STUDY REPORT

"Evaluation of State Finances with respect to Haryana"

A study conducted by the Department of Economics, Kurukshetra University Kurukshetra and submitted to the Fourteenth Finance Commission, New Delhi

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CHAPTER -I

REVENUE RECEIPTS OF HARYANA: ANALYSIS OF TAX REVENUE

1.1 Revenue Receipts of Haryana State

Revenue receipts comprise tax revenue, non-tax revenue and grants-in-aid from the Center. Composition, trend and growth of these sources of revenue receipts have been analysed in this part.

Revenue receipts of Haryana State have registered almost an increasing trend throughout the study period. In 2001-02 the receipts were Rs. 7600.55 crore which have increased to Rs. 35516.70 crore in 2011-12. These have multiplied by 5 times during this decade. Tax revenue constitutes the major proportion of total revenue receipts followed by non-tax revenue and grants-in aid. In the last three years tax revenue has been capturing more of the total revenue receipts while the share of non-tax revenue has been declining in this period. Growth rate was high in 2005-06 and 2006-07. In 2005-06 tax revenue registered a robust growth of 27.55 percent; while in 2006-07 non-tax revenue has registered growth of 86.73 percent. The overall growth rate of total revenue receipts has been 12.92 percent. However, growth over the previous year started declining from 2007-08. In 2008-09 it has drastically declined to 2.71 percent. The reason has been huge negative growth rate of non-tax revenue in 2008-09 and further very slow growth rate in 2009-10 and 2010-11. Growth rate of tax revenue has also declined to .96 percent in 2008-09. (Table 1.1)

1.1.1 Tax Revenue

Tax revenue of the State Governments includes – (i) Own tax revenue and (ii) Share in central taxes. Total tax revenue of Haryana State have increased from Rs. 5421.44 crore to Rs. 23081.01 crore during 2001-02 to 2011-12. Growth of tax revenue has been positive and consistent throughout the study period. Compound annual growth rate has been 16.18 percent during this period. In many years, the growth rate of tax revenue has been higher than the growth rate of total revenue receipts. Tax revenue has been the largest component of revenue receipts.

1.1.2 Non-Tax Revenue

Non-tax revenue comprises the revenue receipts from interest payments, dividends and profits, general services, social services and economic services. Generally, scholars are of the view that grants-in-aid from the center are also a part of non-tax revenue. But in the budget documents of Governments, grants-in-aid are accounted separately as the third component of revenue receipts. Same notion has been followed in this study. Non-tax revenue of Haryana State has increased from Rs. 1666.07 crore to Rs. 7476.58 crore during the study period. Growth over the previous year has been negative in the number of years. In 1997-98, Haryana Government banned the sale of single digit lotteries and furthers in 2005 all types of lotteries in the State. It has been an important factor causing decline in the non-tax revenue. Lesser receipt of profits and dividends from public undertakings is another factor responsible for decline in non-tax revenue. All components of non-tax revenue have been analysed in detail later in this chapter.

1.1.3 Grants-in-Aid

Another component of revenue receipts of the State is grants-in-aid from the Central Government. Grants-In-Aid are the fiscal transfers from the Center to the State Governments to bridge the gap between revenue and expenditure of the State and to correct the vertical and horizontal imbalance. Vertical imbalance arises because higher resources have been assigned to the Central Government while States are entrusted with larger responsibilities. Horizontal imbalances arise on account of different fiscal capacity and needs of the States.

Total grants received by Haryana State have increased from Rs. 513.04 crore to Rs.

4959.11 crores during the study period. The overall growth rate has been 13.65 percent. Growth rate over the previous year has been negative in two years – 2005-06 and in 2008-09. In short, share of grants-in-aid in revenue receipts has been less than 9 percent throughout the study period, however, it had recorded double digit share in the last three years.

1.2 State Own Sources and Central Sources of Revenue Receipts

State's own sources of revenue receipts are revenue from the taxes levied by State Government and revenue from non-tax sources. Central sources include shares in taxes levied by the Central Government and grants-in-aid by the Central Government.

1.2.1 State's Own Sources

Receipt from state's own sources was Rs. 6637.26crore in 2001-02 and has increased to Rs. 25121.11 crore in 2011-12. State sources have registered an increasing trend throughout the study period. During the first period in 1995-96, 1997-98 and 1998-99 growth has been negative but during the second period state's own sources have registered a positive growth rate throughout the period. The overall annual growth rate has been 12.95 percent.

Share of state sources in total revenue receipts has been above 80 percent throughout the study period however, it was around 70 percent in the last four years of the study. It reveals the increasing dependence of Haryana on the Centre's resources.

1.2.1.1 State's Own Tax Revenue

States own tax revenue has increased from Rs. 4971.19 crore to Rs. 20399.46 crore during the study period. It has shown consistency during this period however, it registered an increasing trend in the later years of the study. Except 2007-08 and 2008-09, the own tax revenue of the state showed a nice trend and growth tendencies.

1.2.1.2 State's Own Non-Tax Revenue

As already discussed, state's own non-tax revenue has registered a mix trend of increase and decrease during the study period. Thus non-tax revenue receipt has not been stable. In the later years of the study, the non tax revenue of the state has shown a declining trend, thereby reducing the overall state 's own resources.

1.2.2. Central Sources

Central sources of revenue have increased from Rs. 963.29 crore to Rs. 5436.48 crore during the study period. Except 2005-06, when the growth rate of this source was phenomenally high, in rest of the years the centre sources did not show any significant proportion of the revenue receipts. Successive finance commissions have used backwardness and poverty as one of the criteria for determining the share of different states in the divisible pool of central taxes which goes against the interest of economically better developed states like Haryana. Thirteenth Finance Commission has also used per capita income as the yard stick to measure " Fiscal Capacity Distance" – a criterion for tax devolution to states and has assigned maximum weight of 47.5 percent to this criteria.

Consequently Haryana's share in central taxes pool has come down from 1.075 percent to 1.048 percent. However, size of the divisible pool has been increased from 30.5 percent to 32 percent (13th FC).

To conclude, state and central sources of revenue have registered an increasing trend. Growth rate for both the sources has been higher during the study period. The share of States' own sources has been between 70- 80 percent throughout the study period, thus of central sources, around 20 percent. In this twenty percent, the share of grant in aid is less than 9.0 percent. It indicates low dependence of the State Government on the

Central help to finance its expenditure. Share of own tax revenue has been higher than the share of non-tax revenue. The share of own tax revenue has been above 60 percent in almost all the years. The overall growth rate of state's own tax revenue has been higher than state's non-tax revenue. It indicates the need for efforts to augment the revenue collection from non-tax revenue sources.

1.3 Trend of Sources of Tax Revenue Receipts of Haryana State

As already observed, tax revenue is the largest component of total revenue receipts of Haryana. Major taxes contributing to revenue receipts are sales tax, state excise, stamps and registration, taxes on goods and passengers, taxes on vehicles, taxes and duties on electricity, land revenue and share in central taxes.

1.3.1 Sales Tax

Sales tax is any tax which includes within its scope all business sales of tangible personal property either at the retailing, wholesaling or manufacturing stage with exceptions noted in the taxing law (Tyagi1996).The Constitution of India empowers States to impose and collect taxes on sale or purchase of goods other than newspapers. However, article 286 restricts the States from taxing (a) sales and purchases of trade outside the territories of India (b) Sales of goods delivered for consumption in another State (c) Sales in the course of interstate trade and commerce. From 1st April 2003, Haryana Government has introduced Value Added Tax (VAT) in the State. Sales tax constitutes the lions share in the State Government's revenue. In 2001-02 sales tax collection was Rs. 2944.81 crore which increased to Rs. 13383.69 crore in 2011-12. Share of sales tax in total tax revenue is highest amongst all the components of tax revenue. VAT has simplified the tax structure by reducing the number of tax rates and minimizing tax concessions resulting in the enhanced buoyancy of sales tax and thus an increase in revenue collection.

1.3.2 State Excise

Excise duty refers to taxes on commodities produced within the country levied with a view to restrict their consumption. The States are empowered to levy – “duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India (Punjab Excise Act 1914).

- Alcoholic liquors for human consumption
- Opium, hemp and other narcotic drugs and narcotics but excluding medical and toilet preparation containing alcohol”.

Excise duty on alcoholic liquors has been very important source of revenue for majority of States. Tax collection from the State excise has increased from Rs 875.39crore to Rs. 2831.89 crore during the study period. The overall growth rate has been 11.02 percent. From 1999-2000, the share has come down and has registered a declining trend thereafter.

1.3.3 Stamps and Registration

Stamps duties are used both as a method of collection suitable for taxes and as particular form of taxation. The term covers the duties levied on various deeds and documents executed as proof of record of certain legal transactions. In India stamp duties are divided as judicial and non judicial.

Revenue from judicial stamp duty in Haryana includes – (i) court fees (realised in stamps) (ii) sale of judicial stamps (iii) fines and penalties and (iv) miscellaneous receipts.

All duties other than judicial duties which are collected by affixing stamps on transfer of property, commercial transaction or other transactions, form part of non judicial stamp duties. It includes revenue from (i) sale of Stamps (ii) surcharge on stamp duties (iii) duty on impressing documents, fines and penalties and miscellaneous receipts.

Registration fee is charged under Indian Registration Act, 1908. Registration of documents provides a reasonable guarantee that the documents are genuine.

Revenue collection from stamps and registration has increased from 488.29 crore to Rs. 2793.00 crore during the study period. The sudden growth in many years is due to change in HUDA policy regarding transfer of plots. The compound annual growth rate of stamps and registration has been 18.08 percent. Share of stamps and registration fee in total tax revenue has been rising in the later years of the study. Increase in urbanization and property business has been a major factor for increase in stamps and registrations fee in this period. The spurt in demand for property particularly in National Capital Territory Region of the State has contributed to realizing more revenue from this source. Fall in stamps and registration duty in 2007-08 is mainly due to reduction in the rate of stamp duty on sale of land and property. More over economic recession has adversely affected the property business. The State Government has allowed floor-wise registration of buildings in 2009 with the hope of increase in revenue from this sector (March 11, 2009). However, the Government should take steps to check the under valuation of property to improve collection from stamps and registration

1.3.4 Taxes on Goods and Passengers

Tax on goods and passenger is collected from owners of public service vehicles and is governed by Punjab Goods and Passengers Taxation Act 1952. It is collected on the basis of actual fare and freights collected. Receipts from taxes on goods and passenger have increased from Rs. 498.56 crore in 2001-02 to Rs. 429.32 crore in 2011-12.

Growth ver the previous year is negative in 2006-07, 2007-08, 2008-09 and 2010-11. In 2007-08, there has been more than 48 percent fall in collection. It is mainly due to reduction in the rates of passenger tax and lesser collection under goods tax and local area development tax.

1.3.5 Taxes on Vehicles

In Haryana these are collected under Punjab Motor vehicle taxation Act 1924 as amended from time to time. The tax includes (i) Receipts under Indian Motor Vehicles Act (ii) Receipts under State Motor Vehicle Taxation Act (iii) other receipts from (a) registration and transfer of ownership of motor vehicles (b) issuing of driving licenses (c) fines for violation of Motor Vehicle Taxation rules 1925 and (d) entrance tax for issuing permits to trucks and buses of other States to territory of Haryana.

The growth rate has been positive throughout the study period and it has also shown an accelerated growth in the later years of the study. The overall growth rate has been 10.90 percent. The total amount collected is increasing but the share in total tax revenue has decreased.

1.3.6 Taxes and Duties on Electricity

The Constitution of India empowers the State Governments to levy taxes and duties on electricity. However electricity consumed by any department of Union Government is exempted from such duties. Tax receipts from duties on electricity have increased from Rs. 29.48 crore to Rs. 166 crore during the study period. In 2000-01 the receipts have come down to only 68 lakh rupees. The reason was lesser realization of electricity duty and inspection fee. In 2002-03, again, the receipts were only 87 lakh rupees. The reason stated in the budget documents is misclassifications of accounts. The overall growth rate has been 4.18 percent.

1.3.7 Land Revenue

Though it has been biggest source of revenue since long time, with the advancement of living standard of public and flourishing business, the sales tax, excise duty and stamps and registration are getting dominance and collection from land revenue has come down. Today, land revenue includes land tax, tax on plantation, rates and cess on land, receipt from ex-zamindari estate, receipt from sale of Government estate and from waste land etc.

It was maximum at Rs 20.01 crore in 2003-04 and after that it has registered a declining trend. A drastic downfall in 2002-03 and 2007-08 is due to non deposit of sale proceeds of surplus land by field offices and lesser recovery of mutation fee. The compound annual growth rate has been 18.15 percent. The share of land revenue in total taxes has been less than 0.4 percent throughout the study period. It was maximum 0.36 percent in 2001-02.

1.3.8 Other Taxes and Duties on Commodities and Services

In addition to the above mentioned taxes, State Governments also collect revenue from entertainment sources like taxes on cinema, exhibition, games, theatre-performance, and advertisement exhibited in cinema theatre etc. Tax is also collected under sugarcane (Regulation, supply and purchase) control Act. All these taxes are accounted under other taxes and duties on commodities and services.

Collection from other taxes and duties have increased from Rs. 11.74 crore to Rs. 44.03 crore during the study period. The compound growth rate of other taxes and duties has been 5.72 percent. Share of other taxes and commodities in tax revenue has been less than one-half percent during the whole period.

To conclude, sales tax has been the largest contributor to tax revenue of the State. State excise is the second largest component followed by stamps and registration and tax on goods and passengers respectively. The overall growth of tax collection, in the recent years, has declined. It is partially due to policy changes (reduction in rate of stamps duty) and partially due to the effect of global recessionary trend in the economy.

1.4 Buoyancy of Taxation

Tax revenue depends upon two factors – (i) Tax base and (ii) Tax rate. If tax base increases tax revenue will increase and if tax rate is increased, then also tax revenue will increase. Buoyancy of taxation is related to expansion of tax base. It represents the degree of responsiveness of tax variable with respect to a given change in the base variable. It could be taken as indicator of overall performance of tax structure of the State. Normally, for many taxes, the tax base is the State Domestic Product. If GSDP increases, the tax revenue also increases as $T = f(y)$. A buoyancy ratio captures the growth of tax revenue corresponding to the growth of state income and is calculated as follows-

$$B = [(TR_t - TR_{t-1})/TR_{t-1}]/[(GSDP_t - GSDP_{t-1})/GSDP_{t-1}]$$

Where B is buoyancy ratio and TR is tax revenue.

The ratio equal to one indicates change in tax variable equal to change in income of the State. The ratio more than one indicates higher increase in tax variable than increase in income and the ratio less than one indicates lesser increase in tax variable than increase in income. Negative buoyancy ratio indicates decrease in tax variable in that year.

Buoyancy ratio of total revenue receipt has been low during the study period. In 2008-09 the ratio was negative due to downfall in revenue receipts. In other five years it was less than one. From 2006-07 onwards the ratio has come down. The ratio of tax revenue has been less than one in 7 years of the study. The ratio of States' own tax revenue has been negative in later years.

Sales tax shows higher buoyancy comparatively. In the first 6 years, the ratio has been more than one. In a nutshell, all the taxes showed good buoyancy ratio in the beginning of the study period, however, in the last four years of the study, all taxes showed dismal performance on this front.. To put it differently revenue collection of State Government has been affected more by recessionary trend than state income. It may also be interpreted as a failure of the State Government to mobilize the state income for its resources.

Taxable Capacity of Haryana State

Taxable Capacity denotes to which extent government can possibly draw funds from its available resources. Since it is difficult to estimate taxable capacity in an absolute sense, **relative** taxable capacity is estimated in empirical studies on the basis of a norm derived from actual data. Relative tax effort index may be then defined as a ratio of actual tax revenue to the estimated relative taxable capacity of the concerned tax. In the case of States, tax-GSDP ratio is a simple and often used measure to evaluate tax performance of the government. The implicit assumption involved in using such ratios for the purpose of comparing tax performance is that SDP is an indicator of taxable capacity.

This assumption, however, ignores various capacity indicators or factors such as size of population, administrative capability, degree of monetization, availability of tax handles etc. The second problem relates to the implicit assumption involved in any simple ratio -- that the relationship between the broad tax bases adopted and tax revenue is linear and proportional, which is not necessarily the case. So, GDP, SDP or any other broad indicator is an imperfect proxy for the tax base, especially when the tax structure consists of a combination of a number of different taxes falling on distinct tax bases. Therefore it is necessary to take into account these independent variables or proxies (other than GDP/SDP) also which affect taxable capacity of a particular tax significantly, directly or indirectly.

METHOD USED IN THE STUDY

The Representative Tax System Method

This is essentially a method applicable to disaggregated analysis only. It involved identifying actual bases, or when the actual bases cannot be easily designated, suitable proxy bases for individual taxes and then calculating an effective tax rate for each tax as a ratio of actual tax revenue to the actual/proxy base. A normative tax rate is then derived from this effective tax rate over the observations (e.g. an average) and applied to the actual or proxy bases used. This yields the taxable capacity or the tax potential for each tax. Taxable capacities can be summed across taxes to arrive at the aggregate capacity; an index of aggregate tax effort can then be arrived at by taking the ratio of the aggregate collections against the aggregate capacity so derived. This method is used in a number of studies e.g. ACIR (1962), Bahl (1972), Thimmaiah (1979), Chelliah and Sinha (1982).

During 2001-02 to 2011-12, the fluctuations in revenue account balance could have been caused by changes in revenue performance, changes in expenditure levels or both. One way of examining the inter-temporal revenue performance would be to compare the State's performance each year to a norm derived from its own performance across the years. The time-series analysis of tax performance is intended to do just that in terms of estimating taxable capacity and tax effort of each year of observations.

Model Specifications

1. Land Revenue and Agricultural Income Tax

Land Revenue has been a declining source of revenue. In our time series analysis, the two variables used to estimate tax potential are:-

a) Per Capita Income from agriculture excluding forestry, minerals, and animal husbandry, and

b) Share of agricultural income in total income.

These two variables have been taken with the expectation that the first will explain year to year fluctuations, while the second will take care of the long term declining trend. Income from agricultural income tax in Haryana has been nil as it is not levied in the State. The equation which is used to estimate land revenue potential is given below:

$LR/POP = a + b_1 \log (NSDPPCA) + b_2 \log (AS)$

POP = Population of Haryana from 2001-02 to 2011-12.

NSDPPCA = Per Capita Net State Domestic Product from Agriculture excluding forestry, minerals, and animal husbandry, and

AS = Share of Agricultural Income in Total Income of the State.

2. Stamp Duty and Registration Fee

Stamp Duty and Registration Fee (S&R) tax potential is estimated by the following equation:-

$\text{Log} (S\&R/POP) = a + b_1 \log (DNSTY) + b_2 \log (NSDPPC) + b_3 \log (URBN)$

Where:

S&R = Stamp Duty and Registration

DNSTY = Density of population in Haryana

URBN = Urbanisation in Haryana

3. Sales Tax

Sales tax potential depends on agricultural share in NSDP (expected sign of the coefficient is negative), per capita net state domestic product at current prices, number of scheduled commercial bank branches (SCB) and urbanization.(URBN) The log-linear regression equation used to estimate sales tax potential is given below:

$$\text{Log}\,(ST/POP) = a + b_1\log\,(AS + b_2\log\,(NSDPPC) + b_3\log(SCB/POP) + b_4\log\,(URBN)$$

4. Motor Vehicle Tax and Taxes on Goods and Passengers

The State levies different rates of tax on different types of vehicles. As such, all vehicles are divided into following categories to accommodate their varying weights in the determination of revenue: Two wheelers, Four wheelers (includes Tractors, Auto rickshaws, Cars and Jeeps), number of Buses, number of Taxies and number of Other Vehicles. The log-linear equation used to estimate tax potential is given below:

$$\text{Log}\,(MVTGP) = a + b_1\log\,(N2) + b_2\log\,(N4) + b_3\log\,(NB) + b_4\log\,(NT) + b_5\log\,(NX) + b_6\log\,(NO)$$

N2 = Number of Two Wheelers

N4 = Number of Four Wheelers

NB= Number of Buses

NT= Number of Trucks

NX= Number of Taxies

NO= Number of Other Vehicles

Data on the independent variables used have been taken from various issues of Statistical Abstract of Haryana from 2001 to 2012.

5. Excise Duty

Excise duty depends on both production and consumption of liquor, but in the absence of data on production and also because liquor can be imported/exported from other States, consumption of liquor is a much better variable to estimate tax potential. The categories of liquor used are: country liquor (CL), India-made Foreign Liquor (IMFL) and Beer. The log linear regression equation used to estimate excise duty is given below:

$$\text{Log (Exse)} = a + b1\log(CL) + b_2\log(IMFL) + b_3\log(BEER)$$

6. Other Taxes

These other taxes have been taken as a ratio of GSDP and the potential measured using effective rates thus derived.

<u>Estimation of Taxable Capacity</u>

1. Land Revenue

Land Revenue potential has been computed using the following regression equation estimated by us:-

LR/POP = 2.426- 1.293log (NSDPPCA) – 9.642log (AS)

(t-values) (.409) (-1.506) (-4.380)

R square =.52 F = 11.82

Results obtained from the above equation have been shown in Table 1.6. The results show that while the State’s exploitation of this source of revenue was above the long-term average performance during 200607, 2007-08 and 2009-10, the government could not exploit it to its full capacity in rest of the years. This shows that there was scope for the State government to raise its revenue from Land Revenue or agricultural income tax, which is not levied in Haryana. It is the large and surplus farmers that have potential to pay tax on agricultural income, since they get the largest benefits from various government policies benefiting the agricultural sectors. Economic condition of small and marginal farmers has not been very sound as they produce primarily for their own consumption and therefore only they should be exempt from these taxes and user charges.

2. **Stamp duty and Registration Fee**

Stamp Duty and Registration Fee (S&R) potential has been estimated using the following log linear regression equation estimated:-

Log (SDRF) = -13.216+ 2.641log (DENSTY) +.713log (NSDPPC) + .440(URBN)

(t-values) (-3.92) (2.420) (4.129) (.620)

R square = .968 F = 623.1

Results from the above equation have been shown in Table 1.6. When we analyse the performance of Haryana State government in comparison of other States in cross section analysis (results not shown here) we find that the tax effort index of Haryana has been 174 and rank assigned was 1. Its yearly tax effort estimates for this tax ranges between 82 and 117 percent with fluctuations, which are possibly linked to the activities in the real estate market. The State has benefited from its proximity to Delhi with regard to this tax substantially, since a large amount of real estate activities – both residential and commercial – have actually spilled over from Delhi into adjoining parts of Haryana (like Gurgaon, Faridabad, Rohtak and Sonepat) boosting its S&R collections. This is one area where the State is likely to continue its good performance, given the continuing and even accelerating real estate activities; all it has to do is to facilitate such activities, ensure that no exploitation of original landowners takes place and the developments are orderly, and provide complementary services like roads, water supply, sewerage, and transport.

3. **Sales Tax**

The following equation has been estimated to compute Sales tax potential:

Log (ST/POP) = 6.23 -.507log (AS) + .901log (NSDPPC) -.792log (SCBB/POP)+3.75log (URBN)

(t-values) (1.093) (-1.755) (12.921) (3.00) (5.99)

R square = .98 F = 571.17

Results obtained from the above equation have been shown in Table 1.6, which shows that tax effort index has been throughout stable within a narrow range of 91 and 108. In this view, the State has been a steady performer throughout. Given the predominance of sales tax in the total tax collection of the State, this has more or less ensured a reasonable overall tax effort. As long as the State is able to maintain this in future, it should be in a relatively comfortable position with respect to its finances.

4. **State Excise Duty**

Excise Duty potential is based on the following estimated equation:

log (Excse) = 3.402 + .00000004776log(CL) +.000000004402log(FL) - 00000001458log(BEER)

(t-values) (41.66) (10.09) (4.68) (-.540)

R square = .992 F = 340.12

Results obtained from the above equation have been shown in Table 1.6. Tax effort of Excise Duty varied widely from 79 to 140 . Except for the years 2007-08 and 2008-09 tax effort has been more than/around 100 indicating the good performance of Haryana government in exploiting this source of tax revenue receipts.

5. **Motor Vehicle Tax and Taxes on Good and Passengers**

The following estimated equation has been used to derive tax potential of Motor

Vehicle Tax and Taxes on Goods and Passengers:-

Log (MVTGP) = -8.33 +.757log (N2) +.0682log (N4) +.163log (NB) +.202(NT)+.010308log (NX) +.211log (NO)

(t-values) (-8.86) (6.01) (.65) (3.09) (2.732) (.498) (2.154)

R square = .994 F = 217.09

Tax effort Index of Motor Vehicle Tax and Taxes on Goods and Passengers was the lowest in year 2001-02 (83) and the highest in year 2003-04 (114). Broadly speaking, the earlier years exhibit relatively low tax effort, which improved considerably in the last five years.

6. Other Taxes

Other Taxes included Electricity Duty and Entertainment Tax (Table 1.6). The tax potential of this source of revenue has been estimated by the ratio of other taxes and NSDP. The results show that up to year 2003-04, government's performance has been very good but after that government's effort to exploit this group of revenue sources declined considerably. It may be noted that although revenue from electricity duty is not as small as from the other elements in this group, it has been included here mainly because of the large fluctuations in collections. Further, entertainment tax has become much less productive as a revenue source in the State much in the same manner as across the country, which is primarily responsible for the declining tax effort. The government can do relatively little to resurrect this source of revenue because this is largely the impact of an exogenous phenomenon (decline in the movie-going habits). As such the State may need to think about introducing other so far unused revenue sources (like profession tax), if it really wants to mobilize additional resources from this group.

7. Total Own taxes

The tax effort index of Total Own Taxes has been estimated by the aggregated actual revenues and aggregated estimated tax potentials which have been shown in Table 1.6. The results show that in some of the years, the State could exploit its aggregate own taxes more than its tax potential. During four years, it has been below but very close to 100 also. Although the overall tax effort has generally been good, the State government must strive to maintain this level of performance in future also.

Inferences

On the basis of time series analysis of tax capacity and tax effort of Haryana State for whole study period, it may be inferred that:

(1) During the entire study period for most of the major taxes, tax effort of the State has been fairly steady with some fluctuations; the taxes that exhibit deteriorating and low tax effort (land revenue and other taxes including electricity duty and entertainment tax) are those with lower revenue significance, and the trends essentially follow the same taking place across the country in other States as well.

(2) However, as and when additional revenue mobilization assumes importance, the State could consider either a limited agricultural income tax on large surplus farmers or a reform of the land revenue system to generate higher revenues from agricultural incomes. It could also consider ways of garnering higher revenues from minor taxes like entertainment tax, and consider introducing unutilized taxes like the profession tax.

Table 1.1

Composition and Growth of Revenue Receipts of Haryana State

Year	Tax Revenue			Non- Tax Revenue			Grants-in-aid			**Total RR**	
	Rs.	Growth rate	% to RR	Rs.	Growth rate	% to RR	Rs.	Growth rate	% to RR	Rs.	Growth rate
2001-02	5421.44	16.43	71.33	1666.07	15.75	21.92	513.04	7.30	6.75	7600.55	15.62
2002-03	6306.27	16.32	72.85	1807.85	8.51	20.88	542.90	5.82	6.27	8657.02	13.90
2003-04	6948.80	10.19	70.60	2223.06	22.97	22.58	671.63	23.71	6.82	9843.48	13.71
2004-05	8059.53	15.98	72.29	2544.37	14.45	22.82	545.16	-18.83	4.89	11149.06	13.26
2005-06	10279.62	27.55	74.20	2458.57	-3.37	17.75	1115.13	104.55	8.05	13853.31	24.26
2006-07	12223.40	18.91	68.09	4590.76	86.73	25.57	1138.27	2.07	6.34	17952.43	29.59
2007-08	13252.18	8.42	67.09	5097.08	11.03	25.81	1401.48	23.12	7.10	19750.74	10.02
2008-09	13379.90	0.96	72.52	5072.40	-21.95	27.49	1833.96	30.90	9.04	20286.26	2.71
2009-10	14993.97	12.06	71.42	5998.69	18.26	28.58	3257.30	77.61	13.43	24249.96	19.52
2010-11	19092.12	27.33	74.68	6471.55	7.88	25.31	3050.62	-6.34	10.66	28614.29	17.99
2011-12	23081.01	20.89	75.53	7476.58	15.53	24.47	4959.11	62.56	13.93	35516.7	24.12

Source: Computed from Haryana Economic Surveys- Various Issues

Table 1.2

Revenue Receipts (State and Central Sources)

Rs. In crores

Year	State's own tax Revenue			State Own Non-tax Revenue			Total State Sources			Central Sources		
	Rs.	Growth rate %	% to TRR	Rs.	Growth rate %	% to TRR	Rs.	Growth rate %	% to TRR	Rs.	Growth rate %	% to TRR
2001-02	4971.19	15.33	65.41	1666.07	15.75	21.92	6637.26	15.43	87.33	963.29	16.91	12.67
2002-03	5549.68	11.64	64.11	1807.85	8.51	20.88	7357.53	10.85	84.99	1299.49	34.90	15.01
2003-04	6348.05	14.39	64.49	2223.06	22.97	22.58	8571.11	16.49	87.07	1272.38	-2.09	12.93
2004-05	7440.26	17.21	66.74	2544.37	14.45	22.82	9984.64	16.49	89.56	1164.42	-8.48	10.44
2005-06	9078.64	22.02	65.53	2458.57	-3.37	17.75	11537.21	15.55	83.28	2316.10	98.91	16.72
2006-07	10927.76	20.37	60.87	4590.76	86.73	25.57	15518.53	34.51	86.44	2433.91	5.09	13.56
2007-08	11617.76	6.31	58.82	5097.08	11.03	25.81	16714.85	7.71	84.63	3035.89	24.73	15.37
2008-09	11655.28	0.32	63.16	3238.44	-36.46	17.55	14893.72	-10.89	73.42	3558.58	14.69	19.29
2009-10	13219.51	13.42	62.97	2741.40	-15.34	13.05	15960.91	7.16	65.82	5031.77	41.40	23.97
2010-11	16790.37	27.01	65.68	3420.93	26.02	13.38	20211.3	26.63	70.63	5352.37	6.37	20.94
2011-12	20399.46	21.49	66.76	4721.65	38.02	15.45	25121.11	24.29	70.73	5436.48	1.57	17.79

Source: **Computed from Haryana Economic Surveys- Various Issues**

Table 1.3
Trends of Sources of Tax Revenue

	State's Own-Tax Receipts																		
	Sales Tax		State Excise		Stamps and Registrations		Taxes on Goods and Passengers		Taxes on Vehicles		Taxes and Duties on Electricity		Land Revenue		on Commodities and Services		Central Taxes		Total Tax Revenue
	Rs.	Growth rate %	Rs.	Growth rate %	Rs.	Growth rate %	Rs.	Growth rate %	Rs.	Growth rate %	Rs.	Growth rate %	Rs.	Growth rate %	Rs.	Growth rate %	Rs.	Growth rate %	Rs.
2001-02	2944.81	14.43	875.39	4.14	488.29	16.47	498.56	35.97	103.62	20.93	29.48	4256.04	19.29	64.49	11.74	-6.90	450.25	30.20	5421.44
2002-03	3337.43	13.33	878.72	0.38	541.39	10.87	652.75	30.93	114.39	10.39	0.87	-97.04	9.87	-48.84	14.26	21.50	756.59	68.04	6306.27
2003-04	3838.00	15.00	923.28	5.07	695.63	28.49	660.36	1.17	132.39	15.74	59.06	6677.04	20.01	102.69	19.32	35.50	600.75	-20.60	6948.80
2004-05	4760.91	24.05	1013.16	9.73	726.58	4.45	705.16	6.78	140.41	6.06	61.74	4.4	11.70	-41.52	20.60	6.63	619.26	3.08	8059.53
2005-06	5604.45	17.72	1106.86	9.25	1339.73	84.39	757.60	7.44	172.12	22.59	61.53	-0.35	13.12	12.14	23.23	12.76	1200.97	93.94	10279.62
2006-07	6853.24	22.28	1217.10	9.96	1764.98	31.74	738.41	-2.53	223.66	29.94	98.28	59.72	13.00	-0.96	19.10	-17.76	1295.64	7.88	12223.40
2007-08	7720.98	12.66	1378.81	13.29	1763.28	-0.10	379.39	-48.42	233.79	4.53	107.45	9.33	9.38	-27.81	24.68	29.18	1634.41	26.15	13252.18
2008-09	8154.73	5.62	1418.53	2.88	1326.39	-24.77	370.29	-2.39	239.30	2.36	106.31	-1.06	8.58	-8.52	31.15	26.22	1724.62	5.52	13379.90
2009-10	9032.37	10.76	2059.02	45.15	1293.57	-2.47	391.45	5.71	277.07	15.78	119.58	12.48	9.43	9.91	37.01	18.81	1774.47	2.89	14993.97
2010-11	11082.01	22.69	2365.81	14.90	2319.28	79.29	387.14	-1.10	457.36	65.07	130.27	8.94	10.02	6.26	38.48	3.97	2301.75	29.71	19092.11
2011-12	13383.69	20.77	2831.89	19.70	2793.00	20.42	429.32	10.90	740.15	61.83	166.43	27.76	10.95	9.28	44.03	14.42	2681.55	16.50	23081.01

Source: **Computed from Haryana Economic Surveys- Various Issues**

TABLE 1.4
SHARE OF VARIOUS TAXES IN TRR

YEAR			STATE OWN TAX REVENUE							CENTRAL TAXES	TTR
	S.T	**S.E**	**SRF**	**TGP**	**TV**	**TDE**	**OTDCS**	**LR**	**TOTAL**	**CT**	**TTR**
2001-02	54.32	16.15	9.00	9.20	1.91	0.54	0.22	0.36	91.71	8.29	100.00
2002-03	52.92	13.93	8.58	10.35	1.81	0.01	0.23	0.16	87.99	12.04	100.00
2003-04	55.23	13.29	10.01	9.50	1.91	0.85	0.28	0.29	91.36	8.64	100.00
2004-05	59.07	12.57	9.02	8.75	1.74	0.77	0.26	0.15	92.33	7.67	100.00
2005-06	54.52	10.77	13.03	7.37	1.67	0.60	0.23	0.13	88.32	11.68	100.00
2006-07	56.07	9.96	14.44	6.04	1.83	0.80	0.16	0.11	89.41	10.59	100.00
2007-08	58.26	10.40	13.31	2.86	1.76	0.81	0.19	0.07	87.66	12.34	100.00
2008-09	60.95	10.61	9.92	2.77	1.79	0.80	0.20	0.07	87.11	12.89	100.00
2009-10	60.24	13.74	8.62	2.62	1.85	0.80	0.22	0.07	88.16	11.84	100.00
2010-11	58.04	12.39	12.15	2.03	2.40	0.68	0.20	0.05	87.94	12.06	100.00
2011-12	57.99	12.27	12.10	1.86	3.21	0.72	0.19	0.04	88.38	11.62	100.00

Source: **Computed from Haryana Economic Surveys- Various Issues**

Table 1.5
Buoyancy Ratio of Various Sources of Tax Revenue Receipts

Year	Total Rev.	Tax Rev.	SOTR	ST	SE	SRF	TGP	TV	TDE	LR	OTDCS
2001-02	1.25	1.31	1.22	1.15	0.33	1.32	2.87	1.67	339.87	5.15	-0.55
2002-03	1.29	2.52	1.08	1.24	0.04	1.01	2.88	0.97	-9.04	-4.55	2.00
2003-04	0.95	0.71	1.00	1.05	0.35	1.99	0.08	1.10	465.25	7.16	2.47
2004-05	1.01	1.21	1.31	1.83	0.74	0.34	0.52	0.46	0.34	-3.15	0.50
2005-06	1.76	2.00	1.60	1.29	0.67	6.12	0.54	1.64	-0.03	0.88	0.93
2006-07	1.36	0.87	0.93	1.02	0.46	1.45	-0.12	1.37	2.74	-0.04	-0.81
2007-08	0.56	0.47	0.36	0.71	0.75	-0.01	-2.74	0.26	0.53	-1.57	1.65
2008-09	-0.06	0.00	0.00	0.05	0.02	-0.24	-0.02	0.02	-0.01	-0.08	0.26
2009-10	0.14	0.11	0.13	0.10	0.45	-0.02	0.05	0.15	0.12	0.09	0.18
2010-11	0.21	0.27	0.27	0.22	0.14	0.79	-0.01	0.65	0.08	0.06	0.03
2011-12	0.19	0.20	0.21	0.20	0.19	0.20	0.10	0.61	0.27	0.09	0.14

Source: **Computed from Haryana Economic Surveys- Various Issues**

Table 1.5
Taxable Capacity of haryana State

	Land revenue		Stamp Duty and Registration Fee		Sales Tax		Excise Duty		Motor Vehicle Tax and Taxes on Goods and Passengers		Other Taxes		Total Own Taxes	
Year	Tax Potential (Rs. In Cr.)	Tax Effort Index	Tax Potential (Rs. In Cr.)	Tax Effort Index	Tax Potential (Rs. In Cr.)	Tax Effort Index	Tax Potential (Rs. In Cr.)	Tax Effort Index	Tax Potential (Rs. In Cr.)	Tax Effort Index	Tax Potential (Rs. In Cr.)	Tax Effort Index	Tax Potential (Rs. In Cr.)	Tax Effort Index
2001-02	2.19	32.49	112.69	117.30	581.91	98.23	515.07	101.94	242.89	83.16	89.4	128.17	1544.15	100.55
2002-03	1.63	78.91	131.91	109.15	692.62	105.29	549.12	105.12	270.14	94.57	106.9	180.38	1203.2	106.61
2003-04	2.61	77.94	144.79	107.18	756.60	105.80	729	107.17	275.87	114.83	115.9	101.59	1295.77	108.19
2004-05	2.62	74.75	163.51	90.37	821.99	97.84	875.03	140.82	350.35	87.90	130.9	86.50	2018.49	106.45
2005-06	3.14	67.31	183.45	82.63	889.79	108.39	1104.52	104.80	378.16	85.93	146.7	79.82	2330.24	99.78
2006-07	3.73	150.98	218.58	91.47	1346.88	91.33	984.9	95.89	403.38	89.18	165	15.19	3012.6	89.90
2007-08	4.80	187.96	242.71	93.53	1484.06	92.45	898.81	79.12	449.46	106.55	181.7	42.83	3467.25	89.08
2008-09	5.08	89.44	264.42	93.65	1607.07	95.20	908.32	89.06	494.19	123.45	198.5	14.39	3554.16	95.69
2009-10	5.43	166.57	293.07	106.65	1773.85	97.44	963.09	102.54	596.86	105.63	221.9	66.69	3789.92	100.21
2010-11	6.18	84.24	325.69	98.59	2014.64	104.67	956.67	118.06	656.20	102.04	249	62.25	4108.38	105.14
2011-12	6.92	75.54	361.33	114.27	2267.24	106.07	1146.78	98.80	714.30	92.41	279	53.86	4775.57	100.70

Source: **Computed**

CHAPTER-II

REVENUE RECEIPTS OF HARYANA: ANALYSIS OF NON-TAX REVENUE

Non-tax revenue is an important component of revenue receipts. Government provides loans and advances to different departments, public sector undertakings and to the cooperative societies etc. It also invests in public undertakings and gets the profits and dividend as return on investment. Government also does commercial activities and gets prices, fee and user charges for commodities and services provided. Government provides social services like education, health and water supply and sanitation etc. and gets the fee and prices for these services. All these receipts constitute the non-tax revenue receipts. Generally low prices are charged for Government commodities and services. The prices are determined by the Government considering their usefulness for economic and social development, keeping in view the poor segment of the society. On social services, Government charges very low prices. For instance, fees charged in Government hospitals, tuition fees charged in Government schools and colleges is far below than the fee charged in private sector. It covers a very little part of the whole expenditure incurred to supply these services. Economic services are important for economic development in the State. Though a reasonable return should be expected from economic services, the prices of these services are also determined, keeping in view the social objective and all segments of the society. Following are the main component of non-tax revenue receipts of the State Governments.

2.1 Interest Receipts

Under this head interest receipts from loans and advances provided to departmental commercial undertakings, public sector undertakings, local bodies, cooperative societies, cultivators, State and Union Territory Governments and interest on investment of cash balances is recorded. Interest receipt has increased from Rs. 332.87 crore to Rs. 864.96 crore during the study period. The overall growth rate is 9.65

percent. Share of interest receipts in non-tax revenue has shown a fluctuating trend. The interest receipts have been contributing a handsome share to the non-tax revenue of the State. In recent years interest receipts have come down. It is due to less realisation of interest due.

2.2 Dividends and Profits

Dividend and profits include the returns on investments of State Governments. State Governments invest their funds in the equities of statutory corporation, government companies, joint stock companies, co-operative banks and cooperative societies etc. and get return on investment in the form of dividends and profits. Amount collected from dividends and profits was rupees 0.4 crores in 2001-02, which increased to Rs. 1.64 crore in 2011-12. The overall growth rate is 6.46 percent. Share of dividend and profits has been less than 0.5 percent of non-tax revenue throughout the study period. Low return on the huge investments of the State Government is one of the factors causing low non-tax revenue. It has been the cause of concern for financial experts.

2.3 General Services

General services record the receipts from public service commission, police, jails, supplies and disposals, stationery and printing, public works, administrative services, contribution and recoveries (pension etc) and miscellaneous general services. Revenue from general services was 518.36 crore in 2001-02 which reduced to Rs. 336.02 crore in 2011-12. After 2004-05 it has registered a decline. Decline in general services receipts from 2005-06 has been mainly because of two reasons –

(i) Haryana Government has introduced ban on sale of all types of lotteries from 1st May 2005. State lotteries were the largest source of revenue from general services. (ii) Decline in the guarantee fee due to discouragement in the grant of State guarantee to achieve the targets of FRBM Act 2005. Because of this decline, growth rate of receipts from general services has been negative. The overall growth rate has also been negative. Maximum receipt of general services has been from the lotteries.

Thus general services have been major source of non-tax revenue up to 2004-05. Income from State lotteries was the largest component of revenue from general services. After the ban on state lotteries in 2005, revenue receipts from general services have drastically declined.

2.4 Social Services

Revenue receipt from social services comprises the receipts from education, sports, arts and culture, medical and public health, family welfare, water supply and sanitation, housing, urban development, information and publicity, labour and employment, social security and welfare and other social services like welfare of schedule cast, schedule tribes and backward class etc. Revenue receipt from social services has increased from Rs. 146.15 crore to Rs. 1483.53 crore during the study period. It has registered a high growth from 2003-04 to 2006-07. It is mainly due to more receipts from the urban development which comprises license fee and compounding fee regarding unauthorized construction and recoveries on account of services rendered by director of local bodies and director of urban estate to HUDA. More applications were received from investors for grant of license for change of land use and there was an increase in rate of fee and charges. In 2008-09 and 2009-10, the receipt has come down due to a big recession in real estate and accordingly fewer receipts from colonizers. Many colonizers have opted for refund, resulting in decline in the receipt from this sector. The overall growth rate was 28.73 percent. However, it has been showing some signs of improvement in the recent years.

2.4.1 Revenue from various Social Services

Education, sports, art and Culture have been the second largest contributor of revenue receipt to the social services. Medical, public health and water supply and sanitation were other important sources of revenue. Housing and urban development has emerged as the biggest source of revenue collection from social services. From 2004-05 onwards the contribution of urban development has considerably increased and 80 to 90 percent of revenue from social services is being contributed by this sector. Among the remaining sectors education is another important source of revenue generation.

In short, the share of social services in the non-tax revenue has been low up to 2003-04 but after that it has become the largest contributor to the non-tax revenue. The major source of receipts in social services is receipts from the urban development. Due to worldwide meltdown in economic activities, from 2007-08 onwards housing and urban development activities have come down, which has caused a decline in receipt from this sector.

2.5 Economic Services

Receipts from economic services include the receipts from Agriculture and allied activities, wild life, food storage and ware housing, rural development programme, irrigation, power, village and small industries, other industries, civil aviation, road and bridges, scientific research, ecology and environment, tourism and other general economic services etc. Revenue receipts from economic services have increased from Rs. 668.32 crore to 2.35.50 crore during the reference period. Growth has been positive except in 2004-05, 2008-09 and 2010-11. In these years receipts from minor irrigation, rural development and industry and minerals declined. The overall growth rate has been 9.38 percent. In 2009-10 annual growth rate is only 3.08 percent. Share of receipts from economic services in non-tax revenue of the State has been from 20 to 47 percent.

2.5.1 Revenue from various Economic Services

Among economic services transport has been the largest contributor of the revenue throughout the study period followed by irrigation and industry & minerals. From the above observations, it is evident that from 2001-02 to 2007-08 economic services was the largest component of non-tax revenue followed by general services and social services respectively. From 2008-09 onwards, general services and social services became the important sources of non-tax revenue. From 2004-05 onwards social services have emerged as the major contributor to non-tax revenue of the State. Boom in real estate business has led to robust growth of revenue receipt from urban development. Growth of all component of non-tax revenue has been either negative or very low in the recent years. It seems to be the effect of recessionary trend in the economy. Low and unstable growth and declining trends in the recent year in the non-tax revenue is a matter of concern.

TABLE 2.1 COMPOSITION OF NON –TAX REVENUE RECEIPTS OF HARYANA

(RS IN CRORES)

YEAR/ITEM	**INTEREST RECEIPTS**			**DIVIDENDS AND PROFITS**			**GENERAL SERVICES**			SOCIAL SERVICESE			**ECONOMIC SERVICES**			**TOTAL NON-TAX REV.**
	RS.	**GR%**	**% to NTR**	**RS.**	**GR%**	**% to NTR**	**RS.**	**GR %**	**% to NTR**	RS.	GR %	% to NTR	**RS.**	**GR %**	**% to NTR**	
2001-02	332.87	40.91	19.98	0.40	-78.07	0.02	518.34	8.05	31.11	146.15	10.19	8.77	668.32	13.46	40.12	1666.07
2002-03	334.27	0.42	18.49	1.73	335.19	0.02	641.78	23.81	35.50	154.71	5.85	8.56	675.68	1.06	37.35	1807.85
2003-04	478.01	43.00	21.50	4.11	138.10	0.18	678.35	5.70	30.51	266.34	72.16	11.98	796.25	17.90	35.83	2223.06
2004-05	472.41	-1.17	18.57	2.35	-42.81	0.09	838.00	23.53	32.94	440.15	65.25	17.30	791.49	-0.60	31.10	2544.37
2005-06	472.48	-6.34	18.00	1.92	-18.21	0.08	297.45	-64.50	12.10	886.00	101.30	36.04	830.71	4.96	33.78	2458.57
2006-07	648.63	46.59	14.13	5.62	192.56	0.12	243.31	-18.20	5.30	2757.82	211.27	60.07	935.39	12.60	20.38	4590.76
2007-08	757.20	16.74	14.86	6.05	7.55	0.12	269.00	10.56	5.28	3044.77	10.40	59.74	1020.06	9.05	20.00	5097.08
2008-09	776.28	2.51	23.97	8.27	36.69	0.26	310.81	15.54	9.60	1124.78	-63.05	34.73	1018.29	-0.17	31.44	3238.44
2009-10	667.88	-13.96	24.61	9.60	16.08	0.35	271.80	-12.55	10.01	502.31	-55.34	18.51	1289.80	26.66	47.52	2714.40
2010-11	689.34	3.21	20.15	2.48	-74.16	0.07	216.34	-20.40	6.32	1363.56	171.45	39.86	1149.22	-10.89	33.59	3420.93
2011-12	864.96	24.48	18.32	1.64	-33.87	0.03	336.02	55.32	7.11	1483.53	8.80	31.42	2035.50	77.12	43.10	4721.65

Source: **Computed from Haryana Economic Surveys- Various Issues**

TABLE 2.2 REVENUE RECEIPTS OF STATE GOVERNMENT FROM VARIOUS SOCIAL SERVICES

(RS.IN.CRORE)

	1	2	4	5	6	7	8
YEAR/ITEM	**ESAC**	**MPH & FW**	**HUD**	**WSS**	**SSW**	**OTHERS**	**TOTAL**
2001-02	21.40	28.72	54.66	28.70	7.88	4.78	146.14
2002-03	28.13	28.83	52.21	35.82	5.32	4.38	154.69
2003-04	32.66	32.11	144.86	37.31	11.92	7.48	266.34
2004-05	40.18	41.13	319.62	31.11	2.78	5.30	440.13
2005-06	92.06	30.59	715.84	32.84	4.22	10.44	886.00
2006-07	111.62	32.05	2563.98	34.94	5.62	9.61	2757.82
2007-08	117.70	65.02	2806.91	38.12	5.36	11.66	3044.77
2008-09	156.10	34.02	886.36	30.74	5.92	14.65	1124.78
2009-10	285.10	30.26	135.77	30.02	4.47	16.7	502.31
2010-11	270.37	47.17	976.94	40.03	11.55	2.66	1363.56
2011-12	295.72	54.85	1041.89	42.96	22.38	2.68	1483.53

SOURCE :RBI STATE FINANCES A STUDY OF VARIOUS ISSUES

ESAC=Education,Sports,Arts & Culture

WSS=Water Supply & Sanitation

MPH=Mediacal Public Health & Family Welfare

SSW=Social Security & Welfare

HUD=Housing & Urban Development

TABLE 2.3 REVENUE RECEITPS OF HARYANA FROM DIFFERENT ECONOMIC SERVICES

(RS.IN CRORE)

YEAR	1	2	3	4	5	6	7	8
	AAC	**RD**	**IRR.**	**EN.**	**IM**	**TPT**	**OT.**	**TOTAL**
2001-02	38.91	0.22	68.62	-	140.03	410.74	7.65	**668.32**
2002-03	41.03	0.61	52.12	-	118.91	451.83	8.93	**675.38**
2003-04	40.15	2.23	183.12	-	77.25	482.21	9.08	**796.25**
2004-05	50.15	2.53	103.40	-	100.01	513.17	20.39	**791.49**
2005-06	47.37	1.07	64.24	-	152.95	548.44	13.68	**830.71**
2006-07	58.25	1.99	87.49	-	188.07	571.18	23.83	**935.39**
2007-08	49.93	23.06	72.39	-	216.02	622.56	32.36	**1020.06**
2008-09	59.70	2.14	74.12	-	197.54	645.04	37.08	**1018.29**
2009-10	76.96	2.11	221.11	-	247.54	699.57	42.29	**1289.80**
2010-11	60.69	2.73	202.39	-	82.74	761.73	36.14	**1149.22**
2011-12	467.78	5.79	583.27	3.22	75.60	852.96	46.87	**2035.50**

SOURCES: RBI STATE FINANCES A STUDY OF VARIOUS ISSUES

AAC-Agriculuture & Allied Services

RD-Rural Development

IRR.-Irrigation

EN-Energy

IM-Industry & Minerals

TPT.-Transport

OT.-Others

CHAPTER - III

PUBLIC EXPENDITURE IN HARYANA

Public expenditure refers to the expenses incurred by the Government for its maintenance and to preserve the welfare of the society as a whole. It is not merely a financial mechanism rather is a key instrument in pursuit of fiscal policy goals. Fiscal policy of an economy has the long term objective of growth, equity and stability. Traditionally, public expenditure represents a form of the Government expenditure designed to promote allocative efficiency through correction of market failures, redistribute equitably and promote economic growth and stability. The level and pattern of expenditure as well as means through which the resources are raised have a direct effect on the income and expenditure stream and therefore, have a significant effect on economy. The significance of Government expenditure lies in the mixed economy model adopted by India whereby Government of India assumes primary responsibility of building capital and infrastructure base to promote economic growth. The Constitution of India has assigned State Governments, very important functions of maximizing the social welfare and accelerating the pace of economic development. The development process is carried with the help of public expenditure. Public expenditure management is one of the main operating instruments to pursue these objectives. Expenditure management transforms these objectives into immediate intermediate targets for over all expenditure control, resource allocation as per the policy priorities and efficient and effective operational management of expenditure.

The present chapter is aimed at analyzing the state expenditure of Haryana. In addition to the analyses of magnitude, composition and growth of expenditure, relationship between Government expenditure and economic growth has been analysed using Granger Causality test. Causality runs from growth oriented components of expenditure to state income. It establishes the role of expenditure management in achieving fiscal targets. Causality also runs from state income to non-developmental expenditure. It again establishes the need for prudent management of expenditure to ensure the flow of funds towards developmental activities. Allocation of public expenditure towards equal distribution of resources has been analysed by social sector expenditure and expenditure for human development. Public expenditure serves as a central instrument to achieve the growth with stability. Stability has been examined through financing pattern of state expenditure. In the light of fiscal correction adopted by State Governments, the need has arisen to ensure that correction is not at the cost of quality of expenditure. The Thirteenth Finance Commission has also emphasised to improve the quality of public expenditure to obtain better outputs and outcomes. Quality of state expenditure has been analysed in the light of committed expenditure, operation and maintenance expenditure and growth oriented expenditure.

To understand how management of public expenditure serves as a key instrument in achieving fiscal policy goals, it is useful to analyse the role of various components of expenditure in achieving these goals. Capital expenditure and developmental expenditure are instruments to achieve economic growth. Expenditure on social services, subsidies and on human priority concern, contributes towards equity. The overall government expenditure affects the stability through movement of deficit indicators. Growth demands higher total expenditure in general and higher allocation towards developmental and capital expenditure in particular. For equity concern, higher allocation to social sector is required. These requirements are generally met through borrowed funds which create a vicious circle of debt, interest payments, deficit and further debts. It leads to un-sustainability and adversely affects the stability in long run. Fund managers have to follow principles of public finance where sustainability is ensured by bringing deficit indicators under certain limits. Revenue surplus should finance the capital and social outlays which will keep budget in balance. Managers have to do continuous efforts to contain the magnitude of revenue expenditure. Once revenue surplus is achieved, developmental and social expenditure should be enhanced to achieve the targets.

3.1 Total Expenditure of Haryana State

Total expenditure comprises revenue expenditure and capital expenditure of the State Government. Revenue Expenditure accounts for the amounts spent on meeting current administrative needs and socio-economic activities of the Government. It is consumption expenditure and is met from revenue receipts. Capital expenditure is the expenditure incurred for creating or increasing concrete assets of material and permanent character. It includes capital outlay and loans and advances provided by the State.

Total expenditure of the State has increased from Rs. 10424.8 crore in 2001-02 to Rs. 38014.3 crore in 2011-12. It has registered an overall increasing trend except in few years. It was due to unusually high expenditure on irrigation and flood control, energy and miscellaneous general service. The overall growth rate has been 12.73 percent. Ratio of total expenditure to GSDP has been in the range of 13.34 percent to 15.93 percent. Ratio has registered a fluctuating trend during the study period, however, it remained within a narrow range. The State Government has implemented the 6^{th} pay commission causing an increase in expenditure. The global down turn necessitated Governments to undertake fiscal stimulus measures to maintain the economic growth. Haryana Government has launched in 2008-09, an economic stimulus package of Rs. 1500 crore to be spent in two years for development of infrastructure sector. Moreover the State has faced two elections, of Parliament and State Legislature, during this period. Government has been very liberal in announcing a sop of worth Rs. 700 crore in terms of increase in old age pension, widow pension, allowances to physically challenged persons and to unemployed youth etc. Expenditure on elections has increased by more than 70 percent.

The Ratio of total expenditure to revenue receipts indicates that gap of total expenditure and revenue receipts has widened in the latter half of nineties. From 2004-05 onwards situation has improved to some extent but in 2008-09 again, there is about 19 percent short fall in revenue receipts which has increased to nearly 40 percent in 2009-10. These two years have witnessed higher growth of expenditure than revenue receipts.

Revenue expenditure has been the major component of total expenditure. It is more than 75 percent in all the years. In some years, it has been above 85 percent and also above 90 percent in few years, leaving a little amount for capital formation. Capital outlay has been in the range of 2.98 percent to 17.74 percent. It has considerably declined during 2002-05. Share of loans and advances has been from 0.97 percent to 4.46 percent except in 2003-04. In 2003-04, share of loans and advances was exceptionally high at 18.79 percent. In this year, loans worth Rs 2114.35 crore were provided for power projects.

To summarise, total expenditure has registered an increasing trend during the study period. Revenue expenditure constitutes 75 to 90 percent of total expenditure. Capital outlay has been low during 2002-05.Gap in total expenditure and revenue receipts has been higher. Implementation of 6th pay commission, two elections in the State and focus on higher expenditure to maintain the economic growth have been the major factor causing higher growth.

3.2 Revenue Expenditure of Haryana State

Revenue expenditure comprises expenditure on general services, social services and economic services in revenue account and on grants-in-aid and contributions. Haryana State‟s revenue expenditure has increased from Rs. 8656.50 crore to Rs. 32014.89 crore during the study period. It has registered an increasing trend in all the years. Huge money was spent on maintenance of irrigation and energy as a prelude to approach the World Bank for financial assistance for these sectors. The expenditure was met by cutting down the capital expenditure. The overall growth rate is 12.59 percent. Ratio to GSDP has ranged between 11.45 to 13.23 percent.

Ratio of revenue expenditure to revenue receipt has been more than 100 percent in 5 years and less than 100 percent in another 5 years. More than 100 percent ratio indicates the financing of revenue expenditure by borrowed funds which cause increase in the liability without creating asset. After 2004-05 position has improved a little bit.

The relative share of different components of revenue expenditure reveals that expenditure on general services, which is non-developmental in nature, has been higher up to 2005-06. After that the share of economic services is high. Expenditure on social services registered less fluctuation comparatively. In recent years expenditure on social services has increased. Grants-in-aid contribution has been less than one percent up to 2004-05 and again since 2009-10.

3.3 Capital Expenditure of Haryana State

Capital expenditure is the most important component of expenditure contributing to the growth of economy. The expenditure has increased from Rs. 1768.30 crore to Rs 5999.41 crore during the study period. Except in three years, it has registered an increasing trend. The overall growth rate is 13.52 percent. Ratio to GSDP has been between 1.18 to 3.40 percent.

Bifurcation of capital expenditure reveals that in 2002-03 and 2003-04 a major chunk was incurred on providing loans and advances to different departments and after that maximum expenditure is on economic services. As already stated, in 2003-04 huge loans were provided for power projects. However capital outlay has decreased significantly during 2002-05. In spite of fiscal improvement in the economy in terms of low revenue deficit (less than 1 percent ratio to GSDP), capital outlay has been cut down significantly. Ratio of capital outlay to GSDP is less than one percent during this period. Improvement of more than 2 percent in fiscal deficit to GSDP ratio during this period seems at the cost of capital outlay. It is matter of concern from expenditure management point of view. From 2004-05, economic services is the largest component of capital expenditure followed by expenditure on social services. It is a favorable shift for developmental process.

3.4 Intra-Sectoral Allocation of Expenditure

Intra-sectoral allocation of expenditure gives an insight into distributional aspect of budget expenditure and is an instrument to achieve the growth with equity goal of fiscal policy.

3.4.1 General Services Expenditure

Expenditure on general services is incurred to run and maintain the services. It comprises expenditure on organ of State, fiscal services, interest payments and servicing of debts, administrative services and pension and miscellaneous services etc. this expenditure is non-developmental in nature and thus the higher ratio indicates the poor quality of expenditure.

The general services expenditure has increased from Rs. 3536.86 crore in 2001-02 to Rs. 10219.83 crore in 2011-12. The overall growth rate has been 11.10 percent. Within the general services, analysis reveals that interest payments are the major constituent followed by pension and other retirement benefits. From 2001-02 to 2006-07, more than 45 percent of expenditure on general services has gone for interest payments. Further in 2005, all types of lottery was completely banned and thus miscellaneous services expenditure has come down and is only 0.01 percent in 2011-12. Currently each of pension and administrative services is consuming more than one fourth of the expenditure

on general services. Organ of State is the fourth largest component followed by fiscal services.

3.4.2 Social Services Expenditure

It comprises expenditure on education, sports, art and culture, public health, water supply and sanitation, family welfare, social welfare and nutrition etc. The expenditure leads to the development of social infrastructure and promote the welfare of the society. It is an instrument to achieve the equity goal of the Policy. The social services expenditure has increased from Rs. 2962.87 crore in 2001-02 to Rs. 12641.67 crore in 2011-12 during the study period. The overall growth rate has been 14.16 percent. The economy has started improving during this period in terms of low expenditure but it seems to be at the cost of compression in the priority sectors like social services. Growth of social service expenditure during this period has been very low. From 2005-06 onwards allocation of expenditure towards social services has increased.

The individual head analysis reveals that education, sports art and culture is the major expenditure head and has been consuming nearly half of the expenditure. The second major component is water supply and sanitation followed by social security and welfare and medical and public health respectively.

3.4.3 Economic Services Expenditure

Expenditure on economic services is an index of development of economic infrastructure. Economic services record expenditure on agriculture, rural development, energy, industries, minerals, transport, science and technology and general economic services etc. The economic services expenditure has increased from Rs. 3894.38 crore in 2001-02 to Rs. 9053.97 crore in 2011-12. The overall growth rate is 13.10 percent Further analysis reveals that in the early years of study irrigation and flood control, transport and agriculture and allied activities were the important sectors respectively. Gradually energy sector has emerged as maximum share consuming sector. In 2003-04, 63.66 percent expenditure of economic services was on energy alone. During the later years the focus of development activities has been more on infrastructure development and energy is the most important area. Transport has been the second largest expenditure consuming sector followed by irrigation and flood control.

3.5 Fiscal Policy Objectives and Public Expenditure

In the following part of the chapter direction of public expenditure policy of Haryana Government towards the achievement of long run objectives of growth, equity and stability has been studied.

3.5.1 Growth and Public Expenditure

Economic growth has been the prime objective of fiscal policy and thus also of expenditure policy. There always has been a debate among scholars regarding impact of expenditure on growth. Classical economists deny any role of Government expenditure in economic growth, but modern economists consider that Government expenditure plays a positive role in economic development. Prof. Keynes has strongly recommended the increase in public expenditure to maintain the full employment and level of national income. Different studies have found, in case of India, a stable long run relationship between public expenditure and national income with causality running strictly from the former to the later, although in the short-run there is tradeoff between growth in public expenditure and income (Khunderakpam 2003). The direction of cause and effect relationship between GSDP and an array of expenditure measures of Government of Haryana has been analysed using „Granger –Causality test. Pairs of GSDP and the following expenditure variables have been tested.

TE	Total expenditure	DE	Developmental expenditure
RE	Revenue expenditure	NDE	Non-Developmental expenditure
CE	Capital expenditure	SSE	Social services expenditure
PE	Plan expenditure	ESE	Economic services expenditure
NPE	Non-Plan expenditure		

To rule out the spurious results, pre-requisite for Granger test is to ensure

that data series are stationary. Thus the initial step is to test the data for unit root problem. Dickey Fuller Unit Root test of stationarity has been applied to all series, testing the null hypothesis-

H_0 : = 0 Unit root exits

H_1 : < 0 Unit root does not exits

Following three regression equations were applied sequentially.

$\Delta Yt=\delta Yt-1+ut$	Without Constant and Trend
$\Delta Yt=\beta 1+\delta Yt-1+ut$	With Constant
$\Delta Yt=\beta 1+\beta 2t+\delta Yt-1+ut$	With Constant and Trend

Where “Y” represents the variables.

Since the calculated value of "tau" statistics was more than the critical value for all the series, in all the three cases, null hypothesis could not be rejected. Alternatively, all series were carrying unit root problem. To transform the series into stationary, all series have been differenced once and "Augmented Dickey Fuller Test" has been applied with following regression equations having same null hypothesis.

$\Delta(\Delta Yt)=\beta 1+\delta\Delta Yt-1+ut$ With Constant

$\Delta(\Delta Yt)=\beta 1+\beta 2t+\delta\Delta Yt-1+ut$ With Constant and Trend

Since calculated value of "tau statistics is more negative than critical value for all series with Durbin Watson Value close to two, null hypothesis that unit root exists, is rejected. Alternatively, differenced series are stationary. Granger test has been applied on differenced series.

Next step is to determine the lag period. Lag period of 4 has been decided using Akaike Information Criterion (AIC) calculated by "Vector Auto Regression" model. Granger causality test involves estimating following regression (Gujarati 1995).

$GSDP_t= Exp_{t-1} + GSDP_{t-j} + u_{1t}$ ………………………… (1)

$Exp_t= GSDP_{t-1} + Exp_{t-1} + u_{2t}$ ……………………………………..(2)

Equation (i) postulates that current GSDP is related to past values of expenditure and of GSDP itself. Equation (ii) postulates a similar behavior for expenditure. The relationship may results in any of the following propositions-

- Unidirectional causality from expenditure to GSDP, i.e. expenditure causes GSDP.
- Unidirectional causality from GSDP to expenditure i.e. GSDP causes expenditure.
- Feed back or bilateral causality i.e. expenditure causes GSDP and GSDP causes expenditure.

- Independence i.e. no causality relationship between the two.

The null hypothesis can be rejected with "F" statistics greater than critical value and probability close to zero. Causality runs from SSE, CE, PE and DE to GSDP. It supports the Keynes theory of expenditure and establishes the role of public expenditure in economic development. Important point is that all these components represent the productive expenditure. The result supports the principle of expenditure management that higher expenditure should be targeted towards capital, plan and developmental expenditure component to achieve the objective of economic growth. The other way causality runs from GSDP to RE, NPE and NDE, i.e. state income causes revenue, non-plan and non-developmental expenditure. These are the components of non-productive nature. To put it differently, increase in income causes increase in non productive components of expenditure. Thus the prudent management of expenditure is needed to ensure the flow of increased resources more towards productive expenditure and restricted flow towards non-productive expenditure.

To summarise Granger Causality test establishes that social sector expenditure, capital expenditure, plan expenditure and development expenditure are key expenditure instruments leading to economic growth. It also shows that income causes non-developmental expenditure. Thus a prudent management of expenditure is required to ensure the proper targeting of expenditure.

3.5.1.1 Developmental and Non-Developmental Expenditure

Economic growth is more responsive to developmental expenditure. Developmental expenditure includes expenditure on social services and economic services in revenue account, capital account and loans and advances. It is treated as developmental expenditure since social and community services are helpful in raising the health, efficiency and productivity of human force and economic services are helpful in raising income, creating employment opportunities as well as in exploiting the natural resources of the country. House building advance to Government employees is also a part of developmental expenditure while advances to employees, other than for house building, have been considered non-developmental expenditure. Non-developmental expenditure comprises expenditure incurred on General services. It is incurred to run and maintain the level of services. The developmental expenditure has increased from Rs 6814.40 crore to Rs. 26832.66 crore during the study period. The overall growth rate is 13.57 percent. Share of development expenditure in total expenditure was in the3 range of 60-75 percent. Ratio to GSDP has moved from 10 percent to 12.58 percent in the earlier years, however it come down in later years and has been in the range of 7.92 to 10.82 percent. Thus, it may be observed that though the developmental expenditure has registered higher growth , ratio to state income has come down. Above 75 percent of development expenditure is in revenue account in most of the years. Thus expenditure incurred for creating permanent social and economic infrastructure has been less than 25 percent.

The non-developmental expenditure has increased from Rs. 3579.70 crore to Rs. 10455.15 crore during the study period. The overall growth rate has been 11.13 percent. Growth rate of non-developmental expenditure has been higher during the period. Share in the total expenditure has registered decline in the later years. Ratio to GSDP has also come down during this decade and has been less than 4 percent in recent four years of study. More than 95 percent of the expenditure is in revenue account.

Above observations indicate that over the period, developmental expenditure is increasing and non-developmental expenditure is decreasing. Further in the recent years, development expenditure in capital account has increased. It is a sign of quality improvement in the expenditure pattern of the State Government.

3.5.1.2 Plan and Non-Plan Expenditure

Government expenditure is classified as plan and non-plan expenditure. Plan expenditure comprises current developmental outlays as well as investment outlays. Non-plan expenditure is that expenditure which Government is committed or obliged to do like interest payments, pension charges, maintenance and establishment expenses, defense and internal security etc. It includes all expenditure which is not included in the plan. Expenditure on maintaining the assets created in previous plan and expenditure on continuing services and activities, after a certain level in plan period, is shifted to non-plan expenditure in the next plan. Plan and non-plan expenditure is incurred in revenue account as well as in capital account. Total plan expenditure of the State has increased from Rs. 2264.40 crore in 2001-02 to Rs. 12510.36 crore in 2011-12. The overall growth rate is 13.62 percent.

Share of plan expenditure in the total expenditure was lower during the early years but has increased from 2003-04 onwards, however in the last two years it again showed some decline. Ratio to GSDP has been in the range of 2.85 to 5.23 percent. The expenditure has been almost equal in revenue and capital account, however in the last three years the share of revenue expenditure has risen.

Non-plan expenditure has increased from Rs. 7458.91 crore to Rs. 24222.91 crore during the study period. The overall growth rate has been 12.41 percent. Growth rate of non-plan expenditure is lower to the growth of plan expenditure. Non-plan expenditure has been above 70 percent of total expenditure up to 2006-07. After that it has come down. Maximum expenditure is in revenue account. All these parameter show a shift in the pattern of the expenditure. In the total expenditure share of plan expenditure is increasing and of non-plan is decreasing. However share of non-plan expenditure in total expenditure is still more than double of the share of plan expenditure.

To summarise, more than 2/3rd of Government"s expenditure is non-plan expenditure of which maximum is in revenue account. It is a non-developmental expenditure. For a sound financial structure, it is advisable to curtail the non-plan expenditure and to maximize the plan expenditure.

3.5.2 Equity and Public Expenditure

It is needless to emphasise the significance of equitable distribution of income and wealth in the economy. Inequality in wealth may persist in early stage of growth. It creates political and social discontentment, which further generate economic instability. Thus, fiscal policy is devised to bridge the gap between incomes of different sections of society. Expenditure is targeted to incur the benefits to low income group and to be helpful in raising their productivity. For making services work for poor people, World Bank has provided a framework - (i) Focusing on those services that have the most direct link with human development - education, health, water sanitation and electricity; (ii) Greater accountability in the three key relationships in the service delivery chain – poor, service providers and policy makers; and (iii) Systematic evaluation and dissemination of information aimed at empowering the poor(2004). Expenditure of Haryana Government has been analysed here, for objective of equity in terms of expenditure on social services, subsidies and human development.

Expenditure on social services has been analysed in intra-sectoral allocation which reveals that 20 to 30 percent of total expenditure of the Government has been spent for social services. From 2007-08 onwards the ratio has registered increasing trend.

3.5.2.1 Subsidy

Expenditure on subsidies is a crucial expenditure of the Government particularly in the light of equity objective and growing need to rationalize the expenditure. Major concern of expenditure management is proper targeting of this expenditure. Subsidy should be prioritised in tune with the social welfare objectives and should be in merit-goods particularly. Basic objective of providing subsidy is to make services affordable for poor segment of the society. Total amount of subsidy provided by the State Government has been in the range of 7.40 to 20.3 percent of total expenditure during the study period. Maximum subsidy from 84 to 97 percent has gone to energy sector. Haryana is an agrarian economy and is the second largest contributor to the food grain pool of the country. The State has to supply subsidised power to farmers to help make the farming operation viable. Subsidy to social services, which includes subsidy for welfare of scheduled cast, scheduled tribes and backward classes, social welfare and nutrition and public health, has been only 1 to 2 percent. Successive Finance Commissions have urged the State Governments to rationalize the subsidy expenditure. Though the power is the key instrument for development of every sector and for all segment of society, the State Government should target the subsidy expenditure keeping in view the social welfare objectives. Those who are capable of paying full cost should not be provided the benefit of subsidy. For example farmers having big land holdings may not be given power subsidy in agriculture. But for this, subsidy is to be provided at the end user’s point. It will ensure the benefits to the needed ones and reduction in subsidy expenditure by avoiding subsidy on line losses and theft of electricity.

Table 3.1

Composition and Growth of Total Expenditure of Haryana

(Rs. in crores)

Year	Revenue Expenditure		Capital Expenditure						Total Expenditure TE		TE/GSDP	TE/RR %
	Rs.	% to TE	Capital outlay		Loan and Advances		Total Capital Expenditure		RS.	Growth Rate		
			Rs.	% to TE	Rs.	% to TE	Rs.	% to TE				
2001-02	8656.50	83.04	1467.12	14.07	301.18	2.89	1768.30	16.96	10424.8	17.02	15.93	137.16
2002-03	9342.12	91.28	435.81	4.26	456.43	4.46	892.23	8.72	10234.36	-1.83	14.12	118.22
2003-04	10117.19	78.23	385.65	2.98	2429.32	18.79	2814.97	21.77	12932.16	26.36	15.60	131.38
2004-05	11407.10	91.17	896.93	7.17	208.06	1.66	1104.98	8.83	12512.09	-3.25	13.34	112.23
2005-06	12639.90	87.61	1612.31	11.17	176.67	1.22	1788.98	12.39	14428.88	15.32	13.52	104.15
2006-07	16362.15	86.23	2427.6	12.79	184.72	0.97	3276.09	16.68	18974.47	31.50	14.59	105.69
2007-08	17526.87	82.52	3426.17	16.13	285.50	1.34	4552.56	17.48	21238.54	11.93	13.87	107.53
2008-09	20534.73	77.02	4501.67	17.74	332.31	1.31	5833.44	22.12	25368.71	19.45	14.33	118.83
2009-10	25257.39	82.94	5218.48	16.67	829.69	2.65	7304.55	22.43	31305.56	23.40	14.69	139.40
2010-11	28310.18	75.08	4031.11	12.19	721.87	2.18	6124.05	17.78	33063.16	5.61	14.76	98.94
2011-12	32014.89	80.53	5372.34	14.13	627.07	1.65	7736.54	19.46	38014.3	14.97	15.05	90.14

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.2

Composition and Growth of Revenue Expenditure of Haryana

(Rs. in crores)

Year	General Services		Social Services		Economic services		Grants-in Aid		Total RE	Growth rate	Ratio to GSDP	Ratio to RR
	Rs.	% to RE	Rs.	% to RE	Rs.	% to RE	Rs.	% to RE	Rs.	%	%	%
2001-02	3486.19	40.27	2724.79	31.48	2414.82	27.90	30.70	0.35	8656.50	13.90	13.23	113.89
2002-03	3995.32	42.77	2808.70	30.06	2532.48	27.11	5.63	0.06	9342.12	13.71	12.89	107.91
2003-04	4367.72	43.17	2995.71	29.61	2706.05	26.75	47.71	0.47	10117.19	13.26	12.20	102.78
2004-05	4898.10	42.94	3218.21	28.21	3199.08	28.04	91.71	0.81	11407.10	24.26	12.16	102.31
2005-06	4579.67	36.23	3995.60	31.61	3814.77	30.18	249.86	1.98	12639.90	29.59	11.84	91.24
2006-07	4845.05	29.61	4615.40	28.21	6626.89	40.50	274.81	1.68	16362.15	10.02	12.58	91.14
2007-08	5229.68	29.84	5738.67	32.74	6221.88	35.50	336.65	1.92	17526.87	2.71	11.45	88.74
2008-09	6024.47	29.34	7258.73	35.35	7035.75	34.26	215.78	1.05	20534.73	19.54	11.60	101.22
2009-10	7755.35	30.71	9902.22	32.20	7529.91	29.81	69.91	0.28	25257.39	18.00	11.85	104.15
2010-11	9328.14	32.95	10904.08	38.52	7996.73	28.25	81.24	0.29	28310.18	24.12	12.64	98.94
2011-12	10219.83	31.92	12641.67	39.50	9053.97	28.28	99.42	0.31	32014.89	13.90	12.67	90.14

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.3

Composition and Growth of Capital Expenditure of Haryana

Year	Capital outlay									Loan and Advances		Total Capital Expenditure	Growth rate	Ratio to GSDP
	General Services		Social Services		Economic services		Total							
	Rs.	% to TCE	Rs.	% to TCE	Rs.	% to TCE	Rs.	% to TCE	Ratio to GSDP.	Rs.	% to TCE	%	%	%
2001-02	50.67	2.87	191.19	10.81	1225.26	69.29	1467.12	82.97	2.24	301.18	17.03	1768.30	2.38	2.70
2002-03	45.36	5.08	214.28	24.02	176.16	19.74	435.81	48.84	0.60	456.43	51.16	892.24	-49.54	1.23
2003-04	66.46	2.36	293.68	10.43	25.52	0.91	385.65	13.70	0.47	2429.32	86.30	2814.97	215.49	3.40
2004-05	58.13	5.26	286.95	25.97	551.84	49.94	896.93	81.17	0.96	208.06	18.83	1104.99	-60.75	1.18
2005-06	82.17	4.58	439.11	24.55	1091.03	60.99	1612.31	90.12	1.51	176.67	9.88	1788.98	61.90	1.68
2006-07	89.90	3.44	649.35	24.86	1688.35	64.63	2427.6	92.93	1.87	184.72	7.07	2612.32	46.02	2.01
2007-08	170.77	4.60	922.17	24.85	2333.23	62.86	3426.17	92.31	2.24	285.50	7.69	3711.67	42.08	2.42
2008-09	194.81	4.03	1109.28	22.95	3197.58	66.15	4501.67	93.13	2.54	332.31	6.87	4833.98	30.24	2.73
2009-10	187.37	3.09	1070.00	17.69	3961.11	65.50	5218.48	86.28	2.45	829.69	13.71	6048.17	25.12	2.84
2010-11	198.94	4.18	1229.71	25.87	2602.46	54.75	4031.11	84.81	1.80	721.87	15.18	4752.98	-21.41	2.12
2011-12	235.32	3.92	1367.41	22.79	3769.61	62.83	5372.34	89.55	2.13	627.07	10.45	5999.41	26.22	2.38

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 34
Composition of General Services Expenditure

YEAR/ITEM	TOTAL GENERAL SERVICE EXPENDITURE	Organ of state	INTEREST PAYMENT	SERVICING OF DEBT	ADM. SERVICES	PENSIONS & OTHERS	TOTAL FISCAL SERVICES	MISCLLENIOUS
YEAR	**RS. IN CRORE**		**% TO GS**	**% TO GS**	**% TO GS**	**% TO GS**	**% TO GS**	**% TO GS**
2001-02	3536.86	2.34	45.93	0.00	19.19	18.58	2.66	11.30
2002-03	4040.67	2.22	48.16	0.00	18.17	18.28	2.43	10.74
2003-04	4434.17	2.34	47.23	0.67	17.66	17.27	2.18	12.65
2004-05	4956.24	2.04	45.08	1.05	17.37	18.20	2.09	14.17
2005-06	4661.84	1.93	45.84	0.91	22.11	22.16	2.43	4.62
2006-07	4934.95	2.08	45.95	1.63	23.64	23.78	2.72	0.17
2007-08	5299.68	2.74	43.64	0.93	25.87	24.10	2.69	0.03
2008-09	6024.47	2.78	39.82	0.79	26.65	26.79	3.16	0.01
2009-10	7755.35	3.03	35.29	0.93	26.94	30.82	2.99	0.00
2010-11	9328.14	3.75	35.58	1.13	23.69	33.17	2.68	0.00
2011-12	10219.83	3.52	39.95	1.48	21.30	31.35	2.39	0.01

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.5
Composition of Social Services Expenditure
(IN PERCENTAGE)

YEAR	TSSE	ESAC	MPH	FW	WSS	HOU.	UD.	IP	WELFAR SC/ST	LEM	SSW	NUT	RANC	OTH.
YEAR	RS. IN CRORE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE	% TO SSE
2001-02	2962.87	49.94	9.20	1.66	14.70	0.45	1.48	0.47	1.34	1.83	13.32	1.06	2.94	1.61
2002-03	3067.60	47.43	9.73	1.72	16.28	0.43	1.70	0.47	1.49	1.84	12.94	1.44	3.04	1.49
2003-04	3329.90	46.27	9.46	1.34	18.60	0.45	1.73	0.47	1.39	1.78	12.82	1.45	2.89	1.35
2004-05	3543.87	47.44	9.49	1.58	16.01	0.50	1.73	0.49	1.41	2.06	13.79	1.45	2.87	1.18
2005-06	4516.54	44.12	8.93	1.41	16.19	0.41	2.55	0.49	1.97	2.22	15.32	0.95	3.42	2.02
2006-07	5345.64	43.59	8.07	1.05	17.90	0.49	2.71	0.43	2.38	1.95	14.27	1.41	4.05	1.70
2007-08	6742.27	42.09	7.70	0.90	18.29	0.55	5.50	0.53	2.15	1.56	12.48	2.11	3.92	2.22
2008-09	7258.73	53.09	8.87	1.11	8.95	0.28	6.90	-	1.66	2.00	13.08	1.66	1.55	0.82
2009-10	9902.22	52.58	9.36	0.96	7.50	0.17	3.37	-	1.63	1.88	18.14	1.53	2.11	0.77
2010-11	10904.08	54.08	8.85	0.94	7.94	0.21	2.95	-	1.83	1.97	17.08	1.05	2.56	0.51
2011-12	12641.67	49.74	8.66	0.82	10.57	0.17	7.55	-	1.97	1.70	15.94	0.00	1.22	0.30

TSSE=TOTAL SOCIAL SERVICE EXPENDITURE
ESAC=EDUCATION,SPORTS,ART & CULTURE
MPH=MEDICAL & PUBLIC HEALTH
FW=FAMILY WELFARE
HOU=HOUSING
UD=URBAN DEVELOPMENT
IP=INFORMATION & PUBLICITY
LEM=LABOUR & EMPLOYMENT
SSW=SOCIAL SECURITY & WELFARE
NUT-NUTRITION
RANC=RELIEF ON ACCOUNT OF NATURAL CLIMATE
OTH=OTHERS

Table 3.6

Composition of Economic Services Expenditure

YEAR	TESE	AAA	RD	IFC	ENER.	IM	TPT.	SCT & ENV.	GES
YEAR	**RS. IN CRORE**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
2001-02	3894.38	24.87	3.48	20.01	23.15	3.96	22.54	0.09	1.90
2002-03	3120.46	0.33	4.36	25.12	32.85	8.34	25.91	0.13	2.96
2003-04	5120.37	-4.86	2.73	12.52	63.66	4.76	19.40	0.14	1.65
2004-05	3920.28	5.66	4.21	18.07	37.28	3.15	28.89	0.15	2.59
2005-06	5001.24	10.21	5.64	19.32	33.96	3.01	25.51	0.18	2.17
2006-07	8419.07	6.85	3.88	13.17	54.08	2.25	18.23	0.10	1.44
2007-08	8759.18	12.73	6.71	18.21	39.07	2.88	18.67	0.09	1.64
2008-09	7035.75	13.35	11.99	10.74	42.81	1.04	18.15	0.13	1.77
2009-10	7529.91	14.90	11.54	11.40	37.02	0.93	19.67	0.47	4.05
2010-11	7996.73	17.01	12.10	11.26	36.96	1.12	18.83	0.18	2.51
2011-12	9053.97	15.70	12.11	11.01	39.66	0.52	17.59	0.13	2.80

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.7
Results of Augmented Dickey Fuller Test

Item	With Intercept and Trend	ADF Test Statistic	Durbin-Watson stat
TE	With Intercept and Trend	-3.530***	1.882
RE	With Intercept and Trend	-3.828**	1.875
CE	With Intercept	-6.764*	1.810
PE	With Intercept and Trend	-5.348*	1.522
NPE	With Intercept	-4.920*	1.854
DE	With Intercept and Trend	-4.265*	1.919
NDE	With Intercept	-4.353*	1.787
SSE	None	-2.966*	1.920
ESE	None	-3.915*	1.985
GSDP	With Intercept	-4.668*	1.800

*1% level of Significance

- 5% Level of Significance
- 10 % level of Significance

Table 3.8
Results of Granger-Causality Test

Null Hypothesis:	F-Statistic	Probability	Decision
TE does not Granger Cause GSDP	0.442	0.7749	Not Rejected
GSDP does not Granger Cause TE	2.397	0.1622	Rejected ****
RE does not Granger Cause GSDP	0.533	0.717	Not Rejected
GSDP does not Granger Cause RE	4.932	0.0418	Rejected **
PE does not Granger Cause GSDP	3.006	0.1107	Rejected ***
GSDP does not Granger Cause PE	1.032	0.4618	Not Rejected
NPE does not Granger Cause GSDP	0.381	0.814	Not Rejected
GSDP does not Granger Cause NPE	2.564	0.145	Rejected ****
DE does not Granger Cause GSDP	1.945	0.222	Rejected ****
GSDP does not Granger Cause DE	1.323	0.36088	Not Rejected
NDE does not Granger Cause GSDP	0.640	0.6529	Not Rejected
GSDP does not Granger Cause NDE	3.19	0.099	Rejected ***
CE does not Granger Cause GSDP	5.491	0.033	Rejected **
GSDP does not Granger Cause CE	2.084	0.201	Rejected ****
ESE does not Granger Cause GSDP	1.395	0.34009	Not Rejected
GSDP does not Granger Cause ESE	1.610	0.286	Not Rejected
SSE does not Granger Cause GSDP	12.32	0.0047	Rejected *
GSDP does not Granger Cause SSE	2.538	0.1479	Rejected ****

*1% level of Significance
** 5% Level of Significance
*** 10 % level of Significance
**** 25% level of Significance

Table 3.9

Developmental Expenditure of Haryana

YEAR/ITEM	REVENUE EXPENDITURE		CAPITAL EXPENDITURE		TOTAL DEV. EXPENDITURE	% TO TOTAL EXPENDITURE
YEAR	**RS.**	**% TO DE**	**RS.**	**% TO DE**	**RS.IN CRORE**	
2001-02	5139.61	75.42	1674.79	24.58	6814.40	65.37
2002-03	5341.18	86.90	805.32	13.10	6146.50	60.06
2003-04	5701.76	67.79	2709.26	32.21	8411.01	65.04
2004-05	6417.29	86.39	1010.87	13.61	7428.16	59.37
2005-06	7810.37	82.77	1625.58	17.23	9435.94	65.40
2006-07	11242.29	82.15	2441.97	17.85	13684.26	72.12
2007-08	11960.55	77.57	3459.47	22.43	15420.01	72.60
2008-09	14294.48	74.82	4810.98	25.18	19105.46	75.31
2009-10	17432.13	77.60	5031.11	22.40	22463.24	71.75
2010-11	18900.81	83.14	3832.16	16.86	22732.97	68.76
2011-12	21695.64	80.86	5137.02	19.14	26832.66	70.59

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.10

Non-Developmental Expenditure of Haryana

YEAR/ITEM	REVENUE EXPENDITURE		CAPITAL EXPENDITURE		TOTAL NON-DEV.EXPENDITURE	% TO TOTAL EXPENDITURE
YEAR	**RS.**	**% TO NDE**	**RS.**	**% TO NDE**	**RS.IN CRORE**	
2001-02	3486.19	97.39	93.51	2.61	3579.70	34.63
2002-03	3995.32	97.87	86.92	2.13	4082.23	39.94
2003-04	4367.72	97.64	105.72	2.36	4473.43	34.96
2004-05	4898.10	98.11	94.11	1.89	4992.22	40.63
2005-06	4579.67	96.54	164.00	3.46	4743.67	34.60
2006-07	4845.05	96.60	170.35	3.40	5015.40	27.88
2007-08	5229.68	95.40	252.20	4.60	5481.88	27.40
2008-09	6024.47	96.87	194.81	3.13	6219.28	24.69
2009-10	7755.35	97.64	187.37	2.36	7942.72	28.25
2010-11	9328.14	97.91	198.94	2.09	9527.08	31.24
2011-12	10219.83	97.95	235.32	2.25	10455.15	29.41

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.11

Plan Expenditure of Haryana

YEAR/ITEM	REVENUE EXPENDITURE	CAPITAL EXPENDITURE	TOTAL EXPENDITURE	% TO TOTAL EXPENDITURE
YEAR	**RS.**	**RS.**	**RS.**	**%**
2001-02	1197.59	1066.81	2264.40	21.72
2002-03	1049.15	1014.76	2063.91	20.17
2003-04	1124.35	1244.63	2368.98	18.32
2004-05	1452.70	1252.46	2705.16	21.62
2005-06	2014.80	1692.17	3706.97	25.69
2006-07	2454.12	2521.30	4975.42	26.22
2007-08	3175.51	3436.66	6612.17	31.13
2008-09	3917.91	4010.29	7928.2	31.25
2009-10	5714.77	4819.06	10533.83	33.65
2010-11	6251.50	4386.36	10637.86	32.17
2011-12	7791.98	4718.38	12510.36	32.91

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.12

Non- Plan Expenditure of Haryana

YEAR/ITEM	REVENUE EXPENDITURE	CAPITAL EXPENDITURE	TOTAL EXPENDITURE	% TO TOTAL EXPENDITURE
YEAR	RS.	RS.	RS.	%
2001-02	7458.91	701.49	8160.40	78.28
2002-03	8292.97	-122.52	8170.46	79.83
2003-04	8992.84	1570.34	10563.18	81.68
2004-05	9954.40	-147.47	9806.93	78.38
2005-06	10625.09	96.81	10721.90	74.31
2006-07	13908.03	91.02	13999.05	73.78
2007-08	14351.36	275.02	14626.38	68.87
2008-09	16616.81	511.81	17128.62	68.75
2009-10	19542.62	1015.19	20557.81	66.35
2010-11	22058.68	186.04	20744.72	67.83
2011-12	24222.91	1018.17	25241.08	67.09

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 3.13

Subsidy Expenditure of Haryana

YEAR	TOTAL SUBSIDY	% TO TE	SUBSIDY FOR ENERGY	% TO TOTAL SUBSIDY	SOCIAL SERVICES	% TO TOTAL SUBSIDY
2001-02	859.73	8.25	763.54	88.81	**-**	**-**
2002-03	883.52	8.63	829.10	93.84	**-**	**-**
2003-04	957.44	7.40	823.88	86.05	**-**	**-**
2004-05	1156.97	9.25	1060.594	91.67	-	-
2005-06	1465.74	10.16	1392.10	94.98	26.65	1.82
2006-07	3852.45	20.30	3759.34	97.58	23.81	0.62
2007-08	3057.20	14.39	2568.36	84.01	37.99	1.24
2008-09	3264.67	12.62	2998.65	91.85	33.12	1.01
2009-10	3055.16	9.77	2770.28	90.68	**-**	-
2010-11	5247.123	**15.87**	4689.354	**89.37**	**-**	**-**
2011-12	6990.83	**18.39**	6331.595	**90.57**	**-**	**-**

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

CHAPTER- 4

ANALYSIS OF PUBLIC DEBT IN HARYANA

Liabilities of State Governments constitute the liability under consolidated fund and public account of the State. With a purpose of having unanimity on the definition and composition of State Governments liabilities, Central Government had constituted a working group on methodology and compilation of State Government liabilities in 2005. According to the definition given by the group, State Government liabilities comprise internal debt, loan from the Center, small savings and provident fund, reserve funds and deposits and advances. Internal debt and loans from the Center constitute the public debt and is secured under the consolidated fund of the State Governments. It includes market borrowings, special securities issued to NSSF, loans from bank and financial institutions and ways and means advances from Reserve Bank of India. For market borrowings State Governments issue dated securities of varying tenure which are mostly subscribed by banks and financial institutions. National small saving fund has been established w.e.f. 1st April 1999, in the public account of Government of India. All small savings collections including public provident fund are credited to this fund. All withdrawals under small saving schemes by the depositors are made out of this fund. The balance in the fund is invested in Central and State Governments` securities. From 2002-03 onwards, 100 percent of net collections (receipts minus withdrawals) in NSSF from a State are invested in the special securities issued by that State Government. Prior to this, collections were being shared between the State and the Central Government in the ratio of 80:20. Cost of interest paid to the depositors and cost of managing small saving schemes is the expenditure of the fund and the debt servicing of special Government securities is the income of the fund. Investment in these special securities constitutes the internal debts of the respective Government. Earlier the disbursement of loans from small saving collections, to State Governments, was from the consolidated fund of India and was considered as Central Government loans.

The other liabilities of State Governments arise more in the capacity as a banker rather than borrower. These borrowings are accruals and secured under public account. These liabilities are unfunded implying huge risk on the State budget. The small saving schemes run by the State themselves and State provident fund receipts, form major component of public account liabilities. The receipts and interest rate under state provident fund are guided by General Provident Fund rules. Thus the cost of borrowings and receipt of State provident fund are exogenous elements which can increase autonomously. Reserves and deposits are other constituents of public account liabilities. Reserves are created by the Government for specific purposes out of consolidated fund. Some reserves bear interest and some do not bear interest. The credit balance in all reserves is the debt liability of the Government. Similarly deposits whether bearing interest or not also form the liability of the Government. The balance under suspense and remittances represent transactions pending adjustments, recovery or payment. These do not form the part of liability. Government liabilities and Government debt is a synonymous term according to the definition. Same definition is used in the books of accounts of the State Government and has been used in this study also.

4.1 Magnitude and Composition of Debt

Total liability of the State Government was of Rs 17121.84 crore in 2001-02 which has increased to Rs. 56690.00 crore in 2011-12. The overall growth rate during the study period has been 15.23 percent. The total liability of the State Government has been higher than the target envisaged in State’s own Fiscal Correction Path. Analysis of different components shows that market borrowing has increased from Rs. 2027.32 crore to Rs. 5650.00 crore during the study period. These loans have increased at a compound annual growth rate of 18.61 percent. During 2006-10, the State Government has not raised market loans. Loans from NSSF have increased from 2153.85 crore in 2001-02 to Rs. 11600.00 crore in 2011-12 and registered a compound growth rate of 25.27 percent. The internal loans from other sources have registered compound annual growth rate of 26.16 percent. The increase in these loans during 2003-12 is mainly due to increase in the loans from State Bank of India and other banks. In 2003-04, the State Government has issued 8.5% power bonds of Rs. 2022.29 crore to be repaid in 20 half yearly installments during 2006-2016. The sharp increase in 2009-10 is mainly due to ways and means advances of Rs. 1500 crore. Government of India loans have declined from Rs 5334.21 crore in 2001-02 to Rs 2170.00 crore in 2011-12. The overall growth rate of central loans, during the study period, has been negative. It is because of higher repayment of Government of India loans. The small savings and provident fund etc. have increased from Rs. 4307.05 crore to Rs. 8940.00 during the study period.

These have registered a compound annual growth rate of 13.82 percent. Other obligations have increased from Rs. 1139.72 crore to Rs. 6240.00 crore with compound annual growth rate of 16.95 percent. Growth of other obligations has been higher during the study period.

Loans from the Center have been the largest component constituting 31 percent in 2001-02 which have continuously and significantly reduced to 3.83 percent of total liabilities in 2011-12. Small savings and provident fund contributed 15 to 25 percent and was the second largest component, however during the study period it also recorded a declining trend. Share of market borrowings has been 9 to 19 percent, which also had a declining trend since 2004. Other obligations contributed 6 to 11 percent and these have shown a rising trend. Since its inception, the NSSF has emerged as an important contributor to the state debts and gradually became the largest source contributing up to 35.73 percent to total debts. Market borrowings have emerged as the cheapest source of borrowings with declining interest rates (6.13 percent in 2003-04). Factor causing the decline in Central Government loans is the recommendation of TFC for not extending the central loan for State plan and to allow States to raise the loans from the market directly. The commission observed that rate of interest charged on central plan loans from planning commission, was higher by 300 to 400 basis points than the cost of funds for the Centre. Such arrangement was pushing the States into higher indebtedness on account of structurally mandated borrowings. In this back drop, the commission recommended to allow the States to decide whether to borrow from the market or from the Centre, thus eliminating the process of on-lending. However, the State access to market borrowings is regulated by the Central Government keeping in view its own requirements and liquidity position in the market. Another factor is that the central loans now do not include borrowings against small savings as the investment made in special securities of the State against NSSF are maintained in public account of the Central Government.

NSSF is an exogenous source of financing as quantum and cost of these borrowings is not under the purview of State Governments. The interest rate on NSSF loan is also higher than market loans (13.5 percent in 1999-2000, reduced to 9.5 percent since 2003-04). Still, NSSF contributes maximum share to the State borrowings. Secure, steady and regular source of borrowings with longer maturity profile seems to be the reason for preference of State Government for NSSF loans. Another reason for this preference may be that State Governments are used to of pressurising the Central Government on one pretext or another for debt waiver, consolidation at cheaper interest rate or rescheduling for longer maturity period. All these benefits cannot be expected with market borrowings. The NSSF loans of 13.5 percent interest rate outstanding at the end March 2004 have been consolidated in 2007-08 at 10.5 percent interest rate. Different State Governments had asked for 50 percent waiver in NSSF loans and also for reduction in interest rate in their expectation Statement before 13^{th} Finance commission. The Commission has recommended an interest relief of 0.50 percent (reduced from 9.5 percent to 9 percent) to State Government loans on NSSF loans contracted up 2006-07. However in the recent years, share of NSSF loans has come down and of market borrowings has increased. The collection under NSSF has declined during 2007-09. Owing to this decline, Government of India has provided additional allocation of market borrowings to the State Governments to cover the shortfall of NSSF loans.

4.2 Debt Sustainability

Debt sustainability is the pivot of management of finances of any State and a pre-requisite for long term stability. It embodies concern about the ability of the Government to service their debt obligation. In other words it refers to the ability of the State to pay interest and repay the debt from magnitude of the flow of the income. It is enduring without breaking down. Debt in relation to the flow of income is very popular measure of the degree of indebtedness of any State. If the degree is high, it must be in the manageable limits. Manageable limits require sufficient current income for servicing of debt and to keep the balance between the costs of additional borrowings and return from such borrowings. To put it differently, the increase in fiscal deficit should match with the increase in capacity to service the debt. To analyze the sustainability of State debts, following parameters have been used-

- Debt to GSDP Ratio
- Interest payment to Revenue Receipt Ratio
- Rate of interest in relation to GSDP growth – Domar gap.
- Debt-Trap
- Net availability of borrowed funds – Servicing of debt.
- Application of borrowed funds in terms of assets back-up for liabilities.

4.2.1 Debt-GSDP Ratio

The most common indicator of debt sustainability is the debt – income ratio and its behavior over the time. GSDP is the single most acceptable indicator of the state income. The debt-GSDP ratio of the State was 26.16 percent in 2001-02, came at low of 17.60 percent in 2011-11 and peaked at 27.07 percent at end March 2004. The buoyancy ratio of debts has been more than one during 1997-04. From 2004-05 onwards, the ratio has registered a declining trend but in 2011-12, it is 1.27. These ratios indicate continuous improvement in debt position of the State. On comparison with consolidated debt-GSDP ratio of all States, it is evident that the ratio of Haryana State has been lower than the consolidated ratio of all States.

The declining trend in debt-GSDP ratio and the ratio within the limits of target of 30.8 percent (including guarantee) and from 2006-07 less than 28 percent indicates the improving position of debts in the State. However to be more conservative, debt sustainability can be measured in terms of states revenue receipts and further in terms of State’s own capacity and ability to generate revenue. Debt to revenue receipt ratio indicates that debt has been higher than revenue receipts during the whole study period

. The ratio was more than 200 percent during 2001-2002 to 2004-05. It is below the limit of 300 percent given by Planning Commission to determine the quality of debt stock of any State. Less than one buoyancy ratio in most of the years indicates the lower growth of debts than the revenue receipts.

To improve the debt sustainability, TFC has provided debt relief mechanism associated with adherence to rule based fiscal programme. It has recommended the debt-GSDP ratio (including guarantee) at 30.8 percent to be achieved by the State Governments by 2009-10. The State’s ratio has been less than this target during the whole award period of TFC. The ratio is also less than 28 percent target envisaged in FRBM Act.

4.2.2 Interest Payment to Revenue Receipt Ratio

Another criterion for assessing the sustainability of debt of any State is interest payment to revenue receipts ratio. EFC has recommended for State Governments that the ratio should be within 18 percent and TFC has recommended the ratio within 15 percent. The State ratio was above 20 percent till 2004-05, however it started decline after that and remained between the range of 11.88 and 15.16. In addition to low growth of debts, Debt Consolidation and Debt Swap Scheme are the contributing factors to the low interest payment ratio during the latter half of this decade.

Interest payments as a proportion of State own revenue reflects the State’s ability to discharge its obligation out of its own resources. The higher the ratio, greater would be the dependence on central transfers or borrowings to meet current expenditure. Thus if interest payment ratio is high, high debt-GSDP ratio is expected. This hypothesis holds true in case of Haryana. Interest payment ratio to State own revenue is high till 2004-2005. Debt-GSDP ratio is also high during this period. Buoyancy ratio indicates higher growth of interest payments than debts during first decade. It is because of higher interest rate in that period.

To conclude interest burden on the State economy has been high from 2001-02 to 2004-05. Debt swap scheme and debt consolidation have lowered average cost of debt of the State and thus interest payment has come down from 2005-06 onwards and is well within the target envisaged by TFC.

4.2.3 Rate of Interest in Relation to GSDP Growth – Domar Gap

Famous Domar's Debt Stability Equation provides the necessary condition for the stability of debt. It States that if the rate of growth of economy exceeds the rate of interest on debt, the debt-GSDP ratio is likely to be stable provided primary balance is either zero or positive or moderately negative (Rath 2004). Fiscal policy is sustainable if the Government is able to service the debt over foreseeable future. But solvency is necessary condition for sustainability in the long run. Solvency implies the ability to discharge one's obligation in the long run. If any entity is insolvent and still able to continue functioning or sustain its stance, then it is using ponzi financing as a debt management strategy i.e. borrowing more to repay the old debt. The Domar model concludes that for solvency and sustainability of public debt the following condition should be met, when economy is running by accumulation of primary deficit.

i.e. $K \leq r \leq g$.

Where K = growth rate of public debt

r = interest rate

g = growth rate of GSDP

For solvency, present outstanding stock of debts must be equal to the summation of present discounted value of primary surplus in future. The equality of current debt and present value of surplus do not necessarily imply that the debt is ultimately repaid or even that debt is ultimately constant. It only implies that debt ultimately grows less rapidly than the interest rate. If nominal growth of economy exceeds the nominal rate of interest, stabilization of debt is possible, even if the economy is running primary deficit, provided primary deficit together with quantum spread (opening balance of debt × rate spread) is zero. If quantum spread together with primary deficit turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive the ratio would be falling. In case nominal rate of interest is more than the nominal growth rate of economy, for sustainability of debt, there must be targeted primary surplus to GSDP ratio.

Analysis of Domar's gap shows that interest spread has been positive throughout the study period. The economy has suffered from primary deficit up to 2001-02, in 2003-04, 2008-09, 2009-10, 2010-11 and 2011-12. The sum of quantum spread and primary deficit shows a negative balance in 2001-02, 2003-04, 2008-09 and 2009-10. The debt-GSDP ratio is high but registered a declining trend during this period. From 2004-05 onwards the sum is positive, ratio has come down. In 2009-10 again fiscal balance is negative and debt GSDP ratio has increased. Thus with year to year variation growth rate of economy is higher than the interest rate in most of the years. Therefore debt position may be considered sustainable.

During the study period, average annual growth rate of liabilities is 15.22 percent, interest rate is 9.7 percent and average growth rate of GSDP is 14.91 percent. To put into Domer`s equation, k is 15.22 percent, r is 9.71 percent and g is 14.91 percent. It implies that $k>g>r$ i.e. growth rate of economy is more than the interest rate but growth rate of debt is more than the interest rate. It fulfills the debt sustainability condition but does not confirm to the solvency condition. For repayment of debts economy has to depend on fresh debts. In a long term prospective, debt solvency position may be considered uncertain.

4.2.4 Debt-Trap

One of the indicators of debt sustainability is the adequacy of incremental non-debt receipts to cover the incremental primary expenditure and incremental interest liabilities. In 1990s and the earlier year of this decade, Indian economy was said to be in debt trap and same was the situation of the most of the States. Debt-trap is a situation in which debtor is not able to meet the cost of debt servicing without borrowing afresh. Therefore total indebtedness of the debtor keeps growing. The EFC has identified that for reducing debt burden incremental non-debt receipts should meet the incremental primary expenditure and the incremental interest liabilities.

The analysis of incremental non-debt receipts available for incremental interest burden indicates a negative resource gap from 1992-93 onwards. It shows the extent of borrowed funds used for payment of interest. Thus debt servicing was out of borrowed funds. It indicates the non-sustainability of debt and the economy was in the debt-trap. During 2004-07, situation improved to some extent but from 2007-08 onwards again, incremental non-debt receipts available for interest payments are negative. Receipts from current debt are used to repay the old debts. The position cannot be sustained in the long run. To conclude it may be said that the State needs to step-up its resource mobilization efforts to ensure safety against clutches of debt-trap and in turn sustainability of debt.

4.2.5 Application of Borrowed funds in terms of Assets Back-up

Use of borrowed funds for creation of assets is another condition for sustainability of debts. Use of debt receipts for creating income-generating assets, enhances the debt servicing capabilities of the State. The solution to the problem of public debt lies in:-

- Borrowed funds not to be used for financing revenue expenditure, and
- The funds to be used efficiently and productively for capital formation.

In the accounting system of State Governments, comprehensive accounting of fixed assets like land and building etc. owned by the Government is not accounted for. Accounts do capture and provide the assets created out of expenditure incurred. Investments, outstanding loans and advances and cumulated capital expenditure could be considered as Government's assets. The ratio of these assets to liabilities could be considered as a surrogate measure of quality of application of borrowed funds. However it is not possible to account for depreciation etc. The ratio of assets to liabilities has been below hundred percent except one year. Liabilities have hundred percent assets back-up. However growth of assets has been slightly below to the growth of liabilities. It was due to the application of large part of net available borrowings towards meeting the revenue deficit which adversely affected capital formation. Position deteriorated from 2003-04 onwards. However, in the last two years some improvement has been noticed.

TABLE 4.1 :-Composition and Growth of Liabilities
(RS IN CRORE)

YEAR	Public Debt										Public Account				TOTAL LIABLITIES	GR
	Internal Debt								GOI LOANS		SSPF		OTHERS**			
	MB		NSSF		OTHERS*		TOTAL									
	RS.	%	RS.	%	RS	%	RS.	%	RS.	%	RS.	%	RS.	%	RS.	%
2001-02	2027.32	11.84	2153.85	12.58	2159.69	12.61	6340.86	37.03	5334.21	31.15	4307.05	25.16	1139.72	6.66	17121.84	22.57
2002-03	2742.45	14.20	3725.64	19.29	1591.89	8.24	8059.98	41.73	5331.74	27.60	4661.91	24.14	1262.29	6.53	19315.92	12.81
2003-04	3828.68	17.06	5433.45	24.21	2929.32	13.05	12191.45	54.32	3695.51	16.47	4953.95	22.08	1600.02	7.13	22440.93	16.18
2004-05	4757.57	19.37	7525.08	30.65	2780.63	11.32	15063.28	61.34	2283.90	9.30	5238.16	21.33	1969.87	8.03	24555.21	9.42
2005-06	5144.51	18.73	9386.05	34.16	2844.32	10.35	17374.88	63.24	2213.55	8.06	5592.92	20.36	2291.83	8.34	27473.18	11.88
2006-07	4997.10	17.03	10485.11	35.73	2881.02	9.82	18363.23	62.58	2123.32	7.24	5957.73	20.30	2901.84	9.88	29346.12	6.82
2007-08	4743.38	15.82	10535.67	35.14	3131.75	10.45	18410.80	61.41	2078.33	6.93	6257.05	20.87	3236.70	10.79	29982.88	2.17
2008-09	3985.00	11.89	10456.00	31.21	6712.00	20.03	21153.00	63.15	2031.00	6.06	6609.00	19.73	3702.00	11.05	33495.00	11.71
2009-10	3930.00	9.58	10990.00	26.79	11980.00	29.20	26900.00	65.58	2050.00	5.00	7470.00	18.21	4600.00	11.21	41020.00	22.47
2010-11	4930.00	10.65	11920.00	25.74	13940.00	30.11	30790.00	66.50	2240.00	4.84	8220.00	17.75	5050.00	10.91	46300.00	12.87
2011-12	5650.00	9.97	11600.00	20.46	22090.00	38.97	39340.00	69.39	2170.00	3.83	8940.00	15.77	6240.00	11.00	56690.00	23.09

SOURCE :- ECONOMIC SURVEY OF INDIA VARIOUS ISSUES

*= Includes loans from Financial Institutions, Power bonds and Ways and Means Advances

**= Includes Reserve Funds and Deposits and Advances

MB=Market Borrowing**,** **NSSF**=National Small Saving Funds, **SSPF=**Small Saving Provident Fund **GR**=Growth Rate **GOI**=Govt. of India

TABLE 4.2 :-DEBT TO INCOME RATIO (COMPARISON WITH ALL STATES RATIO) (IN PERCENTAGE)

Year	Debt/GSDP	Buoyancy /GSDP	Debt/RR	Debt/SOR	Buoyancy to RR	All States Debt/GSDP
2001-02	26.16	1.80	225.27	257.97	1.45	30.3
2002-03	26.65	1.19	223.12	262.53	0.92	32.0
2003-04	27.07	1.13	227.98	261.82	1.18	33.2
2004-05	26.18	0.72	220.24	245.93	0.71	32.7
2005-06	25.74	0.86	198.31	238.13	0.59	32.6
2006-07	22.57	0.31	163.47	189.10	0.43	30.3
2007-08	19.59	0.12	151.81	179.38	0.42	28.3
2008-09	18.40	0.57	145.37	158.47	0.37	28.6
2009-10	18.30	0.69	141.00	147.65	0.32	29.7
2010-11	17.60	0.77	137.38	140.98	0.31	29.8
2011-12	18.60	1.27	128.09	136.76	0.29	30.2

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

TABLE 4.3 :- INTEREST PAYMENT RATIO
(IN PERCENTAGE)

YEAR	INTEREST PAYMENTS IN RS. CRORE	GROWTH RATE %	RATIO TO RR %	RATIO TO SOR %	BUOYANCY OF INTEREST PAYMENT TO TOTAL DEBT %
2001-02	1624.47	8.89	21.37	24.47	0.39
2002-03	1945.97	19.79	22.48	26.45	1.54
2003-04	2112.65	8.57	21.46	24.65	0.53
2004-05	2234.50	5.77	20.04	22.38	0.61
2005-06	2099.83	-6.03	15.16	18.20	-0.51
2006-07	2265.06	7.87	12.62	14.60	1.15
2007-08	2345.77	3.56	11.88	14.03	1.64
2008-09	2338.91	-0.29	12.68	20.07	1.44
2009-10	2736.53	17.00	13.03	20.70	1.36
2010-11	3318.56	21.27	12.98	19.76	1.25
2011-12	4000.81	20.56	13.09	19.61	1.08

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

TABLE 4.4 :- DEBT TRAP
(RS IN CRORE)

YEAR	INCREMENTAL NON DEBT RECEIPTS 1	INCREMENTAL PRIMARY EXPENDITURE 2	INCREMENTAL RECEIPTS AVAILABLE FOR INTEREST PAYMENT 3 = (1-2)	INCREMENTAL INTEREST PAYMENTS 4	RESOURCE GAP (3-4)
2001-02	1041.86	1383.64	-341.78	132.56	-474.34
2002-03	1078.06	-511.94	1590.01	321.50	1268.50
2003-04	1235.74	2531.12	-1295.38	166.68	-1462.06
2004-05	1307.10	-541.92	1849.03	121.85	1727.17
2005-06	2837.05	2051.46	785.59	-134.67	920.26
2006-07	6009.96	4380.37	1629.60	165.23	1464.37
2007-08	-178.48	2183.37	-2361.85	80.71	-2442.56
2008-09	2187.97	4623.68	-2435.71	8.59	-2444.30
2009-10	556.94	4759.50	-4202.56	646.68	-4849.24
2010-11	1477.41	5891.61	-4414.2	764.28	-5178.48
2011-12	1566.01	6955.27	-5389.26	892.64	-6281.9

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

TABLE 4.5 :-
APPLICATION OF BORROWED FUNDS (ASSETS AND LIABLITIES)

YEAR	ASSETS RS. CRORE	LIABILITIES RS CRORE	ASSETS/ LIABILITIES RS. CRORE	GROWTH OF ASSETS %	GROWTH OF LIBALITIES %
2001-02	12231.36	17121.84	71.44	16.54	22.57
2002-03	13183.69	19315.92	68.25	7.79	12.81
2003-04	16448.92	22440.93	73.30	24.77	16.18
2004-05	18666.61	24555.21	76.02	13.48	9.42
2005-06	22072.27	27473.18	80.34	18.24	11.88
2006-07	25595.14	29346.12	87.22	15.96	6.82
2007-08	29177.85	29982.88	97.32	14.00	2.17
2008-09	32734.88	33495.00	97.73	12.19	11.71
2009-10	41665.24	41020.00	101.57	27.28	22.47
2010-11	36815.95	46300.00	79.52	-11.64	12.87
2011-12	44251.64	56690.00	78.06	20.20	22.44

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

TABLE 4.6
IMPACT OF SPREAD AND PRIMARY DEFICIT ON DEBT – GSDP RATIO

	Interest rate (r)	Gsdp growth (g)	Rate spread (g-r)	Quantum spread D_{t-1}(g-r) Rs. crores	Primary deficit Rs. crores	Fiscal imbalance D_{t-1}(g-r) + PD Rs. crores	PD/GSDP
2001-02	10.45	12.52	2.07	289.48	-1115.07	-825.59	-1.70
2002-03	10.68	10.74	0.06	9.95	474.93	484.89	0.66
2003-04	10.12	14.35	4.23	817.59	-820.45	-2.86	-0.99
2004-05	9.51	13.17	3.66	822.22	1028.58	1850.80	1.10
2005-06	8.07	13.78	5.71	1402.04	1814.17	3216.21	1.70
2006-07	7.97	21.83	13.86	3807.43	3443.77	7251.20	2.65
2007-08	7.91	17.73	9.82	2882.34	1081.92	3964.26	0.71
2008-09	8.75	18.4	9.65	2893.348	-4218	-1324.65	-.023
2009-10	7.50	18.24	10.74	3597.363	-7353	-3755.64	-.035
2010-11	9.50	19.18	9.68	3970.736	-3939	31.736	-.015
2011-12	9.25	19.32	10.07	4662.41	-3152	1510.41	-.010

SOURCE : RBI STATE FINANCE VARIOUS ISSUES - computed

CHAPTER -5

ANALYSIS OF DEFICITS IN HARYANA

Increasing fiscal imbalance and growing indebtedness during nineties has been a major challenge for policy makers of the State. Declining growth of revenue sources and burgeoning expenditure has pushed the economy into vicious circle of deficit and debts. Coincidently, pay revision during 1997-98 further worsened the situation. Position of all States was more or less similar during this period. Eleventh Finance Commission had observed that deficits had become malefic fixture in the Center and the State Governments budget leading to self-perpetuating spiral of debt and deficit. Perpetual deficit accompanied with mounting liabilities has a bearing on fiscal sustainability and affects the ultimate objective of growth with stability. Twelfth Finance Commission also observed that the revenue sources of State Governments could not keep pace with the growing expenditure leading to deficit in revenue account during latter half of nineties and in early years of this decade. The commission had recommended a plan for restructuring of public finance which has resulted some positive shift in State finances but decline in revenues due to down fall in economic activities and increase in expenditure particularly due to pay revision in the recent years has reversed the trend and all deficit indicators started moving upward. With this background, fiscal imbalance of the State has been analysed in this chapter and movement of deficit indicators has been compared with consolidated position of all States. Quality and financing pattern of fiscal deficit has been studied. Magnitude, composition and growth of State liabilities have been examined. In addition to different parameters, sustainability of debts has been analysed using Domar's equation.

5.1 Fiscal Imbalance

Fiscal imbalance is the net result of fiscal transactions during a specified period representing excess of expenditure over receipts. It is also called deficit. If receipts are more than expenditure, it is called surplus. Revenue deficit, capital deficit, fiscal deficit, primary deficit, balance in current revenue and overall deficit are the important indicators of fiscal imbalance. Table 5.1 reveals that all indicators are showing the deficit in the State budget in most of the years during the study period. It indicates that dependence of the State Government on exogenous sources for financing their expenditure has been very high.

5.1.1 Revenue Deficit

Revenue deficit is the excess of revenue expenditure over revenue receipts. It was Rs. 1055.95 crore in 2001-02, peaked at Rs. 4264 crore in 2009-10. The revenue receipts of the State were not enough to cover the routine running and maintenance expenditure of the State. According to the fiscal adjustment programme laid down by Eleventh Finance Commission, States were supposed to eliminate revenue deficit by 2004-05. Haryana could not achieve the target though from 2002-03 onwards the revenue account has shown the consistent improvement in terms of declining deficit but turned into surplus only in 2005-06. Surplus has increased in 2006-07 and 2007-08. It is mainly due to higher increase in revenue receipts than decrease in revenue expenditure. Revenue receipts registered a sharp increase on account of stamps and registration, sales tax and receipts from urban development.

The deficit ratio to GSDP indicates that the State's position has been under stress during the earlier years as the ratio has been higher than the consolidated ratio of all States. Thus from 2002-03 position of revenue account is continuously improving.

5.1.2 Fiscal Deficit

There is no single indicator which can measure the fiscal health of an economy. In recent years fiscal deficit as proportion to GSDP has emerged as key indicator since it is measured as the difference between total disbursement and revenue and non-debt receipts. It summarizes in a way the total gamut of Government finance covering expenditure and revenue. Needless to say, the impacts of fiscal deficit vary depending on the composition of fiscal deficit and the way in which the deficit is financed. The State Government has experienced gross fiscal deficit in all the years of study except in 2006-07. The deficit was Rs 2739.54 crore in 2001-02 which has increased to Rs 7153 crore in 2011-12. It has multiplied by more than two and a half times during the study period. From 2009-10 onwards it has registered a decreasing trend.

In 2006-07 fiscal surplus is mainly on account of a cushion of Rs 2200 crore available by way of recovery of loans from power projects. As it vanished in 2007-08, fiscal surplus again turned into huge deficit of Rs. 1263.85 crore. Twelfth Finance Commission has recommended for reducing fiscal deficit to 3 percent of GSDP by 2009-10. The State has been successful in achieving the target but in 2009-10 estimates, position is different and the economy is facing revenue as well as fiscal deficit. It is pertinent to mention that in the light of worldwide melt down in economic sector; Central Government has revised the fiscal targets. Ratio of fiscal deficit to GSDP has been increased from 3 percent to 3.5percent for 2008-09 and to 4 percent for 2009-10. The Government of Haryana did not loose the benefits of debt waiver scheme and in all circumstances, and contained the deficit with in the target of 4 percent in execution of the budget and it is proved in 2010-11 and 2011-12 .

5.1.3 Primary Deficit

Primary deficit which is the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the State. The State economy has faced primary deficit in 2001-02, 2003-04 and 2008-12. The deficit indicates the payment of interest charges out of fresh debts. The economy experienced primary surplus during the period 2003-08 except in the year 2003-04. From 2008-09 again, the economy has faced primary deficit. Ratio of primary deficit to the state income has been considerably reduced overtime..

5.3 Quality of Deficit /Surplus

Decomposition of fiscal deficit into revenue deficit, capital outlay and net lending and of primary deficit into primary revenue deficit and capital expenditure indicates the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds are used for current consumption.

The position of economy was grim during the period. More than 60 percent of borrowed funds were used for consumption purpose. From 2003-04 onwards the situation has improved and application of borrowed funds for capital expenditure has increased. Revenue surplus has changed the decomposition of fiscal deficit. It has financed capital outlay to the tune of 424.8 percent in 2005-06 and above hundred percent in the next two years. This trajectory shows a consistent improvement in the quality of deficit, as borrowed funds are used for the purpose of expansion in the assets backup of the State. The bifurcation of primary deficit into primary revenue deficit and capital expenditure indicates the extent of non-debt receipts available for capital expenditure after meeting primary revenue expenditure. The economy has primary revenue surplus in all the years except in 2009-10 estimates. It has increased significantly in the second decade. The non-debt receipts were not only enough to meet the primary revenue expenditure requirements in revenue account but also left some amount to meet the expenditure under capital account.

- **Financing of Gross Fiscal Deficit**

Government fiscal stance reflected in the size of fiscal deficit and the manner of financing it, plays an important role in the stabilization of an economy. Gross fiscal deficit is financed through borrowed funds. Major components of borrowing of State Government include market borrowings within the country, loans from the Central Government, small savings and provident fund and different heads under public account like reserve funds, deposit and advances, remittances and suspense and miscellaneous account etc. RBI is the last resort for financing the deficit of the State Government. Analysis of financing pattern of gross fiscal deficit shows that, during the first decade, loans from the Center has been the major source of financing followed by small savings and provident funds and market borrowings respectively. Financing pattern has under gone a compositional shift during the second decade. Since the inception in 1999, Loans from the NSSF has emerged as the largest contributor to finance GFD of the State, market borrowings being the second largest source of finance. Small saving and provident funds remained at the third position. Major shift is sharp decline in loans from the Center. In addition to the institution of NSSF, introduction of Debt Swap Scheme for the period 2002-03 to 2004-05 and discontinuation of plan loans by the Central Government since 1st April 2005 in accordance with the TFC recommendations has significantly reduced the importance of loans from the Central Government as a financing item of GFD. From 2002-03 onwards the contribution of central loans has turned negative. It reflects the decreased dependence of the State Government on the Center to finance its deficit.

Consolidated ratio of all States indicates almost the same trend for central loans, market borrowings and NSSF. The share of small savings and provident funds has been comparatively higher in Haryana than all States. The contribution of reserve funds and deposits and advances in Haryana is lower than all States. Another major change has been witnessed in financing pattern of GFD from 2006-07. Share of special securities issued to NSSF, which used to be the largest source of financing of GFD, declined sharply. The State is in surplus in fiscal account in this year. All States NSSF share has also registered a sharp decline in financing the GFD. Receipt under NSSF has declined in recent years and market borrowings has emerged the largest contributor of GFD of Haryana as well as of all States.

To conclude, it may be observed that during the first decade, State Government was mainly dependent on the Centre to finance its GFD. Loan from the center was the largest source followed by small savings and provident fund and market borrowings respectively. NSSF loans became the largest source followed by market borrowings and small savings and provident fund respectively. From 2006-07 onwards financing pattern of State GFD has undergone a major shift and the share of NSSF loans has declined sharply. The State economy is in gross fiscal surplus in this year. In the recent years market borrowings has emerged as the largest source of financing fiscal deficit.

Table 5.1

Fiscal Imbalance - Basic Parameters

Year	Revenue Deficit		Gross Fiscal Deficit		Primary Deficit	
	Rs	RD/GSDP	Rs	GFD/GSDP	Rs	PD/GSDP
2001-02	-1055.95	-1.61	-2739.54	-4.19	-1115.07	-1.70
2002-03	-685.10	-0.95	-1471.04	-2.03	474.93	0.66
2003-04	-273.71	-0.33	-2933.10	-3.54	-820.45	-0.99
2004-05	-258.04	-0.28	-1205.92	-1.29	1028.58	1.10
2005-06	1213.42	1.14	-285.66	-0.27	1814.17	1.70
2006-07	1590.28	1.22	1178.70	0.91	3443.77	2.65
2007-08	2223.86	1.45	-1263.85	-0.83	1081.92	0.710
2008-09	-2082	-.011	-6557	-.036	-4218	-.023
2009-10	-4264	-.02	-10090	-.048	-7353	-.035
2010-11	-2746	-.011	-7258	-.028	-3939	-.015
2011-12	-1457	-.005	-7153	-.023	-3152	-.010

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 5.2
Decomposition of Fiscal Deficit of Haryana

Year	Revenue Deficit		Capital Outlay		Net Lending	
	Rs	% to GFD	Rs	% to GFD	Rs	% to GFD
2001-02	-1055.95	38.54	1467.12	-53.55	216.47	-7.90
2002-03	-685.10	46.57	435.80	-29.63	350.14	-23.80
2003-04	-273.71	9.33	385.65	-13.15	2273.74	-77.52
2004-05	-258.04	21.40	896.92	-74.38	50.96	-4.23
2005-06	1213.42	-424.78	1612.31	-564.42	-113.23	39.64
2006-07	1590.28	134.92	2427.60	205.96	-2016.02	-171.04
2007-08	2223.86	-175.96	3416.02	-270.29	71.69	-5.67
2008-09	-2082	31.75	-4495	-68.55	20	0.31
2009-10	-4264	42.26	-5209	-51.63	-617	-6.11
2010-11	-2746	37.83	-4023	-55.43	-489	-6.74
2011-12	-1457	20.37	-5363	-74.98	-333	-4.66

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 5.3

Financing of Gross Fiscal Deficit of Haryana

	Net loans from GOI	Net market borrowings	NSSF	Small savings and provident fund etc.	Reserve funds	Deposits and advances	Suspenses and misc.	remittances	Overall surplus/deficit	Inc/dec in cash	GFD
2001-02	115.07	260.18	87.02	405.22	-26.13	298.02	-66.68	-18.88	310.62	1375.10	2739.54
2002-03	-2.47	715.13	1571.80	354.86	36.38	115.70	-824.20	-23.61	-489.40	16.85	1471.04
2003-04	-1636.23	1086.23	1707.81	292.03	-35.85	214.92	460.93	-0.61	-493.57	1337.44	2933.10
2004-05	-1411.61	928.89	2091.60	284.22	74.01	242.87	303.44	-14.57	-1144.26	-148.67	1205.92
2005-06	-70.36	386.94	1860.91	354.76	14.12	158.03	-829.08	43.62	-1697.03	63.75	285.66
2006-07	-90.23	-147.41	1099.05	364.81	-48.32	377.71	382.46	-15.63	-3137.85	36.71	-1178.70
2007-08	-44.99	-253.72	50.56	299.32	15.22	184.72	-30.95	14.28	778.67	250.74	1263.85
2008-09	-47.46	2723.42	-79.73	352.38	-4.81	216.62	3546.36	-26.63	6680.17	-122.37	-6557
2009-10	-34.16	5209.13	534.43	861.92	-39.13	526.64	2785.98	-282.96	9561.85	528.81	-10090
2010-11	183.71	4753.62	934.31	747.8	8.93	316.66	-635.88	305.18	6614.23	644.2	-7258
2011-12	-127.17	7186.33	-329.47	718.53	-16.65	826.54	406.73	214.88	8879.72	-1726.4	-7153

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

CHAPTER-VI

PUBLIC EXPENDITURE MANAGEMENT

Public expenditure management in a state may be studied from various angles such as adequacy of public expenditure, efficiency in expenditure use, expenditure on human development etc. These are discussed as under:

6.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average.

AE as a ratio of GSDP in all the years was lower in the case of Haryana as compared to other General Category States. Government gave adequate fiscal priority to DE during the period, as its ratio to AE was higher than the average ratio) of other General Category States. The ratio of SSE in AE was lower than the ratio in other General Category States. Growth of social service expenditure during this period has been very low. From 2005-06 onwards allocation of expenditure towards social services has increased. The ratio of CE to AE was lower than the ratio of other General Category States. The ratio of education expenditure to AE overtime. The ratio of expenditure on health to AE was less than the ratio of other General Category States. Greater fiscal priority should be given to health by the Government.

6.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the Government to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods.

Apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of the decline in expenditure on debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue

expenditure being made on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. It includes the expenditure on supervision, operation, maintenance, preservation and protection of physical assets and is a part of administrative expenditure of the Government. It is vital for upkeep of capital assets. Maintenance of capital assets affects the return from plan projects. Ratio of operation and maintenance expenditure to revenue expenditure has been in the range of 2.1 percent to 4.4 percent during study period. Hike in wage bill due to 6^{th} pay commission seems to be the primary reason for cut in operation and maintenance expenditure. While comparing the ratio of the expenditure to revenue expenditure with all States ratio, the State's ratio is much below than all States ratio.

6 .3 Human Development Expenditure

Human development has recently been advanced as the ultimate objective of human activity in place of economic growth. Economic growth is considered as a means for human development. Human development is enlarging people's choices in a way which enable them to lead longer, healthier and fuller lives. All social welfare objectives are human development oriented. Public expenditure, being an instrument for economic growth, plays an important role in human development. In order to develop a relationship between public expenditure and human development, the UNDP"s Human Development Report 1991 introduced following four public expenditure ratios as indicators of the extent of political commitment of the Government to the social sector.

1. Public Expenditure Ratio (PER)
2. Social Allocation Ratio (SAR)
3. Social Priority Ratio (SPR)
4. Human Expenditure Ratio (HER)

The PER is the proportion of state income that goes into public expenditure.

PER = (Total Expenditure/ GSDP)* 100

The SAR tells to what extent public expenditure has been channelized for the development of social sector.

= (Social Sector Expenditure/Total Expenditure)*100

Social Sector Expenditure includes expenditure on social services, rural development and food storage and warehousing under revenue expenditure, capital outlay and loans and advances including house building loans to Government servants.

The SPR is the percent of social expenditure devoted to human/social priority concerns. Expenditure for social priority concern includes expenditure on elementary education, public health, maternal and child health, rural water supply and sanitation, nutrition and rural development. It is calculated as:

= (Social Priority Expenditure/ Social Sector Expenditure) * 100

HER conveys the proportion of state income devoted to human priority concern. Hence, by definition, HER is the product of other three ratios. It may be calculated as :-

= (Social Priority Expenditure/ GSDP) * 100

The UNDP"s report (1991) suggested that HER of 5 percent is essential if a country is to do well on the human development front. This may be achieved in efficient manner by keeping PER around 25 percent, SAR around 40 percent and SPR at 50 percent. It is important to mention here that most of the millennium development goals given by the United Nation to be achieved by 2015, relate to social sector.

On analyzing public expenditure of Haryana State, it is evident that PER has been less than the UNDP norms of 25 percent throughout the study period. SAR has been much below than 40 percent norm suggested by UNDP. The ratio has registered increasing trend in the recent years. SPR ratio is above the norm in four years during the study period. HER has been in the range of 1.92 to 2.85 percent during the study period. The ratio is below the norm of 5 percent. Lower ratio indicates the need to allocate more expenditure in favour of human priority concern. Here the role of finance managers becomes important. Growth and equity are equally important and are complementary to each other. More resources should be allocated to social sector, but not at the cost of economic sector by diverting resources from this sector. It will negatively affect the potential economic growth of the State. Restructuring of expenditure should be aimed at curtailing the non-developmental expenditure.

6.4 Execution and Monitoring of Expenditure

The HOD of the department is responsible for watching the expenditure incurred against supply communicated to him. He allocates the grant to drawing and disbursing officer. DDO is directly responsible for expenditure incurred against grants allocated to him under each primary unit of appropriation. Payment transactions are also carried through agency banks. DDOs prepare the bill and present it to the Treasury for issuance of pay order or draft as the case may be. The Treasury Office scrutinizes the bill against the vouchers submitted and the budget allocation. After verification it passes the bill with payment instructions for the agency bank. The bill is returned to DDO, who in turn gets it en-cashed from the agency bank. The agency bank sends daily payment scroll along with the original vouchers to the Treasury. It also reports daily the total expenditure details to CAS Nagpur through its focal branch. Treasury after verification of payments prepares the head wise accounts and sends the accounts along with original vouchers to the Accountant General and also one copy to the concerned DDO. Each DDO sends the voucher-wise payment detail to its HOD after comparing with the Treasury report. Each HOD compiles expenditure, scheme-wise, object-wise accounts and reconciles the expenditure with the monthly accounts rendered by AG Office and sends the report to the Finance Department. Directorate of Treasuries and Accounts Chandigarh receive information from all treasuries and compile a consolidated report. This report is required to be communicated to Finance Department regularly but generally is not sent regularly.

CAS,RBI Nagpur also sends daily, a report of total receipts credited and payments debited in the State Government`s account.

6.4.1 Re-appropriation

Re-appropriation implies transfer of funds from one unit of appropriation to another within a grant. It is permissible only when it is known or anticipated that the appropriation for unit from which funds are to be diverted, will not be utilized in full. Re-appropriation is not permissible:-

1. From one grant to another
2. From charged to voted expenditure or vice versa
3. For new expenditure until such expenditure is authorized by an Appropriation Act.
4. To increase expenditure on one item, the provision for which is specifically reduced or disapproved by the Assembly.
5. After the close of financial year
6. From capital head to revenue head or vice versa.

The application is forwarded in succession in the organizational chain for budget control. If at any point in the chain an officer is able to sanction a re-appropriation, he will do so in accordance with the power delegated to him.

6.4.2 Supplementary Grant

Supplementary grant is an addition to the total authorized grant and is sanctioned, passing through the same stages of legislative procedure as the original grant. Proposal for supplementary grant is objectionable in principle and indicates poor estimation on one hand and imprudent management on the other hand. After the close of year if supplementary grant is found to be unnecessary it is considered financial irregularity.

6.4.3 Excess Grant

If money spent on any item is in excess of amount granted for that item for that year, demand for excess grant has to be presented to the Legislature and is dealt with in the same way as if were a demand for a grant. It is different from supplementary grant as it is presented to regularize the expenditure already incurred in excess of the grant made in the past year. Demand for excess can be laid before the Legislative Assembly only after all the expenditure of the year has been audited; appropriation accounts have been compiled and considered by committee on public account. Thus in practice it is not possible to present a demand for excess grant until about two years after the expiry of financial year to which it relates.

6.4.4 Emergent Expenditure

Sometimes, need may arise for incurring unforeseen expenditure of an urgent nature before it can be approved by the legislature. For meeting such expenditure, advance may be sanctioned from the contingency fund, pending authorization by the Legislative Assembly through an Appropriation Act. Later after getting the approval from legislature, the expenditure is recouped to the contingency fund from the funds provided through Appropriation Act.

6.4.5 Expenditure not provided for

Ordinarily, no expenditure should be incurred on a `new service` in anticipation of approval by Legislature. In urgent cases expenditure in excess of grant may be sanctioned provided it is not on a new service, but steps should be taken to see that the grant as a whole is not exceeded before the necessary supplementary funds are provided by the Legislative Assembly. Steps should be taken to obtain a supplementary grant as soon as possible. The effect of supplementary grant being refused will be to compel the executive to curtail the expenditure in the remaining months of the year so as to keep the total expenditure within the amount authorized.

6.4.6 Expenditure through the Letter of Credit

Public Works, Irrigation and Public Health incur their expenditure (except salary component) through letter of credit (LOC) system. Letter of credit is authorisation to do expenditure for specific purpose. Funds are released to Heads of these Departments by Finance Department through LOC which in turn issue LOC to the subordinate offices responsible for development works. LOC is issued in installments, for a specified period. LOC for centrally sponsored schemes is issued by Finance Department and for other expenditure, by concerned Administrative Department. Copy of these LOCs is sent to concerned Treasury. The implementing officer issue cheque in the name of service providers / suppliers and get it passed from the Treasury. The Treasury officer verifies the cheque against concerned LOC and return to implementing officer. After that, the cheque is delivered to service provider/supplier who gets it en-cashed from the agency bank. The department directly renders the account to Accountant General.

Table 6.1

Fiscal Priority and Fiscal Capacity of the State

YEAR	AE/GSDP	DE/AE	SSE/AE	CE/AE	EDUCATION/ AE	HEALTH/ AE
2001-02	15.93	65.37	28.42	16.96	14.19	2.61
2002-03	14.12	60.06	29.97	8.72	14.22	2.92
2003-04	15.60	65.04	25.75	21.77	11.91	2.44
2004-05	13.34	59.37	28.32	8.83	13.44	2.69
2005-06	13.52	65.40	31.30	12.40	13.81	2.80
2006-07	14.59	72.12	28.17	13.77	12.28	2.27
2007-08	13.87	72.60	31.75	17.48	13.36	2.44
2008-09	14.33	75.31	28.61	19.05	15.19	2.54
2009-10	14.69	71.75	31.63	19.32	16.63	2.96
2010-11	14.76	68.76	32.98	14.38	17.84	2.92
2011-12	15.05	70.59	33.26	15.78	16.54	2.88

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 6.2

Developmental Expenditure of Haryana

YEAR/ITEM	REVENUE EXPENDITURE		CAPITAL EXPENDITURE		TOTAL DEV. EXPENDITURE	% TO TOTAL EXPENDITURE
YEAR	**RS.**	**% TO DE**	**RS.**	**% TO DE**	**RS.IN CRORE**	
2001-02	5139.61	75.42	1674.79	24.58	6814.40	65.37
2002-03	5341.18	86.90	805.32	13.10	6146.50	60.06
2003-04	5701.76	67.79	2709.26	32.21	8411.01	65.04
2004-05	6417.29	86.39	1010.87	13.61	7428.16	59.37
2005-06	7810.37	82.77	1625.58	17.23	9435.94	65.40
2006-07	11242.29	82.15	2441.97	17.85	13684.26	72.12
2007-08	11960.55	77.57	3459.47	22.43	15420.01	72.60
2008-09	14294.48	74.82	4810.98	25.18	19105.46	75.31
2009-10	17432.13	77.60	5031.11	22.40	22463.24	71.75
2010-11	18900.81	83.14	3832.16	16.86	22732.97	68.76
2011-12	21695.64	80.86	5137.02	19.14	26832.66	70.59

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

Table 6.3

Human Development Expenditure Ratios

Year	PER	**SAR**	**SPR**	**HER**
2001-02	15.82	31.63	56.92	2.85
2002-03	15.31	38.02	35.40	2.06
2003-04	15.93	35.26	39.13	2.20
2004-05	14.12	27.46	55.24	2.14
2005-06	15.60	21.79	60.22	2.05
2006-07	13.34	27.95	51.63	1.92
2007-08	13.52	32.87	45.86	2.04
2008-09	14.59	29.54	47.96	2.07
2009-10	13.87	34.57	47.24	2.27
2010-11	14.33	37.98	48.05	2.62
2011-12	14.69	38.86	45.76	2.61
UNDP Norm	**25.00**	**40.00**	**50.00**	**5.00**

SOURCE : RBI STATE FINANCE VARIOUS ISSUES

CHAPTER-VII

ANALYSIS OF SUBSIDIES

Expenditure on subsidies is a crucial expenditure of the Government particularly in the light of equity objective and growing need to rationalize the expenditure. Major concern of expenditure management is proper targeting of this expenditure. Subsidy should be prioritised in tune with the social welfare objectives and should be in merit-goods particularly. Basic objective of providing subsidy is to make services affordable for poor segment of the society. Haryana is an agrarian economy and is the second largest contributor to the food grain pool of the country. The State has to supply subsidised power to farmers to help make the farming operation viable. Subsidy to social services, which includes subsidy for welfare of scheduled cast, scheduled tribes and backward classes, social welfare and nutrition and public health, has been only 1 to 2 percent. Successive Finance Commissions have urged the State Governments to rationalize the subsidy expenditure. Though the power is the key instrument for development of every sector and for all segment of society, the State Government should target the subsidy expenditure keeping in view the social welfare objectives. Those who are capable of paying full cost should not be provided the benefit of subsidy. For example farmers having big land holdings may not be given power subsidy in agriculture. But for this, subsidy is to be provided at the end user’s point. It will ensure the benefits to the needed ones and reduction in subsidy expenditure by avoiding subsidy on line losses and theft of electricity.

The committed expenditure of the Government on its revenue account mainly consists of interest payments and expenditure on salaries and wages, pensions and subsidies. During the study period, the subsidies range from 9.72 p.c to 21.45 p.c of revenue receipts, 9.46 p.c to 23.54 p.c of revenue expenditure and 1.29 p.c to 3.31 p.c of GSDP. Out of the total subsidy bill, 67 to 97 percent has been absorbed by energy, thereby, leaving very less for social services. The subsidies present a partial picture as these are exclusive of the implicit subsidies. Implicit subsidies, inter-alia arise when the government provide social and economic goods at a price lesser than the cost of goods and services to the government.

Table 7.1

Committed Expenditure of Haryana Government

(Rs. Crores)

Component of committed expenditure	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Salaries and wages, of which	4126 (23)	4566 (23)	6546 (35)	8440 (40)	9809 (38)	9960 (33)
Non-Plan Head	3784	4292	6069	7746	8974	9070
Plan Head	342	274	477	694	835	890
Interest Payments	2265 (13)	2346 (12)	2339 (13)	2737 (13)	3319 (13)	4001 (13)
Expenditure of pension	1173 (7)	1298 (7)	1614 (9)	2390 (11)	3094 (12)	3204 (10)
Subsidies	3852 (21)	3057 (15)	3264 (17)	3055 (15)	3285 (13)	3850 (13)
Total	11416	11267	13689	16656	19507	21018

Source: BUDGET DOCUMENT OF HARYANA GOVERNMENT VARIOUS ISSUES

TABLE 1 :
SUBSIDY OF HARYANA GOVERNMENT

YEAR	SUBSIDY RS.CRORE	% OF REVENUE RECEIPTS	% OF REVENUE EXPENDITURE	% OF GSDP
2001-02	859.73	11.31	9.94	1.42
2002-03	883.52	10.21	9.46	1.36
2003-04	957.44	9.72	9.46	1.29
2004-05	1625.94	10.38	10.14	1.4
2005-06	1465.74	10.58	11.6	1.57
2006-07	3852.45	21.45	23.54	3.31
2007-08	3057.20	15.48	17.44	2.42
2008-09	3264.67	17.69	15.90	2.39
2009-10	3055.16	14.55	12.09	2.02
2010-11	3286.91	12.86	11.61	1.98
2011-12	3849.88	12.60	12.02	2.14

SOURCE :- BUDGET DOCUMENT OF HARYANA GOVERNMENT VARIOUS ISSUE

TABLE 2 :- SUBSIDY EXPENDITURE OF HARYANA

(Rs in Crore)

YEAR	TOTAL SUBSIDY RS.	% TO TOTAL EXPENDITURE	SUBSIDY FOR ENERGY RS.	% TO TOTAL SUBSIDY	SOCIAL SERVICES RS.	% TO TOTAL SUBSIDY
2001-02	859.73	9.94	763.54	88.81	-	-
2002-03	883.52	9.46	829.10	93.84	-	-
2003-04	957.44	9.46	823.88	86.05	-	-
2004-05	1625.94	10.14	1102.00	67.78	9.24	0.57
2005-06	1465.74	11.6	1392.10	94.98	26.65	1.82
2006-07	3852.45	23.54	3759.34	97.58	23.81	0.62
2007-08	3057.20	17.44	2568.36	84.01	37.99	1.24
2008-09	3264.67	15.90	2998.65	91.85	33.12	1.01
2009-10	3055.16	12.09	2770.28	90.68	226.93	7.43
2010-11	3286.91	11.61	2948.63	89.71	41.90	1.27
2011-12	3849.88	12.02	3584.74	92.04	29.28	0.77

SOURCE :- BUDGET DOCUMENT OF HARYANA GOVERNMENT VARIOUS ISSUES

TABLE 3 : SUBSIDY ON ECONOMIC SERVICES

(RS. IN CRORE)

YEAR	TOTAL	AAA	IRRI.	ENERGY	MMC	TRANSPORT & COMMUN.	OTHERS
2001-02	860.00	-	85.15	763.54	-	-	11.31
2002-03	884.00	-	39.13	829.10	-	-	15.77
2003-04	957.00	-	-	823.88	-	-	133.12
2004-05	1616.61	498.54	-	1102.00	13.70	-	2.37
2005-06	1996.30	403.72	-	1392.10	19.46	178.34	2.68
2006-07	3852.45	-	-	3759.34	--	-	93.11
2007-08	3742.48	687.55	-	2568.36	-	179.14	307.43
2008-09	3264.67	-	-	2998.65	-	-	266.02
2009-10	3789.51	598.18	-	2779.98	15.18	359.66	36.51
2010-11	4520.93	1043.73	-	2948.63	36.22	457.61	34.74
2011-12	4378.71	671.34	-	3584.74	39.89	49.19	33.55

AAA=AGRICULTURE AND ALLIED ACTIVITY

IRRI=IRRIGATION

MMC=MINING, MANUFACTURING AND CONSTRUCTIONS

TABLE 4 :- SUBSIDY ON SOCIAL SERVICES HARYANA
(RS INCRORE)

YEAR	MPH	HOU.	SWS	TOTAL
2001-02	**-**	**-**	**-**	**-**
2002-03	**-**	**-**	**-**	**-**
2003-04	**-**	**-**	**-**	**-**
2004-05	2.00	0.62	6.62	9.24
2005-06	-	2.16	24.49	26.65
2006-07	-	-	-	23.81
2007-08	-	19.59	18.30	37.89
2008-09	-	-	-	37.99
2009-10	-	30.37	196.56	226.93
2010-11	-	22.73	19.17	41.90
2011-12	-	23.69	5.59	29.28

SOURCE :- BUDGET DOCUMENT OF HARYANA GOVERNMENT VARIOUS ISSUES

MPH=MEDICAL AND PUBLIC HEALTH

HOU=HOUSING

SWS=SOCIAL WELFARE SERVICES

CHAPTER-VIII

ANALYSIS OF CONTINGENT LIABILITIES

Contingent liabilities are those which are not counted as liabilities at the moment, but devolve upon the state conditionally. While there can be many types of contingent liabilities (like bills payable, wages payable or revenues collected under litigation), an important category of such liabilities consists of government guarantees conferred upon borrowings not included in government accounts, usually by local governments.

The debt-GDP ratio of Haryana state continued to decline reflecting the impact of a faster increase in nominal GDP relative to growth in its outstanding debt. The debt-GDP ratio is budgeted to decline further. There has also been an improvement in the debt sustainability. Market borrowings continued to dominate the outstanding liabilities of Haryana. The weighted average yield of state government securities issued during the study period was higher in later years, due to an elevated level of general interest rates coupled with increased market borrowings and tight liquidity in the market. Haryana continued to accumulate surplus cash balances, while it reduced its recourse to WMA and overdrafts. The recently-announced scheme for financial restructuring of the state-owned distribution companies (discoms) is likely to increase the liabilities of the state government in the coming years.

After pursuing an expansionary fiscal policy to address the slowdown in the economy in the aftermath of the global crisis, the challenge before Haryana in the subsequent years was to revert to the fiscal consolidation path. Haryana proposed to carry forward the fiscal consolidation, in line with the recommendation of the FC-XIII. Accordingly, the consolidated debt-GDP ratio of the state continued to decline in 2011-12 and is budgeted to decline further in 2012-13.

While the revenue accounts of Haryana recorded surpluses in many years, this needs to be seen in the light of mounting losses in state public sector undertakings (SPSUs), particularly state power distribution companies (discoms), which is a serious cause for concern not only for the SPSUs themselves but also for the banks/financial institutions that have lent to them. The scheme for financial restructuring of state discoms announced by the central government requires states opting for the scheme to provide guarantees to the bonds to be issued by discoms to participating lenders. This would add to the contingent liabilities of the state government.

At present, the Reserve Bank, on behalf of the state government, maintains consolidated sinking fund (CSF), which provides a cushion for amortisation of the market borrowings of state government. The Reserve Bank also maintains guarantee redemption fund (GRF) to service the contingent liability arising from the invocation of guarantees issued in respect of borrowings by state-level undertakings or other bodies. It can be seen that guarantees were relatively high during 1996-97 to 2003-04. After 2003-04, outstanding guarantees exhibited a sharp fall. In year 2004-05, state government established Guarantee Redemption Fund (GRF) and started charging 2 percent of guaranteed amount as a Guarantee Fee. State deposits this fee in the GRF so that on the default of third party or borrowers, state may make payment from the GRF at maturity. Due to charging of guarantee fee there might have been some reduction in outstanding guarantees by the state government.

The biggest outstanding amount of guarantees was in respect of Corporations and Boards , Cooperative Banks and Societies and Government Companies . The Government constituted the Guarantee Redemption Fund during 2003-04 to meet the contingent liabilities arising out of the total liabilities. As on 31 March 2010, the balance in the Fund was 59.40 crore and 80.62 crores on 31.3.2012. The whole amount stood invested. As per the terms of the Guarantee Redemption Fund, the Government was required to contribute an amount equal to at least one fifth of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees during the year. The Government contributed 4.34 crore which was only one per cent of the outstanding guarantees. However, the outstanding guarantee of 4,536 crore as on 31 March 2010 was higher than the projection of 3,200 crore given in the State's FCP for the year. Total liabilities including guarantees (43,873 crore) during 2009-10 stood at 21 per cent of the GSDP which was well within the limit of 28 per cent envisaged in the amount (39,654 crore) projected in the MTFPS for 2009-10.

Apart from this, the Government issued letters of comfort to banks for raising loans totalling 8183 crore in favour of Government companies in the power sector, which amounted to creation of contingent liabilities. This amount, if included in the outstanding liabilities (49,829 crore), would be 24 per cent of GSDP.

Table 8.1
Contingent Liabilities in Haryana
(Rs. Crores)

	Outstanding liabilities	Outstanding guarantees
2001-02	17726	8606
2002-03	19948	7690
2003-04	22450	5907
2004-05	24900	4249
2005-06	26979	5644
2006-07	28451	5704
2007-08	29118	4402
2008-09	32278	4575
2009-10	39337	4536
2010-11	46282	4528
2011-12	54540	5608

SOURCE :- BUDGET DOCUMENT OF HARYANA GOVERNMENT VARIOUS ISSUES

CHAPTER- IX

IMPLEMENTATION OF FRBM ACT IN HARYANA

The Twelfth Finance Commission (TFC) as part of its fiscal restructuring plan required the States to pass fiscal responsibility legislation to phase out the revenue deficits and reduce fiscal deficits to 3 percent of GSDP by 2008-09. The progress in the reduction in revenue deficits was also linked to the writing off of the debt repayment to the Central government. By adhering to the targets set by TFC, the states stand to gain from restructuring and write off of central loans. The Government of Haryana enacted the Fiscal Responsibility and Budget Management (FRBM) Act in July 2005.

The FRBM Act adopted in the state, sets a comprehensive framework for prudent fiscal management in the state to achieve fiscal stability and sustainability. The Act has the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the state with regard to deficit measures and debt level.

The FRBM Act also stipulates that the state should build up adequate surplus (after elimination of deficit in the revenue account), which is to be utilized for discharging liabilities or for funding capital expenditure. The other major fiscal management objective of the Act is to lay down norms for prioritization of capital expenditure, and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare. The state is also required to pursue policies to raise non-tax revenue with due regard to cost recovery and equity. The fiscal management principles enshrined in the Act call upon the state government to ensure transparency in setting and implementation of fiscal policy, stability and predictability in policy making process, improve responsibility the management of public finance and ensure intergenerational fairness, and improve efficiency in the design and implementation of fiscal policy related to management of assets and liabilities.

The performance of the state in terms of fulfilling the targets set under the FRBM Act looks encouraging. It is to be noted that the fiscal situation in Haryana has improved significantly by the time the state enacted the FRBM Act. The state was able to generate surplus in the revenue account and reduce the fiscal deficit to a mere 0.27 percent relative to GSDP in 2005-06, the year when the FRBM Act was enacted. The improvement in revenue performance and strict expenditure control are the key to the overall improvement in fiscal situation in the state. This has resulted in substantial decline in debt GSDP ratio. While the state is well on course with regard to fiscal targets of the FRBM Act, the fiscal management should continuously provide impetus to growth, poverty reduction and social welfare through appropriate policy interventions.

Haryana is one of the high income states in Indian Union. The per capita income of the state at Rs.49038 (current prices) is the highest in the country next only to Goa. The human development index, capturing attainment in human development with dimensions such as education and health achieved by the state has been significant. The state has maintained high economic growth. The Gross State Domestic Product (GSDP) recorded a growth rate of 14.12 per cent at current prices during the period 2001-02 to 2011-12. The per-capita income also has grown at a high rate of 11.5 percent during this period. However, the current global economic crisis and the possibility of slow down in economic growth at the national level would put adverse impact on the Haryana economy for which the growth of the state economy is likely to slow down.

States' fiscal management in this context assumes significance for sustaining the growth momentum in the state. This requires creating an enabling environment to encourage the flow of investment and accommodating policies relating to the level and quality of infrastructure. Fiscal policy should be carefully designed to raise the resources required to provide efficient levels of infrastructure and human development and create policies and institutions to achieve allocative and technical efficiency in public spending. The Fiscal Responsibility and Budget Management (FRBM) Act enacted to design and implement a rule based fiscal management system will be able to provide such impetus.

In this chapter a review of compliance of the provisions of FRBM Act of Haryana is carried out. Progress of the government of Haryana in achieving various provisions of the FRBM Act of 2005-06 is examined in the light of recent fiscal achievements. A review of the macroeconomic and fiscal performance of Haryana since 2001-02 to 2011-12 is carried out and on the basis of the fiscal performance of the state a review of compliance of FRBM provisions has been made.

Macroeconomic Outlook

Fiscal policy influences the economic performance of the state in a variety of ways. It helps to create efficient levels of infrastructure, which provide generalized externalities and enable a competitive platform for the private enterprise to flourish in a globalizing environment. For this purpose, it has to generate resources in a manner that is least distorting. It also has to finance its infrastructure without placing the burden on the future generation. Financing programmes by borrowing will leave the net burden of servicing the debt to the future generation unless the borrowed funds are used to generate income streams in the future to take care of the debt burden. Fiscal policy helps to foster human development which will help not only in empowerment of the people but also provide a strong basis for economic growth and technological development. While level of economic growth influences the revenue performance, fiscal discipline and allocation of resources consistent with policy priorities help in stability, growth and equity aspects of the economic policy. Preparation of a medium term fiscal policy framework for the state facilitates decision making in revenue effort and expenditure planning. However, the medium term fiscal framework can be prepared only after a proper assessment of the recent economic performance of the state.

The services and manufacturing sector are the main driving force of the Haryana economy. These are important sectors from tax point of view. The composition of GSDP reveals that the service sector has made substantial gain during the period from 2001-02 to 2011-12. The sectoral composition of the GSDP shows that share of service sector has increased from 39.40 percent in 2001-02 to 46.30 percent in 2011-12. The share of secondary sector, which was 28.50 percent in 2001-02, has also made gains as it has gone up to 32 percent in 2011-12. The share of primary sector has shown a decline during this period.

Sectoral growth of GSDP shows that high growth in Haryana is propelled by both the services and the manufacturing sectors. The trend rate of growth of secondary and service sectors during this period are 16.5 and 15.5 percent respectively, while the aggregate GSDP grew at the rate of 16 percent.

Fiscal Improvement in Recent years

The fiscal stress that had started building up towards the latter part of the nineties in the state seems to have been eased up since 2001-02. The state has made significant fiscal improvement in recent years. The fiscal deficit, which was 4.18 percent relative to GSDP in 2001-02 declined considerably. The revenue deficit in fact started declining since 2001-02 and the state was able to generate revenue surplus as early as 2005-06 to the extent of 1.14 percent of GSDP. The primary deficit also followed similar path and has declined since 2001-02 and primary surplus was reached in 2004-05. The improvement in fiscal situation has resulted in reduction of outstanding debt from 24 percent relative to GSDP in 2001-02 to 18 percent in 2007-08.

The change in fiscal situation in the years 2011-12 over 2001-02 is analysed. Total revenue receipt relative to GSDP in 2011-12 has increased by about 3.2 percentage points, mainly due to improvement in own revenues, which has increased by 2.75 percentage points. The central transfers have increased by only 0.5 percentage point. Revenue expenditure in the state has been compressed, which has shown a decline 1.3 percentage points relative to GSDP during this time period. Reduction in interest payment due to lowering of average cost of debt and the decline in social sector spending has contributed to control of revenue expenditure. The improvement in revenue receipts and compression of revenue expenditure has resulted in reduction of revenue deficit by 4.47 percentage points in 2011-12 over 2001-02. The reduction in fiscal deficit during this period has surpassed the reduction of revenue deficit which implies that capital expenditure too shows a decline. Emergence of large revenue surplus and decline in capital outlay has contributed to reduction of fiscal deficit over the years.

The fiscal improvement in the state provided significant fiscal space to pursue developmental policies, which seems to have not been taken earnestly. The expenditure pattern reveals that, increase in nominal terms withstanding, it is not geared towards creating capital assets or spending in priority sector like social services at a higher rate. The compression of expenditure only resulted in reducing deficit indicators relative to GSDP. The scope for expanding government expenditure in priority sectors are clearly missed on the face of overwhelming improvements. The revenue deficit touched as low as 1 percent relative to GSDP in 2001-02 and remained at very low level before turning surplus in 2005-06. Similarly the fiscal deficit has remained around one percent of GSDP since 2004-05. While revenue performance of the state has increased significantly, the expenditures both in revenue and capital account were squeezed. Particularly the compression measures taken in social services and capital expenditure are matter of concern.

Although the state has a satisfactory fiscal situation, there are several risks that could create difficulties. The important risks are:

(i) The pay and pension revision is likely to increase the expenditures.

(ii) There could be a sharp reduction in the tax devolution. The progress on revenue collection by the Central Government shows that post budget concessions and slowdown in the economy could create a shortfall of revenue of about 1 percent of GDP. Given that Haryana gets 1.075 percent of the taxes devolved to the states, the estimated loss is likely to be about Rs. 180 crore.

(iii) The slowdown in the economy, particularly in the manufacturing sector is likely to reduce the States' own revenue collections.

The finances of the government of Haryana have improved considerably by the time the state enacted the FRBM Act in 2005-06. While the time line to achieve the specified fiscal targets in the FRBM Act is 2008-09, the state could achieve revenue surplus in 2005-06 and brought down fiscal deficit to 2 percent of GSDP in 2002-03. The targets stipulated under FRBM Act, budgetary achievements, and the record of the state government in placing the required statements and disclosures before the state legislatures. Achieving the specified fiscal targets such as achieving revenue balance, reducing fiscal deficit to 3 percent of GSDP and limiting debt burden to 28 percent of GSDP by 2008-09 was not difficult for the state as these targets were achieved much before the FRBM time stipulation. However, the enactment of FRBM Act was supposed to provide a more comprehensive fiscal management framework to provide impetus to growth of the economy and social development through right policy formulation and effective implementation.

Strong revenue performance, particularly own tax and non tax revenue, paved the way for fiscal consolidation in the state. Adoption of value added tax since 2003-04 and improved performance of other state taxes contributed significantly to revenue augmentation of the state. The stamps and registration fees registered marked improvement due to spurt in real estate activities in the state. The own tax revenue as percentage of GSDP has increased considerably. Along with the increase in revenue collection, the state government also adopted expenditure compression measures both in revenue and capital account over the years. This has resulted in sustained level of low revenue deficit and emergence of revenue surplus in 2005-06 and considerable reduction of fiscal deficit. The accumulated debt burden that reflects the outcome of fiscal profile, along with the contingent liabilities has gone down to about 22 percent of GSDP in 2007-08 as against the FRBM stipulation of 28 percent. Due credit should be given to the Government of Haryana for its improved fiscal performance.

The fiscal improvement in the state has, however, not been accompanied by allocating more resources to fund creation of capital assets and social services. Expenditures under these heads have declined as percentage of GSDP. In fact compression of expenditure has been carried out in all these components. More important spending heads such as education and health have witnessed reduced budgetary allocation in relation to GSDP. Although in nominal terms expenditures have increased, there was scope to expand spending in these heads as the fiscal space has increased in the state. The FRBM act, while enunciating the principles of fiscal management, requires the state government to utilize the revenue surplus in funding capital expenditures and putting in place expenditures policies that facilitates growth, reduce poverty and improve human development.

The capacity to expand the government spending could be a limiting factor for which the fiscal improvement in the state is not translated into allocating more funds to priority sectors. To meet this challenge the state government needs to improve the expenditure management focusing on an effective and efficient expenditure planning. The FRBM Act provides for a medium term fiscal framework for setting the fiscal policy objectives. The principles of fiscal management enunciated in the FRBM Act should be exploited by reorienting the budgetary process and establishing a credible expenditure planning. The expenditure planning in a medium terms, where sector expenditure profiles are created keeping the overall resource envelope as ceiling will be helpful to improve resource allocation in a prioritized manner to facilitate better service delivery. Directives from the top policy making institutions to improve sector service delivery will not be helpful unless the sector programmes are created with specific objectives and a detailed programme activities to carry out such programmes.

CHAPTER- X

POWER SECTOR REFORMS IN HARYANA

Haryana is the second state in India to undertake power sector reforms. The objectives of the power sector reform in Haryana are to restore reliability and creditworthiness of the power industry and to create an environment to attract private investment, promote competition and efficiency and facilitate sustainable development of the power sector in the state.

In order to achieve the objectives of power sector reform, the State Assembly enacted "The Haryana Electricity Reform Bill, 1997". The Haryana Electricity Reform Act, 1997 became effective from 14th August 1998. The Act provided for the constitution of a Regulatory Commission, restructuring of the electricity sector, rationalisation of the generation, transmission, distribution and supply of electricity, and the creation of avenues for participation of private sector entrepreneurs in the electricity industry. The Act also provides for taking measures conducive to the development and management of the electricity industry in an efficient, economical and competitive manner and for matters connected therewith or incidental thereto.

The reform process was initiated on the direction of the World Bank. International consultants were appointed who conducted restructuring studies. National Economic Research Associates, Inc (NERA) of U.S.A conducted the restructuring study for the Haryana Power Sector Restructuring Project in 1994. M/S Price-Waterhouse-Coopers conducted financial Restructuring Study and Asset Evaluation Study. M/S Aurther Andersen Consultants were engaged as Reforms Consultants for corporatisation, commercialization and privatization of distribution. These studies provided the time frame and basis for the reform process in the state.

The Haryana State Electricity Reform Bill, 1997 was moved in Haryana Legislative Assembly by the then Chief Minister Sh. Bansi Lal on 21 July and was passed on 22

July 1997. The Act provides for the constitution of an Electricity Regulatory Commission, restructuring of the electricity industry, rationalization of the generation, transmission, distribution and supply of electricity, avenues for participation of private sector entrepreneurs in the electricity industry and generally for taking measures conducive to the development and management of the electricity industry in an efficient, economic and competitive manner and for matters connected therewith or incidental thereto.

The Haryana Electricity Regulatory Commission (HERC) shall act as the body which issues and enforces licenses, which balances the interests of the State, the consumers, the units involved in generation, transmission, distribution and supply of electricity and investors in the electricity industry; which monitors, controls and regulates the working of the units; which gathers information; which monitors price and quality of service; which prevents monopoly abuse; which regulates and adjudicates on the tariff and other related issues and also acts as a body to resolve or set up machinery to resolve speedily disputes between the licensees.

Overall, the State Government will do policy planning and co-ordination. The Transmission Company will undertake the technical co-ordination with the Central Electricity Authority, the State Government authorities in the State and regional in the centre. Generation function would vest in a Government corporation to be incorporated under the Companies Act, 1956. The distribution would be performed either by Government Corporation or Joint Venture Company (ies) licensed by the commission being set up under this Act.

The Haryana Electricity Reforms Act came into force w.e.f. 14.08.1998 and the process of restructuring the Haryana State Electricity Board was initiated the same day. The

Haryana Electricity Regulatory Commission (HERC) was constituted and all the electricity generating functions were transferred to newly constituted Haryana Power Generation Corporation (HPGC). The Haryana Vidyut Prasaran Nigam Limited (HVPNL) was created to perform transmission and bulk supply functions.

For distribution and retail supply two distribution companies namely, Uttar Haryana Bijli Vitran Nigam (UHBVN) and Dakshin Haryana Bijli Vitran Nigam (DHBVN) have been formed. The distribution companies are at present functioning as subsidiary companies of HVPNL and have applied to the HERC for separate licenses.

At present, the state government as the sole shareholder owns all the generating companies, transmission and distribution companies. The Boards of directors of various corporations consist of official members only and the bureaucrats of Indian Administrative Services have been appointed as Managing Directors. The state government did make effort to invite some Independent Power Producers (IPP) and private distribution companies but no deal has been finalized as yet.

Experience of Electricity Reform Process

The Haryana Electricity Regulatory Commission has issued guidelines as regards its conduct of business, tariff philosophy and guidelines for load forecast, resource plans and power procurement process. As per the Electricity Reforms Act 1997, the Transmission and Distribution Companies are required to file their Annual Revenue Requirement (ARR) and proposed tariff increases for the next financial year by 31 December of the current year to enable the Commission to pass order before the commencement of the next financial year. The Commission is expected to follow a transparent decision making process before passing its order. The Commission is required to hold public hearings and give opportunities to various stakeholders, the public (consumers) and the licensees to present their views. It will be quite insightful to examine various orders passed by the Regulatory Commission and their actual implementation.

On the basis of analysis of the physical and financial performance of the erstwhile Haryana State Electricity Board since its inception in 1967 to 1998 when it was restructured and there after, of the regulatory process in Haryana, following lessons may be drawn:

1. Despite impressive expansion in the physical infrastructure of the electric power system in Haryana, its technical and financial performance was unsatisfactory. The HSEB was run like a state government department and all decisions were dictated by the state bureaucracy on the direction of the political leadership without any transparency and accountability. Obviously, the Board did not have commercial outlook and its performance was poor.

2. Analysis of the ARRs and Tariff applications of the transmission and distribution companies from 2001-2002 to 2011-12 brings out that:

a. To improve technical efficiency of the transmission and distribution systems, energy audit is a must, for which all the electricity supply at transmission as well as distribution ends must be metered. This is a precondition to identify system inefficiencies and also, pilferage of power.

b. Data management system of the transmission as well as distribution companies is found wanting for proper economic analysis of the financial management of the companies. The HERC had to order repeatedly to provide required information to evaluate revenue requirement and tariff proposals. Obviously, the companies inherited a data management system from the Haryana State Electricity Board, which did not meet the requirements of proper economic analysis. With the existing database, even average cost of supply at various consumer ends at different voltages cannot be computed. Therefore, tariff rates based on any rational pricing policy could not be worked out. Tariff structure remains ad-hoc and arbitrary. It has been reported that there is lot of resistance from the consumers who get unmetered supply and the employees to meter the supply. It is obvious as people have developed vested interests in the existing system and metering will make them accountable. This resistance has to be overcome by persuasion, by isolating and exposing the habitual offenders and by social marketing techniques.

3. The management of the transmission as well as distribution companies are yet to change their mindset and develop a professional and commercial outlook.

4. The composition of the Boards of Directors of various Generation, Transmission and Distribution companies shows that they still remain under the effective control of the state bureaucracy, which has commitment to the government and not to the company. Management professionals with technical knowledge should be appointed chief executives and the management must be provided required autonomy. The chief executive must be made accountable for the performance of the company.

5. Haryana does not have any significant private power generating company (IPP) and the present political leadership appears to be reluctant to privatize distribution. In fact, it has created a deadlock with the World Bank, which has withheld the next trench of the committed loan. This can prove to be a blessing in disguise provided the state government ensures that the restructured companies function efficiently ensuring transparency and accountability in their operations. This is not an impossible task. State Governments must learn from efficiently run central public sector enterprises. Now, it

is being reported that adequate financial resources are available from the national financial institutions and there is no need to go for tied borrowings. But it must be ensured that borrowings will be used for investment and not for current consumption which political expediency always warrants.

6. We believe that if the restructured generation, transmission and distribution companies are allowed to function efficiently in a transparent manner by the accountable professional management under the overall supervision of the State Regulatory Commission which ensures that government takes full responsibility for payment of subvention for subsidized supply to any consumer class on socioeconomic considerations, there will be no need for privatization. If pilferage of power is eliminated, system is run efficiently, the present cost of supply will fall and at the existing tariff rates, the electricity companies will be in a position to generate sufficient surplus to earn the statutory 3% rate of return, which will generate resources to meet the investment requirements of the system. If credibility of the companies is ensured, finances should not be a problem. For this, national consensus should be evolved that management and pricing policy of the electricity companies will be depoliticised and the companies will be allowed to operate with a commercial outlook. Privatisation per se will not solve the problem, especially under existing political and economic environment and social ethics. The danger is that expected efficiency gains from privatization become victims of scandals and we are left with exploitative monopolies, which will be a worse scenario than even the present one.

7. The Haryana Electricity Regulatory Commission's role and efforts to make functioning of the transmission and distribution companies transparent are laudable. Whether the regulatory commissions are being established because of external

pressures or otherwise, their establishment was a historic necessity. However, if the commission consists of competent people and its autonomy is ensured, it can go a long way to ensue efficiency in the functioning of the electric power industry and to protect the interests of various stakeholders. Here the role and commitment of the government becomes a critical factor. No institution like Electricity Regulatory Commission will be in a position to withstand pressures on its own. The success of
the commission in bringing about transparency and accountability will not only depend on the legal authority vested in the members of the commission but also on the vigilance and effectiveness of intervention of various social groups. The consumer interest groups will have to act as watchdogs and actively participate in the regulatory process. The new structure is fragile and needs to be nurtured otherwise there is every danger of vested interests taking over which will be worse than cure.

Recent Scenario

The power utilities of Haryana have drawn an ambitious plan to reform the power sector with the central assistance but in-house efforts are being torpedoed on political grounds. The reforms in the power sector undertaken by utilities are nullified as under political interference utilities are unable to check the theft of power and recover the defaulting amounts. In Haryana AT&C losses are in the range of 20 to 30% in urban domestic feeders and 50 to 70 % in rural areas and the main component of these losses comprises of commercial losses which is the direct fallout of theft of power. In Haryana where the local politicians ask the people to go for Kundi connections and not to pay electricity bills, under such circumstances how the power utility can financially survive. Haryana is unable to recover defaulting amounts because political forces do not permit the disconnection of defaulters. Without disconnection the arrears cannot be recovered.

While section 135 of the Electricity Act 2003 contains stringent provisions dealing with theft of electricity and Sec 170 gives sweeping powers to recover dues as arrears of land revenue these statutes remain on paper. Haryana has opted for financial restructuring plan offered by government of India under which state government was to take over the liability by directly issuing bonds or infusion of funds for amount of 50 per cent of the liabilities calculated by March 31, 2012 and balance amount is to be adjusted by rescheduling the loans and availing incentives based on performance of utility in coming years. The Centre has also approved power development schemes worth Rs 1,487 crore for 36 towns in Haryana under Restructured Accelerated Power Development and Reforms Programme (RAPDRP).The power distribution system in 36 towns with population of more than 30,000, will be renovated and strengthened under this scheme. The implementation of the above schemes depends upon directly on how the AT&C losses are reduced in next three years. The power distribution losses has been assumed to be 25 % while AT&C losses has been mentioned as 28.38% in the tariff petition of 2014-15 submitted by power utilities to HERC .

AT&C losses can be brought down to 10 to 15 % in city areas and 20 to 25 % in rural areas if the utilities are able to shift the meters of domestic consumers in urban and rural areas. The authorities implemented the pillar box scheme in Haryana after great discussions. The power utilities launched the pillar box scheme in parts of Haryana and have provided incentives to consumers opting for the scheme. Now the local politicians misguide the consumers that by shifting meters outside their premises meters will run fast and they will have to pay hefty bills. Under such circumstances the scheme is getting lukewarm response. The power utilities are to purchase 25 % extra power to supply the power required by the consumers. The power purchase cost increases by 25% under these circumstances leading to corresponding increase in tariff. The power purchase from state sector units and from outside is the major expenditure component and this amounts to Rs.10737 crore of total expenditure amounting to Rs.14405 crore.

For the next financial year the utilities may not opted for tariff increase as it is expected to fund revenue gap of Rs.2246 crore through available funding under Financial Restructuring Plan. Another grey area is the non recovery of arrears of power bills amounting to around Rs 4,200 crore. The domestic consumers are the major defaulters and constitute around 80% of total consumers. The worst part of the problem is that most of the defaulters are getting regular supply with the help of local politicians. The politicians assure these defaulters that the defaulting amount would be waived as was done 8 years back in 2005. Now they will be more encouraged by saying under pressure the state government has reduced their monthly bill by Rs. 100. The bottom line is that Haryana Discoms cannot be revived just by fresh loans or restructuring of loans unless the utilities adopt a policy of zero tolerance to corruption, theft of power and defaulters who continue to consume power without paying for it.

CHAPTER - XI
FINANCIAL PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS IN HARYANA

Overview of Haryana State Public Sector Undertakings

This chapter contains the financial performance analysis of various public enterprises in the State of Haryana registered under the Cooperative Societies Act and the Companies Act. The financial data for the years from 2008-09 to 2011-12 has been used taken from the reports of Finance Department, Haryana. There are total 38 units termed as Public Sector Enterprises in Haryana state as on 31.03.2012. Out of these, 19 are registered under Companies Act,1956 (Table 11.1), hereafter, called PSECs and 19 under the Cooperative Societies Act, 1984.(Table 11.2) hereafter, called PSESs. The analysis of physical performance has not been conducted.

TABLE 11.1
LIST OF HARYANA PUBLIC SECTOR UNDERTAKINGS REGISTERED UNDER COMPANIES ACT, 1956

1.Haryana Agro Industries Corporation Limited (HAIC)
2. Haryana Seeds Development Corporation Limited (HSDC)
3. Haryana Land Reclamation & Development Corporation Limited (HLRDC)
4. Haryana State Warehousing Corporation (HSWC)
5. Haryana Police Housing Corporation Limited (HPHC)
6. Haryana Scheduled Castes Finance & Development Corporation Limited (HSCFDC)
7. Haryana Backward Classes & Economically Weaker Sections Kalyan Nigam Limited (HBCEWSKN)
8. Haryana Women Development Corporation Limited (HWDC)
9. Haryana Forest Development Corporation Limited (HFDC)
10. Haryana State Roads & Bridges Development Corporation Limited (HSRBDC)
11. Haryana Financial Corporation Limited (HFC)
12. Haryana State Industrial and Infrastructure Development Corporation Limited (HSIIDC)
13. Haryana Power Generation Corporation Limited (HPGC)
14. Haryana Vidyut Prasaran Nigam Limited (HVPN)
15. Uttar Haryana Bijli Vitran Nigam Limited (UHBVN)
16. Dakshin Haryana Bijli Vitran Nigam Limited (DHBVN)
17. Haryana Tourism Corporation Limited (HTC)
18. Haryana State Electronics Development Corporation Limited (HSEDC)
19. Haryana Roadways Engineering Corporation Limited (HREC)

TABLE 11.2
LIST OF HARYANA PUBLIC SECTOR UNDERTAKINGS REGISTERED UNDER THE COOPERATIVE SOCIETIES ACT, 1984

1. Haryana State Cooperative Supply & Marketing Federation Limited (HAFED)
2. The Panipat Cooperative Sugar Mills Ltd., Panipat (HCSM)
3. The Karnal Cooperative Sugar Mills Ltd., Karnal (KCSM)
4. The Kaithal Cooperative Sugar Mills Ltd., Kaithal (KTLCSM)
5. The Sonipat Cooperative Sugar Mills Ltd., Sonipat (SCSM)
6. The Shahabad Cooperative Sugar Mills Ltd., Shahabad (SHSCM)
7. The Meham Cooperative Sugar Mills Ltd., Meham. (MCSM)
8. The Jind Cooperative Sugar Mills Ltd., Jind.(JCSM)
9. The Palwal Cooperative Sugar Mills Ltd., Palwal. (PCSM)
10. The Haryana Cooperative Sugar Mills Ltd., Rohtak (HCSM)
11. Ch. Devi Lal Cooperative Sugar Mills Ltd., Gohana (CDCSM)
12. Haryana State Federation of Cooperative Sugar Mills Limited (HSFCSM)
13. Haryana State Federation of Consumer's Cooperative Wholesale Stores Limited (CONFED)
14. Haryana State Cooperative Apex Bank Limited (HSCA)
15. Haryana State Cooperative Agriculture & Rural Development Bank Limited (HSCARDB)
16. Haryana State Cooperative Development Federation Limited (HARCOFED)
17. Haryana Dairy Development Cooperative Federation Limited (HDCF)
18. Haryana State Cooperative Labour & Construction Federation Limited (HSCLCF)
19. Haryana State Cooperative Housing Federation Limited (HSCHF)

Out of To have a overall glimpse of the size of public sector enterprises in Haryana, it would be useful to look on the important financial variables given in Table 11.3.

TABLE 11.3. FINANCIAL POSITION OF ALL PSES AS ON 31.03.2012

VARIABLES	PSECs	PSESs	ALL PSEs
Total Paid up Share Capital	765388.37	58370.66	823759.03
Reserves & Surplus	290573.41	179201.29	469774.70
Total Debt	3302072.04	1989781.03	5291853.07
Grant in Aid	193527.22	350.00	193877.22
Current Assets, Loan & Advances	2004825.30	1367162.44	3371987.74
Current Liabilities & Provisions	1671456.41	1218867.36	2890323.77
Net Working Capital	333368.89	148295.08	481663.97
Turnover/Revenue	2346319.77	764588.80	3110908.57
Profit / Loss (PAIT)	-828121.02	-5831.08	-833952.10
Accumulated P/L	-1911831.76	-62618.05	-1974449.81
Dividend paid	709.99	280.64	990.63
Sanctioned posts (Nos.)	57788	12253	70041
Filled up posts (Nos.)	35484	10670	46154
Actual expenditure on Manpower	224205.82	32608.47	256814.29

Note: All figures are in Lakhs except the posts. The total debt includes working capital loan.

It can be seen that the total accumulated losses (less of total profit) of all PSEs have reached to the tune of Rs. 19,744.49 crores out of this 96.82 per cent is contributed by PSECs and rest by PSESs. Total loss is of Rs. 20149.07 crores contributed by seven PSECs namely UHBVN, DHBVN, HPGC, HFC, HBCEWSKN, HSRBD and HWDC in descending order. Ninety nine percent of the accumulated loss is attributable to the power distribution and generation companies. Only one power distribution company i.e. HVPN has been able to achieve a profit growth rate of 39.03 percent during the period 2008-09 to 2010-12. Although during this period its turnover increased only by 5.12 percent. It is an indication of a silver lining in all clouds of gloom. The other power distribution companies UHBVN and DHBVN will have to devise ways to recover the pending bills. The performance of HPGC is also dependent upon the performance of UHBVN, DHBVN and HVPN. The turnover of HPGC has been increasing at an average rate of 23.45 percent per annum.

Leaving powercoms, another source of losses is HFC, due to poor turnover. The per employee turnover is just Rs 8.62 lakhs. A financial company like HFC can easily raise funds and can increase its turnover. The net working capital availability per employee in the firm is falling and currently, it is only Rs 28.29 lakhs.

The four year average debt-equity ratio for all PSECs is 3.78. It is also result of high debt only in one unit i.e. HAIC. The Debt-equity ratio of all PSECs is given in Table 11.4.

Table 11.4 Debt-Equity Ratio of PSECs in Haryana in 2011-12

HAIC	295.77	HFC	0.74
HPHC	12.78	HREC	0.20
HSIIDC	9.99	HSFDC	0.20
UHBVN	6.69	HSRBD	0.00
HSWC	5.10	HLRDC	0.00
DHBVN	3.80	HSEDC	0.00
HVPN	3.53	HFDC	0.00
HPGC	3.53	HWDC	0.00
HBCEWSKN	3.39		
HTC	2.56		
HSDC	1.48		

The shortage of funds is reflected in current ratios of PSECs. Although large funds are pending unutilized in HSFDC, HBCEWSKN and HAIC which have high current ratios.

Table 11. 5 Current Ratios of PSECs in Haryana in 2011-12

PSECs with High Current Ratio		PSECs with High Current Ratio	
HTC	2.74	UHBVN	0.32
HFDC	3.06	DHBVN	0.41
HSIIDC	3.26	HSRBD	0.78
HPGC	3.55	HLRDC	0.89
HWDC	4.73	HREC	1.08
HAIC	9.39	HSEDC	1.19
HSFDC	16.77	HPHC	1.21
HBCEWSKN	30.87	HSWC	1.32

It can be generally said about PSE sector that as it has a low leverage therefore more debt can be raised which can be used for increasing the turnover. However, it will be futile to raise the debt without increasing the capacity to service it. The employee productivity is of crucial importance, before discussing this aspect it would be useful to have a look at the recent growth rates of the key variables as given in Table 11.6.

Table 11.6 Growth Rates of Key Variables of PSECs in Haryana for Period 2008-09 to 2011-12

VARIABLES	PSECs
Total Paid up Share Capital	8.98
Reserves & Surplus	21.82
Total Debt	19.87
Grant in Aid	-14.01
Current Assets, Loan & Advances	19.50
Current Liabilities & Provisions	25.51
Net Working Capital	18.63
Turnover/Revenue	14.24
Profit / Loss (PAIT)	*563.97
Accumulated P/L	90.97
Dividend paid during the year	50.71
Sanctioned posts (Nos.)	0.01
Filled up posts (Nos.)	-0.60
Actual expenditure on Manpower	4.02

*Growth rate of Losses

It can be seen from the Table 11.6 that total share capital, reserves & surplus, net working capital and turnover are increasing faster than the expenditure on manpower. It means that if per employee turnover along with an increase in gross profit margin can turnaround the whole situation. It is important to check the growth of current liabilities as compared to the current assets. Let us have a look at the per person turnover and per person expenditure in Table 11.7.

Table 11.7 Turnover Per Person (TPP) and Expenditure Per Person (XPP) in Haryana PSECs in 2011-12

PSEC	TPP	XPP
HAIC	684.69	5.90
HPGC	167.63	4.80
HSRBD	135.51	4.32
HREC	84.46	4.17
DHBVN	67.25	5.16
UHBVN	53.73	6.42
HSDC	50.90	5.45
HFDC	50.71	3.05
HLRDC	42.25	8.14
HSIIDC	29.29	2.19
HVPN	22.79	6.89
HTC	18.14	17.97
HSEDC	16.85	8.96
HSWC	11.96	2.55
HFC	8.52	6.37
HWDC	7.38	8.20
HSFDC	7.06	4.67
HBCEWSKN	6.35	5.19
HPHC	0.05	10.76
Average	77.13	6.38

It is clear from the Table 11.7 that average turnover per employee is Rs 77.13 Lakhs and average gross expenditure per employee is Rs 6.38 Lakhs. It implies that if even 10 percent profit can be earned on the revenue, every employee can become a profitable asset. In fact, the employees are the only assets with the PSEs. The companies in Haryana do not have a strategic advantage in terms of financial, marketing or technological strengths.

To make a viable strategy, we need to improve the total revenue and as well as the gross profit margin. The current average gross profit margin for the last four years for all PSECs is -12.83 percent. For year, 2011-12, the GPM for all units is -9.54 percent, for loss making units it is -58.98 percent. The PSE sector can become an engine of growth in Haryana, If every employee, at average, can earn a profit equal to expenses on him, the required GPM will be 9.56 percent. With these assumptions in next 7.09 years the loss making PSECs can come out of the red.

Table 11.8 Gross Profit Margin (GPM) of Haryana PSECs in 2011-12 and Expected Turnaround Period in Years

PSECs	GPM	Expected Turnaround Period in Years
HFC	-188.36	14.08
HBCEWSKN	-77.73	3.25
DHBVN	-65.08	13.44
UHBVN	-64.70	17.60
HWDC	-11.11	0.10
HLRDC	-3.61	0.17
HPGC	-2.29	1.31
Average GPM of Loss Making Units	-58.98	7.09
HAIC	0.46	
HSDC	0.67	
HTC	0.90	
HREC	3.25	
HFDC	7.74	
HSFDC	8.22	
HVPN	12.59	
HSEDC	16.16	
HSWC	21.85	
HSRBD	41.88	
HSIIDC	58.08	
HPHC	78.92	
Average GPM of Profit Making Units	20.89	
Average GPM of All Units	-9.54	

It can be deduced from the above data, that except UHBVN, all units can become highly profitable by improving their scale of operations and the efficiency.

The Public Sector Enterprises under Cooperative Societies Registration Act,1984 termed as PSESs herein after are of four types. Out of total 19 cooperatives, there are working as 10 sugar mills, 3 as credit and banking institutions, 2 as trading companies and 4 as federations with objectives of coordinating, training and educating the other societies or unions of consumers. The aggregation of selected variables showing the current financial position of all PSESs has already been given in Table 11.3. It becomes clear that accumulated losses have reached to a level that all invested capital has already been wiped off. To judge the performance of all PSESs together, the average growth rates of all the variables for period 2008-09 to 2011-12 at aggregate level have been given in the Table 11.9.

Table 11.9 Growth Rates of Financial Variables for Period 2008-09 to 2011-12

Financial Variable	Growth Rate %
Total Paid up Share Capital	3.11
Reserves & Surplus	8.14
Total Debt	24.98
Grant in Aid	-16.98
Current Assets, Loan & Advances	15.10
Current Liabilities & Provisions	18.81
Net Working Capital	-0.29
Turnover/Revenue	16.44
Profit / Loss (PAIT)	-575.03
Accumulated Losses	17.64
Sanctioned posts (Nos.)	-0.13
Filled up posts (Nos.)	-3.24
Actual expenditure on Manpower	20.68
Expenditure per Employee	24.62
Accumulated Loss per Employee	21.48
Loss per Employee	-584.86
Turnover per Employee	20.17
Gross Profit Margin	-476.82

It is clear that the PSESs suffer from high debt, negative working capital, no capital left at all, ever increasing losses, due to continuously increasing expenses, negative GPM and decreasing grant-in-aid. They are not working on market based principles and prudent financial norms, rather they are the political arms of the state. The management of the PSESs is not in a position to decide the prices of the inputs or outputs. The final price of sugar or procurement price of sugar cane is decided by the state. Same is true about the banking and credit institutions. The borrowing and lending rate is decided by the outside agencies. The profit margin of the trading organizations – HAFED and

CONFED is fixed by the state and is not revised according to the increasing costs. The federations are not in a position to recover their expenses from their members.

To revive, the whole cooperative sector, it would be important to look at them according their nature of business. The aggregation of all financial variables only for cooperative sugar mills is given in Table 11.10.

Table 11.10 Financial Variables for All Cooperative Sugar Mills in Haryana (2011-12) (Rs. Lakhs)

Total Paid up Share Capital	41412.07
Reserves & Surplus	63084.50
Total Debt	89422.13
Grant in Aid	0.00
Current Assets, Loan & Advances	76892.26
Current Liabilities & Provisions	65189.56
Net Working Capital	11702.70
Turnover/Revenue	68096.29
Profit / Loss (PAIT)	-15319.05
Accumulated P/L	-66234.37
Dividend paid during the year	0.00
Sanctioned posts (Nos.)	6931.00
Filled up posts (Nos.)	6901.00
Actual expenditure on Manpower	14862.08
Expenditure per Employee	2.18
Accumulated Loss per Employee	-10.00
Loss per Employee	-2.21
Turnover per Employee	10.00
Gross Profit Margin	-28.86
Debt Equity Ratio	3.01
Current Ratio	1.66

Observing the Table 11.10, we can say that there is a ray of hope because the current ratio 1.66 shows that the sugar mills are using their available working capital efficiently. The high debt equity ratio 3.01 indicates that there should be more infusion of equity funds to bring the ratio at 1:1. The procurement price of the sugarcane should be fixed after estimation of final demand of sugar in the market well in advance so that the farmers can take their cropping decision rationally. The departments of economics in the state universities have confirmed that they can do this exercise of demand and price forecasting every year in collaboration with some expert consultants. Instead of cost plus pricing, a forecasted contribution margin based pricing will solve the problem of sugar cane growers and the mills. It can be seen that currently actual gross profit margin is -28.86 percent. There is little scope of improving manpower productivity in the sugar mills. They are paying just Rs 2.18 per annum per employee, which is very less. The scale of operations can also not be increased largely in this case in contrast with the PSECs. If the sugar mills come into the profits, they can provide funds to their apex federation i.e. Haryana State Federation of Cooperative Sugar Mills Limited (HSFCSM) so that it can provide important services to its members.

The financial performance of the credit and banking institutions in the cooperative sector is commendable. There are three societies in this category namely Haryana State Cooperative Apex Bank Limited (HSCAB), Haryana State Cooperative Agriculture & Rural Development Bank Limited (HSCARDB) and Haryana State Cooperative Housing Federation Limited (HSCHF). It can be observed from the Table 11.11 that these organizations are working quite efficiently presently however, the accumulated losses in the past is the only problem.

Table 11.11 Financial Variables of State Cooperative Credit & Banking Institutions in Haryana (2011-12) (Rs. Lakhs)

PSE	HSCAB	HSCARDB	HSCHF	TOTAL
Total Paid up Share Capital	10174.31	4024.30	1260.01	15458.62
Reserves & Surplus	37420.73	9734.80	46.01	47201.54
Total Debt	947508.56	500942.45	10148.25	1458599.26
Grant in Aid	0.00	0.00	0.00	0.00
Current Assets, Loan & Advances	451533.44	258981.71	4613.01	715128.16
Current Liabilities & Provisions	340441.15	259621.30	4093.00	604155.45
Net Working Capital	111092.29	-639.59	520.01	110972.71
Turnover/Revenue	32645.62	20568.65	242.67	53456.94
Profit / Loss (PAIT)	1868.70	1575.86	-165.19	3279.37
Accumulated P/L	0.00	-2296.15	-129.59	-2425.74
Dividend paid during the year	151.73	0.00	0.00	151.73
Sanctioned posts (Nos.)	599.00	2031.00	91.00	2721.00
Filled up posts (Nos.)	438.00	1424.00	56.00	1918.00
Actual expenditure on Manpower	3334.72	7162.17	407.86	10904.75
Expenditure per Employee	7.61	5.03	7.28	6.64
Accumulated Profit/Loss per Employee	0.00	-1.61	-2.31	-1.31
Profit/Loss per Employee	4.27	1.11	-2.95	0.81
Turnover per Employee	74.53	14.44	4.33	31.10
Gross Profit Margin	5.72	7.66	-68.07	6.13
Debt Equity Ratio	93.13	124.48	8.05	75.22
Current Ratio	1.33	1.00	1.13	1.15
Capital Adequacy Ratio (CAR)	33.46	64.51	3.25	39.08

There is lot of scope to improve the turnover of the HSCARDB and HSCHF as compared with HSCAB. The high CAR has created risk for the HSCARDB where as the low CAR of HSCHF shows that it needs to scale up its operations. It will help in raising the GPM of HSCHF and it can be turned around with little effort.

There are two cooperative societies which are working as trading organizations to ensure the minimum support price for farmers and low price for consumers namely CONFED and HAFED. The financial position of these organizations has been given in Table 11.12. Since the nature of these organizations is vastly different, there is little meaning of computing averages.

Table 11.12 Financial Position of State Cooperative Trading Societies in Haryana (2011-12) (Rs. Lakhs)

VARIABLE	CONFED	HAFED
Total Paid up Share Capital	1613.71	413.56
Reserves & Surplus	71898.84	535.68
Total Debt	456734.54	0.00
Grant in Aid	0.00	0.00
Current Assets, Loan & Advances	494498.22	80304.18
Current Liabilities & Provisions	475648.80	79839.98
Net Working Capital	18849.42	464.20
Turnover/Revenue	524856.15	120844.92
Profit / Loss (PAIT)	4236.51	-1959.23
Accumulated P/L	0.00	-267.54
Dividend paid during the year	128.91	0.00
Sanctioned posts (Nos.)	1705.00	356.00
Filled up posts (Nos.)	1303.00	260.00
Actual expenditure on Manpower	5941.67	1339.19
Expenditure per Employee	4.56	5.15
Accumulated Loss per Employee	0.00	-1.03
Profit/ Loss per Employee	3.25	-7.54
Turnover per Employee	402.81	464.79
Gross Profit Margin	0.81	-1.62
Debt Equity Ratio	283.03	0.00
Current Ratio	1.04	1.01

It can be observed from the Table 11.12 that CONFED suffers from high debt and low working capital and in contrast HAFED does not have any debt at all. HAFED can raise debt and diversify its operations in various agricultural commodities.

This analysis has many limitations as we have used only four years data on few variables. However, the accumulated losses clearly show the state of affairs in past. The PSECs other than power companies need to improve both scale as well as efficiency. Except UHBVN, all PSECs are in manageable limits. The state can persuade the farmers to produce their own energy (bio-gas, bio-diesel and solar energy). It should be understood that the farmers can pay the electricity bills of a good quality power supply provided they are sure of getting a remunerative MSP.

The Finance Department, Haryana should establish a Price and Demand Forecasting cell in a state university. Many international level consultants have offered to the researchers in the Department of Economics at Kurukshetra University, Kurukshetra to provide help for such a cell. The cell can help the farmers to get future cost-free information about prices of agriculture commodities to take rational sowing decisions. It will minimize the burden of the state to procure and keep unnecessary stock of the commodities. The proper pricing of inputs and outputs is the key for financial as well as political success for the governments.

CHAPTER-XII

DEVOLUTION TO URBAN LOCAL BODIES

A defining feature of any democratic system is that the decision makers are under 'effective popular control' (Mayo, 1960: 60). It means that the people are the government. They are involved in the planning and execution of programmes. Involvement of the people can be realized only through democratic decentralization in terms of devolution of powers to regularly elected local bodies having maximum autonomy and functioning as institutions of local self- government. In India the enactment of the 73rd and 74th constitutional amendments is a historic step in the evolution and development of the Panchayati Raj System and the Urban Local Bodies. Though the enabling acts provide for higher powers for these bodies to levy taxes and fees, yet they could not exercise their given powers due to economic and political reasons. Thus, the survival of these bodies is largely dependent on budgetary support from the state govt.

Devolution of funds to Urban and rural local bodies in Haryana

The rural and urban local bodies are now functioning as autonomous institutions. The resource base of these bodies requires to be substantially augmented in order to enable them to be viable units of local administration. The devolution of funds by Haryana government to PRIs and ULBs for last ten years is given in Table 12.1

Table 12.1

Devolution to ULBs

(Rs. Crore)

Year	Total devolution to PRIs	Total devolution to Urban Local Bodies
2001-02	124.61	70.56
2002-03	133.75	76.88
2003-04	144.06	83.82
2004-05	155.37	91.49
2005-06	138.43	92.62
2006-07	241.28	129.92
2007-08	286	154
2008-09	326.3	175.7
2009-10	372.45	200.55
2010-11	425.25	229
CAGR(%)	16.14	14.82

Source: Report of 2nd and 3rd state Finance Commission

As is clear from Table 12.1 and Figure 12.1 the devolution of funds to both urban and local bodies has grown at a rate of 14.82 1nd 16.14 percent. But the PRIS and ULBs are struggling hard for the finances. In the state 4 state finance commissions have been set up till date. Thease finance commissions have made several recommendations in terms of devolution of funds.

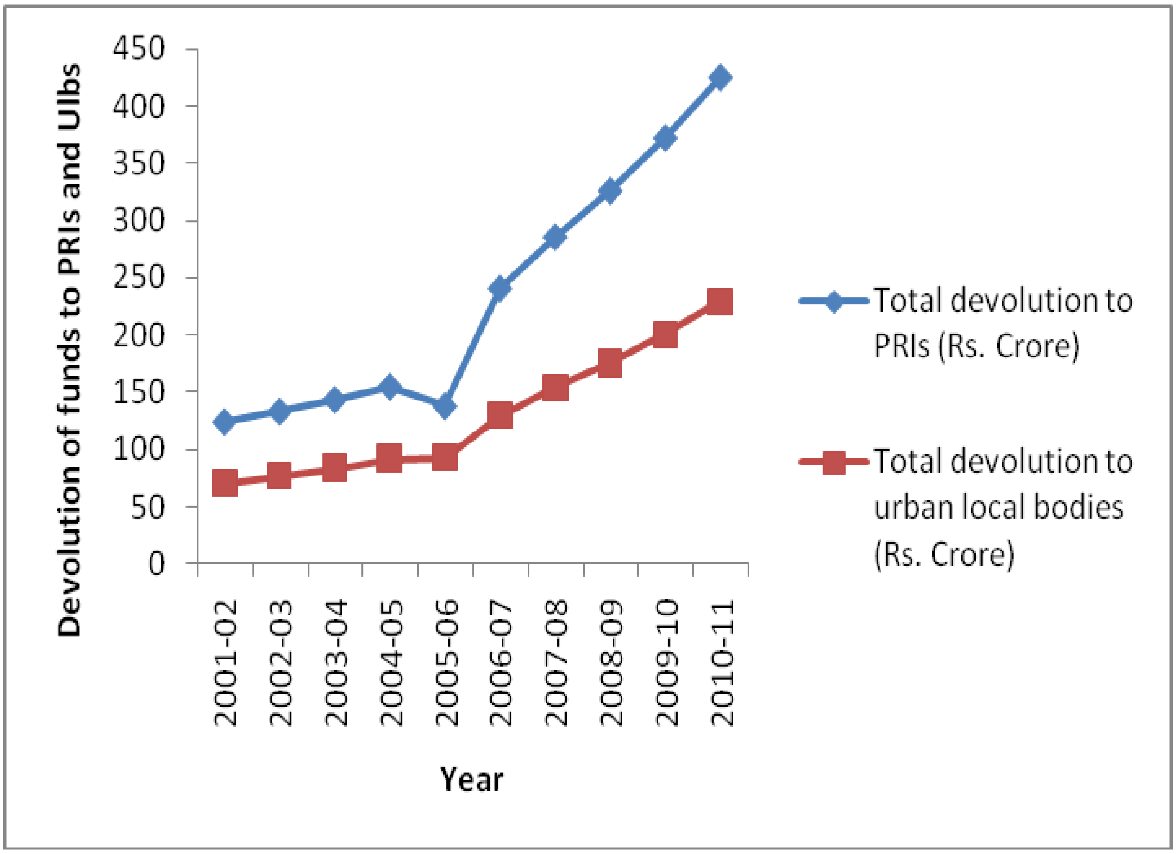

Figure 12.1

The fourth state finance commission has recommended devolution of Rs. 442.21 crore for Panchayati Raj institutions and Rs. 238.11 crore for urban local bodies for 2013-14 fiscal year. The government only accepts the recommendations of SFCs partially only as is clear from the Table 12.2.

Table-12.2
Status of Implementation of financial devolution recommended by second finance Commission

	As Recommended by 2nd SFC		**As accepted by state govt.**	**As implemented by state govt.**
Components	**2001-06**	**2005-06**	**2005-06**	**2005-06**
1.Tax Devolution	520.83	124.68	46	46
PRIs	223.35	53.31	15	15
ULBs	297.48	71.37	31	31
2. Grants in aid	590.76	106.37	54	54
PRIs	472.87	85.12	35	35
ULBs	117.89	21.25	19	19
3. Other measures	5.92	-	-	-
PRIs	-	-	-	-
ULBs	5.92	-	-	-
4.Total Devolutions	1117.51	231.05	100	100
PRIs	696.22	138.43	50	50
ULBs	421.29	92.62	50	50

Source: Report of 3rd state Finance Commission

Steps Taken by Haryana Government towards Decentralization

To meet the deadline set by the 73rd Constitutional Amendment Act, the Haryana government enacted the Haryana Panchayati Raj Act 1994 and notified it on 22nd April, 1994, which came into force on April 22, 1994. The objective of the Act is strengthening of local self-governance in rural areas. The Act provides three tier system of Panchayati Raj in Haryana, i.e. Gram Panchayat at the Village level, Panchayat Samiti at the Block level, and Zila Parishad at the District level. Gram Sabha has been provided as a basic unit of Panchayati Raj at the village level.

After enactment of the Act, the Haryana government has met all the mandatory provisions of this Act such as election commission has been constituted and the Panchayats elections have been held regularly. Four elections to these bodies have been held in December 1994, March 2000, April 2005 and June-July 2010, after super session of Panchayats from May-June, 2010. Reservations of SCs and women in PRIs have been provided. Recommendations of 1st and 2nd Finance Commissions regarding sharing of taxes, duties, fees and certain grants to PRIs have been accepted.

The State of Haryana through its Panchayati Raj Act 1994 has mentioned all 29 functions included in the Eleventh Schedule of the Constitution, to the three levels of Panchayats through inclusion of the provisions in Sections 21, 75 and 137.

The State government has committed itself towards the Decentralization of Governance, village and district level planning and considers it important to entrust duties and functions related to 29 subjects listed in the 11th schedule of the Constitution to all the three levels of Panchayati Raj Institutions so that they function as the institutions of local self governance in the spirit of article 243G. The State government initiated the exercise of devolution of powers in 1995 and further in 2000.

Rules were framed and list of duties, functions and powers assigned to PRIs in respect of 16 departments were circulated on dated 23-05-1995. The State Government assigned to all the three levels of PRIs, the function of supervision and monitoring of activities of sixteen departments, namely Development and Panchayats, Food and Supplies, Welfare of Scheduled and Backward Classes, PWD (Public Health0, Social and Farm Forestry, Women and Child Development, Rural Development, Agriculture, Animal Husbandry, Power, Social Defence and Security, Horticulture, Ayurveda, Education, Health and Irrigation. The Gram Sabha has been empowered to pass the budget prepared by the Gram Panchayat.

Reforms Initiated Under Jawahar Lal Nehru National Urban Renewal Mission (JNNURM)

Ministry of Urban Development, Government of India has formulated guidelines for the projects of Jawahar Lal Nehru National Urban Renewal Mission (JNNURM). The scheme is additional Central Assistance (ACA) Scheme. Under JNNURM, planned urban perspective frameworks for a period of 20-25 years (with 5 yearly updates) indicating policies, programmes and strategies for meeting fund requirements would be prepared by every identified city. This perspective plan would be followed with preparation of City Development Plan integrating land use with services, urban transport and environment management for Mission Period i.e. 7 years

(2005-12). In Haryana Mission is valid for Faridabad, Municipal Corporation (a Million Plus City) only. Now on the request of State Government, Panchkula City of Haryana has also been included as Tri City underChandigarh. In the financing pattern of JNNURM, contribution from State and ULBs is required. As per financing pattern of contribution for million plus Cities under the scheme is 50:20:30 between Central Government, State Government, ULB itself or through Financial Institutions. Besides JNNURM, State Government is also implementing two schemes namely (i) Urban Infrastructure development Scheme for Small & Medium Towns (UIDSMT) and (ii) Integrated Housing & Slum Development Programme (IHSDP). These schemes are applicable to all cities and towns as per 2001 census except cities & towns covered under JNNURM. The main objective of these schemes is to improve infrastructure facilities and to create durable public assets. Integrated Housing & Slum Development Programme aims to have an integrated approach in ameliorating the conditions of urban slum dwellers who do not possess adequate shelter and reside in dilapidated conditions. All these three schemes are covered under ACA earmarked for JNNURM. A new scheme namely "Integrated Low Cost Sanitation" has been launched from 2008. The objective of the scheme is to convert/construct low cost sanitation units through sanitary two-pit flush laterines & construct new laterines where EWS household have no latrine. During the year 2011-12, an amount of ` 30613.00 lakh likely to be spent on this scheme. During 12th Five Year Plan (2012-17), an amount of ` 231946.00 lakh has been kept under this scheme and a sum of ` 31990.00 lakh has been proposed for this scheme for the Annual Plan 2012-13.

Table 12.3
STATUS OF ULB LEVEL REFORM AGENDA AS COMMITTED UPTO 2009-10

S.No.	Reform	No.of Ulbs Committed	No.of Ulbs achieved
A.	Mandatory Reforms		
1	Full migration to double entry accounting system	0	0
2	E-Governance (Defining monitorable time table for implementation of each e-governance initiative)	0	0
3	Full recovery of O&M cost from User Charges	0	0
4	Internal Earmarking for basic services to poor	0	4
5	Property Tax	0	0
5.1	Achieving 85% coverage ratio	0	0
5.2	Achieving 90% collection ratio	0	0
B.	Optional Reforms		
1	Introduction of Property Title Certification system	0	0
2	Administrative Reforms	0	4
3	Structural Reforms	7	4
4	Encouraging Public Private Partnership	0	4
5	Revision of By-Laws for Streamlining building approval process (State Level)	0	4
6	Simplification of legal procedural framework for conversion of agricultural land for non-agricultural purpose (State Level)	0	4
7	Provision of Rain water Harvesting in all buildings (State Level)	7	7
8	Earmarking of 20-25% of developed land for EWS and LIG category	0	0
9	Introduction of computerized process of registration of land and property	0	4
10	Bye laws on reuse of reclaimed water	0	0

Source: http://jnnurm.nic.in/