Fiscal Situation in Maharashtra
An Assessment, A Critique, and Some Policy Suggestions

Abhay Pethe & Mala Lalvani

Fiscal Situation in Maharashtra
An Assessment, A Critique, and Some Policy Suggestions

Abhay Pethe & Mala Lalvani*

Abstract

This paper – focusing on Maharashtra – is part of a broader programme that is trying to understand the fiscal problems being faced at the level of state governments. This paper provides a brief overview of the economic environment in Maharashtra including the socio-economic development of the state as a backdrop. Within this context, we assess and analyse the fiscal situation in Maharashtra, which forms the main

---

This paper was prepared under the umbrella programme of Capacity Building for Budgetary Analyses at the State Level administered by National Institute of Public Finance and Policy and funded by the World Bank.

* Department of Economics, University of Mumbai, Vidyanagari, India.

We would like to thank Anay Vete, a research scholar at the Department who has contributed the section on power sector. We wish to record our sincere appreciation for the time taken and suggestions made by Ajit Karnik, our senior colleague and friend, who but for the fact that he is currently visiting Cambridge could not have escaped being a co-author of this paper. The secretarial of GoM was extremely patient and helpful with our queries and with providing data. We are especially thankful to J. Sahani (Principal Secretary, Finance Reforms) and Zalte. Our sincere appreciation is due to Dilip Karmarkar (YASHADA) for helping in more ways than one. As always, R.K. Pattnaik and S. Chatterjee at the Reserve Bank were extremely generous with their time and information. Our special thanks to them. Thanks are due to participants of the NIPFP seminar for useful comments, in particular to Pronab Sen, A. Bagchi, M. Govinda Rao and Chitkala Zutshi. We record our thanks to Tapas Sen for giving us this opportunity to undertake the study and to the World Bank team, especially Farah Zahir and Vinaya Swaroop for comments. The usual disclaimers apply.

Email: apethe@economics.mu.ac.in and mlalvani@economics.mu.ac.in.

thrust of this paper. This is done in two ways, one, by examining its relative performance *vis-à-vis* other major states of the Indian union and two, by looking at its temporal performance over a ten year period. Fiscal indiscipline on the expenditure front, large interest payments, additional borrowing to meet current expenditures are all sins that the GoM is found to have been guilty of. The power sector has been discussed as a bottleneck to growth of Maharashtra's economy thereby adding to the fiscal woes of the state. EGS, Cotton Monopoly Scheme and sugar co-operative have also been touched upon. For the reform package to be comprehensive, we would like to see policy measures being initiated at three levelspolicies at the level of the state, which are financial and administrative in the main; policies that the central government must pursue in its dealing with the states; and the third type that are overarching in a sense that they concern the governments at all levels and have to do with capacity building as well as having pragmatic regulatory framework in place.

Fiscal Situation in Maharashtra
An Assessment, A Critique, and Some Policy Suggestions

Introduction

With state governments having been entrusted with many more responsibilities than resource raising powers, the Indian federal setup has traditionally been loaded in favour of the center. The move towards empowering local bodies was given a legal status ten years ago when the 73rd and 74th constitutional amendments were passed. It was hoped this would result in a significant change in the fiscal scenario of the economy. However, ten years hence when one takes stock of the situation, *de facto* decentralisation is conspicuous by its absence. Functional and expenditure responsibilities lack clarity and neither the matching resources nor resource raising powers have been adequately devolved. This is not to take away credit from the amendments, which were right in spirit and intent, although we believe that they did not go far enough in terms of the mandate. At each of the three tiers of government i.e. the centre, the state, and local level, it is of utmost importance that the role of the state and its areas of intervention be delimited and well defined. For a comprehensive reform package, the problems faced by each of the three tiers of government will need to be tackled. The present study is part of a programme that is attempting to understand the fiscal problems being confronted at the level of state governments, with the state of Maharashtra being the focus of this paper.

Although the focus of this paper is to look at the fiscal health of the state of Maharashtra, we would like to begin with broad strokes on a wider canvas and look at the economic environment in Maharashtra. Both size and pattern of growth are important to examine in order to yield a proper perspective. The socio-economic development of the state provides the backdrop in which we examine and analyse the fiscal situation in Maharashtra. The fiscal scenario in Maharashtra is examined in the context of its relative performance *vis-à-vis* other major states of the Indian union as also its temporal performance over a ten-year period. We also take a closer look at the performance of Maharashtra since the medium term reform package was initiated. The power sector represents one of the bottlenecks in the growth of Maharashtra's economy. Problems confronting this sector and reform measures initiated have been discussed. Finally, we discuss governance issues and required policy initiatives by way of capacity building that suggest the road ahead to usher in the growth process.

II. Growth, Demographic Pattern, Social Attainment in Maharashtra: A Snapshot Picture

The state of Maharashtra occupying 3.08 lakh sq. km i.e. approximately 9 percent of the territory of India, is home to 9.67 crore people, which constitutes 9.4 percent of India's total population (2001 census). It is the second most populous state of India after Uttar Pradesh. Despite the fact that Maharashtra constitutes less than 10 percent of the total population of the country, it accounts for nearly one-fourth of the gross value of India's industrial sector. At current prices the per capita income (Net National Product at factor cost) of Maharashtra stood at Rs.26,386 as compared to a national average of Rs.18,912 in 2002-03. Such being the scale of Maharashtra's contribution to the Indian economy, it has earned the reputation of being the 'Power House of India'. Despite these facts and figures, which seem to suggest that Maharashtra is one of the more progressive states of the Indian federation, the World Bank has branded it as a state with "an impressive past but an uncertain future" (World Bank, 2002). Fiscal deterioration of Maharashtra is the prime reason for this view.

A look at annual growth rates of GSDP (at 1993-94 prices) tells us that Maharashtra experienced a high real growth rate in 1995-96, when the secondary sector registered the highest growth rate. Since then a steady decline has been noticed. (Annexure A: Table A1). In terms of per capita GSDP (93-94 prices) Maharashtra has maintained its second rank (from amongst 15 non-special category states) since

1993/94 with the happy exception of two years of 1997/98 and 1999/00 when it ranked first.

The sectoral contributions of the three sectors reveal a very telling story. The contribution of the tertiary sector has risen and stands at 56 percent in 2002-03, that of secondary sector was 28 percent and that of primary sector was 15 percent (Annexure A: Table A1). Clearly, the secondary sector's contribution to Maharashtra's growth has been far from satisfactory with detrimental effect on its own taxable capacity. The general point to be made here is that, for any economy, service sector expansion without commensurate increase in other sectors is unsustainable. This lopsided development can only be self-limiting and potentially crisis prone. The change in the structure of production has clearly a worrisome implication that the tax revenue potential is severely limited. This is particularly noteworthy as Maharashtra is one of the most industrialised states. Clearly, any further impetus to growth in Maharashtra requires that an enabling environment be put in place for the secondary sector to perform to its potential.

Two distinguishing characteristics of the economic growth in Maharashtra are its regionally skewed pattern and its dependence on the performance of Mumbai. The contribution of Mumbai alone to per capita GSDP has never fallen below 36 percent in the last ten years. The state of Maharashtra has never fallen below the 2nd rank in case of per capita GSDP, but if we exclude Mumbai from Maharashtra, its rank slips to 3rd in 1993-94, to 4th between 1994-95 and 1998-99 and further to 5th position in 2000-01 and 2001-02 (Annexure A: Table A2).

Regional skewness is clearly evident from the District Domestic Product across the five administrative divisions that the 35 districts of the state of Maharashtra have been sub-divided into (Konkan, Nashik, Pune, Aurangabad and Amravati). The coefficient of variation is seen to exceed the 50 percent mark in eight out of the nine years under consideration. Further, if we consider the combined contribution of Mumbai, Nashik, and Pune i.e. only three of the 35 districts, which occupy 10 percent of Maharashtra's geographical area, their contribution to per capita GSDP was 78 percent in 2002-03. Policy initiatives to address the question of regional imbalance thus acquire importance.

Another distinguishing characteristic of Maharashtra's demographic pattern is that in-migration contributes significantly to the increase in population of the state. The Economic Survey of Maharashtra (2003) points out that one out of every five additions to Maharashtra's population was a migrant. Further, in addition to being the second most populous state, Maharashtra is also the second most urbanised state of India. The urban population of Maharashtra at 42 percent is one and a half times that of the national average of 28 percent as per the 2001 census. This figure emphasises the fact that any analysis of Maharashtra requires that a special effort be made to analyse the issues and problems specific to the urban sector in Maharashtra. Limited housing stock in the wake of strong trend towards urbanisation has led to the development of large slum areas. Census report of 2001 shows that 10.6 million people reside in slums in Maharashtra, with 5.82 million in Mumbai city and suburbs alone. It is crucial that these statistics be interpreted with care. With large scale in-migration it is important to understand that large slum population is inherent to a highly urbanised state like Maharashtra and it cannot be compared to others like Kerala, which ranks first, in this respect. An important offshoot of this is that the social sector requirements of a state like Maharashtra are likely to be peculiar to it. In particular, water and sanitation requirements as well as the type of education needed, will have to be specifically catered to.

According to official estimates, the percentage of people below the poverty line in Maharashtra has declined from 53 in 1973-74 to 37 in 1993-94 and further to 25 in 1999-00. In the context of poverty alleviation the Employment Guarantee Scheme (EGS) of Maharashtra deserves special mention. Most studies based on surveys suggest that benefits from EGS went to the poor, small and marginal farmers. Pethe (1996) makes the point that the success of EGS stems from the fact that addition to serving the interests of the poor, the EGS creates an abundant source of patronage favoring the interests of rural politicians. The EGS, according to him ''provides something for everybody'' (Pethe 1996, p.765). However, despite its many positive features, the EGS seems to have been somewhat less successful in recent years. The number of person days of employment generated and total expenditure incurred appears to have stagnated. Gaiha (2003), however, observes that the EGS continues to confer significant transfer and stabilisation benefits during long seasonal slacks. The decline in overall participation rates, according to him, is partly a consequence of the nature of projects undertaken and low outlays and not so much a result of slackening of demand for the EGS. He therefore makes the case for enhanced outlays under the EGS with a substantially higher reallocation in favor of the poorest regions. With schemes such as the EGS in operation, Maharashtra appears to have improved its performance on poverty reduction front temporally. However, other states appear to have done even better (Economic Survey of Maharashtra, 2003). 1999-00 estimates show that of the 16 major states with more than 1 crore of population, 10 states had an incidence of poverty lower than that of Maharashtra.

On the social sector front, conventionally accepted attainment indicators for education and health in Maharashtra, both temporally and in a sample of fifteen non-special category states are tabulated below:

Table 1

Some Conventional Educational attainment indicators			
	1981	1991	2001
Rural literacy	45.65 (3)	55.52 (3)	70.84 (3)
Urban literacy	74.29 (3)	79.2 (3)	85.76 (3)
Drop-out rates	80.53 (6)	65.91 (4)	59.33 (6)
Some Conventional Health Attainment indicators			
	1981	1991	1997
IMR	119 (7)	74 (7)	45 (2)
Death rate (rural)	10.6 (4)	9.3 (7)	8.6 (8)
Death rate (urban)	7.4 (7)	6.2 (4)	5.4 (2)

Figures in parentheses is the rank of Maharashtra in a sample of 15 major states of India. This sample includes AP, Bihar Gujarat, Haryana, HP, Karnataka, Kerala, MP, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, UP, West Bengal i.e. non- spl. category states.
IMR: Infant mortality rate per 1000 live births

On the education front, temporally Maharashtra has done well to improve both, rural and urban literacy and curb drop-out rates. In a sample of 15 non-special category states, Maharashtra ranks 3rd in case of both rural and urban literacy. A general point that needs to be made at this juncture is that simply looking at literacy rates is not a sufficient indicator in a highly urbanised state such as Maharashtra. The success of an urbanised state like Maharashtra on the education front needs to be evaluated not only in terms of conventional indicators such as literacy rates, but in terms of the extent of vocationalisation that has occured in the state. Maharashtra had only 2.22 percent of students enrolled for vocational courses while Delhi with 30 percent ranks first on this count. (http://shikshanic.nic.in/cd50years/q/6M/AK/6MAK0401.htm). Thus conventional measures of educational attainment provide an incomplete picture of Maharashtra's performance on the education front.

On the health front too, we find that temporally there has been some improvement to curb death rates, both rural and urban. Its relative position has worsened in the case of rural death rates but improved in the case of urban death rates. IMR shows an improvement, both temporally and relative to other states. Similarly Maharashtra has successfully lowered its birth rate, both temporally and relatively. However, we need to bear in mind that despite these improvements, the challenge of HIV and AIDS constitutes one of the biggest hurdles for Maharashtra. In May 2004, 11726 cases of AIDS were registered. Amongst the states of India, Maharashtra has the second largest number of AIDS cases after Tamil Nadu (http://www.naco.nic.in/indianscene/overv.htm). Another aspect of healthcare that needs to be addressed in the state of Maharashtra is the wide gap in the healthcare infrastructure available in the rural and urban areas. The private health sector in Maharashtra is the largest in the country. As far as the public sector is concerned there is much to be desired. Wide discrepancy in rural and urban Maharashtra are indicated by the fact that in 2001, while there were 140 doctors in urban areas per lakh population, there were only 24 doctors per lakh population in rural areas. Similar disparities are noticeable in case of hospitals, dispensaries, beds, and nurses. Thus intra-state variation is a cause for concern on the health front in Maharashtra. (Human Development Report: Maharashtra, 2002).

The broad story that emerges from the above analysis is that in terms of conventional socio-economic indicators, there is no doubt that as far as poverty eradication, education and health status is concerned, there has been an improvement in the state of Maharashtra over time. In terms of conventional indicators its relative position is reasonably good but hasn't improved on the education front (consistently 3rd rank), but presents a mixed picture on the health side. However, as mentioned previously, for a highly urbanised state like Maharashtra, these conventional indicators are inadequate. The performance of Maharashtra in both the education and the health sector must be deemed to have fallen short of the requirements. Also, wide intra-state disparity, between rural and urban areas, is a major cause for concern in the socio-economic development of Maharashtra. Clearly, there are lessons to be learnt both at the policy design level as well as macro fiscal initiatives that we will draw in a later section.

Given that the main thrust of this paper is to trace the fiscal health of the state of Maharashtra, we have attempted to link this performance of Maharashtra on education and health front with expenditure allocations on education and health later in the paper after getting a feel of the macro picture of Maharashtra's fiscal performance.

III. Assessing Maharashtra's Fiscal Performance: The Macro Picture

The time period chosen for analysis spans the period 1993-94 to 2002-03 (RE) for inter-state comparison and 1993-94 to 2003-04 (RE) for Maharashtra alone. The budget estimate of 2004-05 for relevant variables too has been noted alongside so as to be able to take a view of its credibility. The choice of the beginning of sample period from 1993-94 can be justified on both purely statistical and economic grounds. From a purely statistical point of view, the new GSDP series begins from 1993-94; hence, the chosen sample would provide us with consistency in the data series. From an economic point of view, one could say that the decade of the '90s began with a major macroeconomic crisis for the Indian economy. After the initial turmoil and volatility it was only from 1993-94 that the economy settled down.

Most recent studies (*see,* World Bank, 2002) have suggested that Maharashtra slipped on the fiscal front after 1995-96. In order to judge the areas and extent of this slippage, we analyse Maharashtra's performance–as already noted–in two ways. First, we compare Maharashra's performance *vis-à-vis* fourteen other major states of India.[1] We then look at the trend performance of Maharashtra since 1993-94. We have used both RBI data on state finances as well as financial statements of the Government of Maharashtra (GoM). The RBI data has been used when analysing Maharashtra's relative performance so as to get comparable estimates across states (available up to 02-03 RE) and the GoM data (available up to 2004-05 BE) has been used for the detailed analysis of Maharashtra's fiscal performance. On account of definitional variations, the figures presented in budget documents of the GoM do not always conform to those in the RBI documents. Hence some data adjustments have been made in order to obtain comparable series over the entire sample period. These adjustments made have been detailed in Annexure B of the paper.

Maharashtra's Relative Performance

To assess Maharashtra's relative performance, we sub-divide this entire period into three sub-periods: Period I representing the first half of the 1990s (1993-94 to 1995-96); Period II reflects the period of so called 'setback' and spans the years 1996-97 to 2003-04 (RE) and Period III is the most recent performance i.e. 2000-01 to 2003-04 (RE). For each of these time periods, we take simple averages of key macro fiscal indicators to assess the fiscal stress in the state and the improvement or deterioration of performance. This approach is advisedly simple, as given the length of the data series it would be foolhardy to put an unbearable burden on it with sophisticated tools of statistics/econometrics.

Six key indicators were identified by us (tabulated below) to rank the fifteen states in each of the three periods mentioned below. The ranks have been given so that the best performing state in each of the cases has been awarded a rank of 1.

Table 2: Relative Rank of Maharashtra

	Ranks*		
	93/94-95/96	96/97-02/03	00/01-02/03
	Period I	Period II	Period III
Gross Fiscal Deficit / GSDP	3	3	4
Revenue Deficit / GFD	4	6	12
Revenue Expenditure / Rev. Receipts	3	6	7
Capital Disbursements / Total Exp.	3	10	14
Own tax / Rev. Exp.	1	2	3
Grants / Rev. Rec.	13	15	15

****Note:*** Rows 1, 2 and 3 smallest ratio has been given a rank of 1. In Rows 4, 5 and 6, the largest ratio has been given a rank of 1.

The picture that emerges from this table is that when GFD/GSDP is used, Maharshtra does not seem to be a poor performer in the latter half of the 90s in comparison with 14 major states of the Indian union. The changing structure and composition of the deficit, however, is a cause for worry. The ratio of Revenue Deficits to GFD shows its rank to have slipped from 3rd in period I to 6th in period II and further to 11th in period III. Thus, fiscal deterioration has sharply increased in the years 2000-01 to 2002-03, at least in relative terms. When considering the budget-related indicator of the ratio of capital disbursements to total expenditures of the state, Maharashtra has slipped from its 3rd position in period I to 10th in period II and even further to 14th in period III. On the own tax revenue front as a percentage of revenue expenditure (tax effort measure used by the EFC), the state was seen to be a star performer in a relative sense in the first half of the nineties. It has been overtaken by Tamil Nadu in the latter half of the 90s in period II (slipped to 2nd rank) and by Haryana and Tamil Nadu in period III (slipped to 3rd rank). However, despite this relatively good tax effort, Maharashtra finds itself at the bottom of the table in the devolution of grants. Grants given by the Finance Commission and Planning Commission are criteria based. However, it is often pointed out in local official circles that no state can be deliberately victimised. We also believe that efficiency has not been given its due weight in the criteria used to devolve grants. It is our contention that there is no problem if Maharashtra receives nothing on some criteria under the 'need based' category, but it must get its due share from the kitty on efficiency grounds (*see,* Pethe and Lalvani, 2004).

It has been pointed out that the tax effort measure need not necessarily suggest efficiency as tax competition amongst states has led to large scale tax exporting and hence is not a precise efficiency measure.[2] For Maharashtra specifically, Rao and Sen (1996) find that in 1987/88, tax exportation contributed as much as 43 percent of Maharashtra's own tax revenue. We do recognise that our tax effort measure suffers from the limitation of not factoring in tax exportation. Keeping this caveat in mind, it continues to be our view that in the absence of any alternative measure that is simple, transparent, and easily computable, this measure does serve its role as an indicative measure proxying efficiency in tax performance. This is especially so if tax exportation is temporally reasonably stable across states. Indeed, it needs hardly be mentioned that all indicators, especially ratios, suffer from some obvious limitations.

Having used some macro fiscal indicators to compare Maharashtra's fiscal performance to that of others, in the next sub-section we undertake a more detailed examination of the fiscal performance of Maharashtra since 1993-94. In other words, the next section attempts to assess Maharashtra's performance *vis-à-vis* its own past.

Trend Pattern of Maharashtra's Fiscal Performance

This section of the study is structured in the following manner:

- Key deficit indicators, which show the extent of fiscal stress under which the economy finds itself;
- Possible cause of this stress, i.e. whether it originates from the expenditure or the receipts side of the budget; and
- Attempt to see how the Government of Maharashtra has been trying to fund the fiscal deficits, i.e. the debt profile of Maharashtra.

GFD/GSDP, gross fiscal gap (GFG) and primary deficit to GSDP ratios, all indicators of fiscal stress, show a steady worsening of fiscal discipline. The extent of fiscal profligacy indulged in by any government is evident from revenue deficit. Only nine years ago, i.e. in 1994-95, Maharashtra had registered a revenue surplus. But from then on, the revenue deficit as a proportion of gross fiscal deficit has risen rather sharply to reach 87 percent in 2000-01. The last two years show some improvement on this front but the ratio is still as high as 46 percent in 2003-04 (RE). The 2004-05(BE) shows this ratio to be rising by 20 percentage points. This clearly signals that no major effort to pull back revenue deficits is in the offing. (Appendix A: Table A3).

The large increase in revenue expenditures has come at the expense of cuts in capital expenditures. We find a large increase in surpluses on capital account. Capital surpluses have risen from 0.06 percent of GSDP in 1993-94 to reach a maximum of 2.51 percent of GSDP in 2003-04. In nominal terms, the capital surpluses have risen from Rs. 63 crore in 1993-94 to reach almost Rs.10,000 crore in 2001-02. The last couple of years show some reduction on this front but it was still above Rs. 9000 crore in 2003-04(RE).

Expenditure Pattern

The broad story about the expenditure pattern of Maharashtra over the last ten years is that it is the crucial developmental expenditures that have been axed in the cases of both revenue and capital account. The above analysis of Maharashtra's finances points out that it is imperative to look at the fine print of budgets to know where exactly the burden of the adjustment falls.

On the revenue expenditure side, salaries, pensions, and interest payments in a way represent 'committed expenditure' for the government. The share of these three in total revenue receipts constituted 58 percent in 1993-94. This shot up to as much as 91 percent in 1999-00 on account of the Pay Commission revision. Since then there has been some effort to curb these expenditures but it continued to siphon off as much as 81 percent in 2001-02. The RE for 2003-04, which is still a mid-term figure, puts it at 74 percent. The budget estimate for 2004-05 puts it at 70 percent i.e. 4 percentage points lower than the RE of the previous year. While the debt swap scheme does offer some scope for reduction of interest payments, with elections round the corner and budget announcements like D.A. hike of 6 percent in the 2004-05 budget, this target does not appear credible.

Delving a little further into details, in the some of the following paras, we take a closer look at specific expenditure heads of education and health and try to tell a story that relates the attainment indicators observed for education and health above with expenditure allocations in these two sectors.

Expenditure Allocations for Education and Health

Earlier in the paper, we looked at a conventional measure of educational attainment *viz.,* literacy. We are well aware that this measure of performance is only indicative, as a study of attainment in the education sector is in itself the subject matter of a large body of research. Be that as it may, looking at it from 'above', we find that the state has fared reasonably well temporally and also fared reasonably well among fifteen major states (3rd rank). The financial side of this story is that in per capita terms the expenditures on education, revenue account, have shown a steady increase with sharp spike in 1999-00 and

2000-01. This is clearly on account of the Pay Commission award. However, per capita education expenditure on capital account shows a distinctly downward trend since 1999-00. If we consider the share of education in revenue expenditures, we find the shares to be fairly consistent till 1999-00, when there was a sharp rise in the share of education expenditures on revenue account. However, this has been seen to revert to its earlier level in the last two years. Since this very year the share of education in capital expenditure has been severely cut. Thus increasing expenditure allocations to education in per capita terms appear to be reflected in improved attainment till 2001 (the year for which latest attainment indicators are available).

In the health sector too, attainment indicators suggest temporal improvement in conventional attainment indicators like IMR and death rate (*see*, Table 1). On the fiscal side we find that health expenditure, both on revenue and on capital account, have shown a steady increase in per capita terms over the ten-year period under consideration. In terms of shares, however, we find a steadily declining trend in the share of health expenditures on revenue account in total revenue expenditures but an increase in the share of health expenditure on capital account in total capital expenditures. A political economy explanation that one could possibly venture to provide for this result is that opening up of new public health centres (PHCs) and community health centres (CHCs) seem to be 'politically attractive' to incumbents to appease voters, but maintenance expenditures which are crucial for functioning of these PHCs/CHCs have been withdrawn pulled back.

Increasing social sector expenditures in per capita terms especially in revenue expenditures leads us to the conclusion that there does not appear to be any disconnect between expenditures allocations for social sector and social sector attainment. However, the low and declining share of education and health in revenue expenditures clearly show that social sectors have not contributed to the overall fiscal stress that the state finds itself in.

To continue in this vein further, we once again draw on the previous discussion on social sector attainment, where we pointed out that a highly urbanised state like Maharashtra needs to focus on issues such as vocationalisation of education and problems of HIV and AIDS. Also, in both education and health sectors we need to bridge the sharp divide between rural and urban sectors on a priority basis. Undoubtedly, all these are extremely important issues, but they are matters of micro level design and cannot be addressed in a paper such as this, which attempts to provide the macro picture. However, these observations lead us to the policy prescription that we need a re-adjustment of existing resources. These re-adjustments are needed at all levels – from non-developmental to developmental, specifically towards social sector and even within specific category of education and health expenditures we need a re-adjustment of resources to address specific areas of concern. A better balance needs to be achieved between revenue and capital expenditures. The challenge lies in achieving this whilst not allowing the macro-aggregates in fiscal/budgetary balance to spin out of control.

For tackling the existing problems and for gearing up to face future challenges, policies directed towards re-adjusting of existing resources must be coupled with those which increase the size of the pie itself. This brings us to the receipts side of the story.

Revenue Receipts

The efficiency in the government's functioning can be gauged from the trend pattern of own tax and own non-tax revenues (as mentioned previously, own tax revenues do suffer from the limitation of not factoring in tax exportation by states). The share of own non-tax revenues from economic services has, however, dipped from 45 percent in 93-94 to a low of 28 percent in 2001-02. It has improved to about 46 percent in the RE of 2003-04 but is expected to fall to 38 percent as per the budget estimate of 2004-05. This fall in non-tax revenues from economic services is indicative of subsidisation of these services.

The share of own tax revenues in revenue expenditure, the measure of tax effort used by the EFC, shows the maximum to have been reached in 1994-95 and 1995-96. The measure has shown some reduction in the second half of the 90s and reached its minimum in 2000-01. However, an increasing trend is noticeable since then. The buoyancies for some of the important taxes have been computed. Our estimates show that sales tax, the most important contributor to state government treasury, contributing approximately 60 percent of the state's own tax revenue, has a buoyancy which is lower than stamps and registration duty, electricity duty, taxes on vehicles and even land revenue. Multiple rates have made the sales tax structure complicated resulting in loopholes, which contribute to evasion. In addition to this, a number of tax exemptions have resulted in this source of tax revenue not contributing to a greater extent to the exchequer (Annexure A: Tables A7 and A8). Tax revenues can increase either by increasing tax rates or a widening of the tax base. The process of tinkering around with tax rates seem to have tapered off, hence a widening of the tax base must be actively explored coupled with improvements in tax administration to plug loopholes. A move towards *VAT* incentivises correct reporting and, given the predominance of the service sector in Maharashtra, getting more services into the tax net. These are two measures, which are sure to cause the revenue receipts of the GoM to move to a higher trajectory. Both these decisions are politically difficult and dependent on the decisions of the central government. Although, technically, the state can introduce VAT within its boundaries,[3] for it to be successful, a nation-wide VAT would need to be put in place.

Yet another reason why the state of Maharashtra needs to look towards the centre for improving its fiscal health is the design of intergovernmental transfers. The share of grants from the center in revenue receipts has declined from 11 percent in 1993-94 to reach its lowest of 5 percent in 1998-99. Subsequently there has been some increase but it stood at about 8 percent in 2003-04(RE) (Annexure A: Table A7). Here we would like to reiterate the point made in the previous section about increased weight being accorded to the efficiency criterion. In a previous study we have suggested a set of principles (FAIR PLAN approach) that should guide the devolution by Twelfth Central Finance Commission (*see* Pethe and Lalvani, 2004a). What it urges in the main is to have an element of incentive compatibility in the devolution process. Such a move is mandated by the emerging context of party (coalitional) politics and the reality of different political interests at the centre and the state. As a logical corollary it follows that a similar scheme must prevail when it comes to the transfer from the state to local bodies (*see* Karnik *et. al.,* 2001). The Fiscal Reform Facility of the Eleventh Finance Commission, which has instituted an incentive fund is a positive move in this direction. However, the package of rewards and penalties (incentive compatibility) needs to be instituted in the devolution criteria. Thus, what we are arguing here is for a more meaningful and a mandated/statutory interaction between various levels of governments.

Thus the story from the receipts side of the budget is that Maharashtra has fared reasonably well on the tax front. However, there is scope for improvement. For substantial improvements to occur, some measures could be adopted at the level of state government itself, but for others it must depend on a comprehensive package including reform measures at the level of the central government. Improvement at the level of the state government can occur by reducing exemptions and improving administration in case of taxes such as sales tax. For additional improvements such as bringing in more services into the tax net and implementation of VAT, the initiative needs to come from the central government.

Since resources raised thus far have fallen far short of expenditure needs, the state has been compelled to borrow. Unlike at the individual level, borrowing at the level of governments is not necessarily a vice. The use to which these borrowings are put is crucial. Given the large scale borrowings resorted to by all state governments, questions of debt sustainability have once again come to the fore. While the rule of thumb measure of debt to GDP ratio exceeding the interest rate can be used to get a feel for its sustainability, to our mind a careful analysis of the structure and composition of debt assumes greater importance from the point of view of debt restructuring.

Debt Position and Composition

The GoM defines total debt as having three components *viz.,* (i) Public Debt i.e. internal debt and loans from central government (ii) Borrowings from small savings and provident fund and (iii) other interest bearing obligations i.e. from reserve fund and deposits and advances. Total debt of the state of Maharashtra as a ratio of GSDP has gone up from 14 percent in 1993-94 to 25 percent in 2004-05(RE), i.e. an increase of 11 percentage points (Annexure A: Table A9). In nominal terms, the expenditure on interest payments has increased over five times. The share of loans and advances from the centre constituted as much as 88 percent of the total debt in 93-94. This share declined thereafter but continued to stay as high as 81 percent till 2001-02. On account of the debt swap scheme, the share of loans from centre has further declined to reach 51 percent in 2003-04 (RE) (Annexure A: Table A9).

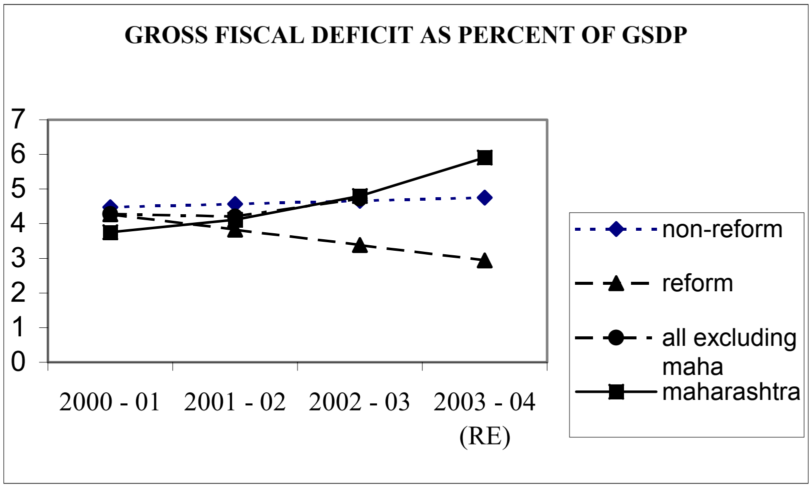
The debt problem of the state of Maharashtra is further compounded on account of extra-budgetary operations. Many PSUs in Maharashtra have raised money in the domestic capital market backed by unconditional and irrevocable guarantees by the GoM. These borrowings do not need to figure in the budget as they do not need the approval of the state legislature. These operations constitute (i) off-budget borrowings through the creation of new public borrwing instruments called Special Purpose Vehicles (SPVs). These are serviced through the budget. Borrowings through SPVs provide an easy way to bypass the GoI restriction placed on state government borrowings *via* Article 293, Clause (3)[4] and (ii) guarantees or contingent liabilities which are serviced by the borrowing agencies. While off-budget borrowings have been a feature of Maharashtra's finances only since 1996/97, it has been issuing guarantees on extra-budgetary borrowings since the 1980s. During the period 1996-97 to 2003-04 (RE) the stock of off-budget borrowings has shown a fifteen-fold increase. The amount outstanding by way of guarantees has increased seven fold between 1996-97 and 2001-02 (Annexure A: Table A10).

A point that we would like to make at this juncture is that off-budget borrowings, while 'gimmicky' and used as an instrument for circumventing government restrictions, cannot in a logical sense be deemed to be necessarily wasteful as they are borrowings for infrastructure projects. As in the case of all other forms of borrowing, the use to which these funds are put and the returns from those projects *vis-à-vis* the cost of these borrowings, however, will determine its viability. In Maharashtra's case, most of the funds borrowed *via* SPVs have gone into irrigation projects and have not been utilised appropriately.[5] However, if infrastructure funding is not to suffer, alternative sources/strategies of funding these projects need to be explored. One such alternative is the public-private partnership where the government acts as a provider of seed money. The other alternative that could be explored is the access of local bodies to capital markets *via* municipal bonds. The experience thus far shows that only bigger municipal corporations are in a position to take advantage of the resources available in capital market. Medium and smaller municipalities are unable to do so due to weak financial position and lack of capacity to prepare viable project proposals. Some suggestions that will enable small and medium local bodies to access the capital market have been provided in Pethe and Lalvani (2004b).

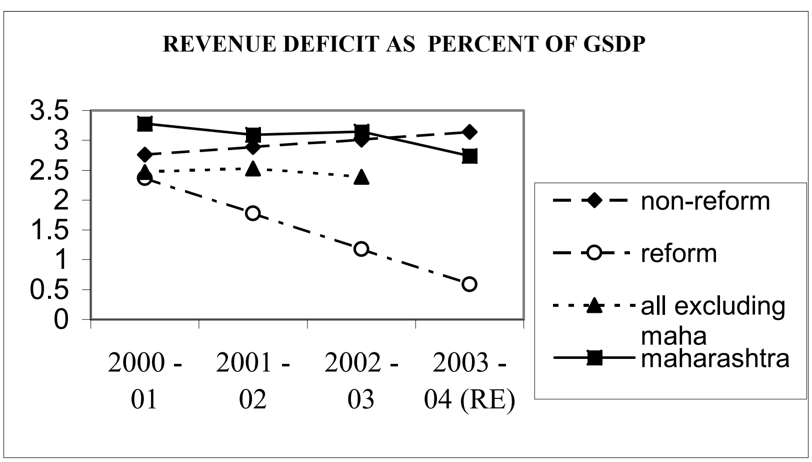
While there is no denying that the fiscal health of Maharashtra is far from enviable and has deteriorated significantly over the last decade, it would be unfair not to credit the Government of Maharashtra (GoM) (bureaucracy included) for recognising the problems and putting them down in the form of reports and documents. In October 1999, a White Paper on the state's finances was presented and discussed in the State Legislature. The National Institute of Public Finance and Policy (NIPFP) was engaged in a study of state finances and it submitted its final report in September, 2001. A one-man committee was then appointed to suggest ways to improve the transparency in budgetary processes (Godbole, July 2001). Under the States' Fiscal Reform Facility the GoM drew up the Medium Term Fiscal Reform Programme for Maharashtra. Like 14 other states the GoM too signed an MoU with the central government. However, the fact that the MoU and the MTFRP document have not been put on the public domain defeats the very purpose of any such reform initiative. If reform commitments are to be institutionalised then it must be made mandatory that such documents be put on public domain. Such publicly made commitments have a greater chance of tying the hands of political parties and ushering in accountability on the part of governments.

IV. Assessing Maharashtra's Performance During MTFRP Period: 2000-01 to 2003-04(RE)

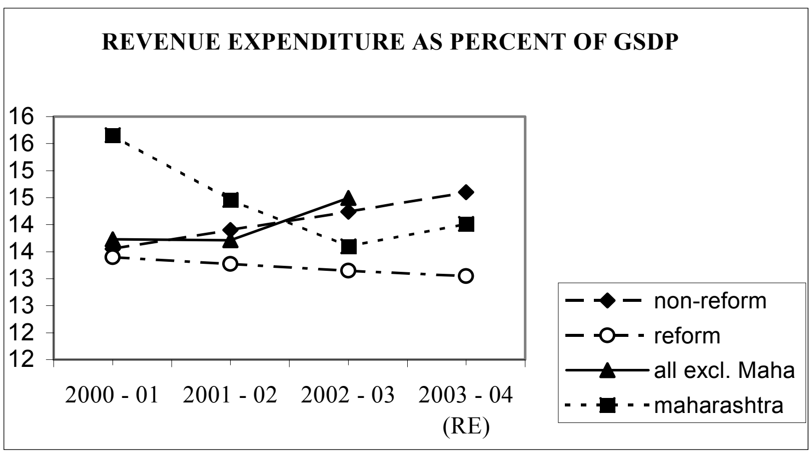
Since the origins of the MTFRP go back to the EFC and also since the MTFRP document of the GoM was not available in public domain we have chosen to assess Maharashtra's performance on some key parameters in the 'reform' scenario *vis-à-vis* the 'base' or 'no-reform' projections for all states made by the Eleventh Finance Commission (EFC) and also *vis-à-vis* the actual performance of all states other than Maharashtra (this refers to the aggregate of all 28 states). The performance of all states could be traced only up to 2002-03 (RE) as the RBI data on state finances make inter-state comparisons possible only till this point. The 'no-reform' and 'reform' graphs are as projected by the EFC for GFD/GSDP. We find that Maharashtra started off as being better than even the reform projections made by EFC but ended up being worse than even the no-reform scenario.



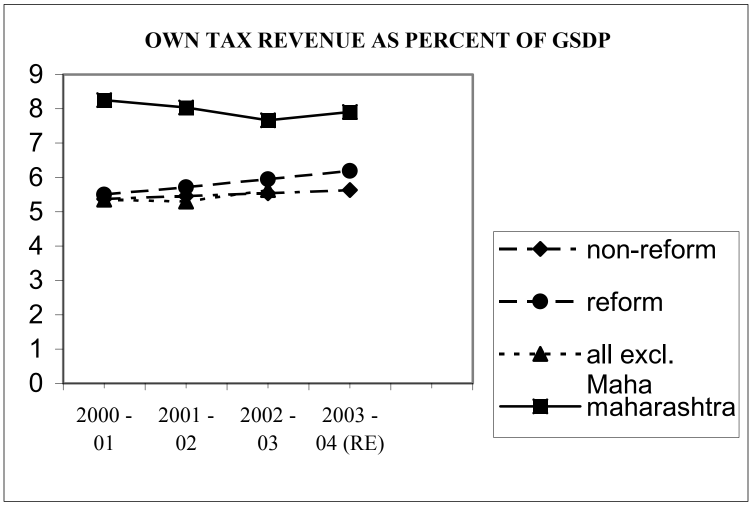
Maharashtra shows up in poor light as far as the ratio of revenue deficits to GSDP is concerned. The state was worse than the no-reform projection and the performance of all states in the beginning stages. Some improvement on this front, however, is noticeable in 2003-04 (RE) where it is better than the no-reform projection but way off target from the reform projection.



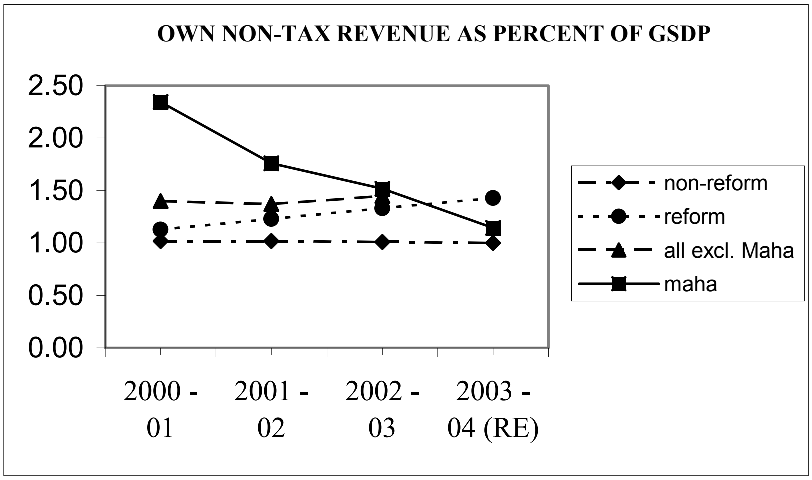
Delving a little further into the structure of revenue deficit, we find that revenue expenditure as percentage of GSDP has shown a steady reduction. In 2002-03 its performance has shown an improvement. It has bettered the collective performance of other states and the non-reform projections. This improvement, however, must be juxtaposed with our observations in the previous section where we analysed revenue expenditures in detail. The observation made was that it is the 'developmental' category of expenditures that has been axed. This finding serves to draw attention to the potential danger of target setting without charting out the road map for attaining these targets. In the context of this lacunae in the FRBM, Karnik (2002) observes that in the absence of any checks and balances along a well-defined path, our politicians would be sure to try and attain the goal of deficit reduction by axing the politically convenient expenditures on social sector.



Having taken stock of the expenditure performance we proceed to examining the receipts side of the budget. Maharashtra's performance on the own tax front has been substantially better than even the reform projections of the EFC .



On the front of own non-tax revenues, Maharashtra's performance was substantially better than that of other states and the reform projections of EFC. However, there has been a steady decline on the performance on this front. The ratio of non-tax revenue to GSDP for Maharashtra declined to come at par with the combined performance of other states in 2002-03. The revised estimate for 2003-04 shows it to have slipped even further to almost reach the non-reform projection.



The overall impression is that while Maharashtra's performance has bettered the reform projections made by the EFC on the revenue front, it has fallen short of the target on the expenditure front. A more detailed analysis of the previous sections revealed that structure of the deficit and the direction of expenditure pruning that has occured is a cause for concern. Some of the welcome reform initiatives that have been initiated include the introduction of the Fiscal Responsibility (FRB) and Social Responsibility Bills (SRB) in the Assembly.

Moving a step forward from the macro picture of the fiscal scenario of Maharashtra, if we were to identify one specific sector, which has added significantly to the fiscal woes of Maharashtra, the prime accused is the 'power sector'. The section that follows provides a somewhat more detailed discussion of sectoral issues, specifically the power sector and the cotton and sugar markets.

V. Sectoral Issues

Power Sector in Maharashtra

Maharashtra has the highest installed capacity, both private and public, and the largest market among the Indian states. Three power utilities, TATA Electric Company, Bombay Suburban Electric Supply (BSES) and Bombay Electric Supply & Transport (BEST) serve the Mumbai area. The first two are private, and the third one is municipality–owned but operates with considerable autonomy. Outside Mumbai, the Maharashtra State Electricity Board (MSEB) – a public body created under the Electric Supply Act, 1948 of the Government of India–is the sole supplier of power in Maharashtra.

Until 1999-2000, MSEB's financial performance was guaranteed by the state. In August 1999, Maharashtra Electricity Regulatory Commission (MERC) was established and has become effective since 2000-01. It sets electricity tariffs based on tariff filings submitted by MSEB. This has resulted in MSEB’s financial and other data becoming public and subject to considerable scrutiny. MERC has set strict performance targets for MSEB and has issued tariff orders predicated on efficiency improvements together with tariff adjustments such that the state will no longer have to subsidise the utility. MSEB required a manageable subsidy of Rs 300-650 crore until 1998-99. Since 1999-00, when Dabhol came into existence, MSEB has become a loss making enterprise without subsidy. The net loss without subsidy was to the tune of Rs. 1,149 crore for the year 2000-01. The budgetary support to the power sector which constitutes (i) subsidy; and (ii) capital outlay and net lending has risen from Rs. 450 crore in 1993/94 to Rs. 1,122 crore in 2003-04 (RE) i.e. an increase of 2.5 times (Annexure A: Table A11). The point about the Dabhol episode is that while it may be considered an isolated instance that did not come off, the ill effects have a tendency to cast their spell wide and long. Indeed, not only will this lead to financial losses to the state economy, and the consequent loss of face *vis-à-vis* foreign investors, it will be a while before such a momentous initiative will be conceptualised again, let alone actually taken.

The power sector in Maharashtra, as in many other parts of the country, has been characterised by a total lack of commercial orientation.

Tariffs for domestic and agricultural segments are lower than the average cost of supply of power, and are subsidised by the commercial, industrial and the railway traction consumers. Even so, though the average cost of generating electricity is 357.54 ps. per unit, the average realisation is only 270.02 ps. per unit, i.e. a loss of 87.52 ps. per unit.

Table A.12 (Annexure A) shows that even though the agricultural/irrigation sector consumed about 25 percent of the total electricity sales, it contributed only a dismal 7.7 percent of the total revenues. The distorted tariff structure has led to an increase in high-paying industrial consumers setting up their own generating stations which currently have generating capacity of about 641 MW. In addition, NoCs for an additional 1,181 MW captive capacity have been given. While consumption of power from the MSEB grid by high-paying industrial consumers has been on the decline, consumption by subsidised consumer categories has grown over the past few years. Further, the low tariff for subsidised consumers has not only led to lower revenues, but also to sub-optimal consumption from these consumers *(*GoM's white paper on Maharashtra Power Sector Reforms***)***. The T&D losses are high at about 39.4 percent.

Despite the problems confronting MSEB, a study exempted in 2002 by the Department of Power, GoI, of various electricity boards and electricity departments where scores were given according to the several factors that they listed out, Maharashtra was ranked 5th . Here the point that we wish to make is that despite the fact that the MSEB is not performing so badly in relative terms there is no room for complacency. Maharashtra is a highly industrialised state and its performance hinges crucially on the power sector, hence problems confronting this sector are likely to affect the economic well-being of the state of Maharashtra to a greater extent than would be felt in other less industrialised states of India.

The new *Electricity Act, 2003* has come into force from June 2003. An important aspect of the Act is that the provisions relating to subsidies and cross-subsidies are well spelt out.[6] It clearly states that if the state government requires any specific category of consumers (e.g. farmers), be given a subsidy then the subsidy amount should be paid in advance to MSEB in the manner as specified by MERC. However, the new government has asked for the act to be reviewed, hence a sense of uncertainty prevails. Speedy action in this context is called for, as it must be recognised that problems confronting the power sector are huge and there are no quick fixes. The White Paper on power sector reforms makes it clear that the GoM recognises the significance and the urgency of undertaking reforms in this sector on a priority basis.

Fiscal Implication of Interventions in Cotton and Sugar Markets

The populist Cotton Monopoly Scheme of the Government of Maharashtra is only too well known. The Maharashtra State Marketing Federation operated the scheme as the chief government agent till 1984, when it was taken over by the Maharashtra State Co-operative Cotton Growers' Federation Ltd. The scheme made profits for ten years. Since 1994-95 the two factors that have contributed to its downfall are falling market prices and rising minimum support price. In the year 1994-95 the total cost rose by 40 percent, of which 70 percent was due to higher procurement price. The accumulated losses of the Federation in 2000-01 were nearly Rs. 28,000 crore. This scheme has resulted in benefiting financial institutions and intermediary traders rather than the cotton farmers (World Bank, 2002).

Sugar cooperatives are the other major problem that has added to the financial burden on the state exchequer. The rationale behind government support to sugar co-operatives was to promote rural development. However, a majority of sugar co-operative mills in Maharashtra are sick. This is a consequence of a lack of proper cost-benefit analysis before setting up of the mill. The proliferation of new mills has resulted in underutilisation of existing ones. The outstanding stock of guaranteed loans at the end of the year 2000 was Rs.3,300 crore. Given the sickness of a large number of sugar factories many of these guarantees are likely to be invoked. This will add substantially to the woes concerning the existing precarious fiscal health of the state. In the 2004-05 budget, the government has given default guarantee to 51 co-operative sugar factories' pre-seasonal loan amounting to Rs. 39.57 crore during the crushing season 2003-2004. It also gave guarantee for the working capital term loan of Rs. 786.50 crore to 31 co-operative sugar factories. This measure is sure to add to the already strained fiscal health of the state. But given the political economy considerations in general, and near election time in particular, reforms in this arena are fraught with difficulties.

After all the financial and fiscal data and ratios are computed and lacunae are identified, policy initiatives need to be suggested and taken. These cannot be operationalised in a vacuum. The framework of policy regime is constructed through principles of governance. This forms the subject matter of discussion in the section that follows.

VI. Governance Issues

Governance is a generic term. It has to do with the strategies that deal with identification of the lacunae and operational policy initiatives to be undertaken given the objectives of the government in order to infuse greater efficiency, transparency, and accountability in its processes. The framework of strategic regimen is constructed through principles of governance. Given the objectives of the government, 'good governance' is concerned with systemic design that leads to better and efficient practices being adopted by administrative machinery–in some sense divorced (sanitised) from partisan political considerations–in the conduct of governmental policies. In a country like India, it is essential that polity, bureaucracy, private sector and civil society forge synergistic relations in order to create an environment conducive to good governance.

One of the chief concerns in this area is denoted by the umbrella term of capacity building. This term has several connotations. The change in the macroeconomic ethos has implied that state level policy design and implementation have to be carried out in a different manner. The best management practices need to be borrowed from private sector and inculcated by the state government machinery even in the highest echelons. Implementation at times will be seriously impinging on the vested interests of groups in the society and will require tact and political will to see such a transformation through. Capacity needs to be built in this arena with the instrumentality of state administrative schools like the YASHADA. Similar capacity needs to be built in accessing capital markets or taking bank exposure or indeed designing the enabling regulatory framework thereof. This requires considerable economic skills, something that many a public servant will need to work at. Design of specific courses for government employees is a task that requires urgent attention.

At a higher level of governance (perhaps even at the political level) serious attention has to be paid to creating an incentive compatible structure in government service from top to bottom. In-service training and recognition of achievement through monetary and other compensation needs to be institutionalised. Thus, the public servants must perceive themselves as stakeholders in the process of governance. It is clear that service conditions have to be adjusted to be in tune with the changing times. This is clearly recognised but nothing concrete has yet emerged in the state of Maharashtra.

Allied considerations have to be given to the question of political interference. In particular, transfers have to be rational and transparent, so that they sub-serve the goal of enhancing systemic efficiency rather than being an instrument of petty political vendetta. Maharashtra has taken some steps in this regard. The Administrative Reforms Commission headed by Shri Sukhtankar, and the Godbole committee report have taken pains to focus on this very aspect (of non-transparency and arbitrary transfer process). The reports are comprehensive and have been accepted and much appreciated but nothing really has moved on the ground. The trick here – the crucial next step – is to have in place a mandatory requirement on the part of whichever government is in place to follow certain procedures that would stop 'politicisation' and consequent emasculation of bureaucracy.

Perhaps the time has come to have a fresh look at the role of the state in the present circumstances and redefine it. Apart from recognising the difference between the traditional role of government and the more modern (enabling) role using a delimited and well-defined multi-level hierarchical structure with obvious technology application in terms of e-governance, it must be recognised that the older regime has been carrying considerable extra baggage for too long. The time has come to trim the responsibilities of the state and focus on catering to bare socially essential services. This will serve two purposes, one, the financial provisioning will come down and two, the quality of services to be provided will be focused so that it will become altogether more possible to monitor the quality of service delivery in an accountable way. Thus, what we are stressing here is the need to build a conducive and enabling environment that will accept changes in the institutional settings. There is an obvious scope for considerable capacity building here. The initiative here has to come from the 'political process' perhaps with help from civil society, because the perception of both politicians as well as the bureaucracy will be that they will lose the domain of influence both in extent and magnitude.

Thus, governance issues emerge at various levels and should be dealt with as such. These involve training of staff in specific skills apart from procedures and protocols, the changes in service conditions so that an incentive compatible system is in place. There are changes required at the level of policy making and regulation to keep in step with the changing environment. Finally, there is need to bring about a change in the institutional substructures and their interaction modes not to mention involvement of expert external agencies. All this requires a massive capacity building exercise requiring a change in mindsets, creation of a feeling on the part of all the agents of being real stakeholders with the end result of improved governance.

VII. Conclusion

First a backdrop of the state of Maharashtra in its various economic facets has been provided. We have then zeroed in on the fiscal situation and performance both in the relative (to other states) as well as the temporal (standalone) aspects. In doing this, we have gone into the structural details in order to gain insights and policy implications for improvements. Apart from illustrative treatment of the power sector – in some sense the pons asinorum – for Maharashtra's progress, we have also dealt briefly with governance issues. The paper points to many specific problems and contains some specific suggestions that are briefly recapitulated below.

- The role of the state and its areas of intervention must be delimited and well defined.
- An enabling environment must be put in place for the secondary sector, which is currently lagging behind, to perform to its potential.
- Policy initiatives must address the question of regional imbalance.

- With 42 percent of the population residing in urban areas, special effort must be made to analyse the issues and problems specific to the urban sector in Maharashtra.
- There is a case for enhanced outlays under the EGS with a substantially higher reallocation in favour of the poorest regions.
- Vocational education must be given greater attention.
- Serious consideration must be given to rectify the structural lacunae in the budget.
- Intra-state variation is a cause for concern on the health front and needs to be addressed.
- Improvement on the expenditure side of the budget requires a re-adjustment of existing resources, coupled with policies directed towards increasing the size of the pie itself.
- Improvement on the receipts side requires a reduction in exemptions and an improvement in tax administration. Additional improvements include bringing in more services into the tax net and implementation of VAT where the initiative needs to come from the centre.
- Mechanisms – such as legislative changes and the pooled fund approach – for smaller and medium municipalities to access the capital market must be designed.
- If reform commitments are to be institutionalised then it must be made mandatory that relevant documents be put in public domain. Such publicly made commitments have a greater chance of tying the hands of political parties and ushering in accountability on the part of governments.
- A more meaningful and a mandated/statutory interaction between various levels of governments must emerge.
- Finally, for effective service delivery to happen, capacity building and governance issues must be tackled at all levels of government.

The policy suggestions – the solution set – can be divided into three types of policies. One that deals with what the state can do on its own, another that deals with what needs to be done by the central government to create an enabling environment and the third that deals with governance issues. The first type requires policies to be implemented by the state that have to do with financial matters in the main but also deal with creation of meaningful and viable substructures. They also are concerned with having properly worked out implementation mechanisms/ schemes. The second type deal with policies that the central government must pursue in its dealing with the states. The third type are overarching in a sense that they concern the governments at all levels and have to do with capacity building as well as having pragmatic regulatory frameworks in place.

The political space throws up many contradictions and compulsions so that techno-economic feasibility is never sufficient. Yet our hope lies in the fact that through all this muddle, politics continues to be an art of the possible.

References

Gaiha R. 2003. "Is There a Case for the Employment Guarantee Scheme in India? Some Recent Evidence" ASARC Working Paper no. 2004-09 http://ideas.repec.org/p/pas/asarcc/2004-09.html (viewed on 4/10/2004).

Karnik A., 2001. "A Decade of Reforms in Maharashtra: Progress and Prospects". Paper presented at seminar on ***Reforms, Institutions and Policies: Challenges Confronting the Indian Economy***, Department of Economics, University of Mumbai.

Karnik A. *et. al.*, 2001. Developing a Quantitative Framework for Determining Devolution of Funds from the State Government to Local Bodies. A study done for Maharashtra State Finance Commission.

Karnik A., 2002. Fiscal Responsibility and Budget Management Bill: Offering Credible Commitments, *Economic and Political Weekly*, January 19, 2002.

Lahiri A. and R. Kannan, 2001. *India's Fiscal Deficits And their Sustainability in Perspective.* www.fiscalconf.org.

Pethe A., 1996. "State and the Poor". *Journal of Indian School of Political Economy 8(*4): 759-767.

Pethe A. and M. Lalvani, 2004a. "A FAIR PLAN Approach For Devolution Under The Twelfth Central Finance Commission: Some Suggestions", ORF Papers.

Pethe A. and M. Lalvani, 2004b. Towards Economic Empowerment of ULBs in Maharashtra. Paper presented at the seminar, ***Perspectives on Maharashtra's Economy,*** Deptt. of Economics, University of Mumbai.

T.T. Ram Mohan, 2004."States lose as the Centre gains". The *Economic Times*, April 22.

World Bank, 2002. Maharashtra: Reorienting Government to Facilitate Growth and Reduce Poverty Vols. I and II, World Bank, Washington D.C.

Annexure A

Table A1: Gross State Domestic Product 1993/94 prices

(%)

Year	Annual Growth Rates				Sectoral Contribution (As per cent of GSDP)		
	GSDP	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
1993-1994	-	-	-	-	20.16	32.77	47.07
1994-1995	2.55	-1.37	2.34	4.38	19.39	32.70	47.91
1995-1996	11.49	4.81	15.43	11.51	18.23	33.86	47.91
1996-1997	5.08	15.58	4.59	1.43	20.05	33.70	46.25
1997-1998	5.56	-12.97	11.85	9.02	16.53	35.71	47.76
1998-1999	2.92	4.84	-4.17	7.56	16.84	33.24	49.92
1999-2000	9.76	9.01	6.14	12.42	16.72	32.15	51.13
2000-2001	-3.75	-4.15	-12.63	1.96	16.66	29.18	54.16
2001-2002	5.17	5.14	1.33	7.25	16.65	28.12	55.23
2002-2003	6.13	-1.70	6.36	8.37	15.42	28.18	56.40

Source: Economic Survey of Maharashtra, various issues

Table A2: Regional Variation in District Domestic Product

	Relative contribution to per Capita Gross District Domestic Product (93-94 prices)		C.V across 5 admin. Divisions	Relative Rank of Maharashtra among 14 states based on per capita GSDP (93-94 prices)	
	Mumbai	Mumbai+ Nasik+ Pune		Maharashtra including Mumbai	Maharashtra Excluding Mumbai
1993-1994	36.51	74.77	50.78	2	3
1994-1995	36.13	75.82	50.70	2	4
1995-1996	36.46	76.70	51.80	1	4
1996-1997	36.06	78.19	49.04	2	4
1997-1998	38.82	78.23	56.25	2	4
1998-1999	37.50	76.94	53.15	2	4
1999-2000	37.92	78.16	51.00	1	4
2000-2001	37.79	78.20	51.10	2	5
2001-2002	37.70	78.18	50.66	2	5

Source: District Domestic Product Series, GoM

Table A3 : Measures of Fiscal Imbalance

(%)

	Gross fiscal deficit as % of GSDP	Gross fiscal gap as % of GSDP	Primary deficit as % of GSDP	Revenue deficit as % of gross fiscal deficit	Capital Deficit As % of GSDP
1993-1994	2.00	2.64	0.67	5.38	-0.06
1994-1995	2.20	3.80	0.85	-9.69	-0.25
1995-1996	2.63	3.05	1.33	14.67	-0.51
1996-1997	2.76	3.21	1.40	32.11	-0.80
1997-1998	3.32	3.79	1.82	40.05	-1.45
1998-1999	3.49	4.01	1.77	52.61	-2.19
1999-2000	4.81	5.34	2.81	36.47	-1.02
2000-2001	3.76	5.29	1.57	87.28	-3.39
2001-2002	4.12	4.68	1.69	75.14	-2.76
2002-2003	4.80	5.41	2.41	65.58	-3.35
2003-2004 (RE)	5.91	7.72	3.39	46.40	-2.18
2004-05 (BE)					
	4.06	4.92	1.28	66.07	-2.51

***Note*:** Gross Fiscal Gap (GFG) is a measure based on Karnik (2001). It does not exclude discharge of internal debt and repayment of loans to the center since both these involve a commitment of resources for the states and factoring them out would wrongly suggest a reduced requirement of resources.

Table A4: Expenditures on Revenue Account and its Components

	Revenue exp. as % of total expendi-ture	Devt. exp on rev. acct. as % of revenue expenditure	Social services on revenue account as % of revenue expenditure	Economic services on revenue account as % of revenue expenditure	Non-dev. exp on revenue account as % of revenue expenditure
1993-1994	82.02	61.79	34.76	27.03	37.87
1994-1995	73.96	60.37	35.29	25.08	39.33
1995-1996	80.31	60.71	37.86	22.85	39.02
1996-1997	83.37	61.86	35.49	26.37	37.72
1997-1998	82.73	59.46	37.54	21.92	39.91
1998-1999	84.65	57.96	36.74	21.22	41.36
1999-2000	77.24	55.65	37.85	17.80	42.45
2000-2001	88.61	58.84	38.37	20.47	39.31
2001-2002	90.12	52.28	36.93	15.35	46.32
2002-2003	85.72	53.99	35.13	18.87	44.34
2003-2004 (RE)	73.79	52.43	36.37	16.06	45.20
2004-05 (BE)					
	86.05	46.43	32.66	13.77	52.26

***Source*:** Financial statements, GoM, and Budget in brief, GoM, various issues

Table A5: Select Expenditure Categories on Revenue Account (As % of Revenue Receipts)

	Interest payments	Salaries	Salary + pension & retirement benefits + interest payments
1993-1994	11.63	43.35	58.31
1994-1995	11.66	40.82	55.73
1995-1996	12.41	42.63	58.69
1996-1997	12.71	41.08	57.89
1997-1998	14.29	43.51	62.33
1998-1999	16.90	46.14	67.43
1999-2000	19.33	65.81	91.43
2000-2001	17.67	45.49	70.34
2001-2002	21.36	50.77	80.74
2002-2003	22.92	49.88	80.93
2003-2004 (RE)	22.35	44.45	74.29
2004-05(BE)			
	25.00	38.10	69.86

Table A6: Capital Expenditure

	Capital expenditure as % of total expenditure	Cap. Exp. on soc. serv as % of capital expenditure	Repayment of int. debt & of loans & adv to centre) as % of capital expenditure
1993-1994	17.98	3.37	19.28
1994-1995	26.04	1.98	9.72
1995-1996	19.69	3.02	12.84
1996-1997	16.63	2.92	15.18
1997-1998	17.27	2.88	16.19
1998-1999	15.35	5.98	19.82
1999-2000	22.76	2.08	12.54
2000-2001	11.39	2.51	23.22
2001-2002	9.88	3.17	29.27
2002-2003	14.28	2.36	20.68
2003-2004 (RE)	26.21	2.17	33.13
2004-05(BE)			

	13.95	2.65	33.19

Table A7 : Composition of Revenue Receipts
(as % of revenue receipts)

	Tax revenue	Own tax revenue	Own non-tax revenue	Grants
1993-1994	71.13	59.26	18.35	10.52
1994-1995	74.05	62.66	19.24	6.71
1995-1996	76.16	66.03	16.76	7.08
1996-1997	72.66	60.84	19.50	7.84
1997-1998	76.05	67.53	17.92	6.03
1998-1999	78.78	65.34	16.44	4.79
1999-2000	78.65	68.32	15.58	5.77
2000-2001	76.13	66.71	18.93	4.95
2001-2002	78.94	70.74	15.47	5.59
2002-2003	87.88	73.35	14.52	7.28
2003-2004 (RE)	78.34	70.17	10.16	8.17
2004-05 (BE)				
	79.48	70.46	11.74	9.02

***Source*:** Computed from financial statements, GoM, and Budget in brief, GoM, various issues

Table A8 : Buoyancies of Major State Taxes

	1993-94 to 2003-04 (RE)
Tax Revenue	1.107
State's own Tax Revenue	1.138
Sales Tax	1.081
Stamps & Registration fees	1.381
State excise duties	0.933
Electricity duties.	1.435
Taxes on vehicles	1.311
Taxes on goods & passengers	0.320
Land Revenue	1.362

Source: Computed from financial statements, GoM, and Budget in brief, GoM, various issues

Table A9: Debt Profile of Maharashtra

(%)

	Dept as % to GSDP	Share of loans & advance from central government to total debt	Share of internal debt of the state government to total debt	Share of provident fund, small savings etc.
1993-1994	13.55	88.16	11.84	11.61
1994-1995	13.44	86.12	13.88	11.67
1995-1996	12.66	84.52	15.48	11.67
1996-1997	13.21	83.84	16.16	11.56
1997-1998	14.48	83.72	16.28	10.96
1998-1999	15.99	84.00	16.00	10.86
1999-2000	17.55	83.54	16.46	13.60
2000-2001	21.07	83.02	16.98	12.94
2001-2002	22.61	81.19	18.81	11.93
2002-2003	23.17	68.27	31.73	10.44
2003-2004 RE)	25.23	50.91	49.09	10.88
		2004-05 (BE)		
	25.66	44.88	55.12	10.51

Table A10: Extra Budgetary Operations

(Rs. crore)

	Stock of off budget borrowings	Sum of guarantees outstanding
1993-1994	0	-
1994-1995	0	-
1995-1996	0	-
1996-1997	975	7636**
1997-1998	1621	9933
1998-1999	4146	19729
1999-2000	6494	32146
2000-2001	9534	45979
2001-2002	12664	52922
2002-2003	13833	n.a
2003-2004 (RE)	14181	n.a.

Source: Off budget borrowings: World Bank (2002). Data from 2001-02 onwards have been obtained from Finance Dept. of GoM, hence figures may not be strictly comparable.Guarantees: CAG report 2001-02.
Http://www.cagindia.org/states/maharashtra/civil/index.htm
as viewed on June 13th 2004.
** sum of guarantee outstanding up to 1996-97

Table A: 11

	Power subsidy (Rs. cr.)	Capital outlay & net lending (Rs. cr.)	Budgetary support to power sector (Rs. cr.)
	(1)	(2)	(3) = 1 + 2
1993-1994	0	450	450
1994-1995	0	730	730
1995-1996	0	350	350
1996-1997	0	760	760
1997-1998	0	690	690
1998-1999	0	510	510
1999-2000	0	450	450
2000-2001	2371	220	2591
2001-2002	629	719	1348
2002-2003	712	439	1151
2003-2004 (RE)	835	287	1122
2004-05 (BE)			
	713	161	874

Table A 12: Sales and Revenue Receipts of MSEB for the year 2001-02

	Sales		Revenue	
	Mn. Kwh.	% of total	Rs. Mn.	% of total
Domestic	9771	20.76	2423.4	19.07
Commercial	2023	4.30	923.28	7.27
Agri/Irrign	11911	25.31	980.04	7.71
Industry	17927	38.09	6864.68	54.02
Railways	1110	2.36	466.12	3.67
Other States	700	1.49	182	1.43
Others	3621	7.69	868.56	6.83
Total	47063		12708.08	

Source: Annual Report (2001-02) on The Working of SEB's & Electricity Departments

Annexure B

Data Adjustments

1. *Capital Receipts*

Maharashtra budget document gives capital receipts inclusive of ways and means advances and cash balance investment.
RBI classification = Cap. Receipts of Maharashtra Govt. - [ways & means + cash balance investment (net)].
*(*We conform to RBI def.)

2. *Capital Expenditure*.

Maharashtra Budget document gives capital receipts inclusive of Ways and Means Advances RBI classification = Capital Expend of GoM. - ways & means advances
*(*We conform to RBI def.)

3. *Development Expenditure (on revenue account)*

RBI classification = social services + economic services
GoM budget Social Services + Economic services + compensation to local bodies
(We conform to RBI def.)

4. *Non-development Exp (on revenue account)*

RBI classification = exp. on general services.
GoM budget defines non-devt. revenue expenditure as expenditure on general services + expenditure on debt services
(We conform to RBI def.)

5. *Development Expenditure (on capital account)*

RBI classification = Expenditure on Economic services + Social Sevices
Maharashtra Budget = Expenditure on Economic services + Social Sevices + loans by state governments

6. *Non-Development Expenditure (on capital account)*

RBI classification = expenditure on general services
Maharashtra Budget = Discharge of internal debt + repayment of loans to the centre (including ways and means advances)

In our study we do not analyse capital expenditures in terms of development / non-development. Instead we look at specific expenditure categories.

7. *Gross Fiscal Deficit*

Gross Fiscal deficit = Budgetary Deficit + Borrowings and lendings (While the definition remains the same the nos. in our study are based on RBI definition, hence the figures differ from budget documents of GoM

(Specifically we deducted ways and means advances from capital expenditure and ways and means advance and net cash balance investment (CBI) from capital receipts)

8. *Primary Deficit*

The budget in brief of GoM for 2004-05 has defined

Primary Deficit = GFD - (interest payments and appropriation for debt servicing).

We have conformed to previous def. of primary deficit = GFD-interest payments.

Endnotes

1 The sample comprises the same fifteen states for which social attainment indicators were considered. In order to maintain consistency over time Bihar, M.P. and U.P. have been considered to be undivided. Specifically, Bihar and Jharkhand, M.P. and Chattisgarh; U.P. and Uttaranchal have been clubbed together for the years 2000/01 to 2002/03(RE).

2 We thank M. Govinda Rao for drawing attention to this point.

3 Maharashtra did experiment with a subtraction type VAT between 1995-99 but the experiment did not succeed.

4 Article 293 Clause (3) of the Indian Constitution states that "A state may not without the consent of the GoI raise any loan if there is still outstanding any part of the loan which has been made to the GoI or by its predecessor government, or in respect of which a guarantee has been given by the GoI or by its predecessor government."

5 We would like to thank the Finance Secretary of Maharashtra, Chitkala Zutshi for drawing attention to this.

6 "If the state government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the State Commission under Section 62, the state government shall, notwithstanding any direction which may be given under Section 108, pay, *advance* in the manner as may be specified by the State Commission the amount to compensate the person affected by the grant of subsidy in the manner the state commission may direct, as a condition for the license or any other person concerned to implement the subsidy provided for by the state government. Provided that no such direction of the state government shall be operative if the payment is not made in accordance with the provisions contained in this section and the tariff fixed by State Commission shall be applicable from the date of issue of orders by the Commission in this regard."