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Plan Financing in Andhra Pradesh - Trends and Concerns

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ABSTRACT

With the deterioration in State finances in the late eighties, dependence on borrowings for financing the Five-Year Plans had increased considerably. Following the turnaround in economic growth, introduction of VAT, enactment of fiscal responsibility legislations and higher transfers and Debt Consolidation and Relief Facility recommended by the Twelfth Finance Commission, there was considerable improvement in State Finances from 2004-05. This resulted in an improvement in the share of balance from current revenues in plan financing. However, there are a number of concerns with regard to plan financing which need to be addressed to meet the financial requirements and objectives of the Twelfth Five-Year Plan. These concerns mostly relate to the declining share of State Plans in total plan outlays, change in the composition of Central assistance, burden of debt repayments during the period of the Plan and deceleration in economic growth being witnessed in recent years. With the bulk of the plan expenditure becoming committed on account of shift in plan priorities to social sectors, there is very limited scope for taking up new schemes.

I. INTRODUCTION

With the introduction of planned economic development and the launching of the First Five-Year Plan in 1951, public expenditure in India is being categorized as plan and non-plan in addition to the Constitutionally mandated categorization into revenue and capital. Plan expenditure arises out of new schemes introduced in a Five-Year Plan. Plan expenditure adds to the productive capacity of a State economy and denotes the State government's investment in enhancing the productive capacity. Non-Plan expenditure refers to the expenditure on the existing schemes of the government. While non-plan expenditure maintains the existing capacities, plan expenditure denotes government's investment in enhancing productive capacity[1].

2. The distinction between plan and non-plan expenditure is not so watertight. Maintenance expenditure in respect of the completed plan schemes is shifted to non-plan in the following Five-Year Plan. Thus, Plan expenditure in a Five-Year Plan adds to the non-plan expenditure in the succeeding Five-Year Plan. There is another way in which the Plan expenditure creates additional commitment on the non-plan expenditure. A large part of the plan investment financed through borrowings creates additional liability in the form of interest payments and repayments thus adding to non-plan expenditure.

3. Resources for financing the plan expenditure of a State are broadly categorized into three components, viz., State's own resources, borrowings and Central assistance for State Plans. States' own resources are non-debt, comprising balance from current revenues (BCR), miscellaneous capital receipts (MCR) and additional resources envisaged to be raised during a plan period. The opening cash balance of the State government at the beginning of a financial year, though insignificant, is also a component of the State's own resources in addition to the above components. BCR, one of the main components of State's own resources represents the balance from the current non-plan revenues after meeting all the non-plan expenditure commitments on the revenue account. Non-plan revenues include state's own tax and non-tax revenue, state's share in Central taxes, non-plan grants from the Centre, grants recommended by the Finance Commissions, such as, non-plan revenue gap grants, grants for local bodies, Centre's share of Calamity

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[1] Government of India, Planning Commission, "Eleventh Five-Year Plan 2007-

Relief Fund and other non-plan grants including those for upgradation of standards of administration. Miscellaneous capital receipts mainly comprise recovery of loans and advances, receipts from sale of capital assets and net Public Account. Non-plan capital outlay and disbursements of non-plan loans and advances are subtracted from these receipts to arrive at net MCR.

4. State's borrowings consist of market borrowings allocated by the Centre, loans from financial institutions, net accretion to State Provident Fund, loans from the National Small Savings Fund (NSSF) and other loans. Borrowings from theses sources, net of repayments, constitute the resource available for plan financing.

5. The third component of plan financing is Central assistance comprising normal Central assistance, additional Central assistance for externally aided projects (EAP), and assistance for certain flagship programmes and other additional assistance for the implementation of programmes initiated by the Central government. Normal Central assistance is dispensed to States based on the revised Gadgil-Mukherjee formula. Currently, out of the money earmarked for normal plan assistance, 30 per cent is earmarked for special category States and the remaining amount is distributed among the non-special category States based on the Gadgil-Mukherjee formula. Under the formula, 60 per cent weightage is assigned to population, 25 per cent to per capita income, 7.5 per cent each to certain performance indicators and special problems. The 25 per cent weightage assigned to per capita income has two components; 20 per cent weight covering only those states whose per capita income is below the national average and 5 per cent weight covering all the States. The 7.5 weightage assigned to performance indicators is distributed among tax policy (2.5 %), fiscal management (2.0 %) and fulfillment of national objectives of population control (1.0 %), elimination of illiteracy, (1.0 %, timely completion of externally aided projects (0.5 %) and land reforms (0.5%). The assistance under 7.5 per cent weightage assigned to special problems is entirely discretionary. Until 2004-05, Central assistance for State plans was dispensed in the grant- loan ratio of 30:70 in the case of general category States and in the ratio of 90:10 for special category States. The grant-loan ratio was based on the revenue component of Plan expenditure which was about 30 per cent in the first two decades of planned development. Though the revenue component of the Plan increased to over 60 per cent with the focus of planning shifting to social sectors, the grant-loan component remained unchanged till the loan component of Central assistance was dispensed with beginning 2005-06, following the recommendations of the Twelfth Finance Commission. Now the entire Central assistance for State plans consists of only grants. Issues relating to normal Central assistance are discussed later in this paper.

6. Till the early eighties with the exception of a few years, the States as a whole enjoyed a surplus on the revenue account. This enabled the States to have a surplus balance from current revenues enabling them to meet over one-third of plan financing through non-debt means. An idea of the plan financing pattern before the deterioration in State finances set in is presented in Table 1.

Table-1: Pattern of Plan Financing in the Sixth Five-Year Plan (1980-85)

(Rs. Crore)

Source	Andhra Pradesh	Percentage to total	General Category States	Percentage to total
1.States' Own Resources (a to e)	1007.02	34.77	12548.02	31.95
a)Balance from Current Revenues	568.93	19.65	7859.72	20.01
b)Miscellaneous Capital Receipts	-311.24	-10.75	-3295.26	-8.39
c)Contribution of PEs	-193.48	-6.68	-6202.06	-15.79
d)ARM 758.79	26.20	13327.28	33.94	
e) Others184.02	6.35	858.34	2.14	
2. Net Borrowings	881.38	30.44	14597.46	33.94
3. Central Assistance	1007.51	34.79	12125.57	30.88
a) Normal	898.06	31.01	10599.80	26.99
b) Externally Aided Projects	109.45	3.78	1525.77	3.89
Total Resources	2895.91	100.00	39271.05	100.00

Source: Government of India, Planning Commission.

7. During the Sixth Plan, in Andhra Pradesh own revenue resources contributed nearly 35 per cent of the total resources of the Plan followed by Central Assistance and net borrowings, whose respective contributions were 34.79 per cent and 30.44 per cent. The performance of Andhra Pradesh exceeded both in terms of contribution of own resources and lower dependence on borrowings as compared with the general category States. As 70 per cent of the Central assistance was in the form of loan, debt funding of the Plan would be higher than that suggested by net borrowings. Thus, nearly 55 per cent of the plan funding was done through borrowings in Andhra Pradesh (30.44 per cent through net borrowings and 24.35 per cent being the loan component of Central assistance).

Fiscal Deterioration in the Eighties:

8. States as a whole started witnessing a deficit on their revenue accounts beginning 1987-88 almost continuously. In Andhra Pradesh, the revenue account went into a

deficit for the first time in 1983-84 and remained in deficit till 1986-87. After posting a marginal surplus in the years 1987-88 and 1988-89, the revenue account of the State again went into a deficit in 1989-90 and remained so till 2005-06. The deficit on revenue deficit not only persisted but deepened with every passing year. The revenue deficit of all States worsened from 0.29 per cent of GDP in 1987-88 to 2.70 per cent of GDP in 2001-02. The revenue account of Andhra Pradesh worsened from a small surplus to a deficit of 1.84 of GSDP in the same period. States resorted to higher borrowings not only to meet their higher plan outlays but also to meet the deficits on their revenue accounts. This was a recipe for fiscal unsustainability resulting in mounting debt and higher interest payments putting further pressure on the revenue accounts of States. By 2002-03, the revenue and fiscal deficits of States assumed alarming proportions. While the revenue deficit of all States worsened from 0.9 per cent of GDP in 1997-98 to 2.3 per cent of GDP in 2002-03, the revenue deficit of Andhra Pradesh worsened from 0.73 per cent of GSDP to 1.83 of GSDP in the same period. During the same period, the fiscal deficit of all States worsened from 2.8 per cent of GDP to 4.1 per cent of GDP. The deterioration in the fiscal deficit of Andhra Pradesh was much sharper from 2.51 per cent of GSDP to 4.56 per cent of GSDP in the same period.

9. Three important developments have prevented the State finances from further deterioration. The first was the introduction of economic reforms in the early nineties aimed at liberalizing the economy and making the public finances sustainable. Following the higher growth trajectory in the post 2003-04 period, improvement in State finances started around 2004-05 facilitated by a higher growth of the economy and the resultant increase in the buoyancy of State taxes. The second major development was the introduction of Value Added Tax (VAT) by most States in 2005-06 which enhanced their tax base considerably. The third major development was the boost the State finances received following the recommendations of the Twelfth Finance Commission (FC-XII). The FC-XII recommended an increase in the States' share in Central taxes from 29.5 per cent to 30.5 Per cent. The FC-XII also recommended the Debt Consolidation and Relief Facility (DCRF) linked to reduction in the revenue deficit and containment of fiscal deficit at 2004-05 level. The benefits of DCRF were conditional on States enacting fiscal responsibility and budget management legislations (FRBMA) mandating elimination of revenue deficit by 2008-09 and containing fiscal deficit at 3 per cent of GSDP. The enactment of FRBMA in 2005-06 ushered in an era of rule based management of public finances in the State. Following these developments, there was considerable improvement in State finances. The revenue account of the State turned into a surplus in 2006-07 after remaining in deficit for close to 17 years and the fiscal deficit moderated to 1.9 per cent of GSDP in the same year.

10. The improvement in State finances continued till 2007-08. The Global downturn witnessed following the collapse of Lehman Brothers had its effect on the growth outcomes in India. The decline in the growth had its adverse impact on public finances in terms of fall in the growth of revenue and additional commitments on account of the stimulus package put in place to minimize the impact of the global downturn on the Indian economy. While the GDP growth of the country declined from 9.3 per cent in 2007-08 to 6.8 per cent in 2008-09, the GSDP growth in Andhra Pradesh declined from 12.0 per cent in 2007-08 to 6.9 percent in 2008-09. Though the GSDP growth improved to 10.0 per cent in 2010-11, it slipped again to 6.9 per cent in 2011-12. Following the deceleration in the growth of the economy, the fiscal deficit of the State deteriorated to 2.91 per cent of GSDP in 2008-09. Since then, there has been a marginal moderation in the fiscal deficit and improvement in the revenue surplus of the State. In the Budget for 2012-13, the fiscal deficit and the revenue surplus of the State are budgeted at 2.6 per cent and 0.57 per cent of the GSDP, respectively.

11. In the above backdrop, the trends in the pattern of Plan financing in Andhra Pradesh are analysed below. The trends are analysed for the period commencing from the Tenth Five-Year Plan (2002-07).

II. REVIEW OF PLAN FINANCING IN ANDHRA PRADESH

Tenth Plan (2002-07)

12. The Tenth Plan period represents a distinct shift from the past trends in terms of economic growth as well as the health of state finances. During the Tenth Plan, Andhra Pradesh clocked average GSDP growth of 9.5 per cent per annum as compared with the average annual growth of 5.5 per cent achieved in the Eighth Plan Period. The year 2003-04 marks a distinct shift from past trends. The trigger for this shift was the higher growth trajectory witnessed at the national as well as the State level. While the GDP growth of the country improved from 3.84 per cent in 2002-03 to 8.52 per cent in 2003-04, the GSDP growth of Andhra Pradesh jumped from 2.9 per cent to 9.1 per cent. The total revenue-GSDP ratio in Andhra Pradesh witnessed an improvement from 13.68 in 2002-03 to 14.08 in 2003-04 and further to 18.00 in 2007-08. The Tenth Plan period also witnessed game changing developments, such as, enactment of FRBM legislation, introduction of VAT and Debt Relief and Consolidation Facility and higher transfers recommended by the Twelfth Finance Commission. All these development resulted in fiscal consolidation and an improvement in plan financing. The position with regard to plan financing in the State during the Tenth Plan period is presented in Table 2.

Table 2: Patten of Plan Financing in Andhra Pradesh- Tenth Five Year Plan (2002-07)

(Rs. Crore)

Source of Financing	X Plan Project -ion	Actual Realisation						Actual Realisation as % of Projection
		2002-03	2003-04	2004-05	2005-06	2006-07	Total 2002-07	
1.State's Own Resources	9837.45	2026.89	7356.74	6512.11	8043.83	11080.65	35020.22	355.99
a) BCR	9192.53	30.17	474.07	1860.92	3988.05	8517.90	14871.11	161.77
b) MCR	-558.04	1701.24	6821.63	5101.26	3674.23	2216.32	19514.68	3497.00
c) FC Grants	986.41	58.65	62.40	7.15	6.50	154.60	161.00	16.32
d) ARM	152.45	152.45						
e)Opening balance	64.1	236.83	-1.36	-457.22	375.05	191.93	345.23	538.58
2. Net Borrowing	19570.33	2830.24	-581.17	1706.93	3986.84	4759.44	10730.42	54.83
3. Central Assistance.	18037.93	3540.67	4001.03	3247.52	1448.74	2372.37	14610.33	81.00
a) Normal	5764.12	1131.79	1148.48	1267.57	448.58	356.23	4352.65	75.51
b) EAP	7861.77	1905.69	1546.69	1305.83	294.92	310.68	5363.81	68.23
c) Others	4412.04	503.19	1305.86	674.12	705.24	1705.46	4893.87	110.92
Net Total Resources	47445.71	8397.80	10776.60	11466.56	13479.41	18212.46	60360.97	127.22
As Percentage of Total Resources for the Plan								
1.State's Own Resources	20.73	24.14	68.27	56.79	59.67	60.84	58.02	
a)BCR	19.37	0.36	4.40	16.23	29.59	46.77	24.64	
b)MCR	-1.18	20.26	63.30	44.49	27.26	12.17	32.33	
c)FC Grants	2.08	0.70	0.58	0.06	0.05	0.85	0.27	
d)ARM	0.32							
e)Opening balance	0.14	2.82	-0.01	-3.99	2.78	1.05	0.57	
2. Net Borrowing	41.25	33.70	-5.39	14.89	29.58	26.13	17.78	
3. Central Assistance.	38.02	42.16	37.13	28.32	10.75	13.03	24.20	
a)Normal	12.15	13.48	10.66	11.05	3.33	1.96	7.21	
b)EAP	16.57	22.69	14.35	11.39	2.19	1.71	8.89	
c)Others	9.30	5.99	12.12	5.88	5.23	9.36	8.11	
Net Total Resources	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

BCR=Balance from Current Revenues MCR=Miscellaneous Capital Receipts

FC Grants= Finance Commission Grants. ARM= additional Resource Mobilisation

EAP= Externally Aided Projects.

Source: Government of Andhra Pradesh Finance Department.

13. The actual mobilization of resources for the Tenth Plan in Andhra Pradesh exceeded the initial estimates by 27.22 per cent. The sole contributory to this improvement was State's own resources, the contribution of which exceeded the initial estimates by nearly 256 per cent. Among the components, the resources from BCR and MCR exceeded the estimates. While the improvement in BCR was on account of better revenue

performance, the improvement in MCR mainly came from the proceeds of sale of government lands. Despite less than estimated Central assistance and net borrowings, the better performance of BCR and MCR more than made up their shortfall. The redeeming feature of plan financing in the Tenth Plan was the reduced dependence on borrowings as a means of plan financing. Though net borrowings constituted only 17.78 of the total resources, the actual share of borrowings in total financing would be higher at about 33 per cent taking into account 70 per cent of normal Central assistance and assistance for EAP which was in the form of loans till 2004-05. The fall in the share of Central assistance in the last two years of the Plan was on account of the dispensation of the practice of onlending of 70 per cent of the normal plan assistance to States by the Centre from 2005-06 onwards. To the extent of this fall, there is a corresponding increase in the market borrowings of the State in the last two years of the Tenth Five-Year Plan.

Eleventh Plan (2007-12)

14. Eleventh Plan was formulated in the backdrop of a turnaround in the state finances as well as in the growth of the economy. Therefore, much emphasis was placed on the contribution of State's own resources. The contribution of State's own resources was envisaged at 67.51 per cent as compared with 20.73 per cent in the Tenth Plan period. The developments unfolding in the wake of the global downturn cast their shadow on the performance of the State economy too. As indicated earlier, the Growth of GSDP witnessed a sharp fall in the year 2008-09. It was only in 2010-11 that the economy recovered to 10.0 per cent of GSDP growth. The pattern of Plan financing during the Eleventh Plan period is presented in Table 3.

15. During the Eleventh Plan, the contribution of State's own revenue fell sharply to 54.21 per cent of the original estimate. This is mainly on account of the deceleration in the growth of own revenues as well as a decline in the MCR. In 2009-10, while the growth of tax revenue declined to 5.45 per cent from over 25 per cent in the previous year, non-tax revenues recorded a negative growth as compared with the growth of 37.08 per cent in 2008-09. As the sale of government land was resorted to only in the first year of the Plan, the realization of MCR is much lower than the estimate. The actual realization of total resources in the entire five-year period is expected to be only 77.56 per cent of the estimate. As the projections of resources for the Eleventh Plan were made against the overall improvement in the State finances witnessed since 2003-04, there was an element of over estimation as compared with the estimates for the Tenth Plan. This also partly explains the underperformance of the BCR and MCR as compared with the estimates in the Eleventh Plan period. The shortfall in the realization of resources would have been much sharper but for the increase in the Central assistance and borrowings. There is also a substantial increase in the grants from the Finance

Commission. Because of a significant shortfall in the share of BCR and MCR in plan financing as compared with the original estimates, there was increased dependence on borrowings in the Eleventh Plan as compared with the Tenth Plan. The dependence on borrowings is likely to be 39.46 per cent of the total resources in the Eleventh Plan as compared with 33 per cent in the Tenth Plan. But for the limits on borrowings following the enactment of FRBMA, higher Finance Commission transfers and higher than estimated Central assistance, the dependence on borrowings as a source of plan financing would have been much higher.

Table 3: Pattern of Plan Financing In Andhra Pradesh-Eleventh Five-year Plan

(Rs.Crore)

Source of Financing	X Plan Project -ion	Actual Realisation						Actual Realisation as % of Projection
		2007-08 (Accounts)	2008-09 (Accounts)	2009-10 (Accounts)	2010-11 (Accounts)	2011-12 (LE)	Total 2007-12	
1.State's Own Resources	138397.44	16413.43	15564.05	10756.40	15870.36	16422.19	75026.43	54.21
a) BCR	108148.48	8401.92	13829.00	10750.79	16163.33	15953.16	65098.20	60.19
b) MCR	29508.96	7938.44	1463.33	124.63	-855.74	2.67	8673.33	29.39
c) FC Grants	740.00	146.00	191.66	199.16	298.83	561.80	1397.45	188.84
d) Opening Balance		-74.93	80.06	-318.18	263.94	-95.44	-144.55	
2. Net Borrowing	50703.23	6987.28	11028.79	14394.47	12403.96	17924.00	62738.50	123.74
3. Central Assistance.	15899.73	3792.42	4039.44	4254.38	3318.59	5825.33	21230.16	133.53
a) Normal	2605.85	368.07	512.48	496.57	439.57	620.76	2437.45	93.54
b) EAP	955.75	484.58	166.05	90.50	72.08	50.00	863.21	90.32
c) Others	12337.73	2939.77	3360.91	3667.31	2806.94	5154.57	17929.50	145.32
Net Total Resources	205000.00	27193.13	30632.28	29405.26	31592.91	40171.52	158995.10	77.56
As Percentage of Total Resources								
1.State's Own Resources	67.51	60.36	50.81	36.58	50.23	40.88	47.19	
a) BCR	52.76	30.90	45.15	36.56	51.16	39.71	40.94	
b) MCR	14.39	29.19	4.78	0.42	-2.71	0.01	5.46	
c) FC Grants	0.36	0.54	0.63	0.68	0.95	1.40	0.88	
d) Opening Balance		-0.28	0.26	-1.08	0.84	-0.24	-0.09	
2. Net Borrowing	24.73	25.70	36.00	48.95	39.26	44.62	39.46	
3. Central Assistance.	7.76	13.95	13.19	14.47	10.50	14.50	13.35	
a) Normal	1.27	1.35	1.67	1.69	1.39	1.55	1.53	
b) EAP	0.47	1.78	0.54	0.31	0.23	0.12	0.54	
c) Others	6.02	10.81	10.97	12.47	8.88	12.83	11.28	
Net Total Resources	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

BCR=Balance from Current Revenues MCR=Miscellaneous Capital Receipts

FC Grants= finance Commission Grants ARM= additional Resource Mobilisation

EAP= Externally Aided Projects

Source: Government of Andhra Pradesh, Finance Department.

Estimates of Plan Financing in the Twelfth Plan (2012-17):

16. Preliminary estimates with regard to the pattern of Plan financing for the Twelfth Five-Year Plan are available in Table 4. It may be interesting to compare these with the actual pattern of Plan financing in the State during the Eleventh Plan period.

Table 4: Pattern of Plan Financing In Andhra Pradesh-Twelfth Five-year Plan

(Rs.Crore)

Source of Financing	XI-Plan Latest Estimates	XII-Plan Projections	Annual Plan 2012-13 Estimates	As percent of Total Resources		
				XI-Plan Latest Estimates	XII-Plan Projections	2012-13 BE
1.State's Own Resources	75026.43	179363.51	22548.16	47.19	49.54	46.08
a) BCR	65098.20	175237.45	23010.13	40.94	48.40	47.02
b) MCR	8673.33	-77.87	-643.95	5.46	-0.02	-1.32
c) FC Grants	1397.45	4203.93	592.88	0.88	1.16	1.21
d) Opening Balance	-144.55	-	-410.90	-0.09	0.00	-0.84
2. Net Borrowing	62738.50	137012.16	20523.30	39.46	37.84	41.94
3. Central Assistance.	21230.16	45699.96	5863.44	13.35	12.62	11.98
a) Normal	2437.45	4950.54	713.87	1.53	1.37	1.46
b) EAP	863.21	120.00	55.00	0.54	0.03	0.11
c) Others	17929.50	40629.42	5094.57	11.28	11.22	10.41
Net Total Resources	158995.10	362075.63	48934.90	100.00	100.00	100.00

Source: Government of Andhra Pradesh, Finance Department.

17. Though the pattern of resources projected for the XII-Plan though broadly corresponds with that realized during the XI-Plan period, there is higher reliance on BCR. In the projection of resources for the XII-Plan, the share of BCR is placed at 48.40 per cent as compared with the share of 40.94 realised during the XI-Plan period. This is line with the increasing share of BCR in total resources being witnessed since the X-Plan period. The contribution of MCR as projected for the XII-Plan is (-) 0.02 as compared with the share of 5.46 per cent realized in the previous plan period. This is because proceeds from government land sale as a source of plan financing has dried up. Net borrowings and Central assistance are projected at a marginally lower level than that realized in the XI-Plan. The projected decline in the share of Central assistance can be mainly attributed to a lower share of assistance in respect of externally aided projects. Higher Finance Commission grants projected for the XII Plan make up for the marginally

lower share of normal Central assistance. Realising the share of BCR in total resources for the Plan projected at 48.40 per cent, involving a higher growth of tax and non-tax revenue and a moderate growth of non-plan expenditure, will be the main challenge in the XII Plan.

III.PLAN FINANCING- INTER-STATE COMPARISON

18. The actual outcomes of source-wise plan financing are not available for all the States. The Planning Commission's website has information regarding approved financing pattern for the annual plans and the latest estimates for only a few years of the Eleventh Plan period. In contrast, information regarding actual plan outlays is available from the study of State finances by the RBI. Constrained by the information availability, the inter-State analysis of plan performance is restricted to annual plan expenditure by the States in the Tenth and Eleventh Plan periods. A summary of the plan outlays is presented in the Table below. The analysis is restricted to general category States as the plan outlays of special category States are mainly funded by Central transfers and tend to be higher as a proportion of GSDP making them non-comparable.

19. During the Tenth Plan, Karnataka with a ratio of plan outlays to GSDP at 7.10 stood at the first place among 17 major States, while West Bengal with a ratio of 2.12 stood at the last place as compared with the average ratio of 4.10 for 17 general category States. Though the performance of Andhra Pradesh with a plan outlay-GSDP ratio of 4.46 was above the average, it lagged behind Chattisgarh Goa, Jharkhand, Karnataka and Madhya Pradesh. Among the States performing better than Andhra Pradesh, the performance of Chattisgarh, Jharkhand and Madhya Pradesh can be explained in terms of higher Central transfers. Goa, with a higher per capita income, is an outlier. In recent years, Karnataka has been doing extremely well in terms of Tax-GSDP ratios. Its own tax-GSDP ratio of 12.6 per cent in 2007-08 was the highest among all the States. Karnataka was the first State in the country to have enacted the fiscal responsibility legislation and among the first to achieve the targets laid down under the legislation. Its performance stands out relative to all other States.

20. The performance of Andhra Pradesh in terms of plan outlays in the Eleventh Plan was much better than that in the Tenth Plan. The ratio of plan outlay-GSDP stood at 6.53 as compared with the average ratio of 5.49 for 17 general category States. The performance of Andhra Pradesh exceeded that of Kerala and Tamil Nadu but lagged behind the other southern State of Karnataka. The States of Bihar, Chhattisgarh, Goa, Jharkhand, Madhya Pradesh, Rajasthan, and Uttar Pradesh fared better than Andhra Pradesh.

Table 4: State-wise Plan Outlays- X and XI Five-Year Plans

States	Total X Plan (2002-07)		XI Plan Outlays (2007-12) (Rs. Crores)						
	Plan outlay (Rs. Crore)	Plan outlay as per cent of GSDP	2007-08 (Actual)	2008-09 (Actual	2009-10 (Actual)	2010-11 (RE)	2011-12 (Approved)	Total XI-Plan Outlay 2002-07	XI Plan outlays as per cent of GSDP
1.Andhra Pradesh	62177	5.46	27170	30620	29390	32250	43000	162430	6.53
2.Bihar	21045	5.32	9650	12510	14180	13230	24000	73570	8.07
3.Chattisgarh	15576	6.51	6200	8140	10280	18350	16710	59680	10.46
4.Goa	3786	6.22	1220	1570	1970	2710	3320	10790	8.17
5.Gujarat	45976	4.41	15650	21760	22630	30000	38000	128040	5.83
6.Haryana	12980	2.65	5750	7110	9620	18260	20360	61100	5.47
7.Jharkhand	15523	5.79	5710	6870	6530	9240	15320	43670	8.86
8.Karnataka	59659	7.10	17230	22120	25970	31050	38070	134440	7.54
9.Kerala	19543	3.29	5090	6240	7770	10030	12010	41140	3.52
10.Madhya Pradesh	34003	5.95	12050	13080	14610	19000	23000	81740	7.47
11.Maharastra	56100	2.65	14150	22870	27730	37920	42000	144670	3.17
12Odisha	14099	3.79	6030	7570	7730	10000	15200	46530	5.56
13.Punjab	14885	2.95	5020	6930	4970	8930	11520	37370	3.75
14.Rajastan	33735	5.26	13790	14920	18020	21220	27500	95450	7.18
15.Tamil Nadu	42676	3.81	14220	16250	17830	20070	23530	91900	3.81
16.Uttar Pradesh	49338	3.76	24300	34290	37210	38430	47000	181230	6.95
17.West Bengal	22396	2.12	8860	10400	12120	17990	22210	71580	3.56
Total 17 Major States	523497	4.10	192100	243240	2685580	338670	422760	1465330	5.49

Sector-wise Allocation of Plan Outlays in Andhra Pradesh

21. Allocation of plan outlays by sectors during the Tenth and Eleventh Five-Year Plans are presented in the Table 5.

Table-5: Sector-wise Allocation of Plan Outlays during the Tenth ane Eleventh Plan

Sector	Tenth Plan Outlay (2002-07) Actual		Eleventh Plan Outlay (2007-12) Actuals for 2007-11 and RE for 2011-12	
	Outlay (Rs. Crore)	Percentage to Total	Outlay (Rs. Crore)	Percentage to Total
I.Agriculture and Allied Sectors	2373.09	3.82	9510.44	6.02
II.Rural Development	4345.44	6.99	15525.90	9.83
III. Irrigation	22473.58	36.14	54384.81	34.44
IV. Power	7374.67	11.82	1301.24	0.82
V.industry &Minerals	1298.13	2.09	1976.78	1.25
VI. Transport & Communications	5168.26	8.31	10883.44	6.89
VII.Social &Community Services	16492.79	26.53	57943.01	36.69
VIII.Special Area Development	1898.97	3.05	5550.62	3.51
IX. General Services	778.88	1.25	836.80	0.53
Total	62176.82	100.00	157913.00	100.00

Source: Government of Andhra Pradesh-Annual Plan 2012-13

22. Distribution of plan outlays by sectors in the Tenth Plan period reveals the priority accorded to the irrigation sector by the Andhra Pradesh Government. Irrigation sector accounted for 36.14 per cent of the total outlay during the Plan followed by the social sector (26.53 per cent), power sector (11.82 per cent), and rural development (6.99 per cent). These four sectors accounted for over 80 per cent of the total plan outlay during the Tenth Plan. While the irrigation sectors more or less retained its predominant share of over 34 per cent in the Eleventh Plan, the share of the social sector witnessed improvement from 26.53 per cent in the Tenth Plan to 36.69 per cent. The power sector lost out heavily in the allocation/plan expenditure during the Eleventh Plan. There has been some improvement in the shares of agriculture and rural development sectors during the Eleventh Plan. The distribution of plan outlays clearly reveals a distinct shift in plan expenditure towards the social sector. This shift comes out much sharper when the distribution of the current plan outlays by sectors is compared with that in the Fourth Plan period. During the Fourth Plan, power sector accounted for 42.46 per cent of the total outlay followed by irrigation (27.84 per cent), social sector (12.41 per cent), transport (12.41 per cent) and agriculture (6.11 per cent).

IV. ISSUES IN PLAN FINANCING-WAY FORWARD:

23. There are several issues in plan financing which need to be resolved. Of late, there has been a tendency to budget higher annual plan outlays than that can be supported by State's resources and borrowing limits. The practice of budgeting higher plan outlays

has set in around 1999-2000. Till 1998-99, actual plan expenditure exceeded the budget estimates as well as the approved outlays broadly indicating prudence in budgeting the plan outlays. Since 1999-2000, actual plan expenditure tended to fall short of the budgeted as well as approved outlays by a huge margin. While the actual expenditure in the Tenth plan fell short of the budgeted outlays and approved outlays by 8.38 per cent and 4.58 per cent, respectively, the shortfall in the Eleventh Plan is expected to be 16.31 per cent and 15.56 per cent, respectively. The Table 6 presents the trends relating to budgeted plan outlays, approved plan outlays and actual expenditure.

Table 6: Budgeted, Approved and Actual Plan Outlays in Andhra Pradesh

(Rs. Crore)

Five Year/ Annual Plan	Budgeted Outlay	Approved Outlay	Actual Outlay Expenditure	Expenditure as per cent of	
				Budgeted Outlay	Approved Outlay
Total VIII Plan (1992-97)	**12629.00**	**11845.00**	**13606.61**	**107.74**	**114.87**
1992-93	1995.80	1675.00	2364.04	118.45	141.14
1993-94	2075.55	1851.00	2867.46	138.15	154.91
1994-95	2409.88	2170.00	2453.47	101.81	113.06
1995-96	3159.00	3159.00	2869.38	90.83	90.83
1996-97	2988.77	2990.00	3052.26	102.12	102.08
Total IX Plan (1997-2002)	**31187.18**	**29943.51**	**28572.41**	**91.62**	**95.42**
1997-98	3809.60	3585.05	3980.57	104.49	111.03
1998-99	4678.95	4780.95	5141.33	109.88	107.54
1999-2000	5479.50	5491.51	4748.31	86.66	86.47
2000-01	8228.12	7708.00	6531.10	79.38	84.73
2001-02	8994.02	8378.00	8171.10	90.85	97.53
Total X Plan (2002-07)	**68547.08**	**69511.65**	**62176.83**	**89.40**	**89.45**
2002-03	10082.75	10100.00	8315.09	82.47	82.33
2003-04	10970.46	10970.46	10758.80	98.07	98.07
2004-05	13291.20	12790.43	11456.54	86.20	89.57
2005-06	15650.77	15650.77	19551.91	124.93	124.93
2006-07	19551.90	20000.00	18206.99	93.12	91.03
Total XI Plan (2007-12)	**189484.07**	**187796.75**	**158585.42**	**83.69**	**84.44**
2007-08	30013.54	30500.00	27170.80	90.53	89.08
2008-09	43191.61	44000.00	30617.68	70.89	69.57
2009-10	36635.58	33496.75	29390.97	80.23	87.74
2010-11	36727.97	36800.00	32248.71	87.80	87.63
2011-12 (RE)	42915.37	43000.00	39157.26	91.25	91.06

24. There are a number of adverse impacts of budgeting higher plan outlays than that can be supported by State finances and including innumerable schemes in the Plan. Firstly, such practices result in spreading resources too thinly across a number of schemes leading to cost and time overruns. Secondly, higher plan outlays often come at the expense of proper maintenance of assets already created. This results in running down of service delivery capacity already created. Higher expenditure commitments necessitate economy measures banning the creation and filling up of vacancies hampering service delivery even in social sectors such as education and health. Many minor irrigation works going into disuse is an example of the neglect of maintenance of existing facilities in a rush to create new and additional irrigation capacity. Besides, inclusion of too many schemes beyond what can be supported by the availability of resources had the undesirable consequence of building up of cost of unproductive administrative establishment. There is a tendency to create new jobs to run the new schemes. This ultimately becomes a committed liability for the State. Implementation of too many schemes stretches the ability of the administration to ensure their proper implementation. This results in inefficient implementation of the plan schemes.

25. With the borrowing limits in place with the enactment of the FRBMA, there has been a tendency to overestimate BCR and MCR in order to project higher plan outlays. Higher estimates of BCR are often the result of underestimating the non-plan commitments. This is a double whammy for the States. Firstly, they lose out in the assessment of non-plan revenue expenditure needs done by the Central Finance Commissions every five years. Secondly, the perceived benefits of overestimation of BCR to project higher plan outlays is negated by a running down of service delivery capacity already created as indicated earlier[2] .

26. Of late, there have been considerable delays on the part of the Planning Commission in communicating the approved outlays to States. The approved outlays are communicated as late as July and August by which time the State budgets would have been passed by the Legislatures. These delays indirectly lead to budgeting of higher plan outlays by States and subsequent disruption in the allocation of funds to schemes included in the Annual Plan. There is a need to synchronize approved outlays with those budgeted by States.

27. There is a tendency to continue schemes under the Plan instead of shifting them to the non-plan in order to show a higher plan outlay. Sometimes schemes not allowed under the non-plan are included in the Plan. If a scheme is not found useful under the non-plan, it should be equally unacceptable under the Plan. Often such issues are overlooked to increase the number of schemes under the Plan.

[2] Planning Commission, 'Eleventh Five-Year Plan-Vol.I).

28. In the initial years of planning, schemes were mostly capital in nature and the plan resources could be allocated to new schemes after the completion of on-going schemes. Such flexibility is no more available as the focus of the Plan has shifted to revenue expenditure based schemes. Consequently, a major proportion of plan expenditure has become committed as observed by the Rangarajan Committee[3]. When the revenue component of the Plan was negligible there was some sort of a link between the plan expenditure and additional revenue to the government on completion of the schemes such as irrigation and power projects. With the revenue component of the plan becoming sizeable, the link between plan expenditure and additional revenue is broken. The impact of the revenue expenditure on social sectors is indirect through better education and health of the population and the resultant increase in productivity. This is all the more reason for reducing the dependence on borrowings and to improve the BCR over the years through better tax administration and curtailing unproductive expenditure and cutting short delays in project implementation by adequately funding the schemes included in the Plan. This requires a focused approach to planning instead of the current practice of spreading resources too thinly across a number of schemes.

29. With the increase in the revenue component of the Plan, there will be a severe restriction on the maneuverability of the States in plan financing. With the bulk of the plan expenditure becoming committed effectively, there are likely to be constraints in further increasing the revenue component of the Plan and taking up new projects to any significant effect. With the FRBMA stipulating zero revenue deficit, revenue component of the Plan cannot exceed the BCR and the plan grants from the Centre.

30. With a major component of plan expenditure becoming committed, there is a far greater need today to involve the private sector in infrastructure development and other capital intensive projects. The Second Plan assumed that nearly 46 per cent of the investment required for realizing the targets would come from the private sector. During this Plan period, gross capital formation by the private and public sector was estimated at 7.22 per cent of GDP and 6.36 per cent of GDP, respectively. The situation has drastically changed over the years. Private sector has emerged as a significant contributor to the total investment in the country. In 2008-09, gross capital formation of the private sector amounted to 24.6 per cent of GDP while that of the public sector to 9.5 per cent of GDP. The Approach paper to the Twelfth Five-Year Plan (2012-17) has assumed that nearly 73 per cent of the fixed investment required for realizing the growth target of 9 per cent per annum would come from the private sector including the household sector.

[3] Government of India, Planning Commission, 'Report of the Expert Committee on Efficient Management of Public Expenditure 2011.'

31. In the context of the reduced maneuverability of the State government to mobilize resources for financing new projects, it is imperative that the private sector is involved more intensively to realize the plan targets by way of proactive policies and creating suitable environment for the private sector to thrive in the State. The possibilities of involving the private sector through PPP and viability gap funding in a transparent manner should be explored seriously by the State government. The State can draw upon the experience of the Central government in this regard. Leveraging the limited resources of the State will be crucial in the Twelfth Plan and subsequent Plans. The Partnership Summit jointly hosted by the Government of Andhra Pradesh, Department of Industrial Policy and Promotion of the Government of India and the Confederation of Indian Industry in January 2012 is a good beginning. Investment proposals worth over 6 lakh crore are reported to have been committed at this Summit. The State government should ensure that bulk of this investment is realized in the Twelfth Plan period.

32. There are likely to be concerns with regard to redemption of past debt and the possible reduction in the repayment period of the loans contracted from the NSSF during the period of the Twelfth Five-Year Plan. In the outstanding debt of the State Government, market loans, loans from the NSSF and provident funds are predominant accounting for over 80 per cent of the total. The profile of the market loans and the loans from the NSSF Table 7 and 8 are analysed to assess the kind of redemption pressure that is likely to arise during the course of the Twelfth Plan period.

Table-7: Profile of Market Loans-Andhra Pradesh

(Rs.crore)

Year	Gross market loans	Repayment of market loans	Interest payments	Total outgo (Col.3+4)	Debt servicing as % of gross loans
	1	2	3	4	5
2005-06	1956.37	573.00	1828.32	2401.32	122.74
2006-07	2725.94	529.54	1915.72	2445.26	89.70
2007-08	6650.00	1007.64	2044.03	3051.67	45.89
2008-09	10933.57	1782.69	2504.68	4287.37	39.21
2009-10	15383.11	2097.26	3397.08	5494.34	35.72
2010-11	12000.00	1639.06	4287.28	5926.34	49.39
2011-12(RE)	19867.92	2394.74	5202.25	7596.99	38.24
2012-13(BE)	23164.17	3401.71	6665.60	10067.31	43.46

33. In the case of the market loans, debt servicing (repayments and interest payments) accounted for 49.39 per cent of the gross market loans in 2010-11. As can be seen from

the Table 7, the reduction in the debt servicing burden from 122.74 in 2005-06 per cent to 49.39 per cent in 2010-11 and further to 38.24 per cent of gross loans in 2011-12 is mainly on account of the increase in the level of borrowings. As the higher level of borrowings is likely to be maintained in the Twelfth Plan, it is likely that there may not be a redemption pressure immediately. The pressure is likely to arise immediately after the Plan period as there will be bunching of repayments in 2018-19 and 2019-20 because of higher level of market borrowings in 2008-09 and 2009-10. But the scenario is likely to be totally different in the case of loans from the NSSF. The profile loans from the NSSF is presented in Table 8.

Table-8: Profile of Loans from NSSF-Andhra Pradesh

(Rs.crore)

Year	Loan from NSSF	Repayment to NSSF	Interest payment to NSSF	Total outgo (Col 3+4)	Debt servicing as percentage of loans from NSSF
1	2	3	4	5	6
2005-06	4534.64	322.34	1585.54	1907.88	42.07
2006-07	4143.77	146.41	2044.67	2191.08	52.88
2007-08	387.44	203.68	2380.61	2584.29	667.02
2008-09	323.20	336.73	2364.39	2701.12	835.74
2009-10	1531.19	515.61	2359.74	2875.35	187.78
2010-11	3005.75	759.21	2452.94	3212.13	106.87
2011-12(RE)		1004.91	2659.16	3664.07	
2012-13(BE)		1212.10	2560.42	3772.52	

34. The debt servicing of NSSF loans is much higher than fresh borrowings in recent years because of the steep fall in small saving collections. The State had not taken any loan from the NSSF in 2011-12 because of negative net small saving collections in the State. For the year 2012-13, the State opted for 50 per cent of net small saving collections but not budgeted any loan from the NSSF. The State had to finance the debt servicing through borrowings from other sources. The collection of small saving collections may improve somewhat with the recent alignment of interest rates on small saving instruments with the market rates of interest. But, it may not matter much whether small saving collections in the State improve or not as the borrowing limits are fixed every year keeping in view the FRBM targets and the State can access market loans to the extent of the limits. However, there are likely to be concerns with regard to the shortening of the duration of loans from NSSF from the current 25 years to 10 years and doing away with the moratorium of five years in the repayment of NSSF loans. These developments are likely to add to the debt servicing burden in the Twelfth Plan period and need to be factored in.

35. There are other broader issues relating to the growing expenditure commitments of States, size of the State plan, channeling of Central assistance, direct transfers to implementing agencies bypassing the State governments and the mushroom growth of Centrally sponsored schemes. As observed by the Thirteenth Finance Commission, there are a number of Central and State legislations, the compliance cost of which mostly falls on the States. The benefits of activities like mining are not so significant to States as compared with the costs in terms of displacement of people, degradation of land, loss of agricultural output, damage to roads and air and water pollution. Macroeconomic benefits of mining are much greater as compared with the benefit accruing to a mining State.

36. There are also other developments which have greatly increased the expenditure commitments of States. Central enactments with regard to right to education, food security and land acquisitions are likely to add to the expenditure commitments of States. While the States are willing and prepared to play a crucial role in fulfilling the objective of faster, sustainable and inclusive growth, they are constrained by the lack of resources at their command.

37. Contrary to the imperative of empowering States with more resources, the developments over the last few decades have resulted, though unwittingly, to the centralization of resources. Centralisation of resources is multi faceted and has taken place in a number of areas. A few of these areas merit a mention here. The most glaring area is the declining share of States in the plan outlays. The share of States in plan outlays declined from over 63 per cent in the First Plan period (1951-56) to less than 42 per cent in the period covered by the Tenth Plan. For the Eleventh, the share envisaged for the States was only 39 per cent.

38. The decline in the share of the States in plan outlays is mainly on account of the increase in the internal and extra budgetary resources (IEBR) of Central public sector undertakings and partly on account of the reduction in the gross budgetary support (GBS) to State plans. The share of the IEBR in total Central plan outlay had witnessed a substantial increase from about 16 per cent in the First Plan to nearly 56 per cent in the Ninth Plan. In the Eleventh Plan, IEBR were estimated to contribute nearly 45 per cent of the Central plan outlay. The Central PSUS, particularly in the oil and coal sectors have been generating huge surpluses because of their size and near monopoly position. With the aid of tax free bonds, other PSUs of the Central Government are able to raise borrowings to finance the Central Plan. In contrast, the PSUs of States are mostly loss making and have failed to generate resources for funding the State Plan.

39. Added to this, the reduction in the GBS of the Centre to State Plan has also partly resulted in the declining share of States in total plan outlays as indicated above. In the original Tenth Plan, Centre's budgetary support to the Plan was distributed between

the Central Plan and State Plan in the ratio of 58:42. The actual ratio turned out to be 66:34. For the Eleventh Plan, Centre's budgetary support to the State Plan was only 23 per cent of the total support for the Plan. It is a matter of concern that this issue of declining State share has not been addressed in the Approach Paper to the Twelfth Plan. The Approach Paper has envisaged only a marginal increase in the Central assistance to State and UT Plans from the current 1.18 per cent of GDP to 1.23 per cent of GDP in the Twelfth Plan period. Given the imperative of greater role of States, there is a need to improve the transfers to States substantially.

40. Apart from the declining Central assistance for State Plans, there has been a change in the composition of reduced level of Central assistance to the disadvantage of States. Central assistance for State plans was agreed to be given to States entirely in the form of normal Central assistance on the basis of Gadgil formula in 1969. The block grant character of normal Central assistance was diluted with the introduction of specific purpose schemes, the assistance in respect of which is given in the form of additional Central assistance. Another development that has diluted normal central assistance to States is the mushroom growth of Centrally sponsored schemes. A third development is the budgeting of schematic outlays in the budgets of Central Ministries as state Plan outlays. Another development is the direct transfer of resources to the implementing agencies bypassing the States at the expense of accountability. In the Central Budget for 2012-13, an amount of Rs. 1,33,359 crore is provided for direct transfer to implementing agencies bypassing the State governments. As observed by the Thirteenth Finance commission, large amounts are lying in the bank accounts of a few implementing agencies unutilized. As a result of the above developments, the share of normal Central assistance has gradually come down to the present insignificant level of less than 20 per cent. For the Eleventh Plan period, normal plan assistance is estimated to be only 6.74 per cent of the GBS to the Plan. The Chaturvedi Committee on CSS in its report submitted recently has recommended that normal Central assistance should be at least 10 per cent of GBS so as to provide more freedom to States in the use of resources for the Plan. In the context of the greater role of States for achieving the objective of inclusive and sustainable growth, these development in the dispensation of Central assistance need to be reversed and the primacy of normal Central assistance as the predominant channel needs to be restored.

41. Though a number of Committees have recommended reduction in the size and number of CSS, there has been no progress in this direction. At least for the Twelfth Plan, the number of CSS may be reduced and restricted to those schemes serving national objectives and the money thus saved may be passed on to States in the form of normal Central assistance. The Chaturvedi Committee has recommended reduction in the number of CSS from the present 147 to 59. The Committee has recommended consolidation and merger of a number of schemes. Even if this recommendation is acted upon, it is unlikely that there will be reduction in the allocations to CSS as the flagship schemes account for the bulk of the allocations under the CSS and the

Committee has not recommended any reduction in their number. For an effective change in the present regime, the reduction in the number of CSS should be accompanied by a reduction in their outlays and the money thus released should be transferred as normal Central assistance so as to restore its primacy as a predominant channel of Central plan transfers to States.

42. Another development in the context of the financing of the Twelfth plan is the increasing reliance placed by the Central government on the levy of cesses and surcharges. Surcharges, which are supposed to be levied for meeting an exigency and abolished after the exigency is met, are being continued indefinitely. There has also been a greater recourse to the levy of cesses for specific purposes. Cesses and surcharges now constitute over 15 per cent of the gross tax revenue of the Centre. These levies have reduced the size of the divisible pool of Central taxes, thus depriving the States of their legitimate share in Central taxes. In the interest of State finances and maintaining the sanctity of Finance Commission recommended States' share in Central taxes, there is a need to review the levy of cesses and surcharges and to keep them at a minimum level.

43. The levy of royalty rates on major minerals vests with the Central Government and these rates are supposed to be revised every three years. In the past, there have been undue delays in the revision of rates for macroeconomic considerations. These rates need to be revised without any delays in the interest of augmenting state finances.

44. In the Gadgil formula governing the distribution of Central assistance for State Plans, a weightage of 7.5 per cent is assigned for special problems. There are no specific guidelines determining the special problems. In effect, the assistance attributable to special problems is distributed to certain States as special packages in a highly discretionary and arbitrary manner. The weightage assigned to special problems may be deleted and the weightage distributed to other parameters after due consultations with States. With the per capita income of Andhra Pradesh becoming above average, the State is deprived of a share in the 20 per cent allocation earmarked for States with lower than average per capita income. Revision of the Gadgil formula is over due and needs to be pursued vigorously at least to do away with the discretionary component in the formula.

45. The focus of the Twelfth Five Year Plan (TFYP) as articulated in the Approach Paper is faster, sustainable and more inclusive growth. As sectors, such as, agriculture, education, skill development, provision of health services, welfare of weaker sections, etc., which are at the core of an inclusive social and economic order come within the purview of the States under the Constitution, there is an urgent need to realign resources in favour of States. Over the years, plan outlays have become synonymous with borrowings, incomplete projects, continuing salary liabilities, mounting interest liabilities, spreading of resources too thinly resulting in cost and time over runs and locking up valuable resources in the creation of low yielding assets. These concerns needs be addressed with earnestness in the Twelfth Five-Year Plan.