# An Evaluation of Finances of the State of Chhattisgarh

## I. Economy and GSDP

### Introduction

**1.1** This evaluation of finances of the State of Chhattisgarh covers a period of ten years commencing with the year 2002-03. However, while in this study a ten-year perspective has been maintained, detailed analysis of the finances covers a period of five years i.e. 2007-08 to 2012-13. There are reasons for restricting detailed analysis to five years. Chhattisgarh came into being as a separate State on 1.11.2000. The distribution of assets and liabilities took some time. The first budget of the new State was prepared for the year 2001-02, which was naturally quite tentative. The size of the finances of the State has grown from a mere Rs. 6000 cr in 2001-02 to Rs. 45,000 cr in 2012-13. The time series data for the period 2002-03 to 2011-12, (Annexure- 1), would show that the finances stabilized around 2005-06 after which a consistent pattern in income and expenditure is discernible. We feel that analysis of finances of the first five years, at least first three years, may not be very useful for our purpose.

**1.2** The finances of the State have been analysed with reference to the GSDP on the assumption that the GSDP is a good indicator of the performance of the State's economy. Major fiscal aggregates like the tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and the fiscal deficits have been measured as percentages of GSDP at current prices. The buoyancy co-efficient for the relevant fiscal variables have been worked out with reference to the GSDP, with a view to assess whether mobilization of resources and pattern of expenditure etc are in keeping with the change in the base i.e. the GSDP or they are affected by factors other than the GSDP.

**Brief Introduction to the State**

**1.3** A brief introduction to the State and its economy is necessary to place the State and its finances in perspective. Chhattisgarh became a separate State, on reorganization of Madhya Pradesh, on 1st November, 2000. The State is thus only a little more than a decade old. The tenth largest State in area in the country (1,27,898 sq.km), it has a population of 25.5 million as per the 2011 census. It has one of the lowest population density among the States, at 189 per sq.km, as against all India average of 382. With 44% of its land area under forest and vast mineral resources, Chhattisgarh is a resources-rich State. As many as 28 important minerals occur in the State. As much as 16% of the coal deposits of the country (ranks second in production of coal); 19% of its iron-ore reserves (ranks third in production), 6.44% of its bauxite, large deposits of quartzite, about 5% reserves of limestone, (10% of production) and diamonds etc are in Chhattisgarh. Minerals are a major source of revenue of the State.

**1.4** Chhattisgarh is a power surplus State. The total generation capacity installed in the State, including that of NTPC, which has a major presence in the State, is about 12000 MW. The State's own installed capacity is 2420 MW. With about 20,000 MW of new generation capacity in various stages of planning/implementation, the State is poised to be the power hub of the country in future. The State also has a good industrial base, largely based on local mineral resources. Steel and steel products, cement, aluminum and power generation are the main industries. There is no consumer industry and there is a small service sector. Minerals and mineral based industries are the main stay of the economy of the State. It has a productive agriculture sector with preponderance of paddy, which is also a major contributor for the economy.

**State's Economy**

**1.5** The economic growth of Chhattisgarh, ever since it became a separate State, has been appreciable. The CAGR of the

State's GSDP at current price, for the period 2002-03 to 2011-12, has been 15.35%, as against 14.46% of all other general category States in the country. The per capita GSDP has grown at a cumulative annual rate of 13.09% during this period. However, inspite of this very good economic growth and also a favourable land to people ratio, the poverty levels in the State (population below poverty line) are higher at 48.70%, as against all India average of 27.5%. The important social indicators have also not kept pace with the growth in the economy. The literacy rate is 71.04% while the all India average is 74%. It was equal to the country's average in the last census. IMR is higher at 51 (per 1000 live births) as compared to the country's 47. The decadal population growth in the State as per 2011 census has been 16.54% as against 13.90% for other general category States. The income inequality in rural areas was lower (gini-coefficient 0.29) and higher (0.43) in urban areas, as compared to 0.30 and 0.37 respectively for the country. (NSSO data, 61 Round 2004-05 MRP).

**GSDP**

**1.6** As mentioned above, the GSDP of the State grew in the last ten years (2002-2012) at a cumulative annual growth rate (CAGR) of 15.35%. The GSDP at current price has grown from Rs. 32,4934 cr in 2002-03 to Rs. 1,39,515 cr in 2011-12. The table below gives the trend of growth of GSDP:

**Table 1.1**
**Tend in the growth of GSDP (At current price)**

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 (P) | 2011-12 (Q) |
|---|---|---|---|---|---|
| GSDP (Rs in cr) | 80255.11 | 96972.18 | 99364.26 | 117978.30 | 139514.95 |
| Growth rate (%) | 20.01 | 20.83 | 2.76 | 18.73 | 18.25 |

* Annual Economic Review 2012-13- Directorate of Economics & Statistics, Govt. of C.G

It may be seen from the table that there was a drastic dip in the growth rate in 2009-10. This was a bad year with a drought situation in the State and may have to be treated as an aberration. The economy of the State bounced back to appreciable growth in the next year 2010-11, albeit on a lower base. Even after taking into account a bad year, the annual average growth rate has been 16.44% during the five year period.

**1.7** The Thirteenth Finance Commission ($13^{th}$ FC) has assumed a growth rate of 12.5% at market price, to be attained in the last year of its award period (2010-15) i.e. 2015 and has worked out rates of growth for every year of the period (2010-15) on that basis. This was arrived at after making necessary adjustment of bringing up the GSDP of all States to a comparable level and taking into account the growth target rate of GSDP over the same period as fixed by the Planning Commission. As far as Chhattisgarh is concerned, the estimate of GSDP for the years 2010-11, 2011-12, 2012-13 has exceeded the forecast by the $13^{th}$ FC, as may be seen in the table below:

**Table 1.2**
**GSDP: 13th FC Forecast and Actual**

| Year | 13th FC Forecast (Rs. in Cr.) | Estimated (Rs. in Cr.) | Difference |
|---|---|---|---|
| 2010-11 | 1,02,004 | 1,17,978.30 (P) | 15.36% |
| 2011-12 | 1,14,728 | 1,39,514.95 (Q) | 21.60% |
| 2012-13 | 1,29,069 | 1,60,187.70 (A) | 24.11% |

P= Provisional, Q= Quick Estimates, A= Advance Estimates

The 13th Finance Commission on the basis of terminal year (2014-15) growth rate of 12.50% of the State, had projected 12.44%, 12.47% and 12.50% to be the growth rates for the years 2010-11, 2011-12 and 2012-13 respectively, while in these years the growth rate has been 18.74, 18.25% and 14.82 (A).

## Sectoral Profile of GSDP

**1.8.** The sector-wise contribution to GSDP during the five year period 2007-12 is given in the table below:

**Table 1.3**
**Sector-wise details of GSDP (current price)**

(Rs. in Crore)

| Sectors | 2007-08 | 2008-09 | 2009-10 | 2010-11 (P) | 2011-12(Q) |
|---|---|---|---|---|---|
| Primary | 26,584.77 (33.12%) | 29,358.58 (29.52%) | 29,339.36 (30.90%) | 36,569.70 (31.00%) | 42,455.41 (30.43%) |
| Secondary | 27,648.79 (34.45%) | 35,638.11 (33.74%) | 33,532.56 (33.75%) | 36,381.47 (30.84%) | 42,938.47 (30.78%) |
| Tertiary | 26,021.55 (34.43%) | 31,975.49 (36.74%) | 36,492.34 (36.35%) | 45,027.13 (38.16%) | 54,121.07 (38.79%) |
| **GSDP** | **80,255.11** | **96,972.18** | **99,364.26** | **1,17,978.30 (P)** | **1,39,514.95 (Q)** |
| Per capita GSDP (Rs.) | 34,006 | 40,237 | 40,557 | 47,191 | 54,712 |

The figures within parenthesis indicate contribution of the sectors to GSDP in percentage

As may be seen from the table above, the contribution of the primary sector to the GSDP is almost constant at 30% because of agriculture and mining. But the contribution of the secondary sector has declined from 34.45% in 2007-08 to 30.78% in 2011-12. The contribution of the tertiary sector, however, has grown from 34.43% in 2007-08 to nearly 39% in 2011-12, which is good news for the State's economy. In fact, in terms of constant prices the contribution of services during the 11th FYP was 11.17%, more than the plan target of 8% *.

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* State Planning Commission- Approach to Twelfth Plan

# II. The Revenue Receipts of the State

**2.1** A new State with almost half its population poor and with poor infrastructure, requires substantial financial resources to for substantial expenditure on infrastructure and on social sector. With half the area under forest which yields very little revenue; 34% people belonging to Schedule tribes and living mostly in or on the periphery of the forests; and a single crop agriculture, the State has very limited options in raising revenues. It has depended largely on minerals and mineral based industries and on growing commerce to augment its revenue. Due to sustained efforts its revenue capacity has grown over the years.

**2.2** The finances of the State registered appreciable growth during the last decade. The total resources of the State comprising, both revenue and capital receipts, loans and advances from Govt. of India and public debt and public account receipts (net) grew from Rs. 6,674 cr in 2002-03 to Rs. 30,384 cr in the year 2011-12, as may be seen from Annexure 1. In the five year period 2007-12, the total receipts have more than doubled, from Rs. 14,494 cr in 2007-08 to Rs. 30,384 cr in 2011-12. If receipts under Public Accounts (gross) is also taken into account, during the period 2007-

12 the total receipts of the State increased from the Rs. 32,316 cr in the year 2007-08 to 61,739 cr in the year 2011-12.

The total receipts of the State registered an increase of 20% in 2011-12 over the previous year. The composition of the total receipts of the year were revenue receipts 42%, capital receipts 3% and public account receipts (gross) 55%.

**2.3** The bulk of these receipts comprise of revenue receipts (RR) which grew from Rs. 5,417 cr in the year 2002-03 to Rs. 25,867 cr in the year 2011-12 (Annexure-1). The RR in 2007-08 was Rs. 13,879 crore and it is expected to be Rs. 32,326 cr in the year 2012-13 (RE)*. The average growth rate of revenue receipts for the five year period 2007-12 is about 18%. The trend in growth of RR and as it stood in relation to GSDP are given in Table 2.1.

**Table 2.1**
**Trend in Revenue Receipts**

| | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** | **2012-13 (RE)** |
|---|---|---|---|---|---|---|
| Revenue receipts (RR) (Rs.in crore) | 13,879 | 15,663 | 18,154 | 22,720 | 25,867 | 32,326 |
| Rate of growth of RR (%) | 21.2 | 12.86 | 15.90 | 25.15 | 13.86 | 26.43 |
| RR/GSDP (%) | 17.48 | 16.15 | 18.29 | 19.32 | 19.08 | 20 |

* State's Budget for 2013-14

**Components of Revenue Receipts:**

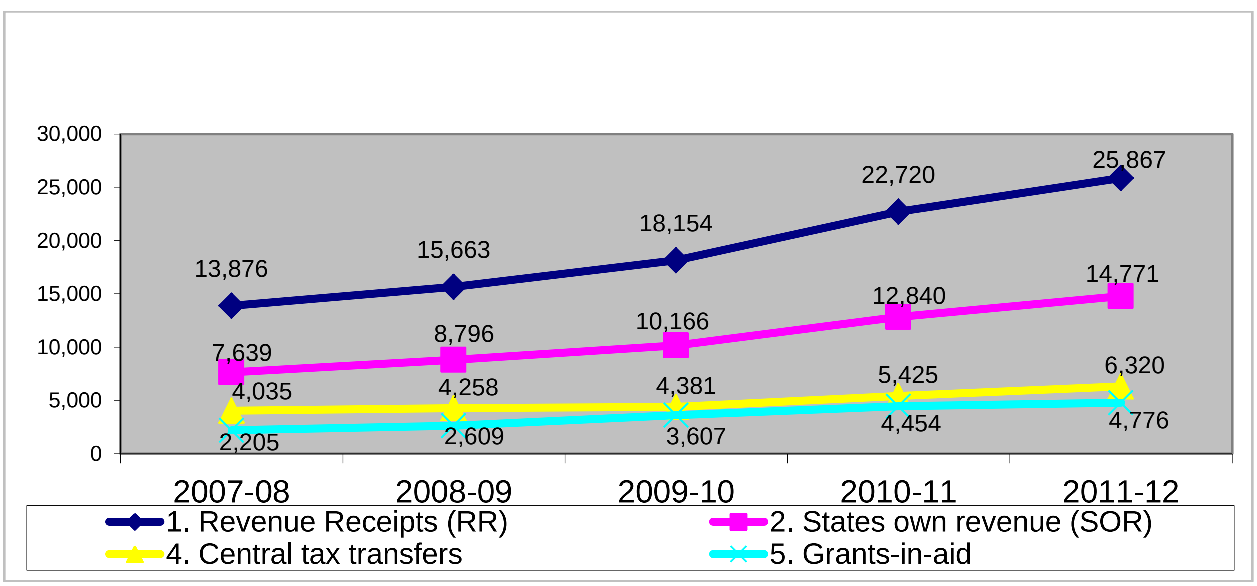
**2.4** The components of RR are: (i) States own revenue (SOR) tax and non-tax, (ii) State's share in Union taxes and duties; and (iii) grants-in-aid from GOI. The trend in the various components of RR may be seen in the chart and the table below:

**Table 2.2**
**Components of Revenue Receipts**

(Rs. crore)

| Description | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| 1. Revenue Receipts (RR) | 13,876 | 15,663 | 18,154 | 22,720 | 25,867 |
| 2. States own revenue (SOR) | 7,639 | 8,796 | 10,166 | 12,840 | 14,771 |
| 3. SOR as percentage of RR | 55.00 | 56.16 | 56.00 | 56.52 | 57.10 |
| 4. Central tax transfers | 4,035 | 4,258 | 4,381 | 5,425 | 6,320 |
| 5. Grants-in-aid | 2,205 | 2,609 | 3,607 | 4,454 | 4,776 |
| 6. Central Receipts as percentage of RR | 44.96 | 43.84 | 44.00 | 43.48 | 42.90 |

**Chart 2.1**
**Trends in Revenue Receipts**



**State's Own Revenue (SOR):**

**2.5** The share of the State in Central Taxes and grant-in-aid from the Union is determined on the basis of the recommendations of the Finance Commission, collection of Central taxes, Central assistance for plan schemes etc. The State's fiscal performance is reflected in the resources it mobilizes on its own, by way of tax and non-tax revenue. An estimate can be made of the revenue capacity of the State from an analysis of the trend of the growth of the State's own revenue (SOR).

**2.6** Table 2.2 gives the position of the SOR in relation to total revenue receipts of the State during the five year period 2007-12. It may also be seen that the SOR has consistently constituted more than 55% of the RR of the State. The trend in the growth of the SOR and its buoyancy in relation to GSDP are given in Table below:

**Table 2.3**
**SOR and GSDP: Trend**

(Rs. in crore.)

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| 1. SOR | 7,639 | 8,796 | 10,166 | 12,840 | 14,771 |
| 2. Rate of growth (%) | 17.59 | 15.14 | 15.57 | 26.30 | 15.03 |
| 3. SOR as % of GSDP | 9.5 | 9.0 | 10.23 | 10.88 | 10.58 |
| 4. Buoyancy with respect to GSDP | 0.87 | 0.72 | 5.64 | 1.40 | 0.74 |

As the table above shows that the SOR of the State has grown at an average annual rate of almost 18%, although the growth rate has fluctuated between 15.14% to 26.30%. The CAGR of SOR for the years 2002-12 has been 18.97% as against about 17% of all general category States *. The buoyancy of SOR in relation to GSDP has also fluctuated from 0.72 to 6.32, but generally been 1<, nearly 75. Thus the rate of growth of SOR has been less as compared to the growth of GSDP. In 2009-10, when the GSDP recorded a growth of only 2.46% over the previous year, the growth of SOR was 15.5% in keeping with normal annual growth. But as we have stated earlier this has to have been treated as an aberration.

**2.7** The Components of SOR and their share have been as under:

**Table 2.4**
**Components of SOR**

(Rs. in crore)

| | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|
| 1. States Tax Revenue | 5,618 | 6,594 | 7,123 | 9,005 | 10,712 |
| 2. Tax Revenue as percentage of SOR | 73.55 | 74.96 | 70.07 | 70.13 | 72.52 |
| 3.State's Non-tax Revenue | 2,021 | 2,202 | 3,043 | 3,835 | 4,058 |
| 4. Non-tax Revenue as % of SOR | 26.45 | 25.04 | 29.93 | 29.87 | 27.48 |

The growth rate of non-tax revenue has been more than that of the tax revenue but their proportion in SOR has been about 70:30.

* Source: C&AG's Report on State Finance for FY 2011

**State's Tax Revenue(SOTR):**

**2.8** As may be seen from table 2.4, the State's own tax revenue (SOTR) constitutes more than 70% of own revenue of the State. The CAGR of tax revenue of the State during the decade 2002-12 was 18.43% as against 16.74 for all general category States *. During the last five years (2007-12) the trend of growth of the State's tax revenue has been as under:

**Table 2.5**
**Trends in State's Own Tax Revenue (SOTR)**

(Rs. in Crore)

| | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|
| 1. Rate of growth (%) | 11.35 | 17.37 | 8.03 | 26.42 | 18.96 |
| 2. Tax/ GSDP (%) | 7.00 | 6.70 | 7.20 | 7.60 | 7.70 |
| 3. Buoyancy with respect to GSDP | 0.55 | 0.83 | 2.90 | 1.41 | 1.03 |

The tax revenues of the State have grown at an annual average rate of 16.42% during the five year period 2007-12. But the growth rate has been volatile and has fluctuated between 8.03% and 26.42%. The higher growth rate in 2010-11 is because of the lower base of 2009-10, which was a bad year. The tax-GSDP ratio has shown no change over the last ten years since 2002-03 and has been 7%. Some improvement has been seen in the last two years, with the ratio coming close to 8%. Last year (RE 2012-13) the ratio was high at 8.2% with a high rate of growth at 22.86%. The buoyancy of tax revenue with respect to GSDP has, however, shown considerable volatility, the average buoyancy during the last three years being more than one.

* Source: C&AG's Report on State Finance for FY 2011

**2.9** The tax revenues of the State have been more than the projections made by the 13th FC:

**Table 2.6**
**13th FC Projection of SOTR**

(Rs. in Crore)

| Years | 13th FC Projections | Actual as per Finance Account |
|---|---|---|
| 2010-11 | 8,946.59 | 9005.14 |
| 2011-12 | 10,062.56 | 10,712.25 |
| 2012-13 | 11,320.38 | 13,161.18 (RE) |
| 2013-14 | 12,735.43 | 15,300.30 (BE) |

The 13th FC had assumed a tax GSDP ratio of 8%. While the tax GSDP ratio has not been 8%, tax revenue has been more than what was projected because the GSDP growth has been more than what the FC had projected.

**Components of SOTR:**

**2.10** The main components of SOTR are the following:

## Table 2.7
## Sector-wise components of tax revenue

(Rs. in Crore)

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| VAT/Taxes on sales, trade etc plus CST | 3,024 (53.82)* | 3,611 (54.76) | 3,712 (52.11) | 4,841 (53.75) | 6,006 (56.00) |
| State Excise | 843 (15.00) | 964 (14.60) | 1,188 (16.70) | 1,506 (16.70) | 1,597 (14.90) |
| Taxes on vehicles | 277 | 314 | 352 | 428 | 502 |
| Stamps & registration fees | 463 (8.25) | 496 (7.52) | 583 (8.20) | 786 (8.70) | 846 (7.80) |
| Land Revenue | 88 | 359 | 160 | 247 | 271 |
| Taxes on goods & passengers | 511 | 421 | 696 | 675 | 826 |
| Other Taxes | 412 | 429 | 432 | 522 | 664 |
| **Total** | **5,618** | **6,594** | **7,123** | **9,005** | **10,712** |

* Figures within parenthesis indicate percentage of SOTR

The VAT/taxes on sales and trade and State excise constitute the two major components of the SOTR. Together they constituted about 70% of tax revenue of the State. In fact, VAT's share has been 50 to 56% during 2007-12. The share of the State excise is about 15 to 26%.

**VAT/Sales tax:** The trend of growth of VAT/Sales tax and its buoyancy in relation to the GSDP was as under:

## Table 2.8
## VAT/Tax on sale of goods

| VAT/Sales Tax | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| Annual growth rate (percent) | 6.36 | 19.41 | 2.70 | 30.4 | 24.00 |
| VAT- GSDP ratio (percent) | 3.76 | 3.60 | 3.70 | 4.10 | 4.30 |
| Buoyancy with respect to GSDP | 0.31 | 0.93 | 1.00 | 0.26 | 0.32 |

The VAT- GSDP ratio is almost constant at 3 to 4% except that in the last two years it has been more than 4%. The State Govt. has taken some measures to enhance the productivity of this tax. The main sources of this tax are iron and steel, coal, petroleum and paddy. However, rice which is the main agriculture produce of Chhattisgarh is exempt from VAT. Petroleum products could yield more revenue. But the Govt. has reduced the tax on diesel from 25% to 5% in 2012-13. The VAT on ATF is 5% (it was 4% earlier). VAT yield from POL products has remained unchanged at about 16%. Coal is a productive source of revenue and with coal production going up, the yield is likely to continue to increase.

**State Excise** is the other major source of tax revenue. The excise revenue has grown during the five year period (2007-12) as follows: 2007-08- 19.23%, 2008-09-6.9%, 2009-10-23.26%, 2010-11-26.76%, 2011-12- 6.04%. The pattern of growth has been highly erratic.

**Stamps and Registration Fee** is the other major source of tax revenue. During the last five years it has grown from Rs. 463 cr. in 2007-08 to Rs. 846 cr. in 2011-12, an increase of 82% in five years or an average increase of 16% per year. This is one tax which has great potential and can be increased substantially, if the whole process of imputation and recovery of this tax is reformed and computerized. A number of States have taken reform measures and have computerized their operations. Chhattisgarh is yet to make a beginning in this. While the State has recently seen a spurt in the sale of land and property, the system associated with this tax continue to be user-unfriendly and manual. Secondly, the Govt. has during the last four years (2008-12) reduced stamp duty by 0.5% every year to fulfil the conditionality of JNNURM. Besides Govt. has exempted from stamp duty and registration fees all transfer deeds executed by the New Raipur Development Authority. The State Govt. has also given concessions in registration fees to industries and to women. The cumulative effect of these has been a loss of more than 10% of revenue every year.

**Taxes on Vehicle** can be an another important source of revenue. The tax on vehicles has grown from Rs. 277 cr. in 2007-08 to Rs. 502 cr. in 2011-12, an increase of 80% or an average increase of 16% annually.

**2.11** No special efforts seem to have been made by the State Govt. during the last three years to enhance productivity of their tax revenues. As we have already mentioned there is scope for much higher revenue yield of certain taxes. Professional tax which is a major source of revenue in many States was discontinued in the State in 2007-08. At that time the yield of this tax was a mere Rs. 10 crore, which was much lower than the potential of the tax. It was scrapped mainly because it was not enforced on most professions. The State Govt. employees who constituted practically the only category which paid the tax, were opposed to it. The State should seriously consider reviving this tax.

- Although there has been no comprehensive review of productivity of VAT, in respect of individual commodities in the State, some effort has been made at rationalization of the rate of tax on various commodities. The processes associated with VAT have been fully computerized. It covers the process of assessment and recovery of VAT and includes registration of dealers, online payment, filing of returns, tax clearance certificates, and refunds. The effect of these measures can be seen in the higher growth rate of VAT in the last two years.

- Stamps and registration fees has a much higher potential in this State. Almost total lack of reforms of the processes involved in the imputation and recovery of this tax has stymied its growth. Only very recently this year, the State Govt. has taken a decision in favour of e-stamping and computerization of the registration process itself. But implementation of reforms including training of personnel, will take time. The impact of the reforms will perhaps be visible only two years hence. Lack of reform is also responsible for higher cost of collection of this tax.

- There is scope for additional revenue from tax on vehicles. The system of administration of this tax is very old and the processes archaic, not to mention the leakages. The Deptt. focuses more on policing and regulation than revenues. This is one tax which calls for urgent reform, if its full potential is to be tapped.

- Taxes on goods and passenger can also yield higher revenue. It may be noted that Chhattisgarh is one major State which has no State Road Transport Corporation (SRTC) and there are only private players in passenger and goods transport by road. With improved and additional road connectivity, particularly under rural roads programme, and increased goods and passenger traffics on these roads, this tax has considerable scope. The State Govt. should get a comprehensive study done of the revenue potential of this sector.

- Duties on electricity contributes about 6% to 7% to SOTR. In fact it has gone down from nearly 10% in 2004-05 to about 6% in 2011-12. The present structure of electricity duty is old and irrational. The State Electricity Regulatory Commission (SERC) has repeatedly advised the State Govt. to rationalize the structure of this tax. Recovery of this tax is simple because it is recovered along with the electricity bills by the Electricity Distribution Company. This is yet another area which needs immediate attention.

- The revenue from irrigation rates does not meet the maintenance cost of irrigation works. The current rate was fixed in 1999 at Rs. 225 per ha. which is low. There were huge arrears amounting to more than Rs. 667 crore at the end of 2011-12. There is apparently no special effort at recovery of arrears of irrigation dues.

**2.12** The cost of tax administration appears to be under control. The cost of collection of major tax revenues is less than the average cost in all States as may be seen from Table below:

**Table 2.9**
**Cost of collection of taxes and duties in 2011-12**

| Heads of revenue | Gross collection (Rs.in crore) | Expenditure on collection of revenue (Rs. in crore) | Percentage of expenditure on collection | All-India average percentage of previous years |
|---|---|---|---|---|
| VAT/Taxes on sales, trade etc | 6,006.25 | 40.63 | 0.68 | 0.75 |
| Taxes on vehicles | 502.19 | 10.00 | 1.99 | 3.71 |
| State excise | 1,596.97 | 52.06 | 3.26 | 3.05 |
| Stamps & Registration fees | 845.82 | 20.75 | 2.45 | 1.60 |

Source: C&AG's Report on State Finance for FY 2011.

The expenditure on collection of VAT in the country was on an average 0.9% of collections although in 2011-12 it has come down to 0.75%. The cost of collection in Chhattisgarh is 0.68%. Similarly, in case of taxes on vehicles all India average collection cost was 3.71% in 2011-12, while it was only 2% in the State. The collection cost of State excise during this year was higher than the all India (3.05%) at 3.26%. However, the collection charges of stamps and registration fees have always been higher than the all India average (1.60%) at 2.45%. This is the only tax revenue which had a higher cost of collection. While the cost of collection of this tax is going down in the country in this State, the cost is higher and constant over the last three years. This is because of lack of reform of this sector which is long overdue.

## Non-tax Revenue

**2.13** Non-tax revenue of the State has ranged between 25% to about 30% of the SOR. The CAGR of non-tax revenue of the State during 2002-03 to 2011-12 was more than 16.5% as against about 14% for all general category States *. The growth rate of non-tax revenue during the five year period 2007-12 was as given in the table below:

**Table 2.10**
**Trend in Non-tax Revenue**

| **Years** | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|
| Non-tax Revenue | 2,021 | 2,202 | 3,043 | 3,835 | 4,058 |
| Rate of growth (%) | 39.28 | 8.96 | 38.19 | 26.00 | 5.81 |
| Non-tax Revenue/GSDP (%) | 2.5 | 2.3 | 3.1 | 3.3 | 2.9 |

* Source: C&AG's Report on State Finance for FY 2011

The average growth rate of non-tax revenue was 23.6%, although the rate has been highly fluctuating the lowest being in 2011-12. The CAGR of non-tax revenue for the period 2002-12 has been 17.42% while it was about 13% for all general category States.

**2.14** The main components of non-tax revenue of the State are the following:

**Table 2.11**
**Components of Non-tax Revenue**

(Rs. in Crore)

| Years | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| 1. Interest receipts, dividends & profit | 206 | 237 | 221 | 175 | 217 |
| 2. Mineral concessions, royalties etc | 1,032 (51) | 1,234 (56) | 1,661 (54.5) | 2,470 (64.4) | 2,745 (67.65) |
| 3. Forestry | 258 | 322 | 346 | 305 | 342 |
| 4. Major & Minor irrigation | 115 | 142 | 452 | 619 | 517 |
| 5. Others | 410 | 258 | 363 | 266 | 237 |
| **Total** | **2,021** | **2,202** | **3,043** | **3,835** | **4,058** |

Figures within parenthesis indicate percentage of total

A quantum jump in non-tax revenue of the State during the three years 2009-12 has been mainly on account of increase in mining receipts (mineral concession fees, royalties and other receipts), which increased its share in non-tax revenue from 51% in 2007-08 to nearly 68% in 2011-12. The revision in royalties of coal by making it near to ad valorem has boosted the State's mining revenue which is likely only to grow in the years to come. Revenue from this source has gone up in absolute terms from Rs. 538 cr in 2002-03 to Rs. 3,105 cr in 2011-12, an increase of about 480%.

**2.15** Royalties on minor minerals can also be a buoyant source if efforts are made for better mobilization of this source. With massive construction activity going on in the State both, roads and buildings, the Govt. should focus on the revenue potential of this sector. There is no royalty on 'sand' in the State which, given the number of river systems in the State can yield large revenues for local bodies. Although the State has 42% of its area under forest, revenues from forest are not very buoyant because of the environmental concerns and large areas of forest being affected by Naxal problem. Receipts on account of minor forest produce goes to the forest dwellers/gatherers as per law.

**2.16 Profits/Dividends from Departmental Enterprises:** The State hardly has any Govt. company/Departmental enterprise which runs on commercial lines except the electricity companies. The profits and dividends from such companies/enterprises have been a pittance. There has also been a sharp decline in profits/dividends from Rs. 26 cr in 2002-03 to less than one core in 2007-08, 2008-09 and 2011-12. The State Govt. does not have a dividend policy. No effort has been made by the State Govt. to get at least a reasonable return from investment in these enterprise. The table below gives the dismal position:

**Table 2.12**
**Returns on Investment**

| Investment/Return/Cost of Borrowings | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| Investment at the end of the year (Rs. in crore) | 400.95 | 430.01 | 251.67 | 259.92 | 1,194.38 |
| Return on Investment (Rs. in crore) | 0.10 | 0.10 | 0.44 | 4.30 | 0.46 |
| Return on Investment (%) | 0.02 | 0.02 | 0.17 | 1.65 | 0.04 |
| Average rate of Interest on Govt. borrowing (%) | 7.97 | 7.36 | 7.13 | 7.34 | 7.08 |
| Difference between Interest rate and Return (%) | 7.95 | 7.34 | 6.96 | 5.69 | 7.04 |

Source: C&AG's Report on State Finance for FY 2011

Of the Rs. 1194.38 cr invested upto 2011-12, Rs. 165.5 cr was invested in co-operatives; Rs. 979.06 cr in Govt. Companies/Boards; Rs. 24.31 cr in Rural Banks and Rs. 2.63 cr in Joint-Stock companies. The State Govt. invested Rs. 900 cr in FY 2011-12 in the share capital of three power companies: Discom- Rs. 150 cr, Transco- Rs. 150 cr and Genco- Rs. 600 cr. The State Govt. is investing borrowed funds which do not yield sufficient return to cover the cost of borrowing. This position is financially unsustainable and will adversely affect finances of the State in the long-term and even in the medium term.

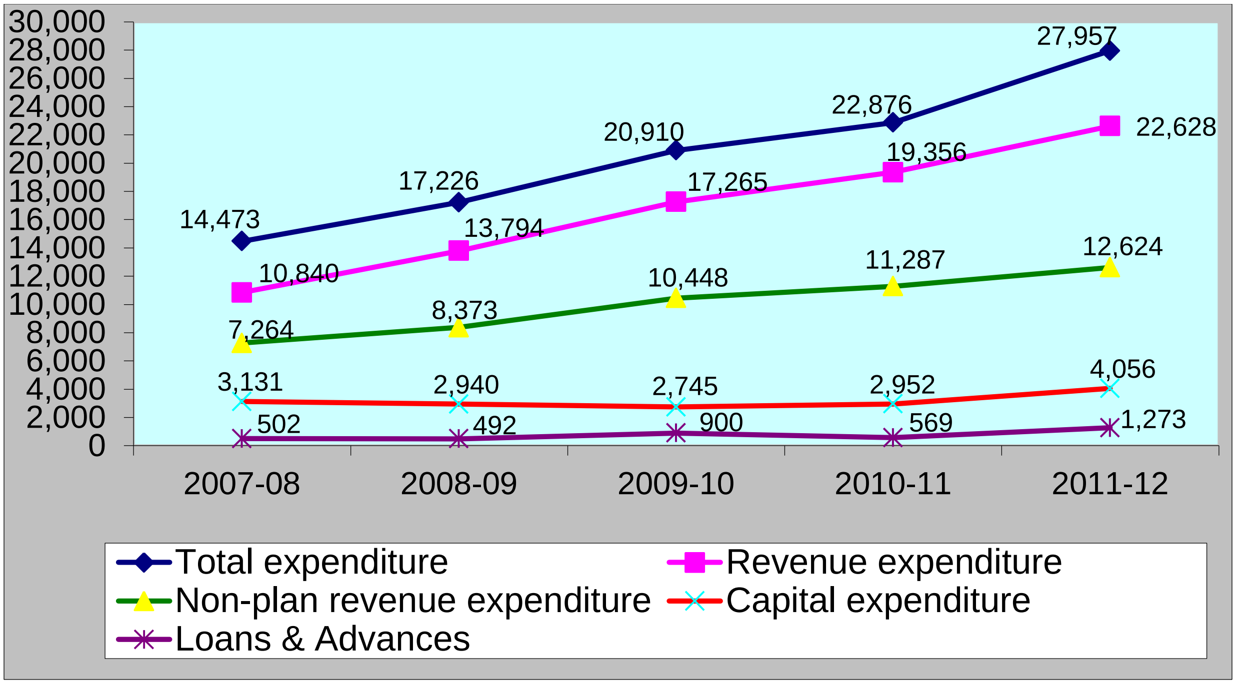
# III. State Expenditure

**3.1** An analysis of the expenditure pattern and trend is of significance because it reflects how the State Govt. is balancing between the demands and needs of the people for higher public expenditure for socio-economic development on the one hand and the fiscal discipline for sustainable management of the finances on the other. There are constraints to higher public expenditure by a State Govt. through deficit financing and borrowing. Fortunately, Chhattisgarh has maintained this balance well although the quality of expenditure can and should be improved.

**3.2** The total expenditure of the State comprising revenue and capital expenditure, loans and advances has grown in absolute terms from Rs. 6409 cr in 2002-03 to Rs. 14,473 cr in 2007-08 to Rs. 27,957 cr in 2011-12. The CAGR of expenditure of the State during the period 2002-03 to 2010-11 was 17.24%, as against 14.58% of all general category States during this period *. In relation to GSDP it was 19.72% in 2002-03 and 21% in 2011-12. Chart-3.01 presents the growth trend of expenditure over a period of years 2007-12.

* C&AG's report on State Finances for FY 2011

**Chart 3.1**
**Growth and Composition of Expenditure**




## Components of Expenditure

**3.3** The table below gives the growth of expenditure including its components during the same period (2007-12).

**Table 3.1**
**Expenditure: Share of Components**

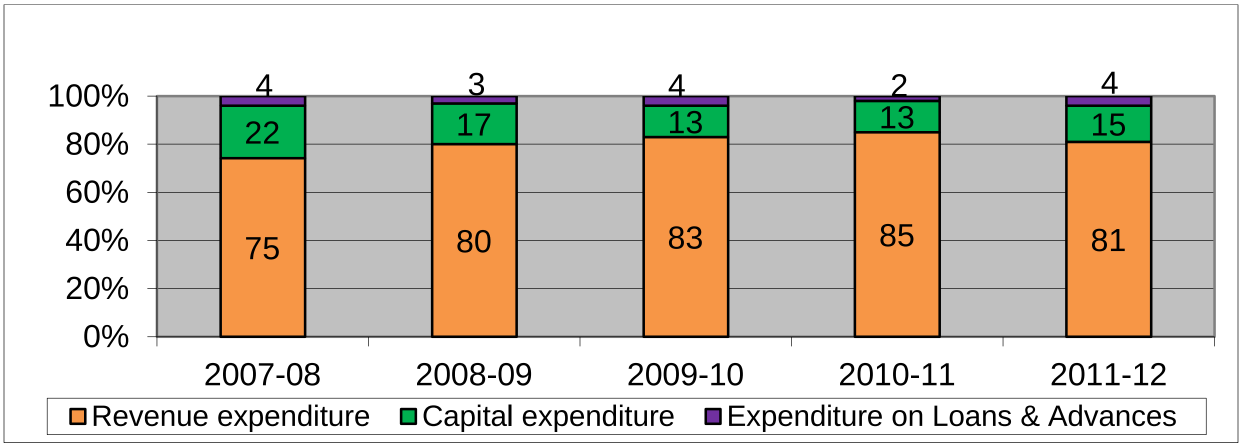
(Rs. in Crore)

| Description | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| Total expenditure | 14,473 | 17,226 | 20,910 | 22,876 | 27,957 |
| Revenue expenditure (Percentage to total expenditure) | 10,840 (75) | 13,794 (80) | 17,265 (83) | 19,356 (85) | 22,628 (81) |
| Of which, non-plan revenue expenditure | 7,264 (50.0) | 8,373 (48.6) | 10,448 (50.0) | 11,287 (50.0) | 12,624 (45.0) |
| Capital expenditure (Percentage to total expenditure) | 3,131 (22) | 2,940 (17) | 2,745 (13) | 2,952 (13) | 4,056 (15) |
| Loans & Advances (Percentage to total expenditure) | 502 (04) | 492 (03) | 900 (04) | 569 (02) | 1,273 (04) |

Figures within parenthesis: percentage to total expenditure

**3.4** Chart 3.2 (below) gives the components of total expenditure in terms of economic classification.

**Chart 3.2**
**Total Expenditure: Trends in Share of components**




**3.4.1 Revenue Expenditure:** Revenue expenditure is an essential and unavoidable component of public expenditure and is, incurred to maintain assets, current level of services and to make payment for past obligations. It constitutes bulk of the expenditure of any Govt. The revenue expenditure of the State, as a percentage to total expenditure has been 80 or more during the last four years, up from 75% in 2007-08. It has grown from Rs. 5,530 cr in 2002-03 to Rs. 30,000 cr in 2012-13 (RE), more than five-fold, and almost at a rate of 20% or more, as may be seen from the table 3.2 above.

**Table 3.2**
**Growth of Expenditure and GSDP**

(Percentage)

| Description | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| 1. Total expenditure | 22.9 | 19 | 21.4 | 9.4 | 22.2 |
| 2. Total Expenditure/GSDP (%) | 18 | 17.8 | 21 | 19.4 | 20 |
| 3. Revenue expenditure | 23.2 | 27.3 | 25.2 | 12.1 | 16.9 |
| 4. Revenue expenditure/ GSDP | 13.5 | 14.2 | 17.4 | 16.4 | 16.2 |
| 4. Capital expenditure | 42.4 | -6.1 | -6.6 | 7.5 | 37.4 |
| 5. Capital expenditure/GSDP (%) | 3.9 | 3.00 | 2.8 | 2.5 | 2.9 |

**Plan revenue expenditure:** The share of plan expenditure which generally covers maintenance expenditure incurred on services, increased from 33% in 2007-08 to 44% in 2011-12. Plan revenue expenditure has had more than ten-fold rise from Rs. 1,270 cr in 2002-03 to Rs. 10,004 in 2011-12 and to Rs. 14,450 in 2012-13 (RE).

**Non-Plan Revenue Expenditure (NPRE):** The NPRE has, however, far exceeded the normative projections made by the 13th FC as may be seen in the table below:

**Table 3.3**
**NPRE: 13th FC Forecast and Actual**

| Year | Forecast on 13th FC | Actual | Difference |
|---|---|---|---|
| 2010-11 | 8,901.89 | 11,287 | 27% |
| 2011-12 | 9,670.30 | 12,624 | 30.5% |
| 2012-13 (RE) | 12,959.42 | 15,715.10 (RE) | 21% |

**3.4.2 Capital Expenditure:** Capital expenditure increased from Rs. 820 cr in 2002-03 to Rs. 4056 cr in 2011-12, nearly five-fold. During the last five years 2007-12, the annual growth in capital expenditure was erratic as may be seen from Table 3.2 above.

**3.5 The trends of expenditure in terms of activity:** The composition of the total expenditure (both revenue and capital, plan and non-plan) in terms of activities during the five year period 2007-12 was as given in the Chart below and Table 3.4.

**Chart 3.3**
**Expenditure: Trends by Activities**

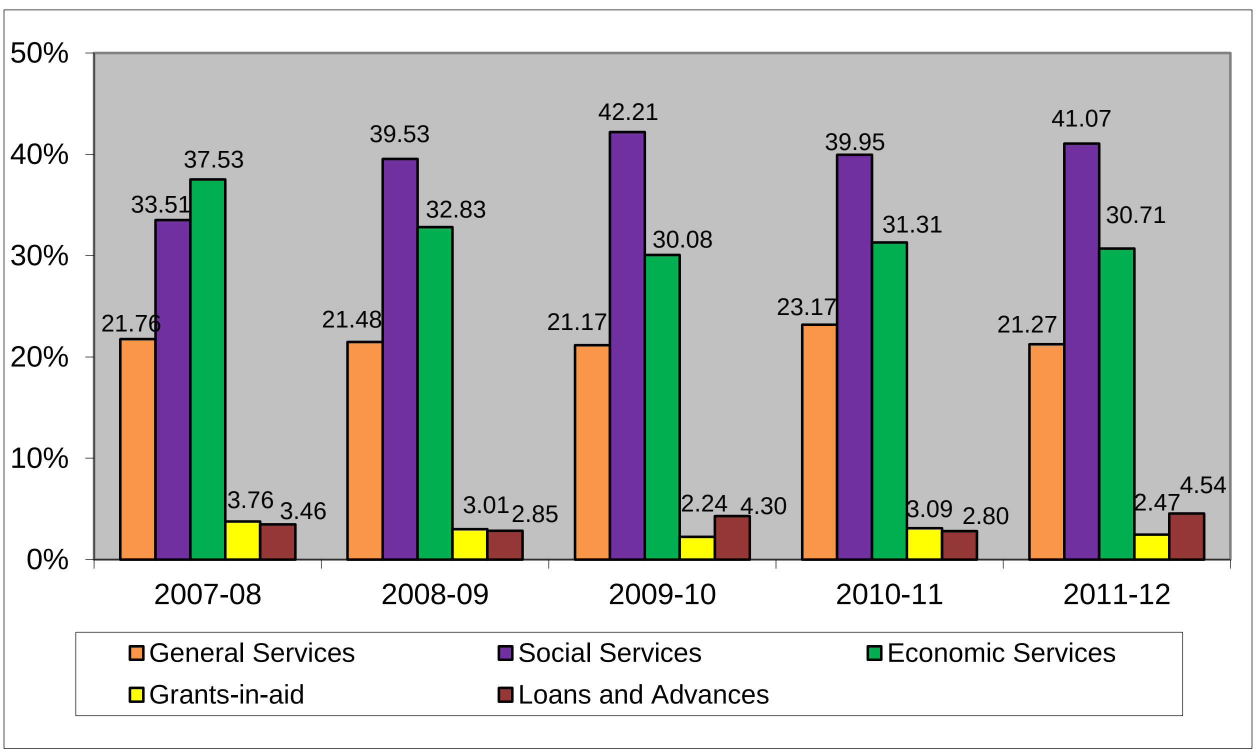


**Table 3.4**
**Expenditure by Activities**

(Rs. in Crore)

| Description | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| 1. General Services (including interest payment | 3,147 (21.76%) | 3,700 (21.48%) | 4,417 (21.17%) | 5,300 (23.17%) | 5,947 (21.27%) |
| 2. Social Services | 4,850 (33.51%) | 6,860 (39.53%) | 8,826 (42.21%) | 9,138 (39.95%) | 11,465 (41.07%) |
| 3. Economic Services | 5,431 (37.53%) | 5,654 (32.83%) | 6,281 (30.08%) | 7,162 (31.31%) | 8,585 (30.71%) |
| 4. Grants-in-aid | 3.76% | 3.01% | 2.24% | 3.09% | 2.47% |
| 5. Loans and Advances | 3.46% | 2.85% | 4.30% | 2.8% | 4.54% |

Percentages to total expenditure

Thus the expenditure on general services was 21% throughout the period; expenditure on social services, however, grew from 33.5% in 2007-08 to 40% or more thereafter; the expenditure on economic services declined from 37% in 2007-08 to about 30% thereafter. The State Govt. is spending more money on education, health, social security, welfare of SC and ST in the State than on infrastructure development, agriculture, industry, roads, irrigation etc. While higher expenditure on social services is welcome, decline in expenditure on economic services will affect the economic development of the State.

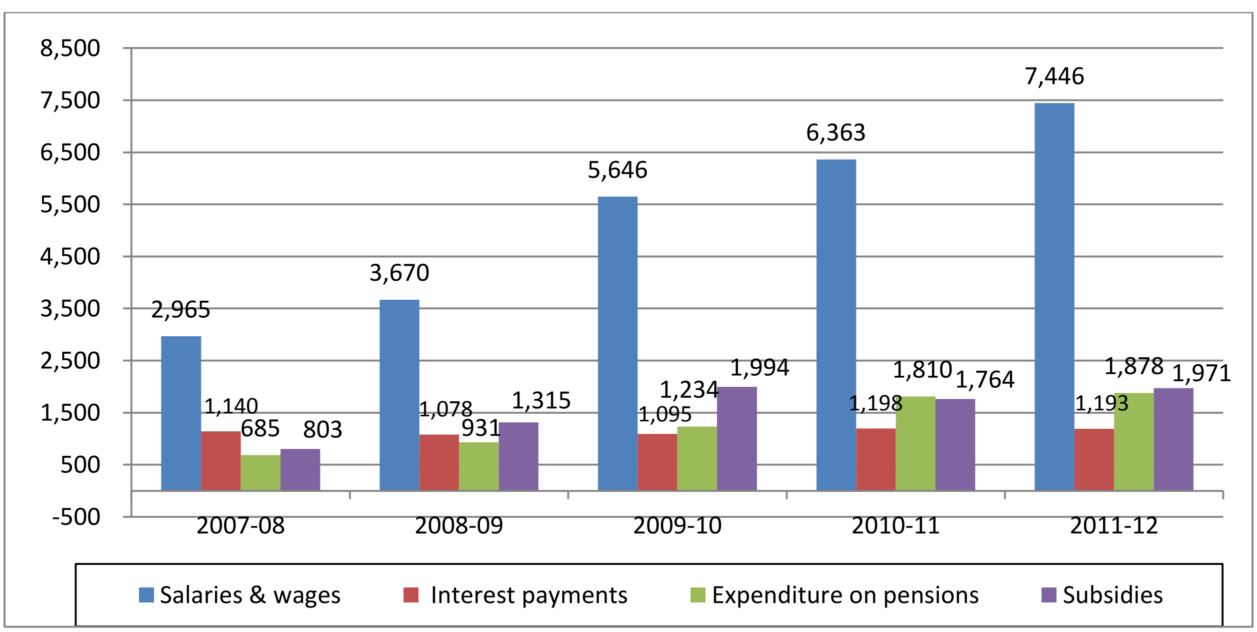
**3.6 Expenditure on Salary and Wages, Pension and Interest Payments:** Revenue expenditure of the State mainly consists of interest payments, expenditure on salaries, wages, pensions and subsidies, apart from expenditure on maintenance of services. The trend of expenditure on these components of revenue expenditure during 2007-08 to 2011-12 was as under:

## Table 3.5
## Expenditure on salaries and wages, interest payments, pension and subsidies

| Components of expenditure | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| 1. Salaries & wages, of which: | 2,965.00 (21.36) | 3,670.00 (23.43) | 5,646.00 (31.00) | 6,363.00 (28.00) | 7,446.00 (28.8) |
| Non-plan: | 2,307.68 (16.62) | 2,772.50 (17.7) | 4,016.00 (22.12) | 4,338.200 (19.00) | 4,957.00 (15.33) |
| Plan * | 657.33 | 897.88 | 1,629.99 | 2,024.50 | 2,489.50 |
| 2. Salary through Grants-in-aid | NA | 115.60 (0.74) | 133.71 (0.74) | 708.33 (3.12) | 897.27 (3.47) |
| 3. Interest payments | 1,140 (8.21) | 1,077.53 (6.88) | 1,094.86 (6.03) | 1,198.38 (5.27) | 11,93.20 (4.61) |
| 4. Expenditure on pensions | 684.58 (4.93) | 930.77 (5.94) | 1,233.76 (6.80) | 1,810.33 (7.97) | 1,877.87 (7.26) |
| 5. Subsidies | 802.55 (5.78) | 1,314.68 (8.39) | 1,994.30 (10.99) | 1,763.83 (7.76) | 1,870.93 (7.23) |
| **Total** | **5,592.14** | **7,108.92** | **10,102.92** | **11,843.79** | **13,285.27** |

Figures in parenthesis indicate percentage to Revenue Receipts
* Includes salaries and wages paid under Central Sector Schemes

## Chart 3.4
## Share of Salary and Wages, Interest Payments, Pension and Subsidy under NPRE (2007-12)



**Salary and Wages**

**3.7.1** The total expenditure on salaries and wages, interest payments and subsidies increased during the period 2007-12 from Rs. 5,592 cr to Rs. 13,222 cr and in FY 2011-12 it constituted about 58% of the revenue expenditure of the State and 51% of its revenue receipts. The CAGR of salaries and wages of the State for this period was 15.15 as against 11.45% of all general category States *. During the five year period 2007-12, this expenditure constituted more than 25% of the revenue receipts of the State every year. The expenditure on non-plan salaries and wages has far exceeded the projections made by the 13th FC:

**Table 3.6**
**NPRE: Salary & Wages and Pension-**
**13th FC Projections**

| | 2010-11 | | 2011-12 | | 2012-13 | |
|---|---|---|---|---|---|---|
| | **S&W** | **Pension** | **S&W** | **Pension** | **S&W** | **Pension** |
| 13th FC projection | 3,548 | 948 | 3,857 | 1,082.6 | 4,199 | 1,190.9 |
| Actual | 4,338 | 1,810 | 4,957 | 1,878 | 5,617 | 2,185 |
| Difference (%) | 22.2 | 84.00 | 28.5 | 90.00 | 33.77 | 95.00 |

The total expenditure on salary and wages (Rs. 7,446 cr) during 2011-12 was higher by 27% than the provisions made in the FRBM Act (Rs. 5,844 cr).

**3.7.2** **Expenditure on Pensions:** The expenditure on pensions has grown from Rs. 684.5 cr in 2007-08 to Rs. 1878 cr in

* C&AG's Report on State Finances for FY 2011

2011-12 and its claim on revenue receipts of the State increased from about 5% to more than 7%. The expenditure on pension in 2011-12 was nearly 8% of the revenue expenditure and 15% of NPRE. Expenditure on pension has far exceeded the projections by 13th FC; by 84% in 2010-11, by 90% in 2011-12 and almost 100% in 2012-13 (RE).

**3.7.3 Interest Payments:** Interest payments comprising interest charges on internal debts, small savings, provident fund, etc, loans received from GOI etc has decreased during 2007-12 from 8.21% of revenue receipts in 2007-08 to only about 5% in 2011-12. The increase in volume has only been very marginal. (Rs 1,140 cr in 2007-08 and Rs. 1,193.20 cr in 2011-12). Interest expenditure has been lower (at Rs. 1,198 cr, Rs 1,198 cr, Rs. 1,254 cr and Rs. 1,343 cr) than projected by the 13th FC (at Rs. 1,578 cr, Rs. 1,836 cr and Rs. 2,126 cr in the years 2010-11, 2011-12 and 2012-13 respectively). This reflects lower levels of borrowings by the State Govt.

**3.7.4 Subsidies:** Expenditure on subsidies increased from Rs. 802.55 cr in 2007-08 to Rs. 1,871 cr in 2011-12. It constituted nearly 8% of revenue expenditure and 7% of revenue receipts of the State Govt. in 2011-12. We have separately analysed the components of subsidies, their efficiency and targeting etc in Chapter V.

**3.8 Quality of Expenditure:** A new State which was a comparatively poor region of undivided MP and had very poor physical and social infrastructure, was required to focus on their development and quickly. The quality of expenditure of the State should be reflected in fiscal priority to development of physical and social infrastructure. The quality of expenditure basically has three aspects viz, adequacy of expenditure, that is adequate financial provision for providing public services; efficiency in the use of the expenditure; and third, its effectiveness, which is the relationship between outlays and outcomes.

**3.8.1 Adequacy of Public Expenditure:** As has already been mentioned the State's expenditure is about 20% of GSDP as against the general category States' average of about 17%. What is important, however, is the extent to which expenditure on social sector such as, education, health, nutrition which contribute to human development and on economic sector such as, investment infrastructure which contribute to economic development, are adequate. The table below gives the expenditure priority of the State in 2008-09 and 2011-12.

**Table 3.7**
**Fiscal Priority of the State in 2008-09 and 2011-12**

| Fiscal Priority by the State* | AE/ GSDP | DE# /AE | SSE/ AE | CE/ AE | Education / AE | Health / AE |
|---|---|---|---|---|---|---|
| General Category States Average (Ratio) 2008-09 | 17.00 | 67.09 | 34.28 | 16.47 | 15.41 | 3.97 |
| Chhattisgarh Average (Ratio) 2008-09 | 17.80 | 75.44 | 40.09 | 19.93 | 14.80 | 3.61 |
| General Category Average (Ratio) 2011-12 | 19.09 | 66.44 | 36.57 | 13.25 | 17.18 | 4.30 |
| Chhattisgarh Average (Ratio) 2011-12 | 20.00 | 76.22 | 41.24 | 19.06 | 18.01 | 3.95 |

* As percent of GSDP (2011-12 GSDP figures are advance figures)
AE: Aggregate expenditure DE: Development expenditure including revenues capital expenditure and loans and advances SSE: Social sector expenditure CE: Capital expenditure

Source: C&AG's report on State Finances for FY 2011

The aggregate public expenditure of the State has been higher in terms of percentage of GSDP than the other general category States both in 2008-09 and in 2011-12. Development expenditure, social sector expenditure and capital expenditure, as a percentage of aggregate expenditure in the State was also higher than the average expenditure of the general category States during 2008-09 and 2011-12.

**3.8.2** However, higher allocation for development expenditure will achieve the objective of social and economic development only if the efficiency and effectiveness of the expenditure are ensured. Efficient use of development expenditure is also reflected in the ratio of capital expenditure to total expenditure and GSDP and the proportion of revenue expenditure being incurred on the operation and maintenance of the existing social and economic services. The table below gives the composition of development expenditure:

**Table 3.8**
**Development Expenditure**

(Rs. in Crore)

| **Components of development expenditure** | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|
| Development Expenditure (a to c) | 10,773 (74) | 12,995 (75) | 16,002 (77) | 16,857 (73) | 21,310 (76) |
| a. Development Revenue Expenditure | 7,257 (50) | 9,676 (56) | 12,447 (60) | 13,401 (59) | 16,037 (57) |
| b. Development Capital Expenditure | 3,024 (21) | 2,838 (16) | 2,668 (13) | 2,899 (13) | 4,014 (15) |
| c. Development Loans and Advances | 492 (03) | 481 (03) | 887 (04) | 557 (02) | 1,259 (05) |

Figures in parenthesis indicate percentage to aggregate expenditure

The development expenditure, comprising both capital and revenue expenditure and loans and advances, increased as a percentage of the aggregate expenditure from 74% in 2007-08 to 76% in 2011-12.

**3.8.3** The details of capital expenditure, and the components of revenue expenditure incurred on the maintenance of selected social and economic services are given in the table below:

## Table 3.9
## Efficiency of expenditure use in selected social and economic services

| Social/Economic Infrastructure | 2009-10 | | | 2010-11 | | | 2011-12 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ratio of CE to TE | In RE, share of ME | S & W | Ratio of CE to TE | In RE, share of ME | S & W | Ratio of CE to TE | In RE, share of ME | S & W |
| **Social Services(SS)** | | | | | | | | | |
| **Total services of which** | **3.84** | **0.84** | **39.92** | **3.62** | **1.22** | **42.08** | **3.54** | **1.90** | **38.24** |
| General Education | 0.57 | 0.32 | 52.85 | 1.10 | 0.37 | 45.84 | 0.52 | 2.08 | 41.32 |
| Public health and family welfare | 0.46 | 0.55 | 73.61 | 0.43 | 0.45 | 75.41 | 0.53 | 0.64 | 57.18 |
| Water supply, Sanitation and Housing and Urban development | 1.69 | 4.31 | 10.07 | 0.81 | 4.21 | 14.20 | 1.73 | 2.97 | 27.73 |
| **Economic Services (ES)** | | | | | | | | | |
| **Total Economic services of which** | **8.92** | **7.23** | **27.00** | **9.05** | **4.35** | **25.84** | **10.82** | **5.49** | **27.73** |
| Agriculture and allied Activities | 0.32 | 1.08 | 30.51 | 0.23 | 1.08 | 29.78 | 0.33 | 1.41 | 39.35 |
| Irrigation & Flood control | 4.64 | 4.57 | 63.28 | 4.54 | 7.63 | 74.46 | 4.37 | 6.97 | 74.29 |

The development revenue expenditure has been growing; it has gone upto about 60% in 2011-12 from 57% in 2007-08. Thus the State has achieved reduction in non-development revenue expenditure. This has reduced committed expenditure- revenue receipt ratio which is a positive development.

**3.9** One of the areas of expenditure reform envisaged in the FRBM framework is that the State should not only keep its fiscal deficit at low level but also meet its capital expenditure and investment requirement. It is also to use its expenditure efficiently and earn adequate return on investments and recover the cost of borrowed funds rather than depending budgetary subvention by way of implicit subsidy. As we have analyzed in the previous chapter (Para 2.17) the average return on investment is very poor at 0.04% while the State Govt. paid interest at the rate of 7.08% in the year 2011-12.

**3.10** Inefficiency of expenditure is also seen in the large number of incomplete projects resulting in cost overrun, and more importantly the benefit of expenditure not accruing to the intended beneficiaries. As on 31st March, 2012 there were 54 PWD works with an outlay of Rs. 1,301 crore which were incomplete. Similarly, there were 83 incomplete irrigation projects with an initial cost of Rs. 5,097 crore.

**3.11** The expenditure of the State over the five year period (2007-12) has been a healthy 20% of the GSDP ranging between 17.8% in 2008-09 and 20.0% in 2011-12. It has been growing at the rate of more than 20%, more than the growth rate of the GSDP. The non-plan revenue expenditure of the State is 50% of the total expenditure. It has been lower at 45% in 2011-12. Revenue expenditure is more than 80% of the total, while capital expenditure has gone down from 22% of total, in 2007-08 to 15% in 2011-12. This may not be very healthy for a new State which is required to spend more money on infrastructure, both urban and rural, and on communication, irrigation, etc. The expenditure on salaries and wages is growing and has far exceeded the projections made by the 13th FC, which is a warning signal. We have mentioned about the need for greater efficiency in expenditure. Efficiency in expenditure primarily relates to the relationship between outlays and outcomes. Close monitoring of expenditure and timely evaluation will ensure efficiency in expenditure. The measure of efficiency of expenditure in social sector is social indicators which we have referred to in the first chapter. Economic growth of the State and growth of GSDP is the outcome of efficient use of financial resources by the State Govt. However, the State is yet to have a comprehensive monitoring system in place to ensure greater efficiency in expenditure. This is supposed to be under active consideration of the State Govt.

# IV. Analysis of Deficit

## Introduction

**4.1** After having analyzed the receipts and expenditure of the State Govt., we next to look at how the fiscal balance has been maintained by the State. Fiscal balance is one major component of the medium-term fiscal consolidation plan envisaged by the 13$^{th}$ FC. The three key fiscal parameters, i.e. the revenue deficit, gross fiscal deficit and primary deficit, are the indicators of fiscal balance. Broadly speaking, a deficit is the gap between income and expenditure. The extent of deficit indicates how the State Govt. has managed its finances and also indicate how the resources raised have been applied to finance the deficits.

## Trends in Deficit

**4.2** In order to ensure fiscal balance and prudent fiscal management, the States were required to specify the targets of gross fiscal deficit they target to have, in their FRBM Acts. The 13$^{th}$ FC had also specified fiscal deficit targets. The State Govt. had fixed a gross fiscal deficit target of 3 percent during 2010-15 and elimination of revenue deficit during this period. The trend of revenue and fiscal deficit during the last five years (2007-12) has been as given in the table 4.1 below and the charts 4.1and 4.2

**Table 4.1**
**Trends in Deficit**

(Rs. in core)

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| Revenue Deficit(-)/surplus(+) | (+)3,039 | (+)1,869 | (+)888 | (+)3,364 | (+)3,239 |
| Fiscal deficit(-)/surplus(+) | (-)128 | (-)1,027 | (-)1,759 | (+) 410 | (-)801 |
| Primary deficit(-)/surplus(+) | (+)1,012 | (+)51 | (-)664 | (+)1,608 | (+)392 |

**Chart 4.1**
**Trends in Deficit**

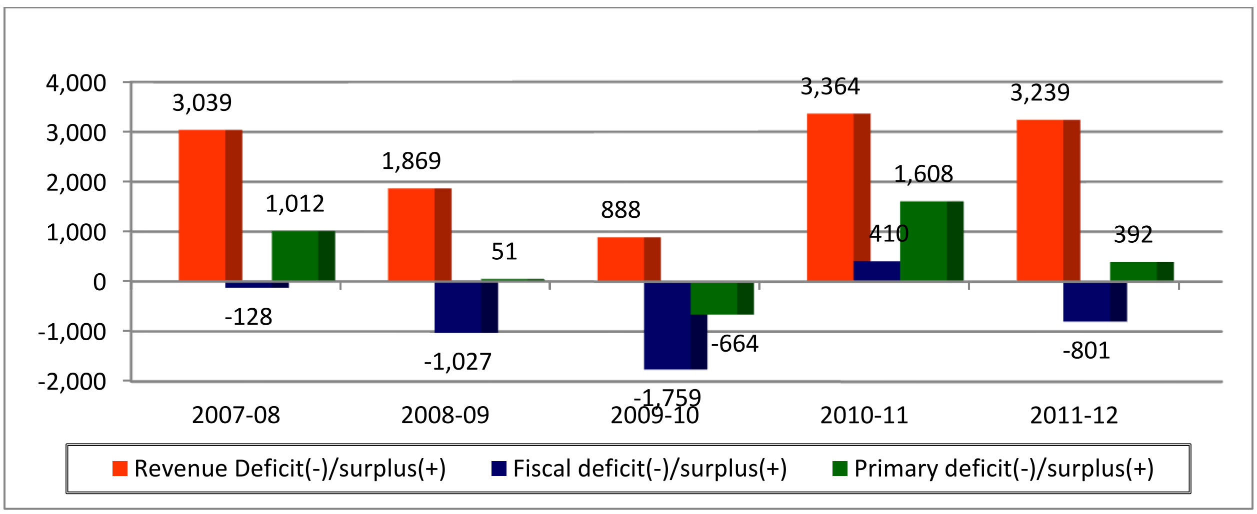
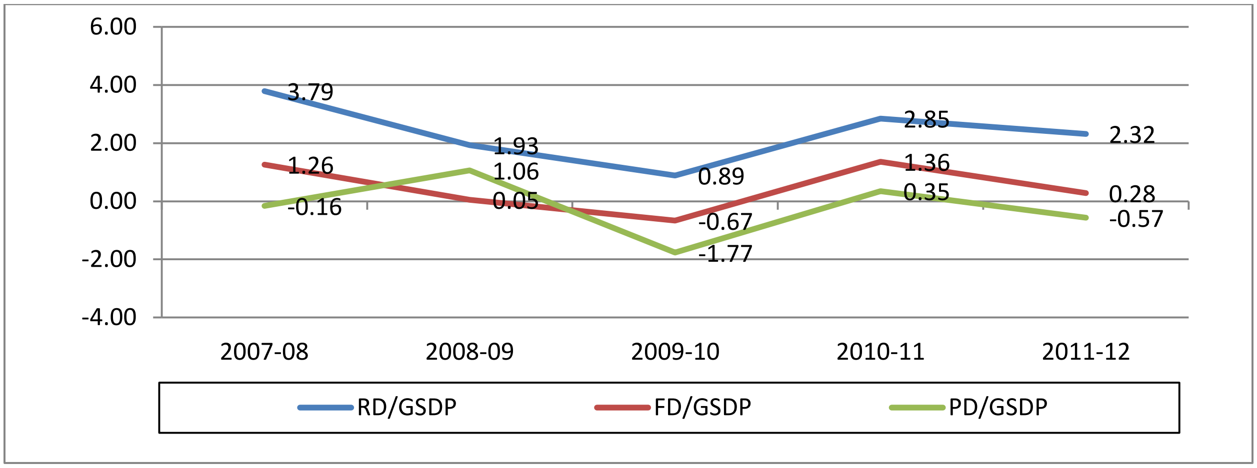


**Chart 4.2**
**Trends in Deficit relative to GSDP**




**4.3.1 Revenue Deficit:** Although it does not show a clear trend, there was a revenue surplus throughout the five year period and the second phase of fiscal consolidation, beginning 2010-11. The revenue surplus decreased from Rs. 3,039 cr in 2007-08 to Rs. 888 cr in 2009-10; it increased to Rs. 3,364 cr in 2010-11 and Rs. 3,239 cr in 2011-12. As a percentage of GSDP it was 3.79 in 2007-08 while it has come down to 2.32 in 2011-12. Increase in revenue expenditure in 2011-12 and 2012-13 (RE) of 16.91% and, 33% respectively over the previous year as compared to 14% and 25% increase in revenue receipts, reduced the revenue surplus in 2011-12 and 2012-13. However, as compared to all non-special- category States, the State has done better in ensuring a revenue surplus as may be seen in the table 4.2 below:

**Table 4.2**
**Deficit Indicators (Non- Special Category States)**

| | RD/GSDP | GFD/GSDP | PD/GSDP |
|---|---|---|---|
| 2004-08 | 0.2 (2.7) | 2.7 (-0.9) | 0.0 (0.9) |
| 2010-11 | 0.1 (2.9) | 2.5 (0.35) | 0.6 (0.35) |
| 2011-12 | 0.1 (2.39) | 2.7 (-0.57) | 0.9 (0.29) |

Position of CG is within parenthesis RD- Revenue Deficit PD- Primary Deficit
( + indicates surplus GFD- Gross Fiscal Deficit
-deficit)

Source: RBI Report on Analysis of Budget of States 2012-13

**4.3.2 Fiscal Deficit:** The State has a target of fiscal deficit of not more than 3 percent in the FRBM Act, the target fixed by the 13th FC. During the five year period (2007-12) the gross fiscal deficit (GFD) was contained within this target. The GFD, which is the total resource gap, was less than 2% of GSDP. In absolute terms, the deficit increased from Rs. 128 cr in 2007-08 to Rs. 801 cr in 2011-12. There was, however, a surplus of Rs. 410 cr in 2010-11. That is perhaps because of the large revenue surplus that year. But fiscal deficit is closer to 3% (2.87%) in 2012-13 (RE) and is likely to be 3% next year as per the disclosure made under FRBM Act. The State has had a much better fiscal balance as compared to the average of all non-special category States (Table 4.2).

**4.3.3 Primary Deficit:** There was a primary surplus during the five year period (2007-12) except in 2009-10 when there was a deficit. The primary surplus was Rs. 1,012 cr in 2007-08 and Rs. 392 cr in 2011-12.

## Decomposition of Fiscal Deficit and its Financing

**4.4** The financing pattern of the fiscal deficit which deals with the pattern of borrowing by the State Govt. to meet the deficit, is given in the table below:

### Table 4.3
### Components of Fiscal Deficit and its financing pattern

| | Particularts | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|
| **Decomposition of Fiscal Deficit** | | | | | | |
| 1 | Revenue Deficit | 3038.79 | 1869.06 | 888.22 | 3363.79 | 3239.33 |
| 2 | Net Capital Expenditure | (-)3,103.73 | (-)2,938.38 | (-)2,742.61 | (-)2,948.95 | (-)4052.47 |
| 3 | Net Loans & Advances | (-)62.77 | 42.67 | 95.39 | (-)5.08 | 11.97 |
| | **Total** | **(-)127.71** | **(-)1,026.65** | **(-)1,759.00** | **4,09.76** | **(-)801.17** |
| **Financing Pattern of Fiscal Deficit*** | | | | | | |
| 1 | Market Borrowings | (-)157.08 | (-)153.44 | 449.85 | (-)235.03 | (-)313.14 |
| 2 | Loans from GOI | (-)167.06 | 94.93 | 106.83 | 67.38 | (-)85.15 |
| 3 | Special Securities Issued to NSSF | 37.75 | (-)2.78 | 146.33 | 373.47 | 13.00 |
| 4 | Loans from Financial Institutions | (-)10.06 | (-)41.73 | (-)67.36 | (-)101.49 | (-)45.86 |
| 5 | Small Savings, PF etc | 51.50 | 73.74 | 294.37 | 328.97 | 307.76 |
| 6 | Deposits & Advances | 441.77 | 30.20 | (-)22.47 | 355.26 | 585.94 |
| 7 | Suspense & Miscellaneous | (-)257.12 | 1024.80 | 512.00 | (-)2,129.58 | 1758.77 |
| 8 | Remittances | (-)78.72 | 80.65 | (-)111.83 | 33.68 | 96.10 |
| 9 | Others** | 184.00 | 265.96 | 244.91 | (-)28.08 | 58.90 |
| | **Total** | **44.98** | **1372.33** | **1552.63** | **(-)1,335.42** | **2376.32** |
| | **Overall Surplus(+)/Deficit(-)** | **(-)82.73** | **345.68** | **(-)206.37** | **(-)925.66** | **1575.15** |
| | **Total** | **127.71** | **1026.65** | **1759.00** | **(-)409.76** | **801.17** |

* All these figures are net of disbursements/outflows during the year
** Includes Contingency fund, Reserve funds
Source: Finance Accounts of respective years as analyzed in C&AG's report on State Finances for FY 2011

The table above shows that over the five year period the fiscal deficit has been financed from the resources raised from special securities issued to National small savings Fund, small savings, PF, deposits and advance, suspense and miscellaneous etc. There was practically no fiscal deficit during 2011-12.

**Quality of Deficit/Surplus**

**4.5** The ratio of revenue deficit to fiscal deficit and the decomposition of the primary deficit into primary revenue deficit and capital expenditure including loans and advances, would indicate the quality of the deficit in the State finances. Primary revenue deficit is the gap between the non-interest revenue expenditure of the State and its non-debt receipt and indicates the extent to which non-debt receipts of the State are able to meet the primary expenditure under revenue account. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The table below gives the details of primary deficit.

**Table 4.4**
**Primary Deficit- Bifurcation of Factors**

(Rs in Crore)

| Year | Non-Debt Receipts | Primary Revenue Expenditure | Capital Expenditure | Loans And Advances | Primary Expenditure | Primary Revenue deficit (-)/ surplus (+) | Primary Deficit (-)/ surplus (+) |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-3) | 8 (2-6) |
| 2007-08 | 14,345 | 9,700 | 3,131 | 502 | 13,333 | (+)4,645 | (+)1,012 |
| 2008-09 | 16,199 | 12,716 | 2,940 | 492 | 16,148 | (+)3,481 | (+)51 |
| 2009-10 | 19,151 | 16,170 | 2,745 | 900 | 19,815 | (+)2,981 | (-)664 |
| 2010-11 | 23,286 | 18,157 | 2,952 | 569 | 21,678 | (+)5,129 | (+)1,608 |
| 2011-12 | 27,156 | 21,435 | 4,056 | 1,273 | 26,764 | (+)5,721 | (+)392 |

Source: C&AG report on State Finances for FY 2011.

It may be seen that during the five year period 2007-12 non-debt receipts increased by 89% from Rs. 14,345 cr in 2007-08 to Rs. 27,157 cr in 2011-12, as against increase in primary revenue expenditure from Rs. 9,700 cr to Rs. 21,435 cr (121%). The State has primary surplus during the whole period of five years except during 2009-10. These should indicate that the non-debt receipts of the State were enough to meet the primary expenditure requirements in the revenue account during the period, indicating a healthy trend in the State finances.

**Balance of current revenue and Plan Expenditure**

**4.6** The Balance of Current Revenue (BCR) in the five year period 2007-12, the total internal resources of the State Govt. and the plan expenditure of the year are given in the table below:

**Table 4.5**
**Balance of Current Revenue**

(Rs. in crore)

| Year | Plan Expenditure | Internal Revenue | Balance of CR |
|---|---|---|---|
| 2007-08 | 7,658 | 5,522 | 3,641 (66%) |
| 2008-09 | 9,638 | 7,251 | 4,677 (64.5%) |
| 2009-10 | 10,946 | 8,829 | 4,62 (52%) |
| 2010-11 | 12,814 | 10,340.5 | 6,952 (67%) |
| 2011-12 | 17,237 | 14,108.5 | 9,320 (67%) |

Figures in parenthesis indicate percentage of BCR to total internal resources of the State

The balance of current revenue has increased from Rs. 3,641 crore in the year 2007-08 to Rs. 9,320 crore in 2011-12. It contributed only 50% to the total plan expenditure of the State Govt. and constituted 52% of the total internal resources which financed the plan in 2009-10. In the last two years (2010-11 and 2011-12) BCR went up to 67% of the internal resources mobilized by the State Govt. to finance it's plan expenditure and its contribution to plan expenditure was 55%. The State Govt. has mustered sufficient internal resources to fund its plan expenditure which is growing and has more than doubled in the last five year period 2007-12.

# V. Subsidies: Targeting and Efficiency

**5.1** The details of the subsidies provided by the State Govt. during the years 2007-12 are given in the table below:

**Table 5.1**
**Subsidies provided by the State Govt. during 2007-12**

(Rs. in crore)

| Head of account and name of the Deptt. | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| Social Welfare & Nutrition | 0.44 | 946.28 | 1288.78 | 886.73 | 950.51 |
| 2401- Crop Husbandry | 39.35 | 41.23 | 41.00 | 40.07 | 46.36 |
| 2405- Fisheries | 0.55 | 0.41 | 0.47 | 0.75 | 0.60 |
| 2406- Forestry and Wild Life | 19.53 | 10.09 | 10.00 | 10.00 | 8.10 |
| 2408- Food storage and Warehousing | 606.16 | 109.47 | 406.61 | 488.65 | 383.67 |
| 2425- Co-operation | 7.50 | 40.03 | 46.00 | 83.07 | 95.32 |
| 2702- Minor Irrigation | 8.09 | 10.49 | 10.62 | 11.01 | 10.88 |
| 2801- Power | 110.14 | 128.04 | 150.10 | 202.10 | 321.10 |
| 2851- Village and Small Industries | 9.66 | 24.27 | 39.26 | 37.71 | 52.52 |
| 2852- Industries | 1.13 | 4.37 | 1.46 | 3.72 | 1.87 |
| **Total** | **802.55** | **1,1314.68** | **1,994.30** | **1,763.81** | **1,870.93** |

Source: C&AG's Report on State Finances for FY 2011

The subsidy bill of the State Govt. has grown in absolute terms from Rs. 802.55 crore in 2007-08 to Rs. 1,871 crore in 2011-12, a rise of more than 125% in five years (The 2012-13 RE provision is also Rs. 1,815 crore, while in the budget for the current year 2013-14, the provision is for Rs. 2,274 crore).

**5.2** Subsidies have increased substantially in absolute terms and also in terms percentage of revenue expenditure and revenue receipts of the State.

**Table 5.2**
**Subsidies as percentage of Revenue Expenditure and Revenue Receipts**

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| Percentage of revenue expenditure | 7.40 | 9.60 | 11.50 | 9.00 | 8.25 |
| Percentage of revenue receipts | 5.70 | 8.30 | 11.00 | 7.80 | 5.80 |

In the year 2007-08, subsidies constituted 7.4% of revenue expenditure and 5.7% of revenue receipts, while in the year 2011-12, the corresponding percentages were higher at 8.25 and 5.8.

**5.3** It may be seen from Table 5.1 that three items namely, food subsidy, which is reflected under two heads i.e. nutrition and food storage and warehousing; power subsidy and subsidy on agriculture loans (co-operation) have claimed the largest share of the subsidy bill of the State Govt. **Food subsidy** bill has grown from Rs. 606 crore in 2007-08 to Rs. 1,334 crore in 2011-12. The State Govt. passed its own Food Security Bill before the Central legislation on the subject. The subsidy provided by way of subsidized rice to the extent of 35 kg per family per month at Re 1 and Rs. 2 per kg, 1 kg of iodized salt and now also subsidized pulses. It also includes the losses incurred by the State Civil Supplies Corporation which has grown for Rs. 8 core in 2007-08 to Rs. 450 crore in 2010-11 and Rs. 350 crore in 2011-12. **The power subsidy** has similarly gone up nearly three times from Rs. 110 crore in 2007-08 to more than Rs. 320 crore in the year 2011-125; and it is likely to reach nearly Rs. 400 crore during the current year (2013-14). The subsidy under the head 'Cooperation' is in fact the interest subsidy to farmers. The State Govt. provides agriculture loan at an interest rate of 3% per year and reimburses the difference in interest to the cooperative banks and others. This subsidy burden is also going up; it was Rs. 40 crore in 2008-09 when the scheme started and now stands at nearly Rs. 100 crore.

Out of the total subsidies of Rs. 1,871 crore in the year 2011-12, Rs. 363 crore (19%) was under non-plan and Rs. 1,474 crore (79%) under plan heads, while two percent was under Centrally Sponsored schemes/Central Plan schemes.

**5.4** The overall position of subsidies may be different from what is apparent in the accounts. The food subsidy amount mentioned above may not be the whole picture. The bonus being paid by the State Govt. to paddy growers for paddy purchases, over and above the MSP, has been shown and accounted for as 'grant' and not subsidy, while this obviously adds to the food subsidy.

This was as much as Rs. 440 crore in the year 2008-09, Rs. 588 crore in the year 2009-10, and Rs. 268 crore in the year 2010-11 (the current year's budget provides for as much as Rs. 1,750 crore as bonus to farmers). Similarly the power subsidy also does not reveal the full extent of subsidy. Two items of expenditure which should be classified as subsidy such as, subsidy of electrification of agriculture pumps, and assistance by the State Govt. to the Power Distribution Company (Discom) are classified as 'grants'. The subsidy towards electrification of pumps was Rs. 10 crore in the year 2007-08 but went up sharply to Rs. 35 crore in 2010-11 and Rs. 100 crore in 2011-12. There are a number of other items of expenditure which should in fact be classified as subsidy but are being classified as grant on technical grounds.

**5.5** Targeting of subsidies has also been a problem area in the State as in many others. Procurement and distribution of food grains has been a success in the State and PDS has been running successfully and is cited as a model for other States by the Govt. of India. There are 66 lakh cardholders entitled to subsidised food under the State Act, while there are 55 lakh households in the State. The quantity of rice provided to a family every month is also quite high and there are reports of a portion of this being sold in the market by the beneficiaries. The same is the position in respect of the power subsidy. The Govt. policy to reimburse only up to 40 units per month to BPL families, while electricity consumption above that is chargeable at domestic rate is unworkable. The Discom is generally unwilling to incur huge expenditure in putting meters for such connections and incur a huge recurring expenditure for reading those meters and billing the BPL consumers while the recovery is not commensurate with the efforts put in and the cost. Hence the tendency is to book only 40 units for the total number of BPL households in the State and claim reimbursement from the State Govt. Similar position is in the subsidy given to the farmers for their energy consumption for irrigation by pump sets up to 5 hp. This subsidy is also not well-targeted in as much as farmers instead of using large size pumps use a number of 5 hp pumps. These schemes in fact are not only not well-targeted but are also affecting the financial health of the Discom and are unsustainable in the long run.

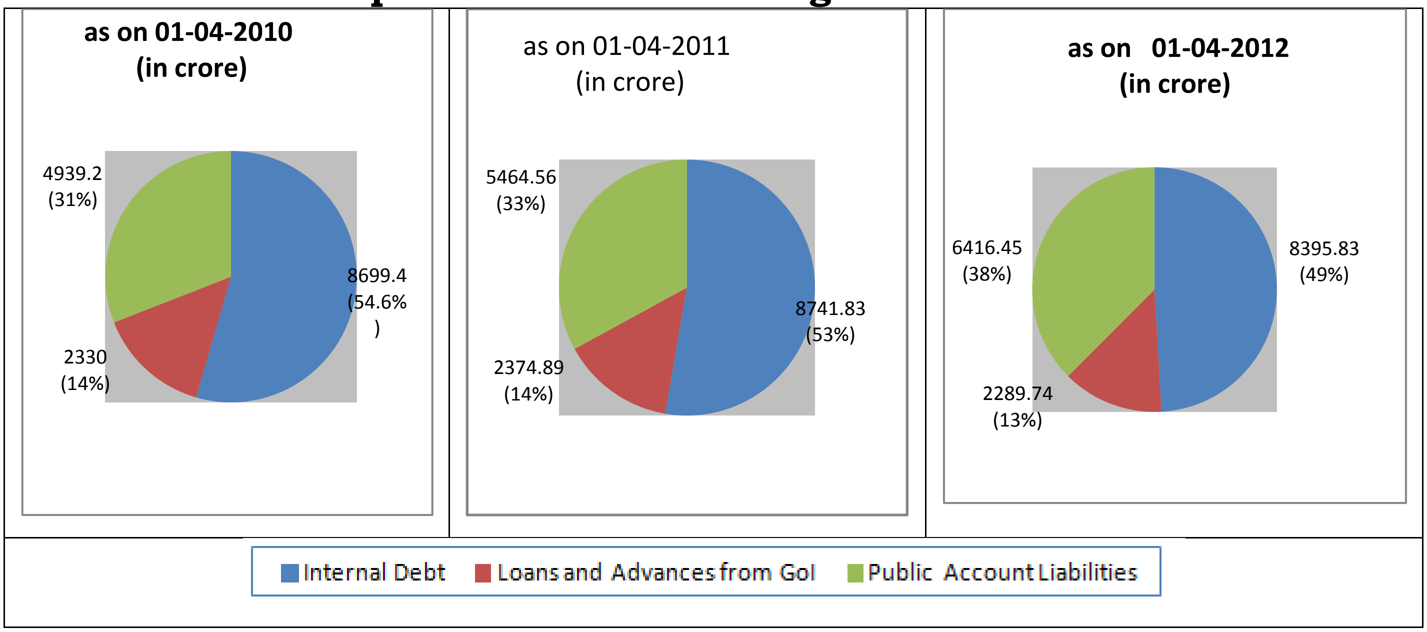
**5.6** There are also a whole host of small subsidies which are ad hoc, generally continue for one or two years and are given up in favour of new subsidies. The State Govt. should have a clear policy on subsidies.

**5.7** The total amount of grants being provided by the State Govt. to various institutions, to local bodies, educational institutions for a number of purposes, have grown from Rs. 3,405 crore in the year 2007-08 to Rs. 7,165 crore in 2011-12, Rs. 11,656 crore in the 2012-13 (RE). As already mentioned there are some items included in grants which are in fact subsidies. There is a need to prune the number of subsidies and even many grants, which are in effect subsidies, by the State Govt.

## VI. Fiscal Liabilities of the State Govt. and Debts

**6.1** The sustainability of fiscal liabilities, mainly debt, over medium and long-term is an important indicator of the financial health of a State. An assessment of the size of debts, including its components, is critical to the assessment of fiscal sustainability of the State. Generally two sets of liabilities are reckoned under fiscal liabilities i.e. public debt and other liabilities. The first consists of internal debt of the State which includes market loans, loans from financial institutions, special securities issued to RBI, and loans and advances received from the Central Govt. These are liabilities under the Consolidated Fund of the State. Other fiscal liabilities are liabilities under Public Accounts which include deposits under Small Saving schemes, Provident Fund and other deposits. The composition of the fiscal liabilities of the State during the years 2009-10, 2010-11 and 2011-12 are presented in the charts below:

**Chart 6.1**
**Composition of Outstanding Fiscal Liabilities**




**6.2** The internal debt of the State as component of total fiscal liability, decreased from 54.6% in 2009-10 to 53% in 2010-11 and further to 49% in 2011-12. There has thus been a reduction in internal debt of the State during the last three years. The Public Account liability, however, increased from 31% in 2009-10 to 33% in 2010-11 and stood at 38% in 2011-12. Central loans outstanding, which was 14% of the total fiscal liabilities in 2009-10 and 2010-11, has gone down marginally to 13% in the year 2011-12.

**6.3** The total fiscal liabilities of the State have increased over the years, in absolute terms, but there is overall decline in the liabilities in relation to the GSDP. The debt/GSDP ratio has been progressively coming down. The table below gives the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP and to revenue receipts.

**Table 6.1**
**Fiscal Liabilities-Basic Parameters**

| | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|
| Fiscal Liabilities (Rs. in crore) | 14,512 | 14,780 | 15,933 | 16,581 | 17,102 |
| Rate of Growth of Fiscal Liabilities (in percent) | 2.83 | 1.85 | 7.79 | 4.06 | 3.14 |
| Fiscal Liabilities/GSDP (Debt-GSDP in percentage) | 18.08 | 15.24 | 16.03 | 14.05 | 12.25 |
| Fiscal Liabilities/Revenue receipts (percentage) | 104.56 | 94.36 | 87.70 | 64.98 | 53.00 |

Source: Finance Accounts of respective FYs

The overall fiscal liabilities of the State increased by 18% from Rs. 14,512 crore in 2007-08 to Rs. 17,102 crore in 2011-12. (The FRBM disclosure of the State in 2012-13 gives the total fiscal liabilities as Rs. 18,050 crore in 2011-12). The growth rate of fiscal liabilities during the last two years has, however, been low at 4.06% in 2010-11 and 3.14% in 2011-12. The total debt as percentage of GSDP (Debt-GSDP percentage) has come down from 18.08% in 2007-08 to 12.25% in 2011-12. The debt-GSDP ratio of the State has consistently been better than those of all non-special category States since 2004 till date, as may be seen in the table below:

## Table 6.2
## Debt/GSDP Ratio

| | 2004-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|---|---|---|
| Non-special category | 34.7 | 30 | 29.1 | 27.5 | 26.5 | 25.7 |
| C.G. | 22.3 | 15.5 | 16.4 | 14.5 (22%) | 13.1 (22.5%) | 13.4 (23%) |

Source: RBI Report on Analysis of Budget of States, 2012-13

Note: Minor variations in the debt GSDP ratio of the State as reported by the RBI and in Table 6.1 are because of changes in the figures of GSDP as reported by Directorate of Economics & Statistics, Govt. of C.G.

In parenthesis are debt/GSDP ratio recommended by the 13th FC

The target of debt/GSDP ratio of the State has actually been substantially better than the targets set by the 13th FC and included in the FRBM Act, as the Table above shows. The FRBM Act prescribes in (Sec. 3) that the States shall not assume additional total liabilities in excess of 5% of GSDP in any financial year beginning with 2011-12.

## Composition of Public Debt

**6.4** The detailed composition of public debt outstanding during the last three years (2009-12) was as under:

## Table 6.3
## Composition of Public Debt

| Nature of Debt | 1..4.2010 | 1.04.2011 | 1.04.2012 |
|---|---|---|---|
| **1. Internal Debt** | **8,705.00** | **8,742** | **8,396** |
| (i) Market Borrowing | 2,784 (31.5%) | 2,512.32 (28%) | 2,199.58 (26%) |
| (ii) Borrowing from financial institutions of which- | 642.6(7.4%) | 589.20(6.7%) | 692.20 (7%) |
| LIC | 20.28 | 20.30 | 20.35 |
| NABARD | 594 | 549 | 555.34 |
| GIC | 9.00 | 8.00 | 8.00 |
| NCVT | 19.47 | 12.20 | 8.56 |
| (iii) Other Securities | 338.24 | 290 | 241.70 |
| (iv) NSSF Bonds | 4,976 (57%) | 5,350 (61%) | 5,356 (64%) |
| **2. Loans from GOI** | **2,307.50** | **2,374.9** | **2,289.75** |
| **Total Public Debt** | **11,012.4** | **11,116.9** | **10,685.75** |

Figures within parenthesis indicate percentage of internal debt

The composition of debt of State Govt. reveals that the bulk of the internal debt outstanding is of NSSF bonds. Market borrowings constituted more than 25% of the internal debt. Although the trend in other States is to increasingly rely on market borrowing to finance GFD, and it accounted for 37% of outstanding liabilities of State Govts. at the end of 2012*, it was only 15% of the total liabilities of the State as on 1.04.2011 and 12.85% as on 1.05.2012. Since its GFD was about 1% or less, the State Govt. did not participate in market borrowing programme during the year 2010-11 and 2011-12. The State's reliance on loans from the Centre is also going down.

**6.5** Borrowings from financial institutions and banks constituted about 7% of the total internal debt of the State. Major

* RBI Report on Analysis of Budget of States, 2012-13

borrowing is from NABARD which was Rs. 121 crore in 2009-10, Rs 130 crore in 2010-11 and Rs.146.3 crore in 2011-12. These funds were utilized primarily for building rural infrastructure such as roads, bridges, etc. The maximum outstanding loan is also of NABARD.

**Debt Sustainability**

**6.6** Debt sustainability is not a major issue in the State. However, an assessment has been made in terms of some of the indicators of debt sustainability such as, debt in relation to GSDP; adequacy of non-debt receipts; which covers the incremental interest liability and incremental primary expenditure; net availability of borrowed funds; the burden of interest payment, measured by interest payment to revenue receipts ratio; and the maturity profile of State Govt. debts. By these indicators the position of the State during the last three years (2009-12) was as given in the table below:

**Table 6.4**
**Debt Sustainability: Indicators and Trends**

(Rs. in crore)

| **Indicators of Debt Sustainability** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|
| Debt/GSDP | 16.03 | 14.05 | 12.25 |
| Sufficiency of incremental Non-debt Receipts (Resource Gap) | (-)731 | (+)2,169 | (-)1,211 |
| Net Availability of Borrowed Funds | 57 | (-)438 | (-)672 |
| Interest Payments (IP) | 1,095 | 1,198 | 1,193 |
| Revenue Receipts | 18,154 | 22,720 | 25,867 |
| Burden of Interest Payments (IP/RR Ratio) | 6.03 | 5,27 | 4.61 |

Source: Report of the C&AG on State Finances, for FY 2011

The trend of the indicators is significant. The public debt of the State in relation to the GSDP shows a clear declining trend. However, the adequacy of the incremental non-debt receipts was negative during the year 2009-10 and 2011-12 which shows that the incremental non-debt receipts were inadequate to finance incremental primary expenditure. The net availability of borrowed funds, after repayment of principal and interest, declined from Rs. 57 crore in 2009-10 to (-)672 crore in 2011-12 a clear indication that the larger part of the borrowed fund was used for debt repayment during 2011-12. State Govt. repaid Rs. 5,404 crore of its debt comprising internal debt of Rs. 1,422 crore (principal and interest), Central loan of Rs. 330 crore and other obligations amounting to Rs. 363 crore, which were more than the total receipts of Rs. 4,733 crore (internal debt of Rs. 365 crore, GOI loan of Rs. 57 core and the other securities of Rs. 4,311 crore), resulting in negative availability of funds during 2011-12. The burden of interest payment of the State, as evidenced from the interest payment/RR ratio was quite low, in fact the lowest in the country *.

**6.7** The maturity profile of the State debt for repayment by the State is given in the table below:

* RBI Report on Analysis of Budgets of States, 2012-13

**Table 6.5**
**Maturity Profile of the State Debt**

(Rs. in crore)

| Years | 2011-12 | Percentage to Total Debt |
|---|---|---|
| 0-5 | 4,252.03 | 40 |
| 6-10 | 3,115.08 | 29 |
| 11-15 | 1,958.45 | 18 |
| 16-20 | 1,012.50 | 10 |
| 20 and above | 347.50* | 03 |
| **Total** | **10,685.56** | |

* Includes the details of maturity year was not available and taken as loan amount allocated to Madhya Pradesh but rapid by Chhattisgarh

The position in the table is that there will be bunching of repayment of loans to the extent of 40% after five years, which the State Govt. has to take note.

# VII. Contingent Liabilities of the State

7.1 State Govt. guarantees are contingent liabilities on the Consolidated Fund of the State in that it becomes a liability in case of default by the borrower to whom the guarantee has been extended. The maximum amount for which guarantees were extended by the State and the position of such guarantees during the last three years (2009-12) are given in the table below:

**Table 7.1**
**Guarantees given by the Government of Chhattisgarh**

(Rs. in crore)

| Guarantees | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|
| Maximum amount guaranteed | 4,400.65 | 5,053.59 | 7,079.29 |
| Outstanding amount of guarantees | 3,337.53 | 2,849.35 | 2,637.40 |
| Revenue Receipts | 18,153.66 | 22,719.54 | 25,867.38 |
| Percentage of maximum amount guaranteed to total Revenue Receipts | 24.24 | 22.24 | 27.37 |

(Source: Finance Accounts of the respective years)

Although no separate law under Article 293 of the Constitution has been passed by the State specifying limits within which Govt. may give guarantee on security of the Consolidated Fund of the State, limits on Govt. guarantees have been fixed as per the recommendations of 12th FC and the 13th FC, and made part of the FRBM Act. The guarantees extended as at the end of 2011-12 are much below this limit. The outstanding guarantees stood at Rs. 2,637 core at the end of the 2011-12. The composition of the guarantees is: co-operatives Rs 1,947 crore; power Rs. 429 crore; housing and urban development Rs. 1,775 crore; the State Finance Corporation Rs. 81 crore (inherited from M.P.) and others Rs. 0.4 core. The total guarantees outstanding constituted about 10% of the total revenue receipts of the State.

(There is a difference between the guarantees amount outstanding at the end of FY 2011-12 as in the Finance Accounts and the FRBM disclosure document (2012-13) presented with the budget to the State legislature. As per this document, the total guarantee amount outstanding at the end of FY (2011) was Rs. 2,269.43 crore, while as per the C&AG's reports, based on Finance Accounts, it is Rs. 2,637.40 crore. This discrepancy need to be reconciled).

**Details of Guarantee**

**7.2** The risk-weight of these guarantees are as under:

| | | Rs. in crore |
|---|---|---|
| 1. | Direct Liabilities (2) | 27.05 |
| 2. | High Risk | Nil |
| 3. | Medium Risk (5) | 1,221.18 |
| 4. | Low Risk (1) | 1,021.20 |
| | **Total Outstanding** | **2,269.43** |

Figures within bracket indicate the number of guarantees.
Source: C&AG Report on State Finances for FY 2011

All the guarantees given by the State Govt. are thus either of medium or low risk.

**7.3** The State has not set up a Guarantee Redemption Fund (GRF) out of the guarantee fees, as recommended by the 13th FC. This was not considered necessary as the high risk guarantees were very low. In fact, no guarantee fees are recovered by the State Govt. No guarantee has been invoked during the last three years.

## VIII. The Fiscal Responsibility and Budget Management (FRBM) Act and its Compliance

**8.1** The State Govt. enacted a Fiscal Responsibility and Budget Management Act (FRBM Act) in 2005 in compliance with the recommendations of the 12th Finance Commission. As per its objectives, the Act provides for the responsibilities of the State Govt. 'to ensure prudence in fiscal management, fiscal stability by progressive elimination of revenue deficit, greater transparency in fiscal operation of the Govt., and conduct of fiscal policy in a medium term fiscal frame work'. The Act makes it incumbent on the State Govt. to pursue fiscal reforms in the medium term, better fiscal management and greater transparency in the fiscal management. It provides (Sec. 4 of the Act) for the State Govt. to present before the State legislature in each financial year: (i) a macro-economic frame work statement; (ii) medium term fiscal policy statement; and (iii) the fiscal policy strategy statement.

**8.2** For greater transparency the Act requires (Sec.5) the State Govt. make disclosures of its fiscal position. As many as 12 statements including the statement of fiscal indicators of total liabilities, a statement of guarantees of assets etc have been prescribed under the Rules framed under the Act in 2006. The Act requires that the State Govt. take appropriate measures to reduce the fiscal deficit and the revenue deficit so as to eliminate revenue deficit by 31.03.2009 and bring fiscal deficit to 3% and the GSDP by 31.03.2009. The annual targets were required to fixed under the Rules. Secondly, the annual targets of assuming contingent liabilities in the form of guarantees and the total liabilities as a percentage of GSDP was also to be specified in the Rules.

**8.3** The FRBM Act was amended in 2011 to bring it in line with the recommendations of the 13th FC. Accordingly the following annual targets have been fixed in the Amendment Act:

(i) Revenue deficit to be maintained at zero level every year during 2011-15

(ii) Fiscal deficit as a percentage of GSDP to be maintained at 3% every year

(iii) Total outstanding debts as a percentage of GSDP to be maintained from 2010-11 onwards as under: 22% in 2010-11, 22.5% in 2011-12, 23%, 23.50 and 23.90% in 2012-13, 2013-14 and 2014-15 respectively.

(iv) It also provides that the State Govt. would not assume additional total liabilities in excess of 5% on GSDP in any financial year beginning 2011-12.

These targets were in conformity with the fiscal consolidation road map recommended by the $13^{th}$ FC. No targets have been fixed in the Act for individual Departments of the State Govt. The Act is being implemented and the targets monitored by the Finance Deptt. only.

**8.4** The State Govt. has taken the following necessary steps to comply with the provisions of the Act both in respect of fiscal consolidation and greater fiscal transparency:

- The $13^{th}$ FC has prescribed a fiscal consolidation road map which requires the State to eliminate fiscal deficit by 2014-15 and to achieve fiscal deficit of three per cent of GSDP by the year 2013-14. Every year along with the Budget, the Finance Minister presents to the State legislature, a comprehensive document which gives the macro economics statement and the fiscal position of the State; medium-term fiscal statement including the targets for the next two years, a statement of fiscal policy and the fiscal position of the State including fiscal balance.
- The State has maintained revenue surplus since 2004-05. The fiscal deficit has also been contained within 3% of GSDP. The outstanding debt as a percentage of GSDP has been less than the targets in the FRBM Act. The actual achievement has been more than the targets fixed by the State Govt. almost every year.

**8.4** The achievement of the medium-term fiscal targets by the State vis-a-vis the targets fixed under the FRBM Act during the last two years (2010-12) as under:

**Table 8.1**
**FRBM Targets and Achievement**

| Fiscal Indicators | 13th FC/FRBM Act Targets | | FRBM Disclosures | | Actuals | |
|---|---|---|---|---|---|---|
| | **2010-11** | **2011-12** | **2010-11** | **2011-12** | **2010-11** | **2011-12** |
| 1.(i) Revenue Deficit | Maintain zero revenue deficit | | (+)1,859.78 | (+)1,348.13 | (+)3,363.79 | (+)3,239.33 |
| (ii) TRR/RD (percent) | - | | -7 | -7 | -14.81 | -12.52 |
| 2.(i) Fiscal Deficit (Percent) | 3% of GSDP | | 3,180 | 3,819.79 | - 409.76 (0.35%) | 801.17 (0.57%) |
| 3. Outstanding Debt as per cent of GSDP | 22 | | 22.5 | 16.16 | 14.20 | 12.94 |

It is seen that even though the State has achieved the targets fixed for revenue surplus under the FRBM Act and the disclosures, there has been a decrease of revenue surplus from Rs.3,364 cr in 2010-11 to Rs. 3,239 cr in 2011-12 due to increase of 17% in revenue expenditure during 2011-12 as compared to 14% increase in revenue receipts. The fiscal surplus of Rs. 410 cr in 2010-11 has turned into fiscal deficit of Rs. 801 cr in 2011-12, mainly due to decrease in revenue surplus, increase in capital outlay etc. However, fiscal deficit was less than projected in FRBM disclosures.

**8.5** As a result of fiscal surplus of 2010-11 becoming a fiscal deficit in 2011-12, the primary surplus decreased by 76% from Rs. 1,608 cr in 2010-11 to Rs. 392 in 2011-13, although the FRBM disclosure have projected a primary deficit of Rs. 2,516.45 cr. The outstanding debt was 14.20% and 12.94% of GSDP in 2010-11 and

2011-12 respectively, which was lower than the target fixed by the 13th FC and FRBM disclosure targets.

**8.6** The overall position is that the objectives of fiscal consolidation, sustainability and transparency have more or less been achieved in a State under an effective FRBM regime. It is also seen that the FRBM compliance report and disclosures though placed regularly every year in the State legislature, have been more or less routinised. There is no institutional mechanism in the Finance Deptt. of the State Govt. to monitor achievement of Finance Commission and FRBM targets. The 13th FC's strong recommendation for a Finance Commission Cell to continuously analyse the fiscal performance of the State has been set up albeit without necessary research staff. The Cell needs to be strengthened and made more effective.

# IX. Transfer of funds to Local Bodies and State of Decentralization

## Introduction

**9.1** Pursuant to the 73rd and 74th amendment to the Constitution, the Govt. of Madhya Pradesh, of which Chhattisgarh was a part, amended their Panchayat Act and Municipal laws and took steps to transfer funds, function, and functionaries to these institutions to enable them to function as units of local Govt. A three-tier Panchayati Raj system was put in place under the statute and all the power and functions in respect of subjects in the 11th Schedule to the Constitution were devolved on them. Similarly, the Municipal Acts were amended and the power in respects of subjects in the 12th Schedule were conferred on them. The State Govt. also passed necessary legislation to set up the State Finance Commission (SFC) to recommend devolution of financial resources of the State on the local bodies. The new State of Chhattisgarh adopted the Panchayat Act of 1993, the Municipal Corporation Act and Municipal Act and also the State Finance Commission Act of 1994, of M.P as it inherited the local bodies.

**Local Bodies in the State**

**9.2** Chhattisgarh is a predominantly rural State with 79% of its population living in villages. As much as 34% of those are members of schedule tribes. There are 9,734 village Panchayats, 146 Block level and 18 Zila Panchayats in the State. Out of the 146 Blocks, as many as 85 (58.22%) are in Schedule V areas. Of the total Panchayats, 4,506 (46.29%) are in schedule areas. The provisions of Panchayats (Extension to Schedule Areas) Act, 1996, (PESA) are applicable to these Panchayat. The average population of a Panchayat is only 2000; in the tribal areas it is still less. Elections to the Panchayats in the new State have been held twice, in the year 2005 and 2010, under the superintendence of the State Election Commission. In 2010 elections, a total of 1,58,628 non-official functionaries were elected to the Panchayats, of which members of schedule tribes constituted 42% and women 50%.

So far as Urban Local Bodies (ULBs) are concerned, there are a total of 169 ULBs, of which 10 are Municipal Corporations, 32 Municipal councils, and 127 Nagar Panchayats. The last category are large villages and in a transitional phase of urbanization. The average population of a Nagar Panchayat is about 10,000. The ULBs have elected bodies in the State.

**9.3** In a relatively poor State, where 32% of the population belong to schedule tribes, the potential of the local bodies, particularly the rural local bodies, for raising internal resources is limited. The Panchayat Act of the State empowers the GPs to impose both obligatory and optional levies, both tax and non-tax. From the sample studies conducted by the second State Finance Commission (SFC) (2012-17) it has come to the finding that the annual average own revneues of a GP is as low as Rs. 24,000; in predominantly tribal districts the internal resources are practically nil. During the five year period 2006-11, in a year, on an average, their own revenues did not constitute more than 2.25% of their total receipts. The GPs largely depend on their share in Govt's revenue and State grants to discharge a whole host of functions assigned to them.

**9.3.1** The ULBs have a different set of problems in raising their own resources. Although like in other States, property tax is the main source of revenue of ULBs and constitutes as much as 25 to 30% of their revenues from their won sources, very little reform in the structure and procedure of this tax has been undertaken so far. Besides, the ULBs in the State have serious capacity limitations and problems of governance. The average annual income of a Municipal Corporation in the State during the five year period 2006-11 was Rs. 523 crore which constituted 22% of their total receipts. Similarly, in case of Municipal Committees, the annual average income was Rs. 204 crore and constituted 20% of their total receipts. The ULBs also therefore, largely depend on the transfer of funds from the State Govt. to meet their requirements.

## Sources of Funds of Local Bodies

**9.4** The main sources of funds of the PRIs as also the ULBs are the share of the State's own-tax revenue, and grants as recommended by the State Finance Commission (SFC), grants-in-aid as recommended by the Central Finance Commission and grants under the Central and State Govt. schemes. The State taxes, the proceeds of which are assigned to the local bodies (assigned revenue), in respect of PRIs are land revenue, royalty on minor minerals and additional stamp duty and entertainment tax (a total of about Rs. 65 to 70 crore every year) and in respect of ULBs are proceeds of entry tax (about Rs. 600 crore per year), passenger tax, entertainment tax, surcharge on stamp duty (about Rs. 35 crore per year). As to devolution by SFC, the second SFC which submitted its report in March 2013 has recommended devolution of 8% of the State's own tax revenue to the local bodies, 6.15% to PRIs and 1.85% to the ULBs, on the basis of population. The 8% share in the net State's own tax revenue (SOTR) came to Rs. 5,793.50 crore for the award period 2012-13 to 2016-17 and the shares of the PRIs and the ULBs came to Rs. 4,453.75 crore and Rs. 1,339.75 crore, respectively. The second SFC has also recommended some grants-in-aid. The State Govt. has accepted the recommendations in respect of financial devolution and has made necessary provision for transfer of funds through the budget for the years 2012-13 and 2013-14. In this study, however, we are taking into account the recommendations of the first SFC (2007-12) only.

## Transfer of funds by the State Govt.

**9.5** The State Govt. transferred Rs. 2,109.36 crore to PRIs and Rs. 3,493.58 crore to ULBs during the period 2007-08 to 2011-12 as against Rs. 1620.16 crore and Rs. 405.04 crore recommended by the first SFC. The table below gives the various grants provided to PRIs and ULBs and other transfer of funds to them by the State Govt, during the five year period:

**Table 9.1**
**Transfer to PRIs and ULBs**

(Rs. in crore)

| PRIs | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Total |
|---|---|---|---|---|---|---|
| Basic grants / State Schemes | 216.24 | 236.50 | 223.13 | 270.00 | 330.00 | 1275.87 |
| Transfer to PRIs (other expenditure) | 47.39 | 66.96 | 84.00 | 107.45 | 129.17 | 434.97 |
| Grants to PRIs including assigned revenues | 62.16 | 60.77 | 64.55 | 74.32 | 136.72 | 398.52 |
| **Total** | **325.79** | **364.23** | **371.68** | **451.77** | **595.89** | **2109.36** |
| **ULBs** | | | | | | |
| Transfers of ULBs including State Schemes | 48.93 | 207.61 | 54.22 | 142.05 | 195.40 | 648.21 |
| Grants to ULBs including assigned revenue | 521.73 | 498.45 | 444.00 | 686.43 | 694.76 | 2845.37 |
| **Total** | **570.66** | **706.06** | **498.22** | **828.48** | **890.16** | **3493.58** |

The transfer of funds by the State Govt. to the PRIs and ULBs, during the five year period 2007-2012, constituted on an average not more than 4% and 6.5% respectively, of the States own revenue receipts and 2.1% and 3.6% respectively, of the total revenue of the State, as may be seen in the table below:

**Table 9.2**
**Transfer to PRIs/ULBs as percentage to State's Own Revenue/Total Revenue Receipts**

(Percentage)

| | 2007-08 | | 2008-09 | | 2009-10 | | 2010-11 | | 2011-12 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SOR | TRR | SOR | TRR | SOR | TRR | SOR | TRR | SOR | TRR |
| 1. Transfer to PRIs | 4.3 | 2.3 | 4.1 | 2.3 | 3.7 | 2.0 | 3.5 | 2.0 | 4.0 | 2.3 |
| 2. Transfer to ULBs | 7.5 | 4.1 | 8.0 | 4.5 | 4.9 | 2.7 | 6.5 | 3.6 | 6.0 | 3.4 |

SOR- State's own revenue TRR- Total Revenue Receipts

It would appear as if the State Govt. has transferred more funds to the local bodies than recommended by the first SFC. The second SFC in its report, has, however, raised doubts about the funds transferred to PRIs as per the first SFC's recommendation and has found a short fall of Rs. 344.29 crore in the devolution.*

Financial assistance to local bodies, as per the C&AG's report on State Finances for FY 2011, during the five year period 2007-12 was as under:

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| ULBs | 618.15 | 737.26 | 577.71 | 905.50 | 1,268.53 |
| PRIs | 955.14 | 1,299.47 | 1,520.71 | 1,835.92 | 2,811.71 |

It is however be noted that the above figures do not indicate assistance as such but all transfers to local bodies, including transfer of funds for implementation of various State Plan/Central Plan schemes and funds transferred by line Departments for carrying out the function/activities transferred by them to the local bodies. The above is thus an accounting exercise which is misleading and need to be rectified.

**Transfer of Funds to Local Bodies: Some observations**

**9.6.1** There is no system for timely transfer of assigned revenues to the local bodies. One of the main sources of income of ULBs is Entry Tax, which is in lieu of Octroi, which was abolished in 1976. The State Govt., however, does not transfer the total amount of Entry Tax recovered less collection charges. There is a per capita limit on transfer of this tax. Secondly, the amount is credited to a fund out of which the transfer is being made. Octroi was a Municipal tax and therefore proceeds of Entry Tax should be transferred without any restriction to the ULBs.

**9.6.2** With regard to transfer of funds to PRIs, firstly the State Govt. has clubbed all expenditure incurred on PRIs including expenditure incurred on Zila Panch Sammelan, honorarium to office bearers, salary to Panchayat secretaries and 'Panchayat related charges' (Rs. 234.28 crore) the details of which are not available, as amount transferred to PRIs. Secondly, instead of transfer of untied funds as per the recommendation of the first SFC, the State Govt. has chosen to release the funds partly though four State Plan Rural Development schemes. These four schemes claimed nearly 37% of the total devolution to PRIs. The four Plan schemes have wide and over lapping objectives and grants under these have been released to the Gram Panchayats largely at State

Govt's discretion and not on any rational basis or as per their requirement.

**9.6.3** As to ULBs, the State Govt. has transferred a total of Rs. 648.21 cr as against the first SFC's award of Rs. 405.04 cr. However, out of the above, basic services grant provided is only Rs. 205.69 cr i.e. less than 30% of the total transfer. The maximum amount (Rs. 340.91 cr) has been provided for urban infrastructure. No grant was provided under this head (Urban infrastructure) in the year 2007-08, the very next year (2008-09) the provision was Rs. 161 cr, while the next year (2009-10) the infrastructure grant was Rs. 7.50 cr. It would thus appear that these grants have been released on the basis of schemes/projects submitted by the ULBs, and selectively. The important principle of transfer of funds to local bodies that the transfer should be predictable so that they can plan their expenditure, has not been observed.

**9.6.4** The procedure adopted by the State Govt. for transfer of funds to ULBs was also not transparent. Firstly, the State Govt. has framed a set of rules namely, the Chhattisgarh Municipal Urban Govt. Development Rules, in 2003. Funds are provided to the ULBs, following the provisions of these Rules. The Rules provide for creation of C.G. Municipal Infrastructure Fund with two accounts under it, viz. a Devolution account and an Infrastructure account. Grants to be provided to ULBs, on the basis of the recommendations of the SFC, are required to be transferred to the Infrastructure account under the Rules. The Devolution account is mainly meant for transfer of the proceeds of Entry tax which is by way of compensation for abolition of octroi, which was a major source of income of Municipal bodies. The transfer of funds by the State Govt. however adequate, do not promote the process of decentralization and the functioning of local bodies as local self Govt. units, as envisaged under the Constitution.

**9.6.5** There is no clear nexus between the transfer of funds to local bodies and their requirements. The requirements of the PRIs have not been worked out on any normative basis by the SFC mainly because of lack of data. It has been worked out for the ULBs to some extent by the second SFC. As per the observation of the second SFC, there is a wide gap between the requirement of the local bodies and the transfer of funds.

**Initiatives by the State Govt. for decentralization and empowerment of local bodies**

**9.7** Chhattisgarh adopted the legislations relating to the local bodies, of Madhya Pradesh which closely followed the mandate of the 73rd and 74th amendment to the Constitution. However, C.G. has taken some initiatives for democratic decentralization. A detailed activity mapping and functional devolution plan in line with the XI and XII Schedule to the Constitution were issued by the State Govt. in 2006 and steps were taken for transfer of funds, functions and functionaries of the concerned Deptts. The 13th FC had recommended certain structural reforms, particularly for the ULBs. It also laid down certain reforms as conditionalities for availing special grants recommended by the Commission. The Central Govt. has also laid down certain conditionalities for availing funds under JNNURM by ULBs. The position in respect of these recommendations broadly indicate the level of decentralization in the State.

**9.8** So far as Panchayats are concerned, the State Govt. amended the Panchayat Act in 2008 to provide for (i) consecutive two election to Panchayats as 'rotation' for the officers of chair persons and members of Panchayats at different levels, belonging to SC, ST and OBC; and (ii) reservation for women for SC, ST and OBC seats was raised from one third to half. These two significant amendments were intended to empower the weaker sections of society.

**9.9** The $13^{th}$ FC, and before that the $12^{th}$ FC, had laid emphasis on maintenance of proper accounts by the local bodies and recommended strengthening of the Local Fund Audit Deptt. (LFD), by way of capacity building and personnel augmentation. Double entry system of accounting was made mandatory for local bodies. As a conditionality to availing performance grant, the audit system was sought to be strengthened by not only strengthening the Local Fund Audit Organization (LFA) but also providing for technical guidance and supervision (PG&S) by C&AG of audit of local bodies. A standard accounting system has been devised with the help of PRIA '(PRIA Soft)' for Panchayats. An official (Taxation & Audit Officer) has been appointed for a group of five and supervisory officers for a group of 25 Panchayats, for assisting them in the maintenance of proper accounts. Double entry book keeping has been made compulsory for the ULBs. Services of Charted Accountants are being availed for conversion of the accounts into double entry mode. However, the State has to go a long way before the accounts of the local bodies are in order. The worst position is that of audit. No effort has been made to strengthen the LFA organization which still has a severe capacity constraint.

**9.10** The 13th FC had recommended setting up of a State level property tax Board, with a view to ensure independent and transparent procedure for assessment of property tax, which is the most important source of income of ULBs. The State Govt. has passed a legislation for the creation of a Municipal Revenue Regulatory Commission, not only for property tax but also for other Municipal taxes. Although the Act was passed in the year 2011, no further action has been taken so far. The recommendation for appointment of Local Body Ombudsman has been complied with designating the Lok Ayukt to function as such.

**9.11.1** Raipur is the only town in the State Govt. which is covered under JNNURM. The JNNURM conditionalities require seven mandatory reforms to be carried out by the State and by the ULBs. There are also ten optional reforms of the State level. The mandatory reforms that city planning functions should be assigned to the ULBs has been complied through amendment of the relevant Municipal legislation. A new Rent Control Act has been passed by the legislature. Stamp duty has been rationalized and now stands at 5% with effect from 1.04.2012. The Urban Land Ceiling and Regulatory Act has been repealed. Necessary provision for community participation has been made in the Municipal laws. Necessary provision was introduced for services level information disclosure in the Municipal Acts in 2011. However, transfer of city planning function to ULBs is not complete and the disclosure provisions in the Municipal laws are not effectively implemented.

**9.11.2** The mandatory reforms for ULBs, a major reforms was e-governance. This has been implemented only in part. Several important modules which are meant for more effective service delivery to the citizens such as, building plan approval, tax assessment and payment and personnel and financial management etc, are yet to be achieved. While migration through accrual based double entry system in accounts has been introduced, this has been out-sourced to Charted Accountants. The Raipur Corporation is yet to build internal capacity to handle the new accounting system. Property tax reforms are yet to be fully achieved. Coverage of property tax is reported to have been improved substantially. But GIS survey work is under progress. Raipur Corporation claims to have achieved recovery of 100% of O&M costs of water supply, but cost recovery of solid waste management is yet to be fully implemented. Provision of basic services to urban poor and earmarking of funds for such services are yet to be achieved. For earmarking of funds necessary legislative provision has been made and a minimum of 20% allocation is earmarked for the urban poor, in the budget. With regard to the provision of basic services also necessary provisions have been made in the legislation. Full coverage is claimed in to have been achieved in respect of five of the seven basic services of the poor.

**9.11.3** Of the optional reforms, i.e. simplification for the procedure for diversion of land from agriculture to non-agriculture is reported to have been achieved. Administrative reforms by way of reduction in establishment of expenditure has been undertaken and the establishment expenses have been limited to within 65% of the total revenues. However, this has been done at the cost of a ban on fresh recruitment of staff at all levels. With the present limited manpower of ULBs, this will hinder addition to staff and is not welcome at this stage. Introduction of computerized process of registration of land and property is yet to begin. Only a pilot project has been taken up in one town. Similarly, public-private partnership in urban projects has not taken off, mainly because the ULBs have no constraint of funds, due to the munificence of the State Govt. But they lack capacity even to spend the grants received from the State Govt. The second SFC has emphasised the need for capacity development through structural reforms and training of the ULB personnel in the State.

**Conclusion:**

**9.12** The resources of the local bodies can be substantially augmented if the efficiency of collection of the taxes, the proceeds of which are transferred to them in full, is improved. An example is royalty on minor minerals, the collection of which is more or less stagnant for many years despite the large scale construction activities in the State. Instead of assisting the local bodies in raising their resources, the State Govt. provides enough funds tied to various State Plan and non-plan schemes to them. There is little effort to bolster up their overall capacity and capability through personnel development and training. There has been no major effort to ensure financial accountability, maintenance of accounts and there is no effective audit. The Local Fund Audit organization is in a limbo without any effort to strengthen it by way of personnel and finances.

**9.13** The overall position is that while there is no dearth of funds with local bodies in the State, they severely lack capacity. Capacity building and financial accountability are the two most important areas which the State Govt. need to focus on.

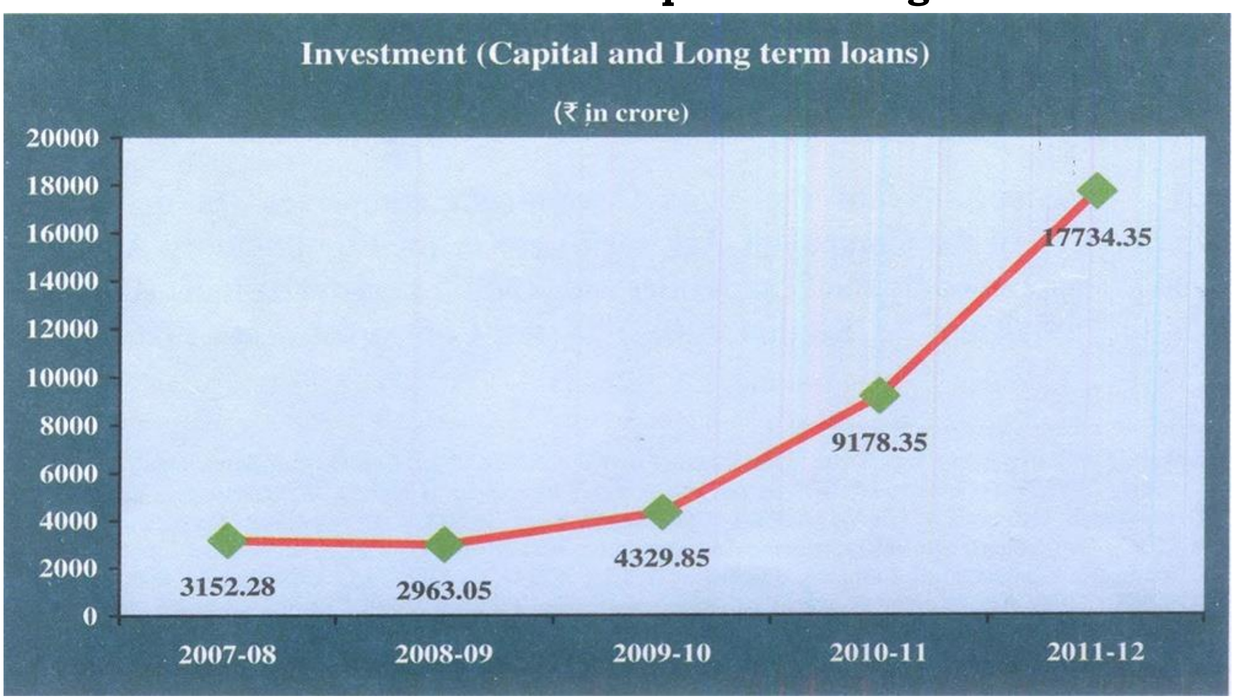
# X. State Public Enterprises: Impact on State Finances

**10.1** Unlike in many States public enterprises do not have any significanct presence in the Govt. of Chhattisgarh, except in the power sector. As on 31st March, 2012 there were 18 Govt. Companies, including two created during the year 2011-12, and one statutory Corporation. A list of the PSUs along with their share capital is at Annexure II. There are two companies in the agriculture and allied sector, one in finance and two in infrastructure sectors, four mining companies, five power companies and four companies in the service sector. Of the four mining companies, except for the Mineral Development Corporation, no other mining company has any turnover at present. Similarly, of the five power companies, one is state Power Holding Co. The State Electricity Board, which was the only other statutory Board has since been unbundled into the power companies. Of the State's PSUs there are only eight companies and one statutory Corporation which have an annual turnover of more than Rs. 50 crore and only seven companies which have a paid-up capital of Rs. 5 crore or more. Of the total paid-up capital of Rs. 9,157 crore, the five Power Companies account for Rs. 9,067.26 crore (99%). Active PSUs in the

State are not more than 12 in number. The PSUs are largely traditional and are those which the State inherited from Madhya Pradesh. The State did not set up a Road Transport Corporation or the State Finance Corporation, two important PSUs in other State.

**10.2** As on 31.03.2012, the total investment (capital and long term loans) in 19 PSUs was Rs. 17,734.35 of which capital was Rs. 9,158.70 crore (51.64%) and long-term loan Rs. 8,577.28 crore (48.36%). The investment in the PSUs has grown from Rs. 3,152 crore in 2007-08 to Rs. 17,734 crore in 2011-12 as shown in the graph below:

**Chart 10.1**
**State Investment in PSUs-Capital and long-term loan**




A sudden increase in investment by Rs. 8,556 crore in the year 2011-12 was mainly because of investment in the power sector by the State Govt., by way of equity of Rs. 4,455 crore (kept under suspense account in in 2010-11) and loan of Rs. 2,776 crore availed from PFC and REC. The present position of investment by the State Govt. in the power sector alone is nearly 98% (17,301 crore) of the total State Govt. investment in PSUs.

**10.3** The total turnover of the State PSUs has gone up from Rs. 4,500 crore in 2007-08 to Rs. 14,200 crore in 2011-12. The present turnover constitutes 10.48% of the GSDP. The working of the PSUs and their turnover and its share in GSDP during the period 2007-08 of 2011-12 were as given in the table below:

**Table 10.1**
**Turnover of PSUs and GSDP**

(Rs. in Crore)

| **Particulars** | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|
| Turnover* | 4,499.73 | 4,773.05 | 5,449.33 | 8,804.03 | 14,200.21 |
| State GSDP | 67,455.00 | 80,698.41 | 1,07,848.23 | 1,29717.54 | 1,35,536.34 |
| Percentage of turnover to GSDP | 6.66 | 5.91 | 5.05 | 6.79 | 10.48 |

* Turnover as per the latest finalized accounts as of 30 September, 2012
# The State GDP in respect of 2011-12 is advance estimate

Source: C&AG's report on PSUs for period ending 31.03.2012

The significant increase in the turnover during the year 2011-12 was mainly due to the increase in the turnover of the power companies.

## PSUs and their impact on State Govt. Finances

**10.4** The details of funds provided to the PSUs , by way of equity, loans, grants and subsidies and guarantees, during the last three years (2009-12) are given in the table below:

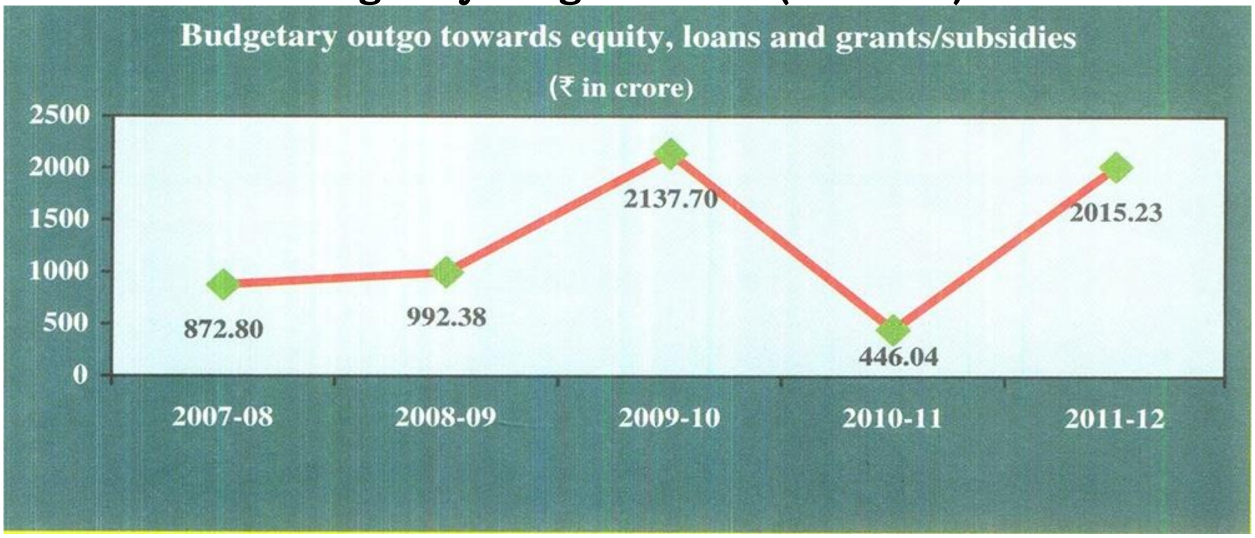
**Table 10.2**
**Govt. Funding of State PSUs**

| Sl. No | Particulars | 2009-10 | | 2010-11 | | 2011-12 | |
|---|---|---|---|---|---|---|---|
| | | No. of PSUs | Amount (Rs. in crore) | No. of PSUs | Amount (Rs. in crore) | No. of PSUs | Amount (Rs. in crore) |
| 1. | Equity Capital outgo from budget | - | - | - | - | 1 | 900 |
| 2. | Loans given from budget | 1 | 500.00 | 1 | 0.01 | 1 | 500.00 |
| 3. | Grants/Subsidy | 7 | 1637.70 | 7 | 446.03 | 7 | 1515.23 |
| 4. | Total outgo (1+2+3) | 7 * | 2137.70 | 7 | 446.04 | 8 | 2915.23 |
| 5. | Guarantees issued | 1 | 1.46 | 1 | 2.33 | 1 | 2.50 |
| 6. | Guarantee commitment | 2 | 376.53 | 2 | 345.61 | 2 | 302.84 |

* Actual number which received budgetary support

The details of budgetary outgo towards equity, loans and grant/subsidies for the past five years (2007-12) are given in the graph below:

**Chart 10.2**
**Budgetary outgo to PSUs (2007-12)**




**10.5** The budgetary outgo towards equity, loans and grants/subsidies increased from Rs. 872.80 crore (2007-08) to Rs. 2,137.70 crore (2009-10); the same were down to Rs. 446.04 crore (2010-11) and again increased to Rs. 2,015.23 crore (2011-12). The budgetary outgo of Rs. 2,015.23 crore during 2011-12 included support of Rs. 1,918.02 crore extended to two PSUs viz. Chhattisgarh State Power Distribution Company Limited and Chhattisgarh State Civil Supplies Corporation Limited by way of loans, subsidy and grants of Rs. 421.10 crore and Rs. 1,496 crore respectively.

**10.6** As already mentioned, the turnover of the PSUs of the State has gone up from Rs. 4,500 crore in the year 2007-08 to Rs. 14,200 crore in the year 2011-12. The key financial parameters pertaining the State PSUs have, as per their latest finalized account (not necessarily for the year under which shown in the table) are given in the table below:

**Table 10.3**
**Performance of PSUs**

| Particulars | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|
| Return on Capital Employed (per cent) | 22.76 | 14.38 | 12.09 | 5.10 | 5.59 |
| Debt (Rs. in crore) | 3108.27 | 2861.68 | 4249.60 | 5258.06 | 8576.28 |
| Turnover* (Rs. in crore) | 4493.73 | 4773.05 | 5449.33 | 8804.03 | 14200.21 |
| Debt/Turnover Ratio | 0.69:1 | 0.60:1 | 0.78:1 | 0.60:1 | 0.60:1 |
| Interest Payments (Rs. in crore) | 216.20 | 180.99 | 213.31 | 353.87 | 618.38 |
| Accumulated Profits (Rs. in crore) | 728.52 | 836.89 | 1808.06 | 2052.21 | 2002.78 |

* Turnover of working PSUs as per the latest finalized accounts as of 30 September, 2012
Source: Report of the C&AG on PSUs for the period ending 31st March, 2012

The return on the capital employed in the PSUs has gone down from 22.76% in the year 2007-08 to 5.59% in the year 2011-12, indicating deteriation in the operations of the PSUs. However, there is no increase in the debt-turnover ratio. Their accumulated profits had also gone up to about Rs. 2002 crore. The financial results indicate that the PSUs can atleast absorb their debt burden.

**10.7** The two companies which are the major beneficiaries of the State Govt. support, by way of subsidy/grant, are the Power Distribution Company and the Civil Supplies Corporation. The subsidy to the Power Distribution Co. is towards supply of free electricity to BPL families and to agriculture. The Civil Supplies Corporation receives subsidies towards food security measures. The subsidy provided to this Corporation during the year 2010-11 was Rs. 867 crore. In the year 2011-12, the State Govt. has given to this Corporation a loan of Rs. 5 crore and a grant of Rs. 997 crore. The State Govt. has enacted a Food Security Act under which subsidized food grain and pulses are provided to as many as 55 lakh card holders. As we have said in Chapter V on subsidies the food subsidies are likely to rise.

**10.8** The aggregate profit earned by the PSUs in the last five years (2007-12) are as under:

(Rs. in Crore)

| | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|
| Aggregated profit earned | 306.53 (10) | 177.16 (16) | 475.57 (17) | 315.59 (18) | 309.44 (20) |

Figures within parenthesis show the number of working PSUs in the respective years whose accounts have been finalized.

In 2011-12, 11 PSUs earned a profit of Rs. 922.12 crore and six PSUs incurred a loss of Rs. 612.68 crore. These figures, however, do not present a clear picture because the main contributor to the profit was the State Electricity Board, (Rs. 754.13 crore) and this profit pertains to the year 2007-08, the accounts of which was finalized in the year 2011-12. The same year (2011-12) the Power Distribution Company incurred a loss of Rs. 581.34 crore and that was in respect of the year 2009-10.

**10.8** The State Govt. has also extended guarantees to various PSUs to facilitate their availing loans from financial institutions. The guarantee outstanding at the end of FY (2009-12) is Rs. 302.84 crore which is not a very significant amount. No guarantee has been invoked so far.

**10.9** The following significant aspects of the operation of PSUs in the State as brought out by the C&AG in their report on PSUs of the State for the year ended on 31st March, 2012 which may be noted:

(1) While the PSUs may have accumulated a profit of Rs. 2000 crore, as per C&AG's audit report, the controllable losses during the last three years (2009-12) were to the tune of more than Rs. 4,475 crore. These losses are based on test checks as accounts of the PSUs were not finalized. The actual losses may be more when accounts are finalized.

(2) There is no system of regular maintenance, and finalization, of accounts in the PSUs. The accounts of the companies are required to be finalized within six months of the end of FY. The number of accounts of PSUs in arrears stood at 41 in 2011-12, in respect of 15 PSUs. The State Govt. had invested Rs. 3,253 core including a loan of Rs. 512 crore and the remaining was provided by way of grants and subsidies to eight PSUs, the accounts of which have not been finalized so far. The largest investment was in Power Distribution Co. and the States Civil Supplies Corporation. In the absence of final accounts and their audit, the status of utilization of funds provided by the State Govt. is not very clear. Secondly, the Govt.'s investment to that extent has remained outside the scrutiny of the State legislature.

(3) The accounts of the PSUs and the Finance Accounts of the State Govt. do not tally. There is a huge difference of nearly Rs. 3,413 crore in the total share capital invested by the State Govt., as per the Finance Accounts and the amount as per the

records of the PSUs. Similarly there is a difference in the loan amount of Rs. 94 crore. These differences pertain to eight PSUs and some of the differences are pending reconciliation since 2004-05.

(4) The State Govt. has not formulated any dividend policy to ensure a minimum return on the share capital it has invested. Of the eleven PSUs, whose accounts were finalized in the year 2011-12 and who earned a profit of Rs. 922 crore, only two PSUs declared a dividend of Rs. 2.43 crore only.

(5) None of the PSUs pay any guarantee fee for Govt. guarantees.

(6) There is no monitoring of the working of the PSUs at the State Govt. level and there is no periodic review of their performance by the Finance Deptt.

**10.10** The State Govt. has to take very serious steps if the PSUs are to play any significant role in the economy of the State. Almost near total lack of financial management, planning and implementation of projects, lack of professionalism in their management and lack of monitoring of performance are responsible for the present state of the PSUs.

We have discussed the power PSUs separately.

## XI. Impact of Power Sector Reforms on State Finances

**11.1** The reforms in the power sector as envisaged in the Electricity Act, 2003, need not necessarily impact on the finances of the State. The most crucial reform was corporatization of the three segments of the electricity industry namely, Generation, Transmission and Distribution, with a view to more efficient management of the sector. That per se need not entail a financial burden on the State Govt. As we will see it is mismanagement and the policy of the State Govt., reminiscent of Electricity Board days, which have resulted in a burden on its finances,

**11.2** The Govt. of Chhattisgarh in pursuance of the Electricity Act unbundled the Chhattisgarh State Electricity Board (CSEB) into three companies, Generation (Genco), Transmission (Transco) and Distribution (Discom) companies in 2005. Before the three companies became functional with effect from 01.01.2009, a separate Holding company was also created. The State Govt. chose to invest in the share capital of the Holding Co. which, in turn, invest in the share capital of the three companies. The Holding Co.

did not do any business; some matters relating to personnel of all the companies and some residuary matters were entrusted to it.

**11.3** The State had inherited a robrust electricity industry in that the CSEB was self-sufficient in electricity and there was little requirement for purchase of power from outside. However, crucial reforms were required to be undertaken in the distribution function. The State Govt. does not seem to have taken care of the natural advantages it had in this sector and a profit making industry has become a financial burden on the Govt. The unbundling process itself had been half-hearted and is not complete even today with the Holding Company still in place.

**11.4** The financial burden on the State has come in respect of the following:

- Need for infusion of share capital in the new companies.
- Weak finances of the Discom and the need for the State Govt.for hand-holding.
- The increasing burden of the electricity subsidies which is a direct result of the policy of the State Govt.

**11.5** Equity investment by the State Govt. in the Power Companies as on 31.03.2012 was as under:

**Table 11.1**
**Equity Investment of State Govt. in State Power Companies as on 31.03.2012**

(Rs in crore)

| | Particulars | Govt investment in Holding Coy | Investment by Holding coy in subsidiary | | |
|---|---|---|---|---|---|
| **A** | **Equity investment by Govt.** | | **Genco** | **Transco** | **Discom** |
| **(i)** | **through opening balance as on 1.1.09** | | | | |
| | direct | 715.58 | | | |
| | for inv in subsidiary | 3762.10 | 1193.68 | 655.11 | 1913.26 |
| | sub Total | 4477.68 | 1193.68 | 655.11 | 1913.26 |
| **(ii)** | **Equity investment in FY 11-12 by state Govt.** | **900.00** | **600.00** | **150.00** | **150.00** |
| **(iii)** | **Equity investment by state Govt. during transition period (1.1.09 to 31.03.10)** | **654.12** | | | |
| **B** | **Equity investment by Holding directly** | | | | |
| (i) | conversion of IDBI bond settlement into equity | | 18.00 | 5.61 | 13.05 |
| | **TOTAL EQUITY CAPITAL (A+B)** | **6031.80** | **1811.68** | **810.72** | **2076.31** |
| | **share allotted** | **4300.05** | **1168.05** | **605.66** | **1863.10** |
| | **pending allotment** | | | | |
| | equity FY 11-12 | 900.00 | 600.00 | 150.00 | 150.00 |
| | Transition period | 654.13 | | | |
| | Kept for op bal adj | 177.63 | 43.63 | 55.06 | 63021.00 |
| | **sub total** | **1731.76** | **643.63** | **205.06** | **213.21** |
| | **TOTAL EQUITY CAPITAL** | **6031.81** | **1811.68** | **810.72** | **2076.31** |

As may be seen from the table above, the initial investment was made in the Holding which, in turn, invested the same amount in the three subsidiary companies (with minor investment in the Power Trading Coy of Rs. 5 lakhs). The State Govt. investment by the way of share capital in Genco was Rs. 1,811.68 crore, in the Discom Rs. 2,076.31 crore and in Tranco Rs. 810.72 crore. There is a minor difference between these figure, which have been obtained from the Power Holding Coy and figures in the C&AG's report on PSUs. However, in the total capital investment in the PSUs in the State, the C&AG has taken into account State Govt's. investment in the Holding Coy, and also same amount as investment in the three Power Companies. This would be a case of double accounting. If we take into account the State Govt. loan of Rs. 367.11 crore outstanding against the Power Companies, the total investment of the Govt. in the Power Companies as on 31.03.2012 amounts of Rs. 6,399 crore (Rs. 6,031.81 crore + Rs. 367.19 crore). The State Govt. has further invested Rs. 704 crore in the year 2012-13 for the investment in share capital of Genco (Rs. 554 crore) and Discom (Rs. 254 crore).

**11.6** The position of the erstwhile CSEB, at the time of unbundling, was as follows:

<u>Financial position of CSEB as on 31.12.2008</u>

| | | Rs in crore |
|---|---|---|
| 1. | Share Capital | Rs. 2,312 |
| 2. | Long term loans | Rs. 821 |
| 3. | Turn over (for 9 months) | Rs. 4,159 |
| 4. | Financial result (Net profit) | Rs. 752 |

The net surplus of CSEB in the previous year (2007-08) was Rs. 464.37 crore. The surplus with CSEB was apparently treated as share capital and there was no investment by the State Govt. in the capital of CSEB as such. As against that, the financial result of the three power companies in the three years 2009-12, was as under:

**Table 11.2**
**Financial results (Profit/Loss) of power companies**

Rs. in crore

| | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|
| 1. Genco | 102.50 | -360.73 | 15.61 |
| 2. Transco | 24.99 | -15.73 | 101.38 |
| 3. Discom | -350.86 | -581.34 | -2,012.27 |

It may be seen from the table above that in the year 2009-10 only the Discom incurred a loss of Rs. 351 core, the other two companies were in surplus; but all the three were in losses in the year 2010-11. In 2011-12 the Discom incurred a huge loss of Rs. 2,012 crore over a turnover of Rs. 4,810 crore; the Genco. had a marginal surplus; and the Transco had a surplus of Rs. 101.38 cr. A sudden increase in the losses of Discom is because of an accumulated pension liability of Rs. 1,347 crore. The actual losses were therefore Rs. 665 crore. In a regulated regime in which tariffs are determined by an independent Regulatory Commission, on cost plus basis, these losses' could only be an account of higher 'line losses and mismanagement. The losses of the Discom are mainly on account of the line losses which continue to be as high as 29 to 30 percent; an unfavourable HT-LT consumer ratio in terms of revenue; and a lack of a fool proof system for billing and recovery of dues. The power companies particularly the Discom is yet to professionalize its financial management.

**11.7** The State Govt. has taken a policy decision to subsidize in full electricity consumption by BPL families to the extent of 40 units per month, the consumption beyond which attracts domestic tariff at current rate. Similarly, for the use of electricity pumps for irrigation, the exemption limits are 6000 units per annum for 3 hp and 7,500 per annum for 5 hp pumps. As per the provision of the Electricity Act the State Govt. is required to reimburse the losses in tariff to Discom. The State Govt. has reimbursed to the Discom Rs. 1,050 crore in 2009-10, Rs. 202 crore in 2010-11 and Rs. 311 crore in the year 2011-12 as subsidy towards electricity consumption by BPL consumers and consumption in agriculture.

**11.8** The number of BPL consumers is growing and stands at 13 lakhs today. Even if meters have been installed for each consumer, meter reading every month of each consumer is a big task and involves substantial expenditure. Therefore subsidy is generally claimed for all BPL consumers for consumption of 40 units per month. Very few BPL consumers are billed on actual consumption and the difference between the actual consumption and 40 units is not recovered. This is one of the reasons for the commmercial losses of the Discom. Similarly, meter reading and billing of agriculture consumers is also not fool-proof. Both these subsidies, as we have already mentioned, are not well targeted and entail not only a financial burden on the State Govt. but also is a source of losses to the Discom. The subsidy burden is on the increase every year as may be seen from the figures of the last three years. Apart from that, because of the practical difficulties in their implementation and the resultant losses to the Discom increase in the financial burden on the State Govt. is inevitable.

**11.9** The financial burden on the State Govt. on account of power sector reforms has not been much so far. But unless the crucial reforms in the distribution sector are carried out such as, reducing line losses and, cent percent meterization and billing, the losses of Discom will keep on increasing, resulting in a heavy financial burden on the State Govt. Secondly, the State Govt. has to rationalize subsidized supply of electricity to BPL consumers and agriculture, both in the interest of its own finances and in the interest of the power companies.

# XII. Public Expenditure and Financial Management (PEFM) Reform in the State

**12.1** Public expenditure and financial management reforms are the institutional and budgetary reforms which were first implemented by the developed countries in 1980s and thereafter. These reforms are now being prescribed in developing counties, particularly for aid-receiving countries, by the IMF and World Bank. The European Union also expects their partner States to do likewise. The objectives of the institutional reforms are greater accountability in budgetary management and greater transparency and increased access to budget information and process. In the budgetary field the focus is on performance budgeting, medium-term fiscal framework, accrual accounting, disclosure of fiscal risks, strengthening and external audit agencies, and promotion of public accountability etc. These concepts are not new to our country. The process of management of public funds, preparation of budget and its management are well settled under Constitutional mandate. We also have a robrust audit system. The core objectives of the PFM reforms, namely; protecting public funds, budgeting in transparent manner, ensuring that public funds are spent as per the approved budget and monitoring results of expenditure and social accounting etc are being achieved through settled budgetary processes and the accountability of the executive Govt. to the legislature in financial matters.

**12.2** Chhattisgarh is a partner State of the European Commission and a State partnership programme in primary education and primary health is being implemented in the State. It is in that context that a study was made of the Public Financial Management system in the State in November 2010. The State has taken a number of initiatives for reform as suggested in the study report and otherwise. Some of the significant reforms are discussed here.

**Transparency and Accountability in Financial Management**

**12.3** The FRBM Act which was enacted in 2005 and amended in 2011, as per the recommendations of the Twelfth and Thirteenth Finance Commissions, embody the concepts of a medium term fiscal framework, greater transparency in financial management and greater accountability. The financial disclosures which are made before the legislature under the various provisions of this Act are elaborate and give a complete overview of the fiscal position of the State, medium-term fiscal policy of the Govt. and the work plan to attain the policy targets. The disclosure document formats which are presented every year before the State legislature at the time of presentation of the budget are prescribed in the rules framed under the FRBM Act. In these documents, a macro-economic frame work statement, a medium term fiscal policy statement; and the fiscal policy strategy statement are presented, as required under the provisions of the Act. A number of other disclosures are prescribed under the rules which include selected fiscal indicators; total fiscal liability of the State Govt; guarantees given by the State and the risks associated with them; a statement of assets of the Govt.; revenues due but not recovered during the year; statement of ways and means and over draft taken from RBI etc.

**12.4** Apart from the above, as per the provisions of the FRBM Act, 2011, a quarterly review of the receipts and expenditure is done by the Finance Deptt. and the report is also tabled on the floor of the State legislature. As mandated under this Act, annual targets have been fixed with regard to revenue deficit, fiscal deficit, debt-GSDP ratio and incremental liabilities to GSDP ratio for a period of five years. The status of implementation of the Act has been discussed in Chapter VIII.

**Cash Management**

**12.5** The State Govt. has taken steps not only to ensure timely release of funds, including Central funds available under various schemes, but has also made appropriate financial delegations to the administrative Departments. Detailed instructions have been issued to all the Departments for submission of time bound work plan, giving details of expenditure planning in the year. Detailed instructions have been issued by the Finance Deptt. recently, institutionalizing Cash Management system with a view to ensure spread of expenditure throughout the year and avoiding rush of expenditure in the last months of the financial year. Some of the important measures taken, as part of cash management system, are the following:

i) Departments have been asked to prepare a quarterly expenditure plan and review expenditure every quarter.

ii) Indicative schedule of expenditure for the two half years have been furnished to all Govt. Deptts. by the Finance Deptt., starting current year.

iii) Departments have access to only 45% of the budget allocation during the first six months of the FY. The limit for works Dept. is 35%. These limit can be increased only with concurrence of FD.

iv) Expenditure during the month of March is restricted to 20% of the allocation, with a view to avoid rush of expenditure during the last month of the fiscal.

v) In case of Central schemes, the funds for which are routed through the budget, 40% of the budget allocation may be released to the Deptt. in anticipation of release of first instalment by the GOI.

vi) With implementation of e-works, the Letter of Credit arrangement for Works Deptt. and Forest Deptt. have been withdrawn from the current year.

vii) All State Govt. payments, including vendor payments above Rs. 10,000 are made through electronic mode since 2012. Similarly, e-challan has been provided to enable Govt. receipts through the electronic mode.

viii) Benefit transfer in respect of all Central and State Govt. beneficiary-oriented schemes have bank accounts, and the bank provides for fund transfer through electronic mode.

The Finance Deptt. reviews the implementation of these instructions from time to time.

**12.6** A proposal for putting in place an appropriate Public Expenditure Tracking System (APET) is under consideration of the Finance Deptt. Similarly, the State Govt. is also taking steps to implement the Central Plan Scheme Monitoring System (CPSMS) as suggested by Ministry of Finance, Govt. of India, initially for Central flagship schemes. The State Govt. is also developing a comprehensive Monitoring and Evaluation System (MES) for the State Plan schemes with technical assistance from the World Bank.

**Treasury System Reforms**

**12.7** The State Govt. achieved in 2012 end-to-end computerization of its treasury operations of Govt. receipts and payment are now being made through the electronic mode only. The treasury system is proposed to be integrated with CPSMS in due course.

**12.8** The State Govt. has introduced an Integrity Pact in all procurements by the State Govt. and its entities. Detailed instructions have been issued in this regard in July this year.

**12.9** The Finance Deptt. of the State Govt. issues circulars and guidelines from time to time on various matters relating to the finances of the State, which are available on website of the Finance Deptt.

## XIII. Conclusion: Overview of State Finances

**13.1** Chhattisgarh has had overall a stable fiscal regime ever since its creation in 2000. Its economy has grown at a higher rate than comparable States and more than Jharkhand which was created at the same time. The size of its finances, as mentioned earlier, has grown Rs. 6,000 crore in 2001-02 to Rs. 45,000 crore in 2012-13. The State has managed its finances with prudence and has taken necessary policy initiatives for institutional reforms in the fiscal sector. VAT was introduced in April 2006; Fiscal Responsibility legislation (FRBM Act) was passed in Sept, 2005 and amended in 2011; the New Pension scheme was introduced in November 2007; a ceiling on guarantees given by the State Govt. has been imposed; and a Consolidated Sinking Fund has been created. But for the creation of a Guarantee Redemption Fund (GRF), which the State Govt. has considered unnecessary, because of the small size of the Govt. guarantees, all the other fiscal reform measures recommended by successive Finance Commissions have been implemented. The State Govt. is also pursuing the medium term fiscal consolidation as recommended by the 13$^{th}$ FC. In fact, as we have seen, the various targets recommended by the 13th FC for fiscal consolidation have been exceeded in the State.

**13.2** However, there are certain incipient threats to fiscal sustainability of the State which should be taken note of. The fiscal position of the State has declined recently in terms of key parameters in the year 2011-12. The revenue surplus and the primary surplus decreased over the previous year and the fiscal surplus turned into fiscal deficit. Although the State's revenue receipts were robrust and the States own-tax revenue was higher than the normative assessment made by the 13th FC, there is good scope for increase in tax productivity. The State's non-tax revenue, particularly from mining, can go up with more effective monitoring. The revenue expenditure has continued to be dominant part (80%) of the total expenditure. The non-plan revenue expenditure is on the rise and subsidies are also growing. The expenditure on salaries and wages, pension, interest payment and subsidies constituted 85% of the NPRE during the year 2011-12. The capital expenditure has been less than the projections made in the FRBM Act. We have commented on the poor return on investment in the State PSUs. A comprehensive review of the PSUs and their financial management is required if the State Govt. expects a reasonable return on its investment.

**13.3** An unhealthy trend in recent years of extra budgetary expenditure by the State Govt. needs specific mention. The State Govt. has created four Regional Development Authorities, namely, Bastar Vikas Pradhikaran, Sarguja/Jashpur Vikas Pradhikaran, Gramin Kshetra Vikas Pradhikaran, and Anusuchi Jati Vikas Pradhikaran for whom lump sum budgetary provisions are made as grants and placed at disposal of these authorities. The Authorities of which the Chief Minister of the State is Chairman and Ministers MLAs, Zila Panchayat Chairmen etc are members, are free to sanction grants for local development. Initially the idea was to have such special dispensation for tribal areas because of their special problems and to sanction small development works which are not covered under any of the schemes, State or Central. But now the whole State, tribal and other areas, are covered by these Authorities and the funds at their disposal are being used by the four Authorities to finance all small development works whether covered under any schemes/programme of the State/Central Govt. or not, as an additionality in many cases. The grants provided to these authorities initially was Rs. 5 crore per annum which has now gone up to Rs. 35.5 crore per annum for the first three and Rs. 50 crore for the Gramin Kshetra Vikas Pradhikaran. Thus more than Rs. 150 crore are taken out of the budget every year as grant and spent on local development works which are primarily within the competence of the local bodies. This system of expenditure for local development works militates against the spirit of democratic decentralization and the 73rd and 74th amendment to the Constitution. This also militates against accountability in financial management to the legislature.

**13.4** Chhattisgarh is the worst affected by left-wing extremism. Forestry, and more importantly, mining activities in the Naxal-affected areas, are increasingly adversely affected. There is an increase in security related expenditure. The impact of the Naxal problem on the economy and the finances has not so far been assessed and appear to be marginal, but is growing. The State Govt. has to factor this into the growth prospects and financial management of the State.

**13.5** The main fiscal indicators of the State as given in the FRBM disclosures placed before the State Legislature during the last five year 2007-12 were as given in Table 13.1. The indicators confirm the overall assessment.

**Table 13.1**

**Important Fiscal Indicators- 2007-08 to 2011-12 (In %)**

| | **Fiscal Indictors** | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|---|
| 1 | GFD/GSDP | -0.19 | 1.08 | 1.60 | -0.35 | 0.57 |
| 2 | RD/GFD | -2374.80 | -182.05 | -50.49 | 820.94* | -404.32 |
| 3 | RD/GSDP | -4.47 | -1.96 | -0.81 | -2.86 | -2.32 |
| 4 | RD/TRR | -21.90 | -11.93 | -4.89 | -14.81 | -12.52 |
| 5 | Total Liabilities/GSDP | 21.33 | 15.52 | 14.51 | 14.20 | 12.94 |
| 6 | Total Liabilities/TRR | 104.56 | 94.35 | 87.77 | 73.49 | 69.78 |
| 7 | Total Liabilities/SOR | 189.98 | 168.00 | 156.72 | 130.03 | 122.21 |
| 8 | RE/SOR | 70.47 | 63.77 | 58.88 | 66.34 | 65.28 |
| 9 | Capex./GFD | (-)2804.61 | 333.06 | 206.46 | (-)855.91 | 663.33 |
| 10 | IP/TRR | 8.22 | 6.88 | 6.03 | 5.27 | 4.61 |
| 11 | Salary/TRR | 15.81 | 16.91 | 19.08 | 18.69 | 18.67 |
| 12 | Pension/TRR | 4.76 | 5.94 | 6.80 | 7.97 | 7.26 |
| 13 | NDE/TE | 21.00 | 20.89 | 20.80 | 22.94 | 21.31 |
| 14 | Central Transfer/TE | 43.12 | 39.86 | 38.20 | 43.19 | 39.69 |
| 15 | NTR/TRR | 30.45 | 30.72 | 36.63 | 36.48 | 34.15 |

Note : (-) indicates there was no deficit

Cap. Exp. Includes plan capital expenditure and plan loans and advances

* There was no fiscal or revene deficit this year

| | |
|---|---|
| GFD- Gross Fiscal Deficit | RE- Revenue Reciepts |
| RD- Revenue Deficit | SOR- State's Own Revenue |
| TRR- Total Revenue Receipts | Capex- Capital Expenditure |
| IP- Interest Payment | NDE- Non-Development Expenditure |
| TE- Total Expenditure | |

There are marginal difference between these figures and figures given in the RBI's study of Budgets. These are based on Finance Accounts of the relevant years.

# Annexure - 1
## Time series data of State Government finances, 2002 - 12

(Rs. in crore)

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 (RE) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Part-A-Receipts** | | | | | | | | | | | |
| **1. Revenue Receipts** | **5417** | **5959** | **7249** | **8838** | **11453** | **13879** | **15663** | **18154** | **22720** | **25867** | **32326** |
| **(i) Tax Revenue** | **2327** | **2588** | **3228** | **4052** | **5045** | **5618** | **6594** | **7123** | **9005** | **10712** | **13161** |
| Taxes on Agricultural Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Taxes on Sales, Trade etc. | 1102 | 1299 | 1674 | 2089 | 2843 | 3024 | 3611 | 3712 | 4841 | 6006 | 7310 |
| State Excise | 362 | 402 | 458 | 634 | 707 | 843 | 964 | 1188 | 1506 | 1597 | 2200 |
| Taxes on Vehicles | 158 | 167 | 192 | 206 | 253 | 277 | 314 | 352 | 428 | 502 | 606 |
| Stamps and Registration Fees | 148 | 171 | 248 | 313 | 390 | 463 | 496 | 583 | 786 | 846 | 950 |
| Land Revenue | 12 | 4 | 29 | 26 | 61 | 88 | 359 | 160 | 247 | 271 | 346 |
| Taxes on Goods and Passengers | 252 | 230 | 287 | 395 | 302 | 511 | 421 | 696 | 675 | 826 | 1192 |
| Other Taxes | 293 | 315 | 340 | 389 | 490 | 412 | 429 | 433 | 522 | 664 | 557 |
| **(ii) Non Tax Revenue** | **957** | **1124** | **1244** | **1230** | **1451** | **2021** | **2202** | **3043** | **3836** | **4058** | **4848** |
| **(iii) State's share in Union taxes and duties** | **1350** | **1570** | **1876** | **2508** | **3199** | **4035** | **4258** | **4381** | **5425** | **6320** | **7473** |
| **(iv) Grants in aid from GOI** | **783** | **677** | **901** | **1059** | **1757** | **2205** | **2609** | **3607** | **4454** | **4776** | **6845** |
| **2. Mise. Capital Receipts** | **0** | **0** | **0** | **0** | **0** | **27** | **2** | **2** | **2** | **4** | **0** |
| **3. Recoveries of Loans and Advances** | **19** | **11** | **15** | **18** | **355** | **437** | **533** | **992** | **561** | **1285** | **1577** |
| **3 (a). Inter State Settlement** | _ | _ | _ | _ | **2** | **2** | **1** | **3** | **3** | _ | _ |
| **4. Total revenue and Non Debt capital Receipts (1+2+3)** | **5436** | **5970** | **7264** | **8856** | **11810** | **14345** | **16199** | **19151** | **23286** | **27156** | **33903** |
| **5. Public Debt Receipts** | **1613** | **2432** | **1910** | **1234** | **937** | **262** | **386** | **1287** | **795** | **421** | **3758** |
| Internal Debt (Excluding Ways & Means Advances & Overdrafts | 1179 | 1978 | 1481 | 1178 | 882 | 142 | 181 | 1064 | 592 | 364 | 3727 |
| Net transactions under ways and means advances and overdraft | – | – | – | – | – | – | – | – | – | – | – |
| Loans and Advances from Government of India | 434 | 454 | 429 | 56 | 55 | 120 | 206 | 223 | 203 | 97 | 31 |
| **6. Total receipt in the Consolidated fund (4+5)** | **7049** | **8402** | **9174** | **10090** | **12747** | **14607** | **16585** | **20438** | **24081** | **27577** | **37661** |
| **7. Contingency Fund Receipts** | _ | _ | _ | _ | _ | **3** | _ | **1** | _ | _ | _ |
| **8. Public Account Receipts (Net)** | **(-) 375** | **805** | **484** | **(-) 849** | **(-) 878** | **339** | **1476** | **916** | **(-) 1440** | **2807** | **500** |
| **9. Total receipts of the State (6+7+8)** | **6674** | **9207** | **9658** | **9241** | **11869** | **14949** | **18061** | **21355** | **22641** | **30384** | **38161** |

| Part B-Expenditure/Disbursement | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2002-03** | **2003-04** | **2004-05** | **2005-06** | **2006-07** | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** | **2012-13 (RE)** |
| **10. Revenue Expenditure** | **5530** | **6600** | **7103** | **7457** | **8802** | **10840** | **13794** | **17265** | **19355** | **22628** | **30165** |
| Plan | 1270 | 1541 | 1620 | 2008 | 2608 | 3576 | 5421 | 6817 | 8069 | 10004 | 14450 |
| Non Plan | 4260 | 5059 | 5483 | 5449 | 6194 | 7264 | 8373 | 10448 | 11286 | 12624 | 15715 |
| General Service (incl. interest payments) | 1839 | 2154 | 2494 | 2187 | 2639 | 3040 | 3599 | 4350 | 5247 | 5904 | 6960 |
| Social Services | 2086 | 2268 | 2431 | 2848 | 3459 | 4117 | 6153 | 8024 | 8310 | 10477 | 13796 |
| Economic Services | 1443 | 1917 | 1926 | 2090 | 2228 | 3140 | 3524 | 4423 | 5091 | 5560 | 8555 |
| Grants-in - aid and Contributions | 162 | 260 | 252 | 333 | 476 | 543 | 519 | 468 | 707 | 687 | 854 |
| **11. Capital Expenditure** | **820** | **1015** | **1279** | **1497** | **2198** | **3131** | **2940** | **2745** | **2952** | **4056** | **6301** |
| Plan | 819 | 1013 | 1276 | 1493 | 2169 | 3101 | 2939 | 2745 | 2951 | 4055 | 6295 |
| Non Plan | 1 | 2 | 3 | 4 | 29 | 30 | 1 | 0 | 1 | 1 | 6 |
| General Service | 19 | 22 | 29 | 28 | 75 | 107 | 102 | 77 | 53 | 43 | 249 |
| Social Services | 137 | 185 | 256 | 367 | 503 | 733 | 708 | 802 | 828 | 988 | 1359 |
| Economic Services | 664 | 808 | 994 | 1092 | 1620 | 2297 | 2130 | 1866 | 2071 | 3025 | 4692 |
| **12. Disbursement of Loans and Advances** | **59** | **558** | **113** | **337** | **771** | **500** | **491** | **897** | **567** | **1273** | **2027** |
| **12 (a) Inter State Settlement** | **0** | **1** | **0** | **1** | **2** | **2** | **1** | **3** | **2** | **0** | **0** |
| **13. Total (10+11+12+12(a))** | **6409** | **8174** | **8495** | **9292** | **11773** | **14473** | **17226** | **20910** | **22876** | **27957** | **38493** |
| **14. Repayment of Public Debt** | **413** | **778** | **1152** | **444** | **219** | **558** | **489** | **652** | **691** | **853** | **1247** |
| Internal Debt (Excluding Ways & Means Advances & Overdraft) | 47 | 89 | 124 | 279 | 206 | 27 | 379 | 536 | 555 | 711 | 1100 |
| Net transactions under ways and means advance and overdraft | – | – | – | – | – | – | – | – | – | – | – |
| Loans and Advances from Government of India | 366 | 689 | 1028 | 165 | 13 | 286 | 110 | 116 | 135 | 142 | 147 |
| 15. Appropriation to contingency Fund | – | – | – | – | – | – | – | – | – | – | – |
| **16. Total disbursement out of Consolidated Fund (13+14+15)** | **6822** | **8952** | **9647** | **9736** | **11992** | **15031** | **17715** | **21562** | **23567** | **28810** | **39740** |
| **Part C- Deficits** | | | | | | | | | | | |
| **20. Revenue deficit (-) (1-10)/surplus (+)** | **(-) 113** | **(-) 641** | **(+) 146** | **(+) 1381** | **(+) 2651** | **(+) 3039** | **(+) 1869** | **(+) 888** | **(+) 3364** | **(+) 3239** | **(+) 2162** |
| **21. Fiscal deficit (-)/ surplus (+) (4-13)** | **(-) 973** | **(-) 2204** | **(-) 1232** | **(-) 435** | **(+) 37** | **(-) 128** | **(-) 1027** | **(-) 1759** | **(+) 410** | **(-) 801** | **(-) 4590** |
| **22. Primary deficit (-)/ Primary surplus (+)** | **(-) 163** | **(-) 1150** | **(-) 80** | **(+) 500** | **(+) 1063** | **(+) 1012** | **(+) 51** | **(-) 664** | **(+) 1608** | **(+) 392** | **(-) 3298** |

# Annexure - 2

## Details of PSUs in the State

(Figures in column 4 (a) to 5 (c) are Rs. in crore)

| SI. No | Sector & Name of the company | Year of incorporation | Paid-up capital * | | | Loans outstanding at the close of 2011-2012 | | |
|---|---|---|---|---|---|---|---|---|
| | | | State Government | Others | Total | State Government | Others | Total |
| 1 | 2 | 3 | 4 (a) | 4 (b) | 4 (c) | 5 (a) | 5 (b) | 5 (c) |
| **AGRICULTURE** | | | | | | | | |
| 1 | Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited | 2004 | 0.5 | _ | 0.5 | _ | _ | _ |
| 2 | Chhattisgarh Rajya Van Vikas Nigam Limited | 2001 | 25.73 | _ | 25.73 | _ | _ | _ |
| Sector wise total | | | 26.23 | _ | 26.23 | _ | _ | _ |
| **FINANCE** | | | | | | | | |
| 3 | Chhattisgarh Nishakt Jan Vitt Avam Vikas Nigam | 2004 | 5.00 | 0.00 | 5.00 | _ | 11.47 | 11.47 |
| Sector wise total | | | 5.00 | 0.00 | 5.00 | | 11.47 | 11.47 |
| **INFRASTRUCTURE** | | | | | | | | |
| 4 | Chhattisgarh Infrastructure Development Corporation Limited | 2001 | 4.20 | _ | 4.20 | _ | _ | _ |
| 5 | Chhattisgarh State Industrial Development Corporation Limited | 1981 | 1.60 | _ | 1.60 | 22.96 | _ | 22.96 |
| Sector wise total | | | 5.80 | _ | 5.80 | 22.96 | _ | 22.96 |
| **MANUFACTURING** | | | | | | | | |
| 6 | Chhattisgarh Mineral Development Corporation Limited | 2001 | 1.00 | _ | 1.00 | _ | _ | _ |
| 7 | CMDC ICPL Coal Limited | 2008 | _ | 37.00 | 37.00 | _ | _ | _ |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 8 | Chhattisgarh Sondiha Coal Company Limited | 2008 | _ | 11.26 | 11.26 | _ | _ | _ |
| 9 | CSPGCL AEL Parsa Collieries Limited | 2010 | _ | 0.05 | 0.05 | _ | _ | _ |
| Sector wise total | | | 1.00 | 48.31 | 49.31 | _ | _ | _ |
| **POWER** | | | | | | | | |
| 10 | Chhattisgarh State Power Distribution Company Limited | 2003 | _ | 1913.31 | 1913.31 | 169.26 | 215.04 | 384.30 |
| 11 | Chhattisgarh State Power Generation Company Limited | 2003 | _ | 1193.73 | 1193.73 | 150.90 | 6699.73 | 6850.63 |
| 12 | Chhattisgarh State Power Holding Company Limited | 2008 | 5155.02 | _ | 5155.02** | _ | _ | _ |
| 13 | Chhattisgarh State Power Trading Company Limited | 2008 | _ | 0.05 | 0.05 | _ | _ | _ |
| 14 | Chhattisgarh State Power Transmission Company Limited | 2003 | _ | 805.15 | 805.15 | 47.03 | 952.04 | 1.24:1 |
| Sector wise total | | | 5155.02 | 3912.24 | 9067.26 | 367.19 | 7866.81 | 8234.00 |
| **SERVICES** | | | | | | | | |
| 15 | Chhattisgarh State Beverages Corporation Limited | 2001 | 0.15 | _ | 0.15 | _ | _ | _ |
| 16 | Chhattisgarh State Civil Supplies Corporation Limited | 2001 | 0.90 | 0.00 | 0.90 | _ | 295.84 | 295.84 |
| 17 | Chhattisgarh Medical Services Corporation Limited | 2010 | 1.00 | _ | 1.00 | _ | _ | _ |
| 18 | Chhattisgarh Police Housing Corporation Limited | 2011 | 0.50 | _ | 0.50 | _ | _ | _ |
| Sector wise total | | | 2.55 | 0.00 | 2.55 | _ | 295.84 | 295.84 |
| Total A (All sector wise working Gvernment companies) | | | 5195.6 | 3960.55 | 9157.07 | 390.15 | 8174.12 | 8564.27 |

* Paid up capital includes share application money

** Out of this Rs. 4455 crpre kept unser share suspense account in 2010-11