

**CHAPTER -8**  
**SUMMARY OF THE FINANCES OF GOVERNMENT OF**  
**CHHATTISGARH AND THEIR RESTRUCTURING**  
**(2005-06 TO 2009-10)**

**8.1.0 The Prelude To State Finances :**

8.1.1 This part of report of the State Finance Commission of Chhattisgarh consists of *8 Chapters, four of which* make such presentations which may constitute the prelude to the main theme of this report "*Finances Of The Government Of Chhattisgarh And Their Restructuring*". The last three Chapters cover the study of State's Finances in their different manifestations, as required by the *Terms Of Reference* of the Commission-the review of State Finance, the projections of Revenue and Expenditure on a Normative Basis and Restructuring the Finances of the Chhattisgarh Government.

8.1.2 As a prelude to the study of State Finance, it would be quite relevant to discuss briefly the constitution of the State *Finance Commission (SFC)*, its constitutional role and accordingly it's Terms Of Reference (TOR). In pursuance of the Constitutional requirements, and Under Section 3 of the *Chhattisgarh Rajya Vitta Adhiniyam, 2003*. The Commission was required to submit its report by 31st December 2004, but later on the period was extended to December 2006, than *April 2007*.

8.1.3 The TOR of the SFC, *inter alia*, include, to recommend a Fiscal Package for devolution of funds from the State Government to Local Bodies, after making an assessment of their needs on a Normative Basis and also to recommend Inter-se Allocation between different Local Bodies for the 5 year period, *2005-06 to 2009-10*. The Commission is also required to recommend measures for augmenting the resources of Local Bodies, by addressing the problem of vertical and horizontal imbalances faced by them. These tasks are of considerable importance in view of their likely impact on Functional and Fiscal Decentralization. since the State Government is the Principal Agency for funding the Local Bodies in the State the SFC under its

TOR, is also required to make an assessment of State Government Finances on a Normative Basis, make projections of Revenue and Expenditure for the forecast period and also suggest Restructuring of State Finance. ***This report covers such Terms Of Reference, which are related to the problems of State Finances.***

8.1.4 While undertaking its tasks as spelt out in its ***TOR***, the ***SFC*** had to ***evolve its Approach And Methodology for tackling a number of problems.*** This task the Commission has undertaken in the ***Second Chapter*** of this report.

8.1.5 Since in the Federal Set-up of India, substantial resource transfers have to take place from the Center to the States and now also to Local Bodies, on the recommendations of the ***Central Finance Commission***, after every 5 years, it is quite pertinent to make a review of the Federal Finance System in the Country, in terms of adequacy or otherwise of these transfers, composition of such transfers, impact of transfers on State Finance, more particularly on Chhattisgarh State Devolution of Resources to Local Bodies and Their Into-se allocations, the extent of ***Fiscal Autonomy and Fiscal Decentralization*** achieved by the State Government and Local Bodies in the Federal Structure of India. All these issues have been discussed in ***Chapter Third*** of this report.

8.1.6 Since the Economy of the State and its Growth in different directions. Provides the economic base for generating resource to be mobilised by the Local Government and the State Government. A quick review of the State Economy in its different manifestations becomes necessary. From this review, has emerged the priority of the State and the need for their restructurings against the background of the resource potential and its capacity to exploit its resource. This task the SFC has performed in ***Chapter Forth*** of the report.

## 8.2.0 **Finances of the State Government :**

8.2.1 The ***Next Three Chapters*** relating to ***Review Of State Finances Their Projections And Restructuring***, constitute the subject-matter respectively of these ***Three Chapters.***

8.2.2 The review of State Finances is made against the backdrop of the performance of the Central and State Finances. Since the new State of Chhattisgarh was created on 1 November, 2000, and the first budget of the State for Full Financial year was made for 2001-02 our review of State Finances could be made on the basis of Financial Data relating to a short period of 5 years **2001-02 to 2005-06 (RE)**. We admit that five-year period is too short for making any meaningful review of State Finances on the basis of sophisticated techniques. Nevertheless, some important trends are discernible on the basis of which we have made our review. The new State had the opportunity of building up and re-organising its own **Administrative Structure** and also the advantage of bringing about **Structural Changes** in its tax structure, Expenditure Pattern and Public Debt, and also the freedom to modify some of the outmoded budgetary techniques and formats which it had inherited from its predecessor State,. While making review, we have attempted to find out the extent to which such initiatives have been taken by the State,.

8.2.3 **Our Review of State Finances** has enabled us to **Identify the areas of Strength and Weaknesses** in the **Fiscal Performance of the State** during the period of 5 years **2001-02 to 2005-06**, on the basis of some **Important Fiscal Indicators**. **We have come across some Healthy Trends as well as some Unhealthy Trends. The Healthy ones need to be Sustained and Strengthened, and the Unhealthy ones need to be Checked and Reversed.**

8.2.4 Some of the **Healthy Trends** discernible in the Fiscal Performance of the State are; **In terms of Percentage of GSDP, Own Tax Revenue, Own Non-Tax Revenue and Total Own Revenue, have shown an upturned during the period under review.** The **Tax-GSDP Ratio** which is considered as an **Important Barometer of Fiscal Performance**, has recorded an increase from 6.75 % in 2001-02 to 7.94 % in 2005-06, and the **Ration of Total Own Resources** have increased from 9.19 % to 10.50% during the same period. These indicators are more favorably placed when compared with most of the States. According to the **XII<sup>th</sup> Finance Commission, Tax-GSDP Ratio** of **Chhattisgarh** State was 6.38% as the Average for 1999-2000 to 2001-02, higher than a number of States including **Madhya Pradesh** where it was 5.49 %. **Our position is comfortable and needs to be sustained and improved. The Index of Self-**

*Reliance which is the Ratio of Own Revenue Receipts to Total Revenue Expenditure, has improved, this indicating more Revenue Mobilization Effort less Growth of Revenue Expenditure.*

[Para 5.5.0 & Table No. 5.7]

8.2.5 Looking to the *Important Ratios of Revenue and Expenditure*, we find *Healthy development. The Healthy Trends are improvement in Own Receipts as Percentage of Revenue Expenditure, decline in Revenue Expenditure as Percent of Total Expenditure, increase in Capital Expenditure as Percentage of Total Expenditure. Some of the Healthy Trends in the field of Public Debt are lower Debt-GSDP Ratio and the lower Ratios of Interest Payments to Total Revenue Receipts, no recourse made to ways and means advances for meeting current requirements. On the whole, the position of the State on the front of Public Debt is comfortable and sustainable.*

[Para 5.13.0, 5.14.0]

8.2.6 *The Two Most Important Indicators of Fiscal Performance are Revenue Deficit/Surplus and Fiscal Deficit. We find that the position of the State is quite comfortable on this front. This may be attributed to better fiscal management in terms of better resource mobilization and check on the growth of Revenue Expenditure.* The level of *Revenue Deficit* has not been high. Out of 5 years between 2001-02 and 2005-06, *Revenue Deficit* has been less than 1% of GSDP in 1 year, less than 2% in 2 years and 2 years *Revenue Surplus* also. The *Fiscal Deficit*, though comparatively high and rising from 3.08 % in 2002-03 to a maximum of 5.91% in 2003-04, than it is decrease, *Revenue Deficit constitutes a very small proportion of Fiscal Deficit* is less than 20% in 1 year, and less than 30% in 1 year and less than 50% in another year out of 3 years, and in last 2 years *State generated Revenue Surplus*. In some States *Revenue Deficits* have contributed 70 to 80 % to their respective *Fiscal Deficits*, posing dangerous fiscal situations. In our opinion, a higher *Fiscal Deficit* caused by increase in Capital Expenditure and spent judiciously on the creation of productive assets may be justified in the interest of growth and development.

[Para 5.5.3]

8.2.7 Some of the *Important Unhealthy Fiscal Trends* which need to be arrested and reversed, are, the declining *Percentage of Own Tax And Own Non-Tax Revenue To Total Revenue Receipts*, the increasing dependence of the *State on Central Assistance*, less in terms of *Grants-in-Aid* and more in respect of *Share in Central Taxes*, lack of diversification in Tax Structure, evidenced by the dominance of only one tax *Sales Tax* in the *Total Own Revenue* of the State,, inadequate resource mobilization through *Non-Tax Source Of Revenue* because of larger element of subsidization in the provision of *Economic And Social Services*. The *Recovery Ratio* in respect of *Social Services* has come down from 1.33 % in 2001-02 to 1.04 % in 2005-06, and in respect of *Economic Services*, declining from 53.21% to 48.95 % during the same period.

[Para 5.8.2, 5.10.1, 5.11.1 & 5.11.6]

8.2.8 Looking to the *Pattern Of Revenue Expenditure* in the state we find that there has been a decline in the *Percentage Shares of Social Services*, more particularly in respect of *Public Health and Medicine, Water Supply and Sanitation and Welfare of Scheduled Castes and Scheduled Tribes*. In the area of *Economic Services* there has been a decline in the *Percentage of Total Revenue Expenditure on Irrigation & Flood Control and Transport*.

[Para 5.12.2, 5.12.3]

8.2.9 *The Next Chapter* entitled "*Projections Of Revenue and Expenditure Of Chhattisgarh State*", in the *First Instance*, makes a review of the adequacy or otherwise of projection exercises made by different organizations *The State Government (in its memorandum submitted to the XII<sup>th</sup> Finance Commission)*. *The XII<sup>th</sup> Finance Commission and the National Council of Applied Economic Research, New Delhi* prior to making Our Own Projections. Though the terms of reference require the *SFC* to make projections of *Revenue and Expenditure* on Revenue Account, the Commission has widened its scope of projections by including *Capital Receipts and Expenditure* for the purpose. This has facilitated the Commission to arrive at the figures of *Revenue Deficit and Fiscal Deficit* for the

Forecast Period. *Compared to the methodology of other organizations in respect of projections on a Normative Basis the methodology adopted by this Commission, based on the observed behavior of relevant fiscal variables, corresponds more to the ground realities and therefore, yields results which are implement able, through it has its own limitations and deficiencies.*

[Para 6.2.0, 6.3.0, 6.5.0, 6.6.0 & 6.7.0]

8.2.10 *As a first step in the direction of making projections, we adopted the Macro Approach under which we made projection of Important Fiscal Aggregates and Sub-Aggregates, in terms of Percentage of GSDP. These are Own Tax-GSDP Ratio. Own Non-Tax GSDP Ratio and Total Own Revenue-GSDP Ratio. Regarding Transfers From The Center first we project the Union Shareable Amount than Share of This State we have taken these figure for the Forecast Period, Own Tax Revenue* of the state has been projected to increase from Rs. 3994.79 corers in 2005-06 to Rs 9571.23 corers in 2009-10, *Non-Tax Revenue* to increase from Rs. 1480.28 corers to Rs 2968.46 corers, and *Total Own Revenue* from Rs. 5475.07 corers to 12539.69 corers during the same period. The *Total Revenue Expenditure* has been projected to increase from Rs. 8531.04 corers in 2005-06 to Rs. 18088.45 corers in 2009-10 and as *Percent to GSDP to increase* from 16.44% to 17.98 %. The *Index of Self-Reliance would improve* from 64.18% in 2005-06 to 69.32% in 2009-10, *indicative of the fact that increase in Revenue Receipts of the State would account for increasing Percent of Revenue Expenditure of the State.*

[Para 6.7.2, 6.7.3, 6.8.0, 6.9.0 & Table No. 6.10]

8.2.11 Our Scheme of *Restructuring of State Finance* has envisaged considerable *increase in Capital Expenditure*, which has been projected to increase from Rs. 2594.98 corers to Rs.6238.55 corers during the forecast period. We have projected higher level of *Capital Receipts* to meet higher level of *Capital Expenditure*, taking into account the buoyancy in the capital market, higher liquidity in the money market, enhanced capability of the State to borrow more on account of its encouraging *Fiscal Health*. *Table No. 6.10* presents a comprehensive and consolidated picture of projections of Revenue and

Expenditure of the State both on Revenue and Capital Account on the basis of these projections; we have arrived at the figures of **Revenue Surplus and Fiscal Deficit** during the Forecast Period. The **Revenue Surplus** is projected to increase from 0.75% of **GSDP** in 2005-06 to 2.58% in 2009-10. The **Fiscal Deficit** has been projected to decrease from 4.05% of **GSDP** to 2.98%. At the end of this Chapter, we have juxtaposed our scheme of restructuring the State Finance and that suggested by the **XII<sup>th</sup>FC** during the Forecast Period. ***In several areas, the fiscal position of the State seems to be much better than what has been visualized in the scheme of the XII<sup>th</sup>FC.***

[Para 6.13.0, Table No. 6.10, 6.11]

8.2.12 In the last Chapter, ***we have suggested Restructuring of the Finances of the State Government in Terms of Individual Components of Revenue and Expenditure and Their Projections during the Forecast Period.*** We have ***projected Revenue*** from ***Individual Taxes*** on the basis of their respective ***Trend Growth Rates (TGRs)***, ***with some modifications***, as warranted by the situation. Despite these projected higher figures of revenue, there seems to be change in the existing Tax Structure of the State as indicated by the percentage shares of different Taxes in the Total Own Tax Revenue of the State. The ***Sales Tax*** continues to occupy the prime place in the Tax Structure. We expect that with the replacement of ***Sales Tax by Value Added Tax (VAT)***, the State would not only fall in line with the rest of the Country but also gain in terms of Revenue Receipts in the Medium Term. As a ***Percent of GSDP, Revenue*** from ***Sales Tax*** will increase its ratio from 3.81% in 2004-05 to 5.72% in 2009-10. We have also suggested some refinements in each of the Taxes comprising the Tax Structure of the State with a view to removing some deficiencies for improving revenue.

[Para 7.4.0]

8.2.13 We have also made estimates in respect of ***Per Capita Expenditure of the State*** on ***General Services, Social Services and Economic Services*** and also separately in respect of ***Education, Public Health, Water Supply and Sanitation***. The State needs to make a considerable leeway in respect of ***Per Capita Expenditure*** on ***Education, Public Health and Water Supply and Sanitation***. We have suggested larger increases in Public

Expenditure on Social Services and Economic Services in the **Total Revenue Expenditure** of the State. **The Revenue Expenditure on Social Services** has been projected to increase from 5.53 % of GSDP in 2004-05 to 7.67% in 2009-10, and on **Economic Services** from 4.38% to 5.33% during the same period. We have also provided for **Higher Allocation to Local Bodies** to enable the State Government to make provision for more funds for the implementation of the report of the **First SFC of the State**. Our Projections will reduce the **Percent Share of General Services in Total Revenue Expenditure** from 35.11% in 2004-05 to 22.55% in 2009-10, on **Social Services**, the share would increase from 34.22% to 42.65%, on **Economic Services** from 27.11% to 29.62%, and for **Local Bodies** from 3.55% to 5.18% during the Forecast Period.

[Para 7.10.3, 7.10.4, Table No. 7.8, 7.9 & 7.11]

8.2.14 We have attempted to study the impact of Projected Revenue and Expenditure on **Per Capita Expenditure** in 2009-10 over 2004-05. The largest percentage increase is likely to take place in **Per Capita Expenditure** on Education (item of Social Services) (239.47%), followed by Social Services, Public Health, Economic Services, General Services & Water Supply and Sanitation. These may be considered as the targets of Per Capita Expenditure for the State Government to be achieved during the Forecast Period.

[Para 7.10.7, Table No 7.15]

8.2.15 We have also made Projections of **Capital Expenditure and its Components. As a Percent of GSDP**, this expenditure is projected to increase from 3.17% in 2004-05 to 6.20% in 2009-10. Most of this increase will take place in **Economic Services**, followed by **Social Services** and lowest increase to take place in **General Services**.

[Para 7.12.0, Table No. 7.16]

8.2.16 In Chapter 7, of the report we have suggested some **Budgetary Reforms as a Component of Program of Restructuring the Finance of the State**.

[Para 7.13.0]