III Policy Initiatives

Following the incipient signs of economic recovery and the recommendations of the Thirteenth Finance Commission, the State governments announced various policy measures in their budgets for 2010-11. The emphasis has been on achieving higher own revenue receipts through various tax measures, while specific policy measures have been announced to address the rise in prices of essential commodities. Many States have accorded priority to strengthening the public distribution system, which has been supplemented by tax exemptions/ reductions for foodgrains and certain essential commodities. The policy announcements made in the State budgets also cover specific initiatives aimed at developing the social, economic and infrastructure sectors on a PPP basis. The States and the Centre have also tried to create an environment for effective implementation of the proposed Goods and Services Tax in the near future. Acting on the recommendations of the Thirteenth FC, the Union Government has constituted a Committee to review the structure of the NSSF and a Committee to suggest measures for improving the finances of States that have chronic revenue deficits. Given the surplus cash position of the State governments, their WMA limits have been kept unchanged since 2006-07.

1. Introduction

3.1 Macroeconomic developments during 2008-09 and 2009-10 necessitated the use of expansionary fiscal policy at the State level. The policy emphasis was on the generation of employment and tax exemptions/reductions to boost growth prospects. In fact, a few States undertook dedicated fiscal stimulus packages aimed at higher expenditure and tax concessions. However, foreseeing better growth prospects, States have presented their budgets for 2010-11 with a focus on tax-enhancing measures, while measures such as exemption/ reduction in the rates of value added tax (VAT) and excise duties on certain goods have also been announced to tackle the price rise in essential commodities. On the expenditure side, higher allocations have been proposed for various Plan schemes (both Centrally-sponsored schemes and State Plan schemes), particularly in education, health, transportation, housing and employment generation besides increasing expenditure on food security and strengthening the public distribution system (PDS). The creation of infrastructure such as roads and bridges and healthcare services as public-private partnerships (PPP) has been proposed by some States. Institutional measures such as establishment/augmentation of the Guarantee Redemption Fund (GRF) and the appointment of committees/commissions to oversee fiscal parameters in the context of fiscal reforms and budget management are expected to be taken up by some States in 2010-11. The detailed State-wise policy initiatives are set out in Annex 1. This chapter briefly discusses policy initiatives and schemes that have been proposed by the State governments, the Government of India and the Reserve Bank that impinge on State finances.

2. State Governments

3.2 The broad thrust of policy proposals announced in State budgets for 2010-11 is to revert to the path of fiscal consolidation suggested by the Thirteenth FC, against the backdrop of improvement in the prevailing macroeconomic conditions and the need for steady growth.

Revenue Measures

3.3 On the revenue side, the policy measures are broadly targeted to augment tax revenues. The major tax policy initiatives include: (i) an increase in the rate of VAT on specific commodities such as tobacco and allied products (Arunachal Pradesh and Karnataka), (ii) the imposition of VAT on items such as compressed natural gas for use in the transport sector, *Rassi*, *Ban* & *Newar*, bio inputs like fertilisers, micro-nutrients and plant growth promoters, kerosene stoves, lanterns and petromax and their spares, embroidery and *zari* items, motion picture distribution, and plastic/glass scrap which were earlier exempted (NCT Delhi), (iii) increase in VAT rate on certain items, such as diesel, *desi ghee*, plastic household items, plastic and tin containers including barrels, fertilisers, pesticides, weedicides, insecticides, herbicides, rodenticides and plant growth regulators, wood, timber, plywood and laminated boards, fittings for doors and windows, and furniture (NCT Delhi), and (iv) levy of surcharge on VAT (Haryana). Besides these, a few States have announced an increase in the VAT rate from 4 per cent to 5 per cent as decided by the Empowered Committee of State Finance Ministers. Apart from increasing the VAT rate, States have also announced tax rationalisation measures, such as rationalising the excise duty structure (Goa and Assam), revising the Passenger Goods Taxation Act (Assam and Meghalaya), revising the entry tax rate to make it consistent with the VAT rate (Bihar), rationalising/revising the motor vehicle tax (Assam, Kerala, Manipur, Maharashtra and Mizoram), amending the VAT Act and e-services for luxury and profession tax (Maharashtra), rationalising stamp duties (Manipur) and amending/ revising the Entertainment Tax Act (Orissa). Keeping in view the sharp rise in the prices of essential commodities, most States have proposed exempting or reducing the VAT on certain foodgrains and goods for daily use (Box III.I).

3.4 Several States have announced rationalisation of the stamp duty structure through measures such as reduced stamp duty rates (Karnataka, Kerala, Punjab and Uttarakhand), concession in rates (Jammu and Kashmir), exemption from stamp duty on specific transactions (Chhattisgarh and Kerala) and e-Stamping for specific purposes (Bihar). Apart from the introduction of new schemes for taxes on trades and e-Payments, e-Returns are proposed to be made compulsory in some States (Bihar). On the non-tax front, revenue enhancing measures announced by States include: (i) rationalisation of the licence fee for retail sale of liquor (Goa and Meghalaya), (ii) recruitment of *talatis* as a separate cadre in the revenue department to carry out revenue work such as collecting land revenue (Gujarat), (iii) disinvestment of the State PSUs (Jammu and Kashmir and Karnataka), (iv) sale of land and imposition of toll on vehicles of more than 16 tonnes weight (Karnataka), and (v) rationalisation of power tariffs and forest royalties (Manipur).

Expenditure Measures

3.5 Apart from announcing tax exemption/ reduction on certain items, various states proposed special allocation of resources during 2010-11 to contain rising food prices. The details of which have been provided in Box III.1. Besides higher expenditure on food security, expenditure on socio-economic services particularly education, medical and public health, family welfare, irrigation, roads and bridges and rural development has emerged as a priority area of expenditure allocation during 2010-11, although growth in expenditure in some of these sectors is budgeted to be lower.

3.6 The policy initiatives relating to agriculture and allied activities have assumed significance in an environment of high food inflation. Himachal Pradesh, Karnataka, Maharashtra, Meghalaya, Orissa and West Bengal have announced policy measures to enhance irrigation potential in order to increase agricultural productivity. The Government of West Bengal has proposed that multipurpose cold storages and chain arrangements be established to ensure a fair price to farmers for their produce. To assist farmers, the State governments of Assam and Maharashtra have announced that they will provide an interest subsidy on agricultural loans, while Nagaland will provide high-yielding seeds and agricultural equipment to farmers. With a view to achieve self sufficiency in foodgrain production, the Tripura government has chalked out an action plan targeting higher foodgrain production in the State.

3.7 State governments have attempted to promote industrial growth and industrialisation by

Box III.1: Inflation and Supply-Side Measures at the States' Level

Inflation control requires both monetary and fiscal policy actions, but their relative importance depends upon the causes of inflation: whether it is supply-driven or demand-driven. While inflationary conditions emerging from demand pressures are better addressed by monetary policy, active government intervention is called for to address supply-side inflationary pressures. Since the inflationary situation during 2009-10 largely emerged from supply-side constraints, the Central Government initiated both short- and medium-term fiscal and administrative measures to improve domestic availability of essential commodities and thereby moderate the pressure on inflation. The State governments also announced various supply-side measures to minimise the impact of inflation on the poor. These initiatives have been continued in 2010-11 with several States announcing tax exemptions/ reductions on several food items to contain the rise in their prices, while also allocating funds for food distribution and subsidising transport costs. The state-wise details on measures undertaken are set out in Table A.

Table A: State-wise Measures to check Price Rise

Effective Public Distribution System (PDS)	• Assam proposed to set up the Assam State Civil Supplies Corporation for effective implementation of PDS. • Arunachal Pradesh accorded top priority to strengthening the PDS. • Himachal Pradesh proposed a pilot project with biometric-based smart cards in two blocks of Shimla to ensure better targeting under the PDS. • The Meghalaya government proposed to tackle the issue of food security and inflation by focusing on an improved and efficient PDS.
Tax exemption/ relaxation	• Madhya Pradesh exempted foodgrain, flour, pulses, salt, *gur*, sugar and cloth from VAT. • The Maharashtra government extended the policy of tax exemption on rice, wheat, pulses, flour, chillies and other items till March 31, 2011 or the implementation of Goods and Services Tax Act, whichever is earlier. • The Kerala government exempted imported sugar from tax. • The Tamil Nadu government decided to continue with the policy of VAT exemption on pulses and cooking oil. • Uttarakhand's policy on VAT exemption on flour, *maida*, sugar, and *besan* announced in 2009-10 was extended to other domestic articles. • The West Bengal government extended VAT exemption on sugar up to March 31, 2011. The policy of no tax on foodgrains such as paddy, rice, wheat and pulses will also continue.
Supply of foodgrain at lower prices	• Gujarat made a provision of ₹133 crore to provide wheat and rice to the poor. • The Himachal Pradesh government showed a commitment to implemented the State subsidy scheme for three varieties of *dal*, two of edible oils and salt. • The Madhya Pradesh government allocated ₹290 crore under the Chief Minister's *Annapurna Scheme* to ensure a supply of foodgrain at lower prices. • The Maharashtra government decided to continue supplying wheat, rice, sugar, *tur dal* and edible oil at lower rates through ration shops in 2010-11, involving an estimated expenditure of ₹1,550 crore. • The Rajasthan government announced the availability of wheat to below poverty line (BPL) families at ₹2 per kg instead of ₹4.70 from May 1, 2010. • Tamil Nadu continued to provide essential food items at subsidised rates through fair price shops since May 2007. • Uttar Pradesh announced the import of certain pulses to make them available at subsidised prices.
Enforcement and other Measures	• Assam, Arunachal Pradesh, Bihar, Meghalaya and Uttar Pradesh strengthened vigilance against hoarding and adulteration. • Bihar and Rajasthan announced the imposition of stock limits. • Himachal Pradesh, Meghalaya and Uttar Pradesh announced close monitoring of price-related developments. • Rajasthan announced setting up of a State Food and Civil Supplies Corporation and decided to implement the licensing system in sugar and wheat trading.

References:

Budget speeches of Finance Ministers of respective States.

providing the necessary infrastructure facilities and other incentives to industries within their regions. Towards this end, the major policy initiatives include the setting up of micro-level enterprises in every village (Assam), a Margin Money Grant scheme for assistance to entrepreneurs belonging to Scheduled Castes (SCs) and Scheduled Tribes (STs) (Chhattisgarh), a Venture Capital Fund and a Viability Gap Fund to raise capital (Goa), the Exclusive Entrepreneurs Development Programme for women to set up small and micro-enterprises and new emporiums called *Haat-cum-shilpgram* to sell handicraft items (Goa), road networks linking ports, SEZs and Special Investment Regions (Gujarat), facilitating marketing campaigns of handicrafts during the Commonwealth Games (Jammu and Kashmir), and improving infrastructure facilities to encourage the establishment of small and medium industries in every district (Karnataka). The Maharashtra government envisaged a policy for the golden quadrilateral of Mumbai-Pune-Nashik-Aurangabad as a focal point of agro-industries and industrial development. In order to enhance the competitiveness of industries, the State governments of Bihar, Chhattisgarh and Madhya Pradesh have announced exemption/reduction of entry tax on raw inputs/outputs used by industries.

3.8 The development of the social sector, particularly education, health, housing, social security, women empowerment and the welfare of SCs and STs, has been emphasised by many States while presenting their budgets for 2010-11. A number of States have announced the setting up of new colleges, universities and dedicated institutes, *etc*. to improve educational facilities in their States. The Karnataka State government has proposed to make education up to Class 10 compulsory for every child from 2010, while Himachal Pradesh announced the implementation of the Right of Children to Free and Compulsory Education Act, 2009. The Bihar government proposed to set up the Educational Infrastructure Development Corporation during 2010-11. The government of Gujarat announced a new scheme called *Saraswati Yatra* for citizens above the age of 15, while Andhra Pradesh proposed to implement *Sarva Siksha Abhiyan* and a Centrally sponsored scheme called *Sakshar Bharat* to promote reach to education.

3.9 The new policy measures towards social welfare announced in the State budgets included: (i) a contributory pension scheme (the Dr. YSR Abhaya Hastham Scheme) for women above the age of 18 who are members of self-help groups (Andhra Pradesh), (ii) an increase in pensions for senior citizens, widows and the handicapped (Rajasthan), (iii) monthly pension to the old and destitute (Tamil Nadu), (iv) insurance cover through an insurance policy scheme (*Swarnajayanti Aarogya Bima*) to the entire resident population (Goa), and (v) availability of rice at ₹2 per kg to all families who have completed at least 50 days of work under the National Rural Employment Guarantee Scheme (Kerala).

3.10 States also announced measures to empower women so that they could reap the benefits of growth. These measures included: (i) depositing ₹5,100 in the post office in the name of each girl born to a BPL family under *Beti Hai Anmol Yojana* (Himachal Pradesh), (ii) a concession of 25 per cent on the chargeable stamp duty if the land is purchased in the name of a female member of the family (Jammu and Kashmir), (iii) providing training to educated women for skill development (Karnataka) and (iv) reducing the stamp duty for properties transferred in favour of women (Punjab).

3.11 The policy measures announced in State budgets also aim to promote financial inclusion/banking services in States during 2010-11. These measures include: (i) an interest subsidy of 3 per cent for bank loans extended to self-help groups (SHGs) to increase the reach of cheaper credit to SHGs by banks (Arunachal Pradesh), (ii) strengthening Primary Agriculture Co-operatives and District Co-operative Banks as per the recommendations of the Vaidyanathan Committee (Gujarat and Karnataka), (iii) banking services at least one day in a week through branchless banking, and business correspondents and primary agricultural co-operative credit societies in villages with population up to 2,000 (Bihar) and (iv) enhancing the flow of credit to marginal farmers, especially BPL families, and providing seed capital (Meghalaya). The government in Nagaland has proposed to extend the necessary assistance to set up banks in unbanked areas, while Uttarakhand proposed to establish ‘mini-banks’ in 428 villages during 2010-11. Rajasthan proposed to strengthen the co-operative movement through the Aggregate Co-operative Development Scheme.

3.12 The development of infrastructure and other services through PPP has been another priority area in terms of States’ policy initiatives in 2010-11. This is sought to be achieved through (i) constructing bridges and citizen service centres to provide value-added services to rural citizens (Andhra Pradesh), (ii) setting up an Infrastructure Development Fund (Goa), (iii) setting up an Infrastructure Development Board for financing, implementation, maintenance and operation of PPP projects (Haryana), (iv) transmission and distribution of energy and the construction of expressways (Uttar Pradesh), (v) setting up hospitals (NCT Delhi), and (vi) improving tertiary-level healthcare (Haryana).

Institutional Measures and Other Major Policy Initiatives

3.13 The institutional measures adopted by State governments such as Fiscal Responsibility Legislations (FRLs), Value Added Tax (VAT), New Pension Schemes (NPS), setting up of a Consolidated Sinking Fund (CSF) and a Guarantee Redemption Fund (GRF) have helped them consolidate their finances in the past decade. The progress so far has been quite encouraging as all States have implemented VAT and also enacted FRLs. In fact, one of the major developments during 2010-11 has been the enactment of the Fiscal Responsibility and Budget Management (FRBM) Acts by the State governments of West Bengal and Sikkim, which is expected to facilitate restructuring of finances in these States, particularly in West Bengal that has chronic revenue deficits (Box III.2). With a special focus on greater transparency in fiscal operations and debt sustainability, the Sikkim FRBM Act 2010 has laid down a target to achieve a revenue balance in 2011-12 and reduce the GFD-GSDP ratio from 3.5 per cent in 2011-12 to not more than 3.0 per cent by 2013-14. The State-wise position with regard to other indicators is given in Table III.1.

3.14 Among other institutional measures announced in State budgets 2010-11, the important initiatives include: (i) setting up an empowered committee to monitor the progress of expenditure to ensure 100 per cent utilisation of grants awarded by the Thirteenth FC (Jammu and Kashmir), (ii) introducing contributory pension schemes for state financial enterprises (Kerala), (iii) limiting

Box III.2: West Bengal Fiscal Responsibility and Budget Management Act, 2010

The West Bengal FRBM Act came into effect in July 2010. Under the Act, it is the responsibility of the State government to ensure prudence in fiscal management and also fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the State Government and conduct of fiscal policy in a medium-term framework.

As regards the FRBM targets for key fiscal indicators, the Act prescribes that the State government shall progressively reduce the revenue deficit and achieve a balance within five years. The revenue deficit as a ratio to GSDP, targetted at 1.6 per cent in 2011-12, is to be reduced to zero by 2014-15 and the surplus built up in the revenue account would be used to discharge liabilities in excess of assets. As per the Act, the GFD-GSDP envisaged at 3.5 per cent during 2011-12 is to be reduced to 3 per cent by 2013-14.

Apart from defining the deficit indicators, the Act provides that a medium-term fiscal policy statement and a fiscal policy strategy statement (FPSS) along with the annual budget should be laid before the State Legislative Assembly. Like most other States, the Act provides for three-year rolling targets for fiscal indicators. The emphasis is on greater transparency and disclosures with regard to underlying assumptions, accounting standards, use of capital receipts, policies of the State government for taxation and expenditure for the ensuing financial year, strategic priorities, borrowing and other liabilities, lending and investment, underwriting and guarantees, and activities of State PSUs that can have budgetary implications.

The West Bengal FRBM Act states that the State government should disclose information on (i) outstanding contractual liabilities, (ii) revenue demand raised but not realised, (iii) committed liabilities in respect of major works and supply contracts, (iv) losses incurred in providing public goods and services, and (v) off-budget borrowings and contingent liabilities created out of guarantees. As per the Act, a Public Expenditure Review Committee is to be appointed, which would prepare a review report giving a full account of each item that deviates from the fiscal target during the previous year. The State budget has to specify the contingent measures to control the increase in deficit beyond specified levels during the coming year.

The enactment of the FRBM is a major step towards rule-based fiscal policy in West Bengal. However, the State government would need to spell out specific policies to achieve the key targets defined under the Act. Even though the Act is likely to facilitate greater transparency and disclosures, it does not prescribe any quantitative limits on outstanding debt and guarantees to be incurred by the State government. Further, with the enactment of the FRBM, the West Bengal government may benefit from recommendations made by the Thirteenth FC particularly in respect of (i) State-specific grants, (ii) extension of the Debt Consolidation and Relief Facility and (iii) interest relief on the NSSF and the write-off. The benefits under these schemes were recommended by the Thirteenth FC subject to amendment/ enactment of the FRBM by the respective States.

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 Guarantees 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	Yes	Yes	No
3 Assam	May 2005	September 2005	February 2005	Yes	Yes	No
4 Bihar	April 2005	April 2006	September 2005	Yes	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	Yes#	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	2010 **	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	No	Yes	Yes	Yes ***
18 Mizoram	April 2005	October 2006	No	Yes	Yes	Yes #
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	Yes #
23 Sikkim	April 2005	September 2010	April 2006	Yes	Yes	Yes
24 Tamil Nadu	January 2007	May 2003	April 2003	Yes	Yes	Yes #
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**	**20**	**18**	**20**	**15**

* Position as at end-November 2010. ** Announced in budget for 2010-11 for employees of Kerala State Financial enterprises.
*** Proposed in budget 2010-11. # Updation based on latest CAG Report on State Finance Accounts.
Source: Based on Information received from respective State Governments and Reserve Bank records.

guarantees and establishing the Guarantee Redemption Fund to avoid the risk of default (Meghalaya), (iv) augmenting the Guarantee Redemption Fund (Mizoram), (v) emphasising revenue mobilisation and debt management in the context of fiscal reforms and budget management schemes (Sikkim), and (vi) establishing the Reform Support Unit and Tax Research Unit and Training Centre (Bihar).

3.15 To strengthen local bodies, States have announced a higher devolution of funds to local bodies/ *Panchayati Raj* institutions as per the recommendations of their respective State Finance Commissions (Arunachal Pradesh, Chhattisgarh, Madhya Pradesh, Tamil Nadu and Tripura). Meghalya proposed amendments in its Electricity Duty Act and the Tax on Luxuries (Hotels & Lodging Houses) Act. Sikkim proposed the appointment of Block Development Committees for decentralised administration in the State.

3.16 In its budget for 2010-11, the Assam government has announced the constitution of the Fourth State Finance Commission.

3. Government of India

3.17 Under the National e-Governance Programme, the Government of India has approved a scheme to computerise State treasuries at an overall cost of ₹626 crore (with Central assistance of ₹482 crore). The scheme, to be implemented in about three years beginning in 2010-11, would support States and UTs to fill the existing gap in their treasury computerisation, upgrading, expansion and interface requirements, apart from supporting basic computerisation. It would make the budgeting process more efficient, improve cash flow management, promote real time reconciliation of accounts, strengthen the management information system, improve accuracy and timeliness in preparing accounts and bring about transparency and efficiency in the public delivery system in States and Union Territories. In this context, the detailed guidelines have been communicated to all States and UTs to enable them to prepare their proposals. Two committees, *viz*, the Empowered Committee (EC) and the Programme Steering Committee, were constituted to implement the scheme.

3.18 The Central government announced steps towards management of food security in the country in consultation with State Chief Ministers to control food inflation in the economy. While the Direct Tax Code is to be introduced from April 1, 2012, the GST would be implemented once consensus on certain issues is achieved and the institutional set-up is ready for its implementation. The goverment has already tabled the Constitotional Amendment Bill for GST in the Parliament on March 23, 2011. Acting on the assessment and recommendations of the Thirteenth FC, the Government of India appointed a committee to review the structure of the National Small Savings Fund (NSSF) and a Committee on revenue-deficit States to suggest ways to eliminate the revenue deficit (Kerala, Punjab and West Bengal).

3.19 Recognising that the Ladakh region of Jammu and Kashmir faces an extremely harsh climate and suffers from energy deficiency, the Government of India has proposed to set up solar, small hydro and micro-power projects. The Government of India announced a grant to the Government of Tamil Nadu towards the cost of installing a zero liquid discharge system at the effluent treatment plant in Tirupur to sustain this industry without undermining the environment. A Special Golden Jubilee package was announced for Goa to preserve the natural resources of the State by restoring Goa's beaches, which are prone to erosion, and increasing its green cover through sustainable forestry. Apart from increased plan allocation for school education in 2010-11, States have been provided resources for elementary education under the Thirteenth Finance Commission grants for 2010-11. In order to encourage State Governments to create a slum-free India, the Union budget 2010-1 proposed to increase support to the States under *Rajiv Awas Yojana* in 2010-11. To encourage people in the unorganised sector to voluntarily save for their retirement and to lower the cost of operating the NPS for such subscribers, the Government of India announced its contribution of ₹1,000 per year to each NPS account to be opened during 2010-11. This initiative, *Swalamban*, would be available for people joining NPS with a minimum contribution of ₹1,000 and a maximum contribution of ₹12,000 per annum during 2010-11. Accordingly, ₹100 crore has been allocated for the year 2010-11. A Mission Mode Project to computerise commercial taxes in States has recently been approved with an outlay of ₹1,113 crore, of which the Centre's share is ₹800 crore; the project will lay the foundation for the launch of GST.

4. Reserve Bank of India

3.20 The market borrowing programme of the State governments during 2009-10 was conducted successfully even as the gross borrowings were higher than that of the previous year. Higher deficit concerns and inflation expectations also weighed on the cost, leading to a marginal increase in the weighted average yield on State government securities. The spread on State government securities over Central government securities, however, moderated, reflecting the more evenly distributed auctions of State loans. Retail/mid-segment investors have responded well to the non-competitive bidding facility available in the auction of state development loans (SDLs), which has been put in place from August 25, 2009. As a result of wider retail participation, the cut-off yields settled at a lower level in many States during 2009-10.

3.21 In January 2011, the Reserve Bank entered into a Supplementary Agreement under Section

21A of the Reserve Bank of India Act, 1934 with the Government of Jammu and Kashmir. Under the agreement, the Reserve Bank shall carry out the general banking business of the Government of Jammu and Kashmir and act as the sole agent for investment of Goverment's funds w.e.f April 1, 2011. On the reconmmendation of the State Government, the Reserve Bank has entered into an agreement with J & K Bank Ltd., whereby J & K Bank would act as an agent of the Reserve Bank, for conduct of general banking business of the State Goverment.

5. Conclusion

3.22 With the improvement in the macroeconomic environment in 2010-11 and the need to correct imbalances that arose in the previous two years, the State governments have announced various measures aimed at higher tax collections. The improvement in the revenue account of States through tax measures would ensure faster progress towards fiscal consolidation. On expenditure, the focus on social welfare schemes has continued during the year. Among these schemes, there has been greater emphasis on policy measures aimed at protecting the public from the rising prices of essential commodities, particularly food items. In addition, State governments have shown an interest in development and strengthening the physical infrastructure with a view to achieve and sustain higher growth rates, while social sector expenditure policies would help them improve the quality of human capital and achieve inclusive growth.