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CENTRAL FISCAL TRANSFERS TO MAHARASHTRA AND CENTRAL LOAN TRANSFERS TO MAHARASHTRA

3.1 Introduction

The India federal setup being essentially quasi federal in nature has led to centralisation of resources on the one hand. On the other hand growing expenditure commitment of the state government due to the nature of functions envisaged to the states as per the constitution as well as the impact of execution of planned economic development, which included the states equally responsible; to finance developmental needs has increased the budgetary resource needs of the state. This has led to the problem of 'non-correspondence' between budgetary needs and revenue potential of the states.

This has been so, because with advent of planning the developmental and non-developmental expenditure of the states in India has risen rapidly. In the other hand the State Governments "Own resource base" tax, non-tax has not matched this growing resource need. This match of resource needs and resource availability at the subnational level is a problem witnessed in all federal countries.[1] Hence, the need and significance of federal resource transfers from higher layer of government to lower layers of government.

[1] Ursula Hicks (1971), opined the same, reference to "Federal Finance in a Developing Economy" as cited in H. L. Bhatia, "Centre State Financial Relations in India", p. 2

In such a situation, the growth of fiscal transfers has helped the states to maintain as sustained level of rising public expenditure pattern by enhancing their revenue but this process has led to increased states dependency on central transfers in their revenue mobilisation for the maintenance of the desired level of expenditure.

Even a developed state like Maharashtra faced the problem of non-correspondence between functions and revenue sources.

The present chapter attempts to study the growth and composition of central fiscal transfers to Maharashtra and central loan transfers to Maharashtra during the study period.

Section - I

A) Central Fiscal Transfers to Maharashtra

3.2 Components of Central Fiscal Transfers to States in India : Broad Review

The Indian constitution framers did anticipate the problem of fiscal imbalance at the state level and hence made provision for devolution of resources from the centre to the states. Devolution of total central channelled by the three institutions a) Finance Commission, b) Planning Commission and c) Union Ministry.

Federal fiscal transfers form the centre to states in India take the following form of –

i) Shared taxes

ii) Grants and

iii) Loans

i) Shared Taxes

Sharing of taxes is a prominent tool of federal fiscal transfers in India. The main objective of sharing of taxes and duties with the states is to reduce vertical fiscal imbalance. Major taxes, which are high yielding elastic and buoyant, are assigned to the centre whereas the tax resources of states are inelastic and fall short of their requirements. So tax sharing is an essential device to reduce fiscal imbalance between the states needs and availability of resources. Thus, through tax sharing built in flexibility can be restored in state budgets because the transfer of resources is automatic and unconditional.

Shared taxes in Indian federation consists of (a) share of divisible taxes consisting of obligatory shared tax that is Income tax and permissively shared tax i. e. Union excise duties under Article 270 of Indian constitution, taxes on income other than agriculture income are compulsorily shareable between the centre and the states. Article 272 of Indian constitution says that, Union excise duties levied and collected by the centre may be divided between the centre and states if parliament by law so provided for (b) Taxes and duties collected by the centre but wholly assigned to states. Under Article 269 of the Indian constitution taxes such as estate duty, additional excise duty, taxes on railway fares and freight etc. are to be levied and collected by the centre but the entire proceeds of these should be assigned to the states.

Finance Commission, an independent statutory body whose awards are made normally for a period of five years decides the share of states in the total net proceeds of income tax and union excise duty and it also fixes the criteria to be followed in the distribution of this divisible pool among the state according to their needs and capacities. Amount of tax revenue transferred to the states depends upon the yield from the specific taxes, which are divisible. Change in policies of the centre as regards to tax rates and base, tax rationalisation and collection procedures change the yield pattern of specific taxes and this causes the fluctuation for tax available for transfers to states. However, from the point of view of states financial autonomy and to achieve adequacy in states resources to meet their continuously increasing responsibilities with the growth of activities to states than any other devices such as loans and grants-in-aid.

Tax sharing thus formed an important source of revenue to the states and helped the states to solve the problem of financial differences on revenue account of their budget.

ii) Grants

Grants from the centre to states in India are an important source of fiscal transfers. The mechanism of grants-in-aid helps to coordinate the basic principles of federal finance such as independence and responsibility, adequacy, elasticity, fiscal harmonisation etc.

In India, the central government has been providing grants to state governments through three institutional processes. Finance Commission provided statutory grants and Union Ministries provide discretionary grants to states to meet their plan expenditure. In addition to these, Finance Commission also provides compensatory grants such as grants-in-lieu of railway passenger's fares to the states.

Basically grants given to state in India can be classified into two broad categories i) Grants under Article 275 and ii) Grants under Article 282.

Statutory grants under Article 275 of Indian constitution are given to state on the recommendation of the Finance Commission, which provides the set of principles governing the distribution of these grants to states. Such grants are provided to meet the budgetary needs of the states. Bulks of these grants are unconditional in nature as they are given without any stipulation or federal control over them. Unconditional grants of fiscal need nature are given to cover the revenue gap of the states.[2]

Transfer of grants under Article 275 to the states in India reduces the problem of fiscal non-correspondence at the state level and also helps to reduce inter-state inequality. The grants given by the Finance Commission are principled so there is no discretion of the central government in distribution of these grants.

Grants under Article 282 of Indian constitution are given to meet both plan and non-plan expenditure of states. These grants are provided to the states on the recommendation of the Planning Commission and the discretion of the Union Ministry. Since the inception of planning in India, Article 282 has been extensively used to make plan grants by the centre. Quantum of plan grants to each state in determined by the Planning

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[2] For details, Thimmaih G., "An Approach to Centre-State Financial Relations", pp. 27-29

Commission. Plan grants encourage the states to perform the developmental functions to implement the Five Year Plans and to undertake schemes given priority in the Five Year Plans. Under Article 282 of Indian constitution, Union Ministries provide non-plan grants to states. Normally these grants are given to meet unforeseen relief and rehabilitation facilities and undertake welfare programmes etc. Union Ministry provided these grants at its own discretion there is not any criterion to be followed in the distribution of these grants. Bulks of grants provided under Article 282 are conditional grants. Conditional grants are given for both plan and non-plan purpose. Conditional grants help the centre to have control over the fund utilisation and simulate the states interest in matters of national importance. However, they are criticised by the states because they erode financial autonomy of states.

In total grants from the centre to state given under Article 275 and Article 282 of the constitution helped the state to meet their growing plan and non-plan expenditure. Grants under Article 282 through conditional and discretionary in nature solved the problem of financial inadequacy of the states. Tax sharing and grants-in-aid device are direct methods of providing financial assistance to states.

iii) Central Loans

The architects of Indian constitution who made centre financially more stronger than the states felt it necessary to make provision for central loans to states and considered the central loan as on one of the important balancing force that are resorted to correct fiscal imbalance as well as to meet increased expenditure of the states. Article 293 (2) of our constitution has given power to the centre to grant loans to state and also to guarantee loans borrowed by states within India. Tax sharing and grants-in-aid devises are direct methods of providing financial assistance to the state, whereas debt allowance or debt adjustment device is an indirect method of rendering financial assistance to the states.

Growing public expenditure of the states along with the inadequacy of their tax and non-tax revenue receipts makes them inevitable to raise loans within India. Though the state government in India borrows loans through different sources internally, the major chunk of the total borrowings of the states comes from the centre. In other words, central loans play an important role in meeting capital expenditure of the state government in India.

Central loans to state are made for various purpose plan and non-plan. But bulk of it is provided mainly to implement plan schemes.[3] Plan loans to state are provided by the centre on the recommendation of Planning Commission. Plan loans are given to state to implement the total plan schemes envisaged in the respective states as a part of the overall national plan. These loans are conditional in nature and are tied to a particular project. The central plan loans are given to implement state plan schemes, central plan schemes and centrally sponsored schemes. These loans are principled in nature because they are given according to certain criterion.

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[3] See for details, Dange A. A., "Role of Public Debt in Economics Development with Special Reference to Maharashtra : 1961-1990", unpublished Ph. D. Thesis, Shivaji University, Kolhapur

The central government provides plan assistance to the states on the advice of the Planning Commission which consists both conditional grants and conditional or tied loans. The grant loan component of plan assistance was not given uniformly prior to 1969 and the components varied from programme to programme and from state to state. After 1969 from the Fourth Five Year Plan onwards the Gadgil Formula, the grant loan compound was fixed as 30:70 on a uniform basis for all states except Jammu and Kashmir and Assam in whose case the ratio was 9:10 that is loan component being 10 percent of the plan assistance. Since 1980 onwards, this formula has been modified but the grant on component is the same as in the old formula.

The Union government gives plan loans to states for the development of agriculture and allied schemes, medium and large scale industries, housing, water supply, education etc. with the inception of planning central loans to states have increased in magnitude and have helped the state to finance their various development outlays.

In addition to these plan loan, non-plan loans are also given to state. These loans are provided by Union Ministries for general purpose. Loans coming under this category are discretionary in nature. The state use these loans to meet their growing non-plan expenditure both on revenue account and capital account of their budget. Non-plan loans given by the centre to state can be classified into following broad categories such as small saving loans, loans for relief and rehabilitation, special accommodation loans way and means loans from the centre and miscellaneous non-plan loans. Thus, loan assistance from the centre, which is given for both plan and non-plan purpose based on the recommendation of the Planning Commission and at the discretion of Union Ministry forms the major portion of the federal fiscal transfers to states in India.

3.3 Growth and Composition of Central Fiscal Transfers to States in India

Table No. 3.1

Growth and Composition of Central Fiscal Transfers to States in India : 1990-91 to 2005-06

(Rs. in crores)

Year	Shared Taxes	Grants	Loans	Total Transfers
1990-91	14241.50	12643.30	13974.30	40859.10
1991-92	16847.90 (18.30)	15225.70 (20.43)	13069.00 (-6.48)	45142.60 (10.48)
1992-93	20580.10 (22.15)	17758.80 (16.64)	13099.60 (0.23)	51438.50 (13.95)
1993-94	22394.80 (8.82)	21176.00 (19.24)	14409.70 (10.00)	57980.50 (12.72)
1994-95	24884.60 (11.12)	20004.40 (-5.53)	19252.40 (33.61)	64141.40 (10.63)
1995-96	29048.00 (16.73)	20995.80 (4.96)	19599.90 (1.80)	69643.70 (8.58)
1996-97	35037.80 (20.62)	23154.80 (10.28)	23781.70 (21.34)	81974.30 (17.71)
1997-98	40411.20 (15.34)	24222.40 (4.61)	30770.90 (29.39)	95404.50 (16.38)
1998-99	39421.20 (-2.45)	23863.70 (-1.48)	40342.20 (31.11)	103627.10 (8.62)
1999-00	44121.10 (11.92)	30623.50 (28.33)	48004.50 (18.99)	122749.10 (18.45)
2000-01	50733.70 (14.99)	37783.80 (23.38)	51572.00 (7.43)	140089.50 (14.13)
2001-02	52215.30 (2.92)	43082.30 (14.02)	24660.40 (-52.18)	119958.00 (-14.37)
2002-03	56655.30 (8.50)	45642.50 (6.04)	27215.70 (10.36)	129553.50 (8.00)
2003-04	67079.00 (18.40)	51348.00 (12.40)	24412.00 (-10.30)	142839.00 (10.25)
2004-05 (RE)	80755.00 (20.39)	67088.00 (30.65)	32940.00 (34.93)	180783.00 (26.56)
2005-06 (BE)	90003.00 (11.45)	78472.00 (16.97)	31216.00 (-5.23)	199691.00 (10.46)
Increase in 2005-06 over 1990=91	6.32	6.20	2.23	4.88
CGR	12.15	11.56	6.93	10.76

Source: As of Table No. 2.1

Note: Figures in the brackets shows Annual Average Growth Rate

Table No. 3.1 shows the component wise devolution of total fiscal transfers to states in India during the study period.

The total fiscal transfers comprising of shared taxes, grants and loans shown a continuous increasing trend since the study period. Total fiscal transfers to state were Rs. 40859.10 crores in 1990-91 increased to Rs. 103627.10 crores in 1998-99. In 2000-01 total fiscal transfers to state were Rs. 140089.50 crores and in 2002-03 they were Rs. 129553.50 crores which rose to Rs. 142839 crores in 2003-04, during the 2004-05 (RE) these total fiscal transfers were Rs. 1878.00 crores and 2005-06 (BE) they rose to Rs. 1999691 crores.

The Annual Average Growth rate of total transfer showed fluctuation trend during the period under study. In 1991-92 annual average growth rate of total transfers was 10.48 percent which rose to 13.95 percent in 1992-93. But they showed decreasing trend during the period 1993-94 to 1995-96. Negative growth rate of total fiscal transfers was -14.37 percent in 2001-02. Total fiscal transfers increased 4.89 fold in 2005-06 over 1991-92. The highest annual average growth rate in 2004-05 was 26.56 percent.

Compound growth rate of total fiscal transfers to states during the period under study was 10.76 percent.

Table No. 3.2 also explains the growth in the transfers of shared taxes to states from 1990-91 to 2005-06. Transfers of shared taxes to states also reported increasing trend. In 1990-91 total amount of share taxes transfers to states were Rs. 14241.50 crores, which rose to Rs. 29048 crores in 1995-96 and to Rs. 50733.70 crores in 2000-01. In 2003-04 shared taxes transfers to states increased to Rs. 67079 crores they were increased to Rs. 90003 crores in 2005-06.

Annual average growth rate was 18.30 percent in 1991-92 increased to 22.15 percent in 1992-93 and further decreased to 8.82 percent in 1993-94. Later on increased to 20.62 percent in 1996-97. In 1998-99 annual average growth rate of shared taxes was negative that is – 2.45 percent and annual average growth rate was only 2.92 in 2001-02. Range of annual average growth rate was 2.92 to 22.5 percent. Transfers shared taxes to states increased to 6.32 fold in 2005-06 over 1990-91. Compound growth rate of shared taxes transfers to states during the study period was 12.15 percent.

Grants from the centre also form the major part of federal fiscal transfers to state in India. Table No. 3.1 shows that there is continuous increasing trends in grants transfers to states in India. In 1990-91 total amount of grants transfers to states were Rs. 12643.30 crores and they increased to Rs. 2422240 crores in 1997-98. In 2001-02 total central grants to states were Rs. 37783.80 crores they rose to Rs. 51348.00 crores in 2003-04 and further went upto Rs. 78472.00 crores in 2005-06.

In 1991-92 annual average growth rate in grant was 20.43 percent and it was only 4.96 percent in 1995-96. In 1994-95 and 1998-99 grants showed a negative annual average growth rate of – 5.53 percent and - 1.48 percent respectively. In 2004-05 annual average growth in grants increase by 30.65 percent and in 2005-06 grants from the centre to states decreased the annual average growth rate of 16.97 percent. Grants from the centre to states increased 6.20 fold in 2005-06 over 1990-91.

Compound growth rate of grants transfers centre to states was 11.55 percent in the period under study.

Table no. 3.2 also depicts the growth of central loans to state. These central loan to states shows a continuous increasing trend during the period under study and with some amount of fluctuations in the middle. In 1990-91 central loans to states were Rs. 13974.30 crores rose to Rs. 40342.20 crores in 1998-99. In 1999-2000 central loans to state were Rs. 48004.50 crores they rose to Rs. 51572.00 crores in 2000-01. Later on period they decreased to Rs. 24412.00 crores in 2003-04 and further increased to Rs. 32940 crores in 2004-05. In 2005-06 (BE) central loans to states was Rs. 31216.00 crores.

As shown in the table No. 3.2 annual average growth rate of central loans to states was – 6.48 percent in 1990-91. This was negative growth rate. It was only 0.23 percent in 1992-93. In 1994-95 central loans to states annual average growth rate increased by 33.61 percent as compared to earlier years central loans to states. In 2001-02 central loans to states showed a negative annual average growth rate of – 52.18 percent. In 2002-03 they increased by 10.36 percent, again they showed the negative annual average growth rate of – 10.30 percent in 2003-04. In 2004-05 annual increase in central loans to states was by 34.93 and again shows negative Annual average growth rate of – 5.23 percent in 2005-06 (BE). Central loan transfers from centre to state increased only 2.23 fold in 2005-

06 over 1990-91. Compound growth rate of central loans transfers to states during the period under study was 6.93 percent.

Thus the above data analysis reveals that all three components of central fiscal transfers from centre to state have shown a rising trend in this growth during the period under study, barring a one year of negative growth rate and compound growth rate of all these transfers was more than 10 percent during the period under study.

3.4 Central Fiscal Transfers to Maharashtra

Federal fiscal transfers to Maharashtra consist of shared taxes, grants and loans. Transfers of all these components helped problem of non-correspondence between the fiscal needs and resource availability of Maharashtra.

3.5 Growth and Composition of Central Fiscal Transfers to Maharashtra : 1990-91 to 2005-06

Table No. 3.2 shows the growth and composition of central fiscal transfers to Maharashtra from 1990-91 to 2005-06. The table also shows the growth of central fiscal transfers both in absolute terms as well as their annual average growth rate in percentage.

Total fiscal transfers from the centre to Maharashtra have consistently increased in absolute terms during the period under study. In 1990-91 total fiscal transfers to Maharashtra were Rs. 3081.10 crores and they were increased to Rs. 8578.60 crores in 1997-98. Since 1999-2000, there were fluctuating trends in the growth of these transfers. In 1999-2000 total fiscal transfers were Rs. 4851.40 crores, which rose to Rs. 4988.30 crores in 2001-02. In 2002-03, total fiscal transfers decreased to Rs. 4732.92 crores. In 2003-04 total fiscal transfers to Maharashtra were increased to Rs. 6892.76 crores and they rose to 10025.97 crores in 2004-05. In 2005-06, total fiscal transfers to Maharashtra were increased to Rs. 12548.58 crores. With the rise in the devolution of resource in the form of shared taxes, grants and loans to Maharashtra from the centre, there was increase in total fiscal transfers to Maharashtra. The annual average growth rate of total fiscal transfers shows fluctuating trend during the period under study. In 1991-92, annual average growth of total fiscal transfers was 15.70 percent but they showed the negative growth rate of – 0.73 percent in 1992-93. In 1993-94, total transfers increased annually 23.70 percent. In 1994-95 these transfers again showed a negative growth rate of – 3.86 percent because of the fall in total fiscal transfers by Rs. 4208.60 crores compared to earlier year. In 1995-96, annual average growth rate of total fiscal transfers was 12.88 percent, which rose to 42.92 percent during 1996-97. However, in 1997-98 these transfers again showed a negative growth rate of – 0.72 percent. During 1998-99 annual average growth rate of total fiscal transfers increased to 27.25 percent and again in 1999-2000 these transfers shows the very large negative growth rate it was – 44.10 percent. In 2001-02, annual average growth rate of these transfers was only 0.54 percent. In 2003-04, annual average growth rate of these transfers increased to 45.46 percent, which was declined to 26.16 percent in 2005-06(BE). Total fiscal transfers to Maharashtra increased 4.10 fold in 2005-06 over 1990-91.

Table No. 3.2

Growth and Composition of Central Fiscal Transfers to Maharashtra : 1990-91 to 2005-06

(Rs. in crores)

Year	Shared Taxes	Grants	Loans	Total Fiscal Transfers
1990-91	989.8	795.3	1296.00	3081.10
1991-92	1219.70 (23.23)	810.9 (1.96)	1534.20 (18.38)	3564.80 (15.70)
1992-93	1396.60 (14.50)	927.7 (14.40)	1214.50 (-20.84)	3538.80 (-0.73)
1993-94	1541.40 (10.37)	1366.20 (47.27)	1470.00 (21.04)	4377.60 (23.70)
1994-95	1719.90 (11.58)	1012.10 (-25.92)	1476.60 (0.45)	4208.60 (-3.86)
1995-96	1677.50 (-2.47)	1172.00 (15.80)	1901.30 (28.76)	4750.80 (12.88)
1996-97	2274.90 (35.61)	1510.50 (28.88)	3004.30 (58.01)	6789.70 (42.92)
1997-98	1732.10 (-23.86)	1224.40 (-18.94)	3784.60 (95.97)	6741.10 (-0.72)
1998-99	2921.90 (68.69)	1040.10 (-15.05)	4616.60 (21.98)	8578.60 (27.25)
1999-00	2608.70 (-10.72)	1459.00 (40.27)	783.70 (-83.38)	4851.40 (-44.10)
2000-01	2783.70 (6.71)	1462.70 (0.25)	741.9 (-5.33)	4988.30 (2.82)
2001-02	2468.80 (-11.31)	1681.50 (14.96)	865.00 (16.59)	5015.30 (0.54)
2002-03	2264.98 (-8.26)	1506.16 (-10.43)	961.78 (11.19)	4732.92 (-5.63)
2003-04	3370.42 (48.81)	2269.93 (50.71)	1252.41 (30.22)	6892.76 (45.63)
2004-05 (RE)	3644.80 (8.14)	4022.00 (77.19)	2359.17 (88.37)	10025.97 (45.46)
2005-06 (BE)	4749.32 (30.30)	4697.19 (16.79)	3202.07 (35.73)	12548.58 (26.16)
Increase in 2005-06 over 1990=91	8.73	9.64	0.50	6.55
CGR	4.80	5.91	2.47	4.10

Source : As of Table No. 2.1

Note: Figures in the brackets shows the Annual Average Growth Rate

Compound growth rate of total central fiscal transfers to Maharashtra during the period under study was 6.55 percent.

As successive Finance Commission are favourable to states, the transfer of shared taxes to Maharashtra also shows a continuously increasing trend. In 1990-91, total amount of shared taxes transfers to Maharashtra was Rs. 989.8 crores, which rose to Rs. 1719.90 crores in 1994-95 and further went upto Rs. 2274.90 crores in 1996-97. But in 1997-98 total amount of shared taxes decreased to Rs. 1732.10 crores. Since 1998-99 total transfers of shared taxes devoluted to Maharashtra were Rs. 2921.90 crores and they decreased to Rs. 2608.70 crores in 1999-2000 and again they increased to Rs. 2783.70 crores in 2001-02. Later on period in 2002-03 they decreased to Rs. 2264.98.

In 2003-04 the shared tax transfers to Maharashtra increased to Rs. 3370.42 crores and further rose to Rs. 4749.32 crores in 2005-06 (BE). In 1991-92 annual average growth rate of shared taxes was 22.23 percent but in 1992-93, it was decreasing by 14.50 percent compared to earlier year. In 1995-96 there was negative growth of – 2.47 percent in shared taxes. Again in 1996-97 it increased by 35.61 percent. In 1995-96 annual average growth rate of shared taxes was negative that is – 23.86 percent and in 1998-99 annual average growth rate increased in shared taxes was highest records by 68.69 percent. Later on period 1999-2000, it was negative that is – 10.72 percent. In 2003-04 as shows by the annual average growth rate of shared taxes to Maharashtra by 48.81 percent to declined by 30.30 percent in 2005-06 (BE). Shared taxes transfers from the centre to Maharashtra increased by 4.80 fold in 2005-06 over the year 1990-91.

Compound growth rate of shared taxes transfers to Maharashtra during the period 1990-91 to 2005-06 was 8.73 percent.

Table No. 3.2 also shows that grants from the centre to Maharashtra. In 1990-91 total amount of grants to Maharashtra were Rs. 795.3 crores and they increased to Rs. 1172.00 crores in 1995-96. In 1999-2000 central grants to Maharashtra were 1040 crores, which rose to Rs. 1462.70 crores in 2000-01. Since 2003-04 total amount of grants transfers to Maharashtra increased to Rs. 2269.93 crores they rose to Rs. 4022.00 crores in 2004-05 and further rose to Rs. 4697.19 crores in 2005-06 (BE). Grants from the centre to Maharashtra were continuous increasing trend during the period under study.

In 1991-92 annual average growth rate in grants was by only 1.96 percent they were rose to 14.40 percent in 1992-93. In 1994-95, grants show a negative annual average growth rate of – 25.92 percent. There was wide range of fluctuation in the annul average growth of grants during the study period. In 1996-97, they increased by 28.88 percent annually compared to earlier years, again they shows the negative annual growth rate of – 18.94 percent in 1997-98. In 2000-01 annual average growth in grants was only 0.25 percent. In 2003-04 annual increase in grants was by 50.71 percent and increased by 77.19 percent in 2004-05. In 2005-06 (BE) grants transfers to Maharashtra shows the annual average growth rate of 16.79 percent. Grants transfers to Maharashtra increased by 5.91 fold in 2005-06 over the year 1990-91.

Compound growth rate of grants transfers from the centre to Maharashtra during the period under study was 9.64 percent.

Central loans transfers to Maharashtra also sowed a fluctuating rising trend during the period under study. In 1990-91, central loans to Maharashtra were Rs. 1296.00 crores, which increased to Rs. 3004.30 crores in 1996-97 and further increased to Rs. 4616.60 crores in 1998-99. Later on period they came down. In 1999-2000 they were decrease to Rs. 783.70 crores. And again decrease to Rs. 741.9 crores in 2000-01. In 2002-03, they were increased to Rs. 865 crores and they rose to Rs. 3202.07 crores in 2005-06 (BE).

As shown in the above table annual average growth rate of central loans to Maharashtra was 18.38 percent in 1991-92. In 1992-93 annual average growth rate of loans was negative that is – 20.85 percent and in 1994-95 annual average increase in central loans was only by 0.45 percent. In 1996-97 annual average growth rate of central loans to Maharashtra increased by 58.01 percent compared to earlier year. In 1999-2000 annual average growth rate of central showed a negative growth rate of – 83.38 percent because of the fall in central loans by Rs. 783.70 crores compared to earlier year. In 2001-02 annual average growth rate of central loans was 16.59 percent whereas in 2004-05 they increased by 88.37 percent compared to earlier year central loans transfers. In 2005-06 (BE) the annual average growth rate of central loans decline to 35.73 percent. Central loans transfers to Maharashtra increase by only 2.47 fold in 2005-06 over the year 1990-91.

Compound growth rate of loan transfers from the centre to Maharashtra during the period under study was 0.50 percent.

Thus the above data reveals that all the three components of central fiscal transfers to Maharashtra has shown rising trend in their growth during the period under study,, barring a few years of negative growth rate and compound growth rate of shared taxes and grants was more than 8 percent. But compound growth rate of central loans was very small it was only 0.50 percent.

3.6 Relative Share of Components of Central Fiscal Transfers to Maharashtra

As seen in the earlier section, there is continuous growth in all the three components, that is shared taxes, grants and loans to Maharashtra and is has led to the growth in total transfers to Maharashtra but their percentage share in total fiscal transfers has shown variation during the period under study.

Table No. 4.2 shows the relative percentage share contribution of each component to total central fiscal transfers to Maharashtra during the period under study.

Table No. 3.3

Percentage Share of Components of Central Fiscal Transfers to Maharashtra : 1990-91 to 2005-06

Year	Shared Taxes	Grants	Loans	Total
1990-91	32.12	25.81	42.06	100
1991-92	34.22	22.75	43.04	100
1992-93	39.47	26.22	34.32	100
1993-94	35.21	31.21	33.58	100
1994-95	40.87	24.05	35.09	100
1995-96	35.31	24.67	40.02	100
1996-97	33.51	22.25	44.25	100
1997-98	25.69	18.16	56.14	100
1998-99	34.06	12.13	53.81	100
1999-00	53.77	30.07	16.15	100
2000-01	55.80	29.32	14.87	100
2001-02	49.23	33.53	17.25	100
2002-03	47.86	31.82	20.32	100
2003-04	48.90	32.93	18.17	100
2004-05 (RE)	36.35	40.12	23.53	100
2005-06 (BE)	37.55	37.14	25.32	100

Source : As of Table No. 3.2

In 1990-91 shared taxes which were transfers to Maharashtra through Finance Commission by following certain principle formed 32.12 percent of the total fiscal transfers whereas loans given by Planning Commission and Union Ministry transfers by 42.06 percent of total transfers and grants which include both statutory grants given by Finance Commission and discretionary grants given by Planning Commission and Union Ministries formed 25.81 percent of total transfers. In 1997-98 loans formed more than 50 percent of the total fiscal transfers. Whereas shared taxes and grants formed 25.69 percent and 18.16 percent share in total fiscal transfers respectively. Loans from the centre were the single largest component during this year. Later on period to increase in the amount of transfers of shared taxes and grants to Maharashtra, the relative share of central loans in total fiscal transfers came down. In 1999-2000 loans formed 16.15 percent share in total fiscal transfers whereas shared taxes formed 53.77 percent and grants form 30.07 percent of total fiscal transfers to Maharashtra. In 2000-01 relative percentages of shared taxes increased to 55.80 percent and the share of grants and loans was 29.32 percent and 14.87 percent in total fiscal transfers to Maharashtra respectively. In 2002-03 shared taxes transferred to Maharashtra 47.86 percent of the total fiscal transfers, grants formed 31.82 percent of total fiscal transfers, and loans formed 20.32 percent of the total central fiscal transfers to Maharashtra. In 2003-04 shared taxes transfers to Maharashtra were 48.90 percent of the total transfers and grants formed 32.93 percent but share of loans was only 18.17 percent of the total transfers to Maharashtra. In 2005-05 (BE) shared taxes transferred to Maharashtra formed 37.55 percent of total transfers to Maharashtra and the grants share was 37.14 percent in the total fiscal transfers and loans share was 25.32 percent of the total central fiscal transfers to Maharashtra.

Thus, the study of the composition of the central fiscal transfers to Maharashtra shows that though there is steady growth in the shared taxes grants and loans to Maharashtra in absolute terms, the relative share of these components in total fiscal transfers shows a wide range of variation in mainly due to the change in the principle followed on by distribution of these transfers and change in quantum of transfers distributed by the like Finance Commission, Planning Commission and Union Ministry. Rise in grants and loans component of total fiscal transfers during the period under study it indicates that more transfers to Maharashtra were came from

Planning Commission and Union Ministry, as they are the important institution, which channels these resource to states in India.

Section – II

B) Central Loans Transfers to Maharashtra

Federal fiscal transfer from the centre to states in India take the following form i) Shared Taxes, ii) Grants and iii) Loans. These three types of resource transfers are channelled through three type of institutional processes in India. I) on the recommendation of the constitutionally appointed Finance Commission, ii) on the advise of the Planning Commission, an extra constitutional advisory type body and iii) at the discretion of Union Ministries, particularly the Union Finance Ministry.

The architects of Indian constitution who made centre financially more stronger that the states felt it necessary to make provision for central loans to states and considered the central loans as one of the important balancing forces that are resorted to correct fiscal imbalance as well as to meet increased expenditure of the states. Article 293(2) of Indian Constitution has given power to the centre to grant loans to states and also to guarantee loans borrowed by states within India. Tax sharing and grants-in-aid devices are direct methods of providing financial assistance to the states, whereas debt allowance or debt adjustment device in an indirect method of rendering financial assistance to the states.

Growing public expenditure of the state along with the inadequacy of their tax and non-tax revenue receipts makes them inevitable to raise loans within India. Though the state government in India loans through different sources internally, the major chunk of the total borrowing of the states comes from the centre. In other words, central loans play an important role in meeting capital expenditure of the state governments of India.

The central loans to states are made for various purpose both plan and non-plan. But bulk it is provided mainly to implement plan schemes. Plan loans to state are provided by the centre on the recommendation of Planning Commission. Plan loans are given to states to implement to total plan schemes envisaged in the respective states as a part of the overall national plan. These loans are conditional in nature and are tied to a particular project. The centre plan loans are given to implement state plan schemes, central plan schemes and central sponsored schemes. These loans are principled in nature because they are given according to certain criterion. Central government provides plan assistance to the states on the advice of Planning Commission which consists both conditional grants and conditional or tied loans. The grants loans component of the plan assistance was not given uniformly prior to 1969 and components varied from programme to programme and from state to state. After 1996, Fourth Five Year Plan onwards the Gadgil formula, the grant – loan compound was fitted as 30:70 on a uniform basis for all states except Jammu & Kashmir and Assam in whose case the ratio was 90:10 i. e. the loan component being 10 percent of the plan assistance. Since 1990 onwards this formula has been modified, but the grant loan component is the same as in the old formula.

Fiscal assistance to states at the discretion of the Union Ministries consists both conditional grants and conditional as well as unconditional loans. Most of this financial assistance is provided for non-developmental programmes such as drought and flood relief work, rehabilitation schemes and non-plan programmes of both developmental and non-developmental nature. At times loan assistance is unauthorized overdrafts of the state with the Reserve Bank of India. Thus, the central loans to states in India are advanced as plan and non-plan assistance for both development and non-development programmes. Loans from the centre help the state government to meet their capital needs.

The Union Government gives plan loans to states for the development of agriculture and allied activities, medium and large scale industries, housing, water supply, education, rural electrification, small scale industries, multi purpose river valley schemes and transports and communication etc.

The growth of central loans to states mainly to finance planned economic development has led to rise in states indebtedness to the centre.

3.7 Gross and Net Loans Receipts from the Centre to Government of Maharashtra : 1990-91 to 2005-06

Table No. 3.4

Gross and Net Loans Receipts from the Centre to Government of Maharashtra : 1990-91 to 2005-06

(Rs. in crores)

Year	Gross Loans Receipts	Net Loans Receipts
1990-91	1296.00	1015.16
1991-92	1534.20	1215.50
1992-93	1214.50	858.66
1993-94	1470.00	1079.58
1994-95	1476.60	1060.41
1995-96	1901.30	1440.05
1996-97	3004.30	2461.90
1997-98	3784.60	3136.70
1998-99	4616.60	3884.60
1999-00	783.70	-33.90
2000-01	741.90	-118.77
2001-02	865.00	-95.61
2002-03	961.76	-160.33
2003-04	1252.41	566.00
2004-05 (RE)	2359.17	2190.00
2005-06 (BE)	3202.07	2735.92

Source : As of Table No. 2.1

Table No. 3.4 gives the details of growth of gross loans receipts of the government of Maharashtra. Net loans receipts year wise also presented in the table. Net loans receipts derived at by deducting repayment of loans made to the centre by the government of Maharashtra each year from the gross loans received each year.

Gross loans from the centre to Maharashtra government in 1990-91 were Rs. 1296 crores which increased to Rs. 1215.50 crores in 1991-92, came down to Rs. 1214.50 crores in 1992-93. But in the next year 1993-94 went upto Rs. 1470.00 crores. In 1995-96 gross loans from the centre aggregated Rs. 1901.30 crores, which rose to Rs. 3004.30 crores in 1997-98. In 1998-99 these loans receipts again increased to Rs. 4616.60 crores. The central loans to Maharashtra in the next two years that is 1999-2000 decreased in amount from Rs. 783.70 crores to Rs. 741.90 crores in 2000-01. From 2001-02 onwards gross loans from the centre to Maharashtra state government have increased constantly. From Rs. 865.00 crores in 2001-02, gross central loans to Maharashtra government increased to Rs. 961.76 crores in 2003-04, Rs. 1252.41 crores in 2003-04 and in 2005-06 estimated at Rs. 3202.07 crores. Gross loans from the centre to Maharashtra state government have increased but with fluctuations trends during the period under study.

Table No. 3.4 shows net central loans from the centre to government of Maharashtra. Net central loans from the centre to Maharashtra also indicate the fluctuation in growth trends during 1990-91 to 2005-06. However, the amount of loans is lesser than gross loans receipts as net loans are derived at after deducting yearly repayments made to the centre by the government of Maharashtra from the gross loans receipts received each year. As amount of central loans to Maharashtra increases, the volume of repayment also will increase in year to come and this affects the net loan availability for se purpose. In recent year especially the successive Finance Commission have provided adequate debt relief to states and this as reduced the burden of repayment and therefore net loan availability also as increased. Net central loans from the centre to the government of Maharashtra in 1990-91 were Rs. 1015.16 crores, which increased to 1215.50 crores in 1991-92. In 1992-93 net loans, receipts came down to Rs. 858.66 crores. In 1993-94 net loans from the centre again rose up to Rs. 1079.58 crores but from 1994-95 these loans again decreased from Rs. 1060.41 crores. In the subsequent year 1995-96, they again increased to Rs. 1440.05 crores. Net central loans receipts in 1998-99 were the larger amount during the period of study that is Rs. 3884.6 crores. Later on four year negative net availability of loans from the centre to government of Maharashtra. Net central loans availability to Maharashtra state was Rs. – 33.9 crores, - 118.77 crores, - 95.61 crores, - 160.33 crores in the year 1999-2000, 2000-01, 2001-02, 2003-03 respectively. Because repayment of central loans more than gross loans transfers to Maharashtra. Net loans from the centre to the state government of Maharashtra again increased from Rs. 566.00 crores in 2003-04 to Rs. 2190.00 crores in 2004-05 and an estimated Rs. 2735.92 crores in 2005-06.

3.8 Significance of Central Loans in the Capital Receipts of Government of Maharashtra : 1990-91 to 2005-06

The capital receipts of the state in India consists of the own debt receipts, central loans, recovery of loans and advance, contingency and reserve fund and other capital receipts.

Table No. 3.5

Significance of Central Loans in the Capital Receipts Mobilisation of Government of Maharashtra : 1990-91 to 2005-06

(Rs. in crores)

Year	Capital Receipts	Central Loans	Central Loans as % of Capital Receipts
1990-91	2300.10	1296.00	56.35
1991-92	3201.00	1534.20	47.93
1992-93	2481.00	1214.50	48.95
1993-94	2933.00	1470.50	50.05
1994-95	5543.10	1476.60	26.64
1995-96	5012.00	1901.30	37.93
1996-97	5596.00	3004.30	53.69
1997-98	7602.40	3784.60	49.78
1998-99	9334.70	4616.60	49.46
1999-00	1187.00	783.70	7.01
2000-01	12912.80	741.90	5.75
2001-02	11499.30	865.00	7.52
2002-03	16109.60	961.78	5.97
2003-04	18221.58	1252.41	6.87
2004-05 (RE)	19679.10	2359.17	11.99
2005-06 (BE)	12835.36	3202.07	24.95

Source : As of Table No. 2.1

Table No. 3.5 depicts the growth of capital receipts of the government of Maharashtra and relative percentage share of central loans in the total capital receipts of Maharashtra during the period 1990-91 to 2005-06. Loans from the centre to government of Maharashtra a major source of total capital receipts.

Table No. 3.5 shows that capital receipts of Maharashtra continuous increasing trend during the period under study. In 1990-91, total capital receipts of Maharashtra were Rs. 2300.10 crores, which rose to Rs. 5545.10 crores in 1994-95. In 1996-97, total capital receipts of Maharashtra were Rs. 5012.00 crores and in 1997-98, they rose to Rs. 7602.40 crores. In 2000-01, capital receipts of government of Maharashtra increased to Rs. 12912.80 crores. In 2002-03, total capital receipts of government of Maharashtra were Rs. 16109.60 crores and they rose to Rs. 18221.58 crores in 2003-04 and further rose to Rs. 19679.10 crores in 2004-05. In 2005-06 budget estimate capital receipts of government of Maharashtra decreased to Rs. 12835.36 crores.

Table No. 3.5 also shows central loans to Maharashtra form a major share of capital receipts of government of Maharashtra. In 1990-91 amount of central loans to Maharashtra were Rs. 1296.00 crores, which were 56.35 percent of capital receipts of Maharashtra. In 1991-92, total central loans to Maharashtra rose to Rs. 1534.20 crores and formed 47.93 percent of capital receipts. In 1996-97 central loans receipts to government of Maharashtra rose to Rs. 3004.30 crores and they formed more than 50 percent of capital receipts. In 1997-98, central loans transferred to Maharashtra were Rs. 4616.60 crores and their percentage share in capital receipts of Maharashtra was 49.46 percent. Since 1999-2000 total amount of central loans to Maharashtra fluctuated trend during study period. In 1999-2000 total amount of central loans to government of Maharashtra were Rs. 783.70 crores, which were only 7.01 percent of total capital receipts. In 2000-01, central loans transferred to Maharashtra were Rs. 961.78 and their percentage share in capital receipts of Maharashtra was 5.97 percent. In 2003-04, total central loans to Maharashtra rose to Rs. 1252.41 crores and formed 6.87 percent of capital receipts. In 2005-06, budget estimate total central loans to Maharashtra were Rs. 3202.07 crores, which formed 24.95 percent of capital receipts.

Thus, from the above table it is clear that the central loans to Maharashtra showed a fluctuated trend during 1990-91 to 2005-06. Central loans to government of Maharashtra as proportion of total capital receipts fluctuated between 5.75 to 56.35 percent during the period 1990-91 to 2005-06. Table also shows that central loans to Maharashtra have as a proportion of total capital receipts, dipped to a very low level in the 21^{st} century. In the year 2000-01, the share was 5.75, in the year 2003-04 it was 6.87 and in the year 2005-06 it was 24.95.

3.9 Financing of Capital Expenditure by Central Loans of Maharashtra : 1990-91 to 2005-06

The capital expenditure of state government of India consist of total capital outlay and discharge of internal debt, repayment of loan to the centre, loans and advance by state government to third parties and institution etc.

Table No. 3.6 shows that growth of capital expenditure of Maharashtra, growth of central loans and the extent of capital expenditure financed by central loans.

Table No. 3.6

Financing of Capital Expenditure by Central Loans of Maharashtra : 1990-91 to 2005-06

(Rs. in crores)

Year	Capital Expenditure	Central Loans	Central Loans as % of Capital Expenditure
1990-91	2018.60	1296.00	64.20
1991-92	2002.80	1534.20	76.60
1992-93	2466.90	1214.50	49.23
1993-94	2874.40	1470.00	51.14
1994-95	5214.10	1476.60	28.32
1995-96	4208.10	1901.30	45.18
1996-97	4159.20	3004.30	72.23
1997-98	4778.60	3784.60	79.20
1998-99	4654.20	4616.60	99.19
1999-00	8705.20	783.70	9.00
2000-01	4807.20	741.90	15.43
2001-02	4198.00	865.00	20.61
2002-03	6743.00	961.76	14.26
2003-04	10101.13	1252.41	12.40
2004-05 (RE)	10777.93	2359.17	21.89
2005-06 (BE)	9861.93	3202.07	32.47

Table No. 3.6 shows that fluctuated growth in the capital expenditure of Maharashtra. In 1990-91, total capital expenditure of Maharashtra was Rs. 2018.60 crores, which increased to Rs. 5214.10 crores in 1994-95 and also decreased to Rs. 4159.20 crores in 1996-97. Further increased to Rs. 8705.40 crores in 1999-2000. In 2000-01, capital expenditure of Maharashtra was Rs. 4807.20 crores and they decreased to Rs. 4198.00 crores in 2001-02.

In 2003-04, capital expenditure of Maharashtra was Rs. 10101.13 crores and they rose to Rs. 10777.97 crores in 2004-05. In 2005-06, budget estimate total capital expenditure of Maharashtra was Rs. 9861.93 crores.

Table No. 3.6 also shows growth of central loans and the extent of capital expenditure financed by central loans. In 1990-91, central loans to Maharashtra were Rs. 1296.00 crores and they financing nearly 64.20 percent of capital expenditure. In 1991-92 central loans to Maharashtra was Rs. 1534.20 crores, which financed 49.23 percent of capital expenditure and in 1992-93 central loans to Maharashtra were 1214.50 crores, which financed 49.23 percent of capital expenditure. In 1994-95, central loans to Maharashtra were Rs. 1476.60 crores and the financed 28.32 percent of the capital expenditure of Maharashtra. In 1997-98, central loans were of Rs. 3784.60 crores, which financed 79.20 percent of capital expenditure. In 1998-99, central loans increased to Rs. 4616.60 crores, which financed 99.19 percent of total capital expenditure. During 1990-91 to 1998-99 central loans to Maharashtra financed more than 45 percent except the year 1994-95. Later on period growth in central loans reflected fluctuation trend and they financed relatively small part of capital expenditure of government of Maharashtra. In 1999-2000, central loans to Maharashtra were Rs. 783.70 crores and financed only 9.00 percent of capital expenditure. In 2001-02 central loans was of Rs. 865.00 crores, which financed 20.61 percent of capital expenditure.

In 2003-04, central loan to Maharashtra increased to Rs. 1252.41 crores and it financed 12.40 percent of capital expenditure and in 2004-05 further increased to Rs. 2359.17 crores and it financed more than 20 percent.

In 2005-06, budget estimate central loans increased to Rs. 3202.07 crores, which financed 32.47 percent of capital expenditure of government of Maharashtra.

Thus, the above table reveals that the central loans percentage share in financing total capital expenditure shows a fluctuated trend during the period of study. Central loans to government of Maharashtra as percentage share in financing to total capital expenditure fluctuated between 9.00 to 99.19 percent during the period 1990-91 to 2005-06.