CHAPTER 1
INTRODUCTION

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Chapter 1

INTRODUCTION

1.1 Genesis of the problem:

“All undertakings depend upon finance; hence, foremost attention shall be paid to the treasury.”

Sound fiscal management is therefore, of vital importance to the Government. As revenue is derived even from the humblest citizen, it is morally incumbent upon the government to spend money efficiently and economically. Imprudent financial management alienates the people from the Government; ultimately endangering the latter’s existence. In democracy, there should be unmistakable urge to evolve sound financial management. The budget is one of the principal tools of financial administration in addition to being the most powerful instrument of legislative control and of executive management. Thus, the conception of the budget as the central tools of financial direction and control is comparatively a recent one.

As narrated by Bhagwan Vishnoo, in his book, in the words of Rene Gaze, “The budget in a modern state is a forecast and an estimate of all public receipts and expenses and for certain expenses and receipts an authorization to incur them and collect them.” The budget is, thus, a plan of action; it reflects and manifests the program of the chief executive for the ensuing financial year. It is much more than a mere statement of revenue and expenditure of the government. It has three functions: control, management and planning.

1.1.1 Budget – Its economic and social implications

Budget without doubt is the most important economic event. It not only outlines major economic initiatives of the Government for the next year but also

comes out with the rates for both indirect taxes as well as direct taxes. It is not only important for corporate but for individuals from all sections of the society.

The budget is also an instrument of economic and social policies. Budgets are not merely matters of arithmetic but in a thousand ways go to the root of prosperity of individuals. By imposing heavy taxation upon articles of consumption, it can encourage investment, and thus, promote the economic growth of the country. By taxing the rich, it can reduce economic inequality. The signs of the welfare state are reflected in the budget with its heavy outlay on social services and the like. The budget is seen, not as a simple balancing of tax receipts and expenditure, but is a sophisticated process in which the instruments of taxation and expenditure are used to influence the course of the economy. A budget is, above all, a political document; it provides a glimpse of the entire philosophy of the Government. An economist views it as a device of influencing the country's economy; the politician employs it for defending or criticizing the Government programme; the administrator uses it as a framework for communication and coordination as well as for exercising administrative discipline throughout the administrative structure.

The State has responsibility to maintain law and order, build and maintain infrastructure, provide health and sanitation, education and other essential services. In the last few years, heavy public debt and large interest payments have crippled Maharashtra State which is unable to undertake socially necessary expenditure. Maharashtra State is in serious financial crisis and is literally limping along. On the one hand, public debt is mounting and on the other, Maharashtra State Government has been forced to pay high rates of interest. There are many reasons for this sad state of affairs. Till 1996-97, the fiscal deficit of the State as a proportion of GSDP was around three percent and was under control.

1.1.2 Economic decline of Maharashtra

The economic decline of Maharashtra began in 1995-96 and the State's debt has now reached a staggering Rs 1.25 lakh crore by 2005-06. The debt servicing burden has risen sharply in recent years.

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The worsening fiscal situation of the State is a cause for concern, more so because, historically, Maharashtra was one of the better-managed States in India. In the first half of the 1990s, for instance, it had the lowest revenue deficit and the second lowest fiscal deficit to Gross State Domestic Product (GSDP) ratio among the 14 major Indian states.

However, there was across-the-board deterioration in the State's fiscal situation since the second half of 1990s, tax and non-tax receipts stagnated; total government expenditure rose sharply, and its composition worsened; major portion of the revenue now goes towards interest payment, salaries and wages, leaving little for development expenditure; off-budget borrowings and contingent liabilities have reached distressing levels.

1.1.3 Extreme level of urban and rural poverty

The State of Maharashtra has the largest economy in the country. Its Gross State Domestic Product (GSDP) at current prices stood at Rs. 2,71,406 crore in the year 2001-02 and further increased to Rs. 4,38,058 crore in 2005-06. The per capita income of the people of the State was Rs. 36,090 in 2005-06 which was third in the country.

There ought to be a general perception that poverty is less pervasive in Maharashtra than in other states. In reality, however, that is not the case. The disproportionate poverty and inequality is particularly distressing.

In 1997, the Per Capita Income (PCI) of Maharashtra at current prices was as high as Rs. 17,666, second only to Punjab’s Rs. 18,223. It was four and a half times that of Bihar, more than two and a half times that of Orissa, twice that of Kerala, and nearly one and a half times that of Gujarat and Karnataka.5

At the same time, the extent of rural poverty in Maharashtra was on par with that in the country as a whole (in fact, it was one percentage point higher) despite the

State's PCI being one and a half times higher than the national average. The scenario has not changed much after ten years.

Around 30 percent of the population in the State is still below poverty line, much higher than neighbouring states of Andhra Pradesh and Gujarat where the poverty ratio is around 15 and 17 percent respectively.  

Maharashtra has higher percentage of urban and rural poverty as compared to India. In the year 2004-05, population below poverty line in urban areas was 32.2 percent in Maharashtra whereas in India it was just 25.7 percent which is presented in the following graphs.

**Graph 1.1**

**Population below poverty line in rural areas (in %)**

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>Maharashtra</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>56.4</td>
<td>57.7</td>
</tr>
<tr>
<td>1983-84</td>
<td>45.7</td>
<td>45.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>37.3</td>
<td>37.9</td>
</tr>
<tr>
<td>2004-05</td>
<td>28.3</td>
<td>29.6</td>
</tr>
</tbody>
</table>

Source: Planning Department, Government of Maharashtra, Mumbai.

**Graph 1.2**

**Population below poverty line in urban areas (in %)**

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>Maharashtra</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>49</td>
<td>43.9</td>
</tr>
<tr>
<td>1983-84</td>
<td>40.8</td>
<td>40.3</td>
</tr>
<tr>
<td>1993-94</td>
<td>32.4</td>
<td>35.2</td>
</tr>
<tr>
<td>2004-05</td>
<td>25.7</td>
<td>32.2</td>
</tr>
</tbody>
</table>

Source: Planning Department, Government of Maharashtra, Mumbai.

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The above graph points out the paradox of relatively high poverty ratio of 30 percent in rural area and 32.2 percent in the urban areas of this rich state of Maharashtra.

Although around 54 percent of the total work force is engaged in the primary sector, agriculture contributes only around 12 percent to the total state income and has been growing only at the rate of 2.6 percent per annum during the period 2001 to 2007. The financial distress of the farmers has also manifested the farmers’ suicides in the cotton belt of Vidarbha. Farmers struggle to make ends meet with the withdrawal of subsidies and lack of alternate sources of income. The widening regional disparity within the State is a serious cause of concern.

It is unfortunate that Maharashtra has lately made news in agricultural area only on account of ‘farmers’ suicide’. Jadhav Narendra, Vice-Chancellor of University of Pune has been asked to prepare a comprehensive action plan for the entire state of Maharashtra; he has contradicted the views of noted journalist that Maharashtra. While Maharashtra has been unfairly regarded as worst possible state in respect of farmer’s suicide there is no denying that the number of farmers committing suicide and its ratio to the general population has increased to worrisome levels. By end 2007, even after implementation of the two packages for nearly one and a half to two years, there was no significant decline in the absolute number of farmer’s suicide in Vidarbha which is a serious cause for concern. Maharashtra has become the graveyard of farmers.\(^7\) It points out the need for efficient planning and proper implementation of budget in the State.

The budget of any State is not only mere account of income and expenditure but in a wider perspective it shows the policies and programmes planned by the Government for the development and progress of that State. But in actual practice, does it really happen? Budget is an instrument through which government can plan its developmental programme in more effective way to eradicate poverty, unemployment and regional imbalance. But the past performance shows that budget has become merely a paperwork exercise and in actual practice nothing comes out for the benefit of people of the country. Farmers’ suicides in Maharashtra in spite of planning of

budgeted schemes and policies is real life example which points out that no proper steps are taken by the Government on the part of its effective implementation. If the public money cannot be spent for the benefit of public then what is the use of planning of budget?

1.1.4 High income inequalities across the districts

Extreme levels of poverty and high income inequalities across the districts co-exist in Maharashtra. Since the mid 1990s, Maharashtra’s economic growth has somewhat slowed down while poverty though has reduced considerably over the period, it is still on the higher side and the fiscal situation is under stress. This is evident from the fact that the economic growth rate of the State fell sharply from 7.5 percent per annum between 1985-86 and 1994-95 to 4.5 percent per annum between 1995-96 and 2003-04. This can be attributed to the deceleration of public investment and relative neglect of agriculture. Though the State GSDP rose 6.4 percent in 2004-05, it still remained well below the Tenth Plan target of 8 percent.\(^8\) The State needs to evolve broad policy initiatives in order to address the problem.

The State however is one of contrasts, with high income inequalities across districts, as the State can be divided into two distinct parts.

- The rich, urban and industrialized urban part.
- The dry, rural and poor region in the eastern interior.

The following table shows Gross District Domestic Product (GDDP) and Per Capita Net District Domestic Income (PCNDDI) which indicates high income inequalities across the 35 districts of the state.

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### Table 1.1

Gross District Domestic Product and Per Capita Net District Domestic Income of all districts in Maharashtra State (2005-06 and 2006-07)

<table>
<thead>
<tr>
<th>District</th>
<th>Gross District Domestic Product (GDDP)</th>
<th>Per Capita Net District Domestic Income (PCNDDI)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At current prices (Rs. in crore)</td>
<td>At current prices (Rs.)</td>
</tr>
<tr>
<td><strong>Year</strong></td>
<td>2005-06</td>
<td>2006-07</td>
</tr>
<tr>
<td>Mumbai</td>
<td>92,919</td>
<td>1,08,426</td>
</tr>
<tr>
<td>Thane</td>
<td>54,052</td>
<td>62,846</td>
</tr>
<tr>
<td>Pune</td>
<td>48,995</td>
<td>57,084</td>
</tr>
<tr>
<td>Nashik</td>
<td>25,273</td>
<td>28,938</td>
</tr>
<tr>
<td>Nagpur</td>
<td>20,423</td>
<td>23,529</td>
</tr>
<tr>
<td>Kolhapur</td>
<td>16,148</td>
<td>18,749</td>
</tr>
<tr>
<td>Ahmednagar</td>
<td>14,105</td>
<td>17,134</td>
</tr>
<tr>
<td>Solapur</td>
<td>14,180</td>
<td>16,927</td>
</tr>
<tr>
<td>Jalgaon</td>
<td>12,642</td>
<td>14,587</td>
</tr>
<tr>
<td>Raigad</td>
<td>11,971</td>
<td>13,849</td>
</tr>
<tr>
<td>Aurangabad</td>
<td>11,303</td>
<td>13,256</td>
</tr>
<tr>
<td>Satara</td>
<td>11,128</td>
<td>12,689</td>
</tr>
<tr>
<td>Sangli</td>
<td>9,616</td>
<td>11,000</td>
</tr>
<tr>
<td>Chandrapur</td>
<td>8,424</td>
<td>9,489</td>
</tr>
<tr>
<td>Amravati</td>
<td>7,119</td>
<td>7,976</td>
</tr>
<tr>
<td>Yavatmal</td>
<td>6,759</td>
<td>7,816</td>
</tr>
<tr>
<td>Nanded</td>
<td>6,334</td>
<td>7,352</td>
</tr>
<tr>
<td>Ratnagiri</td>
<td>6,045</td>
<td>6,896</td>
</tr>
<tr>
<td>Beed</td>
<td>5,708</td>
<td>6,728</td>
</tr>
<tr>
<td>Buldhana</td>
<td>4,851</td>
<td>5,719</td>
</tr>
<tr>
<td>Akola</td>
<td>4,589</td>
<td>5,714</td>
</tr>
<tr>
<td>Latur</td>
<td>5,066</td>
<td>5,533</td>
</tr>
<tr>
<td>Dhule</td>
<td>4,578</td>
<td>5,362</td>
</tr>
<tr>
<td>Wardha</td>
<td>4,078</td>
<td>4,603</td>
</tr>
<tr>
<td>Parbhani</td>
<td>3,805</td>
<td>4,589</td>
</tr>
<tr>
<td>Jalna</td>
<td>3,804</td>
<td>4,517</td>
</tr>
<tr>
<td>Nandurbar</td>
<td>3,953</td>
<td>4,388</td>
</tr>
<tr>
<td>Bhandara</td>
<td>3,784</td>
<td>4,296</td>
</tr>
<tr>
<td>Osmanabad</td>
<td>3,564</td>
<td>4,226</td>
</tr>
<tr>
<td>Gondia</td>
<td>3,479</td>
<td>3,914</td>
</tr>
<tr>
<td>Sindhudurg</td>
<td>2,998</td>
<td>3,448</td>
</tr>
<tr>
<td>Hingoli</td>
<td>2,266</td>
<td>2,635</td>
</tr>
<tr>
<td>Gadchiroli</td>
<td>1,991</td>
<td>2,622</td>
</tr>
<tr>
<td>Washim</td>
<td>2,108</td>
<td>2,519</td>
</tr>
</tbody>
</table>

**Maharashtra** 4,38,058 5,09,356 36,090 41,331

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The above table gives GDDP and PCNDDI for the year 2005-06 and 2006-07 for 35 districts. It can be seen that in the year 2005-06, GDDP for Mumbai was Rs. 92,919 crore whereas in the same year for Washim it was only Rs. 2,108 crore which shows the scope for budget planning and there is a need for industrial developmental planning in the state at district level.

From the above table, researcher has highlighted top five and bottom five districts taking PCNDDI for 2005-06 as a parameter which indicates high income inequalities across the State.

Table 1.2
Top and bottom five districts in Maharashtra

<table>
<thead>
<tr>
<th></th>
<th>Top 5 districts</th>
<th>Bottom 5 districts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005-06 Per Capita Net</td>
<td>2005-06 Per Capita Net</td>
</tr>
<tr>
<td></td>
<td>District Domestic</td>
<td>District Domestic</td>
</tr>
<tr>
<td></td>
<td>Income (PCNDDI) (Rs.)</td>
<td>Income (PCNDDI) (Rs.)</td>
</tr>
<tr>
<td>Name</td>
<td>57,229</td>
<td>Washim</td>
</tr>
<tr>
<td>Mumbai</td>
<td>57,229</td>
<td>17,537</td>
</tr>
<tr>
<td>Pune</td>
<td>52,811</td>
<td>Gadchiroli</td>
</tr>
<tr>
<td>Thane</td>
<td>51,153</td>
<td>Buldhana</td>
</tr>
<tr>
<td>Raigad</td>
<td>41,771</td>
<td>Nanded</td>
</tr>
<tr>
<td>Nashik</td>
<td>40,924</td>
<td>Hingoli</td>
</tr>
</tbody>
</table>

Source: Compiled by researcher from secondary data.

Graph 1.3
Top five districts in Maharashtra (PCNDDI – 2005-06)
From the above graphs it can be noticed that PCNDDI for Mumbai was Rs. 57,229 in 2005-06 whereas for Washim it was Rs. 17,537. Out of 35 districts in Maharashtra 21 districts (i.e. more than 50 percent of Maharashtra) are backward. This shows the scope of industrial development planning. The Government of Maharashtra has to gear its policy towards the development of these 21 districts. The intensity of backwardness varies from one district to another which can be judged from per capita net district domestic income of these districts. The GSDP of Maharashtra State was Rs. 4,38,058 crore which is higher because of greater weightage given to the remaining 14 districts including Mumbai. The per capita net district domestic income of Mumbai was Rs. 65,361 in the year 2006-07 whereas the same for Washim district was Rs. 20,774\(^9\) which highlights inequalities between different districts in the state of Maharashtra. This lop-sided development of Maharashtra will have to be removed by the State budget allocation for the backward districts.

1.1.5 Need for industrial development planning of the State of Maharashtra

Maharashtra is considered to be one of the leading industrial states of the country but it has to maintain its competitive position among different states and become the torch-bearer of further industrialisation and get ranked as a state with

highest per capita income in the country. At present Maharashtra have 35 districts out of which development is concentrated in relatively few districts while the rest of the state is occupied by a large number of backward districts. Thus, industrial inequalities exist between highly developed districts on the one hand and relatively backward districts on the other. There are industrial inequalities even between the backward districts.

A wide inter district disparity is seen among the 35 districts of the State. The districts of Thane, Mumbai (suburban) and Pune are among the top five districts in the country having the highest number of households with annual income greater than Rs. 3,00,000. These three districts are again among the top five districts with largest market size.

Another serious problem which is hindrance for industrial growth in Maharashtra state is shortage of power. The power sector in the State being in quite a bad shape, compelling the State electricity board to resort to widespread load shedding; it may not be possible to maintain the growth rate of the economy at a reasonable level. Rural areas in the State are currently subject to load shedding ranging from eight to ten hours while in urban areas it varies from two to four hours. Unfortunately, the situation is unlikely to improve in the near future. Bad planning and failure to attract new investments in the sector have landed the State in the present situation.

1.1.6 Declining share of industrial investment in Maharashtra

Maharashtra is the State with the highest number of Industrial Entrepreneurs Memorandum (IEM) filed since 1991. But, in value terms, Gujarat has attracted more investment. As per the ASI results for 2003–04, the state has lost its numero uno position in respect of value added to Gujarat.

The industrialists are now afraid of political instability and terrorism in the industrially advanced States like Maharashtra. They are shying away from making

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investments in the State. They are now establishing plants in different states so that they can cater to the local and neighboring markets and thereby expand their business, protect their property, income and employees. Maharashtra seems to be lagging behind in fresh industrial investment and it may be in danger of losing its place of pre-eminence, as other states make more strenuous efforts at drawing industry.

As per economic survey of 2005-06 the State’s share in proposed investment and targeted employment in the country was 14 percent and 17 percent respectively and as per the latest economic survey of Maharashtra for the year 2008-09, the State’s share in proposed industrial investment and employment has reduced further to 10 percent and 15 percent respectively.12

Since industry occupies the place of pride in the economy of Maharashtra, the state budget plays a very important role in industrial location, diversification of industry and in modernization in this time of globalisation.

Industrial developmental planning includes the following objectives:

a) Accelerated and sustained economic growth rate.

b) Diversification of economic activity and sources of income.

c) Realisation of industrial and agricultural development.

d) Expansion of basic infrastructure of the state.

These objectives can be achieved through the medium of state budget.

1.2 Statement of the problem:

Rampant political populism, poor financial management, lack of administrative reforms and declining standards of governance have brought about the economic decline of the once prosperous and well-managed State of Maharashtra. In the past few years, the state financial position is showing strain, from the year 1996-

97, the fiscal deficit continuously increased. The fiscal deficit of the State rose sharply from 2.0 percent of GSDP in 1993-94 to 5.5 percent in 2003-04.\textsuperscript{13}

In the process of industrialisation it appears that the already more advanced states and regions have benefited to a larger extent and the backward regions lag far behind. So has happened in Maharashtra. If all the industrial establishments at work in Maharashtra State today were to be plotted on a map, it would be seen that they are mostly located in few well-defined areas only and that vast stretches of the State are without any industrial units at all.

The question arises: What should be done to reduce or remove these persistent inequalities? What plan of action can State Government prepare to remove such inequalities so as to stall the efforts of separatists and farmers’ suicides?

During the plan period, Maharashtra has made a remarkable progress in all sectors of its economy but as between its constituent regions, it has not been even one. Western Maharashtra is more developed than the remaining regions i.e. Marathwada, Vidarbha, and Konkan. Similarly, the industrial development is concentrated in Mumbai, Thane and Pune.

If the political leadership of Maharashtra genuinely believes in making economic growth socially relevant, it would be rather obligatory for it to start working immediately on these policies and programmes. But that will require political will of a high order.

In the last five decades, Maharashtra witnessed several economic upheavals. The question is, “What will be the direction and pace of the future course of action? How would be the people’s participation therein be invoked and to what extent?”

In view of these questions, an attempt is made by the researcher, to study state budget of Maharashtra and its impact on industrial development from 1995-96 to 2005-06.

The researcher has suggested a plan of action for the State Government to increase the source of revenue in the budget which will help to maintain the leading

\textsuperscript{13} Budget in brief, Finance Department, Government of Maharashtra, Mumbai, 2006-07.
position of Maharashtra on the industrial map of India and acquiring industrial maturity.

The nation's leading state or supposedly leading state and especially its government, ought to have the awareness and knowledge of the impact on the State's future of the changing global economic dispensation. If the State's economy is to get a fillip, then unpalatable decisions would need to be taken from time-to-time.

There is an urgent need to demystify the budgets, whether of the Central or State Governments. It is also necessary to do away with a great deal of secrecy surrounding the preparation of the budget, except in respect of taxation proposals. The whole process of budget-making should be as open as possible.

The pros and cons of the issues in various sectors of the economy, soft and hard options which are open to the government and thereby to the society at large, need to be debated by people, unfortunately, at present, the mystique about the budget continues even after it is presented to Parliament and/or Legislature and it remains a preserve or domain of only a few who can understand its intricacies.

Against the above background, this effort to create greater awareness among people and non-government organizations of matters pertaining to state budget needs to be given due importance.

During the period of liberalisation there has been a change in the approach to budget formulation for industrial developmental planning and therefore the following topic was selected for the purpose of study.

"ROLE OF BUDGET IN INDUSTRIAL DEVELOPMENTAL PLANNING IN THE STATE OF MAHARASHTRA WITH SPECIAL REFERENCE TO THE PERIOD 1995 - 96 TO 2005 - 06"

1.3 Significance of the study:

An attempt is made in this study to understand the conceptual meaning of the budget. Budget allocation and implementation for industry department in the State of Maharashtra and at the same time attempt has been made to study the budgets of
Maharashtra State from 1995-96 to 2005-06. A sincere effort has been made by the researcher to study industrial development in Maharashtra State for the same period.

Identifying the constraints and strengths at the state and district level is an important step in enabling a more fine-tuned action towards development. Constraints and problems of industrialisation highlighted in this research report are worth noting for policy makers.

To achieve balanced growth and development, intrastate comparison is as integral a part of analysis as interstate comparison. Data has been presented in an objective and easy to understand format that will enable to see the strengths as well as understand the constraints of the State for industrial development at district level and wherever possible the researcher has compared financial as well as fiscal position of the state with the other states in the vicinity and with India as a whole with suitable graphs and tables which is a value addition to the whole research.

Researcher has made an attempt to explain with the help of examples, concepts of deficits and how Maharashtra is falling under debt trap. Recently in the budget 2003-04, out of total revenue, around 80 percent amount is spent only to pay salary, pension, and interest. To spent amount on other development expenditure again State Government has to take a loan. The researcher has explained thoroughly how Maharashtra State Government is trapped in vicious circle of interest, debt and further increasing debt stock, which is interesting to read.

The only solution for revenue mobilization for the state government is to develop manufacturing sector of industry. The state government can raise income through other sources of revenue which is suggested with an action plan through models, which would be useful for industrial development in backward districts and for Maharashtra State Government.

This study helps to understand the role of the state in a modern economy. All around us there is cynicism (disappointment, negative thinking) among the public in India that the state is corrupt, unhelpful and plays a negative role. This study makes us optimistic about the role of the state. The recent recession has once again proved that the state can play a very helpful role in the economy by stimulating demand.
through large and cheaper credit. The State can improve its services through various organs and can even ensure full employment.

1.4 **Objectives of the study:**

In view of the above problems discussed, researcher has framed the following objectives for the purpose of research study. The objectives of this study are displayed in the following chart and elaborated further.
Objectives of the Study

Objectives Framed  

1. To overview State Economy of Maharashtra  
2. To Study Framework of Budget System of Government of India  
3. To Study Budget System in the State of Maharashtra  
4. To Study Accounting Structure of State Budget of Maharashtra  
5. To evaluate and analyse industrial development process in Maharashtra from 1995-96 to 2005-06  
6. To make comparative analysis of budgets from 1995-96 to 2005-06  
7. To study impact of State budget on industrial development  
8. To study whether the state Govt. has made special efforts to promote industrial development in backward region  
9. To give suggestions and for enhancing the role of existing budget system for industrial development in Maharashtra State.

Objectives Achieved

Chapter 2  
Chapter 3  
Chapter 4  
Chapter 5  
Chapter 4  
Chapter 6  
Chapter 6  
Chapter 7  
Chapter 9
1) To overview the economy of State of Maharashtra.

Researcher felt that it is important to understand economic environment prevailing in the state of Maharashtra and to make aware the economic problems of rural and urban areas of Maharashtra State and the policy measures undertaken by the authorities to solve these problems. To study in detail economy of state of Maharashtra, its geographical background, infrastructure development, prevailing agriculture and industrial growth, social and fiscal indicators, etc., the researcher has kept this objective so that suggestions can be given to accelerate further growth of industries.

2) To study conceptual framework of budget system of Government of India.

The disturbance of the economic structure in some of the states and disequilibrium between their economic sectors requires the diversification of both economic activity and sources of income. The desire to expand the basic infrastructure and productive projects necessitates planning concept. This emphasises the importance of and the need for development planning if a state wants to achieve high economic growth rate. This objective can be achieved through the medium of state budget.

The scope of budget of each state must be broadened. The reason behind this is to provide essential techniques and information both for the measurement of available resources and the control of their uses. In other words budget is the process of quantifying a plan of action into a formal, written, financial description of the activities involved. A budget is an annual financial statement that has to be presented to parliament as required by the Constitution of India. The researcher has kept this objective to study conceptual framework of the budget of Government of India.

3) To study the budget system in the State of Maharashtra.

The estimates of expenditure embodied in the annual financial statement should show separately the sums required to meet expenditure treated as charged upon the Consolidated Fund of the State and the sums required meeting other expenditure proposed to be met from the Consolidated Fund of the State.\(^\text{14}\)

Chapter 1: Introduction

Since the topic under study relate to state budget of Maharashtra and its impact on industrial development, it became imperative for the researcher to understand and study the budget system in the state of Maharashtra.

4) To study accounting structure and budget framing procedure of state of Maharashtra.

Estimates of receipts and expenditure of the States are presented in the State budget for a particular year by their Governments in their legislatures before the beginning of the financial year and legislative sanction for expenditure is secured through a similar procedure.

As in the case of the Union, so also in the case of any State, the budget covers the State Government's transactions of all kinds, in and outside the State which took place during the previous year, the year in which the statement is prepared as well as the budget year.

The work pertaining to budget is spread over the whole financial year. The preparation of the annual budget can neither start earlier nor finish later than certain dates prescribed for the purpose. It is, therefore, imperative that the whole process should be worked to a fixed time table. The Constitution also enjoins that expenditure of each state should be approved of by its legislature. The States are supposed to implement the plans according to the demarcation of functions provided in the Constitution.

This objective has been kept by the researcher to take on a systematic study to understand classification of receipts and expenditure, budget framing procedure and accounting structure of State budget of Maharashtra, to identify current limitations and weaknesses in the budget system and to understand different concept of deficits of budget.

5) To evaluate and analyse industrial development progress in the State of Maharashtra with special reference to the period from 1995-96 to 2005-06.

Industrial sector plays a crucial role in the economic development of the State. The State Government has taken proper initiative in tune with the national industrial policy from time to time. The State Government has continued the policy of
Chapter 1: Introduction

promoting industrial growth and dispersal of industries to the underdeveloped areas in the State through creation of necessary infrastructure and providing financial incentives. Finance is required to lubricate the wheels of industry. In recent years, Maharashtra is lagging behind in industrial investment. Researcher was more curious to study and evaluate the industrial activity of the state of Maharashtra.

6) To make comparative analysis of budgets from 1995-96 to 2005-06.

To show the impact of state budget on industrial development and its planning the researcher has made comparative analysis of state budgets from 1995-96 to 2005-06. To highlight trends in receipts and expenditure, deficit trends, and debt position, researcher has kept the objective to make interstate comparison which gives clear picture where Maharashtra stands in comparison with other leading states.

7) To study impact of State budget on industrial developmental planning of the State of Maharashtra.

The main objective of this research is to identify, how the State budget affects industrial growth of the State.

Since the hypotheses drawn by the researcher is based on this objective, the researcher was keen to test the hypothetical statement made in this regard through scientific study and by using statistical techniques.

8) To study whether the State Government of Maharashtra has made special efforts to promote the industrial development in backward regions.

There are vast industrial inequalities between backward districts in the State of Maharashtra. The researcher has taken keen interest to study whether the State Government of Maharashtra has made special efforts to promote the industrial development in backward districts to remove industrial inequalities between high, medium and low HDI districts.

9) To give suggestions and measures for enhancing the role of existing budget and budgetary system for industrial development in the State of Maharashtra.
Maharashtra has plenty of untapped natural human resources which can be used to raise the standard of living of the people and to keep it industrially ahead of other states.

To highlight intricacies and loop holes in state budget of Maharashtra and problems of industrialisation; researcher has kept this objective and to suggest the plan of action which includes suggestions and recommendations to be implemented by the State in the future.

1.5 Hypotheses of the study:

In research, a hypothesis serves several important functions:

- It guides the direction of study.
- It identifies facts that are relevant and those that are not.
- It suggests which form of research design is likely to be most appropriate.
- It provides a framework for organizing the conclusions that result.

Research is a scientific enquiry carried out to provide information for solving problems. Research is based on reasoning. Scientific enquiry has been described as a puzzle-solving activity.\(^\text{15}\) For the researcher, puzzles are solvable problems that may be clarified or resolved through reasoning.

Two types of argument of great importance to research are deduction and induction. Induction and deduction are used in research reasoning in a sequential manner. This process is described as double movement of reflective thought.\(^\text{16}\) Induction occurs when we observe a fact and ask “Why is this?” In answer to this question, we advance a tentative explanation i.e. hypothesis. The hypothesis is plausible if it explains the event or condition or fact that prompted a question. To induce is to draw a conclusion from one or more particular facts or pieces of evidence. The conclusion explains the fact and the fact supports the conclusion.

Deduction is the process by which tests whether the hypothesis is capable of explaining the fact. For a deduction to be correct, it must be both, true and valid.


\(^{16}\) Cooper Donald and Schindler Pamela, Business Research Methods, Tata Mc Graw Hill, 8\textsuperscript{th} Ed., New Delhi, 2004, p 38.
In the light of the framed objectives the researcher had set up the following hypotheses for the present study.

\( H_0 \) “The budget acts as an instrument of industrial progress in Maharashtra. Therefore the Government should incur public expenditure on industry to expedite industrial development.”

\( H_1 \) “The budget does not act as an instrument of industrial progress.”

\( H_2 \) “The State Government of Maharashtra has made special efforts to promote the industrial development in backward regions.”

Induction, deduction and hypothesis of the study are combined in a systematic way to illustrate a scientific method which is explained by the researcher with the help of the following chart.
Hypotheses of the Study

**INDUCTION**

_Why?_

**Fact 1**
The government incurs public expenditure on industry to expedite industrial development but the progress is slow in backward districts.

**Fact 2**
The State budget has direct impact on industrial development through tax proposals.

**Fact 3**
Budget is a medium through which lop-sided industrial development can be removed.

---

"The budget acts as an instrument of industrial progress in Maharashtra."

"The budget does not act as an instrument of industrial progress."

"The State Government of Maharashtra has made special efforts to promote the industrial development in backward regions."
1.6 Research Methodology:

Theoretically research methodology is a way to systematically solve the research problem. Research is any organized enquiry carried out to provide information for solving problems. It includes reporting, descriptive, explanatory and predictive studies. Generally, one expects good research to be purposeful, with a clearly defined focus and plausible goals with defensible, ethical, and repeatable procedures, and with evidence of objectivity. The reporting of procedures – their strengths and weaknesses – should be complete and honest. Appropriate analytical techniques should be used, conclusions drawn should be limited to those clearly presented and professional in tone, language and appearance.

1.6.1 Research design

Planning research design demands an understanding of all the stages in the research process. Reality testing at each stages of the process is critical to successful implementation of a research proposal. The research design constitutes the blueprint for the collection, measurement and analysis of data. Once the research topic was finalized the next task that followed was to design the research. “A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure.” The researcher’s basic questions like, what is the study about, why it is being made, how and where it will be carried, what type of data would be required and from whom it is to be collected, what is the scope of the study and finally how this data would be analyzed and presented, are answered in the present research design.

A research design is the plan and structure of investigation. The plan is the overall scheme or programme of the research. It guides the selection of sources and types of information. The journey of this research work is elaborated in the following chart which explains in detail techniques used to gather primary and secondary data.

[References]

17 Cooper Donald and Schindler Pamela, op cit, p 24.
Preparation of research design is the soul of an enquiry. It is a mental outlet of what is to be done and how it is to be done systematically. Since the study undertaken by the researcher aimed to find out weakness in budget system in the State of Maharashtra and how the budget can play an important role in industrial development planning of state, following research methodology was adopted to prepare this research work.

1. Personal interview method;
2. Questionnaire method;
3. Case study – visit to backward district Dhule;
4. Analysis of primary and secondary data;
5. Survey of seven backward districts.

1.6.2 Data collection

Selecting a design may be complicated by the availability of a large variety of methods, techniques, procedures, protocols and sampling plan. The creative researcher actually benefits from this confusing array of options. Data collection drive was conducted by tapping both secondary and primary source of data. Researcher went through enormous amount of published literature available in various forms. It included information obtained from various reference books, government reports, budget documents, journals, magazines, newspapers, etc.

Visits to I. G. I. D. R. Library, Economic and Political Weekly (EPW) Office at Kandivali, Jawaharlal Nehru Library, Central Library and Asiatic Library at Churchgate, library of S. N. D. T University, and libraries of reputed colleges, helped the researcher in the procurement of useful data for the research study.

Visit to library of Vidhan Bhavan, Finance department, Mantralaya, Directorate of Economics and Statistics, library of MEDC and Directorate of Industries has provided useful statistical data on state budget and industry in Maharashtra for the year 1995-96 to 2005-06, which has helped researcher for making comparative analysis of budget. Web and internet support too was sought for the purpose of secondary data collection.
Secondary data

Government publications are mandatory resources for this research study. The government collects and provides access to a wide variety of social, economic and demographic data. In addition, government laws and regulation, articles in the Constitution of India, policy papers and studies all have considered studying potential impact of state budget on industrial development. The main sources of secondary data are:

1. The Government Printing Press at Charni Road, Mumbai, unearthed the budget speeches of ex- and present- Finance Ministers – Part I and Taxation proposals – Part II of Government of Maharashtra from 1995-96 to 2007-08 which gave valuable inputs to the research study.


3. Publications of Maharashtra Economic Development Council (MEDC) on industry, infrastructure and economic indicators of Maharashtra State.


5. The Maharashtra budget manual and other budget documents of Finance Department, Mantralaya, Mumbai.

6. Reports of State Government of Maharashtra, reports of finances of RBI and other reports from office of Comptroller and Auditor General of India.

7. Annual Survey of Industries (ASI).

8. Newspapers.


11. Use of Internet.
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The Census of India, Central Statistical Organisation (CSO), Reserve Bank of India and Publications of various Central and State Government departments are the main sources of information and a detailed list is provided in bibliography.

Primary Data

Primary data was collected mainly to get factual responses from the policy makers as well as planners from Government department including Finance Department, Mantralaya, Mumbai, which has helped to clarify the problem.

For understanding the budget process of State of Maharashtra, along with structured questionnaire, personal interviews have been conducted of administrative officers from Finance Department and members of Legislative Assembly. Primary data involves questioning and surveying people and recording their responses for analysis. In addition to the questionnaires, data was also collected through personal interviews and field observation method. The main sources of collecting primary data are listed below.

1. Discussion was held with Government officials in Planning, Finance and Industry Departments, Mantralaya, Mumbai with the help of structured questionnaire. Three types of questionnaire prepared were as follows:
   
i. Questionnaires for officers of Finance Department.

   ii. Questionnaires for officers of Industry Department.

   iii. Questionnaires for officers of Planning Department.

2. Discussion was made with the help of questionnaire and views were collected from academicians and research scholars.

3. The research methodology includes collection of primary data from backward district Dhule through personal interview of following personalities:

   • District Collector, Dhule.

   • General Manager, District Industries Centre (DIC), Dhule.

   • Industrial Inspector, DIC Dhule.
4. Personal interview of prominent entrepreneur and sitting MLA, Shirpur, district Dhule.

5. Personal interviews of Government officials, industrialists, workers in factories, managing directors of factories and companies in Dhule.

6. Industrial visit to Textile Park and engineering institute at Shirpur, to find out the training facilities for Textile Park and other upcoming industrial units.

7. Visit to textile mill in Dhule was made to understand manufacturing process and to meet the workers of textile mill and to enquire about their conditions of employment. Visit to Dhule district was made to understand how the backward district can be developed on its own resources with the State support system.

✦ Choice of communication means – personal interview method

Communication is accomplished via personal interview, telephone interview and self-administered surveys through questionnaire, with each method having its specific strength and weaknesses. Various means were used to secure information from Government Officers and individuals. The researcher found that personal interview method is optimal communication method that is instrumental for gathering answers for the research questions and dealing with the constraints imposed by time, budget and other factors.

✦ Personal interview

The major advantages of personal interviewing are the ability to explore topics in great depth, achieve a high degree of interviewer control and provide maximum interviewer flexibility for meeting unique situation.

A personal interview (i.e. face to face communication) is a two - way conversation initiated by the researcher to obtain information from different participants. Personal interview method was selected rather than the self -
administered questionnaire and telephone interviews because of the following advantages:

- Good co-operation from respondents.
- Interviewer can answer questions about survey, probe for answers and use follow-up questions.
- Gather information by observation.
- Special visual aids can be used.
- Illiterate and functionally illiterate respondents can be reached.
- Interviewer can prescreen respondent to ensure he/she fits the population profile.

Although personal interviewing is costly in terms of time, money and energy, requires a longer period in the field collecting data where there is wide geographical dispersion, its advantages outweighed its disadvantages in the research.

The participants who were contacted in Dhule were uniquely qualified to provide the desired information. They were well-qualified, experienced and had maintained good relations with the high authorities and with the public. They have provided transparent information. They were the welcoming type and they like visitors particularly research scholars. The Finance Department, Mantralaya, Mumbai helped in gathering data on State Budget of Maharashtra although they were tight-lipped in answering questions.

1.6.3 Data analysis and interpretation

Once the data begin to flow in, attention turns to data analysis. This activity ensures that accuracy of the data and there conversion from raw form to reduced and classified form that are more appropriate for research study. Preparing a descriptive statistical summary is the preliminary step leading to an understanding of the collected data.

For the analysis and interpretation of data following statistical tools are applied by the researcher.
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- Co-efficient of correlation has been worked out between actual public expenditure on industry and minerals and Net Value Added (NVA) by industry.
- Tax elasticity has been worked out for state’s Own Tax Revenue (OTR) in relation to Gross State Domestic Product (GSDP) of Maharashtra State.
- Classification of industry made on basis of frequency distribution of the size class of Fixed Capital and employment in factories in Maharashtra.
- Trend analysis, comparative statement and ratio analysis tools were applied to make comparison of State budgets and industrial activity from 1995 – 96 to 2005 – 06.

1.7 Sample design for study of backward district:

The sample is one the researcher should select, depends on the requirements of the project report, its objective and the funds available. A sample design is a definite plan for obtaining a sample from given population. The population of the study covers the entire Maharashtra State.

1.7.1 Maharashtra State at a glance

Maharashtra, situated on the western part of the Indian Subcontinent, is the third largest state in terms of area and second most populous state in the country. The present State of Maharashtra was formed on 1st May, 1960 when, the Marathi and Gujarati linguistic areas of the former Bombay state were separated. One of the most industrialised and urbanised state of the country.

Maharashtra is the third largest State in India after Rajasthan and Madhya Pradesh. Maharashtra is bordered by the states of Madhya Pradesh to the north, Chhattisgarh to the east, Andhra Pradesh to the southeast, Karnataka to the south and Goa to the south-west.19 The State of Gujarat lies to the northwest, with the Union territory of Dadra and Nagar Haveli sandwiched between the borders. The following map shows present setting of Maharashtra State and its borders.

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Map 1.1
Present Setting of Maharashtra State

The following table highlights Maharashtra state at a glance:

Table 1.3
State of Maharashtra at a glance

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>Maharashtra</td>
</tr>
<tr>
<td>Capital</td>
<td>Mumbai</td>
</tr>
<tr>
<td>Area (sq.km.)</td>
<td>307,577</td>
</tr>
<tr>
<td>Population as per census 2001</td>
<td>96,878,627</td>
</tr>
<tr>
<td>Population density (per sq.m.)</td>
<td>315</td>
</tr>
<tr>
<td>Average annual growth of population 1991-2001 (in percent)</td>
<td>2.0</td>
</tr>
<tr>
<td>Per capita income 2007-08 (rs.)</td>
<td>Rs. 43,724</td>
</tr>
<tr>
<td>Percentage of urban population (in percent)</td>
<td>42.4</td>
</tr>
<tr>
<td>Literacy rate (in percent)</td>
<td>76.88</td>
</tr>
<tr>
<td>Number of districts</td>
<td>35</td>
</tr>
<tr>
<td>Number of towns</td>
<td>378</td>
</tr>
<tr>
<td>Number of villages</td>
<td>43,723</td>
</tr>
<tr>
<td>Prominent cities</td>
<td>Mumbai, Aurangabad, Nagpur, Nasik, Pune, Thane</td>
</tr>
<tr>
<td>Prominent airports</td>
<td>Mumbai, Nagpur, Pune, Juhu, Aurangabad</td>
</tr>
<tr>
<td>Prominent ports</td>
<td>Mumbai</td>
</tr>
<tr>
<td>Principal crops</td>
<td>Rice, Jowar, Wheat, Bajra, Mangoes, Bananas, Grapes, Oranges</td>
</tr>
<tr>
<td>Major industries</td>
<td>Automobiles, food processing, leather, floriculture</td>
</tr>
</tbody>
</table>

1.7.2 Administrative divisions of Maharashtra

There are six administrative / revenue divisions with 35 districts, 356 talukas, 378 towns and 43,723 inhabited villages. Agriculture and allied activities are important in the State economy as about 65 percent of population in the State economy is dependent on agriculture for livelihood.

Various parts of Maharashtra are known as Konkan, Western Maharashtra, Uttar Maharashtra, Marathwada, Vidarbha and Khandesh. 20

For administrative convenience the State is divided into following six divisions which are shown in the following chart.

---

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Chart 1.4

Administrative Divisions and Districts in Maharashtra

1) Mumbai
2) Thane
3) Raigad
4) Ratnagiri
5) Sindhudurg

6) Nagpur Division
1) Wardha
2) Nagpur
3) Bhandara
4) Gondia
5) Chandrapur
6) Gadchiroli

(1) Konkan Division

(2) Nashik Division
1) Nashik
2) Dhule
3) Nandurbar
4) Jalgaon
5) Ahmednagar

(3) Pune Division
1) Pune
2) Satara
3) Sangli
4) Solapur
5) Kolhapur

(4) Aurangabad Division
1) Auranagbad
2) Jalna
3) Parbhani
4) Hingoli
5) Beed
6) Nanded
7) Osmanabad
8) Latur

(5) Amravati Division
1) Buldhana
2) Akola
3) Washim
4) Amravati
5) Yavatmal

DIVISIONS AND DISTRICTS in Maharashtra State
Out of 35 districts in Maharashtra, following seven districts were taken as a sample for analyzing constraints and problems in industrial development faced by backward districts. The seven districts include Osmanabad, Parbhani and Hingoli from Marathwada (Aurangabad Division), Washim from Khandesh (Amravati Division), Dhule from Uttar Maharashtra (Nashik Division), Chandrapur and Gadchiroli from Vidarbha (Nagpur Division). Out of these seven districts, Dhule district was selected for field survey as a case study for resource mapping of the backward district. Prospects, policies, action areas and scope for industrial development were suggested for each district separately.

Dhule district was singled out because it was closer to Mumbai. It is a backward district. Its features are similar to other backward districts and the expenditure would have been the minimum. It had ideal location for the research to gather primary data. Sample size for backward district is explained in following chart.

**Chart 1.5**

*Sample size for study of backward districts*

The rural-urban divide in the State is quite sharp which can be seen from the Table 1.1 (Refer Table 1.1 titled “Gross District Domestic Product and Per Capita Net District Domestic Income.”) The per capita income of Mumbai, for instance, has remained consistently about 2.5 times that of rest of Maharashtra. The PCNDDI for Mumbai was Rs. 57,229 in 2005-06, the same for Washim was Rs. 17,537. Per Capita
Net District Domestic Income (PCNDDI) is one of the parameter for selecting sample size for survey of backward districts. Researcher used random sampling method for conveniently obtaining responses from various categories which is explained in the above chart. The following table gives detailed list of 35 districts and administrative divisions in the state of Maharashtra. The districts highlighted with the sign ‘0’ has been selected for survey of backward district.

**Table 1.4**

**Administrative Divisions and Districts in Maharashtra State**

<table>
<thead>
<tr>
<th>No.</th>
<th>Administrative Divisions</th>
<th>Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>I)</td>
<td>Konkan: Konkan Division</td>
<td>1. Mumbai and Mumbai Suburban</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Navi Mumbai and Raigad</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Ratnagiri</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Sindhudurg</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Thane.</td>
</tr>
<tr>
<td>II)</td>
<td>Western Maharashtra: Pune Division</td>
<td>1. Kolhapur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Pune</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Satara</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Sangli</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Solapur</td>
</tr>
<tr>
<td>III</td>
<td>Uttar Maharashtra: Nashik Division</td>
<td>1. Ahmednagar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Dhule</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Jalgaon</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Nandurbar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Nashik</td>
</tr>
<tr>
<td>IV)</td>
<td>Marathwada: Aurangabad Division</td>
<td>1. Aurangabad</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Beed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Hingoli</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Jalna</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Latur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6. Osmanabad</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7. Nanded</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8. Parbhani</td>
</tr>
<tr>
<td>V)</td>
<td>Khandesh: Amravati Division</td>
<td>1. Akola</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Amravati</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Buldhana</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Washim</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Yavatmal</td>
</tr>
<tr>
<td>VI)</td>
<td>Vidarbha: Nagpur Division</td>
<td>1. Bhandara</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Chandrapur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Gadchiroli</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Nagpur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6. Vardha.</td>
</tr>
</tbody>
</table>

Source: Compiled by researcher from secondary data.
1.7.3 Research report

The present thesis is the outcome of researcher's quest for knowledge which began with perceiving a problem and formulating hypotheses and then went on to collecting, organizing and evaluating data in order to reach to some meaningful interpretations and conclusions. The researcher has tried to present all relevant aspects of the research like elucidate the problem, bring out the need and expected contribution of the present study, explicate the objectives of the study, reveal the methods and techniques used, the research methodology and procedures followed. Efforts have been made by researcher to present concerned information related to sources of data, tools of data collection, data analysis, findings, conclusions and suggestions in lucid manner.

1.8 Scope of the study:

The topic under the study covers state budget and industrial development in the State of Maharashtra with special reference to period 1995-96 to 2005-06. Researcher has concentrated on the following areas:

i. **State budget of Maharashtra from 1995-96 to 2005-06**: Researcher has covered various concepts and terms used in budget. Revenue section and expenditure section, debt position, deficit trends are studied in detail for the period 1995-96 to 2005-06.

ii. **Industrial development in Maharashtra from 1995-96 to 2005-06**: Researcher has made detail study of industrial activity in Maharashtra from 1995-96 to 2005-06 with the help of secondary data. Views expressed through primary data are also compiled in this.

iii. **The period of the study**: The research period covers post liberalized era from 1995-96 to 2005-06. The wide-ranging reforms initiated and implemented since 1991 has given rise to rapid industrialisation in the country.

State of Maharashtra started showing strain in early 1990s and situation deteriorated further after 1995-96 because of implementation of fifth pay commission recommendations. The researcher has selected the period of 1995-96 to 2005-06 (eleven years) for the study.
iv. **Important component of the Study:** As the hypothesis H₂ is framed as:

> "The State Government of Maharashtra has made special efforts to promote the industrial development in backward regions."

To test this hypothesis, the researcher has selected seven districts for survey method which includes Osmanabad, Parbhani, Hingoli, Washim, Gadchiroli, Chandrapur and Dhule.

Out of these seven districts, Dhule district was selected for field visit. Resource mapping of district is done only for Dhule to design appropriate strategy by exploiting the district resources for enhancing income and employment.

1.9 **Expected contribution of the study:**

The state has entered into next phase of economic reforms, with emphasis on structural changes in addition to fiscal incentives for the promotion of industries and balanced regional growth which has coincided with increasing global competition and rapid technological changes which pose new challenges for industry.

In today’s competitive world it is necessary to proactively reach to potential investors for marketing the State as “First Choice Destination”.

The researcher has undertaken a detailed and comprehensive study of existing strengths, knowledge, skill sets, and professional capabilities of the human resources of district Dhule. Specific strategies and remedial measures are recommended to drive industrial development in the backward district like Dhule which Maharashtra government can implement in near future. The primary thrust is to ensure that backward districts can exploit local strengths and competencies to derive maximum benefits of globalisation and become self sustaining and self propelling than continue on subsidies for sustenance.

The purpose of this research work is to create an effective, sustainable linkage between ‘Industrial Development’ and raising the HDI of the district through ‘State Budget’, identify policy support systems and processes to ensure that growth outcomes are maximized.
The survey of backward districts pointed out strengths and weaknesses of these seven districts and suggested measures to make them more developed. The action area has suggested policy of the Government for backward districts.

The model suggested at the end of this research work to have cluster development will raise the per capita income of these districts through alternative employment and to move them into a new industrial vibrant culture in the 21\textsuperscript{st} century and make the backward districts bubble with energy and activity.

Those who work in the field of national economic planning may find that the identification of problem areas needs to be given greater consideration than it was in the past. Recently emphasis has been placed more on the development of budget to be more effective in the process of development planning of industries.

The researcher highlights the role of the State in stimulating industrial development and reducing inequalities between advanced and backward districts which have been classified as A, B, C, D and D\textsuperscript{+} categories. Every state tries to concentrate on the following.

1. Increasing the production of industrial goods and services.
2. Reducing the imbalance between developed districts and backward districts.
3. Reducing the inequalities between different backward districts through state intervention and other measures.

The researcher has prepared a plan of action focusing on the above objectives which should be implemented in a phased manner. The researcher has worked out tax elasticity and co-efficient of correlation which the state planners, policy planners, should bear in mind while preparing the plan of action.

The limitations of budget in the State of Maharashtra for industrial development that emerged from this research indicate possible areas for improvement.

This exercise is expected to provide an input to academia, social workers, government officials as well as political representative at local as well as at national level for stimulating their thought process.
Chapter 1: Introduction

The researcher has tried to explain the different concepts of budget, the technical language related to the budget procedure and accounting structure in a most simple way, through charts and colourful diagrams which will be helpful for a layman who does not have any background of this subject.

Above all, it has helped researcher immensely in quenching the thirst of knowledge as an academician.

1.10 Limitations of the study:

The quality and quantity of information secured depends heavily on the ability and willingness of participants to co-operate. Often, people refuse an interview or fail to reply to a mail or computer delivered survey. There may be many reasons for this unwillingness to co-operate.

Certain respondents at Mantralaya failed to see any value in participation. They may be suspicious of or fear the interview experience for some reason; or they may view the topic as too sensitive and thus the interview as potentially embarrassing or intrusive.

Even if individuals agree to participate they may not possess the knowledge being sought. A participant may intentionally mislead the researcher by giving false information. It was difficult for researcher to identify these occasions. Searching for Government information was a complicated task that requires knowledge of Government functions.

This study mainly focuses on the impact of State budget on industrial development of Maharashtra from 1995 – 96 to 2005 – 06. It was a study undertaken for individual; researcher has taken only one district for field visit. Study and field visit for remaining six districts could have been undertaken but it was not viable to carry out such a vast study because of time, cost and other resource constraints. Apart from this, following limitations are worth noting:

1. The analysis of public expenditure and net value added is bivariate and not multivariate,
2. Some data were out of date and not easily available. There is a considerable time lag between the year for which data are published and their occurrence on some previous occasions. In some parameters, the time lag is three to four years.

3. There is no consistency in the format for presentation of data in the Government publications like Economic Survey of Maharashtra. The formats in which data are presented are changed from time to time and are therefore not comparable e.g. mining is clubbed with industry in one year and not done in the next year.

4. The bureaucrats in Mantralaya do not like to answer the questionnaire. They are tight lipped and their replies are evasive and non-committal

1.11 Chapter Outline:

The study has been conducted and organized into ten chapters. The glimpse of the chapterization of the research is provided in the adjoining chart.
Chapter 1: Introduction

Chapter 2
Maharashtra Economy: Bird's Eye View

Chapter 3
Constitutional Provisions - Central Budget

Chapter 4
Budget of Maharashtra State

Chapter 5
Industrial Activity in Maharashtra
(1995-96 to 2005-06)

Chapter 6
Maharashtra State Budget and Industrial Development

Chapter 7
Budget and Industrial Development of Backward Districts

Chapter 8
Conclusions and Findings

Chapter 9
Suggestions and Recommendations
Chapter 1: Introduction

This chapter is an introduction to the entire research work. It introduces in a systematic manner the entire framework within which the study has been conducted.

The chapter begins with the need for industrial developmental planning in India and for the State of Maharashtra. Then it brings out importance of State Budget and the role of industrial sector in Maharashtra State. Further it points out high income inequalities across districts and how the quest began to study the role of budget in industrial developmental planning in the State of Maharashtra.

It also points out the significance of the study, objectives of the study, hypotheses of the study and research methodology adapted. The limitations of the study are then mentioned and are followed by expected contribution and the chapters' scheme.

Chapter 2: Maharashtra economy: Bird's eye view.

As this research study deals with impact of State budget of Maharashtra on industrial development, researcher felt it important to give a bird's eye view of the economy of the State of Maharashtra. After showing regional geography of the State, it gives comparison of Human Development Index (HDI) ranking among different states. Agricultural and industrial development in Maharashtra is discussed further. New investment in Maharashtra shows industrial scenario and infrastructure in Maharashtra shows scope for industrial development.

Chapter 3: Constitutional provisions – Central budget.

This chapter highlights conceptual framework of the budget of India. It further points out stages in the preparation and enactment of budget in India. The researcher has made an attempt to present constitutional provisions relating to budget process in India in an easy and simple way through various charts and models. This chapter also covers topics like Parliamentary Committees, Department related Standing Committees of Parliament, and Voting on Taxes: Finance Bill, and Financial Accountability. Post Budgetary Control of the Ministry of Finance is also discussed further along with concluding remarks.
iv. Chapter 4: Budget of Maharashtra State.

This chapter explains thoroughly essentials of budget process of State of Maharashtra. In the beginning it highlights principles of budgeting and structure of budget. A synoptic view of state budget is given with the help of stages in preparation of the state budget, non-plan and plan expenditure, budget documents, performance budgets, zero based budgeting, budget in the Legislature, passing appropriation bill in the budget process.

It gives snapshot of State's revenue and expenditure and debt position of Maharashtra are studied from 1995-96 to 2005-06. Concepts of deficits and trends in deficit are also analysed in detail. The overall debt of the State Government of Maharashtra is rising continuously, which is discussed in this chapter.


A sincere attempt has been made by the researcher to give present industrial scenario of Maharashtra State and to analyse industrial activity during the period 1995-96 to 2005-06 through various parameters. It points out the contribution of industry to Net State Domestic Product (NSDP) and the industrial policy of India and Maharashtra. Further it also highlights industrialisation in Maharashtra taking frequency distribution of size class of fixed capital and employment in factories in Maharashtra. Industrial scenario is depicted for flow of industrial investment, Foreign Direct Investment (FDI) and exports from Maharashtra. Apart from Industrial Policy, MSME, PSI schemes and problems of industrialisation are also covered in this chapter. Attention is drawn towards various financial institutions providing financial assistance to support industry.

vi. Chapter 6: Maharashtra State Budget and industrial development.

This chapter points out impact, incidence and effects of State Budget on industrial development through State’s own tax revenue, including sales tax and the Value Added Tax (VAT). It also analyzes advantages and disadvantages of VAT.

The hypothesis (H₀) of relationship between the State public budget and industrial development is established by working out co-efficient of correlation.
between actual public expenditure on industry and minerals and Net Value Added by industry.

Impact, incidence and effects of State Budget on industrial development are worked out through tax elasticity of state’s own tax revenue in relation to GSDP. The State can enhance tax revenue through stamp and electricity duties. The more inelastic demand for products and services the greater is the revenue.

This chapter also includes comparative analysis of budgets of Maharashtra Government from 1995-96 to 2005-06. Charts concerning receipts and expenditures from revenue and capital accounts are presented and analysed. Limitations of budget in democratic set up are also highlighted.

vii. Chapter 7: Budget and industrial development of backward districts.

In this chapter researcher has classified all 35 districts in 3 categories, H-High Level, M-Medium Level and L-Low Level, taking HDI as one of the parameters. Further topics covered in this chapter are inequalities measured as per Human Development Index (HDI) and industrial inequalities measured by parameters other than HDI.

Out of 35 districts, seven districts were taken as sample size for analysing constraints and problems in industrial development faced by backward districts. The core objective of this chapter is to point out strengths and weaknesses of the seven backward districts, Osmanabad, Parbhani, Washim, Hingoli, Chandrapur, Gadchiroli and Dhule. To suggest measures to bring them on par with medium level districts and later on bring, over a period of time to high level districts.

Constraints and problems in industrial development of backward districts are discussed and further prospects, policies, action areas and scope for industrial development are suggested for each district separately.

This chapter is an integral part of the study to gather primary data. A visit to Dhule district was made to collect the factual information and conduct survey of backward district to test hypothesis (H2) whether State Government has made special efforts to promote industrial development in backward regions. As it is said “seeing is
believing”, the researcher visited DIC office, district collector’s office at Dhule and met government officials personally to solicit information regarding the impact of state budget on industrial development.

This chapter outlines the economy of Dhule district and presents scenario of industrial sector in Dhule. The findings and conclusions of survey method, observation method, interview method and questionnaire method are summarized in this chapter. It also pointed out constraints on industrial development in Dhule and scope for further industrial development is discussed. Opportunities and plan of action for Dhule district are suggested for implementation by Government of Maharashtra. A local entrepreneur has vowed to provide full employment at Shirpur which was worth noting in this chapter.

viii. Chapter 8: Conclusions and Findings.

The purpose of research is itself not well served unless the findings are made known to others; the findings of the research along with conclusions are provided in this chapter. Both findings as well as conclusions are divided into following categories, (a) Objective-wise conclusions and findings, (b) Specific findings and conclusions in respect of State Budget of Maharashtra, (c) Specific findings and conclusions of the Study related to industrial development in Maharashtra State and (d) Specific findings related to industrial development in backward districts in the State.

This chapter presents the conclusions and findings developed on the basis of data gathered, statistically analysed and interpreted.


On the basis of findings and conclusions, this chapter provides suggestions and recommendations, which can be implemented by State Government to expedite the growth of industrial sector in backward districts through budget.

This chapter presents the suggestions and recommendations that the researcher has developed on the basis of findings and its interpretations. The chapter has four major modules namely general suggestions, specific suggestions, general
recommendations and specific recommendations. Integrated strategic plan of action for Maharashtra Government is suggested which can be implemented at district level. The suggestions given in research study will help policy makers and planners.

1.12 Conclusion:

Though the State government recently claimed that it has come out of the debt trap, the ground reality appears different with little effort to enforce economic reforms.

The business environment in Maharashtra has not remained conducive to industrial progress. Ratan Tata did not establish “Nano Car” plant in Maharashtra. The country’s largest two wheeler maker, “Hero Honda” said that by around September 2010 they would finalize the location to set-up their fourth manufacturing plant. Indications are that Karnataka, Rajasthan and Gujarat are among the most favoured options. So day by day, Maharashtra is avoided as a destination for establishing the industrial units. In a city like Mumbai several textile mills are already closed, hardly three are surviving. This leads the researcher to present bird’s eye view of economy of State of Maharashtra to give suggestions, recommendations and plan of action for Government of Maharashtra for industrial development in a backward district, which can be implemented in a phased manner.

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“Planning is not a once-for-all exercise for a five year period, it requires a continual watch on current or incipient trends, systematic observations of technical, economic, and social data and adjustments of programmes in the light of new requirement which requires bird’s eye view on state economy.”