

In the backdrop of moderation in economic activity as a fallout of the global financial crisis, State governments have announced a number of policy initiatives in their budgets for 2009-10. Emphasis has been accorded to the generation of employment, restructuring of Public Distribution System (PDS) and tax exemptions/reductions besides giving priority to creating more opportunities/assistance to entrepreneurs in terms of improvement in industrial infrastructure. With the Union Government allowing the States to enhance the ceiling of fiscal deficit to tide over the present difficult circumstances, the States may utilise the additional fiscal space for making capital investments for development. State governments, the Government of India and the Reserve Bank of India have also announced a number of policy measures such as higher allocation for various projects like irrigation, housing and infrastructure, the release of Pay Commission awards, introduction of non-competitive bidding in the auction of State Development Loans (SDLs) and embedded derivative options in the issuance of SDLs which would have an impact on State finances.

1. Introduction

2.1 State budgets for 2009-10, with a focus on economic revival, announced a number of policy initiatives aimed at directing expenditure towards welfare and developmental activities. On the taxation front, these measures include exemption/reduction in value added tax (VAT) and excise duties on certain goods while on the expenditure side, higher allocation for various welfare schemes/infrastructure and release of Pay Commission awards are proposed. Many States have announced that they will step up investments, more particularly on projects like irrigation, housing and other infrastructure projects like power generation, good road networks, airports and industrial parks. Recognising the fact that the industrial sector must remain vibrant and growing, the States are also trying to attract private investment for the creation of infrastructure through the public-private partnership (PPP) mode. Detailed State-wise policy initiatives are set out in Annex. This Chapter briefly discusses policy initiatives and schemes that have been proposed by the State governments, the Government of India and the Reserve Bank of India.

2. State Governments

2.2 Proposals/initiatives announced in the States budgets for 2009-10 cover areas such as

revenue augmentation, expenditure measures, institutional measures and other major policy initiatives.

Revenue Measures

2.3 The overall slowdown in economic activity is likely to have adverse implications on the overall revenue augmentation of States both in terms of their own tax revenues as well as devolution from the Centre. In view of this, most of the States have taken proactive measures to streamline revenue generation at the State level and also simplified the procedures in general. The simplified procedures include rules, inspections, registrations and the introduction of the single window clearance system for industries and businesses to carry on their operations (Andhra Pradesh and Maharashtra). As a part of fiscal stimulus measures on taxation, the States have reduced the rate of stamp duty on sale of land/property in urban and rural areas (Haryana, Rajasthan, Uttarakhand and Kerala). In order to encourage tax compliance, VAT has been reduced on a number of items by most of the States. Besides increasing tax compliance, the other measures include early VAT refunds, recovery of profession tax, reduction in penalty under VAT, relief to hotel dealers under VAT, extension of exemption on food grains and

reduction/rationalisation of luxury tax in Goa, Rajasthan, NCT Delhi and Karnataka. Furthermore, to streamline and improve the quality of services, complete e-filing of returns/computerisation of the sales tax departments have been implemented in Kerala and Uttarakhand. To compensate the loss of revenue through tax reductions/exemptions under the fiscal stimulus package, the measures taken by the State governments include: (i) a new scheme of 'one time settlement' of tax arrears for pending under-valuation with respect to stamp duty cases in Kerala; (ii) broadening the tax net to include petty dealers in Kerala; and (iii) installation of water supply meters in Nagaland. To disclose suppressed turnover and to pay taxes thereon, the 'Voluntary Disclosure Scheme' has also been announced in Kerala. The Punjab government has formulated a comprehensive policy prescribing collection of External Development Charges (EDCs), License/Permission Fee and Change of Land Use (CLU) charges to generate sufficient revenues to provide ultra modern urban infrastructure. In Delhi, a major initiative was taken to reform the excise duty structure. Accordingly a new bill will be introduced which will incorporate a simplified duty structure.

Expenditure Measures

2.4 In the backdrop of moderation in economic activities, many States have initiated fiscal stimulus packages to get the economy going by continuing all developmental and welfare programmes. In this context, the Central Government has allowed the States to raise the GFD limit up to 4 per cent of GSDP during 2009-10 in order to make more funds available to revive the growth process.

2.5 Agriculture and allied activities have received top priority with a plethora of incentives, write-offs and concessions, support for organic farming and free power to farmers (Andhra Pradesh, Tamil Nadu, Karnataka, Kerala, Puducherry, Orissa, Maharashtra and West Bengal). The initiatives are focused on irrigation projects, particularly, minor irrigation (Meghalaya) and providing fertilisers, seeds and pesticides at subsidised rates (Orissa). The other initiatives

include insurance schemes for crops (Himachal Pradesh and Tamil Nadu), setting up of 'Agriclinics' in Tamil Nadu, adopting a village as a 'Model Village', developing an Agri-HUB and Agri-Processing Zone under Public Private Partnership (PPP) arrangement in Assam, 'Bio-Villages' in West Bengal, providing direct computer connectivity and establishing an 'Agriculture Knowledge Center' in Madhya Pradesh, debt relief scheme for farmers in Maharashtra and free power to farmers in some States. Some of the other measures include dairy development and milk production (Tripura, West Bengal, Tamil Nadu and Puducherry) and a novel scheme of a 'Land Bank' where land purchased from the farmers at market prices is resold for industrial use in West Bengal.

2.6 Recognising the fact that the industrial sector must remain vibrant and growing, special focus has been given to identifying a large pool of land having access to National Highways, building Special Economic Zones (SEZs) and industrial estates and making these available for development of industry through the PPP mode in many States. Almost all the States have announced policy measures to upgrade their overall infrastructure and West Bengal and Punjab have accorded priority to the development of infrastructure for clusters of industries in the small scale sector so that new small scale units can develop alongside traditional industries. Some States have proposed a 'New Industrial Policy' (Rajasthan) while others are in the process (Meghalaya), Industrial Model Towns (Haryana) and 'Economic Hubs' in select places. In order to augment their power generation capacities some States, viz., Maharashtra, Tamil Nadu and Mizoram are focusing attention on the generation of power (through the PPP mode).

2.7 Many States have initiated schemes relating to education and socio-economic development and social security of Scheduled Castes (SCs), Scheduled Tribes (STs), Backward Classes, minorities and the disabled. Various States have announced measures towards the betterment of educational facilities. These include a restructured mid-day meal programme with add-ons such as

providing meals beyond the elementary education level, distribution of books, including more nutritious food items, diet money for the children and mothers (Punjab), comprehensive computer education/broadband connectivity and computer labs in all schools and colleges (Andhra Pradesh, Haryana, Tamil Nadu, Puducherry, Punjab, Rajasthan and Himachal Pradesh) and upgrading the existing infrastructure of professional medical and engineering colleges or setting up new colleges through PPP model. For social change and empowerment, equitable access to education is ensured by special schemes for the welfare of children of physically and mentally challenged parents by providing them free education and accessories and financial honorariums to their parents (NCT Delhi, Haryana, Puducherry and Bihar) and skill training for self-employment in various fields for school dropouts. For the welfare of the weaker sections of society, various proposals have been announced including enhanced funds under the Scheduled Caste Component Plan and the Tribal Sub-Plan for developmental activities (Assam) and allocation of free-of-cost residential plots under a new scheme of the Mahatma Gandhi Gramin Basti Yojana to all eligible SCs, Backward Classes (A category) and Below Poverty Line (BPL) households (Haryana).

2.8 Housing too has received high priority with schemes such as loans at subsidised rates of interest, housing plots, financial assistance and building materials/repairing/renovation of old houses (Puducherry, Kerala, Punjab, Himachal Pradesh, Tamil Nadu and Haryana). In the health sector, Haryana, Punjab, Maharashtra, Puducherry, Tamil Nadu and Karnataka have proposed health insurance schemes, medical camps and upgrading government hospitals. To provide minimum basic amenities to urban people, most of the States have paid special emphasis on water supply, sewerage, transport, integrated housing and solid waste management. Recognising the growing importance of climate change, several initiatives have been taken by various State governments in this field as well (Box II.1).

2.9 Empowerment of women continues to be emphasised upon by the States. Measures towards

the empowerment of women include direct loans to women entrepreneurs at very low rates of interest along with a number of other innovative developmental and welfare programmes focused on the girl child and women in States like Kerala, Tamil Nadu, Puducherry, Punjab, Rajasthan, Assam, Bihar and Haryana. Many State governments encourage 'women self-help groups (SHGs)' as a means of faster empowerment of women with schemes such as soft loans to SHGs (Tripura) and training institutes for self-employment of women (Meghalaya).

Institutional Measures and Other Major Policy Initiatives

2.10 The State governments have adopted institutional measures oriented towards fiscal discipline. Thus, States have gradually put in place legislations with respect to various fiscal parameters such as Fiscal Responsibility Legislations (FRLs), Value Added Tax (VAT), New Pension Schemes (NPS), Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF). The progress so far has been quite encouraging as far as the implementation of VAT is concerned as all the States have implemented VAT while Twenty Six States have enacted FRLs. The position with regard to the other indicators is given in Table II.1.

2.11 Many State governments have taken up several initiatives in the form of appointing task forces and committees/commissions. Assam proposes to set up a Water Resource Management Commission to make suggestions for the prevention of floods and erosion of land and land reclamation. Besides, two developmental councils, one each for women and youth are proposed to be set up, a Women Entrepreneurs Council are also being set up to promote women entrepreneurs. Towards the welfare of children and to protect their rights, the State Children Rights Protection Commission and a Commission for Elementary and Secondary Education to suggest a roadmap and policies for improving the quality of school education are being set up in Assam. There is also a proposal for setting up the Knowledge Commission

Box II.1: Climate Change and Initiatives at the State Level

Global warming has been an important topic of discussion for some years. Climate change is primarily a consequence of the accumulation of greenhouse gases in the atmosphere. There have been a series of international initiatives related to climate change including the United Nations Framework Convention on Climate Change (UNFCCC), 1992 and the Kyoto Protocol of 1997. The United Nations Environment Programme included India among the 27 countries that are most vulnerable to a rise in sea levels. Accordingly, India has put in place a comprehensive framework of legal and institutional mechanisms and is one of the leading Emerging Market Economies (EMEs) having incorporated specific provisions for environmental protection in its Constitution. The Prime Minister released India's National Action Plan on Climate Change (NAPCC) on June 30, 2008. This focuses attention on eight priority National Missions including solar energy, enhanced energy efficiency, sustainable habitat, conserving water, sustaining the Himalayan ecosystem, A 'Green India', Sustainable Agriculture and Strategic Knowledge Platform for Climate Change.

In recent years, apart from the initiatives undertaken by the Union Government, there has been considerable awareness among State governments in general on the ill effects of climate change, global warming and deforestation. Accordingly, almost all State governments have initiated some measures towards reducing the ill effects of climate change and for the promotion of renewable energy and afforestation. In fact, apart from the usual terms of references, the Thirteenth Finance Commission (ThFC) will also consider, *inter alia*, the need to manage ecology, the environment and changed climate consistent with sustainable development.

Many State governments, in general, are addressing important environmental issues related to air and water pollution, solid waste and sewage management, debris disposal in road and hydro power construction, waste recycling and biomedical waste. Gujarat is one of the leading States focusing on the environment. When the area under mangroves is decreasing in the country, Gujarat has planted mangroves in a 935 sq. km. area through the PPP mode, which is the second highest in the country. Gujarat has become one of the pioneer States in getting carbon credits during 2008-09. Gujarat also leads the States in the provision of infrastructural facilities in the maintenance of the environment. The State has till date developed around 25 common effluent treatment plants, and around 8 'technically safe hazard disposal sites'.

The government of Rajasthan, in its budget for 2009-10, announced a new forest policy, water policy and mineral policy. In Punjab's budget for 2009-10, Rs. 55 crore has been allocated for forestry and the Japan Bank for International Co-operation (JBIC) assisted afforestation project costing Rs. 262 crore will be completed in the current year. In order to improve the forest area in Tamil Nadu, the Tamil Nadu Afforestation Programme is being implemented at a cost of Rs.567 crore with financial assistance from JBIC. Under this project, afforestation programmes at a cost of Rs.63 crore will be taken up in which 450 check dams and 150 recharge pools will be constructed. The scheme for growing trees on private land, implemented by the Tamil Nadu government during the last two years has received a good response from the farmers of the state. In the case of Karnataka, it has been proposed to do additional afforestation in about 80,000 hectares this year. The required number of plants will be provided for the Laksha Vruksha Movement under the auspices of the bio-fuel programme taken up by the Western Ghat Development Task Force. Towards this end, the Karnataka budget has made a provision of

Rs.20 crore. More emphasis will be given on the development of sandalwood cultivation, prosperous green villages and medicinal plants in the state during this year. Karnataka also plans to develop a wildlife sanctuary in about 2,000 acres of forest land between Hubli and Kalaghataki. A bio-fuel task force will give advice on tackling the problem of energy deficiency by suggesting ways of using environment friendly fuel made from organic resources. Mizoram plans to formulate a comprehensive forest and soil conservation and management policy besides putting in place a suitable oil and natural gas policy while Kerala has planned a mega scheme for generating a green buffer zone around existing forests and the densification of the existing forest.

To make up for the deficiency of forests in Haryana, the State government has extensively promoted the plantation of forests on community land and agro forests on farm land and developed areas of afforestation on community and farm land. In a major innovative initiative, 'Clonal Agro Forestry' has been introduced in the current financial year to benefit small and marginal farmers while augmenting the supply of raw material in wood based industries in the State. Himachal Pradesh intends to become the first carbon neutral State in the country with active participation of the common public for which the 'Community led Environment Assessment, Awareness, Advocacy and Action Programme for Environment Protection and Carbon Neutrality' is being initiated in the State. In Himachal Pradesh, at present 21 Catchment Area Treatment (CAT) plans are being implemented by the Forest Department and for comprehensive plantation and soil conservation activities a total budgetary provision of more than Rs. 200 crore has been made for the next year. The Himachal Pradesh Forest Department plans to invite partner NGOs and other non-profit organisations to take up social forestry activities in more than 6,000 sq. km. of forest land, which does not have adequate forest cover. Such partnership schemes could also earn the State carbon credits. Delhi has initiated measures to stop the pollution of River Yamuna by desilting and also plans to constitute the 'State River Conservation Authority' to make River Ganga and its tributaries pollution free. Some other measures taken by the States include: (i) tax concession on solar energy equipment in Maharashtra; (ii) enhanced funds for afforestation and wildlife protection in Maharashtra, Meghalaya and Nagaland; and (iii) imposition of land replenishment and green environment charges to prevent dumps by mines and industry in Goa.

To supplement the efforts being made at the State level and to actively promote their participation, grants could be provided to the States for promoting solar and other renewable energy sources. The States, in turn, can empower local communities to suitably manage ecological resources, forestation and conservation of biodiversity. The transfer of low carbon technologies for use in different States after adapting them to local needs and conditions for tackling climate change needs to be encouraged by the Central/State governments. Furthermore, States which acquire low carbon technologies through foreign collaborations or in-house R&D and where industry based upon such technologies is located may be provided additional resources as an incentive to continue these efforts and set a precedent for other States to follow.

References:

1. Budget Documents of State Governments, 2009-10.
2. Prasad, H.A.C. and J.S. Kochher (2009). 'Climate Change and India - Some Major Issues and Policy Implications', *Working Paper No.2/2009*, Government of India, Ministry of Finance.

Table II.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)	Guarantee Redemption Fund (GRF)
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	No	No	Yes	No
3. Assam	May 2005	September 2005	February 2005	Yes	Yes	No
4. Bihar	April 2005	April 2006	September 2005	No	No	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	No	No	No
10. Jammu and Kashmir	April 2005	August 2006	No	No	No	Yes
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	No	Yes	No
16. Manipur	July 2005	August 2005	January 2005	Yes	Yes	Yes
17. Meghalaya	April 2006	March 2006	No	No	Yes	No
18. Mizoram	April 2005	October 2006	No	No	Yes	No
19. Nagaland	April 2005	August 2005	No	Yes	Yes	Yes
20. Orissa	April 2005	June 2005	January 2005	Yes	Yes	Yes
21. Punjab	April 2005	October 2003	No	Yes	Yes	No
22. Rajasthan	April 2006	May 2005	January 2004	Yes	No	No
23. Sikkim	April 2005	No	April 2006	Yes	Yes	Yes
24. Tamil Nadu	January 2007	May 2003	April 2003	Yes	Yes	No
25. Tripura	October 2005	June 2005	No	No	Yes	No
26. Uttarakhand	October 2005	October 2005	October 2005	No	Yes	Yes
27. Uttar Pradesh	January 2008	February 2004	April 2005	No	No	No
28. West Bengal	April 2005	No	No	Yes	Yes	No
Sum-up	28	26	19	17	20	11

*: Position as at end-January 2010.

Source: Based on Information received from respective State Governments and Reserve Bank records.

to advise the Assam government on the overall education policy. In Haryana, a common committee, the Village Health and Sanitation Committee, has been set up to promote convergence and it is also proposed that a number of skill development centers will be established in the State. The government of Jammu and Kashmir is appointing a multi task force comprising of experts from all relevant fields to look into various aspects of mulberry culture, sericulture, weaving and the silk industry. The task force will also identify and create opportunities for employment in sectors like

tourism, horticulture, floriculture, fisheries, health and sericulture. Kerala has proposed to set up an expert committee to scientifically develop an agricultural calendar to reduce the need to close the Thanneermukkom Bund. In order to formulate a comprehensive social security scheme a committee is being set up to study the feasibility of this. The Kerala government has set up a 'Monitoring Commission for Administrative Reforms' in order to tone up the overall administrative machinery at the State government level. Assam has proposed a 'Development

Council' to formulate policies and coordinate schemes for the all round development of minorities. Meghalaya has proposed to put in place a system to achieve 100 per cent registration of births and deaths in the State. The Tamil Nadu government has initiated steps to set up a 'National Center for Geriatrics Research'.

2.12 In order to promote people's participation in the formulation and implementation of Plan schemes, 'Ward Committees' in municipalities are proposed to be set up by West Bengal. The West Bengal government has also proposed to create a 'Special Assistance Fund' of Rs.100 crore to impart job-oriented training and extend other necessary assistance to those who have lost their land because of the setting up of industries. A 'Special Fund' has been created for the welfare of artists in distress and an 'Incentive Fund' to reward innovations in science and technology in Assam have also been started. The States of Himachal Pradesh, Punjab, Kerala, Tamil Nadu, Puducherry and Jammu and Kashmir have undertaken efforts to promote tourism in their respective States.

3. Government of India

2.13 In order to cope with the impact of the economic slowdown, State governments have been permitted to borrow an additional 0.5 per cent of their GSDP during 2009-10 by relaxing the fiscal deficit target under FRLs from 3.5 per cent to 4.0 per cent of their GSDP. This will enable the State governments to raise additional open market borrowings of about Rs.21,000 crore in the current year.

2.14 Although immediate interim relief has been provided from the Calamity Relief Fund (CRF) for the devastation caused by Cyclone Aila on the coast of West Bengal, the Union Government has also proposed to draw up a programme for rebuilding the damaged infrastructure in the State. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been an important scheme for refocusing the attention of State governments on the importance of urban infrastructure. In recognition of JNNURM's role, allocation under the scheme is being stepped up. Further, in order to

improve the lot of urban poor, by providing housing and basic amenities to urban poor, the provisions under the Rajiv Awas Yojana (RAY) has also been enhanced. In Maharashtra, in order to address the problem of flooding in Mumbai, the Brihan Mumbai Storm Water Drainage Project (BRIMSTOWA) was initiated in 2007 and the entire estimated cost of the project at Rs.1,200 crore is being met through Central assistance. In Assam, the capital subsidy for the Gas Cracker Project is to be provided by the Central Government. Allocations for the Rashtriya Krishi Vikas Yojana (RKVY) are also being stepped up. With a view to insulating employment-oriented export sectors in States, the Union Government had provided an interest subvention of 2 per cent on pre-shipment credit for the 7 sectors of textiles including handlooms, handicrafts, carpets, leather, gems and jewellery, marine products and small and medium exporters. The interest subvention is being proposed to be extended up to March 31, 2010.

2.15 As Micro, Small and Medium Enterprises (MSMEs) have been severely affected by the slowdown in exports and the indirect effect of the global financial crisis on domestic demand, it is proposed to facilitate the flow of credit at reasonable rates by providing a special fund to the Small Industries Development Bank of India (SIDBI) out of the Rural Infrastructure Development Fund (RIDF). This will help State governments as it will incentivise banks and State Finance Corporations (SFCs) to lend to MSMEs by refinancing 50 per cent of incremental lending to MSMEs. The National Rural Employment Guarantee Scheme, has been acknowledged as success. During 2008-09, it provided employment opportunities for more than 4.47 crore households. The scheme is planned to be converged with other schemes relating to agriculture, forests, water resources, land resources and rural roads. A total of 115 pilot districts have been selected for such a convergence in the first phase.

2.16 Bharat Nirman with its six schemes, including the Pradhan Mantri Gram Sadak Yojana (PMGSY), the Rajiv Gandhi Grameen Viduytikaran Yojana (RGGVY) and the Indira Awaas Yojana (IAY) is an important initiative for bridging the gap

between rural and urban areas and for improving the quality of life of the people, particularly the poor, in rural areas. The allocation for Bharat Nirman schemes will be stepped up by 45 per cent in 2009-10. To broaden the pace of rural housing, from the shortfall in the priority sector lending of commercial banks, a sum of Rs.2,000 crore for Rural Housing Fund in the National Housing Bank (NHB) is proposed to be allocated.

2.17 A new scheme called the Pradhan Mantri Adarsh Gram Yojana (PMAGY) is being launched on a pilot basis for the integrated development of 1,000 villages across the States where the Scheduled Caste population is more than 50 per cent. Each village will be able to avail gap funding of Rs.10 lakh over and above the allocations under the Rural Development and Poverty Alleviation Schemes. The Swarna Jayanti Gram Swarozgar Yojana (SGSY) is being restructured as the National Rural Livelihood Mission to make it universal in application, focused in approach and time bound for poverty eradication by 2014-15. Apart from providing capital subsidy at an enhanced rate, it is also proposed to provide an interest subsidy to poor households for loans up to Rs. one lakh from banks. The women's SHG movement is bringing about a profound transformation in rural areas. It is aimed that at least 50 per cent of all rural women in India will be enrolled as members of SHGs over the next five years and these SHGs will be linked to banks. The Rashtriya Mahila Kosh has been working towards the facilitation of credit support or micro-finance to poor women and has developed a number of innovative schemes for their benefit. In recognition of its role as an instrument of socio-economic change and development, the corpus of the Kosh will be raised to Rs.500 crore over the next few years. As low levels of female literacy continue to be a matter of concern, it has been decided that a National Mission for Female Literacy, with focus on minorities, Scheduled Castes, Scheduled Tribes and other marginalised groups will be launched to reduce the current levels of female illiteracy by half in the next three years. As far as child development is concerned, the Government is committed to the universalisation of the Integrated Child Development Services

(ICDS) Scheme in the country and by March 2012 all services under ICDS to be extended, with quality, to every child under the age of 6 years.

2.18 On the education front, to enable students from economically weaker sections to access higher education, it is proposed to introduce a scheme to provide them full interest subsidy during the period of moratorium. This will cover loans taken by such students from scheduled banks to pursue any of the approved courses of study in technical and professional streams from recognised institutions in India. It is estimated that over 5 lakh students will avail of this benefit. Under the Multi-Sectoral Development Programme for Minorities in selected minority concentration districts, the grant-in-aid to the Maulana Azad Education Foundation has been doubled, and provisions have been made for National Minorities Development and Finance Corporation and Pre-Matric and Post-Matric Scholarships for Minorities. Allocations have also been made for new schemes of National Fellowship for Students from the Minority Community and Grants-in-aid to Central Wakf Council for computerization of records of State Wakf Boards. In order to impart the right education and skills and to take a dynamic economic advantage, the provision under the 'Mission in Education through ICT', has been substantially increased to Rs.900 crore. Similarly, the provision for the setting up and up-gradation of polytechnics under the Skill Development Mission has been increased. The Central Government plans to have one Central University in each uncovered State by allocating funds. Separate allocation of Rs.2,113 crore for Indian Institute of Technology (IITs) and National Institute of Technology NITs including a provision of Rs.450 crore for new IITs and NITs has been made. The overall Plan budget for higher education is proposed to be increased by Rs.2,000 crore over Interim Budget Estimates.

2.19 On the health front, the National Rural Health Mission (NRHM) is an essential instrument for achieving the goal of 'Health for All'. Allocation under this scheme is proposed to be increased by Rs.2,057 crore over and above the Rs.12,070 crore provided in the Interim Budget.

2.20 Towards social security measures for the unorganised sector, which accounts for 92 per cent of the employment and absorbs a bulk of the annual increase in the labor force, the Unorganised Workers Social Security Bill, 2007 has been passed by both the Houses of Parliament. Action has been initiated to ensure that social security schemes for weavers, fishermen and women, toddy tappers, leather and handicraft workers, plantation labor, construction labor, mine workers, bidi workers and rikshaw pullers are being implemented.

2.21 The Rashtriya Swasthya Bima Yojana (RSBY) was operationalised last year and the initial response to this has been very encouraging with more than 46 lakh BPL families in 18 States and UTs being issued biometric smart cards. The Government proposes to cover all BPL families under this scheme.

2.22 In line with last year's successful implementation of two mega handloom clusters in Varanasi and Sibsagar and two mega power loom clusters in Erode and Bhiwandi, it is proposed that one handloom mega cluster each in West Bengal and Tamil Nadu and one power loom mega cluster in Rajasthan will be set up. These will help preserve textile traditions in these States and generate thousands of jobs. It is also proposed that new mega clusters for carpets in Srinagar (Jammu and Kashmir) and Mirzapur (Uttar Pradesh) will be added.

4. Reserve Bank of India

Auction Process of Government of India Securities

2.23 As indicated in the Mid-Term Review of October 2008, recommendations made by the Internal Working Group (Chairman: H.R. Khan) involving the Reserve Bank such as reduction of the time gap between bid submission and declaration of auction results have already been implemented. The other recommendations of the Working Group on withdrawal of the facility of bidding in physical form and submission of competitive bids only through the Negotiated Dealing System (NDS) have been implemented since August 25, 2009.

Non-Competitive Bidding in the Auction of State Development Loans (SDLs)

2.24 In order to widen the investor base and enhance the liquidity for State Development Loans (SDLs), a scheme for non-competitive bidding in the auction of SDLs was notified by all the State governments on July 20, 2007. Subsequent to the announcement in the Mid-Term Review of October 2008, the necessary system changes required to handle non-competitive bidding in the auction of SDLs have been carried out in the NDS auction platform developed by Clearing Corporation of India Limited (CCIL). A non-competitive bidding facility has been introduced in the SDLs since the auction held on August 25, 2009.

Embedded Derivative options in the issuances of SDLs

2.25 Introduction of embedded derivative options in the issuance of SDLs is an innovative way of price discovery and reducing the States' cost of borrowings. Hence, provisions were made in the general notification issued by State governments on December 15, 2003, which enabled them to issue SDLs with call/put option in terms of Clauses 7 and 8.2 of the notification. The government of West Bengal was the first to exercise the option of issuing SDLs with put option on three tranches of auctions held during September/October 2009, which will be exercisable by investors after the completion of four years for the first two tranches and five years for the third tranche. Under the put option, the holders of government stock will have the discretion to exercise put option after giving a notice of two months in the prescribed format for premature redemption after completion of the option tenure from the date of issuance of the government stock on any coupon payment date falling thereafter. In that event, interest shall cease to accrue on the redeemed government stock from the coupon payment date of premature redemption. Issuance of SDLs with put option, however, entails the States with premature redemption risk, which may lead to a roll-over risk.

5. Conclusion

2.26 Keeping in view the uncertainty surrounding macroeconomic developments and the need for minimising its impact, State budgets for 2009-10 have focused on enhanced public expenditure. With relatively weaker automatic stabilisers in operation, particularly in State finances, a more selective discretionary fiscal policy has been used to address the affected sectors and sections of society and to

promote investments that will not only boost demand in the short run but also lead to long run growth. Within the proposed initiatives, a mix of expenditure and tax cuts will be critical in the context of their impact on overall macroeconomic fundamentals as proposals are focused on areas such as infrastructure, industry and agriculture. Nevertheless, a commitment to return to the path of fiscal correction at the earliest with quick reversibility of expansionary policies assumes importance.