State Fiscal Studies HARYANA

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New Delhi

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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 first batch of a series of Fiscal Studies of the States.

The study team consists of Tapas K. Sen and R. Kavita Rao. 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
August, 2000

Ashok K. Lahiri
Director

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Tapas K Sen
R Kavita Rao

Haryana: socio-economic profile

1.	Area (sq. km.)		44212
	Number of Districts		10
		Net Area Sown (% to Total Area)	80% (India: 47%)
		Net Irrigated Area (% to Net Area Sown)	76% (India: 35%)
2.	Population in 1991 ('000)		16464
		Urbanisation (%)	24.6% (India: 35%)
		Number of Towns	94
		Number of Villages	6759
3.	Females Per 1000 males		865 (India: 927)
4.	Infant Mortality Rate in 1995 (per thousand)		68 (India: 74)
5.	Literacy Rate (1991)		55.9% (India: 52.2%)
		Males	69.1% (India: 64.1%)
		Females	40.5% (India: 39.3%)
6.	Per Capita Net State Domestic Product at Current Prices: 1995–96 Quick Estimates		Rs. 13770
7.	Foodgrain Production: 1995–96 Million tonnes (% of national)		11.0 (5.9%)
		Rice	1.9 (2.4%)
		Wheat	7.3 (11.7%)
8.	Per Capita Electricity Consumption: 1994–95		446 KWh (India: 320)
9.	Road Length: 1995 (km.s per 100 sq. km. of area)		23486 kms. (53.12)
		Surfaced	22568 kms. (51.04)
		Railway Route Length	3678 kms.
		Post Offices	2588

Source: Statistical Abstract of Haryana 1995–96 and Economic Survey of Haryana 1996–97.

Executive summary

Haryana, one of the smaller and richer among the major States of India, experienced high rates of economic growth (6 percent annual) during the period 1980–96. However, industry and services have slowed down in recent years; alongside bottlenecks have emerged in infrastructure sectors, especially in power. The Government of Haryana (GoH) has initiated a significant process of reforming and restructuring the power sector into an efficient and commercially viable sector to lay the basis for future growth and development of the economy. Having embarked upon the path of economic reform, the GoH now faces some important challenges both in the medium term (1998–2003) and in the short term (1998–2000).

KEY CHALLENGES

Medium term challenges

Two key areas, which influence the growth potential of the State economy are power and irrigation. It is imperative for the State to :

- **ensure the success of the power sector reform already initiated**;
- **address the problem of inadequate operation and maintenance in irrigation** : in spite of spending higher than average and/or normatively specified amounts on a recurring basis, the irrigation network of the State continues to be in poor repair, primarily owing to the rising staff costs crowding out allocations to material inputs.

The high growth performance of the State has not translated necessary improvements in the performance in social sectors. The need is for expenditure prioritisation in favour of

- **education and health services** : Haryana is at the bottom of the league in terms of female literacy, infant mortality, fertility, and sex ratio;
- **poverty reduction** : in spite of higher than average growth, poverty has increased in rural areas.

Moving ahead with tax reforms towards a full-fledged VAT – could be easier to implement in Haryana given that inputs are largely tax free, and therefore, there is no basis to fear any revenue loss.

Short term challenges

The upward revision of the salaries following the Fifth Central Pay Commission's recommendations, alongwith the up-front costs of the power sector reform pose a major constraint on the budget, curtailing the government's ability to address the medium term challenges outlined above. While financial commitments to the power sector reform would recede after the first two years, the need is **to find effective and non-distortionary ways to raise additional revenue** in the short run.

DISTURBING TRENDS

Interest payments have risen as a share of State income and revenue, while capital investment by the State has declined sharply. While outstanding debt (at 17 percent of GSDP) and annual fiscal deficit (3.5 percent of GSDP) in Haryana are lower than and no higher than the India average respectively, interest payments have still risen as a share of State revenue, from 10 percent to 19 percent over the past decade. This is mainly the effect of deregulation of interest rates and the consequent rise in the cost of borrowing in the Indian market. The consequence of rising interest payments has been most severe on public investment. Capital expenditures (excluding loans) have declined from over 3 percent of GSDP in 1985–86 to 1.4 percent in 1996–97.

Recurrent expenditures have risen faster than revenue receipts of the State. In the late 1980s, the revenue (or current account) balance turned from positive to negative and has remained negative in most years, since then. This means that the State is using part of its borrowed funds at the rising market driven rates on interest, to finance recurrent expenditures.

Salary and pension payments, which have absorbed about 45 percent of revenues in the recent past, are likely to rise sharply following the latest pay adjustment. This, together with the rising share of interest payment, would imply that **non-wage allocations would remain below the recommended norms.** In other words, with investments and maintenance expenditure being marginalised, the growth prospects of the State could be seriously undermined. A telling case is that of the irrigation sector in Haryana, where actual maintenance activity has suffered a setback in spite of significant levels of expenditure as a result of its neglect in the composition of expenditure.

FINANCING STRATEGY

Tax measures

It is important to avoid enhancement of revenues by further raising the tax rates. On the contrary, there is a need to reduce the rates considerably in the case of stamp and registration fees, alongwith improved administration in order to curb evasion and enhance compliance in reported property values. In the case of sales tax, there is need to immediately reduce the multiplicity of rates, as part of the preparation for moving to VAT over the medium-term. The only tax instrument where a higher rate could be justified is the motor vehicles tax, where the prevailing rate is lower than in many other States.

There is a case for levying additional one percent market fee on the sale of rice in Haryana. Given the scarcity of water in the State and the distortion in the cropping patterns in favour of water-intensive rice cultivation induced by the irrigation subsidy policy, an additional levy on the sale of rice would contribute towards correcting the distortion, alongwith rationalisation of the irrigation subsidy itself which is likely to take longer.

Other tax measures that could be considered for implementation in the short term include:

- introduction of a **profession tax** on non-agricultural workers;
- enhancing **land revenue** and combining it with an agricultural income tax; and
- expanding **entertainment tax** to include video rentals and cable operators.

USER CHARGES

Given the wide range of activities that the government needs to involve itself in, and the implied strains on the budget, as a long-term strategy, the GoH needs to tap the potential of **user fees and charges**, wherever feasible.

- In the irrigation sector, under the *Water Resources Consolidation Project*, the State has imposed upon itself some cost recovery targets. Strengthening the maintenance of the existing canal system can be crucial for achieving these targets.
- Selective cost recovery in higher education and in specialised curative health care where capacity and willingness to pay exist in Haryana. These could be used to provide an element of cross-subsidy in the provision of basic services in education and health.
- **Strengthening local bodies** could facilitate increased transparency, accountability and hence make acceptable the principle of paying for services such as urban drinking water supply and sanitation.

CONCLUSION

The initiative of the GoH in reforming the power and irrigation sectors would be crucial for the State to realise its growth potential. The fruition of these initiatives, by releasing resources, would significantly determine the ability of the State to address the inadequacies in the social sectors. In the short term, however, additional resources could be generated through further tax rationalisation, fuller utilisation of potential in taxing road users, urban property owners and video viewers. Further increase in indirect taxation, however, is not advisable given the resultant negative impact on the efficiency of the economy. Within the divergent strains in the budget, a credible plan for strengthening key social services needs to be laid out: an important step for enhancing human capital formation and hence, long-term economic growth of the State.

1. State economy: a macro perspective

INTRODUCTION

The State of Haryana, one of the smaller States of India, has a relatively high level of per capita Net State Domestic Product (NSDP), lower than only Delhi, Goa, Punjab and Maharashtra among the 27 States in India and more than three times the per capita NSDP of Bihar, the poorest State. Despite a falling share in the Gross State Domestic Product (GSDP), much of the State's income is still generated in the primary (mainly agricultural) sector (41 percent in 1995–96: see also table 1.1) where 59 percent of the population is employed. Three-quarters of the total population of the State lives in rural areas.

Table 1.1 : Sectoral Shares in GSDP and Growth Rates

(percent)

	1980–81 to 1984–85			1985–86 to 1989–90			1990–91 to 1994–95		
	Haryana	HIS*	India	Haryana	HIS	India	Haryana	HIS	India
Shares									
Agriculture	50.88	32.75	39.39	44.81	27.54	34.50	44.22	24.67	31.46
Industry	20.31	31.33	25.43	24.47	34.06	27.25	24.07	34.83	28.37
Services	28.81	35.92	35.18	30.72	38.40	38.24	31.70	40.51	40.18
Growth Rates									
Agriculture	2.36	3.80	3.40	6.56	4.69	3.30	4.85	2.97	2.96
Industry	6.02	4.40	5.10	10.77	8.29	7.50	5.11	7.49	5.76
Services	6.41	6.14	5.46	9.54	7.73	7.76	4.65	7.38	5.68

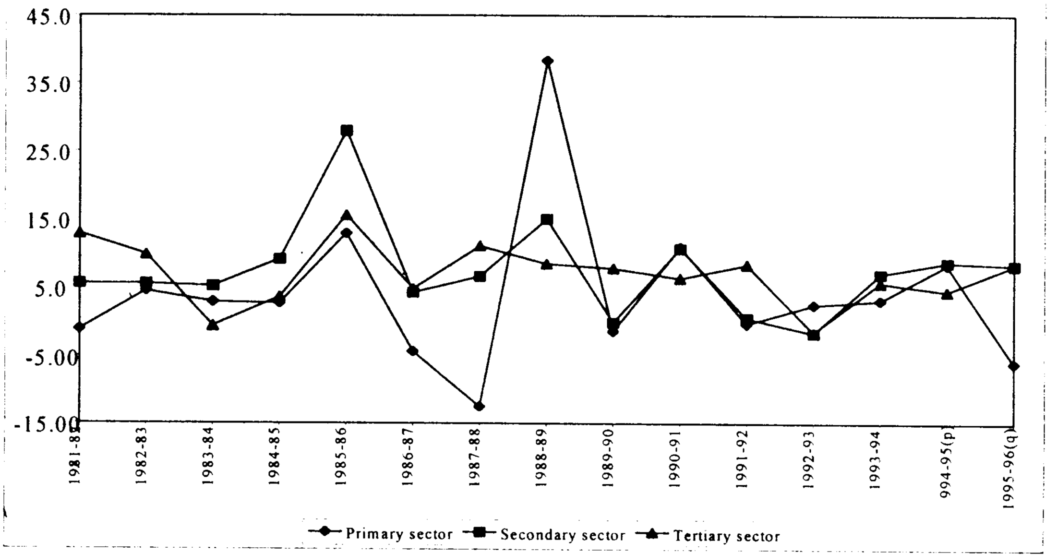
Source: Computed
*HIS – High Income States

GROWTH PERFORMANCE

The long-term growth of real GSDP in the State has been quite impressive, at around 6 percent per annum during the period 1981–96. But during 1990–96, there was a deceleration in growth to just above 4 percent, mainly due to a sharp fall in the growth of the manufacturing sector from 11.93 percent during 1981–89 to 4.72 percent during 1990–96 (figure 1). The incidence of poverty as measured by the poverty ratio has also risen from 16 percent in 1987–88 to 25 percent in 1993–94 (table 1.3 gives the 1983 and 1993–94 figures). This is despite a rise in the per capita income in constant prices from Rs. 2709 to Rs. 3498 during this period, implying worsening distribution of income.

What is particularly worrisome is that there has been a sharp increase in poverty in the rural areas from 16.22 percent to 28.02 percent, while urban poverty has declined marginally. Although only an indepth study can explain this paradox of rising poverty in a growing economy, this could be partly attributed to poor social development (discussed below), accentuating income disparities. In any case, it does underscore the need for greater public intervention in this area in the form of programmes for sustainable poverty alleviation and human development (particularly those that allow the poor to rise above the poverty trap).

Figure 1 : Rate of Growth of GSDP at 1980–81 prices



SECTOR PROFILES

In terms of infrastructure, Haryana ranks among the top five States in India. The Centre for Monitoring Indian Economy (CMIE) relative composite infrastructure index stood at 141.3 in 1993–94 (all-India average: 100; see table1.2).[1] Power, however, has been a major bottleneck, which is being sought to be corrected with reforms in the power sector currently underway. Irrigation and water supply are two other areas being strengthened. The New Industrial Policy 1997, stresses the importance of the infrastructure sector and states the government's intention of focusing on this sector. Its agricultural productivity is high as a result of a widespread, although reportedly ill-maintained, irrigation network and relatively modern methods of agriculture including mechanisation, use of high-yielding variety of seeds, and intensive use of fertilisers. On the industrial and trading front as well, the State has made rapid progress. A long border

1 The elements of the composite index, with assigned weights in parentheses are: transport facilities (26%), energy consumption (24%), irrigation facilities (20%), banking facilities (12%), communication infrastructure (6%), educational institutions (6%) and health facilities (6%).

with Delhi, a region with a large market as well as investible funds, has contributed to Haryana's performance.

Table 1.2: CMIE Relative Composite Infrastructure Index

State	1985–86	1993–94
Haryana	**144.0**	**141.3**
High Income States		
1.Gujarat	124.8	122.4
2.Maharashtra	116.8	107.0
3.Punjab	205.8	191.4
Middle Income States		
1.Andhra Pradesh	100.4	96.1
2.Karnataka	97.5	96.9
3.Kerala	149.2	157.1
4.Tamil Nadu	148.5	144.0
5. West Bengal	100.5	94.2
Low Income States		
1.Bihar	84.2	81.1
2.Madhya Pradesh	68.8	75.3
3. Orissa	87.8	97.0
4. Rajasthan	77.4	83.0
5. Uttar Pradesh	103.0	103.3
6. Assam	80.3	78.9
INDIA	100	100

Source : CMIE, 1997.

SOCIAL INDICATORS

Haryana's social indicators, however, do not convey a picture commensurate with the income levels of the State (table 1.3). Its literacy rate in 1990–91 was 55.85 percent as against the national average of 52.21 percent; Gujarat, Maharashtra and Punjab, with comparable per capita SDP, had higher overall literacy rates. Lack of progress is also manifest in the infant mortality rate, a commonly used indicator of status of health services. Haryana also has the dubious distinction of having a rather high growth rate of population (2.45 percent per annum during 1981–91 as compared to 2.13 percent for India as a whole). Another indicator that points to a comparatively slow social development is the lowest gender ratio in the country with only 865 females per 1000 males as per the 1991 census; the national average was 927 females per 1000 males.

Table 1.3: Comparative Social Development Indicators

	Haryana	Other Comparable States			India
		Gujarat	Maharashtra	Punjab	
1981					
Poverty (percent) (1983)	21	33	43	16	44
Literacy (percent)	42	50	54	46	44
Female literacy (percent)	26	37	40	38	30
Infant mortality (percent)	69	72	58	61	110
Life expectancy at birth (years)	63.0	59.0	62.0	66.0	50.4
Sex ratio (females/1000 males)	870	941	936	878	934
1991					
Poverty (percent) (1993-94)	25	24	37	12	36
Literacy (percent)	56	61	65	59	52
Female literacy (percent)	40	49	52	50	39
Infant mortality (percent)	75	67	59	56	79
Life expectancy at birth (years)	65.0	62.0	64.0	67.0	58.7
Sex ratio (females/1000 males)	865	934	933	88[illegible]	927

Source: 1. GoI, 1996: GoI, 1997;
2. CMIE, 1997.

2. State finances

An Overview of Trends

Broad trends in government finances in Haryana do not reflect any persistent fiscal imbalance in the aggregate or major problems of sustainability until 1996–97 (table 2.1). The revenue account shows both surpluses and deficits over the years, but a clear distinction is apparent between the periods before and after 1988–89. Revenue deficits appeared for the first time in 1988–89 and continued to more or less persist up to 1996–97, except in 1993–94. The deficit was relatively large during 1994–97; compared to less than 0.5 percent of GSDP before 1993–94, it was as high as 1.6 percent, 1.2 percent and 2.1 percent in the last three years. Fiscal deficit was generally below 3.5 percent of GSDP, though there were occasions when it went beyond 4 percent, falling back to a lower level in the succeeding years. Even in 1995–96 and 1996–97, the deficit amounted to 2.2 percent and 3.5 percent of the GSDP, respectively. However, unlike earlier years when borrowed resources were either lent out or spent on the capital account, a substantial part of such resources in recent years have been used for spending on revenue account. This recent change in the *quality* of fiscal deficit should cause concern, as it signifies the beginning of a deteriorating fiscal situation, unless corrected quickly.

A comparison with other States for the year 1994–95 reveals the lowest fiscal deficit-GSDP ratio among all the larger states (table A.1), underlining the low levels of deficit in Haryana. Given the relatively high real rate of growth of the State economy, the past levels of fiscal deficit were within sustainable limits. It may, however, be noted that the gap between the fiscal deficit and the revenue deficit (consisting of mostly capital outlay and net loans and advances by the State, as there is little capital receipt other than various forms of debt), as a ratio of the GSDP, is the smallest in Haryana. This indicates a relatively low level of capital disbursements as a ratio of the GSDP in the State as compared to other States.[1]

As per the revised estimates for 1996–97, revenue receipts stood at Rs. 6215 crore, i.e., 19 percent of GSDP at current prices, as against revenue expenditures of Rs. 6883 crore, or 21 percent of GSDP. Considering only net profits of the State-run lotteries as revenue receipts (and eliminating expenditures on it from revenue expenditures),[2] these ratios work out to 12 percent and 14 percent respectively. As in the case of most of the States in India, the bulk of revenue receipts came from tax revenues (66 percent), which in turn were raised mostly from own tax revenues (83 percent of total tax revenue and about 55 percent of total revenue receipts: table 2.2). Interest

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1 Capital disbursements include capital outlay on various services as well as net loans and advances by the State government.

2 These are the amounts we consider as revenue receipts and revenue expenditures in the following discussion.

receipts constituted 6 percent of the total revenue receipts, while grants from the central government at 12 percent were at a lower level compared to most other States, reflecting probably the relatively high per capita income of the State. Net receipts from State lotteries constituted a not insignificant 1.8 percent of total revenue receipts.

Table 2.1 : Haryana : Trends in State Finances : 1985–86 to 1996–97

(percent of GSDP)

	1985–86	1990–91	1994–95	1995–96	1996–97r.e.
1. Revenue Expenditure	12.63	13.30	15.49	13.99	14.36
a. Social services	4.54	4.74	4.78	5.70	4.40
b. Economic services	4.87	4.83	6.64	4.32	5.66
c. Interest payment	1.49	1.77	1.99	1.99	2.28
d. Others	1.73	1.95	2.07	1.98	2.02
2. Capital Expenditure	5.11	2.69	0.59	2.29	1.15
a. Capital disbursement	3.07	1.38	0.84	1.02	1.38
b. Net loans by state	2.04	1.32	-0.26	1.27	-0.23
3. Revenue Receipts	14.25	13.16	13.89	12.75	12.28
a. Own tax revenue	7.66	7.84	7.73	7.77	6.75
b. Shared taxes	1.31	1.36	1.30	1.29	1.32
c. Grants	1.76	1.08	0.84	1.07	1.52
d. Own non tax revenue	3.53	2.88	4.02	2.61	2.69
4. Capital Receipts	3.48	3.10	2.46	3.75	3.15
a. Internal debt(net)	-0.31	0.61	0.31	0.40	0.73
b. Loans from central govt. (net)	3.33	1.56	1.33	2.56	1.66
c. Provident fund, etc.	0.45	0.93	0.82	0.79	0.76
Revenue deficit (-)/ surplus(+)	1.63	-0.14	-1.60	-1.24	-2.08
Fiscal deficit (-)/surplus(+)	-3.49	-2.83	-2.19	-3.53	-3.23
Primary deficit(-)/surplus(+)	-2.00	-1.05	-0.19	-1.54	-0.96

Source: GoH, relevant years (a).

On the expenditure side, capital disbursements exhibit a worrisome falling trend over time, but the trend has been arrested and reversed to some extent in recent years, mainly owing to large investments in water supply and irrigation. Revenue expenditures, on the other hand, display a steadily rising trend. Capital disbursements (as a ratio of GSDP) fell from 5.11 percent in 1980–81 to 1.15 percent in 1996–97, but revenue expenditure rose from 12.63 percent to 14.36 percent during the same period. The growth of revenue expenditures in this period has been over 16 percent per annum, while GSDP has grown at only 15 percent per year. Given a long-term growth rate of less than 14 percent in revenue receipts, there is a clear long term tendency for the revenue (and fiscal) deficits to rise. As discussed below, this is largely owing to rising interest payments as a result of rising stock of debt.

TAX REVENUES

The tax structure of Haryana (table 2.2), until 1996–97, was fairly similar to that of many other States in India. Sales tax accounted for a little less than half of own tax revenue, and State excise accounted for a quarter. Stamp duties and registration fees, and motor vehicle taxes were the other major taxes in terms of revenue significance. With the imposition of prohibition from July 1996, the government lost its second largest source of revenue. The extent of the excise duty loss was approximately Rs. 410 crore in 1996–97; there would have been additional revenue loss from foregone sales tax on liquor. This policy has, however, been reversed and prohibition stands withdrawn from April 1, 1998. In the present exercise, we take these developments into account.

A comparison of the average level of tax-GSDP ratios across States over the first half of the present decade, shows this ratio to be relatively low in Haryana among the major States at 9.3 percent, higher than in Punjab and Maharashtra only (table A.2). It is low in all the four high-income States of India (Gujarat, Maharashtra and Punjab beside Haryana) owing to smaller tax devolutions (resulting from the progressivity in tax sharing) as also owing to the falling share of State taxes in the additional income as per capita SDP rises beyond a point. However, the higher own tax ratio of Gujarat suggests the possibility of raising the same in Haryana, particularly in view of its proximity to Delhi. Although a recent exercise on the estimation of relative tax effort by the major States (table A.3), using data for the years 1991–92 to 1993–94, shows the effort of Haryana to be considerably better than average at 128 (average: 100) (Sen, 1997), the low buoyancy of most of the State taxes shows the inability of the State to sustain its tax effort. The overall buoyancy of the tax system is estimated to be marginally greater than unity. While State excise is a more buoyant revenue source for Haryana as compared to other taxes, the estimates point to the need for improving the buoyancy of the other taxes.

Table 2.2 : Composition of Revenue Receipts

(percentages)

	1980–81	1985–86	1990–91	1995–96	1996–97(r.e.)
Total Revenue Receipts (% of GSDP)	13.54	14.25	13.16	12.75	12.47
1 **Own tax revenue**	51.03	53.73	59.60	60.97	55.00
a. Sales tax	22.87	25.10	27.57	29.67	34.92
b. State excise	9.38	11.88	15.96	15.54	1.73
c. Stamp duty and registration	4.00	4.00	5.66	6.88	7.36
d. Motor vehicles taxes	9.31	8.69	7.68	7.14	8.31
2 **Shared tax**	13.36	9.16	10.36	10.13	10.74
3 **Own non-tax rev.**	25.69	24.80	21.85	20.50	21.91
a. Interest receipts	7.53	7.91	7.08	7.22	5.96
b. Lotteries(net)	0.01	-0.27	0.65	0.84	1.80
c. Transport	10.68	10.36	8.15	7.67	7.93
d. Irrigation	2.26	1.34	0.97	0.59	0.71
e. Social services	1.6	1.55	1.14	1.47	2.23
f. Others	3.62	3.37	3.86	2.70	3.29
4 **Grants from the Central govt.**	9.92	12.32	8.19	8.39	12.35

Stamp duties and registration fees have shown high buoyancy until very recently owing to the boom in the real estate market, particularly in those areas that fall within the National Capital Region. This is in spite of the fact that a large part of the value of transactions is not declared in the documents. The tax rates were quite high (about 13 percent on the value of sale of immovable property) and could have easily led to large-scale evasion (NIPFP, 1996). It may be better to reduce the rates substantially to encourage more accurate declaration of the value of transactions, along with the adoption of anti-evasion measures like shifting the legal tax base to a "fair market value" defined in a more objective manner. Some States have actually adopted this "fair market value" system.[3]

[3] A committee of officials is currently going into the details of various issues relating to the levy of stamp duties, following the recommendations of the *Committee of State Finance Ministers*; it may be worthwhile to wait for their report before suggesting any action in this regard.

Motor vehicle taxes are primarily derived from heavy vehicles. A comparative evaluation of the rate structure of Haryana shows that the rates on buses are comparable to other States, but those on goods vehicles (trucks) are relatively low, as is the case in Punjab. Therefore, there may be some scope for raising the tax rate on goods vehicles. Also, the passenger tax on contract carriages, presently computed on the basis of a number of variables for each vehicle, may be rationalised to a fixed annual additional tax on such vehicles. This would make administration simpler and less discretionary, and will also promote optimum use of contract carriages.

Given the large tax potential from agricultural income, the negligible revenue from agricultural taxes (as in Punjab) is striking; this sector is taxed only in an indirect way. Haryana does not levy agricultural income tax; even conventional land revenue has almost become defunct, partly as a result of not undertaking regular settlement operations. However, the market (or *mandi)* fees levied by the market boards (at the rate of 3%) do constitute a substantive levy on farmers[4] who bring their agricultural surplus to the organised market for sale. The proceeds of this levy do not enter the government budget, but are expected to be spent by the market boards on laying and maintaining village roads, and give relief to the government budget by reducing the governmental responsibilities in this area.

The question of electricity duty, as long as the State Electricity Board (SEB) has a monopoly on the supply of electricity, is closely tied to the electricity tariff. In the final analysis, both are in the nature of public revenues. In a situation where the SEB is making losses which are being made good with government subsidies, the distinction between tariff and duty gets blurred. With the forthcoming reform of the power sector, however, the impact of changes in electricity tariff and in electricity duty rates on government finances will not be equivalent, especially in the event of privatisation. The weak economic case for this tax, and the possibility of merging it under a State level VAT with a wider base are other issues to be considered.

Entertainment tax yields little revenue nowadays. The main tax base in this case is the admission charges to the cinemas. The falling popularity of movie theatres has meant a steep fall in the revenue from this tax. Video theatres, cable television and home viewing of cine-videotapes have replaced cinema theatres. The solution, to our thinking, lies in bringing all the alternative entertainment channels under the tax net. Further, it is too early to write off entertainment tax as a source of revenue as there are indications of a revival of movie going habits.

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[4] The government intends to bring a part of the market fees into the budget; the exact manner of this is yet to be determined. While this may raise budgetary receipts, it will not raise the level of public revenues in the broader sense.

Non-Tax Revenues

The major source of non-tax revenue in recent years have been the profits from State lotteries, although they exhibit sharp fluctuations. These fluctuations are mainly on account of bans on the sale of lottery tickets in target regions, including those in Delhi and more recently, Tamil Nadu. Given the recent Supreme Court judgement upholding such bans by State governments, the possibility of this revenue source drying up in future is very real. The other important non-tax revenue source has been interest receipts, but these include some purely self-balancing receipts (like part of those from the SEB and those from irrigation), and the actual receipts are much smaller. User charges, which ought to constitute the bulk of non-tax revenues, are minimal (see discussion of subsidies below).

Central Grants

Central grants accounted for only 12 percent of the revenue receipts of Haryana, the major share coming from plan grants. Not usually being eligible for deficit grants, statutory grants for Haryana have been relatively low. This could partly be attributed to progressivity in the *inter se* distribution.

Expenditures

The Indian States in general have not been able to generate revenue surpluses since 1987–88, and in fact have been showing rising deficits (Rao and Sen, 1993). Haryana is no exception to this general trend. Even so, the revenue deficits (and the fiscal deficits) were not large enough in the past to cause serious problems, given the growth rate of the State economy. In recent years, this comfortable scenario has undergone a change for the worse. The revenue deficits have started growing and the growth of the economy has also slowed down somewhat, calling for corrective action in the area of State finances. The growth of revenues needs to be stepped up as discussed above; but it is more important to contain the growth of unproductive expenditures and redirect expenditures into more productive areas. To identify areas where such action needs to be focused, we examine below the composition of government expenditures.

Tables A.4 and A.5 summarise the composition of revenue and capital expenditures respectively. The three major categories of revenue expenditure — general services, social services and economic services — account for 33 percent, 29 percent and 38 percent respectively in 1996–97. This compares with 28 percent, 32 percent and 41 percent respectively in 1980–81, implying a rising share of general services at the cost of both social services and economic services. The entire increase in the share of general services is attributable to rising interest payments; its share in revenue expenditure has gone up from 9 percent in 1980–81 to 13 percent in 1990–91, and further to 15 percent in 1996–97. A large proportion of capital expenditure on various services in 1996–97 went to water supply and sanitation (41%) and irrigation (39%). Although large capital expenditures on water supply and sanitation are fairly recent, irrigation has always had a large share in capital expenditures. Among the other services, roads and bridges (6%), industries (6%), road transport (4%) and housing (4%) together accounted for almost all the rest of the capital expenditure. Net loans and advances by the State were actually negative, mainly owing to large recovery of loans from the power sector.[5]

The bulk of the revenue expenditure on social services was accounted for by education (15% in 1996–97) and health (7%). Each of them exhibit a similar fall in their shares that social services as a whole do since 1980–81. In economic services, the expenditure on agriculture as a whole (including that on irrigation) shows a noticeable drop in its share in total revenue expenditure from 22 percent in 1980–81 to 15 percent in 1996–97; this drop is less pronounced for irrigation. The share of power, on the other hand, shows sudden rise after 1993–94, partly due to self-balancing entries under revenue expenditure and repayment of and/or interest received on loans by the State. The share of the transport sector fell from 15 percent in 1980–81 to 8.5 percent in 1996–97; within the transport sector, a greater drop is noticed under road transport (read Haryana Roadways) as compared to roads and bridges. Expenditure on poverty alleviation was never very large in Haryana, and this has steadily declined over the years to claim only about 1.5 percent of the revenue expenditures at present. There is thus a strong need to reverse this trend in the light of the recent increase in rural poverty.

The economic classification of government expenditure in Haryana (table 2.3) does not provide any obvious target category for expenditure control. Data obtained for four years (1992–93 to 1995–96) show a drop in the share of wages and salaries from about 40 percent in 1992–93 to 28 percent in 1995–96. The single largest category appears to be transfers, mainly owing to the prize money awarded to the State-run lottery winners. Ignoring this would mean that compensation of employees has actually more or less maintained its share at the same level of 40 percent. With the implementation of the new pay scales that have been announced for the State government employees following the recommendations of the Fifth Pay Commission appointed by the central government, this share would rise to a higher level. There is thus a need to control its growth. A freeze on new employment is the usual advanced solution; in Haryana, such a freeze is already in place. Its effectiveness, however, is undermined by several factors including legal compulsions. Purchase of commodities and services, the category that can be roughly equated to operation and maintenance of assets, accounts for only about 12 percent of the total expenditures, while the share of capital expenditures is shown to be declining fast. The last two are the categories of government expenditure on which economic growth depends to a large extent and, therefore, *prima facie* need greater allocations in the total expenditure.

[5] These have been partly mere book entries, the offset on the expenditure side being rural electrification subsidy. There is no uniformity over the years, however.

SUBSIDIES

A recent NIPFP study on government subsidies in India (Srivastava *et.al.*, 1997) estimates in a comprehensive manner subsidies (more accurately, unrecovered costs) flowing through the budgets of the Central and State governments. We reproduce here the estimated government subsidies in Haryana for the year 1993–94 for ready reference (table 2.4). A notable feature of these estimates is that the subsidies are defined as not only the explicit subsidies, but also include the implicit ones in the opportunity cost of the cumulative capital expenditure (including equity investments and loans) as well as estimated depreciation, net of all receipts (including interest and dividends received).

Table 2.3: Economic Classification of Government Expenditure : Haryana

(Rs. lakh)

	1992–93	1993–94	1994–95	1995–96(r.e.)
Total Expenditure	249751	361967	639111	555333
Compensation of employees	98621	109834	130746	153277
	(39.49)	(30.34)	(20.46)	(27.60)
Wages and salaries	88065	97983	117141	137045
Pension	10556	11851	13605	16232
Purchase of commodities and services	33572	42347	83201	69255
	(13.44)	(11.70)	(13.02)	(12.47)
Interest paid	34331	42170	50594	60886
	(13.75)	(11.65)	(7.92)	(10.96)
Transfers	41656	118378	334603	219668
	(16.68)	(32.70)	(52.35)	(39.56)
Depreciation	1481	1787	1894	2012
	(0.59)	(0.49)	(0.30)	(0.36)
Capital Account	40090	47451	38073	50235
	(16.05)	(13.11)	(5.96)	(9.05)
Budget Figures				
Revenue expenditure	234095	259103	378031	390407
Capital expenditure	22833	30292	20658	28587
Total	256929	289396	398689	418994

Source: GoH, relevant years (b).

Note : Figures in parentheses are percentage shares in total expenditure.

The estimated subsidies are much larger (almost double) in economic services as a whole compared to those in social services, although the largest subsidies are given to the education sector (about Rs. 460 crore). The other large claimants among the individual budgetary categories were irrigation (Rs. 444 crore), power (Rs. 278 crore), medical, public health and family welfare (Rs. 128 crore), agriculture (Rs. 210 crore) and roads and bridges (Rs. 115 crore). The total subsidies are estimated to be Rs. 2007 crore, or a little less than 10 percent of the GSDP for that year. If we note that revenue receipts were about 12 percent of the GSDP in that year, the extent of the subsidies becomes clearer. Not all of these would be desirable or even intended; these estimates should provide a good starting point for an expenditure restructuring programme. While the ongoing power reforms are expected to phase out power subsidies in the medium run, irrigation subsidies ought to be the most obvious target for a subsidy reduction programme. Other areas where it may be possible to reduce subsidies in varying degrees are roads and bridges and non-elementary education. Reduction in subsidies ought to take place on the expenditure side as well as that of recovery.

Table 2.4 : Comprehensive Estimate of Government Subsidies : 1993–94

(Rs. crore)

Services		Total Cost		Recovery Rate (%)
Social Services (total)	838.39	30.24	808.15	3.61
of which				
Elementary education	202.74	8.55	194.19	4.22
other education, art and culture	269.05	3.52	265.52	1.31
public health	20.44	0.14	20.31	0.67
Medical and family welfare	109.40	1.57	107.82	1.44
water supply sewarage & sanitation	85.11	8.15	76.97	9.57
Economic Services (total)	1499.97	301.6	1198.36	20.11
of which				
Agriculture and allied activities	235.51	24.53	210.98	0.10
Irrigation	464.38	20.44	443.93	4.40
Power	277.86	0.00	277.86	0.00
Industries	32.03	1.62	30.42	5.04
roads and bridges	114.62	0.04	114.57	0.04
Transport	287.05	253.04	34.01	88.15
Surplus Sectors	-0.15	22.62	-22.76	NC
a. social services	0.01	1.52	-1.51	15366.95
b. economic services	-0.16	21.10	-21.26	NC
Total subsidies (1+2)	2338.36	331.85	2006.51	14.19
Subsidies net of surplus (4-3)	2338.21	354.46	1983.75	15.16

Source : Srivastava *et.al.*, 1997.

PUBLIC DEBT

We consider three major categories of debt here: internal debt (consisting of market loans and other borrowings from financial institutions, banks etc.), loans and advances from the central government and provident fund. The total indebtedness under these three categories amounted to less than 20 percent of the GSDP, all through the period 1980–81 to 1995–96, with small fluctuations. In 1995–96, this ratio was 17 percent. These low ratios are partly due to the borrowings of the States in India being largely controlled by the central government.

The composition of public debt has undergone some change over the years in Haryana (table 2.5). The share of market borrowings fell a little from 17 percent in 1980–81 to 13 percent in 1985–86, but then it remained stable until 1995–96. The share of other internal debt doubled from 5 percent to 10 percent between 1980–81 and 1985–86, but came back to around 5 percent by 1990–91, remaining stable since then. The share of debt from the Central government shows a gradual fall, dropping from 63 percent to 54 percent. Within this broad category, loans rescheduled by the Seventh and Eighth Finance Commissions bearing low interest rates constituted only 6 percent of the total indebtedness in 1995–96, as compared to 54 percent in 1980–81, in the absence of such rescheduling at concessional interest rates by the subsequent Finance Commissions. Indebtedness under the third category (provident funds) has, on the other hand, doubled its share from 14 percent in 1980–81 to 28 percent in 1995–96.

Table 2.5 : Composition of Debt of the Government of Haryana and Effective Interest Rates

(percentage)

Category of Debt	1990–91	1991–92	1992–93	1993–94		1995–96
1. Internal debt	17.37	17.72	17.16	17.58	19.32	18.46
on market loans	13.94	13.76	14.24	14.49	14.11	14.62
others	3.43	3.96	2.92	3.09	5.21	3.84
2. Central govt. loans	59.58	58.18	57.33	55.98	53.64	53.72
rescheduled loans	18.31	15.57	11.13	9.19	7.32	5.94
others	41.27	42.61	46.20	46.79	46.32	47.78
3. Provident fund,etc.	23.05	24.10	25.51	26.45	27.04	27.82
Total debt (1+2+3)(Rs. crore)	2398.31	2821.04	3193.67	3581.47	4132.07	4732.69
Debt/GSDP	17.59	17.27	18.41	17.45	16.93	16.96
Effective Interest Rates						
Internal debt	13.13	12.03	11.58	14.27	13.26	12.50
on market loans	10.96	12.62	11.12	11.78	12.53	12.52
others	21.93	9.95	13.85	25.97	15.25	12.41
Central govt. loans	8.35	7.96	10.49	10.47	11.12	11.54
rescheduled loans	5.68	3.95	7.32	4.96	6.94	6.16
others	9.54	9.42	11.26	11.55	11.78	12.21
Provident fund,etc.	11.37	11.69	9.95	12.07	11.20	10.83

Source: CAG, relevant years(a).

Apart from the rise in nominal interest rates for almost all categories of debt except rescheduled loans from the central government, the steep fall in the share of rescheduled debt has also contributed to a rising average effective interest rate. This has been to some extent counterbalanced by the rising share of provident funds carrying a relatively low effective rate of interest. Table 2.6 looks at this issue from a different angle. Debt repayments and interest payments during a year together constitute debt servicing expenses. These as a ratio of fresh borrowings show the extent to which borrowed funds are available for public investment (or even consumption, when there are primary deficits). This ratio fluctuates sharply between 65 percent in 1995–96 and 92 percent in 1992–93, but seems to be hovering around 85 percent in general. This by itself should cause some concern; more cause for worry is seen in the fact that interest payments are already far higher than repayments of debt, and their share in debt servicing costs are fast rising. Given a steady debt-GSDP ratio so far, this implies a potentially difficult public debt scenario in the future, as lower repayments now imply greater debt accumulation and hence higher debt servicing costs in future, unless the debt resources are utilised so as to significantly raise the real growth rate of the economy.

Table 2.6: Public Debt and Servicing

(Rs. lakh)

Indebtedness	80-81	85–86	90–91	91–92	92–93	93–94	94–95	95–96r.e.
Opening balance	56703.5	124920.7	244867.2	288715.9	326730.5	366444.3	423304.9	484362.4
Fresh borrowings(a)	32591.3	90474.5	79833.1	65541.3	66129.8	95947.3	97790.8	145805.2
Repayments(b)	23830.0	67085.8	35984.5	27826.2	26415.9	39086.8	36733.3	39642.5
(b)/(a)	0.73	0.74	0.45	0.42	0.4	0.41	0.38	0.27
Interest payments(c)	3701.4	9792.3	24202.6	27674.1	34330.9	42170.2	48694.4	55572.5
{(b)+(c)}/(a)	0.84	0.85	0.75	0.85	0.92	0.85	0.87	0.65

Source: CAG, relevant years(a).

CONTINGENT LIABILITIES

The Government of Haryana has, from time to time, provided guarantees for repayment of loans as well as repayment of interest on loans, debentures and bonds etc., raised by local bodies as well as statutory corporations and government companies. The outstanding amount of sums guaranteed has steadily increased from Rs. 941 crore for principal amounts on 31, March 1988 to Rs. 2361 crore on 31, March 1996. The guarantees for interest payments have been smaller – to the tune of Rs. 6.41 crore in 1989 increasing to Rs. 14.79 crore in 1996. Remarkably, over this period, the government has not had to make any payments towards these guarantees. The major claimants for these guarantees are statutory corporations and boards, and cooperative banks and societies. (a breakup of the guarantees outstanding as on 31, March 1996 can be seen in table A.6).

3. Sectors: profiles and issues

EDUCATION

As we have noted earlier, social sector achievements of the State are not commensurate with its income level, as exemplified in the area of education. The overall literacy rate of 56 percent in 1991 (1981: 42 percent) was below that in the States with comparable per capita incomes; female literacy rate was particularly low at about 40 percent (1981: 26 percent), below that in almost all the States with levels of per capita SDP higher than the average, against the national average of 39 percent. Even the enrolment ratio for classes I-V at 86 percent was higher than that only in Bihar among all the major States in 1995–96. A pupil teacher ratio of 47 was also relatively high, with the number reaching as high as 59 in one of the districts. This ratio also shows a rising trend. Dropout rates, however, are relatively low in the State.

Despite the status of education as key social infrastructure, broad indicators point to a non-recognition of the governmental responsibility in this area. Table A.7 shows that the share of education in total revenue expenditure was the lowest in Haryana at 12.8 percent among all the major States in India. Although it cannot be inferred from this that Haryana attached the lowest priority to education among all the States,[1] it does indicate a need for stepping up expenditure in this area. This is also borne out by table A.8, which clearly shows a fall in the share of education — every sub-category of it — in revenue expenditure (excluding those on State lotteries) between 1980–81 and 1995–96. This is not necessarily to say that the government should shoulder the entire burden of additional expenditure; the additional expenditure can be planned to be partially recovered through rearrangement of expenditure within the education sector and innovative cost recovery in appropriate areas. Given the high income levels and general willingness to pay for quality education, this should be quite feasible.

HEALTH

As in the case of education, Haryana does not compare favourably with other high income States in terms of health indicators. Infant mortality rate was 68 per 1000 live births in Haryana in 1995; only the relatively poor States (Assam, Madhya Pradesh, Rajasthan, Orissa and Uttar Pradesh) had higher infant mortality rates. Although medical facilities were substantially upgraded between 1985 and 1990, there has been little addition to them since. Diarrhoeal diseases appear to be the major cause of morbidity (despite all villages having access to safe drinking water, of which only a small

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[1] Leakages from the system are widespread; also, the denominator in the case of Haryana is somewhat exaggerated due to large unadjusted expenditure on State lotteries (adjustment for which could not be carried out for each of the States).

percentage do not get the recommended 40 litres per capita daily), followed by tuberculosis. Area covered per medical institution was 14 sq. kms and there were 79 beds per lakh of population in the year 1995–96.

IRRIGATION

In the predominantly agricultural economy of Haryana boasting of large foodgrain surpluses, irrigation plays a very important role as a key economic infrastructure, and hence is also subject to a number of non-economic influences on the relevant public policy. The coverage of irrigation is 76 percent of the net sown area, which is more than double that for India and marginally lower than the neighbouring State of Punjab. The irrigation network is of uneven vintage, part of it dating back a century or more. Although the State government has built upon the available irrigation network from the time Haryana was carved out of a larger Punjab, such a network requires regular repairs and maintenance, which have not been adequate despite high levels of revenue expenditures on irrigation. This is reflected in the fact that of revenue expenditure on irrigation, the proportion assigned to goods and services, and to repairs and maintenance (these two together would broadly correspond to operation and maintenance expenditures) remained consistently less than 35 percent, declining from around 32 percent to 24 percent. Wages and salaries constitute a predominant component of these expenditures. Table A.9 provides details of expenditures on irrigation by economic categories. Adopting the spending norms of the Tenth Finance Commission (TFC) for maintenance of irrigation,[2] the current levels of revenue expenditure (net of interest payments) are more than twice the normative expenditure. However, if one considers only expenditure on goods and services and repair and maintenance, the level falls short of the prescribed norms. It is unlikely that the burgeoning salaries and wages, accompanied by declining operation and maintenance expenditures add much to the actually available services. This clearly builds up a case for reallocation of resources within the sector from wages and salaries to repair and maintenance, in order to achieve better maintenance of existing assets, and corresponding improvement in the existing levels of service. Further, capital expenditures account for roughly a half of the total expenditures on irrigation. Presuming that the latter are directed towards expanding the coverage of irrigation services, the effectiveness of such investments would be seriously undermined in the absence of an initiative to improve the maintenance of assets. This opens up the question of a possible tradeoff between maintenance and new investments, besides the tradeoff between wages and salaries on the one hand, and repair and maintenance on the other.

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[2] The norms used by the TFC lead to proposed expenditure requirements of Rs 300 per hectare of utilised potential and Rs. 100 per hectare of unutilised potential at 1995–96 prices. As of March 1997, the figures for Haryana stood at 33.09 lakh hectares of utilised potential and 3.39 lakh hectares of ununtilised potential, implying a normative expenditure of Rs. 11755.2 lakh for 1997–98.

Taking revenue and capital expenditures together, the largest beneficiary of government expenditure appears to be the irrigation sector. If any dent is to be made in the growth of expenditures, it is logical to think that this sector should get a closer look. The point that needs to be noted is that recovery of only revenue expenditures has fallen from 25 percent in 1980–81 to merely 7.5 percent in 1996–97 (table A.10). Even the budget estimates for 1997–98 do not indicate a better recovery. This is an obvious area of concern. The World Bank assisted Water Resources Consolidation Project (WRCP) stipulates a recovery of operation and maintenance expenditure gradually rising to 100 percent by the year 2000–01, except in some areas of South Haryana, where deliberate subsidies are visualised. Unless this is adhered to and translates into at least 60 percent recovery with respect to revenue expenditures, it would be difficult to finance government expenditures on other services which may be equally or more deserving. Simultaneously, attempts can be made to lower the average current cost of irrigation. Table A.11 shows that revenue expenditure per hectare of irrigated area in Haryana was relatively high; only Maharashtra, Kerala and Gujarat had a more expensive irrigation system.

POWER

The accumulating losses of the State Electricity Board (SEB), arising out of an uneconomical tariff structure, large transmission and distribution losses, poor maintenance of assets and generally inefficient functioning resulted in an inadequate and uneven supply of power in the State. This has proven to be a major constraint for the economic development of the State in the recent past. To remove this infrastructural bottleneck, a comprehensive reform of this sector is now at present in progress. The objective of this programme is to ensure an adequate power supply for the State's requirements by the year 2007. Creditworthy and commercially operated power utilities are envisaged to operate in a competitive but regulated market, providing reliable and cost-effective power to the consumers, with significant private ownership and participation. Towards these ends, the SEB is being split into two smaller entities to look after generation and transmission; four other corporations (intended to be joint ventures) are expected to manage distribution in the four zones of the State. All the entities will begin with a clean slate financially; they are also expected to get some subsidies from the State government in the initial years. A regulatory authority has been appointed to monitor their functioning, including the tariffs charged. The enabling legislation (Haryana Electricity Reforms Bill) has been passed in June, 1997. The institutional reforms are to be accompanied by tariff adjustments, comprehensive financial restructuring and the implementation of a large investment programme that includes transmission and distribution rehabilitation and expansion, generation plants modernisation, demand management and improvement in efficient energy utilisation by end-users.

The direct fiscal gains of the power sector reforms are expected to be large. Without the reforms, the poor health of this vital infrastructure would, apart from the crippling impact on the growth prospects of the State, cause serious drain on the State through mounting subsidies and ever-rising loans to the SEB. In contrast, if the entire reform package is successfully implemented, this sector is expected to require no subsidy from the year 2002–2003, and contribute substantially to the State exchequor instead. World Bank estimates (based on several assumptions regarding the no-reform and with-reform scenarios) show that the financial benefits of the reforms would start accruing as early as the year 2000–2001 (*India: 1998 Macro Economic Update*, June 1998).

TRANSPORT

The road network in Haryana is excellent with road length of 53 kms per 100 sq. kms of area. All but seven villages of the State are connected by metalled roads. It is thus not expansion but maintenance and improvement of roads that is now important.

Table A.11 compares the revenue expenditure on roads and bridges per kilometre of road length in the major States. These expenditures seem to be on the higher side in Haryana; only Maharashtra and Gujarat have figures higher than Haryana among all the major States. In case this is on account of genuine reasons like State-specific factors causing high maintenance costs or significantly better road maintenance than other States, Haryana could use tolls effectively to recover the cost of investment and maintenance of roads to the feasible extent, as is being done successfully in some States like Madhya Pradesh. However, if the higher levels of expenditures are caused by leakages or inefficiencies, these need to be examined carefully and plugged.

We are not going into a detailed discussion of the road transport sector, budgetary figures for which mainly reflect the operations of Haryana Roadways, a departmental undertaking. From all accounts, it was being run in a reasonably efficient manner until recently (table A.12); most of the efficiency indicators still compare favourably against other such undertakings. The present financial problems in Haryana Roadways can be traced to poor and falling fleet utilisation; the causes underlying the poor vehicle utilisation in recent years need to be ascertained and rectified to restore its financial health.

PUBLIC ENTERPRISES IN OTHER SECTORS

The role of public enterprises in any economy can be promotional in nature or directly related to production in the economy. While government participation in the production sphere is not considered essential (unless private investment is not forthcoming and the sector be crucial to the development of the economy), there is a definite role assigned to it in the promotional sphere. Though such promotional enterprises are not expected to fend for themselves, most public enterprises participating directly in production should function like commercial enterprises and be self-sustaining. In fact, the government should withdraw from production activities, except in the case of merit goods, unless private investment is just not forthcoming in a particular area and government participation is motivated by a promotional objective.

Our assessment of the public sector enterprises in Haryana is predicated upon the above distinction as the guiding rule. This distinction, however, becomes difficult to operationalise as the enterprises that the Government of Haryana has invested in can be classified into three broad categories: those involved in active production; those involved in clearly promotional activity; and a fairly large number in between.[3] To give a few examples, the first set includes Haryana State Electricity Board[4] and Haryana Roadways Engineering Corporation, while in the second category figure *Haryana Harijan Kalyan Nigam*, Haryana Backward Classes *Kalyan Nigam*, etc. In the intermediate category are a number of companies which are all related to the promotion of production in the State and actually participate in the production process either directly or indirectly through the joint ownership of producing companies. Here the companies range from financial corporations to companies directly promoting some specific sector like Haryana Dairy Development Corporation, Haryana Seed Development Corporation and Haryana State Industrial Development Corporation. Extending the argument of the need for production related public enterprises to be commercially viable to these companies, it would be fair to expect that operations of these companies should be commercially viable too.

A look at the summary table of government investments and the declared dividends (table 3.1) shows rather poor performance of these concerns. A number of these companies run on significant losses accumulating over time. Separating what we have called the promotional companies from the rest does not improve the picture significantly. The other dimension of concern is the extent of dependence of these enterprises on government support. The support is broadly in two forms: equity/loans and explicit subsidies. Of these two, being a short term measure, subsidies are likely to be more *ad hoc*, used for bailing out enterprises in trouble. The break-up of total budgetary outgo to these enterprises is summarised in table 3.2, where explicit subsidies emerge as a significant proportion of the total outgo. The figures in the table however, also point to Haryana State Electricity Board as the major beneficiary of these subsidies.

Given the classification of the public enterprises above, it is possible to argue that the subsidy accruing to promotional enterprises should not be treated as bail-outs. Information on the explicit subsidies for the years 1994–95 and 1995–96, however, suggests that the major recipients of these subsidies are production-related enterprises. For the year 1994–95, the recipients include Haryana State Minor Irrigation and Tubewells Corporation (Rs. 33.93 crore and Rs. 51.88 crore in 1994–95 and 1995–96, respectively), Haryana State Industrial Development Corporation (Rs. 0.82 crore in 1994–95 and Rs. 2 crore in 1995–96), Haryana Land Reclamation and Development Corporation (Rs. 3.95 crore in 1995–96), Haryana Seeds Development Corporation (Rs. 2.56 crore in 1995–96), and Haryana State Handloom and Handicrafts (Rs. 0.21

3 Here we consider only non-departmental undertakings. Further, since investments in joint stock companies are small in magnitude and date back to the pre-1990–91 period, they are not taken up for analysis here. In any case, the reason for the government making investments in these companies is not clear.

4 The ongoing restructuring of the power sector in Haryana removes it from the ambit of this exercise.

crore in 1994–95). Several production-related companies continue to figure among recipients of subsidies,[5] although their accumulated losses have eroded the entire capital invested.

Table 3.1: Government Investment in Public Sector Enterprises : Haryana

(Rs. lakh)

	Amount Invested	Dividends Credited	Investment Retired
1995–96	33384.08	314.59	207.26
1994–95	27374.84	701.93	187.85
1993–94	25493.88	94.74	154.06
1992–93	23764.91	84.98	225.65
1991–92	21570.31	67.44	71.02
1990–91	20400.37	38.57	104.60

Source: CAG, relevant years(a).

Table 3.2: Budgetary Transactions with Public Sector Enterprises

(Rs. lakh)

	1992–93	1993–94	1994–95	1995–96
Equity capital	81232	1527	1426	2492
Loans	19773	23206	30386	32983
Subsidy	6215	18390	15028	27781
Share of subsidy in total outgo	5.8	42.65	32.08	43.92
Total outgo	**107220**	**43123**	**46840**	**63256**
Electricity subsidy	3527	7178	11507	21005
Loan repayment written off	-	7995	-	-
Interest waived	-	-	20	256
Total waiver	-	7995	20	256

Source : CAG, 1995; 1996.

While these problems with State level public sector enterprises are almost generic, these are particularly acute in Haryana, as a comparison across States (table 3.3) shows. Haryana has one of the lowest rates of recovery from public sector enterprises

5 Production-related public enterprises, where losses have completely eroded the capital base include: Haryana State Handloom and Handicrafts Corporation (102.42%), Haryana Dairy Development Corporation (124.8%), Haryana State Minor Irrigation and Tubewells Corporation (366.71%), Haryana Matches (100%), Haryana Tanneries (521.83%) and Haryana Concast(151.41%)

(only better than Orissa), and one of the highest levels of investment (next only to Gujarat). These figures indicate an urgent need for significant reforms in this area. While the importance of the government stepping out of non-essential direct production cannot be emphasised enough, it is the companies in the intermediate category which need more attention. There is a need to either separate the production activities from the promotional activities, which would permit limiting the latter, or ensure that the profits from the former cross-subsidise, to the extent feasible, expenses on the latter.

Table 3.3: Comparative Performance of Non-Departmental Public Enterprises

(per cent)

State	Amount Invested/ SDP	Recovery Rate
Gujarat	9.20	6.48
Kerala	4.05	4.43
Rajasthan	4.75	4.23
Tamil Nadu	1.64	0.98
Orissa	6.80	0.51
Haryana	7.91	0.57

Source: Srivastava *et. al.*, 1997.

SPENDING GAPS

Education

Going by the low literacy rates, major importance in the area of education must be attached to primary education. We have estimated the costs of raising the present enrolment ratio in a phased manner to over 100 percent by 2001–02 (table A.13). Comparing these costs to the projected expenditures on primary education yields a spending gap of Rs. 15.34 crore, Rs. 29.92 crore, Rs. 47.23 crore and Rs. 67.85 crore in the years 1998–99 to 2001–02 respectively. These are the spending gaps that are incorporated in our subsequent projections. It may be pertinent to note that keeping the low female literacy in mind, the TFC had recommended additional spending of Rs. 3.5 crore per annum on special schemes for female education in Haryana; it also recommended further expenditures of Rs. 73 lakh and Rs. 2.12 crore in the State, for toilet facilities for girls in upper primary schools and drinking water facilities in primary schools, respectively.

Roads

Using norms obtained from the Ministry of Surface Transport, we have estimated the required maintenance expenditures (including wages and salaries of the maintenance staff) for the different types of roads that exist in the State. Comparing these with the projected expenditures on this function yields the spending gap in this area. These are estimated to be Rs. 50.04 crore, Rs. 53.54 crore, Rs. 57.29 crore and Rs. 61.30 crore during the years 1998–99 to 2001–02, respectively. These spending gaps have been additionally provided for in our projections. It may be recalled that earlier in this chapter we had highlighted the relatively large revenue expenditures on roads and bridges in Haryana. The TFC attempted to estimate normative expenditures for various States using norms similar to those used by us, but had to abandon the attempt due to the high level of implied expenditures. Because Haryana already has one of the highest revenue expenditures on roads and bridges, the spending gaps are within reasonable limits; the situation may be quite different in other States with much lower present levels of revenue expenditure on roads and bridges.

Irrigation

We have estimated normative expenditures on major, medium and minor irrigation together, based on the norms utilised by the TFC, suitably adjusting them for inflation. Different norms were used by the TFC for utilised and unutilised potential, and we follow the same method, with the relevant data for the State obtained from the Planning Commission as discussed in the earlier section. Since the normative estimates are actually less than half of the actual/projected expenditures, even if the interest payments of the department are kept aside, there are no grounds to argue for any further step up in actual spending. On the contrary, this would advocate compression of revenue expenditure. However, the fact that the expenditure on repair and maintenance and on goods and services falls short of the prescribed norms calls for action in the form of reallocation away from wages and salaries and in favour of repair and maintenance.

4. Reform scenarios: fiscal prospects

INTRODUCTION

Using past trends and all the relevant recent developments, we undertake in this chapter projections of alternative scenarios of Haryana State Finances. Briefly, the exercise is structured as follows. The receipts of the State are projected to yield figures of total receipts. These include figures for revenue receipts as well as borrowing, and indicate the permitted expenditure levels for the State. On the expenditure side, revenue expenditure is classified as per the economic classification and their relevant categories are projected. To this is added the expenditure commitment on account of the implementation of the Pay Commission recommendations. Further, net loans and advances of the State government are projected as per the historical trends. These together yield permitted capital expenditure as a residual. This method assumes that all the required adjustment in expenditure is bórne by capital expenditure. To see the impact of important policy measures, we project a baseline, incorporating the expenditure commitments resulting from the recommendations of the Central Fifth Pay Commission. Adding on the budgetary implications of the already committed power sector reforms gives scenario 1. scenario 2 incorporates assessed spending gaps as discussed in chapter 3 into scenario 1, and finally, scenario 3 adds on the suggested resource augmenting measures. Further, since the revised estimates for 1997–98 are now available, the present exercise uses these figures and on this basis builds estimates for subsequent years. A detailed discussion of the methodology used for projection, alongwith the detailed results, can be seen in appendix 1.

Figure 2: Capital Expenditure

(as percentage of GSDP)

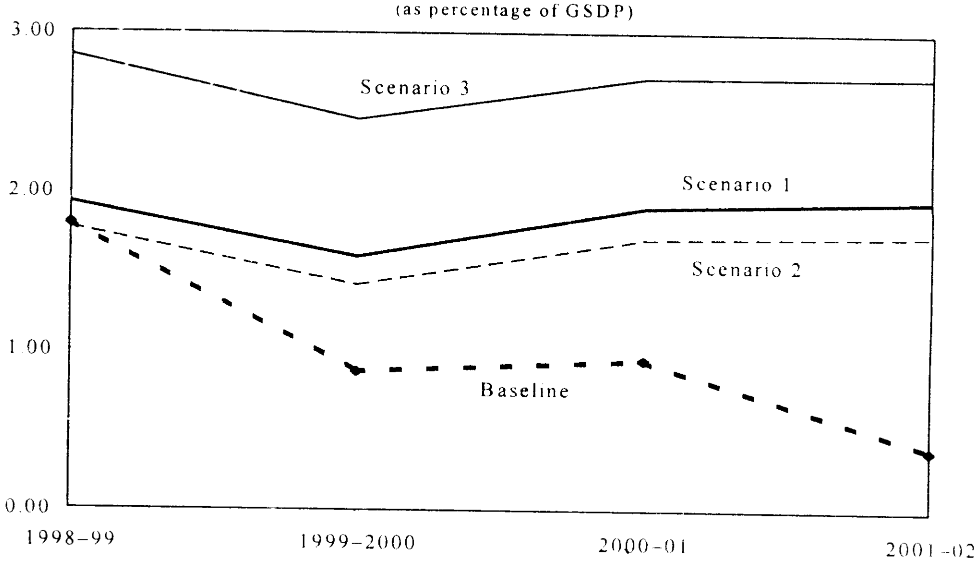
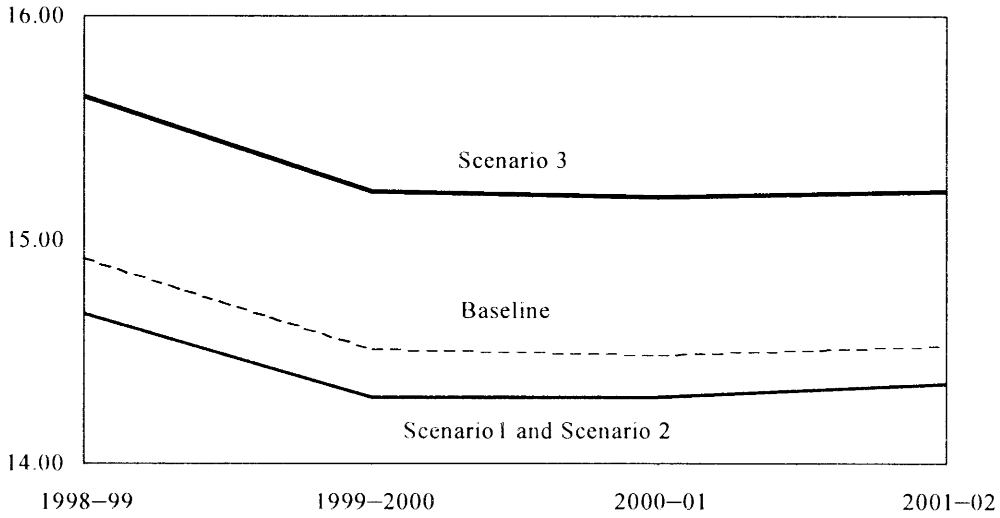


Figure 3: Total Revenue Receipts

(as percentage of GSDP)



Baseline Scenario

Baseline captures the *status quo*, modified by the salary revisions resulting from the Pay Commission recommendations only. It does not present a very comfortable picture with revenue expenditures as a proportion of GSDP rising in successive years, while capital expenditures register a fall from the already low levels, going down to just .38 percent of GSDP by 2001–02. The long-term impact on the growth of the State economy of such an eventuality is expected to be significantly negative. Revenue deficits are projected for 1998–99 to be higher than in 1996–97, despite the substantial addition to receipts from the removal of prohibition, mainly on account of the payment of salary arrears. They, however, fall to 2.20 percent in 2000–2001, only to start rising again, ending up at 2.61 percent in the year 2001–02.

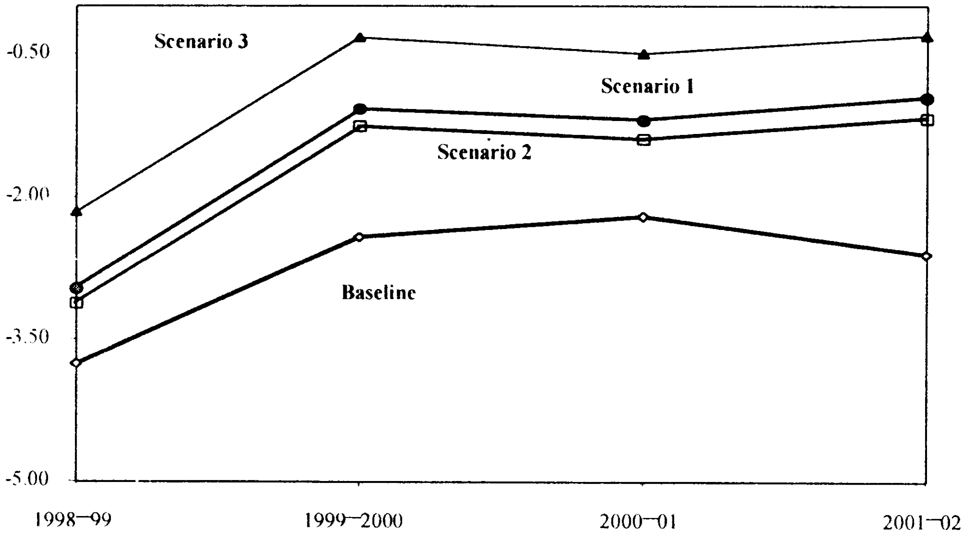
Power Sector Reform

This scenario modifies the above scenario to take into account the committed power sector reform, and involves substituting the new commitments on power for all the old transactions between HSEB and the government. With the power sector reform, capital expenditure is higher in all the projection years. In fact, the short time horizon of our projections does not fully capture the benefits of this reform on the State finances *per se*. Additionally, its success is certain to boost the growth of Haryana significantly in the medium and long run and yield indirect benefit to the government in the form of higher revenues.

Table 4.1 : Capital Outlay as a Percentage of GSDP under Alternative Scenarios

	1998–99	1999–2000	2000–01	2001–02
Baseline	1.80	0.87	0.95	0.39
Scenario 1	1.93	1.59	1.90	1.95
Scenario 2	1.77	1.41	1.70	1.73
Scenario 3	2.85	2.46	2.72	2.72
Fiscal deficit	5.64	3.38	3.23	3.08

Figure 4: Revenue Deficit
(as percentage of GSDP)



Restructuring Expenditure

The spending gaps assessed in chapter 3 call for a step up in expenditures on primary education and maintenance of roads. Incorporating these gaps into revenue expenditure as additional expenditure has the obvious implication of reducing the resources available for capital outlay (scenario 2). It is obvious that this is not sustainable in view of the negative impact on growth. Thus for higher levels of capital expenditures to be achieved and sustained, additional resources will need to be generated.

Augmenting Resources

The low levels of capital expenditure feasible under scenario 2 prepare the ground for the need to explore some resource augmenting measures. The measures proposed (details are given in chapter 5) include some revenue augmenting taxes, and a higher recovery rate on revenue expenditure on irrigation. These two sets of measures together are expected to yield 1.22 percent of GSDP in 1998–99. Correspondingly, revenue deficit decreases from 2.16 percent in 1998–99 to 0.31 percent in the last year of the simulation. The additional resources permit a level of capital expenditure of 2.5 percent or higher, of GSDP during the projection period.

5. Recommendations

As should be clear from the projections, tentative though they are, the financial difficulties in 1997–98 are likely to be somewhat relieved from the following year as a result of the withdrawal of prohibition. However, the baseline scenario projects very low levels of capital expenditure that would be detrimental to the growth prospects of the State economy. If the spending gaps are added to the projected expenditures, the capital expenditures fall to extremely low levels. Hence, for the sake of the much needed social development and to arrest and reverse the trend of falling capital expenditures, it is necessary to take some concrete steps. Suggestions towards this end are provided below.

- In the area of government expenditures, the major task is that of reprioritisation. Additional revenue expenditures should be concentrated in the area of primary education (with emphasis on that for girls) to achieve a target of 100 percent enrolment by 2001–02 as incorporated in our projections, on pre- and post-natal care of women and infants, on expanding primary health care facilities, and on road maintenance. But among the functional categories, expenditures on irrigation need to be brought down substantially (see *Irrigation*, chapter 3). Further, within irrigation, operation and maintenance should get higher share of the expenditures. The last mentioned suggestion can actually be generalised to all economic services, as the economic classification of government expenditures reveals a low share of such expenditures in the total.

The freeze on employment needs to be strictly enforced, as is being done in Andhra Pradesh. Unlike Andhra Pradesh, however, this does not necessarily imply a complete ban on new employment, but only restricts Haryana to replacement of outgoing government employees due to retirement or other reasons. Hence, it should not be very difficult to implement. The power sector reforms incorporate government subsidies on a time-bound scale only; these need to be adhered to. For this to happen, the other elements of the reform programme must be implemented on schedule without dilution. A rational policy with respect to public enterprises as discussed above should also eliminate the need for much of the subsidies to such enterprises.

The paradox of growth with rising poverty needs to be resolved, and the government should play an important role in it through its expenditure policy. While a greater emphasis on human development ought to help in reducing poverty in the long run, poverty alleviation programmes need to be strengthened to tackle it in the short run. In order to analyse the situation correctly, a focused study of the failure of economic growth to substantially benefit the poor, and of growth with increasingly skewed distribution of income should be made. Appropriate policies can thus be formulated.

- Despite keeping additional expenditure liabilities to the minimum through reworking expenditure priorities, some additional expenditure would be required to implement the suggestions given above and to raise capital expenditures to a higher level commensurate with the growth aspirations of the State. Hence, additional resources would need to be mobilised. The analysis of Haryana State finances shows that there is some scope for raising the tax-SDP ratio. This can be achieved by improving the buoyancy of tax revenues and through additional revenue mobilisation, carried out in such a way that it causes minimum distortions to the economy. Some of these are as follows :

- The usual tool for raising tax revenue at the State level in India is the sales tax. In the context of Haryana, this can be done as part of the long-term reform of the tax system that incorporates the value added tax principle. This would combine the objectives of resource mobilisation and tax reform by (i) withdrawing all investment incentives with immediate effect except for already committed investments; and (ii) by reducing the multiplicity of tax rates to only four (excluding special rates on bullion and specie, and petroleum products), while ensuring that all the present rates that do not coincide with one of the new rates are revised to coincide with the next higher rate. The four new rates can be decided on the basis of the present spread of rate categories and concentration of commodities around a particular rate.

- In the case of stamp duties and registration fees, there is a case for reducing the tax rate, in combination with better tax administration to curb evasion. Under-reporting transaction values is believed to be widespread, and necessary measures (in the context of the relevant *Act* as well as purely administrative enforcement) need to be introduced. Adoption of the "fair market value" as the tax base can be considered as an option.

- The motor vehicle tax rate on goods vehicles in Haryana is relatively low and could be raised by Rs. 500 per vehicle per annum. The passenger tax on contract carriages could be simplified into an additional tax; an annual charge of Rs. 50,000 could be considered. We expect both these measures to bring in some additional revenue (though the amount is not likely to be significant) and improve the buoyancy of the tax.

- Since Haryana is a predominantly agricultural State, taxation of agricultural income is necessary for mobilising additional resources. This may be the opportunity to rediscover land revenue as a good tax, and combine it with an agricultural income tax, as a long-term policy measure. For the short run, there is a case for levying an additional 1 percent market fee on the sale of rice, with the market boards acting as collection agents for the State government. Haryana is a water-scarce State that spends large amounts of public funds on supplying water for irrigation as well as other uses. Rice, being a water-intensive crop that also increases soil salinity, cannot be grown on a large scale without irrigation in many parts of the State. Highly subsidised irrigation has created distortion in the cropping pattern and has made rice cultivation profitable even in parts of the State where water is scarce. The additional market fee on rice should partially correct this distortion.

Another tax that is not levied in the State at present but can be introduced is the profession tax. Even while restricting it to the non-agricultural sector, as is normally done in the States that do levy this tax, the potential revenue could be significant. There are more than 21 lakh main workers in the non-agricultural sector in the State. The constitutional limit on the tax rate is at Rs. 2500 per annum at present. The usual rate structure that is now applicable in States like Karnataka or Andhra Pradesh — with the exemption limit at Rs. 1500 per month — would imply an average tax of around Rs. 500. This should yield a revenue of around Rs. 100 crore. It has been pointed out to us that some of the government employees, all of them potential taxpayers, are actually located in the union territory of Chandigarh, whom it may not be possible to tax. The State can try to get around this problem by locating all disbursement officers within the State boundaries and thus shifting the taxable event within the State, or with some special provisions in the *Act* to tax the State government employees irrespective of their place of work (the legal angle needs to be ascertained). At worst, the tax will exclude these employees (6.5 percent of the government employees are in Chandigarh and other places outside the State as per data on government employees for 1995), which is not a serious limiting factor. To make the introduction of the tax more palatable, it may be useful to earmark its revenue for some popular cause like, poverty alleviation schemes.

- To keep pace with changing times, alternatives to movie theatres can be brought under the tax net through expansion of the tax base of entertainment tax itself (the case of video theatres) or through sales tax (on videotape rentals and on cable operators). All these are in operation in some State or another, and not new.

- Even if it were possible to implement all the above tax measures in full, the additional revenue generated would go only a small way towards meeting the additional resource requirements to step up social sector spending and to reach the desired level of capital expenditures. Other measures are needed to raise adequate resources. We have, in our projections, already indicated the importance of cost recovery in irrigation. This is also needed to send the correct signals in a water-scarce economy: cheap water causes its uneconomical use. Another area that has some potential for cost recovery is roads and bridges. Attempts should be made to recover the cost of new roads and improvements in the existing roads through tolls wherever feasible, with or without private sector participation. Similarly, better cost recovery in higher education and curative health care, coupled with quality improvement in these areas is called for. Even in primary education, it may be possible to open self-financing schools with independent management to ensure quality in the urban areas and shift subsidised education largely to rural areas. In the area of road transport, possible ways of raising resources/cutting costs is to (i) shift all bus stations in urban areas to the outskirts of the towns/cities and sell off the usually prime land on which bus stations are at present located; and (ii) hand over maintenance of bus stations to private parties (possibly large industrial houses) in exchange of exclusive advertising rights within the bus station. The thrust should be on recovering costs to the extent feasible instead of assuming subsidised supply of publicly provided services.

- Our analysis of public enterprises is admittedly inadequate to make specific recommendations owing to time and informational constraints. But even this brief analysis shows the necessity of privatising (or closing down) commercial companies as well as the commercial activities of the enterprises with mixed characteristics, because they are not being run on commercial principles as they should be. A committee consisting of officials and industrialists from the State should be set up to identify the enterprises that need to be wound up or privatised partially or fully, or restructured on a case by case basis. A beginning has been made in this direction with power reforms; tempo of the reforms, however, should not be allowed to slacken.

A final observation relates to the local governments. There is a certain amount of resistance to any additional resource mobilisation measure adopted by the State government; this is usually stronger in the case of local bodies. However, improvements in local services are more visible; if additional resource mobilisation is undertaken at the local level establishing a clear linkage with improved local services, it may actually be easier at the local level. This would also have the added advantage of higher decentralisation, and greater autonomy at the local level, reducing the State government's responsibilities at the same time. There should be areas that could be tapped by local governments for resource mobilisation. These need to be identified; the State government can then pass the necessary enabling legislation, if required. Cutting into the State's already inadequate resources to provide funds to the local governments would not be a stable solution to the problem of financial dependence of local governments on the State government, and to the consequent lack of autonomy and real decentralisation.

The health of Haryana State finances will depend in a crucial way on the health of the State economy. It is extremely important to adhere to the plan of reform in toto. Any slippage in the reform process or any shortfall in performance in critical sectors like irrigation and power will lead to a setback in the recovery of public finances in Haryana.

Appendices

Appendix 1: Methodology adopted for the projection of state finances

RECEIPTS

The important taxes for Haryana in terms of gross collections are State excise, sales tax, tax on goods and passengers, stamps and registration fees and taxes on vehicles. Revenues from these taxes are projected separately and the rest of the taxes are pooled together for projections of own tax revenue. The projections are based on buoyancies over the period 1980–81 to 1996–97.[1] At present, revised estimates for 1997–98 are available, the projection exercise begins with the year 1998–99.

For shared taxes, the total share of States in the Central tax collections was computed using buoyancy estimates of Central taxes. The share of Haryana is obtained by applying the sharing principles as per the TFC recommendations. The details of computation of the shareable pool are given below.

The following tax categories are 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, while GDP in manufacturing is the base for union excise. For the rest of the categories, GDP at market prices is the base. Nominal growth rates assumed for GDP, non-agricultural GDP and GDP in manufacturing sector for 1998–99 to 2001–02 are taken as 14.5, 17.5 and 18.5 percent per annum respectively. For 1997–98 these rates are taken as 13.5, 16.0 and 17.5 percent, respectively.

The share of States is computed as follows: for 1997–98, the 77.5 percent of income tax receipts and 47.5 percent of Union excise duties constitute the shareable pool, while for the subsequent years the share is derived as 29 percent of the total Central tax revenues. The figures for 1998–99 include the share of States in VDIS collections (Rs. 7365 crore) and arrears (Rs. 5000 crore) on account of change-over from the main to the alternative devolution scheme as proposed by the TFC.

In non-tax revenue, gross receipts comprise of interest receipts, net receipts from State lotteries and other. The figures for interest receipts are obtained from the *Forecast of Revenue and Expenditure for the Ninth Five Year Plan* of the Government of Haryana. Frequent changes in the composition of lotteries in the last few years and the resultant fluctuations in the net receipts make historical projections of net receipts from State lotteries infeasible. The alternative adopted here is to consider the projected growth rate

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1 With the introduction of prohibition of liquor in Haryana, receipts from state excise register a sharp fall in 1996–97 and hence buoyancies are estimated using information till 1995–96 only.

budgeted in 1997–98.[2] The rest of non-tax revenue is projected on the basis of exponential trends estimated over 1980–81 to 1995–96.

Total grants received by the State can be divided into non-Plan grants, grants for State Plan and for centrally sponsored schemes. The figures for non-Plan grants are obtained from the TFC report, while those for State Plans are from the latest estimates of resources for the Ninth Five-Year-Plan of the Government of Haryana, approved by the Planning Commission, and updated with information from the budget documents. In the absence of any systematic behaviour of grants for centrally sponsored schemes, the level is pegged in nominal terms to the 1996–97 level. In addition, in 1997–98, there has been a significant increase in the grants on account of World Bank aided projects to the Government of Haryana. It is understood that the State expects to receive such amounts during the entire projection period. The figure for total grants therefore is enhanced by the figure for 1997–98, nominally corrected for inflation by 10 per cent annually.

These together yield revenue receipts of Haryana. To this are added figures for borrowings agreed to by the Government of Haryana and the Planning Commission and projection of receipts on Provident Fund and small saving accounts — projected as exponential historical trend projections — to obtain the total receipts. This then defines the permitted level of expenditure for the state.

EXPENDITURE

Revenue expenditure are broken down into wages, salaries and pensions, purchase of goods and services, interest payments and others. On the basis of data for 1992–93 to 1995–96(R.E.), figures for 1996–97 are constructed. These are then used for projections. The wage bill and figures for employment till 1995 yield an average wage as well as figures for rate of growth of employment. For projecting, the average rate of growth of employment is applied to the employment levels on 31st March, 1995 to obtain employment figures for 1995–96 and 1996–97. Since the State government has advocated a freeze on employment in the subsequent years, the level of employment is kept frozen at the 1996–97 level. The average wage is adjusted by 10 percent annually to reflect 7 percent inflation as well as increases due to promotions and annual increments to salaries. These together yield the figures for wages and salaries. Pensions are projected using a historical growth rate. For the additional wage-cum-pension bill resulting from the Pay Commission recommendation, the figures for 1997–98 and 1998–99 have been obtained from the State government. These include Rs.1101 crores of arrears in

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2 This implies a decline in receipts from lotteries, which does not appear unreasonable in the light of recent Supreme court rulings which permit state governments to ban the sale of out of state lotteries

1998–99.[3] The annual cost of the pay rise is corrected by 10 percent as in the case of wages.

The gross purchase of goods and services is projected on the basis of a compound growth rate over 1992–93 to 1995–96. The figures for interest payments are computed, based on the interest commitment for past debt and the additional debt figures for the projection period (table A.14). In the rest of revenue expenditure containing mainly subsidies and transfers, rural electrification subsidy is pegged at the nominal level of 1997–98 (budget estimate). The remaining is pegged in real terms, implying a nominal correction of 7 percent for inflation.

The receipts net of revenue expenditure thus projected, would be the funds available for capital disbursements. Of this category, net loans and advances are projected at historically determined exponential growth rates. The residual is the amount of capital outlay feasible.

[3] Of the arrears, Rs. 920 crore are to be impounded into Provident fund, which is reflected in the projections of receipts from Provident fund accounts as a one period increase in 1998–99.

Haryana : Baseline

(Rs. lakh)

	1998–99	1999–2000	2000–01	2001–02
A. Distribution	831771	818893	918238	1031847
1. Revenue Expenditure	755671	775169	864853	1004272
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	145623	180450	172167	196603
Electricity subsidy	88520	119350	106790	126650
Others	57103	61100	65377	69953
2. Capital Expenditure	72619	39828	49034	22725
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
B. Receipts	831771	818893	918238	1031847
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	176915	191564	207716	227538
a. Own non tax revenue	116001	126448	138657	152506
i. Interest receipts	27646	28391	29176	30006
ii. State lotteries	1271	503	199	79
Own NT Rev excl int pay, lottery	87084	97554	109283	122421
b. Grants	60914	65116	69059	75032
3. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
4. Provident Fund, etc.,	121859	35359	41872	49584
Revenue deficit(-)/surplus(+)	-152197	-110963	-114197	-152766
Fiscal deficit(-)/surplus(+)	-228297	-154687	-167583	-180341
GSDP at current prices	4044687	4577530	5180569	5863052
Revenue deficit(-)/surplus(+)	-3.76%	-2.42%	-2.20%	-2.61%
Fiscal deficit(-)/surplus(+)	-5.64%	-3.38%	-3.23%	-3.08%

Scenario 1 : Power Sector Reform

(Rs. lakh)

	1998–99	1999–2000	2000–01	2001–02
A. Distribution	821801	808960	908352	1022017
1. Revenue Expenditure	713461	703479	802523	897622
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103413	108760	109837	89953
Rural electrification	46310	47660	44460	20000
Others	57103	61100	65377	69953
2. Capital Expenditure	78039	72805	98477	114145
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
B. Receipts	821801	808960	908352	1022017
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	166945	181631	197830	217708
a. Own non tax revenue	106031	116515	128771	142675
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
Own NT Rev excl int pay, lottery	87114	97621	109396	122591
b. Grants	60914	65116	69059	75032
3. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
4. Provident Fund and Small Savings	121859	35359	41872	49584
Revenue deficit(-)/surplus(+)	-119957	-49205	-61754	-55946
Fiscal deficit(-)/surplus(+)	-228297	-154687	-167583	-180341
GSDP at current prices	4044687	4577530	5180569	5863052
Revenue deficit(-)/surplus(+)	-2.97%	-1.07%	-1.19%	-0.95%
Fiscal deficit(-)/surplus(+)	-5.64%	-3.38%	-3.23%	-3.08

Scenario 2: Power Reforms + Expenditure to Cover Spending Gaps

(Rs. lakh)

	1998–99	1999–2000	2000–01	2001–02
A. Distribution	821801	808960	908352	1022017
1. Revenue Expenditure	719835	711649	812786	910335
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103413	108760	109837	89953
Rural electrification	46310	47660	44460	20000
Others	57103	61100	65377	69953
f. Spending gaps	6374	8170	10264	12713
2. Capital Expenditure	71666	64635	88214	101431
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
B. Receipts	821801	808960	908352	1022017
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	166945	181631	197830	217708
a. Own non tax revenue	106031	116515	128771	142675
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
iii. Irrigation				
Own NT Rev excl int pay, lottery	87114	97621	109396	122591
b. Grants	60914	65116	69059	75032
3. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
4. Provident Fund and Small Savings	121859	35359	41872	49584
Revenue deficit(-)/surplus(+)	-126331	-57376	-72017	-68660
Fiscal deficit(-)/surplus(+)	-228297	-154687	-167583	-180341
GSDP at current prices	4044687	4577530	5180569	5863052
Revenue deficit(-)/surplus(+)	-3.12%	-1.25%	-1.39%	-1.17%
Fiscal deficit(-)/surplus(+)	-5.64%	-3.38%	-3.23%	-3.08%

Scenario 3: Scenario 2 + Resource Augmenting

(Rs. lakh)

	1998–99	1999–2000	2000–01	2001–02
A. Distribution	865606	856853	961018	1080259
1. Revenue Expenditure	719835	711649	812786	910335
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103413	108760	109837	89953
Rural electrification	46310	47660	44460	20000
Others	57103	61100	65377	69953
f. Spending gaps	6374	8170	10264	12713
2. Capital Expenditure	115470	112527	140880	159674
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
B. Receipts	865606	856853	961018	1080259
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	163719	178140	194056	213635
a. Own non tax revenue	102805	113024	124997	138603
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
iii. Irrigation				
Own NT Rev excl int pay, lottery	83888	94130	105622	118518
b. Grants	60914	65116	69059	75032
3. Additional Resource Measures	42379	45874	49916	54589
4. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
5. Provident Fund and Small Savings	126512	40869	48396	57311
Revenue deficit(-)/surplus(+)	-87179	-14993	-25875	-18143
Fiscal deficit(-)/surplus(+)	-232950	-160197	-174107	-188068
GSDP at current prices	4044687	4577530	5180569	5863052
Revenue deficit(-)/surplus(+)	-2.16%	-0.33%	-0.50%	-0.31%
Fiscal deficit(-)/surplus(+)	-5.76%	-3.50%	-3.36%	-3.21%

Appendix 2: Recommendations of State Finance Commission: implications

The projection exercise undertaken in this report does not take into account the recommendations of the State Finance Commission (SFC), and implied reallocation of resources between the State government and the local bodies. The Report of the SFC of Haryana is yet to be accepted by the Government. Scenario 4, discussed in this appendix, includes the implied devolution of resources. Since the recommendations of the SFC imply greater devolution of resources to the local bodies, this has the obvious result of increasing revenue deficit and reducing the resources available for capital expenditure. In all the four years of the projection exercise, capital expenditure as a ratio of GSDP reduces by 0.3 percentage points or more as compared to scenario 3. The level of capital expenditure in this scenario stays below 2.5 percent of GSDP in all of the four years. Keeping in view the long-term consequences of such as expenditure policy on the growth of the State economy, this underscores the need for the suggested reforms. However, it ought to be pointed out that instead of simply transferring funds to the local bodies, it would be much better if local bodies be encouraged to generate these themselves. The interest of both local autonomy and accountability would be served better if an enabling environment was created for the local bodies to be substantially self-financing.

Scenario 4: Scenario 3 + SFS Recommendations

(Rs. lakh)

	1998–99	1999–2000	2000–01	2001–02
A. Distribution	865606	856854	961020	1080262
1. Revenue Expenditure	737023	730868	834289	934413
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103359	108703	109776	89888
Rural electrification	46310	47660	44460	20000
Others	57049	61043	65316	69888
f. Spending gaps	6374	8170	10264	12713
g. State Finance Commission	17242	19276	21564	24143
2. Capital Expenditure	98282	93309	119379	135599
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
B. Receipts	865606	856854	961020	1080262
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	163719	178141	194058	213638
a. Own non tax revenue	102805	113025	124999	138606
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
iii. Irrigation				
Own NT Rev excl int pay, lottery	83888	94131	105625	118522
b. Grants	60914	65116	69059	75032
3. Additional Resource Measures	42379	45874	49916	54589
4. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
5. Provident Fund and Small Savings	126512	40869	48396	57311
Revenue deficit(-)/surplus(+)	-104367	-34211	-47376	-42218
Fiscal deficit(-)/surplus(+)	-232950	-160197	-174107	-188068
GSDP at current prices	4044687	4577530	5180569	5863052
Revenue deficit(-)/surplus(+)	-2.58%	-0.75%	-0.91%	-0.72%
Fiscal deficit(-)/surplus(+)	-5.76%	-3.50%	-3.36%	-3.21%

Annexures

Table A.1: Revenue and Fiscal Deficits for the Year 1994–95

States	GSDP	Revenue Deficit (-)/ Surplus (+)	Gross Fiscal Deficit	Revenue Deficit (-) /Surplus(+)	Gross Fiscal Deficit
		Rs. Crore		As Percentage of GSDP	
Andhra Pradesh	61917.53	-727.70	2348.50	-1.18	3.79
Assam	16465.02	-309.30	710.60	-1.88	4.32
Bihar	42334.45	-933.40	1342.10	-2.20	3.17
Gujarat	53658.23	262.20	1292.40	0.49	2.41
Haryana	24410.72	-390.50	534.60	-1.60	2.19
Karnataka	44172.58	-296.10	1512.80	-0.67	3.42
Kerala	25461.56	-399.90	1108.70	-1.57	4.35
Madhya Pradesh	49024.82	-190.50	1416.90	-0.38	2.89
Maharashtra	123177.51	277.30	2861.30	0.22	2.32
Orissa	19659.27	-459.60	1158.80	-2.34	5.89
Punjab	35260.45	-741.90	1785.30	-2.10	5.06
Rajasthan	34977.98	-424.80	1762.70	-1.21	5.04
Tamil Nadu	58268.91	-415.60	1496.40	-0.71	2.57
Uttar Pradesh	89855.29	-2002.80	4766.50	-2.23	5.30
West Bengal *	49780.31	-767.20	1965.30	-1.54	3.95

Source: RBI, 1997.
Notes: * For West Bengal GSDP is substituted with NSDP

Table A.2 : Average Share of Tax Revenue in GSDP (1990–91 to 1994–95)

(percentages)

State	Tax Revenue	Own Tax Revenue	Shared Taxes
Andhra Pradesh	10.52	7.31	3.22
Bihar	11.17	4.55	6.62
Gujarat	10.52	8.90	1.62
Haryana	9.30	7.92	1.38
Karnataka	12.45	9.75	2.70
Kerala	13.35	9.99	3.36
Maharashtra	9.27	7.74	1.54
Madhya Pradesh	9.98	6.11	3.87
Orissa	11.34	5.12	6.22
Punjab	8.19	6.92	1.27
Rajasthan	10.35	6.50	3.86
Tamil Nadu	12.91	9.78	3.13
Uttar Pradesh	9.86	5.45	4.41
West Bengal	10.28	6.78	3.51

Table A.3 : Tax Effort of Selected States During 1991–94 : Total Own Taxes

State	Actual Tax Revenue (Rs. Crore)	Estimated Tax Potential (Rs. Crore)	Tax Effort Index
Andhra Pradesh	3426	3396	102
Bihar	1540	1556	100
Goa	148	170	88
Gujarat	3415	2817	123
Haryana (with excise)	1444	1139	128
Haryana (minus excise)	1055	866	123
Karnataka	3270	2597	127
Kerala	1967	1431	139
Madhya Pradesh	2375	2509	96
Maharashtra	6736	8267	82
Orissa	764	816	95
Punjab	1818	1842	100
Rajasthan	1745	1669	06
Tamil Nadu	4233	3968	108
Uttar Pradesh	3838	4333	90
West Bengal	2657	3331	81
All 15 States	39376	39841	100

Table A.4: Revenue Expenditure – Haryana

(Rs. lakh)

Budgetary Category	80–81	85–86	90–91	91–92	92–93	93–94	94–95	95–96	96–97(r.e.)	97–98(b.e.)
Governance	411.0	820.8	1674.4	2531.4	2421.4	2736.1	4809.6	4130.9	4661.6	4119.7
Tax collection	977.0	1119.8	2193.6	2398.5	2715.3	3063.2	3410.6	3624.8	5179.4	4025.9
General admin	4500.0	9363.3	22780.6	26624.3	31336.8	35423.4	42302.1	47463.0	54884.8	118650.2
Police	2010.7	4222.0	10222.4	11705.0	14408.2	15353.5	17331.9	19139.9	21493.5	20739.0
Interest	3700.3	9792.3	24202.6	32185.9	34330.9	42170.2	48694.4	55572.5	73086.5	90148.1
Social services	13253.7	29726.9	64643.2	71040.1	81321.6	87494.3	116800.4	159002.8	141109.3	145143.6
Education	6895.0	14688.7	31699.9	35409.3	41904.1	44873.6	52169.4	62515.8	70189.9	72042.9
youth and culture	219.6	449.8	798.9	939.0	1117.7	1151.3	1433.8	1586.1	1952.6	2063.5
Health	3670.4	9582.5	12868.9	15592.2	17110.9	19863.7	33617.9	26734.5	32462.4	35401.1
other social services	2468.7	5005.9	19275.4	19099.5	21188.8	21605.7	29579.3	68166.5	36504.4	35636.0
Economic services	17078.1	31899.7	65913.0	80046.2	81968.6	88216.2	162014.3	120612.4	181741.8	149131.3
Rural services	9297.1	17279.0	37623.4	47637.7	47617.0	48542.3	78334.1	55848.3	70365.8	76491.9
Irrigation	4084.2	6606.0	14898.3	18390.2	21089.5	22541.0	52152.9	27285.1	36489.0	39656.8
Power	643.6	1853.7	3642.4	4088.5	3516.7	6022.4	45546.6	21101.0	64919.0	25098.0
Rural electrification			3600.0	4000.0	3500.0	6000.0	45500.0	21000.0	64830.0	25000.0
Mining and mfg.	605.7	795.5	1571.4	1813.3	2028.5	1850.6	2041.4	3208.7	2735.9	2742.6
Transport	6306.8	11543.0	20839.9	23153.1	25970.7	29624.9	33182.6	37289.9	41006.0	42675.7
Roads and bridges	1342.9	2024.1	4293.1	4921.4	4846.0	4833.4	5610.8	7009.6	7191.8	6895.9
Road transport	4948.9	9493.7	16509.7	18184.3	21066.2	24732.8	27509.4	30218.4	33750.0	3570
Other economic services	224.8	428.5	2235.8	3353.5	2835.7	2175.9	2909.5	3164.5	2715.0	2123.0
Total Revenue Expenditure	39920.2	82723.0	181407.4	214826.5	234094.6	259103.4	378031.5	390406.5	460663.5	511218.9

Source: GoH, relevant years (a).

Table A.5: Capital Expenditure – Haryana

(Rs. lakh)

Budgetary Category	80–81	85–86	90–91	91–92	92–93	93–94	94–95	95–96	96–97(r.e.)	97–98 (b.e.)
Capital Expenditure	10225.59	20172.16	18616.26	14599.11	22833.48	30292.21	20657.93	28587.4	44265.42	63867.96
Capital Expenditure excl Power	10052.88	20113.02	18762.38	14768.35	22931.91	30205.19	20558.88	28523.93	44265.42	63867.96
General services	228.45	444.15	699.42	752.81	562.06	684.22	623.94	821.68	1204.21	984
Social services	815.23	1280.34	2431.99	2950.88	6180.64	7046.15	9061.17	9415.91	22099.33	18537.82
Education, sports,	168.04	317.15	697.71	1268.57	1358.27	1316.29	1487.49	1120.09	870.45	2394.3
Health	287.31	440.74	517.84	856.76	1405.78	1820.56	1153.56	663.29	827.2	1002.32
Water supply and housing	193.13	261.91	933.36	483.17	2982.09	3503.38	6034.03	7122.92	19824.08	14603
Welfare	166.75	260.54	283.08	342.38	434.5	405.92	386.09	509.61	577.6	538.2
Economic services	9181.91	18447.67	15484.85	10895.42	16090.78	22561.84	10972.82	18349.81	20961.88	44346.14
Rural	6206.95	15185.66	10985.84	5832.6	10628.08	16724.56	5954.89	10489.48	13780.9	29860.14
Irrigation	5026.25	12406.63	6972.18	8921.71	9793.91	11095.92	8456.45	13127.43	17092	29502
Power	172.71	59.14	-146.12	-169.24	-98.43	87.02	99.05	63.47	0	0
Hydel	0	59.14	0	0	0	0	0	0	0	0
Transmission and distribution	0	0	0	-169.24	-98.43	87.02	99.05	63.47	0	0
General	172.71	0	0	0	0	0	0	0	0	0
Industry	275.24	288.89	1446.28	845.32	1270.31	702.05	654.72	2166.87	2089.98	1344.79
Infrastructure	2527.01	2913.98	3198.85	4386.74	4290.82	5048.21	4264.16	5629.99	5091	13141.21

Source: GoH, relevant years (a).

Table A.6: Composition of Guarantees Outstanding on 31st March 1996

(Rs. lakh)

	Principal	Interest
a. Working capital raised by the Haryana Financial Corporation and dividends thereon	2054.61	-
b. Loans, debentures, bonds etc., raised by		
1. Statutory corporations and boards	91504.49	-
2. Government companies	12723.13	-
3. Co-operative banks and societies	129294.49	2.00
4. Municipalities, corporations, townships and other local bodies	588.50	-
5. Other institutions	1.75	12.79
Total	236166.97	14.79

Source: CAG, relevant years (a).

Table A.7: Share of Education in Total Expenditure of Selected States

(percentage)

State	General Education					Technical Education
	Elementary Education	Secondary Education	University & Higher Education	Others	Total	
Andhra Pradesh	7.48	5.45	3.84	0.32	17.09	0.55
Assam	16.35	6.84	2.22	0.85	26.26	0.45
Bihar	14.80	4.88	2.75	0.47	22.90	0.28
Gujarat	10.55	6.31	1.78	0.25	18.89	0.56
Haryana	6.04	4.73	1.92	0.14	12.83	0.36
Karnataka	10.44	5.85	2.83	0.29	19.41	0.50
Kerala	12.23	7.80	4.86	0.23	25.12	1.14
Madhya Pradesh	9.90	3.69	1.85	0.21	15.65	0.58
Maharashtra	8.86	7.37	2.02	0.51	18.76	0.84
Orissa	11.15	4.76	2.69	0.35	18.95	0.42
Punjab	5.38	8.21	2.27	0.16	16.02	0.46
Rajasthan	10.96	7.10	1.67	0.48	20.20	0.32
Tamil Nadu	9.11	6.92	1.95	0.62	18.60	0.66
Uttar Pradesh	8.40	6.26	2.06	0.22	16.94	0.51
West Bengal	8.09	11.21	2.94	0.56	22.81	0.46

Source: NIPFP, Database on State Finances.

Table A.8: Share of Revenue Expenditure on Education: Haryana

(percentage)

	1980–81	1985–86	1990–91	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
General Education	16.78	16.82	16.01	15.14	17.08	12.83	8.07	11.55	9.83
Elementary	6.60	7.21	7.53	6.92	7.96	6.04	3.81	5.40	0.00
Secondary	7.19	6.99	5.73	5.73	6.34	4.73	2.98	4.16	0.00
Higher Edn.	2.55	2.32	2.37	2.32	2.40	1.92	1.18	1.68	0.00
Adult Edn.	0.16	0.20	0.26	0.03	0.23	0.03	0.03	0.02	0.00
Others	0.28	0.10	0.13	0.14	0.15	0.11	0.08	0.10	0.00
Technical Edn.	0.43	0.37	0.38	0.43	0.53	0.36	0.24	0.30	0.37
Total Education	17.21	17.20	16.40	15.57	17.61	13.19	8.32	11.85	10.20

Source: GoH, relevant years (a).

Table A.9: Detailed Expenditures of the Irrigation Department : Haryana

(Rs. lakh)

Expenditure Category	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
Current Expenditures	15921	17192	47563	22853	31509	33898
Wages and salaries	3385	3859	6973	9209	15513	16342
Purchase of goods and services	355	5522	30416	4701	5939	7024
Repair and maintenance	4744	0	2030	443	1056	1091
Interest	7437	7811	8144	8500	9001	9441
Capital Expenditures	13501	14206	10381	14885	18974	31490
Construction	8324	8066	5427	9207	12644	23659
Machinery and equipment	23	0	1	26	100	155
Change in stock	-166	-126	13	33	91	115
Capital transfers to non-govt.	5320	6221	4830	5433	5989	7411
Land	0	45	110	186	150	150
Total Expenditures	**29423**	**31399**	**57945**	**37739**	**50484**	**65389**

Source: GoH, relevant years (c).

Table A.10: Budgetary Expenditures on Irrigation — Haryana

(Rs. lakh)

	Revenue Exp.	Share in Total Rev. Exp.	Revenue Receipts	(Rev. Receipts/ Rev. Exp)(%)	Capital Exp.
1980–81	4084.20	10.23%	1036.00	25.37%	5026.25
1985–86	6605.98	7.99%	1250.88	18.94%	12406.63
1990–91	14898.34	8.21%	1735.82	11.65%	6972.18
1991–92	18390.19	8.56%	1587.62	8.63%	8921.71
1992–93	21089.48	9.01%	1801.75	8.54%	9793.91
1993–94	22541.02	8.70%	2044.45	9.07%	11095.92
1994–95	52152.89	13.80%	1924.71	3.69%	8456.45
1995–96	27285.06	6.99%	2105.96	7.72%	13127.43
1996–97(r.e.)	36489.00	7.92%	2789.00	7.64%	17092.00
1997–98(b.e.)	39656.84	7.76%	2978.00	7.51%	29502.00

Source: GoH, relevant years (a).

Table A.11: Statewise Current Cost of Irrigation and Roads & Bridges

States	Revenue Expenditure on Irrigation (Rs. lakh)	Irrigated Area (lakh Hectares)	Revenue Expend. on Roads & Bridges (Rs. lakh)	Road Length (lakh k.m.)	Current Cost of Irrigation per hectare (Rs.)	Current Cost of Roads per k.m. (Rs.)
Andhra Pradesh	72823	40.29	16235	1.66	1807.47	9794.46
Assam	5060	5.72	11318	0.67	884.62	16786.31
Bihar	20051	33.44	11485	0.88	599.61	13085.63
Gujarat	72111	26.42	28101	1.08	2729.41	26056.36
Haryana	52153	26.28	5611	0.26	1984.51	21715.24
Karnataka	37370	21.94	14087	1.40	1703.28	10088.08
Kerala	10363	3.35	9172	1.38	3093.43	6640.79
Madhya Pradesh	21341	47.75	31218	2.08	446.93	15020.71
Maharashtra	111709	24.70	60147	2.25	4522.63	26731.17
Orissa	11228	20.70	10021	2.13	542.42	4694.62
Punjab	16784	38.61	8050	0.57	434.71	14125.53
Rajasthan	40269	44.71	14309	1.27	900.67	11227.59
Tamil Nadu	19436	26.98	24932	2.03	720.39	12290.31
Uttar Pradesh	115383	113.22	27042	2.11	1019.10	12818.18
West Bengal	21636	19.11	11468	0.62	1132.18	18639.58

Source: RBI, 1997.

Table A.12: Operation of Haryana Roadways

Details	Units	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Vehicle utilisation	(KM/Bus/Day)	288.16	297.97	310.48	315.66	301.81	296.24
KMPL on effective kms	(KM/LTR)	4.23	4.32	4.32	4.33	4.32	4.34
Total receipts	(Rs. lakh)	17013.35	21891.29	25163.37	27188.69	26990.63	30420.36
	(PS/KM)	467.31	535.61	584.48	621.01	647.08	725.67
Total expenditure	(Rs. lakh)	18232.91	21343.69	24691.05	27519.62	29706.33	33026.16
	(Ps/KM)	500.81	522.21	573.51	628.57	712.19	787.83
Staff and wages	(Rs. lakh)	6693.56	7866.89	8410.26	9039.53	11105.3	12128 74
Profit /Loss	(Rs. lakh)	-1219.56	547.6	472.32	-330.93	-2715.7	-2605.8
Resources to State							
i. Profit	(Rs. lakh)	-1219.56	547.6	472.32	-330.93	-2715.7	-2605.8
ii. Passenger tax	(Rs. lakh)	6880.68	8284.42	8988.78	9668.99	9198.6	10198.96
iii. Motor vehicle tax	(Rs. lakh)	821.05	900.84	931.52	927.22	928.18	967.77
iv. Interest on capital	(Rs. lakh)	730.39	738.36	793.46	878.45	1100.18	1242.28
v. Depreciation	(Rs. lakh)	1086.28	1434.41	1866.75	1890.18	2025.53	2276.99
Total resources	(Rs. lakh)	8298.84	11905.63	13052.83	13033.91	10536.79	12080.2

Source: GoH, relevant years (d).

Table A.13: Estimation of Expenditure on Primary Education

	1995–96	1998–99	1999–00	2000–01	2001–02
1. Estimated total population ('000)	18396.2	19782.5	20267.5	20764.3	21273
2. Est. popn. in age group 6-11 ('000)	2235.8	2408.2	2467.3	2527.7	2589.7
3. Enrolment ratio in class 1-5 (%)	85	90	94	98	102
4. No. of pupils in class 1-5 ('000)	1895.9	2167.4	2319.2	2477.2	2641.5
5. Estimated cost per pupil (Rs.)	874	1069	1144	1224	1310
6. Expend. on primary education (Rs. lakh)	16571	23169	26532	30321	34603
7. No. of primary school teachers	19143	21884	23417	25012	26671
8. Salary increase per teacher (Rs.)	—	15360	16896	18586	20444
9. Additional wage bill (Rs. lakh)	—	3361	3957	4649	5453
10. Total cost (6+9) (Rs. lakh)	16571	26531	30488	34969	40056

Source: Computed on the basis of information given in *Statistical Abstract of Haryana, 1995–96.*

Notes:

1. Item (2) is based on item (3) and item (1) for 1995–96. For other years, it is based on the 1995–96 ratio of item (2) and item (1).
2. Item (3) is actual for 1995–96 and projected for rest of the years.
3. Item (4) is estimated using item (2) and item (3) for the period 1998–2002.
4. Item (5) is derived from item (6) and item (4) for 1995–96. For other years, 7 percent annual inflation rate has been applied.
5. Item (6) is based on items (4) and (5) for the period 1998–2002.
6. Item (7) is derived for the period 1998–2002 by raising the number in 1995–96 in proportion to item (4).
7. Item (8) assumes an average salary increase of Rs. 1280 p.m. in 1998–99, raised by 10 percent every subsequent year.

Table A.14: Interest Payments by GoH: 1997–98 to 2001–02

(Rs. crore)

Category of loan	Amount of Borrowing	Interest Liability				
		1997–98	1998–99	1999–00	2000–01	2001–02
A. Market loans						
Outstanding on 31.3.96		96.18	93.60	89.89	87.31	84.56
New loans in '96-97	147.28	9.82	19.65	19.65	19.65	19.65
New loans in '97-98	162.00		10.81	21.61	21.61	21.61
New loans in '98-99	231.92			15.47	30.94	30.94
New loans in '99-00	230.19				15.35	30.71
New loans in '00-01	238.39					15.90
Total (A)		106.00	124.05	146.62	174.86	203.36
B. Institutional loans						
Outstanding on 31.3.96		18.05	16.68	15.33	14.00	12.66
New loans in '96-97	102.37	14.33	13.38	12.42	11.47	10.51
New loans in '97-98	235.37		32.95	30.76	28.56	26.36
New loans in '98-99	289.31			40.50	37.80	35.10
New loans in '99-00	261.47				36.61	34.17
New loans in '00-01	248.53					34.79
Total (B)		32.38	63.01	99.01	128.43	153.59
C. Central government loans						
Outstanding on 31.3.96		351.04	351.04	351.04	351.04	351.04
New loans in '96-97	743.54	74.35	70.64	66.92	63.20	59.48
New loans in '97-98	790.82		79.08	75.13	71.17	67.22
New loans in '98-99	860.13			86.01	81.71	77.41
New loans in '99-00	942.97				94.30	89.58
New loans in '00-01	1035.84					103.58
Total (C)		425.39	500.76	579.10	661.42	748.32
D. Loans from commercial banks		20.00	19.00	19.00	19.00	19.00
E. Reserve funds bearing interest		16.60	17.50	20.23	22.00	20.60
F. Ways & means advances		4.40	4.40	4.40	4.40	4.40
G. Provident fund		209.17	243.71	395.00	443.41	500.72
H. Total interest liability		813.95	972.43	1263.36	1453.53	1650.00

Note: The amounts of fresh borrowings in 1996–97 are taken from the budget, while the rest are as agreed between the Planning Commission and GoH. The rates of interest applied to new borrowings are 13.34 percent on market loans, 10 percent on GoI loans and 14 percent on institutional loans. On provident funds, an interest rate of 12 percent has been applied. No repayment of new loans are involved in the case of market loans, while 1/15th and 1/20th of institutional and GoI loans respectively are assumed to be repaid annually. Net accretions to provident fund are projected by us and include impounded salary arrears. The other figures are as estimated by the GoH, updated by us where needed. The interest liability in the first year on market loans are assumed to be for only six months.

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