The Twelfth Finance Commission has been reconstituted under the Chairmanship of Dr. C.Rangrajan, former Governor of Andhra Pradesh, former cabinet secretary T.R Prasad and Professor D.K.Srivastava of the National Institute of Public Finance and Policy, Shri Sompal, member Planning commission. The Secretary to the Commission is Shri G. C. Srivastava.

Submissions made by the Gujarat Chamber of Commerce & Industry are as under: -

Gujarat- An industrial paradise

The state of Gujarat has been transformed into an industrial powerhouse during the last three decades reducing its dependence on agriculture. Although the population of Gujarat is only 5% of India it accounts for 10% of India's consumption 16% of the total exports, 30% of the total stock market capitalization and 19% of the total industrial investments in India. Gujarat's share in the country's GDP is 6%. Gujarat contributes 11% to the Union Exchequer.

The share of the manufacturing sector among the secondary sector has gone up to 35.9% of the NSDP in the state. The manufacturing sector covers industrial sectors namely large & medium size industries, factories, and small-scale industries. All the sectors have witnessed impressive development in Gujarat. Afetr 1991, Investment worth Rs. 1,66,000 crores has taken place in the economy.

This being the position despite the fact that Gujarat State has been at the receiving end in the devolution from the centre. It can hardly be stressed that if the state needs to provide sound infrastructural base to the massive investments made it needs funds from the centre. The highly taxed economy of the state needs to be rationalised for future benefits to all. The tax ratio to the state gross domestic product is 7.29% amongst the highest in the Indian states compared to All India average of less than 6%. Today Gujarat is in a difficult position fiscally but this can take turn for better if devolution of share from the centre is done in an equitable manner. The Planning Commission has envisaged a 8% growth of the Indian economy keeping in view that Gujarat should grow at 10% during this period. This reiterates the importance of Gujarat as the economic engine of the nation.

Dominant share of Gujarat in Central Tax revenues

As per an assessment the estimated share of Gujarat in the central tax revenue is on ascent. It is estimated that Gujarat contributes Rs. 22,000 crores in the Union kitty in form of union taxes per annum amounting to almost 11% of All India collections whereas it gets back only Rs. 1500 crores in devolution. In such cases good performance of the state seems worthless. If contribution had been the sole criteria then the state would have got back 29.5% of Rs. 22000 crores i.e. Rs. 6490 crores much more than the actual Rs. 1500 crores.

We feel that after 1991 the investment climate of each state was instrumental in winning investments for their respective states. The states have to compete and maintain their attractiveness to appease the investors. There have been definite positive factors and proactive policies of the state, which made them, choose Gujarat over other states. The Union is getting a large share from the custom duties and excise collections of the large units like IPCL, Reliance, L&T, Gujarat Ambuja who have chosen to be in Gujarat for its excellent investor climate.

The request to the Twelfth Finance Commission is to increase the percentage share of the state by 33% from the total divisible pool of central taxes, and the devolution of which should be on the gross receipt basis. In any case 29.5% as already recommended by the 10th Finance Commission should be honoured.

Injustice to Gujarat in recommendations of the Eleventh Finance Commission

The implications of the EFC with reference to the better performing states like Gujarat are adverse and do not do justice to the progress done by the state so far. It is disappointing that the Finance Commissions have made Gujarat pay a heavy development rent for growth of other less efficient backward states.

(1) Estimates of Gains & losses due to EFC- 2000 to 2005

[Rs. In crs.]

STATE	GAINERS	STATE	LOSERS
U.P	+ 7476	Maharashtra	- 5622
Bihar	+6536	T.N	-4711
W.B	+2425	Gujarat	-4610
M.P	+2062	Kerala	-3078
Orissa	+2112	A.P	-2875
Assam	+1885	Karnataka	-1540
J&K	+727	Punjab	-1182
Tripura	+411	Haryana	-1107
		Rajasthan	-293
		H.P	-79

{Prof. R.Dutt Indian Fiscal Journal, October-December 2000 vol. Ix No.10-12}

The report of EFC at one stroke gave thousands of crores to a few states while depriving other states substantially.Gujarat's share in devolution is decreasing from commission to commission as under: -

Commission	Share %
3rd commission	6.7
5th commission	4.3
8th commission	3.19
10th commission	3.91
11th commission	2.82

{Report of 11th Finance Commission}

In absolute terms the share, which was Rs. 1665 crs. In 1999-2000, fell to Rs. 1574 crores in 2000-2001 and further to Rs. 1488 crores in 2001-2002. This has been one of the important factors responsible for deterioration of the state's financial health.

(2) Taxation ratio

Gujarat has been traditionally a highly taxed state. As a result of less devolution the trade and industry and citizens of Gujarat are burdened with heavy doses of taxation. On one hand we have states like Maharashtra and Gujarat squeezing their citizens & industry/trade to collect more money with a view to provide better public services, we have Tripura and Meghalaya treating their citizens with kid gloves, taxing them less on the basis of better central assistance.

(3) Revenue Expenditure

The revenue expenditure was Rs. 6,934 crores in 1993-1994 as against Rs. 22,912 crores in 2002-2003 far outreaching the rate of revenue receipts of Rs. 7,030 crores 1993-94 against Rs. 17,611 crores in 2002-2003. The key factors in the increase of the revenue expenditures have been:

- series of natural disasters[earthquake]
- fifth pay commission

To meet these additional costs of revenue, specific grant upto 50% should be considered by the Twelfth Finance Commission.

(4) Non-plan revenue grants.

Non- plan revenue grants have been considered for states other than Gujarat both in 10th Finance commission as also 11th Finance Commission. The non-provisions lead to disparity between states and as far as state finances are concerned these cannot be recovered from any other sources. Moreover the state has been at receiving end in the grants-in-aid, central plan assistance and centrally sponsored schemes.

(5) Loss of Excise Revenues for following Prohibition policy.

Gujarat follows a consistent policy of prohibition in the state as per the Directive principles of state policy. The loss of revenue on this account turns out to be more than Rs. 1200 crores. This issue has never received the consideration of the Finance Commissions whereas other states have been provided funds to deal with specific problems of law and order.

(6) Higher debt and debt- servicing.

Gujarat had to resort to higher borrowings specially in the late 1990's. Some of the reasons are:

- poor devolution of union taxes.
- Fifth pay commission
- Higher expenditure on social development.
- Successive natural disaster cyclones, drought and earthquake.
- Stagnation in state economy.

As on 31 March 2003 the state's public debts stood at Rs. 42,247.9 crores.

Servicing of debts is a major problem for all the states. The proportion of debt as a percentage of GSDP for Gujarat is around 18%. Again the interest payment as a percentage of revenue receipts comes to be between 15 to 20%. Currently it has almost reached 21% and is still increasing despite the fall in the interest rates. In 1996-97 fiscal deficit[borrowings to the fund budget] was just Rs. 526 i.e. 1% of GSDP in 2002-2003 it reached Rs. 9734 crore i.e. 7.4% of GSDP. It should be noted that the ADB has calculated that a fiscal deficit upto 2.7% of the GSDP is sustainable.

(7) Narmada Share

Gujarat though having spent substantial amount on the Sardar Sarovar Yojana is yet to receive its share from the partner states of Madhya Pradesh, Maharashtra and Rajasthan. The outstanding from each of these states comes to Rs. 1047.63 crs, Rs. 504.58 crores and Rs. 475.77 crores respectively.

(8) Calamity Relief.

Gujarat has been facing tough times since last five years due to devastating cyclone, severe drought, flash floods, disastrous earthquake, and the communal clashes dealt a severe body blow to the economy. Again the state had taken a huge overdraft from the RBI to meet its financial liabilities. In such a situation special financial assistance from the Central exchequer to the State in the form of non-refundable grant to tide over the calamitous situations would be a much-needed help.

(9) International Border.

The state has a 512-km long international border, which is vulnerable to cross-border infiltration, drug smuggling, and subversive activities. This requires special attention in terms of border patrolling, telecommunication and bolstering security equipment all across the area. The 11th F.C has provided Gujarat with Rs. 50 crores for this purpose. This amount needs to be augmented to atleast Rs.150 crores.

(10)Scarcity of Water problem.

Gujarat is a water deficient state. Freshwater availability in the state is only 1,137 cubic metres per person against the national average of 2000 cubic metres. According to UN Commission on Sustainable Development, regions having per capita fresh water availability below 1000 cubic metres are considered as water scarce areas. Within the state also the water availability varies from region to region e.g. South -Gujarat it is 1932 cubic metres to Kutch where it is only 875 cubic metres.

Rainfall in the state is inadequate and erratic. The water stress is so much that out of last 75 years, 26 have been declared as drought years. In fact the last 5 years have been very bad. Every year state has to spend Rs. 125-150 crores in rural areas alone. Over and above a similar arrangement is made for urban areas. Notwithstanding the above an equal if not more amount is being spent by the state for administering supply of water in scarce areas. We would request the Twelfth Finance Commission to recommend special grants in aid for atleast 50% of the amount spent by the state to tackle this peculiar and specific problem.

Proposed terms of reference which may be considered in connection to Gujarat.

(1) Incentives for Industrialization

From August 1991 to March 2003t the proposed investment is is 16% of the proposed investment flowing in the country in terms of value. The state also accounts for proposed 19.25% of the proposed investment flowing in the country in LOI's. In case of such favorable situations the investment climate of the state should be given weightage for devolution of funds.

(2) Progress of the state in terms of human development.

The terms of reference [para 9 of report] talks of providing some measures in relation to the development of state in human development.The state of Gujarat is constantly placing higher importance to the social sector. The state incurs per capita social expenditure of Rs. 1543 per person as against the national average of Rs. 1045. [2000-2001] Again higher percentage of urbanisation in the state i.e. 38% as compared to All India average of 28% leads to greater strain on public services which in turn demands for greater allocation of resources from state.
The Twelfth Finance Commission should grant sufficient attention to this and take care of the high level of human development attained by the state again states with higher percentage of urbanisation should be given more resources by the centre.

(3) Request for Fair deal

At the end we would like to emphasize that while recommending the share of Gujarat from the Central pool, the EFC had not taken into full consideration and the magnitude of the problems peculiar to the state. Even if we were to consider the loss of devolution from the Centre to the state in terms of contribution to the Union exchequer it would come to Rs. 25,000 crores in five years.

The request to the Twelfth Finance Commission is to increase the percentage share of the state by 29.5% from the total divisible pool of central taxes, [already recommended by the 10th Finance Commission] and the devolution of which should be on the gross receipt basis.

This despite the special and peculiar problems of the state which have not been considered for grants-in aid, plan assistance or centrally sponsored schemes. The state has needs now equitable treatment in matter of allocation of central resources and anomalies persisting being rectified. A fair and rational devolution of share would also lead to effective functioning of the states economy which in turn would benefit the nation at large. We would look forward to an approach of the Twelfth Finance Commission which makes a vibrant state more sound instead of aiding state when it is weak financially.