Chapter I

Introduction

1. The present system of Ways and Means Advances (WMA) extended by the Reserve Bank of India (RBI) to the State Governments is based on the principles contained in the recommendations of the Informal Advisory Committee (IAC) (Chairman: Shri B.P.R. Vithal, Member, Tenth Finance Commission; Member: Dr. Ashok Lahiri, Director, National Institute of Public Finance and Policy; and Member-Secretary: Smt. Usha Thorat, Chief General Manager, Internal Debt Management Cell, RBI) set up in 1998. The IAC had recommended substantial enhancement of limits of WMA but had stated that these limits should remain unchanged for the period covered by the recommendations of the Eleventh Finance Commission. However, based on the representations from the State Governments, an Informal Group of State Finance Secretaries (GFS) was constituted by the RBI in November 2000. Certain modifications in the existing scheme and further enhancements of WMA limits were recommended by this Group. While accepting them, the RBI decided to review the entire formula of WMA in the light of the emerging conditions in State finances, two years after adopting the recommendations of the GFS, to take effect from April 1, 2003. Accordingly, an Advisory Committee was constituted to review the existing WMA Scheme to the State Government under the Chairmanship of Shri C. Ramachandran, former Secretary (Expenditure), Government of India and former Executive Director, Asian Development Bank with Shri Suman Bery, Director-General, National Council for Applied Economic Research (NCAER) as Member and Shri H.R. Khan, Chief General Manager, Internal Debt Management Cell (IDMC), RBI as the Member-Secretary. Dr. Charan Singh, Director, IDMC was the resource person.

2. The terms of reference of the Committee were as follows:

(i) to examine the existing scheme of WMA of the State Governments;
(ii) to consider rationalisation, if warranted, revision of limits, keeping in view the needs of State Governments as also the issues relating to fiscal and monetary management;
(iii) to examine the overdraft regulation scheme for the State Governments;
(iv) to examine the scheme of Special WMA of the State Governments; and
(v) to examine other aspects related to cash management of the State Governments as may be deemed necessary with particular reference to their transactions with RBI including the scope for refinement in the existing system and procedure.

The Committee held its first meeting at RBI, New Delhi on October 7, 2002 at which the existing structure of the WMA scheme was discussed. The Committee also held discussions on the current economic situation in the country, the deteriorating fiscal conditions of the States, the nature of the banking facilities extended by the RBI to the State Governments and the problem of assessing the periodicity and the exact magnitude of the mismatches between receipts and expenditure of the State Governments.

3. The Committee met the Finance Secretaries of the State Governments, officials of Government of India (Ministry of Finance), Planning Commission and the Twelfth Finance

Commission, RBI and other experts. The schedule of these meetings is set out in **Annexe-I.I**. The views of the State Finance Secretaries were not only elicited in the meetings **(Annexe-I.II)** but were also collected through a detailed questionnaire. The questionnaire along with the summary of the responses received from the State Governments are enclosed as **Annexe-I.III.** Further, in continuation of the discussions, specific views were gathered from six States (two special category and four non-special category States – Assam, Himachal Pradesh, Karnataka, Madhya Pradesh, Uttar Pradesh and West Bengal), as case studies **(Annexe-I.IV)**. The list of officials and experts with whom the Committee interacted is furnished in **Annexe-I.V.** Special presentations to the Committee were also made by Karnataka and Tamil Nadu. The Committee would like to sincerely thank all the officials/experts and record its appreciation for the valuable inputs it has received from them in its deliberations.

4. The current report has four chapters including this introduction. In Chapter II the evolution and the current arrangements of RBI accommodation to the State Governments are discussed. This is followed by Chapter III which provides an assessment of the post-1999 experience. The conclusions and recommendations of the Committee are presented in Chapter IV.

Chapter II

Reserve Bank Accommodation to the State Governments: Evolution and Current Arrangements

Background

1. The Ways and Means Advances (WMA) provided by the Reserve Bank of India to the States are governed by Section 17(5) of the Reserve Bank of India Act, 1934. This section authorises the RBI to extend WMA to the State Governments which are repayable not later than three months from the date of making the advances. Thus, these advances are meant to be temporary in character and are to be used to bridge any gaps that might arise for short periods between the expenditure and receipts of State Governments. They are intended to provide a cushion to the States to carry on their essential activities despite mismatches on fiscal transactions and to avoid disruptions to the normal and necessary financial operations of the State. There are no statutory provisions regarding the maximum amount of the advance or the rate of interest to be charged on WMA. These matters are regulated by the respective agreements which the RBI, as their banker, has with the State Governments. At present all the State Governments except Jammu and Kashmir and Sikkim have signed such agreements with RBI.

2. The RBI provides accommodation to the State Governments through two facilities. These are: (a) Normal WMA facility and (b) Special WMA facility which is secured against Government of India securities held by the State Governments with RBI. These facilities have been in existence since 1937 and 1953 respectively. The limits for WMA were set as multiples of the minimum balance held by the States with RBI as their banker. If the drawal of the funds by the State Governments exceeded these limits, they were deemed to have entered into Overdraft (OD). RBI in consultation with the Government of India has worked out regulations

for restricting such OD. In a period of natural calamity or disaster, *ad hoc* WMA limits have been granted to the States to facilitate transactions in government accounts.

Normal WMA

3. The historical evolution of the Normal WMA facility is presented in **Annexe-II.I.** Normal WMA limits were earlier related to the minimum balances held by each State. A major change in the principles adopted for working out the WMA limits occurred in 1999 consequent to the recommendations made by the Informal Advisory Committee (IAC) on WMA to State Governments referred to in Chapter I. The IAC recommended delinking the practice of relating the size of the Normal WMA limit to the minimum balance held by the States and instead proposed linking it to the budgetary turnover of the State. This was justified on the ground that the size of the liquidity mismatch would be a function of the size of the budgetary transactions. In linking the WMA limits to the level of budgetary operations of the State, the IAC further advocated uniformity with regard to all States. In reckoning the level of budgetary operations, the IAC excluded revenue deficit of the States as the States are expected to operate within their available resources. It also concluded that it is difficult to measure with exactitude the size of mismatches that could arise in the financial transactions of the State. The IAC instead felt that it would be preferable to provide an adequate space by way of reasonably large WMA that could take care of all likely liquidity crunches that can occur in the cash flow of the States. These recommendations were accepted by the RBI. With effect from March 1, 1999, the overall WMA limit for the States was increased by 65% to Rs.3685 crore from Rs.2234.40 crore.

4. These increased limits were arrived at by applying a certain ratio to the base consisting of three years' average of revenue receipts and capital expenditure of the States (1994-95 to 1996-97). The IAC consciously decided not to link the limits to the total expenditure (which is the logical surrogate for cash flows) as it would create an incentive for larger and more imprudent expenditure. Instead the IAC adopted revenue receipts as a proxy for the total expenditure minus the revenue deficit and included capital expenditure in the base as it believed that this should be normally matched by the capital receipts or revenue surplus. The ratio adopted by the IAC was 2.25 per cent for the non-special category States and 2.75 per cent for the special category States.

5. Despite the steep increase in limits as allocated by IAC, there were requests from several State Governments for further liberalization of these limits. The issue was discussed in the meeting of the State Finance Secretaries held on November 3-4, 2000 and an Informal Group of State Finance Secretaries (GFS) was constituted which submitted its Report to RBI in January 2001. On the basis of the recommendations of the GFS, the ratio was revised to 2.40 per cent for the non-special category States and 2.90 per cent for the special category States, i.e., a uniform increase of 0.15 per cent for both the categories of States. For the reorganized States, interim limits were fixed on their bifurcation in November 2000. Accordingly, the total revised normal WMA limits worked out to Rs.5,283 crore (based on revenue receipts and capital expenditure of 1997-98 to 1999-2000) as against the then existing limits of Rs.3,941 crore, an increase of 34 per cent with effect from February 1, 2001. As recommended by GFS, the limits were revised again in April 2002 to Rs.6,035 crore based on the latest three years' average of revenue receipts and capital expenditure (1998-99 to 2000-01). The position of WMA limits since February 1999 till date is furnished in **Table 1.**

Table 1: Ways and Means Advances Limits of the State Governments

(Rs. crore)

Sr.No.	State	WMA - February 1999 (Pre-IAC)	WMA March 1999 - based on IAC recommen-dations	WMA February 2001 - based on GFS	WMA - April 2002	% Change (Col. 6 over Col. 3)
1	2	3	4	5	6	7
	Non-Special Category States					
1	Andhra Pradesh	168.0	288	463	520	209.5
2	Bihar	117.6	195*	220	245	108.3
3	Chhattisgarh	-	82*	91	100	-
4	Goa	16.8	24	25	50	197.6
5	Gujarat	117.6	243	393	445	278.4
6	Jharkhand	-	51*	57	75	-
7	Haryana	50.4	99	167	180	257.1
8	Karnataka	134.4	228	331	375	179.0
9	Kerala	100.8	144	215	225	123.2
10	Madhya Pradesh	134.4	221*	244	275	104.6
11	Maharashtra	252.0	483	685	760	201.6
12	Orissa	100.8	141	159	185	83.5
13	Punjab	100.8	141	200	235	133.1
14	Rajasthan	100.8	202	288	310	207.5
15	Tamil Nadu	184.8	281	402	415	124.6
16	Uttar Pradesh	285.6	531*	559	630	120.6
17	West Bengal	168.0	235	295	360	114.3
	Total	**2032.8**	**3589 (76.6)**	**4794 (33.6)**	**5385 (12.3)**	
	Special Category States					
1	Arunachal Pradesh	16.8	28	35	50	197.6
2	Assam	67.2	114	161	180	167.9
3	Himachal Pradesh	33.6	59	92	115	242.3
4	Manipur	16.8	25	38	50	197.6
5	Meghalaya	16.8	25	30	50	197.6
6	Mizoram	16.8	25	28	50	197.6
7	Nagaland	16.8	26	40	50	197.6
8	Tripura	16.8	31	46	55	227.4
9	Uttaranchal	-	19*	19	50	-
	Total	**201.6**	**352 (74.6)**	**489 (38.9)**	**650 (32.9)**	
	Total for all States	**2234.4**	**3941** (76.4)**	**5283 (34.1)**	**6035 (14.2)**	

Figures in brackets are percentage variation over the previous period.
* Limits fixed in November 2000. The earlier limits in respect of Bihar, Madhya Pradesh and Uttar Pradesh were Rs.189 crore, Rs.232 crore and Rs.422 crore, respectively.
** The aggregate amount of WMA limits introduced in March 1999 was Rs.3,685 crore following the recommendations of IAC. In view of the formation of new States, limits were fixed in November 2000 for the six re-organised States.

Special WMA

6. The scheme of Special or secured WMA, which is granted against the collateral of Central Government dated securities and Treasury Bills held by the State Governments with RBI, was first introduced on April 1, 1953 when a uniform limit of Rupees two crore was allocated to each State. The sanctioned limits of Special WMA linked to the minimum balance had been revised upwards from 1967 to 1999. A brief historical review of special WMA is given in **Annexe-II.II.**

7. The scheme had not been effectively used by the State Governments since its inception as the operative limits were lower than their sanctioned limits in the absence of sufficient collaterals held by the States. However, the IAC was of the view that a scheme which encouraged the States to build up reserves in the shape of Central Government securities should not be discontinued. The IAC, therefore, recommended that the Special WMA should also be delinked from minimum balances and that States be allowed to draw Special WMA freely against their holdings of Government of India securities. Since 1999, the limits are directly proportional to the State Governments' holdings of Government of India dated securities and Treasury Bills without any ceiling. Accordingly the State Governments are being allowed Special WMA to the extent of around 85 to 90 per cent of the market value of their holdings of such securities after providing for margins against price risk, with a higher margin for securities of residual maturity in excess of 10 years.

Overdraft Regulation Scheme

8. In the first few decades following the inception of the arrangements for WMA in 1937, when the Bank entered into agreements with the Provincial Governments, the occasions of drawals beyond the WMA limits were few and generally for small amounts. However, a few States began running up large OD in their accounts with the Bank from the mid-sixties and needed periodic bailouts from the Central Government to help them clear such OD. The historical details of the OD and evolution of the institutional framework of the OD Regulation Scheme in 1985 are furnished in **Annexe-II.III.**

9. In October 1985, the Central Government advised the States that they should not be in OD with the RBI and if OD occurred and persisted beyond seven continuous working days, RBI would stop payments on that government's account. The limit on number of days was extended to 10 consecutive working days in 1993. The IAC observed in 1998 that the scheme was working well as a disciplinary mechanism and, therefore, did not recommend any relaxation. It, however, found that some States which were persistently in OD were defeating the purpose of the scheme by adjusting their finances in such a manner that they would clear the overdrafts

within the time limit only to emerge into OD subsequently. Recognising this, in addition to the existing limit of 10 consecutive working days that a State could be in OD, the IAC recommended a ceiling on the amount of OD, i.e., up to 100 per cent of Normal WMA limit and also a restriction on the number of days that a State could be in OD, i.e., 20 working days during any quarter in the financial year. In response to requests from the States, RBI deferred the implementation of the recommendation restricting the OD to 20 working days but accepted the imposition of a ceiling on the OD amount at 100 per cent of the Normal WMA limit with the provision that any OD over 100 per cent of the Normal WMA limit had to be cleared within three working days.

10. Subsequently in 2001, based on the recommendations of the GFS, the limit of 10 consecutive working days was extended to 12 consecutive working days and the restriction for bringing down the OD level within the level of 100 per cent of the Normal WMA limit was relaxed to five consecutive working days. Implementation of the norm to restrict the duration of the OD to 20 working days in a quarter continues to be deferred.

Minimum Balances

11. In terms of the agreement between the State Governments and the RBI, latter is required to transact the general banking business of the States for which State Governments have to keep a specified minimum balance with RBI. Under the agreements, the States were required to meet any temporary deficits in their minimum balances either by using their own Treasury Bills or by obtaining WMA from the RBI. The minimum balances were fixed for the first time in April 1937 but became effective from April 1, 1938. These amounted to Rs.195 lakh. The minimum balances have been revised upwards four times since then - April 1953 (Rs.4.00 crore), March 1967 (6.25 crore), May 1976 (Rs.13.00 crore) and April 1999 (Rs.41.04 crore). In 1999, based on the recommendations of IAC, RBI delinked the limits on WMA from minimum balance but revised and linked the minimum balances to the same base as Normal WMA. The minimum balances continue to be at Rs.41.04 crore since April 1999.

Interest Rates

12. Prior to May 1976, the interest rate on WMA did not exceed the Bank Rate. Thereafter the rate of interest on these advances was revised. From May 1976 to August 1996 a graduated scale of charges based on the duration of the advance was introduced to discourage the States from using the facility as a normal budgetary resource. Since then a single rate of interest is being applied on WMA. Till April 1976, interest on OD was being charged at the Bank Rate. From May 1976 to August 1996, the interest on OD upto a period of seven days was being charged at the Bank Rate and thereafter at three per cent above the Bank Rate. The changes made by the RBI in the interest rate structure relating to WMA and OD over the period are placed in **Annexe-II.IV.** At present, the rate of interest on WMA – both normal and special- is the Bank Rate and on OD, Bank Rate plus two per cent.

Central Government Scheme of WMA for State Governments

13. The Central Government also has a limited scheme of WMA facility to the State Governments. Such advances are generally provided for a duration longer than three months but have to be cleared on intra-year basis by March 31st of every year. At present, the rate of interest on WMA of the Centre is 8 per cent per annum.

Chapter III

Post 1999 Experience : An Assessment

Introduction

As noted in the previous chapter, the WMA facility for State Government is derived from Section 17(5) of the Reserve Bank of India Act, 1934. Under this section, the RBI is authorized to make to the Central Government and the State Governments "advances repayable in each case **not later than three months** from the date of the making of the advance". WMA was thus, envisaged as a mechanism to help the States to tide over short-term mismatches between receipts and expenditure. It has, however, over a period of time assumed, in the case of many States, the form of a long-term financing facility.

2. In 1998, the Informal Advisory Committee (IAC) observed that the WMA / OD was no longer serving purely as a facility to meet temporary mismatches and short-term liquidity problems. Certain observations of the IAC in this regard remain relevant .They reveal how stress in liquidity management is rooted in structural imbalances in the States' finances. The IAC had then stated –

"When a State remains in overdraft for such long periods as 200 days in a year, WMA becomes a resource and the overdraft becomes the WMA. The only difference is that the constraint is no longer a financial limit but a time limit. The peak level is no longer determined as a financial limit that can be brought down within the WMA limit within ten consecutive working days. The WMA, which was expected to be the safety net to bridge the gulf between the timing of receipts and payments, becomes the safety net between two spells of overdrafts. ***The crux of the matter is, therefore, not WMA, but the elimination of overdrafts****. With the progressive deterioration in the fiscal balances of States over the years, there is a concern that the WMA limit, which is to meet temporary liquidity mismatches, is being used as a resource. This problem gets exacerbated by the growing differences between the Budget Estimates, Revised Estimates and Accounts in the Budget."*

Utilisation of limits

3. In the existing system of WMA and OD, there is no requirement to liquidate the WMA/OD at the end of the financial year. This, as IAC had observed, *"encouraged some States to use WMA and OD as a resource and has also led to difficulties in distinguishing between a temporary mismatch between cash receipts and cash expenditure and a manifestation of the underlying structural deficit"*. IAC underscored the danger of utilizing WMA as an additional financial resource for meeting the budgetary requirements by its observation that *"it is important to recognize that enhancing of WMA limits increases the potential for their utilization"*.

However, it did not want to provide any scope for complaint on the part of the States that the WMA limit was inadequate for normal mismatch problems. In view of the difficulty in calculating the exact cash flow mismatches that could occur intra-year for each State, the IAC opted for a liberal principle that a large enough limit on a common basis could be prescribed for all States which would provide abundant space within which *"legitimate mismatches can reasonably be expected to be handled"*. Thus, in 1999 a major step-up in WMA limits was given to the States on the understanding that these limits would continue till the completion of the period of the 11th Finance Commission. These limits got further enhanced in 2001 by the Informal Group of the State Finance Secretaries (GFS). As a result, the aggregate WMA limits which were Rs.2,234 crore in February 1999 rose to Rs.6,035 crore in April 2002, a substantial increase of 170%. Even if we consider the budgetary expenditure of State Governments in the aggregate (including all their deficits), there has been no matching growth of this order during this period. Notwithstanding the increase in limits, the strain on the WMA limits and the resort to OD by the States have increased rather than diminished **(Annexe-III.I).**

4. The number of States in WMA for more than 330 days in a year has increased from two in 1998-99 to five in 1999-2000, seven in 2000-01 and nine in 2001-02. In 2001-02, three States were in WMA for 365 days, one State for 364 days and two States for 359 days. In 2001-02, 18 States have used WMA for more than 200 days in a year compared to 15 States in 2000-01, 14 States in 1999-2000 and 11 States in 1998-99**.**

5. A similar trend has been observed in case of OD. In 2001-02 ten States have been in OD for more than 150 days as compared to seven States in 2000-01, four States in 1999-2000, and two States in 1998-99**.** On the other hand, six States have not emerged into OD in 2000-01 and 2001-02. They have also been using WMA sparingly. Besides two States have consistently been in OD for the most part of the year, i.e., for more than 300 days, four States have been in OD for more than 200 days in 2001-02. It is also observed that for a number of States the peak level of OD in 2001-02 has been substantially higher than the peak level reached in 2000-01. The peak levels of OD that the States have availed of are substantially higher than their WMA limits.

6. A large number of States increasingly prefer to use WMA in the range of 75 – 100 per cent of their limits and record OD within 100 per cent level of WMA limits. In the case of few States utilization of OD in excess of 100 per cent of the WMA limits has become a recurring phenomenon. The disaggregated analysis shows that some States encounter liquidity mismatch in the second and third week of the month. The utilisation of WMA/OD, therefore, increases during this period.

7. As noted by the IAC, such deterioration is a clear reflection of the worsening fiscal situation in many States and is directly contributing to a serious liquidity crunch and, worse still, in many cases forcing them to use a short-term facility on a long-term basis to meet the resource gap. The problem is compounded when such gap widens, rather than narrows, over a period consistently straining the WMA limits and the OD. All the Finance Secretaries with whom the Committee interacted agreed that the pressure on State finances results in frequent breaches of the WMA limits and the overstepping into OD is essentially because of the structural problems originating from the growing fiscal deficits of the States **(Annexe-I.II).** Many of them argued

that the needed structural fiscal correction requires not only their own effort but also initiatives covering schemes of devolution from the Centre, interest burden and Plan funding. They contemplated an enhanced WMA facility as a stop-gap arrangement pending such widespread fiscal correction.

8. A few of the Finance Secretaries persisted with their argument that even in a hypothetically balanced budget situation, the intra-year/month liquidity mismatches would warrant a further enhancement of the WMA limit. However, the Committee is unable to find any justification or rationale for the argument that the existing WMA limits are inadequate to meet normal liquidity mismatches because of the following reasons -

(i) Prior to March 1, 1999, when the limits for WMA for the States were substantially lower, there were fewer instances of the States continually overstepping these limits.
(ii) Thereafter, despite the increase in limits in 1999, 2001 and 2002, resort to full WMA limit for longer durations and spill-over into OD has increased in respect of many States contrary to the expectations. The increase in the WMA limits for the States have generally been greater than the increase in their revenue and capital expenditure between 1997-1998 and 2001-2002.
(iii) The problem of higher utilization of WMA limits and frequent resort to OD is not uniform for all States nor is it related to the size of their budgets as there are still a few States who sparingly use the facility of WMA or resort to OD.
(iv) The substantial rise in WMA limits provided by the IAC and enhanced thereafter provide adequate space to all States on a uniform basis for meeting the likely temporary cash flow mismatches.
(v) An observation of the pattern of utilization in the last few years shows that there is no broad seasonality common to all States in the utilization of WMA/OD.

9. The demand for the enhancement of WMA and liberalization of the OD regulations arises because these are being viewed as a permanent source of finance for meeting the growing resource gap in the state budgets. The Committee observed that though the States might start with the hope that it would be a temporary bridging resource that could be paid off when additional resources are mobilized, the reality is that these expectations are rarely fulfilled for various reasons and the dependence on this facility gets prolonged. The availability of an enlarged facility encourages the States to undertake outlays and make expenditure commitments beyond the financial limit dictated by identified resources. Once such commitments are undertaken in the absence of a corresponding growth in other resources, a vicious cycle is created. It develops into a self-perpetuating dynamic cycle spurring incremental demand for funds in successive years from RBI as seen from the trend of utilization of WMA/OD.

Fiscal Situation of the States

10. The deteriorating fiscal condition of the States, as brought out by a number of indicators, indicates a close correlation between increased dependence on WMA/OD and fiscal stress of the States finances. The aggregate gross fiscal deficit (GFD) of the State Governments has risen steadily from 3.3 per cent of GDP in 1990-91 to 4.2 per cent in 2000-01 and 4.6 per cent in

2001-02 (**Annexe-III.II**). The analysis of decomposition of GFD reveals that the revenue deficit (RD) now accounts for more than half of the GFD as compared to 28.1 per cent in 1990-91 with the share of net lending and expenditure on capital outlay declining rapidly. In the financing of GFD, the shares of "others", which mainly includes negotiated loans and market borrowings, have increased from 33.3 per cent and 13.6 per cent in 1990-91 to 38.5 per cent and 15.1 per cent in 2001-02, respectively. The aggregate outstanding liabilities of the State Governments have also increased from 19.4 per cent of GDP at end-March 1991 to 25.6 per cent at end-March 2002.

11. A trend analysis of select fiscal indicators of the State Governments for the last five years reveals a continuous deterioration in the fiscal situation. Capital receipts are rising at a rate which is substantially higher than revenue receipts while the rate of growth in interest payments is higher than that of revenue and capital expenditure (**Annexe-III.III**). The interest burden on total liabilities of the State Governments as a percentage of revenue expenditure has increased from 9.5 per cent in 1990-91 to 19.46 per cent in 2001-02 and as a percentage of revenue receipts from 13.02 per cent to 23.81 per cent over the same period **(Annexe-III.IV).**

12. A state-wise analysis of certain key fiscal indicators shows a serious structural problem. The GFD, RD and revenue expenditure have substantially increased since 1997-98 while revenue receipts are increasing at a slower rate (**Annexe-III.V)**. The component of salaries, pension and interest payments as a percentage of revenue receipts in 2001-02 has become very high and, in the case of some States, even more than 100 per cent. Similarly, the ratio of RD over GFD and aggregate expenditure over revenue receipts has also increased (**Annexe-III.VI**). The analysis of the data reveals that RD as a percentage of GFD is high in some States like Gujarat (81.4), Kerala (74.1), Tamil Nadu (67.9), West Bengal (66.0), Maharashtra (62.3) and Madhya Pradesh (60.2), above the combined average of 54 per cent for all States. These are the States which have been in WMA for more than 200 days in the recent years and whose resort to OD has been increasing in terms of both duration and amount. It is thus clearly established that the persistent liquidity problem which States are seeking to address through the means of WMA/OD is in fact manifestation of the chronic solvency problem requiring a different approach for its solution.

Chapter IV

Conclusions and Recommendations

1. The WMA facility of the Reserve Bank of India to the State Governments is intended only as a purely temporary assistance for meeting liquidity mismatches. It is not meant to be an additional or regular source of finance. Under Article 293(3) of the Constitution of India, borrowings by the States, either from the market or through negotiated loans, are fixed by the Government of India and this sets a limit on such source of funds. Utilisation of WMA as a regular source of finance bypasses this restriction.

2. The analysis of State finances reveals the problem of a widening resource gap. The resources available to the States have not increased concurrent with the increase in their expenditure commitments. State Plans have also grown on an incremental basis out of step with growth in revenue resources compelling the States to incur high cost borrowings. It is observed that even the approved borrowings have not matched the requirements of resources for Plan expenditure. This has exerted pressure on many States regularly to avail of higher amount of WMA and resort to OD on a near-permanent basis. It must also be recognized that WMA/OD is a non-transparent and concessional source of funds that encourages widening of the gap between expenditure and allocated resources. What should normally be the last resort has thus become the first and most preferred source of finance.

3. During the Committee’s interactions with the State Finance Secretaries, while recognising the perils of dependence on WMA/OD as a budgetary resource, some of them expressed their inability to forego this resource, at least in the medium-term. It was argued that until the necessary fiscal correction is carried out denial of this resource, which has already got integrated into the budgetary exercise, would disrupt not only the developmental activities of the States but also the minimum level of committed expenditure like salaries, pension and interest payments. The needed fiscal correction entails addressing a number of important issues concerning expenditure and receipts. This will require not only the initiative of the States themselves but action in areas encompassing Plan size, financing mechanism of the Plan, guaranteed bonds, negotiated loans, structural adjustments in administrative and public sector activities, reform of subsidy, transfers from the Centre (taxes, small savings, others) and the interest burden, falling under the purview of the Central Government, the Finance Commission and the Planning Commission. These issues are beyond the limited mandate of this Committee. In case it is considered that a short or medium-term credit should be made available in the interim period to the States pending overall structural correction, WMA / OD cannot obviously be a component of such an arrangement. The Committee, however, recognizes that unless a long-term solution to the serious fiscal problem of the States is found the demand for progressively liberalising WMA / OD regime will continue to be made. The Committee would like to reiterate that this will not be the appropriate solution as the liberalization of these facilities will accentuate rather than mitigate this problem. This clearly emerges from the analysis presented in Chapter III.

4. However, in the predicament in which many States are placed, the Committee feels obliged to continue the already prevalent liberal dispensation for some more time, pending the necessary fiscal correction. The Committee believes that this would not delay the corrective initiatives which are urgently required. It also hopes that the States will recognize that the WMA presently available is only a limit and not an entitlement.

5. The Committee would like to underscore the point that the road map for the future must not be the perpetuation or enlargement of the already adequate space provided in the liberal limits of WMA but to retract from the present trend of using it as a budgetary resource. The States will have to endeavour over time to revert to the use of the facility of WMA only for meeting the temporary liquidity mismatches rather than as a near permanent budgetary resource and to resort to OD only under exceptional circumstances. Greater concern for market

judgements on the creditworthiness of the States would further reinforce the move in this direction.

Monetary and Other Implications

6. Net RBI credit to the State Governments by way of WMA and OD normally constitutes a small component of reserve money both in terms of the outstanding amount as well as growth variations. Instances of wide fluctuations in the size of OD, which affect variations in reserve money are, however, not uncommon. If the RBI's credit to Government is too large, a situation develops in which attempts to curb monetary expansion at the same time begin to hurt the productive sectors of the economy because the credit needs of these sectors then suffers. Further, at times, when the Central Government has to bail out the States facing suspension of payments under the OD Regulation Scheme, its own WMA utilization goes up sharply with consequential augmentation to the reserve money. Such large and volatile increase in net RBI credit to the Central and the State Governments may often constrain the capability of RBI in its monetary operations as well as debt management. The increased utilization of WMA also has other macroeconomic implications for the country. In the context of the global integration of the financial markets, credit ratings are affected by the fiscal situation of the country as a whole. Increasing use of central bank finance by way of WMA/OD reflects serious financial stress of the States. Such sub-national fiscal situation can have an impact on the sovereign rating of the country.

Recommendations

Normal WMA

7. The Committee concurs with the assessment of the IAC that in considering an appropriate limit of WMA for the States, the objective must be to provide adequate space to meet the normal liquidity mismatches that arise during the year. In the Committee's view, such space already exists within the existing WMA limits. The IAC had taken revenue receipts and capital expenditure as the base for determining the WMA limits. The Committee examined on the possibility of simplification of the formula by linking WMA limits to a single variable. Most of the Finance Secretaries concurred with the use of revenue receipts as a base for computation of the WMA limits. The advantages of exclusively using revenue receipts as the base are: (a) it determines the repaying capacity of the States, (b) it is relatively transparent, (c) it is simpler to calculate, and (d) inclusion of capital expenditure tends to cause distortions because:

- (i) there are inter-state differences in computing capital expenditure;
- (ii) not all capital expenditure that is incurred by the States need be from the Consolidated Fund of the State;
- (iii) deficit on the capital account is camouflaged by carrying forward the unpaid bills on an incremental basis annually; and
- (iv) there is likely to be far less mismatch between receipts and expenditure on capital account than in the case of revenue account.

It is recognized that from the point of view of the States, it is the adequacy of the limit to accommodate likely mismatches that is relevant and important. Therefore, exclusion of capital expenditure from the base could be compensated by adopting a higher ratio to the revenue receipts than the ratio presently used to determine the WMA limits.

8. The Committee, for purposes of computing the WMA limits, started with a premise of protecting the existing levels to which States have become accustomed. The distinction introduced by the IAC in computing the limits for WMA between the special and the non-special category States, given the peculiarities of the two categories of States, is being retained. The ratios applicable to revenue receipts (as the sole indicator) have been arrived at by the following methodology:

(i) State-wise, ratios of WMA limits arrived at by the IAC to the three year average revenue receipts taken into account by them (1994-95 to 1996-97) were derived.
(ii) These ratios were uniformly adjusted upwards by the fraction of 0.15 on 2.25 for non-special category States and 0.15 on 2.75 for special category States. This was done to provide for the escalation introduced by the GFS in 2001 when the ratios prescribed by the IAC at 2.25 and 2.75, respectively were raised to 2.40 and 2.90, respectively.
(iii) The ratios for different States thus obtained were averaged out. The average so computed is 3.19 per cent for the non-special category States and 3.84 per cent for the special category States (**Annexe-IV.I**).

9. On the basis of the above mentioned ratios of 3.19 and 3.84 respectively, the Normal WMA limits proposed to be effected from April 1, 2003 have been computed (**Table-2).** It may be noted that the limits derived by applying the above formula have been rounded off to the next multiple of Rs.5 crore with a minimum limit of Rs.50 crore for any State. It may be observed that there would be an increase of 18.8 per cent in the aggregate WMA limits and the limits for almost all States would increase, though by varying degrees, in keeping with the trend in the revenue receipts. The Committee is conscious that these limits further enlarge the already adequate space for meeting the liquidity demands arising from mismatches between the receipts and expenditure. However, as these are only enabling provisions, the Committee hopes that with appropriate fiscal correction, the States will resort to using this facility to the limit only to the extent necessary. The ratio 3.19 per cent and 3.84 per cent of the average revenue receipts effectively work out to 38.28 per cent and 46.08 per cent of their average monthly receipts for the non-special category and the special category States respectively. A limit of this order should provide more than abundant cushion to cover the monthly liquidity problems that could arise even from any unexpected shortfall in devolution and transfer which, many States argued, were the main cause of their fiscal difficulties.

10. The Committee further recommends the following:-

(a) The ratios as indicated in paragraph 8(iii) may hereafter be applied to the average of the latest three years revenue receipts - two years' actuals and one year's pre-actuals as approved by the Comptroller and Auditor General (CAG) - for annual revision of the limits to be effective from April 1 every year.

(b) The formula and the limits may be reviewed in totality after receipt of the recommendations of the 12th Finance Commission.

Table 2: Proposed WMA Limits effective April 1, 2003

(Rupees crore)

Sr. No	State	Current WMA Limits (2002)	Average Revenue Receipts for 3 Years (1999-00 to 2001-02)	Proposed WMA Limits with effect from April 1, 2003
1	**2**	**3**	**4**	**5**
	Non-Special Category States			
1	Andhra Pradesh	520	19374.97	620
2	Bihar+	245	9431.01	305
3	Chhattisgarh+	100	3992.01	130
4	Goa	50	1127.49	50
5	Gujarat	445	15208.33	485
6	Jharkhand+	75	3226.95	105
7	Haryana	180	6320.00	205
8	Karnataka	375	14313.73	460
9	Kerala	225	8477.82	270
10	Madhya Pradesh+	275	10784.83	345
11	Maharashtra	760	28253.67	905
12	Orissa	185	6611.55	215
13	Punjab	235	7428.64	240
14	Rajasthan	310	11448.22	365
15	Tamil Nadu	415	17739.00	570
16	Uttar Pradesh+	630	23550.13	755
17	West Bengal	360	13070.33	420
	Total	**5385**		**6445**
	Special Category States			
1	Arunachal Pradesh	50	1067.65	50
2	Assam	180	5403.42	210
3	Himachal Pradesh	115	3492.22	135
4	Manipur	50	*1096.62	50
5	Meghalaya	50	1076.33	50
6	Mizoram	50	926.88	50
7	Nagaland	50	*1323.76	55
8	Tripura	55	*1571.39	60
9	Uttaranchal+	50	*1643.41	65
	Total	**650**		**725**
	Total for All States	**6035**		**7170**

* Based on estimates as pre-actual figures for 2001-02 have not been received from the States.
+ In the case of reorganized States, the revenue receipts for 1999-00 and for first seven months of 2000-01 have been computed by using the revenue sharing formula. For the period December 2000 to March 2002, the data as given by the States have been taken into account.

Rate of Interest on WMA

11. The Committee recommends that the rate of interest charged on WMA should be:

(i) Bank Rate for the period of 1 – 90 days and
(ii) 1 per cent above the Bank Rate for the period beyond 90 days.

The above differential rate is suggested mainly because the WMA limits as proposed are obviously larger than what would be needed by the States in normal circumstances to accommodate their liquidity problems and there must not be any incentive to utilize WMA for longer periods than what is necessary on account of its being a concessional source of funds. The Committee is aware that even the difference in rates of interest, as recommended above, does not really make this resource costlier than market borrowings or negotiated loans. This is, therefore, merely suggested as an indicator of the direction in which future corrective action should be undertaken.

Special Ways and Means Advances

12. Special WMA are given against the collateral of the investments by the State Governments in Central Government dated securities and Treasury Bills with RBI. RBI, after imposing certain margin requirements, revises the limits for special WMA on a quarterly basis for holdings of Central Government dated securities and on immediate basis for the variation due to investments/maturity of Treasury Bills. This scheme is working well. In order to encourage the States to build up reserves of Central Government securities which can be leveraged to raise collateralized funds from the RBI, the Committee considered it prudent to further liberalise the scheme with some safeguards. Accordingly, following recommendations are made:-

(a) A uniform margin of five per cent should be applied on the market price of the securities. This could imply that the States could get advances amounting to 95 per cent of the market value of the securities. This would raise the operative limits since, at present, margins varying from 10 to 15 per cent are applied by RBI. The present practice of quarterly revisions for holdings of Central Government securities and immediate revision on account of variation in holding of Treasury Bills should continue.
(b) The rate of interest on Special WMA should be at one per cent below the Bank Rate as against the present practice of charging interest at the Bank Rate.
(c) Special WMA should be offered to the State Governments first. Only after having fully availed of these advances should the States be allowed to utilize the Normal WMA.
(d) For operational convenience and timely revision of the drawing limits, the existing

system of holding of investments in different offices of RBI should be streamlined.

(e) Special WMA should continue as an exclusive scheme based on investments in Central Government securities which are unencumbered and should not include those securities which are covered under the Consolidated Sinking Fund, the Guarantee Redemption Fund or any other such special schemes.

Overdraft Regulation

13. It has been observed that a number of States have increasingly been resorting to OD for longer period in the recent years. After the enhancement of the WMA limits, greater resort to OD is a clear indication of fiscal imbalance and unless regulated in time, it would lead to a situation where the corrections would become costly and difficult. The bail-out of individual States, which used to be occasionally done by the Central Government in earlier years through advance releases, has become both more regular and more difficult. Further, bail-outs tend to open up criticism that the Centre is discriminating in favour of fiscally indisciplined States. While the OD provides a temporary cushion to withstand the adverse consequences of these structural problems, the problems only get exacerbated in the long run. The Committee would, therefore, caution that the persistent resort to OD is a symptom of a serious malaise which should not be ignored or allowed to be perpetuated. These issues have weighed with the Committee in dealing with the requests from some Finance Secretaries for further liberalization of the OD regulations. However, in view of the fact that a number of States get into OD frequently and many State Finance Secretaries have felt that such arrangements may have to continue in the medium-term till the fiscal corrections were put in place, the Committee purely as an interim measure was inclined to accommodate the States in terms of the duration of the OD.

14. As the WMA limits stand enhanced, occasions for resort to OD should become rarer and also the need for OD beyond 100 per cent of the WMA limit should be practically non-existent. If such resort to OD nonetheless occurs in case of any State, then it should be seen as an indication of a deep rooted fiscal and structural problem that demands urgent correction. Except in those cases, where the gap between available resources and expenditure commitments undertaken is too wide, such a situation would not arise. The past experience, in particular the data for the last two years, would substantiate this point. In the absence of immediate fiscal correction, unregulated resort to this facility compounds the problem and, in succeeding years, the problem only gets worsened. Under these circumstances, there cannot be any justification for enabling the States to avail of OD beyond 100 per cent of their WMA limit beyond five consecutive working days. One of the salutary recommendations of the IAC that would have arrested to some extent the utilization of this facility as a financial resource, outside the purview of Article 293(3) of the Constitution, was that of restricting the prevalence of OD within any quarter to not more than 20 working days. The Committee fails to understand why States cannot adhere to this principle, but for the fact that the OD has already become a resource rather than a facility to meet temporary and extra-ordinary liquidity problems.

15. Keeping in view the above aspects, the Committee recommends the following –

(a) The total number of days that a State can remain in OD may be extended up to 14 consecutive working days from 12 consecutive working days at present. The two additional days are being recommended as many State Governments requested more time to arrange funds to clear the OD without disrupting their essential operations. It is also in keeping with the recommendations of the Sarkaria Commission. This extension in the existing time limit, however, is meant to be only for the short-term during the implementation of the Medium-Term Fiscal Reforms Programmes. With the reduction in time lag for cash inflows in view of on-going computerization in the banking sector and the State Government Treasury offices, the frequency of resort to OD must come down and the period of each spell of utilization should accordingly decline to 7 days or even lower.

(b) The existing norm of restricting OD to 100 per cent of the Normal WMA limit should continue, i.e., if the OD exceeds this limit continuously for 5 consecutive working days for the first time in a financial year, the State will be advised by RBI to bring down the OD level and if such irregularity persists on a second or subsequent occasion in the financial year, RBI will stop payments notwithstanding the provision of permitting OD upto 14 days mentioned at (a) above.

(c) The States should not be in OD in any one quarter for more than 30 working days. The quarter would be defined as a three month period beginning from April 1, July 1, October 1 and January 1 of every year. In case the State Government is in OD for more than 30 working days in a quarter, RBI and its agencies should stop payment of that State Government until the OD is cleared and no further OD should be permissible during that quarter.

The recommendations at (b) and (c) have been made because once OD becomes a resource to fund the gap between receipts and expenditure in a particular year, it becomes a recurring and growing necessity in subsequent years as resource mobilization does not catch up in short term while expenditure commitments persist. Therefore, such "hard budget" constraints are being recommended as a disciplining mechanism to avoid OD for long periods.

(d) The committee recommends that the rate of interest on OD be as under:-
   (i) OD upto 100 per cent limit of WMA - three per cent above the Bank Rate, and
   (ii) OD exceeding 100 per cent of the WMA limit - six per cent above the Bank Rate.

Thus, with a Bank Rate at 6.25 per cent at present, the OD upto 100 per cent of WMA limit would be at 9.25 per cent and for the OD that exceeds 100 per cent of the WMA limit, the rate of interest would be at 12.25 per cent. It may be noted that though the recommended increases are steep in comparison with the present rate, they are still lower than the present level of rates of interest of 13-14% which are charged on the negotiated loans.

Other Aspects

Dissemination of data

16. The Committee recommends that, as in the case of the Central Government, the RBI should disseminate data on net RBI credit to the State Governments – State-wise on weekly basis. This will provide transparency to the financial operations of the States. Many of the State Finance Secretaries have also agreed to this suggestion. In view of the sensitivity of the information, the Committee recommends that the RBI may consider an appropriate periodicity for their dissemination.

Transfers from Government of India

17. The State Finance Secretaries generally were in full agreement that two of the major factors contributing to liquidity problems, even after discounting the adverse impact of the deficit, were the abrupt shortfalls in actual monthly transfers from the Central Government to the States as compared to the budget estimates and the bunching up of releases of Plan funds for the Central Sector and Centrally-sponsored schemes, especially in the last quarter of the financial year.

18. As far as reduced transfers from the Central Government are concerned, it was observed that in certain years, abrupt and sudden reductions in the devolutions from the Centre to the States vis-à-vis the budgeted estimates had occurred because of shortfalls in collections. However, this has not been a common or regular feature and would either get corrected when the collections improve within the year or would have to be factored into the budget as a curtailment of the annual estimates of revenue receipts warranting proportionate expenditure cuts. The matter relating to releases from the Planning Commission are of a different nature. One of the complaints from the States was that a larger share of plan finances were given as earmarked funds on Centrally-sponsored schemes, that too outside the Consolidated Fund of the State, and that only a smaller share is being received as untied Plan loans. The related issue was that of bunching of releases in the last quarter whereas expenditure is incurred uniformly throughout the year. From the point of view of the Ministry of Finance / Planning Commission, such bunching occurs because of delayed certification of utilization by the States. These are issues that have to be examined by the Planning Commission and the Government of India. As far as their impact on the problem of cash management is concerned, the Committee feels that the liquidity crunch created by them, though genuine, can still be accommodated within the liberal WMA limit presently available to the States. As pointed out earlier, the recommended WMA limit works out to 38.28 per cent and 46.08 per cent of the monthly revenue receipts of the non-special category and the special category States respectively and the likely shortfalls would be very much of a smaller order than this.

19. During the deliberations, the State Finance Secretaries mentioned that the rising level of Plan size imposed compulsions on the State to incur larger borrowings from the market or from financial institutions in the wake of slower growth of revenue receipts. This is because the Plan size is determined based on an unrealistic estimate of balance of current revenues (BCR) and revenue projections. Sometimes resource gaps have been consciously bridged through high cost borrowings accentuating the fiscal distress. Further, the revenue component of the Plan expenditure has been increasing and, after successive Plan periods, has been contributing to steep increases in non-plan commitments. One alarming fact brought to the notice of the Committee

was the increasing tendency of some States to resort to delayed payment of substantial amount of bills as a method of incurring expenditure beyond available resources. Such pattern of financing which is not captured in the fiscal statistics makes the published figure of RD and GFD unrealistic for that period. All these require a holistic review by the Finance Commission and the Planning Commission. It may be appropriate to consider fiscal consolidation for the States in serious fiscal problems for a specific period till the State finances recover rather than persist with an annual incremental growth in Plan size.

20. The Committee would like to highlight certain other related issues which were brought to its notice during the deliberations. The transfers from the Centre to the States on account of small savings have been rather erratic. The reason is that the Centre transfers to the States' the collections made four months earlier. The mobilization under the small savings is seasonal with major accruals taking place in the months of June, September, December to March. The Committee, therefore, recommends that the Government of India consider transfer of collections of small savings to the States on a similar pattern as it does with the devolution of taxes, i.e., monthly transfers at the rate of $1/14^{th}$ of the estimated collections. This is expected to facilitate smoother cash management for the State Governments.

Interest payment at monthly rests

21. It has been mentioned to the Committee that some of the loan repayments especially for negotiated loans and interest payments are made on a quarterly basis. This accentuates the mismatch. The Committee, therefore, recommends that the loan repayments should generally be on a monthly basis and the interest payments including that on WMA and OD should also preferably be paid on a monthly basis.

Efficient Cash Management

22. It has been brought to the notice of the Committee that although the account position of the States is available on the website of the Central Accounts Section (CAS) of RBI, Nagpur to which State Governments have been connected and RBI regularly keeps the Governments informed whenever they get into OD, the efforts made by many of them in taking immediate corrective steps are far from satisfactory. Often the bail-outs by the Ministry of Finance are delayed to the last permissible day or even beyond. This causes serious operational problems at the level of RBI and its agencies including non-closure of the books at the CAS as per the prescribed time limit. Given such difficulties and keeping in view the recommendations regarding application of higher rate of interest on OD, it is imperative that the officials of the State Finance Department and the Ministry of Finance monitor the position regularly and take swift corrective action without waiting for the last day of the permissible OD period.

23. The Committee also recommends that the RBI, which operates the WMA scheme, help the States in improving their cash management techniques. This could be done through interactive workshops where the techniques of cash management could be discussed with the officials of the State Governments. The experience of States, who have evolved sound cash management practices (e.g. computerization and networking of Treasury operations, generation of regular MIS for follow-up, checklist for expenditure cuts in the event of fall in projected

receipts, etc.) and have more efficient information system, may be shared amongst the other States in such workshops.

24. The Committee felt that certain suggestions for better cash management like issuance of short-term Treasury Bills and resource mobilization from the market out of an earmarked portion of the approved market borrowing programme, when the OD limit is breached, are not feasible, particularly in the context of the fiscal stress faced by a number of States. They also did not elicit any favourable response from the States.

25. The Committee also did not examine the issue and make any recommendation on the minimum balances being maintained by RBI because such balances are no longer linked with the fixation of the WMA limits and, in the current fiscal situation of the States upward revision in such balances can be deferred.

Annexe-I.I

Schedule of the Meetings of the Advisory Committee with Officials/Experts

Sr. No.	Date	Place	Officials/Experts
1	October 7, 2002	New Delhi	Dr. Rakesh Mohan, Deputy Governor (DG), RBI
2	October 8, 2002	New Delhi	Officials of Government of India
3	October 26, 2002	Hyderabad	Shri B.P.R. Vithal, Chairman, Informal Advisory Committee on WMA to State Governments and Dr. Y.V. Reddy, former DG, RBI & ED, IMF
4	October 30, 2002	Mumbai	Shri S.S.Tarapore, former DG, RBI and officials of RBI.
5	October 31, 2002	Mumbai	Officials of Chhattisgarh, Gujarat, Madhya Pradesh, Maharashtra and West Bengal
6	November 7, 2002	Bangalore	Officials of Karnataka, Kerala and Tamil Nadu
7	November 8, 2002	Bangalore	Committee Meeting
8	November 18, 2002	Chennai	Officials of Tamil Nadu
9	November 20, 2002	New Delhi	Officials of Government of India and Planning Commission and officials of Assam, Mizoram, Himachal Pradesh and Uttaranchal.
10	November 21, 2002	New Delhi	Officials of 12th Finance Commission and officials of Haryana, Orissa, Punjab and Uttar Pradesh.
11	December 1, 2002	Bangalore	Officials of Andhra Pradesh
12	December 2, 2002	Bangalore	Committee Meeting

13	December 4, 2002	New Delhi	Officials of Arunachal Pradesh, Bihar, Goa, Manipur, Meghalaya, Nagaland, Rajasthan and Tripura
14	December 11, 2002	New Delhi	Committee Meeting
15	December 14, 2002	Chennai	Committee Meeting
16	January 3-5, 2003	Chennai	Committee Meeting
17	January 22, 2003	Mumbai	Submission of Report

Annexe-I.II

Summary of the views expressed by the State Finance Secretaries in various Meetings of the Committee

Structural Problem

1 Most of the States agreed that the liquidity mismatch was not a temporary problem but has arisen out of deep rooted problem of fiscal imbalance. Some of the Finance Secretaries mentioned that because of such structural problems almost all States, except those under the financial aid programme of the World Bank and the Asian Development Bank are forced to avail of WMA/OD facility as a regular source of funding.

Normal Ways and Means Advances

2 Most of the Secretaries were of the opinion that the WMA limits should be increased. While most of them advocated increase as an interim measure, pending structural adjustment and fiscal correction, a few saw the need for such increase to meet the temporary liquidity needs even within a balanced budget itself. However, some States expressed the view that there is no requirement of revision as such an enhancement would encourage more expenditure by the States. There was a near consensus on the issue that the base for fixing the WMA limits should be the single factor of revenue receipts for simplicity instead of the twin factors of revenue receipts and capital expenditure as capital expenditure is not defined uniformly and therefore there is a possibility of this indicator varying for different States.

3 There was a view that WMA limit should be like working capital and, therefore, it should increase with the size of the budget. On the other hand, some States observed that WMA is only for liquidity mismatch and cannot be compared with working capital or line of credit. A few were of the view that the limit should be based on future budget estimates instead of using past data figures for computing the WMA limits. Another view was that the existing formula of the WMA limit should have a built-in adjustment factor to take into account the actual shortfalls in the budgeted transfers from the Central Government.

Special Ways and Means Advances

4 Some of the States felt that since the collateral consists only the Government of India dated Securities/Treasury Bills, no margin should be applied on the Special WMA. They also expressed the view that since the borrowings under special WMA are backed by collaterals, there should be a concession in the interest rate, preferably less than the Bank Rate which is the rate for Normal WMA. There was also a view that the revisions, which are at present undertaken on a quarterly basis, should preferably be undertaken on a monthly basis.

Overdraft

5 Some States expressed the view that they are not comfortable with the five-day stipulation in the overdraft regulation scheme as it is not possible to arrange resources within this short period. Some of them suggested that it should be increased to seven days while some others felt that the stipulation should be removed altogether.

6 The Finance Secretaries generally expressed satisfaction on the 12 days' stipulation. Some States however, suggested that as the liquidity mismatch mostly arises between 7^{th} and 25^{th} of a month, the OD period should be increased. The period of extension sought by the Finance Secretaries varied from 14 to 20 days.

7 Some of the States felt that there should be no ceiling on the amount of OD. However, some States suggested that the ceiling should be 200 or 300 per cent of the Normal WMA limit. With regard to the interest rates, some Finance Secretaries were not comfortable with the rate charged on OD. They suggested that the rates should be equal to Bank Rate or only marginally above the Bank Rate.

Other issues

8 Some of the States suggested that capital expenditure being large, they would prefer to have a schedule of market borrowings during the year. They proposed that like the Central Government, a calendar for State Government borrowings could also be prepared. Some of the States observed that there should be no distinction between the special and non-special category States.

9 Many States observed that as the funds mobilized under small savings, though released on monthly basis, reach the States with a lag of four months, the flow is uneven. This is mainly because in some months amount mobilized is higher than that in other months. The uncertainty on this account disturbs financial planning.

10 Some Finance Secretaries mentioned that the Plan size of the State which is decided by the Planning Commission and the Government of India in consultation with the State Government has been increasing every year. This incremental Plan size has to be financed by the State and there is increasing resort to WMA by the States in the absence of any other elastic and concessional source of finance.

11 With regard to dissemination of information on availment of WMA by the States in line with the practice followed by the Central Government, some States observed that this will have

negative impact on the borrowings of the States while some others had no objection. One of the States expressed that it would be publishing these figures on its website on a daily basis. Other States were in favour of such a move as it would add to the transparency in the States' financial operations.

12 On the scaled rate of interest for the availment of WMA/OD, some States felt that this will be an additional burden on the States' finances. Some States appreciated it as they felt that WMA being most convenient way of raising resources is being used in a very liberal manner but once the pricing is appropriate, its utilization will be restrictive. Some of them, however, suggested that this would not restrict the States from borrowing from RBI as they are less sensitive to the interest rate.

13 The State Finance Secretaries also mentioned that under centrally sponsored schemes, the Central Government directly transfers funds for the projects to the concerned agencies without routing them through the Consolidated Fund of the States. It has been observed that large amount of funds lie in the bank accounts of these agencies without being utilized and, even during the situation of cash crunch, the States are not able to use these idle resources. This restricts the maneuverability of the States.

14 Some Finance Secretaries referred to externally aided projects. The States are required to first undertake the expenditure and thereafter claim reimbursement thereafter from the Central Government. This also strains liquidity management of the States.

15 A few of them mentioned that States incur large amount of off-budget liabilities like guarantees, etc. and this puts additional burden on their financial health.

Annexe-I.III

Summary of Responses to the Questionnaire*

Sr. No.	Item	Special category States	Non-special category States
1	**2**	**3**	**4**
A	**General**		
1	In your view how should temporary mismatches between receipts and payments be defined?	Gap between receipts and expenditure	Most of the States viewed them as gap between receipt and expenditure
2	Do you see any specific pattern of cash crunch during any particular period of the month considering the pattern of receipts and expenditure?	Entire month - April to August, festive seasons	Most of them mentioned the first week of the month and the festival seasons
3	In your view what are the factors contributing to mismatches in the		

* Summary based on response from 23 States. The States which did not respond are Manipur, Nagaland and Tripura.

	State Government's accounts? Can you indicate the approximate weight-age to each of the following factors (in percentage terms):		
a)	Seasonal factors (receipts being fairly regular whereas payments were bunched at specific times)	7% - 60%	15%-40%
b)	Capital transactions like large and lumpy repayments with limited control over the timing of capital receipts, such as, borrowings	10%-40%	10%-40%
c)	Timing of transfers from Government of India.	10%-20%	10%-50%
d)	Leads and lags in realization of revenue receipts, particularly, tax receipts	5%-30%	5%-50%
e)	Any other factors (e.g., state specific reasons like major festivals) (please specify)	5%-15%	5%-35%
4	Do you think that the system of WMA and OD is currently serving other purposes rather than merely meeting the temporary mismatches?	No- 4; Yes-1; Partly -1	Yes 3; No- 10; Partly-3
5	Do you think over the year WMA/OD has started to finance the budget deficit? If so, what other mechanism/instrument can be considered to address the issue of temporary mismatches exclusively?	No- 4; Yes-1; No comments-1	No- 7; Yes-4; Partly-4; No comments-1
6	How frequently should WMA/OD limits be revised? Should it be based on a formula?	Every year formula based	Every year -12; Every two year - 4; Every three year –2 Formula based
7	Do you think issuance of short-term Treasury Bills could be one such instrument to finance temporary cash requirements?	No- 3; yes-3	No- 10; Yes-4; No comments - 2
8	Do you think that the minimum balances required to be maintained by the State Governments at CAS, Nagpur should be increased. If so, why?	No-All	No- 11; Yes-4; No comments -1
9	What is the manner of holding Public Accounts in your State? Are these invested in identifiable assets	Merged with accounts	Most of them mentioned that they are merged with the

	or are they merged in the accounts?		accounts
10	Does you State periodically resort to seeking of temporary accommodation directly or indirectly through State level PSUs/co-operative bodies?	No- All	No- 9; Yes-3; Ocassionally-3; No comments-1
11	How do you view the proposal to liquidate your State's investment in Government of India dated securities kept for the purpose of Special WMA, if any, before the State is allowed to avail of OD from RBI?	No- 3; No comments-2; Partly1	No- 11; Yes-4 ; No comments-2
B	**Normal WMA**		
12	Do you think there is a need for revision in the present scheme for grant of WMA by RBI to State Governments? If yes, why?	Yes-4; No-2	No- 5; Yes-10; No comments-1
13	Do you think that the current methodology of arriving at WMA limits, i.e., certain percentage (i.e., 2.4% for non-special category States and 2.9% for special category States) of the average of the last three years' revenue receipts and capital expenditure needs to be changed? If yes, what alternate methodology would you suggest?	Should be raised up to 5%	Should be raised to 3% - 5%
14	If you think there should be a revision, should it be by way of increase in the limit on advances? If so, by how much and what is the basis for suggesting the order of an increase?	Yes- All	Minimum 3 % and Maximum 5%
15	How do you monitor the availments under the WMA? What steps do you take when it exceeds the limits? Is your State in a position to clear WMA within a period of three months as stipulated?	By curtailing expenses	By monitoring daily positions from CAS Nagpur; most of the States did not offer comments on clearing OD within three months
16	Do you have any views on the interest charged on WMA in relation to its rate, impact on your budget, etc.? Do you think higher interest	Rate should be reduced	Most of the States did not prefer any change in the interest rate.3 States wanted interest

	rate should be charged in case WMA is not cleared within the specified three months?		rate be less than or equal to Bank Rate
C	**Overdraft Scheme**		
17	How frequently your State gets into overdrafts and the reasons therefor?	Frequently-3; Occasionally-2	Frequently-13; Occasionally-3
18	Is the present overdraft (OD) scheme working satisfactorily? Do you have any suggestion to improve the scheme? Please also give your specific view/suggestions on:-	Satisfied with the present scheme	Satisfied with the present scheme
(a) i	Whether you consider the five day limit is having a salutary effect	Yes-2; No-3; No comments-1	Yes-8; No-4, Withdraw the Ceiling-2
(a)ii	with the improvement in payment system, do you think there can be reduction in number of days from the limit of five days.	No-3; Yes-1; No comments -2	None were in favor of reduction
(b) i	whether the 12 day limit on OD is appropriate	Yes-2; Not adequate-4	Yes-5; No-10; No comments-1
(b)ii	If you feel there should be increase, please state the number of days by which it should be increased (and why this is required).	Raise to maximum of 30 days	Raise to maximum of 20 days
c)	The Vithal Committee had suggested that no State Government should be allowed to avail OD for more than 20 working days in a Quarter. This suggestion has continued to be deferred till end March, 2003. The present Committee intends to examine this recommendation favourably. Kindly give your views on the implementation of this recommendation.	Do not implement - All	Do not implement-3 Implement-3
19	Do you think there should be a ceiling on the amount of OD?	No-5; Yes-1	No-9; Yes5; No comments-2
20	What are your views on interest being charged on OD? Should the interest rate of OD be related to the level of drawings and/or the period of OD?	Rates to be equal or lower than Bank Rate	Varied views - Rate of interest linked to level of OD - Rate on OD not more than 1 per cent than the rate of

			WMA
21	How does your State monitor the OD position? How do you normally clear the OD?	Regulating expenditure	Varied views - Seeking advance resources from the Centre – Compress expenditure by restrictive measures - By taking WMA from GOI - By projecting and matching receipts/payments
22	Should there be a regular mechanism of invoking the State's market borrowing programme, when the overdraft is nearing its limit in terms of number of days? If so, how can this be done (e.g., by earmarking a portion of market borrowing for this purpose)?	No-4; No comments-2	No-9; Yes-5
D	**Special WMA**		
23	Are you satisfied with the existing system of investment of your governments surpluses both temporary (i.e., in Intermediate Treasury Bills) and durable (i.e., in auction Treasury Bills and Government of India dated securities)?	Yes-4; No comments-2	All except one are satisfied with the present system.
24	Do you think that the scheme of Special WMA granted against the holdings in auction Treasury Bills and Government of India dated securities is working satisfactorily?	Yes-4; No comments-2	All except one are satisfied with the present system.
25	Do you have any suggestions to improve the existing Special WMA scheme in terms of:-	No comments	No comments
a	Margin		
b	Pricing		
c	Instruments		
d	Coverage		
e	Place of holding of securities		
f	Any other relevant aspect		
26	Do you have any other suggestions/comments on the	No comments - All	Investment in short-term GOI securities

	existing systems and procedures relating to WMA/OD scheme and investment of your surpluses?		should be allowed. - Imbalance factor should be taken care - engage banks/FIs for investing daily cash balance

Annexe-I.IV

Summary of Responses to the Case Study Questionnaire[*]

Sr. No.	Item	Special Category States	Non-special Category States
1	2	3	4
	Overdraft		
1	During 2000-01 and 2001-02, the State took recourse to which of the following assistance from the Central Government - Special grants from the Centre, Special WMA, advance devolutions, loan or advance loan from the Central Government or advance against small savings	Resorted to - i) central assistance and ii) share of central taxes.	Resorted to- i) advance share in central taxes and ii) advances against the devolutions and the small savings.
2	Please indicate whether the year-end budgetary position/deficit of the State was covered by (a) WMA and OD, (b) borrowings, (c) other borrowings, such as, negotiated loans, (d) increase in Public Accounts from Corporations or others, (e) unpaid bills, and (f) any other method.	Deficit was covered by WMA and OD	Deficit was covered by normal central plan assistance, State's share of Central taxes, revenue deficit grant, and the loan against small savings and tax devolutions.
	Cash Management		

[*] Based on the response from 6 States, viz., Assam, Himachal Pradesh, Karnataka, Madhya Pradesh, Uttar Pradesh and West Bengal.

1	What are the existing systems of forecasting month-wise – revenue and expenditure ?	Cashflow statements and previous trends.	Historical data, current targets and tendencies, trend analysis, and general performance of the economy.
2	What are the difficulties faced by the State in forecasting, month-wise - revenue and expenditure ?	Uneven and uncertain inflows.	Difficulty in forecasting arise out of inflows from Government of India and daily expenditure. Devolution of Central taxes has been fluctuating.
3	In case of monthly mismatch, what corrective measures are undertaken?	Resort to WMA, OD, delay expenditure, or seek advance release of Central dues.	Deferring or prioritizing expenditure and rescheduling market borrowing programme.
4	What are the major mismatches which are not or cannot be forecasted?	Large payments against debt servicing, expenses on elections and natural calamities.	Major mismatches are on account of delay in receipt of central share of taxes, other central releases and natural calamities.
5	What is the set-up of cash management in the State? What is the infrastructure set up for efficient cash management in the State? How are cash management decisions undertaken and what type of machinery exists for decision making in the State.	Cash management is done through daily review of cash balances, monthly release of financial ceilings against specific heads of account.	Computerisation is being taken up for efficient cash management.
6	How to make improvements in MIS to help the State in better cash management?	By computerisation.	By computerising treasuries and linking AG offices and Finance Departments with banks and daily monitoring of receipts and payments into the State's account

Annexe-I.V

List of Officials/Experts met by the Committee

A. Government of India, Ministry of Finance
D.Swarup
Dr.R.Bannerjee
Smt.Sheela Prasad
Dr.Ashok Lahiri

B. PlanningCommission
Dr.N.J.Kurien

C. 12th Finance Commission
Dr.G.C.Srivastava

D. Experts
Dr.Y.V.Reddy
S.S.Tarapore
B.P.R.Vithal

E. Reserve Bank of India
Smt.Usha Thorat
Prabal Sen
Dr.D.V.S.Sastry
P.Arvind
M.G.Warrier
Dr.R.K.Patnaik
B.N.Ananthaswamy
G.D.Kallianpur
R.K.Jain

F. State Governments

Andhra Pradesh
S.K.Arora

Arunachal Pradesh
Otem Dai

Assam
H.S.Das

Bihar
U.N.Panjiar

Gujarat
P.K.Poojari

Haryana
Chander Singh
Ram Niwas

Himachal Pradesh
S.K.Sood
V.S.Katoch

Karnataka
B.K.Das
S.C.Khuntia
A.A.Biswas

Kerala
V.Senthil

Madhya Pradesh
Sudeep Banerjee

Maharashtra
A.K.D.Jadhav

Meghalaya
Shreeranjan

Mizoram
Lalthansanga

Nagaland
Lalthara

Orissa
R.K.Choudhury

Punjab
K.R.Lakhanpal

Rajasthan
C.Dinker

Tamil Nadu
Narayanan
Ashish Vacchani

Tripura
R.K.Mathur

Uttar Pradesh
Dr.B.M.Joshi

West Bengal
Samar Ghosh

Chhattisgarh
Gaurav Dwivedi

Uttaranchal
Indu Kumar Pande

Jharkhand
Subimal Mukhopadhyay

Annexe-II.I

Minimum Balance and Ways and Means Advances to the State Governments: A Historical Review

Prior to the inauguration of Provincial Autonomy on April 1, 1937, Reserve Bank's relations with the then Provincial Governments were not direct; the Bank dealt solely with the Central Government, and the latter was responsible for meeting the ways and means requirements of the Provincial Governments. With the introduction of Provincial Autonomy, each Province was required to open a separate account with the Reserve Bank, and accordingly, in terms of Section 21 of the Act (then in force), the Bank entered into separate agreements with the Provinces, which set out the terms and conditions on which the Bank agreed to transact the banking business of the respective Provincial Government. This change-over entailed several important questions of principle, particularly with reference to the method by which the ways and means requirements of the Provinces were to be met. These problems were examined by the Central Government, the Provincial Governments, and the Reserve Bank at a conference held in August 1936. In order to give time to the new autonomous Provinces to acquire the necessary experience in framing their ways and means requirements, it was decided that the Central Government should remain responsible for these requirements of the Provinces for the financial year 1937-38. From April 1, 1938, each Provincial Government assumed full responsibility for its own ways and means requirements and also agreed to keep a specified minimum balance with the Reserve Bank. The Provinces were required to meet any temporary deficits in their minimum balances either by issuing their own Treasury bills or by obtaining ways and means advances (WMA) from the Reserve Bank.

2. The minimum balances were fixed in 1937 on the basis of the ratio in which the total revenue and expenditure of the Government concerned bore to the total revenue and expenditure of the pre-provincial autonomy Central Government. The Finance and Revenue Accounts of the three years 1931-32 to 1933-34 were considered for this purpose. The minimum balances so fixed also represented the maximum limits upto which the States could draw as Ways and Means Advances (WMA).

With the coming into force in January 1950 of the Constitution of India, the Reserve Bank of India Act was amended in 1951 by the insertion of Section 21A which authorised the Bank to act, by agreement, as banker to the States. With the reorganisation of States, their classification into Part A, Part B and Part C States disappeared and except in regard to certain Union Territories, all States were placed on the same footing. Accordingly, the basis of the relation of the Bank with all States was also made uniform and the new Section 21A, as amended by the States Reorganisation Act, 1956, laid down that the Bank's right or duty to act as the banker to the States was to be under agreement with them.

1953 Review

3. The minimum balances were found to be inadequate by the Bank in 1953 on the basis of the revenue and expenditure of State Governments. The State Governments had also availed of WMA considerably in excess of the prescribed limits to meet the gap between revenue and expenditure. A revision of the minimum balances and WMA limits was, therefore, undertaken in 1953. The basis which was adopted for arriving at the revised minimum balances was as under:

(i) The minimum balances of Part A States, fixed in 1937, were increased by the ratio of the increase in the total amount of the average revenue and expenditure charged to revenue in the years 1948-49 to 1950-51 to the total amount of revenue and expenditure charged to revenue in the three years 1931-32 to 1933-34.

(ii) The minimum balances of Part B States were similarly arrived at on the basis of the revenue and revenue expenditure in the two years 1949-50 and 1950-51.

4. The total minimum balances on this basis amounted to Rs.8.70 crore as against a sum of about Rs.1.95 crore stipulated earlier in 1937. In order to avoid any strain on the resources of State Governments, it was decided that the minimum balances should roughly be doubled so as to increase the total for all the States to about Rs.4.00 crore. This was made effective from April 1, 1953. The limits for WMA were also liberalized for the first time with effect from April 1, 1953 and were fixed at twice the minimum balance. The minimum balances fixed in 1953 were modified at the time of reorganization of the States but no major changes were made.

1967 Review

5. In the Conference of the Chief Ministers in July 1966 on the question of preventing unauthorized overdrafts by the State Governments in their accounts with the Bank, the issue of revision of minimum balances and WMA of the State Governments were discussed. It was considered neither necessary nor appropriate to relate the minimum balances of the State Governments or their WMA limits to the revenue or revenue and expenditure as was done till 1953.A new formula for the determination of minimum balances and the WMA limits was, therefore, devised on the following basis.

6. The total of minimum balances required to be maintained with RBI by all the State Governments in India was increased in the ratio in which the total notional pre-decentralisation minimum balance of the Government of India increased during the period 1937 to 1967. As the working balance of the Central Government with RBI had increased from Rs.10 crore in 1937 to Rs.50 crore, the State Governments' balances with RBI, as fixed originally in 1937, were also increased to five times the original figure. The total balances of all the States which worked out to Rs.1.85 crore in 1937, were notionally fixed at Rs.2.54 crore consequent on reorganization of the States. It was, therefore, decided that the total minimum balances of State Governments based on the above formula be increased to Rs.12.70 crore in 1967 and then the amount be distributed to the States in the proportion of the revenue and expenditure charged to revenue of each State to the revenue and expenditure charged to revenue of all States together (according to actuals for the year 1964-65). It was also decided to raise the limits for WMA from twice the minimum balance to thrice the minimum balance. It was not, however, considered realistic to increase the minimum balances of State Governments from about Rs.4 crore to Rs.12.70 crore

immediately. The minimum balances were, therefore, first raised to Rs.6.25 crore with effect from March 1, 1967. As a result of the above changes in the minimum balances of all State Governments, total limits for clean WMA to all State Governments went up to Rs.18.75 crore.

1972 Review

7. The total minimum balances of all States were increased to Rs.6.50 crore with effect from May 1, 1972 due to fixation of minimum balances in respect of four new States, viz., Himachal Pradesh, Manipur, Meghalaya and Tripura. As a measure of assistance to the States against any temporary imbalance between receipts and expenditure on account of abnormal or unforeseen factors, the normal WMA were raised to Rs.78.00 crore from the existing level of Rs.19.50 crore as per the recommendations of the Working Group constituted to suggest ways for elimination of overdrafts.

1976 Review

8. A detailed examination was undertaken to study the feasibility of carrying out basic change in the method of determining WMA and minimum balances in 1975 in the context of enormous increase in the size of State budgets. It was recognized that any basic change in the formula would inter se alter the limits of State Governments giving rise to avoidable problems. Moreover it was not deemed desirable to devise a formula linked to expenditure of the State Governments as this would result in automatic increases in the WMA. It was observed that there were problems only in the case of a few States because of fundamental imbalances which could not be met merely by additional assistance in the form of WMA from the RBI. To the extent there was some need for increased limits, the existing structure was retained and increases agreed to within the present formula. Accordingly, the revised minimum balances and limits for normal WMA were raised to Rs.13.0 crore and Rs.130 crore (i.e., 10 times the minimum balances) respectively effective May 1, 1976.

1978 Review

9. As aggregate receipts and disbursements of States as budgeted for 1978-79 were around 26 times their level in 1963, it was felt that limits for RBI's accommodation should be further revised. The limits for normal WMA were, therefore, raised from Rs.130 crore in 1976 to Rs.260 crore in 1978, i.e., 20 times the minimum balance effective October 1, 1978.

1982 Review

10. To eliminate the incidence of overdraft on an enduring basis which may emerge due to the increased budgetary expenditure of States, it was decided to double RBI's accommodation. Normal WMA were thus raised from Rs.260 crore to Rs.520 crore (40 times the minimum balance) with effect from July 1, 1982.

1986 Review

11. The limits for WMA were again reviewed in August 1986. It was found that even though receipts and disbursements of States had increased substantially since 1982, when the revision of limits was last made, there was no strong evidence to show that the seasonal gaps in cash flow had increased proportionately. It was also observed that the streamlining of the release of funds by the Central Government to the States and the staggering of the repayment of loans by the States would also help the latter in avoiding serious cash flow problems in any particular month. It was also observed that only seasonal deficits and not structural deficits should be taken care of by WMA from RBI. Nevertheless, in view of representations from States, it was decided to grant a basic increase of 20 per cent over the existing normal limits. As the cash flow problem faced by States was more severe in the first half of the year than in the second half when the position improves with the receipts of money from market borrowings, an additional 10 per cent rise was granted in the first half of the year. The revised limit, effective October 1, 1986 was Rs.676 crore during April - September and Rs.624 crore during October - March.

1988 Review

12. In February 1988, a review of the WMA limits was undertaken in view of the cash flow difficulties reported by the States in incurring emergent expenditure on drought relief. In the financial year 1987-88, four States had got into an OD on several occasions and from the available data it was not possible to indicate whether the OD on each occasion was necessitated purely on account of the expenditure incurred by those States on drought relief. Besides some of the worst affected States had not got into the problem of OD as often as some others where drought relief expenditure had not been a major problem. A regular increase in the limits of WMA, to take care of the difficulties faced in one year, and that too particularly barely a year and a half after the last increase was effected, did not appear necessary. However, having regard to the time lag between expenditure on drought relief incurred which was not budgeted by State Governments and the release of Central assistance, an increase of 40 per cent in normal WMA over the limits in force prior to October 1, 1986 was granted . The limits were uniformly made applicable throughout the year instead of separate limits for the two halves of the year. The revised limits with effect from March 1, 1988 were raised to Rs.744.80 crore.It was also indicated that the above revised WMA limits should remain in force at least for a period of three years.

1993 Review

13. In view of increased liquidity stress faced by them, several States represented for revision of the limits upwards. The issue was examined and on analysis of the financial position of State Governments, the following important observations emerged: (a) majority of the States had availed of the WMA up to the full extent, (b) the number of States running into OD rose sharply and such occurrences became more frequent and for larger amounts since 1992 and (c) during the year 1992-93, all States except three emerged into OD, the period of OD in some cases was as high as 192 days during the year. The RBI suspended payments in respect of six States (payments in respect of two States had to be suspended on more than one occasion).

14. Although number of States had represented that WMA limits should be related to expenditure, a view was taken that such a link would be inappropriate as States which incur

expenditure disproportionate to their receipts would be eligible for higher limits, leading to larger deficits. While the main thrust of the policy continued to disallow States to run large deficits, a pragmatic assessment warranted that genuine temporary mismatches in finances of States should be adequately met by WMA from RBI. Having regard to legitimate needs of the State for WMA and the need to maintain monetary control, it was considered desirable to increase WMA to a level where States, which were prudent, were freed from the problem of OD. It was also felt that the linking of WMA limits as multiple of the minimum balance would ensure that relativities among States were not disturbed. Based on the above consideration, normal WMA was raised to Rs.1117.20 crore, i.e., 84 times the minimum balances effective November 1, 1993.

1996 Review

15. A study of the finances of the States based on their budget documents indicated that while there was improvement in some of the major deficit indicators, certain structural weakness persisted in the form of large revenue deficits, rising interest burden, increasing distortions in the pattern of expenditure and minuscule growth in non-tax revenues. It was, however, felt that there was a need to increase WMA to State Governments so that genuine temporary mismatches in finances of State Governments could be adequately met. Having regard to legitimate needs of States, it was considered that WMA should be revised to a level where States which are managing their finances prudently are freed from getting into OD. On a realistic estimate, it was decided that doubling of existing limits for WMA would be reasonable. The limits were accordingly revised to Rs.2234.40 crore, effective August 1, 1996. Such increased limits amounted to 168 times the minimum balances.

1999 Review

16. On August 19, 1998, an Informal Advisory Committee (IAC) on Ways and Means Advances (WMA), was set up to examine the existing scheme of WMA to State Governments and consider rationalisation of limits, keeping in view, the needs of the State Governments. IAC submitted the Report in November 1998 and recommended the de-linking of WMA limits from the minimum balances and suggested that the average of last three years of revenue receipts and capital expenditure should be the base to which the WMA limits should be linked. The Committee also recommended that WMA limits for special and non-special category States should be computed separately. Accordingly, for fixing the normal WMA limits, the following methodology was adopted -

a) The annual average of the total of revenue receipts and capital expenditure was calculated from the accounts for the years 1994-95, 1995-96, 1996-97, as published in the budgets of the States. In non-tax revenue receipts, the receipts on lotteries were taken on a net basis.
b) The revised normal WMA limits were worked out applying the ratio of 2.25 per cent for non-special category States and 2.75 per cent for special category States to the three year average of revenue receipts plus capital expenditure of the remaining States.
c) Given the problems of adjustment in the short run, it was considered desirable that for no State the increase in normal WMA limit should be less than forty per cent over the existing limits.

The revised normal WMA limits of Rs.3941 crore were made effective March 1, 1999.

2001 Review

17. Issues raised by several State Governments to liberalise the WMA and OD scheme were discussed in detail in the conference of State Finance Secretaries held on November 3 and 4, 2000 at RBI. It was decided in that Conference that the implementation of WMA facility/OD Regulation Scheme, as per the recommendations of IAC, should be looked into by an Informal Group of State Finance Secretaries (GFS). Accordingly, GFS consisting of Finance Secretaries of five States, (viz., Andhra Pradesh, Kerala, Manipur, Uttar Pradesh and West Bengal) was constituted. The Group submitted its Report to the RBI on January 3, 2001.

18. Based on the recommendations of GFS, the revised WMA Scheme, which was called "WMA Scheme 2001" ,came into effect from February 1, 2001. It was decided by RBI that the scheme would be reviewed in its entirety at the end of two years with a view to bringing the revisions into effect from the third year, viz., April 1, 2003. It was also decided that the normal WMA limits would be worked out taking into account the three years' average of revenue receipts and capital expenditure for fiscal years 1997-98, 1998-99 and 1999-2000 and to this base a ratio of 2.4 per cent would be applied for the non-special category States and 2.9 per cent for the special category States. Accordingly, the total revised normal WMA limits worked out to Rs.5,283 crore as against the then current limit of Rs.3,941 crore representing an increase of Rs.1,342 crore or about 34 per cent.

Annual Revision of WMA limits in 2002

19. As per the recommendation of the GFS that the ratio be fixed but, with the change in the base, the limits be revised annually, the revised WMA limits were computed for the year 2002-03. In respect of the reorganized States the data for 1998-99 and 1999-2000 have been apportioned between the existing and new State according to the revenue sharing formula. For 2000-01, in respect of the new States, viz., Uttaranchal, Chattisgarh and Jharkhand, the five month data (November 200 - March 2001) supplied by the States has been added to the seven month data derived from the data of the parent State (viz., UP, MP and Bihar respectively) on a proportionate basis using the revenue sharing formula. The data for 2000-01 for the parent States has been correspondingly reduced. Uttaranchal, which during the last revision was a non-special category State, was subsequently been brought under the special category. Consequently, its WMA limit was calculated with reference to the ratio of 2.9 per cent. All the proposed limits were rounded off to the next higher multiple of 5 with a minimum limit of Rs.50 crore for any State. Accordingly, the revised limits of WMA for the States rose from Rs.5,283 crore to Rs.6,035 crore, effective April 1, 2002.

20. The movements in minimum balances and the WMA limits are furnished in the Appendix.

Appendix: Minimum Balances and Limits of WMA of State Governments

(Rupees crore)

Date	Minimum Balance	WMA limits (expressed as a

	(Total for all States	multiple of the minimum balance)	
		Normal / Clean	**Special/ Secured**
1	**2**	**3**	**4**
1. April 1, 1937 (effective April 1, 1938) (Provincial Government / Part A States)	1.95	1 (1.95)	*
2. April 1, 1953 (Part A and Part B States)	a) 3.94 on Friday b) 3.38 on day other than Friday c) 4.50 before repayment of Ways and Means Advances	2 (7.88)	2.00 for each State
3. March 1, 1967	6.25	3 (18.75)	6 (37.50)
4. May 1, 1972	6.50 +	12 (78.0)	6 (42.66)
5. May 1, 1976	13.0	10 (130.0)	10 (130.0)
6. October 1, 1978	13.0	20 (260.0)	10 (130.0)
7. July 1, 1982	13.0	40 (520.0)	20 (260.0)
8. October 1, 1986			
a) April – September	13.0	52 (676.0)	20 (260.0)
b) October – March	13.0	48 (624.0)	20 (260.0)
9. March 1, 1988	13.30 ##	56 (744.80)	20 (266.0)
10. November 1, 1993	13.30	84 (1,117.20)	32 (425.60)
11. August 1, 1996	13.30	168 (2,234.40)	64 (852.20)
12. March 1, 1999	41.04**	(3,941.00)#	++
13. February 1, 2001	41.04	(5,283.00)	++
14 April 1, 2002	41.04	(6,035.00)	++

Figures in brackets in columns 3 and 4 are the total monetary limits for all the States
***** Secured Ways and Means Advances were occasionally granted on an ad hoc basis.
+ The increase of Rs.0.25 crore over the figure for 1967 was due to the fixation of minimum balances for four States viz. Himachal pradesh, Manipur, Meghalaya and Tripura. There was no revision for other States.
****** The minimum balance revised upwards linking it to the same base as for WMA. The base for

the revised WMA limits will be three- yea average of revenue receipts plus capital expenditure.
++ The limits for special WMA liberalised, no upper limit on Special WMA, which is being provided against the actual holdings of Central Government Securities.
# The aggregate amount applicable in March 1999 was Rs.3,685 crore on the basis of the recommendation of IAC. On bifurcation of Bihar, Madhya Pradesh and Uttar Pradesh, interim limits were granted to the six recognized States effective November 2000.
##Joining of Goa raised the minimum balance by Rs.0.30 crore.

Annexe–II.II

Special Ways and Means Advances: A Historical Review

The State Governments are sanctioned Special Ways and Means Advances based on their holdings in Government of India (GOI) dated securities/ Treasury Bills since 1953. The States are free to participate in 91 and 364 day Treasury Bills auctions as well as those of GOI dated securities as non-competitive bidders for investment of their durable surplus and also re-invest the maturity proceeds of the existing holdings in GOI dated securities/Treasury Bills. Against these holdings, State Governments were allowed advances subject to the ceiling amount arrived at multiples of the minimum balances.

The ceilings on Special WMA

2. In 1953, a limit of Rs.2.00 crore against the pledge of Central Government securities was granted to each State as special or secured advances over and above the normal WMA. This limit was not rigorously enforced and special advances in excess of Rs.2 crore were on occasions granted. In 1967, the limits were revised to twice the level of normal WMA and amounted to Rs.37.50 crore. The limits were raised to 10 times the revised minimum balances to Rs.130 crore with effect from May 1, 1976. In 1982, the limits were again raised to Rs.260 crore 20 times the minimum balance). In 1988, with a increase in minimum balance due to joining of Goa, amount of Special WMA was raised to Rs.266 crore though there was no change in the multiple of minimum balance. In 1993 and 1996, the limits were raised substantially to Rs.425.60 crore and 851.20 crore implying 32 times and 64 times of the minimum balances, respectively.

Liberalisation by the IAC

3. The scheme of Special WMA was liberalized and such ceiling was removed following the implementation of the recommendations of the IAC in 1999. Since 1999 the limits are directly proportional to the holdings by the State Governments in the GOI dated securities and Treasury Bills with no ceiling. The limits for Special WMA are revised by RBI on a quarterly basis, taking into account the market prices of the securities as on the last day of the immediate preceding quarter. In case of variation in the holdings of Treasury Bills, the limits are revised immediately.

Margin

4. The margins presently applicable are five per cent for market risk and additional five per cent for securities with residual maturity of less than 10 years or 10 per cent for securities with residual maturity of more than 10 years.

Thus, the limits effectively work out to around 90 per cent and 85 per cent of the market price of the holdings with less than 10 years residual maturity and 10 years or more residual maturity respectively. The underlying rationale for discrimination of limits on the basis of tenor was that the risk sensitivity in case of fluctuations of prices of securities is more for long-term dated securities than for short-term dated securities.

Annexe-II.III

Overdrafts of State Governments: A Historical Review

States' overdrafts (OD) with Reserve Bank of India (RBI) represent their drawals exceeding the authorized limits of WMA, both normal and special. Such OD is not reckoned in the monetary and credit arrangement for the year and continued usage of the instrument is likely to disturb the principle of distributive justice amongst the States. Avoidance of situations leading to OD was to an extent facilitated by the progressive enhancement in the limits for authorized accommodation by way of normal and special WMA limits. Also, the Central Government has regularly been providing resources to the States to recover from the OD with the RBI. Nevertheless, OD persists.

2. The OD regulation scheme was first introduced in 1972. Since then, the schemes has regularly been revisited. The salient features of these schemes have been described below:

Overdraft Regulation Scheme, 1972

3. The Central Government was concerned with the disquieting trend in the size of OD which some of the States were having with the RBI. Despite the Central Government's efforts to bridge the non-Plan gaps of certain States through special assistance, the OD of the State Governments with the RBI continued to increase and reached a record level of Rs.642 crore at the end of April, 1972. The Central Government helped to clear them by giving the States WMA to the extent of Rs.416 crore and by advance release of Plan assistance and share in the divisible tax pool due to them. Under the new procedure introduced with effect from May 1, 1972, no OD was allowed by RBI except for a purely temporary period of seven days. In case, a State Government's overdraft continued to exceed seven days, suspension of payment on behalf of the concerned State Government became automatic.

Overdraft Regulation Scheme, 1978

4. States again reverted to OD from 1974 onwards. The Centre had to regularly provide assistance to States to clear their OD as the States were not doing enough to raise resources. To avoid a recurrence of such OD, the Central Government, the Planning Commission and the RBI worked out a regulated system of overdrafts which came into effect from October 1, 1978. Under this scheme, Centre granted special medium-term non-Plan loans amounting to Rs.555

crore to 11 States to clear their OD with RBI. It was also decided that if a State Government was indebted to RBI for more than 45 days even within the limits of the WMA, the position would be discussed with the concerned State Government to devise such corrective measures as may be called for. As soon as any State Government availed itself of 75 per cent of the authorised WMA limit, RBI would caution the State Government. If, despite caution, the State Government's account continued to be overdrawn for more than seven working days, RBI would automatically suspend payments of the State Governments which would not be resumed until the OD has been cleared.

Overdraft Regulation Scheme, 1982

5. The accumulated deficits of the States had amounted to Rs.1,743 crore in 1981-82 and it became imperative to take steps to prevent continuation of this practice. The States, which had over-drawn their accounts with the RBI persistently, were advised to take effective steps immediately so as to ensure clearance/avoidance of the ODs. In order to bring about the much-needed financial discipline among the States, the Government of India, in consultation with RBI, evolved a package of measures to enable the States to clear their ODs from July 1, 1982. States were granted Rs.1,743 crore by way of medium-term loans to clear their closing deficits as on March 31, 1982. These loans were for a period 10 years in case of special category States and for five years in respect of other States, excluding a moratorium of one year on repayment of principal and interest. The States were also provided with additional amount of Rs.787 crores as short-term assistance to clear the additional deficits incurred by them between April 1, 1982 and June 30, 1982. This assistance, which was in the form of advance release of Central transfers was, however, to be adjusted during the course of the current year.

Overdraft Regulation Scheme, 1985

6. Despite the assistance given by the Government of India in 1982 and the Overdraft Regulation Scheme introduced from May 1, 1972 there had been widespread recourse to OD regularly by a number of States. In addition to the increased limits on WMA from the Reserve Bank, the Government of India had to provide ad hoc assistance, on a number of occasions, to State Governments to clear their OD with the RBI.

7. The recurrence of OD encouraged Government of India, to evolve a scheme with RBI. Under the Scheme, the Centre extended on October 1, 1985 medium-term loans of Rs.1,628.01 crore to 17 States, equal to 90 per cent of their OD as on January 28, 1985 with the balance was left to be cleared by the States themselves through their own efforts. All the ODs were cleared on October 1, 1985. The Centre then advised the States that thereafter they should have no OD with the RBI and in case any OD appeared in any State Government account and remained beyond seven continuous working days, the RBI would stop payments on that Government's account.

Overdraft Regulation Scheme – Liberalisation in 1993

8. The Overdraft Regulation Scheme, 1985 worked satisfactorily. Based on the representations from certain State governments, RBI introduced some flexibility in the above

scheme by enhancing the period for which a State government could run on OD from seven working days to 10 working days with effect from November 1, 1993.

Overdraft Regulation Scheme 1999

9. The Overdraft Regulation Scheme which was made applicable to the State Governments with effect from April 1, 1999, as per the recommendations of the IAC was as under:

a) No State shall be allowed to run an OD with the RBI for more than 10 consecutive working days. In case the OD appears in the State's account and remains beyond 10 consecutive working days, RBI and its agencies shall stop payments on behalf of the State.

b) The OD shall not exceed 100 per cent of the normal WMA limit for more than three days. On the first occasion of such excess drawal beyond three days in a financial year the RBI shall advise the State that the OD amount should not exceed 100 per cent of normal WMA limit on any subsequent occasion.

c) Without prejudice to clause (a) above, if during the financial year the amount of OD exceeds 100 per cent of WMA limit on a second or any subsequent occasion, the State shall be given only three working days notice to bring down the OD amount within the level of 100 per cent of normal WMA limit. If this is not adhered to, payments will be stopped.

10. As a measure of discipline, IAC had recommended that no State shall be allowed to run an OD with RBI for more than 20 working days during a quarter in a financial year and in case, this limit exceeded, RBI shall stop payments. The number of working days during which the payments have been suspended shall not be taken into account in calculating the 20 working days. For this purpose the financial year shall be divided into four quarters commencing on April 1, July 1, October 1 and January 1. However, while other recommendations were accepted, implementation of the above suggestion to restrict number of overdraft in a quarter to 20 working days was deferred for two years, i.e., upto April 2001.

Overdraft Regulation Scheme 2001

11. Keeping in view the recommendations of the GSF and the difficulties represented by the States in regard to cash flow management, it was decided to increase the 10 working days limit in OD to 12 working days as an ad-hoc measure subject to review. Furthermore, as recommended by the Group, for facilitating cash flow management, it has been decided to extend the duration of three days within which a State has to bring down the OD level within the level of 100 per cent normal WMA limit to five days. Implementation of the recommendation of the IAC that no State shall be allowed to run OD with RBI for more than 20 working days during a quarter in a financial year was deferred again for another year.

Annexe-II.IV

Interest Rates on WMA and OD - Historical Trend

Sr.No	Period	Normal WMA	Special WMA	OD
1	**2**	**3**	**4**	**5**
1	Prior to March1967	1% below Bank Rate	i) Up to Rs.50 lakh - ¼% below Bank Rate ii) Rs.51 lakh to Rs.125 lakh - ½% below Bank Rate on the entire amount iii) Over Rs.125 lakh - Bank Rate on the entire amount	Bank Rate
2	March 1967 to April 1976	1% below Bank Rate	1% below Bank Rate	Bank Rate
3	May 1976 to August 1996	i) First 90 days - 1% below Bank Rate ii) 91-180 days - 1% above Bank Rate iii) Beyond 180 days - 2% above Bank Rate	i) First 90 days - 1% below Bank Rate ii) 91-180 days - 1% above Bank Rate iii) Beyond 180 days - 2% above Bank Rate	1) For 7 days Bank Rate 2) From 8th day onwards- 3% above Bank Rate
4	August 1, 1996 to January 15, 1998	Bank Rate	Bank Rate	Bank Rate plus 3%
5	Jan 16, 1998 to March 18, 1998	2% below Bank Rate	2% below Bank Rate	Bank Rate
6	March 19, 1998 to April 2, 1998	1.5% below Bank Rate	1.5% below Bank Rate	0.5% above Bank Rate
7	April 3 to April 28, 1998	1% below Bank Rate	1% below Bank Rate	1% above Bank Rate
8	April 29, 1998 to the present	Bank Rate	Bank Rate	2% above Bank Rate

Annexe- III.I

WMA, Special WMA, Overdraft and Investment in Intermediate Treasury Bills- Weekly Averages

(Rs. crore)

Month	Normal WMA				Special WMA				Overdraft				Investment in Intermediate Treasury Bills			
	1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
April	1,175	2,288	3,925	2,924	176	767	666	835	1,420	2,392	1,863	2,987	6,322	1,481	2,832	1,652
May	1,091	1,610	2,638	2,961	155	496	345	480	174	469	681	1,428	6,560	1,610	3,483	2,404
June	1,198	1,464	2,223	3,007	333	478	331	559	183	467	508	1,022	6,761	2,550	4,664	3,670
July	1,663	2,376	2,875	3,295	429	879	491	658	397	546	863	1,252	5,619	1,486	4,219	2,727
August	1,377	1,775	2,798	2,058	333	344	539	507	316	368	911	817	6,110	3,170	2,916	4,367
September	1,215	1,791	3,542	2,875	135	535	760	610	286	460	1,851	924	6,644	3,190	1,764	4,389
October	1,742	2,554	3,586	3,238	516	681	652	709	518	935	1,693	1,860	5,485	1,645	1,704	3,156
November	2,087	2,770	3,730	3,673	758	602	769	704	784	983	1,990	1,575	3,398	1,244	1,595	2,396
December	2,055	2,387	4,244	4,454	723	806	950	833	895	921	2,292	1,407	2,630	2,066	1,232	2,440
January	2,456	2,862	4,217		945	927	951		1,053	1,058	2,024		1,571	1,808	1,067	
February	2,458	3,398	3,506		810	583	922		1,003	765	1,733		1,690	2,678	1,437	
March	2,366	3,481	3,746		853	704	839		1,863	2,109	2,447		1,319	2,726	955	

Annexe- III. II

Major Fiscal Indicators of States - Aggregate Position

(Rs. crore)

Year	Gross Fiscal Deficit (GFD)	Revenue Deficit (RD)	Capital Outlay	Net Lending	Loans from the Central Government (net)	Market Borrowings (net)	Special Securities Issued to NSSF	Others#
1	2	3	4	5	6	7	8	9
1990-91	18,787 (3.3)	5,309 (0.9)	9,223 (49.1)	4,255 (22.6)	9,978 (53.1)	2,556 (13.6)		6,253 (33.3)
1995-96	31,426 (2.6)	8,201 (0.7)	1,895 (58.9)	4,731 (15.1)	14,801 (47.1)	5,888 (18.7)		10,737 (34.2)
1997-98	44,200 (2.9)	16,333 (1.1)	22.802 (51.6)	5,065 (11.5)	23,676 (53.6)	7,280 (16.5)		13,244 (30.0)
1998-99	74,254 (4.2)	43,642 (2.5)	23,072 (31.1)	8,045 (10.8)	31,057 (41.8)	10,467 (14.1)		32.730 (44.1)
1999-00	91,480 (4.7)	53,797 (2.7)	25,512 (27.9)	12,171 (13.3)	12,408* (13.6)	12,663 (13.8)		66,409 (72.6)
2000-01	87,279 (4.2)	51,315 (2.5)	25,512 (27.9)	12,171 (13.3)	8,254* (9.5)	12,519 (14.3)	31,704 (36.3)	34,802 (39.9)
2001-02 (RE)	1,06,595 (4.6)	60,540 (2.6)	38,333 (36.0)	7,721 (7.2)	13,287* (12.5)	16,074 (15.1)	36,200 (34.0)	41,034 (38.5)
2002-03 (BE)	1,03,736 (4.1)	49,112 (1.9)	43,684 (42.1)	10,940 (10.5)	18,548* (17.9)	11,845 (11.4)	37,899 (36.5)	35,445 (34.2)

Includes loans from Financial Institutions, Provident Funds, Reserve Funds, Deposits and Advances, etc.
*Excluding States' share in small savings.
Note: Figures in brackets indicate percentage to GDP at current market prices for columns 2&3 and GFD for other columns.
Source: RBI Bulletin, October 2002

Annexe-III.III

Major Fiscal Indicators of States - Growth Rates

(Amount in Rs. crore; rate in per cent)

Year	Revenue Receipts	Revenue Expenditure	Capital Receipts	Capital Expenditure	Interest Payments
1	2	3	4	5	6
1997-98	170300	186634	59937	41501	30113
1998-99	176448	220090	86393	46271	35874
1999-00	207201	260998	103575	52891	45172
2000-01	237953	289268	111591	55670	51576
2001-02(RE)	270885	331440	123532	70131	64502
2002-03(BE)	306932	355166	118812	75768	72285
Annual Average Growth Rate (1997-98 to 2002-03)	12.30	15.44	19.82	14.02	20.98

Annexe-III.IV

Interest Burden on States

Year	Interest Payments on Total Liabilities (Rs. crore)	Interest Payment as percentage of		
		Revenue Expenditure	Revenue Receipts	GDP
1	2	3	4	5
1990-91	8,655	9.52	13.02	1.52
1995-96	21,933	12.35	16.03	1.85
1998-99	35,874	13.48	20.33	2.06
1999-00	45,526	14.26	21.97	2.36
2000-01	51,576	17.83	21.67	2.47
2001-02	64,502	19.46	23.81	2.79

Annexe- III.VI

Select Indicators of Fiscal Stress – State wise position

Sr. No.	States	RD/GFD (per cent)		Ratio of AE over RR	
		1999-2000	2000-01 (RE)	1999-00	2000-01 (RE)
1	2	3	4	5	6
Non-Special Category States					
1	Andhra Pradesh	24.8	43.2	1.35	1.42

2	Bihar	58.1	60.6	1.55	1.49
3	Goa	61.3	41.8	1.31	1.36
4	Gujarat	53.3	81.4	1.54	1.73
5	Haryana	55.6	42.9	1.45	1.39
6	Karnataka	54.4	52.4	1.38	1.32
7	Kerala	79.9	74.1	1.62	1.52
8	Madhya Pradesh	75.0	60.2	1.36	1.31
9	Maharashtra	36.5	62.3	1.51	1.45
10	Orissa	68.7	55.1	1.72	1.49
11	Punjab	85.4	57.7	1.60	1.53
12	Rajasthan	67.9	54.4	1.66	1.44
13	Tamil Nadu	81.8	67.9	1.39	1.37
14	Uttar Pradesh	65.3	47.4	1.61	1.54
15	West Bengal	79.6	66.0	2.22	1.80
16	Chhattisgarh	-	-	-	-
17	Jharkhand	-	-	-	-
Special Category States					
1	Arunachal Pradesh	-335.3	-50.9	1.08	1.22
2	Assam	62.6	39.4	1.46	1.48
3	Himachal Pradesh	56.0	53.9	1.27	1.53
4	Manipur	43.8	-5.4	1.66	1.37
5	Meghalaya	-7.6	-15.8	1.27	1.26
6	Mizoram	-33.1	-11.4	1.22	1.21
7	Nagaland	14.6	0.1	1.31	1.29
8	Tripura	7.8	16.9	1.33	1.27
9	Uttaranchal	-	-	-	-

* In absence of Actuals, BE/ RE data are used.
BE- Budget Estimates; RE - Revised Estimates; AE- Aggregate Expenditure;
RR- Revenue Receipts
Source: RBI, State Finances- A Study of Budgets, Various Issues

Annexe - IV.I

Computation of Average Ratios for determination of WMA Limits

* Adjustment Factor – For Non-Special Category States: 0.15/2.25 = 6.67%
For Special Category States : 0.15/2.75 = 5.45%

Sr. No	States	Average Revenue Receipts for 1994-95 to 1996-97 (Rs. crore)	Limits as fixed by the IAC in 1999 (Rs. crore)	Column 4 as %age to Column 3	Adjustment Factor as per the GFS in 2001*
1	**2**	**3**	**4**	**5**	**6**
	Non-Special Category States				
1	Andhra Pradesh	9951.4	288	2.89	0.19
2	Bihar	7404.4	195	2.63	0.18
3	Goa	601.9	24	3.99	0.27
4	Gujarat	8672.8	243	2.80	0.19
5	Haryana	3573.7	99	2.77	0.18
6	Karnataka	8356.2	228	2.73	0.18
7	Kerala	5337.8	144	2.70	0.18
8	Madhya Pradesh	8761.3	221	2.52	0.17
9	Maharashtra	16941.7	483	2.85	0.19
10	Orissa	3917.8	141	3.60	0.24
11	Punjab	4837.5	141	2.91	0.19
12	Rajasthan	6721.7	202	3.01	0.20
13	Tamil Nadu	10577.2	281	2.66	0.18
14	Uttar Pradesh	14499.3	531	3.66	0.24
15	West Bengal	7482.2	235	3.14	0.21
				44.87	**2.99**
Average for Non-Special Category States		**(44.87+2.99)/15 = 3.19**			
	Special Category States				
1	Arunachal Pradesh	722.6	28	3.87	0.21
2	Assam	3397.4	114	3.36	0.18
3	Himachal Pradesh	1683.5	59	3.50	0.19
4	Manipur	697.3	25	3.59	0.20
5	Meghalaya	648.2	25	3.86	0.21
6	Mizoram	611.1	25	4.09	0.22
7	Nagaland	760.2	26	3.42	0.19
8	Tripura	902.5	31	3.43	0.19
				29.12	**1.59**
Average for Special Category States		**(29.12+1.59)/8 = 3.84**			