Chapter IV

Likely Devolvement of Funds under the 11th Finance Commission's Recommendations to Pondicherry both as (i)Special Category State and (ii)Normal State

The 11th Finance Commission Report has recommended for the period of five years 2000-2005 devolution of funds from Centre to the States on the following lines:

a) The share of all states to be twenty eight percent of net proceeds of all shareable Central taxes and duties. Further, in the light of Constitution (Eightieth) Amendment Act 2001, and consequent changes regarding the additional excise duties, 1.5% of the net proceeds of the shareable central taxes and duties among the states that do not levy sales taxes on sugar, tobacco and textiles. The total amount involved is Rs. 3,76,318 crore. Expenditure and services tax to be shared only with states levying the same (only J & K is not levying it).

b) The criteria and relative weights for determining the inter-se share of the states are

   i. Population (10%)
   ii. Income distance (62.5%)
   iii. Area (7.5%)
   iv. Index of infrastructure (7.5%)
   v. Tax effort (5%) and
   vi. Fiscal discipline 7.5%

   Grants in aid to 15 states under Act 275(1) to cover post devolution non plan gap on Revenue Account totals Rs. 35,359 crore.

c) Grant in aid for up gradation of standards of administration and specific grants to certain states with special problems Rs. 4973 crore.

d) Grants to states for financing local bodies (Panchayats Rs. 8000 crore and Municipalities Rs. 2000 crore) adding to Rs. 10,000 crore.

   The inter-se share of states to be based on rural/urban population (40%),index of decentralization (20%), distance from the highest per capita income (20%),revenue effort of the local bodies (10%) and geographical area (10%).

e) Continuance of the existing scheme of Calamity Relief Funds, with an aggregate size of Rs. 11007 crore (with Centre's share of Rs. 8226 crore) to be distributed only for natural calamities of cyclone drought, earthquake, fire, flood and hailstorm. Discontinuance of National Calamity Relief Fund for calamities of rare severity and establishment of a national centre for calamity management.

f) Continuance of existing scheme of debt relief, linked to improvement in the ratio of revenue receipts of states to its total revenue expenditure, with enhanced incentives and Moratorium on payment of installment of debt and interest on loan given to Punjab.

A cap on devolution in the overall scheme of transfer of the Eleventh Finance Commission has suggested the tax devolution and plan and non plan grants from the Center to the states should not exceed 37.5% of gross revenue receipts of the Centre, i.e. both tax and non tax revenues. Government of India has accepted this ceiling on total revenue account transfers from the Centre to the states, with the stipulation in its Action Taken Report that "the acceptance does not imply the establishment of a principle of mandatory sharing of a fixed percentage of Centre's Revenue receipts with the states."

The quantum of transfer of resources from the Centre to states on account of 10th and 11th Finance Commissions are as under: **Rs. In crores**

		Tenth Finance Commission For (1995-2000)	***Eleventh Finance Commission For (2000-2005)***
1	***Share in Central Taxes and Duties***	2,06,343	3,76,318
2	***Grants in Aid for Various purposes***	20,300	58,587
3	***Total Transfer***	2,26,643	4,34,905

A comparative Table of the criteria adopted by the Tenth and Eleventh Finance Commissions for deciding the devolution for performance of interstate distributions shows that the EFC has reduced the weightage for population from 20% to 10%, and the weightage for tax effort from 10% to 5% while increasing the weightage for income distance from 60% to 62.5% for area from 5% to 7.5% and for index of infrastructure from 5 to 7.5%. It has introduced a new criterion of fiscal discipline with a weightage of 7.5%.

Sl.No.	***Item***	***(10th)TFC***	***(11th)EFC***
1	**Population**	20%	10%
2	**Area**	5%	7.5%
3	**Income distance**	60%	62.5%
4	**Infrastructure index**	5%	7.5%
5	**Tax effort**	10%	5%
6	**Fiscal Discipline**	0%	7.5%
	Total	**100%**	**100%**

A comparative Devolution of Taxes and Total Transfer position of the 4 categories of states (High, Middle and Low Income states and in addition special category states) under 10th (TFC) and 11th (EFC) Finance Commissions is given below.

	Tax Devolution		Total Transfer	
	TFC	**EFC**	**TFC**	**EFC**
High Income	13.14%	9.75%	13.06%	9.62%
Middle Income	29.23%	29.19%	28.53%	27.56%
Low Income	44.17%	53.76%	43.25%	49.34%
Special Category	13.46%	7.30%	15.17%	13.48%
	100.00%	**100.00%**	**100.00%**	**100.00%**

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Above comparison indicates that % share of both High Income and Special Category States are significantly less under 11th (EFC) than 10th (TFC) Finance Commission. Pondicherry whether as normal state in High Income category or as Special Category State i.e. under either case would get much less relative % share now than that it would have hypothetically obtained under 10th (TFC) Finance Commission.

Both GroupWise and State wise position of % devolution of taxes and total transfers, both under 10th (TFC) and 11th (EFC) Finance Commissions respectively and respective position of each state under certain important parameters considered by EFC is enclosed vide Annex-I.

Pondicherry with 3 year (1994-95 to 1996-97) per capita net SDP average of Rs. 12,830 approx. (net) and gross SDP average of Rs. 16,440 approx.(gross.) is likely to figure in the High Income Group if considered as normal state, unless its plea for special category status is accepted. The highest per capita GSDP state within special category status state is Nagaland with Rs. 12,900 approx. followed by Mizoram with Rs. 12,400 approx.

Pondicherry's position on certain important economic parameters and prescriptive norms for future financial projection guidelines given by 11th Finance Commission are covered below:

1. **High Income Group Category and Benchmarking**

   Goa is one of the three high income group states, besides Maharastra and Punjab, considered for fixing benchmark weighted average per capita GSDP (1994-95 to 1996-97) at current prices for the all important income distance criteria. This benchmark level works out as Rs. 18,960.i.e.,Rs.19,000 approx.

   Average per capita net SDP of Goa (1994-95 to 1996-97) is Rs. 20,000 approx. and its corresponding average capita GSDP is Rs. 25,076 (obtained by EFC from CSO, GOI. Unlike 10th Finance Commission, which had, adopted per capita Net SDP. 11th Finance Commission has now advocated per capita GSDP as more representative of economic activity of the states). For Pondicherry the average per capita GSDP of Rs.13,051, Rs.15,003 and Rs.21,262 for these three years (1994-95 to 1996-97) work out as Rs.16,440,thus coming under High Income Group states.

In high-income group, the range is between Rs. 16,331 (Gujarat) to Rs. 25076 (Goa) and in the middle-income group the range is Rs. 10,171 (West Bengal) to Rs. 13,926 (Tamil Nadu). Moreover the group average per capita GSDP for high-income category is Rs. 19,200 approx whereas for the middle-income category it is Rs. 12,200 approx. Among the special category states the highest per capita GSDP is Rs. 12,900 of Nagaland followed by Rs. 12400 of Mizoram.

2. Assessment of Base Year (1999-00R.E) and Revenue Adjustments

In respect of Pondicherry the actual of 1999-00 is likely to be accepted since,

a. For the twelve-year period 1987-99, the trend growth rate of tax revenue for Pondicherry was 14.5%. The tax revenue growth rate achieved in 1999-00 was 18%(261/225=1.18).

b. Tax to GSDP ratio of 8% approx.of Pondicherry is in the same level of that of high performers like Kerala(8.33%), TamilNadu(8.47%) and Karnataka(8.43%). Therefore Pondicherry on this score will be well above group average (whether in general category or special category) and its tax ratio of 1999-00 would not entail upward adjustment.(Gross SDP of Pondicherry in 1998-99 was Rs.3021 crores, with its Tax Revenue being Rs.240 crores(including CST of Rs.15 Crores).Therefore,Tax Rev. to Gross SDP ratio: 7.95% for Pondicherry during 1998-99.

c. In respect of non-tax revenue since power sales receipts form major component (Rs. 197 crores out of Rs.211 crores in 1999-00) and other receipts like interest, economic and general services are on actual; no adjustment on 1999-00 is required. This major component of power sale receipts is unique to Pondicherry as it does not have a state electricity board of its own.

d. Since the trend growth rate of revenue expenditure during 1998-99 and 1999-00 for Pondicherry under general services, social services and economic services, are more or less same, i.e. around 8%, 9% and 14.5% respectively, no adjustment on 1999-00 is required.

   In short for Pondicherry the actual of 1999-00 would be accepted as Base Year figures without any adjustment

3. Projection Prescriptions by EFC for 2000-05

a) Tax revenue Growth

11th Finance Commission has adopted aggregate revenue approach from all state level sources of taxes lumped together. Pondicherry with well above 14%

State Domestic product growth rate and improvement in tax ratio to Net State Domestic Product during 1994-95 to 1996-99 (13.5%, 14.5% and 12% respectively) as compared to similar effort during 1987-88 to 1989-90 (10%, 9.9% and 10.7% respectively) would come in cluster Group 3 like Kerala, Karnataka, TamilNadu and with prescriptive annual growth rate of tax revenue % of 16.8 (tax buoyancy of 1.2). Therefore for Tax revenue projection annual growth rate of 16.8% starting from base year 1999-00 is likely to be prescribed for Pondicherry. Also Pondicherry as full-fledged State would get CST collections, which is at present 20% of its ST collections.

b) Non Tax Revenues

- Interest from loans and advances need to be stepped up to 9% by 2004-05. Most of the states are at present realizing hardly 3% to 4% on this account (including Pondicherry)
- Dividends on Investments should from present return of 2% on Investments shares grow to 5% by 2004-05.
- Royalties on major minerals, crude oils and natural gas are dependent on production and the rate fixed by GOI.(Karaikal region with oil and gas reserve exploration and production could become a new source of revenue for Pondicherry once it ceases to be UT.)
- Irrigation receipts

  Subject to a minimum of Rs. 80 per hectare in 2000-01, it should be projected to increase at 25% per year.
- In all user charges, a 25% step up per year over base year is prescribed

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c***. Non-Plan Revenue Expenditure***

The prescribed rates for the non-plan revenue expenditure

i. General Administrative Services

   Salary component growth at 5% p.a. and non-salary components at 7% p.a.

ii. Social services growth rate at 15% P.A.

iii. Economic services growth rate at 11% p.a.

iv. Interest growth at 10%

v. Pension and other retirement benefit growth rate at 10%

vi. Nil provision for subsidies to be made good through regular user charges

vii. Maintenance of capital assets (Irrigation, roads and bridges and buildings). For irrigation project Rs. 450 per hectare, for utilized potential and Rs. 150 per hectare for unutilized potential. 5% step up each year for maintenance of roads and bridges from 1999-00 base year. Similarly for civil buildings and electricals also.

viii. Committed liabilities (maintenance of plan schemes). Same norms as adopted by Tenth Finance Commission i.e. 30% of the plan revenue exp. for general category states and **'NIL"** for existing **Special Category States,** since adequate grants are provided to these states by the Planning Commission to meet committed liabilities on plan side. Further requirements for maintenance of CSS schemes under non-plan are not considered as substantial.

(For the estimation of revenue expenditure of the state under the plan, TGR (trend growth rate) of 1987-99 is used for projection till 2001-02).

Taking into consideration above prescriptions of 11th Finance Commission its application in the State of Goa is enclosed vide Annexure II. In respect of Pondicherry CST collection needs to be added and the power charge receipts and expenditure set off. Accordingly own tax revenue (includes CST) and (Net) Non Tax Revenue and (Net) Revenue Exp. are considered.

"Before" and 'After' both Power cost/receipts and also CST collection adjustment treatments for the year 1999-00(R.E.) are as follows for Pondicherry.

		1999-00(R.E)	**Rs. In crores**
	Before		**After Adjustments** (Base for projection)
A**. Revenue Receipts(RR)**			
1. Own Tax Rev.+Op.Bal.of Rs.8Crores	255+8=	263 @@	288@
2.Own Non-Tax rev.		211 *****	14
	(*Including 197 on power)		
Less: U.T.Rev.Receipts. for Plan Scheme		(102)	**(**102)
Net RR Available for Non Plan Rev.Exp.		372	200
	(@Includes CST Revenue of Rs.25 crore as per indicative figure)		
B. Rev. Exp.			
(Non Plan)			
1.General Services			
1.1 Interest Payments		75	75
1.2 Others		113	113
Sub-Total		188	188
2. Social Services		179	179
3. Economic Services		268 **	37
	** Includes231 0n Power		
4. Compensations & Assignments		3	3
5. Committed Liabilities	-		
Total (B) Non Plan Rev.Exp.		638	407

@@Own Tax Rev.Rs.255Crores and of whichRs52Crore earmarked for Plan Schemes; Balance Rs.203 Crores for Non Plan Rev.Exp+CST ofRs.25Crore = Rs.228 Crores

C. Non Plan Rev. Deficit		266	**207** (207 +25+34=266)

4. Projections for Pondicherry (2000-05)

Projections for 2000-01 to 2004-05 are based on following assumptions:

i. Own tax revenue (including CST collections) growth rate is 16.8 % p.a. (G3 cluster group, tax buoyancy of 1.2: same as applicable to Goa under EFC prescription).In 1999-00(RE), as explained above,after including CST of Rs.25 crore, Rs.228 crore from own tax revenue is available for Non Plan Rev.Exp.

ii. Own Non Tax Rev. (excluding power receipts) growth rate is 20% p.a. (Goa has assumed 20% p.a. duly acceptable to EFC).

iii. Interest payments based on assumption that net GOI debt will increase by Rs.100 crore per year entailing incremental annual interest of Rs. 10 crores per year. Additional Rs.5 crore interest increase is because of Small Savings Deposit mobilization i.e., about Rs.15 crore annual increase in all.

iv. Other general services (salary at 5% and non salary at 7%) will grow at 5.5. p.a.

v. Social services to grow at 15% (13% GDP growth + 2% additional as prescribed by EFC)

vi. Economic services to grow at 11% with slant on privatization (as per EFC)

vii. For the base year 1999-00(RE), revenue expenditure on general services other than interest payments is Rs. 121 crores. Non-plan revenue expenditure on social services is Rs.179 crores and in Economic services it is Rs.37 crores . EFC expects user charges to be recovered and hence any form of subsidy including power subsidy (Rs. 34 crores in 1999-00) is not provided for. However Pondicherry could press for its inclusion as it has to purchase its entire power from other States/Central Utilities.

The projections (similar to one of Goa in Annexure II) in respect of Pondicherry are as under:

	2000-01	2001-02	2002-03	2003-04	2004-05	2000-05 (5 years)
A. Revenue Receipts						
1. Own Tax Rev. (including CST)	266(228 x 1.168)	311	363	424	496	1860
2.Own Non-Tax rev.(excludes power receipts)	17(14x1.2)	21	25	30	36	129
Total A:	283	332	388	454	532	1989
B. Non Plan Rev. Exp.						
1.General Services						
1.1 Interest Payments (1.10)	87	101	116	131	146	581
1.2 Pension (10%)	51	56	61	67	74	309
1.3 Elections	1	1	2	3	3	10
1.4 Other General Services (5.5%)	72	76	80	85	90	403
Sub-Total:	211	234	259	286	313	1303
2. Social Services	206(179 x 1.15)	237	273	314		1391
3. Economic Services	41 (37 x 1.11)	46	51	57	63	258
4. Compensations & Assignments to local bodies	3	3	4	4	5	19
5. Committed Liabilities	-	-	45	50	55	150
6. Total Non Plan Rev. Exp.	461	520	632	711	797	3121
7. Non Plan Rev. Deficit	-178	-188	-244	-257	-265	-1132

5.**Tax Devolution Formula Application in the case of Goa (Proxy State)**

Comparative position of Pondicherry with Goa on the 6 criteria adopted by the Eleventh Finance Commission (EFC) are as follows:

1) Both Goa and Pondicherry are small states entitled to minimum adjusted area factor of 2%, which carries 7.5% weightage.

2)Population of Goa is 7.95 lakhs (0.1464%) and that of Pondicherry is 4.72 lakhs (0.088 %) as per 1971 census adopted for 10% weightage given to population factor.

3)Index of infrastructure is quite high both for Goa (200.57) and Pondicherry (252.3). It carries 7.5% weightage.

4)Both are in high-income groups based on per capita GSDP. Under income distance formula, which carries maximum weightage, both Goa and Pondicherry would not benefit much.

5)Under tax effort (5%) and newly introduced fiscal discipline (7.5%) criteria both states are on similar footing.

In the case of Goa, its 0.2059% share is accounted as follows:

S.No	Criteria	Factor	Weightage	Component
1.	Area (Min 2%)	2%	7.5%	0.1500%
2.	Population (1971 Census)	0.1464%	10%	0.01464
3.	Income Distance (Pl.see Annex III)	0.0262%	62.5%	0.0164
4.	Infrastructure Index Distance (Pl. see Annex IV)	0.0406	7.5%	0.0031
5.	Tax Effort with Income Inversion to power of 0.5(Annex V)	0.146%	5%	0.0073
6.	Fiscal Discipline Index (Annex VI)	0.193%	7.5%	0.0145
				0.20594%

Share of Goa in all total taxes and duties as per EFC: 0.206%

6.**Probable share of Pondicherry as state under devolution of Central taxes and Duties, Grant-in-aid and other benefits as Normal State.**

Using Goa as proxy state one can derive probable share of Pondicherry as state under devolution of central taxes and duties as follows:

i. Area (minimum adjusted size) component is 2% and its weight is 7.5%, which means 0.15% share like Goa.

ii. Population of Pondicherry component constitutes 0.088% and its weight is 10%, which means 0.0088% as against 0.0146% for Goa.

iii. Index of infrastructure (Economic and Social) is 252.3 for Pondicherry (CMIE Report) as against 200.57 for Goa. As indicated in Annex IV under distance based method, this component is :(200/252) X (0.088/0.146) x 0.0406 = 0.0198 %

With weight of 7.5% it works out as:0. 0198%x7.5%=0.0015%

iv. Under income distance method relative to Goa, Pondicherry' component is likely to be (2520*/1360) x (0.088/0.146) x 0.0262 = 0.02926%

With 62.5% weight it works out as: 0.02926x 62.5%=0.0183%

(* Benchmark per capita GSDP of Rs.18,960 of first three highest states less Rs. 16,440 of Pondicherry =Rs.2520 of Income Distance)

v. Tax effort with income inversion with 0.5 power weight Average tax by Gross SDP ratio of Pondicherry for years 1994-95 to 1996-97 is

For 1994-95 132/1127 = 11.7 %

For 1995-96 162.8/1320 = 12.4%

For 1996-97 192.3/1906 = 10.1%

Average Tax Effort of Pondicherry is 11.4 % of Gross SDP.

. On comparison with 7.7% tax effort of Goa with GSDP of Rs. 25,000 and population of 0.1464%,

Pondicherry's component is %11.4/7.7% x $(25{,}000/16{,}440)^{0.5}$ x 0.088 / 0.1464 x 0.146 % = 0.1282 %

With 5% weight given by EFC share of Pondicherry on this count works out as 0.00641%.

vi..Fiscal Discipline Index, introduced by EFC as a new measure of Index of Fiscal Reliance

It attempts to measure Improvement Index in Own Rev/Rev. exp.

Performance comparison between 1990/91-- 1992/93 period average

and 1996-97 to19 98/99 period average of each state relative to all states

during each such period.

For Goa and Pondicherry the said position is:

	Own Rev/Rev. Exp.		Relative to All States		
	Average 1990-91 –92/93	Average 1996-97 – 98/99	Average 1990-91 – 92/93	Average 1996-97 – 98/99	Improvement Index
Goa	0.525	0.6701	0.9347	1.2354	132.18
Pondicherry					
	1990-91 .**0.565**	1996-97 **0.698**	1.0272	1.1507	112.02
	1991-92. **0.559**	1997-98 **0.602**			
	1992-93 **0.608** **Average:0.577**	1998-99 **0.574** **Average:0.625**			

The component in favour of Pondicherry in this measure is:

112/132 x 0.088/0.1464 x 0.193 % = 0.09843 %

With 7.5% weight the share of Pondicherry on this component is =

0.09843 x 7.50 = 00.0074 %

The comparative position of Pondicherry and Goa is given below:

		Pondicherry	Goa	Remarks
1	**Area (7.5%)**	0.1500%	0.1500%	Min.Adjusted area in both cases
2	**Population (10%) (1971 census)**	0.0088%	0.01464%	
3	**Income Distance (62.5%) (Pl. see Annex III)**	0.0183%	0.0164%	Goa is on top of High Income Group State
4	**Infrastructure Index Distance (Economic and Social Backwardness)**	0.0015%	0.0031%	Both states not considered backward
5	**Tax Effort with Income Inversion weight of 0.5**	0.0064%	0.0073%	Own Rev. to Rev. Exp
6	**Fiscal Discipline Index**	0.0074%	0.0145%	New Measure
	Total	0.1924%	0.20594%	

For Pondicherry its share of devolution on Central Taxes and Duties is 0.1924% as against 0.206 % for Goa under EFC's prescribed norms.

Non Plan Revenue deficit Projection of Pondicherry after devolution of Central Taxes and duties on prorata basis of 0.1924/0.206 with respect to Goa:

Rs. In Crores

		2000-01	2001-02	2002-03	2003-04	2004-05	2000-05
1	**Non Plan Rev. Deficit Before Devolution@**	**-178**	**-188**	**-244**	**-257**	**-265**	**-1132**
2	**Tax Devolution (0.1924 /0.206 compared to Goa)** **(Goa's share in brackets)**	**103** (111)	**121** (130)	**141** (151)	**165** (177)	**192** (206)	**722** (775)
3	**Non Plan Rev.Surplus/ Deficit After Devolution**	**- 75**	**-67**	**-103**	**-92**	**-73**	**-410 -**

@ Power cost deficit of Rs.25-30 crores per annum needs to be considered. If included, then non plan rev. deficit would go up by Rs.25-30 crores per year and by Rs.125-150 crores during 5 years. As Pondicherry depends completely on purchased power, such a power cost deficit is inevitable and should be pressed for inclusion as part of Non Plan Rev.Deficit

Pondicherry's share in Central Tax Revenues as per assessment for 2000-05 is likely to be Rs. 722 crores, indicated year wise at sl.no. 2 above.

The Non Plan Rev. deficit of Rs 410 Crores at sl.no. 3 has to be bridged by relying on both:

i. EFC's Revised Recommendations: 15% of Funds meant for Non Plan Rev. Deficit relief has been set apart for incentives to be allotted on need based requirement to any state and

ii. Accommodation for entire five-year period 2000-05 under Article 275(1) now mainly recommended for Special Category States by 11th Finance Commission Of course a few normal states figure in non-plan revenue deficit grant for the first few years only.

In addition to Central Taxes and Duties share of Rs. 722 crores (0.1924%), Pondicherry as State would also be eligible for:

- A share of net proceeds of expenditure and service tax. As Goa's share is 0.209%, Pondicherry's share on state prorata is likely to be 0.196% under this head.
- Incentives under 15% Special Fund (subsequent recommendation of EFC)
- Central assistance of 90% Grant and 10% Loan for Spl. Category State
- Non-Plan revenue deficit grant of Rs.410 Crores on par with special

category states,if considered as coming under special category.

- Up gradation and special problem, particularly higher allocation as special category state
- Grants in Aid for Local Bodies (Panchayats and Municipalities)
- Relief Expenditure
- CST Collections

Goa is used as proxy case to estimate the extent of above allocations possible in respect of Pondicherry:

	Period 2000-05		Rs. In Crores
	Goa	Pondicherry	Remarks
1.Central Taxes and duties	775 (0.206)	722 (0.1924)	Yearwise details covered above
(Rs. 3,76,318 crores)			
2. Expenditure and Service Tax	N.A. (0.209)	N.A. (0.196)	Except J & K all states are eligible
(Not available)			
3. Non Plan deficit grant	------	Rs.410 Crores	Case for relief on par with special category states
(Rs 35,359crores		(Special category case)	
4. Up gradation and special problems	27.28	80	Special category status states allotted substantially
(Rs. 4976crores)			(Rs. 60 to 80 crores each)
5.Grants in Aid for Municipalities	4.64	12	Since urbanisation is 68% in Pondicherry I.e. urban centric
(Rs.2000 crores)	(Goa's share 0.232)		
6.Grants in Aid for Panchayats	9.27	8	Goa is more rural centric
(Rs. 8000 crores)	(Goa's share: 0.116)		
@			

@Relief Exp. For Natural Calamities Rs. 5 to 10 crores for small states holds good for Pondicherry also (Goa Rs.5 Crores; Special Category States Rs.10 to 15 Crores)

Annual allocation of Rs. 1600 crores for Panchayats and Rs. 400 crores for Muncipalities.Allocation is based on following criteria:

i. Population 40%
ii. Index of decentralization 20%
iii. Distance from highest per capita income 20%
iv. Revenue effort 10%
v. Geographical area 10%

Small states like Goa and Pondicherry likely to benefit to the extent of Rs.15 to 20 Crores (0.15 % to 0.20%)

As per revised EFC recommendation 15% of Rs. 35,359 crore to be set apart for incentives to states based on their performance and specific needs.

If Pondicherry is considered a special category state then in addition to all devolution of central taxes and duties, certain special considerations are as follows:

i. Grants will form 90% of plan allocation and only 10% will be in loan form
ii. Non Plan revenue deficit coverage of Rs.410 crore for the entire 2000-05 period like any other special category state, in addition to central tax devolution of Rs.722 crores
iii. Inbuilt provision for grants and provision adjustment for subsequent maintenance of plan schemes.
iv. Liberal relief funds and so also up gradation and special problem allocation,
Under which it could plead for power subsidy(Rs.25 /30 crores per year)

The financial justification for request of Pondicherry for Special Category State is elaborated in next chapter, including financial projections of Pondicherry as Special Category State. Central assistance is considered under the aegis of

i. Finance Commission
ii. Planning Commission and
iii. Special Consideration by Centre

In case Pondicherry is considered as Normal State, then it would have to contend itself only with Central Tax Devolution of Rs.722 crores , Rs.12 crores as Grants in Aid for Muncipalities and Rs.8 crores for Panchayats.On the other hand, it would face enormous difficulties in terms of:

1.Unbridged Non Plan Revenue Deficit of Rs.400 to 450 croresi.eRs.80 to 90 crores annually

2.In addition to item 1.above,also bear on its own annual Power Subsidy of Rs.25 to 30 crores

3.At present as UT even with two-thirds plan grants and one third loans, public debt level is unsustainable warranting serious thought on debt swap measure. As Normal State, with plan grants of 30% only and 70% as loans entails inviting sure disaster on public debt front.

The present financial luxury of being a Union Territory with liberal Non Plan grant provision considered as a plug to fill the gap between Revenue Receipts and Revenue Expenditure, Plan allocation based on a favorable Grant to Loan ratio of 65:35(for Normal State it is just the reverse of 30:70 with immediate implication of debt trap) and no need to raise restrictive bonds from market for development expenditure(credit rating of state for bonds stipulated by RBI) would immediately cease once Pondicherry becomes a Normal State.

Withdrawal of both (i) roll over facility of interest and principal instalment obligations on public debt and (ii) facility of non plan revenue expenditure gap bridging deficit financing ,once Pondicherry becomes a Normal State may turn out to be financially a case of Winners Curse for Pondicherry, as compared to its present financial status as Union Territory.

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