THE WORLD BANK
2004




Resuming Punjab's Prosperity

The Opportunities and Challenges Ahead

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Poverty Reduction and
Economic Management Sector Unit
South Asia Region

The World Bank
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ABBREVIATIONS AND ACRONYMS

APDRP	Accelerated Power Development & Reform Programme
ARR	Annual Revenue Requirement
ATI	Administrative Training Institute
BDO	Block Development Officer
BOT	Built-Operate-Transfer
BPL	Below Poverty Line
CEO	Chief Executive Officer
CF	Contract Farming
CII	Confederation of Indian Industry
CIS	Common Wealth of Independent States
CPSU	Central Public Sector Undertaking
CSA	Competent State Authority
DEO	District Education Officer
DIT	Department of Information Technology
DRDA	District Rural Development Authorities
DSP	Deputy Superintendents of Police
FCI	Food Corporation of India
FD	Finance Department
FIR	First Information Report
FOI	Freedom of Information
FRBM	Fiscal Responsibility and Budget Management Act
FRP	Financial Restructuring Plan
GoI	Government of India
GoP	Government of Punjab
GP	Gram Panchayat
GSDP	Gross State Domestic Product
HMIS	Health Management Information System
IAS	Indian Administrative Service
IG	Inspector General
IIPA	Indian Institute of Public Administration
ITI	Industrial Training Institutes
MDG	Millennium Development Goals
MKSS	Mazdoor Kisan Shakti Sangathan
MLA	Member of Legislative Assembly
MMR	Master Manpower Register
MoU	Memorandum of Understanding
MSP	Minimum Support Prices
MTFP	Medium-term Fiscal Program
MTFPS	Medium-term Fiscal Policy Statement
NFHS	National Family Health Survey
NGO	Non-Government Organization
NOC	No-Objection Certificate
NSSO	National Sample Survey Organization
O & M	Operation & Maintenance
OAP	Old Age Pension
OPD	OutPatient Department
PAC	Public Affairs Center
PAFC	Punjab Agro Foodgrains Corporation
PAU	Punjab Agricultural University
PCB	Pollution Control Board
PCS	Punjab Civil Service
PERC	Punjab Expenditure Regulatory Commission
PFC	Punjab Financial Corporation
PHC	Public Health Center
PHSC	Punjab Health System Corporation
PIDB	Punjab Infrastructure Development Board
PIIF	Punjab Infrastructure Initiative Fund
PLA	Personal Ledger Accounts
PNDT	Pre-Natal Sex Determination Test
PPSC	Punjab Public Services Commission
PRI	Panchayat Raj Institutions
PSEB	Punjab State Electricity Board
PSIDC	Punjab State Industrial Development Corporation
PSU	Public Sector Undertaking
PTA	Parent Teacher's Association
PUDA	Punjab Urban Development Authority
PWD	Public Works Department
RBI	Reserve Bank of India
RTI	Right to Information
RTO	Regional Transport Office
SC	Scheduled Caste
SDP	State Domestic Product
SEB	State Electricity Board
SERC	State & Expenditure Review Commission
SFC	State Finance Commission
SHO	Station House Officers
SIDBI	Small Industries Development Bank of India
SP	Superintendent of Police
SRO	Sub-Registrar's Offices
SSC	Subordinate Services Commission
T & D	Transmission & Distribution
TFP	Total Factor Productivity
UPSC	Union Public Services Commission
VEDC	Village Education Development Committees
VRS	Voluntary Retirement Scheme
WAN	Wide Area Network
ZP	Zilla Parishads

Acknowledgments

The Report has been prepared by Vikram K. Chand and Deepak Mishra, with significant contributions from the following Bank staff and consultants in the form of Technical Notes : Deepak Ahluwalia (Agriculture), Paolo Belli (Health), Bhavna Bhatia (Power), Parminder Brar and Papia Bhattacharya (Financial Management), Prema Clarke (Education), Luis Constantino (Decentralization), Bishwanath Goldar (Productivity), Sumir Lal (Political Economy), Syed Mahmood (Investment Climate), Rinku Murgai and Radhika Nayak (Poverty), Mona Prasad (Fiscal), M. Govind Rao (Tax Policy), Ismail Radwan and Jet Riparip (Health), Deepa Sankar (Education), N. C. Saxena (Governance), S. K. Sudhakar (Health), Narayan Valluri (Tax administration), C. Veeramani (Productivity) and Varalakshmi Vemuru (Gender). The team was assisted by Vidya Kamath and Shahnaz Rana. The work was carried out under the direction and management of Sadiq Ahmed, Michael Carter, and Ijaz Nabi. Saumitra Chaudhri, Indermit Gill, and Homi Kharas provided insightful comments on the manuscript.

The team undertook a wide range of consultations at various stages of preparation of the Report with the Government of Punjab and other stake-holders. The team would like to especially thank the Chief Minister Captain Amarinder Singh, Finance Minister Surinder Singla and Chief Secretary J. S. Gill for their cooperation and guidance during the preparation of this Report. In addition, the team would like to thank the following current and former GoP officials: S.C. Agrawal, B. R. Bajaj, Rupan Deol Bajaj, Anjali Bhawra, A. K. Dubey, B. C. Gupta, D.S. Guru, Mukul Joshi, Nirmaljeet Singh Kalsi, Ravneet Kaur, Sarvesh Kaushal, J. S. Kesar, K.R. Lakhanpal, Vini Mahajan, R.C. Nayyar, Y.S Ratra, D. P. Reddy, Kusumjit Sidhu, Himmat Singh, Jaspal Singh, Tejveer Singh, A. R. Talwar, Jaspreet Talwar, G. Vajralingam, and P. K. Verma among others. The generosity of the Government of Punjab in sharing information and images that have been used in this Report is gratefully acknowledged. We also acknowledge the use of photographs taken by Pallava Bagla.

The design of the cover page, layout of the inside pages, editing and print production was carried by Macro Graphics Private Limited, New Delhi.

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EXECUTIVE SUMMARY

PUNJAB'S DEVELOPMENT: PERFORMANCE AND PROSPECTS

A successful past, but an uncertain future

Punjab is India's most prosperous and developed state with the lowest poverty rate. At the end of the 1990s, more than 94 percent of Punjab's citizens were above the poverty line, 70 percent were literate, 94 percent of the six year olds were enrolled in primary schools, 72 percent of children under twelve months were immunized, 99 percent of households had access to safe drinking water, and the average life expectancy of its citizen was 68 years. The remarkable development record of Punjab can also be inferred from the fact that it has already achieved, or is well on track to achieve, most of the Millennium Development Goals (MDGs). According to India's National Human Development Report (2001), Punjab was ranked second only to Kerala in terms of the overall level of human development among the major Indian states. Most citizens of Punjab have thus already achieved a level of socio-economic status that the majority of Indian citizens are unlikely to experience in their lifetime.

Yet in many ways, Punjab's development experience is paradoxical: Its private sector is one of the most prosperous in the country, but its government is highly impoverished; it has virtually eliminated the gender gap in primary education, yet suffers from the problem of widespread sex-selective abortions and female infanticide (the gender ratio is only 874); and although it has a growing and large middle class, the quality of public services remains stubbornly poor. Punjab's fortune also seems to be at variance with the rest of the country: The state grew rapidly (6 to 7 percent per annum) when much of India was wedded to a low rate of growth of 3 percent per annum and it's economy slowed down after the mid-eighties when the rest of India took-off on a higher growth path.

Not surprisingly, given the mixed results, there is a sense of uneasiness regarding what the future holds for Punjab. Concerned citizens of the state wonder whether the younger generation will grow up in the most affluent and developed state in the country like their parents and grandparents once did. Will the heady days of the 'green revolution' ever return to Punjab? Will the state be able to hold on to the impressive gains made on the socio-economic fronts? Such anxieties are not without reason: the state's public finances are under severe stress, the economy has stagnated, employment opportunities are shrinking, the quality of public service delivery is deteriorating, interest groups are growing in influence and human development indicators are beginning to languish or even deteriorate.

Three areas of concerns: growth slowdown, fiscal crisis and deteriorating public services

After a spectacular growth rate during the sixties and the seventies, the Punjab economy began to slow down in the late 1980s and decelerated further during the 1990s. Its per capita income grew at an annual average rate of 2.1 percent during the 1990s - significantly below the national average and the third lowest growth rate among major Indian states. Much of the growth slowdown originated from the agriculture sector - its output grew at a trend rate of 2.6 percent per annum in the 1990s compared to the all-Indian average of 3.2 percent, and almost half the growth rate of 5 percent per annum in the 1980s. Worse, current agricultural practices seem to be environmentally unsustainable: Punjab now has the highest percentage of groundwater exploitation in the country and also the largest percentage of over-exploited and dark blocks. Extensive use of nitrogenous fertilizers and pesticides has led to increasing nitrate concentration and accumulation of pesticide residues in soil, water, food, feed and other agricultural produce, often above tolerance limits. Industrial growth has remained largely between 5 to 6.5 percent during the last decade and half, considerably below the performance of some of the more industrialized states in India. Punjab's share in India's total foreign investment is a meager 0.7 percent and the state has clearly lagged behind other high-income states in creating a healthy investment climate.

Punjab has the dubious distinction of being the most prosperous as well as one of the most indebted states in the country. Its government-debt to Gross State Domestic Product (GSDP) ratio, at 42 percent in 2002/03, is 163 percent of the level in Haryana and 235 percent of Maharashtra, two states with similar per capita income as Punjab. Its hidden liabilities - arrears, delayed payments, unfunded liabilities and contingent liabilities that are likely to be realized in the medium-term - are estimated to be around 20 percent of GSDP. According to the Government of Punjab (GoP)'s White Paper on State Finances (2002), the Government has been borrowing primarily to finance its current consumption, i.e., to pay for the growing salaries, pensions, interest payments (which together have accounted for all revenue receipts since 1996/97) and subsidy. As a result, state finances are now bordering on bankruptcy.

Punjab's tax performance compares unfavorably with other Indian states, both in terms of the level of revenue raised and in its growth. Its tax revenue to GSDP ratio (around 7 percent) is lower than the average for both the high- and middle-income states and only marginally higher than the average of the low-income states. The buoyancy of its tax revenue is the lowest among the major states except West Bengal. The annual compound growth of its tax revenue is lower than the average of the low, middle or high-income states. There also appears to be substantial under-registration of dealers in Punjab and the reported turnover by dealers appears to be systematically suppressed. If the average turnover of dealers in Karnataka is assumed to be a fair value of the actual turnover of dealers in Punjab, the extent of under-taxation in Punjab could be as high as 50 percent, i.e., a whopping Rs. 1,500 crores each year. An alternative measure of under-taxation shows that, in comparison to Haryana, the annual sales tax revenue shortfall in Punjab could be nearly Rs. 700 crores.

Despite its high per-capita income and very high per capita expenditure levels, Punjab does not score well in terms of service delivery outcomes. A recent perception survey by the Public Affairs Center (PAC) places Punjab in eleventh place in the quality of service delivery across 16 major Indian states. In most services, Punjab has been ranked lower than all the middle and high-income states and even worse than some of the low-income states like Madhya Pradesh and Uttar Pradesh. In education, where it was ranked at the bottom of the group, the poor quality of the government system is evident from the weak performance of public school students in the Board Examinations. Only 53 percent of students were successful in the Class 10 exams in 2002. Public school students perform worse than their counterparts in private schools at all levels of the system. Similarly, households surveyed in the 1998-99 National Family and Health Survey (NFHS) consistently rate the quality of public health services lower than the care provided by the private sector. Absenteeism among educational and health workers is a serious problem in Punjab. On an average, on any day, 36 percent of Punjab's primary school teachers and 39 percent of doctors are absent from their workplace. Poor supervision, inadequate incentives, and lack of penalty mechanisms for errant service providers are to be blamed for such high levels of absenteeism.

MAJOR CHALLENGES TO PUNJAB'S PROSPERITY

Some of the developmental challenges facing Punjab are common across many Indian states. The perceived decline in public services, the administrative and governance challenges, the problems associated with the power sector and the growing culture of appeasement (through across the board subsidies) by the political class are some of the challenges that Punjab shares with other Indian states, though even here the extent and nature of the problems vary greatly in Punjab.

But at the same time there are certain elements of uniqueness to its problems. Punjab has had a turbulent history: Its borders have been redrawn twice in the modern era; it has been under President's rule longer than any other Indian state; and it has been a witness to three wars, one of the bloodiest ethnic conflicts in India's history and decade and a half of terrorist activities in its fifty years of life. It is also disadvantaged by its location as a frontline state on an often hostile border and for being land-locked. Key developmental challenges facing Punjab today are :

Debilitating impact of civil strife

Punjab is yet to heal from the deep scars left during the militancy period on its growth and state finances. The impact of militant activities on growth was swift, widespread and, in some cases, permanent: The industrial growth rate halved, from 8 to 4 percent; and the growth rate of services sector decelerated as well, and fell by half, between 1987/88 and 1992/93. Even the agricultural growth rate plummeted from around 6 percent per year to 2 percent during this period due to decline in long-term investment associated with the uncertainty surrounding militancy activities. Our calculation shows that the output loss suffered by Punjab on account of militancy activities could be as large as Rs. 13,000 crores in today's prices (equivalent to 29 percent of today's GSDP).

The impact of insurgent activities on the fiscal situation was felt through three channels: expanding state apparatus and rapid growth of state administration, mounting revenue expenditure to maintain law and order, and the inability on part of the government to enforce effective tax administration, given the deteriorating law and order situation, especially in rural areas. The government's desire to expand job opportunities during a period of social turmoil led to a major spurt in the size of the civil service: it expanded by more than 3 percent each year between 1987/88 and 1992/93. The growing bureaucracy and higher expenditure had its toll on revenue expenditure, which shot up by 2-3 percentage points of GSDP during this period. The rising expenditure was financed by additional borrowing from the Centre and by the time Punjab returned to normalcy, its interest payments as a ratio of GSDP had doubled. Even to this day, an amount close to Rs. 8,000 crores is still on the accounts of GoP, which were borrowed to fight militancy in the state.

Punjab's civil services: The problem of low productivity

Punjab has one of the most over-staffed and over-paid civil services in the country. The ratio of civil servants per 100 population is approximately 2.2 in Punjab, compared to 1.36 in Karnataka, 1.75 in Andhra Pradesh, 1.7 in Gujarat and 1.9 in Orissa. Two decades ago, Punjab had only one Inspector-General (IG) of Police. Today there are 16 IGs, 13 Additional Director Generals of Police, who supervise the work of the IG's, and one Director-General of Police at the top. While such expansion was justified to curb insurgency, this consideration was no longer relevant after the state returned to normalcy.

Overstaffing is not limited to core government employees but is equally pervasive in public sector enterprises, especially in the Punjab State Electricity Board (PSEB). It has 16 employees to serve 1000 consumers as compared to national average of 8. As per official sources, the irrigation department and PSEB together have as much 50,000 excess staff. At the same time, the pay scales of GoP employees, especially the Group C and D employees who make up 85 percent of the state's civil service population, are significantly higher than many other Indian states. Despite the generous staffing and pay scales, the quality of public services leaves much to be desired, underlining the low productivity of the civil services in the state. Service delivery is also undermined by the frequent transfer of officers: The average term for Principal Secretaries is 13 months in their current post and 16 months in their previous post; the average tenure of deputy commissioners is only 16 months in the current post and 22 and 14 months respectively in the previous two postings; and in police, the tenure of Station House officers (SHO's) is about 7 months. Moreover, GoP has yet to systematically apply information technology on a large scale in its day-to-day operations.

Subsidy crowding out public investment

Punjab's subsidy bill has grown five fold while its capital expenditure to GSDP ratio has fallen by half during the last ten years. The input subsides (i.e., power and canal irrigation) that are paid from GoP's budget have increased from Rs. 409 crores in 1990/91 to nearly Rs. 2000 crores in 2001/02. Farmers in Punjab also benefit to the tune of Rs.2,000 crores each year on account of subsidy from GoI as price support for paddy and wheat crops and Rs. 1,000 crores as part of subsidy for fertilizers. The large subsidy bill is not only a threat to state's fiscal situation but is also environmentally unsustainable. At the time when subsidies were growing, the capital expenditure to GSDP ratio fell from 3.8 percent in 1990/91 to 1.7 percent in 2000/01. In priority sectors like education and health, the ratio of capital to total expenditure has been less than one percent in 2002/03. Such low levels of public investment in irrigation, agriculture, power, road transport, education and health sectors have done incalculable damage to the future growth prospects of the state.

Corruption, state capture, and the weakening of rule-based governance

While the state's Vigilance Department has become more active under the current government, Punjab's office of the Ombudsman (the Lok Pal), responsible for combating wrongdoing by Ministers, is moribund. Nor has Punjab moved as fast as Karnataka or Tamil Nadu to pass a Transparency in Tenders and Procurement law, although it has prepared a draft law on the subject; Right to Information (RTI) legislation has been delayed after Punjab decided not to enact its own excellent draft law and wait instead for the Government of India to make the national Freedom of Information (FOI) law effective.

The state has also become a soft target of special interest groups and lobbies who have managed to stall or rollback reforms that adversely affect their interests, even though the policies are in the greater interest of the state. Unwillingness to raise the sales tax rate on diesel and farm inputs to the levels recommended by the Empowered Committee on State Finance Ministers, rollback of policies aimed at enforcing better tax compliance (i.e., export-import forms), complete lack of progress in addressing overstaffing issues, reintroduction of non-practicing allowance for doctors, growing cartelization of liquor sales in the state and collusion by truck operators to fix prices are manifestations of a deeper problem: the fact that state policies are being systematically captured by special interest groups. This growing culture of populism has further narrowed the fiscal space of the government, squeezing capital expenditure to dangerously low levels.

The failure on part of the Government to comply with the various measures of its own Fiscal Responsibility and Budget Management Act during 2003/04 and the earlier systemic diversion of funds meant for procurement of foodgrains to meet its revenue needs, clearly indicate lack of compliance with rules and regulation on part of the government.

THE GOVERNMENT OF PUNJAB'S REFORM PROGRAM

A promising start, followed by roll-backs

The new government that came to power in the 2002 state elections started the reform process in earnest. It abandoned the populist, but fiscally and environmentally unsustainable, policy of free power and water for farmers. Punjab became the second state after Karnataka to have a 'Fiscal Responsibility and Budget Management (FRBM) Act.' It came down hard on corruption and introduced politically difficult measures to restrain revenue expenditure including a number of tax policy and administrative reforms to raise state's tax to GSDP ratio. The revenue deficit came down sharply in 2003/03 as a percentage of revenue receipts. The Government constituted an Expert Committee to suggest reform for the power sector. It passed the 'Punjab Infrastructure Regulation Act 2002' to encourage greater private-public participation in developing new infrastructure. It accepted the recommendations of the Disinvestment Commission, which was set up by the previous government, came out with a well-articulated disinvestment strategy, and had some initial successes. The Government undertook an ambitious contract-farming project to diversify the state's agricultural base away from the paddy-wheat cycle. The government also announced its intention to undertake significant decentralization of primary health and education services with the aim to improve the quality of public services.

The urgency to reform and the hectic pace of policy making, unfortunately, appears to be fading away. The fiscal targets laid out in the FRBM Act for 2003/04 are unlikely to be met. Punjab is also likely to fail to qualify for grants in the GoI's Fiscal Reform Facility. There have also been a number of policy rollbacks, especially in the tax area. The budget speech delivered on June 21, 2004 conveys the government's positive intentions on the reform front: It reiterates GoP's commitment to implement the Fiscal Responsibility Act, improve tax compliance, introduce Value Added Tax (VAT), reduce theft in the power sector to 20% by the end of the Tenth Plan, continue debt swap arrangements, and promote the widespread use of information technology in government, particularly at the district-level. On the other hand, the budget is silent on a number of key reform issues, including (a) actions to reduce the size of government (it does not reimpose the earlier ban on recruitment but instead makes new hiring contingent on the submission of a restructuring plan by departments); (b) the unbundling of the power sector; and (c) the re-introduction of the statutory export-import (EXIM) form for tax purposes, among others. The Medium Term Fiscal Reform Programme tabled with the budget does not appear to be consistent with the state's Fiscal Responsibility Act. The merger of dearness allowance into basic pay to the tune of 50%, also announced in the budget speech, will in particular place a greater burden on Punjab's fiscal position.

REVITALIZING REFORM: SOME OPTIONS AND PRIORITIES

Some of the standard policy recommendations for restoring fiscal health, righting the power sector, and improving the quality of administration and service delivery apply to Punjab as well. Yet, the real problem in Punjab is not articulating the reform program but implementing it. This section first elaborates some of the report's major recommendations and concludes with an analysis of the critical implementation issues surrounding Punjab's reform program.

Policy Recommendations

Three critical steps to restore fiscal balance

To restore fiscal balance, the Government needs to move on three things immediately. First, it needs to comply with its own Fiscal Responsibility and Budget Management Act. To be in compliance, it needs to budget more realistically to achieve fiscal targets, create implementation committees to monitor fiscal indicators much more closely and take corrective actions promptly when necessary. Second, it has to create 'fiscal space' by addressing overstaffing in government departments as well as in the PSEB. Alternative mechanisms are needed to deliver subsidies to farmers more effectively; the resultant savings can be used to increase public investment in critical sectors like agriculture, irrigation, power, road transport, education and health. Third, GoP has to aggressively pursue tax policy and administration reforms, e.g., introduction of VAT, restructuring of the tax administration department along functional lines, and computerization of the tax information system to generate additional resources to meet the state's growing public investment needs.

Measures to create an enabling climate for growth

Punjab can take a number of steps to create an enabling climate for its private sector to grow and prosper. It could streamline administrative procedures involved in establishing new businesses by creating a more transparent and time-bound system. It could streamline its inspection system and simplify record keeping and submission of returns procedures for industries. GoP may wish to introduce competition in agricultural marketing by allowing private sector and grower cooperatives to set-up market yards as has been outlined in GoI's model Act. It would need to take steps to reduce corruption, and strictly enforce contracts and laws of the land. The Government should continue its effort to unbundle the PSEB and introduce an open-access regime as indicated in the Electricity Act.

Improving governance and service delivery

The civil service is plagued by numerous problems including overstaffing, fragmentation, frequent and politicized transfers, and weak policy-making capacity. There is no single solution to these serious and deep problems, but they can be significantly ameliorated by (a) re-imposing a ban on recruitment except in priority sectors, (b) establishing a surplus pool to facilitate staff redeployment, VRS, or retrenchment within a finite period of time, i.e., six months, (c) curbing premature transfers by establishing an independent civil services board to process transfer requests, creating quantitative ceilings on transfers, and introducing computerized counseling in large departments, such as education and health, (d) grouping departments on sectoral lines in response to the need to reduce cabinet size to 15 percent of the legislature, and (e) improving policy-making capacity through a mix of administrative decentralization and greater reliance on specialists through lateral entry and/or outside agencies. In order to improve transparency, GoP should move forward to put in place both Right to Information (RTI) and Transparency in Tenders and Procurement laws on the lines of model laws in other states (Maharashtra and Karnataka in the case of RTI and Tamil Nadu and Karnataka in the case of procurement). It is also essential to strengthen anti-corruption enforcement by appointing a new Lok Pal (Ombudsman) to the currently vacant post. Service delivery can be improved by (a) promoting e-governance through greater political ownership and cultivating agency reform champions, and (b) refining the current decentralization program to ensure that teachers and primary health staff are more fully accountable to *Gram Panchayats (GPs)* to reduce the alarmingly high rate of absenteeism; this will also necessarily involve an effort to strengthen the working of PRIs as a whole by improving their fiscal and administrative soundness, for example.

Implementation Challenges

There is no shortage of good policy recommendations for GoP when it comes to undertaking reforms in the state. A number of useful reports already exist, including the White Paper on State Finances, two studies undertaken by National Institute of Public Finance and Policy (NIPFP, 1994 and 1998), Report of the Punjab Public Expenditure Reforms Commission (2002), the World Bank's Note on 'Some Key Reform Challenges in Punjab' (2003), Expert Group's Report on Power Sector Reform (2003), the Bank Report 'Revitalizing Punjab's Agriculture' (2003) and GoP's Report on Disinvestments (2002) to name a few. The problem in Punjab, more than in other states, is one of implementation. The report outlines six implementation related issues that will help the state to move the reform agenda forward.

An overarching vision for the state

The government needs to craft an overarching vision for the state to guide reform, build public support for change, get political leaders to publicly demonstrate their support for reform and motivate change agents in the bureaucracy by giving them clear signals and supporting them in times of crisis.

Punjab missed out on the liberalization trends that have influenced other parts of the country since the early 1990s. It is now playing catch up. There is an awareness among the politicians, the bureaucracy, media, as well as among economic interest groups like farmers and industrialists that business cannot continue as usual. What Punjab lacks, and what the reforming states of India have found, was a political leadership that painted a future vision around which people could rally, and then drew up a master plan for the state's revitalization.

Developing a consensus for reform

There is a need to build greater consensus in favor of reform among and within existing political parties in Punjab. GoP also needs to develop a larger public constituency for reform, among the press, NGOs, professional associations, trade unions, and farmer organizations through a more effective communication strategy, for example.

The role of GoI

The key to successful reform in Punjab lies not only with its own leadership, but also with the Government of India (GoI). In several ways, Punjab's situation is unique within India's federation. It has unique disadvantages (the Rs. 8,000 crores of debt incurred during the fight against insurgency during the 1980s) and unique advantages (the Rs. 2,000 crores of subsidy that Punjab's farmers receive annually as minimum support price for paddy and wheat production). Whatever the precise means through which these problems are solved, they can only be addressed by GoI. Without a resolution to these issues it will be very hard for Punjab both to return to fiscal sustainability and discipline, and to diversify away from the environmentally unsustainable cropping practices.

Grounding reforms in the local context and using local knowledge is essential

Successful reforms tend to be context-specific and grounded in local knowledge. General economic principles to accelerate growth and improve service delivery - e.g., market-based competition, a healthy investment climate, appropriate incentives, sustainable fiscal policy, good institutions, protection of property rights, contract enforcement - do not necessarily map into standard policy packages. There is no necessary correspondence between the functions that good institutions perform and the particular form that such institutions take. The importance of local knowledge and context is critical in a state like Punjab, which is known for its conflicted and unique history. Punjab's policymakers therefore need to creatively package economic reform principles into institutional designs that are sensitive to local constraints and take advantage of local opportunities.

Weak policy-making and managerial capacity

Most high-level officials in Punjab are overloaded with routine administrative tasks, ranging from dealing with transfer requests, particularly in staff-intensive departments, such as health and education to even appearing in court cases. The result is a short attention span, made worse by the problem of frequent transfers that makes both policy-making and management more difficult. If the Punjab civil service is overstaffed, it is probably under-managed: More needs to be done to improve capacity in critical areas, such as treasury. Neither the health nor the education departments possess a policy planning unit, for example. Nor does Punjab have a strong network of training institutes, similar to AP's Center for Good Governance or Karnataka's Administrative Training Institute (ATI) that might bolster capacity. It is no accident that the reform program has moved faster in areas like tax administration and the power sector partly because of the willingness to actively involve skilled consultants.

Sequencing and prioritization of the reform program

The Government needs to pay close attention to the sequencing of the reform program. For example in critical sectors like power, irrigation and transport, efforts should be made to improve the quality of service delivery along with the hike in user charges. In priority sectors like health and education, where salary and pension payments to employees take up 94-98 percent of resources, the Government needs to restructure the composition of public expenditure before allocating additional funds to ensure that these additional resources reach actual users. Unless the Government ensures that the additional revenue collected is used for public investment to improve services, there is a risk that the reform program would become unpopular, and ultimately derail. Among the many reforms discussed in the report, the ones that perhaps need immediate attention are: compliance with the Fiscal Responsibility Act, addressing the overstaffing problem, reorganization of the tax departments on functional lines, liberalization of the agricultural markets, implementation of the power sector reform program, and decentralization of health and education services.

Action now will be less costly than action later

Until reform is put on the top of the agenda by all parties - with the support of key elements of civil society - the situation in Punjab is likely to continue its downward spiral regardless of which party governs the state. In the absence of reforms, Punjab's debt could climb to as much as 70 percent of GSDP by 2009/10 and its interest payments would consume almost half of its total revenue. And if the current growth slowdown persists for another decade, by the end of it, Punjab would no longer be the most prosperous state in the country. At least four Indian states - Gujarat, Karnataka, Maharashtra, and Tamil Nadu - would have a higher per capita income than Punjab.

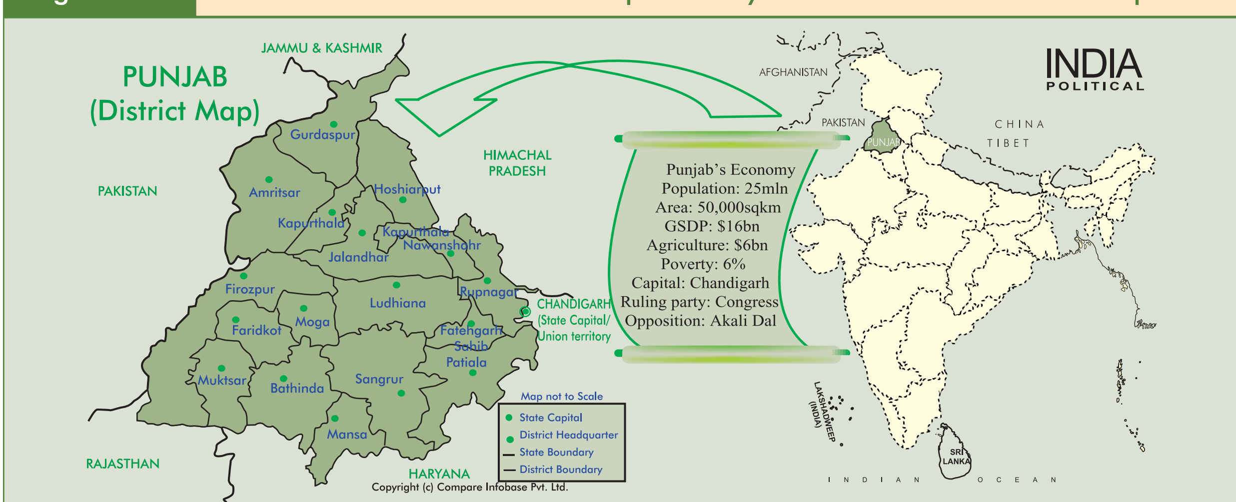
Punjab's Development: Performance and Prospects

PUNJAB'S DEVELOPMENT: PERFORMANCE AND PROSPECTS

A modest-sized state tucked away on the north-western border of the country with a population of 25 million (figure 1.1), Punjab has an uncommon prominence in India. For more than four decades now, it has remained the most prosperous and developed state in the country with the lowest rates of poverty. Its turbulent history, including redrawing of its borders at the time of independence, huge grain surpluses produced by its farmers since the Green Revolution, which helped the country gain self-sufficiency in food, its location as a frontline state on an often hostile border, its ability to bounce back to normalcy and preserve its social gains following the violent separatist insurgency in the 1980s, its contribution to Indian military, pop culture and sports and the visibility of its diaspora both across the country and the world have lent Punjab a profile higher than many of India's much bigger states.

Yet in many ways, Punjab's development experience is paradoxical: Its private sector is one of the most prosperous in the country, but its government is highly impoverished; it has virtually eliminated the gender gap in primary education, yet suffers from the problem of widespread sex-selective abortions and female infanticide (the gender ratio is only 874); and although it has a growing and large middle class, the quality of public services remains stubbornly poor. Punjab's fortune seems to be at variance with the rest of the country: The state grew

Figure 1.1 Local Context: Political Map and Key Economic Indicators of Punjab



Source: http://www.mapsofindia.com/maps/punjab/index.html.

rapidly (6 to 7 percent per annum) when much of India was wedded to a low rate of growth of 3 percent per annum and it's economy slowed down after the mid-eighties when the rest of India took-off on a higher growth path.

Not surprisingly, given the mixed results, there is a growing perception that Punjab's dominance and influence are waning in recent years and the state is lagging behind other states, especially the southern and western Indian states, in terms of growth and development. Concerned citizens of Punjab wonder whether the younger generation of Punjab would grow up in the most prosperous and developed state in the country like their parents and grandparents once did. The fault lines are clear and visible: the state's public finances are under severe stress, the economy has stagnated, employment opportunities are shrinking, the quality of public service delivery is not as good as in many other states and the human development indicators are beginning to languish or even deteriorate.

This chapter takes a closer look at Punjab's past development record and its future prospects. The turbulent history of the state, its success in achieving a high level of socio-economic progress and its current difficulties in preserving the impressive achievements of the past are discussed. The chapter also discusses the consequences of not addressing the current problems of the state, particularly the impact on growth and service delivery.

A BRIEF HISTORY OF PUNJAB

Punjab has had a turbulent past. It has been divided twice in the modern era. First, in 1947, when the bulk of its original area along with its Muslim population became the Pakistani province of Punjab during the violence of partition. Then, in 1966, following an agitation for an exclusive Punjabi-speaking state in India, the Hindi-speaking state of Haryana was carved out of Indian Punjab, while several of its hill districts were merged with Himachal Pradesh. Today, Sikhs constitute 63 percent of Punjab's population and Hindus about 35 percent. However, there is a rural-urban divide with Sikhs preponderant in the countryside (about 72 percent) and Hindus dominating the towns. Scheduled Castes of both communities comprised 35 percent of the population in 2001 - the highest proportion in India.

By the end of the 1970s, the Green Revolution had taken firm roots in Punjab. But the agricultural surpluses and rising incomes did not get converted into investment for industry, and unemployment rose as did disparities in income. Socially and economically, the conditions were ripe for retrogressive ideologies with unemployed, non-rich Jat youth particularly vulnerable to their lure. Politics also deteriorated. Extreme elements were able to turn a moderate political movement seeking greater state autonomy and share of water resources into a violent struggle against the central government[1]. The state came under a prolonged spell of President's Rule (direct rule by the Centre through the bureaucracy) during 1983-92, except for a short-lived Akali Dal government during 1985-87.

Competitive politics returned to Punjab in 1992; by 1997, the political situation seemed stable with a new Akali-led government coming to power in alliance with the BJP and with voter turnout hovering at the 80 percent mark. Congress did well in the 1999 Parliament elections and returned to power in the state in 2002. A stable two-party system thus appeared to be in place by the end of the 1990s, signaling the return of full political normalcy in the state.

[1] The problem of inter-state sharing of water resources has recently resurfaced in Punjab after a Supreme Court ruling to expedite completion of the canal linking two rivers (Sutlej-Yamuna Link canal) and to release water to neighboring states as per The Reorganization Act, 1966, and the subsequent agreement in 1981. Following the court ruling, the Punjab legislature unanimously passed the Punjab Termination of Agreements Bill, 2004, annulling the water-sharing arrangement with neighboring states, thereby bringing the water dispute to the fore again.

MILLENNIUM DEVELOPMENT GOALS: LEVELS AND TRENDS

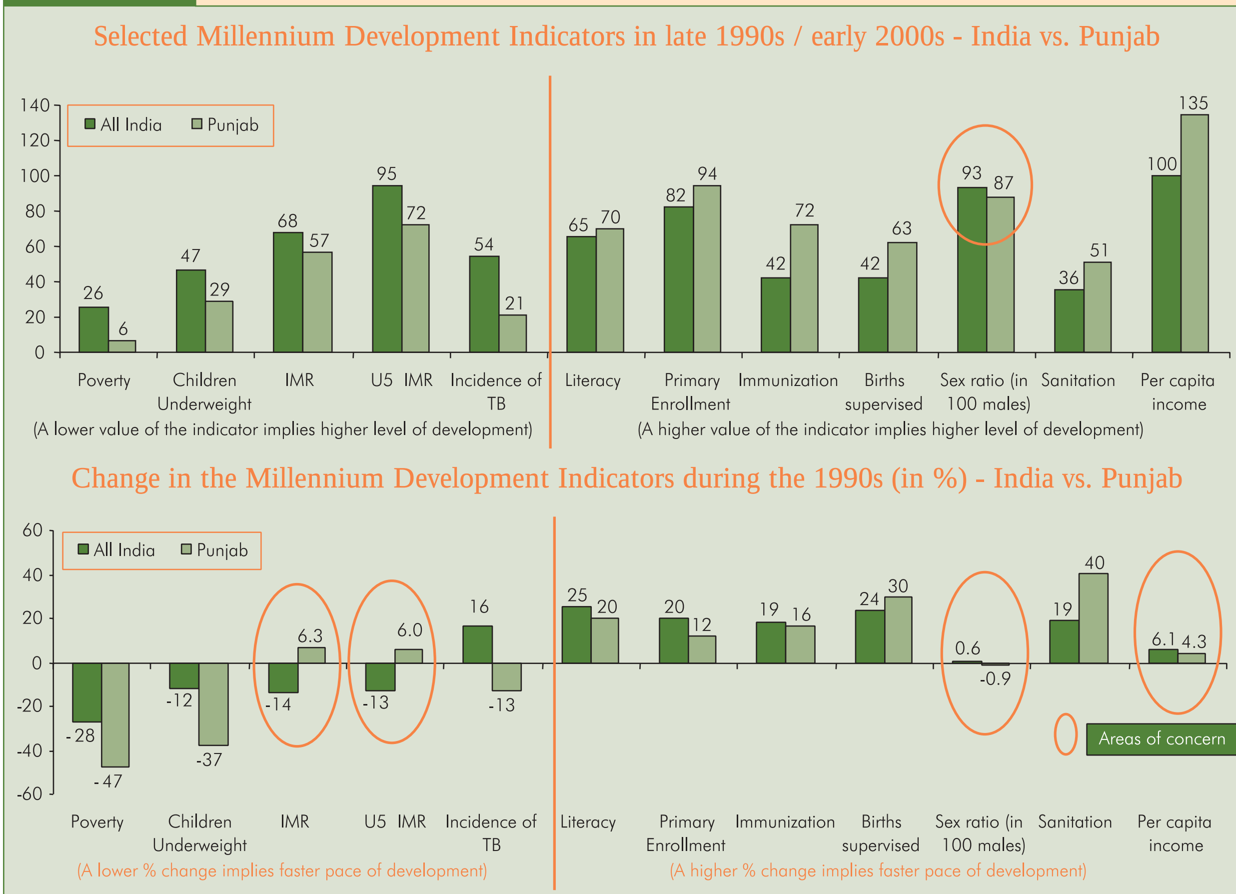
Punjab is on track to achieving its Millennium Development Goals……

Punjab has a remarkable development record. It has already achieved, or is well on its way to achieving, most of the Millennium Development Goals (MDGs). At the end of the 1990s, more than 94 percent of Punjab's citizens were above the poverty line, 70 percent were literate, 94 percent of all six year olds were enrolled in primary schools, 63 percent of births were attended by skilled health staff, 72 percent of children under twelve months were immunized, 52 percent of households had access to improved sanitation, 99 percent of households had access to safe drinking water, and the average life expectancy was 68 (top panel, figure-1.2). According to India's National Human Development report, Punjab is ranked second only to Kerala in terms of the overall level of human development among the major Indian states.

…… though the rates of improvement have begun to slow down

But Punjab is finding it harder to maintain the impressive level of human development it has achieved so far. As shown in the bottom panel of figure-1.2, in five of the twelve indicators, the rates of improvement in Punjab have fallen short of the national average[2].

Figure 1.2 Punjab has achieved an impressive level of socio-economic development, though the pace has slowed down or deteriorated in a few sectors



Source: 1998/99 and 1993/94 NSSO, 1992-93 NFHS-1, 1998-99 NFHS-2, 2001 Census, CSO and Bank Staff Estimates.

2 Since Punjab started with a higher base (in terms of the value of the development indicators), it is natural that its pace of change will be relatively slow compared to states starting with a lower base.

One of the worrisome trends is in the health sector, where the levels of infant mortality rate and the under-five mortality rate have increased between 1993/94 and 1999/00, unlike the rest of India where they have fallen. Key education sector indicators, like the literacy rate and primary enrollment ratio, have also slowed down during this period. The sex ratio in Punjab, which was already at one of the lowest levels in the country in 1991, has worsened further during the 1990s. The decline in the economic might of Punjab can also be seen from the fact that its economy grew at 4.3 percent during the 1990s compared to 6.1 percent for the rest of the country.

Poverty Outcomes

Punjab has the lowest poverty rate in the country

Poverty has fallen in Punjab during the 1990s and the regional disparities have narrowed. The most recent large-sample National Sample Survey Organization (NSSO) data from 1999-00 indicate that only 1.5 million of the 25 million people who live in Punjab are below the official poverty line, compared to 260 million poor people in all of India. This poverty headcount ratio (6 percent) makes Punjab the state with the lowest poverty rate among the major Indian states and places it well above the all-India average of 26 percent. Some other estimates find the poverty headcount ratio to be as low as 3 percent [Deaton and Dreze 2002]. There is also evidence of narrowing of regional disparities within the state during the 1990s. Rural poverty levels are comparable to those in urban Punjab, and the different estimates of poverty levels in 1998-99 all point to a narrowing of the gap between the northern (traditionally richer) and southern regions of the state.

Not only has Punjab historically had the lowest poverty rate, it has also experienced one of the sharpest rate of declines in poverty as compared to other states. Punjab performed particularly well during the 1970s following the green revolution. The rural headcount ratio declined by 12 percentage points, from 28 percent in 1973-74 to 16 percent in 1977-78, at a rate that was much more rapid than poverty reduction in other states during the same period (see Box-1).

Conflicting evidence about the rates of poverty reduction over the 1990s

There is no clear agreement among researchers on whether Punjab has been able to maintain its impressive rates of poverty reduction in recent years. Part of the difficulty in assessing progress arises because

Box 1 What Explains Punjab's Remarkable Success in Reducing Poverty?

Punjab not only has the lowest poverty rate but has also experienced one of the sharpest reductions in poverty rate among major Indian states during 1973/74 and 1993/94. Its impressive track record at poverty reduction has been a subject matter of much research. Evidence shows that this is attributable to new technological breakthroughs in agriculture, the diligence and entrepreneurship of its farmers, judicious public spending and favorable initial conditions in terms of more egalitarian distribution of income and assets and a considerably higher level of human development.

Following the green revolution, between 1957-58 and 1990-91, Punjab had the most rapid and sustained growth in both agricultural and non-agricultural productivity among the major Indian states. Real agricultural output per hectare increased by 3.3 percent per annum while real non-agricultural output per capita increased by 4.5 percent per year. In addition, growth in the state was 'unusually pro-poor' during this period. Cross-state empirical work indicates that this was primarily due to the higher growth in farm yields and non-farm output and the high trend growth rate of developmental expenditure in Punjab. Second, the growth-poverty elasticity in Punjab was particularly high, reflecting its superior initial conditions in terms of the relatively equitable land distribution, low rural-urban disparity, and high level of human development in the early 60s.

Source: Varshney 2003; Datt and Ravallion 1998; Besley and Burgess 2003.

of the controversy around the poverty estimates released by Government of India (GoI) on the most recent 55th (1999-00) round NSSO Consumer Expenditure Survey. While both official and other estimates by Deaton and Dreze (2002) show that there has been a decline in rural as well as urban poverty over the 1990s, estimates by Kijima and Lajouw point to more stagnant poverty levels over the 1990s in Punjab.

It is difficult to be conclusive on this issue, since changes in other determinants of poverty during the 1990s also present conflicting evidence. Real agricultural wages have grown very little over the period in Punjab - and at the lowest rate amongst all Indian states. In addition, the main drivers of poverty reduction - growth in the economy and state government development expenditures - have slowed down during the nineties. Growth in real agricultural output per hectare has decreased from 3.3 percent per year during the three decades leading up to 1990-91 to 2.5 percent between 1991-92 and 1999-00. Annual growth in per capita state development expenditures has also declined, in half, from 7.6 percent to 3.2 percent per year. Growth in non-agricultural productivity (as measured by real non-agricultural state domestic product per capita) has been steady at 4.4 percent per year but has not increased to compensate for the slowdown in agricultural growth.

Irrespective of the extent of poverty reduction during the nineties, it is clear that Punjab has had an impressive track record of achieving low poverty levels rarely seen in developing countries. Given the low levels of poverty, the task of eliminating poverty in Punjab is now one of coping with localized impoverishment - in specific occupation and social groups - and of recapturing high rates of economic growth to further raise living standards in the state.

Education Outcomes

Punjab has made considerable improvements in educational outcomes … …

Punjab has made substantial progress in getting children into school over the last two decades, with the most impressive gains being in rural areas. Among rural boys, 89 percent of 7 to 12 year olds were in school in 1995-96 compared with 70 percent a decade earlier. The most dramatic improvement was amongst rural girls whose enrollment increased by 27 percentage points, to 87 percent. According to the 2001 census, the proportion of children entering school (amongst 7 year olds) increased from 84 to 94 percent during the 1990s, and attainments showed a marked improvement: the percentage of 15-19 year olds who completed upper primary school rose from 57 to 67 percent. Despite its unacceptably low sex ratio, Punjab has virtually eliminated the gender gap in the enrollment ratio between boys and girls in rural areas and in the completion of upper primary school.

… …. though there continues to be large disparity across economic, social and regional groups

Punjab's educational achievements, though better than the all India average are considerably below the levels achieved by other high-income states. In 2001, Punjab's literacy rate was 70 percent placing it as the tenth-highest literate state in the country. The two states with the highest literacy rate - Kerala and Mizoram - exceed Punjab by 30 percentage points. Although the gender gap at lower levels of education has been eliminated, state averages in outcomes mask other inequalities within the state - economic, social and regional - as well as gender gaps in higher education.

There are large gaps in enrollment between children from poor and rich households. As figure-1.3 (left panel) shows, 99 percent of the 6 year olds from the top quintile households are enrolled in school compared to only 66 percent form the bottom two quintiles. These gaps are exacerbated when we look at attainment rates: while 75 percent of children from the top quintile households completed the 9th grade in 1998/99, only 9 percent from the bottom two quintile households reached the same level. It is quite worrisome to note that the educational attainment of poor households in fact fell between 1992/93 and 1998/99 across all grades (right panel, figure-1.3).

Some disparities with regard to rural-urban and inter-district differences are still evident. Literacy in urban Punjab at 79 percent exceeds the rural literacy rate by 14 percentage points. At the district level, while 81 percent of the population in Hoshiarpur district is literate, Mansa district has a literacy rate of 53 percent, well below the all-India average of 65 percent. There is a geographic dimension, with north and northeast districts performing much better than districts in the south and southwest. There are also social gaps in enrolment and completion, particularly at higher levels of education. In 1999-00, 73 percent of household heads among SCs in rural Punjab had below primary education compared to 58 percent for non-SCs. The contrast between SCs and non-SCs is even starker in urban areas. While 74 percent of non-SC household heads had completed primary school or higher, only 40 percent of SC heads had achieved similar levels of education. The sharp increase in dropouts after completion of primary school is another additional area of concern. Among the poor, since only 40 percent are able to complete the first grade, the proportion making it to secondary school is abysmally low.

Health Outcomes

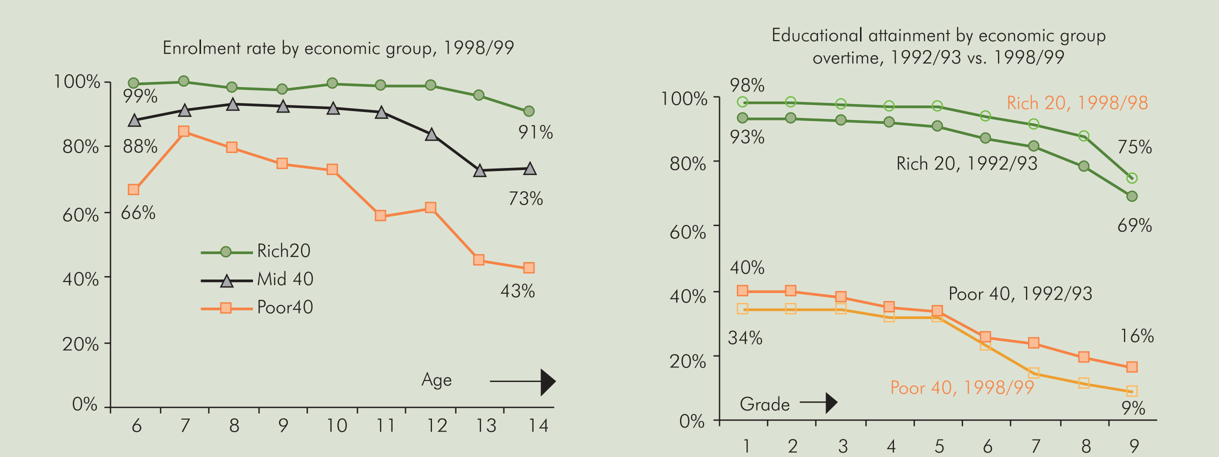
Punjab's health outcomes are not commensurate with its level of income

Punjab has reasonably good health outcomes compared to the all-India average, although these are not commensurate with its level of per capita income and public expenditure, which are highest among the major Indian states. Other states with lower public health spending and overall income (e.g. Kerala, Maharashtra and Tamil Nadu) have better outcomes in some key indicators such as infant and child mortality rates, reproductive care, and immunizations (figure-1.4).

The health indicators for the girls are a matter of great concern

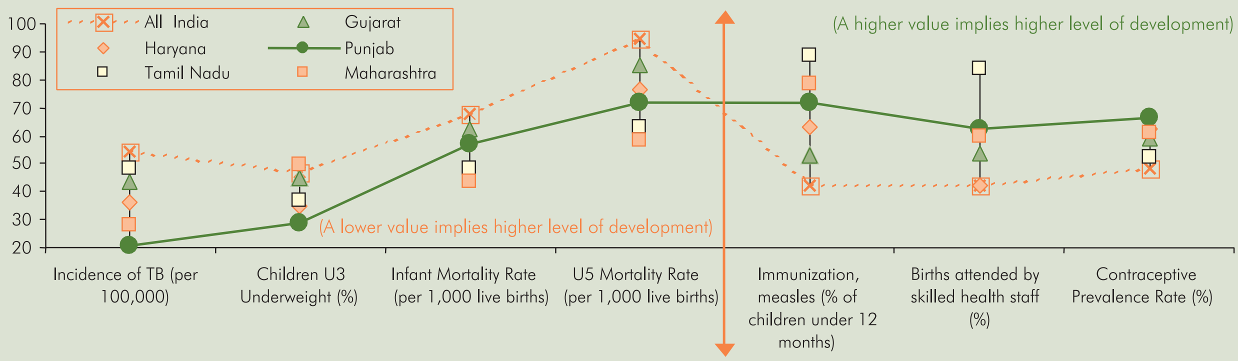
Punjab ranks second in the Human Development Index among Indian states, but ranks sixteen with respect to the Gender Empowerment Index (GoI 2001). According to the 2001 census, the sex ratio in Punjab at 874 females per 1,000 males is lower than it was in 1991 (882), and is well below the sex ratio (933) for the country as a whole. The sex ratio of the 0-6 years population has declined more

Figure 1.3 Considerable disparity in educational indicators across economic groups



Source: 1992-93 NFHS-1, 1998-99 NFHS-2 and Bank Staff Estimates.

Figure 1.4 Selected Health Outcomes Across States, 1998-99

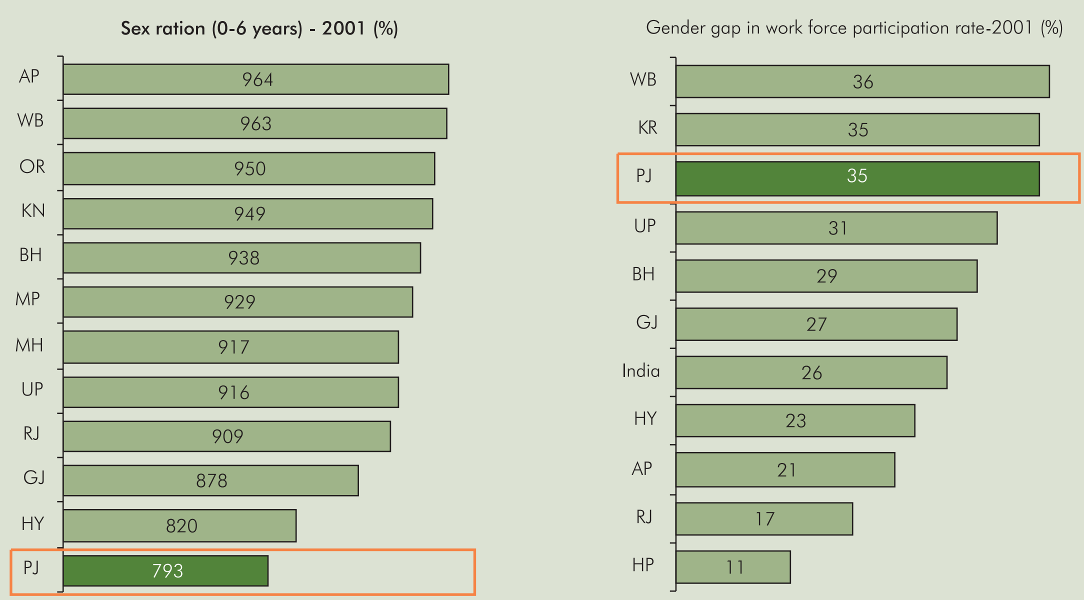


Source: 1998-99 NFHS-2 and Bank Staff Estimates.

drastically from 875 in 1991 to 793 in 2001 (figure 1.5). The post-neonatal (1 month to 1 year) mortality rate is almost twice as high for girls than for boys, and the child mortality rate is four times as high. The female to male ratio of no treatment for Acute Respiratory Illness or fever is 1.67 in Punjab, which ranks only above Rajasthan among the Indian states. In addition, girls who survive are more likely to be underweight and severely stunted than boys. Nearly 13 percent of girls compared with only 5 percent of boys do not receive any of the required vaccinations.

There are not only social costs to gender discrimination but also economic ones. The gap in

Figure 1.5 Discrimination along gender lines is not just limited to the time of birth, but extends to childhood and to the work place as well



Source: 2001 Census and Bank Staff Estimates.

Note: AP-Andhra Pradesh, BH-Bihar, GJ-Gujarat, HY-Haryana, KN-Karnataka, KR-Kerala, MH-Maharashtra, MP- Madhya Pradesh, OR-Orissa, PJ- Punjab, RJ - Rajasthan, TN- Tamil Nadu, UP - Uttar Pradesh and WB-West Bengal.

the work force participation rate among the men and women, at 35 percent in Punjab is one of the highest in the country (figure 1.5). The reasons put forward to explain the consistently low and declining sex ratio in Punjab include: (a) strong preference for a son for cultural and economic reasons; (b) sex selective female abortions, (c) female infanticide, (d) neglect of the girls resulting in higher mortality at younger ages; and (e) lack of proper implementation of the Pre-Natal Sex Determination Test (PNDT) Act.

As in other states, poorer households and scheduled caste households in Punjab tend to have worse health outcomes. Children from both these groups have higher infant and child mortality rates, and are more likely to be under-nourished. Almost one in two children from scheduled castes are less likely to be fully vaccinated (on an average, 72 percent of children age 12-23 months are fully vaccinated). Women from these groups are less likely to be covered by the recommended package of antenatal care. Nutritional deficiency is particularly serious among disadvantaged socio-economic groups.

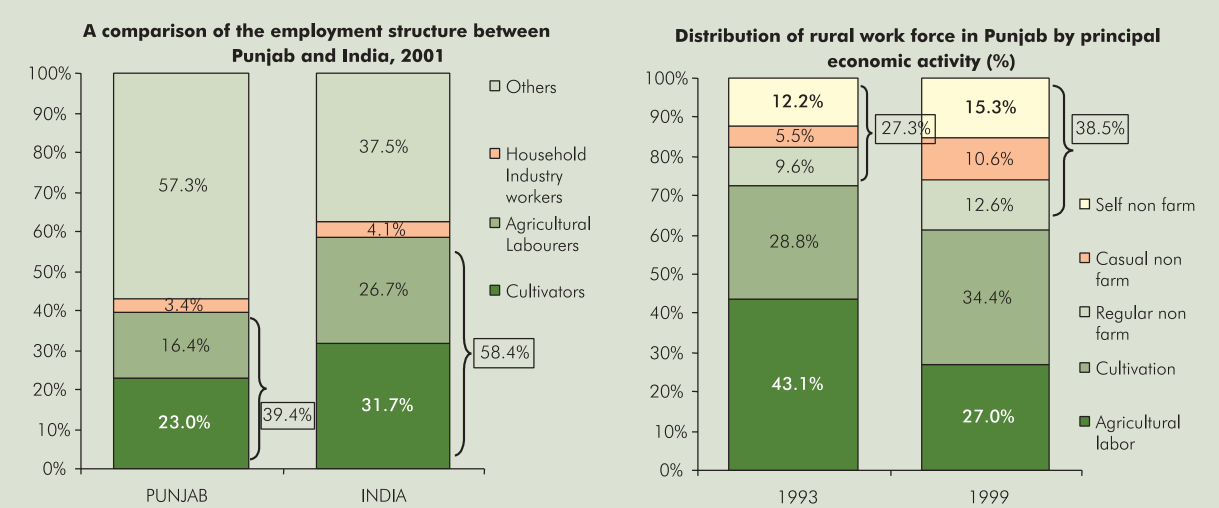
EMPLOYMENT AND SOCIAL STRUCTURE

Punjab has the second lowest percentage of work-force dependent on agriculture after Kerala

Punjab's employment structure has shifted away from agriculture into the non-farm sector, with only 39 percent of its work force employed in agriculture in 2001, a drastic fall from 53 percent in 1991. Punjab has now become the state with the second lowest percentage of work-force dependent on agriculture after Kerala. The occupational structure in rural areas has also changed considerably, with a large decline in agricultural laborers as a proportion of the total labor force - Punjab is one of the four states that have witnessed such a decline [Kijima and Lanjouw 2002][3]. By contrast, employment in the rural non-farm sector in Punjab has expanded rapidly over the 1990s, from 28 percent in 1993-94 to 39 percent in 1998-99, consistent with the slowdown in agricultural growth rates over the last decade (figure-1.6).

Aggregate changes, which mask considerable disparities between different groups, do not necessarily

Figure 1.6 Punjab employment structure has undergone a considerable change in the 1990s



Source: 2001 Census and Bank Staff Estimates.

[3] Agricultural labor in Punjab is also an important source of employment to *seasonal* migrant labor from states such as Bihar [Srivastava 1999].

indicate an improvement in the occupational status of Punjab's work force. The movement out of agricultural labor has been more significant among the richest 40 percent of the population, while agricultural labor remains the main source of employment for poorer households. The wage differential between the *casual* non-farm sector and agriculture has been quite small in Punjab, making it difficult to ascertain whether the agricultural labor is being *pulled* into more productive non-farm employment opportunities or is being *pushed* out of agriculture in the context of stagnant output and increased pressure on farm land, or a combination and interaction of the two.

Punjab has the largest proportion of SCs in its population amongst Indian states

Punjab has the largest percentage of scheduled castes (Dalits) in its population amongst Indian states and this percentage is growing rapidly. The proportion of scheduled castes (SCs) in the total population has increased from 28 percent in 1991, to 35 percent in 1999-00.[4] Dalits in Punjab are certainly not as poor as their counterparts in other parts of the country. However, as in other states, they have an average standard of living that is considerably below the rest of the population. The overall poverty incidence among SCs (at 11.9 percent) is roughly five times that of non-SCs (2.4 percent).

Lower standards of living among SCs are in part explained by factors such as poor physical and human capital endowment, types of employment and low return on assets. Nearly 98 percent of SCs in Punjab own less than 1 hectare of land, compared to 52 percent amongst the non-SC population. SCs are highly represented in agricultural wage labor activities and are particularly under-represented among cultivators. In the non-farm sector, SCs are more likely to be engaged as casual non-farm labor or own enterprises that rely only on family labor or specialize in the lower return occupations (e.g., non-mechanized transport services such as transporting goods by animal carts, rickshaw pullers, etc). The returns to education for SCs in Punjab are also found to be considerably lower than the non-SCs[5].

MIGRATION: A TWO-WAY BOON

Migration is an intrinsic part of life for most families in Punjab. The state ranks, perhaps, behind only Kerala and Gujarat in terms of migration as measured by the number of People of Indian Origin (PIO) living outside India. Among the 20 million strong Indian diaspora, it is believed that 10-15 percent are People of Punjabi Origin (PPO)[6]. It is generally believed that Punjabi migrants have a higher per capita income level than the average Indian migrant (the latter in turn possessing a higher level of income than the national average of their host countries), harbor a strong commitment to maintain their own cultural and linguistic heritage, and seek to preserve their links with the families in India. From humble origins, Punjabi migrants have risen to become one of the highest earning and best educated groups in their host countries and have achieved eminence in a variety of fields. Many wealthy PPOs have individual trusts and charities for projects pertaining to health, education or infrastructure in their villages in Punjab.

While there are no official estimates of the magnitude of remittances received by Indian states, the abnormally high deposit to credit ratio and the growing interest of foreign banks in opening branches in Punjab indicate that remittance flows to Punjab are likely to be considerable. Some experts informally estimate the annual PPO remittance flow to be as high as US$2 to 3 billion per year, i.e., 12 to 18 percent of Punjab's GSDP. While it is difficult to

4 1991 and 1999-00 figures are from the Census and the 55th NSS Round data, respectively.

5 In recent years, we were told, increasing number of SCs from Punjab are migrating to foreign countries. The remittances sent by these migrants have given rise to a new class of affluent and empowered SCs that has become more assertive of its rights, e.g., in terms of participation in the elections of Gurudwara (Sikh temple) committees, which at times has resulted in growing frictions between SCs and non-SCs in the state.

6 Based on the Report of the High Level Committee on the Indian Diaspora and discussion with officials from different Embassies in New Delhi.

estimate the economic impact of remittances on Punjab's economy, it is generally believed that the state's current economic problems would have started much earlier and become more severe in the absence of the large flow of remittances from these migrants.

Migration of a different nature has also become a norm in Punjab, i.e., migration of manual labor and blue-collar worker from poorer Indian states into Punjab. The unwillingness of native Punjabis to work in farms has created a shortage of agricultural labor in the state, which is being increasingly met by migrant labor from poor Indian states, mostly Bihar and Uttar Pradesh. While Punjab's prosperity has thus contributed to reducing poverty in these poorer states, it has also become a sore element in the relationship between native Punjabis and the migrant laborers.

ECONOMIC GROWTH, INVESTMENT CLIMATE AND PRODUCTIVITY

Punjab was one of the slowest growing Indian states during the 1990s

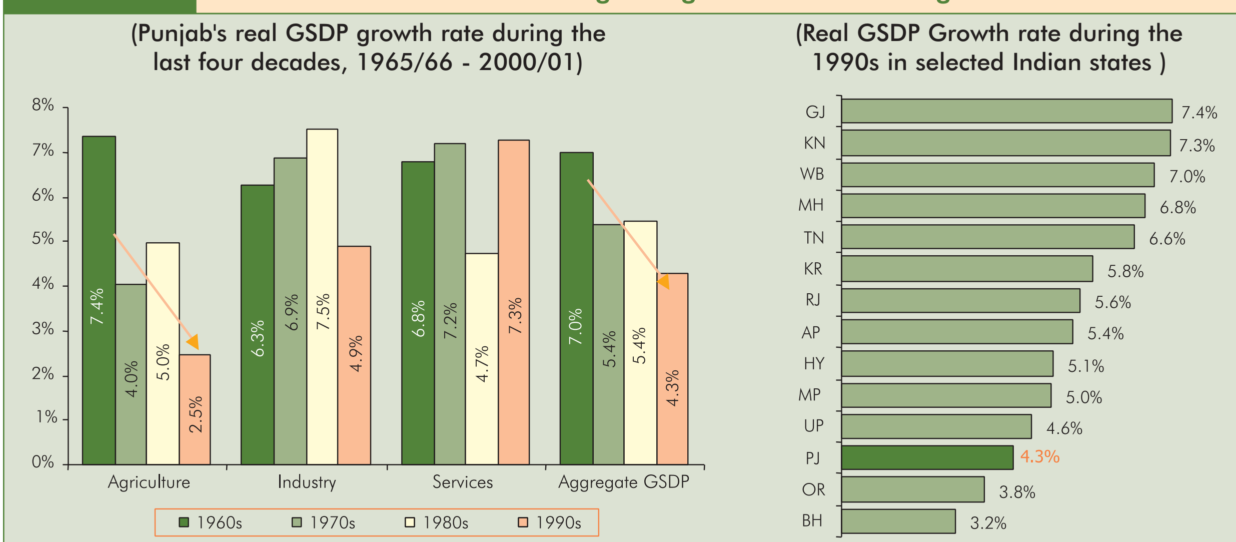
After a spectacular growth rate during the sixties and the seventies, the Punjab economy began to slow down in the late 1980s and almost stagnated during the 1990s. With the onset of the 'green revolution,' Punjab surged ahead to become the richest state in the country. Its economy grew at almost 7 percent during the 1960s and 5.4 percent during the 1970s, almost one-and-half to two times faster than the rate of growth in the rest of India (left panel, figure-1.7). The onset of militancy in the 1980s, the sputtering of productivity growth in agriculture in the 1990s and the low level of public investment due to misplaced fiscal policies in the last decade seem to have played a role in the economic decline of Punjab. Punjab grew at an annual average rate of 4.3 percent during the 1990s - significantly below the national average and the third lowest growth rate among major Indian states (right panel, figure-1.7 and Box-2).

Agriculture: Growth Slowdown and Environmental Sustainability

Agriculture brought prosperity to Punjab; it is now responsible for some of its miseries

The pioneering role played by Punjab in Indian agriculture is well known. With the ushering

Figure 1.7 Economic growth has been on the decline since the 1960s, making Punjab one of the slowest growing Indian states during the 1990s

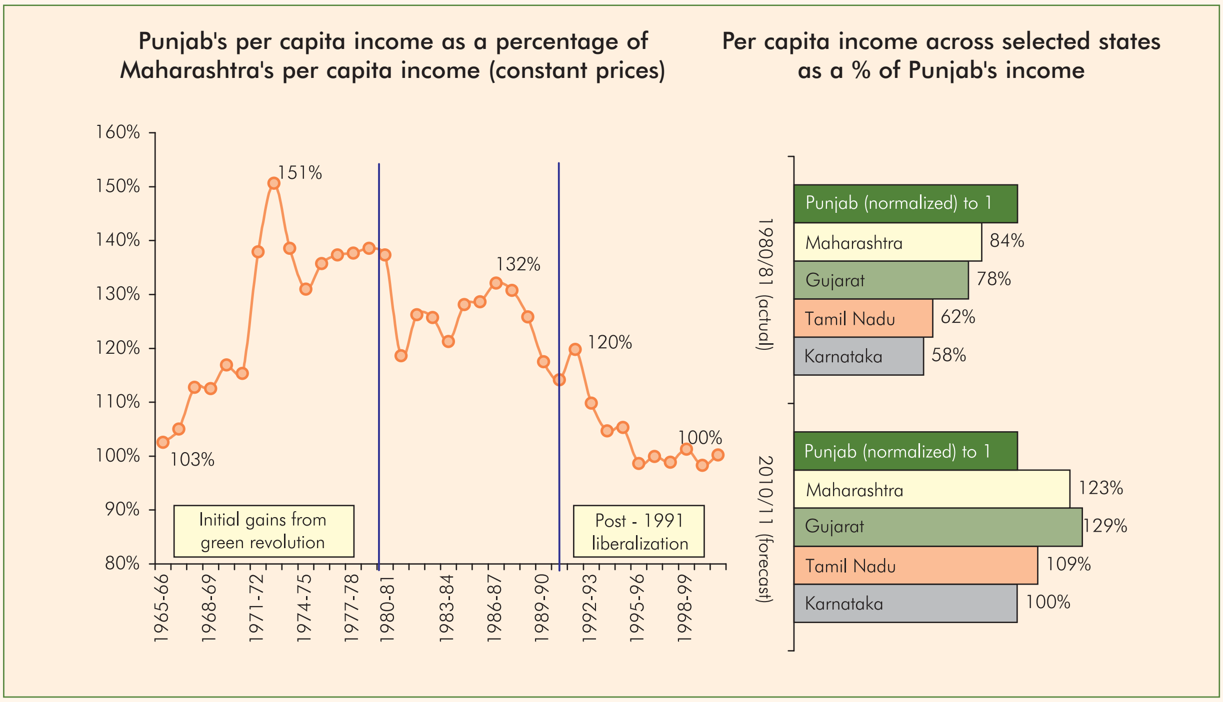


Source: EPW, CSO, RBI

Note: AP-Andhra Pradesh, BH-Bihar, GJ-Gujarat, HY-Haryana, KN-Karnataka, KR-Kerala, MH-Maharashtra, MP- Madhya Pradesh, OR-Orissa, PJ- Punjab, RJ - Rajasthan, TN- Tamil Nadu, UP - Uttar Pradesh, and WB-West Bengal.

Box 2 Is Punjab's status as the richest state of India under threat?

The answer to the question, unfortunately, is a Yes. Punjab's economy has been on a secular decline, with other states fast catching up with its high per capita income. Even prior to the Green Revolution, Punjab was one of the most well-off states in the country. With the onset of the Green Revolution, Punjab surged ahead to become the richest state in the country. A comparison with Maharashtra, the second richest state in India, shows that in 1972/73, Punjab's per capita income was 51 percent higher than Maharashtra (see figure below). Today Maharashtra and Punjab are, however, in the same per capita income league again. While Punjab continues to remain an agrarian economy, Maharashtra has diversified into industry and services and since the latter sectors tend to grow more rapidly than agriculture in the long run, it is certain that Maharashtra will grow more rapidly than Punjab in the coming years.



If the current growth trend persists for another decade, by the end of it, at least four Indian states - Gujarat, Karnataka, Maharashtra, and Tamil Nadu - are likely to have a per capita income higher than that of Punjab[7] (see figure above, right panel).

Source: Central Statistical Organization (CSO), Census of India, Reserve Bank of India (RBI).

in of 'green revolution technology' in the mid-1960s, aided by public investments in infrastructure and price incentives that encouraged wheat and rice production, Punjab soon emerged as the dominant 'food grain surplus' state in the country, contributing significantly to meeting national food security goals. With about 3 percent of India's net sown area and 1.5 percent of its farming population, Punjab today produces about 10 percent of the country's rice, 20 percent of its wheat, and about 45 percent of all rice and wheat procured by the government.

Despite, or perhaps because of, these achievements serious concerns are now emerging about the future prospects of Punjab's agricultural

[7] The forecasts for 2010/11 are only indicative in nature. They are reported here to underscore the serious economic implications that could arise if the growth slowdown is not reversed immediately. The actual outcome could vary significantly from the forecast value.

sector. Agricultural growth slowed substantially in the 1990s - agricultural output grew at a trend rate of 2.6 percent per annum in the 1990s compared to the all-Indian average of 3.2 percent, and relative to a growth rate of 5 percent per annum in Punjab in the 1980s. Productivity of rice appears to be plateauing. As figure 1.8 (left-panel) shows, the total factor productivity (TFP) growth of its crop sector fell from 1.55 percent per annum in the 1980s to 0.05 percent during the first six years of the 1990s [Kumar 2002]. The TFP growth in the southwest region was negative (-2.04 percent per year) because of problems in cotton. The main rice-wheat tract of central Punjab also experienced a decrease in growth, with TFP growth slowing down to 0.067 percent per annum mainly due to negative TFP growth in rice [Singh and Hossain, 2002].

Growing concerns about the environmental impact of the current agricultural practices

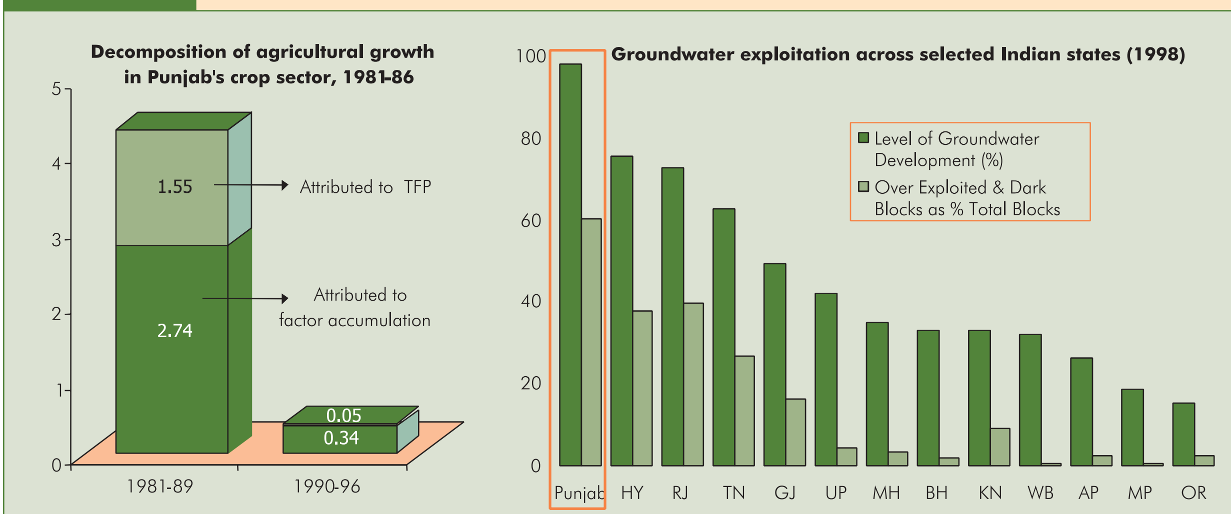
Among the main agricultural states, Punjab practices the most input-intensive agriculture. It has the largest proportion of irrigated area, highest cropping intensity, and the most intensive use of fertilizers, tractors, and pesticides. The impact of these input-intensive agricultural practices on the quality and quantity of the state's land and water resources has become a real concern. Of greatest concern is the over-exploitation of groundwater resources of the state: Punjab now has the highest percentage of groundwater exploitation in the country, and also the largest percentage of over-exploited and dark blocks[8] (right panel, figure-1.8). Extensive use of nitrogenous fertilizers and pesticides has also led to increasing nitrate concentration and accumulation of pesticide residues in soil, water, food, feed and other agricultural produce often above tolerance limits. The 16 million tonnes of rice straw that is burnt every year result in air pollution, creating suffocating smog-like conditions in many parts of the state at harvest.

Industry: Growing, But Not Fast Enough

Punjab's industry has done well, given the adverse geographical and historical problems of the state

Because of the adverse geographical location (land locked, border state, no significant natural resources)

Figure 1.8 Punjab- Falling productivity and growing ground water exploitation



Source: Revitalizing Punjab's Agriculture, The World Bank, 2003.

8 Over-exploited blocks are those where groundwater extraction is more than 100% of recharge and dark-blocks are where extraction is between 85 - 100% of annual recharge.

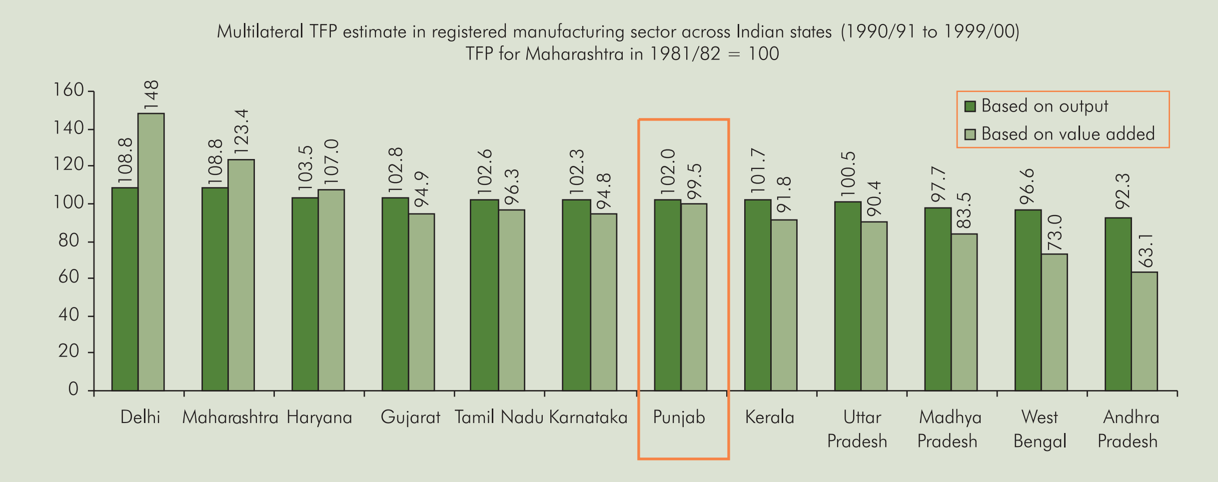
and turbulent history (partition, civil strife), Punjab's industrial landscape is significantly different from that of the leading industrial states in India. Industries in Punjab are invariably small and specialize in low-end consumer goods that use less capital and are low on R&D. As of March 31 2000, there were 611 large and medium enterprises in Punjab compared to 199,071 small firms. Small firms accounted for 99 percent of all units, 80 percent of employment, 41 percent of output and 20 percent of investment in Punjab's manufacturing sector. The average number of employees per firm in Punjab was 48 in 2000-01 compared to the Indian average of 61. Punjab is less industrialized than the average Indian state with the share of manufacturing in state GSDP lower than the all-India average (15.9 compared to 17.1 percent). The important sectors in terms of production, investment and employment are bicycle and bicycle parts, automobiles and components, agro/food processing, textiles and hosiery, basic metal, metal products, machinery other than electric and electronics.

Following an impressive performance between the seventies and the mid eighties, manufacturing growth slowed down in Punjab after the onset of militancy. The annual growth rate, in constant prices, remained largely between 5 to 6.5 percent during the last decade and half, considerably below the performance of some of the industrialized states in India, but commendable given the difficult conditions through which the firms operated during the eighties and early nineties. Punjab's share in total approved FDI to India is a meager 0.7 percent or Rs. 1970 crores during August 1991 to May 2002, though investment appears to have picked up in more recent months.

Productivity of Punjab's manufacturing firms fall short of more industrialized states

The average firm in Punjab is significantly less productive than in India. In terms of output value, the average net value-addition per worker in a firm in Punjab was nearly 25 percent lower than the all-India average in 2000-01. A careful analysis of the registered manufacturing sector across major Indian states finds that the average productivity level in Punjab's manufacturing sector during the last decade is 102 compared to 103.5 in neighboring Haryana and 108.8 in Delhi (value normalized after indexing Maharashtra's TFP in 1982/83 at 100, see figure-1.9). This implies that for the same level of factor inputs (labor, physical and human capital), a typical firm located in Delhi obtains 6.8 percentage points higher output per year than the

Figure 1.9 Punjab firms are less productive than their counterparts in more industrialized states



Source: ICRIER (2004).

firm located in Punjab. Examination of TFP at more a disaggregated level shows that in certain sub-sectors, Punjab has considerably higher productivity, e.g., in food products, cotton textiles, textile products, rubber, plastic and petroleum, basic metal and alloy industries[9].

Studies show that the low level of productivity of firms in Punjab can be attributed to a number of factors: smaller size, lower export-orientation, lower degree of technical ability and adaptation, limited product innovation, poor quality awareness, little pro-activeness in finding markets, inadequate sharing of good practices compared to firms in some of the more progressive states in India and lack of a healthy investment climate in the state[10].

Punjab's investment climate is perceived to be of moderate quality

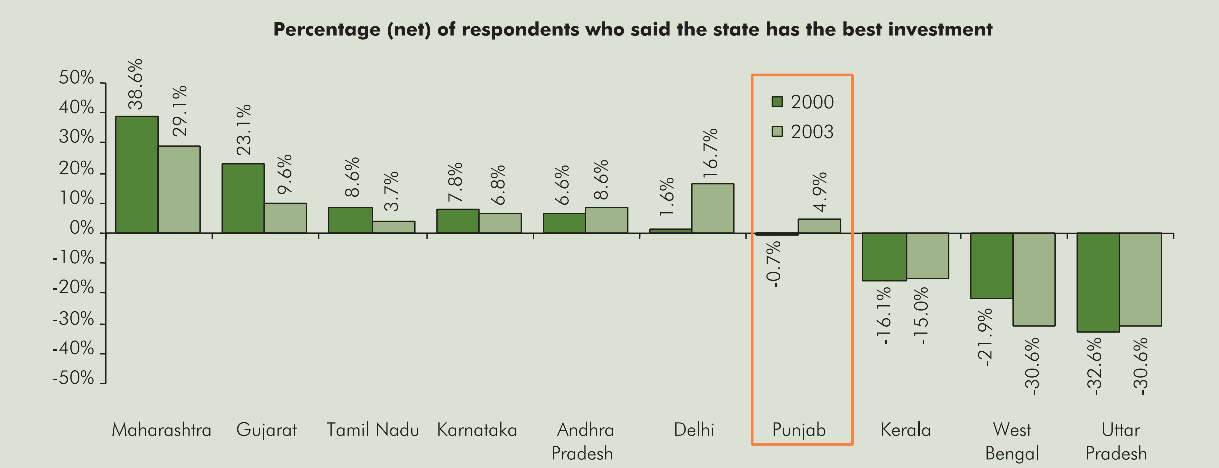
Punjab has clearly lagged behind other high-income states in creating a healthy investment climate for its entrepreneurs, which includes policy, regulatory and institutional factors that affect the expected returns and risks from investment. Based on the CII and WB survey in 2000 and 2003, Punjab appears to be in the middle of the league with some perceptions that the overall climate has improved in recent years (see figure- 1.10). In 2000, Punjab was in the bottom half of the league with six states scoring above it and three below. The number of responses identifying Punjab as the best state in terms of the investment climate was slightly less than the number identifying it as the worst state. By 2003, perceptions about Punjab had improved. The improvements in perceptions about Punjab's investment climate responded to signs of a more investor-friendly policy stance by the new government. The recent improvement in perception, however, appears to be at odds with the actual situation on the ground, which does not show any marked improvement between 2000 and 2003.

STATE FINANCES: BREACHING SUSTAINABILITY

A prosperous private sector and an impoverished government

The fiscal performance of Punjab is not commensurate with its relative economic prosperity.

Figure 1.10 Punjab's investment climate relative to other selected Indian states, 2000 and 2003



Source: FACS, 2000 and 2003.

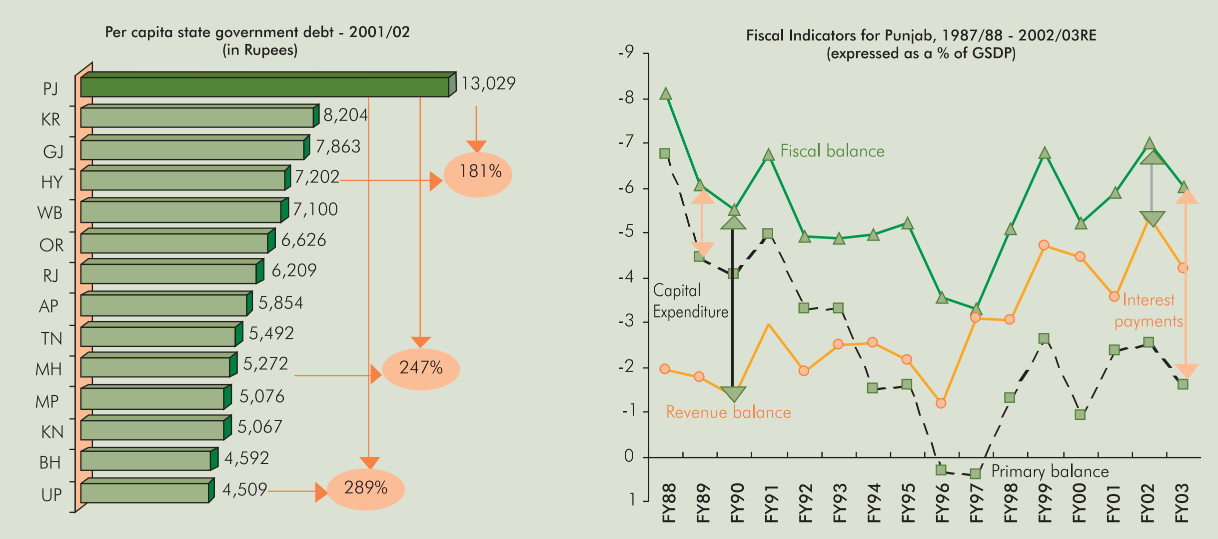
9 ICRIER (2004).

10 CII (2003).

Despite its high per capita income, Punjab is faced with a severe fiscal imbalance. The state's revenue and fiscal deficits are much higher than the all-state average and its capital expenditure to GSDP ratio is below the average. It has the highest per capita state government debt among the major Indian states, almost 181 percent of the level in Haryana, its neighboring state, 247 percent of Maharashtra, the state with almost the same per capita income as Punjab, and 289 percent of the level in Uttar Pradesh, the state with the lowest level of per capita state government debt in the country (left panel, figure-1.11)[11]. According to the GoP's White Paper on State Finances (2002), the state government has been forced to frequently resort to ways and means advances and overdraft facilities from the RBI and its finances are bordering on bankruptcy. The problem is attributable both to a poor record of mobilizing revenues and profligacy in spending.

While Punjab has a history of running a high level of fiscal deficit, the quality of its fiscal deficit today is perhaps worse than in the past. In the late 1980s and early 1990s, the fiscal deficit to GSDP ratio was even higher than it is today. But the bulk of this deficit was due to an extraordinarily high level (by the standard of Indian states) of capital expenditure (right panel, figure-1.11), which presumably contributed to augmenting the productive capacity of the state. Unfortunately, today the level of fiscal deficit is still very high, but it is not due to the high level of capital and developmental outlays, non-wage O&M or social sector spending. The state has been borrowing primarily to finance its current consumption, i.e., to pay for the growing salaries, pensions, interest payments (which accounted for all revenue receipts since 1996/97) and subsidy, much of which are regressive and do not contribute to raising the productive capacity of the state.

Figure 1.11 The magnitude of fiscal imbalance in Punjab is far greater than most other Indian states and is worsening by each passing year



Source: RBI, CSO, States Database, The World Bank.

Note: AP - Andhra Pradesh, BH - Bihar, GJ - Gujarat, HY - Haryana, KN - Karnataka, KR - Kerala, MH - Maharashtra, MP - Madhya Pradesh, OR - Orissa, PJ - Punjab, RJ - Rajasthan, TN - Tamil Nadu, UP - Uttar Pradesh, and WB - West Bengal.

[11] The state government debt numbers reported here do not include off-budget liabilities whose interest payments are made from the budget. Punjab has no off-budget borrowings of this type.

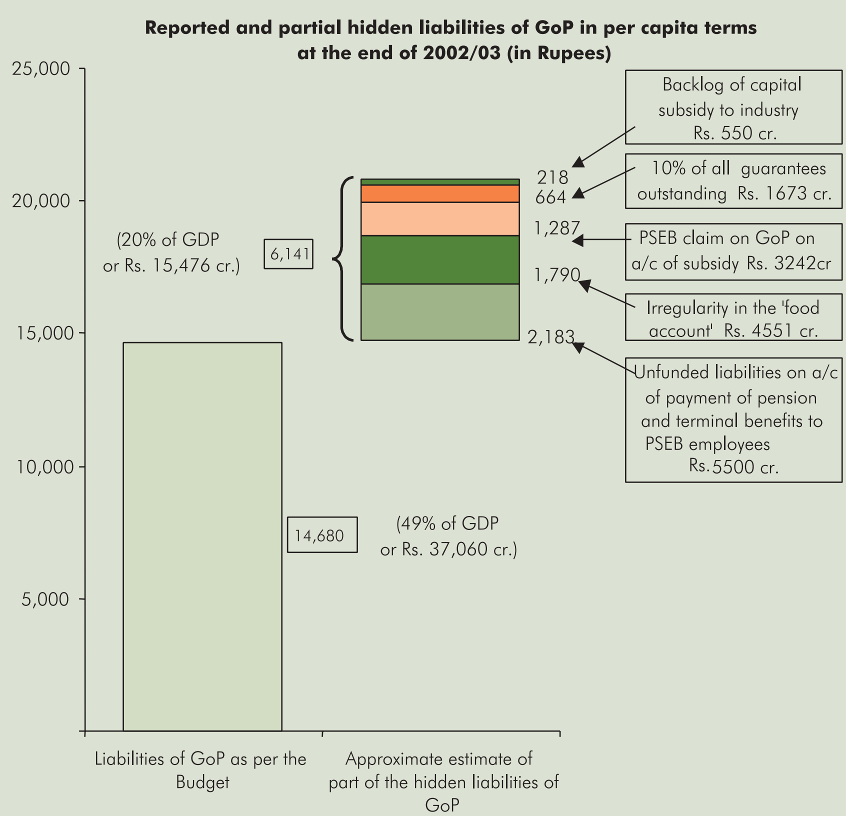
Hidden liabilities: The reported liabilities of GoP far exceed the actuals

Punjab's fiscal problem is far more severe than what the budget numbers reveal. There are a large amount of hidden liabilities in the form of arrears, delayed payments, unpaid and unfunded liabilities and contingent liabilities that are not fully accounted for in the state's Budget (figure-1.12). Based on the information from GoP, we estimate the hidden liabilities to be around 20 percent of GSDP (nearly Rs. 15,467 crores or Rs. 6,141 for every citizen of Punjab), which is a subset of all the hidden liabilities that may have been accumulated by GoP[12]. The power sector is the source of a number of these liabilities, including Rs.3,242 crores that GoP owe to PSEB on account of free power during 1997/98-2001/02 period and unfunded liabilities of Rs.5,500 crores to PSEB employees as per the draft Financial Restructuring Plan (FRP) of the power sector.

Issues of financial management

GoP has reasonable general financial rules, treasury codes, rules of procedure and related regulations governing public financial accountability and management. However, the "public accountability and financial management system" has not been sufficiently modernized in any substantive manner in Punjab for several decades as elsewhere in India. It no longer functions with the effectiveness as intended in the

Figure 1.12 Hidden of liabilities of GoP (At the end of March 31, 2003)



Source: GoP, State Database, The World Bank.

[12] These hidden liabilities are different from hidden deficits. The latter is not included in the reported fiscal deficit number but is recorded in the government debt. The former is neither part of the deficit nor debt. It is in the form of arrears, delayed payments and contingent liabilities.

Constitution of India. Almost all aspects from budgeting, revenue collection to expenditure control and audit are operating below par. For example, the extent of overestimation of revenue receipts in Punjab is twice the average of the major states. The revenue expenditure estimates have also fluctuated widely, with large shortfalls or large savings. The fiduciary risk for Punjab is significant. Annual accounts are not tabled on time, the executive frequently ignores audit reports and the legislature is unable to hold hearings on a timely basis on serious irregularities in departments such as Public Works. Excess expenditure is not regularized on a timely basis. Instances of unauthorized diversion of funds were observed including Rs 4,500 crores on the food account. The risk is even higher in autonomous bodies and local government where accounting records are not maintained properly. Where financial statements are prepared as in the case of public sector undertakings such as the Punjab State Electricity Board they are heavily qualified by the auditors and in any case issued too late to attract attention.

The fiscal situation appears to have worsened in 2003/04 after showing improvement in 2002/03

The fiscal situation had improved in 2002/03 on account of better tax collections and doubling of grants from the Centre. As per actuals, the fiscal deficit fell from Rs.4,960 crores in 2001/02 to Rs.4,410 crores in 2002/03 - a decline of 11 percent - while the revenue deficit was constant in nominal terms. The ratio of revenue deficit to receipts fell from 42 percent in 2001/02 to 34 percent in 2002/03. Unfortunately, the improvement may have been short-lived. Revised estimates for 2003/04 show a further decline in the revenue deficit (to 26 percent of revenue receipts) but a worsening of the fiscal deficit (up to 7.2 percent of GSDP from 6 percent in 2002/03). The projections in the Medium-term Fiscal Restructuring Programme show the revenue deficit/revenue receipt (RD/RR) ratio further declining to 22 percent in 2004/05, but then staying at around this level for the subsequent two years. The fiscal deficit shows a marginal decline to reach 5 percent of GSDP by 2006/07. This would imply that GoP would fail to come close to meeting the deficit targets set out in its own Fiscal Responsibility and

Table 1: GoP's Fiscal Performance in FY2002-FY2004

(in Rs Crores)	2004-05 BE	2003-04 RE	2002-03Act	2001-02 Act	Gr rate: 2004/05 BE over 2003/04 RE	Gr rate: 2003/04 RBE over 2002/03	Gr rate: over 2001/02
Total Rev Receipts	15,678	13,677	11,071	8,929	14.6%	23.5%	24.0%
State's Own Tax Revenue	7,114	6,559	5,715	4,820	8.5%	14.8%	18.6%
Sales Tax	4,025	3,575	3,072	2,684	12.6%	16.4%	14.5%
Stamps & Registration	800	750	559	444	6.7%	34.2%	25.8%
Central Taxes	865	752	645	607	15.0%	16.6%	6.2%
Grants	1,617	1,596	676	537	1.3%	136.3%	25.7%
Total Rev Expenditure	19,121	17,216	14,825	12,710	11.1%	16.1%	16.6%
Capital Outlay	2,555	1,507	423	984	69.6%	256.6%	-57.1%
Revenue Deficit	3,442	3,539	3,754	3,781	-2.7%	-5.7%	-0.7%
Fiscal Deficit	6,117	5,868	4,410	4,959	4.2%	33.1%	-11.1%
Revenue Deficit/Revenue Receipt	21.96%	25.88%	33.91%	42.35%	-	-	-

Source: Budget Documents

Budget Management Act, 2003 (which requires annual 5 percentage point reductions in the RD/RR ratio until the revenue deficit is eliminated, and nominal reductions of 2 percent in the fiscal deficit until it reaches 3 percent of GSDP).

TAX POLICY AND ADMINISTRATION

Punjab's tax performance compares unfavorably with other Indian states, both in terms of the level of revenue raised and its growth. Punjab's tax to GSDP ratio in 2001/02 was 7.0 percent, which was lower than the average for both the high and middle-income states and only marginally higher than the average of the low-income states (top-left panel, figure-1.13)[13] . The buoyancy of tax revenue in the State during the 1990s at 0.9 was the lowest among the major states except West Bengal and 0.08 less than the average of high-income states (top-right panel, figure-1.13). During the same period, the annual compound growth of tax revenue in Punjab at less

Figure 1.13 Punjab's tax performance compares unfavorably with other Indian states

Source: Analysis of Tax Revenue in Punjab (Technical Note).

[13] In Punjab, proceeds of some of the taxes, like market (mandi) fee, rural development cess and the infrastructure cess, are kept outside the consolidated fund. Including those revenues are however unlikely to change the basic message of figure-1.12.

than 12 percent was lower than average of either low, middle or high-income states (bottom-left panel, figure-1.13). Consequently, the tax - GSDP ratio that peaked in 1986-87 at 7.9 percent declined steadily to 6.9 per cent in 1991-92 and further to 5.9 per cent in 1998-99 before reviving marginally to 7 per cent in 2001-02 (bottom-right panel, figure-1.13).

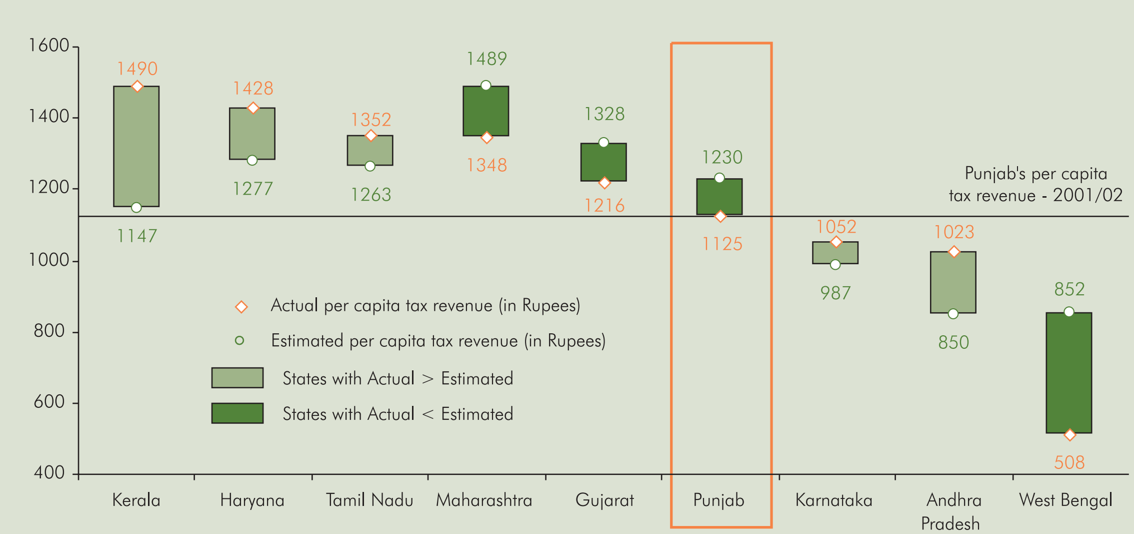
Not surprisingly, Punjab's actual tax collection is found to be considerably lower than its estimated taxable capacity[14] and thus its tax effort index is also relatively low. For example, Kerala, Haryana, Tamil Nadu, Maharashtra and Gujarat had higher per capita sales tax revenue collection in 2001/02 than Punjab, despite having lower per capita income (figure 1.14). Haryana, a neighboring state and with a similar economic structure as Punjab (i.e., agriculture contributing to nearly 38-40 percent of GSDP), had a per capita sales tax revenue of Rs.1,428 compared to Rs.1,125 in Punjab. More importantly, the tax effort by Haryana (defined as the ratio between actual tax collection and estimated taxable capacity) is 111.8 compared to 91.5 for Punjab. In other words, if Punjab had put in the same level of tax effort as Haryana, its sales tax would have been higher by as much Rs. 700 crores - which implies that the level of under-taxation is nearly 25 percent.

INFRASTRUCTURE: POWER AND ROAD SECTORS

Punjab's power sector has achieved much success … …

All the villages in Punjab are electrified and 92 percent households have access to electricity - the highest among all the states in India. The per capita consumption of electricity in Punjab is 800 kWh per annum compared to the national average of 355 kWh (FY2000). All the consumers except agriculture are metered and 54 percent of the total energy available for sale is sold on metered basis - higher compared to several other states[15]. The electricity sector has been a major contributor to the growth of the agriculture

Figure 1.14 The actual and estimated sales tax revenue in selected Indian states, 2001/02



Source: Analysis of Tax Revenue in Punjab (Technical Note).

[14] Taxable capacity is estimated by regressing per capita tax collection on per capita income, share of non-agricultural output in total output and per capita bank deposit for 14 major Indian states for 2000/01 and 2001/02.

[15] Karnataka - 37%, Andhra Pradesh - 47 %, Tamil Nadu - 61%, Rajasthan - 44%; and Orissa - 52%.

sector in the state, with about 8.6 lakh farmers out of the total 11 lakh landholdings dependent on electricity for groundwater irrigation. The Punjab State Electricity Board (PSEB) is generally considered among the financially better performing utilities in the country. It has maintained good collection efficiency, ranging between 96 to 98 percent. The PSEB has never defaulted on its payment obligations to the other financial institutions/banks[16].

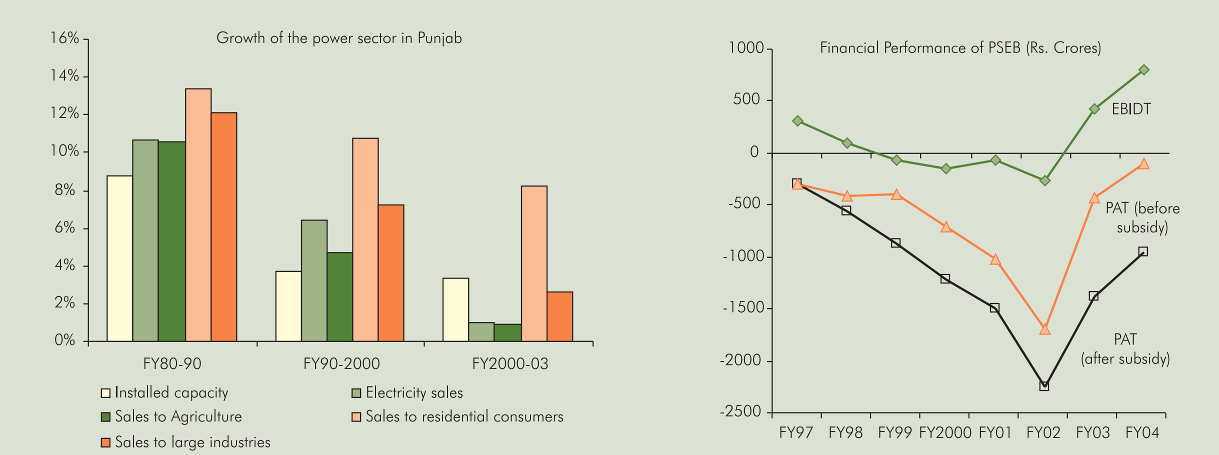
… … *though like in the rest of the country, its performance has deteriorated in recent years*

The growth of the power sector in Punjab slowed down considerably during the 1990s. Compared to 8 percent average per annum growth in installed capacity and 12 percent in energy available during the 1980s, the corresponding growth rates during the 1990s have been 3.7 and 4.3 percent respectively. During FY2000-03, the installed capacity increased by only 3.3 percent and energy available by 2.6 percent (left panel, figure-1.15). The state currently faces a 14 percent energy deficit and 30 percent peak deficit. While the hours of power supply to urban areas has been more or less maintained around 24 hours, daily power supply in rural areas has declined from about 21 hours in FY2000 to 16 hours in FY2003[17]. There are no announced power cuts on large industrial consumers, but peak load restrictions are imposed. The financial performance of PSEB has undergone a sharp deterioration in recent years, from a net loss (excluding subsidy) of Rs 296 crores in FY1997 to Rs 2,251 crores in FY2002. The PSEB was not even able to cover its operating costs - its earning before interest and depreciation declined from Rs 303 crores in 1996/97 and became negative by 1998/99 (right panel, figure-1.15).

Partial financial recovery during 2002/03 and 2003/04

Unlike in many other Indian states, the power sector finances of Punjab have turned around in the last two years. As per the provisional numbers, the financial losses (before subsidy) in 2002/03 were Rs 1,385 crores. The GoP has provided subsidy support of Rs 950

Figure 1.15 The overall performance of Punjab's power sector deteriorated during the 1990s



Source: Punjab Economic Reform Study: Note on Power Sector (Technical Note).

[16] Though the debt servicing on GoP loans were allowed to be retained by PSEB in lieu of subsidy receivable from the government.

[17] The farmers with whom the Bank staff met however insist that the actual duration of power supply is much lower than the official version and has fallen in recent years.

(as committed under the ARR/tariff review for 2002/03). For 2003/04, the latest estimates indicate a loss of Rs 103 crores after accounting for Rs 857 crores subsidy receivable from GoP. The two tariff orders of the PERC have put the utility back on track towards improving its cost recovery and financial viability. In 2002/03, the tariff was increased by 8 percent for subsidizing consumer categories and 11 percent for non-subsidized categories, with the objective to narrow the cross-subsidy. Tariff for agriculture consumers was restated at Rs 0.57/kWh or Rs 60/HP/month. The cost recovery, thereby, has improved to 76 percent. In FY2004, the average tariff has been increased by 6-13 percent for different consumer categories, except for the agriculture consumers. Partial restoration of financial performance is a positive development, however there are significant risks to the sustained viability of Punjab's power sector. Without a commensurate improvement in the quality of power supply and improved operational efficiency, for which new investments are urgently required, it will be difficult for Punjab to sustain the current power sector reform.

Road sector has not kept pace with the demands

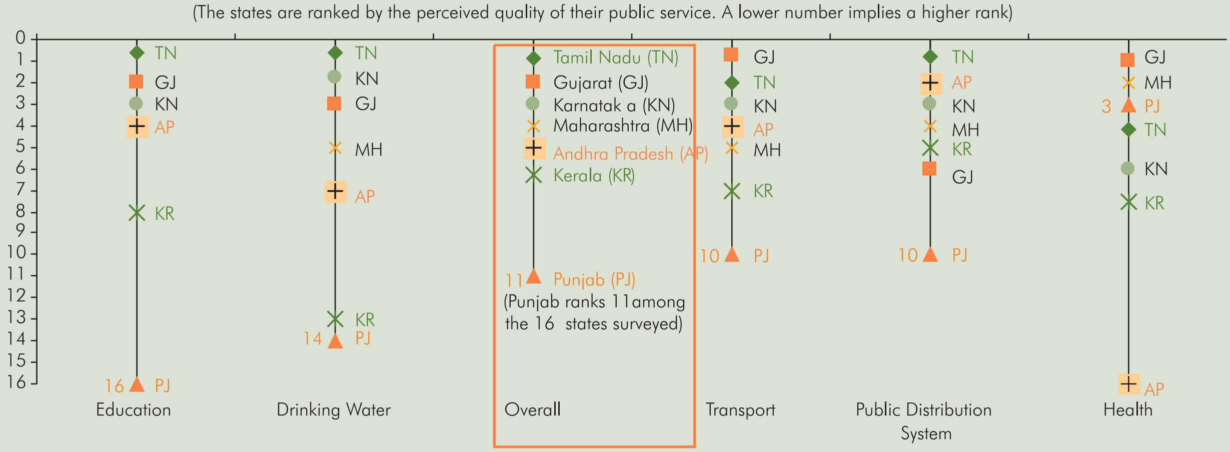
Punjab has one of the highest road densities in the country, but is disadvantaged by its long distance from ports. The state has a large and relatively well-developed road network that provides good geographical coverage throughout the state. The rural road network is unique in India, connecting essentially 100 percent of villages with paved roads whose maintenance is funded from the *mandi* tax at a rate of 4 percent of the value on crop sales. Punjab has also an extensive National Highway Network (1720 km), in relation to its size, whose maintenance is funded by GoI. However, the State main road network of about 7,000 km, which connects rural roads to National Highways and also provides intra and inter-state links, is under considerable strain from increasing traffic and the cumulative impact of many years of maintenance under-funding. Fiscal constraints have prevented the government from maintaining and upgrading the road infrastructure in the state, in line with increases in vehicular traffic and therefore the road sector has not kept up with the demands on it. Public enterprises operating in the road sector have been plagued by inefficiencies.

SERVICE DELIVERY AND GOVERNANCE

Despite its high per-capita income and public expenditure, Punjab does not score in terms of service delivery outcomes. A recent perception survey by the Public Affairs Center (PAC) places Punjab in eleventh place in the quality of service delivery across 16 major Indian states (figure-1.16). Except in health

Figure 1.16 Relative performance of public services in selected Indian states, 2003/04

(The states are ranked by the perceived quality of their public service. A lower number implies a higher rank)



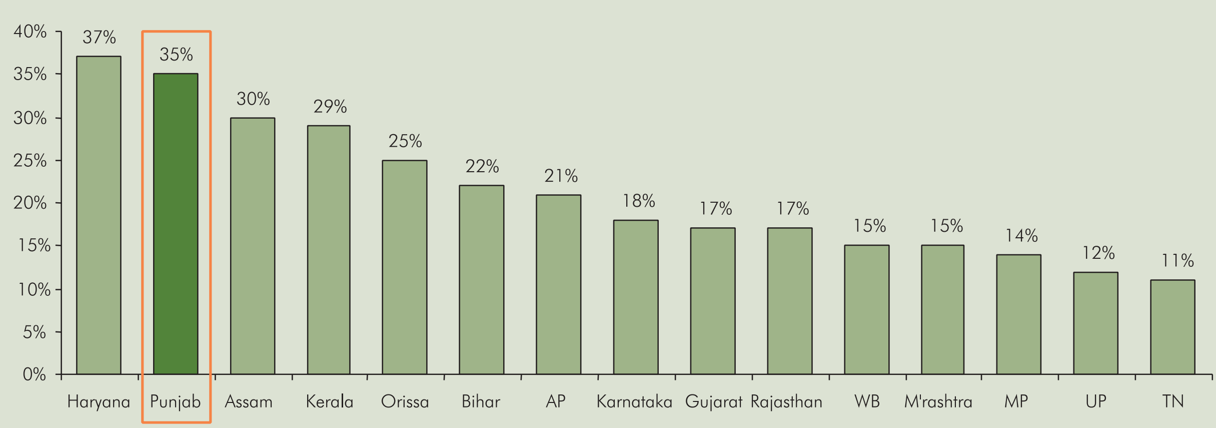
Source: EPW, 2004.

services, Punjab has been ranked lower than all the six middle and high-income states shown below and even worse that some of the low-income states like Madhya Pradesh and Uttar Pradesh (not shown). In education, the poor quality of the government system is evident from the weak performance of public school students in the Board Examinations. Only 53 percent of students were successful in the Class 10 exams in 2002. Public school students perform worse than their counterparts in private schools at all levels of the system. The poor quality of government schools is particularly problematic for the poor and disadvantaged castes who are much less likely to attend private schools (Punjab HDR, 2003): Poorer districts tend to have fewer private schools; and the share of scheduled castes in government primary schools is 44 percent, well above their share in the population, as children from other groups have been moving out to private schools.

In several states, e-governance has proven to be one way of reducing corruption and improving services. There are several challenges confronting the development of e-governance in Punjab. The Department of Information Technology has been seriously hamstrung by the erratic release of funds for some of its projects. It is also clear that many departments lack the champions to aggressively implement e-governance solutions in their domains. While some progress has been made in e-governance, much more needs to be done for it to take hold in Punjab. In the social sectors, absenteeism remains a major issue, seriously undermining the quality of the school and primary health system in rural areas. The government intends to reinforce local accountability in the health and education systems through an ambitious decentralization initiative.

The civil services face major challenges in Punjab including chronic overstaffing, political interference, weak policy-making capacity, and inefficient processes that stymie its working. The ratio of civil servants (core, PSUs, and local bodies together) per 100 of population is approximately 2.2 in Punjab, compared to 1.36 in Karnataka, 1.75 in Andhra Pradesh, 1.7 in Gujarat and 1.9 in Orissa, and the all-India ratio of 1.4. Relative to several major states and the country as a whole, therefore Punjab is overstaffed. While downsizing may be difficult in the current political environment, the government has also loosened the freeze on recruitment, which might have helped contain the long-term fiscal damage of its bloated civil service.

Figure 1.17 Average Percentage of legislators who found representation in the State Cabinet, 1967-94



Source: Data derived from Chhibber 'Democracy without Associations' 1999.

There is also considerable scope for rationalizing the structure of government and reducing administrative fragmentation to improve performance. Punjab's 43 departments could benefit from greater coordination amongst them. Administrative fragmentation has been fueled in part by the large number of Cabinet members relative to the size of the legislature: Between 1967 and 1994, 35% of the legislature found representation in the state Cabinet, the second highest of any state in India (figure 1.17). By 2004, the percentage of legislators finding a berth in the Cabinet had fallen significantly to 26%, but the problem of fragmentation remained largely unaddressed. The new constitutional amendment limiting cabinet size to 15% of the strength of the legislature provides a further opportunity to streamline departments in Punjab to promote synergies and eliminate overlapping functions: All states will have to comply with this law by June, 2004.

The frequent transfer of civil servants spawns corruption and undermines service delivery. The average term for Principal Secretaries in their current post as of October, 2003 was a mere 13 months compared to 16 months in their previous post (this excludes officers on deputation to GoI where terms tend to be longer). For Secretaries in their current post, the average tenure was 17 months compared to 15 months in their previous assignment. Nor is the picture any better at the district-level: The average tenure for deputy commissioners in Punjab's districts was only 13 months for the current occupant in October, 2003 compared to average of 22 and 14 months respectively for the previous two deputy commissioners. Frequent transfers imply a weaker capacity to frame policy in departments; Secretaries often have only a few months to learn about a department before they are whisked off to another position. Ironically, many Secretaries spend a great deal of their time dealing with personnel issues, such as transfers and appointments, rather than thinking about policy formulation and strategy.

Major Challenges to Punjab's Prosperity

MAJOR CHALLENGES TO PUNJAB'S PROSPERITY

An average citizen of Punjab has already achieved a level of socio-economic development that an average Indian citizen is unlikely to experience in her lifetime. This makes the nature and extent of Punjab's development challenge that much more unique and complex. To paraphrase, using language from the sports world, Punjab is a champion defending its title and not an underdog trying to win one. As the previous chapter demonstrated, Punjab's problems are likely to be different than those faced by other Indian states. Punjab grew rapidly when much of India was growing at an anemic rate of 3 percent per annum, but its economy slowed down when the rest of India took-off. The growth slowdown in Punjab is primarily attributed to stagnant agriculture, while the growth slowdown in some of the high and middle-income Indian states is largely due to the deceleration of the growth rate in industry. While the genesis of the current fiscal woes in many states is traced to the Fifth Pay Commission and declining revenue during the 1990s, the roots of the problem in Punjab go much further back in time to the period of militancy that erupted in the early 1980s. At the same time, there are similarities as well. The decline in public services, the administrative and governance challenges, the problems associated with the power sector and the growing culture of appeasing special interests are some of the challenges that Punjab shares with other Indian states, though even here the extent and nature of the problems vary greatly in Punjab.

In this chapter, we take a close look at some of the major challenges that are a key threat to Punjab's long-run prosperity. The emphasis is on Punjab-specific factors and not on factors that are common to all states and are thus well known in the literature. Seven such factors have been identified below for in-depth scrutiny.

THE DEBILITATING IMPACT OF CIVIL STRIFE

The long bout of insurgency during the 1980s and early 1990s has left an indelible mark on the state, which it is still learning to deal with. The impact was felt on all fronts: investment and growth slowed down as investors stayed away, state finances deteriorated due to increasing expenditure on law and order and the rapidly growing bureaucracy, collecting taxes became an increasingly difficult business, service delivery, particularly in rural areas, suffered, and civil servants under President's rule became less accountable and potentially more prone to corruption.

Extensive decline in the growth rates across all sectors

The impact of militancy on growth was swift, widespread and, in some sectors, permanent. Although there was no flight of existing capital, surplus capital with Punjab's larger industrial houses moved out to neighboring states[18]. Punjab's base of small-scale industries began to stagnate. The industrial growth rate halved, from above 8 percent per annum in the mid-1980s to 4 percent per annum by 1991/92 (figure 2.1). The growth rate of the services sector decelerated as well, and fell by half. Even the agriculture sector was not spared. Its growth rate fell from around 6 to 2 percent per year, although it is unclear how much of this decline is due to insurgency activities and how much is due to diminishing returns on the green revolution technology. The overall growth rate declined from an annual average of 6 percent per annum to 3.6 percent during this period. While the industry and service sectors have gradually bounced back to trend growth rates as normalcy returned to Punjab, the agriculture sector remains mired in a low growth trap even today.

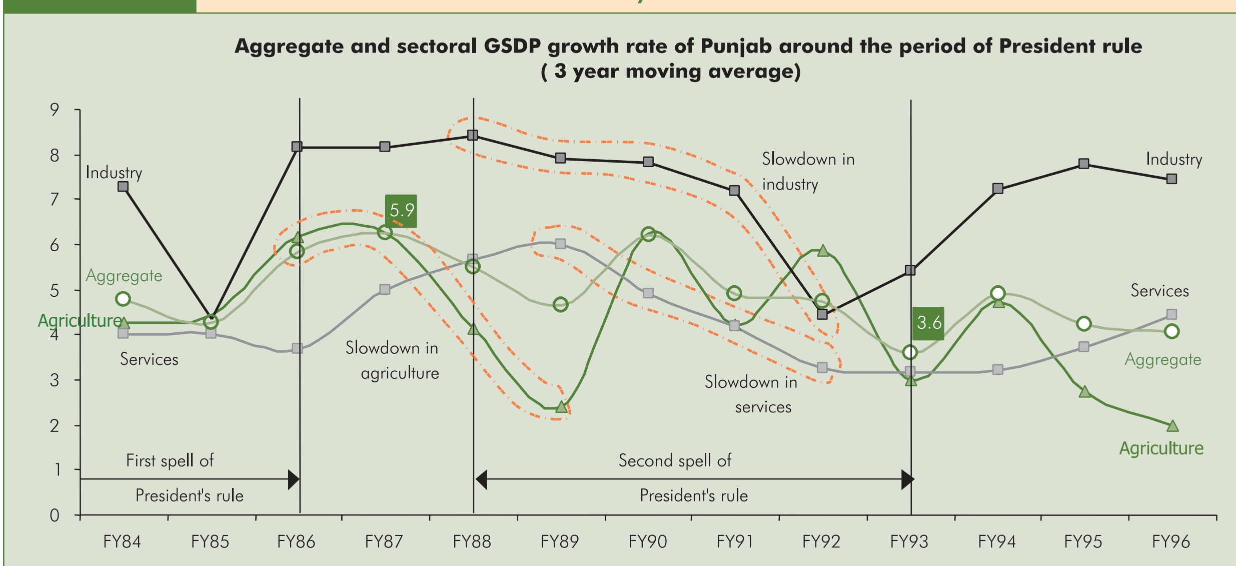
Our calculation shows that the output loss suffered by Punjab on account of militancy activities could be as large as Rs. 13,000 crores in today's prices[19].

Fiscal impact: The chickens came home to roost after a lag of several years

While state finances were affected during militancy, much of the real damage was felt after the state returned to normalcy. The fiscal situation was affected by the expanding state apparatus, mounting revenue expenditure to maintain law and order, and the inability on part of the government to enforce effective tax administration, given the deteriorating law and order situation, especially in the rural areas[20].

A major spurt in the growth of the civil services in Punjab occurred during the second spell of

Figure 2.1 Punjab: The growth rate fell considerably during the period of militancy and President's rule



Source: Economic and Political Weekly; The State Live Database, The World Bank.

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[18] Some of the prominent and successful Punjabi business houses that began investing outside of Punjab, mainly in Haryana and Delhi, during this period include the Munjals, Oswals and Mittals.

[19] This assumes that the economy would have grown at the pre-militancy trend growth rate during the militancy period.

[20] Bank staff was told by one official that, during the height of militancy, the government was effective only within a the 10 kilometer radius of the Grand Trunk road, the main road connecting all important cities of Punjab. The countryside, especially in the border districts, were off-limit to state government officials.

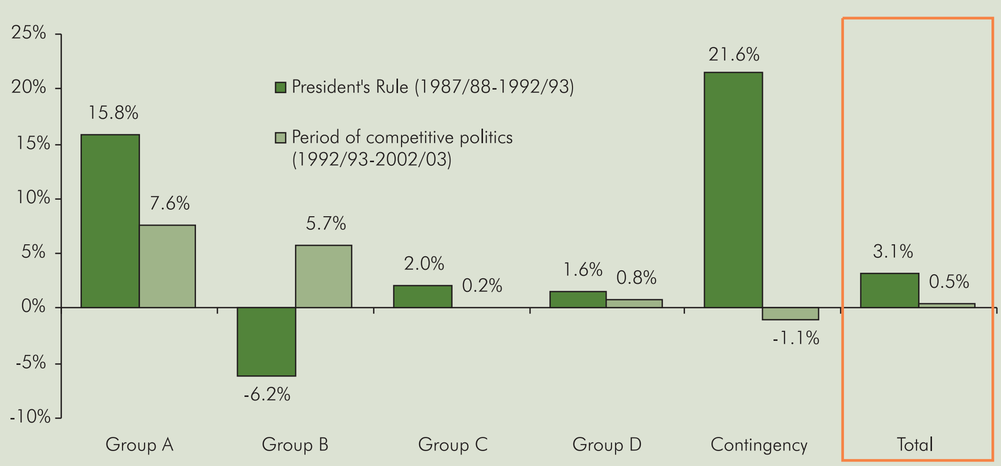
President's rule, from 1987 to 1993, with the core civil service growing by some 3 percent per annum (figure-2.2). Most of the growth came from contingency and work-charged employees (22 percent per year) and Group A civil servants (16 percent per year). The rapid growth of contingency employment between 1987 and 1997 partly reflected the government's desire to expand job opportunities in Punjab during a period of social turmoil fed by militancy.

The fiscal cost of maintaining a large and growing bureaucracy had its toll on revenue expenditure, which shot up by 2-3 percentage points of GSDP during this period (figure 2.3). The rising revenue expenditure was financed by additional borrowing from the Centre, resulting in a secular decline in the state's capital expenditure and an unprecedented increase in GoP's debt. As figure-2.3 shows, Punjab's debt to GSDP rose from 26.1 percent of GSDP to 36.3 percent in a span of six years (between 1986/87 and 1992/93), at a time when the average debt to GSDP ratio for other Indian states remain unchanged at 23.7 percent. The interest payments on these additional borrowings started to mount rapidly and Punjab's interest payments more than doubled in 1993/94, from 1.6 to 3.4 percent of GSDP and steadily increased there after (figure-2.3)[21]. The rising interest bill today accounts for nearly 30 percent of the state's total revenue receipts and is one of the main causes of the low level of capital expenditure and the rising revenue deficit of the state.

An amount close to Rs.8,000 crores related to the militancy period, generally referred to as the 'terror-debt' in Punjab, is still in the accounts of GoP though the interest payments have been waived off till 2004/05. GoP has made a request to Government of India (GoI) to write-off the entire terror-debt and the Twelfth Finance Commission (TFC) will give its view on this matter when it submits its report later in the year.

Revenue mobilization also suffered during this period and worsened as policy-makers, faced with the

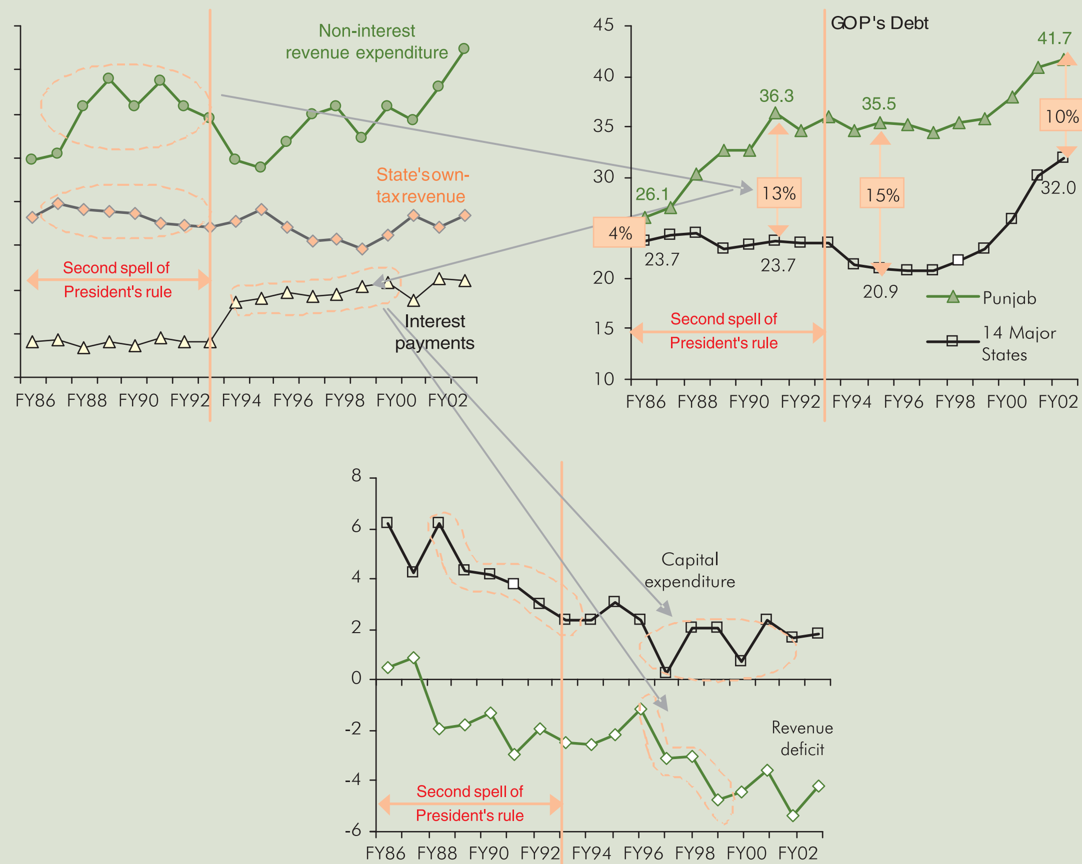
Figure 2.2 Punjab experienced a major spurt in the growth of the civil services during President's rule



Source: GoP, State Database.

[21] There was also a waiver on some of the interest payments during President's rule, which stopped following the latter's revocation.

Figure 2.3 The fiscal cost of insurgency has been felt over time through higher interest payments and a lower revenue base and productivity
(All variables are expressed as a percent of GSDP)



Source: GoP; The State Live Database, The World Bank.

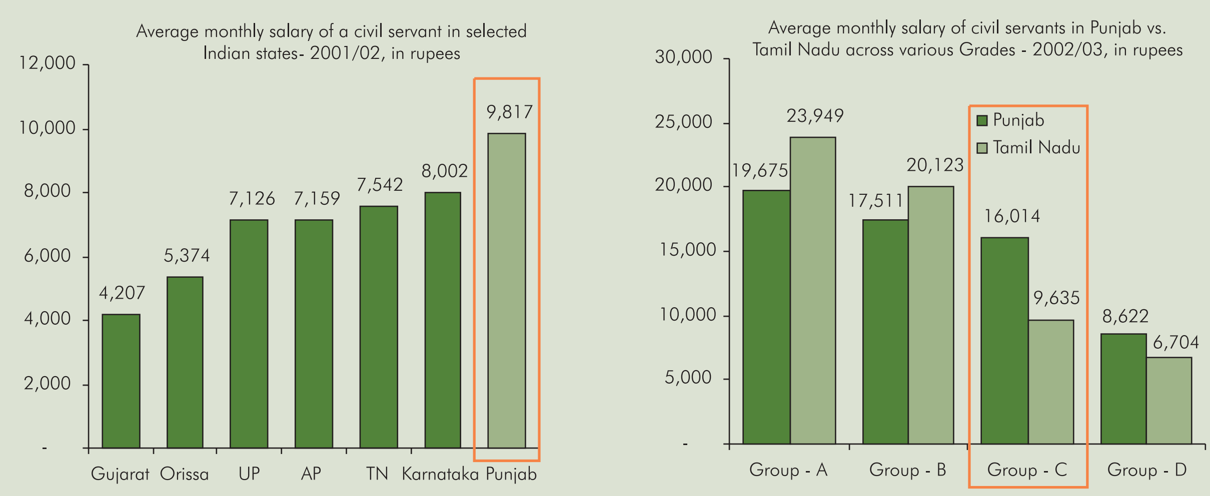
specter of insurgency, adopted populist policies. The state, over time, became a soft target of special interest groups. The state's own tax revenue to GSDP fell from 7.9 to 6.9 percent of GSDP between 1986/87 and 1992/93, though not all of it can be attributed to the militancy problem, as the tax to GSDP ratio declined in other states as well during this period, albeit less rapidly than in Punjab.

IMPROVING THE WORKING OF THE CIVIL SERVICE

The Problem of Low Productivity

There is no simple and objective way to measure the productivity of a state's bureaucracy. But in a state like Punjab, where the salary per civil servant is one of the highest in the country (figure-2.4) and the quality of public services one of the poorest (figure-1.16), it can be said with some degree of confidence that the productivity of Punjab's civil service, however measured, is likely to be quite low. The average salary per civil servant however masks inter-Grade disparity, e.g., compared to the pay scale of Tamil Nadu, Group C and D employees in Punjab are paid higher than their counterparts, while Group A and B actually receive less (right panel, figure-2.4). The fact that Group C and D make up 85 percent of the state's civil service in Punjab and are paid disproportionately more than

Figure 2.4 Average monthly salary of civil servants across states and across grades between states



Source: GoP, GoTN, The State Database.

their counterparts in other Indian states clearly reflect that the mismatch between wage and productivity is likely to be far greater in the lower than in the upper grades.

The low productivity of civil services in Punjab can be directly linked to chronic overstaffing, political interference, lack of accountability and absenteeism, and inefficient processes that stymie its working.

Overstaffing

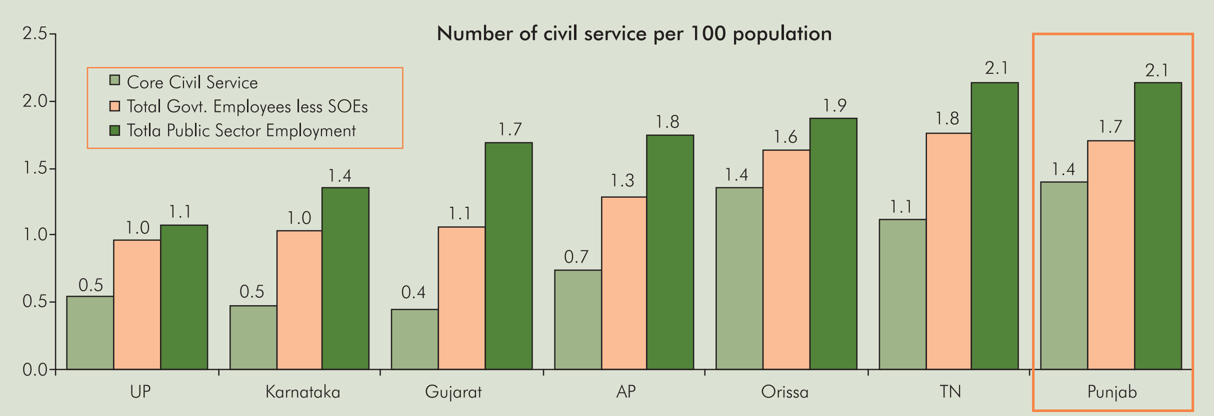
Punjab has one of the most over-staffed civil services in the country

According to GoP, the total size of the core civil service in 2002 stood at about 376,222 employees of which the most numerous were Group C employees (67 percent) followed by Group D employees (18 percent). If we add employees of PSEB and other PSUs (about 104,178), teachers in Grant-in-aid-schools (16,804) and local bodies (about 38,636), this number swells to 535,840.

The ratio of civil servants (core, PSU's, and local bodies together) per 100 of population is approximately 2.2 in Punjab, compared to 1.36 in Karnataka, 1.75 in Andhra Pradesh, 1.7 in Gujarat and 1.9 in Orissa, and the all-India ratio of 1.4. Relative to several major states and the country as a whole, therefore Punjab is overstaffed (figure-2.5).

The Punjab Expenditure Review Commission (2002) report notes that senior positions in the bureaucracy have proliferated in recent years, triggering a concomitant expansion of subordinate staff as well: the number of Indian Administrative Service (IAS) officers increased from 165 to 206 between 1984 and 1998, while that of Superintendent of Police (SPs) and above increased from 112 to 237. Group A civil servants in absolute numbers grew from 612 in 1967 to 5,192 in 1992 and 12,156 in 2002. It is worth noting that the growth of the Punjab civil services has an important historical dimension (figure-2.6). The first major spurt in growth in the civil services occurred from the late 1960s to the late 1970s pushed forward by the Indian state's rapidly expanding role in the economy. Particularly notable during this period was the rapid growth of Group A civil servants, expanding by 58 percent between 1967 and 1972 and another 39 percent between 1972 and 1977. The next major spurt of growth occurred during

Figure 2.5 Punjab's civil service is over-staffed compared to major Indian states

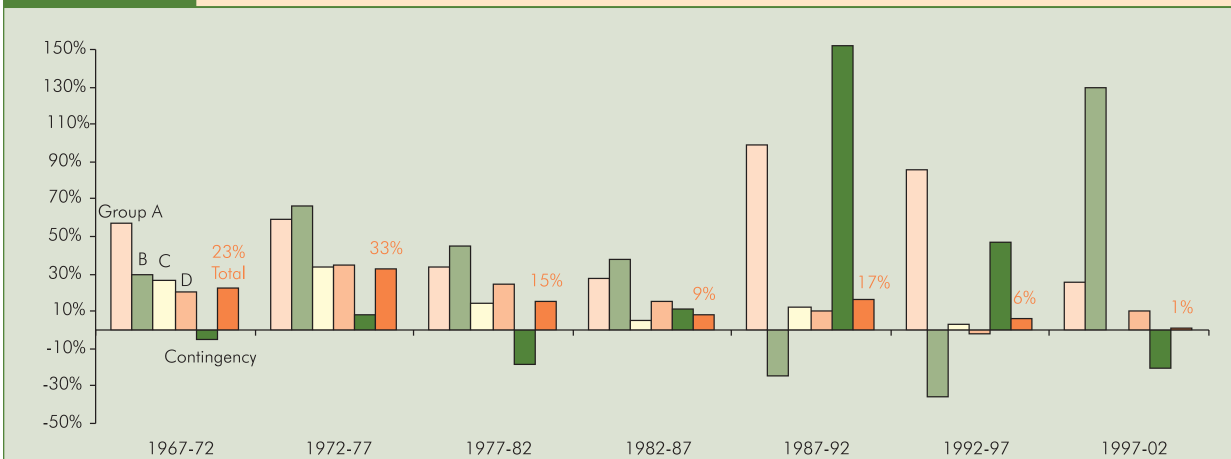


Note: (i) Data pertains to 1999/00, except Gujarat, for which data is available for 1998/99. Total Public Sector Employment includes core civil service, work-charged and daily-wage employees, grant-in-aid institutions, state- owned enterprises, and local bodies.

the second spell of President's rule in Punjab from 1987/88 to 1992/93. The growth of Group A continued unabated between 1992/93 and 1997/98 registering an increase of 86 percent, while Group B shrank by 35 percent with more Group B cadres being reclassified as Group A by the leadership. Contingency employment also increased between 1992 and 1997 by 47 percent, but the overall size of the core civil service expanded by only 7 percent.

The problem of a ballooning wage bill has been exacerbated by three factors in addition to the salary increases decreed by the Fifth Pay Commission and extended by Punjab's Fourth Pay Commission to all state employees. First, GoP, for essentially political reasons, allowed the number of Group A cadres to swell from just 161 in 1998 to 211 in 2001, resulting in a major increase in the number of highly paid civil servants in the state. Group B cadres registered a moderate increase from 93 to 99, and Group C cadres fell from 314 to 258 in the same period. A typical example: agricultural inspectors, a Group C cadre, were redefined as Group A officers in the late 1990s. Second, government servants under the

Figure 2.6 Expansion of the Core Civil Service, 1967 through 2002



Source: Finance Department, GoP.

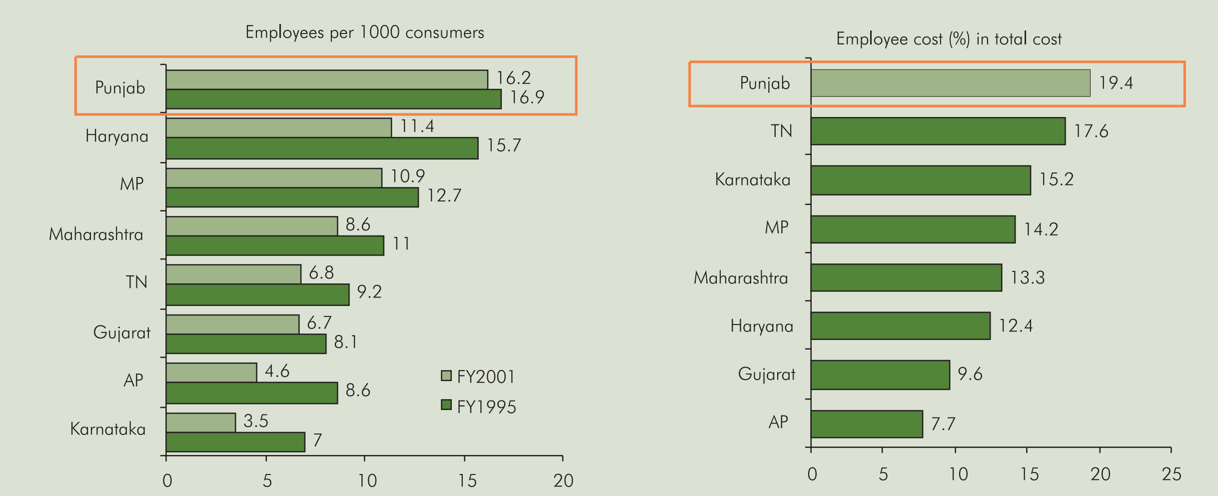
assured career progression program were guaranteed hefty salary increments, even if not promoted, after 8, 16, and 24 years of service respectively; this was compressed in 1996 to shorter time horizons of 4, 9, and 14 years, while the number of cadres falling under the program's ambit was widened significantly. Third, the pay scales of GoP employees are significantly higher than those in neighboring Haryana and, crucially, the GoI, particularly for peons, teachers, doctors, and constables, who account for a large percentage of the state's total civil service.

Police and Irrigation seem to be particularly overstaffed. The police budget, only 3.53 per cent of the total budget in 1980-81, has shot up to more than 8 per cent (Rs 1000 crores) today. Two decades ago, Punjab possessed only one Inspector-General (IG) of Police in Punjab, controlling the police force. Now there are 16 IGs, 13 Additional Director-Generals of Police, who supervise the work of the IGs, and one Director-General of Police at the top. The force spends roughly 87% of its budget on salaries and the rest on other activities including maintenance and modernization; this contrasts sharply with the norm of only 70% of the budget for salaries set by the National Police Commission. Estimates place the number of surplus employees, in the Irrigation Department at over 20,000.

Overstaffing is not limited to the core civil service

The Punjab State Electricity Board (PSEB) is one of the most bloated electricity utilities in India, making it even harder to commercialize (figure 2.7). Employee costs in PSEB are substantially higher compared to other power utilities, and accounted for 19% (FY2002) of the total cost of power supply. During the period FY1997-2002, PSEB's employee costs increased by 100% between 1997 and 2002, while the number of employees grew by merely 3%. While the utility has imposed a ban on recruitment and a freeze on new posts, there is no evident improvement in the rationalization and efficient deployment of the employees in PSEB. The employee strength is large (about 85,000), there are issues of skill mismatch, and the salary/benefits structure is among the highest compared to other power utilities in the country. PSEB has 16 employees to serve 1000 consumers as compared to the national average of 7.8 employees per 1000 consumers. Key reasons for such gross overstaffing

Figure 2.7 PSEB is overstaffed relative to other SEBs, which adds to the cost of power supply



Source: Annual report on Working of SEBs, Planning Commission, May 2002.

include outdated work norms, minimal outsourcing of the utility's functions, and the rapid creation of posts. An internal review concluded that PSEB could profitably shed 10,000 posts in transmission and distribution (i.e. 15% of the total employees in T&D), while PSEB's Chairman stated that he had to contend with "flab" in excess of 30,000 employees.

The Punjab Expenditure Regulatory Commission (PERC) in its FY 03/04 tariff order stressed the need to reduce employee costs and allowed the utility to recover Rs 1250 crores in wages through tariffs. However, employee costs in FY 04/05 is estimated to be about Rs 200 crores higher. Subsequent to the directive of the PERC to reduce employee costs, some measures[22] have been initiated but with only marginal effects so far.

Political Interference: The Problem of Premature Transfers

Punjab suffers from the problem of frequent transfers of officers, spawning corruption and undermining service delivery. Frequent transfers seem to be a particularly serious issue in large departments, such as health, education, and police, as well as revenue-generating departments, such as transport and registration[23]. Leadership for reforms has to be provided by Secretaries of the key Departments, for which they need a stable tenure. Unfortunately, at present the average time that the Principal Secretaries and Secretaries have spent on their jobs in the Punjab secretariat does not seem to be more than a few months. The total period that Principal Secretaries and Secretaries had spent in their posts as of October, 2003 is shown in Table 2.1.

Of the five officers who had spent more than two years on their posts, four were holding posts for which there is little competition, such as Principal Secretary, Freedom Fighters; Principal Secretary, Programme Implementation; Secretary, Department of Relief and Settlement; and Commissioner, Departmental Enquiries. The more important Secretaries were transferred before they could play a leadership role in promoting reform. The average term for Principal Secretaries in their current post as of October 2003, was a mere 13 months compared to 16 months in their previous post (this excludes officers on deputation to GoI where terms tend to be longer). For Secretaries in their current post, the average tenure was 17 months compared to 15 months in their previous assignment. Nor is the picture any better at the district-level: The average tenure for Deputy Commissioners in Punjab's districts was only 13 months for the current occupant in October, 2003 compared to average of 22 and 14 months respectively for the previous two Deputy Commissioners. In the police, the tenure of Station House Officers (SHO's) was about seven months, and just eight to nine months for Deputy Superintendents of Police (DSPs).

Table 2.1 - Tenure in months/Senior IAS officers

No. of months	Less than 3	3 to 6	6 to 12	12 to 18	18 to 24	more than 24
No. of officers	18	20	5	3	6	5

[22] These measures include abolishing 1400 vacant posts at hydro-electric projects, and curtailing benefits such as telephones, staff cars, and house/conveyance advances (annual savings of Rs 35 crores). The utility is allowing long leave of five-years to work in the private sector and premature retirement.

[23] For example, the problem of deteriorating pupil-teacher ratios in remote or rural areas has been compounded, to a large extent, by the politicization of the process of assigning and transferring teachers across posts. The incentives to use political influence to secure a desirable urban posting can sometimes be overwhelming, resulting in higher-than-normal vacancies in less developed districts. Mid-year transfers, recently banned, have seriously disrupted the learning process for school children across Punjab.

Inadequate Use of Modern Technology and Fragmented Administration

On the whole, the Punjab Government has yet to systematically apply information technology on a large scale. While the Secretariat does possess a computerized file monitoring system in the office of the Chief Minister, its use could be far more widespread than it is at present. The Government has computerized the service records of all Secretariat officials but has yet to implement a computerized human resource database for which the software is already available. The Secretariat's Manual of Office Procedure is in dire need of revision to accommodate the greater use of information technology, administrative simplification, and public demand for access to information.

More importantly, there is considerable scope for rationalizing the structure of government and reducing administrative fragmentation to improve performance. Punjab's 43 departments could benefit from greater coordination among them: For instance, the Punjab Finance Department focuses only on expenditure while revenue is a separate subject under a Financial Commissioner, Excise and Tax. Punjab has 117 Principal Secretary and Secretary-level officers from a total of 163 IAS officers; the ratio of IAS officers to the population is highest in Punjab out of fourteen major states; and for every single IAS officer in Punjab, there are 412 Group D staff (e.g., drivers, peons) compared to 352 in Tamil Nadu and 205 in Karnataka. The problem is not necessarily the large size of the IAS cadre but the cascading effect that this has on the proliferation of the civil service at lower levels. Currently, the state is organized into four divisions, 17 districts, 72 subdivisions, and 140 development blocks; yet, in 1966, Punjab had two divisions, 11 districts, 37 subdivisions/tahsils and 117 development blocks. It is not clear whether a small state, such as Punjab, needs four divisions or 72 sub-divisions when the average number of development blocks in a district is just eight. This multiplicity of administrative tiers generates both confusion and delay, besides adding to the state's enormous wage bill.

Lack of a computerized tax system and administrative fragmentation have affected state's tax collection

Lack of a systematic method to gather economic intelligence and the fragmented administrative structure of the tax department have affected revenue collection in the state. Punjab has no institutional mechanism for sharing of information among sales / commercial tax departments, except verification on a case-by-case basis from time to time. This is a matter of concern as Punjab levies sales tax at the last point, unlike most Indian states that collect taxes at the first point. Given that the information on the dealers is weak and there has been widespread evasion of tax in the last point system, over the years, the state has shifted the tax to the first point in respect of a number of commodities. This however, has not helped to improve revenue productivity, as the traders seem to have managed to keep the entire chain of transactions out of the tax net. The organization of the tax departments along the geographical lines instead of functional responsibilities has also led to inadequate sharing of tax information across the geographical boundaries.

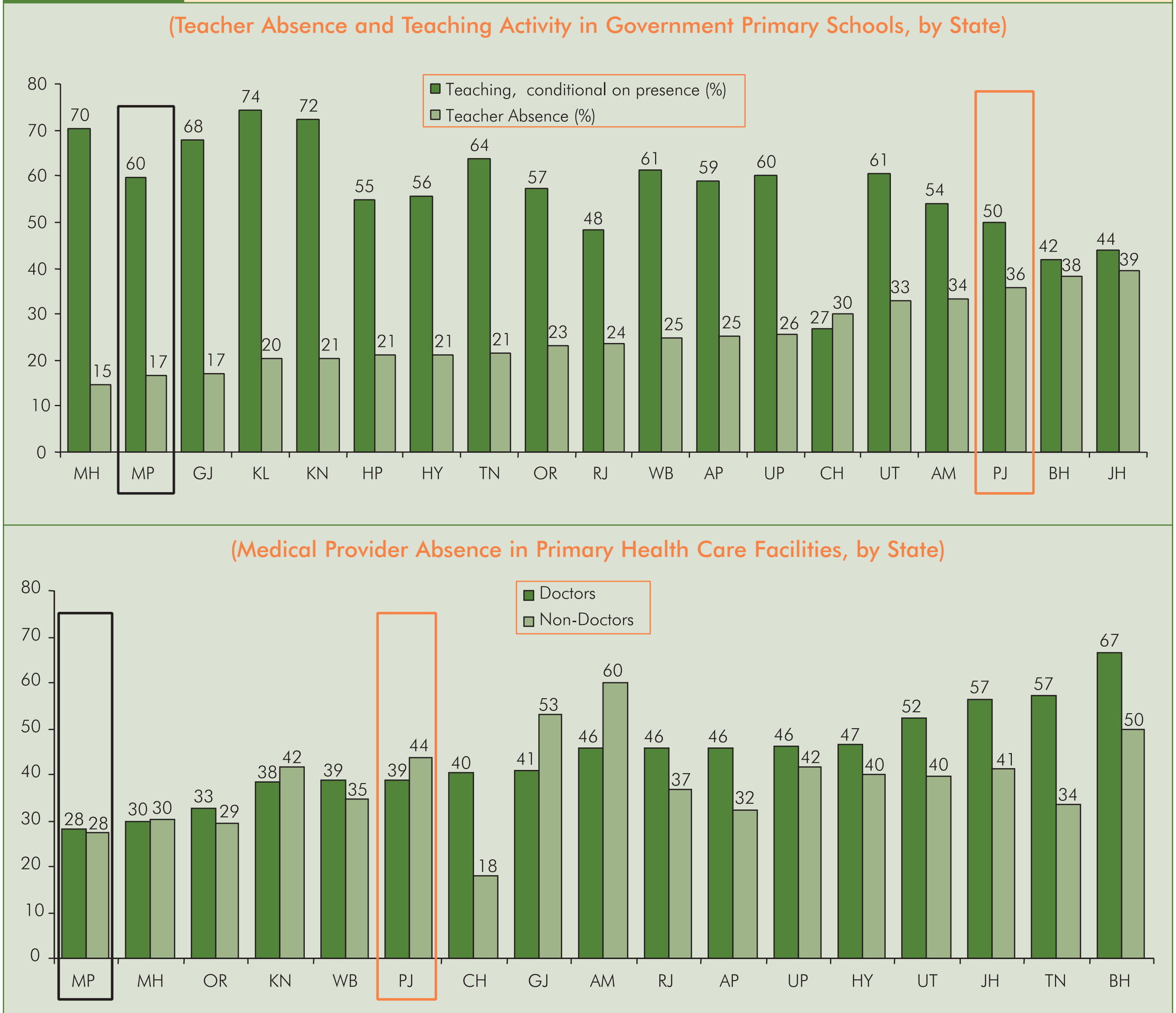
ENHANCING THE QUALITY OF SERVICE DELIVERY

The Problem of Absenteeism

Recent evidence from a survey of government primary schools across Indian states shows that teacher absence in primary schools in Punjab is extremely high: on an average, on any one day, 36 percent of Punjab's primary school teachers are absent from the school (top panel, figure 2.8). This rate is well above the 25 percent rate for All-India, and third highest across Indian states, following Bihar and Jharkhand. Compounding the problem is the finding that even when teachers are present, only half (49.8 percent) are teaching. This is below the all-India average of 59.5 percent.

The same problem plagues the health facilities as well. Nearly 39 percent of doctors and 44 percent of other medical personnel are absent from

Figure 2.8 A high rate of absenteeism among educational and health service providers is a major constraint to improving the quality of service delivery in Punjab



Notes: The absence rate is the percentage of providers who are supposed to be present but are not on the day of an unannounced visit.
Source: Provider Absence Project Research Team, World Bank 2004.

their place of work (bottom panel, figure 2.8). Not all the absences can be explained by shirking. Among doctors, of the 39 percent absence rate, 11 percent were absent without reason, 12 percent were on authorized leave, and the remaining 16 percent were away on official duty. Among non-doctors, the corresponding breakdown is 9, 14, and 20 percent. More work is needed to better understand the high rates of absence, as the policy response depends on why absences occur. If service-providers are absent for personal reasons, incentives for staff need to be changed. If institutional reasons are the culprit, the state needs to re-evaluate the value of other requirements that keep providers away from their jobs[24]. Interestingly, Madhya Pradesh, which has been a

[24] Home visits could be a reason, but are likely not to be an overwhelming factor. Only 2% of women surveyed in the 1998-99 NFHS report having received at least one home visit from a health or family planning worker in the 12 months preceding the survey.

pioneer of decentralizing education and health services to panchayat raj institutions (PRIs), has a much lower absenteeism rate than most states.

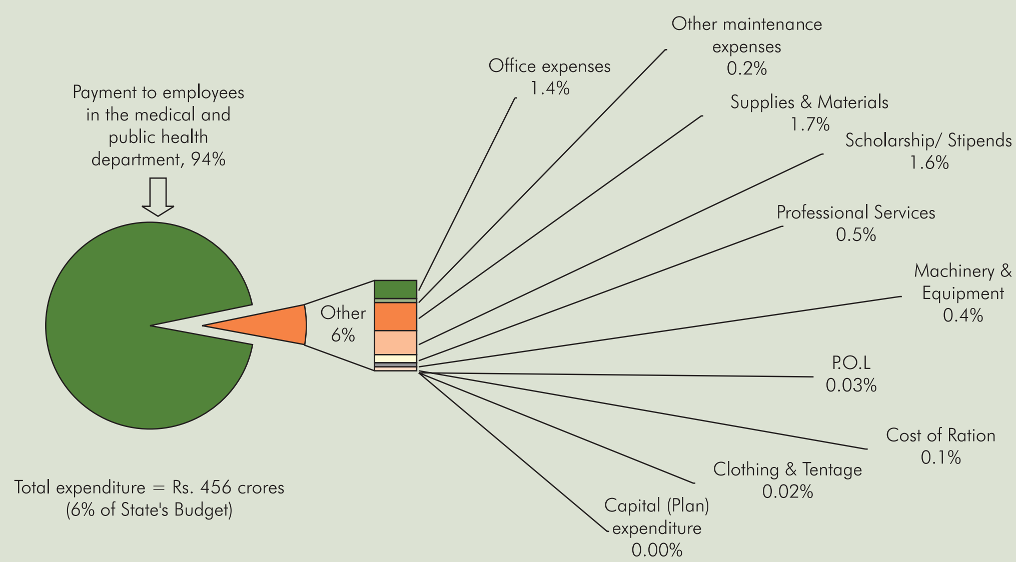
Underutilization of Primary Health Facilities

The problem of absenteeism is partly to be blamed for the gross under-utilization of health infrastructure across the state. Punjab has a large network of centers (community health centers, primary health centers, and sub-centers) in addition to hospitals, but within the public sector, the vast majority of services are provided through hospitals, whether in-patient or out-patient. Lower level public facilities perform a negligible role at the level of in-patient care, perhaps reflecting the lack of adequate facilities to take care of patients who are seriously ill. While PHCs account for a larger share (20 percent) of out-patient treatments at public facilities, their share in overall out-patient care is negligible compared to the private sector. Paradoxically, the success of Punjab's Health System Corporation has drawn patients from the primary health systems for treatment in the more advanced public hospital systems leading to underutilization of PHCs (see Box-4).

Expenditure Restructuring in the Priority Sectors

Disturbingly, 94 percent of the Medical and Public Health Department's budget in 2001/02 was spent on salaries and pensions to employees, with only a pittance left for maintenance, supplies and materials, including drugs (figure 2.9). The situation is even worse in General Education, where the 98.5 percent of the budget amount is spent on employees. In effect, the public educational system seems to have been captured by teacher unions for the exclusive purpose of salary payments, despite the appalling high absenteeism rate. While Punjab spends less money as a percentage of GSDP on education than Kerala or Rajasthan, there is little point in expanding outlays unless it is to improve the composition of the budget to reduce the relative salary burden.

Figure 2.9 Composition of Expenditure of the Medical and Public Health Department, 2001/02



Source: Government of Punjab

E-Governance/Citizens' Charters

A number of challenges remain to be surmounted before e-governance takes off in Punjab. The Department of Information Technology has been seriously hamstrung by the erratic release of funds for some of its projects. It is also clear that many departments lack the champions to aggressively implement e-governance solutions in their domains. It is also important that e-governance be combined with real business process re-engineering across agencies. The state has a great many initiatives planned but it will be necessary to prioritize given both resource and capacity constraints.

Although GoP has citizen's charters in many departments, these are vague, and service norms are poorly defined. Grievance redressal mechanisms are largely left unstated and no penalties ensue for breaching charter norms. It is not clear whether people are aware of these charters, or whether any improvement in service delivery has resulted from them. Charters appear to have been hastily prepared in most cases without public consultation and little attempt to sensitize staff.

CORRUPTION

The long spell of President's rule in the 1980s appears to have weakened accountability mechanisms, fuelling opportunities for corruption and graft. While no serious study has been conducted on the profile of corruption in Punjab, potential areas where the opportunity for corruption clearly exists include recruitment and transfers (discussed in the previous section), tendering and procurement and service delivery (e.g., the need to pay a bribe at the local regional transport office to secure a drivers' license). While the state's Vigilance Department has become more active under the current government, Punjab's office of the Ombudsman (the Lok Pal), responsible for combating wrongdoing by Ministers, is moribund. Nor has Punjab moved as fast as Karnataka or Tamil Nadu to pass a Transparency in Tenders and Procurement law, although it has prepared a draft law on the subject; Right to Information (RTI) legislation has been delayed after Punjab decided not to enact its own excellent draft law and wait instead for the Government of India to make the national Freedom of Information (FOI) law effective.

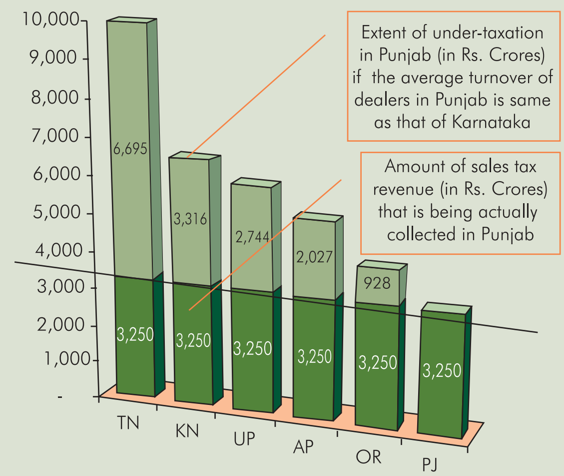
There is widespread evasion of tax and no strong political support for tax reform

There is considerable evidence of widespread evasion of tax in the state. Given the economic characteristics of Punjab's economy (i.e., high per capita income, last point sales tax, low rural-urban disparity, large and growing remittances from the diaspora abroad), one would expect Punjab to have a large number of tax-paying dealers and high average turnover per dealer. But Punjab had only 143,000 registered dealers compared to 384,000 in Andhra Pradesh, 370,000 in Tamil Nadu, 350,000 in Uttar Pradesh and 188,000 in Karnataka[25]. The problem of under-taxation is also evident if one examines the average dealer turnover across selected Indian states. For example, if the average turnover of dealers in Karnataka is assumed to be a fair value of the actual turnover of dealers in Punjab, the extent of under-taxation in the latter is a staggering Rs. 3,316 crores each year, i.e., Punjab's estimated sales tax collection should have been twice the actual collection (figure 2.10)! If one discounts the fact that Punjab has higher threshold for dealer registration, lower average tax rate, and does not have additional tax in the form of turnover tax as compared to Karnataka, even then the extent of tax evasion could be as high as Rs. 1,500 crores.

Several attempts to raise additional revenue and reduce tax evasion have failed due to lack of adequate political support for such reforms. Raising the sales tax rate of diesel from 8 percent (lowest rate among all states) to 16 percent has been attempted several times but has yet to clear the Cabinet. Certain revenue measures like discontinuation of the non-practicing

[25] Part of this could be explained by different turnover threshold for registration, which is Rs. 5 lakhs in Punjab. The corresponding thresholds are Rs. 3 lakh in Tamil Nadu, Rs. 2 lakh in Karnataka, Rs. 1 lakh in UP and zero for AP.

Figure 2.10 A measure of potential under-taxation in Punjab (in Rs. Crores), 2002/03



Source: GoAP, GoK, GoO, GoP, GoTN and GoUP.

allowance for doctors and introducing sales tax in defense canteen stores have been announced and rolled back after several weeks. The mandatory filing of statutory export-import (EXIM) form at Information Collection Centers for inter-state transactions was introduced in September 2003, but was withdrawn in January 2004, for political considerations. In the short period when it was in existence, the measure did increase revenue collections. These episodes show the strong disinclination on part of the government to solve its fiscal problem by generating more revenue through better tax policy and effective administration.

A GROWING CULTURE OF POPULISM: SUBSIDIES HAVE CROWDED-OUT PUBLIC INVESTMENT

Punjab has been a major beneficiary of the food subsidy from GoI

Farmers in Punjab receive a range of subsidies from the state and central governments. One important source of subsidy is through the policy of minimum support prices (MSP), under which GoI through the Food Corporation of India (FCI), follows an open-ended procurement policy and buys whatever rice and wheat is offered for sale at the MSP (provided it meets defined quality specifications). While in principle, the MSP is a national price, in practice, because of the availability of a good procurement infrastructure, Punjab has been a major beneficiary from GoI price support operations. Over 90 percent of market arrivals of rice and wheat in Punjab are currently procured by GoI at the MSP (World Bank, 2003a). Since the mid-nineties, the MSP subsidy for farmers has increased rapidly as support prices for both crops have increasingly diverged from production costs. It is estimated that rice and wheat farmers in Punjab received a subsidy of nearly Rs 2000 crores in 2001/02 through this mechanism, over twice the total subsidy received by rice and wheat farmers in any other state (World Bank, 2004)[26]. The other subsidy provided by GoI is on fertilizer, which amounted to nearly Rs.1000 crores in 2001/02 for Punjab.

[26] The subsidy is calculated as the difference between the MSP and the C2 cost of production. The C2 cost includes all actual expenses in cash and kind including imputed costs for owned land, family labor, and capital. If benefits were computed on the basis of A2+FL costs (which do not include imputed capital and land costs), the benefits for rice and wheat farmers would be much higher.

Input subsidies are nearly 10 percent of agricultural output

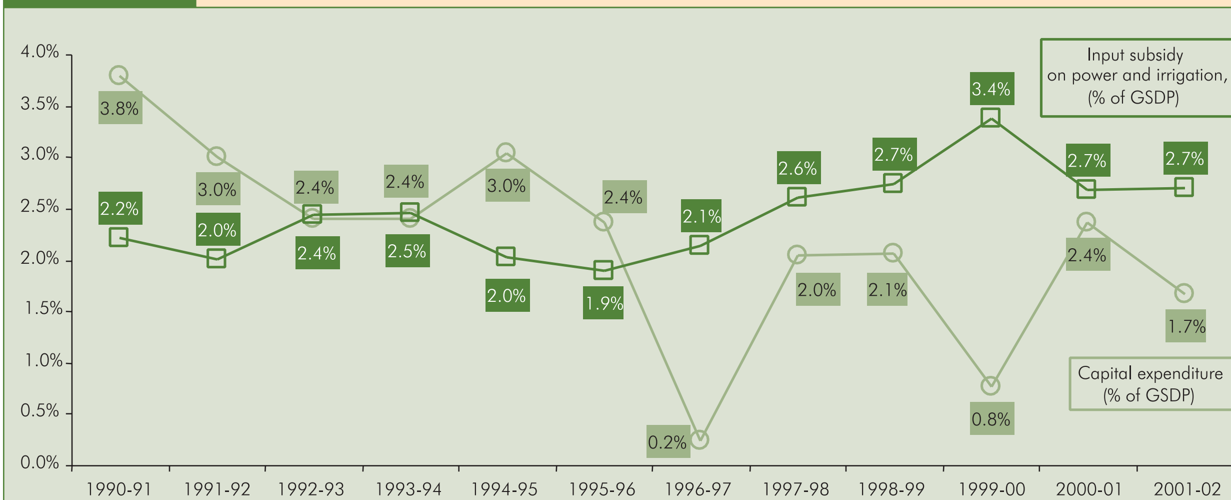
Apart from output price support, inputs, particularly irrigation and electricity supply, are also subsidized and are provided by the state government[27]. These are large subsidies: since 1997-98, input subsidies received by Punjab's farmers have been around Rs. 2,000 crores annually in recent years, which is over 10 percent of the agricultural domestic product in the state (figure 2.11).

The key challenge, thus, is to work out an appropriate package of tariff/subsidy reforms and improvement in the power supply conditions to build support among stakeholders (politicians, farmers and the utility). Determining a fiscally affordable level of power subsidy to agriculture (at present farmers are provided 8 hours/day power supply), targeting of the subsidy, and delivering it to the consumers without affecting the commercial performance of the utilities are important public policy issues that need urgent attention. For regulating power supply to agriculture (official policy is 8 hours/day supply), while ensuring 24 hours power supply to rural areas for household, commercial and industrial purposes, PSEB has been implementing a program to segregate agriculture loads in the rural areas[28].

At the same time, public investments have fallen precipitously

GoP's capital expenditure in agriculture was around 1.9 percent of agriculture GSDP in 2000/01, less than the 2.2 percent average across all states in the country. Private capital formation, which is the dominant source of investment in the sector (four to six times public capital formation), decreased in real terms in the first half of the 1990s and stabilized at a lower level in the second half of the 1990s. So in real terms, Punjab's total investment in agriculture today is same it was in the late 1980s. This relatively low level of investment is worrying since capital investments are a precursor to future growth.

Figure 2.11 Subsidies to power and irrigation now exceed the capital expenditure of the state



Notes: Subsidies in current prices.
Source: Technical Note.

[27] The fertilizer subsidy is shown in the GoI budget. Canal irrigation subsidy is estimated as the difference between O&M expenditures and revenue collected from water charges. The power subsidy to agriculture is calculated as the difference between the cost of supply (agricultural consumption times average per unit cost of supply) and revenue collected from farmers.

[28] In about 50% rural feeders agriculture load has been segregated to a separate feeder, and the investment cost for segregation in the balance 5000 villages feeders is estimated to be Rs 250 crores.

During the period FY1999-03 investments in the power system have been insufficient with respect to the 7 percent average load growth. The investments in the transmission system have been particularly low resulting in overloading of the system and operational constraints. Introduction of

Box 3 Who Benefits From Agricultural Subsidies?

Direct benefits of output price support and input subsidies naturally accrue to those agricultural households who cultivate some land[29]. Comparing the socio-economic profile of agricultural households to non-agricultural households shows that such subsidies are likely to be regressive as cultivators by and large are amongst the richer sections of the rural population.

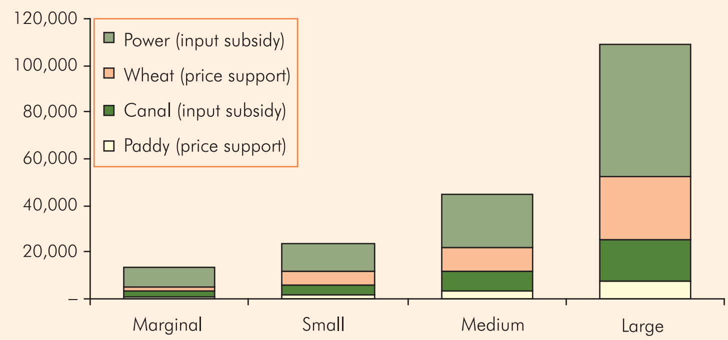
The finding that agricultural subsidies are likely to be regressive is not unique to Punjab (World Bank, 2003b). However, Punjab does stand out in comparison to other states because very few of Punjab's farmers come from disadvantaged socio-economic groups (see Table below).

Characteristics of Agricultural Households across States

Agricultural households as a % of:	Punjab	Maharashtra	Gujarat	Tamil Nadu	Haryana
Population	41.5	58.3	59.3	32.5	50.7
Poor	8.4	51.4	53.6	25.4	12.3
Scheduled Castes and Scheduled Tribes	6.5	44.7	53.5	17.6	8.3

How are price support and input subsidies distributed within the farming population? The figure shows the estimated transfers through the MSP, electricity, and canal irrigation subsidies. In each case, the distribution of benefits is regressive, with marginal farmers receiving a little over a tenth of the subsidies received by large farmers. The average input subsidies received by Punjab's farmers are comparable, and in the case of the price support, much higher, than those received by farmers in other states. For instance, on an average, a rice farmer in Andhra Pradesh received Rs 164 in 1998, about one-twentieth the amount received by a rice producer in Punjab. Similarly, a wheat farmer in Punjab received nearly one and a half times the transfer received by a wheat producer in Haryana, and forty-five times the transfer received by a producer in Uttar Pradesh (Sur and Umali-Deininger, 2003)[30]. The coping costs are too high for poor and small farmers. A Bank study on Power supply to agriculture shows that motor burnout costs for marginal farmers accounted for 10 percent of gross farm income in Haryana and 7.7 percent in Andhra Pradesh. The corresponding rate for large farmer was 1.6 and 2.3 percent respectively in the two states.

Estimated annual price support and input subsidies for different land owning farmers of Punjab (in Rupees, 2001/02)



[29] This ignores indirect effects on rural land, labor, and output markets. *A priori*, without further empirical work, it is difficult to predict whether accounting for indirect impacts would makes the subsidies more or less regressive.

[30] While it is clear that subsidies are regressive - the magnitudes reported in the figure are likely to be over-stated. Not the entire subsidy actually reaches farmers. For example, the supply of electricity to farmers reported by PSEB could be exaggerated to hide theft and technical losses. The PSEB estimate for average consumption by agricultural pump sets was 3021 kWh/kW/year in FY2000, and was restated at approximately 1800 kWh/kW/year in FY2002. The PERC in its first tariff order assessed consumption to be even lower, at approximately 1700 kWh/kw/year (PSERC Tariff Order, FY 2002-03). Using the regulator's norm of 1700 kWh for FY00, would lead to a drastic reduction in the agricultural power subsidy, from Rs 19.39 billion to Rs 10.9 billion.

open access can result in additional power for the state. While there is an urgent need for investments in the power system to reduce overloading, T&D losses and improving quality of power supply, it is important that these costs are adequately recovered through tariffs and do not result in additional financial losses for the utilities. A comprehensive assessment and prioritization of investments based on the costs-benefits analysis should be undertaken.

INVESTMENT CLIMATE: THE PROBLEM OF REGULATORY BURDEN AND INFRASTRUCTURE

The regulatory burden faced by entrepreneurs in establishing a new business or running an existing one is an important determinant of the investment climate of the state. Regulations by themselves are not undesirable; indeed, regulations are needed to clarify the rules of the game for business as well as ensure that societal expectations about how businesses should operate are fulfilled. Periodic inspections by government officials may be needed to ensure compliance. The problems arise when regulations are onerous and stifling and when inspections are too frequent, and involve harassment and corruption. While the regulatory burden in Punjab is not excessive and the inspection regime is not too stifling, both leave much to be desired compared to other states. There are also certain infrastructure constraints, especially in the quality of power supply and the cost of transport for its exports, given that it is a land-locked state.

Administrative Procedures in Establishing a New Business

Administrative procedures involved in establishing a new business in Punjab requires several steps and clearances, but is not necessarily more cumbersome than elsewhere in India. There are two stages in the registration of a company with the Department of Industries: (i) An entrepreneur has to get a provisional registration from the District Industry Centre with proof of location (and large enterprises have to get registered with the GoI, Ministry of Industry, as well); (ii) The sponsor has to prepare a project report and apply for a no objection certificate (NOC) from the Pollution Control Board (PCB), following which the sponsors apply for a power connection from the PSEB.

For certain types of enterprises, there are additional requirements. For example, if the land is provided by the Punjab Urban Development Authority (PUDA), the sponsor needs to get a building permit from it. For hazardous industries, (the Factory Act of GoI identifies 19 hazardous industries), the sponsor has to apply for a site appraisal to the Competent State Authority (CSA)-cum-site appraisal committee. There are some local restrictions regarding sites[31]. When construction is completed and machineries are installed, sponsors apply to the PCB for consent to operate.

Complying with inspections, Record Keeping and Submission of Returns

According to the responses to the investment climate survey, firms in Punjab face a relatively moderate inspection regime. An average firm in Punjab is visited by government inspectors around 8 times a year, compared to an all-India average of 11. However, in one sector, garments, the incidence of inspections in Punjab is the highest in the country, i.e., 14 per year compared to an all-India average of 9.

Generally, small firms experience less inspection than large firms (the all-India average number of inspections is 9 for small firms vs. 20 for large firms). The firms exporting goods tend to be inspected much more (21 times a year) than the non-exporters

[31] For example, in a city with a population of more than 10 lakhs, no industrial unit can be set up within 25 kms. of the city limits without obtaining an industrial license from the GoI. This applies to all industries. Additionally, no industrial unit can be set up within 16 km. of Chandigarh. This is a state-imposed restriction. If the unit is located within the municipal limits of any town, then an NOC is needed from the municipal authority; this does not apply to industrial areas.

(6 times). Managers of firms in Punjab report spending about 12.5 percent of their time dealing with government regulatory matters; this is marginally below the all-India average of 13.8 percent for small firms and 14.5 percent for all firms.

A recent review of inspections, maintenance of records and filing of returns in Punjab and Haryana by the CII reveals a number of problems[32]. Firms are required to maintain a large number of forms and registers, especially under different labor laws. Many of these forms ask for the same information and different forms often appear similar, thus adding to the confusion.

Labor

Labor market flexibility. A relatively inflexible labor market has been one of the major weaknesses of India's investment climate. The Global Competitiveness Report 2001 identifies restrictions on the hiring and firing of workers as one of the greatest challenges of doing business in India. India ranked 73rd out of 75 countries on this front in the survey carried out for the report, with China ranking 23rd.

Firms in Punjab identify labor relations as one of their less serious problems. One manifestation of a rigid labor market is the incidence of excess employment. Firms operating in rigid markets have limited scope for adjusting the size of the workforce in the face of changes in business conditions and this is sometimes reflected in excess employment. By this criterion, Punjab's firms appear to be operating with greater flexibility than their counterparts in most states. The average degree of excess employment reported by the firms in Punjab (which are all small in the sample) is 7.5 percent compared an all-India average for small firms of 10.5 percent. Only firms in four states reported a lower incidence of excess employment[33].

Skills and training. Firms in Punjab suffer from skill shortages. Of the total educated job seekers in Punjab during 2000, only 24 per cent were technically qualified[34]. A recent study of the quality of workers in Indian manufacturing found the quality of Punjab's work force to be low and declining over time, relative to other states. Data for 1999/2000 placed Punjab as 15th out of 18 states in the quality of its regular salaried urban manufacturing employees. Ten years earlier, i.e., according to data for 1987/88, Punjab had ranked 12th[35].

The state has several industrial training institutes (ITIs). These institutes suffer from many of the deficiencies common to public sector training institutes - outdated and irrelevant curriculum, inadequate facilities, obsolete equipment and shortage of trained instructors - all of which lead to skills that have little market demand. Not surprisingly, as reflected in employment exchange data, a large proportion of the technically trained manpower from ITIs remain unemployed or employed in trades unrelated to their training[36].

Level and Quality of Infrastructure

Power. The adequacy, reliability and cost of power supply are an important dimension of the investment climate. Enterprise surveys have identified it as one of the most critical problem areas in many Indian states and Punjab is no exception. Firms in Punjab report an average of 25 power outages per

[32] Confederation of Indian Industry, Northern Region, *Consolidation of Registers and Forms in Punjab and Haryana: A Potent Way to Simplify Procedures and Minimise Inspector Raj: A Note*, December 2003.

[33] Interestingly the states that appear to perform better by this criterion are those that have an overall poor investment climate (e.g., Madhya Pradesh, West Bengal and Uttar Pradesh).

[34] *Punjab Development Report 2002, Chapter 12*.

[35] Suresh Chand Aggarwal, *Labor Quality in Indian Manufacturing: A State-level Analysis*, ICRIER Working Paper No. 126, April 2004.

[36] *Punjab Development Report 2002, Chapter 12*.

month, nearly double the nation-wide average of 14 and significantly higher than in states with better investment climates. Firms report losing almost 9 percent of their output due to power shortages, compared to a nation-wide average of 6.5 percent. In Punjab, which has the second highest incidence of generators among Indian states, firms obtain about 27 percent of their power from own-generators.

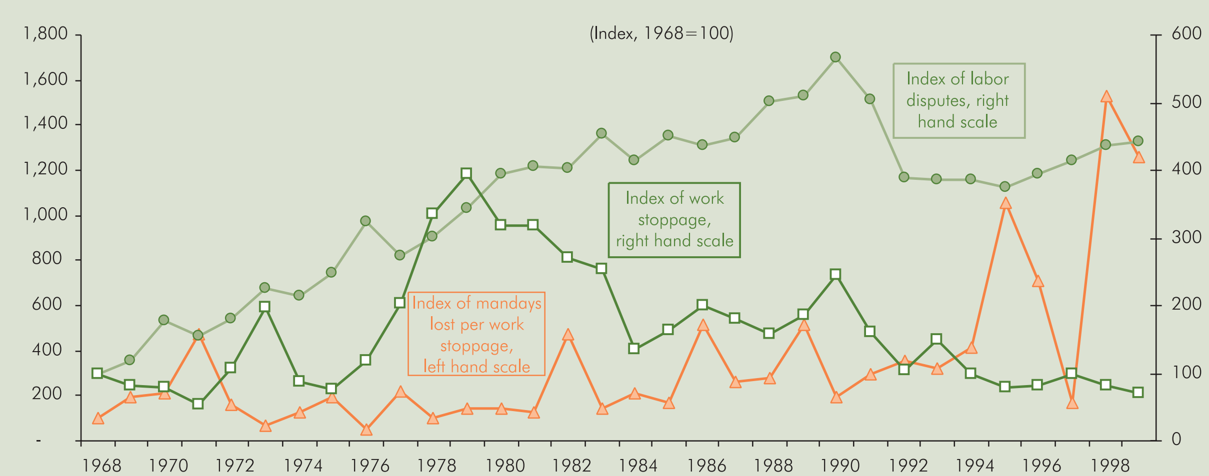
Transport: Like their counterparts in other northern states, firms in Punjab are disadvantaged by their long distance from ports. This is a particularly serious problem with regard to heavy weight or volume products, or where the delivery times are stringent. A recent study indicates that:

- Pavement conditions are not perfect but, perhaps, reasonable by Indian standards: about 70 percent of the network has a riding quality which is at least 'fair.'
- Over 500 km of the network has traffic in excess of 15,000 PCU (passenger car units), but there are only 42 km of four-lane roads; the network is almost entirely two-lane and intermediate lane (5.5 m). Traffic has been increasing at 11 percent annually and, even if this rate of growth is reduced substantially, about 40 percent of the network will be approaching saturation by 2008.
- Vehicles average 34 kmph with only 10 percent of the network having speeds greater than 45 kmph, reflecting the imbalance between traffic flow and road capacity.

Total vehicle operating costs are high, service standards low and they will deteriorate further unless substantial additional road capacity is provided. Present standards may be adequate for grain-based agriculture but it is difficult to envisage vehicle speeds of less than 35 kmph facilitating the attraction/development of a more diversified, higher value and more time sensitive pattern of production in either agriculture or industry.

Industrial relations. Trade union activity has been relatively less pronounced in Punjab perhaps because of the small enterprise dominated character of its industrial landscape. According to data reported in the Punjab Development Report 2002, while the number of "industrial disputes" increased more than four-fold between 1968 and 1999 (the index rose from 100 to 441; figure 2.12), the number of work stoppages in 1999 was actually lower than in 1968. Judged by work stoppages, industrial relations in

Figure 2.12 Industrial disputes in Punjab: 1968-2003



Source: Punjab Economic Report: Investment Climate (Technical Note).

Punjab deteriorated in the 1970s and have, since then, progressively improved. However, while the number of disputes has gone down, the number of man-days lost due to stoppages has increased nine-fold, reflecting an increase in the average number of workers involved in each work stoppage.

There have also been some changes in the causes of work stoppages since 1968. Disputes over wages, allowances and bonuses, once the most important cause of work stoppages, are much less common now. In 1999, for example, such disputes accounted for 40 percent of the work stoppages, compared to 75 percent in 1968. On the other hand, issues such as suspension and termination have become more of a bone of contention now than in the past; in 1999, they accounted for one-fifth of the work stoppages compared to just 3.5 percent in 1968[37]. At the same time, there has been an erosion in faith in conciliation as a means of settling industrial disputes. In 1999, only 8 percent of disputes were settled through this means compared to 28 percent in 1968. Adjudication continues to be the most important method, while voluntary arbitration appears to have gone out of use. One out of five industrial disputes are either pending before the conciliation machinery or under examination with the government, indicating inefficiency, or inadequacy, of the industrial dispute handling system.

WEAK POLICY-MAKING AND MANAGERIAL CAPACITY

Despite the general consensus for change and reform, GoP has not been very successful when it comes to formulation and implementation of policies. For example, more than a year after passage of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, GoP is yet to implement certain policies indicated in the Act. For example, the FRBM Act states that, *"The Minister-in-charge of the Department of Finance, shall review, after every quarter, the trends in receipts and expenditures in relation to the budget and place before the Punjab Legislative Assembly the outcome of such reviews"*. No such reviews have been prepared or placed before the legislature in 2003/04. The Act states that, "*Whenever outstanding guarantees exceed the limits specified in clause (d) of sub-section (2) of section4, no fresh guarantee shall be given….*" Our calculation shows that the guarantees have exceeded the target by nearly 50 percent in 2003/04.

The Government has also not taken prompt action on a number of other fronts. While a VRS order for surplus employees was issued on May 21, 2003, the surplus pool is yet to be activated. The enthusiasm to pass the Right to Information Bill and Procurement Bill has also diminished. It has taken an unusually long time to prepare the Financial Restructuring Plan for the power sector as difficult issues remain unresolved. In the education sector, adequate information and analysis of data on different aspects of service delivery are not easily available, indicating only limited attempts to understand trends and patterns in the sector. In agriculture, on one hand, GoP encourages diversification, and on the other hand, insists on policies that are detrimental to diversification, e.g., pressurizing GoI to raise minimum support prices (MSP) for paddy and wheat, opposing private sector entry in building and operating *mandis*, and showing an unwillingness to introduce participatory management in irrigation sector. The implementation of GoP's 2003 Industrial Policy has also been slow; for example, proposals to replace octroi and entry tax with a single point local area development tax and self-certification scheme for industrial units have not made progress.

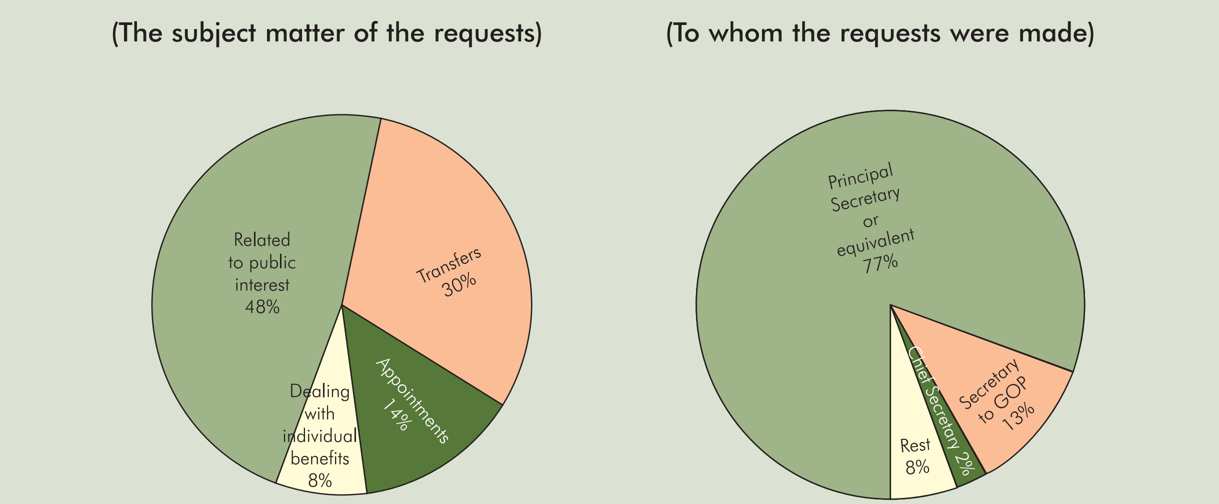
Frequent transfers of high-level officials imply a weaker capacity to frame policy in departments; Secretaries often have only a few months to learn about a department before they are transferred to another position. Most high-level officials in Punjab are overloaded with routine administrative tasks, ranging from dealing with transfer requests, particularly in staff-

[37] *Punjab Development Report 2002, Chapter 12.*

intensive departments, such as health and education to appearing in court cases. We analyzed some 115 requests filed with senior officials by a small sample of Members of Legislative Assembly (MLAs) in Punjab from March 1, 2002 through September 18, 2003. As illustrated in figure 2.13, of these 115 requests, 55 could broadly be construed as being related to the public interest (48 percent). The remaining 60 requests dealt entirely with personal matters, including transfers (making and overriding them); appointments (making an appointment or changing the terms of an appointment); and benefits to individuals (withdrawing an FIR, land allotments, and the like). Nearly 92 percent of all requests were directed at high-level officials in the government. Because government officials have no alternative but to respond to these requests or risk being labeled as uncooperative and even transferred, an inordinate amount of high-level official time is spent on fairly trivial matters, thus hurting the capacity of the government to formulate policy and think strategically.

Key departments are constrained by their limited capacity to implement reforms. For example, the officials in the Finance Department (FD) are almost fully occupied in day-to-day operations, e.g., managing the overdraft position with the RBI, juggling resources from various sources to meet the wage and pension bill at the beginning of the month, spending substantial time in approving individual transactions and enforcing cash rationing, and thus are left with little time to formulate strategies or implement the Medium-Term Fiscal Program. Because of the lack of qualified manpower in the treasury and finance departments, the accounting information produced is not being used for decision-making, which has weakened the budget monitoring system. In the power sector, while GoP has set up an Empowered Committee and Expert Group to provide policy guidance on the reform program, there are no dedicated teams for day-to-day interaction with the consultants and implementation of various reform actions. Similarly, the government and the Punjab Agricultural University (PAU) have limited capacity to provide the necessary marketing, research and extension facilities which are consistent with the government's ambitious agricultural diversification program.

Figure 2.13 What keeps the GoP legislators and bureaucrats occupied?
(Total number of requests from MLAs to bureaucrats analyzed = 115)



Source: GoP.

The Government of Punjab's Reform Program

THE GOVERNMENT OF PUNJAB'S REFORM PROGRAM

The new government that came to power in the 2002 state elections started the reform process in earnest. It abandoned the populist, but fiscally and environmentally unsustainable, policy of free power and water for farmers. Punjab became the second state after Karnataka to have a 'Fiscal Responsibility Act.' It came down hard on corruption and introduced politically difficult measures to restrain revenue expenditure including a surplus pool to redeploy redundant staff and introduced a number of tax policy and administrative reforms to raise state's tax to GSDP ratio. The Government constituted an Expert Committee to suggest reform for the power sector. It passed the 'Punjab Infrastructure and Regulation Act 2002' to encourage greater private-public participation in developing new infrastructure. It accepted the recommendations of the Disinvestment Commission, which was set-up by the previous government, came out with a well-articulated disinvestment strategy, and had some initial successes. The Government undertook an ambitious contract-farming project to diversify the state's agricultural base away from the paddy-wheat cycle. The government also announced its intention to undertake significant decentralization of primary health and education services with the aim to improve the quality of public services to its citizens.

The urgency to reform and the hectic pace of policy making, unfortunately, appears to be fading out. In sectors/areas like power, agriculture, disinvestment and fiscal policy, where blueprints for reforms already exist, their execution have been quite sluggish. In other sectors/areas, like health and education, the pronouncement of strategies and ideas to improve service delivery have been rather slow. In a few cases, GoP has actually rolled back reforms that were beginning to show results. In this chapter we take a closer look at the major reforms announced and implemented and policy reversals in Punjab during the last two years. We also examine the prospect for reforms in the near-term.

FISCAL POLICY AND FINANCIAL MANAGEMENT

Fiscal Responsibility Act. Punjab has demonstrated its commitment to fiscal reform by enacting the 'The Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003', on May 5, 2003 (Punjab Act No. 11 of 2003). The rationale for bringing such an Act, as stated by the government was, "... *to ensure inter-generational equity in fiscal management and long-term financial stability by achieving sufficient revenue surplus, containing fiscal deficit and prudential debt management consistent with fiscal sustainability through limits on the State Government and conducting fiscal policy in a medium-term framework and for matters connected therewith or incidental thereto."* While the just-presented 2004-05 budget was accompanied by a Medium-Term Fiscal Reform Programme - as required by the Act - overall the Act has not been given the attention it deserves and GoP is unlikely to meet any of the fiscal indicators stated in it.

Ban on recruitment. A freeze on fresh recruitments was imposed for vacant posts. With natural attrition at 2.5 percent, the expectation was that there would be negative net growth in staff size in the current year. This ban has been in effect, off and on, for the last ten years but the new government stated early on that it was serious about containing recruitment. The ban, however, was lifted prior to the 2004 Lok Sabha elections. Although all requests to fill new positions will have to be approved by a high-level committee chaired by the Chief Secretary and departments will have to submit a restructuring plan along with its request, it is not clear in practice how strict the committee will be in view of political pressures. The most recent budget speech has also announced the lifting of the ban on compassionate employment.

Abolition of vacant posts. All vacant posts were to be abolished after six months. Estimates placed the number of posts falling vacant during 2003 and 2004 at 13,386 but it not clear whether any of these have been officially abolished. The total number of vacant posts created through attrition is likely to be 42,768 between 2002 and 2006, resulting in a potential savings of Rs. 6.05 billion. A ban was imposed on the creation of new posts that can only be circumvented with the express approval of the Chief Minister.

VRS and Pension Reforms. A VRS scheme for both civil servants and public sector units including PSEB has been framed, but not implemented. With effect from July 31, 2003, GoP has updated the commutation factors for pension by using a higher discount rate of 8 percent.

User charges. User charges have been revised for technical and medical education and rural water supply. User charges for canal water and power supply to agriculture pump sets have been reintroduced from November 2002. Two tariff orders of PERC have been fully implemented. The Government has imposed a cess of Rs. 1 per litre on petrol and is contemplating imposition of tolls on bridges and roads that have been completed by the Punjab Infrastructure Development Board (PIDB). Unfortunately, the increases in user fees have not been associated with any perceptible improvement in service delivery, making it difficult for GoP to further increase any user charges.

Tax administration. In order to improve the quality and coverage of information on inter-state transactions, the Excise and Taxation Department had introduced the export-import (EXIM) form at all the 35 check-posts (Information Collection Centers) in the state. After considerable delay, mandatory filling of the forms was introduced in September 2003, but was withdrawn in January 2004, for political considerations. In the short period when it was in existence, the measure did increase revenue collections, but traders were successful in thwarting the move towards better enforcement of the tax through the measure eventually.

Financial management. To stem the misuse of the food credit, a food account has been created outside the consolidated fund of the state budget. Nearly 85 percent of treasury operations have been completed. A number of Personal Ledger Accounts (PLAs) have been closed.

POWER SECTOR REFORMS

During the last two years several important steps have been initiated in Punjab towards reforming the power sector. An "Empowered Group" headed by the Chief Minister and comprising four ministers was set up in 2001 to take policy decisions for implementing reforms. The GoP constituted an "Expert Group" in June 2001 to study the power sector and recommend key reform measures. The PERC, set up in 2000, is functional and its two tariff orders have been implemented by the utility. The GoP has also signed a MoU with the Government of

India (GoI) under the APDRP program to implement power sector reforms. Some of the important reform measures initiated so far include:

- *Rationalization of electricity tariffs to improve cover cost* - Power utilities have implemented two tariff orders issued by the PERC. In FY2003, tariffs were increased by 8-11 percent for different consumer categories, and agriculture tariff of Rs 0.57/kWh or Rs 60/HP/month was introduced ending the five year long free power regime. In FY2004, the average tariff has been increased by 6-13 percent for different consumer categories, except for the agriculture consumers. Cost recovery has increased from 62 percent in FY02 to 75 percent in FY03.
- *Transparent determination of subsidy for agriculture and residential consumers* - PERC has set up a transparent process by which the government is required to explicitly commit the extent of subsidy it proposes to provide for power supply to specific consumer categories. The GoP committed to provide subsidy of Rs 950 crores in FY2003, and Rs 857 crores in FY2004 for power supply to agriculture and to small households. The subsidy to agricultural consumers is based on fixed-rate tariffs and therefore the losses incurred by the PSEB are likely to be much higher than under a metered system.
- *Reduction in cross-subsidies* - The extent of cross-subsidization among different consumer categories has fallen moderately in recent years. In its last two tariff orders, the PERC has increased industrial tariffs at a lower rate than for agricultural consumers. For FY2005, the utility has proposed a reduction in power tariffs for large industries from Rs 3.55/kWh to Rs 3.25/kWh (and Rs 3.00/kWh for power intensive industries).
- *Securitization of dues to Central Power Sector Undertakings (CPSUs)* - The recommendation of the Ahluwalia Committee regarding a one-time settlement of outstanding dues towards CPSUs has been accepted. GoP has signed an agreement for settlement of outstanding dues of PSEB to CPSUs (NTPC, POWERGRID) and has taken over the debt service liability.
- *Energy audit and metering* - All the sub-stations and 11 kV feeders (around 5500) have electronic meters. All consumers with a connected load of more than 70kW are provided with electronic meters. About 12 lakh single-phase electronic meters are being procured in the current year for installation on new connections and replacement of about 10 lakh old and slow meters. Consumer indexing feeder-wise and transformer wise have been completed. The ABT regime is operational at the state level since December 2002.
- *Unbundling and corporatization* - To encourage investment and competition, the "Expert Group" has recommended the functional unbundling of PSEB and implementation of a 'multi-buyer framework'. The "High Powered Committee" has accepted the recommendations of the expert group. It has been agreed to unbundle PSEB into one generation, one transmission (wires only) and three distribution companies. A holding company is proposed to be put in place for a fixed period of time, with the objective of providing co-ordination support during the transition period. Consultants are assisting GOP to unbundle and introduction of open access in the power sector.

ADMINISTRATIVE REFORMS

In order to combat overstaffing, GoP had announced its intention to set up a surplus pool as early as June 2003, but this has yet to be made operational. Part of the reason for the delay is the debate over the rules governing the surplus pool. The first draft of these rules allowed surplus employees to remain in the pool for its entire life of five years until June, 2008 after which they would face retrenchment - the government is now considering reducing the life of the pool to only two years to increase the incentives to accept either VRS or redeployment. Initially, the pool was meant to cover only core civil servants but GoP now plans to extend this to include PSU employees as well. The draft rules also require departments to notify the Commissioner of the Surplus Pool of any vacancies, so that surplus employees get first preference in filling these posts. Employees will be declared surplus on the "last-in, first-out principle" effectively discriminating against younger employees, offered VRS, and, if they decline, transferred to the surplus pool for redeployment when an opening arises. GoP is still wrestling with the design of the surplus pool: Obviously keeping the time in the pool to the barest minimum, preferably six months rather than two or five years, is the only way to maximize incentives to accept VRS or redeployment. It is essential that GoP undertake a serious assessment of redundancy using bona-fide criteria that will pass legal muster in order to shift people to the surplus pool and decide what percentage of vacant posts are actually surplus in nature. In the event that a sizeable number of employees prefer to linger in the surplus pool, GoP will have to show considerable political courage to retrench them at the end of the pool's life or risk simply having them on the government's payroll for no work for an indefinite period.

More work will be needed to be able to effectively shed surplus staff. A Master Manpower Register (MMR) has been developed to accurately estimate the number of employees on GoP's payroll and the vacancies that will arise between 2002 and 2006 but the MMR does not identify surplus posts in any way. Identifying surplus posts requires access to "inside" information that departments may often be reluctant to part with for obvious reasons. An attempt by the Indian Institute of Public Administration (IIPA) in 2001 to examine the possibilities for administrative rationalization in Punjab also failed to identify redundant positions in any systematic way. The only successful example of identifying surplus posts comes from the work of the State and Expenditure Review Commission (SERC) in Tamil Nadu, which was led by a consummate insider and former Finance Secretary who was able to ferret out the necessary information on redundancy, using objective criteria (e.g., compliance with existing workload norms, changing workload norms in the light of new technology; and the potential for outsourcing). This spadework will have to be done, especially in PSEB, before any serious right-sizing takes place in Punjab.

TACKLING CORRUPTION

The Recruitment Process

The new government has moved aggressively to improve the credibility of the Punjab Public Services Commission (PPSC), which handles recruitment to over 17,000 posts in the Punjab Civil Service (PCS), comprising mainly Class I and II bureaucrats, judges, university and college lecturers, and doctors. In addition, the PPSC provides advice on promotion and disciplinary cases. After repeated complaints and rumors of major corruption in recruitment, the new government moved swiftly to remove and arrest the former PPSC Chairman, who was charged with serious irregularities, including possessing assets far in excess of his official income. The new Chairman, a highly respected, retired General, is now in the process of revamping the recruitment process by:

- Improving the quality of the officers serving in the PPSC. Traditionally, the PPSC's key divisions, including the exam wing, were headed by clerks - an IAS officer will now head the exam wing, as in Tamil Nadu, and PCS officers the wings dealing with scrutiny, promotions, and disciplinary cases. In addition, an IAS officer on deputation will serve as Secretary.
- Defining roles and responsibilities more clearly to prevent the diffusion of accountability that pervaded the old structure of the organization. The examination wing will now be clearly separated from all other wings, such as scrutiny, to prevent the possibility of collusion.
- Developing and publicizing rules of procedure for the PPSC to reduce discretion; under the old

structure, the rules were sketchy at best and not well known by employees or applicants.

- Using e-governance to provide information to applicants on the internet about exam timings, posts, sample tests, and application forms. Applicants will be able to take preliminary exams on the internet and receive their scores immediately; the seating plan for final exams will be arranged by computer to ensure that students taking the same exam do not sit near each other; roll-numbers will be generated by computer to prevent the assignation of fictitious ones; an electronic databank of questions will be created with questions being generated at random for exams; and evaluators will mark particular questions, not a whole exam.

Access to Information

Punjab has drafted the Right to Information (RTI) legislation to facilitate greater transparency and empower ordinary citizens in their dealings with the government. As currently formulated, the draft bill contains the following features including:

- Requiring government departments to both catalogue and index records on a regular basis to facilitate public access.
- Making it obligatory for government to disclose all 'relevant' facts before initiating a project to the public, especially to those likely to be affected by such a project.
- Providing for whistleblower protection for the first time in India, shielding officials who report wrong-doing in government in the public interest from any negative consequences.
- Permitting relatively narrow exceptions only: Cabinet deliberations (but not documents used by Cabinet for such deliberation) are closed for a limited time-period only; Cabinet decisions and the reasons for them, along with key 'facts' and 'analyses', must be reported immediately. Below Cabinet-level, information relating to policy-making will be made public after the process of policy formulation is completed and/or a decision taken.
- Imposing penalties for officials, including a fine of Rs. 100/day for failure to provide information within the stipulated time period (24 hours for cases relating to life and liberty, seven days when information is easily available, and 15 days in all other cases) and imprisonment for willfully failing to disclose legally available information.
- Requiring Departmental Information Officers to furnish critical monitoring information to the Government relating to number of requests received and met every year; the names of officers denying requests; the number of appeals filed and their consequences; the fee schedule; and any internal departmental guidelines on how to implement RTI.

Procurement Reform

GoP has prepared a draft law "The Punjab Transparency in Public Procurement Act, 2002" to promote greater transparency in procurement. The bill is closely modeled on similar, well-regarded legislation in effect in Tamil Nadu and Karnataka. It provides for the creation of separate tender inviting and accepting authorities, the publication of a tender bulletin containing tender notifications and decisions, along with a comparative explanation of why a particular bid was successful.

GoP has also taken some steps to reform the procurement process administratively particularly in PWD, the Punjab Industrial Development Board, and the Department of Information Technology (DIT). PWD has recently revised its list of registered contractors, PIDB has introduced third-party inspections for all major works, and DIT has set up a high-level committee system to vet major procurement decisions, placed tender notifications on the web, and made it easier to reward quality rather than just cost in technology acquisitions.

REFORMS TO IMPROVE SERVICE DELIVERY

E-Governance

Despite hurdles, progress is being made in promoting e-governance in Punjab. The state has issued an overarching policy document for e-governance and streamlined IT procurement procedures for departments. There are several on-going initiatives that are worth noting:

- *Municipal Corporations: The Ludhiana Municipal Corporation* has made progress in computerizing some of its functions, including the registry of births and deaths for the previous five years; salary payments for municipal employees; bill generation, collection, and payment; and creating a data-base of properties owned by the corporation. Further measures will include computerizing the flow of mail, the working of the Stores Department, and the collection of octroi taxes, as well as tracking file movement electronically. Double-entry accounting has yet to be introduced in Punjab's municipalities and will require a legal amendment to the Municipal Accounts Code (1930). GoP intends to introduce one shortly.
- *District Collectorates:* Fatehgarhsahib was the first district to develop an IT-driven service delivery initiative, designed to provide a basket of services at a single-window, such as birth and death, domicile, and caste certificates; licenses; and land records. An information kiosk offers access to land records, requirements to qualify for government programs, and other data. Customers can now dial a number to get information on whether their pensions have been deposited in their bank accounts. This initiative, labeled *E-Sukhmani*, has been scaled up to cover other districts in Punjab and is at various stages of completion. In Kapurthala, for example, the E-Sukhmani center has teamed up with the regional transport office (RTO) to issue drivers' licenses at the center, making a visit to an RTO office unnecessary.
- *Community Police Resource Centers:* Punjab has pioneered what is probably India's finest effort to improve relations between the police and local communities. In collaboration with the Ford Foundation, the Vera Institute of Justice, and the Institute of Development and Communication, the government has opened Community Police Resource Centers in most of the state's districts. These Centers provide a range of citizen services in a congenial atmosphere: A crime counter provides copies of first information report (FIRs) and tracks the status of cases; a victim assistance unit provides professional counseling and support including advice on how to deal with the criminal justice system; a grievance redressal cell allows citizens' to file complaints against the police without having to go to a police station. As registered societies, the Centers have the right to raise money from external sources, although they are staffed by a mix of NGO activists and police officers.
- *Land Records:* The computerization of land records is well under way, with data-entry completed for almost all districts. The Commissioner of Land Records intends to replicate Karnataka's *Bhoomi*, but also to go further by networking land records and registration. GoP will issue an order making the use of manual records illegal once the system is ready.
- *Stamps and Registration:* All Sub-Registrar's Offices (SROs) provide for automatic calculation of stamp duties and registration fees; digital photographing of buyers and sellers to prevent impersonation; and scanning of documents. On the other hand, franking machines have still not replaced stamp vendors, encumbrance certificates are yet to be computerized, and key information, such as guidance values, and sample deeds have yet to be placed on the internet. Property values are set by district committees, rather than a central valuation committee, and remain subject to manipulation.

- *Transport:* The Transport Department is widely regarded as prone to corruption, especially at the district level, using manual procedures for all its main functions (issuance of drivers' licenses, and registration certificates, and tax collection). The process of computerization in the department has slowly begun, with an initial pilot in Ropar.

In addition, Punjab intends to put in place a wide area network (WAN) and develop a portal to allow citizens to access information and forms, register grievances, and, over time, process transaction on-line.

Decentralization

GoP is in the process of introducing administrative and financial decentralization of education. Teachers are to be placed on deputation with the *Zilla Parishad* (ZP), and *Panchayats* will have administrative and disciplinary control over them up to the point of removal or dismissal. Removal and dismissal powers presently lie with the department of education. All teacher vacancies are to be filled by the ZP on the basis of rules and regulations framed by the Department of Education. Teachers appointed by local governments are denominated *Panchayat Shiksha Sevaks* and their salaries, paid by the *Panchayats*, will be transferred as a grant from the State government to the ZP. The responsibility for the construction of new schools, their repair and maintenance, as well as teacher training will continue to remain with the Department of Education.

Teachers are to be recruited by a committee set up at the ZP level. These teachers would be appointed to schools, after a two-month training period if necessary, initially for a contract period of one year. At the end of the year, their performance would be assessed, and if satisfactory, reappointed for another year, receiving a 15 percent salary increment during the second year. The policy on further increments in subsequent years of service is not clear. *Shiksha Sevaks* will not receive any pension or other allowances and their salary will be Rs. 5000 a month for graduates and Rs. 4,000 for higher secondary graduates. Teachers will be allowed 13 days casual leave and 3 days optional leave. They cannot be transferred across *Panchayats*. These para-teachers will receive far less remuneration than regular, unionized teachers, whose starting salary ranges from Rs. 10,000 to 12,000 plus benefits. It is also worth noting that *Shiksha Sewaks* are not subject to the many demands of "authorized" leave imposed on regular teachers for election duty and other functions, which means that they are likely to have significantly more time to spend in the classroom year-round than their regular counterparts.

District and Block Education Committees, and Village Education Development Committees (VEDC) are to exercise oversight over education across the three tiers of local government. The VEDC is to consist of at least two *panchayat* members and one female member from the local Parent-Teacher Association. VEDC's do not seem to be in place as yet, while District and Block Education Committees have not played a discernible role. Without meaningful participation, these committees - and the PTAs themselves - could end up as hollow shells.

The reform in the Punjab Health System Corporation has greatly improved service delivery in Punjab (see Box-4). Recently, GoP has issued an order transferring supervisory and monitoring authority over Primary Health Care to PRI institutions. *Zilla Parishad's*, for example, are charged with monitoring attendance by doctors and paramedics. *Panchayat Samitis* are expected to monitor the quality of block-level health services, while mobilizing public health campaigns is primarily the task of the *Gram Panchayat (GP)*. Yet, the order does not vest PRIs with the power to exercise authority over medical personnel in the primary health-care system: Hiring and firing, disciplinary penalties, and salary disbursements remain the exclusive province of the health department. The order is thus unlikely to carry much weight.

GoP has also announced plans to allow *Gram Panchayats* to distribute old-age pensions. The advantage of doing this is that *panchayats* will now be involved in determining the accuracy of the old age pension beneficiary list which, according GoP officials, has a high error rate; however, doing so in cash is probably not desirable. The maintenance of 864 village water supply schemes will be transferred to the GP but paid for by the government; over time more such schemes will be turned over to GPs.

REFORMS TO IMPROVE THE INVESTMENT CLIMATE

Regulatory Burden

Single window clearance system. GoP introduced a single window clearance system for industrial projects in May 1998. The system is administered by the *Udyog Sahayak* (Industry Facilitator), the industrial facilitation unit of the Department of Industries. Under the scheme, officials from the relevant government agencies are positioned in *Udyog Sahayak* to guide and facilitate entrepreneurs. The state government has established time schedules for making available the various clearances required in order to set up an industrial unit. A committee, chaired by the Director of Industries, meets on a fortnightly basis to monitor progress in the granting of approval of all applications, including those submitted through *Udyog Sahayak*. Difficult issues are forwarded to a higher-level committee headed by the Chief Secretary, GoP. District level single window committees have also been set up under the chairmanship of deputy commissioners in each district. There is some feeling that the monitoring system is working reasonably well but no rigorous assessment has been done.

Box 4 The Punjab Health Systems Corporation

With World Bank support, in 1996, the government of Punjab embarked on an ambitious program to improve the state's secondary health services. The project upgraded 156 secondary level hospitals (including Community Health Centers, Sub-division and District hospitals) and two training institutes. This added approximately 2,100 additional beds in the public sector and provided much needed equipment and medicines.

User Fees: Revenues from user charges have risen by twenty-five times in the last seven years. The introduction of user-charges has coincided with a large increase in the number of patients in the PHSC run hospitals. User charges have allowed hospitals to raise their own funds for essential items such as drugs and routine maintenance insufficiently covered in the budget. Official fees may have partially substituted the informal payments which patients were accustomed to pay prior to the reforms. All below-poverty-line (BPL) households are provided with free treatment.

Management and Training: With the computerization of the 50 larger hospitals and systematic record-keeping and data entry at other facilities, the corporation had the ability to monitor inputs and outputs of the system and help managers set basic targets for their facilities. Outsourcing sanitation has resulted in a dramatic improvement in the cleanliness of hospitals.

Results are clearly impressive. The number of patients attending secondary care facilities has increased to 8.5 million out-patients each year. Patient satisfaction surveys illustrate that the prime reason that patients attend the PHSC facilities is the inexpensive cost (31 percent) followed by the availability of skilled doctors (23 percent). Moreover, 78% of the patients surveyed appreciated the availably of diagnostic facilities and 98%, the quality of buildings. The satisfaction rates were almost always higher for PHSC run hospitals than non-PHSC facilities.

Improved public services are providing competition to the private sector. After first-rate diagnostic facilities were introduced in PHSC run hospitals, the market rates for common health checks and investigations fell: Market rates of ECG fell from Rs 120 to Rs 60; Ultrasounds from Rs. 450 to 150; and X-rays from Rs 100 to Rs 60.

Self-certification scheme. In an attempt to lower the burden of inspections, the Government of Punjab announced the introduction of a self-certification scheme in the 2003 Industrial Policy. According to the scheme, enterprises may engage pre-qualified engineers, who have been conferred powers of an inspector, to inspect their compliance with various Acts. The policy provides for random audit of upto 5 percent of the units in any district. The audits will be commissioned by a committee consisting of senior government officials and industry representatives and carried out by randomly selected officials from outside the district in which the enterprise is located. So far, the self-certification scheme has not had many takers. The private sector suggests that the scheme needs greater publicity and awareness building and an assurance that the government is serious about its implementation.

Infrastructure

Facilitating greater Private-Public Partnership. The Punjab Infrastructure (Development and Regulation) Act, 2002 aims to attract and facilitate private participation in infrastructure development. It seeks to provide a level playing field for private participations; establish a transparent regulatory framework governed by an autonomous regulator; and grant various concessions and incentives to make the infrastructure projects and the investment opportunities viable and attractive. The Act provides for the establishment of an independent regulatory authority, the Punjab Infrastructure Regulatory Authority. The Government has also established a fund, the Punjab Infrastructure Initiative Fund (PIIF), with a capital of Rs. 20 crores. The Government has taken a policy decision to engage the private sector through BOT schemes in roads and bridges. A number of projects are already underway. These include 1,000 km of state highways, and the bus terminals at Amritsar, Ludhiana and Jalandhar.

Labor

Greater flexibility. The Punjab Government has taken some recent initiatives to introduce greater flexibility in the labor market. Firms in the IT sector are now allowed to hire women workers at late hours. All firms are now permitted to hire people directly on contract, but not through intermediaries. The requirement to have a full-time doctor for the night shift has been relaxed. A committee has been set up to look at the labor laws affecting industry.

Truck union. The 2003 Industrial Policy noted the role of truck unions in restricting the free movement of goods within and outside the State. The unions have been charging unduly high freight rates and other charges, although they do not have any authority to do so. This has put commercial transporters at their mercy and, according to the Industrial Policy document, has "severely hampered the growth of industry in several parts of the State." In the policy document, the State Government committed to "suitable and effective measures to check exploitation of Industry by Truck Unions so that the freight rates are market determined rather than these being dictated by the truck unions." In addition, industrial firms were to be given the freedom to hire trucks of their choosing.

Access to Finance and Business Support Services

The government's efforts in this area have been confined to fiscal subsidies and a host of public sector industry support institutions. Together, these government agencies, some of which are cross-sectoral and some sector-specific, provide a range of services including finance, technical consultancy, design, development, manufacture, standardization and testing of machinery and equipment, testing of products, training, extension and technical education.

Providers of finance include the Punjab State Industrial Development Corporation (PSIDC), the Punjab Financial Corporation (PFC) and the Small Industries Development Bank of India (SIDBI). The PSIDC provides financial assistance to projects promoted by private entrepreneurs through term loans, equity participation and underwriting. The

PFC provides medium and long-term loans for setting up new industrial units as well as for existing enterprises. The SIDBI is an apex financial institution of GoI, established for the promotion, financing and development of small-scale industries; it operates through a branch office in Chandigarh.

Until the early 1990s, PSIDC's equity investment did reasonably well given the controlled environment. These advantages were lost in the 1990s. PSIDC did not have the capacity to make the informed judgments about investment that is necessary in the liberalized environment. As a result, a large number of bad projects were financed which has considerably weakened PSIDC's financial position. Many private promoters have failed to buy back PSIDC's shares as was originally expected. The IP-2003 talks about re-capitalizing PSIDC although, so far, the fiscal crunch has prevented the government from doing this. It is not clear that re-capitalization is a desirable option given the past record of the PSIDC.

Punjab has phased out sales tax concessions and interest subsidies. However, several other incentives remain in place. The IP-2003 talks about a shift in the role of the government from direct promotion and direct financial assistance to that of a facilitator. It recognizes that fiscal subsidies, an important element of past industrial policies, have not worked. Despite this, it retains fiscal subsidies for some categories of industrial units. For example, it proposes a capital subsidy scheme to promote technology upgradation in small scale enterprises in four sectors (25 percent of fixed capital investment, up to a maximum of Rs. 25 lakh per unit), and a similar scheme for small

Box 5 Attracting Private Participation in Infrastructure: Tamil Nadu

Tamil Nadu has been at the forefront of reforms aimed at increasing private participation in infrastructure service delivery. These reforms have shown that private sector participation under appropriate regulatory arrangements would not only help address the fiscal constraints of the state but also bring to the fore the benefits from increased efficiency in infrastructure financing, delivery and management. Summarized below are two reform cases.

The Tirupur Water Supply Scheme is the first water sector project developed under the PPP framework in India. After a gestation period of almost 10 years, GoTN accelerated and completed legal, financial and management agreements in March 2003. The construction is on schedule. A total of Rs.45 crores equity and subordinated debt financing from GoTN has leveraged additional equity financing of Rs.217 crores and leveraged a debt of Rs.700 crores including financing from Tirupur Exporters Association and foreign investors. The project will supply water to the fast-growing garment export industry in Tirupur, domestic consumers in Tirupur Municipality and surrounding villages, as well as a sewerage system for the Tirupur Municipality and onsite sanitation facilities for slums. User charges are based on cost recovery with cross subsidies between industrial and domestic consumers.

The East-Coast Highway Project. The Tamil Nadu Road Development Company (TNRDC) was set up in 1998 to catalyze private sector investment in the road sector and commercialize O&M. Its equity of Rs.10 crores was split 50:50 between public and private funds. The first upgrading project financed by TNRDC is the 113 Km. long East Coast Road (ECR) connecting Chennai and Pondicherry at a cost of Rs 60 crores. A Rehabilitate-Improve-Maintain-Operate-Transfer (RIMOT) framework was applied and commercial operations on the road commenced in March 2002. The RIMOT framework allows user charges to recover improvement and maintenance costs only, resulting in lower tolls; project returns are capped at 20 percent and surplus if any, is reinvested in the road sector in Tamil Nadu. The framework is a viable option compared to green field projects. Creative solutions in upgrading roads such as optimizing road space by paving road surfaces and effective segregation of traffic, helped mitigate the risk of low traffic density and high capital costs that normally accompany a four-lane option.

industrial units set up in border areas (30 percent of fixed capital investment, up to a maximum of Rs. 30 lakh per unit). In each case the total budgetary allocation for the scheme will remain fixed with individual grants reduced on a pro-rata basis if demand exceeds the available funds, i.e., Rs. 25 crores per annum for each scheme. Together with the Industrial Dispute Act, which discourages expansion of employment beyond a certain size in the registered sector as well as the SSIR policy, these schemes have built an "anti-growth bias" into the system.

DIVERSIFICATION PROGRAM IN AGRICULTURE

While GoP has yet to undertake any politically sensitive reform program in agriculture, e.g., gradual reduction in subsidies in favor of increased public investment and income support schemes, it has supported an ambitious contract farming program to diversify the state's agricultural base away from paddy and wheat. The Punjab Agro Foodgrains Corporation (PAFC), a public sector corporation, has been assigned this task. PAFC has developed a five-year CF plan that aims to shift one million hectares out of rice-wheat cultivation to a variety of other crops including oilseeds, maize, basmati rice, durum wheat, and cotton. For kharif 2003 the main focus was on basmati rice (target 34,000 hectares) and maize (target 20,000 hectares). PAFC sees its approach to be that of a facilitator, tying up farmers with agri-businesses that will supply quality seeds and technical assistance, and buy back the crop. PAFC's venture into this field embodies a more market-oriented approach to agricultural development and a significant shift away from the state's traditional focus on production as an end in itself.

To be successful, however, attention will have to be paid to a number of aspects of CF, e.g., selection of crops, development of a quick and effective contract enforcement and dispute resolution system, limiting fiscal risks to the Government from such an arrangement, keeping the number of parties in contractual arrangements to a permissible limit and developing farmers' organizations capable of contracting with sponsors, with a view to reducing transactions costs, increasing information flow and improving farmers' negotiating position.

OVERALL ASSESSMENT OF THE REFORM PROGRAM

By the sheer number of measures announced so far, there is little doubt about GoP's intention to reform. But, unfortunately, its intentions have yet, in many areas, to be implemented on the ground. In sectors / areas like power, agriculture, disinvestment and fiscal policy, there already exist blueprints for reforms. In other sectors, like health and education, the strategies are gradually evolving. But where the government has been less successful is in implementing the policies laid out in its strategy papers. In a few cases, it has actually done the opposite, i.e., rolled back reforms that were beginning to show results, e.g., the introduction of export-import forms were apparently yielding better compliance from the tax dealers but was discontinued. The recent decision to lift the ban on fresh recruitment has also sent a conflicting signal about the government's intention to control its salary bill. GoP has also not adhered to its own fiscal responsibility Act. In the case of the power sector, preparation of the Financial Restructuring Plan for the sector has taken more than a year. In agriculture, it has chosen the option of encouraging diversification without tackling the issue of agricultural subsidy, marketing, and other institutional reforms.

Revitalizing Reform: Some Options and Priorities

REVITALIZING REFORM: SOME OPTIONS AND PRIORITIES

As indicated earlier, there is no shortage of good policy recommendations for GoP, if it wants to pursue reforms. A number of useful reports already exist, including the White Paper on State Finances, two studies undertaken by National Institute of Finance and policy (NIPFP, 1994 and 1998), Report of the Punjab Public Expenditure Reforms Commission (2002), the World Bank's Note on 'Some Key Reform Challenges in Punjab' (2003), Expert Group's Report on Power Sector Reform (2003), the Bank Report 'Revitalizing Punjab's Agriculture' (2003) and GoP's Report on Disinvestments (2002) to name a few. The problem in Punjab, more than in other states, is not articulating the reform program but implementing it.

In this section we begin with some of the policy recommendations that arise out of this report's analysis. A large number of recommendations are presented as options for the government's consideration under three headings: restoring fiscal health; strengthening the enabling environment for growth; and improving the quality of administration and service delivery. Many of the recommendations are as applicable to most other Indian states as to Punjab. What is more unique to Punjab is, as the report argues, the nature of the implementation challenges. The report therefore concludes by analyzing the critical implementation issues surrounding Punjab's reform program, including the issue of sequencing and prioritization of the reform measures.

MEASURES TO RESTORE FISCAL BALANCE

To restore fiscal balance, the Government needs to move on three things immediately. First, it needs to comply with its own Fiscal Responsibility and Budget Management Act. Placement of the Medium-Term Fiscal Reform Programme along with the budget, as required by the Act, is a good, albeit belated start, and this needs to be accompanied by a number of measures required by the Act: presentation of quarterly reviews, adoption of corrective measures, as required, and, most importantly, adherence to the Act's fiscal targets. Second, it has to create 'fiscal space' by addressing the overstaffing issue in government departments as well as in the PSEB, and by exploring alternative mechanisms to deliver subsidies to farmers more effectively (say an idea explored in more detail later) and using the resultant savings to step-up public investment in critical sectors like agriculture, irrigation, power, education and health. Third, it has to aggressively pursue tax policy and administration reforms, e.g., introduction of Value Added Tax (VAT), restructuring of the tax administration department on functional lines, computerization of the tax information system, etc., to generate additional resources to meet the state's growing public investment needs.

Fiscal and Financial Management Reforms

Punjab already has a comprehensive strategy to address its fiscal problem in the form of Fiscal Responsibility and Budget Management (FRBM) Act. The real challenge is to implement it and ensure full compliance with all its elements. The first step to implement the FRBM Act would be to dovetail the annual budget preparation exercise with its own Medium-Term Fiscal Program (MTFP). To do so it needs to take the MTFP exercise more seriously. This would involve preparation of a Medium-term action plan for large spending departments, like education and health, which will outline the goals and policies these departments intend to pursue, the outcomes to measure their performance by and the corresponding resource needs to implement such action-plans[38]. To incentivize the system, sectoral departments should be allowed to identify, retain and carry over savings made in one year to the next. This will provide the much needed stability and predictability to departmental budgets. The state MTFP should then build on departmental action plans and, at the same time, adhere to the fiscal parameters outlined in the FRBM Act. A Committee consisting of senior Secretaries from various sector departments should be formed to monitor the fiscal indicators and take corrective actions when necessary.

Existing practices in revenue forecasting, expenditure management and performance monitoring need to be improved. There is a need for Punjab to have a modern revenue-forecasting model that will allow it to estimate revenue with greater accuracy. Incentives need to be built into the expenditure management system to ensure that there is more balanced drawdown of funds. An effective performance measurement system that measures the impact of development programs and provides accurate and timely feedback to decision-makers should be put in place.

GoP should set up a Guarantee Redemption Fund in line with the recommendations of the RBI and comply with the FRBM Act as far as issuance of guarantees /contingent liabilities are concerned.

The irregularities on the food account and the large arrears and hidden liabilities in the system have eroded the credibility of the state's financial management system. GoP should regularize all 'excess' expenditure (which have not been approved by the legislature) incurred in previous years in accordance with the provisions of the Indian Constitution, reconcile all major departmental accounts with AG Accounts to eliminate any un-reconciled differences and restore the credibility of the Treasury. This would call for commitment at the highest levels of the government, institutional changes to ensure that all public funds are part of the consolidated fund of the state and training of officials in the Finance department on treasury management along with greater use of outside consultants with the right expertise. GoP may also wish to undertake a State Financial Accountability Assessment (SFAA) for the state.

The Government needs to modernize its financial management and accountability systems in line with the best practice in India. Controlling officers should be held fully answerable for managing and accounting for appropriations more effectively and for reporting on variances between actuals and budget in the annual Appropriation Accounts. Similarly, ways to improve government response to external audit observations should be explored. Measures to improve the workings of the Public Accounts and Undertakings Committees should be explored with the Legislature.

There is a mismatch between the expertise and resources available with the Local Audit Department and the size of the task. Similarly the Internal Audit Organization does not have the expertise to effectively

[38] Given the limited capacity of GoP, preparation of the departmental action plans should not be a very formal exercise but kept to the bare minimum. Initially, this exercise should be limed to only the current year and later it could be evolved into a Medium-term framework.

discharge its duties. Both these organizations need a large amount of capacity building, and their responsibilities need to be matched with their capability. For the purpose of ensuring an effective internal control system GoP may consider the option being pursued by the Government of Andhra Pradesh of engaging professional accountants to conduct internal control functions.

Overstaffing

In order to reduce overstaffing in government and PSEB, GoP should operationalize the surplus pool with a life of no more than six months. An internal assessment should be conducted to systematically assess redundancy using transparent criteria. Surplus employees should be offered VRS or redeployment, and if they fail to accept these two options, be subject to retrenchment when the surplus pool ceases to exist. The surplus pool should provide for training to help employees improve their skills prior to redeployment/entry into the private sector.

Alternative Subsidy Delivery Mechanisms

A farmer in Punjab receives subsidies in at least six different forms: minimum support prices, subsidized power, subsidized canal irrigation, subsidized fertilizers, extremely low tax rates on diesel and agricultural inputs, and subsidized credit to buy agricultural equipment. The total amount involved in these subsidies is likely to be Rs.3,500 crores or Rs.17,000 per cultivator. But since these subsidies are not properly targeted, the actual money received by the farmers is much less. There are many intermediaries who benefit from these subsidies in the name of the farmers. The actual subsidy paid by the government would be significantly lower if appropriate mechanisms were developed to target subsidy better and exclude non-agricultural beneficiaries (who are generally wealthier than average farmers). It is therefore important for GoP to examine alternative mechanisms for delivering subsidy to farmers in consultation with Government of India (GoI), as the latter bears the cost of providing some of these subsidies. Income support schemes, where farmers receive direct transfer payments from the government at regular intervals, and the amount declines gradually over time, could be one possibility. Another possibility would be to peg all user charges to the cost and give vouchers to farmers equivalent to the subsidy amount, which can be used to pay for public services. Another alternative could be to raise user charges to cover the cost of providing services and to earmark the resultant revenue to be spent in the geographical area where it is collected, primarily to improve the public services. Better targeting of subsidy will not only be beneficial from the fiscal perspective but also help Punjab to diversify from the current agricultural practices that are environmentally unsustainable.

Tax Policy and Administration

The medium-term reform in the case of sales tax is to adopt the VAT. However, this will have to be calibrated on the basis of the collective decision of the States in the Empowered Committee and the facilitating measures taken by the Ministry of Finance, GoI. The latter in particular, has to facilitate the reform by ensuring a mechanism to deal with inter-state issues including the zero-rating of the central sales tax and dispute settlement mechanism, sharing of the power to levy tax on services, amendment to the declared goods list. Thus, the VAT in its pure form is likely to be only a medium-term reform.

The reform of the sales tax system however does not have to wait for the decision to implement the VAT and should be taken up immediately. The existing levy with a mix of the first point and the last point incidence is found to be easy to evade. In the case of Punjab, the reform measure should start by reducing the number of general rates from 6 into 4. This could be done by shifting all commodities presently taxed at 3 per cent to the 4 percent category, and all commodities taxed at 8 percent to 10 percent category. An important measure in this regard is in raising the rate of tax on diesel to the floor rate recommended by the Empowered Committee of State Finance Ministers. The general rate similarly should be increased to 10 percent, on par with the rate prevailing in neighboring states. Eventually, when the VAT comes into vogue, this will have to be raised to 12.5 percent. The tax can be converted into a multipoint levy with set off given to tax paid at the previous stage. Set off can also be given to the tax paid on inputs, thus bringing in the VAT principles into the tax. The State is already geared to levy the VAT and the machinery could be used to undertake the reform with a view to eventually switch over to the full-fledged VAT.

GoP may also wish to reinstate the payment of 50 percent tax payable on the sales in Canteen Stores Departments and reintroduce export-import (EXIM) form at the integrated computerized centers (ICCs). It is important to restore the property taxes on residential properties. This is the most important tax for financing urban services in all countries and its rightful role should be restored. Besides, Punjab does not levy the profession tax. This could be an important source of revenue. The state government may levy and collect the tax and the proceeds may be passed on to local bodies for financing urban services. This could provide another supplement in the effort of the State government in abolishing *Octroi*.

Rather than waiting for the introduction of the VAT, the Government may wish to move sooner to reorganize the Excise and Taxation Department on the basis of functional distribution of responsibilities. The current four-tier structure (i.e., Headquarter, Division, Districts and Wards) could be compressed to a three-tier structure along functional lines. This will reduce dealer-commercial tax officer interface and make it unnecessary to locate a sales tax officer in every district or sub-district. The geographical jurisdiction of the second-tier and third-tier of the commercial tax department should be redrawn to reflect as closely as possible the operational needs of the department and to effectively and efficiently deliver services to the dealers.

MEASURES TO IMPROVE THE INVESTMENT CLIMATE

Punjab can take a number of steps to create an enabling climate for its private sector to grow and prosper. It may wish to streamline its administrative procedures involved in establishing new business by creating a more transparent and time-bound system. It could streamline its inspection system and simplify record keeping and submission of returns procedure for industries. It may wish to introduce competition in agricultural marketing by allowing private sector and grower cooperatives to set-up market yards as has been outlined in GoI's model Act. It would need to take steps to reduce corruption, sanitize its policies from influence of interest groups and strictly enforce contracts and laws of the land. It also needs to introduce greater competition in marketing of agricultural goods at the wholesale level and implement institutional reforms in agriculture. It should aim to supply quality power at reasonable cost to industries and farm sector.

Measures to Attract Investment

Reducing regulatory burden. Punjab can build upon the reforms carried out in this area, such as the establishment of *Udyag Shahayak* in 1998, and introduce further actions to lower the regulatory burden on its private sector. Recommended actions are: (i) Introduce a composite application form for clearances as has been done in Tamil Nadu, Andhra Pradesh, Karnataka and Gujarat; (ii) Establish a legal framework for single window clearances, as has been done in Andhra Pradesh and is in the process of being established in Karnataka (see Box-6); (iii) Rationalize the maintenance of registers; and (iv) Eliminate redundant Acts related to reporting requirements.

Making the labor market more flexible. While the Punjab government has taken some steps to make the labor market more flexible, more can be done within the parameters set by federal laws and policy and learning from recent reform efforts of other states. Some options to consider are: (i) Carry out a complete

Box 6 — Andhra Pradesh's Single Window Clearance System

The Government of Andhra Pradesh has enacted the "Industrial Single Window Clearance Act, 2002" to expedite the processing and issuance of various requests for setting up new industrial undertakings in the state. The government has constituted two nodal agencies, one at the district-level and the other at the state-level, to receive and process applications within a time-bound framework. The District Committee, chaired by the District Collector, approves undertakings with investment below one crores (i.e., small scale industry) and the State Committee, chaired by the Commissioner of Industries, approves applications with investment above one crores (i.e., large and medium scale industry). In case of rejections of clearances or approvals of large and medium units with modification under the state laws by the concerned authority, the District Committee forwards it to the State Committee and the latter may forward it to the Empowered Committee. The Empowered Committee, headed by the Chief Secretary to Government, passes appropriate orders referred to it by the State Committee and when necessary refers the application to the State Board for decision. The State Board, chaired by the Chief Minister, is the final authority on the matter and passes the appropriate orders on the application referred to it.

The real benefit of the Single Window Clearance (SWC) Act is the provision of deemed approval and the time limits set under the Act for various clearances. For example, approval from the power company about the feasibility of providing power and the final power connection to the industrial undertakings has to come within 7 and 25 days, respectively, failing which it is deemed approved subject to payment of the required fees. The same condition applies to water supply. The clearances from GP and licenses from Municipality, if not made available within 7 days, are deemed to be cleared. Apart from the issue of acquisition and alienation of land, which has a set time limit of 45-60 days under the single window clearance system, the time limits for all other clearances are between 7 to 30 days.

Source: Unlocking Andhra Pradesh's Growth Potential: An Agenda To Achieve the Vision 2020 Growth Targets, The World Bank, 2003.

review of the entire spectrum of labor laws governing Punjab and the machinery needed to implement these laws; (ii) Simplify, rationalize and consolidate labor statutes. Prepare a single statute with different chapters covering the various facets of employment; (iii) Further liberalize rules regarding use of contract labor and temporary worker; (iv) Establish an independent expert body such as a Labor Regulatory Authority (similar in spirit to the independent regulatory authorities being set up in the infrastructure sector) which will hear arguments of different parties in the event of proposed lay-off, retrenchment or closure, and give a ruling that will be binding on all concerned parties.

Giving the Punjabi Diaspora a Stake in the State's Development. The Government of Punjab can play a vital role in strengthening links between PPOs and their families in Punjab and thereby leverage the philanthropic activities of its diaspora to the greater benefit of the state. To do so, it may consider the following steps: (i) Institute a single-window contact mechanism for PPOs in the form of an autonomous, empowered and dedicated organization to handle the multiple issues generated by diaspora interactions with the state (see Box-7) and to allow this organization to form a foundation to receive charitable donations and generate funds through sponsorship from private individuals and corporations; (ii) Provide matching funds to complement the investment made by the PPOs when the project is in state's interest; (iii) Work with GoI to provide dual citizenship to members of the Indian diaspora and to simplify the Foreign Contribution (Regulation) Act, 1976, to enable faster flow of remittances to the state; and (iv) Prepare a data bank of PPOs and establish direct communication links between the diaspora and GoP[39].

[39] GoP has a department for Non-Resident Indians (NRIs), which is largely dysfunctional.

Box 7	Addressing Diasporas: International Experience

Many countries with successful diasporas have created viable structures to harness them for development. The Greek, Italian and Polish Governments have created well-staffed departments, usually housed in the Ministry of Foreign Affairs, to cultivate their diasporas. Poland's Parliament has committees dealing with diaspora issues. The Ministries of Culture and Education are involved in servicing the educational and cultural needs of the Polish diaspora. Japan has created a "Council on the Movement of People Across Borders" to advise the Prime Minister and the Minister of Foreign Affairs on the Japanese diaspora. Italy has devised supplementary mechanisms to strengthen links with its diaspora and is considering enabling legislation to give citizens residing abroad representation in the Italian Parliament. South Korea has created a 15-member ministerial "Committee of Korean Resident Abroad" headed by the South Korean Prime Minister, as well as parallel autonomous organizations. The Philippines, which has a large emigrant blue-collar population, has passed legislation, created new institutions, and boosted the strength of its overseas Embassies to woo its far-flung diaspora.

Source: Report of the High Level Committee on the Indian Diaspora, 2003.

Agriculture Sector Reforms

Agricultural marketing. Modernization of the marketing system will require regulatory reforms as well as other facilitating actions and investments. The priority is amendment of the Punjab Agricultural Produce Markets Act to allow private sector entry in establishment and management of wholesale markets. To promote agri-business and high value agriculture, the mandatory requirement that all produce sold wholesale has to be sold through regulated markets needs to be reconsidered. To improve farm profitability and also attract private trade back to the state, GoP should reduce the various market fees and cesses, which at the moment are the highest in the country. An amendment of the Essential Commodities Act (ECA) has to be also considered by GoI/GoP to permanently remove trade restrictions related to storage and movement of agricultural produce.

Institutional reforms. To create an environment where public services can work more closely with the private sector to respond nimbly to changing farmer and market demands, Punjab would also need to institute a number of other important reforms: reversing the decline in agricultural public investment in R&D, rural infrastructure and human resource development (which, in turn, needs reduction in subsidies to release resources for these purposes), and institutional reforms in the research, extension and irrigation systems[40].

Power Sector Reforms

Implementation of PSEB's functional unbundling and restructuring plan. GoP is required to unbundle PSEB by June 2004, as per the Electricity Act 2003[41]. This would involve taking a decision on the number of new discoms, splitting assets, liabilities and employees among them, and putting in place a professional management structure based on a competitive selection procedure as has been done in some other states. It will be useful to create task specific "working groups" to implement critical components of the reform process and to get necessary technical assistance to implement reforms.

Introduction of open access for large industrial consumers. GoP's decision to introduce open access is a progressive step. One PSU has already submitted an application to PERC to purchase power from outside

[40] For more detailed policy recommendations for the agriculture sector, see World Bank Report "Revitalizing Punjab's Agriculture, 2003."

[41] The newly elected government in the Centre has placed this provision in the Electricity Act under review.

the state. Punjab will need to define the rules and regulations governing open access; it will also need to identify any technical constraints to the implementation of open access and investments required to overcome them. Other thorny issues include the extent of cross-subsidization under open access and the magnitude of the power subsidy. Successful implementation of open access will require a coordinated effort and decisions by the government, the regulatory commission and the utilities.

Financial Restructuring Plan (FRP). A credible FRP for the power sector is a must. The FRP should aim to remove all the past distortions in the financial statements before unbundling, including treatment of past accumulated losses, receivables, unfunded employee and other liabilities. The FRP should present a realistic assessment of the operational and financial condition of the new entities, and provide recommendations on the policy actions required to achieve financial viability. The FRP should present the fiscal impact on the GoP during the transition period.

Strengthening the regulatory capacity. PERC was set up in April 2001 with the primary role of tariff setting. Under the national Electricity Act 2003, the regulator has a much larger role and responsibility in sector regulation, market development and introduction of competition. There is an urgent need to strengthen the institutional capacity of the Commission to enable it to address important regulatory issues that are likely to emerge with the implementation of the new Act.

Continued progress in tariff rationalization and cost recovery for sustained improvement in the financial viability of the power utilities. PSEB has filed the application for a review of its tariff for FY2005. The revenue gap, at the current tariffs and subsidy level, is projected at Rs 694 crores. To partly cover this gap PSEB has proposed a tariff increase of Rs 359 crores - an overall average tariff increase of 5.8 percent. It is important that the revenue gap is fully covered for which further support from the government and efficiency improvements will be required. A mechanism to temporarily adjust power tariffs to any sudden and sharp changes in the fuel and power purchase costs should be explored.

Eventual privatization of distribution business. If efforts to restructure the PSEB under the existing structure fail, privatization of the distribution business should be explored. The national Electricity Act 2003 facilitates private sector participation in distribution and the introduction of open access. The state government should prepare a comprehensive strategy to commercialize and eventually privatize the distribution business. Privatization of commercially viable parts of the distribution business may be initiated to realize early gains.

Road Transport

Providing additional road capacity and enhancing service standards on the core State highway network could cost as much as Rs, 2,000 crores. GoP is looking to the private sector to fund some of the heavily trafficked corridors on a concession basis, as well as to take an increasing role in the maintenance of the network. Assured maintenance funding for the core network will be essential to sustain standards and promote private sector participation. About Rs.85 crores is required annually for the maintenance of the 7,000km network[42]. The revenues from the Rs.1/liter cess gasoline and the Central Road Fund total over Rs.100 million crore, but are used exclusively for rehabilitation and/or improvement. Maintenance is funded from general revenues and, in the last two financial years, only Rs.20 crore were allocated, well below the level needed for adequate maintenance. Expanding the capacity of the core network is important, but the development of an assured source

[42] Maintenance funding for rural roads is probably more than sufficient, but excess funds cannot be transferred to maintain higher level roads.

of funding for network maintenance, possibly through a cess on diesel sales, is critical.

IMPROVING GOVERNANCE AND SERVICE DELIVERY

Improving the Working of the Civil Service

Transfers. Punjab needs to develop an effective and public database to track transfers by cadre, group, and department over time similar to Karnataka's database (see http://vsb.kar.nic.in/dpar.htm). This will help Government monitor the problem of frequent transfers over time and raise public consciousness about its negative effects. Punjab could also consider institutional solutions to checking politically-motivated transfers by creating a statutory civil services board to authorize IAS and other transfers in an objective manner. For large departments, such as Education and Health, the government might consider introducing computerized "counseling" as a way to effect transfers: This has already been done in Tamil Nadu and Karnataka and the new system appears to be functioning well. Setting quantitative caps on transfers is also very effective: Karnataka has limited annual transfers to no more than five percent of its core civil service and has managed to stay almost within this cap for the last two years. Maharashtra's new law on transfers also establishes a cap on transfers. Clamping down on transfers will require that the Chief Minister exercise leadership in relation to his own MLAs to discourage them from putting pressure on Secretaries to accede to their requests, whether written or oral in nature.

Administrative Rationalization. The government could focus more on restructuring departments to enhance their functioning. The passage of the ninety-first constitutional amendment restricting the size of the Cabinet to 15% of the strength of the lower house of the legislature provides a good starting point for this process (states have six months to comply, that is until June, 2004). As a complement to paring down the size of the cabinet, GoP could consider regrouping administrative departments to promote synergies and reduce overlapping functions.

One might, for example, consider grouping all urban-related departments (Housing, Local Government, the Punjab Urban Development Authority, and the Punjab Water Supply and Sanitation Board) under a single principal secretary (and Minister) for Urban Development. Similarly, all rural-related departments (Agriculture, Animal Husbandry, Forests, Rural Development and Panchayati Raj, and Cooperation) could be placed under a Financial Commissioner Rural Infrastructure and Development.

All departments focusing on financial matters including Planning, Program Implementation, Finance (Budget and Resources, Expenditure, and External Aid), and revenue-collecting agencies could also be placed under the supervision of a single principal secretary for Finance and Resources. A similar rationalization could proceed in the education sector by placing elementary, secondary, vocational, and college education under a single principal secretary for education as a whole; in health, one principal secretary could broadly supervise the work of the public health, medical health, and medical education departments.

In order to strengthen the capacity to implement administrative reform, an Additional Chief Secretary reporting directly to the Chief Secretary could take overall responsibility for coordinating the work of the General Administration, Personnel, Grievances, E-Governance and Administrative Reform, and Vigilance Departments. A committee headed by the Chief Secretary and reporting directly to the Chief Minister should oversee the process of overseeing the regrouping of these departments.

Other steps to improve efficiency in the Secretariat might include revising the now out-of-date Manual of Office Procedures to encourage the greater use of information technology, more training and incentives to use the computerized file monitoring system, getting the Human Resource Database for Secretariat employees operational, and encouraging and monitoring the implementation of devices to speed up file movement, such as the single-file system.

Tackling Corruption

Enhancing Transparency. GoP should adopt both its draft Right to Information and Transparency in Tenders and Procurement laws with necessary modifications and continue the cleansing of recruitment processes, especially now that the ban on new hires has been lifted, albeit with some restrictions.

The draft *RTI bill* could be strengthened by:

- Providing for an independent appeals process similar to the Maharashtra RTI law, which allows for a first appeal to the Secretary of the Department followed by a second appeal to the Ombudsman ("Lok Ayukta").
- Reforming GoP's conduct rules to mesh with the changes proposed in the draft RTI Act.
- Establishing an independent Advisory Council, similar to Delhi and Maharashtra, to monitor the process of implementation, report to the legislature, and improve public awareness.
- Promoting greater use of the internet to furnish important information routinely to the public. Unlike Tamil Nadu and Andhra Pradesh, GoP's website lacks an inventory of relevant rules, circulars, and GOs; fails to provide most forms or applications on-line; and possesses very few interactive facilities that might allow for on-line transactions (e.g., paying a utility bill) or viewing relevant personal information, such as the status of one's file in a department.

GoP need not wait for GoI to make the national FOI law effective. It could begin by implementing the central law administratively through circulars in major departments with large public interface combined with training officers in providing access to information and wide publicity for the new measures to improve access to information. It should be noted that the new central government is committed to strengthening the central law further, as per the Common Minimum Programme.

The draft *law on procurement* is clearly an important step forward towards a more transparent process and could be strengthened further by:

- Developing appropriate safeguards to ensure that the exceptions to the tendering procedure (e.g., if supplies or additional supplies are available from a single-source only or if contracts are below Rs. 5 lakhs) are transparently enforced to prevent abuse.
- Extending the minimum time for submission of bids after notification to no less than 30 days for tenders less than Rs. 2 crores in value and 45 days above that amount.
- Limiting registration of contractors to low-value tenders only (e.g., below Rs. 20 lakhs). All other tenders should be thrown open to all contractors based on specified, minimum qualification criteria.
- Ensuring that financial bids are opened very soon after technical ones in the case of the two-cover system by placing a legal time-limit on doing so.
- Providing for an independent panel to hear appeals to improve the credibility of the process. Clarifying whether a fee is necessary for filing an appeal in the rules.

Transparency in recruitment could be enhanced by:

- Expanding the use of e-governance in the Punjab Public Services Commission (PPSC).
- Extending the reform process to the Subordinate Services Commission (SSC) as well; the SSC deals with recruitment for Class III and IV members of the civil services.

- The Chairman of the PPSC should be appointed by a five-member panel consisting of the Chief Minister, Leader of the Opposition, Speaker, Chief Secretary, and a member of the Union Public Services Commission (UPSC).

Strengthening Anti-Corruption Institutions

Certainly, the current government has pursued corruption cases vigorously: 1035 such cases were registered by the Vigilance Bureau in the first 18 months of the current regime compared to 1289 cases for the 1997-2002 period. The Vigilance Bureau has initiated investigations into 13,000 complaints in the last 18 months compared to similar action on 18,000 complaints between 1997 and 2001. The Vigilance Bureau has also carried surprise checks of school and health facilities around the state, which revealed high rates of staff absenteeism.

The Vigilance Bureau is an integral part of the government and there is the risk that some of its actions, particularly when they involve high-level political figures, will be viewed as politically motivated. Punjab also possesses an independent Ombudsman or Lok Pal charged with investigating complaints of corruption against Ministers, Members of the Legislative Assembly, and Chairmen of Public Sector Boards. The Lok Pal has a checkered history in Punjab: The office was first established in 1995 under the Lok Pal Act, 1995. A controversy over whether the Lok Pal ought to be a single or multi-member institution led to a series of legislative actions to repeal the Act and then re-enact it. The current law remains strong in principle: The Lok Ayukta has extensive powers to investigate and recommend action in complaints filed against politicians including the Chief Minister. S/he is appointed by a consensus decision involving the Chief Minister, the Chief Justice, and the Speaker of the House; once appointed the Lok Pal cannot be easily removed during his/her four-year term. On the other hand, unlike Karnataka, the Lok Pal does not possess his/her own investigating staff and must depend on the Vigilance Bureau in this regard. Nor does the Lok Pal possess suo-motu powers, allowing him/her to investigate suspected abuses of power without a formal complaint: An attempt to further amend the Lok Pal Act to permit this in 1999 failed to prosper.

The first two occupants of the office were largely inactive, choosing to pursue only a handful of cases against prominent public servants. The appointment of a new activist judge in December, 2001, Justice D.V. Sehgal, breathed some life into the institution: During Justice Sehgal's one-year in office, some 336 complaints were registered compared to just 24 during the previous six years. He also disposed of some 59 complaints compared to 15 in the previous six years. Since his death in office in December 2002, no successor has been named to replace him; as a result some 12 pending cases filed against Ministers of the two major parties in Punjab have seen no movement at all and the office as a whole is moribund. Punjab thus has an active Vigilance Bureau that reports to the government but no functioning independent mechanism to check wrongdoing in high-office.

GoP should appoint a Lok Pal as soon as possible to make the office fully functional. A public website should be created for both the Lok Pal and the Vigilance Department to provide information on the work and performance of these two institutions, and make it easier to facilitate the filing and tracking of complaints.

Agency Reform

E-Governance: Develop capacity in departments; ensure automatic releases of allocated funds for IT projects. Complete roll-out of E-Sukhmani across districts; extend computerization to other major cities on the lines of Ludhiana; land records computerization networked with registration; scale-up computerization of RTOs; and put WAN in place.

Citizens Charters: Design and widely disseminate citizens' charters for departments with large public interface based on stakeholder consultation and appropriate business process improvements. Conduct independent user surveys/report cards to benchmark progress in improving services across agencies and cities.

Human Development: Health

Better Expenditure Management. Current spending patterns show that too little money is being spent by the state government on health care, overall less than 4 percent of the total state budget. Moreover, the release of approved funds is often held up due to overall budgetary shortages. Despite allocating 55 percent of spending to the primary level, the system of PHCs and Subcenters is not functioning effectively. Part of this reason stems from the distribution of spending where more than 93 percent of state health spending falls on salaries. Such a high percentage of spending on salaries has squeezed spending on drugs, while the allocations to maintenance, minor works and vehicles have been completely eliminated from recent budgets. Increasing the overall health budget, while curbing salary costs and ensuring timely releases are key reform steps that GoP could consider. A Medium-term Fiscal Plan (MTFP) for health could be developed to use health financing tools in a well-planned and focused way to improve the priority outcomes set out for the health sector.

Strengthening Government's Oversight Role. The state does not have a long-term policy or articulated vision for the sector. Strategic planning and stewardship over the whole sector are non-existent outside the Corporation. The organizational structure of state Government of Punjab lacks a strong unit that can analyze health system performance and key health system strategies such as health financing. There is also limited technical capacity amongst senior and mid-level officers to design, plan, implement, and evaluate major health system innovations. Possible actions to rectify this situation include developing a health policy and planning cell within the Department of Health, establishing an autonomous health policy institute, and contracting out specific work. The Department of Health also needs to draft a policy paper for the sector, focusing on the primary level, based on widespread consultation and debate.

Transfers and Human Resource Management Issues. Drawing on its recent experience in secondary health reforms, Government needs to strengthen its performance management system. Transfers need to be depoliticized through the creation of cadre management committees and/or computerized counseling. Top-level positions in the department need to be filled with excellent managers, public health specialists and health economists in addition to doctors.

Engaging the Private Sector. Most of Punjab's health care is provided by the private sector. GoP could consider involving NGOs and private for-profit providers in primary health care delivery through contracting models. Several Indian states and pilots in other countries have shown that involving the private sector in primary health care can lead to greatly improved efficiency.

Primary Health Care. A recent evaluation reported that primary health care facilities suffered from high rates of absenteeism, frequent transfers, mismatched staffing, gross under-utilization of facilities, and lack of basic equipment. Government should consider giving PRI's more authority to check absenteeism at the primary-level. This needs to be complemented by an effective mechanism to track the flow of funds, as well as the development of an integrated district health plan and budget. Panchayats' effective involvement in the process of health planning and implementation should be accompanied by increased financing responsibility.

Decentralizing Primary Health Care. The current initiative to decentralize control over primary health care to PRIs is vague and unlikely to have much impact. In order to strengthen local-level accountability in the area of health, a much clearer plan needs to be adopted that spells out in detail the exact powers of PRIs in the areas of recruitment and disciplinary processes for health officials.

Secondary Health Care. There is an urgent need to institutionalize the PHSC. The Corporation has been the main driving force behind improved service delivery at the secondary level. The Corporation is due to be wound up as the project that supported it closes in 2004. It is vital that the successful innovations and reforms that the Corporation introduced are protected either through a continuation of the Corporation or the adoption of the Corporation structure and *modus operandi* within the Department of Health and Family Welfare.

Human Development: Education

Reinforcing Teacher Accountability Through Decentralization. While the plan to decentralize teacher control is laudable, there are several issues that need to be resolved. First, the selection committee responsible for recruiting teachers is controlled by the line department and does not involve PRIs or parents. It is essential that both the local Village Education Development Committee (VEDC) and Parents Teacher Association (PTA) be given an effective voice in the selection process. This would empower and give a sense of ownership to VEDCs and the user groups, and furnish an incentive for them to become active.

Second, the disciplinary and administrative powers given to local governments need to be clearly specified. Experience from other States strongly portrays the limited extent to which Panchayats have been able to curb teacher absenteeism and improve educational performance. Local governments, preferably the Gram Panchayat (GP), need to be given the authority to remove regular teachers and Shiksha Sewaks, who fail to perform their duties, including prolonged absenteeism, or, at least, withhold salary payments.

Third, effective administrative decentralization depends upon a collaborative relationship and communication between line departments and the PRI staff. In some States, line departments have consistently attempted to subvert effective decentralization. Since the District Education Officers (DEOs) and sub-district level line department personnel fear a gradual decline of power, it would be useful to introduce a program that would remove apprehensions, facilitate collaboration and promote the development of a shared vision between the district line departments and local governments.

Fourth, PTAs need to be closely involved with any decentralization initiative. There are instances where schools have engaged teachers locally and managed to pay them a lump sum out of PTA contributions. If an enabling environment is created for the VEDCs and the PTAs to work together, it could increase pressure on teachers and headmasters to function properly. The VEDCs and the PTAs could also motivate parents to pay closer attention to their children's educational achievement.

Improving Secondary Education. Improving access and the quality of instruction are the two main issues in secondary education. Increasing the number schools does not appear to be a priority for Punjab considering the low Pupil-Teacher Ratios and the expanding private sector; this situation could change due to increase in demand for secondary education caused by increased elementary level output due to the SSA interventions. GoP could also consider: (a) refurbishing existing schools, and (b) providing a science laboratory in each school, along with an effort to increase enrollment in the science and commerce streams.

Strengthening Planning and Enhancing Performance Management. GoP needs to computerize and publish data on secondary education, put in place mechanisms to promote collaboration between institutions concerned with education in the state, including a policy planning unit, and provide training to staff to enhance their managerial/planning capacity. Key priorities to improve performance management include systematic and timely evaluation for teachers, schools, and administrators, establishment of mechanisms to monitor compliance at different levels, and creating a credible system of incentives to reward (punish) good (poor) performance.

Efficient Deployment of Teachers. Teacher recruitment needs to become more systematic and need-based focusing especially on the weaker south and southwest districts. Transfers should be based on explicit criteria and affected primarily through computerized counseling. Teachers should be redeployed from urban to rural areas, upper primary to lower primary schools and better performing to lower performing districts.

Increasing Outlays for Secondary Education. The overall expenditure on education in the State is low at 3.1 percent of the State Domestic Product (SDP). Further expansion of the secondary school system will depend on increase in plan expenditures. Reducing the relative weight of salaries is a priority.

Decentralization: Strengthening the Overall Framework

Decentralization is less likely to succeed without attention to the overall context. There are several pre-requisites for successfully pursuing decentralization in Punjab. First, it is necessary to endow local governments with meaningful functions, and avoid functional overlap across different tiers of government. The Punjab Panchayati Raj Act places too many functions in hands of GPs and fails to clarify the functional relationship between PRI's and line departments. In order to promote economies of scale in service delivery (the population of the average village panchayat in Punjab is just 1,150), the state could consider facilitating associations of village panchayats, on the same lines as Karnataka. The problem of functional incoherence is exacerbated by the failure to harmonize the work of the District Rural Development Authorities (DRDA) with local representative government DRDAs in Punjab receive large amounts of money to fund centrally-sponsored schemes in rural areas: While the ZP President chairs the DRDA of his/her district, in practice the DRDA is fully independent of the ZP itself. Merging the DRDA with the ZP is an important priority of reform in the system of local government in Punjab: This has already been achieved in states such as Karnataka and Kerala.

Second, successful decentralization will entail improving the revenue-base of PRIs. No government can operate without some level of own revenues. Own revenues provide local bodies with some autonomy. Even more importantly they are a key factor for creating accountability because local stakeholders have an incentive to monitor revenues raised directly from them. Local revenues could be particularly important in Punjab where villages are richer than on average in India so there is some local fiscal capacity. Field visits carried out showed that some Panchayats were able to generate significant local revenues from land leasing.

Unfortunately, the revenue powers devolved to Panchayats seem to be rather limited. The First Punjab Finance Commission (1st SFC) recommended transferring to PRIs 20 percent of the net proceeds of five taxes: stamp duty, Punjab motor vehicles tax, electricity duty, entertainment tax and entertainment cinematograph shows tax, but the decision was only partly implemented and about 40 percent of the due amount (Rs. 150.98 crores) from the budget outlay has yet to be transferred. The Second State Finance Commission (2nd SFC) recommended that the house tax levied by GPs be enhanced and the imposition of a land holding tax. In an agriculture-rich state like Punjab such a tax could be a major source of local revenue to finance services that benefit farming households. The 2nd SFC also recommended a tax to pay for the cost of street lighting. No decision has been taken on any of these recommendations.

Devolving revenue powers may not be enough though. Panchayats may have a hard time convincing local constituents to pay taxes unless they can prove first that they will deliver services. It is like an egg and chicken problem. It may be necessary first for the state to provide some funds to cover the initial costs of service delivery, particularly for the poorer ones, with provisions for Panchayats to increase their own revenue mobilization over time. The system of conditional grants proposed by the SFC intended to achieve precisely this and it should be implemented. The other problem is that fiscal capacity is likely to differ greatly between richer and poorer Panchayats. The state would need to compensate for this to create some degree of equity in service delivery.

Third, it is clearly important that Panchayats receive a higher proportion of untied funds to allow them to adjust spending to locally-determined priorities. Most funding flows through central or state schemes corresponding to different panchayat functions administered directly by line departments or implementing societies. Most Central and State Finance Commission allocations flow through Panchayats, rather than to them, and are earmarked for specific purposes. In this sense, Panchayats operate far more often as post-offices than critical nerve-centers of local decision-making. Real empowerment will involve a substantial increase in untied funds - nothing, however, would prevent GoI or GoP from linking the flow of untied funds to certain desirable outcomes, such as increasing teacher attendance at school.

Fourth, it is essential to improve the audit capacity of local bodies to prevent the possibility of an increase in corruption as decentralization proceeds. The local fund audit has serious weaknesses: Audit reports are poor in quality and there is the general impression that they can be bought for a price. Several accounts have not been audited for more than ten years and only government servants can be held responsible for lapses, not elected officials. An external 'social' audit of panchayat finances and works conducted by a team of journalists, civil society members, and Panchayat leaders from neighboring districts might produce more reliable reports on the true state of affairs. The work of the Mazdoor Kisan Shakti Sangathan (MKSS) in Rajasthan in promoting freedom of information at the local-level to check corruption in public works has proved remarkably effective over time. These changes need to be complemented with timely releases of allocated funds, simpler accounting rules and conventions for panchayats, computerization of accounts, and mandatory public disclosure of panchayat finances on a notice-board and/or through regular public hearings.

Fifth, PRIs need to be given greater control over functionaries supervising local administration. While PRIs can criticize shortcomings in the working of local officials, in most cases they do not have the capacity to remove them from service or even halt salary disbursements. The Chief Executive Officer (CEO) of the Zilla Panchayat remains answerable in the end to the Deputy Commissioner, not the Chairman of the ZP. Nor does the Panchayat Samiti have much control over the work of the Block Development Officer (BDO), the nodal officer for schemes. Line departments exercise considerable power over health workers and teachers, weakening local-level accountability mechanisms in the process.

Finally, the crucial unit of local democracy in Punjab, the Gram Sabha, seems to be inactive. The 73rd Amendment viewed the Gram Sabha, village assembly, as a key instrument to monitor the GP. So far attendance at Gram Sabha meetings in Punjab has been thin. Since GPs have few powers and funds, and the use of the funds they do have has already been decided, there is very little for Gram Sabhas to do. Village assemblies tend to be poorly attended unless major decisions are to be taken, such as replacing the Sarpanch. Government is thinking of amending the current rules that require Gram Sabhas to meet once a month rather than twice a year, as is the current norm, but this may be wishful thinking. Perhaps, it might be better not to overdo the Gram Sabhas to avoid meeting fatigue and reduce attendance costs for villagers, but delegate to an elected committee the role of monitoring the GP between the bi-annual Gram Sabhas. In short, the basic pre-requisites for decentralization - functional clarity, sound local revenues, control over staff, and high local participation – have not been achieved in Punjab or, for that matter, much of the country.

Empowerment

The major areas for intervention with respect to improving the status of women include: (i) *Legislative reforms*: Changing certain provisions in the Punjab Land Reforms Act 1972, Punjab Tenancy Act 1887, and the Hindu Succession Act 1956 that discriminate against equal inheritance rights by women; (ii) *Effective implementation of the PNDT Act:* Statutory laws like the MTP Act, 1992, and Prenatal Sex Determination Test Act and Rules, 2003 need to be strictly enforced; existing loopholes should be plugged in the light of new technological developments and appropriate authorities set up under the Act should be more proactive in implementing its provisions; (iii) Dealing with violence against women and girls by setting up of "fast track" courts or Nari Adalats (Women's Courts) to deal with violence against women and girls including rape, dowry, and honour killings.

IMPLEMENTATION CHALLENGES

As already noted, implementation is the key challenge facing Punjab. To conclude the report, we outline six areas that the state needs to focus to move its reform agenda forward:

An overarching vision for the state

Punjab's reform program is likely to bring about changes that would affect most of its citizens in one way or the other. During the transition, uncertainty is likely to increase and special interest groups may mobilize to oppose reforms and even seek to derail them. The fact that reforms may not deliver results in the short-run is likely to make the transition period even more testing for the leadership. It is therefore important for the state to craft an overarching vision for the state to guide reform, build public support for different elements of the reform program, get political leaders to publicly demonstrate their support for reform, motivate change agents in the bureaucracy by giving them clear signals and supporting them in times of crisis and focus on results on the ground.

Developing a consensus for reform

There is a need to build greater consensus in favour of reform among and within existing political parties. GoP also needs to develop a larger public constituency for reform, among the press, NGOs, professional associations, trade unions, and farmer organizations. Reforms that enjoy greater public and political support, like improving service delivery, may have to precede politically sensitive and unpopular reform programs, like fiscal restructuring, although economics would dictate the sequencing to be other way around.

Taking GoI along

The key to successful reform in Punjab lies not only with its own leadership, but also with the GoI. In several regards, Punjab's situation is unique within India's federation. It has unique disadvantages (the Rs. 8,000 crores of debt incurred during the fight against insurgency during the 1980s) and unique advantages (the Rs. 2,000 crores of annual subsidy that Punjab's farmers receive as minimum support price for paddy and wheat production). Whatever the precise means through which these problems are solved, they can only be addressed by GoI. Without a resolution to these issues it will be very hard both for Punjab to return to fiscal sustainability and discipline, and to diversify away from the environmentally unsustainable cropping practices.

Grounding reforms in the local context and using local knowledge

Successful reforms tend to be context-specific and grounded in local knowledge. General economic principles to accelerate growth and improve service delivery – e.g., market-based competition, a healthy investment climate, appropriate incentives, sustainable fiscal policy, good institutions, protection of property rights, contract enforcement – do not necessarily map into standard policy packages. There is no necessary correspondence between the functions that good institutions perform and the particular form that such institutions take. The importance of local knowledge and context is critical in a state like Punjab, which is known for its conflicted and unique history. Punjab's policymakers therefore need to creatively package economic reform principles into institutional designs that are sensitive to local constraints and take advantage of local opportunities.

Sequencing and prioritization of reforms

The Government needs to pay close attention to the sequencing of the reform program. In many cases, the underlying policies to achieve these three goals are consistent with one another. For example, policies aimed at eliminating subsidies to the wealthy and using the freed-up resources to increase public investment will stimulate growth, improve fiscal performance (by generating more revenue from the increased growth), and raise the quality of services. But at times, apparent conflicts may occur. For example, there is a clear need to raise public expenditure in priority sectors like primary health and education. But at the same time, currently 94 to 98.5 percent of the expenditure in the health and education departments are spent on salaries and pensions. There is therefore a compelling need to restructure the composition of public expenditure as more funds are allocated to such departments. Similarly, when it comes to critical sectors like power, irrigation, transport, efforts should be made to improve service delivery along with hikes in user charges, or else, the latter may turn out to be highly unpopular and ultimately cause the derailment of the entire reform program. There is also a need to prioritize the reform program, front loading it with reforms where some progress has already been achieved, including compliance with the Fiscal Responsibility Act, addressing the overstaffing problem, reorganization of the tax departments on functional lines, liberalization of the agricultural markets, implementation of the power sector reform program, and decentralization of health and education services.

Strengthening policy-making capacity

Most high-level officials in Punjab are overloaded with routine administrative tasks, ranging from dealing with transfer requests, particularly in staff-intensive departments, such as health and education to even appearing in court cases. The result is a short attention span, made worse by the problem of frequent transfers that makes both policy-making and management more difficult. If the Punjab civil service is overstaffed, it is probably under-managed: More needs to be done to improve capacity in critical areas, such as treasury. Neither the health nor the education departments possess a policy planning unit, for example. Nor does Punjab have a strong network of training institutes, similar to AP's Center for Good Governance or Karnataka's Administrative Training Institute (ATI) that might bolster capacity. It is no accident that the reform program has moved faster in areas like tax administration and the power sector partly because of the willingness to actively involve skilled consultants. Capacity gaps therefore needs to be filled by hiring consultants or specialists through lateral entry. Over the longer-term, government will need to find a way to create focal points for policy-making that feed directly into government through revitalized training institutions, policy planning cells, and closer ties to academic/research agencies.

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Note: The detailed bibliography of all the studies consulted in preparation of this Report is available in these Technical Notes. Anyone interested in getting a copy of one or more of the above Notes, may write to Deepak Mishra at dmishra@worldbank.org or Vikram K. Chand at vchand@worldbank.org

DATA APPENDIX

Table A1

PUNJAB: Gross State Domestic Product at Factor Cost by Industry of Origin
(Rs Billion at current prices)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Agriculture and allied	139.51	153.97	166.47	194.66	204.87	224.67	253.35	270.35	280.86	279.43
Agriculture	138.54	152.63	165.03	192.83	202.60	221.96	249.14	266.39	276.60	273.86
Forestry & logging	0.40	0.66	0.66	0.80	1.09	1.11	2.52	2.10	2.18	3.26
Fishing	0.57	0.68	0.79	1.03	1.18	1.59	1.69	1.86	2.08	2.31
Industry	65.87	77.27	93.14	100.26	113.30	138.88	141.70	156.57	172.00	175.68
Mining & quarrying	0.04	0.04	0.05	0.05	0.07	0.06	0.05	0.04	0.04	0.06
Manufacturing	45.45	52.90	60.85	67.33	73.27	83.91	89.99	96.15	102.93	99.47
Registered	31.73	36.51	40.23	44.26	48.21	56.35	60.86	64.73	69.39	61.61
Unregistered	13.73	16.39	20.62	23.07	25.06	27.56	29.12	31.41	33.54	37.86
Construction	12.68	14.05	18.57	18.84	25.95	32.90	28.13	32.61	37.79	37.98
Electricity, gas and Water supply	7.70	10.28	13.67	14.05	14.02	22.01	23.53	27.77	31.24	38.18
Services	97.10	110.94	126.54	147.05	168.87	193.80	216.73	233.57	254.65	275.98
Transport, storage & communication	10.03	11.88	14.99	17.39	20.83	25.44	28.42	31.32	35.89	37.00
Trade, hotels and restaurants	36.58	41.28	44.68	50.20	55.24	60.40	66.95	72.44	79.35	91.74
Banking & Insurance	9.63	11.54	14.79	20.05	23.68	22.49	28.17	29.85	31.53	37.11
Real estate, ownership of dwellings and business services	15.06	17.59	18.74	19.70	20.48	21.56	22.83	23.91	25.18	26.57
Public administration	12.26	13.10	14.98	18.08	22.01	28.76	31.29	33.10	35.52	35.65
Other services	13.54	15.54	18.37	21.64	26.64	35.15	39.07	42.94	47.19	47.92
Gross State Domestic Product	302.48	342.18	386.15	441.98	487.04	557.36	611.78	660.49	707.51	731.10
Population (million)	21.30	21.70	22.12	22.54	22.97	23.41	23.85	24.31	24.77	25.25
Per Capita GSDP	14,203	15,766	17,459	19,609	21,204	23,811	25,646	27,170	28,559	28958.71
GSDP Growth Rate		13.1%	12.9%	14.5%	10.2%	14.4%	9.8%	8.0%	7.1%	3.3%

Source: Central Statistical Organization and Reserve Bank of India

Table A2

PUNJAB: Gross State Domestic Product at Factor Cost by Industry of Origin
(Rs Billion at constant '93-94 prices)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Agriculture and allied	139.51	142.37	142.45	152.46	145.59	150.04	160.96	165.72	166.98	162.83
Agriculture	138.54	141.26	141.25	151.11	144.02	148.24	158.98	163.53	164.54	160.29
Forestry & logging	0.40	0.38	0.41	0.39	0.46	0.44	0.54	0.58	0.66	0.56
Fishing	0.57	0.73	0.79	0.96	1.11	1.37	1.45	1.60	1.78	1.98
Industry	65.87	68.99	75.10	77.38	85.55	94.66	93.93	98.77	104.53	99.69
Mining & quarrying	0.04	0.01	0.01	0.01	0.02	0.02	0.01	0.01	0.01	0.00
Manufacturing	45.45	48.10	51.26	54.24	56.75	60.45	64.05	67.13	70.75	65.86
Registered	31.73	33.04	33.76	35.46	37.20	40.07	42.83	44.90	47.53	42.40
Unregistered	13.73	15.06	17.50	18.78	19.56	20.38	21.22	22.23	23.22	23.46
Construction	12.68	12.82	15.49	14.17	19.39	23.82	19.05	20.78	22.65	22.94
Electricity, gas and Water supply	7.70	8.06	8.33	8.96	9.39	10.37	10.82	10.86	11.12	10.89
Services	97.10	100.02	106.79	118.34	127.50	132.73	142.49	146.57	153.79	167.91
Transport, storage & communication	10.03	10.83	12.54	14.32	15.78	17.02	19.93	21.45	23.76	29.44
Trade, hotels and restaurants	36.58	37.17	39.36	42.30	44.76	46.50	49.69	51.53	54.14	57.51
Banking & Insurance	9.63	10.59	12.48	17.32	19.59	18.23	20.31	19.88	20.81	25.14
Real estate, ownership of dwellings and business services	15.06	15.39	15.74	16.09	16.45	16.83	17.20	17.59	17.99	18.38
Public administration	12.26	12.09	12.33	13.60	15.48	18.00	18.81	19.25	19.91	19.76
Other services	13.54	13.96	14.33	14.72	15.45	16.15	16.55	16.87	17.19	17.69
Gross State Domestic Product	302.48	311.39	324.33	348.19	358.65	377.43	397.39	411.06	425.31	430.43
Population (million)	21.3	21.7	22.1	22.5	23.0	23.4	23.9	24.3	24.8	25.2
Per Capita GSDP	14,203	14,348	14,664	15,448	15,614	16,124	16,659	16,909	17,168	17,049
GSDP Growth Rate		2.9%	4.2%	7.4%	3.0%	5.2%	5.3%	3.4%	3.5%	1.2%

Source: Central Statistical Organization and Reserve Bank of India

Table A3

PUNJAB: Relative GSDP shares at Constant Prices	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Agriculture and allied	46.1%	45.7%	43.9%	43.8%	40.6%	39.8%	40.5%	40.3%	39.3%	37.8%
Agriculture	45.8%	45.4%	43.6%	43.4%	40.2%	39.3%	40.0%	39.8%	38.7%	37.2%
Forestry & logging	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%
Fishing	0.2%	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%
Industry	21.8%	22.2%	23.2%	22.2%	23.9%	25.1%	23.6%	24.0%	24.6%	23.2%
Mining & quarrying	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturing	15.0%	15.4%	15.8%	15.6%	15.8%	16.0%	16.1%	16.3%	16.6%	15.3%
Registered	10.5%	10.6%	10.4%	10.2%	10.4%	10.6%	10.8%	10.9%	11.2%	9.9%
Unregistered	4.5%	4.8%	5.4%	5.4%	5.5%	5.4%	5.3%	5.4%	5.5%	5.5%
Construction	4.2%	4.1%	4.8%	4.1%	5.4%	6.3%	4.8%	5.1%	5.3%	5.3%
Electricity, gas and Water supply	2.5%	2.6%	2.6%	2.6%	2.6%	2.7%	2.7%	2.6%	2.6%	2.5%
Services	32.1%	32.1%	32.9%	34.0%	35.6%	35.2%	35.9%	35.7%	36.2%	39.0%
Transport, storage & communication	3.3%	3.5%	3.9%	4.1%	4.4%	4.5%	5.0%	5.2%	5.6%	6.8%
Trade, hotels and restaurants	12.1%	11.9%	12.1%	12.1%	12.5%	12.3%	12.5%	12.5%	12.7%	13.4%
Banking & Insurance	3.2%	3.4%	3.8%	5.0%	5.5%	4.8%	5.1%	4.8%	4.9%	5.8%
Real estate, ownership of dwellings and business services	5.0%	4.9%	4.9%	4.6%	4.6%	4.5%	4.3%	4.3%	4.2%	4.3%
Public administration	4.1%	3.9%	3.8%	3.9%	4.3%	4.8%	4.7%	4.7%	4.7%	4.6%
Other services	4.5%	4.5%	4.4%	4.2%	4.3%	4.3%	4.2%	4.1%	4.0%	4.1%
Gross State Domestic Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Central Statistical Organization and Reserve Bank of India

Table A4

PUNJAB: Constant Price GSDP Growth Rates	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Agriculture and allied	2.1%	0.1%	7.0%	-4.5%	3.1%	7.3%	3.0%	0.8%	-2.5%
Agriculture	2.0%	0.0%	7.0%	-4.7%	2.9%	7.2%	2.9%	0.6%	-2.6%
Forestry & logging	-3.6%	7.0%	-4.9%	18.1%	-4.9%	22.5%	9.0%	12.8%	-15.2%
Fishing	26.3%	8.4%	22.4%	14.8%	23.6%	6.0%	10.2%	11.6%	11.1%
Industry	4.7%	8.8%	3.0%	10.6%	10.6%	-0.8%	5.2%	5.8%	-4.6%
Mining & quarrying	-77.3%	11.5%	0.9%	67.6%	-8.8%	-17.0%	-32.8%	0.0%	0.0%
Manufacturing	5.8%	6.6%	5.8%	4.6%	6.5%	5.9%	4.8%	5.4%	-6.9%
Registered	4.1%	2.2%	5.0%	4.9%	7.7%	6.9%	4.8%	5.9%	-10.8%
Unregistered	9.7%	16.2%	7.3%	4.2%	4.2%	4.1%	4.8%	4.5%	1.0%
Construction	1.1%	20.8%	-8.5%	36.8%	22.8%	-20.0%	9.0%	9.0%	1.3%
Electricity, gas and Water supply	4.7%	3.3%	7.5%	4.8%	10.4%	4.3%	0.4%	2.3%	-2.0%
Services	3.0%	6.8%	10.8%	7.7%	4.1%	7.4%	2.9%	4.9%	9.2%
Transport, storage & communication	8.0%	15.8%	14.2%	10.2%	7.8%	17.1%	7.6%	10.8%	23.9%
Trade, hotels and restaurants	1.6%	5.9%	7.5%	5.8%	3.9%	6.9%	3.7%	5.1%	6.2%
Banking & Insurance	9.9%	17.9%	38.7%	13.1%	-6.9%	11.4%	-2.1%	4.7%	20.8%
Real estate, ownership of dwellings and business services	2.2%	2.2%	2.2%	2.2%	2.3%	2.2%	2.2%	2.2%	2.2%
Public administration	-1.4%	2.0%	10.3%	13.9%	16.3%	4.5%	2.4%	3.4%	-0.8%
Other services	3.1%	2.7%	2.7%	4.9%	4.6%	2.5%	1.9%	1.9%	2.9%
Gross State Domestic Product	2.9%	4.2%	7.4%	3.0%	5.2%	5.3%	3.4%	3.5%	1.2%

Source: Central Statistical Organization and Reserve Bank of India

Table A5

Punjab: Revenue Expenditure (Rs. Billion at current prices)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 RE	2004-05 BE
1. Social Services	11.47	12.32	15.91	16.39	20.62	26.40	27.16	29.93	31.11	32.22	43.45	46.34
Education	6.88	7.66	8.95	10.43	13.02	17.16	18.05	18.59	18.32	20.92	23.95	27.45
Health and Family Welfare	2.23	2.26	2.57	3.15	3.83	5.16	5.45	6.38	6.18	6.10	7.30	7.74
Water Supply & Sanitation	0.57	0.67	0.95	0.97	1.02	1.23	1.16	1.53	1.85	2.26	2.47	4.25
Housing & Urban Development	0.12	0.12	0.14	0.15	0.16	0.22	0.18	0.15	0.15	0.15	0.16	0.17
Welfare of SCs, STs and OBCs	0.27	0.39	0.32	0.29	0.48	0.48	0.29	0.46	0.48	0.49	0.88	0.95
Labor & Labor Welfare	0.24	0.27	0.30	0.36	0.43	0.61	0.50	0.53	0.51	0.54	0.63	0.90
Social Security & Welfare and Nutrition	0.56	0.52	1.03	0.73	1.07	1.03	1.35	1.34	1.13	1.54	7.86	4.64
Others	0.60	0.43	1.64	0.31	0.59	0.51	0.18	0.96	2.49	0.21	0.20	0.24
II. Economic Services	9.64	9.61	9.62	23.08	20.60	12.80	18.46	21.01	18.66	23.10	32.27	44.05
Agriculture and Allied Services	2.21	1.90	2.64	2.19	2.79	3.47	3.39	4.48	4.20	4.30	4.96	5.98
Rural Development	0.30	0.18	0.37	0.24	0.46	0.54	0.47	0.67	0.61	0.39	0.75	1.07
Irrigation and Flood Control	1.56	1.68	1.88	2.18	2.56	2.90	2.94	3.16	3.26	3.59	5.73	5.81
Energy	0.01	0.01	0.01	13.39	8.74	0.01	4.04	6.05	4.51	7.52	14.19	23.60
Industry and Minerals	0.54	0.41	0.35	0.24	0.52	0.38	0.38	0.29	0.23	0.23	0.24	0.79
Transport	2.53	2.72	3.05	3.21	3.71	4.17	4.58	4.47	4.05	4.82	3.14	3.25
Science, Technology and Environment	0.01	0.01	0.01	0.00	0.01	0.01	0.01	0.02	0.01	0.00	0.03	0.05
Others	2.50	2.70	1.31	1.63	1.80	1.31	2.65	1.87	1.78	2.24	3.22	3.50
III. General Services	18.75	38.02	30.18	29.12	36.43	43.91	55.82	65.31	75.67	90.72	94.68	98.96
Organs of State	0.35	0.50	0.55	0.73	0.81	0.96	0.96	1.07	1.12	1.33	1.39	1.46
Fiscal Services	0.53	0.79	0.77	0.77	0.90	1.56	1.37	1.58	1.53	1.71	1.82	2.02
Interest Payment	10.42	12.44	14.90	16.34	18.49	23.17	26.37	23.43	31.78	34.34	37.37	38.72
Administrative Services	5.47	6.69	6.71	7.76	9.63	10.96	10.91	11.78	12.30	14.19	15.78	16.57
Pensions and Misc. general services	1.98	17.60	7.25	3.52	6.60	7.27	16.22	27.45	28.94	39.15	38.31	40.19
IV. Other Expenditure	0.57	0.48	0.64	0.67	0.70	0.73	0.50	0.89	1.66	2.21	1.76	1.85
REVENUE EXPENDITURE	40.44	60.43	56.35	69.26	78.35	83.84	101.95	117.13	127.10	148.25	172.16	191.21

Source: Finance Department, Government of Punjab

Table A6

Punjab: Revenue Receipts (Rs. Billion at current prices)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 RE	2004-05 BE
I. States' Own Tax Revenue	21.50	25.99	26.51	27.35	30.45	32.62	39.47	48.95	48.24	57.15	65.59	71.14
A. Taxes on Income and Expenditure	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B. Taxes on Property	1.77	2.49	2.31	1.85	2.37	2.61	3.30	4.31	4.53	5.68	7.60	8.11
a. Land Revenue	0.03	0.04	0.03	0.03	0.04	0.03	0.05	0.07	0.09	0.09	0.10	0.11
b. Stamps and Registration Fees	1.74	2.46	2.28	1.82	2.34	2.58	3.26	4.24	4.44	5.59	7.50	8.00
c. Taxes on Immovable Property	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
C. Taxes on Commodities	19.73	23.50	24.20	25.49	28.07	30.01	36.17	44.64	43.71	51.48	57.99	63.03
a. State excise	7.66	8.83	9.44	10.01	11.44	12.04	12.32	13.25	13.50	14.29	15.00	15.25
b. Sales Tax	9.61	11.96	11.83	12.65	14.01	14.90	19.77	26.44	26.84	30.72	35.75	40.25
c. Taxes on Vehicles	1.41	1.78	1.91	1.95	2.16	2.67	3.21	3.38	3.18	4.44	4.50	4.65
d. Taxes on Goods and Passengers	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
e. Taxes and Duties on Electricity	0.73	0.87	0.93	0.80	0.38	0.32	0.76	1.45	0.03	1.88	2.59	2.75
f. Other	0.06	0.05	0.10	0.09	0.09	0.09	0.10	0.12	0.15	0.15	0.15	0.13
II. Share of Central Taxes	3.79	4.24	4.42	5.28	6.57	5.87	6.39	7.19	6.07	6.45	7.52	8.65
TAX REVENUE	25.28	30.23	30.93	32.63	37.02	38.50	45.86	56.15	54.31	63.60	73.11	79.78
III. States' own Non-Tax Revenue	4.14	20.04	17.77	19.45	23.57	15.07	23.61	29.35	29.60	40.36	47.69	60.83
A. Interest Receipts, Dividends & Profits	0.77	0.89	0.92	14.70	9.86	1.06	5.44	7.08	5.53	9.14	15.84	24.94
B. General Services	0.68	16.08	13.95	1.67	10.53	10.62	14.64	18.32	20.28	27.24	26.90	29.70
C. Social Services	0.46	0.50	0.39	0.52	0.52	0.51	0.70	0.73	0.77	0.96	1.17	1.25
D. Economic Services	2.24	2.56	2.52	2.56	2.65	2.81	2.84	3.21	3.02	3.02	3.78	4.93
E. Fiscal Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Grants from Centre	3.34	2.74	3.15	3.61	2.93	3.99	5.20	8.27	5.37	6.76	15.96	16.17
NON-TAX REVENUE	7.48	22.78	20.92	23.06	26.50	19.06	28.82	37.62	34.98	47.11	63.65	77.00
REVENUE RECEIPTS	32.77	53.01	51.85	55.69	63.51	57.56	74.68	93.77	89.29	110.71	136.77	156.78

Table A7

Punjab: Fiscal Summary
(Rs. Billion at current prices)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 RE	2004-05 BE
STATE GOVERNMENT												
Revenue	32.8	53.0	51.8	55.7	63.5	57.6	74.7	93.8	89.3	110.7	136.8	156.8
State's Own Revenue	25.6	46.0	44.3	46.8	54.0	47.7	63.1	78.3	77.8	97.5	113.3	132.0
Central Resources	7.1	7.0	7.6	8.9	9.5	9.9	11.6	15.5	11.4	13.2	23.5	24.8
Non Interest Expenditures	37.3	58.4	50.6	54.0	69.8	72.2	80.3	109.4	107.1	120.5	158.1	179.2
Salaries	15.9	17.8	20.4	24.8	30.3	38.8	40.7	45.3	44.3	46.7	53.6	59.7
Pensions	1.9	2.2	2.8	3.5	4.3	7.2	11.4	11.2	10.3	13.6	14.4	13.9
Administrative Expenditures	1.1	1.1	1.4	1.5	1.5	1.7	2.0	2.1	1.3	2.2	2.8	3.4
Subsidies	0.6	0.4	0.4	14.2	9.2	0.3	5.7	11.4	4.6	7.7	14.4	24.0
Lottery Expenditure	0.1	15.5	4.5	0.1	2.3	0.1	4.9	16.4	18.7	25.7	24.0	26.3
Power Subsidy	0.0	0.0	0.0	13.4	8.7	0.0	4.0	6.0	4.5	7.5	14.2	23.6
Other Recurring Expenditure	10.4	10.9	12.0	8.9	12.2	12.7	10.9	7.4	16.1	18.1	25.6	25.2
Capital	5.0	7.1	6.8	-2.4	9.7	11.4	4.4	13.9	9.8	4.2	15.1	25.5
Net Lending	2.3	3.3	2.4	3.5	0.2	0.1	0.3	1.8	1.9	2.3	8.2	1.2
GoP Primary Surplus (+)/Deficit (-)	-4.5	-5.4	1.2	1.7	-6.3	-14.6	-5.6	-15.6	-17.8	-9.8	-21.3	-22.5
Interest Payments	10.4	12.4	14.9	16.3	18.5	23.2	26.4	23.4	31.8	34.3	37.4	38.7
GoP Revenue Surplus (+)/Deficit (-)	-7.7	-7.4	-4.5	-13.6	-14.8	-26.3	-27.3	-23.4	-37.8	-37.5	-35.4	-34.4
GoP Fiscal Surplus (+)/Deficit (-)	-14.9	-17.9	-13.6	-14.6	-24.8	-37.8	-31.9	-39.0	-49.6	-44.1	-58.7	-61.2
Debt Stock of GoP	105.0	121.5	136.3	152.5	172.1	208.7	236.6	278.3	324.9	368.5	419.5	459.4
GoP Debt and Guarantees	121.5	147.1	169.8	179.7	236.7	298.5	341.4	422.2	482.4	538.9	605.5	630.6
o/w Guarantees	16.5	25.6	33.6	27.3	64.6	89.7	104.8	143.9	157.5	170.4	186.0	171.1

Source: Finance Department, Government of Punjab

Table A8

Operational and Commercial Indicators of Punjab State Electricity Board (PSEB)

	1974-75	1979-80	1984-85	1989-90	1996-97	1999-00	2000-01	2001-02	2002-03
Installed Capacity									
BBMB-Hydro	613	990	1254	1254	1267	1289	1315	1330	1332
Own hydro	93	93	200	516	547	547	999	999	999
Own diesel +steam	172	454	871	1280	1710	2130	2130	2130	2130
CPSUs			185	533	1014	1205	1233	1233	1233
others						6	6	8	8
total	878	1537	2510	3583	4538	5177	5683	5700	5702
% hydro	80.4	70.5	57.9	49.4	40	35.5	40.7	40.9	40.9
% CPSUs	0	0	7.4	14.9	22.3	23.3	21.7	21.6	21.6
Generation									
BBMB-Hydro	1164	3630	3592	4097	4595	4450	3868	3672	4175
Own hydro	483	485	966	2644	3026	3220	3152	3708	3567
Own diesel +steam	203	1143	2938	6514	9778	13831	14457	14694	13650
CPSUs	228	287	380	2325	5046	5988	6862	6694	8133
Others						20	30	37	81
Total	2078	5545	7876	15580	22445	27509	28369	28805	29606
% hydro	79.3	74.2	57.9	43.3	34	27.9	24.7	25.6	26.2
% CPSUs	11	5.2	4.8	14.9	22.5	21.8	24.2	23.2	27.5
Gross energy available	2078	5545	7876	15580	22445	27509	28369	28805	29606
Imports from other states	228	287	380	2325	5046	0	0	0	0
Energy ss to NFL from BBMB	660	846	907	719	135	74.55	50.89	112.5	105.15
Gross+import +NFL	2966	6678	9163	18624	27626	27584	28420	28918	29711
Auxiliary consumption	19	152	340	575	805	1196.3	1248.7	1256.6	1185.5
Net (includes import +NFL)	2947	6526	8823	18049	26821	26387	27171	27661	28526
Net for sale in state (exclude NFL)	2287	5680	7916	17330	26686	26313	27120	27548	28421
Domestic	171.72	386.86	654.03	1356	3082.4	3779.5	4224.1	4380.7	4787.9
commercial (NRS)	70.15	110.36	134.2	268.95	633.59	799.19	911.42	965.78	1123.8
small power	143.35	257.36	297.17	456.77	644.09	644.29	648.72	631.82	619.85
medium power - LT	91.62	252.33	386.3	620.41	837.38	1018.7	1039.4	1058.2	1157.6
medium power - HT					100.21	161.53	119.96	114.53	95.68
large power – LT					255.35	148.31	169.47	104.04	171.1
large power – HT	246.64	911.22	1625.6	2846.5	4770	5524.8	5869.8	6049.4	6041.5

Table A8 (continued)

Operational and Commercial Indicators of Punjab State Electricity Board (PSEB)									
	1974-75	1979-80	1984-85	1989-90	1996-97	1999-00	2000-01	2001-02	2002-03
PWW					158.09	200.18	199.78	250.63	230.42
Agriculture	695.66	1896.2	2359	5186.4	6347	8233	5534.4	5451.9	5818.5
bulk ss +others	145.66	269.46	405.46	505.38	351.5	436.61	467.58	486.2	511.32
Total within state	1564.8	4083.8	5861.7	11240	17180	20946	19185	19493	20558
export to other states		102.65	240.62	787.7	419.19	689.54	795.44	633.39	588.59
Domestic %	11	9.5	11.2	12.1	17.9	18	22	22.5	23.3
Commercial %	4.5	2.7	2.3	2.4	3.7	3.8	4.8	5	5.5
Agriculture %	44.5	46.4	40.2	46.1	36.9	39.3	28.8	28	28.3
LT-industry %	15	12.5	11.7	9.6	10.1	8.6	9.7	9.2	9.5
HT-industry %	15.8	22.3	27.7	25.3	28.3	27.1	31.2	31.6	29.9
metered sale %of input	38.0	38.5	44.2	34.9	40.6	48.3	50.3	51.0	51.9

Source: Punjab State Electricity Board

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