

Chapter III
Recent Trends and Prospects of State Finances of
Pondicherry and its Implications after Conferment of Statehood
(Internal Appraisal)

A study of the composition of Revenue Receipts in 1985-86, 1990-91, 1995-96 and year-wise from 1998-99 onwards till 2000-01 shows the following trends:

1. While non-tax revenue % is stagnating, even tax revenue % in the recent past has declined. Therefore % of own revenues in total revenue expenditure has declined sharply from the peak of 68% in 1995-96 to 58% in 2000-01.
2. Reliance on Grants-in Aid from the Centre has increased sharply, both to meet the revenue gap and to rollover the annual debt servicing. Interest servicing now constitutes one fifth of Grant in Aid.

Rs. In Crores

Year	Tax Rev.	NonTax Rev	Grant-in-Aid from Centre	% of Own Revenue to Rev.Exp.	Interest Rollover in Grant-in-Aid (% of Rev.Exp.)
1985-86	27.49 (29.6)	13.55 (14.6)	51.89 (55.8)	44.7%	-----
1990-91	70.44 (34.6)	46.08 (22.7)	86.79 (42.7)	57.1%	-----
1995-96	162.52 (35.8)	123.84 (27.3)	167.68 (36.9)	67.9%	42.46 (10.0%)
1998-99	224.98 (30.1)	171.97 (23.0)	350.50 (46.9)	57.6%	78.25 (11.3%)
1999-00	260.59 (29.7)	218.47 (24.9)	398.42 (45.4)	56.6%	74.53 (8.8%)
2000-01	291.85 (30.84)	255.12 (26.92)	399.74 (42.24)	57.76%	86.40 (9.4%)
2001-02	268.59 (25.04)	302.31 (28.18)	501.69 (46.78)	51.96%	100.99 (9.2%)

(Figures in brackets indicate %)

Interest payments (Rs.100.99 crores) during 2001-2002 formed 9.2% of revenue expenditure of Rs.1098.72 crores (including power charge cost charges of about Rs. 408.70 crores) as against 8.8% and 9.4 % during previous two years

respectively. In fact if power charge receipts are set off against power purchase cost and allied expenses, then the base of revenue expenditure would be reduced and consequently interest charges % of such adjusted rev. exp. works out as 14.6%, 12.3% and 11.6% in 2001-02, 2000-01 and 1999-00 respectively. Similarly, interest charges as % of adjusted revenues receipts (power receipts not considered) stands at 11%, 12.5% and 12.8% in 1999-00, 2000-01 and 2001-02 respectively.

Four of the small Special Category States have their respective interest burden to revenue receipts contained within 10% and another three of them have managed it around 10% to 15%. It may be noted that Special Category States obtain Central assistance in the form of 90% grants and 10% loans. At present U.T. of Pondicherry's entire capital expenditure is met through Central loans with attendant debt servicing burden. At least now as UT it is obtaining plan assistance in the form of two-thirds as grant and one-third as loan. If it is considered as "normal" state on attaining statehood, then loan proportion would increase to 70% and grants reduce to 30% i.e., practically adverse reversal of grant to loan ratio. Consequently debt-servicing burden is bound to lead to debt trap.

Tax revenue, Non tax revenue and Grants-in-Aid in 2001-2002 constitute 25.04%, 28.18% and 46.78% respectively of the revenue receipts. Therefore Grants-in-Aid would continue to constitute just less than half of revenue receipts in the years to come, particularly as Local ST revenue is no longer expected to be buoyant with introduction of Uniform Sales Tax Rate (with CST emerging as preferred option for Inter State Trade and Commerce) and advent of VAT regime. Further interest payments are likely to constitute one-fifth of the Grants-in-Aid in the years to come. It was 21.4% in 2000-01 and 20.2% in 2001-02

The annual growth rates in tax revenue, non-tax revenue and Grants-in-Aid for the period 1995-96 to 2000-01 (6 years) are as under:

	Item	Factor (6 years)	%Growth Rate
1	Tax Revenue	291.85/162.52	10.25%
2	Non Tax Revenue*	255.12/123.39	12.87%
3	Grants-in-Aid	399.74/167.68	15.58% **

* **Power charge receipts is the main item**

** **Not considered for projection**

The annual growth rates in tax revenue, non-tax revenue and grants-in-aid for the 3-year period from 1998-99 to 2000-01 are given below:

Sl.no.	Item	Factor (3 years)	%Growth Rate
1	Tax Revenue	291.85/224.98	9.06%
2	Non Tax Revenue	255.12/171.97	14.07%
3	Grants-in-Aid	399.74/350.50	4.48%

Annual Growth/(Decline) rates of Sl.no.s1, 2 and 3 between 2000-01 and 2001-02 are(-8%) , +11.8 %and +25.5 % respectively, indicating substantial decline in Tax Revenue and substantial increase in both Non-Tax Revenue and Grants-in Aid

A study of the composition of Tax Revenues trends shows heavy reliance on sales tax, which constituted half the tax revenue in 1990-91 and practically two-thirds from 1998- 99 onwards.

Composition of Tax Revenues (Rs. In crores);% in Brackets

Year	Sales Tax	State Excise	Stamps & Reg. & Land Revenue	Tax on Vehicles, other commodities	Total Tax Revenue
1985-86	11.80 (42.9)	12.00 (43.7)	1.61 (5.9)	1.86 (6.8)	27.49 (100)
1990-91	36.47 (51.8)	24.85 (35.3)	5.03 (7.1)	3.5 (5)	70.44 (100)
1995-96	102.31 (63)	36.70 (22.6)	11.32 (7.0)	11.78 (7.3)	162.52 (100)
1998-99	148.63 (66.1)	51.93 (23.1)	8.02 (3.6)	15.61 (6.9)	224.98 (100)
1999-00	171.42 (65.8)	61.00 (23.4)	10.35 (3.9)	17.83 (6.9)	260.60 (100)
2000-01	193.50 (66.3)	66.18 (22.7)	12.60 (4.3)	19.58 (6.7)	291.86 (100)
2001-02	160.42 (59.72)	76.13 (28.33)	13.31 (4.95)	18.73 (7.00)	268.59 (100)

The growth rates of tax revenue sources for the recent three years with the trends during the seventies, eighties and nineties indicates that state excise revenue has practically become stagnant in recent years. There is a significant dip of 17% in sales tax revenue between 2000-01 and 2001-02 .

Years	Growth Rate (%)	
	Sales Tax	State Excise
1970-80	11.87	7.65
1980-90	10.72	1.03
1990-91 to 1998-99	11.64	9.00
1998-99 to 2000-01	9.00	6.00

It would be prudent to assume that in the coming two or three years both ST and State excise revenues may show only nominal growth rate of 5% to 6% p.a. though for projection it is taken as 10%.

An analysis of % composition of revenue expenditure, shows declining trend for social services, pronounced upward trend for economic services (mainly power payments) and slight upward trend for general services.

Conferment of Statehood is likely to further increase the revenue expenditure on administrative services.

Rs. In Crores					
Year	General services	Social Services	Economic services	Grants	Total Rev. Exp.
1985-86	16.24 (17.7)	41.17 (44.8)	33.92 (37.0)	0.48 (0.5)	91.81 (100)
1990-91	45.66 (22.4)	76.06 (37.2)	81.32 (39.8)	1.17 (.6)	204.21 (100)
1995-96	92.55 (21.9)	147.93 (35.1)	176.60 (41.9)	4.69 (1.1)	421.76 (100)
1998-99	174.34 (25.3)	246.41 (35.8)	261.00 (37.9)	7.19 (1.0)	688.94 (100)
1999-00	196.02 (23.2)	302.78 (35.8)	343.95 (40.7)	2.82 (0.3)	845.58 (100)
2000-01	208.52 (22.7)	317.71 (34.6)	390.81 (42.6)	2.02 (0 .25)	919.06 (100)
2001-02	223.02. (20.2)	319.20 (29.2)	554.11 (50.3)	2.38 (0.21)	1098.72 (100)

Earlier in the eighties it was Social Services(42%), which had the edge over Economic Services(34%). In the nineties, Economic services constituted the main revenue expenditure item (about 41%), followed by social services (35%) and general services (24%). It may be appropriate to look at the growth rate of revenue disbursement items in the past and more importantly in the recent three years.

Growth rate of Revenue Disbursement items

Growth rate (%)			
Year	General Services	Social Services	Economic Services
1970-80	5.5	7.41	6.88
1980-90	11.8	9.99	12.74
1990-91 to 1998-99	7.3	6.1	15.5
1998-99 to 2000-01	8.0	9	14.5

For revenue expenditure projections one could assume 8% for general services, 10% for social services and 15% for economic services(mainly Energy/Power). Based on earlier analysis one could assume 14 to 15% growth rate for non-tax revenue and 10% growth rate for tax revenue.

Accordingly the projection of next four years(2001-02 to 2004-05) for U.T. of Pondicherry with **base year as 2000-01(R.E) based only on own sources of Rev.(ignoring Grants-in-Aid)** is as follows:

	2000-01	2001-02	2002-03	2003-04	2004-05	2000-05 (5 years)
A. Revenue Receipts						
1. Own Tax Rev (10%)	282	310	342	376	414	1724
2. Own NonTax Rev. (15%0)	239	275	316	364	418	1612
	-	-	-	-	-	-
Total	521	585	658	740	832	3336
B.Rev. Exp(excluding CSS exp.)						
1.General Services						
1.1 Interest Payments *	87	101	116	131	146	581
1.2 Others (8%)	120	131	142	153	165	711
Sub-Total	207	232	258	284	311	1292
2. Social Services (10%)	314	354	389	429	472	1958
3. Economic Services (15%)	388	451	518	596	686	2639
4. Comp. & Assign. To Local Bodies	2	2	3	3	3	13
5. Committed Liabilities	-	-	-	-	-	-
6. Total Rev. Exp.	911**	1039	1168	1312	1472	5902
7. Rev. Deficit-Projected	390@	454	510	572	640	2566
8.Near Actuals of item no.7	390	490-63=427	484	503	---	

* Each year Central Loan Receipt is in the range of Rs. 140 to 150 crores and principal repayment is around Rs. 50 crore. Thus net annual debt - addition of Rs. 100 crores entails incremental interest of Rs. 10 crores per year. Besides Small Savings Scheme entails further Rs.5 crores per year

**ExcludesCSSRev.Exp.of Rs.14Crs

@Bridged by Non Plan Gap Grant of Rs.275 crores + Plan Grant of Rs.115crores

It may be noted that Goa(Annex II) had submitted to Eleventh Finance Commission its projections with 16.8% growth in tax revenue and 20% growth rate in non-tax revenue. In respect of Administrative Services, Social services and Economic Services classifications of revenue expenditure it has assumed growth rates of 8%, 12% and 6% respectively.

The trends of capital receipts and capital expenditure and its deficit/surplus of Pondicherry are as follows: **(Rs. In crores)**

Year	Capital Receipts (Public Debts%)	Capital Exp. (Public Debt repayment)	Deficit/Surplus
1990-91	47.39 (96%)	49.02 (24.56)	(1.63)
1995-96	71.31 (94.54%)	109.81 (24.56)	(38.5)
1998-99	118.35 (93%)	167.93 (46.8)	(49.58)
1999-00	133.88 (97%)	155.41 (43.0)	(21.53)
2000-01	160.84 (96.5%)	170.65 (48.26)	(9.81)
2001-02	199.59 (96.7%)	180.65 (54.08)	+18.94

The composition of capital disbursement reveals that Economic Services accounts for just less than half of the same, followed by public debt repayment (25%) and with significantly less capital outlay for Social Services.

(Rs. In crores)

Year	General services	Social Services	Economic services	Public Debts	Loans	Total
1990-91	0.81 (1.7)	6.33 (13.0)	23.36 (47.5)	15.36 (31.3)	3.16 (6.5)	49.02 (100)
1995-96	2.98 (2.7)	9.67 (8.8)	62.97 (67.3)	24.57 (22.4)	9.63 (9.8)	109.81 (100)
1998-99	6.65 (4.1)	17.34 (10.3)	85.96 (51.0)	46.8 (27.9)	11.17 (6.6)	167.93 (100)
1999-00	7.63 (4.9)	24.84 (16.07)	70.59 (45.4)	43.00 (27.6)	9.34 (6.0)	155.40 (100)
2000-01	9.38 (5.5)	24.36 (14.3)	74.12 (44.0)	48.26 (28.3)	14.54 (8.5)	170.65 (100)
2001-02	14.57 (8.05)	22.23 (11.95)	82.45 (46.4)	54.08 (29.6)	7.32 (4.0)	180.65 (100)

(Figures in brackets %)

The statement of Public Finance position of Pondicherry during the two years 1999-00 and 2000-01(relevant for this study) is as follows:

	<u>As on 31.3.2000</u>	<u>As on 31.3.2001</u>
Internal Debt (Loan from GOI)	698	806

Sources and Uses of Funds Statements

	<u>1999-00(R.E.)</u>	<u>2000-01(R.E.)</u>
Rs. In crores		
Receipt		
Opening Balance	8.45	18.84
Revenue Receipts	466.50	520.72
Suspense Recoveries	10.55	10.84
Loan Recoveries	4.94	5.65
Own Resources (A)	490.44	556.05
Grant-in-Aid from GOI	399.52	404.33
Loan from GOI	125.45	145.79
Central Assistance (B)	524.97	550.12
Total A & B	1015.41	1106.17
Break up		
Tax Revenue	255.15	281.54
Non Tax revenue	211.35	239.18
	466.50	520.72
Expenditure		
Rev. Exp.	850.22	927.40
Capital Exp.	165.19	178.77
	1015.41	1106.17
Break up		
Plan Exp.	300.80	321.32
Non-Plan Exp.	700.80	770.55
CSS Exp.	13.81	14.30
	1015.41	1106.17

Out of which

	Rs. In Crores	
	1999-00	2000-01 (R.E)
Interest	74.53	86.40
Repayment of loan	43.00	48.26
Pension*	52.74	47.24
Salary & Allowances	241.35	255.49
Cost of Power	213.98	249.71
Grant-in-Aid	72.70	81.15
Others	317.11	337.92
	1015.41	1106.17

*excludes freedom fighters, old age pensions

Once Pondicherry becomes a State with retrospective effect from April 2000, then the all-encompassing Grants-in-Aid would cease and its substitution would hypothetically be on following lines:

Rs. In crores	
Year: 2000-01	
Grant-in-Aid	404.33
Less: CSS Exp.	(-)14.30
	390.03
Adjust Plan Grant Portion of Revenue Exp.	(-) 115.10
	275.03
Adjust:	
a. Central Sales Tax portion	(-) 25.00
b. Ineligible Power Subsidy	(-) 45.00
Net Deficit before Central Tax Dev.	205.03

Therefore Rs. 102 crores would be the apparent unbridged Non-Plan Revenue Deficit, even after central devolution of funds of Rs.103 crores and addition of CST portion eligible as full-fledged State. This would require special assistance, with plea for one time interest waiver of Rs. 86.40 crores. Such special consideration of completely bridging non-plan revenue deficit (other than Power Subsidy) assistance is now advocated by 11th Finance mainly to Special Category Status States. Further. Power Subsidy of Rs.45 crore is an ineligible item, which means **Rs.147 crore** would be the **Real unbridged Non Plan Revenue Deficit** in 2000-01, in case Pondicherry is considered as Normal State instead of Special Category Status State.

Though Interest of Rs. 86.40 crores and repayment loan of Rs. 48.26 crores should normally settled immediately, however, as in the case of Arunachal Pradesh (Special Category State), a plea to GOI should be made for its waiver at least of Interest and then balance principal loans consolidated and frozen as interest free loan

P.S.: Rs.111 crores granted to Goa by EFC for 2000-01 under Central Tax devolvement formula. Pondicherry may be similarly eligible in the same range of Rs. 100 crores to Rs. 110 crores i.e., Rs.103 crores roughly.(Detailed estimation with justifications covered in the next two Chapters)

It may be of interest to note that Goa when it became normal state was accorded, like special status North Eastern States, special/additional Non-Plan Revenue Deficit Grant under Article 275(1) of our constitution for several years as evident from following extract from Thiru R.Chari's original report,October 1993, on the same subject on second page of Chapter IV:

“---Goa, a comparable UT(turned Normal State) which is getting not only the Central share and grant-in-aid for plan but also an additional grant-in-aid under article 275(1) of Constitution of India like special status North Eastern States”(besides its share of devolution of central taxes)

Relevant extracts from page 97 of Eleventh Finance Commission Report are: “After the devolution of Central Tax revenues,some states will still have deficit on Non Plan revenue account..We recommend grants-in-aid to be given under Article 275(1) of the Constitution-----“

“It would be observed that a **substantial amount** from grants-in-aid recommended by us will go to the **special category states**. In fact during the fourth and fifth year only special category states will get grants-in-aid---“

“As against fifteen states getting non plan revenue deficit grants in the first year i.e., 2000-01,only nine states will be entitled to these grants(by terminal year i.e.,2004-05).**These are all Special Category Status.**”

It is clear that henceforth special/additional grants-in-aid may not be forthcoming to Normal States. Pondicherry as new state in its formative years(like Goa) would definitely require special/additional grants-in-aid to cover its non plan revenue deficit ,as devolution of its share of central taxes will be insufficient to cover its non plan revenue deficit for atleast five years,if not more(Pl. see page 35,Chap.IV)