

Fiscal Reforms Programme for States

2.53 Subsequent to the award of the Eleventh Finance Commission (EFC), Government of India had drawn up a scheme called the States' Fiscal Reforms Facility (2000-01 to 2004-05). To this end an Incentive Fund of Rs.10,607 crore has been earmarked over a period of five years to encourage States to implement monitorable fiscal reforms. Additional amounts by way of open market borrowings etc are allowed if the State concerned has a structural adjustment burden, necessitating (i) voluntary retirement/severance payments for downsizing Public Sector Enterprises (PSEs) and (ii) debt swap for bringing down interest payments. Under this facility the State Governments are invited to draw up a Medium Term Fiscal Reforms Programme (MTFRP) with the objectives of bringing down:

- the consolidated fiscal deficit to sustainable levels by 2005;
- the consolidated revenue deficit, so that in the aggregate, the revenue deficit is eliminated altogether by 2005; and
- the Debt/GDP ratio including contingent liabilities to sustainable levels, both in terms of stability and solvency.

2.54 The MTFRP of States combine policies in the following areas:

Fiscal Consolidation : These measures aim at improving tax and non-tax receipts, reprioritization of expenditures, targeting non-merit subsidies and phasing them out, etc.

Public Sector Enterprise Reforms : These aim at winding up loss making PSEs, privatization of PSEs, restructuring of such PSEs as are felt to be absolutely necessary to continue in the public domain.

Power Sector Reforms : These aim at corporatization and unbundling of the SEBs, 100 per cent metering up to 11 KV levels, implementing the awards of the Electricity Regulatory Commissions, provision of lump-sum subsidies from the State budget in such cases where the utilities' losses are phased out. The main monitorable milestone here, is the gap between average cost of power/kwh (on an

accrual basis) and the average revenue realized/kwh (on a cash basis). The utilities have been sensitized to eliminate this gap over the next 5 years.

Fiscal Transparency : These measures inter alia, aim at full disclosure in State budgets especially with regard to subsidies, guarantees and the level of civil service employment.

2.55 Considerable flexibility has been provided to the States in designing the MTFRP. The State MTFRPs are considered by a committee comprising officials from the State Government concerned, Ministry of Finance, Government of India, Planning Commission and outside experts. Releases from the Incentive Fund are based on a single monitorable fiscal parameter for the State which provides for a 5 percentage point reduction in the revenue deficit as a proportion to the States total revenue receipts in each year till 2004-05. However, for the States which are revenue surplus, a 3 percentage point improvement in Balance from Current Revenue (BCR) is required to trigger off the release from the Incentive Fund. The base year is the financial year 1999-2000. Releases are rule-based and not discretionary. The improvement in the revenue balance and associated policy measures suggested in the course of the MTFRP form the basis of a Memorandum of Understanding (MoU). Typically, the MoU has two components in each sector of reform (i.e. fiscal consolidation, PSE reforms, etc.)

Outcome Indicators : which are the approved projected numbers pertaining to the deficits, debt stock, subsidy reduction, tax and non-tax receipts, etc.; and

Process Indicators : are the monitorable administrative milestones necessary to meet the projected outcomes sector-wise. These include notifications, enabling legislation, acting upon recommendations of Regulatory Commissions, etc.

2.56 Till date, the MTFRP has been finalized for nine States, namely, Nagaland, Andhra Pradesh, Karnataka, Orissa, Kerala, Arunachal Pradesh, West Bengal, Himachal Pradesh and Manipur. So far, MoU have been signed with

the Government of Orissa, Karnataka and Nagaland in consultation with the Ministry of Finance. MoU with respect to six other States are being drawn up by the respective Governments. The Incentive Fund of about

Rs.786 crore for the year 2000-01 has been released in the current financial year to eight States viz. Nagaland, Orissa, Kerala, Karnataka, Arunachal Pradesh, West Bengal, Himachal Pradesh and Manipur.