REPORT OF THE WORKING GROUP ON STATE'S FINANCIAL RESOURCES

FOR THE TWELFTH FIVE YEAR PLAN (2012-2017)

Planning Commission
Government of India

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WORKING GROUP ON STATES' FINANCIAL RESOURCES

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Acknowledgements

I take this opportunity to thank the Planning Commission for entrusting the task of making an assessment of states' financial resources for the Twelfth Plan to this Working Group. Working with the members of the Group has been a rewarding experience. I would like to thank all members of the Group for their insights and cooperation. I would particularly like to thank Shri T.K.Pandey, Advisor, Financial Resources, Planning Commission and Shri S. Lakshmanan, Director (FR), Planning Commission and all the other officials from the Planning Commission associated with this Working Group for their constant support.

D.K. Srivastava

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Chapter 1
Introduction

The Working Group on State's Financial Resources was constituted in the context of the formulation of the 12th Five Year Plan. The composition and Terms of Reference of the Working Group are given at **Annex-1**.

1.1 Scope of Work

1.3 As per the terms of reference, the Working Group on States' Financial Resources (WG-SFR) is required to address the following tasks:

a) Analysis of Resource Position of States: This is to be done keeping in view the recommendations of the Thirteenth Finance Commission (TFC), the likely introduction of GST, flow of EAP funds, the recommendations of the High level Expert Committee under the Chairmanship of Dr. C. Rangarajan (hereafter, Rangarajan Committee) and other policy changes.

b) Distribution of Federal Plan Assistance: In this part, the WG-SFR is required to look at the pattern of inter se distribution of plan assistance among states within the general and special category states and applicability of the Finance Commission distribution formula for the Planning assistance.

c) Flow of Funds under centrally sponsored schemes: Scope of State Plan: In this part, the WG-SFR is required to look into the issue of including plans of local bodies and state level public enterprises and state level parastatals as part of the state plan as also the issue of continuing with the distinction between plan and non-plan expenditures as also how to account for allocation of funds to centrally sponsored schemes as part of state plans

d) Projections of States' Resources and Expenditures: The main task of the WG-SFR is to provide a set of projections of resources and expenditure for the Twelfth Plan for the states individually and taken together under suitable assumptions.

1.2 Approach of the Working Group

The WG-SFR examined the terms of reference and, with respect to some of the key features of the ToR, considered the following as relevant:

1. With respect to the reference to the goods and services tax (GST), the WG considered that eventually, when the GST is adopted, the rate structure will be such that it will be revenue-neutral or revenue-augmenting with respect to all states considered together. If some states experience revenue losses, there will be compensation from the central government, which will be at least for five years. Considering that the 12th Plan will be well underway, and the adoption of GST has been postponed, there may not be any need to alter the estimates of states' resources. At a later date, if the GST is actually adopted, a separate estimation can be made and appended to the estimates based on the current tax structure.

2. The recommendations/assumptions of the ThFC regarding buoyancies of state tax

revenues have in general proved to be higher than actual realization in most cases. It may not be realistic to adopt these until we reach the base year of our forecasts, namely 2011-12. After that the ThFC buoyancies may be adopted or adopted after adjustment in view of the actual performance of the states.

3. The recommendation of the Rangarajan Committee (High Level Expert Committee on Efficient Management of Public Expenditures) on the scope of state plans and flow of funds are considered to be relevant and the WG-SFR is guided by these.

4. The macro-economic conditions in respect of inflation rate and potential growth rate have been changing fast. In particular, the realizable growth appears to be less than 9 percent by a margin of 1.5 to 2 percentage points at least in the initial years of the plan. At the same time, the inflation rate could be higher than that given in the Approach Paper for the Twelfth plan. The WG has adopted the approach of working with a nominal growth of 14 percent without necessarily taking a view as to its decomposition between real growth and inflation. A fall in real growth below 9 percent in specific years is likely to be made up by a higher than 5 percent inflation rate on average.

Chapter 2
Concepts and Definitions

2.1 Aggregate Plan Resources of State Governments

Aggregate Plan Resources are the Government's receipts net of non-plan expenditure that are required to finance the Plan expenditure during the Five Year Plan.

Non Plan expenditure is manly meant to maintain the facilities created during the previous plans. Plan expenditure accordingly is taken as the expenditure required for creating new assets or facilities during the Five Year Plan.

The broad concepts and definition adopted by the Working Group for the 10^{th} and 11^{th} Five year Plans have been followed for estimation of resources for the 12^{th} Five Year Plan also. These are as follows:

Aggregate Plan Resources **(APR)** is Aggregate Receipts (**AR)** less Non-Plan Expenditure **(NPE).**
APR = AR - NPE;
AR comprises Current Revenues (**CR**) excluding Plan Grants, Plan Grants (**PG**), Non-Debt Capital Receipts (**ND**) and Net Borrowings.(**NB**).
AR = CR + PG + ND + NB;
NPE comprises Non-Plan Revenue Expenditure (NPRE) and Non-Plan Capital Expenditure (NPC).
NPE = NPRE + NPC;
Thus,
APR = {CR + PG + ND + NB} - {NPRE + NPC};
Rearranging,
APR = (CR - NPRE) + PG +(ND - NPC) + NB
Where **(CR - NPRE**) is Balance from Current Revenues or BCR

The components of Aggregate Plan Resources are as follows:

- **Balance from Current Revenues (CR-NPRE)**: Revenues excluding Plan grants less NPRE with the latter including the budgetary support to State Level Public Enterprises (SLPEs) and Grants-in-Aid Institutions.

- **Plan Grants (PG)**: Grants including the grant component of Central Assistance and Finance Commission Grants for Upgradation, Special problems and Local Bodies but excluding Centrally Sponsored and Central Plan (CSS/CPS) grants.

- **Non-Debt Capital Receipts net of Non-Plan Capital Expenditure (ND-NPC)**: Non Debt Capital receipts including proceeds from disinvestment of SLPEs less Non-Plan Capital expenditure with the latter excluding repayment of borrowings.

- **Net Borrowings (NB)**: Although Net Borrowings derive from deducting repayments from gross borrowings, these can be also estimated by dividing incremental interest payments between two successive years by the effective rate of interest.

The "budgetary support" to State Plan comprises the above four components. In addition, the States also provide guarantees to their respective SLPEs to enable the latter to raise resources through their own borrowings. The SLPEs may also have their own operating surpluses. Both these add to the resources available for financing the State Plans. Further, the local bodies (Panchayats, Municipalities) could also contribute to the States' Plans through their own positive surpluses, if any.

The above concepts and definitions are adopted throughout this report.

Chapter 3
Review of States' Resources: Eleventh Plan Period

The Report of the Working Group on State Resources for the Eleventh Plan was worked out based on the three Sub-Group reports. This was based on an analysis of the past trends in tax and non-tax revenues and the trends in the various components of expenditure on the basis of the historical data. However, the Working Group found it difficult to obtain accurate data on a comparable basis for the States. In view of this, the Working Group had made certain assumptions for the various indicators to estimate the resources for the Eleventh Plan.

In this Chapter, we undertake a brief overview of states' resources, expenditure and fiscal imbalances since the nineties to highlight broad pattern before examining the plan resources for the Eleventh Plan in greater detail in relation to the projections done by the Working Group on State Resources for the Eleventh Plan.

3.1 Trends in State Finances

a. Fiscal Imbalances

We start with trends in fiscal imbalance as indicated by fiscal and revenue deficit relative to GDP at market prices (GDPmp). Chart 3.1 highlights three important phases of the evolution of fiscal imbalance in state finances: increasing fiscal imbalance since 1993-94, which accelerated after 1997-98 and remained high until 2003-04; start of improvement in fiscal imbalance after 2004-05 until 2007-08; and deterioration from 2008-09. At its worst, fiscal deficit of the states reached a level of nearly 4.5 percent in 1999-00 and more than 4 percent in 2003-04. At its best, the fiscal deficit of the states fell to 1.5 percent in 2007-08. Revenue deficit relative to GDP indicates a similar pattern. It was at its lowest in recent history in 2007-08 when there was a revenue account surplus of nearly 1 percent of GDP. For three years a surplus on the revenue account was visible during 2006-07 to 2008-09.

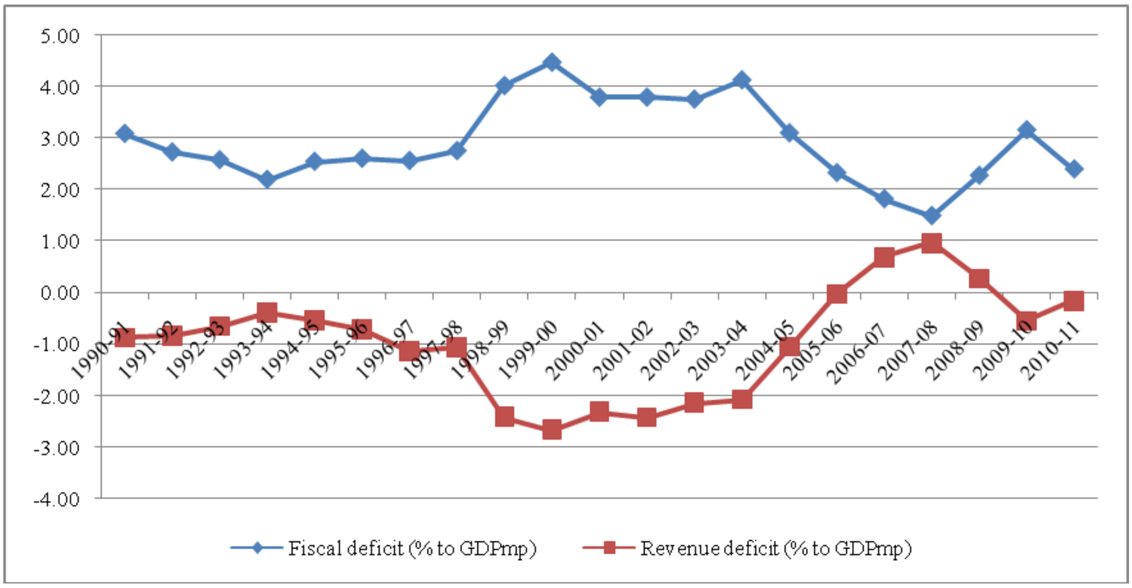

Chart 3.1 State Finances: Profile of Fiscal Imbalances

b. Trends in States’ Own Revenues

We look at trends in components of states’ revenues consisting of states’ own tax revenues, states’ share in central taxes, states’ non-tax revenues, and states’ total revenue receipts. As percentage of GDP at market prices (2004-05 base series at current prices), states own tax revenues show a consistent increase since 1998-99, rising from a level close to 5 percent of GDP to more than 6 percent by 2006-07. Around 2006-07 and 2007-08, the share in central taxes as result of higher central tax buoyancy, also increased to its peak at more than 3 percent in 2007-08. After that there has been a decline in both components.

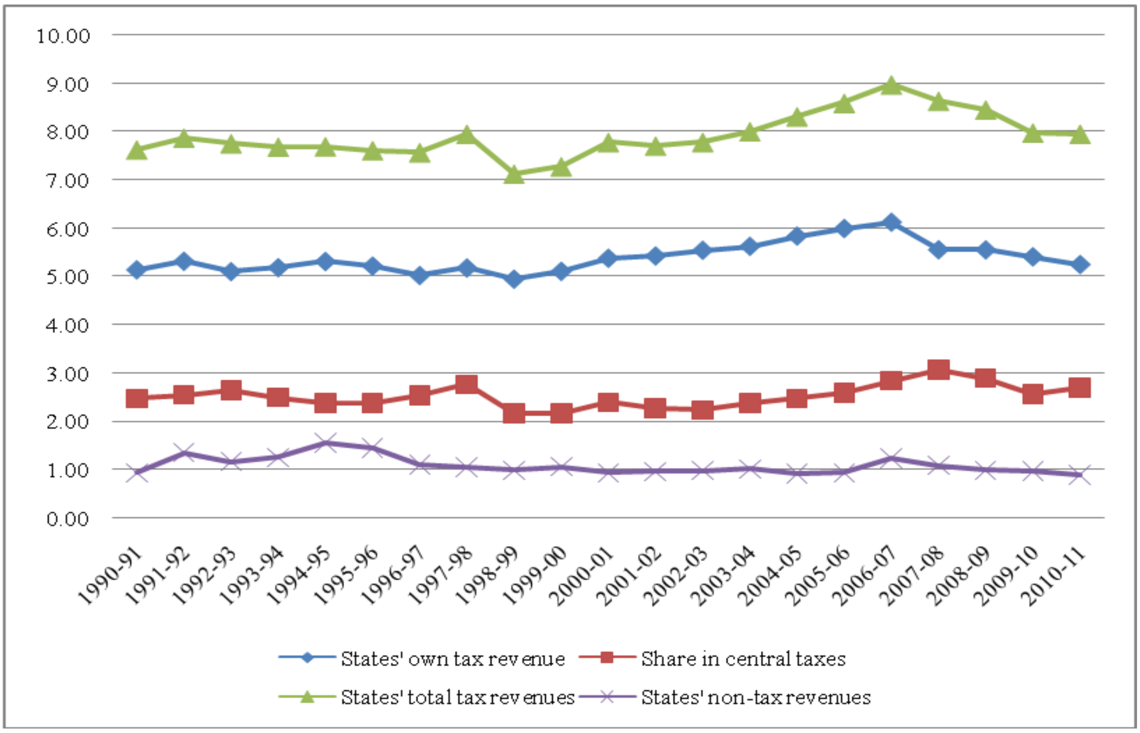

Chart 3.2: Components of States’ Revenues

In terms of annual buoyancy of states’ own tax revenues relative to GDP, we observe a fall after 2006-07. The highest buoyancy is seen in 2005-06 at 1.3.

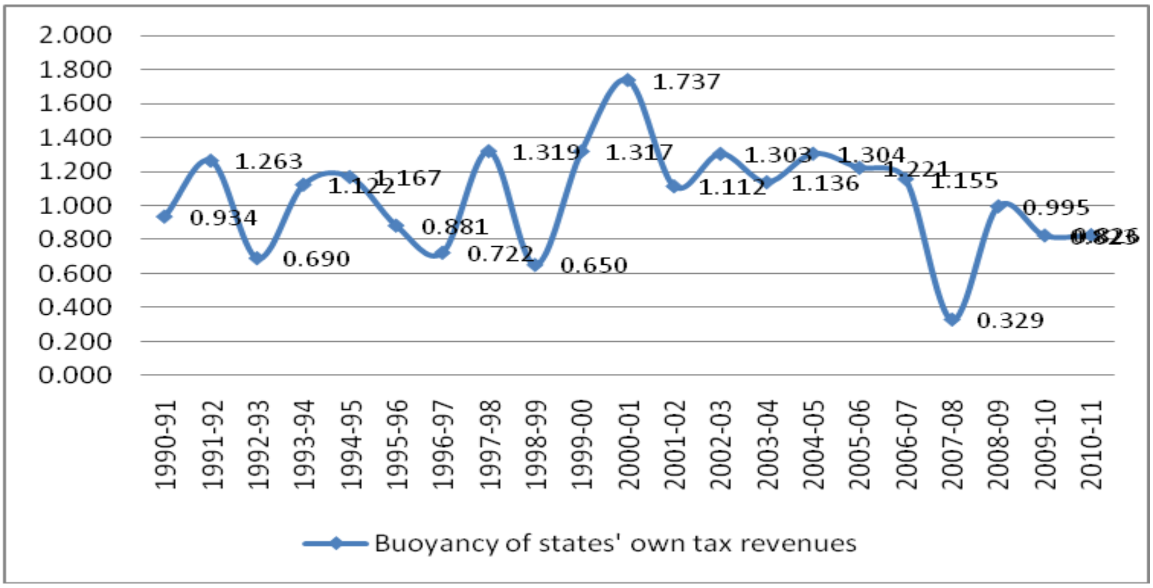

Chart 3.3: Buoyancy of State Tax Revenues

c. State Level Expenditures

Chart 3.3 shows aggregate state expenditures relative to GDP at market prices since 1990-91. The following patterns can be highlighted:

1. Capital expenditure relative to GDP undertaken by the states is small and has been falling after reaching a peak of 2.9 percent of GDP in 2003-04. In 2010-11 it is estimated to be only 1.55 percent of GDP.

2. State revenue expenditure relative to GDP had reached a peak of 13 percent in 2001-02. In 2010-11, it is estimated to be just above 11 percent.

3. As a result, the total and primary expenditures of state governments have fallen towards the end of the eleventh plan.

The key challenge for the Twelfth Plan is to uplift the states' primary expenditure to provide a tangible increase in the plan intervention for the provision of public and merit services.

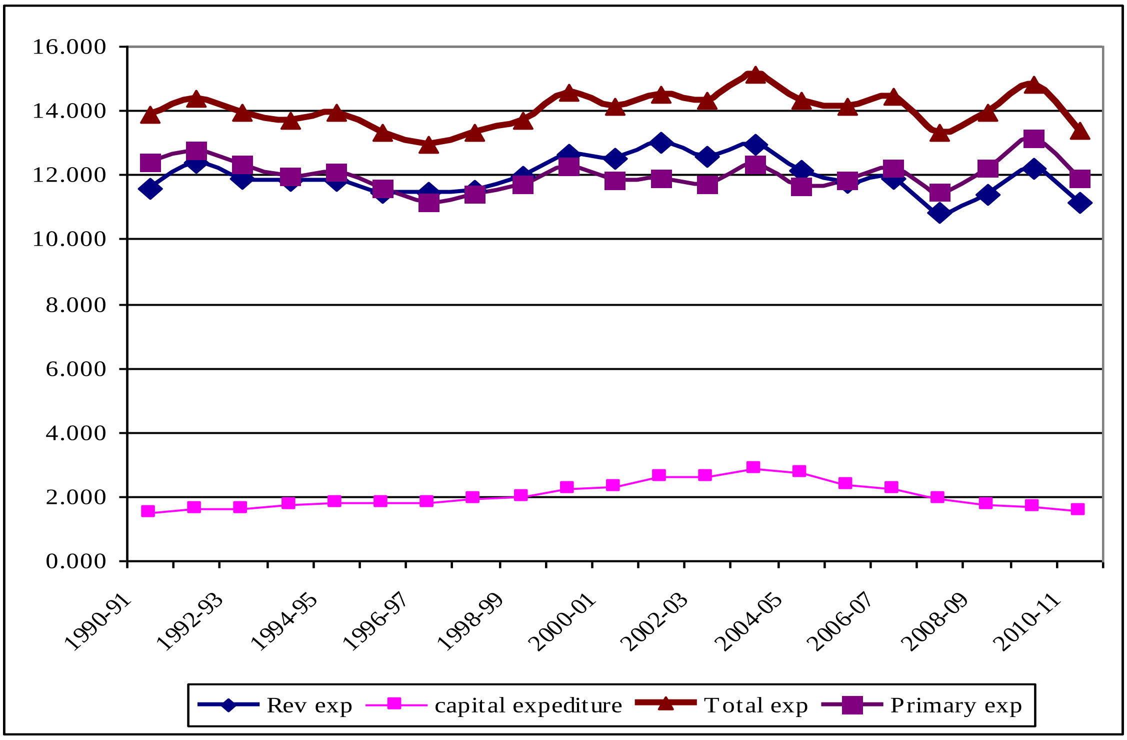

Chart 3.4: State Expenditures Relative to GDP

3.2 Review of Eleventh Plan Projections

a. Assumptions

The Working Group Projections for Eleventh Plan was based on the following assumptions:

(i) GSDP FOR 2006-07

CSO estimates of GSDP were available only till 2004-05 (covering the first three years of the Tenth Plan period). The Working Group took into consideration the envisaged growth target for the Plan period for each State and had estimated the GSDP for 2006-07 (the final year of the Tenth Plan and the base year for the Eleventh Five Year Plan) in such a manner as to yield an average growth rate for the Tenth Plan period that is consistent with the target fixed for each State for the 10^{th} Five Year Plan.

(ii) Eleventh Plan GSDP Projections

The nominal GSDP for each State for the Eleventh Plan period was calculated based on an overall GDP growth rate 9% and an inflation rate of 4%. The State-wise GSDP had been estimated based on the growth target for each State consistent with the overall growth that was provided by the Perspective Planning Division (PPD) of the Planning Commission.

(iii) States' Tax Revenues:

The Sub-Group on Tax Revenues regressed the ratios of tax to GSDP against time in respect of all important taxes. The tax-to-GSDP ratios have been projected based on the trend equations, with the 2004-05 level as the base level. The average tax- GSDP ratio for the Eleventh Plan Period was worked out at 8%.

(iv) Share of Central Tax Revenues

The share of each State in the Central tax revenues, as per BE 2007-08 of the Centre, was adopted as the base. In arriving at the growth of Central tax revenues during the Eleventh Plan, the growth rates indicated by the Working Group on the Centre's Resources were applied.

(v) Non-Tax Revenues

The States had provided their estimates for the year 2007-08 to the Planning Commission during the Annual Plan Discussions. These estimates have been adopted as the base level figures, with a growth of 10% for the Eleventh Plan.

(vi) Non-Plan Grants

These have been taken at the absolute levels provided by the Finance Commission in its report for the period upto 2009-10. These have been assumed as per the recommendations of the Finance Commission for 2009-10 for the next two years.

(vii) Plan Grants

Under this head, projections were made only for Normal Central Assistance (including 7.5% that is allocated for one time ACA). The amount actually provided for 2007-08 was taken as the base figure and an average annual growth rate of 10% was adopted for subsequent years.

(viii) Non-Plan Revenue Expenditure

Salary Expenditure

a) The attrition rate in the case of the strength of the employees has been assumed to be zero.

b) In working out the projections, the BE estimates for 2006-07 were adopted as the base level.

c) Keeping in view the likely increases on account of annual increments and the periodic adjustments to the Dearness Allowances, the salary expenditure is assumed to grow at an annual rate of 7% during 2007-08 and 8 % during 2009-10 to 2011-12.

d) The likely impact of the Sixth Pay Commission had been built into the projections. It was assumed that the impact of this will be felt in 2008-09 with an increase of 20% in the salary expenditure in that year over the previous year.

Pension Expenditure

a) Pension Expenditure was assumed to grow by 15% in 2007-08 over 2006-07 (BE) to include the normal increase in pension liabilities, periodic adjustment to the dearness allowance and the residual impact of the Sixth Pay Commission's recommendations.

Interest Expenditure

a) The Interest Expenditure was estimated on the basis of an average annual rate of 10% on the total of the outstanding stock of the existing debt and the fresh debt added during the year.

Other NPRE

a) The other non-plan revenue expenditure (excluding salaries, pensions and interest payments) is assumed to increase by 12% to 13% during 2007-08 to 2011-12. This includes maintenance expenditure, committed liabilities and the transfers to the local bodies.

(ix) Borrowings

In working out borrowing (fiscal deficit) for each State, the level obtaining in 2006-07 (BE) was adopted as the base. The GFD as percentage of GSDP was estimated to reach 3% by 2008-09, assuming a uniform rate of decline in the case of States which currently have GFDs above 3%. For States which have already brought down the GFD to below 3%, the GFD was assumed to remain steady at 3% of GSDP.

(x) Central Assistance

The Central Assistance estimates for the Eleventh Plan assumed 10% increase in the Normal Central Assistance (including 'Others' under the Central Assistance) every year for most of the States. However, some of the Special Category States were provided higher central assistance during the five year period to ensure that the States' estimates remain close to the 2007-08 (Annual Plan) resources finalized and also their Eleventh Plan resource estimates remain close to the States' projections for the five year plan. This underlines the weak resource position of these States and the need to strengthen their resource base.

b. Aggregate Plan Resources of the States during the 11th Plan: Projections and Realizations

Table 3.1 shows the Aggregate Plan Resources of both the Special Category States (SCS) and General Category States (NSCS) in terms of the projections originally made by the Working Group for the 11th Plan and the actual realization on the basis of the data provided by the State Governments.

Table 3.1: Aggregate Plan Resources - Projections and Realisation during 11th Plan period

Rs crore at 2006-07 prices

Sl. No.	States	Projections	Realisation*	Realisation (%)
I.	**General Category States**			
1	Andhra Pradesh	147395	129364	87.8
2	Bihar	60631	65837	108.6
3	Chhattisgarh	53730	39090	72.8
4	Goa	8485	8660	102.1
5	Gujarat	106918	102226	95.6
6	Haryana	33374	64123	192.1
7	Jharkhand	40240	34045	84.6
8	Karnataka	101664	109011	107.2
9	Kerala	41941	32343	77.1
10	Madhya Pradesh	70329	67374	95.8
11	Maharashtra	127538	117781	92.3
12	Odisha	32225	39597	122.9
13	Punjab	28923	25298	87.5
14	Rajasthan	71732	75877	105.8
15	Tamil Nadu	85344	74709	87.5
16	Uttar Pradesh	181094	144703	79.9
17	West Bengal	63779	50985	79.9
	Total - General Category	**1255342**	**1181023**	94.1
II.	**Special Category States**			
1	Arunachal Pradesh	7901	8401	106.3
2	Assam	23954	27803	116.1
3	Himachal Pradesh	13778	10844	78.7
4	Jammu and Kashmir	25834	21593	83.6
5	Manipur	8154	7921	97.1
6	Meghalaya	9185	5657	61.6
7	Mizoram	5534	4581	82.8
8	Nagaland	5978	4913	82.2
9	Sikkim	4720	4102	86.9
10	Tripura	8853	6971	78.7
11	Uttarakhand	42798	22487	52.5
	Total - Special Category States	**156687**	**125272**	**80.0**
	Total – all States	**1412029**	**1306296**	**92.5**

*2010-11-pre actual and 2011-12 LE

An analysis of the above indicates that the States could realize 92% of the Aggregate

Plan resources. The realization of General Category States is 94% while that of Special Category States is 80%. The percentage realization of resources for Special category States and General Category States are depicted below graphically.

It is observed that Haryana, Odisha, Bihar, Karnataka, Rajasthan, Goa, Gujarat and Madhya Pradesh are the states where the percentage realizations of resources are above the average for the General Category States. The rest of the states have percentage realization of resources below the average for General Category States. In the context of Special category States, the states having higher percentage realization of resources than the average for Special category States are Assam, Arunachal Pradesh , Manipur, Sikkim, Jammu & Kashmir, Mizoram and Nagaland.

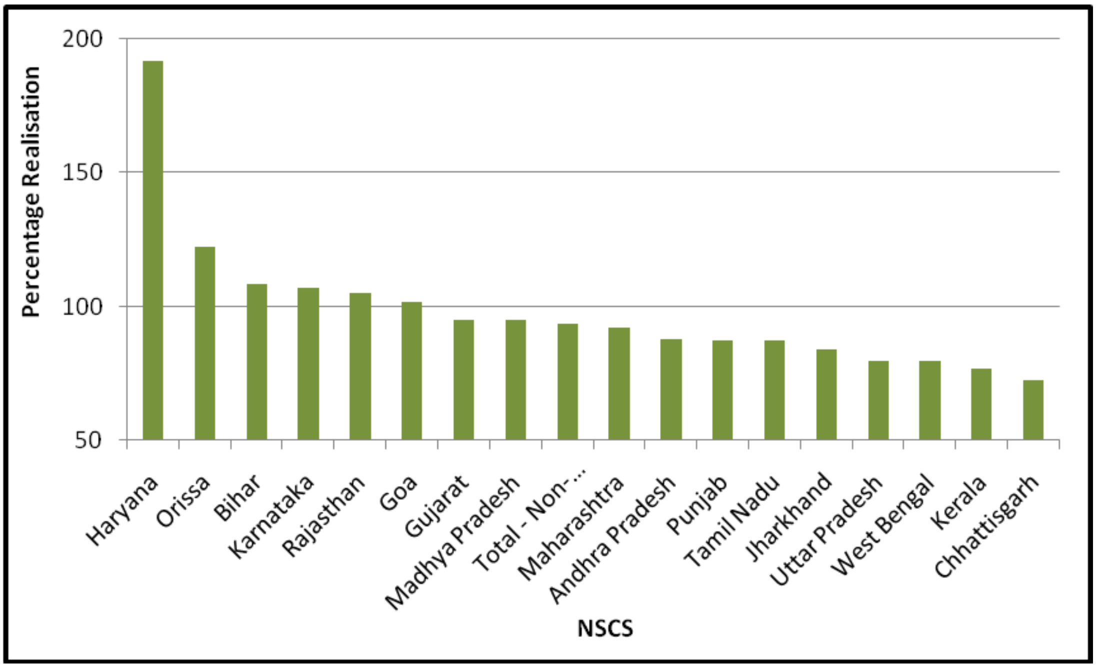

Chart 3.5: Eleventh Plan Resources Realization: General Category States

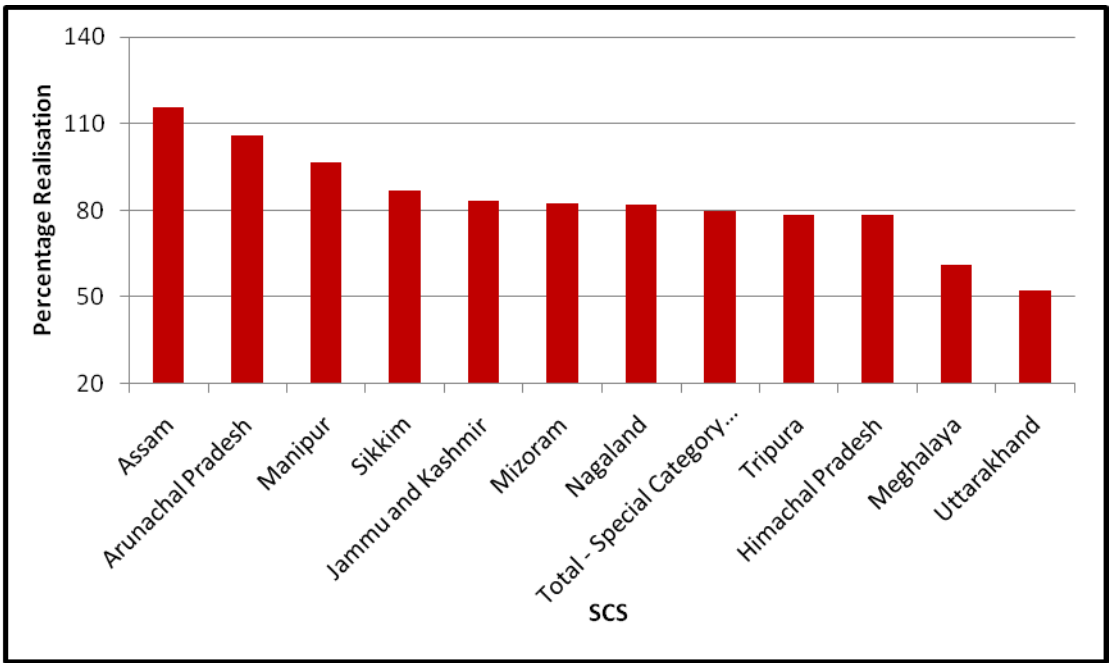

Chart 3.6: Eleventh Plan Resources Realization –Special Category States

Amongst the 17 General Category States, 6 States could realize more than that envisaged in the projections. Amongst the 11 Special Category States only 2 States could realize more than 100%. The realization has been significantly low in case of Uttarakhand and Meghalaya.

3.5 Trends in the Growth of States' GSDP

The Nominal GSDP growth rates for the States for 2007-08 to 2011-12 (Estimated) is given in Table 3.2.

Table 3.2: GSDP Growth during Eleventh Plan

Sl. No.	States\UTs	Average GSDP growth percent (2007-12)
1	Andhra Pr.	16.7
2	Bihar	21.9
3	Chhattisgarh	14.2
4	Goa	22.9
5	Gujarat	16.0
6	Haryana	19.5
7	Jharkhand	9.2
8	Karnataka	14.5
9	Kerala	16.9
10	Madhya Pr.	16.8
11	Maharashtra	15.3
12	Odisha	15.1
13	Punjab	14.3
14	Rajasthan	18.0
15	Tamil Nadu	16.0
16	Uttar Pradesh	15.3
17	West Bengal	16.4
	Total GCS	16.1
1	Arunachal Pr.	18.2
2	Assam	12.9
3	Himachal Pr.	16.8
4	J & K	13.9
5	Manipur	10.7
6	Meghalaya	15.7
7	Mizoram	16.7
8	Nagaland	10.6
9	Sikkim	31.6
10	Tripura	13.7
11	Uttarakhand	17.5
	Total SCS	15.0
31	Delhi	18.7
32	Pondicherry	10.4
Total (States +UTs)		**16.1**

Based on Central Statistical Office (2004-05 series as on 1.03.2012).

The GSDP for the Eleventh Plan Period was estimated based on an overall GSDP growth rate of 9% and an inflation rate of 4%.

The GSDP of the States was expected to grow at a nominal rate of 13.4% during the Eleventh Plan. As against this, on the basis of the data available on date, Tripura, Nagaland, Jammu & Kashmir, Manipur, Pondicherry, Assam, Jharkhand and Madhya Pradesh are the states that have registered lower growth rates. The rest of the States have growth rates exceeding 13.4%.This is shown in the following chart.

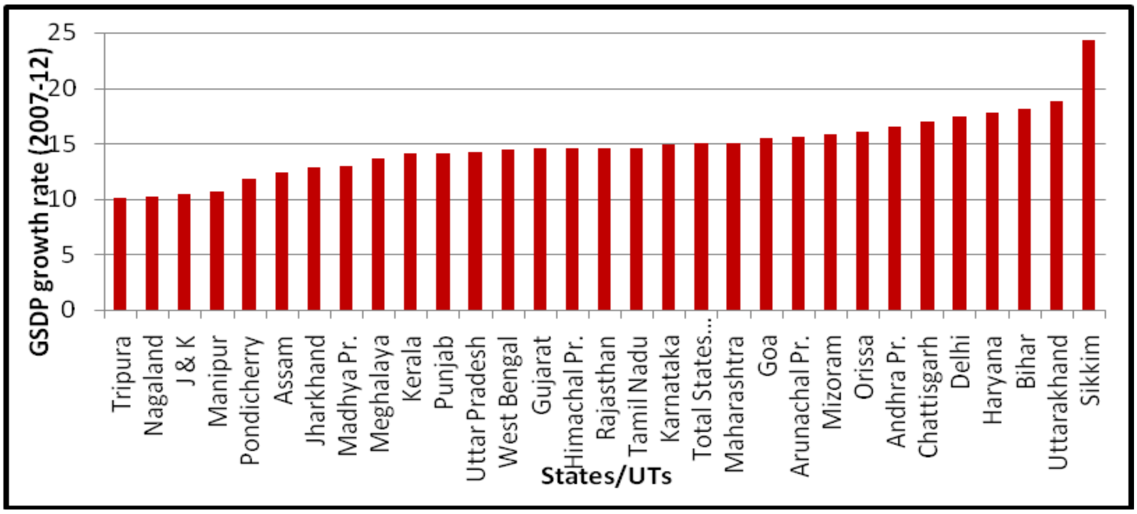

Chart 3.7: GSDP Growth (2009-12)

Table 3.3: Eleventh Plan Resources of States & UTs.

(Rs. crore at 2006-07 Prices)

Sl. No.	Source of Funding	Projections	Realisation	% Realisation
1	Balance from Current Revenues	385050	310777	80.7
		(25.9)	*(22.9)*	
2	Resources of Public Sector Enterprises	128824	120051	93.2
		(8.7)	*(8.8)*	
3	Borrowings	649423	571083	87.9
		(43.6)	*(42.1)*	
4	Other Resources	--	46790	
		----	*(3.4)*	
5	State's Own Resources (1 to 4)	1163297	1048702	90.2
		(78.2)	*(77.3)*	
6	Central Assistance	324851	308602	95.0
		(21.8)	*(22.7)*	
7	Aggregate Plan Resources (5 & 6)	1488148	1357305	91.2

Note: 1. Figures in parentheses are percentage to Aggregate Plan Resources.
2. Other Resources comprise Plan Grants, MCR, ARM, drawdown of cash balances/ adjustment of opening balance.

The 11th Plan resources at constant 2006-07 prices indicate that the realization of BCR for all States is 80.7% indicating decline in the estimated positive BCR. The realization of

State's Own Resources is 90%. Borrowings have been lower at 87.9% while the realization of Central Assistance has been 95%.

Balance from current revenues

The trends in BCR and its components during the 8th 9th, 10th Plan and 11th Plan projections and actual are given in Table 3.4

Table 3.4: Trends in Balance from Current Revenue

(As Percentage to GSDP)

Items	Eighth Plan (1992-97) Actual	Ninth Plan (1997-02) Actual	Tenth Plan (2002-07) Actual	11th Plan (2007-12)	
				Projections	Actual
Share in Central Taxes (SCT)	3.1	2.9	3.6	3.6	3.4
States' Own Tax Revenue (SOTR)	6.3	6.3	8.4	6.8	6.9
States' Non-Tax Revenue (STNR)	2.7	2.3	2.4	0.8	1.2
Total (Current Revenues)	12.1	11.5	14.2	11.2	11.5
Interest Payments (IP)	2.2	2.8	3.8	2.5	2.1
Pension Payments (PP)	0.8	1.3	1.7	1.3	1.5
Other Non-Plan Revenue Expenditure (ONPRE)	9.4	9.2	--	6.2	7.5
Total Non-Plan Revenue Expenditure (NPRE)	12.4	13.3	14.5	10.1	11.1
Balance from Current Revenue (BCR)	-0.3	-1.8	-0.3	1.1	0.3

State's Borrowings:

Table 3.5 shows the borrowings made by the States during the 11th Plan, in terms of the original projections and the actual.

Table 3.5: States Borrowings: Projections and Realization during 11th Plan period

Rs. crore

Sl. No	States/ UTs	Projections	Realization	% Realization
		(2006-07 prices)		
I.	**General Category**			
1	Andhra Pradesh	50466	50331	99.7
2	Bihar	16029	15558	97.1
3	Chhattisgarh	9296	4725	50.8
4	Goa	3304	3363	101.8
5	Gujarat	50727	45301	89.3
6	Haryana	21402	19196	89.7
7	Jharkhand	12798	8680	67.8
8	Karnataka	45036	21364	47.4

9	Kerala	25418	27300	107.4
10	Madhya Pradesh	27713	21113	76.2
11	Maharashtra	96501	77053	79.8
12	Odisha	13261	3408	25.7
13	Punjab	23024	26060	113.2
14	Rajasthan	31398	27743	88.4
15	Tamil Nadu	51566	46629	90.4
16	Uttar Pradesh	63559	56264	88.5
17	West Bengal	59605	65731	110.3
Total - General Category States		**601103**	**51982**	**86.5**
II.	**Special Category**			
1	Arunachal Pradesh	677	1181	174.5
2	Assam	10768	10160	94.4
3	Himachal Pradesh	5764	7119	123.5
4	Jammu & Kashmir	5252	12426	236.6
5	Manipur	1050	1252	119.3
6	Meghalaya	1291	1181	91.5
7	Mizoram	586	1325	226.2
8	Nagaland	1240	1677	135.3
9	Sikkim	494	990	200.5
10	Tripura	2566	1351	52.7
11	Uttaranchal	5668	6309	111.3
Total - Special Category States		**35355**	**44973**	**127.2**
Total (all States)		**636458**	**564794**	**88.7**

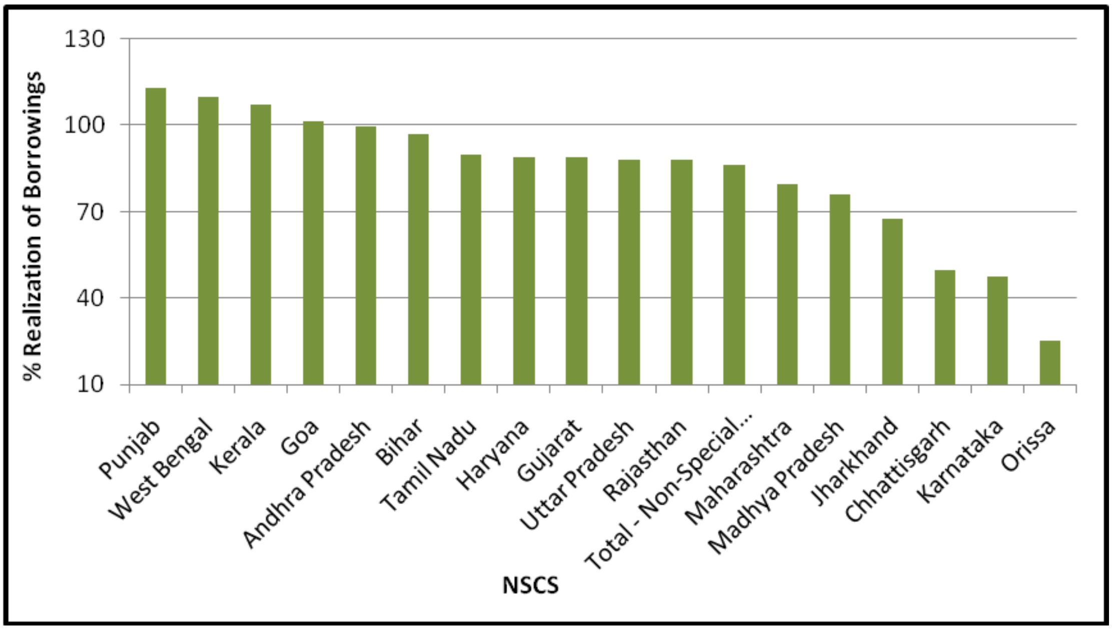

Chart 3.8: % Realization of States Borrowings during 11th Plan period –General Category States

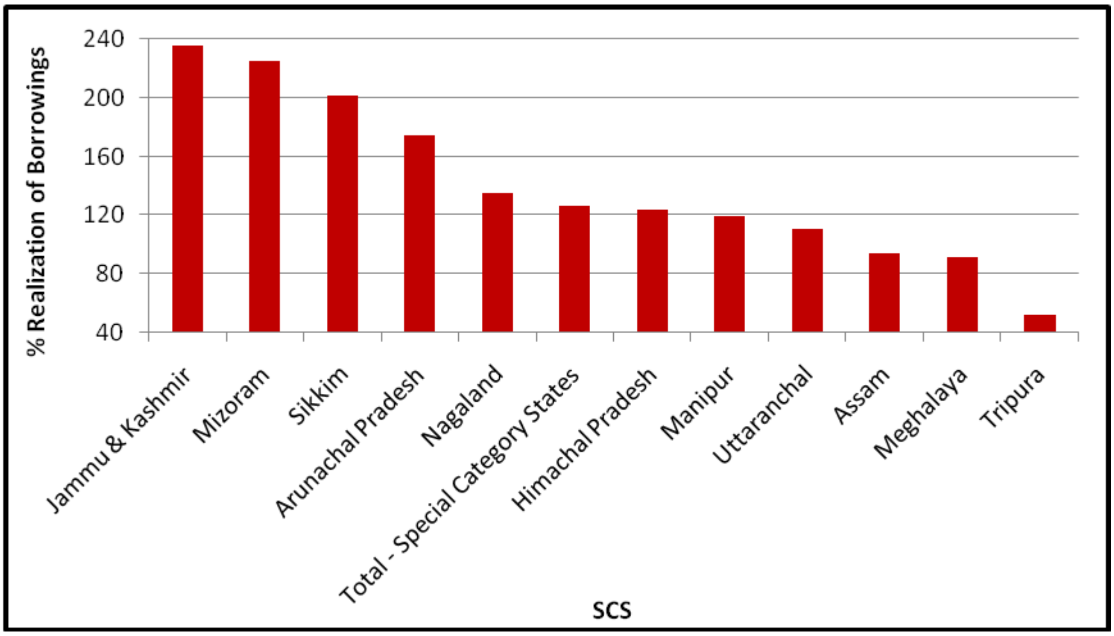

Chart 3.9: % Realization of States Borrowings during 11th Plan period –Special Category States

The aggregate borrowings of General Category States has been 86.5%, while the borrowings of Special Category States are 127%. Amongst the General Category States, the borrowings have been higher than the estimates in the case of 4 States indicating their difficult financial situation. The realization of borrowings of all States has been 88.7%

Amongst the Special Category States, it has been higher than the projection for 8 States. Tripura has the lowest actual borrowing realization of 52% compared to be the projections. Higher borrowings could be the result of inability of these States to compress their Non Plan revenue expenditure as well as the need for resources for implementation of the 6th Pay Commission Recommendations.

Central Assistance: Table 3.6 provides the variations between the flow of Central Assistance as originally projected and realized during the 11th Plan.

Table 3.6: Central Assistance- Projections and Realization during 11th Plan Period

(Rs crore)

Sl. No.	States	Projections (2006-07 Prices)	Realization (2006-07 Prices)	Realization (%)
1	Andhra Pradesh	20569	17305	84.1
2	Bihar	21374	18033	84.4
3	Chhattisgarh	6666	5703	85.6
4	Goa	600	861	143.6
5	Gujarat	11099	10005	90.1
6	Haryana	2379	2813	118.3
7	Jharkhand	6683	8509	127.3
8	Karnataka	12044	12842	106.6
9	Kerala	6239	4022	64.5
10	Madhya Pradesh	14738	14686	99.7
11	Maharashtra	21551	24819	115.2
12	Odisha	11297	12331	109.1
13	Punjab	5958	3986	66.9
14	Rajasthan	9602	8776	91.4
15	Tamil Nadu	10313	10543	102.2
16	Uttar Pradesh	22264	22659	101.8
17	West Bengal	16794	13598	81.0
	Total - General Category States	**200170**	**191492**	**95.7**
1	Arunachal Pradesh	6399	7811	122.1
2	Assam	21849	16625	76.1
3	Himachal Pradesh	8691	9015	103.7
4	Jammu and Kashmir	22727	26539	116.8
5	Manipur	7655	7134	93.2
6	Meghalaya	4791	4559	95.2
7	Mizoram	4766	4526	95.0
8	Nagaland	5014	5314	106.0
9	Sikkim	2932	3029	103.3
10	Tripura	6691	6214	92.9
11	Uttarakhand	13861	10926	78.8
	Total - Special Category States	**105375**	**101691**	**96.5**
	Total –all States	**305545**	**293184**	**96.0**
1	NCT Delhi	1761	4305	244.5
2	Puducherry	7014	1015	14.5
3	Anadman & NI	4100	3663	89.3
4	Chandigarh	2131	1916	89.9
5	Dadra & NH	1300	737	56.7
6	Daman & Diu	900	673	74.8
7	Lakshadweep	2100	1184	56.4
	UTs (Total)	**19305**	**13491**	**69.9**
IV.	**GRAND TOTAL (STATES+UTs)**	**324851**	**306675**	**94.4**

The realization of Central Assistance for all States is quite significant at 96%. The realization of General Category States is 96% and Special Category States is 96.5%. Kerala and Punjab are two States which have lower realization of Central Assistance.

3.4 It is desirable to examine the factors that have contributed to such wide State-wise variance between the original projections and the actuals. The aggregate resource generation depends critically on the rate of growth achieved by each State, the efforts made by it in mobilizing its own resources and the inflow of resources from the Centre under different heads.

Chapter 4

Distribution of Central Plan Assistance: General and Special Category States

A major change happened when in the dispensation of plan assistance, plan loans were delinked from plan grants after the recommendations of the Twelfth Finance Commission. Since the implementation of delinking of plan loans from plan grants, a review of criteria on the basis of which grants are distribute across states has also become more relevant because the principles on which loans should be given and the principles on which grants should be given are entirely different. In particular, loans can be given based on capacity to utilize and service the loans efficiently while grants should be given based on needs.

4.1 Finance Commission Criteria and Plan Grant Criteria

One of the terms of reference to this Working Group has asked us to examine the case for adopting the Finance Commission resource allocation formula for the inter se allocation of plan grants. There is a major difference in the objectives that guide the formulation of resource transfers undertaken by the Finance commission and that by the Planning Commission although there is also a clear inter-connection between the two streams of resource transfer.

In the case of Finance Commission, the objective is to make allocations such that fiscal capacities are equalized with a view to enabling the states to provide public services and merit services at equal standards to all citizens in the state provided that comparable tax effort is made by the states. In other words, differences in the service standards should be due largely to deficiency in own tax effort and not due to deficiency in fiscal capacity. In determining the *interse* shares, at any point of time fiscal capacity is taken to be given.

Plan grants in combination with borrowed resources aim at the developmental effort of the state. The objective is to change the fiscal capacity itself. Plan grants therefore must aim at reducing the differences in fiscal capacity: larger transfers should be given to states with lower development levels. Since per capita incomes is generally taken as summary indicator of the level of development, it should be the main determinant in the case of plan grants: lower the per capita income higher the transfer. However, deficiency in development effort should not be rewarded.

However, the existing Gadgil formula is not very suitable for this. We first undertake a review of the Gadgil formula.

4.2 Gadgil-Mukherjee Formula: A Review

The Planning Commission used to provide developmental grants to states as part of an overall assistance package. This package was determined as a composite of loans and grants. The relative ratios of loans and grants were different for the special category states as compared to the general category. For the general category states, assistance was 30 percent grant and 70 percent loan. For the special category states, 90 percent of assistance was given as grant and 10 percent as loan. The expenditure side of state budgets may be divided into four parts: non-plan revenue expenditure, plan revenue expenditure, plan capital expenditure, and non-plan capital expenditure. The first and second components combined to give the revenue account of a state, which pertains to recurrent (revenue) expenditures. Plan assistance was meant for the second and third components taken together. In the initial stages, when plan assistance was conceived of in terms of an overall package, the expectation was that nearly 30 percent of the plan would actually be in the nature of recurrent expenditures and 70 percent would pertain to capital expenditures. In accordance with such an expectation, the grant to loan ratio in plan assistance was fixed as 30 and 70 percent of total plan assistance. It was expected that all capital expenditures would be met by borrowing and by surpluses on revenue account. As such no capital grants were envisaged for the general category of states in plan assistance.

The position of the special category states was different in the sense that from the 90 percent that they were getting as grant, 30 percent could be allocated for the revenue component of the plan, and the balance of 60 percent could then emerge as a capital grant. In practice however the relative claim of recurrent expenditure continued to increase and has become on an average 60 percent of plan outlay in the case of general category states. Borrowing thus basically finances capital expenditure, in the general category states. In fact, it is not only that there are no capital grants, but also that a substantive part of current expenditures are also being financed by borrowing.

The overall dispensation of (normal) plan assistance can be summarised according to special and General category states, and according to grants and loans as indicated in Table 4.1. Two other channels of plan assistance are additional central assistance (ACA) and external assistance. Both were given on the same terms and conditions as normal plan assistance prior to a change in the terms and conditions for transmission of external assistance. After the recommendations of the Twelfth Finance Commission, external assistance is passed on to the states, as additional central assistance on back to back basis that is, on the same terms and conditions as the original external assistance.

Table 4.1: Dispensation of Plan Assistance: Normal State Plan

(Percent)

States	**Grants**	**Loans**	**Total**
Special	27	3	30
General	21	49	70
Total	**48**	**52**	**100**

The Planning Commission allocates aggregate (normal) plan assistance among states under a set of criteria called the Gadgil-Mukherjee Formula. The original formula has been subjected to changes from time to time and the present version is referred to as the National Development Council (NDC) revised Gadgil-Mukherjee Formula. As noted, the Gadgil-Mukherjee Formula works in two stages. First, 30 percent of total assistance money is earmarked for the special category states. This may be distributed among these states on the basis of their plan size and past plan expenditures, without using any explicit criteria. The remaining 70 percent are distributed among the general category states according to a set of criteria with relative weights. These criteria have been summarised in Table 4.2. A comparison can also be made between the alternative versions of the formula, as it has changed over time. The Planning Commission does not publish the actual shares of states either criteria-specific or aggregate as is done by the FC. The shares may change under each criterion, as more recent data on income, tax effort, etc., become available. However, as far as population is concerned, only 1971 population is used.

Table 4.2: Gadgil-Mukherjee Formula: Alternative Versions

(Weightage Percent)

Criteria		Modified Gadgil Formula (1980)	NDC Revised Formula (1990)	NDC Revised Formula (1991)
A.	**Special Category States (10)**	30% share of 10 States excluding North Eastern Council	30% share of 10 States including North Eastern Council	30% share of 10 States excluding North Eastern Council
B.	**General Category States (15)**			
(i)	Population (1971)	60.0	55.0	60.0
(ii)	Per Capita Income	20.0	25.0	25.0
	Of which			
a.	According to the `deviation' method covering only the states with per capita income below the national average	20.0	20.0	20.0
b.	According to the `distance' method covering all the fifteen states	-	5.0	5.0
(iii)	Performance	10.0	5.0	7.5
	Of which			
a.	Tax effort	10.0	-	2.5
b.	Fiscal management	-	5.0	2.5
c.	National objectives	-	-	2.5
d.	Special problems	10.0	15.0	7.5
	Total	**100.0**	**100.0**	**100.0**

Notes: 1. Fiscal management is assessed as the difference between states' own total plan resources estimated at the time of finalising Annual Plans and their actual performance, considering latest five years.

2. Under the criterion of the performance in respect of certain programmes of national priorities the approved formula covers four objectives, *viz*.: (i) population control; (ii) elimination of illiteracy; (iii) on-time completion of externally aided projects; and (iv) success in land reforms.

The important elements in this formula relate to factors of population, deviation of income from mean income, distance of income from highest income, and other factors reflecting fiscal discipline and achievement of national objectives. Due to the very high weight given to the population factor, which allocates equal per capita shares to all states, dispensations under the Gadgil Formula are only mildly progressive.

When the original Gadgil Formula for the distribution of central assistance for State Plans was approved by the National Development Council in September 1968, it was agreed that the requirements of Assam, Jammu & Kashmir and Nagaland should first be met out of the total pool of central assistance. For the three annual plans immediately preceding the application of Gadgil Formula, the share of Assam, Jammu & Kashmir, and Nagaland in total plan assistance was 9.26 percent. For the Fourth Plan (1969-74) when the Gadgil Formula was first applied, an amount was earmarked for these three states, but their share averaged to a little above 11 percent. For the Fifth Plan, the share of these states was a little 15 percent. For two annual plans (1978-80), the share of these states became a little more than 16 percent. When the Fifth Plan was formulated, this list was extended to include Himachal Pradesh, Manipur, Meghalaya, Sikkim and Tripura, making eight states in all. It is only since 1980 that the share of Special Category states was predetermined at 30 percent. In 1990, the number of special category states was increased to 10 with the inclusion of Arunachal Pradesh and Mizoram.

The main weaknesses in the application of the Gadgil-Mukhjerjee Formula in its various mutations are summarised below:

i. There is no explicit basis for a 30 percent earmarking for the Special Category states.
ii. Shares determined on the basis of tax effort and fiscal discipline indexes are unscaled implying that if a large state like Maharashtra and a small state like Goa had the same tax effort ratio, they will get the same share regardless of their size. This would lead to a very large per capita share for Goa compared to that for Maharashtra, for example, for the same tax effort.
iii. The link between plan schemes/projects and plan assistance has been lost, leading to a severing of a link between costs and benefits, and lack of effective project based monitoring; and
iv. The 30:70 grant to loan ratio has long become irrelevant if the 30 percent grant ratio was meant to cover revenue expenditure on plans.
v. There are no objective criteria for the distribution of 30 percent earmarked share among the special category states.

4.3 Finance Commission and Planning Commission: Dynamics of Inter-Dependence

The two main bodies that intermediate between the centre and the states in the matter of fiscal transfers, *viz.*, the Finance Commission and the Planning Commission follow approaches in a segmented way without any effective co-ordination. Especially important in this context is the impact of the dynamic linkage between the two major streams of resource transfers.

The Plan generates three major liabilities for periods beyond the Plan: interest payments on funds borrowed for financing the Plan, maintenance of assets created during the Plan, and salaries of people employed in Plan schemes who remain in government employment after the plan has ended. For these liabilities, after the Plan period is over, state governments look to the Finance Commission for resource transfers. In making an assessment of the needs of state governments on the revenue (non-Plan) account, both interest payments and committed liabilities of the state governments are taken into account by the FCs. Since the Plan is linked to a programme of borrowing, a larger Plan is typically linked with a larger borrowing programme and, therefore, leaves relatively larger future liabilities.

Interest liabilities as well as committed expenditures on Plan schemes of the past have been taken by the previous FCs as a first charge in making an assessment of the expenditure requirements. Given other things, the larger the interest and other committed liabilities, the larger would be the entitlement of a state in the form of tax devolution and grants. It is implicit in this approach that larger Plan outlays financed by larger borrowing, create larger state-specific liabilities which generate (i.e., after five years) larger claims for fiscal transfers.

The methods of working out transfers by the Planning Commission and the Finance Commission thus sets up a circuit of adverse incentives, because in both cases, a fragmented view is taken, without addressing the issue in its totality. The FC keeps looking only to the (non-Plan) revenue expenditures without paying much attention to the linkage of interest payments with past fiscal deficits and accumulated debt stock. The Planning Commission looks only at new schemes. It looks at the scope of borrowing in the Plan period without considering what future liabilities are being created and how they may be financed beyond the Plan period. Projects financed by external assistance, which is transmitted to the state on the same terms and conditions as normal Plan assistance, also create similar liabilities regarding interest payments and maintenance.

By mixing grants and loans, the Plan assistance mechanism had been combining two modes of resource transfer, which need to be governed by entirely different sets of principles. Grants should be given in consideration of resource deficiencies, and for projects with large social benefits but limited direct return like primary education and primary health. On the other hand, loans should be given taking into consideration the capacity of a state to absorb and service the loan, and in respect of projects which can give adequate returns, commensurate with the cost of the loan. By mixing the two together, the centre has been burdening states with debt that they cannot service, but could not afford to forego either, because with it the component of grant also had to be foregone.

With large accumulated debt due to the emphasis on plan size, state governments have been asking the Finance Commissions to take committed interest payment liabilities as legitimate revenue expenditures as also for writing-off debt from time to time.

The artificial dichotomy between Plan and non-Plan expenditures also induces a number of inefficiencies. There is an undue emphasis on taking up new schemes, while uncompleted projects of the past Plans and maintenance of assets acquired in the past get little attention. In effect, Plan schemes, as originally envisaged cannot be taken up fully, because the contemplated "balance from current revenues" (BCRs) are often not realized. Plan finances are diverted to non-Plan items, and time overruns increase costs. As a result, many schemes remain half done. While contributing little to output and to non-tax revenues, appointments have already been made, and capital structure has been put in place requiring maintenance and other expenditures. While old assets degenerate fast due to inadequate maintenance, new assets are not ready to contribute to output, the schemes remaining incomplete, thus causing a double blow to the productivity of government expenditures.

4.3 Pattern of Plan Grants: Tenth and Eleventh Plan Periods

Table 4.3 gives the share of states in the central assistance to State Plan during the Tenth Plan period within the two categories of states, viz., general and special.

Table 4.3: Share of States in Central Assistance to State Plan: Tenth Plan Period

(Percentage)

STATES			TENTH PLAN PERIOD					
			2002-03	2003-04	2004-05	2005-06	2006-07	Average 10th Plan
A.	**SPECIAL CATEGORY STATES**							
	1	Arunachal Pradesh	6.34	5.63	5.49	5.88	6.15	**5.88**
	2	Assam	19.05	16.62	18.50	19.88	19.69	**18.81**
	3	Himachal Pradesh	11.44	11.61	10.24	9.52	9.87	**10.44**
	4	Jammu & Kashmir	19.68	25.66	23.35	25.42	23.36	**23.66**
	3	Manipur	5.88	5.41	5.94	7.34	7.91	**6.58**
	4	Meghalaya	4.41	4.00	4.16	4.51	4.56	**4.34**
	5	Mizoram	4.55	4.48	4.60	4.81	4.68	**4.63**
	6	Nagaland	4.80	4.41	4.50	4.39	4.72	**4.56**
	7	Sikkim	3.09	2.93	2.98	2.73	3.05	**2.95**
	8	Tripura	6.60	6.11	5.95	5.88	6.37	**6.16**
	11	Uttaranchal	14.16	13.14	14.29	9.64	9.63	**11.99**
		Total (11 States)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
B.	**GENERAL CATEGORY STATES**							
	1	Andhra Pradesh	12.32	12.07	10.78	10.37	8.62	**10.68**
	2	Bihar	5.57	7.88	10.77	9.80	10.74	**9.17**
	3	Chhatisgarh	2.05	2.14	2.90	2.69	2.87	**2.57**
	4	Goa	0.32	0.24	0.33	0.45	0.71	**0.43**
	5	Gujarat	10.33	7.82	6.66	5.59	6.47	**7.20**
	6	Haryana	1.43	1.28	1.15	1.30	1.31	**1.29**
	7	Jharkhand	2.70	2.73	4.41	3.77	3.18	**3.40**
	8	Karnataka	7.24	7.41	5.74	5.70	8.22	**6.86**
	9	Kerala	3.97	3.70	3.79	3.57	3.36	**3.66**
	10	Madhya Pradesh	5.44	5.94	6.64	6.42	7.05	**6.36**
	11	Maharashtra	6.56	6.60	7.27	11.49	9.76	**8.52**
	12	Odisha	7.73	8.26	7.45	5.76	5.80	**6.89**
	13	Punjab	2.29	1.98	1.65	1.87	1.75	**1.89**
	14	Rajasthan	5.18	5.41	5.26	5.40	5.32	**5.32**
	15	Tamilnadu	4.69	6.33	4.93	5.21	5.76	**5.40**
	16	Uttar Pradesh	14.13	12.84	13.02	12.67	12.87	**13.06**
	17	West Bengal	8.05	7.38	7.24	7.92	6.20	**7.30**
		TOTAL (17 States)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
C.		**TOTAL STATES (28)**						
		Share of SCS	35.12	36.94	38.07	36.79	36.00	**36.63**
		Share of GCS	64.88	63.06	61.93	63.21	64.00	**63.37**

The following points may be highlighted.

1. The share of special category states during the Tenth Plan period was in the range of 35 to 38 per cent in the total plan assistance, averaging about 36.6 percent.

2. The larger among the special category states got larger shares. There is no clear link with income.

Table 4.4 gives the share of states in the central assistance to State Plan during the Eleventh Plan period within the two categories of states, viz., general and special.

Table 4.4: Share of States in Central Assistance to State Plan: Eleventh Plan Period

(Percentage)

STATES			ELEVENTH PLAN PERIOD					
			2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12 (AP)**	**Average 11th Plan**
A.	**SPECIAL CATEGORY STATES**							
	1	Arunachal Pradesh	6.07	8.27	7.65	7.50	7.00	**7.34**
	2	Assam	20.73	17.93	15.69	15.31	17.96	**17.20**
	3	Himachal Pradesh	8.25	8.46	7.13	8.63	5.90	**7.51**
	4	Jammu & Kashmir	21.57	21.43	26.80	25.89	25.69	**24.78**
	3	Manipur	7.26	7.24	6.70	6.45	6.25	**6.68**
	4	Meghalaya	4.55	4.94	5.44	5.13	5.35	**5.15**
	5	Mizoram	4.52	4.63	4.86	4.66	4.64	**4.67**
	6	Nagaland	4.76	4.82	4.70	6.08	5.91	**5.37**
	7	Sikkim	2.78	2.42	3.92	3.29	3.58	**3.30**
	8	Tripura	6.35	6.19	5.05	6.08	7.14	**6.19**
	11	Uttarakhand	13.15	13.68	12.06	10.98	10.57	**11.80**
		TOTAL (11 States)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
B.	**GENERAL CATEGORY STATES**							
	1	Andhra Pradesh	10.26	11.47	10.43	9.95	8.82	**10.06**
	2	Bihar	10.66	8.97	9.51	10.22	10.77	**10.06**
	3	Chhatisgarh	3.33	3.32	3.61	3.91	3.56	**3.58**
	4	Goa	0.30	0.46	0.29	0.75	0.42	**0.46**
	5	Gujarat	5.54	6.83	5.58	5.08	6.77	**5.98**
	6	Haryana	1.19	0.96	1.61	1.55	1.58	**1.42**
	7	Jharkhand	3.33	3.13	3.15	3.02	5.27	**3.69**
	8	Karnataka	6.01	5.34	5.51	4.76	5.15	**5.28**
	9	Kerala	3.11	3.38	3.05	2.18	2.24	**2.70**
	10	Madhya Pradesh	7.35	7.45	8.15	8.87	7.96	**8.04**
	11	Maharashtra	10.90	14.87	12.53	12.57	11.35	**12.43**
	12	Odisha	5.64	6.37	6.33	6.19	6.35	**6.22**
	13	Punjab	2.97	2.03	1.86	2.61	2.27	**2.31**
	14	Rajasthan	4.79	4.15	4.70	5.07	4.66	**4.69**
	15	Tamilnadu	5.14	5.00	5.40	4.66	4.28	**4.84**
	16	Uttar Pradesh	11.11	10.27	11.31	11.69	11.66	**11.28**
	17	West Bengal	8.38	5.99	6.98	6.92	6.91	**6.95**
		TOTAL (17 States)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

C.		**TOTAL STATES (28)**						
		Share of SCS	34.45	31.80	35.23	34.42	34.63	**34.21**
		Share of GCS	65.55	68.20	64.77	65.58	65.37	**65.79**

Based on the share of states in Central Plan Assistance (Table 4.4), the following observations can be made.

1. Compared to the Tenth Plan Period, (average share 36.6 per cent), the share of special category states fell marginally in the Eleventh Plan Period (average share 34.2 per cent).

2. In the case of general category states, the share of states with relatively less income like Bihar and Uttar Pradesh, the share in central plan assistance has been much less than that share in population.

Table 4.5 gives the relative share of states in different components of plan namely, (i) normal central assistance, (ii) additional central assistance for externally aided projects (ACA-EAP), (iii) additional central assistance for other special programmes (ACA-others).

In the case of the special category states, under normal central assistance, Jammu and Kashmir has the highest share followed by Assam. The distribution of ACA-EAP shows very ad hoc distribution. The highest share under ACA-others have been for Jammu and Kashmir and Uttaranchal both for the Tenth and Eleventh Plan periods.

Table 4.5: Components of Plan Transfers: Share of States (Percent)								
	Average 10th Plan Period				**Average 11th Plan period**			
States	NCA	ACA for EAPs	Special and Other Progra mmes	**Total Central Assis-tance**	NCA	ACA for EAPs	Special and Other Progra mmes	**Total Central Assis-tance**
SPECIAL CATEGORY STATES								
ARUNACHAL PRADESH	7.97	1.16	3.75	5.88	7.94	0.27	8.31	7.34
ASSAM	19.16	37.82	15.13	18.81	19.56	30.87	12.33	17.20
HIMACHAL PRADESH	9.70	4.46	12.46	10.44	9.59	5.49	6.16	7.51
JAMMU & KASHMIR	19.23	11.36	31.93	23.66	19.16	12.92	32.04	24.78
MANIPUR	5.87	7.68	7.40	6.58	5.85	2.59	8.24	6.68
MEGHALAYA	4.87	3.52	3.72	4.34	4.86	3.62	5.72	5.15
MIZORAM	5.62	7.98	2.70	4.63	5.60	7.93	3.20	4.67
NAGALAND	5.94	1.42	3.15	4.56	5.92	2.49	5.51	5.37
SIKKIM	3.79	2.88	1.79	2.95	3.78	1.39	3.30	3.30
TRIPURA	8.28	0.55	4.13	6.16	8.19	2.46	5.28	6.19
UTTARANCHAL	9.58	21.18	13.83	11.99	9.55	29.97	9.90	11.80
TOTAL (11 States)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
GENERAL CATEGORY STATES								
ANDHRA PRADESH	7.51	20.76	7.68	10.68	6.28	5.17	11.17	10.06
BIHAR	10.87	0.06	12.38	9.17	11.26	0.76	10.42	10.06
CHHATISGARH	2.99	1.15	3.00	2.57	2.81	5.77	3.60	3.58
GOA	0.50	0.09	0.54	0.43	0.48	0.00	0.49	0.46
GUJARAT	4.00	12.81	6.15	7.20	3.93	2.12	6.67	5.98
HARYANA	1.78	0.52	1.41	1.29	1.84	0.30	1.41	1.42
JHARKHAND	3.46	0.63	4.57	3.40	3.39	1.55	3.90	3.69
KARNATAKA	4.45	10.77	6.21	6.86	4.40	11.84	5.02	5.28
KERALA	3.45	6.10	2.69	3.66	3.20	5.25	2.43	2.70
MADHYA PRADESH	6.88	4.61	6.89	6.36	7.14	14.21	7.82	8.04
MAHARASHTRA	6.91	4.51	10.95	8.52	6.91	5.69	14.04	12.43
ODISHA	5.41	8.73	6.74	6.89	5.95	6.56	6.26	6.22
PUNJAB	2.18	1.10	2.10	1.89	2.23	0.57	2.44	2.31
RAJASTHAN	5.64	5.69	5.02	5.32	5.91	5.73	4.37	4.69
TAMILNADU	5.98	5.09	5.28	5.40	5.90	8.94	4.34	4.84
UTTAR PRADESH	19.45	8.26	12.39	13.06	20.20	7.51	9.66	11.28
WEST BENGAL	8.55	9.12	5.98	7.30	8.17	18.04	5.96	6.95
TOTAL (17 States)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
SHARE OF SPECIAL AND GENERAL CATEGORY STATES								
SCS	**57.71**	**13.98**	**29.55**	**36.63**	**56.63**	**50.52**	**24.37**	**34.21**
GCS	**42.29**	**86.02**	**70.45**	**63.37**	**43.37**	**49.48**	**75.63**	**65.79**

Table 4.6 shows the relative importance of different components of plan assistance during the Tenth and Eleventh Plan periods. Comparing the two, it is clear that the ad hoc component in plan assistance has the highest share and its share has increased in the Eleventh Plan compared to the Tenth Plan.

Table 4.6: Composition of Plan Assistance

States	Tenth Plan Period			Eleventh Plan period		
	NCA	ACA for EAPs	Other ACA	NCA	ACA for EAPs	Other ACA
SPECIAL CATEGORY STATES						
ARUNACHAL PRADESH	73.85	1.28	24.87	44.62	0.37	55.00
ASSAM	55.56	13.12	31.33	46.88	18.31	34.81
HIMACHAL PRADESH	50.70	2.79	46.51	52.68	7.47	39.85
JAMMU & KASHMIR	44.30	3.13	52.57	31.89	5.32	62.79
MANIPUR	48.60	7.61	43.79	36.10	3.96	59.94
MEGHALAYA	61.28	5.29	33.43	38.90	7.18	53.93
MIZORAM	66.09	11.23	22.68	49.39	17.32	33.30
NAGALAND	71.05	2.04	26.92	45.43	4.73	49.84
SIKKIM	69.98	6.36	23.65	47.14	4.30	48.57
TRIPURA	73.27	0.58	26.15	54.51	4.06	41.43
UTTARAKHAND	43.56	11.52	44.92	33.36	25.92	40.73
TOTAL (11 States)	54.52	6.52	38.95	41.23	10.21	48.57
GENERAL CATEGORY STATES						
ANDHRA PRADESH	16.24	45.13	38.64	10.25	2.67	87.08
BIHAR	27.37	0.16	72.48	18.38	0.39	81.23
CHHATISGARH	26.87	10.39	62.74	12.88	8.38	78.75
GOA	26.97	4.96	68.08	16.98	0.00	83.02
GUJARAT	12.82	41.30	45.89	10.78	1.84	87.38
HARYANA	31.95	9.39	58.66	21.23	1.10	77.67
JHARKHAND	23.50	4.28	72.22	15.08	2.19	82.73
KARNATAKA	14.99	36.43	48.58	13.69	11.66	74.64
KERALA	21.80	38.73	39.47	19.44	10.10	70.46
MADHYA PRADESH	24.98	16.82	58.19	14.58	9.18	76.24
MAHARASHTRA	18.74	12.29	68.97	9.12	2.38	88.50
ODISHA	18.11	29.40	52.49	15.70	5.48	78.82
PUNJAB	26.71	13.53	59.76	15.83	1.28	82.89
RAJASTHAN	24.47	24.83	50.70	20.67	6.35	72.98
TAMILNADU	25.59	21.88	52.53	20.04	9.61	70.35
UTTAR PRADESH	34.39	14.67	50.94	29.39	3.46	67.15
WEST BENGAL	27.03	28.97	44.00	19.29	13.49	67.22
TOTAL (17 States)	23.10	23.21	53.69	16.41	5.20	78.39
TOTAL STATES (28)	34.61	17.10	48.29	24.90	6.91	68.19

Charts 4.1 and 4.4 describe the pattern of per capital assistance of different components for the average of the Tenth and Eleventh Plan periods. For this purpose, average assistance for the respective plan period was divided by the estimated population in the mid-year of the plan period, viz., 2004-05 for the Tenth Plan and 2009-10 for the Eleventh Plan.

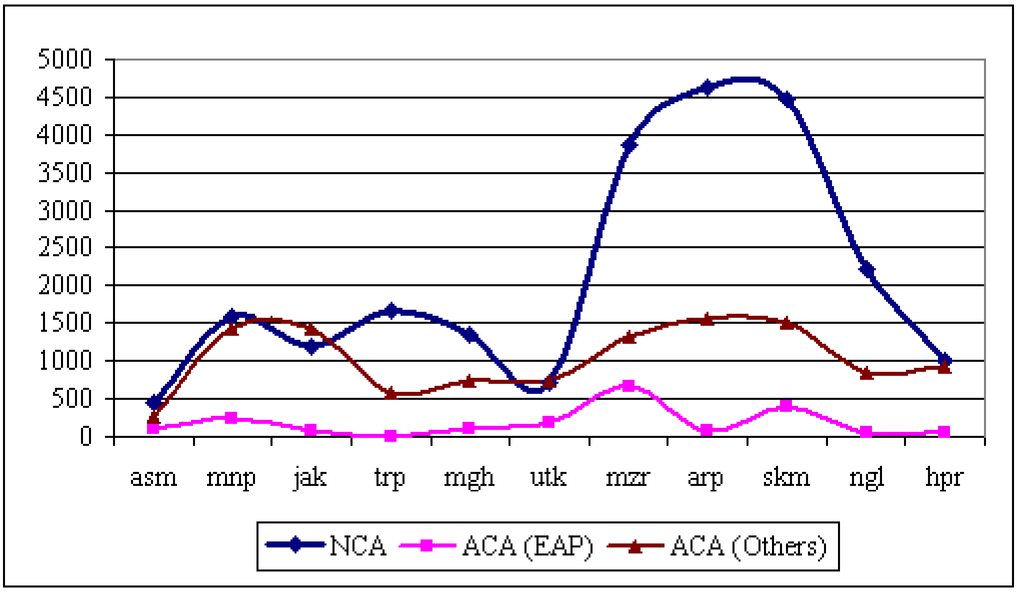

Chart 4.1: Per Capita Plan Grants: Tenth Plan Period Average (Special Category States)

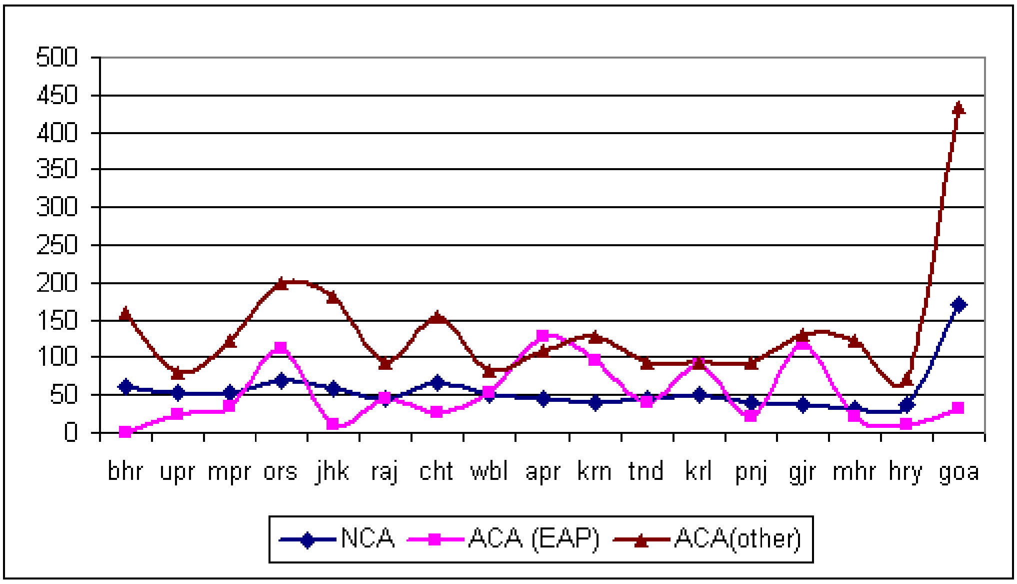

Chart 4.2: Per Capita Plan Grants: Tenth Plan Period Average (General Category States)

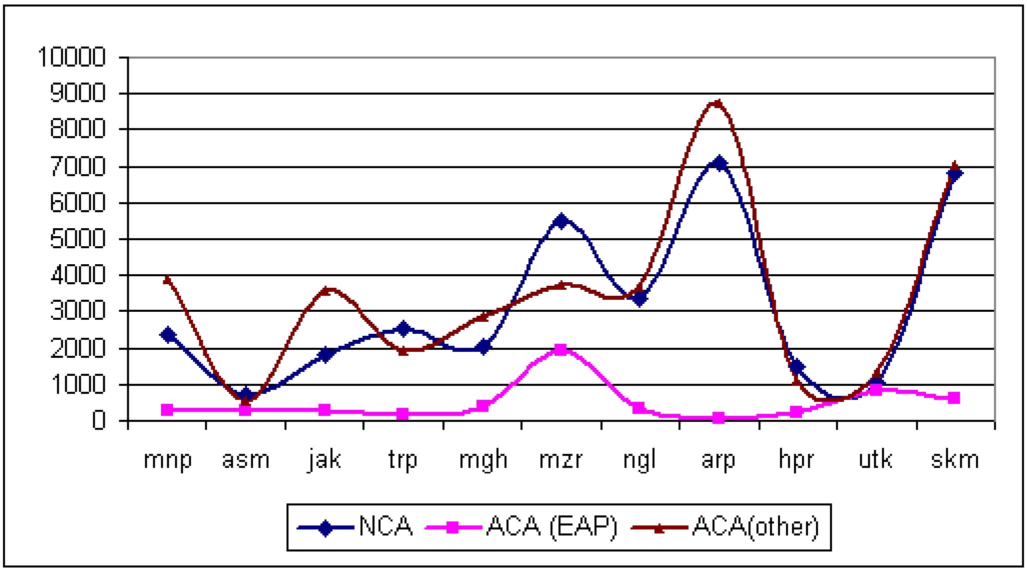

Chart 4.3: Per Capita Plan Grants: Eleventh Plan Period Average (Special Category States)

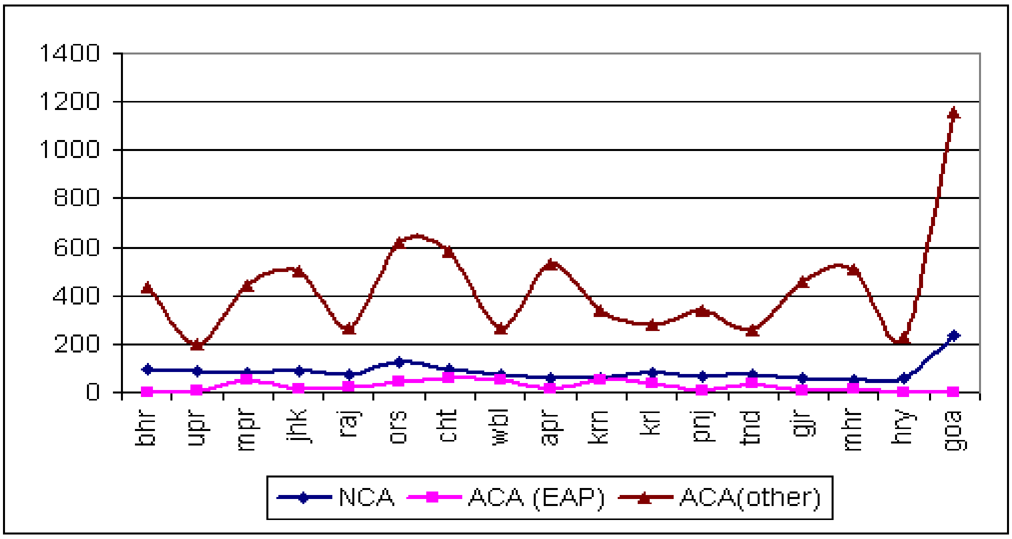

Chart 4.4: Per Capita Plan Grants: Eleventh Plan Period Average (General Category States)

In these charts, states are arranged in ascending order of per capita income. The following broad observations can be made.

1. ACA (Others) is the highest in per capita terms for general category states. The pattern of distribution shows the non-progressive nature of those grants over laid by the discretionary influences.
2. In the case of special category states, the highest per capita grants are under normal central assistance.

4.5 Revising the Basis of Distribution of Plan Assistance

The Finance Commission distribution criteria are not directly applicable for the inter-state distribution of plan assistance. The objective in the Finance Commission determination of transfers is equalization of fiscal capacity to enable the states to provide public and merit services at comparable standards provided the states make comparable tax effort. The consideration of equalization is year by year, that is, for each year for which fiscal transfer is considered, the fiscal capacity is taken as given. In the case of plan transfer, the objective of transfer is to reduce the difference in the level of development, which will also lead to progressive reduction in differences in fiscal capacity. The idea of equalization therefore needs to be modified in the case of plan transfers. Here the objective is to transfer resources with a view to equalize over time the level of development (measured say by per capita GSDP) provided the states made the same level of development effort. In other words, transfers should make up for differences in the initial conditions (low level of development, poor infrastructure) but not for deficiency in development effort both in terms of its quantitative and qualitative dimensions. The quality of development effort should be measured by the relative emphasis on say environment and gender, measured respectively by environment and gender development indices. The WG-SFR recommends that these issues be examined by a suitable specialised body so that a formal consultative process is put in place for revising the Gadgil-Mukherjee formula.

4.6 Summary

In this chapter the mechanism of dispensation of development funds through the Planning Commission has been discussed. In particular the implications of the Gadgil-Mukherjee Formula have been brought to the fore. It is argued that

(i) the dispensation of plan funds are not adequately progressive so that the relatively poorer states can derive meaningful benefits from the plan devolution;

(ii) inter state distribution of external assistance further accentuates this problem; and

(iii) the special category states had been given unduly high shares and this has had high opportunity cost while it has also resulted in considerable debt for special category states even while their economies had made little progress.

Chapter 5
Scope of the Public Sector Plan and Flow of Funds

The terms of reference of the Working Group include:

(i) To examine the flow of funds under Centrally Sponsored Schemes and suggest methods of integrating them in to the scheme of financing of the plan of the States;
(ii) To examine the scope of the State Plan including the investment of State PSUs finance through internal and extra-budgetary resources(IEBR), the resources of the local bodies and the other innovative methods such as special purpose vehicles(SPVs) and public-private partnerships(PPPs)

These issues have recently been examined by the High Level Expert Committee on Efficient Management of Public Expenditure headed by Dr. C. Rangarajan (referred to in this report as Rangarajan Committee). Some of their salient recommendations are highlighted below. We endorse the views of the Rangarajan Committee.

5.1 Scope of State Plan

The expenditure of the budgets is divided into non-plan expenditure and plan expenditure. The Plan resources of the States include budgetary resources, IEBR of State's public resources and resources of rural and urban Local bodies. The resources for the State's Budgetary Plan consist of (a) Balance of Current Revenue (BCR), (b) Miscellaneous Capital Receipts (non-debt capital receipts), and (c) some Finance Commission grants recognized as Plan grants. State's net borrowings, with a ceiling fixed by the Ministry of Finance, Government of India and central assistance to State Plans add to these plan resources. BCR is the difference between Non-Plan revenue receipts including Central tax devolution, finance commission grants of non-plan nature, state's own tax and non-tax revenue and Non-Plan revenue expenditure. Assistance provided from the Central Plan to the States and other implementing agencies (IAs) either through consolidated funds of States or through direct transfer/society mode on account of centrally sponsored schemes (CSS) are not part of the State Plan although States' share for the CSS contributed by the State Governments to these IAs are included in the State Plan.

In considering the scope of Public Sector Plan of the main issue is whether apart from States the Budgetary Plan of the States, the following should also be included:

- Plan of state level public sector enterprises
- Plan of rural and urban local bodies
- Plan of the Implementing agencies/ SPVs
- Public Private Partnerships(PPP) Development programmes of the State Governments and also of the commercial enterprises owned by them are included in the public sector.

The practice of including the State Public Sector Enterprise (SPSE) plans in the Annual plans of the States has however not been followed uniformly by different States. While some States include the SPSE plans in their annual Plans, some states do not include these in their Annual Plans. The Planning Commission takes into account the estimated IEBR of the State PSEs as resources for the FYP for States. The Planning Commission's guidelines issued to the states for assessing financial resources for Annual Plans also require that the estimates of resources for SPSEs and local bodies should be included in the Annual Plans of the states. But states have not uniformly rationalized their definitions of the public sector plan on these principles. Besides, most States do not provide the information on investments/IEBR of the SPSEs in the State budgets.

The Rangarajan Committee has observed that although the First Five year plan itself mentioned that public sector plan should cover local authorities, but the developmental programmes of the local bodies got included much later. After the 73^{rd} and 74^{th} amendments, which conferred constitutional status to Panchayati Raj institutions in rural and urban areas, all States (except some States and some scheduled areas in a few States) have elected rural and urban local bodies. Some financial resources are transferred to the local bodies usually on the recommendations of State Finance Commissions to meet their committed expenditure and implement development programmes and the related expenditures are being accounted in the annual budgets of the States. But the local bodies also raise some resources of their own and incur expenditure for various programmes which are not reflected in the State budget.

In almost all the States, there are provisions of having separate budgets for Municipal authorities/other urban local bodies and rural local bodies. In most States, the annual plans of the local bodies include resources transferred to them by the State government as well as resources raised by them but the State budget does not reflect the entire expenditure of the local bodies.

As prescribed by the guidelines of Planning Commission, some States specifically indicate the plan resources of the local bodies separately in the State annual budget. But generally, all development resources allocated from the state budget to local bodies are subsumed in the annual budgets of the States. As a consequence, it is difficult to ascertain the expenditure and developmental programmes of the local bodies from the Annual Budgets of the States.

The Rangarajan Committee, therefore, notes that it may be feasible to have consolidated information on the resources (transfers and IEBR) and expenditure of rural and urban local bodies on an annual basis. It recommends that this information may be provided through special supplements to the budgets of State/ UT governments. The total expenditure of these bodies, net of transfers from Central and State/ UT governments, may be added to the State/ UT Plan as a separate component.

In regard to the Implementing Agencies/SPVs, the Rangarajan Committee notes that these are generally societies of the State/UT governments which have been created to operate bank accounts so that they are able to receive Central and State governments' resources by way of direct transfer mainly on account of Centrally Sponsored Schemes and in some cases, States' Plan Schemes. The senior management of these agencies comprises invariably government officers. The resources are spent by these agencies to deliver public services and to augment public assets such as schools, hospitals, roads and other infrastructure assets belonging to state or local governments.

The Rangarajan Committee has recommended that resources meant for Centrally Sponsored Schemes from the Central government, with the exception of transition period for existing schemes, should flow only through State governments' treasuries instead of through the direct transfer route. If this recommendation is accepted, there will be little relevance for these implementing agencies to have their own balance sheets/profit& loss account. They can effectively become one of the layers within the State governments without the need to transfer resources out of treasuries for them and the budget and accounts fully integrated with State/UT Plan.

The Rangarajan Committee has also recommended that during the transition period when resources are still being transferred to them by way of direct transfer, their budget and accounts should be shown as separate supplements to the budget. However, the resources transferred to them by the Central and State governments have already been accounted for in the budgetary component of the Central or State Plan or both, so there may not be any need to add their expenditure to the Central/State Plan.

PPP projects may be executed through different financial arrangements-contractual payment (i.e. advance payment, progress payment, final payment, annuities etc.), grant-in-aid (i.e. block grant, capital grant, matching grant, institutional support, etc.). Annuity or unitary charge refers to the periodic payment received by the concessionaire for financing, construction, operation and maintenance of the project.

Issues regarding treatment as plan or non-plan expenditure annuity payments etc. in the context of PPP projects may not be relevant if the recommendation of this Rangarajan Committee on abolition of plan and non-Plan distinction in the state budget is accepted. The annuity commitments may form a part of committed expenditure of the budget of the function/service (and corresponding Ministry/ Department) under which the PPP is undertaken. Although annuity payment is a unitary charge (for both capital asset and maintenance), in some cases it may be possible for it to be split into capital and maintenance components based on details of the project cost. The Rangarajan Committee has recommended that if the components between capital and maintenance are not separable, the whole annuity may be treated as capital expenditure. As regards Viability Gap Funding (VGF), it is a grant provided to private concessionaire of the PPP project. It can be a separate object head and treated as capital expenditure as its provision goes into creation of capital assets that provide public services. Further, as both annuity payments and VGF are to be provided from the budgetary support, these are automatically included in the budget/ Plan of the Centre.

The Rangarajan Committee also recommends that it is important to have regular information on the investment crystallized through PPPs. Therefore, there should be supplement to the Central/ State budgets providing project-wise, Ministry-wise and Sector-wise information on PPPs.

5.2 Revenue and Capital Expenditure

In regard to the continuation of the classification of the budget, the distinction between revenue and capital expenditure needs to be maintained. This is consistent with the constitutional provisions and the financial rules as also from an economic perspective. As per Article 112 (2) of the Constitution, "The estimates of expenditure embodied in the annual

financial statement shall show separately –
(a) The sums required to meet expenditure described by this Constitution as expenditure charged upon the Consolidated Fund of India; and

(b) The sums required to meet other expenditure proposed to be made from the Consolidated fund of India, and shall distinguish expenditure on revenue account from other expenditure."

The same provision is repeated under Article 202 under the State Section. The Financial Rules confirm and amplify these provisions.[1]

From an economic perspective, it is argued in the Rangarajan Committee report, that assets must satisfy the criteria of productivity and longevity, i.e. they should be used in the production or supply of goods and services and their life should normally extend beyond a fiscal year, and they should not be intended for resale in the ordinary course of operations. In addition, emphasis is placed on the self-liquidating nature of the activity as an additional feature of assets.

The separation of grants into general grants (current) and grants for creation of capital assets in the budget and accounts, which has been introduced in the Union budget from this year, is further expected to fill in the information gaps that existed in economic analysis of the budget. A logical extension of this change would be to expect the sub-national agencies [including state governments] to make a clear distinction between general grants and grants for creation of capital assets in their respective budgets both on the receipt and the expenditure sides. A directive could be issued by the Ministry of Finance to all states to uniformly follow this practice.

The Rangarajan Committee is unanimously in favour of continuing the Revenue-capital classification as such a distinction is important to have information on capital formation. Capital expenditure should relate to creation of assets and determined by ownership criterion. While all transfers should be treated as revenue expenditure in accounts, the Rangarajan Committee also considered the need and merits of classifying revenue expenditure by end use only for the purpose of FRBM compliance.

The Rangarajan Committee has recommended that in the context of compliance with the FRBM, the concept of an "adjusted revenue deficit" may be considered. In effect, both the central and each state government may disclose two measures of revenue deficit - the conventional measure and one adjusted measure. For purposes of FRBM compliance, the adjusted measure may be considered relevant.

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[1] GFR Rule 46(2) while discussing expenditure estimates mentions that "The estimates shall also distinguish provisions for expenditure on revenue account from that for other expenditure including expenditure on capital account, on loans by the Government and for repayment of loans, treasury bills and ways and means advances".

GFR Rule 79 defines capital expenditure as "Significant expenditure incurred with the object of acquiring tangible assets of a permanent nature (for use in the organization and not for sale in the ordinary course of business) or enhancing the utility of existing assets". The rule requires that "Capital and Revenue expenditure shall be shown separately in the Accounts".

GFR Rule 90 further maintains that "Expenditure on a temporary asset or on grants-in-aid cannot ordinarily be considered as capital expenditure and shall not, except in cases specifically authorized by the President on the advice of the Comptroller and Auditor General of India, be debited to a Capital Head".

The WG-SFR agrees with this recommendation provided the extent of deviation between the two measures is subjected to a limit. The implementation of this suggestion would require amendment to the FRBM Act and the rules framed under the Act in the case of each state. It may be mentioned that some states felt that it would be best to continue with the conventional definition of the revenue deficit as any departures from this would open up avenues for relaxing fiscal discipline and any limits may be difficult to impose in practice. Therefore the option whether to amend the FRBMA or not for this purpose may be left to the state.

5.3 Flow of Funds

States receive plan funds from the Central Government through two routes, via support to States' plans called Central Assistance (CA) or Additional Central Assistance (ACA), and via the Centrally Sponsored Schemes (CSS). Grants for CSS are meant to supplement the resources of the State Governments, who are responsible for the implementation of these schemes and who are expected to contribute a matching contribution. These schemes are designed by the central Ministries, who then pass on the funds to the States from the central plan budget that the Ministries control.

Funds under CSS are channeled through two routes: the treasury mode and the society mode. In the treasury mode, after the sanction of funds by the concerned administrative ministry/finance ministry of the Union Government, the RBI is intimated to transfer the funds to the State Government. The society mode came into prominence from the mid-nineties, the Central Government has been following the practice of transferring the money required for the implementation of the several CSSs direct to bank accounts of IAs (Societies, autonomous bodies, NGOs etc), set up at the State and district levels that maintain funds outside of the Consolidated Fund of the States.

As a confirmation of the fund transfer a clearance memo from the RBI is received by the State Government and the Accountant General of the State. The finance department of the State approves the budgetary allocation if required and conveys a sanction for withdrawal of funds. The concerned department/ agency withdraw funds. The expenditure is routed through the treasury and is captured by the AG office through the vouchers received for the same. As accounts compilation in the States have been computerized by the State treasuries (States' treasury computerization projects) and AG offices (Voucher level computerization project, VLC), funds can be tracked till the state government spends through state departments or transfers the fund to the IAs (mostly local bodies).

The funds transferred to local bodies are captured at the time of release and booked as expenditure. The actual expenditure by the local bodies is not fed back into the treasury system.

In case of the society mode the funds are sanctioned by the concerned administrative ministry, released by them, and credited directly to the bank account of the concerned agency, i.e. DRDAs, Societies, NGOs (first recipients mostly functioning at the State level etc) which function at the State level. These funds are subsequently released further by these first level recipients to their constituents at the District, block (taluk) or village level. The expenditure of funds is monitored by the concerned central administrative ministry/department by keeping a watch over the Utilization Certificates provided by the agencies. The audit of such bodies is conducted by chartered accountants.

The mechanism of fund flow from the GOI to the ultimate beneficiary today involves several channels. Between the two modes of transfers, there is a clear preference for the treasury mode. It is robust system of fund management that tracks down expenditure up to the object level as vouchers for each transaction are available with the treasury/AG. The expenditure, as compiled by the Auditor General, goes through a process of validation and is audited by the CAG. There is assurance on end use and the system is amenable to monitoring and review at all stages. There is a well-defined system of cash management and bank reconciliation which provides information on cash flows at any point of time. Some of the shortcomings of the Treasury mode of fund flows as listed by the Rangarajan Committee are given below.

a) The transfer to States is treated as Grants in aid and booked as final expenditure under the major head 3601. Similarly releases by the States to implementing agencies (IAs) are treated as final expenditure in the State accounts.

b) The central ministries are concerned about avoiding lapse of budget which acts as an incentive for them to spend (release moneys) not correlated with utilization in States/IAs. The State Government also releases grants to lower level IAs, releases again not connected with the actual expenditure.

c) The tracking of central releases is rendered difficult in the treasury mode also. These are often budgeted by the State Governments in the normal course with spending powers delegated to lower levels and the expenditure pattern is un-related to the timing of central releases. In such cases, there may be no specific action of intermediate level release at all. Even if there is a specific release, it may bear no relationship at all with the central release since it may pertain to more than one installment or part of an installment of central release. Actual expenditure at implementation level cannot be correlated with central releases in these circumstances. However, since the States and the Accountants General have formulated the plan budget link documents, the GOI scheme can be correlated with the corresponding State scheme in the State budgets. This was not always the case prior to the mapping facilitated by the plan budget link document as the nomenclature of the central scheme could vary in the State or funds for a particular central scheme could be distributed in more than one state plan scheme.

The agencies to which funds flow directly from GOI are PRIs, ULBs, societies/ autonomous bodies at State level, central autonomous bodies, NGOs etc. Collectively these Bodies are known as Implementing Agencies/ IAs.

The Rangarajan Committee noted that the Society Mode (Direct Transfer Mode) suffers from several drawbacks as indicated below.

a) The central ministries are concerned about avoiding lapse of budget which acts as an incentive for them to spend (release moneys) not connected with utilization by IAs.
b) There is no uniform formal accounting framework for these IAs.
c) There is no assurance whether the amount has actually been spent by the IAs on the schemes or not.
d) Assets created in the system go unaccounted for. Although it appears to be a problem of

the accounting classification where all grants are treated as revenue expenditure, but it is actually a problem of definition of ‘State’. So long as they are treated separate from the ‘State’, this problem would remain.

e) Even when funds are released by the GOI/SG on the basis of utilization certificates provided by the IAs, there is no assurance on whether the UCs are authentic or complete. In any case the UCs cannot serve as instruments of financial monitoring.
f) There is no centralized data on expenditure available in any financial statement, either with the State or the Union Government. Until the CPSMS project, there was no centralized information on releases by various ministries of the GOI.
g) Since the funds are not spent fully by the IAs in the same financial year, there remains substantial amount of unspent funds in their bank accounts. The aggregate amount of the unspent balances in the bank accounts of the implementing agencies kept outside the Government accounts is not readily ascertainable and to that extent the Government expenditure as reflected in the accounts is overstated.
h) The unspent balances with the IAs constitute the float outside and the carrying cost of the float is substantial. While the GOI borrows to keep the programmes running, the unspent balances are not available to the Government to manage its cash balance.
i) There is no formal/regular system of getting monthly expenditure figures.
j) Audit of the IAs is carried out by CAs, appointed locally by the State level Society or the District level IA. In case of PRIs/ULBs, the responsibility is usually on Director, Local Fund who is a functionary of the State Government.
k) CAG’s audit jurisdiction is not comprehensive over all sub-grantees, i.e. down the line implementing agencies which receive funds from first level IAs at State level.

In order to bring about greater transparency, it is essential that the money transferred by the Government of India for implementation of schemes is depicted as a “transfer” in the books of account as the first instance. However, it may not be practicable to do so by booking expenditure twice – once as advance and as expenditure when the accounts are submitted. This is because the Head of Accounts under Consolidated Fund of India close every year and the balances are not carried forward.

Also, it would not be sufficient that the expenditure is booked as “transfers” in the books of GoI, the same principle would be equally applicable for agencies such as state governments, DRDAs, societies which also merely transfer funds to implementing agencies/ other intermediate agencies.

A suitable accounting methodology, to bring out the distinction between “final expenditure” and “transfers” and to enable a view of final expenditure through the books of accounts needs to be worked out by the CGA and office of CAG.

The Rangarajan Committee unanimously supports the treasury mode method of transfer of central plan funds along with changes separating out advances from final expenditures. The budget classification and accounting changes and effective linkages of CPSMS with State treasury systems should be able to provide an effective Management Information System (MIS) on releases/advances and expenditure on plan schemes.

The switch over to complete treasury mode of transfer of funds may be made straightforward possibly beginning all new schemes from the 12th Five year Plan. For existing schemes, a short transition period is required to allow for necessary adjustment.

However, till complete switch over to treasury mode is done, accounting, submission of Utilisation Certificates and auditing of the Schemes under Society mode should be rationalized.

5.4 Plan - Non-Plan Distinction

Plan expenditure in the Government, generally, signifies expenditure taken up under development schemes during a particular five year plan. However, some of these schemes can be continued from a previous plan or some may be ‘spill-overs’. At the initial stages of the exercise of preparation of a five year plan, Planning Commission issues detailed instructions directing what should be classified as ‘Plan Expenditure.

Due to the complex nature of Government, the policy regarding what should get classified as plan expenditure and what should get classified as non-plan expenditure has been losing clarity. There are no clear cut criteria that can, without exception, demarcate an expenditure item as plan or non-plan. There are items such as salary, expenditure on establishment and maintenance which are included under Plan. There are also expenditure items such as scholarships, expenditure on Anganwadis and nutrition for children which are included under Non Plan. There is a general impression that subsidies should be a part of Non Plan side of the budget. But there are several subsidies, direct and indirect, which are included in the Plan. For example, the diesel and food subsidies are provided by the Centre under Non Plan, but power and other input subsidies to farmers are provided by most States under Plan.

The Rangarajan Committee recommends that plan and non-plan distinction in the budget should be removed. The present functional classification in budget and accounts should also be made a truly functional classification by removing several anomalies This will facilitate linking expenditure to outcomes and better public expenditure management.

With the removal of plan and non-plan distinction in the budget, the Plan classification/ heads of development and budget classification/ heads of expenditure will become the same. Consequently, there will be no longer any necessity of any other Plan-budget link document.

5.5 Summary

The WG-SFR agrees with the recommendations of the Rangarajan Committee recommendations in regard to classification of expenditure, scope of state plans, and the flow of funds. In particular, the following may be mentioned:

1. The revenue-capital expenditure in budget expenditure be maintained.
2. The plan-non-plan distinction in budget expenditures be abolished.
3. For purposes of the FRBMs, an adjusted measure of revenue deficit be developed and presented as a memo item along with the conventional revenue deficit measure. For this purpose, if the FRBMs are amended, the states may consider limiting the difference between the two revenue concepts to a ceiling, reflecting the extent of use of state revenue expenditures for creation of capital assets by local bodies on average in the respective states.

4. The treasury mode of fund flows is to be preferred. In cases where the society mode is continued, the information on the fund flow and utilization should be sent to the state governments concerned for integration with the state expenditures.
5. The state plan should include plans of state level public enterprises, local bodies, and parastatals providing public services.

Chapter 6

State Resources for the Twelfth Five Year Plan: Projections

During the first two meetings of the Working Group the views of the various Members were taken into consideration for working out the estimates of State's Resources for the 12th Five Year Plan. The various assumptions were deliberated upon in these meetings regarding growth rates for the 12th Five Year Plan for GSDP, tax revenue, non tax revenue, salaries, pension, interest payments and other non plan revenue expenditure. The following assumptions have been used in working out the estimates for the State's Resources for the 12th Five Year Plan.

6.2 Assumptions underlying the Working Group's Projections

The Working Group has made the following assumptions for the various items for working out the estimates.

(i) **GSDP**:

GSDP for 2007-08 to 2011-12 has been updated as per Central Statistical Office (2004-05 series at current prices as on 1.3.2012). The GSDP for 2012-17 has been estimated based on average growth during 2008-09 to 2011-12 with adjustment to have average 14.5 per cent all India growth rate.

(ii) **State's Tax Revenues**:

The 13th Finance Commission indicated projected tax/GSDP ratio for the period upto 2014-15. However, the tax/GSDP ratio for 2011-12 LE is lower than the 13th Finance Commission assumptions. The GSDP (2004-05 series) is higher than the earlier series used by the 13th Finance Commission. The average tax buoyancy for four years up to 2011-12 has been used for estimating the States' Own Tax Revenue for the period 2012-13 to 2016-17. The tax-buoyancy has been moderated to ensure that the growth rates are not high compared to the average for earlier period. The following table provides the estimated tax/GSDP ratio.

Table 6.1: Tax-GSDP Ratio of States

(Percent)

Sl. No.	States	11th Plan projections (as per the Working Group)	Tax / GSDP Ratio 2012-13 (13th FC)	2011-12 RE/LE	Average Tax/ GSDP Ratio (2012-17)
General Category States					
1	Andhra Pradesh	9.0	10.2	8.7	8.7
2	Bihar	6.7	6.6	5.3	4.8
3	Chhattisgarh	8.4	8.8	7.4	8.3
4	Goa	9.4	8.3	9.5	7.2
5	Gujarat	7.3	8.1	7.3	7.1
6	Haryana	9.0	8.5	7.0	6.7
7	Jharkhand	6.0	6.5	6.1	7.0
8	Karnataka	11.5	11.7	9.8	10.1
9	Kerala	9.6	9.1	8.6	7.9
10	Madhya Pradesh	8.2	9.3	9.6	8.6
11	Maharashtra	7.8	8.5	7.1	7.1
12	Odisha	7.5	6.7	5.9	5.7
13	Punjab	8.2	11.1	8.2	8.5
14	Rajasthan	8.2	8.3	6.9	6.2
15	Tamil Nadu	10.2	10.8	9.1	9.1
16	Uttar Pradesh	7.3	9.1	7.7	7.6
17	West Bengal	5.2	6.1	5.0	5.0
	Special Category States				
1	Arunachal Pradesh	2.1	3.0	3.0	2.9
2	Assam	6.1	5.0	5.7	6.2
3	Himachal Pradesh	5.9	6.6	6.9	7.0
4	Jammu & Kashmir	6.7	8.1	7.9	6.9
5	Manipur	2.0	2.9	3.0	3.3
6	Meghalaya	4.4	4.2	3.9	3.9
7	Mizoram	1.5	3.0	2.2	2.2
8	Nagaland	1.6	2.6	1.9	2.0
9	Sikkim	5.7	6.7	5.0	4.2
10	Tripura	3.1	4.6	4.3	4.1
11	Uttarakhand	7.9	9.1	5.6	5.6
General Category States		**--**	**--**	**7.6**	**7.5**
Special Category States		**--**	**--**	**5.7**	**5.7**
Total (All States)		**8.0**	**--**	**7.5**	**7.4**

The overall Tax-GSDP Ratio for 2012-17 for all states is estimated at 7.4%. In the case of General Category States, the tax GSDP ratio is 7.5% while it is 5.7% for Special Category Sates.

(iii) Non Tax Revenues:

The 2011-12 (LE/AP) has been used as the base for projecting the Non Tax Revenue. For both General Category States and Special Category States annual growth rate of 10% has been assumed. In the case of States which have negative Non Tax Revenue like Jammu and Kashmir, Mizoram and Nagaland mainly due to power sector deficit, the resources are affected due to their higher Power Sector deficit even though in the long run, Non-Tax Revenue should improve positively. It has been assumed to deteriorate in the case of these three states. In the case of General Category States.

(iv) **MCR and others** (which includes Additional Resource Mobilisation (ARM) and Adjustment of Opening Balance) has been used as balancing item to ensure adjustment of the Aggregate Resources for 2012-13 and subsequent years as there were significant variations based on normative estimates. The adjustment has been negative for some States and for some States positive MCR which signifies adjustment of opening balances has been included.

(v) Plan Grants

Plan Grants has been provided as indicated in the 13th Finance Commission Report upto 2014-15 and continued at the same level upto 2016-17.

(vi) Non Plan Grants:

Non Plan Grants comprise both that provided by 13th FC and other grants which are provided to the States. For the year 2012-13 onwards, the 13th FC Grant has been included along with retaining the others at the same level as in 2011-12 for each State.

(vii) Share of Central Tax Revenues:

This has been assumed at 15% for 2012-13, 16% for 2013-14 and 2014-15 and 18% for 2015-16 and 2016-17 respectively. This would be modified, if necessary, as per the assumptions of Working Group on Centre's Resources.

(viii) Non Plan Revenue Expenditure:

This has been worked out based on growth over the 2011-12 LE/AP for the various items like salary, pension, interest payments and other Non Plan Revenue Expenditure.

Salaries: Generally growth rate of 15% for 2012-13 and 14% for 2013-17. Some of the States have been provided higher growth as per requirement for payments of past dues, arrears of Pay Commission etc. This includes the likely increase on account of annual increments and dearness allowance installments.

Pension expenditure has been assumed to grow at 16% during 2012-13, 14% during 2013-15 and 16% during 2015-17. Interest expenditure has been estimated based on the effective rate of interest on outstanding liabilities and borrowings during the year for the period 2012-17.

Other Non Plan Revenue Expenditure: Other Non Plan Revenue Expenditure (excluding salaries, pension and interest payments) for general category states is assumed to grow at an average of 17% during 2012-17 with certain modification for some States. This includes estimated expenditure for committed liabilities and statutory transfers to local bodies. For Special Category States average growth of 12% has been assumed for all the years.

(ix) Borrowings:

Borrowings has been worked out based on the fiscal deficit target of 3% of GSDP indicated in the 13th Finance Commission Report with higher limit for States wherever indicated. The GSDP as indicated above has been estimated based on the available figures of CSO and estimated growth rate for 2012-17. Budgetary borrowings as % GSDP is as per the modified CSO data (1.3.2012) with adjustment for some States for 2012-13. For some of the States this resulted in significant increase in the borrowings from 2012-13 onwards. This has been moderated by estimating increase in borrowings at 14.5% or a lower borrowings ratio.

(x) Central Assistance:

Central Assistance for 2012-13 is as per 2012-13 (BE) of the Central Government. The growth from 2013-14 onwards is the same at the aggregate level as per the growth assumed by the Group on Centre’s Financial Resources.

Amongst the General Category States, the State’s Own Resources excluding Central Assistance and borrowing are negative in case of Kerala, Punjab and West Bengal as these states have negative Balance from Current Revenue (BCR).

In the case of Special Category States, State Government’s Own Resources is negative for Assam, Himachal Pradesh, Jammu and Kashmir, Manipur, Mizoram, Nagaland, Sikkim and Tripura. In the case of Jammu and Kashmir, since the non tax revenue is negative and deteriorating it is affecting the State’s own resources. The Central Assistance for base year 2011-12 includes significant resources in the form of Special Plan Assistance/Special Central Assistance for the Special Category States. In arriving at the estimates for the 12th Plan Period, these have been assumed to grow in the same percentage as assumed for Central Assistance. Even though most of the Special Category States have negative BCR, Himachal Pradesh, Jammu & Kashmir and Tripura have significantly high negative BCR.

Projection of States' Resources for the 12th Five Year Plan

The Terms of Reference of the Working Group was to estimate the resources and expenditure of the States during the 12th Plan period and propose the pattern of financing the Plan for all the States (including the UTs with legislature) .

Aggregate Estimates:

The aggregate resources for the Twelfth Five Year Plan period (2012-17), **at current prices**, have been estimated based on the above indicated assumptions.

General Category States: States' Own Tax Revenues is estimated to increase from Rs.600673 crore in 2012-13 to Rs.1075224 crore in 2016-17, while Non-Tax Revenues increase from Rs. 68780 crore in 2012-13 to Rs.100700 crore in 2016-17. The aggregate Non-Plan Revenue Expenditure has been estimated to increase from Rs.853312 crore in 2012-13 to Rs.1488315 crore in 2016-17. The BCR accordingly is estimated to increase from Rs.123962 crore in 2012-13 to Rs. 208060 crore in 2016-17.

Special Category States: The States Own Tax Revenues are estimated to increase from Rs.25787 crore in 2012-13 to Rs. 46055 crore in 2016-17, while Non-Tax Revenues are estimated to increase from Rs. 5966 crore in 2012-13 to Rs. 9560 crore in 2016-17. The aggregate Non-Plan Revenue Expenditure is estimated to increase from Rs. 95817 crore in 2012-13 to Rs. 158980 crore in 2016-17. The BCR is estimated to deteriorate from Rs.(-) 18433 crore in 2012-13 to Rs. (-)39984 crore in 2016-17.

The Aggregate Resources for the 28 States at current prices is estimated to increase from Rs.553320 crore in 2012-13 to Rs. 929321 crore in 2016-17. The Aggregate Resources for the Twelfth Plan period (2012-17) for the 28 States is estimated at Rs.3656267 crore.

The resources for the Union Territories with Legislature viz., Delhi and Puducherry have been estimated, taking into account the 2011-12 (Annual Plan) estimates as the base level. Accordingly, the total aggregate resources for States and UTs have been estimated at Rs.3790628 crore for 2012-17 (at current prices).

Table-6.2: Resources projections for States and UTs for XII Plan (2012-17)

(At current prices)

(Rs. crore)

Sl. No.	Items	GCS	SCS	Total	UTs #	Total States & UTs
	Aggregate Plan Resources	**3367940**	**288327**	**3656267**	**134361**	**3790628**
1	**BCR**	**827280**	**(-)146534**	**680747**	**67248**	**747994**
	Of which:					
	(a) Own Tax Revenues	4103475	175880	4279355	149624	4428979
	(b) Non-Tax Revenues	419906	38388	458295	3884	462178
	(c) Share in Central Taxes	1843944	191721	2035665	--	2035665
	(d) Non-Plan Grants	198408	73932	272340	11178	283518
	(e) Non Plan Revenue Expenditure	5738453	626455	6364908	97438	6462345
2	**Central Assistance**	**582286**	**296414**	**878700**	**40657**	**919358**
3	**Plan Grants**	**61786**	**9541**	**71327**	**--**	**71327**
4	**Budgetary Borrowings**	**1728085**	**107979**	**1708783**	**9591**	**1845655**
5	**Resources of PSEs**	**300020**	**12027**	**312047**	**5413**	**317460**
6	**Resources of Local Bodies**	**41968**	**253**	**42221**	**--**	**42221**

 # UTs includes both with & without legislature.

The Statewise break up of these aggregate resources are shown below in Table No. 6.3.

Table No. 6.3 : Aggregate Plan Resources

(Rs. crore)

Sl. No.	States	Eleventh Plan Projections at 2006-07 prices	Eleventh Plan Realisation at 2006-07 prices	Total Twelfth Plan Projection at Current Prices
1	Andhra Pradesh	147395	129364	342513
2	Bihar	60631	65837	207939
3	Chhattisgarh	53730	39090	131729
4	Goa	8485	8660	28599
5	Gujarat	106918	102226	283623
6	Haryana	33374	64123	185212
7	Jharkhand	40240	34045	110240
8	Karnataka	101664	109011	277512
9	Kerala	41941	32343	98253
10	Madhya Pradesh	70329	67374	197565
11	Maharashtra	127538	117781	370334
12	Odisha	32225	39597	124373
13	Punjab	28923	25298	79496
14	Rajasthan	71732	75877	226417
15	Tamil Nadu	85344	74709	211250
16	Uttar Pradesh	181094	144703	326953
17	West Bengal	63779	50985	165934
Total A: General Category States		**1255342**	**1181023**	**3367940**
1	Arunachal Pradesh	7901	8401	21126
2	Assam	23954	27803	55481
3	Himachal Pradesh	13778	10844	23538
4	Jammu and Kashmir	25834	21593	41055
5	Manipur	8154	7921	21718
6	Meghalaya	9185	5657	19790
7	Mizoram	5534	4581	10605
8	Nagaland	5978	4913	12969
9	Sikkim	4720	4102	13720
10	Tripura	8853	6971	15387
11	Uttarakhand	42798	22487	52939
Total B: Special Category States		**156687**	**125272**	**288327**
	Total (All States)	**1412029**	**1306296**	**3656267**
1	NCT Delhi	54799	45250	85421
2	Puducherry	10787	5610	20446
3	Anadman & NI	4100	3663	12065
4	Chandigarh	2132	1916	5249
5	Dadra & NH	1300	737	4314
6	Daman & Diu	900	673	4031
7	Lakshadweep	2100	1184	2834
Total C: UTs (Total)		**76118**	**50860**	**134361**
GRAND TOTAL (STATES+UTS)		**1488147**	**1357156**	**3790628**

It would be helpful to compare these projections with the projections made originally for the 11th Plan and the actual realized. The position is indicated below.

Table 6.4: (States & UTs)

(Rs. crore)

Sl. No.	Source of Funding	Eleventh Plan (2006-07 Prices)		Twelfth Plan (2011-12 Prices)
		Projection	Realization	Projection
1	BCR	385050	310746	640561
		(25.9)	***(22.9)***	***(19.8)***
2	Resources of Public Sector Enterprises	128824	120034	273564
		(8.7)	***(8.8)***	***(8.4)***
3	Borrowings	649423	571023	1409788
		(43.6)	***(42.1)***	***(43.5)***
4	Other Resources	--	48723	134805
		--	***(3.6)***	***(4.2)***
5	States' Own Resources (1 to 4)	1163297	1050526	2458718
		(78.2)	***(77.4)***	***(75.8)***
6	Central Assistance	324851	306629	783684
		(21.8)	***(22.6)***	***(24.2)***
7	**Aggregate Plan Resources (Item 5 + Item 6)**	**1488148**	**1357156**	**3242402**

(Figures in parentheses indicate the amounts as % of the corresponding Aggregate Plan Resources)

The Aggregate Plan Resources for the Twelfth Five Year Plan at constant prices accordingly is estimated to increase by 2.18 over the 11th Plan. The main factor contributing to this increase is the estimated higher positive Balance from Current Revenue (BCR), borrowings and Central Assistance.

Aggregate Resources as % to GSDP

States/UTs	2011-12 (AP)	2011-12 (LE)	2012-13	2013-14	2014-15	2015-16	2016-17
Andhra Pradesh	6.4	5.9	6.3	6.5	6.6	6.6	6.6
Bihar	9.2	8.5	9.5	9.4	9.1	8.8	8.6
Chhattisgarh	12.3	11.6	14.0	13.7	13.4	13.1	12.9
Goa	7.5	7.4	7.4	7.5	7.4	7.4	7.3
Gujarat	6.4	6.7	6.2	6.3	6.3	6.2	6.3
Haryana	6.6	6.5	7.4	7.9	7.4	7.0	6.7
Jharkhand	12.8	12.8	13.9	14.6	14.6	14.5	14.6
Karnataka	8.2	8.1	8.2	8.3	8.2	8.1	8.0
Kerala	3.7	3.0	4.0	4.0	3.9	3.8	3.8
Madhya Pradesh	7.7	9.5	8.4	8.5	8.5	8.5	8.5
Maharashtra	3.5	3.5	4.0	4.1	4.1	4.2	4.1
Odisha	6.7	6.7	7.6	7.7	7.5	7.3	7.1
Punjab	4.4	2.7	4.6	4.3	4.1	4.0	4.1
Rajasthan	7.3	7.4	7.9	7.8	7.6	7.3	7.1
Tamil Nadu	3.7	3.7	4.0	4.4	4.5	4.4	4.4
Uttar Pradesh	7.0	7.0	6.6	6.6	6.5	6.4	6.3
West Bengal	4.0	4.0	4.1	3.7	3.9	4.0	4.0
Arunachal Pradesh	34.2	28.2	30.9	29.2	27.3	26.9	27.4
Assam	7.8	7.8	7.4	6.9	6.7	6.4	6.9
Himachal Pradesh	5.2	5.2	5.1	4.9	4.7	4.5	4.8
Jammu & Kashmir	10.6	7.7	10.0	9.4	9.0	8.8	8.8
Manipur	31.5	22.1	31.2	31.2	31.1	32.1	34.3
Meghalaya	15.6	15.6	15.7	15.4	14.7	14.6	14.8
Mizoram	24.1	22.3	23.3	20.9	18.8	18.0	17.8
Nagaland	15.0	14.0	14.8	16.1	15.8	16.0	18.0
Sikkim	18.8	19.6	19.7	18.2	16.9	15.4	14.8
Tripura	9.9	10.0	10.4	10.9	10.6	10.8	11.5
Uttarakhand	8.9	8.9	8.6	7.7	7.6	7.4	7.4
Delhi	4.8	4.8	4.6	3.9	3.4	3.0	2.6
Puducherry	20.0	20.0	20.7	20.6	20.5	20.4	20.5
Avg- GCS	**5.9**	**5.8**	**6.2**	**6.2**	**6.2**	**6.1**	**6.1**
Avg SCS	**10.4**	**9.5**	**10.1**	**9.5**	**9.2**	**9.0**	**9.3**
Avg States	**6.1**	**6.0**	**6.4**	**6.4**	**6.4**	**6.3**	**6.2**
Avg States + UTs	**6.2**	**6.0**	**6.4**	**6.4**	**6.3**	**6.2**	**6.1**

Chapter 7
Summary and Conclusions

We have reviewed the position of state finances over the tenth and eleventh plan periods. States have shown considerable improvement in reducing fiscal imbalances through enactment of fiscal responsibility legislations and improving their own tax buoyancy by moving on to a state vat and agreeing on largely uniform rate structures.

The distribution of central plan assistance among the states shows that over the two plan periods (Tenth and Eleventh) the systematic elements of distribution (Gadgil formula) has been overtaken by discretionary and ad hoc components, particularly the additional central assistance for special schemes. The Gadgil formula itself is not designed to give primary importance to the objective of correcting inter-state imbalances in levels of development. The entire scheme of distribution of plan grants is distortionary and ad hoc and must be thoroughly revised.

Review of Distribution of Plan Assistance

In this chapter the mechanism of dispensation of development funds through the Planning Commission has been discussed. In particular the implications of the Gadgil Formula have been brought to the fore. We have noted that

1. ACA (Others) is the highest in per capita terms for general category states. The pattern of distribution shows the non-progressive nature of those grants over laid by the discretionary influences.
2. In the case of special category states, the highest per capital grants are under normal central assistance.
3. the dispensation of plan funds are not adequately progressive so that the relatively poorer states can derive meaningful benefits from the plan devolution;
4. inter state distribution of external assistance further accentuates this problem; and
5. The special category states had been given unduly high shares and this has had high opportunity cost while it has also resulted in considerable debt for special category states even while their economies had made little progress.

Scope of State Plans

In line with the recommendations of the Rangarajan Committee, the WG-SFR suggests that

a. The distinction between revenue and capital expenditure be retained but that between plan and non-plan expenditure be given up;

b. The state plan should in principle include plan of the administrative departments, state level public enterprises; state/city level para statals and authorities involved in the provisions of public services; and local bodies. In respect of the local bodies, to begin with, at least plans of municipal corporations may be included.

c. States' share in the centrally sponsored schemes should be included in the state plans; funds that flow directly to autonomous societies from central ministries are to be counted as part of the central plan; but information of the flow of funds should be given to the states and shown in the state budgets as separate annexure.

State Resources and Expenditures: Projections for the Twelfth Plan

The basic features of the projections of state resources for the Twelfth Plan are summarized below.

The aggregate Plan Resources for the Twelfth Five Year Plan at constant prices accordingly is estimated to increase by 2.16 over the 11^{th} Plan. The main factor contributing to this increase is the estimated higher positive Balance from Current Revenue (BCR), borrowings and Central Assistance.

The aggregate resources for the Twelfth Five Year Plan period (2012-17), at current prices, have been estimated based on the above indicated assumptions.

General General Category States: States' Own Tax Revenues is estimated to increase from Rs. 600673 crore in 2012-13 to Rs.1075224 crore in 2016-17, while Non-Tax Revenues increase from Rs. 68780 crore in 2012-13 to Rs.100700 crore in 2016-17. The aggregate Non-Plan Revenue Expenditure has been estimated to increase from Rs. 853312 crore in 2012-13 to Rs.1488315 crore in 2016-17. The BCR accordingly is estimated to increase from Rs. 123962 crore in 2012-13 to Rs. 208060 crore in 2016-17.

Special Category States: The States Own Tax Revenues are estimated to increase from Rs.25787 crore in 2012-13 to Rs. 46055 crore in 2016-17, while Non-Tax Revenues are estimated to increase from Rs. 5966 crore in 2012-13 to Rs. 9560 crore in 2016-17. The aggregate Non-Plan Revenue Expenditure is estimated to increase from Rs. 95817 crore in 2012-13 to Rs. 158980 crore in 2016-17. The BCR is estimated to deteriorate from Rs.(-) 18433 crore in 2012-13 to Rs. (-)39984 crore in 2016-17.

The Aggregate Resources for the 28 States at current prices is estimated to increase from Rs. 553320 crore in 2012-13 to Rs. 929321 crore in 2016-17. The Aggregate Resources for the Twelfth Plan period (2012-17) for the 28 States is estimated at Rs.3656267 crore.

The resources for the Union Territories with Legislature viz., Delhi and Puducherry have been estimated, taking into account the 2011-12 (Annual Plan) estimates as the base level. Accordingly, the total aggregate resources for States and UTs have been estimated at Rs.3790628 crore for 2012-17 (at current prices).

Annex-1

Composition of Working Group and Terms of Reference

The composition of the Working Group is as under:

1	Dr. D.K.Srivastava	Director, Madras School of Economic	Chairman
2.	Representative of CAG	Office of CAG	Member
3.	Joint Secretary (PF-I)	Ministry of Finance	Member
4.	Shri R. Sridharan, Former Adviser (FR), Planning Commission	Executive Director, Food Corporation of India.	Member
5.	Adviser (FR)	Planning Commission	Member
6.	Representative of Controller General of Accounts	Office of CGA	Member
7.	Principal Finance Secretary	Government of Andhra Pradesh	Member
8.	Principal Finance Secretary	Government of Odisha	Member
9.	Principal Finance Secretary	Government of Meghalaya	Member
10.	Principal Finance Secretary	Government of Himachal Pradesh	Member
11	Principal Finance Secretary	Government of Gujarat	Member
12.	Principal Finance Secretary	Government of Tamil Nadu	Member
13.	Principal Finance Secretary	Government of Madhya Pradesh	Member
14	Principal Finance Secretary	Government of Uttar Pradesh	Member
15	Executive Director	Reserve Bank of India	Member
16	Dr R.Kavita Rao*	Senior Fellow, NIPFP	Member
17	Dr. Tapas Sen	Senior Fellow, NIPFP	Member
18	Shri S.Lakshmanan	Director (FR),Planning Commission	Member-Secretary

***Allowed to withdraw from the Group due to personal and professional preoccupations.**

Terms of Reference:

The Terms of Reference of the Working Group on States' Resources are as follows:

(i) To analyze the resource position of the States with particular reference to the recommendations of 13th Finance Commission, fiscal responsibility legislation(s), introduction of GST, flow of EAP funds, recommendations of High Level Expert Committee under Dr. C. Rangarajan and other Policy changes in that regard;

(ii) To examine the basis of distribution of Central Plan Assistance to States including the suitability of allocation of Normal Central Assistance to the States on the basis of the formula determined by the Finance Commission for distribution of share of Central taxes;

(iii) To examine the dispensation to Special Category States in the allocation of Central Plan Assistance and suggest changes if required;

(iv) To examine the flow of funds under Centrally Sponsored Schemes and suggest methods of integrating them in to the scheme of financing of the plan of the States;

(v) To examine the scope of the State Plan including the investment of State PSUs finance through internal and extra-budgetary resources(IEBR), the resources of the local bodies and the other innovative methods such as special purpose vehicles(SPVs) and public-private partnerships(PPPs)

(vi) On the basis of the above, to suggest the basis for making projections for 'resources' and 'expenditure' for the States during the 12th Plan period.

(vii) To prepare and present projection(s) on the scheme of financing for the 12th Plan for the States(including UTs with legislature) separately(and combined);