Annexures

Annexure 1: Notes on Projections

Different taxes under own tax revenue have been projected on the basis of buoyancy based growth rates except Agricultural Income Tax (AIT) and electricity duty which have been projected by applying growth rates. Land revenue has been projected by using buoyancy estimated over a period of 1990-91 to 1996-97 which is 1.05. For stamp duties and registration fees also, buoyancy for 1990-91 to 1996-97 has been estimated to be 1.36. State excise tax, total sales tax, vehicles, passengers and goods tax, and other own tax revenue have all been projected through the buoyancies for the period of 1985-86 to 1996-97, which are respectively 0.93, 1.16, 1.13, and 1.15. For agricultural income tax, land revenue, stamp duties and registration fees and electricity duty, the base year has been taken as the budgetary estimates for 1998-99.

For the projection of four different items of non-tax revenue, we have applied compound growth rates estimated on a point to point basis over the period of 1993-94 to 1996-97. The growth rates are estimated to be 23.7 percent, 21 percent, 4 percent and 5.6 percent.

Plan grants comprise ACA, Plan grants (30 percent of total central assistance) as per approved estimates for the Ninth Plan and special grants under TFC. Since the estimates for financing the Ninth Plan are given at 1996-97 prices, we have applied a 7 percent growth factor to cover for inflation. The phasing of Plan estimates for five successive years has been done by applying 16, 18, 20, 22, and 24 percent to the total outlays.

On the basis of scheme of financing during the Ninth Five Year Plan, the net inflow of internal market borrowing has been estimated. A distinction between old and new debt is made. Interest payment for 1997-98 onwards, has been estimated by applying an effective rate of 12.79 percent per annum which is the rate for outstanding internal debt at 1996-97.

Fresh borrowing for the projection period has been taken to be the sum of net market borrowing, negotiated loans and other finances and debentures/bonds. The effective interest rate on fresh borrowing has been assumed to be 13.35 percent.

For loans from the centre, again a distinction is made between old debt outstanding and fresh loans. For calculating the interest payment on old debt we have applied an effective rate of interest of 11.66 percent, which happens to be the effective rate for 1996-97. New borrowing comprises ACA and CA. ACA loans are 70 percent of ACA and central Plan loans are also taken to be 70 percent of central assistance. Interest on debt on new terms has been taken to be 13 percent. The other component of central loans relates to loans against small savings. The related amount of Rs. 1769.86 crore has been phased over the projection period by applying the percentage profile with an inflation cover. The interest rate applied on outstanding debt against small saving is 14.5 percent.

For small saving and PF under Public Account, the Ninth Five Year Plan estimate of Rs. 2690.8 crore has been similarly phased with an inflation cover over the projection period. An effective interest rate of 8.6 percent has been applied to arrive at the future profile of interest payments.

Other sources of fiscal deficit includes financing of fiscal deficit through means other than those discussed above. These include ways and means advances from the RBI and the centre, withdrawal of funds from Public Account other than small saving and PF, overall deficit which reflects accretion or depletion of cash balances, and contingency fund (net).

For committed expenditure liabilities (non-discretionary expenditure), we have projected the following items — wages and salaries, pensions, interest payments, and compensation and assignment to local bodies. In the case of wages and salaries, a distinction has been made between State government and aided educational institutions. Pay revisions take effect in 1998-99. The average salary is increased by a factor of 20 percent for this purpose. It is then decomposed into two components: basic and dearness allowance. The latter is provided an inflation cover. Employment grows at historical rates in the base run.

In tables AN1.1 and AN1.2 sources of additional tax and non-tax revenues for the reform scenario have been summarised.

Table AN1.1: Sources of Additional Tax Revenues in the Reform Scenario as Compared to the Base Scenario

(Rs. lakh)

	1998-99	1999-00	2000-01	2001-02
Sales tax (total)	**18100**	**19000**	**19900**	**20800**
Withdrawal of sales tax incentive	4500	5000	5500	6000
Scheme about arrears	3600	4000	4400	4800
Increase in tax efficiency (computerisation)	10000	10000	10000	10000
AIT by reducing standard acre	**200**	**200**	**200**	**200**
Luxury tax on residential buildings	**1000**	**1000**	**1000**	**1000**
Stamps and registration (total)	**44694**	**48965**	**53661**	**58826**
Stamps and registration	42694	46965	51661	56826
Amnesty schemes about arrear collection	2000	2000	2000	2000
Total ARM	**63994**	**69165**	**74761**	**80826**
Impact of higher growth rate	34	9175	21108	36476
Total	**64028**	**78340**	**95869**	**117302**

Table AN1.2: Sources of Additional Non-Tax Revenues in the Reform Scenario as Compared to the Base Scenario

(Rs. lakh)

	1998-99	1999-00	2000-01	2001-02
Social services	**5571**	**5600**	**5430**	**5186**
Collegiate education	108	108	130	130
Technical education	38	38	46	46
Medical and public health	214	229	245	262
Family benefit scheme	5195	4985	4745	4460
Increase in tuition fees for medical courses	216	240	264	288
Economic services	**2908**	**3121**	**3522**	**3763**
Agriculture	210	220	244	257
Cooperation	214	229	412	440
Animal husbandry	30	30	30	30
Mining and geology	482	516	552	590
Public works department	1054	1106	1162	1222
Forests	918	1020	1122	1224
General services	**1671**	**3870**	**6726**	**10396**
Interest receipts (additional yield)	**10000**	**10000**	**10000**	**10000**
Non-tax revenue	**20350**	**22591**	**25678**	**29345**
Memo: additional loan recoveries	6000	6000	6000	6000

Annexure 2: Projection of Central Tax Revenues: 1997-98 to 2001-02

The following tax categories have been separately projected: income tax, corporation tax, customs, union excise duties and other central taxes. The tax base for income tax and corporation tax is non-agricultural GDP. GDP in the manufacturing sector is taken as the tax-base for the union excise duties, and GDP at current market prices, for the remaining two categories. The base figures for GDP for 1996–97 have been taken from the quick estimates released by the (CSO) on February 6, 1998. Projections have been obtained by using estimated equations summarised below. Nominal growth rates assumed for GDP, non-agricultural GDP and GDP in the manufacturing sector for the period from 1999–2000 to 2001–02 is 14.5 percent per annum. For 1997–98 and 1998–99, these rates are taken as 13.5, 12.5 and 12.5 percent, respectively. Projections are made to pass through RE of 1997–98 by adjusting the intercept.

Table AN2.1: Central Taxes: Estimated Equations for Projections (Sample Period: 1985–86 to 1995–96)

Tax	Tax-Base	Intercept	Buoyancy	Slope Shift (1993-94)	Adj. R. Sq.
Income tax	NAG-GDP	-6.41532 (-17.57)	1.186855 (-41.58)		0.994
Corporation tax	NAG-GDP	-6.16335 (-11.30)	1.173351 (-27.51)		0.986
Customs	GDP	-2.97917 (-2.72)	0.977193 (-11.58)	-0.014542 (-2.22)	0.964
Union excise duties	GDP-manufacturing	0.622331 (-1.42)	0.834386 (-21.23)	-0.00862 (-2.70)	0.990
Other central taxes	GDP	-5.17855 (-1.83)	0.958101 (-4.49)		0.635

***Source** (basic data).* GoI, relevant years(a); GoI relevant years(b)

Note: GDP figures are at current market prices. All variables are in logs. Non-agricultural GDP and GDP in the manufacturing sector are at factor cost. Using non-agriculture GDP as the base for corporation tax entails leaving out some part of agriculture GDP (e.g., plantations, etc.) that may have relevance for corporation tax. The effect is expected to be small. Figures in brackets are t-statistics

Table AN2.2: Projections of Central Tax Revenues and States' Share

(Rs. crore)

Year	Income Tax	Corporation Tax	Customs	Union Excise Duties	Other Central Taxes	Total Central Taxes	Estimated Share of States
1998-99	21730	24558	46081	53165	4393	149926	43479
1999-00	25779	28824	52244	60140	5020	172007	49882
2000-01	30534	33825	59265	67941	5733	197298	57217
2001-02	36119	39687	67264	76664	6545	226279	65621

For obtaining the share of individual States, the aggregate share of the States is divided into three categories: share in respect of additional excise duty (3 percent of central tax revenues); share in respect of deficit-based devolution (7.5 percent of the percentage contribution of union excise duties to total central tax revenues); and the balance meant for general devolution. Distributable revenues under these heads are given below. The share of Kerala has been derived by applying its respective share with respect to each category.

Table AN2.3: Allocation of Share of States into Three Categories of Devolution

(Rs. crore)

Year	General Devolution	Deficit-Based Devolution	Additional Excise Duties	Total Share of States
1998-99	37831	1150	4498	43479
1999-00	43436	1286	5160	49882
2000-01	49860	1438	5919	57217
2001-02	57225	1608	6688	65621

Thus, Kerala's share is worked out on the basis of applying the share of 2.784 percent for general devolution and 2.483 percent for distribution in respect of additional excise duties. It does not get a share in the deficit-based devolution.

Annexure 3: Non-Tax Revenues: Summary of Recommendations of the Task Force

The task force of the State Planning Board on tax and non-tax sources in its report (March, 1977) has outlined a number of avenues for raising additional non-tax revenues. Their main observations are summarised below:

Agriculture

The existing rates of licence fee of Rs. 50 for manufacture and Rs. 20 for sale of insecticides were introduced in 1972 and have not been revised since. These rates may be raised to Rs. 1000 and Rs. 2000, respectively. Similarly, the existing rates of licence fees for manufacturing and sale of fertilizers fixed in 1988 be revised upwards.

Co-operation

Rates of audit fee and arbitration fee be revised upwards.

Rinderpest vaccination charges

This rate was fixed in 1975. The rate may be revised from Rs. 2 to Rs. 5.

Education

There is strong case for revising senior school level certificate (SSLC) examination fees, fees for filing application for opening/upgrading of schools, fees for issuing NoC of the State government for CBSE schools, and tuition and admission fees from school students. Also, the subsidy component of text books may be reduced. Similarly, there is a case for higher recovery of cost in higher education which is at present at a low of 2 percent. In the case of technical education, the recovery rate at 1.5 percent is even less. In all these case, recovery rates may be augmented by increasing fees.

Medical and public health

The fees and other rates for services provided by medical colleges, hospitals, and other general hospitals were last revised in April 1994. These rates may further be revised by 20 percent. Similarly, fees for medical education may also be increased.

Forests

The government or its agencies should not undertake the responsibility of raising plantations and supplying raw materials to industries at subsidised rates. Instead, the industries could be provided land on lease basis for captive plantations. Lease rents would fetch substantial revenues. Substantial arrears of lease rents on existing arrangements should be collected by the forest department by launching a special drive. Further, the lease rent rates should be substantially revised.

Royalty on minor minerals

In this case, the State government is empowered to fix rates. These are very low and last fixed in 1992. A hundred percent rise with 7 percent annual increase has been proposed.

Public works department

There are several avenues for hike in rents/fees like rent for PWD rest houses, fee for registration/renewal of contractor's licences, cost of tender forms, hire charges for plant and machinery, sales proceeds of unserviceable articles, vehicles, equipments, etc.

Recovery of loans and interest

The recovery of loans in 1996-97 was only 1.6 percent of the total outstanding. Similarly, there is considerable shortfall in interest receipts as against interest due.

The task force has estimated on amount of Rs. 1239.21 crore as additional revenue on these heads as per details given in table AN3.1.

Table AN3.1: Additional Resource Mobilisation Through Non-Tax Sources

(Rs. crore)

Item	1997-98	1998-99	1999-00	2000-01	2001-02	Total
Non-tax revenue						
Agriculture-licence fee for manufacture and sale of fertilizers and insecticides	-	-	-	-	-	11.30
Co-operation - revision of audit fee and arbitration fees	-	-	-	-	-	14.95
Animal husbandry - rinderpest vaccination charges	-	-	-	-	-	1.50
Education - higher education	-	-	-	-	-	6.00
Technical education	-	-	-	-	-	2.00
Medical - public health (fees and other charges)	-	-	-	-	-	12.00
Hospitals charges	2.00	2.14	2.29	2.45	2.62	11.50
Forest						
Collection of lease rent arrears from State PSUs that are running on profit	-	-	-	-	-	30.00
Revision of lease rent charged on private forest land (Nelliampathy)	4.20	4.20	4.20	4.20	4.20	21.00
Mining and geology (7% growth per annum)	4.50	4.82	5.16	5.52	5.90	25.90
PWD - revision in rent fee for registration, renewal of contractors licence, cost of tender forms, etc	10.05	10.54	11.06	11.62	12.22	55.49
Family benefit scheme	53.72	51.95	49.85	47.45	44.60	247.57
Total - non-tax revenue						**439.21**
Recovery of loans and interest	160.00	160.00	160.00	160.00	160.00	800.00

Source: GoK, SPB, 1997 (c)

Annexure 4: Ninth Five Year Plan in Kerala

State's outlay for the Ninth Five Year Plan (1997–2002) has been fixed at Rs. 16,100 crore at 1996–97 prices. Out of the total State Plan outlay, a major chunk of Rs. 6000 crore has been allotted to the local bodies in the State. The Government of Kerala has come out with an ambition scheme of decentralisation in tune with the recent policy measures of involving the local bodies in Plan formulation. The State Planning Board had constituted 13 steering committees and 68 task forces under various steering committees for the formulation of the Ninth Plan.

From the sectoral allocation of funds in the Ninth Plan, as summarised in table AN4.1, it can be seen that, agriculture and allied sectors, irrigation, power, social and community services are major items. Agriculture has been allocated an amount of Rs. 1039.50 crore and for irrigation Rs. 1026 crore has been allocated. Leaving the grants to local bodies (Rs. 6000 crore), the allocation to the social and community services (Rs. 2863 crore) is the largest. Power sector got an allocation of Rs. 2671 crore which would be spent to complete the on-going projects in the State to achieve power surplus status by 2000 AD.

Table AN4.1: Ninth Five Year Plan: Sector-Wise Allocation

(Rs. crore)

Sectors	Amount	Share in Total Plan Outlay (Percent)
Agriculture and allied activities	1039.50	6.46
Area programme	47.00	0.29
Rural development	392.90	2.44
Irrigation	1028.00	6.39
Industries	1125.96	6.99
Power	2671.00	16.59
Transport	569.00	3.53
Scientific services	75.00	0.47
Social community services	2863.64	17.79
Economic services	185.00	1.15
General services	103.00	0.64
Grants to local bodies	6000.00	37.27
Total	16100.00	100.00

Source: GoK, 1997(a).

Out of the total Plan outlay, Rs. 1813.90 crore has been earmarked for the development of SC/ST population of the State through various programmes. Two-third of this amount will be spent by local bodies. Local bodies have also been entrusted with responsibilities in other fields like irrigation, education, health, water supply and some other economic services.

The Eighth Five Year Plan had a target of 5.6 percent growth rate per annum in State Domestic Product (SDP). There was an emphasis on bridging the gap between the State per capita income and all-India per capita income. Available estimates for the first three years of the Eighth Plan show that the average growth rate of SDP at 1980–81 prices to be 6.39 percent.

In the steering committee meeting it emerged that to achieve a 7 percent growth rate an amount of Rs. 70,000 crore is needed in the State during 1997–2002. It was contemplated that 45 percent of this amount would be invested in the private sector which works out to Rs. 31,500 crore. The remaining investment has to be borne by the State and State/central sector public agencies. The investment by public sector agencies in the State is expected to be around Rs. 20,000 crore. The remaining Rs. 18,500 crore is to be spent under the State sector. However, the State has come out with a Plan size of Rs. 16,100 crore which has been approved by the Planning Commission. In Plan allocation sectors like power, irrigation, health, water supply, nutrition are considered to be the priority sectors.

Leaving the first few five year plans, the per capita Plan outlay of Kerala has been below the national average and the gap has widened with successive Five-Year Plans which has its impact on the gap between State per capita income and the national average. In 1996–97, the gap was higher at about 15 percent between the per capita SDP and the national income. In order to bridge the gap in per capita income, the growth rate of SDP in Kerala has to be higher than the national average. The State has not been able to invest adequately in the productive sectors including the economic infrastructure. The initial investment in the social sector has resulted in high recurring expenditure, limiting investment in crucial sectors. Along with an actual expenditure of Rs. 2710 crore in 1997–98, the aggregate Plan provision in the first two years works out to Rs. 5810 crore at current prices. Adjusted with rise in prices in the first two years of the Ninth Plan (5 percent as in 1997–98), the Plan size in real terms is only Rs. 5050 crore. This points to the fact that in the remaining three years a substantial hike in the Plan outlay is needed.

Plan size and financing pattern of the Ninth Plan

The Plan outlay has been determined at 1996–97 prices. Applying a 7 percent inflation rate to the Plan outlay, the Plan size at current prices works out to Rs. 20,081.2 crore (table AN4.2). To estimate year-wise Plan outlays at current prices, the Plan outlay at 1996–97 prices has been distributed in the proportion 16 : 18 : 20 : 22 : 24 for the successive years and then a 7 percent inflation was applied to arrive at corresponding current price figures. Table AN4.2 gives year-wise Plan outlay at current prices during the period 1997–98 to 2001–02 and the total outlay. The first year of the Ninth Plan, i.e., 1997–98 shows a Plan size of Rs. 2756.3 crore which in fact is marginally higher than the actual Plan size of the State (Rs. 2710 crore) in that year.

Table AN4.2: Ninth Five Year Plan: Sector-Wise Allocation (at current prices)

(Rs. crore)

	1997-98	1998-99	1999-00	2000-01	2001-02	Total
Agriculture and allied activities	178.2	214.2	254.7	299.8	349.9	1296.5
Area programme	8.0	9.7	11.5	13.6	15.8	58.6
Rural development	67.3	81.0	96.3	113.3	132.3	490.1
Irrigation	176.0	211.9	251.9	296.4	346.0	1282.2
Industries	192.8	232.0	275.9	324.7	379.0	1404.4
Power	457.3	550.4	654.4	770.2	899.1	3331.5
Transport	97.4	117.3	139.4	164.1	191.5	709.7
Scientific services	12.8	15.5	18.4	21.6	25.2	93.5
Social and community services	490.3	590.1	701.6	825.8	963.9	3571.8
Economic services	31.7	38.1	45.3	53.3	62.3	230.7
General services	17.6	21.2	25.2	29.7	34.7	128.5
Grants to local bodies	1027.2	1236.5	1470.1	1730.3	2019.7	7483.7
Total	**2756.3**	**3317.9**	**3944.6**	**4642.8**	**5419.5**	**20081.2**

The financing pattern of Ninth Plan at current prices has been estimated following the same procedure described in table AN4.3.

Table AN4.3: Financing Pattern of Ninth Plan Projection (at current prices)

(Rs. crore)

	1997-98	1998-99	1999-00	2000-01	2001-02
A. Contribution of public enterprises	**109.4**	**131.6**	**156.5**	**184.2**	**215.0**
B. Budgetary support to Plan (1 to 4)	**210.1**	**253.0**	**300.7**	**354.0**	**413.2**
1. Balance from current revenue	254.6	306.4	364.3	428.8	500.5
2. Miscellaneous capital receipts (net)	-227.2	-273.5	-325.1	-382.7	-446.7
3. ARM agreed at Dy. chairman level	117.9	141.9	168.7	198.6	231.8
4. Adjustment of opening balance	64.9	78.1	92.9	109.3	127.6
C. Borrowing (1 to 6)	**2137.7**	**2573.3**	**3059.4**	**3600.9**	**4203.2**
1. State provident fund	460.7	554.5	659.3	776.0	905.8
2. Loans against small savings	303.0	364.7	433.6	510.4	595.8
3. Net market borrowings	353.9	426.0	506.4	596.0	695.7
4. Negotiated loans and other finances	333.7	401.6	477.5	562.0	656.0
5. Debentures/Bonds	124.1	149.4	177.7	209.1	244.1
6. Gross Central loan	562.4	677.0	804.9	947.4	1105.8
D. Grants (1 to 2)	**299.8**	**360.0**	**428.0**	**503.8**	**588.0**
1. Special grants under TFC	58.0	69.9	83.1	97.8	114.1
2. Gross Capital grants	241.0	290.2	345.0	406.0	473.9
E. Aggregate plan resources (A + B + C + D)	**2756.3**	**3317.9**	**3944.6**	**4642.8**	**5419.5**

Source: GoI, 1997–2002.

Note: Figures are inflated by 7 percent inflation rate.

Annexure 5: Planning from Below: Kerala's Experiment with Decentralisation

The decentralisation Plan in Kerala has focused on empowering local bodies to function as not only institutions of self-government, but also as the agents of local development. Till recently, the function of local bodies was rather limited to only traditional activities. The major improvement in the decentralisation process in the State is entrusting an economic agenda to the local bodies along with transparent democratic governance and participatory administration. Exploitation of untapped local resources, formulation of locally relevant policies and proper implementation and monitoring of local schemes, will be possible through these resurgent local bodies. It is expected that local bodies are more suited to improve productivity and production of agriculture, animal husbandry, fisheries, small scale industries and improve the quality of services in education, health, drinking water, sanitation, and housing sectors.

Local Bodies in the State. A single tire *panchayat* system was prevalent in the State. The present three-tier *panchayati raj* system came into existence on 2.10.1995. Now there are 990 *gram panchayats* (at village level), 152 block *panchayats* (at block level) and 14 *zilla parishads* (at district level). Besides these rural local bodies, there are 55 municipal councils and three municipal corporations (Thiruvananthapuram, Cochin and Kozhikode). A distinct feature of Kerala *gram panchayats* is their relatively larger size, when compared to those in other States. An average *gram panchayat* in Kerala is 37.83 sq. kms. in area and has a population of 25199 persons (1991 census) persons. The average population of a municipality in 1991 was 48,785 persons.

People's Campaign for Ninth Plan. Since 1989–90, the government has been making efforts to provide a direct role to local bodies. Under these schemes, in 1995–96, an untied grant of Rs. 30 crore was given to the local bodies. In 1996–97, an untied grant of Rs. 69 crore was provided to the urban local bodies, and Rs. 143 crore was provided to the rural local bodies. These untied grants were made to the local bodies to enable them to initiate the Plan preparation and implementation at local level. The major lacunae of these programmes was witnessed in the lack of adequate utilisation of funds.

In June 1996, the Government of Kerala approved the recommendation of the State Planning Board to earmark 35-40 percent of the State Plan Outlay for projects and programmes drawn up by the local bodies. A "People's Campaign for Ninth Plan" was launched to enable the local bodies to acquire expertise to formulate plans scientifically in a time bound manner. Various government officials in various line departments, retired officials and non-official experts and volunteers and the mass of the people under local representatives were to be brought together to empower the local bodies for genuine grassroot planning. The approach paper in this regard envisages six stages of planning process. A brief review of each of these stages follows.

Phase I: Gram Sabha (August-October, 1996). The first phase includes identification of requirements at the local level. *Gram sabhas* were convened to discuss the local development programmes. Participation of weaker sections and women was ensured. Various propaganda through media and through volunteers were made for large scale participation. The major gains of convening the *gram sabha* meetings were considered to be as follows:

1. The requirements, priorities and development perceptions of the people in every locality were listed.

2. A general awareness regarding decentralisation was created.

3. The basic organisational structure of the campaign was laid.

Phase II: Development Seminars (October-December, 1996). Development seminars were organised in every *gram panchayat* and municipality. In these seminars development reports for *panchayat*/municipality were drafted. The *gram sabha* reports, review reports of on-going schemes, collection of secondary data and geographical and historical study of the area were taken into consideration before drafting the development reports. The second phase has yielded:

- generation of an extensive local database;

- a comprehensive survey of all development sectors for all *panchayats* and municipalities;

- a list of plausible solutions to the development problems; and

- formation of taskforce to prepare development projects for each development sector.

Phase III: Task Force (December, 1996 - March, 1997). In the third phase around 12 task forces were constituted in each local body to cover various development sectors. As many as 12,000 task forces were trained at the village level with a total participation of at least 1.2 lakh persons. The Task Forces prepared around one lakh projects for the consideration of *panchayats*. A State Planning Board review showed that task forces did not function effectively due to the absence of adequate number of experts. Therefore, a number of rectification measures like project clinics, reorientation conferences were held which delayed the whole Plan process.

Phase IV: Annual Plan Finalisation (March-May, 1997). Before the end of the third phase, the government had announced the size of grants to each local body. On this basis, the projects prepared by the task forces were prioritised and incorporated into the Five-Year Plans of the *panchayats*. For finalising the plans, issues like assessment of capacity to mobilise additional resources, identification of development strategy and monitoring mechanisms were taken into consideration. On the basis of the above analysis, each *panchayat* was supposed to prepare a Plan document comprising eight chapters; *viz.*, introduction, development strategy, resource mobilisation, sectoral programmes, integrated development, welfare of SC/ST, women's development programme, and monitoring.

Phase V: Annual Plan of Higher Tiers (April-September, 1997). Planning at the block and district levels were to start after integrating the Plan programme of lower level local bodies. On the basis of seminars and discussions, the higher level local bodies drafted their plans.

Phase VI: Plan Appraisal (May, 1997). The technical soundness and viability of the projects were examined before their implementation. For this purpose, volunteer technical corps (VTC) have been formed which consist of retired technical experts and professionals. The expert committees (under the VTC) at block municipal and district level were not to tamper with the priorities set by the local bodies. The district planning committees approved the Plan on the recommendations of these expert committees.

The most important part of the whole exercise is the elaborate preparation for the training programmes that preceded every phase. The composition of participants in the training programme changed from phase to phase depending upon the `tasks'. As the Plan programmes emerged from below, some problems and weaknesses are inevitable. But, every local body prepared its Plan in a participatory and transparent manner.

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The State Planning Board has already prepared draft review reports of *gram panchayats'* Plan for each district. For 1997–98, the budgetary provision for grants-in-aid to the local bodies is Rs. 749 crore, to be distributed among the various tiers of local bodies (table AN5.1). The total grants-in-aid has three components, Rs. 39 crore for tribal sub-plans, Rs. 194 crore for special component of Plan and Rs. 516 crore for the general sector. Plan funds under each of the above heads are allocated between urban and rural local bodies on the basis of population ratio. Between urban local bodies again, funds are distributed on the basis of the population share of each local body. In the case of rural local bodies, the total general sector allocation of Rs. 438.6 crore is distributed to the *gram panchayats*, block *panchayats* and district *panchayats* in the ratio 70:15:15.

Financing pattern by broad development sectors and total outlay for *gram panchayats* are shown in table AN5.2. The total proposed annual Plan outlay of the 929 *gram panchayats* adds up to Rs. 933.82 crore while the grants-in-aid from the State government for their plans is only Rs. 401.49 crore (table AN5.2). This has been made possible by (i) integrating State and centrally sponsored schemes with the local plans, (ii) drawing upon the non-Plan surplus from the own funds of the *gram panchayats*, and (iii) mobilising additional local resources from financial institutions and beneficiaries.

A comparison of the financing of projects in the three broad sectors, i.e., productive sector, social sector and infrastructural sector indicates a varied pattern between rural and urban local bodies (table AN5.3). In the case of rural local bodies the productive sector predominates, while the social sector gets importance in the case of urban local bodies.

Table AN5.1: The Distribution of Grants-in-Aid to Different Tiers of Local Bodies

(Rs. crore)

Local Body	General	Tribal Sub-Plan	Special Component Plan	Total
Corporation/Municipalities	77.40	0.89	17.59	95.88
District *panchayats*	65.79	22.87	35.28	123.94
Block *panchayats*	65.79	7.62	35.38	108.70
Gram *panchayats*	307.02	7.62	105.85	420.48
Total	**516.00**	**39.00**	**194.00**	**749.00**

Source: GoK,SPB, 1997(a).

Table AN5.2: Financing Pattern of the Annual Plans (1997-98) of 929*Gram Panchayats*

(Rs. lakh)

Sector	Total Outlay	Grants-in-Aid	Own Funds	State Sponsored	Centrally Sponsored	Cooperative	Other Financial Institutions	Voluntary Contribution	Beneficiary Contribution	Other
All sectors	93381.66 (100.00)	40149.32 (42.99)	5639.55 (6.04)	2973.38 (3.18)	2253.55 (2.41)	1711.16 (1.83)	8195.81 (8.78)	4078.94 (4.37)	25280.06 (27.07)	2236.06 (2.39)
Productive	46635.64 (100.00)	15154.40 (32.50)	793.72 (1.70)	1250.51 (2.68)	423.37 (0.91)	1420.65 (3.05)	6039.76 (12.95)	935.76 (2.01)	19176.53 (41.12)	899.46 (1.93)
Service	31655.68 (100.00)	15816.20 (49.96)	2399.60 (7.58)	1343.01 (4.23)	1369.01 (4.32)	285.99 (0.90)	1962.38 (6.20)	1945.76 (6.15)	5164.30 (16.38)	1051.58 (3.32)
Infrastructural	15090.34 (100.00)	9178.73 (60.83)	2446.23 (16.21)	379.87 (2.52)	460.87 (3.05)	4.53 (0.03)	193.37 (1.28)	1197.61 (7.94)	939.22 (6.22)	282.02 (1.89)
SCP	15039.48 (100.00)	9941.14 (66.10)	367.78 (2.45)	391.15 (2.60)	294.42 (1.96)	110.90 (0.74)	699.93 (4.65)	436.61 (2.90)	2478.05 (16.48)	289.79 (1.93)
TSP	1216.10 (100.00)	770.68 (63.37)	51.08 (4.20)	29.79 (2.54)	72.23 (5.94)	15.53 (1.28)	32.20 (2.65)	42.68 (3.51)	191.54 (15.75)	27.79 (2.29)
Women project	6797.79 (100.00)	1997.15 (29.38)	109.56 (1.61)	168.43 (2.48)	80.34 (1.18)	254.22 (3.74)	1262.99 (18.58)	133.84 (1.97)	2522.80 (37.11)	204.29 (3.01)

Source: GoK, SPB 1997(a)

Table AN5.3: Guidelines on Sectoral Allocations Indicated to the Local Bodies

(percent)

	Sector	Rural local bodies	Urban local bodies
Productive sector	Agriculture, animal husbandry, fisheries, minor irrigation, small scale industries, etc.	40-50	20-30
Social sectors	Education, health, sanitation drinking water supply, sicuak welfare, housing, etc., slum improvement work	30-40	40-50
Infrastructure sectors	Public works, energy, etc.	10-30	10-35

Source: GoK, SPB, 1997(a).

Annexure 6: Recommendations of Kerala State Finance Commission: A Summary

As per the 73rd and 74th constitutional amendments, the State governments are required to appoint State Finance Commissions (SFCs), which would make recommendations regarding the principles of devolution of resources from the State to local bodies. The Government of Kerala had constituted the SFC under Clause 1 of Article 243(1) of the Constitution of India and Section 186 of the Kerala *Panchayat Raj* Act 1994. The terms of reference of the Commission were:

The Finance Commission shall review the financial position of the *panchayats* and make recommendations as to:

a. the principles which should govern:

- the distribution between the State and the *panchayats* of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided between them and the allocation between the *panchayats* at all levels of their respective shares of such proceeds;
- the determination of taxes, duties, tolls and fees which may be assigned to or appropriated by the *panchayats*; and
- the grants-in-aid to the *panchayats* from the consolidated fund of the State;

b. the measures needed to improve the financial position of the *panchayats*.

The same terms of references, hold good for the Commission's study of the finances of municipalities.

Approach of the State Finance Commission

Although, the local bodies have substantial responsibilities, the tax domain available to them was considered inadequate. The 1994 *Panchayat Raj* Legislation, while entrusting the additional responsibilities, has not increased their access to new sources of revenues. The additional funds required by local bodies could be met from the following sources:

- better utilisation of the existing sources of revenue;

- additional resource mobilisation by local bodies by giving them access to new sources of revenue which satisfy the criteria that the tax base is local in nature and is not extensively used already as a base for taxation by government;
- additional resources from the State government out of their revenue;
- additional resources from the central government including those recommended by the Tenth Finance Commission;
- loans from financial institutions for capital expenditure; and
- economy in expenditure on the part of civic bodies on the basis of cost-benefit analysis.

Existing fiscal devolution

The existing fiscal devolution to local bodies include, own taxes of the local bodies like building/property tax, profession tax and entertainment tax; non-tax revenues such as income from properties and licence fees; assigned taxes collected by the government which include surcharge on duty and transfer of property, etc. Various expenditures by local bodies include expenditure on management and collection, public works, education, etc., and other establishment expenditures. In 1993-94, the average receipt of a village *panchayat* from all sources including capital receipts was Rs. 13.85 lakh and the average expenditure including capital expenditure was Rs. 12.55 lakh. For municipalities, it was Rs. 133 lakh and Rs. 128 lakh respectively. A surplus is a statutory requirement by *Kerala Panchayat Act* 1994 and *Kerala Municipal Act* 1994.

Recommendations to improve the resource of local bodies

- improving the yield from existing tax and non-tax sources at the disposal of local bodies;
- improving the revenues from tax levied by government but assigned to local bodies;
- increase in the share of local bodies in the motor vehicle tax which is the only shared tax;
- assigning additional tax and non-tax sources to local bodies; and
- additional non-Plan, non-statutory grants to local bodies.

The existing tax bases available to local bodies have not proved to be elastic sources of income. The SFC has made some effort to increase the elasticity of sources through following suggestions:

Table AN6.1: Criteria for Devolution of Plan Grants

(percent)

Indicator	For urban local bodies	For rural local bodies
Population in 1991 Census	75	70
Population of SC/ST in 1991 Census	10	10
Total workers (excluding workers in manufacturing, processing and servicing)	15	10
Proportion of agricultural workers among workers	Nil	10
Total	**100**	**100**

Source: GoK, SPB, 1997(a).

- the proposed tax on sale of land on an *ad valorem* basis will be an elastic source of income;
- the interval of revision of property/building tax is proposed to be reduced from 5 to 4 years;
- in respect of licence fees, the SFC has recommended that the State government should only fix a minimum and leave it to the local bodies to fix rates above them at their discretion;
- the SFC has recommended the introduction of entertainment tax on cable TV;
- the share from motor vehicle tax has been recommended to be increased to 25 percent; and
- non-statutory grants which at present are generally expressed as specific amounts for various purposes are proposed to be merged and expressed as one percent of total revenue of the State.

Table AN6.2: Additional Yield Anticipated During 1996-97 on the Basis of the Recommendation of State Finance Commission

(Rs. lakh)

	Anticipated Receipts for 1996-97	Remarks
I. Improving Yields from Existing Sources		
i. Higher building/property tax on commercial building	125.00	5 percent over 50 percent of the actual yield in 1993-94
ii. Minimum amount of building/property tax	No separate estimate is made	
iii Changes in slabs and definitions - income from profession tax	80.00	5 percent per annum over the actual yield in 1993-94
iv. Levy of entertainment tax on seating capacity in *panchayats*	33.00	- do -
v. Government to fix only minimum of licence fee	23.00	- do -
II. Improving Yields from Taxes Levied and Assigned to Local Bodies		
i. Increase in rate of basic tax	1250.00	The rate is proposed to be doubled. However, the additional tax is an optional one.
ii. Minimum level of basic tax to be levied	Not quantified	
III. Improving Yields from Shared Tax		
i. Increase in share of motor vehicle tax	2260.00	6 percent per annum over actual
IV. Government Grants		
i. Increase in non-plan non-statutory government grants	2000.00	This estimate is provisional
V. Assignment of Additional Tax, Duties from Government		
i. Assignment of building tax	700.00	The actuals of 1994-95 was Rs. 695.57 lakh
ii. 50 Percent of net collection of stamp sale	350.00	The total revenue in 1993-94 was Rs. 695 lakh
iii. 50 Percent share of building exemption fee	130.00	The actuals in 1993-94 was Rs. 259 lakh.
VI. Additional Tax and Non-Tax Revenue		
i. Tax on sale of land	800.00	At 1 percent the revenue expected is Rs. 10 crore but sales upto Rs. 2500 are exempted. This is an optional tax.
ii. Tax on cable TV operation	10.00	This estimate is provisional
Grand Total	**7761.00**	

Source: GoK, SFC, 1996.