CHAPTER - 3

FINANCING OF STATE FIVE YEAR PLANS IN INDIA
The pursuit of economic development has been crystallized by the almost universal acceptance of development planning as the surest and the most direct route to the economic progress. Planning has come to be accepted as an essential and pivotal means of guiding and accelerating economic growth in almost all Third World Countries. “Economic planning may be described as a deliberate Governmental attempt to coordinate economic decision making over the long-run and to influence, direct and in some cases even control the level and growth of a nation’s principal economic variables (income, consumption, employment, investment, saving, exports, imports etc.) in order to achieve a predetermined set of development objectives”\(^1\).

Although there may be a variety of other basic objectives, the ultimate objective of national development in most countries is to raise the level of living of all people in the country through expanded output and use of consumer goods and services for education, health and cultural activities. For almost all less developed countries, this requires an acceleration in the rate of economic growth to provide higher per capita incomes\(^2\). In the under developed countries of Asia, Africa and Latin America, development requires social and cultural changes as well as economic growth; that is, qualitative transformations must occur concurrently with quantitative increases. There is, in fact a reciprocal relation between the two and neither process is likely to continue for long or go very far without the other. Hence, development means change plus growth\(^3\). Accelerated economic growth and structural change are thus the two main expressed or implied aims of development planning. The essence of economic development in a country consists in the “growth of output per head of population”\(^4\).

The process of economic development of a country is a highly complex phenomenon. It is profoundly influenced by political, social and cultural factors, and therefore, economic analysis can provide only a partial explanation of this process. The supply of natural resources, the state of development of social, political and economic institutions, cultural patterns, social values and attitudes of the population and the growth of scientific and technological knowledge have a strong bearing on the process of growth of an economy\(^5\).

The crux of the problem of economic development in an under developed country lies in the significant expansion of the rate of its capital investment so that it attains a rate of growth of

output which exceeds the rate of growth of its population by a significant margin, because only then it will begin to improve its standard of living. "A rocket or moonship must attain a definitely established "speed of release" before it can escape from the earth's gravitational field and become a free-moving astronomical object."\(^6\)

Economic development can be achieved smoothly through economic planning. India has the distinction of being a country with both a federal structure and a planned economy. She has been a pioneer in federal and state planning since 1950.\(^7\)

But states in India, in general, suffer from financial inadequacy to carry out their development plans. The problem is, however, much more grave in case of backward states. As the fifth Finance Commission observed, "....... aggregate picture of the states financial position does not fully reflect the magnitude of difficulties of individual states; in the case of weaker states the stress was more acute."\(^8\)

Since much of the development works have been constitutionally assigned to the states, the size of the state plans is an important determinant of the pace of the development. "The crux of the problem is that the resources are limited, and the needs of the state are enormous."\(^9\) Financing of state plans, therefore, assumes special significance. So an essential component of development planning relates to its financing. Finance for the state plan generally comes from 5 basic sources.

- a) the states' surplus on current account, after all non-plan expenditures have been netted out from revenue receipts
- b) the contribution of Public Sector Enterprises
- c) central assistance
- d) negotiated and market loans, unfunded debt and other miscellaneous capital receipts
- e) additional resources mobilised during the plan period

Ex-post, adhoc assistance from the central Government or Reserve Bank, an increase in floating debt, or sale of state assets can also contribute to financing the plan but these are, of course, not planned source of revenue when the plan is being drawn.\(^10\)

\(^7\) U.K. Hicks, "Development Finance", 1959, p. 110-111.
The general sources of revenue for state plans is shown in the following, standard format.

**Resources for State Plans**:  

A.1. Balance from current Revenue  
2. Contribution of Public Enterprises at base year Rates and Tariffs  
   i) State Electricity Board  
   ii) State Transportation Corporation  
   iii) Mining Corporation  
   iv) Construction Corporation  
   v) State Investment Corporation  
3. Loans from market by State (Net)  
4. State's share in Small Savings  
5. State's Provident Fund  
6. Miscellaneous Capital Receipts (Net)  

B. Additional Resource Mobilisation by State Government and Public undertakings  
C. Negotiated loans of the State Government and Public undertakings, and market borrowings of the public undertakings, negotiated borrowings.  
   1. By State Government  
      i) Loans from LIC  
      ii) Loans from RBI  
   2. By State Enterprises  
      i) Loans from LIC  
      ii) Loans from REC  
   3. By Local Bodies  
      i) Loans from LIC  
   4. Market Borrowing of State Enterprises (Net)  

D. Net Interest Entitlement  
E. Central Assistance (Normal)  
F. Central Assistance (Advance)  
G. Central Assistance (Additionality)  
   Total Resources for plan  
   Expected Plan outlay  
   Total gap in Resources  
   Opening overdraft  
   Total gap in Resources  

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Balance from current revenues:

Balance from current revenues is the difference between the total receipts on revenue account (excluding grants for state plan schemes) at the pre-plan rates of taxes, fees, fares, tariff etc. (i.e. those prevailing immediately before the commencement of the plan period) and the non-plan expenditure on revenue account. The receipts on revenue account may either exceed or fall short of non-plan expenditure. In case it exceeds, it would add to plan resources and vice versa.

Thus, state's entire receipts on revenue account is not considered for plan expenditure. It is only that portion of the receipts which is over and above the non-plan expenditure (i.e., balance from current revenues) which go to finance the plan expenditure.

Contribution of Public Sector Enterprises:

The second item of plan finance is the Contribution of Public Sector Enterprises. This has been moderate throughout most plan periods. Generally many Public Enterprises represent a net outflow from the states’ revenue coffers. Usually the figure that is represented here simply indicates an accounting notion. It represents the net operating surplus of the state Enterprises, which is the surplus gross of depreciation and certain interest payment liabilities and is not equivalent to the net commercial profit or loss of the Enterprises. This in most cases is negative.

The rationale for this accounting is that a sinking fund is akin to the Enterprises' own internal resources generation. Since these are Public corporations and therefore their operations financed through the plan, their sinking fund is in fact plan finance: were it netted out, the state would have to provide the same funds to the enterprise for replacement or expansion, but by other means. While this notional accounting is completely acceptable, it should be kept in mind that most Public Sector Enterprises do not make a net contribution to the state's financial resources and do not generate funds for the Public Sector in a true sense. The figure simply represents the operating surplus and internal resources of the state corporations.

Loans from the market

Loans from the market represent essentially state bond issues and are not market loans in a true sense, as their replacement has been assigned, since the nationalization of the banks in 1969, between commercial banks and other financial institutions.

There are also market borrowings of the state Enterprises, principally the State Electricity Boards. These are again, placed by assignment to various lending institutions in the “market”, and make a moderate contribution to plan resources.
**Negotiated Loans**

Negotiated Loans are what their name implies and are negotiated principally from the Life Insurance Corporation of India and the Reserve Bank. State Enterprises, principally the Electricity Board, also negotiate loans from the same sources.

**Small Saving Loans**

Small Saving Loans are loans from the Central Government to the States which the states received automatically as a result of their participation in the various schemes operated by the center, primarily through the Post Office, to mobilise household savings. States receive two-thirds of whatever savings are made through these channels as an incentive to encourage further saving. For most states, this is modest, though steady source of revenue, comprising about 5% of plan resources.

**State's Provident Fund**

State’s Provident Fund includes the provident funds of State Government Employees, that of aided educational institutions, local bodies, Indian Civil Services and Indian Administrative Services. The said provident funds are shown under different sub- heads of the major head “State Provident Funds” in the Public Account of the state budgets namely, General Provident Fund (i.e., non contributory Provident Funds), Contributory Provident Funds which come through Director State Insurance Department and Examiner Local Audit Funds, Provident Funds of Indian Civil Services and Indian Administrative Services, and “Other Provident Funds” which includes the contributory Provident Funds of the employees of water works department, Public works department and the class four workers of Zilla Parishad. General Provident Fund forms the bulk of the Provident Fund receipts while the provident funds of the Indian Civil Services and class four workers of Zilla Parishad are negligible.

Besides the Provident Funds, the receipts under the budget Head “Insurance and Pension Funds” which mainly includes the State Insurance Funds are also included under the the Head “State Provident Funds”.

Receipts under the Head “State Provident Funds” of the Public Account far exceeds the disbursement. The net of receipts and disbursement is utilised for financing the state plan expenditure.
Miscellaneous Capital Receipts

Miscellaneous Capital Receipts are all the other net transactions not accounted for under the other headings, such as short-term loans from the Central Government, net accretions under various sinking funds and other net accounts including non-plan loans. In general, this is a negative figure, since a substantial amount is repaid to the Central Government and financial institutions.

Central Assistance:

Central assistance on plan account (as opposed to the assistance on revenue account) is composed of grants and loans, and is fixed by the Planning Commission. All States receive plan assistance, which is distributed amongst them according to a formula known as the “Gadgil formula”, in which state population and per capita income, among other factors, are used as weights. For most states, the assistance is given on a 70% loan, 30% grant basis, except for the funds earmarked for plan expenditures in tribal areas, which are given on a 10% loan, 90% grant basis. Although it is not shown here some states also receive special plan assistance from the Central Government under the heading of “assistance for special problems”. (Orissa is one of these).

Advance Plan Assistance

Advance Plan Assistance is assistance over and above normal plan assistance (through the Gadgil formula), given by the Planning Commission to speed up implementation of Projects in irrigation and power, both priority sectors. The funds provide flexibility to pace plan implementation across states. Not all states receive advance plan assistance in all years.

The final type of central assistance outside of the channels of normal (Gadgil) assistance is additionality. This is a relatively new form of assistance, and is given to states on the basis of their participation in foreign-aided projects. Seventy percent of the aid disbursements are channelled to the State Government as an incentive for them to come forward with project proposals, and also, to insure that sufficient funds will be available for carrying out the project.

But with and without the additionality arrangement, Bank Group, disbursements form part of India’s overall development expenditure and are part of the pool of resources used to finance Plan Projects and programmes. Development funds channelled to states through the additionality arrangement can not be used in other ways; some adjustment in other financial arrangements necessarily will take place. It is extremely difficult to identify these adjustments and trace their impact on the finances of the states receiving the additional funds. At one extreme, additionality from Bank Group disbursements to a state could be offset by adjusting other items in that state’s financial
relations with the centre; at the other, the adjustments could be diffused through the Indian system of development finance so what appears as additional funds to an individual state for all practical purpose is additional to that state's finances. The latter is the most likely occurrence with any shortfalls in central resources, due to this new form of revenue sharing, coming at the cost of a larger central budget deficit.

**Additional resource mobilization**:

Additional resource mobilization is like-wise a budgetary resource, conventionally accounted for apart from the ordinary revenue receipts because it is entirely earmarked for 'plan finance'. It refers to revenue from tax and non-tax sources, including public enterprises, over and above what would accrue to the state at the rates of tax and tariffs prevailing in the final year of the previous plan. These are always shown separately in the state accounts and not merged with base levels of receipts. They derive from changes made in tax and tariff rates or base, improved collection techniques or better administration. Typical examples of additional resource mobilization measures include such things as changes in the issue price of liquor, increases in the electricity tariff and bus fares, increases in the rate of royalty on minerals, amendments to check evasion of sales tax or to prevent under valuation of documents, for registration purposes higher retained receipts from district lotteries, an increase in court fee rates, higher sales tax rates, a reduction in concessionary rates and withdrawals of tax exemptions, to name just a few. Targets for additional resource mobilization are set by the state government in consultation with the planning commission at the time of the annual or Five Year Plan discussions.

Of the five items which make up the usual sources of revenue for the state plans, the first two are budgetary resources and to some degree in the state's control. The latter items, borrowing and central assistance, are relatively fixed in terms of their interstate distribution. State's ability to finance a large plan is, therefore, a function of their own budgetary resources. Additional resources mobilisation measures taken at the beginning of the plan period are thus very important to the ultimate fulfillment of the plan goals.

**TRENDS IN THE FINANCES IN THE AGGREGATE**:

**Public Sector Outlay**:

The total financial requirements of plans are represented by the figures of Public Sector outlays in the various plans. Two points need to be made in respect of the Public Sector outlay. One, the figure includes only expenditure which is to be financed by the centre and the states. It
excludes investment by the private Sector. This does form part of the aggregate investment in the economy. But it is excluded from the Public sector outlay, which is to be financed by the Public authorities or Government. One may also mention another source of contributions to investment which are excluded from the Public Sector outlays. These are the contributions in cash or kind which are made available by the local population participating in development work within their localities. These are of considerable significance in terms of investment in the areas concerned even though these do not make much difference to the totals of the Public Sector outlays.

**Investment and current outlays:**

It may be noted that the entire Public Sector outlay is not investment, although often it is called as development expenditure. It consists of two types of expenditure. One is investment. This is expenditure or outlay on the creation of physical assets (e.g. buildings, plant and equipment), including expenditure on personnel required for putting up these assets. In other words, it is the creation of fixed assets or capital. The expression investment corresponds broadly to expenditure on capital account. The second type of expenditure included in the Public Sector outlay is current outlay or expenditure. This is mainly for the maintenance of services created during the plan period, such as payment for the staff or services and other developmental but recurring items. These are the outlays, which do not create assets and as such are not classified as investment. These outlays correspond broadly to expenditure on revenue account on plan schemes. The current outlay is always a sizeable part of the total outlay.

**Money and real value:**

In respect of total outlays there are three points which need to be mentioned. One is that in each plan the provision made in respect of total outlay has been of much greater size than the preceding one. Some times it has been double or even more in comparison. To a great extent it has been caused by the larger investment programmes. However, to some extent it is the rise in prices that account for the increase in the outlay. It is because the base price at which the value of physical programmes of a plan is calculated is itself higher than the base price of the preceding plan.

Second is that there have been considerable divergences in the provisions / targets and the actual. In some cases, the actuals have lagged behind the targets. In some actuals have exceeded the targets.

Third out of the two sub-totals of the total finances, namely internal and external resources, internal financing has been a major contribution, close to 90 percent of the total. This was so in
the case of the First Plan (90.4 percent), the Fourth Plan (87.1 percent), the Fifth Plan (87.2 percent) 
the Sixth Plan (92.3 percent) and the Seventh Plan (91 percent). The Eight Plan proposed to finance 
its outlay through internal resources to the tune of 93.4 percent of the total finances.

Financing of Five Year Plans at the Centre:

Finance for the Five Year Plans at the centre comes from internal and external sources. 
The internal resources include a) Balance from current revenue b) Public borrowings c) Small 
Savings and Provident Fund d) Surpluses of Public Sector Enterprises e) Miscellaneous capital 
receipts and f) Deficit financing.

The external resources comprise

a) aid from other Governments (Loans at concessional interest and grants),
b) aid from international institutions like World Bank,
c) commercial credit raised in the World markets 
d) returns from direct private business investment.

The needs of a developing country are so many that no single source can be relied upon 
for raising the required amount of resources. Further these sources have their special attractions 
and they have their own limitations as well. In general different sources will need to be made use 
of at the same time, which combination of resources and to what extent each one is to be combined 
depend upon a host of factors such as a) the relative contribution of each in the past, b) the nature 
and level of the development of economy; c) the socio-political frame work. Its needs also to be 
emphasised that the combination chosen at a time is not-for-all fixation. The position in this respect 
will need to be reviewed and the package modified from time to time in the light of changing 
conditions.

Preference to internal sources:

Of the two main categories, namely internal and external sources, the former is to be 
preferred. It is this approach that can make development a self-sustained and independent process. 
This alone can ensure certainty for the successful execution of plans. Internal financing requires 
curbs on domestic consumption, as also surpluses from exports, the former to raise aggregate 
savings and the latter to earn foreign exchange.

However, hundred percent dependence on internal sources may not be feasible or 
derirable. In the initial stages of development with consumption levels already very low, there may 
not be much scope for cuts in consumption. Further with low production, surpluses from exports
may not be enough. Again, foreign demand for agricultural products is generally less elastic, price-wise and income-wise. Keeping all this in view it may be prudent to supplement internal resources with external resources. However, the objectives should remain that of reducing dependence upon it.

**Changing Profile:**

Another aspect of financing is the variations that often occur in the estimated/anticipated collections. The actuals do differ to a small/large extent, for many reasons, most of them, unforeseen bring these about. It may be a) failure of monsoons, b) occurrence of strikes/lockouts; c) saver's uncertain responses to economic/political developments that can cause differences in estimates and actuals in different sources. Or it can be d) plain miscalculations or e) sudden international developments that upset the external assistance.

Such deviations have occurred in India's plan provisions and actuals and brought about a crisis in financing their 5 year plans. Quiet a few could be avoided with careful calculations or with adequate efforts to mobilise resources. But all can not be. Hence, some deviations from the originals have to be allowed for. There have been considerable divergences in the provisions/targets and the actuals. In some cases, the actuals have exceeded the targets. In some actuals have lagged behind the targets.

Difficulties in meeting the plan targets by the states have been evident in the sixth and seventh plans. It is clear from Table 3.1 that states' outlay under the Sixth Plan fell short of estimates by 26 percent i.e. Rs. 12,578 crores as compared with a short fall of 12 percent at the centre, i.e. Rs. 5,806 crores. Hence, the short fall of states' outlay was more than double that of the centre.

In the Seventh Plan too, the states' outlay registered a short fall of about 11 percent from the original estimates, i.e. Rs. 8,841 crores where as the Central Government's outlay exceeded targets by 12 percent i.e., Rs.11,277 crores. The short fall in the Seventh Plan outlay occurred despite a modest increase in targets for 1985-90. In some crucial Sectors (irrigation and power in particular) the short falls were much larger in the Sixth Plan, both at the centre and the states. In the Seventh Plan, while the targets at the centre were over fulfilled under most heads, large short falls occured in the states, again in irrigation and flood control, power and water supply and sanitation (25 percent) although the targets were modest. In contrast, general economic service and general services recorded an excess of 40 percent over targets.

The probable reasons underlying these trends include relatively large contributions by the Central Government to the anti-poverty programmes, growing involvement of the Central
TABLE 3.1
Estimates and Actuals of Plan outlay in VI and VII Plans
(Rs in crores)

<table>
<thead>
<tr>
<th>S. NO.</th>
<th>ORIGINAL</th>
<th>ACTUALS*</th>
<th>SHORTFALL</th>
<th>ORIGINAL</th>
<th>ACTUALS*</th>
<th>EXCESS(+)</th>
<th>SHORTFALL(-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ESTIMATES</td>
<td></td>
<td>(-)</td>
<td>ESTIMATES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 CENTRE</td>
<td>47250</td>
<td>41444</td>
<td>-5806</td>
<td>95534</td>
<td>106817</td>
<td>+11277</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-12.3)</td>
<td></td>
<td>(11.80)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 STATES</td>
<td>48600</td>
<td>36022</td>
<td>-12578</td>
<td>80698</td>
<td>71857</td>
<td>-8,841</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-25.9)</td>
<td></td>
<td>(-10.96)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 TOTAL</td>
<td>95850</td>
<td>77466</td>
<td>-18,384</td>
<td>176232</td>
<td>178674</td>
<td>+2442</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-19.9)</td>
<td></td>
<td>(1.38)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note * : At prices of base year.
Figures in brackets indicate percentages of respective original estimates.

Source : 
I : Finance and Planning Department-Government of Andhra Pradesh.
Government in the power sector for technological and other reasons, and Public resistance to large multipurpose irrigation projects due to apprehensions of environmental degradation and preference for less capital intensive dry forming techniques failure to meet even modest investment targets in vital areas like irrigation and power during the Seventh Plan, however, resulted mainly from acute constraints on funds available for development, as reflected in short falls in resources available for the plans compared to estimates. This was partly due to a larger proportion of plan funds being allocated to the revenue component of the plan. Rural Development, which has a large component of revenue expenditure an anti-poverty programmes, did better.

Tables 3.2 and 3.3 show the actual pattern of plan financing as compared with plan estimates for the states and the centre respectively. While the constraints faced by the State Governments in financing the plans are not the same as those operating at the centre, at both levels of Government shortfalls in resources available for the plan are accounted for largely by the inadequacy of the balance from current revenue (BCR) and the contribution of Public Sector Enterprises (PSEs) leading to heavy reliance on market borrowings and miscellaneous capital receipts. In the Seventh Plan, the Central Government was able to exceed its overall resource target by 14 percent but mainly through market borrowings of Rs. 34,026 crores as against an estimate, of Rs. 20,620 crores i.e., 65 percent over estimates’ miscellaneous capital receipts of Rs. 29,039 crores as against an estimate of Rs. 19,809 crores i.e., 47 percent over estimates and budgetary deficits of Rs.28,381 crores as against an estimate of Rs. 14,000 crores ie 103 percent over estimates.

Shortfalls in the case of the states stemmed mainly from failure to generate surpluses from current revenues to the extent stipulated in plans. Massive losses of PSEs were also a major contributory factor. In the Seventh Plan, the aggregate losses of State PSEs turned out to be Rs. 3757 crores as against an estimate of Rs. 1969 crores. Receipts from small savings and provident funds were appreciably higher than the estimates, i.e., Rs. 19070 crores as against an estimate of Rs.16566 crores. Even so, there was a shortfall of about 19 percent. Central assistance to state brought down this deficiency by about 12 percent, leaving a resource gap of about 8 percent. Actual outlays, however, fell short of the original estimates by a large margin, presumably because of diversion to other uses. Evidently large surpluses would have to be generated especially by the states if they were to undertake development through planning on any significant scale.

Thus it is evident that deficiencies in BCR and PSEs’ contribution were at the root of the resource problem of the states.
TABLE 3.2
Financing Pattern of State Plans-Sixth and Seventh Plans
(Rs in crores)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Item</th>
<th>Sixth Plan Estimates</th>
<th>Sixth Plan Actuals</th>
<th>Sixth Plan shortfall (per cent)</th>
<th>Seventh Plan Estimates</th>
<th>Seventh Plan Actuals</th>
<th>Seventh Plan shortfall (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance from current revenue *</td>
<td>22312</td>
<td>14826</td>
<td>7486</td>
<td>17368</td>
<td>11606</td>
<td>40.06</td>
</tr>
<tr>
<td>2</td>
<td>Contribution of PSEs *</td>
<td>-516</td>
<td>-4620</td>
<td>-4104</td>
<td>-1969</td>
<td>-3757</td>
<td>-1788</td>
</tr>
<tr>
<td>3</td>
<td>Market borrowing including those * by PSEs</td>
<td>4500</td>
<td>3406</td>
<td>1094</td>
<td>9942</td>
<td>9242</td>
<td>700</td>
</tr>
<tr>
<td>4</td>
<td>Small Savings and Provident Funds *</td>
<td>6393</td>
<td>5901</td>
<td>492</td>
<td>16566</td>
<td>19070</td>
<td>2504</td>
</tr>
<tr>
<td>5</td>
<td>Drawing down of foreign exchange * reserves</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-15.12</td>
</tr>
<tr>
<td>6</td>
<td>Term loans from financial inst. *</td>
<td>2722</td>
<td>1887</td>
<td>835</td>
<td>4639</td>
<td>4445</td>
<td>194</td>
</tr>
<tr>
<td>7</td>
<td>Miscellaneous Capital receipts * (net)</td>
<td>-2161</td>
<td>-2012</td>
<td>149</td>
<td>-7191</td>
<td>-5113</td>
<td>2078</td>
</tr>
<tr>
<td>8</td>
<td>Budgetary deficit *</td>
<td>0</td>
<td>3497</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Net inflow from abroad *</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Total resources *</td>
<td>33250</td>
<td>22885</td>
<td>10365</td>
<td>50961</td>
<td>41255</td>
<td>9706</td>
</tr>
<tr>
<td>11</td>
<td>Central Assistance to states *</td>
<td>15350</td>
<td>13690</td>
<td>1660</td>
<td>29737</td>
<td>33264</td>
<td>3527</td>
</tr>
<tr>
<td>12</td>
<td>Resources avail. for the plan *</td>
<td>48600</td>
<td>36575</td>
<td>12025</td>
<td>80698</td>
<td>74519</td>
<td>6179</td>
</tr>
</tbody>
</table>


Note: 1. Calculated by adding up the annual estimates, deflated to 1979-80 prices using the wholesale price index.
2. Calculated by adding up the annual latest estimates, deflated to 1984-85 prices using the wholesale price index

*: Percentages to the Estimates.
## TABLE 3.3

Financing Pattern of Sixth Plan and Seventh Plans at the Centre

(Re in crores)

<table>
<thead>
<tr>
<th>S. No. Item</th>
<th>Sixth Plan</th>
<th>Seventh Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimates</td>
<td>Actuals</td>
</tr>
<tr>
<td>1 Balance from current revenue</td>
<td>9568</td>
<td>6427</td>
</tr>
<tr>
<td>2 Contribution of PSEs</td>
<td>13811</td>
<td>12815</td>
</tr>
<tr>
<td>3 Market borrowing those by PSEs</td>
<td>15000</td>
<td>12626</td>
</tr>
<tr>
<td>4 Small Savings and Provident Funds</td>
<td>3772</td>
<td>4049</td>
</tr>
<tr>
<td>5 Drawing down of foreign exchange reserves</td>
<td>1000</td>
<td></td>
</tr>
<tr>
<td>6 Term loans from financial inst.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Miscellaneous Capital receipts (net)</td>
<td>6170</td>
<td>6988</td>
</tr>
<tr>
<td>8 Budgetary deficit</td>
<td>5000</td>
<td>7955</td>
</tr>
<tr>
<td>9 Net inflow from abroad</td>
<td>9929</td>
<td>6239</td>
</tr>
<tr>
<td>10 Total resources</td>
<td>64250</td>
<td>57098</td>
</tr>
<tr>
<td>11 Central Assistance to states</td>
<td>-15350</td>
<td>-13619</td>
</tr>
<tr>
<td>12 Resources avail. for the plan</td>
<td>48900</td>
<td>43479</td>
</tr>
</tbody>
</table>


Note: 1. Calculated by adding up the annual estimates, deflated to 1979-80 prices using the wholesale price index.
2. Calculated by adding up the annual latest estimates, deflated to 1984-85 prices using the wholesale price index.

* : percentage to the estimates.
Performance in relation to targets was considerably better on the whole in the seventh plan period than during the sixth plan, partly due to more modest targets in the seventh Plan. While the resource gap was 25 percent in sixth plan it could be reduced to 8 percent in the seventh plan. Declining BCRs and poor/low contributions from Public Enterprises have meant that states have increasingly relied on borrowings of various kinds to finance their plans.

Steps to increase the financial Resources:

To make available larger resources as also for self-reliance in development, it is necessary to step up efforts at mobilizing larger additional resources. This requires manifold steps: 1) The first step is maximisation of Public revenue at existing rates of taxation, by making tax system more elastic so that there are larger revenues with larger National Income. This also requires unearthing of black money and preventing evasion of taxes. 2) Additional resources have to be found out through such measures as fresh taxation, especially on the rural rich, reduction in subsidies; restraint on the growth of non-plan expenditure, improvement in the efficiency of Public Enterprises and realistic pricing of their products. 3) Private savings, both household and corporate, have to be stepped up. This will require some stimulants like a higher rate of interest and stability in prices. 4) There is need to reduce dependence on the external assistance. This requires many pronged drive. In the first place, effort to promote exports have to be stepped up. There has to be selective import-substitution, not necessarily to reduce the import bill, but more importantly to import only those goods which speed up our development drive.

To match these efforts there have to be corresponding measures to optimise the use of existing capacity, to add to the capacity, to keep price-rise under check. In making these efforts the aim is to reduce / eliminate "aid" component of foreign-capital and rely more on the normal / market flows of capital.