

CHAPTER 10

FINANCES OF PONDICHERRY GOVERNMENT

Introduction

Finances are one of the most important aspects and requirements of a government because for the development of a state, expenditure by the government on a sufficiently large scale is essential. This chapter attempts to assess the financial position of the Pondicherry government as of now, its strengths and weaknesses, on the basis of a review of its fiscal performance during the period 1985-86 to 1999-2000. The tax system of Pondicherry is then analysed. Against the background of the analysis, the study puts forward some proposals for reform.

The state of Pondicherry is classified as a 'Union Territory'. It falls in the category of a union territory with a legislature. As such, it has most of the attributes of a state government. However, since it comprises a small territory and a correspondingly small population, one can understand that the Union Territory of Pondicherry cannot be made easily self-reliant financially. The relevant financial statements show that the state is dependent to a significant extent on grants-in-aid from the centre. This dependency arises partly because unlike the major states such as Tamil Nadu and Maharashtra, Pondicherry and some other Union Territories did not receive a share in the proceeds of the central personal income tax and excise duty until recently and do not now receive a share in the central taxes. Thus, the continuation of the grants-in-aid from the centre on a satisfactory basis is a matter of great importance to Pondicherry.

In this chapter, an attempt is made to review and analyse:

- (i) the overall trends in revenues and expenditures;
- (ii) the trends in the level and composition of revenue receipts and expenditures;
- (iii) the composition and buoyancy of tax revenues;
- (iv) the composition and trends in own non-tax revenues; and
- (v) the trends and composition of capital receipts and expenditures.

In making the above analysis, the financial performance and tax structure of Pondicherry will be compared to those of some other state governments. On the basis of

the results of our analysis, lines of reform and improvement in the fiscal and tax policy of the government of Pondicherry will be suggested.

GSDP and Per Capita GSDP

Pondicherry is only a small economy.¹⁷ The Gross State Domestic Product (GSDP) of Pondicherry (CSO-new series) in 1998-99 was Rs. 2907.39 crores (which was approximately 40 times lower than that of Tamil Nadu) but the per capita income (GSDP) was about Rs. 27, 400 (as against Rs. 19498 in Tamil Nadu). Among the states and Union Territories that are listed in Table 10.1, Pondicherry ranked fifth in the per capita income after Chandigarh (Rs. 35612), Goa (Rs. 29089), Maharashtra (Rs. 27965) and Delhi (Rs. 27953).

It is noted that the per capita income figure of Pondicherry is higher than the country's per capita income of Rs. 16537 and the per capita income figures for the neighbouring states such as Kerala (Rs. 19753) and Karnataka (Rs. 17660).¹⁸ Therefore, we can infer that the potential tax base of Pondicherry (measured in terms of per capita GDSP) is larger than those in several states in the country. However, the per capita income of Pondicherry may be smaller than its per capita GSDP.

Since the GSDP figures in the old series (up to 1992-93) are not comparable with those in new series (from 1993-94 onwards), we have adjusted the old series figures in such a way that they are comparable with new series figures.¹⁹ Table 10.2 presents the adjusted GSDP figures of Pondicherry in current and constant (1993-94) prices from 1985-86 to 1998-99 and the annual growth rates of GSDP (adjusted) in constant prices.²⁰ There has been a significant rise in the GSDP figures after 1994-95, particularly in 1996-

¹⁷ Pondicherry accounts for slightly less than 0.1 per cent of India's population with approximately 1 million people (Census of India, 2001). Pondicherry's rate of growth of population between 1991 and 2001 was 2.1 per cent per annum, which was higher than that in the neighbouring states-Andhra Pradesh (1.4 per cent), Karnataka (1.7 per cent), Kerala (0.9 per cent) and Tamil Nadu (1.1. per cent). Pondicherry's population growth was higher because of considerable in-migration.

¹⁸ It is noted that after 1993-94, the GSDP (real) of Pondicherry grew at the rate of 12. 8 per cent per annum and its per capita GSDP (real) grew at the rate of 9.2 per cent (Table 1). These rates compared well with the country's GDP growth rate of 6.5 per cent and per capita GDP growth rate of 4.7 per cent per annum during the same period. It is also noted that Pondicherry's GSDP and per capita GSDP growth rates during this period were the highest in the country.

¹⁹ We have found that the old series is only 83 per cent of new series in 1993-94 and 1994-95. Therefore, we have inflated the old series figures using inverse of this ratio.

²⁰ We have converted the current price figures into constant price series using the GDP deflator. It may be noted that we have used the GDP deflator to get the real values of all nominal figures used in this study.

97 and 1998-99. The GSDP of Pondicherry (1993-94 prices) grew at a rate of 4.4 per cent during the eighties and at a higher rate of 9 per cent during the nineties.

Table 10.1
Growth of GSDP and Per capita GSDP for Selected States in India

States	Per Capita GSDP 1998-99(in Rs.)	Annual Growth Rates from 1993-94 to 1998-99 (%) [*]	
		GSDP	Per Capita GSDP
(1)	(2)	(3)	(4)
Andaman & Nichobar Island	22025\$	4.54	0.94
Andhra Pradesh	15601#	4.90	3.50
Arunachal Pradesh	14781	3.83	1.34
Assam	9863	2.70	0.94
Bihar	6803	3.99	2.36
Chandigarh	35612\$	10.2	6.47
Delhi	27953\$	6.52	1.68
Goa	29089\$	8.01	4.58
Gujarat	21623	7.67	5.98
Haryana	22488	5.64	3.56
Himachal Pradesh	14311	6.50	3.85
Karnataka	17660	7.83	6.21
Kerala	19753	6.03	4.85
Madhya Pradesh	11663	4.33	2.28
Maharastra	27965	6.88	5.28
Manipur	11521	-	-
Meghalaya	12882	6.88	5.28
Orissa	10125	4.20	2.84
Pondicherry [^]	27407	12.8	9.22
Punjab	23481	4.89	3.00
Rajasthan	11532\$	7.45	5.19
Sikkim	12564	-	-
Tamil Nadu	19498	6.55	5.62
Tripura	9514	8.70	5.15
Uttar Pradesh	10416	4.42	2.26
West Bengal	14191	6.57	4.91

Source: (Basic Data) Central Statistical Organization (CSO), Government of India, 1999 and 2000 (Diskettes).

Note:

* Growth rates of GSDP and Per Capita GSDP are in constant (1993-94) prices.

\$ For Andaman & Nicobar Island, the Per Capita GDSP refers to 1996-97. For Chandigarh, Delhi, Goa and Rajasthan, the Per Capita GSDP figures refer to 1997-98. For these states, the growth rates of GSDP and Per Capita GSDP (Columns 3-4) are from 1993-94 to these years.

Quick Estimates.

[^] Per capita GSDP of Pondicherry in 1999-2000 was Rs. 29630.

Table 10.2
GSDP (Adjusted) of Pondicherry from 1985-86 to 1998-99(Rs. Lakh)

Year	Current Prices	1993-94 Prices
1985-86	41159	84468
1986-87	46302 (12.5)	89099 (5.5)
1987-88	50190 (8.4)	88853 (-0.3)
1988-89	58170 (15.9)	95254 (7.2)
1989-90	65133 (12.0)	98396 (3.3)
1990-91	72602 (11.5)	98835 (0.4)
1991-92	80983 (11.5)	96075 (-2.8)
1992-93	90112 (11.3)	98614 (2.6)
1993-94	100025 (11.0)	100025 (1.4)
1994-95	115361 (15.3)	101149 (1.1)
1995-96	133633 (15.8)	111393 (10.1)
1996-97	188920 (41.4)	140494 (26.1)
1997-98	229691 (21.6)	157265 (11.9)
1998-99	290739 (26.6)	179516 (14.1)
 Growth Rates: GSDP of Pondicherry (adjusted) in 1993-94 Prices 		
Years	Annual Growth Rates (%)	
1985-86 to 1989-90	3.72	
1980-81 to 1989-90	4.35	
1985-86 to 1992-93	2.16	
1985-86 to 1998-99	5.34	
1990-91 to 1998-99	9.01	

Note: Computed using data from CSO (1999 & 2000) diskettes.

Figures in parentheses indicate the percentage change over the previous year.

Fiscal Trends: an Overview

Table 10.3 presents the consolidated budget of Pondicherry from 1985-86 to 2001-02.

Table 10.3
Consolidated Budget of Pondicherry From 1985-86 to 2000-02
(Rs. Lakh)

Details	1985-86	1990-91	1995-96	1998-99	1999-00	2001-02 (B.E.)
Total Revenues*	8300 (20.17)	16304 (22.46)	33998 (25.44)	58836 (20.24)	67517	70421
Total Revenue Expenditures*	8084 (19.64)	15445 (21.27)	31030 (23.22)	51064 (17.56)	61137	64175
Revenue Deficit (-) or Surplus (+)*	216 (0.52)	859 (1.18)	2968 (2.22)	7772 (2.67)	6380	6246
Capital Receipts (Excluding net borrowing):						
Recoveries of Loans & Advances	134 (0.33)	181 (0.25)	398 (0.30)	831 (0.29)	378	520
Total Capital Receipts	134 (0.33)	181 (0.25)	398 (0.30)	831 (0.29)	378	520
Capital Expenditures:						
(i) On Services	2143 (5.21)	3050 (4.20)	7561 (5.66)	10995 (3.78)	10306	10185
(ii) Loans & Advances	446 (1.08)	316 (0.44)	963 (0.72)	1117 (0.38)	934	1267
Total Capital Expenditures (I+ii)	2589 (6.29)	3366 (4.64)	8524 (6.38)	12112 (4.16)	11240	11452
Total Receipts@*	8434 (20.49)	16485 (22.71)	34396 (25.74)	59667 (20.52)	67895	70941
Total Expenditures @*	10673 (25.93)	18811 (25.91)	39554 (29.60)	63176 (21.73)	72377	75627
Total Deficit (-) or Surplus (+) @*	-2239 (-5.44)	-2326 (-3.20)	-5158 (-3.86)	-3509 (-1.21)	-4482	-4686

Figures in parentheses indicate the percentages of GSDP (adjusted).

Source: Annual Financial Statement of the Union Territory of Pondicherry (Various Years) and CSO, Government of India, (1999, 2000) diskettes.

B.E. - Budget Estimates.

@ - There may be (minor) differences in the total figures due to rounding up.

* - Figures exclude the contribution of electricity department.

Since Pondicherry does not have a State Electricity Board but only an Electricity Department, which is a part of the government, the revenue budget of Pondicherry government includes the expenditures incurred and payments received by the electricity department in its commercial operations. These are not government revenues and expenditures. Therefore, we exclude them from the revenue budget in our analysis below²¹.

It is seen from the Table that there was a steady increase in total receipts and total expenditures in absolute terms (under revenue head also) of the state over the years. Budget expenditure in Pondicherry as a ratio of GSDP (adjusted) was 25.9 per cent in 1985-86 and 29.6 per cent in 1995-96.²² In 1998-99, the expenditure-GSDP ratio was 21.7 per cent. The fall in the ratio was mainly due to the fast rise in GSDP of the state after 1995-96. However, compared to many of the states in India, the ratio of budget expenditures to GSDP in Pondicherry has been much higher during the nineties.²³

The significant rise in GSDP after 1995-96 also resulted in a large fall in the revenue receipt-GSDP ratio, revenue expenditure-GSDP ratio and other ratios in (1996-97, 1997-98 (not shown) and) 1998-99 (in Table 10.3). The total (revenue + capital) receipts-GSDP ratio was 20.5 per cent in 1998-99. The revenue receipts-GSDP ratio was 20.2 per cent. That is, the revenue receipts formed around 98 per cent of total receipts. In the same year, the total receipts as a percentage of GSDP in Tamil Nadu was only 16 per cent and the revenue receipts accounted for 75 per cent of total receipts. However, the own revenues of Pondicherry formed 8.1 per cent of GSDP in 1998-99 as against (9.5 per cent in Andhra Pradesh, 9.3 per cent in Karnataka and 8.3 per cent in Kerala) 9.2 per cent in Tamil Nadu (Table 10.4). Thus, the own revenues of Pondicherry as percent of GSDP form a slightly lower ratio than that of the neighbouring states. But it is higher than that in some of the small states and in some larger states.

²¹ Since we are unable to include the secretarial expenditures incurred for the power sector, the revenue expenditures may be under estimated here.

²² However, it cannot be taken as a complete measure of the size of the public sector in Pondicherry. This is mainly due to the ingenious practice of mobilizing resources outside the budget, through a number of state level financial institutions for financing infrastructure development as is done in many other states.

²³ For instances, the ratios of budget expenditures to GSDP in Tamil Nadu, Karnataka and Kerala in 1998-99 were 17 per cent, 16.5 per cent and 16.9 per cent respectively (not shown).

Table 10.4

Revenue Receipts in Selected States in 1998-99

States	Per Capita Revenue (in Rs.)	Per Capita Own Tax Revenue (in Rs.)	Per Capita Own Revenue (in Rs.)	Per Capita Transfer from the Centre (in Rs.)	Revenue Receipts as Percentage of GSDP	Own Tax Revenue as % of GSDP	Own Non-Tax Revenue as % of GSDP
Andhra Pradesh	1980	1106	1362	618	13.9	7.7	1.8
Arunachal Pradesh	8855	108	727	8128	59.9	0.7	4.2
Assam	1751	382	557	1194	17.8	3.9	1.8
Bihar	952	274	392	560	14.0	4.0	1.7
Goa@	7787	2425	6841	947	26.8	8.3	15.2
Gujarat	2696	1611	2197	499	12.5	7.5	2.7
Haryana	2821	1606	2388	433	12.5	7.1	3.5
Himachal Pradesh	3680	911	1238	2443	25.0	6.2	2.2
Karnataka	2196	1357	1645	551	12.4	7.7	1.6
Kerala	2260	1460	1635	625	11.5	7.4	0.9
Madhya Pradesh	1458	657	886	573	12.5	5.6	2.0
Maharashtra	2424	1584	1982	442	8.7	5.7	1.4
Meghalaya	3580	380	601	2979	27.8	2.9	1.7
Orissa	1287	420	578	709	12.7	4.2	1.6
Punjab	2459	1394	2038	421	10.5	5.9	2.7
Rajasthan@	1672	768	1032	6410	14.5	6.6	2.3
Tamil Nadu	2375	1603	1795	579	12.2	8.2	1.0
Tripura	3510	233	357	3153	36.9	2.4	1.3
Uttar Pradesh	1054	480	569	485	10.2	4.6	0.9
West Bengal	1211	616	666	545	8.5	4.3	0.3
Pondicherry *	5546	2121	2242	3304	20.2	7.7	0.4

@ For Goa and Rajasthan, GSDP and population in 1997-98 were used to compute the ratios.

- - After excluding the commercial receipts of electricity department.

Source: Computed from (i) RBI (2000), "State Finances-a Study of Budgets of 2000-01" and (ii) CSO, Government of India, (1999, 2000) diskettes.

Table 10.3 also shows that revenue account registered a surplus in all the years covered. This means that part of revenue was used to finance capital expenditure. It is seen that the revenue surplus relative to GSDP in Pondicherry was 2.2 per cent in 1995-96 and 2.7 per cent in 1998-99 (as against the revenue deficit relative to GSDP of 0.4 per cent in 1995-96 and 3 per cent in 1998-99 in Tamil Nadu (not shown)). The capital

receipts (in the form of recoveries of loans and advances) relative to GSDP were only small over the years (around 0.3 per cent of GSDP).

The fiscal deficit (=net borrowing) in absolute terms increased from Rs.2239 lakh in 1985-86 to Rs.5158 lakh in 1995-96 and thereafter declined to Rs.3509 lakh in 1998-99. However, the fiscal deficit-GSDP ratio declined from 5.4 per cent in 1985-86 to 3.9 per cent in 1995-96. In 1998-99, it was 1.2 per cent. The fall in the ratio was due to the fact that while GSDP was rising, the fiscal deficit did not rise much; it fell in absolute terms in 1995-96 and has remained nearly constant in 1999-00 and 2001-02.

From the above analysis, it is clear that unlike the major states, Pondicherry's revenue budget has been registering a surplus. Its fiscal deficit is very modest in relation to GSDP. Thus, Pondicherry is financially sound on its own efforts and with the support of the Centre.

Trends and Composition of Revenue Receipts

Budgetary resources on revenue account consist of state's own taxes, (own) non-tax revenues and grants-in-aid from the centre. Table 10.5 shows the trends and composition of revenue receipts of Pondicherry from 1985-86 to 2001-02. The revenue receipts (at constant prices) grew at the rate of 5.7 per cent per annum during 1985-86 to 1989-90 and at the rate of 7.9 per cent during 1990-91 to 1999-2000.²⁴ It is seen from Table 10.6 that during 1989-90 to 1998-99, the annual rate of growth of revenue receipts (real) of Pondicherry (6.8 per cent) is relatively high as compared to the corresponding rates for Andhra Pradesh (4 per cent), Karnataka (5 per cent), Kerala (6 per cent) and Tamil Nadu (4.6 per cent).

²⁴The revenue receipts registered an annual growth rate of 4.7 per cent from 1985-86 to 1992-93. During 1993-94 to 1999-00, it registered a higher growth rate of 10.6 per cent.

Table 10.5
Trends in Current Revenues of Pondicherry

(Rs. Lakh)

Year	Own Tax Revenue	Own Non Tax Revenue	Grants-in-aid	Total Current Revenue	Per Capita Current Revenue (Rs.)
1985-86	2749 (33.1)	362 (4.4)	5189 (62.5)	8300 (100.0)	1209 [810]
1990-91	7044 (43.2)	581 (3.6)	8678 (53.2)	16304 (100.0)	2045 [908]
1991-92	8224 (43.1)	703 (3.7)	10165 (53.2)	19092 (100.0)	2313 [896]
1992-93	9418 (44.5)	795 (3.8)	10937 (51.7)	21151 (100.0)	2472 [883]
1993-94	10817 (46.4)	1006 (4.3)	11501 (49.3)	23324 (100.0)	2630 [858]
1994-95	13241 (46.7)	855 (3.0)	14271 (50.3)	28366 (100.0)	3088 [922]
1995-96	16252 (47.8)	979 (2.9)	16768 (49.3)	33999 (100.0)	3574 [975]
1996-97	19248 (49.7)	1410 (3.6)	18106 (46.7)	38764 (100.0)	3931 [1016]
1997-98	20860 (43.4)	1045 (2.2)	26174 (54.4)	48078 (100.0)	4597 [1148]
1998-99	22498 (38.2)	1288 (2.2)	35050 (59.6)	58835 (100.0)	5546 [1213]
1999-00	26059 (38.6)	1615 (2.4)	39843 (59.0)	67516 (100.0)	6752 [1427]
2001-02 (B.E.)	29472 (41.9)	1448 (2.1)	39501 (56.1)	70421 (100.0)	7042
Annual Growth Rates (Constant Prices) in (%)					
1985-86 to 1992-93	8.73	2.56	2.03	4.67	1.54
1993-94 to 1998-99	7.24	-1.30	13.74	10.52	6.93
1993-94 to 1999-00	6.82	0.95	14.04	10.56	7.99
1985-86 to 1989-90	12.39	2.07	1.50	5.65	2.68
1990-91 to 1998-99	7.05	0.74	7.94	7.42	3.85
1990-91 to 1999-00	6.88	1.56	9.03	7.94	4.89

(Figures in (.) parentheses indicate the percentage shares and figures in [.] brackets are per capita revenues in 1980-81 prices).

Source: Annual Financial Statement of the Union Territory of Pondicherry (Various Years).

B.E. - Budget Estimates.

Table 10.6**Annual Growth Rates (Percentage) of Different Components of Total Revenues of Southern States During 1989-90 to 1998-99 (in 1980-81 prices)**

States	Own Tax	Own Non-Tax	Shared Tax	Grants-in-aid	Transfers (Shared Tax +Grants)	Total Revenues
Pondicherry	6.73	1.09	-	7.02	7.02	6.79
Andhra Pradesh	3.81	2.31	5.92	2.67	4.73	4.01
Karnataka	5.65	4.12	5.66	2.20	4.52	5.15
Kerala	7.37	5.40	4.53	2.05	3.62	6.05
Tamil Nadu	6.38	1.69	2.92	-0.60	1.75	4.58

Source: Computed using data compiled from CMIE (1996, 2001) “Report on Public Finances”.

The above mentioned facts are not surprising because Pondicherry had a higher and faster growing potential tax base (GSDP) than the other southern states in recent years and had a higher amount of per capita transfers from the centre.

As can be seen from Table 10.4, Pondicherry has one of the highest per capita revenues among the states. Per capita own revenues have also been quite high as compared to those of most other states shown in the Table. Per capita own tax revenue of Pondicherry, at 7.7 per cent of GSDP, was only lower than that of Goa (8.3 per cent) and Tamil Nadu (8.2 per cent). However, more than half of its revenues are derived from central transfers. These transfers constitute the largest single source of revenue. This is true for some other small states also. The share of these transfers had come down from about 63 per cent of total revenues in 1985-86 to 47 per cent in 1996-97, but increased to 59 per cent in 1999-2000 (Table 10.5). This increase was one of the reasons for the high growth of revenue receipts during nineties. Its own tax revenues also grew at about 7 per cent per annum (shown later).

It is noted that in the case of Tamil Nadu, the share of own revenues constitutes about 76 per cent of total revenues. The corresponding figures for Andhra Pradesh, Karnataka and Kerala are 69 per cent, 75 per cent, and 72 per cent, respectively. In some small states like Goa, Haryana, and Sikkim, this ratio is higher because of a large proportion of non-tax revenue (See Column 4 in Table 10.7).

Table 10.7
Composition of Revenue Receipts and Revenue Expenditures for Selected States in India (1998-99)

States	Composition of Revenue Receipts (%)				Composition of Revenue Expenditures (%)		
	Own Tax Revenue	Own Non Tax Revenue	Total Own Revenues	Transfers from the Centre@	General Services	Economic Services	Social Services
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	55.8	13.0	68.8	31.2	33.2	24.3	41.6
Arunachal Pradesh	1.2	7.0	8.2	91.8	31.0	37.5	31.5
Assam	21.8	10.0	31.8	68.2	36.1	19.3	44.4
Bihar	28.8	12.4	41.2	58.8	43.5	10.4	36.0
Delhi	84.4	5.1	89.5	10.5	24.6	8.4	64.6
Goa	31.1	56.7	87.8	12.2	46.7	25.2	28.0
Gujarat	59.8	21.7	81.5	18.5	30.5	34.3	34.8
Haryana	56.9	27.7	84.6	15.4	39.6	30.7	29.7
Himachal Pradesh	24.7	8.9	33.6	66.4	32.6	29.0	37.9
Karnataka	61.8	13.1	74.9	25.1	33.2	26.8	37.4
Kerala	64.6	7.7	72.3	27.7	38.3	24.8	36.3
Madhya Pradesh	45.0	15.7	60.7	39.3	33.5	24.3	39.2
Maharashtra	65.3	16.4	81.7	18.2	41.4	21.2	36.7
Manipur	3.4	3.5	6.9	93.1	36.9	24.1	39.0
Meghalaya	10.6	6.2	16.8	83.2	34.4	28.8	36.8
Orissa	32.7	12.2	44.9	55.1	40.4	19.3	39.9
Pondicherry	38.2	2.2	40.4	59.6	34.1	16.2	48.3
Punjab	56.7	26.2	82.9	17.1	52.4	15.3	31.5
Rajasthan	45.9	15.8	61.7	38.3	39.4	17.8	42.5
Sikkim	2.0	70.9	72.9	27.2	75.4	10.4	14.2
Tamil Nadu	67.5	8.1	75.6	24.4	33.2	20.8	40.1
Tripura	6.6	3.5	10.1	89.8	34.8	25.9	38.2
Uttar Pradesh	45.5	8.5	54.0	46.0	44.1	18.5	34.1
West Bengal	50.9	4.1	55.0	45.0	41.2	17.7	39.6

Source: Computed from RBI (2000), "State Finances-a Study of Budgets of 2000-01".

@ Transfers include the share in central taxes and the grants-in-aid.

However, the ratio for Pondicherry at 40 per cent compares well with that of other states like Arunachal Pradesh (8 per cent), Manipur (7 per cent), Meghalaya (17 per cent) and Tripura (10.1 per cent).

The fiscal performance as reflected by the relative level of per capita revenue receipts from own sources (including own tax and own non-tax revenues), of Pondicherry is very good. The per capita revenue from own sources at current prices went up from Rs. 453 in 1985-86 to Rs. 956 in 1990-91 (in constant 1980-81 prices from Rs. 303 to Rs. 425). In 1998-99, it was Rs. 2242 in current prices and Rs. 490 in constant prices. As already mentioned, Pondicherry ranked third next to Goa and Haryana in per capita own revenues among the states listed in Table 10.4. Gujarat ranked fourth with Rs. 2197 while Bihar had the second lowest rank with Rs.392.

Table 10.8 shows that the changing composition of revenue receipts of Pondicherry as percentages of adjusted GSDP over time. All components of revenue receipts and so the total revenue receipts itself as percentages of adjusted GSDP increased from 1985-86 to 1995-96 and then declined. We notice that the ratio of total revenues went up significantly in 1995-96. That was due to the rise in the ratio of own tax revenues in that year. Grants-in-aid remained more or less constant as per cent of adjusted GSDP at around 12 per cent (except 1996-97) during this period. The ratio of total revenues came down continuously from 25 per cent in 1995-96 to 20 per cent in 1998-99, because own revenue ratio came down from 12.9 per cent to 8.1 per cent during this period. This may partly be due to the significant rise in GSDP after 1995-96.

Own Tax Revenues

Own tax revenue is the second major source of revenue of Pondicherry. The share of own tax revenues increased from 33 per cent of total revenues in 1985-86 to 50 per cent in 1996-97 and declined to 39 per cent in 1999-00 (Table 10.5). The own tax revenues of Pondicherry as a percentage of GSDP (adjusted) increased from 6.7 per cent in 1985-86 to 12.2 per cent in 1995-96 (Table 10.8). The own tax-GSDP ratio was at 7.7 per cent in 1998-99. This ratio is more or less on par with those in the other southern states (Table 10.4).

Table 10.8
Composition of Revenue Receipts and Revenue Expenditures
as Percentage of GSDP (Adjusted)

Year	Own Tax	Own Non-Tax	Grants-in-aid	Total Revenues	(Revenue) Outlays on			Total Revenue Expenditure
					General Service	Social Service	Economic Service	
1985-86	6.7	0.9	12.6	20.2	3.9	10.0	5.6	19.6
1990-91	9.7	0.8	12.0	22.5	6.3	10.5	4.3	21.3
1991-92	10.2	0.9	12.6	23.6	6.6	11.3	3.9	22.0
1992-93	10.5	0.9	12.1	23.5	6.6	10.4	4.9	22.2
1993-94	10.8	1.0	11.5	23.3	6.9	11.2	4.7	23.0
1994-95	11.5	0.7	12.4	24.6	7.0	10.5	4.5	22.4
1995-96	12.2	0.7	12.5	25.4	6.9	11.1	4.9	23.2
1996-97	10.2	0.7	9.6	20.5	5.1	9.2	3.6	18.0
1997-98	9.1	0.5	11.4	20.9	6.0	9.1	3.3	18.8
1998-99	7.7	0.4	12.1	20.2	6.0	8.5	2.8	17.6

The estimated annual growth rates (Table 10.5) also indicate that during 1985-86 to 1992-93, the own tax revenue (at constant prices) of Pondicherry grew at an annual rate of 9 per cent. During 1993-94 to 1998-99, it grew at a rate of 7 per cent while the GSDP grew at a much faster rate of 12.8 per cent. This higher growth rate of GSDP is the reason for a lower value of tax revenue-GSDP ratio in 1998-99. However, it is seen from Table 10.6 that Pondicherry ranked second next only to Kerala among the southern states in terms of the annual growth rate of own tax revenue (real) during 1989-90 to 1998-99.

Interestingly, Pondicherry ranked first with a per capita own tax revenue of Rs. 2121 in 1998-99 as against Rs. 1603 in Tamil Nadu, Rs. 1106 in Andhra Pradesh, Rs. 1357 in Karnataka, Rs. 1460 in Kerala, Rs. 274 in Bihar and Rs. 233 in Tripura, which had the lowest rank (Table 10.4). Goa's (Rs. 2425) is shown to be higher than Pondicherry's, but the GSDP and population used in that case are those of 1997-98.

Non-Tax Revenue

The non-tax revenue sources of Pondicherry are more or less the same as those of the other state governments. They consist of interest receipts and dividend, cost recoveries on account of various services provided by the government, license fees and fines. The share of non-tax revenues in total revenue receipts declined from 4.4 per cent in 1985-86

to 3.6 per cent in 1990-91. Then, it increased to 4.3 per cent in 1993-94. After that it started declining and reached 2.2 per cent in 1998-99 (Table 10.5).²⁵ It is noted that this figure was the lowest among the states listed in Table 10.7. In spite of the fact that non-tax revenues cannot normally increase as fast as tax revenues, augmenting non-tax revenues should be considered an important means for improving Pondicherry state's finances.

The changing structure of non-tax revenues over time is shown in Table 10.9. The proportion of revenue from economic services has fallen steadily from 35.1 per cent in 1985-86 to 16.9 per cent in 1999-00. The main reason for this is the decline in the shares of the crop husbandry, animal husbandry and port/light houses. The proportions of revenues from general services and social services increased over time. It is also noted that the share of almost all economic services except non-ferrous mining (etc.) declined. The possibility of raising fees and service charges in line with inflation needs to be examined.

Resource Transfers from the Centre

As mentioned earlier, Pondicherry receives resource transfers in the form of the grant-in-aid from the centre (i.e. from the Ministry of Home Affairs) and not a share in central taxes while the major states receive transfers in the form of both. Table 10.5 shows that the grant-in aid is the largest single source of revenue of the state. Currently, it forms approximately 59 per cent of the total receipts. Pondicherry ranked second in terms of per capita transfers from the centre in 1998-99, next only to Arunachal Pradesh among the 21 states listed in Table 10.4.²⁶ The per capita figure for Pondicherry was Rs. 3304 in 1998-99 as against Rs. 579 in Tamil Nadu, Rs. 618 in Andhra Pradesh, Rs. 551 in Karnataka, Rs. 625 in Kerala and Rs. 947 in Goa.

It can be concluded that Pondicherry's record of resource mobilization from its own (tax) sources is one of the best among the states and Union Territories. Still policy attention is needed to augment the non-tax potentials of the state as it receives major

²⁵ In 1999-00, it was 2.4 per cent.

²⁶ Other states with high per capita transfers were Himachal Pradesh (Rs. 2443), Meghalaya (Rs. 2979), and Tripura (Rs. 3153). Notably, these are small states.

share of its revenues from the centre. Since it has been having a revenue surplus in most years, we may also say that Pondicherry is financially sound.

Table 10.9
Structure of Non-Tax Revenues (Percentage Shares)

<i>Details</i>	1985-86	1990-91	1995-96	1998-99	1999-00
Non-Tax Revenue: Total (Rs.lakh)	362 (100.0)	581 (100.0)	979 (100.0)	1287 (100.0)	1615 (100.0)
<i>i) Interest Receipts, Dividends and Profits (Rs. lakh)</i>	40 (11.2)	118 (20.2)	149 (15.2)	259 (20.1)	222 (13.8)
<i>ii) Other Non Tax Revenue (Rs. lakh)</i>	322 (88.8)	464 (79.8)	830 (84.8)	1029 (79.9)	1392 (86.2)
General Services (%)	22.0	29.5	27.7	33.0	26.7
<i>Police</i>	0.1	0.3	2.0	5.1	2.7
Stationery and Printing	2.0	3.1	2.8	1.8	1.1
Public Works	4.1	4.2	7.3	12.2	5.6
Other Administrative Services	6.6	9.0	16.0	5.8	9.6
Others	9.2	12.8	-0.3	8.1	7.7
Social Service	31.7	26.8	38.5	30.5	42.7
Education, Sports, Art and Culture	5.5	4.0	9.1	2.2	5.0
Medical, Health and Family Welfare	10.7	8.0	10.2	13.0	17.7
Water Supply and Sanitation	6.4	10.1	10.6	10.1	9.2
Housing and Urban Development	5.9	2.4	4.8	3.4	8.7
Others	3.3	2.2	3.7	1.8	2.1
Economic Services	35.1	23.5	18.5	16.3	16.9
Crop Husbandry	6.9	5.0	3.6	2.7	2.7
Animal Husbandry	2.5	1.2	1.3	0.9	0.6
Fisheries	2.0	1.2	1.1	1.1	1.8
Cooperation	1.4	1.0	1.0	1.5	0.8
Other Rural Development Programs	0.2	0.1	0.1	0.1	0.1
Major, Medium and Minor Irrigation.	5.8	1.1	1.1	1.1	1.8
Non-ferrous Mining and Metallurgical	0.0	0.0	0.2	0.8	1.3
Ports and Light Houses	5.0	3.2	1.7	1.4	0.5
Roads and Bridges	5.3	5.7	2.9	2.3	3.1
Tourism	1.1	1.1	1.2	0.8	0.7
Others	2.9	3.4	3.7	2.9	2.7

Source: Computed using data from Annual Financial Statement of the Union Territory of Pondicherry (Various Years).

Growth and Composition of Expenditures

The total expenditure of government of Pondicherry amounted to 22 per cent of GSDP in 1998-99 (Table 10.3). Of this, revenue expenditure accounted for a major part, 18 per cent in this year. In Tamil Nadu, the ratio of total expenditure to GSDP was 19 per cent and that of revenue expenditure accounted for 17 per cent in 1998-99. The per capita revenue expenditure of Pondicherry in 1980-81 prices was Rs. 1292 in 1999-00. This had steadily risen from Rs. 789 in 1985-86, Rs. 860 in 1990-91 and Rs. 890 in 1995-96 (Table 10.10).

An interstate comparison reveals that Pondicherry (Rs. 4814) ranked third, next only to Arunachal Pradesh (Rs. 7157) and Himachal Pradesh (Rs. 5308) in terms of per capita revenue expenditure and fifth in terms of revenue expenditure as a percentage of GSDP in 1998-99 among the majority of states and Union territories (not shown).²⁷ Pondicherry's per capita revenue expenditure is more than double that of any other southern state. Thus, Pondicherry spends a larger amount per head on revenue account than the other states.

It is noted from Table 10.11 that the revenue expenditure of Pondicherry grew at an annual rate of 6.3 per cent during 1990-91 to 1998-99 as against the growth rate of revenue receipt of 7.42 per cent (in Table 10.5). Thus, in recent years the revenue receipts grew at a faster rate than the revenue expenditure.²⁸ However, these rates were lower than the GSDP growth rate of 9 per cent. During the same period, the growth rates of revenue expenditure in Tamil Nadu, Andhra Pradesh, Karnataka, and Kerala were 4.3 per cent, 5.6 per cent, 5.5 per cent and 6.6 per cent, respectively.

²⁷ In 1990-91, Pondicherry ranked third in terms of per capita revenue expenditure (Rs. 1937) next only to Arunachal Pradesh (Rs. 2868) and Goa (Rs. 2350). In all other southern states, the per capita figures were around Rs. 1000 in the same year.

²⁸ The revenue expenditure-revenue receipts ratio of Pondicherry was 97.4 per cent in 1985-86 and 86.8 per cent in 1998-99.

Table 10.10
Composition of Revenue Expenditures

(Percentage Shares)

Details	1985-86	1990-91	1995-96	1998-99	1999-00
Revenue Disbursements (in Rs. lakh)	8084	15445	31030	51064	61137
1. Development Expenditures	79.3	69.7	68.7	64.4	67.5
<i>a) Social Services</i>	50.9	49.2	47.7	48.3	49.5
Education, Art and Culture	20.4	24.3	20.0	21.6	21.5
Medical and Family Welfare	11.6	13.2	14.1	12.4	13.1
Sanitation and Water Supply	1.8	1.8	2.4	1.8	1.5
Housing	1.6	1.1	1.4	1.2	1.2
Urban Development	1.2	1.1	1.5	2.0	2.0
Welfare of SCs, STs and BCs	2.1	2.0	2.6	2.2	2.4
Social Security and Welfare	2.5	2.9	4.3	5.5	4.9
Nutrition	1.8	1.9	1.7	1.6	1.6
Others	9.2	2.2	1.8	1.3	2.5
<i>b) Economic Services</i>	28.4	20.4	21.0	16.2	18.0
General Economic Services	1.3	1.5	1.2	1.4	2.0
Agriculture and Allied Services	7.8	6.6	8.1	6.8	7.2
Rural Development	2.6	1.6	2.2	1.7	1.8
Irrigation and Flood Control	2.4	1.7	2.1	1.9	1.9
Power Projects	0.1	0.0	0.1	0.1	0.0
Industry and Minerals	6.1	2.0	0.2	0.1	1.1
Village and Small Industries	5.7	3.8	3.7	1.9	2.1
Transport and Communications	2.4	3.0	3.1	2.1	1.8
Scientific Research	0.1	0.1	0.2	0.3	0.2
2. Non Development Expenditures	20.1	29.6	29.8	34.1	32.1
a) Organs of the State	1.5	1.6	1.8	1.5	1.5
b) Fiscal Services	1.7	1.6	1.5	1.5	1.4
c) Interest Payment and Servicing Debts	6.1	10.1	13.7	15.3	12.2
d) Administrative Services	8.5	11.2	8.6	8.3	8.2
e) Pensions and Miscellaneous Services	2.3	5.0	4.3	7.6	8.7
3. Grants-in-aid and Contributions	0.6	0.8	1.5	1.4	0.5
Per Capita Revenue Expenditures * (in Rs.)	1178 (789)	1937 (860)	3262 (890)	4814 (1053)	6114 (1292)

Source: Computed using data from Annual Financial Statement of the Union Territory of Pondicherry (Various Years).

* Figures in parentheses are per capita revenue expenditures in 1980-81 prices.

Table 10.11**Annual Growth Rates (%) of Different Components of Total Current Expenditures (Real) in Southern States During 1990-91 to 1998-99**

States	Economic Services	Social Services	General Services	Others	Total Current Expenditure
Pondicherry	4.5	5.9	7.3	13.0	6.3
Andhra Pradesh	3.1	5.8	7.7	4.1	5.6
Karnataka	4.7	5.1	6.8	4.6	5.5
Kerala	9.6	4.2	7.6	5.8	6.6
Tamil Nadu	-0.01	3.8	8.6	13.9	4.3

Composition of Revenue Expenditures

Table 10.10 shows the details of revenue outlays on different services. The revenue expenditure functions of Pondicherry are more or less the same as those of the other state governments. The responsibilities of the state are classified as development activities, including economic and social services, and non-development activities, which include fiscal services, interest payments, administrative services, pension and other miscellaneous general services.

Almost 65 per cent of Pondicherry's total revenue outlay was on development services in 1998-99. Although this ratio is lower than in the eighties, this 65 per cent (Table 10.7) compares favorably with that in Tamil Nadu (61 per cent), Kerala (61 per cent) and Goa (53 per cent) and Delhi (73 per cent).²⁹

The decline in proportion has taken place under economic services (from 28 per cent in 1985-86 to 16 per cent in 1998-99), particularly under industry, minerals, village and small industries (and rural development). As in other states, the proportion of non-development expenditure has risen significantly (i.e., from 20 per cent in 1985-86 to 32 per cent in 1999-00). The main cause of this is the increases in the proportion spent on interest payments and debt servicing. But it must also be noted that the proportion of outlays on administrative services, pension and miscellaneous services increased substantially from 10.8 per cent to 16.9 per cent.

²⁹ The lowest values were obtained for Bihar (46.4 per cent) and Punjab (46.8 per cent).

The details of outlays on economic, social and general services relative to GSDP overtime, given in Table 10.8, indicate that the ratios for general and social services steadily increased from 1985-86 to 1995-96, but declined after that year due to a large increase in GSDP. The ratio for economic service declined during this period. The ratios for economic, social and general services in 1998-99 were 2.8 per cent, 8.5 per cent and 6 per cent, respectively. The corresponding figures for Tamil Nadu were 3, 6 and 5 per cent, respectively.

We may conclude that Pondicherry is financially sound with its own effort and with the support of the centre. However, in order to be self reliant, it has to exploit the non-tax potentials of the state.

Composition of Capital Expenditure

Table 10.12 provides the details of the composition of capital expenditures in Pondicherry over time. As in other states, the capital outlays are incurred on economic, social and general services. Apart from outlays on these services, the loans and advances granted by the Union Territory to the local body governments, industrial units, private parties, and government servants are included as the capital outlays.³⁰

The share of capital outlays on general services is quite low though it has steadily increased over the years. The share of social services was 23 per cent in 1985-86 and fall to about 20 per cent in 2001-02. The share of economic services has been the highest. In 1995-96, it was 74 per cent and declined to 62 per cent in 2001/02. During 1985-86 to 2001-02, loans and advances by the government declined from 17 per cent to 11 per cent. The capital expenditure of Pondicherry as a percentage of GSDP stood around 6 per cent till 1995-96. In 1998-99, it declined to 4.2 per cent (mainly due to a large increase of GSDP). However, this figure was higher than the Tamil Nadu figure of 1.9 per cent in the same year.

³⁰ Mainly housing loans, loans to animal husbandry, dairy development loans, and loans for cooperative societies are granted by the government.

Table 10.12
Composition of Capital Outlays* (Rs. Lakh)

Year	General Services	Social Services	Economic Services	Loans & Advances to Local Bodies etc.	Total Outlays
1985-86	24 (0.9)	595 (23.0)	1524 (58.9)	446 (17.2)	2589 (100)
1990-91	82 (2.4)	633 (18.8)	2335 (69.4)	316 (9.4)	3366 (100)
1995-96	297 (3.5)	967 (11.3)	6297 (73.9)	963 (11.3)	8525 (100)
1998-99	665 (5.5)	1734 (14.3)	8596 (71.0)	1117 (9.2)	12112 (100)
1999-00	763 (6.8)	2484 (22.1)	7059 (62.8)	934 (8.3)	11241 (100)
2001-02 (B.E.)	818 (7.1)	2269 (19.8)	7098 (62.0)	1267 (11.1)	11452 (100)

Source: Annual Financial Statement (Budget) of the Union Territory of Pondicherry (Various years). B.E. – Budget Estimates.

Note: The Capital Budget of Pondicherry considers the repayment of public debt as the outlays and gross borrowing as capital receipts. But the standard procedure is that net borrowing is included as the receipts when we compute the overall deficit. However, the net borrowing is excluded as in Table 10.3 where we compute the fiscal deficit. Therefore, the repayment of public debt is excluded in calculating the capital outlays here. (Figures in parentheses are percentage shares.)

From the above analysis the following conclusions may be said to emerge:

- Pondicherry has been able to maintain a revenue surplus over the years.
- Although the fiscal deficit as a percentage of GSDP was 5.4 per cent in the mid eighties, it has been fairly low in recent years with the high rate of growth of GSDP. In 1998-99, it was only 1.2 per cent.
- Pondicherry has one of the highest per capita revenue among the states. This is partly because of the large per capita transfer from the centre. But per capita revenue from own sources has also been high. Own tax revenue was as high as 7.5 per cent of GSDP in 1998-99 and tax revenues have been rising at the rate of 7 per cent in the nineties.
- It is noted that own non-tax revenues are not important and are fairly low in per capita terms and as per cent of total revenues.

- Pondicherry's per capita revenue expenditures are comparatively high and they have been growing at 6.3 per cent per annum in real terms.
- The proportion of development expenditures in revenue expenditures is fairly high at 67.5 per cent, but is slightly lower than at the beginning of the decade. The main reason for the rise in the proportion of non-development expenditure is the rising expenditure on interest payments and servicing debts.

The overall conclusion can be drawn that Pondicherry government finances are in a sound position. It enjoys a revenue surplus and increase of capital expenditure amounting to more than 4 per cent of GSDP. Its own tax revenues are growing fairly faster on the basis of this sound foundation. It is possible for the government of Pondicherry to fulfill its growing responsibilities in the coming years. However, efforts at further resources mobilisation would have to be undertaken.

Analysis of Growth and Structure of Taxation

It has already been mentioned that the own tax revenues relative to GSDP increased up to 1995-96 and declined thereafter (to reach 7.7 per cent in 1998-99) due to the rapid increase in the GSDP figures after 1995-96 (Table 10. 8). However, the rate of growth of tax revenues in the period 1990-91 to 1998-99 was 7.05 per cent and during the period 1993-94 to 1999-00 6.82 per cent (Table 10.5). That is to say in the nineties, the tax revenue grew by about 7 per cent per annum in real terms. This can be considered a good performance. The aim should be to maintain the same rate of growth in the future.

The composition of tax revenues is shown in Table 10.13. As in other states, sales tax accounts for by the largest part of state tax revenues, nearly 66 per cent (1999-00). It is noted that other states keep the revenue from CST, but in the case of Pondichery, the CST collection is remitted to the consolidated fund of India. Next comes state excise with a share of 23 per cent. The only two other taxes worth mentioning are tax on motor vehicles (6.8 per cent) and stamps and registration (3.6 per cent). That is, almost 90 per cent of the tax revenues are derived from two taxes (sales tax and state excise).

Table 10. 13
Composition of Tax Revenue

(Rs. Lakh)

Year	State Excise	Sales Tax	Stamps and Registration Fees	Taxes on Vehicles	Land Revenue	Total Tax Revenue
1985-86	1201 (43.7) [2.9]	1180 (42.9) [2.9]	161 (5.9) [0.4]	186 (6.8) [0.45]	13 (0.45) [0.03]	2749 (100.0) [6.67]
1990-91	2485 (35.3) [3.4]	3647 (51.8) [5.0]	503 (7.1) [0.7]	350 (5.0) [0.5]	18 (0.25) [0.03]	7044 (100.0) [9.7]
1993-94	3566 (33.0) [3.6]	5820 (53.8) [5.8]	736 (6.8) [0.7]	647 (6.0) [0.6]	23 (0.2) [0.02]	10817 (100.0) [10.8]
1994-95	3302 (24.9) [2.9]	7840 (59.2) [6.8]	1093 (8.3) [0.9]	955 (7.2) [0.8]	27 (0.2) [0.02]	13241 (100.0) [11.5]
1995-96	3670 (22.6) [2.7]	10231 (63.0) [7.7]	1132 (7.0) [0.8]	1178 (7.3) [0.9]	27 (0.17) [0.02]	16252 (100.0) [12.2]
1996-97	4338 (22.5) [2.3]	12286 (63.8) [6.5]	1242 (6.5) [0.7]	1335 (6.9) [0.7]	30 (0.16) [0.02]	19248 (100.0) [10.2]
1997-98	4731 (22.7) [2.1]	13336 (63.9) [5.8]	1215 (5.8) [0.5]	1495 (7.2) [0.65]	40 (0.2) [0.02]	20860 (100.0) [9.1]
1998-99	5193 (23.1) [1.8]	14863 (66.1) [5.1]	802 (3.6) [0.3]	1561 (6.9) [0.53]	38 (0.17) [0.01]	22498 (100.0) [7.7]
1999-00	6100 (23.4)	17142 (65.8)	947 (3.6)	1765 (6.8)	88 (0.3)	26059 (100)
2000-01	6618 (22.7)	19350 (66.3)	1231 (4.2)	1916 (6.6)	25 (0.1)	29190 (100.0)
2001-02 (B.E.)	6200 (21.0)	19500 (66.2)	1422 (4.8)	2300 (7.8)	25 (0.1)	29472 (100.0)
2001-02 (R.E.)	6900 (26.9)	15900 (61.9)	1077 (4.2)	1750 (6.8)	25 (0.1)	2569 (100.0)

Source: Annual Financial Statement (Budget) of the Union Territory of Pondicherry (Various years).

Figures in (.) parentheses indicate the percentages of total while the figures in [.] brackets indicate taxes as percentages of GSDP.

B.E. - Budget Estimates; R.E. Revised Estimates.

It is noted that the relative importance of state excise has fallen steeply over the last 15 years. Its percentage share has been nearly halved by 1999-00. State excise as percentage of GSDP fell from 2.9 per cent in 1985-86 to 1.8 per cent in 1998-99.³¹ In real term (i.e., at constant prices) revenue from state excise increased at a high rate of more than 5.5 per cent in the late eighties, but in the nineties as a whole (1990-91 to 1999-00) it increased only at the rate of 1.03 per cent (Table 10.14).

Table 10. 14
Annual Growth Rates (%) of Sales Tax and State Excise Tax Revenues of Pondicherry (in 1980-81 Prices)

Year	Sales Tax Revenue	State Excise Revenue	Total Tax Revenue
1985-86 to 1992-93	11.43	5.59	8.73
1993-94 to 1998-99	10.87	1.33	7.24
1993-94 to 1999-00	9.81	2.62	6.82
1985-86 to 1989-90	17.31	6.53	12.39
1990-91 to 1998-99	10.40	0.20	7.05
1990-91 to 1999-00	9.96	1.03	6.89

On the other hand, the share of the tax on motor vehicles remained more or less the same during the period 1985-86 and 1999-00, though there was a fall in the early nineties. The share of stamps and registration went up till the mid nineties from the level in mid-eighties, but started falling from 1995-96. The fall was substantial in 1998-99. To sum up, the combined share of stamp and registration and the motor vehicle tax has fallen from about 12 per cent to 10 per cent. They together constitute less than one per cent of GSDP.

While efforts must be made to maintain a high rate of growth of revenue from sales tax at about the same rate as 1990-91 to 1999-00 (i.e. around 10 per cent), one has to closely examine why receipts from state excise and stamps and registration have been growing slowly and initiate proper steps to increase the buoyancy of these taxes.³²

³¹ However, in 1998-99, Pondicherry ranked third in terms of state excise tax revenue as a percentage of GSDP (1.8 per cent) while Punjab (2.2 per cent) and Himachal Pradesh (2 per cent) had the first two ranks.

³² During 1993-94 to 1998-99, the buoyancy of sales tax was 0.68 while that of excise and stamps and only 0.14 registrations were and -0.4 respectively.

Sales Taxes

The sales taxes, consisting of Pondicherry general sales tax (and not CST), currently yield Rs. 193.5 Crore (2000-01). As per the Department of Commercial Taxes of Pondicherry Government, the Pondicherry general sales tax collection in 2001-02 amounted to Rs. 160.26 Crore. Of this, just two commodities, petroleum products and liquor (IMFL), accounted for nearly 33 per cent. Seven commodity categories brought in more than half of the revenue. Thus, revenue sources are highly concentrated.³³ Commodities largely consumed by the ordinary population do not seem to bring much revenue. Through change in law and better administration, the base has to be broadened.

The sales tax revenue declined by about Rs. 35 Crore in 2001-02 (from 2000-01). The revenue loss was mostly from sundries (Rs. 30 Crore). The revenue loss in 28 major commodities was about Rs. 16 Crore (Table 10.15).³⁴

It seems that the revenue loss is not purely because of the adoption of uniform floor rates. For instance, the revenue loss of about Rs 2 Crore was due to the fact that the Car company-TOYOTO started its operation in Bangalore with a 5-year tax holiday.

Obviously the car sale in Pondicherry is diverted. In the case of arrack pattai, the revenue loss of Rs.1.5 Crore was due to the reason that this commodity was brought under another tax net with 5-year tax concession. The MRP goods are taxed low at

Pondicherry, but the prices are fixed in such a way that the industries are benefiting much from the low rate (and not the Government and buyers).

It is recommended that it is necessary to identify the commodities for which the revenue elasticity (with respect to rate) is low and hence there will not be fall in consumption. Then, rates for these commodities can be increased appropriately to increase the revenue.

³³ Of course, in some other States like Tamil Nadu, we may find this problem. In principle, highly concentrated revenue sources are not good for the State.

³⁴ We have identified these commodities from the list of 50 major commodities items, which accounted for nearly 75 per cent of total sales tax revenue in 2001-02. For other commodities, the revenue increased.

Table 10.15
Revenue Declining Commodities (selected) in last 2 Years in Pondicherry

Name of the Commodity	Revenue Change between 2000-01 and 2001-02 (Rs. Lakh)
Liquor	-279
Bullion & Species	-255
Motor Cars & Trucks	-193
Computer-Accessory	-167
Arrack Pattai	-143
Technical Grade Pesticide	-105
Dyes, Chemicals	-101
Aluminum	-79
Electronic Apparatus	-65
Electrical Goods	-34
Tyre and Tube (Tractors)	-31
Hair Oil/Cosmetics	-27
Hardware	-18
Cinema Equipments	-17
A.C. Sheets	-16
Computer Software	-16
Empty Bottles	-13
Scents, Perfumes, Spray	-10
X-ray Film Apparatus	-9
Soaps	-9
Stable Fibre	-7
Vegetable Oil	-6
Sugarcane	-6
Vanaspathi	-6
Tea, Coffee	-5
Refrigerators, A.C	-5
Sweets, Biscuits	-1
Revenue declining items (listed above) Total	-1622
Sundries	-2911

It is learnt that Pondicherry has already requested the Centre to remit the CST collection revenue to the Pondicherry Government. At present the CST collection is around Rs. 46 Crore. It is recommended that the Pondicherry Government should press the Centre further for transferring the CST revenue to Pondicherry.

The total number of registered dealers for sales tax is only 8514 in Pondicherry Union territory, taking all regions into account. Pondicherry is a consuming State and most goods including the raw materials for industries have to come from other States

against payment of 4 per cent CST. There is a compelling reason for the dealers to get registered to avail themselves of the concession rate of 4 per cent on their interstate purchases. In spite of this fact, the number of dealers has fallen since 1997-98. It would seem that all eligible dealers have not been brought into the net of registration. One reason could be that the threshold limit for registration is fixed at Rs. 10 lakh as against Rs. 3 lakh in Tamil Nadu. This should be brought down to Rs. 5 lakh with the adoption of VAT.

Under the Pondicherry general sales tax, a number of commodities are taxed at low rates, rates lower than the stipulated floor rates. It is recommended that the existing rates on the commodities listed in Table 10.16 (especially on LPG, tyres, packing materials and electrical goods) be raised to the levels indicated therein.³⁵

Table 10.16
Increases in Rates of Sales tax Recommended for Low Rated Commodities

Commodity	Existing Rate (%)	Recommended Rate (%)
1. Chemical Fertilizers	1	4
2. Liquified Petroleum Gas	1	8 (Over a period of 2 years)
3. Machineries, Spares etc.	1	4
4. Packing Materials and Labels sold to Industries	1	4
5. Tyres, Tubes & Axle used for Animal Drawn Vehicles	1	4
6. Water Sprinkles, Drip Irrigation Equipments	1	4
7. X ray Apparatus and Films	2	4
8. Articles made of Stainless Steels	3	8
9. Electrical goods, Machinery instruments and Appliances	5	8
10. Cigarette Filters	8	12

Source: Rate Schedule, Commercial Taxes Department, Government of Pondicherry (2002)

The list of exempted commodities is long. Apart from loss of revenue, exemptions create distortions, non-neutrality and administrative problems. Under VAT, an exemption breaks the chain of tax credit. Moreover, under VAT, an exemption for the

³⁵ However, the Government officials argue that the low rate is levied on these commodities due the fact that most of them are agricultural and industrial inputs, and come from outside Pondicherry (taking into account the burden of 4 per cent CST on these commodities).

sale of a commodity does not mean that the commodity is fully exempt, because it will bear all the taxes on the inputs from the first stage of production. It is recommended that some of the exempted commodities shown in Table 10.17 be taxed at rates indicated.

Table 10.17
Taxing Exempted Commodities

Commodities Now Exempted	Rates of Tax to be Levied (%)
Cane and Bamboo Handicrafts	4
Pickles (in bottles) and Murraba	4
Pickles, Sauces, Jams, Jellies and Honey (in Containers with weights less than 5 kg.)	4
Fishing nets and Fishing Hooks	2
Covering and Imitation Jewelleries	4
Fungicides, Insecticides, Pesticides etc.	4

Source: Rate Schedule, Commercial Tax es Department, Government of Pondicherry (2002)

Discussions with the officials and an analysis of the available data suggest that there could be considerable strengthening of the administration of sales tax. The growth of the number of registered dealers has not kept pace with the growth of industry and the economy as a whole. Two major suggestions are offered. First, the enforcement wing should be strengthened along with periodic survey of dealers (manufacturers and traders) to detect non-registration by dealers whose turnover has crossed the threshold level. Second, the operations of sales tax department should be computerised. Apart from computerising all monetary transactions and keeping records of such transactions, the summary annual returns of all the dealers must be kept in the central computer. The central computer in the main central office (where four divisions are situated) must have all the relevant data in addition to the summaries of returns. Some major aspects of information to be stored are mentioned below:

- Characteristics of all registered dealers. As soon as a dealer is registered, all stipulated particulars related to him should be sent to the central computer;
- One module will record all filers who file by due date. From the computer, non-filers will be detected and notices should be sent;

- Arrears in payment;
- Information on survey of new businesses; and
- The returns should have information on tax paid according to major groups of commodities.

If all this information is stored in the central computer, proper analysis can be carried out for evaluation of the sales tax operations and for policy formulation.

Pondicherry by itself offers only a small market to producers. The growth of Pondicherry's economy will depend to a significant extent on its capacity to export goods to the rest of the India as well as abroad. Exports to other countries are free of sales tax by central law. But exports to other states are subjected to central sales tax. Pondicherry should maintain only a low rate of central sales tax. At the same time, it should urge the central government, in conjunction with other small states, to phase out the central sales tax, or at least reduce it to 1 per cent in the next four years. This will enable Pondicherry to import inputs from the other states at cheaper prices.

It is learnt from the officers of the commercial taxes department that the work on computerisation has been suspended, pending the decision of the government on the adoption of VAT. It is not necessary to do so. The design and content of computerisation for a VAT system is not very different from that required for a general cascading type of sales tax system; there are only differences in some details. The basic design could be that suited for VAT. It would be worthwhile for the concerned officers in Pondicherry to acquaint themselves with the computerisation of the operations of the commercial taxes department in Andhra Pradesh, which has made considerable progress in this respect. Afterwards, the department should employ a Total Solutions Provider for designing and setting up the EDP for the commercial taxes department.

Preparations must be made for converting the existing sales tax into VAT. Pondicherry will gain greatly by adopting VAT. In any case, if some major states like Tamil Nadu and Andhra Pradesh adopt VAT, Pondicherry would have to adopt VAT to maintain competitiveness. It is recommended that a task force should be set up to formulate the steps needed to convert the existing system into a VAT.

Stamp Duty and Registration

The rates of stamp duty applicable to various types of registered transactions remained the same in Pondicherry from 1985 till 29.10.2001. Yet the revenue from this source fell in absolute terms from 1997-98: it fell every year for three years continuously from the level of Rs. 12.42 Crore in 1996-97 to reach Rs. 802 Crore in 1998-99. The share of stamp duty and registration in total own tax revenues fell from 8.3 per cent of the total in 1994-95 to 3.6 per cent in 1998-99 (and also 1999-00). This was the period when the economy was booming and both manufacturing and construction were registering high rates of growth. The contrary trend in revenue collection needs to be examined carefully.

A thorough study of the manner in which the Registration Department is functioning must be carried out. In particular, the manner in which valuation of property is done must be examined. In recent years, reform of the structure of stamp duty and methods of valuation of property in respect of conveyance has been carried out in several states. The central government has also issued some guidelines for reform. Computerisation of land records and of the operation of the Registration Department has also been undertaken in some of the states.

Pondicherry must also undertake thoroughgoing reforms. The major components of reform are:

- There must be proper and reasonable valuation-market value must be closely followed.
- The rate of stamp duty for conveyance is quite high in some states. This is true of Pondicherry (10 per cent) and Tamil Nadu (12 per cent). At these levels of rates, there is considerable evasion, avoidance and inducement to corruption. In Pondicherry, the rate of stamp duty should be brought down to 6 per cent within the next five years.
- An independent evaluation cell should be set up consisting of qualified valuers. They should not belong to the Registration Department.
- Registration must be granted immediately if the official minimum value is accepted. The Registrar or a Collector should not be granted discretion. In case of a registrant not accepting the minimum value, the deed will not

be registered. The person concerned could approach the court or a special Tribunal.

- Power of attorney transaction with transfer of property should be treated as conveyance.
- The level of corruption and modalities employed should be studied and tackled.

Taxes on Motor Vehicles

The revenue from this tax has been growing satisfactorily. The rates of motor vehicles tax on Transport vehicles have to be fixed, keeping in mind the rates of tax in the other states so that vehicles registered in Pondicherry do not lose competitiveness. Once the levels are fixed, they should be gradually raised, say every five years, in keeping with inflation, since the tax to be paid is specified in rupee terms. Then there will be no arbitrariness in the increase. A period of five years will be available for adjustments in the transport charges by the Carriers.

The amounts of annual taxes levied on different types of non-transport motor vehicles are fairly low. It is recommended that in two stages, the amounts of taxes levied may be doubled in respect of the first eight categories of vehicles mentioned in Table 10.18 within the next four or five years.

It is recommended that the one time or life time tax be abolished. In respect of new vehicles, a five-year tax may be collected equal to five times the specified tax amount. In the 6th year tax should be collected again for the next five years, but the amount of tax would be 25 per cent higher. Thus, tax should be collected every five years at an increasing rate. This is necessary because the older cars cause more pollution.

To sum up, Pondicherry has shown good performance in respect of its tax revenue. However, the combined share of stamp and registration and motor vehicles taxes has fallen over the years. Although Pondicherry has one of the highest per capita sales tax revenue, still there is a hope for increasing its sales tax revenue through various measures such as widening the base through the change in the law and better administration, raising existing rates of some commodities on par with stipulated floor rates and computerisation of relevant information on dealers. Pondicherry could also

increase its revenue by (i) adopting proper valuation procedure by qualified valuers for stamp duty calculation, (ii) reducing the stamp duty for conveyance and (iii) collecting the motor vehicle tax every five years at an increasing rate.

Table 10.18
Rates of Motor Vehicle Taxes on Non-Transport Vehicles Pondicherry Government
(in Rs.)

Non-Transport Vehicles	Annual Tax	One Time Tax
1. Motor Cycle from 56 CC to 75 CC	50	350
2. Motor Cycle exceeding 75 CC to 170 CC	100	700
3. Motor Cycle exceeding 170 CC and tricycle	150	1000
4. Motor Vehicles weighting not more than 700 kgs.	500	4500
5. Motor Vehicles weighting more than 700 kgs. but not more than 1500 kgs.	650	5500
6. Motor Vehicles weighting more than 1500 kgs. but not more than 2500 kgs.	800	7500
7. Motor Vehicles weighting more than 2000 kgs. but not more than 3000 kgs.	850	-
8. Motor Vehicles weighting more than 3000 kgs.	900	-
9. Private Service Vehicle	1200	-
10. Educational Institutional Bus	1200	-
11. Rig. Generator and Compressor	2000	-
12. Tractor-up to 2500 kgs	120	-
13. Tractor-above 2500 kgs.	150 (per quarter)	150 (per quarter)

Summary and Conclusions

In this chapter, we have traced the evolution of the finances of the government of Pondicherry and have analysed its important characteristics. Pondicherry is like a city-state and it is not entirely appropriate to compare it with the major states of India. However, it would not have been helpful to compare it with only the small states, many of which in the northeast have special characteristics. Moreover, it was our intention to show how an average citizen in Pondicherry fares in respect of government services and taxes as compared with his counterparts especially in the neighbouring southern states.

Our study reveals that Pondicherry government's finances are in a sound condition. Its per capita expenditures, revenues and even own revenues compare well with those of other states. Unlike most other state governments, Pondicherry government does not run revenue deficits. Its public debt/GSDP ratio is quite small (3.78 per cent in

1998-99). It is true that the grants-in-aid from the centre to Pondicherry are negotiated and not formulae-bound and hence its revenue gap is filled. However, it must be noted that the ratio of grants to total revenues has fallen over the years and now amounts to 59 per cent. Thus the major part of the revenues is received from the centre.

In order to be self-reliant, Pondicherry should raise its share of own revenues. The available evidence shows that still there is a scope for raising its own revenues. On the tax side, we have seen that the revenue sources of sales tax are highly concentrated and the number of registered dealers has fallen in recent years. Under sales tax net, many commodities are taxed at a lower rate than the stipulated floor rates. The list of exempted commodities is very long which causes revenue losses and also administrative problems.

The rates of stamp duty applicable to various types of registered transactions have remained the same over the years. The rate of stamp duty for conveyance is quite high which may induce tax evasion and avoidance. The amounts of annual taxes levied on different types of non-transport motor vehicles are fairly low. In addition, Pondicherry has one of the lowest own non-tax revenue-GSDP ratios in the country.

Therefore, it is recommended that (i) necessary changes should be made in the law and administration to widen the tax base of sales tax, (ii) existing rates of many commodities should be raised and some of the exempted commodities should be taxed; (iii) computerisation of relevant information on dealers should be done which would improve the collection efficiency, (iv) the Pondicherry government should press the Centre for transferring the CST revenue to Pondicherry as in other States and Delhi; (v) the rate of stamp duty for conveyance should be brought down to 6 per cent within the next five years, (vi) an independent evaluation cell should be set up consisting of qualified valuers to properly value the property, (vii) for new non-transport vehicles, the life time tax should be abolished and tax should be collected every five years at an increasing rate.

There is considerable concern on the part of Pondicherry government that the tax revenue of Pondicherry will come down because of the adoption of uniform floor rates for levying sales tax. It is noted that the sales tax accounts for 66 per cent of the total own tax revenue of Pondicherry. Therefore, it is important to have a high rate of growth

of sales tax. In the short run, Pondicherry is likely to have some fall in the growth rates of sales tax because of the adoption of uniform floor rates. However, it is not likely to be very large. However, it would be appropriate for the government of Pondicherry to ask the Central government to provide a compensation package at least for five years, starting in the first year with an amount equal to the estimated loss of sales tax revenue due to the adoption of the uniform rates and gradually tapering down in the next five years.

Officials of Pondicherry government justifiably complain that they are very much adversely affected by the central sales tax because they import all the inputs from outside and that increases the local cost of production. Therefore, while insisting on the uniform floor rates, the Central government should help the small states like Pondicherry by phasing out the central sales tax. This is in line with the recommendations of experts. Meanwhile, the Pondicherry government should reduce its own CST rate, for commodities with potential to be sold in other states, to 1 per cent. Finally, policy attention is required to augment the non-tax potential of the states.

We have also seen that the proportion of development expenditure in total expenditure is high, though it has come down. On the expenditure side, two basic principles are to be followed. First, a medium-term budgetary plan (3-years) is to be prepared in which given the likely growth in revenues, the levels of revenue expenditure will be fixed for each of the three years so that in all the three years there will be revenue balance or surplus. That is to say the implications of a given year's expenditure proposals for future years will be factored in formulating those proposals. It would thus become possible to maintain revenue balance year after year. Second, the proportion of development expenditure should not be allowed to fall.

We have noted that the revenue surplus of the Pondicherry government is about 2.6 per cent of GSDP. The fiscal deficit is just about 2 per cent of GSDP and the total capital expenditure is about 4.2 per cent. With an increase in the borrowing to the level of 5 per cent and revenue surplus of 2 per cent, the Pondicherry government would be able to maintain the capital expenditures at the level of 7 per cent of GSDP. It is recommended that the Pondicherry government should not increase its capital expenditures beyond this level of 7 per cent.