty-nine per cent where, despite privatisation, government would still exercise managerial control.
- Further infusion of government funds either by way of equity or loans be phased out over five years to PSES, unless such PSEs are identified to be socially desirable.

d. Budgetary Reforms

The EFC has laid stress on certain modifications in the budget making process of states, as well as the way in which data is presented. Specifically the following issues should be laid down:

- A separate schedule in each state government budget giving the total expenditure on salaries and allowances.
- A separate schedule on pensions and terminal benefit outflows.
- A scheme-wise, sector-wise schedule of subsidies (explicit) from the state budget.
- A schedule of year-wise and project-wise guarantees outstanding.
- Annexure II to this note captures the basic ingredients of fiscal transparency. While this document will form a basic monitoring input for monitoring the FRF, states may consider presenting this document as a part of the state budget.

Monitoring of Fiscal Reform

Pursuant to the receipts of these guidelines, each state must draw up the Medium-Term Fiscal Reforms Programme (MTFRP). While flexibility in designing the MTFRP is broadly left to the states the following principles should form the minimum requirement of each state:

Releases from the incentive fund will be based on a single monitorable fiscal objective. Each state will be expected to achieve a minimum improvement of five per cent in the revenue deficit (surplus) as a proportion of their revenue receipt each year till 2004-05. The base-year will be financial year 1999-2000.

Explanations

- If a state 'A' falls short of an improvement of five per cent in year (t+l) compared to the previous year, t, the state will not be eligible to draw upon its share from the Incentive Fund for that year. The amount of the Fund will be carried over to the next year, (t+2);
- If in year (t+2) state 'A' shows an improvement of over 10 per cent compared to the base-year 't', the state shall be entitled to its share of the Incentive Fund for the year (t+2) as well as the withheld portion of year (t+l);
- If, however, the improvement in year (t+2) is six per cent compared to year (t+l) the state shall be eligible for its share for the year (t+2) but not for the year (t+l). The withheld portion of year (t+l) will then be carried over to year (t+3);
- Paragraphs 8.3 to 8.7 of the Supplementary Report of the EFC clarify the mechanism for releases from the Incentive Fund, which *inter-alia* also includes with-held portion of the revenue deficit grants to states, and also such other discretionary releases to states as additional Open Market Borrowings and extended ways and means that may be allotted to states in the duration of the scheme period;
- The revenue deficit should be clearly understood to be inclusive of:
    - Contingent liabilities such as guarantees and letters of comfort due in that year which would directly constitute a budget liabilities.
    - Subsidies due to PSEs, whether or not the state pays such a subsidy upfront. Thus, a budget subsidy payable to the SEB will be 'recognised' as a revenue expenditure, for purposes of computing the revenue deficit.
- Financial year 2004-05 is the final year of the EFC Award. However, in the course of the year only the financial details of 2003-04 (RE) will be available thus, starting from base-year 1999-00, states may expect releases of the entire Incentive Fund if they achieve a 20 per cent improvement in revenue deficit (or surplus) as proportion of the revenue receipts. Details of improvement of each State are given in Annexure I. It will be seen that by the financial year 2005-06 if the trend of the improvement continues, the states sector as a whole will come into revenue balance.

States should draw up MTFRP as suggested above. Monitoring of the facility would be a joint exercise conducted on the basis of components of the MTFRP and the improvement in revenue balance captured in the form given in Annexure II. This should form the basis of a Memorandum of Understanding (MoU) entered into between each State and Ministry of Finance, as a preliminary exercise.

Monitoring Committee

The States Fiscal Reform Facility and the MTFRP is essentially the states' own programme. Considerable flexibility in designing the policy framework has been left to the initiative of the state governments. However, the state's fiscal health is an important component of the country's overall macroeconomic balance. Monitoring the programme is, to that extent, a collaborative exercise between the centre and the states. A committee comprising of:

i. Secretary (Expenditure) in the Ministry of Finance.
ii. Secretary, Planning Commission.
iii. Deputy Governor, Reserve Bank of India.
iv. Chief Economic Adviser, DEA, Ministry of Finance.
v. An outside Expert.
vi. The Chief Secretary of the state.
vii. The Finance Secretary of the state concerned.

will form the Monitoring Committee. Joint Secretary (PF-1) in the Ministry of Finance will be the Member-Secretary of this Monitoring Committee. The Fiscal Reform Unit in the FCD will be the single window Secretariat for the Fiscal - Reform Programme under this scheme as well as any other supplementary facility that may be extended to states from time to time, including, *inter-alia,* facilities from multilateral lending agencies.

On receipt of these guidelines states may immediately embark upon the exercise of drawing up the MTFRP, dovetailing the same with improvements in the revenue balance before entering into an MoU with the Government of India.

APPENDIX A-16.16

Decentralisation in Uttar Pradesh: Fiscal Aspects

There are 59607 *Panchayati Raj* Institutions (rural local bodies) and 689 *nigam palikas* in Uttar Pradesh. Included in the 689 urban local bodies called *nigam palikas* are:

A-16.16.1

***Nigam Palikas* in Uttar Pradesh**

Nagar Nigams (Municipal Corporations)	11
Nagar Palika Parishads	226
Nagar Panchayats	452
	689

Sources: 1. Eleventh Finance Commission.
2. First Finance Commission–Interim Report.

Article 243(I) and 243(Y) inserted in the Constitution through the 73rd and 74th Amendment in 1992 enjoin on the Governor to set up a Finance Commission within two years and at every five-year internal. The First Finance Commission was constituted in October 1994 with a directive to study and review the financial position of every third-tier administrative institution and recommend distribution between them of the net proceeds of taxes, duties, tools and fees leviable by the state and prescribe the shares of each *gram/kshetra/zilla panchayats* and urban local bodies. The Commission gave an Interim Report in December 1995 and a Final Report in December 1996. The system of financial support to local bodies was through grants-in-aid, which was unsatisfactory. Therefore, the Commission recommended discontinuance of the grants-in-aid system and substituted it with a regular share of taxes, duties, tolls and fees levied by the state government, all pooled together. The share of urban local bodies was fixed at seven per cent and of the *panchayati* institutions at three per cent of such pooled gross tax revenue. The *inter se* distribution among them should be 80 per cent population and 20 per cent area.

In respect of grants-in-aid, distinction has been drawn between plan and non-plan grants. The state government should pass on to the local bodies plan schemes and along with them the finances required for executing them. In addition, the funds recommended by the TFC amounting to Rs. 30.29 crore for the urban bodies and Rs. 189.88 crore for the rural local bodies should be released to them by way of matching aid.

In the final Report, the Commission has not reopened the devolution formula. It however recommended the levy and collection of property tax and the manner of computation of the tax. It also recommended that all loans granted and outstanding along with interest thereon, should be converted into grants.

The state government accepted the recommendations given in the Interim Report with the stipulation that the funds would be released taking into account the performance profile of these local bodies.

The EFC which under a specified term of reference contained in the Presidential Order, examined the requirements of the local bodies, both rural and urban and made some wide-ranging and comprehensive recommendation which have been accepted by both President and Parliament. The specific recommendations regarding grants have been desired by applying a formula of five variables with different weights assigned to each of them. These are as follows.

A-16.16.2
Criteria for Recommendation of Grants

(Per Cent)

1.	Population (1991)	40
2.	Area (1991)	20
3.	Distance from highest per capita income	20
4.	Revenue effort	10
5.	Index of decentralisation	10
		100

Source: Report of the Eleventh Finance Commission.

Adopting these criteria the Commission recommended grants to states which they should pass on to the local bodies, rural and urban.

At the same time, the EFC has identified that the database as well as the maintenance of village land seconds are not adequate. The EFC therefore recommended that funds should be earmarked as 'first charge' out of the grants recommended for these basic needs. The grants recommended for Uttar Pradesh are shown below.

A-16.16.3
Share of Uttar Pradesh in the Allocation of Grants

	Panchayats		*Municipalities*		*Total*	*Total*
	Percentage Share	*Amount of Grant*	*Percentage Share*	*Amount of Grant*	*First Charge*	*Allocation*
Normal Area	16.489	26382.67	12.582	5032.64	-	31415.31
For Creation of Database	4754.95		54.56	4809.52		
Maintenance of Accounts in				-		
Village Level		2344.80		-	2344.80	
Intermediate		36.16		-	36.16	
Grant Total		**7135.91**		**54.56**	**7190.48**	**31415.31**

Source: Eleventh Finance Commission Report.

Thus, out of a total sum of Rs. 31415.31 lakh of grant per annum, the amount earmarked for creation of database is Rs. 4809.52 and for village/intermediate level is Rs. 2380.96 lakh. These amounts hold a priority in the total amount of grant.

The EFC reported that some states had not held elections. It is yet not clear as to how many areas have not elected their representatives in Uttar Pradesh. It is important to hold elections as otherwise the state might forfeit the statutory grants recommended.

It is a matter of satisfaction that the erstwhile grants-in-aid system has become tax-formula-based which ensures an automatic flow of revenues to the local bodies. This is precisely what was conceived by the 73rd and 74th Amendment to the Constitution.

However, the State Finance Commission as also the state government consider that the position of the local bodies in the state are not up to the mark and that there is need for improving their performance which cannot be examined by making funds available alone. Under the Constitution, functions have to be allocated together with the funds made available for their sound performance. The state government should identify areas where performance targets require to be determined and proceed to oversee whether the grants are being reached. From the preliminary discussions held it appeared that there is need to cover a lot of ground before the local bodies can be considered to be performing needed. Also, it was pointed out that as much as 70 per cent of the funds are consumed by salaries, thereby leaving very little for the performance of the prescribed duties of the local bodies.

In fact, it is understood that on the plea of verification of performance, funds are withheld by the government resulting in non-performance. While the performance of the urban bodies is considered to be good and satisfactory, that of the rural bodies is not at all good. This would require, more than the funds and their allocation, the selection of persons with commitment and who have the will to perform. Property taxes are levied only in 42 out of the 77 municipal corporations. This is very low. This should be levied and collected as also the user charges for Jal Nigam and Jal Sansthan should be enforced.

Democratic decentralisation plan is going slow in the state. It is in the interests of economic development of the state that the local bodies should be encouraged to perform and their performances reviewed and, if necessary, through a system of rewards for the performing bodies. The state government should devise means to generate an atmosphere of collective performance of the local bodies all over the state in a well coordinated manner.

APPENDIX A-16.17

Uttar Pradesh Power Sector

Reforms in the power sector in the country have been on the anvil for over a decade. A specific direction was provided with the enactment of the Electricity Regulatory Commission Act, 1998 with a view to setting up of independent Electricity Regulatory Commissions both at the Centre and in the states with the object of rationalising tariff, ensure transparency, promote efficiency and ensure fair returns to the investors.

The Uttar Pradesh Electricity Reforms Act, 1999 came into force on January 14, 2000 and the Uttar Pradesh Electricity Regulatory Commission (UPERC) which was already set up under the Central Act, was formally constituted under the State Act. The Act requires the UPERC to determine the tariff for electricity wholesale, bulk, grid and retail and for the use of transmission facilities.

In terms of the Uttar Pradesh Electricity Reforms Act, 1999 and under the rules made thereunder the Uttar Pradesh State Electricity Board (UPSEB) was reorganised into three corporations, *viz*.-

i. The Uttar Pradesh Power Corporation Limited (UPPCL) which is a principal successor to the UPSEB, entrusted with transmission, distribution and retail supply.

ii. The Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) dealing with generation of thermal power.

iii. The Uttar Pradesh Jal Vidyut Utpadan Nigam Limited (UPJVUNL) concerned with hydroelectric generation.

The State Government is the owner of these corporations. In addition, corporate bodies for Kanpur and Noida were also set up.

The functioning of the UPERC has led to several startling disclosures of the working of the UPSEB. These related to non-availability of details of power consumption in rural areas, cost of supply of power to different classes of consumers, revenue from billing departments and above all, details of expenditure. There were also disclosures that the Transmission and Distribution (T&D) losses were generally overestimated because the Agricultural consumers were supplied unmetered power besides being perpetrated through theft/pilferage with the connivance of staff. Distorted tariff structure and cross subsidisation have resulted in a decline in the growth rates in productive sectors of industry and agriculture and increased growth rates in the domestic sectors. The Commission also stated that commercial loss was a euphemism for theft and pilferage.

The UPPCL placed before the Commission proposals to raise the tariff by about 48.4 per cent in 2000-01 to meet a gap of Rs. 3028 crore between the expenditure and receipts. The receipts include a sum of Rs. 790 crore as subsidy, equity, etc. The Commission had public hearings in some selected cities and towns. The public reaction to increase in tariff was clearly negative for many reasons, important among which are:

i. Low purchase of energy.

ii. No proposal for a differential tariff through time of day criterion.

iii. A 10 per cent upward revision was made in January 1999.

iv. T&D bases should be controlled in which case there is no need for rate revision.

v. The additional expenditure provision of 6 per cent for wage revision and 10 per cent for administrative purposes.

The Commission reviewed the revenue and expenditure estimates and revised the requirement for expenditure. The Commission reviewed the tariff and recommended revisions on an average of 10.18 per cent. In 8 of the 12 months for which the revised tariff would be implemented, additional revenue of the order of Rs. 427 crore would be available to the UPPCL. As the reworked gap between revenue and expenditure amounted to Rs. 399 crore, the Commission recommended that the resultant surplus of Rs. 28 crore be treated as Rate of Return on capital base.

The UPPCL implemented the revised tariff.

The State Electricity Boards are in substantial arrears to the Central Public Sector Undertakings (CPSUs). As at the end of February 2001 they owed a sum of Rs. 41473 crore consisting of Rs. 25727 crore as principal and Rs. 18746 crore as interest/surcharge. Of the total sum, UPSEB's share was Rs. 5170 crore or 12 per cent of the total. The breakdown between principal and interest is not available. The principal CPSUs were the NTPC, Coal India Limited, NHPC and NPC.

The Chief Ministers Conference held in March 2001 considered the need for expediting power sector reforms. It was agreed that while the dues should be cleared, the SEBs would need to be restructured. It was decided to constitute an Expert Group to recommend.

i. A one-time settlement of outstanding dues.

ii. A medium-term capital restructuring and reform of SEBs.

Accordingly, the Expert Group was constituted with Shri Montek Singh Ahluwalia as the Chairman. The Expert Group gave two separate reports on these two terms, in May 2001 for settlement of dues and in July 2001 for restructuring of SEBs.

In the first Report, the Expert Group thought that while the settlement of dues was important, the unviable situation of the SEBs should be addressed so that over dues would not arise again. The Group recommended settlement of outstanding dues with a linkage to a mechanism, which would ensure payment of current dues in future. The Group's recommended package contained the following main features:

i. For states, which accept the package of recommendations, 50 per cent of the interest/surcharge on delayed payments would be waived. The rest of the dues consisting of the full principal and the balance of 50 per cent of interest aggregating to Rs. 33600 crore should be securitised through bonds issued by the respective state governments.

ii. The bonds should be issued by the RBI through a tax-free interest rate of 8.5 per cent.

iii. The terms of the bond be structured to achieve a moratorium of 5 years on repayment of principal with the entire principal paid between the 6th and the 15th year. The bonds will be like those for market borrowings and would be subject to lock-in restrictions that will allow release of only 10 per cent of the bonds in the secondary market each year.

iv. To encourage adherence to the scheme and to avoid defaults, there will be a scheme of incentives offered by the CPSUs such as cash incentives of two per cent of the value of the bond. The Group estimated that these incentives add up to Rs. 6300 crore. In addition, the conforming states would get the benefit of APDP grant and supply of power.

v. The scheme would come into force after one half of the states which have not less than Rs. 500 crore of billing per annum from CPSUs signify their acceptance.

As mentioned earlier the Expert Group gave its Second Report for restructuring the SEBs in July 2001. The main recommendations are the following:

i. While cross-subsidies should be phased out gradually over a period of time, subsidies in pursuance of social objectives should be given in a transparent manner, and only to the extent of reimbursement by the state government.

ii. The reforms would require large resources—both by way of investment financing as well as for meeting the adjustment costs, and resources can be mobilised to a substantial extent from the private sector provided an appropriate framework is created.

iii. For meeting investment needs, the Central Government should assist state governments interested in implementing an integrated programme of reform in the power sector to access resources from multilateral financing institutions such as IBRD or the ADB. The Group estimated that it should be possible to obtain around Rs. 50,000 crore from these institutions (i.e., US$ 2 billion per year) in the Tenth Plan period.

iv. The Group estimated a sum of Rs. 40,000 crore in the Tenth Plan by way of Central assistance. This should be provided through a Modified Accelerated Power Development Programme. The break up of the allocation is:

a. Rs. 15000 crore for bridging the current revenue gap by way of central assistance to the states against reduction of T&D losses and improvement in collection efficiency.

b. Rs. 15000 crore on a matching basis for assisting the states in meeting their pension liabilities as well as for supporting VRS.

c. Rs. 10000 crore to assist the states in introducing open access and allowing new generating stations to sell directly to bulk consumers in a competitive environment. The assistance would be linked to creation of framework for open access, and for actual wheeling of power on an open access basis during a period of three years.

As part of the ongoing reforms, the Expert Group headed by Shri N.K. Singh gave a Report in December 2001 containing recommendations for transitional mechanism and finance to make state-specific suggestions which the Group considers is a complex problem because the difficulties attendant to the process have to be mitigated before the transition can succeed. The following are the main observations in the Report:

i. The present APDP is basically aimed at financial investment with support from financial institutions and the budget. This structure should be reformed from an investment window to a mechanism for supporting power sector reforms linked to certain performance parameters.

ii. The Ministry of Power should devise State-specific reforms. In the meantime 25 per cent of the specified allocation of Central assistance under APDRP which is the modified APDP should be released at the beginning of the financial year 2002-03.

iii. The Empowered Committee of Chief Ministers set up sometime ago should monitor the reforms and the achievements towards the milestones.

The brief survey of the recent developments in the power reforms shows that the onus of success rests primarily on the state governments. Just as SEBs owe large sums of money to CPSU's the Central government agencies themselves are in arrears to the SEBs. Their composition requires to be ascertained. The Ahluwalia Committee recognised this fact and suggested settlement and paring off the amounts due in both ends. As at the end of 1998-99 the SEBs were to receive revenue arrears amounting to Rs. 18,726 crore of which Uttar Pradesh's share was Rs. 4827.5 crore (Planning Commission Annual Report on the Working of the State Electricity Boards and Electricity Departments, 1999-00).

In 2003-04 RE, the Uttar Pradesh Government provided for writing off government loans to the SEBs amounting to Rs. 12277.40 crore. In this year, an amount equal to Rs. 5541.09 crore was also provided as investment to State Electricity Corporation and Uttar Pradesh State Generation Corporation as part of the restructuring of the State Electricity Sector.

The reorganisation of power sector led to the creation of following entities:

1. Uttar Pradesh Rajya Vidyut Utpadan Nigam (Uttar Pradesh State Power Generation Corporation)
2. Uttar Pradesh Minor and Small Hydro Electric Corporation
3. Tehri Hydro Development Corporation
4. Uttar Pradesh Hydro Electricity Generation Corporation (Uttar Pradesh Hydro Electric Utpadan Corporation)

The Government of India and Uttar Pradesh Government announced a Memorandum of Understanding on January 25, 2000 for reforming the power sector. The MoU provided for establishing distribution profit-centres. In November 2002, it was decided to form four distribution companies called:

1. Paschimanchal Vidyut Vitran Nigam
2. Meerut Madhanchal Vidyut Vitran Nigam
3. Dakshinanchal Vidyut Vitran Nigam
4. Poorvanchal Vidyut Vitran Nigam

In the case of transmission and distribution a new company was formed, *viz*., Uttar Pradesh Power Corporation Limited (UPPCL). This has two subsidiary companies also, *viz*., Kanpur Electric Supply Company Limited and Noida Power Company Limited. In August 2003, the distribution function of UPPCL was transferred to the four independent distribution companies covering eastern, western, southern, and central regions of the state.

APPENDIX A-16.18

The Uttar Pradesh Fiscal Responsibility and Budget Management Bill, 2004

A bill to provide for the responsibility of the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on state government borrowings, government guarantees, debt and deficits, greater transparency in fiscal operations of the state government and use of a medium-term fiscal framework and for matters connected therewith or incidental thereto.

It is hereby enacted in the 55th year of the Republic of India as follows:

Short title and commencement:

1. (1) This Act may be called the Uttar Pradesh Fiscal Responsibility and Budget Management Act, 2004.

   (2) It shall come into force on such date as the State Government may by notification, appoint.

2. In this Act, unless the context otherwise requires:

(a) 'Annual budget' means the annual Financial statement laid before both Houses of State Legislature under article 202 of the Constitution.

(b) 'Current year' means the year preceding the year for which budget and Medium Term Fiscal Restructuring Policy are being presented.

(c) 'Previous year' means the year preceding the current year.

(d) 'Revenue deficit' means the difference between revenue expenditure and revenue receipts.

(e) 'Fiscal deficit' means the excess of:

- total disbursements from the Consolidated Fund of The State (excluding repayment of debt) over total receipts into the Fund excluding the debt receipts during the financial year; or
- total expenditure from the Consolidated Fund of the State (including loans but excluding repayment of debt) over own tax and non-tax revenue receipts, devolution and other grants from Government of India to the state, and non-debt capital receipts during a financial year which represents the borrowing requirements, net of repayment of debt, of the State Government during the financial year.

(f) 'Fiscal indicators' means the measures such as numerical ceilings and proportions to gross state domestic product or any other ratios, as may be prescribed, for evaluation of the fiscal position of the State Government.

(g) 'Total liabilities' means the liabilities under the Consolidated Fund of the state and the public account of the state.

3. Medium-term Fiscal Restructuring Policy to be laid before the Legislature

(1) The State Government shall in each financial year lay before both Houses of the Legislature a Medium-term Fiscal Restructuring Policy along with the annual budget.

(2) The Medium-term Fiscal Restructuring Policy shall set forth a five-year rolling target for the prescribed fiscal indicators with specification of underlying assumptions.

(3) In particular and without prejudice to the provisions contained in sub-section (2), the Medium-term Fiscal Restructuring Policy shall include an assessment of sustainability relating to:

- the balance between revenue receipts and revenue expenditure, and
- the use of capital receipts including borrowings for generating productive assets.

4. The Medium-term Fiscal Restructuring Policy shall, *inter-alia*, contain:

(a) The medium-term fiscal objectives of the state government.

(b) An evaluation of performance on the basis of the prescribed fiscal indicators *vis-à-vis* the targets set out in the budget, and the likely performance in the current year as per revised estimates.

(c) A statement on recent economic trends and future prospects for growth and development affecting fiscal position of the state government.

(d) The strategic priorities of the state government in the fiscal areas for the ensuring financial year.

(e) The policies of the state government for the ensuing financial year relating to taxation, expenditure, borrowings and other liabilities, lending and investments, pricing of administered goods and services, guarantees, and activities of Public Sector Undertakings—which have potential budgetary implications; and the key fiscal measures and targets pertaining to each of these.

(f) An evaluation as to how current policies of the state government are in conformity with the fiscal management principles set out in Section 4 and, the fiscal objectives set out in the Medium-term Fiscal Restructuring Policy.

5. The Medium-term Fiscal Restructuring Policy shall be in such form as may be prescribed.

6. Fiscal Management Principles

(1) The state government shall be guided by the following fiscal management principles:

(a) Maintain government debt at prudent levels.

(b) Manage guarantees and other contingent liabilities prudently, with particular reference to the quality and level of such liabilities.

(c) Ensure that policy decisions of the government have due regard to their financial implication on future generation.

(d) Ensure that borrowings are used on development activities, which are evaluated to become self-sustained, and creation or augmentation of capital assets, and are not applied to finance current expenditure.

(e) Ensure a reasonable degree of stability and predictability in the level of tax burden.

(f) Maintain the integrity of the tax system by minimising special incentives, concessions and exemptions.

(g) Pursue tax policies with due regard to economic efficiency and compliance costs.

(h) Pursue non-tax revenue policies with due regard to cost recovery and equity.

(i) Pursue expenditure policies that would provide impetus to economic growth, poverty reduction and improvement in human welfare.

(j) Build up a revenue surplus for use in capital formation and productive expenditure.

(k) Ensure that physical assets of the government are properly maintained.

(l) Disclose sufficient information to allow the public to scrutinise the conduct of fiscal policy and the state of public finance.

(m) Ensure that government uses resources in ways that give best value for money and also ensure that public assets are put to best possible use.

(n) Minimise fiscal risks associated with running of public sector undertakings and utilities providing public goods and services.

(o) Manage expenditure consistent with the level of revenue generated.

(p) Formulate budget in realistic and objective manner with due regard to the general economic outlook and revenue prospects and minimise deviations during the course of the year.

(q) Ensure discharge of current liabilities in a timely manner.

(2) The State Government shall take appropriate measures to eliminate the revenue deficit and control the fiscal deficit at sustainable level and built up adequate revenue surplus.

(3) In particular, and without prejudice to the generality to the foregoing provisions the State Government shall:

(a) Reduce revenue deficit to nil within a period of five financial years beginning from the initial financial year on the 1st day of April 2004 and ending on the 31st day of March, 2009.

(b) Reduce revenue deficit as percentage of gross state domestic product, in each of the financial years beginning on the 1st day of April, 2004 in a manner consistent with the goal set out in clause (a).

(c) Reduce fiscal deficit to not more than three per cent of the estimated Gross State Domestic Product within a period of five financial years beginning from the initial financial year on the 1st day of April, 2004 and ending on the 31st day of March, 2009.

(d) Reduce fiscal deficit as percentage of gross state domestic Product in each of the financial years beginning on the 1st day of April, 2004 in a manner consistent with the goal set out in clause (c).

(e) Not to give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of this Act or any rule or law to be made by the State Government subsequent to coming into force of this Act.

(f) Ensure within a period of financial years, beginning from the initial financial year on the 1st day of April, 2004 and ending on the 31st day of March, 2018; that the total liabilities at the end of the last financial year, do not exceed 25 five per cent of the estimated gross state domestic product for that year.

(4) Provided that revenue deficit and fiscal deficit may exceed the limits specified under this sub-section due to ground or grounds of unforeseen demands on the finance of the State Government due to national security or natural calamity, subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost that can be attributed to the calamities.

Provided further that the ground or grounds specified in the measures to first proviso shall be placed before both the Houses of Legislature, as soon as possible, after it becomes likely that such deficit amount may exceed the aforesaid limits, with an accompanying report stating the likely extent of excess, and reasons thereof.

Measures for Fiscal Transparency

(1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimise as far as practicable, secrecy in the preparation of the annual budget.

(2) In particular, and without prejudice to the generality of the foregoing provision, the State Government shall, at the time of presentation of the annual budget, disclose in a statement in the form as may be prescribed-

(a) The significant changes in the accounting standards, policies and practices affecting or likely to effect the computation of prescribed fiscal indicators.

(b) As far as practicable, and consistent with protection of public interest, the contingent liabilities created by way of guarantees; the actual liabilities arising out of borrowings by public sector undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government allocations and commitments made by the state government having potential budgetary implications, including revenue demand raised but not realised, tax expenditure; losses incurred in providing public goods, and services through public utilities and undertaking; liability in respect of major works and contracts; and subsidy payments and the impact of the same on the fiscal position of the state including in relation to the targets referred to in sub-section (3) of Section 4.

Measures to Enforce Compliance

(1) The Annual Budget, and policies announced at the time of the budget, shall be consistent with the objectives and targets specified in the Medium-Term Fiscal Restructuring Policy for the coming and future years.

(2) The Minister in charge of the Department of Finance, shall review, every half year, the trend in receipts and expenditure in relation to the budget, remedial measures to be taken to achieve the budget targets and place before both the Houses of Legislature the outcome of such reviews. The review report shall be in such from as may be prescribed.

(3) The review report shall explain:

(a) Any deviation or likely deviation in meeting the obligations cast on the state government under this Act.

(b) Whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and how much of the deviation can be attributed to general economic environment and to policy changes by the state government.

(c) The remedial measures the State Government proposes to take.

(4) Wherever there is a prospect of either shortfall in review or excess of expenditure over pre-specified levels for a given year on account of any new policy decision of the State Government that affects either the state government or its public sector undertakings, state government, prior to taking such policy decision, shall take measures to fully offset the fiscal impact for the current and future years by curtailing the sums authorised to be paid and applied from and out of the Consolidated Fund of the state under any Act to provide for the appropriation of such sums, or by taking interim measures for revenue augmentation, or by taking up a combination of both.

(5) Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the state under clause (3) of Article 202 of the Constitution.

Provided further that, while adhering to the fiscal years, the state government will give priority to protecting certain expenditure defined in the Medium-Term Fiscal Restructuring Policy as 'High Priority Development Expenditure' (including, *inter-alia*) from curtailment or may impose a recede or partial curtailment.

(6) Whenever one or more supplementary estimates are presented to the House of Legislature, the state government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the Medium-Term Fiscal Restructuring Policy objectives and targets for the future year.

7 (1) The state government may, by notification, make rules for carrying out the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing powers, such rules may provide for all or any of the following matters, namely:

(a) The fiscal indicator to be prescribed for the purpose and sub-section (2) of section 3 and clause *(a)* of sub-section (2) of section (5).

(b) The term of the Medium-term Fiscal Restructuring Policy referred to sub-section (5) of section 3 and sub-section (2) of section.

(c) Any other matter which is required to be, or may be prescribed.

(8) Protection of action taken in good faith: No suit for prosecution or other legal proceedings shall lie against the State Government or any officer of the State Government for anything which is in good faith done or intended do be done under this Act or the rules made thereunder.

(9) Application of other laws not barred Power to remove difficulties: The provisions of this Act shall be in addition to and not in derogation of the provisions of any other law for the time being in force.

(1) If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Gazette make such provisions not inconsistent with the provisions of this Act as it may deem necessary for removing the difficulty.

(2) Provided that no order shall be made under this section after the expiry of two years from the commencement of this Act.

(3) Every order made under this section shall be laid as soon as may be after it is made, before each house of the state legislature.