State Fiscal Studies **KERALA**

D.K. Srivastava
Saumen Chattopadhyay
Pratap Ranjan Jena

National Institute of Public Finance & Policy
New Delhi

State Fiscal Studies KERALA

D.K. Srivastava
Saumen Chattopadhyay
Pratap Ranjan Jena

National Institute of Public Finance & Policy
New Delhi

ISBN 81-900518-6-5
Price Rs. 200
US $ 10

Published by
National Institute of Public Finance and Policy
18/2 Satsang Vihar Marg,
Special Institutional Area, (Near JNU),
New Delhi 110 067

Printed by
Rachit Print,
K-70, Saidullajab,
IGNOU Road,
New Delhi 110 067

Contents

Charts

Tables

List of appendix tables

List of annexure tables

List of annexures

Preface

This study was undertaken by the National Institute of Public Finance and Policy in consultation with the State authorities and on a local consultancy assignment from the World Bank. It is a part of the series of **Fiscal Studies of the States**.

The study team consists of D.K. Srivastava, Saumen Chattopadhyay and Pratap Ranjan Jena. Opinions expressed here are those of the authors. The Members of the Governing Body of the National Institute of Public Finance and Policy are in no way responsible for these.

New Delhi

Ashok K. Lahiri
Director

Acknowledgements

This study has benefited considerably from the extensive comments from the World Bank team dealing with the State Finances of India. In particular, we would like to express our thanks to Sharoukh Fardoust, V. J. Ravishankar and Stephen Howes.

We would like to express our appreciation for the cooperation extended to us by the officials of the Government of Kerala. We would like to thank Vinod Rai, Principal Secretary (Finance), I. S. Gulati, Vice-Chairman, State Planning Board, and K.N. Kurup, Secretary, State Planning Board, for discussing with us various issues related to the fiscal health and Plan priorities of the State. We also had elaborate sessions with K.M. Abraham, Secretary (Budget), Lizzie Jacob, Principal Secretary (Forest) and N. Chandrasekharan Nair, Principal Secretary (Higher Education), Elias George, Secretary (Irrigation), V. Vijaykumar, Secretary (Health), Rajeev Sadanandan, Additional Secretary (Health), V. Thomas Sleeba, Director, Directorate of Economics and Statistics, John Mathai, Commissioner, Taxes, S. Anil Kumar, Deputy Commissioner, Taxes, and K. A. Chandrasekharan, Additional Director, Industries.

The Government of Kerala had nominated A. K. Dubey, Secretary (Expenditure) as the nodal officer for our study. He rendered invaluable help in not only carefully organising our meetings but also providing useful insights into important aspects of Kerala's State Finances.

Our team had the benefit of discussing sector specific policy issues with K. G. Rajasekharan Nair, Member, A/C, KSEB, James Thomas, Chief Accounts Officer, KSEB, N. Vijaykumar, Finance Officer, KSEB, M. N. Krishnamurthy, Managing Director, KSRTC, D. Ramarajan, E.D. (HRD), KSRTC, C.M.C. Menon, Financial Advisor, KSRTC, P. Swaminathan, Director, Bureau of Public Enterprises.

We also had extensive discussions at the Centre for Taxation Studies, Thiruvananthapuram, especially with V. Murukesh Kumar and Jose Sebastian regarding various aspects of the tax structure of the State.

We received warm cooperation from C. K. Raman Kutty, Deputy Secretary (Finance) who looked after the organisation of meetings and other arrangements during our visit to Kerala.

H.K. Amar Nath rendered valuable help in some estimation exercises. Sanjay Samirana Pattnayak has been associated with the study as a project associate. R. S. Tyagi has rendered accomplished secretarial assistance.

Rita Wadhwa was responsible for editing and publication of the study. Sushma Malhotra transformed it into the present format. We would like to thank them for their support.

D. K. Srivastava
Saumen Chattopadhyay
Pratap Ranjan Jena

Introducing Kerala : some key statistics

Capital : **Thiruvananthapuram** Language : **Malayalam** Number of Villages (*1991*): 1384
Area ('000 sq km): 39.9 Urban Agglomerations/Towns: 109 Number of Districts: 14

Population (Lakh *1991*): 291 Urban: 76.8 Rural: 214.2 Density of Population (Persons per sq. km): 748
Female per '000 Males: 1036 Literacy Rate (Percent) Male: 93.62 Female: 86.17

Infant Mortality Rate (Per '000 live births) *1991-92*
Kerala: 17 India: 79

Life Expectancy (Years) *1991-96*
Male: 67.23 Female: 72.37

Infrastructure Index: *1993-94*
Kerala: 157.1 India: 100.0

Railways: Route Length (km.) 1053
Per '000 sq.km. 2707

Per Capita Power Consumption (Utilities, KWH) *1994-95*
Kerala: 237 India: 320

Roads: Length (Km.) 139320
Per '000 sq.km. 3581.5

Post Offices (Number) : 5034

No. and Percentage of Population below **Poverty** Line: *1993-94*

Kerala:	76.41	Number 25.43 percentage
India:	3203.68	Number 35.97 percentage

Per Capita NSDP (Rs. at Current Prices)

	1990-91	*1994-95*	*1996-97 (0)*
Kerala:	4200	7597	9066
India:	5073	8399	10771

Debt and Deficit

	1990-91	*1996-97*
Fiscal Deficit	5.66	4.58
Primary Deficit	3.25	1.25
Outstanding Debt	31.75	34.96

Sectoral Income (Per cent of GSDP)

	1990-91	*1995-96*
Agriculture	31.18	30.73
Industry	24.0	25.2
Services	44.82	44.07

Executive Summary

Kerala's is a story of spectacular success in the sphere of social development marred by an indolent industrial growth that has kept the State clamped to the middle rungs of the inter-state income-ladder in India. In terms of per capita Net State Domestic Product (NSDP) at 1980-81 prices, Kerala ranks ninth among the general category states.

The economy of Kerala is critically affected by the substantial remittances sent by a large segment of its population that works abroad or in other parts of India. These remittances impart to the economy, both strengths and weaknesses. While placing extra purchasing power in the hands of the residents, the economy is also subject to volatility and pressure on domestic prices, especially those of land and real estate.

ECONOMY: PRESENT CHALLENGES

The basic economic challenge is that of obtaining a reasonable growth of output and employment on a sustained basis by harnessing the remittance-based flow of resources to the State, and to provide a cushion to the economy against external shocks.

Although Kerala's achievements in the field of health and education have been exemplary, the State is now finding it difficult to maintain the momentum – in particular, the quality of services is deteriorating, and the vast infrastructure of education and health is decaying for want of adequate maintenance.

Kerala has fared better than many other States in bringing down the aggregate poverty-ratio to about 25 percent of population, yet the rural poverty levels are high because of considerable disparities in the distribution of economic activities across regions. There is also a very high degree of unemployment among the educated youth.

While significant achievements in the social sphere were spearheaded by extensive governmental participation, the same strategy did not pay-off in the case of industrial and economic activities. As a result, a large portion of government capital has been locked up in the State Level Public Enterprises (SLPEs) (105 in number), which provide negligible returns.

CONTOURS OF THE FISCAL CRISIS

Kerala is headed for a fiscal crisis, should the present expenditure drives continue, with its outstanding debt to Gross State Domestic Product (GSDP) ratio likely to rise by about 6 percentage points of GSDP in the medium term from its present level of about 35 percent. In particular, a substantial increase in wages and salaries, and a significant rise in the size of the ninth plan outlay, which entitles the State to enlarge its borrowing programme, would lead the economy in this direction. The fiscal deficit to GSDP ratio would be higher than 5 percent in some years.

Although tax revenues have remained buoyant historically, the trade taxes are basically distortionary, and the neighbouring States get the benefit of some of the tax-base of Kerala. Large amount of tax arrears point to the scope of improving tax administration. There are leakages due to low tax rates in the Mahe enclave of the Union Territory of Pondicherry.

Non-tax revenues from the social and economic services have been dismally low; recoveries of loans, given at highly subsidised interest rates are extremely poor and due interest remains largely unrecovered. Not ensuring better recoveries from the social and economic services is suicidal for the services themselves, for neither their infrastructure nor their quality can be maintained without adequate resources.

Contingent liabilities that relate to unviable SLPEs amount to deferred budgetary liabilities. These are now assuming alarming proportions.

There is little flexibility left in managing government finances because of a high degree of rigidity imparted by committed expenditures on account of wages and salaries, pensions, interest payments, and assignments and grants to local bodies. Whereas total revenue receipts are about 20 percent of GSDP, committed expenditure on these heads alone amount to about 14 percent of GSDP.

Government's own contribution to capital formation has depleted significantly. Net capital expenditure has fallen by nearly one percentage point of GSDP between 1985-86 to 1996-97. A large portion of the fiscal deficit is being used to finance the revenue deficit which has been persistent.

FISCAL REFORMS

Two prime objectives should guide the design of fiscal reforms in Kerala, namely, (i) fiscal policy should be conducive to economic growth; and (ii) fiscal balance should be restored at a sustainable level of debt.

Although Kerala experimented with the value added tax in 1993 in a limited way, the State now seems reluctant to pursue this option because of initial difficulties in its implementation. Accounting problems faced by the dealers and the administration and fear of revenue loss led the State to withdraw it after four years, after extending it to 11 commodities. However, as most southern States like Andhra Pradesh, Karnataka and Tamil Nadu are preparing for the implementation of VAT, and Maharashtra has already made significant strides in this direction, Kerala would do well to restore the initiative, this time with proper pre-implementation stage preparation. Otherwise, it will be out-competed in attracting manufacturing and trade activities. In order to prepare for VAT, the following steps are required (i) reduction of the rate categories of sales tax to about 4 (at present there are 18 rates); (ii) training of staff; (iii) computerisation of accounts; and (iv) dissemination of information to the dealers. In order to avoid revenue loss, revenue-neutral rates need to be worked out, and at first, partial rebates on sales tax paid on inputs may also be given.

Since the per capita tax incidence in Kerala is already high, further exploitation of the tax bases via increases in tax rates is not advisable. However, there is scope for garnering additional revenues in the case of stamp duties and registration fees. Since the value of real estate has gone up considerably in recent years, assessment on the basis of fair values would significantly increase revenue from this source. A tightening up of tax administration, backed by a good information-base, would also be revenue yielding, by way of plugging leakages, and recovering tax arrears.

There is a need to further utilise non-tax sources for additional revenue. Many of the fees and user charges have not been revised for long even though costs have been going up. Apart from general services, social and economic services provided for by the government do not need excessive subsidisation except when significant externalities and welfare motives are involved. We have estimated that the recovery rate in the social services was as low as 1.61 percent of costs in 1996-97. For the economic services, it was 4.92 percent. Together, these two sectors draw as much as 13.61 percent of GSDP as subsidy, when implicit and explicit subsidies are considered together. We suggest a graduated approach towards reducing the degree of subsidisation. The sectors that may be targeted first are irrigation, energy, industry and minerals, transport and `other' economic services. On the social side, higher, technical, and medical education as also individualised and curative health services may be targeted.

In so far as expenditure is concerned, two heads where expenditure should increase are non-salary maintenance and capital outlay, especially in the infrastructure sectors. A vast governmental infrastructure is deteriorating for want of adequate maintenance. Relative to other States, Kerala spends more of its budgetary resources on non-Plan and non-developmental heads. This trend ought to be reversed.

Like other States, Kerala would also experience a one-time hike in the wages and salaries bill. We have suggested that no net growth of employment in the government sector should take place in the adjustment period upto the year 2001-02. We have further suggested that subsidies and current transfers should not be allowed to grow in real terms, and in some years they may need to be cut down in real terms.

SECTOR REFORMS

As already indicated, it is difficult to sustain the vast education and health sectors, in terms of quality of services and maintenance of infrastructure. Maintenance expenditure for these sectors needs to be significantly augmented in real terms.

The irrigation sector is languishing for want of resources. The State has fallen significantly short of targets. This sector needs additional investment and attention. The forestry sector contributes a meaningful amount to the exchequer. But, the practice of supplying raw materials at highly subsidised rates should be discontinued.

Kerala State Electricity Board has two problems to attend to: (i) arrange for adequate supply of power; and (ii) show financial viability. For both purposes, it should encourage private sector participation in the generation of electricity. Since, the State government has now provided for automatic periodic increases in the tariff rates, KSEB should be in a position to sort out its financial problems, provided it ensures increase in efficiency on its own part. The Kerala government has recently come out with a policy statement on power sector reforms. While not accepting the possibility of dividing KSEB into three separate units dealing with generation, transmission and distribution and privatising them, the government is in favour of three separate `profit centres' for these activities with separate accounts, although they remain part of KSEB. While partial private sector participation in generation is being allowed, the State government should also look at the possibilities of privatisation in distribution and take into account what some of the other States are doing in this regard. If provision for automatic revision of tariffs for domestic consumers is made, KSEB's financial position would improve significantly.

KSRTC's financial problems are more serious. Its efficiency is low because of the ageing of its bus fleet and overstaffing as also because it may be running (short) uneconomic routes at subsidised fares. Various incentive schemes introduced by KSRTC have not proved to be effective. It should reduce the staff strength in a determined way. An attractive VRS may prove useful. An independent regulatory authority which can also periodically revise fares upwards should be set up.

Nearly 50 percent of the SLPEs have been rendered unviable due to lack of professional management and intrinsic inefficiencies. They need to be gradually weeded out.

Out of the remaining, those that are viable but are not making profits, need to be restructured and revitalised even if it requires additional investment. Where several SLPEs operate in the same area, possibilities of merger should be explored. Sectors like ceramics, cement, chemical and plantation based industries should be considered for this purpose.

FISCAL FUTURE: AN OUTLINE

The period under review is 1997-98 to 2001-02. The State economy has entered this Ninth Plan period with some critical features, *viz.*, (i) wages and salaries and pensions are being revised upwards by a factor of about 20 percent; (ii) the State has embarked upon an ambitious Ninth Plan with an associated large borrowing programme; (iii) economic growth has decelerated in recent years, and current prospects indicate that it will be around five percent or less, given recessionary tendencies in the rest of India and abroad; and (iv) a large part of Plan funds will be handled by the local bodies. Under these circumstances, the fiscal prospects have been examined with reference to two scenarios, *viz.*, a base scenario and a reform scenario.

Continuance of present trends, as captured in the base scenario, would imply a deepening fiscal crisis, even while the Plan has to be cut down, while the State experiences a moderate growth rate. Concerted effort at reforming the tax regime would make it more growth - oriented by minimising distortions in productive activities. Further, additional tax and non-tax revenues would ensure that the Plan is largely protected and expenditure is incurred in developmental and high priority expenditures, including maintenance. As larger Plan and development expenditures are incurred, and indigenous economic activities take off with local initiatives, a sustained development impulse would be imparted to the economy.

In order to broadly outline the quantitative impact of the suggested fiscal and sectoral reforms, we may compare the results of the two scenarios. In the base scenario, the outcome of the historic drives of expenditures and revenues indicates that the outstanding debt to GSDP ratio would quickly cross the level of 40 percent and the fiscal deficit to GSDP ratio would be higher than 5 percent of GSDP by 2001-02. The reform scenario which incorporates the fiscal effects of the suggested reforms indicates that it would be possible for the debt to GSDP ratio to come down to a level of 39 percent by 2001-02. We estimate that the main revenue side changes would lead to an increase of 1.83 percent of GSDP on the tax side, and 0.46 percent on the non-tax side by the 2001-02. Wages and salaries would fall by 0.37 percentage points of GSDP and subsidies and current transfers, by 1.07 percentage points by the terminal year. In arriving at these results, we have assumed that the suggested policy changes, which are efficiency augmenting in nature, would be accompanied by an increase in the real GSDP growth of about 1.5 percentage points as compared to the basic scenario.

These two scenarios are intended to serve as benchmarks. We notice that even in the reform scenario, the debt to GSDP ratio is still very high. Reference to this scenario also highlights the risk if there is a slippage from the revenue targets or laxity in expenditure restructuring. In particular, debt to GSDP ratio would cross 40 percent, and the fiscal deficit would be above 5 percent of GSDP. The State should initiate the process of essential adjustment without further delay.

Direction of change and recommended reforms : a synopsis

Direction of Change

Receipts

Tax Revenues	Increase
Non Tax Revenues	Increase

Expenditure

Non Salary Maintenance	Increase
Plan Expenditure	Increase
Wages & Salaries	Reduce
Subsidies and Current Transfers	Reduce

Recommended Reforms

Taxes

* minimise tax incentives for new industrial Units as they have proved to be ineffective
* prepare ground for implentation of VAT
  - reduce the number of rate categories
  - introduce a system of giving partial relief on taxes paid on inputs
  - computerise tax accounts
  - train staff in the admin. of VAT
  - launch a drive for information dissemination to the dealers
* use the system of fair market value in the case of Stamp duties and Registration fees
* launch a drive for collection of arrears of sales And other taxes
* use luxury tax on residential buildings
* use entry tax only minimally
* do not press for consignment tax

Non Tax Revenues

* increase fees and user charges in social and economic services
* target recovery of current cost for services which do not involve large externalities or significant welfare motives
* specially target economic services : in particular, irrigation, energy, industry and minerals transport, 'other' economic services
* increase tuition and other fees for higher educa -tion, technical education and medical education

Expenditure

* reduce net employment growth in general government to zero
* let recruitment of teachers take place
* reduce direct subsidies and transfers
* increase non salary maintenance expenditure
* shift structure of expenditure towards plan and development expenditure

State Level Public Enterprises

* KSEB : acting as a central and coordinating agency --
  - increase pvt sector participation in generation,
  - facility of automatic tariff revision should also cover domestic consumers
* KSRTC :
  - a regulatory commission should look after tariff revision
  - rationalise routes
  - reduce staff-bus ratio by freezing additional employment
  - work out an attractive VRS
* Other SLPEs :
  - close down unviable enterprises
  - merge enterprises operating in the same field wherever feasible
  - undertake revamping of such SLPEs as are assessed to be viable
  - introduce a general VRS for all SLPEs
  - encourage people to go on long leave to seek alternative employment

Abbreviations

ABR	Additional Borrowing Requirement
ACA	Additional Central Assistance
AIT	Agricultural Income Tax
APEI	Aided Private Educational Institution
ARM	Additional Resource Mobilisation
CA	Central Assistance
CMIE	Centre for Monitoring Indian Economy
CRISIL	Credit Rating Information Service of India Ltd.
CSO	Central Statistical Organisation
CTS	Centre for Taxation Studies
DA	Dearness Allowance
DWCRA	Development of Women and Children in Rural Areas
EAP	Externally Aided Project
EAS	Employment Assurance Scheme
EEC	European Economic Committee
EHT	Extra High Tension
ETP	Electronics Technology Parks
GDP	Gross Domestic Product
GOK	Government of Kerala
GSDP	Gross State Domestic Product
HDI	Human Development Index
HT	High Tension
IDA	International Development Agency
IMFL	Indian Made Foreign Liquor
IMR	Infant Mortality Rate
IRDP	Integrated Rural Development Programme
JRY	Jawahar Rozgar Yojana
KFC	Kerala Finance Corporation
KINFRA	Kerala Industrial Infrastructure Development Corporation
KSEB	Kerala State Electricity Board
KSFC	Kerala State Finance Commission
KSIDC	Kerala State Industrial Development Corporation
KSRTC	Kerala State Road Transport Corporation
LT	Low Tension

MIS	Middle Income States
MKWH	Million Kilowatt
NAG:GDP	Non-Agricultural Gross Domestic Product
NSDP	Net State Domestic Product
NRY	Nehru Rozgar Yojana
ODA	Overseas Development Agency
OECF	Overseas Economic Cooperation Fund
OPEC	Organisation of Petroleum Exporting Countries
PF	Provident Fund
PHC	Primary Health Centre
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
SLPE	State Level Public Enterprise
SPB	State Planning Board
SSI	Small Scale Industries
SSLC	Senior School Level Certificate
TFC	Tenth Finance Commission
TRYSEM	Training for Rural Youth for Self-Employment
UNDP	United Nations Development Programme
UT	Union Territories
VAT	Value Added Tax

1. State Economy: The Basic Features

INTRODUCTION

Kerala's is a story of spectacular success in the sphere of social development, marred by an indolent industrial growth that has clamped the State to the middle rungs of the inter-State income-ladder. In a comparison of per capita Net State Domestic Product (NSDP) at 1980–81 prices in 1994–95, Kerala ranked ninth among the general States, below its two neighbours, *viz.*, Tamil Nadu and Karnataka (charts 1 and 2). Its per capita income was also about 11 percent lower than the national per capita income.

Proximity to the sea with a long coastline, coconut palms and plantation crops keep the Kerala landscape bathed in a golden-green hue which is but a partial consolation for the cost-disadvantages inflicted upon the State economy in being distant from the interior markets and sources of raw materials in the country. Capital to capital, Thiruvananthapuram, located at latitude 8.29N and longitude 76.59E, at a distance of 2780 kms., is the farthest from Delhi among the rail-connected State capitals.

The penchant of the average Keralite to migrate to foreign countries and to the rest of India constitutes a critical feature of the State economy. A 1992–93 survey puts the number of migrants at 11.92 lakh persons (6.41 lakh to the Gulf alone).[1] Their remittances blow the expenditure base of the State economy far above its domestic output. However, the economy has also been rendered vulnerable to external shocks emanating from exchange-rate volatility and periodic bouts of return of migrants, thus exacerbating its susceptibility to the fluctuations of international prices of its plantation-dominated agricultural outputs (discussed later in the *chapter*).

The edges of Kerala (especially Nagercoil and Coimbatore) are dotted with industrial units except that they are on its neighbours' side of the border, thus signifying critical features of the regional milieu. In particular, relatively costlier labour in Kerala with a tendency to quickly unionise and high land prices largely account for this phenomenon. Kerala does not have vast rural hinterlands as in many other Indian States. Rather, it has contiguous urban areas with small rural peripheries. Scarce and undulated land and the flow of remittances towards real estate, have driven land prices to exorbitant heights.

Incidence of unemployment in Kerala is high particularly among the educated youth. The number of job seekers on the live registers of the employment exchanges continues to be very large with the latest figure being 35.19 lakh as on 30.9.1997, registering an annual increase of 7.1 percent over 1996. About 76 percent of them had a qualification of Senior School Level Certificate (SSLC) or above [GoK, SPB,1997(a)].

ECONOMIC GROWTH: AGGREGATE AND SECTORAL

A large but, in relative terms, declining agriculture, stagnant industry and a growing services sector define the contours of the economy. The share of agriculture, as a percentage of GSDP, has fallen by about 4 percentage points between the early eighties and the early nineties. It is at present 30 percent of the GSDP. The share of services has correspondingly increased by a margin of 4 percent, with industries remaining at around 25 percent of GSDP during the entire period from 1980–81 to 1995–96.

Table 1.1: Sectoral Shares in GSDP and Growth Rates

(GSDP at 1980-81 prices)

	1980-81 to 1984-85			1985-86 to 1989-90			1990-91 to 1994-95		
	Kerala	**MIS***	**India**	**Kerala**	**MIS***	**India**	**Kerala**	**MIS***	**India**
Share (percent of GSDP)									
Agriculture	34.48	36.43	38.80	31.91	32.49	34.40	30.92	30.71	33.80
Industry	25.17	25.69	25.00	24.05	25.81	26.80	25.05	27.99	27.60
Services	40.35	37.89	36.10	44.04	41.70	38.80	44.04	41.92	38.70
Growth rates (percent per annum)									
Agriculture	-1.40	2.90	4.00	3.64	4.86	3.70	4.49	5.20	3.30
Industry	0.30	4.30	6.80	6.19	6.75	7.50	8.42	4.45	5.30
Services	3.92	4.96	5.70	5.95	7.17	7.40	6.32	5.76	6.10
GSDP	1.14	3.96	5.30	5.26	6.35	6.00	6.26	5.14	4.90

Source (Basic Data): CSO, relevant years(a).

Note: * MIS refers to the middle income States. West Bengal is not included here for lack of data.

An improvement in the overall growth performance is visible in the nineties, with the average growth of GSDP improving from a level 1.14 percent per annum in the early eighties on an average to 5.26 percent in the latter half of the eighties, further improving to 6.26 percent in the nineties (upto 1994–95). While the middle income States were doing better than Kerala in the eighties, for some years in the early nineties, Kerala successfully overtook them. However, annual growth rates of real GSDP indicate that after an excellent performance in 1992–93 and 1993–94, the growth rate has fallen to around 5.3 percent per annum. The extraordinary growth of 1992–93 and 1993–94 largely reflects the buoyant impact of the massive depreciation of the rupee. This is corroborated by the fact that growth in construction in 1993–94 was 44 percent – an activity which claims a large portion of the remittances – being linked to the increased demand for real estate. Industry and services have evinced, since then, lower growth rates of around 4 to 5 percent which account for the lower trajectory of GSDP growth since 1994–95, despite agriculture registering a healthier annual growth rate at just below 7 percent (chart 3).

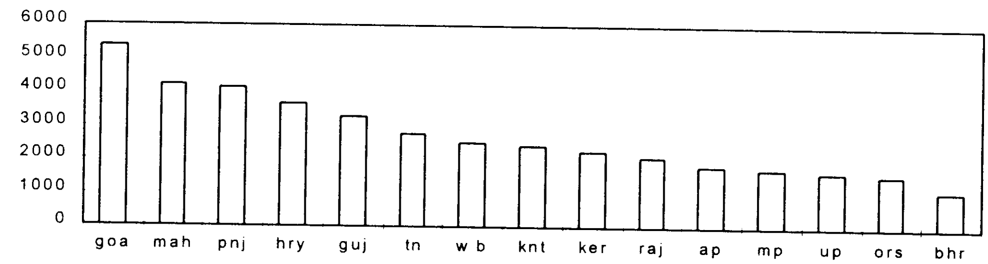


Chart 1 : Per Capita NSDP: General States

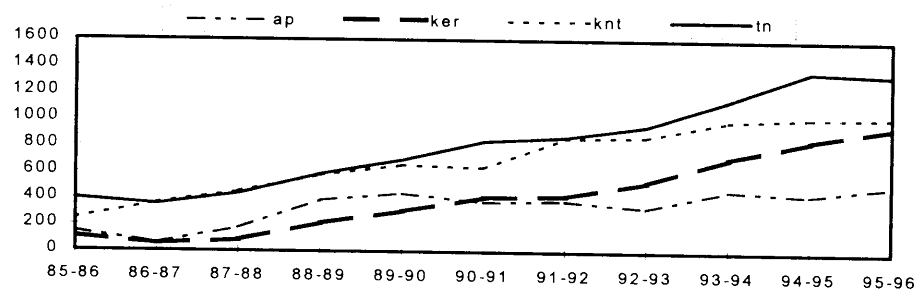


Chart 2 : Growth of Per Capita NSDP: Kerala & Its Neighbours

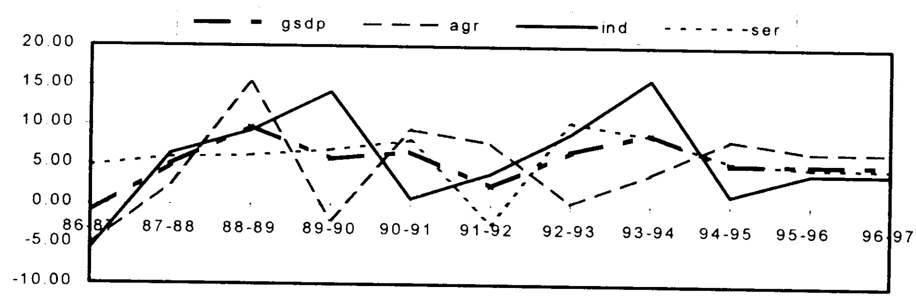


Chart 3 : Annual Growth Rates of GSDP & Its Sectors

Table 1.2: Annual Growth Rates: Aggregate and Sectoral

(Percent)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96 (P)	1996-97 (Q)
Gross state domestic product	4.78	6.67	2.38	6.77	9.08	5.28	5.31	5.29
Agriculture and allied activities	4.22	9.43	7.81	0.32	4.02	8.36	6.87	6.88
Industry	5.85	0.82	4.00	9.05	15.90	1.40	4.14	4.14
Services	4.62	8.14	-2.26	10.42	8.78	5.57	4.92	4.84

Source (Basic Data): CSO, relevant years(a).

Note: P denotes Provisional and Q denotes Quick estimates.

In the agricultural sector, important crops relate to rice, coconut, pepper, cashew, rubber, coffee, tea and cardamom. Sub-sectors doing well in recent times are rubber, coconut and milk. It is notable that growth in agriculture has been based largely on improvement in productivity rather than augmentation of area. Productivity, as indicated by output (kg.) per hectare, has gone up in the case of rice from 1959 to 2023 between 1991–92 to 1996–97. Throughout this period, the productivity of rice in Kerala has remained higher than the all-India average. During the same period, the per hectare output (kg.) for some of the other crops has also gone up as indicated below (detailed in table A1.3): pulses (706 to 710), sugarcane (6866 to 9221), pepper (282 to 312), ginger (3594 to 3778) and turmeric (2409 to 2239).

A salient feature of Kerala's agricultural economy is the predominance of commercial crops such as coconut, arecanut, cashewnut, pepper, rubber, coffee, tea and cardamom. The commercial crop economy is deeply integrated with the rural life. At present, they account for 61.7 percent of the cropped area, employing nearly the same proportion of cultivators. Some traditional industries based on the processing of these crops like coir industry and cashewnut offer further employment opportunities. Its contribution to India's foreign exchange was Rs. 2069.13 crore in 1996–97. For the last three decades Kerala has been witnessing a shift in the cropping pattern from seasonal and annual food crops to perennial commercial crops. The increase in the cropped area in the case of crops like rubber and coconut has been largely at the expense of food crops like rice and tapioca.

An analysis of price movements of individual crops exhibits considerable volatility (see table 1.3). In the case of coconut, price fluctuations indicated as percentage change over the average price of the previous year, show the widest amplitude. In the latter part of the nineties somewhat favourable prices for arecanut, pepper and cashewnut were obtained. Rubber prices registered an upward trend in the early 1990s till it reached its peak in 1995–96. However, since mid-1996, prices have collapsed and as on August 1998, the price is half of the peak price in 1995–96. Tea as well as cardamom prices have also shown considerable fluctuation in the 1990s.

Table 1.3: Fluctuations in Prices of Commercial Crops (Percentage Change Over Previous Year)

Year	Coconut ('000 Nuts)	Arecanuts ('000 Nuts)	Cashewnut (Quintal)	Pepper (Quintal)	Rubber (Quintal)	Tea (Kilogram)	Cardamom (Kilogram)
1985-86	-78.1	-11.4	20.4	32.6	4.4	-15.1	-77.8
1986-87	39.1	-6.3	21.4	17.1	-4.3	12.8	10.2
1987-88	12.8	-1.5	-23.1	-18.4	7.3	-8.0	10.0
1988-89	-5.4	15.3	5.2	-12.4	1.3	38.5	-1.7
1989-90	-28.8	14.2	1.9	-13.1	14.8	14.8	50.2
1990-91	32.3	46.0	14.7	-7.7	-0.1	-12.8	-2.1
1991-92	23.4	16.3	32.3	-9.3	0.6	-1.5	-9.9
1992-93	6.4	4.4	-1.9	-12.7	16.0	20.3	37.4
1993-94	-29.1	1.9	6.3	33.1	0.7	-27.7	-13.8
1994-95	-5.8	8.4	9.4	41.5	32.4	17.8	-35.0
1995-96	7.0	14.6	12.8	8.6	26.9	6.6	-22.8
1996-97	31.0	0.0	1.1	16.6	-6.2		
August 1998					-60.4		

Sources: GoK, DoES, relevant years; GoK, SPB, relevant years(a); and The Association of Planters of Kerala, 1997.

Notes: 1. Figures for tea refer to calender year starting from 1985—1996. 2. Rubber prices are average market prices in Kottayam market for two categories of rubber. 3. Rubber prices for August 1998 have been worked out on the basis of daily prices reported in newspapers.

The general index of industrial production (base 1980–81) stood at 255.49 in 1995–96. This implies a growth rate of 6.45 percent per annum in industrial production. Industry groups relating to manufacture of machinery and equipment, metal products and paper and paper products have exhibited relatively better performance over the years. Relative weights in the base year indicate that electricity generation, transmission and distribution had a weight of 21.93 percent in 1980–81 (highest among industry groups), followed by basic chemical and chemical products (not including petroleum), rubber, plastic and petroleum products, food products, and cotton textiles. All these industry groups, important in terms of their relative weights, have shown very tardy long run growth.

The interface between the government and industry is handled by various promotional institutions (like Kerala State Industrial Development Corporation (KSIDC), Kerala Finance Corporation (KFC), Electronics Technology Parks (ETPs) and Kerala Industrial Infrastructure Development Corporation (KINFRA) and schemes, in addition to the forty-four State level public sector manufacturing units. Also, there are nineteen central sector industrial undertakings. There are several promotional programmes for the Small Scale Industries (SSI) sector. In the cooperative sector, HANTEX and HANDVEEV are important promotional agencies.

Among the traditional industries — coir, cashew, handloom, handicrafts and sericulture – are important areas of activity. These are highly employment-intensive industries, especially conducive to women employment. Kerala has a virtual monopoly in the country in the production of white fibre coir. It also has a high share in the brown fibre coir industry. There has been a steady increase in the export of coir and coir products in the past, although growth in export demand is now levelling out. Cashew is another important export-oriented traditional industrial activity. In recent years, its export earnings have shown a sharp decline like other cash crops. Non-availability of raw materials has been cited as the main reason for this.

The emerging scenario in the field of information technology and its vast potential has been recognised and accordingly steps have been taken to formulate an information technology policy for the State for which a core committee has been constituted. Some major projects have been taken up by Kerala Industrial Infrastructure Development Corporation (KIIDC).

The credit-deposit ratio is rather low in Kerala, and Kerala's share of assistance extended by the country-level financial institutions is also one of the lowest among States. The share of Kerala in financial assistance disbursed by financial institutions during 1995–96 was 1.02, a decline from 1.05 in 1994–95. The credit deposit ratio in 1996 (June) was 43.7 as compared to the all-India average of 59.2.

SOCIAL DEVELOPMENT

Kerala tops Indian States in male as well as female literacy. Health-related indices like Infant Mortality Rate (IMR) are equally impressive (table A1.2). Human Development Indices (HDI) of 17 Indian States, computed on the basis of the UNDP methodology for the year 1987, reveal that Kerala has the highest HDI (Siva Kumar, 1991). The achievements of the State in the sphere of social development have attracted world wide attention.

The poverty ratio in Kerala, at 25.43 (1993–94), is ten percentage points below the Indian average. An 1995 Integrated Rural Development Programme (IRDP) survey update counts 20.73 lakh families below the poverty line (table A1.4). Nearly 74 percent of the State population is rural. Dependent on wage employment and poor assets, they have a weak income base. Access to basic minimum services is limited for the rural poor. There is considerable inter-regional variation in the level of development across districts. The district-wise per capita income at 1980–81 prices range from Rs. 1369 for Mallapuram to Rs. 3617 for Ernakulum (table A1.1). The latter is substantially higher than that for Thiruvananthapuram, where the per capita income at 1980–81 prices is Rs. 2369.

Kerala is unique in having implemented, with government assistance, three major pension schemes for agricultural workers, destitutes and handicapped. Statutory boards have been constituted by the Government of Kerala to look after social security schemes for head-load workers and workers in coir, cashew, handloom, *khadi*, transport and *abkari* industries.

Table 1.4: Social and Infrastructure Development Indicators

(Percent)

	Kerala		India	
	1981	**1991**	**1981**	**1991**
Literacy (percent)	70.42	89.81	36.03	52.21
Male literacy	87.74	93.62	46.62	64.13
Female literacy (percent)	75.65	86.17	24.73	39.19
Crude birth rate (per '000 population)	24.90	17.40	33.80	29.90
Infant mortality rate (per '000 live births)	17.00	17.00	110.00	80.00
Sex ratio (females per '000 males)	1031.00	1036.00	934.00	927.00
Urbanisation	**1981**	**1991**	**1981**	**1991**
	18.8	26.40	23.30	25.70
Density (persons/sq.km.)	**1981**	**1991**	**1981**	**1991**
	654.00	748.00	216.00	276.00
Population (growth per decade)	**1951-1961**	**1961-1971**	**1971-1981**	**1981-1991**
Kerala	24.80	26.30	19.20	14.30
India	21.50	24.80	24.70	23.90
Poverty ratio (population below poverty line)	**1987-88**	**1993-94**	**1987-88**	**1993-94**
	31.79	25.43	38.86	35.97
Life expectancy (years)	**1986-1991**		**1991-1996**	
	Male	**Female**	**Male**	**Female**
	66.23	71.19	67.23	72.37
Index of infrastructure development	**1980-81**	**1984-85**	**1990-91**	**1993-94**
Kerala (India = 100)	158.10	150.20	157.40	157.10

Source: GoI, 1996; CMIE, 1997; GoI, 1993; GoI, 1997(b); GoK, 1997(a).

2. State Finances: An Overview

An Overview

Critical imbalances have emerged in the State's fiscal profile, the most disturbing being that of revenue deficit which has risen, as a percentage to Gross State Domestic Product (GSDP), from 0.99 in 1985–86 to 1.93 in 1996–97. Some key features of Kerala's State finances are summarised in table 2.1. The revenue deficit reached a peak of 2.99 in 1990–91, but has declined since. Kerala has the dubious distinction of being listed among those five States, which account for 85 percent of the aggregate revenue deficit of all States, the other four being Uttar Pradesh, Tamil Nadu, Andhra Pradesh and West Bengal (RBI, 1996–1997). Fiscal deficit has remained above 4 percent of GSDP in most of the years. In 1996-97, it was at 4.55 percent of GSDP. Primary deficit, as a percentage of GSDP, has been above 1.2. With fiscal deficit close to 5 percent of GSDP, the debt to GSDP has been steadily increasing. It has risen from 30.53 to 34.23 percent during 1991–92 to 1996–97. Both fiscal deficit to GSDP ratio and the debt to GSDP ratio are one of the highest among States. The revised estimates for 1997–98 and the budget estimates for 1998–99 indicate further worsening of both the fiscal deficit and the debt to GSDP ratios.

Table 2.1: State Finances of Kerala: An Overview

(Percent of GSDP)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Revenues	**18.23**	**17.04**	**16.27**	**16.65**	**17.42**	**17.29**	**18.05**	**18.42**
Own tax revenue	9.73	9.51	9.55	9.46	10.41	10.37	11.26	11.68
Own non-tax revenue	1.88	1.48	1.34	1.40	1.43	1.47	1.78	1.54
Central revenue transfers	6.62	6.06	5.38	5.78	5.57	5.45	5.01	5.19
Expenditure	**22.76**	**22.83**	**20.98**	**20.42**	**21.72**	**21.49**	**22.49**	**23.23**
Revenue expenditures of which	19.22	20.04	18.35	18.34	19.07	18.77	19.39	20.34
Interest payments	1.69	2.42	2.76	2.72	3.05	3.04	3.08	3.31
Pensions	1.37	2.08	1.93	1.87	2.06	2.09	2.39	2.26
Capital expenditure (net) of which	3.54	2.80	2.63	2.08	2.65	2.72	3.10	2.89
Capital outlay	2.74	1.82	1.63	1.39	1.61	1.65	1.88	1.87
Deficit and debt								
Revenue deficit	0.99	2.99	2.08	1.69	1.65	1.48	1.34	1.93
Fiscal deficit	4.29	5.66	4.87	3.42	4.15	4.27	4.30	4.55
Net borrowing[1]	8.15	5.24	4.20	3.75	4.83	6.05	4.30	3.92
Primary deficit	2.60	3.25	2.11	0.70	1.10	1.24	1.23	1.24
Outstanding debt	**30.84**	**32.74**	**30.53**	**30.59**	**31.92**	**32.68**	**33.66**	**34.23**

Source: CAG, relevant years.

Note: 1. Net borrowing reflects change in debt stock. Fiscal deficit is financed by net borrowing as well as ways and means advances, change in cash balance, net withdrawal from public accounts (other than small savings and PF) and contingency fund.

Government expenditure, net of repayments, has increased by less than one percentage point of GSDP between 1985–86 and 1996–97. In 1985–86 it amounted to 22.76 percent of GSDP. An overwhelming portion of this is revenue expenditure which has risen, as a percentage of GSDP from 19.22 to 20.34 between 1985–86 to 1996–97. On the other hand, capital outlay has been low and declining. In 1996–97, capital outlay was less than two percent of GSDP.

TAX REVENUES

Sales tax is the key source of tax revenue with a share of 71 percent in total own tax revenues in 1996–97, having risen from 63 percent in 1985–86. In order of revenue importance, stamp duties and registration fees, State excise duties and motor vehicles tax come next. Together these four sources accounted for nearly 97 percent of own tax revenues in 1996–97.

For these four major tax sources, the buoyancy of tax was more than 1 for the period 1991–92 to 1996–97. In each case, the buoyancy figure (table A2.1) shows an improvement over the corresponding value for the period 1985–86 to 1990–91. The overall buoyancy of tax revenues is 1.32 during 1991–92 to 1996–97 which compares favourably with other States. The three taxes where a decline in buoyancy is exhibited while comparing the 1991–92 to 1996–97 period with the late eighties are agricultural income tax, urban immovable property tax and the electricity duty. The last case shows increasingly negative buoyancies. The fall in electricity duty reflects non-payment of electricity duty by Kerala State Electricity Board (KSEB) even though it may have been collected from the consumers.

On the whole, the relatively healthy performance of tax revenues reflects the distinct feature of the Kerala economy of being dependent on remittances. While the buoyancies are calculated with respect to GSDP, several of the taxes including the sales tax rise because consumption has risen due to remittances. Further, due to the sharp depreciation of the Indian rupee in the early nineties, the rupee value of external remittances, increased sharply in the early nineties.

The highest percentage growth in sales tax revenue in any one year was 25 percent in 1991–92. On the whole, annual percentage change in sales tax revenue indicates considerable volatility. In the two years when the rupee depreciated to a very large extent, the growth rate in sales tax revenue was quite high. The actual collections in 1997–98 and 1998–99 are likely to fall short of the revised and the budgetary estimates, respectively. As per the latest information, sales tax revenue may grow only by about 12 percent in 1998–99, which is a matter of grave concern as it constitutes nearly 70 percent of own tax revenue. Excise tax collection was also highly volatile in the 1990s reaching a peak rate of growth of 49 percent in 1993–94. Stamp and registration also show fluctuations with a drastic fall in 1996–97.

Table 2.2: Annual Growth Rates of Selected Own Tax Revenues

(Percent)

	1986-87	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total sales tax	12.72	16.74	25.03	16.35	17.44	21.63	22.58	21.27
State excise	13.00	0.42	19.89	5.66	48.93	6.73	27.20	-6.85
Stamps and registration	17.64	7.91	24.75	24.59	21.39	28.52	19.60	1.84

Source: CAG, relevant years.

There is considerable scope for increasing the efficiency of tax administration in Kerala. In a comparison of sales tax administrative efficiency across the southern States, Sebastian (1996) has highlighted Kerala's relatively weak performance. In particular, test audits by the Accountant General indicate the highest incidence of revenue loss on average for Kerala during 1980–81 to 1992–93. These revenue losses have arisen primarily through irregular exemptions, incorrect application of rates and non-levy of penalty. Sales tax arrears in Kerala are the highest on average as compared to other southern States. As a percentage to total sales tax collections, arrears have risen to about 26 percent in Kerala whereas in Andhra Pradesh for example, this percentage was only 14.62 percent. Figures in the Sebastian study relate to the period 1980–81 to 1992–93.

There is an urgent need for computerisation of the sales tax administration. Revenue performance would increase with better information network. Checkposts need to be computerised through which almost 70 percent of the goods consumed in Kerala are brought in. Commodity-wise sales tax data should be made available and regular monitoring of information regarding inflow of goods through the checkposts will help improve the administrative efficiency of tax collection. Tax arrears, at Rs. 1100 crore, are also quite high. The Government of Kerala recently announced a scheme of interest waiver to encourage early payment of the outstanding dues.

Even though agriculture, especially plantation crops, constitute a significant portion of the State economy, the contribution of the agricultural income tax (AIT) has been low and volatile, often falling significantly. Successive enhancement of the exemption limit and some definitional changes (relating to measurement of area) have accounted for this poor performance. Price fluctuations relating to tea, rubber and cardamom largely account for the volatility exhibited by this tax source.

An important dimension of managing Kerala's taxes is to maintain parity/competitiveness with respect to the neighbouring States (Tamil Nadu, Karnataka, and Pondicherry). Pondicherry (a union territory) has an enclave called Mahe which is physically located in Kerala. For many commodities, the tax rates of Pondicherry are extremely low. As a result, people make purchases inside the UT. Furthermore, many dealers use this for straightforward tax evasion by selling the goods directly in Kerala but showing the bills as having originated in Mahe. The problem is especially acute for automobiles, refrigerators and Indian made foreign liquor (IMFL). This has led to considerable trade diversion and tax loss.

In order to get round this problem, Kerala has imposed an entry tax on certain specified items like furnace oil, high speed diesel, and computers, components and spares in the 1998–99 budget. Earlier, an entry tax was imposed on cement and iron and steel. It proved to be counter-productive for cement-based and steel-based industries in the State. The need for an entry tax has arisen because of diversion of trade and productive activities to the neighbouring States. Often, goods that are intended for sale within the State may be sent outside first and brought back as inter-State sales. The problems arising out of the extremely low tax rates of the Union Territory of Pondicherry should be solved through the intervention of the central government. In general, however, an entry tax and a cascading type of sales tax structure need not be encouraged. Barriers to trade and distortions caused by them are ultimately counter-productive for the industrial growth of the State. Rather, the State should move towards a tax system which is least distortionary and better aligned with the tax structures of the neighbouring States with a view to attracting and sustaining industrial activities within the State.

In chart 4, per capita sales tax revenues (table A2.2) for the four southern States of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu are depicted. It will be observed that (i) sales tax per head is quite high for Kerala and Tamil Nadu; (ii) they have moved in tandem over time for these two States; and (iii) much faster than the other two States. While it is not advised that tax rates should be increased in general in Kerala, tax revenues would improve with better tax administration and collection of arrears.

The long term objective of the State should be to introduce Value Added Tax (VAT) so as to minimise tax-induced distortions in the manufacturing activities as also to widen the tax-base by capturing the value-added beyond first points of sale. In 1993, an attempt was made with respect to a selected list of commodities. In April 1997, VAT was withdrawn. By that time, it had covered 11 items. Many of them were high value items like washing machines, vacuum cleaners, refrigerators, airconditioners. Accounting problems faced by the dealers as well as the tax administration have been cited as the main causes for this reversal. A threshold limit for dealers was also not prescribed. As a result, a large number of dealers were covered from the very start. It seems that VAT was introduced in the State without adequate preparation. There was also an apprehension about revenue loss in relation to the concerned commodities. In particular, no attempt was made to first determine the revenue-neutral rates. In the context of several States now preparing for implementation of VAT, it is advisable for Kerala to make a second effort, but with adequate preparation. Since sales tax is the first point levy for many goods, and Kerala is a net importing State, it stands to gain by capturing the value added in the sales process within the State. Necessary pre-implementation stage steps are: (i) rationalisation of the rate structure, leading to a reduction in the number of tax rates to about 4 (at present, there are 18 rates); (ii) training of staff in the administration of VAT; (iii) computerisation of accounts of the tax offices and the big dealers; and (iv) dissemination of information to the dealers. Further, revenue-neutral rates need be worked out, and a strategy for implementation, beginning from a partial, and leading to a full, rebate of sales tax paid on inputs should be determined. Further, whereas a consignment tax is not being recommended with a view to having an unfragmented country-wide market, the State should press with the central government for a tax on selected services.

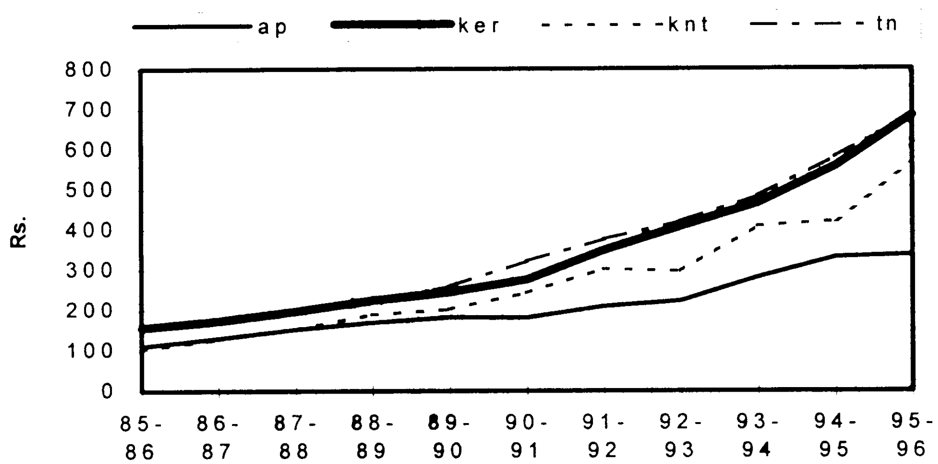


Chart 4 : Per Capita Sales Tax of Selected States

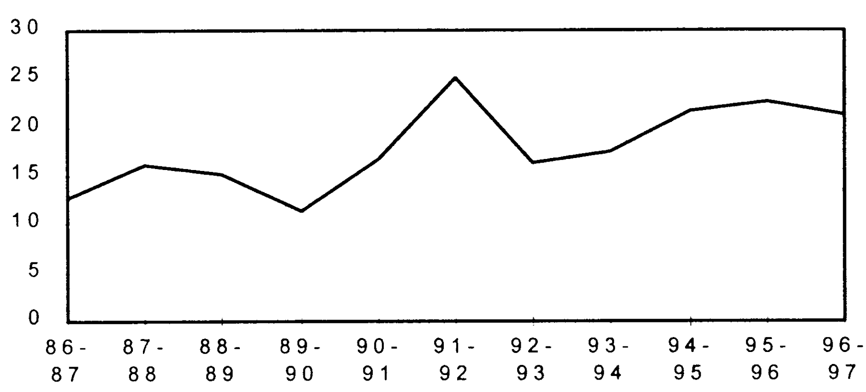


Chart 5 : Sales Tax Revenues : Annual Growth Rates

There is a long list of exempted items in the Sales tax Act (specified in schedule 3). This list should be reviewed and pruned. In particular, items like silk sarees and fabrics, can be taken off the list. Although, Kerala has an incentive scheme for new industrial units, this scheme has hardly been successful in attracting new industries. Rather, the same units keep re-establishing themselves every seven years, thereby causing substantial loss of revenue. The scheme has been necessitated primarily owing to the existence of similar schemes in the neighbouring States. As a result of tax competition, there is loss of revenue to all of them. With a joint decision to withdraw the tax incentive schemes in the concerned States at the same time, they would all stand to gain without any loss to the industries in the region.

Non-Tax Revenue

The contribution of non-tax revenues (interest receipts, fees, user charges, rates, etc.) have been low and falling, until recently. In 1985–86, non-tax revenue, as a percentage of GSDP, was 1.88 percent. It fell to 1.34 by 1991–92. Since then, it has recovered somewhat, reaching 1.54 percent of GSDP in 1996–97. Augmenting non-tax revenues should be considered an important means for improving Kerala's State finances. These have considerable unexploited potential. Also, it is more justifiable to charge individuals who are the direct beneficiaries of services provided by the government when significant externalities or welfare motives are not involved, rather than charging the general taxpayer for financing these services.

The structure of non-tax revenues have been summarised in table 2.3. While the share of economic services have remained virtually unchanged during the period 1985–86 to 1996–97, the share of social services as well as interest receipts and dividends has gone down. The difference has been made up by an increased share of receipts from the general services. We consider this structural change somewhat undesirable. It will be seen that the social services account for a very large part of budgetary costs. Also, interests receipts and dividends reflect rather poor recoveries. As such it is desirable, that recoveries from social and economic services should be significantly increased. This issue is further considered in the discussion on subsidies in the next chapter.

The Task Force Report on Tax and Non-Tax Sources of Revenue [GoI, 1997(c)] lists many fees and rates (see annexure 3) that have not been revised for the last twenty years or more. We fully endorse the recommendations of the task force in this regard that would lead to a significant and speedy increase in the recovery of costs of various services provided by the State government. The report estimates an amount of Rs. 376.12 crore for the Ninth Plan period, divided into year-wise amounts, and an amount of Rs. 63 crore from revision of tuition fee for medical education courses and from forests, giving an amount of Rs. 439.12 crore over the Ninth Plan period. For the year 1998–99, the additional non-tax revenue estimated by the task force is about 38 percent higher than the budget estimate of 1998–99.

Table 2.3: Non-Tax Revenues: Relative Importance of Different Components

(Percent of total non-tax revenue)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Interest receipts, dividends & profits	**17.47**	**11.55**	**9.83**	**9.65**	**9.76**	**10.69**	**19.82**	**11.61**
General services	**17.62**	**40.15**	**35.19**	**31.42**	**27.58**	**27.30**	**25.11**	**30.73**
Social services	**18.30**	**14.90**	**13.02**	**12.29**	**12.97**	**11.58**	**11.38**	**9.20**
Economic services *of which*	**46.61**	**33.41**	**41.96**	**46.65**	**49.69**	**50.43**	**43.69**	**48.46**
Forests	30.02	17.88	23.70	28.17	31.88	34.54	30.02	31.53
Major & medium irrigation	0.87	0.99	0.71	0.52	0.73	0.45	0.50	0.43
Minor irrigation	3.28	0.49	0.52	0.18	0.15	0.14	0.09	0.18
Road and water transport	1.01	0.67	0.59	0.97	0.64	0.68	0.67	3.43
Animal husbandry	1.59	1.13	1.10	1.04	1.08	0.90	0.79	0.84
Industries	0.14	1.39	1.95	5.56	4.90	1.85	2.72	0.42
Others	9.71	10.86	13.39	10.21	10.30	11.87	8.91	11.65
Memo: non-tax revenue (Rs. crore)	142	164	189	181	174	209	235	279

Source: CAG, relevant years.

Resource Transfers from the Centre

There has been a turnaround in the relative roles of grants and shared taxes. While the share of grants has been going down, the decline has been compensated to some extent by an increase in the shared taxes. However, considered together, the resource transfers to the State from the centre in the form of shared taxes and grants, measured as a percentage of GSDP, have fallen. Net loans have also fallen. Thus, the total transfer from the centre including net loans have decreased from 12.30 percent of GSDP in 1985–86 to 6.31 percent of GSDP in 1996–97. The relative contribution of different modes of resource transfer are summarised in table 2.4.

Table 2.4: Resource Transfers from the Centre

(Percent of GSDP)

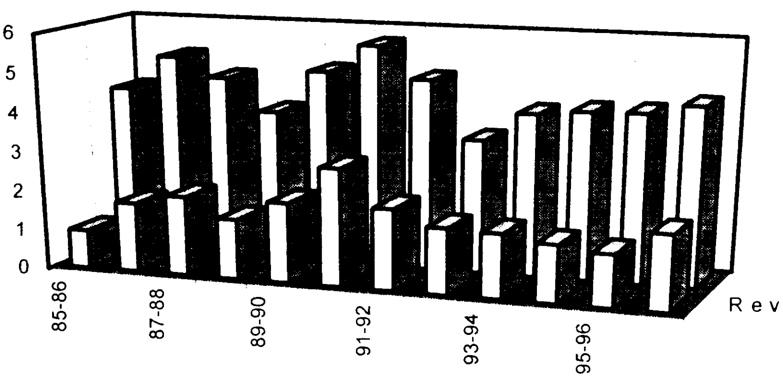
	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total Transfers	**12.30**	**7.97**	**6.92**	**7.22**	**7.32**	**7.72**	**6.72**	**6.31**
Shared Taxes	2.75	3.45	3.29	3.45	3.34	3.11	3.45	3.72
Grants	3.86	2.61	2.09	2.33	2.23	2.34	1.56	1.47
Net Loans	5.68	1.91	1.54	1.44	1.75	2.27	1.70	1.12

Source: CAG, relevant years.

Fiscal Deficit: Composition and Financing

As noted earlier, the basic fiscal problem of Kerala is a high debt-GSDP ratio that has arisen because of the persistent use of high fiscal deficit to finance government revenue expenditure (charts 6 and 7). In table 2.5, the composition and financing of fiscal deficit have been summarised. It will be observed that, measured as a percentage of GSDP, fiscal deficit amounted to 4.55 percent in 1996–97, of which about 2 percentage points were accounted for by revenue deficit alone. In 1985–86, this figure was close to 1 percent of GSDP. On the other hand, the share of capital outlay financed by fiscal deficit has been falling. In a number of years, withdrawal for funds has been used as a method for financing fiscal deficits to a noticeable extent, significantly during 1992–93 and 1996–97.

It is clear that for a number of years, fiscal deficit has remained in the range of 4 to 5 percent of GSDP. The primary deficit (table 2.1) has been about 1.2 percent of GSDP in recent years. These levels of fiscal and primary deficits have implied a steadily increasing outstanding debt to GSDP ratio given the effective interest and growth rates.



Charts 6 : Fiscal and Revenue Deficits

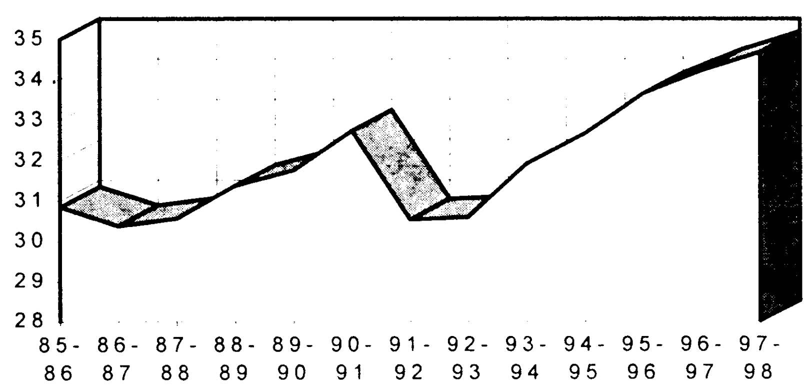


Chart 7 : Debt to GSDP Ratio (%)

CONTINGENT LIABILITIES

Debt-liability of the State government is in fact understated until the repayment guarantees given by the State government to public sector undertaking loans are also considered. Such guarantees (outstanding amount) have risen from Rs. 914 crore in 1987-88 to Rs. 1863 crore by the end of 1996–97, in addition to which an amount of Rs. 85 crore is also outstanding on account of interest. Several of the PSUs are running operating losses and are unable to service their debt. Not only past repayment and interest payments have been defaulted, future debt servicing also stands a strong chance of being defaulted. The State government charges a guarantee commission at a nominal rate of 0.75 percent on the basis of the principal and interest outstanding (in default) each year. Guaranteeing loans of non-viable PSUs amounts to creating deferred budgetary liabilities. Possibly for this reason, Kerala has earned a sub-investment grade rating from agencies like Credit Rating Information Service of India Ltd. (CRISIL).

Table 2.5: Composition and Financing of Fiscal Deficit (1985–86 to 1996–97)

(Percent of GSDP)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Fiscal deficit (estimated from definition)	4.29.	5.66	4.87	3.42	4.15	4.27	4.30	4.55
Financing of fiscal deficit								
1. Net borrowing[1]	8.15	5.24	4.20	3.75	4.83	6.05	4.30	3.92
2. Withdrawal of funds[2]	-0.48	0.23	0.05	0.30	-0.23	-2.00	0.00	0.67
3. Ways and means adv. (RBI & Center)	-2.97	0.26	0.08	0.41	-0.82	-0.04	0.00	0.00
4. Overall deficit	-0.42	-0.08	0.34	-0.87	0.38	0.09	0.04	0.06
5. Contingency fund (net)	0.01	0.02	0.21	-0.18	0.00	0.17	-0.04	-0.10
Composition of fiscal deficit								
i. Revenue deficit	0.99	2.99	2.08	1.69	1.65	1.48	1.34	1.93
ii. Capital outlay	2.74	1.82	1.63	1.39	1.61	1.65	1.88	1.87
iii. Net lending	0.56	0.86	0.87	0.59	0.89	0.97	1.12	0.83

Source: Estimated from data given in CAG, relevant years; and CSO, relevant years(a).

Notes: 1. This comprises loans from the centre, market borrowing and small savings and provident fund, reflecting change in the outstanding debt stock. This equals fiscal deficit only when items 2, 3, 4 and 5 are all zero.
2. This captures net transactions in public account excluding small savings and provident fund.

STATE FINANCE COMMISSION

The broad approach of Kerala State Finance Commission (KSFC) has been to: (i) distinguish between traditional functions and responsibilities; and (ii) additional developmental responsibilities. While traditional functions may continue to be supported by the traditional financing methods (tax shares, grants, own sources but with improvement in the mechanism of collection), there is need for augmenting more resources for the new developmental functions. New functions relate to development of new assets and maintenance of old assets that will be transferred to the local bodies. Annexure 6 gives a summary of the approach of KSFC.

The financial position of the local bodies in Kerala is comparatively better than that of the local bodies in other States. The fiscal autonomy of local bodies, which is defined as the ratio of locally raised revenue in total local expenditure, is around 50 percent in Kerala, whereas the all-India average of the same is around 11 percent. The SFC has noted that this high fiscal autonomy is mainly due to some of the potent and buoyant revenue resources in the hands of the local bodies. The building tax, profession tax and entertainment tax are the major taxes at local level and they together constituted around 50 percent of the total revenue of local bodies in Kerala. The building tax continued to be one of the most lucrative source of revenues for the rural local bodies and constituted around 60 percent of the own tax revenue in 1993-94. During the same year, the share of profession tax and entertainment tax in own tax revenue was 24.47 and 13.54 percent respectively.

Apart from own resources, tax transfers and grants from the State government constitute around 45 percent of the total receipts of the *panchayats*. In Kerala, stamp duty on transfer of property and basic tax or land tax are assigned taxes, while motor vehicle tax is the only shared tax which is based on the compensatory principle.

In the allocation of Plan funds, the total volume should be determined by the State level planning authority but principles of horizontal distribution have been reconsidered by the KSFC. Financial requirements for the maintenance of roads, buildings and other assets transferred to the local bodies have been separately assessed.

3. Government Expenditures: A Review

EXPENDITURES: BUDGETARY CLASSIFICATION

Trends in revenue expenditure, considered as a percentage of GSDP, have been summarised in table 3.1. Expenditure on social and economic services, has experienced a slight fall in terms of GSDP at the expense of a rise in non-development expenditure, i.e., general services. In fact, during 1985–86 to 1996–97, social, economic and general services have risen at the compound rate of growth of 12.66, 15.84 and 18.22 percent per annum respectively. This reveals that while the growth rate of general services has been the highest, it is the lowest for social services.

The rise of expenditure in general services is attributable to interest payments and pensions. Interest payment as a percentage of GSDP grew from 1.69 percent in 1985–86 to 3.31 percent in 1996–97 whereas pensions have grown from 1.60 percent to 2.55 percent during the same period as given in table 3.1. The overhang of debt with a gradually increasing reliance on market for borrowing has escalated the interest payments. Pensions work out to be a higher percentage of revenue expenditure in Kerala as compared to other States possibly because of the lower retirement age (55 as compared to 58/60 years). The other two components, *viz.*, organs of State and fiscal services have remained more or less stable as shares in GSDP during the period under consideration.

A low retirement age (55 years) and a relatively high life expectancy is causing a substantial burden on the State exchequer as far as pensions are concerned. Even if a pension is commuted initially, it is fully restored after 12 years at the age of 67. It is advisable for the State and most of its important public enterprises to create separate pension funds and operate them off the budget while the State government may still contribute a significant amount. Clear guidelines should be prepared for appropriate investments of the pension funds so that they may become self-sustaining. The issue of raising the retirement age should also be reviewed. Central government and most other State governments are now having a retirement age of 58–60 years. A one-time adjustment is required in raising the retirement age. Since fresh recruitment in the government sector has to be reduced drastically, employment potential has to be created in the private sector.

With reference to the development sectors, social and economic, there is a perceptible structural shift in favour of the economic services. Among the social sectors, the fall in education is significant compared to near stagnancy in health and a marginal rise in water supply, sanitation and urban development. The shares of education and health in GSDP fell from 5.54 and 1.36 in 1985–86 to 4.84 and 1.30 in 1996–97 respectively. Water supply, sanitation and urban development registered a rise from 0.35 to 0.66 during the same period.

Table 3.1: Revenue Expenditure

(Percent of GSDP)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
A. Developmental expenditure (1+2)	**13.86**	**12.79**	**11.23**	**11.44**	**11.48**	**11.17**	**11.36**	**12.13**
1. Social services	10.28	9.04	7.70	7.23	7.89	7.72	7.69	8.07
a. Education, sports, art and culture	**5.54**	**5.50**	**4.77**	**4.57**	**5.09**	**5.01**	**4.78**	4.84
b. Health and family welfare	**1.36**	**1.51**	**1.27**	**1.15**	**1.26**	**1.27**	**1.32**	1.30
c. Water supply, sanitation & urban development	**0.35**	**0.58**	**0.51**	**0.44**	**0.50**	**0.47**	**0.48**	0.66
2. Economic services	**3.58**	**3.74**	**3.53**	**4.21**	**3.59**	**3.46**	**3.67**	**4.07**
a Agriculture and allied	2.38	1.33	1.55	2.26	1.48	1.51	1.51	1.65
b Rural development	0.00	0.89	0.73	0.66	0.71	0.63	0.65	0.83
c Special area programmes	0.00	0.05	0.07	0.03	0.04	0.04	0.03	0.03
d Irrigation and flood control	0.18	0.46	0.36	0.36	0.41	0.38	0.41	0.35
e Energy	0.00	0.01	0.01	0.01	0.01	0.02	0.02	0.04
f Industry and minerals	0.25	0.27	0.22	0.33	0.32	0.32	0.35	0.44
g Transport and communications	0.44	0.49	0.43	0.40	0.46	0.38	0.50	0.49
h Science, technology and environment	0.00	0.03	0.02	0.02	0.02	0.02	0.02	0.04
i general economic services	0.33	0.21	0.16	0.15	0.14	0.15	0.16	0.19
B. Non-Developmental Expenditure								
3. General Services	**5.32**	**7.02**	**6.96**	**6.70**	**7.32**	**7.36**	**7.79**	**7.86**
a Organs of State	0.21	0.25	0.23	0.19	0.21	0.22	0.24	0.24
b Fiscal services	0.54	0.59	0.52	0.50	0.55	0.60	0.58	0.53
c Interest payments and servicing of debt	1.69	2.42	2.76	2.72	3.05	3.04	3.08	3.31
d Administrative services	1.28	1.40	1.23	1.12	1.19	1.18	1.23	1.23
e Pensions and miscellaneous general services	1.60	2.37	2.23	2.16	2.33	2.32	2.65	2.55

Source: CAG, relevant years

In economic services, the fall in the share of agriculture and allied activities from 2.38 to 1.65 during 1985–86 to 1996–97 is significant in relation to the increase in shares of irrigation and flood control, industry and minerals, transport and communications. Particularly, the rise is significant in case of irrigation and flood control (a rise from 0.18 to 0.35) and industry and minerals (0.25 to 0.44). Expenditure on energy and science, technology and environment continue to be low (table 3.1).

Historically, Kerala has assigned high priority to social and community sectors. This is evident from the fact that in 1985–86, education and health combined, accounted for 6.9 percent of GSDP compared to 3.58 percent for economic services as a whole. Though, there has been a gradual shift in favour of economic services, these two sectors continue to claim a higher share of budgetary resources (6.14 percent of GSDP) as compared to 4.07 percent of GSDP for economic services in 1996–97.

The contribution of the State government to capital formation in the State has been dismally low, and declining. Net of repayments, capital expenditure was 3.54 percent of GSDP in 1985–86 (table 3.2). By 1996–97, it had fallen to 2.89 percent. Correspondingly, capital outlay which was 2.74 percent of GSDP in 1985–86, fell to 1.87 percent in 1996–97. The impact has been felt by social services and economic services alike. While, for the former category, the fall was from 0.59 percent in 1985–86 to 0.25 percent in 1996–97, for the latter, it was from 2.04 percent to 1.52 percent during the same period.

Table 3.2: Capital Expenditure and Outlay

(Percent of GSDP)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Capital expenditure	4.65	3.62	3.35	2.88	3.42	3.31	3.65	3.46
Capital expenditure (net of repayments) of which	3.54	2.80	2.63	2.08	2.65	2.72	3.10	2.89
Capital outlay	2.74	1.82	1.63	1.39	1.61	1.65	1.88	1.87
Capital outlay on social and economic Services								
A. Social services	**0.59**	**0.25**	**0.19**	**0.20**	**0.21**	**0.16**	**0.23**	**0.25**
Education, sports, art and culture	0.11	0.14	0.10	0.12	0.11	0.08	0.07	0.08
Medical, public health & family welfare	0.19	0.07	0.05	0.05	0.06	0.05	0.07	0.06
Water supply, sanitation & urban development	0.25	0.02	0.01	0.01	0.01	0.01	0.05	0.03
B. Economic services	**2.04**	**1.51**	**1.41**	**1.15**	**1.35**	**1.44**	**1.57**	**1.52**
Agriculture and allied activities	0.21	0.23	0.25	0.15	0.11	0.17	0.20	0.17
Transport	0.54	0.42	0.39	0.34	0.39	0.43	0.47	0.42
Industry and minerals	0.31	0.30	0.25	0.17	0.26	0.31	0.30	0.33

Source: CAG, relevant years.

Within social services, capital expenditure on education, health and water supply, as a percentage to GSDP, have all fallen. This fall has been particularly severe for the latter two. Expenditure on medical and public health and water supply were 0.19 and 0.25 respectively in 1985–86. These shares plummeted to 0.06 and 0.03 respectively in 1996–97 as percentages of GSDP. With regard to economic services, barring industry and minerals which show a marginal rise from 0.31 to 0.33 during the same period, the other two major economic sectors, agriculture and allied activities and transport exhibit a decline. With regard to compositional shift pertaining to capital expenditure, economic services exceed social services by a large margin (as compared to the case of revenue expenditure).

Economic Classification: Selected Items

This structure of government expenditure can also be viewed in terms of its economic classification. In this context, we focus attention on two major economic categories of government expenditure, *viz.*, maintenance and salaries.

As evident in table 3.3, there is a clear declining trend in maintenance expenditure which has fallen from 2.77 in 1985–86 to 1.13 in 1996–97. Though, the same trend is discernible for all the three sectors, social, economic and general services, it is more severe for social sectors.

Table 3.4 shows salary expenditure emanating from the budget for the years 1994–95, 1995–96 and 1996–97 as given in Appendix XI of the explanatory memorandum of the budget of 1998–99. Salary heads under revenue and capital heads are shown with an explicit reference to the teaching grants given to the aided private educational institutions (APEI). Like other States, Kerala is also revising the salary structure of its employees in line with the recommendations of the Fifth Central Pay Commission. These increases are based on the recommendations of the State Pay Commission which has a periodicity of five years as compared to the centre where the cycle is of 10 years. According to a recent press release of the government, the additional annual burden is likely to be Rs. 904 crore including pensions, out of which Rs. 637 crore can be accounted for by revision of salaries, while the rest pertains to pensions. This implies an increase of about 20 percent over the existing pay package.

Table 3.3: Expenditure on Maintenance

(As percentage of GSDP)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Maintenance	**2.77**	**1.89**	**1.22**	**1.16**	**1.38**	**0.97**	**1.13**
Social	0.93	0.85	0.54	0.50	0.63	0.40	0.34
Economic	0.65	0.57	0.38	0.37	0.41	0.31	0.48
General	0.54	0.35	0.22	0.20	0.26	0.26	0.31

Source: CSO, relevant years(a).

Table 3.4: Expenditure on Salaries and Number of Government Employees

(Rs. lakh)

	1994-95	1995-96	1996-97
Salary expenditure: revenue heads	142941	143199	172825
Salary expenditure: capital heads	1918	2188	2675
Total salary expenditure of government employees	144859	145387	175500
Teaching grants to APEI	74566	77653	86166
Total salary expenditure	219425	223040	261666
Total salary expenditure as a percentage of GSDP	*8.13*	*7.42*	*7.84*
Total salary expenditure as a percentage of total expenditure	*37.83*	*33.00*	*33.76*
Number of government employees	357203	362540	361115
Number of employees in APEI	141551	142044	142982
Total number of employees	498754	504584	504097
Memo: Total expenditure	580078	675795	775166

Source: GoK, DoF, relevant years.

An Inter-State Comparison of Per Capita Expenditure

In per capita terms, Kerala spends relatively larger, amounts through its budget, as compared to most other Indian States. A comparative picture is presented in table 3.5 for the year 1995–96. The north-eastern States, and Jammu and Kashmir are not included in this comparison. We observe that Kerala ranks seventh among the fifteen general States with reference to development expenditure. With regard to non-development expenditure, there are only three States which spend more than Kerala in per capita terms.

Table 3.5: Comparison of Per Capita Expenditure: 1995-96

(Rupees)

States	Development Expenditure	Non-Development Expenditure	Total Expenditure	States	Development Expenditure	Non-Development Expenditure	Total Expenditure
Andhra Pradesh	1248	510	1758	Madhya Pradesh	1048	397	1445
Bihar	549	381	930	Maharashtra	1849	677	2526
Goa	4191	3154	7345	Orissa	1177	511	1688
Gujarat	1659	612	2271	Punjab	1793	1118	2911
Haryana	1936	1466	3402	Rajasthan	1467	7369	2202
Karnataka	1529	577	2106	Tamil Nadu	1437	601	2038
Kerala	**1504**	**785**	**2289**	Uttar Pradesh	871	564	1435
				West Bengal	1000	462	1462

Source: RBI 1996-97

PLAN AND NON-PLAN EXPENDITURE

It is also notable that nearly three-fourths of the State government expenditure comprises non-Plan expenditure which is higher than average for the major States as shown in table 3.6. As such, the pattern of expenditure is tilted towards non-Plan, non-developmental items.

Table 3.6: Plan and Non-Plan Expenditure

(Percent of total expenditure)

Year	Kerala Plan	Kerala Non-Plan	Major States Plan	Major States Non-Plan
1994-95	23.76	76.24	27.21	72.79
1995-96	25.08	74.29	28.43	71.57
1996-97	27.33	72.67	29.59	70.41

Source: GoK, SPB, 1997(a).

BUDGETARY SUBSIDIES

In order to obtain a comprehensive picture of the budgetary resources that are used for subsidising various social and economic services, it is appropriate to take into account both explicit and implicit subsidies. For this purpose, an estimate of budget subsidies was made for the year 1996–97, using the methodology described in Srivastava *et.al.*(1997) with some modification.[2] In this methodology, subsidies are interpreted as unrecovered costs in the provision of services by the government through budgetary allocations. It is the excess of costs over recoveries which provide the estimate of subsidies. Current costs are taken as revenue expenditure on the services in addition to which an annualised cost of capital is also included. Receipts are in the form of revenue receipts, interests and dividends. A distinction is made between services provided directly by the government departments, and government investments in the form of equity and loans to various enterprises. Total subsidies in 1996–97 amount to Rs. 4541 crore which is 13.6 percent of GSDP. Some sectors produce a surplus which amount to about Rs. 97 crore. These sectors are mainly forestry and wildlife and petroleum. A summary of budgetary subsidies is given in table 3.7.

Table 3.7: Budgetary Subsidies in Kerala: 1996-97

(Rs. crore)

Sector	Revenue Expenditure	Aggregate Costs	Revenue Receipts	Aggre-gate Receipts	Unrecovered Variable Costs	Unrecovered Total Costs	Subsidy as a Percentage of GSDP	Recovery Rate (Percent)
Social services	**2579.70**	**2743.70**	**38.82**	**44.26**	**2540.86**	**2699.41**	**8.09**	**1.61**
Education, sports, etc	1615.09	1649.39	26.16	26.21	1588.93	1623.18	4.86	1.59
Health & family welfare	427.42	458.96	3.32	3.34	424.10	455.62	1.37	0.73
Other social services	537.17	635.32	9.34	14.71	527.83	620.61	1.86	2.32
Economic services								
A. Subsidised sectors	**1222.30**	**1937.30**	**73.50**	**95.39**	**1148.81**	**1841.86**	**5.52**	**4.92**
Agriculture & allied Activities	463.35	544.24	33.28	37.26	430.07	506.98	1.52	6.85
Rural development	239.12	239.43	0.49	0.52	238.63	238.91	0.72	0.22
Special area programmes	9.90	10.41	0.25	0.64	9.90	10.40	0.03	0.06
Irrigation and flood control	115.72	379.77	3.20	3.20	112.52	376.57	1.13	0.84
Energy	14.58	100.82	0.00	10.61	14.58	90.21	0.27	10.52
Industry and minerals	147.01	266.40	7.80	13.76	139.21	252.64	0.76	5.17
Transport	165.11	324.46	18.96	20.20	146.15	304.26	0.91	6.23
Other economic services	67.52	71.72	9.77	9.83	57.75	61.89	0.19	13.71
B. Surplus sectors	**67.23**	**78.94**	**174.46**	**175.52**	**-107.23**	**-96.58**	**-0.29**	**222.35**
Social and economic services (excluding surplus sectors)	3801.99	4680.92	112.32	139.65	3689.67	4541.27	13.61	2.98
Social and economic services (including surplus sectors)	3869.22	4759.86	286.78	315.17	3582.44	4444.69	13.32	6.62

Source (Basic Data): CAG, relevant years

It is evident that the total subsidies in social services, amounting to 8.09 percent of GSDP, are higher than those for economic services which amount to 5.52 percent of GSDP. The recovery rate in social services is 1.61 percent of the costs, and in economic services, it is 4.92 percent. It is clear that the huge amount of subsidies need to be brought down in both social and economic services where the recovery rates are abysmally low and the volume large. At first, those services should be targeted where the extent of externalities may not be significant and the benefits may largely accrue to the users of the services directly. For this purpose, we suggest that the following sectors should be targeted: (i) irrigation, (ii) energy, (iii) industry and minerals, (iv) transport, and (v) 'other' economic services. Next, some components of agriculture and allied activities, health services that are curative in nature, and education at the higher and technical ends including medical education may be targeted. A decomposition of the recovery rates with respect to major heads and their components indicates that the share of variable (i.e., current) costs for direct services constitutes more than 95 percent of the total costs for many services. Sectors where it is relatively low are irrigation and flood control (30 percent) and transport (54.5 percent). In all other services, it is quite high. It is suggested that in the case of economic services, a target of recovering at least 50 percent of the variable costs should be set up in the first instance. The existing recovery rates with reference to variable costs are so low that a significant volume of revenues may be raised even through this modest target. The other component of these services is the investment made through budgetary resources in the form of equity and loans. Here, the recovery rates range from extremely low to about 12 percent. All sectors where the recovery rates are less than 10 percent should be targeted for improving recoveries, especially in the case of loans. Some of the suggested sectors for this purpose are plantations, industries, transport and tourism.

4. Social and Economic Sectors: Profiles and the Ninth Plan

EDUCATION

With a literate male population of 93.62 percent, and literate female population of 86.17 percent, Kerala stands tall among the Indian States. The average teacher-pupil ratio in Kerala schools is 1:30.

There is now excess capacity in schools as the age structure in Kerala is changing towards the higher age groups, given the low birth rate and improvement in life expectancy. Many existing schools have become uneconomic. Enrolment in schools is also falling (table 4.1).

Table 4.1: Education: Enrolment and Uneconomic Schools

(Lakhs)

Enrolment in Schools - Stage-Wise									
Stage	1995			1996			1997		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
Lower primary	11.53	10.99	22.52	11.24	10.74	21.98	10.94	10.46	21.40
Upper primary	9.48	8.92	18.4	9.35	8.78	18.13	9.22	8.68	17.9
Secondary	8.01	8.25	16.26	7.97	8.19	16.16	7.91	8.13	16.04
Total	**29.02**	**28.16**	**57.18**	**28.56**	**27.71**	**56.27**	**28.07**	**27.27**	**55.34**

Uneconomic Schools(Numbers)			
	Government Schools	Private Schools	Total
1997	625	782	1407

Source: GoK, SPB, 1997(a).

Total expenditure (including sports, arts, culture) on education has also fallen. In 1996–97, it was 5.09 percent of GSDP, having declined from 5.64 percent in 1990–91. Table 4.2 gives a summary of the number of educational institutions in Kerala. The number of primary schools has fallen from 6767 in 1990–91 to 6726 in 1996–97. The share of expenditure on primary education in total expenditure on education has also declined (55.85 percent in 1992–93, 41.17 percent in 1996–97). The vast infrastructure of educational institutions needs to be sustained by devoting attention to non-salary maintenance expenditure. The pattern in Kerala is that after secondary education, students move to polytechnics and other technical institutions for acquiring such qualifications as would facilitate their employment in the Gulf countries or elsewhere in India. As such, most students do not opt for higher education. This tendency is reinforced by the fact that Kerala has one of the highest incidence of unemployment of educated youth. Potential areas where new technologies may offer absorption of educated youth in large numbers must be tapped.

It is suggested that Kerala should now shift its attention to higher education. Having a large base in the educational pyramid, Kerala is eminently suited for this purpose. In particular, it should aim at developing a manpower base for industries based on information-technology.

Table 4.2: Educational Institutions and Expenditure on Education in Kerala

(Numbers)

Educational Institutions	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Primary institutions (LP)	6767	6783	6779	6702	6694	6728	6726
Middle institutions (UP)	2915	2935	2931	2920	2912	2964	2968
High schools	2452	2472	2472	2475	2486	2573	2580
Colleges for general education[1]	172	173	174				211
Professional education[2]	83	86	89				92
University							7
Expenditure on education							
Education Total expenditure (Rs. lakh)	79501.30	85385.40	93467.60	117137.30	137274.00	145760.90	164283.80
Share in GSDP	5.64	4.87	4.69	5.20	5.09	4.85	4.92

Source: 1. GoK. SPB, 1997(a); CAG, relevant years.

Notes: 1. Includes Arts and Science Colleges both in government and private sectors.
2. Includes engineering colleges, polytechnics and technical high schools.

HEALTH

Achievements in the health sector are exemplary. High life expectancy at 67.2 years for men, and 72.4 years for women (all-India figures are 60.6 and 61.7 years respectively), low birth rate (17.7 per thousand population against the all-India figure of 28.8), and distinctly low IMR (16 per '000 against 74 for all-India) put Kerala way ahead of most other Indian States.

A vast health care infrastructure has been put in place with 1310 allopathic medical institutions, 43,165 beds, and 956 primary health centres (PHCs). In the government sector, availability of beds per lakh of population is 147 as compared to 97 for all-India.

However, expenditure on health as a percentage of GSDP has also been on the decline. It fell from 1.57 percent in 1991–92 to 1.36 percent by 1996–97. People have been increasingly looking towards the private sector for better services. There is a clear case for increasing user charges for individualised health services accompanied by an improvement in the quality of services. The State Planning Board's task force on tax and non-tax revenues [GoK, SPB, 1997(c)] has observed that `good infrastructure facilities created in government hospitals are deteriorating for want of proper maintenance and upkeep'.

Table 4.3: Health Infrastructure and Expenditure on Health

Rural Health Infrastructure		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Primary health centres (numbers)		908	907	918	924	940	961	956
Community health centres (numbers)		54	54	54	51	52	60	80
Sub-centres (numbers)		5094	5094	5094	5094	5094	5094	5094
Expenditure on health								
Health	Total expenditure (Rs. lakh)	22199.10	23180.40	23922.90	29845.10	35661.40	41720.80	45341.30
	Share in GSDP	1.57	1.32	1.20	1.33	1.32	1.39	1.36

Source: 1. GoK, SPB, 1997(a); CAG, relevant years.

The per capita total revenue expenditure on health services (including medical and public health services) has always been higher than the corresponding per capita expenditure for all States. The percentage difference has, however, steadily narrowed down over the years.

The structure of expenditure in the health budget shows increasing predominance of pay and allowance at the expense of medicine and construction. The expenditure on hospital accessories has also not increased adequately. As such the structure of health expenditure has been changing in an adverse way (table A4.4).

Table 4.4: Per Capita Health Expenditure: Kerala and All States

(Rupees)

	1960-65	1965-70	1970-75	1975-79	1980-85	1985-90	1991-95
All states	2.61	4.56	7.33	13.39	26.04	47.88	95.47
Kerala	3.46	6.05	8.67	19.06	31.85	48.98	113.18

Source: Sadanandan, 1992.

The relative shares of institutions in health budget of Kerala also show increasing bias towards medical college hospitals where sophisticated tertiary medical services in urban areas are provided. This is an area where the private sector could have played a greater role leaving budgetary resources for attention to the poorer sections of the society and the rural areas (table A4.5).

IRRIGATION

Kerala has 1.18 percent of land area of India and 4.8 percent of the water resources of the country. With limited land available for agriculture, and abundant water, a near complete irrigation cover appears both desirable and feasible. Yet, owing to slippage in achieving targets, the State has fallen way behind the required coverage. The irrigation department puts the figures for gross and net area irrigated at 6.76 and 4.19 lakh hectare respectively, whereas the Directorate of Economics and Statistics puts these figures at 4.65 and 3.43 lakh hectare (for 1995–96). Unanticipated cost escalation and resource shortage has placed targets considerably out of reach. At the beginning of the Eighth Plan, the average cost per hectare was worked out at Rs. 5770. Recent estimates put this figure at Rs. 81,093 per hectare, i.e., a fourteen-fold increase [GoK, SPB, 1997(a)]. So far, major and medium irrigation has been emphasised and due weightage has not been given to minor irrigation which suits the State rather well. Water rates are extremely low. More recoveries can be made and more resources need to be put in this vital sector.

Table 4.5: Physical and Financial Performance of Kerala State Electricity Board

Physical	1992-93	1993-94	1994-95	1995-96
Share of power sector outlay in total outlay (percent)	20.08	20.43	23.81	29.03
Outlay on renovation and modernisation (Rs. crore)	8.30	1.00	5.00	7.00
Transmission and distribution losses as percentage of availability	21.00	20.17	20.09	19.00
Power supply position: surplus (+)/deficit (-) (percent)	-3.70	-1.90	-0.80	-14.30
Gross generation (MKWH)	6192.70	5822.30	6571.10	6700.00
Net generation (MKWH)	6158.00	5789.30	6547.20	6467.00
Purchase of power (gross, MKWH)	1232.50	2020.00	2247.00	2540.00
Financial				
Sales revenue as ratio of cost (percent)	84.71	82.79	87.38	77.14
Commercial loss (-) (with no subsidy from the State government) (Rs. crore)	-65.40	-75.80	-110.80	-172.40
Subsidy to sales revenue ratio (with cross subsidisation) (percent)	18.10	19.80	23.90	28.80
Cross subsidy from other users (crores)	-2.00	-1.00	-11.00	-27.00
Rate of return on capital (without subsidy)	-11.40	-9.40	-12.30	-17.50

Source: GoI, 1997(a).

FORESTRY AND WILDLIFE

The forest area in Kerala constitutes 10,336 sq. kms. in 1995, which is 26.5 percent of the geographical area of the State (data from INSAT). The forest department controls an effective area of 9,400 sq. kms. (24.2 percent of the geographical area) out of the total forest area. The forests in Kerala contain wet evergreen, deciduous, and shoal trees and grasslands, and plantation areas (table A4.6). The plantation area, which has shown an increase from 1,58,682 hectares in 1996 to 1,60,036 hectares in 1997, mainly contains softwoods. Nearly 5.79 percent of the total forest area of the State has been put under the wildlife protected area compared to the national average of 4 percent. Major forest products in Kerala are timber, firewood, honey, bamboo, and reeds. The quantity of timber, bamboo and reeds have shown higher production in 1996–97 compared to the earlier period, whereas the production of cardamom and honey has declined. The programme of social forestry has slowed down after completion of the World Bank aided project during the Seventh Plan. Other programmes undertaken by the State government for conservation and promotion of forests include compensatory afforestation programme, participatory approach in resource management and involving local bodies in homestead and agro-based forestry.

Revenues from forests amounted to about Rs. 43 crore in 1985–86. They fell during the late 1980s to Rs. 33 crore in 1989–90. Since then, they have been increasing. A significant increase has been experienced in the early 1990s. These are now around Rs. 160 crore although the revised and budget estimates for 1997-98 and 1998–99 respectively indicate that the forest revenues would again fall to about Rs. 135 crore. We think that the forest sector has a revenue potential of about Rs. 200 crore in the near future. The rise in forest revenues are attributed to the increase in extraction of forest products as well as rise in the price of timber. There is considerable additional revenue potential in this sector. The prices for various forest-based raw materials (like bamboo, eucalyptus, and acacia) for industry are much below their market prices. The forest department is the main supplier of industrial raw materials to paper, newsprint and other industries. However, this department continues to supply raw material to these industries on the basis of earlier contracts for which the prices have remained lower than the market prices. Such contracts between the forest department and industries should be revised in view of the escalated market price. The subsidised sale of timber to industries amounts to a major loss for the State government.

The Supreme Court directive to undertake felling of trees only on a scientific and sustainable basis according to approved working plans seems to have temporarily arrested forest-based activities in Kerala. There has also been a significant adverse effect on processing industries dealing with forest produce. This is causing an unemployment problem. As such, it is important for the government to prepare the necessary working plans and restore as much of forest-based activities as possible.

POWER

Kerala is as richly endowed with hydro-potential as it is poorly placed with respect to other major sources of energy, *viz*., coal, oil and gas. But even the full use of its hydro-potential has been curbed since the mid-eighties due to environmental issues and inter-State disputes. Its distance from the major coal-bearing regions make coal an expensive proposition. Oil and gas explorations off the Kerala coast have also not shown much promise.

Power is a critical input both for industry and via irrigation, for agriculture. Any long-term shortfalls in the availability of power would not augur well for the economy. Kerala was a power surplus State till 1987. Since then, it has become power-deficient. Presently, there is load-shedding during peak hours. It now draws heavily from the central sector power plants and, to some extent, it also depends on the neighbouring States. In 1996–97, 3298 Mu. of energy was purchased from the central sector whereas the total sale of energy in the State was 7021 Mu. Its per capita consumption of electricity, at 224.18 Kwh. (1996–97), is the lowest among the neighbouring southern States and significantly below the national average of 314 Kwh.

As the State moves towards greater dependence on non-hydel sources of energy, and as it draws more from the central sector, the average cost of electricity would go up in the State.

Not unlike other State Electricity Boards (SEBs), Kerala State Electricity Board (KSEB) is also running into financial losses. It has depended on large subsidies from the government. In 1995–96, the subsidy and grants received by KSEB amounted to Rs. 58 crore. The government has now initiated a system of automatic ten percent increase in tariff every year although applicable to a specified list of consumers. The system now covers all High Tension (HT), Extra High Tension (EHT) & Low Tension (LT) consumers other than domestic, agricultural and street light consumers. The system of administering subsidies has also been changed. These are now being given directly to the departments so that KSEB can charge the full relevant rates. Coordinating with the State government, the KSEB manages the power supply in the State through a suitable combination of own generation, drawal from the central sector, and imports from other (notably, the eastern) grids. It also follows a policy for encouraging captive generation of power, so as to reduce demand on the general supply. KSEB is now reducing its dependence on hydro-electricity by undertaking several thermal projects (table 4.6).

The profile of cross-subsidisation between different categories of consumers indicates that relative to the maximum tariff paid by the commercial users, agricultural users are charged only 15 percent, and domestic users, 43 percent. We think that the gap across users should be narrowed.

Kerala government has brought out a power policy statement in 1998. It has stated that "government disapproves the idea of privatising the Electricity Board ... Government also rejects the proposal to convert generation, transmission and distribution sectors into separate companies" (Kerala Power Policy, 1998, document issued by Government of Kerala). However, the government has agreed to reorganise the working of the electricity boards into three `profit centres' for generation, transmission and distribution, each being looked after by one **member** of the board. The generation centre will sell electricity to the transmission unit and maintain separate accounts. Similarly, the transmission sector will sell electricity to the distribution sector with separate accounts.

Table 4.6: Power Scenario by 2000 AD

Projects	Installed Capacity (MW)	Availability (Percent)	Availability (MW)	Year
Kakkad	50	90	45	1998
Kuttiyadi extension	50	90	45	1999
Small hydro	50	90	45	2000
Kozhikode diesel plant	128	80	102.4	2000
Kayamkulam Thermal Project (NTPC)	350		Commencement of generation	December 1998
BSES-Kerala Power Project, Kochi	160		Completion of the work	End of 1998
Kasargod (1)	107			2000
(2)	60			2000
Kannur Power Project	513		Obtained fuel linkage	
Cochin Refinery and KSEB Project	500		Received preliminary clearance	
Athirappilly HE	163		Received final clearance	

Source: GoK, 1998(a).

Although, these individual accounts would reflect only book adjustments, they will make apparent the sources of losses so as to make formulation of remedial action easier. It is further proposed that distribution should itself be divided into three profit centres with headquarters at Thiruvananthapuram, Ernakulam, and Kozhikode.

It is becoming apparent that power sector reforms in Kerala are moving in a direction where KSEB would continue to remain a central and nodal public sector undertaking but its activity would be divided into three separate segments both functionally and in terms of accounts. The scope of privatisation would remain limited to generation and KSEB is looking for augmentation of supply through private sector participation.

The transmission and distribution loss in Kerala is in the range of 18-19 percent which compares favourably with other States although it is still quite high. Earlier transmission losses were attributed to the fact that most of the supply sources were physically located in just one region and transmission was required through long distances. However, with extensive drawal from central sector supply sources, and better geographical spread of power plants, transmission losses have been significantly reduced. Most of the remaining losses are in the distribution sector. Kerala is in for electronic metering in a phased manner, and even rural agricultural supply is metered in Kerala. It has also formed anti-power theft squads. While these initiatives would help, Kerala should seriously look at the privatisation efforts being undertaken by some other States in India as far as distribution is concerned, as international experience clearly shows the potential for privatisation of distribution to greatly and quickly reduce losses.

States in India as far as distribution is concerned, as international experience clearly shows the potential for privatisation of distribution to greatly and quickly reduce losses.

The financial position of KSEB is close to achieving a breakeven status and it has been able to wipe out even carry forward losses as per the latest information obtained from KSEB. This situation is primarily based on some recent innovations. One, subsidisation of selected groups of consumers is now being handled directly through the concerned ministries. For example, subsidy to agriculturists is given by the department of agriculture whereas KSEB charges the relevant tariff fully. The second innovation is the provision for automatic revision of tariffs for industrial and commercial uses without reference to the State government.

We would suggest that, a provision of automatic revision of tariff should be extended to the domestic consumers too. The rate of revision, however, may be less than what is allowed for industrial and commercial users which is 10 percent per year. But, these should be periodically reviewed by a regulatory authority after every five years so that tariffs can properly reflect justified cost-escalation.

TRANSPORT

The average road length, at 3.74 kms. per sq. km. is higher than the all-India average. However, poor maintenance and congestion, has reduced the utility of the road network in the State. Kerala is well-known for its inland waterways. Several public sector agencies are involved in inland water transport like Departmental Water Transport Services and the Kerala Shipping and Inland Navigation Corporation. Together, 88 boats are owned by them.

Table 4.7: Fleet Strength and Financial Position of Kerala State Road Transport Corporation

Particulars	1992-93	1993-94	1994-95	1995-96
Number of vehicles held (fleet strength)	3456	3511	3511	3511
Percentage utilisation	82.00	79.00	81.00	80.70
Net profit (+)/loss (-) per km. (paise)	-28.27	-27.70	-18.29	-22.37
Contribution to plan (Rs. crore)	-26.07	-24.83	-18.36	-21.32
Trend of operating ratio	88.81	85.79	82.14	81.82
Fleet purchased by KSRTC	267	407	600	N.A.
Vehicle productivity (revenue earning kms. per bus held per day)	244	245	250	N.A.
Staff-bus ratio on fleet operated	10.50	10.23	9.73	6.68

Source: GoI,1995; GoK, SPB, 1997(a).

The Kerala State Road Transport Corporation (KSRTC), divided into 56 transport units, has a fleet strength of 3,750 buses. It operates on 4,068 routes. Nearly 50 average of 47.36 (GoI, 1995). It is one of the highest among States in India (except those of Goa, Jammu & Kashmir, Mizoram and Orissa).

The physical and financial performance of KSRTC is shown in table 4.6. Though the fleet strength of KSRTC has remained at 3,511 for three years, the percentage of utilisation has declined (80.7 percent in 1995–96 against 82 percent in 1992–93). Net loss by KSRTC has shown a decline from Rs. 28.27 crore in 1992–93 to Rs. 22.37 crore in 1995–96. The operating ratio (ratio of operating expenditure to operating revenue) has declined from 88.81 percent to 81.82 percent. The rise in vehicle productivity (revenue earning kms., per bus held per day) implies better utilisation of the existing fleet. At the same time, staff-bus ratio has marginally declined from 10.50 in 1992–93 to 9.73 in 1994–95 and further to 6.68 in 1995–96. Though fuel efficiency has shown a marginal improvement, the fuel cost has also increased. KSRTC has been incurring massive losses and it is in bad financial health. The capital investment of government (loans as also accrued interest) was converted into equity shares in 1991–92 amounting to Rs. 102 crore. In 1996–97, the State government did not make any contribution to the finances of KSRTC. In this year, the corporation suffered a financial loss of Rs. 28.03 crore.

As per the latest information, regular employees on the role of the corporation were 27512 in number as on 31.3.1997. With the number of buses being 3750, the overall staff to bus ratio was 7.34. This however understates the staff bus ratio as *ad-hoc* employment from the employment exchanges and the extensive utilisation of services of drivers and conductors placed on panels are not included. If these are also included, the staff bus ratio works out close to 11 which is extremely high as compared to other States. This implies that the number of staff on maintenance, repairs and administration is also unduly high.

Apart from a high staff bus ratio, other reasons for poor financial performance of KSRTC may be listed as follows:

- a relatively high share of uneconomic routes;
- several categories of passengers are allowed to travel free on KSRTC buses (like State freedom fighters);
- extremely low and rigid fare structure on which KSRTC has little control; and
- a high rate of depreciation and other maintenance costs due to extremely bad maintenance of roads.

In order to improve the financial position of KSRTC, it is important to permit upward flexibility in bus tariffs so as to better reflect increasing costs of operation and maintenance. In this context, it is suggested that a regulatory commission may be set up for periodic review of costs, tariff and selection of routes for KSRTC. On its own side, however, KSRTC has to exercise a total freeze on further recruitment and keep regular vacancies unfilled even when people retire, while continuing to make use of empanelled staff.

As far as different categories of travellers who are allowed to travel free are concerned, it is possible to administer subsidies through the respective departments (just like the case of KSEB), so that the KSRTC receives the full fare and the beneficiary receives the reimbursements from the concerned departments. This will also reduce frequency and unwarranted utilisation of the facilities by the concerned beneficiaries.

KSRTC has been experimenting with some incentive schemes. At present a scheme called `collection bata' is in vogue which provides for fixing a minimum route-wise collection and giving 10 percent of the excess collection over this minimum to the driver and the conductor. However, this scheme has not worked effectively. At present, the crew/bus ratio is more than five, but crew is not attached to any bus. A scheme has been suggested which would assign a group of five persons to a specified bus and it would be their responsibility to maximise earnings by managing fuel efficiency, stores consumption and maintenance. In return for improving the earnings they would be entitled to a share in the earnings as an incentive. This scheme has been called the `*Panchali* concept'. While any dramatic results are not expected from the incentive schemes, we think that the staff-bus ratio is too high in KSRTC and must be brought down by ensuring that no new recruitments are done and by introducing an attractive VRS.

The corporation should also look at the possibility of diversifying its activity and introducing more effective incentive schemes. For example, the strategy of the corporation to buy chassis from outside and build bodies on these chassis in its own workshops has been proving successful with an incentive scheme.

Further, better shop management aimed at improving fuel efficiency as also proper maintenance of the existing road network would lead to improvement in productivity.

STATE LEVEL PUBLIC ENTERPRISES

According to the latest information provided by the Kerala State Bureau of Public Enterprises, there are 110 State Level Public Enterprises (SLPE), out of which, 5 are in various stages of merger/liquidation leaving 105 enterprises in operation. These enterprises, cover a wide range of activities. They include production units, infrastructural units, as also enterprises in the field of plantation, traditional industries, welfare agencies, as also public utilities. The funding pattern of the SLPEs is tilted towards long term borrowing (42.0 percent in 1996–97) and other liabilities (33.65 percent in 1996–97) as compared to only 18.50 percent of share capital.

Total investment in the SLPEs amounted to Rs. 6994.24 crore at the end of 1996–97. Total turnover during the year was Rs. 3242.20 crore. Among the SLPEs, 42 enterprises reported profits aggregating to Rs. 130.94 crore. Another 43 enterprises have incurred losses to the extent of Rs. 254.18 crore. The net loss by SLPEs in 1996–97 was Rs. 123.25 crore as against a profit of Rs. 34.48 crore during 1995–96. The number of employees in SLPEs during 1996-97 stood at 1,30,918. During the same year, nearly 33 enterprises are reported to have negative net worth (paid up capital plus reserves and surplus minus preliminary expenses, accumulated loss, miscellaneous expenditure not written off and tangible assets).

In 1996–97, only 12 enterprises paid dividends (10 in 1995–96) aggregating to an amount of Rs. 5.92 crore as against Rs. 3.18 crore in 1995–96. Fifty five enterprises carried forward losses and the total accumulated loss amounted to Rs. 1684.27 crore by the end of 1996–97. A large number of public enterprises in the State are incurring losses and as many as 53 units have been carrying forward the accumulated losses. Leaving KSEB and KSRTC, the SLPEs have incurred a loss of Rs. 119.21 crore in 1996-97 as against a profit of Rs. 1.60 crore in 1995–96 (loss in 1994–95 was Rs. 27.89 crore). As a result, the contribution of SLPEs to the State exchequer has increased from Rs. 208.80 crore to Rs. 397.48 crore.

Table 4.8: Performance of Public Enterprises in Kerala*

(Amounts Rs. crore)

	1994-95	1995-96	1996-97
Number of units	101	103	108
Total employment (numbers)	81761	79436	78010
Paid up capital	156691.50	1710.02	2037.37
Capital invested	357033.27	4186.49	4578.53
Number of units making profit	41	43	40
Number of units making loss	41	40	41
Net profit (+)/loss (-)	-27.89	1.60	-119.21
Dividend earning units (numbers)	10	10	12
Contribution to Central exchequer	18429.75	164.63	128.86
Contribution to State exchequer	20880.04	283.47	397.48

Source: GoK, BPE, relevant years.

Note: * The statistics given excludes KSEB and KSRTC.

The Public Sector Restructuring and Internal Audit Board has the responsibility of preparing project reports for the revival, restructuring and modernisation of sick public sector units. During 1996–97, an amount of Rs. 100.17 crore was allotted for the revival, restructuring and modernisation of 24 units. But a case to case study of each unit needs to be carried out to determine its viability. One problem concerning the viability of SLPEs in Kerala is the multiplicity of companies in the same area of activity. Thus, there are more than one enterprise in the areas of rubber plantations, wood-based industries, handicrafts and development of weaker sections.

Considering the social and economic sectors together, it is evident that while the strategy of active government participation paid off in the social sectors, the same strategy did not work in the economic sectors where large amount of resources produced negligible returns. It is imperative that leaving infrastructure and irrigation, the government should slowly withdraw from other economic sectors.

A comprehensive reform strategy for the SLPEs should aim at weeding out unproductive and continuously loss making enterprises, reducing the number of enterprises as also the number of employees and introducing professional management in running these enterprises. An attempt should be made to increase the stake of managers and workers in the productivity and profitability of the enterprises. Keeping in view these overall objectives, some steps should be undertaken.

- Identify and wind up enterprises that are not likely to be viable even in future.
- Wherever possible, public enterprises in the same sector and undertaking similar activities should be merged. Some of the sectors where this possibility should be explored are ceramics, cement, chemical-based industries, and plantation-based enterprises.
- A decision should be taken not to create any new public enterprise except in the infrastructure sector.
- There should be complete freeze on fresh employment.
- The terms of voluntary retirement scheme should be made more attractive and surplus employees should be encouraged to proceed on long leave for taking up alternative employment.

The electronic sector needs to be completely restructured so as to provide for a strong research and development base and framework of inter-relationship among different public sector enterprises operating within the electronic sector so that exchange of knowhow can be facilitated and economies of scale can be obtained in selected activities.

Externally Aided Projects

Kerala has had a relatively small share of externally aided projects (EAPs). The allocation of EAP funds to Kerala has been less than 5 percent in recent years. A related problem is about the terms and conditions on which this assistance will be passed on to the State. Since most projects are welfare oriented, the original terms and conditions are likely to be highly concessional. However, under the existing arrangements, 70 percent of these will be converted into loans with an interest rate of 13 percent per annum.

The State government has under implementation 12 projects aided by various external agencies (see A4.8 for details). The externally aided projects are in the area of agriculture and allied activities, education, water supply, irrigation and poverty alleviation. The implementation of these projects has been perceived to be poor. A high powered committee was formed in 1996 to expedite action and timely decision on new externally-aided projects and a project cell was opened to formulate new projects. Various new projects have been identified in sectors such as roads, ports, tourism, agriculture, health, forests, urban poverty reduction, irrigation and water supply. For these projects the potential donor agencies include the World Bank (WB), Overseas Development Agency (ODA), Overseas Economic Cooperation Fund (OECF) and the Italian government. The cost of identified projects amount to Rs. 5500 crore, as against the total cost of about Rs. 1000 crore for all externally-aided projects under implementation.

Contours of the Ninth Five Year Plan

Kerala is embarking upon an ambitious Ninth Plan. As per existing estimates, the size of the Ninth Plan has been fixed at Rs. 16,100 crore at 1996–97 prices (annexure 4). For the year 1998–99, the tentative Plan outlay is fixed at Rs. 3100 crore (at current prices). This may be compared with the annual Plan outlay of Rs. 2200 crore in 1996–97 (last year of Eighth Plan) and Rs. 2710 crore in 1997–98 (first year of the Ninth Plan). Another significant feature of the new Plan is the allocation of a large portion of Plan funds (35-40 percent) to various tiers of local bodies. Kerala's attempt to involve the local bodies in the preparation of projects and plans as also in the administration of Plan funds for these projects in such a massive way is the first of its kind among the Indian States. A vigorous process of fiscal decentralisation has been initiated in Kerala in 1996–97 in the form of decentralised planning/planning from below by empowering the local bodies to formulate schemes for local development (discussed in Annexure 5). This process of decentralised planning has demanded more resources from the State government in the form of untied grants and in the first two years (1996–97 and 1997–98), the State government has devolved Rs 212 crore and Rs. 749 crore respectively as Plan grants to local bodies (these figures exclude devolution made under State sponsored schemes).

The relatively large Plan would correct the ratio of Plan to non-Plan and developmental to non-developmental expenditure, already noted in paras 3.12 and 3.13. Furthermore, the attempt to revive the economy by focusing on the local level in urban, semi-urban and rural areas would also make the growth process more autonomous, thereby reducing the impact of the inherent volatility of the economy, as noted earlier in *Chapter 1*.

This strategy has at least two associated risk elements. One, as indicated by the experience of the first two years of the Plan, lack of resources has already forced a reduction in the annual plans as compared to what was originally envisaged. Apart from additional resource mobilisation (ARM), resources would much depend on the growth performance. The second concern is with the high and growing fiscal deficit throughout this period. The fiscal deficit would remain in the range of 5-7 percent. If there is a slowing down of the growth process (recessionary trends are already visible), there would be a fiscal crisis at hand, reflected in an unsustainable increase in the debt-GSDP ratio. With funds already assured for the local bodies, the State would find it difficult to curtail the size of the Plan, should circumstances warrant it. As such, the strategy will only succeed if it is matched by adequate economic growth.

5. Fiscal Prospects

The period under review is 1997–98 to 2001–02. The State economy has entered this Ninth Plan period with some critical features, *viz.*, (i) wages and salaries and pensions are being revised upwards by nearly a factor of 20 percent; (ii) the State has embarked upon an ambitious Ninth Plan with an associated large borrowing programme; (iii) economic growth has decelerated in recent years, and current prospects indicate that it will be around five percent or less, given recessionary tendencies in the rest of India and abroad; and (iv) a large part of Plan funds will be handled by the local bodies. Under these circumstances, the fiscal prospects have been examined with reference to two scenarios – a base scenario and a reform scenario. The projections presented here should only be taken as outlining the broad contours of adjustment.

Base Scenario

The basic features underlying the base scenario are listed below:

- Nominal growth rate has been set at 12.5 percent per annum. This would be consistent with an inflation rate of 7 percent and a real growth rate of just below 5.2 percent per annum.

- Wages and salaries are revised upwards for 1998–99 by a factor approximately of 20 percent. This is consistent with the salary revisions accepted by the State government in November, 1998. The DA component is protected against inflation for subsequent years. Growth in the number of employees is provided at the historical rates.

- Borrowing by the State government is projected as per the financing profile with respect to the approved size of the Ninth Five Year Plan.

- Tax revenues are projected on the basis of historical buoyancies.

The model works as follows. First, total receipts are worked out on the basis of projections of own tax revenues, share in central taxes, non-tax revenue and grants. We notice that in the first two years, i.e., 1997–98 and 1998–99, already there is a cut in the Plan size due to resource constraints. For the remaining three years, we have used ninety percent of the originally envisaged outlays. Net borrowing is worked out on the basis of the requirements of the Ninth Plan, adjusted in this manner. Grants are worked out with reference to the Plan as also from the *Report of the Tenth Finance Commission* for non-Plan grants and grants for upgradation and for local bodies. Together, this provides a profile of total receipts for the five-year period. From these, total non-discretionary expenditure, consisting of interest payments, pensions, wages and salaries and compensation and assignments to local bodies are set aside. This provides a balance of resources which may be utilised for meeting Plan expenditure as also other expenditure claims like loans and advances, maintenance and subsidies, and current transfers. The three remaining claims on budgetary resources are then worked out. Loans and advances and subsidies and current transfers are projected on the basis of historical growth rates. Maintenance is linked to the Tenth Finance Commission (TFC) estimates. Since, the TFC estimates relate to only a limited number of sectors, these are factored up by working out the ratio of maintenance expenditure in 1995–96 as given in the economic classification with respect to the TFC estimates for the same year. This implies a real growth in maintenance expenditure during the projection years of about 3 percent per annum, over and above an inflation cover of 7 percent per annum.

The gap between total receipts and total estimated expenditure indicates the degree of adjustment that is required. This adjustment can be brought about by cutting down the Plan size as also by adjustment in non-Plan expenditure. Since, we have information for the first two years, namely, 1997–98 (revised estimates) and 1998–99 (budget estimates), we have some idea as to how adjustments took place in these two years. In 1997–98, even as a huge amount of expenditure was financed by withdrawal from funds, Plan size had to be cut. Withdrawal from funds is not a source which can be regularly resorted to year after year. In 1998–99, the Plan size would have to be cut by a much larger amount. We also see, that the gap would continue to widen in the remaining three years. The base scenario indicates that apart from cuts in non-Plan expenditure, the State will have to settle for a lower Plan size. We have indicated the results if 90 percent of the original Plan outlays are sustained implying a cut in the original borrowing programme. Still there would be a steadily rising fiscal deficit and primary deficit measured as a ratio of GSDP. Also in 1998–99, there is a steep one time rise because of impounding of salary arrears into the provident fund.

The profile of the main budgetary aggregates for the base scenario is summarised in table 5.1. We observe that the fiscal deficit rises to 5.25 percent of GSDP by 2001–02 and the primary deficit is about 1.37 percent of GSDP. The outstanding debt to GSDP ratio increases by nearly 5 percentage points between 1997–98 to 2001–02. Even while the fiscal scenario deteriorates in this manner, the targeted Plan outlay is not met. There is thus a clear cut need to undertake fiscal reforms that would be consistent with better growth performance and more acceptable values of the fiscal parameters.

DESIGNING FISCAL REFORMS IN KERALA

Fiscal reforms are designed here keeping in mind two prime objectives, *viz.*, (i) to fashion fiscal policies that would prove to be conducive to economic growth, and (ii) restore fiscal balance at a sustainable level of debt.

Table 5.1: Base: Summary of Results

(Percent of GSDP)

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenue Receipts	**20.32**	**20.01**	**20.03**	**20.19**	**20.37**
Own tax revenue	12.84	12.93	12.98	13.17	13.36
Share of Central taxes	3.73	3.87	3.95	4.03	4.11
Non-tax revenue	1.55	1.52	1.48	1.46	1.43
Grants	2.20	1.70	1.62	1.54	1.46
Total capital receipts	7.52	6.54	4.91	5.14	5.33
Total receipts	**27.84**	**26.55**	**24.93**	**25.33**	**25.70**
Non-discretionary expenditure	14.01	14.44	14.40	14.02	13.75
Interest payment	3.48	3.58	3.88	3.86	3.88
Wages and salaries	7.55	8.21	7.66	7.15	6.70
Balance of Resources	**13.83**	**12.11**	**10.53**	**11.30**	**11.95**
Plan outlay financed by Budgetary resources[1]	**7.22**	**7.34**	**7.14**	**7.47**	**7.75**
Maintenance	1.14	1.12	1.09	1.07	1.04
Subsidies and current transfers	5.02	5.08	5.14	5.20	5.26
Total estimated expenditure	**28.76**	**28.83**	**29.01**	**29.04**	**29.12**
Required adjustment in expenditure	**0.92**	**2.28**	**4.08**	**3.71**	**3.42**
Fiscal deficit	4.72	6.72	4.82	5.05	5.25
Primary deficit	1.24	3.13	0.93	1.19	1.37
Outstanding debt	**35.14**	**37.96**	**38.56**	**39.33**	**40.21**

Note: 1. After adjusting for extra budgetary resources for the Plan.

TAXES

We are not looking for revenue-oriented additional exploitation of the tax base. Tax reforms, even while being revenue-neutral, should encourage trade, as well as domestic production. Removal of distortions through implementation of VAT, and alignment of tax rates with the neighbouring States and union territories (UTs), (e.g., Mahe as an enclave of Pondicherry) so as to discourage tax-competition on the basis of joint decisions in areas like incentives for new industries and an overall improvement in the tax administrative machinery should, therefore, constitute the agenda for tax reforms.

The Task Force of the State Planning Board on tax and non-tax sources of revenue (March, 1997) has identified both tax and non-tax sources for additional resource mobilisation. On the tax side, the identified sources relate to (i) withdrawal of sales tax incentives to new industrial units; (ii) collection of arrears under sales tax and AIT through an amnesty scheme; (iii) improvement in tax administration; (iv) expansion of tax base for AIT by redefining standard area; (v) luxury tax on residential buildings; and (vi) augmented revenue from stamp duties and registration fees by introducing a system based on assessment of fair values. They have also suggested the levy of a consignment tax. We have taken their estimates for additional revenue for tax sources except those for the consignment tax.

NON-TAX REVENUES

Non-tax revenues should constitute an important platform for garnering additional revenues. In so far as they relate to user charges for the social and economic services, they also reduce the degree of subsidisation of government services. For a variety of these services, the user charges have not been revised for a long period. Unless cost-escalation is properly reflected in the user charges, it is the general tax-payers who are forced to subsidise the direct users of these services. Apart from yielding additional revenues, this will also improve the quality of services provided by the government since the users who pay higher prices also demand better services. In addition to social and economic services, we also suggest augmented recoveries in the case of general services where rates and fees have not been revised for a long time. The Task Force [GoK,SPB,1997(c)] referred to above has also provided estimates for additional non-tax revenues during the Ninth Plan period. We have used these estimates.

Expenditure Restructuring

Since revenue side adjustments are not going to be enough, we need to have a clear outline of the direction in which expenditure ought to be restructured. Also priorities need to be clearly set so as to indicate what expenditures ought to be cut in case of revenue shortfall. Since, the room for adjustment is limited to non-discretionary expenditure, we suggest that on the non-Plan side, maintenance expenditure should be protected. To a limited extent there is a possibility of reducing expenditure on salaries by curtailing the rate of growth of employment. In the reform scenario, we have set the net growth of government employment at zero percent.

As far as Plan expenditures are concerned, we have indicated an order of priority, giving emphasis to (i) the objective of decentralisation; and (ii) protection of social and community sectors which include various welfare related activities. In the economic sectors, high priority has been accorded to irrigation, power and transport. The resource requirement for these sectors for the Ninth Plan period were worked out by specific task forces and steering committees set up by the State Planning Board. These estimates were then utilised in the preparation of the State Plan. However, in the reform scenario, we set up the objective that the last year of adjustment of the debt to GSDP ratio should stabilise. As a result, the size of the Plan is still to be curtailed, but it is higher in nominal terms than what was possible in the base scenario, due to augmentation in revenues and other adjustments.

We have targeted subsidies and current transfers for a reduction as compared to the base scenario. In the reform scenario no real growth has been provided in these. Where resources still fall short, this item is further used for residual adjustment. This happens in two years: 1999–2000 and 2000–01.

We have set the nominal growth of GSDP at 14 percent per annum. As a larger Plan is provided for in the reform scenario, we expect that it will be consistent with higher growth. The State Planning Board had made estimates of resource requirement for the Plan to achieve a growth rate of 7 percent per annum. The main aggregates under the reform scenario have been summarised in table 5.2. Fiscal deficit would come down to 4.79 percent of GSDP by 2001–02 while primary deficit is at 1.16 percent of GSDP. The outstanding debt to GSDP ratio is stabilised at 39 percent.

Table 5.2: Reform: Summary of Results

(Percent of GSDP)

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenue Receipts	**20.06**	**21.44**	**21.29**	**21.30**	**21.35**
Own tax revenue	12.67	14.07	14.05	14.19	14.33
Share of Central taxes	3.68	3.77	3.80	3.82	3.85
Non-tax revenue	1.53	1.95	1.88	1.84	1.80
Grants	2.17	1.66	1.56	1.46	1.37
Total capital receipts	7.42	6.51	4.84	4.98	5.08
Total receipts	**27.48**	**27.94**	**27.57**	**26.72**	**26.31**
Non-discretionary expenditure	13.83	14.07	13.41	12.90	12.50
Interest payment	3.43	3.49	3.73	3.66	3.63
Wages and salaries	7.45	8.00	6.93	6.39	5.90
Balance of Resources	**13.65**	**13.87**	**14.76**	**13.82**	**13.81**
Plan outlay financed by Budgetary resources[1]	7.12	7.15	7.55	7.49	7.75
Maintenance	1.13	1.09	1.05	1.01	0.97
Subsidies and current transfers	4.96	4.65	4.37	4.10	3.85
Total estimated expenditure	28.38	27.78	27.57	26.72	26.31
Required adjustment in expenditure	**0.90**	**-0.16**	**0.00**	**0.00**	**0.00**
Fiscal deficit	4.66	6.54	6.08	5.23	4.79
Primary deficit	1.23	3.05	2.34	1.56	1.16
Outstanding debt	**34.68**	**36.96**	**38.50**	**39.00**	**39.00**

Note: 1. After adjusting for extra budgetary resources for the Plan.

A comparison of the base and reform scenarios puts in perspective the fiscal prospects of the State. Continuance of present trends, as captured in the base scenario, would imply a deepening fiscal crisis, even while the Plan has to be cut down, and the State experiences a lower growth rate. Concerted effort at reforming the tax regime would make it more growth-oriented by minimising distortions in productive activities. Further, additional tax and non-tax revenues would ensure a larger Plan, as compared to the base scenario and expenditure is incurred in developmental and high priority expenditures including maintenance. It may be noted that while the Plan is larger as a percentage of GSDP in the reform scenario, it appears smaller by a slight margin by 2001–02 due to the higher growth rate of GSDP in this scenario. As more investment takes place, an impetus for higher growth based on the State's own efforts is brought about.

The impact of the reforms relative to the base scenario is summarised in table 5.3. It is seen that adjustments have been brought about by (i) increase in tax and non-tax revenues; (ii) increase in capital expenditure; (iii) increase in maintenance expenditure; (iv) reduction in wages and salaries; (v) reduction in other revenue expenditure; and (vi) increase in the real GSDP growth rate. We think that the avenues of reforms outlined above are all feasible and within reach. We also think that their effects are substantial and efficiency-augmenting.

These two scenarios are intended to serve as benchmarks. We notice that even in the reform scenario, the debt to GSDP ratio is still very high. Reference to this scenario also highlights the risk if there is a slippage from the revenue targets or laxity in expenditure restructuring. In particular, debt to GSDP ratio would cross 40 percent. As such, the State should initiate the process of essential adjustment without further delay.

Table 5.3: Major Sources of Adjustment

(Rs. crore)

	1998-99	1999-00	2000-01	2001-02
Own tax revenue	640.30	783.40	958.70	1173.00
Non-tax revenue	203.50	225.90	256.80	293.40
Total capital receipts	60.00	774.40	360.00	-19.60
Wages and salaries	0.00	-211.90	-224.20	-236.90
Subsidies and current transfers	-127.80	-282.30	-467.90	-689.60
(Percent of GSDP)				
Own tax revenue	1.48	1.58	1.70	1.83
Non-tax revenue	0.47	0.46	0.46	0.46
Total capital receipts	0.14	1.57	0.54	-0.03
Wages and salaries	0.00	-0.43	-0.40	-0.37
Subsidies and current transfers	-0.29	-0.57	-0.83	-1.07

In conclusion, we may recapitulate that while the strategy of extensive participation of the government in the social sectors succeeded in Kerala, the same strategy did not bear fruits in the economic sectors. For the social sectors, markets could not have been relied upon to provide universal coverage in areas like elementary education and primary health at near zero prices. On the other hand, the government and the public sector did not succeed in ensuring adequate returns on capital invested in the economic sectors. Without being successful on the economic side, even the success on the social side will slip away. It is, therefore, imperative to recast the role of the government in Kerala such that its primary participation in the social sectors and in a limited number of economic sectors like irrigation and infrastructure would be sustained by and give feedbacks to the growth impetus of the economy based on efficiencies inculcated into the system by private enterprise and innovations which would thrive in a well designed fiscal, economic, and regulatory framework. In this perspective, a fiscal policy reorientation has been put forward here. When, based on a sound fiscal foundation, the State economy begins to thrive, Kerala's would be an example for many Indian States to emulate.

Endnotes

1. The Department of Economics and Statistics, Government of Kerala has estimated that 11.92 lakh persons have migrated out of the State, of which 6.41 lakh went to the Gulf countries, 0.28 lakh to other foreign countries and 5.23 lakh to the other parts in India. The survey was conducted in 1992-93. Even these numbers possibly underestimate the total outmigration (Economic Review, 1997, p. 14). Some estimates put the volume of remittances at Rs.10,000 crore per year.

2. The modification relates to the estimation of the depreciation component of costs.

References and Bibliography

CMIE (Centre for Monitoring Indian Economy), 1997. *Profile of States*. Mumbai: CMIE.

CAG (Comptroller and Auditor General of India), relevant years. Finance Accounts: Government of Kerala. Thiruvananthapuram: CAG.

_____________,1996. *Audit Reports* [(Civil, Commercial) Annual]. New Delhi: CAG.

CSO (Central Statistical Organisation), relevant years(a). GSDP Floppy. New Delhi: Department of Statistics, Ministry of Planning and Programme Implementation.

_____________, relevant years(b). *National Accounts Statistics.* New Delhi: Central Statistical Organisation.

George, K.K., 1993. *Limits to Kerala Model of Development.* Thiruvananthapuram: Centre for Development Studies.

GoI (Government of India), relevant years(a). *Indian Public Finance Statistics.* New Delhi: Ministry of Finance.

__________, relevant years(b). Budget Documents: Receipt Budget. New Delhi: Ministry of Finance.

________,1993. Report of the Expert Group on Estimation of Proportion and mber of Poor. New Delhi: Planning Commission.

_____________,1994. *Report of the Tenth Finance Commission.* New Delhi: Ministry of Finance.

_____________,1995. A Study on the Performance of State Road Transport Undertakings. New Delhi: Planning Commission.

_____________,1996. *Census of India, 1991, Census Hand Book.* New Delhi: Registrar General and Census Commission of India.

_____________,1997(a). Annual Report on the Working of State Electricity Boards and Electricity Departments. New Delhi: Planning Commission, Power and Energy Division.

_____________,1997(b). Report of the Task Force (Modified Expert Group). New Delhi: Planning Commission.

_____________,1997(c). Financing Pattern of the Outlay for the Ninth Plan. New Delhi: Planning Commission.

_____________, 1997-2002, Approved Scheme of Financing for Ninth Plan Projections (1997-2002). New Delhi: Planning Commission.

GoK (Government of Kerala), 1996. State Domestic Product 1989-90 to 1992-93. Thiruvananthapuram.

_____________1997. Recommendations of the Cabinet Sub-Committee as Approved by the Government on State Finance Commission Report, 1996. Thiruvananthapuram.

_____________DoF, relevant years. Budget Documents (Annual) various issues. Thiruvananthapuram: Department of Finance.

_____________DoES, relevant years. Statistics for Planning. Thiruvananthapuram: Directorate of Economics and Statistics.

_____________BPE, relevant years. A Review of Public Enterprises in Kerala. Thiruvananthapuram: Bureau of Public Enterprises, Kerala.

_____________SFC, 1996. Final Report. Thiruvananthapuram: State Finance Commission.

_____________KSRTC, Administration Report for 1996-97. Thiruvananthapuram: State Road Transport Corporation.

_____________SPB, relevant years. Economic Review. Thiruvananthapuram: State Planning Board.

_____________SPB, 1997(a). Economic Review. Thiruvananthapuram: State Planning Board.

_____________SPB, 1997(b). Ninth Five Year Plan. 1997-2002. Report of the Task Force on Institutional Finance and Externally Aided Projects. Thiruvananthapuram: State Planning Board.

_____________SPB, 1997(c). Ninth Five Year Plan, 1997-2002. Report of the Task Force on Tax and Non-Tax Sources of Revenue. Thiruvananthapuram: State Planning Board.

_____________SPB, 1997(d). Report of the Task Force on Higher Education. Thiruvananthapuram: State Planning Board.

_____________SPB, 1997(e). Report of the Task Force on Sports and Youth Affairs. Thiruvananthapuram: State Planning Board.

__________SPB, 1997(f). Report of the School Education. Thiruvananthapuram: State Planning Board.

__________SPB, 1997(g). Report of the Steering Committee on Health, Water Supply and Sanitation, and Nutrition. Thiruvananthapuram: State Planning Board.

__________SPB, 1997(h). Report of the Task Force on Vocational and Technical Education. Thiruvananthapuram: State Planning Board.

__________SPB, 1997(i). Ninth Five Year Plan, 1997-2002, Report of the Task Force on Poverty Alleviation Programmes, Thiruvananthapuram: State Planning Board.

__________KSEB, 1997. Ninth Plan, 1997-2002 and Annual Plan, 1997-1998 Proposals. Thiruvananthapuram: State Electricity Board.

__________KSEB, 1998-99. Budget Estimates for 1998-99 and Supplementary Financial Statements for 1997-98. Thiruvananthapuram: Kerala State Electricity Board.

__________DoF, 1998(a). Annual Plan, 1998-99, October 13. Thiruvananthapuram: Department of Finance.

__________DoF, 1998.(b) Kerala Budget in Brief, 1998-99. Thiruvananthapuram: Department of Finance.

__________SPB, 1998(a). Report of the Working Group on Evolving Formula for *inter-se* Distribution of Plan Grants to Local Bodies, March. Thiruvananthapuram: State Planning Board.

__________SPB, 1998(b). Report of the Steering Committee on Housing Labour, Social Security and Welfare, Poverty Alleviation, Rural Development and Special Problem Areas, Ninth Five Year Plan. Thiruvananthapuram: State Planning Board.

GoK (Government of Kerala),1998. *Industrial Policy*. Thiruvananthapuram.

__________,1998(a). *Power Policy*. Thiruvananthapuram.

Kurup, K.N. and R.R. Aiyer, 1992. State Finances in Kerala in Amaresh, Bagchi, J.L. Bajaj and W.A. Byrd *(eds.), State Finances in India*, New Delhi: National Institute of Public Finance and Policy.

Nair, Gopinathan, P., *et.al.* 1997. *Dimensions of Economic Development, Spatial and Sectoral Perspectives*, New Delhi: Commonwealth Publishers.

Pillai, Mohanan, P. 1990. Some Aspects of Performance of State Sector Enterprises in Kerala, Working Paper No. 234, Centre for Development Studies, Thiruvananthapuram.

RBI (Reserve Bank of India) 1996-97. Report on Currency and Finance. Mumbai: RBI.

_____________, relevant years. Finances of State Governments, *RBI Bulletin*. Mumbai: RBI.

Sadanandan, Rajeev, 1992. Role of Government Expenditure in the Development of Health Sector in Kerala. Unpublished M. Phil. Dissertation. Centre for Development Studies, Thiruvananthapuram.

Sebastian, Jose 1998. Indicàtors of Sales Tax Administrative Efficiency: A Comparative Study of Southern States, *Southern Economist*, May 15, pp. 12-16.

Siva Kumar, A.K., 1991. UNDP's Human Development Index: A Computation for Indian States. *Economic and Political Weekly* (12 October) XXVI:41; 2343-2345

Srivastava, D.K., *et.al.* 1997. *Government Subsidies in India*, New Delhi: National Institute of Public Finance and Policy.

The Association of Planters of Kerala, 1997. *Consultation on Status, Problems and Prospects of Plantation Industries in Kerala*. Kochi: The Association of Planters of Kerala.

Appendices

Table A1.1: District-Wise Per Capita Income

(1980-81 prices)

Districts	Per Capita Income (Rs.)			Growth Rate	
	1995-96 (Rs.)	Rank	1996-97 (Rs.)	Rank	Percent
Thiruvananthapuram	2274	5	2369	5	4.2
Kollam	2176	9	2270	8	4.3
Pathanamthitta	2357	4	2463	4	5.5
Alappuzha	2007	12	2088	12	4.0
Kottayam	2272	6	2369	5	4.3
Idukki	2853	3	3002	3	5.2
Ernakulam	3471	1	3617	1	4.2
Thrissur	2269	7	2366	6	4.3
Palakkad	2032	11	2121	10	4.4
Malappuram	1309	14	1369	13	4.6
Kozhikode	2126	10	2217	9	4.3
Wayanad	3376	2	3544	2	5.0
Kannur	2230	8	2327	7	4.3
Kasargode	2004	13	2095	11	4.5

Source: GoK, SPB, 1997(a).

Table A1.2: Birth, Death and Infant Mortality Rate in Kerala

Year	Birth Rate Per '000 Population		Death Rate Per '000 Population		Infant Mortality Per '000 Population	
	Kerala	All-India	Kerala	All-India	Kerala	All-India
1970	32.3	36.8	9.2	15.7	61.0	129
1980	26.8	33.7	7.0	12.6	42.0	117
1981	25.6	33.0	6.6	12.5	37.0	110
1985	22.9	32.9	6.9	11.8	33.0	97
1986	22.4	32.6	6.7	11.1	27.0	96
1987	21.0	32.2	6.0	10.9	26.0	95
1988	19.9	31.3	6.0	10.0	24.0	94
1989	20.3	30.5	6.1	10.2	21.0	91
1990	20.3	30.5	6.1	14.2	21.0	80
1991	19.8	29.5	5.8	10.2	17.0	80
1992	17.7	29.5	6.3	10.1	17.0	79
1993	17.4	28.7	6.0	9.3	13.0	74
1994	17.4	28.7	6.1	9.3	16.0	74
1995	17.7	28.8	6.0	9.0	16.0	74

Source: GoK, SPB, 1997(a).

Table A1.3: Area, Production and Productivity of Principal Crops

Crops	Area (hectare)			Production (tonnes)			Productivity (kg./hectare)		
	1991-92 Base-Year	1995-96	1996-97*	1991-92 Base-Year	1995-96	1996-97*	1991-92 Base-Year	1995-96	1996-97
Rice	541327	471150	430826	1060350	953026	871361	1959	2023	2023
Jower	5152	5454	4260	2623	2776	2279	509	509	535
Ragi	1635	2025	1682	1323	1638	1320	809	809	785
Other millets	1936	3173	2662	1505	2463	2138	777	776	803
Pulses	22921	20990	20207	16185	15014	14356	706	715	710
Sugarcane	6237	5623	5944	42822	28313	54808	6866	5035	9221
Pepper	178126	191596	172599	50309	68569	53774	282	358	312
Chillies	531	495	636	526	495	649	991	1000	1020
Ginger	15400	12925	13926	45403	46455	52614	3265	3594	3778
Turmeric	2738	3968	3757	5662	9559	8413	1910	2409	2239
Cardamom	43670	44248	43043	3450	5380	4736	79	122	110
Arecanut (million nuts)	63437	70899	72799	13116	17429	15464	206756	229999	212420
Banana	22602	26267	25723	303620	362919	378668	13410	13817	13946
Other plantation	42467	46594	46386	211186	229493	231967	4552	4925	5001
Cashewnut	112059	103284	100497	104601	82759	78439	933	801	781
Tapioca	141881	113598	142032	2657865	2500113	2588306	18733	22008	18223
Sweet potato	2457	1798	2084	19951	21775	15977	5120	12111	7667
Ground nut	14041	12994	14312	10436	9663	9877	743	744	690
Sesamum	9006	6255	5261	1986	2131	1444	221	341	274
Coconut (million nuts)	863061	914370	1005459	4641	5155	5759	5377	5638	5728
Cotton	11922	10661	12289	19242	17206	20214	1614	1614	1645
Tobacco	204	152	208	382	285	479	1873	1875	2303
Coffee	84016	82348	82348	30960	45000	43890	369	546	661
Tea	34708	36775	36871	66803	64801	62593	1925	1762	1698
Rubber	425768	448988	449952	343109	474555	514500	806	1056	1143

Source: GoK, SPB, 1997(a).

Note: * Provisional

Table A1.4: Number of Families Below Poverty Line - IRDP Survey 1990

District	Scheduled Castes	Scheduled Tribes	Others	Total Families	Households Added in July 1995	Total
Thiruvananthapuram	34280	2161	166818	203259	20331	223590
Kollam	24458	95	161115	185668	14887	200555
Pathanamthitta	1895	722	54710	69327	14429	83756
Alappuzha	7871	47	126604	134522	11081	145603
Kottayam	4454	749	104073	109276	23609	132885
Idukki	10319	6422	59464	76205	35740	111945
Ernakulam	4208	118	116364	120690	12602	133292
Thrissur	27265	430	148321	176016	28040	204056
Palakkad	36614	4571	111526	152711	36416	1891287
Malappuram	13470	1247	156209	170926	19001	189927
Kozhikode	9316	288	156933	166537	19927	186464
Wayanad	2023	14063	35673	51759	17514	69273
Kannur	1142	196	104897	106235	23350	129585
Kasaragode	7223	2555	53965	63743	9448	73191
Total	**196538**	**33664**	**1556672**	**1786874**	**286375**	**2073249**

Source: GoK, SPB, 1997(a).

Table A 1.5: Gross State Domestic Product at Factor Cost by Industry of Origin at Current Prices : 1980–81 – 1996–97

(Rs lakh)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96 (P)	1996-97 (Q)
Gross State domestic product	**428,570**	**460,958**	**537,250**	**627,244**	**697,656**	**752,001**	**853,598**	**957,835**	**1,067,256**	**1,221,270**	**1,409,810**	**1,752,967**	**1,993,723**	**2,251,642**	**2,699,210**	**3,004,404**	**3,336,737**
Agriculture and Allied Activities	**156729**	**153543**	**185553**	**226954**	**244337**	**238913**	**272753**	**297516**	**329789**	**370842**	**424393**	**625153**	**649420**	**722591**	**881098**	**1011330**	**1141378**
Agriculture	135345	138000	161686	208200	225234	215930	248430	277234	303214	328572	374558	557214	573863	634985	762,113	880,241	996785
Forestry & logging	12532	8205	14583	8315	8723	9370	10285	7584	6702	10288	8604	12559	14618	23280	34,941	40,532	47017
Fishing	8852	7338	9284	10439	10380	13613	14038	12698	19873	31982	41231	55380	60939	64326	84,044	90,557	97576
Industry	**108400**	**122013**	**138278**	**154249**	**171261**	**198055**	**211404**	**244150**	**274317**	**336620**	**370539**	**444167**	**524087**	**597794**	**672354**	**727551**	**785805**
Mining & quarrying	548	750	897	831	1229	1161	1159	1599	2736	3125	4450	5228	6055	6797	8,214	9,554	10724
Manufacturing	62304	72493	84131	89517	95011	104607	114235	140852	154690	204191	220024	280517	315079	349494	404,072	439,309	477638
Registered	35095	40580	45066	50999	54885	59594	65600	95269	105951	134582	112221	152374	166647	189266	219,238	239,781	262248
Unregistered	27209	31913	39065	38518	40126	45013	48635	45583	48739	69609	107803	128143	148432	160228	184,834	199,528	215390
Construction	36297	40595	45047	55771	63539	81178	80450	86929	99894	107719	124283	136472	167731	204347	219,411	235,582	252944
Electricity,gas & Water supply	9251	8175	8203	8130	11482	11109	15560	14770	16997	21585	21782	21950	35222	37156	40,657	43,106	44499
Services	**163,441**	**185,402**	**213,419**	**246,041**	**282,058**	**315,033**	**369,441**	**416,169**	**463,150**	**513,808**	**614,878**	**683,647**	**820,216**	**931,257**	**1,145,758**	**1,265,523**	**1,409,554**
Transport,storage & commun	22769	27176	33768	39868	50205	57942	68632	83967	95638	110015	126971	149034	189957	222183	299889	336459	380565
Railways	1269	1884	2275	2570	2628	3729	4143	5391	6218	5686	6423	7496	9210	9746	10,949	11,943	12833
Transport by other means 1/	18331	22137	27610	32757	42161	48128	56811	69597	76552	89075	102123	120449	150864	175440	243,780	273,034	308528
Communication	3,169	3,155	3,883	4,541	5,416	6,085	7,678	8,979	12,868	15,254	18,425	21,089	29,883	36,997	45,160	51,482	59204
Trade,hotels and restaurants	60,159	63,178	73,549	86,180	93,581	94,656	114,602	127,490	137,209	151,755	175,436	192,876	246,437	252,343	329,914	350,270	378502
Banking & Insurance	11,648	16,486	20,138	23,294	27,713	32,076	37,863	41,245	50,922	63,160	73,918	79,227	92,427	115,166	139,110	155,803	179173
Real estate 2/	20,451	22,270	24,807	26,077	27,634	30,486	32,085	33,302	35,926	39,475	42,629	46,283	52,851	56,276	60,958	66,682	72590
Public administration	17,178	19,285	20,055	22,144	29,093	36,666	45,464	51,558	55,121	58,731	80,913	90,261	102,005	122,687	128,109	144,289	156597
Other services	31,236	37,007	41,102	48,478	53,832	63,207	70,795	78,607	88,334	90,672	115,911	125,966	136,539	162,602	187,778	212,020	242127
Population ('000)	25357	25699	26046	26398	26754	27115	27481	28114	28402	28693	28987	29378	29775	30177	30584	30997	31415
Per Capita GSDP (Rs)	1690	1794	2063	2376	2608	2773	3106	3407	3758	4256	4864	5967	6696	7461	8826	9693	10621
Growth Rate (per capita per annum)		6.13	15.00	15.19	9.75	6.35	12.00	9.68	10.29	13.27	14.27	22.69	12.22	11.43	18.28	9.82	9.58

Source : CSO, relevant years(a)

P Denotes provisional and Q denotes quick estimates

1/ Includes storage

2/ Includes ownership of dwellings and business services

Table A 1.6: Gross State Domestic Product at Factor Cost by Industry of Origin at 1980-81 Prices : 1980–81 – 1996–97

(Rs lakh)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96 (P)	1996-97 (Q)
Gross State domestic product	**428,570**	**427,962**	**441,385**	**428,230**	**453,478**	**475,169**	**470,198**	**493,230**	**541,361**	**572,349**	**610,543**	**625,092**	**667,407**	**728,033**	**766,505**	**807,193**	**849,929**
Agriculture and Allied Activities	**156729**	**150824**	**152227**	**139667**	**151774**	**158176**	**150071**	**153740**	**177435**	**173979**	**190390**	**205259**	**205913**	**214200**	**232103**	**248042**	**265119**
Agriculture	135,345	136,737	135,256	125,540	139,222	145,373	138,542	144,962	166,929	163,560	177,182	192,088	192,573	200,078	213,404	227,489	242,503
Forestry & logging	12,532	7,427	9,011	5,454	4,936	4,713	4,611	3,274	3,196	3,510	2,639	3,505	3,405	3,981	4,907	5,692	6,603
Fishing	8,852	6,660	7,960	8,673	7,616	8,090	6,918	5,504	7,310	6,909	10,569	9,666	9,935	10,141	13,792	14,861	16,013
Industry	**108,400**	**108,870**	**111,896**	**109,692**	**109,622**	**116,038**	**109,544**	**116,476**	**127,230**	**145,354**	**146,547**	**152,405**	**166,200**	**192,621**	**195,313**	**203,392**	**211,816**
Mining & quarrying	548	690	602	458	702	659	788	790	1,857	1,274	1,828	1,912	2,109	1,733	1,210	1,309	1,389
Manufacturing	62,304	67,303	73,545	69,876	68,012	70,754	65,828	74,691	79,300	93,341	91,885	99,381	106,087	112,478	118,281	124,176	129,858
Registered	35,095	37,630	39,790	39,559	37,339	38,945	34,136	48,806	53,782	60,351	45,618	54,419	56,110	61,450	63,918	67,465	70,697
Unregistered	27,209	29,673	33,755	30,317	30,673	31,809	31,692	25,885	25,518	32,990	46,267	44,962	49,977	51,028	54,363	56,711	59,161
Construction	36,297	33,272	30,565	33,116	33,159	37,458	34,818	33,396	37,437	39,308	42,497	43,104	46,063	66,346	63,968	66,623	68,947
Electricity,gas & Water supply	9,251	7,605	7,184	6,242	7,749	7,167	8,110	7,599	8,636	11,431	10,337	8,008	11,941	12,064	11,854	11,284	11,622
Services	**163,441**	**168,268**	**177,262**	**178,871**	**192,082**	**200,955**	**210,583**	**223,014**	**236,696**	**253,016**	**273,606**	**267,428**	**295,294**	**321,212**	**339,089**	**355,759**	**372,994**
Transport,storage & commun	22,769	25,216	27,300	28,816	32,583	34,743	37,435	40,318	42,529	44,809	47,681	48,289	60,081	66,434	69,604	72,778	76,188
Railways	1,269	1,529	1,548	1,635	1,684	2,023	1,986	2,059	2,127	1,914	1,970	2,539	2,451	2,435	2,518	2,594	2,672
Transport by other means 1/	18,331	20,226	22,169	23,263	26,755	28,461	30,865	33,393	34,886	37,065	39,504	39,311	49,138	54,578	56,780	59,051	61,413
Communication	3,169	3,461	3,583	3,918	4,144	4,259	4,584	4,866	5,516	5,830	6,207	6,439	8,492	9,421	10,306	11,133	12,103
Trade,hotels and restaurants	60,159	59,972	62,385	58,896	63,071	63,835	62,752	64,623	70,771	74,369	75,632	80,497	83,145	88,061	91,891	96,044	100,308
Banking & Insurance	11,648	12,437	13,930	15,241	17,243	19,625	23,536	27,736	29,692	36,525	38,505	37,127	41,694	47,088	55,199	60,564	66,451
Real estate 2/	20,451	21,035	21,750	22,491	23,187	23,818	24,505	25,446	26,552	27,036	38,276	28,811	29,875	30,416	31,325	32,211	33,148
Public administration	17,178	17,440	18,946	19,747	21,722	23,656	26,536	28,321	30,020	32,521	35,122	33,203	37,523	45,782	47,183	49,542	51,672
Other services	31,236	32,168	32,951	33,680	34,276	35,278	35,819	36,570	37,132	37,756	38,390	39,501	42,976	43,431	43,887	44,620	45,227
Population ('000)	25357	25699	26046	26398	26754	27115	27481	28114	28402	28693	28987	29378	29775	30177	30584	30997	31415
Per Capita GSDP (Rs.)	1690	1665	1695	1622	1695	1752	1711	1754	1906	1995	2106	2128	2242	2413	2506	2604	2705
Growth Rate (per capita per annum)		-1.47	1.76	-4.27	4.49	3.39	-2.36	2.54	8.65	4.65	5.59	1.02	5.35	7.63	3.88	3.91	3.89

Source : CSO, relevant years(a).

P Denotes provisional and Q denotes quick estimates

1/ Includes storage.

2/ Includes ownership of dwellings and business services.

Table A2.1: Tax Revenues: Estimates of Buoyancies

	1985-86 to 1996-97	1985-86 to 1990-91	1991-92 to 1996-97
Own tax revenue	**1.10**	**1.01**	**1.32**
Agricultural income tax	0.11	0.29	-0.69
Profession tax	-	-	-
I. Taxes on Income and Expenditure	**0.11**	**0.29**	**-0.69**
Land revenue	0.93	1.25	1.22
Stamp duties and registration fees	1.38	1.90	1.40
Urban immovable property	0.87	0.86	0.81
II. Taxes on Property and Capital	**1.33**	**1.62**	**1.37**
State excise	0.93	0.90	1.22
Total sales tax	1.16	1.08	1.37
Tax on vehicles	1.13	0.74	1.53
Tax on passengers and goods	-1.19	-0.13	-3.66
Electricity duty	-0.33	-0.31	-0.56
Entertainment tax	2.44	2.27	1.52
Luxury tax	1.71	1.89	1.52

Source: CAG, relevant years(a); various issues; CSO, relevant years(b).

Table A2.2: Per Capita Sales Tax Revenue: Selected States

(Rs)

States	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Andhra Pradesh	110.14	130.42	152.56	169.63	182.70	181.87	209.64	223.27	281.47	331.02	337.87
Karnataka	103.53	127.17	153.61	189.31	202.41	243.49	302.61	296.68	409.13	420.72	562.48
Kerala	156.93	173.99	197.41	224.69	244.94	276.25	348.46	407.81	465.66	557.05	683.65
Tamil Nadu	161.87	176.35	196.34	222.52	259.10	321.93	375.94	420.09	482.96	580.03	682.58

Source: RBI, relevant years.

Table A 2.3: Finances of Kerala Government (Revenue Receipts) : 1985-86 to 1996-97

(Rs. lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total Revenue Receipts	**137,117.0**	**150,253.3**	**158,609.3**	**189,705.9**	**204,764.3**	**240,292.6**	**285,212.5**	**331,873.0**	**392,175.7**	**466,642.1**	**542,356.4**	**614,508.2**
I. Total Tax Revenue (A+B)	**93,898.5**	**115,308.9**	**121,455.9**	**150,226.9**	**168,840.7**	**182,659.8**	**225,037.0**	**257,391.5**	**309,605.0**	**363,751.6**	**441,963.9**	**514,115.2**
A. Own Tax Revenue	**73,188.4**	**81,462.6**	**92,610.3**	**106,547.6**	**123,250.5**	**134,034.3**	**167,394.6**	**188,695.7**	**234,486.5**	**279,909.6**	**338,267.8**	**389,850.2**
Agricultural Income Tax	2,083.2	1,625.9	960.5	1,383.2	1,652.0	2,393.6	3,512.7	1,251.7	2,087.8	1,723.6	2,607.7	1,210.2
Profession Tax 2/	0.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
1. Taxes on Income and Expenditure	**2,083.3**	**1,625.1**	**960.5**	**1,383.2**	**1,652.0**	**2,393.6**	**3,512.7**	**1,251.7**	**2,087.8**	**1,723.6**	**2,607.7**	**1,210.3**
Land Revenue	582.5	614.3	696.5	1,158.7	1,103.8	1,111.8	1,143.8	1,184.9	1,979.6	2,265.4	2,371.1	2,232.8
Stamps and Registration Fees	4,627.2	5,443.2	6,666.9	9,541.1	11,304.8	12,199.5	15,218.8	18,960.9	23,015.7	29,580.6	35,379.2	36,029.9
Urban Immovable Property Taxes	252.0	255.4	336.5	385.7	416.1	391.1	405.7	759.2	865.9	706.5	763.7	916.5
2. Taxes on Property and Capital Transactions	**5,461.6**	**6,312.9**	**7,699.9**	**11,085.5**	**12,824.7**	**13,702.4**	**16,768.2**	**20,905.0**	**25,861.2**	**32,552.5**	**38,514.1**	**39,179.2**
State Excise Tax	10,406.9	11,759.8	14,568.8	16,791.7	17,468.3	17,541.3	21,029.9	22,221.0	33,094.8	35,321.1	44,928.6	41,852.6
Total Sales Tax	45,841.9	51,671.9	59,964.7	69,041.2	76,874.1	89,743.1	112,210.1	130,558.2	153,323.8	186,493.4	228,596.4	277,228.4
General Sales Tax	42,551.9	47,812.6	55,500.6	63,815.7	70,280.8	80,075.9	102,364.5	121,423.2	140,521.2	170,367.2	211,907.2	260,272.6
State Sales Tax	42,551.8	47,779.8	55,351.8	63,815.7	70,257.9	80,067.9	102,349.8	121,397.7	137,550.7	168,858.2	197,662.5	260,014.3
Surcharge on Sales Tax	0.1	32.8	4.1	0.0	1.2	2.3	0.4	23.4	1.0	0.5	0.2	0.0
Other Sales Tax Revenue1/	0.0	0.0	144.8	0.0	21.6	5.8	14.3	2.1	2,969.5	1,508.6	14,244.5	258.2
Central Sales Tax	3,290.0	3,859.3	4,464.1	5,225.5	6,593.3	9,667.2	9,845.6	9,135.0	12,802.6	16,126.1	16,689.2	16,955.9
Tax on Vehicles	4,711.1	5,336.4	5,519.3	6,285.4	6,992.0	7,413.6	9,475.7	11,189.0	15,106.0	18,390.2	22,286.7	24,759.0
Tax on Passengers and Goods	1.2	2.1	1.7	1.5	2.8	1.0	0.8	1.3	5.6	0.8	0.2	0.1
Electricity Duty	4,627.1	4,676.6	3,796.8	1,836.1	7,282.4	3,056.3	4,114.9	2,215.3	4,445.8	4,999.2	751.1	4,675.5
Other Taxes on Commodities and Services	55.3	77.9	98.6	123.0	154.3	182.9	282.3	354.3	561.7	429.0	583.1	945.1
Entertainment Tax	0.5	1.4	0.5	0.1	1.0	4.3	1.0	16.1	20.1	3.9	12.6	7.5
Luxury Tax	54.7	76.0	98.0	122.9	153.2	178.4	274.5	338.2	541.0	419.2	554.7	922.9
Other Receipts	0.2	0.5	0.1	0.0	0.1	0.2	6.8	0.1	0.6	5.8	15.8	14.8
3. Total Taxes on Commodities and Services	**65,643.5**	**73,524.6**	**83,949.9**	**94,078.9**	**108,773.8**	**117,938.2**	**147,113.7**	**166,539.0**	**206,537.6**	**245,633.5**	**297,146.0**	**349,460.7**
B. Share of Central Taxes	20,710.2	33,846.3	28,845.6	43,679.3	45,590.2	48,625.5	57,642.4	68,695.8	75,118.5	83,842.0	103,696.1	124,265.0
Taxes on Income Other than Corporation Tax	4,200.8	10,444.1	8,021.6	12,387.6	14,012.7	15,365.0	19,041.6	22,594.3	28,987.3	31,920.0	43,644.1	52,432.0
State's Share of Union Excise Duties	16,509.4	23,402.3	20,824.1	31,291.7	**31,577.5**	**33,260.5**	38,600.8	46,101.6	46,131.2	51,922.0	60,052.0	71,833.0

(Rs. lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
II. Non Tax Revenue	**14,173.0**	**16,386.5**	**18,853.9**	**18,136.1**	**17,444.0**	**20,881.5**	**23,471.5**	**27,940.3**	**32,292.9**	**39,635.0**	**53,549.1**	**51,380.2**
Interest Receipts,Dividends & Profits	2,475.5	3,634.5	3,916.6	2,688.5	1,972.0	2,411.6	2,306.8	2,696.4	3,153.4	4,237.8	10,612.9	5,964.8
General Services	2,497.7	2,797.4	5,244.7	5,783.9	6,396.2	8,383.1	8,260.4	8,777.5	8,906.1	10,820.0	13,445.0	15,787.9
Social Services	2,593.2	2,708.3	2,756.4	2,977.1	3,031.3	3,110.3	3,056.0	3,433.3	4,188.5	4,588.3	6,094.4	4,726.5
Economic Services	6,606.7	7,246.3	6,936.2	6,686.6	6,044.5	6,976.4	9,848.4	13,033.1	16,044.9	19,989.0	23,396.8	24,901.0
III. Total Grants	**29,045.4**	**18,557.9**	**18,299.6**	**21,342.9**	**18,479.6**	**36,751.4**	**36,703.9**	**46,541.2**	**50,277.8**	**63,255.5**	**46,843.4**	**49,012.9**
Plan Grants	17,311.3	16,031.7	16,320.3	18,481.1	15,287.6	24,462.5	31,042.2	41,304.6	46,124.7	59,227.9	38,953.0	44,773.4
Non Plan Grants	11,734.1	2,526.2	1,979.3	2,861.8	3,192.0	12,288.9	5,661.7	5,236.6	4,153.1	4,027.6	7,890.4	4,239.5

Source : CAG, relevant years.

Note : 1/ includes receipts from turnover tax

2/ for 1986-87, profession tax includes hotel receipts tax which was -1.57

Table A2.4: Finances of Kerala Government (Capital Receipts) : 1985-86 to 1996-97

(Rs.lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Capital Receipts (net)	**59524.44**	**39595.01**	**46422.8**	**43355.6**	**57684.86**	**79108.37**	**80253.59**	**79247.68**	**106839.9**	**116632.75**	**131265.72**	**156060.4**
Borrowing (net)	**61297.82**	**27372.38**	**33413.51**	**42145.65**	**52897.42**	**73821.52**	**73558.93**	**74790.31**	**108724.2**	**163414.33**	**129267.46**	**130737.1**
Internal Debt 1/	**7748.64**	**8908.21**	**10464.57**	**14067.65**	**15592.85**	**17492.33**	**20946.83**	**24801.44**	**22624.52**	**35658.01**	**40695.66**	**48456.71**
A. Internal Debt (net)	-14591.24	9252.21	13826.57	11389.65	20974.15	21163.37	22364.76	33068	4053.69	34464.01	40695.66	48456.71
Market Loans	6913.64	7767.25	9041.53	12147.83	13898.51	15213.59	19290.31	19330.96	19320.79	29539.72	34558.9	38017.28
Loans from LIC & GIC	589.05	396.62	795.66	695.28	1133.9	1733.2	8.48	3782	2513.39	3015.24	3167.83	3534.83
Loans from NABARD	242.46	741.6	406.76	40.35	17.45	-1065.08	-631.32	1748.83	271.2	345.75	1147.9	1953.1
Ways and Means from RBI	*-22339.88*	*344*	*3362*	*-2678*	*5381.3*	*3671.04*	*1417.93*	*8266.56*	*-18570.8*	*-1194*	*0*	*0*
Others	3.49	2.74	220.62	1184.19	542.99	1610.62	2279.36	-60.35	519.14	2757.3	1821.03	4951.5
Loans & Adv. from Central Govt.1/	**42717**	**11344.05**	**12035.87**	**12120.48**	**15868.83**	**26984.18**	**26911.24**	**28626.81**	**39317.96**	**61183.02**	**51220.39**	**37429.1**
B. Loans & Adv. from Central Govt.(net)	42717	11344.05	12035.87	12120.47	15868.83	26984.18	26911.24	28626.81	39317.96	61183.02	51220.39	37429.1
Non Plan Loans	29149.29	-213.13	3577.21	4935.64	8379.19	15155.59	13242.02	10576.37	15555.11	37649.09	31527.67	14893.91
Share of Small savings Collections	4865	5832	9420	11128	14443	15148.45	13201.2	10574.6	15600.6	37641.2	31437.05	14857.65
Others	24284.29	-6045.13	-5842.79	-6192.36	-6063.81	7.14	40.82	1.77	-45.49	7.89	90.62	36.26
Loans for State Plan Schemes	18899.67	16774.27	13733.7	12627.88	11004.33	14108.38	16335.19	20939.08	25962.4	26832.36	22822.08	25353.02
Loans for Central Plan Schemes	237.3	314.48	314.67	199.27	180.99	132	224.72	-80.85	-96.06	-84.75	-74.03	295.1
Loans for Centrally Spons. Plan Schemes	284.53	234.7	209.14	228.21	325.67	742.53	186.55	268.84	975.02	-142.8	14.33	-53.99
Others (Pre 1984-85 loans)	-5853.79	-5766.27	-5798.85	-5870.53	-4021.35	-3154.32	-3077.24	-3076.63	-3078.51	-3070.88	-3069.66	-3058.94
Ways & means Advances	0	0	0	0	0	0	0	0	0	0	0	0
II. Recovery of Loans	**1831.07**	**3173.25**	**1768.1**	**2246.17**	**1880.56**	**1769.18**	**2215.54**	**2041.66**	**3343.92**	**2570.96**	**3173.19**	**6410.01**
III. Contingency Fund (net)	**39.25**	**0**	**-2.72**	**-335.32**	**-42.77**	**272.7**	**3688.9**	**-3580.79**	**-115.75**	**4595.75**	**-1201.8**	**-3306.44**
IV. Public Account (net)	**7188.48**	**16169.5**	**22156.98**	**15256.62**	**24385.39**	**32589.98**	**26491.08**	**27358.56**	**41639.45**	**12625.01**	**37378.28**	**67071.04**
Small Savings & PF	10832.18	7120.12	10913.07	15957.52	21435.74	29345.01	25700.86	21362.06	46781.72	66573.3	37351.41	44851.25
Reserve Funds	-119.64	-8.58	58.53	18.9	56.35	975.55	143.29	-839.77	378.31	518.25	4042.79	-565.16
Deposits & Advances	663.06	4797.13	2131.91	1747.56	-1384.5	4597.14	6241.95	6296.14	855.23	1175.31	11806.29	39381.03
Suspense & Miscellaneous	-5119.46	6447.23	8570.84	-7054.31	1100.8	-1504.05	-3141.22	-622.94	-5524.79	-45570.65	-11817	-9939.28
Remittances	982.37	-1971.78	66.03	4788.77	3117.62	-690.77	-2442.6	1222.43	-470.82	-10251.34	-4090.79	-6861.28
Inter-Govt. adjustment accounts	-50.03	-214.62	416.6	-201.82	59.38	-132.9	-11.2	-59.36	-380.2	180.14	85.58	204.48
Withdrawal of Funds(net) 2/	-3643.7	9049.38	11243.91	-700.9	2949.65	3244.97	790.22	5996.5	-5142.27	-53948.29	26.87	22219.79
Miscellaneous Capital Receipts	0	0	0	0	0	0	0	0	29.77	0	0	0

Source : CAG, relevant years

Note : 1/ excludes Ways and Means advances.

2/ Withdrawal of funds is public account net of small saving and provident fund.

Table A 2.5 : Finances of Kerala Government (Revenue Expenditure) : 1985-86 to 1996-97

(Rs.lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total Revenue Expenditure	**144,533.6**	**165,476.7**	**178,067.9**	**206,100.2**	**229,808.7**	**282,495.1**	**321,645.7**	**365,613.4**	**429,336.3**	**506,629.7**	**582,637.7**	**678,811.3**
I. Developmental Expenditure (A+B)	**104,239.4**	**110,434.3**	**115,426.1**	**134,473.6**	**146,030.6**	**180,260.3**	**196,911.9**	**228,060.3**	**258,597.1**	**301,537.4**	**341,215.9**	**404,795.9**
A. Social Services	**77,293.3**	**77,206.8**	**81,885.5**	**96,467.4**	**108,239.2**	**127,483.4**	**134,957.6**	**144,139.4**	**177,655.5**	**208,254.1**	**231,051.2**	**269,107.9**
(a) Education, Sports, Art & Culture	41,631.5	48,112.0	51,693.0	57,944.2	63,514.2	77,549.1	83,592.3	91,135.4	114,550.0	135,107.5	143,513.4	161,644.6
(b) Health & Family Welfare	10,204.6	11,362.9	13,334.3	15,087.4	18,096.2	21,277.1	22,266.1	23,013.1	28,422.3	34,323.9	39,658.1	43,221.9
(c) Water Supply, Sanitation & Urban Dev.	2,656.0	3,849.6	3,977.7	7,696.2	7,402.0	8,215.6	8,868.5	8,862.0	11,369.6	12,609.7	14,441.1	22,126.5
(d) Information & Broadcasting	208.9	222.8	199.7	246.0	317.7	392.3	289.6	311.8	494.0	612.1	748.5	632.0
(e) Welfare of SC, ST and OBCS	3,009.4	3,069.5	3,417.3	3,705.4	4,429.5	5,236.6	6,220.3	5,599.8	6,368.8	6,783.8	7,860.9	19,515.5
(f) Labour and Labour Welfare	2,115.9	1,870.8	2,774.3	3,443.4	3,422.0	3,398.1	3,251.8	2,241.6	3,745.2	4,574.6	5,238.5	5,441.0
(g) Social Security and Welfare , Nutrition	17,259.5	8,495.9	6,283.0	8,126.0	10,816.9	11,098.9	10,174.5	12,665.7	12,281.2	13,797.1	18,986.2	15,858.1
of which Relief on Account of Natural Calamities	12,937.1	3,925.3	582.0	1,516.5	4,099.5	3,100.0	3,100.0	5,562.1	3,178.9	3,328.6	8,347.0	2,886.0
(h) Others	207.6	223.3	206.3	218.9	240.8	315.7	294.6	310.1	424.4	445.3	604.6	668.3
B. Economic Services	**26,946.2**	**33,227.5**	**33,540.6**	**38,006.2**	**37,791.4**	**52,777.0**	**61,954.3**	**83,920.9**	**80,941.6**	**93,283.3**	**110,164.7**	**135,687.9**
(a) Agriculture and Allied	17,919.0	20,291.3	11,935.3	11,826.9	14,343.1	18,697.2	27,123.3	44,989.2	33,364.6	40,791.6	45,353.4	55,189.1
(b) Rural Development			8,454.8	9,182.6	6,046.2	12,597.6	12,718.7	13,087.0	15,964.4	16,969.7	19,561.3	27,637.4
(c) Special Area Progs.			507.2	490.2	604.2	719.7	1,183.1	669.0	953.1	998.4	982.7	989.6
(d) Irrigation & Flood Control	1,390.4	2,085.2	4,116.7	4,938.7	5,504.9	6,430.5	6,243.0	7,096.7	9,122.6	10,362.5	12,195.3	11,572.2
(e) Energy				101.6	135.3	170.0	155.4	177.8	258.9	599.5	716.8	1,458.1
(f) Industry and Minerals	1,860.7	2,066.3	1,913.9	3,086.3	3,428.8	3,849.2	3,781.9	6,659.2	7,255.7	8,650.2	10,545.5	14,700.7
(g) Transport & Communications	3,324.8	6,107.4	4,975.2	6,424.3	5,542.9	6,927.6	7,520.2	7,932.5	10,429.4	10,238.2	15,143.1	16,505.7
(h) Science, Technology and Environment				171.6	211.3	417.7	401.9	303.5	345.9	555.3	724.4	1,301.8
(i) General Economic Services	2,451.3	2,677.3	1,637.5	1,783.9	1,974.6	2,967.7	2,826.9	3,005.9	3,247.1	4,117.9	4,942.4	6,333.3
II. Non Developmental Expenditure	40,294.2	55,042.4	62,641.7	71,626.6	83,778.1	102,234.7	124,733.9	137,553.1	170,739.2	205,092.4	241,421.8	274,015.5
C. General Services	**39,969.7**	**54,850.7**	**62,543.9**	**69,554.5**	**80,873.7**	**99,004.9**	**122,057.1**	**133,560.0**	**164,744.3**	**198,570.4**	**233,908.9**	**262,385.3**
(a) Organs of State	1,566.5	2,011.8	2,062.0	2,330.4	2,807.7	3,543.0	4,037.6	3,881.2	4,629.8	6,032.6	7,195.5	7,962.5
(b) Fiscal Services	4,044.2	4,747.3	5,220.8	5,951.8	6,747.4	8,253.5	9,053.4	10,048.1	12,305.5	16,241.9	17,546.6	17,808.0
(c) Interest Payments and Servicing of Debt	**12,745.4**	**17,728.5**	**21,316.9**	**24,444.4**	**29,300.2**	**34,063.6**	**48,341.6**	**54,250.8**	**68,716.1**	**81,967.3**	**92,415.6**	**110,341.3**
Interest Payments	12,714.6	17,728.5	21,316.9	24,444.4	29,300.2	34,063.6	48,341.6	54,250.8	68,716.1	81,967.3	92,415.6	110,341.3
Interest on Loans from the Center	4,861.1	10,428.2	10,879.1	12,652.7	14,177.5	13,833.1	23,115.0	23,762.1	27,816.2	33,070.4	41,807.0	49,415.9
Interest on Internal Debt	4,213.2	2,939.2	5,051.9	5,668.8	7,886.4	9,755.6	12,460.6	15,497.6	18,090.2	21,640.6	25,363.5	31,808.5

(Rs.lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
o/w Market Loans	1,959.6	2,307.8	4,075.4	4,568.2	6,502.3	8,051.3	10,037.5	12,755.8	15,322.6	18,558.8	21,700.3	26,953.2
Interest on Small Savings (PF etc)	3,637.4	4,358.5	5,383.1	6,118.8	7,231.7	10,469.6	12,760.1	14,984.4	22,802.2	27,247.8	25,235.6	29,106.3
Others(Interest on Reserve funds)	2.9	2.6	2.9	4.1	4.7	5.3	5.9	6.7	7.5	8.4	9.4	10.6
Appropriation for reduction or Avoidance of debt	30.8											
(d) Administrative Services	9,608.7	12,412.8	12,953.0	14,942.0	17,385.7	19,682.8	21,556.8	22,292.2	26,740.2	31,717.8	37,062.3	41,053.9
(e) Pensions & Misc. General Services	12,004.9	17,950.3	20,991.2	21,885.9	24,632.6	33,462.0	39,067.7	43,087.8	52,352.7	62,610.8	79,688.9	85,219.5
Pensions and Other Retirement benefits	10,302.4	17,220.7	18,303.3	18,632.1	20,958.4	29,313.6	33,895.8	37,186.8	46,472.2	56,545.1	71,684.8	75,366.3
Miscellaneous General Service	1,702.6	729.6	2,687.9	3,253.8	3,674.2	4,148.5	5,171.9	5,901.0	5,880.6	6,065.7	8,004.1	9,853.3
D. Compensation and Assignment to Local Bodies	**324.5**	**191.8**	**97.9**	**2,072.1**	**2,904.4**	**3,229.9**	**2,676.7**	**3,993.1**	**5,994.8**	**6,522.0**	**7,512.9**	**11,630.2**

Source : CAG, relevant years

Table A 2.6: Finances of Kerala Government (Capital Expenditure) : 1985-86 to 1996-97

(Rs. lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total Capital Expenditure	**331844.0**	**295543.0**	**302507.5**	**352959.4**	**384338.9**	**477729.9**	**629048.5**	**688427.3**	**785776.1**	**896809.7**	**1206056.3**	**1251006.9**
Total Capital Outlay (1+2)	**20581.8**	**21104.5**	**16739.8**	**18028.9**	**23229.5**	**25596.3**	**28612.4**	**27789.6**	**36332.6**	**44601.0**	**56346.6**	**62252.3**
1.Developmental (A+B)	19797.6	20122.4	16091.8	17316.1	22663.4	24835.7	28027.3	26818.8	35257.9	43181.0	54002.6	59028.1
A. Social Services	4439.3	5606.4	4411.5	2301.8	2555.0	3520.9	3256.8	3906.3	4764.5	4428.5	6901.9	8332.7
(a) Education,Sports,Art & Cult.	811.9	775.4	364.4	460.6	675.7	1952.2	1793.0	2332.2	2587.3	2166.5	2247.5	2639.2
(b) Medical,Public health and F. Welfare	1451.8	1988.0	1769.7	1280.9	1134.3	922.0	914.3	909.8	1422.8	1337.5	2062.7	2119.4
(c) Water Supply, Sanitation & Urban Dev	1858.1	2548.9	2029.8	380.4	500.8	266.5	131.2	194.9	232.9	383.4	1518.1	835.4
(d) Welfare of SCs,STs & OBCs			216.5	151.2	218.3	331.4	372.6	411.5	444.6	471.8	885.1	2575.0
(e) Social Security & Welfare	310.0	294.0	31.2	27.6	25.7	47.5	37.2	46.0	58.8	49.8	152.3	86.4
(f) Others 2/	7.5		0.0	1.1	0.2	1.4	8.6	11.9	18.0	19.6	36.2	77.4
B. Economic Services	15358.3	14516.0	11680.3	15014.3	20108.4	21314.8	24770.5	22912.5	30493.5	38752.4	47100.7	50695.4
(a) Agriculture & Allied activities	1569.7	1630.3	408.4	1422.6	2261.2	3282.3	4359.7	3085.6	2486.5	4467.4	5890.3	5772.4
Special Area Programme			6.9	6.0	5.0	6.0				145.0		
(c) Major & Medium Irrigation and Flood Control			5548.2	6163.8	8642.9	7670.1	9080.9	9558.1	13145.9	13738.9	17033.9	18758.6
(d) Energy 1/	7105.7	6169.8		300.0							19.0	22.5
(e) Industry and Minerals	2360.8	1416.9	1749.2	2134.9	3384.9	4238.4	4338.7	3305.5	5783.1	8437.8	9131.1	11046.2
(g) Transport	4023.8	4571.2	3859.1	4846.3	5658.8	5921.3	6836.5	6825.3	8881.0	11541.7	14205.9	14175.0
(h) General Economic Services	298.3	727.9	108.5	140.7	155.7	196.7	154.7	138.1	196.9	421.7	820.5	920.7
2. Non Developmental (general Services)	784.2	982.1	648.0	712.9	566.1	760.6	585.1	970.8	1074.7	1420.0	2344.0	3224.2
II Discharge of Internal Debt 3/	**1636.8**	**1533.2**	**1769.8**	**2131.2**	**2736.3**	**1870.8**	**2151.0**	**4833.0**	**4492.1**	**2031.9**	**2068.0**	**2522.9**
Discharge of Internal Debt	70242.9	18411.6	79590.4	98294.0	90636.4	114387.0	163548.2	183193.8	110281.5	16468.0	2068.0	13844.5
Ways and Means Advances	68606.1	16878.4	77820.6	96162.7	87900.2	112516.3	161397.3	178360.8	105789.4	14436.1	0.0	11321.6
III Repayments of Loans to the Centre 3/	**6704.2**	**13868.3**	**15328.4**	**16739.2**	**15861.7**	**9758.0**	**10510.0**	**10992.3**	**12867.1**	**13758.7**	**14324.9**	**16565.4**
Repayments of Loans to the Centre	24046.2	17134.4	18151.4	16797.5	19061.7	13858.0	30591.3	24328.5	20267.1	13758.7	14324.9	16565.4
Ways and Means Advances	17342.0	3266.0	2823.0	58.3	3200.0	4100.0	20081.3	13336.3	7400.0	0.0	0.0	0.0
IV Loans and Advances by State Governments	6064.0	10923.1	10377.9	9036.0	14059.5	13825.1	17514.0	13710.0	23395.7	28847.7	36810.6	34102.3
Transfer to Contingency Fund							5000.0	-5000.0		4500.0	-1000.0	-2500.0
Total Consolidated Fund(Capital Account) 3/	**34986.7**	**47429.1**	**44215.9**	**45935.4**	**55887.0**	**51050.1**	**63787.3**	**52324.8**	**77087.5**	**93739.3**	**108550.2**	**112942.8**
Total Consolidated Fund(Capital Account)	120934.9	67573.5	124859.5	142156.4	146987.1	167666.4	245265.8	244021.9	190276.9	108175.3	108550.2	124264.4
(V) Contingency Fund			**2.7**	**338.0**	**380.8**	**108.1**	**1419.2**	**0.0**	**115.8**	**20.0**	**221.8**	**1028.2**
(VI) Public Account	**210909.1**	**227969.5**	**177645.3**	**210465.0**	**236970.9**	**309955.3**	**382363.5**	**444405.4**	**595383.5**	**788614.3**	**1097284.3**	**1125714.3**
Small Savings & PF	42370.5	50419.1	52263.7	55404.2	70251.4	89555.7	113907.1	148745.3	188265.4	201982.7	234919.1	245871.5
Reserve Funds	402.2	20.2	16.3	28.1	57.1	2180.7	3019.2	5930.4	1649.7	3182.5	4919.7	5521.9

(Rs. lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Deposits & Advances	30767.8	38366.4	42332.2	51578.7	60414.6	66865.6	83949.6	76694.3	92187.9	106262.2	119460.0	137765.6
Suspense & Miscellaneous	83822.2	71298.1	24186.3	38029.7	36149.4	64943.6	81080.5	103303.6	176454.5	313222.1	545720.1	514019.5
Remittances	53473.4	67632.9	59221.2	65279.5	70157.9	86214.6	100222.2	109638.8	136140.0	164101.0	191774.5	222859.7
Inter-Govt. adjustment accounts	73.0	232.8	-374.3	144.9	-59.4	195.1	185.0	93.1	686.0	-136.0	491.0	-323.9
Total Consolidated Fund (Revenue & Capital)	265468.4	233050.2	302927.3	348256.5	376795.8	450161.5	566911.5	609635.3	619613.1	614805.1	691187.9	803075.8
Total-Disbursements(Rev. & Cap. A/C.)	**476377.6**	**461019.6**	**480575.3**	**559059.5**	**614147.6**	**760224.9**	**950694.2**	**1054040.7**	**1215112.3**	**1403439.4**	**1788694.0**	**1929818.3**

Source : CAG. relevant years.

1/ Refers to water and power development for 1985-86 and 86-87

2/ For 1996-97 others includes information and publicity

3/ Exclusive of Ways and Means advances

Table A 2.7 Composition and Financing of Fiscal Deficit : 1985-86 to 1996-97

(Rs. lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Fiscal deficit (estimated from defn.)	**32231**	**44078**	**44808**	**41213**	**60453**	**79855**	**85344**	**68198**	**93545**	**115365**	**129265**	**151748**
Financing of Fiscal Deficit												
(1) Net Borrowing 1/	61298	27372	33414	42146	52897	73822	73559	74790	108724	163414	129267	130737
(2) Withdrawal of Funds	-3644	9049	11244	-701	2950	3245	790	5996	-5142	-53948	27	22220
(3) Ways & Means Adv.(RBI & Centre)	-22340	344	3362	-2678	5381	3671	1418	8267	-18571	-1194	0	0
(4) Overall Deficit	-3.122	7.312	-3.209	2.782	-733	-1.156	5.888	-17.274	8.620	2.498	1.173	2.097
(5) Contingency Fund (net)	39	0	-3	-335	-43	273	3.689	-3.581	-86	4.596	-1.202	-3.306
Fiscal deficit =(1+2+3+4+5)	32231	44078	44808	41213	60453	79855	85344	68198	93545	115365	129265	151748
Composition of Fiscal deficit												
(a) Revenue Deficit	7.417	15.223	19.459	16.394	25.044	42.202	36.433	33.740	37.161	39.988	40.281	64.303
(b) Capital Outlay	20.582	21.104	16.740	18.029	23.229	25.596	28.612	27.790	36.333	44.601	56.347	62.252
(c) Net Lending	4.233	7.750	8.610	6.790	12.179	12.056	15.298	11.668	20.052	26.277	33.637	27.692
(d) Transfer to Contingency Fund	0	0	0	0	0	0	5000	-5000	0	4500	-1000	-2500
Fiscal Deficit = (a+b+c+d)	32.231	44.078	44.808	41.213	60.453	79.855	85.344	68.198	93.545	115.365	129.265	151.748
Memo : Primary Deficit	19517	26349	23491	16769	31153	45791	37002	13948	24829	33398	36850	41406
						as percent of GSDP						
Fiscal deficit (estimated from defn.)	4.29	5.16	4.68	3.86	4.95	5.66	4.87	3.42	4.15	4.27	4.30	4.55
Financing of Fiscal Deficit												
(1) Net Borrowing 1/	8.15	3.21	3.49	3.95	4.33	5.24	4.20	3.75	4.83	6.05	4.30	3.92
(2) Withdrawal of Funds	-0.48	1.06	1.17	-0.07	0.24	0.23	0.05	0.30	-0.23	-2.00	0.00	0.67
(3) Ways & Means Adv.(RBI & Centre)	-2.97	0.04	0.35	-0.25	0.44	0.26	0.08	0.41	-0.82	-0.04	0.00	0.00
(4) Overall Deficit	-0.42	0.86	-0.33	0.26	-0.06	-0.08	0.34	-0.87	0.38	0.09	0.04	0.06
(5) Contingency Fund (net)	0.01	0.00	0.00	-0.03	0.00	0.02	0.21	-0.18	0.00	0.17	-0.04	-0.10
Composition of Fiscal deficit												
(a) Revenue Deficit	0.99	1.78	2.03	1.54	2.05	2.99	2.08	1.69	1.65	1.48	1.34	1.93
(b) Capital Outlay	2.74	2.47	1.75	1.69	1.90	1.82	1.63	1.39	1.61	1.65	1.88	1.87
(c) Net Lending	0.56	0.91	0.90	0.64	1.00	0.86	0.87	0.59	0.89	0.97	1.12	0.83
Memo : Primary deficit	2.60	3.09	2.45	1.57	2.55	3.25	2.11	0.70	1.10	1.24	1.23	1.24

Source : CAG, relevant years.

Note : 1/ Net Borrowing reflects change in debt stock. This equals fiscal deficit when 2,3,4 and 5 are all zero

Table A 2.8: Structure of Grants : 1985-86 to 1996-97

(Rs.lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total Grants from Centre	**29,045**	**18,558**	**18,300**	**21,343**	**18,480**	**36,751**	**36,704**	**46,541**	**50,278**	**63,255**	**46,843**	**49,013**
Grants for State Plan Schemes	**8,765**	**8,478**	**7,042**	**8,136**	**7,430**	**9,553**	**17,274**	**20,483**	**24,301**	**29,851**	**14,330**	**16,075**
Block Grants	8,220	7911.2	3,581	6,638	7,073	9,278	10,530	12,199	14,610	18,063	14,114	15,886
Proviso to Article 275(1)	13	26	1,270	1,262	10		6,611	8,064	9,524	11,586	35	35
Other Grants	533	542	2,191	235	347	275	133	220	167	201	181	154
Grants for Central Plan Schemes	3,000	2,229	3,000	2,808	1,296	1,696	1,306	5,359	2,700	5,023	3,821	1,556
Grants for Centrally Sponsored Schemes	5,546	5,324	6,279	7,538	6,562	13,214	12,463	15,462	19,123	24,354	20,802	22,037
Grants for Special Plan Schemes												5106
Total Non-Plan Grants	**11,734**	**2,526**	**1,979**	**2,862**	**3,192**	**12,289**	**5,662**	**5,237**	**4,153**	**4,028**	**7,890**	**4,240**
In lieu of tax on Railway Passenger fares	0	302	277	302	342	0	534	534	534	534	1,328	1,328
Towards Calamity relief fund	0	1,681	319	575	1,958	0	2,325	3,488	1,163	2,325	6,000	2,078
Non-Plan Grants: Other	11,734	543	1,383	1,985	891	12,289	2,803	1,215	2,457	1,169	563	834

Source: CAG, relevant years.

Table A 2.9: Structure of Debt : 1985 to 1997

(Rs.lakh)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Outstanding Debt	**170651**	**231949**	**259321**	**292735**	**334880**	**387778**	**461599**	**535158**	**609949**	**718673**	**882087**	**1011355**	**1142092**
Outstanding Debt *(incl W & M Adv.)*	192991	231949	259665	296441	335908	394187	471680	546657	629713	719867	882087	1011355	1142092
Internal Debt of the State Government	**29627**	**37376**	**46284**	**56749**	**70816**	**86409**	**103901**	**124848**	**149650**	**172274**	**207932**	**248628**	**297085**
Int. Debt of the State Govt.(incl W & M)	*51967*	*37376*	*46628*	*60455*	*71844*	*92818*	*113982*	*136346*	*169414*	*173468*	*207932*	*248628*	*297085*
Debt to Central Government	**95496**	**138213**	**149557**	**161593**	**173713**	**189582**	**216566**	**243478**	**272104**	**311422**	**372605**	**423826**	**461255**
Debt to Central Government	*95496*	*138213*	*149557*	*161593*	*173713*	*189582*	*216566*	*243478*	*272104*	*311422*	*372605*	*423826*	*461255*
Debt to Savings & Provident Funds	**45528**	**56360**	**63480**	**74393**	**90351**	**111787**	**141132**	**166833**	**188195**	**234976**	**301550**	**338901**	**383752**

* As on 31st March.

Source : CAG, relevant years.

Table A3.1: Economic and Functional Categories: Selected Items

(Rs. crore)

	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Salaries	532 71	1165.87	1288.20	1476.91	1752.85	1905.83	2167.50
Maintenance	208 34	266.88	213.93	230.66	310.26	263.08	340.26
Subsidy	45.83	67.16	76.94	83.66	98.87	106.72	122.81
GFCF	171.86	144.73	166.18	163.13	207.13	318.91	348.78
Finance outlay	35.59	77.86	76.34	70.26	93.70	120.54	147.44
As a percentage of GSDP							
Salaries	7.08	8.27	7.35	7.41	7.78	7.06	7.21
Maintenance	2.77	1.89	1.22	1.16	1.38	0.97	1.13
Subsidy	0.61	0.48	0.44	0.42	0.44	0.40	0.41
GFCF	2.29	1.03	0.95	0.82	0.92	1.18	1.16
Finance outlay	0.47	0.55	0.44	0.35	0.42	0.45	0.49
Memo: GSDP in Rs. crore	7520	14098	17530	19937	22516	26992	30044

Source: CSO, relevant years(a).
Note: GFCF - Gross Fixed Capital Formation.

Table A4.1: Gross Area Irrigated (Crop-Wise)

(Area in hectare)

Crops	1991-92	1992-93	1993-94	1994-95	1995-96
Paddy	228736	212576	209735	272772	234409
Tubers	769	822	801	859	954
Vegetables	5795	6059	5013	5676	7428
Coconut	103763	105698	146682	172486	164518
Arecanut	20887	22395	22621	22709	25544
Nutmeg/Clove	890	953	1074	1352	1459
Other spices and condiments	1394	1873	1966	2110	2942
Banana	10127	11005	8853	10331	10737
Betelvine	832	732	743	840	931
Sugarcane	2147	2112	2289	2260	3844
Others	12067	12342	13099	14105	12738
Total	**386775**	**376368**	**412871**	**505490**	**465504**

Source: GoK, SPB, 1997(a).

Table A4.2: Net Area Irrigated (Source-Wise)

(Area in hectare)

Source	1991-92	1992-93	1993-94	1994-95	1995-96
Government canals	102748	102942	102880	108633	103136
Private canals	3585	3745	3743	3464	3681
Tanks	48143	48294	48474	53364	49213
Wells	64647	65772	66221	75871	73137
Other sources	114034	113704	102280	116626	113026
Total	333157	334457	323598	357958	342193
Area irrigated more than once in a Year	53618	41911	89273	147532	123311
Gross irrigated area	386775	376368	412871	505490	465504
Net area irrigated to net area sown (percent)	14.82	14.87	14.38	15.98	15.11
Gross irrigated area to gross cropped area (percent)	12.80	12.35	13.71	16.58	15.18
Irrigated area under paddy to total irrigated area (percent)	59	56	51	54	49

Source: GoK, SPB, 1997(a).

Table A4.3: Per Capita Expenditure on Medical and Public Health

Year	Population (lakhs)	Expenditure on Health Including Family Welfare (Rs. lakh)	Index of Growth	Expenditure Per Head (Rs.)	Index of Growth
1985-86	274.05	12681.25	100	46.27	100
1986-87	275.06	14506.88	114	52.74	114
1987-88	288.39	15103.96	119	52.37	113
1988-89	293.58	16368.36	129	55.75	120
1989-90	298.87	19230.44	152	64.34	139
1990-91	290.11	22199.04	175	76.52	165
1991-92	294.91	23180.45	183	78.60	170
1992-93	298.88	23922.90	189	80.04	173
1993-94	302.91	29845.13	235	98.53	213
1994-95	306.99	35661.43	281	116.16	251
1995-96	311.12	41787.82	330	134.31	290
1996-97	315.31	51432.27	406	163.12	353
1997-98	319.56	55935.61	441	175.04	378

Source: GoK, SPB,1997(a).

Table A4.4: Share of Expenditure Categories in Kerala's Health Budget

	1960	1965	1970	1975	1980	1985	1990	1995
1. Pay and allowances	36.60	39.13	43.26	54.32	52.24	56.94	62.48	62.78
2. Office expenses	5.68	10.56	5.68	4.92	4.34	3.98	3.35	5.23
3. Medicine	39.14	37.93	33.83	31.11	31.16	25.64	25.43	18.11
4. Hospital accessories	2.55	8.51	8.42	2.96	4.91	3.45	2.36	3.93
5. Vehicles	0.11	0.48	0.31	0.15	0.22	2.05	0.21	0.37
6. Construction	14.86	0.02	6.83	3.95	5.18	5.83	2.85	7.52
7. Grants-in-aid	1.05	3.36	1.66	2.39	1.96	2.12	3.33	2.59

Source: Sadanandan, 1992.

Table A4.5: Share of Institutions in the Kerala's Health Budget

Institutions	1960	1965	1970	1975	1980	1985	1990	1995
1. Medical education	9.44	13.37	11.82	10.91	12.42	14.38	13.80	1.06
2. Medical collection hospitals	2.83	20.55	22.53	18.85	19.67	18.71	19.84	32.28
3. Medical establishment	3.67	3.03	2.72	1.82	1.70	1.71	1.98	1.40
4. Other hospitals	82.80	60.48	61.60	67.61	65.22	64.57	62.73	53.72
5. Grants	1.21	2.58	1.33	0.80	0.99	0.63	1.64	0.63

Source: Sadanandan, 1992.

Table A4.6: Category-Wise Area Under Forests

Type of Forest	Area (Sq. km.)
Tropical wet evergreen	3450
Moist deciduous	4100
Dry deciduous	100
Shoals	70
Grasslands	130
Plantations	1550
Total	**9400**

Source: GoK, SPB,1997(a).

Table A4.7: Growth of Transport in Kerala Since 1990

Item	1990	1991	1992	1993	1994	1995	1996	1997
1 Road length (PWD) kms	19836	20283	20414	20663	21651	22114	22863	22273
2 Road length (PWD) per sq. km	0.51	0.52	0.53	0.53	0.56	0.57	0.59	0.57
3 Road length (panchayats) kms	96951	99022	101067	103888	106277	106920	106920	109058
4 Motor vehicles (numbers)	581054	647742	708172	781398	887672	1005922	1170241	1328619
5 Motor vehicles per 100 sq. km (numbers)	1495	1667	1822	2011	2276	2588	3011	3419
6 Buses and storage carriages (numbers)	20290	21454	22833	25345	30370	34862	38177	48044
7 Goods vehicles (numbers)	61106	66190	71089	77336	88455	100252	111762	131586
8 Buses owned by KSRTC (numbers)	3313	3413	3534	3456	3511	3005	3505	3750
9 Railway route length (kms.)	998	998	1055	1198	1198	1198	1198	1198

Source: GoK,SPB,1997(a)

Table A4.8: Externally Aided Projects Under Implementation

Name of Project	Donor	Project Cost (crore)	Implementing Agency
Technical education project	IDA	46.00	Technical education
Kerala fisheries development project	Kuwait	74.94	ADAK
Kerala water supply scheme	Netherlands	88.82	KWA
Kerala community irrigation	Netherlands	21.70	Kerala samuhya jalasechana samithy
Kerala rainfed farming	OPEC	59.11	Agriculture department
Cochin poverty reduction project	OPEC	70.00	Cochin corporation
Coconut development programme	EEC	175.62	Kerafed
Kerala agricultural marketing project	EEC	65.15	Agriculture department (PPM cell)
Kerala minor irrigation project	EEC	63.86	CE (irrigation)
Kerala horticulture development project	EEC	131.44	KHDP, Cochin
Attapady integrated and sustainable economic development	OECF	219.31	Rural development
National hydrology project	World Bank		Chief hydrologist

Source: GoK. SPB, 1997(b).

Table A 5.1: Base Scenario : Summary of Results

(percent of GSDP)

	1997-98	1998-99	1999-2000	2000-01	2001-02
Total Revenue Receipts	**20.32**	**20.01**	**20.03**	**20.19**	**20.37**
Total Tax Revenue	**16.57**	**16.80**	**16.92**	**17.19**	**17.47**
Own Tax Revenue	**12.84**	**12.93**	**12.98**	**13.17**	**13.36**
Agricultural Income Tax	0.03	0.06	0.06	0.05	0.05
Land Revenue	0.07	0.08	0.08	0.08	0.08
Stamps and Reg.Fees	1.04	0.93	0.97	1.01	1.05
State Excise Tax	1.49	1.45	1.44	1.43	1.42
Total Sales Tax	**8.90**	**9.06**	**9.23**	**9.39**	**9.56**
Taxes on Veh and on Goods & Pass	0.97	1.01	1.02	1.04	1.05
Electricity Duty	0.29	0.27	0.12	0.11	0.10
Other Own Tax Revenue	0.05	0.05	0.06	0.06	0.06
Share of Cent. Taxes	**3.73**	**3.87**	**3.95**	**4.03**	**4.11**
Non Tax Revenue	**1.55**	**1.52**	**1.48**	**1.46**	**1.43**
Int. Rec,Dividends & Profits	0.19	0.21	0.23	0.26	0.28
General Services	0.53	0.53	0.52	0.52	0.52
Social Services	0.20	0.19	0.17	0.16	0.15
Economic Services	0.62	0.59	0.55	0.52	0.49
Total Grants	**2.20**	**1.70**	**1.62**	**1.54**	**1.46**
Non Plan Grants	0.17	0.16	0.16	0.15	0.14
Plan Grants	2.02	1.54	1.46	1.39	1.32
Total Capital Receipts	**7.52**	**6.54**	**4.91**	**5.14**	**5.33**
New Borrowing (Fiscal Deficit)	4.72	6.72	4.82	5.05	5.25
Recovery of Loans	0.09	0.09	0.09	0.09	0.08
Withdrawal of Funds(net)	2.71	-0.27	0.00	0.00	0.00
Total Receipts	**27.84**	**26.55**	**24.93**	**25.33**	**25.70**
Interest Payment	3.48	3.58	3.88	3.86	3.88
Pensions	2.65	2.53	2.67	2.82	2.97
Wages & Salaries	7.55	8.21	7.66	7.15	6.70
Comp & Assign to Local Bodies	0.34	0.12	0.19	0.19	0.19
Total Non Discretionary Expenditure	**14.01**	**14.44**	**14.40**	**14.02**	**13.75**
Balance of Resources	**13.83**	**12.11**	**10.53**	**11.30**	**11.95**
Plan Outlay financed by Bud Resources	**7.22**	**7.34**	**7.14**	**7.47**	**7.75**
Loans and advances	1.36	0.84	1.25	1.28	1.32
Maintenance	1.14	1.12	1.09	1.07	1.04
Subsidies and current transfers	5.02	5.08	5.14	5.20	5.26
Total Estimated Expenditure	28.76	28.83	29.01	29.04	29.12
Total Financeable Expenditure	27.84	26.55	24.93	25.33	25.70
Required Adjustment in Expenditure	**0.92**	**2.28**	**4.08**	**3.71**	**3.42**
Adjustment in Plan Expenditures	0.12	0.52	...	...	...
Adjustment in Non-Plan Expenditures	0.79	1.76	...	...	...
Fiscal Deficit	4.72	6.72	4.82	5.05	5.25
Primary Deficit	1.24	3.13	0.93	1.19	1.37
Outstanding Debt	**35.14**	**37.96**	**38.56**	**39.33**	**40.21**
Memo Items					
Plan Outlay (as originally envisaged) 1/	7.34	7.86	8.30	8.69	9.01
Plan Out fr Bud Res(as originally envisaged)	7.05	7.54	7.97	8.34	8.66
Plan Outlay after adjustment	**7.22**	**7.34**	**7.47**	**7.82**	**8.11**
Est contr.from Pub Ent for the Plan	0.29	0.31	0.33	0.34	0.36

Note : 1/ Includes extra budgetary resources for the Plan.

Table A 5.2: Reform Scenario : Summary of Results

(percent of GSDP)

	1997-98	1998-99	1999-2000	2000-01	2001-02
Total Revenue Receipts	**20.06**	**21.44**	**21.29**	**21.30**	**21.35**
Total Tax Revenue	**16.36**	**17.83**	**17.85**	**18.01**	**18.18**
Own Tax Revenue	**12.67**	**14.07**	**14.05**	**14.19**	**14.33**
Agricultural Income Tax	0.03	0.06	0.06	0.05	0.05
Land Revenue	0.07	0.08	0.08	0.08	0.08
Stamps and Reg.Fees	1.03	1.94	1.94	1.94	1.95
State Excise Tax	1.47	1.42	1.41	1.39	1.38
Total Sales Tax	**8.78**	**9.24**	**9.38**	**9.53**	**9.68**
Taxes on Veh and on Goods & Pass	0.95	0.98	1.00	1.01	1.03
Electricity Duty	0.28	0.26	0.12	0.10	0.09
Other Own Tax Revenue	0.05	0.08	0.07	0.07	0.07
Share of Cent. Taxes	**3.68**	**3.77**	**3.80**	**3.82**	**3.85**
Non Tax Revenue	**1.53**	**1.95**	**1.88**	**1.84**	**1.80**
Int. Rec,Dividends & Profits	0.19	0.44	0.43	0.42	0.42
General Services	0.53	0.55	0.58	0.61	0.64
Social Services	0.20	0.32	0.28	0.25	0.22
Economic Services	0.62	0.64	0.59	0.55	0.51
Total Grants	**2.17**	**1.66**	**1.56**	**1.46**	**1.37**
Non Plan Grants	0.17	0.16	0.15	0.14	0.13
Plan Grants	2.00	1.50	1.40	1.32	1.24
Total Capital Receipts	**7.42**	**6.51**	**6.28**	**5.42**	**4.96**
New Borrowing (Fiscal Deficit)	4.66	6.54	6.08	5.23	4.79
Recovery of Loans	0.09	0.22	0.20	0.19	0.17
Withdrawal of Funds (net)	2.67	-0.26	0.00	0.00	0.00
Total Receipts	**27.48**	**27.94**	**27.57**	**26.72**	**26.31**
Interest Payment	3.43	3.49	3.73	3.66	3.63
Pensions	2.61	2.46	2.57	2.67	2.78
Wages & Salaries	7.45	8.00	6.93	6.39	5.90
Comp & Assign to Local Bodies	0.33	0.12	0.18	0.18	0.18
Total Non Discretionary Expenditure	**13.83**	**14.07**	**13.41**	**12.90**	**12.50**
Balance of Resources	**13.65**	**13.87**	**14.16**	**13.82**	**13.81**
Plan Outlay financed by Bud Resources	**7.12**	**7.15**	**7.55**	**7.49**	**7.75**
Loans and advances	1.34	0.82	1.20	1.22	1.24
Maintenance	1.13	1.09	1.05	1.01	0.97
Subsidies and current transfers	4.96	4.65	4.37	4.10	3.85
Total Estimated Expenditure	28.38	27.78	27.57	26.72	26.31
Total Financeable Expenditure	27.48	27.94	27.57	26.72	26.31
Required Adjustment in Expenditure	0.90	-0.16	0.00	0.00	0.00
Adjustment in Plan Expenditures	0.12	0.50	...	...	...
Adjustment in Non-Plan Expenditures	0.78	-0.67	...	...	...
Fiscal Deficit	4.66	6.54	6.08	5.23	4.79
Primary Deficit	1.23	3.05	2.34	1.56	1.16
Outstanding Debt	**34.68**	**36.96**	**38.50**	**39.00**	**39.00**
Memo Items					
Plan Outlay (as originally envisaged) 1/	7.25	7.65	7.98	8.24	8.44
Plan Out fr Bud Res(as originally envisaged)	6.96	7.35	7.66	7.91	8.10
Plan Outlay after adjustment	**7.12**	**7.15**	**7.87**	**7.82**	**8.09**
Est contr.from Pub Ent for the Plan	0.29	0.30	0.32	0.33	0.33

Note : 1/ Includes extra budgetary resources for the Plan.

Annexures

Annexure 1: Notes on Projections

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

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

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

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

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

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

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

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

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

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

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

(Rs. lakh)

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

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

(Rs. lakh)

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

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

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

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

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

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

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

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

(Rs. crore)

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

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

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

(Rs. crore)

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

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

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

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

Agriculture

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

Co-operation

Rates of audit fee and arbitration fee be revised upwards.

Rinderpest vaccination charges

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

Education

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

Medical and public health

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

Forests

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

Royalty on minor minerals

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

Public works department

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

Recovery of loans and interest

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

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

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

(Rs. crore)

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

Source: GoK, SPB, 1997 (c)

Annexure 4: Ninth Five Year Plan in Kerala

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

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

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

(Rs. crore)

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

Source: GoK, 1997(a).

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

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

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

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

Plan size and financing pattern of the Ninth Plan

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

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

(Rs. crore)

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

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

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

(Rs. crore)

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

Source: GoI, 1997–2002.

Note: Figures are inflated by 7 percent inflation rate.

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

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

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

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

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

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

1. The requirements, priorities and development perceptions of the people in every locality were listed.
2. A general awareness regarding decentralisation was created.
3. The basic organisational structure of the campaign was laid.

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

- generation of an extensive local database;
- a comprehensive survey of all development sectors for all *panchayats* and municipalities;
- a list of plausible solutions to the development problems; and
- formation of taskforce to prepare development projects for each development sector.

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

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

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

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

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

ANNUAL PLAN OF THE LOCAL BODIES, 1997-98

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

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

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

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

(Rs. crore)

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

Source: GoK,SPB, 1997(a).

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

(Rs. lakh)

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

Source: GoK. SPB 1997(a)

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

(percent)

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

Source: GoK, SPB, 1997(a).

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

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

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

a. the principles which should govern:

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

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

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

Approach of the State Finance Commission

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

- better utilisation of the existing sources of revenue;

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

Existing fiscal devolution

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

Recommendations to improve the resource of local bodies

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

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

Table AN6.1: Criteria for Devolution of Plan Grants

(percent)

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

Source: GoK, SPB, 1997(a).

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

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

(Rs. lakh)

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

Source: GoK, SFC,1996.

The National Institute of Public Finance and Policy (NIPFP) is a centre for advanced applied research in public finance and public policy. Established in 1976 as an autonomous society under the Societies Registration Act XXI of 1860, the main aim of NIPFP is to contribute to policy-making in spheres relating to public economics.

ISBN 81-900518-6-5