III Policy Initiatives

State governments have initiated policies relating to expenditure and taxation to conform to the norm of fiscal prudence for the year 2012-13. To augment their revenue, many states have levied user charges on various social and economic services; tax rates have also been raised on alcohol products. Information technology (IT) is being used to improve tax compliance and to reduce the cost of tax administration. E-governance is one initiative that has found a place in the budgets of most states as it would make the government-citizen interface friendlier and more transparent. Measures have been taken to tackle the supply side constraints that impact on food inflation. The major portion of expenditure is concentrated in sectors such as education, health, agriculture, industries, infrastructure and social security. Many states have rationalised their expenditure under various heads through austerity measures, abolition of vacant posts and outsourcing of different government activities. Measures have been initiated to strengthen the public distribution system (PDS) as food security has drawn the attention of most states. Public private partnership (PPP) is being used to develop the social and economic infrastructure. Various measures have been taken to strengthen local bodies.

1. Introduction

3.1 States, in their budgets for 2012-13, have sought to augment their revenues through tax and non-tax measures even while continuing to address the issue of inflation in essential commodities through exemption/reduction in value added tax (VAT) rates on specific commodities. On the expenditure front, large allocations have been made in important sectors such as education, health, agriculture, industries, infrastructure and social security to attain the Twelfth Five-Year Plan objective of sustainable and inclusive growth. States have attempted to rationalise their expenditure through specific measures and promote public private partnerships (PPP) in building the physical and social infrastructure. Focus has also been placed on strengthening e-governance to improve efficiency and transparency in government services. This chapter sets out the policy initiatives and schemes that have been proposed/initiated by state governments, their medium-term fiscal stance in terms of deficit targets, and policy measures taken by the Government of India and the Reserve Bank that would impact state finances.

2. State Governments

3.2 States have announced proposals/ initiatives in their budgets that would enable them to conform to the fiscal prudence norms set by the Thirteenth Finance Commission (FC-XIII). The broad fiscal stance of the states has been towards enhancing their own tax and non-tax collections, while continuing with their existing pattern of expenditures.

Revenue Measures

3.3 The thrust of the tax policy of the states has been on the rationalisation of tax rates, introduction of new taxes, revival of discontinued taxes and improving tax administration and tax compliance through the use of information technology.

3.4 Most states have raised their value added tax (VAT) rate on certain commodities such as tobacco and allied products (Bihar, Goa, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Rajasthan), liquor products (Goa, Jammu & Kashmir, Kerala, Meghalaya, Tamil Nadu), junk food and fast food (Goa), vehicles (Goa, Karnataka), carbonated soft drinks (Goa), luxury goods (West Bengal) and plastic woven fabrics (Karnataka, Kerala). Other taxes that have been raised include luxury tax, entertainment tax and advertisement tax (Madhya Pradesh), vehicle tax (Bihar, Maharashtra), excise duty on liquor/beer (Karnataka, Meghalaya, Odisha), lump sum tax payable by private bookmakers (Karnataka) and land and road tax (Kerala).

3.5 Given the ascendance of real estate activities in recent years, states have tried to tap into this source to augment their resources by introducing taxes on the sale price of residential and commercial flats (Bihar), property tax (Arunachal Pradesh), luxury tax on the space or the premises rented for commercial activities (Goa), marriage halls (Jharkhand, Karnataka) and seminar and convention halls (Karnataka). The coverage of the existing taxes has also been widened; stamp duty would include agreements relating to advertisements for business development, granting of exclusive rights for telecasting/broadcasting programmes and assignment of intellectual property rights in Karnataka, and entertainment tax has been extended to cover direct-to-home (DTH) broadcasting service providers in Odisha. West Bengal has proposed a compensatory entry tax fund by levying a life-time tax on registration of vehicles and on entry of goods into local areas of the state. Jharkhand has imposed an entry tax on 63 commodities to protect industries in the state. Certain commodities such as LPG for domestic use (Maharashtra) and vegetable oil (Tamil Nadu) that were earlier exempt from tax have been brought into the tax net. States have also sought to rationalise certain taxes like the motor vehicle tax (Goa, Kerala, Maharashtra, Tamil Nadu), luxury tax (Assam), stamp duty structure (Gujarat, Kerala), introduction of an entry toll on all vehicles registered outside the state (Goa); and upward revision of the toll rate (Jammu & Kashmir). Odisha proposes to introduce progressivity in profession tax.

3.6 The majority of states have sought to improve tax compliance and reduce the costs of tax administration through the use of information technology. The government of Kerala proposes to set up an Economic Intelligence Wing for detecting and taking action on technology-aided tax evasion. While Madhya Pradesh proposes to computerise VAT administration, the Maharashtra government proposes to levy a late fee on delayed filing of tax returns.

3.7 Certain tax measures have been taken by the states to tackle the problem of food inflation. Specific tax measures to reduce the pressure on food prices include (i) abolition of VAT on select cereals (Tamil Nadu) and continuation of tax exemption on cereals and pulses (Jammu & Kashmir, Karnataka, Maharashtra); and (ii) tax reduction on daily household goods and ethnic foods (Kerala), cereals and pulses (Rajasthan) and sweetmeats and milk products (Himachal Pradesh). Supply-side measures taken to promote agricultural production include exemption from VAT on agricultural appliances (Bihar), fertilisers and fungicides (Jammu & Kashmir); exemption from agricultural income tax for partnership firms engaged in plantation (Karnataka); and exemption from service tax on crop and cattle insurance (Jammu & Kashmir).

3.8 Various states have also reduced taxes on petroleum products, such as VAT on petrol (Goa, Rajasthan) and aviation turbine fuel (Goa) and sales tax on diesel and on high-flash high-speed diesel sold to foreign-bound vessels (Karnataka). Andhra Pradesh, which has the highest VAT rate on petrol in the country, cut the rate by 2 percentage points to 31 per cent in June 2012. Some states took certain fiscal measures, which would reduce their tax revenue or increase their subsidy, to reduce the impact of the hike in diesel prices and the restriction on the supply of subsidised cylinders effected by the central government in September 2012.

3.9 On the non-tax front, states have proposed measures such as paper lotteries (Arunachal Pradesh), user charges/cost recovery from social and economic services (Gujarat, Jammu & Kashmir, Meghalaya, Mizoram, Nagaland, West Bengal); royalty fee on non-agricultural use of water (Uttar Pradesh); registration fee (Kerala); and licence fee on both on-shore and off-shore casinos (Goa), for liquor products (Assam, Odisha, Uttar Pradesh) and on bars in restaurants (Odisha).

Expenditure Measures

3.10 State governments have allocated a large proportion of their expenditure in 2012-13 to important sectors such as education, health, agriculture, industries, infrastructure and social security. In addition to the above, e-governance is one initiative that has drawn the attention of almost all the state governments, as it would make the government-citizen interface more friendly and transparent. Some states have tried to rationalise their expenditure on various heads such as abolishing vacant posts and outsourcing different government activities. The major expenditure measures are discussed below in greater detail.

3.11 Given the significance of agriculture and allied activities in containing inflation, almost all the major states have made a higher allocation for the agriculture sector in 2012-13. In addition to several schemes being implemented under central government initiatives, state-specific initiatives include (i) the system of pulses intensification based on the 'Whole Village Concept' (Tamil Nadu); (ii) improving irrigation facilities by linking rivers (Bihar, Tamil Nadu) and rainwater harvesting (West Bengal, Gujarat); (iii) improving credit availability and reducing the cost of credit by extending free/ subsidised/ cheap agricultural loans to farmers (Andhra Pradesh, Assam, Chhattisgarh, Karnataka, Tamil Nadu, Odisha), increasing the coverage of existing schemes of low interest crop loans (Maharashtra), bearing a major portion of the cost of small irrigation facilities built by farmers (Chhattisgarh) and an interest waiver on agricultural credit (Goa, Gujarat); (iv) subsidising different inputs used for agricultural and allied production, such as inputs in cultivation of cashew and other plantation crops (Goa), green fodder for milk farmers to increase the local production of milk (Goa) and electricity consumed for agriculture (Maharashtra); (v) increasing the minimum support price for raw cashew (Goa); (vi) establishing a revolving fund to avoid delayed payments under the crop insurance scheme (Tamil Nadu) and tax exemption on insurance for agricultural and allied activities (Jammu & Kashmir); and (vii) setting up food processing units and constructing laboratories for quality control and organic certification (Arunachal Pradesh).

3.12 Food security has become one of the prime objectives for almost all state governments. In this context, states have focused on decentralisation of food procurement to ensure that public distribution system (PDS) requirements are met to the extent possible from the procurement operations within the state. Measures have also been taken to improve the administration and efficiency of the PDS to ensure food security and reduce the subsidy. These include (i) e-PDS software applications in all districts (Arunachal Pradesh); (ii) digitisation of ration cards (Gujarat, Kerala, West Bengal); and (iii) computerisation of the PDS system (Himachal Pradesh, Mizoram, Rajasthan, Uttarakhand). Measures to minimise wastage of cereals and augment storage facility include the establishment of food depots in all district headquarters (Arunachal Pradesh) and the extension of free land and financial help to co-operative societies for building storage facilities for agricultural products (Madhya Pradesh).

3.13 States governments have also taken various policy initiatives to promote industrial growth and industrialisation. These include provision of interest subsidies to the textile industry and subsidy in electricity bills to the power loom industry (Maharashtra); financial concessions to Oil and Natural Gas Corporation (ONGC) for the establishment of a petroleum refinery (Rajasthan); construction of Information Technology parks in Lucknow (Uttar Pradesh); and the establishment of National Manufacturing and Investment Zones (Rajasthan).

3.14 Many states are trying to improve connectivity within blocks, districts and states by taking up construction of roads and bridges and facilitating power generation, which are important inputs for industrial development. The major initiatives are water-based transport network (Goa, Gujarat and Maharashtra[1], Meghalaya) and infrastructure development for operating small aircrafts (Nagaland). Given the energy constraint in the country, particularly in conventional energy sources, several states sought to explore options for alternative sources of energy.

3.15 For the development of the social sector, state governments proposed several measures relating to education, health, housing, social security, women empowerment and welfare of scheduled castes and tribes and minorities. There are some initiatives to improve educational, health and employment facilities that are common to almost all the states. These include setting up new schools, colleges, universities, dedicated institutes, hostels, skill development centres, industrial training institutes, hospitals and primary health centers; imparting soft skills and vocational skills to unemployed youth in states and providing free laptops to students, scholarships, unemployment allowance and pension. Almost all states are trying to improve the availability of drinking water.

3.16 Initiatives related to the health sector include provision of health security to all BPL families (Arunachal Pradesh, Punjab); free treatment in government health institutions to all children (Haryana), all pregnant women (Assam), all babies up to the age of one year and their mothers (Himachal Pradesh) and patients suffering from cancer, heart and liver diseases (Uttar Pradesh); financial assistance for pre- and post-natal care (Odisha); a free health insurance scheme for all families (Chhattisgarh) and a comprehensive health insurance scheme (Tamil Nadu).

3.17 The development of infrastructure and other services through public-private partnerships (PPP) has been another priority area in terms of policy initiatives of the states in 2012-13. The PPP mode is envisaged in (i) irrigation infrastructure (Arunachal Pradesh); (ii) road infrastructure (Uttar Pradesh, Haryana, Maharashtra, Odisha); (iii) transport infrastructure (Rajasthan, Karnataka); (iv) the health sector (Uttarakhand, Arunachal Pradesh); (v) solid waste management

[1] Nariman Point-Borivali West Coast Water Transport Project.

in municipalities (Jharkhand, Uttar Pradesh, Tamil Nadu); (vi) tourism infrastructure (Arunachal Pradesh); and (vi) sports infrastructure (Uttar Pradesh).

3.18 States have attempted to rationalise their expenditure through policy initiatives, such as austerity measures (Punjab, Jammu & Kashmir[2], Manipur, Sikkim); abolition of vacant posts (Gujarat) and posts identified as redundant (Meghalaya); recruitment through the stipendiary mode and outsourcing of different government activities (Jammu & Kashmir); a ban on recruitment in all sectors, excluding essential sectors[3] and recruitment, if required, to be done only on contractual basis (Odisha).

3.19 State governments have been formulating policies to improve the delivery mechanism of government services and to make the government-citizen interface more friendly and transparent. Steady advances have been made in e-governance for this purpose by most of the state governments. Some policies in this regard are the *Mee Seva* project, which provides a simpler interface between the government and the citizen (Andhra Pradesh), and e-tendering and e-procurement systems (Goa).

Institutional Measures and Other Major Policy Initiatives

3.20 The institutional measures adopted by state governments such as the Fiscal Responsibility and Budget Management (FRBM) Acts, value added tax (VAT), new pension scheme (NPS), and setting up a consolidated sinking fund (CSF) and guarantee redemption fund (GRF) have helped them consolidate their finances in the past decade (Table III.1).

3.21 Measures have been taken by the states in their budgets for 2012-13 to strengthen their local bodies through transfer of functions, functionaries and funds. These include holding of panchayat elections, which witnessed over 80 per cent voter turnout (Jammu & Kashmir); conversion of gram panchayats into new urban local bodies to provide better civic and infrastructure facilities (Andhra Pradesh); transfer of a large number of listed activities, along with the connected functions, from state government ministries/departments to the panchayats, block development councils and the district planning & development boards (Jammu & Kashmir); promotion of participatory governance to ensure that planning is done at the village level by local self-government (Goa); substantial increase in untied grants to the local bodies under the State Finance Commission (Andhra Pradesh); appropriate funding for effective waste management to municipalities and panchayats (Goa); and adoption of an innovative 'RURBAN' approach under which urban amenities are provided in the rural areas while still retaining the flavour of rural life (Gujarat).

Medium-Term Fiscal Stance of the States

3.22 Targets related to various fiscal indicators were recommended by the FC-XIII for all the states. A comparison of the rolling targets for revenue and fiscal deficit for 2013-14 and 2014-15[4], with the respective FC-XIII targets is given in Tables III.2 (a & b) and III.3, respectively. Most of the states (with the exception of Assam) have

[2] Austerity measures imposed in 2009 continue to remain in force.

[3] Police, doctors, nurses, *etc.*

[4] Of the 28 states, 27 states have set out their rolling targets for deficits in the medium-term fiscal policy statements of the state budgets. Of these, 17 states have expressed their revenue deficit targets in terms of GSDP and 10 states have expressed them in terms of revenue receipts.

Table III.1: Institutional Reforms by State Governments

State		Value Added Tax (VAT) Implemented	Fiscal Responsibility Legislation (FRL) enacted#	New Pension Scheme (NPS) introduced	Ceilings on Guarantee Imposed	Consolidated Sinking Fund (CSF) set up*	Guarantee Redemption Fund (GRF) set up*
1		2	3	4	5	6	7
1.	Andhra Pradesh	April 2005	June 2005	September 2004	Yes	Yes	Yes
2.	Arunachal Pradesh	April 2005	March 2006	January 2008	Yes	Yes	No
3.	Assam	May 2005	September 2005	February 2005	Yes	Yes	No
4.	Bihar	April 2005	April 2006	September 2005	Yes	Yes	No
5.	Chhattisgarh	April 2006	September 2005	November 2004	Yes	Yes	No
6.	Goa	April 2005	May 2006	August 2005	Yes	Yes	Yes
7.	Gujarat	April 2006	March 2005	April 2005	Yes	Yes	Yes
8.	Haryana	April 2003	July 2005	January 2006	Yes	Yes	Yes
9.	Himachal Pradesh	April 2005	April 2005	May 2003	Yes	No	No
10.	Jammu & Kashmir	April 2005	August 2006	January 2010	No	No	No
11.	Jharkhand	April 2006	May 2007	December 2004	No	No	No
12.	Karnataka	April 2005	September 2002	April 2006	Yes	No	No
13.	Kerala	April 2005	August 2003	No@	Yes	Yes	No
14.	Madhya Pradesh	April 2006	May 2005	January 2005	Yes	No	Yes
15.	Maharashtra	April 2005	April 2005	November 2005	Yes	Yes	No
16.	Manipur	July 2005	August 2005	January 2005	Yes	Yes	Yes
17.	Meghalaya	April 2006	March 2006	April 2010	Yes	Yes	No
18.	Mizoram	April 2005	October 2006	September 2010	Yes	Yes	Yes
19.	Nagaland	April 2005	August 2005	January 2010	Yes	Yes	Yes
20.	Odisha	April 2005	June 2005	January 2005	Yes	Yes	Yes
21.	Punjab	April 2005	October 2003	January 2004	Yes	No	No
22.	Rajasthan	April 2006	May 2005	January 2004	Yes	No	No
23.	Sikkim	April 2005	September 2010	April 2006	Yes	No	No
24.	Tamil Nadu	January 2007	May 2003	April 2003	Yes	Yes	No
25.	Tripura	October 2005	June 2005	No	Yes	Yes	No
26.	Uttarakhand	October 2005	October 2005	October 2005	Yes	Yes	Yes
27.	Uttar Pradesh	January 2008	February 2004	April 2005	No	No	No
28.	West Bengal	April 2005	July 2010	No	Yes	Yes	No
Sum-up		**28**	**28**	**25**	**25**	**19**	**10**

#:All states barring Goa have amended their FRBM Acts. *: As per RBI record.
@: The state government has decided in principle to introduce the New Pension Scheme with effect from April 1, 2013.

projected better performance in their revenue account than envisaged by FC-XIII. The targets for gross fiscal deficit-GSDP ratios set by states for the same years remain within the FC-XIII targets for all the states (Table III.3).

3.23 The deficit targets are based on the assumption that a certain level of GSDP growth would be observed. Some states have quantified their GSDP growth rates, which are broadly in line with the GSDP growth rates given by the FC-XIII (Table III.4). For Chhattisgarh, Punjab and Mizoram, the assumed GSDP growth rates are higher than both the FC-XIII projection as well as the average growth in the previous two years (2010-11 and 2011-12). Any shortfall in these growth rates may affect the revenue collection of the states which, in turn, can adversely affect their fiscal health.

Table III.2a: Revenue Deficit as percentage of GSDP for 2013-14 & 2014-15 : Comparison with FC-XIII Targets

	Revenue Deficit as per cent of GSDP			
	2013-14		2014-15	
	FC-XIII Target	Target set by State	FC-XIII Target	Target set by State
1	2	3	4	5
Non-Special Category States				
Andhra Pradesh*	0.0	-	0.0	-
Bihar	0.0	-2.5	0.0	-2.4
Gujarat$	0.0	-0.5	0.0	-0.5
Jharkhand	0.0	-1.0	0.0	-
Karnataka	0.0	-0.5	0.0	-0.7
Kerala	0.5	0.4	0.0	0.0
Madhya Pradesh	0.0	-2.0	0.0	-2.1
Maharashtra	0.0	0.0	0.0	0.0
Odisha	0.0	-0.8	0.0	-0.6
Punjab	0.6	0.6	0.0	-0.1
Uttar Pradesh	0.0	-0.9	0.0	-0.9
West Bengal	0.5	0.5	0.0	0.0
Special Category States				
Arunachal Pradesh	0.0	-22.9	0.0	-
Assam$	0.0	0.2	0.0	0.1
Mizoram	0.0	-7.7	0.0	-7.7
Sikkim	0.0	-17.8	0.0	-18.2
Uttarakhand	0.0	-0.5	0.0	-0.4

* : The state has not indicated any targets for its revenue account.

$: The RD target has been calculated from the absolute value of RD and GSDP given in the medium-term fiscal policy statements of the state budget.

Note: Negative sign indicates surplus

Table III.2b: Revenue Deficit as percentage of Total Revenue Receipts for 2013-14 & 2014-15

	Revenue Deficit as percentage of Total Revenue Receipts			
	2013-14		2014-15	
	FC-XIII Target	Target set by State	FC-XIII Target	Target set by State
1	2	3	4	5
Non-Special Category States				
Chhattisgarh	–	-6	–	-7.0
Haryana	–	-0.6	–	-1.4
Rajasthan	–	-1.4	–	-1.3
Tamil Nadu	–	-2.8	–	-3.2
Special Category States				
Himachal Pradesh	–	-2.2	–	-1.9
Jammu & Kashmir	–	-14.5	–	-14.8
Manipur	–	-17.8	–	-17.7
Meghalaya	–	-13.4	–	-12.2
Nagaland	–	0	–	0
Tripura	–	0	–	0

'–' : FC-XIII target is expressed as ratio to GSDP.

Note: Negative sign indicates surplus.

New Budgetary Practices at the State level

3.24 Following the practice at the central government level, the Kerala budget for 2012-13 has published the effective revenue deficit by netting out grants for asset creation from the revenue deficit.

3. Government of India

3.25 The central government undertook various measures during the year that would entail

Table III.3: Fiscal Deficit for 2013-14 & 2014-15: Comparison with FC-XIII Targets

	Gross Fiscal Deficit as percentage of GSDP			
	2013-14		2014-15	
	FC-XIII Target	Target set by State	FC-XIII Target	Target set by State
1	2	3	4	5
Non-Special Category States				
Andhra Pradesh	3.0	3.0	3.0	3.0
Bihar	3.0	3.0	3.0	3.0
Chhattisgarh	3.0	3.0	3.0	3.0
Gujarat	3.0	2.8	3.0	2.8
Haryana	3.0	1.6	3.0	1.4
Jharkhand	3.0	2.5	3.0	-
Karnataka	3.0	3.0	3.0	3.0
Kerala	3.0	3.0	3.0	3.0
Madhya Pradesh	3.0	3.0	3.0	3.0
Maharashtra	3.0	1.7	3.0	1.8
Odisha	3.0	2.3	3.0	2.6
Punjab	3.0	3.0	3.0	2.3
Rajasthan	3.0	2.4	3.0	2.6
Tamil Nadu	3.0	2.9	3.0	2.9
Uttar Pradesh	3.0	2.9	3.0	2.9
West Bengal	3.0	3.0	3.0	3.0
Special Category States				
Arunachal Pradesh	3.0	3.0	3.0	-
Assam	3.0	2.1	3.0	2.0
Himachal Pradesh	3.0	2.7	3.0	2.8
Jammu & Kashmir	3.6	3.6	3.0	3.0
Manipur	3.0	3.1	3.0	3.0
Meghalaya	3.0	2.1	3.0	2.4
Mizoram	4.1	3.0	3.0	3.0
Nagaland	3.0	3.0	3.0	3.0
Sikkim	3.0	3.0	3.0	3.0
Tripura	3.0	3.0	3.0	3.0
Uttarakhand	3.0	3.0	3.0	3.0

Table III.4: Assumption Regarding Growth Rate of GSDP

(Per cent)

	Assumed GSDP Growth Rates for 2013-14 and 2014-15	Projection given by FC-XIII (2013-14 and 2014-15)	Average growth rate of previous two years (2010-11 to 2011-12)*
1	2	3	4
Assam	11.5 #	11.5	11.7
Bihar	11.5	11.5	20.2
Chhattisgarh	21.1	12.5	16.9
Gujarat	14.5 #	14.5	17.2
Himachal Pradesh	13.5	13.5	21.3
Karnataka	14.5	14.5	15.4
Kerala	14.5	14.5	18.6
Maharashtra	9-10	14.5	14.4
Manipur	11.4 & 11.7 #	11.2	10.7
Mizoram	14.7 & 14.8 #	10.3	13.6
Odisha	15	12.5	18.1
Punjab	14	11.5	12.8
Uttar Pradesh	11.5	11.5	15.2
Uttarakhand	12.6	12.6	19.6

* : Based on latest available CSO data.
\# : Calculated based on the absolute value of GSDP given in the medium-term fiscal policy statements of the state budget.

financial and/or administrative co-operation of the states. Some of the important measures are detailed below.

3.26 The introduction of goods and services tax (GST) would require a strong information technology (IT) infrastructure and service backbone to enable capture, processing and exchange of information among the various stakeholders in GST *viz.,* taxpayers, central and state governments, banks and the Reserve Bank. In this context, the central government has approved the creation of a special purpose vehicle to be called the goods and services tax network (GSTN SPV) that would primarily be responsible for implementation and sustenance of the IT infrastructure for GST. The necessary documents for incorporation of the GSTN SPV are being finalised. The GSTN SPV would, *inter alia*, host a portal that can be shared by all states and the centre and which will act as an IT platform to integrate the central and state indirect tax regimes. The GSTN will implement common PAN-based registration, returns filing and payments processing. The usage of PAN will enhance transparency and check tax evasion, as it would be a common identifier in both direct and indirect taxes. To address issues relating to the introduction of GST, the government has set up two sub-committees, one to examine the compensation issue and the other for the design of the new tax regime.

3.27 A new centrally-sponsored scheme titled “National Mission on Food Processing (NMFP)” has been approved for launch, in co-operation with the state governments in 2012-13. Its objective is to decentralise some central schemes so as to give states a greater role in the administration of these schemes. Accordingly, states are required to constitute a state food processing mission (SFPM) at each state level and a district food processing mission (DFPM) at each district level. The NMFP scheme would help states/union territories maintain the requisite synergy between the agriculture plans of states and development of the food processing sector, which in turn would help increase farm productivity, thereby boosting farmers’ incomes. By bridging infrastructure and institutional gaps, this would also ensure an efficient supply chain. Schemes that are directly being implemented by the central government, such as technology upgradation, modernisation of food processing industries, cold chains, value addition and preservation infrastructure for non-horticultural products, among others, will not be implemented through state governments under this scheme.

3.28 The central government doubled the lump sum grant provided under the national family benefit scheme on the death of the primary breadwinner of a BPL family and a matching contribution is expected by state governments.

3.29 The Union Budget for 2012-13 proposed to strengthen panchayats across the country through the Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA), which will expand the existing schemes for panchayat capacity building. The central government also constituted an Expert Committee to Examine Panchayats for More Efficient Delivery of Services on September 6, 2012. The terms of reference of this Committee would, *inter alia*, include suggesting ways to incentivise states to devolve funds, functions and functionaries to panchayats.

3.30 The central government is in the process of capitalising the financially weak regional rural banks (RRBs), given the crucial role they play in meeting the credit needs of rural areas. The scheme for capitalising weak RRBs has been extended by two years to enable all states to contribute their share.

3.31 The central government has permitted foreign direct investment (FDI) in multi-brand retail trading (MBRT), subject to specified conditions. The policy provides an enabling framework for FDI in retail. It would be the prerogative of the state governments to decide whether and where a multi-brand retailer with FDI is permitted to establish its sales outlets within the state, thus giving primacy to the decision of the states. The establishment of the retail sales outlets will be in compliance with applicable state laws/regulations, such as the Shops and Establishments Act. State governments would also be responsible for aspects ancillary to the MBRT, such as zoning regulations, warehousing requirements, access, traffic, parking and other logistics.

3.32 The central government has prepared a blueprint for end-to-end computerisation of the public distribution system (PDS) and has provided an outlay of ₹ 840.7 million. States have been asked to draw up time-bound plans for its implementation. Pilot projects have already been completed in some states. As a first step in this direction, a scheme covering the digitisation of ration cards/beneficiaries and other databases, computerisation of supply-chain management, setting up of a transparency portal and a grievance redressal mechanism has been approved for implementation on a cost-sharing basis with the states. Some states, particularly Chhattisgarh, Gujarat, Andhra Pradesh and Karnataka, have taken significant steps in computerising various PDS operations.

3.33 The government has constituted the Fourteenth Finance Commission under the chairmanship of Dr.Y.V.Reddy, former Governor of the Reserve Bank. The Commission is expected to make its report available by October 31, 2014, covering the period 2015-2000. The Commission shall make recommendations regarding the sharing of union taxes, principles governing grants-in-aid to states and transfer of resources to local bodies.

4. Reserve Bank of India

3.34 State government securities (also known as state development loans or SDLs) are normally issued for a tenor of 10 years. Based on requests by some state governments, new state SDLs of 4-5 year tenor have been issued by the Reserve Bank since July 2012. Some state governments have also been permitted, since August 2012, to reissue their SDLs, as against the existing practice of issuing new securities. In consultation with the state governments, the quarterly indicative quantum of total market borrowings by the state governments and the Union Territory of Puducherry was announced for the quarter July-September 2012 and the practice is being followed thereafter.

5. Conclusion

3.35 The states announced several measures to mobilise own revenues for furthering their fiscal consolidation. States have shown greater inclination to raise tax rates on alcoholic beverages, which are out of the purview of the proposed GST, and on intoxicants, which, in general, have inelastic demand. States have also explored new tax avenues, capitalising on the increased real estate activity. They have also envisaged generating more non-tax revenue through the levy of appropriate user charges. On the expenditure front, states have taken initiatives for supply response in terms of managing the public distribution system, improving agricultural productivity, expanding physical and social infrastructure and developing human skills.