

CHAPTER - 6

PROJECTIONS OF REVENUE AND EXPENDITURE OF THE GOVT. OF CHHATTISGARH – A NORMATIVE ASSESSMENT

6.1.0 Introduction :

6.1.1 The *Terms Of Reference* of the *SFC inter alias* require the Commission to (i) make a review of *State Finances On Revenue Account*, (ii) make a *Normative Assessment of the Revenue and Expenditure of the State Government on Revenue Account for a period of 5 year, commencing from 1st April 2005*, and (iii) recommend *Fiscal Restructuring and Set Targets for Additional Resource Mobilization*, taking into account the scope for efficient resource management, consistent with Efficiency and Economy in Expenditure.

6.1.2 In the previous Chapter, we have covered *item number (i)* relating to the review of *State Finances on Revenue Account in their different manifestation*. In this Chapter *we would take up item number (ii) relating to the Normative Assessment of Revenue and Expenditure of the Chhattisgarh State Government*. It is this assessment of State Finances that would indicate the availability of funds, and the Assessment of Local Finances made by us in another report, would provide the claim on these resources. Before making recommendations in respect of devolution of Tax Revenue and Grants-in-Aid to the Local Bodies in the State, it is, therefore, necessary to make projections of Revenue and Expenditure of the State Government for the *Period 2005-06 to 2009-10*.

6.2.0 Normative Assessment Of Resources Of The State Government – Exercises Made By Different Organizations :

6.2.1 Earlier to the presentation of *Our Own projections of State Revenue and Expenditure*, it would be quite pertinent to make a rapid review of the projections made by different agencies which have been recently made available. Such a review would help us in designing our own methodology for making projections. These projections are made by :

- i) The State Government, included in its Memorandum submitted to the *XII FC*.
- ii) The *XII FC* so as to constitute the basis for determining its scheme of devolution of Central Transfers to the State Governments and also of its scheme of Restructuring the State Finances.
- iii) The National Council of Applied Economic Research (NCAER), New Delhi, commissioned by the Planning Commission, as a part of the development report for the State of Chhattisgarh.

6.2.2 All the three organizations are better equipped than the *SFC*, to undertake the exercise of *Making Projections* for the *Next Five Years, 2005-06 to 2009-10*, on a *Normative Basis*, because of their better access to data and also because of better resources at their command in terms of expertise and specialists.

6.2.3 Let us take up the three projections for review referred to above. In the first instance, we examine the projections made by the State Government in its Memorandum submitted to the *XIIth FC*.

6.3.0 Projections Made By The State Government :

6.3.1 The State Government has made an attempt, first to project its Revenue Expenditure on the basis of number of assumptions. The main approach of the State Government in determining the Revenue Expenditure has been, to raise the level of State Expenditure and also of other relatively poorer states, to the national average. This approach would entail transfer of huge resources from the Centre to the less developed States. The State Government has also made the assumption of the cost disabilities peculiar to the State of Chhattisgarh State, in terms of its forest resources imposing additional cost for providing functions and facilities and Economic Services to the people, in view of long distances between different settlements, difficult topography and terrain, and also because of higher expenditure on the huge population of scheduled castes and scheduled tribes in the State. *The Total Revenue Expenditure is classified into four Categories, General Services, Social Services, Economic Services, and Compensation and Assignments to Local Bodies.* Since Interest Payments and Assignments to Local Bodies have their own dynamics in every state, it would not be desirable to include these items in the broad categories, while making projections.

- 6.3.2 On the basis of these assumptions, the projections made by the State Government stipulates that the average rate of growth of each of these services for reaching the average per Capita Expenditure at the National Level, would need substantial increase in Central Transfers. Using the figures of Revenue and Expenditure for 2002-03 as the base year figures, Expenditure on General Services, net of Interest Payments, Social Services and Economic Services has been projected at such levels that these services reach the national averages by the end of 2009-10. ***The exercise has estimated annual average growth rates of 23% for General Services, 15% for Social Services and 11% for Economic Services.*** It is not clear as to how these percentages have been arrived at, without indicating their growth rates in the immediate past and also the present level of growth. These required rates of Expenditure have been pushed up to accommodate cost disabilities, arising out of extensive forest cover, and higher percentage of SC and ST population, to the level of 27% for General Services, 20.10% for Social Services and 17.80% for Economic Services. Again, it is not clear as to how cost disabilities have been worked out. Thus the whole exercise of projecting the growth rates of different category of services seems to be in the nature of rule -of-the thumb approach.
- 6.3.3 Interest Payments, though a part of General Services in the budget, have been projected separately at 12% per annum, a higher rate is presumed since the liabilities of the erstwhile State of ***Madhya Pradesh*** have not yet been divided between the two successor States, and the past debt carries a higher rate of interest than the current one.
- 6.3.4 ***Expenditure on compensation and assignment to Local Bodies has been assumed to grow at a rate of 11.18% per annum,*** the rate at which Tax Revenue of the State is expected to grow, since Expenditure on this item is expected to grow at the same rate as of Tax Revenue. This assumption seems to be unwanted.
- 6.3.5 The exercise has derived the Non-Plan component of Total Revenue Expenditure, from Expenditure projection of Plan Expenditure, based on the rate specified in the X Plan of the state, for most categories of Expenditure in respect of Economic and Social Services. Using the figures for Non-Plan Expenditure along with projected figures of own tax Non-Tax Revenue for the State, the Non-Plan Deficit before devolution is obtained.

6.3.6 No methodology is evolved for projecting States' Own Tax and Non-Tax Revenue. The **Table No. 6.1** presents the *forecasts of the Revenue Expenditure made by the State Government* on the basis of the methodology discussed above. The exercise has projected Non-Plan Revenue Deficit of Rs 28324 crores for the entire five year period of 2005 to 2010, the Deficit increasing from Rs 2451 crores in 2005-06 to Rs 9607 crores in 2009-10, nearly four times increase. Pitching the targets of Revenue Expenditure to the national averages, has resulted in an exaggerated version of Revenue Expenditure, as against projections of Own Revenue Receipts which have been underestimated. Moreover, as already observed, no methodology for forecasting Own Revenue Receipts has been worked out. It is surprising that whereas projections made by the State Government in its memorandum show a Deficit of Rs 28324 crores for 2005-06 to 2009-10, the report of the *XIIth FC* in Annexure-6.1 page 283, entitled "*Projections furnished by the State Governments*", shows a Deficit of Rs 8695 crores calculated as **Table No. 6.1 (A)** :

The above Pre-Devolution Deficit of Rs 8695 crores is to be examined against the Deficit of Rs 28324 crores (vide Memorandum page 57) and a Deficit of Rs 1352.90 crores, as assessed by the *XIIth FC* for *Chhattisgarh State*. *Since recommended transfers of tax share to the state exceeds the Deficit arrived at by the FC, no Grants-in-Aid for meeting the Revenue Gap, has been recommended by the Commission for the State.*

6.4.0 Projections Made By The XIIth Finance Commission :

6.4.1 Since the *XIIth FC* could not entirely depend upon the projections made by the respective State Governments, it decided to make its own assessment of Revenue and Expenditure of each State. The basic approach of the *XIIth FC* has been to ensure Inter-State equity and avoid adverse incentive. No State can claim a larger share than what is wanted by the deficiency of its fiscal capacity. The Commission has followed a combination of Macro and Micro approaches while making projections.

6.4.2 The first step taken by the Commission is to make projections of the GSDP of Chhattisgarh state, *since GSDP provides an indication of the fiscal capacity of the State Government to raise resources and also gives an idea of the level of Expenditure required to pursue the chosen trajectory of Economic Growth*. Since GSDP estimates of the state were available upto 2002-03, the Commission had to project the estimates upto 2009-10, assuming the annual average growth rate of 11% at Current Prices.

- 6.4.3 *The Own Tax Revenue of the State* has been estimated *as Percent of GSDP of the State*, in accordance with its scheme of restructuring State Finances for the period 2005-10. *Own Non-Tax Revenue* has not been projected as one omni-bus category. The different items have been projected individually. The items include, Interest Receipts, Dividends, Royalty, Revenue from Forestry, Revenue from Minerals, Miscellaneous General Services, Irrigation Receipts, other items.
- 6.4.4 Regarding estimates of *Non-Plan Revenue Expenditure*, item-wise projections have been made. These include General Services, Social Services, Economic Services, compensation and assignments to Local Bodies. Within these categories, items like Interest Payments, Pensions under General Services, and Education, Health and Maintenance of Buildings under Social Services, and roads under Economic Services, have been taken up individually.
- 6.4.5 The projections of pre-devolution deficit made by all the States amounted to Rs 9,24,497 crores for the forecast period, as against 3,29,870 crores made by the *XIIthFC*, which comes to nearly 1/3rd of the estimates made by the State Governments. On the basis of pre-devolution deficits amounting to Rs 5685 crores for the period 2005-10, the *XIthFC* recommended Grants-in-Aid amounting to Rs 5685 crores for the award period as Non-Plan Revenue Deficit for 15 States only. For Chhattisgarh State, among others, because of Surplus in the post-devolution period due to transfer from the Centre in the form of Tax Sharing, no Non-Plan Grants for meeting Revenue Deficit was recommended by the Commission. In addition, the FC has recommended specific Grants-in-Aid to different States for education, public health, maintenance of roads, and bridges, maintenance of public buildings, maintenance of forests, heritage conservation and meeting State-Specific needs.
- 6.4.6 *The State of Chhattisgarh has been recommended the transfers by the XIIthFC in terms of Share in Central Taxes and specific Grants-in-Aid for the award period according to Table No. 6.1 (B).*

State specific grants are meant for two purposes, (i) a sum of Rs 200 crores earmarked for infrastructure development of State Capital, Raipur, and (ii) a sum of Rs 100 crores earmarked for improving police infrastructure in terms of improving and upgrading arms/ammunition equipment, vehicles and communication system of State Police.

6.4.7 For making projections of individual items of Non-Tax Revenue, the *XIIthFC* has made estimates of growth rates in Revenue which are as under :-

- 1) Interest Receipts and Dividends, 7% return on outstanding loans and advances and 5% on equity,
- 2) Royalty on Minerals, growth rate of 5% per annum,
- 3) Receipts from Forestry, since Supreme Court has put restrictions on the exploitation of forest wealth, an average revenue of 3 years 2003-05 has been adopted for projection of revenue from this source,
- 4) Revenue from miscellaneous General Services 5% per annum,
- 5) Receipts for Irrigation – cost recovery of 50% in 2005-06, 60% in 2006-07, 70% in 2007-08, 80% in 2008-09 and 90% in 2009-10,
- 6) Other Non-Tax Revenue – 12.5% annual growth from General Services, 25% for each of the Social and Economic Services in the forecast period, the object being to get greater degree of cost recovery.

6.4.8 Expenditure Non-Plan : The Commission has stipulated some compression in Non-Plan Revenue Expenditure. But increase in other components of Revenue Expenditure has been provided. These areas are education, public health, maintenance of roads and bridges, buildings. Regarding interest payments, 10% annual growth rate applied to arrive at base year estimates for 2004-05. Fall in nominal interest rates for the States has been visualized. The States can take the benefit of debt swap programme. For pensions, the Commission has projected a growth rate of 10% per annum during the forecast period.

6.4.9 In respect of education, annual growth of 5% on salaries, but 7% annual growth for salaries in respect of public health. A high growth rate of 30% in respect of non-salary part of Expenditure of each of the two services. Combing the salary and non-salary, a composite growth rate of 9.5% for general education and 11.5% for public health, has been provided.

Maintenance of roads and bridges –annual growth of 5% during the forecast period.

Other General Services growth rate of 7% per annum,

Other Social Services – 10% annual growth rate,

Other Economic Services – 10% annual growth rate.

6.5.0 Projections Made By The XIIth Finance Commission For The Chhattisgarh State :

6.5.1 The **Table No. 6.2** presents the *projections for the Chhattisgarh State by the XIIth FC*.

6.5.2 The FC has admitted that it would not be possible to apply fully the *Normative Approach* because of heterogeneity of the States in respect of various dimensions affecting capacities and costs and also because of problems relating to the availability of relevant data. In the light of this observation, the projection made by the FC for the period 2005-10, may not correspond to reality. Its scheme of restructuring gives targets for different fiscal parameters, on the basis of average of all states. The averages may not correspond to the observed behaviour of different fiscal variable of different States, and also to the projections to be made for the forecast period. Similar projections were made by the *XIth FC* but the review made by the *XIIth FC* shows that the State Governments have not adhered to be these targets. We have no hesitation in making the observation that the scheme of restructuring suggested by the *XIIth FC* may provide broad guidelines for the states in the task of restructuring their finances.

6.6.0 Projections Made By The National Council Of Applied Economic Research, New Delhi (NCAER) – 2003 :

6.6.1 **The Chhattisgarh Development : *Study of State Finances*** brought out by the NCAER, at the instance of the Planning Commission, besides analyzing the development scenario of the State, makes useful recommendations for boosting up the Financial Resources for putting the state on the trajectory of high growth rate. It makes a highly technical exercise, deploying mathematical equations and models, hedged by a number of assumptions. The study makes projections for the period 2002-03 to 2010-11. For projecting finances of the state, three scenarios have been assumed; (i) business as usual, (ii) business as usual with growth, and (iii) growth with reforms.

6.6.2 The Summary Conditions For Three Scenarios Are As The Following :

S. No.	Parameters	Business as usual	Business as usual with growth	Growth with reforms
1.	Efforts To Increase Own Tax Revenue	None	None	Yes
2.	GSDP Growth Projected	3.29%	6.0%	6.0%
3.	Capital Outlay As % Of GSDP	1.57%	2.4%	4.0%
4.	Non-Interest Revenue Expenditure Growth Rate	25.9% Average for 2001-02 to 2003-04	25.9%	10.0%

The study assumes real growth rate of 6% per annum for Chhattisgarh which is the target fixed by the Planning Commission. Capital Outlay for the State is estimated at 2.4% of GSDP, increasing to 4% for achieving growth rate of 6% Per Annum. Investment required for the state is of the order of 35% of GSDP for 2004-05 and 25% for the rest of the period, with the assumption that most of the investment would be on industrialization of the state. After determining overall investment for the State, the distribution of Financial Resources is made among the centre, state and the private sector.

6.6.3 Five Types Of Projections Are Made As Given Below :

- 1) Fiscal simulations A – Business as usual scenario,
- 2) Fiscal simulation B – Business as usual with growth and capital outlay from ICOR method,
- 3) Fiscal simulation C – Business as usual with growth and capital outlay from a growth model,
- 4) Fiscal simulation D – Reform scenario with capital outlay from ICOR method,
- 5) Fiscal simulation E – Reform scenario with capital outlay from growth model.

The main difference between these scenario lies in growth assumptions, efforts made by the State to increase Revenue collection and reduction in Non-Interest Revenue Expenditure.

6.6.4 The study does not recommend as to which of the scenario would be appropriate for Chhattisgarh State. It adopts circuitous route of making projections under different scenarios. At many places it is confusing. The assumptions made, by and large, are unwanted. The study lays heavy emphasis on private investment and is a clear departure from the old practices. It does not suggest sectoral allocations of investment and also ignores sectoral growth rates. It is excessively aggregative.

6.7.0 The Projections Made By The Chhattisgarh SFC :

6.7.1 For making projections of Revenue and Expenditure, we have largely drawn upon the methodology evolved by the XIIth Finance Commission, with certain modifications to suit the fiscal scenario of the State. It is a combination of Macro and Micro Approaches. Though the terms of reference require the Commission to make Projections of Revenue and Expenditure on Revenue Account, the Commission has widened the scope of projections by including Capital Receipts and Capital Expenditure. This has been done to enable the Commission to take a comprehensive view of the finances of the State and arrive at the figures of Revenue and Fiscal Deficits. For this purpose we had to make a brief reference to the public debt of the state also. In other words, we have made an attempt to present an analysis of State Finance in their Totality, by including both Revenue and Capital Accounts in the study.

- 6.7.2 Compared to projections made by other agencies that we have reviewed in this Chapter, the methodology that we have adopted appears to be more realistic and nearer to the ground realities and is, therefore, implement able. In fact the State Government projections do not suggest any methodology at all. The methodology suggested by the *XIIthFC* though commendable, may not correspond to the reality of the State, since it has laid down averages in respect of different fiscal parameters which may be adhered to by the individual State Governments. We do not claim that our approach is flawless. It has its own limitations and deficiencies. We do not claim that it is unique. But under the given conditions, it is workable, since it is based on the observed behaviour of fiscal variables in the State.
- 6.7.3 In the first instance, we have adopted the Macro Approach according to which we have made forecasts of fiscal aggregates and sub-aggregates in terms of their percentage of the GSDP of the State. In the next chapter, we would move from macro to micro wherein we make projections of the individual components of Revenue and Expenditure of the State, on the basis of the observed behaviour of these variables in the immediate past, in terms of their trend rates of growth.
- 6.7.4 Our first task has been to make projections of GSDP of the State, for the period of study for the years for which such estimates are not available and also for the forecast period. The time series data in respect of GSDP is provided by the Directorate of Economics and Statistics of the State, only up to 2002-03 (Actual). But we needed data of GSDP at factor cost beyond this year. Therefore, we had to project this data for the period, 2003-04 to 2009-10, so as to cover the award period as well as the pre-award period. The projection is to be made at certain growth rate of GSDP at Current Prices. For the forecast periods, the *XIIthFC* has worked out the estimates of GSDP of different states at the projected rate of growth of respective States. For Chhattisgarh State, the Commission has worked out the growth rate of 11% per annum for the period 2005-10. We have also adopted annual average rate of growth of 18%, for making our projections of GSDP. This rate would give us a rate of growth of 12% per annum, after making allowance for inflation rate of 6% per annum, on an average. Hence it seems to be within the reach of the State.

6.7.5 We have based our projections on the basis of the observed behaviour of relevant fiscal variables of the State during the last five years, 2001-02 to 2005-06. Wherever the observed behaviour reveals a higher figure than what is suggested by the *XIIthFC* in terms of the average of all States, we have taken the actual figure instead of one suggested by *XIIthFC*. But in such cases, where the figure of observed behaviour is lower than the suggested figure, we have taken into account the suggested figure, with sufficient justification. In such cases, where the suggested figures are lower than the observed figures, we have taken into account the highest figure that the State could achieve in any of the five years, 2001-02 to 2005-06.

6.8.0 Methodology Adopted For Projecting Aggregates And Sub-Aggregates :

6.8.1 Projections For Own Tax Revenue : The *XIIthFC* has laid down the target of **6.8% as the ratio of Own Tax Revenue to GSDP**, as the average for all the states, to be achieved by 2009-2010. In our State, the actual behaviour of this ratio, has recorded higher figure than what is suggested by the *XIIthFC*. The average **Own-Tax GSDP Ratio** for the period 2001-02 to 2005-06 comes to 7.27%, which is higher than 6.8% of the *XIIthFC*. So we could have considered the ratio of 7.27% for making projections. But we have not done so, since another higher rate was available (7.37%). The rate of growth of this ratio suggested by the *XIIthFC* is 0.17% per annum. Our ratio has shown a higher growth rate 0.20% per annum. Thus we have projected the growth of own Tax Revenue in the state at the highest rate of 7.37% that we have achieved in the state and not at the average rate of growth. ***Thus the projections have been made in such away that the Own Tax GDP Ratio gets increased to 9.51% in the 2009-10. This could be its trend rate also. By applying this ratio we could get the figures of Own Tax Revenue*** given in **Table No. 6.3.**

6.8.2 Projections Of Own Non-Tax Revenue : The projected rate envisaged by the *XIIthFC* is to be raised from 1.2% of GSDP in 2004-05 to 1.4% in 2009-10, growing at an annual rate of 0.03%. We have made projections of this component of Own Revenue of the State at a much higher rate, 3.03% per annum, a rate already the state could achieve in 1 of the past 5 years, instead of the observed average rate of 2.77% and a lower rate of 1.4% suggested by the *XIIthFC*. We have suggested that **Own Non-Tax Revenue, GSDP Ratio** must attend higher growth rate in 2009-10. ***Using the figures as suggested by us, we get the figures*** shown in **Table No 6.4.**

- 6.8.3 States' Own Revenue (Tax + Non-Tax) :** The *XII FC* has suggested *Own-Revenue GSDP* ratio of 8.2% in 2009-10, increasing from 7.10% in 2004-05. We have taken the ratio of 10.17% in 2004-05, increasing to 12.46% in 2009-10, for making projections of State Own Revenue. This figure is arrived by aggregating the *Ratios of Own Tax and Non -Tax Revenues*. The data is shown in **Table No. 6.5**.
- 6.8.4 Transfers From The Centre :** Regarding this component of Revenue Receipt of the State, first of all we are estimate Central Transferable amount than share of this State. This transfer made GSDP Ratio 6.31% in 2004-05 that increase in 2009-10 would be 8.09%.
- 6.8.5 Revenue Expenditure :** The *XIIthFC* has recommended a reduction in Non-Plan Revenue Expenditure of the State from 13.2% of GSDP in 2004-05 to 13.2% in 2009-10. Since the *XIIthFC* is concerned with Non-Plan Revenue Deficit, it has taken into account only the Non-Plan Expenditure, whereas the SFC is taking into account the Total Revenue Expenditure, to arrive at Revenue and Fiscal Deficits. We have disaggregated Total Revenue Expenditure into (i) Non-Plan and (ii) Plan Revenue Expenditure. The Non-Plan Revenue Expenditure in the state has been 12.47% which is less than the average figure of 13.6% estimated by the *XIIthFC* for 2004-05. This is expected to further reduce in the state. We, therefore, decided to take the *Non-Plan Revenue Expenditure GSDP Ratio* of **11.47%**. So we have kept this ratio constant at 11.47% during the entire period of forecast. But the actual amount allocated to Non-Plan Revenue Expenditure will be rising on account of increase in GSDP every year. For making projections of Plan Revenue Expenditure, we have taken the ratio of 4.97%, maximum achieve one of the past five years increasing to 6.51% in 2009-10. Using the suggested methodology, we get the figures of *Non-Plan and plan Revenue Expenditure for the State in the forecast period* shown in the **Table No. 6.6**.
- 6.8.6** We are recommending higher amount for Revenue Expenditure, both for Non-Plan and Plan Revenue Expenditure, since our object is to allocate more funds for Social and Economic Services which are woefully poor. *We are also making provision for increasing amount of Plan Revenue Expenditure since we are planning to increase substantially the size of Plan Expenditure*. Higher Capital Expenditure that we propose in the next paragraph will correspondingly require higher level of Plan Revenue Expenditure. This will also enable the Government to allocate more funds for the maintenance of assets created under the plans.

6.9.0 Index Of Self-Reliance :

6.9.1 With the help of projections of Revenue and Expenditure that we have made, we find *an improvement in the Index of Self-Reliance, which is represented by Own Revenue of the State Government divided by Revenue Expenditure*. The projections of revenue that we made stipulate an *increase in Own Revenue of the State to the extent that it accounts for increasing percentage of Revenue Expenditure of the State*. This is presents in **Table No. 6.7**.

The Index of Self-Reliance has manifested a continuous increase from 55.26% in 2001-02, 62.96% in 2004-05, 64.18% in 2005-06 increasing to 69.32% in 2009-10. This is a healthy trend. Another important feature of our scheme of projection is that it does not permit ruthless increase in Non-Plan Revenue Expenditure, as has been recently witnessed in a number of states. *The Non-Plan Revenue Expenditure will be permitted to increase to the extent made possible by increase in GSDP of the State*. On the other hand, Plan Revenue Expenditure has been permitted to increase at an increasing rate from 3.68% of GSDP in 2004-05 to 6.51% in 2009-10. This increase has been provided to meet the needs of capital investment and maintenance. This imposes a great responsibility on the State Government to keep its consumption expenditure under check.

6.10.0 Capital Receipts :

6.10.1 The position of the State on Capital Account is comfortable. The *Outstanding Debt of the State as percentage of GSDP as on 31st March was according in the Table No. 6.8* Compared to both the category of States, the position of *Chhattisgarh* is more comfortable.

6.10.2 *Interest Payments as percentage of Total Receipts have been declining as the reveals from Table No. 6.9*. There has been further decline in Interest Payments in Chhattisgarh State, in 2005-06 (RE), at 11.74% of Total Revenue Receipts. The average interest payment as percent of Total Receipts is lower in the State compared to non-special category States as well is the average of all the States of the Country.

- 6.10.3 The outstanding balance of Central loans granted upto 31.3.04 and the repayment profile during 2005-06 and 2009-10, according to the *XIIthFC*, comes to Rs 716.35 crores which is not very high. Against the satisfactory performance of the state in respect of capital budgeting, as wanted by public debt, outstanding payments and burden of Interest Payments, in our opinion, there is considerable scope for the state to raise funds from the Capital Market, both domestic and foreign, with a view to boosting up Capital Expenditure. With its present fiscal health, the state can embark upon a reasonable programme of capital borrowing to step up investment in the State.
- 6.10.4 The Capital Receipts in the state have increased from Rs 1176.89 crores in 2001-02 to Rs 1256.83 crores in 2004-05, mostly due to borrowings. We have projected Capital Receipts from Rs. 2594.98 crores in 2005-06 to Rs 5031.09 crores in 2009-10, taking into account the buoyancy in the capital market and enhanced capability of the state to borrow on account of its encouraging fiscal health. As percentage of GSDP, *Capital Receipts* are projected to 5% of GSDP in 2005-06 to 2009-10. Most of these receipts will come from borrowings from different sources. Emphasis is also laid on recovery of loan and the increase will be dependent on increase growth of GSDP.
- 6.10.5 We have projected Capital Expenditure more than Capital Receipt. The fulfillment of the extra capital expenditure can be done by Revenue Surplus. Most of this capital expenditure is intended for boosting up Physical Infrastructure in the State.
- 6.10.6 On the basis of methodology suggested above and also taking into account the needs of the state in terms of Revenue and Capital Expenditure and likely availability of Financial Resources, we have made *projections of Revenue and Expenditure of the State, both on Revenue and Capital Account*. The **Table No. 6.10** presents such projections for the State for the period 2005-2010.

6.11.0 Revenue Surplus :

- 6.11.1 The **Table No. 6.10** shown that Revenue Surplus, as percent of GSDP would increase from 0.75% in 2005-06 to 2.58% in 2009-10. The cause behind the increase in Revenue Surplus would be Own Tax Revenue of the State Government. The state has already received 0.33% of GSDP Revenue Surplus in year 2004-05.

6.12.0 Fiscal Deficit :

6.12.1 The scheme of suggested restructuring for State Finances designed by the *XIIthFC*, stipulates decline in Fiscal Deficit of the states from 4.5% in 04-05 to 3% in 2009-10. This is the average figure for all the states. At the same time, the level of Fiscal Deficit emerging from our projections is not very high. Fiscal Deficit of the States in India have been very high, in some cases even exceeding 7.5% of GDP as in the case of *West Bengal* and 6.14% in the case of *Punjab*. These Deficits have been mostly due to higher Revenue Deficits that is mostly caused by increasing consumption Expenditure of the State Governments. This is undesirable. In the projections that we have made Fiscal Deficit ranging between 4.05% to 2.98%. At the end of period we can achieve the target of 3% set by *XIthFC*.

6.12.2 Increase in Fiscal Deficit may appear to be un-conventional and undesirable to many. But we are of the view that every Fiscal Deficit may not be condemned. We agree that a higher level of Fiscal Deficit caused by the higher Revenue Deficit may not be sustainable. *Any level of Debt-Financed Capital Investment that generates rate of return which is higher than the rate of interest is sustainable.*

6.12.3 There is no unanimity among Economists either on analytical grounds or on the basis of empirical results, whether financing Government Expenditure by Fiscal Deficit is desirable in terms of its impact on Investment and Economic Growth. Among the mainstream Economists, the *Neo-Classical* view considers Fiscal Deficit as detrimental to investment and growth. *The Classical or the Ricardian* view point considers it as neutral. The *Keynesian* approach envisages that increase in Autonomous Government Investment in a country where unemployed resources exist, whether investment or consumption financed by borrowings, could cause output to expand through the multiplier process. Keynes regards consumption Expenditure also as employment generating factor. The *XIIthFC* observes that for the *short period*, *Keynesian* approach may be applicable and the *Neo-Classical* view may be considered relevant in the *long period*. But while formulating Medium Term Fiscal

Policy and a Programme of Restructuring Finances, the Commission has opted for the Neo-Classical approach of contraction in the short period, considering fiscal Deficit injurious to investment and growth. In present context of high prevailing liquidity, strong credit growth, low rates of interest and low inflation with large foreign exchange reserves and buoyant stock market, we can safely opt for a fiscal policy which is expansionary in nature. The approach may smack of Keynesian prescription. But it is not so. We do not support Keynesian approach in its entirety. We distinguish between Government deficit caused by increase in consumption Expenditure which may be inflationary and may not create productive assets, and the investment component which creates assets and generates income. We support financing of Fiscal Deficit not through monetisation but through internal and external borrowing and also through surpluses on revenue account. The underlying idea is that Fiscal Deficit can be used as an instrument of stimulating growth in an Economy which is rich in natural resources but lacks human resource development and physical infrastructure.

6.12.4 This discussion brings us into focus the Central role of Public Investment in under-developed areas of the country. Considering the fact that these areas have for long been neglected and under-developed and have an uninterrupted history of drain of Natural Resources (Forests, Mineral and Water), to the relatively more developed areas, investment required in these areas is likely to be substantial. Only the State can undertake investment of this magnitude and diversity. Public Investment needs to be multi-pronged and sustained over the long period. This would create the basis for Private Investment to step in. Taking into account the significance of investment by the State in creating Physical Infrastructure and Human Resources Development, we are recommending massive increase in Public Investment in the State even at the cost of increasing Fiscal Deficit.

6.13.0 Summary Of Suggested Restructuring Of State Finances:

6.13.1 *From the summary of suggested Restructuring of State Finances at the Macro Level* presented in **Table No.6.10**, we can derive a number of important ingredients and inputs for the formulation of *Medium-Term Fiscal Policy of the State*. These are highlighted below: -

- 1) A big push needs to be given to the *States' Own Tax Revenue which as a percentage of GSDP, has to rise from 7.34% in 2004-05 to 9.51% in 2009-10*, compared to 6.8%, suggested in the scheme of restructuring by the *XIIthFC*. Our starting point of 2004-05 is much higher (7.34%) than the average of all the states. The past performance of this ratio has emboldened us to project a big jump in this ratio. An increase of 18% per annum in the nominal growth rate of GSDP during 2005-10 should enable the State Government to mobilize an increasingly larger share of incremental GSDP, through Additional Revenue Mobilization, in terms of Tax and Non-Tax Revenue.
- 2) Total *Tax Revenue-GSDP Ratio of the State* which includes both own Tax Revenue and share in Central Taxes, *has been projected to increase from 11.60% in 2004-05 to 14.56% in 2009-10*.
- 3) *The Non-Tax Revenue-GSDP Ratio of the State* has been much higher than that of the average for the States, and increase projected in 2009-10 over 2004-05 for the State, is also much higher than that of average projected by the *XIIthFC*. *There is considerable scope for augmenting the revenue of the State through this source, provided far reaching changes are introduced in policy in respect of subsidies and realization of user-charges in respect of a number of Social and Economic Services provided by the State Government*.
- 4) The *Central Transfers*, though contributing a much higher share to increase in Total Revenue Receipts of the State compared to the average of all States, have shown a increasing contribution in terms of *percentage of GSDP*.
- 5) The decline in *Interest Payment-GSDP Ratio* is comparatively lower in respect of Chhattisgarh State relative to the all States average, mainly because of big increase contemplated in Total Borrowings of the State from the market for boosting up the growth rate of the State Economy.
- 6) *Total Revenue Expenditure* which includes *both Plan and Non-Plan Revenue Expenditure*, accounts for a much higher *Ratio of GSDP* in the state,

compared to the average for all States. This ratio has not been permitted to decline by any significant amount, since we have provided for an increase in Plan Revenue Expenditure compared to the Non-Plan Expenditure. Moreover, since we are planning to project a substantial increase in Expenditure on Social and Economic Services which is mostly in the nature of Revenue Expenditure, and also in Plan Revenue Expenditure, to support an increase in Capital Expenditure, our projections in respect of Revenue Expenditure do not manifest any significant decline in the Revenue Expenditure -GSDP Ratio. This is in tune with our policy of stepping up Capital Expenditure, necessitating a corresponding increase in Plan Revenue Expenditure.

- 7) ***The Capital Expenditure-GSDP Ratio*** was much higher (3.17%) in 2004-05 compared to the All-States average. This ratio is expected to raise to 6.20% in 2009-10 in the State. The state needs a massive increase in public investment in physical infrastructure and human resource development, so essential for attracting private investment, both domestic and foreign. ***Because of comparatively higher level of Revenue Expenditure and some reduction that we have projected in it, and despite a substantial increase in Revenue Receipts, our scheme of restructuring shows a small as well as increasing Revenue Surplus, 2.58% of GSDP in 2009-10, compared to the zero level projected in the scheme of the XIIth FC.***

- 8) An unconventional result that emerges from our scheme is an increase in Fiscal Deficit from 2.80% of GSDP in 2004-05 to 4.05% in 2005-06 but decline to 2.98% in 2009-10. ***The justification for this higher rate and also decrease in Fiscal Deficit lies in the fact that mostly the deficit has been caused by increase in Capital Expenditure with incremental Revenue Surplus.*** This accelerates the pace of growth in the State for generating more incomes which would bring more Revenue to the State exchequer. This Fiscal Deficit is not due to increase in Revenue Deficit, as has been the case in many States in recent years, but due to an increase in investment Expenditure for putting the State on the trajectory of higher growth.

- 9) The State Government would be in a much better position because of healthy fiscal trends discernible in the immediate past, to raise funds from the market, of a much bigger magnitude than in the past. For this purpose, the State Government has to gear up its administrative machinery and other resources. A big boost in borrowings from the market for productive purposes, may not permit a reduction in the ratio of Interest Payments to Total Revenue Receipts, to the extent contemplated by the *XIIthFC*.
- 10) *To achieve the Macro Fiscal targets, visualized in our scheme of restructuring shown in Table No. 6.11, it would be necessary to bring about corresponding changes in the structure of individual items comprising the Revenue and Expenditure of the State. Restructuring at the Micro Level is equally important, without which Macro Level restructuring would remain on paper. This task we would be undertaking in the Next Chapter.*

Table No. 6.1
Forecasts Of Revenue Expenditure Of Chhattisgarh State
(2002-03 To 2009-10)

(In Crores Rs.)

S. No.	Items	2002-03	2033-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	2	3	4	5	6	7	8	9	10
1.	General Services	870	1073	1269	1508	1798	2151	2582	3110
A.	Interest Payments	403	490	542	599	662	731	809	895
B.	Others	466	583	728	909	1136	1419	1773	2216
2.	Social Services	987	1171	1390	1649	1957	2322	2756	3270
3.	Economic Services	682	791	917	1062	1231	1426	1653	1916
4.	Grants To Local Bodies	76	116	126	138	151	165	181	198
5.	Per Capita Revenue Expenditure (Rs.)	2615	3150	3702	4357	5137	6065	7172	8494
6.	Total Revenue Expenditure	5530	6772	8092	9684	11607	13934	16753	20174
7.	Plan Expenditure	1330	2777	2569	2775	3009	3276	3579	3923
8.	Balance Non-Plan Revenue Expenditure	4200	3996	5523	6909	8598	10658	13175	16250
9.	Own Revenue Receipts	3291	3767	4119	4458	4833	5366	5966	6643
10.	Non-Plan Revenue Deficit Before Devolution	909	228	1405	2451	3765	5293	7208	9607

(Source: Memorandum submitted to the XIIth Finance Commission, page 57)

Table No. 6.1 (A)
Deficit Projections Of The State Government

(In Crores Rs.)

States Own Revenue Receipts			Non-Plan Revenue Expenditure	Deficit
Own Tax Revenue	Own Non-Tax Revenue	Total		
20307	8661	28968	37663	-8695

Table No. 6.1 (B)
Grants-In-Aid For Chhattisgarh State

(In Crores Rs.)

Share In Central Taxes	16285.76
Non-Plan Revenue Deficit	Nil
Maintenance Of Roads & Bridges	262.40
Maintenance Of Buildings	183.09
Maintenance Of Forests	85.00
Heritage Conservation	10.00
State Specific Grant	300.00
Local Bodies	703.00
Calamity Relief	444.45
Total Grants-In-Aid	1987.94
Total Transfers	18273.70

(Source : XIIth Finance Commission Report, page 197)

Table No. 6.2
Projections For Chhattisgarh State By The XIIth FC.
(2005-06 To 2009-10)

(In Crores Rs.)

SNo.	Item	2005-06	2006-07	2007-08	2008-09	2009-10	2005-10 Total
1	2	3	4	5	6	7	8
I.	Revenue Receipts						
i.	Own Tax Revenue	3445.81	3900.65	4415.54	4998.39	5658.18	22418.58
ii.	Own Non-Tax Revenue	1322.08	1401.91	1491.15	1591.40	1704.66	7511.20
	Total (i) + (ii)	4768.89	5302.57	5906.69	6589.79	7362.84	29929.78
II	Non-Plan Revenue Expenditure General Services						
i.	Interest Payment	1062.22	1153.60	1251.65	1358.04	1473.48	6300.00
ii.	Pensions	474.31	521.75	573.92	613.31	694.44	2895.74
iii.	Other Gen.Services	705.39	747.88	792.95	840.76	891.49	3978.47
	Total General Services	2242.93	2423.22	2618.53	2830.12	3059.41	13174.21
III	Social Services	1630.15	1766.77	1915.36	2077.02	2252.94	9642.23
IV	Economic Services	870.48	924.73	982.53	1044.09	1109.69	4931.25
V	Compensation And Assignment To Local Bodies	220.44	247.99	278.99	313.87	353.10	1414.40
VI.	Committed Liabilities	-	-	656.32	705.54	758.46	2120.32
VII.	Total Non-Plan Revenue Expenditure	4964.00	5362.00	6451.73	6970.64	7553.61	31282.68
VIII	Pre-Devolution Non-Plan Deficit	-196.11	-60.14	-545.04	-380.84	-170.77	-1352.90

Source : XIIth Finance Commission Report, page 395)

Table No. 6.3
A Comparative Picture Of Projections Of Own Tax Revenue
(2005-06 To 2009-10)

(In Crores Rs.)

Commission	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	2	3	4	5	6	7
Projections Made By The SFC	3994.79	4956.29	6161.76	7673.72	9571.23	32357.79
Projected By XII th FC	3445.81	3900.65	4415.54	4998.39	5658.18	22418.58

Table No. 6.4
A Comparative Picture Of Projections Of Own Non-Tax Revenue
(2005-06 To 2009-10)

(In Crores Rs.)

Commission	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	2	3	4	5	6	7
Projections Made By The SFC	1480.28	1761.53	2096.22	2494.50	2968.46	10800.98
Projected By XII th FC	1322.08	1401.91	1491.15	1591.40	1704.66	7511.20

Table No. 6.5
Projected Picture Of Own Revenue Of The State
(2005-06 To 2009-10)

(In Crores Rs.)

Commission	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	2	3	4	5	6	7
Projections Made By The SFC	5475.07	6717.82	8257.98	10168.22	12539.69	43158.78
Projected By XII th FC	4767.89	5302.57	5906.69	6589.79	7362.84	29929.78

Table No. 6.6
A Comparative Picture Of Projections Of Revenue Expenditure
(2005-06 To 2009-10)

(In Crores Rs.)

S. No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	2	3	4	5	6	7	8
1.	Revenue Expenditure (Non-Plan) Projected By SFC	5952.88	7024.40	8288.79	9780.77	11541.31	42588.16
2.	Revenue Expenditure (Non-Plan) Projected By XII th FC	4964.00	5362.71	6451.73	6970.64	7533.61	31282.68
3.	Plan Revenue Expenditure	2578.16	3160.50	3953.88	5042.36	6547.14	21282.05
4.	Total Revenue Expenditure (1+3)	8531.04	10184.90	12242.68	14823.14	18088.45	63870.20
5.	% Of GSDP	16.44	16.63	16.94	17.38	17.98	17.20

Table No. 6.7
Index Of Self-Reliance
(2005 -06 To 2009 -10)

(In Crores Rs.)

S No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	2	3	4	5	6	7	8
1.	Total Own Revenue Of The State	5475.07	6717.82	8257.98	10168.22	12539.69	43158.78
2.	Revenue Expenditure	8531.04	10184.90	12242.68	14823.14	18088.45	63870.20
3.	Index Of Self Reliance Own Revenue / Revenue Expenditure Percentage	64.18	65.96	67.45	68.60	69.32	67.57

Table No. 6.8
A Comparative Picture Of Outstanding Debt Of The State
(Debt-GSDP Ratio)
(2000 -01 To 2002 -03)

(In %)

S. No.	Description	2000-01	2001-02	2002-03
1	2	3	4	5
1.	Chhattisgarh	22.01	21.66	25.46
2.	Non-Special Category States	28.34	30.84	33.51
3.	All States	28.96	31.54	34.21

Table No. 6.9
A Comparative Picture Of Interest Payments In State
(Percentage Of Total Receipts)
(2001 -02 To 2004 -05)

S.No.	Description	2001-02	2002-03	2003-04	2004-05	Average
1	2	3	4	5	6	7
1.	Chhattisgarh	16.71	14.95	14.35	14.45	15.12
2.	Non Special Category States	26.19	27.11	27.16	29.29	27.44
3.	All States	25.23	26.04	26.07	25.19	25.63

Table No. 6.10
Projections Of Revenue And Expenditure Of Chhattisgarh State
(2005-06 To 2009-10)

(In Crores Rs.)

S. No.	Items Of Revenue / Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	Total /Avg
1	2	3	4	5	6	7	8
I	Revenue Receipts						
1.	Own Tax Revenue	3994.79	4956.29	6161.76	7673.72	9571.23	32357.79
2.	Own Non-Tax Revenue	1480.28	1761.53	2096.22	2494.50	2968.46	10800.98
3.	Total Own Revenue (1+2)	5475.07	6717.82	8257.98	10168.22	12539.69	43158.78
4.	% Of GSDP	10.55	10.97	11.43	11.92	12.46	11.62
5.	Transfers From Centre Share In Taxes + Grants-in-Aid	3443.57	4270.02	5294.83	6565.59	8141.33	27715.33
6.	% Of GSDP	6.64	6.97	7.33	7.70	8.09	7.46
7.	Total Revenue Receipts (3+5)	8918.64	10987.84	13552.81	16733.81	20681.02	70874.11
8.	% Of GSDP	17.18	17.94	18.75	19.62	20.55	19.09
II	Revenue Expenditure						
1.	Non-Plan	5952.88	7024.40	8288.79	9780.77	11541.31	42588.16
2.	Plan	2578.16	3160.50	3953.88	5042.36	6547.14	21282.05
3.	Total Revenue Expenditure (I) + (II)	8531.04	10184.90	12242.68	14823.14	18088.48	63870.20
4.	% Of GSDP	16.44	16.63	16.94	17.38	17.98	17.20
III	Capital Receipts						
1.	Recovery Of Loans	1032.80	189.85	303.51	451.95	643.98	1693.08
2.	Net Public Debt	2122.69	2431.29	2782.20	3180.67	6332.44	14149.29
3.	Net Public Account	368.49	440.94	527.53	631.02	754.66	2722.64
4.	Total Capital Receipts	2594.98	3062.07	3613.25	4263.63	5031.09	18565.02
IV.	Capital Expenditure	2594.98	3245.80	4046.84	5031.09	6238.55	21157.25
V.	Total Expenditure (Revenue +Capital Expenditure)	11126.02	13430.70	16289.51	19854.22	24327.00	85027.45
VI.	Revenue Surplus	387.60	820.94	1310.13	1910.67	2592.56	7002.90
	% Of GSDP	0.75	1.31	1.81	2.24	2.58	1.89
VII.	Fiscal Deficit	2103.58	2253.01	2433.19	2668.47	3002.01	12460.26
	% Of GSDP	4.05	3.68	3.37	3.13	2.98	3.36
VIII	Capital Expenditure As % Of Fiscal Deficit	123.36	144.07	166.32	188.54	207.81	169.80

Table No. 6.11
Summary Of Suggested Restructuring Of State Finances
(2004-05 To 2009-10)

XII th FC Suggested Restructuring Of State Finances (Percent Of GDP)					State FC Suggested Restructuring Of Chhattisgarh State Finances (Percent Of GSDP)			
S. No.	Item	04-05	09-10	Adjustment 09-10 Minus 04-05	Item	04-05	09-10	Adjustment 09-10 Minus 04-05
1	2	3	4	5	6	7	8	9
1.	States Own Tax Revenue	5.9	6.8	0.8	Own Tax Revenue	7.34	9.51	2.17
2.	Tax Revenue	8.4	9.7	1.3	Tax Revenue	11.60	14.56	2.96
3.	Own Non-Tax Revenue	1.2	1.4	0.2	Own Non -Tax Revenue	2.83	2.95	0.12
4.	Total Revenue Receipts	11.6	13.2	1.6	Total Revenue Receipts	16.48	20.55	4.07
5.	Central Transfers	4.5	5.0	0.5	Central Transfers	6.31	8.09	1.78
6.	Interest Payments	2.9	2.0	-0.9	Interest Payments	2.62	1.72	-0.9
7.	Total Revenue Expenditure	13.6	13.2	-0.4	Total Revenue Expenditure	16.15	17.98	1.83
8.	Capital Expenditure	2.6	3.1	0.5	Capital Expenditure	3.39	6.20	2.81
9.	Total Expenditure (7+8)	16.2	16.3	0.1	Total Expenditure (7+8)	19.31	24.18	4.87
10.	Revenue Deficit (7-4)	2.0	0.0	-2.0	Revenue Surplus (4-7)	0.33	2.58	2.25
11.	Fiscal Deficit	4.5	3.00	-1.5	Fiscal Deficit	(4.05)	2.98	-1.07
12.	Primary Deficit (FD-Interest Payments)	1.6	1.0	-0.6	Primary Deficit (FD-Interest Payment)	(1.65)	1.26	-0.39
13.	Interest Payment/ Revenue Receipts	24.9	15.0	-10.0	Interest Payment / Revenue Receipt	15.89	8.38	-7.51

Note :- Figure in bracket shows year 2005-06, adjustment 2009-10 - 2005-06.

(Source : For the states data XIIth FC report, page 75. Chhattisgarh state data calculated from budgetary data and projections of Revenue and Expenditure made by the *SFC*)