ISSN 2278 – 7909

INDIAN JOURNAL OF PUBLIC AUDIT & ACCOUNTABILITY

SPECIAL ISSUE ON MANAGEMENT OF STATE FINANCES

INSTITUTE OF PUBLIC AUDITORS OF INDIA
NEW DELHI

Vol.- XIV No. 1 January – March 2023
Vol.- XIV No. 2 April – June 2023

INDIAN JOURNAL OF PUBLIC AUDIT & ACCOUNTABILITY

SPECIAL ISSUE ON MANAGEMENT OF STATE FINANCES

Vol.- XIV No. 1 January – March 2023
Vol.- XIV No. 2 April – June 2023

Institute of Public Auditors of India
223, 2nd Floor, 'C' Wing, AGCR Building,
I.P. Estate, New Delhi – 110002
Ph. No. 91-011-23702330, 23702290, 23702318, 23702369
E-mail: ipai.hq@ipaiindia.org; ipai.hq@gmail.com
Website: www.ipaiindia.org

About the Institute of Public Auditors of India (IPAI)

The Institute of Public Auditors of India (IPAI) was established in 1996, with the Comptroller and Auditor General of India as its ex officio patron, primarily with the objective of spreading public awareness on accountability in governance and tapping the experience and expertise of audit and accounts professionals in assisting public authorities to improve accounting, auditing and financial management practices.

IPAI has established its credentials in the areas of internal audit and investigative examination, regulatory inspections, monitoring and evaluation of programmes/schemes/projects, internal controls and governance appraisals, management consultancy on behalf of the Union and State governments, autonomous organizations and local bodies.

IPAI has a presence across the country through its nineteen Regional Chapters located at Agartala, Ahmedabad, Allahabad, Bengaluru, Bhopal (Branch at Raipur), Bhubaneswar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kolkata, Lucknow, Mumbai, Patna, Ranchi, Shimla, Srinagar, and Thiruvanthapuram. This network helps IPAI to take up coordinated assignments on regional and all-India basis with oversight from the IPAI Headquarters. Each Chapter is equipped to undertake consultancy assignments and organize training programmes.

CONTENTS

FROM THE DESK OF EDITOR-IN-CHIEF

1. The States and Union Territories comprising India that is Bharat differ widely in terms of area, population, endowment of natural resources, profile of economic activities and stage of development; all influenced by history and geography. The Constitution of India delineates executive and legislative responsibilities between the Union, the States and UTs with Legislature, with the residuary powers resting with the Union. However, all the State/UT governments can spend on any subject with the approval of the respective Legislatures.

2. The division of powers and functions among different levels of governments is asymmetrical, with a pronounced concentration of revenue raising powers in the Centre while the States are entrusted with functional responsibilities that entail larger expenditures than they can meet out of their own resources.

3. Realising the wide gap in the development status and resource mobilisation capacity of different States and need for national level uniformity in certain areas, the Constitution provides for higher empowerment of the Union government to levy and collect taxes. There is a system in place under which the Union government transfers a share of Union taxes, grants/loans to State governments.

4. With efforts over the years to develop a single Indian market and the Centre being responsible for security of the whole country including financial security, there has been significant Central funding in functional areas that would normally be considered as primary responsibilities of the States (like policing, hunger and nutrition, education, health, agriculture, social welfare, industrial and social infrastructure) as per the Constitutional division of role and responsibilities.

5. The Central funding (grants/loans to States as well as direct expenditure by the Union government in areas of States' responsibility) is under a system of regulated discretion. A large part

of Central transfers is based on the recommendations of the Finance Commission which have so far been accepted without modification by the Union government. Other transfers are also covered by the norms governing various Central programmes/schemes. The rebalancing and reconciliation of the seemingly conflicting interests of the Union, States and UTs is a continuing effort. Some or the other State is bound to have some grievances about the prevailing system of Central transfers to the States and control on their natural resources (water, forest, mineral resources) being unfair to them but such differences of opinions are inevitable as in a big family.

6. The combined spending by the Central and State governments (Central government expenditure + State Governments' expenditure – Central grants and Loans to States) has generally hovered between 26 to 28 per cent of the GDP. From a level of Rs.53.74 lakh crore (27% of GDP) in 2019-20, the combined spending rose to Rs.61.25 lakh crore (31% of GDP) in 2020-21 to support the economy battered by the covid pandemic and somewhat offset the shortfall in non-government spending. This was the result of Rs.35.10 lakh crore spent by the Union government including grants/loans to the States aggregating to Rs.8 lakh crore and the aggregate expenditure of Rs.34.15 lakh crore by State governments, including the expenditure financed from Central grants/loans.

7. The combined spending by the Central and State governments during 2015-16 to 2020-21 was Rs.288.7 lakh crore. This was the result of Rs.144.2 lakh crore spent by the Union government including grants/loans to the States aggregating to Rs.29.7 lakh crore and the aggregate expenditure of Rs.174.2 lakh crore by State governments including the expenditure financed from Central grants/loans. Thus, the States' share in the combined spending is higher than that of the Union government.

8. Almost 1/6th of States aggregate expenditure was supported by Central grants/Loans. Dependence of States on Central grants and loans varies significantly across States. If we also factor the

dependence of States on share of Central taxes/duties on which they have no control, it is seen that the dependence doubles to almost 1/3rd for States as a whole. The dependence is much higher for financially weak States having low base of own tax and non-tax revenues and other non-debt resources. High dependence on resources beyond the State's control creates vulnerability in management of its finances. It gives rise to competitive populism and Centre-State friction in terms of taking credit for the outcome of specific schemes. This is particularly true for 'public welfare spending' that is directly visible to target beneficiaries when the dividing line between unmerited, untargeted subsidies (derisively called freebies) and welfare measures having durable economic rationale gets blurred.

9. The expenditure by the States has recorded significant increase in recent years with direct/indirect support from the Centre. Based on the Finance Commission's recommendations, the percentage of divisible Central taxes/duties (excluding Cesses/Surcharges) to be distributed among States was raised from 32% to 42%. Centre facilitated the States redeeming the liabilities of the financially sick electricity distribution companies by issue of UDAY bonds and the Centre started a scheme of 50-year interest free loans to States during the covid pandemic. During July 2017 to June 2022, the Centre also augmented the States' revenues by providing a statutory guarantee of compensation if their GST revenue did not grow by 14% p.a. over the pre-GST revenue base merged in the GST during this 5-year period. These temporary measures had augmented the resource base of States. Although the economy is gathering pace as part of post-pandemic revival, some States are facing fiscal stress. Rising burden of interest, pension, subsidies especially electricity subsidies and uneven revival of GST collections across States are some observed factors studied in this monograph.

10. In 2020-21, owing to GDP contraction, the combined liabilities of the Centre and the States reached record high level of 90 per cent of GDP, 60 percent attributable to the Centre and 30 per

cent to the States. In the preceding 5 years, the average of the combined liabilities was 74 percent of GDP; 49 per cent attributable to the Centre and 25 per cent to the States. The sharp deterioration in 2020-21 will take some time to recover but the trends so far are encouraging.

11. How do we assess if a government is managing its finances well and what are the problems and possible/feasible solutions to these problems are vexed questions whose answer depends upon who is asking from whom, why and for which government? What is considered a good decision by one government may be considered bad for another. The analysts are sharply divided. Almost 75% of all governments' aggregate debt is accounted for by the Advanced Economies that account for close to 60% of global GDP and less than 10% of global population. Their Debt:GDP ratio was about 112 percent of their aggregate GDP. It is reflective of the trust the market has in their debt servicing ability and the trust their currencies command even without the cover of tangible assets like gold. While debt sustainability concerns are raised from time to time, the debt build-up has continued unabated. Debt servicing is facilitated by expanding money supply. India has been on a more prudent course in fiscal management; realizing that the combined (Centre+States) government debt of over 80% of GDP is indeed burdensome with the combined Tax:GDP ratio being about 17% of GDP and not enough resources being available domestically to finance rising burden of public debt. In 2020-21, our government debt rose to record high level of 90% of GDP (60% Union government, 30% all States combined). It is expected to fall below 80% in the current year with rising GDP and tax collections.

12. The importance of studies on State governments' finances and tax/regulation related decisions in shaping the national economic growth can hardly be over-emphasized. The governments influence economic activity in various sectors through their taxation and spending policies and through regulatory regimes and the burden of taxation and regulation is not evenly spread out across the economy. The tax-compliant and regulation-compliant sections of

the economy face extra costs and hassles in doing business affecting their competitiveness, both domestically and in overseas markets. As part of the economic reform process, the taxation and regulatory system is being continuously reviewed and rationalised, but still the legitimate taxpayers and business entities continue to struggle with unrealistic, unreasonable, and burdensome tasks from the governmental system, having regard to ground realities. A significant part of this burden comes from State and municipal level interface that awaits reforms.

13. Of late, rising burden of interest, pension and subsidies in government expenditure has received considerable public attention. Why should it worry public finance analysts if interest payment, salaries, pensions, security-related expenditure, subsidies/freebies increase? Why should growth of any expenditure of the government which may be legitimate and obligatory or desirable in its own self be a cause of concern? After all, these are legacy burdens of an obligatory nature or policy choices of a government competent to decide. The answer to this rhetorical question is simple. Disproportionate growth in any type of expenditure becomes a matter of concern when, in a resource constraint situation, it begins to squeeze out other more desirable types of expenditures or leads to increase in tax burden or leads to unsustainable increase in borrowings possibly leading to situation of fresh borrowings to not just repay old borrowings but also to pay interest, a typical debt trap situation. This is indeed happening in practice with most governments.

14. The IPAI Editorial Board is happy to present this monograph (29th issue) focusing on some thematic issues in the management of State finances such as dependence on the Union for fiscal support, debt and deficit (including off-budget and contingent liabilities), performance of State level taxes (including GST), pension payments and power subsidies. We have confined our study for fiscal data for FY2020-21 or before for which data on actual receipts and expenditure for all State governments are available in public domain.

15. Fiscal policy issues are deeply embedded in political economy and it is hard to find sources where facts and issues are objectively presented, with opinions clearly separated from facts. We have attempted to do precisely this by highlighting the pros and cons of assertions from contesting viewpoints, basic facts, underlying issues and basis for divergent assessments.

16. We hope that the analysts and practitioners of governance and public finance would find this monograph useful. An academic work is always open to comment / criticism, and we welcome readers' feedback for effecting continuous improvement in the body of work done by our Institute.

17. In the coming issues of the journal, we will highlight major fiscal management issues, challenges and ongoing reforms for individual States, particularly the fiscally most stressed States.

SUBHASH CHANDRA PANDEY

FISCAL FEDERALISM: CENTRE-STATE FINANCIAL RELATIONS

1. India that is Bharat is a Union of States. The 'States' and 'Union Territories' (UTs) comprising this Union have their boundaries set/reset under the laws made by the Parliament. All the States and UTs of Puducherry and National Capital Territory of Delhi have their own Legislatures.

2. The 7th Schedule of the Constitution of India delineates executive and legislative responsibilities between the Union, the States and the UTs with Legislature in three elaborate lists of subjects: the Union List, the State List and the Concurrent List. The residuary powers on any unlisted subject rests with the Union. Union List includes Defence, internal security, external affairs, currency, Railway, Posts and telecom, major ports, banking, insurance, oilfields, higher judiciary, audit, non-agricultural personal income tax, corporation tax, Customs Duty, Central GST etc. State List includes police, prisons, local government, agriculture, public health, land, water, GST on consumption, tax on liquor, agricultural income tax, professional tax. Concurrent List includes education, forests, social security, personal law, electricity, lower judiciary etc. In case of conflict, the Central law prevails over State law on concurrent subjects except when the President of India has assented to giving primacy to the State law for any particular law.

3. While the governments and legislatures of the UT of Puducherry have all the powers on all State List subjects, the powers are restricted in case of NCT of Delhi. However, Art.282 of the Constitution permits the Union or a State to make any grants for any public purpose even if the Parliament or the Legislature of the State do not have legislative competence to make laws relating to the purpose. Executive power of the Union or a UT with legislature is co-extensive with the legislative power of the respective Legislature. Parliament can legislate on State subjects if (a) its Upper House (Council of States) permits it in national interest with

2/3rd majority in actual voting (b) two or more State legislatures want a Central law on some State subject in their States (c) there is a declared Constitutional Emergency.

4. Union government is responsible for the protection of States against external aggression and internal disturbance and has the power to issue directions to States. Art.360 of the Constitution also empowers the President to impose ‘financial emergency’ when ‘financial stability or credit of India or of any part of the territory thereof is threatened’.

5. The Union Government and the government of each State or UT with Legislature has its own Consolidated Fund to which its tax and non-tax revenues, borrowings, recovery of loans and proceeds of asset sale are credited. The withdrawal of funds from a Consolidated Fund is subject to vote by respective Legislature (except certain special category of expenditures called ‘charged expenditures’). Each of these governments also have a separate Public Account where moneys received by the government as a banker or trustee are credited. The borrowings by the governments credited to the Consolidated Fund and the receipts into the Public Accounts are liabilities of the government.

6. The States/UTs differ widely in terms of area, population, endowment of natural resources, profile of economic activities and stage of development, all constrained by history and geography of the area covered. Hence, the Constitutional design is such that the division of powers and functions among different levels of governments is asymmetrical. There is a pronounced concentration of revenue raising powers in the Centre while the States are entrusted with functional responsibilities that entail larger expenditures than they can meet out of their own resources.

7. Realising the wide gap in the development status and resource mobilisation capacity of different States and need for national level uniformity in certain areas, the Constitution provides for higher empowerment of the Union government to levy and collect taxes. There is system in place under which the Union

government makes grants to State governments in addition to a definite share in Union taxes/duties. Under Art.280 of the Constitution, the President constitutes a Finance Commission to recommend the principles and quantum of these transfers. Currently, the accepted recommendations of the 15th Finance Commission are in force for the 6 years' period FY2020-21 to FY2025-26.

8. Major Union taxes are Personal and Corporate Income Tax, Central Excise Duties on petroleum/tobacco and related products, Duties on imports and exports and Central GST. Major State taxes are State GST; State Excise Duties on alcoholic liquors for human consumption, opium etc.; Sale of petroleum products within State (not in course of inter-State sale or export outside the country; Stamp Duties on registration of specified documents, Taxes on vehicles, and taxes on the consumption or sale of electricity.

9. Before the introduction of GST from July 2017, the Centre levied Excise Duty on ex-factory price of several manufactured goods and levied service tax on certain services while the States levied Sales Tax/Value Added Tax on retail sale. After switchover to GST regime by both the Centre and States for most goods and services, Central and State GST is applied at same rate for a taxable good or service. At every stage of value addition and subsequent sale, the seller/service provider is entitled to claim Input Tax Credit on GST already paid at previous stage of the value addition chain. Thus, the benefit of tax proceeds of GST accrues to the State or UT where the final sale takes place. For online sale of goods and services the GST benefit is supposed to accrue to the State where the buyer is located. Same principle applies to Stamp Duty on sale of shares, debentures and other securities which is to be collected by Stock Exchanges etc. and remitted to the State of domicile of the buyer.

10. Some Central taxes are in the Union List only for the purpose of ensuring uniformity of taxation across the country. For example,'. Stamp duties on bills of exchange, cheques, promissory

notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts are collected and appropriated by the States at the rates legislated by the Union.

11. Similarly, Taxes on the sale or purchase of goods and taxes on the consignment of goods not part of inter-State sale are levied and collected by the Union but assigned to the States . The goods and services tax in course of inter-State trade or commerce levied and collected by the Government of India and such tax is apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

12. Under Art.270 of the Constitution, a fixed share of the 'net proceeds' of certain Union Taxes and Duties – as prescribed under Presidential Orders issued on the basis of the recommendations of Finance Commission are not to form part of the Consolidated Fund of India. Instead, the 'States' share' is to be credited into the Consolidated Fund of the States. This 'divisible pool' of Central taxes/duties excludes Cesses and Surcharges. Centre can levy a special surcharge on Central taxes 'for the purposes of the Union', the proceeds of which are not shareable with the States. Also, Centre can levy Cess – special taxes earmarked for funding specific expenditures such as Road Development Cess or Education Cess - the proceeds of which are not shareable with the States. The 'net proceeds' - net of cost of collection' - are required to be certified by the Comptroller and Auditor General of India.

13. State's principal sources of non-tax revenues are grants from the Union government, interest and dividend receipts, lotteries and user charges for public services. For certain States rich in mineral resources, royalty for crude oil extracted from onland oilfields, lease premium/rental from auction of mining rights for coalfields is an additional major source of revenue but they are not free to charge whatever they like. The regulation and development of all oilfields and mineral oil resources and major minerals like coal, lignite, atomic minerals etc. falls in the domain of the Union. Hence, the

power to revise the rates of royalty from major minerals, - coal and petroleum etc., is exercised by the Union government in national interest to keep the royalty rates reasonable.

14. States can also borrow from the domestic market and the Central government subject to regulation by the State legislature by law. States cannot borrow from abroad. Further, the States indebted to Centre or having an outstanding loan guaranteed by the Centre need Centre's consent to borrow more.

15. The Union government supplements the State spending by directly spending on areas of primary responsibility of the States and by making available grants/loans to States under various programmes/schemes. There are Central Sector Schemes with 100% Union funding and there are Centrally Sponsored Schemes where the Union and the States share the cost of implementing the programme in a definite ratio that may vary from programme to programme. Also, the sharing pattern is more favourable for some States. For example, for certain Centrally Sponsored Schemes falling in 'core' category, the normal funding ratio is 'Centre: State: 60:40' while for 8 North Eastern States and 3 Himalayan States (earlier called 'Special Category States'), the ratio is 'Centre: State: 90:10'.[1]

16. With efforts over the years to develop a single Indian market and the Centre being responsible for security of the whole country including financial security, there has been significant Central funding in functional areas that would normally be considered as primary responsibility of the States like policing, hunger and nutrition, education, health, agriculture, social welfare, industrial and social infrastructure as per the Constitutional division of role and responsibilities.

---

[1] Government of India decision dated 03-August-2016 on the recommendations of the Sub-Group of Chief Minsters on Rationalisation of Centrally Sponsored Schemes https://pib.gov.in/newsite/PrintRelease.aspx?relid=148299

17. The inter-governmental transfers are of two types: General Purpose Transfers do not have any conditions attached. These transfers (share in Central taxes or mandated grants) aim to close vertical fiscal imbalances, aim to roughly equalise state/local fiscal capacities, and are usually formula based, with need-based allocation criteria (demographics, land area, income gap etc.). These transfers preserve local autonomy of State in end-use of funds so transferred. The second type of transfers are conditional, specific-purpose transfers. These are either input based (require certain type of spending, current or capital) or output based, (require certain results, e.g., operational or service delivery). These aim to promote national priorities /objectives; are typically discretionary (not formula based) and influences State/local programmes and performance. International experience has clear lessons about the kind of conditions that better ensure the effective use of discretionary transfers, while also addressing concerns of political influence and softening budget constraints. [2]

18. The Central funding (grants/loans to States as well as direct expenditure by the Union government in areas of States' responsibility) is under a system of regulated discretion. A large part of Central transfers is based on the recommendations of the Finance Commission, popularly known as the 'Finance Commission Award' – so far accepted without modification by the Union government. Other transfers are also covered by the norms governing various Central programmes/schemes. Nevertheless, some or the other State may raise grievance about the prevailing system of Central transfers to the States (including those mandated under the award of the Finance Commission, a Constitutional body) being iniquitous and unfair to some States. Such differences of opinions are inevitable as in a big family.

---

[2] Para 2.23-2.24 of the 15th Finance Commission Report
https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/Reports/XVFC%20VOL%20I%20Main%20Report.pdf

19. One such grievance stems from the viewpoint that the Finance Commission awards tend to favour more populous ‘poor’ States to the detriment of the interests of industrially advanced States or the States having performed better on population control. The population of any State is not only a function of births and deaths but also of inward and outward migration. (Census 2011 reported the number of inter-State migrants at around 5.4 crore. To incentivise population stabilisation efforts, the Government of India used to specify in the terms of reference of the Finance Commissions to adopt the population figures as per 1971 Census while taking population as a factor in determining a particular State’s share in any stream of Central transfers to States under Finance Commission awards. The 15th Finance Commission was the first Finance Commission to have been asked formally to adopt the population figures as per 2011 Census.

20. A Finance Commission recommends the percentage of Central taxes to be distributed to States (vertical devolution) and the percentage share each State will get (horizontal devolution). The Commissions also recommend specific amounts of grants for specific purposes such as calamity relief and improvement in specific areas of public administration and grants for local bodies. The Commission also gives recommendation on debt relief and other matters of fiscal management. The 13th and 14th Finance Commissions based their recommendation on individual State’s share in total share of Central taxes to be given to the States giving weightage to the factors tabulated in Table 1 for last five Finance Commissions:-

Table 1 Weightage to various factors in deciding a State' share in total pool of share in Central taxes (Horizontal Devolution)

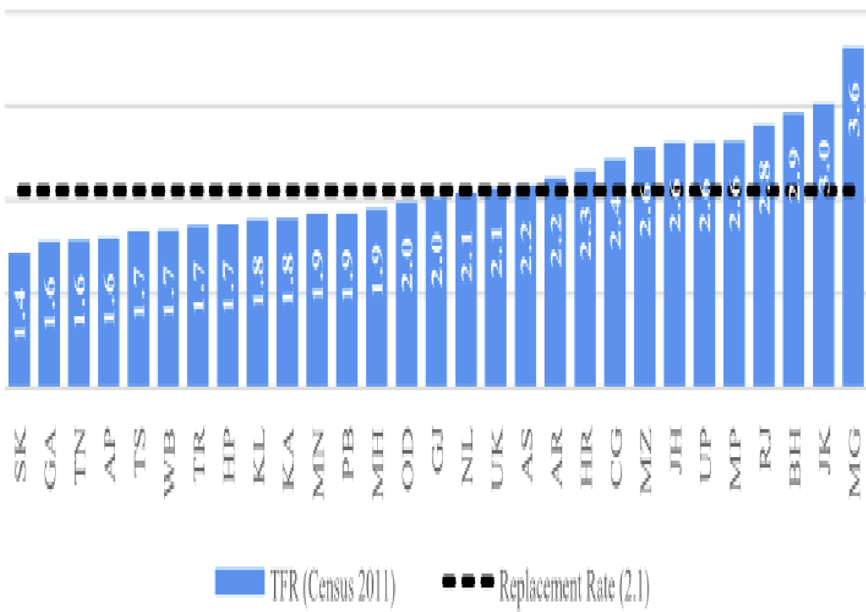
Factor to be given weightage	11th FC	12th FC	13th FC	14th FC	15th FC
Population (1971 Census)	10	25	25	17.5	0
Population (2011 Census)				10	15
Area	7.5	10	10	15	15
Forest cover & ecology			0	7.5	10
Fiscal Capacity /Income distance (relative poverty among States vis-à-vis the benchmark State)	62.5	50	47.5	50	45
Tax effort /fiscal discipline	12.5	15	17.5		2.5
Infrastructure index	7.5				
Demographic performance					12.5
Total	**100**	**100**	**100**	**100**	**100**

21. The 15th Finance Commission has calculated 'Income distance' using a methodology similar to that adopted by the 14th FC. A three-year average (2016-17 to 2018-19) per capita comparable GSDP was taken for all the States. Income distance was computed by taking the distance of each State from the State having highest per capita GSDP. Goa and Sikkim had the highest per capita GSDP. However, since these are small and outlier States, the State with the third highest per capita GSDP – Haryana – was taken as the benchmark to avoid distortions.

22. The 15th Finance Commission has introduced a new factor of 'demographic performance' designed to be an umbrella performance reward in areas relating to population control as well as better outcomes in education, health and nutrition. All the Finance Commissions since the 6th FC (1974-79) were mandated to use the population data of the 1971 Census while recommending their awards but the 15th FC (2020-2026) was specifically mandated to use the 2011 Census data. The 15th FC calculated 'demographic performance' of a State by using the inverse of total fertility rate

(TFR) of each State, scaled by the population data of Census 1971. The following Chart shows the performance of different States on this measure[3]:

Chart 1 Demographic performance of different States



23. Wide economic disparity among States is an accepted fact but the poorer States do face handicaps embedded in history and geography. The States do not have absolute freedom to exploit their natural wealth – water, forest and mineral resources. The Constitution provides for a mechanism for redistribution of national income from industrially advanced States to industrially backward States while also restraining the States from exercising full control

---

[3] Para 6.53 of the 15th Finance Commission Report https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/Reports/XVFC%20VOL%20I%20Main%20Report.pdf

over their natural resources (forests and major minerals like coal, lignite petroleum).

24. The Constitutional Amendment ushering the Goods and Services Tax has ensured that tax on manufacturing is replaced by tax on consumption whose benefit should accrue to the State of domicile of the final buyer. This is true for online sales of goods and services as well. The rebalancing and reconciliation of the seemingly conflicting interests of the Union, States and UTs is a continuing effort. Some or the other State is bound to have some grievances about the prevailing system of Central transfers to the States and control on their natural resources being unfair to them but such differences of opinions are inevitable as in a big family.

CONTRIBUTION OF INDIVIDUAL STATES TO THE NATIONAL ECONOMY

1. The National Income Accounts published by the Central Statistical Organization are based on information collected from diverse sources such as surveys and company filing to estimate the total economic output by different economic agents both by aggregate income method and aggregate expenditure method. Owing to limitations of data collection in respect of the informal sector unable or unwilling to report to the government agencies, some estimations and extrapolations are inevitably involved in arriving at reported figures of macro-economic aggregates like the Gross Domestic Product, Gross Value Added by different sectors of the economy under different types of economic activities, Consumption and Investment Expenditure, Net National Income etc.

2. These aggregates are assessed at current market prices and at constant prices w.r.t. a base year (currently at base prices of FY2011-12). For any financial year, these aggregates are assessed and re-assessed in 6 iterations called the 1st and 2nd Advance Estimates, Provisional Estimates, and the 1st, 2nd and 3rd Revised Estimates. A proposal to reduce the number of iterations is under consideration. The 2nd Revised Estimates of National Income Accounts for FY20-21 were reported on 28th February, 2023.

3. In the sectoral classification of the economy, the economy is divided into Primary, Secondary and Tertiary sectors. The Primary sector comprises Agriculture, Forestry, Fishing and Mining & Quarrying. The Secondary sector comprises Manufacturing, Electricity, Gas, Water Supply & Other Utility Services and Construction and the Tertiary sector (Services like 'Trade, repair, Hotels and Restaurants', 'Transport, Storage and Communication & Services related to Broadcasting', 'Financial Services', 'Real Estate, Ownership of Dwelling & Professional Services' and 'Public Administration and Defence').

4. As in nearly all developing countries, the process of economic development has been accompanied by a decline in the share of agriculture in national output and a corresponding increase in share of non-agricultural sectors of Industry and Services. When we gained independence from the colonial rule, our economy was dominated by agriculture and allied activities, contributing to over 50 per cent of GDP. By 1984-85, the share of agriculture (excluding allied subsectors of forestry and fishing) in the GDP had fallen to 27 percent and to almost 1/6th of the national economy since then. While the decline in India's share of agriculture in national output has been broadly in line with the experience of other developing countries, its share in the national labour force has not fallen correspondingly. (In 2011-12, agriculture accounted for 49 per cent of the total workforce. Slower growth of non-agricultural jobs is a major development challenge that is now sought to be addressed through expansion of industry and construction sectors.) The Services sector now contributes more than 50% of the national GDP.

5. The last decade's trend shows a fairly stable sectoral profile of the national economy in terms or primary, secondary and tertiary sectors as shown in Table 2.

Table 2 Trend in Gross Value Added by different Sectors of the national economy

Year	Sector-wise share in GVA at current prices (in %)			Sector-wise growth in GVA at constant (2011-12) prices (in %)				Aggregate GVA (₹ in lakh crore)	
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary	All	Current	Constant
2011-12	21.7	29.3	49.0					81.1	81.1
2012-13	21.3	28.7	50.0	1.4	3.6	8.3	5.4	92.0	85.5
2013-14	21.4	27.9	50.6	4.8	4.2	7.7	6.1	103.6	90.6
2014-15	20.9	27.3	51.8	1.2	6.7	9.8	7.2	115.0	97.1
2015-16	20.1	27.6	52.3	2.1	9.5	9.4	8.0	125.7	104.9
2016-17	20.4	27.0	52.6	7.3	7.5	8.5	8.0	139.7	113.3
2017-18	20.4	27.0	52.5	4.5	7.1	6.3	6.2	155.1	120.3
2018-19	19.8	26.9	53.3	1.6	5.9	7.2	5.8	171.8	127.3
2019-20*	20.3	25.0	54.8	4.8	-1.3	6.4	3.9	183.8	132.4
2020-21#	22.1	25.5	52.4	2.4	-0.2	-8.2	-4.2	181.9	126.8
2021-22@	21.0	26.5	52.5	3.9	12.0	8.8	8.8	214.4	138.0

*: Third Revised Estimates; #: Second Revised Estimates; @: First Revised Estimates

6. Table 3 gives trend in the contribution of different sub-sectors (groups of economic activities) to the national economy. It is apt to highlight that the agriculture sector somewhat compensated for fall in share by industrial sector during the pandemic. The contribution of agriculture rose from 15% to 20% from FY14-15 to FY20-21.

Second Advance Estimates of National Income, 2022-23

(https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/feb/doc2023228164401.pdf)

Table 3 Trend in the Gross Value Added by different Sub-Sectors of the national economy

Gross Value Added by Economic Activity at Current Basic Prices (₹ crore)

S.No.	Item	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20*	2020-21#	2021-22@
1.	Agriculture, forestry and fishing	16,75,107	19,26,372	20,93,612	22,27,533	25,18,662	28,29,826	30,29,925	33,68,471	36,95,412	40,66,649
1.1	Crops	10,88,814	12,48,776	12,92,874	13,27,992	14,86,044	16,33,264	16,80,777	18,85,276	20,39,409	22,30,455
1.2	Livestock	3,68,823	4,22,733	5,10,411	5,82,410	6,72,611	7,85,683	8,82,009	9,77,918	11,08,485	12,27,766
1.3	Forestry and logging	1,37,558	1,56,674	1,73,760	1,84,411	2,05,364	2,17,603	2,55,053	2,69,727	2,95,006	3,19,903
1.4	Fishing and aquaculture	79,911	98,190	1,16,567	1,32,720	1,54,643	1,93,275	2,12,087	2,35,550	2,52,512	2,88,526
2.	Mining and quarrying	2,85,842	2,95,794	3,08,476	2,94,011	3,26,808	3,36,109	3,77,661	3,57,001	3,16,268	4,29,364
3.	Manufacturing	15,72,837	17,13,452	18,78,369	21,46,189	23,33,721	25,66,623	28,12,560	27,05,101	28,00,895	33,96,735
3.1	Food products, beverages and tobacco	1,68,227	1,75,673	1,85,899	2,13,832	2,59,668	2,78,089	3,35,679	2,90,152	2,98,782	3,38,700
3.2	Textiles, apparel and leather products	1,87,981	2,46,424	2,49,573	3,00,357	3,03,155	3,32,470	3,66,299	3,53,727	3,31,144	4,43,463
3.3	Metal products	2,48,915	2,86,998	2,73,621	2,32,868	2,73,963	3,33,117	3,68,761	3,57,527	4,21,991	5,66,453
3.4	Machinery and equipment	3,56,231	3,43,383	3,88,961	4,85,168	5,41,055	5,87,161	6,50,442	6,08,260	5,86,127	6,89,791
3.5	Other menufactured goods	6,11,483	6,60,973	7,80,315	9,13,964	9,55,881	10,35,726	10,91,380	10,95,434	11,62,851	13,58,329
4.	Electricity, Gas, Water supply & Other utility services	2,15,350	2,60,155	2,82,258	3,34,965	3,55,709	4,25,718	4,49,459	5,02,999	5,00,804	5,55,605
5.	Construction	8,49,365	9,21,470	9,79,086	9,91,084	10,80,870	12,00,414	13,52,118	13,78,669	13,43,531	17,37,505
6.	Trade, repair, Hotels and Restaurants	10,54,533	11,84,560	13,20,833	14,33,969	16,09,001	18,81,395	21,36,707	23,26,331	18,47,897	22,46,697
6.1	Trade & repair services	9,54,683	10,78,421	12,06,474	13,07,323	14,68,583	17,22,671	19,55,798	21,31,424	17,56,941	21,00,859
6.2	Hotels & restaurants	99,850	1,06,140	1,14,359	1,26,646	1,40,418	1,58,723	1,80,909	1,94,907	90,956	1,45,838
7.	Transport, Storage, Communication & Services related to broadcasting	6,09,453	6,89,906	7,86,763	8,60,544	9,30,155	9,97,528	10,66,055	11,52,558	10,22,770	13,65,296
7.1	Railways	72,296	78,724	92,459	1,00,451	1,06,786	1,16,584	1,23,596	1,35,376	1,29,709	1,46,600
7.2	Road transport	3,00,652	3,38,306	3,70,364	3,99,902	4,34,947	4,84,134	5,36,552	5,65,162	4,35,727	6,69,697
7.3	Water transport	7,190	6,476	7,590	7,298	9,206	13,021	13,059	13,228	14,097	18,227
7.4	Air transport	8,128	6,853	11,820	20,344	21,496	22,444	12,730	22,496	10,845	12,294
7.5	Services incidental to transport	72,054	75,719	91,681	88,246	1,02,468	97,602	1,03,341	1,03,582	93,184	1,15,052
7.6	Storage	6,165	6,026	6,407	7,021	7,442	16,194	18,597	19,796	20,556	21,590
7.7	Communication & services related to broadcasting	1,42,969	1,77,804	2,06,442	2,37,282	2,47,809	2,47,549	2,58,179	2,92,918	3,18,652	3,81,836
8.	Financial services	5,36,819	5,99,341	6,61,411	7,26,286	7,50,201	8,46,194	9,41,778	10,27,636	10,85,931	11,75,253
9.	Real estate, Ownership of dwelling & Professional services	12,39,813	14,70,167	17,01,935	18,99,852	21,61,236	22,81,018	25,87,720	28,53,477	29,50,835	34,37,034
10.	Public administration and Defence	5,46,231	6,01,912	6,76,818	7,31,578	8,27,438	9,45,082	10,45,488	11,51,736	12,06,397	13,36,428
11.	Other services	6,17,343	7,00,023	8,14,718	9,28,489	10,71,399	11,95,759	13,75,658	15,57,139	14,18,040	16,92,318
12.	TOTAL GVA at basic prices	**92,02,692**	**1,03,63,153**	**1,15,04,279**	**1,25,74,499**	**1,39,65,200**	**1,55,05,665**	**1,71,75,128**	**1,83,81,117**	**1,81,88,780**	**2,14,38,883**

***: Third Revised Estimates; # : Second Revised Estimates; @ : First Revised Estimates**

7. The State-wise contribution of various sectors of the economy to the State's Gross State Domestic Product (GSDP) is given in Table 4 as a % share in the total GSDP.

Table 4 Share of individual States in the aggregate Gross State Domestic Product (FY2020-21)

States/UTs (arranged in descending order of GSDP)	% share in aggregate GSDP of all States/UTs	GSDP (Rs in lakh crore)	Primary	Secondary	Tertiary
			(% share in GSDP)		
Maharashtra	13.1	27.1	6	38	55
Tamil Nadu	8.7	18.1	5	48	47
Karnataka	8.3	17.3	8	31	60
Uttar Pradesh	7.9	16.5	15	41	44
Gujarat	7.9	16.4	8	62	30
West Bengal	6.3	13.0	12	34	54
Andhra Pradesh	4.9	10.1	15	37	47
Rajasthan	4.9	10.1	13	39	48
Madhya Pradesh	4.7	9.8	31	35	34
Telangana	4.6	9.6	9	32	60
Kerala	3.9	8.0	4	37	59
Delhi	3.8	7.9	0	19	81
Haryana	3.7	7.6	8	48	43
Bihar	2.8	5.9	13	28	59
Odisha	2.6	5.3	12	53	34
Punjab	2.6	5.3	15	40	44
Chhattisgarh	1.7	3.5	11	55	34
Assam	1.6	3.4	13	43	44
Jharkhand	1.5	3.0	8	53	39
Uttarakhand	1.1	2.3	4	63	32

States/UTs (arranged in descending order of GSDP)	% share in aggregate GSDP of all States/UTs	GSDP (Rs in lakh crore)	Primary	Secondary	Tertiary
			(% share in GSDP)		
J&K and Ladakh	0.8	1.7	10	31	59
Himachal Pradesh	0.8	1.6	6	58	36
Goa	0.4	0.8	2	67	31
Tripura	0.3	0.5	24	27	49
Chandigarh	0.2	0.4	0	15	85
Puducherry	0.2	0.4	1	62	37
Meghalaya	0.2	0.3	10	32	58
Manipur	0.2	0.3	17	16	67
Sikkim	0.2	0.3	6	72	22
Arunachal Pradesh	0.2	0.3	15	33	53
Nagaland	0.1	0.3	17	19	64
Mizoram	0.1	0.2	13	27	61

8. The aggregate GSDP of all States/UTs at current market prices for FY20-21 was Rs. 207.37 lakh crore which is higher than the GDP of Rs.198.30 lakh crore as per CSO's latest estimates (May 2023). The GSDP is estimated by individual State Governments and the sum total of GSDP of all States and Union Territories may somewhat vary from the national level GDP estimated by the CSO.

9. The top contributors to aggregate GSDP in 2020-21 were Maharashtra (13%), Tamil Nadu (9%), Karnataka (8%), Uttar Pradesh (8%), Gujarat (8%), West Bengal (6%) and Andhra Pradesh, Rajasthan, Madhya Pradesh and Telangana, each contributing 5% share of aggregate GSDP. Kerala, Delhi and Haryana contributed 4% share each and Bihar, Odisha & Punjab contributed 3% share each. Delhi has the unique economic profile

of 81% share of services and 19% industry/construction/ manufacturing. Karnataka and Telangana have the next highest share (60%) of services in their economies. The share of services in other major economy-contributing States was as follows: Maharashtra (55%), West Bengal (54%), Rajasthan (48%), Andhra Pradesh (47%), Tamil Nadu (47%), Uttar Pradesh (44%), Madhya Pradesh (34%) and Gujarat (30%). Madhya Pradesh has the highest share of Agriculture in the State's economic output and has the most balanced mix between Agriculture (31%), Industry/Construction/ Manufacturing (35%) and Services (34%)

10. The top two States in terms of contribution to national economic output have substantially moved away from agriculture: The respective shares of Services, Industry/Construction/ Manufacturing and Agriculture were 55%, 38%, 6% for Maharashtra and 47%, 48%, 5% for Tamil Nādu.

11. Industrially developed States contributing a larger share in the GDP of the country are not all self-sufficient and GSDP is not the sole measure of the contribution of a State to the national economy. GSDP captures the value added within a State for which natural resources and even manpower may be contributed by other States. As noted above, the Constitution provides for a mechanism for redistribution of national income from industrially advanced States to industrially backward States while also restraining the States from exercising full control over their natural resources (forests and major minerals like coal, lignite petroleum). Thus, industrial development is a national venture not entirely by any individual State.

Special problems of economically backward States

12. It is well-known that the States have not been created on considerations of economic viability. Even the location of industries has not always been strictly on financial viability consideration. The economic disparities among States are quite sharp and have given rise to the idea of 'Special Category States', a tag now formally disowned discussed below.

13. Among the States/UTs individually contributing less than 3% share to the aggregate GSDP, Goa, Chandigarh and Puducherry stand out being small, primarily urban, territories having rather insignificant agricultural output and the remaining States stand out as border States with large hilly areas (Uttarakhand, Jammu & Kashmir, Himachal Pradesh, Tripura, Meghalaya, Manipur, Sikkim, Arunachal Pradesh, Nagaland, Mizoram). These States together with Assam (3.4% share) are known as 'Special Category States' though the system of formally referring to any State as General Category State or Special Category State has been dispensed with since 2015 although many special benefits accorded to these States still continue to be in place.

14. Initially only Assam, Jammu and Kashmir and Nagaland were granted the status of 'Special Category States' by the Fifth Finance Commission in 1969 owing to their social, economic, and geographic backwardness. Since then, many other States that meet certain requirements, including hilly and challenging terrain, strategic border locations, low per capita income, low population density, the presence of sizable tribal populations, economic and infrastructure backwardness, and the unviable nature of State finances were given special category status on the recommendation of the National Development Council. Himachal Pradesh, Manipur, Meghalaya, Sikkim, and Tripura got this status between 1974 and 1979. Arunachal Pradesh and Mizoram were added to the list in 1987 and Uttarakhand in 2001. They are provided extra support by the Union government to help them close the gap with other States in inclusive growth and development. The rationale for special status to these States along the Himalayan border and North-Eastern States is that certain states, because of inherent features, have a low resource base and cannot mobilize resources for development on their own.

15. The common characteristics of these areas are: natural-resource rich, but short of financial resources; low per capita income; unviable State finances cannot meet functional requirements without enhanced Central support; Economic and

structural underdevelopment; existence of a sizable tribal population; Hilly and challenging terrain that is deterrent to industry; border regions that are strategically located and sparsely populated areas. These States also hold a substantial part of the forest cover of India and in that sense may be viewed as lungs of India that entitles them to carbon credits from industrially advanced carbon emitting States through the mechanism of devolution of resources from the Centre to the States. The Centre has been given the power to levy and collect taxes which are more than sufficient to finance the basic mandates of the Union government.

16. Up to the 3rd Five Year Plan [1961-66] and during Plan Holiday (1966-69), allocation of Central Plan Assistance to States was decided under different schemes as per scheme norms. No State could claim any entitlement to a fixed share of the Central Assistance. From 1970 onwards, a system of criteria-based allocation of Assistance to different States was started under what is popularly known as the "The Gadgil Formula" devised by Shri D. R. Gadgil, then deputy chairman of the Planning Commission. The formula gave weightage to the following factors (i) Population [60%] (ii) Per Capita Income (PCI) [10%] (iii) Tax Effort [10%] (iv) On-going Irrigation & Power Projects [10%] and (v) Special Problems [10%] The formula was used during 4th FYP (1969-74) and 5th FYP (1974-78). However, since item (iv) was perceived as being weighted in favour of rich states, the formula was modified by raising the weightage of PCI to 20%. The National Development Council (NDC) approved the modified Gadgil formula in August 1980. It formed the basis of allocation during 6th FYP (1980-85), 7th FYP (1985-90) and Annual Plan (AP) 1990-91. Following suggestions from State Governments, the modified Gadgil Formula was revised to Population (55%), PCI [25% {20% by deviation method and 5% by distance method}], Fiscal Management (5%) and Special Development Problems (15%). However, it was used only during AP 1991-92. Due to reservations of State Governments on revision, a Committee under Shri Pranab Mukherjee, then Deputy Chairman, Planning Commission was constituted to evolve a

suitable formula. The suggestions made by the Committee were considered by NDC in December 1991, where following a consensus, the Gadgil-Mukherjee Formula was adopted. It was made the basis for allocation during the 8th FYP (1992-97) and it had been in use till the system of Plan Assistance was abolished after the completion of 12th FYP (2012-17). The total budget allocation for 'Central Assistance for State Plans' was distributed in the following manner. After setting aside funds required for Externally Aided Projects and Special Area Programmes, 30% of the balance amount was allocated to the Special Category States. Under the Gadgil-Mukherjee Formula, weightage was given to the following factors to determine the share of individual States:- 60% weightage to Population (1971 Census); 25% weightage to per capita State Domestic Product so as to give higher allocation to poorer States; 7.5% weightage to State's performance in Tax Effort, Fiscal Management and meeting national priorities and 7.5% weightage to Special Problems.

17. The Central Plan Assistance was given to the States as a mix of grants and loans: 90% grant and 10% loan for Special category States and 70% loan, 30% grant for other States. W.e.f. FY2005-06, the Union government decided on the basis of the recommendation of the Finance Commission that it will not release the loan portion of the Assistance. Instead, the States will be permitted to raise the loan from the market. The same loan/grant mix also used to be applicable to external assistance (grant/loan) accessed by the Union government from foreign sources and passed on to States as Additional Central Assistance. Based on the recommendation of the 12th Finance Commission, the Union Government decided that the external assistance would be passed on to the General Category States on a ‘back-to-back’ basis meaning that the States would get the same grant/loan mix as provided by the external funding agency and would also bear the foreign exchange rate variation risk in serving the foreign debt. However, for the Special Category States the old system of 90% grant and 10% rupee loan with the FE risk resting with the Union government.

18. In addition, there have been some special Central Government schemes in operation in the Special Category States to promote industrialization in these States. These involve tax concessions and other incentives and subsidies. Also, the Finance Commissions also followed a practice of adopting different, preferential norms for special category States in deciding the devolution of share in Central taxes to different States. The 14th Finance Commission discontinued this practice in their award for the period 2015-16 to 2019-20.

19. Due to such special treatment given to SCS, several other States (Bihar, Odisha, Rajasthan, Andhra Pradesh) have been demanding Special Category State Status from time to time. However, after the acceptance of the recommendations of the 14th Finance Commission in 2015 and after the discontinuation of the system of fixing State Plan size by the Planning Commission and fixing State's entitlement to Central Plan Assistance w.e.f. FY2017-18, the concept of Special Category State has now been abandoned.

20. The Special Category States continue to be highly dependent on Central support by way of share in Central taxes and Central grants. During FY2020-21, the ranking of States in terms of dependence on Central non-debt support is given in **Table 5**:-

Table 5 Dependence on Central non-debt support for individual States/UTs with Legislature (FY2020-21)

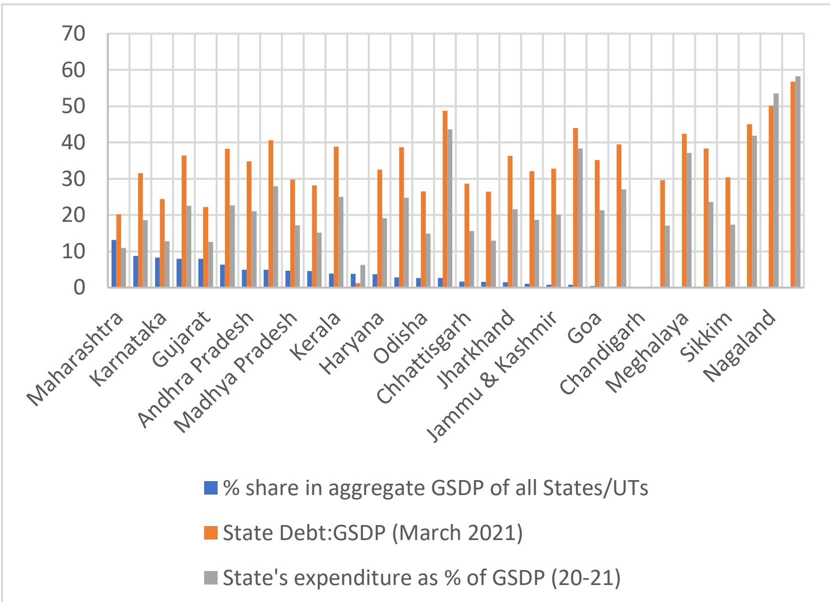
Rs. in crore

State/UT	**Total Expenditure**	***Of which***		**Non-debt transfers from Centre**	**Of which**		**Dependence Ratio (Central transfers as % of total expenditure)**
		Revenue Expenditure	***Capital Outlay***		***Share in Central Taxes***	***Grants from the Centre***	
Arunachal Pradesh	18,216	*13,087*	*5,123*	14,850	*10,466*	*4,383*	81.5
Nagaland	12,730	*11,052*	*1,672*	10,160	*3,407*	*6,753*	79.8
Manipur	14,878	*12,428*	*2,439*	11,537	*4,269*	*7,268*	77.5
Tripura	15,203	*14,368*	*832*	10,930	*4,474*	*6,456*	71.9
Mizoram	9,644	*8,515*	*1,126*	6,531	*3,011*	*3,521*	67.7
J&K and Ladakh	63,166	*52,634*	*10,470*	39,542	-	*39,542*	62.6
Meghalaya	13,315	*11,499*	*1,734*	8,088	*4,552*	*3,536*	60.7
Assam	77,007	*64,520*	*12,399*	45,863	*18,629*	*27,234*	59.6
Himachal Pradesh	39,164	*33,535*	*5,309*	23,166	*4,754*	*18,413*	59.2
Bihar	1,58,816	*1,39,493*	*18,209*	91,625	*59,861*	*31,764*	57.7
Uttarakhand	43,667	*37,091*	*6,538*	22,096	*6,569*	*15,527*	50.6

State/UT	Total Expenditure	*Of which*		Non-debt transfers from Centre	Of which		Dependence Ratio (Central transfers as % of total expenditure)
		Revenue Expenditure	***Capital Outlay***		***Share in Central Taxes***	***Grants from the Centre***	
Sikkim	7,883	*6,369*	*1,514*	3,979	*2,302*	*1,677*	50.5
Uttar Pradesh	3,51,933	*2,98,543*	*52,237*	1,64,433	*1,06,687*	*57,746*	46.7
Jharkhand	71,109	*59,264*	*8,466*	31,706	*19,712*	*11,993*	44.6
Odisha	1,14,857	*95,311*	*17,949*	50,611	*27,543*	*23,068*	44.1
Puducherry	7,504	*7,260*	*240*	3,224	-	*3,224*	43.0
West Bengal	1,93,232	*1,77,921*	*13,034*	82,908	*44,737*	*38,171*	42.9
Chhattisgarh	79,108	*70,033*	*9,024*	33,150	*20,338*	*12,812*	41.9
Madhya Pradesh	1,96,319	*1,64,733*	*30,356*	82,016	*46,914*	*35,102*	41.8
Punjab	91,683	*86,345*	*4,382*	34,843	*10,638*	*24,205*	38.0
Andhra Pradesh	1,73,367	*1,52,677*	*18,975*	56,332	*24,461*	*31,872*	32.5
Rajasthan	1,94,071	*1,78,309*	*15,270*	60,371	*35,576*	*24,796*	31.1
Kerala	1,38,884	*1,23,446*	*12,890*	42,629	*11,560*	*31,068*	30.7
Goa	14,138	*12,070*	*2,067*	4,263	*2,297*	*1,967*	30.2

State/UT	**Total Expenditure**	***Of which***		**Non-debt transfers from Centre**	**Of which**		**Dependence Ratio (Central transfers as % of total expenditure)**
		Revenue Expenditure	***Capital Outlay***		***Share in Central Taxes***	***Grants from the Centre***	
Gujarat	1,78,717	*1,50,704*	*26,780*	47,397	*20,219*	*27,178*	26.5
Maharashtra	3,42,638	*3,10,610*	*29,687*	89,237	*36,504*	*52,733*	26.0
NCT Delhi	49,203	*40,414*	*4,699*	11,459	-	*11,459*	23.3
Karnataka	2,24,129	*1,76,054*	*45,406*	51,770	*21,694*	*30,076*	23.1
Tamil Nadu	2,73,305	*2,36,402*	*33,068*	57,501	*24,925*	*32,577*	21.0
Haryana	96,742	*89,947*	*5,870*	18,686	*6,438*	*12,248*	19.3
Telangana	1,50,003	*1,23,212*	*15,922*	28,163	*12,692*	*15,471*	18.8
All States/UTs	**34,14,628**	***29,57,844***	***4,13,687***	**12,39,068**	***5,95,227***	***6,43,841***	**36.3**

Chart 2 Aggregate expenditure by the States and Union Territories and its financing
(Rs in crore)



21. It may be seen that the States/UTs dependence on devolution of Central taxes and Central grants varies widely from 19% (Telangana) to 82% (Arunachal Pradesh). Among the States/UTs earlier tagged as Special Category States, the dependence varies from 51% each for Sikkim and Uttarakhand to 82% for Arunachal Pradesh. Bihar gets included in the list of States/UTs most dependent on Central support (58%) along with these Special Category States.

22. IN FY20-21, the 11 erstwhile SCS contributed 5.5% to the aggregate GSDP of all States/UTs while their aggregate expenditure was 27.7% of their aggregate GSDP indicating substantial dependence of their local economies on the government spending.

CONTRIBUTION OF GOVERNMENT SPENDING TO NATIONAL ECONOMY

1. The combined spending by the Central and State governments (Central government expenditure + State Governments' expenditure – Central grants and Loans to States) has generally hovered between 26 to 28 per cent of the GDP. From a level of Rs.53.74 lakh crore (27% of GDP) in 2019-20, the combined spending rose to Rs.61.25 lakh crore (31% of GDP) in 2020-21 to support the economy battered by the covid pandemic and somewhat offset the shortfall in non-government spending. This was the result of Rs.35.10 lakh crore spent by the Union government including grants/loans to the States aggregating to Rs.8 lakh crore and the aggregate expenditure of Rs.34.15 lakh crore by State governments, including the expenditure financed from Central grants/loans.

2. The combined spending by the Central and State governments during 2015-16 to 2020-21 was Rs.288.7 lakh crore. This was the result of Rs.144.2 lakh crore spent by the Union government including grants/loans to the States aggregating to Rs.29.7 lakh crore and the aggregate expenditure of Rs.174.2 lakh crore by State governments including the expenditure financed from Central grants/loans. Thus, the States' share in the combined spending is higher than that of the Union government. Almost 1/6th of States aggregate expenditure was supported by Central grants/Loans. Dependence of States on Central grants and loans varies significantly across States. If we also factor the dependence of States on share of Central taxes/duties on which they have no control, it is seen that the dependence doubles to almost 1/3rd for States as a whole. The dependence is much higher for financially weak States having low base of own tax and non-tax revenues and other non-debt resources. High dependence on resources beyond a state's control creates vulnerability in management of its finances and gives rose to occasions for Centre-State friction in terms of taking credit for the outcome of particular State spending. This is

particularly true for 'public welfare spending' that is directly visible to target beneficiaries when the dividing line between unmerited, untargeted subsidies (derisively called freebies) and welfare measures having durable economic rationale gets blurred.

3. The expenditure by the States has recorded significant increase in recent years with direct/indirect support from the Centre. Based on the Finance Commission's recommendations, the percentage of divisible Central taxes/duties (excluding Cesses/Surcharges) to be distributed among States was raised from 32% to 42%. Centre facilitated the States redeeming the liabilities of the financially sick electricity distribution companies by issue of UDAY bonds and the Centre started a scheme of 50-year interest free loans to States during the covid pandemic. During July 2017 to June 2022, the Centre also augmented the States' revenues by providing a statutory guarantee of compensation if their GST revenue did not grow by 14% p.a. over the pre-GST revenue base merged in the GST during this 5-year period. These temporary measures had augmented the resource base of States. Although the economy is gathering pace as part of post-pandemic revival, some States are facing fiscal stress. Rising burden of interest, pension, subsidies especially electricity subsidies and uneven revival of GST collections across States are some observed factors studied in this monograph.

Trend and profile of aggregate expenditure by the States/UTs and its financing

4. Table 6 gives the key fiscal aggregates for the base year FY2014-15 and the next 6 years covered by the award of the 14th Finance Commission (FY16 to FY20) and the interim award of the 15th Finance Commission (FY20-21 which also happened to be the exceptional year of fiscal performance affected by the covid pandemic.

Table 6 Trends and profile of the aggregate finances of all States/UTs (Rs in lakh crore)

Year	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Total Expenditure	19.39	22.62	25.97	27.72	31.25	32.52	34.15
Of which							
Revenue Expenditure	*16.37*	*18.38*	*20.87*	*23.40*	*26.38*	*27.92*	*29.58*
Interest payment	1.90	2.14	2.51	2.93	3.19	3.51	3.87
Pension	1.83	2.05	2.27	2.75	3.15	3.46	3.68
Capital Outlay	2.72	3.33	3.92	3.94	4.40	4.18	4.14
Loans and Advances	0.30	0.90	1.18	0.38	0.47	0.42	0.43
Total Receipts	19.39	22.62	25.97	27.72	31.25	32.52	34.15
Of which							
Revenue Receipts	15.92	18.33	20.46	23.21	26.20	26.70	25.87
States' Own Tax Revenue	7.79	8.47	9.13	11.30	12.15	12.24	11.72
States' Own non-Tax Revenue	1.44	1.54	1.70	1.80	2.19	2.61	1.76
Share in Central Taxes	3.38	5.06	6.08	6.05	7.47	6.51	5.95
Central Grants	3.31	3.26	3.56	4.06	4.40	5.35	6.44
Recovery of Loans and Advances by States	0.19	0.07	0.16	0.40	0.41	0.57	0.13
Gross Fiscal Deficit	3.27	4.21	5.34	4.10	4.63	5.25	8.05
Borrowing from Centre	0.12	0.13	0.18	0.20	0.27	0.29	1.55
Borrowings from other sources	3.15	4.08	5.17	3.91	4.36	4.95	6.49
Gross Fiscal Deficit to Total	16.9	18.6	20.6	14.8	14.8	16.1	23.6

Year	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Expenditure (%)							
Primary Deficit	1.37	2.06	2.83	1.17	1.44	1.73	4.18
Revenue Deficit	0.46	0.05	0.40	0.19	0.18	1.21	3.71
States' Own Deficit	9.96	14.30	16.33	17.60	19.38	20.67	21.76
States' Own Revenue Deficit	7.14	8.37	10.04	10.30	12.05	13.07	16.10
Dependence on transfers from Centre (tax share and grants)	34	37	37	36	38	36	36

5. States' Own Deficit (SOD) and States' Own Revenue Deficit (SORD) are the *Gross Fiscal Deficit and Revenue Deficit* the States would have faced without transfer of tax share and grants from the Centre. Most probably, the States would not have been able to plan as much expenditure in the absence of tax share and grants received from the Centre. (To that extent this metric is only indicative of the potential resource gap faced by a State.) The Central support enabled States to finance as much as 34 to 38 per cent of their total expenditure during FY15 to FY21 and this is broadly the longer-term trend as well. In the preceding Article, we have detailed State-wise dependence on transfers by way of tax share and grants from Centre which ranges from 19% to 82%. So average 37% dependence for all States actually masks a sharp inter-State variation in dependence on Centre.

Contribution of individual State's spending to the economy

6. Table 7 shows State/UT-wise expenditure and its contribution to the local economy (Expenditure as % of GSDP) for the FY20-21. The entries have been arranged in the order of decreasing State/UT Expenditure: GSDP ratio to highlight the States/UTs whose expenditure plays prominent role in boosting local economy.

Table 7 Expenditure by individual State/UT-wise expenditure and its contribution to the local economy (as % of GSDP) for FY2020-21

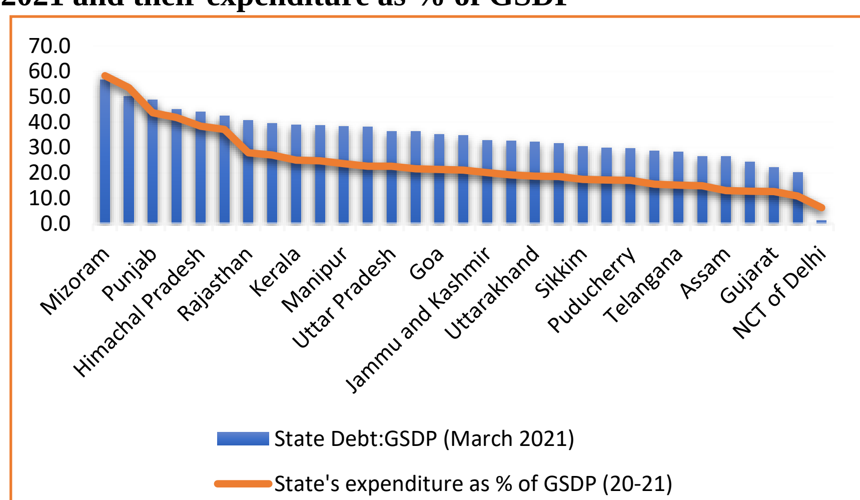
(Rs. in crore)

State/UT	Revenue Expenditure	Capital Outlay	Loans and Advances	Total Expenditure	State/UT's total expenditure as % of its GSDP
	(Rs. in crore)				
Arunachal Pradesh	13,087	5,123	5	18,216	58.2
Mizoram	8,515	1,126	3	9,644	53.5
Manipur	12,428	2,439	10	14,878	43.6
Nagaland	11,052	1,672	6	12,730	41.8
Meghalaya	11,499	1,734	82	13,315	38.3
J&K and Ladakh	52,634	10,470	62	63,166	37.1
Tripura	14,368	832	3	15,203	27.9
Bihar	1,39,493	18,209	1,114	1,58,816	27.0
Himachal Pradesh	33,535	5,309	320	39,164	25.0
Sikkim	6,369	1,514	-	7,883	24.8
Jharkhand	59,264	8,466	3,380	71,109	23.6
Assam	64,520	12,399	88	77,007	22.6
Chhattisgarh	70,033	9,024	51	79,108	22.6
Odisha	95,311	17,949	1,597	1,14,857	21.6
Uttar Pradesh	2,98,543	52,237	1,153	3,51,933	21.3
Puducherry	7,260	240	5	7,504	21.0
Madhya Pradesh	1,64,733	30,356	1,230	1,96,319	20.1
Rajasthan	1,78,309	15,270	491	1,94,071	19.2
Goa	12,070	2,067	2	14,138	18.7
Uttarakhand	37,091	6,538	38	43,667	18.6
Kerala	1,23,446	12,890	2,549	1,38,884	17.4
Punjab	86,345	4,382	956	91,683	17.2

State/UT	Revenue Expenditure	Capital Outlay	Loans and Advances	Total Expenditure	State/UT's total expenditure as % of its GSDP
	(Rs. in crore)				
Andhra Pradesh	1,52,677	18,975	1,715	1,73,367	17.1
Telangana	1,23,212	15,922	10,868	1,50,003	15.6
Tamil Nadu	2,36,402	33,068	3,835	2,73,305	15.1
West Bengal	1,77,921	13,034	2,277	1,93,232	14.9
Karnataka	1,76,054	45,406	2,669	2,24,129	12.9
Haryana	89,947	5,870	926	96,742	12.8
Maharashtra	3,10,610	29,687	2,342	3,42,638	12.6
Gujarat	1,50,704	26,780	1,233	1,78,717	10.9
NCT of Delhi	40,414	4,699	4,090	49,203	6.3
Total	**29,57,844**	**4,13,687**	**43,097**	**34,14,628**	**16.5**

7. In general, the economically backward States (lower level of GSDP, lower contribution to nation's GDP) tend to have higher expenditure GDP ratio. The following chart broadly confirms this trend.

Chart 3 Indebtedness of individual States/UTs at end March 2021 and their expenditure as % of GSDP



PRUDENT FISCAL MANAGEMENT: METRICS OF FISCAL RESPONSIBILITY

Assessing fiscal performance: Broad considerations

1. How do we assess if a government is managing its finances well is a vexed question evading an uncontested answer. The answer typically depends on who is asking from whom, why and for which government in what context, and when? What is considered a good decision by one government may be considered bad for another for the same or different jurisdictions. Several metrics are used to measure and benchmark the health of government finances. Financial health of a government is typically gauged from three viewpoints: Flexibility, Vulnerability and Sustainability of its fiscal operations, given the overall macro-economic and financial environment prevailing in and around its territorial jurisdiction.

2. **Flexibility** a government commands in fiscal management refers to the degree to which a government can arrange financial resources to respond to rising commitments, by either expanding revenues, selling or monetizing assets or by borrowing. A government's ability to do so at will may be changing economic or financial circumstances, both domestic and external.

3. **Vulnerability** refers to the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and external. With vulnerability, the concern is with the degree to which a government loses its financial independence to factors outside its control. When the revenue base is insufficient to meet program demands, a government will either make internal adjustments that involve increases in its taxes or reductions in its program commitments, or it will seek alternative financing either by increasing its borrowing or transfers from another level of government. There are costs and conditions attached to such external sources of finance.

4. In the case of transfers from another government, the

economic conditions faced by the contributing government will heavily influence the level of the transfers. When a State government has high dependence on transfer of funds from the Union government, it creates a risk to the State government and the support may not be taken for granted on a long term basis. To some extent, this risk is reduced when there is a mechanism of a Constitutional Commission (Finance Commission under Art 280 of the Constitution) to determine the level of a large part of Central transfers to States. Even the Central transfers outside the mechanism of the Finance Commission award are fairly de-politicized so long as the States do not try to modify/rename/rebrand the implementation of Central schemes to appropriate credit for development and welfare activities financed by the Centre. To assess vulnerability in State finances, long-term trends in dependency ratios are examined: Ratio of Central transfers and State's own revenues and Ratio of Central transfers to total expenditure of the State government.

5. **Sustainability** refers to the degree to which a government can maintain existing programs after meeting debt servicing requirements. The finances may be unsustainable due to depleting sources of income or increasing burden of debt servicing that can crowd out expenditure on ongoing activities if space for further borrowings is limited. Debt sustainability has emerged as the most important consideration that also impacts Flexibility and Vulnerability of government finances. Analysts study the movement of debt-to-GDP ratios over a period for determining if, or when, the government debt are sustainable or rather an assessment whether an existing level of debt-to-GDP ratio would remain stable.

6. Governments spending beyond their means (tax and non-tax revenue) by borrowing is a global trend that has gained momentum mainly from 60s worldwide and 80s in India. Another prominent trend is that the governments have begun to borrow directly from the market (domestic or oversea) or from their central bank by issuing securities that are not backed by any tangible asset. The

governments may be facilitated in such an endeavor by their central banks augmenting money supply in the market. The central banks have also begun to issue securities (currency notes) without backing of any tangible asset like gold. The government borrowings worldwide have become deeply intertwined with printing of currency notes and without adequate backing of anything else of value except the credibility of the government's assurance that the debts will be repaid. The debts are indeed being mostly repaid and repaid on time but only through fresh borrowings! Since liabilities are only refinanced and not extinguished altogether, the outstanding liabilities of the governments keep piling up.

7. Unlike households, governments do not repay debts through a system of EMIs covering both the repayment of principal and the interest payments. Generally, the interest is said to have been paid out of current income while the principal debt is merely refinanced/rolled over, discharged by contracting fresh debt. This leads to continuous build-up of a pile of outstanding liabilities. In theory, the borrowings are merely deferred taxation but in practice seemingly endless refinancing turned government borrowing programmes into Ponzi schemes. Over period, inflation erodes real value of the currency of debt and the real burden of government debt gets evaporated through inflation. This is a general trend globally.

8. Accumulation of liabilities through refinancing creates an increasing committed liability of servicing the debt before meeting the expectations of employees and citizens. While this may seem troubling to many, failing to do so would make it difficult to roll over the existing stock of debt, even if government did not run deficits. The accumulation of debt per se is not what generates questions of sustainability. It is the accumulation of debt burden over an extended period relative to a government's tax base (for which GDP or GSDP is used as a proxy though whole of GDP or GSDP is not taxable) or relative to its capacity to refinance that eventually leads to questions about sustainability. Constant refinancing of debt requires presence of a wide pool of able and willing lenders, i.e., a well-functioning deep and wide well-

regulated capital market commanding confidence of investors. Many countries have suffered debt crisis – inability to refinance debt and meet periodic obligation to repay principal or interest – due to catastrophic impact of the covid pandemic on tourism, exports, or adverse climatic events on farm production.

9. Sustainability is both a dynamic and a static concept. As a dynamic concept, the speed at which a Debt-to-GDP ratio is growing matters. A government with a rising debt ratio, but slowing down each year, is clearly better off than one with a steadily or progressively rising ratio. The level of the Debt-to-GDP ratio also matters as a static concept. One would think that a government with a stable and low ratio should be considered better off than one with a higher ratio, simply because its debt servicing costs are expected to be lower.

10. The statistics compiled by the International Monetary Fund shows that total outstanding global debt (public plus private debt) amounted to USD 235 trillion in US dollar terms in 2022, which was 238 percent of global GDP. Of this, the outstanding debt of governments was USD 91 trillion, about 92 per cent of global GDP. Most governments in developed countries had outstanding debt exceeding 100 per cent of the country's GDP. The combined liabilities of the Central and State governments in India aggregated to Rs.199,98,943 crore[4], about 85% of GDP. Almost 75% of all governments' aggregate debt is accounted for by the Advanced Economies that contribute to about 60% of global GDP while accounting for less than 10% of global population. The Debt:GDP ratio of the Advanced Economies was about 112 percent of their aggregate GDP[5]. It is reflective of the trust the market has in their debt servicing ability and the trust their currencies command even

[4] Table 112 : Combined Liabilities of Central and State Governments RBI Handbook on Indian Economy

[5] IMF Compilation, GDP at Current Prices https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD and IMF Data Mapper https://www.imf.org/external/datamapper/profile/ADVEC

without the cover of tangible assets like gold.

11. While debt sustainability concerns are raised from time to time, the debt build-up has continued unabated with debt servicing being facilitated by expanding money supply, particularly in advanced economies. India has been on a more prudent course in fiscal management; realizing that the combined (Centre+States) government debt of over 80% of GDP is indeed burdensome with the combined Tax:GDP ratio being about 17% of GDP and not enough resources being available domestically to finance rising burden of public debt. In 2020-21, our government debt rose to record high level of 90% of GDP (60% Union government, 30% all States combined). It is expected to fall below 80% in the current year with rising GDP and tax collections.

Measures of prudent fiscal management

12. To assess sustainability of current fiscal stance of a government, analysts look at the long-term trends in the size of outstanding liabilities of a government relative to the size of the economy under its tax jurisdiction. The size of the economy is taken as the proxy for its tax base although for a variety of reasons – both within and beyond the control of a government – it may not be able to tax the whole of the economy. The Debt to GDP ratio for countries or Debt:GSDP ratios for State governments are to be used with this understanding and limitation in mind.

13. Apart from the level of expenditure incurred by the State/UT governments, the share of debt-financing in their expenditure also has significant economic impact. A high burden of debt and deficit in State finances reduces sustainability and flexibility in their operations and their compulsions of raising ever increasing level of debt from the market puts upward pressure on interest rates and stokes inflation. Of course, the same applies to the Union government borrowings as well which together with State borrowings crowd out non-government borrowers from the debt market.

14. Study of the extent to which State government expenditures

are debt financed is an important metric. Government expenditure is normally expected to be financed from tax and non-tax revenues of the government, recoveries of loans and advances given by the government, resources raised by sale of physical and financial assets. However, these resources fall short of the expenditures planned by the governments and over past few decades it has become a common practice for governments to borrow and spend. One would expect that the borrowing is a temporary measure resorted to tide over a one-off large expenditure requirement. It is hoped that the borrowings would be fully serviced and repaid by future revenues or from asset sale. However, in practice, governments merely refinance old borrowings to accumulate an ever-increasing pile of outstanding debt.

15. The State/UT governments have substantial dependence on non-debt resources provided by the Central government (36% of all States'/UTs' aggregate expenditure in FY2020-21). Hence, their dependence on borrowings is not as high as that of the Central government. During FY15 to FY21, the States' aggregate Gross Fiscal Deficit was an average 18 per cent of their total expenditure. The ratio shot up to 23.6 during FY20-21. For Centre, the debt-financed expenditure had been much higher, almost 52% in FY20-21 and average 30% in preceding 6 years.

16. Total outstanding liabilities and some related metrics to gauge the debt and deficit position of individual State/UT finances in and at the end on FY2020-21 are shown in Table 8:

Table 8 State/UT-wise profile of public debt and deficit in FY2020-21 (Rs. in crore)

State/UT	Outstanding liabilities at end March 2021	Per Capita Debt w.rt. 2011 Population at end March 2021 (Rs)	Fiscal Deficit as % of GSDP in FY20-21	Interest payments as % of Revenue Receipts	Outstanding liabilities as % of GSDP (FY20-21)	Revenue Deficit (FY20-21)	Fiscal Deficit (FY20-21)
Andhra Pradesh	3,53,021	71,206	5.44	17.09	34.8	35,541	55,167
Arunachal Pradesh	14,077	1,01,735	3.47	4.39	45.0	-4,036	1,086
Assam	89,709	28,748	3.27	7.89	26.4	-1,377	11,108
Bihar	2,27,426	21,847	5.08	9.74	38.7	11,325	29,827
Chhattisgarh	1,00,016	39,153	4.52	8.92	28.6	6,857	15,822
Goa	26,613	1,82,460	3.61	12.92	35.2	665	2,730
Gujarat	3,63,647	60,167	2.47	18.89	22.2	22,548	40,438
Haryana	2,46,279	97,146	3.78	25.33	32.5	22,386	28,686
Himachal Pradesh	68,896	1,00,364	3.64	13.38	44.0	97	5,700
Jharkhand	1,09,271	33,124	4.96	10.31	36.3	3,114	14,911
Karnataka	4,21,504	68,991	3.88	13.99	24.4	19,338	67,098
Kerala	3,10,856	93,054	5.12	21.49	38.9	25,830	40,970

State/UT	Outstanding liabilities at end March 2021	Per Capita Debt w.r.t. 2011 Population at end March 2021 (Rs)	Fiscal Deficit as % of GSDP in FY20-21	Interest payments as % of Revenue Receipts	Outstanding liabilities as % of GSDP (FY20-21)	Revenue Deficit (FY20-21)	Fiscal Deficit (FY20-21)
Madhya Pradesh	2,90,859	40,048	5.11	10.87	29.8	18,356	49,870
Maharashtra	5,48,348	48,797	2.64	13.72	20.2	41,142	71,558
Manipur	13,061	45,733	5.55	6.41	38.3	-554	1,892
Meghalaya	14,705	49,563	7.50	8.04	42.4	815	2,604
Mizoram	10,217	93,119	10.37	5.18	56.7	774	1,869
Nagaland	15,254	77,099	4.28	7.50	50.1	-375	1,301
Odisha	1,41,240	33,649	1.84	6.36	26.5	-9,076	9,786
Punjab	2,59,266	93,452	4.24	26.29	48.7	17,296	22,584
Rajasthan	4,11,001	59,958	5.86	18.76	40.6	44,002	59,375
Sikkim	9,656	1,58,141	7.15	9.78	30.4	761	2,274
Tamil Nadu	5,68,893	78,852	5.20	20.97	31.5	62,326	93,983
Telangana	2,71,259	77,494	5.10	16.69	28.2	22,298	49,030
Tripura	21,491	58,495	3.51	9.67	39.5	1,075	1,909
Uttar Pradesh	6,00,110	30,034	3.31	12.64	36.4	2,367	54,622

State/UT	Outstanding liabilities at end March 2021	Per Capita Debt w.r.t. 2011 Population at end March 2021 (Rs)	Fiscal Deficit as % of GSDP in FY20-21	Interest payments as % of Revenue Receipts	Outstanding liabilities as % of GSDP (FY20-21)	Revenue Deficit (FY20-21)	Fiscal Deficit (FY20-21)
Uttarakhand	75,249	74,605	2.32	12.49	32.1	-1,113	5,439
West Bengal	4,97,266	54,479	3.43	22.76	38.2	29,527	44,688
Jammu and Kashmir	55,754	44,456	6.27	12.14	32.8	138	10,668
NCT Delhi	9,496	5,657	0.85	6.86	1.2	-1,450	6,708
Puducherry	10,562	84,628	2.44	11.42	29.6	628	872
All States and UTs	61,55,000	50,832	3.89	14.96	31.1	3,71,222	8,04,574

17. In Table 9, the State/UTs are ranked in terms of the level of their indebtedness at the end of FY20-21, measured in terms of outstanding liabilities as % of GSDP.

Table 9 Outstanding liabilities at the end of the financial year (as % of GSDP)

State/UT	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Mizoram	73.0	67.7	66.1	60.4	51.9	46.7	38.9	38.9	34.9	42.6	56.7
Nagaland	50.2	55.4	52.7	50.3	43.2	45.7	44.0	42.6	43.9	46.6	50.1
Punjab	33.1	31.1	31.0	30.8	31.7	34.4	42.8	41.4	41.4	42.8	48.7
Arunachal Pradesh	38.9	35.7	34.0	32.3	34.3	30.9	28.5	31.0	33.3	40.4	45.0
Himachal Pradesh	46.0	38.8	35.5	35.7	36.8	36.1	37.6	36.8	36.6	39.1	44.0
Meghalaya	29.8	26.9	24.1	28.7	29.7	30.0	33.7	34.4	35.3	35.4	42.4
Rajasthan	29.4	24.5	24.0	23.3	24.1	30.8	33.6	33.8	34.2	35.4	40.6
Tripura	34.1	34.1	35.4	34.1	34.0	28.8	30.0	30.6	30.3	33.6	39.5
Kerala	31.8	26.0	26.7	27.0	28.0	28.9	30.2	30.9	30.9	32.5	38.9
Bihar	31.2	27.5	27.5	27.9	29.0	31.4	33.0	33.5	32.0	33.2	38.7
Manipur	68.0	50.4	49.6	43.8	40.8	41.7	41.5	37.1	38.2	36.4	38.3
West Bengal	41.9	40.4	39.1	36.7	34.6	39.5	38.7	38.1	36.7	36.9	38.2
Uttar Pradesh	38.3	33.8	29.7	28.3	31.0	33.9	36.7	35.9	35.9	32.3	36.4
Jharkhand	22.2	20.8	20.1	20.1	20.0	27.6	28.5	28.8	27.4	30.5	36.3
Goa	28.4	23.5	29.5	37.0	29.5	28.4	26.8	26.9	28.5	30.2	35.2
Andhra Pradesh	23.9	39.7	42.4	42.3	23.3	24.5	37.2	29.2	30.3	31.8	34.8
J&K and Ladakh	55.4	46.9	46.5	46.9	49.0	47.0	49.6	48.6	49.3	54.1	32.8
Haryana	17.8	19.1	19.5	19.9	21.2	25.0	26.6	26.2	26.9	28.8	32.5
Uttarakhand	25.4	21.5	20.4	20.3	21.1	22.7	22.8	24.1	25.8	28.5	32.1

State/UT	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Tamil Nadu	19.6	17.4	17.9	18.5	17.3	19.4	21.8	22.3	24.6	26.5	31.5
Sikkim	33.1	25.0	24.2	24.1	22.7	24.1	22.7	22.8	24.1	25.3	30.4
Madhya Pradesh	28.7	25.7	23.5	21.9	22.7	23.6	24.0	23.8	23.5	22.5	29.8
Puducherry	35.2	32.4	27.4	30.3	31.1	29.3	53.6	22.6	23.6	24.6	29.6
Chhattisgarh	14.3	11.3	12.1	12.6	13.2	17.4	16.5	19.5	21.7	24.9	28.6
Telangana	–	–	–	–	–	15.7	12.4	21.4	22.2	23.7	28.2
Odisha	23.8	20.7	18.8	17.0	16.2	19.9	18.3	23.4	21.2	27.0	26.5
Assam	23.5	19.5	18.9	17.4	18.1	18.4	17.3	17.4	19.3	21.2	26.4
Karnataka	22.8	17.5	16.2	17.0	17.4	17.8	17.5	18.4	19.4	21.0	24.4
Gujarat	27.4	24.6	23.4	23.3	22.0	22.5	20.9	20.2	20.0	20.4	22.2
Maharashtra	22.0	19.3	19.4	18.8	18.1	17.9	18.0	18.4	17.1	17.6	20.2
NCT of Delhi	11.9	8.6	7.5	7.3	6.6	6.0	5.4	0.5	0.5	0.5	1.2
All States and UTs	**23.5**	**22.8**	**22.2**	**22.0**	**21.7**	**23.7**	**25.1**	**25.1**	**25.3**	**26.7**	**31.1**

Source: Statement 20, **RBI report on State Finances 2022-23**
https://rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets

18. It is seen that the aggregate level of States' indebtedness has been somewhat stable at 25% of aggregate GSDP. The stability was somewhat disturbed in FY19-20, but the indebtedness increased sharply in FY20-21 due to contraction of GSDP and reduction in the States' revenues as a result of the covid pandemic. The deterioration in the indebtedness position has been particularly sharp in case of Punjab, Rajasthan Kerala, Bihar, Jharkhand, Andhra Pradesh, Haryana, Tamil Nadu, Chhattisgarh, and Telangana.

19. The size and stability of Debt:GSDP ratio are important metrics to gauge the health of State finances. These are supplemented by other metrics discussed below.

- The ratios of Gross Fiscal Deficit and Primary Deficit (Gross Fiscal Deficit minus Interest payment) as % of GSDP measure the current rate of accretion to outstanding liabilities as distinct from the burden of legacy liabilities of previous years.
- Revenue Deficit as a proportion of Gross Fiscal Deficit measures the extent to which net borrowings (net of repayment of principal) are being used to bridge the revenue gap rather than for financing capital expenditure.
- The ratios showing percentage distribution of short, medium, and long-term liabilities indicate the extent to which the government is vulnerable to refinancing pressure in short-term. Governments try to lengthen the average maturity of outstanding debt as much as the lenders would permit.
- The ratio of interest burden as a percentage of revenue receipts and as a percentage of total expenditure. The last metric shows the extent to which interest burden crowds out other desirable expenditures when total expenditure faces a resource constraint. Since States have access to national level capital market to borrow, the link between their average cost of borrowing and growth rate of GSDP is

somewhat weak. A State able to borrow at a lower cost or having a large resource base does not experience as much crowding out of desirable expenditure by the interest payment obligation.

- Average cost of market loans is another useful indicator of the government's credit standing in the market, indicating the risk premium expected by market. (Since 2005-06, the States are required to borrow directly from the market rather than through Central government intermediation and averaging / moderation of interest cost.) .

- Trends and profile of Own Tax and non-Tax Revenue, budget dependence on Central transfers, outstanding debt and other liabilities, gross fiscal deficit, revenue deficit, primary deficit, total outstanding liabilities, Revenue and Capital Expenditure and Debt Service Charges. The average YoY growth and Trend Growth Rate is studied over long periods. Besides, these parameters are also studied as % of GSDP and total revenue receipts of the State.

- States' Own Deficit (SOD) and States' Own Revenue Deficit (SORD) are non-conventional indicators of the health of State finances. SOD and SORD are the *Gross Fiscal Deficit and Revenue Deficit, respectively, the* States would have faced without transfer of tax share and grants from the Centre. These are computed by deducting all Central transfers from the Gross Fiscal Deficit and the Revenue Deficit for the year. Most probably, the States would not have been able to plan as much expenditure in the absence of tax share and grants received from the Centre. To that extent this metric is only indicative of the potential resource gap faced by a State.

- Outstanding liabilities as a multiple of total annual revenue or State's own revenue is another less used metric to gauge the indebtedness of a State relative to its revenue raising capacity.

Fiscally stressed States

20. Based on high level of outstanding liabilities relative the size of the State's economy, the following States (Table 10) may be termed as most fiscally stressed having debt level higher than 32 % of GSDP in FY20-21:

Table 10: Most indebted States (at end of March 2021)

State	Outstanding liabilities at end March 2021 as % of GSDP FY20-21	Outstanding liabilities at end March 2021 as multiple of annual State's own tax revenues (FY20-21)
Punjab	48.7	8.6
Rajasthan	40.6	6.8
Kerala	38.9	6.5
Bihar	38.7	7.5
Uttar Pradesh	36.4	5.0
Jharkhand	36.3	6.5
Goa	35.2	6.3
Andhra Pradesh	34.8	6.1
Haryana	32.5	5.9

21. The cost of debt servicing the second most important parameter after the size of outstanding debt. The following States had high interest payments burden relative to Total Revenue Receipts (> 15% in FY20-21).

Table 11: States carrying the highest debt-service burden during FY2020-21

State	Interest payment as % of Total Revenue Receipts	Interest payment as % of State's Revenue Receipts
Punjab	26.29	26.29
Haryana	25.33	25.33
West Bengal	22.76	22.76

State	Interest payment as % of Total Revenue Receipts	Interest payment as % of State's Revenue Receipts
Kerala	21.49	21.49
Tamil Nadu	20.97	20.97
Gujarat	18.89	18.89
Rajasthan	18.76	18.76
Andhra Pradesh	17.09	17.09
Telangana	16.69	16.69

INSTITUTIONAL EFFORTS TO CONTROL GOVERNMENT DEBT AND DEFICIT

Control on States' borrowings

1. The borrowing power of a state government is limited by Art.293 of the Constitution. The borrowing should be within the territory of India. The borrowing should be within such limits, if any, as may from time to time be fixed by the Legislature of such State by law. The consent of GoI is required for borrowing by a State if a Central loan advanced to the State is outstanding or if a GoI guaranteed loan advanced to the State is outstanding. Thus, a state government can borrow only from domestic lenders and needs to seek the Central government's consent before resorting to any borrowing if the State government is indebted to the Central government or is carrying any outstanding loan that is guaranteed by the Central government. The Centre is Constitutionally empowered to withhold consent or to give a conditional consent subject the State government to several conditions like carrying some administrative or legislative reforms.

2. The system of Centre's consent for State borrowings is fairly streamlined. The Central government in consultation with the Reserve Bank of India decides an annual ceiling of net borrowings (net of repayments during the year) permitted to each State States for raising 'market loans' for which the RBI arranges a schedule of auctions of State Development Loans (10-year bonds). Similarly, Centre gives consent for other cases of non-market borrowings if done under some scheme formulated by the Centre. In all other cases, the States send every other case of individual loan to the Central government for seeking prior consent before signing the loan agreement.

3. Often the States would like to spend beyond the borrowing levels permitted by the Centre and try to find ways and means to bypass Centre's consent. In one such case, the Government of West Bengal directed (1994) the State Electricity Board to borrow from Peerless Finance Company with State Government guarantee of

repayment and debt servicing and deposit the loan proceeds in the State's Public Account so that the cash becomes available to the State government for spending. The CAG objected to these instructions saying that the State should have sought Centre's consent because the Board was borrowing at the State Government's behest for the purposes of the State government.

4. Such instances of surrogate borrowing by States through Public Sector Undertakings by giving State guarantee became more common as the Central discipline became stricter under Art.293 of the Constitution. These borrowings are called 'off-budget' borrowings of the State because the proceeds are used to finance State government expenditure directly or indirectly. Even Centre resorted to off-budget borrowings to bypass borrowing limits placed under the Fiscal Responsibility and Budget Management Act, 2003. These breaches of fiscal discipline whether under the Art.293 or the FRBM Acts have regularly been commented adversely in the CAG Reports.

5. A rather peculiar case of 'off-budget' borrowing was of borrowings by Kerala Infrastructure Investment Fund Board (KIIFB), a statutory body constituted (November 1999) and controlled by the State Government under the Kerala Infrastructure Investment Fund Act, 1999. Every year the State Government sets apart petroleum cess and a share of Motor Vehicle Tax (MVT) collected to KIIFB through regular budget provision under capital account. KIIFB raised funds from the market by issue of bonds including an amount of Rs.2,150 crore raised through 'Masala Bonds' (Rupee denominated securities subscribed by lenders located in foreign countries). The CAG concluded that the State government had violated Art.293(1) by borrowing from outside India through KIIFB which had no revenue of its own was entirely dependent on the State Government to meet its debt obligations. Likewise, Kerala Social Security Pension Limited (KSSPL) had borrowed funds to finance Kerala government pension schemes which were essentially surrogate borrowings by the State

government as KSSPL was fully controlled by the government and was fully dependent on State government for debt servicing.

6. Off-budget borrowings by the State Government have the effect of bypassing the Net Borrowing Ceiling of the State by routing loans outside State budget through Government owned or controlled Companies/ statutory bodies despite being responsible for repayment of such loans. Such borrowings naturally have impact on the Revenue Deficit and Fiscal Deficit and thus, have the effect of surpassing the targets set for fiscal indictors under the State FRBM Act. (Under the Kerala FRBM Act 2003, 'total liabilities' means *liabilities upon the Consolidated Fund and public account of the State*; and 'fiscal deficit' means *the excess of total expenditure of the Government over the total receipts and represents the borrowing requirements, and net of repayment of debt of the Government during the year, calculated as prescribed by the Comptroller and Auditor General of India*.)

Legislative control on government debt and deficit

7. India adopted a somewhat conservative fiscal policy approach and public debt was controlled in the initial years post-Independence. The country's economy registered a moderate growth (average 3% p.a.) but without any significant burden of debt and deficit in government finances which began to swell in the decade of 80s which accelerated the growth to almost double (6% p.a.) It was also the period when the foundation of modern industry, agriculture, science, and education were laid. However, the indebtedness situation worsened in 80s and 90s. The rise in short-term external debt coupled with the Gulf war induced disruption in crude supply led to a serious balance of Payment crisis in 1990-91 when the country had just about a billion US dollars not sufficient to finance even one month's supply of crude oil. Of course, we took emergency measures to pledge gold, avert default in meeting external debt service obligations and launched economic reforms which have yielded credible gains in external and monetary sector policies and paved the way for tax improvement.

8. As part of the reforms measures, the government decided to discipline itself by borrowing at high interest rates from market rather than depending on cheap, captive sources of deficit financing. Controls on investments of surplus funds of Insurance/Pension/Provident Funds etc. and statutory pre-emptions of investible funds of banks were whittled down substantially to reduce financial repression through captive sources of financing deficits. The practice of Central government borrowing from the RBI through Ad hoc Treasury Bills at a low interest rate of just 4.6% when the market rate was over 12% was also discontinued. Government opting for market discipline to borrow (rather than monetizing government deficit through borrowing from the RBI) led to a rapid increase in government's interest burden. As the market interest rates peaked in late 90s in the wake of tight monetary policy adopted to deal with the effect of South Asian currency crisis, the interest burden became rather steep and fiscal situation deteriorated rapidly. At the end of 1998-99, total Central government liabilities were Rs. 8,75,625 crore (at historical rates of exchange for external debt) whereas its total assets at book value (cumulative capital expenditure at historical cost-plus outstanding loans) stood at Rs. 5,28,399 crore. The gap represented cumulative debt incurred to finance revenue expenditures.

9. Considering the above-mentioned study report and draft law [6] and taking note of the prevailing fiscal stress, the Finance Minister constituted the Committee on Fiscal Responsibility Legislation on 17th January 2000 whose recommendations formed the basis of the FRBM Bill introduced in Parliament in December 2000 stipulating *inter alia* time bound elimination of Revenue Deficit and reduction of Fiscal Deficit to the level of 3% of GDP. The draft sought the elimination of the revenue deficit within five years, a steady

---

[6] Paper on "Legislative regulation of debt, deficit and guarantees in India", 1999, authored by S. C. Pandey, Director(Budget), cited in CHAPTER 2 of the Report of the FRBM Review Committee (2017) https://dea.gov.in/sites/default/files/Volume%201%20FRBM%20Review%20Committee%20Report.pdf

reduction in the fiscal deficit, capping the growth rate of the stock of liabilities at the growth rate of net tax revenue receipts, the elimination of asset-liability mismatches on a book value basis within 10 years and capping outstanding guarantees to 10 percent of outstanding liabilities. The Bill was referred to the Parliamentary Standing Committee on Finance and the panel objected to stipulating specific numerical ceilings and inflexible timeframes for attaining the levels prescribed in the Bill. The committee believed that these would induce rigidity in decision-making. After dilution of the stringent provisions of the Bill, Parliament passed the FRBM Bill in August 2003, but it did not come into force immediately.

10. The FRBM Act was brought into force from July 2004 by the new government. The Act set the target of reducing the fiscal deficit to 3% of GDP by 2008-09 with an annual reduction of 0.3 percentage points. It sought to eliminate the revenue deficit by 2007-08 (later revised to 2008-09 through an amendment) through an annual reduction of 0.5% percentage points. While good progress was made till 2007-08 but the government changed its fiscal stance citing the impact of global financial crisis. The impact of Sixth Pay Commission, farm loan waiver, expansion of the NREGS to all the districts, across the board cuts in Excise Duty etc. resulted in very sharp deterioration in fiscal deficit in 2008-09 and since then the stiff initial targets have been diluted, reset, extended and the Revenue Deficit target has been removed altogether from the Act.

11. The Central FRBM Act was initiated when total liabilities of the Union had increased from Rs.6,30,071 crore in 1994-95 to Rs.10,12,486 crore in 1998-99 with external debt reckoned at current exchange rates; a multiple of 6.8 times over the revenue receipts in 1998-99. The Central government liabilities have since piled up to about Rs.141,00,000 crore by the end of FY21-22; 6.5 times the Central government’s revenue in FY21-22, showing some marginal improvement in the level of indebtedness. The combined

liabilities of the Central and State governments aggregated to Rs.199,98,943 crore[7], about 85% of GDP.

State FRBM Acts

12. Even before the FRBM Act was passed by the Parliament in August 2003 and came into force in July 2004, several States had enacted legislations similar to Central FRBM Act - Karnataka (2002), Punjab (May 2003[8]), Tamil Nadu (May 2003[9]), Kerala (Sept 2003[10]) and Uttar Pradesh (Feb 2004[11]). Kerala Ceiling on Government Guarantee Act, 2003[12] was enacted in September 2003 to put statutory ceilings guarantees in addition to FRBM ceilings on government deficits.

13. In the twelfth conference of the State Finance Secretaries held on August 1, 2003, it was decided that the Reserve Bank of India (RBI) would provide technical assistance in the preparation of a model fiscal responsibility bill for State Governments. Accordingly, a Group of State Finance Secretaries with representation of Central Government set up by the Reserve Bank of India had drafted (2004) a model Fiscal Responsibility Legislation at State Level. The Group decided that the model legislation would generally follow the Central FRBM Act and build upon the State fiscal responsibility legislations enacted so far.

---

[7] Table 112 : Combined Liabilities of Central and State Governments RBI Handbook on Indian Economy

[8] https://finance.punjab.gov.in/uploads/21May2022/d669477f3adae0675bc6d1d2c7be92b4.pdf

[9] https://prsindia.org/files/bills_acts/acts_states/tamil-nadu/2003/2003TamilNadu16.pdf

[10] https://www.indiacode.nic.in/bitstream/123456789/16107/1/kerala_fiscal_responsibility_act.pdf

[11] https://prsindia.org/files/bills_acts/acts_states/uttar-pradesh/2004/2004UP5.pdf

[12] https://www.indianemployees.com/acts-rules/details/kerala-ceiling-on-government-guarantees-act-2003

14. Since 2004, all the remaining States have also now enacted FRBM Acts broadly modelled on Central FRBM Act as per the model provided by the Group of Officers with some special features. For example, the Karnataka Act sought to control off-budget borrowings by the State by using parastatal entities as conduit. As noted above, States were occasionally found using controlled entities like electricity boards or other public sector companies as conduits to borrow to finance government expenditure. The Karnataka Act provided that "For the purpose of calculation of fiscal deficit, borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government are to be treated as borrowings of the Government." The off-budget borrowing by the Centre gained prominence later. The J&K FRBM Act sought to control 'post-devolution non-plan revenue deficit' in addition to control of Revenue Deficit and Fiscal Deficit which is the common feature of all State FRBM Acts.

15. It is seen that there is one persisting anomaly in regulation of deficits incurred by the States because the Group of Officers recommending model FRBM law for States adopted the same fiscal indicators (revenue deficit and fiscal deficit) although these indicators carry different responsibilities for the Central and State governments. Unlike the case of the Central government, the State governments receive share of taxes and grants from a higher government. When the targets of Revenue and Fiscal Deficits are set by factoring all revenues of the State government including Central transfers (rather than just States' own revenues), it means a state can meet FRBM targets with Central support while another State not getting such support will find it difficult to meet the FRBM targets.

16. The States were persuaded to enact FRBM Acts based on the accepted recommendations (2004) of the 12th Finance Commission for the period 2005-2010. The Commission recommended a debt relief scheme for States but made the relief conditional. The Commission recommended that each state *"must enact a fiscal*

responsibility legislation prescribing specific annual targets with a view to eliminating the revenue deficit by 2008-09 and reducing fiscal deficits based on a path for reduction of borrowings and guarantees. Enacting the fiscal responsibility legislation on the lines indicated in Chapter 4 of the report will be a necessary pre-condition for availing of debt relief".

17. Prescribing a common deficit reduction target for all States was not appropriate because in 2004 different States had different levels of revenue and fiscal deficits and their capacity to reduce deficits was also widely varying. This anomaly was later rectified by the 13th Finance Commission by fixing State-specific targets of deficit reduction.

18. However, the developments in and after 2008-09 and policy choices made by governments made it difficult to adhere to the targets and deadlines set in the Central and various State FRBM Acts. These Acts have since been repeatedly amended to dilute and postpone deficit reduction targets leading to steady build-up of liabilities. The combined liabilities of Centre and States reached a record high of almost 90% of GDP in the pandemic-affected year of FY20-21 (about 60% for Centre and about 30% for all States).

19. The latest revised roadmap for fiscal consolidation by the States as per the recommendations of the 15th Finance Commission is that the normal limit for net borrowings by State Governments may be fixed at 4 per cent of GSDP in 2021-22, 3.5 per cent in 2022-23 and be maintained at 3 per cent of GSDP from 2023-24 to 2025-26. The Commission has also recommended an extra annual borrowing space for the States, of 0.50 per cent of their GSDP for the period 2021-22 to 2024-25, based on performance criteria in the power sector.

Principal sources of fiscal stress in State finances

20. Of late, rising burden of interest, pension and subsidies in government expenditure has received considerable public attention. Why should it worry public finance analysts if interest payment, salaries, pensions, security-related expenditure, subsidies/freebies

increase? Why should growth of any expenditure of the government which may be legitimate and obligatory or desirable in its own be a cause of concern? After all, these are legacy burdens of an obligatory nature or policy choices of a government competent to decide. The answer to this rhetorical question is simple. Disproportionate growth in any type of expenditure becomes a matter of concern when, in a resource constraint situation, it begins to squeeze out other more desirable types of expenditures or leads to increase in tax burden or leads to unsustainable increase in borrowings possibly leading to situation of fresh borrowings to not just repay old borrowings but also to pay interest, a typical debt trap situation. This is indeed happening in practice with most governments.

21. Apart from expenditure side issues, the efficiency and effectiveness of tax administration has an important bearing on relieving fiscal stress. In subsequent articles, we attempt to highlight headline facts and issues covering four areas of fiscal stress in State finances: Pension, Subsidies, Financial stress of electricity distribution companies (discoms) and Tax effort. The power distribution utilities continue to be saddled with sizeable debt and a bulk of it is likely to devolve on State exchequer unless remedial measures to improve recovery from consumers are not hastened. Thus, a lot of potential fiscal burden is not yet captured in State government accounts which already show a high level of indebtedness.

22. There is yet another theme related to fiscal stress on State exchequer, viz., health of State level parastatal, both government companies, corporations as well as autonomous bodies. This area could not be studied in some meaningful depth as their accounts are heavily in arrears and the information of their operations and finances is not fully available in public domain.

SUBSIDIES: THE BURDEN OF UNREQUITED AND DISCRETIONARY SUPPORT

1. In its broadest meaning, ‘subsidy’ means unrequited benefits extended to a class of beneficiaries by a government or by other entities owned/controlled by the government acting at the behest of the government. A government is expected to act in public interest and therefore its actions and decisions are meant to benefit the population it serves. The benefit is termed direct or indirect subsidy only when the benefit is restricted to a subset of the population. What benefits everyone is not subsidy.

2. It may be apt to mention that refunding the taxes collected on goods meant for export to the exporter is not subsidy because the rules of international trade permit a country not to export their domestic taxes to foreign consumers.

3. Likewise, any benefit extended as a reward/incentive for specific desirable action/service/performance/achievement by the recipient of benefit or as compensation for costs imposed are also not to be regarded as subsidy. Only unrequited transfers of benefits are to be called subsidies. Thus, a general debt waiver without expecting anything in return from the loanee is a subsidy but waiving the last loan instalment for loanees repaying all other instalments on time is not a subsidy but ‘incentive’. Similarly, free supply of cooked meals, uniforms, textbooks, stationery to children is incentive to them for attending school. Production Linked Incentive to industries to promote manufacturing/export is not subsidy. A key test to distinguish a subsidy from incentive is whether the beneficiary has done something useful though not exceptional which he would not have done but for the incentive. Benefits given by way of rewards are a distinct class. These are given for public recognition of exceptional performance that motivates others to emulate and is thus a public good.

4. In its most visible form, the subsidy benefits may be given in the form of free distribution of some goods like food or consumer durables or by directly transferring money in the beneficiary’s

accounts. For example, wheat/rice is supplied free at the scale of 5kg per head per month to about 60% of the country's population. Direct income support to all farmers, big or small; provision of water, electricity, fertilizers to farmers is a special class of benefits to the farming community that defies easy classification. It may be viewed as compensation for the collective disadvantage the farmers have with low bargaining power in the market (very large number of small farmers without capacity to hoard supplies to boost prices) and exposure to risks (pests and inclement weather). On the other hand, those who view farming as just another enterprise would consider the government support as subsidies, well-merited if only the genuinely poor farmers are helped, not all.

5. An indirect form of subsidy provided to some beneficiaries when the government or its agencies mandated or influenced by the government do not charge full cost of the service they provide or do not fully recover any loan or charge lower interest from all or some of the beneficiaries. Debt relief or waiver is a contentious issue. Some would regard it as generosity or undue indulgence on the part of lenders while others would merely regard it as mere formal acceptance of reality: the inability of the borrower to repay. An indiscriminate debt waiver without considering the ability to repay would therefore amount to subsidy only in respect of borrowers able to repay. For others, it is simply making virtue out of a necessity.

6. Another form of indirect subsidy called 'tax expenditure' are the tax exemptions and concessions provided by a government to a specific set of beneficiaries for a specific purpose usually for a specific period. A tax concession to an industry to set up factory in a remote border State with significant cost disadvantage is not a subsidy but if the tax concession is given indiscriminately to all industries, irrespective of actual cost handicap, it would be subsidy to the industrial unit benefitting without cost disadvantage.

7. All these types of government support to specific set of beneficiaries are present in the fiscal management by the Union, the States and the Union Territories.

8. The States, constrained by limited financial resources, large-scale committed expenditure like interest, salaries, pensions, dependence on the Union and control on borrowings by the Centre, have limited ability to extend direct subsidies. They rely more on indirect/hidden subsidies like under-recovery of full cost of water and electricity supply or tax exemptions/concessions. When one set of beneficiaries is overtaxed/overcharged to compensate for reduced burden imposed on another set of beneficiaries, it is called 'cross subsidy'. For example, Railways do charge the actual cost of transportation from its users. The freight is overcharged to keep passenger fares lower than actual cost. Electricity supplied to industries and commercial establishments is charged at a higher rate (than actual cost) so that the rates for household consumers or farmers may be kept low. Even for household electricity supply, the rates may be kept lower than actual cost for poorer sections of consumers. In addition, the government may pay direct subsidy by not recovering 100% or 50% of the electricity billed at these lower rates.

9. Comprehensive and reliable data on all direct and indirect subsidies is not available. Table 10 below shows the State/UT-wise 'Subsidies' as compiled by the RBI in its annual study on State finances based on State Budgets for FY22-23.

Table 12 Trends in 'Subsidies 'by States/UTs (Rs. in crore)

State/UT	2018-19	2019-20	2020-21	2021-22 (RE)	2022-23 (BE)
Andhra Pradesh	2,352	6,343	4,948	16,810	14,181
Arunachal Pradesh	2	158	18	13	28
Assam	1,324	996	1,966	529	489
Bihar	8,324	7,121	8,167	10,256	11,058
Chhattisgarh	8,323	20,329	26,138	25,580	–
Goa	301	263	426	405	–
Gujarat	17,268	18,420	22,155	22,323	22,145
Haryana	8,549	8,105	7,597	10,062	9,167

State/UT	2018-19	2019-20	2020-21	2021-22 (RE)	2022-23 (BE)
Himachal Pradesh	1,283	1,068	1,241	1,227	1,257
Jharkhand	–	4,275	3,208	6,277	5,869
Karnataka	23,330	25,650	25,765	25,483	26,114
Kerala	1,652	1,378	6,300	3,628	2,170
Madhya Pradesh	–	12,642	13,458	18,572	–
Maharashtra	27,398	28,386	–	–	–
Manipur	–	120	120	121	121
Meghalaya	59	42	38	58	63
Mizoram	12	22	0	177	110
Nagaland	–	128	25	25	–
Odisha	2,583	2,697	3,511	3,626	3,235
Punjab	13,360	10,161	9,748	–	14,516
Rajasthan	21,540	18,990	14,829	23,686	24,470
Sikkim	–	1	3	3	14
Tamil Nadu	18,922	20,144	1,07,005	1,17,172	1,13,643
Telangana	6,304	6,839	12,023	15,468	14,891
Tripura	133	57	146	146	154
Uttar Pradesh	14,053	14,092	11,677	20,152	23,209
Uttarakhand	174	35	139	145	378
West Bengal	10,016	–	12,377	18,720	10,935
Jammu and Kashmir	–	700	–	–	–
NCT Delhi	–	3,593	4,177	4,769	4,803
Puducherry	173	223	282	296	272
All States and UTs	1,87,433	2,12,976	2,97,484	3,45,727	3,03,290

Source: Statement 36, RBI report on State Finances 2022-23 https://rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets

10. The above data is incomplete and based on self-reporting by the States in the Budget documents. A subsidy may not be named as

subsidy in government budget and accounts but may also be variously in the form of grants-in-aid, incentives, subvention, relief, waiver, scheme. Also, at State level, many public services are provided by government departments or autonomous bodies, statutory corporations or municipal bodies which do not have systems of maintaining proper accounts of the cost of supply/service and losses incurred or their accounts are heavily in arrears.

11. There is nothing black or white about the debate on freebies/subsidies. It is all shades of grey. Well-targeted subsidies that reach the genuinely needy, poorest of the poor are necessary but who is poor is itself a debatable issue. Poverty is always relative and once benefits are attached to it, beneficiaries don't want to lose the 'poor' tag even when they move up the ladder.

12. Subsidies become problematic when these lead to undesirable excess consumption of subsidized goods like water, electricity, urea or when the benefits are appropriated by unintended, undeserving beneficiaries. In several parts of the country, indiscriminate excessive use of urea has led to the phenomenon of nitrogen pollution: increased acidity of soil, erosion of soil productivity and leaching of urea in water supply. The government is now promoting more controlled use of fertilizers through the system of soil health cards and need-coated urea and nano urea. Wasteful consumption of free water and power is sought to be curbed through restricting subsidies to metered supply. Free or cheap water leading to increased cultivation of water-guzzling crops like rice and sugarcane in water scarce areas using high power pumps to draw groundwater from deep depths is an environmental disaster that is yet to be mitigated.

13. To tax the affluent sections of population to extend benefits to weaker sections is widely accepted public policy. Reality is that many governments worldwide have started extending subsidies beyond their current taxation capability; subsidies financed by asset sale or from borrowed money. Their revenue collections are insufficient to pay for committed expenditures like interest, salaries,

pensions and other obligatory expenditures. (Assuming that salaries, wages, pensions paid by the government are all market-linked and have no element of hidden subsidy.) Subsidies would have to come after meeting primary obligations. Inability to finance revenues from current revenues is indeed problematic. Asset sale or borrowed funds should ideally be used for investment in productive assets.

14. Another issue germane to any discussion on subsidies is that the subsidies purportedly given to buyers of goods / services may actually be masking subsidies to inefficient, high-cost producers/suppliers of those goods and services.

15. We will discuss power subsidies in detail which are significant source of fiscal stress to States and for which large amount of indicative data is available from the accounts of companies engaged in generation, transmission and distribution of electricity. For some States where electricity supply is still managed departmentally, proper accounts of losses and subsidies are not available.

SUBSIDIES AND CONTINGENT LIABILITIES IN POWER DISTRIBUTION

1. The power sector accounts for a major source of fiscal stress in State finances, both in terms of budgetary subsidies and off-budget, contingent liabilities. Periodic bailouts where the states take over a part of discoms' debt burden have added to interest burden and debt pile of States.[13]

2. The past few years have seen major developments in the power distribution sector in India. We have now achieved universal access to electricity. However, power distribution continues to be the weakest link in the supply chain of the power sector. Most distribution utilities are making major losses due to expensive, long-term power purchase agreements, poor infrastructure, and inefficient operations. These losses, in turn, prevent them from making the investments required to improve the quality of the power supply and to prepare for the wider penetration of renewable energy. The distribution utilities' inability to pay power generators endangers the financial health of the generators and their lenders, causing a negative domino effect on the economy. Only about 10 percent of total population is served by private distribution licensees.

3. Since the '90s, most state electricity boards have been unbundled into separate entities for generation, transmission, and distribution. Many of these entities have also been privatised. The Electricity Act, 2003 ushered major power sector reforms, including delicensing of generation, open access in distribution, and independent regulators at the state and central levels.

---

[13] This article draws from the 2021 study commissioned by the NITI Aayog titled ' Turning around the power distribution sector: Learnings and Best Practices from Reforms' (https://www.niti.gov.in/sites/default/files/2021-08/Electricity-Distribution-Report_030821.pdf); uses more recent data from the annual report of the Power Finance Corporation on the Performance of Power Utilities for FY 2021-22 as updated upto May 2023 and other specific sources cited in the footnotes.

4. Despite substantial improvements in operational performance in reducing unmetered/unbilled supply, the financials remain severely under stress. Even the supposedly independent regulatory authorities have little to show on this count. Unsustainable cross-subsidies hurt industrial development. The financials of discoms continue to remain worrisome in some States.

Overview of discoms performance FY2021-22: PFC annual report on Power Utilities (May 2023)

5. As per the report on the performance of 117 power utilities for the year 2021-22 (updated May 2023[14]) compiled by the Power Finance Corporation, gross energy sold by the electricity distribution utilities was 11,01,120 MU in 2021-22, registering 10% increase over the previous year. Revenue from sale of power including tariff subsidy billed increased by 14% from Rs.6,46,559 crore in 2020-21 to Rs.7,35,951 crore in 2021-22. Aggregate losses for distribution utilities decreased from Rs 46,521 crore in 2020-21 to Rs 31,026 crore in 2021-22. Tariff Subsidy claimed by distribution utilities increased from Rs.1,33,306 crore in 2020-21 to Rs.1,43,781 crore in 2021-22. As a percentage of total revenue, tariff subsidy billed by the utilities decreased from 18.70% in 2020-21 to 17.89% in 2021-22. Overall AT&C losses improved significantly from 22.25% in 2020- 21 to 16.42% in 2021-22. Collection efficiency improved from 92.36% in 2020-21 to 97.25% in 2021-22. Their aggregate net worth continues to be negative at Rs.53,559 crore as on March 31, 2022.

6. As on 31st March 2022, the outstanding receivables of discoms aggregated to Rs.2,48,632 crore (142 days average lag). Concomitantly, the outstanding receivables of gencos aggregated to

[14] Performance of Power Utilities 2021-22, Power Finance Corporation, May 2023, https://www.pfcindia.com/DocumentRepository/ckfinder/files/Operations/Performance_Reports_of_State_Power_Utilities/Report%20on%20Performance%20of%20Power%20Utilities%20-%202021-22%20%20updated%20up%20to%20May%202023.pdf

Rs. 2,78,878 crore (163 days average lag). Accumulated losses of discoms added up to Rs.5,52,507 crore. Total outstanding debt of distribution utilities increased from Rs 5,82,547 crore as on March 31, 2021, to Rs.6,17,928 crore as on March 31, 2022, out of which Rs.60,252 crore was on account of loans from State governments.

7. The health of discoms is clearly worrisome when an annual turnover of Rs.7,35,951 crore in FY21-22 results in outstanding receivables of Rs.2,48,632 crore (142 days average lag) and outstanding debt of Rs.6,17,928 crore and accumulated losses of Rs.5,52,507 crore.

Dismal state of discoms' finances in some States

8. Key financial parameters during 3 financial years ending 31st March 2022 are tabulated below.

Table 13 Key financial parameter for discoms for FY20, FY21 and FY22

	Unit	2021-22	2020-21	2019-20
Profit/(Loss) After Tax	Rs crore	(31,026)	(46,521)	(30,752)
Profit/(Loss) With Tariff Subsidy Received	Rs crore	(17,641)	(67,850)	(37,600)
Profit/(Loss) with Tariff Subsidy Received Excluding Revenue Grant under UDAY for loan takeover and Regulatory Income	Rs crore	(20,710)	(84,683)	(63,260)
Tariff Subsidy Billed	Rs crore	1,43,781	1,33,306	1,21,680
Tariff Subsidy Received	Rs crore	1,57,166	1,11,978	1,14,832
Tariff Subsidy Billed as % of Total Revenue	%	17.89	18.70	16.75
Tariff Subsidy Received as % of Tariff Subsidy Billed	%	109.31	84.00	94.37
Average Cost of Supply (ACS)	Rs/kWh	6.29	6.17	6.13

	Unit	2021-22	2020-21	2019-20
Average Revenue (Subsidy Billed)	Rs/kWh	6.06	5.79	5.89
Gap (Subsidy Billed)	Rs/kWh	0.23	0.38	0.25
Average Revenue (Tariff Subsidy Received)	Rs/kWh	6.16	5.62	5.83
Gap (Tariff Subsidy Received)	Rs/kWh	0.13	0.55	0.30
Average Revenue (Tariff Subsidy Recd.) without Revenue Grant under UDAY for loan takeover and Regulatory Income	Rs/kWh	6.14	5.48	5.62
Gap (Tariff Subsidy Received) without Revenue Grant under UDAY for loan takeover and Regulatory Income	Rs/kWh	0.15	0.69	0.51
Cash Adjusted ARR	Rs/kWh	5.89	5.25	5.29
Cash Adjusted Gap	Rs/kWh	0.39	0.92	0.84
Energy Purchased Including Own Generation	MU	13,25,962	12,31,339	12,34,126
Power Purchase Cost Including Fuel Cost	Rs crore	6,32,810	5,76,539	5,81,797
Power Purchase Cost as % of Total Cost	%	75.90	75.91	76.89
Billing Efficiency	%	85.94	84.18	85.45
Collection Efficiency	%	97.25	92.36	92.71
AT&C Loss	%	16.42	22.25	20.78

9. Key financial parameters at the end of each of the three financial years ending 31st March 2022 are tabulated below. It excludes States/UTs where distribution utilities are Power Departments.

Table 14 Key financial parameter of discoms

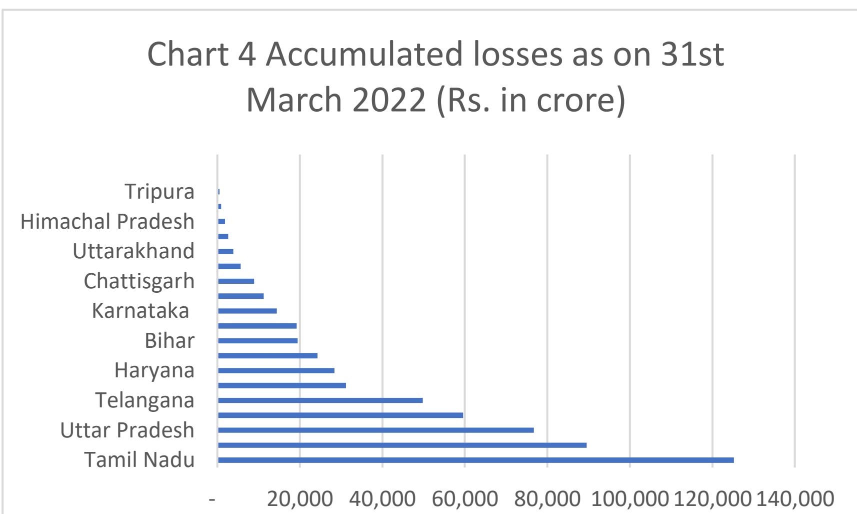
	Unit	2021-22	2020-21	2019-20
Receivables for Sale of Power	Rs crore	2,48,632	2,36,384	2,15,837
Receivables for Sale of Power	Days	142	159	136
Payables for Purchase of Power	Rs crore	2,78,878	2,74,458	2,57,897
Payables for Purchase of Power	Days	163	178	166
Net Worth	Rs crore	(53,559)	(52,358)	(39,163)
Accumulated Losses (as per Balance Sheet)	Rs crore	(5,52,507)	(5,24,811)	(5,05,361)
Total Outstanding Debt	Rs crore	6,17,928	5,82,547	5,00,310
State Government Loans	Rs crore	60,252	66,220	76,001
State Govt. Loans as % of Total Debt	%	9.75	11.37	15.19

10. The accumulated losses of discoms as on 31st March 2022 were as follows:

Table 15 Accumulated losses of discoms as on 31st March 2022

State	Accumulated losses (Rs. in crore)
Tamil Nadu	1,25,222
Rajasthan	89,556
Uttar Pradesh	76,769
Madhya Pradesh	59,546
Telangana	49,816
Andhra Pradesh	31,195
Haryana	28,404
Maharashtra	24,243
Bihar	19,456

State	Accumulated losses (Rs. in crore)
Kerala	19,200
Karnataka	14,413
Jharkhand	11,271
Chhattisgarh	8,924
Punjab	5,644
Uttarakhand	3,872
Meghalaya	2,628
Himachal Pradesh	1,810
Assam	893
Tripura	496
Manipur	157



11. State/UT-wise consolidated balance sheets of discoms at the end of March 2022 show that their aggregate liabilities added up to Rs.13,35,244 crore with aggregate liability to the shareholders being only Rs.25,588 crore. In fact, for certain States/UTs the liability to shareholders is negative which means the companies are a burden on the shareholder with negative net worth having eroded their share capital with accumulated losses.

Table 16 State-UT wise status of outstanding liabilities of discoms as on 31st March 2022 (Rs. in crore)

State/UT	Total liabilities (other than to shareholders)	Payables for Purchase of Power	Non-Current Borrowings
Tamil Nadu	2,57,148	26,612	1,38,916
Uttar Pradesh	1,52,711	34,709	71,103
Maharashtra	1,29,777	35,177	29,512
Rajasthan	1,22,610	17,346	59,039
Madhya Pradesh	93,822	22,889	33,318
Andhra Pradesh	82,397	17,248	31,395
Telangana	82,238	40,812	22,609
Karnataka	66,723	19,726	20,985
West Bengal	54,209	9,050	13,345
Kerala	48,367	1,821	14,315
Jharkhand	32,679	9,469	12,244
Bihar	32,613	9,499	7,241
Punjab	29,592	3,274	11,750
Delhi	27,683	15,157	4,426
Chhattisgarh	23,209	8,046	2,153
Haryana	19,344	3,398	5,990
Gujarat	13,845	36	289
Himachal Pradesh	10,211	843	5,148
Odisha	9,748	1,348	270

State/UT	Total liabilities (other than to shareholders)	Payables for Purchase of Power	Non-Current Borrowings
Uttarakhand	7,418	413	1,176
Assam	6,495	608	51
Meghalaya	3,712	722	1,623
Tripura	1,427	189	634
Manipur	1,188	186	452
Dadra & Nagar Haveli and Daman & Diu	493	301	
Grand Total	**13,09,659**	**2,78,879**	**4,87,984**

12. The liabilities of discoms are matched by physical assets of distribution infrastructure and receivables. Since payments to power generators and revenue collection from consumers is an ongoing exercise, there will always be most current receivables and payables being created and cleared regularly. What matters is delay and non-realizability of dues from consumers.

13. The status of delay in payment for power purchase dues by discoms in terms of average number of days delay as on 31st March 2022 is given below:

Table 17 Average delay in payment for power purchase - Payables for Power Purchase (Days)

State/UT	State sector discoms	Private sector discoms
Andhra Pradesh	166	
Assam	37	
Bihar	162	
Chhattisgarh	181	
Dadra & Nagar Haveli and Daman & Diu	32	
Delhi		324
Gujarat	0	

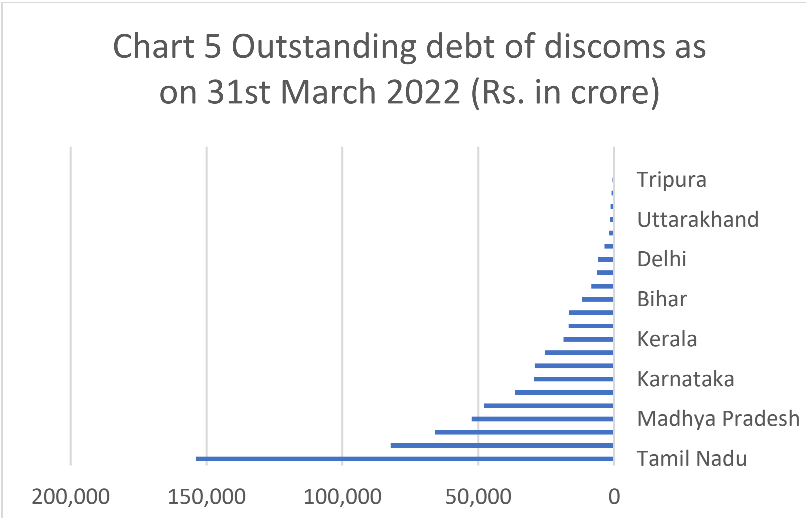
State/UT	State sector discoms	Private sector discoms
Haryana	46	
Himachal Pradesh	67	
Jharkhand	537	
Karnataka	185	
Kerala	78	
Madhya Pradesh	217	
Maharashtra	177	38
Manipur	100	
Meghalaya	284	
Odisha		56
Punjab	45	
Rajasthan	144	
Tamil Nadu	200	
Telangana	369	
Tripura	49	
Uttar Pradesh	212	49
Uttarakhand	24	
West Bengal	147	74

14. The State/UT-wise position of liabilities of discoms to the shareholders as on 31st March 2022 (Table 18) shows that all the private sector discoms have added value to shareholders while State-owned discom utilities have a mixed record of value addition to the shareholders with Maharashtra recording the best and the Tamil Nadu recording the worst performance. It is to be noted that Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) combines both generation and distribution of power.

Table 18 State/UT-wise total Equity and Capital Reserves of discoms as on 31st March 2022 (Rs. in crore)

State/UT	All discoms	State Sector Discoms	Private Sector Discoms
Maharashtra	40,570	35,034	5,536
Uttar Pradesh	40,133	38,889	1,244
West Bengal	34,291	22,818	11,473
Punjab	29,836	29,836	-
Gujarat	28,135	28,135	-
Bihar	21,844	21,844	-
Delhi	14,853	-	14,853
Assam	10,950	10,950	-
Karnataka	6,832	6,832	
Odisha	6,776	-	6,776
Haryana	4,846	4,846	-
Manipur	2,045	2,045	-
Tripura	1,658	1,658	-
Dadra & Nagar Haveli and Daman & Diu	877	877	-
Himachal Pradesh	796	796	-
Uttarakhand	178	178	-
Jharkhand	(550)	(550)	-
Meghalaya	(626)	(626)	-
Chhattisgarh	(2,835)	(2,835)	-
Kerala	(11,369)	(11,369)	-
Andhra Pradesh	(15,487)	(15,487)	-
Telangana	(24,998)	(24,998)	-
Madhya Pradesh	(32,648)	(32,648)	-
Rajasthan	(37,632)	(37,632)	-
Tamil Nadu	(92,889)	(92,889)	-
Grand Total	**25,586**	**(14,296)**	**39,882**

Note: The above excludes unavailable data for Arunachal Pradesh, Goa, Mizoram, Nagaland and Sikkim



15. 88% per cent of the total discoms' outstanding debt at end 2021-22 was accounted by 10 States (Tamil Nadu, Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka, Telangana, West Bengal and Kerala). There is no reason to suggest that the entire debt of discoms' is the liability of the State government. However, a comparison of the State governments own liabilities at the end of March 2021 with discoms' debt may give some indication about the likely impact if a substantial part of discoms' debt were to devolve on the State exchequer: -

Table 19 Outstanding debt of discoms vis-à-vis outstanding debt of the State

State	Discoms' debt at end March 2022 (Rs. in crore)	State debt outstanding at end FY20-21 (Rs. in crore)
Tamil Nadu	1,53,909	5,68,892.7
Uttar Pradesh	82,228	6,00,109.5
Rajasthan	65,945	4,11,001.4
Madhya Pradesh	52,474	2,90,859.3
Maharashtra	47,816	5,48,348.2
Andhra Pradesh	36,428	3,53,021.0

State	Discoms' debt at end March 2022 (Rs. in crore)	State debt outstanding at end FY20-21 (Rs. in crore)
Karnataka	29,564	4,21,503.8
Telangana	29,197	2,71,259.0
West Bengal	25,291	4,97,266.1
Kerala	18,683	3,10,856.2
Total	**5,41,535**	**42,73,117.2**

16. Due to the accumulated losses, heavy debt burden, delayed realisation of receivables from power consumers, discoms are unable to pay for generators. They are also unable to make the investments necessary for ensuring continuous high-quality power, or build the infrastructure required to facilitate the transition from fossil fuel to renewable (but intermittent) energy sources, such as solar or wind.

Past attempts to improve financial health of power distribution utilities

17. Several attempts were made to deal with the vexed problem of huge pile of unpaid bills of discoms. In some instances, the Central government directly cleared the dues owed by discoms to power generating companies (gencos) by withholding/deducting the Central Assistance for State Plans.

18. In 2001, such accumulated dues of discoms were securitized by issuance of bonds by the States which were declared tax free bonds by the Central government. Another initiative was announced in 2012, when the government had launched Financial Restructuring Plan (FRP) as per which 50% of the short-term liabilities of Discoms were taken over by the respective state governments, whereas the balance 50% short-term liabilities were refinanced by the Discoms into longer maturity loans.

19. In 2015, the Central government launched UDAY Scheme - Ujwal DISCOM Assurance Yojana - for financing of 75% of the discoms' total debt by the State governments and refinancing of remaining of 25% debt. (The FRP was restricted to 50% of only

short-term liabilities.) The accumulated losses of Discoms stood at about Rs.3.8 lakh crore at end March 2015. Total losses incurred by the Discoms amounted to Rs.3.66 lakh crore in past 6 years, up to FY15. The Discoms of Tamil Nadu, Uttar Pradesh, Rajasthan, Haryana and Madhya Pradesh were the largest loss making Discoms with a share of about 78% in the accumulated losses. These losses have largely been funded through debt thereby resulting in substantial increase in debt levels and interest cost for the discoms. The discoms' total debt was Rs.2.4 lakh crore in 2012 which mounted to over Rs.4.3 lakh crore in September 2015. Due to relatively weak credit profiles, the interest rate on the discoms' borrowings ranges from 12% to 15% as against the State's borrowings rate of about 8%. The huge interest costs dampen the finances of the Discoms, the most of which, are reporting operating losses due to depressed tariffs, high Aggregate Technical & Commercial (AT&C) losses and lower efficiencies.

20. The States opting for UDAY took over 75% of total debt outstanding in the books of their Discoms as on September 30, 2015, over a period of two years - 50% debt in first year and the remaining 25% in second year. The State governments were to give a mix of grants/subsidies, equity and loans to the discoms to enable them to pay off 75% of their debt. For financing this expenditure, the States were given special relaxation from the annual ceiling on permitted fiscal deficit under the FRBM Act to raise debt funds from the market. The 'UDAY Bonds were so structured that these carry a maturity of 10-15 years with a moratorium of up to 5 years with an interest rate fixed slightly about the standard government securities. The balance 25% of discoms' outstanding debt was to be converted by banks into longer dated loans or bond with interest rate not more than bank's base rate plus 10 bps or alternatively this debt (fully or partly) may be issued by discoms as State guaranteed bonds at prevailing market rates.

21. Various incentives and conditions were stipulated in the Scheme to ensure that discoms improve their operational and financial performance. While launching UDAY, it was noted that

the discoms were trapped in a vicious cycle, with operational losses being funded by debt. “Outstanding debt of Discoms has increased from about ₹2.4 lakh crore in 2011-12 to about ₹4.3 lakh crore in 2014-15, with interest rates up to 14-15 per cent.

22. UDAY scheme achieved modest success. Aggregate technical and commercial (AT&C) losses got marginally reduced from 23.70% in FY 2015-16 to 20.73% in FY 2019-20 against targeted reduction to the level of 15 per cent by March 2019. Further, the ACS-ARR Gap - The Gap between Average Cost of Supply (ACS) and the Average Revenue Realized (ARR) per unit of power supplied - got only marginally reduced from Rs. 0.54 per Unit in FY 2015-16 to Rs. 0.50 per Unit in FY 2019-20 against targeted elimination by March 2019.

23. On 2nd August 2023, the Parliament was informed that total discoms’ liabilities (as per MoU) as on 30-09-2015 aggregated to Rs.3,24,415 crore. Out of these, the liabilities identified for restructuring aggregated to Rs.2,69,057 crore as on 30-09-2015. The State governments had till date issued bonds of face value Rs.2,08,641 crore. Major shortfalls in issuing bonds were from four States (Rajasthan: Rs.59,722 crore out of Rs.76,120 crore planned, Uttar Pradesh: Rs.39,133 crore out of Rs.50,125 crore, Haryana: Rs.25,951 crore against Rs.34,518 crore and Tamil Nadu: Rs.22,815 against Rs.30,420 crore).

24. Several government schemes were launched to upgrade the distribution infrastructure and help the discoms improve their finances - Accelerated Power Development and Reform Programme (APDRP), Restructured Accelerated Power Development and Reform Programme (R-APDRP) Ujjwal DISCOM Assurance Yojana (UDAY), Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS) which subsumes R-APDRP Subsumed)

25. Realising the shortfalls in performance of UDAY scheme in improving the financial health of discoms, the Central government launched the “Revamped Distribution Sector Scheme (RDSS) – A

Reforms-based and Results-linked, Distribution Sector Scheme” in July 2021 to improve the operational efficiencies and financial sustainability of DISCOMs. The Scheme seeks to provide financial assistance to discoms for upgradation of the distribution Infrastructure and installation of Prepaid Smart Metering & System Metering. PFC and REC (PFC’s subsidiary) are the designated nodal agencies for operationalization of the Scheme.

26. RDSS has an outlay of Rs.3,03,758 crore covering Smart metering and infrastructure works, with an estimated Government grant of Rs.97,631 crore. Balance resources would be raised by PFC and REC or State’s own equity for infrastructure works. The objective of the scheme is to reduce AT&C losses to pan-India levels of 12-15% by 2024-25 and reduction of ACS-ARR gap to zero by 2024-25. Before the counter-part funding starts, the action plans submitted by the State Discoms are to be approved and Government grant portion is to be released based on achievements of milestones.

27. Further, Ministry of Power notified (June 2022) “The Electricity (Late Payment Surcharge and Related Matters) Rules, 2022” (LPS Rules). These rules provide a mechanism for settlement of outstanding dues of Generating Companies, Inter-State Transmission Licensees and Electricity Trading Licensees. For operationalization of Rules, PRAAPTI Portal (developed and managed by PFC Consulting Ltd.) acts as an information portal wherein suppliers enter invoice details and Discoms update the corresponding payment amount to ensure invoice and payment tracking of power bills.

Significant progress has been made in last 2 years after RDSS launch in July 2021.

28. The operational performance of power utilities has improved over the two years after RDSS launch in July 2021 and notification of LPS Rules. There has also been a notable increase in power demand, which is reflected in the increasing utilization levels measured by the plant load factor (PLF) of thermal power plants

(TPPs). There is increased focus on checking power theft with smart meters

29. The Aggregate Technical & Commercial (AT&C) Losses comprise of two elements: - Technical Losses: Technical losses primarily take place due to (a) transformation losses (at various transformation levels) and (b) high losses on distribution lines due to inherent resistance and poor power factor in the electrical network. Commercial Losses: Any illegal consumption of electrical energy, which is not correctly metered, billed and revenue collected, causes commercial losses to the utilities. Commercial losses occur due to (i) discrepancy in meter (ii) theft by direct hooking and (iii) collection inefficiency.

30. All India level AT&C losses were at 16.4% in FY 2021-22, significantly lower than 21.5% in FY 2020-21. The average AT&C loss of 16.5% masks wide variation from 2.07% to 48.89%. Highest losses were reported by Arunachal Pradesh 48.89%, Ladakh 48.29%, Nagaland 41.28%, Mizoram 36.23%, Jharkhand 33.79%, Odisha 31.26% (private sector discoms) and Uttar Pradesh 30.52% (40.33% in PuVVNL). Lowest AT&C losses were reported among State sector discoms in Kerala 7.69%, Gujarat 10.13% and Andhra Pradesh 10.55% while some private sector discoms recorded even low**er** levels: 5.07% in Maharashtra (TPML 2.07% and AEML 6.75%) 7.75% in West Bengal, 8.12% in Delhi (BRPL 8.95 %, BYPL, TPDDL 7.11 %) and 8.50% in Uttar Pradesh.

Impact of LPS Rules

31. With the implementation of Electricity (LPS and Related Matters) Rules, 2022, remarkable improvement has been seen in recovery of outstanding dues of Suppliers including Generating Companies, Transmission Companies and Traders. Against legacy dues of Rs.1,39,747 crore as on 03.06.2022, 13 States/UTs have paid instalment of Rs.69,790 crore (12 EMIs). Discoms of 11 out of these 13 states opted for loans from PFC/REC (total loan sanctioned of Rs.1,05,065 crore). Further, 20 States/UTs reported to have no outstanding dues as on 03.06.2022. In view of regulations under

LPS Rules, 2022 the Distribution companies are paying their current dues in time. Since implementation of the rule, total bills aggregating to Rs. 4,85,041 crores have been settled by July 24, 2023, against total billed amount of Rs.5,60,366 crore (excluding EMI Payments against legacy dues and including Disputed Invoices). The cash-adjusted revenue gap per unit of electricity sold improved significantly to 40 paise per unit in FY 2021-22 compared to 89 paise per unit in FY 2020-21. More than 40% discom dues to gencos reduced in less than a year of LPS introduction. The settlement of current dues is also being monitored rigorously with the help of PRAAPTI portal, which is set up and maintained by PFC subsidiary, PFCCL.

Cross-subsidies in power sector

32. The losses suffered by discoms arise due to the tension between two different outlooks: (a) is electricity an essential public service whose provision at low rates is necessary for citizen welfare or (b) is it a commodity to be bought and sold on the market like any other? The poor financial health of the power distribution utilities is the direct result of free / subsidised electricity supply to farmers and household consumers, often unmetered and unauthorised. The under-recovery of cost from the power billed to metered consumers in these segments cannot be recovered from a thin based of industrial and commercial consumers who have wherever possible exited by making their own arrangements for captive generation of power supply. Railways having achieved near universal electrification of its operations is pursuing the same course. Exit of paying bulk consumers accentuates the discoms' financial distress.

33. Each State and Union Territory has an electricity regulatory commission and some commissions have been quite indulgent in treating long overdue recoveries of electricity bills from government departments etc. as “regulatory assets" on the balance sheets of discoms. The Ministry of Power is nudging the regulators

and State governments to have time-bound action plans for liquidation of these paper assets.

34. To illustrate the effect of cross-subsidies, we highlight the position in Tamil Nadu, Punjab and NCT of Delhi.

35. TANGEDCO, the sole discom in Tamil Nadu, is a public sector enterprise. Under the UDAY scheme, the State government issued bonds for Rs 22,815 crore to refinance bulk of TANGEDCO's outstanding debt (Rs.30,420 crore as on as on 30-09-2015). However, it continued to slip into deeper indebtedness leading to a massive debt pile of Rs.1,53,909 crore by 31st March 2022, nearly double the second highest debt accumulated by discoms in Uttar Pradesh (Rs. 82,228 crore). The accumulated loss was Rs. 1,25,222 crore. A White Paper released by Tamil Nadu government highlighted the following as key reasons for persistent losses: (i) under-pricing of tariffs (tariffs were not revised for seven years), (ii) technical and commercial losses (14% in 2020-21), (iii) increase in cost of power, and (iv) loss of share in supply to industry consumers due to higher prices for them (from 60% in 2011-12 to 31% in 2020-21)[15] The last reason – largescale exit of industry consumers from TANGEDCO's power supply network to make their own cheaper arrangements – is a telling commentary on impact of cross-subsidy. The electricity tariffs for industry were significantly higher than that for household or agricultural consumers in one of the industrially most advanced States in the country. There is remarkable similarity on how Railways lost market share in bulk freight segment to road sector due to steady increase in freight rates to compensate for losses in passenger segment forcing many businesses to exit from freight by railways.

36. A contrasting case study on cross-subsidy provided by electricity regulators supplemented by additional subsidy by the government is provided by NCT of Delhi. With practically no

---

15 White Paper on Tamil Nadu Government's Finances, https://tnbudget.tn.gov.in/tnweb_files/white_paper_2021_english.pdf

agriculture, the economy is about 20% industry and 80% services. The household consumers in Delhi get two types of subsidies. One is the usual cross-subsidy built in the tariffs approved by most State Electricity Regulatory Commissions under which approved tariffs are kept low for small household consumers. The latest available Tariff Orders of DERC are for FY2019-20[16] though the same rates are being used for subsequent billing[17]. The energy charges set by DERC for FY2019-20 were Rs.3 per unit for monthly consumption upto 200 units, Rs.4.5 per unit for next 200 units, Rs.6.5 for next 400 units, Rs.7 for next 400 units and Rs.8 per unit for consumption beyond 1200 units. These energy charges are in addition to fixed charges payable per electricity connection (Upto 2 kW: Rs.20 /kW/month; > 2kW and ≤ 5 kW: Rs.50 /kW/month; > 5kW and ≤ 15 kW: Rs.100 /kW/month; >15kW and ≤ 25 kW: Rs.200/kW/month and for > 25kW: 250 /kW/month). In contrast, the approved Tariff for NON-DOMESTIC users having sanctioned load of more than 3kVA (most commercial establishments) was 'fixed charge of Rs.250 /kVA/month and energy charge of Rs. 8.50 per unit'. For industrial units, the approved Tariff was 'fixed charge of Rs.250 /kVA/month and energy charge of Rs.7.75 per unit'. For agricultural consumers the approved fixed charge was set at Rs.125 kW/month and energy consumption charge at Rs.1.50 per unit. Households are expected not to split the consumption by seeking multiple connection. The subsidy is also available to tenants if there is a separate meter installed. (The landlords may prefer to have a combined meter and recovery of a fixed monthly charge from tenant.)

37. This pattern of commercial/industrial consumers cross-subsidizing farmers and household consumers is the general template by all State regulators. In addition to the cross-subsidy provided by DERC to small household consumers, the Delhi

[16] https://www.derc.gov.in/tarriff-orders?page=2

[17] https://www.bsesdelhi.com/documents/55701/92678/Tariff_Schedule_for_FY_2021_22.pdf/e862f0b1-cbfe-2f63-84b1-e478c5021a0e?t=1633426006962

government provides additional subsidies from the budget. The consumers 100% subsidy they consume upto 200 units of electricity in a month and 50% subsidy for consumption upto next 400 units p.m. From 1st October 2022, system of automatic subsidy to all eligible consumers has been discontinued. Instead, the consumers need to apply and register themselves for availing subsidy. There is no need for such 'opt in' to be registered every month.The three private sector discoms had an accumulated surplus of Rs.9,622 crore and total outstanding liabilities (other than to shareholders) of Rs.27,683 crore as on 31st March 2022 (including liability of Rs.15,157 crore as payables for purchase of power, with average delay of 324 days. Unlike the industrial consumers of Tamil Nadu, the large household consumers have no option to exit the discom supply. The AT&C losses were 8.12% in 2021-22, nearly half of the national average of 16.51%. In the year 2015, the Comptroller and Auditor General conducted audit of discoms at the instance of the State government. The findings are yet to be made public as the matter is sub judice in the Hon. Supreme Court.

38. A case study on cross-subsidy causing economic distortions besides losses to discom is provided by the electricity subsidy to the farmers in Punjab. It is credited to have caused increased coverage of a water-guzzling crop like paddy and consequent depletion of groundwater level to worrisome depths. A research study (Dec 2012[18]) brings out that a part of the electricity cost was recovered from the farmers on the per unit basis of consumption upto late 1970s. It was changed to horsepower of the motor irrespective of the consumption for the convenience (economy) in collection of the amount, upto 1996- 97. In 1997-98, the farm electricity supply was made totally free. The electricity subsidy for agriculture was a small amount to begin with but substantially increased over time as power consumption increased. As the number of electric tube wells and the

[18] Karan Singh (2012), Electricity Subsidy in Punjab Agriculture: Extent and Impact *Ind. Jn. of Agri. Econ. Vol.67, No.4, Oct.-Dec. 2012*
https://ageconsearch.umn.edu/record/204841/files/05-Karam%20Singh.pdf

area under rice cultivation increased, the water table went down, which means more power is needed to draw out the same quantity of water and the cost of electricity supply has also increased. Hence, free electricity to the farm sector is often quoted as the main precursor to the increase in the rice area, over-exploitation of groundwater and as an obstacle to diversification. The electricity consumption in Punjab agriculture had increased more than 5 times from 1850 million kWh in 1980-81 to 10150 million kWh in 2010-11. The number of electric tube wells has also increased from 2.8 lakhs to 11.06 lakhs during this period. Cropping intensity had increased from 161 to 190 per cent and the area under rice from 11.83 lakh ha to 28.26 lakh ha and the water table had gone down by more than 2.5 times in the major tube well irrigated area in central Punjab. In 1980-81, 14.30 lakh Ha was canal irrigated and 19.39 lakh Ha was irrigated by tubewells/wells. By 2019-20, the canal irrigated area had shrunk to 11.8 lakh Ha but tubewll//well irrigated area had increased substantially to 28.94 lakh Ha. The ratio of Gross Cropped Area and Gross Irrigated Area had changed during the period from 67.63 lakh Ha: 57.81 lakh Ha to 78.25 lakh Ha: 77.37 lakh Ha[19] .

39. A more recent study (2022[20]) confirms the continuity of these concerns on farm electricity. It brings out that *"the composition of energy use in Punjab agriculture has changed substantially, with a significant shift from the animal and human power towards machines, electricity, and diesel. Energy use efficiency is in a continuously declining phase as the energy ratio has declined from 11.8 in 1980–81 to 8.9 in 2018–19. For paddy and wheat occupying about 80per cent of gross cropped area in Punjab, though the energy use efficiency is approximately the same, i.e., 5.12 and 5.32, respectively and the respective energy*

[19] Statistical Abstract 2020, Government of Punjab, https://punjabassembly.nic.in/images/docs/Statistical%20Abstract.pdf

[20] Singh Gurpreet, Ranguwal Sangeet (2022) , Trends in energy use in Punjab agriculture, Journal of Agricultural Development and Policy, Year : 2022, Volume : 32, Issue : 1

productivity values are 0.15 Kg/MJ and 0.23 Kg/MJ, but the Specific energy of 6.8 MJ/Kg for paddy compared to wheat i.e. 4.4 MJ/Kg stresses the need for the adoption of energy saving technologies especially in paddy cultivation."

Conclusions

40. India has set ambitious targets for the power sector. We are aiming for 24X7 power for all, with 450 GW of renewable capacity by 2030. Most new generation capacity is likely to be renewable. Increased flexibility in generation will be required - both physical (flexible generation, and demand response) and institutional (such as access to markets). The transmission sector will require greater capacity to evacuate power from renewable-rich regions to the rest of the nation. Digitalisation of the grid will enable bidirectional flow of information and power. Utility-scale energy storage, being able to act as load or as supply, will play an important role in enhancing the flexibility of the system. This transition is more challenging because of the poor operational and financial condition of the distribution sector. The distribution companies, as a whole, are loss-making and debt-ridden; consequently, they are not able to invest in better infrastructure, to provide better services to their customers, or to pay generators on time. The distribution sector has been the Achilles' heel of the power sector, consistently making large losses, reflecting weaknesses in operations, infrastructure, and regulation. Distribution sector reform is of utmost importance. We will not be able to achieve a high-growth, low-carbon economy unless the distribution sector achieves profitability. The solution to this problem will include smart meters and smart grids, but the most important solutions might lie in institutional smartness - whether in power procurement, in ensuring high- quality regulation, or in encouraging private participation in distribution.

41. Different states in India have followed different reform trajectories. Fundamental to discoms' profitability are the activities of metering, billing, and collection. Continuous improvement in billing and collection efficiency has gradually helped in reducing

AT&C losses across the country. The overall AT&C loss has come down to 16.42 % in FY2020-21. This is still almost double of the global average. (6% USA, 5% China, 4% Japan). Also, 16.42% is all-India average with sharp differences across states from 2.07% to 48.89%! The discoms need to *improve billing efficiency* through better metering using prepaid or smart meters while being cognisant of cybersecurity threats.

42. There should be separate disclosure and time-bound clearance of dues owed by government departments, agencies and companies to discoms.

43. Only about 10 percent of India's population is served by private distribution licensees. For a state-owned utility to succeed, there should be a clear separation between utility and State. Good corporate governance practices, including the use of independent directors, can help ensure such separation. Higher private participation in distribution holds out the possibility of greater efficiency. Franchisee models have been successfully implemented in Odisha and Bhiwandi in Maharashtra, where there have been rapid improvements in metering, billing, and collection.

44. Many states provide subsidised and sometimes free electricity for agriculture. This can lead to leakages and high losses for discoms. Some states, with large agricultural consumer bases such as Rajasthan, Andhra Pradesh, Gujarat, Karnataka, and Maharashtra, have reduced leakages by separating feeders for agricultural use from non-agricultural use. Discoms can significantly decrease their power procurement costs by encouraging the use of solar pumps for agriculture.

45. Discoms have a monopoly in their area of functioning. Delicensing power distribution to introduce competition and enable retail choice for customers is on the anvil.

46. For consumers, who receive subsidised electricity, direct benefit transfer (DBT) can help improve efficiency and reduce leakages. It has recently been implemented in parts of Madhya Pradesh. The respective state government should prescribe the

details of the DBT scheme. It could be structured such that consumers do not stand to lose their current benefits, but are paid more for efficient use of electricity, similar to the ‘Paani Bachao Paise Kamao’ scheme in Punjab.

47. Presently, there is enough transmission capacity to transfer power from surplus to deficient areas and there is no reason why 24X7 quality power cannot be given but the only difficulty in this (24X7 power for All) is losses to some distribution utilities. They don't have money to pay for power. More power they supply, more they lose! The central government has already made it mandatory for discoms to open letters of credit for getting supply from gencos, excluding state government power plants from August 1, 2019. Discoms cannot put the burden of their inefficiencies on consumers. Earlier they used to charge under-recovered power supply cost to other consumers. Government is seeking to enforce that under-recovered power supply cost from the tariff of other consumers be capped at 15 per cent. Limiting cross-subsidies should be a recognised consumers' right.

48. The state governments should promote *autonomy, competence, and transparency of the State Electricity Regulatory Commission (SERC). Tariffs should be regularly revised* to ensure that they fairly reflect the actual fixed and variable costs and accumulation of losses is stopped. The existing losses should be cleared through a time-bound phased revision of tariff. Regional electricity regulatory commissions with the participation of the central government may be considered. India has an opportunity to seize the moment and leverage the cost savings, system efficiency, and environmental benefits that clean energy portfolios bring to bear. The benefits of discom turnaround driven by clean energy portfolios will stand to pay long-term dividend in the sector’s march towards a clean energy transition.

EXPENDITURE ON PENSIONS: THE OPS VS NPS DEBATE

1. The problems associated with the ageing of populations afflict not only the developed countries but also emerging economies with varying intensities. As a country's population ages, the economy's capacity to sustain the higher elderly population needs to be enhanced. As is the case with most developing countries, India with a low Tax: GDP ratio could not so far afford a tax-financed universal social security system to protect the elderly against economic deprivation. The problem is getting accentuated with changing demographic profile having an increasing share of the elderly. Improvement in life expectancy and decline in fertility rate are leading to a significant change in the population age structure. The population of Senior Citizens (aged 60 years or more) has risen from about 2 crore (5.5% of total population) in 1951 to 5.67 crore in 1991 (6.9%), 7.7 crore (7.5%) in 2001 and 10.38 crore (8.6%) in 2011.

2. The rising share of the elderly becomes an economic problem in the scenario of worsening dependency ratio (proportion of workers and non-workers in the population). It is not enough to just add more workers if their wages are insufficient to support the taxation system and self-financed old-age social security systems. Majority of the workforce in the unorganized sector does not have access to formal channels of old age economic support. Social welfare programmes of various governments – direct disbursement of pensions and contribution to insurance funds are not commensurate with the country's needs. It is increasingly becoming inevitable that people plan for their old age financial security while they are young and working.

3. Realising the importance of old age income and financial security encompassing the workforce at large, Project OASIS (Old Age Social and Income Security) was commissioned by the Ministry of Social Justice and Empowerment under the chairmanship of Shri S. A. Dave. In its Report (December 29,

1999[21]), the Committee recommended a pension scheme based on Individual Retirement Accounts to be opened anywhere in India in which workers could save for their old age. The governments and employers could supplement the workers' contributions. Banks, Post Offices etc., could serve as Points of Presence where the accounts could be opened, or contributions deposited. Their interconnectivity could ensure portability of accounts as the worker moves from one place/employment to another. Creation of a depository for centralized record keeping of these retirement accounts and creation of a pool of regulated fund managers and annuity providers was also recommended.

4. A follow-up report by the Insurance Regulatory and Development Authority in October 2001 recommended establishing a system based on privately managed, individual funded defined-contribution accounts for workers in the non-governmental/unorganized sector with freedom to invest in equities. Lump sum payments and/or annuity on retirement to be actuarially determined based on available funds. Privatization of assets management functions of EPFO and allowing private insurance firms to provide annuities was also recommended.

5. The Project OASIS report for unorganised sector workers and its follow-up put focus on the social security system for all workers including government employees. Discretionary pensions or grants to subordinated sovereigns as part of statecraft or to some employees as reward for loyal service were occasionally sanctioned. Credit for introducing a system of fixed retirement age and well-organised pension system, as a social security obligation of a welfare state goes to German Chancellor Otto von Bismarck who started (1881-1889) a retirement system in which the employees, employers and the government mandatorily contributed and

[21] The Report of the Project OASIS (Old Age Social and Income Security) (January 2000) https://prsindia.org/files/bills_acts/bills_parliament/2005/OASIS_Committee_Report.pdf

provided old age pension to all those who are disabled from work by age and invalidity. All 70 years old were forced to retire with a pension (lowered to 65 years in 1916).

Reforming government pension system

6. In 1881, the Royal Commission on Civil Establishments (UK) first awarded pension to government employees. The **Royal Commission** (Lee Commission) on civil establishments in 1924 recommended retirement with half the salary without employee contribution. Such fully funded pension systems basically tax the income of current workers to pay pension to retired workers. The system rests on an implied but unenforceable contract between generations: the future pensions of those working today depends upon a future generation of workers. All is well so long as the economy keeps growing and more workers keep joining a well-paid workforce.

7. The pace of retirement depends on pace of recruitment by governments. The pension payment burden on government budget increased sharply after mid 90s. The total pension liability on account of the Central Government employees had risen from 0.6 *per cent* of GDP (at constant prices) in 1993-94 to 1.66 *per cent* of GDP (at constant prices) in 2002-03. Union Budget 2001-02 proclaimed that huge pension costs over long time raises concerns on fiscal sustainability and the government's pension liability had "reached unsustainable proportions". Given the magnitude of the problem, structural alteration in the existing pension scheme would therefore appear to be necessary.

8. Realising the increasing budgetary burden of pension, a High-Level Expert Group chaired by Shri B.K. Bhattacharya was set up to study possible revision in the Pension Policy for Central Government Employees. The Group recommended (February 2002) a two-tier hybrid defined benefit/defined contribution scheme. It envisaged a scheme. In the first tier, there would be a mandatory contribution of 10 per cent each by employer and employee. The accumulated funds would be used to pay pension in annuity form.

The second tier would be to promote personal savings and there would be no limit for employee's contribution, but employer's contribution would be matching and limited to 5 per cent. Accumulated funds could be withdrawn in lump sum or converted into annuity at the time of retirement. These payments would be tax exempt and portable if an employee changes job before retirement.

9. The Central government implemented a major reform of public expenditures with the Finance Minister announcing (Budget 2003-04) a 'New Pension System' (NPS) for its civilian employees joining service on or after 1st January 2004. The government notification was issued on 22 Dec 2003.

10. Defending the draft legislation for creation of a statutory authority – Pension Fund Regulation and Development Authority (PFRDA) – to implement the NPS, the government informed the Parliament that pension reforms had become imperative in view of changing demographics, fiscal burden on public exchequer and the need to create a pension system based on individual retirement accounts that allows a worker to save during working life to arrange for old age income security without being tied to a particular employer. It was the best time for India "to be starting a system of pension reforms", given its relatively young working population. *("With some exceptions like the National Old Age Pension Scheme, social protection is practically non-existent for a large majority of the population. Pension benefits are not available to about 87 per cent of the population and 74 per cent of the work force, the bulk of whom are in the unorganised sector. With the absence of a choice to individuals and lack of portability, there is a limitation on the mobility of labour" – Economic Survey 2004-05).*

11. Normally pensions provided by an employer are based on a certain minimum number of years of service and that restricts labour mobility, which is increasingly required by both public and private employers. Pension systems rewarding long-stayers inhibit labour mobility, clogging up one of the main mechanisms that allow

economies to respond to shifts in demand. Organizations may remain burdened with unproductive employees.

12. Government of India established Pension Fund Regulatory and Development Authority (PFRDA) on 10th October 2003 to develop and regulate pension sector in the country. The National Pension System (NPS) was launched on 1st January 2004 with the objective of providing retirement income to all the citizens. NPS aims to institute pension reforms and to inculcate the habit of saving for retirement amongst the citizens.Additionally, to encourage people from the unorganized sector to voluntarily save for their retirement the Central Government launched a co-contributory pension scheme, 'Swavalamban Scheme .

13. The salient *features* of the New Pension System viz., Defined Contributing Pension System introduced for new entrants to Central Government Service are as under:

- The System is applicable to all new entrants to Central Government service, except to Armed Forces in the first instance, joining Government service on or after 01.01.2004.
- The system works on defined contribution basis and has two tiers – Tier-I and II. Contributions to Tier I is mandatory for all government servants joining government service on or after 01.01.2004, whereas Tier II is optional and at the discretion of Government servants.
- In Tier I, Government servants make a contribution of 10% of the basic pay plus DA, which will be deducted from the salary bills every month by the PAO concerned. The Government is to make an equal matching contribution. In January 2019, the Central government increased its contribution to 14 per cent of the basic salary and dearness allowance.
- Tier I contributions (and the investment returns) are kept in a non- withdrawable Pension Tier I Account. Tier II contributions are kept in a separate account that will be

withdrawable at the option of the government servant. Government will not make any contribution to Tier II account.

- The existing provisions of Defined Benefit Pension and GPF are not available to new government servants joining Government service on or after 01.01.2004.
- There is a Central Record Keeping agency and several Pension Fund Managers to offer three categories of Schemes to Government servants viz. options A, B and C based on the ratio of investment in fixed income instruments and equities.
- At exit from Tier I of the Pension System at the age of 60, it would be mandatory for a government servant to invest 40 percent of pension wealth to purchase an annuity (from an IRDA regulated Life Insurance Company), which will provide for pension for the lifetime of the employee and his dependent parents/spouse. In the case of government servants who leave the Scheme before attaining the age of 60, the mandatory annuitisation would be 80% of the pension wealth.

14. As on March 31, 2023, PFRDA is overseeing *the* system of old-age income security for 6.32 crore subscribers (1.73 crore under NPS and 4.59 crore under Atal Pension Yojana (APY). NPS system had total Asset Under Management valued at Rs.8,98,866 crore (AUM under APY: Rs. 27,223 crore). 14% are Central and State governments employees constitute 14% and 35% of all NPS subscribers. 92.67% of these funds are managed by top 3 Fund managers (SBI, LIC, UTI) out of 10 fund managers.

15. The status of returns for funds from retirement accounts of Central Government employees upto FY22-23 was as follows:

Funds for state government employees

Scheme SG (as on March 31, 2023)

PF	Financial year return (%)									
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
LIC	5.87	19.43	5.97	13.28	5.8	8.55	6.62	15.22	7.09	4.29
SBI	3.83	19.8	6.62	13.24	5.94	8.83	8.62	13.3	6.78	4.24
UTI	4.7	18.82	6.3	13.56	6.05	8.79	7.13	14.93	6.67	4.20
Benchmark*	4.56	19.28	6.36	12.83	5.21	8.48	7.72	16.33	6.75	4.10

PF	Annualized return (%)					
	1-yr	2-yr	3-yr	5-yr	10-yr	Since inception
LIC	4.29	5.68	8.77	8.29	9.10	9.24
SBI	4.24	5.50	8.04	8.31	9.01	9.16
UTI	4.20	5.43	8.51	8.29	9.01	9.19
Benchmark*	4.10	5.42	8.93	8.58	9.03	

16. The status of returns achieved by NPS fund managers in respect of State government employees upto FY22-23 was as follows: -

Pension funds for central government employees

Scheme CG

PF	Financial year return (%)									
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
LIC	5.93	18.96	5.99	13.22	5.85	8.72	6.47	15.57	7.19	4.23
SBI	3.92	19.38	6.47	13.13	6.08	8.94	8.32	13.57	6.82	4.30
UTI	5.04	18.58	6.24	13.64	6.25	8.82	7.02	15.09	6.72	4.18
Benchmark*	4.56	19.28	6.36	12.83	5.21	8.48	7.72	16.33	6.75	4.10

PF	Annualized return (%)					
	1-yr	2-yr	3-yr	5-yr	10-yr	Since inception
LIC	4.23	5.70	8.89	8.37	9.11	9.29
SBI	4.30	5.55	8.16	8.35	8.99	9.49
UTI	4.18	5.44	8.56	8.30	9.05	9.25
Benchmark*	4.10	5.42	8.93	8.58	9.03	

*Benchmark is the composite performance of government securities (G-secs), corporate bonds, equities and money market instruments, aggregated in the ratio of 49 , 35 , 14 and 2 , respectively

Note: Returns above the 1-year period are annualised; since inception, returns are considered from the respective dates of first cash flow

State government level pension reforms

17. The Table 20 shows State-wise growth in pension payments over the years. The aggregate expenditure was only Rs 3,131 crore in 1990-91. Pension expenditure alone accounts for 12.4 per cent (average of 2017-18 to 2021-22) of total revenue expenditure of the 10 most indebted states

Table 20 Trend in pension payment burden on State budgets over the years (Rs. in crore)

State/Union Territory	2004-05	2009-10	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)
Uttar Pradesh	3,561	11,074	22,305	24,150	28,227	38,476	44,024	49,603	52,464
Maharashtra	2,872	6,133	14,258	15,336	16,858	18,603	20,490	27,741	31,833
Tamil Nadu	3,902	8,385	17,349	18,246	19,973	22,360	29,630	30,202	27,696
Rajasthan	1,626	4,887	9,629	10,864	12,296	13,925	20,396	20,761	22,989
Karnataka	2,157	3,408	10,118	11,251	11,295	11,684	15,109	18,404	22,214
Bihar	2,325	4,319	11,345	11,850	12,508	14,293	16,028	17,110	20,468
West Bengal	3,336	6,511	12,128	12,860	13,945	14,588	16,063	17,462	19,623
Kerala	2,601	4,705	11,253	13,063	15,277	19,938	19,012	19,064	19,412
Gujarat	1,892	4,513	9,185	9,963	11,303	13,979	18,295	17,663	17,668

State/Union Territory	2004-05	2009-10	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)
Madhya Pradesh	1,330	3,077	6,836	7,819	8,793	9,290	11,984	12,053	14,841
Andhra Pradesh	3,017	6,339	9,972	11,249	12,872	16,236	15,291	17,385	14,507
Odisha	1,260	3,283	6,417	6,346	6,843	8,693	10,520	14,273	13,952
Punjab	1,514	3,357	7,249	7,833	8,773	10,208	10,089	10,294	13,000
Telangana	-	-	4,210	8,217	9,011	11,932	11,477	11,833	10,066
Haryana	902	2,390	4,602	5,413	5,659	8,783	8,140	8,833	9,900
Assam	1,062	1,769	5,237	5,985	6,565	8,287	8,112	9,609	9,662
Jammu & Kashmir	660	1,495	3,686	3,781	4,217	5,408	7,519	6,999	8,641
Chhattisgarh	534	1,234	3,250	3,519	3,486	3,924	5,429	6,638	6,706
Jharkhand	928	1,723	3,463	3,990	4,135	5,913	5,989	6,005	6,560
Uttarakhand	354	1,047	2,452	2,628	3,170	5,033	5,396	5,507	6,297
Himachal Pradesh	591	1,348	2,914	3,836	4,114	4,709	4,975	5,490	6,000
Tripura	221	560	837	1,025	1,209	1,579	2,036	2,371	2,684
Nagaland	134	279	905	1,029	1,093	1,264	1,553	1,811	1,980

State/Union Territory	2004-05	2009-10	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)
Manipur	183	293	934	1,010	1,174	1,324	1,534	1,738	1,766
Goa	140	344	660	717	844	1,164	1,299	1,313	1,428
Arunachal Pradesh	70	183	481	555	641	924	894	882	1,308
Meghalaya	87	208	515	589	649	751	1,005	1,132	1,208
Mizoram	89	164	545	616	761	838	970	1,433	1,171
Puducherry	-	289	431	540	632	746	868	982	1,150
Sikkim	31	126	333	402	446	505	737	911	959
NCT Delhi	-	-	1	2	3	2	2	3	3
All States and UTs	**37,378**	**83,445**	**1,83,499**	**2,04,686**	**2,26,772**	**2,75,361**	**3,14,865**	**3,45,505**	**3,68,156**

18. While the Central government was mulling on pension reforms, a Group set up by the RBI to study the pension liabilities of the State governments (Oct 2003[22]) under the chairmanship of Shri B.K. Bhattacharya raised the alarm bells for States as well. During the period 1980-2002, pension payments of the State Governments had sharply risen at an annual compound rate of 23.6 per cent from Rs.268 crore in 1979-80 to Rs.28,197 crore in 2001-02. Pension payments as percentage of total revenue receipts of the States rose from 2.1 per cent in 1980-81 to 11.0 per cent in 2001-02; during the same period, the ratio of pension payments to States' own revenue receipts rose at a faster rate from 3.4 per cent to 17.2 per cent. Pension payments had been growing faster than revenues and that was a cause of concern.

19. The rapid increase in States' pension outgo could be attributable to several factors which, inter alia, include expansion in the number of State Government employees during the earlier decades; extension of pension facilities to employees of various non-Government institutions (Grant-in-Aid Institutions and Local Bodies etc.); impact of various pay revisions; introduction of wage indexation, and significant improvement in life expectancy."

20. Based on the recommendation of this Report, all State/UT governments had by 2018 gradually switched to the NPS system managed by PFRDA except West Bengal which has opted NPS only for All-India Service officers [23]. Tamil Nadu also has adopted NPS w.e.f. 1st April 2003 with the modification that only the NPS contributions in respect of AIS officers are remitted to NPS Trust. In respect of other employees, the contributory pension scheme accounts are maintained by the Accountant General which are

---

[22] Report of the Group to Study the Pension Liabilities of the State Governments (October 2003)
https://prsindia.org/files/bills_acts/bills_parliament/2005/Bhattacharya_Committee_on_Pension_Liabilities_of_State_Governments.pdf

[23] List of States/UTs opting for NPS and the date of adoption
https://npstrust.org.in/list-of-state-governments-under-nps

credited with interest at a fixed rate of interest, which is found to be lower than the rate of return obtained by PFRDA designated NPS fund managers.

21. As of December 2022, about 60 lakh State government employees were covered under NPS, with total assets under management of Rs 4.27 lakh crore.

22. Since April 2022, Rajasthan, Chhattisgarh, Punjab and Himachal Pradesh governments have announced that they would not be remitting NPS contributions, and their employees covered by NPS would be covered by the Old Pension Scheme (OPS). They have also demanded return of past contributions remitted to NPS Trust in respect of these employees, a demand that has not yet been acceded to. Jharkhand has given its employees covered by NPS to opt out of NPS and revert to OPS. Andhra Pradesh has decided to modify NPS by legislating a ‘Andhra Pradesh Guaranteed Pension Scheme’ (APGPS) which is a hybrid model between the NPS and OPS. The existing NPS subscribers are required to exercise the option to subscribe to APGPS under which the employee will be eligible for a guaranteed monthly pension of 50 per cent of last drawn basic pay. There will be an addition of dearness relief twice a year. Those who have 10 years of service, will also get a minimum of Rs.10,000 as pension. In case of the death of a pensioner, 60 percent of the sum will be given to the spouse. There will be other benefits like coverage under the State government health scheme.

23. Government of India has constituted a committee chaired by Mr. T V Somanathan, Finance Secretary, to review the pension scheme for government employees and suggest any changes, if needed, in the light of the existing framework and structure of the NPS.

Issues involved in the OPS vs NPS debate.

24. The State governments that have decided to revert to OPS or modify NPS to GPS have not made public any analysis disclosing the underlying assumptions under which the OPS or NPS is likely to be more beneficial for all or any class of government employees.

Whether the analysis is based on sufficiently representative data is also not known. For, such analysis necessarily involves making assumptions about what could be normally expected pay revision and career progression, assumptions about projected salary at the time of retirement, projected earnings on the invested NPS corpus and the projected annuities that may likely to be available at the time of retirement.

25. On the issue of likely terminal benefits that may accrue (accumulations/replacement rates) for employees compulsorily covered under the New Pension System, the Ministry of Finance had furnished certain illustrative projections/calculations, for six kinds of asset allocations or investment options to the Parliamentary Standing Committee on Finance[24]. The calculations, which were worked out based on some common assumptions, and the projections of accumulation/replacement rates, are detailed in Annexure-I of the Report. It is seen from the calculations furnished by the Ministry that in the case of an asset allocation involving 100 percent investment in Government securities – which presumes a pessimistic asset return assumption of 1.5 percent per year for Government bonds, 3 percent for corporate bonds and 5 percent for equities – the terminal replacement rates for different categories of employees (Group A, B, C and D) range between 43 to 49 per cent. On the other hand, in the case of an asset allocation at the other end of the spectrum which involves 100 percent investment in equities, the replacement rate for different categories of employees is projected to be in the range of 80 to 95 per cent.

Illustrative projections/calculations furnished by Ministry of Finance to the Parliamentary Standing Committee in 2005 are given hereunder:-

---

[24] 21st Report of the Parliamentary Standing Committee on Finance on the Pension Fund Regulatory and Development Authority Bill, 2005'
https://eparlib.nic.in/bitstream/123456789/62839/1/14_Finance_21.pdf#search=pension

5. In the tables ahead, results are shown for three sets of assumptions about future asset returns in real terms:

	RESULTS I	RESULTS II	RESULTS III
GOI Bonds	1.5%	2%	2.5%
Corporate bonds	3%	4%	4.5%
Equity	5%	6%	6.5%

6. CPI inflation today is at roughly 4%. This implies that an assumption of (say) 2% real returns on government bonds is equivalent to a 6%nominal return on government bonds.

7. Results for Group A, B, C and D in the civil service, and one example of calculation for the uncovered sector, are shown ahead. In most of the cases, the projected pension proves to be equal or above 50% of the last wage. The weakest value seen in the table is 43.2% which occurs for Group B under a pure GOI bond investment under the "RESULTS I" assumptions. In the case of the uncovered sector, the weakest pension found is Rs.2129 per month, which occurs under the "RESULTS I" assumptions using pure GOI bond investment.

RESULTS I

8. The first set of results makes the most pessimistic asset return assumptions: 1.5% per year for government bonds, 3% per year for corporate bonds and 5% per year for equities.

Pure GOI bonds

(In Rupees)

	Terminal Pension Wealth (Rs)	Replacement Rate (%)
Group-A	3190314	45
Group-B	2435679	43
Group-C	1016617	44
Group-D	744203	49

OASIS Style A: 60% Government Securities, 30% Corporate Bonds, 10% Equity

	Terminal Pension Wealth(Rs)	Replacement Rate (%)
Group-A	3625766	51
Group-B	2772826	49
Group-C	1160967	51
Group-D	855458	56

OASIS Style B: 40% Government Securities, 35% Corporate Bonds, 25% Equity

	Terminal Pension Wealth(Rs)	Replacement Rate (%)
Group-A	4006269	57
Group-B	3067839	54
Group-C	1287768	56
Group-D	953560	63

OASIS Style C: 20% Government Securities, 30% Corporate Bonds, 50% Equity

	Terminal Pension Wealth (Rs)	Replacement Rate (%)
Group-A	4601108	65
Group-B	3529642	63
Group-C	1487053	65
Group-D	1108312	73

50% Corporate Bonds , 50% Equity

	Terminal Pension Wealth(Rs)	Replacement Rate (%)
Group-A	4856909	69
Group-B	3728423	66
Group-C	1573102	68
Group-D	1175314	78

RESULTS II

9. The second set of results makes the pessimistic asset return assumptions: 2% per year for government bonds, 4% per year for corporate bonds and 6% per year for equities.

Pure GOI Bonds

	Terminal Pension Wealth(Rs)	Replacement Rate (%)
Group-A	3455645	49
Group-B	2641045	47
Group-C	1104470	48
Group-D	811854	54

OASIS Style A: 60% Government Securities, 30% Corporate Bonds, 10% Equity

	Terminal Pension Wealth (Rs)	Replacement Rate (%)
Group-A	4075310	58
Group-B	3121404	55
Group-C	1310835	57
Group-D	971439	64

OASIS Style B: 40% Government Securities, 35% Corporate Bonds, 25% Equity

	Terminal Pension Wealth (Rs)	Replacement Rate (%)
Group-A	4499183	65
Group-B	3528146	62
Group-C	1486406	65
Group-D	1107809	73

OASIS Style C: 20% Government Securities, 30% Corporate Bonds, 50% Equity

	Terminal Pension Wealth (Rs)	Replacement Rate (%)
Group-A	5409687	77
Group-B	4158306	74
Group-C	1759678	77
Group-D	1320908	87

26. Therefore, it is amply clear that the NPS was not launched with a view to reduce the replacement rate to a level below 50 per cent. It was more concerned with making the government disciplined enough to set aside money outside the government budget in a prudentially managed corpus to meet lumpy pension payments in future.

27. The annualized returns on NPS corpus by FY23 has been 9.16 to 9.24 per cent and for central government employees 9.25 to 9.49 (presumably because of staggered and delayed induction of various state government employees into NPS). These returns are significantly higher than the conservative returns assumed in 2005. Therefore, the technical basis for compulsory switchover to OPS for all NPS covered employees seems questionable. The employees should be given the option to switch or stay in NPS.

28. As far as providing the kind of minimum guaranteed pension as envisaged in the APGPS is concerned, it appears to be in line with the under-stated optimism that prevailed in 2005. The annualized NPS returns so far have been more than what the Parliamentary Standing Committee on Finance had recommended in its 40th Report[25] (2010-2011) on the Pension Fund Regulatory and Development Authority Bill, 2011. The Committee had recommended that the minimum rate of return on the employee contributions to the pension fund should not be less than the rate of interest on the Employees Provident Fund Scheme. The Indian capital market continues to grow, deeper and wider, and with relatively strong macro-economic fundamentals, there are good reasons to foresee that the current optimism in the future of Indian economy is not misplaced.

29. An important point to highlight here is that if the government finances are on track and the fiscal situation improves, the government can always review and revise the government

---

[25] 40th Report of the Parliamentary Standing Committee on Finance on the Pension Fund Regulatory and Development Authority Bill, 2011 https://eparlib.nic.in/bitstream/123456789/64137/1/15_Finance_40.pdf

contribution (like 10% to 14% increase effected in 2019) based on actuarial calculations. If the fiscal situation turns unsustainable, no guarantees are good enough.

30. For the States that have announced reversal to the OPS from NPS, the immediate gain is that they will not have to make the NPS contributions. The fiscal burden of this decision will come after about a decade when the employees recruited after 2004 and presently covered by NPS begin to superannuate. For the governments, it is a short-term gain with longer term pain devolving on a future government.

31. A study done by RBI economists (titled "Fiscal Cost of Reverting to the Old Pension Scheme by the Indian States – An Assessment") has assessed that if all states switch to the old pension scheme (OPS) in 2023, the cumulative fiscal burden could be as high as 4.5 times of national pension system (NPS), with the additional burden reaching 0.9 per cent of the gross domestic product (GDP) annually by 2060. The paper assumes annual salary growth of 12 per cent and annual pension growth of 6 per cent among others. States' expenditure on pensions has increased from 0.6 per cent of GDP in the early 1990s to 1.7 per cent of GDP in 2022-23 (BE), outstripping the growth of revenue receipts. By 2050, annual pension outgo is projected to touch over Rs 17 lakh crore as against Rs 4 lakh crore under NPS. Essentially, it means that to avoid the pension payments getting lumpy in future, it is prudent to set aside annual contributions to a fund outside the government accounts. Being a committed expenditure, pension-related outgo is highly inelastic to the economic cycles. A high and growing pension outgo may result in loss of flexibility to deal with cyclical crises and to boost capital expenditure. (These are not the official views of the RBI.)

32. A major issue that has emerged in the OPS vs NPS debate is whether the NPS-covered employees can reasonably hope to get a pension that is at least half of the salary drawn or more and whether it is protected against inflation. Any speculation about Replacement

Rate (the portion of reference salary or final earnings replaced by pension) is actually speculation about the future of the country's economy, its fiscal health and the strength of its capital market. As was studied by the BHATTACHARYA Committee (2002), replacement rate for full pension varies from country to country. In a few countries, lowest paid employees are allowed higher replacement rate. Likewise, some countries have provision for guaranteed minimum pension amount. The civil servants are also provided with cost-of- living adjustments automatically or on an ad hoc basis to keep pace either with inflation or rising wage levels. In some countries, civil servants are also allowed commutation facility under which they are allowed to surrender a portion of their pension benefit and in turn receive a lump sum amount. In most of the industrialized countries, the retirement pensions for civil servants continued as separate schemes even after the introduction of broad-based national social insurance schemes.

33. The two-decade old pension reform had also taken note of international trends and reform experiments. According to a 1999 World Bank study[26], the proportion of the world population over 60 years was predicted to almost double from 9 per cent to 16 per cent over the next 35 years. Since World War II, maintenance of separate schemes for public service employees was increasingly criticized. With the development of social security systems based on the principles of universality and equity, justification for the existence of separate schemes for civil servants becomes increasingly difficult. Reflecting this, in countries such as Argentina, Peru, and East European countries, there was complete integration of the civil service pension plan with the national social insurance plan. In several developed countries (United Kingdom, United States of America, Japan, Canada, Sweden, etc.), there is a tendency to align the civil service schemes with the national social insurance plan though the civil service pension system is operated by the States like other occupational plan in the private sector. Out of 128 countries

[26] Schwarz Anita M. and Asli Demirguc-Kunt (1999), 'Taking Stock of Pension Reforms Around the World', HDNSP, World Bank, May.

surveyed, civil service schemes were found to have been integrated in 46 countries, while in 82 countries the schemes were separate.

34. The structure of civil services itself has been under churn. Before the Department of Telecom was corporatized and Bharat Sanchar Nigam Ltd was created on 15 September 2000, the total civilian strength of the Central government was 37,76,666 as on 1st March 2000. The strength got reduced to 31,69,038 as on 1st March 2022. The staff strength of Central Police forces increased from 5,84,354 to 10,28,022 while that of Railways got reduced from 15,93,474 to 12,12,882. Many activities earlier carried out by Ministries/Departments of government have been corporatized (Telecom, Power) and routine functions transferred to contractual / outsourced employees. The manpower profile of government has changed towards growing share of say police and para-military personnel. Similar data on State government employees strength and profile is not readily available in public domain.

35. The obvious conflict between the entrenched interests of regular employees both in government and organized businesses and those in the unorganized sector is likely to result in rebalancing of conventional disparities. The NPS was not launched with a view to reduce the replacement rate to a level below 50 per cent but to ensure that governments start setting aside money outside the government budget in a prudentially managed corpus to meet lumpy pension payments in future. That logic of NPS launched in 2003 is present with even greater force in 2023 as well.

STATE LEVEL TAXATION: THE SOURCE AND REMEDY OF FISCAL STRESS

1. The year-wise revenues of different States/UTs from the States taxes are tabulated below (arranged in decreasing order of annual tax revenue in FY20-21)

Table 21 Trend in State/UT wise revenue collection from States' own taxes (Rs. in crore)

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Maharashtra	1,36,592	1,71,686	1,88,341	1,88,945	1,64,255
Uttar Pradesh	85,966	1,09,605	1,22,816	1,22,826	1,19,897
Tamil Nadu	85,941	96,472	1,06,138	1,07,462	1,06,153
Karnataka	82,956	90,335	97,537	1,02,363	97,053
Gujarat	64,443	73,646	80,565	79,008	70,266
Telangana	48,408	58,177	65,040	67,597	66,650
West Bengal	45,466	57,701	61,831	60,669	60,287
Rajasthan	44,372	54,342	58,205	59,245	60,283
Andhra Pradesh	44,181	52,414	58,677	57,601	57,409
Madhya Pradesh	44,194	49,943	52,125	55,824	54,459
Kerala	42,176	48,160	51,019	50,323	47,661
Haryana	34,026	41,836	42,744	42,825	41,914
Odisha	22,852	31,070	31,015	32,315	34,258
Bihar	23,742	29,708	30,858	30,144	30,342
Punjab	27,747	31,496	31,811	29,995	30,053
NCT Delhi	31,140	35,717	36,625	36,566	29,425
Chhattisgarh	18,945	21,989	21,889	22,118	22,889
Assam	12,080	15,467	16,422	16,529	17,134
Jharkhand	13,299	14,488	14,752	16,771	16,880
Uttarakhand	10,897	10,880	12,346	11,513	11,938

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Jammu and Kashmir	7,819	10,797	10,104	9,467	8,877
Himachal Pradesh	7,039	7,593	7,680	7,624	8,083
Goa	4,261	4,988	4,871	4,701	4,241
Tripura	1,422	1,859	1,862	2,102	2,077
Meghalaya	1,186	1,887	1,890	1,891	2,073
Puducherry	2,401	2,473	2,597	2,475	1,948
Arunachal Pradesh	709	1,747	1,274	1,229	1,437
Manipur	587	1,210	1,150	1,204	1,297
Nagaland	511	977	921	960	1,025
Sikkim	653	938	948	970	967
Mizoram	442	859	796	731	648
Total	**9,46,453**	**11,30,460**	**12,14,845**	**12,23,993**	**11,71,878**

2. We are examining the trend and profile of States' tax revenues in the context of high indebtedness of States. Whether to mobilise more tax revenue or cut back low priority expenditures is a policy choice and our effort is to highlight facts indicating the scope of additional tax revenue.

3. The State taxes may be grouped into 3 categories: (a) Taxes on Income: Agricultural Income Tax and Tax on Professions, Trades, Callings and Employment; (b) Taxes on Property and Capital Transactions (Land Revenue , Stamps and Registration Fees and Urban Immovable Property Tax) (c) Taxes on Commodities and Services (State Excise on alcoholic drinks, VAT on Petroleum products, Taxes on Vehicles, Goods and Passengers, Taxes and Duties on Electricity and State Goods and Services Tax).

State Taxes on Income

4. The sovereign taking away a share of agri-produce has historically been a major source of income for the State. However,

as the profile of economic activities changed to bring industry and services to the forefront, incidence of tax on agriculture has reduced sharply worldwide. In fact, the farmers are being assisted by subsidised inputs and direct income support. The agricultural sector sustains a large part of workforce, and a large part of agricultural income carries huge risks and uncertainties in terms of input costs, climatic conditions, pests, restrictions and uncertainties in agri-trading. Agricultural income was taxable like any other income when the Income Tax was first enacted in 1860. Agricultural income was exempted from income tax in 1886. The Government of India Act, 1935 provided for the distribution of legislative powers between the federal legislature and the provincial legislature, with taxation power on non-agricultural income being vested in the federal legislature. The Constitution of India retained the same provision and thus tax on agricultural income is a State subject. Assam and West Bengal enacted agricultural income-tax laws in 1939 and 1944, respectively.

5. Agriculture income is completely exempt from the Income Tax levied by the Central government and in Economic Classification, the 'Agriculture and allied activities' sector of the economy includes crop farming, horticulture, medicinal herbs and plants, plantations as well as animal rearing for milk, meat, wool, pisciculture, apiary, poultry etc. However, for income tax purposes a restricted definition is applied. The "*profits and gains derived from a business of livestock breeding, or poultry or dairy farming" are taxable under the Central law with specified deduction available under S.*80JJ *of the Act*.

6. The incomes derived from agricultural operations vary according to the level of value added before sale. Only the basic minimum processing for making the bulk product market-ready (like harvesting, plucking, winnowing, cleaning and bulk packing) are intended to be the permitted value addition to the primary produce for exemption under the Income Tax Act, 1961. Thus, packing and selling oilseeds and sugarcane in gunny bags and bundles would be tax-free but post-harvest agro-processing

extraction of oil or jaggery would be considered as going beyond the scope of intended exemption.

7. Under Section 10(1) of the Income-tax Act, agricultural income earned in India is exempt from tax. Under Section 2(1A), ‘agricultural income’ is defined to generally mean: (a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes. (b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce. (c) Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A). Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

8. The term ‘agricultural’ is not defined in the Act. The judgment of the Supreme Court in *CIT v. Raja Benoy Kumar Sahas Roy* is relevant. Basic agricultural operations include cultivation of land (tilling, sowing of seeds, planting etc. that require skill and effort directly on the land itself. Income derived from saplings or seedlings grown in a nursery would also be considered to be agricultural income, whether or not the basic operations were carried out on land. Subsequent agricultural operations include operations for growth and preservation of the produce like weeding, digging soil around the crops grown etc and also those operations which would make the product fit for use in the market like tending, pruning, cutting, harvesting, etc. Any furth value addition beyond the stage of ‘agricultural produce being fit to be taken to the market” would lose exemption available to agricultural income (and also likely to attract GST).

9. Where the produce does not undergo ordinary processes employed to make it market-ready, the income arising on sale would generally be partly agricultural (exempt) and partly non-agricultural (taxable) income. The Income Tax Rules to this bifurcation regarding agricultural and non-agricultural produce for products like tea, coffee, rubber, etc. For example, 60% of income from

growing and manufacturing of tea is considered 'agricultural income' (which may be taxed under State law and 40% is considered non-agricultural (taxable under the Central Act)..

10. Very few States (Assam, Jharkhand, Karnataka, Kerala, Maharashtra, Tamil Nadu, Tripura and West Bengal) collect tax on agricultural income, mostly on planation crops. Karnataka prospectively abolished Agricultural Income Tax with effect from April 1, 2016, in a relief to the beleaguered growers of coffee, tea, rubber and other plantation crops. Assam announced (Sept', 2020) a three-year agriculture income tax holiday and other fiscal incentives to help the tea industry hit by the pandemic. Kerala Agricultural Income Tax Act, 1991 was abolished in Jan 2023. The revenue yield is negligible as seen from the following table:

Table 22 Trends in collections from Agricultural Income Tax (Rs. in crore)

State/UT	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**
Assam	23.23	13.52	7.85	6.87	(38.00)
Jharkhand		0.02	0.00	0.00	0.00
Karnataka	1.29	14.69	0.18	0.90	(0.02)
Kerala	2.37	2.85	0.70	0.84	0.50
Maharashtra	-	0.00	0.00	-	0.02
Tamil Nadu	0.00	0.02	0.10	0.42	0.03
Tripura	0.10	0.09	0.15	0.08	0.04
West Bengal	6.57	7.14	0.92	0.65	0.44

11. From a public finance analytical perspective, there is an unexceptionable case for taxation of agricultural income albeit with liberal allowance for risks and costs involved in the profession, market access and market power of agricultural producers. This is particularly so for fiscally stressed States trying to raise revenues faced with constrained borrowing space and ever growing burden of

committed expenditures. In order to strengthen the bargaining power of large number of small farmers, institutional efforts are ongoing to promote their collectivisation through Societies and farmers Producer Organisations. Also to reduce post-harvest losses and improve farm incomes, agro-based industries are being encouraged. In this background, improved fiscal coordination between the Union and States to review and reset policies and systems of taxation of agriculture and post-harvest value-added activities can be beneficial to both the Union and State finances.

Professional Tax

12. The Constitution of India (vide Art. 276) empowers the States to levy taxes on Taxes on "professions, trades, callings and employments for the benefit of the State or of a municipality, district board, local board or other local authority" without in any way limiting the power of the Parliament to levy such taxes. This was the only subject matter where the Centre and the States exercised concurrent tax jurisdiction until the Constitutional Amendment brought into force the Goods and Services Tax w.e.f. July 2017. Originally, the Constitution provided that the total amount payable in respect of any one person to the State or to any one municipality, district board, local board or other local authority in the State by way of taxes on professions, trades, callings and employments shall not exceed Rs.250 per annum. This ceiling was raised to Rs.2500 w.e.f.20-12-1988 under the 60th Constitutional Amendment 1988. Not all the States levy this tax and some States like Kerala and Meghalaya have highly differentiated tax slabs within the overall ceiling of Rs.2500[27]. Trend of actual collections may be seen in the following table:

[27] Rates of Professional Tax in different States
https://saralpaypack.com/blogs/professional-tax-slab-rates-in-different-states/

Table 23 Trends in collections from Professional Tax (Rs. in crore)

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Maharashtra	2,312	2,205	2,583	2,502	2,474
Karnataka	901	964	1,057	1,140	1,127
West Bengal	509	529	561	589	597
Telangana	386	411	452	526	511
Madhya Pradesh	330	343	321	310	321
Andhra Pradesh	254	245	252	247	270
Gujarat	249	260	261	259	257
Odisha	180	188	204	216	229
Assam	184	193	186	190	189
Punjab			94	138	143
Bihar	79	87	125	114	126
Jharkhand	68	74	79	84	75
Tripura	42	42	44	44	41
Nagaland	30	35	35	31	31
Manipur	24	24	34	29	28
Mizoram	15	16	14	15	16
Sikkim	8	8	11	15	14
Meghalaya	4	4	4	4	4
Uttar Pradesh	56	19	1	1	1
Chhattisgarh	9	4	1	1	0
Uttarakhand	29	19	0	0	0

13. Maharashtra and Karnataka stand out in their revenue performance from Professional Tax. The ceiling of tax (Rs.2500 since 1988 does not reflect the current state of economy. As the Goods and Services Tax stabilises, it should be possible to explore this source of additional revenue for the States. The sectoral profile of most States is exhibiting growing share and preponderance of the

Services sector and there is prima facie scope for additional resource mobilization by the States through Professional Tax. In this area of income taxation also, improved fiscal coordination between the Union and States can be beneficial to both the Union and State finances.

State Taxes on Property and Capital Transactions

14. Among this group are Land Revenue, Stamps and Registration Fees and Urban Immovable Property Tax. Stamp duties on property transfers are a major source of State revenues. The table below gives the trend in Stamp Duties and Registration Fees, the most significant revenue source in this group.

Table 24 Trends in collections from Stamp Duties and Registration Fees (Rs. in crore)

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Maharashtra	22,811	28,752	30,633	30,861	27,490
Uttar Pradesh	12,324	14,734	16,364	16,573	16,772
Tamil Nadu	7,400	9,355	11,255	11,123	11,894
Karnataka	8,015	9,219	10,919	11,512	10,760
Gujarat	8,041	9,401	10,448	10,389	9,862
West Bengal	6,951	8,135	8,467	8,754	8,283
Madhya Pradesh	4,916	5,923	6,363	6,850	8,059
Andhra Pradesh	3,835	4,510	5,644	5,471	5,887
Rajasthan	3,375	4,040	4,177	4,601	5,640
Telangana	3,951	4,313	5,480	6,872	5,296
Haryana	3,299	4,211	5,655	6,034	5,174
Bihar	3,953	4,504	4,665	4,936	4,509
Kerala	3,290	3,802	4,073	4,142	4,121

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
NCT Delhi	3,146	4,119	4,459	4,609	3,553
Odisha	1,824	1,579	1,749	2,156	3,545
Punjab	2,111	2,226	2,367	2,324	2,538
Chhattisgarh	1,715	1,644	1,596	2,186	2,523
Jharkhand	847	625	840	898	1,581
Uttarakhand	937	906	1,050	1,096	1,124
Assam	437	459	404	387	398
Jammu and Kashmir	245	337	307	493	386
Goa	404	572	499	430	385
Himachal Pradesh	217	246	259	264	260
Puducherry	67	72	93	90	83
Tripura	55	45	57	75	80
Meghalaya	18	22	29	21	53
Sikkim	19	21	24	18	26
Mizoram	12	11	13	15	25
Arunachal Pradesh	12	24	24	24	18
Manipur	12	15	21	21	12
Nagaland	3	4	4		

15. The division of legislative powers in respect of Stamp Duties between the Union and the States is as follows under the Constitution. Stamp duties on bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts are collected and appropriated by the States at the rates legislated by the

Parliament. [28] Rates of Stamp Duties on other documents are legislated by State Legislatures[29]. The Parliament and the State Legislatures can concurrently legislate[30] in respect of stamp duties other than duties or fees collected by means of judicial stamps (but not including rates of stamp duty).

16. The Indian Stamp Act, 1899 lays down the law relating to Stamp Duties on a variety of instruments including those related to securities market. The law laid down all aspects of administration of the Stamp Duties including prescription of rates and exemption on a variety of instruments specifically listed in Schedule 1 of the Act. Significant changes in the Stamp Duty regime were introduced after the Constitution of India came into force. Firstly, the Constitution provided that the revenue from Stamp Duties shall *ab initio* accrue to the States who will have the power to collect and appropriate it for their own use. However, for the purpose of uniformity in taxation of market instruments having a bearing on trade and commerce all across the country, the Constitution provided that on certain Instrument, the Stamp Duty rates will be fixed only by the Parliament.

17. Market instruments (like bills of exchange, cheques, bonds, debentures, share certificates, bill of lading etc.) are generally of concern to the parties issuing and receiving it, courts, regulatory agencies and bankers for reference and record. Essentially these securities are traded in market. Non-market instruments (like adoption-deed, affidavit, agreement or memorandum of an agreement, agreement to lease, agreement relating to deposit of title-deeds, pawn or pledge, apprenticeship-deed, articles of association of a company, articles of clerkship, assignment/conveyance/transfer and transfer of lease, power of attorney, authority to adopt, awards etc.) are generally of concern to the parties issuing and receiving it,

---

[28] Art. 268 of the Constitution read with Entry No. 91 of List – I of the 7th Schedule i.e. the Union List.
[29] Entry No. 63 of List – II of the 7th Schedule i.e. the State List
[30] Entry No. 44 of List – III i.e. the Concurrent list

courts, regulatory agencies and bankers for reference and record. Essentially these securities are not traded in market.

18. A plain reading of the above provisions of the Constitution read with the pre-Constitution Stamp Duty Act 1899 should lead one to believe that the Constitution makers wanted to carve out a special role for the Union in bringing uniformity of rates in respect of stamp duties on marketable instruments which are lifeline of trade and commerce that would suffer for want of a fix pan India rate. Otherwise Stamp Duties on non-market instruments (typically registration of gift/succession/sale/lease/mortgage of immovable property etc.) of a local character were left to be decided by the States. In respect of immovable property, there could be little doubt as to which State should have the power to impose and collect Stamp Duty irrespective of the domicile of seller/transferor or buyer/transferee.

19. Instruments connected with sale/transport of movable goods and intangibles (Cheques and Bills) may typically not have unique territorial nexus with a single State government and may lead to disputes and issues when traded across State borders. Like the Consignment Tax and Central Sales Tax, there is clear logic in favour of the Union government prescribing common tax rates as well as the party on which the incidence of tax should fall.

20. It would appear that the Union alone is intended to be empowered by the Constitution to prescribe rates of Stamp Duty on marketable securities. Powers of fixing the rates of Stamp Duty were distributed between the Union and the States based on the nature of documents to be stamped. In 1950, when the Constitution was brought into force Bills of Exchange, Cheques, Promissory Note, Bills of Lading, Letters of Credit, insurance policies, transfer of shares / debentures, proxies and receipts' were the marketable instruments used in the capital and money market. Since then, newer marketable securities (instruments), with newer nomenclature (Futures, Options, Derivatives) have come into vogue and in fact the

stamping of documents has largely gone out of fashion. Securities are now held mostly in digital depositories and traded electronically.

21. Stamp Duties are considered an indirect tax under the common notion that the indirect taxes are expected to be paid by the buyer/transferee/ recipient of a valuable goods, services or security. The legal duty, burden and incidence is on him to discharge. However, this traditional view is yielding space to an alternate system of tax collection where the legal duty, burden and incidence is on him seller/transferor/ issuer to discharge. This is being done on account of administrative expediency of tax administration as it reduces the cost of compliance, reduces the scope of tax evasion and may also be adding to the convenience of buyers/transferees/ recipients. Section 29 of the Stamp Duty Act itself specifies the Instruments where the Stamp Duties are payable by buyer/transferee/ recipient and those Instruments where the Stamp Duties are payable by seller/transferor/ issuer.

22. With electronic trading becoming normal practice, there are going to be no documents requiring any stamps anymore and Information Technology Act has brought a distinct regime of authentication on how to impart legally sustainable evidentiary value to digital ‘documents’. Thus, the Stamp Duty mechanism is basically an anachronistic remnant (for digital documents) but an important source of revenue from the section widely perceived as having ability to pay.

23. The Finance Act, 2019 introduced certain amendments to the Indian Stamp Act, 1899 to streamline the stamp duty regime on financial securities transactions. The amendments are effective from January 09, 2020. The amended Act provides for centralized collection of stamp duties by the stock exchange or a clearing corporation authorised by it or the depository in respect of digital transactions on sale of securities. The benefit of stamp duty collection should go to the State of domicile of the buyer. Hence, the stamp duties so collected are required to be remitted to the State Government where the residence of the buyer is located within three

weeks of the end of each month. In case the buyer is located outside India, the stamp duty will be remitted to the State Government having the registered office of the trading member or broker of such buyer and in case where there is no such trading member of the buyer, to the State Government having the registered office of the depository participant.

24. Section 8G of the Indian Stamp Act, 1899, inserted by Finance Act, 2021, provides that any instrument for conveyance or transfer of a business, asset or right in any immovable property from a Government company, its subsidiary, unit or joint venture by way of strategic sale, disinvestment, demerger, any scheme of arrangement; or; if such government company, its subsidiary or JV which is to be wound up, closed, struck off, liquidated or shut down, to another Government company or to the Central Government/State Government etc., after the approval of the Central Government/ State Government, as the case may be, shall not be liable to duty under the Indian Stamp Act, 1899.

25. For financial securities now mostly traded in Demat form and subject to legislation by the Parliament, some systemic reforms and rate rationalisation has been effected through the Finance Act, 2019. However, in respect of stamp duties on real estate transactions and conveyance of property through mergers and acquisitions, corporate restructuring etc. there is divergent practice in different States. A thorough review, reform and rationalisation of the Stamp Duty regime under State governments' jurisdiction together with related taxation by the Union government is desirable to usher greater ease of doing business and tax collection efficiencies.

26. It is the instrument that is exigible to Stamp duty. As per the Indian Stamp Act, 1899 ("Act"), *"Instrument"* includes every document by which any right or liability is created, transferred or extinguished. In the case of mergers and amalgamations, it is the order of the NCLT sanctioning the Scheme which is the instrument on which stamp duty is levied. Under a Scheme of Arrangement, property is transferred from one person to another person, and

accordingly falls within the ambit of the term *"Conveyance"* as defined under the Act. As per the Act, Conveyance includes every instrument by which property, whether movable or immovable, is transferred. The rate of Stamp Duty on merger and amalgamations differs from state to state.

27. High Stamp Duties (coupled with Capital Gains Tax) on transactions in physical properties leads to under-reporting of actual sale price or as is the practice in several parts, transfer by the mechanism of perpetual rent with hefty upfront premium or transfer through the instrument of Power of Attorney. The 'tenant' or the 'POA holder' gets full control of the property without claiming legal ownership to evade taxes. There is a calculated trade-off between gains and risks.

28. The reforms in Income Tax have helped to reduce cost of tax compliance vis-à-vis increased risks involved in tax evasion. Similar approach is required in case of holistic appraisal and rationalisation of Stamp Duties and Capital Gains Tax and Property Tax levied by Municipal Corporations. A property tax system linked to valuation or rental value of the subject property rather than to the cost of services provided by the corporations tantamount to a proxy tax on income and wealth which is beyond the taxation powers of local bodies.

29. The property transfers based on non-cash sale such as transfers between parties as part of settlements, whether through mutual consent or under orders of courts/tribunals or transfers between companies as part of corporate restructuring or transfers of effective control and development rights but not full ownership rights are all products of emerging realities with which the tax laws have to take a holistic view between the Union, States and Local Bodies. A fragmented tax perspective may not only harm public exchequer but also inhibit growth of related industries, business and job opportunities.

30. Disproportionately high collections of Stamp Duties by Maharashtra with Uttar Pradesh being distant second indicates the

level of formalisation achieved in the real estate sector and financial services in Maharashtra with Mumbai earning the tag of the financial capital of India. The reforms in stamp duty, registration and transfer levies and capital gains tax help coupled with ongoing computerisation of land records and registrar offices can further reduce incentives for tax evasion in property transfers (power of attorney etc.) with corresponding revenue gain to public exchequer for the Union and the States.

State Taxes on Commodities and Services

31. These taxes fall into following sub-groups: Taxes on vehicles, alcoholic drinks, electricity and petroleum and other taxes now subsumed in the Goods and Service Tax (GST).

Taxes on Vehicles

32. Trend of collections in recent years is given in Table 25:

Table 25 Trends in collections from Taxes on Vehicles (Rs. in crore)

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Maharashtra	6,741	8,665	8,613	8,467	6,655
Uttar Pradesh	5,148	6,404	6,929	7,715	6,483
Karnataka	5,594	6,209	6,568	6,763	5,607
Tamil Nadu	4,854	5,363	5,573	5,675	4,561
Rajasthan	3,623	4,363	4,576	4,951	4,368
Kerala	3,107	3,663	3,709	3,721	3,386
Telangana	3,394	3,589	3,762	3,935	3,338
Gujarat	3,213	3,885	4,119	3,847	2,982
Andhra Pradesh	2,467	3,039	3,341	3,279	2,966
Madhya Pradesh	2,252	2,692	3,008	3,251	2,749
Haryana	1,583	2,778	2,908	2,916	2,495
West Bengal	1,870	2,317	2,563	2,601	2,336

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Bihar	1,257	1,600	2,086	2,713	2,268
NCT Delhi	1,809	2,116	2,055	1,948	1,676
Odisha	1,216	1,535	1,746	1,836	1,526
Punjab	1,548	1,911	1,861	1,994	1,472
Chhattisgarh	985	1,180	1,205	1,275	1,148
Jharkhand	682	778	864	1,129	976
Uttarakhand	556	816	909	908	741
Assam	522	647	765	816	724
Jammu and Kashmir	150	228	239	409	488
Himachal Pradesh	280	367	408	466	380
Goa	244	315	299	269	219
Tripura	44	54	83	97	97
Nagaland	57	102	126	114	93
Puducherry	87	104	114	140	84
Meghalaya	48	67	87	99	79
Manipur	25	36	40	48	38
Arunachal Pradesh	24	31	32	38	33
Mizoram	26	32	38	41	29
Sikkim	25	29	33	41	29

33. The automobile industry accounts for almost half of the country's industrial output and has significant contribution to export earnings. With a policy push to promote electric vehicles in a bid to reduce carbon footprint and reduce dependence on imported fossil oils, incentives and disincentives are being offered by the Union and the State government for replacement of older, polluting vehicles and new acquisitions being focussed on eco-friendly electric vehicles. From hybrid and pure electric vehicles to hydrogen-fuelled vehicles and other futuristic options of individual and mass

transport, the technology developments and adaptation would require an agile tax policy in this area.

Taxes and Duties on Electricity

34. Trend of collections in recent years is given in Table 26:

Table 26 Trends in collections from Taxes and Duties on Electricity (Rs. in crore)

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Maharashtra	6,670	7,345	10,085	9,619	8,354
Gujarat	5,833	6,484	7,348	8,774	8,319
Odisha	1,637	1,970	3,258	2,820	3,938
Madhya Pradesh	2,621	2,590	2,616	2,268	2,608
Punjab	1,993	2,053	2,330	2,697	2,542
Karnataka	1,452	1,485	2,334	2,693	2,434
Chhattisgarh	1,495	1,689	1,790	1,837	2,341
West Bengal	1,319	2,334	2,675	2,421	2,214
Rajasthan	738	3,377	2,148	2,263	2,142
Uttar Pradesh	1,556	2,124	2,978	3,453	1,587
Bihar	224	239	269	440	1,355
Tamil Nadu	1,242	1,219	621	574	482
Haryana	276	306	337	262	476
Himachal Pradesh	372	361	487	101	402
Jammu and Kashmir	90	179	189	98	319
Assam	49	60	73	195	198
Jharkhand	152	183	209	236	195
Uttarakhand	189	324	506	39	189
Tripura	0	0	0	31	112

State/UT	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Kerala	63	67	62	68	57
Telangana	514	397	16	17	20
Andhra Pradesh	333	16	11	11	13
Nagaland	0	0	0	0	5
Meghalaya	2	2	3	1	2
Manipur	0	0	0	0	0

35. Electricity is both a direct provision of service as well as a basic input in a largely mechanized, electrified manufacturing as well as in agriculture. Persuaded by the State governments the electricity regulators demur to a system where household and agricultural consumption is cross-subsidized by industrial and commercial consumers and in some States, the cross-subsidy burden is so high as to inhibit industrial development or the bulk industrial/commercial consumers exiting public supply to rely on own captive generation. So far consensus could not be built on inclusion of electricity tax in GST which is more relevant for electricity supply to industrial/commercial sector as the tax can be claimed as input tax credit. This affects highly energy-intensive industries. The tax needs review from this perspective to give a boost to industrialization.

Goods and Services Tax: The game changer tax reform

36. The Constitution originally provided for a division of legislative powers between the Parliament and the State Legislatures with co-extensive executive powers of the Union government and the State governments. In the pre-GST regime, the manufacturing of goods (except alcoholic liquor for human consumption, opium, narcotics etc.), imports and services were taxed by the Central government and manufacturing of alcoholic products and transactions of post-manufacture sales and purchases were taxed by the State governments. In the case of inter-State sales,

the Centre levied the Central Sales Tax, but the tax was collected and retained by the States from where the goods moved out. Through the 101st Constitutional Amendment Act 2016, both the Union and the States are now empowered to make laws with respect to goods & services while the Parliament continues to have exclusive power to tax the inter-State trade or commerce. This significant Amendment requiring special majority in both the Houses of Parliament and ratification by majority of States was the result of a grand bargain between governments arrived at after protracted negotiations spanning over a decade.

37. The new tax regime contemplated levy of three new taxes, viz., Central GST, State GST and Integrated GST on goods and services with effect from July 1, 2017. The rates, rules and regulations are recommended (generally by consensus) by the GST Council comprising all the Finance Ministers of the Union, States and UTs to the Parliament and State/UT Legislatures. Most goods and services are divided into five tax slabs - 0%, 5%, 12%, 18% and 28%. A special rate of 0.25% on rough, precious and semi-precious stones and 3% on gold jewelry. In addition, a cess of 22% or other rates on top of 28% GST applied on few demerit goods or luxury items like aerated drinks, luxury cars and tobacco products. The cess proceeds are meant to compensate the States against revenue losses to the extent the GST collections during July 2017-June 2022 fell short of 14% per annum assured growth over revenue collection in 2015-16 from the taxes subsumed in GST. The levy of GST compensation cess has now been extended until March 31, 2026.

38. Alcoholic liquor for human consumption is outside the GST tax net. Certain petroleum products (crude oil, high speed diesel, motor spirit (petrol), natural gas and aviation turbine fuel) are part of the GST law but taxable from a future date yet to be decided. Tobacco and Tobacco products are taxable under GST and also under the Central Excise Duty.

39. The GST is a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be

levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States/ Union territory would be called the State GST (SGST)/ UTGST. Similarly, Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

40. GST is a destination-based tax on consumption of goods and services, which levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition by each economic agent in the value addition chain will be taxed and ultimate and full burden of tax is to be borne by the final consumer. The benefit of tax proceeds would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply. While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

41. The GST replaced the following taxes: (i) taxes currently levied and collected by the Centre: a. Central Excise duty b. Duties of Excise (Medicinal and Toilet Preparations) c. Additional Duties of Excise (Goods of Special Importance) d. Additional Duties of Excise (Textiles and Textile Products) e. Additional Duties of Customs (commonly known as CVD) f. Special Additional Duty of Customs (SAD) g. Service Tax h. Central Surcharges and Cesses so far as they relate to supply of goods and services (ii) State taxes that would be subsumed under the GST are: a. State VAT b. Central Sales Tax c. Luxury Tax d. Entry Tax (all forms) e. Entertainment and Amusement Tax (except when levied by the local bodies) f. Taxes on advertisements g. Purchase Tax h. Taxes on lotteries, betting and gambling i. State Surcharges and Cesses so far as they relate to supply of goods and services.

42. The implementation of Goods and Services Tax (GST) in a country of India’s size and complexity is undoubtedly one of the

biggest tax reforms in the world. The only comparison in scale may be with the European Common Market where sovereign nations came together to introduce a common fiscal and monetary regime. Similarly, the GST integrates the Indian market, almost as several commodities are still outside GST, into a common market across State borders.

43. The idea of integrating the national market on the lines of the EU model had been intermittently discussed in several official committees of which particular mention may be made of the Bhairon Singh Shekhawat Committee (1995) and the Kelkar Task Force on Indirect taxes (2000), which in a way sowed the seeds of first introduction of State level VAT in 2005 and now the dual GST in 2017. It was forcefully argued in these deliberations that when fully sovereign nations of Europe could come together to coordinate their tax policies and eliminate fratricidal tax competition among themselves, the States in India should be persuaded not to fragment the national common market and indulge in the sales tax rate wars to the detriment of public exchequer. Through CENVAT and MODVAT mechanisms, the governments tried to minimize the cascading effect of taxes, i.e., tax on tax getting compounded in the value addition chain from raw material to finished products.

44. The objective of GST was to replace the prevailing complex and fragmented tax structure with a unified system that would simplify compliance, reduce tax cascading, and promote economic integration. The Empowered Committee of State Finance Ministers prepared a design and roadmap, releasing the First Discussion Paper in 2009. The Constitution Amendment Bill was first introduced in 2011 and then in 2014. There were disagreements regarding compensation to States and other issues. After years of deliberation and negotiations between the Central and State Governments, the Constitution (122nd Amendment) Bill, 2014 was passed by the Lok Sabha in May 2015. The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by the Lok Sabha in August 2016.

Revenue performance of GST:

45. In the pre-GST regime, there were about 72 lakh registered businesses under Central Excise, VAT and Service tax. Within 6 months, the number had gone up to 99 lakhs (December 2017). As on 30th September 2023, there were 1.42 crore registered taxpayers under GST who had cumulatively filed 119.83 crore Tax Returns on GST portal.

46. The year-wise revenues of different States/UTs from the State GST are tabulated below:

Table 27 Trends in collections from State GST (Rs. in crore)

State/UT	2017-2018	2018-2019	2019-2020	2020-2021
Maharashtra	53,818	83,181	82,602	69,949
Uttar Pradesh	37,586	48,802	47,232	42,860
Tamil Nadu	27,325	39,137	38,376	37,942
Karnataka	27,387	42,663	42,147	37,711
Gujarat	23,348	35,351	34,107	29,459
West Bengal	19,944	28,166	27,308	26,013
Telangana	14,730	24,206	23,517	22,190
Rajasthan	15,874	23,763	21,954	20,755
Kerala	13,708	21,390	20,447	20,028
Andhra Pradesh	13,748	21,257	20,227	18,871
Haryana	11,571	18,775	18,873	18,236
Madhya Pradesh	13,829	19,751	20,448	17,257
Bihar	13,319	16,738	15,801	16,050
NCT Delhi	13,621	19,187	19,465	15,676
Odisha	9,766	12,639	13,204	13,043
Punjab	8,973	13,510	12,751	11,819
Assam	6,329	8,890	8,755	8,549

State/UT	2017-2018	2018-2019	2019-2020	2020-2021
Jharkhand	6,258	8,201	8,418	7,931
Chhattisgarh	6,481	8,665	7,895	7,925
Uttarakhand	2,687	4,960	4,931	5,053
Jammu and Kashmir	3,872	5,412	4,720	4,839
Himachal Pradesh	2,318	3,450	3,550	3,467
Goa	1,721	2,529	2,438	1,985
Tripura	916	1,074	1,027	1,056
Manipur	721	787	853	867
Arunachal Pradesh	1,155	806	802	859
Meghalaya	813	902	910	823
Nagaland	526	544	613	664
Sikkim	421	461	455	463
Mizoram	483	524	532	458
Puducherry	518	907	782	433
Total	**3,53,764**	**5,16,627**	**5,05,137**	**4,63,232**

47. Besides State GST collections that accrue to the State where final sale takes place, the States also get share in Central GST collections as per the award of the Finance Commission. The revenue collection from Union and State taxes now subsumed in GST (like Central Excise Duty, Sales Tax/VAT etc.) was about 6% of GDP in 2016-17. After a slow and uneven start and a major dip in the April-June 2020 quarter affected by the lockdown, post-pandemic recovery in GST collections has been swift and has got accelerated in last few months/quarters.

Table 28 Year-wise total GST collections (Centre+States)

Period	Total GST collections	
	(Rs. in crore)	% of GDP
FY18	5,40,237	3.16
FY19	8,76,747	4.64
FY20	9,44,407	4.70
FY21	8,65,060	4.36
FY22	10,97,545	4.68
FY23	13,24,985	4.87
FY24 (Upto August)	6,24,385	

The following charts showing total quarterly/monthly GST collections from July 2017 to August 2023 capture the impact of seasonality in tax collections.

Chart 6 Total quarterly GST collections Q2/FY18 to Q1/FY24 (Rs. in crore)

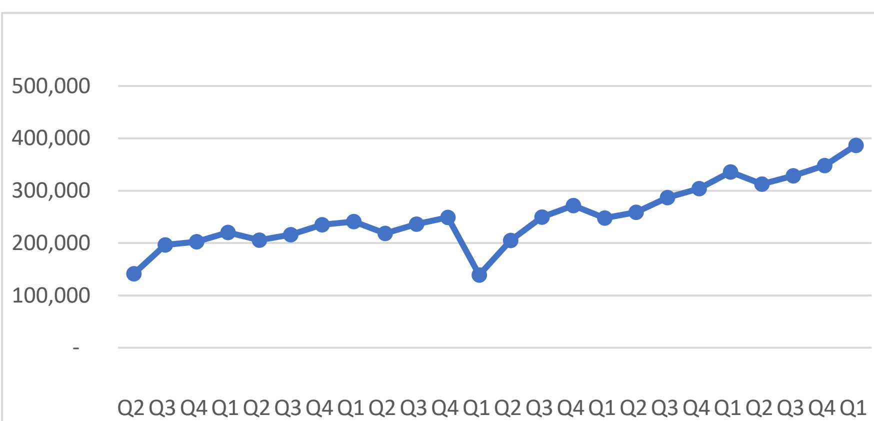
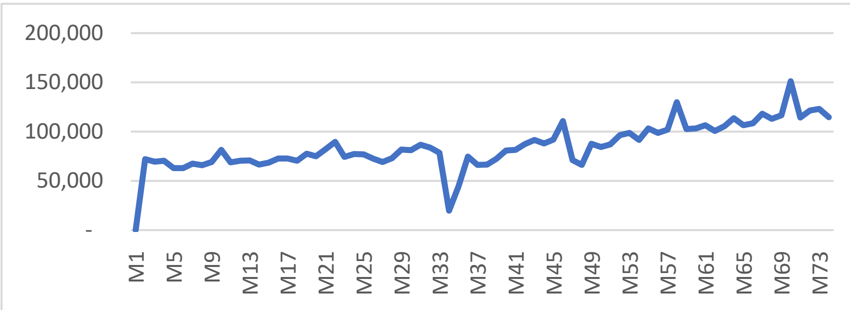


Chart 7 Total monthly GST collections (July'17 to Aug'23 (Rs. in crore)



Improving compliance of GST is the joint responsibility of the Union and the States

48. GST system includes certain checks on tax evasion like mandatory audits, matching of returns, e-way bills, reverse charge mechanism and invoice matching. These are being gradually introduced. GST compliance was initially slow since key features of compliance enforcement (such as invoice matching, e-way bills, reverse charge mechanism) were gradually rolled out. Governments are taking steps to overcome resistance to formalization and digitalization, and curbing tax evasion through claims of fake or excess input tax credits, mis-invoicing or undocumented sales. Rationalization of GST rates is also a work in progress.

Checks on undocumented movement of goods

49. Ever since Economic Administration Reforms Commission (chaired by Shri L K Jha 1984) highlighted how 80% of Excise manpower then guarded gates of low revenue yielding factories, tax administration has been moving away from physical controls to self-assessment. A trust-based tax assessment system is effective only when there is deterrence of test check and fear of penal action on detection of breach of faith in test check. Otherwise, the tax system will be no different than managing voluntary donation boxes.

50. Since tax inspectors no longer guard the gates of factories and godowns, IT system-based controls on goods movement have been instituted though 'E-Way Bills' required to be carried by transporters carrying consignment of goods of value exceeding fifty thousand rupees. Only GST registered entities can generate these Bills to be given only to the transporters registered on the eWay Bill portal. 'E-Way Bills' system was rolled out in April 2018 to track movement of taxable goods. This also reduces the income tax evasion by transporters as they need to get registered. Capturing the vehicle registration numbers into a trackable IT system, the eWay Bills and FASTag systems help check other malpractices.

51. Restricting the use of eWay Bills to only registered transporters/vehicles help formalize the transport sector and adversely affects the tax evasion prone cash-only segment of road transport business. (Also, by capturing the vehicle registration numbers into a trackable IT system, the eWay Bills and FASTag systems now make it possible to check whether fodder was transported on two wheelers as was detected by Audit in the fodder scam in Bihar.) eWay Bills enable abolition of checkposts, faster movement of goods and increased turnaround time for vehicles leading to increasing profitability of transporters (but possibly overall reduction in demand for transport hours resulting possibly in denting the demand for transport vehicles).

Checks on fraudulent claims of input tax credits

52. Instances have been found where unscrupulous dealers have used fake invoices for inputs (not received) to claim undue input tax credit. Such invoices don’t have any corresponding supply of goods/services or not to the full extent and do not involve actual payment of GST on inputs. This practice also leads to defrauding banks by exaggerating turnovers and money laundering.

53. CAG report on GST (July 2019) expressed concern on continuing delay in full invoice matching system which has made the system prone to input tax credit frauds. The system was intended to be designed based on 100% invoice-matching to ensure system-

verified input tax credit, correct settlement of IGST and minimizing direct human interface with tax assessees. After full automation is adopted by taxpayers, even "assessment" as understood in the manual system may no longer be necessary. The tax returns can be generated by a system that matches invoices. Tax evasion can be detected by applying analytical tools and AI to the massive data that crores of invoices generate.

54. In fact, the GST system should reach the same maturity in terms of providing visibility of Input Tax Credit as is now available for verification and tracing of TDS/TCS credits by Income Tax assesses. Massive crackdown on ITC frauds in recent months has had a salutary effect on GST collections and further improvements are expected.

Facilitating tax compliance

55. One common problem especially for small businesses is that the GST system is not designed to distinguish a sale for full upfront payment and a sale on credit: a sale on EMI. Why force a seller to pay GST even before he gets paid for the supplies? Even allowing quarterly filing of GST returns with monthly payments does not addresses this problem. Small businesses selling to big buyers including governments and PSUs routinely face payment delays though some progress has been made recently. It would be desirable if in a GST2.0 upgrade, a receipt-based GST system can be implemented where the GST would be payable to the Treasury only on receipt of full or pro rata payment for the supplied goods/services. One theoretical option to implement this at least for small businesses could be to allow them to opt for Cash Accounting rather than Accrual Accounting but that will create problems when they grow big enough to leave the small business tag. Better option will be to introduce payment tracking whose benefits will go beyond the GST sphere in checking defaults and delinquencies.

56. It is a creditable achievement that the number of registered businesses under taxes subsumed in GST has increased from 72 lakhs to 1.42 crore (Sept 2023) despite significant de-registrations

due to increased thresholds for registration and voluntary deregistration by some Central Excise-exempt units located in Himalayan/ Northeastern States whose business became unviable under the destination-based GST.

57. GST rate rationalization is also on course. Almost 99 per cent of all commodities are now taxed with GST@18 per cent or lower. Consumers tend to compare GST rates with erstwhile Sales tax/ VAT rate not realizing the basic fact that the GST subsumes Central Excise which has been hidden in the price of products on which VAT was applied. When the invisible Central Excise and other taxes are subsumed in visible GST, the GST is bound to be seen higher than VAT. (Pre-GST taxation of goods was a typical standard VAT @14.5%, Central Excise @12.5% and CST@4%. With cascading effect of tax on tax, total tax paid by end consumer was beyond 30%. The entertainment tax was being levied by the States from 35% to 110%.

58. Although GST collections have recorded major jump in recent quarters, these are yet to reach the pre-GST level of collections of taxes subsumed in the GST (6% of GDP). There is no public reporting on how much tax is collected by the Central and State governments from taxing each commodity/service or how much is collected under goods/services attracting same GST rate. Hence, an assessment of potential base for GST is difficult. However, high collections accruing to Maharashtra seem to suggest a sizeable contribution of financial services which attract 18% GST to the GST revenue. Inclusion of petroleum products and electricity tax in GST, if necessary, by adjusting non-GST taxes like Customs, allowing input tax credit across full value addition chains, further lowering of rates with continuing strict action against tax frauds can all make GST more acceptable and yield more revenues for both Union and the State exchequer. Digitalization and formalization of businesses poses some short-term costs and hassles, but it is inevitable, and it alone holds the promise of giving long awaited justice to the overtaxed. Rates can come down when compliance improves for this grand reform. Under the shared responsibility of

ensuring GST compliance, the States have the superintending role on small producers/vendors, largely operating in informal sector. Bringing all of them under the GST net will benefit both the Union and State finances.

SELECT BIBLIOGRAPHY

Legislative Department

- Constitution of India https://legislative.gov.in/constitution-of-india/

- 21st Report of the Parliamentary Standing Committee on Finance on the Pension Fund Regulatory and Development Authority Bill, 2005’ https://eparlib.nic.in/bitstream/123456789/62839/1/14_Finance_21.pdf#search=pension

- 40th Report of the Parliamentary Standing Committee on Finance on the Pension Fund Regulatory and Development Authority Bill, 2011 https://eparlib.nic.in/bitstream/123456789/64137/1/15_Finance_40.pdf

Ministry of Statistics and Programme Implementation

- National Accounts Data https://www.mospi.gov.in/web/mospi/download-tablesdata/-/reports/view/templateOne/16701?q=TBDCAT

Ministry of Finance, Government of India

- Budget documents of Government of India https://www.indiabudget.gov.in/

- Report of the Committee on Fiscal Responsibility Legislation (2000) https://www.indiabudget.gov.in/budget_archive/es2000-01/chap26.pdf

- Fiscal Responsibility and Budget Management Act, 2003, https://dea.gov.in/sites/default/files/FRBM%20Act%202003%20and%20FRBM%20Rules%202004.pdf.

- Fiscal Responsibility and Budget Management Rules (2004)

India https://dea.gov.in/sites/default/files/FRBM%20Act%202003%20and%20FRBM%20Rules%202004.pdf

- "FRBM Act and Rules effective from July 5, 2004" https://pib.gov.in/newsite/erelcontent.aspx?relid=2246
- FRBM Review Committee Report, January 2017, Volume-I, https://dea.gov.in/sites/default/files/Volume%201%20FRBM%20Review%20Committee%20Report.pdf.
- Reports of the Finance Commissions https://fincomindia.nic.in/ShowContent.aspx?uid1=3&uid2=0&uid3=0&uid4=0
- Report on the Revenue Neutral Rate and Structure of Rates for the Goods and Services Tax (GST), December 2015, https://gstcouncil.gov.in/sites/default/files/CEA-rpt-rnr.pdf.
- The Project OASIS Report, January 11, 2000, https://www.pfrda.org.in/writereaddata/links/rep2d5d02004-a7c9-4875-be6ef8b92744e210.pdf

Comptroller and Auditor General of India

https://cag.gov.in/en

- Combined Finance and Revenue Accounts-Union & State https://cag.gov.in/en/combined-accounts
- CAG Reports on State Finances https://cag.gov.in/en/audit-report?ts=allwords&title=&gt=49&udt=&state=&lbt=&sector=&sector%5B%5D=27&report_type=&od=&yrf=&yrt=
- CAG Report No. 11 of 2019, Indirect Taxes-Goods and Services Tax, July 2019, https://cag.gov.in/uploads/download_audit_report/2019/Report_No_11_of_2019_Compliance_Audit_of_Union_Government_Department_ of_Revenue_Indirect_Taxes_Goods_and_Services_Tax.pdf

- Report No. 5 of 2022, Indirect Taxes – Goods and Services Tax, August 2022 https://cag.gov.in/en/audit-report/details/116623

NITI Aayog

- The Sub-Group of Chief Ministers on the rationalization of Centrally Sponsored Schemes, NITI Aayog, November 2015, https://www.niti.gov.in/sites/default/files/2019-08/Final%20Report%20of%20the%20Sub-Group%20submitter%20to%20PM.pdf
- Turning around the power distribution sector: Learnings and Best Practices from Reforms (2021), NITI Aayog, https://www.niti.gov.in/sites/default/files/2021-08/Electricity-Distribution-Report_030821.pdf

Reserve Bank of India

- Database on Indian Economy [https://dbie.rbi.org.in/DBIE/dbie.rbi?site=home
- Handbook of Statistics on Indian Economy https://rbi.org.in/Scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20Indian%20Economy
- **Annual reports of the Reserve Bank of India on State finances (The Report released on Jan 16, 2023** based on study of Budgets of 2022-23) https://rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets
- State Finances: A Risk Analysis, Reserve Bank of India Bulletin, June 2022, https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/6STATEFINANCESARISKANALYSIS143105EB27A744E1B9C404CF7D96909A.PDF.
- Report of the Group to Study the Pension Liabilities of the State Governments (October 2003)

https://prsindia.org/files/bills_acts/bills_parliament/2005/Bhattacharya_Committee_on_Pension_Liabilities_of_State_Governments.pdf

World Bank

- "Property Taxation in India; Issues Impacting Revenue Performance and Suggestions for Reform", World Bank, https://openknowledge.worldbank.org/bitstream/handle/10986/33655/Property-Taxation-in-India-Issues-Impacting-RevenuePerformanceand-Suggestions-for-Reform.pdf?sequence=1&isAllowed=y
- Note on Financial Accountability Systems of Selected State Level Power Sector Entities Financial Management (June 2006), IBRD 2006 Financial Accountability of select State level power sector entities, World Bank Report No. 37729-IN https://documents1.worldbank.org/curated/en/630441468267920024/pdf/377290IN.pdf
- World Bank (1994): "Averting the Old Age Crisis - Policies to Protect the Old and Promote Growth", Oxford University Press.
- World Bank (2001), India: The Challenge of Old Age Income Security, Report No.22304, April.
- Schwarz Anita M. and Asli Demirguc-Kunt (1999), 'Taking Stock of Pension Reforms Around the World', HDNSP, World Bank, May.

International Monetary Fund

- IMF Compilation, GDP at Current Prices https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD and IMF Data Mapper https://www.imf.org/external/datamapper/profile/ADVEC
- IMF (2016). "Analyzing and Managing Fiscal Risks – Best Practices". IMF Policy Paper.

Ministry of Power

- Performance of Power Utilities 2021-22, Power Finance Corporation, May 2023, https://www.pfcindia.com/DocumentRepository/ckfinder/files/Operations/Performance_Reports_of_State_Power_Utilities/Report%20on%20Performance%20of%20Power%20Utilities%20-%202021-22%20%20updated%20up%20to%20May%202023.pdf

- Unstarred Question No 2544, Rajya Sabha, Ministry of Power, August 10, 2021, https://powermin.gov.in/sites/default/files/uploads/RS10082021_Eng.pdf.

National Institute of Public Finance and Policy

- D.K. Srivastava and H K Amarnath (2001), Central Budgetary Subsidies in India, NIPFP https://nipfp.org.in/media/pdf/books/BK_56/Central%20Budgetary%20Subsidies%20In%20India.pdf

- Budgetary Subsidies in India: Subsidising Social and Economic Services **(**2003) Planning Commission sponsored study, D.K. Srivastava, C. Bhujanga Rao, Pinaki Chakraborty, T.S. Rangamannar, NIPFP https://www.nipfp.org.in/media/medialibrary/2013/08/Budgetary_Subsidies_in_India.pdf

- Pinaki Chakraborty, A N Jha and Yash Jaluka (2021), Post COVID Fiscal Framework : Issues and Options, NIPFP https://www.nipfp.org.in/media/medialibrary/2023/04/Paper_on_The_FRBM_Report.pdf

- Pratik Datta, Radhika Pandey, Ila Patnaik and Ajay Shah (2023) Understanding deviations from the fiscal responsibility law in India, NIPFP Working Paper No. 399 https://nipfp.org.in/media/medialibrary/2023/09/WP_399_2023.pdf

Other sources

- *Saket Surya, Tushar Chakrabarty, (2022), State of State Finances, PRS Legislative Research, Institute for Policy Research Studies, https://prsindia.org/files/budget/budget_state_finance_report/2022/State%20of%20State%20Finances%202022-23.pdf*
- Tongia, Rahul (2017). "Delhi's Household Electricity Subsidies: High and Inefficient," Brookings India IMPACT Series No. 042017b. April 2017 https://www.brookings.edu/wp-content/uploads/2017/04/13062017_rt-subsidiesc.pdf
- CRISIL (2022). 'Off-balance-sheet borrowings of states may have reached a decadal high of 4.5% of GSDP' May 04, 2022. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwiAsaH60cCCAxXPgFYBHdkqCo0QFnoECBEQAQ&url=https%3A%2F%2Fwww.crisilratings.com%2Fen%2Fhome%2Fnewsroom%2Fpress-releases%2F2022%2F05%2Foff-balance-sheet-borrowings-of-states-may-have-reached-a-decadal-high-of-4-point-5-percent-of-gsdp.html&usg=AOvVaw09JvjzN29zNGCjmfdGc1OP&opi=89978449

INSTITUTE OF PUBLIC AUDITORS OF INDIA

223, 2nd Floor, 'C' Wing, AGCR Building, I.P. Estate, New Delhi-110002
Ph.: 91-011-23702330, 23702290, 23702369
E-mail: ipai.hq@gmail.com,
Website: www.ipaiindia.org

RNI.: DELENG/2007/19390

Edited, published & printed by Dr. Subhash Chandra Pandey, President, Institute of Public Auditors of India, AGCR Building, I.P. Estate, New Delhi – 110002

Price : Single copy Rs. 50/- (US # 5) Annual Subscription of Rs. 200/- (US # 20)