Outcome Evaluation of State Finances - Gujarat

Report Submitted to the
Fifteenth Finance Commission
Government of India

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OUTCOME EVALUATION OF STATE FINANCES - GUJARAT

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CHAPTER I

INTRODUCTION

Gujarat is one of the fastest growing states and is considered as growth engine contributing to around 7.3% of India's GDP (2015-16). Gujarat is predominantly an industrial state with relatively higher contribution of industry to the state income, as compared to the national average. The primary, secondary and tertiary sectors have contributed 18 percent, 39 percent and 43 percent respectively to the total GSDP of Rs. 894667(p) crores in 2015-16 at constant (2011-12 prices). (GoG, 2017-18). Gujarat is one of the top performing states in terms of GSDP growth rate with sound infrastructure, favouring industrialization and attracting foreign investments.

The state experienced the 19.16 % decadal growth in population, from Rs. 5.07 crores in 2001 to Rs. 60,383,628 (6.03 crores) in 2011. The state possesses around 5.97 % of the area and accounts for 4.99 % of population of India. Gujarat has experienced relatively fast urbanization, with the urban population of 42.6 % as against 31 % of India's population living in urban area. Gujarat, having entrepreneurial population, industrialization and sound

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infrastructure, is able to establish itself as the better performer, both in terms of fiscal discipline and economic growth. The GSDP growth rate, which has been always higher than the national average, provides wider base for generating financial resources and so, the state enjoys high Tax/GSDP ratio. However, the same factors would generate demand for higher public expenditure at the same time. Unlike other states, the fiscal issues of Gujarat are very different. Gujarat is able to meet the revenue expenditure mostly by its revenue receipts and bringing down the revenue deficit to zero. However, maintaining the consistency and stability in the fiscal performance will be the challenge for state government. Intense efforts are required for mobilizing financial resources from untapped area of non-tax revenue, developing efficient and transparent public expenditure mechanism and improving the collection and recording system of financial data.

Methodology

The study broadly uses the methodology prevalent in the literature of state finances. It makes an attempt to evaluate finances of Gujarat state based on the performance over a period of time. As per the terms of reference, the time period of the study is ten years, starting from 2006-07 to 2015-16 (accounts). The data for revenue, expenditure and deficit indicators have been taken from the state budget documents and FRBM reports. Data related to the state government's liabilities, financial transfers to local bodies, financial performance of Public Sector Enterprises andpower sector performance data are obtained from CAG reports of various years.The data for GSDP is taken from Socio-Economic Review of Gujarat. For this study we have used GSDP at current price. There is a change in the income series during the study period. However due to non-availability of comparable series the GSDP data from 2006-07 to 2010-11 is taken with 2004-05 series, and from 2011-12 to 2015-16, the new series is used i.e. 2011-12. The GSDP with the base year of 2004-05 is calculated at factor cost whereas the GSDP with the base year 2011-12 is calculated at market price. Both the series differ in terms of the method of estimation and also coverage of economic activities. However, throughout the study only GSDP at current price is used and thus using two different series across the study period will not lead to the issue of non-comparability.

The fiscal performance indicators adopted in the study as per the ToR, include, (i) Revenue Receipts and Capital Receipts. Revenue Receipts is further analyzed separately with respect to Tax and Non-Tax Revenue. (ii) Revenue and Capital Expenditure. Further being classified into Development and Non-Development Expenditure (iii) Deficit indicators that include, Revenue Deficit, Fiscal Deficit and Primary Deficit. (iv)Government liability including Public Debt and Public Account Liability (v) other fiscal performance parameters include, Subsidies, PSUs' performance and Power Sector's Performance.In India, States' income and expenditure is classified as revenue receipts and expenditure and capital receipts and expenditure. Revenue receipts are generated through taxes and non-tax sources. They don't carry any long-term liability on the part of state government of repayment. On the other hand, capital receipts carry an interest burden if theyare raised through borrowing from market, national banks, NSSF etc. The other sources of capital receipts are recovery of loans, inter-state settlement etc. Revenue expenditure includes current expenditure on salaries, pension, subsidies, interest payment etc. Capital expenditure consists of expenditure on formation of capital assets and financial transfers. State finance data of expenditure have also been presented with functional classification of development and non-development expenditure. Analysis of growth of deficit indicators, various income and expenditure components and the compositional analysis of state's income and expenditure not just provide insights on state government's fiscal discipline, but also help understand the state's priorities and efforts for the growth strategies.

For analyzing the above indicators, various descriptive statistics and relevant econometric models are used. These broadly include, (i)revenue – GSDP and expenditure – GSDP ratio for major components, Deficit – GSDP ratio and Debt – GSDP ratio. (ii)The Compounding Average Annual Growth Rate (iii) Year on Year Growth Rate for the trend analysis. (iii) Analyzing the percentage of individual components. In addition, (iv) Buoyancy is also estimated to analyze how buoyant is the revenue generating capacity of the state.

Context of the Study

Fiscal management of an economy shapes the course of development and growth. Poor conduct of fiscal policy has contributed to serious economic problems in parts of developing world (World Development Report, 1988, 1). In a federal nation like India, fiscal policy of States assumes importance in the macroeconomic policies as States account for around 57 per cent of the total expenditure incurred by both levels of government (Centre and States) (Dirghau Keshao Raut, 2011). As state governments have the power to take certain fiscal decisions, their efforts are likely to determine their fiscal as well as economic performance. (Baxi H, Nair K, 2014). At the juncture of constitution of Fifteenth Finance Commission, an evaluation study is expected to critically analyze Gujarat's finances over the ten-year period with reference to the ToR of the 15th Finance Commission and provide suggestions to improve the financial performance of state. It is in this background that the fiscal performance of Gujarat needs to be reviewed.

The remaining part of this report is divided into 6 chapters. Chapter II analyzes the revenue and capital receipts, Chapter III analyzes revenue and capital expenditure, Chapter IV analyzes subsidies and guarantees, Chapter V addresses the issue of state's borrowing and outstanding debt,Chapter VI provides analysis of state's deficit and reforms under FRBM Act and Chapter VIIstudies the fiscal decentralization efforts of the state. Chapter VIIIdiscusses power sector reforms and performance of PSUs. Chapter IX presentsconclusions and policy recommendations.

CHAPTER II

STATE'S REVENUE AND CAPITAL RECEIPTS

Revenue receipts

Revenue receipts are classified into tax and non-tax revenue. State has the authority to collect their revenue from taxes on income, taxes on property, and taxes on commodities and services such as VAT, state excise, vehicle tax, entertainment tax, electricity duty etc. States also get their share in union fiscal resources through the devolution of finance commission. The tax powers are assigned on the basis of the principle of separation, exclusively either to the center or to the states. This section analysis the performance of revenue receipts of Gujarat with the help of indicators (a) Revenue/GSDP ratio (b) Buoyancy (c) CAAGR (d) Year on Year Growth Rate (e) Composition Analysis.

(a) Revenue - GSDP Ratio

Gujarat experienced an average Revenue Receipt (RR) to GSDP ratio at around 10.2 % during the period from 2006-07 to 2015-16. There are two critical concerns here. One, very poor or low Non-Tax Revenue and Own Non-Tax Revenue (ONTR) to GSDP ratio. For most of the years, the ONTR-GSDP ratio is less than one. Second, continuous reduction in the RR-GSDP ratio ismainly due to the reduction in the OTR-GSDP ratio. State's Own Tax Revenue (OTR) which was growing by more than 21 % up to 2011-12, experienced a steep reduction in the growth rate (Table 2.4). The very next year it grew only by 4.6 %. The reasons are discussed while analyzing the annual growth rate.

Table 2.1 Revenue – GSDP Ratio

Year	RR/GSDP	TR/GSDP	OTR/GSDP	NTR/GSDP	ONTR/ GSDP
2006-07	10.93	8.07	6.51	2.86	1.74
2007-08	10.84	8.29	6.65	2.54	1.40
2008-09	10.51	7.96	6.40	2.55	1.39
2009-10	9.66	7.57	6.20	2.10	1.26
2010-11	10.04	8.25	6.97	1.79	0.94
2011-12	10.23	8.45	7.19	1.77	0.86
2012-13	10.38	8.66	7.44	1.72	0.83
2013-14	9.90	8.18	6.98	1.72	0.87
2014-15	9.98	7.77	6.65	2.21	1.04

2015-16	9.51	7.64	6.11	1.87	0.99

Source: Calculated from Gujarat state budget documents of various years.

(b) Buoyancy

Table 2.2 Buoyancy Estimates (2006-07 to 2015-16)

Revenue Resources	Buoyancy
Revenue Receipts	0.92
Tax Revenue	0.99
Own Tax Revenue	1.02
Non-Tax Revenue	0.69
Own Non-Tax Revenue	0.54

Source: Calculated based on data from state budget documents

The state experienced relatively buoyant tax structure as the buoyancy of OTR is 1 %. Due to the low buoyancy of NTR and ONTR at 0.7 % and 0.54 % respectively, the overall revenue of the state is not greatly responding to the GSDP growth.The non-tax revenue structure of Gujarat state is not very buoyant. With every 1% increase in the GSDP, there is only 0.69% and 0.54% increase in the non-tax revenue and state's own non-tax revenue. This implies inefficient structural development for generating the non-tax revenue.

(c) Compounding Average Annual Growth Rate

Table 2.3 CAAGR of Tax Revenue (2006-07 to 2015-16)

Components	CAAGR
Revenue receipts	12.14
Tax revenue	13.1
State's Own Tax Revenue	13
Land Revenue	17.63
Stamp and Registration Fees	14.56
Sales Tax/VAT	13.15
State excise	11.39
Taxes on Vehicles	9.71
Taxes on Goods and Passengers	46.16
Taxes and Duties on Electricity	11.13
Entertainment Tax	14.63
Share in Central Taxes	13.48

Source: Calculated based on data from state budget documents

The compounding average annual growth rate (CAAGR) of Revenue Receipt was 12.14 % during the study period (Table 2.3). State experienced an increase in the Revenue Receipts from Rs. 31002.22 crores in 2006-07 to Rs. 97482.58 crores in 2015-16. The highest CAAGR of revenue is achieved from taxes on good and passengers at 46 %, despite of which the relative share of this tax is very insignificant. There is also observed a great fluctuation in the tax collection during the study period. The lowest CAAGR is observed in case of vehicle tax, at around 10 %. However, the state has attempted simplification and rationalization of vehicle tax during the study period. The efforts include redesigning the tax structure by modifying the vehicle classification for levying the vehicle tax, imposing tax on the sale price of the vehicle, significant reduction in tax rates and introducing the lump sum tax. These measures have probably led to reduction in the OTR to GSDP ratio of Gujarat over the years.

(d) Year on Year Growth Rate

Table 2.4 Annual Growth Rate of Own Tax revenue (%)

Components	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	213-14	2014-15	2015-16
Revenue receipts	15.12	8.37	7.75	25.66	20.23	19.49	6.31	15.01	5.98
Tax revenue	19.31	7.22	11.43	31.83	20.96	20.63	5.27	8.42	9.36
State's Own Tax Revenue	18.52	7.64	13.51	35.89	21.78	21.79	4.59	8.81	2.15
Taxes on Income	14.12	24.24	5.94	15.92	-2.65	-6.47	6.94	3.89	4.27
Land Revenue	36.97	-20.44	113.65	54.05	-17.42	49.46	-21.76	9.57	33.60
Stamp & Registration Fees	41.64	-14.36	47.92	43.40	27.39	-5.21	7.28	15.88	0.84
Taxes on Commodities and Services	15.99	10.85	8.18	34.30	23.57	24.17	5.60	8.13	1.17
State Sales Tax/VAT	17.84	11.30	8.26	36.78	25.34	26.48	3.83	7.73	-0.12
Taxes on Vehicles	9.99	5.46	11.65	29.89	12.34	1.12	0.29	18.06	11.61
Taxes on Goods and Passengers	2443.9	11.69	-95.92	-7.67	3165.5	1.08	296	-74.76	26.07
Taxes and Duties on Electricity	-1.98	15.80	11.55	23.41	12.01	20.58	6.49	25.25	2.08
Entertainment Tax	2.06	18.60	38.61	40.00	15.47	64.53	6.50	-18.44	1.04

Source: Calculated based on data from state budget documents

Table 2.5 Annual Growth Rate of Tax revenue (Share in Central Taxes) (%)

Components	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	213-14	2014-15	2015-16
Share in Central Taxes	22.61	5.52	2.88	13.39	16.50	14.20	9.18	6.13	52.28
Corporation Tax	25.70	9.05	29.10	7.69	17.32	4.21	2.22	10.20	37.07
Income Tax	37.81	2.01	14.54	2.16	12.77	22.83	12.43	19.50	33.35
Taxes on Wealth	10.40	-8.38	213.71	-2.55	120.93	-54.23	65.62	8.26	-87.73
Customs	18.52	6.71	-24.67	41.68	15.51	9.45	7.19	5.20	50.48
Union Excise Duties	4.89	-2.51	-30.42	27.94	2.75	14.95	11.41	-15.90	121.98
Service Tax	30.15	14.10	0.56	7.08	39.45	39.71	21.81	-3.96	79.99

Source: Calculated based on data from state budget documents

The Value Added Tax was introduced in Gujarat during fiscal year 2006-07and after whichthe tax revenue from VAT continued to be a major source of revenue.Up to 2012-13 the revenue from VAT experienced high growth, as high as almost 37 % during 2010-11 (table 2.4). However, during the last three years of the study there has been a significant reduction in the growth rate. In the year 2015-16, the revenue from VAT, in fact, reduced by 0.2 %. The Finance Department, Gujarat attributed this reduction to the factors such as decrease in the prices of petrol/diesel, reduction in the tax credit deduction in inter-state transaction, reduction in sales of bullion and jewelry etc. (CAG, 2015-16). The budget announcement for the year 2012-13 also brought reduction in the VAT rates for various categories of goods resulting in the loss of almost Rs. 200 cores loss in the tax revenue (Budget speech, GoG, 2012-13). There also observed a significant rationalization in the stamp duty, registration fees and electricity duty during these years.

Gujarat, similar to other states has been relying more on the Tax Revenue for raising the financial resources. The Non-Tax Revenue has not been considered as a potential source. This is evident from the lower NTR-GSDP ratio, ONTR-GSDP ratio and also from relatively lower share of NTR in the total Revenue Receipts. The CAAGR of Own Non-Tax Revenue is 7.49 percent (table 2.6). The revenue from social services has grown the highest amongst all components by around 15 %. The growth in the dividends and profits segment has been substantiallynegative over the years. While interest receipts (11.53%), General services (5.51%) and Economic services (7.79%) have enjoyed a positive trend over the years. This implies the Government has poor quality of investments and the working conditions of the state PSU'S is deteriorating.

Table 2.6 CAAGR of Non - Tax Revenue (2006-07 to 2015-16)

Components	CAAGR
Non-Tax Revenue	8.97
State's Own Non-Tax Revenue	7.49
Interest Receipts	11.53
Dividends and profits	-12.25
General Services	5.51
Social Services	14.83
Economic Services	7.79

Source: Calculated based on data from state budget documents

Table 2.7 Annual Growth rate of Non-Tax Revenue (%)

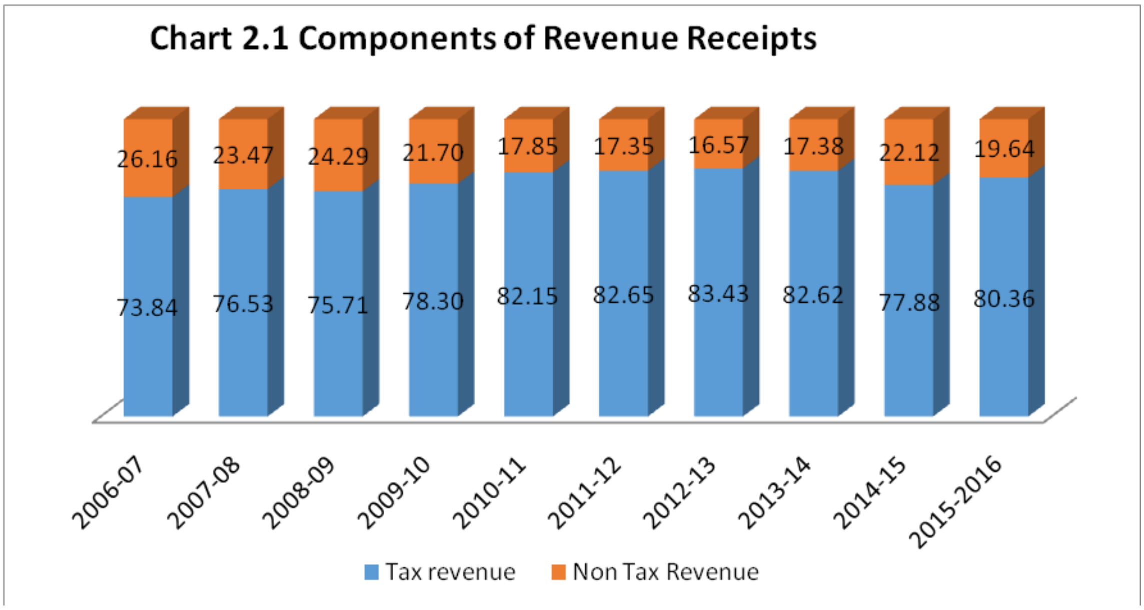
Components	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	213-14	2014-15	2015-16
Non-Tax Revenue	3.29	12.11	-3.74	3.37	16.92	14.06	11.54	46.33	-5.89
State's Own Non-Tax Revenue	-6.86	10.63	6.91	-9.84	7.36	14.03	16.64	35.97	6.82
Interest Receipts	16.54	72.13	-26.13	-3.71	56.45	109.82	-4.43	-20.18	-16.66
Dividends and Profits	-86.59	3.85	55.33	49.15	12.67	-57.88	410.85	-67.73	7.28
General Services	-31.94	23.95	18.24	-68.89	-1.19	-87.36	1030.00	8.94	258.43
Social Services	18.24	71.27	-25.36	38.93	6.92	21.68	37.98	9.30	-3.23
Economic Services	8.44	-7.00	16.16	1.79	2.27	8.14	0.87	75.07	-9.07
Grants from Centre	19.16	13.92	-16.40	23.43	27.52	14.09	6.78	56.89	-17.13

Source: Calculated based on data from state budget documents

It is evident from Table 2.7 that the growth in non-tax revenue is fluctuating. There is no stability in the growth of any of the component. Lower contribution of non-tax revenue indicates the inability to recover the return on investment, charges of social and economic services and inability of state's PSUs to generate profits. The government seems to rely on extraordinary events to raise the non-tax revenue from different sources and hence, there seems to be high volatility in the growth rather than observing a consistent growth rate over a period of time. In the year 2013-14, the income from dividends increased by around 410 % whereas in the very next year, income from dividends reduced by 68 %. The interest receipts and dividends and profits observed negative growth rate more frequently.

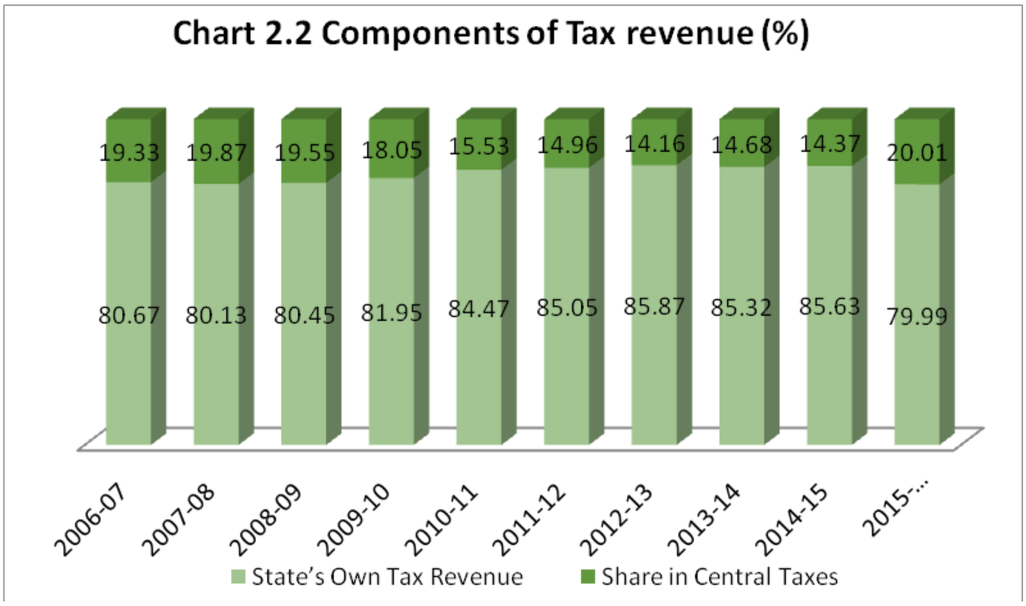
(e) Composition

Analysis of the percentage share of tax and non-taxrevenue for the period from 2006-07 to 2015-16, clearly indicates that there is a consistent reduction in the share of Non-Tax Revenue from 26 % in 2006-07 to 19.64 % in 2015-16. In fact, during 2012-13 the share of Non-Tax Revenue reduced to merely 16.5 %. (Chart 2.1). This clearly indicates a regressive tax structure, as almost 80 % of state's own tax revenue is raised from indirect taxes.



Source: Calculated based on data from state budget documents

Within the tax revenue, the relative share of State's own tax revenue has been more than 80 %. State's own tax revenue is dominated by VAT (around 80 %), followed by electricity duty (Table 2.8). Entertainment tax contributes the lowest. The state probably could not diversify the tax structure and relied predominantly on VAT.

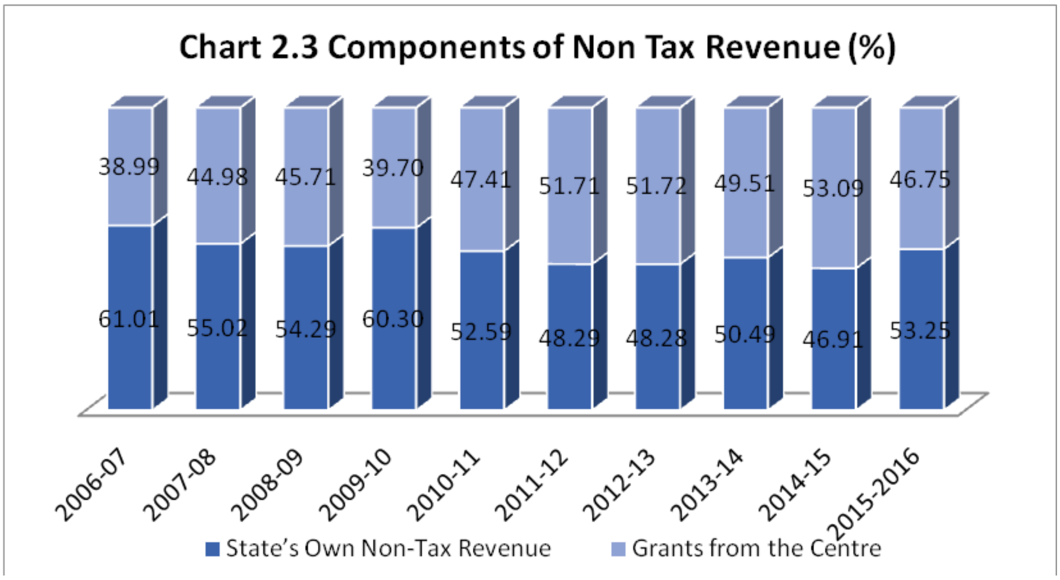


Source: Calculated based on data from state budget documents

Table 2.8 Components of Taxes on Commodities and Services (%)

Year	VAT	State Excise	Taxes on Vehicles	Taxes on Goods & passengers	Taxes & Duties on Electricity	Entertain ment tax	Other Taxes & Duties
2006-07	78.11	0.26	7.26	0.04	12.72	0.17	1.45
2007-08	79.36	0.25	6.88	0.80	10.75	0.15	1.81
2008-09	79.68	0.23	6.55	0.80	11.23	0.16	1.35
2009-10	79.73	0.29	6.76	0.03	11.58	0.21	1.40
2010-11	81.20	0.21	6.54	0.02	10.64	0.22	1.17
2011-12	82.37	0.19	5.94	0.55	9.65	0.20	1.10
2012-13	83.90	0.18	4.84	0.45	9.37	0.27	1.00
2013-14	82.49	0.22	4.60	1.68	9.45	0.27	1.30
2014-15	82.19	0.26	5.02	0.39	10.94	0.20	1.00
2015-16	81.14	0.23	5.54	0.49	11.04	0.20	1.37

Source: Calculated based on data from state budget documents



Source: Calculated based on data from state budget documents

The state'sNon-Tax revenue comprises of state's Own Non-Tax Revenue and Grants from the center. As shown in graph, the contribution from both the sources have been more or less remained equal during the study period. The state has no influence on the amount. Hence, the dependence of state for the same is matter of caution. The state needs to focus more on state's own non-tax revenue for stable growth in the economy.

In the total Own – Non-Tax Revenue, the revenue from economic services has the highest and significant share. The relatively insignificant share of interest receipts and dividends and profit from PSUs is certainly a matter of concern. It is reported by CAG that the average return on the investments was merely 0.25 per cent during the period of 2011-12 to 2015-16. As against it, the Government paid an average of 7.67 per cent as interest on its borrowings during the same period. The finance department has been claiming for PSU transformation. To mention, in the year 2012-13 the total net profit of all the state PSU's collectively stood at Rs. 4041 crores but the dividends and profits decreased by 58 per cent during the same year. During the year 2015-16, 49 state PSU's registered a net profit of Rs. 3726 crores. The state is repetitively being advised by CAG and also RBI to formulate dividend policy regarding the payment of minimum return by the PSUs on the paid-up capital contributed by the state government. However, it has yet not been formulated.

Table 2.9 Components of State's Own Non- Tax Revenue (%)

Year	Interest Receipts	Dividends and Profits	General Services	Social Services	Fiscal Services	Economic Services
2006-07	5.72	7.17	23.75	6.52	0.00	56.83
2007-08	7.16	1.03	17.36	8.28	0.00	66.17
2008-09	11.14	0.97	19.45	12.82	0.00	55.63
2009-10	7.69	1.41	21.51	8.95	0.00	60.44
2010-11	8.22	2.33	7.42	13.79	0.00	68.23
2011-12	11.98	2.44	6.83	13.74	0.01	65.00
2012-13	22.04	0.90	0.76	14.66	0.00	61.64
2013-14	18.06	3.95	7.34	17.34	0.00	53.31
2014-15	10.60	0.94	5.88	13.94	0.00	68.64
2015-16	8.27	0.94	19.73	12.63	0.00	58.43

Source: Calculated based on data from state budget documents

The contribution of interest in the total non-tax revenue has been considerably low. But the possibility of improving the interest receipts is questionable given the fact that, out all the outflows particularly in year 2016-17, only 0.50 percent,i.e.Rs. 478 crores, go as the loans and advances. Hence, the capital lent is very small, and therefore, there is not much scope for the interest receipts to rise. Moreover, the state has granted loans to majorly four entities which are public bodies like state transport bodies, state industrial investment corporation and alike. Hence, naturally, the interest rate might be low and the recovery might not be as timely. Talking about the economic services, this segment is performing fairly well when compared to other components. At the same time the percentage of capital expenditure on economic services out of the total is also high at 68 percent. The revenue expenditure is 22 percent.

Capital Receipts

The capital receipts of the state increased from Rs. 7748.5 crores in 2006-07 to Rs. 23611.5 crores in 2015-16. The global financial crisis of 2008 seemed to have resulted in the higher borrowing by the state as the CAAGR of total capital receipt is 11.79 % and the total internal debt of the state increased by 13.3 % (Table 2.10). This is also reflected in the sharp rise in internal debt by 40.47% in 2009-10. Recoveries of loans and advances have suffered a negative growth of around 17 %. This is an issue of poor financial management as the internal borrowing has been rising and the recovery of loans is declining. The state seems to be lacking in terms of better financial planning of its investments and loans. There is observed a gradual reduction in the public debt after 2011-12, which continued upto 2014-15, as the growth rate of internal debt reduced to 5 % to 0.5%. However, in the year 2015-16 again it increased by 20 %. The capital receipts are entirely dominated by the internal debt, as the share of internal debt in the total capital receipts is almost 98 %.

Table 2.10 CAAGR of Capital Receipts (2006-07 to 2015-16)

Components	CAAGR (2006-07 to 2015-16)
Public Debt	12.95
Internal Debt of State Govt.	13.32
Central loan and advances	-1.53
Recovery of Loans & Advances	-16.89
Other Receipts	56.76
TOTAL Capital Receipts	16.22

Source: Calculated based on data from state budget documents

Table 2.11 Annual Growth Rate of Capital Receipts

Year	Public Debt	Internal Debt of State Govt.	Central loan and advances	Recovery of Loans & Advances	Other Receipts	Total Capital Receipts
2007-08	23.93	26.28	-29.09	-73.22	3426.77	15.11
2008-09	19.68	19.96	8.49	-15.21	-78.30	17.81
2009-10	38.22	40.47	-61.97	-16.81	561.97	38.29
2010-11	17.11	16.69	84.61	87.90	-33.10	17.37
2011-12	5.12	4.99	17.99	-41.56	-89.03	3.84
2012-13	11.19	8.99	214.93	-71.65	0.00	10.35
2013-14	-0.79	1.46	-72.78	199.98	0.00	-0.31
2014-15	0.57	-0.27	100.83	341.67	0.00	4.27
2015-16	20.73	21.45	-21.90	-79.81	0.00	16.22

Source: Calculated based on data from state budget documents

Table2.12 Components of Capital Receipts

Year	Internal Debt of State Govt.	Central loan and advances	Recovery of Loans & Advances	Other Receipts
2006-07	85.87	3.80	10.29	0.03
2007-08	94.20	2.34	2.39	1.06
2008-09	95.92	2.16	1.72	0.20
2009-10	97.43	0.59	1.04	0.94
2010-11	96.87	0.93	1.66	0.53
2011-12	97.95	1.06	0.93	0.06
2012-13	96.73	3.03	0.24	0.00
2013-14	98.45	0.83	0.72	0.00
2014-15	94.16	1.59	3.06	1.19
2015-16	98.40	1.07	0.53	0.00

Source: Calculated based on data from state budget documents

Table 2.13 below discusses the relative position of Gujarat State compared to other states of India. The comparisons are made for two fiscal year 2011-12 and 2015-16. Table explains about the Revenue performance of the states. Considering the Revenue Receipt GSDP ratio for the non-special category state in the year 2011-12 was 13.7 % whereas Gujarat State RR/GSDP ratio is almost near to 10% . State's own financial resources are measured through state own tax revenue. If OTR/GSDP ratio is high, State Dependency towards Central Government is less. OTR/GSDP ratio is less than 10 % in all the States. In Gujarat it is nearby 7% during the 2011-16. If we talk about ONTR/GSDP ratio it was 1.2 % for Non-Special Category State and 1.5 to 2 % for Special Category states. ONTR/GSDP ratio for Gujarat State is nearby 1% at a given time period. The Current Transfers/ GSDP was 5 % in the Non Special Category State during 2011-16. In Gujarat, it was 2% in 2011-16.

Table 2.13Revenue Performance of the State 2011-2016

States	Revenue Reciept/GSDP		Own tax Revenue/GSDP		Own Non Tax Revenue/GSDP		Current transfers/GSDP		
	2011-12	2015-16	2011-12	2015-16	2011-12	2015-16	2011-12	2014-15	2015-16
Non special Category	13.7	13.4	7.4	6.6	1.2	1.2	5	5	5.7
Andhra pradesh	14.3	14.5	8.1	6.5	1.8	0.8	4.4	7	7.2
Bihar	20.8	25.2	5.1	6.7	0.4	0.6	15.3	15	18
Chattishgarh	18.5	17.7	7.7	6.5	2.9	2	8	7.4	9.1
Goa	16.1	15.8	7.1	7.3	6.4	4.5	2.5	3.6	4
Gujarat	10.3	9.5	7.2	6.1	0.9	1	2.2	2.4	2.4
Haryana	10	9.8	6.7	6.4	1.5	1	1.8	2	2.4
Jharkhand	15.8	17.6	4.9	5	2.1	2.5	8.7	7.8	10.1
Karnataka	15.2	11.7	10.1	7.5	0.9	0.5	4.2	3.2	3.7
Kerala	12.1	12.4	8.02	7	0.8	1.5	3.1	2.9	3.9
Madhyapradesh	20.2	19.9	8.7	7.6	2.4	1.6	9.1	8.7	10.7
Maharashtra	10.1	9.2	7.3	6.3	0.7	0.7	2.1	2.1	2.2
Odisha	18.7	20.8	6.2	6.8	3	2.6	9.4	9	11.4
Punjab	10.2	10.6	7.3	6.8	0.5	0.7	2.3	2.9	3.1
Rajasthan	13.7	14.7	6.1	6.2	2.2	1.6	5.4	6.4	6.8
Tamilnadu	12.8	11.1	8.9	6.9	0.9	0.8	3	3.2	3.4
Telangana	0	13.4	0	7	0	2.5	0	3	3.8
Uttarpradesh	19.3	20.3	7.7	7.2	1.5	2.1	10	9.5	11
West Bengal	11	11.9	4.7	4.6	0.3	0.2	6.1	5.7	7.1

Source : State Finances : A Study of Budget , Various Issues.

CHEPTER III

STATES’S EXPENDITURE

Gujarat as a welfare state focused on development of social and economic sectors since last few decades. According to public expenditure theory, Government Expenditure directly affects individuals’ income, employment and development of the society. It helps to boost demand for goods and services which in turn lead to increase in production, employment and income of the peoples. Table 3.1 provides the details of public expenditure patterns of the Gujarat State during the period from 2006-07 to 2015-16. It provides details of revenue expenditure and capital expenditure. During the study period, compounded average annual growth rate of the total expenditure is 14%, as the expenditure increased from Rs.39,222 Crore in 2006-07 to Rs.1,26,817 crore in 2015-16. Both revenue and capital expenditures have also increased by the same amount. Table No:3.1 clearly indicates that the total expenditure and revenue and capital expenditure have almost increased by three times during this ten year. With respect to the relative share of revenueexpenditure and capital expenditure into total expenditure, the ratio has remained75: 25 for the last decade. However, during the initial years, the share of revenue expenditure significantly increased to almost 80 %.One of the reasons for such trend is implementation of the Sixth Wage Commission recommendations. On the other side, after 2010, share of revenue expenditure in total expenditure has declined from 80-81 % to almost 76 %. It is also to be noted here that the capital expenditure for the year 2006-07 was Rs. 9990 crores, which significantly increased by three times in the decade and reached to Rs.31039 crore in the year 2016. The Compounded Average Annual Growth Rate (CAAGR) of total expenditure, revenue expenditure and capital expenditure was almost 13.74 %, 13.19 % and 15.48% respectively for the year 2006-16 in the Gujarat State. If we compare the CAAGR for the year 2002 to 2012 for total expenditure it was almost 8% which increased and became 14% for the 2006-16. Whereas CAAGR ofrevenue expenditure remained unchanged,i.e. at 13 %, but CAAGR ofcapital expenditure for the year 2002 -12 was -3 %, which was increased and became 15 % for the year 2006-16.

Table 3.1 Expenditure pattern of theGujarat state

(In Rs. Crore)

Item	Revenue Expenditure	Capital Expenditure	Total Expenditure	Revenue Expenditure as % of Total Expenditure	Capital Expenditure as % of Total Expenditure
2006-07	29232.13	9989.99	39222.12	74.53	25.47
2007-08	33539.51	9164.07	42703.58	78.54	21.46
2008-09	38741.46	13178.42	51919.88	74.62	25.38
2009-10	48638.27	11719.41	60357.68	80.58	19.42
2010-11	57440.02	14189.06	71629.08	80.19	19.81
2011-12	59744.46	19692.24	79436.70	75.21	24.79
2012-13	69658.49	28645.30	98303.79	70.86	29.14
2013-14	75258.54	29484.51	104743.05	71.85	28.15
2014-15	86651.71	30016.87	116668.58	74.27	25.73
2015-16	95778.54	31038.89	126817.43	75.52	24.48

Source: Budget in Brief Various Issues

Table 3.2 State Expenditure As a percentage of GSDP

Item	Revenue Expenditure	Capital Expenditure	Total Expenditure
	As % GSDP FC Current Price		
2006-07	10.30	3.52	13.83
2007-08	10.19	2.78	12.97
2008-09	10.53	3.58	14.11
2009-10	11.28	2.72	14.00
2010-11	11.01	2.72	13.73
2011-12	9.70	3.20	12.90
2012-13	9.61	3.95	13.57
2013-14	9.32	3.65	12.97
2014-15	9.40	3.26	12.66
2015-16	9.34	3.03	12.37

Source: Calculated based on budget in brief

The public expenditure and revenue significantly influence the Gross State Domestic Product of the state and in turn the GSDP also influences the expenditure and revenue. A high-expenditure policy would boost the GSDP growth rate and the high GSDP growth rate would increase the tax base. We now examine the Gujarat state's public expenditure as a percentage of the State income.It has been observed that there is a consistent trendas far as total expenditure as % of GSDP and capitalexpenditure as % of GSDP for the year 2006-07 to 2015-16 is concerned. However, we can see decreasing trend in the revenue expenditure/GSDP ratio for the same time period. Total expenditure /GSDP ratio was 14 % in 2006-07 which increased and then decreased to 12 % in the year 2015-16. If we talk about revenue expenditure /GSDP ratio it was 10.30 % in the year 2006-07which increased and became almost 11% in the year 2009 -10 and started declining and became 9.34% in the year 2015-16. Now, if we look into capital expenditure matter, the capital expenditure /GSDP was 3.52 % in 2006-07 and became 3.03 % in the year 2015-16.

Developmental and non-developmental expenditure are two basic components of public expenditure. Increase in Government Expenditure pumps the money supply in the economy and this results into higher purchasing power in the hands of the people. This in turn lead to increase in demand for goods and services, leading to higher production and generation of employment opportunities. Developmental expenditure directly and more effectively increases the welfare of the society whereasnon-development expenditure indirectly increase the welfare of society, but to a limited extend. It is also noted that several non-developmental expenditure are compulsory like pension and benefits of retirement, interest payment which can be decreased by making strong policy reforms.

Table 3.3 represents developmental and non-developmental expenditure for the year 2006-07 to 2015-16. Total developmental expenditure was Rs.25284 crore in 2006-07 which increased by three and half times and was Rs.85705 crore in 2015-16; Total non-developmental expenditure was Rs.13806 Crorein the year 2006, which increased by three and half times and was Rs. 45554 Crore in the year 2015-16 in Gujarat.In the present table we can also notice that composition of developmental expenditure and non-developmental expenditure in total expenditure was 65:35 in 2006-07, which almost remained same and was 67:32 in the year 2015-16. It is a good sign that now Government of Gujarat has seriously considered Expenditure Reforms which will be beneficial to the society and improve the Human and Economic Development. However, it is too early to make such judgments. One also needs to consider the nature of expenditure and also quality of expenditure such that whether there is an increase in the Revenue account or Capital account. If it is in Capital account then it is more fruitful in terms of income and employment. The Compounded Average Annual Growth Rate (CAAGR) ofdevelopment expenditure of Gujarat during 2006-07 to 2015-16 is estimated to be 14.46%. There isn't observed a significant increase in the growth rate of development expenditure. On the contrary, CAAGR of non-development expenditure was 12.26% during 2006-07 to 2015-16. This is a critical point as the state has increased the NDE by almost 12 % during the study period. The state may take necessary measures to control the NDE. The Development Expenditure / GSDP ratio was 8.91 % in the year 2006-07, which almost remained unchanged and it was also 8.36% in the year

2015-16.Whereas Non-Developmental Expenditure/GSDP ratio was 4.87% in the year 2006-07, which constantly declined over a period of ten years and became 3.96% in the 2015-16.

Table 3.3 Developmental and Non-Developmental Expenditure 2006-07 to 2015-16

(In Rs. Crore)

Item	Total Developmental Expenditure	Total Non-Developmental Expenditure	Total Expenditure (Total Devp. + Total Non-Devp.)	Total Developmental Expenditure	Total Non-Developmental Expenditure	Total Developmental Expenditure	Total Non-Developmental Expenditure
				AS % of Total Expenditure (Total Devp. + Total Non-Devp.)		AS % of GSDP	
2006-07	25283.67	13806.03	39089.70	64.68	35.32	8.91	4.87
2007-08	27022.62	15533.63	42556.25	63.50	36.50	8.21	4.72
2008-09	35952.96	15799.39	51752.35	69.47	30.53	9.77	4.29
2009-10	40418.40	19833.31	60251.71	67.08	32.92	9.37	4.60
2010-11	48279.65	23164.15	71443.80	67.58	32.42	9.26	4.44
2011-12	52924.46	26312.46	79236.92	66.79	33.21	8.60	4.27
2012-13	68100.25	30041.26	98141.51	69.39	30.61	9.40	4.15
2013-14	71984.58	32432.80	104417.38	68.94	31.06	8.91	4.02
2014-15	81750.76	34382.26	116133.02	70.39	29.61	8.87	3.73
2015-16	85705.01	40553.69	126258.70	67.88	32.12	8.36	3.96

Source: Budget in Brief, Gujarat State, GOG

Total Expenditure is bifurcated into Developmental and Non-Developmental Expenditure which we discussed in earlier section. As we know that all expenditure is categorized on the basis of accounts of Budget i.e. Revenue Account and Capital Account, lets us see the performance of Developmental and Non-Developmental Expenditure in Revenue Account and Capital Account for the Gujarat State in last decade.Total Revenue Developmental Expenditure was Rs. 17136 crores in the year 2006-07 which increased by more than three and half times and became Rs.62348 crore in 2015-16. Same way, Total Non-Developmental Expenditure was Rs. 11963 Crore in 2006-07 which increased and became Rs.32876 crores in the year 2015-16 in Gujarat. The share of Revenue Developmental and Non-Developmental Expenditure was 59:41 in the year 2006-07and65:35 in the year 2015-16. Considering Developmental Expenditure and Non-Developmental Expenditure in capital account, both increased in the last decade. The relative share of the same is observed to be82:18 in 2006, which turned adversely and became 75:25. The share of Capital Developmental Expenditure declined and Capital Non-Developmental Expenditure's share increased; it is a matter of rethinking about the Expenditure Policy of the State.

Table 3.4 Developmental and Non-Developmental Revenue Expenditure 2006-07 to 2015-16

(In Rs. Crore)

Year	Revenue Developmental Expenditure	Revenue Non-Developmental Expenditure	Total Revenue Expenditure (Devp + Non-Devp)	Revenue Developmental Expenditure	Revenue Non-Developmental Expenditure
				As % of Revenue Expenditure (Devp + Non-Devp)	
2006-07	17136.48	11963.23	29099.71	58.89	41.11
2007-08	19844.85	13547.33	33392.18	59.43	40.57
2008-09	25454.82	13119.11	38573.93	65.99	34.01
2009-10	32028.66	16503.64	48532.30	65.99	34.01
2010-11	37975.58	19279.16	57254.74	66.33	33.67
2011-12	38707.38	20837.30	59544.68	65.01	34.99
2012-13	46118.20	23378.01	69496.21	66.36	33.64
2013-14	49028.96	25903.91	74932.87	65.43	34.57
2014-15	57354.82	28761.33	86116.15	66.60	33.40
2015-16	62343.77	32876.04	95219.81	65.47	34.53

Source: Budget in Brief, Gujarat State, GOG

Composition of Developmental Expenditure and Non-Developmental Expenditure is described in the Table 3.6.Revenue and Capital Developmental Expenditure as percentage of Total Developmental Expenditure was 68% and 32 % respectively in the year 2006-07,and was 84:16 in the year 2002. Revenue Developmental Expenditure slightly increased and Capital Developmental Expenditure decreased over a period of time and the ratio was 73:27 in the year 2016. The scenario for Non-Developmental expenditure for Revenue account and Capital Account is quite different. Revenue Non-Developmental Expenditure as a percentage of Total Non-Developmental Expenditure was 31% whereas Capital Non-Developmental Expenditure as a percentage of Total Non-Developmental Expenditure was 69 % in the year 2002, which turned to 86:14 in the year 2006-07 and it was 81% and 19 % respectively in the year 20-1516. This happened due to sixth wage commission's recommendations.

Table 3.5 Developmental and Non-Developmental Capital Expenditure 2006-07to2015-16

(In Rs. Crore)

Year	Capital Developmental Expenditure	Capital Non - Developmental Expenditure	Total Capital Expenditure (Devp + Non-Devp)	Capital Developmental Expenditure	Capital Non-Developmental Expenditure
				As % of Capital Expenditure (Devp + Non-Devp)	
2006-07	8147.19	1842.80	9989.99	81.55	18.45
2007-08	7177.77	1986.30	9164.07	78.33	21.67
2008-09	10498.14	2680.28	13178.42	79.66	20.34
2009-10	8389.74	3329.67	11719.41	71.59	28.41
2010-11	10304.07	3884.99	14189.06	72.62	27.38
2011-12	14217.08	5475.16	19692.24	72.20	27.80
2012-13	21982.05	6663.25	28645.30	76.74	23.26
2013-14	22955.62	6528.89	29484.51	77.86	22.14
2014-15	24395.94	5620.93	30016.87	81.27	18.73
2015-16	23361.24	7677.65	31038.89	75.26	24.74

Source: Budget in Brief, Gujarat State, GOG

Table 3.6 Composition of Developmental and Non-Developmental Expenditure

(In %)

Year	Revenue Developmental Expenditure	Capital Developmental Expenditure	Revenue Non-Developmental Expenditure	Capital Non-Developmental Expenditure
	As % of Total Developmental Expenditure		As % of Total Non-Developmental Expenditure	
2006-07	67.78	32.22	86.65	13.35
2007-08	73.44	26.56	87.21	12.79
2008-09	70.80	29.20	83.04	16.96
2009-10	79.24	20.76	83.21	16.79
2010-11	78.66	21.34	83.23	16.77
2011-12	73.14	26.86	79.19	20.81
2012-13	67.72	32.28	77.82	22.18
2013-14	68.11	31.89	79.87	20.13
2014-15	70.16	29.84	83.65	16.35
2015-16	72.74	27.26	81.07	18.93

Source: Calculated by us

Social Services and Economic Services are two major components of Developmental Expenditure. The Total Social Services Expenditure was Rs.12122 Crore out of which Rs.10514 in Revenue Account and Rs.1608 Crore in Capital Account in the year 2006-07, which increased by four times and became Rs. 48537 crores(out of which Rs.42120 crore in Revenue Account and Rs. 6417 Crore in

Capital Account in the year 2015-16). If we consider Expenditure on Economic Services, it was Rs. 13162 crores in 2006-07, out of which Rs.6622 croresand Rs. 6540 croresin Revenue and Capital Account respectively.This increased almost three times and became Rs. 37168 crores in total and Rs.20224 crore in Revenue Account and Rs. 16944 Crore in Capital Account in the year 2015-16. The Compounded Average Annual Growth Rate for Social Service is 16 % and 13% for Economic Services for the year 2006-07 to 2015-16. The Social services and Economic Services as a percentage of Total Expenditure was 18% and 19% respectively in 2002, and itincreased tobecome 31% and 34% respectively in the year 2006-07. After 2006-07, it was an increasing trend in social services as a percentage of Total Expenditure and became 38% and decreasing trend in Economic services i.e. 29% in 2016.

Table 3.7 Expenditure on Social and Economics Services in Gujarat

(In Rs. Crore)

Year	Social Services			Economic Services		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
2006-07	10514.31	1607.52	12121.83	6622.17	6539.67	13161.84
2007-08	11800.66	1941.19	13741.85	8044.19	5236.58	13280.77
2008-09	14932.14	2040.01	16972.15	10522.68	8458.13	18980.81
2009-10	19605.30	2059.64	21664.94	12423.36	6330.10	18753.46
2010-11	23701.58	2705.20	26406.78	14274.00	7598.87	21872.87
2011-12	24545.79	3326.45	27872.24	14161.59	10890.63	25052.22
2012-13	29528.97	6104.02	35632.99	16589.23	15878.03	32467.26
2013-14	32381.78	6669.80	39051.58	16647.18	16285.82	32933.00
2014-15	36714.16	7226.56	43940.72	20640.66	17169.38	37810.04
2015-16	42119.88	6417.14	48537.02	20223.89	16944.10	37167.99

Source: Budget in Brief, Various Issues, Gujarat State

Table 3.8 and 3.9representthe major proportion of Expenditure on Social and Economic Services in the Revenue Account for the period of 2006-07 to 201516. Social Services Expenditures are mostly on education, sports, arts and culture, water supply and sewerage and sanitation, housing and urban development, public health and family welfare, social security and nutrition services in Revenue Account. Economic Services include expenditure onenergy, agricultural and allied activities, transport, rural development, industry and minerals and irrigation services in Revenue Account in last decade.

Table 3.10and 3.11discuss major share of Expenditure on social &economic services in Capital Account for last decade. Water supply, sewerage, sanitation, housing and urban development, public health and family welfare, education, welfare of SC, ST, and OBC are the major Services in which expenditure proportion of Social Services in Capital Account was high. In case of Economic Services,share of expenditure was high in irrigation and flood control, energy, transport, Rural development, agricultural and allied activities Services in Capital Account in the year 2006-16.

The Compounded Average Annual Growth Rate for Social Services was 15.40% in Revenue Account and 18.81 % in Capital Account. The CAAGR of various expenditure components – revenue and capital -is also estimated; Education was 15.68% and 22%: Health was 17.43% and 42.11%; Water Supply was 15.49% and 13.80% ; Welfare of SC,ST and OBC was 15.88% and 28.66, Social Security and welfare was 13.99% and 30.01 % in Revenue Account and Capital Account respectively for the 2006-07 to 2015-16 time period.

The CAAGR for Economic Services was 12.00% in Revenue Account and 14.11% in Capital Account. The CAAGR of various componentlike Agriculture and Allied Activities was 15.49% and 20.80%; Rural Development was 10.42%, Special Areas Programswas 10.56%, Irrigation and Flood Control was 6.69% and 9.12%, Energy was 8.48 % and 16.87 %, Industry and Minerals was 18.07% and 20.70%, Transport was 13.34% and 16.17%; General Economic services was 111.10% and 33.88 % in Revenue Account and Capital Account respectively for the 2006-07 to 2015-16 in Gujarat.

Table: 3.8 Components of Social Services of Revenue Accounts

Year	Education, Sports, Arts and Culture	Health and Family Welfare	Water Supply, Sanitation, Housing and Urban Development	Information and Broadcasting	Welfare of SC,ST and OBC	Labor and Welfare	Social Welfare and Nutrition	Others	Social Services
2006-07	4726.55	1091.46	1926.64	29.01	706.35	157.64	1845.69	30.97	10514.31
2007-08	5433.20	1285.08	2917.14	42.81	790.10	195.59	1101.60	35.14	11800.66
2008-09	5820.73	1428.86	5070.14	50.04	916.50	238.31	1371.55	36.01	14932.14
2009-10	7953.59	1995.46	6393.06	51.97	1053.50	293.21	1812.47	52.04	19605.30
2010-11	10988.16	2499.41	5997.24	76.93	1266.71	408.03	2412.88	52.22	23701.58
2011-12	11707.97	2657.35	5393.89	89.58	1521.73	414.24	2701.43	59.60	24545.79
2012-13	13078.66	3367.65	7518.93	111.58	1983.77	479.79	2925.98	62.61	29528.97
2013-14	14486.96	3455.79	8107.01	138.87	2090.27	493.91	3551.27	57.70	32381.78
2014-15	16421.11	4397.73	8723.11	119.85	2359.95	885.50	3748.70	58.20	36714.16
2015-16	17976.02	5229.09	10404.21	106.68	2782.46	960.97	4599.72	60.73	42119.88
Components of Social Services as % of Total Social Services									
2006-07	44.95	10.38	18.32	0.28	6.72	1.50	17.55	0.29	100.00
2007-08	46.04	10.89	24.72	0.36	6.70	1.66	9.34	0.30	100.00
2008-09	38.98	9.57	33.95	0.34	6.14	1.60	9.19	0.24	100.00
2009-10	40.57	10.18	32.61	0.27	5.37	1.50	9.24	0.27	100.00
2010-11	46.36	10.55	25.30	0.32	5.34	1.72	10.18	0.22	100.00
2011-12	47.70	10.83	21.97	0.36	6.20	1.69	11.01	0.24	100.00
2012-13	44.29	11.40	25.46	0.38	6.72	1.62	9.91	0.21	100.00
2013-14	44.74	10.67	25.04	0.43	6.46	1.53	10.97	0.18	100.00
2014-15	44.73	11.98	23.76	0.33	6.43	2.41	10.21	0.16	100.00
2015-16	42.68	12.41	24.70	0.25	6.61	2.28	10.92	0.14	100.00

Source: Budget in Brief, Various Issues,GujaratState

Table 3.9 Components of Social Services of Capital Accounts

Year	Education, Sports, Arts and Culture	Health and Family Welfare	Water Supply, Sanitation, Housing and Urban Development	Information and Broadcasting	Welfare of SC,ST and OBC	Social Welfare and Nutrition	Others	Social Services
2006-07	259.65	54.65	1068.09	0.06	22.08	8.00	194.99	1607.52
2007-08	289.63	89.19	1062.65	0.86	42.96	6.84	449.06	1941.19
2008-09	248.93	172.59	1269.17	0.79	59.34	63.60	225.59	2040.01
2009-10	361.90	289.60	976.80	0.58	78.00	116.09	236.67	2059.64
2010-11	424.61	511.04	1374.37	0.00	70.49	111.05	213.64	2705.20
2011-12	801.89	671.04	1526.33	0.2	91.44	116.8	118.69	3326.45
2012-13	941.82	1258.71	3020.17	2.47	74.97	570.95	234.93	6104.02
2013-14	1180.30	1627.70	2941.39	1.97	260.46	208.58	449.40	6669.80
2014-15	1328.30	1969.17	2981.06	4.05	407.03	105.12	431.83	7226.56
2015-16	1280.66	1896.01	2558.42	1.01	318.36	70.90	291.78	**6417.14**
Components of Social Services as % of Total Social Services								
2006-07	16.15	3.40	66.44	0.00	1.37	0.50	12.13	100.00
2007-08	14.92	4.59	54.74	0.04	2.21	0.35	23.13	100.00
2008-09	12.20	8.46	62.21	0.04	2.91	3.12	11.06	100.00
2009-10	17.57	14.06	47.43	0.03	3.79	5.64	11.49	100.00
2010-11	15.70	18.89	50.80	0.00	2.61	4.11	7.90	100.00
2011-12	24.11	20.17	45.88	0.01	2.75	3.51	3.57	100.00
2012-13	15.43	20.62	49.48	0.04	1.23	9.35	3.85	100.00
2013-14	17.70	24.40	44.10	0.03	3.91	3.13	6.74	100.00
2014-15	18.38	27.25	41.25	0.06	5.63	1.45	5.98	100.00
2015-16	19.96	29.55	39.87	0.02	4.96	1.10	4.55	100.00

Source: Budget in Brief, Various Issues, GujaratState

Table 3.10 Components of Economic Services of Revenue Accounts

Year	General Economics Services	Agriculture and Allied Services	Rural Development	Special Area Programs	Irrigation and Flood Control	Energy	Industry and Minerals	Transport	Communication	Science, Technology and Environment	Economic Services
2006-07	472	1007	959	30	521	2003	286	1298	0	45	6622
2007-08	462	1479	1105	32	626	2395	360	1555	0	30	8044
2008-09	623	1849	1147	36	762	3528	606	1953	0	19	10523
2009-10	908	2341	1382	39	885	3213	790	2843	0	22	12423
2010-11	1178	2737	2059	45	916	3146	895	3164	0	133	14274
2011-12	1134	2909	1454	58	926	3359	790	3378	0	154	14162
2012-13	1226	3893	1374	59	1055	3979	1031	3830	0	144	16589
2013-14	1352	3958	1701	64	981	3798	865	3756	0	172	16647
2014-15	1887	4069	2039	71	1037	5379	1504	4491	0	164	20641
2015-16	714	4313	3367	68	982	4482	1966	4104	0	229	20224
Components of Economics Services as % of Total Economics Services											
2006-07	7.13	15.21	14.49	0.45	7.87	30.25	4.31	19.60	0.00	0.68	100.00
2007-08	5.75	18.39	13.74	0.40	7.78	29.77	4.48	19.33	0.00	0.37	100.00
2008-09	5.92	17.57	10.90	0.34	7.24	33.53	5.76	18.56	0.00	0.19	100.00
2009-10	7.31	18.84	11.13	0.31	7.13	25.87	6.36	22.89	0.00	0.17	100.00
2010-11	8.26	19.18	14.42	0.31	6.41	22.04	6.27	22.17	0.00	0.93	100.00
2011-12	8.00	20.54	10.27	0.41	6.54	23.72	5.58	23.85	0.00	1.09	100.00
2012-13	7.39	23.47	8.28	0.35	6.36	23.98	6.22	23.09	0.00	0.87	100.00
2013-14	8.12	23.78	10.22	0.38	5.89	22.82	5.19	22.56	0.00	1.03	100.00
2014-15	9.14	19.71	9.88	0.34	5.02	26.06	7.29	21.76	0.00	0.79	100.00
2015-16	3.53	21.33	16.65	0.33	4.85	22.16	9.72	20.29	0.00	1.13	100.00

Source: Budget in Brief, Various Issues, GujaratState

Table 3.11 Components of Economic Services of Capital Accounts

Year	General Economics Services	Agriculture and Allied Services	Rural Development	Special Area Programs	Irrigation and Flood Control	Energy	Industry and Minerals	Transport and Communication	Science and Technology	Economic Services
2006-07	93.87	202.79	0.00	0.62	3858.77	1401.90	125.78	855.94	0.00	6539.67
2007-08	54.41	151.86	0.00	0.92	3269.95	542.12	120.60	1096.72	0.00	5236.58
2008-09	90.57	265.68	0.00	0.14	6519.86	392.70	111.82	1077.36	0.00	8458.13
2009-10	189.72	291.10	0.00	0.00	3687.87	511.72	58.06	1591.63	0.00	6330.10
2010-11	255.14	356.65	0.00	0.00	3624.01	994.51	552.64	1815.92	0.00	7598.87
2011-12	681.64	681.09	922.11	7.13	4590.58	965.20	724.30	2318.58	0.00	10890.63
2012-13	1634.24	686.18	974.94	11.85	7041.98	1367.28	827.75	3333.81	0.00	15878.03
2013-14	1001.64	854.73	990.85	26.98	6784.44	1935.35	1067.32	3624.51	0.00	16285.82
2014-15	1290.75	773.58	1165.37	34.64	7646.94	2032.08	947.93	3278.09	0.00	17169.38
2015-16	459.02	945.78	1204.49	23.60	8141.85	3297.11	128.65	2743.60	0.00	16944.10
Components of Economics Services as % of Total Economics Services										
2006-07	1.44	3.10	0.00	0.01	59.01	21.44	1.92	13.09	0.00	100.00
2007-08	1.04	2.90	0.00	0.02	62.44	10.35	2.30	20.94	0.00	100.00
2008-09	1.07	3.14	0.00	0.00	77.08	4.64	1.32	12.74	0.00	100.00
2009-10	3.00	4.60	0.00	0.00	58.26	8.08	0.92	25.14	0.00	100.00
2010-11	3.36	4.69	0.00	0.00	47.69	13.09	7.27	23.90	0.00	100.00
2011-12	6.26	6.25	8.47	0.07	42.15	8.86	6.65	21.29	0.00	100.00
2012-13	10.29	4.32	6.14	0.07	44.35	8.61	5.21	21.00	0.00	100.00
2013-14	6.15	5.25	6.08	0.17	41.66	11.88	6.55	22.26	0.00	100.00
2014-15	7.52	4.51	6.79	0.20	44.54	11.84	5.52	19.09	0.00	100.00
2015-16	2.71	5.58	7.11	0.14	48.05	19.46	0.76	16.19	0.00	100.00

Source: Budget in Brief, Various Issues, Gujarat State

Table 3.12 CAAGR of Various Developmental Expenditure

(In %)

Items	Revenue Exp	Capital Expenditure
Developmental Expenditure	14.46	12.25
Social Services	15.49	18.81
Education, Arts, Sport and Culture	15.68	22.00
Health and Family Welfare	17.43	42.11
Water Supply, Sanitation, Housing and Urban Development	15.49	13.80
Information and Broadcasting	16.04	N.A
Welfare of SC,ST and OBC	15.88	28.66
Labor and Labor Welfare	19.37	N.A
Social Welfare and Nutrition	13.99	30.01
Others	7.65	3.75
Economic Services	12.00	14.11
General Economics Services	11.10	33.88
Agriculture and Allied Services	15.49	20.80
Rural Development	10.42	N.A
Special Area Programs	10.56	N.A
Irrigation and Flood Control	6.69	9.12
Energy	8.48	16.87
Industry and Minerals	18.07	20.70
Transport and Communication	13.34	16.17
Science, Technology and Environment	26.23	N.A

Source: Calculated from state budget documents, various years, GoG

Table 3.13 and 3.14provide details of Total Non-Developmental Expenditure of Gujarat State for last ten years. Total Non-Developmental Expenditure on Revenue Account was Rs.11963 crores in the year 2006-07, which increased by three time to Rs.32876 crore in the year 2015-16. In Capital Account it was Rs. 1843 crores in the year 2006, whichfour-fold increased and became Rs. 7678 crores in the year 2015-16. The major proportion of Revenue Non-Developmental Expenditure is on Interest Payment, Pension and Retirement Benefit and Administrative Services in the 2006-07 to 2015-16;whereas Repayment of Public Debt was the key component in the Capital Account for the last decades in the Gujarat State.

Table 3.13 Non-Developmental Expenditure of Gujarat State (Revenue Account)

(In Rs. Crore)

Year	Organ of State	Fiscal Services	Interest Payment	Administrative Services	Pension and other Retired Benefit	Misc. General Services	Non-Development Expenditure
2006-07	215.64	196.79	6888.62	1311.50	2396.00	154.68	11963.23
2007-08	319.82	238.54	7484.45	1521.00	2979.38	104.14	13547.33
2008-09	259.73	227.59	7884.05	1578.19	2962.81	6.74	13119.11
2009-10	466.08	308.57	8590.09	2055.65	4513.00	10.25	16503.64
2010-11	437.95	357.52	9627.32	2464.87	5779.43	112.07	19279.16
2011-12	481.30	361.87	10933.86	2542.87	6144.84	72.56	20837.30
2012-13	661.85	376.13	12160.65	2960.16	7197.80	21.42	23378.01
2013-14	630.86	450.48	13332.02	3203.25	8269.99	17.31	25903.91
2014-15	853.43	449.20	14945.53	3294.98	9185.23	32.96	28791.33
2015-16	796.96	613.85	16300.13	4665.32	9962.73	37.05	32876.04

Source: Budget in Brief, Gujarat State, Various Issues

Table 3.14 Non-Developmental Expenditure of Gujarat State (Capital Account)

(In Rs. Crore)

Year	General Services	Internal Debt of State Government (Repayment of PD)	Loans & Advances for Central Govt. (Repayment of PD)	Disbursement of Loan and Advances	Other Expenditure	Non-development expenditure
2006-07	8.94	911.71	859.19	62.96	0.00	1842.80
2007-08	4.98	1380.35	553.93	47.04	0.00	1986.30
2008-09	3.71	2045.86	559.05	71.66	0.00	2680.28
2009-10	7.37	2681.26	563.81	77.23	0.00	3329.67
2010-11	6.63	3194.20	623.33	60.83	0.00	3884.99
2011-12	129.39	4155.74	1119.46	70.57	0.00	5475.16
2012-13	70.05	5794.42	742.10	56.68	0.00	6663.25
2013-14	272.93	5547.63	656.28	52.05	0.00	6528.89
2014-15	63.01	4848.01	660.19	48.72	0.00	5620.93
2015-16	808.21	5534.05	660.20	675.18	0.00	7677.65

Source: Budget in Brief, Gujarat State, Various Issues

The CAAGR for Total Non-Developmental Expenditure in Revenue Account was 11.45 % and if we look at its various components it was 14.68% for General Services, 11.33 % for Fiscal Services, 9.93% for Interest Payment, 13.33% for Pension for the year 2006-16 in Gujarat State. Same way Compound Average Annual Growth Rate for 2006-16 for Capital Non-Developmental Expenditure was 16.36% where as 54.26% for General Services, 15.57% for Repayment of Debt, 11.65 % for Disbursement of Loan and Advances in Capital Account for 2006-16 in Gujarat.

Table 3.15 CAAGR of Various Non-Developmental Expenditure

Particulars	**Growth Rate (In %)**
Revenue Accounts	
Non-development expenditure	11.45
Organ of State	14.68
Fiscal Services	11.33
Interest Payment	09.93
Administrative Services	13.33
Pension and Retirement Benefits	16.55
Misc. General Services	-8.74
Grant in aid and contribution	16.16
Capital Account	
Non-development expenditure	16.36
General Services	54.26
Repayment of Public Debt	15.37
Internal Debt of State Government (Repayment of PD)	19.75
Loans & Advances for Central Govt. (Repayment of PD)	0.65
Disbursement of Loans & Advances	11.65

Source: Calculated from state budget documents, various years, GoG

Table 3.16 Fiscal Position of the State 2011-2016

State	Own Revenue/ Revenue Expenditure		Development Expenditure/ Aggregate Disbursement*		Non-Developmental Expenditure/ Aggregate Disbursement*		Interest Payment/Revenue Expenditure	
	2011-12	2015-16	2011-12	2015-16	2011-12	2015-16	2011-12	2015-16
1. Andhra Pradesh	71.9	46.7	68.0	70.2	26.0	24.7	11.7	10.3
2. Bihar	29.0	33.0	64.6	68.2	30.5	28.1	9.3	8.5
3. Chhattisgarh	65.3	51.0	74.2	76.2	20.7	20.4	5.3	4.9
4. Goa	88.7	76.1	69.6	68.7	26.4	27.1	12.9	12.8
5. Gujarat	82.9	76.1	65.3	68.1	27.8	26.6	18.3	17.0
6. Haryana	78.5	60.2	68.7	72.9	26.6	23.5	12.5	14.0
7. Jharkhand	47.6	47.4	62.9	72.8	30.8	23.1	10.8	9.1
8. Karnataka	77.7	69.1	71.0	70.5	20.0	22.4	9.3	9.2
9. Kerala	61.5	60.3	50.3	51.3	38.1	39.9	13.7	14.1
10. Madhya Pradesh	65.4	48.9	71.8	70.3	20.3	21.1	10.1	8.1
11. Maharashtra	77.5	73.6	65.6	63.7	29.4	29.3	14.2	13.5
12. Odisha	57.4	53.1	65.9	75.6	27.0	19.6	7.4	5.7
13. Punjab	61.3	58.6	46.3	53.1	46.3	39.7	19.0	19.5
14. Rajasthan	64.4	50.5	65.3	78.6	28.9	18.5	14.7	11.3
15. Tamil Nadu	77.8	63.4	62.9	62.1	26.8	27.6	10.6	12.3
16. Telangana	0	71.7	0	72.8	0	24.2	0	10.0
17. Uttar Pradesh	50.7	49.0	56.7	66.7	35.2	26.0	12.5	10.1
18. West Bengal	35.8	37.3	52.0	60.0	38.7	32.8	21.7	19.5
Total I Non Special Category	64.2	56.8	63.3	67.5	29.4	26.3	13.0	11.9
All States	61.1	54.4	63.1	67.1	29.7	26.7	12.7	11.7

Source : State Finances : A Study of Budget , Various Issues.

The Table 3.16 below provides the comparison of non-special category states across various expenditure ratios. For most of the states' Own Revenue / Revenue Expenditure the ratio has declined during the 2011 to 2015. Gujarat state ratio was 82.9 % in 2011 which declined to 76.1 %. In 2015. The ratio shows dependency of the state for other funds or borrowing for their own expenditures. In West Bengal and Bihar, the ratio is very low and it is in the range of 40%. Gujarat is comparatively better in the position compare to other states.Developmental Expenditure / Aggregate Disbursement if this ratio is high, it is a good sign for the economy of State. As Developmental Expenditure increases the state welfare will be also increases. Gujarat State ratio is 65 to 68 % over a period of time. Kerala state has very low ratio i.e 50 to 51 %. Non- Developmental Expenditure / Aggregate Disbursement is expected to be low for better welfare of the society. In Gujarat the ratio was 27.8% in 2011 which was slightly declined and became 26.6% in the year 2015-16.The ratio is very high in the state of Punjab and almost near to 50% which required policy level changes.Interest Payment / Revenue Expenditure: as interest payment is a liability of the state and non-developmental expenditure, it is needed that, this ratio must be low as possible as for the state. In Gujarat the ratio is near to 18% during the given time period. In West Bengal the ratio is comparatively high and it was near to 21% over a period of time. FRBM Act also suggests to reduce interest payments liabilities through fiscal reforms in the states.

Expenditure Reforms

Public Expenditure explains the quantum of Government Spending on Social and Physical infrastructure for the development of the State. The size, composition and productivity of public expenditure are important parameters to assess the effectiveness of public expenditure in accelerating the growth of the economy. The basic categorization of public expenditure is into Developmental and Non-Developmental Expenditure on Revenue and Capital Account of the State Budget.

Gujarat as a welfare state focused on development of social sectors and economic sectors since last few decades. According to public expenditure theory, Government Expenditure directly affects people income, employment and development of the society. For the last 10 years span the CAAGR of the total expenditure is 14% that is Rs.39,222 Crore in 2006-07, to Rs.1,26,817 crores in the year 2015-16. The same way we can see the increasing trend in the both expenditures i.e. revenue and capital expenditure. The CAAGR of Total Expenditure, Revenue Expenditure and Capital Expenditure was almost 13.74%, 13.19% and 15.48% respectively for the year 2006-07 to2015-16 in the Gujarat State. The share of Revenue Expenditure and Capital Expenditure is 75:25 in total expenditure in the last decade. Total Developmental Expenditure was Rs.25284 crores in 2006-07 which increased by three and half time and was Rs.85705 crore in 2015-16; Total Non-Developmental Expenditure was Rs. 13806 Crore in the year 2006-07, which increased by three and half time and was Rs. 45554 Crore in the year 2015-16 in Gujarat. Composition of Developmental Expenditure and Non-Developmental Expenditure in Total Expenditure was 65:35 in 2006-07 which almost remained the same and was 67:32 in the year 2015-16. The Share of Revenue Developmental and Non-Developmental Expenditure was 59:41 in the year 2006-07, which was 65:35 in the year 2016. The Total Capital Developmental

Expenditure and Non-Developmental Expenditure both were increased in the last decade and if we considered the share of both Expenditure, it was 82:18 in 2006-07 which turned adversely and became 75:25. The Social services and Economic Services as a percentage of Total Expenditure was 18% and 19% respectively in 2002 which increased and became 31% and 34% respectively in the year 2006-07. After 2006-07, it was increasing trend in social services as a percentage of Total Expenditure and became 38% and decreasing trend in Economics services i.e. 29% in 2015-16.

The Government's strategy should effectively control non-developmental expenditure so as to enhance resource allocation to development activity. The state may focus on curtailment of growth of revenue expenditure so that the resources can be optimally utilized for developmental purposes. At the same time, an emphasisshould be made on efficient delivery of services.Particularly in the social sectors, such as health, education and nutrition, involves a high proportion of revenue expenditure, which is not only inevitable but also desirable for improving the reach and intensity of these services. The State Government has made efforts to bring down the revenue expenditure, by taking a measures like pre-payment of high cost borrowings, efficient management of public debt, increased usage of e-Governance by departments which has improved efficiency, prioritization of spending, rationalizing the staff strength and several other economy measures. Such steps have not only contributed to curtailment of increase in revenue expenditure but have also led to better outcomes. The State Government has taken measures to check its long term liabilities of non-developmental nature by undertaking revision in recruitment policies and adopting New Defined Pension Scheme. The composition of the debt stock has undergone a change during a period of 2008-16, wherein proportion of central government loans has reduced to 3.91% from 11.87%. Similarly share of NSSF Loans has reduced to 27.56% from 51.59%, whereas share of Market Loan has increased to 63.71% from 32.20%, highlighting the shift towards increased reliance on Market Loans. The analysis of the debt portfolio of the State (Table 20, 21, 3.11) reveals that the bulk of the total public debt of Rs. 180743 crores is on account of Market loans, which comprises 63.71% of the total public debt. The average cost of debt for the State was 10.79 % in 2004-05. This has reduced to 8.84% in year 2015-16.

However, the high interest rate on NSSF loans which account for 27.56% of total public debt continues to be a rising financial burden on the State Government. The interest payment on Public Debt as a percentage of revenue receipt was 14.83% in FY 2015-16 and 26.82% in FY 2004-05.Considering the repayment schedule of following years, the State has borrowed the loans of various tenures ranging from 2 to 10 years which has resulted in competitive interest rates of GSDL. This will positively affect the cost of interest in the current as well as the following years.

The 13th Finance Commission had recommended a Revised Roadmap for Fiscal Consolidation. It has been adopted by amending the GFR Act, 2005 in the year 2011 which is a prerequisite for giving reset of interest on NSSF loans, State-Specific grants and waiver of Central Plan Loans. As recommended by the 13th Finance Commission, the State Government has availed the benefit of debt waiver and outstanding balances at the end of FY 2009-10 of the Central Loans under Central Plan Scheme (CPS) and Centrally Sponsored Scheme (CSS) amounting to Rs.95 crore. The state has availed benefit of NSSF interest relief of Rs.1010.16 crore upto FY 2014-15. Gujarat State Guarantees Act, 1963 provides the frame work for fixing the limit on the executive power of the State regarding the Government Guarantees. The State Legislature decides such limits from time to time. At present (with effect from March 2001) the limit for the total outstanding guarantees is Rs. 20000 crore. As against this limit, the outstanding Government Guarantees, as on March 31, 2015-16 stood at Rs.5319 crore (FRBM 2017-18).

Chapter IV

SUBSIDIES AND GUARANTEES

Subsidies word is generally used as converse of an Indirect Tax. Subsidies constitute an important fiscal instrument for modifying market determined outcomes. Subsidies affect the economy through the commodity market by lowering the price of the subsidized commodity and try to increase its demand in economy. Basically subsidies are used to modify market inequalities and correct externalities. Taxes appear on the revenue side of Government budgets and subsidies are mentioned on the expenditure side.Subsidies have major impact on welfare of the society. If subsidies are poorly designed and ineffectively administered, it will become very costly for the society. Many times subsidies are identified as an iceberg, only 1/3 portion of this is visible and rest of the portion is invisible. There are two types of subsidies in the country i.e. explicit subsidy and implicit subsidy. Explicit subsidy data are categorically available in the budget documents whereas implicit subsidy is invisible in the budget documents. The report examine only the Explicit Subsidy which are easily visible in the Budget Documents. However, the method of estimating implicit subsidies have been provided by National Institute of Public Finance and Policy (NIPFP).

Table 4.1 explains us about the Total Explicit Subsidy in the Gujarat State. In the year 2006-07 the amount of total explicit subsidy was Rs.3151 crores, which increased by one and half times and became Rs. 5059 crores in the year 2015-16 in the Gujarat State. If we look into the Compounded Average Annual Growth Rate of Total Explicit Subsidy it was almost 6.65% in the years 2006-07 to201516, which was earlier 2.30% for the 2002-12 time period in the State, which shows that Government of Gujarat has started to give more explicit subsidy over a period of time.If we consider the annual growth rate for explicit subsidy in the Gujarat, there is no common trend found over a period of time. It was decreasing form 2006-07 and in 2009-11, it then started increasing and the growth rate was 20% in the year 20011-12. We observe the similar pattern after 2011 to year

2016 in the state. The amount of subsidy as a total expenditure was 8.03% in 2006-07, which gradually decrease and it was 4% in the year 2015-16. The subsidy proportion with respect to State Domestic Production, was 1.11% in year 2006-07 which gradually declinedand was 0.49% in the year 2015-16 in Gujarat. Theshare of various components of Explicit Subsidy in total Subsidy; Energy and Petrochemicals consists 59 to 82 %, Port and Transport consists 6 to 18%, Food and Civil Supply consists 4 to 5 %, Agriculture and cooperation consists 0 to 12 % and other consists1 to 21% in total explicit subsidy in Gujarat in the time period of 2006-16. The CAAGR was 10% for Energy, 7% for Food and Civil Supply, 5% for ports and -77% for Agriculture and Cooperation and -1 % for other during the 2006-16 time span in the State of Gujarat.

Table 4.1Total Subsidy in Gujarat State

(In Rs. Crore)

Year	Agriculture and Cooperation	Energy and Petrochemicals	Food and Civil Supply	Ports and Transport	Other	Total Subsidy
2006-07	195	1873	130	356	597	3151
2007-08	408	1781	141	362	730	3422
2008-09	74	2941	144	362	12	3533
2009-10	55	2702	140	502	55	3454
2010-11	39	2532	152	501	62	3286
2011-12	0	3030	161	704	58	3953
2012-13	60	3608	184	652	78	4582
2013-14	91	3402	180	649	102	4424
2014-15	129	5127	245	762	300	6563
2015-16	88	4168	233	301	269	5059
Year	**Agriculture and Cooperation**	**Energy and Petrochemicals**	**Food and Civil Supply**	**Ports and Transport**	**Other**	**Total Subsidy**
2006-07	6.19	59.44	4.13	11.30	18.95	100.00
2007-08	11.92	52.05	4.12	10.58	21.33	100.00
2008-09	2.09	83.24	4.08	10.25	0.34	100.00
2009-10	1.59	78.23	4.05	14.53	1.59	100.00
2010-11	1.19	77.05	4.63	15.25	1.89	100.00
2011-12	0.00	76.65	4.07	17.81	1.47	100.00
2012-13	1.31	78.74	4.02	14.23	1.70	100.00
2013-14	2.06	76.90	4.07	14.67	2.31	100.00
2014-15	1.97	78.12	3.73	11.61	4.57	100.00

2015-16	1.74	82.39	4.61	5.95	5.32	100.00

Source: FRBM Act Documents of Government of Gujarat, Various Issues.

Table 4.2 Comparison of Total Subsidy

(In %)

Year	Yearly Growth Rate	Total Subsidy as a % of Total Expenditure	Total Subsidy as % of GSDP
2006-07	14.13	8.03	1.11
2007-08	8.60	8.01	1.04
2008-09	3.24	6.80	0.96
2009-10	-2.24	5.72	0.79
2010-11	-4.86	4.59	0.62
2011-12	20.30	4.98	0.65
2012-13	15.91	4.66	0.63
2013-14	-3.45	4.22	0.55
2014-15	48.35	5.63	0.71
2015-16	-22.92	3.99	0.49

Source: Calculated by us

Table 4.3describes the Total Guarantees of the State Government for the year 2006-07 to 2015-16. The amount of Total Guarantees was Rs. 19001 Crore in 2002-03 and it was Rs. 12701 Crore in 2006-07 which declined over a period of time and became Rs. 5319 Crore in 2015-16. Government of Gujarat has given more guarantees in two sector that is Narmada Water Resources, Energy and Petrochemicals, Agriculture and Cooperation, Industry and Mines sectors in the past few years but over a period of time state has started to reduce the amount of guarantees for the same. Total Guarantees was almost 0.52 % of GSDP in 2015-16 which was earlier 4.48 % in the year 2006-07. The compound Average Annual Growth Rate of total guarantees was - 10 % which indicates Government efforts to reduce total guarantees. Total Guarantees weredeclining and that is why it's share in total expenditure was also declining. We can see the 45 % of total Expenditure was on total guarantees in 2002-03 and it was 32 % in the year 2006-07, which declined, and only 4% of total expenditure was spending on guarantees in the year

2015-16. If we discuss about the yearly growth rate of Total Guarantees of the State, it has negative growth rate throughout the year 2003-04 except the year 2013-14.

Table 4.4 describes the composition of total guarantees in Gujarat for the year 2006-07 to 2015-16. Narmada water resources department’s guarantees share in total guarantees was almost 50% in the year 2006-07 which increased up to 2012and then started to declineand the share was only 16% in the year 2015-16 in total state guarantees. Whereas, Energy and Petrochemical’s department guarantees share was 28% in 2006-07, which decreased over a period of time and became 6% in the year 2015-16.

Table 4.3 Total Guarantees of the State Government from 2006-07 to 2015-16

Year	Total Guarantees (In Rs. Crore)	Yearly Growth	As a % of Total Expenditure	As a % to GSDP
2006-07	12701	-9.79	32.38	4.48
2007-08	11561	-8.98	27.07	3.51
2008-09	10340	-10.56	19.92	2.81
2009-10	9980	-3.48	16.53	2.28
2010-11	8824	-11.58	12.32	1.66
2011-12	7620	-13.64	9.59	1.25
2012-13	6388	-16.17	6.50	0.88
2013-14	6583	3.05	6.28	0.82
2014-15	6017	-8.60	5.16	0.65
2015-16	5319	-11.60	4.19	0.52

Source: FRBM Act documents,GOG Various Issues

Table 4.4 Composition of Total Guarantees of the State Government from 2006-07 to 2015-16

(In %)

Sr No.	Sector	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Agriculture and Cooperation	10.41	11.39	12.62	13.08	10.49	10.81	12.89	13.45	15.67	18.20
2	Industries and Mines	5.67	6.11	6.64	6.64	7.51	8.65	10.32	10.01	10.96	12.39
3	Panchayat and Rural Housing	0.03	0.03	0.03	0.03	0.04	0.05	0.05	0.05	0.06	0.07
4	Urban Development and Urban Housing	2.26	2.49	2.74	2.84	3.20	3.70	4.42	4.29	4.69	5.31
5	Narmada Water Resources	50.00	51.84	52.24	54.13	54.16	54.36	47.29	49.81	46.84	47.25
6	Home Department	2.77	1.83	2.04	2.12	2.40	2.77	3.31	3.21	3.51	3.80
7	Energy and Petrochemicals	27.74	24.81	21.76	18.92	19.34	16.23	15.92	13.55	12.12	5.90
8	Forest and Environment	0.06	0.07	0.08	0.08	0.09	0.00	0.00	0.00	0.00	0.00
9	Social Justice and Empowerment	0.83	1.16	1.54	1.85	2.09	2.62	3.91	3.79	4.15	4.82
10	Tribal Development	0.20	0.22	0.24	0.25	0.62	0.72	1.80	1.75	1.91	2.16
11	Women and Child Development	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02
12	Roads and Building	0.03	0.04	0.04	0.04	0.05	0.06	0.07	0.06	0.07	0.08
	Total Guarantees	12701.00	11561.00	10340.00	9980.00	8824.00	7620.00	6388.00	6583.00	6017.00	5319.00

Source: FRBM Act documents, GOG Various Issues

CHAPTER V

STATE OUTSTANDING DEBT

PUBLIC DEBT

The public-debt to GSDP ratio is one of the important indicators of debt sustainability. The Thirteenth Finance Commission fixed the target of 27.1 % Total outstanding debt – GSDP ratio at the end of 2014-15. The state has achieved the target much before the stipulated time. For the year 2015-16, the total outstanding debt is at 22 % of the GSDP(Table 5.1).

Table 5.1 Debt – GSDP Ratio

Year	Total Outstanding Liabilities	Total Public Debt	Market Borrowings	NSSF	Loans from Banks and FI	Loans from Centre	Public account liability
2007-2008	32.06	25.38	5.00	15.50	0.99	3.88	6.68
2008-2009	30.47	23.89	6.17	13.48	1.00	3.24	6.58
2009-2010	29.86	23.52	7.64	12.05	1.03	2.81	6.34
2010-2011	28.63	22.54	8.35	10.92	0.98	2.29	6.09
2011-2012	27.42	21.56	8.89	9.71	1.16	1.80	5.86
2012-2013	24.58	20.11	9.98	7.92	0.77	1.44	4.47
2013-2014	23.37	18.39	9.82	6.65	0.77	1.15	4.98
2014-2015	23.34	18.52	10.83	5.92	0.81	0.97	4.82
2015-2016	21.97	17.73	10.91	5.24	0.77	0.81	4.24

Source: Calculated based on data from CMIE States of India

The total outstanding liability, consisting of public debt and public account liabilities increased by around 10 % from Rs. 9955 crores in 2006-07 to Rs. 231,510 corers in 2015-16.The total public debt comprising of internal debt (market borrowing, securities issue to NSSF and loans from banks and FI) and loans from Centre increased by 9.64 % which is lower than the growth of GRSDP observed at 14 % during the same period. However, market borrowing increased by the highest amount of 23.29 % whereas the securities issues to NSSF increased by only 1.26 %. Table 5.2 provides annual growth rate of various components of outstanding liability. Although the debt – GSDP ratio has been below the prescribed limit, one doesn't observe a gradual reduction in the growth rate and rather a high volatility is observed particularly in market borrowing, loans from banks and financial institutions and public account liability. For the year 2015-16, the outstanding liability observed almost double the growth rate i.e. from 7.42 % in 2014-15 and 14.32 % in 2015-16; due to increase in the growth of loans from banks and financial institutions and public account liability.

Table 5.2CAAGR of Outstanding Liability (2006-07 to 2015-16)

Components	CAAGR (2006-07 to 2015-16)
Total Outstanding Liabilities	9.79
Total Public Debt	9.64
Market Borrowings	23.29
NSSF	1.26
Loans from Banks and FI	11.93
Loans from Centre	-4.34
Public account liability	10.35

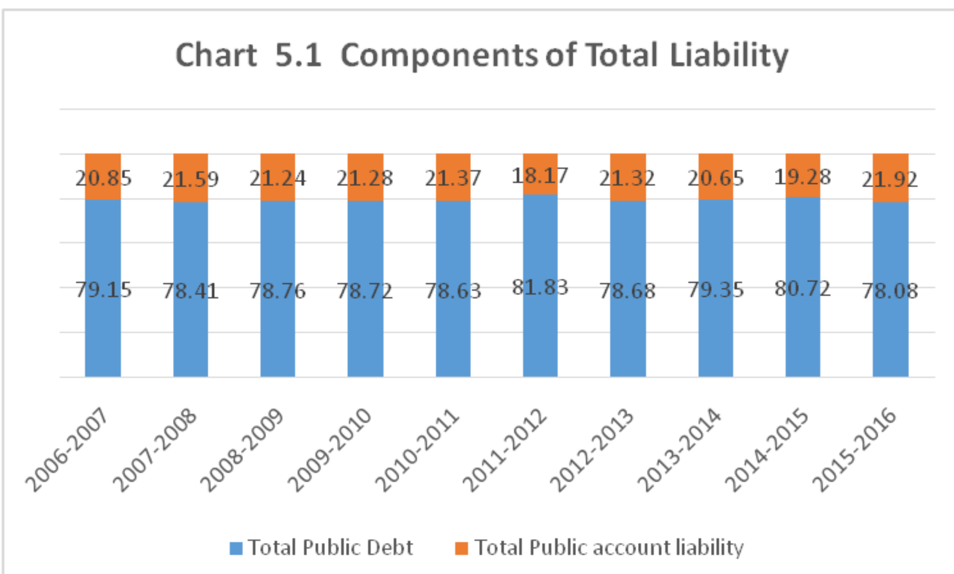
Source: Calculated based on data from CMIE States of India

Table 5.3 Annual Growth of State's Liability

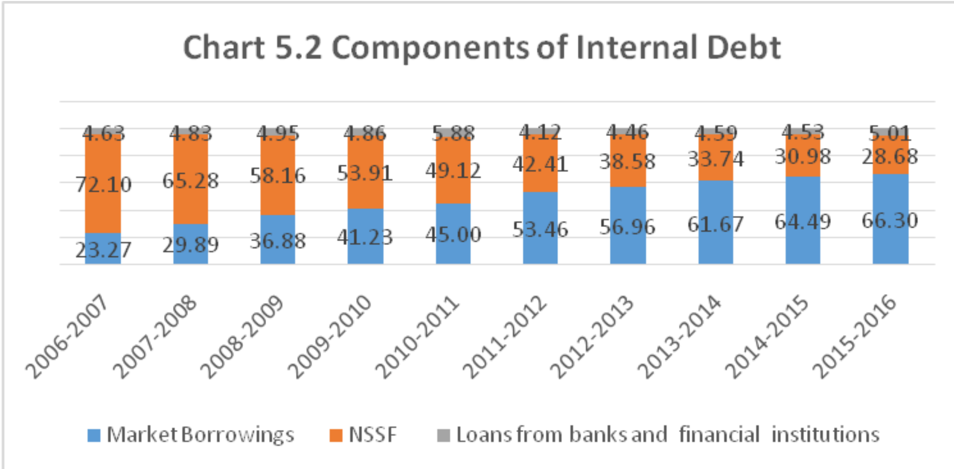
Year	Total Outstanding Liabilities	Total Public Debt	Market Borrowings	NSSF	Loans from Banks and FI	Loans from Centre	Public account liability
2007-2008	10.30	9.27	43.24	0.96	16.30	-3.13	14.22
2008-2009	9.51	9.99	38.26	-0.16	14.93	-3.12	7.74
2009-2010	12.39	12.32	28.14	6.24	12.41	-4.61	12.62
2010-2011	15.83	15.70	28.77	7.52	42.92	-4.67	16.32
2011-2012	5.78	10.09	32.52	-3.69	-21.78	-5.74	-10.08
2012-2013	11.91	7.61	15.79	-1.15	17.51	-6.21	31.28
2013-2014	11.35	12.30	22.88	-0.73	16.88	-5.90	7.84
2014-2015	7.42	9.26	15.05	1.00	8.60	-4.35	0.33
2015-2016	14.32	10.58	14.48	3.10	23.20	-5.48	29.96

Source: Calculated based on data from CMIE States of India

As discussed above, the total liability of states comprises of total public debt and public account liability. Throughout these years, the public debt has been around 80 % of the total liability (Chart 5.1). The 'State Finance' reports of CAG for various years noted that respective finance commissions and RBI while calculating total outstanding debt – GSDP ratio, have been considering total liability while Gujarat government is considering only outstanding public debt and simply ignoring the public account liability, without any specific reason being mentioned. Analyzing the sources of internal debt (Chart 5.2) indicates a composition shift in the sources of borrowing.In the year 2006-07, the market borrowing was around 23% of the internal borrowing whereas in the year 2015-16 its share increased to almost 66 %. This clearly is to reduce the debt burden by shifting from the high cost of borrowing from small savings fund to the lower cost of borrowing from the market.



Source: Calculated based on data from CMIE States of India



Source: Calculated based on data from CMIE States of India

The above analysis of public debt liability clearly indicates that Gujarat is able to maintain its debt – GSDP ratio. As the state is also able to achieve the surplus revenue deficit, the debt scenario of the state is not a worry as of now. Going forward, planning for the road map for sustainable debt there are few critical factors that need to be considered and take necessary steps. The issues are discussed below.

- Respective Finance Commissions, RBI and CAG report on state finances have been reiterating that the state needs to improve the management of cash balance. The surplus cash balanced observed during the study period is an indicator of poor cash balance management and higher debt burden. The amount investment in cash balance account in fact provides lower return on investment. The Table 5.4 gives details of the investment in the cash balance account.

Table 5.4Investment in Cash Balance Account

Year	Investment in Cash Balance Account (Rs. Crores)
2007-2008	13538
2008-2009	13,119
2009-2010	11,524
2010-2011	14,987
2011-2012	18632
2012-2013	13,358
2013-2014	11,923
2014-2015	12,402
2015-2016	8,946

Source: CAG, State Finance, Reports of various years

- Although the debt-GSDP ratio has remained well below the target fixed by the Finance Commission, it is observed that interest payment to revenue receipt ratio has been higher for all the years than 15 % as recommended by 12th Finance Commission. It was as high as 22 % in the year 2006-07 and could only reduce to 16.7 % in 2015-16. For the IP/RR ratio to reduce, it is important for the state to reduce the revenue receipts particularly the Non-Tax revenue. The poor investment decision and not being able to implement the dividend policy is critical to implement at this juncture since the impact of GST implementation is yet to be observed.

Sustainable Debt Road Map for 2020-25

This section discusses the sustainable road map taking into account the impact of introduction GST and projection of fiscal indicators. While the rolling out of one of the most significant and largest tax reform – that is introducing of Goods and Service Tax is a recent phenomenon and the country is yet to experience the long term benefit of the same, there are short term impact being discussed based on last one year data only. It has been discussed that the manufacturing or the producing states will have relatively greater loss in the GST as it is the consumption based tax. Gujarat is one among the top manufacturing states with almost 39 % share in state domestic product. The impact of GST revenue shortfall will be taken care of through the GST Compensation Act 2017 for the compensation period from July 2017 to June 2022. The compensation will be received for the short fall of SGST collection from projected 14 %. Thus, till 2022 of the award period of Fifteenth Finance Commission there will not be any greater impact from GST on the state finance. Maintaining the stable growth of state's revenue post the compensation period is a challenge for states like Gujarat. The key concern areas related to the impact of GST on Gujarat's finances are discussed here.

(i) Gujarat being the hub of manufacturing sector, has always been receiving greater revenue from state sales tax and central sales tax. In the pre-GST period the share of sales tax in total revenue receipts during 2015-16 was 56. 28 % including the central sales tax share of 8%. The share of sales tax was 61.62 % in 2014-15 and 62 % in 2013-14. Thus almost 60 % of the revenue sources are getting merge in the GST for Gujarat. As per the revised estimates of 2017-18 the share of sales tax has reduced to merely 32 %.

(ii) The other critical factor to consider is the exercise on liquor consumption. The tax on liquor consumption if out of GST in the present structure and hence states earning greater resources through this sources are not affected as much as Gujarat due to liquor prohibition in the state. States like Maharashtra, Tamil Nadu has been generating almost 10 % of the revenue receipts through exercise on liquor.

(iii) Entertainment tax is also out of GST in the present structure which is also promising revenue source for many states. However, Gujarat in its efforts to implement fiscal decentralization and transferring fiscal powers to ULB has transferred the power to collect entertainment tax on cable network to the ULBs, leaving states with merely 0.15 % of the revenue collected through entertainment tax.

(iv) Taxes on petroleum can be another independent sources for the states to collect revenue as it is out of GST structure at present. As per the data provided by Petroleum Planning and Analysis Cell, Gujarat collected around Rs. 15879 crores from taxes on petroleum product. Gujarat is among the top five states, collecting taxes from petroleum products. Although no separate data is available in state finances for estimating the VAT collection on petroleum products, in the recent past Gujarat revenue growth was negatively affected due to reduction in the petrol prices. (CAG, 2015-16). The revenue from petroleum product is highly volatile due to volatility of international crude oil prices. Also in the October 2017, Gujarat was the first state to reduce VAT on petroleum products by 4 % in order to reduce the burden of hike in crude oil price on the final consumer.

(v) The introduction of GST may have an impact on the tax buoyancy in case of Gujarat. The state has always been a tax buoyant with buoyancy greater than one. During the study period for 14th Finance Commission 2002-03 to 2011-12 the buoyancy of own tax revenue was 1.07, which marginally reduced to 1.02 for the period from 206-07 to 2015-16. From 2013-14 onwards Gujarat was experience lower growth in the tax revenue (due to reasons discussed in chapter 1). However, during 2017-18 the state managed to increase tax revenue by 10.87 %. This was possible due to factors like increase in revenue from stamp duty and registration fees by almost 25 % and taxes on vehicle by 20 %. This may not be the case in the next financial year.

Thus, considering the above factors, it would be difficult to maintain the buoyant tax structure for Gujarat after 2022. As far as obtaining revenue through SGST is concerned the state has taken various initiative. As per the budget document GoG – 2019-20 the state has been one of the forerunner in the country in registration of merchants under GST and refund to them. The state secured the first rank in generating interstate e-way bill. Out of total revenue receipts of Rs. 154884.74 crores budget for 2019-20, the revenue from SGST is estimated at Rs. 48735 crores. This again will be around 31.4 % share in the revenue receipts. The state should be able receive the other half of the share from CGST and IGST to compensate for the loss of sales tax for Gujarat. Although upto June 2022 the state will not experience the revenue shortfall due to GST compensation, but the state need to take measure for widening the tax base and improving the performance of Non-Tax Revenue for sustainable financial performance in the long run.

Table 5.5 and 5.6 provide projections of GSDP and major fiscal indicators for the fifteenth finance commission award period from 2020-21 to 2024-25. The projections are done using the compounded annual growth rate for the GSDP and other fiscal indicators. The CAGR for GSDP is calculated from 2006-07 to 2016-17 (q) and CAGR for fiscal indicators have been calculated for the period of 2006-07 to 2017-18 (RE). The GSDP at current price growth is estimated at 13.68 %. Considering if the state will be able to maintain buoyant tax structure the own tax revenue may increase by 14 % even after the compensation period. The state will be able to keep the fiscal deficit under the control as per the requirement of FRBM and with debt-GSDP ratio below 15 %.

Table 5.5 GSDP Projection (2020-2025)

Year	Gross Domestic State Product (Rs. Crores)
2020-21	1941107
2021-22	2206650
2022-23	2508520
2023-24	2851686
2024-25	3241796

Source: study estimates

Table 5.6 Fiscal Indicators Projections for 2020-25

(Rs. Crores)

Year	Revenue Receipts	Tax Revenue	State Owned Tax Revenue	Non Tax Revenue	State Owned Non Tax Revenue	Revenue Expenditure	Fiscal Deficit	Public Debt
2020-21	188807.76	142334.37	111753.83	46516.17	23136.64	180805.68	30821.65	297625.1
2021-22	212975.15	160780.91	126002.45	52260.91	25642.34	204165.77	34514.09	326316.1
2022-23	240235.97	181618.11	142067.76	58715.14	28419.41	230543.99	38648.87	357773
2023-24	270986.17	205155.82	160181.40	65966.46	31497.23	260330.27	43279.01	392262.3
2024-25	305672.40	231744.01	180604.53	74113.31	34908.38	293964.94	48463.83	430076.4
Projection Rate	**12.8**	**12.96**	**12.75**	**12.35**	**10.83**	**12.92**	**11.98**	**9.64**
Year	**RR/GSDP**	**TR/GSDP**	**OTR/GSDP**	**NTR/GSDP**	**ONTR/GSDP**	**RE/GSDP**	**FD/GDSDP**	**Public Debt/GSDP**
2020-21	9.73	7.33	5.76	2.40	1.19	9.31	1.59	15.33
2021-22	9.65	7.29	5.71	2.37	1.16	9.25	1.56	14.79
2022-23	9.58	7.24	5.66	2.34	1.13	9.19	1.54	14.26
2023-24	9.50	7.19	5.62	2.31	1.10	9.13	1.52	13.76
2024-25	9.43	7.15	5.57	2.29	1.08	9.07	1.49	13.27

Source: Study estimates

As on 31st March, 2018, the gross public debt of the State is estimated to be Rs. 217337 crore which works out to 16.46% of the GSDP which was 25.60 % of GSDP in the year 2006-07. The composition of the debt stock has undergone a change during a period of 2008-09 to 2016-17, wherein proportion of central government loans has reduced to 3.29% from 11.87%. Similarly share of NSSF Loans has reduced to 23.26% from 51.59%, whereas share of Market Loan has increased to 68.28% from 32.20% highlighting the shift towards increased reliance on Market Loans. The analysis of the debt portfolio of the State reveals that the bulk of the total public debt of Rs. 199338 crore is on account of Market loans, which comprises 68.28% of the total public debt. The revised estimate for the total debt stock in fiscal year 2017-18 is Rs. 217337 crore. The average cost of debt for the State was 10.79 % in 2004-05. This has reduced to 8.90% in year 2016-17 and is expected to be 8.62% in the year. 2017-18 (RE) However, the high interest rate on NSSF loans which account for 23.26% of total public debt continues to be a rising financial burden on the State Government. The interest payment on Public Debt as a percentage of revenue receipt in 2017-18 (RE) is 13.06%, which was 14.65% in FY 2016-17 and 26.82% in FY 2004-05. Considering the repayment schedule of following years, the State has borrowed the loans of various tenures ranging from 2 to 10 years which has resulted in competitive interest rates of GSDL. This will positively affect the cost of interest in the current as well as the following years. State government borrowings is based on its needs of capital expenditure. Interest payment on borrowing is charged liability for the state. As a part of prudent financial management, State earns interest on its surplus balance provides a cushion to payment of interest to that extant.

The 14th Finance Commission has recommended discontinuing the release of NSSF Loans from the Centre to the States. Accordingly, NSSF loan has been stopped to disburse to the State from Financial Year 2016-17. The Market Loans are the most dominant component of public debt accounting for 68.28% of the total public debt as on 31stMarch 2017. As per RE for FY 2017-18, it is estimated that the State would borrow Rs. 28000 crore in the financial year. In case of open market borrowing, the State has been able to borrow at most competitive rates without taking recourse to underwriting. This has resulted in significant interest savings for the State as the market borrowings are made around weighted average cost of 7.60% in FY 2017-18 (RE). In the FY 2017-18, it is observed that the State has borrowed at competitive interest rates in the Market at the time of borrowing. The borrowings from the institutions like NABARD, HUDCO, LIC are project based and are part of the overall borrowing programme. Loans from NABARD carries weighted average interest rate of 5.20% in FY 2017-18 (RE) and is the cost effective source of loan to the State Government. The State has been according priority to this source and thereby intends to lower the cost of funds required for budget financing.

The State has ensured prudent debt management through measures like setting up of Debt Management Office (DMO), incorporating Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF), ceiling on guarantees etc. In a situation of primary deficit, the debt stabilization condition requires that the rate of growth of nominal GSDP to be greater than the nominal rate of interest on the debt stock. In this context, it is important to note that the average growth of nominal GSDP for Gujarat over a period of 2011-12 to 2017-18 (AE) has been 13.56%, while the nominal rate of interest on the debt stock has been estimated at the level of 8.62% as on 31stMarch, 2018. On account of the initiatives taken by the Government and the financial parameters outlined above, Debt at the current level and its projected rise is considered to be sustainable.

Government of Gujarat has decided a very good road map to control debt and for efficient debt management for future. Gujarat has taken various steps to increase Government receipt and try to curtail expenditure and efficient use of grant in the larger interest of the society.

- The long-term fiscal objective of the State Government seeks to maintain a revenue surplus across the economic cycle to ensure that government revenues and expenditure are in balance through an appropriate level of taxation and expenditure. The fiscal objective also seeks to ensure that public debt is contained at a prudent level.

- State fiscal strategy aims at increasing capital expenditure to ensure higher investments in social and economic infrastructure. This would be possible through maximizing revenue receipts of the state while concurrently containing revenue expenditure.
- The Government's continuous endeavor has been to widen the tax base thus improving the revenues. This has been possible through a strategy of evolving a robust broad-based tax system that aims at collecting taxes in a manner that is equitable and efficient.
- The emphasis of the Government has been to increase outlays in social sector expenditure so as to provide an impetus to equitable growth and improving the quality of life.
- The taxation policy of the State focuses on streamlining the tax structure and simplifying the administration for better tax compliance and greater transparency. State aims at increasing the number of tax payers, improving the tax compliances and making tax administration more efficien.
- The State Government is exploring ways to augment the resources mobilization from non-tax resources through levy of appropriate user charges, cost recovery from social and economic services and restructuring of State PSUs.
- The user charges are expected to instill a culture of appropriate utilization of public services. Such user charges (fees, etc.) are retained by semi-autonomous bodies, thus moderating the non-tax collections.
- The declining level of Public Debt to GSDP ratio indicates that the borrowings are primarily being utilized for fostering economic growth of State. The State has been very conscious of the magnitude and composition of its outstanding liabilities
- A full-fledged Debt Management Office has been operational within the Finance Department to fully focus on various aspects of public debt management. The Consolidated Debt Sinking Fund which has been set up would continue to be augmentted to take care of pay-outs at the time of maturity of borrowings.
- For equitable and inclusive growth the need to adequately provide for the social and welfare programmes cannot be overemphasized.

- The State Government has adopted a wide variety of methods which include prioritizing expenditure, placing limits on certain kinds of expenditures, greater decentralization of executive functions, improved cash management and greater accountability in the delivery of services against specified targets. The adoption of these principles is expected to facilitate a qualitatively superior process of fiscal consolidation.
- The State Government has established information technology based solutions through the setting up of an Integrated Financial Management System (IFMS), in the form of online budget, online grant release and online expenditure monitoring. These measures aid the government in having a robust monitoring system to keep a view on the quantum and quality of expenditure.
- State government has started the implementation of Direct Benefit Transfer (DBT) System. The State Government has ensured the accurate identification of the beneficiary. It is a simple user friendly Government to People (G2P) interface. By implementation of DBT, State Government will be able to curtail revenue expenditure and benefits will be paid to the intended beneficiaries without any hassle.
- State started to preapared outcome budget from FY 2017-18 will lead towards prudent fiscal management.The State is contemplating several measures to carry forward the expenditure reforms and make it more effective. This includes rationalization of approval processes, better delegation of powers, improved expenditure MIS and introduction of a public investment approval mechanism that seeks to cut down delays, improve quality of project appraisal and ensure better targeting.
- The outlay of the budget in the coming year will see a definite attempt to address the key areas like social sectors, agriculture, rural infrastructure, urban amenities, fisheries, co-operative sector, irrigation and water supply. The major thrust areas of the coming year’s public expenditure are:
    - Social Sector spending with a focus on Human Development Indicators in sectors like ICDS, Health, Education and Rural Development.

- Agriculture sector with a focus on providing sustainable livelihood by outlays in Crop Insurance, Fisheries, horticulture, Irrigation and infusion in the Co-operativeOrganizations.
- Rural Infrastructure shall be strengthened with a special outlays for upgrading rural connectivity through roads and bridges.
- Urban Amenities shall be upgraded by outlays for various urban infrastructure and housing projects.

- The state government has visualized a significant role for the mobilization of additional resources above the budgetary outlays for various sectors by leveraging the borrowing space by available to various PSUs and Departments towards achieving their goals. This would be achieved via the PSUs/Departments, which would be raising these Extra Budgetary Resources from various national and multilateral agencies. These additional resources would also be ploughed towards making expenditure and investment in the above stated priority sectors.
- A Guarantee Redemption Fund (GRF) has been set up to take care of any contingent liabilities arising out of the State Government guarantees. The State government will ensure that new guarantees will be given subject to vacation of guarantees.

CHAPTER VI

DEFICIT ANALYSIS, FRBM ACT & ITS IMPLEMENTATION

Gujarat Fiscal Responsibility Act, 2005 and Gujarat Fiscal Responsibility Rules, 2005 have been framed by the Government of Gujarat to make the State Government accountable for ensuring prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations and conduct of fiscal policy in a medium-term framework. As per section 3 of the Act, the State Government shall lay, in every financial year, before the State Legislature, the Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement along with the budget. The Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement set forth the fiscal objectives, strategic priorities of the State Government and a three years rolling target for fiscal management.

The salient provisions of the Act are:

- Reduce the revenue deficit to zero within a period of three years commencing from the 1st April, 2005 and ending on the 31st March, 2008 and maintain at that level or generate revenue surplus thereafter,
- Reduce the revenue deficit in each of the financial year commencing from 1st of April, 2005 in a manner so as to achieve the desired goal.
- Reduce fiscal deficit to not more than three per cent, of the estimated Gross State Domestic Product within a period of four years commencing from 1st April, 2005 and ending on the 31st March, 2009;
- Reduce the fiscal deficit in each of the financial year commencing from the 1st of April, 2005 in a manner so as to achieve the desired goal.
- Cap within a period of three years commencing from the 1st April, 2005 and ending on the 31st March, 2008, the total public debt of the State Government at thirty percent of the estimated Gross State Domestic Product for that year;

- Cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963;
- Disclosures in the forms prescribed in the rules at the time of presentation of the budget.
  (See FRBM Document Feb 2007)

In wake of the global financial crisis, Government of India relaxed the fiscal deficit target for FY2008-09 and FY 2009-10 by 0.5% and 1% of GSDP, respectively. This was to spur infrastructural development and employment generation by undertaking capital expenditure. In addition, the Debt Consolidation and Relief Facility (DCRF) requirement of maintaining Revenue Deficit at zero was also relaxed for 2008-09 and 2009-10. Government of India had suggested the States to amend their Fiscal Responsibility Legislations (FRLs) accordingly.

The Bill seeking amendment to the said Act was introduced in the Assembly in June 2009 wherein it was mentioned that the revenue deficit and fiscal deficit may exceed the limits specified under Section 5 of FRBM Act 2005 due to grounds of unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or due to any other exceptional ground specified by the State Government. (See, FRBM Documents, Feb 2011)

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the 13th Finance Commission has recommended a fiscal consolidation roadmap for each State. States are required to enact/amend their Fiscal Responsibility Legislations (FRLs). The Revised Fiscal Consolidation roadmap for Gujarat requires the State to reduce the revenue deficit to zero by FY 2011-12, reduce fiscal deficit to not more than 3% of the estimated GSDP of the year beginning FY 2011-12, to cap the total public debt of the State Government from the level of 28.8% in FY 2011- 12 to 27.1% at the end of FY 2014-15 of estimated GSDP for the FY beginning 1st April, 2011 and ending on 31st March, 2015 and to cap the outstanding guarantee within the limit provided in the Gujarat State Guarantees Act, 1963. (See, FRBM Documents, Feb 2015)

The State Government undertook a number of steps to move forward on the path of fiscal correction and consolidation, and achieved all parameters of GFR Act well before the stipulated time. The process of fiscal reforms has been carried forward by efficient debt management which has led to decline in the average interest cost on the debt stock from 10.79 % in 2004-05 to 8.84% as on 31st March 2016. The State has also been maintaining its Consolidated Sinking Fund (CSF), set up to meet the outstanding liability, which now has an accumulated balance of Rs. 10436 crore as on 31st December 2016. The contingent liabilities of the State Government, as defined in terms of its outstanding guarantees, have shown significant reduction over the last few years. The total outstanding guarantees have come down to Rs. 5319 crore as on 31st March, 2016 as compared to Rs.12701 crore as it stood in the beginning of FY 2007. The state also maintains a Guarantee Redemption Fund (GRF) which has an accumulated balance of Rs. 372 crore as on 31st December 2016. The State Government has initiated a number of measures to institutionalize the path of fiscal correction through policy reforms and procedural changes. In the area of policy reforms, measures such as Rationalization of Tax Structure, Ceiling on Guarantees, Introduction of VAT and New Pension Scheme have been taken. Similarly, various process improvements like introduction of an Integrated Financial Management System (IFMS), Direct Benefit Transfer (DBT), Collection of Taxes through Cyber Treasury and Online Budget Preparation have been implemented. Further, various process reforms in VAT/Sales Tax administration through widespread usage of e-Governance tools have also led to better fiscal management. (See, FRBM Documents, Feb 2017)

States' Comparison

While comparing Gujarat's deficit indicators, it becomes evident that the state has been showing a great fiscal health. In the year 2011-16, Haryana, Maharashtra, Kerala, Punjab, Tamil Nadu, West Bengal, and Meghalaya have revenue deficit as compare to GSDP. This in not healthy sign for fiscal position of the state. Gujarat State ratio was -0.2 % in the year 2015-16. As Fourteen Finance Commission recommendation and FRBM Act provisions, all states must be reduce their borrowing and FD/GSDP ratio will be less than 3 % over a period of time. In the year 2015-16, Gujarat State's ratio was 2.2 % where as Haryana state ratio was 6.5, Jharkhand was 5.0 and Rajasthan Ratio was very high i.e 9.2% in 2015-16.Primary Deficit gives clear picture of the state fiscal position. In the table, we can see the Gujarat State PD/GSDP ratio was 0.7 % in the year 2015-16. The highest ratio was in Rajasthan and it was 7.5 % in the year 2015-16.

Table 6.1 Fiscal Performance of the State 2011-2016

State	RD/GSDP		GFD/GSDP		PD/ GSDP	
	2011-12	2015-16	2011-12	2015-16	2011-12	2015-16
1. Andhra Pradesh	-0.5	1.2	2.4	3.6	0.7	2.0
2. Bihar	-2.0	-3.3	2.4	3.2	0.7	1.3
3. Chhattisgarh	-2.3	-0.9	0.6	2.1	-0.3	1.3
4. Goa	-0.8	-0.2	2.5	2.7	0.5	0.8
5. Gujarat	-0.5	-0.2	1.8	2.2	0.00	0.7
6. Haryana	0.5	2.4	2.3	6.5	1.0	4.8
7. Jharkhand	-1.0	-1.8	1.4	5.0	-0.2	3.5
8. Karnataka	-1.0	-0.2	2.7	1.9	1.4	0.8
9. Kerala	2.5	1.7	4.1	3.2	2.1	1.2
10. Madhya Pradesh	-3.2	-1.1	1.9	2.7	0.1	1.1
11. Maharashtra	0.2	0.3	1.7	1.4	0.2	0.1
12. Odisha	-2.6	-3.1	-0.3	2.1	-1.5	1.1
13. Punjab	2.6	2.2	3.3	4.4	0.9	1.9
14. Rajasthan	-0.8	0.9	0.9	9.2	-1.0	7.5
15. Tamil Nadu	-0.2	1.0	2.6	2.8	1.3	1.3
16. Telangana	0	0.0	0	3.3	0	1.9
17. Uttar Pradesh	-1.0	-1.3	2.3	5.2	0.00	3.3
18. West Bengal	2.7	1.0	3.3	2.3	0.3	-0.2
Total Non Special Category	-0.2	0.1	2.2	3.3	0.4	1.7

Source : State Finances : A Study of Budget , Various Issues. (-) sign indicates surplus

14th Finance Commission's Recommendation and its implementation

The 14th Finance Commission has recommended a revised fiscal reform path to consolidate the finances of the Governments from the financial year 2015-16 onwards. The recommendations of the Commission are on the following lines: 1. The Fiscal Deficit of all States will be anchored to an annual limit of 3 per cent of GSDP. The States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 per cent in the preceding year. 2. States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year. 3. The two options under these flexibility provision can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a State can have a maximum fiscal deficit-GSDP limit of 3.5 per cent in any given year. 4. The flexibility in availing the additional limit under either of the two options or both will be available to a State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year. The State Government has a successful record in adhering to the norms related to Fiscal Consolidation over the past many years and in the same vein shall progressively adopt these recommendations of the 14th FC with respect to maintaining the fiscal discipline and also for meeting the fiscal requirements of the state.

The State has successfully adhered to GFR Act targets despite the impact of external influences on the State's economy and the strain on Government's finances. The expectations for a faster and more inclusive growth will also put greater demands on financial resources of the state. In keeping with the requirements for fiscal disclosures, the current budgetary process involves placing all financial statements and underlying information and assumptions on the table of the House. The accompanying statements and an assessment of future outlook is to further the objectives of Gujarat Fiscal Responsibility Act, 2005.

The 14th Finance Commission has also recommended a revised road path to consolidate the finances of the Governments from the financial year 2015-16, Gujarat became a revenue surplus state in the year 2006-08 and 2011-16. We can see the revenue deficit in the year 2008-11 due to implementation of Sixth Wage Commission’s recommendations for the employee of the State Government. Same way, Fiscal Deficit / GSDP target of 3 % was achieved by the State Government since 2008-09 to 2015-16 except the year

2009-10 it was 3.54 % of GSDP due to implementation of Sixth Wage Commission's recommendations. Public Debt/GSDP ratio was also achieved in the past 10 years and it was declined from 24% to 18% during 2008-16. Outstanding Guarantees of the State Government was Rs.10340 Crore in 2008 which was constantly declined and it became Rs. 5319 Crore in the year 2015-16. If we talk about the Primary Deficit/Surplus of Gujarat State it was Rs.1283 crore surplus in the year 2006-07 and we can see the deficit after 2007-08 and Rs. 6715 Crore Primary Deficit in the year 2015-16. If we look into Revenue Receipts as proportion of Revenue Expenditure, it was 0.98 % in 2005-06 which became 1.02 % in the year 2015-16. We can see the decreasing trend in Interest Payment as a % of Revenue Receipt in last decade in Gujarat. Capital Outlay as percentage of GFD was initially declined up to 2010-11 and after 2012-13 but it suddenly increased in the year 2011-13.(See Table 6.4)

Table 6.2 Achievements of GFR Act targets

Item	**Target**	**Achievement**
Revenue Deficit	Zero by 2007-08	Achieved in 2006-07
Fiscal Deficit / GSDP	3 % by 2008-09	Achieved in 2006-07
Public Debt / GSDP	27.1 % by 2011-12	Achieved in 2011-12
Outstanding Guarantees	Rs.16000 crore by 2007-08	Achieved in 2006-07

Source : FRBM Act various Issues, Gujarat State

Table 6.3 Achievements of Targets Yearwise 2008-16

Item	2008-09		2009-10		2010-11		For 2011-12 onwards	2011-12	2012-13	2013-14	2014-15	2015-16
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	Achievement	Achievement	Achievement	Achievement
Revenue Deficit / Revenue Surplus	RD Allowed	-66	RD Allowed	-6966	RD Allowed	-5076	0	3215	5570	4717	5326	1704
Fiscal Deficit / GSDP	3.50%	2.84%	4.00%	3.54%	No Target	2.94%	3.00 %	1.80%	2.50%	2.41%	2.05%	2.24%
Public Debt / GSDP	30%	24%	30%	23%	No Target	22%	27.10 %	20%	20.71%	19.53%	18.26%	18%
Outstanging Guarantees	16000	10340	16000	9980	16000	8824	16000	7620	6388	6583	60.17	5319

Source : FRBM Act various Issues, Gujarat State

Table 6.4 Fiscal Indicators

Sr No	Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue Deficit / Revenue Surplus	-399	1770	2150	-66	-6966	-5076	3215	5570	4717	5326	1704
2	Fiscal Deficit	-6270	-5649	-4771	-10437	-15133	-15073	-11027	-16492	-18423	-18320	-23015
3	Primary Deficit	-127	1283	2713	-2554	-6563	-5446	-93	-4331	-5091	-3374	-6715
4	Public Debt	66926	72154	79309	87010	98009	110873	123406	136367	149506	163451	180743
5	GSDP	219780	254533	303734	367745	429356	530430	611767	658540	806745	895205	1025188
6	Revenue Deficit / Revenue Surplus as a percentage of GSDP	0.18	0.70	0.71	0.02	1.62	-0.96	0.53	0.85	0.58	0.59	0.17
7	Fiscal Deficit as a percentage of GSDP	2.85	2.22	1.57	2.84	3.53	2.84	1.80	2.50	2.28	2.05	2.24
8	Public Debt as a percentage of GSDP	30.45	28.35	26.11	23.66	22.83	20.90	20.17	20.17	18.53	18.26	17.63
9	Revenue Receipt as a percentage of Revenue Expenditue	0.98	1.06	1.06	1.00	0.86	0.91	1.05	1.08	1.06	1.06	1.02
10	Capital Outlay as a percentage of Gross Fiscal Deficit	140.00	177.00	143.00	76.80	55.92	68.81	130.74	134.06	126.37	133.78	107.95
11	Interest Payment as a percentage of Revenue Receipt	21.75	19.97	18.71	18.27	18.48	16.35	15.63	14.47	14.90	14.42	14.83
12	Salary Expenditure as a Percentage of Revenue Receipt	26.63	21.96	22.40	22.56	30.39	30.31	27.73	24.77	24.40	22.78	22.64
13	Pension Payment as a percentage of Revenue Receipt	8.38	7.73	7.38	7.66	10.39	11.04	9.00	9.35	10.07	9.99	10.22
14	Total Direct Subsidy	2761	3151	34	3533	3454	3286	3953	4582	4424	6583	9045

Source : FRBM Act, GoG Documents from Various years

Table 6.5 :
Allocation to sate during the FFC Award Period (2015-2020)
(Basic Grant + Performance Grant)

(In Rs. Crore)

Sr. No	State/ UT	2015-16	2016-17	2017-18	2018-19	2019-20	Grand Total 15-20
1	Andhra Pradesh	934.34	1463.45	1686.85	1947.32	2622.13	8654.09
2	Arunachal Pradesh	88.52	138.66	159.82	184.49	248.44	819.93
3	Assam	584.80	915.98	1055.80	1218.82	1641.19	5416.598
4	Bihar	2269.18	3554.23	4096.80	4729.38	6369.25	21017.84
5	Chattisgarh	566.18	886.82	1022.11	1180.02	1588.964	5244.07
6	Goa	14.44	22.62	26.07	30.10	40.53	133.76
7	Gujarat	932.25	1460.18	1683.08	1942.96	2616.26	8634.73
8	Haryana	419.28	656.72	756.98	573.86	1176.68	3883.52
9	Himachal Pradesh	195.39	306.05	352.76	407.24	548.36	1809.80
10	Jammu & Kasmir	373.96	585.73	675.15	779.40	1049.49	3463.73
11	Jharkhand	652.83	1022.53	1178.63	1360.62	1832.12	6046.73
12	Karnataka	1002.85	1570.77	1810.55	2090.10	2814.39	9288.66
13	Kerala	433.76	679.40	783.12	904.03	1217.30	4017.61
14	Madhya Pradesh	1463.61	2292.46	2642.40	3050.41	4107.48	13556.36
15	Maharashtra	1623.32	2542.61	2930.76	3383.28	4555.70	15035.67
16	Manipur	22.25	34.84	40.16	46.36	62.43	206.04
17	Odisha	955.52	1496.64	1725.11	1991.48	2681.59	8850.34
18	Punjab	441.70	691.84	797.45	920.58	1239.58	4091.15
19	Rajasthan	1471.95	2305.52	2657.47	3067.80	4130.90	13633.64
20	Sikkim	16.03	25.11	28.95	33.41	44.99	148.49
21	TamilNadu	947.65	1484.31	1710.90	1975.07	2659.850	8777.43
22	Telangana	580.34	908.99	1047.75	1209.53	1628.68	5375.29
23	Tripura	36.24	56.76	65.43	75.53	101.71	335.67
24	Uttarakhand	203.26	318.37	366.97	423.64	570.44	1882.68
25	Uttar Pradesh	3862.60	6050.02	6973.57	8050.34	10840.04	35776.57
26	West Bengal	1532.21	2399.91	2766.26	3193.39	430.01	14191.78
All India Level		21624.46	33870.52	39040.90	45069.16	60687.13	200292.17

Source : Fourteen Finance Commission Report, 2015

Fourteen Finance Commission FC, for the award period 2015-20, has devolved an amount of Rs. 2,00,292.20 crore to Gram Panchayats (GPs) constituted under Part IX of the Constitution which is threefold increase over the grants of Rs.65160.76 crore recommended by Thirteenth Finance Commission for the award period 2010-15 for all levels of PRIs. 90 percent of these Grants are Basic Grants and 10 percent are Performance Grant (applicable from 2016-17). Performance grants will be given to GPs who increase their own source revenue and get their accounts audited. Performance grants are designed to serve the purpose of ensuring reliable audited accounts and data of receipt and expenditure and improvement in own revenues. FFC has recommended that books of accounts prepared by the local bodies should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency functions assigned by the Union and State Governments. The Commission has recommended grants for Gram Panchayats as they are directly responsible for delivery of basic services without any share for other levels. The allocated grants are released to various States by Ministry of Finance (Department of Expenditure) (MoF) in accordance with the guidelines issued by that Ministry on 8th October 2015. The grants are distributed to Gram Panchayats as per the approved formula recommended in the latest State Finance Commission (SFC) Report. However, in the absence of SFC formula, grant should be distributed using population of 2011 Census with a weight of 90% and area with a weight of 10%. For example, the 5th SFC criteria used in Assam has the weightage factor of population: 50%, Area: 25% and per capita income 25% at district level and for Gram Panchayats as 30:30:40. In case of Jharkhand, the basic grant is distributed to local bodies as per guidelines of Fourteenth Central Finance Commission, namely 90% weight for population and 10% weight for area. The grant provided are intended to be used to support and strengthen the delivery of basic services including water supply, sanitation including septic management, sewerage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths and street-lighting, burial and cremation groundsand any other basic service within the functions assigned to Gram Panchayats under relevant legislations. Comptroller and Auditor General (C&AG) may conduct audit of expenditure in selected Panchayats. In addition, State Governments may also get audit done through Local Fund Audit or through empanelled Chartered Accountants. The publishing of service level data and audit of accounts will provide the necessary transparency and accountability in utilization of FFC grants. FFC has recommended that stern action should be ensured if irregularities in the application of funds are noticed or pointed out, for the prevention of which appropriate third party audit mechanism may be put in place by March, 2017. (See, Sinha, 2017)

Gujarat state has implemented the merger of Plan and Non-Plan expenditure in the budget from financial year 2017-18. The 14th Finance Commission has recommended discontinuing the release of NSSF Loans from the Centre to the States. Accordingly, NSSF loan has been stopped to disburse to the State from Financial Year 2016-17. The Market Loans are the most dominant component of public debt accounting for 68.28% of the total public debt as on 31stMarch 2017. As per RE for FY 2017-18, it is estimated that the State would borrow Rs. 28000 crore in the financial year. In case of open market borrowing, the State has been able to borrow at most competitive rates without taking recourse to underwriting. This has resulted in significant interest savings for the State as the market borrowings are made around weighted average cost of 7.60% in FY 2017-18 (RE). In the FY 2017-18, it is observed that the State has borrowed at competitive interest rates in the Market at the time of borrowing. The borrowings from the institutions like NABARD, HUDCO, LIC are project based and are part of the overall borrowing programme. Loans from NABARD carries weighted average interest rate of 5.20% in FY 2017-18 (RE) and is the cost effective source of loan to the State Government. The State has been according priority to this source and thereby intends to lower the cost of funds required for budget financing.

Positive Implications:

With greater fiscal space, states can meaningfully contribute to the overall growth and development in their regions, thereby adding to the aggregate growth of the nation. States will now have the flexibility to implement delinked CSS schemes as per local needs. This should ideally ensure efficient utilization of government resources.

Downside Risks:

In the near term, huge tax devolution could put some strain on Centre’s finances, especially until major CSS schemes get delinked and GST is implemented. There is a risk of wastage of funds by some states towards populist and non-productive ends with greater discretionary funds with States. As per para 7 of the guidelines of the 14th Finance Commission which recommends that basic grants under the 14th Finance Commission are provided for services like water supply, sanitation, sewage and solid waste management, storm water drainage, maintenance of community assets like roads, footpaths, burial and cremation grounds, etc. The selection of the works needs to be based on the guidelines. It is also possible that many GP has not been made adequately aware about the guidelines of the 14th Finance Commission. It is required that they should be made aware of the guidelines and should also be made aware of the fact that the State lacks in basic facilities like safe drinking water, sanitation and hygiene, solid waste management facilities and lighting of the streets for which the FFC grants are meant.

CHAPTER VII

FISCAL DECENTRALIZATION IN GUJARAT

Many developing countries in the world introduced fiscal decentralization for last two decades.India also introduced the 73rd and 74th Constitutional Amendment Act 1992 for implementing transfer of some of the fiscal responsibilities and power to third tire government, that is Urban Local Bodies (ULBs) and Panchayati Raj Institutions (PRIs). Fiscal decentralization is a system in which the new generation federal finance structure is getting designed. In India, it is the state who has complete autonomy and responsibility to implement process of fiscal decentralization. This naturally indicates that the successful implementation of fiscal decentralization is a function of state's willingness and efforts.

At present there are eight municipal corporations and 159 Nagarpalikas and 14312 PRIs in Gujarat. As per 2011 census, urban population was 2.57 crore (42.55 per cent) and rural population of the State was 3.47 crore (57.45 per cent). The average size of population for Municipal corporations works out to 18.25 lakh whereas average size of population for Municipalities works out to 0.53 lakh (Govt of Gujarat, 2012-13).

It is observed that state has been active as far as transferring the responsibilities to ULB and PRIS as compared to transferring the power to raise the financial resources. State Government devolved all the 18 functions envisaged in the Twelfth Schedule to the Nagarpalikas and Municipal Corporation to enable them to function as institutions of self-government. But as far as PRI is concerned, out 29 functions, Gujarat Government has, however, devolved (April 1993) 14 functions fully and five functions partially to PRIs. (C&AG, GoG 2015). The power to raise the financial resources through own taxes and non-tax revenue is limited for PRIs to very few sources that include, fair tax, building tax, fee, rent for building and water reservoir and capital receipts from sale of land. The ULBs in Gujarat collect tax revenue from three major sources, Property tax, entertainment tax and professional tax. The own non-tax revenue of ULBs comes from user charges, fee for sanction of plans/mutations, water charges, etc. Property tax is the major source of revenue for ULBs in Gujarat like most other states. In 2008-09 the state government delegated powers to ULBs to levy, collect and retain the profession tax. In the budget of 2014-15 the power to collect entertainment tax on cable TV was transferred to ULBs. Compared to PRIs, the resources to ULBs are higher but the rate of urbanization is also very high in Gujarat. As per 2011 census, the average size of population for Municipal corporations works out to 18.25 lakh whereas average size of population for Municipalities works out to 0.53 lakh in Gujarat. (Govt of Gujarat, 2012-13). This certainly calls for higher expenditure requirements for establishing and providing urban amenities.

The analysis of receipts of ULBs and PRIs can help comprehend the state's efforts towards fiscal decentralization. Table 7.1 provides the details of the financial resources of ULBs and PRIs. Assessing the income of the ULBs, almost 50% of the income is from grants-in-aid which comes from state government. This can be grants for specific purpose or untied grants. There is however, some level of inconsistency in the share of grants-in-aid as for the year 2010-11 almost 60 % of the income came through grants and the very next year its share dropped to 43 %. This is due to the significant reduction in the grants (38%) during this year (Table 7.2). There is observed a great year on year fluctuation in the revenue generation of ULBs. The PRIs in India get almost around 95% of the revenue through state/center grants. The share of grants from Central Finance Commission and Own Revenue is very low. In the last two years, the revenue through state's grants experienced very low growth of around 1.2% and 4.5% respectively in 2014-15 and 2015-16. Greater reliance on the grants from government and Finance Commission is an indication of lack of fiscal autonomy for ULBs and PRIs. Another critical factor, over and above the lower share of own revenue, is high fluctuations in the rate of growth of grants received. This certainly leaves the ULBs and PRIs with complete ambiguity of the available financial resources from the government. The greater fluctuation is also a signal of absence of well-designed formula or mechanism at the state government level for transferring financial resources to local government. The study on fiscal decentralization in Gujarat with respect to urban local bodies points out that during 2011-12 to 2015-16 thereceipts have increased by only 3.56 % while the expenditure has increased by 21.54 % per annum during this five year. It is a clear indication that the expenditure responsibilities is widening but the reliance on grants continues to be higher. One more alarming situation is the pattern of expenditure. Out of total expenditure, almost half of the expenditure is in the category of 'others' and almost 21 % is on pay and allowances (it was 40 % in 2010-11). This clearly indicates a greater share of non-productive expenditure and the expenditure on public utilities is very insignificant. This can also imply shortage of public goods or mismanagement of finances to provide such amenities. (Baxi H, 2017)

Table 7.1 Composition of Receipts (ULBs & PRIs)
(in percentage)

	ULBs			PRIs		
	Own Revenue	**grants-in-aid**	**Central FC Grants**	**Own Revenue**	**Govt Grants**	**Central FC Grants**
2010-11	39.29	59.44	1.27	1.136	96.908	1.955
2011-12	54.32	43.33	2.34	1.953	95.857	2.190
2012-13	48.33	49.86	1.81	1.784	96.073	2.142
2013-14	42.96	55.07	1.97	1.522	96.143	2.335
2014-15	46.73	51.48	1.79	1.513	95.618	2.869
2015-16	40.15	55.59	4.26	1.449	93.771	4.780

Source: CAG report, Local Bodies, GoG, 2014-15 & 2015 - 16

Table 7.2 Annual Growth Rate & CAAGR of Receipts (ULB's & PRIs)

	ULBs				PRIs			
	Total Receipts	**Own Revenue**	**grants-in-aid**	**Central FC Grants**	**Total Receipts**	**Own Revenue**	**Govt Grants**	**Central FC Grants**
2011-12	-14.61	18.06	-37.74	57.59	15.87	99.14	14.61	29.77
2012-13	30.16	15.81	49.76	0.21	10.27	0.77	10.52	7.86
2013-14	4.65	-6.98	15.58	14.48	19.48	1.94	19.57	30.23
2014-15	2.42	11.41	-4.24	-7.34	1.76	1.13	1.21	25.05
2015-16	27.03	9.14	37.17	202.85	6.53	1.99	4.47	77.48
CAAGR	7.15	7.54	5.96	31.08	8.76	13.25	8.16	26.23

Source: CAG report, Local Bodies, GoG, 2014-15 & 2015 - 16

The Own Tax Revenue of ULBs mainly consist of revenue from Property Tax. As reported the share of property tax revenue for the municipal corporations in Gujarat was around 74 % during 2012-13. The average growth of the property tax during 2010-11 to 12013 was observed to be 3.55 %. (Baxi H, Urban Finance in Gujarat: A Critical Analysis). This is a matter of great concern, as the growth rate of property tax collection is lesser than the inflation rate, implying negative tax collection in real terms.As per the Section 127 of the Gujarat Provincial Municipal Corporation Act, 1960, it is obligatory for MCs to levy property tax and tax on vehicles, boats and animals. As per the provision of Section 99 of the Gujarat Municipalities Act, 1963, the taxes to be levied by the NPs are voluntary. It is observed that all the Nagar Palika, along with Municipal Corporations have been levying Property Tax. As per the recommendation of the 13th Finance Commission, India the State Level Property Tax Board was constituted in March 2011 with the purpose to review property tax system and suggest measure to improve the tax collection. However, board is observed to be non-functional. (CAG, GOG 2017). The state government in case of property tax has at least fixed the maximum and the minimum tax rate during April 2008 including water charges in 2010. The property tax in ULBs in Gujarat is computed on Area Based System, applying the new formula of per unit tax rate multiplied by the total carpet area and adjusting for the factors: location, age of the property, usage and occupancy. The state has prescribed minimum rate at Rs. 10 and Rs. 20 for residential and non-residential building respectively and the maximum rates for the same are fixed at Rs. 40 and Rs. 80 respectively. The marginal difference is observed in the property tax rates across municipal corporations in Gujarat. The existing property tax rate in Ahmedabad Municipal Corporation are Rs. 16 and Rs 28 for residential and non-residential respectively while in Rajkot Municipal Corporation the rates for the same are Rs. 11 and Rs 22. The rates in Vadodara (Baroda) Municipal Corporation are Rs. 16 and Rs. 30 for residential and non-residential respectively while in Surat Municipal Corporation the existing rates are Rs. 10 and Rs. 25. The property tax collection broadly covers water tax, conservancy tax, drainage tax, safai charge, solid wast however, these categories and the charges varies across the ULBs. The municipal corporations in Gujarat has implemented e-governance and the facility of online calculation and payment of property tax are made available. As a part of the process to improve the efficiency in tax collection, various cities in India are implementing GIS mapping. However, in Gujarat GIS mapping for listing properties was implemented only in Rajkot Municipal Corporation. Rajkot is the first city in Gujarat where all the city infrastructure and municipal services is being made available through GIS-MIS interface. The information related to property tax rates and the collection are available for the municipal corporation on their respective websites, however such details are difficult to get for the nagarpalikas.

Gujarat State Finance Commission

As per Article 243I of the Indian constitution, the state is required to constitute state finance commission every five years since 1992. As per the terms of reference, the state finance commission review the finances of PRIs and ULBs and suggests the ways to improve their financial position, fix the formula to transfer of proceeds of taxes, duties, user charges etc. (levied by state) to local bodies.Thus, the constitution of state finance commissions every five years and implementation of the recommendations of respective commissions is a necessary condition for fiscal decentralization. The devolution should maintain the right balance between the fiscal gap and the fiscal discipline of local government. However, the approach of Gujarat govt in formulation of state finance commission, implementation of the suggestions and recommendations of state finance commission has been very passive and disappointing. The last commission - Third State Finance Commission (SFC) was constituted in 2011, for the devolution period of 2010-11 to 2014-15, extended to 2016-17. The report was submitted in March 2015 but yet to be tabled in Assembly. The 3rd SFC for the first time has introduced the scientific formula for devolution (Indian Express, March 21, 2015). The status of formation of state finance commissions and submission of the report and also the status of action taken (as on March 2015) is summarized in the table 6.3. The details are obtained from Gujarat State Finance Commission.

Table 7.3 – Status of State Finance Commissions Gujarat

Finance Commission	**year of Constitution**	**Date of Submission**	**Report Placed in Legislative Assembly**	**Total recommendations**	**Recommendations accepted**	**Recommendations implemented**
First	1994	1997-1998	2001	52 PRIs	27 (52%)	9 (17%)
	1998 Reconstitution			64 ULBs	29 (45 %)	17 (26%)
Second	2003	2006	2011	41 PRIs	20 (49%)	7 (17%)
				42 ULBs	12 (29%)	8 (19%)
Third	2011	2015	Yet not placed	100		

Source: Action Taken Report (previous finance commissions) and activities till date.
Third State Finance Commission

It is evident from the table above that although the first finance commission was constituted in 1994, the report was tabled in an Assembly only in 2001. The second commission was constituted with the gap of ten years. In case of the third State finance commission, the award period has already begun and report is yet not been placed in Assembly. Thus, there is a complete irregularity in the constitution of State Finance Commission, report submission and acceptance of their recommendations for the stated award period. This has led to quite an inefficient system of implementation of the fiscal devolution.

There is also observed an absence of setting up of system for auditing. As per the recommendation of 13th Finance Commission the state was to appoint an Ombudsman for inspection of mal-administration of the local bodies. The State Government also decided to bring the functionaries of local bodies under the jurisdiction of Lok Ayukta. However, the appointment of Lokayukta is under consideration in General Administrative Department of the State. (CAG, GoG, 2016). The financial auditing of the ULBs and PRIs have been stream lined recently and the audited reports are made available only 2014-15onwards.

Impact of GST on local government

The implementation of the Goods and Services Tax in the year 2017, considered to be India's biggest tax reforms is assumed to have some impact on the financial health of the ULBs and PRIs. The impact of GST implementation on finances of the local bodies can be observed to be in two ways. The direct impact will be the loss of revenue from the taxes that are subsumed under the GST and the loss of autonomy to generate their own financial resources. The second impact might be with reference to the revenue sharing under the GST regime as there is no specific formula devised for the revenue sharing between state and ULB. The third impact can be observed in the long run, particularly after five years when the 14 % compensation for the revenue loss will be over. In the long run if the state is not able to achieve the desired revenue target or fail to make the correct revenue projections, will affect the states' grants received by local government.

With reference to a particular case of Gujarat, there isn't any local tax that is subsumed under GST and hence no direct loss of revenue is observed. Gujarat has already abolished the Otroi in the year 2007. The ULBs in Gujarat does not levy advertisement tax which is getting subsumed under GST along with Otroi or entry tax. As discussed above, there are two important sources of revenue for the ULBs in Gujarat that is property tax and entertainment tax (taxes on local cable services). These taxes continue to be with the ULBs.

The concern for ULBs' financial performance post GST, particularly in Gujarat is not about loss of tax revenue as the ULBs continue to have their fiscal powers. The concern is more with regard to state's grants to ULBs. As discussed above, the performance of State Finance Commission in Gujarat is disappointing. There is a complete absence of the formula for fiscal transfer from state to ULBs. With no specific formula worked out for revenue sharing between states and ULBs in GST regime, with passive role of State Finance Commission in Gujarat and more than half of the revenue to ULBs and more than 90 % of revenue of PRIs consist of grants, the chances of local government's fiscal performance getting affected is very high. It is at this critical juncture, the State Finance Commission in Gujarat need to become more active and effective. The state has a long way to go for implementing decentralization in its true sense. Streamlining the State Finance Commission is a critical for decentralization initiative for the state.

CHAPTER VIII

GUJARAT POWER SECTOR REFORMS AND PSU PERFORMANCE

Power Sector in Gujarat

The power sector in Gujarat has shown a considerable growth in generation, consumption and also in terms of financial performance. Gujarat has been power surplus since 2009. The State of Gujarat accounts for around 9% of total energy requirement in India (Vibrant Gujarat, 2017).

Gujarat initiated reforms in the power sector as per the Central govt’s Electricity Act 2003 and introduced Gujarat Electricity Industry (Re-organization & Regulation) Act, 2003. The state introduced Gujarat Electricity Industry Re-organization & Comprehensive Transfer Scheme, 2003 with the objective to restructure the power sector entities and improve the efficiency of units. The Gujarat state electricity boards was reorganized into seven companies.This led to the creation of separate corporate entities for Generation, Transmission and Distribution activities. These companies are: power trading and coordinating and monitoring Company - Gujarat Urja Vikas Nigam Limited (GUVNL), power generating company - Gujarat State Electricity Corporation Ltd. (GSECL), transmission company - Gujarat Energy Transmission Corporation Ltd. (GETCO) and 4 distribution companies i.e. Madhya Gujarat Vij Co. Ltd.(MGVCL) Dakshin Gujarat Vij Co. Ltd. (DGVCL), Uttar Gujarat Vij Co. Ltd. (UGVCL) and Paschim Gujarat Vij Co. Ltd. (PGVCL).Along with the organizational unbundling the state also initiated efforts in the area of renegotiation of Power Purchase Agreements (PPA), reduction in the interest rate on the loans availed by power sector companies, taking strong measures to reduce power theft and bringing down the T&D losses.

Table:8.1 Electricity Installation, Generation and Consumption

Year	Total Installed Capacity (MW)	Total Generation (million units)	Total Consumption (million units)	Per Capita Consumption (KWH)
2006	8974	58724	38358	1313
2007	9561	61543	45862	1354
2008	9827	65656	53473	1424
2009	9864	68962	55610	1446
2010	12008	69883	55005	1491
2011	13134	71256	58670	1512
2012	15306	78651	63715	1642
2013	16471	82547	67971	1806
2014	18510	86221	68628	1708
2015	19212	96636	76719	1839
2016	20081	103137	75841	1910
CAAGR	8.39	5.79	7.05	3.82

Source: Socio Economic Review, 2016-17, GoG

The state's power sector reforms have resulted into a significant improvement in the performance of power sector in Gujarat. State's installed capacity through conventional resources has increased at CAAGR of around 8.4% from 2006-07 to 2015-16. Out of total installed capacity of 20081 MW around 79% is conventional and 21% in renewable. Even though state's peak demand has been increasing at CAAGR of 7 % viz-a-viz the power generation which increased by around 6 %, the state has, throughout these years, enjoyed power surplus. This certainly could be achieved due to gradual reduction in the T&D losses. Another distinctive feature of the power generation in Gujarat is the dominance of private players contributing to almost 48% of the power generation followed by State Utilities with 36% and Central Plants contributing to 16% (Vibrant Gujarat, 2017).

Gujarat has introduced various schemes for promoting generation and consumption of renewable energies in the last few years. These include, Solar Policy 2015, encouraging private individual to set up solar generating plant. Net Metering Regulations for Rooftop Solar (2016), providing cross subsidy and electricity duty exemption on solar power generation, Wind Energy Policy (2016) providing various benefits for setting up of WTG for captive use and selling the surplus to Discoms or third party. As far as the distribution segment is concerned, the distribution companies (DISCOM) are the part of public sector companies. Although states have been encouraged to privatize the distribution of power, in Gujarat only two cities namely Ahmedabad and Surat have the private entity, Torrent Power Limited, providing supply of power.

Considering the impact of power sector on the fiscal position of state, Gujarat is observed among the top five performing states during 2015s-16 on the basis of profit to the power sector utilities (PFC, 2016). The total profit registered by the power sector utilities in Gujarat for the year 2015-16 is Rs. 607 crores. Since 2005-06 the 'Report on The Performance of The State Power Utilities' have been recognizing Gujarat as the profit generating states. Gujarat has taken various measures to improve financial health of power sector. The state prepared a Financial Restructuring Plan where the DISCOM may start with the clean balance sheet; the losses of GEB were transferred to GUVNL. The debt of Rs. 623 crores was converted into equity shares in GUVNL. GoG also sanctioned a capital grant of Rs. 250 crores per annum from fiscal year 2005-06 to 2010-11 with the objective of strengthening the power sector. Pricing policy has frequently been modified and the average tariff was raised to strengthen the revenue generation capacity of the SPUs.

Table 8.2 Profit/Loss of Power Sector Utilities (With & without subsidies)

Year	Profit/loss without subsidy	Profit / loss on subsidy received basis
2006-07	-1041	188
2007-08	-998	102
2008-09	-975	126
2009-10	-835	266
2010-11	-567	533
2011-12	-477	623
2012-13	-571	539
2013-14	-517	583
2014-15	-466	634
2015-16	-494	606

Sources: 'Report on The Performance of The StatePower Utilities, PFC, various years

The CAG report of PSU also provides data for the net profit from the power sector for Gujarat.What is critical to observe in the report published by PFC is the profit with and without the subsidies to power sector utilities. (However, the data of CAG and PFC are not tallied). The table below indicate that throughout the period the power sector in Gujarat is generating net profit. However, there is still a significant share of the subsidy as the sector is still generating losses without the subsidies. It is certainly evident that the amount of losses without subsidy is gradually declining indicating the improvements is the performance but the burden of subsidy to the state budget has not significantly declined over these years.

Table 8.3 Subsidy to Power Sector

Year	Total Power Subsidy (Rs. Crores)	% Share of power subsidy in total Subsidy
2010-11	2682	53.9
2011-12	3238	58
2012-13	3820	56.89
2013-14	3611	54.62
2014-15	5347	53.27
2015-16	4452	49.22

Source: CAG reports state finances

Table 8.3 indicates that more than 50 % of the total state's subsidy is allocated to power sector. There is a marginal reduction in the share from 54% in 2010-11 to 49% in 2015-16. The total power sector subsidy during this period has increased by 65%. The profit generated from power sector is much less than the subsidy/grants provided to them, which is an indication that power sector in Gujarat has yet not achieved financial independence of commercial feasibility. While analyzing the impact of power sector performance on the fiscal health of the states, it is evident that power sector in Gujarat is one of the better performers among Indian states and is able to get out of the trap of financial losses. However, the state is still having a greater financial burden of power sector in terms of subsidies. State needs to gradually reduce the burden of power sector subsidies.

Contribution of Private Sector in Power Distribution

The power sector of Gujarat is also characterized by existence of private sector since many decades. The private sector co-exist in all the activities ranging from generation to distribution. As per data provided by GERC, during 2015-16 private sector contributed to almost 32 % of the install capacity and 52 % of the total energy generation of the state. There is a history of private sector existence in power distribution in Gujarat. The Ahmedabad Electric Company Limited and the Surat Electric Company have operated since 1913 and 1920, respectively, and are now run by two private licensees under Torrent Power Limited. At present power distribution in the State of Gujarat is served by eleven distribution licensees. Four of which are State DISCOMs. The private DISCOMS are: Torrent Power Ltd in Ahmedabad & Gandhinagar (AEC) Limited and Torrent Power Ltd in Surat (SEC). The other small companies include; Kandla Port Trust, Torrent Energy Ltd., Dahej, Synfra Ltd., Waghodia, Vadodara, Mundra Port SEZ Ltd. (MPSEZ), Mundra, and Jubilant Ltd., Vagra, Bharuch. These companies are serving about 1,55,14,151 numbers (1,31,86,185 GUVNL + 2327966 Torrent Power) of electricity consumers including 1184799 numbers (11,84,303 GUVNL + 496 Torrent Power) under agriculture category during FY 2014-15. (GoG, 2016). Out of the total energy requirement of Gujarat during FY 2014-15 (90998 MU at state periphery), State owned DISCOMS account for 75162 MU (As per state data), 10637 MU is on account of Torrent Power Ltd. The balance is considered to be consumed by bulk consumers like port trust, special economic zone etc. The graphs below provide the details of contribution of private sector in the power distribution. Chart 8.1 and 8.2 indicate the relative contribution of private DISCOMs in serving the state population and sale of energy. Although the contribution has not been very significant and have remained stagnant, the two private sector distribution licensees have really contributed in bringing down the average distribution loss of the state (Chart 8.3).

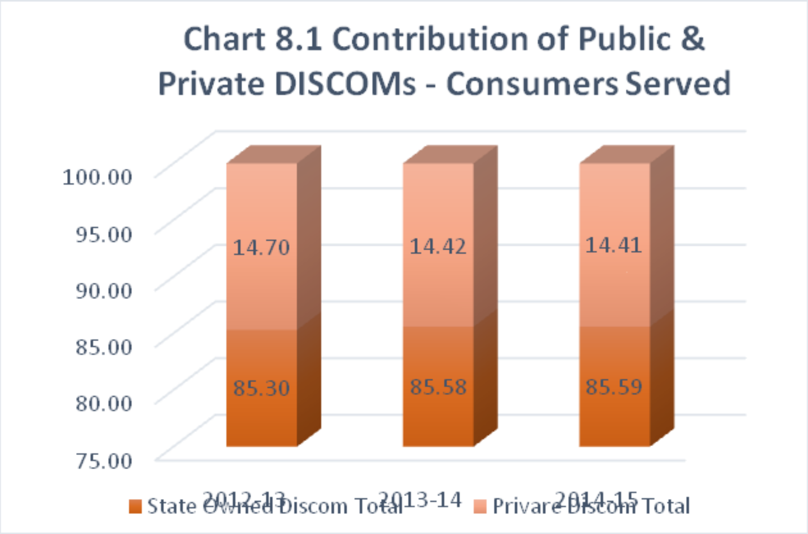


Chart 8.2 Contribution of Public & Private Discoms – Sale of Energy (Percentage of Rs. Cores)

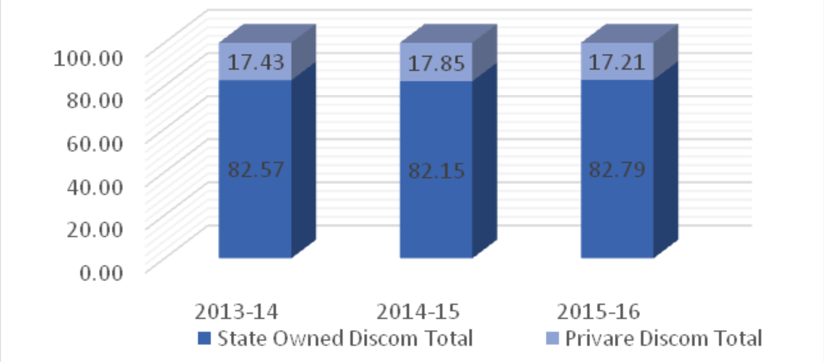
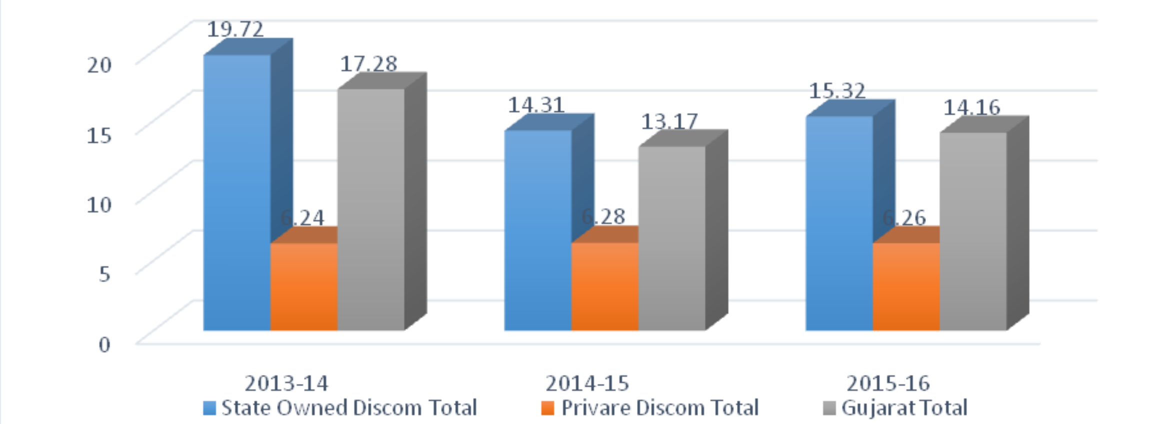


Chart 8.3 Distribution Losses (%) Public & Private DISCOMs



UDAY Power Sector Reform

Government of India introduced a scheme Ujwal DISCOM Assurance Yojana (UDAY) in November 2015 for the operational and financial restructuring of state power distribution companies (DISCOMs). The scheme allows the state to take over the debt and losses of the DISCOM in the form of loan/equity. Central govt will not consider this debt burden while calculating the fiscal deficit of the state. Gujarat along with few other state did singed an MoU with Govt of India under UDAY but for operational efficiency only. Since 2001 states have been issuing power bonds to clear outstanding over dues of state electricity boards and it was decided to redeem existing Power Bonds completely by 2016-17. Gujarat has been issuing power bonds upto 2014-15. There is a significant reduction in the power bonds liability of state over the years from Rs 1466 crores it reduced to Rs. 160 crore in 2014-15.

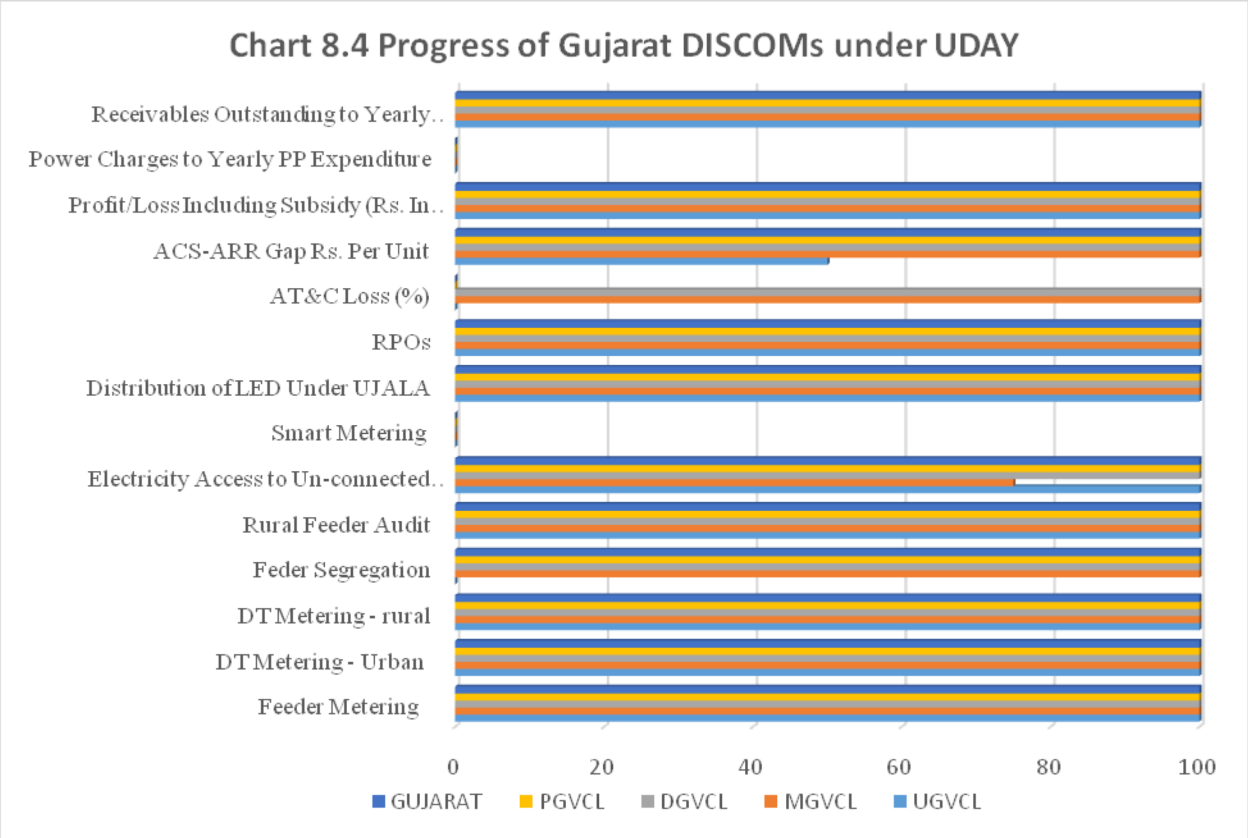
Table 8.4 States' Outstanding Liability in Power Bonds (Rs. Crores)

Year	State's Outstanding Liability in Power Bonds
2006-07	1466
2007-08	1303
2008-09	1222
2009-10	1060
2010-11	810
2011-12	650
2012-13	490
2013-14	410
2014-15	160
2015-16	
2016-17	

Source: RBI State finance reports, Various years

Performance of Gujarat DISCOM under UDAY Scheme

As mentioned above Gujarat singed MoU with Govt of India under UDAY for achieving technical and operational efficiency. This inturn would improve the financial performance of power sector and reduce the fiscal burden of the state. The state joining the UDAY scheme will be working on improving various financial and operational parameters. As of now, there are 4 financial and 10 operational targets are laid down under UDAY. The graph 8.4 below indicate the performance of Gujarat overall and four DISCOMs on these fourteen barometers. The graphs indicates the cumulative of progress made by all the four DISCOMs, post UDAY on the target set in the MoU against the all 14 parameters. It is evident from the graphs that the DISCOMs in Gujarat are able to achieve 100 % of the target, except in case of MGVCL for Electricity Access to Un-connected Household (75 %) and reduction in the average cost of supply per unit of power and average revenue realised (ACS-ARR Gap) in case of UGVCL (50 %). The data for smart metering progress are either not available or show zero progress. The state while signing the MoU had set the target to reduce AT&C losses from 14.64 % in FY 2014-15 to 13 % by FY 2018-19 which has been achieved by all four DISCOMs. The overall distribution losses of the four DISCOMs which ranged from 11.95 per cent to 27.63 per cent in 2012-13 reduced to 8.18 per cent to 19.06 per cent in 2016-17. The overall distribution losses in three DISCOMs have been brought to a level below 11 per cent in 2016-17 though it remained at 19.06 per cent in PGVCL (CAG PSU, GoG 2017).



Source: UDAY portal dashboard

Gujarat is one among the only four states that improved the performance on most of the financial and operational parameters of the schemes. The report "Sixth Integrated Ratings for State Power Distribution Utilities" released by Ministry of Power (MoP) in July 2008 provided ratings of 41 power distribution companies of India. Total five DISCOMs received the higher rating of A+, out of which four are of Gujarat DISCOMs.

State PSUs Performance and Impact of State Finance

Public sector enterprises at the state level have played strategic role for the economic growth of states in India. Although PSUs have been considered as key players generating employment opportunities, providing welfare and public utilities where private entities fail to mark the presence, they also have generated huge financial burdens on the government budgets. However, PSUs in Gujarat have been observed to be more efficient. This is also evident from the fact that seven of the listed PSUs of Gujarat made it to the coveted list of Dun & Bradstreet (D&B)'s list of 'India's top 500 companies 2015'. (Business line May 27, 2015). The total number of working PSUs in Gujarat increased from 50 to 72. This is also due to reasons such as splitting of the DISCOM, incorporation of four companies as PSUs etc. Four PSUs of Gujarat are listed on the stock exchanges namely, Gujarat Gas Limited, Gujarat Mineral Development Corporation Limited, Gujarat State Petronet Limited and Gujarat State Financial Corporation.

As on March 2016, the total PSUs in Gujarat were 86, out of which 14 PSUs were non-working, having investment of Rs. 800.53 crore. Out of total 72 working PSUs, 49 earned profit. The major profit making companies were; Gujarat State Petronet Limited, Gujarat Gas Limited, Gujarat Mineral Development Corporation Limited and Gujarat Energy Transmission Corporation Limited. However, as far as dividend payment is concerned, only 8 PSUs declared dividend of Rs. 237.67 crores out of which the State Government's share was merely Rs. 94.21 crore. This is the major concern for State PSUs in Gujarat. Formulation of dividend policy for ensuring the payment of minimum return of the paid-up share capital would in fact help state to raise the Non-Tax Revenue.

Table 8.5Performance of PSUs in Gujarat

Year	**No of working PSUs**	**Net Profit and Loss** (In Rs Crore)	**Total Capital Employed**	**Turnover** (In Rs Crore)
2006-07	50	906	44,918	37239
2007-08	56	1171	58,629	40631
2008-09	57	2366	111,119	50,359
2009-10	58	2366	88,223	58,522
2010-11	60	2623	96,329	63,078
2011-12	66	3889	97,922	79,675
2012-13	69	4001	115534	91343
2013-14	72	NA	NA	98719
2014-15	68	3073	144239	106588
2015-16	72	1594	152196	111071

Source: CAG reports of various years, Commercial, GoG
Notes:

- Net profit here has been calculated from both working and non-working PSUs.
- Figures given in Man power are to be considered in absolute figures.
- No. of PSUs here include working PSUs along with Government statutory bodies.

The total turnover of the PSUs have increased from Rs. 37239 crore in 2006-07 to Rs. 111071 crores in 2015-16 (see Table 8.5). The net profit from the PSUs increaseduntil 2012-13 and later started reducing. From 2014-15 to 2015-16 the net profit almost reduced by 50%. The manufacturing sector registered a greater loss during this period. The share of PSUs in the State Domestic Product thus has gradually reduced from 14.6% in 2006-07 to around11 % in 2015-16. Another area of concern is that the percentage of return on capital employed from working PSUs and statutory board was 6.34% in 2006-07 which gradually increased to around 6.9% in 2011-12 and started declining than onwards. During the year 2015-16 it reduced to 4.2%.

State PSUs are very critical as the state government has a greater financial stake in the PSUs and poor performance or inefficiency of PSUs would result into a greater financial burden on the state budget. There are different kinds of financial support that the state provides to PSUs. These include, share capital, loans, grants, subsidies and guarantees etc. The state's financial support to the PSUs has increased by almost 162 % from 2006-07 to 2015-16 (see table 8.6). Although during 2013-14 and 2014-15 it has marginally reduced, there was a substantial increase during the year 2012-13.This was mainly due to substantial increase in the equity capital. More than half of the budgetary allocation was in the form of equity. Out of the total equity capital the major portion was given to Sardar Sarovar Narmada Nigam and Gujarat Urja Vikas Nigam Limited.

Table 8.6 Total Budgetary Support to PSUs

Year	Total Budgetary Outgo (Rs. Crores)	Y-o-Y Growth Rate (%)
2006-07	5928	-
2007-08	7022	18.46
2008-09	9201	31.04
2009-10	8079	-12.20
2010-11	9266	14.69
2011-12	9618	3.79
2012-13	15341	59.51
2013-14	14926	-2.71
2014-15	14921	-0.03
2015-16	15558	4.27

Source: CAG Report on PSUs, Govt of Gujarat, various years

The state has recently started the process of liquidation of non-working PSUs. Liquidation process has already begun for eight PSUs. However, the process is taking much longer time. The CAG report also notes that there were arrears in the finalization of accounts by the non-working companies and the time duration varies from 9 years to 21 years. The liquidation of the non-working companies is another area where one observes a scope of improvement.

Though it is certainly appreciating that the Gujarat's state PSUs have been among the 500 top companies, there are certain critical areas where efforts are required. States have implemented various reforms in power sector and has improved the financial performance of power sector. However, strong measures are required for improving the performance of companies which have been running into heavy losses. With respect to budgetary allocation to PSUs, state need to shift the allocation from subsidy to equity or loan. Parallel effort is also required to improve the return on investment and the recovery of loans to PSUs. All these collective efforts would help state to generate the financial resources through PSUs rather than creating a financial burden to the state.

State Transport Sector

In particular analyzing the performance of state enterprise in the transportation sector, it is observed that during 2015-16, Gujarat Road Transport Corporation (GSRTC) was listed among the top loss making PSUs with the loss amounting of Rs. 132.45 crores. GSRTC with the aim to provide efficient and economical transportation facility covers almost 98% of the villages and 99% population of Gujarat, along with important destinations outside the state. However, the concern is that the corporation heavily rely on the state's financial support as major source of long term funds are equity and loans from either state government or central government. Even the day to day operations are partially met through the subsidies received by government of Gujarat. The CAG report notes that the income per km increased from ₹ 24.20 to ₹ 27.68 during 2012-13 to 2014-15 due to two fare revisions and increase in other income besides subsidy. Despite of the fare revision and increase in income, GSRTC continued to incur losses. The table 8.7 provides details of the losses and state government subsidies received by the Gujarat State Road Transport. The corporation has been incurring losses throughout the study period which has resulting into greater financial burden on the state. It has been observed that state government is gradually shifting the financial support from that of grants and subsidy to that of equity. In the year 2011-12 the state govt equity in GSRTC was Rs. 628.06 crores which significantly increase to Rs. 1639.68 crores during 2014-15 (CAG, 2017). However, the corporation has been showing concern regarding the shortfall of the subsidy indicating that the subsidy reimbursed by the state is lesser than subsidy claimed by the corporation. The closing balance of the shortfall in subsidy was Rs. 183.34 crores during 2010-11 which increased to around Rs. 918.82 crores in the year 2015-16.

Table 8.7 Losses and Subsidy – Gujarat Road Transport Corporation

(Rs. Crores)

Year	Loss of GSRTC	Grants & Subsidy Received from GoG
2006-07	66.09	
2007-08	94.56	
2008-09	159.74	361.62
2009-10	141.99	501.62
2010-11	-	501.00
2011-12	183.58	703.70
2012-13	242.73	600.00
2013-14	132.45	600.00
2014-15	184.45	713.89
2015-16	132.45	536.54

Source: CAG Reports on PSUs, Government of Gujarat, various years

CHAPTER IX

CONCLUSION AND RECOMMENDATIONS

At the juncture of constitution of Fifteenth Finance Commission, an evaluation study is expected to critically analyses Gujarat's finances over the ten year period with reference to the ToR of the 15th Finance Commission and provide suggestions to improve the financial performance of state. It is in this background that the fiscal performance of Gujarat needs to be reviewed.

Gujarat is one of the fastest growing states and is considered as growth engine contributing to around 7.3% of India's GDP (2015-16). Gujarat experienced an average Revenue Receipt to GSDP ratio at around 10.2% during the period from 2006-07 to 2015-16. However, this study identifies two critical concerns with respect to revenue performance of the state. One, very poor or low Non-Tax Revenue and Own Non-Tax Revenue to GSDP ratio. State's Own Tax Revenue which was growing by more than 21% up to 2011-12, experienced a steep reduction in the growth rate to 4.6%. Non-Tax Revenue continues to be an untapped sources of revenue for the state. The government seems to rely on extraordinary events raise the Non-Tax Revenue from different sources and hence there seem to be high volatility in the growth rather than observing a consistent growth rate over a period of time. The capital receipts of the state increased at the rate of 11.79 % (CAAGR). There is a sharp rise in internal debt immediately after the global financial crisis. The capital receipts is entirely dominated by the internal debt, as the share of internal debt in the total capital receipts is almost 98 %.

During the study period CAAGR of Total Expenditure is 14%, the Revenue Expenditure is 13.19% and that of Capital Expenditure is 15.48%. The share of Revenue Expenditure and Capital Expenditure is 75:25 in the last decade. The State Government has made consistent efforts to bring down the revenue expenditure, by taking a host of measures like pre-payment of high cost borrowings, efficient management of public debt, increased usage of e-Governance by departments which has improved efficiency, prioritization of spending, rationalizing the staff strength and several other economy measures. The CAAGR of Total Explicit Subsidy was 6.65% in the year 2006-07 to 2015-16. The relative share of subsidy in the total expenditure was 8.03% in 2006-07 which gradually decreased to 4% in the year 2015-16. The subsidy as a percentage of GSDP was 1.11% in year 2006-07 which also declined to 0.49% in the year 2015-16. The state is able to achieve the debt – GSDP ratio at 22% for the year 2015-16. Throughout the study period, the Debt-

GSDP ratio of state has been well below the target set by 13th and 14th Finance Commission. The Fiscal Deficit / GSDP target of 3% was achieved by the State Government since 2008-09 to 2015-16 except the year 2009-10 it was 3.54% of GSDP. The Revenue Receipts as proportion of Revenue Expenditure was 0.98% in 2005-06 and in the year 2015-16 it reached to 1.02 %. As per Article 243I of the Indian constitution, the states are required to constitute state finance commission every five years since 1992. However, the approach of Gujarat govt in formulation of state finance commission, implementation of the suggestions and recommendations of state finance commission has been very passive and disappointing. Gujarat has been enjoying power surplus for a long time with total electricity generation also been always higher than the total consumption. It is now a time to reduce the relative share of power subsidy in the total budgetary allocation. The PSUs in Gujarat are relatively better performing compared to many other SPSUs. The state needs to speed up the liquidation process of the non-working PSUs and also restructure the loss making PSUs.

The Government's long-term fiscal objective is to attain a revenue surplus across different economic cycle and ensure that government revenues and expenditure policy is aligned with the overall development policy of the state. The state therefore aims at increasing capital expenditure to ensure higher investments in social and economic infrastructure. This would be possible through maximizing revenue receipts of the State while concurrently containing revenue expenditure.

Gujarat is able to establish itself as one of the better performers, both in terms of fiscal discipline and economic growth. However, maintaining the consistency and stability in the fiscal performance will be the challenge for state government. Intense efforts are required for mobilizing financial resources from untapped area of non-tax revenue. Developing efficient and transparent public expenditure mechanism and improving the collection and recording system of financial data of local bodies are the need of an hour. The state has greatly been relying on the VAT for its tax revenue. With the implementation of GST since 2017, the state might have a challenge to augment the financial resources. Despite the compensation mechanism being determined for the loss of income due to GST, the state need to diversify its efforts to raise resources, particularly to Non-Tax Revenue.

The state has successfully been achieving FRBM targets. The critical indicators such as revenue deficit, fiscal deficit, debt-GSDP ratio etc. clearly show that the fiscal position ofGujarat has been improving. However, maintaining the fiscal stability and improving the decentralization efforts is the next set of challenges for the state. The dividend policy needs to be finalized which may result into more return on the investment and also stability in the revenue. The study identifies that the state lacks efficient fiscal management in two critical area, one is fiscal decentralization and other is the investment decisions.

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