Chapter 3

FISCAL AND FINANCIAL MANAGEMENT

A GLIMPSE OF THE ECONOMY OF PUNJAB

Punjab is the most advanced state in the country, with a high per capita GSDP, highly productive agriculture a well-developed physical infrastructure and a high human development index. However, the fiscal balances of the state government worsened in the early nineties and has continued to deteriorate by accumulating debt faster than the growth of the economy. This is due to indiscreet high revenue expenditure by the state government and its agencies.

Given the well-developed infrastructure and a high level of income, the state is an important market for consumables. Normally, it should have the advantage of making a quick transition into industry and the service sector with linkages with its own resources and those of the neighboring states.

At Rs.18,762 per capita Net Domestic Product (1997-98) its per capita output is 50 per cent higher than the all India average. Its position is second only to Goa, but Maharashtra is fast closing the gap from below. Punjab accounts for almost 1.6 per cent of India's geographical area and 2.36 per cent of its population. More than 33.95 per cent of the states' population is urban, which is higher than the all-India average of 27.78 per cent.

- Incidence of poverty is about six per cent (2000-01), the lowest among all the major states.
- Life expectancy is the second highest among all the states in the country, after Kerala, for both males and females.
- In literacy, however, it has lagged behind Kerala, Maharashtra and West Bengal, both for males and females.
- There is a distinct improvement in the provision of health facilities in Punjab. At present, there is one doctor for 1,485 persons. The infant mortality rate is 51 per 1000 as compared to the all India figure of 71 per 1000.
- The state's economy is mainly agricultural, as about 38.66 per cent (Q) of the GDP is from agriculture and allied activities. Industry accounts for 24.90 per cent (Q) and the services industry for the remaining 36.44 per cent (Q) for the year 2000-2001.
- Over 95 per cent of the state's gross crop area is irrigated. The cropping intensity is 187 per cent as compared to 131 per cent at the all-India level. Yield of foodgrains per hectare is almost 5,000 kg, the highest in the country.
- Consumption of electricity by agriculturists is on the rise. In 1999-2000, 39.33 per cent of power was consumed by 7,71,132 tube wells for pumping water for irrigation.

The state of foodgrain production is relevant for the present economy of Punjab. After near stagnation in 1999-2000 and a negative growth of two per cent in 2000-01, the agricultural sector in India attained a growth rate of nearly six per cent in 2001-02. One of the reasons for this is that the distribution of the monsoon rainfall in 2001 has been one of the best in recent years. The production of foodgrains in 2001-02 touched

209 million tons, an increase of 13 million tons over the previous year. Late winter rains in the northwest of India in February 2002 helped to raise foodgrains production to 212 million tons.

In 2001-02, the Food Corporation of India (FCI) procured 20.63 million tons of wheat a record level. Rice procurement also reached a record high in 2001-02. The unusually high procurement of wheat and rice in the last two years has led to accumulation of huge surplus stocks much above the minimum buffer stock norms. The FCI held in stock 58 million tons of wheat and rice in February 2002 against 16 million tons of buffer stock.

The primary reason for excessive procurement is the high Minimum Support Price (MSP). Offtake of foodgrains under the Public Distribution System has been low. Purchases by private traders have gone down considerably.

The food subsidy bill increased from Rs.2,850 crore in 1991-92 to Rs.12,010 crore in 2000-01. For 2001-02, the food subsidy is estimated at Rs.14,000 crore, out of which almost half is accounted for by buffer-stock subsidy or carrying cost of public stocks of foodgrains.

Measures have been taken to liquidate excess stocks: open market sale and export of foodgrains at prices much below the economic cost and increased below poverty-line allocations under the targeted Public Distribution System (PDS). These measures are attempts to reduce the carrying cost of surplus foodgrains.

One of the long-term measures for reducing the foodgrain subsidy and the carrying cost include decentralized procurement of foodgrains and encouraging greater role of the private traders.

The wheat-and-rice rotation dominating Punjab agriculture is a cause of concern because of ballooning stocks of these commodities with the FCI and its inability to find buyers in domestic or foreign markets. This is likely to affect future minimum support prices for these commodities.

A system of contract farming through private sector companies, agricultural marketing and foodgrain processing, together constitute an alternative to near total purchase of wheat and rice crop by the FCI. This will necessitate elimination of such intermediaries as brokers, doing away with tax collection by the State Marketing Board, the Rural Development Board and purchase-tax on foodgrains, which works out to about 10 to 11 per cent of the price. This will encourage private sector players and multinational foodgrains giants to lift farm produce directly from the fields at pre-negotiated prices, avoiding brokers and intermediaries.

Presently, private players, including such multinationals as CARGIL, are allowed to procure foodgrains through market intermediaries at the minimum support price, after paying the brokerage, market expenses and taxes. These buyers pay escalated costs which make direct purchase from farmers less attractive.

In contract farming, revenue sharing with the farmers is based on a cost-plus return basis. The number of private operators for direct purchase of foodgrains from the farmers will increase in due course and make the concept operational. However, workable tripartite agreements between farmers, the private sector and government will have to be finalized to ensure that where there is a breach of contract, a proper system to redress the grievances is available. This is within the present legal competence of the state. This contract farming system by private operators, including multinationals, is a good alternative for assured return to the farmers and also for achieving the ultimate goal of value-added processing of the agricultural produce of the state.

Since the excess production on account of the persistence of wheat-and-rice rotation in Punjab is defying all solutions, the state is also considering a proposal to compensate the farmers at the rate of Rs.5,000 per acre for diverting land to other commercial/non-commercial crops. This is an operationally suitable proposal, provided the central government supports it, as Punjab, with its very large production of wheat and rice and almost empty coffers, cannot bear the additional financial burden. The Planning Commission, it is understood, is not likely to support the proposal. Land-use should better be determined by the market/price mechanism and not decided by subsidies. The proposed compensation will be a burden if it is in addition to the Minimum Support Price (MSP) policy of the Government of India. A convincing proposal to compensate farmers for diverting a part of their land from wheat/rice rotation has to be formulated for central support.

There was a significant slowdown of industrial growth in 2000-01 and it continued with greater intensity in 2001-02. Overall growth during April-December 2000-01 was 2.6 per cent, compared to 5.8 per cent during the corresponding period of the previous year. High interest rate, infrastructure constraints and lower domestic and internal and external demand are the factors responsible for the slowdown. Unsatisfactory performance of infrastructure development during 2001-02 is reflective of the overall slowdown in the economy.

The growth of large, medium and small industries in Punjab is given in Table below.

Table 1
Growth of Large/Medium and Small-scale Industries in Punjab

Year	Growth of Large/Medium Industries in Punjab 1980-81 to 99-2000				Growth of Small-scale Industry in Punjab 1980-81 to 1999-2000			
	No. of units	Employ-ment (no.)	Fixed invest-ment Rs. (Million)	Produc-tion Rs. (Million)	No. of units	Employ-ment (no.)	Fixed invest-ment (Rs. in million)	Produc-tion Rs. (Million)
1980-81	228	107767	7270	1,1410	4,3338	264869	3320	11180
1985-86	292	132174	14900	2,5350	9,7517	464809	7390	21510
1990-91	373	187311	40030	7,1640	16,0388	668845	13490	40500
1995-96	526	210448	87441	16,6561	19,1025	802329	22161	97139
1998-99	602	227929	140381	25,3760	19,7344	864592	33607	144445
1999-2K	611	236000	147660	23,7200	19,9000	883000	37940	166100
2000-01	638	252000	170000	35,6000	20,1000	897000	42500	195250

Source: *Economic Surveys* of Punjab.

Industry in Punjab largely provides a low level of employment and most of the low-paid jobs, comprising unskilled labour, have been taken by migrants from other states. The educated or technically qualified youth of Punjab are facing prolonged unemployment due to underdevelopment of the industrial and commercial sectors.

At present there is a lull in industrial activity in Punjab. The steel-melting industry has suffered the most in the recent slowdown. A power load of about 300 MW has been surrendered by industry because of its poor state of health. The textile industry, particularly yarn producing units, are getting progressively sick.

According to the preliminary report of the Industrial Revival Advisory Committee set up by the government, as many as 16,000 small and medium units are sick or likely to become sick. In addition, some of the cycle and cycle-parts units are also progressively getting into distress. The Advisory Committee has recommended that the state government must fulfill the promise of releasing incentives, and cash disbursement should be made to the units, wherever due, as promised, to help the industry face this critical situation. This may help their revival.

With comparatively satisfactory economic fundamentals, Punjab should be able to achieve a growth rate of eight to ten per cent in the short run. For this purpose it is necessary to plan and develop new industrial areas to meet the aspirations of the new generation of entrepreneurs. In addition, the technical education system should be revamped and reoriented so that the educated and trained youth become employable particularly in industry. Agro-processing, light engineering and textile industries have a potential for growth and development in Punjab. After information technology, it is biotechnology which has unlimited scope in sectors such as agriculture, animal husbandry, human health and environment.

According to the Advisory Committee, Punjab State Industrial Development Corporation (PSIDC) and Punjab Financial Corporation (PFC) have made significant contributions to the growth and development of small and medium industries. It has suggested the setting up of a Special Purpose Vehicle (SPV) for taking over assets at retrievable market prices. All powers of recovery under Section 29 of the State Financial Corporation Act, the Land Revenue Recovery Act and the sale of mortgaged assets with the help of the Debt Recovery Tribunal should be given to the Special Purpose Vehicle (SPV). This is at variance, to some extent, with the recommendations of the Punjab Disinvestment Commission, which has suggested the setting up of an Assets Management Authority for taking care of non-performing assets and other similar investments.

The Centre for Monitoring Indian Economy (CMIE), in its forecast for the period ending 31 July 2002, has reduced India's industrial growth in the current financial year to three per cent from the earlier estimated growth of 3.5 per cent, because of the failure of rains in the first two months of the monsoon season. The monsoon is vital to India's economic health, as agriculture constitutes 25 per cent of the country's GDP and employs 70 per cent of the population. The CMIE estimates that such sectors as food products, consumer goods, textiles, garments and two-wheelers would be adversely hit. It expects the manufacturing sector to grow at a moderate pace of three per cent in the current year compared to 2.8 per cent in 2001-02.

CURRENT FINANCIAL POSITION OF PUNJAB

A look at the fiscal deficit and revenue deficit (Table 2) reveals the deteriorating financial situation of Punjab. The revenue balance of the state has been consistently in deficit.

Table 2
Punjab – Deteriorating Revenue and Gross Fiscal Deficits (Rs. in crore)

Years	Revenue Surplus/ Deficit (+/-)	Fiscal Deficit (-)	Revenue Surplus/ Deficit (+/-)	Fiscal Deficit (-)
	(In Rupees Crore)		(As a percent of GSDP)	
1991-92	(480.87)	(1150.50)	-2.11	-5.20
1992-93	(635.59)	(1251.95)	-2.42	-4.92
1993-94	(766.93)	(1493.41)	-2.54	-4.94
1994-95	(741.84)	(1785.24)	-2.18	-5.25
1995-96	(450.24)	(1364.64)	-1.17	-3.56
1996-97	(1357.06)	(1464.68)	-3.07	-3.30
1997-98	(1483.90)	(2477.58)	-3.07	-5.07
1998-99	(2628.67)	(3779.32)	-4.83	-6.88
1999-00	(2727.11)	(3172.21)	-4.38	-5.12
2000-01	(2335.97)	(3903.75)	-3.41	-5.70
2001-02 (RE)	(3842.00)	(5211.00)	-5.48	-6.92

Source: *White Paper on the State Finance, March 2002*

The revenue deficit reached its peak of 4.83 per cent in 1998-99. This is stated to be due to the implementation of the Punjab Pay Commission.

Fiscal deficit on the average has been over 5.25 per cent of GSDP during 1991-92 to 2001-02. It reached a high of 6.88 per cent of GSDP in 1998-99. The revenue deficit and gross fiscal deficit will touch 5.48 per cent and 6.92 per cent by the end of fiscal 2001-02, as estimated by the State Finance Department.

Finances of the other states of India too deteriorated over the years, particularly after the implementation of the Fifth Pay Commission Report in 1997, but the gross fiscal deficit in Punjab has remained persistently high even by all-India standards (Table 3)

Table 3
Gross Fiscal Deficit as a Ratio of NSDP in Fifteen Major States (in percent)

States	1990-91	1995-96	1997-98	1998-99
Orissa	6.4	5.8	6.3	9.4
Rajasthan	3.0	6.3	4.9	8.6
Uttar Prudish	6.2	4.3	5.7	7.6
Punjab	7.4	4.0	5.6	7.4
West Bengal	5.2	4.1	4.6	7.1
Goa	9.4	3.5	3.5	6.6
Gujarat	7.4	2.7	4.0	6.3
Haryana	3.2	3.8	3.4	5.8
Andhra Prudish	3.1	3.4	2.8	5.5
Kerala	6.6	3.7	5.0	5.3
Madhya Prudish	3.8	2.8	2.6	5.2
Tamil Nadu	4.1	1.8	2.3	3.8
Bihar	7.0	3.9	1.9	4.1
Karnataka	2.7	2.8	2.3	3.8
Maharashtra	2.8	2.8	3.5	3.5

Source: Planning Department, Punjab

The ratio of debt to GSDP touched a high of 40.66 per cent in 2001 and is expected to go up to 47.16 per cent in 2002 BE (Table 4). The guarantees too have been on the rise and, as reported in the White Paper on Punjab Finances, touched Rs.50,000 crore in 2002. The guarantees were also given to Public Sector Undertakings (PSUs), co-operative institutions and for cash credit limit for food procurement.

Table 4

Debt of the State Government (Rs. In crore)

At end-March	Internal Debt of the State Govt.	Loans and Advances from the Central Govt.	State Provident Funds	Insurance and Pension Funds	Total Debt Stock	Total Borrowings during the Year	Total Stock as a Proportion of GSDP (In percent)
1991	421.88	5731.78	694.16	22.16	6869.98	1212.27	36.38
1992	459.99	6607.22	809.31	28.32	7904.84	1034.86	34.61
1993	498.62	7734.35	976.26	35.60	9244.83	1339.99	35.19
1994	534.46	8721.73	1199.61	43.89	10499.69	1254.86	34.71
1995	1110.46	9543.92	1441.78	53.25	12149.41	1649.72	35.63
1996	1863.80	9952.73	1749.54	63.93	13630.00	1480.59	35.36
1997	1913.70	11049.10	2211.34	75.41	15249.55	1619.55	34.53
1998	2391.70	11979.22	2756.20	88.42	17215.54	1965.99	35.58
1999	4150.32	13056.97	3566.17	103.31	20876.77	3661.23	38.37
2000	4365.73	14727.39	4449.23	118.87	23661.22	2784.45	37.98
2001	9612.41*	13008.28	5073.48	136.16	27830.33	4169.11	40.66

Source: *White Paper on the State Finances, Punjab: March 2002*

Note *; Includes Rs.4042.03 crore loans against small savings which were earlier shown under loans and advances from Central Government.

Revenue receipts as a percentage of GSDP have been erratic. Revenue receipts from tax revenue and non-tax revenue from 1985-86 to 2001-02 is shown in Table 5.

Table 5

Punjab – Erratic Revenues

(As a proportion of GSDP)

Years	Tax Revenues	Total Non-Tax Revenue	Total Revenue
1985-86	8.52	4.19	12.71
1986-87	9.41	3.39	12.79
1987-88	9.03	2.81	11.83
1988-89	8.88	3.02	11.90
1989-90	8.73	2.22	10.94
1990-91	8.42	2.38	10.80
1991-92	8.30	8.50	16.79
1992-93	8.28	2.67	10.95
1993-94	8.36	2.47	10.84
1994-95	8.89	6.70	15.59
1995-96	8.08	5.46	13.54
1996-97	7.34	5.19	12.53
1997-98	7.58	5.42	13.00
1998-99	7.00	3.47	10.47
1999-00	7.40	5.29	12.05
2000-01 (RE)	8.44	7.22	14.74
2000-02 (BE)	8.38	6.89	14.36

Source: Punjab Government *Budget Documents*

The growth of revenue income has shown a substantial increase in the years 1999-2000 and 2000-01. This is largely due to a progressively higher yield from sales tax, which almost doubled during 1997-98 to 2001-02. The growth of receipts from all sources is shown in Table 6.

Table 6
Revenue Performance 1997-98 to 2001-02 Rs. in crore)

Items	1997-98	1998-99	1999-00	2000-01	2001-02 (Revised Estimates)
A. Revenue Receipts					
I. Tax Revenue					
1. Sales tax	1401.14	1489.66	1977.28	2644.41	2690.00
2. State excise	1143.70	1204.27	1231.57	1324.67	1350.00
3. Tax on vehicles	215.68	266.72	321.37	338.32	320.00
4. Electricity duty	37.79	31.90	76.47	145.06	134.00
5. Entertainment tax	8.96	8.90	10.29	14.22	19.26
6. Stamps & registration	233.64	258.12	325.65	424.06	445.00
7. Land revenue, etc.	3.57	2.90	4.84	7.17	8.30
Total	**3044.68**	**3262.47**	**3947.47**	**4897.93**	**4966.56**
II. Non Tax Revenue	**2356.53**	**1507.35**	**2361.46**	**2935.24**	**3132.53**
State's Own Revenues (I+II)	**5401.21**	**4769.82**	**6308.93**	**7833.17**	**8099.09**
III. Transfers from Govt. of India					
1. Plan & Non-Plan Grants	293.11	398.98	520.34	827.07	917.34
2. Share of Central Taxes	656.98	587.16	638.59	716.62	608.18
Total-III	**950.09**	**986.14**	**1158.93**	**1543.69**	**1525.52**
Total Receipts-A (I+II+III)	**6351.30**	**5755.96**	**7467.86**	**9376.86**	**9624.61**

Source: Punjab Government *Budget Documents*

The figures in Table 7 indicate that the GSDP ratio of total revenue receipts in 1999-2000 has shown a downward trend from 13.46 per cent in 1995-96 to 11.91 per cent in 1999-2000.

The GSDP ratio of tax revenue and non-tax revenue has gone down from 8.03 per cent and 5.43 per cent in 1995-96 to 7.31 per cent and 4.60 per cent respectively in the years 1999-2000, whereas capital receipts have substantially increased to 8.2 per cent because of larger borrowings. Borrowings, it is noticed, have not been invested for development purposes but utilised for defraying revenue expenditure.

Table 7
Receipts – GSDP Ratio (Per cent): 1990-91 to 1999-2000 (In per cent)

Head of Account/Year	1990-91	1994-95	1995-96	1999-00
Aggregate receipts (A+B)	15.24	21.59	18.18	20.11
A. Total revenue receipts (I+II)	7.47	15.55	13.46	11.91
Own source receipts (I (a) + II(c))	5.13	13.50	11.50	10.06
Receipts from Centre (I (b) +II (d))	2.33	2.05	1.96	1.85
I. Tax revenue (a+b)	5.27	8.87	8.03	7.31
a. State own tax revenue	3.92	7.62	6.88	6.30
b. Share in Central taxes	1.35	1.24	1.15	1.02
II. Non-tax revenue (c+d)	2.19	6.68	5.43	4.60
c. State own Non-tax revenue	1.21	5.88	4.61	3.77
d. Grants from the Centre	0.98	0.80	0.82	0.83
B. Total capital receipts (I to X)	7.78	6.04	4.72	8.20
I. Internal debt	0.24	1.51	1.30	1.62
II. Loans and advances from Centre	6.47	3.48	2.08	1.74
III. Special securities issued to NSSF	0.00	0.00	0.00	2.73
IV. Recovery of loans	0.23	0.14	0.14	0.17
V. Contingency fund (net)	0.00	0.00	0.00	0.01
VI. Small savings and provident fund etc., (net)	0.64	0.74	0.83	1.43
VII. Reserve fund (net)	-0.01	0.01	0.01	0.05
VIII. Deposits and advances (net)	0.25	0.13	0.18	0.45
IX. Suspense and miscellaneous fund (net)	-0.04	-0.01	0.08	-0.04
X. Remittances (net)	0.00	0.04	0.09	0.04

Source: *State Finances, Reserve Bank of India, January 2002*.

The Punjab has a high per capita income but the own tax ratio to GSDP is consistently lower than other major states as evident from Table 8. This trend suggests a distinct possibility of enhancing the tax ratio to GSDP. On the expenditure side, Gujarat and Maharashtra have a lower ratio of revenue expenditure compared to Punjab. Relatively higher revenue expenditure with lower resource mobilization indicates scope for reducing in the revenue deficit by improving the tax ratio to GSDP.

Table 8
Ratio of Own Tax Revenue to GSDP (In per cent)

Year	Gujarat	Karnataka	Kerala	Maharashtra	Punjab	Tamil Nadu
1980-81	7.2	7.7	7.0	6.8	6.9	8.1
1985-86	7.7	9.3	8.4	8.0	7.1	10.1
1990-91	8.6	10.1	8.7	7.9	6.8	10.2
1991-92	9.4	9.7	7.6	8.1	6.8	10.4
1992-93	8.6	9.5	8.4	7.2	6.7	10.0
1993-94	8.7	10.0	8.4	7.0	6.9	9.5
1994-95	8.0	9.5	8.7	7.6	7.3	9.9
1995-96	8.0	10.4	8.7	7.3	6.6	10.9
1996-97	7.9	10.0	9.1	6.8	6.0	10.5
1997-98	7.6	9.9	9.0	7.5	6.0	9.9

Source: Planning Department, Punjab

DEFICIT AND DEFICIT FINANCING

Deficits are largely the result of government's overspending and to a lesser extent due to meagre tax receipts. Budget deficits in Punjab have been growing over the past decade in particular. Deficits have sharply increased the public debt (the accumulated burden of yearly budget deficits), which in Punjab jumped to an alarming figure of 47 per cent of GDP of the state in 2001-2002, weakening government finances and draining resources from the economy.

The abrupt increase in revenue deficit in 1998-99 was on account of the implementation of the Pay Commission Report. The deficit for the year 2001-2002, according to the revised budget estimates, is Rs. 3,842.00 crore.

Inflows of income from its own revenues and transfers from the Government of India have been inadequate to meet the mounting pressure of revenue expenditure. Public debt has been a convenient tool for raising resources and the state continues to rely on borrowings to finance its deficits. The revenue deficit (RE) for the year 2001-02 is Rs. 3,842.00 crore which is 5.48 per cent of GDP. Interest payment liability, for the year 2001-2002 (RE) is Rs. 2,812.19 crore, which is about one-third of the revenue receipts. The revenue deficit from 1991-92 onwards is shown in Table 9.

Table 9
Revenue Deficit of Punjab (Rs. in crore)

Year	Revenue receipts	Revenue expenditure	Revenue deficit (2-3)	Percentage of revenue deficit of GSDP
1991-92	3715.84	4196.71	(-) 480.87	2.11
1992-93	2786.93	3422.52	(-) 635.59	2.42
1993-94	3276.63	4043.56	(-) 766.93	2.54
1994-95	5300.92	6042.76	(-) 741.84	2.18
1995-96	5184.75	5635.00	(-) 450.25	1.17
1996-97	5568.61	6925.67	(-) 1357.06	3.07
1997-98	6351.30	7835.20	(-) 1483.90	3.07
1998-99	5755.96	8384.29	(-) 2628.33	4.83
1999-00	7467.87	10195.28	(-) 2727.41	4.38
2000-01	9376.86	11712.83	(-) 2335.97	3.41
2001-02(RE)	9624.61	13466.61	(-) 3842.00	5.48

Source: Punjab Government *Budget Documents.*

Resource conservation is as important as resource mobilization. Unfortunately, no effort has been made to conserve resources and to stop or reduce the outflow of funds for unproductive purposes. Despite an unsatisfactory financial position, the state continues to forego and dissipate scarce resources by giving concessions and freebies. The state is indulging in the luxury of granting exemptions from payment of house tax on self-occupied properties, exemption of sales tax amounting to Rs.900 crore per year, exemption from payment of water rates by farmers, giving free electricity to farmers and to the Scheduled Castes for household use non-revision of user charges on water supply in urban areas, liberal free travel in government buses to students of primary and high schools/colleges/polytechnics, women over the age of 60 years and concessional travel to personnel of police and jails departments. This is causing loss to the state transport department running transport services on a commercial basis and also to Punjab Road Transport Corporation.

The government has been giving free canal water for irrigation to farmers since 1997 and thus losing a revenue of about Rs. 20 crore per year. Land revenue was yielding Rs. 3.45 crore per annum before it was abolished.

The state government is taking on itself additional liabilities, such as pension benefits to the staff of the government-aided private schools and for employees of government-aided colleges. Employers and employees, according to the new policy concept, are to contribute to a privately managed pension fund so that there is no burden on the consolidated fund of the state. This is a contradiction in the liberalized era of reforms.

Ultimately, the taxes needed to support current government commitments fall as a burden on the tax payers. There is a consensus among the states on the need to reduce deficits, but as yet very few have addressed the problem comprehensively. Most of them are engaged in piece-meal measures to reduce the pressure of deficits. The electorate usually finds reduced spending more tolerable than increasing taxes. Cuts in expenditure are painful, but can be strategically aimed at unpopular programmes. Cutting expenditure has also its limits; therefore, increasing the tax base is the option. Although tax increases are politically risky in the present context, the state government will need to raise tax rates to cover costs of social security, education and health-care and also as a measure to transfer wealth from the rich to the poor.

REVENUE EXPENDITURE

The share of committed expenditure of the Punjab Government, consisting of wages and salaries, pensions and interest payments, has registered a rapid rise. Since 1996-97, this committed expenditure has exceeded revenue receipts of the government, as shown in Table 10.

The rate of growth of pensions has been the highest, followed by wages and salaries. In the last 10 years, pensions have grown nine times and wages and salaries four times. The present pension scheme for government employees puts an open-ended financial burden on the government. An expert group set up by the Government of India has submitted its report. It has proposed a hybrid scheme for which it combines contributions from employees and the state government on a matching basis, assuring the employees a defined benefit as pension. A pension scheme based on these parameters will reduce the mounting burden on the Consolidated Fund of the state and release funds for development.

Table 10
Committed Expenditure on Major Items of Punjab State (Rs. in crore)

Items	1991-92	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02(BE)
Salaries & wages	1182.75	2333.43	2867.54	3680.70	3820.60	4309.94	4906.19
Pensions & retirement benefits	142.88	348.45	434.25	719.25	1139.88	1116.00	1150.00
Interest payments	360.59	1634.44	1848.76	2316.80	2636.67	2733.04**	2812.19
Grants-in-aid to universities and other aided institutions	108.16	141.28	165.32	196.34	243.79	240.74	240.68
Total 1 to 4	1794.38	4457.60	5315.87	6913.09	7840.94	8399.72	9109.06
Revenue receipts *	2323.67	4136.77	4576.40	4863.87	5695.68	7136.43	8806.17
%age of committed exp. to revenue receipts	76.99	107.76	116.16	142.13	137.66	117.70	103.44

Source: Punjab Government *Budget Documents.*

Note: * Excludes interest receipts from PSEB adjusted against RE subsidy, notional grant under waiver of Special Term Loans and includes net receipts under Lotteries.

** Includes moratorium on interest granted by the EFC (Rs. 390.00 crore).

Punjab Government employees have been consistently enjoying pay scales higher than even those announced by the Central Pay Commission. Table 11 gives comparative information in selected categories for Punjab, Haryana and the Government of India.

Table 11
Selected Comparative Pay Scales: Government of India, Government of Punjab and Government of Haryana

Post/Category	Haryana	Centre	Punjab
Peon	2550-3200	2550-3200	2620-4140
Clerk	3050-4590	3050-4590	3120-5160
Assistant	5000-7850	5000-8000	5800-9200
Sr. scale steno	4450-8000	5000-8000	5800-9200
Executive engineers	10000-3900	1000-15200	12000-15500

Source: Finance Department, Punjab.

There are several categories of employees in the state, who get time-bound increases in scale, even though such a facility does not exist for Government of India employees. The state government allows payment of Central Dearness Allowance instalments. Public sector undertakings too follow these high pay scales. The consequent ballooning debt has resulted in a high interest burden, and the excess committed expenditure has been supported by borrowings.

Capital expenditure has consistently remained below two per cent due to high expenditure on wages, pensions, interest payments and non-plan revenue expenditure. Expenditure on police has increased four times during 1990-91 to 2000-2001. Punjab Government implemented the revision of salaries with effect from January 1996. This aggravated the precarious financial position of the state. Salaries, wages and pension bills jumped from Rs. 2,180 crore in 1995-96 to Rs.2, 682 crore in 1996-97 and then to Rs.4, 400 crore in 1998-99 and Rs.5, 426 crore in 2000-2001, by which time the arrears were cleared.

The composition of developmental and non-developmental expenditure as percentage of GSDP of Punjab is given in Table 12.

Table 12
GSDP Ratio of Expenditure: 1990-91 to 1999-2000 (In per cent)

Budgetary Head/Years	1990-91	1994-95	1995-96	1999-2000
Aggregate expenditure (I to III)	15.15	16.11	16.57	19.21
I. Development expenditure (a+b)	3.54	5.51	4.24	7.96
a. Social services	0.55	0.47	0.50	4.42
b. Economic services	2.99	5.03	3.73	3.54
II. Non-development (General services)	1.20	2.71	2.01	9.01
III. Miscellaneous	10.41	7.89	10.32	2.24
Total revenue expenditure (I to III)	11.76	10.69	12.66	16.34
I. Developmental expenditure (A+B)	1.40	0.99	0.99	7.31
A. Social services	0.48	0.36	0.41	4.35
B. Economic services	0.91	0.62	0.58	2.96
II. Non-developmental (General services)	1.06	2.49	1.83	8.95
III. Compensation of local bodies	9.30	7.21	9.84	0.08
Total capital disbursement (I + II)	3.39	5.43	3.90	2.86
I. Total capital outlay (1+2)	2.28	4.74	3.43	0.70
I. Development (a+b)	2.14	4.52	3.24	0.64
a) Social services	0.07	0.11	0.09	0.06
b) Economic services	2.08	4.41	3.15	0.57
2. Non-developmental (General services)	0.14	0.22	0.18	0.06
II. Miscellaneous	1.11	0.68	0.48	2.16

Source: *State Finances, Reserve Bank of India, January 2002*.

From the figures given in Table 12 it is obvious that in 1999-2000 and over a decade the GSDP ratio of non-development expenditure has been rising. This inescapable conclusion is that it is not a healthy sign of the state economy.

The unusually high committed expenditure on wages, salaries, pensions and interest payments and grants in-aid to institutions, as reported in the *White Paper on Punjab Finance (March 2002)*, is 112 per cent (RE) of the total revenue receipts.

Increase in the total debt stock and higher trend of interest rates have resulted in doubling interest outgo as a committed liability, between 1987-88 and 1990-91. Interest payment between 1990-91 and 2001-2002 increased almost nine times to Rs. 3,149.00 crore, which accounts for more than 30 per cent of revenue receipts (Table 13).

Table 13
Mounting Interest Expenditure

Year	Interest Payments (Rs in crore	Revenue Receipts * (Rs in crore)	Proportion of Revenue Receipts Spent on Interest Payments (%)
1991-92	360.59	2330.67	15.47
1992-93	410.61	2782.80	14.75
1993-94	1042.17	3268.37	31.89
1994-95	1243.69	3751.67	33.15
1995-96	1489.59	3845.46	38.74
1996-97	1634.44	4136.77	39.51
1997-98	1848.76	4576.40	40.40
1998-99	2316.80	4863.87	47.63
1999-00	2636.67	5695.68	46.29
2000-01	**2733.04	7136.43	38.30
2001-02 RE	3149.00	9624.16	32.71

Source: Punjab Government *Budget Documents.*

Note: * Excludes interest receipts from PSEB adjusted against RE subsidy, notional grant under waiver of special Term loans and includes net receipts under lotteries.

** Includes Moratorium on interest granted by the EFC (Rs. 390.00 crore)

There has been a decline in expenditure on social services from 1988-89 onwards. General services on the other hand has registered an increasing share of expenditure from 1991 onwards.

Given the predominant share of wages and salaries in total expenditure, it will be prudent to freeze future recruitment for all categories of employees including consultants. The compression of non-wage and non-interest expenditure is equally important. Rationalization or increase in user charges will provide much needed budgetary support. Private partnership for delivery of services by off-loading and transferring non-essential functions to the private sector is a pressing budgetary reform.

Recommendations of the Expenditure Reforms Commission (ERC), when received by the government, should provide a useful framework for immediate moderation in expenditure growth. The recommendations have been delayed inordinately and quick action on these will enable the state government to implement reforms from the first year of the Tenth Five Year Plan.

PLAN AND PLAN EXPENDITURE

The persisting deficit adversely affected the plan programme of the Ninth Five Year Plan. No contribution out of revenue resources was possible for the annual plans, which were implemented with borrowings. In the last year of the plan, i.e., 2001-02. The performance was only 58 per cent of the revised outlay. The state was not able to fully avail of the central assistance for plan programmes and centrally sponsored schemes, because it could not provide the state's share for such schemes.

Performance in Ninth Five Year Plan

The likely financial performance is expected to be 77.46 per cent of the revised outlay of Rs. 12,624.14 crore of the Ninth Five Year Plan. The shortfall in expenditure is due to resources constraints, implementation of the Fifth Pay Commission Report and a substantial increase in non-plan expenditure.

Table 14
Year-wise Financial Performance of the Ninth Five Year Plan (Rs. in crore)

Year	Approved outlay	Revised outlay	Actual expenditure	Performance to approved outlay (In per cent)	Performance to revised outlay (In per cent)
1997-98	2100.00	1940.00	2021.23	96.25	104.19
1998-99	2500.00	2500.00	2007.04	80.28	80.28
1999-00	2680.00	2680.00	1748.85	65.26	65.26
2000-01	2700.00 (2420.00 Core Plan)	2147.14	2045.25	75.75	95.25
2001-02	3357.00 (3025.00 Core Plan)	3357.00	1956.18	58.30	58.30
TOTAL	13337.00	12624.14	9778.55	73.32	77.46

Source: Planning Department *Documents.*

According to the guidelines of the Planning Commission, Government of India, the size of the Tenth Five Year Plan is fixed at five and half times the budgeted outlay of the Annual Plan 2001-02, and the size of the Annual Plan 2002-03 is to be fixed at ten per cent above the Plan size of the pervious year. In accordance with these guidelines the size of the Tenth Five Year Plan and the Annual Plan 2002-03 work out as under:

Table 15
Outlays for Tenth Five Year Plan (2002-07) and the Annual Plan (2002-03)

(Rs. in crore)

Particulars	Annual Plan 2001-02	10^{th} Plan (5.1/2 times the size of 2001-02 Annual Plan	Annual Plan 2002-03 (10% of Annual Plan 2001-02)
Approved outlay	3357.00	18464.00	3693.00

Sources: Punjab *Budgetary Documents.*

A total Plan outlay of Rs.2, 750 crore only, as against an allocation of Rs.3, 693 crore according to the guidelines for 2002-03, amounts to virtually a 'plan holiday', as the proposed outlay comprises resources from Government of India for Centrally Sponsored Plan, Additional Central Assistance, Eleventh Finance Commission Grants or from institutional sources. Even this minimal plan is not backed by adequate resources.

Available resources for the annual plan for the year 2002-03, as worked out by the State Finance Department, are Rs.1,907 crore. This will not suffice even to meet the salary component of the Plan, the state's share in the Centrally Sponsored Schemes and schemes funded by institutions. To avail of the full assistance from the institutions and the Central Government, a minimum plan size of Rs. 2,750.00 crore was recommended by the Punjab Government. The Planning Commission has now increased the plan size to Rs. 2,793 crore.

The Annual Plans in the last five years have remained substantially under-achieved. Therefore, the Plan for the year 2002-2003 reflects a major increase when compared with the actual achievements of the earlier plans.

Table 16
Plan Expenditure in the Ninth Five Year Plan (Rs. in crore)

Year	Total expenditure	
	Budgeted	Actual
1996-97	1850.00	1794.39
1997-98	2100.00	2008.21
1998-99	2500.00	2007.04
1999-00	2680.00	1748.86
2000-01	2700.00	2045.25
2001-02	3357.00	1956.18

Source: Planning Department *Documents.*

To meet the minimum requirements of plan expenditure, the state will have to go in for additional resource mobilization to the extent of Rs. 823 crore in 2002-03. The state has agreed to do so.

Additional Resource Mobilization in 2002-03

Disinvestment of State Holdings

The proposed fast-track disinvestment in Punjab Communication Limited, Punjab Alkalis and Chemicals Limited, Punjab Tourism Development Corporation Limited, CONWARE and Punjab State Industrial Development Corporation's (PSIDC) holdings in Punjab Tractor Ltd. (PTL) will bring in additional funds in the kitty of the government. According to estimates of the Industry, PTL alone is likely to net about Rs.250 to Rs.300 crore on the disinvestment of 23.5 per cent shareholdings with the PSIDC. On the disinvestment of holdings in all the companies concerned, the likely inflow of funds, according to the estimates of industry, is expected to be about Rs. 500 crore.

Higher Yield from Sales Tax

The yield from sales tax as projected in the budget of 2002-03 will grow to Rs. 3,250 crore during the current year and is targeted to increase to Rs. 5,000 crore per annum in four to five years. When the existing exemptions of sales tax are withdrawn, the revenue from it is expected to increase still further. The adoption of VAT in place of sales tax with effect from 1 April 2003, consequent upon the 'national consensus for floor rates of sales tax', will result in higher income from this source and it is expected to exceed Rs. 6,000 per year in the last year of the Plan, 2006-07.

Revenue from Stamp Duty and Registration

There is scope for increase in revenue from Stamps and Registration through proper valuation of documents and strict enforcement of the levy of stamp duty. It will require revision of the floor value of properties by the district authorities for the levy of stamp duty, plugging leakages of stamp duty by transfers through general power of attorney and withdrawal of non-merit exemptions from payment of stamp duty. With these measures, revenue from this source will increase to Rs.525 crore for the year 2002-03 and it has the potential to grow to Rs.1,000 crore in four to five years. This projection in the budget is reasonable and achievable.

Plugging of Loopholes in Motor Vehicle Tax

It is admitted that there is large-scale evasion of the Motor Vehicle Tax. This can be eliminated or reduced through strict enforcement measures and liberal issue of route permits. The current year's income at Rs. 350 crore is expected to grow by 10 per cent to 15 per cent. According to estimates in the budget, it is expected to double in the next four to five years, i.e., to at least Rs.700 crore per year in 2006-07.

Rationalization of Electricity Tariffs

Rationalization of electricity tariffs on the recommendations of the State Electricity Regulatory Body is expected to yield Rs. 930 crore. This is the additional income projected in the budget estimates of 2002-03.

Swapping of High Cost Borrowings

According to a scheme formulated by the Government of India enabling the states to repay high-cost loans over the next three years, all loans that carry interest rates higher than 13 per cent will be retired out of growth in collection of 'small savings' on 100 per cent retention by the state and additional market borrowings ear-marked for retiring high-cost debt. It is expected that the weighted cost of borrowing for retiring the high-cost debt, as calculated by the Government of India, is around 9.7 per cent. Through the proposed debt swap, the state will save 3.3 per cent on past borrowings and this will reduce the annual interest payment liability of the state on public debt. However, care needs to be taken so that the additional loan permitted to be raised by the Government of India for retiring high-cost old borrowings are not utilized for current consumption. Reform of the small saving scheme, together with reduction of interest rates and swapping of debt, will go a long way to improve the fiscal situation, by reducing the annual payment on public debt. This measure entitles the state government to assistance from the Incentive Fund created by the Government of India.

Revision of User Charges

Due to non-revision of user-charges for services, such as transport, drinking water, sewerage, technical education, medical education, higher education, secondary and tertiary health care, the quality of these services has deteriorated. Government should suitably revise user-charges to recover the direct operational and maintenance cost of these services in a phased manner. There is a significant departure and commitment by the government, in the budget, to improve the quality of services and by making the users to pay for them.

With additional resource mobilization, economy measures and compression in non-interest and non-plan expenditure, adequate funds will be available, enabling the government to achieve projected financial targets in each of the five years of the Tenth Plan which has, at present a financial target of Rs.18,464 crore as against the actual expenditure of Rs. 9,778.55 crore during the Ninth Plan period. The government can implement a bigger plan even for 2002-03 and provide larger funds for plans from 2003-04 to 2006-07, as the state's contribution for the implementation of the Tenth Plan is in sight.

ACCESSING CAPITAL MARKET FOR INFRASTRUCTURE DEVELOPMENT: PUNJAB INFRASTRUCTURE DEVELOPMENT BOARD

The Punjab Government has set up a Punjab Infrastructure Development Board (PIDB) under the Punjab Infrastructure Development Act 1998. The government now levies a cess on an advalorem basis on the sale of all agricultural produce, except fruits, vegetables and pulses. It is also levied on petrol. The cess is credited to the Punjab Infrastructure Development Fund (PIDF) and this fund is generally utilized for the development of infrastructure.

The PIDB has prepared a development plan comprising 12 projects at a total cost of Rs.2,214 crore as given below:

1) Chandigarh-Ludhiana highway
2) Zirakpur-Patiala highway
3) Ludhiana-Moga highway
4) Khanna-Nawanshahr road + HLB over river Sutlej
5) Ropar-Nawanshahr-Phagwara highway
6) Chandigarh-Ambala highway
7) Jagraon-Nakodar road + HLB over river Sutlej
8) Gurdaspur-Mukerian road + HLB over river Beas
9) Bridge over river Suan
10) Construction of ROB
11) Repair of badly damaged sections and widening of high traffic corridors to 33 ft.
12) Upper Bari Doab Canal Project – Remodeling

The Infrastructure Development Plan is to be implemented by convergence of funds from below and the given sources:

1) Loans from NABARD
2) Transfer from Central Road Fund
3) Budgetary support from the state
4) Contribution by Railways
5) GOI-AIBP
6) Market loans through redeemable bonds

The PIDB has raised a sum of Rs.309.22 crore through bonds against an unconditional and irrevocable state government guarantee, with a maturity period ending seven years from the deemed date of allotment, which is 1 March 2001. The PIDB has implemented the road sector projects using a multi-pronged funding approach. Private sector participation is sought both at the construction phase and during the operation phase. It proposes to levy a toll tax on users of the facilities wherever possible.

The income from infrastructure cess, funds raised through bonds and anticipated transfers from partners has enabled the PIDB to commence construction work on roads, bridges and flyovers through well documented and legally sound contracts. The value of such contracts is around Rs.520 crore. Timely repayment of principal and interest is assured by transferring 62 per cent of the income from PIDF and accruals from toll tax to an escrow account. A sum of Rs.150 crore has been transferred to the PWD (B&R) for upgrading and strengthening the road system and another Rs.50 crore has been given for irrigation development for remodeling the canal system.

This route of raising funds from the market through bonds, supported by special cess and transfers from partners, is a laudable initiative towards the creation of much needed infrastructure for the speedy economic development of the state. This concept of tapping market funds through bonds and repayment through accruals from cess and tolls should be extended to other areas of urban development, such as augmenting water supply, setting up treatment plants, disposal of solid and liquid wastes, urban roads, bridges, flyovers to help the growth of the economy in urban areas in particular.

The Public Disinvestment Commission (Commission) has looked into the working of the Punjab Infrastructure Development Board (PIDB), even though its examination was not in its brief. The Commission has raised a point relating to levy of 'cess' on the purchase of foodgrains by the state government. According to it, there is strong opposition to the levy of cess from the Ministry of Food & Supplies, Government of India. Also private dealers have challenged the levy of this infrastructural cess in the High Court of Punjab and Haryana. The Commission has pointed out that the PIDB is focusing mainly on roads and bridges with its own funds. It maintains that there is little justification for taking over the routine work of the PWD.

The charter of PIDB provides for private capital participation in infrastructural development through BOT (Build, Own and Transfer), BOO (Build, Own, and Operate) and BOOT (Build, Own, Operate and Transfer) basis. According to the Disinvestment Commission, the PIDB has not adhered to the original objective of public-private participation to leverage its funds through bankable projects. It suggested conversion of the Punjab Infrastructure Development Board into a Trust, whose the management could be the responsibility of Punjab State Industries and Infrastructure Development Corporation Limited (PSIIDC).

The track record of PSIDC, particularly its financial prudence, according to the findings of the Commission itself, has been found wanting. It raised loans from the capital market against Government Guarantees for lending to industry by deviating from its entrepreneurial activities. As an institution it has a poor image because of its lending spree over the years and of its present baggage, comprising Rs.1,700 crore as unrecovered loans and its equity in scores of closed and loss-making units. It will not be at all prudent to club PIDB, a growing institution, with a dead or dying institution like PSIDC. The assets and liabilities of PSIDC should be transferred to the Asset Management Company proposed to be floated for recovering loans and salvaging investments by sale of equity in joint and assisted sector companies of PSIDC.

For the first time in the history of Punjab, PWD (B&R) has prepared a bankable Project Report for following projects which will add substantially to the infrastructure of the state. The projects are:

(i)	66 Rail Overbridges	Rs.585 crore
(ii)	Road upgradation in the state	Rs.425 crore
(iii)	Link road widening in the state	Rs.300 crore
(iv)	Border district link roads	Rs.411 crore

The target for completion of these projects varies from two to five years.

The department proposes to evolve an integrated state-wise ‘Toll Policy’. It is expected that collection of such tolls will contribute about Rs.50 crore annually with progressive increase in the subsequent year. On completion of these projects there will be smooth flow of traffic, lesser accidents, and a better connectivity. The Buildings and Roads Department will get projects executed by qualified A-Class contractors who have necessary road and bridge construction equipment.

Normally such ambitious programmes cannot be implemented through annual budgetary support. This innovative approach is intended to be financed with the assistance of national and international financial institutions and executed by experienced private agencies. The concept of ‘users pay’ is the cornerstone and this is a thoughtful approach for promoting ‘public and private partnership’ for speedy execution of state-level projects.

FINANCES OF PUNJAB STATE ELECTRICITY BOARD (PSEB)

The present financial position of Punjab State Electricity Board is a matter of concern. The current revenue of the Board is Rs.4,936 crore against its expenditure of Rs.6,814 crore. It has a current deficit of Rs.1,878 crore. This figure will increase to Rs.2,103 crore after payment of three per cent return on its paid up capital as ordered by the Hon’ble High Court of Punjab and Haryana. The cash deficit for the year 2001-2002 is likely to be Rs.738 crore, to be met through borrowings.

The decision of the government to allow 100 units of free power to the Scheduled Castes has resulted in an annual revenue loss of Rs.100 crore. The supply of free power to farmers of Punjab for agriculture is costing about Rs.1,200 crore to Rs.1,300 crore per year. The commitment of the state government in principle to partly subsidize power supply to the poorer sections and the farmers through budgetary support is a breakthrough for the State Electricity Board, even though compensation to it will be minimal. This, however, devolves a responsibility on the Board ultimately to make its working commercially viable, by eliminating or reducing inefficiencies and high losses in transmission and distribution. The per unit loss to the Board is given in Table 17.

Table 17
The Per Unit Loss of Punjab State Electricity Board

Years	Average Revenue Per Unit (Rs.)	Average Cost Per Unit (Rs.)	Per Unit Losses (Rs.)
1994-95	1.08	1.48	0.40
1995-96	1.25	1.60	0.35
1996-97	1.36	1.70	0.34
1997-98	1.48	1.97	0.49
1998-99	1.57	2.13	0.56
1999-2000	1.62	2.37	0.75
2000-2001	2.07	2.93	0.86

Source: *Economic Survey of Punjab, 1999-2000.*

The average power tariff covers only two-thirds of the unit cost. Despite the big shortfall in revenue and mounting losses, the Board has not taken measures to implement the Memorandum of Understanding (MoU) with the Central Government on metering 100 per cent of energy, its auditing and setting up profit centres.

With the continuing deterioration in the financial position of the Board it has not been possible for it to mobilize funds for its developmental schemes. The loans taken from financial institutions to the tune of Rs.1,216 crore in March 1997 have risen to Rs.4,450 crore in 2001-02. Further, default in servicing the loans from financial institutions, has barred the Board from future loans. On the other hand, the coal companies as well as the railways could reduce supply and handling of coal which could result in reduction in thermal generation. The non-payment of power purchased from the National Thermal Power Corporation (NTPC) and other undertakings could lead to the reduction of supply of power to the state.

Re-imposition of tariff on power for agriculture can ward off the present financial crisis of the Board. Free power supply for agriculture has been in operation since 13 February 1997 without compensation by the government except for a sum of Rs.250 crore in 2001-02. Cost of power being presently supplied at an average delivered rate of Rs.3.37 per unit is said to work out to around Rs.2,000 crore in 2001-02.

The Central Government is funding the Accelerated Power Development Programme (APDP) but the full benefit of the reforms is not being taken by the Board. The fate of ongoing schemes, particularly the 24 hours power supply scheme, hangs in balance for want of funds. About 85 per cent of the expenditure incurred by the Board on the scheme is yet to be reimbursed.

The state government entered into an agreement with the Ministry of Finance, Government of India, on 9 April 1999 agreeing to implement measures to improve the power sector by augmenting resources to meet its much needed investment requirements. Due to skewed power tariff and low returns, the national and multilateral financing agencies have shown reluctance to invest in the state power sector, thus putting the state at a critical disadvantage. It needs to implement the measures incorporated in the Common Minimum National Action Plan for power.

The thrust of the power programme should be to ensure adequacy of power supply as well as quality and reliability. At present Punjab is facing a shortage of 950 Megawatts in terms of peaking demand and 4,800 million units on energy basis. The following projects are to be taken up during the Tenth Five Year Plan (Table 18), to meet this power shortage.

Table 18
Additional Power Generation in Tenth Five Year Plan

Name of Project	Capacity
GHTP Stage-II Lehra Mohabbat	2x 250 MW
Shahpurkandi (HEP) (Pb. Share 134.4 MW)	168 MW
MHP Stage-II(HEP)	16.5 MW
UBDC Stage-III(HEP)	30 MW
Micro Power House at GGSSTP Ropar	2 MW
Goindwal Sahib Thermal Power Station	2x250 MW

Source: *Budget Document of Punjab 2002-2003*

The institutional funds for these projects will be forthcoming only if the following steps are taken:

a) Levy and recovery of energy charges on a cost plus basis.
b) Reduction in transmission losses and avoidance of theft of electricity.
c) Improving billing, etc., are the other components of reforms in the power sector to fully recover the cost of power. This will enable the PSEB to attract private investment in transmission and distribution to supply quality power at affordable prices.

There is need for immediate revision of tariffs for consumers --domestic and industrial, --re-imposition of agricultural tariff, release of subsidies to the Board and implementation of policy guidelines suggested by the Ministry of Power, Government of India. The Electricity Regulatory Authority should re-fix the tariffs as a major step to implement the reforms. If, due to political compulsions, economic tariff on power supply to agriculture could not be charged for the time being, a notional tariff of Rs.0.50 ps. per unit, as agreed in the conference of chief ministers, should have been charged until the recommendations of the State Electricity Regulatory Authority were available.

The present financial health of Punjab State Electricity Board calls for immediate revision of tariffs to save it from collapse. It proposes to engage a consultant to present its case for upward revision of tariff before the Punjab State Electricity Regulatory Commission, highlighting reasons which have caused the present precarious financial situation, which include inter alia, free power supply to the agricultural sector, Scheduled Castes and subsidized electricity supply to certain consumers. The Board will have to convince the Regulatory Authority about the genuineness of its intensions to implement measures to reduce manpower cost, theft of energy and improve the internal efficiency of the Board.

Punjab State Electricity Board (PSEB) has filed a petition before the Punjab State Electricity Regulatory Commission seeking tariff revision to offset the cash loss projected at Rs.950 crore and to ensure a three per cent rate of return (ROR) on the net value of the assets, as per the provision of the Indian Electricity Act. The proposal includes an increase of 25 per cent tariff for industries, 42 per cent for the domestic sector, two rupees per unit for tube wells having metered supply and Rs.240 per BHP for unmetered tube wells. The Electricity Board has worked out the per unit power generation cost at

Rs.3.50 for the year 2002, which has been contested by the industry in particular. The proposals of the PSEB are not supported by the state government, which has argued that the tariff revision sought by the PSEB was far in excess and not justified. The government has pleaded to the Commission that the cost of the inefficiency of the Board's management 'should not be passed on to the consumers'. The government is not prepared to provide help in the form of subsidy to the Board. It has promised to give budgetary support of only Rs.250 crore per year to subsidize power supply in part to the poorer sections of the society and fully to the small farmers. These issues have serious ramifications, including the responsibility of the Board to set its house in order by running it on professional and commercial lines. The commitment of the government to play its role and partly subsidize power supply to the poorer sections and small farmers, through budgetary support which is likely to be quantified by the State Electricity Regulatory Commission as the financial obligation of the state, will ensure compensation to the Board, even though in part, for subsidized power supply. This is indeed a step which might help ultimately to make the working of the PSEB commercially viable.

Just before the finalization, of this chapter the recommendations of the Punjab State Regulatory Commission were made public. The Commission has suggested a total subsidy of Rs.900 crore from Punjab Government to PSEB, leaving no uncovered revenue gap. The power tariff has been increased by 8 to 11 per cent for all categories of consumers and free-electricity to Schedule Castes has been reduced to 50 units per month. The farmer will pay 57 paise per unit for metered and Rs.60 per BHP for unmetered supply. The revenue from the farm sector as a result of this re-imposed tariff, is only Rs.297 crore.

DRAFT REPORT OF PUNJAB DISINVESTMENT COMMISSION

The Punjab Disinvestment Commission (Commission), set up by the state government has completed its draft report incorporating findings, conclusions and recommendations for inviting objections of the employees and public. The recommendations of the Commission are now on the website.

To expedite disinvestment and ensure transparency, fairness and equity, the government has decided to set up a Directorate of Disinvestment for processing the recommendations of the Commission. The final decision on disinvestment will be taken by the Cabinet Committee on Disinvestment under the chairmanship of the Chief Minister.

The state has provided Rs. 8,430 crore (Rs. 3,396 crore as share capital and Rs. 5,033 crore as loans) to 29 public sector undertakings (PSUs) and nine apex co-operative institutions (ACIs). In addition, a sum of Rs. 28,990.86 crore has been taken by these undertakings as loans against government guarantees. Direct involvement of the government is around Rs. 8,430 crore and liability for loans Rs. 28,990.86 crore. The number employed in PSUs is 1,18,624 persons, out of which 93,138 are employees of the Punjab State Electricity Board. Evidently, the problems of state undertakings are gigantic in terms of funds and job security of their employees.

In the era of liberalization, according to the Commission, the role of the government has considerably changed to that of a 'facilitator' for the creation of infrastructure for economic growth. It should, therefore, withdraw from its role as a 'participant'.

The Commission has recommended the setting up of Punjab State Asset Management Authority for implementing the decisions of the government, based on its recommendations. A draft legislation for setting up this Authority has been prepared with the help of professional consultants for the consideration of the Legislative Assembly. Taking into account the poor financial position of the state, disinvestments, or closing down of loss making PSUs, will help to reduce fiscal deficit and raise resources for investment, or to pay off the mounting debts of the state. It is proposed to effect fast-track disinvestment in Punjab Communications Limited, Punjab Alkalis and Chemicals Limited, Punjab Tourism Corporation Limited and PSIDC's holdings in Punjab Tractors Limited.

The Commission has recommend a 'One Time Settlement' (OTS) to take care of Non-performing Assets (NPAs) and other similar investments and for rescheduling term loans. The proceeds from disinvestment are to be placed in the 'Disinvestments Fund' managed by the Asset Management Authority. It will be utilized for financing restructuring, retrenchment, implementing the Voluntary Retirement Scheme (VRS) and for retraining and redeployment of employees of the PSUs. VRS disbursement or retrenchment compensation will be the first charge on the 'Disinvestment Fund'. Additional resources, if required, can be raised from financial institutions against the assets of PSUs transferred to the Asset Management Authority and through structural assistance from national and international institutions to provide a safety net to the employees. The report of the Disinvestment Commission has dealt with the winding up of companies, mergers or disinvestment of PSUs, administrative, financial and legal matters for the disposal of loss-making PSUs and ensuring a fair and equitable safety net for the employees who become surplus. The Commission has specifically suggested restructuring of PSEB, by right sizing the staff by offering VRS to, or retrenchment of surplus staff estimated at one-third of the present strength. It has suggested the corporatization of distribution of energy and then its privatization in small blocks.

There is no doubt that the implementation of the recommendations of the Commission, though well thought-out, will hit certain sections of industry and a large number of employees, but this is the only option before the state. Its current level of income generation and resources cannot provide sustenance to the employees, even if it is considered expedient to do so, because of the negative or inadequate output of the PSUs listed for disinvestment. However, the implementation of the recommendations will depend on a political consensus among the ruling and opposition parties. The suggestions invited by the Commission for its consideration should be sympathetically considered, to provide, as far as possible, alternative avenues of employment to the surplus or retrenched employees, so as to cause the minimal hardship to the community.

RECOMMENDATIONS ON WHITE PAPER ON STATE'S FINANCES

The White Paper on Finances of Punjab, a well documented and assiduously prepared paper issued by the Punjab Government, was discussed at a two day meet of eminent economists, financial experts, senior administrators of the state and professionals. The Chief Minister, Chief Secretary and Principal Secretary, Finance, Punjab, addressed the gathering.

It was pointed out that the fiscal stress, which affected the financial position of Punjab, began in 1984-85, when terrorism raised its ugly head. Since then, a downward slide in fiscal balances has continued and became significant and a matter of concern in the years 1997 to 2002. Public debt rose to 47 per cent of GSDP (2001-2002), gross fiscal deficit to 6.92 per cent and revenue deficit to 5.48 per cent by the end of 2001-02 (RE). Revenue expenditure has been galloping and borrowed funds have been diverted to meet it instead of being invested in productive channels.

The tax base in Punjab continues to be narrow. The major sources of taxation are with the Central Government. At the same time, tax compliance in the state has been poor. It is on record that evasion of sales tax is high, estimated at over Rs. 2,000 crore per year, as against the actual assessment of about Rs. 3,000 crore per year.

Avenues of fresh taxation have not been identified, despite the fact that the consumption expenditure of the people of Punjab has shown an upward trend in the matter of purchase of luxury and white goods. A large number of eating houses and restaurants are doing good business but they are not in the tax net.

The ratio of tax percentage to GDP is lower than in the six fast growing states. This indicates that the state government has not taken steps to raise resources through strict enforcement of taxation measures.

Punjab still relies heavily on raising funds through the expensive route of small savings. With the reduction of interest rates, the state should swap expensive loans with cheaper funds now available due to reduction in interest rates.

Completion of the Thein Dam has been delayed resulting in a huge escalation in the cost of the project. Even now a very large number of its employees are receiving pay and allowances without doing any work. No decision has yet been taken either to absorb, retire or part company with them with a golden handshake.

The government has failed to ensure a minimum return of three per cent on the capital invested in the State Electricity Board. The Hon'ble High Court of Punjab and Haryana intervened and directed the state government to implement the law by ensuring payment of minimum return by the State Electricity Board. If it had to implement populistic measures, like free electricity to the agricultural sector, proper accounting in the form of grants should have been adopted.

Panchayati Raj Institutions and urban local bodies are languishing and transfer of functions, powers and finances, despite concrete recommendations of the First and Second State Finance Commissions, have not fructified because of the reluctance of the political and government functionaries.

The state government, it was observed, has set up a Disinvestment Commission to suggest measures to recover locked funds to the tune of Rs.8,500 crore from the sick units, or make these commercially viable through mergers. This is one of the important measures to achieve reform. The funds so realized should, however, not be used to meet revenue expenditure but to pay off the ballooning public debt, or for reinvestment in regenerative schemes. There is a consensus that government should not be in business and this message guided the Disinvestment Commission while making its recommendations.

Local taxes levied by Municipal Councils are adequate to manage municipal affairs elsewhere in the world. However, municipalities in Punjab are shying away from levying taxes and recovering user charges on a cost basis. It is time to learn from what is happening elsewhere. Municipalities should become vibrant and viable units of the third-tier government, marginally supported by transfers recommended by the State Finance Commissions or the Central Finance Commissions. The shortfalls if any should be met through public borrowings supported by bankable loan schemes.

Punjab has a distinct role in the field of agriculture. Therefore, it continues to be an agrarian economy with potential for export of its produce to other states. Punjab has a high per capita income growth due to its highest agricultural production in the country. This has led to a high consumption level with a multiplier effect on the growth of the local economy. There is no doubt that it is time that industrial production also grows appropriately, despite the logistic problem of a land-locked state.

The best option for Punjab is to implement its plan to double agricultural production through an extensive research and developmental programme. Commercialization of agriculture with the assistance of corporates is also workable. This can help consolidation of fragmented holdings.

Agriculture should, in due course, become self-sustaining without subsidies on fertilizers, water and electricity for running tube wells for irrigation. However, agricultural production should be made competitive in the coming years by withdrawing taxes on exports of foodgrains to other states. These include market fee, rural development fund fee and purchase tax. In a free market economy, the present burden of state taxes will make the agricultural produce of Punjab expensive in the very near future, considering the cost of transportation to the centres of consumption.

The government must take hard decisions. It is not necessarily higher taxation, but compression of expenditure, ensuring compliance of tax laws and plugging leakages through enforcement measures. Some steps in this direction have been taken by the state government recently. Downsizing of government has been in the air for some time. This laudable objective can only be achieved through political will and not through platitudes. For this purpose it will be desirable to arrive at a political consensus.

The urban poor continue to be a neglected lot and bear the brunt of total indifference. No policy has been formulated at the state level to take care of the urban poor, who constitute casual labourers, unskilled labourers, skilled workers, drivers, street-sweepers and domestic help. A large number of slum dwellers in the urban areas are engaged in such low-status and low-income jobs as rag pickers, self-employed vendors, hawkers, etc. Thousands of clusters have emerged in the urban areas of Punjab on encroached vacant lands, which are generally not authorized. Civic bodies, therefore, do not provide them with drinking water or drainage and health facilities. Low-lying areas with constant fear of floods, blocked drains, open defecation and littered garbage make the slum dwellers vulnerable to disease. The migrant population residing in slums are breeding places of crime. The silver lining for the slum dwellers is that they constitute the vote bank for the politicians on the eve of elections, in spite of which they continue to live in perpetual misery. Of late, special schemes have been formulated to provide such minimal civic services as water supply, community toilets, community centres and also vocational training programmes for upgrading skills of the youths and women of the slums. After training they are eligible for micro-loans to set up their own small business enterprises, such as tea stalls, hawkers. Registered societies can be formed by women for taking loans and setting up tailoring, embroidery and other micro-level enterprises. The local municipality in each town has access to funds for such schemes and should arrange for training to upgrade skills of slum dwellers, so that, with the passage of time, they can join the mainstream of society in the urban areas as useful citizens.

The economy of Punjab cannot improve in isolation. It should be the outcome of political consensus. The growth of the economy has to depend on a long-term programme to be continued with the same tempo, zeal and favour, irrespective of the type or shade of the political party in power.

These observations in the foregoing paragraphs, made by experts invited by the Centre for Research in Rural and Industrial Development (CRRID), for a discussion on the comprehensive data given by the Finance Department in the White Paper to improve the financial health of the state, deserve serious consideration.

MEASURES FOR STABILIZING THE FINANCIAL POSITION OF PUNJAB

Punjab's economy decelerated during the 1990s after recording the fastest growth in the 70s and mid-80s. Factors which seem to have adversely affected the state's fiscal situation over the past 15 years are high salaries and wage bill, mounting debt burden, heavily subsidized social and economic services, slow growth of revenue and loss-making PSUs. The quality of governance suffered and so did the quality of expenditure over these years. Large-scale persistent absenteeism among teachers of government schools, particularly primary schools in rural areas, and doctors of primary health centers, has considerably affected the delivery of two vital social services.

There is need to restructure the tax collection mechanism and plug leakages in revenue collection from sales tax, stamp duty and motor vehicle tax. Revenue from sales tax can grow to Rs.6,000 crore, stamps duty to Rs.1,000 crore and motor vehicle tax income to Rs.700 crore per year over the next four to five years. The Finance Minister has partly mentioned this in his budget speech.

As stated earlier the state is relying on raising funds through the expensive route of small savings. The swapping of costly debt including small savings with cheaper debt, a reduction in the current expenditure level and minimum reliance on borrowings, are the other measures for reducing the fiscal stress of the state. At present, almost one-third of the state's own revenue takes care of yearly payments of interest on borrowings.

There are social and service organizations specializing in the promotion of education and providing health care to the poor and needy. They should be welcomed to deliver such high-cost social services as education and health. Delhi State has under consideration a scheme to transfer infrastructural facilities of schools, which have consistently shown poor results, to private organizations. The Madhya Pradesh Government has initiated a scheme to involve non-governmental organizations to run government hospitals/clinics in districts, through 'Rogi Kalyan Samitis'. They are authorized to levy and collect a service charge from patients and use it for buying medicines, etc. The poor and deprived sections of the society are assured a minimum level of service. The government is responsible for payment of salaries to teachers/doctors, but the revenue expenditure is taken care of by the private organizations. A government-nominated regulatory authority should ensure quality of service and exercise control by obtaining audited balance sheets and reports of income and expenditure. Capital grants to schools and hospitals for adding equipment continue to be borne by government.

The achievement of sustainable development, combining economic development, social development and environment protection is the key challenge before government. It entails balancing economic, social and environmental objectives of the society and integrating them as far as possible. Allocating a higher share of public spending to physical- and human-capital formation would help promote growth. Roads and similar infrastructure increase the productive capacity of the state. A better-educated and healthy population contributes to growth as it boosts work and productivity. The fiscal policy of government, ranging from taxing and spending decisions, has an important effect on sustainable development. A prudent, sustainable fiscal policy promotes economic growth. In the long run a low and stable level of government deficit and debt are typically associated with economic growth. Over the long run fiscal policy should keep fiscal deficit and debt at a sustainable level.

Punjab is faced with a dismal and unsustainable fiscal situation (March 2002) as summarized below:

- Revenue deficit is Rs.3,842.00 crore. It is 5.48 per cent of GDP
- Gross fiscal deficit is Rs.5,211.00 crore. It is 6.92 per cent of GDP
- Public Debt at Rs.3,3037.46 crore is 47.16 per cent of GDP
- Annual interest liability at Rs.3,149.00 crore accounts for 32.71 per cent of the state's revenue
- Salaries and pensions at Rs.5,890 crore per annum account for 74.30 per cent of the state's revenue
- Budgetary provisions for education and health are largely consumed by salaries and establishment expenditure
- This situation can result in default in payment of salaries and pensions to the employees and debt servicing, and in further deterioration in the quality of socio-economic services
- With this background it is not possible to approach multilateral funding agencies, financial institutions and capital markets for funding development programmes
- The government will not be able to access funding under the Centrally Sponsored Schemes in the absence of desired sectoral reforms and its inability not only to contribute its own share but to even release funds received from the Central Government
- Funds received from financial institutions, Government of India and even a part of the Cash Credit Limit for procurement of foodgrains have been diverted to defray revenue expenditure

Therefore, corrective measures should be taken to maintain the essential services, including power, water supply, health, primary education, scavenging and sanitation. Immediate attention should be paid to correcting the revenue/fiscal deficit and substantially reducing public debt. The measures required are:

i) Fiscal deficit, which at present is around seven per cent of GDP be reduced to 3.5 per cent by the end of 2007

ii) Revenue deficit be reduced by 0.5 per cent per annum with 1999-2000 as the base year and reduced to zero by 2007

iii) Public debt as a percentage of GDP be reduced from 47.16 per cent currently to 25 per cent by 2007

iv) Committed expenditure, which is 112 per cent of the revenue, should be reduced to 60 per cent by 2007

v) Self-imposed discipline to stop issuing future government guarantees and creation of a Sinking Fund for guarantees

vi) These fiscal targets should be broken up into annual targets and implemented, beginning with the budgetary proposals for the year 2002-03. In addition, action has to be taken for:

   a) Restructuring major departments for identifying redundant functions and functionaries.
   b) Employees so identified, or who become surplus after completion of projects, should be transferred to a common surplus pool, to meet future manpower requirements. This may require re-training of the surplus employees.
   c) A blanket ban on the creation of new posts and on recruitment be imposed. In addition, all posts lying vacant or falling vacant may be abolished.
   d) A voluntary retirement scheme (VRS) on the pattern of that of the Government of India should be framed and notified. The scheme should be applicable to employees declared surplus.
   e) The Finance Department of the state at one time held that financial institutions could fund this one time cash outflow. The Planning Commission holds that funding by banks/financial institutions may not be possible as such outgo essentially relates to revenue expenditure. It has suggested the establishment of a State Renewal Fund on the pattern of the National Renewal Fund to finance this type of cash outgo. The World Bank and international institutions have provided assistance to several countries for structural reforms for downsizing the bureaucracy. These institutions insist on quick disbursal of assistance, no re-hiring of retrenched staff and sticking to the reduced level of bureaucracy.
   f) The benefit of automatic promotion after four, nine, 14 years of service, enjoyed by nine categories of employees, should be withdrawn and every employee should be covered under eight, 16, 24, 32 years scheme.
   g) Employees appointed in government service, beginning 1 July 2002 should be entitled to contributory pension.
   h) Grant-in-aid to educational institutions above school level should be phased out in a period of five years. However, capital grants in place of deficit grant should be substituted so that the quality of service does not suffer.
   i) All fresh recruitment, including for projects, should be on a contract basis. This restriction should be initially for a period of five years.

The route of raising funds from the capital market through bonds, adopted by the Punjab Infrastructure Development Board, should be extended to other areas. A bankable project report for implementing construction of railway overbridges, road upgradation, widening of link roads in border districts by Public Works Department, is a step in this direction. It is proposed to formulate an integrated state-wide toll policy to defray repayment of the loans in part or full. Normally such ambitious programmes cannot be implemented through annual budgetary support. The new approach is intended to be financed by national and international financial institutions and executed by private agencies. The concept of ‘user pays’ is a thoughtful approach for promoting public-private partnership in such big projects.

There is now a provision in the Central budget offering reform-linked assistance to states, amounting to a total of Rs. 12,300 crore in such areas as Accelerated Power Development Reform Programme, Accelerated Irrigation Benefit Programme, Urban Reform Incentive Fund and Rural Infrastructural Development Fund. In addition, a lumpsum amount of Rs.2,500 crore has been provided for reforms of policies constraining growth and development. The state has the opportunity to avail of assistance by resorting to developmental measures in specified areas of chronic deficiencies.

According to a recent report (31 July 2002), the Meteorological Department has categorized the ongoing drought as ‘severe’, with monsoons 30 per cent below normal. Failure of the monsoons to this extent occurred thrice in the last century, i.e., in 1917, 1972 and 1987. Rainfall deficiency was 26 per cent in 1987. The monsoon situation has worsened this year with an average deficiency of 30 per cent upto 31 July 2002. The failure and uneven distribution of the monsoon in Punjab has resulted in the loss of the kharif crop, particularly paddy. The state government has the responsibility of undertaking relief and rehabilitation measures. The Eleventh Finance Commission has laid down that the Calamity Relief Fund should be used for meeting expenditure for providing immediate relief to the victims of drought. The drought situation in a few other states, particularly in North India, is equally grave. If there is further loss of the kharif crop, funds required for relief and rehabilitation will mount and the Central Government may levy a ‘special surcharge’ on `central taxes’ in consonance with the recommendations of the Eleventh Finance Commission. This should enable the state government to draw on this fund in addition to the calamity fund provided in its budget for 2002-03.

The budget for the year 2002-03 has a number of positive policy statements to improve the financial health of the state and additionally to ensure accountability and transparency. These are:

- Fiscal responsibility and better budget management
- Corrective measures for restoration of the financial health of the state
- Improving quality of public expenditure
- Development of infrastructure
- Diversification of agriculture
- Power sector reforms and improving the finances of the PSEB
- Industrial revival
- Urban and rural renewal through devolution of funds and functions to the urban local bodies and the Panchayati Raj Institutions

- Improvement in the quality and delivery of education and health services
- Welfare of Scheduled Castes, Backward Classes and other weaker sections of the society
- Aggressive disinvestment in public sector undertakings

Another feature of the budget for 2002-03 is that it is a three-year rolling budget to ensure consistency and continuity. This concept of a three-year rolling budget is a medium-term fiscal reform programme prepared by the government. In addition, the state government will prepare an 'Action Taken Report' (ATR) on the announcements made in the budget and place it on the table of the House each subsequent year, so that the sincerity and performance of the government can be assessed by the legislature.

MEDIUM TERM FISCAL PROGRAMME

The state has to play an exclusive role in strengthening the physical infrastructure and human development in order to be a favoured destination for private investment. The challenge of fiscal management in Punjab is rather acute and serious. Some measures have been taken to bring down non-productive expenditure to improve the fiscal situation. The declining share in central taxes and duties, as a percentage of GDP and the comparatively low growth in the state's own tax revenues, mounting public debt, guarantees for loans raised by the public sector undertakings and high committed-expenditure of government suggest the development of a medium-term framework to control the inflow and outflow of the state's expenditure. The Medium Term Fiscal Reform Programme drawn up by the state government, by resorting to a 'rolling budget', is a step in the right direction.

A medium-term fiscal policy statement of Punjab should provide an institutional framework focused on the need to bring down the fiscal deficit, control the growth of public debt and improve the effectiveness of the government in the delivery of goods and services. In such a situation, the government should adopt a fiscal policy in the annual budget showing how the current policies are in conformity with the objectives of the medium-term fiscal plan as defined in the current budget. This includes reduction in revenue deficit as a percentage of total revenue receipt, reduction in fiscal deficit as a percentage of GDP and growth in yield from major taxes such as sales tax, stamp and registration, motor vehicle tax and non-tax revenues and savings from compression of expenditure. The medium-term fiscal plan, approved by the state legislature in the budget session, is a document which provides for surpassing the performance of previous years and monitoring the progress of reforms. The medium term fiscal plan will adhere to the norms laid down in the Draft Fiscal Responsibility Act to ensure control of deficit/borrowings. The Medium Term Fiscal Plan financial terms of this plan for 2002-03 to 2004-05, as prepared by the state government is shown in Table 19.

These reforms, namely, Medium Term Fiscal Plan and the Fiscal Responsibility Legislation introduced in the budget session of 2002-03, should lead the state to a path of high growth.

Table 19
Punjab Medium Term Fiscal Plan (Rs. in crore at current prices)

Item	200-01 Accuts.	2001-02 RE	2002-03 BE	2003-04 Proj.	2004-05 Proj.
Tax Revenue	5614	5575	6423	7148	7955
1) Own tax revenue	4896	4967	5719	6348	7046
2) Shared taxes	717	608	704	800	908
Non-tax revenue	3762	4050	6047	6181	7005
1) Own non-tax revenue	2935	3133	4424	5065	5789
a) PSEB interest receipts	605	448	603	680	767
b) Lottery	1671	2091	3066	3458	3901
C) Others	659	594	755	927	1120
2) Grants	827	917	1623	1116	1217
Total Revenue Receipts	9376	9625	12470	13329	14960
Revenue Expenditure	11713	13467	15964	16261	17354
a) Interest payment	2343	3149	3211	3769	4234
b) Salaries and wages	4287	4888	5054	5155	5355
c) Grants in aid to universities	241	256	265	265	265
d) Pension and retirement benefits	1116	1010	1027	1232	1479
e) Other expenditure	3726	4164	6407	5840	6020
1) PSEB	605	448	603	680	767
2) Lottery	1636	2021	2956	3334	3761
3) Others	1485	1695	2848	1825	1492
Revenue surplus/deficit(+/-)	-2337	-3842	-3495	-2932	-2394
Capital expenditure (incl.Net Loans & advance)	1567	1415	1952	1300	1600
Fiscal Deficit	-3904	-5257	-5447	-4232	-3994
Revenue deficit/revenue Receipts (%)	-24.9	-39.92	-30.00	-22.00	-16.00
Revenue deficit/GSDP(%)	-3.41	-5.06	-4.15	-3.13	-2.30
Fiscal deficit(%)	-5.70	-6.92	-6.46	-4.52	-3.84
GSDP	68448	75977	84335	93612	103909

Source: *Punjab Budget Document: Medium Term Fiscal Program*me, June 2002

The Punjab Fiscal Responsibility and Budget Management Bill, 2002 is proposed to ensure intergenerational equity in fiscal management and long-term financial stability of the state, by eliminating fiscal deficit. Debt management of the state will be optimally maintained to achieve fiscal sustainability, by putting caps on state government borrowings, debt and deficits. The fiscal policy in a medium-term framework will be in tune with the long-term interests of the state to achieve a revenue surplus for investment purposes.

Quarterly Statement of Income-expenditure

For the sake of transparency and accountability the state Finance Department should compile a quarterly statement of its income-expenditure for wide circulation. The reasons for excess or shortfall in income and expenditure should be recorded in the statement for circulation to the legislature, public and academics for information and feedback. These reform measures hold a promise to improve the financial position of the state in the coming years.

Accessing Foreign Assistance

The newly ushered-in government has initiated a laudable effort to compress expenditure substantially. It has made known its intention to reduce the revenue deficit, the fiscal deficit and the burden of borrowings.

The level of deficit and market borrowing is so high as defy government efforts to achieve their targets, unless easy external funds for budgetary support are identified and procured. In the state budget for the year 2001-02 emphasis is on fiscal reforms and the consolidation process. The focus is on augmenting tax and non-tax revenue receipts and containing expenditure to reduce revenue expenditure as shown in Table 20.

Table 20
Growth Rate of Revenue and Expenditure Receipts for the Year 2001-02 & 2002-03
(Rs. in Crore)

Items	Years				
	2000-01 (Accts)	2001-02 (R.E)		2002-03 (B.E)	
	Amount	Amount	Growth Rate in (%)	Amount	Growth Rate in (%)
1. Tax revenue	5614	5574	-0.71	6423	15.22
2. Non-tax revenue	3762	4050	7.65	6047	49.30
3. Total revenue receipts	9376	9625	2.65	12470	29.55
4. Revenue expenditure	11,713	13467	14.97	15964	18.54

The government has embarked on a number of corrective measures to restore fiscal stability, which is an important indicator of fiscal prudence in the medium term. Fiscal measures incorporated in the budget include right-sizing the government, compression of non-productive expenditure, revision of user-charges and higher yield from traditional sources, such as sales tax, registration and stamp duty and motor vehicles tax through strict enforcement measures.

Institutional measures to improve the fiscal health include setting up a Public Expenditure Reforms Commission and a Public Sector Disinvestment Commission. Important sectoral measures include emphasis on research and development in the agricultural sector to achieve substantially higher agricultural production, strengthening small and medium enterprises, focus on information technology and bio-technology and diversification of the cropping pattern, particularly the persisting wheat-rice rotation, through incentives and technological support. Other measures include operationalization of the State Electricity Regulatory Commission to determine electricity tariffs in a rational manner, and the Infrastructure Development Board to access market funds through 'bonds' for fast-track infrastructure development.

With these extensive reform measures, it should be possible to access budgetary support from the World Bank (WB), provided the approach to it is supported by a 'Project Report' highlighting the state's development and poverty alleviation programmes. The WB prepares a Project Report at its own cost. Ordinarily the World Bank and other international institutions look forward to support development plans, which are growth-oriented and self-sustaining in the long run. The other states facing similar fiscal problems have actually approached the WB for long-term financial assistance from it and such requests are under consideration.

The WB, it is understood, is sending a team to Punjab for appraisal and assessment of the financial requirements of the state for supporting water supply, sewerage and sanitation programmes in urban areas, water supply in rural areas and road network upgradation programme, in the light of the fiscal reforms initiated and incorporated in its budgetary proposals. Financial support should be forthcoming, if fiscal reform measures announced in the budget are implemented by developing a transparent policy for levying and collection of user-charges for the commercial services provided by the state.

Several multilateral development banks, including the World Bank and the Asian Development Bank, have developed guarantee schemes. The WB facilitates access by developing countries by lengthening the maturity of related borrowings. This provides ample opportunity to approach international funding agencies, seeking funds for infrastructure-related projects based on a cash flow statement, without the direct backing of the state government. The World Bank also issues guarantees for project financing, under the Extended Co-financing Facility, to cover sovereign risks associated with infrastructure projects. This facility is designed to improve access of the developing countries to international capital markets.

The reforms undertaken by the state government in all areas of fiscal management, in line with the national policy, should restore the fiscal health of Punjab. This includes, user-charges on commercial services, to access institutional funds for fast-track infrastructure development.

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