Resource Mobilization or Financing of the Five Year Plans

Resources Used to finance FYPs

1. **Government Savings (GS):**

- GS= Current Income of Government-
  Current Non-Plan Expenditure

- Plan expenditure is the expenditure on the programmes and schemes included in the Central Plan. All other expenditures is Non Plan expenditure.

- Thus, Higher the Tax Revenue or lower the Non-Plan Expenditure like Defence, Interest Payments etc., higher is GS.

2. Market Borrowings by Government:

- Government can borrow from the financial markets by floating Government Securities.

- Size of market borrowings largely depends on Statutory Liquidity Ratio (SLR) of bank investments in the G Secs.

- **SLR**: It is the minimum proportion of Net Demand and Time Liabilities (NDTL) required to be maintained statutorily in the form of liquid assets like G secs.

- Apart from banks, LIC, and Provident Funds are important lenders to government.

3. Small Savings: Represents individual households savings in the form of Post-Office Savings and Time deposits, National Savings Certificates etc.

4. Contribution of Public Enterprises: Represents a share of profit earned by Public Enterprises like Railways & other PSUs that is used for development

5. Disinvestment Income or the income generated by the sale of partial or total stake of PSUs by government.

6. Deficit Financing (DF) or Monetised Deficit:

- Refers to the government’s extra expenditure over revenue which is financed through borrowings from RBI

- Till 1991, it was used very frequently but uncontrolled DF led to excess printing of currency increasing money supply leading to higher inflation.
- Under a Fiscal Reform, DF has been discontinued since April, 1997 and replaced by Ways and Means Advances (WMAs).

- Under WMAs, government borrows from RBI only to meet temporary mismatch of its revenue and expenditure.

- WMA limits are decided in the beginning of the financial year and higher interest rate is charged on borrowings (Bank Rate) with 2% extra on overdrafts ensuring disciplined borrowings.

7. External Assistance : Includes Foreign Aid and other loans from abroad to finance planning after deducting the debt-servicing charges

- During 1st Phase of planning, foreign aid was an important source of plan financing while DF was used extensively during 2nd phase. After 1997, role of Market Borrowings &contribution of public enterprises have become more important.