

## Module 3

### Financing Human Development

<b>Module objectives</b>	(i) To appreciate the impact of TFC on Centre-State distribution of resources.
	(ii) Learn the NIPFP methodology of reprioritizing expenditures and sort out the issues in implementing the methodology at district and lower levels of planning.
	(iii) Participants should learn the methodology of evaluating programme performance (outcome and efficiency). They should also discuss practical issues in implementing the method in districts and lower tiers of planning.
<b>Essential reading</b>	(i) The section on HD initiatives by States
	(ii) The section on reprioritizing expenditures
	(iii) The section on programme performance budgeting
	(iv) The section on finances of PRIs
<b>Learning activities</b>	(i) A brief presentation on the changes in centre-state fiscal relations in view of the TFC with discussion. The trainer should simply point out what's new in TFC and then drive a brief discussion
	(ii) Provide the Ex. 3.1 to the four groups. Each group should select any four states, look at the new social sector initiatives and analyze their likely HD impact and impact on the budget of the States.
	(iii) Each group to present the points arising from their discussion
	(iv) A presentation on PPB by USAID resource person. Discussion of issues should not be permitted here.
	(v) Give the Ex.3.2 on programme performance budgeting to the four groups and let them discuss the case.
	(vi) Each group to make presentation on Ex. 3.2 and discuss the issues.
	(vii) Give Ex.3.3 to any two groups and Ex.3.4 to the other two groups. Let them discuss
	(viii) Group (i) should make a presentation explaining to the class the reprioritization methodology of NIPFP
	(ix) Group (ii) should present their views on the issues raised in Ex.3.3. All participants should be encouraged to discuss.
	(x) The other two groups should make their presentation on Ex.3.4. All participants should be encouraged to discuss.

# 1. Financing Human Development

## 1.1 Introduction

1.1.1 India has a long way to go before its human development can match even those of the more advanced Asian countries, leave alone those of Western nations more advanced in this aspect (like the Scandinavian countries). To provide a push for human development, the role of the government is crucial, since the areas (and the related services) involved – primary education, primary health, social welfare etc. – are not examples of classic public goods, but do have substantial elements of social externalities by private providers which are not likely to be taken into account. Besides, between the alternative paradigms of human development, the adoption of 'human rights paradigm' – in which basic human development services is considered a citizen's right – implies that the State has the responsibility of ensuring availability of the services concerned. Ensuring availability in practice in a country like India with low per capita income and a large number of poor would eventually translate into a large role of the government in the supply of the services in terms of production and distribution.

1.1.2 The human development sectors, overlapping largely with the social services, are primarily in the domain of the states in terms of the constitutional assignment of functions in India. In the imperative and substantial task of raising the level of human development of their citizens, the basic challenge faced by most of the states of India is to break the 'vicious circle' of poverty, low human development and low income. Low levels of income across the population coupled with narrow tax base limits the ability of the state governments to finance human development through their own resources. Fiscal responsibility legislations will also limit State's capacity to spend on social sector. To be clear, the above scenario means that:

(a) Most human development expenditures will have to be financed by the States;

(b) States have a narrow tax base and therefore are dependent on devolution of resources from the Centre;

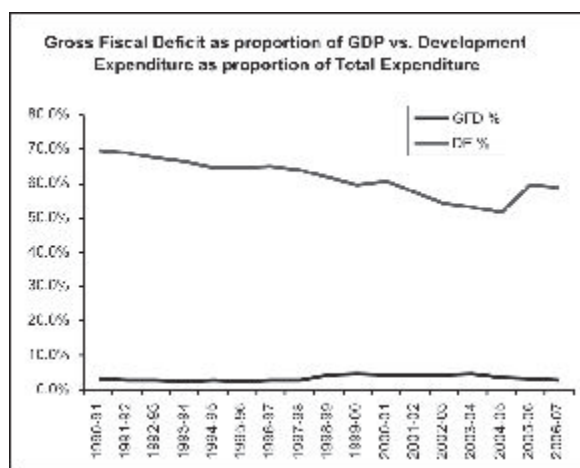
(c) All but two States passed Fiscal Responsibility legislations, which means that States' capacity to run deficit to finance large social sector expenditures is capped;

(d) In view of (a), (b) and (c) above financing HD in Indian context means delivering better outcomes to larger section of population with a smaller, or at best, the same kitty.

1.1.3 Financing HD for the States therefore is essentially about increasing efficiency in delivering outcomes, and reprioritizing public expenditures. The second aspect of financing is how to raise the own revenues of the PRIs.

## 1.2 Public Expenditure in India

1.2.1 During the 1990s the fiscal situation in many States was in dire straits. However, due to the efforts of RBI in sensitizing the States to the need for fiscal discipline, the fiscal situation of almost all the States shows a remarkable improvement. The combined state gross fiscal deficit to gross domestic product ratio fell from 3.3% in 1990-91 to 2.8% in 2006-07.



## Developmental and Non-Developmental Expenditure of States

Year	Developmental*	Non – Developmental*	Others**	Total
1	2	3	4	5
1990-91	63,370 (69.6)	22,600 (24.8)	5,118 (5.6)	91,088 (100.0)
1991-92	74,588 (69.1)	27,143 (25.1)	6,198 (5.7)	1,07,929 (100.0)
1992-93	80,567 (67.5)	32,104 (26.9)	6,664 (5.6)	1,19,335 (100.0)
1993-94	88,791 (66.3)	37,859 (28.3)	7,199 (5.4)	1,33,849 (100.0)
1994-95	1,02,629 (64.5)	48,964 (30.8)	7,554 (4.7)	1,59,147 (100.0)
1995-96	1,12,888 (64.6)	54,544 (31.2)	7,200 (4.1)	1,74,632 (100.0)
1996-97	1,29,363 (64.9)	61,353 (30.8)	8,537 (4.3)	1,99,253 (100.0)
1997-98	1,42,266 (63.5)	70,652 (31.6)	11,006 (4.9)	2,23,924 (100.)
1998-99	1,61,200 (61.7)	85,174 (32.6)	15,045 (5.8)	2,61,419 (100.0)
1999-00	1,83,540 (59.6)	1,08,451 (35.2)	15,986 (5.2)	3,07,977 (100.0)
2000-01	2,05,670 (60.5)	1,16,823 (34.2)	17,342 (5.1)	3,39,835 (100.0)
2001-02	2,11,086 (57.3)	1,35,505 (36.8)	22,089 (6.0)	3,68,680 (100.0)
2002-03	2,21,799 (54.1)	1,49,554 (36.5)	38,896 (9.5)	4,10,249 (100.0)
2003-04	2,72,848 (53.1)	1,66,538 (32.4)	74,916 (14.6)	5,14,302 (100.0)
2004-05	2,86,473 (51.8)	1,85,152 (33.3)	81,803 (14.9)	5,53,428 (100.0)
2005-06	3,30,044 (58.8)	1,90,021 (33.8)	41,617 (7.4)	5,61,682 (100.0)
2006-07 (RE)	4,19,050 (60.9)	2,24,475 (32.6)	44,421 (6.5)	6,87,946 (100.0)
2007-08 (BE)	4,67,696 (61.0)	2,46,130 (32.1)	52,794 (6.9)	7,66,620 (100.0)

RE : Revised Estimates. BE : Budget Estimates.

\* : Includes expenditure on revenue and capital account and loans and advances extended by State Governments.

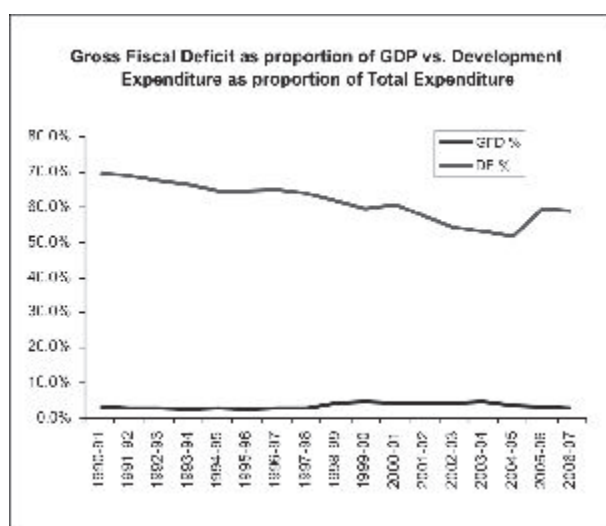
\*\* : Includes Grants+in+Aid and Contributions (Compensation and Assignments to Local Bodies), Discharge of Internal Debt and Repayment of Loans to the Centre.

Note : 1. Figures in brackets are percentage to total.

2. Figures in respect of Jammu and Kashmir from 1990-91 to 2005-06 and for Jharkhand from 2001-02 to 2005-06 relate to revised estimates.

Source : State Finances: A Study of Budgets (2007-08), RBI

While in the last decade the fiscal health of the States have improved vastly, their development expenditure as proportion of total expenditure has stagnated (see figure below).



It will be observed from the table in prepage that development expenditure as per cent to total expenditure has declined from 69.6% in 1990-91 to 61.0% in 2007-08. The combined revenue deficit of the States have fallen from average 0.7% in 1990-95 to a surplus of 0.3% in 2007-08. The reduction was aided by decline in social sector expenditure (revenue) as per cent of total revenue expenditure of the States from average 42.5% during 1990-95 to 39.7% in 2007-08.

1.2.2 The composition of social sector expenditure (Table below) also reveals some interesting reallocations. The share of expenditure (both revenue and capital) on critical human development sectors like education and health has declined from 48.6% and 11.0% respectively in 1999-2000 to 39.0% and 10.0% respectively in 2007-08 (BE). On the other hand the share of expenditure on urban development has increased from 2.5% to 7.2%. However expenditure on water supply and sanitation, a human development sector, has marginally increased from 6.3% to 6.8%. Likewise, share of social security and welfare has increased from 3.6% to 6.1%.

Composition of Social Sector Expenditure as per cent to Total

Item	(Per cent)	
	1999-2000	2007-08(BE)
1 Revenue Expenditure (i + ii)	93.0	86.1
(I) Social Services (a to l)	82.8	76.6
(a) Education, Sports, Art and Culture	48.3	37.9
(b) Medical and Public Health	10.4	8.7
(c) Family Welfare	1.8	1.4
(d) Water Supply and Sanitation	4.7	3.5
(e) Housing	0.9	1.5
(f) Urban Development	2.3	6.3
(g) Welfare of SCs, STs and OBCs	4.8	5.7
(h) Labour and Labour Welfare	1.1	0.9
(i) Social Security and Welfare	3.6	6.1
(j) Nutrition	2.0	2.1
(k) Expenditure on Natural Calamities	2.3	1.8
(l) Others	0.6	0.7

Item	1999-2000	(Per cent) 2007-08(BE)
<b>(ii) Economic Services (a + b)</b>	<b>10.2</b>	<b>9.5</b>
(a) Rural Development	9.2	9.0
(b) Food Storage and Warehousing	1.0	0.5
<b>2 Capital Outlay (i + ii)</b>	<b>5.0</b>	<b>10.9</b>
<b>(i) Social Services (a to l)</b>	<b>3.7</b>	<b>8.5</b>
(a) Education, Sports, Art and Culture	0.3	1.1
(b) Medical and Public Health	0.6	1.3
(c) Family Welfare	–	–
(d) Water Supply and Sanitation	1.6	3.3
(e) Housing	0.4	0.5
(f) Urban Development	0.2	0.9
(g) Welfare of SCs, STs and OBCs	0.4	0.8
(h) Social Security and Welfare	0.1	0.2
(i) Others	–	0.4
<b>(ii) Economic Services (a + b)</b>	<b>1.2</b>	<b>2.4</b>
(a) Rural Development	0.5	2.3
(b) Food Storage and Warehousing	0.8	0.1
<b>3 Loans and Advances by State Governments (i + ii)</b>	<b>2.1</b>	<b>3.5</b>
<b>(i) Social Services (a to d)</b>	<b>2.0</b>	<b>3.2</b>
(a) Education	–	–
(b) Housing	0.4	1.8
(c) Housing (Government servants)	0.9	0.2
(d) Others	0.7	1.2
<b>(ii) Economic Services (a + b)</b>	<b>0.1</b>	<b>0.3</b>
(a) Rural Development	–	–
(b) Food Storage and Warehousing	0.1	0.3
<b>Total Social Sector Expenditure (1+2+3)</b>	<b>100</b>	<b>100</b>

RE : Revised Estimates.

BE : Budget Estimates.

'–' : Not available/Nigligible.

**Note :** Figures in respect of Jammu and Kashmir from 1990-91 to 2005-06 and for Jharkhand from 2001-02 to 2005-06 relate to revised estimates.

**Source:** Budget Documents of the State Governments.

Table 3 : Major Policy Decisions by States Announced in State Budgets 2007-08

Fiscal	Institutional	Sectoral
<b>1. State : Andhra Pradesh</b>		
<ul style="list-style-type: none"> <li>Continue to provide free water supply for Lift irrigation Scheme.</li> <li>Extend crop loan facility, under which interest relief on crop loans is given, to 3.75 lakh new farmers.</li> </ul>	<ul style="list-style-type: none"> <li>Construct pucca house in another 1/3rd villages under INDIRAMMA.</li> </ul>	<ul style="list-style-type: none"> <li>Establish 4 new degree colleges, 5 junior colleges and 8 hostels to provide education facilities to remote areas.</li> <li>Setup 21st Century Gurukulams across the State to provide quality education to rural children.</li> <li>Extend concept of Jawahar Knowledge Centres to all Degree Colleges to provide gainful employment to Graduates in ITES industry.</li> </ul>
<b>2. State : Arunachal Pradesh</b>		
	<ul style="list-style-type: none"> <li>Government to come out with specific women related welfare programmes.</li> </ul>	
<b>3. State : Assam</b>		
	<ul style="list-style-type: none"> <li>Revive and revitalise Primary Cooperative Credit Societies.</li> <li>Two new schemes for the poor and physically challenged students.</li> <li>Provide bi-cycle to below poverty line girl students between class VI and class X in rural areas.</li> <li>Set up a Rural Housing Board to address the specific problems of rural housing.</li> <li>Set up a Terrorist Victims Welfare Board to address the welfare of the kins of terrorist victims on a sustainable basis.</li> </ul>	<ul style="list-style-type: none"> <li>Distribute inputs such as power tillers, power threshers, hand compression sprayers, soil testing kit, etc. to the farmers.</li> <li>Give a thrust to agricultural mechanisation through distribution of tractors and creation of Fertiliser Sate Depots in each district.</li> <li>Set up medicinal and aromatic gardens and nurseries in different districts of the State.</li> <li>Start new water supply schemes such as Accelerated Urban Water Supply Programme, Urban Infrastructure Development Scheme, etc. during 2007-08.</li> <li>Set up eight new training schools, five new district hospitals, five new Regional Diagnostic Centres, three new medical colleges, and setting up of Mobile Medical Units in each district.</li> <li>Set up an IT park in Guwahati with all modern plug and play infrastructures.</li> </ul>

Fiscal	Institutional	Sectoral
<b>4. State : Bihar</b>		
<ul style="list-style-type: none"> <li>● Create a corpus fund to rejuvenate the sick industries of the State.</li> <li>● Reduction in motor vehicle tax.</li> <li>● To promote agriculture, exemption to organic fertiliser from taxation.</li> <li>● Establish a non-lapsable Bihar Road Development Fund, containing income from plan, non-plan and other sources.</li> </ul>	<ul style="list-style-type: none"> <li>● Appoint a “Farmer Advisor” in every Panchayat</li> <li>● Constitute an “Agriculture Technological Management Authority” in every district.</li> <li>● Constitute an ‘Autonomous Road Authority’ for the development of roads.</li> <li>● Start a Central Tribunal in place of the existing system of ‘Panchat’ for settling of disputes.</li> <li>● Set up a High Level Fisheries Training Centre in Patna.</li> <li>● Set up Administrative Training Institute in Gaya.</li> <li>● Set up a pesticide investigation laboratory in Patna.</li> </ul>	<ul style="list-style-type: none"> <li>● Start a scheme of “Health Card” for the school going children, which would contain all the necessary information regarding the child.</li> <li>● Management of selected ITIs on the PPP basis.</li> <li>● Distribution of ‘Soil Health Cards’ to the farmers</li> <li>● Come out with Maintenance Policy for the proper maintenance of roads.</li> <li>● Emphasis on developing health services in the State through PPP including setting up new medical colleges and providing additional services, like development of pathology and radiology labs, investigation services, cleaning of hospitals, ambulance services, etc</li> <li>● Start three new medical colleges at Patna, Madhepura and Batia.</li> <li>● Set up Chanakya National Law University.</li> <li>● Start an Aryabhatta Technical University.</li> </ul>
<b>5. State : Chhattisgarh</b>		
<ul style="list-style-type: none"> <li>● Provide 25 per cent distribution grant on agricultural instruments in order to extend the use of technology in the agriculture sector.</li> <li>● Reduction in the rate of interest on ‘Short Term Agricultural Loans’ provided to the farmers through co-operative banks to 6 per cent.</li> </ul>	<ul style="list-style-type: none"> <li>● Make submission of ‘e-return’ mandatory for all the registered dealers under the Companies Act.</li> <li>● Start a scheme called ‘Khalihan Bima Yojana’ for those farmers who incurred losses due to natural calamities.</li> <li>● Implement the recommendations of the Vaidyanathan Committee to strengthen the Co-operative Banks..</li> <li>● Start a new scheme titled ‘Vishwakarma Yojana’ to ensure the supply of trained and skilled workforce for the growing manufacturing industries.</li> </ul>	<ul style="list-style-type: none"> <li>● Introduce a ‘Seed Bank’ Scheme to promote the use of certified seeds.</li> <li>● Introduce Chief Minister Knowledge Incentive Scheme, under which a special scholarship of Rs. 10,000/- will be awarded every year to 1,000 SC /ST talented students of Class X<sup>th</sup> and XII<sup>th</sup>.</li> <li>● Introduce a new scheme for a regular health check-up of students residing in hostels.</li> <li>● Implement a Population and Health Scheme</li> <li>● Establish a 100 bed cancer hospital in Raipur and a ‘Centre for Genetic Diseases and Molecular Biology Laboratory’ in Medical College Raipur.</li> <li>● Establish a ‘Forest Research and Training institute’.</li> <li>● Start a Hotel Management Institute.</li> </ul>

Fiscal	Institutional	Sectoral
		<ul style="list-style-type: none"> <li>● Set up a medical college in Raigarh</li> <li>● Start an art school to promote talent in the traditional handicraft sector</li> <li>● Start 'Mukhyamantri Gram Utkarsh Yojana' for the development of 5 districts not covered under Employment Guarantee Scheme. Out of this, 50 per cent will be utilised for infrastructure work and the remaining 50 percent for employment oriented work.</li> <li>● Introduce a new scheme of capacity development for the welfare and rehabilitation of handicapped people.</li> <li>● Introduce a scheme to upgrade the important state highways and district roads of the state to the International standards.</li> </ul>
<b>6. State : Goa</b>		
<ul style="list-style-type: none"> <li>● Enhance the support price eligibility for arecanut from the existing Rs.85/- per kg. to Rs.100/- per kg.</li> <li>● Enhance the subsidy from the existing 25 per cent to 50 per cent for sprinkler irrigation system with network of RPVC pipes. Increase cost ceiling for 25 per cent state subsidy to Rs. 40,000/- per hectare for HDPE pipe network. Extend 25 per cent subsidy for purchase of other agriculture implements like harvesters, transplinters, bush cutters and paddy threshers.</li> <li>● Provide subsidy of Rs. 5 lakh in addition to central subsidy of Rs. 5 lakh limiting to 50 per cent of actual cost to group of farmers for getting certification of their agriculture produce as organic through designated societies in the State.</li> <li>● Institute a special fund to be utilised for garbage</li> </ul>	<ul style="list-style-type: none"> <li>● Follow cluster approach by promoting single activity in each cluster of SHGs to achieve economies of scale.</li> <li>● Provide exhibition and marketing infrastructure for SHGs to showcase and sell their products in each taluka.</li> <li>● Prepare Plan of Action for Women and Children. Construct two working women hostels, one each in Panaji and Margao.</li> <li>● Make the State garbage free within next two years.</li> <li>● Construct integrated modern bus terminus on Build Own Operate and Transfer bases in PPP format at Panaj, Margao and Mapusa.</li> <li>● Take up remaining 39 village Panchayats for computerisation under Infogram scheme.</li> <li>● Extend the moratorium on purchase of new tourist vehicles or on the issue of</li> </ul>	<ul style="list-style-type: none"> <li>● Start an exclusive residential school for Blind having facilities for teaching braille and training them in various activities.</li> <li>● In order to encourage the private sector to provide employment opportunities to the differently abled persons, enhance incentive from Rs.250/- to Rs.500/- per month depending on the salary of disabled employee.</li> <li>● Train care-providers of various NGO's registered with the National Trust to provide services to persons with disabilities</li> <li>● Construct new premises for all the 'Anganvadi' centres within five years at the rate of about 200 centres per year. Extend retirement benefits to the 'Anganwadi' workers.</li> <li>● Make efforts to lay gas pipe to Goa for providing clean fuel for power, fertilizer and transport sector.</li> </ul>



Fiscal	Institutional	Sectoral
<p>management on continuing basis. impose an environmental cess of 0.5 per cent on the gross value of electricity bill.</p> <ul style="list-style-type: none"> <li>● Provide insurance cover against accidental fire hazards to cashew and sugarcane crops of small and marginal farmers by subsidizing 50 per cent of insurance premium.</li> <li>● Waive the outstanding balance of loans taken by the scheduled caste farmers from the Agriculture Department.</li> <li>● Provide assistance to Primary Agriculture Credit Cooperative Societies for cleansing their balance sheets and rejuvenate their activities Enforce the 'Goa Cooperative Societies Act 2001' and the 'Goa Cooperative Societies Rules 2003' by creating necessary infrastructure and staffing pattern and notifying the enforcement in the official gazette</li> <li>● Waive the outstanding loan amount extended by the Social Welfare Department to SC/ST persons for construction as well as repair of their houses and to differently abled persons for self employment.</li> <li>● Provide grants to the panchayats for systematic collection of plastic materials and their shredding, which can be used in construction of roads</li> <li>● Evolve suitable package for revival of sick industrial units.</li> <li>● Institute suitable incentive mechanism for setting up of new environment friendly and viable industrial units in the backward talukas</li> </ul>	<p>permits to tourist vehicles by one more year up to 31<sup>st</sup> March 2008.</p>	<ul style="list-style-type: none"> <li>● Create 5000 hectare of irrigation potential during 2007-08. Take up the project of linking Madei River at Ganjem to Khandepar River at Opa to augment 4.53 million cubic meter of water</li> <li>● Start a separate Department of Centre for Women's Study at the Goa University.</li> </ul>

Fiscal	Institutional	Sectoral
<ul style="list-style-type: none"> <li>• In order to encourage new industries to the State and expansion of existing industrial units, entry tax exemption on machinery and equipment for new units and also to existing units who are investing at least 50 per cent or more on expansion in machinery and equipment.</li> <li>• Levy energy cess of 0.5 per cent on the gross electricity consumption to those consumers consuming more than 500 units per month.</li> <li>• Reduction in rate of tax on the inter-State sale of IT products from half per cent to 'Zero' per cent</li> </ul>		
<b>7. State : Gujarat</b>		
<ul style="list-style-type: none"> <li>• To provide relief to the poor and marginalised people in rural areas and to promote educational activities in such areas, reduce the rate of electricity duty for residence, recognised educational institutions and hostels in the rural areas from 15 per cent to 10 per cent.</li> <li>• Reduce the rate of electricity duty for residence and recognised educational institutions in the urban areas for consumption of more than 40 units from 30 per cent to 20 per cent.</li> <li>• Reduce the rate of electricity duty for consumers of residuary category from 30 per cent to 25 per cent.</li> <li>• Reduce the rate of electricity duty applicable to hall, auditorium, theatre and hotel and restaurant from 30 per cent to 25 per cent in order to encourage the entertainment and tourism industries.</li> </ul>	<ul style="list-style-type: none"> <li>• Cover further one lakh hectare command area under Participatory irrigation Management. Under this arrangement, co-operatives and organisations associated with use of water, have been entrusted the management of irrigation facilities.</li> <li>• Start "Bai Bhog" scheme to provide nutritious food to ten lakh children, below 3 years of age, through 'Anganwadis'.</li> <li>• Start Women Employment Exchanges in two metropolitan cities on experimental basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Outline a package of Rs.15.000 crore for tribal development.</li> <li>• Cover an additional area of 1 lakh hectare under micro Irrigation such as drip and sprinkler irrigation.</li> <li>• Start 10 new ITIs having the capacity of 4,500 seats</li> <li>• Start 2,695 additional 'Anganwadis'.</li> </ul>

Fiscal	Institutional	Sectoral
<ul style="list-style-type: none"> <li>• Redesigning of the Motor Vehicle Tax structure, to reduce (the present 67 tax rates to mere 18</li> <li>• Reduction in the rates of luxury tax.</li> </ul>		
<b>8. State : Haryana</b>		
<ul style="list-style-type: none"> <li>• Identify all the indirect subsidies to the agriculture sector and devise methods to provide all such subsidies directly to the farmers.</li> <li>• To encourage conservation of power in the State, give tax relief on Compact Fluorescent Lamps and other energy saving devices in consultation with the Empowered Committee of State Finance Ministers constituted by the Government of India.</li> <li>• Reduce the passenger tax to 25 per cent and increase the basic fare proportionately without any change in the total fare payable by the passengers</li> <li>• Cess on banquet halls/lawns and marriage palaces.</li> </ul>	<ul style="list-style-type: none"> <li>• Establish the Haryana Rural Development Authority (HRDA), which would take up the planning and development of improved residential facilities and civic infrastructure in villages and semi-urban areas.</li> <li>• Take up major infrastructure development works in the mission Identified town of Faridabad under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).</li> <li>• Set up a Sports Academy with all modern facilities.</li> <li>• To establish institute-industry partnership, establish Institute Managing Committees in the remaining institutes in a phased manner</li> <li>• Start a new scheme titled "Skill Training to Scheduled Caste Students", exclusively for the scheduled caste students in new emerging areas like mobile phone and computer repair, networking, personal grooming, retailing, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Initiate work for augmentation of water supply to 70 litre per capita per day in 1100 villages with the assistance from NABARD and NCR Planning Board. Take up work on sewage treatment plants in six towns of the State</li> <li>• Provide free computer education to all students from class six to twelve. Expansion of EDUSAT coverage to primary schools. Arts senior secondary school and technical institutions to impart quality education.</li> <li>• Construct one rural stadium costing Rs.40 lakh each in every block.</li> </ul>
<b>9. State : Himachal Pradesh</b>		
<ul style="list-style-type: none"> <li>• 25,000 new pensioners to be added in the category of old age, widow and disability pension scheme.</li> <li>• Explore the possibility of switching from a specific to an ad valorem excise duty structure and undertake an evaluation of VAT</li> </ul>	<ul style="list-style-type: none"> <li>• Cover more districts under the National Rural Employment Programme.</li> <li>• Strengthen the Panchayati Raj functionaries and, as a first step, offer them wages commensurate with their responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Medical college in Mandi to be set up in the Government sector and one medical college to be set up in Hamirpur in the private sector.</li> <li>• Set up 5 degree colleges, 150 senior secondary schools, 50 high schools and 200 middle schools.</li> <li>• Import horticulture plants and root</li> </ul>

Fiscal	Institutional	Sectoral
<p>implementation. Initiate studies to explore further areas for increasing tax buoyancies, including switching over to an ad valorem system for electricity duties.</p> <ul style="list-style-type: none"> <li>• In order to check evasion and the undervaluing of property transactions, reduction in stamp duty rate for registration of land sale transactions from 8 per cent to 5 per cent</li> <li>• Increase in token tax for vehicles to 5 per cent to check congestion and pollution.</li> <li>• Start a dedicated Pension Fund with an initial corpus of Rs.50 crore. which will be suitably enhanced every year so that in time it will fully meet the outgo on pension requirements.</li> </ul>		<p>stock to give a boost to horticulture productivity.</p> <ul style="list-style-type: none"> <li>• Continue to facilitate PPP for setting up of cold storages by private companies so as to provide direct access to farmers for marketing their produce through modern food retail stores.</li> <li>• Provide road links to all unconnected Panchayats by March 2008 and to all habitations of above 500 population by March 2009</li> <li>• Implement World Bank aided Hydrology project to improve the quality of portable water</li> </ul>
<b>10. State : Jammu and Kashmir</b>		
<ul style="list-style-type: none"> <li>• Set up a four-member Ministerial Committee to review the progress of collection of non-tax revenues on a quarterly basis, apart from looking as strategies to augment the revenue flows.</li> <li>• Intensification of efforts for recovery of arrears of power tariff and water charges payable by Government departments and municipal bodies and private entities.</li> <li>• Upgrade infrastructure for toll collection.</li> <li>• Grant of an amnesty scheme for trade and industry to provide last opportunity for facilitating voluntary liquidation of tax arrears payable under the General Sales Tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Set up a Committee to look into the issue of streamlining the exemptions given to the industries.</li> <li>• Constitute a High Power Employment Mission to take over the responsibility of coordination with different departments and related institutions to look into employment related issues and monitor generation programmes at each level.</li> </ul>	<ul style="list-style-type: none"> <li>• Explore the scope for innovative self employment projects under various sectors</li> <li>• Industries and Commerce Department to come out with a trade policy which will lay down future road map for enhanced trading activity, particularly in the context of concrete and positive possibilities of trans-LOC trade.</li> <li>• Take steps for reform and restructuring of the power sector.</li> </ul>

Fiscal	Institutional	Sectoral
<ul style="list-style-type: none"> <li>● Introduce a scheme of 'Demand Assessments' under the Jammu and Kashmir General Sales Tax Act, 1962 to clear the huge back log of assessment cases pending disposal under the erstwhile tax regime.</li> <li>● Institute a scheme of rewards for persons providing vital information for better tax recovery.</li> <li>● Bring additional services such as, courier services, coaching institutions, cable network, insurance, banking and other financial services, etc. within the ambit of taxation.</li> <li>● Enhance the rate of tax on 'services' from 4 per cent to 8 per cent.</li> <li>● Soft loans to travel and taxi operators against viable projects.</li> <li>● Introduce settlement scheme for one-time settlement of non-performing loans given by the State Finance Corporation.</li> </ul>		
<b>11. State : Jharkhand</b>		
<ul style="list-style-type: none"> <li>● Constitution of a High Level Committee to suggest measures regarding enhancement of resources and for strengthening the fiscal management</li> <li>● Set up integrated check post at nine places to make the tax collection process more systematic and transparent.</li> <li>● Establish Jharkhand Road Development Fund for the construction and maintenance of the roads</li> </ul>	<ul style="list-style-type: none"> <li>● Set up Jharkhand State Highway Authority to manage and supervise the work relating to the development and modernisation of roads in the State.</li> <li>● Establish SCERT in order to organise and manage the education system on the lines of NCERT of Government of India.</li> <li>● Start a new scheme called Sidha-Kanho Awaas Yojana (SKAY) for those persons living below poverty line and have not received the benefits of Indira Awaas Yojana (LAY)</li> </ul>	<ul style="list-style-type: none"> <li>● Set up agriculture parks in Chatra and Dumka districts to facilitate spreading of knowledge of modern agricultural techniques and tools.</li> <li>● Establish an agriculture university in Goda district</li> <li>● Set up a university in the educationally backward region of Kolahan division.</li> <li>● Establish three engineering colleges in the districts of Ramgarh, Chaibasa and Dumka.</li> <li>● Open engineering colleges/ institutions on PPP basis</li> </ul>

Fiscal	Institutional	Sectoral
	<ul style="list-style-type: none"> <li>• Set up a public distribution grievance redressal commission for redressal of the disputes relating to the public distribution shops.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide computer education in all the Government schools from 9<sup>th</sup> to 12<sup>th</sup> standard to facilitate computer education to the rural folks</li> </ul>
<b>12. State : Karnataka</b>		
<ul style="list-style-type: none"> <li>• Continue credit facility at 4 per cent rate of interest for farmers, weavers and fishermen and extend this facility to “Stree Shakthi” and other SHGs.</li> <li>• Higher allocation for capital works in major and minor irrigation works to complete 19 projects.</li> <li>• Extend the benefit of loan waiver to provide one-time relief to farmers who have short-term crop loans from cooperative institutions. Extend waiver to weavers and fishermen up to Rs.25,000.</li> <li>• Implementation of recommendations of the Fifth Pay Commission appointed by the State.</li> <li>• Under “Sandhya Suraksha” scheme, provide a monthly pension of Rs.400 to citizens above 60 years of age, chosen among small and marginal farmers, labourers from unorganised sector including agricultural labourers, weavers, fishermen, etc.</li> <li>• Increase in monthly pension to widows, aged and physically handicapped persons from; Rs.200 to Rs.400-</li> <li>• 0.5 per cent concession on payment of stamp duty at the time of registration of the property for all properties backed by title insurance</li> <li>• In the interest of the society and the poor people, ban on all kinds of lotteries.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide support to establishment of a permanent “Karnataka Agricultural Commodities Forward Markets Commission”.</li> <li>• Prepare a special eight year development plan for redressal of regional imbalances and implement recommendations of Dr. Nanjundappa Committee.</li> <li>• Establish a new Directorate of Social Security and Pensions to implement all the pension schemes.</li> <li>• Initiate the new scheme of “Micro Credit” under which many skilled/unskilled persons belonging to SC, ST, Backward classes and minorities will be assisted in pursuing small business activities.</li> <li>• Explore the possibility of linking “Suvarna Suraksha” scheme with a new scheme called “Aam Admi Bima Yojana” announced in the Union Budget 2007-08.</li> <li>• Establish ‘Unorganised Workers Welfare Board’ covering different segments of the labour force</li> <li>• Establish “Karnataka State Environment Impact Assessment Authority” and “Karnataka State Expert Appraisal” Committee.</li> <li>• Establish Bangalore Developers, Builders and House Owners Repository’ on a PPP basis to collate all declared information by a particular developer.</li> </ul>	<ul style="list-style-type: none"> <li>• Initiate the “Karnataka Biofuel Programme” under a mission mode. The first phase of this mission will span over seven years and activity will be taken up in 15 selected talukas.</li> <li>• A comprehensive Dairy Development Programme to promote dairying in North Karnataka.</li> <li>• Open 25 Morarji Desai residential schools for SCs and 5 for ST students and open 75 new hostels for SCs and 10 for STs.</li> <li>• Begin 22 new Morarji Desai residential schools for the backward classes and 75 new hostels</li> <li>• Develop Ramanagararn city into a health city</li> <li>• Upgradation of four polytechnics into engineering colleges and setting up of a constituent engineering college by the Vishweshariah Technological University at Hassan.</li> </ul>

Fiscal	Institutional	Sectoral
<b>13. State : Kerala</b>		
<ul style="list-style-type: none"> <li>• Continue exemption from Agricultural Income Tax given last year for all assessees other than in the corporate sector for one more year.</li> <li>• Continue the exemption from tax on coconut for one more year.</li> <li>• Impose 12.5 per cent tax on all tobacco and tobacco products that would become applicable when the Central Government issues a notification excluding tobacco from the list of declared goods.</li> <li>• Impose stamp duty on demat transactions.</li> <li>• Introduce a package to reduce the losses of Kerala State Road Transport Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce a new scheme in association with Sarva Siksha Abhiyan.</li> <li>• Introduce a new scheme for giving scholarship to students</li> <li>• Integration of social security schemes after a comprehensive evaluation.</li> <li>• Renaming of Social Welfare Department as Welfare and Women's Development Department and formation of a Gender Advisory Committee under this Department.</li> <li>• Formation of the Kerala Urban Development Corporation for urban development</li> <li>• Local Self Government Institutions to give priority to implementation of administrative reforms, such as, deployment of employees, up to date accounts of Local Self Government institutions, rules for Budget, accounts. public works, stores purchase, etc.</li> <li>• Development of Kochi and Thiruvananthapurann cities under JNNURM.</li> </ul>	<ul style="list-style-type: none"> <li>• Package to increase paddy production involving scientific method of cultivation, loans at subsidised rate of interest to farmers adopting scientific method and a special scheme to ensure subsidiary employment for paddy cultivators.</li> <li>• Special package for the arecanut farmers affected by the Yellow Leaf Disease</li> <li>• Emphasis on market intervention in agriculture sector</li> <li>• Convert watershed programme into a massive public movement by lining up farmers, agricultural labourers and volunteers</li> <li>• Comprehensive health care programme to provide free treatment to the poor and treatment at reduced rate to others in Government hospitals.</li> <li>• Introduce a scheme in the environment sector to sustain the ecological balance of wet land areas.</li> <li>• Steps for bio-diversity conservation, eco-tourism and protection of national parks and sanctuaries</li> <li>• Reorganise the implementation of IT sector project named 'Akshaya Project' with the participation of Local Self Government Institutions.</li> <li>• Take up non-conventional energy activities such as utilisation of rubber seed oil as bio-diesel, production of gas from coconut pith through bio metnenation, exploring the feasibility of gasahol production, etc.</li> <li>• Improve the qualify of English education by way of a scheme devised with the help of NCERT and the Institute of Foreign Language System</li> </ul>

Fiscal	Institutional	Sectoral
<b>14. State : Madhya Pradesh</b>		
<ul style="list-style-type: none"> <li>● Provide subsidised agriculture loans at the rate of 7 per cent through cooperative credit societies.</li> <li>● Introduction of “Gender Budget” to ensure empowerment and active participation of women in various development schemes.</li> <li>● Start an Electronic Tender system in order to incorporate greater transparency in the financial management.</li> </ul>	<ul style="list-style-type: none"> <li>● Constitution of a “Farmers Commission” to suggest the measures for the welfare of the farmers.</li> <li>● Start a new scheme called “Apan Ghar” for those Scheduled Caste and Scheduled Tribe families, which have not received the benefits of the Indira Awaas Yojana (IAY).</li> <li>● Form a federation to strengthen the SHGs, which are engaged in poverty eradication programme to ensure optimum use of the available resources and provide better marketing facilities to the groups.</li> <li>● Start a scheme aimed at economic empowerment and providing better educational and health services to girls.</li> <li>● Set up ‘Bundelkhand Development Authority’ to make development strategies according to the specific conditions of this backward region.</li> <li>● Set up a “Centre for Good Governance” in Bhopal for ensuring the quality of the reforms process</li> </ul>	<ul style="list-style-type: none"> <li>● Development of 27 State Highways and four major District roads with the financial assistance from ADB and other financial institutions.</li> <li>● Emphasis on developing infrastructure through PPP</li> <li>● Upgradation of power transmission and distribution system to minimise the level of losses occurring due to transmission.</li> <li>● Establish a veterinary college in Rewa. new animal dispensaries and upgradation and strengthening of animal hospitals.</li> <li>● Start a scholarship scheme to enable talented students from the backward classes to undertake higher studies abroad.</li> <li>● Start five polytechnic colleges in collaboration with the Central Government.</li> </ul>
<b>15. State : Maharashtra</b>		
<ul style="list-style-type: none"> <li>● Continue the package of assistance for giving relief to farmers in six districts of Vidarbha.</li> <li>● Tax tobacco and tobacco products at the rate of 12.5 per cent. Exemption for Biris and unmanufactured tobacco.</li> <li>● Provide premium subsidy to small and marginal farmers</li> </ul>		<ul style="list-style-type: none"> <li>● Construction of 8,528 classrooms, 19 block resource centres and 1,073 cluster resource centres under the Sarva Shiksha Abhiyan,</li> <li>● Increase in pre-secondary and secondary scholarship rates.</li> <li>● Accord higher priority to the last mile projects so as to create maximum irrigation potential within the available resources.</li> </ul>



Fiscal	Institutional	Sectoral
<p>under National Agricultural Insurance Scheme</p> <ul style="list-style-type: none"> <li>• Pay special attention to the tourism sector by giving concessions in the payment of luxury tax, entertainment tax, amusement tax and stamp duty depending upon the location of the tourism project.</li> </ul>		<ul style="list-style-type: none"> <li>• Implement Maharashtra State Wide Area Network Project under which all 35 districts will be connected to Mantralaya and all talukas will be connected to the district headquarters.</li> <li>• Measures to augment power supply and ensure energy conservation to make proper use of available power.</li> <li>• Upgradation of medical colleges and hospitals to meet modern standards of medical education and patient care.</li> <li>• Undertake schemes to increase forest and tree cover and encourage eco-tourism in the forest areas.</li> <li>• Implement the World Bank aided National Cyclone Risk Mitigation Project that would benefit coastal districts of the State.</li> <li>• Cover all habitations in rural areas for tackling the drinking water problem, under Bharat Nirman Programme.</li> </ul>
<b>16. State : Manipur</b>		
		<ul style="list-style-type: none"> <li>• Reimburse the fees in professional courses of unaided and permanently unaided educational institutions to the scheduled caste students.</li> <li>• Increase in rate of scholarship to the scheduled caste students studying in secondary schools.</li> <li>• Upgrade 4 District Hospitals in the hills and at Jiribam by construction of 50 bedded hospitals under NLPCR.</li> <li>• Upgrade the 78 kms. section from Maram to Imphal to four lane and make Old Cachar Road from Bishnupur to Rengpand via Khoupum measuring 93 kms motorable</li> </ul>

Fiscal	Institutional	Sectoral
<b>17. State : Meghalaya</b>		
	<ul style="list-style-type: none"> <li>• Set up a State Bamboo Development Agency to carry out the State Bamboo Policy with assistance from the National Bamboo Mission.</li> </ul>	<ul style="list-style-type: none"> <li>• Cover an area of 1800 hectares under minor irrigation projects. Take up harvesting of rain water and explore the ground water potential.</li> <li>• Upgrade the process of computerisation in order to facilitate the implementation of smart card in driving licenses, high security registration plates and issue of permits.</li> <li>• Cover 800 non-covered and partially-covered habitations. 1000 rural schools and 50 ICDS Centres under the Central Sector Accelerated Rural Water Supply Programme.</li> <li>• Take up land development afforestation and water distribution works covering 2530 hectares; bring in additional 680 hectares under erosion control works and create 250 water harvesting/ farm ponds.</li> <li>• Implement Central Sector Mill Gate Price Scheme. Handloom Cluster Development Programme and Technology Upgradation Fund Scheme.</li> <li>• Establish data centres under NEGP, SWAN, Common Service Centres and an IT Estate at New Shillong</li> </ul>
<b>18. State : Mizoram</b>		
<ul style="list-style-type: none"> <li>• Finalise the constitution of the Guarantee Redemption Fund</li> <li>• Continue the process of audit assessment of VAT covering more areas.</li> <li>• Introduce toll on roads and bridges and water cess on minor irrigation.</li> </ul>		<ul style="list-style-type: none"> <li>• Continue to give priority to the “Bamboo Flowering and Famine Combat Scheme”.</li> <li>• Take up “North Eastern Region Urban Development Project (NERUDP) (Phase-1) for urban development of Aizawl city.</li> </ul>

Fiscal	Institutional	Sectoral
<b>19. State : Nagaland</b>		
	<ul style="list-style-type: none"> <li>• Extension of the programme “Year of the Farmer” to 2007-08 with focus on harnessing the abundant resources to reach levels of not only self-sufficiency but also surplus for exports.</li> </ul>	<ul style="list-style-type: none"> <li>• Operationalise a nursing college attached with the Naga Hospital Authority, Kohima under the National Rural Health Mission.</li> <li>• Establish three new district hospitals in the newly created districts.</li> <li>• Set up a sewerage and sanitation system for Kohima with loan from ADB.</li> <li>• Commencement of Bachelor degree courses in several subjects, including business administration, computer application, science, hospitality and tourism management under the aegis of ICFAI University.</li> </ul>
<b>20. State : Orissa</b>		
<ul style="list-style-type: none"> <li>• Continue to provide free water supply for Lift Irrigation Scheme.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement a new scheme to provide self-employment to the unemployed youth.</li> <li>• Start a new scheme named “Biju Gram Jyoti” in order to provide electricity in villages having population of less than 300. “</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure Development of Constituent Colleges under Biju Pattnaik University of Technology (BRUT).</li> <li>• Implement a new scheme named “Intensive Mineral Exploration and Assessment of Mineral Resources’.</li> </ul>
<b>21. State : Punjab</b>		
<ul style="list-style-type: none"> <li>• Higher devolution to Panchayati Raj Institutions and Urban Local Bodies to assist (the Rural and Urban Local Bodies to improve infrastructure and civic services in their areas.</li> <li>• Reduction in basic Stamp Duty rates from 6 per cent to 5 per cent.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce the ‘Bhai Ghartaiya Serial Seva Scheme’ for medical insurance up to Rs.2 lakh per year for members of all Cooperative Societies w.e.f 1.9.2007 enlarging the scope of the earlier scheme which was limited to members of Primary Agricultural Societies alone. Introduce a similar scheme for the BPL families, who would pay premium of Rs.100 per family per year and the remaining premium will be paid by the State Government.</li> </ul>	<ul style="list-style-type: none"> <li>• Popularise a programme for promoting resource conservation technologies, such as zero tillage, deep ploughing, raised bed planting, laser land leveling, etc., to tackle the problem of soil degradation and water depletion.</li> <li>• Enact an enabling legislation to promote agri-processing and marketing and promote contract farming and organised retail in vegetables, food grains and dairying.</li> <li>• Pilot Project for diversification through Agriculture Production Pattern Adjustment Programme in Punjab for productivity and growth and Macro Management Work Plan</li> </ul>

Fiscal	Institutional	Sectoral
		<ul style="list-style-type: none"> <li>● Special impetus to horticulture.</li> <li>● Set up 20 Farmers Training Centres in the State for bridging the gap between labs and farms.</li> <li>● Proposal to revive loss making Milk Unions.</li> </ul>
<b>22. State : Rajasthan</b>		
<ul style="list-style-type: none"> <li>● Hand-made goods of SHGs to be tax-free.</li> <li>● Luxury tax to be imposed on banquet halls, marriage and party places.</li> <li>● 'Anywhere registration' facility, started in Jaipur to be extended to the rest of Rajasthan</li> <li>● Launch a new contributory pension scheme, 'Vishwakarma', on the lines of the CPF scheme for government employees for unorganised labour.</li> </ul>	<ul style="list-style-type: none"> <li>● Launch a Rajasthan Social Sector Viability Gap Funding Scheme.</li> <li>● Set up 'Rajasthan Innovation Foundation' with a corpus of Rs.3 crore.</li> <li>● Establish new Directorate of Consumers Affairs.</li> <li>● Constitute an 'Economically Weaker Sections Commission' to identify the economically weaker sections and to assess their needs.</li> </ul>	<ul style="list-style-type: none"> <li>● Computer education on wheels in each district, with the Government bearing 75 per cent of the cost of the bus and computers</li> <li>● 1,500 upper primary schools to be upgraded to secondary schools, 600 secondary schools to be upgraded to higher secondary schools.</li> <li>● Set up a new trauma hospital</li> <li>● Start a new hospital at Mansarovar that would be run and managed in partnership with an established hospital such as Bombay Hospital.</li> <li>● Amend hotel policy to cover rural and heritage tourism.</li> <li>● Open 1,500 new 'Anganwadi' centres</li> <li>● Launch 'Patanjali Aarogya' scheme for prevention of infectious diseases and for prompt diagnosis and treatment</li> <li>● Launch eco-tourism policy for encouraging eco-tourism</li> </ul>
<b>23. State : Sikkim</b>		
<ul style="list-style-type: none"> <li>● increase in Old Age Pension from Rs.300 to Rs.400 per month.</li> </ul>	<ul style="list-style-type: none"> <li>● Appoint a State Diagnostic Expert Committee to study and examine issues of women education, health.</li> <li>● education related institutions and oversee the broad orientation of higher education policy.</li> </ul>	<ul style="list-style-type: none"> <li>● Special emphasis on seed production with supportive facilities for seed testing and certification.</li> </ul>

Fiscal	Institutional	Sectoral
	<ul style="list-style-type: none"> <li>• Start a new programme known as Adhyapan Kaushal Kosh (Teaching Skill fund) to send teachers from the State to institutions outside the State and also to invite eminent teachers and educationists from other States to Sikkim for upgradation of knowledge, teaching skills, curriculum designs and pedagogy techniques.</li> <li>• Set up media centres in all the district headquarters with basic communication facilities</li> <li>• Set up Special Economic Zone for the small and medium enterprise from both India and abroad.</li> </ul>	
24. State : Tamil Nadu		
<ul style="list-style-type: none"> <li>• Reduce the interest rate on such co-operative crop loans from 7 per cent to 5 per cent, with a view to increasing the investments in farm irrigation infrastructure. Rs.100 crore would be given as loans through Primary Cooperative Agriculture Societies and Rural Development Banks.</li> <li>• Financial assistance to farmers for taking crop insurance.</li> <li>• Enhance the amount of devolution from 8 per cent to 9 per cent of the state's own tax revenue.</li> <li>• Increase in monthly pension given to handloom weavers above 60 years of age from Rs.200 to Rs 400 per month.</li> <li>• Implement e-tendering in two phases - in the first phase, starting from 1.7.2007, tender forms for open tenders for a value exceeding Rs.10 lakh can be obtained through the</li> </ul>	<ul style="list-style-type: none"> <li>• Continue trie scheme to reclaim wasteland and distribute them free of cost! to poor agricultural families.</li> <li>• With a view to promoting establishment of new industries in the southern districts, establish a Special Economic Zone in Virudhunagar district.</li> <li>• Form 25,000 new SHGs and provide assistance for their capacity building and enabling them to take up income generating activities.</li> <li>• Implement the first phase of the World Bank aided 'Vaazhndhu Kattuvom' project in 15 Panchayat Unions in 15 districts with the objective of promoting the welfare of the most marginalised sections of the society like the poorest of the poor, poor women, disabled and destitute.</li> <li>• Give skill development training to 50,000 unemployed youth through the Government.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce micro-irrigation techniques with 50 per cent subsidy on 1,30,100 acres of land with a view to promoting judicious use of water.</li> <li>• Encourage modern agricultural techniques by way of introducing precision farming in all districts through demonstration farms.</li> <li>• Implement Irrigated Agriculture Modernisation and Water Bodies Restoration and Management project with assistance from the World Bank with a view to improving the river basins.</li> <li>• Upgrade 100 middle schools as high schools and 80 high schools as higher secondary schools</li> <li>• Establish computer laboratories in all Government higher secondary schools.</li> <li>• Exempt all students studying undergraduate courses in Government Arts and Science colleges from payment of tuition fees thereby providing higher</li> </ul>

Fiscal	Institutional	Sectoral
<p>internet and the second phase starting from 1.10.2007. bids can also be submitted on-line through the web sites of the concerned departments.</p>	<ul style="list-style-type: none"> <li>Constitute 3 State Level High Level Monitoring Committee to monitor the implementation of the major welfare schemes of the Government.</li> </ul>	<p>education free of cost in Government colleges.</p> <ul style="list-style-type: none"> <li>Set up two new Government Industrial Training Institutes (ITI) in Perambalur district and a new Government ITI in Sivaganga district.</li> <li>Establish a new technical university by the name Tirunetveli Anna university with a view to further improving the quality of technical education in southern districts.</li> <li>Set up two new medical colleges at Thiruvavur and Dharmapuri.</li> <li>Implement a scheme with financial assistance from the Tea Board of Government of India to rejuvenate the tea estates in the Nilgiris district and modernise co-operative tea factories.</li> <li>implement the Metro Rail Project at Chennai city to ease traffic congestion.</li> <li>Schemes to provide adequate protected water supply in 9,000 rural habitations.</li> <li>Implement a scheme to improve the water supply infrastructure and upgrade the solid waste management system of Chennai city under the JNNURM.</li> </ul>
<b>25. State : Tripura</b>		
<ul style="list-style-type: none"> <li>Introduce Guarantee Redemption Fund.</li> <li>Strengthening of Tax Organisation with a view to providing Improved service to the people and for further boosting of collection</li> <li>Build up a corpus with initial contribution of Rs 2 crore for providing capital support to the SHGs. subject to assessment of their performance.</li> </ul>	<ul style="list-style-type: none"> <li>Extension of Cattle Insurance Scheme in all the Districts, strengthening of Milk Marketing system and expansion of veterinary service network.</li> <li>Consider introduction of Health Insurance Scheme for BPL families on pilot basis.</li> </ul>	<ul style="list-style-type: none"> <li>Set up Tripura Institute of Technology having Degree and Diploma modules.</li> <li>Set up an Agricultural College to meet need for development of the agricultural sector.</li> <li>Emphasis on development of horticulture by undertaking activities like crop demonstration, transfer of modern technology through training and publicity and encouragement of private entrepreneurs.</li> </ul>

Fiscal	Institutional	Sectoral
		<ul style="list-style-type: none"> <li>• Take up development of additional eight Model Aqua Pancrtayats. three prawn villages and four special villages</li> <li>• Introduce the concept of multiple stocking and harvesting in pisciculture</li> <li>• Emphasis on development of forest area by formation of SHGs, creation of water bodies and additional rubber plantation.</li> <li>• Target of 7550 hectare area to be covered under assured irrigation.</li> <li>• For providing quality education, residential Schools at Buratali and Ashram School at Korbook to be made functional.</li> </ul>
<b>26. State : Uttarakhand</b>		
	<ul style="list-style-type: none"> <li>• Established 'Aayush Gram' in each district to encourage the Ayurvedic treatment system</li> <li>• Establish a rural business hub to encourage the local producers to sell local products, goods, medicines and hand made goods as also to facilitate marketing of their goods.</li> <li>• In order to replenish the fast depleting ground water resources in the State and for the preservation of drinking water, establish a "Rajya Stariya Jal Samvardhon Mission".</li> </ul>	<ul style="list-style-type: none"> <li>• Construct a hotel/convention centre near Tapkeswar on PPP basis.</li> <li>• Construct ropeways on PPP basis to provide easy connectivity to the places of tourist interest located in remote areas.</li> <li>• For the development of infrastructure in urban areas, implement works such as provision of drinking water, sewerage, solid disposal management and construction of roads etc., in 31 cities, with assistance from ADB</li> <li>• Encourage the use of special types of crops in rain-fed agricultural areas.</li> <li>• Establish an Aviation University/Academy in order to encourage the aviation activities in the State and to acquire technical skill in this field and to draw the attention of entrepreneurs in this sector.</li> <li>• Establish a mental health institute at Dehradun to provide specialised medical facilities for mental health.</li> </ul>

Fiscal	Institutional	Sectoral
<b>27. State : Uttar Pradesh</b>		
<ul style="list-style-type: none"> <li>● Increase in pension payable to old, handicapped, destitute widows and farmers to Rs.300 from Rs 150.</li> </ul>	<ul style="list-style-type: none"> <li>● In order to foster and strengthen the process of rural development, start a new scheme, "Dr. Ambedkar Gram Sabha Vikas Yojana", for the integrated development of the Ambedkar villages. 'Regional Rural Employment Generation Centres' to be set up under this scheme.</li> <li>● Introduce a new scheme to provide financial assistance to the urban bodies for the development of urban infrastructure.</li> <li>● Start an "Integrated Development Scheme" for the welfare of the backward classes</li> <li>● Introduce a new scheme called 'Operation Green' for increasing forest cover and tree plantation with people's participation.</li> <li>● Implement National Rural Employment Guarantee Scheme in all the districts of the State by the end of 11<sup>th</sup> Five Year Plan.</li> <li>● Formulate a new Sugar Industry Policy.</li> <li>● Privatisation of loss-making sugar mills run by Co-operative sector and State Sugar Mills Corporation.</li> <li>● Constitute "Professional Educational Council" to provide effective professional education.</li> </ul>	<ul style="list-style-type: none"> <li>● Set up two power houses at Allahabad and Anpara with the cooperation of private investors</li> <li>● Upgrade one engineering institute to develop it on the lines of Indian Institute of Science, Bangalore to promote technical education. Upgrade another engineering institute to IIT level.</li> <li>● Set up two new State Homeopathic Colleges and two new Allopathic Medical Colleges.</li> <li>● Open 813 new primary schools and 4,500 new Junior High schools in un-served areas.</li> <li>● Constitution of 'Vocational Education Board</li> <li>● Provide financial assistance to encourage opening of degree colleges in private sector in such development blocks where no degree college has yet been set up.</li> <li>● Set up 35 Ayurvedic and unani Hospitals in urban areas, 125 such hospitals in rural areas and 92 new Government Homeopathic Hospitals</li> </ul>
<b>28. State : West Bengal</b>		
<ul style="list-style-type: none"> <li>● Provide bank credit at a low interest (of 4 per cent) to one lakh beneficiaries of land distribution and one lakh recorded snare-croppers.</li> <li>● Expand the coverage under the scheme of Provident Fund for landless agricultural</li> </ul>	<ul style="list-style-type: none"> <li>● Raise the number of beneficiaries under the provident fund scheme for the workers in the unorganised sector to 10 lakh from about 7.92 lakh workers.</li> <li>● Expand the scope of the Settlement Commission by</li> </ul>	<ul style="list-style-type: none"> <li>● Set up 500 primary schools. 750 Sishu Siksha Kendras, 1000 junior high schools and 100 junior madrasahs.</li> <li>● Upgrade 500 high schools to higher secondary schools and also 100 madrasahs to high madrasahs.</li> </ul>



Fiscal	Institutional	Sectoral
<p>labourer from 9.42 lakh to 10.50 lakh.</p> <ul style="list-style-type: none"> <li>● Participate in the “Aam Admi Bima Yojana’1 for agricultural labourers and integrate this scheme with Provident Fund Scheme for agricultural labourers.</li> <li>● Computerisation of the Directorate of Commercial Taxes.</li> <li>● Further simplification of the VAT Return Form based on recommendations of the Committee of Commissions of Commercial Taxes once the Report is submitted.</li> <li>● Enhance the plan outlay of Panchayats and Rural Development Department.</li> <li>● Extend the coverage under the schemes of old age pension, widow pension, disability pension, artisans’ pension, farmers’ pension and fishermen’s pension.</li> <li>● Refund of input tax in respect of the quantity exported at the pre-assessment stage for units which export at least 75 per cent of their total sales as has been done in the case of 100 per cent export-oriented units.</li> <li>● Extend the applicability of the scheme of settlement of disputes relating to sales tax up to June 30, 2007 on payment of 46 per cent of the disputed tax and 5 per cent of the disputed interest and penalty.</li> <li>● Modify the definition of sale price as defined in the West Bengal Value Added Tax Act, 2003 to exclude the sum charged for insurance at the</li> </ul>	<p>bringing under its purview pending appeal and revision cases against assessment orders passed up to June 30, 1997 not only under the West Bengal Sales Tax Act, 1994 but also under the Bengal Finance (Sales Tax) Act, 1941 and West Bengal Sales Tax Act, 1954. which have since been repealed</p> <ul style="list-style-type: none"> <li>● introduce an incentive scheme for assisting the micro and small industries. Depending on the location of the district in the State, the micro-industries will be entitled to capital investment subsidy up to 35 per cent of investment and the small scale units will be entitled to capital investment subsidy up to 20 per cent of investment</li> <li>● Extend training and marketing support to young men and women, registered with the employment exchanges, who intend to set up small scale enterprises, either individually or by forming SHGs.</li> </ul>	<ul style="list-style-type: none"> <li>● Set up 500 vocational training centres. Set up one Government college each for North Bengal, Paschimanchal and Sundarban regions and ten more Government aided colleges, where along with general subjects, emphasis will be given on management education and high quality computer education.</li> <li>● Set up a new full-fledged university in the district of North 24-Parganas.</li> <li>● Extend the irrigation facilities and undertake the reclamation works of the rivers passing through the State</li> <li>● Encourage crop diversification by placing special emphasis on floriculture and horticulture</li> <li>● Steps to set up 45 industrial clusters in different districts of the State to promote the growth of small scale industries.</li> </ul>

Fiscal	Institutional	Sectoral
<p>time of delivery or before delivery of the goods from the sale price.</p> <ul style="list-style-type: none"> <li>Extend soft loans and granting additional relief to encourage reopening of closed tea gardens and fresh investment in replantation and machinery.</li> <li>Levy value added tax at the rate of 12.5 per cent on tobacco and tobacco products</li> </ul>		
29. State : NCT Delhi		
<ul style="list-style-type: none"> <li>Tax holiday to hotels up to four star category coming up in Delhi between April 2007 and October 2010 for promotion of tourism.</li> <li>Extend social audit of the functioning of welfare homes and hospitals.</li> <li>Increase in monthly pension for senior citizens who are economically weak and above the age of 60 years from Rs.400 to Rs 600.</li> <li>Tax on tobacco and tobacco products at the rate of 12.5 per cent.</li> </ul>	<ul style="list-style-type: none"> <li>Undertake construction of houses for weaker sections on a much large scale with the financial support from the Government of India under JNNURM.</li> <li>Provide houses to the slum dwellers by forming Multi-Purpose Cooperative Societies.</li> <li>Set up Yamuna River Development Authority.</li> <li>Create a Directorate for Women and Child Development, to focus exclusively on all schemes for the welfare of women and children in order to increase their reach and effectiveness.</li> </ul>	<ul style="list-style-type: none"> <li>Construct 53 underground reservoirs (UGR) in different parts of the city by December 2009 so as to ensure better and equitable distribution of water supply out of 53 UGRs, 13 have already been constructed and five are nearing completion.</li> <li>Provide all civic amenities like roads, drains, water supply, sewerage, parks, community centres, health and educational infrastructure, etc., in unauthorised colonies that have been regularised.</li> <li>Provide sewerage system in all rural villages of Delhi to check untreated waste water of these habitats coming into Yamuna River.</li> <li>Initiate new projects to meet the power demand of Delhi.</li> <li>Set up a University of Science and Technology to provide international quality science and technical education at the post graduate and research levels.</li> <li>Open eight more new schools.</li> <li>In order to provide quality education to the meritorious students of government schools, convert five existing schools into Pratibha Vikas Vidyalayas.</li> <li>Extend computer aided learning project from 200 schools to all the</li> </ul>

Fiscal	Institutional	Sectoral
		<p>remaining Government and Government Aided Schools.</p> <ul style="list-style-type: none"> <li>● Computerisation of all school libraries.</li> <li>● Set up a new University named as 'Ambedkar University in the campus of Mahatma Gandhi Rural Energy Training Institute at Bakoli.</li> <li>● Waive the fees of girl students for all courses in Itls.</li> <li>● Emphasis on strengthening and expansion of Multi Disciplinary Hospitals, creation of infrastructure to provide comprehensive health care comprising of preventive, promotive, curative and family welfare services.</li> <li>● Encourage diversification of crop production from traditional crops to cash crops like floriculture and horticulture.</li> <li>● Carry forward the mission of controlling air pollution in all its form.</li> </ul>
<b>30. State : Puducherry</b>		
<ul style="list-style-type: none"> <li>● Enhance subsidy on premium paid by the fishing vessel owners to insurance companies.</li> <li>● Provide share capital assistance to the Agricultural Credit Societies/Land Development Bank.</li> </ul>	<ul style="list-style-type: none"> <li>● Extend crop insurance to crops such as cotton, groundnut and banana.</li> <li>● Implement seasonal Rainfall Insurance Scheme called 'Varsha Bima' introduced by the Agriculture Insurance Company of India Limited.</li> <li>● Introduce a new scheme called 'Farmers income Guarantee Scheme' for the benefit of milk producers.</li> <li>● Incentive to village and small enterprises, which are mainly owner-run enterprises to generate employment</li> <li>● Encourage employment oriented non-polluting industries, IT, bio-technology and other such industries.</li> </ul>	<ul style="list-style-type: none"> <li>● Implement a new scheme on precision farming in the production of vegetables to act as a model unit for the farming community.</li> <li>● Construction of trauma care centre for Mahe General Hospital.</li> <li>● To cater to the rapidly growing power demand of Puducherry Town area, establish a Substation at Venkola Nagar.</li> <li>● Extend free higher education to the students belonging to the Union Territory of Puducherry in all Government Colleges and Society Colleges under the administrative control of the Government.</li> <li>● Provide computers free of cost to the students belonging to BPL families pursuing B. Tech. (Computer Science). M.C.A. and</li> </ul>

Fiscal	Institutional	Sectoral
	<ul style="list-style-type: none"> <li>• Adopt e-governance practices to serve the people better.</li> <li>• Computerise the activities of Ranchayati Raj institutions as a part of transparent and efficient administration.</li> <li>• Constitute District Planning Committee to give due weightage for grass root planning for achieving speedy and balanced economic growth in all the regions.</li> </ul>	<p>M.Sc. (Computer Science) in Government Colleges</p> <ul style="list-style-type: none"> <li>• Encourage investment in the field of industrial infrastructure development with public-private participation with the aim to achieve for faster industrial growth.</li> </ul>

Source : Budget speeches of State Government, 2007-08

### Exercise 3.1: HD initiatives in State Budgets

Each group to Select any four states, look at the new social sector initiatives and analyse their likely HD impact and impact on the budget of the States.

#### 1.3 An Analytical Framework for Financing HD

1.3.1 Given that more than 80 per cent of combined government expenditure in social services are incurred by the States, the necessary public interventions would primarily be at the State level.

1.3.2 India is a large country, and it is natural that there is substantial diversity both in the status of human development and in the financial health of the States that comprise it. While it is undeniable that better financial health should allow a State to spend more on human development, prima facie evidence does not indicate a very strong relationship, and the relationship between a State government's financial health and the effectiveness of its interventions (as indicated by the status of human development) is even weaker. Obviously, both raising government expenditures and improving their effectiveness are important. The basic framework of the analysis for financing HD accordingly should consist of the following parts:

1. Finding the ground to be covered in various areas of human development and estimating (necessarily roughly) the costs involved in reaching given goals (MDG/ National Policy).

2. Estimating additional resources that the States can generate, and further estimating that part which can reasonably be expected to be allocated to achievement of human development goals under the most favorable circumstances.
3. Estimating resources that can be freed by reprioritizing expenditures in favor of human development.
4. Assessing effectiveness of present interventions, and possible savings therefrom.
5. Estimating Central assistance in various areas of human development.

#### *Costing the Transition to Stated Goals*

1.3.3 The first issue that has to be considered here is what it is to which the costing exercise is to be applied. There are two alternatives here: one, costing the additional supply requirement of the service concerned, and two, costing the transition from the present state of human development to the desired state in terms of outcomes. This distinction is important, as can be briefly illustrated using an example. In the case of education, if the objective is universal literacy of a given age group of children, then

one can simply consider the additional costs of making available free elementary education to all the children in the specified age group; this would correspond to the first alternative above. However, ensuring adequate supply alone does not guarantee achievement of the desired outcome, since demand side factors like income, location, parental education can also influence the outcome, given the supply. Thus, in the second approach, determinants of actual outcomes other than the supply of the service also need to be considered and, if necessary, costed.

1.3.4 The main issue in costing is likely to be the per-unit costs of incremental services. Conceptually, there are two possibilities: one, of prevailing per-unit costs derived from actual level of services provided and the expenditure incurred thereon. The other possibility can be the 'efficient' cost, i.e., the per-unit costs that may be prescribed as normative ones on some basis. Further, there is the question of the extent of public intervention required, and this is likely to be different for different States, depending on various socio-economic characteristics including historical factors.

1.3.5 A general point here would relate to disaggregation of broad types of services into more specific services and carrying out the costing exercise in terms of the disaggregated services. For example, public health includes various types of programs, and the distance from goals would differ among States between from one program to another. Also, estimated per unit costs are likely to be more reasonable for disaggregated services than for a composite service.

#### ***Estimating Additional Resources from States' Own Sources***

1.3.6 To begin with, we distinguish between revenue (approximately equal to current) receipts and capital receipts (generally loans or various kinds of liabilities). In our case we are concerned with only the revenue expenditure since that is what is relevant at state/district level. The revenue receipts of States can be divided into own revenue receipts (tax and non-tax), shared taxes and grants. Shared taxes can be estimated on the basis of projections of central tax revenues, and State shares mandated by the Finance Commission. Grants are discussed under paragraph.

1.3.7 Once revenue capacities are estimated, the excess of the 'capacity' over actual realizations provide an estimate of possible additional resources mobilization from States' own sources. While the borrowings also are possible sources of funds to be deployed in the human development sectors, in the current state of indebtedness of most of the States, it is best not considered. User charges, not resorted to so far to any significant extent, can provide additional resources too (subsumed under non-tax revenues), but there are certain limitations. First, these are advocated more in the context of economic services than social services, as some of the social services like social welfare simply do not admit of user charges, and second, for various reasons it may not be possible to resort to user charges in any significant manner because of distributional considerations. Moreover, the rights approach to human development also militates against significant user charges.

1.3.8 Additional own source funds can also be generated through expenditure compression, but barring a full-fledged analyses of the expenditure side of the budget, it may be more practical to accept prevailing expenditure trends as given in general.

#### ***Reprioritizing Expenditures***

1.3.9 Reprioritization of expenditures can refer to both across functional categories and within functional categories. Examples of the former would be to privatize loss-making State Electricity Boards and State transport services, and channelize the savings of budgetary support to these organizations towards human development. Examples of the latter would include policy measures like converting bigger public hospitals into autonomous bodies, allowing them to determine user charges applicable, freezing or gradually reducing budgetary support, and using the savings to expand preventive health measures.

#### ***Assessing Current Interventions and Suggesting Efficiency Enhancements***

1.3.10 Efficiency enhancement in the present context would essentially be defined as lower marginal unit costs. It would thus entail an analysis of expenditures, inputs, outputs and the outcomes to form an idea of efficiency.

1.3.11 However, it has to be recognized that social sector outcomes are results of several variables, of which financial inputs are only one set of factors. For example, if there are strong complementarities between two types of services, non-recognition of this factor can lead to major inefficiencies. Care has to be taken to assess efficiency: a good example is that of teacher's salary. In some quarters the notion that a large number of educated unemployed implies that teachers' salaries are too high has gained acceptance, and policies have been introduced to lower the salaries (along with skill requirements) and increase the number of teachers to lower pupil-teacher ratio in the interest of efficiency. Quite the opposite policy is reported to have been followed in the more advanced Asian economies, again in the interest of efficiency.

#### *Estimating Central Assistance for Human Development*

1.3.12 This will essentially be based on available data on current levels and information on expected amounts of Central Assistance under various channels. Earmarked resources like the education cess have to be incorporated into the amounts.

1.3.13 It is likely that even after taking into account the various sources of additional resources, estimates of government expenditure on human development would fall short of the requirements. Other methods of financing the remaining gaps will then have to be resorted to. While out-of-pocket household expenditures tend to close the financing gap to the extent incomes permit, there are other sources: private expenditures like employers' contributions, insurance, charitable institutions and other NGOs, corporate expenditures and community financing are some of them. While these will not constitute the focus of the study, some aspects of these non-government financing of human development services will be studied, particularly in the context of public-private partnerships. Another issue that is relevant is decentralization and its impact on the provision of these services. This aspect is more in the area of effective governance than financing (although in certain contexts like community financing the distinction can get blurred somewhat), but is generally taken to be important in the Indian context.

## 1.4 Programme Performance (Outcome) Budgeting

1.4.1 Fiscal reforms have been an important component of the agenda of economic reforms initiated in 1991 by the Government of India. While there have been many reform initiatives with reference to the revenue aspects of fiscal management of the centre and state governments, comprehensive and meaningful expenditure reform initiatives have been quite inadequate until the recent past. The outcomes of huge amount of government expenditure on the ever-expanding number of government schemes and programs have not been meaningfully tracked and the effectiveness of government schemes and programs in delivering the expected results has not been adequately assessed. To a certain extent the results are reported in the 'Performance Budgets' of various departments; however, the focus in these reports is largely on 'outputs' pertaining to the 'plan schemes' of the respective departments. It is very rare that program 'outcomes' are tracked and reported in any of the reports. While it is very important to have information relating to 'outputs' which by and large amounts to listing out of goods and services provided by the government agencies, but they are not tantamount to the final impact or the end result expected of a program. On the other hand 'outcomes' indicate the final impact or the end results. The recent move by the central government to introduce outcome budgets is a welcome step in the right direction. Though outcome budgets prepared by various ministries appear to be more focused on outputs rather outcomes, this is a healthy beginning. Programme performance budgeting can help governments at different levels to monitor the outcomes of programmes and also ascertain the cost of delivering them.

1.4.2 Program Performance Budget (PPB) is a form of budgeting that helps in the integration of Policy, Expenditure and Outcomes/Results of all the government activities in one place and serves as a basis for making informed expenditure decisions. This is an improved form of budgeting over the traditional budgeting in the sense the latter provides merely a detailed statement of the line items of expenditure and very often the current year's expenditure serves as the

basis for framing estimates for the next fiscal year. Very often governments base their year-to-year expenditure decisions on the line items by providing for an increase over the current year, popularly known as incremental budgeting. Many governments across the globe have for long resorted to incremental line item budgeting and many of them still continue to do so. While the line item budgeting is certainly very helpful in keeping

proper checks and balances on the monies spent by the government departments on their schemes and programs, this form of budgeting does not provide information as to what the scheme is all about, how the schemes contribute to the achievement of broader goals and objectives of the government and also does not indicate the results of the spending activities on such schemes.

### **Ex. 3.2 Case Study: Performance Based Budgeting: An ongoing experiment in Karnataka**

(Administered through group discussion followed by interactive session in classroom. All participants must have opportunity to discuss the case. For group discussion provide different sub-programme budgets under Health/Education sectors to different groups)

There have been many reforms in budgeting practices across the globe during the course of last century with the objective of making the budget transparent, citizen friendly and objective-oriented. Some of them have been introduced in the state of Karnataka too. The Program Performance Budget (PPB) methodology approach currently adopted in Karnataka is the culmination of such reform initiatives adopted in the state of Karnataka and is also based on the best international practices aimed at achieving the objective of putting in place a transparent result oriented budget. The reform initiatives of past couple of decades include:

#### **Performance Budgets**

Performance Budget' reporting formats came into existence based on the recommendations of the Administrative Reforms Commission in 1969, and many state governments in India are preparing these reports also in addition to the line item budgets. These reports are being annually prepared by the departments involved in the development works on a regular basis in the state of Karnataka. The reports provide a narrative description of the plan schemes and detail both financial and physical targets and achievements relating to such schemes. These reports are also serving well as the basis for a review of the departmental schemes and their implementation by the legislature committees. Their utility is however limited only to the plan schemes implemented by the respective departments and the huge non plan expenditure, which typically constitutes 75 to 80 percent of the total expenditure, escapes a critical review. In addition, the targets and achievements provided in the report largely relate to the inputs and outputs, with very little coverage of outcome information.

#### **Departmental Medium Term Fiscal Plan**

Yet another important reform initiative recently introduced by the Government of Karnataka in 2003 as a logical continuation of the provisions of the Fiscal Responsibility legislation relates to the preparation of Departmental Medium Term Fiscal Plan (DMTFP) by some departments.

DMTFP encompasses reform features such as a medium term program approach, strategies for achieving the goals and objectives of the programs, 'outcomes' and information related to them. These reports however are currently not prepared by all the departments; in addition the programs are largely at the department level thus, they tend to become very aggregative. Programs are also not connected to their budget summary.

## Budgets in a PPB Format

As noted earlier, in a line item budget, line items serve as the basis for expenditure allocations on year-to-year basis. It is important to note that very often an individual activity or a single item of expenditure may not aid in the achievement of the end results expected of expenditure, on the contrary it is a group of activities that collectively ensure the achievement of expected results. Hence, it becomes imperative that expenditure decisions are made for such group of activities that collectively influence the results, rather than framing the expenditure decisions at individual scheme level. In the PPB methodology, related individual schemes are grouped together to constitute a program, with clearly delineated objectives to be achieved with in a time frame and this in turn forms the basis for formulating expenditure decisions and providing actual allocations.

## Steps involved in the preparation of PPB

### Formulation of Programs and Sub programs

In the preparation of PPB the first and the foremost task is one of defining the broad programs and sub programs of the Department. A department is responsible for providing many services (resulting in outputs and outcomes) to the citizens and towards this end one or more activities are generally initiated. While framing departmental programs and sub programs a complete list of the departmental schemes, both plan and non-plan, and revenue and capital heads of items, have to be first prepared and then all the inter related activities that aid in the provision of a particular service/group of related services grouped into programs and sub programs. The programs should be defined in such a manner that specific results/outcomes linked with the over all goals of the department could as far as possible be attributable to an individual program. A program could be subdivided into sub-programs with identifiable contributions to the outcome of a program. Functionality charts mapping individual schemes to a subprogram and subprograms on to program to ensure that no schemes are lost sight of while narrating the program/sub program details would be of great help in completing the PPB exercise.

### Health Sector

Promotion of Health sector development has been a priority intervention by the Central and State governments in India. There have been a number of schemes conceived both at the central and state government levels. The overall objective is to ensure a healthy

society through its measures to prevent diseases, control them when ever they erupt, cure the patients afflicted by various kinds of diseases and also promote better health among the public.

In all there are about 48-50 individual schemes implemented to cater to the above mentioned kinds of health care.

### Examples of Programs

Depending on the nature of activities that lead to specific outcomes, these schemes can be grouped in to certain programs

- **Vertical disease control** : All the activities initiated by both the central and state governments that are meant to prevent any form of communicable diseases and control them are included in the vertical disease control program. Some examples of these diseases are Malaria, Filariasis, Tuberculosis, AIDS, and Leprosy etc.



- **Public Health and Health care** : In order to provide curative health care government undertakes a number of activities. They include setting up of health units such as sub centers, taluk level, district level and super specialty hospitals and maintain them to provide the patients with diagnostic and curative services. These largely provide outpatient and inpatient care and referral services.
- **Family Welfare programs** : Population control has been an important initiative undertaken by the Government for a number of years for which a number of initiatives have been undertaken. In addition there are many activities associated with promoting the health of the expectant mothers and the children to ensure a healthy society rid of maternal and child untimely deaths. All the activities aiming at these outcomes are grouped under the Family Welfare program.
- **General administration** : In the process of providing and administering the varied services government incurs expenditure on support services. Such expenditure can not be apportioned by each activity and related activities are all grouped under General Administration.

### Sub Programs

At times it is possible that individual programs turn out to be too aggregative, leading to considerable amount of ambiguity as to which items of expenditure pertaining to the program need special attention. Hence, it may be more useful to divide the program into sub programs, which provide scope for closer scrutiny of the activities as well as ensure better tracking of results. Sub program is a sub set of the programs, either comprising of just a single scheme or a collection of smaller number of schemes as compared to that of a program. Very often an analysis at sub program level will help in the identification of a more focused impact of the government activities.

### Examples from the Health Sector

- **Vector Disease control** : Activities relating to prevention and control of vector borne diseases that directly aid in the reduction in the incidence of vector borne diseases are all grouped under the vector disease control sub-program, under the program "Vertical Disease Control Program".  
  
The other sub programs under the same program include specific disease related interventions pertaining to diseases such as 'Tuberculosis', 'Leprosy', 'Blindness' etc.,
- **Primary Health care** : Public Health and Health care can further be divided in to sub programs such as 'Primary Health Care', 'Secondary Hospital Development' etc as these activities can be clearly linked with distinct outcomes.
- **Family Welfare** : The family welfare related activities can be grouped in to sub programs such as 'Family Welfare' and 'Maternity and Child Health' as there are clearly delineated activities that address the issues of fertility rate and protection of the health of expectant mothers and that of the children. These are activities meant to arrest the prevailing high infant and maternal mortality rates.

### Education Sector

Provision of Education is an important responsibility assumed by the government and one finds that there has been a consistent growth of expenditure by the government on account of this. The policies/ schemes

<sup>1</sup>Methodologies are now available such as 'Activity Based Costing'(ABC) to work out the cost of individual schemes which may help in apportioning even administrative related costs among various activities and thus can be of great help in the long run when the PPB is well established.

are framed for each stage of education such as primary, secondary, higher secondary, collegiate, university etc., with a set of goals and objectives to achieve certain outcomes. The nature of intervention for each stage and the inputs required for each of such intervention will depend on the specific needs at each of these stages of education. However, all the activities aimed at meeting the specific need (objective) of different stages of education would ultimately together help achieve the outcomes expected for each one of these stages of education. Hence, it would be very meaningful to group all the activities pertaining to each of these stages as independent programs, and a meaningful analysis of the total expenditure under each program when linked with the expected outcomes will help in the formulation of informed expenditure decisions and in assessing the efficacy of such program specific expenditure.

### Examples of Programs from the Education Sector

- Primary Education Program
- Secondary Education Program
- Pre University Education Program
- Vocational Education Program
- Collegiate Education Program
- Technical Education Program
- University and Institutes of Higher Learning Program

### Sub Program Examples from the Education Sector

Provision of primary education comprises of various components such as providing physical facilities for the children to acquire education, ensuring that the children attend schools regularly, etc. Government has been making some interventions from time to time to see that physical facilities for schools are provided, children are motivated to attend school regularly and continue to attend school at least till the age of the 14. Along with ensuring attendance, there is need for inculcating and continuing quality in education, for which the government from time to time undertakes supporting activities. Based on such specific activities undertaken with a specific goal, one could frame sub programs that would represent either a single activity pertaining to the program or a group of schemes pertaining to the program.

### Examples of Sub Programs

- **Access:** All activities that provide access to schools such as construction of schools, recruitment of teachers, provision of school level infrastructure etc can be grouped together under the sub program 'access'
- **Retention:** Since many children who have been enrolled in school have been dropping out of school resulting in a huge drop out rate, government has introduced a number of schemes from time to time to arrest the drop out rate. There are also other schemes supported by the central government with the same objective. Since the goals of these schemes are very clearly laid out, it becomes easy to track the outcomes also which largely can be attributed to these specific interventions. All such activities, whether sponsored by the state government or supported by the central government which are being implemented with the objective of eliminating / reducing rate of dropout from school can be grouped in to the sub program called 'Retention'.
- **Quality:** There are certain government schemes that are operating with the specific objective of promoting quality of the primary education program. These activities can be grouped together under the sub program 'Quality'.

- **Grant in aid to non-government schools :** Government's support to the private institutions for the cause of promoting education is yet another exclusive pursuit of government with defined objectives and this can be treated as a sub program.

**Identification of Sub Programs: Practical difficulties:** Identification of sub programs under each of the programs is possible only with a complete understanding of the departmental activities- their goals and objectives. Hence, this exercise is best attempted by the department officers who have had good experience in the administration of various schemes of the department. Some times even with this knowledge it becomes very difficult to clearly delineate schemes with clearly defined outcomes, in other words some schemes may be contributing to more than a single outcome in which case, framing of sub programs poses serious problems. In the case of some countries they attempt doing this by way of splitting schemes by using time allocation methods in accounting for expenditure. These are advanced techniques, which may be considered when we have had more experience of preparing program performance budgets. However, currently the method adopted is to assign the scheme to a sub program, under which the primary impact of the scheme is likely to befall.

**Examples:**

#### **Education Sector**

One of the main objectives of provision of Mid Day Meals to children in schools is to ensure their retention in the school and their attendance. Hence, it is a scheme that can

best be brought under the sub program 'Retention'. Incidentally the scheme also helps in the promotion of the nutritional and health status of the child leading to better learning outcomes, which is an outcome that can be expected to form a part of the sub program 'quality'. Provision of textbooks also of a similar nature, where in, it could influence outcomes such as retention of children in the school as well as quality improvement.

#### **Health Sector**

Health Sector activities also pose these type of problems. Control of vector helps in the prevention and control of many vector borne diseases, even while each disease control program would also be aiding in the expected outcomes under the respective programs.

#### **PPB: The Structure**

In developing the program budget, it is essential to define the major goals and objectives of each of the programs and subprograms, in order to have a clear understanding of the outcomes expected of the expenditure program.

PPB broadly comprises of the following features: these definitely are not sacrosanct, and additions/deletions are possible.

- Department Summary
- Program narrative descriptions,
- Budget Summary

#### **Department Summary**

A concise statement of the department summary providing information regarding departmental activities,

legal authority, goals, objectives, important achievements, emerging issues and concerns can be provided at the outset. An Organization chart and an expenditure statement for the recent years would add value to the Department Summary.

### **Program Narrative Description**

The program budget format comprises of a two-page (approx) description of the Program pages of each program and sub program. The first page provides a narrative description of the Program and sub program as under:

#### **Program Description/Functions**

A description of the Program/sub-program framed by the Department in providing the services under the respective program and sub program.

#### **Performance in last two years**

The key achievements of the program / sub program and the important developments in the department are described.

#### **Key Community Targets**

This section largely aims at setting future targets for the community the program is serving by taking into consideration the previous performance levels.

#### **Special Impacts**

##### **Impacts on Scheduled Castes and Tribes and Women**

Government has been specially addressing the needs of the downtrodden and deprived/disadvantaged sections of the society through its varied policies and programs and an effort has been made under this column to capture the special impacts on Scheduled Castes and Scheduled Tribes and Women.

**Constraints:** The Department can highlight the constraints faced by the concerned in the provision of services under the program/sub program.

#### **Budget Summary Page**

Budget Summary page provides the following information for each of the programs

- Expenditure,
- Staff
- Performance results.

-Expenditure Statement

PPB provides a more meaningful depiction of expenditure statement, wherein the object heads of expenditure pertaining to each of the programs are grouped into meaningful categories like

- Employee Related
- Administrative Cost
- Operations and Maintenance
- Capital Works
- Capital Investments and loans
- Transfers to Local Bodies

- Transfers to others
- Debt Service

This grouping enables a clear understanding of the economic nature of the expenditure incurred and provides insights into areas of expenditure shortfall, such that much focused intervention can be made in setting right the problem.

The object heads of expenditure that form a part of each of the above categories is presented in Annexure table 1 :

It has to be noted that care is exerted while preparing the budget summary that no item of the budget head is left non-included in one or the other program/ sub program and that all the object heads form a part of one or the other expenditure categories included in the budget Summary. Thus the expenditure statement is inclusive of all kinds of expenditure incurred for the purpose such as revenue and capital and plan and non-plan and thus provides a holistic idea of what is the total expenditure incurred on the program in one place unlike the line item budget where each one of the above is listed separately. A medium term (three year) projection of expenditure for the program concerned is provided.

#### Staff Details

PPB Budget Summary provides the staff details pertaining to each program under two categories- Employees and staff and by gender.

#### Performance Results

Performance results indicate the results of the programs. Performance measures include variables such as 'inputs' 'outputs' 'efficiency' and 'outcomes'.

**Outcome:** Effects/Impact of the activities taken up by the government under the sub program on the community/citizens under focus.

**Output:** Work done by the department in delivering the proposed services to the community

**Efficiency:** Cost per unit of output/Outcome

**Input:** Resources used, referring to the manpower/material! cost incurred in the supply of the services

In some countries these are used as family of measures and all of them are used in assessing the effectiveness of programs.

#### Examples of 'outputs' and 'outcomes'

Outputs	Outcomes
Number of children distributed Uniforms, Text books	Survival rate of class 1 children reaching class 8
Number of teachers trained	Percent of children attaining desired levels of learning
Number of new Tuberculosis cases detected or Sputum examined	Rate of Tuberculosis per lakh population
Number of children administered polio vaccine	Percent of children in the 2-5 age-group that contract polio

Current status of PPB in Karnataka

Government of Karnataka initiated on a pilot basis PPB exercise for eight administrative departments in 2004, which include:

- Home
- Transport
- Primary and Secondary Education
- Higher Education
- Health and Family Welfare
- Medical Education
- Water Resources
- Public Works

While the PPB exercise has been largely complete for Home, Education and health sectors that of transport, Water resources and Public Works are underway.

Government of Karnataka could in due course, when the departments get acclimatized to the PPB formats, replace the existing reporting formats of Performance budgets and Departmental Medium term fiscal plans with that of the PPB to avoid the hassle of reporting in numerous formats. PPB methodology is carefully evolved such that no important information provided hitherto in the other reports is sacrificed.

The Karnataka government also has initiated PPB exercise at the district level in view of the fact that certain departments like Education (Primary and Secondary stage), Health, Rural Development and Panchayatraj and Woman and Child Development have a large share of their expenditure incurred in the district sector. An initial training relating to the concept and approach of PPB was provided to the officers from Education, Health and Family Welfare and Woman and Child Development of Gulbarga and Bijapur districts based on which a first draft is being prepared. Mysore and Udupi are the two other districts in which PPB exercise would be initiated shortly.

#### Issues to consider

- What are practical issues arising from PPB? Is it feasible to implement PPB?
- How to go about implementing PPB at State level?
- Is it easier to implement at district/taluka/gram panchayat level? What can be done to sensitize PRIs to performance (outcome) based budgeting?
- Budgets of which departments you think would be difficult to put in PPB format?
- How will you interpret the sub-programme budget given to your group?
- How will you measure the outcomes of Transport, Home, Water Resources and Public Works Departments?

## 1.5 Reprioritizing Public Expenditure

1.5.1. Over and above fiscal constraint, for most states a large part of budgetary expenditure consists of committed expenditure of some sort or the other (salaries, interest payments, loan repayments and other contractual payments). Given that in the short and even in the medium term most of these expenditures cannot be reduced drastically and that

the macroeconomic performance cannot be suddenly improved through action at the state level alone, an important method of managing resources to finance consistent and balanced human development lies in the reprioritisation of current expenditure in accordance with the urgent needs and shortfalls in particular areas. Such reprioritisation should also lead the states to a better macroeconomic future, through

improvements in key areas. The key issue then is: what scope is there for reallocating public expenditures at the state level to finance increased attention to human development? To provide some empirical content to this discussion, we try to develop an objective method for reprioritisation of public expenditure in this paper. The suggested framework may be taken to yield a benchmark for any prescription for expenditure reallocation. This method is particularly suitable for analysis of sub-national expenditure, although it can conceivably be used to analyse public expenditures of a group of governmental units at any level.

1.5.2. The basic assumption that is made in this framework is that each state in the country compares itself with the other states and strives to achieve the best that has been attained by any other state in each sector. The corollary of this is that the further the state is from the best in any sector, the greater is the priority placed on that sector. Clearly then, the priority placed on any one sector by any state at any point in time is inversely related to the achievement of that state.

Therefore the extent of improvement (w) needed in any sector is given by:

$$w = \frac{\text{Indicator of the best performing State} - \text{Indicator of the State in question}}{\text{Indicator of the best performing State}}$$

The next step is to ascertain the unit cost of outcome. This is given by the following formula:

$$\text{Unit cost} = \frac{\text{Total expenditure made during the latest period (for which data is available)}}{\text{Improvement in outcome over that period}}$$

Improvement in outcome over that period

What this means is that, if we are dealing with years 1996 and 2006 then:

$$\text{Unit cost for a sector (c)} = \frac{\text{Total expenditure made from 1996 to 2006}}{\text{Improvement in outcome over that period}}$$

1.5.3 Before we proceed further it is pertinent to mention that in this exercise we are only trying to reallocate the expenditure for certain year.

Now we know the extent of improvement needed and the unit cost. With these information we calculate the allocation coefficient (a) of each sector as:

$a = c*w$ . The allocation coefficient of a particular sector divided by the total of allocation coefficients of all sectors gives the allocation proportion of that sector.

1.5.4. To illustrate – presuming that (i) the incremental public expenditure for all the sectors for a given year is PE and (ii) there are only three sectors: education, health and water supply, we can construct the following reallocation table.

#### Physical Performance Indicators

1.5.5 The whole exercise depends to on two informations: the public expenditure in a particular sector and the physical performance indicator or the outcome indicator in that sector. In the case study to follow the following physical performance indicators were used.

1.5.6 The first column in the above table lists the twelve sectors that have been considered for the reprioritization case study. The next two columns give the formulae and components thereof (if the indicator used is a composite one) that have been used to estimate the physical performance indicator for different sectors. Finally, in the last column we note the period of data used for each component. Please note that except for housing, whenever we have used more

Sectors (1)	Improvement needed (w) (2)	Unit Cost unit of improvement (3)	Cost to reach desired level (4)	Weight (5)	Reallocated expenditure (6)
Education	$w_1$	$c_1$	$w_1*c_1$	$(w_1*c_1)/W$	Weight in col. 5 * PE
Health	$w_2$	$c_2$	$w_2*c_2$	$(w_2*c_2)/W$	"
Water Supply	$w_3$	$c_3$	$w_3*c_3$	$(w_3*c_3)/W$	"
			W= sum of above products	Sum of above =1	Sum of above =PE

than one component in the formula, we have taken a simple average of the two component parts. For example, the indicator for education consists of two parts, the literacy rate of the state (according to census of 1991 and 2001) and the dropout rate in classes one

through five (for the years 1992-93 and 2001-02). The composite indicator for education for each state is the simple average of the two component parts – literacy rate and dropout rate.

Indicator	Formulae	Components	Period of Data Used
1. Education	The simple average of literacy rate of the states and inverse of the drop out rate has been taken	Literacy rate of the states Drop out rate in classes I-V	1991 and 2001 1992-93 and 2001-02
2. Health	The simple average of (1000-Infant mortality rate)/10, percentage of children vaccinated against all diseases and life expectancy at birth	Infant mortality rate Total number of children vaccinated against all Diseases Life expectancy at birth	1992-93 and 1998-99 1992-93 and 1998-99 1991-95 and 1993-97 (the computed data) 1991 and 2001
3. Water supply	Percentage of households having safe drinking water facilities	Percentage of households having safe drinking water facilities	
4. Housing	The weighted average of percentage of households living in <i>pucca</i> /permanent (75% weight) and semi- <i>pucca</i> /semi-permanent (25%) houses	Percentage of households living in <i>pucca</i> /permanent houses Percentage of households living in semi- <i>pucca</i> /semi-permanent houses	1991 and 2001 1991 and 2001
5. Urban development	Percentage of urban population living below the poverty line (head count ratio)	Head count ratio of urban poor	1993-94 and 2004-05
6. Rural development	Percentage of rural population living below the poverty line (head count ratio)	Head count ratio of rural poor	1993-94 and 2004-05
7. Labour and unemployment	Ratio of total estimated employment (in man days) and total population	Total estimated employment (in man days) Total population	1991 and 2001 1991 and 2001



Details of the Indicators and the Data used (contd.)

Indicator	Formulae	Components	Period of Data Used
8. Agriculture and allied	Ratio of agricultural GSDP (agriculture minus mining and quarrying) and gross cropped area	Agricultural GSDP (agriculture minus mining and quarrying) in Rs lacs	1993-94 and 1999-2000
		Gross cropped Area ('000 hectares)	1993-94 and 1999-00
9. Irrigation and flood control	Ratio of total irrigated area and gross cropped area	Total Irrigated area ('000 hectares)	1993-94 and 1999-00
		Gross cropped area ('000 hectares)	1993-94 and 1999-00
10. Energy	Per capita power consumption ('000 kwh)	Total electricity consumption by final consumers of all types	1996-97 and 2002-03
11. Industry and minerals	Per capita industrial GSDP (in Rs)	Projected population	1996-97 and 2002-03
		Industrial GSDP (GSDP attributable to manufacturing plus mining and quarrying)	1993-94 and 1999-2000
12. Transport	Ratio of total road length (national highways and state highways) to total geographical area of the state	Projected population	1993-94 and 1999-2000
		Total road length (national highways and state highways) in km.	1996 and 2000
		Area of the state (sq. km.)	1991

**Note:** For the purpose of cross-state comparisons, indicator values for only the latest possible year have been used. Values for two points of time are needed only for those state(s), the expenditure priorities of which are being analysed to estimate per unit costs.

1.5.7 Similarly, the indicator for health has three parts, (i) infant mortality rate (IMR), (ii) percentage of children vaccinated against all vaccine preventable diseases and (iii) life expectancy at birth. However, the infant mortality rate could not be used directly into calculation of the indicator value because of two reasons. First, it actually indicates the "underachievement" of the states and second, it is

given in units of per thousand live births. To convert it into an indicator of "achievement", we deduct the value of IMR from 1000 and to change it to percentage terms divide it by 10. This way the resulting indicator for IMR gives us the percentage of live births that do "not die". Now to calculate the composite indicator for the health sector we take, again, a simple average of the new IMR indicator calculated by us, and, the other

two components, namely, percentage of vaccinated children and life expectancy at birth.

1.5.8 However, as noted already, the composite indicator for housing is not a simple average of its component parts, viz., percentage of households living in pucca/permanent houses and percentage of households living in semi-pucca/semi-permanent houses. Rather, we have taken a weighted average of the two with the former accounting for 75 percent of the weight. This is simply because we view pucca/permanent housing for all as the ultimate goal. Hence, this weighting rewards those states that have a higher percentage of people living in that type of houses than others.

1.5.9 Two other sectoral indicators that require special explanation are that of urban development and rural development. These are very wide areas with several facets, for each of which we should ideally use

one indicator. Essentially, partly to simplify as also because of a dearth of suitable indicators that are available for the required two points of time, we have taken urban and rural poverty levels i.e. the urban/rural development. Obviously, the lower the value of this indicator, the higher is the achievement of the state in the sector.

1.5.10. All the other indicators in the table are self-explanatory. However, it may be noted that the general services have been kept out of the analysis, primarily because it is difficult to think of an indicator for this purpose. Also, the general services are overwhelmingly either contractual payments (interest and salaries) or on goods and services that are in the nature of 'overheads of the government'. We have also excluded some other sectors where the expenditures are primarily in the nature of transfer payments and associated administrative costs.

### Ex. 3.3 Bbase study of four States: Reprioritization of public expenditure

#### *Application of the Reprioritization Methodology on four States*

We now apply the above methodology to illustrate calculation of reprioritised expenditures of four states – Madhya Pradesh, Orissa, Tamil Nadu, and West Bengal – for the years 2003-04 and 2004-05 (it may be reiterated that this method is applied to the change in the overall expenditure envelope). The states whose performances are taken into consideration for the comparisons include the non-special categories excluding the new states of Jharkhand and Chhattisgarh (primarily because of data problems) and include the special-category state of Assam. We estimate the expenditure pattern that would have resulted in 2004-05 from the application of this methodology, as against the actual pattern. The results for each of the four states are reported below.

Sectors	Actual Expenditure 2004-05	Estimated Expenditure 2004-05
Education	257598.44	237577.78
Health	89809.32	79923.16
Water supply	46538.26	46403.51
Housing	8587.68	7109.68
Urban development	16333.71	28010.43
Rural development	100826.54	83252.61
Labour and employment	5750.78	5747.98
Agriculture and allied	130270.59	119825.67
Irrigation and flood control	199873.18	135427.16
Energy	321298.50	428264.10
Industry & minerals	8767.17	7455.64
Transport	68719.97	75376.40
Total of the above	1254374.14	1254374.14

It can easily be seen that the estimated allocation pattern is not drastically different from the actual. Of course, this is partly because of the fact that we are reprioritizing not the total expenditure but the increase in expenditure during the year. However, it may be noticed that the revised allocation

- (a) shifts expenditures from rural development to urban development to a considerable extent;
- (b) provides substantially larger funds for power and transport sector, with substantial reduction in irrigation and flood control; and
- (c) reduces total allocation for human development sector considerably, as it reduces allocations to all human development sectors except urban development.

The broad interpretation is that given relative achievements of the State in the listed sectors, it needs to pay more attention to physical infrastructure, particularly power, and that it is already spending a little more than what would be recommended on the basis of the method used here in the area of human development. The lesson, of course, is that we may not expect any substantial reallocation in favour of human development sectors, although the same within the human development sectors is possible.

In the case of Orissa, the most noticeable feature in a comparison of the two relevant columns is the substantial reallocation into labour and employment and, to a smaller extent, the reduction in health expenditures in the estimated allocation. These essentially reflect a relatively low rate of employment and a very small increase in employment between 1991 and 2001 causing Ci to be large for labour and

employment, and the fact that there has been a substantial step-up in health expenditures in 2004-05 compared to the previous years. Broadly, there is a reallocation from human development sectors to almost all physical infrastructure sectors (barring energy) in the estimated figures, possibly reflecting a bias in the actual allocation pattern in favour of the former, as also the relatively greater gaps with respect to physical infrastructure from the best achieved by other states.

Sectors	Actual Expenditure 2004-05	Estimated Expenditure 2004-05
Education	199740.48	189993.57
Health	63089.83	31142.43
Water supply	27550.23	25819.25
Housing	7814.31	5786.03
Urban development	3732.23	4867.30
Rural development	46770.78	45930.43
Labour and employment	2301.71	17023.37
Agriculture and allied	59003.35	69938.38
Irrigation and flood control	69413.04	73733.81
Energy	8034.98	4946.65
Industry & minerals	4629.69	4998.36
Transport	50443.25	68344.29
Total of the above	542523.88	542523.88

The estimates for Tamil Nadu narrates a completely different and peculiar story. On the one hand, it prescribes a large reduction in expenditure on water supply (not surprisingly, as over 85 percent of the population already have access to safe drinking water) and on the other, a large increase in expenditure

Actual and Estimated Expenditures on  
Selected Services in Tamil Nadu

Sectors	(Rs. lakh)	
	Actual Expenditure 2004-05	Estimated Expenditure 2004-05
Education	469666.27	426321.59
Health	135194.90	126892.16
Water supply	153142.34	69481.05
Housing	41128.49	15297.64
Urban development	66392.07	99110.60
Rural development	96049.57	90888.91
Labour and employment	10250.48	43802.36
Agriculture and allied	139102.25	120007.69
Irrigation and flood control	84730.09	115360.25
Energy	114941.07	64048.24
Industry & minerals	24562.86	22425.63
Transport	148052.26	289576.53
Total of the above	1483212.65	1483212.65

on labour and employment. There is also a massive shift in expenditure from energy in favour of the transport sector (the indicator value is almost half of the best performer and has not improved much over the entire period of consideration). The other expenditures are left more or less unchanged, one noticeable change being in the urban development sector; our estimates require a doubling of the actual allocation of funds in this sector.

In the case of West Bengal, human development expenditures are left more or less unchanged in the estimates, with some reallocation from education to water supply, and from rural development to urban. However, in the physical infrastructure and economic services, there is a marked increase in expenditure on the transport sector, coupled with a major reduction in the industries and minerals sector, a substantial reduction in the energy sector and smaller reductions in all other economic services considered. Given

Actual and Estimated Expenditures on  
Selected Services in West Bengal

Sectors	(Rs. lakh)	
	Actual Expenditure 2004-05	Estimated Expenditure 2004-05
Education	498389.31	452396.15
Health	141594.13	140373.17
Water supply	31188.61	35308.12
Housing	7125.96	5940.38
Urban development	67852.79	72271.14
Rural development	85442.99	73664.31
Labour and employment	5318.65	5269.66
Agriculture and allied	76586.56	74635.84
Irrigation and flood control	64137.57	59965.59
Energy	40861.40	14821.74
Industry & minerals	104383.89	18125.42
Transport	103272.96	273383.29
Total of the above	1226154.82	1226154.82

the values of the indicator for the transport sector, the large reallocation prescribed by our estimates in its favour is not surprising; but the large reduction in the expenditure on industries and minerals sector does indicate a need for closer look at this sector in the state. While we do not attempt such an exploration here, it may be worthwhile noting that the state did spend an unusually (in comparison to other states) high amount on this sector.

Conspicuously, the unifying characteristic of all the states under consideration is that the estimates ask for greater expenditure on basically three heads: (i) labour and employment; (ii) transport; and (iii) urban development, but there is no uniformity in the sectors as far as lowering of expenditure is concerned. The exception is the persistent requirement of reducing expenditure on rural development in favour of urban development. This, however, could merely be a result of the method of reallocation, which only considers the poverty ratios in rural and urban areas without weighting them with the relevant population shares that must be important for the actual allocation process. Such a possibility points to further refinements possible in the indicators used.

Another important characteristic of the reprioritised expenditures is that for all the four states the total expenditure for human development sectors is either left more or less unchanged or is reduced in the reallocation process. This indicates that in a broad sense, states do give due importance to the human development sectors in practice or even favour it somewhat. Most studies of long term trends in government expenditures also find that social sectors together usually hold or improve their share in total expenditure over the long run. This could partly be explained by the fact that social services together have a much higher wage component in the total expenditures than economic services, including infrastructure, the latter actually requiring greater capital and maintenance expenditures. It is well known that wages being contractual in nature are difficult to reduce; even holding the wage bill steady may be difficult in India because of the periodical Pay Commission recommended increases. This phenomenon keeps raising the unit costs even when the weight does not increase, resulting in progressively higher share of social services in the total expenditures. In contrast, the capital expenditures and maintenance costs are 'fair-weather' components of total expenditure given the nod only when state finances are relatively comfortable.

At this juncture, it may be pertinent to note that it would be a mistake to consider that each of the sectors is independent of the other, although by assuming that changes in the indicator(s) for one sector are related to expenditures in that sector only, we are implicitly assuming so. Commonsense tells us, and there is plenty of research output to show that there are complementarities between sectors, even between social services like health and physical infrastructure like, power. To understand the synergy in a micro sense, one just needs to think about an X-ray machine, which cannot be operated without power. Our implicit assumption can thus be defended only as a simplifying one and not necessarily reflecting the reality. The methodology can, however, be broadened to include cross effects if estimates of the parameters representing such effects can be estimated reliably.

### Issues for consideration

- What are practical issues in the above framework?
- How do you look at the revised budgetary allocations?
- At what level should the reprioritization be carried out: State, District, Taluka or Panchayat?
- How does the reprioritization scheme compare with the PPB framework?
- Can PPB and the reprioritization framework be combined?
- Is it feasible to apply the framework at District/Taluk/Panchayat level?
- Any other issues, experiences you may like to highlight.

## 2. Expanding the Resource Base of Panchayats

### 2.1 Introduction

2.1.1. In the Indian context, decentralisation to rural local governments is meaningful only when the panchayats have adequate untied funds to provide public services assigned to them. Untied funds would imply that either the panchayats should be able to raise tax and non-tax revenues from the sources assigned to them or higher level governments should provide unconditional transfers by way of share in taxes or block grants. Even though transfers are inevitable at local levels as they do not have comparative advantage in raising revenues, requiring them to mobilize “own” revenues is important both for reasons of efficiency and accountability.

#### *Revenue-Expenditure Links*

2.1.2 Strengthening panchayats to enable and empower them to enhance their own revenues is important as it strengthens the link between revenue and expenditure decisions of the rural local bodies as also promotes both efficiency and accountability in the provision of services.

2.1.3 Although it is not possible to raise the entire revenue required to finance expenditures at subnational levels, the system should ensure that beneficiaries of public services should, by and large, pay for the public services consumed.

2.1.4 The inability to assign potent revenue sources has led to local governments carrying on unfunded mandates and this has resulted in poor service delivery. Inadequate assignments combined with low levels of effort by the rural local governments have led to high levels of transfer dependence and low fiscal autonomy.

2.1.5 The practice of scheme-bound transfer of resources to rural local governments has reduced them to the role of agencies of the state governments. At the same time, insignificant locally raised revenues have not only robbed them of flexibility and autonomy on the one hand but also reduced efficiency and social accountability on the other.

2.1.6 On the whole, poor revenue collections at the local level has been a major constraint in realising the benefits of fiscal decentralisation.

#### *Empowering Panchayats*

2.1.7 As mentioned above, the strategy of strengthening of panchayats is inextricably intertwined with empowering them to raise revenues from tax and non-tax sources assigned to them. In several states, this is a neglected aspect of panchayat empowerment.

2.1.8 There are two diametrically opposite points of view regarding raising revenues by panchayats. The first is the assertion that panchayats are disinterested in collection of taxes. Allowing the poor to suffer because the Panchayats are inefficient in garnering revenues is politically inadvisable. The alternative viewpoint is that given the possibility of linking taxes with benefits from public services at local levels, it is possible to ensure better compliance of tax payments at local levels.

2.1.9 Indeed, the actual revenue raising depends on a variety of factors including the visibility of benefits, rate of tax imposed, culture of tax payments vis-à-vis “free riding”, capacity of panchayats to administer and enforce the tax which, inter alia, depends on the power structure in the villages. Indeed, there are many good practices emerging where panchayats on their own have collected taxes. It is important to understand these practices to evolve policies and institutions with the appropriate incentive structure.

2.1.10 Empowering the panchayats is a necessary condition to strengthen decentralisation. The issue gains additional focus as over Rs 50,000 crore are likely to be transferred to the panchayats from the centre for implementing various flagship programmes. Failure to evolve a proper incentive structure at the panchayat level could lead to diversion of these funds from these programmes to other activities. It is therefore, opportune to explore the appropriate tax and non-tax revenue powers to be assigned to the panchayats and the ways and means of administering and enforcing them.

2.1.11 It is important also to build capacity in the panchayats to administer and enforce the tax to elicit compliance. Requiring matching contributions from the panchayats while funding various schemes like the “swajal dhara” scheme of the department of drinking

water supply could be replicated in other schemes as well.

### Current State of Panchayat Revenues

2.1.12 A major handicap in analysing panchayat revenues is the paucity of information and data on the panchayat finances. The states, on their part, have not found it necessary to compile the data on panchayat revenues. The Eleventh Finance Commission (EFC) had recommended a grant of Rs 200 crore for the creation of database at the local body level of which the share of rural local bodies was Rs 197.06 crore which amounted to about Rs 8 lakh per panchayat. Similarly, the EFC allocated Rs 483 crore for the maintenance of accounts to local bodies. The actual utilisation was only Rs 93 crore or 30 per cent. In the case of funds allocated for maintenance of accounts too, the utilisation rate was 30 per cent. The entire discussion, debate, planning and policy calibration at the local body level is being done without any reliable data. Most of the SFCs make their recommendations

Own Revenues (as % of agricultural GSDP)					
States	1990-91	1995-96	2000-01	2001-02	2002-03
Andhra Pradesh	0.51	0.52	0.33	0.33	0.36
Bihar	0.00	0.00	0.04	0.02	0.03
Chhattisgarh			0.67	0.49	0.56
Goa	0.39	0.60	0.70	0.71	0.81
Gujarat	0.28	0.22	0.40	0.31	0.28
Haryana	0.45	0.35	0.41	0.44	0.44
Himachal Pradesh	0.00	0.02	0.10	0.10	0.13
Karnataka	0.20	0.14	0.22	0.20	0.23
Kerala	0.62	0.66	1.48	1.41	1.48
Madhya Pradesh	0.08	0.16	0.62	0.48	0.69
Maharashtra	0.23	0.27	0.84	0.90	1.10
Orissa	0.13	0.06	0.06	0.05	0.03
Punjab	0.27	0.30	0.30	0.23	0.36
Rajasthan	0.22	0.18	0.16	0.14	0.18
Tamil Nadu	0.23	0.10	0.24	0.26	0.32
Tripura	0.00	0.01	0.03	0.03	0.03
Uttar Pradesh	0.01	0.09	0.09	0.09	0.09
Uttaranchal			0.10	0.11	0.13
West Bengal	0.12	0.02	0.08	0.07	0.07
All states	0.23	0.16	0.34	0.32	0.37
Coefficient of variation	0.798	1.271	1.090	1.103	1.062

Thus the Panchayats are faced with several constraints in raising their own resources.

on transfer of resources to panchayats without any reference to the revenue potential and expenditure needs of panchayats.

2.1.13 The TFC also has published data on revenues and expenditures of the panchayats for the period from 1998-99 and 2002-03. A close scrutiny of the data brings out a number of shortcomings in the data casting serious doubts on their reliability.

Revenues of Different Levels of Government (% of GDP)				
Level of Government	1997-98		2002-03	
	Revenue Collection	Revenue Accrual	Revenue Collection	Revenue Accrual
Centre	11.4	6.8	11.8	7.74
States	6.3	10.9	6.7	9.63
Local-urban	0.5	2.1	0.3	0.51
Local-rural	0.04	0.8	0.07	0.98
Total	18.3	19.8	18.87	18.86

Revenue collection represents own revenues. Revenue accrual includes revenue from assigned taxes, share in taxes and grants from higher levels of government.

Total Revenue (as % of agricultural GSDP)					
States	1990-01	1995-96	2000-01	2001-02	2002-03
Andhra Pradesh	8.13	8.01	8.31	8.80	9.63
Bihar	0.03	4.36	0.08	0.65	1.40
Chhattisgarh			3.90	2.38	2.70
Goa	1.38	1.51	1.23	1.98	2.87
Gujarat	10.55	10.22	25.43	14.80	13.35
Haryana	0.71	0.55	1.25	2.02	2.12
Himachal Pradesh	0.36	0.31	0.74	0.75	0.94
Karnataka	15.00	14.84	15.58	16.90	16.49
Kerala	1.93	2.35	5.60	6.12	6.27
Madhya Pradesh	1.54	2.60	2.21	1.91	1.88
Maharashtra	6.96	8.66	10.24	10.81	12.47
Orissa	3.82	4.19	0.80	0.84	1.11
Punjab	1.20	1.07	0.51	0.39	0.65
Rajasthan	6.70	8.94	7.31	6.90	8.78
Tamil Nadu	4.11	1.08	2.73	1.61	4.39
Tripura	0.22	0.65	3.21	3.08	3.16
Uttar Pradesh	0.17	1.80	0.98	1.00	0.90
Uttaranchal			0.69	0.52	1.28
West Bengal	0.61	0.73	1.43	0.98	0.38
All states	4.08	3.97	5.52	5.03	5.41
Coefficient of variation	1.031	1.054	1.136	0.978	0.892

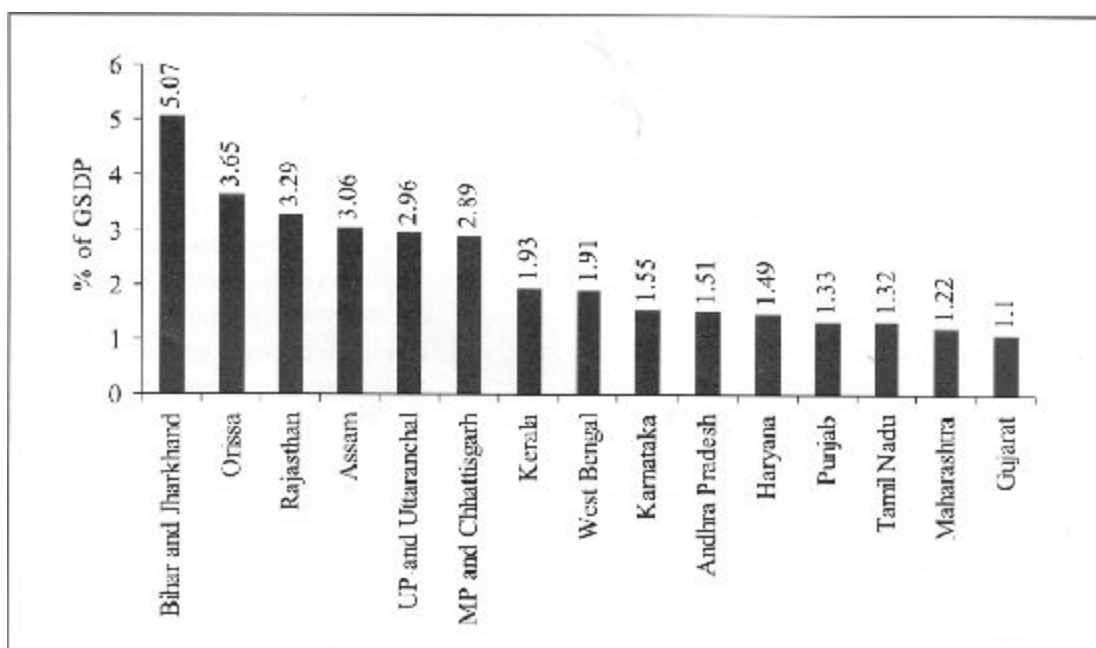
**Ex. 3.4 Exercise:** Identify the factors responsible for poor revenue collection by PRIs and suggest how the Panchayats should expand their own revenues. Consider issues like capacity for revenue collection, information and data systems, proper accounting etc. while making your suggestions.

### 3. Financing Basic Healthcare in Low-Income States

#### 3.1 Introduction

3.1.1 The level of public expenditure on health is among the lowest in the world. As per Human Development Report 2004 of UNDP, India ranks 173 among 177 countries in terms of public expenditure on health. At 0.9 per cent of GDP public expenditure on health in India is also lowest among South Asian countries. Keeping this in view, some major policy statements in recent years have stressed the need for increasing the level of public expenditure on health in the country. The National Health Policy 2002, 2004 Common Minimum Programme of the Government of India, the National Rural Health Mission 2005 have all endorsed the need to increase health expenditure to about 2 to 3 per cent of GDP by 2010.

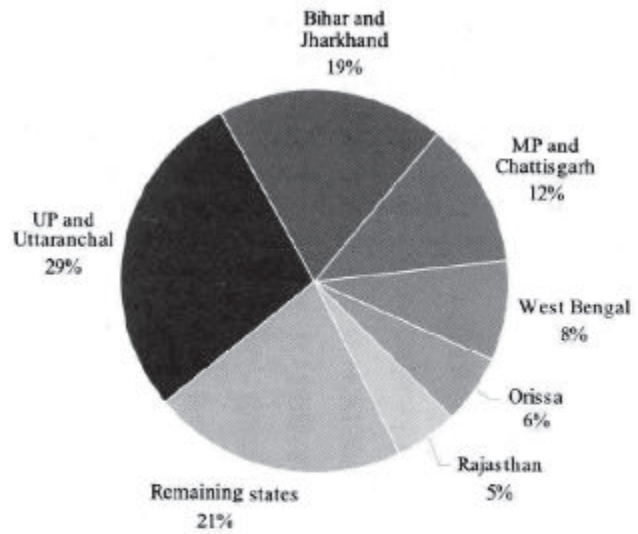
3.1.2 The need to raise the level of expenditure is particularly high in some states of the country. Recently, some estimates of resource requirements for providing minimum health services in the health sector were provided by a study conducted for National Commission for Macroeconomics and Health, Ministry of Health and Welfare. Minimum health services include providing access to health facilities in rural areas (both in form of physical facilities and manpower), providing all households access to safe drinking water and toilets, providing nutritional supplements to all children in the age group of 6-71 months and to all pregnant and lactating mother below the poverty line.



Statewise requirement of resources for providing basic health services by 2009 -10  
(as percent of GSDP)



3.1.3 Estimates suggest that in a number of low income states of the country, the requirement of resources for providing even minimum health services in much more than 2 to 3 per cent of their GSDP. In Bihar (including Jharkhand), Orissa, Rajasthan and Assam the requirement is more than 3 per cent of GSDP. In MP (including Chhattisgarh) and UP (including Uttaranchal), the requirement of resources is very close to 3 per cent. Sixty percent of the total shortfall in expenditure required to provide basic services in health sector has been found to be in Bihar, UP and MP alone. If one included WB, Orissa and Rajasthan the additional requirement of resources is nearly 80%. On the whole, additional requirements for meeting basic health services are concentrated in six states, namely, Bihar, Orissa, Assam, Rajasthan, MP and UP.

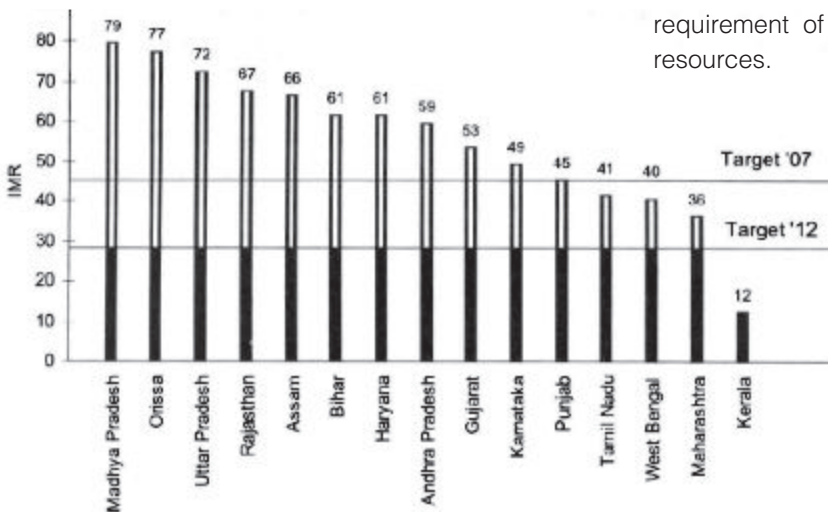


Distribution of additional requirement of resources across states for meeting basic health services by 2009-10

3.1.4 These states are also the ones which have the poorest health indicators in the country as a whole. With the mid term appraisal of the Tenth Plan highlighting that India is off-track in terms of attaining the MDGs and Tenth Plan goals, increasing the level of expenditures in these States has assumed significant importance.

3.1.5 These States are however low-income states with limited capacity to generate additional resources for meeting the required expenditure. Most of the existing resources of the states are used up by in meeting committed liabilities. Similarly, more than 95

per cent of the revenues in Rajasthan and 85 per cent of revenues in UP are used up in meeting committed liabilities. Even in MP, the corresponding percentage is more than 75. This leaves very little room for any reprioritization of expenditures in these states towards the health sector. Besides, these States have also now passed FRBM Acts, which require these states to reduce fiscal deficit and revenue deficit within a specified period of time. This would constrain these states from bringing about any increase in the expenditure levels. Given the commitment to FRBM, the extent of committed expenditures and the limited capacity in generating additional resources, these states are not in a position to meet the additional requirement of health expenditures from their own resources.



Statewise Infant Mortality Rate and their gap from Tenth Plan Goals, 2004

3.1.6 This makes it necessary for the centre to step in and provide additional central transfers to these states to facilitate increase in expenditure for providing basic healthcare in these states. The equalization grants in the health sector provided by the 12th Finance Commission has been a positive step in this regard. The TFC provided equalization grants to states whose per capita health expenditure of all states separately for special and non-special category states. By this classification, the states receiving additional grants, namely, Assam, Bihar, Jharkhand, MP, Orissa, UP and Uttaranchal are specifically the states which require additional central transfers to meet the expenditure required to provide basic health services. The TFC grants however covered only 30 per cent of the gap between states per capita health expenditure, separately for special and non-special category states and are grossly inadequate. A much greater amount of central transfers is required in these states to provide basic health services and improve health indicators.

3.1.7 While the centre has pledged to increase its annual budgetary outlays over existing outlays by 30 percent every year under NRHM, it is important that these additional outlays are primarily directed towards specific states where these transfers are most required for providing basic health services. At present NRHM focuses on 18 states, including the six low-income states. Redirecting additional outlays under NRHM towards these states is important if one is hoping to put the country on the track towards meeting MDGs. Additionally, reprioritizing the existing expenditures of the central government in favour of the health sector and targeting part of it towards these low income states could well act as a booster for significantly improving

health indicators in these states.

3.1.8 Equally important is the mode of transfer of resources from the centre to the states. These have to be in form of specific purpose transfers targeted at the health sector. While general-purpose transfers would also increase the resource availability at the state level and enhance their capacity spend on the health sector these may not be earmarked for or eventually used by the health sector. In fact, equalization grants for the health sector awarded by the TFC are specific purpose transfers with a reasonable monitoring mechanism. However given that the TFC transfers are inadequate relative to the requirement of resources in the health sector of these states, these have to be supplemented with additional specific purpose transfers through centrally sponsored or central sector schemes with suitable safeguards to avoid fungibility of these funds.

3.1.9 In sum there are two factors that make additional central transfer for reinforcing health services essential: (a) while the prescriptions of spending 3 percent of GDP on health may be an appropriate objective for the nation as a whole, in some states the requirement is substantially higher and (b) it is specifically these states where the likelihood additional expenditure on health from own resources is small. Hence if India has to make substantive progress towards meeting the MDGs in the area of health, additional central transfers targeted towards these states is a policy imperative. Hence if India has to make substantive progress towards meeting the MDGs in the area of health, additional central transfers targeted towards these states is a policy imperative.

## 4. Trainers' Note on Reprioritization Exercise

### 4.1 Introduction

4.1.1 While the methodology used in the analyses appears simple, its application is not, mainly because of data limitations and difficulties in identifying suitable indicator(s) for each sector. Thus, the estimations presented above can at best be called illustrative. Even when suitable indicators are available, estimation of unit costs for various services can pose problems, since the actual costs are not necessarily efficient. However, our admittedly crude method can nevertheless be used for this purpose provided no major in determinants other than public expenditure relevant for each of the indicators takes place that may affect the unit costs substantially. These are areas where further research may be called for. On the positive side, this represents at the least a more objective method of assessing the allocation of government expenditures than mere assertions or judgments. Although there are large parts of government expenditure, primarily in general services, for which it is difficult to identify a performance indicator, one advantage of this construct is that if one believes that certain parts of the public expenditure are non-negotiable or pre-determined, then the method can be applied to a total expenditure net of those parts. This can alternatively be viewed as a method of appropriate allocation of a sub-total within the total government expenditures.

### 4.2 Trainers' Note on Expanding Panchayats' Revenues

#### *Shortcomings in the Data*

4.2.1 The important shortcomings of the data are: (i) a number of smaller and special category state governments: Arunachal Pradesh, Jharkhand, Jammu and Kashmir, Manipur, Meghalaya, Mizoram and Nagaland. (ii) The data on panchayat finances reported for the remaining states is much too aggregative to undertake any meaningful analysis for policy. The data are published for the village,

intermediate and district level panchayats together and no separate information is available. (iii) In some states, own non-tax revenue is shown as zero. (Karnataka, Tripura) which is simply not the case in reality. In part, this is due to the fact that the reporting formats appear to have been ambiguous and partly because the states simply fulfilled the formality of supplying the information to the commission and did not take care to check the accuracy of the figures. Similarly, a comparison of data among different states casts serious doubts on their reliability. Thus, total revenue in Kerala in 2002-03 was just Rs 960 crore whereas, in Karnataka it was more than four times higher at Rs 4,303 crore. In Tamil Nadu, the total revenue was just Rs 592.76 crore in 2000-01, but declined to Rs 325.63 crore next year before increasing steeply to Rs 825.14 crore in the following year. All these cast serious doubts on the reliability of the data.

#### *Negligible Revenues*

4.2.2 Given the doubts about the reliability of data outlined above, the analysis of data should be taken with some measure of caution. Own revenue collections and revenue accruals of panchayats from 2000-01 to 2002-03 as a ratio of primary sector gross state domestic product (GSDP) (which is taken to be a proxy for rural GSDP) is presented in Table 1. Similarly, comparison of revenue collections and accruals per rural person at constant prices is presented in Table 2. The analysis of the data shows that the revenues raised by panchayats from the sources assigned to them are abysmal. Even as a ratio of total revenues accruing to panchayats during 1998-99 to 2002-03, the revenues raised by panchayats constituted just 6.4 per cent. The analysis presented in Table 1 shows that the revenues mobilised by the panchayats have shown increase over the years and yet, the contribution continues to be negligible. Irrespective of the trend what these estimates show is that despite all the emphasis on decentralisation, rural local

governments play an abysmally small part in public service provision and the principal reason for this has to be found in the negligible revenue mobilisation from them.

4.2.3 The Table below presents information on the revenues collected by panchayats in different states as a ratio of their state domestic products from the agriculture and allied activities, broadly representing the rural incomes which is the relevant indicator. The data presented in the table bring out three important features.

First, it reiterates the point made above that the revenue mobilisation by the panchayats is abysmal.

Second, the revenue mobilisation has shown increase over time. Third, even as the revenue mobilisation

efforts of all the states are low, there are significant interstate variations. The inter-state variation is not only very high but has also shown a steady increase over the years.

Third, the average revenue accruing (i.e., assigned from the States) to panchayats relative to GSDP from the primary sector increased from 4 per cent in 1990-91 to 5.4 per cent in 2002-03, yet show considerable interstate variations.

4.2.4 The service levels in panchayats depends on the per capita revenues raised and per capita revenues accruing to panchayats. Per capita revenue estimates have been arrived by dividing the revenue collections of panchayats with rural population. The constant (1993-94) price estimates are arrived at by

deflating the revenue series with the wholesale price index.

4.2.5 The analysis shows that the own revenues of the panchayats in per capita terms at 1993 prices has increased from just about Rs 5.9 in 1990-91 to 23.7 in 2002-03 in current prices to Rs 8 in 1990-91 to Rs 14.2 in 2002-03 at constant (1993) prices. Own revenues constituted a very small proportion of total revenues of the panchayats at just about 5.6 per cent and increased only marginally to 6.8 per cent in 2002-03. In other words, the generation of own revenue by panchayats has remained at a low level.

4.2.6 However, the analysis shows that own revenues of panchayats were significantly higher in states with higher per capita primary sector GSDP.

**Per Capita Revenue of Panchayat** (at current prices in rupees)

States	1990-91		1995-96		2000-01		2001-02		2002-03	
	Own Revenue	Total Revenue	Own Revenue	Total Revenue	Own Revenue	Total Revenue	Own Revenue	Total Revenue	Own Revenue	Total Revenue
Andhra Pradesh	12.90	205.80	20.60	319.37	27.73	708.26	19.29	767.25	30.44	815.83
Bihar	0.00	0.62	0.00	69.17	9.89	2.08	0.48	15.85	0.88	38.83
Chhattisgarh*					34.94	202.07	34.07	165.39	34.30	166.43
Goa	15.22	53.23	44.39	112.25	112.33	197.83	110.32	308.53	118.52	418.02
Gujarat	10.14	376.21	12.33	809.46	24.30	1554.78	22.60	1072.08	21.66	1023.96
Haryana	23.68	37.30	28.74	45.31	47.57	144.83	50.73	232.39	51.15	245.67
Himachal Pradesh	0.04	8.55	0.92	12.40	6.20	48.06	7.75	56.31	9.69	69.80
Karnataka	5.58	423.06	8.39	858.55	19.38	1368.05	15.01	1253.55	16.85	1219.13
Kerala	14.62	45.11	35.01	125.43	94.08	356.97	82.18	356.29	94.96	403.62
Madhya Pradesh	1.12	1.12	1.12	1.12	1.17	1.17	1.26	1.26	1.06	1.06
Maharashtra	7.07	215.97	14.93	484.69	59.64	723.11	68.90	825.39	83.09	943.38
Orissa	2.15	64.95	2.49	181.73	2.93	37.54	2.82	43.44	1.74	59.25
Punjab	15.09	68.20	33.32	118.38	50.72	86.04	40.40	68.36	60.63	109.61
Rajasthan	7.15	222.31	7.05	342.77	8.73	387.48	8.58	417.35	8.49	408.40
Tamil Nadu	4.27	75.99	8.92	94.01	16.29	185.13	17.86	111.11	18.84	256.35
Tripura	0.04	5.34	0.20	20.91	1.87	180.01	1.96	207.73	2.23	229.65
Uttar Pradesh	2.15	40.49	3.23	61.94	4.57	47.54	4.50	48.70	4.70	46.32
Uttaranchal*					51.66	51.66	36.88	36.88	95.91	95.91
West Bengal	2.88	14.62	2.83	104.32	5.72	108.71	5.82	79.69	5.33	30.21
All states	5.89	105.18	8.06	202.17	21.15	346.60	21.01	329.53	23.70	346.29

Thus, while the revenue mobilisation by panchayats in general was low, the states with higher per capita primary sector GSDP mobilized larger revenues.

4.2.7 The maximum per capita revenue was generated in Goa and next to that in Kerala and that amounted to just Rs 118.52 and Rs 94.96 in 2002-03. In contrast, per capita revenue generation by panchayats in Bihar was Rs 0.88 and in Uttar Pradesh Rs 4.07. Surely, no meaningful fiscal decentralization can be advanced in an environment in which panchayats fail to collect worthwhile revenues.

### Revenue Powers of Panchayats

4.2.8 In assigning revenue sources, as already mentioned, there is a serious trade-off between the objectives of achieving fiscal autonomy and harmony in the tax systems among subnational governments. It is very well recognised that nation-wide mobile tax bases should not be assigned to local governments as it can create serious resource distortions. The local governments not only do not have the capacity to create the information

4.2.9 system needed to determine the tax bases and enforce the levy, but the levy by local governments could also result in tax induced mobility of the bases leading to significant distortions. Therefore, generally, the local governments are assigned relatively less mobile tax bases. The three most important considerations in assignment are:

- (i) the local governments should have revenue powers that enable them to finance a significant proportion of the cost of the public services that they provide;
- (ii) the assignment of tax powers to local governments should not

result in large scale mobility of economic agents and tax induced distortions; and

- (iii) the burden of raising revenues for financing public services by local governments should fall by and large on the residents who are the beneficiaries of these public services.

At present, the rural local bodies can raise meagre revenues from rents on the buildings let out by them. In some states, block and district level rural local governments receive shares in some of the state taxes such as entertainment tax or stamps duty. From the viewpoint of raising revenues, only the village panchayats have been assigned the power to levy, collect and appropriate revenues. However, the amount of revenue raised by them, as mentioned above, is not very significant.

### Few Sources of Revenue

4.2.10 A close perusal of the various taxes levied by panchayats in different states shows that, altogether there are as many as 66 different types of taxes, user

Per Capita Revenue of Panchayat (at 1993 prices in rupees)

States	1990-91		1995-96		2000-01		2001-02		2002-03	
	Own Revenue	Total Revenue	Own Revenue	Total Revenue	Own Revenue	Total Revenue	Own Revenue	Total Revenue	Own Revenue	Total Revenue
Andhra Pradesh	17.49	279.12	16.94	262.64	17.81	454.89	11.96	475.67	18.25	489.10
Bihar	0.00	0.84	0.00	56.88	6.35	1.34	0.30	9.82	0.52	23.28
Chhattisgarh*					22.44	129.78	21.12	102.53	20.56	99.78
Goa	20.64	72.19	36.51	92.31	72.14	127.06	68.40	191.27	71.06	250.61
Gujarat	13.76	510.26	10.14	665.68	15.61	998.57	14.01	664.65	12.99	613.89
Haryana	32.12	50.60	23.64	37.26	30.55	93.02	31.45	144.08	30.66	147.29
Himachal Pradesh	0.06	11.60	0.75	10.20	3.98	30.87	4.81	34.91	5.81	41.84
Karnataka	7.57	573.80	6.90	706.04	12.45	878.64	9.30	777.15	10.10	730.89
Kerala	19.83	61.18	28.79	103.15	60.42	229.27	50.95	220.89	56.93	241.98
Madhya Pradesh	1.52	1.52	0.92	0.92	0.75	0.75	0.78	0.78	0.63	0.63
Maharashtra	9.59	292.92	12.28	398.60	38.31	464.43	42.71	511.71	49.81	565.58
Orissa	2.92	88.09	2.05	149.45	1.88	24.11	1.75	26.93	1.04	35.52
Punjab	20.46	92.50	27.40	97.35	32.57	55.26	25.05	42.38	36.35	65.71
Rajasthan	9.70	301.52	5.79	281.88	5.61	248.86	5.32	258.74	5.09	244.84
Tamil Nadu	5.80	103.06	7.33	77.31	10.47	118.90	11.07	68.88	11.29	153.69
Tripura	0.06	7.25	0.17	17.19	1.20	115.62	1.21	128.78	1.34	137.68
Uttar Pradesh	2.91	54.92	2.66	50.94	2.93	30.53	2.79	30.19	2.81	27.77
Uttaranchal*					33.18	33.18	22.86	22.86	57.50	57.50
West Bengal	3.91	19.84	2.33	85.79	3.68	69.82	3.61	49.40	3.20	18.11
All States	7.99	142.65	6.63	166.26	13.58	222.61	13.03	204.30	14.21	207.61

fees and charges. Most of the levies are only in the statute books and are just not levied. Though the list of tax and non-tax revenues are extracted from the respective State Panchayat Act, there is insufficient information from the respective state governments of how many taxes, fees and fines, user charges and other miscellaneous receipts the gram panchayats have actually been exercising.

4.2.11 But going by the information received from 10 states, it is the property tax that accounts for the major source of revenue for the gram panchayats in all the states. However, in some states gram panchayats also have significant sources of revenue from octroi (Gujarat, Maharashtra and Rajasthan), professional tax (Assam, Bihar, Himachal Pradesh, Kerala, Madhya Pradesh and Punjab), and entertainment tax (Assam, Gujarat, Kerala, Punjab, Uttar Pradesh and Tamil Nadu). Barring these taxes there is no separate information on the revenue realised by the gram panchayats on the other tax handles that find an entry in the respective acts. Of these, the property tax is the only important tax. Other taxes are not important either because the tax base is negligible or the local bodies do not have the capacity to administer them. In respect of property taxes too, the village panchayats can levy and collect this tax subject to the specified exemptions and ceiling rate specified.

#### ***Problem of Enforcement***

4.2.12 A more serious problem, however, is the capacity of rural local governments to administer and enforce the levy. At present, even in the case of property tax, administration and enforcement of the tax has left much to be desired. Here, the example of Karnataka highlights the seriousness of the issue. First of all, average per capita tax collected in the sample of 700 village panchayats in 2000-01 was as low as Rs 8.21 and almost 80 per cent of the panchayats paid less than Rs 10. The situation in the poorer districts of the state was worse. Although virtually all the panchayats levied the tax at the stipulated maximum rate in nominal terms (10 per cent) the significant undervaluation of the property has rendered the effective rates much lower. What is more, even the low level of tax demand is not actually collected by the panchayats. In Karnataka, for example, in 2000-01, average collection efficiency measured in terms of

actual collections to demand was 69 per cent. On average, about 72 per cent of the revenue was spent in collecting the taxes. In respect of 42 per cent of the village panchayats, cost of tax collection was higher than the tax collected. The question is that unless the system is reformed to ensure better compliance and the panchayats are empowered and their capacity is developed to administer and enforce the tax, giving them additional tax handles may not enhance fiscal autonomy and efficiency in local governments nor add to the revenue collections.

4.2.13 The only important non-tax revenue at the village panchayat level is the water charge. While in principle, it should be possible to collect user charges for the services rendered at local level because of the strong correspondence between tax payment and benefit of public service levels, in actual practice, village panchayats have found it difficult to collect the user charges. In Karnataka for example, in 2000-01, over 99 per cent of the panchayats collected less than Rs 10 by way of water charges, and almost 44 per cent of the panchayats did not collect any user charges for supplying water.

### **4.3 Suggestions**

#### ***Building the Information System***

4.3.1 The information system to be organised for the tax administration should be a part of the general statistical information system necessary for planning and delivering public services at the panchayat level. It should be developed in such a manner that it is useful for planning and should be subject to norms of accountability.

4.3.2 At the district and block level panchayats much of the revenues come from devolution from the state government. They do not have worthwhile revenue sources of their own and in most of the states the transfers given to the panchayats are for specified programmes or expenditure items and very little is allocated for general purpose (lump sum). Given the strong linkage of district and block panchayat finances with that of the state budget, it would be necessary to devise a harmonised system for the purpose of accounting the transactions in block and district panchayats with that of the state government.

4.3.3 As regards gram panchayats are concerned, they do have revenue sources of their own and also receive some lump sum transfers from the state governments. The gram panchayats receive a bulk of their revenues for implementing the flagship programmes. It should be possible to devise a simple accounting system to show own revenues and lump sum transfers received from above under both plan and non-plan heads. It is necessary to emphasise that the system of classification should be very simple and should be within the capacity of the panchayat administration to compile.

4.3.4 In designing the format, it would be easy to look at the existing accounting system. Therefore, the first task is to get the details of the existing accounting system in the gram panchayats and devise a system based thereon.

#### ***Common Data System***

4.3.5 In addition to the fiscal information, it is also necessary to compile basic geographical information system (GIS) on the resource base in each of the panchayats and also the demographic information. Once a simple common data system is designed, the panchayati raj departments of the state governments should be mandated to get the information collected. Collection of data from about 2,36,350 village panchayats in the country is going to be an – Herculean task. The rural development departments in turn can entrust the task to the district panchayats and it can coordinate the information received from them.

4.3.6 The entire data should be collected at the gram panchayat level in a computerised format and it should be transmitted to the block panchayats. Each block panchayat should computerise and consolidate the data relating to the gram panchayats under its scope and transmit it to the district panchayats with a copy to the panchayat raj department of the state. The

district panchayats, in turn, should consolidate the data on both gram panchayats and block panchayats under their aegis and should transmit it to the panchayat raj department. The panchayat raj department in each of the states should consolidate the information on gram, block and district panchayats. Each state government should have a cell in the panchayat raj department to compile and consolidate the information and analyse them. The data should be placed in the web site and every year, the department should regularly publish the statistics relating to panchayats.

#### ***Expanding Revenue Base***

4.3.7 As already mentioned, at present even in a state like Karnataka, collection efficiency is low. This has more to do with the power structure in the villages rather than the ability of the tax collectors. The way to enforce the tax, therefore, will have to mandate complimentary benefits for payment of taxes and penalties for its non-payment. Some specific measures in this regard can be: (a) If it is feasible, a law should be enacted to disqualify those families defaulting on the taxes from voting and contesting in elections. (b) The defaulters could be made ineligible to receive cooperative credit, supplies from the public distribution system. (c) There could be a one-time settlement of arrears to begin with without any penalty. (d) Panchayats collecting revenues above 80 per cent of the demand could be given a bonus at specified pre-announced rates. Alternatively, matching element could be introduced to the grants to be given from the state governments.

- i Based on a paper by Dr. Tapas Sen NIPFP
- ii Based on methodology given by Dr. Tapas Sen, NIPFP.
- iii Based on a paper "Expanding the Resource Base of Panchayats" published in EPW, Jan.26-Feb.1, 2008.
- iv Based on a paper by Mita Chowdhury, NIPFP, Policy Brief, September 2006.