# EVALUATION OF STATE FINANACES

## A STUDY OF RAJASTHAN

**SURJIT SINGH**
**MOTILAL MAHAMALLIK**

**SPONSORD BY**

**14TH FINANCE COMMISSION,**
**GOVERNMENT OF INDIA**

**Submitted by**

**INSTITUTE OF DEVELOPMENT STUDIES, JAIPUR-**

**November, 2014**

***Dedicated to***

*Professor Surjit Singh*

## PREFACE AND ACKNOWLEDGEMENT


The task of undertaking a study on Evaluation of State Finances of Rajasthan was assigned to the Institute of Development Studies, Jaipur in connection of the fourteenth finance commission report.

In a developing country, states government has to make a balance between social welfare schemes and economic growth. Economic growth is essential to economic development and distributive justice. But vice versa may not be possible all time. However, spending on development proramme may be appreciated to meet the growth target in the long long run. In other words, it is also well recognized that more spending on social welfare programme at present may be a hurdle to maintain fiscal balance even if it pave the way for future development. Therefore, states are making a balance between development and growth. With the increase in prices of commodities, salaries and pension, burden on states is mounting. As a result state expenditure is rising sharply. To meet these expenses state has to come with a large tax base and more tax effort. As a result of increase in population, urbanization, needs and price rise, state are become more dependent on central devolution. There is increasing fiscal imbalances observed in last three decades. This fiscal imbalance is reflected in both deficits indicators and revenue and expenditure indicators. In order to meet the deficits, and put the fiscal situation in order central government has introduced MTFRP and brought FRBM Act. With this background, it is necessary to understand the fiscal health of the state at the beginning o the fourteenth finance commission which will help the center to make necessary changes in devolution.

This study was initiated by the then Director IDSJ, Professor Surjit Singh. After sudden demises of Professor Singh on 4th December, 2013, the work was assigned to me in the month of February 2014. I am grateful to Prof Naresh Dadhich, Officiating Director, IDSJ for assigning me the responsibility of completing the study. I am deeply indebted to him for his kind support and cooperation during the study.

I am indebted to Kanchan Mathur (Professor, IDSJ), Dr Shobhita Rajagopal (Faculty IDSJ), Dr Varsha Joshi (Faculty IDSJ), Dr Mohanakumar S. (Faculty, IDSJ), and Dr Varinder Jain (Faculty IDSJ) for their encouragement during writing the report. We are also thankful to all Research and administrative Staff IDSJ for their encouragement during the preparation of the report.

We are deeply indebted to Mr Navin Mahajan, IAS, who took special interest on this report and assign the task to Mr Anjan Juneja and Shanti Lal Jain to give their valuable comments on it. Mr Sudhir Sharma, Director Budget, Government of Rajasthan deserves special thanks for his dedicated and valuable help during the tenure of the research.

This voluminous work would not have been possible without the dedicated effort our Research Assistants, Mr Somoti Lal and Ramesh Chand. We would like to acknowledge with great appreciation the dedicated, untiring and valuable support of Mr. Somoti Lal Kumhar, throughout the course of the study. He shouldered the responsibility of data entry and estimation for the study.



Surjit Singh
Motilal Mahamallik
Jaipur

# CONTENTS

# LIST OF TABLES

# LIST OF FIGURES

# LIST OF APENDIX

# Chapter 1

# Introduction

## 1.1 Background

Rajasthan is located in the northwest part of India. It is the largest state in terms of area (342.24 thousand sq km) but ranks $8^{th}$ position in terms of population. Rajasthan came into existence in 1956. It started its quest for development with several handicaps and few advantages. It is a land locked state. Nearly two-third of its area is arid or semi-arid[1]. Weak economic base of the state makes the task of resource mobilization extremely difficult. In addition to this, its high population growth exerts pressure on fragile ecosystem.

Rajasthan's population density is 201 compared to 382 for India in 2011. It has districts which have much lower population density compared to many states in the country. The cost of providing basic infrastructure for social and economic growth of such a state is undoubtedly high. The rate of urbanization in Rajasthan is lower compared to the national level (24.9% vs 31.2%).

Rajasthan's development since independence presents a mixed picture. On the one hand, the state has made significant progress in development of basic infrastructure like irrigation, and industrial production has not only increased but has also diversified over the years. On the other hand, the Gross State Domestic Product (GSDP) has grown only at 3.3 % per annum during the last three decades. The state is being ranked as the $10^{th}$ least developed states in India[2]. In terms of major socio-economic indicators Rajasthan is far behind the national average (see Appendix 1). Comparison of Rajasthan with the all India average and the highest level achieved among the non-special category States clearly indicates the alarming gap between the level of development in the State and rest of the country.

1 In these areas, rainfall is very low and the droughts, which are common features year after year, threaten the existence of not only crops and vegetation but also of livestock and human beings. The state is required to allocate substantial resources to mitigate the miseries of the people arising out of frequent droughts in several parts of the state.

2 Government of India (2013) *Report of the Committee for Evolving a Composite Development Index of States*, Ministry of Finance (Chairman: Dr. Raghuram G Rajan).

**Table 1.1**
**Comparison of Rajasthan with all India and highest level among Non-special Category States**

| Indicator | Unit | Year | Rajasthan | All India | Highest among non-special category State | Rank among non-special category States |
|---|---|---|---|---|---|---|
| Per Capita Income at Current Prices | Rs. | 2011-12 | 53735 | 61564 | 167838 | 13 |
| Per Capita consumption of power | KWH | 2010-11 | 843.75 | 818.75 | 2060.65 | 13 |
| Per hectare consumption of fertilizes | Kg. | 2009-10 | 48.33 | 135.27 | 237.05 | 17 |
| Per Capita consumption of petroleum products | Kg. | 2011-12 | 126.3 | 116.3 | 724.3 | 9 |
| Per Capita credit by scheduled commercial banks | Rs. | 31.03.2012 | 19886 | 39909 | 121543 | 10 |
| Road length/100 sq.km. | Km. | 31.03.2011 | 70.51 | 115.30 | 517.77 | 16 |
| Railway route/1000 sq.km. | Km. | 2011 | 17 | 20 | 44 | 13 |
| Population Served per Govt. Hospital. | No. | 2010-11 | 83076 | 98970 | 451325 | 10 |
| Population Served per Bed | No. | 2010-11 | 2640 | 1512 | 5606 | 15 |

Source: Memorandum to the Fourteenth Finance Commission, February 2014, Government of Rajasthan

It is after 2005 that the economy has shown a healthy growth path when the GSDP (at current prices) almost doubled from Rs. 127746 crores in 2004-05 to Rs. 323682 crores in 2010-11. This has made Rajasthan one of India's faster growing states with the average growth rate of around 7.43 % (real GSDP) during 2004-05 and 2010-11. As a result of this the per capita net state domestic product during 2010-11 is estimated as Rs 26436. The per capita NSDP has increased from Rs 18565 to Rs 26436 during 2004-05 to 2010-11. Apart from it the head-count ratio of poverty is comparatively high in Rajasthan, though it has observed declining over the decades, especially rural poverty.

**Figure 1.1**

**Per-Capita NSDP of Rajasthan at 2004-05 Price**

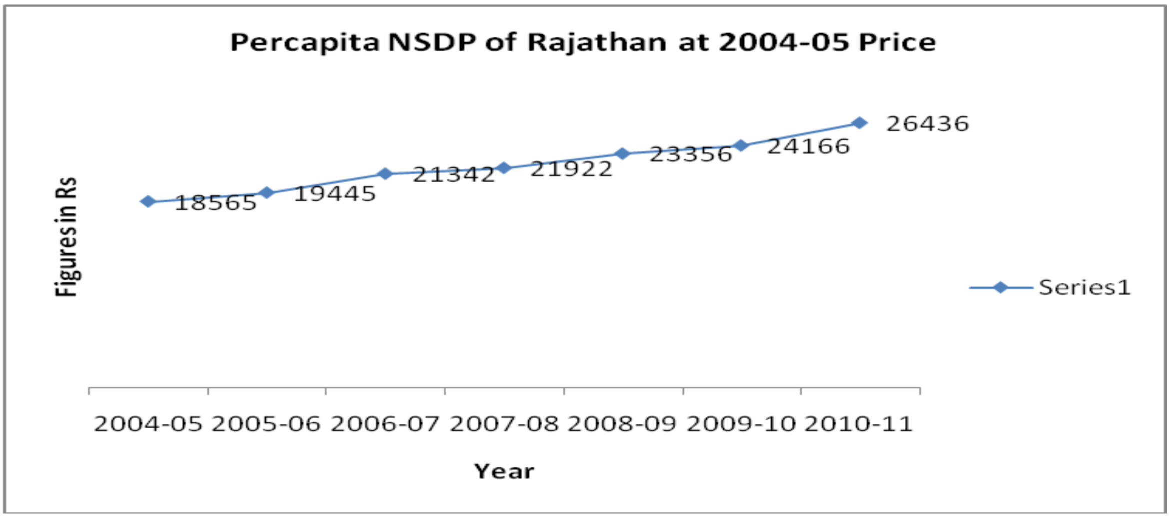
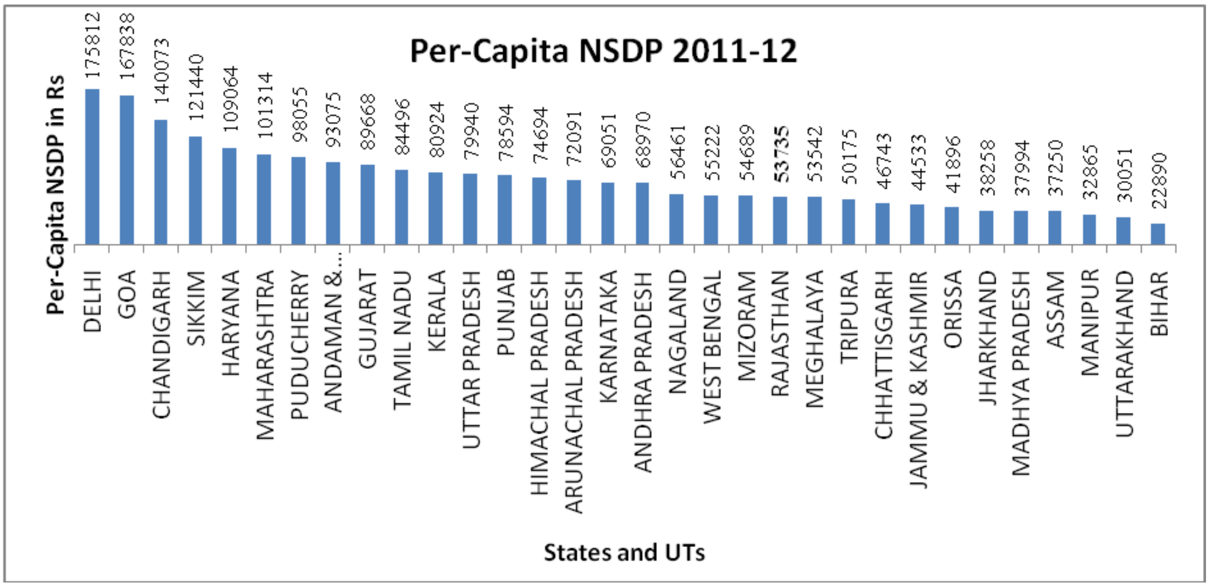


**Figure 1.2**

**Per-Capita NSDP States and UTs 2011-12**




Service sector has been a major contributor to the state GSDP in Rajasthan. It was contributing 45.9% during 2002-03 which increased to 47.5% during 2011-02. Within the service sector, 'Trade, hotels and restaurants' sector contributes significantly. Industrial activities are limited to reserves of mineral resources of the state, though of late industrialization has picked in few select pockets. The most important industries are marble, textiles, semi precious stones, food processing and building material. There are hardly any central public sector enterprises, except zinc plant. State enterprises are mainly in tourism sector, transport sector and power sector. Contribution of industries to GSDP is more or less consistent. It was 30.6% during 2004-05 increased to 31.1% during 2011-12. The contribution of agriculture as a single sector found to be high (22.00% during 2004-05 to 19% during 2011-12).

## 1.2 Comparison with all India and non-special category States

With the increase in the GSDP it is expected that the revenue collection will increase. However the increase in revenue cannot commensurate with the expenditure requirements of the state, hence the fiscal situation of the state found to be weak. Not only the state is not self sufficient from its own resources, the devolution component is not able to make the state come out from its weak fiscal situation. With this background, the study critically analyzes the overall state finances of Rajasthan over the ten years period (2002-03 through 2011-12). In the above context, the present study has attempted to look at the following:

**1.3 Objectives**:

1. Estimation of revenue capacities of Rajasthan and measures undertaken to improve the tax- GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in Rajasthan.
2. Analysis of the Rajasthan's own non-tax revenues and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.
3. Expenditure pattern and trends separately for non-plan and plan, revenue and capital, and major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.
4. Analysis of deficits- fiscal and revenue along with balance of current revenues for plan financing.
5. The level of debt- GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the Rajasthan's debt in terms of market borrowing, central government debt (including those from bilateral/multilateral lending agencies routed through the central government), liabilities in public account (small savings, provident funds etc.) and borrowings from agencies such as NABARD, LIC etc.
6. Analysis of the Rajasthan's transfers to urban and rural local bodies. Major decentralization initiatives. Reforms undertaken under JNNURM conditionality.
7. Impact of Power Sector Reforms on Rajasthan's fiscal health. In case reforms have not been implemented, the likely outcome on the Rajasthan's fiscal health.
8. Subsidies given by Rajasthan (other than central subsidies), its targeting and evaluation.
9. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.
10. Analysis of Contingent Liabilities of Rajasthan.
11. Public Expenditure and Financial Management (PEFM) Reforms implemented in Rajasthan.
12. Impact of State Public Enterprises finances on the Rajasthan- financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

**1.4 Chapter Design:**

The structure of the report is divided into eleven chapters besides the introduction. The chapter 2 analyses the Revenue Capacities of Rajasthan and measures to improve the Tax-GSDP Ratio. The own non-tax revenue has been examined as well as suggested measures are given to increase the user charges in chapter 3. In the chapter 4 the trends of expenditure pattern in Rajasthan have been presented. An analysis of deficits in Rajasthan with remedial measures has been presented in chapter 5. In chapter 6 debt-GSDP ratio and the composition of debt in Rajasthan has been examined. The transfers from state government to local bodies - urban and rural in Rajasthan along with the fiscal position of local bodies have been analyzed in chapter 7. The Chapter 8 explores the impact of power sector reforms on Rajasthan's fiscal health. In Chapter 9 Rajasthan state government subsidies has been evaluated over the time. The fiscal restructuring programme particularly FRBM Act has been examined in chapter 10. Chapter 11 gives an analysis of contingent liabilities in Rajasthan. Lastly, the conclusions with some policy suggestions have been presented in chapter 12.

**Appendix: 1.1**

**Key Indicators of the State VIS-a-VIS India**

| Indicators | Year | Unit | Rajasthan | India |
|---|---|---|---|---|
| Geographical Area | 2011 | Lakh Sq. Km. | 3.42 | 32.87 |
| Population | 2011 | In crore | 6.85 | 121.06 |
| Decadal Growth | 2011 | Percentage | 21.3 | 17.7 |
| Density of Population | 2011 | Per Sq. Km. | 200 | 382 |
| Urban Population to total Population | 2011 | Percentage | 24.9 | 31.2 |
| Sex Ratio | 2011 | Per '000 Male | 928 | 943 |
| SC Population to total Population | 2011 | Percentage | 17.8 | 16.6 |
| ST Population to total Population | 2011 | Percentage | 13.5 | 8.6 |
| Human Development Index | 2011 | Value | 0.537 | 0.653 |
| Literacy | 2011 | Percentage | 66.1 | 73.0 |
| - Female | 2011 | Percentage | 52.1 | 64.6 |
| - Male | 2011 | Percentage | 79.2 | 80.9 |
| Birth Rate | 2011 | Per '000 Population | 26.2 | 21.8 |
| Infant Mortality rate | 2012 | Per '000 Live Birth | 49 | 42 |
| Maternal Mortality Rate | 2007-09 | Per Lakh | 318 | 212 |
| Life expectancy at Birth<br>— - Male<br>- Female | 2006-10(P) | Years | 66.1<br>69.2 | 65.8<br>68.1 |
| Gross Domestic Product at constant prices (base year 2004-05) (A) | 2012-13 | Rs.in crore | 239913 | 5503476 |
| Per-capita income at constant prices (base year 2004-2005) (A) | 2012-13 | Rs. | 29917 | 39143 |
| Road Length per 100 Sq. Km. of Area | March, 2011 | Km. | 71 | 115 |
| Railway Route Length per 1000 Sq Km. of Area | March, 2011 | Km. | 16.90 | 19.61 |
| Percentage of Forest Area to Reporting Area | 2008-09 | Percentage | 7.96 | 22.8 |

Source: Memorandum to the Fourteenth Finance Commission, February 2014, Government of Rajasthan

Note: (A) Denotes Advanced Estimates , (P) Denotes Projected.

# Chapter 2

## Revenue Capacities of Rajasthan and Measures to Improve the Tax-GSDP Ratio

In this chapter we discuss on estimation of revenue capacities of Rajasthan state and measures to improve the tax- GSDP ratio during last five years and provide suggestions for enhancing the revenue productivity of the tax system in the state.

### 2.1 Revenue Capacities of Rajasthan

Revenue capacity of a state under a federal structure of government basically depends on (1) it resources endowment and economic growth, and (2) tax efforts of the government. In other words, revenue capacity of any unit is a function of tax base and tax-efforts of that unit. When, gross state domestic product (GSDP) is used as the crude variable for the tax base (with all criticisms), tax effort of the unit solely depends upon the efficiency of tax mobilization and political will of the government. Revenue capacity is assessed through a relative as well an absolute measure. Revenue capacity of a unit as compared to its own expenditure requirement is one way to assess the capacity. However, the absolute revenue capacity can be measured through the amount of revenue generated by the unit within a stipulated financial year from its own sources. This basically depends upon the tax base (taxable capacity), tax effort and other possible sources of non-tax revenue of the unit.

#### 2.1.1 Taxable Capacity and Tax-effort

According to Mathew and Sweeney "A fiscal unit's taxable capacity in particular to a revenue source may be defined as the amount of tax the unit can raise by applying a standard rate schedule to its own revenue base. A fiscal unit's severity of taxation in relation to the revenue source (or its tax effort) may be defined as the ratio of the revenue it actually collects from that source to its taxable capacity"[3]. Advisory Commission on Intergovernmental Relations (ACIR) gives a simple and lucid definition of the term fiscal capacity or taxable capacity. According to the Commission, "fiscal capacity is a quantitative

---

[3] R.L. Mathew and T.A. Sweeney (1977), "Concepts and Measures of Taxable Capacity and Tax Efforts" in R.L. Mathews (ed.) *State and Local Taxation*, Australian National University Press, Canberra: pp.94-124.

measure intended to reflect the resources which a taxing jurisdiction can tax to raise revenue for public purposes. According to this definition, available taxable resources would indicate the taxable capacity or potential. Defining 'tax-efforts' ACIR expressed, "Tax-effort is a closely related measure quantifying the extent to which a government actually uses its capacity to raise revenue through taxation”[4]. If two states are having equal fiscal capacity but state '*x*' collects more tax revenue than state '*y*', then the former is said to be making higher tax-effort. For purposes of this definition it is not important that '*x*' is able to export a large portion of its tax to other states. All taxes paid to state '*x*' are counted as part of '*x*'s tax effort since they represent utilization of its tax potential. The non-tax capacity has been explained in details in chapter 3.

## 2.2 Structure of Revenue Receipts in Rajasthan

Total revenue receipt is a combination of hare in central taxes, state tax revenue, total non-tax revenue, and grant-in-aid from central government. But as discussed above revenue capacity is assessed from state own revenue receipt, which is a combination of state tax revenue, and non-tax revenue. The sources from which Rajasthan government has been generating revenue from own sources are listed in table 2.1.

**Table 2.1**
**Sources of State Tax and Non-Tax Revenue**

| S.No. | **Total state tax revenue** | **Total non -tax revenue** |
|---|---|---|
| 1 | Land revenue | Interest, receipts dividends & profits |
| 2 | Stamps and registration fee | General services |
| 3 | State excise | Education, arts & culture (social services) |
| 4 | Sales tax | Medical health & family welfare (social services) |
| 5 | Tax on vehicles | Water supply, urban development (social services) |
| 6 | Taxes on goods and passengers | Other (social services) |
| 7 | Taxes and duties on electricity | Minor irrigation (economic services) |
| 8 | Other tax on income and expenditure | Forestry and wildlife (economic services) |
| 9 | Taxes on goods and services | Industries village and small industries (economic services) |
| 10 | Tax on immovable property | Major and medium irrigation projects (economic services) |
| 11 | Tax on agricultural income | Non- ferrous mining & metallurgical industries (economic services) |
| 12 | Service tax | Others (economic services) |
| 13 | Other taxes | Petroleum (economic services) |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14), (p-10 &16 of all Budget Studies), Government of Rajasthan.

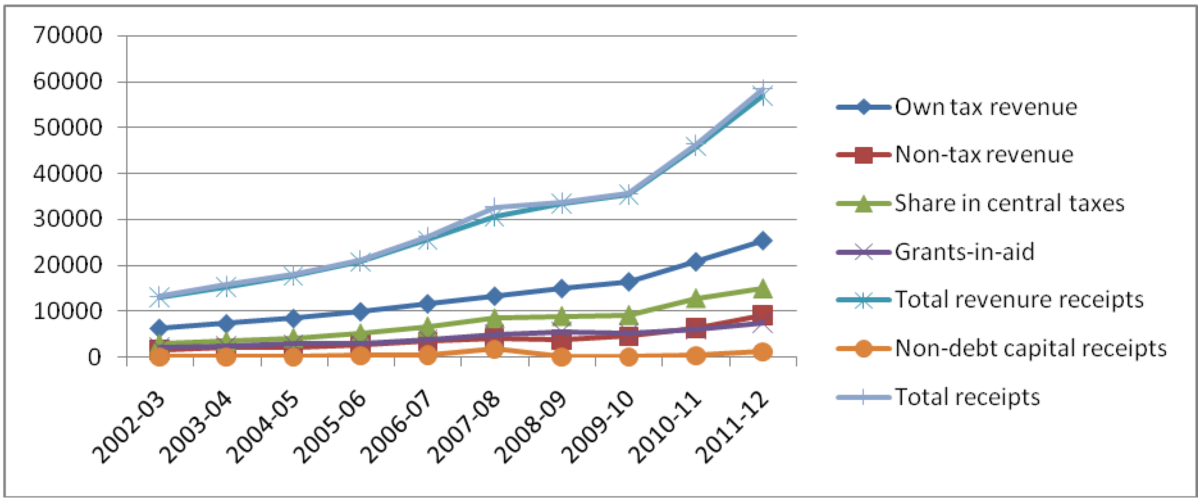
[4] Advisory Commission on Inter-governmental Relations– ACIR (1962) *Measures of State and Local Fiscal Capacity and Tax Efforts* Washington D.C.

**Table 2.2**
**Total Revenue Receipts, Own Tax Revenue and Non-tax Revenue (Rs. crores)**

| Years | Own tax revenue | Non-tax revenue | Share in central taxes | Grants-in-aid | Total revenue receipts | Non-debt capital receipts | Total receipts |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6=2+3+4+5 | 7 | 8 = 6+7 |
| 2002-03 | 6253 | 1569 | 3063 | 2196 | 13081 | 125 | 13206 |
| 2003-04 | 7246 | 2072 | 3602 | 2504 | 15424 | 164 | 15588 |
| 2004-05 | 8415 | 2146 | 4305 | 2897 | 17763 | 125 | 17888 |
| 2005-06 | 9880 | 2738 | 5300 | 2921 | 20839 | 238 | 21077 |
| 2006-07 | 11608 | 3431 | 6760 | 3793 | 25592 | 514 | 26106 |
| 2007-08 | 13275 | 4054 | 8528 | 4924 | 30781 | 1782 | 32563 |
| 2008-09 | 14944 | 3888 | 8999 | 5638 | 33469 | 93 | 33562 |
| 2009-10 | 16414 | 4558 | 9258 | 5155 | 35385 | 121 | 35506 |
| 2010-11 | 20758 | 6294 | 12856 | 6020 | 45928 | 332 | 46260 |
| 2011-12 | 25377 | 9175 | 14977 | 7482 | 57011 | 1245 | 58256 |
| ACGR % | 17.20 | 16.20 | 19.18 | 14.48 | 17.06 | 15.70 | 17.12 |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-10 &16), Government of Rajasthan

**Figure 2.1**
**Total Revenue Receipts, Own Tax Revenue and Non-tax Revenue (Rs. crores)**




Total revenue receipts constitute the major component of total receipts (ranged between 94.53% and 99.72%, table 2.4). It increased from Rs.13081 crores in 2002-03 to Rs.57011 crores in 2011-12, recording a growth rate of 17.06 % per annum during this period (table 2.2). In absolute terms, the total revenue receipts have continuously increased and witnessed 4.35 times jump in 2011-12 over 2002-03. However, maximum annual increase was observed in 2010-11 over 2009-10 (29.8%) while the lowest increase was in 2009-10 over 2008-09 (5.72%). The total revenue receipts, however, observed a significant decline in growth in 2008-09 over 2007-08. Non-debt capital receipt, on the other hand, constituted a marginal component, though in two years 2007-08 (Rs.1782 crores) and 2011-12 (Rs.1245 crores) has significant contribution. Overall, the share of non-debt capital receipts ranged between 0.34 % (2009-10) and 5.47 % in 2007-08. Non-debt capital receipts were Rs.125

crores in 2002-03 but increased to Rs.1245 crores in 2011-12. The sudden changes in non-debt capital receipts are due to recovery of loans and advances especially from power projects.

**Table 2.3**
**Annual Percentage Growth (%)**

| Years | Own tax revenue | Non-tax revenue | Share in central taxes | Grants-in-aid | Total revenue receipts | Non-debt capital receipts | Total receipts |
|---|---|---|---|---|---|---|---|
| 2003-04 over 2002-03 | 15.88 | 32.06 | 17.60 | 14.03 | 17.91 | 31.20 | 18.0 |
| 2004-05 over 2003-04 | 16.13 | 3.57 | 19.52 | 15.69 | 15.16 | -23.78 | 14.8 |
| 2005-06 over 2004-05 | 17.41 | 27.59 | 23.11 | 0.83 | 17.32 | 90.40 | 17.8 |
| 2006-07 over 2005-06 | 17.49 | 25.31 | 27.55 | 29.85 | 22.81 | 115.97 | 23.9 |
| 2007-08 over 2006-07 | 14.36 | 18.16 | 26.15 | 29.82 | 20.28 | 246.69 | 24.7 |
| 2008-09 over 2007-08 | 12.57 | -4.09 | 5.52 | 14.50 | 8.73 | -94.78 | 3.1 |
| 2009-10 over 2008-09 | 9.84 | 17.23 | 2.88 | -8.57 | 5.72 | 30.11 | 5.8 |
| 2010-11 over 2009-10 | 26.47 | 38.09 | 38.86 | 16.78 | 29.80 | 174.38 | 30.3 |
| 2011-12 over 2010-11 | 22.25 | 45.77 | 16.50 | 24.29 | 24.13 | 275.00 | 25.9 |

Source: estimated from table 2.2. Annual percentage growth has been estimated by $(P_t - P_{t-1})/P_{t-1}*100$, where ‘t ‘refers to current year and (t-1) refers to previous year.

**Table 2.4**
**Share in Receipts (in %)**

| Years | Non-debt capital receipts | Total revenue receipts | Out of Total Revenue Receipts % of | | | |
|---|---|---|---|---|---|---|
| | | | Own taxes | Non-tax revenue | Share in central taxes | Grants-in-aid |
| 2002-03 | 0.95 | 99.05 | 47.80 | 11.99 | 23.42 | 16.79 |
| 2003-04 | 1.05 | 98.95 | 46.98 | 13.43 | 23.35 | 16.23 |
| 2004-05 | 0.70 | 99.3 | 47.37 | 12.08 | 24.24 | 16.31 |
| 2005-06 | 1.13 | 98.87 | 47.41 | 13.14 | 25.43 | 14.02 |
| 2006-07 | 1.97 | 98.03 | 45.36 | 13.41 | 26.41 | 14.82 |
| 2007-08 | 5.47 | 94.53 | 43.13 | 13.17 | 27.71 | 16.00 |
| 2008-09 | 0.28 | 99.72 | 44.65 | 11.62 | 26.89 | 16.85 |
| 2009-10 | 0.34 | 99.66 | 46.39 | 12.88 | 26.16 | 14.57 |
| 2010-11 | 0.72 | 99.28 | 45.20 | 13.70 | 27.99 | 13.11 |
| 2011-12 | 2.14 | 97.86 | 44.51 | 16.09 | 26.27 | 13.12 |

Source: estimated from table 2.2.

Total revenue receipts have four components viz., own taxes revenue; non-tax revenue; share in central taxes and grant-in-aid. Of these the main contributor to total revenue receipts is own tax revenue- share ranging between 43.13 % in 2007-08 and 47.8 % in 2002-03. The peak of 2002-03 has never been touch since then. All the components have increased in absolute terms since 2002-03. Own tax revenue multiplied four times, non-tax revenue by 5.8 times, share in central taxes by 4.9 times, grants-in-aid by 3.4 times. However, the two years 2010-11 and 2011-12 witnessed significant jump in revenue across the components.

### 2.2.1 Tax Revenue in Rajasthan

Total tax revenue (share in central tax and state own tax) constituted (average of 10 years) 71.74 % of the total revenue receipts which grew annually at a rate of 17.86 % in absolute term. Total tax revenue in 2002-03 was Rs.931644 lakhs and increased to Rs.4035409.93 lakhs in 2011-12. On the other hand, non-tax revenue that constituted 13.52 % (average of 10 years) of total tax revenue, registered an annual growth rate of 22.63 %. Rajasthan was able to generate 58.96 % (average) of revenue from own sources (own tax and non-tax revenue). The share of own revenue to total revenue remained more or less stable over the time period, but in absolute term it grew at an annual rate of 18.12 %. A significant share of own revenue receipts in Rajasthan accrues from own tax-revenue i.e., 77.1 % (average). The own tax revenue in absolute term has grown at an annual rate of 16.93 % per annum. On the other hand, non-tax revenue contributed 26.55 % (average) to the own revenue receipts. The annual rate of growth of non-tax revenue was 22.63 % during the last ten years period. A major structural problem faced by the states in tax revenues is the extremely narrow tax base, with 88 % of the total tax revenue accruing from indirect taxes - taxes on commodities and services, whereas in the case of the central government, such indirect taxes constitute 62 % of its gross tax revenue. This explains the vast difference in tax base existing between the two layers of the federal system.

**Table 2.5**
**Own Revenue Receipts**

| Years | Own revenue receipt as % of total revenue receipt | Out of own revenue receipt | | Total revenue receipt (Rs. lakhs) | % annual change |
|---|---|---|---|---|---|
| | | % of state tax revenue | % of total non- tax revenue | | |
| 2002-03 | 59.80 | 79.94 | 20.06 | 1308186 | - |
| 2003-04 | 60.41 | 77.77 | 22.23 | 1542385 | 17.90 |
| 2004-05 | 59.45 | 79.68 | 20.32 | 1776359 | 15.17 |
| 2005-06 | 60.55 | 78.30 | 21.70 | 2083919 | 17.31 |
| 2006-07 | 58.76 | 77.19 | 22.81 | 2559218 | 22.81 |
| 2007-08 | 56.30 | 76.61 | 23.39 | 3078062 | 20.27 |
| 2008-09 | 56.27 | 79.35 | 20.65 | 3346885 | 8.73 |
| 2009-10 | 59.27 | 78.27 | 21.73 | 3538501 | 5.73 |
| 2010-11 | 58.90 | 76.73 | 23.27 | 4592820 | 29.80 |
| 2011-12 | 60.61 | 73.45 | 26.55 | 5701076 | 24.13 |
| **Average** | **58.96** | **77.07** | **22.93** | **Acgr %=17.28** | |

Source: Source: estimated from table 2.2

**Table 2.6**
**Composition of Revenue Receipt in Rajasthan (Rs. lakhs)**

| Years | Total tax revenue | Share in central taxes | State tax revenue | Total non-tax revenue | Own revenue | Grants-in- aid | Total Revenue receipt |
|---|---|---|---|---|---|---|---|
| | 1= (2+3) | 2 | 3 | 4 | 5= (3+4) | 6 | 7= (1+4+6) |
| 2002-03 | 931644 | 306310 | 625334 | 156900 | 782234 | 219642 | 1308186 |
| 2003-04 | 1084840 | 360221 | 724619 | 207164 | 931784 | 250380 | 1542385 |
| 2004-05 | 1272043 | 430561 | 841482 | 214615 | 1056097 | 289701 | 1776359 |
| 2005-06 | 1518031 | 530008 | 988023 | 273767 | 1261790 | 292121 | 2083919 |
| 2006-07 | 1836861 | 676037 | 1160824 | 343061 | 1503885 | 379296 | 2559218 |
| 2007-08 | 2180233 | 852760 | 1327473 | 405393 | 1732866 | 492436 | 3078062 |
| 2008-09 | 2394222 | 899872 | 1494350 | 388846 | 1883196 | 563817 | 3346885 |
| 2009-10 | 2567241 | 925813 | 1641427 | 455822 | 2097249 | 515439 | 3538501 |
| 2010-11 | 3361375 | 1285562 | 2075813 | 629412 | 2705226 | 602033 | 4592820 |
| 2011-12 | 4035410 | 1497704 | 2537706 | 917510 | 3455216 | 748156 | 5701076 |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-10 &16), Government of Rajasthan

Own tax of Rajasthan in 2002-03 was Rs.6253.34 crores, which increased to Rs.25377.06 crores by 2011-12. Own tax revenue constituted 77 % of the own revenue of Rajasthan. Due to the narrow tax base, Rajasthan has not been able to mobilize the required amount of revenue and thereby observing a revenue deficit. Although there 13 different sources of tax revenue in Rajasthan, around 92 % of it accrues from sales tax; state excise duty[5]; stamps and registration fee[6]; tax on vehicles[7]; taxes and duties on electricity[8]. Sales tax contributes a major share (59.44% average of ten years) to the tax revenue, though its share in total tax over the time period just grew at an annual rate of 1.46 %. The second major contributor to tax revenue in Rajasthan is excise duty (14.25%- average). However the share of excise duty over the period has shown a declining trend. Stamp and registration fee, which constitutes 9.78 % of the own tax revenue in Rajasthan, has increased at an annual rate of 1.1 %. Tax on vehicles is another major source of revenue in Rajasthan contributing around 8.64 % during the last ten years. However, the proportion of tax on vehicle to total own tax has been declining at an annual rate of 4.29 %.

The own revenue has increased continuously in Rajasthan since 2002-03. It was Rs.7822.34 crores in 2002-03 and stood at Rs.34552.16 crores in 2011-12. The annual rate of growth varies between 8.68 % and 29 %. Phenomenal growth is observed in 2010-11 over 2009-10 (29%). The own revenue mobilized by the state government in 2006-07 (Rs.15038.85 crores) was higher by Rs.2420.95 crores over the previous year (Rs.12617.90

[5] Largely due to more receipt from sale of malt liquor, foreign liquor and spirits.
[6] Sale of non-judicial stamp papers.
[7] Increase in collection of receipts under state motor vehicle taxation act.
[8] Receipts of taxes on consumption and sale of electricity.

crores). It is mainly due to increased receipts from taxes on sales, trade, stamps and registration fees on non- ferrous mining and metallurgical industries, etc. The own revenue of the state in 2008-09 was Rs.18831.96 crores, higher by Rs.1503.30 crores in 2007-08 (Rs.17328.66 crores). This increase is mainly due to improvement in receipts from taxes on sales, trade and state excise. The revenue further increased in 2010-11 due to increase in taxes on sales, trade, petroleum, stamps and registration fees, state excise, non- ferrous mining and metallurgical industries, service tax, taxes on vehicles, taxes and duties on electricity, taxes on immovable property other than agricultural land, interest receipts, labour and employment, land revenue, and water supply and sanitation (see appendix table for detail).

**Table 2.7**
**Annual Growth Rates (%) Revenue Receipt in Rajasthan**

| Years | Total tax revenue | Share in central taxes | State tax revenue | Total non-tax revenue | Own revenue | Grants-in- aid | Total revenue receipt |
|---|---|---|---|---|---|---|---|
| 2003-04 over 2002-03 | 16.44 | 17.60 | 15.88 | 32.04 | 19.12 | 13.99 | 17.90 |
| 2004-05 over 2003-04 | 17.26 | 19.53 | 16.13 | 3.60 | 13.34 | 15.70 | 15.17 |
| 2005-06 over 2004-05 | 19.34 | 23.10 | 17.41 | 27.56 | 19.48 | 0.84 | 17.31 |
| 2006-07 over 2005-06 | 21.00 | 27.55 | 17.49 | 25.31 | 19.19 | 29.84 | 22.81 |
| 2007-08 over 2006-07 | 18.69 | 26.14 | 14.36 | 18.17 | 15.23 | 29.83 | 20.27 |
| 2008-09 over 2007-08 | 9.81 | 5.52 | 12.57 | -4.08 | 8.68 | 14.50 | 8.73 |
| 2009-10 over 2008-09 | 7.23 | 2.88 | 9.84 | 17.22 | 11.37 | -8.58 | 5.73 |
| 2010-11 over 2009-10 | 30.93 | 38.86 | 26.46 | 38.08 | 28.99 | 16.80 | 29.80 |
| 2011-12 over 2010-11 | 20.05 | 16.50 | 22.25 | 45.77 | 27.72 | 24.27 | 24.13 |

Source: computed from table 2.6.

### 2.2.2 Non-Tax revenue

The non-tax revenue is a component of total revenue receipts of the state. The details about the non-tax revenue have been explained in Chapter 3.

### 2.2.3 Revenue Transfers from Centre to Rajasthan

The receipts from government of India by way of grants and share of net proceeds of certain taxes increased from Rs.5259.52 crores in 2002-03 to Rs.22458.60 crores in 2011-12. Besides, the receipts from government of India by way of grants and share of net proceeds of certain like taxes corporation tax, taxes on income other than corporation tax, customs and service tax, etc increased by Rs.2332.04 crores (from Rs.8221.29 crores in 2005-06 to Rs.10553.33 crores in 2006-07). Thus, there was an overall increase of Rs.4752.99 crores in the total revenue receipts during the year.

The annual rate of growth of share in central tax and grant-in-aid has remained more or less constant till 2007-08. However, a decline in the rate of growth occurred in 2009-10 over 2008-09. After 2009-10, it increased significantly. The grants and share of net proceeds of certain taxes increase by Rs.1184.93 crores from Rs.13451.96 crores in 2007-08 to Rs.14636.89 crores in 2008-09. This happened because grants from central government increased and also the share of net proceeds of corporation tax, customs and service tax, etc. There was an overall increase of Rs.2688.23 crores in the total revenue receipts during 2008-09 and a significant increase in receipts during 2010-11 to Rs.10543.19 crores then to Rs.11082.56 crores during 2011-12. The increase in the grants and share of net proceeds of corporation tax, customs and service tax was by Rs.4463.43 crores and Rs.3582.65 crores in the same period.

**Table 2.8**
**Components of Own Revenue (Rs. lakhs)**

| Years | State tax revenue | % change annual | Land revenue | % change annual | Stamps and registration fee | % change annual | State excise | % change annual |
|---|---|---|---|---|---|---|---|---|
| 2002-03 | 625334.0 | | 5797.91 | | 51573.33 | | 114233.8 | |
| 2003-04 | 724619.2 | 15.88 | 7143.59 | 23.21 | 61176.77 | 18.62 | 116315.5 | 1.82 |
| 2004-05 | 841482.1 | 16.13 | 6886.11 | -3.60 | 81782.65 | 33.68 | 127607.2 | 9.71 |
| 2005-06 | 988022.7 | 17.41 | 8430.37 | 22.43 | 103179.40 | 26.16 | 152180.4 | 19.26 |
| 2006-07 | 1160824.0 | 17.49 | 11671.04 | 38.44 | 129368.30 | 25.38 | 159109.3 | 4.55 |
| 2007-08 | 1327473.0 | 14.36 | 15529.23 | 33.06 | 154435.20 | 19.38 | 180511.9 | 13.45 |
| 2008-09 | 1494350.0 | 12.57 | 16252.05 | 4.65 | 135663.20 | -12.16 | 216989.5 | 20.21 |
| 2009-10 | 1641427.0 | 9.84 | 14765.95 | -9.14 | 136293.60 | 0.46 | 230047.6 | 6.02 |
| 2010-11 | 2075813.0 | 26.46 | 22216.59 | 50.46 | 194104.50 | 42.42 | 286140.9 | 24.38 |
| 2011-12 | 2537706.0 | 22.25 | 20900.94 | -5.92 | 265137.60 | 36.60 | 328704.8 | 14.88 |
| ACGR % | 16.2 | | 16.8 | | 17.4 | | 12.8 | |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-10), Government of Rajasthan. Annual percentage growth has been estimated by $(P_t - P_{t-1})/P_{t-1}*100$, where 't 'refers to current year and (t-1) refers to previous year.

**Table 2.8**
**Contd.**

| Years | Sales tax | % change annual | Tax on vehicles | % change annual | Taxes on goods and passengers | % change annual | Taxes and duties on electricity | % change annual |
|---|---|---|---|---|---|---|---|---|
| 2002-03 | 343789.9 | | 64613.93 | | 13043.65 | | 23984.99 | |
| 2003-04 | 398543.3 | 15.93 | 90430.68 | 39.96 | 15050.29 | 15.38 | 28028.65 | 16.86 |
| 2004-05 | 479753.5 | 20.38 | 81720.68 | -9.63 | 14401.34 | -4.31 | 44276.25 | 57.97 |
| 2005-06 | 559363.9 | 16.59 | 90818.22 | 11.13 | 23671.08 | 64.37 | 47135.30 | 6.46 |
| 2006-07 | 672070.5 | 20.15 | 102360.70 | 12.71 | 24759.65 | 4.60 | 51588.30 | 9.45 |
| 2007-08 | 775073.5 | 15.33 | 116439.80 | 13.75 | 16060.63 | -35.13 | 58423.43 | 13.25 |
| 2008-09 | 890450.2 | 14.89 | 121355.90 | 4.22 | 18986.43 | 18.22 | 65404.49 | 11.95 |
| 2009-10 | 1016353.0 | 14.14 | 137287.10 | 13.13 | 17610.46 | -7.25 | 69998.85 | 7.02 |
| 2010-11 | 1262959.0 | 24.26 | 161224.60 | 17.44 | 23068.81 | 30.99 | 90580.75 | 29.40 |
| 2011-12 | 1576643.0 | 24.84 | 192705.00 | 19.53 | 22012.73 | -4.58 | 109447.80 | 20.83 |
| ACGR % | 17.8 | | 11.2 | | 4.7 | | 16.5 | |

**Table 2.8 (Contd.)**

| Years | Other tax on income and expend -iture | % change annual | Taxes on goods and services | % change annual | Tax on Immovable property | % change annual | Tax on agricult -ural income | Service tax | Other Taxes |
|---|---|---|---|---|---|---|---|---|---|
| 2002-03 | 1722.81 | | 4712.05 | - | 1858.94 | - | - | 2.63 | |
| 2003-04 | 2012.27 | 16.80 | 4684.77 | -0.58 | 1199.04 | -35.50 | - | 34.34 | |
| 2004-05 | 184.74 | -90.82 | 4755.72 | 1.51 | 115.11 | -90.40 | - | -1.18 | |
| 2005-06 | 25.13 | -86.40 | 3170.01 | -33.34 | 48.17 | -58.15 | 0.13 | 0.65 | |
| 2006-07 | 6.21 | -75.29 | 4603.60 | 45.22 | 5286.57 | 10874.82 | 0.13 | - | |
| 2007-08 | 4.06 | -34.62 | 5890.62 | 27.96 | 5103.41 | -3.46 | 0.72 | - | |
| 2008-09 | 4.49 | 10.59 | 6452.29 | 9.53 | 22791.36 | 346.59 | 0.06 | - | |
| 2009-10 | 4.39 | -2.23 | 5852.00 | -9.30 | 13214.06 | -42.02 | 0.07 | 0.07 | 0.24 |
| 2010-11 | 1.86 | -57.63 | 6444.53 | 10.13 | 29071.25 | 120.00 | 0.01 | 0.01 | 0.05 |
| 2011-12 | 6.11 | 228.49 | 4344.76 | -32.58 | 17802.82 | -38.76 | 0.01 | 0.01 | 0.35 |
| ACGR % | -52.8 | - | 3.0 | - | 67.2 | - | -41.8 | -54.9 | 20.9 |

## 2.3 Tax-GSDP Ratio

The tax-GSDP ratio is a powerful tool to measure the tax effort of the government. It is assumed that there is a positive correlation between tax and per-capita GSDP. However, the intensity of correlation found to be different across states because of the fiscal condition of the state and the political strategy of the government. The tax-GSDP ratio for the period of ten years period is given in the table 2.10. The total tax-GSDP ratio increased continuously between 2003-04 and 2007-08. However, it declined thereafter. Own tax-GSDP ratio, however, has been more or less stable over the time period with minor fluctuations. It registered a decline of 0.84 % per annum. It is interesting to note that the rate of growth of state own tax revenue is lower than that of the rate of growth of GSDP over these ten years, indicating very poor effort by the government in mobilization of own tax revenue. The actual tax-GSDP ratio was lower than the normative assessment made by the 13th Finance Commission which is 8.1%. Also it was found lower than the assessment made by the state government in the MTFPS (6.4%) for 2011-12.

**Table 2.9**
**Composition of State's Own Tax Revenue**

| Years | Land reven-ue | Stamps & regist -ration fee | State excise | Sales tax | Tax on vehicl es | Taxes on goods and passen -ers | Taxes & duties on electri -city | Other tax on income & expendi -ture | Taxes on goods and services | Tax on immov -able property | Own tax revenue (Rs. lakhs) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2002-03 | 0.93 | 8.25 | 18.27 | 54.98 | 10.33 | 2.09 | 3.84 | 0.28 | 0.75 | 0.30 | 625334.0 |
| 2003-04 | 0.99 | 8.44 | 16.05 | 55.00 | 12.48 | 2.08 | 3.87 | 0.28 | 0.65 | 0.17 | 724619.2 |
| 2004-05 | 0.82 | 9.72 | 15.16 | 57.01 | 9.71 | 1.71 | 5.26 | 0.02 | 0.57 | 0.01 | 841482.1 |
| 2005-06 | 0.85 | 10.44 | 15.40 | 56.61 | 9.19 | 2.40 | 4.77 | 0 | 0.32 | 0 | 988022.7 |
| 2006-07 | 1.01 | 11.14 | 13.71 | 57.90 | 8.82 | 2.13 | 4.44 | 0 | 0.40 | 0.46 | 1160824.0 |
| 2007-08 | 1.17 | 11.63 | 13.60 | 58.39 | 8.77 | 1.21 | 4.40 | 0 | 0.44 | 0.38 | 1327473.0 |
| 2008-09 | 1.09 | 9.08 | 14.52 | 59.59 | 8.12 | 1.27 | 4.38 | 0 | 0.43 | 1.53 | 1494350.0 |
| 2009-10 | 0.90 | 8.30 | 14.02 | 61.92 | 8.36 | 1.07 | 4.26 | 0 | 0.36 | 0.81 | 1641427.0 |
| 2010-11 | 1.07 | 9.35 | 13.78 | 60.84 | 7.77 | 1.11 | 4.36 | 0 | 0.31 | 1.40 | 2075813.0 |
| 2011-12 | 0.82 | 10.45 | 12.95 | 62.13 | 7.59 | 0.87 | 4.31 | 0 | 0.17 | 0.70 | 2537706.0 |

Note: Share of tax on agricultural income service tax and other taxes is negligible.
Source: computed from table 2.8.

**Table 2.10**
**Tax -GSDP Ratio, Rajasthan**

| Year | Tax -GSDP ratio | |
|---|---|---|
| | Total tax | State own tax |
| 2002-03 | 9.66 | 6.48 |
| 2003-04 | 8.92 | 5.96 |
| 2004-05 | 9.96 | 6.59 |
| 2005-06 | 10.67 | 6.95 |
| 2006-07 | 10.74 | 6.79 |
| 2007-08 | 11.19 | 6.81 |
| 2008-09 | 10.37 | 6.47 |
| 2009-10 | 9.66 | 6.17 |
| 2010-11 | 9.83 | 6.07 |
| 2011-12 | 9.68 | 6.09 |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p 8 & 10), Government of Rajasthan and *Economic Review, 2012-13,* (p 2-4, tables of economic situation), Directorate of Economics and Statistics, Rajasthan, Jaipur.

In 2002-03 the tax-GSDP ratio was 9.66 %, which after declining in 2003-04 peaked at 11.19 % in 2007-08. It however, has fluctuated during the next three years and stood at 9.68 % in 2011-12. The own tax-GSDP ratio has been hovering around 6 plus % throughout. It was the lowest in 2003-04 at 5.96 and the maximum in 2005-06 at 6.95 %.

### 2.3.1 Measures to Improve the Tax-GSDP Ratio

During last five years state government took few steps to raise its tax-GSDP ratio. The foremost is the introduction of VAT. There has been higher collection of tax under state sales tax act, sale of foreign liquor and spirits, service fees, higher land tax from various mining units, greater adjustment of notional interest on departmental commercial undertakings and higher interest received on investment of cash balances, higher receipts on taxes on consumption and sale of electricity, higher receipts under state motor vehicles taxation acts, higher receipts of cess from RSMM rock phosphate, accrual of outstanding rent from Rajasthan Vidyut Vitran Nigam Limited for last many years and higher recovery of percentage charges, receipt of higher dividends from RIICO and Rajasthan State Mines and Minerals Limited, higher receipts of royalty, higher sale of non-judicial stamps, fees for registering documents, court fee and increase in DLC rates, receipts due to concession fees, rents and royalties, recovery of old dues, receipt of cess from contractors, higher receipts from sale of government assets and sale proceeds of waste land, higher receipts from various water supply schemes and so on.

## 2.4 Suggestions for Enhancing the Revenue Productivity of the Tax System

Tax productivity can be raised mainly in three ways, (1) increase in tax base (2) increase in tax efforts and (3) adoption of scientific tax collection procedure. In addition to these administrative efficiency, control of tax evasion and tax exemption are important measures for raising the share of tax revenue.

There are a number of reasons for the poor revenue productivity of the tax in developing countries and also in Rajasthan, these include (i) ambiguity in ownership and poor information and records about the properties: (ii) predominance of the informal sector in the market for immovable properties and poor information system; (iii) low capacity, lack of interest in reforms and high cost of tax administration in developing and transitional countries to design and enforce the tax; (iv) Visibility of the tax and its unpopularity with the voters as the benefits received are generally not commensurate with the tax paid, and other forms of properties do not attract a similar tax; (v) predominance of vested interests and large scale exemptions and concessions; (vi) arbitrary, uncertain and mysterious ways of determining the tax base; (vii) static nature of the tax base and political difficulties in undertaking periodic valuations; (viii) Wide discretion to the tax officers and high compliance cost associated with the tax; (ix) to add the values of additions and improvements to properties to make the tax base responsive to changes in the values of property in the tax base. Not surprisingly, the actual revenue realization has not been commensurate with the potential (Rao, M.G, 2013).

The power to fix royalty on major minerals is vested with the Central Government. The Central Government does not enhance the royalty periodically. Royalties have not been revised for many minerals, more than three years. The Sarkaria Commission[9] had recommended revision of royalty rates at an interval of every two years. The Punchhi Commission on Centre-State relations has also recommended that the royalty rates on major minerals should be revised at least every three years without any delay. The Commission has also recommended that the States should be properly compensated for any delay in the revision of royalty beyond three years. The central government should compensate in case revision is delayed beyond three years. This will imencely helps in revenue generation of the state.

[9] The reason often cited by the Centre that the revision is not being done on account of macroeconomic reasons. These arguments are not tenable and the states should not be made to suffer revenue loss on account of these considerations. As a result of undue delays in the revision of the rates at periodic intervals, deprives the States of potential revenue.

## Conclusion:

In conclusion, the targets laid down in the enacted state FRBM require both increased revenue effort and expenditure control. The recent good performance of sales tax collections and the revenue generation possibilities from oil indicate a prospect for future revenue generation. However, in order to unleash the potential of revenue generation from oil, the state government must encourage the establishment of the oil refinery and petrochemical industries. The revenue potential from processed oil and its by-products is much greater than that from simple crude oil generation. These industries will require very large investment and special interest, which may be a great source of revenue in future.

**Appendix 2.1**

The heads of account under which there was substantial increase in revenue receipts during 2006-2007 as compared to those of 2005-06 are:

| Major head of account | Rs. crores | Remarks |
|---|---|---|
| Increase | | |
| Corporation tax | 646.58 | Receipt of more share of net proceeds from the government of India |
| Taxes on income other than corporation tax | 249.70 | Receipt of more shares of net proceeds from the Government of India |
| Stamps and registration fees | 261.89 | The increase is due to enforcement of collection of stamp duties |
| Customs | 285.29 | Receipt of more share of net proceeds from the government of India |
| Taxes on sales, trade etc. | 1127.07 | The increase is due to effective enforcement of collection of taxes |
| Service tax | 257.73 | Receipt of more share of net proceeds from the government of India |
| Miscellaneous general services | 222.41 | Mainly due to write off the loans as per the recommendation of XII Finance Commission |
| Non-ferrous mining and metallurgical industries | 382.44 | Due mainly to more collection of mineral concession fees, tents and royalties |
| Grants-in-aid from central Government | 871.74 | Receipt of more grants from the government of India |

Taxation Changes during 2006-2007***:*** The following changes were proposed in the taxation measures in the budget proposal.

- Different sales tax laws were replaced by new VAT Act
- Rakhi, kripan, puja article, chak, takhti, mudde, murmure, pattal- done, kite, handmade agarbatti, blue pottery, puppet etc. remained outside the purview of VAT
- Motor parts and its accessories, electrical and electronic goods and its accessories, tilli exempted from entry tax
- Curtailment in following taxes:
- Central sales tax in auto parts and ancillaries,
- Mandi tax on oilseeds,
- Purchase tax on purchased of mustard by non SSI oil mills,
- Central sales tax on mustard oil on sales outside to state
- Purchase tax on tilli.
- Increased in following taxes:

- Entry tax on cigarettes, chirut, sugar, gutaka, pan masala, tobacco pan masala,
- Tax on windmill and its accessories, optical fibre cable, polyethylene insulated jelly filled
- Telecommunication cables, ceramic and glazed tiles, glass and glass sheet, all type of sanitary goods and its fittings, pipe and pipe fittings.

**Expenditure on revenue account:**

Revenue expenditure during the year (Rs.24953.80 crores) as compared to that of the previous year (Rs.21499.20 crores) increased by Rs.3454.60 crores. The increase was mainly under the following heads:

| Major head of Account (increase in) | Rs. crores | Remarks |
|---|---|---|
| Taxes on sales, trade etc. | 68.66 | Due mainly to payment of interest grant for Rajasthan Investment Promotion Policy and upfront subsidies. |
| Appropriation for reduction or avoidance of debt | 350.00 | Due to transfer of funds of Sinking Fund |
| Interest payments | 491.62 | Due mainly to increased payment of interest on internal debts. |
| Pensions and other retirement benefits | 465.61 | Due mainly to more pension cases finalized |
| General education | 263.19 | Due to increased expenditure on formal education and government secondary schools. |
| Medical and public health | 100.34 | Due mainly to increased expenditure on prevention and control of diseases and more central assistance for necessary medicines |
| Welfare of scheduled castes, scheduled tribes and other backward classes | 70.27 | Due to increased expenditure on welfare of scheduled castes and scheduled tribes |
| Social security and welfare | 114.83 | Due to increased payment of pension under social security schemes and more expenditure for welfare of aged, infirm and destitute. |
| Relief on account of natural calamities | 302.05 | Due to increased expenditure on relief works under flood affected areas |
| Power | 542.69 | Due to more grants to power companies |
| Roads and bridges | 182.74 | Due to increased expenditure on maintenance of state highways, district and other roads. |
| Secretariat– economic services | 1109.36 | Due mainly to transfer to Rajasthan Development and Poverty Eradication Fund |

**Appendix 2.2**

The heads of account under which there was substantial increase/ decrease in revenue receipts during 2008-09 as compared to those of 2007-08 are mentioned below:

| **Major head of account** ***Increase*** | **Amount** *Rs. crores* | **Remarks** |
|---|---|---|
| Taxes on sales, trade etc. | 1153.77 | More collection of tax under state sales tax Act |
| Grants in aid from central government | 713.81 | Receipt of more non-plan grants, grant for state/ union territory plan schemes and grants for centrally sponsored plan schemes |
| State excise | 364.78 | More receipt from sale of foreign liquor and spirits, receipts of more service fees |
| Corporation tax | 244.40 | More receipt under `share of net proceeds assigned to State’ |
| Taxes on immovable property other than agricultural land | 176.88 | Due to receipt of more land tax from various mining units of Udaipur |
| Service tax | 120.67 | Due to more receipt under `share of net proceeds assigned to state’. |
| Customs | 108.33 | More receipt under `share of net |
| Interest receipts | 83.53 | Due to more adjustment of notional interest on departmental commercial undertakings and more interest received on investment of cash balances. |

| | | |
|---|---|---|
| Taxes on duties and electricity | 69.81 | Due to receipt of more taxes on consumption and sale of electricity |
| Taxes on vehicles | 49.16 | Due to more receipt under state motor vehicles taxation Acts |
| Non-ferrous mining and metallurgical industries | 48.98 | Due to receipt of cess from RSMM rock phosphate |
| Public works | 40.02 | Due to receipt of outstanding rent from Rajasthan Vidyut Vitran Nigam Limited for last many years and more recovery of percentage charges |
| Taxes on income other than corporation tax | 36.39 | More receipt under `share of net proceeds assigned to state'. |
| Dividends and profits | 30.72 | Due to receipt of more dividends from RIICO and Rajasthan State Mines and Minerals Limited |
| **Major head of Account *Decrease*** | **Amount** *Rs. crores* | **Remarks** |
| Miscellaneous General Services | 339.39 | Decrease is because of during 2007-08 the State Government had winded up the Sinking Fund and amount of fund transferred to this head |
| Stamps and Registration Fees | 187.72 | Due to decrease in duty on impression of documents |

***Taxation Changes 2008-09*: The following changes were proposed in the taxation measures in the budget proposal:**

***Proposed for tax free*:**
Wooden hand blocks used in dying and printing; wick stove and kerosene stove; gobar gas plant and its parts; solar stoves; karni, gurmala, sanwal, gunia, randa, coal press etc. (non electrically operated hand tool); papad khar; kangani used in fast; stamp duty on sale of television and fridge

***Curtailment in following taxes*:**
ACSR conductor; all types of marble and finished kota stone; entertainment tax; aviation tax; aviation spirit (ATF); penalty on registered vehicle of outside state; stamp duty on registration of land which is more than DLC rate; prorata tax on contract carriage vehicle permit; provision for deposit of disputed amount by the appellant in the cases of registration and free medical facility to indoor and outdoor patient.

***Increased in following tax*:**
Environment and health cess on royalty right; revision in minimum wages rates and sale of fruits and vegetables by various companies.

***Expenditure on revenue account:*** Revenue expenditure during 2008-09 (Rs.34295.60 crores) as compared to that of 2007-08 (Rs.29127.64 crores) increased by Rs.5167.96 crores. The increased decrease was mainly under the following heads:

| **Major head of account *Increase*** | **Amount** *Rs. crores* | **Remarks** |
|---|---|---|
| General education | 2212.64 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixty Pay Commission and more grant released to Local Bodies for elementary education |
| Pensions and other retirement benefits | 757.91 | Due mainly to payment of arrears and increased pensionary benefits |
| Medical and public health | 504.19 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixty Pay Commission |
| Police | 478.16 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixty Pay Commission |
| Water supply and sanitation | 360.80 | Due mainly to payment of arrears and increased pay and allowances as per the recommendations of Sixty Pay Commission and more expenditure on maintenance of various water supply schemes |
| Other rural development programmes | 314.74 | Due mainly to release of more grants to gram panchayats on the recommendation of State Finance Commission and XII Finance Commission and more expenditure on midday meal scheme |
| Rural employment | 310.99 | Due mainly to release of more funds under National Rural Employment Guarantee Scheme |
| Interest payments | 281.26 | Due mainly to payment of interest on internal debt and provident |

| | | |
|---|---|---|
| | | fund as per the actual balance |
| Roads and bridges | 217.75 | Due mainly to receipt of more funds from government of India for border road development board and execution of more maintenance work on roads |
| Urban development | 167.35 | Due mainly to release of more grants to municipal corporations, municipalities/municipal councils |
| Welfare of scheduled castes, scheduled tribes and other backward classes | 136.45 | Due to release of more funds for special component plan for scheduled castes and payment of scholarships for welfare of scheduled tribes as receipt of more funds from the government of India. |
| Crop husbandry | 134.00 | Due mainly to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Nutrition | 111.24 | Due to release of more funds for nutrition as received from the government of India |
| Forestry and wild life | 110.52 | Due mainly to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Relief on account of natural calamities | 110.27 | Due mainly to more expenditure on flood relief works |
| Family welfare | 93.35 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixty Pay Commission and more expenditure on rural family welfare services |
| Land revenue | 89.48 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Administration of justice | 84.68 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Social security and welfare | 75.48 | Due mainly to payment of increased pensions under social security schemes |
| District administration | 74.60 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Elections | 70.79 | Due to increased expenditure for conduct of elections to state and union government |
| Major irrigation | 65.49 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Animal husbandry | 60.96 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Public works | 46.08 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Labour and employment | 33.48 | Due mainly to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Secretariat– general services | 30.94 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Special programmes for rural development | 29.79 | Due to release of more grants to zila parishads and district level panchayats |
| Minor irrigation | 28.92 | Due mainly to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Other administrative services | 25.05 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Treasury and accounts | 24.72 | Due to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Medium irrigation | 22.38 | Due mainly to payment of arrears and increased pay and allowances as per the recommendations of Sixth Pay Commission |
| Power Decrease | 1680.52 | Due to less release of grants to power companies. However, during 2007-08 the state government had written off the outstanding loans of erstwhile RSEB |
| Secretariat- economic services | 380.05 | Decrease is due to less transfer of fund to Rajasthan Development and Poverty Eradication Fund in comparison to previous year |

There is no departmentally run electricity undertaking.

*Arrears in collection of water rates*: As per various departments, Rs.8778.86 lakhs were pending recovery at the end of March 2009 on account of water rates.

**Year-wise details of arrears in following projects are (Rs. lakhs):**

| Projects | Up to 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | Total |
|---|---|---|---|---|---|---|
| Bhakra Nangal Project | 633.57 | 457.96 | 407.19 | 335.84 | 325.33 | 2159.89 |
| Indira Gandhi Nahar Project (including CAD) | 668.50 | 662.33 | 456.74 | 652.65 | 568.17 | 3008.39 |
| Gang Canal | 467.83 | 469.62 | 304.62 | 303.58 | 231.70 | 1777.3 |
| Jawai River Project | 8.25 | -- | 0.20 | 2.18 | 17.03 | 27.66 |
| Chambal Project | 868.21 | 125,22 | 127.68 | 131.12 | 110.54 | 1362.77 |
| Parbati Project | 25.35 | 2.45 | 0.22 | -- | -- | 28.02 |
| Meja Project | 0.50 | -- | -- | -- | 0.10 | 0.60 |
| Gudha Project | 6.81 | 1.30 | 5.50 | 1.23 | 0.55 | 15.39 |
| Alnia Project | 2.78 | -- | 0.10 | -- | -- | 2.88 |
| Morel Project | 1.90 | 0.42 | 0.70 | -- | 0.41 | 3.43 |
| Mahi Project | 307.28 | 42.13 | 43.07 | -- | -- | 392.48 |
| **TOTAL** | **2990.98** | **1761.43** | **1346.02** | **1426.60** | **1253.83** | **8778.86** |

**Appendix 2.3**

The heads of account under which there was substantial increase/ decrease in revenue receipts during the year as compared to those of previous year are mentioned below:

| Major head of account Increase | Amount Rs. crores | Remarks |
|---|---|---|
| Taxes on sales, trade etc. | 1153.77 | More collection of tax under state sales tax act |
| Grants-in-aid from central government | 713.81 | Receipt of more non-plan grants, grant for state plan schemes and grants for centrally sponsored plan schemes |
| State excise | 364.78 | More receipt from sale of foreign liquor and spirits, receipts of more service fees |
| Corporation tax | 244.40 | More receipt under share of net proceeds assigned to state |
| Taxes on immovable property other than agricultural land | 176.88 | Due to receipt of more land tax from various mining units of Udaipur |
| Service tax | 120.67 | Due to more receipt under share of net proceeds assigned to state |
| Customs | 108.33 | More receipt under share of net |
| Interest receipts | 83.53 | Due to more adjustment of notional interest on departmental commercial undertakings and more interest received on investment of cash balances |
| Taxes on duties and electricity | 69.81 | Due to receipt of more taxes on consumption and sale of electricity |
| Taxes on vehicles | 49.16 | Due to more receipt under state motor vehicles taxation acts |
| Non-ferrous mining and metallurgical industries | 48.98 | Due to receipt of cess from RSMM rock phosphate |
| Public works | 40.02 | Due to receipt of outstanding rent from Rajasthan Vidyut Vitran Nigam Limited for last many years and more recovery of percentage charges |
| Taxes on income other than corporation tax | 36.39 | More receipt under share of net proceeds assigned to state |
| Dividends and profits | 30.72 | Due to receipt of more dividends from RIICO and Rajasthan State Mines and Minerals Limited |

## Appendix 2.4
## Own Revenue of Rajasthan (Rs in Lakh)

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|
| State Tax Revenue | 625334 | 724619.2 | 841482.1 | 988022.7 | 1160824 | 1327473 | 1494350 | 1641427 | 2075813 | 2537706 |
| Land Revenue | 5797.91 | 7143.59 | 6886.11 | 8430.37 | 11671.04 | 15529.23 | 16252.05 | 14765.95 | 22216.59 | 20900.94 |
| Stamps and Registration Fee | 51573.33 | 61176.77 | 81782.65 | 103179.4 | 129368.3 | 154435.2 | 135663.2 | 136293.6 | 194104.5 | 265137.6 |
| State Excise | 114233.8 | 116315.5 | 127607.2 | 152180.4 | 159109.3 | 180511.9 | 216989.5 | 230047.6 | 286140.9 | 328704.8 |
| Sales Tax | 343789.9 | 398543.3 | 479753.5 | 559363.9 | 672070.5 | 775073.5 | 890450.2 | 1016353 | 1262959 | 1576643 |
| Tax on Vehicles | 64613.93 | 90430.68 | 81720.68 | 90818.22 | 102360.7 | 116439.8 | 121355.9 | 137287.1 | 161224.6 | 192705 |
| Taxes on Goods and Passengers | 13043.65 | 15050.29 | 14401.34 | 23671.08 | 24759.65 | 16060.63 | 18986.43 | 17610.46 | 23068.81 | 22012.73 |
| Taxes and Duties on Electricity | 23984.99 | 28028.65 | 44276.25 | 47135.3 | 51588.3 | 58423.43 | 65404.49 | 69998.85 | 90580.75 | 109447.8 |
| Other Tax on Income and Expenditure | 1722.81 | 2012.27 | 184.74 | 25.13 | 6.21 | 4.06 | 4.49 | 4.39 | 1.86 | 6.11 |
| Taxes on Goods and Services | 4712.05 | 4684.77 | 4755.72 | 3170.01 | 4603.6 | 5890.62 | 6452.29 | 5852 | 6444.53 | 4344.76 |
| Tax on Immovable Property | 1858.94 | 1199.04 | 115.11 | 48.17 | 5286.57 | 5103.41 | 22791.36 | 13214.06 | 29071.25 | 17802.82 |
| Tax on Agricultural Income | 0 | 0 | 0 | 0.13 | 0.13 | 0.72 | 0.06 | 0.07 | 0.01 | 0.01 |
| Service Tax | 2.63 | 34.34 | -1.18 | 0.65 | 0 | 0 | 0 | 0.07 | 0.01 | 0.01 |
| Oher Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.24 | 0.05 | 0.35 |

Sources: Estimated from Budget Study (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14, p-10 of all Budget Studies), Government of Rajasthan.

## Appendix 2.5
## Composition of State own tax revenue

| **As a Percentage of State Own Tax Revenue** | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Annual Compound Growth Rate of proportion |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Land Revenue | 0.93 | 0.99 | 0.82 | 0.85 | 1.01 | 1.17 | 1.09 | 0.90 | 1.07 | 0.82 | 0.54 |
| Stamps and Registration Fee | 8.25 | 8.44 | 9.72 | 10.44 | 11.14 | 11.63 | 9.08 | 8.30 | 9.35 | 10.45 | 1.10 |
| State Excise | 18.27 | 16.05 | 15.16 | 15.40 | 13.71 | 13.60 | 14.52 | 14.02 | 13.78 | 12.95 | -2.88 |
| Sales Tax | 54.98 | 55.00 | 57.01 | 56.61 | 57.90 | 58.39 | 59.59 | 61.92 | 60.84 | 62.13 | 1.46 |
| Tax on Vehicles | 10.33 | 12.48 | 9.71 | 9.19 | 8.82 | 8.77 | 8.12 | 8.36 | 7.77 | 7.59 | -4.29 |
| Taxes on Goods and Passengers | 2.09 | 2.08 | 1.71 | 2.40 | 2.13 | 1.21 | 1.27 | 1.07 | 1.11 | 0.87 | -9.83 |
| Taxes and Duties on Electricity | 3.84 | 3.87 | 5.26 | 4.77 | 4.44 | 4.40 | 4.38 | 4.26 | 4.36 | 4.31 | 0.38 |
| Other Tax on Income and Expenditure | 0.28 | 0.28 | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -59.38 |
| Taxes on Goods and Services | 0.75 | 0.65 | 0.57 | 0.32 | 0.40 | 0.44 | 0.43 | 0.36 | 0.31 | 0.17 | -11.26 |
| Tax on Immovable Property | 0.30 | 0.17 | 0.01 | 0.00 | 0.46 | 0.38 | 1.53 | 0.81 | 1.40 | 0.70 | 43.96 |
| Tax on Agricultural Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -49.95 |
| Service Tax | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -61.16 |
| Other Taxes | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -2.96 |
| **State Own Tax Revenue** | 625334 | 724619.2 | 841482.1 | 988022.7 | 1160824 | 1327473 | 1494350 | 1641427 | 2075813 | 2537706 | |

Sources: Estimated from Budget Study (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14, p-10 of all Budget Studies), Government of Rajasthan.

Note: Figures in the last row is in absolute number (Rs in Lakh) which is equivalent to hundred % of the other rows of the respective column.

**Appendix 2.6**

**Annual Change in different components of State own Tax Revenue**

| | 2003-04 over 2002-03 | 2004-05 over 2003-04 | 2005-06 over 2004-05 | 2006-07 over 2005-06 | 2007-08 over 2006-07 | 2008-09 over 2007-08 | 2009-10 over 2008-09 | 2010-11 over 2009-10 | 2011-12 over 2010--11 | Annual Compound Growth Rate of absolute figure |
|---|---|---|---|---|---|---|---|---|---|---|
| State Tax Revenue | 15.9 | 16.1 | 17.4 | 17.5 | 14.4 | 12.6 | 9.8 | 26.5 | 22.3 | 16.2 |
| Land Revenue | 23.2 | -3.6 | 22.4 | 38.4 | 33.1 | 4.7 | -9.1 | 50.5 | -5.9 | 16.8 |
| Stamps and Registration Fee | 18.6 | 33.7 | 26.2 | 25.4 | 19.4 | -12.2 | 0.5 | 42.4 | 36.6 | 17.4 |
| State Excise | 1.8 | 9.7 | 19.3 | 4.6 | 13.5 | 20.2 | 6.0 | 24.4 | 14.9 | 12.8 |
| Sales Tax | 15.9 | 20.4 | 16.6 | 20.1 | 15.3 | 14.9 | 14.1 | 24.3 | 24.8 | 17.8 |
| Tax on Vehicles | 40.0 | -9.6 | 11.1 | 12.7 | 13.8 | 4.2 | 13.1 | 17.4 | 19.5 | 11.2 |
| Taxes on Goods and Passengers | 15.4 | -4.3 | 64.4 | 4.6 | -35.1 | 18.2 | -7.2 | 31.0 | -4.6 | 4.7 |
| Taxes and Duties on Electricity | 16.9 | 58.0 | 6.5 | 9.4 | 13.2 | 11.9 | 7.0 | 29.4 | 20.8 | 16.5 |
| Other Tax on Income and Expenditure | 16.8 | -90.8 | -86.4 | -75.3 | -34.6 | 10.6 | -2.2 | -57.6 | 228.5 | -52.8 |
| Taxes on Goods and Services | -0.6 | 1.5 | -33.3 | 45.2 | 28.0 | 9.5 | -9.3 | 10.1 | -32.6 | 3.0 |
| Tax on Immovable Property | -35.5 | -90.4 | -58.2 | 10874.8 | -3.5 | 346.6 | -42.0 | 120.0 | -38.8 | 67.2 |
| Tax on Agricultural Income | - | - | - | 0.0 | 453.8 | -91.7 | 16.7 | -85.7 | 0.0 | -41.8 |
| Service Tax | 1205.7 | -103.4 | -155.1 | -100.0 | - | - | - | -85.7 | 0.0 | -54.9 |
| Other Taxes | | | | | | | | -79.2 | 600.0 | 20.9 |

Sources: Estimated from Budget Study (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14, p-10 of all Budget Studies), Government of Rajasthan.

**Appendix 2.7**

**Receipt on Revenue Account (**The revenue raised by the state government during 2010-11)

| Major head of account- Increase | Amount Rs. crores | Remarks |
|---|---|---|
| Taxes on sales, trade etc. | 246606.16 | Due to more receipt of tax under state sales tax act and central sales tax act |
| Petroleum | 151979.00 | Due to more receipt of royalty |
| Corporation tax | 121477.00 | Due to more receipt under share of net proceeds assigned to state |
| Customs | 95224.98 | Due to more receipt under share of net proceeds assigned to state |
| Grants- in- aid from centre | 86594.13 | Due to more receipt of grants from the government of India under the state plan schemes and grants for central plan schemes |
| Union excise duties | 59160.00 | Due to more receipt under share of net proceeds assigned to state |
| Stamps and registration fees | 57810.96 | Due to sale of non-judicial stamps, fees for registering documents, court fee and increase in DLC rates |
| State excise | 56093.33 | Due to more receipt from sale of foreign liquor and spirits |
| Taxes on income other than corporation tax | 53297.00 | Due to more receipt under share of net proceeds assigned to state |
| Non- ferrous mining and metallurgical industries | 31731.91 | Due to more receipt mineral, concession fees, rents and royalties |
| Service tax | 30421.81 | Due to more receipt under share of net proceeds assigned to state |
| Taxes on vehicles | 23937.46 | Due to increase in collection of receipts under state |

| | | |
|---|---|---|
| | | motor vehicle taxation act |
| Taxes and duties on electricity | 20581.90 | Due to more receipt of taxes on consumption and sale of electricity |
| Taxes on immovable property other than agricultural land | 15857.19 | Due to old recovery of Rs.109.31 crores in 2010-11 |
| Interest receipts | 9124.32 | Due to more receipt of interest from departmental commercial undertakings and interest on investment of cash balance |
| Labour and employment | 8522.67 | Due to receipt of cess from contractors |
| Land revenue | 7450.64 | Due to more receipt from sale of government assets and sale proceeds of waste land |
| Water supply and sanitation | 7258.70 | Due to more receipt from various water supply schemes |

**Appendix: 2.8** Steps taken by the state government to address the fiscal health

| | |
|---|---|
| 2002-03 | • The commercial taxes department commenced computerization of its check posts. Arrangements made for transmission of data regarding export and imports of goods from the state to the assessing authorities through Internet. This was to help in final assessment of tax liabilities of an assessee and prevention of revenue leakage.<br>• Streamlining of working of registration and stamps department- a time limit for registration of documents within 7 days of presentation was fixed. Certain documents registered within 24 hours.<br>• For regularization of colonies in urban areas by JDA instead of charging stamp duty on the basis of market value for issuance of Patta (by JDA), the patttas are now being charged a stamp duty of Rs.100 (in case of registration done prior to 31 March 2002) or on the basis of the rental value, conversion charges, interest and penalty<br>• A scheme for waiver of stamp duty for disposing off the pending disputed cases.<br>• A liberal amnesty scheme announced by the state government for old recovery from excise contractors.<br>• Burden of RSRTC reduced by Rs.18.50 crores in 2002-03. |
| 2003-04 | • With a view to address development effectiveness of all government expenditure, an Expenditure Reforms Commission was set up and it submitted it's in 2005.<br>• New contributory pension introduced for employees joining service after January 1, 2004. These employees would be provided medical insurance cover instead of reimbursement and the long term advances for house building and conveyance would be arranged at competitive rates through financial institutions/ banks.<br>• The Rajasthan government passed VAT legislation and took steps to introduce it.<br>• The commercial taxes department introduced a system of self-assessment for its dealers. Dealers were to be categorized under the new system.<br>• Applied unified floor rates decided by empowered committee of the state finance ministers.<br>• TIN issued to all registered dealers of the state.<br>• Tax on professions, trade and callings were abolished from April 1, 2004.<br>• 50 % concession provided in stamp duty on transfer of agricultural land in favour of women.<br>• 28 types of documents standardized for stamp duty.<br>• A scheme of partial waiver of stamps duty and penal interest introduced to dispose of pending disputed cases.<br>• Entertainment tax reduced from 70 % to 50 % wef April 1, 2004.<br>• A new composition scheme under the land and building tax act launched for better realization of the arrears of land and building tax.<br>• Exemption to double decker vehicles for 5 years to such vehicles registered from January 6, 2003 for one year and used for tourist purpose.<br>• 50 % rebate in road tax granted to vehicles with air conditioners and heaters.<br>• Motor vehicle tax reduced by 1.25 % of vehicles costs subject to maximum limit of |

| | |
|---|---|
| | Rs.25000 for loaders, dumpers, rig machines, cranes, compressors etc. used in mining trade and industrial institutions. |
| 2004-05 | • State government approached financial institutions from which it had borrowed Rs.1500 crores in the past for debt swap. The borrowed cost of capital was very high (up to 17%) and it was crucial in the interests of prudent fiscal management to retire/ replace high cost borrowings.<br>• Borrowings from HDFC for on-lending for house building advances were re-priced from weighted average cost @ 13 % to a low of 7.75 % wef March 1, 2004 and 7.5 % wef July 1, 2004. The consequential savings on the borrowing were passed on to the employees facilitating a transition from the regime of government sponsored lending for HBA to market linked pricing mechanism. Similar process was undertaken for LIC loans and loans from NABARD, NCDC and HUDCO (Rs.893.90 crores). State government prepaid loans amounting to Rs.91.61 crores to HUDCO, Rs.12.26 crores to NCDC and Rs.787.67 crores to NABARD.<br>• Debt swap undertaken of Rs.5798.37 crores during period commencing from 2002-03 to 2004-05 to retire borrowings @ 15 % to 12.5 % rate of interest with cheaper additional market borrowings/ small savings loans.<br>• Gold card scheme implemented for traders in respect of whom neither any tax nor any case of tax evasion is pending or also deposit of at least 16 % tax more than last year.<br>• Provisions made to expedite pending appeals.<br>• The interest on late tax deposit reduced to 12 % from 18 %. Interest rate on refund to traders reduced to 6 % from 8 %.<br>• To promote registration of property through sale, donation, exchange, lease transfer and lease for the period more than 20 days, stamp duty reduced to 8 % from 11 %.<br>• Stamp duty reduced to 8 % from 11 % for purchase of a storey or flat in a 3 or more storied building on first transfer or purchase from a builder or owner of the property. |
| 2005-06 | |
| 2006-07 | |
| 2007-08 | • The expenditure on salary and wages was 43 % in 2006-07 down from 51.5 % in 2001-02 of revenue expenditure net of interest and pension payment. It is above 35 % recommended by 12th Finance Commission.<br>• Created Rajasthan Development and Poverty Alleviation Fund (Rs.100 crores).<br>• Rajasthan Social Sector Viability Gap Fund Scheme launched.<br>• RSEB restructured on functional lines into one generation, one transmission and three regional distribution companies. A state Electricity Regulatory Commission was set up. |
| 2008-09 | |

References:

Rao, M.G, (2013): Property Tax System in India: Problems and Prospects of Reform, Working Paper No. 2013-114 , NIPFP.

# Chapter 3

# Analysis of Rajasthan's Own Non-Tax Revenue

This chapter is divided into two parts, (1) analysis of own non-tax revenue, and (2) suggestions to enhance revenue from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

## 3.1 Analysis of Own Non-Tax Revenue

The position of non-tax revenue in Rajasthan is by and large unsatisfactory. Own non-tax revenue of states includes return on capital invested (in the form of dividends, interest and profit), user charges, royalty from minerals, receipts from forestry and wildlife, receipt from irrigation, etc. Non-tax revenues are more volatile than own-tax revenues of Rajasthan. The contribution of non-tax revenue in total revenue receipt is 13.5 % (average), which varied from 12 % in 2002-03 to 16.1 % in 2011-12. Further, the contribution of non-tax revenue in own revenue is 22.9 % (average) during ten years and varied between 20.1 % in 2002-03 and 26.6 % in 2011-12. The non- tax revenue mobilization has grown at 18.96 % during the ten years. A structure of the non-tax revenue of Rajasthan in major heads is given in table 3.1.

**Table 3.1**
**Components of Non-Tax Revenue in Rajasthan**

| | |
|---|---|
| 1 | Total own non-tax revenue |
| 1.1 | Interest receipts, dividends & profits |
| 1.2 | General services |
| 1.3 | Social services |
| 1.3.1 | Education, arts & culture |
| 1.3.2 | Medical, health & family welfare |
| 1.3.3 | Water supply, urban development |
| 1.3.4 | Others |
| 2.4 | Economic services |
| 2.4.1 | Minor irrigation |
| 2.4.2 | Forestry and wildlife |
| 2.4.3 | Industries village and small industries |
| 2.4.4 | Major and medium irrigation projects |
| 2.4.5 | Non- ferrous mining & metallurgical industries |
| 2.4.6 | Others |
| 2.4.7 | Petroleum |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-16), Government of Rajasthan

Non- tax revenue in Rajasthan, accrues from interest receipts, dividends & profits, general services, social services (includes, education, arts & culture; medical health & family welfare; water supply; urban development, and other economic services), and economic services (includes minor irrigation, forestry and wildlife, village and small industries, major and medium irrigation projects, non- ferrous mining & metallurgical industries, petroleum and other economic services).

Non-tax revenue constitutes 22.93 % (average of 10 years) of the total own revenue receipts of Rajasthan. The proportion of non- tax revenue to the total own revenue receipts has been increasing over the years. The proportion of non-tax revenue to total own revenue receipt has increased from 20.06 % in 2002-03 to 26.55 % in 2011-12. In absolute term, the non-tax revenue in 2002-03 was Rs.156899.78 lakhs that increased to Rs.917510.25 lakhs in 2011-12, registering an annual growth rate of 18.97 % during ten years. The proportion of non-tax revenue to total revenue receipts in 2002-03 was 12 % in 2002-03 and it increased to 16.09 % in 2011-12. The increase in proportion of non-tax revenue to total own revenue receipts as well as total revenue receipts clearly shows that decline in proportion of own tax revenue and other components of total revenue receipts.

**Table 3.2**

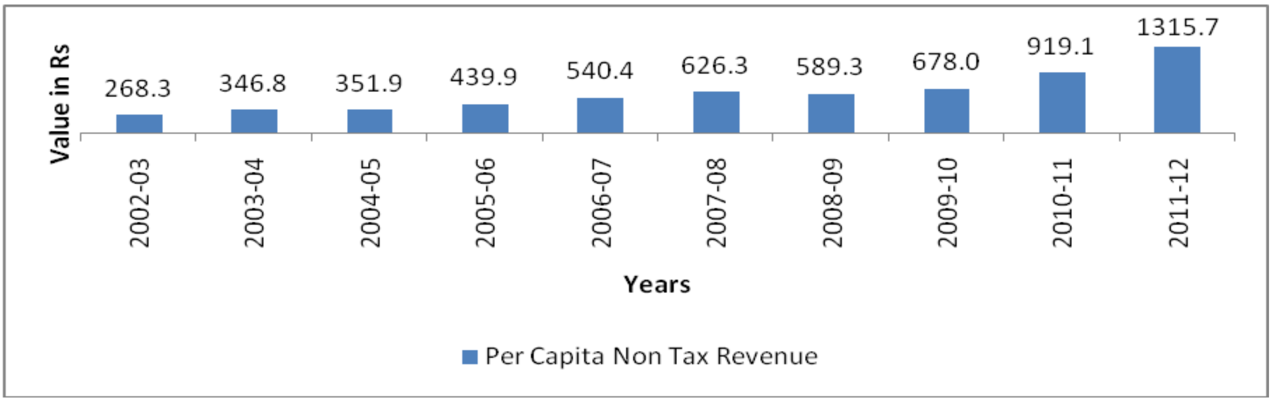
**Major Sources of Non-Tax Revenue of Rajasthan (Rs. lakhs)**

| Year | Total non-tax revenue | Interest receipts, dividends & profits | General services | Social services | Economic services |
|---|---:|---:|---:|---:|---:|
| 2002-03 | 156899.8 | 61529.2 | 17608.6 | 19552.4 | 58209.7 |
| 2003-04 | 207164.4 | 68755.6 | 47096.2 | 25299.5 | 66013.2 |
| 2004-05 | 214614.8 | 79213.0 | 27537.8 | 23429.4 | 84434.6 |
| 2005-06 | 273766.9 | 101278.1 | 48528.9 | 23386.6 | 100573.3 |
| 2006-07 | 343061.2 | 108234.4 | 69322.3 | 25535.5 | 139969.1 |
| 2007-08 | 405393.4 | 112509.8 | 115300.2 | 28508.4 | 149075.0 |
| 2008-09 | 388845.9 | 123934.5 | 83770.5 | 31304.8 | 149836.1 |
| 2009-10 | 455821.8 | 122271.8 | 101571.3 | 35568.9 | 196409.8 |
| 2010-11 | 629412.4 | 129745.7 | 59456.6 | 52549.2 | 387660.9 |
| 2011-12 | 917510.3 | 177211.0 | 73070.4 | 56783.6 | 610445.3 |
| ACGR% | | | | | |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-16), Government of Rajasthan

A major share of non-tax revenue accrues from economic services. It was Rs.582.10 crores in 2002-03 and stood at Rs.6104.45 crores in 2011-12. The share of economic services to the non- tax revenue fluctuated between 2002-03 and 2008-09. However, it started rising after 2009-10 at a significant rate due to increase in the production of crude oil which was added as an additional source of revenue. The per capita non-tax revenue in Rajasthan is expected to grow over time. The per-capita figure, increased from Rs.268.3 in 2002-03 to Rs.1315.7 in 2011-12.

**Figure 3.1**
**Per- Capita Non-Tax Revenue of Rajasthan**




Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-16), Government of Rajasthan

**Table 3.3**
**Proportion of Non-Tax Revenue from**
**Total Own- Tax and Total Revenue Receipts**

| Years | Own non-tax revenue as a % of | |
|---|---|---|
| | Total own revenue (tax+ non-tax) | Total revenue Receipts |
| 2002-03 | 20.1 | 11.99 |
| 2003-04 | 22.2 | 13.43 |
| 2004-05 | 20.3 | 12.08 |
| 2005-06 | 21.7 | 13.14 |
| 2006-07 | 22.8 | 13.40 |
| 2007-08 | 23.4 | 13.17 |
| 2008-09 | 20.6 | 11.62 |
| 2009-10 | 21.7 | 12.88 |
| 2010-11 | 23.3 | 13.70 |
| 2011-12 | 26.6 | 16.09 |
| Average | 22.9 | 13.5 |

Note: Total tax revenue includes share in central taxes and state tax revenue.
Total revenue receipts include tax revenue, non- tax revenue and grant-in-aid from central government.
Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-6, 10 &16), Government of Rajasthan

A significant proportion of non-tax revenue was contributed by economic services in ten years period in Rajasthan. Within that a lion share was contributed by non-ferrous mining & metallurgical industries (61.9%) followed by petroleum (26.6% a recent origin, 2009-10 onwards). Contribution towards non-tax revenue by the general services category was found to be significant over the time period (16.11%). It is revenue from public service commission; police, jail, public works, etc that are the major contributors to the general services under non-tax revenue. The proportion of social service to non-tax revenue has been declining over time. The major contribution to general service comes from education, arts & culture, medical health & family welfare, water supply, urban development. The decline in the share of social services over the time period in the non-tax revenue of Rajasthan is due to decline in the contribution of water supply and urban development sector, which had been the major source of revenue generation of the social services. The state has not shown much interest in levying house tax, a main urban tax. It had abolished octroi.

**Table 3.4**
**Major Components of Non-Tax Revenue: Rajasthan (%)**

| Year | Interest receipts, dividends & profits | General services | Social services | Economic Services |
|---|---|---|---|---|
| 2002-03 | 39.22 | 11.22 | 12.46 | 37.10 |
| 2003-04 | 33.19 | 22.73 | 12.21 | 31.87 |
| 2004-05 | 36.91 | 12.83 | 10.92 | 39.34 |
| 2005-06 | 36.99 | 17.73 | 8.54 | 36.74 |
| 2006-07 | 31.55 | 20.21 | 7.44 | 40.80 |
| 2007-08 | 27.75 | 28.44 | 7.03 | 36.77 |
| 2008-09 | 31.87 | 21.54 | 8.05 | 38.53 |
| 2009-10 | 26.82 | 22.28 | 7.80 | 43.09 |
| 2010-11 | 20.61 | 9.45 | 8.35 | 61.59 |
| 2011-12 | 19.31 | 7.96 | 6.19 | 66.53 |
| Average | 27.17 | 16.11 | 8.06 | 48.66 |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-16), Government of Rajasthan

Revenue generation under different heads of non-tax revenue in Rajasthan has shown a positive growth except one indicator (minor irrigation). The receipts from interest, dividend and profit have increased from Rs.61529.17 lakhs in 2002-03 to Rs.177211 lakhs in 2011-12. Revenue generation under all the components of non- tax revenue has increased.

**Table:3.5**

**Non-tax Revenue: Rajasthan (Rs in Lakh)**

| | Interest receipts, dividends &Profits | General Services | *Education, Arts &culture* | *Medical Health &Family Welfare* | *Water supply, Urban Development* | *other_ social services* | *Minor irrigation* | *Forestry and wildlife* | *Industries village and small industries* | *Major and medium irrigation Projects* | *Non – Ferrous Mining & Metallurgical industries* | *Others_ economic Services* | *Petroleum* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2002-03 | 61529.17 | 17608.57 | 1732.84 | 2269.01 | 14958.78 | 591.72 | 2672.83 | 4163.02 | 76.97 | 2074.03 | 44937.67 | 4285.17 | 0 |
| 2003-04 | 68755.56 | 47096.15 | 7881.14 | 1639.92 | 15140.98 | 637.44 | 1823.15 | 3953.29 | 112.14 | 4323.38 | 51369.59 | 4431.69 | 0 |
| 2004-05 | 79212.97 | 27537.75 | 2899.31 | 3002.69 | 16976.3 | 551.13 | 2606.73 | 3941.08 | 63.86 | 5649.81 | 64534.63 | 7638.49 | 0 |
| 2005-06 | 101278.1 | 48528.85 | 2461.92 | 1703.18 | 18454.43 | 767.09 | 1842.11 | 4007.08 | 96.59 | 4679.18 | 81408.07 | 8540.28 | 0 |
| 2006-07 | 108234.4 | 69322.26 | 3170.8 | 3087.47 | 18575.26 | 701.96 | 1537.27 | 4523.98 | 300.4 | 6056.26 | 119651.7 | 7899.49 | 0 |
| 2007-08 | 112509.8 | 115300.2 | 2722.88 | 3969.02 | 20790.59 | 1025.95 | 1360.65 | 5829.98 | 467.87 | 5791.7 | 122661.3 | 12963.67 | 0 |
| 2008-09 | 123934.5 | 83770.5 | 4452.31 | 3715.78 | 22072.99 | 1063.73 | 1735.91 | 5773.63 | 139.44 | 5415.78 | 127559.5 | 9211.88 | 0 |
| 2009-10 | 122271.8 | 101571.3 | 3911.88 | 5683.29 | 24581.81 | 1391.91 | 2261.55 | 5635.42 | 760.39 | 4883.27 | 161225.9 | 11049.73 | 10593.58 |
| 2010-11 | 129745.7 | 59456.64 | 5914.98 | 4568.67 | 31768.29 | 10297.25 | 1786.72 | 9320.07 | 487.66 | 8604.3 | 192957.8 | 11475.63 | 163028.7 |
| 2011-12 | 177211 | 73070.36 | 5926.49 | 5956.73 | 27755.13 | 17145.26 | 1804.08 | 7494.92 | 437.41 | 9182.93 | 236631.9 | 11332.91 | 343561.2 |
| Growth Rate | 10.68 | 15.03 | 7.69 | 14.01 | 8.37 | 40.25 | -2.81 | 9.16 | 27.32 | 11.45 | 20.06 | 11.57 | 469.73 |

Sources: Estimated from Budget Study (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14, p-16 of all Budget Studies), Government of Rajasthan

**Table 3.6**
**Non-tax Revenue, Rajasthan (% increase over the previous year)**

| Sources | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|
| Interest receipts, dividends & profits | 11.74 | 15.21 | 27.86 | 6.87 | 3.95 | 10.15 | -1.34 | 6.11 | 36.58 |
| General services | 167.46 | -41.53 | 76.23 | 42.85 | 66.32 | -27.35 | 21.25 | -41.46 | 22.90 |
| Education, arts & culture | 354.81 | -63.21 | -15.09 | 28.79 | -14.13 | 63.51 | -12.14 | 51.21 | 0.19 |
| Medical health & family welfare | -27.73 | 83.10 | -43.28 | 81.28 | 28.55 | -6.38 | 52.95 | -19.61 | 30.38 |
| Water supply, urban development | 1.22 | 12.12 | 8.71 | 0.65 | 11.93 | 6.17 | 11.37 | 29.23 | -12.63 |
| Other social Services | 7.73 | -13.54 | 39.18 | -8.49 | 46.16 | 3.68 | 30.85 | 639.79 | 66.50 |
| Minor irrigation | -31.79 | 42.98 | -29.33 | -16.55 | -11.49 | 27.58 | 30.28 | -21.00 | 0.97 |
| Forestry and wildlife | -5.04 | -0.31 | 1.67 | 12.90 | 28.87 | -0.97 | -2.39 | 65.38 | -19.58 |
| Village and small industries | 45.69 | -43.05 | 51.25 | 211.01 | 55.75 | -70.20 | 445.32 | -35.87 | -10.30 |
| Major and medium irrigation projects | 108.45 | 30.68 | -17.18 | 29.43 | -4.37 | -6.49 | -9.83 | 76.20 | 6.72 |
| Non- ferrous mining & metallurgical Industries | 14.31 | 25.63 | 26.15 | 46.98 | 2.52 | 3.99 | 26.39 | 19.68 | 22.63 |
| Other economic services | 3.42 | 72.36 | 11.81 | -7.50 | 64.11 | -28.94 | 19.95 | 3.85 | -1.24 |
| Petroleum | | | | | | | | 1438.94 | 110.74 |

Sources: Estimated from Budget Study (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14, p-16 of all Budget Studies), Government of Rajasthan

## 3.2 Suggestions to Enhance Revenue from User Charges and Profits from Departmental Enterprises and Dividends from Non-Departmental Commercial Enterprises

User charges in irrigation are based on recommended/ desirable quantity of water by crop type per unit of area cultivated. There is reason to believe that water drawn exceeds recommended levels. Most irrigated farms utilize the flooding technique that fosters overuse of water. Wherever feasible, adoption of improved methods of irrigation must be encouraged. Assessment of water charges must also acknowledge irrigation techniques adopted. Feasibility study of extending capital subsidy to switch to water-conserving methods must be done.

Of the components of non-tax revenue, ‘interest receipts, dividends & profits’ accounts for the largest share i.e. 7.9 % during 2002-03. This has declined to 5.1% during 2011-12 due to inefficiency in commercial enterprises. The interest, dividends and profits can be increased by increasing the efficiency of the administration of the commercial enterprises.

Royalty rates on some minerals are determined by the Centre, not by state governments. However, a number of revenue-generating measures are possible at state level. Control of unauthorized mining would not only yield higher revenues with the current tariff structure, but would help conserve mineral resources of the state. The scope for non-tax revenue from oil and gas is enormous but may not be realized in the next five years because of long gestation period of this Industry. There are some issues with respect to equal treatment of NELP and Joint Venture blocks, which fall within the discretionary jurisdiction of the Central government, and have important implications for the non-tax revenues of a state like Rajasthan.

**Appendix 3.1**
**Share of Non-Tax Revenue**

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|
| **% of Non -Tax Revenue to own revenue** | **20.1** | **22.2** | **20.3** | **21.7** | **22.8** | **23.4** | **20.6** | **21.7** | **23.3** | **26.6** |
| **Share of components of Non-Tax Revenue to own revenue** | | | | | | | | | | |
| **Interest receipts dividends &Profits** | **7.9** | **7.4** | **7.5** | **8.0** | **7.2** | **6.5** | **6.6** | **5.8** | **4.8** | **5.1** |
| **General Services** | **2.3** | **5.1** | **2.6** | **3.8** | **4.6** | **6.7** | **4.4** | **4.8** | **2.2** | **2.1** |
| **Social Services** | **2.5** | **2.7** | **2.2** | **1.9** | **1.7** | **1.6** | **1.7** | **1.7** | **1.9** | **1.6** |
| *Education, Arts &culture* | 0.2 | 0.8 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| *Medical Health &Family Welfare* | 0.3 | 0.2 | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| *Water supply,Urban Development* | 1.9 | 1.6 | 1.6 | 1.5 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 0.8 |
| *other* | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.4 | 0.5 |
| **Economic services** | **7.4** | **7.1** | **8.0** | **8.0** | **9.3** | **8.6** | **8.0** | **9.4** | **14.3** | **17.7** |
| *Minor irrigation* | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| *Forestry and wildlife* | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| *Industries village and small industries* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Major and medium irrigation Projects* | 0.3 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 |
| *Non - Ferrous Mining & Metallurgical industries* | 5.7 | 5.5 | 6.1 | 6.5 | 8.0 | 7.1 | 6.8 | 7.7 | 7.1 | 6.8 |
| *Others* | 0.5 | 0.5 | 0.7 | 0.7 | 0.5 | 0.7 | 0.5 | 0.5 | 0.4 | 0.3 |
| *Petroleum* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 6.0 | 9.9 |

Source: *Budget Study* (2004-05, 2006-07, 2007-08, 2009-10, 2012-13, 2013-14; p-10 &16), Government of Rajasthan.

# Chapter 4

# Trend in Expenditure Pattern in Rajasthan

## 4.1 Introduction

Expenditure plays an important role for the economic development of the country. It is because the revenue generation depends on the investment through the multiplier effect. However the pattern of investment should be productive. In this context this chapter analyses the expenditure pattern in Rajasthan.

## 4.2 Expenditure Pattern

In 2002-03, 67.7 % of total state expenditure was met out from revenue receipts, which increased to 91.2 % in 2011-12. This indicates the increasing strength of the state's fiscal health. Rajasthan is slowly becoming less dependent on borrowed funds. Further, Rajasthan in 2002-03 met 76.9 % of the basic needs from its own capacity has registered herself a revenue surplus state by 20011-12. This indicates that the fiscal status of the state has been improving and is in a stable state now. Total expenditure of Rajasthan has grown as an annual rate of 13.39 %. In 2002-03 the total expenditure was Rs.19321.12 crores that increased to Rs.61881.66 crores in 2011-12.

A further look at the expenditure gives some interesting features as per the composition of expenditure pattern is concerned. The total expenditure has been decomposed into revenue and capital account expenditures. Each component is further subdivided into developmental and non-developmental expenditures. Further each component of developmental and non-developmental expenditures is sub-divided into plan and non-plan expenditures. The revenue account expenditures indicate the consumption expenditures of the government while the capital account expenditures include the investment expenditures as well as the repayment of loans. The developmental expenditures include the expenditures for the developmental programmmes. The expenditures on the maintenance of law and order and other administrative expenditures and fiscal services, interest payment and pension are non – developmental expenditures. The plan expenditures are expenditures for the plan projects while the expenditures on the maintenance of completed plan projects are non-plan expenditures.

### 4.2.1 Revenue Expenditures

The revenue expenditures consist of expenditures on social, economic services, organ of state, interest payment and debt services, administrative services, pension, miscellaneous general services and contributions to the local governments. The revenue expenditure has grown at a faster rate (13.95%) than the capital expenditure (10.29%) during 2002-03 and 2011-12. The proportion of revenue expenditure to total expenditure was 88.07 % in 2002-03 and it declined to 82.11 % in 2003-04 and continued to remain above 81 % till 2007-08. However, it further increased to 86.7 % in 2011-12 with fluctuations in between (see Table 4.1). Overall the proportion of revenue expenditure to total expenditure registered an annual rate of growth of 0.42 % over the ten years period. On the other hand, the proportion of capital expenditure to the total expenditure has declined at an annual rate of 2.63 %.

**Table 4.1**
**Total Revenue and Capital Expenditure (Rs. lakhs)**

| Total Revenue and Capital Expenditure | | | | | | | Out of total expenditure % of | |
|---|---|---|---|---|---|---|---|---|
| Year | Total revenue expend -iture | % annual change | Total capital expend -iture | % annual change | Total expend -iture | % annual change | Revenue expend -iture | Capital expend -iture |
| 2002-03 | 1701578 | - | 230534 | - | 1932112 | - | 88.07 | 11.93 |
| 2003-04 | 1884829 | 10.77 | 410635 | 78.12 | 2295464 | 18.81 | 82.11 | 17.89 |
| 2004-05 | 1990618 | 5.61 | 412803 | 0.53 | 2403421 | 4.70 | 82.82 | 17.18 |
| 2005-06 | 2149921 | 8.00 | 472866 | 14.55 | 2622787 | 9.13 | 81.97 | 18.03 |
| 2006-07 | 2495379 | 16.07 | 512202 | 8.32 | 3007581 | 14.67 | 82.97 | 17.03 |
| 2007-08 | 2912765 | 16.73 | 684324 | 33.60 | 3597089 | 19.60 | 80.98 | 19.02 |
| 2008-09 | 3429560 | 17.74 | 624001 | -8.81 | 4053561 | 12.69 | 84.61 | 15.39 |
| 2009-10 | 4013220 | 17.02 | 567254 | -9.09 | 4580474 | 13.00 | 87.62 | 12.38 |
| 2010-11 | 4487335 | 11.81 | 551273 | -2.82 | 5038608 | 10.00 | 89.06 | 10.94 |
| 2011-12 | 5365331 | 19.57 | 822835 | 49.26 | 6188166 | 22.81 | 86.70 | 13.30 |
| ACGR % | 13.95 | | 10.29 | | 13.39 | | 0.42 | -2.63 |

Source: Estimated from www.rbi.org.in Dated-30-10-2013), [Occasional Publication, Handbook of Statistics on State Government Finances, 2010 (2002-03 to 2007-08) and Annual Publication, State Finances: A Study of Budgets (2008-09, 2009-10 & 2010-11), and Finance Accounts, Government of Rajasthan, Comptroller and Auditor General of India (2011-12).

### 4.2.2 Capital Expenditure

Capital expenditure is a combination of (1) total capital outlay (2) loan and advances by state government (3) discharge of internal debt as well as central loans (4) contingency fund and (5) public account. It has grown at an annual rate of 10.29 % during the ten-year period. Capital expenditure was Rs.2305.34 crores in 2002-03 and it stood at

Rs.8228.35 crores in 2011-12. The increase in capital expenditure was contributed by increase in expenditure on (1) different heads of capital outlay and (2) loans and advances by state governments. Expenditure on capital outlay constituted around 90 % (average) of the total capital expenditure and it has grown an annual rate of 11.6 %. On the other hand, the loans and advances by state government have grown at the rate of 0.94 %.

#### 4.2.2.1 Capital Outlay

The increasing expenditure on capital outlay has been mostly contributed by expenditure on development heads, which is a significant proportion (97.71%) of capital outlay. The proportion of developmental expenditure to total capital outlay has been more or less constant over the ten years with little fluctuation (it was 84.98% in 2007-08). Expenditure on development heads constitutes (1) expenditure on social services and (2) expenditure on economic services. Over the year, on an average, the state has spent 42.78 % of the developmental expenditure on social services and 57.22 % on economic services. However, in absolute terms the expenditure on economic services has grown at an annual rate of 13.04 % and social services at 9.68 % rate. This implies an effort was towards providing a boost for the growth of the GSDP of the state.

It is interesting to note that over the period, 99.7% of the loans and advances by state government have been earmarked for developmental purpose.

### 4.2.3 Plan and Non- Plan Expenditure

As discussed above the revenue expenditure, which is a major share of total expenditure, has grown at an annual rate of 13.95%. The plan and non-plan revenue expenditure have registered an annual rate of growth of 20.63% and 12.63% respectively. The proportion of plan revenue expenditure to total revenue expenditure, which was 13.35% during 2002-03, has increased to 22.64% during 2011-12. It grew at an annual rate of 5.92 %. The non-plan expenditure, which is a major share of the total expenditure, has declined at an annual rate of 1.14% over the period.

**Table 4.2**
**Total Revenue Expenditure (Rs. lakhs)**

| Years | Revenue expenditure | | | | | | Out of total revenue expenditure % of | |
|---|---|---|---|---|---|---|---|---|
| | Plan | % annual change | Non-plan | % annual change | Total | % annual change | Plan Revenue expend -iture | Non-plan revenue expend -iture |
| 2002-03 | 227215 | - | 1474363 | - | 1701578 | - | 13.35 | 86.65 |
| 2003-04 | 223119 | -1.80 | 1661710 | 12.71 | 1884829 | 10.77 | 11.84 | 88.16 |
| 2004-05 | 274195 | 22.89 | 1716423 | 3.29 | 1990618 | 5.61 | 13.77 | 86.23 |
| 2005-06 | 313153 | 14.21 | 1836767 | 7.01 | 2149921 | 8.00 | 14.57 | 85.43 |
| 2006-07 | 380012 | 21.35 | 2115367 | 15.17 | 2495379 | 16.07 | 15.23 | 84.77 |
| 2007-08 | 513367 | 35.09 | 2399398 | 13.43 | 2912765 | 16.73 | 17.62 | 82.38 |
| 2008-09 | 577061 | 12.41 | 2852499 | 18.88 | 3429560 | 17.74 | 16.83 | 83.17 |
| 2009-10 | 628689 | 8.95 | 3384530 | 18.65 | 4013220 | 17.02 | 15.67 | 84.33 |
| 2010-11 | 875266 | 39.22 | 3612068 | 6.72 | 4487335 | 11.81 | 19.51 | 80.49 |
| 2011-12 | 1214883 | 38.20 | 4150448 | 14.91 | 5365331 | 19.57 | 22.64 | 77.36 |
| ACGR % | **20.63** | | **12.63** | | **13.95** | | **5.92** | **-1.14** |

Source: same as table 4.1.

The plan capital expenditure in 2002-03 was Rs.2145.25 crores and stood at Rs.7153.96 crores in 2011-12, recording a growth rate of 10.41 %. On the other hand, the non-plan capital expenditure has grown at an annual rate of 16.88 %. The proportion of plan capital expenditure to capital expenditure, which is a significant proportion, recorded a growth rate of 0.15 % whereas the proportion of non-plan capital expenditure to total capital expenditure, which varied between 2 and 13 % during the ten years, registered an annual rate of growth of 5.58 %.

**Table: 4.3**
**Total Capital Expenditure (Rs. lakhs)**

| Years | Capital expenditure | | | | | | Out of total capital expenditure % of | |
|---|---|---|---|---|---|---|---|---|
| | Plan | % annual change | Non-Plan | % annual change | Total | % annual change | Plan capital expendi -ture | Non-plan capital expend -iture |
| 2002-03 | 214525 | - | 16009 | - | 230534 | - | 93.06 | 6.94 |
| 2003-04 | 398041 | 85.55 | 12594 | -21.33 | 410635 | 78.12 | 96.93 | 3.07 |
| 2004-05 | 402108 | 1.02 | 10695 | -15.08 | 412803 | 0.53 | 97.41 | 2.59 |
| 2005-06 | 463609 | 15.29 | 9257 | -13.45 | 472866 | 14.55 | 98.04 | 1.96 |
| 2006-07 | 496525 | 7.10 | 15677 | 69.35 | 512202 | 8.32 | 96.94 | 3.06 |
| 2007-08 | 585370 | 17.89 | 98954 | 531.20 | 684324 | 33.60 | 85.54 | 14.46 |
| 2008-09 | 641950 | 9.67 | -17949 | -118.14 | 624001 | -8.81 | 102.88 | -2.88 |
| 2009-10 | 628183 | -2.14 | -60928 | -239.45 | 567254 | -9.09 | 110.74 | -10.74 |
| 2010-11 | 541980 | -13.72 | 9294 | -115.25 | 551273 | -2.82 | 98.31 | 1.69 |
| 2011-12 | 715396 | 32.00 | 107439 | 1056.00 | 822835 | 49.26 | 86.94 | 13.06 |
| ACGR % | **10.41** | | **16.88** | | **10.29** | | **0.15** | **5.58** |

Source: same as table 4.1.

**Table 4.4**
**Annual Compound Growth Rate of Major Heads of Capital Expenditure (2002-03/2011-12)**

| **Items** | Plan | Non-plan | Total |
|---|---|---|---|
| **Capital expenditure (total capital outlay + loan and advances by state govt)** | 10.41 | 16.88 | 10.29 |
| I. Total capital outlay | 12.32 | -12.07 | 11.60 |
| 1. Developmental | 12.18 | -15.40 | 11.92 |
| (a) Social services | 10.44 | -15.40 | 9.68 |
| (b) Economic services | 13.04 | -5.79 | 13.04 |
| 2. Non-developmental (general services) | 18.59 | -4.28 | 20.59 |
| II. Loans and advances by state governments | -13.85 | 14.35 | 0.94 |
| 1. Developmental purposes | -13.85 | 15.48 | 1.15 |
| a) Social services | 49.52 | -4.38 | 6.47 |
| b) Economic services | -22.30 | 36.41 | -1.98 |
| 2. Non-developmental purposes | - | -71.47 | -71.47 |
| a) Government servants (other than housing) | - | -71.47 | -71.47 |

Source: same as table 4.1.

The increase in total revenue expenditure is contributed by the increase or decrease in (1) developmental expenditure, (2) non- developmental expenditure and, (3) grant-in-aid contribution.

### 4.2.4 Developmental and Non-Developmental Expenditure

Developmental expenditure is a major component (60.8%) of total revenue expenditure and has grown at an annual rate of 15.99 %. It has significant bearing on the increase in the revenue expenditure of the state. Expenditure on social services and economic services, two components of developmental expenditure have grown at the annual rate of 15.16 % and 17.56 % respectively during this period. More significantly the 15.16 % rate of growth of expenditure on social service[10], which is a significant component (63.97% average) of the developmental expenditure, pushed the revenue developmental expenditure to grow faster. Higher expenditure on social front clearly indicates the welfare nature of the state. On the other hand, expenditure on economic services[11], which has direct bearing on the GSDP, which is 36.03 % of developmental expenditure, has been grown at an annual rate of 17.56 %.

[10] Expenditure on social service includes expenditure on (1) education, sports, art and culture, (2) medical and public health, (3) family welfare, (4) water supply and sanitation, (5) housing, (6) urban development, (7) welfare of scheduled castes, scheduled tribes and other backward classes, (8) labour and labour welfare, (9) social security and welfare, (10) nutrition, (11) relief on account of natural calamities and (12) others.

[11] (1) agriculture and allied activities, (2) rural development, (3) special area programmes, (4) irrigation and flood control, (5) energy, (6) industry and minerals, (7) transport and communications, (8) science, technology and environment, (9) general economic services.

The expenditure under the head of non-developmental expenditure has been growing at an annual rate of 10.79 %. The non-developmental expenditure was Rs.7645.49 crores in 2002-03 and it went up to Rs.18708.51 crores in 2011-12. However, the proportion of non-developmental expenditure to total expenditure has reduced from 44.93 % in 2002-03 to 34.87 % in 2011-12, implying transferring of share towards developmental expenditure[12]. The 10.79 % annual rate of growth of non- developmental expenditure has significantly contributed by the increase in expenditure on interest payments and servicing of debt'. No doubt this component has registered a growth rate of 6.49 %, which is low as compared to other components under the non- developmental expenditure but the proportion (50.23%) of this component is significant. In addition to it, the increasing non- developmental expenditure contributed by increasing expenditure on administrative services and pensions services. These components of non-developmental expenditure are 15.93 % and 25.88 % of non-developmental expenditure have increased at an annual rate of 14.64 % and 17.31 % respectively.

**Table 4.5**
**Annual Compound Growth Rate of Major Heads of Revenue Expenditure (2002-03 to 2011-12)**

| **Items** | Plan | Non-plan | Total |
|---|---|---|---|
| **Total revenue expenditure (I+II+III)** | **20.63** | **12.63** | **13.95** |
| I. Developmental expenditure | 20.47 | 14.32 | 15.99 |
| A. Social services | 20.77 | 13.75 | 15.16 |
| B. Economic services | 20.45 | 15.54 | 17.56 |
| II. Non-developmental expenditure (general services) | 25.63 | 10.73 | 10.79 |
| A. Organs of state | 18.92 | 14.88 | 15.16 |
| B. Fiscal services | 68.60 | 5.96 | 9.44 |
| C. Interest payments and servicing of debt | - | 6.49 | 6.49 |
| D. Administrative services | -0.44 | 14.97 | 14.64 |
| E. Pensions | - | 17.31 | 17.31 |
| F. Miscellaneous general services | - | 51.07 | 51.07 |
| III. Grants-in-aid and contributions | - | 85.80 | 85.80 |

Source: same as table 4.1.

## 4.3 Suggestions for improvement in the composition of expenditures pattern:

(1) It has been observed that the share of revenue expenditure is significant proportion of total expenditure of the state. Apart from this it has reported a higher rate of growth than that of capital expenditure. This indicates limited possibilities for future revenue generation and further capital investment. In this juncture the state should either increase its own revenue potential to cover the increased revenue expenditures

[12] The share of expenditure on grants-in-aid and contributions is very low (varied between 0.001% in 2002-03 to 0.51% in 2011-12).

through measures as mentioned in earlier chapter or control the wasteful revenue expenditures or the combination of both.

(2) The generated revenue surplus should be invested in those projects which would inject income into the state through multiplier effect.

(3) The non-plan expenditures have increased at lower pace than the plan expenditures. It will lead to maintenance of the same level of output in the state. To increase the level of output both the plan and non-plan expenditures should be increased at more or less same rate.

(4) Developmental expenditures should be given more priority than the non-developmental expenditures.

# Chapter 5

# Analysis of Deficits in Rajasthan

## 5.1 Introduction

This chapter is divided into two parts, (1) analysis of deficits both revenue and fiscal, and (2) balance of current revenues for plan financing. It is well accepted that by the end of the last century, fiscal balances and indicators thereof in most of the Indian states had reached disturbing levels. In order to restore fiscal discipline both at central and state governments agreed to abide by fiscal rules. As a result, the Fiscal Responsibility and Budget Management Act (FRBMA) were passed in parliament in 2003. It was observed that few states immediately started following the readymade Act immediately after its commencement. However, a group of other states came up with their own version of FRBM Act soon after the incentive declaration by the 12th Union Finance Commission. The main objectives of the legislations were to eliminate revenue deficits and reduce fiscal deficit to or below 3 % of GDP.

## 5.2 Analysis of Revenue and Fiscal Deficits

Revenue deficit is the difference between the total revenue receipts and total revenue expenditures per time period. It indicates the lack of revenue generation capacity of the government. Fiscal deficit is the sum of indebtness of the government during a particular period of time. Primary deficit is defined as the non-interest deficit i.e., gross fiscal deficit net of interest payments. The significance of primary deficit is that it indicates the extent of discretionary fiscal changes. Persistence of a higher level of primary deficit has implications for future growth in debt ratio and debt burden of states. A down ward trend in primary deficit signifies move towards sustainable fiscal balance. Governments at the provincial level are faced with mounting difficulties in curtailing expenditure, especially, states like Rajasthan. In terms of geographical area, Rajasthan is the largest among 28 states and union 7 territories in India and faces severe cost disabilities in provisioning for minimum (desirable) public services[13]. Figure 5.1 depicts the narrow gap between own revenue and expenditure, which is

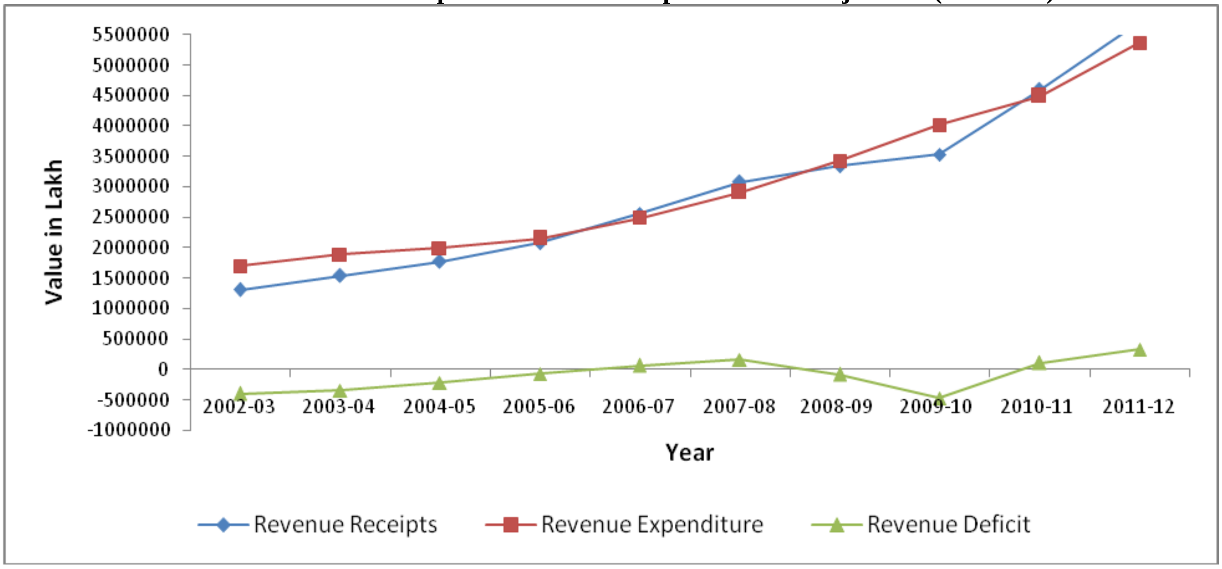
[13] Rajasthan has 5.5% India's population and the state covers 10.41 percent of the total land area of the country. The density of population (as per 2001 census) is 165 and is the lowest among all non-special category states.

of course narrowing. In certain years the gap appears to have stabilised, even if it started widening after 2011-12.

Over the years, the growth rate of own revenue exceeded that of expenditure resulting in the squeezing of deficits. Between 2002-03 and 2011-12, while the revenue expenditure grew at an annual rate of 13.7 %, the revenue grew at an annual rate of 17.98 %, which is higher than the rate of growth of revenue expenditure. As a result of this the revenue deficit found to be low and slowly narrowing over the period.

**Figure 5.1**

**Trends in Revenue Receipts and Revenue Expenditure in Rajasthan (Rs. lakhs)**




Source: Estimated from www.rbi.org.in Dated-30-10-2013), [Occasional Publication, Handbook of Statistics on State Government Finances, 2010 (2002-03 to 2007-08) and Annual Publication, State Finances: A Study of Budgets (2008-09, 2009-10 & 2010-11), and Finance Accounts, Government of Rajasthan, Comptroller and Auditor General of India (2011-12).

**Table 5.1**
**Deficit Indicators of Rajasthan (Rs. crores)**

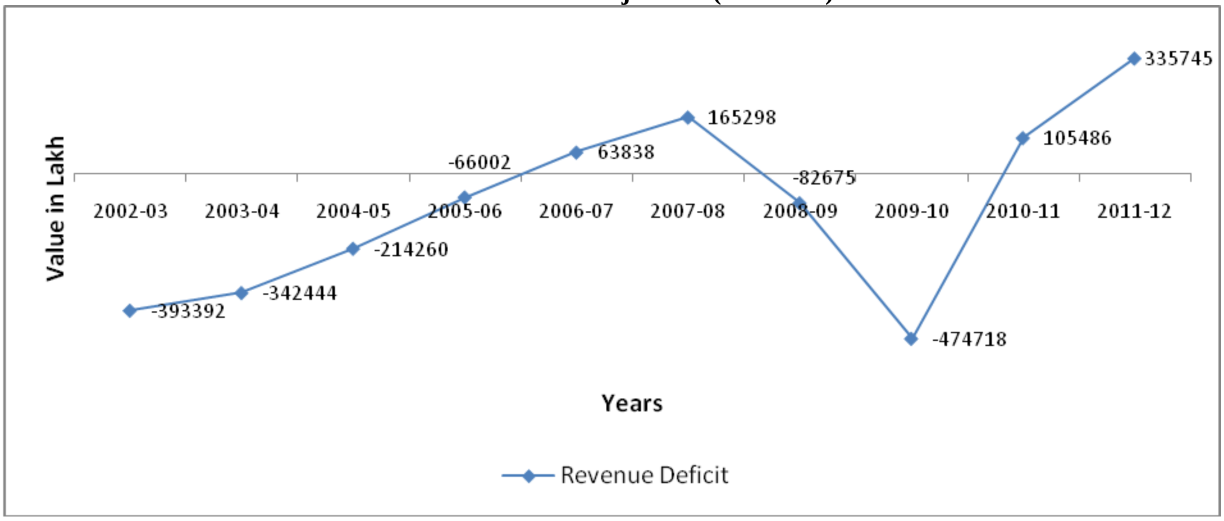
| Years | Revenue Deficit | Budget Deficit | Primary Deficit | Fiscal Deficit |
|---|---|---|---|---|
| 2002-03 | -3933.92 | -206.53 | -1813.88 | -6114.02 |
| 2003-04 | -3424.44 | -55.08 | -2589.98 | -7367.13 |
| 2004-05 | -2142.60 | -124.92 | -973.98 | -6145.98 |
| 2005-06 | -660.02 | 205.75 | 59.93 | -5150.07 |
| 2006-07 | 638.38 | 272.13 | 1732.09 | -3969.73 |
| 2007-08 | 1652.98 | -921.29 | 2534.62 | -3408.37 |
| 2008-09 | -826.75 | 544.70 | -749.07 | -6973.32 |
| 2009-10 | -4747.18 | -206.42 | -3529.66 | -10298.80 |
| 2010-11 | 1054.86 | 546.98 | 3242.95 | -4126.05 |
| 2011-12 | 3357.45 | 61.79 | 4265.96 | -3625.86 |

Source: Estimated from www.rbi.org.in Dated-30-10-2013), [Occasional Publication, Handbook of Statistics on State Government Finances, 2010 (2002-03 to 2007-08) and Annual Publication, State Finances: A Study of Budgets (2008-09, 2009-10 & 2010-11), and Finance Accounts, Government of Rajasthan, Comptroller and Auditor General of India (2011-12).

Rajasthan had revenue deficient from 2002-03 to 2005-06 but the state became revenue surplus in 2006-07. However, it again witnessed revenue deficient in 2009-10 to show revenue surplus in the year thereafter.

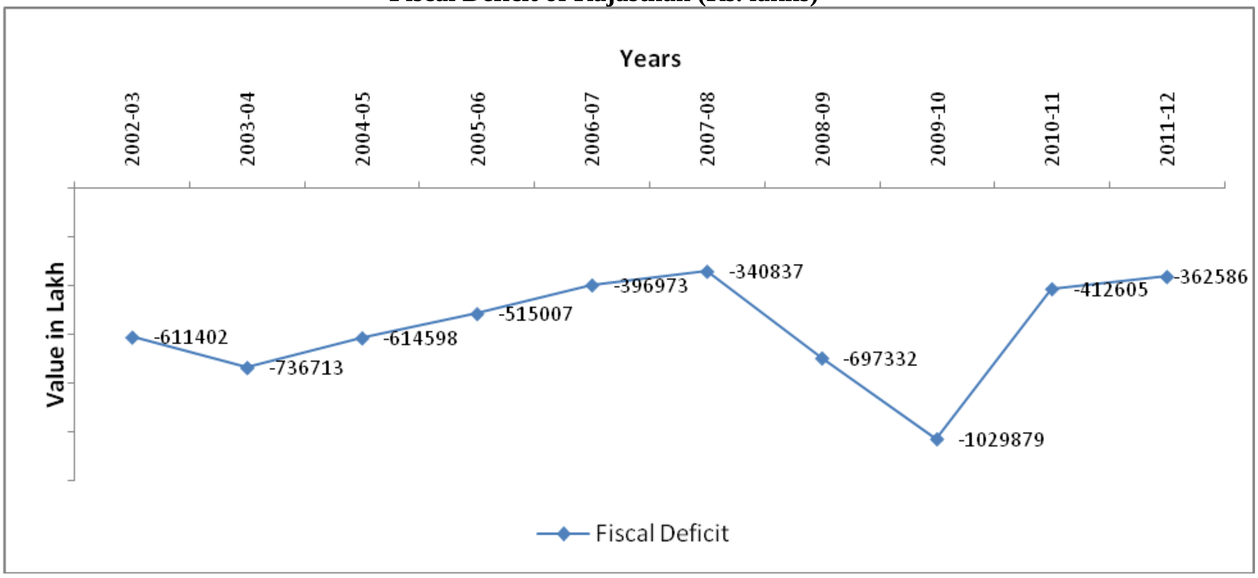
Rajasthan in 10 years period reported high fiscal deficit which varied between Rs.3408.37 crores in 2007-08 and Rs.10298.79 crores in 2009-10. The fiscal deficit over the period has been improving but the rate of improvement is volatile in nature and change is very slow.

**Figure 5.2**
**Revenue Deficit of Rajasthan (Rs. lakhs)**




Source: Estimated from www.rbi.org.in Dated-30-10-2013), [Occasional Publication, Handbook of Statistics on State Government Finances, 2010 (2002-03 to 2007-08) and Annual Publication, State Finances: A Study of Budgets (2008-09, 2009-10 & 2010-11), and Finance Accounts, Government of Rajasthan, Comptroller and Auditor General of India (2011-12).

**Figure 5.3**
**Fiscal Deficit of Rajasthan (Rs. lakhs)**

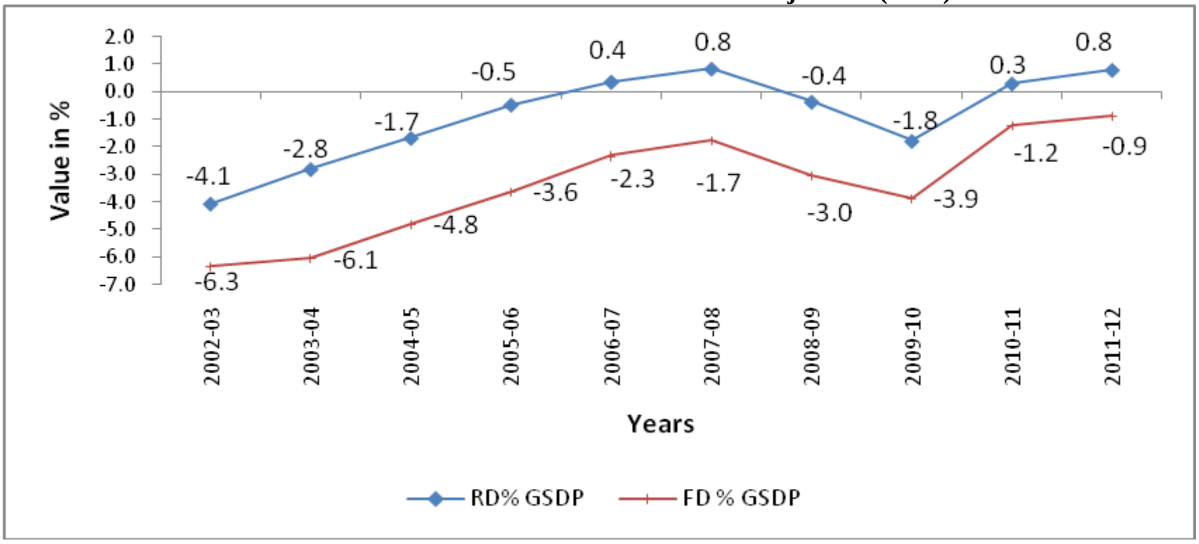


Source: Estimated from www.rbi.org.in Dated-30-10-2013), [Occasional Publication, Handbook of Statistics on State Government Finances, 2010 (2002-03 to 2007-08) and Annual Publication, State Finances: A Study of Budgets (2008-09, 2009-10 & 2010-11), and Finance Accounts, Government of Rajasthan, Comptroller and Auditor General of India (2011-12).

The target of all state after the implementation of FRBM Act is to reduce the revenue deficit to zero and fiscal deficit to less than 3 % of GSDP. The revenue deficit-GSDP ratio of Rajasthan in 2002-03 was 4.08 % and was reduced to 0.46 % at the time of implementation of FRBM Act in May 2005. Soon after implementation of the Act, the government brought into control the revenue deficit-GSDP ratio successfully by keeping the rate of growth of revenue receipts much higher than the rate of growth of revenue expenditure. The annual rate of growth of revenue receipt was 17.9 % as against the rate of growth of revenue expenditure (10.77 %). In other words, till 2005-06, the rate of growth revenue was always higher than the rate of growth of expenditure. In other words, government took necessary steps to mobilize more revenue to meet the revenue requirements and did not even thought to make any types of compromise to reduce the revenue expenditure, which is meant for the basic need of the state. However, there is a sudden jump in the revenue expenditure after 2005-06. It registered a growth rate of 16 % to 19 % in all the year except in 2010-11. This significant rate of growth of revenue expenditure in Rajasthan after a point of time could not be compensated by the rate of growth of revenue receipt in all the years. As a result of this in 2008-09 and 2009-10, Rajasthan again realize revenue deficit of Rs.826.80 crores and Rs.4747.19 crores respectively.

The target to reduce the fiscal Deficit-GSDP ratio to below 3 % level has been a hard task for almost all the states. Rajasthan, which comes under non-special category state, is successfully able to reduce the ratio to 0.87 % by 2011-12. The ratio was 6.34 % in 2002-03 for Rajasthan. It achieved the target by bringing down the figure to 2.32 % in 2006-07 and further to 1.75 % in 2007-08. The figure again increased to 3.02 % and 3.87 % in 2008-09 and 2009-10 respectively. After that Rajasthan again successfully able to bring down the figure to 1.21 % and 0.87 % in the years 2010-11 and 2011-12 respectively and has kept it below 3 %.

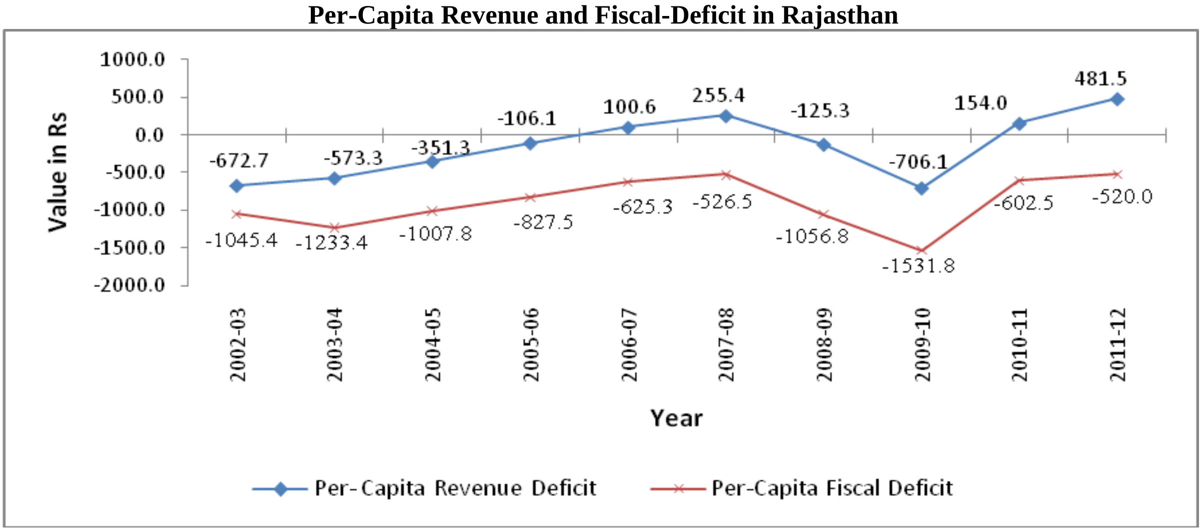
**Figure 5.4**
**Revenue and Fiscal Deficit as % of GSDP of Rajasthan (in %)**




Source: Economic Review, 2012-13, Planning Department, Directorate of Economics and Statistics, Rajasthan, Jaipur; p. Tables of Economic Situation, 19. For GSDP, State Domestic Product, Rajasthan, Directorate of Economics & Statistics, Rajasthan-2010-p-3 & 2012-p-4).
Note: GSDP at 2004-05 current Price.

The per capita revenue as well as fiscal deficit had shown a revival trend during 2002-03 to 2007-08. The years 2006-07 and 2007-08 observed revenue surplus. No doubt the per capita fiscal deficit remained negative but did show improvement during this period. There is a sharp decline in both variable observed after this period till 2009-10. But the economy revived after 2009-10.

**Figure 5.5**
**Per-Capita Revenue and Fiscal-Deficit in Rajasthan**




Sources: Economic Review, 2012-13, Planning Department, Directorate of Economics and Statistics, Government of Rajasthan, Jaipur; p. Tables of Economic Situation, 19. Mid-year population was estimated from, Primary Census abstracts, 1981, 1991, 2001, Office of the Registrar General & Census commissioner, Census of India. For a detail description on method of extrapolation, extrapolation and mid-year population kindly see "Use of Data for Planning and Monitoring of Development Programmes", Training Course Material, International Institute of Population Sciences, Mumbai and United Nations Population Fund – India (UNFPA), New Delhi, pp. 75-86.

Both revenue as well as fiscal deficit as percentage of GSDP over the period showed an improvement. The deficits showed an increasing trend until 2007-08, but thereafter have shown a sharp decline till 2009-10. Both the indicators showed an increasing trend 2009-10 onwards.

**Table 5.2**
**Per Capita Revenue and Fiscal Deficit (Rs.)**

| Years | Per capita | | % of GSDP (2004-05 current price) | |
|---|---|---|---|---|
| | Revenue deficit | Fiscal deficit | Revenue deficit | Fiscal deficit |
| 2002-03 | -672.7 | -1045.4 | -4.08 | -6.34 |
| 2003-04 | -573.3 | -1233.4 | -2.82 | -6.06 |
| 2004-05 | -351.3 | -1007.8 | -1.68 | -4.81 |
| 2005-06 | -106.1 | -827.5 | -0.46 | -3.62 |
| 2006-07 | 100.6 | -625.3 | 0.37 | -2.32 |
| 2007-08 | 255.4 | -526.5 | 0.85 | -1.75 |
| 2008-09 | -125.3 | -1056.8 | -0.36 | -3.02 |
| 2009-10 | -706.1 | -1531.8 | -1.79 | -3.87 |
| 2010-11 | 154.0 | -602.5 | 0.31 | -1.21 |
| 2011-12 | 481.5 | -520.0 | 0.81 | -0.87 |

Source: Estimates from www.rbi.org.in (Occasional Publication-Handbook of Statistics on State Government Finances-2010 (2002-03 to 2010-11, Dated-30-10-2013) and Finance Accounts ( 2003-04, 2004-05, 2006-07, 2007-08, 2008-09, 2009-10, 2010-11, 2011-12) Government of Rajasthan, Published by: Comptroller and Auditor General of India. Economic Review, 2012-13, Directorate of Economic and Statistics,Rajasthan, Jaipur, pp. Tables of Economic situation, 2,3&4.

With continuous effort and coupled with appropriate measures, the government succeeded in eliminating revenue deficit in 2010-11 and 2011-12 and building revenue surplus and containing fiscal deficit below 3 % of the GSDP. During the year 2011-12, fiscal deficit was 0.87 % of GSDP well below the target of 3.0 % fixed under FRBM Act.

## 5.3 Trend in Deficit

The fiscal deficit, which represents the need of total net borrowings of the state, was Rs.3626 crores in the year 2011-12, as against Rs.7687 crores as per the revised estimates of 2011-12. Fiscal Deficit to Gross State Domestic Product ratio was 0.87 % in 2011-12 against 2.1 % as per the revised estimates 2011-12.

**Table 5.3**
**Fiscal Variables**

| Fiscal variables | As per TFC/FRBM Act | As per MTFPS (revised) | Actual |
|---|---|---|---|
| Revenue deficit(-)/surplus (+) (Rs. crores) | Revenue deficit to zero (31.03.2012) | +443 | (+)3357 |
| Revenue surplus/ revenue receipt ratio (%) | - | 0.8 | 5.9 |
| Fiscal deficit (Rs. crores) | - | (-) 7687 | (-)3626 |
| FD/GSDP ratio | 3.0% or below | *(-)2.1% | *(-)0.9% |
| Outstanding debt as % to GSDP | 39.3 | 29.06 | 25.6 |

Sources: Quoted from, Economic Review, 2012-13, p 12.
Note: *With reference to quick estimates of GSDP.

### 5.4 Balance of Current Revenues for Plan Financing

Rajashan has been able to reduce the revenue deficit and generate revenue surpluses to finance for investment. As a result income could flow into the economy through multiplier effect which in turn led to the reduction of fiscal deficit.

**Table 5.4**
**Revenue Receipts, Revenue Expenditure and Revenue Deficits (Rs. lakhs)**

| Years | Revenue receipts | % annual growth | Revenue expenditure | % annual growth | Revenue deficits | % annual growth |
|---|---|---|---|---|---|---|
| 2002-03 | 1308186 | - | 1701578 | - | -393392 | - |
| 2003-04 | 1542385 | 17.90 | 1884829 | 10.77 | -342444 | -12.95 |
| 2004-05 | 1776359 | 15.17 | 1990618 | 5.61 | -214259 | -37.43 |
| 2005-06 | 2083919 | 17.31 | 2149921 | 8.00 | -66002 | -69.20 |
| 2006-07 | 2559218 | 22.81 | 2495379 | 16.07 | 63839 | - |
| 2007-08 | 3078062 | 20.27 | 2912765 | 16.73 | 165297 | 158.93 |
| 2008-09 | 3346885 | 8.73 | 3429560 | 17.74 | -82675 | -150.02 |
| 2009-10 | 3538501 | 5.73 | 4013220 | 17.02 | -474719 | 474.20 |
| 2010-11 | 4592820 | 29.80 | 4487335 | 11.81 | 105485 | - |
| 2011-12 | 5701076 | 24.13 | 5365331 | 19.57 | 335745 | 218.29 |

Source: Estimated from www.rbi.org.in Dated-30-10-2013), [Occasional Publication, Handbook of Statistics on State Government Finances, 2010 (2002-03 to 2007-08) and Annual Publication, State Finances: A Study of Budgets (2008-09, 2009-10 & 2010-11), and Finance Accounts, Government of Rajasthan, Comptroller and Auditor General of India (2011-12).

### 5.5 Conclusion

The Government of Rajasthan has been making sustained efforts towards increasing its expenditure on developmental activities and improving its physical infrastructure in an effort to break out of the vicious cycle of low growth. The proportion of Non-Plan expenditure in total expenditure has reduced from 69.93% in 2008-09 to 63.84% in 2012-13 while the share of Plan expenditure has increased from 30.07% to 36.16% in the corresponding years. The proportion of developmental expenditure within revenue expenditure head has been in the range of 63 to 68 percent during recent years. Consequently the non-developmental expenditure comprising of mainly interest payments, pensions and administrative services has been declining.

It has been observed that over the period of time Rajasthan could be able to maintain fiscal discipline. It is the reflection of the elimination of the revenue deficit and reduction of fiscal deficit to less than 3 per cent of GSDP. However the maintenance of fiscal discipline can not sustain for a long period of time. It is because there is absence of strategic prioritization and technical efficiency in the delivery of public goods. Rajasthan has to make investment in the income generating sectors on the basis of prioritization as well as achieving efficiency, economy and effectiveness in the delivery of public goods.

# Chapter 6

# Debt-GSDP Ratio in Rajasthan

## 6.1 Introduction

This chapter is divided into three parts viz.

(1) The composition of the state's debt in terms of market borrowing, central government debt (including those from bilateral/ multilateral lending agencies routed through the central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc.
(2) The use of debt (i.e. whether it has been used for investment expenditure or otherwise) and
(3) The level of debt- GSDP ratio

## 6.2 Composition of the State's Debt

Total debt is a combination of internal debt of the state government, loan and advances incurred by the central government, and liabilities coming under public account. Internal debt of the state government again constitute of: (1) market loan, (2) compensation and other bonds, (3) loans from financial institution, (4) special securities issued to National Small Saving Funds and other loan. Loans and advances from the central government constitute of (1) non- plan loans, (2) loan for state plan schemes, (3) loan for central plan schemes, (4) loan for centrally sponsored plan schemes, (5) pre- 1984-85 loans. Other liabilities under public account constitutes (1) **s**mall savings, provident fund etc, (2) **r**eserve funds bearing interest, (3) reserve funds not bearing interest, (4) deposits bearing interest, and (5) deposits not bearing interest.

**Table 6.1**
**Composition of Total Debts**

| | |
|---|---|
| **A** | **Public Debt (I+II)** |
| **I** | **Internal Debt of the State Government** |
| i | Market Loans |
| ii | Compensation and other Bonds |
| iii | Loans from Financial Institutions |
| iv | Special Securities issued to National Small Saving Fund |
| v | Other Loans |
| **II** | **Loans and Advances from the Central Government** |
| i | Non-plan Loans |
| ii | Loan for State/Union Territory Plan Schemes |
| iii | Loan for Central Plan Schemes |
| iv | Loan for Centrally Sponsored Plan Schemes |
| v | Pre 1984-85 Loans |

| B | **Public Account _Other Liabilities** |
|---|---|
| i | Small Savings, Provident Fund etc |
| ii | Reserve funds bearing interest |
| iii | Reserve funds not bearing interest |
| iv | Deposits bearing interest |
| v | Deposits not bearing interest |
| A+B | **Grand Total (A+B)** |

Source: Finance Accounts (2003-04, p.37,38 & statement 16&17 p 230-244), (2004-05 p.35,36 & statement 16&17 p 236-250), (2006-07 p.35-37 & statement 16&17 p 246-260), (2007-08 p.37,39 & statement 16&17 p 306-320), (2008-09 p.37-39 & statement 16&17 p 292-306), (2009-10 statement 6 p 50-51), (2010-11 statement 6 p 52-53), 2011-12 statement 6 p 55-56) Government of Rajasthan, Published by: Comptroller and Auditor General of India.

Total debt is composed of (1) public debt and (2) other liabilities. Further public debt is decomposed of internal debt of the state government and loans and advances from the central government. It is well recognized that the total debt of Rajasthan has been increasing over the time. In 2002-03, the total debt was Rs.45871.40 crores which increased to Rs.106560.16 crores in 2011-12, recording a growth of 9.36 % per annum. The amount of debt has increased continuously over the time. For the 10 years period it averaged 70 % of the total debt and more than double between 2002-03 and 2011-12. Public debt in 2002-03 was Rs.32573.99 crores which increased to Rs.71705.66 crores in 2011-12. In proportionate terms, other liabilities and public debt to total debt has been more or less stable.

In Rajasthan, there is a change in composition of the total debt over the time. Public debt as a percentage of total debt was 71.01 % in 2002-03, which declined to 67.29 % in 2011-12. This in turn increased the proportion of other liabilities from 29 % in 2002-03 to 32.71 % in 2011-12. The public debt has increased from Rs.32573.99 crores in 2002-03 to Rs.71705.66 crores in 2011-12. The share of public debt to total debt has been declining over the time. It implies that the rate of growth of public debt is lower than that of the rate of growth of the other liabilities during this period. In absolute term public debt has grown annually at a rate of 8.76 %. On the other hand, other liabilities whose share is increasing over time have grown at an annual rate of 10.86 %.

If we look into the major components of public debt, Rajasthan has substantially reduces the borrowing from central government. The proportion of loans and advances from the central government to public debt in 2002-03 stood at 63.54 % but reduced to 10.11 % in 2011-12. On the other hand, loans and advances from the central government have declined an annual rate of 13.68 %. The state appeared to have mobilized fund from the sources of internal debt. The proportion of internal debt to public debt in 2002-03 was 36.46 % and it increased to 89.89 % in 2011-12. However, the internal debt grew at a rate of 21.66 % annually.

**Table 6.2**
**Components of total Debts in Rajasthan (value in Lakh)**

| Years | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Public Debt (I+II)** | **3257399.28** | **3844908** | **4355892.9** | **4806174.28** | **5050346** | **5372099** | **5876622** | **6461757** | **6927767** | **7170566** |
| **Internal Debt of the State Government** | **1187713.39** | **1449695** | **1661535.2** | **4013062.14** | **4286690** | **4603812** | **5114946** | **5714308** | **6189728** | **6445643** |
| Market Loans | 982546.63 | 1228724 | 1436339.2 | 1500663.84 | 1607143 | 1930423 | 2449958 | 3061098 | 3544819 | 3855140 |
| Compensation and other Bonds | 32 | 36910.2 | 36910.2 | 36910.2 | 22158.92 | 18471.1 | 14783.28 | 11063.46 | 7375.64 | 5531.73 |
| Loans from Financial Institutions | 137485.7 | 118692.5 | 139577.48 | 170114.51 | 192065.4 | 214949.8 | 256160.1 | 306526.4 | 359720.6 | 423477.5 |
| Special Securities issued to National Small Saving Fund | - | - | - | 2268096.3 | 2442562 | 2420294 | 2376890 | 2320946 | 2265616 | 2151785 |
| Other Loans | 67649.06 | 65368.74 | 48708.25 | 37277.29 | 22761.03 | 19674.21 | 17154.49 | 14674.48 | 12196.62 | 9709.71 |
| **Loans and Advances from the Central Government** | **2069685.89** | **2395213** | **2694357.7** | **793112.14** | **763656.5** | **768287** | **761676.4** | **747448.6** | **738039.6** | **724922.7** |
| Non-plan Loans | 1466956.36 | 1600145 | 1985169 | 9795.88 | 9173.71 | 8541.03 | 7909.76 | 7280.67 | 6655.19 | 6035.12 |
| Loan for State/Union Territory Plan Schemes | 535797.97 | 732903.3 | 650525.81 | 764890.2 | 735619.8 | 740576.7 | 735905.5 | 723655.1 | 716280.9 | 705222.3 |
| Loan for Central Plan Schemes | 95.14 | 91.19 | 87.11 | 83.38 | 79.91 | 75.41 | 72.99 | 71.4 | 69.72 | 68.46 |
| Loan for Centrally Sponsored Plan Schemes | 16106.14 | 16255.03 | 17653.45 | 17802.64 | 18243.05 | 18553.82 | 17248.12 | 15901.38 | 14493.74 | 13056.81 |
| Pre 1984-85 Loans | 50730.28 | 45818.68 | 40922.3 | 540.04 | 540.04 | 540.04 | 540.04 | 540.04 | 540.04 | 540.04 |
| **Other Liabilities** | **1329740.26** | **1491213** | **1657547.4** | **1834500.41** | **2064219** | **2341689** | **2525657** | **2691536** | **3000733** | **3485450** |
| Small Savings, Provident Fund etc | 956843.87 | 1051565 | 1168144.6 | 1305849.87 | 1430359 | 1542201 | 1682723 | 1897246 | 2181344 | 2458058 |
| Reserve funds bearing interest | 19927.57 | 21194.33 | 23119.68 | 23310.79 | 23500.88 | 23690.75 | 22151.05 | 22160.71 | -3293.85 | 79123.72 |
| Reserve funds not bearing interest | 21756.71 | 36884.95 | 68460.97 | 64625.84 | 110433.8 | 220172.4 | 230496 | 54383.86 | 16429.16 | 32299.24 |
| Deposits bearing interest | 144721.85 | 203556.1 | 176688.75 | 186177.45 | 203590.9 | 213200.7 | 216433.9 | 245671.2 | 270462.2 | 280985.1 |
| Deposits not bearing interest | 186490.26 | 178012.7 | 221133.42 | 254536.46 | 296335.3 | 342424.3 | 373853.3 | 472074.2 | 535791 | 634983.9 |
| Total Debt | 4587139.54 | 5336121 | 6013440.3 | 6640674.69 | 7114566 | 7713788 | 8402279 | 9153293 | 9928500 | 10656016 |

Source: Finance Accounts (2003-04, p.37,38 & statement 16&17 p 230-244), (2004-05 p.35,36 & statement 16&17 p 236-250), (2006-07 p.35-37 & statement 16&17 p 246-260), (2007-08 p.37,39 & statement 16&17 p 306-320), (2008-09 p.37-39 & statement 16&17 p 292-306), (2009-10 statement 6 p 50-51), (2010-11 statement 6 p 52-53), 2011-12 statement 6 p 55-56) Government of Rajasthan, Published by: Comptroller and Auditor General of India.

**Table 6.3**
**Distribution of Total Debt (%)**

| Items | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Public debt** | **71.0** | **72.1** | **72.4** | **72.4** | **71.0** | **69.6** | **69.9** | **70.6** | **69.8** | **67.3** |
| **Internal debt of the state government** | **36.5** | **37.7** | **38.1** | **83.5** | **84.9** | **85.7** | **87.0** | **88.4** | **89.3** | **89.9** |
| Market loans | 82.7 | 84.8 | 86.4 | 37.4 | 37.5 | 41.9 | 47.9 | 53.6 | 57.3 | 59.8 |
| Compensation and other bonds | 0.0 | 2.5 | 2.2 | 0.9 | 0.5 | 0.4 | 0.3 | 0.2 | 0.1 | 0.1 |
| Loans from financial institutions | 11.6 | 8.2 | 8.4 | 4.2 | 4.5 | 4.7 | 5.0 | 5.4 | 5.8 | 6.6 |
| Special securities issued to national small saving fund | 0.0 | 0.0 | 0.0 | 56.5 | 57.0 | 52.6 | 46.5 | 40.6 | 36.6 | 33.4 |
| Other loans | 5.7 | 4.5 | 2.9 | 0.9 | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 |
| **Loans and advances from the central government** | **63.5** | **62.3** | **61.9** | **16.5** | **15.1** | **14.3** | **13.0** | **11.6** | **10.7** | **10.1** |
| Non-plan loans | 70.9 | 66.8 | 73.7 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 |
| Loan for state plan schemes | 25.9 | 30.6 | 24.1 | 96.4 | 96.3 | 96.4 | 96.6 | 96.8 | 97.1 | 97.3 |
| Loan for central plan schemes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loan for centrally sponsored plan schemes | 0.8 | 0.7 | 0.7 | 2.2 | 2.4 | 2.4 | 2.3 | 2.1 | 2.0 | 1.8 |
| Pre 1984-85 loans | 2.5 | 1.9 | 1.5 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| **Other liabilities (public account)** | **29.0** | **27.9** | **27.6** | **27.6** | **29.0** | **30.4** | **30.1** | **29.4** | **30.2** | **32.7** |
| Small savings, provident fund etc | 72.0 | 70.5 | 70.5 | 71.2 | 69.3 | 65.9 | 66.6 | 70.5 | 72.7 | 70.5 |
| Reserve funds bearing interest | 1.5 | 1.4 | 1.4 | 1.3 | 1.1 | 1.0 | 0.9 | 0.8 | -0.1 | 2.3 |
| Reserve funds not bearing interest | 1.6 | 2.5 | 4.1 | 3.5 | 5.3 | 9.4 | 9.1 | 2.0 | 0.5 | 0.9 |
| Deposits bearing interest | 10.9 | 13.7 | 10.7 | 10.1 | 9.9 | 9.1 | 8.6 | 9.1 | 9.0 | 8.1 |
| Deposits not bearing interest | 14.0 | 11.9 | 13.3 | 13.9 | 14.4 | 14.6 | 14.8 | 17.5 | 17.9 | 18.2 |
| **Grand Total (A+B)** | **4587139.5** | **5336121.3** | **6013440.3** | **6640674.7** | **7114565.6** | **7713788.0** | **8402279.5** | **9153292.6** | **9928500.2** | **10656015.7** |

Source: Estimated from table 6.2.

**Table 6.4**
**Annual Growth Rate of Components of Total Debts in Rajasthan**

| Years | 2003-04 over 2002-03 | 2004-05 over 2003-04 | 2005-06 over 2004-05 | 2006-07 over 2005-06 | 2007-08 over 2006-07 | 2008-09 over 2007-08 | 2009-10 over 2008-09 | 2010-11 over 2009-10 | 2011-12 over 2010-11 |
|---|---|---|---|---|---|---|---|---|---|
| **A. Public Debt (I+II)** | 18.04 | 13.29 | 10.34 | 5.08 | 6.37 | 9.39 | 9.96 | 7.21 | 3.50 |
| **I. Internal Debt of the State Government** | 22.06 | 14.61 | 141.53 | 6.82 | 7.40 | 11.10 | 11.72 | 8.32 | 4.13 |
| Market Loans | 25.06 | 16.90 | 4.48 | 7.10 | 20.12 | 26.91 | 24.94 | 15.80 | 8.75 |
| Compensation and other Bonds | 115244.38 | 0.00 | 0.00 | -39.97 | -16.64 | -19.97 | -25.16 | -33.33 | -25.00 |
| Loans from Financial Institutions | -13.67 | 17.60 | 21.88 | 12.90 | 11.91 | 19.17 | 19.66 | 17.35 | 17.72 |
| Special Securities issued to National Small Saving Fund | - | - | - | 7.69 | -0.91 | -1.79 | -2.35 | -2.38 | -5.02 |
| Other Loans | -3.37 | -25.49 | -23.47 | -38.94 | -13.56 | -12.81 | -14.46 | -16.89 | -20.39 |
| **II. Loans and Advances from the Central Government** | 15.73 | 12.49 | -70.56 | -3.71 | 0.61 | -0.86 | -1.87 | -1.26 | -1.78 |
| Non-plan Loans | 9.08 | 24.06 | -99.51 | -6.35 | -6.90 | -7.39 | -7.95 | -8.59 | -9.32 |
| Loan for State/Union Territory Plan Schemes | 36.79 | -11.24 | 17.58 | -3.83 | 0.67 | -0.63 | -1.66 | -1.02 | -1.54 |
| Loan for Central Plan Schemes | -4.15 | -4.47 | -4.28 | -4.16 | -5.63 | -3.21 | -2.18 | -2.35 | -1.81 |
| Loan for Centrally Sponsored Plan Schemes | 0.92 | 8.60 | 0.85 | 2.47 | 1.70 | -7.04 | -7.81 | -8.85 | -9.91 |
| Pre 1984-85 Loans | -9.68 | -10.69 | -98.68 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **B.Other Liabilities** | 12.14 | 11.15 | 10.68 | 12.52 | 13.44 | 7.86 | 6.57 | 11.49 | 16.15 |
| Small Savings, Provident Fund etc | 9.90 | 11.09 | 11.79 | 9.53 | 7.82 | 9.11 | 12.75 | 14.97 | 12.69 |
| Reserve funds bearing interest | 6.36 | 9.08 | 0.83 | 0.82 | 0.81 | -6.50 | 0.04 | -114.86 | -2502.17 |
| Reserve funds not bearing interest | 69.53 | 85.61 | -5.60 | 70.88 | 99.37 | 4.69 | -76.41 | -69.79 | 96.60 |
| Deposits bearing interest | 40.65 | -13.20 | 5.37 | 9.35 | 4.72 | 1.52 | 13.51 | 10.09 | 3.89 |
| Deposits not bearing interest | -4.55 | 24.22 | 15.11 | 16.42 | 15.55 | 9.18 | 26.27 | 13.50 | 18.51 |
| Total Debt (A+B) | 16.33 | 12.69 | 10.43 | 7.14 | 8.42 | 8.93 | 8.94 | 8.47 | 7.33 |

Source: Estimated from finance Accounts (2003-04, p.37,38 & statement 16&17 p 230-244), (2004-05 p.35,36 & statement 16&17 p 236-250), (2006-07 p.35-37 & statement 16&17 p 246-260), (2007-08 p.37,39 & statement 16&17 p 306-320), (2008-09 p.37-39 & statement 16&17 p 292-306), (2009-10 statement 6 p 50-51), (2010-11 statement 6 p 52-53), 2011-12 statement 6 p 55-56) Government of Rajasthan, Published by: Comptroller and Auditor General of India.

**Table 6.5**
**Major Components of Total Debt and its Contribution**

| Years | Total debt (Rs. lakhs) | % Other liabilities to total debt | % Public debt to total debt | Public debt (Rs. lakhs) | Out of public debt % of | |
|---|---|---|---|---|---|---|
| | | | | | Internal debt of the state government | Loans and advances from the central government |
| 2002-03 | 4587140 | 28.99 | 71.01 | 3257399 | 36.46 | 63.54 |
| 2003-04 | 5336121 | 27.95 | 72.05 | 3844908 | 37.70 | 62.30 |
| 2004-05 | 6013440 | 27.56 | 72.44 | 4355893 | 38.14 | 61.86 |
| 2005-06 | 6640675 | 27.63 | 72.37 | 4806174 | 83.50 | 16.50 |
| 2006-07 | 7114566 | 29.01 | 70.99 | 5050346 | 84.88 | 15.12 |
| 2007-08 | 7713788 | 30.36 | 69.64 | 5372099 | 85.70 | 14.30 |
| 2008-09 | 8402279 | 30.06 | 69.94 | 5876622 | 87.04 | 12.96 |
| 2009-10 | 9153293 | 29.41 | 70.59 | 6461757 | 88.43 | 11.57 |
| 2010-11 | 9928500 | 30.22 | 69.78 | 6927767 | 89.35 | 10.65 |
| 2011-12 | 10656016 | 32.71 | 67.29 | 7170566 | 89.89 | 10.11 |

Source: Finance Accounts (2003-04, p.37,38 & statement 16&17 p 230-244), (2004-05 p.35,36 & statement 16&17 p 236-250), (2006-07 p.35-37 & statement 16&17 p 246-260), (2007-08 p.37,39 & statement 16&17 p 306-320), (2008-09 p.37-39 & statement 16&17 p 292-306), (2009-10 statement 6 p 50-51), (2010-11 statement 6 p 52-53), 2011-12 statement 6 p 55-56) Government of Rajasthan, Published by: Comptroller and Auditor General of India.

**Table: 6.6**
**Annual Compound Growth rate of different components of Total Debt**

| | | |
|---|---|---|
| A (I+II) | **Public Debt (I+II)** | 8.76 |
| I | **Internal Debt of the State Government** | 21.66 |
| I(i) | *Market Loans* | 16.40 |
| I(ii) | *Compensation and other Bonds* | 17.12 |
| I(iii) | *Loans from Financial Institutions* | 15.08 |
| I(iv) | *Special Securities issued to National Small Saving Fund* | -1.24 |
| I(v) | *Other Loans* | -20.43 |
| II | **Loans and Advances from the Central Government** | -13.68 |
| II(i) | *Non-plan Loans* | -50.67 |
| II(ii) | *Loan for State/Union Territory Plan Schemes* | 1.69 |
| II(iii) | *Loan for Central Plan Schemes* | -3.75 |
| II(iv) | *Loan for Centrally Sponsored Plan Schemes* | -2.01 |
| II(v) | *Pre 1984-85 Loans* | -43.29 |
| B | **Other Liabilities** | 10.86 |
| B(i) | *Small Savings, Provident Fund etc* | 10.77 |
| B(ii) | *Reserve funds bearing interest* | 10.25 |
| B(iii) | *Reserve funds not bearing interest* | 0.72 |
| B(iv) | *Deposits bearing interest* | 6.40 |
| B(v) | *Deposits not bearing interest* | 15.45 |
| A+B | **Grand Total (A+B)** | 9.36 |

Sources: Estimated from the Finance Accounts, Government of Rajasthan.

### 6.2.1 Debt Relief

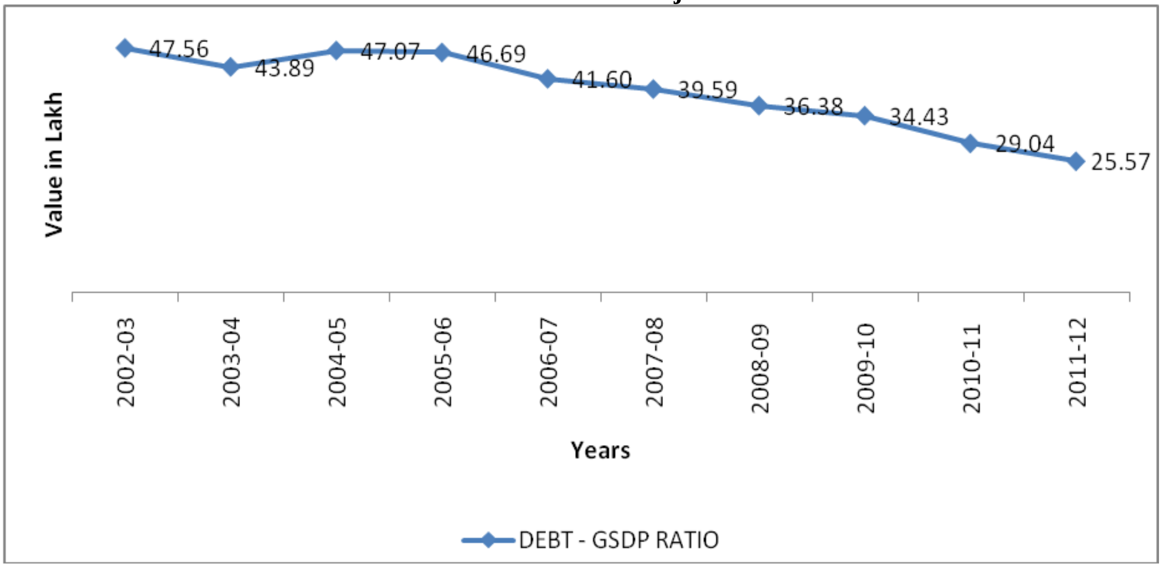
In order to maintain the fiscal discipline required for macro- economic stability, the government of India, on the recommendations of the Twelfth Finance

Commission and as per the guidelines of the Debt Consolidation and Relief Facility (DCRF) decided to reschedule the repayment of total outstanding central loans into 20 annual installments. It was further announced that debt waiver of such installment would be sanctioned if the state government maintained its fiscal deficit up to 3 % of Gross State Domestic Product (GSDP). Consequently, the state government also introduced the FRBM Act, 2005 wef. 03-05-2005 and the government of India consolidated the entire central loan of Rs.6174.08 crores outstanding in the account of Rajasthan as on 31-03-2004 and rescheduled the repayment of such loan into 20 installments of Rs.308.70 crores each. The government of India further relaxed the above condition and allowed the state to keep its fiscal deficit up to 3.5 % and 4 % during the years 2008-09 and 2009-10 respectively. In view of fiscal deficit being maintained earlier, the government of India provisionally released the debt relief for the year 2008-09, but due to inability of the state government in covering the fiscal deficit within 3.5 % of GSDP in 2008-09 the government of India directed the RBI to recover the installment of Rs.308.70 crores from the state account in 2009-10. Further, in 2009-10 also the debt relief was not sanctioned by the government of India as the state government once again failed to maintain the fiscal deficit within 4 % of GSDP due to which the state government had to make a payment of its debt installment. Therefore, due to non-fulfillment of above conditions by the state government for two years consecutively they had to suffer an additional overburden of Rs.617.40 crores.

**6.3 Level of Debt- GSDP Ratio**

The debt-GSDP ratio is an indicator of the sustainability of the fiscal position of the state government. A higher debt-GSDP ratio indicates weakening stability of the states' fiscal position, as the growth rate of debt is more than that of GSDP. The debt-GSDP ratio was 47.56 % in 2002-03 and it came down to 25.57 % in 2011-12. The ratio remains more or less constant between the years 2002-03 to 2005-06 with a minor fluctuation. However, after 2005-06 it registered a sharp decline. The debt-GSDP ratio is lower than the ceiling of 39.3 % as recommended by 13$^{th}$ Finance commission for Rajasthan. It is interesting to note that the decline in debt-GSDP ratio is more contributed by the rate of growth of GSDP. The rate of growth of GSDP (16.01%) is much higher than that of the rate of growth of the total debt (9.36%).

**Figure 6.1**
**Debt-GSDP Ratio of Rajasthan**




Source: Same as table 6.1 and Economic Review, 2012-13, (pp, Tables of Economic Situations -2-4) Directorate of Economics and Statistics, Rajasthan, Jaipur

**Table 6.7**
**Capital Outlay as Percent of Net Borrowings (%)**

| Years | Capital Outlay (Rs. crores) | Net increase in debt (Rs. crores) | Capital outlay as % of net increases in debt |
|---|---|---|---|
| 2002-03 | 2027.54 | 5901.48 | 34.36 |
| 2003-04 | 3180.99 | 7489.82 | 42.47 |
| 2004-05 | 3488.30 | 6773.19 | 51.50 |
| 2005-06 | 4294.49 | 6272.35 | 68.47 |
| 2006-07 | 4809.37 | 4738.91 | 101.49 |
| 2007-08 | 6555.55 | 5992.22 | 109.40 |
| 2008-09 | 5900.00 | 6860.47 | 86.00 |
| 2009-10 | 5175.00 | 7510.89 | 68.90 |
| 2010-11 | 5251.00 | 7756.28 | 67.70 |
| 2011-12 | 7119.00 | 7274.68 | 97.86 |

Source: Government of Rajasthan *Economic Review* various years.

## 6.4 Suggestions for improvement in Debt-GSDP ratio.

The Debt –GSDP ratio can be decrease by raising the level of GSDP as well as reducing the proportion of loans which in turn can be done through:

(1) Control the revenue expenditures by controlling non-developmental expenditures like abolition vacant posts which are not necessary, convergence of department with similar objectives, Ensuring sufficient work for each employees etc.

(2) Increasing the own tax and non-tax revenue

(3) In order to reduce the impact of natural calamities, state has to generate a sinking fund which can be strengthen by increasing own tax and non-tax revenue. State should not heavily dependent upon external sources, like debt to meet natural calamities.

(4) The biggest concern of the State Government in management of borrowings and debt is the liabilities building up in the Power Sector. While the State Government's public debt (inclusive of public account liabilities) is expected to be Rs. 1,30,000 crore at the end of FY 2013-14, the debt liabilities of the Power Sector would be around 1,00,000 crore. These debts are not only guaranteed by the State Governments, but the States are time and again forced to take over the liabilities of the power sector. The Commission is aware that under the Scheme for Financial Restructuring of State Distribution Companies issued by GoI has been implemented for a number of the States, including by the DISCOMs of the State. As per this scheme, the State Government is required to takeover 50 percent of the short-term liabilities of the DISCOMs at end-March 2012 through issuance of special securities in favour of participating lenders in a phased manner over a time frame of 2-5 years. The door to door maturity, as per the scheme, would not be more than 15 years with a moratorium of 3-5 years, on the principal repayment. The State Government has agreed to take over special securities of the order of Rs. 18000 crore under this Scheme. As the State takes-over this liability, State's borrowing limits get reduced to the same extent. Besides, limiting the borrowing of the State Government, there would also be further increase in repayment liability on account of taking over of these securities. The State Government strongly urges the Finance Commission to take into account the liabilities of the Power Sector while assessing the indebtedness of the State, its repayment and servicing obligations and also while recommending any debt restructuring package. The State Government would suggest that Finance Commission also places a condition for restricting power sector loans to a percentage of GSDP as a monitorable indicator for any fiscal incentive package. The Central Government as a part of the package of restructuring short term liabilities of the power sector is assuming a very small part of the liabilities which is limited to providing incentive equal to 114$^{th}$ of the bonds at the time of retirement of the special securities so taken. The Central Government should be asked to take over a part of interest servicing liability as well.

# Chapter 7

## State's Transfer to Local Bodies in Rajasthan

The transfers to local bodies in Rajasthan have historically been in an unsatisfactory state. Because of asymmetry between revenue capacity and expenditure responsibilities at different local governments and states in India, the fiscal position of a majority of local bodies became vulnerable. In order to rectify the situations, measures have been taken to provide substantial autonomy to local bodies through 73rd and 74th amendment acts of the Indian constitution. However, these measures do not appear to have made any noticeable impact on their finances.

### 7.1 Urban Local Bodies in Rajasthan

The local bodies consist of urban and rural local self governments. At the urban level there are corporations, municipalities and notified area council whereas at the rural level there is three tiers panchayati raj.  The three tiers pachayats are zilla parishad at the district level, pachayat samiti at the intermediate level and gram pachayat at the bottom. For efficient functioning of these bodies the powers of raising and spending revenue have assigned through the above mentioned amendments. Apart from this provisions have been made to make revenue transfers from the state as well as central government.

#### 7.1.1 Municipal Finances:

***Sources of Finance:*** The revenue sources of Municipalities can be broadly classified into: tax and non-tax revenue. The tax revenue is from taxes levied and collected by the municipal bodies, whereas the non-tax revenue is from fees, charges, penalties, sale of land, income from property, loans, assistances etc. The tax revenue can further be classified into obligatory taxes and discretionary taxes revenue and non-tax revenue into revenue from internal sources and external sources.

***Municipal Taxes:*** Section 104 and 105 of the Rajasthan Municipalities Act, 1959 provided for levy of obligatory and discretionary taxes similar to the two categories of functions that these municipal bodies are expected to discharge. The obligatory taxes that are to be levied by the urban local bodies are:

*Obligatory Taxes:* Every board shall levy at such rate and from such date as the state government may in each case direct by notification in the official gazette and in such manner as is laid down in this Act and as may be provided in the rules made by the state government in this behalf, the following taxes, namely

(1) A tax on annual letting value of buildings or lands or both, situated within the municipality ;

(2) An octroi on goods and animals brought within the limits of municipality for consumption or use or sale therein.

(3) A tax on professions and vocations.

Proviso to this section mentions that the land and building tax shall not be levied on kham houses or on buildings and lands or both of which annual letting value is less than one hundred and eighty rupees. Similarly, octroi shall not be levied on motor vehicles and profession/vocation tax shall not be levied on artisans.

The state government framed Rajasthan Municipalities (land & building tax) Rules, 1961 to provide for imposition, assessment and recovery of land & building or "house tax" as it is popularly known. Notification imposing house tax was also issued in respect of majority of the municipalities and rates of tax were also laid down. However, as per information provided to the Commission by the Local Bodies Department out of 183 municipalities in the State 117 municipalities were recovering house tax but the amount of recovery has not been very encouraging as would be evident from the figures reported. Only in municipal corporation, Jaipur and to some extent Jodhpur and municipal council, Ajmer some efforts were made to recover house tax.

Octroi has hitherto been a major source of municipal revenue till its withdrawal by the state government wef 1st August 1998. To make good the loss of octroi income of urban local bodies the state government is giving grant in aid every month based on actual octroi income for the year 1997-98. This grant is increased by 10 % every year.

The state government had, however, imposed profession tax wef April 2000 on certain categories of professions[14].

*Discretionary Taxes*: Section 105 of the Rajasthan Municipalities Act, 1959 provided for discretionary taxes that may be imposed. The section provided that subject to any general or special orders of the state government, a board may impose and levy in the whole or any part of the municipality for which it is established all or any of the following taxes, namely:

- a tax on vehicle and other conveyance plying for hire or kept within the municipality;
- a tax on dogs kept within the municipality;
- a tax on animals used for riding, driving, draught or burden when kept within the municipality;
- a toll on vehicles and other conveyances and on animals entering the municipality;
- a tax on boats moored within the municipality;
- a scavenging tax
- a tax for the cleansing of private latrines or privies;
- a general sanitary tax for the construction or maintenance or both of public latrines and for the removal and disposal of refuse;
- a lighting tax;
- a water tax for water supplied by the board, which may be imposed in the form of a rate assessed on the annual letting value of building or lands or both or in any other form;
- a tax on trades and callings carried on within the municipality and driving special advantages, from or imposing special burdens on municipal services;
- a tax on artisans; and
- Any other tax which the state legislature has power to impose under the Constitution.

The Act further laid down the usual procedure to be followed for levy of any of these taxes, e.g. resolution to be passed in the general meeting, selection of any one or the other taxes, preparation of draft rules, persons or property or both to be covered, the amount or rate of tax and notification to be issued. However, in view of the lengthy procedure involved in imposition of taxes and the general reluctance of the elected representatives at the local level to levy taxes either the taxes provided in section 105 were not levied at all or levied by very few municipalities with the result that revenues from these taxes has been negligible. Even with the assignment of the above taxes due to excessive functions assigned to municipal bodies there is deficiency in capacity to meet the needs.

---

[14] As per the budget speech of Finance Minister of Rajasthan for budget 2000-01, this tax was levied on only other notified category individuals paying income tax and has annual income of more Rs.1.5 lakh. Individuals employed with defense forces, freedom fighters, war widows, and handicaps, parents of children with disabilities and central government and state non-gazetted employees. In that year expected income was Rs.14 crore.

#### 7.1.1.1 Inter governmental Transfers

Intergovernmental transfers have a vital role in meeting the financial needs of municipalities. Apart from the Union Finance Commission the State Finance Commission has been constituted from time to time to mediate the revenue transfers from state to local bodies which have been mentioned later on. These transfers to municipalities fall into several categories comprising general-purpose grants, compensatory grants from octroi, share of entertainment tax, and grants under the state finance commission, grants under the central finance commission, and special dispensations. The general-purpose grant is given on a per-capita basis, which is in an inverse proportion to the size of the municipality (in terms of population)- i.e., high for a small–sized municipality and low for a larger–sized one. The state government extends grants for specific purposes like construction of roads, drains, and the like; then, there are octroi compensations, which are the single most important grant for municipalities in Rajasthan. In the case of municipalities in Rajasthan, transfers are their lifeline, accounting for 85 % of their revenues and covering 76 % of their revenue account expenditures. Over 75 % of the state transfers are grants compensating municipalities for the loss of revenues from octroi abolition. Octroi compensation is one of the major sources of the ULBs. It is coming as compensation. State is not following the agreed norm for the devolution of octroi to ULBs in Rajasthan. As per the agreement made with the state during the abolition of the octroi, state has to compensate with a 10 % increase in the octroi amount every year on the amount collected during 1997-98 as the base year. However during the years 2004 and 2005, state broke her promise by devolving the amount based on a 5 % increase of the previous years' received amount. As a result ULBs have been bearing the cumulative loss of the deviation till dates.

General-purpose grants were constant at Rs.21.06 crores over 1999-00 to 2001-02, while other grants concurrently showed a dramatic increase. Municipalities claim that octroi compensations are insufficient and do not represent the buoyancy that revenues from Octroi had prior to its abolition in 1998.

Total transfer to ULBs in Rajasthan during 2002-03 was Rs.483.67 lakhs, which increased to Rs.1146.63 lakhs during 2010-11. There is continuous increase in the transfer to ULBs in last ten years period. In the total transfer it is the proportion of special assistance and loan to total transfer has increased over the time. In absolute terms it has increased from

Rs.143.36 lakhs during 2005-06 to Rs.351.67 lakhs during 2010-11. ULBs of Rajasthan have been getting a substantial amount from grant in lieu of octroi (also see appendix 7.2). It was Rs.494.97 lakhs during 2005-06, which increased to Rs.754.09 lakhs during 2010-11.

**Table 7.1**
**Transfers to Urban Local Bodies in Rajasthan (Rs. crores)**

| Years | General and special grants | Grant in lieu of octroi | Special assistance and loans | Total |
|---|---|---|---|---|
| 2002-03 | - | - | - | 483.67 |
| 2003-04 | - | - | - | 530.31 |
| 2004-05 | - | - | - | 602.61 |
| 2005-06 | 27.91 | 494.97 | 143.36 | 666.24 |
| 2006-07 | 44.80 | 544.46 | 160.35 | 749.61 |
| 2007-08 | 41.93 | 566.64 | 254.68 | 863.25 |
| 2008-09 | 65.27 | 627.65 | 417.37 | 1110.29 |
| 2009-10 | 51.91 | 747.70 | 484.79 | 1284.40 |
| 2010-11 | 40.87 | 754.09 | 351.67 | 1146.63 |
| ACGR* | 8.30 | 9.61 | 26.55 | 13.95 (13.48) |

Note: *ACGR from 2005-06 to 2010-11 and mentioned in bracket from 2002-03 to 2010-11.
Source: *Audit Reports (Civil Local Bodies)* for the year ended 31st March, 2004-05 to 2011-12 (Chapter-III: An Overview of Accounts and Finances of Urban Local Bodies) (CAG-www.cag.gov.in)

**Table 7.2**
**Percentage of ULBs Transfers to Total (Rs. in crores)**

| Years | Total | % out of total | | |
|---|---|---|---|---|
| | | General and special grants | Grant in lieu of octroi | Special assistance and loans |
| 2005-06 | 666.24 | 4.2 | 74.3 | 21.5 |
| 2006-07 | 749.61 | 6 | 72.6 | 21.4 |
| 2007-08 | 863.25 | 4.9 | 65.6 | 29.5 |
| 2008-09 | 1110.29 | 5.9 | 56.5 | 37.6 |
| 2009-10 | 1284.4 | 4 | 58.2 | 37.7 |
| 2010-11 | 1146.63 | 3.6 | 65.8 | 30.7 |

Source: *Audit Reports (Civil Local Bodies)* for the year ended 31st March, 2004-05 to 2011-12 (Chapter-III: An Overview of Accounts and Finances of Urban Local Bodies) (CAG-www.cag.gov.in)

### 7.1.1.1.1 The First State Finance Commission

The First State Finance Commission (FSFC) constituted under Article 276–A of the Rajasthan Municipalities Act, 1959 (as amended vide Rajasthan Municipalities Amendment Act, 1994), for instance, observed that "it is a matter of common knowledge that most of the municipalities in Rajasthan are financially weak and not in a position to meet the rising demand for municipal services". The Second State Finance Commission (SSFC) made identical observations: "the financial position of the majority of the urban local bodies is not satisfactory, with the result that they are not in a position to meet the rising demand for municipal services. The municipalities are unable to discharge their obligatory functions, leave aside the discretionary functions. Rapid growth of cities and towns is not matched by a corresponding increase in their revenues". The Second State Finance Commission (SSFC) further observed that the abolition of octroi in the state has seriously eroded the financial autonomy of urban local bodies, and taken away the initiative and discretion which was available to them for expanding the scope of octroi on goods or revising the rates, so as to mobilize additional resources. Abolition of octroi, the Commission noted, has increased the financial dependence of municipalities on state government resources.

There is also a growing concern about the impact of the abolition of octroi on the state resources. The historical imbalances between revenue resources and expenditure responsibilities and their impact on state resources are well understood, but the imbalances owing to the abolition of octroi carry important implications for state resources and deserve special attention. Likewise, the emerging context of the urban sector reforms as embodied in the National Urban Renewal Mission (NURM) throws up fresh challenges for Municipalities and the state government in term of their readiness to be able to undertake urban sector reforms and access funds for infrastructure development.

Considered from the angle of geographical area in the country, Rajasthan is the largest among Indian States covering 3.42 lakhs sq kms. As the population in urban areas is growing very fast, therefore, long- term planning is required to be formulated to reduce the pressure of population in urban areas.

The previous State Finance Commissions have adequately looked at the issues concerning municipal finances in Rajasthan. In the ensuing discussion, brief presentation of the views expressed by the Second and Third State Finance Commissions are made.

### 7.1.1.1.2 Second Finance Commission[15]

The financial position of majority of the urban local bodies is not satisfactory with the result that they are not in a position to meet the rising demand for municipal services. The Municipalities[16] are unable to discharge their obligatory functions

15 As reported by the Commission in its report.

16 The first Municipality in Rajasthan was set up in Ajmer in 1866. By the end of 19th century there were 16 Municipalities in Rajputana States. In early 20th century the number of Municipalities was around 100. After independence many more Municipalities were set up and in early 1970s, the number grew to 145. The number of Municipalities was 196 in 1986 which was subsequently reduced to 182 owing to the recommendations of the Mukherjee Committee. In 2013, the number stands at 184. In 2011, urban population is 170.48 lakh. The variation in number of urban areas/towns and population varies because of different criteria adopted by Census Authorities for classification of towns/urban areas and that adopted by State

leaving aside the discretionary functions. Rapid growth of cities and towns is not matched by a corresponding increase in their revenues. While the functional responsibilities of Municipal bodies increased several times inflating their resource needs, their performance has been dismal on augmentation of resources to carry out these functions. Even the statutory avenues of raising resources remained unexploited or under exploited, because the elected bodies do not muster courage to levy taxes under their powers, which may be commensurate with the level of services they wish to provide. Inadequate taxation and inefficient management both together render the municipal services far from satisfactory. The smaller municipalities have hardly any funds to meet their day-to-day requirements and have no capabilities to take measures for improving the level of services. Growing costs, shortage of funds, indiscipline among the work force etc. is making the situation worse with passage of time. In big cities, the situation is rather complicated and difficult. The infrastructure development is not in a position to keep pace with the population growth of such cities resulting in serious inadequacies in services. The abolition of octroi has further aggravated the situation.

The Commission noted that the representatives of the municipal bodies irrespective of their political affiliations, voice strong resentment and grievances over the octroi issue on various accounts. The main grievances were as follows:

- that octroi was the main source of revenues of municipalities, that octroi was a buoyant source of municipal revenue, that withdrawal of octroi has crippled the municipalities financially
- that after abolition of octroi the municipalities have become almost totally dependent on the state government financially, that the state government is giving only 10 % increase in grant in aid in lieu of octroi whereas the growth in octroi revenue was about 20 %
- that even the 10 % annual increase being given has been reduced to 5 % during the financial year 2001-02
- that even the grant- in- aid amount of octroi is not released on time
- that the *nakedars* and other staff who were earlier engaged in octroi collection are be paid salaries without work. They have become liability on the municipalities.

Based on the above grounds it appears that withdrawal of octroi was not a sound decision and the state government should reconsider it. Commission did not

Government for classification of urban local bodies and their population.

specifically recommended re-imposition of octroi or otherwise but did felt that the abolition of octroi has seriously eroded the financial autonomy of urban local bodies and has taken away the initiative and discretion which was available to the municipalities to extend the scope of octroi on goods not covered and revise the rates so as to raise more resources. The decision of the state government to lower down the rate of annual increase in grant-in-aid amount from 10 % to 5 %, Commission felt had further created financial problems for the municipalities' particularly small and financially weak municipalities which are dependent on octroi grant only for meeting their committed expenditure. The Commission did urge the state government to restore the annual increase in octroi grant to 10 % if not increase it to 15-20 % as demanded by the elected representatives, ensure release of the due amount of grant- in- aid in lieu of octroi to the municipalities on 1st of every month so that these bodies could meet their committed expenditure on time[17]. Apart from land & building tax, another tax, which is obligatory for the municipalities to levy, is tax on professions and vocations. However, municipalities in the state have reportedly not imposed this tax.

#### 7.1.1.1.3 Third Finance Commission[18]

***Obligatory Taxes:*** The provisions regarding obligatory taxes are contained in Section 104 of the Rajasthan Municipalities Act, which is as under:

Every municipal board shall, levy at such rate, and from such date, as the state government may in each case direct by notification in the official gazette and in such manner as is laid down in this Act, and as may be provided in the rules made by the state government in this behalf, the following taxes, namely:

(1) a tax on annual letting value of buildings or lands or both situated within the municipality;
(2) an octroi on goods and animals brought within the limits of municipality for consumption or use or sale therein; and
(3) A tax on professions and vocations.

Proviso to this section mentions that the land and building tax shall not be levied

[17] Moreover, once the amount is released there should be no restriction on its withdrawal from the treasuries/PD account of the respective municipalities.
[18] As reported by the Commission in its report.

on "Kham Houses". Similarly, octroi shall not be levied on motor vehicles and profession/vocation tax shall not be levied on artisans. Thus, there are three obligatory taxes envisaged in the Act. Out of the three obligatory taxes, namely, land and building tax, octroi and profession tax, the profession tax has not been levied by any of the urban local bodies due to administrative directive of the state government.

The land and building tax (popularly known as house tax) has a chequered history in Rajasthan. Land and building tax was abolished by the state government vide its notification dated 24.2.2007. Even prior to its abolition, this tax was not levied and recovered by as many as 60 urban local bodies. It is, indeed, strange that even large urban local bodies like Kota Municipal Corporation & Udaipur and Sikar municipal councils did not exploit this important source of revenue generation. The situation even prior to abolition of house tax was not at all satisfactory in Rajasthan. The urban local bodies either did not recover house tax or recovered it with great reluctance. As a result the recovery even against assessed tax did not go beyond 40 %. Having remained abolished from 24.2.2007 to 28.8.2007, this tax was re-imposed under the nomenclature of urban development tax with effect from 29.8.2007 with reduced revenue potential. House tax/ property tax are a major tax being levied by the urban local bodies across the country. The income from this tax to the municipalities in the country is sizeable. Unfortunately in Rajasthan, the full potential of this tax has never been exploited so far. This tax has not emerged as an alternative source of revenue after the abolition of octroi. It is a matter of serious concern that with respect to per capita house tax revenue of municipalities; the state of Rajasthan is far behind as compared to other major states[19].

The Commission had serious concern over the non-recovery of massive arrears of the assessed tax. The records of arrear amount were not complete in some of the urban local bodies and no reason for it was available. The Commission had recommended that the outstanding amount should be recovered expeditiously by incentivizing the staff. The state government had already clarified that the quashing of the house tax rules 2003, on 24.2.2007, has no retrospective effect and the dues under the Rules are to be recovered. The Commission suggested that Director, Local Bodies should draw out

[19] This comparison is self-explanatory and indicates the lackluster attitude of urban local bodies of Rajasthan towards exploiting this important source of revenue generation. As against the target of Rs.150 crore set for house tax for the year 2005-06, by Director, Local Bodies, a paltry sum of Rs.43 crore was only been recovered, constituting 28% of the targeted amount. The prime reason for this abysmally/ abnormally low recovery appears to be the indifferent attitude of the urban local bodies, coupled with the uncertainty on the part of state government, of whether to retain or abolish the tax.

an incentive scheme giving higher incentive for recovery of older outstanding dues and the targets for recovery of this amount may be fixed and rigorously monitored. The Commission made adequate provisions in the devolution for the incentive on this account.

Thus, there is only one obligatory tax imposed and levied by the urban local bodies which has come into force by government notification dated 29.8.2007, namely, urban development tax. The obligatory taxes assigned to the urban local bodies are only obligatory in name- urban local bodies are obliged to levy and recover the obligatory tax. But the power to impose tax and decide the rate as well as the date from which the tax is to be recovered is decided by the state government. The Commission opinioned that the power of the state government to ordain the extent of the obligatory tax does not financially helps the urban local bodies. Far from strengthening the constitutional status of the urban local bodies, conferred by 74th Amendment of the Constitution, such developments only reinforce the perception that urban local bodies are subordinate entities in the day to day control of the state government, beholden to them not only for the development of the city but often for their very survival. Even for revision for rates, urban local bodies are required to approach the state government resulting in inordinate delay. Therefore, Commission argued that it would be meaningful in keeping with the spirit of 74th Constitutional Amendment, if power of revision of rates are decentralized and conferred on the urban local bodies by Act and/ or by Rules.

Octroi was a major and buoyant source of municipal revenue till its withdrawal by the state government wef 1st August 1998. Since then the government of Rajasthan gives grant-in-aid to compensate the loss of Octroi income of urban local bodies. It was also assured that this compensation grant would be increased by 10 % every year. Third Finance Commission in this regards found also strong resentment and grievances over the octroi on the following counts:

- that octroi was the main source of revenue of the municipalities;
- that octroi was a buoyant source of municipal revenue;
- that withdrawal of octroi has crippled the municipalities financially;
- that after abolition of octroi the municipalities have become totally dependent on the state government financially;
- that the state government is giving only 10 % increase in grant-in-aid in lieu of octroi whereas the growth of octroi in state government, revenue is much more;

- that even the 10 % annual increase has been reduced to 5 % from the financial year 2001-02 to 2003-04 and restored to 10 % in the year 2004-05 ignoring the impact of the decrease during the three years of 2001-02 to 2003-04 and ignoring the actual amount of octroi which would have been paid had the 5 % decrease not taken place at the whim of the state government;
- that even the grant in aid amount of octroi is not being released in time, regularly.

The decision of the state government to reduce the rate of annual increase in grant-in-aid from 10 % to 5 % during 2001-02 to 2003-04 was against the assurance given by the government. It further worsened the financial position of municipalities, particularly, small and financially weak municipalities, which are completely dependent on octroi grant for meeting their committed establishment expenditure. Therefore, the Commission recommended restoration of commitment made the government of 10 % annual increase from 2008-09.

***Discretionary Taxes:*** Section 105 of the Rajasthan Municipalities Act, 1959, provided for a long list of discretionary taxes that may be imposed. This section provided that subject to any general or special orders of the state government on this behalf, a municipal board may impose and levy, in the whole or any part of the municipality for which it is established, all or any of the following taxes, namely :

(i) a tax on vehicle and other conveyance plying for hire or kept within the municipality;
(ii) a tax on dogs kept within the municipality;
(iii) a tax on animals used for riding, driving, draught or burden when kept within the municipality;
(iv) a toll on vehicles and other conveyances and on animals entering the municipality;
(v) a tax on boats moored within the municipality;
(vi) a scavenging tax; a tax for the cleansing of private latrines or privies;
(viii) a general sanitary tax for the construction or maintenance or both of public latrines and for the removal and disposal of refuse,
(ix) a lighting tax;
(x) a water tax for water supplied by the board, which may be imposed in the form of a rate assessed on the annual letting value of building or lands or both or in any other form;
(xi) a tax on trades and callings carried on within the municipality and driving special advantages from, or imposing special burdens on municipal services;
(xii) a tax on artisans; and any other tax which the state legislature has power to impose under the Constitution.

The Act further stipulated the usual procedure to be followed for levy of any of these discretionary taxes, e.g. resolution to be passed in the general meeting, selection of any one or the other taxes, preparation of draft rules, persons or property or both to be covered, the amount or rate of tax and notification to be issued. The cumbersome procedure prescribed for imposition of these taxes coupled with the lack of awareness and apathy of elected representatives to discharge their public duty towards the residents of the town, who have elected them, accounts for non levy of these taxes. The taxes provided in Section 105 have not been levied at all or levied by a very few municipalities[20].

### 7.2 Panchayati Raj Institutions

The central and the state governments have provided for statutory fiscal powers and transfers considering the importance of adequate resources for the effective functioning of PRIs. The provisions relating to these are as follows.

#### 7.2.1 Central Level Provisions

Specifies broad directions on the types and methods of fiscal powers (at the central level) provided to the PRIs is mentioned in the Articles 243(H) and 243(I) of the 73rd Constitutional Amendment Act (CAA). Article 243(H) States that the legislature of a state made by law:

- authorize a panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- Assign to a panchayat such taxes, duties, tolls and fees levied and collected by the state government for such purposes and subject to such conditions and limits;
- Provide for making such grants-in-aid to the panchayats from the Consolidated Fund of the state; and
- Provide for the constitution of such funds for crediting all moneys received respectively, by or on behalf of the panchayats, and also, for the withdrawal of such moneys there from, as may be specified in the law.

[20] It is strange to observe that no municipal corporation is collecting discretionary tax. Some of the urban local bodies have levied discretionary taxes, like, tax on vehicles, terminal tax, passenger tax, etc. but the total revenue from all these taxes was only Rs.4.76 crore, contributing 0.56 % in total revenue in the year 2004-05.

Article 243(I) provides for the appointment of a '**Finance Commission**' by the states once in five years. The broad responsibilities of the State Finance Commission (SFC) are to:

- Distribute the state's resources between the state and the local bodies;
- Assign any of the state's taxes, duties and fees to these bodies; and
- Recommend grants-in-aid for the purpose of providing services.

Besides, Articles 280(bb) and 280(c) of the Constitution place additional responsibility on the Central Finance Commission (CFC) to look into the resources of the local bodies. The former Article relates to PRIs and the latter to ULBs. As per Article 280(bb), the CFC has to recommend measures needed to augment the Consolidated Fund of a state to supplement the resources of the panchayats in the state on the basis of the recommendations made by the Finance Commission of the state.

### 7.2.2 State Level Provisions

With regard to financial powers of the PRIs, the states in their Panchayat Raj (PR) Acts have made various provisions. Broadly, the states have accorded taxation powers to the grama/ village panchayats. One can see the long list of tax sources vested with them[21]. The Ministry of Panchayat Raj (MoPR), government of India, has listed 24 taxes and duties entrusted to village/grama panchayats by various states[22]. The most important among these are property/building tax, vacant land (other than agriculture land) tax, "kolagaram" (tax on the village produce sold in the village by weight, measurement or number) mainly in Andhra Pradesh, tax on advertisements and hoardings, profession and entertainment tax, factory tax and various cesses. In a few states, powers have been given to intermediate and district level panchayats to raise revenues and these are mainly in the nature of assigned revenues such as mineral cess, land/local cess, surcharge on stamp duty, entertainment tax etc[23]. Yet, in a few

---

21 See, O.P. Bohra (1996) "Financial Resources of Panchayats in India" in conference on *Emerging Trends in State-Local Fiscal Relations in India*, organized by National Institute of Rural Development, Hyderabad, December 18-19; I. Rajaraman (2003) *A Fiscal Domain for Panchayats* Oxford University Press, New Delhi (*Reports of the Second State Finance Commission);* H. D. Dwaraknath (2008) "Finances of Panchayati Raj Institutions in Andhra Pradesh" in M R Biju (ed), *Financial Management of Panchayati Raj System* Kanishka, New Delhi; K. Rajasekharan (2008) *Local Government Finance in Kerala* in M. R. Biju (ed.) Financial Management of Panchayati Raj System, New Delhi: Kanishka, 2008.

22 See, Ministry of Panchayat Raj (2004) *Fifth Round Table of Ministry in- Charge of Panchayat Raj*, Srinagar, October: 28-29.

23 See, S. P. Ranga Rao and P Syam Sundar Reddy (1996) "State-Local Financial Relations in Andhra Pradesh" conference on *Emerging Trends in State-Local Fiscal Relations in India*, organised by National Institute of Rural Development, Hyderabad, December 18-19; Abdul Aziz, N Sivanna, M Devendra Babu, Madhushree Sekher and C. Charles Nelson (2002) *Decentralized Governance and Planning: A Comparative Study in Three South Indian States* Macmillan, New Delhi.

other states, certain taxes such as motor vehicle tax, entertainment tax, and profession tax and stamp duty are shared with different tiers of PRIs. Further, the panchayats are empowered to raise non-tax revenues from their own properties and assets such as rent from shops and buildings, auction of trees and fruits, sale of assets, fee on pilgrims and fairs, grazing lands and mandies (markets) and licence fee etc[24]. Apart from these, provisions for statutory and discretionary transfers and borrowings have been provided. Another important provision made in almost all the state PR Acts is constitution of a Finance Commission by the states once in five years in conformity with Article 243(I) of the Constitution. The above legislative measures both at the Central and state levels contemplates bestowing a variety of revenue sources to PRIs: own revenue raising powers, assignments, tax sharing, grant-in-aid and borrowing powers.

### 7.2.3 Fiscal Position of PRI's in Rajasthan

Three main sources of revenue of PRI's in Rajasthan are: (1) own income from tax (2) own non-tax and (3) The transfer from center as well as state government. Apart from this the PRIs also perform agency functions to implement various rural development programmes for which funds are channelized through Zila Parishads and some funds are made available to PRIs directly by government of India and Rajasthan government[25]. It is interesting to note that own income of PRIs constitutes negligible (1% to 2%) proportion of total funds available to these PRIs in Rajasthan. Receipts from transfers from the higher level of governments' form the major chunk. Own income of PRIs in Rajasthan was 20.09 % during 2000-01 (of the total fund) and it reduced to 0.04 % during 2004-05. Fund receipts from state government have increased from 17.91 % during 2000-01 to 44.75 % during 2004-05. It is understood that the PRIs are mostly depending on the funds from different levels of governments.

It is evident that around Rs.336.12 lakhs was transferred to PRIs in Rajasthan during 2004-05, which increased to Rs.2806.61 lakhs during 2011-12. As mentioned earlier the transfer is a combination of (1) grants–in-aid from state government, and (2) grants from 11$^{th}$ /12$^{th}$ /13$^{th}$ Union Finance Commission. It is observed that grant-in-aid from state

[24] I. Rajaraman (2003) *A Fiscal Domain for Panchayats* Oxford University Press, New Delhi (*Reports of the Second State Finance Commission).*

[25] For a detail discussion on the power of PRIs in Rajasthan, see *Report of the Third Finance Commission of Rajasthan* pp 159-160 and Rajasthan Panchayati Raj Act, 2009.

government has increased continuously. It was found to be more than double between 2010-11 and 2011-12. Over the years the proportion of grants-in-aid from state government has increased. When the proportion was 33.21 % during 2004-05, it has reached to 78.29 % during 2011-12.

**Table 7.3**
**Transfers to PRIs in Rajasthan (Rs. crores)**

| Years | Grants-in-aid from state government | EFC/12th/13th Finance Commission grants | Total |
|---|---|---|---|
| 2004-05 | 111.83 | 224.89 | 336.72 |
| 2005-06 | 128.72 | 245.99 | 374.71 |
| 2006-07 | 125.37 | 222.97 | 348.34 |
| 2007-08 | 166.27 | 146.04 | 312.31 |
| 2008-09 | 540.40 | 369.00 | 909.40 |
| 2009-10 | 853.21 | 246.00 | 1099.21 |
| 2010-11 | 1051.77 | 370.10 | 1421.87 |
| 2011-12 | 2197.21 | 609.40 | 2806.61 |
| ACGR | **57.64** | **12.86** | **36.29** |

Source: *Audit Reports (Civil Local Bodies)* for the year ended 31st March, 2004-05 to 2011-12
(Chapter-I: An Overview of Accounts and Finances of Panchayati Raj Institutions) (CAG-www.cag.gov.in)

**Table 7.4**
**Percentage of PRIs Transfers to Total**

| Years | % out of total | | Total |
|---|---|---|---|
| | Grants-in-aid from state government | EFC/12th/13th Finance Commission grants | (Rs crores) |
| 2004-05 | 33.21 | 66.79 | 336.72 |
| 2005-06 | 34.35 | 65.65 | 374.71 |
| 2006-07 | 35.99 | 64.01 | 348.34 |
| 2007-08 | 53.24 | 46.76 | 312.31 |
| 2008-09 | 59.42 | 40.58 | 909.40 |
| 2009-10 | 77.62 | 22.38 | 1099.21 |
| 2010-11 | 73.97 | 26.03 | 1421.87 |
| 2011-12 | 78.29 | 21.71 | 2806.61 |

Source: *Audit Reports (Civil Local Bodies)* for the year ended 31st March, 2004-05 to 2011-12
(Chapter-I: An Overview of Accounts and Finances of Panchayati Raj Institutions) (CAG-www.cag.gov.in)

**Table 7.5**
**Functional Domain of Urban Local Bodies as per the 12th Schedule**

| **Domain**s | |
|---|---|
| Urban planning including town planning | N |
| Regulation of land-use and construction of buildings | Y |
| Planning for economic and social development | Y |
| Roads and bridges | Y |
| Water supply for domestic, industrial and commercial purposes | N |
| Public health, sanitation conservancy and solid waste management | Y |
| Fire services | Y |
| Urban forestry, protection of the environment and promotion of ecological aspects | Y |
| Safeguarding the interest of weaker sections of society, including the handicapped and mentally retarded | Y |
| Slum improvement and up-gradation | Y |
| Urban poverty alleviation | Y |
| Provision of urban amenities and facilities such as parks, gardens, playgrounds | Y |
| Promotion of cultural, educational and aesthetic aspects | Y |
| Burials and burial grounds, cremations, cremation grounds and electric crematoriums | N |

| | |
|---|---|
| Cattle pounds, prevention of cruelty to animals | Y |
| Vital statistics including registration of births and deaths | Y |
| Public amenities including street lightening, parking lots, bus stops and public conveniences | Y |
| Regulation of slaughterhouses and tanneries | Y |

Sources:
Note: Y- assigned to municipalities.

### 7.3 Views on Own Efforts of Urban Local Bodies[26]

- Most urban local bodies including corporations are significantly dependent on external resources and effort to generate internal resources through tax effort is limited.

- All most all urban local bodies have not fully implemented/ utilized the provisions of the Rajasthan Municipal Act, 2009 for resource mobilization. There is very limited diversification in taxes being levied.

- Most urban local bodies have either not passed byelaws or have enacted just a few byelaws, which have limited the scope for additional tax mobilization effort.

- There is increased interference by the state in reducing the scope for taxes by urban local bodies. The discussion revealed that state inference has put on the back foot the efforts that were being made by urban local bodies. The biggest tax source, octroi, was abolished without consulting the local bodies. The state government is compensating urban local bodies, but quantum of compensation has been fixed at 1997 base with 5 % annual increase, 10 % annual increase was promised[27]. The restoration to 10 % annual increase is vehemently called for by urban local bodies. The regular circulars issued by Directorate of Local Self Government further are reducing area of operation of urban local bodies. The most recent case is the mobile towers case.

- Within urban local bodies there is an increasing conflict between the CEO and elected representatives. It hinders the administration and enacting of byelaws. For better local administration, area of functioning needs to be demarcated and clearly defined.

---

26 These are based on Surjit Singh, Motilal Mahamallik and Variender Jain (2013), *Assessment of Revenue Potential of Urban Local Bodies in Rajasthan* a report submitted to 4th State Finance Commission, Rajasthan.

27 Studies have shown that alternatives to octroi, say VAT, the best rate is 10-12 %. However, if options like property tax are to be used as alternative to octroi, the much greater efforts would be required (see, Report of the Study Group for Devising Alternatives to Octroi, May 20, 2006). Also see, Anita Rath (2009) "Octroi: A Tax in a Time Warp: What does its removal Imply for Greater Mumbai" *Economic and Political Weekly*, Vol. 44, No. 25.

- Among the obligatory taxes only house tax and urban development tax are mainly imposed. In large number of local bodies even these are not levied. Upper end local bodies have huge arrears on this count. Even marginal increase in rates and better tax administration would raise the revenue of the urban local bodies. The scope of house tax needs to be widened from exiting 300 square yards. The property prices are going up significantly and urban local bodies should use this as a major source of revenue. No other obligatory taxes are levied across the urban local bodies. There are a few exceptions in case of class IV municipalities.

- Urban local bodies should use discretionary taxes to mobilize resources. For instance, even the biggest Municipal Corporation in the state, Jaipur is not levying any discretionary tax. Except for a few municipal boars, discretionary tax is not levied. Discretionary taxes are levied at all or are minimal. It is observed that discretionary taxes like vehicle tax, electricity tax, development tax, animal tax, advertisement tax and Path Kar are being levied by class IV municipal boards. Other urban local bodies can learn from these boards to raise their revenue potentials.

- There are four sub components through which urban local bodies are raising their revenue under development charges, (1) betterment charges, (2) development charges, (3) internal development charges, and (4) external development charges. It is observed that, all corporations are not collecting revenue through development charges. Out of total 184, urban local bodies only two urban local bodies are collecting betterment charges, 45 urban local bodies collecting development charges, 8 and 73 urban local bodies each collecting revenue through internal and external development charges respectively.

- User charges are not uniform across municipal bodies. It is reasonable that uniformity cannot be achieved but certain levies like road cutting charges can be imposed. One need to go beyond this, regular rent is required to be charged for using local body's pipes and poles. Here, telephone companies and cable operators need to be brought under the net. There is hardly any transaction cost involved in tax collection. The onus of this levy can be put on the service provider and the basis could be cess on connections.

- Entertainment tax has been abolished by the state. However, urban local bodies can charge per show a certain amount (as suggested) from cinema halls for using urban facilities.

- Not all urban local bodies are charging sewerage maintenance/ gutter clearing charges. It is because not all have this facility and also it is not thought to be important. Presently, 33 % is charged as sewerage charges of the water supply bill and if this rate is enhanced to 40 % significant revenue can accrue to the local bodies.

- House to house garbage collection can raise resources of the local bodies.

- Vehicle registration tax collected needs to be shared by the state with local bodies as road maintenance is undertaken by local bodies.

- Few class II and Class IV municipal boards are levying pollution tax, for instance, public polluting business tax. Very few corporations and councils have taken initiative to levy these taxes.

- Entry tax is another major source of revenue which, at least corporations can impose initially.

- Establishment tax is another source to raise revenue of municipalities.

- Many new potential areas are emerging like commercial centres (malls), professions, tourism, hotels/ restaurants, many modern service sector activities which should be under the ambit of various taxes. Green tax is new concept which can be tried by corporations. Many cities in the countries are levying these taxes.

- Tax administration has to improve. The lethargy in collecting house tax/ property taxes is the most talked about case. The study found that penalties hardly collected across the local bodies and if collected, the amount is too meagre. The personal relations and pressure of vested interest hinders collection of penalties. Non-compliance is not penalized.

- The budget exercise is found to be just for sake of it. Every year, there are wide differences in budgeted and actual figures. This difference in itself is the potential not realized. Budget preparation training is required and budgets should be properly passed in the meetings of the elected bodies. The devolution of funds/ grants from the state should be incentive based.

- Human resources are another hindrance. Efforts are required to provide for adequate and qualified manpower to local bodies. There can be a cadre of municipal bodies' staff.

- There is hardly any information base with the local bodies that is readily available. Sound tax base can emerge if systematic information base exists. Regular surveys should be conducted. New taxes can be levied only if data bases are strong and updated. There should be a separate statistic wing in municipalities. There should be transparency in functioning of urban local bodies.

- Balance sheets are not properly prepared and are not uniform. The nomenclature used varies significantly. Many municipalities prepare balance sheets just to pass on information to the Directorate. Balance sheets along with budget should be printed. Besides, standardization is required in reporting systems. It is quite interesting that even the annual report of Directorate of Local Self Government do not provide details on taxes collected; only aggregates are provided. There are variations in what is reported. Capacity building is required.

- Coordination of various departments would help reduction in expenditure of municipalities and help them provide better services to citizens. It is suggested that all urban local bodies should have medium term expenditure framework. Planning for minimum of three years is necessary in budget proposals. It could even be five years as the term of the elected representatives is five years. In Rajasthan, an attempt is being made to have sector medium term expenditure framework.

Finally, the present level of decentralization is insignificant. The first thing that can be done is to force local bodies to implement Rajasthan Municipal Act 2009. The previous two finance commissions have recommended significant decentralization but not much has been achieved. Political interference should be minimal. Potential exist for resource mobilization but for state intervention, best foot is not put forward.

**JNNURM**

Assistance available under JNNURM the following activities are required to be carried out**:**

- Constitution of State Level Steering Committee (SLSC)
- Identification of State Level Nodal Agency (SLNA) for the purpose of implementation of the mission by the state government.
- Formulation of a medium term City Development Plan (CDP) and Detailed Project Report (DPR).
- Drawing up timelines for Implementation of Urban Sector Reforms and Signing of Tripartite Memorandum of Agreement by the state government, concerned urban local bodies/ para statal Agencies with government of India

### 7.4 Status of Activities

The proposal to formulate State Level Steering Committee along with the proposed composition was submitted to government of Rajasthan and approved. The Rajasthan Urban Infrastructure Financing and Development Corporation (RUIFDCO) has been formed and appointed as the State Level Nodal Agency **(**SLNA) for JNNURM. The Urban Reform Agenda as per the issued guidelines were prepared and approved to implement over the mission period. City Development Plans for Jaipur, Ajmer and Pushkar were prepared.

### 7.5 Reform Agenda undertaken by Rajasthan

Rajasthan government undertook reforms as follows:

*Financial Reforms***:** House tax collection has been simplified i.e. annual rental value to area based collection.

- Rationalization of stamp duty– reduced from 11 % to 3 %
- Land and Building Department abolished to avoid multiple taxation
- Urban Land Ceiling and Rent Control Act (ULCRA)  has been repealed

- Model Rent Control Act introduced
- Rajasthan Urban Infrastructure Financing and Development Corporation (RUIFDCO) has been formed for technically and financially supporting the ULBS
- Credit Rating for Jaipur Municipal Corporation

*Legal and Institutional Reforms*: The following legal and institutional reforms were undertaken:

- The Rajasthan Fire Prevention, Safety and Services Bill
- The Rajasthan Municipalities Bill, 2005
- The Rajasthan prevention of Defacement of Properties Bill
- The Rajasthan Heritage Conservation Bill

All these model acts are under consideration of the government and likely to be approved during current financial year only.

*Accounting Reforms*: The following accounting reforms were undertaken:

- State Level Policy for Accounting Reforms announced in the year 2004
- National Accounting Manual circulated by GoI adopted in the state
- Time bound switchover from cash based to accrual based system in all 183 ULBs is planned
- E-Nagar Mitra Project launched: An initiative for E-Governance and accounting reform

## JNNRUM Performance

The following has been achieved in the three locations where JNNRUM is being implemented.

**Reforms Calibrated Milestones & Scores**

| **Reform Milestone: State Level Reforms** | Calibrated Score | Jaipur Y/N | Ajmer Y/N | Pushkar Y/N |
|---|---|---|---|---|
| **1. Implementation of 74th CAA** | | | | |
| Constitution of municipalities & elections | 2.0 | Y | Y | Y |
| Transfer of 12th schedule functions (18 functions) to ULBs* | 9.0 | 8.5 | 8.5 | 8.5 |
| Constitution of DPC | 2.0 | Y | Y | Y |
| Constitution of MPC*** | 2.0 | Y | Y | Y |
| **Total** | **15.0** | **14.50** | **14.50** | **14.50** |
| No. of functions transferred (*@0.5 score for transfer of each function) | | 17 | 17 | 17 |
| **2. Integration of city planning & delivery functions** | | | | |
| Resolution to assign ULBs with city planning functions including development control. Regulations & building byelaws | 1.0 | Y | Y | Y |
| Preparation of CDP with inclusive and integrated planning | 2.0 | Y | Y | Y |
| Placing of city plans before MPC/DPC | 2.0 | N | N | N |
| **Total** | **5.0** | **3.00** | **3.00** | **3.00** |

| | | | | |
|---|---|---|---|---|
| **3. Reform in rent control** | | | | |
| Availability of rent control Act | 2.0 | Y | Y | Y |
| Provision of fixation of standard rent | 2.0 | Y | Y | Y |
| Provision of revising rent periodically | 2.0 | Y | Y | Y |
| Balancing obligations of landlords and tenants | 2.0 | Y | Y | Y |
| Establish adjudication system for resolving disputes | 2.0 | Y | Y | Y |
| **Total** | **10.0** | **10.00** | **10.00** | **10.00** |
| **4. Stamp duty rationalization to 5%** | | | | |
| Reduce stamp duty to 5% (including surcharges) | 5.0 | Y | Y | Y |
| Preparation of guidance values/circle rates | 2.5 | Y | Y | Y |
| Annual revision of guidance values | 2.5 | Y | Y | Y |
| **Total** | **10.0** | **10.00** | **10.00** | **10.00** |
| **5. Repeal of ULCRA** | | | | |
| State legislature to pass a resolution in compliance with the repeal of ULCRA passed by Parliament in 1999 | 7.0 | Y | Y | Y |
| State government to issue notification in this regard | 3.0 | Y | Y | Y |
| **Total** | **10.0** | **10.00** | **10.00** | **10.00** |
| **6. Enactment of community participation law** | | | | |
| Notification of legislation for ensuring community participation | 2.5 | Y | Y | Y |
| Constitution of ward committees | 2.5 | Y | Y | Y |
| Citizen charter with timelines | 2.5 | Y | Y | Y |
| Any additional provision/ instrument for citizen participation | 2.5 | N | N | N |
| **Total** | **10.0** | **7.50** | **7.50** | **7.50** |
| **7. Enactment of public disclosure law** | | | | |
| Legislation of RTI Act | 2.5 | Y | Y | Y |
| Implementation of RTI Act | 2.5 | Y | Y | Y |
| Preparation of citizen charter | 2.5 | Y | Y | Y |
| Disclose through a website | 2.5 | Y | Y | Y |
| **Total** | **10.0** | **10.00** | **10.00** | **10.00** |
| **Total state level score** | **70.0** | **65.00** | **65.00** | **65.00** |
| **Optional reforms (state level/ULB level)** | | | | |
| **1. Introduction of property title certification system in ULBs** | | | | |
| Arrangement for reflecting property titles in a legal framework | 2.5 | N | N | N |
| Arrangement for adjudication for property title dispute | 2.5 | N | N | N |
| Notification of rules for smooth implementation | 2.5 | N | N | N |
| Setting up administrative system/process | 2.5 | N | N | N |
| **Total** | **10.0** | **0.0** | **0.0** | **0.0** |
| **2. Revision of building byelaws– streamlining the approval process** | | | | |
| Notification of building byelaws in public domain | 5.0 | Y | Y | Y |
| Establish adjudication system for resolving disputes | 2.5 | Y | Y | N |
| Time frame for approval process | 2.5 | Y | Y | N |
| **Total** | **10.0** | **10.0** | **10.0** | **5.0** |
| **3. Revision of building byelaws– to make rainwater harvesting mandatory** | | | | |
| Building byelaws of mandatorily provide for rainwater harvesting | 5.0 | Y | Y | Y |
| Dissemination of such byelaws through website | 2.0 | Y | Y | Y |
| Start of approval as per the new building byelaws | 3.0 | Y | Y | Y |
| **Total** | 10.0 | 10.0 | 10.0 | 10.0 |
| **4. Earmarking 25% developed land in all housing projects for EWS/LIG** | | | | |
| Notify the reservation of land between 20 and 25% in housing projects (public/private) | 5.0 | Y | Y | Y |

| | | | | |
|---|---|---|---|---|
| Review and revise building byelaws to reflect to earmarked land to EWS/LIG | 2.5 | Y | Y | Y |
| Engaging with state departments for implementing EDL (earmarking developed land) | 2.5 | Y | Y | Y |
| **Total** | **10.0** | **10.0** | **10.0** | **10.0** |
| **5. Simplification of legal and procedural framework for conversion of agricultural land for-non-agricultural purposes** | | | | |
| Availability of legal framework for conversion of agricultural land for non-agricultural purposes | 5.0 | Y | Y | Y |
| Notification of rules and processes | 2.5 | Y | Y | Y |
| Establish adjudication system for resolving disputes | 2.5 | Y | Y | Y |
| **Total** | **10.0** | **10.0** | **10.0** | **10.0** |
| **6. Introduction of computerized process of registration of land and property** | | | | |
| Computerized registration of land and properties | 5.0 | Y | Y | Y |
| Capturing of photo of seller & buyer | 2.0 | Y | Y | Y |
| Creation of database system | 3.0 | Y | Y | N |
| **Total** | **10.0** | **10.0** | **10.0** | **7.0** |
| **7. Byelaws of reuse of recycled water** | | | | |
| Building byelaws to mandatorily reflect reuse or recycled water | 8.0 | Y | Y | Y |
| Dissemination of new building byelaws through websites | 2.0 | Y | Y | Y |
| **Total** | **10.0** | **10.0** | **10.0** | **10.0** |
| **8. Administrative reforms** | | | | |
| Rules notified for personnel management systems in local bodies | 2.0 | N | N | N |
| Grievance management system | 2.0 | Y | Y | Y |
| Computerization of administrative activities | 2.0 | Y | Y | N |
| Training and skill building initiatives | 2.0 | Y | Y | N |
| Encourage outsourcing of municipal activities | 2.0 | Y | Y | Y |
| **Total** | **10.0** | **8.0** | **8.0** | **4.0** |
| **9. Structural reforms** | | | | |
| Creation of municipal cadre | 5.0 | Y | Y | Y |
| Standing committee for municipal matters (engineering, accounts, health, welfare etc.) | 2.5 | Y | Y | Y |
| Involvement of elected representatives in decision making process | 1.5 | Y | Y | Y |
| Dispute resolution mechanism | 1.0 | N | N | N |
| **Total** | **10.0** | **9** | **9** | **9** |
| **10. Encouraging public private participation** | | | | |
| Project initiatives planned through PPP | 6.0 | Y | Y | Y |
| Setting up of PPP cell at state level | 2.0 | Y | Y | Y |
| Formulation of PPP policies and governance framework | 2.0 | Y | Y | Y |
| **Total** | **10.0** | **10.0** | **10.0** | **10.0** |
| **Total optional reforms score** | **100.0** | **87.0** | **87.0** | **75.0** |
| **Total score (23 reforms)** | **230.0** | **200.0** | **198.0** | **176.0** |

Note: **Property ax**: * 25%-50%: 1, above 50% to less than 85%: 2, 85% and above: 3, **Collection: 25%-50%: 1, above 50% to less than 75%: 1.5, Above 75% to less than 90%: 2.5, 90% and above:3

**WS & SWM**: *Collection of user charges will be considered as part of property tax if accounted under a separate head of account.
**Score**: 15 to 25%:1, 25 to 50%:2, Above 50% to 75%: 3, Above 75% to less than 100%: 3.5, 100% and above: 4
**74th CAA**: ***States exempted under 6th schedule of Constitution will be considered as having achieved this module. Also, in States having no region eligible to be declared as metropolitan region, these 2 marks will be assigned pro-rata to their items.

Source:

**ULB level Reforms**

| | | Jaipur | Ajmer | Pushkar |
|---|---|---|---|---|
| **1 e-Governance** | | | | |
| Property tax | 1.25 | Y | Y | Y |
| Accounting | 1.25 | Y | Y | N |
| Water supply & other utilities | 1.25 | Y | Y | N |
| Birth & death registration and health programmes | 1.25 | Y | Y | Y |
| Citizens’ grievance monitoring | 1.25 | Y | Y | Y |
| Personnel management system | 1.25 | Y | Y | Y |
| Building plan approval | 1.25 | Y | Y | Y |
| e-procurement | 1.25 | Y | Y | Y |
| **Total** | **10.0** | **10.00** | **10.00** | **7.50** |
| **2. Shift to actual based double entry accounting** | | | | |
| Preparation of State municipal accounting manual | 1.5 | Y | Y | Y |
| Manual approval & adoption by the local body | 1.5 | Y | Y | N |
| Listing the Assets and liabilities at ULB level | 1.0 | Y | Y | N |
| Valuation of assets | 1.0 | Y | Y | N |
| Preparation of opening balance sheet | 1.0 | Y | Y | N |
| Migration to DEAS | 1.5 | Y | Y | N |
| Appointment of Audit officers/CA/cadre | 2.5 | Y | Y | N |
| **Total** | **10.0** | **10.00** | **10.00** | **1.50** |
| **3. Property tax ( 85% Coverage)** | | | | |
| Notification/amendment of Act on collection of property tax | 1.0 | Y | Y | Y |
| Extending of property tax to all properties | 1.0 | Y | Y | Y |
| Posting of tax details in the public domain & migration to standardized self-assessment system of property taxation on the basis of periodic revisions and review of rates | 1.0 | Y | Y | Y |
| Setting up non-discretionary method for determination of property tax (unit area method or capital value method) | 1.0 | N | N | N |
| Coverage (85%) | 3.0 | 1.0 | 1.0 | 1.0 |
| Collection efficiency (90%) | 3.0 | 1.0 | 1.0 | 1.0 |
| **Total** | **10.0** | **5.00** | **5.00** | **5.00** |
| **4. 100% O&M cost recovery in water supply & SWM** | | | | |
| Formulate & adopt a policy on user charges | 1.0 | Y | Y | Y |
| Separate accounting system for user charges- water supply | 0.5 | N | N | N |
| Separate accounting system for user charges- SWM | 0.5 | N | N | N |
| Collection O&M charges (WS) | 4.0 | 2.0 | 2.0 | 2.0 |
| Collection O&M charges (SWM) | 4.0 | 1.0 | 1.0 | 2.0 |
| **Total** | **10.0** | **4.00** | **4.00** | **5.00** |
| **5. Internal earmarking of fund for services to urban poor** | | | | |
| Formulate & adopt a policy on earmarking funds for urban poor | 2.5 | Y | Y | Y |
| Creation of separate municipal budget for “services to the urban poor” | 2.5 | Y | Y | Y |
| Targeted expenditure (20-25%) | 2.5 | Y | Y | Y |
| Actual spent as % of budgeted | 2.5 | Y | Y | Y |
| **Total** | **10.0** | **10.00** | **10.00** | **10.00** |
| **6. Provision of basic services to urban poor** | | | | |
| 1. Creation of database of Households | 1.5 | Y | Y | Y |
| 2. Whether municipal budget has provided any funds to achieve 7 point charter services listed below | | | | |
| Housing | 1.0 | Y | Y | Y |
| Water supply | 1.5 | Y | Y | Y |
| Sanitation | 1.5 | Y | Y | Y |
| SWM | 1.5 | Y | Y | Y |
| Primary education | 1.0 | N | N | N |
| Healthcare | 1.0 | Y | N | N |
| Social security | 1.0 | Y | N | N |
| **Total** | **10.0** | **9.00** | **7.00** | **7.00** |

| Total ULB level score | 60.0 | 48.00 | 46.00 | 36.00 |
|---|---|---|---|---|
| | | Jaipur | Ajmer | Pushkar |
| e- governance | 10.0 | 10.0 | 10.0 | 7.5 |
| Shift to actual based double entry accounting | 10.0 | 10.0 | 10.0 | 1.5 |
| Property tax ( 85% coverage & 90% collection efficiency) | 10.0 | 5.0 | 5.0 | 5.0 |
| 100% O&M cost recovery in water supply & SWM | 10.0 | 4.0 | 4.0 | 5.0 |
| Internal earmarking of fund for services to urban poor | 10.0 | 10.0 | 10.0 | 10.0 |
| Provision of basic services to urban poor | 10.0 | 9.0 | 7.0 | 7.0 |
| **Total ULB level score** | **60.0** | **48.0** | **46.0** | **36.0** |
| **State level reforms** | | | | |
| Implementation of 74th CAA | 15.0 | 14.5 | 14.5 | 14.5 |
| Integration of city planning & delivery function | 5.0 | 3.0 | 3.0 | 3.0 |
| Reforms in rent control | 10.0 | 10.0 | 10.0 | 10.0 |
| Stamp duty rationalization to 5% | 10.0 | 10.0 | 10.0 | 10.0 |
| Repeal of ULCRA | 10.0 | 10.0 | 10.0 | 10.0 |
| Enactment of community participation law | 10.0 | 7.5 | 7.5 | 7.5 |
| Enactment of public disclosure law | 10.0 | 10.0 | 10.0 | 10.0 |
| **Total state level reforms** | **70.0** | **65.0** | **65.0** | **65.0** |
| **Optional reforms (state level/ULB level)** | | | | |
| Introduction of property title certification system in ULBs | 10.0 | 0.0 | 0.0 | 0.0 |
| Revision of building byelaws– streamlining the approval process | 10.0 | 10.0 | 10.0 | 5.0 |
| Revision of building byelaws– to make rainwater harvesting mandatory | 10.0 | 10.0 | 10.0 | 10.0 |
| Earmarking 25% developed land in all housing projects for EWS/LIG | 10.0 | 10.0 | 10.0 | 10.0 |
| Simplification of legal and procedural framework for conversion of agricultural land for-non-agricultural purposes | 10.0 | 10.0 | 10.0 | 10.0 |
| Introduction of computerized process of registration of land and property | 10.0 | 10.0 | 10.0 | 7.0 |
| Byelaws of reuse of recycled water | 10.0 | 10.0 | 10.0 | 10.0 |
| Administrative reforms | 10.0 | 8.0 | 8.0 | 4.0 |
| Structural reforms | 10.0 | 9.0 | 9.0 | 9.0 |
| Encouraging public private participation | 10.0 | 10.0 | 10.0 | 10.0 |
| **Total optional reforms score** | **100.0** | **87.0** | **87.0** | **75.0** |
| **Total score (23 reforms)** | **230.0** | **200.0** | **198.0** | **176.0** |
| **% of reforms achievement** | | **87%** | **86%** | **77%** |

## 7.6: Conclusion

The local bodies have been assigned the powers of taxation and expenditure responsibilities since the inception of the federal structure of governance in India. In order to increase the autonomy of these bodies further the constitutional sanctity have been assigned to them under the 73rd and 74th amendment act. In addition to this, the central and state government transferred revenues to strengthen their revenue capacity. However larger asymmetry was observed between their revenue capacity and expenditures responsibilities which deteriorated the financial position of these bodies. To make the fiscal health of these bodies strong State Finance Commissions have been appointed which consider about the financial position of the bodies and recommends required amount of revenue transfers from the state to these bodies. However, despite the appointment of four such commissions and acceptance of their recommendations no improvement has been found in the fiscal health of such bodies. State has to expedite the process of assigning full autonomy as regard to its taxation powers and expenditures responsibilities.

## Appendix 7.1

## Rajasthan Municipal Act, 2009

The Rajasthan Municipal Act, 2009 has the following provisions.

**Sec.101 Internal Revenues of Municipality**: The internal revenues of the municipality shall consist of its receipts from the following sources, namely:

(a) taxes levied by the Municipality.
(b) user charges levied by the Municipality for provision of civic services, and
(c) fees and fines levied for performance of regulatory and other statutory functions.

**Sec. 102 Obligatory taxes:**

1 Subject to the provisions of section 4, every municipality may, and if so required by the State Government shall, levy, at such rate and from such date as the State Government in each case direct by notification in the Official Gazette and in such manner as is laid down in this Act and as may be provided in the rules made by the State Government in this behalf, the following taxes, namely:

(a) tax on lands and buildings (called by whatever name) situated in the municipal limits, by unit area base method or by any other method;
(b) tax on professions, trades , callings and employment;
(c) a tax for pollution control from the trade and industries which are the source of environment pollution within the municipal limits;
(d) a tax on permissible display or advertisements on public place or on private land or building.
(e) any other tax which State Government has power to impose under the Constitution of India.

Provided that upon a representation made to it by and at the request of a Municipality, the State Government, if it is satisfied that circumstances exist which sufficiently provide the justification for a Municipality not to levy, or to stop the levy, or reduce the rate of, any of the taxes mentioned in this section, may, by special order published in the Official Gazette, along with the reasons for making such order, permit the Municipality nor to levy, or to stop the levy, or reduce the rate, of any such tax.

2 A direction under sub-section (1) may provide for the levy of taxes at different rates in different Municipalities having regard to their varying local conditions and needs, and on the same considerations and by a like direction, the State Government may, from time to time vary uniformly or differently in relation to different municipalities, the rates of taxes levied.

**Sec. 103 Other taxes that may be improved**

1 Subject to any general or special orders of the State Government in this behalf, a Municipality may impose and levy in the whole or any part of the Municipality for which it is established, all or any of the following taxes, namely:

* a tax on vehicle plying within the Municipality;
* a tax on boats moored within the Municipality;
* a lighting tax;
* a tax on congregations;
* tax on pilgrims and tourists;
* a tax on land or building used for erecting hoardings or any other structures for advertisement;
* fire tax;

* a tax on deficit in parking spaces in any non-residential building;
* a surcharge on stamp duty at the rate not exceeding (10%) of the stamp duty;
* any other tax which the State Government has power to impose under the Constitution.

2 Nothing in this section shall authorize or be deemed to authorize the imposition or levy of any tax, which the State Government has no power under the Constitution to impose or levy in the State.

3 The levy, assessment and collection of taxes under this section shall be in accordance with the provisions of this Act and the rules and the byelaws made there under.

**Sec. 104 Power to levy user charges:** The Municipality may levy user charges for

(a) provision of drainage and sewerage,
(ii) solid waste management
(iii) Parking of different types of vehicles in different areas and for different periods,
(iv) stacking of materials or rubbish on public streets for construction, alteration, repair or demolition work of any type; and
(v) any other civic service, in such manner, and at such rates as may be determined by it from time to time with prior approval of the State Government;

Provided that the State Government may direct the Municipality to levy any of the user charges as aforesaid, which the Municipality has not levied or has postponed.

**Sec. 105 Power to levy fees and fines**

The Municipality shall have the power to levy fees and fines in exercise of the regulatory powers vested in it by or under this Act or the rules or the bye-laws made there under for

(a) sanction of building plans and issue of completion certificates,
(b) issue of municipal licenses for various, non-residential uses of lands and buildings,
(c) licensing of
    (i) various categories of professionals such as plumbers and surveyors,
    (ii) various activities such as sinking of tube-wells, sale of meat, fish or poultry, or hawking of articles,
    (iii) sites used for advertisements or premises used for private markets, slaughterhouses, hospitals, nursing homes, clinics, factories, warehouses, godowns, goods transport depots, eating-houses, lodging-houses, hotels, theatres, cinema-houses, lodging-houses, hotels, theatres, cinema-houses and places of public amusement and for other non-residential uses.
    (iv) animals.
    (v) carts or carriages, and
    (vi) such other activities as require a license or permission under the provisions of this Act, and
(d) issue of birth and death certificates, in accordance with the provision of this Act, and the rules or bye-laws made there under.

**Sec. 106 Power to levy development charge:**

1 The Municipality may levy such development charge as may be determined by byelaws, from time to time
    (a) on any residential building with a height of more than fourteen meters, or any non-residential building, having regard to its location along a particular category of street, its use characteristics, and sanctioned built up area, and
    (b) for development or redevelopment of any existing area, in accordance with any development plan or while approving any sub division plan of that area.

2 Any such development charge shall be paid in advance by the developer before commencing any activity on the approved plan or sub-division.

3 In case of redevelopment of the area, the charge shall be payable by all the residents and beneficiaries of the development.

4 The Municipality shall keep a separate account of such development charge and shall not divert it for any other use.

**Appendix 7.2**
**Revenue of ULBs in Rajasthan by Sources (Rs. lakhs)**

| **Sources** | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|---|---|---|---|---|---|---|---|
| **Tax Revenue** | **17478.79** | **23493.79** | **25580.92** | **26811.64** | **10935.94** | **4246.02** | **2092.42** |
| Octroi | 16395.31 | 22156.76 | 23972.09 | 25122.65 | 9507.94 | 2812.31 | 17.33 |
| Land & Building tax | 719.10 | 802.16 | 1065.62 | 1076.90 | 1094.01 | 1254.64 | 1872.61 |
| **Obligatory taxes** | **17114.41** | **22958.92** | **25037.71** | **26199.55** | **10601.95** | **4066.95** | **1889.94** |
| Tax on Vehicles | 30.20 | 38.58 | 39.42 | 25.68 | 8.92 | 9.04 | 7.52 |
| Tools | 116.93 | 145.30 | 146.31 | 221.90 | 78.34 | 8.36 | 8.23 |
| Terminal tax | 16.22 | 22.23 | 18.73 | 16.78 | 10.99 | 6.63 | 22.84 |
| Passenger tax | 84.96 | 98.53 | 103.81 | 104.18 | 111.18 | 112.57 | 100.85 |
| Other taxes | 116.07 | 230.23 | 234.94 | 243.55 | 124.56 | 42.47 | 63.04 |
| **Discretionary Taxes** | **364.38** | **534.87** | **543.21** | **612.09** | **333.99** | **179.07** | **202.48** |
| **Non Tax Revenue** | | | | | | | |
| Bye laws | 905.28 | 665.65 | 1987.94 | 1202.42 | 1326.50 | 1071.27 | 2150.80 |
| Properties | 401.90 | 459.82 | 530.22 | 565.60 | 611.38 | 647.96 | 843.75 |
| Act | 65.14 | 63.99 | 76.61 | 80.81 | 58.31 | 95.87 | 188.56 |
| Fines & Penalties | 91.26 | 128.76 | 140.88 | 127.84 | 108.07 | 136.15 | 212.64 |
| Water Works | 8.92 | 56.30 | 63.87 | 40.67 | 29.81 | 72.36 | 26.66 |
| Interest | 232.26 | 293.51 | 458.55 | 446.75 | 583.46 | 523.96 | 272.84 |
| Sales of Land | 1768.34 | 1911.96 | 2983.13 | 2686.63 | 2664.79 | 3151.03 | 3892.42 |
| Miscellaneous | 1017.17 | 1386.06 | 1660.24 | 2227.79 | 2122.40 | 1993.81 | 1553.19 |
| **Total Internal Income** | **4490.27** | **4966.05** | **7901.44** | **7378.51** | **7504.72** | **7692.41** | **9140.86** |
| General Purpose Grant | 1061.81 | 1381.82 | 1635.24 | 2268.48 | 2459.41 | 2174.98 | 2019.51 |
| Special Grants (RD&DR) | 511.50 | 1661.62 | 1219.43 | 1245.08 | 1877.80 | 890.97 | 1220.40 |
| Compensation for Octroi | 35.70 | 64.26 | 57.24 | 800.04 | 18705.92 | 28670.38 | 35004.53 |
| Grant under SFC | 123.07 | 726.60 | 630.20 | 1185.57 | 1848.51 | 1303.49 | 593.22 |
| Grant under TFC | 200.61 | 479.02 | 186.00 | 1250.11 | 1162.82 | 596.30 | 1720.93 |
| Special Assistance | 708.82 | 1612.12 | 2104.78 | 1711.46 | 2407.57 | 1421.49 | 934.63 |
| Share of entry tax | 33.32 | 29.46 | 38.73 | 112.60 | 1052.89 | 23.79 | 22.85 |
| Loans | 270.01 | 569.68 | 562.25 | 791.88 | 1601.72 | 680.55 | 557.50 |
| Miscellaneous | 2539.34 | 3247.79 | 4190.38 | 5002.70 | 5594.86 | 4124.98 | 6005.52 |
| **Total External Income** | **5484.18** | **9772.37** | **10624.25** | **14367.92** | **36711.50** | **39886.93** | **48079.09** |
| **Total Non tax revenue** | **9974.45** | **14738.42** | **18525.69** | **21746.43** | **44216.22** | **47579.34** | **57219.95** |
| **Grand Total** | **27453.24** | **38232.21** | **44106.61** | **48558.07** | **55152.16** | **51825.36** | **59312.37** |

Source: Reports of State Finance Commissions and Directorate of Local Self Government, Rajasthan Annual Reports.

**Appendix 7.2**
**Contd.:**

| **Sources** | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---|---|---|---|
| **Tax Revenue** | **2588.51** | **2622.91** | **3017.58** | **2368.17** |
| Octroi | 2.67 | 68.95 | 1159.55 | 287.38 |
| Land & Building tax | 2207.68 | 2022.82 | 1165.88 | 1603.99 |
| ***Obligatory taxes*** | **2210.35** | **2091.77** | **2325.43** | **1891.37** |
| Tax on Vehicles | 11.66 | 13.44 | 14.71 | 19.43 |
| Tools | 6.55 | 5.17 | 7.02 | 4.45 |
| Terminal tax | 25.02 | 30.08 | 24.92 | 24.27 |
| Passenger tax | 139.21 | 158.74 | 182.94 | 184.21 |
| Other taxes | 195.72 | 323.71 | 462.56 | 244.44 |
| ***Discretionary Taxes*** | **378.16** | **531.14** | **692.15** | **476.8** |
| **Non Tax Revenue** | | | | |
| Bye laws | 3657.03 | 4125.42 | 2959.88 | 3081.83 |
| Properties | 1001.95 | 956.44 | 934.87 | 953.63 |
| Act | 774.24 | 932.87 | 622.35 | 815.00 |
| Fines & Penalties | 264.44 | 226.96 | 186.72 | 270.07 |
| Water Works | 100.71 | 98.49 | 134.85 | 131.28 |
| Interest | 514.08 | 531.41 | 382.61 | 619.96 |
| Sales of Land | 5975.78 | 4770.69 | 4531.16 | 5349.90 |
| Miscellaneous | 1953.04 | 1698.34 | 1959.06 | 2012.42 |
| **Total Internal Income** | **14241.27** | **13340.62** | **11711.5** | **13234.09** |
| General Purpose Grant | 2063.39 | 1970.55 | 2128.75 | 2122.72 |
| Special Grants (RD&DR) | 2056.88 | 1618.74 | 1615.49 | 4128.70 |
| Compensation for Octroi | 36750.91 | 38546.54 | 40377.83 | 44390.19 |
| Grant under SFC | 3695.54 | 2335.14 | 2280.71 | 3625.97 |
| Grant under TFC | 4232.03 | 1479.28 | 2456.94 | 3559.69 |
| Special Assistance | 1291.72 | 1328.03 | 1585.57 | 1297.15 |
| Share of entry tax | 74.03 | 59.82 | 196.94 | 143.25 |
| Loans | 214.37 | 185.39 | 419.67 | 577.82 |
| Miscellaneous | 7069.74 | 7310.90 | 7615.23 | 9292.84 |
| **Total External Income** | **57448.61** | **54834.39** | **58677.13** | **69138.33** |
| **Total Non Tax Revenue** | **71689.88** | **68175.01** | **70388.63** | **82372.42** |
| **Grand Total** | **74278.39** | **70797.92** | **73406.21** | **84740.59** |

Source: Reports of State Finance Commissions and Directorate of Local Self Government, Rajasthan Annual Reports.

**Appendix 7.2**
**Contd.**

| **Sources** | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| **Tax Revenue** | **4123.18** | **2756.13** | **2287.21** | **2874.17** | **12481.66** | **17282.15** |
| Octroi | 334.03 | 250.85 | 366.31 | 389.53 | 809.50 | 1667.37 |
| Land & Building tax | 3411.92 | 1949.59 | 837.81 | 702.87 | 4005.50 | 5724.53 |
| Urban Development Tax | | | | 1198.43 | 2208.87 | 3155.59 |
| ***Obligatory taxes*** | **3745.95** | **2200.44** | **1204.12** | **2290.83** | **7023.87** | **10547.49** |
| Tax on Vehicles | 20.39 | 24.30 | 259.31 | 67.19 | 52.22 | 84.15 |
| Tolls | | | | | 4697.41 | 5323.39 |
| Terminal tax | 8.82 | 13.59 | 54.23 | 11.80 | 11.77 | 18.55 |
| Passenger tax | 203.09 | 223.64 | 272.92 | 203.64 | 221.36 | 312.48 |
| Other taxes | 144.93 | 294.16 | 496.63 | 300.71 | 475.03 | 996.09 |
| ***Discretionary Taxes*** | **377.23** | **555.69** | **1083.09** | **583.34** | **5457.79** | **6734.66** |
| **Total Internal Income** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Bye laws | 4839.74 | 7020.61 | 6793.41 | 6830.06 | 8316.93 | 8983.34 |
| Properties | 1359.61 | 1355.37 | 1441.87 | 1721.92 | 4645.45 | 4875.00 |
| Act | 1294.98 | 1324.45 | 1892.52 | 1836.90 | 3438.25 | 3887.52 |
| Fines & Penalties | 272.58 | 415.42 | 671.43 | 609.14 | 905.02 | 926.06 |
| Water Works | 126.23 | 25.38 | 106.20 | 229.68 | 206.65 | 206.68 |
| Interest | 1065.17 | 714.43 | 6136.71 | 1420.66 | 951.50 | 2051.38 |
| Sales of Land | 10469.86 | 14167.29 | 21037.85 | 24933.12 | 21293.47 | 31056.00 |
| **Total Internal Income** | **19428.17** | **25022.95** | **38079.99** | **37581.48** | **39757.27** | **51985.98** |
| General Purpose Grant | 2106.12 | 2106.12 | 2203.26 | 1151.66 | 2234.93 | 2303.00 |
| Special Grants (RD&DR) | 685.07 | 2374.02 | 1990.02 | 5374.91 | 3399.12 | 4088.41 |
| Compensation for Octroi | 49496.62 | 54446.00 | 56663.94 | 62764.79 | 74716.33 | 74100.67 |
| Misc. Income (recurring) | 4062.55 | 5030.09 | 6395.60 | 9492.48 | 9287.21 | 7136.34 |
| Misc. Income (Non recurring) | 11637.51 | 11702.24 | 15979.81 | 26780.92 | 25509.43 | 21675.93 |
| Special Assistance & Loans | 14336.11 | 16034.90 | 25468.27 | 41737.41 | 48797.27 | 36718.54 |
| Miscellaneous | | | | | 64123.54 | 64937.85 |
| **Total External Income** | **82323.98** | **91693.37** | **108700.90** | **147302.20** | **228067.80** | **210960.70** |
| **Total Non tax revenue** | **101752.15** | **116716.32** | **146780.89** | **184883.70** | **267825.10** | **262946.70** |
| **Grand Total** | **105875.33** | **119472.45** | **149068.10** | **187757.82** | **280306.76** | **280228.87** |

Source: Reports of State Finance Commissions and Directorate of Local Self Government, Rajasthan Annual Reports.

**Appendix 7.3:**

## Functions and Powers of PRIs under the Rajasthan Panchayati Raj Act, 1994

Sections 50 to 52 of the Rajasthan Panchayati Raj Act lay down the functions and powers of the three tiers of PRIs. These sections mention that subject to such conditions as may be prescribed by the state government from time to time these institutions shall perform the functions and exercise the powers given in First, Second and the Third Schedule. Below is the list of the functions in the three Schedules:

The First Schedule: Functions and Powers of Gram Panchayats

- General Functions
- Administrative Functions
- Agriculture including Agriculture Extension
- Animal Husbandry, Dairying and Poultry
- Fisheries
- Social and Farm Forestry
- Minor Irrigation
- Khadi, Village and Cotton Industry
- Rural Housing
- Drinking Water
- Roads, Buildings, Culverts, Bridges, Ferries, Waterways, and other Means of Communications
- Rural Electrification including Providing for the maintenance of Lighting of Public Streets and other Places
- Non-Conventional Energy Sources
- Poverty Alleviation Programme

- Education (Primary)
- Adult and Non-Formal Education
- Libraries
- Cultural Activities
- Markets and Fairs
- Rural Sanitation
- Public Health and Family Welfare
- Women and Child Development
- Social Welfare including Welfare of the Handicapped and Mentally Retarded
- Welfare of the Weaker Sections and in particular the Schedule Castes and Schedule Tribes
- Public Distribution System
- Maintenance of Community Assets
- Constructions and Maintenance of Dhramshalas and similar Institutions
- Construction and Maintenance of Cattle Shades, Ponds, and Cart Stands
- Construction and Maintenance of Slaughter Houses
- Maintenance of Public Parks, Playgrounds etc.
- Regulation of Manure Pits and Public Places
- Regulation of Liquor Shops
- General Powers of the Panchayats

The Second Schedule: Functions and Powers of Panchayat Samitis

1. General Functions
2. Agriculture including Agriculture Extension
3. Land Improvement and Soil Conservation
4. Minor Irrigation, Water Management and Watershed Development
5. Poverty Alleviation Programme
6. Animal Husbandry, Dairying and Poultry
7. Fisheries
8. Khadi, Village and Cotton Industries
9. Rural Housing
10. Drinking Water
11. Social and farm Forestry, Fuel and Fodder
12. Roads, Buildings, Culverts, Bridges, Ferries, Waterways, and other Means of Communications
13. Non-Conventional Energy Sources
14. Education including Primary Schools
15. Technical Training and Vocational Training
16. Adult and Non-Formal Education
17. Cultural Activities
18. Markets and Fairs
19. Health and Family Welfare
20. Women and Child Development
21. Social Welfare including Welfare of the Handicapped and Mentally Retarded
22. Welfare of the Weaker Sections and in particular the Schedule Castes and Schedule Tribes
23. Maintenance of Community Assets
24. Statistics
25. Emergency Relief
26. Co-operation
27. Libraries
28. Supervision of and Guidance to the Panchayats in all their Activities and Formulation of Village and Panchayat Plans
29. Miscellaneous
30. General Powers of the Panchayat Samiti

The Third Schedule: Functions and Powers of Zila Parishads
General Functions

- Agriculture
- Minor Irrigation, Ground Water Resources and Watershed Development
- Horticulture
- Statistics
- Rural Electrification
- Soil Conservation
- Social Forestry
- Animal Husbandry and Dairying
- Fisheries
- Household and Cottage Industries
- Rural Roads and Buildings
- Health and Hygiene
- Rural Housing
- Education
- Social Welfare and Welfare of Weaker Sections
- Poverty Alleviation Programmes
- Social Reform Activities

# Chapter 8

# Impact of Power Sector Reforms on Rajasthan's Fiscal Health

## 8.1 Introduction

Power sector in most states of India has become a fiscal drag. Several state governments have therefore initiated measures to contain its perverse influence. On March 21, 2000, the Government of Rajasthan approved a provisional Financial Restructuring Plan of the state power sector and drafted a provisional transfer scheme. On July 19, 2000, GoR accomplished the first major reform milestone by notifying "Rajasthan Power Sector Reforms Transfer Scheme 2000" and thereby restructured its vertically integrated Electricity Board (RSEB) to form 5 successor companies namely (*see* Rajasthan Power Sector, 2005):

* Rajasthan Rajya Vidyut Utpadan Nigam Limited (RVUN) to manage the electricity generation business of erstwhile RSEB.
* Rajasthan Rajya Vidyut Prasaran Nigam Limited (RVPN) to manage the electricity transmission and bulk supply business of erstwhile RSEB. In addition, RVPN owns Rajasthan's capacity share in the shared power stations of BBMB, Chambal Complex, and Satpura.
* Jaipur Vidyut Vitran Nigam Limited (Jaipur DISCOM) to manage the electricity distribution and retail supply business of erstwhile RSEB in Alwar, Bharatpur, Jaipur city, Jaipur district, Dausa, Kota, Jhalawar, and Sawai Madhopur circles.
* Ajmer Vidyut Vitran Nigam Limited (Ajmer DISCOM) to manage the electricity distribution and retail supply business of erstwhile RSEB in Banswara, Udaipur, Chittorgarh, Bhilwara, Ajmer, Nagaur, Sikar, and Jhunjhunu circles.
* Jodhpur Vidyut Vitran Nigam Limited (Jodhpur DISCOM) to manage the electricity distribution and retail business of erstwhile RSEB in Sriganganagar, Hanumangarh, Churu, Bikaner, Barmer, Jodhpur city, Jodhpur district, and Pali circles.

## 8.2 Policy initiatives undertaken by the Government of Rajasthan

In 1991, Government of India opened the power generation industry to private sector investment in an effort to mobilise resources for power generation. In 1993, Government of Rajasthan decided to reform its power sector with the objective of creating conditions for sustainable development of the power sector and improving efficiency and quality of service to the consumers by allowing private participation in the State power sector, particularly in generation. This was followed by a Broad Reform Policy Statement, issued in September 1995, with the aim of attracting private investment and expertise to expand and improve electricity services in the State and to enable the sector to gain access to capital markets and commercial financing.

In the past almost exclusive reliance was placed on facilitating private power generation through Independent Power Producers (IPP's) and transfer of selected existing generating stations to the private sector adopting the international competitive bidding route. Letters of intent were issued for liquid fuel based power plants of smaller capacity ranging between 50 MW to 166 MW having low gestation period and Power Purchase Agreements (PPA's) were signed for 2646 MW capacity. PPA's were also signed for 702 MW naptha based and 500 MW lignite based projects. Though these two projects received the techno-economic clearance of Central Electricity Authority (CEA), yet in neither case financial closure has been attained. Thus there has been virtually no progress in regard to implementation of these projects. Slow progress of private sector projects have given rise to the need to pursue the power generation projects in the State sector with greater vigor, while continuing to support private sector initiatives in generation.

With this end, the State Government has decided to take up the 2x250 MW Suratgarh Thermal Power Station Stage II in the State sector. Simultaneously, on the basis of the recommendations of a Cabinet Sub Committee, especially set up for this purpose, some of the PPA's, previously signed, have been reviewed with a view to increase the prospects of their achieving quick financial closure.

Government of Rajasthan has also announced a policy to encourage generation based on non-conventional energy sources, on 11$^{th}$ March 99, in which a number of concessions have been offered.

Presently the agricultural sector, and to a lesser extent the domestic sector, are highly subsidized, resulting in annual revenue deficit. This shortfall is compensated by subsidies from the State Government and long term borrowings from the open market and financial institutions. The reforms programme aims to eliminate need for any State subsidies in a phased manner and make the power sector not only self-reliant but a net generator of resources for the State's economy over a period of time. . In case of Rajasthan, the government has a huge contingent liability on PSUs in general and DISCOM in particular.

To meet the growing requirements of investment in power sector for improved availability of power, the State Government undertakes that the resources generated as a result of the divestitures of the existing entities shall be ploughed back specifically for the development of the power sector.

The State has added significantly to power generation capacity. However, much of State's power generation is based on coal which requires to be transported from long distances adding to cost of power generation. The State has virtually no natural resource for generation of power, except abundance of sun shine. However, solar power is still quite costly. Owing to its natural disadvantages in power generation, the State has to depend on inter-State and Central sector power generating units for meeting its requirements. For transmitting power from distant sources, mostly located outside the State or at the south-eastern and southern peripheries of the State, huge investments in the distribution system (both transmission and sub-transmission) are required to be made. Long distance leads to larger transmission losses, which ultimately affect the revenues of the Power Companies for which adequate compensation in the form of subsidies has to be provided by the State Government. While the State charges 90 paise per unit of power supplied to agriculture, and there are virtually no subsidy for other classes of the electricity consumers, the higher cost of power generation and transmission losses has forced the State to recover only about 60 percent of the cost of power generation requiring massive support from the State exchequer to the power sector.

**8.3 Conclusion:**

Power sector plays a vital role in shaping the fiscal health of the state through the revenue generation with the provision of power supply to different investment sectors which in turn further the flow of income to the state. However it has been observed that despite the various remedial measures undertaken by Rajasthan government the power sector has not been self sufficient. In addition to it, it has withdrawn a large amount of money from the state exchequer in the form of subsidies. This has adversely affected the fiscal health of the state.

The summary of recommendations made by the Fourth SFC in Interim Reports for the year 2010-11 to 2012-13 with respect to fmancial devolution to the local bodies is as under:

In the first Interim Report which pertains to the years 2010-11 and 2011-12, the following recommendations were made: (a) 3 Percent of State's net own tax revenue to be devolved to the local bodies and (b) The distribution of funds between PRIs and ULBs be made in ratio of 75.7:24.3 based on projected population as on 1st March, 2005. Accordingly the SFC worked out the share of these bodies as indicated below:-

**Rs. in crore**

| Institutions | 2010-11 | 2011-12 |
|---|---|---|
| Panchayati Raj Institutions | 420.15 | 460.90 |
| Urban Local Bodies | 134.87 | 147.95 |
| **Total** | **555.02** | **608.85** |
| | | |

(i) The Interim Report—II for the year 2012-13, contained the following recommendations:

(a) Percent of State's net own tax revenue to be devolved to the local bodies.

(b) The distribution of funds between PRIs and ULBs be made in ratio of 75.1:24.9 based on population of rural and urban areas as per Census 2011. Accordingly the SFC worked out the share of these bodies as indicated below:-

**Rs. in crore)**

| Institutions | 2012-13 |
|---|---|
| Panchayati Raj Institutions | 980.47 |
| Urban Local Bodies | 325.08 |
| **Total** | **1305.55** |

Besides, the Commission also recommended for transfer of 3% amount of royalty on minerals, 100% Land Revenue to Gram Panchayats and devolution of 25% of Entry Tax, 3% of Royalty on Petroleum, 2% cess on Excise Duty and 10% surcharge on Stamp duty to PRIs and ULBs.

The norms of Zakaria Committee are very old and do not have much relevance in the present day scenario. Since 1963 significant changes have occurred in the life style of the citizens and their livelihood. In view of this, the Fourth State Finance commission got a study conducted for assessment of physical and financial norms of core civic functions as laid down in the Rajasthan Municipalities Act, 2009. According to the Study Report, per capita norms for core functions separately for capital and maintenance under different categories work out as follows:

| Functions | Municipal Corporation | Municipal Council | Mun. II | Mun. III | Mun. IV |
|---|---|---|---|---|---|
| **Solid Waste Management** | | | | | |
| **Total** | **356.91** | **346.37** | **338.85** | **317.81** | **315.00** |
| Operational | 356.91 | 346.37 | 338.85 | 317.81 | 315.00 |
| Capital | | | | - | - |
| **Street Lighting** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Total** | **225.08** | **215.76** | **218.79** | **209.10** | **211.03** |
| Operational | 76.81 | 67.45 | 68.40 | 58.83 | 59.35 |
| Capital | 148.27 | 148.31 | 150.39 | 150.27 | 151.68 |
| **Public Toilet** | | | | | |
| **Total** | **1.63** | **7.60** | **7.54** | **6.77** | **17.40** |
| Operational | 1.63 | 7.60 | 7.54 | 6.77 | 17.40 |
| Capital | | - | - | | |
| **Public Health** | | | | | |
| **Total** | **6.92** | **7.10** | **8.31** | **5.25** | **5.48** |
| Operational | 6.92 | 7.10 | 8.31 | 5.25 | 5.48 |
| Capital | | | - | | - |
| Public **Park** | | | | | |
| **Total** | **45.18** | **58.34** | **57.54** | **13.54** | **14.81** |
| Operational | 32.51 | 41.77 | 41.59 | 9.81 | 11.61 |
| Capital | 12.67 | 16.57 | 15.95 | 3.73 | 3.20 |
| **Community Hall** | | | | | |
| **Total** | **1.33** | **11.31** | **10.41** | **14.53** | **10.67** |
| Operational | 1.33 | 11.31 | 10.41 | 14.53 | 10.67 |
| Capital | - | - | | - | |
| **Grand Total** | **637.05** | **646.48** | **641.44** | **567.00** | **574.39** |
| Operational | 476.11 | 481.60 | 475.10 | 413.00 | 419.51 |
| Capital | 160.94 | 164.88 | 166.34 | 154.00 | 154.88 |

Keeping in view the spirit of the 73[11] and 74th amendments and the need to provide an impetus to the decentralisation process, the Thirteenth Finance Commission recommended a sum of Rs.87519 crore for the period 2010-15 as grants-in-aid to augment the consolidated fund of the States to supplement the resources of the Municipalities and Panchayats. This amount was equivalent to 1.93 percent of the shareable tax revenues receipts of the centre as estimated by the Commission during the period 2010-15. It would be appreciated that in view of the economic slowdown and increased burden of pay and allowances, the local bodies would also face problem of resources. For maintaining the adequate level of civic amenities and to shoulder the responsibilities bestowed upon them under the Constitution, there is a need to strengthen the local bodies financially and, therefore, the devolution amount for the local bodies should be enhanced.

# Chapter 9

# Rajasthan State Government Subsidies
## Targeting and Evaluation

### 9.1 Rationale of Subsidy:

Subsidy refers to grant by a government to a private person or company to assist an enterprise deemed advantageous to the public. The economic rationale behind subsidy in basically a welfare state is to keep price of output (commodity or service) low. "Subsidies are used to modify market outcomes, especially to take account of positive externalities, and, sometimes, to sub-serve certain well-defined redistributive objectives"[28]. In other words, subsidies, as reverse of an indirect tax, constitute an important fiscal instrument for modifying market-determined outcomes. While taxes reduce disposable income, subsidies inject money into circulation. While taxes appear on the revenue side of government budgets, subsidies appear on the expenditure side.

It is often argued that a subsidy arises when a government programme benefits private actors. Thus, tax concessions are also a form of subsidization. Some opine that import tariffs may be construed as subsidization of import competing sectors.[29] Therefore defining subsidies only in terms of government transfers or fiscal expenditure may not yield the true picture. Depending on the context, a large number of government programmes may results in subsidies:

* First, the government may transfer funds to producers or consumers, that is, direct payment in cash or kind.
* Second, the government may provide goods or services for free or below market price and conversely, goods and services may be purchased by government at above market price.

---

28 D.K. Srivastava, C Bhujanga Rao, Pinaki Chakraborty and T.S Rangamannar (2003) *Budgetary Subsidies in India: Subsidising Social and Economic Services*, NIPFP, New Delhi.

29 Subsidy may arise due to government actions that limit competition or raise prices at which producers could sell their products. While, a subsidy may introduce certain market distortions and/ or cause production inefficiencies, there often are situations when subsidies induce an efficient solution. Again, subsidies could be inefficient, but often less so than other policy tools used to benefit certain groups. Next, direct subsidies may be *preferable* to other forms of support, such as hidden subsidies or trade barriers; just as direct taxes maybe more desirable if there was no information asymmetry. Moreover, direct subsidies may be more transparent and allow the political process wider opportunity to eliminate wasteful hidden subsidies. The issue, that hidden subsidies are relatively inefficient (economically speaking), but often favoured as they are non-transparent, is central to the political economy of subsidies. Examples of industries or sectors where subsidies often abound include utilities and farm subsidies.

* Third regulatory policies like, tax concessions may be seen as subsidies, if they create transfers from one group to another

For completeness of subsidy analysis, one should be able to refer to the following:
* Form of subsidies;
* Beneficiaries of subsidies
* Objectives and their effect - more specifically designed a programme, more likely that the intended beneficiary (objective) and the actual recipient (effect) coincide.

As far as the level of subsidies is concerned, the Finance Commission is aware that the level of subsidies provided by the Government of India is extremely excessive. The Food Subsidies, Oil Sector Subsidies and the Fertiliser Subsidies are humungous. Not only have these subsidies placed central government finances out of shape, but these have distorted markets and the economy. The Central Government excessively subsidises the urea, which have contributed to lopsided and excessive use of urea at the expense of phosphatic fertilisers leading to extensive soil health problem. Similarly, the markets in wheat and rice have been totally destroyed because of the food subsidy. Now, there is another big dimension added to the whole issue of subsidies. Increasingly, these subsidies are being turned into legal entitlements. Food Subsidy is a case in point. It would not have surprised the State if the petroleum products consumption was also turned into legal entitlements and subsidies thereon built into statutes. The State Government of Rajasthan has also gone over-board during the financial year prior to the elections 2013 in proliferating subsidy based, and in many cases, purely free of cost, populist programmes. There are large subsidies in the power sector also. The Finance Commission may need to fine tune its relief programmes to the specific subsidies this time, much as the way overall level of deficits have been controlled over the years.

### 9.1.1 Types of Subsidy

The simplest classification of subsidies is analogous to that of taxes, and one that is also amenable to incidence analysis. Thus we may have (a) direct; and (b) indirect subsidies.

#### 9.1.1.1 Direct Subsidies

Direct subsidies are perhaps the simplest to identify, but utilized less frequently. They involve a direct cash *transfer* to the recipient, for example, unemployment benefit. As income supplement to identifiable entities, such interventions are expected to induce minimum distortions in consumption and production decisions, but may likely impact the incentives towards labour and effort (and/ or factor utilization). These suffer from implementation difficulties due to incomplete and/ or asymmetric information (or insufficient tools to elicit true (individual) characteristics).

### 9.1.1.2 Indirect Subsidies

Indirect subsidy is a broad terminology covering most other forms of subsidy. The term covers transfers intended to alter consumption or production characteristics. For example, the union government expends on food and fertilizer subsidies. It also administers a cooking fuel subsidy (coal, cooking gas, kerosene). Several state governments also extend specific subsidies in the agricultural sector like in procurement of sugar, onions and cotton, ostensibly targeted to ensure (certain minimum) availability and provisioning.

**Table 9.1**
**Composition of Subsidy**

| | |
|---|---|
| **Explicit subsidy** | |
| Finance department (mostly on power) | Other expenditure |
| Animal husbandry department | Direction and administration |
| | Veterinary services and animal health |
| Horticulture department | Horticulture and vegetable crops |
| | Special component plan for SC |
| | Tribal area sub- plan |
| Industry department | Village and small industry |
| Rural development | Assistance to zilla parisads/ district level panchayat |
| **Implicit subsidy** | |
| Food, civil supply and consumer department | Civil supply schemes |

Source: *Finance Accounts*, different volumes, Controller and Auditor General of India.

## 9.2 Subsidy by Rajasthan Government

In Rajasthan, as read from the data (2007-08 to 2011-12), Expenditure subsidy is divided in to two components, (1) explicit, (2) implicit. While implicit subsidy is given to one department i.e., food, civil supply and consumer department, explicit subsidy is given to finance department (mostly on power), animal husbandry department, horticulture department, industry department, and rural development. A significant amount of subsidies in Rajasthan are explicit subsidies. Total subsidies declined from Rs.3105.13 crores in 2007-08 to Rs.1492.95 crores in 2009-10 and again started increasing thereafter and reached to Rs.3200.232 crores in 2011-12.

**Table 9.2**
**Subsidies in Rajasthan (Rs. lakhs)**

| Years | Total explicit subsidies | Total implicit subsidies | Total subsidies (explicit and implicit) |
|---|---|---|---|
| 2007-08 | 310513.13 | 0 | 310513.13 |
| 2008-09 | 143487.46 | 0 | 143487.46 |
| 2009-10 | 149294.94 | 0 | 149294.94 |
| 2010-11 | 200140.33 | 22595.94 | 222736.27 |
| 2011-12 | 319682.81 | 340.39 | 320023.20 |

Source: *Finance Account*, different volumes, Controller and Auditor General of India.

Rajasthan state government has granted a significant amount of subsidy to finance department mainly to power sector. Around 97.75 % of the explicit subsidy (significant proportion to the total subsidy; 89.86% to 100%) is given to power sector in 2007-08. The rest 2.25 % has gone to horticulture department. Over time the proportion of subsidy to power sector has reduced. It went down from 97.75 % of the explicit subsidy in 2007-08 to 87.62 % in 2011-12. State has also distributed subsidy to other departments like animal husbandry department, horticulture department, industries department, industries (group-II) department, rural development department, and food and civil supplies department (both under explicit as well implicit subsidy). However, subsidies to other departments are negligible.

**Table 9.3**
**Subsidies Released by the State Government of Rajasthan (Rs. lakhs)**

| Subsidy type | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| **Total explicit subsidy** | **310513.13** | **143487.46** | **149294.94** | **200140.33** | **319682.81** |
| Finance department | 303513.13 | 138267.40 | 145174.84 | 194611.75 | 280095.14 |
| Animal husbandry department | 0.00 | 92.00 | 191.14 | 118.99 | 614.00 |
| Horticulture department | 7000.00 | 3043.63 | 1552.39 | 2917.98 | 5828.68 |
| Industries department | 0.00 | 2.62 | 2.92 | 3.72 | 3.90 |
| Industries (group-II) department | 0.00 | 0.00 | 0.00 | 0.00 | 319.40 |
| Rural development department | 0.00 | 2081.81 | 2373.65 | 2487.89 | 1990.62 |
| Food & civil supplies department | 0.00 | 0.00 | 0.00 | 0.00 | 30831.07 |
| **Total implicit subsidy** | **0.00** | **0.00** | **0.00** | **22595.94** | **340.39** |
| Food & civil supplies department | 0.00 | 0.00 | 0.00 | 22595.94 | 340.39 |
| Total subsidy (explicit and implicit) | 310513.13 | 143487.46 | 149294.94 | 222736.27 | 320023.20 |

Source: *Finance Account*, different volumes, Controller and Auditor General of India.

**Table 9.4**
**Subsidies Released by the State Government of Rajasthan (%)**

| Subsidy type | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| **Total explicit subsidy** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |
| Finance department | 97.75 | 96.36 | 97.24 | 97.24 | 87.62 |
| Animal husbandry department | 0.00 | 0.06 | 0.13 | 0.06 | 0.19 |
| Horticulture department | 2.25 | 2.12 | 1.04 | 1.46 | 1.82 |
| Industries department | 0.000 | 0.002 | 0.002 | 0.002 | 0.001 |
| Industries (group-II) department | 0.00 | 0.00 | 0.00 | 0.00 | 0.10 |
| Rural development department | 0.00 | 1.45 | 1.59 | 1.24 | 0.62 |
| Food & civil supplies department | 0.00 | 0.00 | 0.00 | 0.00 | 9.64 |

| | | | | | |
|---|---|---|---|---|---|
| **Total implicit subsidy** | **0.00** | **0.00** | **0.00** | **10.14** | **0.11** |
| Food & civil supplies department | 0.00 | 0.00 | 0.00 | 100.00 | 100.00 |

Source: Computed from table 9.3

**Table 9.5**
**Annual Growth Rate of Subsidy (to different departments) in Rajasthan**

| | 2008-09 over 2007-08 | 2009-10 over 2008-09 | 2010-11 over 2009-10 | 2011-12 over 2010-11 |
|---|---|---|---|---|
| **Total explicit subsidy** | -53.79 | 4.05 | 34.06 | 59.73 |
| Director, finance department | -54.44 | 5.00 | 34.05 | 43.93 |
| Director, animal husbandry | - | 107.76 | -37.75 | 416.01 |
| Director, horticulture department | -56.52 | -49.00 | 87.97 | 99.75 |
| Director, industries department | - | 11.45 | 27.40 | 4.84 |
| Deputy secretary, industries (group-II) department | - | - | - | - |
| Secretary to the government, rural development department | - | 14.02 | 4.81 | -19.99 |
| Commissioner, food and civil supplies department | - | - | - | - |
| **Total implicit subsidy** | - | - | - | -98.49 |
| Commissioner, food and civil supplies department | - | - | - | -98.49 |
| **Total Subsidy (Explicit and Implicit)** | -53.79 | 4.05 | 49.19 | 43.68 |

Source: Computed from table 9.3

## 9.3 Conclusion

Subsidies are used to modify market outcomes, especially to take account of positive externalities, and, sometimes, to sub-serve certain well-defined redistributive objectives. However if the subsidies are not designed properly they adversely affect the economy. In Rajasthan significant amount of subsidy goes to the power sector**.** Apart from this over the time period it is growing significantly. The excessive subsidy will not only curtail the revenue capacity but also incur heavy expenditures on the part of the state leading to revenue deficit.

# Chapter 10

# FRBM Act and Rajasthan: A Performance

## 10.1 Introduction

India has faced persistent fiscal problems for over the decades. The revenue expenditure of government has lagged behind the revenue receipts, giving large revenue deficits. The revenue deficit had worsened over the period for India as well as most of the states in India. Despite all efforts by the central government, the revenue deficit worsened from 3.3 % of GDP in 1990-91 to 4.4 % of GDP in 2002-03. For a period of time, it had reduced from 4.4 % in 2002-03 to 1.05 % in 2007-08. However, it further peaked at 5.25 % in 2009-10 and 4.46 % in 2011-12. The positions of almost all states are more or less same in this regard. There was a sharp run up of the deficit in the late 1980s,. This was followed by efforts at fiscal caution until 1997, after which the central revenue deficit deteriorated sharply. Similarly, the consolidated gross fiscal deficit of the centre and the states had significantly increased in the late 1990's.

The Rajasthan state is also no exception to the increased revenue and fiscal deficit during this time period. It is observed that during 2002-03 the revenue deficit is 4.08 per cent of the GSDP (See Table 10.1).

**Table 10.1**
**Revenue Deficit –GSDP Ratio of India and Rajasthan (Rs. lakhs)**

| years | India | | | Rajasthan | | |
|---|---|---|---|---|---|---|
| | Revenue Deficit | GDP (2004-05) | Revenue Deficit/GSDP | Revenue Deficit | GSDP (2004-05) | Revenue Deficit/GSDP |
| 2002-03 | -1078790 | 25306630 | -4.26 | -393392 | 9645700 | -4.08 |
| 2003-04 | -982610 | 28379000 | -3.46 | -342444 | 12157200 | -2.82 |
| 2004-05 | -783380 | 32422090 | -2.42 | -214260 | 12774600 | -1.68 |
| 2005-06 | -922990 | 36933690 | -2.50 | -66002 | 14223600 | -0.46 |
| 2006-07 | -802220 | 42947060 | -1.87 | 63838 | 17104300 | 0.37 |
| 2007-08 | -525690 | 49870900 | -1.05 | 165298 | 19482200 | 0.85 |
| 2008-09 | -2535390 | 56300630 | -4.50 | -82675 | 23094900 | -0.36 |
| 2009-10 | -3389980 | 64573530 | -5.25 | -474718 | 26582500 | -1.79 |
| 2010-11 | -2522520 | 76741480 | -3.29 | 105486 | 34186500 | 0.31 |
| 2011-12 | -3949510 | 88557970 | -4.46 | 335745 | 41675500 | 0.81 |

Source: *Handbook of Statistics on the Indian Economy*, Reserve Bank of India, 2011-12, pp 15 and 174;.

## 10.2 FRBM Act and Rajasthan

The FRBMA acts as an incentive for the state to restructure its fiscal health. According to this act debt relives are provided to states conditions to elimination of revenue deficit by 2008-09 and reduction of fiscal deficit below 3 per cent of GSDP as stated earlier in Chapter 5.

Looking at the gravity of the fiscal situation of government, all political parties voted in favour of the Fiscal Responsibility and Budgetary Management Act, 2003. Initially as per the Act the revenue deficit should be eliminated by 2007-08. An amendment to this Act, which is part of the Finance Bill laid in Parliament on 8 July 2004, proposes to shift this date to 2008-09.

**Table 10.2**
**Target and Achievement of FRBM and MTFP: Rajasthan**

| | Revenue deficits/ surplus (Rs. crores) | Revenue surplus or deficit/ revenue receipts ratio (Rs. core) | Fiscal deficit (Rs crores) | FD/GSDP Ratio % | Outstan -ding debt as % to GSDP | Ratio of outstanding public debt and outstanding risk weighted guarantees to total receipts of consolidated fund of the state (%) |
|---|---|---|---|---|---|---|
| **2011-12** | | | | | | |
| As per TFC/ FRBM Act | Revenue deficit to zero$ | - | - | 3.00 or below | 39.3 | |
| As per MTFPS (revised) | 443 | 0.8 | -7687 | -2.10 | 29.06 | |
| Actual | 3357 | 5.9 | -3626 | -0.90 | 25.6 | |
| **2010-11** | | | | | | |
| As per TFC/ FRBM Act | No target@ | 0.00@ | - | 3.22 or below (2010-11) | | Not exceed 200 |
| As per MTFPS (revised) | -888.95 | -1.93 | -7553.01 | -2.33 | | 156.00 |
| Actual | 1054.85 | 2.3 | -4126.06 | -1.27 | | 153.02 |
| **2009-10** | | | | | | |
| As per TFC/ FRBM Act | 0.00# | 0.00# | - | 4.00 or below (2009-10) | | Not to exceed 200 |
| FCP | 959.05 | 2.98 | -5957.08 | 3.00 | | - |
| As per MTFPS (revised) | -3992.87 | -10.73 | -9900.12 | 3.50 | | 165 |
| Actual | 4747 | -13.42 | -10299 | -4.03 | | 155 |
| **2008-09** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| As per TFC/ FRBM Act | 0.00* | 0.00* | - | 3.00 or below (2008-09) | | Not to exceed 200 |
| FCP | 0.01 | 2.87 | -5281 | 3.00 | | - |
| As per MTFPS (revised) | -283 | -0.82 | -6714 | 3.50 | | 158 |
| Actual | -827 | -2.47 | -6973 | -3.46 | | 162 |
| **2007-08** | | | | | | |
| As per TFC/ FRBM Act | 0.0* | 0.00* | - | 3.00 or below (2008-09) | | Not to exceed 200 |
| FCP | -736 | 2.87 | -6146 | 3.90 | | - |
| As per MTFPS (revised) | 215 | - | -5322 | 3.50 | | 173 |
| Actual | 1653 | - | -3408 | 2.00 | | 158 |
| **2006-07** | | | | | | |
| As per TFC/ FRBM Act | 0.0* | 0.00* | - | 3.00 or below (2008-09) | | Not exceeded 200 |
| FCP | -1035 | 4.51 | -6146 | 4.40 | | - |
| As per MTFPS (revised) | -43 | 0.18 | -5141 | 3.82 | | - |
| Actual | 638 | State had revenue surplus in 2006-07 | -3970 | 2.80 | | 181 |

Note: FCP- no estimates for the years 2011-12, 2010-11. *- end March 2009. #- end March 2010. $- end March 2012. @- end March 2011

Source: GoR, *Economic Review*, various years.

**Table 10.3**

**Own Revenue Receipts(own-tax and own non-tax revenue) as percentage of GSDP(2004-05 current price)**

| **States** | **2005-06** | **Order 1** | **2010-11** | **Order 2** |
|---|---|---|---|---|
| Andhra Pradesh | 9.34 | 9 | 9.78 | 8 |
| Arunachal Pradesh | 7.03 | 22 | 8.21 | 14 |
| Assam | 7.90 | 17 | 7.38 | 21 |
| Bihar | 4.95 | 27 | 5.31 | 26 |
| Chhattisgarh | 9.89 | 8 | 10.89 | 4 |
| Goa | 12.96 | 2 | 13.14 | 3 |
| Gujarat | 7.78 | 19 | 7.78 | 19 |
| Haryana | 10.60 | 6 | 7.68 | 20 |
| Himachal Pradesh | 8.06 | 16 | 9.48 | 9 |
| Jammu and Kashmir | 8.07 | 15 | 7.87 | 18 |
| Jharkhand | 7.03 | 23 | 7.15 | 22 |
| Karnataka | 11.49 | 5 | 10.18 | 6 |
| Kerala | 7.83 | 18 | 8.78 | 11 |
| Madhya Pradesh | 9.11 | 10 | 10.43 | 5 |
| Maharashtra | 8.11 | 14 | 8.04 | 15 |
| Manipur | 2.99 | 30 | 5.82 | 25 |
| Meghalaya | 5.49 | 25 | 5.99 | 24 |
| Mizoram | 5.89 | 24 | 4.62 | 28 |
| Nagaland | 3.08 | 29 | 3.62 | 30 |
| NCT Delhi | 8.96 | 11 | 7.91 | 17 |
| Orissa | 7.68 | 20 | 8.21 | 13 |
| Pondicherry | 12.41 | 4 | 17.11 | 2 |
| Punjab | 12.45 | 3 | 9.80 | 7 |
| **Rajasthan** | **8.87** | **12** | **7.91** | **16** |
| Sikkim | 57.05 | 1 | 19.16 | 1 |

| | | | | |
|---|---|---|---|---|
| Tamil Nadu | 10.06 | 7 | 8.96 | 10 |
| Tripura | 3.66 | 28 | 4.27 | 29 |
| Uttar Pradesh | 7.43 | 21 | 8.75 | 12 |
| Uttarakhand | 8.13 | 13 | 6.06 | 23 |
| West Bengal | 4.95 | 26 | 5.09 | 27 |

Note: Order 1: ordering of state based on 2005-06 ratio and Order 2: ordering of state based on 2010-11 ratio.
Sources: www.rbi.org.in, Occasional Publication, 2002-03 to 2007-08; and Annual Publication, 2008-09 to 2010-11.
For GSDP, www.maospi.org , 14/11/2013.

### 10.3 Conclusions

Rajasthan has been able to fulfill the targets of FRBMA over the time. However, the structure of expenditure reflects that the revenue deficit has been eliminated through the contraction of social and economic expenditures which in turn adversely affect the revenue generation over time**.** Even if the state has been able to maintain fiscal discipline it may not sustain for a long period time due to lack of strategic prioritization and technical efficiency.

# Chapter 11

## Analysis of Contingent Liabilities in Rajasthan

Contingent liabilities are defined as contractual financial arrangements that give rise to conditional requirements, either to make payments or to provide objects of value (System of National Accounts, 1993). For the financial transaction to take place, one or more conditions must be fulfilled. A key characteristic that makes such liabilities different from normal financial transactions is that they are uncertain. Contingent liabilities are not easy to quantify and standards to measure them are evolving. Furthermore, in cash-based systems of accounts they are not always fully covered, as no transactions are associated with the creation of these obligations.

It is perhaps expedient to begin with the conventional framework for analyzing contingent liabilities of the government in the form of a fiscal risk matrix. Liabilities may be classified as “direct”, i.e. those that would arise in any event and are therefore certain and predictable, or contingent, i.e. those that may or may not be incurred, depending on the occurrence of a particular event. For instance, the timing and amount of the contractual obligation is fixed on the date of issue of a government loan (i.e. a direct liability), whereas the obligation in the case of a government guarantee (i.e. a contingent liability) would depend on the time and magnitude of default by the borrower. In general, contingent liabilities refer to obligations to provide for a possible default by a borrower on the principal and/or interest of the loan.

Contingent liabilities may be funded, i.e. matched by a reserve or charge against profits equal to the actuarial (present discounted) value of expected “payouts”, or unfunded. Both direct and contingent liabilities may, in turn, be classified as “explicit” i.e. those that are defined by law or contract or “implicit” i.e. those that are incurred on “moral” grounds or as a result of public and interest group pressures. Direct contingent liabilities include deposit insurance as well as official guarantees for private/public sector borrowings, wherein the maximum possible liability on the guarantor is clearly defined ex ante. Implicit contingent liabilities, on the other hand, are not officially recognized until the “default” occurs and therefore, the amount of expenditure that would ultimately be required is uncertain.

Government support (beyond deposit insurance) for failed financial institutions, particularly when such failure is systemic, is generally the most serious form of contingent implicit liability.

### 11.1 Contingent Liabilities in the Emerging Economy Context

The World Bank has identified three areas that can give rise to particularly large contingent liabilities[30]. These are as follows:

(1) Many governments are in the process of privatizing their infrastructure and are seeking private sector participants in new infrastructure development. These policy goals have frequently been accompanied by requests from the private sector for guarantees or, in the case of privatization, for the government to assume the debts of the state-owned enterprise prior to its sale.

(2) The nature of the financial sector regulatory and supervisory framework in emerging markets can lead to excessive risk-taking by private sector financial intermediaries, especially as new opportunities arise with financial sector deregulation and capital account liberalization. The added systemic risk can substantially increase a government’s implicit contingent obligations.

(3) Macro-economic policy imbalances, often in conjunction with inefficient regulatory policies, have often led to overvalued real exchange rates and governments have sometimes incurred substantial losses in endeavoring to defend a fixed exchange rate anchor.

### 11.2 Contingent liabilities in Rajasthan

Analysis shows that there has been a severe deterioration in fiscal health at the state level. Both revenue and fiscal deficits have increased sharply, particularly after 1997-98. Fiscal stress on the one hand has increased the states’ indebtedness including contingent

30 World Bank (2000), *Sound Practices in Sovereign Debt Management* Washington D.C: March.

liabilities[31] and on the other, caused severe cut back in infrastructure spending. The states have also found a variety of ways to soften their budget constraints. There has been considerable growth in the contingent liabilities of states in the past few years, and to the extent that these form an indirect burden on the state's finances. There are significant contingent liabilities arising from the state government's guarantees and indemnities given to urban local bodies, public enterprises and autonomous institutions. In case of Rajasthan, the government has a huge contingent liability on PSUs in general and DISCOM in particular.

It is noted that the maximum amount guaranteed (total amount) of contingent liability by the state during 2003-04 Rs.24584.95 crores which has increased to Rs.97585.85 crores during 2011-12. However the outstanding at the end of 2003-04, which was Rs.17238.88 crores, has increased to Rs.60711.08 crores during 2011-12. It is observed that government has taken a significant contingent liability for government companies during 2003-04 to 2008-09. However, in later phase state has taken it for power sector during 2009-10 to 2011-12.

The total outstanding guarantees of the State Government as on 31.03.2013 were Rs. 75546.00 crore. Out of this, guarantees of Rs. 70114.00 crore were given in favour of power companies. The quantum of guarantees is increasing every year mainly on account of insistence of State Government guarantees by GoI lending institutions, like HUDCO, PFC, REC etc. Besides this, other than the power companies as on 31.03.2013 the government guarantees of Rs. 5432.00 crore were outstanding. A substantial portion of these government guarantees related to such borrowings by the parastatals, whose repayments are funded by the State Government. The outstanding debt of the State Government does not capture these liabilities and their servicing burden.

### 11.2.1 Guarantee Redemption Fund:

The state government set up the Guarantee Redemption Fund in 1999-2000 by transferring the guarantee fees to this fund every year. During 2009-10 the state government received Rs.36.94 crores as guarantee fees. Besides, a balance of Rs.11 crores pertaining to the previous years was also lying there. Therefore, the total amount of guarantee fees i.e. Rs.47.94 crores (Rs.36.94 crores plus Rs.11 crores) had to be transferred to the fund during 2009-10, but the state government transferred only Rs.11 crores during 2009-

31 State government is the real authority for issue of guarantees. The guarantees constitute contingent liability on the revenues of the state. In case of any contingency arising on account of discharge of the state's obligation on invoking of guarantees the same has to be met out of the Guarantee Redemption Fund.

10 and hence the revenue deficit of the state government was reduced by Rs.36.94 crores.

As on 31st March 2010 a balance of Rs.157.73 crores (Rs.150.48 crores guarantee fees and Rs.7.25 crores interest received on investment of said fund) was lying under Guarantee Redemption Fund. No amount has been reimbursed from this fund in respect of guarantees.

The guarantee given to Rajasthan State Handloom Development Corporation was invoked during 2003-04 and the state government was asked to honour the guarantee by paying Rs.1.80 crores and interest till date of payment. State government had paid a sum of Rs.1.08 crores to the Bank of Rajasthan Ltd. during 2003-04 by sanctioning a loan of Rs.1.08 crores to the Rajasthan State Handloom Development Corporation. No repayment has been made by the Corporation due to its weak financial position (June 2011). Besides, 'Letter of Comfort' amounting to Rs.2050 crores was issued during 2010-11. Presently Finance (Budget) Department acts as tracking unit for guarantee in the government.

The detailed account of Fund is:

(Rs.in lakhs)

| | |
|---|---|
| Opening Balance | 15048.23 |
| Add. Amount transferred to the Fund during the year | 3693.54 |
| Total | 18741.77 |
| Deduct. Amount met from the Fund for discharge of invoked guarantees | |
| Closing balance | 18741.77 |
| Amount of investment made out of the Guarantee Redemption Fund | 14886.74 |

The State Legislature had passed "The Rajasthan Fiscal Responsibilities and Budget Management Act, 2005" laying down the limits within which State Government may give guarantees on the security of the Consolidated Fund of the state. Under the Act, state government shall ensure that total outstanding debt, excluding public account, and risk weighted outstanding guarantees in a year shall not exceed twice of the estimated receipts in the Consolidated Fund of the state at the close of the financial year. The total of the debt and risk weighted outstanding guarantees to the extent of Rs.82992.04 crores against the double of the estimated receipt under consolidated fund amounting to Rs.108705.54 crores as on 31

March 2011 was within limit. No guarantee was invoked during the year 2010-11[32].

### 11.2.2 Reserve Funds of the State

**Rajasthan Development and Poverty Alleviation Fund:**

The government of Rajasthan, created the "Rajasthan Development and Poverty Alleviation Fund" in 2007 by amending the Rajasthan Fiscal Responsibility and Budget Management Act, 2005 with an object of using such accumulations in the years of fiscal distress and for poverty alleviation and development purposes. In this, fund the tax receipts of the state government comprising of its own taxes and share in central taxes in any year in excess of 17.5 % over the previous year was to be credited in the ensuing year. This fund was to be utilized by the state government (i) for meeting revenue and capital expenditure if the growth of revenue collection is less than 10 % over the previous year and (ii) to meet the expenditure incurred on development programmes or for poverty alleviation programme. The state government transferred Rs.850.96 crores to the fund i.e. Rs.100 crores in 2006-07, Rs.531.75 crores in 2007-08 and Rs.219.21 crores in 2008-09 by debiting to major head 3451. However, in 2009-10, the state government had written back the entire accumulated amount of three years totaling to Rs.850.96 crores from fund and deposited to revenue receipt.

32 The guarantee given to M/s Jaipur Udyog Ltd., Sawai Madhopur was invoked on 30th June 1988 and the state government was asked to honour the guarantee by paying Rs.274.14 lakh and interest @ 16.5 % per annum till the date of payment. Accordingly State Government has paid to the Bank a sum of Rs.29605871 on March 31, 1995. The company is under liquidation and the case is pending in Court of Law (June 2011). The guarantee given to M/s Jaipur Spinning and Weaving Mills Ltd. Jaipur was invoked on February 23, 1984 and the government was asked to honour the guarantee by paying Rs.504.76 lakh and interest @ 18 % per annum till the date of payment. The case is under trial in Rajasthan High Court. As per court orders an amount of Rs.504.76 lakh was deposited with Debts Recovery Tribunal. To recover amount from the guarantor, case was filed in Jaipur District Court in April 2003 (June 2011). Against guarantee for Rs.38500000 given to various financial institutions/ banks in favour of M/s Mewar Textiles Mills Ltd., Bhilwara, the state government had sanctioned a loan of Rs.37241451 on January 28, 2002 to honour the guarantee from which a sum of Rs.20741461 had been paid to four financial institutions during the year 2001-02. However, banks (The Bank of Rajasthan Limited, Oriental Bank of Commerce and Union Bank of India) have not accepted the amount and consent given by Finance Department for recovery. The case of liquidation of the company is subjudice in Hon'ble High Court, Jodhpur. The appointment of liquidator is yet to be made (June 2011).

### 11.2.3 Rajasthan State Investment Fund:

The Rajasthan State Investment Fund was constituted by the Rajasthan government w.e.f. 26-02-2007 with an initial corpus of Rs.77.65 crores with the object of buy back and resale of Rajasthan State Development Bonds. During 2007-08 the state government transferred a huge amount of Rs.900 crores from the state consolidated fund by debiting to major head 4047 (capital outlay on fiscal services) in view of better financial position and to avoid the lapse of funds as conveyed by the state government. However, the fund was not utilized for buy back and resale of Rajasthan State Development Bonds. Subsequently, the state government transferred Rs.212 crores and Rs.688 crores in 2008-09 and 2009-10 respectively to the Consolidated Fund (capital head) to meet the additional financial burden due to application of recommendations of Sixth Pay Commission and impact of continuous recession on the state fiscal position.

### 11.2.4 Other Funds:

In addition to above there are 25 other funds out of which 16 are active. The total accumulated balance as at the end of March 31, 2010 in these funds was Rs 779.79 crores. During the year an amount of Rs.1261.15 crores was transferred as contribution to these funds. The total expenditure shown as met out from these funds was Rs.1494.22 crores.

### 11.3 Conclusions:

The contingent liabilities of the state have increased to a larger extent over time. . They have arisen from the state government’s guarantees and indemnities given to urban local bodies, public enterprises and autonomous institutions. Rajasthan government has set up funds to incur the expenses of the liabilities. However, they are not sufficient to meet it.

# Chapter 12:

## Public Expenditures and Financial Management Reforms in Rajasthan

### 12.1 Introduction

Public expenditure management (PEM) has recently drawn the attention of almost all the developed and developing countries in the world due to the financial crisis. The financial crisis is due to resource constraints, inadequacy of needed skills and information, heavy pressure to spend more than they can afford on unmet needs, and meager reserves to ride out shocks or unexpected difficulties. PEM is the allocation and use of resources responsively, efficiently and effectively. It is the key instrument of the government policy. It operates through budget decisions. However it is different from conventional budgeting on ground of achievement of desired outcomes and coverage of wide range of institutional and management arrangements.

### 12.2 Public Expenditures Management in Rajasthan

The PEM system of Rajasthan is similar to that of India. It has been argued earlier that since the PEM operates through budget, the characteristics of budget have to be examined. The budget is conventional one and the approach of its preparation is bottom up which consists of formulating and costing sectoral spending programs for the planned period within the given sectoral spending limits. Since the budget is conventional input based more concerned is given to basic financial compliance which is achieved through budgetary specification of inputs and detailed procedures designed for expenditure control. The expenditures are listed according to objects of expenditures and often the amounts to be spent on line items are specified in detail. It fails to provide any information on performance in terms of efficiency and effectiveness of the programme. The accounting system is cash based. It does reflect the total outlays of a programme.

Multi-year perspective in expenditures was absent. A single year budget planning is not always sufficient to complete any particular project which spreads over to future years.

### 12.3 Reforms in PEM:

Recently some reforms have been undertaken to strengthen the PEM system in the state.

(1) The implementation of Fiscal Responsibility and Budget Management of Act (FRBMA) in 2005 opened a way to improve transparency and medium term planning. The major

objective of this Act is to ensure prudence in fiscal management and fiscal stability by (1) Eliminating Revenue Deficit10 (RD) (2) Prudent debt management consistent with fiscal sustainability (3) Greater transparency in fiscal operations of Government and (4) Conduct of fiscal policy in a Medium Term Fiscal Framework

(2) The recommendations of 13th Finance Commission which called for the improvement in the quality of expenditures and making the MTFP a statement of commitment rather than intent is improvement compared to the earlier practices. It helps the state to present the fiscal stance in a more transparent manner.

(3) The Government of Rajasthan has taken an important step to make the state budget more performance oriented by introducing the outcome/performance budget in 2010-11. The main features of outcome budget are (1) definition of measureable outcomes (2) standardization of unit cost of delivery (3) benchmarking standard (4) capacity building for attaining the requisite administrative capacity ensuring necessary funding (5) effective monitoring and evaluation (6) community and stakeholder's participation. The Performance Budget presents the aims and objectives of the department/ organization for which the funds are appropriated, the cost of the programme proposed for achieving these objectives and the quantitative data measuring the accomplishments and works performed under each programme. The main objective is to co - relate the physical and financial aspects of the programmes and their activities. It sets out in terms of physical targets the programmes that have to be executed by the Government along with an indication of their cost - performance. Performance Budget contains the revised estimates for the ongoing financial year and budget estimates for the next financial year. Performance Budgeting is a supplementary exercise to the existing budget, and should be prepared simultaneously with the financial budget, and submitted to the Legislative Assembly by the administrative department concerned as soon as possible after the budget has been presented but, in any case, not later than seven days after the presentation of the budget. It is also to be ensured that performance budget is made available to the members of the Legislative Assembly at least three days before discussions on the Demands pertaining to the department. Three hundred copies of the Performance Budget are to be made available to the Legislative Assembly by each department.

(4) Steps have been undertaken to enhance accountability and transparency in financial administration

(5) The treasury system has been computerized.

**12.4 Conclusion**

The Rajasthan government has taken several steps to improve the PEM system in the state through the introduction of medium term expenditure frame work, outcome budget and internal audit and control. However the achievement of the objectives of PEM system in terms of fiscal discipline, strategic prioritization and operational efficiency needs to be examined.

# Chapter 13

## Measures Taken to Improve the Performance of Public Sector Enterprises in Rajasthan

### 13.2 Public Sector Enterprises in Rajasthan

The public sector enterprises are the arms of state government for economic and social development. The main objectives of the PSEs included facilitation of rapid economic growth, earning a reasonable rate of return, creation of employment opportunities and development of small-scale and ancillary industries. The PSEs are expected to be run on commercial basis so as to contribute to the State resources for a quicker development. Any public enterprise, to attain a state of maturity, passes through three stages of growth taking greater responsibilities towards the fulfillment of political goals than the economic objectives balance the political objectives with the economic objectives and overcome the constraints imposed by the socio-political goals and manage its affairs on commercial lines in each stage respectively.

- The state has 26 government companies (22 working and 4 nonworking) and 3 statutory corporations (all working).
- The total investment in the working PSEs was Rs.16471.83 crore (Equity Rs.5088.95 crore, Loans Rs.11373.10 crore and share application money of Rs.9.78 crore).
- The total investment in the 4 non-working PSEs is Rs.13.58 crore.
- The sector wise investment (equity and long term loans) in the working PSEs is as follows (Amount Rs in Crores.):

| | |
|---|---|
| Power | 14780.65(89.73) |
| Industry | 1054.56(6.40) |
| Transport | 383.73(2.33) |
| Construction | 72.05(0.44) |
| Mining | 115.70(0.70) |
| Agriculture | 16.70(0.10) |
| Other | 48.44(0.30) |

*Note: (Figures in brackets indicate percentage of investment)*

- The total investment in working government companies comprised 31.37% equity and 68.63% loans. For statutory corporations the ratio is 25.69:74.31.
- As per the latest finalized accounts, 9 government companies and 2 statutory corporations earned aggregate profit of Rs.300.39 crore. 4 companies and 1

corporation incurred aggregate loss of Rs.31.62 crore. Thus the overall aggregate profit was Rs.268.77 crore.

### 13.2 Measures undertaken to improve the performance of PSEs in Rajasthan:

Few measure initiatives to improve the performance of PSEs in Rajasthan are:

- A Committee set up on "Reorganisation, Strengthening and Disinvestment of Public Sector Undertakings and Industrial Development" recommended partial disinvestment of 11 PSEs, full disinvestment of 3 PSEs and winding up of 7 PSEs.
- As on date, 1 PSE is under liquidation while 2 have been closed. 2 PSE have also been merged.
- VRS was implemented in the state PSEs. As on date 1457 employees have availed of this scheme with a total expenditure of 19.69 crore.

# Chapter 14

## Conclusions

The revenue capacity of Rajasthan over the period of time has increased due to rise in intergovernmental revenue transfers. The share of own revenue to total revenue has remained more or less stable over the time period. A significant share (77.1 % average) of own revenue receipts in Rajasthan accrues from own tax-revenue although during last five years state government took few steps to raise its tax-GSDP ratio through introduction of VAT, rationalization of taxation, expansion of base and control of exemptions and evasion. On the other hand, non-tax revenue contributed 23 % (average) to the own revenue receipts. However the own revenue is not able to meet its revenue expenditures only. The revenue expenditures have increased at a slower pace.

As a result the revenue deficit as well as the fiscal deficit of the state has become lower over time. It could be able to maintain fiscal discipline in the state. However the maintenance of fiscal discipline can not sustain for a long period of time. It is because there is absence of strategic prioritization and technical efficiency in the delivery of public goods. Rajasthan has to make investment in the income generating sectors on the basis of prioritization as well as achieving efficiency, economy and effectiveness in the delivery of public goods.

The debt-GSDP ratio of the state has declined over the time. The debt-GSDP ratio was 47.56 % in 2002-03 and it came down to 25.57 % in 2011-12. The ratio remains more or less constant between the years 2002-03 to 2005-06 with a minor fluctuation. However, after 2005-06 it registered a sharp decline. The debt-GSDP ratio is lower than the ceiling of 39.3 % as recommended by 13$^{th}$ Finance commission for Rajasthan.

Rajasthan had witnessed significant deterioration in various fiscal indicators towards the end of 1990s and the early years of the current century, including large revenue and fiscal deficit relative to GSDP. With a view to overcome these, a number of initiatives were taken by the State Government. The State enacted the Rajasthan Fiscal Responsibility and Budget Management Act, 2005 which came into force from 3rd May, 2005. The Act provided for reducing revenue deficit to zero and fiscal deficit to 3 percent of GSDP within a period of four years commencing from 01.04.2005 by following a path of average annual reduction. The Act also prescribed limits for outstanding debt and guarantees of the State Government. The high levels of revenue deficit and fiscal deficit of the years upto 2003-04 were controlled with better fiscal management and the State started the process of spectacular turnaround from financial year 2005-06. The State achieved revenue surplus and brought fiscal deficit below the prudential level of 3 percent of GSDP in the year 2006-07.

Despite the constitutional 73rd and 74th amendment act the local bodies have not been able to utilize their full autonomy as regard to the powers of taxation and expenditure responsibilities. Apart from this the state is reluctance to hear the words of the State Finance Commission. As a consequence the fiscal health of the local bodies has been in hue and cry situation.

So far as the impact of Power sector is concerned, the fiscal health of state is adversely affected. In addition it has taken away a large amount of money from the state exchequer in the form of subsidies. As a result the share of subsidies in the revenue receipts has increased adversely affecting the fiscal health.

As per the Rangrajan Committee[33] (2011) government should consider the distinction between plan and non-plan in India is unique and makes an artificial distinction between the assets / programme under use and the assets / programme to create new. A school is equally desirable whether this is an already existing school (non-plan) or a new school (plan) being created. The odium attached to non-plan expenditure makes non-plan development undesirable and social assets get less attention. Their maintenance and upkeep gets neglected. Moreover, in last many years, the country has made the original distinction between new development expenditure being classified non- development and old development expenditure being classified as non-plan largely disappear. The expenditure on assets creation in the non-development sector, like police, jails etc., are also being classified as plan expenditure now. We also note that lot of maintenance expenditure is also being classified as plan. Therefore, in practice the distinction between plan and non-plan has actually withered away. There is lot of unnecessary complications associated with the division of expenditures in plan and non-plan. The State Government would like the Finance Commission to take initiative and recommend doing away of the distinction between plan and non-plan. This will also help bring to the Finance Commission its complete scope of work also as the Constitution makes no distinction between plan and non-plan expenditure as far as the Terms of Reference of the Finance Commission is concerned.

However, during the years 2008-09 and 2009-10, the State again went into revenue deficit because of poor macroeconomic and fiscal management of the Central Government and the then State Government.

33 Expert Committee on Efficient Management of Public Expenditure headed by Dr. C. Rangrajan has submitted its report to Government of India in July 2011.

**INSTITUTE OF DEVELOPMENT STUDIES,**

**8-B, JHALANA INSTITUTIONAL AREA,**

**JAIPUR-302004 (RAJASTHAN)**