NIPFP Working paper series

Would UDAY brighten up Rajasthan Finances?

No. 211
06-Mar-2018
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New Delhi

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Abstract

Ujwal DISCOM Assurance Yojana (UDAY) required number of State governments to take over debt of power distribution companies in their books of accounts. Though this one time intervention made both debt and deficit measures more comprehensive, this has raised many challenges including comparability of deficit across States and long run fiscal implications of power sector debt on State finances.

Keywords: Power distribution companies, debt restructuring, deficits, Rajasthan

JEL Classification Codes: H72, H74, H77, H81

1. Introduction

Fiscal prudence in most countries, including India, is focused on general government deficit. Although, there is a strong merit in focusing on public sector borrowing requirement (PSBR) to judge fiscal health, paucity of data has always prevented from having a consolidated view of public sector borrowing. In Indian federal system also, the focus has always been on controlling fiscal deficit reflected in the State and Union government budgets without much attention given to the PSBR. Deficit in government budget is not the true reflection of public sector indebtedness. However, this situation has changed significantly for some States in India with the introduction of Ujwal DISCOM Assurance Yojana (UDAY). Under UDAY, a number of State governments have taken over debt of power distribution companies in their books of accounts. Though this one-time intervention made both debt and deficit measures more comprehensive in many States for two years, this has raised many challenges including comparability of deficit across States and long-run fiscal implications of power sector debt on State finances. In our view, this restructuring of power sector debt may have the following long run fiscal implications:

a) **Impact on Debt and Deficit:** As DISCOM liabilities taken over by the State are long term in nature, there is a possibility of increase in deficits, particularly revenue deficit due to the increase in interest payment as a result of the increase in the stock of outstanding debt. There could be a corresponding reduction in capital expenditure if a State has to remain within the fiscal deficit target specified under the Fiscal Responsibility Act (FRA).

b) **Operation of the Borrowing Framework of Fourteenth Finance Commission (FFC):** As UDAY scheme has come into force post FFC's recommendations, the fiscal framework for higher borrowing proposed by FFC[1] for higher capital spending remains unclear for all the States participating in UDAY scheme. Should a State's fiscal prudence be judged by

[1] The new framework of borrowing recommended by the FFC provided additional borrowing to the fiscally prudent States. It recommended fulfillment of the following conditions by States to be eligible for enhanced borrowing:
(i) Fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP. States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 per cent in the preceding year.
(ii) States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments (IP) are less than or equal to 10 per cent of the revenue receipts (RR) in the preceding year.
(iii) The two options under these flexibility provisions can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a State can have a maximum fiscal deficit-GSDP limit of 3.5 per cent in any given year.
(iv) The flexibility in availing additional borrowing under either of the two options or both will be contingent upon the State having no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year.
This facility came into operation in 2016-17, the second year of the award of the FFC. For more details see Finance Commission (2015) and Chakraborty et al. (2017).

a fiscal deficit which is affected by UDAY bond and its long run interest liability? Is it not important to examine whether more number of States would be eligible for additional borrowing if UDAY impact is taken out from the calculation of the deficits?

c) **Challenges in Operationalizing FRBM Review Committee's Recommendations** FRBM review Committee suggests that aggregate State debt should be 20 per cent of GDP by 2025.[2] Given that the outstanding liabilities aggregated across States as percentage of GDP was 22.83 per cent in 2015-16 and is budgeted to be around 23.97 per cent in 2016-17RE and 24.16 per cent in 2017-18BE, this would require States to considerably tighten their finances to reach this benchmark. What would this mean for States with large debt, either due to UDAY or without UDAY exposure remains unclear?

The impact of UDAY on the finances of each of the State that has joined UDAY is difficult to undertake, as in many States data at sufficient level of disaggregation is not available. Our analysis is based on the UDAY Memorandum of Understandings (MoUs) signed as a tripartite agreement between Government of India, State Power Distribution Companies (DISCOMs) and State Governments, and State-wise information provided in the UDAY portal of Government of India. In this paper, a detailed analysis of the impact of UDAY on State finances has been carried out for the State of Rajasthan. The paper tries to forecast the trajectory of debt and deficits incorporating UDAY power debt to understand the fiscal implications on the finances of Rajasthan. Since the impact of UDAY is asymmetric across States, these results cannot be generalized. However, this case study reveals how large UDAY debt exposure is likely to affect the finances of State governments in the medium term. This case study of Rajasthan also provides useful insights on the likely post-UDAY fiscal challenges at the State level.

2. UDAY: Some Stylized Facts

The Government of India launched UDAY, which aims at the financial turnaround and revival of DISCOMs. It is a tripartite agreement between Ministry of Power, State governments and DISCOMs. It is optional for all States; however, States are encouraged to be a part of the scheme and benefit from the same. Over the years, DISCOMs have accumulated a loss of Rs. 3.8 lakh crores and outstanding debt of Rs. 4.3 lakh crores as on March 2015 (Press Information Bureau, 2015). The increase in the debt has been mainly because of non-revision of tariff commensurate with the increase in cost of supply. Moreover, inadequate subsidy receipt and non-improvement of efficiency level are also the factors responsible for the enormous increase in power debt. In spite of having surplus power generation, DISCOMs are not

[2] The FRBM Review Committee (Government of India, 2017) has recommended that a sustainable debt path must be the principle macro-economic anchor of fiscal policy. It recommended medium-term ceiling for general government debt of 60 per cent of GDP, to be achieved by no later than 2022-23, consisting of 40 per cent for the Central Government and the balance 20 per cent for the State governments.

able to provide electricity to the customers due to their debt liabilities. Against this backdrop, the Government of India launched UDAY in November 2015.

UDAY seeks to set free DISCOMs of their debt in the next 2-3 years through the following four initiatives: (i) improving operational efficiencies of DISCOMs; (ii) reduction of cost of power; (iii) reduction in interest cost of DISCOMs; and (iv) enforcing financial discipline on DISCOMs through alignment with State finances.[3] It is argued that UDAY will be the panacea for the DISCOM debts of the States. However, it has direct fiscal implications on State finances as States have to take over 75 per cent of DISCOM debts. If these impacts are large, States might squeeze developmental expenditure given their FRA targets of deficits. A large debt exposure can bring the issue of fiscal sustainability at the centre-stage.

3. Debt Restructuring Mechanism of the UDAY Scheme

Under this scheme, States are expected to take over 75 per cent of DISCOM debts as on 30th September, 2015 over two years - 50 per cent in 2015-16 and 25 per cent in 2016-17 (Press Information Bureau, 2015). This will reduce the interest taken over by States to around 8-9 per cent from the current 14-15 per cent. States have issued non-SLR State Development Loan (SDL) bonds in the market or directly to the respective banks/Financial Institutions (FIs) holding the DISCOM debt (maturity period of these bonds are 10-15 years). DISCOM debt that are not taken over by the States are being converted into loans or bonds with interest rate not more than the bank's base rate plus 0.1 per cent by banks/FIs. Moreover, States are expected to take over the future losses in a graded manner.[4]

Under this scheme, many State governments have taken over 75 per cent of the outstanding debt of power sector-DISCOMs in the year 2015-16 and 2016-17. As highlighted in the Reserve Bank of India (2017), Study on State Finance, the reason for fiscal deficit target overshooting in the year 2015-16 is the borrowing of Rs. 98959.97 crores under UDAY by eight States during 2015-16. Table 1 shows the State-wise issuance of UDAY bonds during

[3] Measures of operational efficiency improvements include compulsory smart metering, upgradation of transformers, meters, etc., energy efficient measures like LED bulbs, agricultural pumps, fans and air-conditioners. These improvements are likely to bring down the gap between average revenue realized (ARR) and average cost of supply (ACS) from 22 per cent to 15 per cent by 2018-19. Increased supply of cheaper domestic coal, coal linkage rationalization, liberal coal swaps from inefficient to efficient plants, coal price rationalization based on gross calorific value (GCV), supply of washed and crushed coal, and faster completion of transmission lines are some of the ways to reduce cost of power.

[4] States accepting UDAY and complying with the operational guidelines will be given additional/priority funding through Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS), Power Sector Development Fund (PSDF) or other such schemes of Ministry of Power and Ministry of New and Renewable Energy. So far, 17 States/UTs (Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jammu & Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand and Puducherry) have signed the MoU and the States of Telangana, Assam and Kerala have given 'in principle' approval. Table 5 shows the list of States and the date of signing the MoU.

2015-16 and 2016-17. This works out to 0.72 per cent of gross domestic product (GDP). Excluding UDAY bonds, deficits are expected to be below the mandated FRBM target of 3 per cent. Since the level of DISCOM debts are different across States, the fiscal impact of UDAY scheme is asymmetric across States.

Table 1: State-wise Issuance of UDAY bonds

(Rs. crores)

	States	2015-16	2016-17
1	Bihar	1554.52	777.26
2	Chhattisgarh	870.12	
3	Haryana	17300.00	775.00
4	Jammu & Kashmir	2140.00	1397.55
5	Jharkhand	5553.37	
6	Punjab	9859.72	559.12
7	Rajasthan	37349.77	1564.88
8	Uttar Pradesh	24332.47	
9	Andhra Pradesh		9136.02
10	Himachal Pradesh		2890.50
11	Maharashtra		4959.75
12	Meghalaya		125.00
13	Madhya Pradesh		7360.00
14	Telangana		8922.93
15	Tamil Nadu		14000.00
	Total	**98959.97**	**52468.01**

Source: Reserve Bank of India (https://www.rbi.org.in)

4. Overview of State Finances of Rajasthan

Before we examine the impact of UDAY on State Finances of Rajasthan, an overview of the State finances is presented in table 2. As evident from the table, aggregate revenue receipts as a per cent of GSDP has increased from 13.06 per cent to 15.73 per cent between 2011-12 and 2017-18 BE. This increase is due to the increase in own tax to GSDP ratio and a notional increase in grants due to the changes in the accounting of the flow of grants.[5] For the period from 2014-15 to 2017-18 BE, the increase in revenue to GSDP ratio is from 14.91 to 15.73 per cent. During the same period, total expenditure as per cent of GSDP is expected to increase from 15.59 to 17.36 per cent.

[5] Grants for various centrally sponsored schemes earlier bypassed State budgets were routed through the State budgets from 2014-15 onwards (see table 2). This resulted in an increase in the flow of grants to States in an accounting sense.

Table 2: An Overview of State Finances of Rajasthan (2011-12 to 2017-18)

(% of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Revenue Receipts	**13.06**	**13.55**	**13.55**	**15.06**	**14.91**	**15.53**	**15.73**
Revenue Expenditure	**12.29**	**12.85**	**13.74**	**15.59**	**15.79**	**17.91**	**17.36**
Capital Expenditure	**1.63**	**2.16**	**2.49**	**2.66**	**3.27**	**2.47**	**3.09**
Total Expenditure	**13.92**	**15.01**	**16.22**	**18.24**	**19.06**	**20.38**	**20.45**
Social Services	5.48	5.69	6.56	7.19	7.34	7.86	7.56
Economic Services	4.05	5.06	5.31	6.37	7.05	7.11	7.47
Revenue Deficit	0.77	0.70	-0.19	-0.53	-0.89	-2.38	-1.63
Fiscal Deficit	-0.83	-1.73	-2.76	-3.13	-9.38	-6.36	-2.99
Primary Deficit	0.98	-0.04	-1.11	-1.41	-7.59	-3.99	-0.62
Outstanding Liabilities	24.41	23.85	23.63	24.34	31.13	33.79	33.61

Source: Finance Accounts and 2017-18 Budget Documents of Government of Rajasthan.

On the expenditure front, we find that both revenue and capital expenditures as percentage of GSDP have increased between 2011-12 and 2015-16 (see table 2). In 2016-17RE capital expenditure as percentage of GSDP at 2.47 per cent is lower as compared to that in 2015-16. Total expenditure as percentage of GSDP has increased from 13.92 per cent in 2011-12 to 19.06 per cent in 2015-16 and is budgeted to increase to 20.45 per cent in 2017-18BE. Expenditures on social services and economic services (as percentage of GSDP) also show an increasing trend during this period.

From the examination of key deficit indicators of the State, we see that the surplus on the revenue account in 2011-12 and 2012-13 turned into deficit and we have re-emergence of deficit in the revenue account from 2013-14 as is evident from table 2. The revenue account has been in deficit since then. In 2016-17RE, there was a sharp increase in the revenue deficit. Revenue Deficit (RD) as percentage of GSDP increased from 0.89 per cent in 2015-16 to 2.38 per cent in 2016-17RE and in 2017-18BE it is budgeted to be around 1.63 percent. The sharp increase in RD in 2016-17RE was due to the increase in interest payment burden on account of joining the UDAY scheme. In the absence of UDAY, the revenue deficit would be around 1.18 per cent in 2016-17RE and 0.18 per cent in 2017-18BE.

As regards fiscal deficit (FD), we find that FD as percentage of GSDP in Rajasthan was well below 3 per cent during 2011-12 and 2013-14. In 2014-15, the FD at 3.13 per cent was marginally above the 3 per cent mark. However, in 2015-16 the FD increased by more than 6.25 percentage points and was about 9.38 per cent of GSDP. This sudden increase was due to the takeover of 50 per cent of the DISCOMs debt (as on 30.09.2015) by the State. In 2016-17, the State is expected to take over another 25 per cent of the DISCOM debt. As a result, the FD in 2016-17RE would be around 6.36 per cent of GSDP. However, in 2017-18BE, the FD was budgeted to be about 2.99 per cent of GSDP. In the absence of UDAY scheme, the FD of

Rajasthan as percentage of GSDP would be 3.42 per cent and 3.37 per cent in 2015-16 and 2016-17RE respectively. As a result of this takeover of DISCOM debt, the total outstanding liabilities of the State government as percentage of GSDP which were well below 25 per cent during 2011-12 and 2014-15 increased to 31.13 per cent in 2015-16 and further to 33.79 per cent in 2016-17RE. In 2017-18BE they were budgeted to be around 33.61 percent.

5. Post UDAY Long Run Fiscal Trend: 2017-18 to 2026-27

We have projected the fiscal profile of Rajasthan for the period from 2017-18BE to 2026-27. This covers the period in which restructured power sector debt will be amortized.

Table 3: State Finances of Rajasthan: 2017-18 BE to 2026-27

(per cent of GSDP)

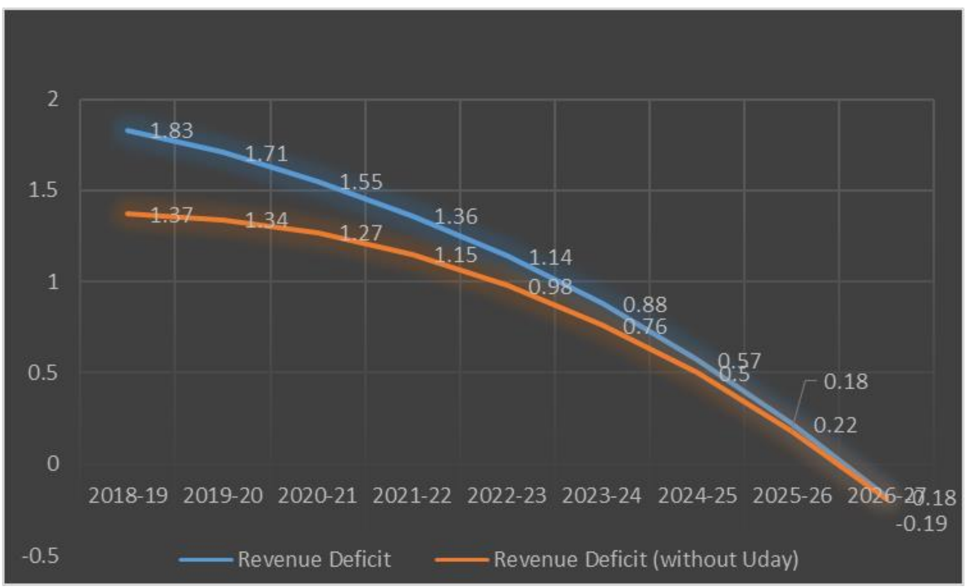
	2017-18 BE	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Revenues	15.73	15.91	16.13	16.37	16.65	16.95	17.29	17.66	18.06	18.49
Own Tax Revenue	6.59	6.71	6.84	6.97	7.11	7.25	7.40	7.56	7.73	7.90
Own Non-Tax Revenue	1.75	1.65	1.55	1.45	1.36	1.28	1.20	1.13	1.06	1.00
Central Transfers	7.38	7.56	7.75	7.95	8.18	8.42	8.68	8.96	9.27	9.60
Share in Central Taxes	4.50	4.75	5.02	5.30	5.59	5.91	6.24	6.59	6.96	7.35
Grants	2.88	2.81	2.73	2.66	2.58	2.51	2.44	2.38	2.31	2.25
Revenue Expenditure	17.36	17.75	17.84	17.93	18.01	18.09	18.16	18.23	18.28	18.32
General Services	5.31	5.62	5.63	5.64	5.64	5.64	5.63	5.61	5.58	5.53
Interest Payment (with UDAY)	2.37	2.65	2.63	2.61	2.59	2.56	2.51	2.46	2.39	2.31
Pension	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71
Others	1.23	1.26	1.29	1.32	1.35	1.38	1.41	1.44	1.48	1.51
Social Services	6.37	6.45	6.53	6.61	6.69	6.78	6.86	6.95	7.03	7.12
Education	3.24	3.39	3.54	3.70	3.87	4.04	4.23	4.42	4.62	4.83
Health	0.73	0.77	0.81	0.84	0.88	0.93	0.97	1.02	1.07	1.12
Others	2.40	2.29	2.18	2.07	1.94	1.81	1.66	1.51	1.35	1.18
Economic Services	5.68	5.68	5.68	5.68	5.67	5.67	5.67	5.67	5.67	5.67
Capital Expenditure	3.09	2.71	2.68	2.66	2.64	2.62	2.59	2.57	2.55	2.53
Revenue Deficit	**1.63**	**1.83**	**1.71**	**1.55**	**1.36**	**1.14**	**0.88**	**0.57**	**0.22**	**-0.18**
Revenue Deficit (without UDAY)	**0.18**	**1.37**	**1.34**	**1.27**	**1.15**	**0.98**	**0.76**	**0.50**	**0.18**	**-0.19**
Fiscal Deficit	**2.99**	**4.61**	**4.45**	**4.27**	**4.05**	**3.80**	**3.51**	**3.17**	**2.80**	**2.38**
Fiscal Deficit (without UDAY)	**2.99**	**4.14**	**4.08**	**3.98**	**3.83**	**3.64**	**3.39**	**3.10**	**2.76**	**2.37**
Outstanding Liabilities	**33.61**	**34.85**	**35.81**	**36.49**	**36.88**	**36.99**	**36.79**	**36.27**	**35.44**	**34.26**
Outstanding Liabilities - without UDAY	**27.30**	**29.85**	**31.93**	**33.55**	**34.73**	**35.49**	**35.84**	**35.78**	**35.32**	**34.26**

Source: Basic data from Budget Documents of Government of Rajasthan and Authors' Projections

As evident from the Table, based on past trends for most components of revenue and expenditure, the State debt to GSDP ratio would increase from 33.6 per cent in 2017-18 (BE) to 34.26 per cent in 2026-27. This projection also shows that given post UDAY trend in State finances, the government of Rajasthan would be able to comply with the FRA target only in the year 2025-26 and produce a revenue surplus in the fiscal year 2026-27. It is also to be noted that the projected fiscal profile is based on a fiscal stance as reflected in the following ratios presented in table 3:

1) Aggregate revenue receipts to GSDP ratio is projected to increase from 15.73 per cent of GSDP to 18.49 per cent of GSDP - an increase of more than 3 percentage point of GSDP in ten years. Own tax revenue to GSDP ratio is expected to increase from 6.59 to 7.90 per cent during this period.
2) Revenue expenditure shows an increase from 17.36 to 18.32 per cent primarily due to the increase in social sector expenditure.
3) Capital expenditure is expected to decline from 3.09 to 2.53 per cent.

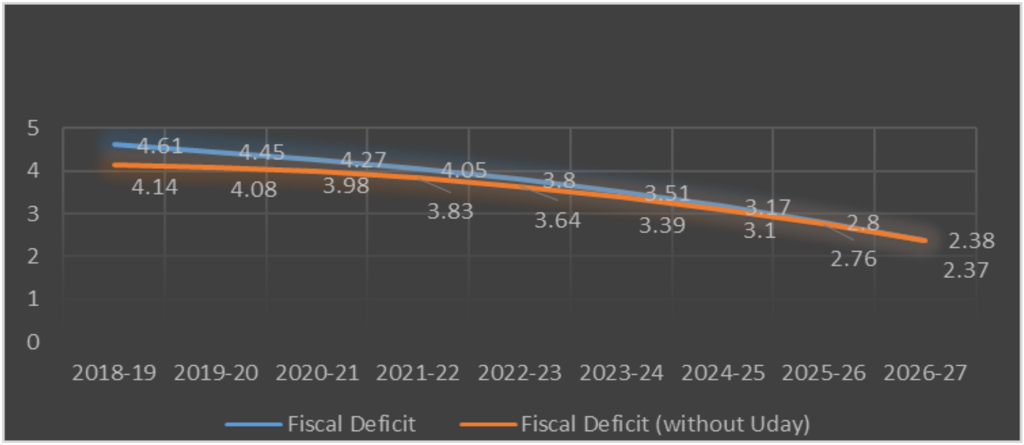
Figure 1: Forecast of Revenue Deficit (with and without UDAY in Rajasthan)



Source: Authors' Projections. (Basic Data), Budget documents, 2017-18, Ministry of Finance, Government of Rajasthan

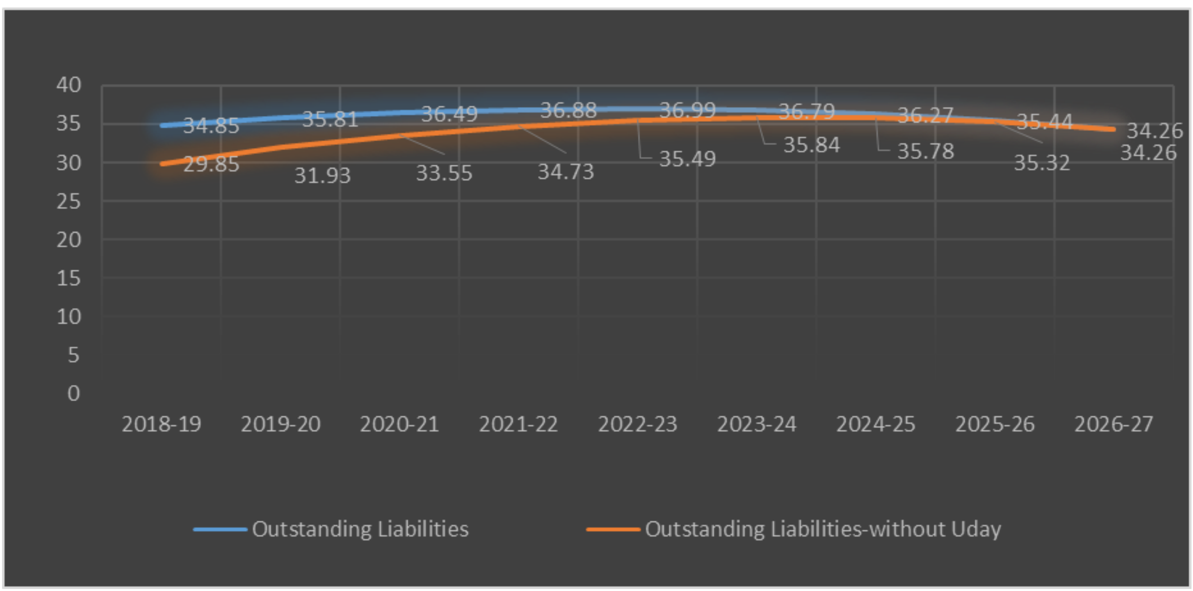
The forecasts of revenue deficit, fiscal deficit and outstanding liabilities are shown in Figure 1, 2 and 3 respectively. In order to insulate State governments from such fiscal shocks, there is a need to have a financially viable power sector on a sustained basis. The viability of power sector finance would be dependent on the improvement in both the operational and financial performance post-UDAY. In the next section, we undertake a detailed analysis of the power sector performance of Rajasthan post-UDAY.

Figure 2: Forecast of Fiscal Deficit - with and without UDAY in Rajasthan



Source: Authors' Projections. (Basic Data), Budget documents, 2017-18, Ministry of Finance, Government of Rajasthan

Figure 3: Forecast of Outstanding Liabilities - with and without UDAY in Rajasthan



Source: Authors' Projections. (Basic Data), Budget documents, 2017-18, Ministry of Finance, Government of Rajasthan

6. Power Sector Performance: Pre and Post UDAY

Rajasthan State Electricity Board has been unbundled into 5 companies namely: (1) Rajasthan Rajya Vidyut Utpadan Nigam Ltd., (2) Rajasthan Rajya Vidyut Prasaran Nigam Ltd., (3) Jaipur Vidyut Vitaran Nigam Ltd., (4) Jodhpur Vidyut Vitaran Nigam Ltd., and (5) Ajmer

Vidyut Vitaran Nigam Ltd. In 2011-12, the State purchased 52 per cent of its power requirement and produced the rest 48 per cent in the State. A large proportion of its power comes from Thermal Coal Fired power plants (51 per cent) followed by Hydro power (15 per cent), Gas (6 per cent) and Nuclear (5 per cent) and other sources account for 23 per cent in 2011-12 of the total installed capacity. The T&D losses of the most of the power DISCOMs, although have declined, it remained around 23 to 27 per cent in 2011-12. The total losses of the power utilities has gone up substantially from Rs. 1347.05 crore in 2008-09 to Rs. 19751.1 crore in 2011-12.

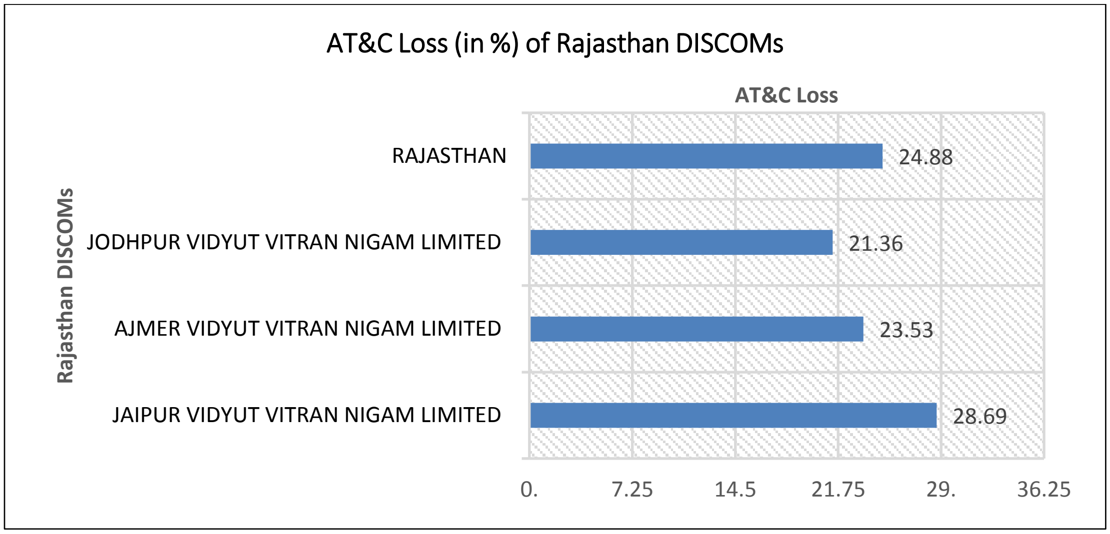
The Government of Rajasthan has signed MoU under the scheme UDAY with the Government of India and the DISCOMs of the State on January 2016 to ensure financial and operational turnaround of the DISCOMs. The DISCOMs which signed the MoU include Jaipur Vidyut Vitran Nigam Limited, Jodhpur Vidyut Vitran Nigam Limited and Ajmer Vidyut Vitran Nigam Limited. The MoU stated that this agreement aims at the rapid electrification of villages[6] and distribution at reduced per unit cost to consumers. As on September 30, 2015, the outstanding debt of DISCOMs stood at Rs. 80500 crores. The scheme also provided for the balance debt of Rs. 20000 crore to be re-priced or issued as State guaranteed DISCOM bonds, at coupon rates around 3 per cent less than the average existing interest rate. This should result in savings of about Rs. 3000 crore in annual interest cost through reduction of debt and through reduced interest rates on the balance debt.[7] As of March 31, 2017, the bond issued by Rajasthan is Rs. 72090 crores, which is 94.71 per cent of the bonds to be issued stipulated at Rs. 76120 crores.

Since the objective of UDAY is to improve operational efficiency and financial transformation of the DISCOMs, the scheme objective also includes reduction in the cost of generation of power and energy conservation. It, thus, focuses on the reduction in aggregate technical and commercial losses, the reduction in the gap between average cost of supply (ACS) per unit of power and per unit average revenue realised (ARR) and tariff revisions by DISCOMs post UDAY.

The progress in reducing the AT&C losses (Aggregate Technical and Commercial Loss) by Rajasthan DISCOMs is respectively 28.69 per cent by Jaipur Vidyut Vitran Nigam Limited, 21.36 per cent by Jodhpur Vidyut Vitran Nigam Limited and 23.53 per cent by Ajmer Vidyut Vitran Nigam Limited (Figure 4). The overall State progress is 24.88 per cent as of March 31, 2017 when this ratio has to be brought down to 15 per cent by 31st March, 2019.

[6] To ensure electrification of 396 villages and 30 lakh households in Rajasthan that do not have electricity supply.
[7] http://pib.nic.in/newsite/PrintRelease.aspx?relid=135834

Fig 4: UDAY Financial Parameters (Progress in reducing AT&C Losses in Rajasthan, as on 31 March, 2017)



Source: UDAY portal,[8] Government of India

The ACS-ARR gap (Rs. per unit) which indicates the commercial viability of the DISCOMs at State level is Rs. 0.65 per unit in Rajasthan; the DISCOM-wise disaggregated gap between ACS-ARR is presented in Figure 5. The all State gap is 0.45. The UDAY scheme emphasises on strengthening the operational efficiency of DISCOMs through many initiatives including compulsory Feeder and Distribution Transformer metering, providing electricity access to unconnected households, distribution of LEDs and smart metering. As per the UDAY scheme, if the State meet all the financial and operational efficiency parameters, they would get additional/priority funding through the Central schemes: Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS), Power Sector Development Fund or such other schemes of Ministry of Power and Ministry of New and Renewable Energy. If they meet all operational parameters, the State would also be supported through other benefits such as coal swapping, coal rationalization and the correction in coal grade slippage, which would provide a gain of Rs. 3000 crores to the State due to these coal reforms.

However, the progress in operational efficiency parameters has not been 100 per cent as evident from figure 6. As evident from figure 6, progress in operation efficiency in some of the indicators, as on March 2017, is significant especially when it comes to feeder metering in both rural and urban areas. The State has also made significant progress in providing access to electricity to unconnected households. However, high AT&C losses and significant ACS-ARR gap remains a major challenge for Rajasthan.

[8] https://www.uday.gov.in/atc_india.php

Fig 5: UDAY Financial Parameters - Progress in reducing ACS-ARR Gap in Rajasthan (as on 31 March, 2017)

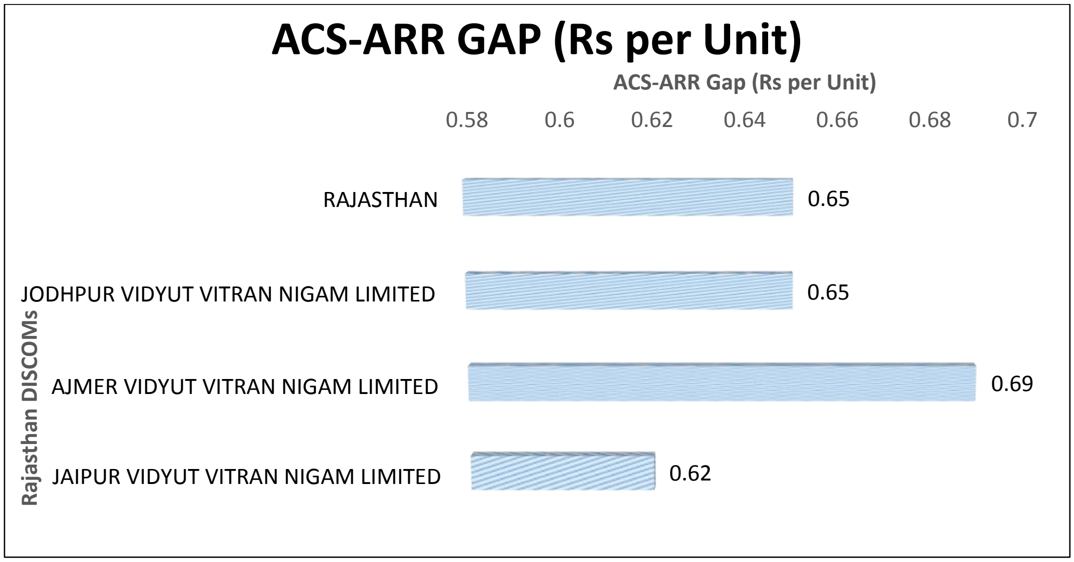
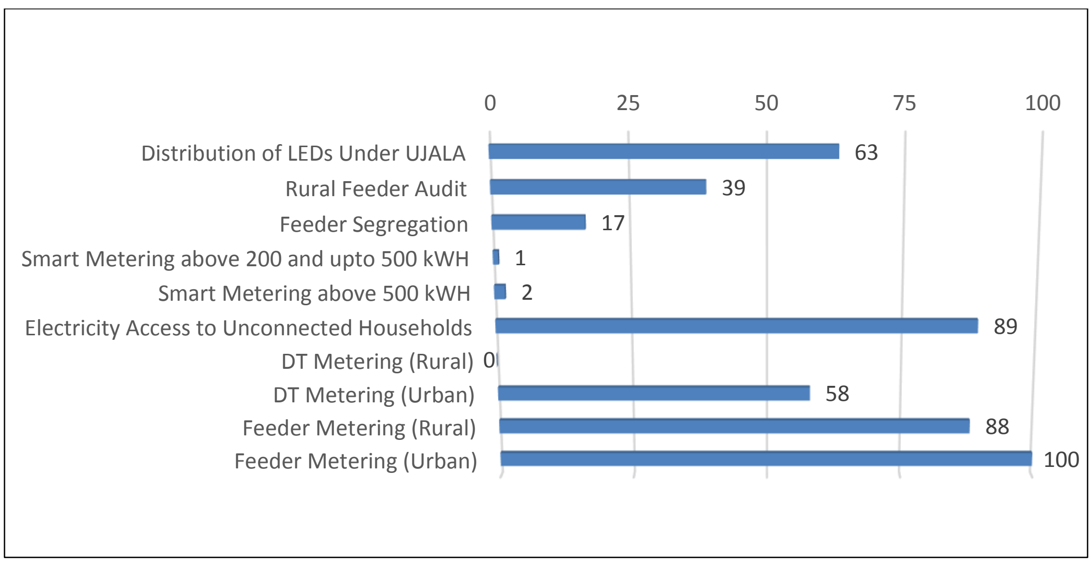


Figure 6: UDAY in Rajasthan: Progress in Operational Efficiency (as on March 2017)



Source: UDAY portal,[9] Government of India

[9] https://www.uday.gov.in/state.php?id=4&code=rajasthan

7. Conclusion

On the basis of the above analysis, it can be argued that given the post-UDAY trends in State finances, achieving long run sustainability of State debt and deficits would remain as a major challenge. Though Rajasthan's finances appeared FRA compliant without the power liabilities, UDAY scheme has made it clear that a comprehensive view is necessary to understand the downside fiscal risk arising out of quasi-fiscal activities by States. For the long run sustainability of public finances of the State it is necessary to improve power sector finances on a sustained basis so that the fiscal space available with the States is used for financing public investment in social and economic services.

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