

# **EVALUATION OF FINANCES OF STATE OF GUJARAT**

**Report Submitted to the  
Sixteenth Finance Commission  
Government of India**

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**Gujarat Institute of Development Research**

**Ahmedabad**

**December 2024**

# EVALUATION OF FINANCES OF STATE OF GUJARAT

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## **ACKNOWLEDGEMENTS**

At the outset, I extend my heartfelt gratitude to the Sixteenth Finance Commission for entrusting the Gujarat Institute of Development Research (GIDR) with the opportunity to undertake the research study titled "Evaluation of Finances of the State of Gujarat." I deeply appreciate the Commission's valuable insights and guidance throughout the study, which significantly enriched our research.

As the Director of GIDR, I take immense pride in acknowledging the dedicated efforts of my team members—Dr. Himani Baxi, Dr. Yogesh Yadav, and Dr. Jyoti Dixit—who assumed key responsibilities and successfully completed this study. We are also profoundly grateful to the respective government officials for their generous support and for sharing their time and expertise in discussing critical aspects of Gujarat's fiscal performance. We thank Gujarat Municipal Finance Board and Commissioner of Development Gujarat for providing us with required data of local bodies. We also acknowledge the support of students of Pandit Deendayal Energy University Mandar Bhatt, Priyanshu Chavada, Priyanshi Joshi and Diya Bakrania for their support during the process of compilation of data.

Finally, we thank our colleagues and the administrative team at GIDR for their unwavering support and facilitation, which played a vital role during the study period.

Dr. Nisha Pandey

Director, GIDR

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## EXECUTIVE SUMMARY

The report, prepared for the Sixteenth Finance Commission by the Gujarat Institute of Development Research, evaluates Gujarat's financial performance from 2012-13 to 2023-24. It analyzes revenue receipts, expenditure trends, public debt, deficit performance, decentralization initiatives, and the impact of public enterprises and sectoral reforms on the state's fiscal health. The study employs various fiscal indicators such as revenue-GSDP ratios, tax buoyancy, debt sustainability models, and subsidy analysis to assess Gujarat's financial standing.

### Revenue Receipts Analysis

- Gujarat's fiscal performance has seen fluctuations, particularly influenced by the introduction of the Goods and Services Tax (GST) and the COVID-19 pandemic. Key findings include:
- The state's own tax revenue-GSDP ratio declined from 7.44% in 2012-13 to 5.60% in 2022-23.
- The post-GST era showed an improvement in tax buoyancy, increasing from 0.39 (pre-GST) to 1.08 (post-GST).
- The state's revenue receipts grew at a Compound Annual Growth Rate (CAGR) of 9.18%, with tax revenue at 8.96% and non-tax revenue at 10.22%.
- Gujarat remains highly dependent on GST and VAT collections, which constitute the majority of its tax revenue.
- The end of GST compensation grants in 2022 is expected to impact Gujarat's total grants from the central government.

### Expenditure Analysis

- During the study period, the compounded average annual growth rate (CAAGR) of the total expenditure is 9.29%, as the expenditure increased from Rs.98,304 Crore in 2012-13 to Rs.2,84,694 crore in 2023-24 (RE).
- Total Expenditure percentage of GSDP goes up as high as 13.57% in 2012-13 and down to a low of 10.70% in 2022-23. For the same period the social expenditure increased by 9 %.
- Gujarat's expenditure patterns reveal a significant commitment to capital investments and infrastructure development.
- Revenue expenditure continues to dominate, but capital expenditure has been strategically focused on economic services and industrial development.
- Social sector spending, particularly on education and health, remains a challenge, with relatively low allocations compared to industrial and economic services.
- Committed expenditures, such as salaries, pensions, and interest payments, account for a large share of the budget, limiting fiscal flexibility.

### Public Debt, Liabilities, and Deficit Performance

- Public Debt receipts increased from Rs. 19,497 crores in 2012-13 to Rs. 65,634 crores in 2023-24 (RE) with a CAGR of 12%.

- A significant COVID-19 impact can be observed in 2020-21, where public debt receipts spiked to Rs. 49,635 crores.
- The state's debt-to-GSDP ratio remains within manageable limits between 15.17% and 18.82% during 2013- 24, with debt primarily sourced from market borrowings and central assistance.
- However, during this period, the interest payment burden on public debt ranged from 11.68% to 17.18% of the revenue receipts, with a negative CAGR of 2%.
- Fiscal deficit – GSDP ratio has been kept at a very low level of 1.2% to 2.5%. Thus, Gujarat has maintained compliance with the Fiscal Responsibility and Budget Management (FRBM) Act targets.
- Debt sustainability analysis indicates that Gujarat's borrowing has largely been used for capital investments, aligning with fiscal prudence goals.
- However, contingent liabilities and off-budget borrowings pose long-term risks that require careful monitoring.

### **Decentralization and Local Governance**

- Gujarat has made progress in fiscal decentralization, with increased revenue transfers to Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs).
- More than 85 % of the PRIs revenue consists of grants while in case of ULBs they are relatively financially independent raising close to 45% of the revenue on their own.
- Despite improvements, urban and rural local bodies still struggle with financial independence and rely heavily on state transfers.
- During the study period, ULBs' revenue increased by merely 4 % while the total expenditure increased by 10 % and revenue expenditure have increased by almost 11 % This shows how ULBs must be under the financial pressure of meeting expenditure requirements.
- The state has recently announced constitution of fourth state finance commission which was long due.
- Strengthening local revenue sources and improving tax collection efficiency at the municipal level remains a priority.

### **State Subsidies and Public Enterprises**

- The state government provides significant subsidies across various sectors, including agriculture, industry, and energy.
- The energy and petrochemical department receives highest subsidies from the state followed by industry and mine and agriculture.
- Gujarat has recorded low subsidy spending and low fiscal deficit which is appreciative but it is maintaining its subsidy at around 1 % for most of the years that is similar to many Indian states
- While subsidies aim to promote growth and social welfare, their long-term fiscal sustainability remains a concern.
- The financial performance of state-owned enterprises has mixed results, with some enterprises contributing to state revenues while others require continued budgetary support.

- Seven of the listed public sector undertakings of the Gujarat government have made it to the coveted list of Dun & Bradstreet (D&B)'s list of 'India's top 500 companies 2015'
- Over the past ten years, investments (capital and long-term loans) in SPSUs have increased at a CAGR of 6.70%.
- Total budget outgo to SPSUs increased from Rs.15,340.87 crores in 2012-13 to Rs. 23,822.12 crores in 2022-23, showing a strong upward trend.
- A targeted approach toward public sector reform and disinvestment strategies can improve financial efficiency.

### **Power Sector and Fiscal Implications**

- Power sector reforms have been partially successful in reducing transmission and distribution losses.
- The three power sector firms of Gujarat state, namely four state DISCOMS, GSECL and GETCO, continued to report profits, although with subsidies.
- The firm's total profit for 2022-23 is Rs. 1,432 crores, which has grown at a CAGR of 10.55% since 2012-13.
- However, tariff subsidy received by power sector companies in 2022-23 is 10,478 crores, rising at a CAGR of 25.18% from Rs. 1,109 crores in 2012-13.
- Further improvements in tariff rationalization and subsidy targeting can enhance the sector's viability.

### **FRBM Act Implementation and Future Debt Roadmap**

- Gujarat has largely adhered to FRBM Act mandates, maintaining fiscal discipline and sustainable debt levels.
- The study recommends a debt roadmap for 2026-31, focusing on revenue augmentation, efficient expenditure management, and targeted borrowing strategies.
- Improving revenue productivity, diversifying tax sources, and rationalizing subsidies are key strategies for long-term fiscal sustainability.

### **Recommendations and Conclusion**

- Revenue Enhancement: Increase VAT on petroleum products, explore taxation on goods and passenger transport, and optimize vehicle taxation.
- Expenditure Efficiency: Prioritize social sector spending, rationalize subsidies, and improve targeting mechanisms.
- Debt Management: Continue prudent borrowing practices and ensure that borrowed funds are directed towards productive capital investments.
- Decentralization Strengthening: Enhance local revenue generation capacity and empower municipal bodies with greater financial autonomy.
- Power Sector Reforms: Improve cost recovery mechanisms, reduce technical losses, and ensure financial viability of state power utilities.
- Gujarat's financial management has been robust, but evolving economic challenges necessitate proactive fiscal strategies. By focusing on revenue mobilization, expenditure rationalization, and effective debt management, the state can sustain its economic growth trajectory while ensuring fiscal resilience.

## **CHAPTER 1**

### **INTRODUCTION**

The present study on Evaluation of Finances of State of Gujarat has been entrusted by the Sixteenth Finance Commission, Government of India. This report analyzes the fiscal performance of Gujarat for the period from 2012-13 to 2023-24. The Terms of References as shared by the Commission are given below:

1. Estimation of revenue capacities of State and Measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State
2. Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.
3. Expenditure pattern and trends separately for Revenue and Capital, and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.
4. Analysis of deficits – fiscal and revenue
5. The level of debt to GSDP ratio and the use of debt (i.e., whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, off-budget borrowings, Central government debt (including those from bilateral/ multilateral lending agencies routed through the Central government), liabilities in public accounts (small savings, provident funds etc.) and borrowings from agencies such as NABARD, LIC etc.
6. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.
7. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.
8. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.
9. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.
10. Analysis of contingent liabilities of the State.
11. Subsidies given by the States (Other than Central subsidies), their costs and benefits, targeting and evaluation.
12. Outcome Evaluation of State Finances in the context of recommendations of the 14th and 15th FC, in particular.
  - (a) analysis of the flow of resources from Centre to States through various schemes, the expenditure of States in those schemes, resources of States channeled towards these schemes and the overall impact on development spending of the States; (b) States' own schemes for different development objectives
13. Determination of a sustainable debt roadmap for 2026-31, taking into account tax/non-tax trend forecasts.

## **1. METHODOLOGY AND DATA SOURCES**

The present study has incorporated and analyzed various fiscal indicators as suggested in the Terms of Reference. The period of the study includes 2012-13 to 2023-24 for most of the indicators except for a few where the data are unavailable. The fiscal indicators for 2023-24 are available as revised estimates. For all the fiscal indicators the Compounding Annual Average Growth rate (CAGR), annual growth rate (YoY), indicator-GSDP ratio are estimated to observe trend of fiscal indicators. The composition (percentage share in total) analysis is provided for various indicators to capture the relative share. To observe the tax efficiency, a tax buoyancy for each tax and tax revenue in aggregate is calculated. The buoyancy is estimated by using Gross State Domestic Product at current price (2011-12 series). The debt sustainability roadmap revenue and expenditure forecasting are done using CAGR as the projection rate for each variable.

The fiscal indicators adapted for the study are based on Terms of Reference. These indicators include (a) Revenue receipts: Tax and non-tax revenue (b) capital receipts (c) revenue and capital expenditure (d) deficits: revenue deficit, fiscal deficit and primary deficit (e) public debt, liability, guarantee (f) subsidies (g) finances of local government, transfer to local bodies (h) performance of power sector and public sector enterprises etc.

### **1.1. Sources of Data**

The study has used government publications and sources for obtaining relevant data. The details of sources of data are provided here:

- Government of Gujarat, budget documents, various years
- Government of Gujarat, Socio-Economic Reviews, various years
- Finance Accounts, State Finances Audit Report of the Comptroller and Auditor General of India
- Performance of State Power Utilities
- Annual Technical Inspection Report of Urban Finances, GMFB
- Statements under Gujarat FRBM Act 2005, various years

### **1.2. Chapter Scheme**

The study broadly follows the order of the ToR for scheme of chaptalization. The report consists of a total of eleven chapters. Chapter one, Introduction. It outlines the study with the methodology and providing the profile of Gujarat state. Chapter two and three analyze performance of revenue receipts and expenditure respectively. Chapter four examines the performance of deficit, debt and liabilities. Chapter five discusses the decentralization initiatives of state government. Chapter six evaluates states' subsidies chapter seven discusses state public enterprises finances and chapter eight analyzes power sector reforms and performance of Gujarat state. Chapter nine evaluates state finances in the context of recommendations of the 14th and 15th FC. Chapter ten outlines the suggestions and recommendations for strengthening state finances. Chapter eleven gives a conclusion.

## 2. PROFILE OF GUJARAT STATE

Gujarat, located in western part of India is one of India's most industrialized and economically vibrant states. Over the period from 2012-13 to 2023-24, the state demonstrated remarkable growth in several sectors, underpinned by strategic policymaking, infrastructural development, and favorable geographic advantages. During this period, Gujarat sustained a high growth rate, frequently surpassing the national average. Its Gross State Domestic Product (GSDP) grew at a compound annual growth rate (CAGR) of around 9-10%, bolstered by robust performance in manufacturing, agriculture, and services. With only 5 percent population share, Gujarat accounts for 8.2 percent share to National GDP for the year 2022-23. The state also benefited from its industrial clusters, trade hubs, and ports, which facilitated both domestic and international commerce. The state serves as a gateway to international trade through its extensive coastline of 1,600 kilometers—the longest among Indian states. Gujarat's contribution is around 30 % in India's aggregate exports. During November 2023, Gujarat stood first with a share of 33.55% in the total exports of the country. Gujarat contributes the highest i.e., 19% share in the manufacturing sector in the national manufacturing GDP. Gujarat is the 3<sup>rd</sup> highest FDI equity inflow attracting state with 10.09% contribution in FDI during FY 2022-23. Gujarat has attracted Foreign Direct Capital of Rs.37059 crore (US \$ 4714 million) (Government of Gujarat, 2024).

Gujarat is the manufacturing hub of India. The share of industry sector in state domestic product is 44.6 %, way higher than that of Indian average. The agricultural and service sectors contribute 20.1 % and 35.3 % respectively to the total GSVA in 2022-23 at current price. Gujarat is capitalizing on the momentum created by earlier reforms. Industrial production expanded significantly, supported by initiatives like the Vibrant Gujarat Summits (Government of Gujarat, 2024). Although the COVID-19 pandemic in 2020 disrupted growth temporarily, the state recovered quickly due to targeted interventions. It can be seen from table 1.1 that during the Covid 19 period Gujarat experienced a reduction in the state income by around 2 %. The state quickly got to the path of recovery as it could achieve almost 10 % growth in GSDP in real terms and 9.14 % growth in per capita income.

**Table 1.1**  
**Gujarat State Domestic Product Performance**

Year	GSDP Current Prices (Rs. Crores)	GSDP Constant Prices (Rs. Crores)	Per Capita GSDP at current prices in crores	GSDP Current Prices YoY Growth (%)	GSDP Constant Prices YoY Growth (%)	Per Capita GSDP at current prices YoY Growth (%)
2011-12	615606	615606	101922			
2012-13	724495	682650	113022	17.69	10.89	9.82
2013-14	807623	734284	121570	11.47	7.56	7.03
2014-15	921773	811428	134342	14.13	10.51	9.51
2015-16	1029010	894465	148090	11.63	10.23	9.28
2016-17	1167156	981342	162474	13.43	9.71	8.85
2017-18	1329095	1086570	179896	13.87	10.72	9.68
2018-19	1492156	1183020	195864	12.27	8.88	8.15
2019-20	1617143	1265277	209483	8.38	6.95	6.50
2020-21	1616106	1241118	205483	-0.06	-1.91	-1.95
2021-22P	1928683	1365922	226146	19.34	10.06	9.14
2022-23Q	2230609	1475629	244309	15.65	8.03	7.43

Source: Socio Economic Review, GoG. Various years.

Gujarat state is committed in contributing to India’s growth trajectory. The state has set a target to become a US \$ 1 trillion economy by 2030. To further upgrade the state’s industrial sector, the Gujarat government has been taking various initiatives. During the year 2022, the state government announced ‘Atmanirbhar Gujarat Schemes for Assistance to Industries’ with an aim to promote manufacturing sector of Gujarat and enable them to be a part of global supply chain. As the scheme provides various fiscal incentives, it may likely have a short- and long-term impact on the financial health of the state. Some of the fiscal measures include Net SGST reimbursement to MSMEs up to 75% of fixed capital investment over 10 years Capital Subsidy up to INR 35 lakhs for Micro Industries, Electricity Duty exemption for 5 years and so on (CMO Gujarat, 2022).

**Table 1.2**  
**Demographic Indicators**

<b>Indicators</b>	
Population (2011)	6.04 Crores
Population (projected population for 2023)	7.27 crores
Male Population (2011)	3.15 crores
Female Population (2011)	2.89 crores
Rural Population	3.47 crores
Urban Population	2.57 crores
Urbanization	42.58 %
Working age population (age group 15 to 59)	62.82%
Birth Rate (2020-21- SRS)	19.3
Death Rate (2020-21- SRS)	5.6
Total Fertility Rate (2020-21)	1.9
Number of districts	33

Source: Socio-Economic Review, GoG. Various years.

Table 1.2 gives the data of Gujarat’s demographic indicators. Gujarat is one of the highly urbanized states with almost 63 % of working age group. This indicates possibilities of leveraging demographic dividends if the right set of development strategies can be charted. Gujarat, while it is known for its economic performance, it has critically been viewed for its social development. To be able to bring the fact sheet of social development, we have used the indicators of multidimensional poverty index captured by NITI Aayog for the year 2023. As per the latest National Multidimensional Poverty Index (MPI), 2023: Gujarat has shown improvement from 0.083 MPI (based on NFHS 2015-16) to 0.050 MPI (based on NFHS 2019-21). The data shows that there is a significant reduction in the percentage of the population who are multidimensionally deprived. Even within a short span from 2015-16 to 2019-20 it reduced from 18.47 % to 11.66 %. Gujarat is marginally doing better compared to all India average (see table 1.3).

**Table 1.3****Gujarat – India Comparison Multidimensional Poor Population (percentage)**

Year	Gujarat			India		
	2005-06	2015-16	2019-21	2005-06	2015-16	2019-21
Percentage of population - multidimensional poor	39.79	18.47	11.66	55.34	24.85	14.96

Sources: (UNDP and OPHI, 2023)

The overall performance of MPI must be examined by scrutinizing the performance of each indicator. Table 1.4 gives poverty headcount ratio for each indicator for Gujarat state. Table 1.4 gives data of uncensored headcount ratio which is percentage of total population of state that are deprived of in case of respective indicator. It can be observed that for health dimension state has witnessed better outcome in Child & Adolescent mortality and Maternal Mortality as the percentage of people deprived of are lesser than Indian average. However, as far as nutrition is concerned, it is a matter of concern. For nutrition deprivation, Gujarat is only better than Bihar and Jharkhand. Assets and banking indicators in standard of living dimension are another indicator for which the percentage of deprived population in Gujarat is marginally higher than Indian average. Of course, the values are lower than that of nutrition indicators. As the report indicates, Nutrition indicator has a significant contribution to Gujarat's MPI score which is 31.81 %. This is followed by 14.9 % contribution of years of schooling, 10.44 % contribution of school attendance and another significant contribution to MPI is of cooking fuel indicator which is 9.19 %. With the state government's commitment to address multidimensional poverty, the state has certainly achieved a significant milestone of reducing the overall headcount ratio but poor performance in nutrition calls for concentrated efforts.

**Table 1.4****Uncensored Headcount Ratio (2019-21)**

(Percentage of Total Population Who are Deprived in Each Indicator)

Dimension	Indicators	Gujarat	India
<b>Health</b>	Nutrition	38.09	31.52
	Child & Adolescent Mortality	1.81	2.06
	Maternal Health	12.72	19.17
<b>Education</b>	Years of Schooling	7.94	11.40
	School Attendance	5.06	5.27
<b>Standard of Living</b>	Cooking Fuel	34.74	43.90
	Sanitation	26.05	30.13
	Drinking Water	5.31	7.32
	Electricity	2.44	3.27
	Housing	23.30	41.37
	Assets	11.37	10.16
	Bank Account	4.40	3.69

Source: (UNDP and OPHI, 2023)

The Gujarat state provides quite a unique example of economic policy and development performance. That state has achieved some of the milestones of fiscal and economic development. Gujarat has always been a front runner for most of the economic indicators that include state domestic product, FDI, Exports, infrastructure such as roads, rails, electricity etc. The state has been fiscally prudent for most of the time and has always achieved FRBM targets. However, for indicators like sex ratio, nutrition, enrolment in secondary education etc. the state has not been able to keep pace with some of its counterparts. In today's time when development agendas are being designed and declared at the global level while they are to be implemented by the local agencies and government, the state government's responsibilities have become multifold. It is at this juncture that the state's fiscal performance, the ability to generate financial resources on its own and allocate those resources efficiently to achieve development goals are extremely critical.

As we carried out the study on 'Evaluation of Finances of State of Gujarat' for the 16<sup>th</sup> Central Finance Commission, we examined various fiscal indicators of state government as mentioned in previous section.

## CHAPTER 2

### ANALYSIS OF REVENUE RECEIPTS

The analysis of revenue receipts is critical in understanding the fiscal health and resource mobilization strategies for any state government. This chapter delves into the trends and composition analysis of components of revenue receipts. The examination of tax and non-tax revenues, grants-in-aid, and other fiscal transfers sheds light on the state's ability to channelize resources to meet expenditure requirements and achieve fiscal stability. This chapter also highlights some of the tax reform initiatives carried out by Gujarat state in last decade.

#### 1. ANALYSIS OF TAX REVENUE PERFORMANCE

##### 1.1. Revenue-GSDP RATIO

The period 2012-13 to 2023-24 has been quite challenging for Indian states as far as fiscal performance is concerned. The time has been difficult due to Covid-19, a humanitarian crisis. During the same period in the year 2017, one of the biggest tax reforms, Good and Service Tax was introduced in India. These events have certainly affected the revenue generation capacity – both tax and non-tax revenue of every state. Gujarat is not an exception to this as it is evident from table 2.1. There is observed a consistent reduction in the Own Tax Revenue- GSDP ratio from 7.44 per cent in 2012-13 to 4.35 per cent in 2020-21 which could only marginally improve to 5.60 per cent in 2022-23. As far as Own Non-Tax Revenue is concerned, barring a few years, for most of the years the ONTR-GSDP ratio has been below one percentage.

**Table 2.1**  
**Revenue – GSDP Ratio**

(In percentage)

Year	Rev Receipt / GSDP	Tax Reve/ GSDP	Own Tax Rev/ GSDP	Non-Tax Rev/ GSDP	Own Non-Tax Rev/ GSDP
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	9.47	7.61	6.09	1.86	0.99
2016-17	8.39	7.14	5.52	1.26	1.14
2017-18	9.28	6.95	5.38	2.33	1.13
2018-19	9.11	6.94	5.37	2.17	0.90
2019-20	8.83	6.14	4.89	2.70	1.12
2020-21	7.93	5.60	4.35	2.33	0.65
2021-22	8.65	6.68	5.07	1.97	0.73
2022-23	8.94	7.08	5.60	1.86	0.83

Source: State budget documents, various years.

## 1.2. Buoyancy Estimates

The buoyancy estimate is the ratio of revenue growth to the growth of GSDP and hence the estimate gives a fair idea about the response of revenue collection to the economic activities. Lower buoyancy indicates an inability to capture the increasing economic activities in the form of tax or non-tax revenue. Gujarat's Own Tax Revenue buoyancy is merely 0.64, lower than even its Own Non-Tax Revenue, which is 0.86. Nevertheless, there has been a noticeable increase in the buoyancy value in the post-GST era when we evaluate the buoyancy estimates, especially tax-buoyancy, and compare pre- and post-GST. The OTR buoyancy was 0.39 in the pre-GST which significantly increased to 1.08 in the post GST era. The possible reasons for this improvement in the buoyancy may be a significant increase in OTR after Covid-19, which is 39 % and 27.79 % in 2021-22 and 2022-23 respectively. The state has experienced a substantial increase in the GST tax base with the number of taxpayers increasing. The finance minister, Mr. Desai highlighted the fact in the assembly that the number of taxpayers in the state grew by 135 per cent since the implementation of GST. At the time of GST launch in 2017 the state had 5, 08,863 taxpayers and the number increased to 2,01,270 as of July 31 this year (“Gujarat GST Kitty Rose by 14% in FY24,” 2024). Other possible reasons may be stagnancy in the GSDP during Covid-19 which reduced the denominator value or the base effect after Covid-19 negative effect on tax collections. However, the overall lower revenue buoyancy calls for reexamination of both tax and non-tax revenue sources.

**Table 2.2**  
**Buoyancy Estimates (2012-13 to 2022-23)**

Revenue Sources	Buoyancy (2012-23)	Buoyancy (Pre GST)	Buoyancy (Post GST)
Revenue Receipt	0.84	0.61	0.94
Tax Revenue	0.74	0.62	1.07
Own Tax Revenue	0.64	0.39	1.08
Non-Tax Revenue	1.2	0.54	0.51
Own Non-Tax Revenue	0.86	1.65	0.39

Source: State budget documents, various years.

## 1.3. Growth Rate of Tax Revenue

The revenue performance of the state is analyzed here by estimating the Compounding Annual Growth Rate (Table 2.3) and Annual Growth Rate (table 2.4 Own Tax Revenue). It is to be noted that the state's Own Tax Revenue has increased by 7.9 % whereas the Share in Central Transfer increased by 13.73 % during 2012-13 to 2023-24. This is considerably different from the state's tax revenue performance in the previous decades. This is unlike Gujarat's previous decade's performance. During the period 2005 to 2015, the CAGR for both OTR was observed to be around 13 per cent (Baxi & Yadav, 2015). From the year 2013-14, the growth rate of own tax revenue has significantly fallen. For the year 2012-13, the OTR annual growth rate was 21.79 % which drastically reduced to 4.63 % in the year 2013-14. Across the state's own taxes, it is the Taxes on Goods and Passengers which is the area of concern as it experienced a negative growth rate of -3.82 %. In absolute terms, it reduced from Rs. 210 lakh cores to

only Rs. 132 lakh crores. Taxes such as VAT and Entertainment Taxes are merged in GST and hence show negative growth rate. As far as the impact of GST is concerned, the state in the end has certainly benefited by experiencing a more buoyant tax structure and higher growth rate. As per the estimation based on the data, for the period 2013-14 to 2016-17 which is the pre-GST era, the CAGR of State's Own Tax Revenue was 3.65 %. This significantly increased to 9.39 % for the period from 2017-18 to 2023-24, post-implementation of GST.

It is also important to note that during 2012-13 to 2022-23 Gujarat's Gross Domestic Product at current price has increased 10.76 % annually. Against this state's revenue receipts increased by only 9.18 % and own tax revenue increased merely by 7.90 %. This indicates an untapped tax base, and it calls for the need for intervention. States may have to look for strengthening taxes other than GST and make the tax structure more buoyant.

**Table 2.3**  
**CAGR of Revenue Receipts (2012-13 to 2023-24)**

<b>Components</b>	<b>CAGR</b>
Revenue Receipt	9.18
Tax Revenue	8.96
State's Own Tax Revenue	7.90
Taxes on Income and Expenditure	1.89
Land Revenue	9.55
Stamp and Registration	10.70
State Excise	6.46
State GST*	16.48
Sales Tax/VAT	-1.78
Central ST	-1.73
State ST	3.12
Value Added Tax (VAT)	-3.29
Taxes on Vehicles	7.10
Taxes on Goods and Passengers	-3.82
Electricity Duties	8.55
Entertainment Tax	-26.20
Share in Central Taxes@	13.73

Source: State budget documents, various years.

\*CAGR for the period from 2017-18 to 2023-24.

@ This doesn't include IGST

The analysis of year-on-year growth rate helps us understand the trend of tax revenue performance and observe the volatility or consistency in the performance. It has been noted that the state's revenue receipts have fluctuated greatly, with growth rates ranging from a negative 10% in 2020–21 to as high as 30.18% in 2021–22. Regarding state finances, this is one of the main concerns. It is also important to note that the tax revenue has varied significantly even when the COVID-19 year is not considered, suggesting that other factors might also have led to the high volatility of tax revenue performance. The

highest volatility is observed in taxes such as land revenue, state exercise, taxes on goods and passengers etc. Other than the Covid-19 period the lowest growth in State's own tax revenue is observed in the financial year 2015-16 and 2016-17. The reasons may be a reduction in collection of VAT on petroleum products due to reduction in the petrol prices in the international market and reduction in the collection of electricity duty. In the case of VAT on petrol and diesel products, the state had undergone frequent revisions in tax rate. In the year 2018, the state government reduced VAT on petrol and diesel by 3 % that is reducing rate from 20 % to 17 % based on the directive of the central government. Following the loss of tax revenue during Covid 19 time, the state government increased VAT rate to 20.1 % + 4 % Cess on Town Rate & VAT on petrol and 20.2 % + 4 % Cess on Town Rate & VAT on diesel. With the higher VAT rate and economic recovery, the revenue from VAT particularly on petroleum products increased from Rs. 15140.76 crores in 2020-21 to Rs. 20696.98 crores in 2021-22 (Petroleum Planning & Analysis Cell, n.d.). The VAT rate on petrol and diesel was again reduced to 13.7 % VAT + 4 % Cess on Town Rate & VAT on petrol and 14.9 % + 4 % Cess on Town Rate & VAT on diesel in the year 2022. Gujarat is one of the states levying the lowest rate on petrol and diesel as on 2024. The state government can look at the probability of increasing the VAT rate on petrol and diesels as this can be one of the important sources of revenue and can increase tax buoyancy. However, one has to be careful of the negative impact on the transportation and logistics costs and the cascading impact in terms of increase in inflation rate. Thus, the final decision calls for the need to carry out a study of estimating the impact of increasing VAT on petrol and diesel. Further in the VAT tax, state government substantially reduced the Value Added Tax rate on PNG for domestic consumption and CNG used in automobiles from 15% to 5% in 2022-23. It reduced the revenue to state government by almost Rs. 1000 crore.

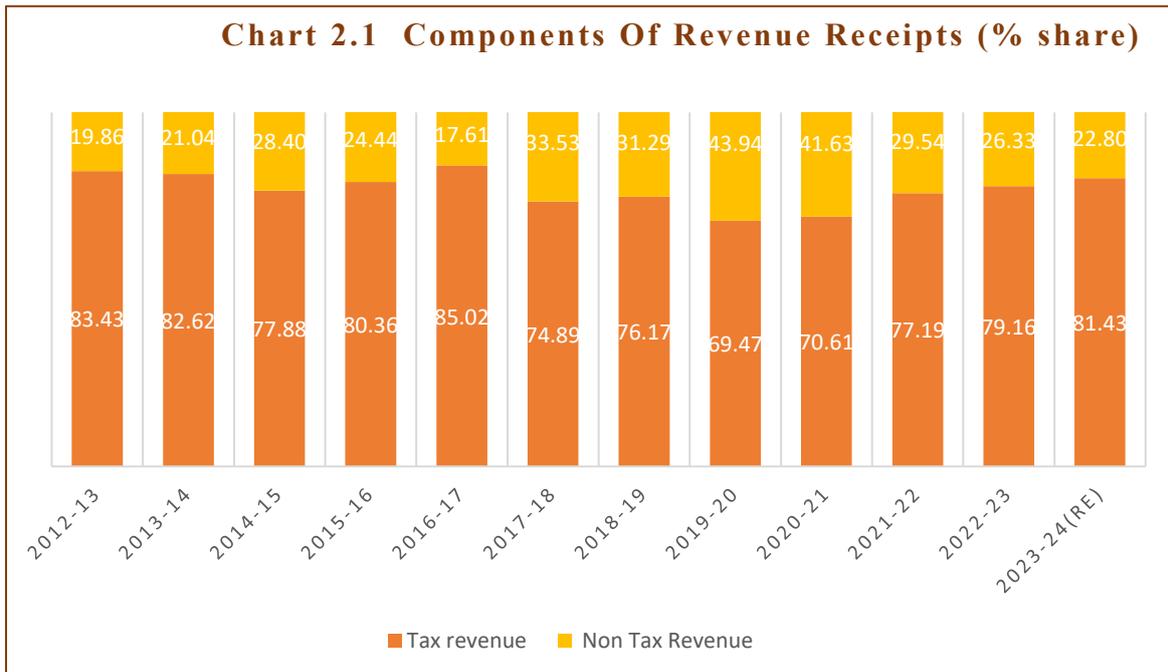
**Table 2.4**  
**Annual Growth Rate of Tax revenue (%)**

Components	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24(RE)
Revenue Receipt	6.31	15.01	5.98	0.47	25.88	10.31	5.03	-10.28	30.18	19.53	8.22
Tax Revenue	5.27	8.42	9.36	6.30	10.87	12.20	-4.20	-8.82	42.33	22.56	11.33
State's Own Tax Revenue	4.63	8.81	2.15	2.84	11.03	12.03	-1.42	-11.06	39.03	27.79	7.40
Taxes on Income and Expenditure	6.94	3.89	4.27	3.54	4.28	16.60	-14.57	-0.79	0.40	-0.93	1.77
Land Revenue	-21.76	9.57	33.60	-20.96	-6.98	29.50	-2.03	-9.55	30.42	61.02	47.21
Stamp and Registration	7.28	15.88	0.84	4.21	25.45	7.25	-1.02	-4.04	41.17	36.18	5.58
State Excise	29.34	27.73	-12.08	22.88	-44.07	54.09	5.87	-3.33	15.84	21.21	-4.08
State GST	-	-	-	-	-	64.18	-2.24	-13.63	47.62	19.93	18.52
Sales Tax/VAT	3.83	7.73	-0.12	5.04	-36.00	-24.38	-5.99	-10.78	54.49	27.34	-14.02
Central ST	-1.62	8.23	10.64	-24.51	-27.61	-19.55	-15.89	-25.37	73.76	73.25	-17.17
State ST	13.06	6.33	14.93	24.74	-67.02	-97.38	-71.49	171.84	793.33	-90.39	14495.11
Value Added Tax (VAT)	4.77	6.78	-3.48	7.65	-36.49	-24.58	-5.55	-9.67	54.46	21.75	-25.04
Taxes on Vehicles	0.29	18.06	11.61	6.81	20.93	6.00	-6.60	-22.50	30.42	28.62	3.63
Taxes on Goods and Passengers	295.84	-74.76	26.07	-74.96	97.71	-11.08	-58.58	114.73	-88.98	379.46	140.66
Electricity Duties	6.49	25.25	2.08	-2.78	11.16	13.32	19.41	-5.19	-15.70	51.06	11.37
Entertainment Tax	6.50	-18.44	1.04	19.68	-60.97	-97.48	59.23	101.45	-40.53	10.48	19.71
Share in Central Taxes	9.18	6.13	52.28	20.13	10.34	12.76	-13.72	-0.07	53.80	6.13	26.20

Source: State budget documents, various years.

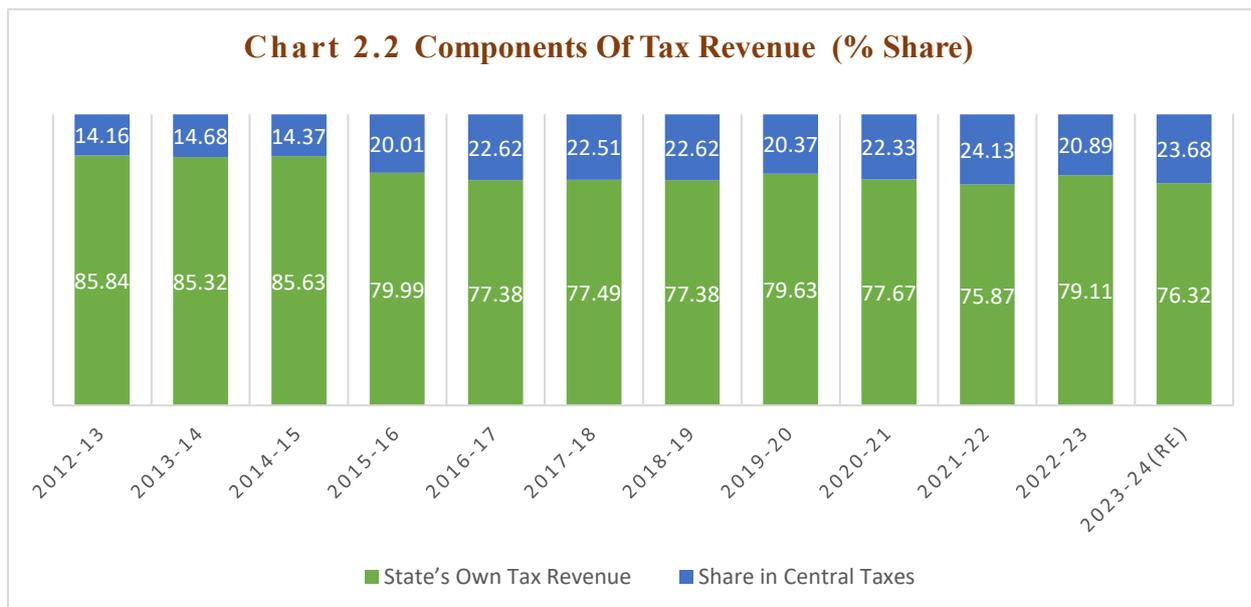
#### 1.4. Composition Analysis of Tax Revenue

The composition of Gujarat's revenue receipts and tax revenue from 2012-13 to 2023-24 reflects the state's changing fiscal conditions due to various policy measures and economic conditions. Chart 2.1 reflects the two important sources of revenue receipts, tax and non-tax revenue. It can be observed that except for the period from 2017-18 to 2020-21 the share of tax revenue remained higher than 75 %. It was only due to two significant events of GST and Covid19 that the share of tax revenue marginally fell. Excessive reliance on tax revenue has always been a matter of concern for Gujarat government.

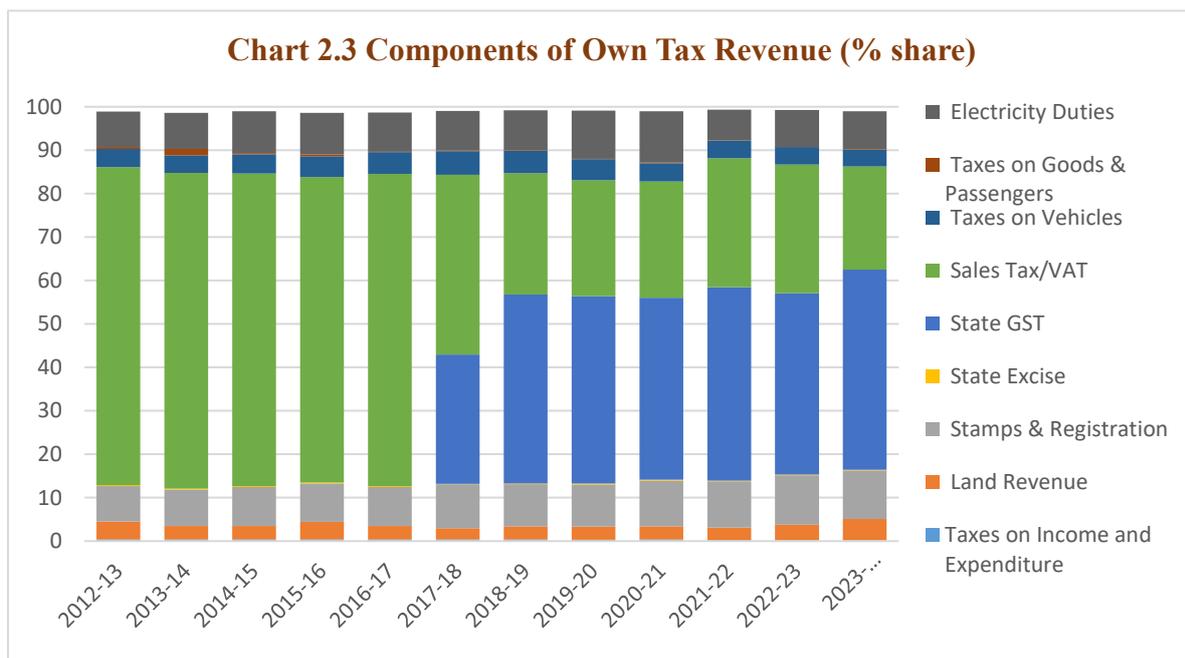


Source: State budget documents, various years.

As far as tax revenue sources are concerned, the share of central taxes has considerably increased from 14.16 % in 2012-13 to 23.68 % in 2023-24. The significant rise in share in central taxes can be observed from 2015-16 onwards where the share of central taxes increased by 52.28 % over the previous year. This is primarily due to the recommendation of 14<sup>th</sup> Finance Commission to increase state’s share in the total devolution to 42 %. The similar pattern continued even during the period of 15<sup>th</sup> Finance Commission.



Source: State budget documents, various years



Source: State budget documents, various years.

Note: In the above chart the entertainment tax and other taxes and duties have been excluded due to the elimination of state's entertainment tax and very insignificant contribution from other taxes and duties.

From Chart 2.3 one can obviously observe the impact of GST implementation on the composition of the state's own tax revenue. Prior to GST, it was VAT that was the predominant source of revenue as it contributed more than 70 %. After GST was rolled out, part of the revenue from VAT was replaced by GST. The share of GST gradually increased from around 30 % in 2017-18 to 41.7 % in 2022-23 which further increased to almost 46 % in 2023-24. With repetitive efforts of rationalization of GST and strengthening the administrative efforts the relative share of GST in state's own tax revenue has increased. The combined share of VAT and GST is around 70 % which reflects the very characteristic of Gujarat's economic and fiscal framework. Gujarat from the beginning has been a manufacturing state which heavily relied on VAT and later VAT and GST combined. The other significant share of revenue comes from two sources, namely stamp duty and registration fees and electricity duty. Both the taxes contribute around 8% to 11 % to the state's tax revenue basket. The taxes such as vehicle tax contribute around 4 to 5 % followed by taxes from land revenue. Over the years the government of Gujarat has introduced a lot of reforms in land revenue management and amended the Land Revenue Act. However, the share of land revenue remained around 3 % only. Since the formation of the state, the Gujarat government has prohibited liquor consumption and hence the revenue from exercise duty is almost insignificant. The composition analysis indicates that the state needs to diversify the tax structure and capture sources such as vehicle tax, taxes on goods and passengers to be able to achieve more autonomy and self-dependency in raising revenue from its own taxes particularly in the era of GST. Although Gujarat has been relatively fiscally prudent state, diversification of its own tax revenue will bring more sustainability in its fiscal performance.

## **2. TAX REFORMS INITIATIVES OF GUJARAT GOVERNMENT**

In this section the report provides a brief summary of various tax reforms, or the measures adopted by Gujarat state with the objective of rationalization and simplification of tax structure, and enhancing tax efficiency.

**Stamp duty and Jantri Rates:** During the year 2014-15 Gujarat government increased the stamp duty from 1 % to 3.5 %. Since then, the stamp duty rates have been 3.5 % of market value, with 1.4 % of surcharges making the effective stamp duty rate at 4.9% and 5 % for commercial property. Keeping the stamp duty rates constant, the state government has made the tax structure more buoyant by various measures. In the year 2017-18 the state introduced an option of online payment; e-payment of stamp duty and registration fees. In 2018-19 the state introduced minor upward revision in the stamp duty rates where the charges are applicable at the fixed rate on various instruments of schedule 1. These include, affidavit, adaption deed, marriage registration and partnership etc.

In the year 2023, state government revised Jantri rates – the minimum property valuation rate. The Jantri rates were doubled, and the revised rates have been applicable since April 2023. The revision in the Jantri rates led to an increase in property valuation. This will result in higher stamp duty revenue.

**Digitization of Land Records:** Gujarat government has implemented the efforts for digitalization of land records. The initiatives like ‘e-dhara’ and ‘AnyROR’ (Any Records of Rights) have been implemented for management and access of land records, in line with what the central government has proposed. The lands records are mapped using GIS to enhance accuracy and reducing land disputes. All these efforts have resulted in simplification of tax assessment and collection process.

**Vehicle Tax:** The state government in the last decade had brought few changes in the motor vehicle tax with respect to minor selective revision of tax rates and simplification of tax. In the year 2017, the state government introduced a levy of lump sum tax on all the remaining vehicles that are registered after April 2017.

**Electricity Duty:** During the study period, the state government has selectively reduced the electricity duty on different sectors/consumers. As recorded in FRBM report government of Gujarat, the state government transferred administration of Electricity Duty from the Energy and Petrochemicals Department to the Chief Commissioner of State Tax under the Finance Department (Government of Gujarat, 2023). The objective of this administrative measure was to improve the efficiency of assessment, levy and collection of electricity duty. This certainly led to almost 51 % increase in the revenue from electricity duty in the year 2022-23.

The overall tax structure of Gujarat state indicates that the state although has introduced tax reforms in various taxes, it needs to carry out an objective analysis of frequent tax rates reductions practiced in last decade. The tax rates reduction should certainly not be at the cost of making tax structure less buoyant. Gujarat is one of the states having lower tax/GSDP ratio and hence there is a need to relook at the states’ own tax rates.

### ***3. ANALYSIS OF NON-TAX REVENUE PERFORMANCE***

Non-Tax consists of the revenue generated from own sources of states such as fees and user charges, fines and penalty charges, dividends and profits from state enterprises, interest income etc. and transfer or grants received from central government. It covers the various cost recovery or collection of user

charges from the state government’s social and economic services such as education, health care, agriculture, irrigation, roads etc. The efficient management of non-tax revenue can enhance the revenue potential without really worrying about raising state taxes. This section analyses the performance of Gujarat’s non-tax revenue.

### 3.1. Growth of Non-Tax Revenue

Gujarat state experienced 10.22 % CAGR for non-tax revenue and 10.18 % CAGR in own non-tax revenue during the period from 2012-13 to 2023-24. This certainly is higher than the state’s tax and own tax revenue. Revenue from general services increased by 37.36 % but the increase in interest receipt increased merely by 5.43 %.

**Table 2.5**  
**CAGR of Non-Tax Revenue (2012-13 to 2023-24)**

Components	CAGR (%)
Non-Tax revenue	10.22
States own non-tax revenue	10.18
Interest Receipts	5.43
Dividends and profits	10.50
General Services	37.36
Social Services	14.36
Economic Services	8.72
Grants from center	10.26

Source: State budget documents, various years.

The annual growth of non-tax revenue (table 2.6) indicates a non-linear growth pattern of non-tax revenue components. For the year 2014-15 the non-tax revenue increased by 46.33 %, in absolute value it increased from Rs. 13901 crores in 2013-14 to Rs. 20341 crores in 2014-15. After this year consequently for two years the non-tax revenue experienced a negative growth rate. For the year 2015-16 it was -5.89 % and for 2016-17 it was -38.77 %. It is evident that each component of non-tax revenue has experienced a negative growth rate in at least one year be it interest receipt or revenue from social services. This makes it apparent that the state government has not worked out the long-term strategies to strengthen the non-tax revenue sources. At times there are windfall gains while in some years the government fail to even maintain growth rate. Each non-tax revenue source is very complicated and wide and hence it is difficult to derive any specific reason for such significant fluctuations in non-tax revenue.

**Table 2.6**  
**Annual Growth rate of Non-Tax Revenue (%)**

Components	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Non-Tax revenue	11.54	46.33	-5.89	-38.77	16.55	4.68	34.54	-13.61	1.00	9.25	-3.60
State's Own Non-Tax Revenue	16.64	35.97	6.82	30.92	12.95	-10.99	34.93	-42.04	33.60	31.50	4.49
Interest Receipts	-4.43	-20.18	-16.66	206.06	-58.09	49.04	44.64	-63.64	17.02	27.80	97.22
Dividends and Profits	410.85	-67.73	7.28	14.61	-12.53	24.64	-25.85	47.23	2.46	-27.43	84.75
General Services	1030	8.94	258.43	-70.13	11.66	-1.52	62.24	-25.54	-2.93	202.28	-12.17
Social Services	37.98	9.30	-3.23	150.61	-63.31	98.10	142.25	-61.98	86.07	18.91	-7.60
Economic services	0.87	75.07	-9.07	14.64	76.34	-27.92	2.90	-26.59	23.53	22.84	1.62

Source: State budget documents, various years.

The annual growth rate of grants from the centre and its various components are provided in Table 2.7. It is to be mentioned that during the time of planning commission, state governments in India were receiving grants in the form of state and central plan schemes. After 2017, with the end of 12<sup>th</sup> five-year plan, the planning era in India ended and as a result, central government's grant structure also changed. Therefore, the analysis of grants will be done with regard to two time periods. Pre 2017 and post 2017. Post 2017 there are mainly three sources of grants received from the center which include grants under centrally sponsored schemes, finance commission grants and other transfer which include direct transfer from a ministry, GST compensation grants which existed up the financial year 2021-22 etc. From table 2.7 it can be observed that the total grants from the central has consistently reduced since 2020, after Covid-19 period. This negative growth is primarily due to a reduction in the other transfer category which was reduced also due to the end of GST compensation period.

**Table 2.7**  
**Annual Growth Rate of Components of Grants from Center (%)**

Year	Total Grants	Centrally Sponsored Schemes	State Plan Schemes	Central Plan Schemes	Non-Plan Grants
2013-14	6.78	28.58	-24.87	-30.21	69.00
2014-15	56.89	-68.05	181.87	80.00	28.36
2015-16	-17.13	-12.08	-17.40	-0.48	-18.35
2016-17	47.70	143.66	40.27	-48.78	46.51
POST-2017					
Year	Total grants	Centrally Sponsored Schemes	Finance Commission Grants	Other transfer/Grants to states	
2017-18					
2018-19	19.56	-1.76	4.63	82.56	
2019-20	34.26	-0.68	52.12	70.21	
2020-21	6.58	-6.17	12.54	13.67	
2021-22	-11.59	15.43	-29.44	-20.72	
2022-23	-3.73	1.06	32.54	-21.73	
2023-24(RE)	-10.05	95.85	-92.96	-79.10	

Source: State budget documents, various years.

As per the state finances report of RBI, Gujarat is one of the five states that received the highest GST compensation. The other four states are Maharashtra, Karnataka, Tamil Nadu and Panjab. The total GST compensation received by the state till 2022 was Rs. 1,36,23,358 lakhs (table 2.8). The GST compensation has a significant share of the grants under the category of other transfers/grants to states. For the year 2021-22 the total grants to states were Rs 10,57,509 lakh in which the share of GST compensation was Rs. 8,32,855. For the year 2020-21 the grants to state were Rs. 133392 lakhs out of which the share of GST compensation was Rs. 11,33,451. Thus, it is obvious that with the end of GST compensation period, Gujarat will have significant reduction in the total grants received from the centre. It is to be noted here that there is observed a mismatch for data of GST compensation and IGST across various sources including state budget documents, RBI state finances reports, GST portal, PIB etc. Many researchers have raised this issue so far. For this study, the data is obtained from RBI state finances volumes.

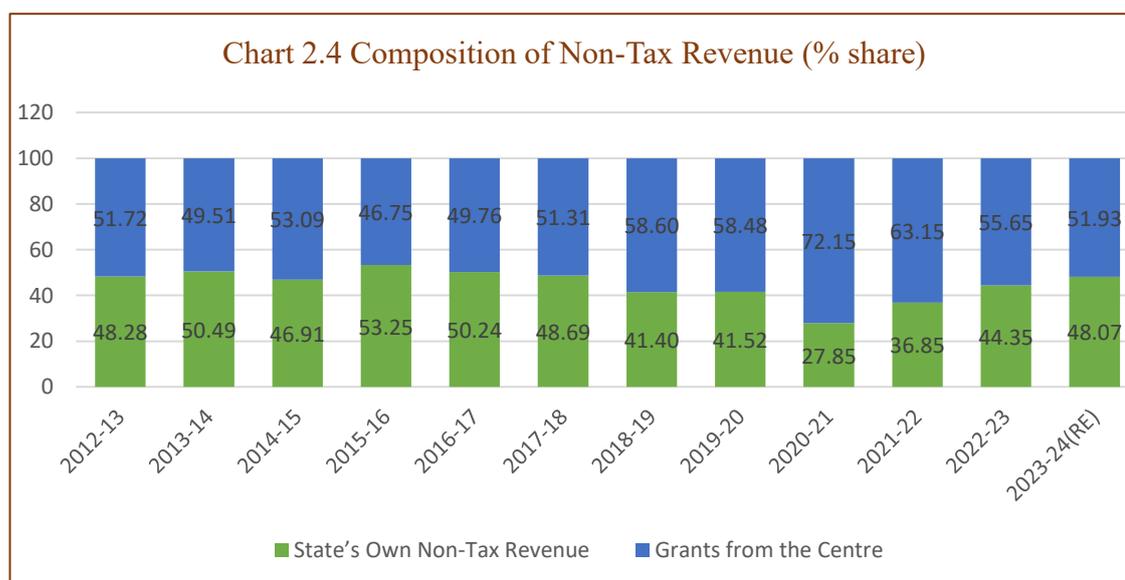
**Table 2.8**  
**GST Compensation to Gujarat**

Year	GST Compensation Amount (Rs. Lakh)
2017-18	3,68,700
2018-19	6,41,900
2019-20	1,06,46,452
2020-21	11,33,451
2021-22	8,32,855
<b>Total</b>	<b>1,36,23,358</b>

Source: State Finances A Study of Budgets, RBI, various years

### 3.2. Composition Analysis of Non-Tax Revenue

The composition analysis of non-tax revenue provides a vital understanding of the diverse income streams that supplement Gujarat's fiscal resources beyond taxation. This segment examines the structure and key contributors to the state's non-tax revenue, which include state's own non-tax revenue and grants from the center. Chart 2.4 portrays the share of own tax revenue and grants from the central in Gujarat's total non-tax revenue. It is evident from the chart that although no single component dominates the non-tax revenue, the grant from the centre is marginally having a greater share post 2017. As with the implementation of GST in 2017, the GST Compensation Act also came into existence. The states were to be compensated by the centre for the revenue loss due to implementation of GST up to the period of five years, that is upto 2022. This compensation was designed based on the assumption of 14 % growth in the state's tax revenue. With the end of the GST compensation, the share of grants from the center also declined from 63 % in 2021-22 to 55 % immediately in 2022-23. For fiscal stability in the long run the state needs to be independent in generating non-tax revenue. Reviving the sources of own non-tax revenue will also reduce the tax burden and increase the share of non-tax revenue in state's treasury.



Source: State budget documents, various years

In India, the state governments have a diverse source of generating own non-tax revenue. It ranges from various fees and user charges from services offered by the state government, obtaining royalties from mining operations, dividends or profits received from state enterprises and so forth. Nevertheless, the composition of own non-tax revenue of Gujarat indicates that the diversity is essentially nonexistent. For most of the year more than 50 % of the non-tax revenue is generated from economic services, followed by social services whose contribution was 14.66 % in 2012-12 and increased to 22.92 % in 2023-24 (see Chart 2.5). Interest receipt is the third major source of own non-tax revenue, however over the years its share has significantly reduced. The revenue from dividends and profits is very insufficient and for majority of the period its share was less than even one percent. The reasons and issue of low dividends from state PSUs are discussed at length in chapter seven. Although the state government has announced the new dividend payout policy in the year 2023, the benefits are yet to be realized and assessed.

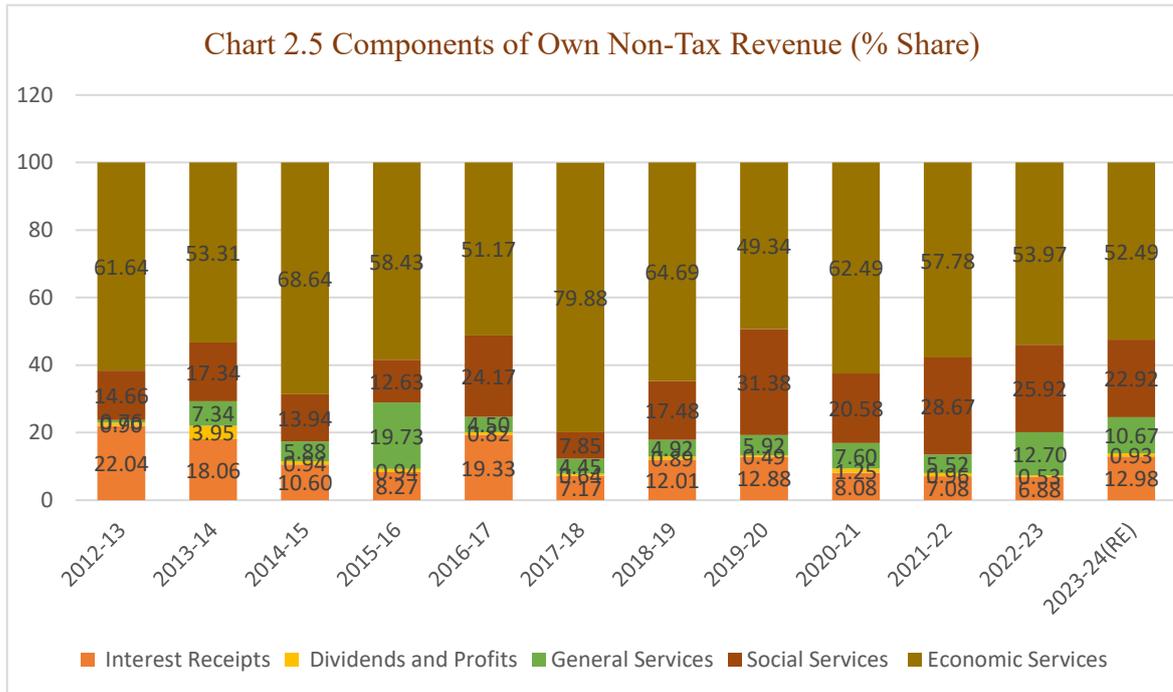


Table 2.9 gives the percentage share of sources of grants from the central. During the period from 2012-13 to 2016-17 the grants received under the category of state plan schemes were significant. However, as discussed earlier, after the closure of planning commission the grants under the head of state and central plan do not exist. Post 2017, it was the grants under centrally sponsored schemes which became quite dominant. Its share increased from the lowest contribution of 6.34 % in 2014-15 to almost 41.29 % in 2022-23. For the years 2023-24, which is revised estimates the share is significantly higher at 90 %. The funding pattern of the centrally sponsored scheme typically involves a cost sharing arrangement with the contribution from both central and state governments in the form of 60:40 ratio. Most of these grants are tied up grants and depend upon the state's initiatives in implementing and funding the scheme. At present there are around 30 umbrella centrally sponsored schemes, and they play a critical role in central-state fiscal relations. For the finance commission grants, Gujarat does not receive the share of revenue deficit grants for most of the year as the state except for one year due to Covid-19 has achieved revenue surplus. Gujarat receives grants under the head of grants to local bodies, disaster management grants, sector specific grants and state specific grants. For the year 2023-24 (RE) it is to be noted that there is a significant difference between budget estimates value and revised estimates value. For the finance commission grants the budgeted amount was Rs. 4950.21 crores which significantly reduced to merely Rs 373.57 crores (Budget documents, GoG, 2024-25). Due to the revised estimates, the share of finance commission might have been reduced to merely 1.8 %. In case of the other transfer or grants to state is concern we discussed that it has a greater share from GST compensation. It is evident from table 2.9 that the share of grants to state increased from 23.77 % in 2017-18 to 49 % and 44 % in 2020-21 and 2021-22 respectively. After the end of the GST compensation period the share of grants to states reduced to merely 8 % in 2023-24. Gujarat being the manufacturing state it was at the risk of losing tax revenue due to GST being a destination-based tax.

**Table 2.9**  
**Composition of Grants From Center (% Share)**

Year	Centrally Sponsored Schemes	State Plan Schemes	Central Plan Schemes	Non-Plan Grants
2012-13	25.84	53.78	1.29	19.09
2013-14	31.11	37.84	0.85	30.21
2014-15	6.34	67.98	0.97	24.71
2015-16	6.72	67.76	1.17	24.35
2016-17	11.09	64.35	0.40	24.16
<b>POST- 2017</b>				
Year	Centrally Sponsored Schemes	Finance Commission Grants	Other transfer/Grants to states	
2017-18	56.29	19.94	23.77	
2018-19	46.25	17.45	36.30	
2019-20	34.21	19.77	46.02	
2020-21	30.12	20.87	49.08	
2021-22	39.33	16.66	44.01	
2022-23	41.29	22.93	35.78	
2023-24(RE)	89.89	1.80	8.31	

Source: State budget documents, various years.

The discussion on grants in aid is definitely crucial with almost half of the non-tax revenue coming from this source. However, it is also equally important to make a note that the overall share of non-tax revenue has reduced to one fourth. With most of the state taxes being indirect in nature, there exists a regressive tax structure at the state level and hence it is important to relook at the non-tax revenue sources by revising user charges and fees and by strong implementation of dividend policy.

Overall, it can be observed that Gujarat has been collecting majority of its revenue from GST and VAT. The tax revenue has certainly become more buoyant post GST period. Nevertheless, Gujarat state needs to strengthen its Tax to GSDP ratio and enhance the revenue growth.

#### **4. SUGGESTIONS FOR ENHANCING TAX REVENUE**

Gujarat is undoubtedly a financially responsible state. It has achieved every goal set forth in the FRBM Act. This does not imply, however, that the state can afford to remain unconcerned with efforts to augment its own revenue. From the data provided in this chapter there are few signals that are quite alarming indicating that the state needs to take urgent steps for revenue augmentation. Among these signals are, the consistent decline of state's own tax revenue-GSDP ratio, tax buoyancy being lower than one or excessive reliance of GST and VAT. The inability of channelise revenue source and not so buoyant tax structure may in future reduce the spending capacity of the state. Having accepted this fact, this section provides suggestions for revenue enhancement. While discussing the measures to enhance

revenue potential it is to be kept in mind that Gujarat unlike other states does not generate exercise duty due to prohibition on liquor. Thus, state will have to compensate for the loss of excise duty by means to exploiting other taxes. Some of the suggestions to enhance tax revenue are provided below.

#### **4.1. VAT on petroleum products**

Looking at that tax rates it is also evident that Gujarat is charging one of the lowest VAT on petroleum products. The state is levying 13.7 % VAT + 4 % Cess on petrol and 14.9 % VAT + 4 % Cess which on of the lowest. States like Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka and many other states are levying VAT above 20 % or 25 %. Although as per the report of Petroleum Planning and Analysis Cell it is evident that Gujarat can generate decent amount of revenue from Sales Tax/Vat on POL products. For the year 2022-23, it was 24.63 crores, for 2023-24 (P) it was 23.60 crores, and the state was third highest in generating revenue followed by Maharashtra and Uttal Pradesh. This means with little increase in the VAT rate on POL Gujarat state can enhance its tax revenue.

#### **4.2. Tax on Goods and Passengers**

In Gujarat state taxation on goods and passengers is governed by specific laws and regulations. The tax rates in the state vary based on the types of vehicles, usage and specification of the vehicles. For commercial vehicles the rates are fixed based on the cost of vehicle while the rate on the passenger vehicles is levied based on the capacity, i.e. number of seats. This tax has almost negligible contribution in state's treasury. It is mostly an untapped revenue. The working paper by (Mukherjee et al., 2024) have carried out a detailed study of goods and passenger tax and have suggested a Vehicle Mileage Travelled Tax. They propose a taxing vehicle based on the miles travelled. Other than these suggestions the state government can assess raising the tax rates on commercial vehicles particularly as Gujarat state is highly commercialised states and experience heavy traffic of both commercial and passengers' vehicles. The increase in the collection may also function as Pigouvian tax compensating for the traffic congestion. It is to be noted that the state has already started levying taxes on ride sharing services however, the informal private transportation market such as auto rikshaw or shared large auto with higher seating capacity are yet not being captured. The state government may also adapt technology such as AI or GPS system to improve tax compliance.

#### **4.3. Vehicle Tax**

As per 2023, in Gujarat, the vehicle population increased by almost 122 % in past ten years (Times of India, 8 April 2023). States' vehicle population is almost half of the population which 3.07 crores. As per the transportation department data from the year 2022-23 to 2023-24 the state witnessed almost 47 % rise in the premium car segment in which the vehicles are priced between Rs. 20 to Rs. 50 lakhs. The sales of the cars above Rs. 50 lakhs increased by 39 %. During the past ten years the revenue from vehicle tax has increased by merely 7 % every year. At present Gujarat levy flat 6 % tax on all types of private vehicles irrespective of its price. With rising number of high-end vehicles being purchased, the state government may think of having multiple tax rates depending upon the price of vehicles. This way the tax structure will become more buoyant. With rising traffic congestion, it is important to provide and encourage public transportation. However, making private vehicles cheaper to purchase the state government is implicitly promoting private transportation.

#### **4.4. Diversification of Tax Revenue**

Gujarat state earns almost 70 % of its revenue from VAT and GST. The share of GST in total tax revenue has gradually increased to around 46 %. Too much reliance on GST might reduce fiscal

autonomy as state has limited power to influence GST tax structure. At this juncture for Gujarat, it is essential to diversify its tax structure and look beyond the GST and VAT for generating additional sources of revenue. Few of the options for expansion of tax base other than VAT and GST or diversification of tax structure are provided here.

Gujarat state can expand the base of professional tax to include consultant or gig workers of professional who work from home etc.

State government has been generously giving tax exemptions in stamp duty and registration fees or electricity charges etc to promote MSME, attract investment or promote certain businesses etc. It is very difficult to assess the actual benefits achieved. We suggest that a separate study is carried out to examine the cost and benefits of these tax exemptions.

So far as per the information available in the public domain, there are no studies available assessing the possibilities of diversification of tax structures or introduction of new taxes in Gujarat state. We strongly recommend carrying one such study in the long run benefit of the state's fiscal performance.

## ***5. SUGGESTIONS FOR ENHANCING NON – TAX REVENUE***

Gujarat state experience around 10 % increase in Own Non-Tax Revenue on an average during last twelve years. It is surely higher than the annual growth of Own Tax Revenue. However, the share of Non-Tax Revenue in state's total revenue has ranged merely from 8 % to 14 % during the study period. The state government can certainly make efforts to increase Non-Tax Revenue. It is better to charge the direct beneficiary whenever possible. Some of the suggestions to augment Non-Tax Revenue are provided here.

Gujarat government need to speed up the process of land monetization. It is also recommended by the task force committee (Government of Gujarat, 2022) to speed up the process of Sabarmati Riverfront and Tapi Riverfront land monetization. The gestation period of this has been too long. The state needs to have consultation with the private partner involve local officials for faster results.

One of the major concerns for Gujarat is the poor contribution of dividends and profit from state PSUs. The PSUs have been declaring very low or no dividend. However, state government has recently introduced the new dividend distribution norms and hence they are required to pay minimum 30 % of dividend on profit after tax or 5% of net worth, whichever is higher. We hope to see the positive impact of this measure. The state government has also initiated the efforts in line with central government's policy of strategic disinvestment of PSUs. The state has formed the committee for the same. The outcome or strategy is either not prepared or is not available in the public domain. It would be beneficial if state is able to take actions on the disinvestment policy.

## **CHEPTEER 3**

### **ANALYSIS OF EXPENDITURE**

#### **1. INTRODUCATION:**

As a part of Viksit Bharat- 2047 vision, development of Social and Economic sectors is focused by Gujarat as a welfare state since last few decades. The State of Gujarat has consistently grown at a rate that has been higher than the national average. The State economy at current prices has recorded an annualized growth rate of 12.25 % for the last thirteen years (2011-12 to 2023-24 (RE)) as per the base year 2011-12. (See, Statement under FRBM Act 2005, Feb 2024). According to public expenditure theory, Government Expenditure directly affects individuals' income, employment and development of society. It helps to boost demand for goods and services which in turn lead to an increase in production, employment and income of the peoples.

#### **2. EXPENDITURE PATTERN OF THE GUJARAT STATE**

Table 3.1 provides the details of public expenditure patterns of the Gujarat State during the period from 2012-13 to 2023-24 (RE). It provides the bifurcation of total expenditure into revenue expenditure and capital expenditure. During the study period, the compounded average annual growth rate (CAAGR) of the total expenditure is 9.29%, as the expenditure increased from Rs.98,304 Crore in 2012-13 to Rs.2,84,694 crore in 2023-24 (RE). Both revenue and capital expenditure have also increased by 9.39 % and 8.96% respectively. Table No:3.1 clearly indicates that the total expenditure and revenue and capital expenditure have almost increased by three times during these twelve years. With respect to the relative share of revenue expenditure and capital expenditure into total expenditure, the ratio has remained 71: 29 in the year 2012-13 whereas it is 70: 30 in the year 2023-24 (RE). If we talk about the whole twelve-year span it was fluctuating and it is near by 75: 25. From 2012-13 to 2020-21, The Capital Expenditure as a percentage of Total Expenditure declines from 29.14% in 2012-13 to 30.74% in 2023-24 (RE), possibly due to limited long-term investments in those years. This suggests a renewed focus on infrastructure development and long-term projects. Revenue Expenditure typically constitutes the larger portion of Total Expenditure, reflecting the government's focus on operational and administrative costs.

The Compounded Average Annual Growth Rate (CAAGR) of Total Expenditure, Revenue Expenditure and Capital Expenditure stood at nearly 13.74 %, 13.19 % and 15.48 % respectively for the year 2006-16 in the state of Gujarat. 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 and it was same as 13.74 % during the 2012-23; whereas CAAGR of Revenue Expenditure remained unchanged. at 13 % during the 2002-12, 2006-16 but CAAGR of Revenue Expenditure was 9.39 % during 2012-23. If we consider the CAAGR of Capital Expenses for the year 2002 -12 was -1%, which was increased and became 15% for the year 2006-16 and it was declined as 8.96% during the 2012-23.

Table 3.2 would enable understanding of the expenditure priorities of the state and the fiscal management of the state in relation to its economic performance. Public expenditure and revenue have direct influence on the Gross State Domestic Product of the state and in turn the GSDP also influences the expenditure and revenue vice-versa.

A high-expenditure policy will improve the GSDP growth rate and the high GSDP growth rate will improve the tax base. We now look at the expenditure of the Gujarat state as a percentage of the State

income. Total Expenditure percentage of GSDP goes up as high as 13.57% in 2012-13 and down to a low of 10.70% in 2022-23. This gives the overall fiscal effort of the state relative to its economic output. Revenue Expenditure a largely stable as a percentage of GSDP, ranging between 8% and 9.61% during these years and has dropped to 8.05% in 2022-23. This is all about the lowering of routine operational spending compared with state's economic output. Capital Expenditure as percentage of GSDP, this one is a bit more volatile. It's jumped to 3.95% in 2012-13 and had plunged to 2.65% in 2022-23. The Total Expenditure expressed as a percentage of GSDP represents the totality of the fiscal position for the state, with fluctuations in the trend and a recent shift towards lower total spending relative to economic output.

**Table 3.1 Expenditure pattern of the Gujarat state**

(In Rs. Crore)

Item	Revenue Expenditure	Capital Expenditure	Total Expenditure	Revenue Expenditure as % of Total Expenditure	Capital Expenditure as % of Total Expenditure
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
2016-17	103894.83	31906.13	135800.96	76.51	23.49
2017-18	118059.66	40644.50	158704.16	74.39	25.61
2018-19	132789.58	45225.39	178014.97	74.59	25.41
2019-20	140898.91	43664.09	184563.00	76.34	23.66
2020-21	150703.58	45936.34	196639.92	76.64	23.36
2021-22	160421.27	53692.09	165790.36	74.92	25.08
2022-23	179543.29	59123.59	238666.88	75.23	24.77
2023-24 (RE)	197174.81	87518.77	284693.58	69.26	30.74

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			
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	9.31	3.02	12.32
2016-17	8.90	2.73	11.64
2017-18	8.88	3.06	11.94
2018-19	8.90	3.03	11.93
2019-20	8.71	2.70	11.41
2020-21	9.21	2.81	12.01
2021-22	8.19	0.27	8.47
2022-23	8.05	2.65	10.70
2023-24 (RE)	8.00	3.55	11.55

Source: Calculated based on budget in brief

### 3. COMPARISON OF GUJARAT'S REVENUE EXPENDITURE WITH OTHER STATES

**Table 3.3 Total Revenue Expenditure of the Various States 2012-2023 (In Rs.Crore)**

States	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-22	2022-23	2023-24 (RE)
All States/UT	1231702	1379750	1637288	1838267	2086892	2340081	2638122	2791632	2957844	3327197	3715950	4351304
Andhra Pradesh	102702	110374	114866	95950	116178	121214	128569	137475	152677	159163	201256	212450
Arunachal Pradesh	4786	5731	7157	8363	9395	10900	12429	12219	13087	15847	17418	23602
Assam	29137	31972	39078	37011	49363	55481	56899	65817	64520	82548	101815	118434
Bihar	54466	62477	72570	83616	94765	102624	124897	123534	139493	159220	183976	250024
Chhattisgarh	26972	32860	39497	43701	48165	56230	64411	73477	70033	75010	85285	127020
Goa	6061	6803	7410	8420	8866	10543	11083	11576	12070	14227	14884	19947
Gujarat	69658	75259	86652	95779	103895	118060	132790	140899	150704	160421	179543	197175
Haryana	38072	41887	49118	59236	68403	73257	77156	84848	89947	98425	106406	118951
Himachal Pradesh	16174	17352	19787	22303	25344	27053	29429	30730	33535	36195	44425	46176
Jammu and Kashmir	25117	27058	29329	36420	39812	40916	56090	52963	52634	59269	62999	76155
Jharkhand	23398	23431	31795	36553	45086	50950	50255	56456	59264	62778	66682	88093
Karnataka	76293	89190	103614	117029	131921	142482	164300	174257	176054	209428	215584	240731
Kerala	53489	60486	71746	78689	91096	99948	110316	104720	123446	146180	141951	151422
Madhya Pradesh	62969	69870	82373	99771	119537	130246	141577	150444	164733	181061	199895	231112
Maharashtra	138736	154902	177553	190374	213229	241571	267022	300305	310610	349686	407614	505647
Manipur	5317	5719	7267	7383	8185	9274	9749	10239	12428	12642	14159	18567
Meghalaya	5000	5552	6252	6348	8337	8423	10256	9565	11499	13620	14864	18294
Mizoram	4509	4917	5652	5571	6230	6881	7506	9454	8515	8557	10092	12509
Nagaland	5601	5750	6762	7582	8664	10191	10920	11637	11052	11817	13410	16146
NCT Delhi	20659	22367	23509	26343	29302	33754	36852	39637	40414	46043	48246	56440
Odisha	38238	45618	51136	58806	65041	71837	85356	99137	95311	109588	131006	163089
Puducherry	3051	4483	4800	5285	5458	5807	6387	6836	7260	8748	8969	10738
Punjab	39458	41641	46613	50073	55296	62465	75404	75860	86345	96637	113661	122751
Rajasthan	63462	75510	94542	106239	127140	145842	166773	176485	178309	209790	226479	267744
Sikkim	3012	3458	3731	3645	3788	4152	5227	6185	6369	6669	7631	8629
Tamil Nadu	97067	109825	128828	140993	153195	167874	197201	210435	236402	254030	279964	317484
Telangana	0	0	50673	75896	81432	85365	97083	108798	123212	136803	153407	167385
Tripura	5213	5949	7443	7868	8748	10357	11889	13377	14368	16125	17739	21320
Uttar Pradesh	140724	158147	171027	212736	236592	266224	301728	298833	298543	337581	379978	454771
Uttarakhand	13960	16216	21164	23086	25271	29083	32196	32859	37091	38929	43773	51585
West Bengal	82111	91797	103652	118827	133918	141077	156374	162575	177921	210160	222839	236912
Grand Total	2487114	2786350	3302885	3708161	4208544	4680161	5276245	5583265	5915688	6654394	3715950	4351304

Source : State Finance – A Study of Budget, RBI, Various Issues

A detailed analysis of the Total Revenue Expenditure Trends (2012–2023) with a focus on Gujarat in comparison to other states is given in Table 3.3.

### 3.1. Overview of Gujarat's Revenue Expenditure:

Gujarat's revenue expenditure increased 183% from Rs.69,658 crore in 2012-13 to Rs.197,175 crore in 2023-24 (RE). Gujarat's revenue expenditure has shown consistent growth over the period. Gujarat's expenditure has nearly tripled in 11 years (2012–2023). The highest growth was seen in 2017–18 at 13.6 percent, which suggests higher allocations during that period. The post-pandemic recovery is reflected in 2021–23 with double-digit growth rates. Growth accelerated significantly after 2016–17, reflecting the impact of fiscal policies and infrastructure-focused spending.

### 3.2. Comparative Trends: Gujarat vs. Major States

State	Revenue Exp 2012-13 (Rs. Cr)	Revenue Exp 2023-24 (RE) (Rs. Cr)	Growth (%)
Gujarat	69,658	1,97,175	183%
Maharashtra	1,38,736	5,05,647	264%
Tamil Nadu	97,067	3,17,484	227%
Uttar Pradesh	1,40,724	4,54,771	223%
Karnataka	76,293	2,40,731	215%
Rajasthan	63,462	2,67,744	322%
Bihar	54,466	2,50,024	359%
West Bengal	82,111	2,36,912	189%
Andhra Pradesh	1,02,702	2,12,450	107%

- ❖ High-Spending States: Maharashtra, Uttar Pradesh, and Tamil Nadu
  - ❖ Maharashtra (Rs.5,05,647 crore in 2023–24) leads, accounting for 11.6% of national expenditure.
  - ❖ Gujarat (Rs.1,97,175 crore) contributes around 4.5% of total state revenue expenditure, reflecting moderate fiscal spending compared to industrialized states.
- ❖ Neighboring States (Madhya Pradesh and Rajasthan):
  - ❖ Madhya Pradesh grew from Rs.62,969 crore (2012–13) to Rs.2,31,112 crore (2023–24)—a 267% rise, surpassing Gujarat's 183% growth.
  - ❖ Rajasthan grew rapidly from Rs.63,462 crore to Rs.2,67,744 crore (322% growth) based on welfare schemes.
- ❖ Southern States (Tamil Nadu and Karnataka):
  - ❖ Tamil Nadu grew steadily up to Rs.3,17,484 crore (2023–24).
  - ❖ Karnataka at Rs.2,40,731 crore grew very rapidly, especially in infrastructure and education.
- ❖ High-Growth States:
  - ❖ Bihar at 359% and Rajasthan at 322% increased sharply because of populist welfare schemes and loan waivers.
  - ❖ Maharashtra and Tamil Nadu have focused on urbanization and industrial growth, which have led to steady increases.
- ❖ Moderate-Growth States:
  - ❖ Gujarat (183%) and West Bengal (189%) managed the balance between social infrastructure and capital development, showing sustainable growth with not too large fiscal deficits.

- ❖ New Telangana Formation:
  - ❖ Initial boom was due to the setting up of infrastructure and policies for urbanization.
- 2. Gujarat's Sectoral Preferences
  - ❖ Education:
    - Implementation of National Education Policy 2020 was supported by a budget for digital learning and skills training programs in the form of Kaushalya Vardhan Kendras or KVKs. Higher educational institutions were expanded.
    - Gujarat focused on skill development, including digital literacy under NEP 2020
    - Higher education: Karnataka and Tamil Nadu focused on increasing infrastructures and more engineering colleges
  - ❖ Health care:
    - Expansion of Mukhyamantri Amrutam (MA) Yojana under Ayushman Bharat or PM-JAY pushed up the healthcare expenditure.
    - More focus was made on Primary healthcare centers, the hospital
    - PPP models, health insurance programs. For instance, MA Yojana under the Gujarat Model.
    - Karnataka and Tamil Nadu: Hospital upgradation, subsidies directly disbursed.
    - Bihar and Uttar Pradesh: Focused on primary health centers and rural health missions.
  - ❖ Urban and Rural Development:
    - Focused on Smart Cities Mission and AMRUT to modernize infrastructure, especially in Ahmedabad, Surat, and Rajkot. Emphasis on metro projects and industrial corridors (e.g., DMIC).
    - Maharashtra and Tamil Nadu spearheaded smart city initiatives and metro expansions.
    - Rajasthan and Bihar focused on rural roads and housing projects under PMAY.
  - ❖ Energy and Infrastructure Growth:
    - Policies like Saubhagya Scheme (2017) and UDAY reforms (2015) targeted power distribution efficiency, contributing to capital-intensive growth.
    - Gujarat led in renewable energy, leveraging schemes like UDAY for DISCOM reforms improved power distribution and DISCOM efficiency. Adoption of solar parks and wind farms under National Solar Mission
    - Maharashtra invested in power infrastructure but faced higher debt from subsidies.
  - ❖ Agriculture and Irrigation Schemes:
    - Programs such as Sardar Sarovar Project and Micro-Irrigation subsidies increased rural development spending.
  - ❖ Industrial Growth:
    - More emphasis on industrial incentives through subsidies and MSME development programs.
    - Focused on SEZs, PPP models, and manufacturing hubs.
    - Investment attracted through Vibrant Gujarat Summits.
  - ❖ Pandemic Trends (2020–21):
    - Revenue expenditure growth of Gujarat slowed down to 7% due to pandemic-induced spending constraints.

- Welfare programs, health spending, and COVID relief contributed to increased allocations in subsequent years.
- Uttar Pradesh and Rajasthan saw a lot of spurt during the pandemic due to rural support programs.

### **3.3. Fiscal Prudence in Gujarat & Gujarat's Fiscal Discipline:**

- ❖ **Balanced Expenditure Growth:** Avoided sharp spikes as in Bihar and Rajasthan; kept debt levels sustainable.
- ❖ **Economic Development Approach:** Focus on industrial clusters, SEZs, and renewable energy parks, with revenue generation balancing out spending.
- ❖ **Public-Private Partnerships (PPP):** Investments in PPP healthcare models and smart infrastructure limited government liabilities.
- ❖ **Focus on Efficiency:** Implementation of e-Governance reduced administrative costs and leakages, maximizing expenditure efficiency.
- ❖ **Gujarat maintained fiscal discipline,** keeping revenue deficits under control compared to states like Punjab (Rs.1,22,751 crore in 2023–24).
- ❖ **Moderate spending in Gujarat** balanced economic growth without excessive borrowing.

### **3.4. Insights into Future Projections:**

- ❖ **Focus on sustainability,** green energy, and digital infrastructure in Gujarat's 2023–24 budget is consistent with national priorities.
- ❖ **Growth as expected** supports India's 'Atmanirbhar Bharat' initiative; sectors like agriculture and MSMEs gain boost.

Revenue Expenditure Trend of Gujarat (183% growth) is found to be quite balanced fiscal strategy which focuses on the development of infrastructure, industrialization, and social welfare. Gujarat's revenue expenditure trends represent stable growth with a modest fiscal outlay and significant importance to infrastructure and industrial development. While Gujarat lags behind Maharashtra and Tamil Nadu in absolute spending, its emphasis on economic efficiency and sector-specific investments ensures sustainable progress. Future allocations are likely to focus on digital transformation, renewable energy, and education reforms. Gujarat showed stable and sustainable growth in revenue expenditure, focusing on infrastructure, education, and healthcare. While states like Bihar and Rajasthan focused on populist spending, Gujarat balanced development with fiscal discipline, keeping its debt burden low. Its renewable energy leadership and urban planning initiatives are scalable models for other states. Compared to high-growth states like Bihar and Rajasthan, Gujarat maintained sustainable growth with lower debt burdens. Policy emphasis on renewable energy, smart cities, and digital governance provides a replicable model for fiscal management.

## **4. COMPARISON OF GUJARAT'S CAPITAL DISBURSEMENT WITH OTHER STATE**

**Table 3.4 Total Capital Disbursement of the Various States 2012-2023 (Rs.Crore)**

States	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-22	2022-23(AC)	2023-2(RE)
All States/UT	302553	326394	388495	521962	621323	584519	699591	703370	739648	902733	1077065.3	1419861.4
Andhra Pradesh	26739	26255	18554	20687	21367	25722	35364	36224	34425	32431	24586.8	41107.0
Arunachal Pradesh	1567	2050	1682	3706	2786	3802	6284	4210	5388	6850	8663.3	10102.5
Assam	4611	5207	6170	4920	8044	9906	14952	16671	14635	23757	19059.8	36023.3
Bihar	14740	17928	22128	28712	31537	33803	29759	20080	26203	33903	47927.7	64926.7
Chhattisgarh	7847	6582	7653	8976	10896	11370	10290	17318	17095	19674	23007.0	29034.8
Goa	1285	1346	1604	2064	2110	2918	3083	2698	2820	3656	4672.2	6114.0
Gujarat	28623	29462	29994	31017	31903	40642	45222	43661	45933	53689	59120.6	87514.8
Haryana	8440	7042	6914	22850	13654	17492	21841	25489	21507	33024	41014.1	51539.4
Himachal Pradesh	4540	3919	4424	4956	9061	7358	8230	8889	9026	9751	9488.4	10455.1
Jammu and Kashmir	6661	5925	6547	9023	10427	13662	11054	12013	14784	15308	14863.9	32042.4
Jharkhand	7002	6632	8247	17884	14191	16754	15132	14276	14590	15087	24956.2	32425.2
Karnataka	20308	21459	25011	25480	37505	44028	50229	49468	59091	66055	74743.2	77103.5
Kerala	8544	8884	8189	12417	16061	17086	18251	18451	24613	30072	37023.2	38084.7
Madhya Pradesh	20529	19894	29333	24854	37154	38240	40661	41162	44343	59124	68804.8	89639.0
Maharashtra	25466	31927	29492	33951	43713	43604	61711	63011	89615	85140	111103.1	150818.0
Manipur	1677	1454	1606	1686	1751	1827	2186	1822	2769	3676	3957.0	8023.6
Meghalaya	1124	1259	1377	1607	1735	1335	1903	1402	2303	3983	4723.3	6548.8
Mizoram	827	719	1052	1006	1251	2297	2153	1736	1527	1453	1672.8	2595.6
Nagaland	1593	1477	1324	1577	1588	1821	2238	1962	2192	2555	3508.1	3877.7
NCT Delhi	9199	11685	7431	8843	7961	7173	9304	11549	12054	15129	15864.4	18459.8
Odisha	9018	10513	14462	20308	21862	25674	28592	26030	28798	44209	49433.8	66910.6
Puducherry	505	568	798	609	671	965	955	1089	1082	1054	1789.4	1512.2
Punjab	5049	6016	6603	12858	49761	9789	11509	30283	17623	27722	64971.4	68012.3
Rajasthan	17802	18591	21764	63547	34960	33631	37666	35590	33301	42359	40792.3	64217.8
Sikkim	919	1011	1094	857	984	1866	1714	1151	1594	1437	2544.7	3743.8
Tamil Nadu	24328	24368	28583	27902	54924	35677	45816	47506	53131	60389	73895.1	95493.2
Telangana	0	0	11583	21556	40253	34661	38239	34051	34327	46186	51116.1	63632.3
Tripura	1815	1876	3148	3657	3830	2085	1980	1599	1480	2079	3126.3	5338.7
Uttar Pradesh	32997	42573	64581	84983	88138	52666	89483	84519	80167	101782	12367.4	14802.6
Uttarakhand	5256	5307	5984	6297	6247	7712	8425	7671	9184	11266	125927.5	177591.0
West Bengal	13247	16716	19391	22624	23630	38954	45364	41790	34045	49933	52341.7	62170.9

Source : State Finance – A Study of Budget, RBI, Various Issues

A detailed analysis of the Total Capital Disbursement Trends (2012–2023) with a focus on Gujarat in comparison to other states is given in Table 3.4.

#### 4.1. Gujarat Capital Disbursement Trend Overview:

- For the last 12 years, Gujarat has seen a consistent upward trend in capital disbursement that reflects the direction of the state towards infrastructure development, industrialization, and welfare activities. Gujarat Capital disbursement was Rs.28,623 crore in 2012-13 whereas it was Rs.87,514 crore in the year 2023-24 (RE) with 205 % increase over a 12 years period of times Gujarat capital disbursement has moderate growth until 2016-17, followed by a sharp increase in 2017-18 due to infrastructure expansion and industrial projects and a slight dip in 2019-20 likely caused by temporary policy adjustments or economic slowdowns. There's an evident recovery post-pandemic with an impressive 48.02% growth in the years 2023-24. Gujarat is well ahead with consistent and sustainable growth compared to other states, like Maharashtra and Uttar Pradesh, where the graph is sharper as it is majorly due to urbanization and industrial expansion. The capital expenditure kept rising steadily and touched a high in 2023-24 with Rs.87,514.8 crore under Infrastructure Development Focus, High on roads, urban infrastructure, and industrial corridors, Energy Sector Prioritization through investments in renewable energy projects and solar parks and Urbanization Programs such as Smart Cities Mission and metro expansion projects were major contributors

#### 4.2. State-wise Analysis of Trends

- **High Growth States**

State	Capital Disbursement 2012-13 (Rs. Cr)	Capital Disbursement 2023-24 (RE) (Rs. Cr)	Growth (%)	Key Observation
Maharashtra	25,466	1,50,818.0	492%	High urbanization and industrial investments drove growth
Uttar Pradesh	32,997	1,48,802.6	351%	Welfare-heavy spending, smart cities, and metro projects
Bihar	14,740	64,926.7	340%	Focused on developmental programs supported by central assistance
Tamil Nadu	24,328	95,493.2	292%	Strong emphasis on urban infrastructure, IT, and industry.
Karnataka	20,308	77,103.5	280%	Strong emphasis on urban infrastructure, IT, and industry.
West Bengal	13,247	62,170.9	369%	Modernization of urban centers and infrastructure projects
Rajasthan	17,802	64,217.8	261%	High growth, driven by welfare programs and developmental projects
Gujarat	28,623	87,514.8	205%	Focused on sustainable infrastructure development and fiscal discipline.

○ **Emerging and Low-Growth States**

State	Capital Disbursement 2012-13 (Rs. Cr)	Capital Disbursement 2023-24 (RE) (Rs. Cr)	Growth (%)	Key Observation
Assam	4,611	36,023	681%	Focus on connectivity and infrastructure in the northeast
Jammu & Kashmir	6,661	32,042	381%	Increase due to post-reorganization spending and security infrastructure
Uttarakhand	5,256	1,77,591	3279%	Exceptional growth attributed to reconstruction after natural disasters
Arunachal Pradesh	1,567	10,102	545%	Focus on connectivity and infrastructure in the northeast
Nagaland	1,593	3,877	143%	Focus on connectivity and infrastructure in the northeast

**4.3. Policy Impacts**

- ❖ Infrastructure Development:
  - Highways, metro rail projects, and smart cities (Ahmedabad Smart City).
  - Ports under the Sagarmala Project.
  - Industrial corridors, ports, and highway development improved logistics
- ❖ Energy and Renewables:
  - Solar parks, wind farms, and renewable energy grids. Green energy investment as part of sustainable development goals.
  - Gujarat is one of the top renewable energy-producing states.
- ❖ Industrial Growth:
  - Industrial corridors: Delhi-Mumbai Industrial Corridor, etc.
  - MSME and large-scale manufacturing support. Policies to support MSMEs supported the growth of start-ups and entrepreneurship
  - Vibrant Gujarat Summits Attracting foreign investment
- ❖ Education and Skill Development:
  - NEP 2020, and vocational training
  - Establishing new universities and technical institutes.
- ❖ Urban Development and Housing:
  - Projects to develop affordable housing
  - Smart city projects
  - AMRUT and PMAY schemes facilitated urbanization.
  - Public-Private Partnerships (PPP):
  - Improved infrastructure projects delivery and social services delivery
  - Increased participation by the private sector in large-scale projects.
- ❖ Digital Governance and Transparency:
  - Improved tax collection as well as a reduction in leakages due to the implementation of e-Governance platforms.

- Adoption of GST reforms streamlined state revenues. GST reforms and e-Governance improved revenue collection as well as efficiency.
- ❖ Agriculture and Rural Development:
  - Subsidies for micro-irrigation systems and watershed management.
  - Projects like Sardar Sarovar Dam boosted agricultural productivity.
- ❖ Education and Skill Development:
  - Implementation of NEP 2020, emphasizing vocational education and digital infrastructure. Modernization of higher education systems and digital learning
  - Expansion of technical education institutes as well as skill training centers.
- ❖ Healthcare Schemes:
  - Expansion of insurance schemes and primary health networks.

#### **4.4. Fiscal Sustainability:**

- ❖ Debt-to-GSDP Ratio (2023-24): Around 18.2% (one of the lowest among Indian states). Gujarat enhanced its debt sustainability over time with strong capital investments. PPPs have reduced fiscal burdens while enhancing infrastructure. GST reforms and digital governance platforms have strengthened tax compliance and revenue collection.

This analysis presents a marked growth in capital expenditure across states. It is because of infrastructure expansion, social welfare schemes, and economic reforms that the growth rate has increased over the years. Maharashtra, Uttar Pradesh, and Bihar had marked growth rates while Assam and Uttarakhand showed focused growth in areas like infrastructure development, energy, education, and industrial development. In Gujarat, balanced growth was maintained with a major thrust on infrastructural, energy, educational, and industrial growth. Maharashtra and Uttar Pradesh show a higher absolute growth, but Gujarat has been maintaining fiscal prudence and sustainability as a model for other states. The emphasis of Gujarat on renewable energy and industrial corridors is going to sustain the growth. Emphasis on smart governance and digital infrastructure will enhance efficiency and transparency, and social welfare schemes and skill development programs are going to increase. This would make the state's approach towards leveraging PPP models, digital governance, and renewable energy a benchmark for fiscal discipline, with Gujarat's focus on long-term growth, manageable debt levels, and industrial expansion positioning it as a model for fiscal management.

## **5. COMPARISON OF GUJARAT'S TOTAL EXPENDITURE WITH OTHER STATE**

**Table 3.5 Total Expenditure of the Various States 2012-2023 (Rs. Crore)**

States	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-22	2022-23	2023-24 (RE)
All States/UT	1534255	1706145	2025783	2360229	2708215	2924599	3337713	3495003	3697492	4229930	4793015	5771165
Andhra Pradesh	129441	136629	133419	116637	137545	146936	163934	173698	187102	191594	225842	253557
Arunachal Pradesh	6354	7782	8839	12069	12181	14702	18714	16428	18475	22697	26081	33704
Assam	33748	37178	45248	41931	57407	65386	71851	82488	79155	106305	120874	154457
Bihar	69207	80405	94698	112328	126302	136427	154655	143614	165696	193123	231904	314951
Chhattisgarh	34819	39442	47151	52677	59060	67599	74701	90795	87128	94684	108292	156054
Goa	7346	8150	9015	10484	10976	13461	14166	14273	14889	17883	19556	26061
Gujarat	98281	104721	116646	126795	135798	158701	178012	184560	196637	214110	238664	284690
Haryana	46512	48929	56032	82086	82057	90750	98997	110337	111453	131449	147420	170491
Himachal Pradesh	20715	21271	24211	27259	34405	34411	37658	39620	42561	45946	53914	56631
Jammu and Kashmir	31778	32983	35876	45443	50240	54578	67144	64977	67418	74577	77863	108197
Jharkhand	30400	30064	40041	54437	59277	67704	65387	70732	73854	77865	91638	120518
Karnataka	96601	110649	128625	142508	169426	186510	214529	223726	235145	275483	290327	317835
Kerala	62032	69370	79936	91107	107157	117034	128568	123171	148060	176251	178974	189507
Madhya Pradesh	83497	89764	111705	124624	156691	168486	182238	191607	209076	240186	268700	320751
Maharashtra	164202	186830	207045	224325	256942	285175	328732	363316	400225	434825	518717	656465
Manipur	6993	7173	8873	9068	9936	11101	11934	12060	15197	16318	18116	26591
Meghalaya	6123	6811	7629	7954	10072	9758	12159	10967	13802	17604	19587	24843
Mizoram	5336	5636	6705	6577	7482	9178	9659	11190	10041	10010	11765	15105
Nagaland	7194	7227	8086	9159	10252	12012	13158	13599	13244	14372	16918	20023
NCT Delhi	29859	34052	30940	35186	37263	40927	46156	51186	52468	61172	64110	74900
Odisha	47256	56131	65598	79114	86903	97511	113948	125168	124109	153797	180440	230000
Puducherry	3556	5050	5598	5894	6129	6771	7342	7925	8342	9802	10759	12250
Punjab	44507	47656	53216	62932	105057	72254	86913	106143	103968	124359	178632	190764
Rajasthan	81264	94101	116305	169786	162100	179472	204439	212075	211610	252149	267272	331962
Sikkim	3931	4469	4825	4502	4772	6018	6940	7337	7962	8105	10175	12373
Tamil Nadu	121396	134192	157411	168896	208120	203551	243017	257941	289533	314419	353860	412977
Telangana	0	0	62256	97452	121685	120025	135322	142849	157539	182990	204523	231017
Tripura	7027	7825	10591	11526	12578	12442	13869	14976	15848	18205	20865	26659
Uttar Pradesh	173720	200720	235608	297719	324730	318890	391211	383352	378711	439363	392345	469574
Uttarakhand	19216	21523	27148	29384	31518	36795	40621	40529	46275	50195	169700	229176
West Bengal	95358	108513	123042	141451	157548	180031	201738	204365	211966	260092	275181	299083

Source: State Finance – A Study of Budget, RBI, Various Issues

A detailed analysis of the Total Expenditure Trends (2012–2023) with a focus on Gujarat in comparison to other states is given in Table 3.5.

Fiscal policies have the highest impact on the trend in total expenditure for Gujarat and other Indian states between 2012 and 2024. These fiscal policies include taxation, government spending priorities, subsidies, and fiscal discipline measures. A more detailed analysis of the trends based on the expenditure data for Gujarat and other states is presented below:

### **5.1. Gujarat :**

- ❖ **Consistent Growth in Total Expenditure:** Gujarat's total expenditure increased from Rs.98,281 crore in 2012-13 to Rs.2,84,690 crore in 2023-24 (RE), thus recording an average annual growth rate of 9-10%.
- ❖ **Drivers of Expenditure Growth:** Focus on industrial and infrastructure development by Gujarat, which includes ports, roads, and renewable energy, has driven capital outlays higher. The rise in spending on education, healthcare, and rural development is also responsible for the increase in expenditure. Investments in urban housing, smart city projects, and metro systems have been the mainstay in recent years.
- ❖ **GST and Central Transfers:** Post-GST implementation in 2017, the revenue structure of Gujarat was restructured. The state gained from enhanced GST collections, but central tax transfers remained volatile. Fiscal policies ensured stability despite the challenge of COVID-19 in 2020-21.
- ❖ **COVID-19 Impact:** The pandemic resulted in increased healthcare expenditure and economic revival packages. In 2020-21, the total expenditure of Gujarat increased by 6.56% from the previous year.

### **5.2. Comparison with Other States**

- ❖ **Growth Trends:**
  - Gujarat: Total expenditure increased nearly 2.9 times between 2012-13 and 2023-24.
  - Maharashtra: Greater growth because of its huge economic base, from Rs.1,64,202 crore in 2012-13 to Rs.6,56,465 crore in 2023-24.
  - Rajasthan and Uttar Pradesh: Significant growth from increased allocations towards social welfare and rural development.
  - Southern States (Karnataka, Tamil Nadu): Growth is well-balanced through industrial investments and welfare schemes.
- ❖ **COVID-19 Response:**
  - Gujarat's increase in spending is comparable to other states such as Tamil Nadu and Maharashtra that have emphasized health relief packages, and recovery in the economy.
- ❖ **Capital vs. Revenue Expenditure:**
  - Expenditure: Gujarat has shown a balanced capital to revenue expenditure than other states which have always remained revenue-expenditure-prone.
- ❖ **Fiscal Discipline and Borrowing:**
  - Gujarat was not like the debt-prone Punjab and Rajasthan which relied on it for expenditure.
- ❖ **Average Growth Rate:**
  - Expenditure growth in Gujarat has been average with high-spending states such as Maharashtra and Rajasthan.

❖ **Industrial vs. Welfare Focus:**

- Maharashtra and Tamil Nadu focus more on urban and industrial growth, while Madhya Pradesh and Rajasthan prioritize rural development and welfare.

❖ **Balanced Spending:**

- Gujarat maintains a balance between fiscal discipline and development-focused spending.

**5.3. Fiscal Policies Driving Trends**

- ❖ **Taxation and Revenue Measures:** GST implementation in 2017 improved tax buoyancy but increased dependency on central compensation. Gujarat's industrial policy was aimed at attracting private investment and increasing state revenues.
- ❖ **Central Schemes and Grants:** The national schemes like PMAY (housing), Smart Cities Mission, and Ayushman Bharat helped the states' expenditure.
- ❖ **State-specific Initiatives:** Gujarat-specific initiatives on industrial incentives, MSME, and renewable energy promotion helped in capital expenditure.
- ❖ **Challenges and Constraints:** Rising pension and salary obligations were adding to the revenue expenditure. Dependence on central funds was a challenge during the years of lower collections of central revenue, for instance, pandemic years.
- ❖ **Debt Management:** Gujarat maintained fiscal discipline with lower debt compared to Punjab and Uttar Pradesh.
- ❖ **Capital Expenditure Focus:** Higher share allocated to infrastructure projects ensuring long-term asset creation.
- ❖ **Revenue Expenditure Efficiency:** Balanced growth in operational expenses and targeted spending.
- ❖ **Gujarat's Fiscal Discipline:** Maintained moderate spending and debt levels compared to states like Punjab, which had a sharp rise in debt-financed expenditure.
- ❖ **Revenue vs. Capital Expenditure:** Gujarat maintained a balance between revenue and capital expenditure, where the money was spent on productive assets such as infrastructure rather than recurrent expenditure

**5.4. Sectoral Priorities and Focus Areas:**

- ❖ **Infrastructure Development:** Investment in industrial corridors, ports, and smart cities (e.g., DMIC), Renewable energy initiatives and urban development programs.
- ❖ **Education and Skill Development:** Implementation of New Education Policy (NEP), Vocational training programs and digital education reforms.
- ❖ **Industrial and Economic Growth:** Focus on "Make in India" and Atmanirbhar Bharat initiatives. Expansion in manufacturing and export-driven sectors. Maharashtra and Tamil Nadu surpassed Gujarat in absolute spending because of a higher urban density and industrial clusters.
- ❖ **Social Welfare and Agriculture:** Rural upliftment schemes and water management projects. Relatively moderate allocation as compared to states like Bihar and Rajasthan. Bihar and Rajasthan emphasized welfare and rural employment programs while Gujarat emphasized incentives for industry and education reforms.

**5.5. Future Projections:**

- ❖ **Renewable Energy & Digital Economy:** In the coming years, investments in green energy, ports, and digital infrastructure are expected to increase.
- ❖ **Industrial Corridors:** Spending on Delhi-Mumbai Industrial Corridor (DMIC) and smart cities is likely to be high due to the focus.

- ❖ Education & Skill Development: Implementation of NEP and vocational programs will attract more allocations.
- ❖ Urbanization and Smart Cities: More focus on urban infrastructure for investment attraction.
- ❖ Industrial Growth: Development of manufacturing zones and industrial corridors to generate employment and export growth.
- ❖ Social Spending: Gradually increase allocations in health, education, and welfare that are in tune with NEP and Atmanirbhar Bharat.

Fiscal policies have greatly shaped the expenditure trend of Gujarat. It has always shown its commitment to industrial development, infrastructure, and welfare. Relative to other states, Gujarat has demonstrated a balanced trend with consistent growth and Gujarat maintains moderate expenditure growth while prioritizing industrialization, infrastructure, and urban development. Fiscal discipline will continue to play a major role in continued revenue generation and prudent direction of such allocations to support this growth trend. Gujarat has shown continuous expenditure growth with a consistent focus on infrastructure and industrial development, even though absolute spending is not comparable to high-spending states such as Maharashtra and Tamil Nadu; the fiscal prudence and targeted investment make it a balanced performer. Future growth will be likely directed toward renewable energy, digital transformation, and industrial modernization to ensure sustained economic growth and jobs with national goals such as 'Make in India' and 'Atmanirbhar Bharat', thus ensuring sustained growth.

## **6. EXPENDITURE ON SOCIAL AND ECONOMIC SERVICES IN GUJARAT**

Table No. 3.6 shows the two big heads of Developmental Expenditure consist of Social Services and Economic Services. Total Social Services Expenditure was Rs.35,633 Crore, out of which Rs.29,529 in Revenue Account and Rs.6,104 Crore in Capital Account during the year 2012-13 whereas it increased manifold and it turned into three times which reached up to Rs. 1,05,666 crores(out of which Rs.81,771 crore in Revenue Account and Rs. 23,885 Crore in Capital Account in the year 2023-24 (RE). If we talk about Expenditure on Economic Services, it was Rs. 32,467 crores in the year 2012-13, out of which Rs.16,589 crores and Rs. 15,878 crores in Revenue and Capital Account respectively. This increased almost two and half times and became Rs. 79,330 crores in total and Rs.45,821 crore in Revenue Account and Rs. 33,509 Crore in Capital Account in the year 2023-24 (RE).

**Table 3.6 Expenditure on Social and Economic Services in Gujarat**  
(In Rs. Crore)

Year	Social Services			Economic Services		
	Revenue	Capital	Total	Revenue	Capital	Total
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
2016-17	44926.02	6215.00	51141.02	22748.50	15517.50	38266.00
2017-18	49039.00	6812.77	55851.77	27145.02	18629.92	45774.94
2018-19	53285.28	7695.91	60981.19	31575.69	19490.95	51066.64
2019-20	59197.27	6175.42	65372.69	32114.83	18784.33	50899.16
2020-21	60815.73	7040.31	67856.04	37424.02	19255.79	56679.81
2021-22	68254.15	8373.23	76627.38	35331.80	19262.27	54594.07
2022-23	72125.07	12804.24	84929.31	42672.61	21874.52	64547.13
2023-24 (RE)	81770.85	23885.10	105655.95	45821.04	33509.28	79330.32

Source: Budget in Brief, Various Issues, Gujarat State

If we talk about the CAAGR of Social and Economic services, Social Service and Economic Services has registered compounded average annual growth rate of 16% and 13% in the period between 2006-07 and 2015-16 whereas 9% and 8% have been achieved respectively for the period of twelve years i.e. for the period 2012-23.

Both revenue and capital expenditures in social services have increased substantially, but CAAGR compared to 2006-16 is relatively small for Social as well as Economic Services in the state. Both revenue and capital expenditures in social services reflect an increased importance of improvement in social infrastructure and services. The growth rate in capital expenditure for social services has been quite significant, reflecting key investments in physical assets related to welfare. Revenue and capital expenditures on economic services are also increasing, and rightly so, since they reflect an earnest effort towards the enrichment of economic infrastructure and operational capabilities. Capital expenditure in economic services has also been on the rise as a reflection of significant investment within infrastructure and long-term assets. Total expenditure in Social Services has grown at a more rapid rate compared with that of Economic Services, especially in capital investment. Even though both services have grown by leaps and bounds, the growth in capital expenditures in social services has been much stronger, pointing to the increasing size of the social infrastructure. Here, the growth is quite delineated in increasing investments both in Social and Economic Services with clear though steep rises both in revenues and capital expenditures. This would then reflect a holistic approach towards social welfare and economic infrastructure. The capital increase in social services over the economic services has a larger increase, which would imply strategic priority in expanding and improving the social infrastructure. These data capture the shifts in shifting priorities in expenditure allocations between social and economic services over the years.

**Table 3.7 Revenue & Capital Expenditure on Social and Economics Services  
(As % of Total Expenditure)**

Year	Social Services	Economic Services	Social Services	Economic Services	Total expenditure
	Revenue Expenditure		Capital Expenditure		
2012-13	30.04	16.88	6.21	16.15	100.00
2013-14	30.92	15.89	6.37	15.55	100.00
2014-15	31.47	17.69	6.19	14.72	100.00
2015-16	33.21	15.95	5.06	13.36	100.00
2016-17	33.08	16.75	4.58	11.43	100.00
2017-18	30.90	17.10	4.29	11.74	100.00
2018-19	29.93	17.74	4.32	10.95	100.00
2019-20	32.07	17.40	3.35	10.18	100.00
2020-21	30.93	19.03	3.58	9.79	100.00
2021-22	31.88	16.50	3.91	9.00	100.00
2022-23	30.22	17.88	5.36	9.17	100.00
2023-24 (RE)	28.72	16.09	8.39	11.77	100.00

Source : Calculated by US

The Revenue and Capital Expenditure on Social and Economic services as a percentage of total expenditure over several years' ranges from 2012-13 to 2023-24 (RE) is discussed in Table No 3.7. Revenue expenditure on Social and Community Services begins at 30.04% in 2012-13 and continues generally at these levels, with increasing amounts year after year, its highest being recorded at 33.21% in 2015-16 and close to 31.88% in 2021-22, finally recording at 28.72% in 2023-24 (RE). This indicates a strong commitment to community-based services but shows a degradation in the last year. Economic Services Revenue Expenditure as % of Total Expenditure allocation fluctuates from 16.88% in the 2012-13, up and down in small ranges only. Notable peaks are 19.03% in 2020-21 and 17.88% in 2022-23, indicating more significant attention towards sustainable economic services during particular years, possibly to boost growth or meet economic demands. It stabilizes at 16.09% during 2023-24 (RE).

Capital Expenditure as % of Total Expenditure on Social and Community Services has been relatively low throughout, standing at 6.21% in 2012-13 and generally falling to around 3.35% in 2019-20. It has risen slightly to 5.36% in 2022-23 and leaps to 8.39% in 2023-24 (RE), so possibly new long-term social projects are getting renewed investment recently. The share in the Economic Services Capital Expenditure as % of Total Expenditure category gradually decreases from 16.15% in 2012-13 to near 9% in more recent years, falling to 9.00% in 2021-22 but then increases to 11.77% in 2023-24 (RE), possibly suggesting a reinvestment in economic infrastructure.

The available latest data reveals a shift toward capital expenditure in 2023-24 (RE) but at a much more diminished extent as in Social and Economic Services, away from the revenue-spending trends seen throughout the years. Over the years, Social and Community Services has represented around a rather stable percentage of total spending which reflects a commitment to social welfare spending. This is targeted expenditure on Social Services & Economic Services expenditures-revenue as well as capital-have been somewhat more volatile, probably in response to particular economic policies or demands for growth in certain years.

There has been steady growth in total expenditure throughout the years of study ; Growth in both social and economic services are drivers, though social services make up a larger proportion of total spending.

The shift in priority from economic services to social services might reflect policy focus in areas such as healthcare and education rather than welfare programs relative to infrastructure and economic initiatives.

The shift from economic services to social services in the revenue account indicates that the state is shifting its attention more toward human capital development, such as healthcare and education, rather than just on welfare programs. Additionally, in the capital account, the fact that the state is focusing on infrastructure or economic initiatives suggests that the long-term investments into physical assets, such as infrastructure and industrial development, are more important than the immediate needs of welfare programs.

Let's break down this shift with examples from Gujarat, highlighting how these priorities play out in both the revenue and capital accounts.

### **6.1. Revenue Account:**

**Focus on Social Services (Healthcare and Education):** In the revenue account, health, education, and welfare schemes are normally financed through current expenditures. Over the last few years, Gujarat has concentrated more on healthcare and education with an increased focus on human development and quality public services.

Examples from Gujarat's Social Services Focus (Revenue Account):

#### **6.1.1. Healthcare:**

**Mukhyamantri Amrutam (MA) Yojana:** The policy is aimed to offer medical treatments to the poor and weaker economic sections. Therefore, it should be a significant priority in a revenue account. Short-term health services are being managed by the programme, which caters to urgent health care necessities rather than having long-term expenditure on infrastructure facilities.

**Gujarati Cancer Research Institute (GCRI):** It has spent its huge sum for specialized healthcare service like the GCRI on improvements in cancer treatment and healthcare service. All the institutes would be supported using the revenue account to operate; hence they maintain their continued services of health delivery.

#### **6.1.2. Education:**

**Kanya Kelavani Yojana or Girls' Education Program:** This scheme is to encourage girls' education by giving scholarships, free books, and other educational support. The source of funding is from the revenue account as it is a continuous expenditure. This scheme is focused on long-term human development in the form of education of girls at the tender age of schooling and away from short-term welfare support.

**Gyanshala (Knowledge Centres):** Gujarat has established several Gyanshalas in the rural regions for quality education to children at far-flung locations. The income account provides funding for the management and maintenance of these centers; the centers are dedicated to improving short-term educational results while ensuring that the economic future is secure through the augmentation of human capital.

### **6.2. Capital Account:**

The focus is on infrastructural and economic developments rather than welfare projects. In the capital account, it invests money in long-term projects like infrastructural development and industrial projects. Here, it focuses on long-term value-generating physical assets rather than on welfare programs, which are immediate in nature.

Examples from Gujarat's Infrastructure and Economic Initiatives (Capital Account):

### **6.2.1. Infrastructure Development:**

**Gujarat International Finance Tec-City (GIFT City):** GIFT City is the flagship project for establishing a global financial hub with high-end infrastructure with a focus on technology, financial services, and business growth. The capital-intensive investment in this project is an attempt to construct infrastructure for long-term economic growth. This is through the capital account, which supports capital funding rather than immediate welfare programs, even though it comes at the cost of economic services such as business development.

**Mundra Port:** It has heavily invested in the port development of the state, which includes Mundra Port, so that logistics, transport, and trade are at a boost. This is funded through the capital account and aids economic services in the long term, enhancing the state's standing in international trade. The agenda here is for infrastructure rather than welfare schemes alone.

### **6.2.2. Energy and Transport Infrastructure:**

**Gujarat Solar Power Plant Initiatives:** Gujarat has invested heavily in renewable energy projects, especially the solar power plant, to guarantee energy security to its industries and population. This project, undertaken through capital investments, is one of the sustainable energy infrastructures, which, in turn, is a long-term investment in economic services in support of industrial and economic development.

**Development of the Ahmedabad Metro Rail:** This is also a great example of how Gujarat is investing in transport infrastructure and how it enhances public transport and urban mobility. This infrastructure project comes through the capital account and supports a focus on economic services such as transport development rather than on some short-term welfare interventions.

**Revenue Account Focus:** If the revenue account is shifting more towards social services like healthcare and education, this means that human capital development as well as good quality public service is being favoured in Gujarat. These are ongoing recurrent expenditures that ensure the health and education of people rather than purely welfare programs targeting immediate short-term relief.

**Capital Account Focus:** In contrast, the capital account reflects a focus on long-term infrastructure and economic growth, with investments in projects like GIFT City, Mundra Port, and solar power plants. These initiatives aim to build physical assets that drive future economic growth, focusing on infrastructure and industrial development over immediate welfare needs.

In a nutshell, Gujarat's shift to prioritize social services in the revenue account and infrastructure and economic services in the capital account suggests strategic balance between human development and economic growth, thus sustaining the state's progress while catering to the social welfare needs of its citizens.

**Table 3.8 Expenditure on Social and Economics Services  
(As % of Total Expenditure, GSDP & Total Revenue and Capital Expenditure)**

Year	Total Social Services as % of Total expenditure	Total Economic Services as % of Total expenditure	Total Social Services as % of GSDP	Total Economic Services as % of GSDP	Social Services Revenue expenditure as % of Total Revenue expenditure	Economic Services Revenue Expenditure as % of Total Revenue Expenditure	Social Services Capital Expenditure as % of Total Capital Expenditure	Economic Services Capital Expenditure as % of Total Capital Expenditure
2012-13	52.32	47.68	4.92	4.48	42.39	23.82	21.31	55.43
2013-14	54.25	45.75	4.84	4.08	43.03	22.12	22.62	55.24
2014-15	53.75	46.25	4.77	4.10	42.37	23.82	24.07	57.20
2015-16	56.63	43.37	4.72	3.61	43.98	21.12	20.67	54.59
2016-17	57.20	42.80	4.38	3.28	43.24	21.90	19.48	48.63
2017-18	54.96	45.04	4.20	3.44	41.54	22.99	16.76	45.84
2018-19	54.42	45.58	4.09	3.42	40.13	23.78	17.02	43.10
2019-20	56.22	43.78	4.04	3.15	42.01	22.79	14.14	43.02
2020-21	54.49	45.51	4.15	3.46	40.35	24.83	15.33	41.92
2021-22	58.40	41.60	3.91	2.79	42.55	22.02	15.59	35.88
2022-23	56.82	43.18	3.81	2.89	40.17	23.77	21.66	37.00
2023-24 (RE)	57.12	42.88	4.29	3.22	41.47	23.24	27.29	38.29

Source : Calculated by US

The table 3.8 presents an excellent view of government spending in Social and Community Services and in Economic Services, against the total budget, the Gross State Domestic Product, and how they spend it in either revenue or capital expenditures. Total Social Services as % of Total Expenditure shows Social Services have steadily accounted for more than half of the total expenditure, indicating a focus on community-centric service delivery. It increases from 52.32% in 2012-13 to a high of 58.40% in 2021-22, which shows that there was a greater focus on social welfare during those years. In 2023-24 (RE), it stabilizes at 57.12%, showing a significant commitment to these areas.

Total Economic Services as % of Total Expenditure displays Economic Services forming a smaller proportion compared with Social Services, always below 50%. It begins at 47.68% in 2012-13, then oscillates over years and falls to a minimum level of 41.60% in 2021-22, then somewhat rises to 42.88% during 2023-24 (RE). This implies that focus on Social Services has changed relatively in the long term.

Percentage allocations to Social Services over the years are seen to decrease slightly-from 4.92% in 2012-13 down to as low as 3.81% during 2022-23-before rising to 4.29% in 2023-24 (RE). This indicates that total spending on Social Services is always big but relative spending as a percentage share of GSDP would not keep pace. Spending on economic services as a proportion of GSDP generally declines, from 4.48% in 2012-13 to a low of 2.79% in 2021-22 and picks up slightly to 3.22% in 2023-24 (RE). This pattern is indicative of a steady decline in the proportion of spending on Economic Services relative to the state's economic output, although there was a recent uptick.

Social and Community Services Revenue Expenditure as % of Total Revenue Expenditure share is relatively stable over time ranging between 40% and 44%, though this percentage indicates a consistency with day-to-day expenses in social services. This percentage goes up to 43.98 percent in

FY 2015-16 to stabilize at around 41.47 percent in FY 2023-24 (RE), meaning stable investment for the operational needs of social services.

Economic Services Revenue Expenditure as % of Total Revenue Expenditure Economic Services revenue expenditure allocation performs at an average of 22-24% through the years. It reaches its peak at 24.83% in 2020-21, suggesting that more of its revenues are being expended to preserve economic activities during that period perhaps because of economic downturns. This amount slightly decreases to 23.24% by 2023-24 (RE).

Social and Community Services Capital Expenditure as % of Total Capital Expenditure is 21.31% in 2012-13 and fluctuates year by year up to 27.29% in 2023-24 (RE). This also means that this year saw a rise with the long-term investment in social infrastructure in lieu of recent policies to enhance public welfare infrastructure. Economic Services, for instance, account for 55.43% of the capital expenditure in 2012-13. Then, year after year, that declines to 38.29% in 2023-24 (RE). That reflects a shift in capital investment towards Social Services and expansionary policy to its favor toward social infrastructure.

Over the years, there has been a clear increase in proportion of total expenditure going to Social Services, particularly in the capital expenditure segment in recent years which increased emphasis on Social Services. The Spending on Economic Services as percent of GSDP declined reflecting gradual shifts in government priorities toward social welfare rather than direct economic sectors. Recent years have also reflected a significant shift toward Social and Community Services, and capital spending on Economic Services has declined as a percentage of total capital spending. So, this table reflects a trend to balance in favor of social welfare versus economic growth and increasing concern to invest on more sustainable account within social infrastructure.

## **7. COMPONENTS OF SOCIAL SERVICES ON REVENUE ACCOUNT**

- 7.1. Table 3.9 and Table 3.10 talks about the components of Social Services on Revenue and Capital account. Tables 3.11 and 3.12 constitute the largest share of Expenditure on Social and Economic Services in the Revenue Account for the period of 2012-23(RE).
- 7.2. Social Services Expenditure mainly comprises Education, Sports, Arts and Culture, Water Supply and Sewerage and Sanitation, Housing and Urban Development, Public Health and Family Welfare, Social Security & Nutrition Services in Revenue Account. Economic Services cover expenses on Energy, Agricultural and Allied Activities, Transport, Rural Development, Industry and Minerals and Irrigation services in Revenue Account in last decade.
- 7.3. Table 3.9 Components of Social Services of Revenue Accounts, 2012-13 to 2023-24 (RE) Expenditure in various social service sectors in Rs. Crore, with a percentage split of each component as a share of total expenditure in social services. While Expenditure on Education, Sports, Arts, and Culture increased from Rs.13,079 crore in 2012-13 to Rs.35,450 crore in 2023-24 (RE), it is patently evident that there has been constant attention always given to education and cultural activities.
- 7.4. Expenditure on Education, Sports, Arts, and Culture As a percentage of total social services it continued to constitute the largest share in all years under review, ranging

between 41% and 45%. This means education-related expenditure continued to be the biggest chunk of social services expenditure, and the government gave particular importance to this area.

- 7.5. Health and Family Welfare expenditure has steadily increased from Rs.3,368 crore in 2012-13 to Rs.13,941 crore in 2023-24 (RE), indicative of the growing emphasis on health and family welfare services. The share of Health and Family Welfare in total social services increased from 11.40% in 2012-13 to 17.05% in 2023-24 (RE) and thus reflects increasing concern for public health. Health and Family Welfare was another major head, with its growth rate being the highest, indicating that health infrastructure investment increased.
- 7.6. Expenditure on Water Supply, Sanitation, Housing and Urban Development fluctuated but increased from Rs.7,519 crore in 2012-13 to Rs.12,408 crore in 2023-24 (RE). The absolute value of expenditure increased but its share declined marginally from 25.46% in 2012-13 to 15.17% in 2023-24 (RE).
- 7.7. Social Welfare and Nutrition Expenditure on social welfare and nutrition has gone up from Rs.2,926 crore in 2012-13 to Rs.11,874 crore in 2023-24 (RE). The category of expenditure fluctuated but experienced a major increase in absolute terms—from 9.91 per cent in 2012-13 to 14.52 per cent in 2023-24 (RE). Such expenses have increased in absolute value and as a percentage, which means these services are receiving growing attention.
- 7.8. Welfare of SC, ST, and OBC: The budget for welfare programs saw a sharp increase during this period—from Rs.1,984 crore in 2012-13 to Rs.6,313 crore in 2023-24 (RE). SC/ST/OBC welfare as a share of the total has also increased steadily—from 6.72% in 2012-13 to 7.72% in 2023-24 (RE). The share of welfare of SC, ST, and OBC has also been increasing, which manifests the growing attention to the marginalized sections.

The sharp rise in revenue expenditure on welfare schemes for SC, ST, and OBC communities in Gujarat—from Rs.1,984 crore in 2012 to Rs.6,313 crore in 2023-24 (RE)—can be attributed to a number of scheme-wise factors. These factors are reflective of the state's growing commitment to bettering the socio-economic status of these communities. The key scheme-wise factors responsible for this rise are as follows:

#### 7.8.1. Education and Scholarship Programs

Scholarship Programme has been extended. Allocation made by the state for educational scholarships has grown, especially for SC, ST, and OBC students. The Post-Matric Scholarship and Pre-Matric Scholarship schemes were expanded in terms of the number of people and scholarship amounts being disbursed. Increased demand for higher education, especially from marginalized sections and a need to enhance the educational attainment levels and reduce the dropout rates. Provides financial support to students from SC, ST, and OBC families, encouraging them to pursue education and improving literacy and skill levels among these communities. Example: Post-Matric Scholarship Scheme, which covers tuition fees, accommodation costs, and other educational expenses, ensuring access to higher education. Sources: Gujarat Government, Department of Social Justice and Empowerment ([sjed.gujarat.gov.in](http://sjed.gujarat.gov.in).)

#### 7.8.2. Health and Nutrition Programs :

Healthcare Spending on SC, ST, and OBC Communities: Govt increased spending on healthcare programs specifically for SC, ST, and OBC populations that will enhance accessibility of SC, ST, and OBC groups towards healthcare services. This includes primary healthcare, nutrition programs, and specialized healthcare for vulnerable groups. For example, growing health needs of marginalized communities, mainly in remote and tribal areas, where healthcare infrastructure is lacking. The state has reduced the maternal and infant mortality rates and improved general health indicators while making sure that there is quality health care service access. Example: National Health Mission (NHM), Rashtriya Swasthya Bima Yojana (RSBY), and state tribal health schemes make sure healthcare is accessible to tribal and rural populations. Sources: Gujarat Health and Family Welfare Department ([gujhealth.gov.in](http://gujhealth.gov.in)).

#### 7.8.3. Social Security and Welfare Schemes

Pensions, Welfare Benefits: The allocation for old-age pensions, widow pensions, disabled persons' allowances, and other social security measures for SC, ST, and OBC groups has been enhanced. Increasing poverty among the vulnerable sections, especially in rural and tribal regions, which calls for an enhancement in social security benefits. Social security benefits are an important source of financial protection for the elderly, disabled, and widowed sections of society. Example: State Disability Pension Scheme, Widow Pension Scheme, and Old Age Pension Scheme, all of which ensure financial security to the most vulnerable sections. Sources: Gujarat Government, Department of Social Justice and Empowerment ([sjed.gujarat.gov.in](http://sjed.gujarat.gov.in)).

#### 7.8.4. Skill Development and Employment Generation

Skill Development Initiatives: Gujarat has significantly increased its expenditure on skill development programs, particularly through the Gujarat State Skill Development Mission (GSDM), to equip SC, ST, and OBC youth with employable skills. The growing need for skilled labor to drive economic growth and the focus on reducing unemployment rates, particularly among marginalized groups. This has led to better employment outcomes for these communities, especially in sectors like construction, IT, manufacturing, and service industries .Example: The Gujarat Skill Development Mission (GSDM), which trains youth in various technical and vocational skills, including computer programming, electrical work, and mechanical skills. Sources: Gujarat Skill Development Mission, [gsdm.org.in](http://gsdm.org.in).

#### 7.8.5. Housing and Infrastructure

Affordable House for SC/ST/OBC Families: Investment in affordable house for SC, ST, OBC families will increase in Urban and Rural across the state which includes investment made in infrastructure facilities such as the road, power, and potable water delivery in the similar areas. Significant demand for houses in affordable classes, especially Urban and Tribal. These ensure better living conditions and provide easy access to basic amenities for these communities. For instance, under the PMAY, along

with state-level schemes, funding has been allocated to build affordable homes for SC, ST, and OBC families. Sources: Ministry of Housing and Urban Affairs, Government of India ([pmaymis.gov.in](http://pmaymis.gov.in)).

#### 7.8.6. Promotion of Women's Empowerment

**Economic Empowerment for SC, ST, and OBC Women:** The government has been providing increasing amounts under women empowerment schemes, especially for women belonging to the SC, ST, and OBC sections. They offer direct financial assistance for self-employment, skill development, and entrepreneurship. Increasing awareness in pursuit of gender equality and empowered women from disadvantaged sections. Economic empowerment and social mobility for women in the SC, ST, and OBC communities. For instance, Self Help Groups, Microfinance Initiatives, and women's entrepreneurship-oriented schemes have been encouraged for SC, ST, and OBC women. Sources: Gujarat State Women's Development Corporation ([gswdc.org](http://gswdc.org)).

#### 7.8.7. Tribal Development Projects

**Dedicated Tribal Development Plans:** More money was allocated to tribal development programs such as the Tribal Sub-Plan (TSP), which focused on education, health, housing, and employment to raise the living standards of the tribal people. Bridging the development gap between tribal and non-tribal populations in Gujarat. Upgrading infrastructure and social services in tribal areas would improve the quality of life of SC, ST, and OBC populations. Example: Specific allocations for tribal school construction, health centers, and roads in remote tribal areas. Sources: Gujarat Tribal Development Department ([tribal.gujarat.gov.in](http://tribal.gujarat.gov.in)).

#### 7.8.8. Greater Emphasis on Rural and Urban Development

**Infrastructure Development in Rural and Urban SC, ST, OBC Areas:** The state has been increasing its investment in infrastructure development to enhance the living standards of SC, ST, and OBC communities, with substantial allocations for rural electrification, sanitation, and road construction. Basic infrastructure in underserved rural and tribal areas for better living conditions and to stimulate economic activity; access to essential services such as water, sanitation, and electricity improved, leading to enhanced quality of life. Example: The schemes, such as Mahatma Gandhi National Rural Employment Guarantee Act, that provide employment and infrastructure development in rural areas. Source: Ministry of Rural Development, Government of India, [rural.nic.in](http://rural.nic.in).

#### 7.8.9. Increased Focus on Social Welfare

**Welfare Programs for Vulnerable Sections:** Welfare programs for vulnerable sections, such as SC, ST, and OBC populations, include financial assistance, educational subsidies, and other social welfare benefits. This is a step toward redressing economic inequalities and ensuring social protection for marginalized communities. Poverty reduction and improved social security for SC, ST, and OBC populations. Example: National Social Assistance Program (NSAP) and Mahatma Gandhi National Rural Employment

Guarantee Scheme (MGNREGA). Sources: Ministry of Social Justice and Empowerment, Government of India (socialjustice.nic.in).

The revenue expenditure for the welfare of SC, ST, and OBC communities in Gujarat is increasing because of strategic expansions in education, healthcare, social security, housing, skill development, and infrastructure programs. As the state continues to focus on reducing socio-economic disparities, these initiatives aim to improve the standard of living, economic opportunities, and social inclusion for these marginalized communities. The sharp rise in funding reflects both the growing needs of these communities and the government's commitment to inclusive growth.

Education still remains the largest component of expenditure on social services, though a greater focus on health and social welfare has been put over the last years.

Components of Social Services of Revenue Accounts as % of Total Social Services (Avg 2012-23)								
Education, Sports, Arts and Culture	Water Supply, Sanitation, Housing and Urban Devp	Health and Family Welfare	Social Welfare and Nutrition	Welfare of SC,ST and OBC	Labor and Welfare	Information and Broadcasting	Others	Social Services
43.16	22.18	14.41	11.18	6.72	1.91	0.30	0.14	100.00

## 8. COMPONENTS OF SOCIAL SERVICES ON CAPITAL ACCOUNT

8.1. Table 3.10 discusses a major share of Expenditure on Social & Economic services in Capital Account for last decade. Major Services in which expenditure proportion of Social Services in Capital Account was high are Water Supply, Sewerage, Sanitation, Housing and Urban Development, Public Health and Family Welfare, Education, Welfare of SC, ST, and OBC.

Components of Social Services of Capital Accounts As % of Total Social Ser (Avg 2012-23)							
Water Supply, Sanitation, Housing and Urban Devp.	Health and Family Welfare	Education, Sports, Arts and Culture	Others	Welfare of SC,ST and OBC	Social Welfare and Nutrition	Information and Broadcasting	Social Services
56.05	20.57	14.91	4.21	2.79	1.46	0.01	100.00

8.2. The table 3.10 gives the expenditure of the sectors like, Education, Health, Water Supply, etc. in rupees crore and the each component as percent of total capital expenditure on social services. Water Supply, Sanitation, Housing and Urban Development consistently receives the highest allocation among capital expenditures, with Rs.16,617 crore in 2023-24 (RE) (69% of total capital social services).It shows a significant increase from Rs.3,020 crore (49%) in 2012-13, indicating a strong focus on infrastructure and urban development.

8.3. Education, Sports, Arts and Culture share has varied from year to year: In 2023-24 (RE) Rs.3,376 crore (14.14% of total capital social services). The percentage share has remained

fairly constant, though the absolute value was substantially higher than Rs.942 crore in 2012-13.

- 8.4. Health and Family Welfare has witnessed major shifts, up to Rs.2,868 crore in 2023-24 (RE) (12.01% of total capital social services). The allocation was at Rs.1,259 crore (20.62%) in the year 2012-13, thereby witnessing a reasonable absolute as well as relative increase also.
- 8.5. Social welfare and nutrition component was raised to Rs.232 crore in 2023-24 (RE), constituting 0.97% of total capital social services, against Rs.571 crore that constituted 9.35% in 2012-13. Percentage share decreased with a focus shifting on other areas.
- 8.6. Welfare of SC, ST, and OBC allocation have risen to Rs.195 crore, that is 0.82% of the total capital social services in 2023-24 (RE), from Rs.75 crore in 2012-13 (1.23%). Growth Overall Social Services The total capital expenditure on social services increased from Rs.6,104 crore in 2012-13 to Rs.23,8850 crore in 2023-24 (RE).
- 8.7. Those services that constitute the major part of capital expenditure include Water Supply, Sanitation, Housing, and Urban Development, for which absolute growth has been substantial. Education and Health also are slated to garner sizeable allocations, though their percentage shares have changed over time. It had a declining share in capital expenditure except that absolute terms increased. Thus, this data reflects dynamic and vibrant shift in the priorities of capital investments with sizeable increases being faced in infrastructure and urban development, combined with continuous investments in education and health sectors. Compounded Average Annual Growth Rate of Social Service in Revenue Account stood at 15.40 percent whereas in Capital Account at 18.81%.

## **9. COMPONENTS OF ECONOMIC SERVICES ON REVENUE ACCOUNT**

Table 3.11 and Table 3.12 explains us about the components of Economics Services on Revenue and Capital Account. This contains expenditure breakdowns in specific economic services and the percentage shares they hold when compared to the total economic services budget.

- 9.1. Economic Services Expenditure has been on the increase steadily since Rs.16,589 crores in 2012-13 to Rs.45,821 crores in 2023-24 (RE). It captures an important rise in government investment in various economic sectors. The Compound Annual Growth Rate (CAGR) of total economic services over this period is around 10.1%, thus reflective of regular growth in allocations over time.
- 9.2. General Economic Services Expenditure on general economic services has risen from Rs. 1,225.87 crores in 2012-13 to Rs.2,611.36 crores in 2023-24 (RE). GES as a percentage of total economic services and its share: it varied between a minimum of 2.21% in 2019-20 to a maximum of 9.14% in 2014-15. It is currently placed at 5.70%. The lower percentage in some years might reflect relatively more spending on other economic components during those periods.
- 9.3. Agriculture and Allied Services have witnessed a seamless increase in expenditure, be it Rs.3,893 crores in 2012-13 or the Rs.9,776 crores in 2023-24 (RE); that also reflected how

serious the government was about the agriculture sector and connected sectors. The share of agriculture and allied services in total economic services varies from 16.23% in 2022-23 to as high as 28.74% in 2017-18, implying that this area remains a priority of public investment.

- 9.4. Rural Development spending on rural development has increased from Rs.1,374 crores during 2012-13 to Rs.6,053 crores during the current year 2023-24 (RE). Share of Rural Development goes up and down, at one's highest, 16.65% in 2015-16 and a lower value in other years. In 2023-24 (RE), it comprises 13.21% of the total economic services expenditure.
- 9.5. Special Area Programs expenditure here is always very low, which has ranged between Rs.59 crores in 2012-13 and Rs.115 crores in 2023-24 (RE). Special Area programmes still accounted for only a very low percentage share during the period, ranging between 0.24% and 0.38%, thereby indicating a weak financial commitment compared with others.
- 9.6. Irrigation and Flood Control expenditure ranged from Rs.1,055 crores in 2012-13 to Rs.2,653 crores in 2023-24 (RE). The percentage share declined from 6.36 % in 2012-13 to 5.79% in 2023-24 (RE), thereby indicating steady growth but with modest advances in this category.
- 9.7. A big leap has been in energy services, where the spending's shot up from Rs.3,979 crores in 2012-13 to Rs.12,562 crores in 2022-23, though a little dipped in 2023-24 (RE) to Rs.10,605 crores. The percentage share of energy has seen very high allocations, even touching 30.84% in 2021-22 clearly showed tremendous focus toward building energy infrastructure.
- 9.8. Industry and Minerals spending in this sector rose from Rs.1,031 crores in 2012-13 to Rs.7,584 crores in 2023-24 (RE). A Percentage share increased from 6.22% in 2012-13 to 16.55% in 2023-24 (RE), thereby indicating increasing investments in the industrial sector.
- 9.9. Transport services have been centralized with growing expense from Rs. 3,830 crores during 2012-13 to Rs. 6,665 crores in 2022-23, and contracted to Rs. 5,285 crores in 2023-24 (RE).Transport percentages of total economic services decreased from 23.09% in 2012-13 to 11.53% in 2023-24 (RE) showing some relative decrease in priority over time.
- 9.10. Communication No expenditure is reported for this category in most years, reflecting either a lack of significant spending or inclusion in other categories.
- 9.11. Science, Technology, and Environment component has seen gradual growth, with expenditure increasing from Rs.144 crores in 2012-13 to Rs.1,134 crores in 2023-24 (RE). Its share in total economic services remains low but has risen from 0.87% to 2.49% over the period, signaling a growing but still relatively small focus on science, technology, and environmental issues.

Components of Economics Services on Revenue Account as % of Total Economics Services (Avg 2012-23)										
Energy	Agriculture and Allied Services	Transport	Rural Development	Industry and Minerals	General Economics Services	Irrigation & Flood Control	Science, Technology and Environment	Special Area Programs	Communication	Economic Services
25.02	21.80	17.66	12.55	11.39	5.06	4.60	1.62	0.30	0.00	100.00

## 10. COMPONENTS OF ECONOMIC SERVICES ON CAPITAL ACCOUNT

Table 3.12 presents the expenditure sub-categories of the capital account for economic services in India, over the period 2012-13 to 2023-24 (RE).

- 10.1. General Economic Services had wide fluctuations, from Rs.1634 crore in 2012-13 to the peak of Rs.487 crore in 2023-24 (RE). It started with 10.29% of all economic services in 2012-13, dropped to around 2-4% in most years and increased to 4.44% in 2023-24 (RE). The lower percentage contribution in recent years implies that while expenditure increased, its share to other services must have declined because of higher allocation in other areas.
- 10.2. Agriculture and Allied Services tend to increase over the period, from Rs.686 crore in 2012-13 to Rs.1106 crore in 2023-24 (RE). Mostly consistent, between 4.32% and 5.25%, with a minor rise to 5.58% in 2015-16, followed by fluctuation. Agriculture has continued to be an important component, with a stable share of economic services. This is a reflection of continued investment in agricultural infrastructure and allied sectors.
- 10.3. Capital outlay on Rural Development increased from Rs.975 crore in 2012-13 to Rs.1482 crore in 2023-24 (RE) Remained stable at around 6-7%, showing steady support for rural infrastructure even though absolute values fluctuated. The steady share underlines a steady thrust on rural development programs as an integral component of economic development and poverty reduction measures.
- 10.4. Special Area Programs minuscule compared with other components, ranging from a low of Rs.1 crore in 2018-19 to Rs.27 crore in 2013-14. Very low, consistently below 0.3%, more expressive of meager provisioning. These programs focus on particular areas that need additional attention. Still, because of their specialized nature, they comprise but a small portion of the overall economic services rendered.
- 10.5. The largest share of the capital account expenditure services is Irrigation and Flood Control, starting at Rs.7042 crore in 2012-13, peaking at Rs.10338 crore in 2023-24 (RE). High, with around 44-53% of economic services throughout most years though dipped in a few; it reached a low of 30.52% in 2020-21. A major portion to irrigation and flood control show the importance of water management in an agriculture-dependent region. Increase in absolute terms corresponds to the needs of infrastructure expansion in India.
- 10.6. Energy services expenditure have seen high growth over the years, from Rs.1367 crore in 2012-13 to Rs.4871 crore in 2023-24 (RE) with percentage proportion ranging in total economics services expenditure from 8-20%, with a peak in 2020-21 (20.24%) when energy expenditure. Growth is indicative of investments in energy, which might be on the increase due to renewable energy projects and the development of rural electrification.

- 10.7. Industry and Minerals services investments went up-and-down; at Rs.2418 crore in 2022-23, it dipped in 2023-24 (RE). Fluctuated, but high at 11.05% in 2022-23, thus showing that the government has revitalized an interest in industry. Periodically increases industrial investment catalyzed by policies related to investment in the strengthening of manufacturing and minerals.
- 10.8. Expenditure on Transport and Communication jumped sharply: Rs.3334 crore in 2012-13 to a significant Rs 13729 crore in 2023-24 (RE) where spent regularly with 40.97% contribution in the year 2023-24 (RE). It is reflecting sharp growth where the emphasis placed on transport infrastructure with highway expansion and digital infrastructure growth.
- 10.9. Total Economic Services expenditure increased from Rs.15878 crore in 2012-13 to a substantial amount of Rs.33509 crore in 2023-24 (RE). The share of different components changed over time, with transport and communication and irrigation remaining throughout as the ones consuming major shares. The overall increase signifies that the government is increasing its investment in capital-intensive sectors to spur economic development and infrastructure development, with more attention going towards transport infrastructure over the recent past years.
- 10.10. The data gives the trends of shifting governmental priorities within the economic services over the years and a growing Focus on Transport and Communication. The expenditure on transport grew sharply with a shift towards large-scale infrastructure projects. Support for Irrigation and Flood Control services shows consistency and therefore demonstrates the critical nature of water resources in agriculture. Fluctuating Investment in Industry and Energy are probably following industrial policies and energy requirements, particularly in rural electrification and renewable energy ventures. Stable, Moderate Growth in Rural Development and Agriculture sector portrays consistent support for the rural as well as agriculture sectors. The overall table 3.12 thus indicates strategic focus on Transport, Irrigation & Energy to support Economic Growth and bridge the development gap in various sectors in India.

Components of Economics Services as % of Total Economics Services (Avg 2012-23)									
Irrigation and Flood Control	Transport and Communication	Energy	Rural Development	General Economics Services	Agriculture and Allied Services	Industry and Minerals	Special Area Programs	Science and Technology	Economic Services
40.97	24.18	15.63	6.34	4.83	4.45	3.51	0.09	0.00	100.00

In case of Economic Services, share of expenditure was high in Irrigation and Flood Control, Transport, Energy, Rural Development, Agricultural and Allied Activities Services in Capital Account in the year 2012-23(RE).

Agriculture and Allied Services, however, have consistently garnered a large share of economic services expenditure as an indicator of the government's interest in supporting the agricultural sector. Energy has emerged as an important priority over the years, where allocations have significantly increased to reach a peak of 30.84% of the total in the period from 2021-22. This reflects efforts to strengthen energy

infrastructure perhaps for the growth of industry and for sustainable development. Industry and Minerals and Rural Development are also getting increased importance over recent years, indicating the government push toward industrialization and rural development. Although transport services are critical, there is a relative decline in their priority status as reflected by the share of total economic services expenditure that has been declining lately. The emphasis has been on agriculture, energy, and industry to acquire a strategic approach toward economic diversification and sustainable growth. Such emphasis on these key sectors provides for high-spending and pushes toward long-term development infrastructure building.

There appear to be investments into rural development and science, technology, and environment. These investments signify recognition of the necessity for inclusive growth and innovation for future economic resilience. Lately, transport infrastructure development seems to be dormant, not because development in that sector is not crucial but perhaps because earlier projects have already been completed, or priorities shifted toward more recent sectors like energy and industry. It shows here that priorities in government outlays for economic services have been shifted during the last ten years. Besides agriculture, energy, and industry, which are still attracting higher investments, other sectors such as transport, science and technology etc., are assuming growing importance. Data apparently reflects a balanced dynamic approach reflecting changing national needs and policy objectives aimed at encouraging broad based growth.

**Table: 3.9 Components of Social Services of Revenue Accounts**

Year	Education, Sports, Arts and Culture	Health and Family Welfare	Water Supply, Sanitation, Housing and Urban Devp	Information and Broadcasting	Welfare of SC,ST and OBC	Labor and Welfare	Social Welfare and Nutrition	Others	Social Services
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
2016-17	18559.76	6241.83	11876.32	119.25	3248.82	842.29	3966.90	70.85	44926.02
2017-18	21528.49	6945.38	10795.28	138.93	3510.66	1524.02	4520.61	75.63	49039.00
2018-19	24073.18	7927.01	11676.93	160.73	3977.13	1053.33	4346.62	70.35	53285.28
2019-20	24642.22	9215.98	13637.32	140.24	3998.08	964.08	6526.97	72.41	59197.30
2020-21	26075.29	10260.93	11499.81	154.28	3418.52	930.03	8408.54	68.33	60815.73
2021-22	27556.15	12804.99	13155.53	149.92	4055.81	1069.01	9387.89	74.87	68254.17
2022-23	32191.75	11479.45	15346.28	288.43	4917.18	1236.09	9584.64	81.25	75125.07
2023-24 (RE)	35450.06	13940.82	12408.00	254.14	6313.20	1428.73	11874.18	101.72	81770.85
<b>Components of Social Services as % of Total Social Services</b>									
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
2016-17	41.31	13.89	26.44	0.27	7.23	1.87	8.83	0.16	100.00
2017-18	43.90	14.16	22.01	0.28	7.16	3.11	9.22	0.15	100.00
2018-19	45.18	14.88	21.91	0.30	7.46	1.98	8.16	0.13	100.00
2019-20	41.63	15.57	23.04	0.24	6.75	1.63	11.03	0.12	100.00
2020-21	42.88	16.87	18.91	0.25	5.62	1.53	13.83	0.11	100.00
2021-22	40.37	18.76	19.27	0.22	5.94	1.57	13.75	0.11	100.00
2022-23	42.85	15.28	20.43	0.38	6.55	1.65	12.76	0.11	100.00
2023-24 (RE)	43.35	17.05	15.17	0.31	7.72	1.75	14.52	0.12	100.00

Source: Budget in Brief, Various Issues, Gujarat State

**Table 3.10 Components of Social Services of Capital Accounts**

Year	Education, Sports, Arts and Culture	Health and Family Welfare	Water Supply, Sanitation, Housing and Urban Devp.	Information and Broadcasting	Welfare of SC,ST and OBC	Social Welfare and Nutrition	Others	Social Services
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
2016-17	1166.54	1457.69	3275.01	0.00	158.44	-109.77	267.09	6215.00
2017-18	793.58	1570.16	4075.62	0.00	135.72	22.28	215.41	6812.77
2018-19	915.17	2056.73	4150.18	0.00	202.29	53.56	317.98	7695.91
2019-20	559.38	1067.44	4019.78	0.00	228.43	84.15	216.24	6175.42
2020-21	651.36	726.88	5068.83	0.00	153.37	19.63	420.24	7040.31
2021-22	606.33	1435.58	5840.32	0.00	232.95	29.66	228.39	8373.23
2022-23	3266.33	1921.83	7054.47	0.03	135.67	28.71	397.20	12804.24
2023-24 (RE)	3376.30	2868.11	16616.68	0.68	194.87	231.50	596.96	23885.10
Components of Social Services as % of Total Social Services								
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
2016-17	18.77	23.45	52.70	0.00	2.55	-1.77	4.30	100.00
2017-18	11.65	23.05	59.82	0.00	1.99	0.33	3.16	100.00
2018-19	11.89	26.72	53.93	0.00	2.63	0.70	4.13	100.00
2019-20	9.06	17.29	65.09	0.00	3.70	1.36	3.50	100.00
2020-21	9.25	10.32	72.00	0.00	2.18	0.28	5.97	100.00
2021-22	7.24	17.14	69.75	0.00	2.78	0.35	2.73	100.00
2022-23	25.51	15.01	55.09	0.00	1.06	0.22	3.10	100.00
2023-24 (RE)	14.14	12.01	69.57	0.00	0.82	0.97	2.50	100.00

Source: Budget in Brief, Various Issues, Gujarat State

**Table 3.11 Components of Economic Services of Revenue Accounts**

Year	General Economics Services	Agriculture and Allied Services	Rural Development	Special Area Programs	Irrigation & Flood Control	Energy	Industry and Minerals	Transport	Communication	Science, Technology and Environment	Economic Services
2012-13	1225.87	3893.25	1373.83	58.63	1054.95	3978.51	1031.36	3829.69	0.00	143.50	16589.23
2013-14	1351.96	3957.89	1701.21	63.94	981.35	3798.27	864.71	3756.21	0.00	171.64	16647.18
2014-15	1887.33	4068.77	2039.46	70.89	1037.15	5378.82	1503.84	4490.76	0.00	163.64	20640.66
2015-16	713.91	4313.00	3367.07	67.54	981.74	4481.78	1965.92	4103.62	0.00	229.31	20223.89
2016-17	874.06	5035.20	3423.50	74.54	1246.18	5083.17	2234.36	4528.21	0.00	249.28	22748.50
2017-18	1031.02	7801.51	3199.53	79.39	1087.49	5820.38	3084.80	4696.29	0.00	344.61	27145.02
2018-19	986.80	8366.51	3483.33	87.57	1072.31	7654.51	4538.67	5089.85	0.00	296.14	31575.69
2019-20	710.83	6568.70	4102.54	93.35	1259.79	8900.18	4982.73	5012.91	0.00	483.80	32114.83
2020-21	1640.94	7525.41	5581.78	89.73	1232.35	9759.59	5959.12	4729.94	0.00	905.16	37424.02
2021-22	1460.07	6274.92	3722.51	90.83	1245.39	10897.57	5092.21	5477.85	0.00	1070.45	35331.80
2022-23	2267.91	6926.70	6950.17	104.03	1573.39	12562.34	4420.97	6665.06	0.00	1202.01	42672.58
2023-24 (RE)	2611.36	9776.20	6052.67	115.35	2652.71	10604.70	7583.60	5284.55	0.00	1139.90	45821.04
Components of Economics Services as % of Total Economics Services											
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
2016-17	3.84	22.13	15.05	0.33	5.48	22.35	9.82	19.91	0.00	1.10	100.00
2017-18	3.80	28.74	11.79	0.29	4.01	21.44	11.36	17.30	0.00	1.27	100.00
2018-19	3.13	26.50	11.03	0.28	3.40	24.24	14.37	16.12	0.00	0.94	100.00
2019-20	2.21	20.45	12.77	0.29	3.92	27.71	15.52	15.61	0.00	1.51	100.00
2020-21	4.38	20.11	14.91	0.24	3.29	26.08	15.92	12.64	0.00	2.42	100.00
2021-22	4.13	17.76	10.54	0.26	3.52	30.84	14.41	15.50	0.00	3.03	100.00
2022-23	5.31	16.23	16.29	0.24	3.69	29.44	10.36	15.62	0.00	2.82	100.00
2023-24 (RE)	5.70	21.34	13.21	0.25	5.79	23.14	16.55	11.53	0.00	2.49	100.00

Source: Budget in Brief, Various Issues, Gujarat State

**Table 3.12 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
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
2016-17	440.10	806.86	1182.54	36.64	7423.61	2685.10	4.54	2938.11	0.00	15517.50
2017-18	484.37	824.96	1206.40	21.91	9079.81	2939.36	109.63	3963.48	0.00	18629.92
2018-19	557.25	845.18	1299.42	0.99	10349.58	2873.57	116.69	3448.27	0.00	19490.95
2019-20	483.38	780.37	1297.89	10.00	8544.49	3409.46	286.29	3972.45	0.00	18784.33
2020-21	812.79	770.14	934.75	5.01	5876.82	3522.22	1348.54	5985.52	0.00	19255.79
2021-22	1519.21	849.19	1293.85	8.00	5402.28	3898.07	352.50	5939.17	0.00	19262.27
2022-23	834.48	858.81	1369.41	3.20	6228.54	3655.97	2417.63	6506.48	0.00	21874.52
2023-24 (RE)	1486.70	1105.97	1482.10	12.50	10338.47	4871.15	483.82	13728.57	0.00	33509.28
<b>Components of Economics Services as % of Total Economics Services</b>										
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
2016-17	2.84	5.20	7.62	0.24	47.84	17.30	0.03	18.93	0.00	100.00
2017-18	2.60	4.43	6.48	0.12	48.74	15.78	0.59	21.27	0.00	100.00
2018-19	2.86	4.34	6.67	0.01	53.10	14.74	0.60	17.69	0.00	100.00
2019-20	2.57	4.15	6.91	0.05	45.49	18.15	1.52	21.15	0.00	100.00
2020-21	4.22	4.00	4.85	0.03	30.52	18.29	7.00	31.08	0.00	100.00
2021-22	7.89	4.41	6.72	0.04	28.05	20.24	1.83	30.83	0.00	100.00
2022-23	3.81	3.93	6.26	0.01	28.47	16.71	11.05	29.74	0.00	100.00
2023-24 (RE)	4.44	3.30	4.42	0.04	30.85	14.54	1.44	40.97	0.00	100.00

Source: Budget in Brief, Various Issues, Gujarat State

## 11. EXPENDITURE ON GENERAL SERVICES ON REVENUE AND CAPITAL ACCOUNT

Table 3.13 gives data on General Services Expenditures in Gujarat, which is split into Revenue Account (Rev A/c) and Capital Account (Cap A/c), along with their proportions relative to Revenue Expenditure (Rev Exp), Capital Expenditure (Cap Exp), Total Expenditure, and Gross State Domestic Product (GSDP) over the years 2012-13 to 2023-24.

**Table 3.13 Expenditure on General Services**

Year	General Services on Rev A/c	General Services on Cap A/C	Total General Services	General Services on Rev A/c as % of Rev Exp	General Services on Rev A/c as % of Cap Exp	Total General Services as % of Total Exp	Total General Services as % of GSDP
	(In Rs. Crore)			(In %)			
2012-13	661.85	70.05	731.90	0.95	0.24	0.74	0.10
2013-14	630.86	272.93	903.79	0.84	0.93	0.86	0.11
2014-15	853.43	63.01	916.44	0.98	0.21	0.79	0.10
2015-16	796.96	808.21	1605.17	0.83	2.60	1.27	0.16
2016-17	897.57	622.89	1520.46	0.86	1.95	1.12	0.13
2017-18	1228.84	870.51	2099.35	1.04	2.14	1.32	0.16
2018-19	1302.45	875.04	2177.49	0.98	1.93	1.22	0.15
2019-20	1450.12	690.86	2140.98	1.03	1.58	1.16	0.13
2020-21	1165.76	484.36	1650.12	0.77	1.05	0.84	0.10
2021-22	1248.57	549.54	1798.11	0.78	1.02	0.84	0.09
2022-23	1866.11	820.06	2686.17	1.04	1.39	1.13	0.12
2023-24	2131.45	1302.11	3433.56	1.08	1.49	1.21	0.14

**Source:** Budget in Brief, Gujarat State (Government of Gujarat), various issues

General Services on Revenue Account (Rev A/c) increased from Rs.661.85 crore in 2012-13 to Rs.2131.45 crore in 2023-24. This reflects a growth of over 222% in revenue expenditures, indicating rising costs in administration, pensions, and interest payments. General Services on Capital Account (Cap A/c) increased from Rs.70.05 crore in 2012-13 to Rs.1302.11 crore in 2023-24. This shows a staggering rise of 1758%, indicating a focus on infrastructure development and capital outlays. Infrastructure development and long-term assets formation, thus capital account expenses have increased sharply. The increase in total General Services from Rs.731.9 crore in 2012-13 to Rs.3433.56 crore in 2023-24 depicts an overall growth of 369%, which also indicates that there is higher spending across both revenue and capital expenditures.

General Services as % of Total Expenditure increased from 0.74% in 2012-13 to 1.21% in 2023-24, which reflects a rise in the share of administrative and non-developmental costs vis-à-vis total spending. General Services as % of GSDP had a range between 0.09% and 0.16%. Though stable, the upsurge in later years divulges a proportional increase in government spending vis-à-vis the state's economy. General Services on Revenue Account as % of Revenue Expenditure increased from 0.95% in 2012-13 to 1.08% in 2023-24. This incremental rise indicates that the administrative burden is increasing, coupled with the rising debt servicing costs, and indicates that the burden of administrative and development obligations is on the increase. General Services on Capital Account as % of Capital Expenditure increased from 0.24% in 2012-13 to 1.49% in 2023-24. This shows that the emphasis on capital expenditure is becoming stronger, perhaps for infrastructure and other developmental expenditure.

While capital investment is emphasized, the growth of non-developmental expenditure may call for sustainability over the long run. Gujarat's general services expenditures have grown strongly, especially capital investments, thus indicating a good commitment to the growth of infrastructures. Steadily growing revenue expenditures depict the ongoing burden of administration and debt servicing. Policy attention is likely to be needed in order to achieve a balance between developmental and non-developmental expenditures that would ensure sustainability.

General Services expenditures in Gujarat have been rising steadily, which reflects administrative expansion and capital investments. These trends support state capacity building, but debt obligations and non-developmental spending must be monitored closely to ensure fiscal sustainability. The increase in non-developmental expenditures must be monitored to ensure that developmental activities are given priority without compromising efficiency. Revenue expenditures can be controlled by strategies for reducing interest payments and optimizing debt servicing. Investments in infrastructure should be sustainable and bring returns to avoid future fiscal imbalances.

## 12. COMMITTED EXPENDITURE OF GUJARAT STATE

Table 3.14 gives information on the committed expenditure of Gujarat State over 11 fiscal years (2012–2023). Committed expenditure refers to spending that the government cannot easily cut as it is essential for maintaining administration and fulfilling obligations like salaries, pensions, interest payments, and subsidies.

**Table 3.14 Committed Expenditure of Gujarat State 2012-23**

(In Rs. Crore)					
Year	Salary and Wages	Interest Payment	Pension	Subsidies	Total Committed expenditure
2012-13	6707	12161	7198	6715	32781
2013-14	7209	13332	8270	6610	35421
2014-15	7533	14946	9185	9674	41338
2015-16	16373	16300	9963	9045	51681
2016-17	17609	17797	11303	11082	57791
2017-18	21134	18954	13979	13621	67688
2018-19	23269	20183	18295	17269	79016
2019-20	23536	22449	17663	N.A	63648
2020-21	25046	24203	18570	N.A	67819
2021-22	26694	25188	20160	N.A	72042
2022-23	31995	25354	22435	N.A	79784

**Source:** State Finance Audit Report, CAG, Gujarat State (Government of Gujarat), various issues

Table indicates the increasing Expenditure Trend i.e Total committed expenditure increased by 144%, from Rs.32,781 crore in 2012-13 to Rs.79,784 crore in 2022-23. The highest growth was recorded between 2014-15 to 2015-16 (Rs.10,343 crore or 25%) and 2017-18 to 2018-19 (Rs.11,328 crore or 16.7%).

**Salary and Wages** comprises payments to government employees, including salaries, allowances, and wages. The data for Grants – in -aid to Panchayats for pay and allowances are not included in the salary and wages till 2014-15 but it is included after the year 2015-16 onwards. From the year 2012- 2015, Salary and wages It increased from Rs.6,707 crore in 2012-13 to Rs.31,995 crore in 2022-23 i.e. Rise of 377% over the period, indicating growing staff strength, revised pay scales, and allowances. The largest

jump was witnessed in 2015-16, with an increase of Rs.8,840 crore, possibly due to the recommendations of the 7th Pay Commission or salary revisions. Salaries increased by Rs.5,301 crore from 2021-22 to 2022-23, the sharpest increase in recent years. This increases the burden on state resources and reduces flexibility for developmental and capital expenditures. Salaries and Pensions Drive Growth together, they account for 69.9% (Rs.54,430 crore) of total committed expenditure in 2022-23, which indicates growing administrative costs.

**Interest Payments :** Payments on loans and borrowings taken by the state government. It rose from Rs.12,161 crore in 2012-13 to Rs.25,354 crore in 2022-23 i.e. rising 108% over 11 years, showing increasing debt liabilities. The highest annual increase was between 2018-19 and 2019-20 at Rs.2,266 crore. We observe that growth has slowed since 2020, indicating stabilization of the borrowing cycle. Increasing interest payments imply increasingly large borrowings towards meeting expenditure heads, thereby crowding out development spending. Interest payments have risen steadily, which indicates a high reliance on borrowings.

**Pension Payments:** This is payment made to the retired government employee. It increased from Rs.7,198 crore in 2012-13 to Rs.22,435 crore in 2022-23 i.e. 212% increase due to the rising number of retired people and the introduction of pension reforms. The rise in 2017-18 was Rs.2,676 crore, possibly related to the restructure of post-retirement benefits. In 2021-22 to 2022-23 it increased by Rs.2,275 crore, which is probably due to higher gratuity payouts and pension revisions. Rising pension obligations indicate fiscal stress and necessitate a move towards contributory pension schemes to lighten future burdens.

**Subsidies :** Subsidies to sectors like agriculture, power, and food security to promote economic and social development. It increased from Rs.6,715 crore in 2012-13 to Rs.17,269 crore in 2018-19, an increase of 157%. It indicates more welfare schemes, farmer subsidies, and social programs. No information available for subsidies from 2019-20 onwards, suggesting either changes in reporting or reclassification of subsidies under different budget heads. Lack of subsidy data for the period 2018-19 raises changes in reporting practices or a change in policy.

- 1. Post-Pandemic Trends:** Though the economy did slow down because of COVID-19, expenditures continued to go up, implying resilience but debt-financed also.
- 2. Sustainability Issues:** Sharp increase in committed expenditure reduces infrastructure and development spending space.
- 3. Debt Management:** Rising interest payment necessitates more effective debt management strategies.
- 4. Pension Liabilities:** Move to a contributory pension scheme is necessary to keep long-term costs under control.
- 5. Transparency in Subsidies:** There is no clarity regarding subsidy reclassification or reporting practices after 2019-20.

The table reflects the increasing fiscal burden of Gujarat, mainly on account of salary, pension, and debt service costs. The expenditure trends show that the government is spending more on administration and welfare. The missing subsidy data and reliance on borrowings are a cause for concern regarding fiscal sustainability. Committed spending must be balanced with developmental needs and reforms adopted to ensure long-term fiscal stability.

### 13. DEVELOPMENT AND NON DEVELOPMENT EXPENDITURE OF GUJARAT STATE

Developmental and Non-Developmental expenditure are two basic ingredients of public expenditure. The 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 whereas Non-Development Expenditure indirectly increases the welfare of society, but to a certain limited extent. It is also noted that several non-developmental expenditures are compulsory like pension and benefits of retirement, interest payment which can be decreased by making strong policy reforms.

Table 3.15 represents Developmental and Non-Developmental Expenditure for the year 2012-13 to 2023-24 (RE). Total developmental expenditure was Rs.68,100 crore in 2012-13. It increased two and half times; it was Rs.1,84,986 crore in 2022-23(RE); total non-developmental expenditure was Rs.30,041 Crore in the year 2012-13, which increased to nearly three and half times, and that was Rs. 99,091 Crore in the year 2022-23(RE) in Gujarat. From the following table, it can also be shown that the proportion of developmental expenditure and non-developmental expenditure in total expenditure was nearly around 69:31 in 2012-13, which was 65:35 in the year 2022-23(RE). It implies that one ought to think about that Expenditure for development activities was decreasing proportionately that reflects Government of Gujarat has to deeply consider Expenditure Reforms which will be aptly fruitful to the society and improve Human and Economic Development and it has to undertake necessary steps for that. But it is too early to make such types of conclusions.

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 in the nature. If it is in Capital account, then it is more fruitful in terms of income and employment generation. The Compounded Average Annual Growth Rate (CAAGR) of Development Expenditure of Gujarat during 2006-07 to 2015-16 is estimated to be 14.46%. There is a drastic downward fall in the growth rate of Development Expenditure and stands at 8.33% during the period of 2012-23. On the other hand, CAAGR of non-development expenditure stands at 12.26% during the period of 2006-07 to 2015-16 and CAAGR for NDE was decreased and became 11.25% during the period of 2012-23. This is an important juncture of information since the state has accelerated NDE by nearly 11% over the DE's CAAGR, i.e. 8.33 percent during 2012-23. The state might take every necessary measure to control the NDE. Development Expenditure/ GSDP ratio was 9.40 % of the year 2012-13 which almost changed and it was 7.51% in the year 2023-24 (RE), whereas Non-Developmental Expenditure/GSDP ratio was 4.15% of the year 2012-13 which became 4.02 in the 2023-24 (RE).

Developmental Expenditure is increasing absolutely but as a percentage of total expenditure, is slightly decreasing, indicating a growing budget or rising non-development expenditure. Non-Developmental Expenditure is also increasing absolutely but its share in terms of Total Expenditure is increasing that means more relatively focus on non - developmental spending. Percentages of both kinds of expenditure against GSDP generally stand in decreasing trends, which may indicate that the state's expenditure is rising at a slower rate compared to the GSDP output of the state. The data concerning various kinds of expenditure over time informs how the spending of the state is prioritized, with an emphasis on developmental activities in comparison to being controlled over non-developmental expenditures.

**Table 3.15 Bifurcation of Total Expenditure 2012-13 to 2023-24 (RE)**

(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	
2012-13	68100.25	30041.26	98141.51	69.4	30.6	9.40	4.15
2013-14	71984.58	32432.80	104417.38	68.9	31.1	8.91	4.02
2014-15	81750.76	34382.26	116133.02	70.4	29.6	8.87	3.73
2015-16	85705.01	40553.69	126258.70	67.9	32.1	8.33	3.94
2016-17	89407.02	45977.99	135385.01	66.0	34.0	7.66	3.94
2017-18	101626.71	56603.39	158230.10	64.2	35.8	7.65	4.26
2018-19	112047.83	65602.32	177650.15	63.1	36.9	7.51	4.40
2019-20	116271.85	67875.98	184147.83	63.1	36.9	7.19	4.20
2020-21	124535.85	71714.48	196250.33	63.5	36.5	7.61	4.38
2021-22	131221.47	82479.71	213701.18	61.4	38.6	6.70	4.21
2022-23	152476.44	85713.94	238190.38	64.0	36.0	6.84	3.84
2023-24 (RE)	184986.27	99091.46	284077.73	65.1	34.9	7.51	4.02

Source: Budget in Brief, Gujarat State, GOG

Total Expenditure is classified into Developmental and Non-Developmental Expenditure which we discussed in previous section. As we know that every expenditure is classified on the basis of accounts of Budget i.e. Revenue Account and Capital Account, let us see the performance of Developmental and Non-Developmental Expenditure in Revenue Account and Capital Account for the Gujarat State in last twelve years.

#### 14. DEVELOPMENT AND NON-DEVELOPMENT REVENUE EXPENDITURE OF GUJARAT STATE

Table 3.16 explains about the Developmental and Non-Developmental Revenue Expenditure of the Gujarat and Total Revenue Developmental Expenditure rises continuously in absolute terms and it was Rs. 46,118 crores in the year 2012-13 which increased more than two and half times and became Rs.1,27,592 crore in 2023-24 (RE). This throws up a general revenue spending growth pattern by the state. If that is presented as a percentage of Total Revenue Expenditure, it oscillates slightly but remains rather stable between 64.08% and 66.60%. This reflects steady developmental spending in the revenue budget. Non-Developmental Expenditure on Revenue Accounts is also increased nearly three times in absolute terms, from Rs.23,378 Crore in 2012-13 that increased and became Rs.68,967 crores in the year 2023-24 (RE) in Gujarat. Talking of Total Revenue Expenditure as a percentage, it shows a marginal increase over time, from 33.64% in 2012-13 to 35.09% in 2023-24 (RE). Developmental and Non-Developmental Revenue Expenditure was at the ratio of 66:33 in the year 2012-13, which was changed to 65:35 in the year 2023-24 (RE).

This would point towards a gentler drift toward a higher share of non-developmental spending, even as still developmental expenditure takes center stage. The share of Developmental Expenditure on Revenue Account is fairly stable, leading one to a conclusion of steady development-related expenditure

commitment. However, the revenue non-development expenditure shows a slow rise, indicating that even though the developmental expenditure takes center stage, the share of the non-developmental expenditure is increasing. **Probably because of increasing administrative services expenditure i.e from Rs. 2,960 Crore in 2012-13 increased by more than three times and became Rs. 10,632 Crore in 2023-24 (RE) and debt-related cost expenditures that is Interest Payment and Servicing of Debt was Rs. 12,161 Crore increased by two times and became Rs. 27,790 Crore in the year 2023-24(RE).** State revenue expenditure is on an increase, with hefty increases recorded in both developmental and non-developmental expenditure.

**Table 3.16 Bifurcation of Revenue Expenditure**

(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)	
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
2016-17	67674.52	35804.36	103478.88	65.40	34.60
2017-18	76184.02	41401.58	117585.60	64.79	35.21
2018-19	84860.97	47563.79	132424.76	64.08	35.92
2019-20	91312.10	49171.64	140483.74	65.00	35.00
2020-21	98239.75	52074.24	150313.99	65.36	34.64
2021-22	103585.97	56423.12	160009.09	64.74	35.26
2022-23	117797.68	61269.11	179066.79	65.78	34.22
2023-24 (RE)	127591.89	68967.07	196558.96	64.91	35.09

Source: Budget in Brief, Gujarat State, GOG

Though the share of non-developmental expenditure is on an ascending trend, the share of developmental expenditure continues to be a significant constituent of the revenue budget, which goes to indicate a robust thrust on the development front. The slowly ascending share of non-developmental expenditure may also indicate that costs are on the rise in some areas, such as perhaps debt servicing or administrative expenses. This will actually reveal how much of the state's revenue expenditure is spent on financing development vis-à-vis non-development objectives that essentially underline a development drive balanced by other fiscal liabilities.

## **15. DEVELOPMENT AND NON DEVELOPMENT CAPITAL EXPENDITURE OF GUJARAT STATE**

Table 3.17 Developmental and Non-Developmental Capital Expenditure during the period 2012-13 to 2023-24 (RE) in Rs. Crore It reflects the account of Capital Expenditure, developmentally classified and non-developmentally categorized, against the percentage share over total revenue expenditure of each year. Total Capital Expenditure has increased with steady graduation from Rs. 28,645 crore in 2012-13 to Rs. 87,518 crore in 2023-24 (RE). Capital developmental expenditure is increasing year after year in absolute terms. It was at the level of Rs.21,982 crore during 2012-13 to Rs.57,394 crore during 2023-24

(RE). Capital Non-Developmental Expenditure also registers an increase in absolute terms, from Rs.6,663 crore in 2012-13 to Rs.30,124 crore in 2023-24 (RE).

**Table 3.17 Bifurcation of Capital Expenditure**

(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)	
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
2016-17	21732.50	10173.63	31906.13	68.11	31.89
2017-18	25442.69	15201.81	40644.50	62.60	37.40
2018-19	27186.86	18038.53	45225.39	60.11	39.89
2019-20	24959.75	18704.34	43664.09	57.16	42.84
2020-21	26296.10	19640.24	45936.34	57.24	42.76
2021-22	27635.50	26056.59	53692.09	51.47	48.53
2022-23	34678.76	24444.83	59123.59	58.65	41.35
2023-24 (RE)	57394.38	30124.39	87518.77	65.58	34.42

Source: Budget in Brief, Gujarat State, GOG

Coming to capital account, developmental and non-developmental expenditure increased during the last decade. The relative share of the same is found to be 82:18 in 2006, which turned adversely and became 75:25 in 2015-16 and it was 66:34 in the year 2023-24 (RE). If talking in terms of Capital Development Expenditure as a percentage of Total Capital Expenditure, it shows some fluctuations but generally remained above 50%, which was peak at 81.27% in 2014-15 and decreased to 65.58% during the last quarter of 2023-24 (RE). It further depicts that a rise has been noticed in non-developmental capital items. Expenditure on Non-Developmental Capital as a percentage of Total Capital Expenditure, it has shown fluctuations with recent increase. It ranges from 23.26% in 2012-13 to 34.42% in 2023-24 (RE), demonstrating an increasing percentage of non-development capital spending.

Capital Non-Developmental Expenditure percentage rose overtime, showing the growing share of capital expenditure unrelated to developmental works. Capital Developmental Expenditure: That which is assigned on long-term development projects like infrastructure with the aim of stimulating development, while capital Non-Developmental Expenditure: That which is assigned on long-term assets which have nothing to do directly with development such as interest on loans or capital for non-developmental administrative purposes.

The proportion of Capital Developmental Expenditure declined and Capital Non-Developmental Expenditure's proportion increased; it is a matter of rethinking about the Expenditure Policy of the State. This kind of data indicates the focus of the state on developmental projects and the expenses of getting non-developmental capital, which reflects the strategy of its capital expenditure.

The composition of Developmental and Non-Developmental Expenditure, categorized between revenue and capital expenditures, is shown in Table 3.6. This gives the ratio of how much of the Developmental and Non-Developmental Expenditure contributes to the overall Revenue and Capital Expenditures in each fiscal year. The Revenue Developmental Expenditure is showing an increasing trend over the years,

from 67.72% in 2012-13 to 68.97% in 2023-24 (RE), indicating the share of developmental spending allocated on operational (revenue) activities is also increasing. This decreased from 32.28% in 2012-13 to 31.03% in 2023-24 (RE), thereby indicating a decline of almost proportionate proportions of the share of developmental spending channeled into capital (investment) activities.

**Table 3.18 Composition of Total Expenditure**

Year	(In %)			
	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	
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
2016-17	75.69	24.31	77.87	22.13
2017-18	74.96	25.04	73.14	26.86
2018-19	75.74	24.26	72.50	27.50
2019-20	78.53	21.47	72.44	27.56
2020-21	78.88	21.12	72.61	27.39
2021-22	78.94	21.06	68.41	31.59
2022-23	77.26	22.74	71.48	28.52
2023-24 (RE)	68.97	31.03	69.60	30.40

Source: Calculated by us

Revenue Non-Developmental Expenditure tends to continue at a high level from 77.82% in the year 2012-13 to 69.60% in the year 2023-24 (RE). Here the trend is downward, which indicates a movement toward more capital-intensive non-developmental expenditure. Capital Non-Developmental Expenditure moves upward from 22.18% in the year 2012-13 to 30.40% in the year 2023-24 (RE), which represents an increasing proportion of non-developmental expenditure targeted toward capital requirements. Developmental Expenditure Composition trends toward higher revenue developmental spending than capital developmental spending as an approach to investing operationally as opposed to capital into developmental purposes. In Non-Developmental Expenditure Composition, Capital Non-Developmental Expenditure is increasing; this would indicate rising capital investment in non-developmental activities, such as servicing debt or the cost of running administration.

The change in the pattern of non-developmental expenditure towards capital indicates that whereas the developmental focus has continued, more allocation is made to non-development capital expenditure. Developmental expenditure goes further to concentrate on more revenue activities, while a decrease in capital expenditures for developmental purposes has been witnessed. Non-development expenditure has an emerging capital content that reflects increased investment in non-developments. This table provides information on how the state channels its developmental and non-developmental spending, in the light of the stated trend toward operational expenditure for development and increased capital spending on non-developmental needs.

## 16. CAAGR OF VARIOUS DEVELOPMENTAL EXPENDITURE

Both revenue and capital expenditures in social services have increased substantially, but CAAGR compared to 2006-16 is relatively small for Social as well as Economic Services in the state. Both revenue and capital expenditures in social services reflect an increased importance of improvement in social infrastructure and services. The growth rate in capital expenditure for social services has been quite significant, reflecting key investments in physical assets related to welfare. Revenue and capital expenditures on economic services are also increasing, and rightly so, since they reflect an earnest effort towards the enrichment of economic infrastructure and operational capabilities. Capital expenditure in economic services has also been on the rise as a reflection of significant investment within infrastructure and long-term assets. Total expenditure in Social Services has grown at a more rapid rate compared with that of Economic Services, especially in capital investment. Even though both services have grown by leaps and bounds, the growth in capital expenditures in social services has been much stronger, pointing to the increasing size of the social infrastructure. Here, the growth is quite delineated in increasing investments both in Social and Economic Services with clear though steep rises both in revenues and capital expenditures. This would then reflect a holistic approach towards social welfare and economic infrastructure. The capital increase in social services over the economic services has a larger increase, which would imply strategic priority in expanding and improving the social infrastructure. These data capture the shifts in shifting priorities in expenditure allocations between social and economic services over the years.

**Table 3.19 CAAGR of Various Developmental Expenditure**

(In %)

Items	Revenue Expenditure CAAGR		Capital Expenditure CAAGR	
	2006-16	2012-23	2006-16	2012-23
	Developmental Expenditure	<b>14.46</b>	<b>9.27</b>	<b>12.25</b>
Social Services	<b>15.49</b>	<b>9.04</b>	<b>18.81</b>	<b>7.89</b>
Education, Arts, Sport and Culture	15.68	8.60	22.00	4.29
Health and Family Welfare	17.43	13.49	42.11	1.01
Water Supply, Sanitation, Housing and Urban Development	15.49	5.29	13.80	12.37
Information and Broadcasting	16.04	6.88	N.A	N.A
Welfare of SC,ST and OBC	15.88	9.09	28.66	-0.50
Labor and Labor Welfare	19.37	7.50	N.A	N.A
Social Welfare and Nutrition	13.99	12.32	30.01	N.A
Others	7.65	3.76	3.75	2.19
Economic Services	<b>12.00</b>	<b>9.68</b>	<b>14.11</b>	<b>4.52</b>
General Economics Services	11.10	5.13	33.88	0.61
Agriculture and Allied Services	15.49	7.64	20.80	1.69
Rural Development	10.42	12.71	N.A	N.A
Special Area Programs	10.56	5.51	N.A	-15.25
Irrigation and Flood Control	6.69	5.88	9.12	0.02
Energy	8.48	11.31	16.87	8.84
Industry and Minerals	18.07	18.71	20.70	6.56
Transport and Communication	13.34	3.91	16.17	10.37
Science, Technology and Environment	26.23	21.74	N.A	N.A

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

Table 3.19 aggregates CAAGRs of various developmental expenditure and divided the period into two phases, 2006-16 and 2012-23. Developmental Expenditure in revenues account CAAGRs decreased from

14.46% to 9.27% for the periods 2006-16 and 2012-23, respectively, signifies an extreme deceleration in the growth rate of revenue spending on developmental activities; whereas the capital development expenditure experienced more extreme deceleration, from 12.25% for the period 2006-16 to 5.67% for the period 2012-23. This shows a tremendous drop in capital expenditure on development projects over the years.

- 16.1. Social Services spending on revenue account growth declined from 15.49% to 9.04% between the two periods just as Capital Expenditure was extreme from 18.81% (2006-16) to 7.89% (2012-23) reflects decreased capital expenditure on social infrastructure. Education, Arts, Sports and Culture, Revenue Expenditure growth rate dropped from 15.68% to 8.60%. This may imply lesser government attention towards the extension of operational budgets in these fields; where in, Capital Expenditure it has dropped considerably from 22.00% to 4.29%, which indicates that investments in physical infrastructure for education and culture have drastically slowed down.
- 16.2. Revenue expenditure on Health and Family Welfare Despite overall trends, the sector witnessed a relatively lesser decline in outlays from 17.43% to 13.49% whereas Capital Expenditure for these services declined sharply from 42.11% to 1.01%, almost stagnating capital investment for health infrastructure.
- 16.3. Water Supply, Sanitation, Housing, and Urban Development Revenue Expenditure declined from 15.49% to 5.29%, wherein growth rates of recurring expenditures on urban development had declined; Capital Expenditure improved slightly from 13.80% to 12.37%, thus evidencing sustained investments in the form of infrastructure projects despite revenue or profit constrains.
- 16.4. Welfare of SC, ST, and OBC revenue Expenditure growth rate dipped marginally from 15.88% to 9.09%. While Capital Expenditure on this services significantly, the CAAGR turned negative at -0.50% in 2012-23, after having witnessed an growth of 28.66% in the earlier period.
- 16.5. This represents an extreme drawdown in the capital of the welfare program expenses. Social Welfare and Nutrition services Capital Expenditure CAAGR is not given for the 2012-23 period, the earlier growth rate had been very high at 30.01%, which indicates very high investments were made during 2006-16.
- 16.6. Economic Services Revenue Expenditure this was relatively stable, with the growth decelerating from 12.00% to 9.68%.; Capital Expenditure steep deceleration from 14.11% to 4.52%. Growth rate of Agriculture and Allied Services, Irrigation and Flood Control, Transport and Communication, Science, Technology, and Environment services revenue and capital expenditure is declined into two time periods, 2006-16 and 2012-23.
- 16.7. Energy services Revenue Expenditure increased from 8.48% to 11.31% while Capital Expenditure: Dropped slightly from 16.87% to 8.84%, though it still shows robust investment in energy infrastructure.
- 16.8. Some of the services, including Labor Welfare, Information and Broadcasting, and Special Area Programs, have marked as missing or negative growth rate by capital expenditure, which renders very little or no investments.
- 16.9. Industry and Minerals is one area where both revenues and capital expenditures stayed high, signifying the continued interest in industrial development. Overall, the table displays a negative trend in revenue and capital expenditure growth rates by nearly all sectors. It may perhaps suggest some fiscal constraints or a shift in priorities.

Though sectors like Health, Social Welfare, and Energy keep to a significant amount of expenditure, sectors like Agriculture, Education, and Infrastructure-capital expenditure declines. Interest Payment, Pension and Retirement Benefit and Administrative Services are the major proportion of Revenue Non-Developmental Expenditure in 2006-07 to 2015-16, whereas for last decades in the Gujarat State, the key component in the Capital Account is Repayment of Public Debt.

## 17. NON - DEVELOPMENTAL EXPENDITURE OF GUJARAT STATE ON REVENUE ACCOUNT

The table 3.20 shows the non-developmental expenditure of Gujarat from 2012-13 to 2023-24 (RE), with several key components such as General Services, Fiscal Services, Interest Payment and Servicing of Debt, Appropriation for Reduction or Avoidance of Debt, and others. Non-developmental expenditures refer to the state's expenses that do not directly contribute to the creation of assets or development, such as interest payments, administrative costs, pensions, and debt servicing. This type of spending is necessary to keep the wheels of the state moving but has little direct impact on the overall economy. Non-Developmental Expenditure has seen a persistent increase in overall non-developmental expenditure: from Rs. 23,378 crores in 2012-13 to Rs. 69,583 crores in 2023-24 (RE), showing almost 200% growth in 11 years.

**Table 3.20 Non-Developmental Expenditure of Gujarat State (Revenue Account)**

(In Rs. Crore )

Year	General Services	Fiscal Services	Interest Payment and Servicing of Debt	Appropriation for Reduction or Avoidance of debt i.e consolidated sinking fund	Administrative Services	Pension and Misc. General Services	Misc. General Services	Grant in aid and contribution	Non-Developmental Expenditure
2012-13	661.85	376.13	12160.65	0.00	2960.16	7197.80	21.42	162.28	23378.01
2013-14	630.86	450.48	13332.02	0.00	3203.25	8269.99	17.31	325.67	25903.91
2014-15	853.43	449.20	14945.53	0.00	3294.98	9185.23	32.96	535.56	28791.33
2015-16	796.96	613.85	16300.13	500.00	4665.32	9962.73	37.05	558.73	32876.04
2016-17	897.57	643.80	17796.84	0.00	5120.01	11303.04	43.10	415.95	36220.31
2017-18	1228.84	725.81	18954.04	0.00	6478.27	13978.81	35.81	474.06	41875.64
2018-19	1302.45	741.31	20183.36	0.00	7000.67	18295.44	40.56	364.82	47928.61
2019-20	1450.12	688.31	22448.66	0.00	6884.40	17662.59	37.56	415.17	49586.81
2020-21	1165.76	667.86	24203.19	0.00	7438.37	18569.75	29.31	389.59	52463.83
2021-22	1248.57	698.09	25187.78	1500.00	7585.41	20160.26	43.01	412.18	56835.30
2022-23	1866.11	827.38	25353.68	2000.00	8686.47	22435.20	100.27	476.50	61745.61
2023-24 (RE)	2131.45	1133.22	27789.79	2000.00	10632.30	25179.68	100.63	615.85	69582.92

Source: Budget in Brief, Gujarat State, Various Issues

- 17.1.** Increase in Expenditure The growth in expenditure results from the increasing state-level fiscal responsibilities mainly on account of debt servicing, pensions, administrative expenses, and general services. General Services rose from Rs.662 crore in 2012-13 to Rs.2,131 crore in 2023-24 (RE). With this growth, it means that the cost of maintaining governance structures and core governmental functions has increased with time. General services, though the state legislature, judiciary, and executive share most costs, are on the rise in tandem with burgeoning administrative complexities.

- 17.2.** Expenditure on fiscal services, comprising the cost of collection of taxes and treasury operations went up from Rs.376 crore in 2012-13 to Rs.1,133 crore in 2023-24 (RE). This reflected an increase in the activities of management of finances, tax administration, and other fiscal activities that, while the state economy grew, had become progressively more complex over the years.
- 17.3. Increase in Expenditure The growth in expenditure results from the increasing state-level fiscal responsibilities mainly on account of debt servicing, pensions, administrative expenses, and general services. General Services rose from Rs.662 crore in 2012-13 to Rs.2,131 crore in 2023-24 (RE). With this growth, it means that the cost of maintaining governance structures and core governmental functions has increased with time. General services, though the state legislature, judiciary, and executive share most costs, are on the rise in tandem with burgeoning administrative complexities.
- 17.4. Expenditure on fiscal services, comprising the cost of collection of taxes and treasury operations went up from Rs.376 crore in 2012-13 to Rs.1,133 crore in 2023-24 (RE). This reflected an increase in the activities of management of finances, tax administration, and other fiscal activities that, while the state economy grew, had become progressively more complex over the years.
- 17.5. Of the non-development expenditure, interest payments constitute the major share. They have increased from Rs.12,161 crore in 2012-13 to Rs.27,790 crore in 2023-24 (RE). This is over a tripled amount, and a steep increase in interest payments shows that Gujarat has been incurring more debt for financing the activities of the state and has higher long-term obligations. Servicing debt is an unavoidable expense the state has to incur quite irrespective of its revenue performance.
- 17.6. Appropriation for Reduction or Avoidance of Debt (Consolidated Sinking Fund) introduced in 2015-16, the state has maintained Rs.500 crore in 2015-16 and Rs.2,000 crore from 2022-23 onwards as a consolidated sinking fund which will be used for debt reduction. The purpose of this fund is to gradually reduce the state's outstanding liabilities. It is a positive allocation towards managing and reducing the state's debt burden in the long run. The introduction of the consolidated sinking fund to reduce debt reflects an acknowledgment of this increasing burden, but high levels of interest payments continue to limit fiscal space for developmental activities.
- 17.7. Expenditure on administrative services has increased from Rs.2,960 crore in 2012-13 to Rs.10,632 crore in 2023-24 (RE), more than threefold. Administrative services would include costs in relation to governance, public service delivery, as well as maintaining state infrastructure. This increase shows the growing cost of running the state operationally, which also includes extending public services, and the government salaries also.
- 17.8. Pensions and Miscellaneous General Services expenditure has registered a sharp increase from Rs.7,198 crore in 2012-13 to Rs.25,180 crore in 2023-24 (RE). This almost 3.5 times growth indicates that the pension liabilities of the state are growing aggressively. Pension obligations are likely to grow because the public sector workforce is aging. This liability needs to be managed to keep the state healthy in terms of its finances.
- 17.9. Grant in Aid and Contribution - that has a set of contributions to various state entity and bodies - has risen from Rs.162 crore in 2012-13 to Rs.616 crore in 2023-24 (RE). This amount will have to be given by the state to other organizations, local bodies, or entities to meet certain

requirements or for sustaining activities. Interest payments are the biggest and fastest-growing category of non-developmental expenditure. The doubling in interest payment over the period of 11 years reflects an increase in the state's dependence on borrowing, thereby increasing its servicing costs on debt.

- 17.10. Pension payments are rising at a rapid speed, which reflects the aging workforce as well as generous pension provisions in the public sector. On an annual basis, this area of expenditure is more than growing, which may strain future finances. Administrative costs are also on the increase, which reflect higher operational costs for keeping the state services, public safety, and infrastructural machinery running. With expanding government activities and hiring more employees, these administrative costs will not come down easily. Increasing spending for fiscal services is merely the rising importance of financial administration in Gujarat, especially when the economy expands and the process of tax collection and revenue management becomes increasingly complex.
- 17.11. The overall non-developmental expenditure has increased nearly threefold from Rs. 23,378 crore in 2012-13 to Rs. 69,583 crore in 2023-24 (RE). This increasing spending is essential for the functioning of the state but constrains the funds available for developmental spending (for instance, Infrastructure, Education, Health care). The consistent increase in debt servicing costs, pensions, and administrative expenses appears to be a fiscal management challenge requiring fiscal prudence.
- 17.12. Thus, the state may be compelled to find new revenue sources or to restructure its programme of spending to achieve the post-development burden. Since a rather higher proportion of interest payments forms part of the state's budget, Gujarat needs to focus all its debt management strategies to reduce its borrowings and service it more efficiently. This can be through sterner operations of the consolidated sinking fund or through efforts at reducing the fiscal deficit. Rising pension obligations may trigger necessity for pension reforms to make these obligations sustainable again.
- 17.13. Pension reform may take the form of raising new hires to contributory pension schemes, while pension rules may be altered to decrease future liabilities. Costs of administrative services are on the rise and require more efficient governance and administrative efficiency. Consolidation of government activities, using technology more, and redundancy could hold most of these increased expenses. In order to manage the increasing non-developmental expenditure, the state may have to improve revenue generation efforts. This might include improving the collection of taxes, new revenue streams, or enhanced efficiency of state-owned enterprises that can generate additional income.
- 17.14. The non-developmental expenditure of Gujarat has increased significantly on account of rising interest payment, administrative costs, and pension obligations. These are the costs that are vital for running the state, though they present enormous pressure on the budget, constraining available resources for developmental activities. Effective fiscal management, along with pension reforms, debt reduction, and efficiencies, will assume significant importance to manage rising costs while providing a sustainable fiscal long-term position to the state.

## 18. NON - DEVELOPMENTAL EXPENDITURE OF GUJARAT STATE ON CAPITAL ACCOUNT

This table 3.21 gives information about the Non-Developmental expenditure of Capital account of State of Gujarat from the period 2012-13 to 2023-24 (RE). The outflow which does not form assets and is not directly related to development is termed as Non-Developmental expenditure on capital account, such as Debt Repayment, Loans & Advances. Discussing Overall Growth in Non-Developmental Expenditure (Capital Account), the total non-developmental capital expenditure witnessed a huge rise from Rs.6,663 crore in 2012-13 to Rs.30,124 crore in 2023-24 (RE), which is about a growth of 352% in just 11 years. Again, this growth reaffirms the debt obligations and loans granted by the state government, which essentially increases expenditure under non-developmental capital account.

**Table 3.21 Non-Developmental Expenditure of Gujarat State (Capital Account)**

(In Rs. Crore )

Year	General Services	Repayment of PD	Internal Debt of State Government	Loans & Advances for Central Govt.	Loans & Advances by Govt	Non-development expenditure
2012-13	70.05	6536.52	5794.42	742.10	56.68	6663.25
2013-14	272.93	6203.91	5547.63	656.28	52.05	6528.89
2014-15	63.01	5509.20	4848.01	660.19	48.72	5620.93
2015-16	808.21	6194.26	5534.05	660.20	675.18	7677.65
2016-17	622.89	9073.17	8386.27	686.90	477.57	10173.63
2017-18	870.51	13700.23	12991.00	709.23	631.07	15201.81
2018-19	875.04	15432.02	14719.24	712.78	1731.47	18038.53
2019-20	690.86	16701.76	15907.46	794.30	1311.72	18704.34
2020-21	484.36	17922.45	17139.28	783.17	1233.43	19640.24
2021-22	549.54	24436.01	23517.75	918.26	1071.04	26056.59
2022-23	820.06	22158.99	20990.69	1168.30	1465.78	24444.83
2023-24 (RE)	1302.11	26150.51	24961.26	1188.25	2671.77	30124.39

Source: Budget in Brief, Gujarat State, Various Issues

Internal debt obligations increased from Rs.5,794 crore in the financial year 2012-13 to Rs.24,961 crore in the financial year 2023-24 (RE). The increase is over four-fold, which indicates that the state is increasingly dependent on internal borrowings to cater to financial requirements. In this regard, internal debt is growing almost astronomically; therefore, it evokes the sense that Gujarat is gradually remaining dependent on bonds, loans from financial institutions or market borrowings, which in turn increases the debt burden.

Loans and advances to the center. Loans and advances to the center saw a steady going of amounts, ranging between Rs.742 crore in 2012-13 to Rs.1,188 crore in 2023-24 (RE). This head does not show much increase and is a minuscule fraction of the total non-developmental capital expenditure.

Loans & Advances by State Government. This head also saw a significant increase from Rs.57 crore in 2012-13 to Rs.2,672 crore in 2023-24 (RE). This almost nearly 47-fold growth in the state's loans and advances to others reveals that the state has remained extremely active in lending or advancing money to other agencies or entities in the forms of state-owned enterprises, municipalities, or public bodies. This sharp rise, especially in recent years, suggests an official policy shift toward support for development through loans, although these will not generate direct capital for the state government.

At the same time, the biggest chunk of non-development expenditure is always the payment of public debt. This has gone up to almost Rs.26,151 crore in 2023-24 (RE) from Rs.6537 crore. The share would

mean that a substantial amount of Gujarat's capital account goes into debt servicing and less funds for development.

The growing debt repayment liabilities show that the lending behavior of the state in the past decades has created rising fiscal stress. The rise in the liabilities of internal debt shows that Gujarat has increasingly relied on funding its expenditure from internal markets through borrowing. The increasing amount of borrowing will involve higher interest and long-term liability costs in fiscal terms. Successful management of internal debt will be critical to the overall fiscal health of the state, especially to avoid debt trap situations. Increasing Loans and Advances by the State which can be viewed from the fact that loans and advances by the state have substantially increased, it indicates that Gujarat has increased its contribution as a facilitator agency in providing capital to its dependents.

This can be ancillary policy for indirect promotion of development by supporting local bodies, infrastructure projects or other public enterprises. Though such loans may have long-term benefits, this increases the fiscal responsibilities of the state, especially if those loans turned out to be non-performing or written off. Sharp rise in non-developmental capital expenditure has turned into a huge concern for fiscal management. The more the state spent on servicing debts and loans, the fewer funds would be available to be used on capital investments in infrastructure, education, and health.

There is a need to ensure that borrowing will be used for productive purposes generating revenue over the long term as the recipe to fiscal stability. Better Debt and Loan Management Given the increasing spending on debt servicing and loans, Gujarat may need to focus on debt and loan management. This may include refinancing at lower rates of interest and strict monitoring of loans availed for other entities and reduction in the borrowing reliance. The introduction of a consolidated sinking fund-through the revenue account-which in turn helps reduce debt, may reduce some of these pressures in due course. Gujarat's analysis of non-developmental capital expenditure reveals increasing fiscal pressures from debt repayment and internal debt obligations.

While loans and advances the state has sanctioned have multiplied many folds, it shows a larger chunk of the capital budget gets into debt servicing, leaving little space for developmental expenditure. In going ahead, efficacious debt management, judicious borrowing, and a strict control on loan disbursements would provide fiscal space for the state and accommodate more value-added investments.

## **19. CAAGR OF VARIOUS NON DEVELOPMENTAL EXPENDITURE OF GUJARAT STATE**

The table 3.17 shows Compound Annual Average Growth Rates of different Non-Developmental Expenditure categories categorized under Revenue Accounts and Capital Accounts, covering two periods: 2006-16 and 2012-23.

**Table 3.22 CAAGR of Various Non-Developmental Expenditure**

Particulars	Growth Rate 2006-16 (In %)	Growth Rate 2012-23 (In %)
Revenue Accounts		
Non-development expenditure	11.45	9.79
Organ of State	14.68	10.03
Fiscal Services	11.33	7.46
Interest Payment	09.93	7.44
Administrative Services	13.33	11.25
Pension and Retirement Benefits	16.55	11.53
Misc. General Services	-8.74	11.62
Grant in aid and contribution	16.16	4.96
Capital Account		
Non-development expenditure	16.36	<b>16.05</b>
General Services	54.26	19.22
Repayment of Public Debt	15.37	15.52
Internal Debt of State Government (Repayment of PD)	19.75	16.36
Loans & Advances for Central Govt. (Repayment of PD)	0.65	4.89
Disbursement of Loans & Advances	11.65	35.35

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

### 19.1. Non-Developmental Expenditure on Revenue Account :

Expenditure on Organ of State was increased at a slow pace, which signified that the operating costs of constitutional bodies-the Legislature, Judiciary, and Executive-declined. Fiscal Services expenditure reflects the reduction of spends associated with taxation, financial regulation, and revenue management as it moves to efficiency or cost-cutting measures. Interest Payments 2006-16: CAAGR was 9.93% in 2006-16 whereas it declined and became 7.44% during 2012-23; Falling growth rate of interest payments may indicate better debt management through refinancing at lesser interest rates or through fiscal consolidation. Administrative Services growth rate declined, yet it remained very high as a reflection of consistent operational spending on public administration, law and order, and governance.

Pension and retirement benefits CAAGR came at 16.55 (2006-16) and 11.53% (2012-23), the decline indicates a slowdown of pension liabilities growth, but it is still high, indicating demographic shifts, longer lifetime, or government commitment towards retirees. This category had deep recovery after negative growth rate in earlier time period. This reverses the role up to now, potentially from government miscellaneous spending including donations, foreign contributions, and other general services that don't fall neatly into categories.

Grant-in-Aid and Contributions 2006-16 CAAGR was 16.16% in 2012-13 where as it declined and became 4.96 % in 2012-23, this steep decline shows a huge reduction in grants and aids possibly due to tighter fiscal policies or rather due to shifting to direct investment instead of grants.

Revenue Expenditure the overall growth in non-developmental revenue expenditure decelerated to 11.45% from 9.79%, indicating tighter fiscal policies or more efficient current recurrent spending. Some categories like Organ of State, Fiscal Services, and Grant-in-Aid experienced drastic declines in growth rates while Administrative Services and Pensions remained high because the government has always needed to continue sustaining those obligations in governance and retiree welfare. The sharp turn around

in Miscellaneous General Services indicates a possible rise in nonspecific or flexible government expenditures in the latter period.

## **19.2. Non-Developmental Expenditure on Capital Account :**

Repayment of Public Debt CAAGR did not vary much in this category as well and the consistent growth therefore indicates well-placed debt repayment obligations, therefore less fiscal space for reducing costs for servicing debt.

This indicates a marginal slowdown in the rise in state government debt servicing, perhaps in an indicator of more prudent fiscal management or sustainable restructuring plans used. Loans & Advances for Central Government (Repayment of Public Debt) at 4.89 % in 2006-16 increased to 0.65 % in the 2012-23 experiences an astonishing jump in the center's loan repayment, however, growth rate rise remains relatively modest. It portrays repayment step by step of central government loans and advances.

Disbursement of Loans and Advances CAAGR was 11.65 % in 2006-16 that surged and became 35.35 % in 2012-23. The upward jump in the disbursement of loans and advances depicts renewed focus on the extension of finance to states, public enterprises, or other entities, thereby marking proactive governments in operation during the latter period. Capital expenditure growth rates remained firm but decreased from 16.36% to 16.05%, indicating that sustained but more moderated investment in non-developmental areas continues.

General Services most marked decline from 54.26% to 19.22% is to date still a huge growth area, probably given infrastructure investments in security and administration. This is the dramatic leap in Disbursements of Loans and Advances—from 11.65% to 35.35%—which means increasing government lending perhaps with the aim of encouraging the economy or providing much-needed assistance in financial times.

Debt Servicing Related Expenditures; Public Debt Repayment growth rates were consistent across both periods, thus showing that debt repayment needs have been steadily growing. Internal debt of state governments grew at a slightly lower rate, possibly due to better practices in debt management.

In general, there is a slowdown in the growth of non-development revenue expenditure, suggesting improved fiscal discipline and efforts to contain costs of operations. Still, some areas, like Administration Services, Pension Payment, and Miscellaneous Services continued to grow at high rates, which are obvious voluntary obligations.

The capital side, although total growth is very strong, shows a marked decline in General Services while a dramatic rise in Disbursement of Loans and Advances can suggest the trend toward lending as an instrument of financial stability or economic stimulus. Thus, debt related expenditure continues to be a focus area where pressure on government finances keeps building up for repayment obligations.

## **20. FISCAL POSITION (OWN REVENUE/ REVENUE EXPENDITURE) OF THE STATE COMPARE TO OTHER STATES**

In Table 3.23 Own Revenue to Revenue Expenditure ratio for Gujarat has shown a good revenue position compared with most other Indian states for the years 2011-12 to 2022-23. Find below a detailed analysis of data based on trends for Gujarat: 2011-12 to 2013-14: Gujarat maintains a high ratio of 82.9% in 2011-12, which peaks at 86.0% in the year 2012-13 and then slightly drops to 84.2% in the year 2013-14. This reflects a sound ability to finance its expenses through its own revenues during this period. 2014-15 to 2016-17: The ratio shows a marginal decline, dropping to 81.8% in 2014-15 and then further to 75.1% in

2016-17. Although still somewhat high, this would suggest that revenues are not growing as fast as expenditures or perhaps expenditures in the name of social welfare or improvement in infrastructure. 2017-18 to 2019-20: The share declines continuously, to 68.9 percent in 2019-20. This would mean that, by now, spending in public services, infrastructure, or welfare services has been increasing. 2021-22 to 2022-23: Paradoxically, the ratio rebounds to 78.4 percent in 2022-23, meaning that the state's capacity to finance its expenditures out of its revenues improves. This could be driven by rebounding economic activities post-COVID-19, better collection mechanisms for revenues, or better fiscal management practices.

If we Compare with Other States, Gujarat always keeps its Own Revenue to Revenue Expenditure ratio to be higher when compared to many states like Bihar (20.7% in 2022-23), West Bengal (34.7% in 2022-23), and Rajasthan (46.2% in 2022-23). This shows that Gujarat possesses stronger fiscal health as well as more efficiency in revenue generation. Peer Comparison: Compared with states like Goa (64.3% in 2022-23) and Karnataka (70.9% in 2022-23), the ratio in Gujarat remains comparable, suggesting it still holds capable hands managing its fiscal resources. The gradual decline observed in those states during some periods suggest that Gujarat has a relatively more resilient financial framework.

**Table 3.23 Fiscal Position(Own Revenue/ Revenue Expenditure) of the State 2011-2023**

State	Own Revenue/ Revenue Expenditure									
	2011-12	2012-13	2013-14	2014-15	2015-16	2017-18	2018-19	2019-20	2021-22	2022-23
Andhra Pradesh	71.9	73.9	72.1	46.7	46.7	46.4	49.1	44.3	47.7	44.2
Bihar	29.0	31.9	34.4	30.7	33	32.4	28.0	27.4	24.4	20.7
Chhattisgarh	65.3	65.4	59.2	52.1	51	50.4	45.9	40.9	54.6	51.2
Goa	88.7	78.7	77.1	84.0	76.1	76.1	69.9	64.3	67.4	64.3
Gujarat	82.9	86.0	84.2	81.8	76.1	75.1	70.8	68.9	69.6	78.4
Haryana	78.5	74.2	72.9	65.7	60.2	69.5	65.7	59.2	61.7	66.3
Jharkhand	47.6	50.3	56.0	46.2	47.4	43.8	45.8	45.2	49.9	50.8
Karnataka	77.7	75.7	74.7	72.3	69.1	67.9	63.5	63.2	63.3	70.9
Kerala	61.5	64.1	62.1	59.3	60.3	59.4	56.9	59.8	47.1	57.3
Madhya Pradesh	65.4	59.7	59.0	57.0	48.9	45.3	46.2	44.0	45.0	45.4
Maharashtra	77.5	81.8	77.4	71.9	73.6	78.0	76.5	67.7	68.7	66.1
Odisha	57.4	60.4	55.4	54.6	53.1	54.9	53.1	47.4	86.7	64.0
Punjab	61.3	63.9	65.5	61.0	58.6	57.3	52.2	48.3	43.6	42.7
Rajasthan	64.4	67.2	62.3	54.9	50.5	48.0	46.1	42.5	44.6	46.2
Tamil Nadu	77.8	80.2	75.6	67.5	63.4	63.9	61.0	57.2	53.1	60.5
Telangana	0	–	–	70.5	71.7	77.3	77.3	68.9	73.2	72.8
Uttar Pradesh	50.7	50.5	52.5	55.0	49.0	48.6	50.7	47.2	47.0	46.5
West Bengal	35.8	42.3	41.2	39.6	37.3	43.1	41.9	39.3	34.6	34.7

Source: State Finance- A Study of Budget, Various Issues, RBI)

If we speak of the Fiscal Health, the comparatively high and upward trend of the Gujarat ratio reflects an entrenched financial position of the state, keeping it free from greater dependence on debt or extraneous funding for various developmental works. As of now, we examine the Policy Implications: The strengthening of the Own Revenue to Revenue Expenditure ratio indicates sound fiscal policies and also displays a possibility of shifting its emphasis from raising expenditure towards improving revenue collection. This might involve steps toward tax compliance improvement, broadening of the tax base, and public services efficient use. Despite a strong stand, the 2014-15 to 2019-20 decline is a concerning trend.

The long-term health of the fiscal situation would require continued watch over revenue growth vis à vis expenditure.

The own revenues to the revenue expenditure point of Gujarat reflect a powerful fiscal framework which, over the years, has come out with resilience. Though the gap in the ratio recently seems to be recovering, there is an imperative for the state to continue holding on to efficient revenue generation strategies and prudent fiscal management to maintain this trend. The state would finance its expenses through its own revenues since it will play a key role in its sustainable development and sustainability.

## **21. FISCAL POSITION (DEVELOPMENT EXP/AGGREGATE DISBURSEMENT)OF THE STATE COMPARE TO OTHER STATES**

In the Table 3.24, Development Expenditure to Aggregate Disbursement ratio for Gujarat gives a view about fiscal priorities of the state, particularly how much of total expenditures goes into developmental activities.

If we talk about the Development Expenditure of Gujarat, then the value of this ratio starts from 65.3% in 2011-12 for Gujarat, slightly improving to 67.9% in 2012-13, and stabilized at about 67.4% in 2013-14. This demonstrates that the years have been under constant developmental spending. 2014-15 to 2016-17: The ratio continued to be stable and reached a high of 68.3 percent in 2014-15 but declined by a small percentage to 64.4 percent in 2017-18. This decline may be because of rises in non-developmental expenditures, such as administrative costs or social welfare liabilities. 2018-19 to 2019-20: The ratio continues to decline to 63.9 percent in 2018-19 and declines further to 63.7 percent in 2019-20. It now appears that there is a shift in fiscal priorities or a knee-jerk reaction to some budgetary constraint limiting such additional allocation as the development expenditure as a proportion of total spending might be viewed. 2021-22 to 2022-23: This ratio improves marginally as it stands at 65.4% in 2022-23. It signifies renewed ideological commitment to developmental spending, perhaps since the economy is recovering from COVID-19 pandemic shocks.

If we talk about Comparative Position Compared to Other States, the 2022-23 ratio of 65.4% puts Gujarat at a good position against other states. For example, it surpasses Kerala at 42.6% and Punjab at 37.6%. It indicates that Gujarat has a more significant emphasis on development compared to these states. By the same token, with regards to the peer states - Karnataka (66.9% in 2022-23) and Maharashtra (60.0% in 2022-23) - Gujarat stands out in a competitive position, underlining its commitment to development as a salient component of its fiscal strategy. Prioritization Fiscal: The ratio of development expenditure reveals Gujarat's commitment to spending on infrastructure, social welfare, and other development projects. This is crucial for long-term economic growth and for improving the quality of life among its residents.

**Table 3.24 Fiscal Position (Development Exp/Aggregate Disbursement)of the State 2011-2023**

State	Development Expenditure/ Aggregate Disbursement*									
	2011-12	2012-13	2013-14	2014-15	2015-16	2017-18	2018-19	2019-20	2021-22	2022-23
Andhra Pradesh	68.0	68.2	66.9	73.6	70.2	66.7	66.5	61.1	62.4	67.5
Bihar	64.6	67.6	67.1	66.4	68.2	70.1	68.2	64.4	68.3	70.5
Chhattisgarh	74.2	75.1	75.4	76.2	76.2	77.0	76.5	67.9	66.5	72.9
Goa	69.6	68.2	68.0	66.2	68.7	64.9	63.1	63.1	64.6	66.3
Gujarat	65.3	67.9	67.4	68.3	68.1	64.4	63.9	63.7	61.8	65.4
Haryana	68.7	68.8	66.3	64.9	72.9	66.7	64.7	64.6	54.6	54.6
Jharkhand	62.9	63.7	60.7	67.9	72.8	70.0	67.6	65.8	65.9	67.8
Karnataka	71	70.5	69.0	69.1	70.5	73.1	72.0	70.5	69.4	66.9
Kerala	50.3	52.0	49.7	48.5	51.3	48.9	46.8	42.7	47.2	42.6
Madhya Pradesh	71.8	69.4	67.3	71.6	70.3	72.9	69.2	69.9	69.7	66.5
Maharashtra	65.6	65.4	63.9	64.9	63.7	61.0	60.0	59.5	57.1	60.0
Odisha	65.9	64.8	69.0	71.3	75.6	74.7	73.6	71.8	63.8	67.4
Punjab	46.3	50.0	48.3	49.0	53.1	40.9	45.8	49.4	44.1	37.6
Rajasthan	65.3	68.4	70.2	71.3	78.6	69.0	64.8	64.5	66.9	68.2
Tamil Nadu	62.9	61.8	62.3	62.4	62.1	59.8	57.5	56.3	60.3	57.3
Telangana	0	–	–	73.6	72.8	69.9	69.1	68.1	70.4	75.6
Uttar Pradesh	56.7	56.4	58.5	62.4	66.7	58.5	57.2	55.5	58.8	65.3
West Bengal	52	54.2	53.1	57.1	60	59.2	60.8	57.1	57.4	60.0

Source: State Finance- A Study of Budget, Various Issues, RBI)

Now let us make Policy Considerations, The trends seem to indicate that though Gujarat has generally shown an emphasis on development, proper vigil will be required not to let spending on development decline in proportion to other spending, particularly at this juncture of economic stress. Let's see Potential Challenges: The drop from 2014-15 to 2019-20 may pose a question about the balance between developmental and non-developmental spending. Policies need to ensure that the growth in administrative costs does not outpace the funding for critical development projects.

Gujarat's Development Expenditure in terms of Aggregate Disbursement is impressive, strongly rooted over the years with a slight recovery in recent years. It thus indicates an accommodative finance policy that puts forth enhancing development policies leading to economic growth as well as public welfare. Continued appraisals and strategic resource use will be vital in sustaining and further augmenting this developmental thrust.

## **22. FISCAL POSITION (NON- DEVP EXP/AGGREGATE DISBURSEMENT) OF THE STATE COMPARE TO OTHER STATES**

Table 3.25 Non-Developmental Expenditure to Aggregate Disbursement ratio for Gujarat State-wise A/D: Insights The above diagram depicts a way to calculate the fiscal management, specifically the amount of aggregate spending which is on non-developmental heads, for the state of Gujarat. Now, let us break up the data from the view of Gujarat: Here we provide Gujarat's Non-Developmental Expenditure Analysis, 2011-12 to 2013-14: Gujarat opens at 27.8% in 2011-12 and then declines very slightly to 25.3% in 2012-13 and stabilizes at around 26.4% in 2013-14. This early decline therefore implies priorities concerning non-developmental spending control within these years that can allow more or better uses of allocations towards developmental activities. 2014-15 to 2016-17: The ratio remains relatively steady at 26.5% in 2014-15 and 26.6% in 2015-16, indicating that the state was effectively controlling

non-developmental expenditure. A slight rise to 26.7% during 2017-18 reflects a minor increase in non-developmental outlays. 2018-19 to 2019-20: The ratio steadily increases from 27.2% in 2018-19 to 27.0% in 2019-20. This period may hint at rising administrative expenses or other non-developmental liability areas through which the state is trying to make its way through economic distress. This again shows a new attempt to reduce non-developmental expenditures, thus enabling a better utilization of resources for developmental spending. The ratio drops to 26.6% in 2021-22 and further declines to 25.5% in 2022-23.

**Table 3.25 Fiscal Position (Non-Devp Exp/Aggregate Disbursement)of the State 2011-2023**

State	Non-Developmental Expenditure/ Aggregate Disbursement*									
	2011-12	2012-13	2013-14	2014-15	2015-16	2017-18	2018-19	2019-20	2021-22	2022-23
Andhra Pradesh	26.0	25.8	27.6	21.9	24.7	26.8	25.2	28.2	30.3	25.7
Bihar	30.5	28.0	29.0	29.7	28.1	26.5	27.2	30.6	27.2	24.4
Chhattisgarh	20.7	19.5	20.4	19.6	20.4	19.5	20.8	21.2	22.9	21.2
Goa	26.4	27.2	27.9	29.7	27.1	29.2	30.4	29.7	30.0	28.8
Gujarat	27.8	25.3	26.4	26.5	26.6	26.7	27.2	27.0	26.6	25.5
Haryana	26.6	26.3	28.6	30.7	23.5	30.0	29.2	29.5	29.4	28.3
Jharkhand	30.8	29.1	33.7	27.4	23.1	25.7	27.9	28.2	28.6	25.5
Karnataka	20.0	21.5	23.0	22.5	22.4	19.0	20.3	22.2	23.1	25.9
Kerala	38.1	37.0	38.6	39.5	39.9	39.1	39.7	45.2	39.9	41.4
Madhya Pradesh	20.3	21.4	23.2	20.3	21.1	19.5	21.0	21.3	21.0	22.5
Maharashtra	29.4	29.6	29.5	29.6	29.3	27.9	26.3	27.9	28.6	25.3
Odisha	27.0	27.1	25.3	22.8	19.6	21.3	21.8	23.5	22.4	24.9
Punjab	46.3	42.2	42.9	43.9	39.7	48.0	42.7	36.6	38.2	29.6
Rajasthan	28.9	25.5	25.2	24.4	18.5	24.5	26.9	26.7	26.1	24.9
Tamil Nadu	26.8	26.5	27.1	27.2	27.6	30.2	30.2	30.7	27.3	28.9
Telangana	-	-	-	23.4	24.2	26.2	25.8	26.0	24.8	19.5
Uttar Pradesh	35.2	35.3	32.6	29.0	26	34.0	34.4	35.1	30.9	27.8
West Bengal	38.7	37.2	37.9	35.1	32.8	29.7	28.6	30.7	30.4	29.4

Source: State Finance- A Study of Budget, Various Issues, RBI)

If we compared with Other States, Gujarat stands at 25.5% in 2022-23, thus relatively at the front compared to Kerala (41.4%) and Punjab (29.6%), which signifies prudent non-development spending. If the ratio is compared with other peer states like Haryana (28.3%) and Maharashtra (25.3%), the Gujarat ratio depicts a careful balancing act with onus on development along with efficient management of non-development costs.

If we do the analysis regarding Fiscal Management, the trends clearly reflect that Gujarat has been able to manage the non-development spending which is a great thing for ensuring more funds can be allocated towards development. This focus can drive growth in infrastructure, education, and health, which definitely will benefit the population of the state. Let us now see the Policy Considerations: The gradual reduction of non-developmental expenditure ratio in recent years implies that the government is gradually giving preference to more efficient uses of resources. Policymakers should continue monitoring the impact of non-developmental spending and discuss ways to further optimize these expenditures. If one speaks about the Challenges Ahead: Though overall, there has been a declining trend; on the other hand, the small upsurge in non-development expenditure from 2014-15 to 2019-20 evokes some doubt on possible inefficiency. Continuous endeavors are required so that non-development expenditures do not compromise the developmental expenditures which are critical.

The Non-Developmental Expenditure to Aggregate Disbursement of Gujarat indicates an impressive responsibility toward maintaining the Non-Developmental Spending ratio at a low level. Growth and development in sectors, it is imperative to mention, are driven more effectively with this focus. The recent trend of this ratio decreasing also emphasizes an increasing urge for responsible fiscal management, thus leaving more fund for developmental activities. Continuous monitoring and strategic policy decisions will be necessary to sustain this momentum and address emerging challenges in fiscal allocation.

### **23. FISCAL POSITION ( INTEREST PAYMENT / AGGREGATE DISBURSEMENT) OF THE STATE COMPARE TO OTHER STATES**

If we analyze the Table 3.26, Interest Payment as a Percentage of Revenue Expenditure for Gujarat gives an idea of the fiscal health of the state and its handling of debt obligations over time. Gujarat's interest payment ratio of Gujarat starts at 18.3 per cent in 2011-12 and comes down to 17.2 per cent in 2014-15. This downward trend indicates effective debt management or increased revenue expenditure compared with interest payments, which reflects that maybe the state was undertaking measures to reverse the debt burden in these years. 2015-16: This ratio stabilizes around 17% depicting continued effective management of the fiscal responsibilities by the state. 2017-18 to 2019-20: It shows a sharp decline where the ratio comes down to 16.1% in 2017-18, to 15.2% in 2018-19 and to 15.9% in 2019-20. The overall trend would present a falling interest paying liability of Gujarat over these years possibly due to debt restructuring or revenue augmenting exercise. 2021-22 to 2022-23: The ratio again goes down to 15.7% in 2021-22 and to 13.6% in 2022-23. This continued decline reflects a commendable effort to keep interest payments small relative to revenue expenditure, accounting for a healthier fiscal environment and better debt management.

Next, we discuss the Comparative Position vis-à-vis Other States: Interest Payment Ratio of Gujarat was at 13.6% in the year 2022-23. This however represents more than those in Odisha at 4.8 percent, Chhattisgarh at 7.7 percent, but remarkably lower compared to Punjab at 17.1 percent and West Bengal at 17.0 percent. This is a reflection of balanced debt management. Comparing Gujarat with other economically progressive states such as Maharashtra at 10.2% and Tamil Nadu at 17.0%, it is well placed in a more favorable position in that direction, manifesting effective fiscal policies. If we discuss the fiscal health of the state, decline in interest payments as a percentage of revenue expenditure registers an improving fiscal health of Gujarat. This may suggest that, indeed, the state expanded its revenue base or efficiently controlled its expenditures. Under Debt Management, the level of interest payments was reduced from 18.3 percent to 13.6 percent could be deemed successful management measures from the point of view of the debt level, which may include debt refinancing or parsimonious fiscal policies that catered for the interests of development in the state at the expense of interest obligations. To sustain this positive trend, Gujarat should continue focusing on its revenue-generating capacity and at the same time look for avenues to reduce interest obligations further and ensure that all new borrowing is productive investment that will yield returns in the future.

**Table 3.26 Fiscal Position (Interest Payment /Aggregate Disbursement) of the State 2011-2023**

State	Interest Payment/Revenue Expenditure									
	2011-12	2012-13	2013-14	2014-15	2015-16	2017-18	2018-19	2019-20	20212-22	2022-23
Andhra Pradesh	11.7	11.4	11.7	8.7	10.3	11.4	11.9	12.8	13.9	12.3
Bihar	9.3	8.1	8.7	8.4	8.5	8.8	8.1	8.9	8.7	7.1
Chhattisgarh	5.3	4.3	4.1	4.2	4.9	5.5	5.7	6.8	8.2	7.7
Goa	12.9	13.2	13.1	13.6	12.8	11.8	12.1	12.7	12.5	10.9
Gujarat	18.3	17.5	17.7	17.2	17	16.1	15.2	15.9	15.7	13.6
Haryana	12.5	12.5	14.0	14.1	14	16.3	17.6	18.4	18.7	18.3
Jharkhand	10.8	10.2	11.2	9.2	9.1	9.1	9.2	9.4	10.0	9.0
Karnataka	9.3	9.0	8.8	9.1	9.2	9.8	9.4	10.6	11.9	13.5
Kerala	13.7	13.5	13.7	13.6	14.1	15.1	15.2	18.3	15.9	16.7
Madhya Pradesh	10.1	8.9	9.1	8.6	8.1	8.5	9.0	9.4	10.2	10.2
Maharashtra	14.2	13.7	13.7	13.5	13.5	13.7	12.7	11.2	11.5	10.2
Odisha	7.4	7.3	6.3	5.5	5.7	6.9	6.8	6.1	5.8	4.8
Punjab	19.0	17.3	18.8	19.2	19.5	24.5	21.6	23.2	19.7	17.1
Rajasthan	14.7	13.1	12.0	11.1	11.3	13.5	13.0	13.4	13.4	12.4
Tamil Nadu	10.6	10.5	11.3	11.3	12.3	15.5	14.6	15.2	16.4	17.0
Telangana	-	-	-	10.3	10	12.7	13.0	13.2	14.0	10.9
Uttar Pradesh	12.5	12.0	11.0	11.0	10.1	10.9	10.6	13.7	12.7	10.8
West Bengal	21.7	21.4	22.6	20.8	19.5	19.9	18.5	19.5	17.4	17.0

Source: State Finance- A Study of Budget, Various Issues, RBI)

Interest payment as a proportion of revenue expenditure for Gujarat is laudable as it has declined from 18.3% in 2011-12 to 13.6% in 2022-23, thereby depicting effective debt management and healthy fiscal position. This ability of the state to contain interest payments and still expand its revenue expenditure is a good indicator of its economic management. Long-term sustainability of this positive trend would require continued focus on prudence in its fiscal management and revenue generation.

#### **24. 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 is a welfare state that used to focus on developing social sectors and economic sectors for the last few decades. Public Expenditure Theory has proposed that Government Expenditure directly affects the income of people, employment, and the development of the society. CAAGR of the total expenditure of the study period stands at 9.29% where the expenditure of the state increased from Rs.98,304 Crore in 2012-13 to Rs.2,84,694 crore in 2023-24 (RE).

Both revenue and capital expenditures also increased by 9.39 % and 8.96% respectively. Table No:3.1 clearly indicates that the total expenditure and revenue and capital expenditure have almost increased by three times during these twelve years. Revenue expenditure and capital expenditure in relation to the relative share of revenue expenditure and capital expenditure into total expenditure, the ratio has been maintained at 71: 29 in the year 2012-13 where as it is 70: 30 in the year 2023-24 (RE). If the entire period of twelve years is considered it was fluctuating and it is nearing 75 : 25. If we take the period

from 2012-13 to 2020-21, the Capital Expenditure as percentage of Total Expenditure comes down from 29.14% in 2012-13 to 30.74% in 2023-24 (RE), which may be on account of less long term investment in the respective years. Developmental and Non-Developmental Expenditure for the period of 2012-13 to 2023-24 (RE).

The total developmental expenditure was Rs.68,100 crore in 2012-13 increased two and half times and was Rs.1,84,986 crore in 2022-23(RE); The total non-developmental expenditure was Rs.30,041 Crore in the year 2012-13 increased nearly three and half times and was Rs. 99,091 Crore in the year 2022-23(RE) in Gujarat. The same trend is quite visible in the present table also where composition of developmental expenditure and non-developmental expenditure in total expenditure was nearly 69:31 in 2012-13, while the same in the year 2022-23(RE) was 65:35. It indicates thinking about the fact that Expenditure for development activities was decreasing proportionately that shows Government of Gujarat has to seriously consider Expenditure Reforms which will be beneficial to the society and improve the Human and Economic Development and has to take necessary steps for the same.

Such types of conclusions are, however, too early. 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 in nature. If it is in Capital account, then it is more fruitful in terms of income and employment generation. The estimated CAAGR of Development Expenditure of Gujarat for the period 2006-07 to 2015-16 is around 14.46%. The rate of growth of Development Expenditure had undergone a significant declination. It stands at the level of 8.33% during the 2012-23. On the other hand, CAAGR for Non-development Expenditure was 12.26% during 2006-07 to 2015-16 and CAAGR for Non-Development Expenditure was decreased and became 11.25% during 2012-23 but there is a critical point as the state has increased the Non-Development Expenditure by almost 11 % compare to CAAGR of Development Expenditure i.e. 8.33 during 2012-23. The state may take necessary measures to control the Non-Development Expenditure. Development Expenditure / GSDP ratio was at 9.40 % in the year 2012-13 nearly crossed and it remained at 7.51% in the year 2023-24 (RE), whereas Non-Developmental Expenditure/GSDP ratio was at 4.15% in the year 2012-13 which became 4.02 in the 2023-24 (RE).

The two heads of Developmental Expenditure are huge in nature, such as Social Services and Economic Services. Total Social Services Expenditure was Rs.35,633 crore, which includes Rs. 29,529 in Revenue Account and Rs.6,104 crore in Capital Account in the year 2012-13, which came out three times and reached a tremendous amount of Rs. 1,05,666 crores, out of which Rs.81,771 crore is in Revenue Account and Rs. 23,885 crore is in Capital Account in the year 2023-24 (RE). If we discuss about Expenditure on Economic Services, then it was Rs. 32,467 crores in the year 2012-13, out of which Rs.16,589 crores and Rs.15,878 crores are respectively Revenue and Capital Account. This increased nearly two and half times and became Rs. 79,330 crores in total and Rs. 45,821 crores in Revenue Account and Rs.33,509 Crore in Capital Account in the year 2023-24 (RE). The total expenditure has been steadily in the rise for year by year, though this is equilibrated by the growing share of social services instead of simply both types of services.

A change of emphasis from services to the economy means a policy focus on healthcare, education, and welfare expenditures vis a vis infrastructure and economic effort. The Compounded Average Annual Growth Rate for Social Service has been 16 % and 13% for the period of 2006-07 to 2015-16, whereas for the period of twelve years i.e 2012-23, it has been 9% and 8% respectively. Both revenue and capital expenditures in social services have increased at high growth rates but compare to 2006-16 CAAGR is comparatively low for Social as well as Economic Services in the state.

Total expenditure grew with an annualized growth of 10.74% which is lower than the GSDP growth rate standing at 12.25% in the period from 2011-12 to 2023-24 (RE) as shown in Table 3.7 reflecting the developmental thrust of State's public expenditure. The Government strategy would be to effectively control non-developmental expenditure to enhance the resource allocation towards development activity. This is the consequence of recalibration of government consumption expenditures and giving preference to plan projects accentuating social, educational, and financial sectors. Emulating Centre, Gujarat Government has integrated plan and non-plan expenditure in its budget since the financial year 2017-18. Capital Expenditure: The capital expenditure of the Government has been showing an improving trend. Against the capital expenditure of Rs. 59124 crores in 2022-23, the capital expenditure in 2023-24 (RE) is Rs 87519 crore showing a growth of 48.03 % year on year basis. The State Government has budgeted the capital expenditure of Rs. 108615 crores for FY 2024-25 (BE).

For Curbing Growth of Revenue Expenditure, State Government has taken interest in checking growth of Revenue Expenditure so that resources available thereon could be optimally availed for developmental purposes. On the other hand, it is also highlighted that such delivery of services principally on the social services like health, education and nutrition happen with a high proportion of revenue expenditure. This expenditure in social sector is not only inevitable but also desirable towards improving reach and intensity of these services. The annualized growth of Revenue Expenditure over FY 2011-12 to FY 2023-24 (RE) has been 10.46% while Revenue Receipts has shown an annualized growth of 10.81% during the same period. Table 3.8 Revenue expenditure over the years: The State Government has been successful in controlling the revenue expenditure year after year. Due to various series of economy measures, such as appropriate public debt management, judicious expenditure, rationalization of staff strength, and others, the State Government has persistently been able to control the revenue expenditure.

Hikes in salary and pension because of the Seventh Pay Commission and changes in allowances effective from October 2022 are impacting revenue surplus and fiscal deficit. Debt financing is one of the major sources for funding long gestation projects. Of the various constituents of public debt, State government has nearly full control in open market borrowing. However, State government has consciously adopted a need based borrowing approach and is successful in keeping Interest on Public Debt in check. In Gujarat State, the merger of Plan and Non-Plan expenditure in its budget was implemented from Financial Year 2017-18. Subsidies are highest in the case of Power subsidy to Agriculture Sector.

As on 31st March, 2024, the gross public debt of the State is estimated to be Rs.377962 crore which works out to 15.34% of the GSDP. Loans and Advances from Centre as Additional Central Assistance (ACA): Based on the recommendations of the Twelfth Finance Commission, the Government of India has stopped advancing plan loans from the FY 2005-06 to the States, except in case of ongoing externally aided projects (EAP). Consequently, this has not been incorporated in medium term fiscal policy projections.

The 14th Finance Commission has recommended to discontinue NSSF loans from Centre to States. In this regard, NSSF loan has been stopped to disburse to the State since Financial Year 2016-17. Market Loans are the largest constituent of public debt accounting for 83.63% of the total public debt as on 31st March, 2023. According to FY 2023- 24 (RE), it is estimated that the State would borrow Rs.51000 crore in the financial year. In case of open market borrowing, the State has borrowed at most competitive rates without taking recourse to underwriting. This has saved high interest costs for the State as the market borrowings are made around weighted average cost of 7.46% in FY 2023-24 (RE). During FY 2022-23, the State is seen to have borrowed at competitive interest rates in the Market at the time of borrowing. Recovery of loans and advances: In Financial year 2022-23, Rs. 14363 crore of loans and advances were outstanding. The State Government recovered Rs.254 crore in 2022-23 and the recovery has been

estimated to be Rs. 270 crore in 2023-24 (RE). Borrowings from financial Institutions: The borrowings from the institutions like NABARD, SIDBI, HUDCO, NHB are project based and are part of the overall borrowing programme.

Loans from NABARD carries weighted average interest rate of 5.25% in FY 2023-24 (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. Moreover, the state PSUs borrow from the financial institutions after receiving Guarantee from the state government. This adds to the contingent liability of the state. The salary expenditure of the State Government has increased to Rs.44528 crore in 2023-24 (RE) as compared to Rs. 41557 crore in 2022-23, showing YOY rise of 7.15%. Due to implementation of Seventh Pay Commission from the FY 2016-17, New Recruitment by the State Government and revision in allowances as per recommendation of Seventh pay Commission with effect from October 2022, salary and pension expenditure increases day by day. The State Government has introduced the New Pension Scheme (NPS) w.e.f. 1st April 2005, modeled on Government of India scheme. Total number of subscribers in NPS as on 31st December, 2023 are 247464. 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. The fiscal policy strives to increase capital expenditure so that higher investments take place in social and economic infrastructures. This is achievable by maximizing revenue receipts of the state while simultaneously 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. Declining level of Public Debt to GSDP ratio reflects that the borrowings are mainly utilized in fostering the economic growth of State. The State has been very conscious of the magnitude and composition of its outstanding liabilities and a number of steps have been taken to contain its liabilities. It is observed that better financial management of the State was also being recognized by the market and the State was able to raise money at most competitive rates. The State Government's confidence in handling the market participants was also reflected in the fact that not even one of the borrowing exercises was underwritten, which further reduced the cost of borrowings. A full-fledged Debt Management Office has been operational under the Finance Department to focus fully on all ramifications of debt management among the public. The Consolidated Sinking Fund, which would be established, would continue to be augmented to take care of pay-outs at the time of maturity of borrowings.

It is equally important to provide adequacy to the social and welfare programmes in order to add a fillip to equitable and inclusive growth. The level of social sector expenditure has very important implications towards improving the human development index of the State. 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 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 implemented Direct Benefit Transfer (DBT) System. The State Government has ensured that the right beneficiary is identified. It is a straightforward, user friendly Government to People (G2P) interface. By implementation of DBT, the State Government is able to control revenue expenditure and benefits are going to the right people without any hassle. The Government of Gujarat had taken a forward decision to bring out outcome budget from FY 2017-18. This is an important shift from traditional methods of measuring performance on the basis of expenditure incurred or level of spending. The outcome-based budget is intended to relate Government spending with specific outcomes that are, in turn, reflective of priorities and a developmental approach of the Government. This step will lead towards prudent fiscal management.

The State is considering a few measures in order to carry forward the reforms in the expenditure side to make it more effective. This includes rationalization of approval processes, better delegation of powers, improved expenditure on MIS and introduction of a public investment approval mechanism that seeks to cut down delays, improve the quality of project appraisal and ensure better targeting. The state government has paid more attention to capital formation as the state has increased expenditure on quality capital outlay. Capital Expenditure for FY 2024-25 stands at Rs 108615 Crore, which is 24.10% higher than the revised estimates of FY 2023-24 (RE). This is most likely to create a virtuous cycle of capital formation in Private Sector, a higher multiplier effect, an enhancement of the future productive capacity of the economy, and promotion of a higher rate of growth of economy. The budgetary outlay for the coming years will be definite attempts to address the key areas such as social sectors, agriculture, rural infrastructure, urban amenities, tourism, green energy, IT/ITES, fisheries, co-operative sector, irrigation, and water supply.

The major thrust areas of public expenditure in the forthcoming year are:

- 1) Social Sector spending with a focus on Human Development Indicators in Health, Education, ICDS, and Rural Development.
- 2) Agriculture sector in the direction of providing sustainable livelihood by outlays in Crop Insurance, Fisheries, Horticulture, Micro Irrigation and infusion in the Co-operative Organizations.
- 3) Rural Infrastructure shall be strengthened with special outlays for upgrading rural connectivity through roads and bridges.
- 4) Urban Amenities shall be upgraded by outlays for various urban infrastructure and housing projects.
- 5) Digital Infrastructure
- 6) Renewable Energy

The state government has envisioned a noticeable role for the mobilization of additional resources above the budgetary outlays for various sectors by exploiting the borrowing space 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 toward making expenditure and investment in the above stated priority sectors.

Proper planning has been done regarding financial resources for budgetary provision as well for the proposed unprecedented increase in capital expenditure.

Apart from traditional sources of receipt of the state government, new sources of capital receipt are planned. Along with asset monetization, State Government will try to have disinvestment of non-strategic and commercially run public enterprises. In addition, the state government will make efforts to avail low

interest rate loans from institutions like NABARD, SIDBI, NHB etc. Public Private Partnership, Viability Gap Funding (VGF) and Multilateral Funding will be encouraged to provide investments in the non-government sector. Contingent liabilities of the State Government, defined in terms of its outstanding guarantees, have improved significantly in the last few years.

The current level of outstanding is far below the level of the ceiling of Rs. 20000 crore fixed as per the Gujarat State Guarantees Act, 1963. A Guarantee Redemption Fund (GRF) is being maintained to take care of any contingent liabilities arising out of the State Government guarantees. The GRF has been aggregated to Rs.617 crore as on end of December, 2023, which has attained the level considered necessary to meet the contingency. The State government will ensure that new guarantees will be given subject to vacation of guarantees.

State Government has implemented the 7<sup>th</sup> Pay Commission for Government employees from 2016-17 and also revised allowances as per recommendation of Seventh pay Commission with effect from October 2022. State Government has also hiked pay of fix pay employees. The fiscal space available to Government is limited, since essential items of expenditure like salaries, pensions and interest payment absorb a significant share in the total expenditure. The State Government is committed to progressive, growth-oriented budget outlay in the priority sectors identified by the State. Along with increased outlays, the state government shall raise resources from national and multilateral bodies, focusing on fiscal prudence.

Application of resources is being done keeping in view the overall objective of achieving inclusive growth that is concentrating on improvements of HDI. For this, Government has planned several initiatives aimed at improved health and education, eradication of poverty and unemployment leading to equitable growth and sustainable development. Thus the state will be able to contain its fiscal deficit without compromising on its developmental initiatives.

Fiscal transparency and disclosures are essential for effective and sustainable debt management. It helps in a balanced and prudent fiscal management and towards achieving macroeconomic equilibrium. It involves the provision of complete and accurate information regarding past, present and future activities and decisions. The State Government has taken steps to make as much information as practically possible available to the public. The budgetary process involves placing all financial statements and underlying information and assumptions on the table of the House.

Assumptions made in 'Medium Term Fiscal Policy Statement' and 'Fiscal Policy Strategy Statement' are based on the available data and projections of the State Government. All disclosure statements as required have been given herein. The State shall study the trends in receipts and expenditure from the budgetary point of view, and remedial measures necessary for achieving the budgeted targets shall be enunciated.(See, FRBM Documents, February 2014)

#### Gujarat State Expenditure Reforms (2012-2023)

Gujarat has brought about several reforms in its public expenditure framework over the last ten years (2012-2023) in order to ensure fiscal prudence, efficient resource use, and balanced growth. This is part of an evolutionary strategy wherein governance may be improved, social welfare enhanced, and economic development accelerated while managing debt and keeping fiscal discipline.

## **Focus on Fiscal Consolidation**

Just as in other states, Gujarat faced mounting fiscal pressure, which intensified with increasing debt levels. A marked aspect of the reforms was the core focus on fiscal consolidation to maintain a sustainable borrowing and expenditure level. This would be characterized by:

- **Deficit Reduction:** The state would try its best to achieve a fiscal deficit that did not stray beyond the limits fixed by the Fiscal Responsibility and Budget Management (FRBM) Act.
- **Expenditure Rationalization:** The government introduced measures to rationalize both development and non-developmental expenditure to limit wasteful spending.
- **Revenue Growth:** There were efforts to boost tax and non-tax revenue collection to ensure fiscal space for development activities.

## **Debt Management and Reduction Initiatives**

Debt servicing has been a major challenge, as reflected in the rising internal debt and debt repayment obligations from the capital account. Major reforms in debt management include:

- **Sinking Fund:** Provisions for the Consolidated Sinking Fund have been introduced to enhance the lightening of state debt and smooth debt repayment schedules. It can be reflected through the incrementally growing contributions to the sinking fund that began to appear in revenue account tables around 2021-22.
- **Debt Refinancing:** Gujarat restructured the debt at lower rates of interest and consequently brought down the interest burden. The clients were capable of owning repayment tenures and resulted in lesser immediate fiscal pressures.

## **Reforms on Non-Developmental Expenditure:**

The non-developmental expenditure of Gujarat witnessed a significant increase during the decade under review, mainly due to debt servicing, pensions, and administrative services. However, the government initiated reforms to enhance productivity in addition to reducing the share of non-productive expenditures:

- **Pension Reforms:** The government studied pension scheme reforms, which included new recruits to a contributory pension system, known as the New Pension Scheme or NPS, thereby reducing long-term pension liabilities that usually impose a burden on state coffers.
- **Administrative Reforms:** Efficiency measures were taken to rein in the increasing administrative costs. It consisted of digitization, eradication of redundancy in the government's processes, and effective service delivery through e-governance.

## **Developmental Expenditure as Priority**

Even though non-developmental expenditure was growing, Gujarat continued prioritizing developmental spending, especially on sectors like infrastructure, health, education, and agriculture:

- **Infrastructure Investments:** Gujarat allocated significant resources toward transportation, energy, and irrigation infrastructure, critical for its economic development. The Economic Services capital account showed major growth in infrastructure components such as Irrigation and Flood Control and Energy. Investments in these areas increased from Rs.7,041 crore in 2012-13 to Rs.10,338 crore in 2023-24 (RE).

- Social Sector Spending: Gujarat spent more on such social services as health, education, and rural development, ensuring that fundamental public services expanded in tandem with economic growth.

### **Public-Private Partnerships (PPP)**

- Gujarat steadily relied more on PPP models to finance infrastructure projects, of course, mainly roads, ports, and power. The state could devolve its immediate fiscal burden by attracting private investment while still meeting development objectives.
- These partnerships assisted the government in allowing strategic spend on other key sectors and ensuring capital-intensive projects remained while not depending solely on state finances.

### **Effective Public Service Delivery through Technology**

- The state adopted e-governance and digitization for expenditure which would reduce leakage and increase transparency. Direct Benefit Transfers indeed reduced administrative costs associated with delivery service.
- E-tendering systems streamlined procurement processes, eliminating most inefficiencies and reducing the scope for corruption, thus saving costs.

### **Subsidy Rationalization**

- The Gujarat implemented reforms to rationalize its subsidy schemes, particularly on power. Though subsidies in the agriculture sector were maintained, they were gradually restructured to be more targeted.
- Power Sector Reforms: The government undertook power sector reforms to minimize fiscal stress due to inefficient electricity supply and subsidy payments. One such scheme introduced by the state was Gujarat's Jyotigram Scheme, wherein subsidy payments were simplified to ensure proper utilization to restore power supply.

### **Human Capital Development Expenditure**

- Human capital was considered a necessity, and therefore, there has been an enhancement in expenditure on education and health skill development. Under education, the state focused on quality improvements; the state's emphasis was on teacher training, infrastructure development, and digital learning tools.
- Under health, Gujarat increased expenditure on primary health care and disease control programs as well as upgradation of the public health infrastructure to reduce out-of-pocket expenditure on healthcare for its citizens.

### **Irrigation and Water Resources Management**

Irrigation and flood control expenses have seen a significant rise from Rs.7,041 crore in 2012-13 to Rs.10,338 crore in 2023-24 (RE). This reflects the state's attention to improve agricultural productivity and proper water resource management, especially in drought-prone areas.

### **Capital Expenditure on Infrastructure**

- Infrastructure investment in Gujarat remained really high during this period. Through the GIDB, infrastructure investments in ports, roads, industrial parks were channeled in support of the state's growth strategy.
- Transport and communication were given special attention during the period, since spending in these areas was rising steadily. Transport investment indicated better connectivity between rural and urban areas that would spur economic growth.

### **Agricultural Reforms**

- The state government spent allocated amounts on agriculture and allied services through consistent spending on rural development programs, irrigation schemes, and farmer welfare programs. This was a method to tackle drought and flood risks, but also increase productivity of agriculture.
- Krishi Mahotsav, a Gujarat initiative towards the improvement of agricultural extension services and availability of inputs like seeds and fertilizers at subsidized rates, was one major aspect of its agricultural policy reforms.

### **Impact of COVID-19 and Response**

- The pandemic brought the biggest challenge to Gujarat's fiscal management during 2020-21 and 2021-22. The state increased expenditure in health and social security sectors and economic stimulus packages and to vulnerable groups and industries.
- Despite this huge stress on finances from the pandemic, Gujarat focused on having a balanced budget with minimal fiscal deficit mainly through borrowings and mechanisms for debt management.

Gujarat undertook a range of expenditure reforms between 2012 and 2023 with an aim to improve fiscal sustainability, efficiency, and to focus on long-term developmental goals. With its debt obligations in check and keeping non-developmental expenditures in check, the state continued to invest in infrastructure, agriculture, and human capital. The reforms, especially the ones concerning fiscal management, debt control, and investment in capital, maintained the growth trajectory of Gujarat while simultaneously mitigating the issues related to socio-economic development for the decade. The success was strongly complemented by the state's ability to use public-private partnerships and technological innovations.

## **25. MEASURES RELATING TO ENHANCING ALLOCATIVE AND TECHNICAL EFFICIENCY IN EXPENDITURES DURING THE LAST 5 YEARS IN GUJARAT STATE/ SUGGESTIONS FOR ENHANCING EFFICIENCY IN PUBLIC SPENDING IN GUJARAT:**

Over the last five years, Gupta has taken several steps to improve the deliverables on both allocative and technical efficiency in public expenses. The measures help translate into improved spending effectiveness, fiscal discipline, and sustainability. Some of the key measures that have resulted in enhanced efficiency are mentioned below:

### **25.1. Outcome-Based Budgeting**

The Government of Gujarat has been transitioning from a traditional budgetary approach towards an Outcome-Based Budgeting (OBB) approach. Here, resource allocation is linked to measurable outcomes and performance indicators. Some of the key initiatives underpinning this include:

- Focus on Results: Government departments are required to define outcomes and outputs for each budgeted activity. It thus aligns financial inputs with tangible results.
- Sector-specific Focus: Priority sectors such as education, health, agriculture, and infrastructure have remained focused, implying that resources are put where they would have the greatest pay-off.
- Monitoring and Evaluation: Improved monitoring mechanisms track the results of desired outcomes, and funds are readjusted according to performance.
- Better Performance Metrics: Define clearer, more objective, and measurable performance indicators to track the impact of public expenditure, particularly in sectors like education, healthcare, and infrastructure.
- Independent Evaluation: Establish an independent agency to monitor and evaluate the outcomes of government programs and schemes, ensuring accountability and encouraging data-driven decision-making.

## **25.2. Fiscal Consolidation and Debt Management**

To ensure fiscal sustainability, Gujarat has made efforts to improve debt management and sustain fiscal discipline. This has been achieved through a number of measures:

- Medium-Term Fiscal Policy (MTFP): This policy gives a fiscal framework for three to five years, with targets for the fiscal deficit, debt, and revenue growth. It helps align expenditures with long-term fiscal goals.
- Revenue Augmentation: Focus on increasing Gujarat's revenue by higher collection of taxes, more digitalization of tax systems such as e-Governance in GST, and no tax evasion, which raises the tax-to-GSDP ratio.
- Rationalization of Subsidies: Steps have been taken to rationalize subsidies in agriculture (for irrigation and electricity) to target the most needy, and ease fiscal pressure.
- Increase Financial Autonomy: Give more financial powers to municipalities and panchayats, helping them design and implement projects that meet local requirements.
- Capacity Building: Instruct local administrators in budgeting and financial management; people at the local level should be well-primed for what is expected and should utilize resources available at their disposal.
- Participatory Budgeting: Bring in participatory budgeting at the local levels, bringing citizens closer to the decision-making process for resource allocation so that spending is directed at community priorities.

## **25.3. Public Financial Management Reforms (PFMR)**

Gujarat has undertaken reforms in Public Financial Management (PFM) to bring about improved allocative and technical efficiencies:

- Treasury Reforms and Digitalization: The state has implemented Integrated Financial Management Systems (IFMS) to increase transparency in terms of transfer of funds, decrease the time taken for financial transactions, and minimize delays.
- Real-time Monitoring: PFMS is implemented by the state, which ensures monitoring and tracking of real-time funds and well-managed expenditures.
- Governance Initiatives: Gujarat has promoted several digital reforms in administration and financial procedures where 'digital reforms have increased a minimum amount of paperwork and cut down inefficiencies'.

- **Public Expenditure Reviews:** Perform regular, independent public expenditure reviews to provide details on inefficiencies and redundancies, eliminate redundant programs, and reallocate funds to higher-impact uses.
- **Budget discipline:** Strengthen budget discipline through fiscal rules that prevent excess deviations of expenditures from budgeted values and prudent fiscal management.
- **Debt sustainability:** Reinforce strategies to keep the rates of interest cost manageable, avoid one-time and recurrent spending-bloated borrowing, and channel the sourced funds into productive investments.

#### **25.4. Targeted Social Spending and Direct Benefit Transfers (DBT)**

Gujarat has recently enhanced DBT to make social welfare schemes more efficient and effective.

- **Targeted Schemes:** With the use of DBT, schemes like the Mukhyamantri Amrutam Yojana in healthcare and the Affordable Housing Schemes of the Gujarat Housing Board have been streamlined so that financial benefits reach the target beneficiaries directly without any leakage.
- **Aadhaar Integration:** The state has integrated the Aadhaar system for better beneficiary identification to avoid duplication and ensure that subsidies as well as welfare transfers actually reach the beneficiaries.
- **Data-Driven Targeting:** Leverage the usage of data analytics and AI tools to determine which persons are the beneficiaries in real-time, thereby minimizing exclusion and inclusion errors in such subsidy programs.
- **Means-Tested Subsidies:** Incentivize means-tested or income-based subsidies where benefits are targeted for individuals who really need them, but not blanket subsidies that are spreading benefits across higher income groups.
- **Gradual Phasing Out:** For long-term fiscal sustainability, phase out inefficient subsidies and replace them with cash transfers or vouchers, ensuring flexibility for beneficiaries and minimizing waste.
- **Scaling up DBT:** Increasing the coverage of DBT to more social schemes and subsidies, such that direct transfer of funds directly into the bank accounts of beneficiaries would minimize overheads of administration and leakage.

#### **25.5. Public-Private Partnerships (PPP) and Private Sector Participation**

Gujarat has been a pioneer in adopting Public-Private Partnership (PPP) models for better efficiency of infrastructure development:

- **Infrastructure PPP:** Major transport (roads and ports), power generation, and urban infrastructure projects such as Smart Cities have been implemented through PPP, optimizing resources and enhancing the implementation of the project.
- **Healthcare and Education:** PPP with private agencies in the health and education areas has enabled the government to tap into the latter's expertise while optimizing expenses, enhancing service delivery at lesser public costs.
- **Public-Private Partnerships:** Continue encouraging PPP models in infrastructure development but improve contract management to ensure value for money, proper risk sharing, and transparency.
- **Tightened Project Monitoring:** Use a robust monitoring mechanism for the execution of the project at every stage including real-time monitoring with the help of geospatial tools and digital dashboards to track status and prevent overruns of cost and time.

- Performance-linked Requisitions: Tie fund disbursements to the attainment of project milestones so that capital spending is timed with actual project execution.

#### **25.6. Improvement of Human Resources and Skills Building**

Gujarat has focused on improving administrative efficiency through capacity-building initiatives for government officials:

- Training Programs: Regular training for administrative and financial officers has been conducted to ensure better management of resources, with emphasis on the latest public financial management techniques.
- Increase education and healthcare spending efficiency: Insist on priorities based on investments in increasing quality rather than just increasing outlays. For example, improve service delivery through teacher training, school infrastructure, and e-health services.
- Public Private Collaboration in Skill Development: Enhance collaboration with private players to increase productivity of government-sponsored skills development programmes under the various skill enhancement schemes of various Government Departments so that the outputs will better respond to the industry needs and, thereby, can have greater employability.

#### **25.7. Focus on Green Budgeting and Sustainable Development**

Gujarat's policies have been on sustainable development and environmental conservation:

- Green Budgeting: The State Government initiated budgeting that now keeps in focus climate considerations. Renewable energy projects, waste management, and efforts for water conservation are being focused upon to help foster sustainable growth.
- Energy Efficiency: Investments in renewable energy have increased in solar and wind power, cut down the carbon footprint of the state and the cost efficiency in energy production.
- Institutionalizing a green budgeting framework: Public expenditure on projects is weighed for its environmental impact to enhance investments in clean energy, sustainable transport, and waste management.
- Climate-Resilient Infrastructure: Promote climate-resilient infrastructure to manage long-term costs from climate-related damage and public investment in sustainable development.
- Carbon Pricing and Tax Incentives: Introduce carbon pricing and stimulate green projects using tax relief, such that fiscal policies align with Gujarat's long-term environmental goals.

#### **25.8. Decentralized Planning and Participatory Governance**

Gujarat has focused on decentralized planning to allow for even more localized resource allotment:

- District-Level Planning: This helps when districts and local bodies have been empowered and budgetary allocations reflect the needs of the local population, which improves allocative efficiency.
- Citizen Participation: Gram Sabhas and Ward Sabhas for example promote citizen participation in planning so that public funds are spent upon priorities which directly benefit the citizens.

#### **25.9. Reinforce Digital Governance and e-Governance Programs**

Digital solutions will greatly enhance both allocative and technical efficiency:

- Scale up e-Governance Platforms: Expand on the installed Integrated Financial Management System (IFMS) and e-Governance platforms to cover more ground in public finance from procurement to tracking expenditure.

- **Blockchain for Transparency:** Leverage the deployment of blockchain technology on public spending in order to provide greater transparency, avoid corruption, and make easier traceability of funds, particularly in high-capital, capital-intensive projects.
  - **Process Automation:** Automate most of the administrative processes, for instance taxation, procurement, and transfer of funds to eliminate delays, errors, and even human intervention.

### **25.10. Ensure Transparency and Citizen Involvement**

A greater transparency and citizen engagement assure that public spending is aligned with actual needs of the population:

- **Open Budget Initiatives:** Bring forward an easily accessible Open Budget Portal where citizens can view budget allocations, expenditures, and performance reports of various government departments.
- **Public Hearings and Audits:** Establish institutionalized public hearings and social audits on large government projects, through which citizens and civil society can give their feedback and monitor the implementation of the projects.
- **Grievance Redressal Mechanisms:** Enhance grievance redressal mechanisms concerning public spending so that citizens can seek to report inefficiencies, delays, or corruption in government programs.

### **25.11. Promote Innovations in Government Departments**

Promotion of innovations in government departments will ensure more effective delivery of services:

- **Reward Efficiency:** Institute performance-based incentives for those government departments that succeed in saving costs or demonstrate significant improvements in the delivery of public services.
- **Innovative Pilot Projects:** Encourage pilot projects testing innovations and technologies (such as AI analytics, automation of services) that would improve the performance of public services.

To transform public spending in Gujarat, there is a need for a mix of technological innovation, institutional reforms, strategic investments and greater citizen participation. Outcome-based budgeting, fiscal decentralization, green budgeting and the fuller use of DBT can significantly enhance both allocative and technical efficiencies. Ensuring its financial management is constantly sharpened and more transparent, the public spending of Gujarat will have the greatest possible impact on socio-economic development.

### **Outcomes**

- **Fiscal Deficit Improved:** through fiscal consolidation and effective management of debt, Gujarat has preserved the limits of fiscal deficit presented in the Fiscal Responsibility and Budget Management (FRBM) Act, sustaining healthy financial viability.
- **Enhanced Revenue Effectiveness:** with enhanced mechanisms for tax collection, alongside targeted spending, revenue effectiveness has improved, translating to more money being available for vital sectors, such as health and infrastructure.
- **Optimizing Welfare Spending:** The adoption of DBT and focus on direct subsidies have ensured the least leakage in welfare spending, reducing administrative costs on the path to the direct delivery of welfare benefits to intended beneficiaries.

- **Sustainable Development:** The focus on green budgeting in Gujarat has ensured that public spending is aligned with long-term environmental goals, promoting resource efficiency in sectors like energy and water.

They reflect the commitment of the state of Gujarat to improve the efficiency of public expenditure, make its fiscal policies more responsive, transparent, and sustainable.

## CHAPTER 4

### ANALYSIS OF PUBLIC DEBT, LIABILITIES AND DEFICIT

#### 1. ANALYSIS OF PUBLIC DEBT

Public Debt consists of internal debt and loans and advances received from GoI. It serves as an important financial indicator for evaluating a government's capacity to fulfil its obligations. It is expressed as a percentage of the state's gross domestic product (GSDP), referred to as the Public Debt-to-GSDP ratio. A higher ratio signifies a greater debt burden to the size of the state. The data about public debt is displayed in Table 4.1. Public Debt receipts increased from Rs. 19,497 crores in 2012-13 to Rs. 65,634 crores in 2023-24 (RE) with a CAGR of 12%. A significant COVID-19 impact can be observed in 2020-21, where public debt receipts spiked to Rs. 49,635 crores (a sharp increase compared to prior years), indicating higher borrowing to manage pandemic-induced fiscal challenges. The Public debt to GSDP ratio ranged between 15.17% and 18.82% during 2013- 24. However, during this period, the interest payment burden on public debt ranged from 11.68% to 17.18% of the revenue receipts, with a negative CAGR of 2%.

The interest payment on Public Debt as a percentage of revenue receipts in 2023-24 (RE) is expected to be 11.68%, which was 11.76% in FY 2022- 23 and 14.47% in FY 2012-13. Public Debt to Revenue Receipt peaked at 2.33 in 2020-21, indicating heavier reliance on borrowing relative to government revenue during the COVID-19 crisis. The State's average debt cost was 8.82 % in 2012-13. This has reduced to 7.60% in 2022-23 and is expected to be 7.45% in 2023-24 (RE). The process of fiscal reforms has been carried forward by efficient debt management, which has led to a decline in the average interest cost on the debt stock from 8.82 % in 2012-13 to 7.45% as of 31st March 2024 (RE). Considering the upcoming repayment schedule, the State has secured loans with varying tenures ranging from 2 to 12 years, leading to competitive interest rates on State Government Securities (SGS). This is expected to impact interest costs favorably in the current and future years.

**Table 4.1: Public Debts**

Rs. in Crores

Year	Public Debt receipt	Interest on Public Debt	Public Debt as a percentage of GSDP	Interest Payment on Public Debt to Revenue Receipt	Public Debt to Revenue Receipt	Trend in Average cost of Debt
2012-13	19,497	10,883	18.82	14.47	1.81	8.82
2013-14	19,343	11,916	18.51	14.90	1.87	8.74
2014-15	19,454	13,262	17.73	14.42	1.78	8.87
2015-16	23,486	14,456	17.56	14.83	1.85	8.84
2016-17	27,668	16,087	17.08	14.65	1.81	8.90
2017-18	26,953	17,146	16.00	13.91	1.72	8.60
2018-19	43,146	18,077	16.10	13.29	1.77	8.50
2019-20	43,491	20,295	16.52	14.21	1.87	8.45
2020-21	49,635	22,023	18.49	17.18	2.33	8.25
2021-22	33,928	23,147	15.99	13.87	1.85	7.75
2022-23	52,333	23,442	15.17	11.76	1.70	7.60
2023-24 (RE)	65,634	25,212	15.34	11.68	1.75	7.45
AAR	<b>14.43</b>	<b>7.98</b>	<b>-1.66</b>	<b>-1.41</b>	<b>0.24</b>	<b>-1.50</b>
CAR	<b>12%</b>	<b>8%</b>	<b>-2%</b>	<b>-2%</b>	<b>0%</b>	<b>-2%</b>

Source: FRBM Act Documents, various years

### 1.1. Composition of Public Debt

The analysis of the public debt portfolio of the State from Table 4.2 reveals that the composition of the public debt stock has changed from 2012-13 to 2023-24 (RE), wherein the proportion of central government loans has reduced to 5.20% from 6.09%. Likewise, the share of the most prominent component of public debt, Market Loans and power bonds, has increased to 83.48% from 54.49%, with the highest CAGR of 14%. Meanwhile, the share of NSSF Loans dropped significantly to 5.62% from 35.34% with a negative CAGR of 7%, reflecting a shift towards a greater dependence on Market Loans. This is attributed to the high interest rate on NSSF loans, which comprised 7.35% of the total public debt in 2022-23 and continues to be a financial burden on the State Government.

**Table 4.2: Composition of Public Debt**

Rs. in Crores

Year	Market Loans and Power Bonds	Loans and Advances from Central Government	Loans from Financial Institutions / Banks	NSSF Loans	Total
2012-13	74,300 (54.49)	8,302 (6.09)	5,571 (4.09)	48,194 (35.34)	1,36,367 (100)
2013-14	87,348 (58.42)	7,806 (5.22)	6,511 (4.36)	47,841 (32.00)	1,49,506 (100)
2014-15	1,00,593 (61.54)	7,470 (4.57)	7,072 (4.33)	48,316 (29.56)	1,63,451 (100)
2015-16	1,15,158 (63.71)	7,062 (3.91)	8,706 (4.82)	49,817 (27.56)	1,80,743 (100)
2016-17	1,36,102 (68.28)	6,566 (3.29)	10,300 (5.17)	46,370 (23.26)	1,99,338 (100)
2017-18	1,51,887 (71.45)	5,947 (2.80)	11,838 (5.57)	42,919 (20.19)	2,12,591 (100)
2018-19	1,79,323 (74.62)	7,430 (3.09)	14,166 (5.90)	39,385 (16.39)	2,40,304 (100)
2019-20	2,07,923 (77.85)	7,434 (2.78)	15,982 (5.98)	35,756 (13.39)	2,67,095 (100)
2020-21	2,41,203 (80.72)	8,780 (2.94)	16,700 (5.59)	32,127 (10.75)	2,98,810 (100)
2021-22	2,54,757 (82.63)	8,497 (2.76)	16,550 (5.37)	28,497 (9.24)	3,08,301 (100)
2022-23	2,83,057 (83.63)	13,199 (3.90)	17,352 (5.13)	24,868 (7.35)	3,38,476 (100)
2023-24 (RE)	3,15,505 (83.48)	19,645 (5.20)	21,573 (5.71)	21,239 (5.62)	3,77,962 (100)
AAR	<b>14.11</b>	<b>10.17</b>	<b>13.37</b>	<b>-7.02</b>	<b>9.74</b>
CAGR	<b>14%</b>	<b>8%</b>	<b>13%</b>	<b>-7%</b>	<b>10%</b>

Source: FRBM Act Documents, various years

**1.2. Maturity Profile of Public Debt**

The debt maturity and repayment profile reflect the Government's commitment to meeting its debt repayment and servicing obligations. As shown in Table 4.3, of the total debt, Rs. 26,239.36 crores (7.27%) are set to mature within the short term by 2023-24. A significant portion of the debt is concentrated in the medium term, with Rs. 61,704.34 crores (17.11%) maturing in 2-3 years, Rs. 72,601.40 crores (20.13%) in 4-5 years, and Rs. 81,560.61 crores (22.61%) in 6-7 years, collectively accounting for a majority of the outstanding debt. In the long term, Rs. 81,098.96 crores (22.48%) are scheduled to mature over 8-10 years, while Rs. 10,500.58 crores (2.91%) extend beyond 10 years, maturing after 2033-34. This distribution indicates a manageable repayment structure, with the bulk of debt repayments spread over 7-10 years,

reducing immediate fiscal pressures. As shown in Figure 4.1, 90 per cent of the total public debt (Rs. 3,23,204.67 crores) would be repayable within the next 10 years.

**Table 4.3: Maturity Profile of Public Debt**

Rs. in Crores

Year of maturity	Maturity profile	Amount			Maturity profile of outstanding Public Debt (in %)
		Internal Debt	Loans & Advances from GoI	Total outstanding Public Debt	
By 2023-24	0-1 year	24,966.97	1,272.39	26,239.36	7.27
Between 2024-25 & 2025-26	2-3 years	60,036.51	1,667.83	61,704.34	17.11
Between 2026-27 & 2027-28	4-5 years	71,229.55	1,371.85	72,601.40	20.13
Between 2028-29 & 2029-30	6-7 years	79,962.46	1,598.15	81,560.61	22.61
Between 2030-31 & 2032-33	8-10 years	79,911.26	1,187.70	81,098.96	22.48
2033-34 onwards	Above 10 years	9,165.46	1,335.12	10,500.58	2.91
Others		0.95	27,025.03	27,025.98	7.49
<b>Total</b>		<b>3,25,273.16</b>	<b>35,458.07</b>	<b>3,60,731.23</b>	<b>100.00</b>

Source: CAG reports of various years, State Finance, GoG

**Figure 4.1: Maturity Profile of Public Debt**



Source: CAG reports of various years, State Finance, GoG

### 1.3. Public Account Liabilities

Receipts and disbursements related to specific transactions, such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, and Remittances, which are outside the scope of the Consolidated Fund, are maintained in the Public Account as established under Article 266(2) of the Constitution. These funds are not subject to approval by the State Legislature, and the government functions as a banker for these funds. The remaining balance after the disbursements made during the year constitutes the funds available with the government for various uses. The Net Balances in Public Accounts are given in Table 4.4. The balance in public accounts showed

a steady increase until 2019-20, experienced a decline in 2020-21, and then began rising again. Deposits and advances constitute the largest portion of public accounts, followed by reserve funds. Reserve funds dropped significantly to Rs. 7,984.32 compared to 2019-20 (Rs. 16,832.75 crores), indicating the government's utilization of these funds to meet emergency COVID-19 pandemic-related expenditures. Similarly, the overall net balance fell significantly from Rs. 60,903.20 crores in 2019-20 to Rs. 53,223.97 crores in 2020-21, marking a clear fiscal impact of the pandemic. The remittance balances saw the fastest growth, with a CAGR of 12% from 2012-13 to 2022-23.

**Table 4.4: Net Balances in Public Account**

Rs. in Crores

Year	Small Savings, Provident Funds, etc.	Deposits and Advances	Reserve Funds	Suspense and Miscellaneous Balances	Remittance Balances	Total
2012-13	8,041.56	18,939.07	8,906.81	1,538.81	308.43	37,734.68
2013-14	8,548.28	21,181.11	8,990.38	506.27	489.1	39,715.14
2014-15	9,049.62	24,288.22	14,558.41	1,349.03	548.38	49,793.66
2015-16	9,527.31	26,764.43	14,263.74	1,604.89	829.13	52,989.50
2016-17	10,059.86	29,034.48	15,679.53	25.84	760.61	55,560.32
2017-18	10,400.17	30,129.21	14,931.87	524.24	968.22	56,953.71
2018-19	10,608.63	32,131.10	15,503.28	-202.95	636.21	58,676.27
2019-20	10,601.21	34,598.01	16,832.75	-1,865.69	736.92	60,903.20
2020-21	10,445.80	36,954.01	7,984.32	-3,026.80	866.64	53,223.97
2021-22	10,179.76	36,891.07	10,744.88	-564.65	961.12	58,212.18
2022-23	9,993.84	37,303.59	14,728.25	-3,241.91	975.83	59,759.60
<b>AAR</b>	<b>2.25</b>	<b>7.10</b>	<b>9.75</b>	<b>308.43</b>	<b>15.25</b>	<b>5.06</b>
<b>CAGR</b>	<b>2%</b>	<b>7%</b>	<b>5%</b>	<b>NA</b>	<b>12%</b>	<b>5%</b>

Source: CAG reports of various years, State Finance, GoG

#### 1.4. Composition of Total Outstanding Debt

The outstanding fiscal liabilities, consisting of public debt and public account liabilities, have steadily risen over the years, increasing from Rs. 1,66,667 crores at the end of 2012-13 to Rs. 3,60,731 crores by the end of 2022-23 with a CAGR of 8%, as shown in Table 4.5. This is lower than the GSDP CAGR of 12% for the same period. However, the outstanding debt to GSDP ratio has a negative CAGR of 3%. Total outstanding debt rose sharply from Rs. 2,67,094 crores in 2019-20 to Rs. 3,08,209 crores in 2020-21, marking an increase of Rs. 41,115 crores (15%), the most significant year-on-year jump. This indicates the negative impact of the pandemic. The debt-to-GSDP ratio increased from 19.51% in 2019-20 to 21.30% in 2020-21, reversing a downward trend observed in prior years. This reflects higher borrowing and the contraction in GSDP due to pandemic-induced economic disruptions. Gujarat's rising outstanding debt levels can be attributed to the fiscal deficit, insufficient government revenues, and increased government spending on various state schemes.

During the study period, public debt fluctuated between 81% and 87% of the total outstanding debt, as illustrated in Chart 4.1. Public account liabilities accounted for 13% to 19% of the total fiscal liabilities. Figure 4.2 shows a slight increase in public debt and a modest decline in public account liabilities from 2012-13 to 2022-23.

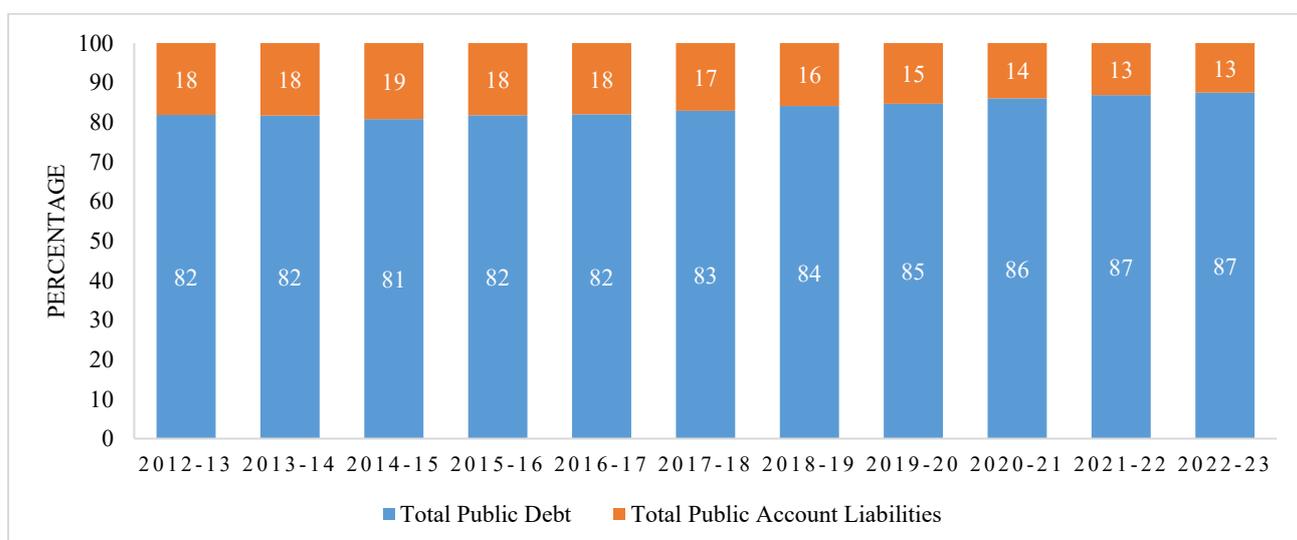
**Table 4.5: Total outstanding debt**

Rs. in Crores

Year	Total Outstanding Debt	Outstanding debt to GSDP ratio
2012-13	1,66,667	23.90
2013-14	1,83,057	23.65
2014-15	2,02,313	23.57
2015-16	2,21,090	21.49
2016-17	2,43,146	20.83
2017-18	2,56,366	19.30
2018-19	2,40,305	19.16
2019-20	2,67,094	19.51
2020-21	3,08,209	21.30
2021-22	3,30,537	18.32
2022-23	3,60,731	17.25
<b>AAR</b>	<b>8.17</b>	<b>-3.02</b>
<b>CAGR</b>	<b>8%</b>	<b>-3%</b>

Source: FRBM Act Documents, various years

**Chart 4.1: Composition of Total Liability**



Source: CAG reports, State Finance, Various Years

## 1.5. Utilization Of Borrowed Funds

Table 4.6 highlights the utilization of public debt from 2018-19 to 2022-23. The data is available from 2018-19. The table shows that a significant portion of borrowings is used to repay previous loans, with repayments peaking in 2021-22 (Rs. 24,436 crores). Capital expenditure, a key driver of growth, has also steadily increased, reaching its highest in 2022-23, amounting to Rs. 35,499 crores. However, a dip was observed in 2020-21, possibly due to reallocating funds for COVID-19 pandemic-related needs. Net Loans and advances remain relatively low across the years, suggesting limited lending by the government to other entities or states. Borrowings for revenue expenditure were minimal in most years, with exceptions like 2020-21, when Rs. 23,044 crores were allocated to address COVID-19 pandemic-related needs. The negative values of revenue expenditure in most years indicate that public debt was primarily directed towards infrastructure development through capital expenditure and debt servicing rather than revenue expenditure.

**Table 4.6: Utilization of borrowed funds**

Year	Total borrowings (public debt receipts)	Repayment of principal on total borrowings	Net capital expenditure	Net loans and advances	Rs. in Crores
					Portion of total borrowings available for meeting revenue expenditure
2018-19	43,146	15,432	27,977	1,580	-1,863
2019-20	43,491	16,702	25,544	982	263
2020-21	58,857	17,922	16,813	1,078	23,044
2021-22	46,968	24,436	28,185	916	-6,569
2022-23	52,333	22,159	35,499	1,212	-6,537

Source: CAG reports, State Finance, Various Years

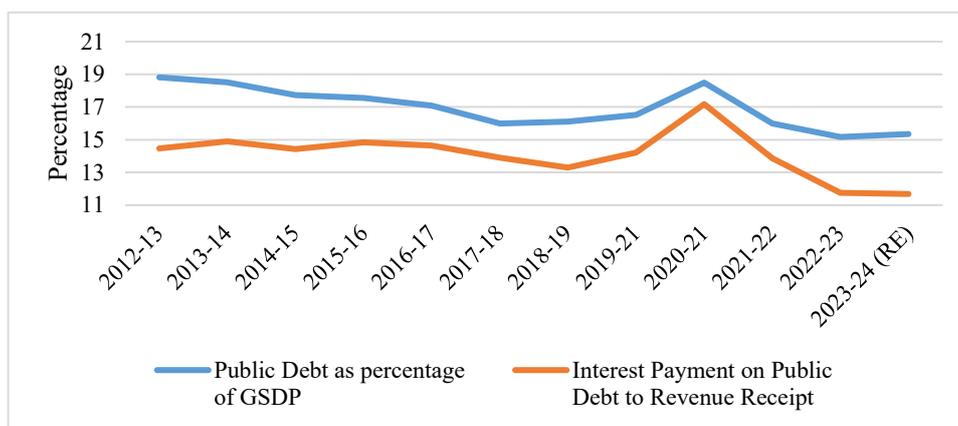
## 1.6. Debt Sustainability

Debt is sustainable if the state can meet its current and future debt obligations, including timely interest payments and repayment from stable revenue sources. Debt sustainability has been analyzed using compliance with micro-fiscal parameters under FRBM targets and the Domar approach. The results are detailed in the following paragraphs:

### 1.6.1. Debt sustainability indicators

The State has ensured that public debt remains within fiscal prudence and sustainability limits. The State's gross public debt is expected to increase to Rs. 3,77,962 crores as of 31st March 2024, compared to Rs. 3,38,476 crores as of 31st March 2023. The average interest on these loans is expected to be 7.45% in FY 2023-24 (RE). The fiscal prudence observed by the State has improved fiscal indicators like a) Debt to GSDP and b) Interest Payment on Public Debt to Revenue Receipts. The trend for improvement in the Debt to GSDP ratio and Interest Payment on Public Debt to Revenue Receipts is given in Figure 4.3 below

**Chart 4.2: Public Debt as a percentage of GSDP and Interest Payment on Public Debt to Revenue Receipt**



Source: FRBM Act Documents, various years

As illustrated in Chart 4.2, the State’s Public Debt to GSDP ratio stands at 15.34%, which is lower than the recommended threshold of 27.1%. The figure also indicates that interest payments as a percentage of revenue receipts decline steadily until 2019-20, spiking sharply in 2020-21, potentially due to increased borrowing and higher interest payments during the pandemic, and then dropping significantly, reaching their lowest in 2023-24 (RE).

The ratio of total public debt to total revenue receipts is considered one of the parameters for evaluating debt sustainability. The Fiscal Reform Facility, Ministry of Finance has indicated that a benchmark of 3 for this ratio indicates that the State is highly stressed in terms of debt and debt servicing. As observed in Table 4.1, the ratio is far below the threshold of 3 and ranges between 1.70 and 2.33 from 2012-13 to 2023-24 (RE).

The State has implemented prudent debt management practices by establishing a Debt Management Office (DMO), creating a Consolidated Sinking Fund (CSF) to take care of pay-outs at the time of maturity of borrowings and Guarantee Redemption Fund (GRF), imposing a cap on guarantees, etc. In the case of a primary deficit, the condition of debt stabilization requires that the growth rate of nominal GSDP exceeds the nominal interest rate on the debt. Notably, Gujarat's nominal GSDP grew at an average rate of 12.25% from 2011-12 to 2023-24 (AE), while the nominal interest rate on debt stock was estimated at 7.45% as of March 31, 2024. Given the initiatives taken by the Government and the financial parameters outlined above, the current and projected debt levels are considered sustainable.

**Using capital receipts, including market borrowing, for creating productive assets:** The downward trend of the debt-to-GSDP ratio indicates that capital receipts are effectively used to generate productive assets. These funds are directed towards capital formation in sectors such as irrigation, water supply, power, roads and bridges, and transportation networks. This shows that capital receipt in the form of debt is an important source for funding long gestation projects. In addition to focusing on infrastructure development, the State Government has prioritized improving the Human Development Index (HDI). To enhance HDI, capital expenditures are targeted at key areas like health, education, and social development.

**Public Debt Management & Other Liabilities** The decreasing public debt to GSDP ratio suggests that borrowing effectively promotes the state's economic growth. The State has been mindful of the magnitude and composition of its outstanding liabilities, taking various measures to manage and contain them. The market has acknowledged this prudent financial management, allowing the State to secure funds at highly competitive rates. Additionally, the State Government's growing confidence in engaging with market participants is reflected in the fact that none of its borrowing activities were underwritten, further reducing borrowing costs.

### 1.6.2. Domar Model

Debt sustainability is analyzed using E.D. Domar's 1994 model, which asserts that public debt remains stable if interest rates for Government loans do not exceed the GDP growth rate. The dynamics of public debt depending on the interest rate, growth rate of GSDP, and primary budget balances are presented in Table 4.7.

**Table 4.7: Parameters of the Domar Model**

<b>Domar Gap <math>g-r</math> (<math>g</math>= real economic growth rate; <math>r</math> = real interest rate)</b>	<b><math>s &lt; 0</math> (primary deficit)</b>	<b><math>s &gt; 0</math> (primary surplus)</b>
$g-r > 0$ (Strong economic growth)	Public debt as a percentage of GSDP should converge to a stable level greater than zero.	Public debt as a percentage of GSDP should converge to a stable level of less than zero, leading to public savings.
$g-r < 0$ (Slow economic growth)	Public debt as a percentage of GSDP should increase indefinitely without converging to a stable level.	Undefined situation.

Source: CAG report for the year ended 31<sup>st</sup> March 2023, State Finance, GoG

The application of these parameters to Gujarat is presented in Table 4.8.

**Table 4.8: Debt sustainability analysis based on the Domar Model**

Rs. in crore

Year	Real Growth (g)	Real Interest (r)	g-r (Domar gap)	Primary Deficit (-) / Surplus (+) (in crore)	Remark
2017-18	10.72	4.96	5.76	(-)2,412	As $g-r > 0$ and $s < 0$ , Public debt as percentage of GSDP should converge to a stable level greater than zero.
2018-19	8.88	4.95	3.93	(-)6,182	
2019-20	6.95	3.79	3.16	(-)2,133	
2020-21	(-)1.35	1.40	(-)2.75	(-)16,235	As $g-r < 0$ and $s < 0$ , Public debt as percentage of GSDP should increase indefinitely, without converging to a stable level.
2021-22	10.76	2.16	8.60	2,496	As $g-r > 0$ and $s > 0$ , Public debt as a percentage of GSDP should converge to a stable level less than zero leading to public savings.

Source: CAG reports of various years, State Finance, GoG

Note: Real Growth rate is calculated for GSDP at constant prices.

The real Interest rate is the nominal Interest rate adjusted for inflation.

Table 4.8 suggests that in the initial four years, i.e., 2017-18 to 2020-21, the State had a primary deficit, which turned into a primary surplus in 2021-22. Between 2017-18 and 2019-20, the Domar gap ( $g-r$ ) remained positive, indicating favourable economic growth relative to interest rates and showing that the public debt as a percentage of GSDP would converge to a stable level greater than zero. In 2020-21, the situation worsened as the Domar gap turned negative ( $g-r < 0$ ), and a significant primary deficit caused public debt to increase indefinitely without reaching a stable level. The economic slowdown caused by the COVID-19 pandemic led to a negative growth rate of GSDP in 2020-21. By 2021-22, the scenario improved dramatically with a highly positive Domar gap and a primary surplus ( $s > 0$ ), implying that public debt as a percentage of GSDP would converge to a stable level less than zero, potentially leading to public savings.

In conclusion, due to increased borrowing, Gujarat's public debt has grown steadily, particularly during the COVID-19 pandemic. However, efficient debt management and fiscal reforms have helped reduce debt costs. The state's debt maturity profile is manageable, with most debt maturing in the medium to long term. Borrowed funds are primarily allocated to capital expenditure and debt servicing, supporting future obligations. Overall, Gujarat's debt indicators show fiscal prudence and a positive outlook for its financial health.

## 2. ANALYSIS OF GUARANTEES

### 2.1. Status of Guarantees

Guarantees are liabilities contingent on the state's consolidated funds in the event of defaults by the borrowers for whom guarantees have been provided. The Government of Gujarat has enacted the Gujarat Fiscal Responsibility Act, 2005, to make the State Government accountable for

ensuring prudence in fiscal management and fiscal stability. The Gujarat Fiscal Responsibility Act of 2005 prescribed to cap outstanding guarantees within the limit (Rs. 20,000 crores) prescribed in the Gujarat State Guarantees Act of 1963.

The contingent liabilities of the State Government, as defined in terms of its outstanding guarantees, have shown significant reduction over the last few years. As observed in Table 4.9, the total outstanding guarantees have come down to Rs. 3,044 crores as of 31st March 2022 as compared to Rs. 6,195 crores as it stood at the end of FY 2013. Gujarat State Guarantees Act, 1963 provides the framework 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. 20,000 crores. The outstanding government guarantees are far below the Rs. 20,000 crore ceiling fixed as per the Gujarat State Guarantees Act, 1963, as shown in Table 4.9. This, in turn, has helped the State to ensure fiscal discipline in issuing guarantees to its PSEs by primarily bringing down contingent liabilities. The outstanding guarantee amount has consistently reduced with a negative CAGR of 8% and accounted for 1.82% of the revenue receipts of the state government in 2021-22 as against 8.23% of revenue receipts in 2012-13. Negative CAGR reflects the state government's efforts to reduce the guarantee amount. In addition, the outstanding amount of guarantees decreased by Rs. 806 crores (-8.06%) in 2020-21, marking the steepest decline. This could indicate reduced government loan guarantees during the COVID-19 pandemic, as financial institutions and public entities faced uncertainty. The yearly growth rate of guarantees is negative throughout the study period except for 2013-14 and 2017-18. Total guarantees accounted for nearly 0.16% of GSDP in 2021-22, down from 0.86% in 2012-13. In 2012-13, 5.86% of total expenditure was allocated to guarantees. This figure dropped to just 1.42% in 2021-22.

**Table 4.9: Status of outstanding guarantees, GRF and guarantee fee (Rs. in Crores)**

Year	Outstanding amount of guarantees (Rs. in crore)	Yearly Growth	As a % to GSDP	As a % of Total Expenditure	As a % of Total Revenue Receipts
2012-13	6,195		0.86	5.86	8.23
2013-14	6,549	3.54	0.81	5.69	8.19
2014-15	5,984	-5.65	0.65	4.78	6.51
2015-16	5,236	-7.48	0.51	4.01	5.37
2016-17	4,804	-4.32	0.41	3.16	4.37
2017-18	4,834	0.30	0.36	3.05	3.92
2018-19	4,699	-1.35	0.31	2.64	3.46
2019-20	4,462	-2.37	0.28	2.42	3.12
2020-21	3,656	-8.06	0.23	1.86	2.85
2021-22	3,044	-6.12	0.16	1.42	1.82

Source: CAG reports (State Finance) and FRBM Act documents, GoG

Table 4.10 outlines the composition of total guarantees in Gujarat from 2012-13 to 2021-22. In 2012-13, the GoG gave more guarantees in departments such as Narmada Water Resources, Energy & Petrochemicals and Agriculture & Co-operation. However, over time, the state has begun to reduce amount of guarantee in these departments. Like, the Narmada Water Resources

Department accounted for nearly 47.29% of total guarantees in 2012-13 and reached just 16.10% of total state guarantees by 2022-23. Similarly, the Energy and Petrochemicals Department's share of guarantees was 15.92% in 2012-13, but it gradually increased to 23.64% and stood highest by 2022-23. The guarantee focus has shifted to departments, namely Energy & Petrochemicals, Urban Development & Urban Housing, and Social Justice and Empowerment in 2022-23.

**Table 4.10: Composition of Outstanding Guarantees as % of Total Guarantee**

Name of Department	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Agriculture and Co-operation	12.89	13.45	15.67	18.20	19.96	19.06	14.51	13.61	3.67	2.72	4.58
Industries and Mines	10.32	10.01	10.96	12.39	13.59	13.53	13.92	14.69	17.02	1.71	0.71
Urban Development and Urban Housing	4.42	4.29	4.69	5.31	5.82	5.80	5.96	6.30	15.18	17.96	22.62
Ports and Transport	(N)	(N)	(N)	(N)	(N)	(N)	0.01	0.01	5.53	0.00	0.00
Narmada Water Resources	47.29	49.81	46.84	47.25	48.61	47.17	48.53	48.50	40.59	46.54	16.10
Energy and Petrochemicals	15.92	13.55	12.12	5.90	0.00	2.48	0.85	0.01	9.52	15.64	23.64
Forest and Environment	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.04	0.05	0.10
Social Justice and Empowerment	3.91	3.79	4.15	4.82	5.28	5.26	5.41	5.52	8.05	10.17	21.33
Women and Child	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.07
Roads and Building	0.07	0.06	0.07	0.08	0.09	0.09	0.10	0.09	0.11	0.00	0.00
Other Departments	5.16	5.01	5.48	6.03	6.61	6.58	6.77	6.60	0.16	5.18	10.85

Source: FRBM Act documents, GOG

The 12th Finance Commission recommended setting up a Guarantee Redemption Fund to meet the contingent liabilities arising from the guarantees given by the State Government. Consequently, the GRF was set up in February 2006 for guarantees extended by it on loans taken by various entities like State Public Sector Undertakings, State Co-operative Societies, etc. In terms of the guidelines of the RBI, which administers the fund, the corpus of the fund is to be gradually increased to the desired level of five per cent of outstanding guarantees to provide a better cushion for servicing any contingent liabilities. The State has ensured prudent contingent liability management through a ceiling on guarantees and by setting up a Guarantee Redemption Fund (GRF). As outlined in Table 4.11, against the minimum requirement of Rs. 152.20 crores to meet the contingency, the balance in the fund was Rs. 802.92 crores as of 31 March 2022, which has exceeded the minimum requirement prescribed for the administration of these funds.

Guarantee invocation during the financial year 2022-23 is NIL. The GRF balance shows a decreasing trend from 2012-13 to 2021-22, with a negative CAGR of 5%. This decrease is attributed to the ongoing reduction in the amount of guarantees outstanding since 2012-13. Despite economic pressures, the GRF balance increased modestly during COVID-19, from Rs. 736.26 crores in 2019-20 to Rs. 802.92 crores in 2021-22. This indicates prudent fiscal management, as the state ensured adequate funds for guarantee obligations despite economic challenges. Further, the guarantee fee received experienced a sharp decline, with a CAGR of -24%, highlighting a reduced emphasis on collecting fees or fewer guarantees issued.

**Table 4.11: Total Guarantees of the State Government**

Rs. in Crore

Year	Minimum GRF requirement	Balance of GRF	Guarantee fee received
2012-13	309.75	1,322.00	33
2013-14	327.45	1,321.00	27
2014-15	299.20	2,569.00	21
2015-16	261.80	623.00	15
2016-17	240.20	640.23	9.01
2017-18	241.70	666.46	4.58
2018-19	234.95	699.60	1.60
2019-20	223.10	736.26	0.34
2020-21	182.80	773.12	0.25
2021-22	152.20	802.92	2.90
<b>AAGR</b>	<b>-7</b>	<b>5</b>	<b>81</b>
<b>CAGR</b>	<b>-8</b>	<b>-5</b>	<b>-24</b>

Source: CAG reports and FRBM Act documents, GOG

In conclusion, Gujarat has effectively reduced its contingent liabilities through prudent fiscal management, including lowering outstanding guarantees and maintaining a healthy Guarantee Redemption Fund. Despite economic challenges, the state's commitment to fiscal discipline is evident, with the GRF balance exceeding the minimum requirement and guarantee fees declining, reflecting a stable fiscal outlook.

### 3. ANALYSIS OF DEFICIT INDICATORS

#### 3.1. States' Comparison Revenue Deficit- GSDP Ratio

While comparing Gujarat's deficit indicators, it becomes evident that the state has been showing a great fiscal health. Gujarat's RD/GSDP performance stands out for its fiscal discipline and stability, especially when compared to states with larger deficits like Punjab, Bihar, and Odisha. Gujarat's focus on industrial

growth, efficient revenue management, and controlled social spending allows it to maintain a strong fiscal position. This stability positions Gujarat as one of the better-performing states in terms of revenue deficit management, alongside states like Maharashtra and Karnataka.

**Table 4.12 Deficit Performance of the State 2011-2023 (RD/GSDP)**

State	RD/GSDP										
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2021-22	2022-23
Andhra Pradesh	-0.5	-0.1	0.0	1.2	2.5	2.0	2.0	1.6	2.7	0.8	2.2
Bihar	-2.0	-1.7	-1.9	-3.3	-2.6	-3.1	-3.2	-1.3	-0.1	0.1	3.8
Chhattisgarh	-2.3	-1.6	0.4	-0.9	-2.2	-1.2	-1.2	-0.2	2.8	-1.1	-0.6
Goa	-0.8	0.5	0.7	-0.2	-1.1	-0.7	-0.7	-0.5	0.3	-0.1	-0.6
Gujarat	-0.5	-0.8	-0.6	-0.2	-0.5	-0.4	-0.4	-0.2	-0.1	-0.3	-0.3
Haryana	0.5	1.3	1.0	2.4	2.9	1.7	1.6	1.5	2.2	2.3	1.8
Jharkhand	-1.0	-0.9	-1.6	-1.8	-0.8	-0.7	-0.7	-2.0	-0.6	-1.9	-2.4
Karnataka	-1.0	-0.4	-0.1	-0.2	-0.1	-0.3	-0.3	0.0	-0.1	0.7	0.3
Kerala	2.5	2.7	2.9	1.7	2.4	2.4	2.4	2.2	1.7	3.2	1.9
Madhya Pradesh	-3.2	-2.1	-1.4	-1.1	-0.6	-0.6	-0.6	-1.1	0.3	-0.4	-0.1
Maharashtra	0.2	-0.3	0.3	0.3	0.4	-0.1	-0.1	-0.5	0.6	0.5	0.6
Odisha	-2.6	-2.3	-1.2	-3.1	-2.4	-3.1	-3.0	-2.9	-0.4	-6.5	-2.3
Punjab	2.6	2.6	2.1	2.2	1.7	2.0	2.0	2.5	2.6	3.0	3.5
Rajasthan	-0.8	-0.7	0.2	0.9	-4.0	-4.5	2.2	3.1	3.6	2.1	2.3
Tamil Nadu	-0.2	-0.2	0.2	1.0	1.0	1.5	1.5	1.4	2.0	2.2	1.3
Telangana	0.0	-	-	0.0	-0.2	-0.5	-0.5	-0.5	0.7	0.8	-0.2
Uttar Pradesh	-1.0	-0.7	-1.2	-1.3	-1.6	-0.9	-0.9	-1.7	-4.0	-1.7	-2.4
West Bengal	2.7	2.3	2.7	1.0	1.8	1.0	1.0	1.0	1.6	2.3	2.6

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

While making a comparison for the deficit indicators of Gujarat, it would be found that the state has sustained an extraordinary trend of great fiscal health. Gujarat's RD/GSDP performance is more or less impressive in terms of fiscal discipline and stability when compared to larger deficit states like Punjab, Bihar, and Odisha. Gujarat sustains a strong fiscal position with industrial growth, efficient revenue management, and controlled social spending. This situation makes Gujarat one of the relatively better-performing states in revenue deficit management, like some states such as Maharashtra and Karnataka.

Gujarat's Revenue Deficit to GSDP (RD/GSDP) has always been around zero during each year and has not crossed the mark of -0.8% in any point in time. The revenue deficit was at -0.5% in 2011-12, and it came down further to -0.3% by the time for 2022-23. Stable Fiscal Discipline: Gujarat has been showing great fiscal discipline with the smallest revenue deficit all through the period. This was kept well under control, as compared to many other states with the deficit that was larger or even had fluctuating trends. Fiscal Stability of Gujarat is owed to Diverse Industrial Base The economic activities of the state are mainly led by various industries like textile, chemicals, and petrochemicals along with pharmaceuticals, which brought into the coffers a consistent flow of revenue. Gujarat has had its social spending historically on the conservative side with more emphasis on infrastructure, industrialization, and economic growth. The state of Gujarat has strong Tax Revenue, heavy tax collection mainly through the

GST and industrial sector has allowed Gujarat to have small revenue deficits. This state has also consistently attracted investments both domestic and international which increase revenue generation and reduce the need for borrowing or drastic cuts in expenditure.

### 3.2. States' Comparison Fiscal Deficit- GSDP Ratio

**Table 4.13 Fiscal Performance of the State 2011-2023 (GFD/GSDP)**

State	GFD/GSDP										
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2021-22	2022-23
Andhra Pradesh	2.4	2.3	2.1	3.6	4.4	4.0	4.1	4.1	4.2	2.2	3.6
Bihar	2.4	2.2	2.4	3.2	3.9	3.0	3.1	2.6	2.1	3.9	9.2
Chhattisgarh	0.6	1.6	2.7	2.1	1.6	2.4	2.5	2.7	5.2	1.5	3.2
Goa	2.5	2.7	2.8	2.7	1.5	2.3	2.3	2.5	2.5	3.2	5.1
Gujarat	1.8	2.5	2.4	2.2	1.4	1.6	1.6	1.8	1.5	1.2	1.5
Haryana	2.3	3.0	2.1	6.5	4.7	3.1	2.9	3.0	3.9	3.6	3.3
Jharkhand	1.4	2.2	1.3	5.0	4.3	4.3	4.4	2.1	2.5	0.7	2.2
Karnataka	2.7	2.8	2.8	1.9	2.4	2.3	2.3	2.5	2.3	3.3	2.7
Kerala	4.1	4.3	4.3	3.2	4.2	3.8	3.8	3.4	2.8	4.9	3.5
Madhya Pradesh	1.9	2.6	2.3	2.7	4.3	3.1	3.1	2.7	3.5	3.3	3.6
Maharashtra	1.7	1.0	1.7	1.4	1.8	1.0	1.0	0.9	1.9	2.1	2.7
Odisha	-0.3	0.0	1.7	2.1	2.4	2.1	2.1	2.1	3.4	-3.1	2.8
Punjab	3.3	3.3	2.8	4.4	12.4	2.6	2.7	3.1	3.1	4.5	4.9
Rajasthan	0.9	1.8	2.9	9.2	-0.4	2.0	3.0	3.7	3.8	4.0	4.3
Tamil Nadu	2.6	2.2	2.4	2.8	4.3	2.7	2.7	2.9	3.3	4.0	3.2
Telangana	0.0	-	-	3.3	5.3	3.5	3.5	3.1	3.3	4.1	3.8
Uttar Pradesh	2.3	2.5	2.7	5.2	4.5	2.0	1.9	2.1	-0.7	2.0	3.6
West Bengal	3.3	3.2	3.6	2.3	2.9	2.9	3.0	3.1	3.0	3.7	4.0

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

In comparison to other states, Gujarat has proved a model of sound fiscal management as GFD/GSDP ratios have been minuscule. Bihar, Punjab, and West Bengal have sharply increased their deficits due to welfare schemes and borrowings. Gujarat is, however, moving fast in terms of industrial investment attraction, investments in infrastructures, and revenue enhancement to keep its fiscal discipline robust. The GFD/ GSDP ratio has been kept at a very low level of 1.2% to 2.5%. In the year 2022-23, it stands at 1.5%, thereby showing good control over the fiscal. This is reflected in the low GFD/GSDP ratio of Gujarat State since its beginning. The prudent control over fiscal deficit since the very inception of Gujarat State, mainly in comparison with national averages, seems to be prudent budgetary management and effective use of resources.

The consistent low GFD/GSDP ratio marks out the fervent commitment towards fiscal discipline of the State of Gujarat. Large deficit situations were avoided by balancing the growth in revenues with that of spending mainly through the expansion in the industrial sector. Gujarat has diversified Economy with strong performance is backed by its diverse industrial base, including sectors like petrochemicals, textiles, and pharmaceuticals, which contribute considerable sums to its revenues. Gujarat State has efficient Public Spending provides the state's ability to control social spending and can afford to focus on infrastructure and industrial investment, thus avoiding large deficits common in states like Punjab and Bihar. Gujarat has Sustainable Borrowing approach has been more sustainable, avoiding the excessive debt burdens faced by states like Punjab and West Bengal, ensuring its long-term fiscal health.

### 3.3. States' Comparison Primary Deficit- GSDP Ratio

**Table 4.14 Fiscal Performance of the State 2011-2023 (PD/ GSDP)**

State	PD/ GSDP										
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Andhra Pradesh	0.7	0.8	0.6	2.0	2.8	2.3	2.3	2.3	2.3	0.3	1.7
Bihar	0.7	0.7	0.8	1.3	2.0	1.1	1.1	0.7	0.2	1.8	7.1
Chhattisgarh	-0.3	0.9	2.0	1.3	0.5	1.3	1.4	1.5	3.8	0.0	1.6
Goa	0.5	0.8	0.9	0.8	-0.3	0.5	0.5	0.6	0.6	1.0	2.9
Gujarat	0.0	0.7	0.7	0.7	-0.1	0.2	0.2	0.4	0.1	-0.1	0.3
Haryana	1.0	1.6	0.6	4.8	2.8	1.1	1.1	1.1	1.9	1.5	1.2
Jharkhand	-0.2	0.7	-0.2	3.5	2.5	2.6	2.7	0.5	0.8	-1.0	0.5
Karnataka	1.4	1.5	1.5	0.8	1.4	1.3	1.3	1.5	1.2	2.1	1.4
Kerala	2.1	2.2	2.2	1.2	2.3	1.7	1.7	1.3	0.5	2.4	1.1
Madhya Pradesh	0.1	1.1	0.8	1.1	2.9	1.6	1.6	1.1	2.0	1.7	2.0
Maharashtra	0.2	-0.4	0.3	0.1	0.5	-0.4	-0.4	-0.4	0.7	0.8	1.4
Odisha	-1.5	-1.1	0.6	1.1	1.4	1.0	1.0	0.9	2.3	-4.0	1.9
Punjab	0.9	0.9	0.3	1.9	9.6	-0.6	-0.6	0.0	-0.1	1.4	1.9
Rajasthan	-1.0	0.0	1.2	7.5	-2.0	0.4	0.7	1.4	1.4	1.7	2.2
Tamil Nadu	1.3	0.8	1.0	1.3	2.7	0.9	0.9	1.1	1.6	1.9	1.2
Telangana	0.0	-	-	1.9	4.0	2.1	2.1	1.7	1.8	2.4	2.4
Uttar Pradesh	0.0	0.3	0.7	3.3	2.3	-0.1	-0.1	0.2	-2.7	-0.2	1.6
West Bengal	0.3	0.3	0.6	-0.2	0.0	0.1	0.1	0.4	0.4	1.0	1.4

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

The table below presents the Primary Deficit (PD) to Gross State Domestic Product (GSDP) ratios of Indian states for the period of 2011-12 to 2022-23. Primary deficit is the difference between fiscal deficit and interest payments because interest expenses represent the amount that the government needs to borrow to fund its non-interest outlay. Many states exhibit fluctuations in the primary deficit from one year to the next, and very large jumps occurred during the time of the pandemic, 2020-21, due to the

increased strain on fiscal envelopes. A few states such as Gujarat and Maharashtra have been recording very low or negative primary deficits, thus showing lesser dependence on borrowing for non-interest expenditure. At the outset of the COVID-19 pandemic, it became very evident that there was an impact on primary deficits and that the states would have to borrow more for health, welfare, and spending on recovery. Primary deficit: Once again, the statistic that shines bright for Gujarat is primary deficit. Despite erratic fluctuations, the state managed a remarkably low primary deficit all through the period. At no point of time did the ratio cross 0.7% and, in some years, it even went into the negative. Like 2015-16 and 2016-17 saw -0.1%. Its current fiscal discipline is reflected in the extremely low primary deficit at 0.3% in 2022-23, one among the lowest in the country.

**Table 4.15 Achievements of Targets Year wise 2011-23**

Item	For 2011-12 onwards	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)
	Target	Achievement								Achievement			
Revenue Deficit / Revenue Surplus	0	3215	5570	4717	5326	1704	5947	5232	3212	1945	-22548	6408	19865
Fiscal Deficit / GSDP	3.00%	1.80%	2.50%	2.41%	2.05%	2.24%	1.43	1.63	1.766	1.49	2.44	1.16%	0.76%
Public Debt / GSDP	27.10%	20%	20.71%	19.53%	18.26%	18%	17.28	16.17	16.00	16.19	18.04	15.75	15.17
Outstanding Guarantees	16000	7620	6388	6583	60.17	5319	4849	4834	4733	4499	3691	3089	1473

Source: FRBM Act various Issues, Gujarat State

**Table 4.16 Fiscal Indicators**

Items	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)
Revenue Deficit / Revenue Surplus	5570	4717	5326	1704	5947	5232	3212	1945	-22548	6408	19865
Fiscal Deficit	-16492	-18423	-18320	-23015	-16480	-21366	-26365	-24581	-40438	-22693	-16845
Primary Deficit	-4331	-5091	-3374	-6715	1317	-2412	-6182	-2132	-16235	2495	8509
Public Debt	136367	149506	163451	180743	199338	212591	240305	267095	298810	308302	338476
GSDP	658540	806745	895205	1025188	1153327	1328068	1502899	1629638	1655917	1928683	2330609
Revenue Deficit / Revenue Surplus as a % of GSDP	0.85	0.58	0.59	0.17	0.52	0.39	0.21	0.12	-1.36	0.33	0.89
Fiscal Deficit as a % of GSDP	2.50	2.28	2.05	2.24	1.43	1.61	1.75	1.51	2.44	1.18	0.76
Public Debt as a % of GSDP	20.17	18.53	18.26	17.63	17.28	16.01	15.99	16.39	18.04	15.99	15.17
Revenue Receipt as a % of Rev Exp.	1.08	1.06	1.06	1.02	1.06	1.04	1.02	1.01	0.85	1.04	1.11
Capital Outlay as a % of Gross Fiscal Deficit	134.06	126.37	133.78	107.95	138.55	126.11	113.00	109.69	69.28	128.92	219.43
Interest Payment as a % of Rev Rec	14.47	14.90	14.42	14.83	14.65	13.91	13.29	14.21	17.18	13.87	11.76
Salary Expenditure as a % of Rev Rec	24.77	24.40	22.78	22.64	21.42	22.86	22.48	22.29	25.50	21.28	20.84
Pension Payment as a % of Rev Rec	9.35	10.07	9.99	10.22	10.29	11.34	13.45	12.37	14.49	12.01	10.56
Total Direct Subsidy	4582	4424	6583	9045	11081	13621	17268	18420	22155	22335	25749

Source : FRBM Act various Issues, Gujarat State

An attached table presents the fiscal performance of one government spread over many years, from 2011-12 to 2022-23, and the key fiscal indicators embodied are Revenue Deficit/Surplus, Fiscal Deficit/GSDP, Public Debt/GSDP, and Outstanding Guarantees. Let us discuss this table.

1. Revenue Deficit / Surplus: The target was zero for the periods 2011-12 to 2018-19 and for the period 2019-20 to 2022-23. In fact, it means that the target is to eliminate any revenue deficit and achieve a balanced or surplus revenue budget. If we look at the year 2011-12 to 2018-19, revenue surplus targets were not achieved as a regular trend. In some years, a revenue surplus is recorded (e.g., 1704 in 2015-16), while in others, deficits are shown up, with 2012-13 reaching the highest point of 5570. Similarly, in the period of 2019-20 to 2022-23, the year 2020-21 showed a significant revenue deficit of -22548 which points towards a serious fiscal disequilibrium, presumably because of the overshadowing effects of the corona virus pandemic. However, by 2022-23 the deficit had improved significantly to 19865 but is still short of zero target. Revenue surplus has only been achieved in fits and starts due to extraneous events in the nature of pandemics that have somewhat large deviations from the targets .
2. Fiscal Deficit / GSDP: The fiscal deficit was capped at 3.00% of GSDP both in the period 2011-12 to 2018-19 and thereafter in the period 2019-20 to 2022-23. In the period, 2011-12 to 2018-19, the fiscal deficit remains broadly under control and remained below the 3% mark. In 2011-12 the deficit was at a very low level of 1.80%, and also in the year 2017-18, at 1.63%, much better than the mark. However, in FY 2019-20, the fiscal deficit touched 1.49%, whereas in FY 2020-21, it jumped sharply to 2.44%, primarily because of the fiscal pressure exercised during the pandemic. It came down to 0.76% by 2022-23, which hints at being a strong fiscal revival over the year time span 2019-20 to 2022-23. The fiscal deficit was kept within the target during the very testing times of 2020-21, also. The trend reflects strong fiscal management, largely post-pandemic.
3. Public Debt / GSDP: The threshold of 27.10% of GSDP was established as the cap on public debt over the years. Public debt has been brought down steadily from 20% in 2011-12 to 16% in 2018-19, which speaks to effective debt management. The government was far below the 27.10 percent target throughout the period of 2011-12 to 2018-19, whereas in the time-span of the year 2019-20 to 2022-23, public debt had remained stable between 16.19% and 15.17% in the years 2019-20 to 2022-23. The target of 27.10 percent was never approached. Public debt was also managed significantly below target, which indicated a very strong fiscal discipline in managing the levels of borrowing relative to economic output.
4. Outstanding Guarantees: The goal for outstanding guarantees was set at 16000 for the years from 2011-12 to 2018-19 which has been increased to 20000 for 2019-20 to 2022-23. Outstanding guarantees had always declined with time, from 7620 in 2011-12 to 4733 in 2018-19. It reflected proper management of contingent liabilities. Outstanding guarantees continued to decline from 1473 in 2022-23 to a dismal number less than a tenth of the set target of 20000 during 2019-2023. Thereby, the enormous reduction in outstanding guarantees would be an indicator of a significant reduction in fiscal risks associated with contingent liabilities. This probably goes along with the tendency to keep financial obligations tied to guarantees at its minimum in the future.

From the above table we can say that the government struggled to maintain consistently revenue surplus targets mainly during the pandemic years. Still, fiscal balance improved significantly in the years afterward. Fiscal Deficit/GSDP This metric was well-controlled, staying below the 3% ceiling even in

economic downturns. The public debt remained well below the target, reflecting prudent long-term fiscal planning. There was steady reduction, signifying effective risk management of government guarantees.

Overall, the fiscal performance over the period would be characterized by strong fiscal management with milestones in the control of fiscal deficit, public debt, and guarantees outstanding. Revenue targets were badly affected by the COVID-19 pandemic; however, some recovery efforts seem to be effective enough to bring fiscal indicators in line with the targets.

The table 4.13 provides the trends of key indicators of fiscal health through the period 2012-13 to 2022-23, showing various measures of fiscal health, such as revenue deficit, fiscal deficit, primary deficit, public debt, and related metrics.

1. Revenue Deficit / Revenue Surplus (Rs. Crores): The revenue deficit/surplus is highly volatile across the years, sharply switching from a surplus budget from (2012-13 to 2019-20) to a sharp deficit of Rs. -22,548 crores in the year 2020-21, followed by further improvement to Rs.19,865 crores in the year 2022-23. The sharp deficit in 2020-21 is due to the COVID-19 pandemic that had severely depressed the government revenues owing to slowdown in the economy while the government had to incur heavy expenditure in support of the public health and relief measures. The recoveries of the subsequent years depict a balance between economic recovery, better revenue collection and controlled expenditure.
2. Fiscal Deficit (Rs. Crores): The fiscal deficit has been steadily moving up from Rs.-16,492 crores in 2012-13 to a high of Rs.-40,438 crores in 2020-21 and then it shows a drastic fall to Rs.-16,845 crores in 2022-23. Fiscal deficit has increased mainly in 2020-21 due to increased borrowings that helped finance additional expenditure during the pandemic period. Comparatively smaller fiscal deficits in 2021-22 and 2022-23 suggest better fiscal management with the resumption of revenues and curbing of pandemic-related expenses. The increase in the fiscal deficit is because of increased government spending during the pandemic period. This means the deficit had started to decline in the last years due to effective fiscal control and a decline in the pandemic-related expenditure.
3. Primary Deficit (Rs. Crores): The primary deficit or the fiscal deficit minus interest payments was negative in most years but the current year witnessed a positive figure of Rs.1317 crores and in the following two years also; which is a time of primary surplus. The primary surplus in 2016-17 and subsequent years represent the balance that was achieved by the government between revenue and expenditure minus interest payment. The deficits during other years, such as Rs.-16,235 crores of 2020-21, indicate increased borrowings and hence, pressure on expenditure. The emergence of a primary surplus in the years 2021-22 and 2022-23 suggests better fiscal discipline and less borrowing outside interest payment, especially during the period when the economy began to recover from the pandemic.
4. Public Debt (Rs. Crores): The public debt has risen steadily from Rs.1,36,367 crores in 2012-13 to Rs.3,38,476 crores in 2022-23. The major cause of a continuously growing public debt is continued borrowing to finance fiscal deficits. The sharp increase during 2020-21 reflects heavy borrowing during the pandemic to support the economy, but debt as a percentage of GSDP has been well managed. Rising fiscal deficits, especially during the pandemic, also explain the steady rise in public debt. The steady rise in debt actually reflects borrowing to finance deficits, and slower growth in the last two years signals a shift toward more prudent fiscal management.

5. GSDP (Rs. Crores): GSDP expanded notably from Rs.6,58,540 crores in 2012-13 to Rs.23,30,609 crores in 2022-23. Steady growth in GSDP reflects the overall expansion of the economy over the decade. The contraction during 2020-21 is because of the pandemic-induced slump, but there is a reversal in subsequent years. All-round steady increase in GSDP indicates overall economic growth, except for the short-term shock of pandemic-induced contraction in 2020-21. Rapid rebounds in GSDP post 2021-22 point towards a strong rebound.
6. Revenue Deficit / Surplus as a percentage of GSDP Revenue deficit/surplus as a percentage of GSDP fluctuated with the last surplus at 0.85% in 2012-13 and went on to a deficit of -1.36% in 2020-21, which improved to 0.89% in 2022-23. The large deficit in 2020-21 is attributed to the revenue shock due to the pandemic. The recovery reflects the efforts of the government in managing fiscal imbalances by improving revenue collection and reducing expenditures in the post-pandemic period. The deficit for 2020-21 is directly related to the negative impact of the pandemic on revenues and the economy. The recovery afterward reflects improved revenue performance relative to GSDP growth.
7. Fiscal Deficit as a percentage of GSDP Fiscal deficit as a percentage of GSDP was below 2.50% till 2020-21 where it jumped up to 2.44% and then declined to 0.76% in 2022-23. The fiscal deficit jump in 2020-21 could be due to direct extraordinary spending due to the pandemic, whereas a reduction afterward gives an indication of consolidation efforts as economies bounced back. The increase in 2020-21 was because of extraordinary pandemic-related expenditure; the decline in 2022-23 reflects strong fiscal consolidation efforts as the economy recovered .
8. Public Debt as a percentage of GSDP: Public debt as percentage of GSDP declined from 20.17% in 2012-13 to 15.17% in 2022-23; it increased temporarily to 18.04% in 2020-21. This clearly indicates that though the absolute public debt grew in nominal terms, the faster growth in GSDP helped reduce the debt-to-GSDP ratio. The sharp rise in 2020-21 represents increased borrowing as an indirect fallout of the pandemic, and the decline afterwards reflects the benefits of economic recovery along with judicious management of debt. This shows that the economy's growth outpaced the increment in public debt, as the latter has been on a declining trend even though the former went up. The short-term spurt in 2020-21 captures the shock of pandemic impacts on the economy, but debt servicing has since been contained
9. Revenue Receipt as percentage of Revenue Expenditure: It had hovered around 1.0 over most years and now slipped down to 0.85 in 2020-21. The revenue receipts were almost covering the revenue expenditure up until the pandemic that reduced revenues sharply. That had plummeted from the pandemic-induced revenue shortfall in 2020-21. This ratio has also improved in the post-pandemic recovery and reached 1.11 in 2022-23 which signifies that revenues are getting more than expenditures in recent years. A fall in 2020-21 represents a decline in revenues due to lower collections during the pandemic period. The better revenue performance coupled with fiscal discipline reflects post-pandemic recovery.
10. Capital Outlay as a percentage of Gross Fiscal Deficit: The percentage varied, with a steeper fall to 69.28% in 2020-21 and then began to rise sharply to 219.43% in 2022-23. The smaller ratio of 2020-21 depicts how the trend is slowly shifting towards capital outlay becoming smaller compared to other current expenditures, such as relief measures during the pandemic. The rise over the last two years definitely means the economy is picking up pace and has more fiscally available room for capital expenditure in infrastructure. The falling curve from 2020-21 suggests that current spending might have been the priority - like that during the pandemic - while capital

investment was put on the back burner. The sharp rise after 2020-21 indicates an increase toward more capital spending, which is precisely what is needed for any sustainable growth.

11. Interest Payment as percentage of Revenue Receipt It was within the range of 13%-17%. It had touched a high of 17.18% in 2020-21 and reduced to 11.76% in 2022-23. This growth for interest payments in 2020-21 must have been on account of increased borrowing during the pandemic years. The decline thereafter may be because of better revenue collection and possibly lower rates of interest or better debt management. The rise during the pandemic is due to higher borrowing costs, and the decline later indicates that as the revenues recovered, the percentage of revenue expenditure spent in interest payables declined, which signifies better debt management.
12. Current Expenditure of Pay as Percentage of Revenue Collection: Current expenditure of pay as percentage of revenue collection was between 20.84% and 25.50%. It increased up to 25.50% in 2020-21 and declined to 20.84% by 2022-23. The pandemic increased this ratio in 2020-21, and it would owe much to reduced revenue collections. The post-pandemic improvement in the ratio reflects better revenue management while controlling salary costs. The pandemic reduced revenue receipts. Consequently, the ratio rose temporarily. Revenues improved post-pandemic, and the ratio normalized, showing controlled salary expenditure.
13. Pension Payment as a percentage of Revenue Receipt: Pension payment rose, at a high of 14.49% in 2020-21, before sliding to 10.56% in 2022-23. The increased ratio for 2020-21 may be attributed to lower revenues during the pandemic and possibly higher pension liabilities. The decline post-2021 points to the recovery of the fiscal along with improved flows of revenues. Increase in 2020-21 reflects reduced revenues and perhaps increased pension obligations. The drop thereafter signals fiscal recovery that allowed pension payments to absorb smaller revenue shares.
14. Total Direct Subsidy (Rs. Crores): The total direct subsidy has been augmenting steadily from Rs. 4,582 crores in 2012-13 to Rs. 25,749 crores in 2022-23. An increase in subsidies would certainly be due to social welfare spending, which, at the time of pandemic, would have increased as part of support to vulnerable populations. The upward trend also reflects a spurt in social protection and welfare programs. The rise in direct subsidies reflects the government's emphasis on welfare programs, particularly since the pandemic, for vulnerable segments of society. The uptrend suggests that such emphasis would continue.

The table above clearly reflects the fiscal implications of the COVID-19 pandemic on the economy in 2020-21-high deficit spirals and a fall in key ratios. Fiscal recovery in 2021-22 and 2022-23 is notable in terms of revenue collections, deficits, and debt management. GSDP growth along with a hike in the otherwise falling public debt to GSDP ratio presents a positive sign that the economy is growing more sharply than the public debt. The focus on capital expenditure in the last few years indicates the strategy that needs to be adopted for long-term growth through infrastructural development.

## CHAPTER 5

### DECENTRALIZATION INITIATIVES

The Constitutional Amendments Acts (CAA) of 1992, the 73rd and 74th, granted legal status to the third tier of government in India. With this change, third-tier governments, Urban Local Bodies, and Panchayati Raj Institutions—were given political economic and financial powers. This was one of the most crucial amendments that enabled local governments to take the lead role in development planning. In India it is the state government who had to architect and implement the decentralization process in the state. Each state in India has adapted decentralization in its own unique way. What is to be observed here is how Indian states have crafted fiscal decentralization within the state and how effectively an individual state is able to implement 73<sup>rd</sup> and 74<sup>th</sup> CAA 1992.

In this section we examine the fiscal performance of PRIs and ULBs and assess the fiscal decentralization initiatives of Gujarat state. Although the study period as per ToR was from 2012-13 to 2023-24, the ULBs finances data are available only upto 202-23 and PRIs finances data are available from 2015-16 to 2023-24. It is to be noted that these data sets are obtained from respective government offices who are responsible for compiling the ULBs and PRIs finance data and not from the published documents. The ULBs data are obtained from Annual Technical Inspection Report provided by Gujarat Municipal Finance Board. PRI's finances data are provided by Development Commissioner's office. The analysis of fiscal performance of local government gives an overview of decentralization initiatives of state governments. It is important to how much revenue is generated from their own sources vi-a-viz how much they rely on the transfer from state or central government. This chapter also discusses the issue of state finance commission in Gujarat.

#### 1. DECENTRALIZATION INITIATIVES OF GUJARAT STATE

What local governments can achieve depends on the resources and responsibilities they are granted and on the power of national governments to override their decisions, (World Bank, 2000). Gujarat has undertaken various initiatives to implement decentralization and empowering local governments and encouraging community participation in the development process. Some of the key decentralization efforts in the state include.

##### 1.1. Implantation of 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments

Gujarat has implemented the 73rd and 74th Constitutional Amendments by enhancing the powers of rural governments, known as Panchayati Raj Institutions and Urban Local Bodies for better governance. These amendments led to the formation of the District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) to ensure decentralized planning in urban and rural areas.

Gujarat has empowered rural government; Panchayats (village, taluka, and district levels) under the Gujarat Panchayati Raj Act, 1993. There are 33 district panchayats, 247 taluka panchayats, and 14,017 gram panchayats in Gujarat state, while revenue villages are 18,584 (*Development Commissioner, n.d.*). The last elections of panchayats were conducted in 2021 for all village panchayats.

ULBs, which include Municipal Corporations, Municipalities, and Nagar Palikas, are empowered under the Gujarat Municipal Corporation Act, 1949 and Gujarat Municipalities Act, 1963.

## 1.2. Transfer of financial powers to ULBs and PRIs

The revenue and taxation powers of PRIs in Gujarat include following:

<p><b>Taxation Powers</b></p> <ul style="list-style-type: none"> <li>▪ <b>House Tax:</b> Levied on residential and commercial properties in rural areas.</li> <li>▪ <b>Land Revenue:</b> Village Panchayats are authorized to collect a portion of land revenue on behalf of the government.</li> <li>▪ <b>Water Tax:</b> Levied for the use of community water resources and irrigation facilities.</li> <li>▪ <b>Lighting Tax:</b> Imposed for street lighting in rural areas.</li> <li>▪ <b>Vehicle Tax:</b> Levied on certain categories of vehicles operating in rural areas.</li> </ul>
<p><b>User Charges / Fees / rent and other income</b></p> <ul style="list-style-type: none"> <li>▪ Fees for services like water supply, community halls, and sanitation.</li> <li>▪ Charges for issuing certificates such as birth, death, and marriage certificates.</li> <li>▪ Market fees collected from local haats and fairs.</li> <li>▪ Income from leasing or renting Panchayat-owned properties such as grazing lands, community halls, and shops.</li> <li>▪ Fines collected for violations of Panchayat regulations.</li> </ul>
<p><b>Grants and Transfers</b></p> <ul style="list-style-type: none"> <li>▪ <b>State Finance Commission (SFC) Grants:</b> Regular grants provided by the state government as per SFC recommendations.</li> <li>▪ <b>Central Finance Commission (CFC) Grants:</b> Allocations for rural development under national frameworks.</li> <li>▪ <b>Grants-in-Aid:</b> Conditional grants / Specific grants for centrally sponsored schemes or state schemes.</li> </ul>

Revenue generation powers of ULBs in Gujarat include following:

<p><b>Taxation Powers</b></p> <ul style="list-style-type: none"> <li>▪ <b>Property Tax:</b> The primary source of revenue for ULBs, levied on buildings and lands within their jurisdiction.</li> <li>▪ <b>Professional Tax:</b> Imposed on professionals, trades, and employments as per state guidelines.</li> <li>▪ <b>Water Tax:</b> Levied on households and businesses for water supply services.</li> <li>▪ <b>Conservancy Tax:</b> Charged for waste collection and sanitation services.</li> <li>▪ <b>Vehicle Tax:</b> Levied on non-commercial vehicles for parking and other services.</li> <li>▪ <b>Advertisement Tax:</b> Charged on hoardings, billboards, and advertisements displayed within municipal limits.</li> </ul>
<p><b>User Charges / Fees / rent and other income</b></p>

- Charges for water supply, sewerage, and sanitation services.
- Fees for issuing trade licenses, building plan approvals, and market operations.
- Parking fees and charges for municipal amenities like community halls and recreational facilities.
- Rental income from municipal properties like shops, markets, and community centers.
- Penalties and fines collected for violations of municipal laws.

#### **Borrowing Powers**

ULBs can raise loans with state government approval for infrastructure development projects, such as water supply, roads, and sanitation systems.

#### **Grants and Transfers**

- **State Finance Commission (SFC) Grants:** Regular grants provided by the state government as per SFC recommendations.
- **Central Finance Commission (CFC) Grants:** Allocations for rural development under national frameworks.
- **Grants-in-Aid:** Conditional grants / Specific grants for centrally sponsored schemes or state schemes.

### **1.3. Expenditure responsibilities transferred / functions devolved to PRIs (11<sup>th</sup> schedule)**

Gujarat has transferred most of the 29 functions listed in the Eleventh Schedule to PRIs. These functions include areas like rural development, agriculture, education, health, and social welfare. However, the degree of devolution varies based on administrative and financial capacity. Key areas include:

#### **Village panchayat**

Drinking water facilities for domestic use and for animals.  
 Scavenging of roads in the villages.  
 Maintenance of govt. properties  
 Lighting arrangement in villages  
 Spread of education including primary education in villages.  
 Planning of rural development  
 Supervision of crops in the outskirts of village.  
 Planning for agricultural improvements  
 Planning for Agricultural Reforms.

#### **Taluka/ block Panchayat**

Provide health and hygiene services in talukas  
 Control on epidemics  
 Constructions and maintenance of village roads.  
 Establishment and management of primary schools.  
 Agricultural improvements and planning at taluka level.  
 Women welfare, development of youth activities and assistance  
 Help in natural & manmade disasters like flood, fire accidents, etc.

#### **District Panchayat**

Control over activities of district panchayats, taluka panchayats and gram panchayats, to provide assistance. Management and control on activities transferred from revenue, education co-

operation Irrigation, Cattle breeding, agriculture by State Govt. work of activities of Panchayats Department at district level.

**Partially Transferred Functions which include**

Minor irrigation, water management, and watershed development.  
Land improvement and soil conservation.  
Maintenance of community assets.  
Animal husbandry and veterinary services.  
Non-conventional energy sources.

#### 1.4. Expenditure responsibilities / functions devolved to ULBs in Gujarat (12th Schedule)

Gujarat has transferred several of the 18 functions listed in the Twelfth Schedule to ULBs, empowering them to manage urban areas. These functions focus on urban planning, infrastructure, and service delivery.

**Fully Transferred Functions:**

Urban planning and town planning.  
Regulation of land use and construction of buildings.  
Water supply for domestic, industrial, and commercial purposes.  
Public health, sanitation, and solid waste management.  
Urban roads and bridges.  
Slum improvement and upgradation.  
Fire services.  
Urban forestry and protection of the environment.  
Street lighting and maintenance of public spaces.  
Regulation of markets and trade licenses.

**Partially Transferred Functions:**

Urban poverty alleviation.  
Planning for social and economic development.  
Provision of cultural, educational, and recreational facilities.

Some functions, like urban transport and environmental protection, remain under state control or are shared with state-level agencies.

#### 1.5. Initiatives of community participation for decentralized development plans in Gujarat

In Gujarat, decentralized planning allows for the involvement of local representatives in planning processes. State have implemented various strategies and model to promote community participation in the development planning popularly known as participatory governance.

These initiatives are:

**Gram Sabha:** each village in Gujarat has constituted Gram Sabha. Villages are encouraged to hold regular meetings to ensure transparency and accountability.

**District Development Plans:** District Panchayats play a significant role in the preparation and implementation of local development plans through involvement of community representatives.

The **Aapno Taluko Vibrant Taluko (ATVT)** initiative ensures decentralized governance at the taluka level, enabling administrative units to plan and execute local development independently.

Formation of **School Management Committees (SMCs)** to improve education outcomes under the Right to Education Act.

The state introduced a **bottom-up approach** to the Sustainable Development Goals (SDGs), aiming to decentralize their implementation at the district and taluka levels. This model encourages local bodies to take charge of SDG-related actions within their jurisdictions.

Gujarat has adopted **e-Governance initiatives** to facilitate decentralized administration. For example:

- **e-Gram Swaraj Portal:** A platform for rural local bodies to manage and monitor various government schemes, planning, and financial transactions at the village level.
- **Municipal e-Governance:** In urban areas, the introduction of e-governance tools like online tax payment systems, grievance redressal, and municipal services digitalization has helped decentralize urban administration.

### **Participatory Budgeting**

- **Citizen Input in Budget Preparation:** Some ULBs, particularly municipal corporations invite suggestions from residents during the budget preparation process to prioritize projects like roads, drainage, parks, and public amenities.
- **Ward Committees and Area Sabhas:** Platforms like ward-level committees allow citizens to provide inputs on local needs and development priorities.
- **In larger municipalities, ward committees and area sabhas are active platforms for participatory decision-making.** Citizens can discuss and influence local issues such as waste management, water supply, and housing.

### **Smart Cities Mission**

- **As part of the Smart Cities Mission, cities like Ahmedabad, Surat, and Vadodara have implemented:** Citizen Consultations: Online and offline consultations to gather feedback on urban development plans.
- **Digital Dashboards:** Real-time tracking of urban services, where citizens can monitor progress and provide feedback.
- **Surveys and Public Meetings:** Conducted to involve the public in urban planning and project implementation.

### **Grievance Redressal Mechanisms**

- **Centralized Grievance Systems:** Platforms like Swachhata App (under Swachh Bharat Mission) and local grievance systems allow citizens to report issues like garbage management, water supply problems, and road maintenance.
- **Call Centers and Helplines:** Dedicated helplines for quick resolution of urban service issues.

### **Capacity Building Programs**

- Training for Urban Local Body Officials: Programs by the Gujarat Urban Development Mission (GUDM) and other agencies to improve participatory governance skills.
- Workshops for Citizens: Organized to educate citizens about their rights and responsibilities in urban governance.

### **Technology Adaption for Community Participation**

- GIS Mapping and Urban Planning Tools: Citizens can contribute to urban mapping and infrastructure planning through interactive digital platforms.
- Crowdsourcing Ideas: ULBs in cities like Surat have used crowdsourcing to gather innovative ideas for urban improvement.

### **Monitoring and Auditing by Citizens**

- Social Audits: Some ULBs involve citizens in auditing public works projects to ensure accountability and transparency.
- Feedback Surveys: Regular surveys to gather citizen satisfaction levels on municipal services.

## **1.6. Challenges**

From the above provided details, most of the functions given in the 11<sup>th</sup> and 12<sup>th</sup> schedule of the 73<sup>rd</sup> and 74<sup>th</sup> CAA are transferred to PRIs and ULBs respectively. Nevertheless, it is important to note that while all the listed functions are transferred to local bodies, the taxation powers or revenue generation powers are limited. In most cases ULBs and PRIs do not have the power to decide the tax rates or user charges they levy. An absence of financial autonomy is observed. The capability of the local government and offices is also a major concern particularly with rising complexities in development planning.

## **2. ANALYSIS OF FINANCE OF PRIS**

The analysis of fiscal performance of PRIs is given in this section. However due to unavailability of data on expenditure of PRIs only the revenue data is available. Revenue and Expenditure data of village panchayats are available but the expenditure classification is available only as revenue and capital expenditure. table 5.1 shows the amount of revenue generated from all PRIs in Gujarat. table 5.2 gives an annual growth rate and CAGR of revenue components. It can be seen that the total receipts of PRIs during the period from 2014-15 to 2022-23 increased by merely 6 % and from three years 2019-20 to 2021-22 the annual growth rate is negative. The highest growth is observed only in the Central Finance Commission Grants, which is 18.6 %. Only for the year 2021-22 is the growth rate negative. PRIs own tax revenue increased at the lowest rate by 4.25 % which means in real terms the own revenue declined. The growth of own revenue is also quite volatile as for the year 2022-23 it increased by almost 40 % while there are years where it reduced by 18 % in 2020-21, 12.13 % in 2018-19 and 10.74 % reduction in 2016-17. While PRIs are the main implementation agencies for development programs, such low

growth of PRIs income and quite volatile growth of revenue raise a lot of challenges to meet development goals.

**Table 5.1**  
**Total Revenue of PRIs (Total of Village, Bloc & District Panchayat)**

(Rs. Crores)

Year	Own Revenue	Grant In Aid (Government Grant)	Finance Commission Grant (Central Finance Commission)	Total Receipt
2014-15	2124.48	21166.55	527.04	23818.07
2015-16	2844.43	24669.5	932.25	28446.18
2016-17	2538.99	24646.22	1460.18	28645.39
2017-18	3192.87	32679.29	1683.08	37555.24
2018-19	2805.59	33156.73	1725.36	37687.68
2019-20	2650.73	30295.92	2331.33	35277.98
2020-21	2156.26	26426	3195	31777.26
2021-22	2194.33	26398.85	2362	30955.18
2022-23	3088.65	35053.66	2446	40588.31

Source: Data obtained from development commissioner

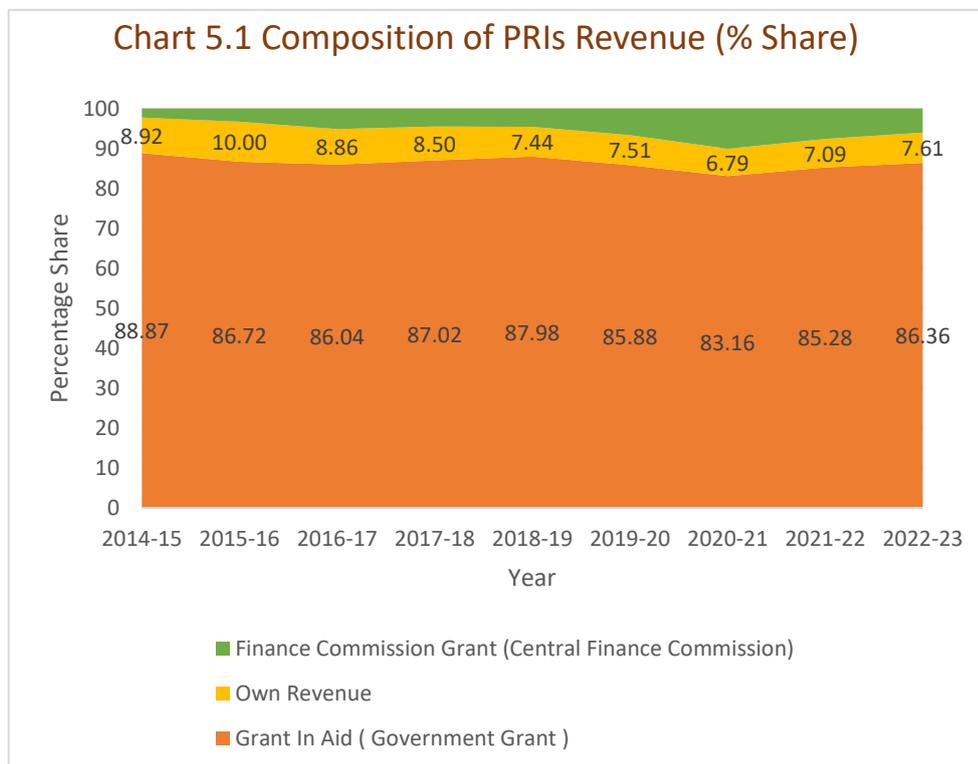
**Table 5.2**  
**Annual Growth Rate & CAGR PRIs (%)**

Year	Grant In Aid (Government Grant)	Own Revenue	Finance Commission Grant (Central Finance Commission)	Total Receipt
2015-16	16.55	33.89	76.88	19.43
2016-17	-0.09	-10.74	56.63	0.70
2017-18	32.59	25.75	15.27	31.10
2018-19	1.46	-12.13	2.51	0.35
2019-20	-8.63	-5.52	35.12	-6.39
2020-21	-12.77	-18.65	37.05	-9.92
2021-22	-0.10	1.77	-26.07	-2.59
2022-23	32.78	40.76	3.56	31.12
<b>CAGR</b>	<b>5.77</b>	<b>4.25</b>	<b>18.60</b>	<b>6.10</b>

Sources: Estimated based on data obtained from development commissioner

chart 5.1 gives details of the contribution of revenue components. It is evident that grants in aid from the government have a significant share in total revenue. Most of these grants will be tied up grants. However,

we do not get the details of the types of grants under this category and hence it is difficult to draw any conclusions based on the data.



Sources: Estimated based on data obtained from development commissioner

Table 5.3 and 5.4 provides revenue and expenditure details of village panchayats respectively. Table 5.3 gives details of grants from center finance commission and state finance commission. Table 5.5 which give annual growth rate and CAGR of revenue and expenditure components shows that the revenue from state finance commission over the years have actually declined by 19 %. The issue of state finance commission is discussed in the section below in detail. The central finance commission grants increased by only 4.54 %.

**Table 5.3**  
**Total Revenue of Village Panchayats**

(Rs. Crores)

Year	Own Revenue Receipts	Grants-in-Aid of Central Finance Commission	Grants-in-Aid of State Finance Commission	Other Receipts	Total Receipts
2015-16	38626.99	114352.18	1656.80	57184.61	211820.57
2016-17	44487.14	-	178.78	70587.33	-
2017-18	51782.58	188269.78	282.68	75122.91	315457.95
2018-19	50791.11	217109.49	283.87	695824.83	964009.30
2019-20	60300.83	263980.11	257.22	710318.28	1034856.44
2020-21	63090.61	252727.16	176.08	713247.83	1029241.68
2021-22	64600.52	175619.11	187.41	701181.01	941588.05
2022-23	93396.18	209438.25	516.33	95364.72	398715.48
2023-24	66178.34	170457.79	236.04	84044.10	320916.28

Sources: Estimated based on data obtained from development commissioner

**Table 5.4**  
**Total Expenditure of Village Panchayats**

(Rs. Crores)

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure
2015-16	83838.12	127219.49	211057.61
2016-17	92287.07	131462.62	223749.69
2017-18	99793.37	185725.84	285519.21
2018-19	1124017.96	198153.23	1322171.19
2019-20	746349.76	286329.58	1032679.35
2020-21	745103.12	221039.46	966142.58
2021-22	725205.52	183789.34	908994.86
2022-23	142402.04	169391.61	311783.86
2023-24	122093.37	126916.00	249009.36

Sources: Estimated based on data obtained from development commissioner

**Table 5.5**  
**Annual Growth Rate & CAGR Village Panchayats (%)**

Year	Own Revenue Receipts	Grants-in-Aid of Central Finance Commission	Grants-in-Aid of State Finance Commission	Other Receipts	Total Receipts	Revenue Expenditure	Capital Expenditure	Total Expenditure
2016-17	15.17	-	-89.21	23.44	-	10.08	3.34	6.01
2017-18	16.40	-99.93	58.12	6.43	-99.89	8.13	41.28	27.61
2018-19	-1.91	15.32	0.42	826.25	205.59	1026.35	6.69	363.08
2019-20	18.72	21.59	-9.39	2.08	7.35	-33.60	44.50	-21.90
2020-21	4.63	-4.26	-31.54	0.41	-0.54	-0.17	-22.80	-6.44
2021-22	2.39	-30.51	6.43	-1.69	-8.52	-2.67	-16.85	-5.92
2022-23	44.57	19.26	175.50	-86.40	-57.65	-80.36	-7.83	-65.70
2023-24	-29.14	-18.61	-54.28	-11.87	-19.51	-14.26	-25.08	-20.13
<b>CAGR</b>	<b>6.16</b>	<b>4.54</b>	<b>-19.47</b>	<b>4.37</b>	<b>4.72</b>	<b>4.27</b>	<b>-0.03</b>	<b>1.85</b>

Sources: Estimated based on data obtained from development commissioner

What is also critical is that the expenditure of village panchayats has increased merely by 1.85 %. The capital expenditure actually declined by 0.03 %. This is where the real concern lies. Despite of the transfer of fiscal powers and responsibilities, the PRIs, the fiscal performance hasn't really improved and rather the village panchayat isn't spending enough which hampers the overall socio-economic development of villages and hence district panchayats.

If at all it is assumed that district panchayats may be taking active role in the financial management and development planning for village panchayats, it is to be noted that the revenue and expenditure performance of district panchayats are not quite impressive. Rather they are more discouraging. Both revenue and expenditure growth of DP are highly volatile, capital expenditure rather declined by 24 %. The increase in total expenditure by 40 % is merely due to a sudden rise in the year 2022-23. We do not have the details of this sudden rise. The total revenue of DPs has also increased by merely 4 %. The analysis of finance of PRIs clearly indicates that no matter fiscal decentralization initiatives have been implemented, they haven't resulted in the improvement of finances of PRIs.

**Table 5.5**  
**Annual Growth Rate & CAGR District Panchayats (%)**

Year	Own Revenue Receipts	Grants-in-Aid of Central Finance Commission	Other Receipts	Total Receipts	Revenue Expenditure	Capital Expenditure	Total Expenditure
2016-17	-78.88	45.87	-69.84	-41.69	2.46	2.65	8.43
2017-18	130.44	39.09	-96.29	45.64	13.73	38.97	31.25
2018-19	-47.24	8.99	4669.62	1.49	24.43	7.76	12.18
2019-20	24.72	7.66	-59.36	3.58	-29.06	3.23	-6.26
2020-21	1.72	38.30	-53.30	27.42	-16.47	-27.01	252.64
2021-22	6.32	-65.64		-31.11	182.01	-87.25	-83.08
2022-23	-14.11	-9.04		-41.61			1447.70
2023-24	444.25	84.56		214.04			56.47
<b>CAGR</b>	<b>5.50</b>	<b>7.39</b>	<b>-31.22</b>	<b>4.11</b>	<b>13.48</b>	<b>-23.91</b>	<b>40.71</b>

Sources: Estimated based on data obtained from development commissioner

### 3. ANALYSIS OF FINANCES OF ULBS.

This section analyzes revenue and expenditure performance of ULBs which is combined of both municipal corporations and municipalities. Table 5.6 gives the values of revenue components. It is to be noted here that there is a data discrepancy across various sources. This data which are made available from Gujarat Municipal Finance Board compiled for the purpose of the annual technical inspection report do not match with the CAG report of local bodies published in the year 2018.

**Table 5.6**  
**Total Revenue and Expenditure of ULBs**

(Rs. Crores)

Year	Own Revenue (Specify)	Tax	Property Tax	Other Tax	Non-Tax	CFC transfer	SFC transfer	GoI grants for CSS
2012-13	2554.21	1791.39	910.39	881.01	762.82	191.59	71.04	
2013-14	2962.21	2061.52	1005.52	1055.99	900.69	229.67	112.33	
2014-15	3680.02	2482.64	1169.18	1313.46	1197.38	219.43	262.35	
2015-16	4076.92	2648.41	1277.79	1370.62	1428.51	604.06	249.73	
2016-17	4576.72	3020.60	1468.78	1551.82	1556.12	850.85	280.42	
2017-18	4576.72	3020.60	1468.78	1551.82	1556.12	850.85	280.42	
2018-19	6596.18	3456.33	1451.14	2005.18	3139.85	1138.05	557.29	1517.06
2019-20	6412.71	3330.58	1408.8	1921.78	3082.13	1537.74	288.89	3183.5
2020-21	7370.73	3509.51	1505.96	2003.58	3861.22	951	359.16	751.98
2021-22	7309.55	3771.6	1610.73	2160.85	3537.95	1140.91	309.95	994.23
2022-23	8868.65	4781.27	2081.41	2699.86	4087.38	376.71	478.64	1015.24

Source: Data obtained from Gujarat Municipal Finance Board

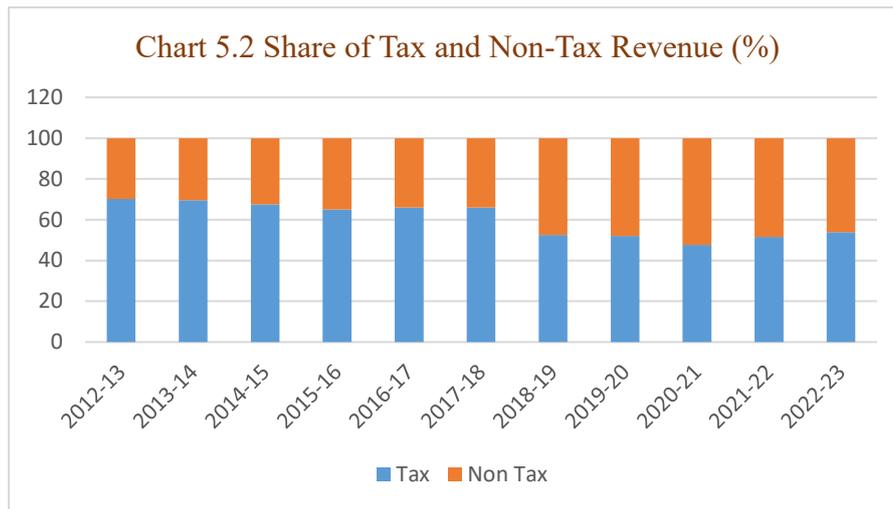
Table 5.7 gives annual growth rate and CAGR for revenue components. Similar to the performance of PRIs, the ULBs' revenue also increased by merely 4 %. On the other side, the expenditure, revenue expenditure of ULBs have increased by almost 11 % and total expenditure increased by 10 % during the same time (see table 5.7). This shows how ULBs must be under the financial pressure of meeting expenditure requirements.

**Table 5.7**  
**Annual Growth Rate & CAGR of Revenue of ULBs (%)**

Years	Own Revenue	Tax	Property Tax	Other Tax	Non-Tax	CFC transfers	SFC transfers	GoI grants for CSS	Total Revenue
2013-14	15.97	15.08	10.45	19.86	18.07	19.88	58.12		12.25
2014-15	24.23	20.43	16.28	24.38	32.94	-4.46	133.55		16.32
2015-16	10.79	6.68	9.29	4.35	19.30	175.29	-4.81		13.58
2016-17	12.26	14.05	14.95	13.22	8.93	40.85	12.29		11.70
2017-18	0.00	0.00	0.00	0.00	0.00	0.00	0.00		9.55
2018-19	44.12	14.43	-1.20	29.21	101.77	33.75	98.74		33.76
2019-20	-2.78	-3.64	-2.92	-4.16	-1.84	35.12	-48.16	109.85	14.53
2020-21	14.94	5.37	6.90	4.26	25.28	-38.16	24.32	-76.38	-12.36
2021-22	-0.83	7.47	6.96	7.85	-8.37	19.97	-13.70	32.21	3.47
2022-23	21.33	26.77	29.22	24.94	15.53	-66.98	54.42	2.11	17.24
<b>CAGR</b>	<b>11.98</b>	<b>9.34</b>	<b>7.81</b>	<b>10.72</b>	<b>16.49</b>	<b>6.34</b>	<b>18.94</b>	<b>-7.72</b>	<b>4.02</b>

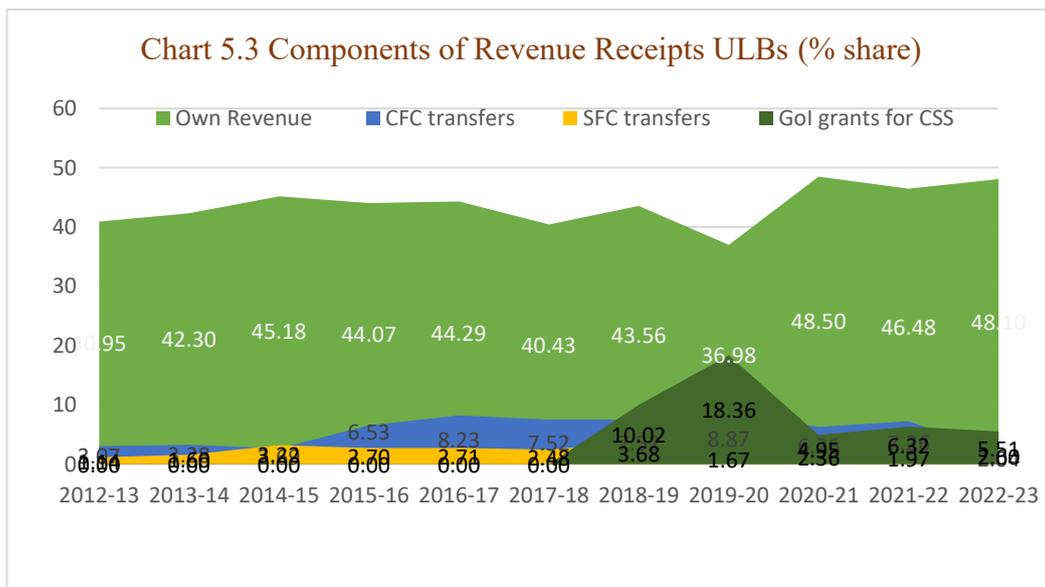
Source: Data obtained from Gujarat Municipal Finance Board

The highest growth rate is observed in State Finance Commission transfers as it increased by 18 % CAGR. Property tax which is one of the important sources of revenue has increased by 7.81 %. What is to be noted is that for the year 2018-19 and 2019-20 which aren't a Covid-19 year the property tax experienced a negative growth. It is possible that the reforms and GIS implementation efforts are carried out in the municipal corporation while the municipalities aren't efficiently collecting property tax. In fact, for most of the year the property tax rates haven't increased in majority of the municipalities.



Source: Data obtained from Gujarat Municipal Finance Board

As far as the structure and composition of the ULBs revenue is concerned, the own revenue dominates the total basket with around 40 to 45 % of the revenue coming from own sources. This is certainly an improvement compared to previous decade. However, their inability to meet rising expenditure and increasing deficits is surely a matter of concern particularly with increasing urbanization in the state.



Source: Data obtained from Gujarat Municipal Finance Board

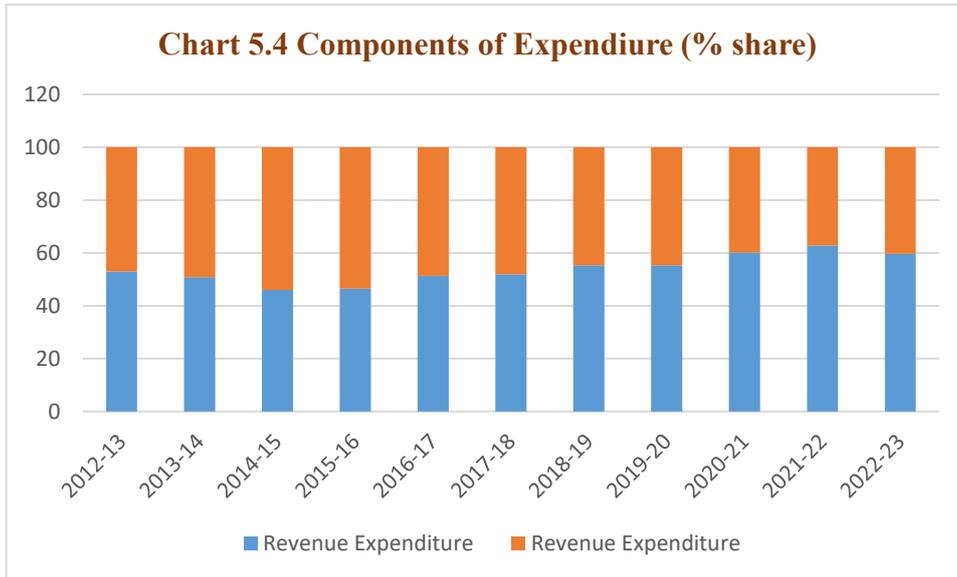
**Table 5.8**  
**Expenditure Amount and Growth Rate of ULBs**

(Amount in Rs. Crores and growth rate in %)

<b>Years</b>	<b>Total Exp</b>	<b>Rev Exp</b>	<b>Cap Exp</b>	<b>Growth Rate Total Exp</b>	<b>Growth Rate Rev Exp</b>	<b>Growth Rate Cap Exp</b>
2012-13	8467.70	4488.25	3979.45			
2013-14	9640.55	4902.54	4738.00	13.85	9.23	19.06
2014-15	12605.69	5791.46	6814.23	30.76	18.13	43.82
2015-16	14196.01	6598.58	7597.43	12.62	13.94	11.49
2016-17	13985.23	7171.65	6813.58	-1.48	8.68	-10.32
2017-18	15362.70	7971.88	7390.81	9.85	11.16	8.47
2018-19	14883	8226.26	6656.74	-3.12	3.19	-9.93
2019-20	16333.83	9040.86	7292.97	9.75	9.90	9.56
2020-21	16745.02	10075.77	6669.25	2.52	11.45	-8.55
2021-22	20050.15	12585.28	7464.87	19.74	24.91	11.93
2022-23	24103.75	14369.29	9734.46	20.22	14.18	30.40
<b>CAGR</b>				9.98	11.16	8.47

Source: Data obtained from Gujarat Municipal Finance Board

The expenditure data of ULBs are only available in the form of revenue and expenditure. Sector wise expenditure data aren't really available to be able to assess how the ULBs are spending and what are their priority areas. chart 5.4 give idea of the relative share of revenue and capital expenditure. for most of the year, the revenue expenditures are marginally higher indicating that ULBs are also taking care of capital expenditure. this is obvious with rising infrastructure development taking place, such as roads, bridges etc. in the cities of Gujarat.



The fiscal performance analysis of local bodies in Gujarat could not be carried out in detail due to lack of availability of data. The data of scheme wise allocation and utilization by local bodies, state finance commission grants etc. could not be obtained.

#### 4. Gujarat State Finance Commission

As per Article 243I of the Indian constitution, each state was required to constitute state finance commission with one year from the constitutional amendment of 1992. The role of state finance commission as noted in their terms of reference is to review the finances of PRIs and ULBs, suggest ways to strengthen their financial position, to decide upon the transfer of proceeds of taxes, duties, user charges etc. (levied by state) to local bodies and to fix the formula for distribution among PRIs and ULBs. It is important to formulate appropriate mechanism for devolution of financial resources that would reduce the financial pressure of PRIs and ULBs. The devolution should maintain the right balance between the fiscal gap and the fiscal discipline of local governments. Also, it is expected that the state finance commission contributes in terms of capacity building and strengthening the financial position of local level government. It should suggest the ways to transfer fiscal power to the ULBs along with suggestions to build more efficient system for collection of tax and non-tax revenue. Thus, the state finance commission plays a key role in improving the financial performance of local government. However, successive Central Finance Commissions have observed irregularity and delaying in the constitution and functioning of state finance commissions in India. This in turn has indirectly contributed to the poor performance of local level government in India.

Along with other states of India, 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. For the duration from 2021-22 to 2026-27 the sixth state finance commissions should have been constituted across all the states. Gujarat is far behind in the diligent implementation of the provision. The state has so far constituted only three finance commissions.

**Recently in November 2024 the state government announced the constitution of fourth state finance commission. So far only the chairman of the commission has been appointed. The list of members is still awaited.**

Third State Finance Commission was constituted in 2011, initially the award period of which was 2010-11 to 2014-15, extended to 2016-17. The Commission submitted its report in May 2014. It was given extension to incorporate the recommendations upto 2019-20. Then the Commission submitted its supplementary report in March 2015. To appreciate, for the first time the State Finance Commission in Gujarat has devised a scientific formula for devolution of state's income to the local government (the details are yet not out, however this is the primary information received from the Finance Commission). However the action taken report was tabled in the assembly on 31 March 2021, only at the time when the 15<sup>th</sup> Central Finance Commission made it mandatory. However, after almost nine months of the submission of the report, the report is yet not been placed in the Assembly. In the earlier finance commission also this process was delayed to a great extent. The status of formation of state finance commissions and submission of the report and also the status of action taken (as on December 2023) is summarized in the table 6. The details are obtained from Gujarat State Finance Commission.

**Table 5.9 – Status of State Finance Commissions Gujarat**

<b>Finance Commission</b>	<b>year of Constitution</b>	<b>Date of Submission</b>	<b>Report Placed in Legislative Assembly</b>	<b>Total recommendations</b>	<b>Recommendations accepted</b>	<b>Recommendations implemented</b>
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	Action taken report place on 31st March 2021	33 ULBs	22 (49%)	13 (17%)
Fourth	2024	November 2024 – chairman of the state finance commission has been appointed				

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

\*CAG state finance report, March 2022.

Some of the important inferences can be drawn from the table above. Although the first finance commission was constituted in 1994, the report of that was placed in an Assembly only in 2001. There was a gap of almost ten years between the first and second commission's constitution and the reports being placed in the Assembly. In case of the third State finance commission, the award period had already begun and the report was not tabled almost up to 2021. Thus, there is a complete disconnect between the time of constitution of State Finance Commission and the award period. The government is not been able to maintain the schedule starting from the timely formation of finance commissions to acceptance and implementation of the recommendations for the award period. This has led to quite an inefficient system of implementation of the fiscal devolution.

The problem with State Finance Commission is not restricted to only formation and report submission. There is also an issue with recommendations acceptance and implementation. The figures of recommendations accepted and implemented, summarized in the table are highly disappointing. As a result of such practices the financial resources transferred to ULBs do not follow any systematic pattern, making them non-committed, non-predictable and thus not guaranteed. One of the essential parameters for improving financial health of any level of government is to have consistent and assured or predictable flow of financial resources. This is certainly missing in case of ULBs. Due to irregularity in the formation of State Finance Commissions and non-compliance in terms of acceptance and implantations of Commissions' recommendations, the finances of ULBs have got worsen.

## CHAPTER 6

### ANALYSIS OF STATE'S SUBSIDIES

In the recent discussion on state finances, the issue of subsidies and freebies is very much highlighted. Subsidies, if rightly designed, certainly have greater welfare impact but simultaneously it creates a fiscal burden and might result in greater debt burden on the citizens only. Most of the reports and studies have highlighted the issue of types of subsidies and growth of state subsidies in recent times. Concerns have been raised over rising subsidies for non-merit goods in several states. Providing such non-merit subsidies may constrain the fiscal space available for capital expenditure (Chakrabarty & Vipra, 2023). States that fail to achieve a surplus in their revenue account are at greater fiscal risk due to subsidies. As far as Gujarat state is concerned it incurs, around 11 % of total expenditure on subsidy (Government of Gujarat, 2022).

Gujarat state for last many years has been fiscal prudent as it is able to maintain its revenue surplus except Covid19 year. However, looking at the rate at which subsidies have increased, it is certainly a matter of concern. If the subsidies continue to grow in the same way the state may find it difficult to fund them from the revenue account or it may have to cut down on other expenses to continue to maintain revenue surplus. Table 6.1 gives subsidy as a percentage of state's Gross Domestic Product. For most of the year it is greater than 1. Gujarat has recorded low subsidy spending and low fiscal deficit which is appreciative but it is maintaining its subsidy at around 1 % for most of the years that is similar to many Indian states (Gupta et al., 2024).

**Table 6.1**  
**Subsidies As Percentage of GSDP**

Year	Subsidy - GSDP Ratio
2012-13	0.93
2013-14	0.82
2014-15	1.05
2015-16	0.88
2016-17	0.95
2017-18	1.02
2018-19	1.16
2019-20	1.14
2020-21	1.16
2021-22	1.16
2022-23	1.15

Source: Estimated based on FRBM reports & Socio Economic Review, GoG

#### 1. SECTOR WISE SUBSIDY ALLOCATION

Table 6.2 provides department wise subsidies provided in each year. For the year 2012-13, 2015-16 and 2017-18 department wise subsidy data are not available. The departments are arranged based on the amount of subsidy allocated over the study period. It is evident that the highest subsidy is given to Energy

and Petro-Chemical Department followed by industries and mine and agriculture, Farmers Welfare & Co-Operation Department. The total subsidy given by state has increased from Rs. 6,047.51 lakhs to Rs. 22, 14,485.72 lakhs. Throughout this year the total subsidy has increased by a CAGR of 80.46 %. This is certainly a significant rise in the subsidy provided by the state. Gujarat government similar to other Indian states, provides subsidies to various sectors which include, agriculture, energy, food and civil supply, port and transport, education, industry and mining, urban development etc.

It is to be noted here that the data of subsidy are obtained from state budget estimates volume I. However, we observed a discrepancy between subsidy data obtained from budget estimates volume and FRBM reports of various years. As FRBM reports provide subsidy data for only a few departments, we have relied on the data from budget estimate documents.

**Table 6.2**  
**Sector Wise Allocation of Subsidies (Amount in Rs, Lakhs)**

<b>Department</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2016-17*</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>Total (2013-23)</b>
Energy And Petro-Chemicals Department	3,774.25	5,334.18	4,960.82	7,61,231.47	9,56,134.62	9,16,286.82	10,83,385.09	9,44,686.48	46,75,793.73
Industries And Mines Department	476.93	1,050.32	1,757.55	3,89,805.99	3,61,068.87	3,04,779.05	4,53,049.88	4,87,584.02	19,99,572.61
Agriculture, Farmers Welfare & Co-Operation Department	440.46	945.93	1,085.67	1,90,482.09	1,98,016.88	1,93,963.06	1,83,478.75	2,65,472.80	10,33,885.64
Social Justice And Empowerment Department - Part I		177.18	284.27	65,876.65	84,821.60	98,336.00	99,935.28	1,05,133.96	4,54,564.94
Social Justice And Empowerment Department - Part Iv	275.75	427.97	367.48	84,630.87	57,385.36	69,612.14	95,353.29	1,00,527.21	4,08,580.07
Urban Development & Urban Housing Department		173.81	530.40	58,332.16	57,352.76	63,936.72	1,01,314.17	70,101.00	3,51,741.02
Social Justice And Empowerment Department - Part 2	136.90	145.02	359.74	51,975.56	51,254.81	54,643.43	63,437.04	59,364.65	2,81,317.15
Food, Civil Supplies And Consumer Affairs Department	256.22	343.25	633.38	2.40	47,733.01	51,254.77	63,312.93	86,849.19	2,50,385.15
Ports & Transport Department	550.00	761.89	301.14	35,000.00	32,097.53	40,434.61	61,743.68	58,135.00	2,29,023.85
General Administration Department				50,824.04					50,824.04
Education Department		128.03		12,904.55	3,152.40	4,108.65	5,831.71	3,713.91	29,839.25
Roads And Buildings Department		29.78		14,963.26			9,270.61		24,263.65
Narmada Water Resources , Water Supply And Kalpsar Department	47.00	49.00	48.00	5,101.09	4,600.00	4,600.00	4,228.33	3,900.00	22,573.42
Revenue Department		0.39		10.79	28.00	40.00	1,290.42	21,006.50	22,376.10

Information And Broadcasting Department	90.00	0.95	14.80	422.47	1,500.00	1,000.00	1,250.00	2,000.00	6,278.22
Science and Technology Department		--			..		..	6,000.00	6,000.00
Panchayats, Rural Housing And Rural Development Department		75.08		891.66			3,532.36		4,499.10
Social Justice And Empowerment Department - Part 3		11.57	1.04	2,336.27	104.00	109.28	1,325.10	11.00	3,898.26
Health And Family Welfare Department	..	0.12		1,525.71	705.75		281.25		2,512.83
Women And Child Development Department		2.35		443.71			1,516.40		1,962.46
Labour & Employment Department		--		62.04			--		62.04
Climate Change Department		16.80							16.80
Home Department	..	0.02		0.45	..		0.58		1.05
Sports, Youth & Cultural Activities Department				0.10					0.10
Finance Department									-
<b>Total Subsidy in a Year</b>	6,047.51	9,673.64	10,344.29	17,26,823.33	18,55,955.59	18,03,104.53	22,33,536.87	22,14,485.72	98,59,971.48

Source: GoG, Budget Estimates Appendices Vol I, various years

Note: Year 2016-17 data are revised estimates. For the year 2012-13, 2015-16 and 2017-18 the data are not available in either accounts estimates or revised estimates.

**Table 6.3**  
**Relative Share of Subsidy to Respective Department (%)**

<b>Department</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2016-17</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>
Energy And Petro-Chemicals Department	62.41	55.14	47.96	44.08	51.52	50.82	48.51	42.66
Industries And Mines Department	7.89	10.86	16.99	22.57	19.45	16.90	20.28	22.02
Agriculture, Farmers Welfare & Co-Operation Department	7.28	9.78	10.50	11.03	10.67	10.76	8.21	11.99
Social Justice And Empowerment Department - Part I	0.00	1.83	2.75	3.81	4.57	5.45	4.47	4.75
Social Justice And Empowerment Department - Part Iv	4.56	4.42	3.55	4.90	3.09	3.86	4.27	4.54
Urban Development & Urban Housing Department	0.00	1.80	5.13	3.38	3.09	3.55	4.54	3.17
Social Justice And Empowerment Department - Part 2	2.26	1.50	3.48	3.01	2.76	3.03	2.84	2.68
Food, Civil Supplies And Consumer Affairs Department	4.24	3.55	6.12	0.00	2.57	2.84	2.83	3.92
Ports & Transport Department	9.09	7.88	2.91	2.03	1.73	2.24	2.76	2.63
General Administration Department	0.00	0.00	0.00	2.94	0.00	0.00	0.00	0.00
Education Department	0.00	1.32	0.00	0.75	0.17	0.23	0.26	0.17
Roads And Buildings Department	0.00	0.31	0.00	0.87	0.00	0.00	0.42	0.00
Narmada Water Resources , Water Supply And Kalpsar Department	0.78	0.51	0.46	0.30	0.25	0.26	0.19	0.18
Revenue Department	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.95
Information And Broadcasting Department	1.49	0.01	0.14	0.02	0.08	0.06	0.06	0.09

Source: GoG, Budget Estimates Appendices Vol I, various years

Gujarat state's subsidy pattern can be understood from table 6.3 which gives details of subsidy allocations. It is evident that the energy and petrochemical department receives the highest share of the state's subsidies. For most of the year the energy and petrochemical department has received fifty percent of the state's subsidies. The power sector subsidies mainly include subsidies in fuel price and power purchase adjustments charges. Subsidy in the form of fuel prices refers to the financial support provided by state governments to various consumers to be able to buy energy/ fuel at a lower cost. To some of the consumers such as farmers or small-scale industrial units, Gujarat government has been providing electricity at a cost even lower than the cost of generation and distribution. The Gujarat power distribution companies, DISCOM receive the compensation from state government to bridge the revenue gap due to lower tariff charged. The Gujarat Electricity Regulatory Commission has decided on a tariff of Rs 2,400 per horsepower (HP) per year rate for agricultural consumers, but they pay Rs 665 per HP per year and the remaining Rs 1,735 per HP per year is paid by the state government to Gujarat Urja Vikas Nigam Ltd (GUVNL) in the form of subsidy as stated by energy minister Kanubhai Desai and recorded by Business Standard. "As a relief to farmers in electricity bills, the state government paid a total of Rs 12,757 crore as subsidy in two years, 2021 and 2022. It has also made a provision of Rs 10,970 crore for the same for the financial year 2022-23," Desai told the House (Business Standard, 2023).

Another major component of power sector subsidy is power purchase adjustment charges. This financial assistance is given to recover the fluctuation in the cost of power purchase. The cost of energy generation is volatile due to multiple factors such as changes in the international fuel price, fluctuations in exchange rate etc., while the electricity tariffs paid by the consumers remain fixed. The financial assistance in the form of power purchase adjustment charges ensures that distribution companies do not suffer and are able to maintain financial viability.

While Gujarat state allocates significant of its subsidy to power sector, it is also a state that has excelled in promoting renewable energy generation and consumption. Gujarat is one among the few states that record subsidy spending under new and renewable energy (major head 2810) in their finance accounts. For the year 2023-24, Rs. 2000 lakh was allocated to provide financial assistance for increase in energy efficiency and significant energy conservation. In the previous financial year 2022-23 Rs. 100 lakh was allocated for assistance for development of new and green technologies. The data for subsidies for specific purposes for renewable energy are available in the budget documents but we failed to obtain the audited data of such subsidies. Only in the state finance audit report of CAG for the year 2020, some details of utilization of funds were observed. The report noted that due to non-availability of detailed guidelines various funds under the scheme of promoting EV vehicles, Solar PV projects etc. could not be utilized.

Table 6.4 provides data of two major subsidies in the energy and petrochemical department. It is evident that only two subsidies – which is Fuel Price and Power Purchase Adjustment Charges and other is subsidies given to Gujarat Uria Vikas Nigam Ltd. for compensation in Gujarat Electricity Regulatory Commission Agriculture Triff. Over the years the share of these subsidies increased from almost 50 % to more than 75 %. It is also observed that the direct subsidies given to renewable energy only increased to around 7 % for just one year 2016-17. In the last two years the share is less than even 1 %.

**Table 6.4**  
**Major Subsidies in Energy And Petro-Chemicals Department**  
**(Absolute value in Rs. Crores and Percentage Share)**

Year	Total subsidies	Subsidy in Fuel Price and Power Purchase Adjustment Charges		Subsidy to Gujarat Uria Vikas Nigam Ltd. For compensation in GERC Agriculture Triff		Direct subsidies for renewables	
		Value (Rs Crores)	% Share	Value (Rs Crores)	% Share	Value (Rs Crores)	% Share
2013-14	3598.25	1300	36.13	800	22.23	15	0.42
2014-15	5334.18	1500	28.12	16,76.09	31.42	63.33	1.19
2015-16	4438.83	1700	38.30	9,05.06	20.39	136	3.06
2016-17	5038.72	1700	33.74	12,06.75	23.95	392.95	7.80
2017-18	5775.71	2745	47.53	12,06.75	20.89	0	0.00
2018-19	7612.31	3200.25	42.04	20,79.05	27.31	262.5	3.45
2019-20	8574.93	4527.82	52.80	16,00.32	18.66	175.88	2.05
2020-21	9178.32	4430.05	48.27	18,84.70	17.39	203.22	2.21
2021-22	10833.85	6209.88	57.32	2,024.69	18.69	31.63	0.29
2022-23	12104.34	7865.42	64.98	2,004.86	16.56	52.52	0.43

Other than the energy and petrochemical department it is the industry and mining which received the second highest share of state subsidy. The share has also increased over a period of time from 7.89 % in 2013-14 to 22 % in 2022-23. It is true that Gujarat is an industrial state but while examining the sectoral contribution it is evident that the subsidy allocation is more towards economic activities such as energy, petroleum or industry rather than social sector. We recommend that a detailed study of subsidy and its cost benefit analysis is done for Gujarat state to be able to bring better outcomes.

## 2. ANALYSIS OF INDUSTRY SUBSIDY SCHEME

Gujarat is the manufacturing hub of India. From the table 6.2 it is also evident that Industry and Mine department is second highest in receiving state subsidies. Gujarat government has implemented various subsidy schemes over the past ten years to incentivize industrial growth and attract investment. The state has having range of subsidy schemes which range from capital investment subsidy, interest subsidy, power tariff subsidy, skill development subsidy, startup subsidy etc. There is industry specific schemes of subsidy are also prevalent. These subsidies are a part of Gujarat Industrial Policy announced at frequent years. The latest industrial policy in operation is Industrial Policy 2024. The state has taken a major initiative of announcing a specific Textile

Policy 2024 as part of recent industrial policy. Gujarat state is known for its textile manufacturing units. Gujarat is contributing almost 35 % of cotton production and around 50 % of manmade fibre production of India. Around 20 % of India's mill manufactured fabric is produced in Gujarat. The state has implemented various subsidy schemes to boost the textile industry over the past ten years which possess a greater attention and share in the total subsidy given to the department. The most recent Gujarat Textile Policy 2024 offers range of subsidies and incentives to textile units which include capital subsidy which is 10 % to 35 % of fixed capital investment with the maximum limit of Rs. 100 crores. Interest subsidy which is 5 % to & % of fixed capital will be given for eight years. Power tariff subsidy given as Rs. 1 per unit for the period of five years. The policy also includes various incentives for promoting sustainable practices such as implementing zero waste discharge processes or use of renewable energy etc. Before Textile Policy 2024 it was Textile Policy 2019 which was operational. Similar incentives were given in the old policy with some minor differences. The table below gives details of the subsidy given to textile industry by Gujarat state viz-a-viz the data of Gross Value Added from textile industry. This will enable us to compare and evaluate if the subsidy has resulted into any economic benefit for the state or not.

It is evident that there is a significant increase in the total subsidy given to textile industry over the years. The 57.18 % CAGR indicates that there is almost 57 % rise in textile subsidy on average every year. This certainly is a significant rise every year. With the introduction of the new textile policy this amount may increase for sure. However, looking at the last table it can be observed that the contribution of textile industry has increased only by 8.55 % every year. This may be a matter of concern. This also raises doubt about the commercial viability of the textile business. With such a substantial interest and capital subsidy if the industry is growing at a lower rate of GSDP then one can make inferences that the industry may find it difficult to survive even if subsidy is withdrawn.

**Table 6.5**  
**Textile Industry: State Subsidy and Industry Contribution**  
(Rs. Lakhs)

<b>Year</b>	<b>Subsidy for development of Textile industry</b>	<b>Gross Value Added : Manufacture of Textiles; Wearing Apparel</b>
2012-13	998	8,149.89
2013-14	39,98.14	9,132.95
2014-15	1,33,98.86	10,048.81
2015-16	3,90,00.00	12,925.50
2016-17	7,35,93.55	13,638.83
2017-18	9,45,90.62	17,793.25
2018-19	17,40,45.00	20,244.19
2019-20	15,00,00.00	18,326.32
2020-21	170500	16,780.03
2021-22	1,95,999.98	20,183.76
2022-23	1,44,419.71	20,093.48
<b>CAGR</b>	<b>57.18%</b>	<b>8.55%</b>

Source: GoG, CAG report, Finance Account Vol I various years.  
For GVA data is obtained from CMIE states of India

At this juncture it is to be noted that for many years the subsidy under the category of textile development may spread across multiple department. It can be observed that for few years the total subsidy given to textile industry is higher than the total subsidy of industry and mine department. This is because subsidies such as power tariff subsidy, subsidy to promote renewable energy or skill development related subsidies are recorded in respective departments.

### **3. ANALYSIS OF AGRICULTURE SUBSIDY SCHEME**

Gujarat state has for many years demonstrated a model of agriculture growth to the country. Gujarat state range of subsidies to support the agriculture sector. Table 6.3 provides details of overall subsidies provided to agriculture sector. In the 2023-24 budget, the Gujarat government projected subsidies worth ₹26,511 crore which will be almost 15 % increase compared to the previous year. The agriculture subsidies ranges of subsidies for purchase of equipment or agriculture inputs such as seeds or fertilizers etc. it include power subsidies and interest subsidies. In this section we will be examining the interest subvention scheme of interest subsidy given by Gujarat state. Financial Assistance to Farmers for Subvention of Interest" (COP-34) scheme, aims to provide financial relief to farmers by subsidizing interest on agricultural loans. This initiative is part of the broader Zero Interest Loan Scheme, which offers loans up to ₹3 lakh at a 0% interest rate to support farmers in the state. As per this scheme the state government bears 4 % of interest subsidy and central government bears remaining 3 % considering that the commercial banks are charging 7 % interest on farm loans. This subsidy can be availed by any farmer who borrows up to Rs. 3 lakhs for the short-term crop loans. The farmers are expected to repay the amount within the stipulated period to avail the interest subvention scheme. This in turn also encourages farmers to pay regular installments.

Table 6.5 gives data on the amount of subsidy given under the scheme of interest subvention. The subsidy amount has increased on average by 35 % every year. It is a substantial increase in the subsidy. With such a significant increase in the amount of subsidy, one can possibly infer that there might be an increase in the coverage. One can assume that the significant increase in the subsidy may be due to the fact that more and more farmers are availing and more amount of loans are being taken under the interest subvention scheme. However, when we examine the data on agriculture credit which is credit by scheduled commercial banks, it has increased but by much less rate; at only 9.73 %. While from the welfare perspective it is appreciative to have significant rise in the interest subsidy, the benefits of the same are not being observed in the form of rise in the farm loans.

**Table 6.6**  
**Agriculture Subsidy: State Subsidy and Agriculture Credit**  
(Rs. Lakhs)

<b>Years</b>	<b>Financial assistance to farmer for subvention of interest</b>	<b>Credit To Agriculture By Scheduled Commercial Banks</b>
2012-13	5920.00	267.00
2013-14	2,63,31.14	312.00
2014-15	4,75,09.98	341.00
2015-16	1,04,84.33	382.00
2016-17	5,53,21.23	448.00
2017-18	8,68,25.99	506.00
2018-19	9,99,98.19	571.00
2019-20	10,49,86.74	609.44
2020-21	11,30,00.00	633.49
2021-22	99750.43	707.23
2022-23	161162.14	741.34
CAGR	35.18	9.73

Source: GoG, CAG report, Finance Account Vol I various years.  
RBI Bulletin various years

The above section discusses the explicit subsidies provided by the state government. However, there is also a provision of providing tax rebates or tax exemptions which may not be reflected in the expenditure statements of the state government, but it certainly has an implication in terms of revenue forgone and hence does impact the financial health of the state government. To mention, Gujarat government earlier was providing fuel subsidies to fishermen which changed its form in year 2023. The state now provides fuel subsidies in the form of tax rebates. It is also to be noted that many of the economic and social services provided by state government failed to recover the cost as they are mostly undercharged. The inability to recover the cost of services on average also is considered an implicit subsidies and that has a budgetary implication. Subsidies on one side certainly benefit the poor and it equally pose fiscal challenges. So far Gujarat is able to maintain its revenue surplus with a significant portion of subsidies, but in the course of time, more rationalization of power tariff is needed. Too much reliance on farmers for electricity subsidies has also resulted in the excessive use of groundwater. A detailed study of cost-benefit analysis of power subsidies is needed at the state level before taking any corrective action.

## CHAPTER 7

### IMPACT OF STATE PUBLIC ENTERPRISES FINANCES ON THE STATE'S FINANCIAL HEALTH

Public sector undertakings (PSUs) are government-owned enterprises vital to any state of India's economic and social development. Even though the public sector is crucial to industry, many public sector undertakings incur huge losses and deplete the economy's resources. However, PSUs in Gujarat have been noted for their greater efficiency. Seven of the listed public sector undertakings of the Gujarat government have 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 number of PSUs has increased over the years, and the total number of working PSUs increased from 83 to 86 in 2023, as shown in Table 7.1. These PSUs registered a profit of Rs. 2,723.67 crores. The SPU's generated a turnover of Rs. 1,62,392 crores, and the percentage of turnover to the GSDP of Gujarat stood at 8.35%. The turnover saw a sharp dip in 2020-21, with a decline to Rs. 1,35,846.98 crores, representing the adverse impact of COVID-19 lockdowns and reduced consumer activity. In contrast, by 2021-22, the turnover rebounded to Rs. 1,62,392 crores, showcasing a recovery in business activities and operational performance. During 2021-22, the SPSUs in the Power Sector contributed to the maximum turnover, constituting 73.97 per cent of the total turnover.

**Table 7.1: Number of PSUs**

Year	No. of	No. of	Total No of PSUs
	Working PSUs	non-working PSUs	
2012-13	69	12	81
2013-14	72	12	84
2014-15	68	13	81
2015-16	72	14	86
2016-17	77	14	91
2017-18	73	18	91
2018-19	71	16	87
2019-20	72	16	88
2020-21	81	16	97
2021-22	83	17	100
2022-23	86	15	101

Source: CAG reports of various years, Commercial, GoG

## 1. PSU ASSESSMENT METRICS

### 1.1. Investment in SPUs

Table 7.2 highlights some critical parameters of the State PSUs in Gujarat. Over the past ten years, investments (capital and long-term loans) in SPSUs have increased at a CAGR of 6.70%. The percentage of investment by the state government in total investment stood at 67.43% in 2023. Out of the total Equity holding, the Equity held by the State Government constituted 91.05%, and long-term loans constituted 8.95% during the year 2022-23. The table shows COVID-19's impact on investments, with a sharp drop

in 2020-21 (Rs. 1,39,073.29 crores) due to lockdowns and uncertainty, a slight recovery in 2021-22 (Rs. 1,39,756.58 crores), and a strong rebound in 2022-23 (Rs. 1,86,494.10 crores) driven by pent-up demand and government stimulus. The State Government's equity investment thrust was mainly in the infrastructure Sector (59.68%) and power sector (28.40%) during 2022-23.

In recent years, the dividend contributions from State Public Sector Undertakings (SPSUs) to the Government of Gujarat (GoG) have seen significant changes, particularly in 2022-23 following the introduction of new guidelines on dividend distribution. These guidelines, issued by the Finance Department on 24 April 2023, mandate that SPSUs pay a minimum annual dividend of 30% of Profit After Tax (PAT) or 5% of net worth, whichever is higher, subject to legal provisions.

Before the guidelines, SPSUs paid relatively small dividends, with six SPSUs contributing Rs. 82.66 crores in 2020-21 and only four SPSUs paying Rs. 158.52 crores in 2021-22. The dividend payout ratios during these years were just 0.30% and 0.57%, respectively, reflecting limited returns as against the state's substantial share capital contributed by the government. In contrast, after the guidelines came into effect, three SPSUs paid a significantly higher dividend of Rs. 351.40 crores in 2022-23, resulting in a dramatic increase in the payout ratio to 28.51%. This demonstrates the positive impact of the new policy in ensuring more substantial contributions from SPSUs to the state exchequer.

## **1.2. Performance of PSUs in Gujarat**

As shown in Table 7.2, turnover of SPSUs broadly increased over the years, with noticeable growth in 2021-22 and 2022-23, aligning with the recovery from COVID-19 disruptions. The turnover surged to Rs. 1,94,184.59 crores in 2022-23, reflecting renewed investor confidence and increased economic activity as businesses resumed normal operations. Further, although there has been an increase in the number of PSUs over time, the contribution of PSUs to the value addition of the state's economy in terms of turnover as a proportion to GSDP is decreasing. This shows that despite the increase in the number of PSUs over time, their contribution to the state's economy—measured as turnover relative to GSDP—is declining. This decline suggests that while PSUs grew in absolute terms, their relative contribution to the state's economy reduced as Gujarat's GSDP expanded significantly. It undermines one of the primary objectives of establishing PSUs, which is to significantly enhance their contribution to the state's economy. Profits fluctuated significantly, with losses reported in 2016-17 and 2017-18 (notably a significant loss of Rs. 14,764.43 crores in 2016-17). However, profits rebounded strongly from 2018-19 onwards, peaking in 2022-23 at Rs. 7,764.68 crores. ROCE followed a similar trend, declining during loss-making years and recovering to 7.58% in 2022-23. The Average Annual Return (AAR) and Compound Annual Growth Rate (CAGR) reveal positive growth in investments (7.31% AAR, 6.70% CAGR) and turnover (8.19% AAR, 7.84% CAGR). However, the percentage of turnover to GSDP declined (-3.61% AAR, -3.76% CAGR), and ROCE showed minimal growth (1.66% CAGR). Despite early setbacks and volatility, the strong recovery in the post-pandemic period underscores improved performance and efficiency in Gujarat's PSUs.

**Table 7.2: Performance of PSUs**

Year	Investments (Rs. Crores)	Turnover (Rs. Crores)	Percentage of turnover to GSDP of Gujarat	Profit earned (Rs. Crores) (working PSUs)	ROCE (per cent)
2012-13	97,472.56	91,309.63	12.60	4,041.06	6.43
2013-14	1,05,773.07	98,718.90	12.22	2,252.11	5.00
2014-15	1,15,932.27	1,06,553.54	11.90	3,112.45	5.59
2015-16	1,29,178.86	1,11,036.50	10.79	1,633.12	4.30
2016-17	1,43,217.84	1,11,953.31	9.59	-14,764.43	NA
2017-18	1,56,615.95	1,25,827.15	9.47	-441.33	4.29
2018-19	1,55,059.67	1,48,487.47	9.88	975.39	5.16
2019-20	1,62,688.69	1,42,635.41	8.75	2,584.33	5.33
2020-21	1,39,073.29	1,35,804.82	8.30	4,964.49	6.60
2021-22	1,39,756.58	1,62,353.51	8.29	5,407.16	6.60
2022-23	1,86,494.10	1,94,184.59	8.59	7,764.68	7.58
<b>AAR</b>	<b>7.31</b>	<b>8.19</b>	<b>-3.61</b>	<b>-116.61</b>	
<b>CAGR</b>	<b>6.70</b>	<b>7.84</b>	<b>-3.76</b>	<b>6.75</b>	<b>1.66</b>

Source: CAG reports of various years, Commercial, GoG

### 1.3. State Government Budgetary support to PSUs

The State Government provides various forms of financial support to the SPSUs, such as equity capital, loans and subsidies through an annual state government budget. Therefore, expenses under these areas highlight the burden on state budgets caused by PSUs. The summarized details of budgetary outgo towards equity, loans, grants/ subsidies of the Government Companies and Statutory Corporations are given in Table 7.3 below. In 2014-15, 2016-17, 2018-19 and 2022-23, grants/subsidies accounted for the highest share of the total budget outgo, followed by equity capital. In the remaining years, the share of equity capital overtook that of grants/subsidies and forms around 50% of the total budget outgo.

Total budget outgo to SPSUs increased from Rs.15,340.87 crores in 2012-13 to Rs. 23,822.12 crores in 2022-23, showing a strong upward trend. In 2020-21, the total budget outgo significantly dropped to Rs. 6,792.07 crores, reflecting fiscal constraints during the pandemic, however, it recovered quickly. The AAR of 11.78% and a CAGR of 4.50% demonstrate steady growth in financial support from the government. Historically, equity capital contributed around 50% of the budget outgo, with a notable increase during the COVID-19 pandemic, reaching 63.96% in 2020-21 to support struggling SPSUs. However, over time, there has been a gradual decline in equity contributions, with an AAR of -0.72% and CAGR of -3.78%, indicating a shift in funding priorities. Grants, subsidies, loans and advances are key sources of support for SPSUs. In 2022-23, grants and subsidies accounted for 71.93% of the budget outgo, totaling Rs.17,135.03 crores, with an AAR of 30.30% and a CAGR of 9.72%, reflecting a strong emphasis on non-repayable financial aid. Loans and advances also contributed 5.36% of the budget outgo, amounting to Rs. 1,275.86 crore.

**Table 7.3: State Government Budgetary Support to PSUs**

Rs. in Crores

Year	Equity Capital from Budget	Loans from Budget	Grants/Subsidy from Budget	Total Budget Outgo
2012-13	7,952.92 (51.84)	610.34 (3.98)	6,777.61 (44.18)	15,340.87 (100)
2013-14	7,503.48 (50.27)	279.10 (1.87)	7,142.97 (47.86)	14,925.55 (100)
2014-15	6,966.86 (46.69)	201.50 (1.35)	7,752.47 (51.96)	14,920.83 (100)
2015-16	7,647.92 (49.16)	362.50 (2.33)	7,547.66 (48.51)	15,558.08 (100)
2016-17	8,139.27 (47.96)	194.69 (1.15)	8,635.57 (50.89)	16,969.53 (100)
2017-18	8,739.64 (49.91)	215.82 (1.23)	8,556.16 (48.86)	17,511.62 (100)
2018-19	6,826.14 (36.80)	1,109.70 (5.98)	10,614.50 (57.22)	18,550.34 (100)
2019-20	7,275.23 (53.25)	889.94 (6.51)	5,498.32 (40.24)	13,663.49 (100)
2020-21	4,344.03 (63.96)	159.91 (2.35)	2,288.13 (33.69)	6,792.07 (100)
2021-22	6,932.04 (56.21)	380.94 (3.09)	5,019.64 (40.70)	12,332.62 (100)
2022-23	5,411.23 (22.72)	1275.86 (5.36)	17,135.03 (71.93)	23,822.12 (100)
<b>AAR</b>	<b>-0.72</b>	<b>64.79</b>	<b>30.30</b>	<b>11.78</b>
<b>CAGR</b>	<b>-3.78</b>	<b>7.65</b>	<b>9.72</b>	<b>4.50</b>

Source: CAG (Commercial), GoG

Note: Figures in parentheses are percentage shares of the row's total.

#### 1.4. Policy Update on Gujarat PSUs

The GoG has introduced a new policy to be applicable from the financial year 2023 for a minimum level of dividend distribution, issue of bonus shares and buyback of shares for its PSUs, including listed companies (Finance Department, Gujarat) that are as follows:

- Payment of dividend: Every SPSU would pay a minimum annual dividend of 30% of PAT or 5% of the net worth, whichever is higher.
- Buy-back of shares: Every state PSU having a net worth of at least Rs 2,000 crores and cash and bank balance of Rs. 1,000 crores have been mandated to exercise the option to buy back their shares.
- Issue of bonus shares: Gujarat state PSUs having reserves and surplus equal to or more than 10 times their paid-up equity capital are required to issue bonus shares to its shareholders.

- d. **Share Split:** The government has also mandated the splitting of shares where the market price or book value of the shares of state PSUs exceeds 50 times its face value, provided its existing face value of a share is equal to or more than Re. 1.

### 1.5. Erosion of net worth, Disinvestment and Privatization of PSUs in Gujarat

GoG intends to divest its stake in non-strategic and commercially operated public sector enterprises to discover new revenue streams. During 2020-21, eleven out of 44 SPSUs registered accumulated losses of Rs. 30,435.51 crores were under winding-up/closure/liquidation, and 24 out of 44 SPSUs reported negative net worth of Rs. 5,421.14 crores against equity investment of Rs. 4,884.82 crores with five SPSUs earning a profit of Rs. 894.35 crores. Similarly, out of 22 SPSUs with accumulated losses, the net worth of 15 was eroded entirely and thus became negative as of 31<sup>st</sup> March 2022. The total negative net worth of these 15 SPSUs was Rs. 5,219.35 crores against the paid-up capital of Rs. 3,902.88 crores on 31 March 2022. Equity and Outstanding loans of the State Government for these 15 SPSUs as of 31 March 2022 were Rs. 4,833.83 crores and Rs. 4,430.90 crores, respectively. So, the chances of earning a Return on Investment in companies incurring losses and companies whose net worth has completely eroded due to accumulated losses are remote. During 2021-22, there was neither disinvestment of any SPSUs nor was any SPSU privatized; however, 16 PSUs were inactive and either under liquidation or defunct. The GoG may review the inactive PSUs and decide whether to revive or wind them up. In its 2023-24 budget announcements, the state government expressed its intention to divest PSUs to raise funds.

## 2. MEASURES TO IMPROVE THE PERFORMANCE OF SPSUS IN GUJARAT

The Government of Gujarat has implemented several measures to enhance the performance of State Public Sector Undertakings (SPSUs):

- i. **Performance Evaluation and Restructuring:** The Comptroller and Auditor General (CAG) of India recommended that the Gujarat government assess the performance of all loss-making SPSUs. The CAG suggested implementing necessary measures to improve their financial outcomes, including considering the revival or closure of persistently unprofitable entities.
- ii. **Timely Financial Reporting:** The CAG advised the state government to enforce strict timelines for SPSUs to submit their financial statements promptly. This initiative aims to enhance transparency and enable timely decision-making to address financial issues within these enterprises.
- iii. **Strict monitoring of arrears clearance:** The Government of Gujarat must implement strict measures to monitor and clear outstanding arrears in SPSUs to improve their performance. Accumulating arrears can strain the financial health of SPSUs, affecting their ability to meet operational targets and invest in growth opportunities.
- iv. **Review of Inactive Companies:** The state government has been urged to review inactive government companies to decide on their revival or winding up. This measure seeks to prevent further financial losses and allocate resources more efficiently.

These measures reflect the Gujarat government's commitment to improving the efficiency and financial health of its SPSUs through strategic evaluations, policy implementations, and resource management initiatives.

The analysis underscores the vital role of Gujarat's State Public Sector Undertakings (SPSUs) in the state's economy while highlighting key challenges. Despite a strong turnover and investment in PSUs, declining contributions to GSDP and inconsistent financial returns raise concerns. Strategic initiatives like mandatory dividend payouts, share buybacks, and disinvestment plans aim to enhance efficiency and fiscal sustainability. However, issues such as net worth erosion, limited dividend returns, and the financial strain of non-performing SPSUs highlight the need for continued reforms. Strengthening governance and operational efficiency is crucial to aligning SPSUs with Gujarat's economic goals and ensuring fiscal health.

## CHAPTER 8

### IMPACT OF POWER SECTOR REFORM ON FISCAL HEALTH

Power is a fundamental infrastructure for the state's industrial growth and socio-economic development. Therefore, the Government of Gujarat is dedicated to reforming its power sector to reorganize and rationalize the electricity industry within the state. All the distribution utilities of Gujarat received an A+ rating in the 9th Annual Integrated Rating for State Power Distribution Utilities, released in July 2021 by Power Finance Corporation. In addition, through proactive initiatives, the state secured the top rank in the State Energy & Climate Index published by NITI Aayog in April 2022. The Ministry of Statistics and Programme Implementation (MOSPI) report 2023, "The Energy Statistics India", indicated that Gujarat ranks first in India for installed electricity generation capacity.

The Gujarat Electricity Board (GEB) was formed in 1960, along with the creation of the Gujarat State, under Section 5 of the Electricity (Supply) Act 1948, to manage the generation, transmission, and distribution of electricity in Gujarat. Due to GEB's financial struggles, the Government of Gujarat passed the Gujarat Electricity Industry (Reorganization & Regulation) Act in 2003 to revamp the power sector. As a result, the government successfully implemented reforms to ensure the financial sustainability and operational efficiency of the power industry while also enhancing the quantity and quality of power supply.

The reforms involved unbundling GEB into seven separate entities, including the Gujarat Urja Vikas Nigam Limited (GUVNL) as the holding company, Gujarat State Electricity Corporation Limited (GSECL) for generation, Gujarat Energy Transmission Corporation (GETCO) for transmission, and four distribution companies (DISCOMs): 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).

The reforms focused on opening the sector to private participation, entering Power Purchase Agreements, restructuring debt, reducing AT&C losses, enhancing collection efficiency, promoting green energy initiatives, and launching the "Jyoti Gram" program for rural electrification. These efforts have not only strengthened the power sector but also improved living standards and contributed to Gujarat's socio-economic development.

#### 1. OUTCOMES OF POWER SECTOR REFORMS AND THE CURRENT STATUS OF THE POWER SECTOR OF GUJARAT

##### 1.1. Electricity installation, generation and consumption

Gujarat has significantly advanced its power installation capacity. The installed electricity capacity in Gujarat is demonstrating consistent growth. As shown in Table 8.1, the state's total installed capacity has increased at a CAGR of around 6.79% from 2012-13 to 2022-23. As observed in Table 8.1, out of the total installed capacity, installation of non-conventional sources like wind, solar, biomass and hydro has remarkably grown at a CAGR of 12.46%, while installation of conventional sources has reflected a CAGR of 2.45% from 2012-13 to 2022-23. This aligns with global trends where conventional sources are gradually being phased out in favour of renewables. It also shows that the GoG is reducing its dependence on traditional ways of energy production and has adopted cleaner and greener energy sources. In addition, despite COVID-19 disruptions, the installed capacity of non-conventional sources grew

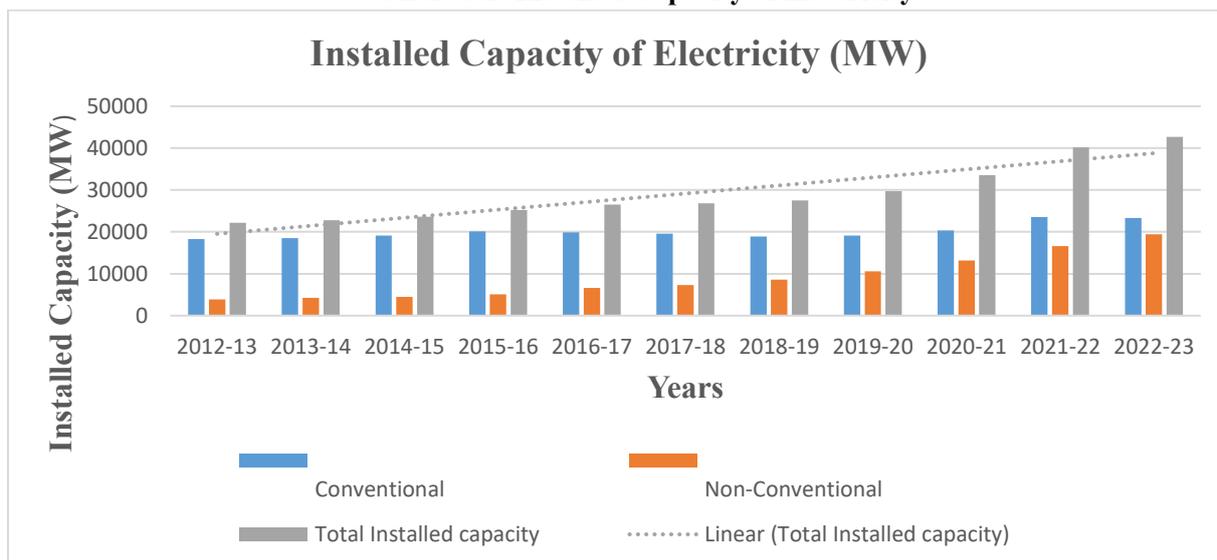
significantly from 2019-20 (10,606) to 2020-21 (13,153), indicating resilience and continued investment in renewables during the pandemic. The GoG plays a pivotal role in this energy transition, as shown in Figure 8.1.

**Table 8.1: Installed capacity of electricity (MW)**

<b>Year</b>	<b>Conventional</b>	<b>Non-Conventional</b>	<b>Total Installed capacity</b>
2012-13	18,270 (82.46)	3,887 (17.54)	22,157 (100)
2013-14	18,510 (81.22)	4,279 (18.78)	22,789 (100)
2014-15	19,112 (80.91)	4,510 (19.09)	23,622 (100)
2015-16	20,081 (79.71)	5,111 (20.29)	25,192 (100)
2016-17	19,888 (74.98)	6,636 (25.02)	26,524 (100)
2017-18	19,555 (72.89)	7,274 (27.11)	26,829 (100)
2018-19	18,900 (68.70)	8,609 (31.30)	27,509 (100)
2019-20	19,113 (64.31)	10,606 (35.69)	29,719 (100)
2020-21	20,343 (60.73)	13,153 (39.27)	33,496 (100)
2021-22	23,550 (58.67)	16,587 (41.33)	40,137 (100)
2022-23	23,283 (54.50)	19,436 (45.50)	42,719 (100)
<b>AAR</b>	<b>2.58</b>	<b>17.71</b>	<b>6.91</b>
<b>CAGR</b>	<b>2.45</b>	<b>17.46</b>	<b>6.79</b>

Source: Socio-Economic Review, 2023-24, GOG

**Chart 8.1: Installed Capacity of Electricity**



Source: Socio-Economic Review, 2023-24, GOG

As observed in Table 8.2, the state’s overall energy consumption in 2022–2023 was 1,16,214 MUs, compared to 1,06,349 MUs in 2021–2022, which grew at a CAGR of 5.51% from 2012-13 to 2022-23. As Gujarat is one of the leading industrialized states in India (Williams et al., 2023), the maximum consumption of 61.90% was for Industrial and Commercial use, followed by 18.58% for Agricultural use. Electricity generation capacity has increased at a CAGR of 4.85%. It is also the leading state in per capita electricity consumption of 2,402 KWH per person in 2022-23, almost double the all-India average. Table 8.2 also highlights the impact of COVID-19 on total electricity generation, total consumption, and per capita consumption, with all three metrics experiencing a notable decline in 2020-21. This downturn can be attributed to reduced industrial and commercial electricity demand resulting from lockdown measures and the overall contraction in economic activities during the pandemic.

**Table 8.2: Electricity Generation and Consumption**

Year	Total Generation (MU)	Total Consumption (MU)	Per Capita Consumption (KWH)
2012-13	87,723	67,970	1,806
2013-14	86,221	68,648	1,708
2014-15	96,636	76,719	1,839
2015-16	1,03,138	75,841	1,910
2016-17	1,04,284	77,881	1,916
2017-18	1,10,543	85,445	2,007
2018-19	1,21,939	92,520	2,208
2019-20	1,20,129	91,666	2,225
2020-21	1,16,610	88,333	2,143
2021-22	1,29,327	1,06,349	2,283
2022-23	1,40,921	1,16,214	2,402
<b>AAR</b>	<b>5.00</b>	<b>5.74</b>	<b>3.00</b>
<b>CAGR</b>	<b>4.85</b>	<b>5.51</b>	<b>2.89</b>

Source: Socio-Economic Review, 2023-24, GOG

## 1.2. Gujarat-specific policies

The Gujarat government has taken various initiatives to promote renewable energy in Gujarat. These include subsidies for manufacturers, provisions for firms ready to relocate or invest in the state and various fiscal incentives to train people in these technologies.

- a) **Gujarat Wind Power Policy 2016:** This policy aims to promote and regulate the development of wind power projects while maximizing the utilization of the state's wind energy potential.
- b) **Gujarat Wind Solar Hybrid Power Policy 2018:** Gujarat became the first state to introduce a wind-solar hybrid power policy in 2018. The policy provides a framework for establishing large, grid-connected wind-solar PV systems and supports the adoption of emerging technologies, including energy storage, to enhance these operations.
- c) **Gujarat Solar Power Policy 2021:** This policy promotes solar adoption across all consumer sectors by removing capacity limits for setting up solar projects. It also allows consumers to lease their rooftops or premises to third parties for generating and consuming power within the same premises.
- d) **Gujarat Renewable Energy Policy 2023:** Aiming to achieve 100 GW of renewable energy capacity by 2030, this policy envisions attracting investments of Rs. 5 lakh crores and utilizing approximately 4,00,000 acres of land. It focuses on leveraging Gujarat's 36 GW solar and 143 GW wind potential through projects like ground-mounted solar, rooftop solar, floating solar, canal-top solar, wind energy, rooftop wind, and wind-solar hybrids.

## 1.3. Aggregate technical and commercial (AT&C) loss, ACS-ARR gap and collection efficiency

Initially, the state focused on decreasing line losses by employing various strategies, including technological adoption, stringent efforts to prevent theft and pilfering, strengthening the distribution grid network, and modifying operational processes and procedures. These comprehensive measures reduced AT&C loss, as shown in Table 8.3. The losses have continuously decreased since 2012-13 and are below the national average of 22.32% in 2020-21 (PFC report 2020-21; [www.icra.in](http://www.icra.in)). The losses are comparatively lower in the state's two private DISCOMs (Torrent Power Ahmedabad and Torrent Power Surat), primarily serving urban areas, than four public DISCOMs, which were established as part of the restructuring of the electricity sector. Additionally, AT&C losses of private DISCOMs are lower than state DISCOMs. This reduction reflects sustained efforts in network improvements, better billing, and enhanced energy efficiency.

Lower AT&C losses enhance the financial stability of utilities, enabling them to maintain systems effectively and procure power as needed, ultimately benefiting customers. A decline in AT&C losses also narrows the gap between the average cost of supply (ACS) and the average realizable revenue (ARR). For Gujarat, this gap has consistently been negative, with ARR exceeding ACS from 2012-13 (-Rs.0.01/kWh) to 2022-23 (-Rs.0.02/kWh) on an energy-sold basis. To further reduce AT&C losses and the ACS-ARR gap of states, the Ministry of Power (MoP) introduced key initiatives in 2021 and 2022. These include tying financial assistance for DISCOMs to actionable plans for lowering AT&C

losses/ACS-ARR gaps within a specific timeframe and to a specified level, mandating energy accounting and auditing, and enforcing the Late Payment Surcharge (LPS) Rules 2022 for payments related to the Inter-State Transmission System (ISTS). Gujarat's DISCOMs have achieved nearly 100% revenue collection efficiency, particularly in rural areas, and are recognized for their prompt resolution of customer complaints.

**Table 8.3: AT&C Loss (%), ACS-ARR Gap and Collection Efficiency**

Year	AT&C Loss – State Discoms (%)	AT&C Loss- Private Discoms (%)	ACS-ARR Gap (Rs./kWh)	Collection Efficiency (%)
2012-13	19.87		-0.01	99.46
2013-14	15.93		-0.02	99.16
2014-15	16.06		-0.02	99.62
2015-16	16.23		-0.02	99.72
2016-17	14.18		-0.05	98.97
2017-18	12.96	6.53	-0.06	99.12
2018-19	14.05	5.20	-0.02	99.37
2019-20	11.93	4.59	-0.06	98.30
2020-21	11.56	6.91	-0.07	100.00
2021-22	10.13	4.47	-0.06	99.56
2022-23	10.65	3.93	-0.02	98.99

Source: 'Report on The Performance of The State Power Utilities, PFC, various years

Note : State Discoms: DGVCL, MGVCL, PGVCL, UGVCL

: Private Discoms: Torrent Power Ahmedabad, Torrent Power Surat

#### 1.4. Fiscal position of the power sector in the state

On a consolidated basis, the three power sector firms, namely four state DISCOMS, GSECL and GETCO, continued to report profits, although with subsidies as shown in Table 8.4. The firm's total profit for 2022-23 is Rs. 1,432 crores, which has grown at a CAGR of 10.55% since 2012-13. The tariff subsidy received in 2022-23 is 10,478 crores, rising at a CAGR of 25.18% from Rs. 1,109 crores in 2012-13. High subsidies indicate that the sector's dependence on subsidies remains very high, implying that timely subsidies from GoG are still essential. This subsidy dependency mainly benefits agricultural consumers, enabling the maintenance of affordable tariffs for other consumer categories. The table below highlights the continuous increase in tariff subsidies allocated to DISCOMs, underscoring the need for the state to encourage its DISCOMs to reduce dependency on these subsidies. The Ministry of Power aims to implement progressive tariff policies to replace old cross-subsidy structures. Additionally, direct benefit transfers (DBTs) could empower low-income farmers with financial support to purchase electricity while encouraging more efficient energy usage (Shah & Tim Buckley, 2019).

Efforts to enhance the fiscal health of the power sector include transferring GEB's losses to GUVNL and injecting state government funds into three power sector SPSUs through equity and long-term loans. Additionally, the Ministry of Power issued updated 2022 guidelines for sanctioning loans to DISCOMs, TRANSCO, and GENCOs, linking loan approvals to their performance against specified conditions.

**Table 8.4 Profit/Loss after tax and Tariff subsidy received**

Rs. Crores

Year	Discoms PAT	GSECL PAT	GETCO PAT	Total PAT (DISCOM, GSECL & GETCO)	Tariff subsidy received (Discoms)
2012-13	71	177	277	525	1,109
2013-14	95	154	321	570	1,100
2014-15	108	158	289	555	1,101
2015-16	155	138	189	482	4,940
2016-17	275	38	107	420	4,233
2017-18	426	-388	376	414	4,206
2018-19	184	372	355	911	6,944
2019-20	314	111	745	1,170	6,683
2020-21	429	279	1,104	1,812	6,911
2021-22	371	283	971	1,625	9,165
2022-23	147	28	1,257	1,432	10,478
<b>AAR</b>	<b>19.99</b>	<b>-141.99</b>	<b>34.92</b>	<b>15.96</b>	<b>44.47</b>
<b>CAGR</b>	<b>7.55</b>	<b>-16.84</b>	<b>16.33</b>	<b>10.55</b>	<b>25.18</b>

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

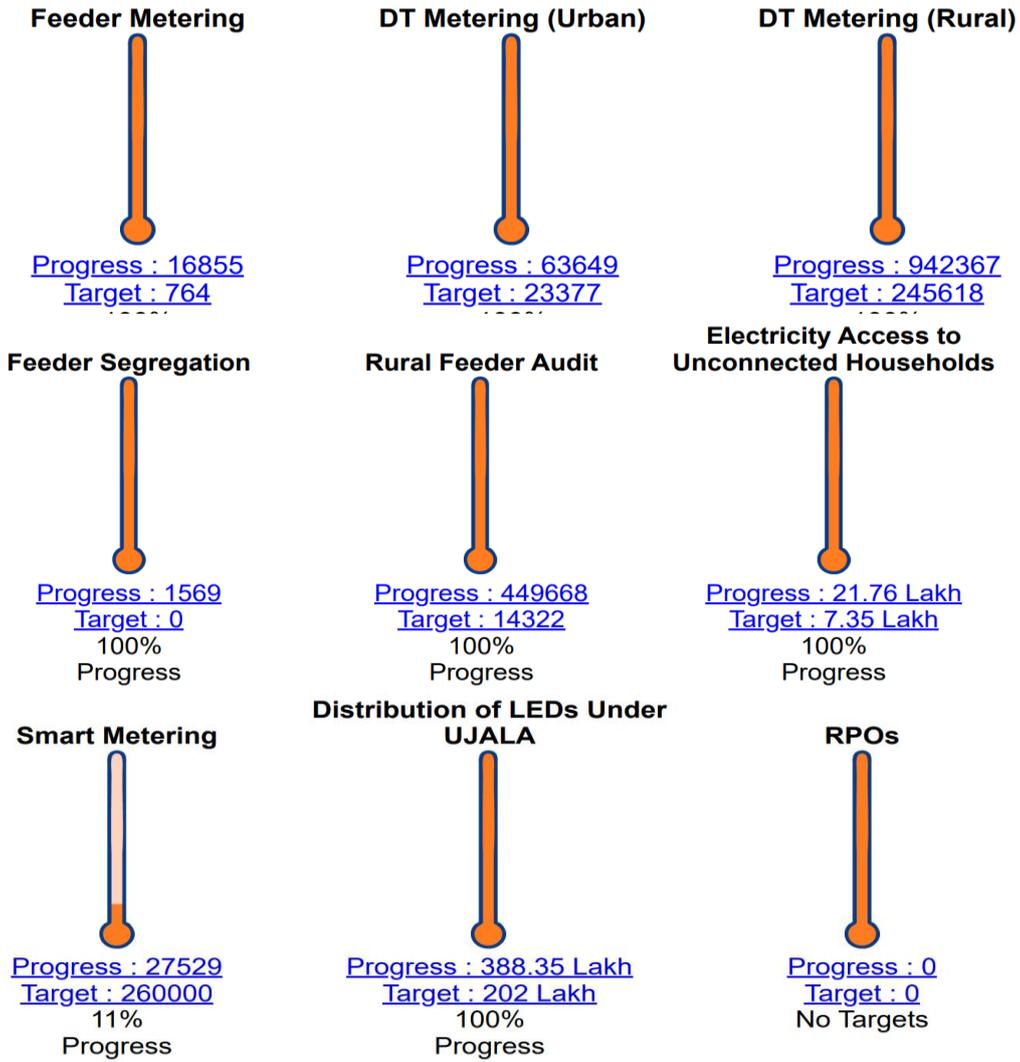
Note: Discoms: DGVCL, MGVCL, PGVCL, UGVCL

### 1.5. Ujwal DISCOM Assurance Yojana (UDAY)

The government of India introduced UDAY in November 2015 to facilitate the operational and financial turnaround of state DISCOMS. Under this scheme, the State Governments were to assume over 75% of the outstanding debts of DISCOMS as of September 30, 2015, over two years, i.e., 50% in 2016–17 and 25% in 2017–18. The GoG signed a tripartite MOU with four state-owned DISCOMS and the Government of India (GoI) for operational efficiency only, as all four DISCOMS had already achieved a financial turnaround in 2005-06. Given this, the state government has provided no financial assistance to the state DISCOMS under the UDAY Scheme.

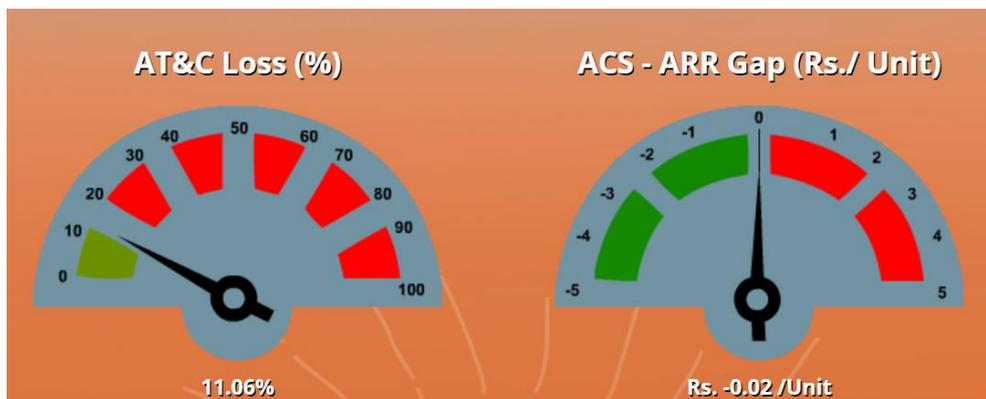
The UDAY Gujarat Improvement Barometer reflects the cumulative progress made by the state's distribution sector on 14 key parameters set under the UDAY scheme. As illustrated in Figure 8.2, Gujarat DISCOMS successfully achieved 100% of their targets, except for smart metering, where only 11% of the target was met. In 2020-21, Gujarat's receivables for power sales were significantly low at just 20 days, compared to the national average of 161 days. The scheme's outcomes are primarily assessed through parameters like AT&C losses and the ACS-ARR gap, which directly impact the financial health of DISCOMS and have been discussed previously. Data for other parameters were not available.

Figure 8.1: UDAY Gujarat Improvement Barometer Position as of 31st March 2024



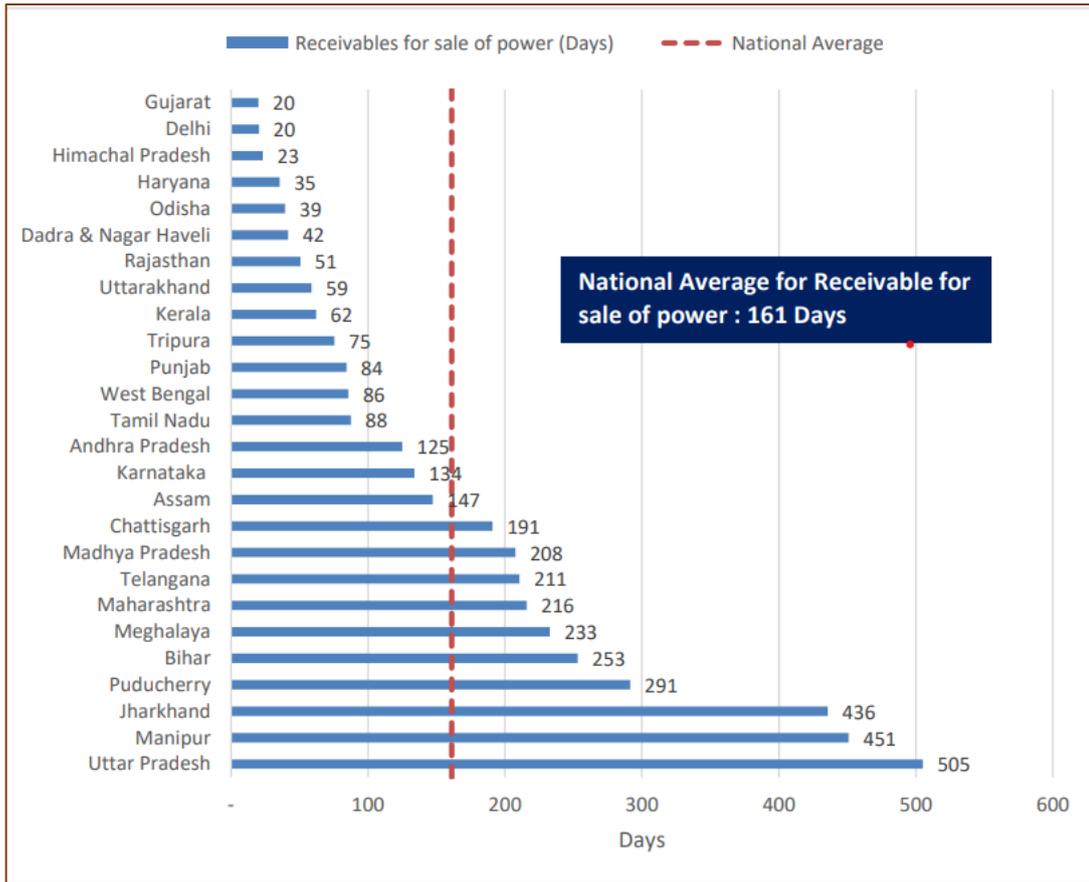
Source: UDAY health cards

### Financial Indicators



Source: UDAY health cards

## Receivables for sale of power (Days)



Source: 'Report on The Performance of The State Power Utilities, PFC, 2020-21

## 2. FUTURE OUTLOOK

The State of Gujarat has made significant progress in renewable energy (RE), which is in line with the ambitious national aim of reaching 450 GW of capacity by 2030. This initiative shows a strong commitment to sustainable development and aligns with the nation's larger goals. Gujarat's capacity for renewable energy has increased dramatically during the past ten years, from 8 GW to 22.7 GW (Vibrant Gujarat 2024). The Gujarat government has earmarked 72,400 hectares of government wasteland at Khavda, Kachchh, to create a RE park. This energy park is poised to provide green progress to Gujarat regarding land utilization, economic viability, employment generation, and technological advancements. The state government of Gujarat also announced the "Surya-Gujarat" solar rooftop scheme on August 5, 2019, to lower power rates for the state's residential consumers and increase the production of green energy through solar rooftops. Gujarat is the state with the highest rate of solar rooftop installation in the nation (<https://gad.gujarat.gov.in>). A financial provision of Rs. 91667 lakhs is made for the FY 2024–2025 under this scheme under GoG's grant. Ministry of New and Renewable Energy (MNRE) Government of India implemented Pradhan Mantri Kisan Urja Suraksha Evam Utthan Mahabhiyan (PM KUSUM) intending to offer cleaner and cheaper alternatives to diesel-run agricultural pump sets used by farmers to irrigate farmlands with solar power run agricultural pumps. The Gujarat government has taken monumental steps to harness wind, solar, hydro and hybrid energy to shape a green and sustainable energy future.

## CHAPTER 9

### IMPLEMENTATION OF FRBM ACT AND SUSTAINABLE DEBT ROADMAP

#### 1. IMPLEMENTATION OF FRBM ACT

The Gujarat Fiscal Responsibility Act, 2005, enacted by the Government of Gujarat to make the State Government accountable for ensuring prudence in fiscal management and to ensure fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations, and to chart the course of fiscal policy in a medium term frame work.

The Gujarat Fiscal Responsibility Rules, 2006 have been framed in pursuance of Section 8 of the Gujarat Fiscal Responsibility (GFR) Act, 2005 which provides the measures for evaluation of Fiscal Position of the State Government, the form of Medium Term Fiscal Statements and Fiscal Policy Strategic Document and various disclosures to be made under the GFR Act, 2005. As provided in Section 3 of the GFR Act, 2005 the State Government is required to lay before the legislature in every financial year, 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 fiscal objectives and strategic priorities of the State Government with a rolling target for three years to fiscal management. SECTION 5 of the GFR Act, 2005 has outlined the fiscal consolidation targets - revenue deficit, fiscal deficit, total public debt, and outstanding guarantees.

The 13th Finance Commission recommended measures toward developing a Fiscal Consolidation Roadmap for each state. In pursuance of the aforesaid recommendations, the GFR Act, 2005 was later amended in 2011, inter alia under Section 5, requiring the State to provide for a Revenue Surplus, reduce Fiscal Deficit to not more than 3% of the estimated GSDP of the financial year, cap the total public debt of the State Government at 27.1% of estimated GSDP in the award period and cap outstanding guarantee within the limit provided in the Gujarat State Guarantees Act, 1963.

The 14th Finance Commission has also laid out a fiscal consolidation roadmap for each one of the States and has recommended amendments to their Fiscal Responsibility Legislations to provide additional fiscal space to the States (See, Statement under FRBM Act, 2005, Feb 2024).

**Table 9.1: Achievement of GFR Act targets**

Particulars	Target	Achievement
<b>Revenue Deficit</b>	Zero by 2007-08	Achieved in 2006-07
<b>Fiscal Deficit against GSDP</b>	Up to 3 % by 2008-09	Achieved in 2006-07
<b>Public Debt against GSDP</b>	Up to 27.1% by 2011-12	Achieved in 2011-12
<b>Outstanding Guarantees</b>	Up to Rs. 20000 crores by 2007-08	Achieved in 2006-07

Source: Statement under FRBM Act, 2005, Feb 2024

Gujarat State had taken a number of steps to move forward on the path of fiscal correction and consolidation and have achieved all parameters of GFR Act well before the stipulated time period. The

State Government has a successful record in adhering to the norms relating to Fiscal Consolidation over the past many years and in the same vein shall progressively adopt recommendations of the 14th FC with respect to maintaining the fiscal discipline and also for meeting the fiscal requirements of the state. Achievements on the GFR Targets in recent years, spanning the 13th FC and 14th FC periods, is indicated below:

**Table 9.2: Achievement & Received FRBM Targets**

Particulars	2021-22		2022-23		2023-24 (RE)	
	Target	Achievement	Target	Achievement	Target	Achievement
Revenue Deficit (-) / Surplus(+)	0	+6408	0	+19865	0	+18618
Fiscal Deficit as percentage of GSDP**	3%	1.18%	3%	0.76%	3%	1.72%
Public Debt as percentage of GSDP	27.1%	15.99%	27.1%	15.17%	27.1%	15.34%
Outstanding Guarantees	20000	3089	20000	1473	20000	1464 *

\* Outstanding Guarantees as on 31<sup>st</sup> December, 2023.

Source: Statement under FRBM Act, 2005, Feb 2024

The GFR Act target has been achieved by the State till now except in FY 2020-21 due to the covid-19 pandemic. The revised estimates of revenue surplus are likely to be Rs.18618 in F.Y.2023-24(RE). Expectations of faster and more inclusive growth will also raise greater demands on the financial resources of the State. The State's revenue deficit and fiscal Deficit remain well within the revised framework of GFR Act. Revenue surplus stands at Rs.19865 crore during the year 2022- 23 while it is estimated to show a revenue surplus of Rs. 18618 crore in 2023-24 (RE). The State Government had also managed the fiscal deficit for FY 2022-23 at Rs.16845 crore and that was 0.76% of the GSDP. In relation to the fiscal deficit for the year 2023-24 (RE) it has been estimated to be Rs. 42480 crore which will be 1.72% of the GSDP.

Tremendous growth with equity and inclusiveness with each section of society is the goal of the State Government. In turn, the fiscal policy develops out of the overall development strategy of the State. Broadly stated, the aim of the fiscal policy is to promote and assist higher economic growth by developing the resource base and aiming the expenditure toward maximum social and economic returns. Long-term fiscal goals: The long-term fiscal goal of the State Government is to have a revenue surplus at all stages of the economic cycle so that revenues of the government are matched by expenditure and appropriate taxation and expenditure levels are maintained, while the public debt is kept at an acceptable level. In keeping with this strategy, the fiscal strategy would look towards increasing capital expenditures so that investments in social and economic infrastructure grow much higher than at present. This can be done by maximizing the revenue receipts of the state at the same time containing revenue expenditure. Continuously, the Government's endeavor has been widening the tax base thus improving the revenues. This has been possible through a strategy of evolving a strong broad-based tax system that aims at collecting taxes in a way that is equitable and efficient. What has emphasized the Government is the

raising of outlays in social sector expenditure to give an impetus to equitable growth and a quality of life improvement.

## **2. TAX REVENUES & TAXATION POLICY:**

The taxation policy of the State is aimed at streamlining tax structure and simplifying the administration for better tax compliance and greater transparency.

GST was rolled out in the State of Gujarat from 1st July 2017 as per the directives of the Central Government. On implementation of the GST system, many taxes and cess/additional taxes of Centre and State have been subsumed under one GST. The system provides hassle-free online tax returns and electronic payment of GST. This reform in the following year focuses on increasing the number of tax payers, enhancing tax compliance, and making the tax administration more efficient. Different reforms related to the GST process are likely to result in a better tax base and faster growth in revenue collections. So, for effective collection, levy, collection, and overall management, Electricity Duty has been shifted from the Energy and Petrochemicals Department to the Chief Commissioner of State Tax under the Finance Department. Chief Commissioner of State Tax looks after the levy and collection of SGST, VAT and PT. So, the focus of the whole office is on Tax Collection.

State Government has also made steps for the rationalization of Circle Rates, which will further re-enforce the administration of stamp duty.

Revenue receipts by the State own include Central Flows as well that includes Share in Central Tax and Grant in Aid. Share in Central Tax is decided by Finance Commission award. A share of tax devolution has been reduced at 41% of the divisible pool from the 42% of the divisible pool of the 14th Finance Commission. Consequent to this, the unconditional transfer flow has thus decreased by 1 per cent. The composition of revenue receipts is shown in Table 3.4. The State's revenue receipts have seen an annualized growth of 10.81% from 2011-12 to 2023-24 (RE). Revenue receipts for FY 2022-23 stood at Rs.199408 crore with a year-on-year growth of 19.53%.

Revenue receipts for FY 2023-24 has been estimated to be at Rs.215793 crore, exhibiting a positive growth rate of 8.22% compared with last year. Own revenues receipts of the State have been contributing to more than 60% of the Total Revenue Receipts of the Government. As it is noted that whereas GSDP has increased at CAGR of 12.25% during the period 2011-12 to 2023-24(RE), the state taxes have registered CAGR of 9.68% during the period FY 2011-12 to FY 2023-24 (RE). However, it is hoped that the State economy would gain momentum by policy reforms in coming years. Tax revenues of the State have been rising steadily at a healthy growth rate. Of the total own tax revenues of the State, VAT/GST was the highest contributor which accounted for 69.81 percent of total own tax revenue in 2023-24 (RE). VAT / GST has risen steadily at an annualized growth rate of 9.59% over 2011-12 to 2023-24 (RE). Land Revenue has risen at an annualized growth rate of 13.28% over 2011-12 to 2023-24 (RE).

The second biggest constituent of State's own tax revenue is Stamp and Registration. Rationalization of stamp duty rates had contributed to increase collections of taxes. Rationalized duties have led to enhanced compliance and collection of taxes. As a step of tax reform, the collection of Professional Tax has been entrusted with the local bodies. Local bodies have conducted fresh surveys and updated the records and as the local bodies are permitted to retain the income, the collection has improved. Goods and Service Tax : Goods and service tax is the most important indirect tax reform since India's independence. The Goods and Services Tax has been implemented across the country w.e.f 01st of July 2017. A total of 17 taxes, cesses and additional taxes of Centre and States have been subsumed in GST. All activities are on-

line in the new tax system and so it is process dependent which was person dependent in the old indirect tax regime. Non-Tax Revenues & Levy of User Charges State's Non Tax Revenues:

State's non-tax revenues have seen an increase from Rs. 5277 crore in 2011-12 to Rs. 19262 crore in 2023-24 (RE). Non-tax revenue at Rs 5277 crore was 8.38% of the total revenue receipts of Rs 62959 crore in 2011-12 which has been Rs 19262 crore in 2023-24 (RE) against total revenue receipts of Rs 215793 crore. This is 8.93% of the total revenue receipt in 2023-24 (RE).

The State Government is reviewing and suitably revising non-tax revenue to explore options of augment resource mobilization from non-tax resources. State Government explores options of cost recovery from social and economic services. User charges are expected to instill a culture of appropriate utilization of public services. However, part such user charges (fees, etc.) are retained by semi-autonomous bodies, thus moderating the non-tax collections.

Port Charges have been put on the Non-Tax Revenue side and aligned with the Wholesale Price Index (WPI) that would respond to increase/decrease in WPI, at the start of every financial year. The State Government has done a framework of fixation of bus fare charges which has already been revised w.e.f. 01/08/2023 by raising the base fare of all categories by at least 25%. This will help keep the burden of subsidy under Public Transport. Since the adverse economic impact on individuals and firms is in process of getting phased out, State Government continues to be considerate. Expenditure side Strategy Public expenditure signifies 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 growth of the economy. Total expenditure increased at the annualized growth of 10.74%, which is lower than the growth rate of GSDP, which stands at 12.25% over the period of 2011-12 to 2023-24 (RE). This reflects the developmental thrust of State's public expenditure.

The strategy of the Government is to properly check non-developmental expenditure to boost resource allocation to development activity. This is the outcome of recasting government consumption expenditure and giving priority to projects in different plans focusing on the social, educational, and financial sectors. Giving a nod to the Centre, Gujarat Government has clubbed plan and non-plan expenditure in its budget from the financial year 2017-18 onwards. Curtailing the Growth of Revenue Expenditure: Checking the growth of Revenue Expenditure has been in the focus areas of the State Government to ensure optimum utilization of resources for developmental purposes. However, delivery of services especially in social sectors like health, education, and nutrition involves a high proportion of revenue expenditure. This expenditure on the social sector is not only inevitable but also desirable toward improving the reach and intensity of these services. The annualized growth in Revenue Expenditure over the period of FY 2011-12 to FY 2023-24 (RE) has been 10.46% whereas Revenue Receipts have shown annualized growth of 10.81% during the same period. The revenue expenditure over the years has been as shown in Table 3.8.

The State Government has been consistent in reducing the revenue expenditure, by adopting a lot of measures like efficient management of public debt, prioritizing spending, rationalizing the staff strength and several other economy measures. Expenditure on salary and pension is also on an increasing spree due to the implementation of the Seventh Pay Commission and revision in allowances w.e.f. October 2022 that is impacting revenue surplus and fiscal deficit. Capital receipt in the form of debt is an important source for funding long gestation projects. Out of different components of public debt, almost full control has been exercised by the State government in open market borrowing. However, the State government consciously adopted a need-based borrowing approach and is successful in keeping Interest on Public Debt in check. To give a fillip to equitable and inclusive growth, the need to adequately provide for the social and welfare programmes cannot be overemphasized.

This has an important implication toward improving the human development index of the State. These include wide-ranging methods adopted by the State Government- such as 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. Adoption of these principles may 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 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.

The State Government has implemented the Direct Benefit Transfer (DBT) System. The State Government has ensured proper identification of the beneficiary. This is a straightforward user-friendly Government to People (G2P) interface. Revenue expenditure under implementation of DBT is being curtailed and benefits are being paid to the intended beneficiaries without any hassle.

Outcome budget has been brought out for FY 2017-18 by the Government of Gujarat in this regard. This is a departure from the traditional approach to measuring performance in terms of spending incurred or levels of spending. The output-based budget is thus meant to keep Government expenditure in consonance with the desired outcomes that, in turn, are an indication of what the government thinks its priorities should be and how it has sought to develop these. This would lead towards prudent fiscal management. Various steps are currently under consideration by the State to take forward the reforms in the expenditure side so that it is made more effective. This includes rationalization of the processes of approval, better delegation of powers, improved expenditure on MIS and introducing a public investment approval mechanism that strives to cut down delays, improve quality of project appraisal and ensure better targeting. State government has laid more emphasis on capital formation by increasing expenditure on quality capital outlay. The estimated Capital Expenditure for FY 2024-25 stands at Rs 108615 Crore, showing an increase of 24.10% over the revised estimates of FY 2023-24.

This may trigger a virtuous cycle of capital formation in the Private Sector, with a high multiplier effect, as well as encouraging the enhancement of the economy's future productive capacity and more recent higher rate of growth of the economy. The budget outlay for the coming years will surely observe a definite attempt at redressing areas such as social sectors, agriculture, rural infrastructure, urban amenities, tourism, green energy, IT/ITES, fisheries, co-operative sector, irrigation, and water supply. Major thrust areas of public expenditure for the coming year are: 1) Social Sector spending with a focus on Human Development Indicators in sectors like Health, Education, ICDS, and Rural Development. 2) Agriculture sector with emphasis on sustainable livelihood by outlays in Crop Insurance, Fisheries, Horticulture, Micro Irrigation and infusion in the Co-operative Organizations. 3) Rural Infrastructure shall be strengthened with special outlays for upgrading rural connectivity through roads and bridges. 4) Urban Amenities shall be upgraded by outlays for various urban infrastructure and housing projects. 5) Digital Infrastructure 6) Renewable Energy

The State government has visualized that a significant role for mobilization of additional resources above the budgetary outlays for various sectors would come about by making optimal use of the borrowing space available to various PSUs and Departments towards achieving their goals. This would be done through 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.

The financial resources for budgetary provision as also for the proposed unprecedented increase in capital expenditure have been planned properly. Besides conventional sources of receipt of the state government,

new sources of capital receipt are planned. Along with asset monetization, State Government will make an effort towards disinvestment of non-strategic and commercially run public enterprises.

The state government shall also attempt to obtain loans at lower interest rates with institutions like NABARD, SIDBI, NHB etc. Non-government sector investment shall be encouraged through Public Private Partnership, Viability Gap Funding (VGF) and Multilateral Funding (See, FRBM Documents, Feb 2024)

### 3. SUSTAINABLE DEBT ROAD MAP FOR 2026-31

**Table 9.3 Debt Scenario in Gujarat**

Year	Public Debt (In Rs.Crore)	GSDP(In Rs.Crore)	Public Debt as a percentage of GSDP	Revenue Receipt as a percentage of Revenue Expenditure	Interest Payment as a percentage of Revenue Receipt	Total Direct Subsidy (In Rs.Crore)
2012-13	136367	658540	20.17	1.08	14.47	4582
2013-14	149506	806745	18.53	1.06	14.9	4424
2014-15	163451	895205	18.26	1.06	14.42	6583
2015-16	180743	1025188	17.63	1.02	14.83	9045
2016-17	199338	1153327	17.28	1.06	14.65	11081
2017-18	212591	1328068	16.01	1.04	13.91	13621
2018-19	240305	1502899	15.99	1.02	13.29	17268
2019-20	267095	1629638	16.39	1.01	14.21	18420
2020-21	298810	1655917	18.04	0.85	17.18	22155
2021-22	308302	1928683	15.99	1.04	13.87	22335
2022-23	338476	2330609	15.17	1.11	11.76	25749

Source : FRBM Act, GoG Documents from Various years

The table provides the most relevant fiscal indicators for the period of 2012-13 to 2022-23, other measures of fiscal health, public debt, and associated metrics. Public Debt (Rs. Crores): Total public debt has been on an upward trend from Rs 1,36,367 crores in the year 2012-13 to Rs 3,38,476 crores in 2022-23. This upward trend of public debt is also due to continuous borrowing that finances fiscal deficits. The sharp rise in 2020-21 is symptomatic of heavy borrowings during the pandemic to boost the economy, though debt as a percentage of GSDP has been well managed. An increase in public debt is a natural outcome of growing fiscal deficits, especially during the pandemic. The steady rise in debt reflects borrowing to meet deficits, though the last two years' halt signals a shift towards better fiscal management.

1. GSDP (Rs. Crores): Specifically, GSDP grew at an incredibly rapid rate from Rs.6,58,540 crores in 2012-13 to Rs.23,30,609 crores in 2022-23. The steady growth in GSDP basically paints the overall growth of the economy over the last decade. The pandemic-induced contraction for the years 2020-21 caused a decline in growth, but it is clear that the next years did follow a recovery. By any measure, steady progress of GSDP translated to overall economic growth even though it was taken a little set back in the year 2020-21 due to the pandemic. Rapid recoveries in the GSDP after 2021-22 can be used to strengthen the arguments related to the rebound.

2. **Public Debt as percentage of GSDP:** Public debt as percentage of GSDP has declined from 20.17% in 2012-13 to 15.17% in 2022-23, although with a small intermediate hike to 18.04% in 2020-21. GSDP Growth has reduced the debt-to-GSDP ratio since public debt has increased in absolute terms. The increase during 2020-21 also reflects the increased borrowing because of the pandemic, whereas the subsequent decline reflects the benefit of economic recovery and effective management of debt. The decline in the downward trend of the ratio further points out that the growth of the economy has gone beyond the increase in public debt. The debt level has been managed at constrained levels post the initial shock wave of the pandemic in 2020-21.
3. **Revenue Receipt as a percentage of Revenue Expenditure:** This ratio after minor fluctuations has hovered around 1.0 all these years except during 2020-21 when it plummeted to 0.85. This is evident of the fact that revenue receipts were not only sufficient enough to cover revenue expenditure but well above that level of rate which plummeted to a low level during the period of the pandemic. The decline precipitated by the pandemic led to the revenue shortfall of 2020-21. The post-pandemic recovery ratio is improving and stood at 1.11 in 2022-23, meaning receipts exceeded expenditure in the recent years. Not surprisingly, lower revenue collections during the pandemic also reflect this dip in 2020-21. It points towards better revenue performance and fiscal discipline of the post-pandemic recovery.
4. **Interest Payment as a percentage of Revenue Receipt:** The same stands at 13% to 17% at a high of 17.18% in the year 2020-21 which has reduced to 11.76% in 2022-23. The interest payment increased during the year 2020-21 due to increased borrowing in the time of pandemic. The success thereafter may be due to better revenue collection and possibly due to lower interest rates or better debt management. More on account of pandemic, largely because of higher borrowing costs; the next fall indicates that as the revenues started to rise, more left for interest payment so proportion of revenue accruing to interest payments fell and hence better debt servicing. **Total Direct Subsidy (Rs. Crores):** Direct subsidies are up, directly from Rs.4,582 crores in 2012-13 to Rs.25,749 crores in 2022-23.

In fact, the fact that there was an upsurge might partly be explained by a rise in subsidies toward welfare populations. This trend signifies the growing focus on welfare and social protection programs. Direct subsidies are increasing, indicating mounting government welfare concerns, particularly during a pandemic, as they are funneled toward the welfare of the vulnerable. Persistent growth further shows that social protection will remain the thrust area. The table below captures the substantive fiscal impact that the COVID-19 pandemic had during 2020-21, as a rapid increase in deficits and a decline in key fiscal ratios is clearly discerned.

Fiscal recovery in the years 2021-22 and 2022-23 will be strongly felt through better revenue collections and better debt management profiles. Rise in GSDP and falling public debt-to-GSDP ratio indicates a positive sign that this economy is growing faster than the debt. Recent capital expenditure through emphasis by the government reflects the strategy of supporting long-term growth through infrastructural development. The composition of debt stock changed over 2008-09 to 2022-23, where the share of central government loans decreases to 3.90% from 11.87%.

Share of NSSF Loans declined to 7.35% from 51.59% while share of Market Loan increased to 83.63% from 32.20%, indicating the trend towards increased dependence on Market Loans. State debt portfolio continues to be dominated by a humongous market loan account to the total public debt as at 2022-23 of Rs.338476 crore that makes 83.63% of the total public debt of the State. The average cost of debt for the

State was 10.79 % in 2004-05. This has reduced to 7.60% in year 2022-23 and is expected to be 7.45% in the year 2023-24 (RE).

However, the high rate of interest on NSSF loans, which have accounted for 7.35% share of total public debt, remains a perennial burden of the State Government. In RE 2023-24, interest payment on Public Debt has constituted 11.68% of revenue receipts, whereas in FY 202223, it was at 11.76%, and for FY 2004-05, it was as high as 26.82%. It has, therefore, obtained loans of varying term ranging from 2 to 12 years that have resulted in competitive interest rates State Government Securities (SGS). This would benefit the cost of interest in the current as well as the subsequent years. The State government borrowings are based on its requirements of capital expenditure. Interest paid on loans raised is a cost liability for the State. Gujarat State Guarantees Act, 1963 gives the legal frame work to decide on the limit of the State's executive power to make Government guarantees. The State Legislature determines such limits from time to time. Presently, with effect from March 2001, the limit for the total outstanding guarantees is Rs.20000 crore. Against this limit, the outstanding Government Guarantees, as on March 31, 2023 stood at Rs.1473 crore.

Loans and Advances from Centre as Additional Central Assistance (ACA): Keeping in view the recommendations of Twelfth Finance Commission, the Government of India discontinued the provision of plan loans to States with effect from FY 2005-06 except for those existing projects that are externally aided. This has not been factored in the medium term fiscal policy projections

Special Securities Issued to the NSSF: The 14th Finance Commission has proposed that the release of NSSF Loans from Centre to States be stopped. In response, NSSF loan have since stopped disbursing to the State since the Financial Year 2016-17.

Market Loans Open market borrowing The Market Loans is the dominant share of public debt, accounting for 83.63% of the total public debt on 31st March 2023. FY 202324 (RE) estimates State to borrow Rs.51000 crore in the financial year. Open market borrowing has enabled the State to borrow at most competitive rates without availing of underwriting. This has brought about enormous interest cost saving for the State as market borrowings are taken at the weighted average cost of 7.46% in FY 2023-24 (RE). In FY 2022-23, it is observed that the State has borrowed at competitive interest rates in the Market at the time of borrowing.

Recoveries of loans and advances: Loans and advances aggregating to Rs.14363 crore were outstanding as on Financial year 2022-23. Recoveries from State Government during 2022-23 is Rs.254 crore. Recovery during 2023-24 (RE) is estimated to be Rs.270 crore.

Borrowings from financial Institutions: Borrowing from the institutions like NABARD, SIDBI, HUDCO, NHB form part of overall borrowing programme and are project based. NABARD Loans carries weighted average interest rate of 5.25% in FY 2023-24 (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. Additionally, State PSUs borrow from the financial institutions after receiving Guarantee from the state government.

This further adds to the contingent liability of the state. Other Receipts (Net)-Employees Insurance, Provident Fund etc.: at times, the incremental liability on the State Government is borne due to an increase in the balance of Provident Fund and other deposits in public account which are out of Consolidated Fund of the State. It is assumed that receipts in Public Account will increase. Sanction of and Disbursement of back to back loan in lieu of GST Compensation: Rs 9,222 Cr for FY 2020-21; Rs 13,040 in FY 2021-22 to bridge shortfall GST Compensation due to Covid-19 pandemic. Central Assistance: The Central

Government has launched scheme of capital assistance to the states for capital expenditure and so far sanctioned Financial Assistance to the states in form of 50 years interest free loan for capital investment projects. For FY 2020-21, FY 2021-22 and FY 2022-23, an amount of Rs.285 crore, Rs.432 crore and Rs.4055 Crore has been released respectively. Similarly, provision under this scheme has been enlarged in FY 2023-24 (RE) and Gujarat will be receiving Rs.4000 crore under this scheme. Total Expenditure: The total expenditure falls under two heads: Revenue account, and Capital account. a) Revenue Account: The revenue account consists mainly of salaries, pensions, interest payments, and subsidies. Public Debt Interest payment: The average cost of borrowing during 2022-23 stands at 7.60%. This is likely to be 7.45% during 2023-24 (RE). The interest payment on Public Debt burden will most likely rise in the short term, as the state government expects an upward pressure on total outstanding public debt.

Advances and loans sanctioned FY 2022-23: Rs.1466 crore FY 2023-24(RE): Rs.2672 crore. The same constraints of accounts availability are assumed to be at these levels going forward for the same reasons.

Balance between receipts and expenditure in general and revenue receipts and revenue expenditure in particular: Total revenue receipt of State Government has increased to Rs 215793 crore in 2023-24 (RE) from Rs 62959 crore in 2011-12 registering annualized growth of 10.81 % during this period while its own tax revenue has grown at an annualized rate of 9.68 %. The State Government had initiated rationalization of the tax/duty structure, which besides simplifying the mechanism, brought about better compliance. Consistent efforts have been there to broaden the tax base, which has naturally brought about higher buoyancy in State taxes.

Debt Sustainability: The State has taken care that its public debt is always within the limits of fiscal prudence and sustainability. Public debt of the State is likely to be at Rs. 377,962 crore at 31st March, 2024 against Rs. 338,476 crore at 31st March, 2023. Average interest on such loans is likely to be 7.45% during FY 2023-24 (RE). The fiscal prudence followed by the State has been reflected in improvement in fiscal indicators such as a) Debt to GSDP and b) Interest Payment on Public Debt to Revenue Receipts.

Public Debt to GSDP of the State is 15.34% that falls in the recommended parameter of 27.1%. Figure II describes that the Interest Payment on Public Debt to Revenue Receipt is 11.68% in 2023-24 (RE). An important parameter for evaluating the sustainability of debt has been considered to be the total public debt as compared to the total revenue receipts. The Fiscal Reform Facility, Ministry of Finance indicated that the benchmark of the ratio of 3 suggests that the State is heavily stressed with regard to debt and debt servicing. Figure III below throws out the trend of public debt to revenue receipts over a period of years:

The State has ensured prudent debt management by steps like setting up of DMO, incorporation of CSF and GRF, ceiling on guarantees etc. Even under a situation of primary deficit, debt stabilization condition requires that the nominal growth rate of GSDP must be higher than the nominal rate of interest on the debt stock. In this context, average growth of nominal GSDP for Gujarat over a period of 2011-12 to 2023-24 (AE) has been 12.25%, whereas the nominal rate of interest on the debt stock has been estimated at the level of 7.45% as on 31st March, 2024. Initiatives taken by the Government and the financial parameters as mentioned above appear to ensure that the Debt at the current level and its projected rise are sustainable.

Contingent Liabilities The State's contingent liabilities measured in terms of outstanding guarantees have decreased significantly. The guarantees stand at Rs.1473 crore as on 31st March, 2023 which is well below the limit of Rs. 20000 crore under Gujarat Guarantees Act, 1963. Guarantee invocation during the financial year 2022-23 is NIL. The guarantee redemption fund balance on 31st December 2023 stands at Rs.617 crore that has touched the level which will help meet the contingency.

The capital receipts including market borrowing are being used in generating productive The falling trend of Debt / GSDP clearly points to the fact that capital receipts are being used in generating productive assets.

Capital receipt is being utilized for capital formation in irrigation, water supply, power, roads and bridges, transportation network etc. Aside from the above capital works, improvement of HDI is another key focus area of the State Government. Towards the object of improving HDI in the state capital expenditure is being targeted on the areas like health, education, and social development.

Pension Payments Pension payment is estimated on year-to-year basis, with the help of trend growth rates, i.e. average rate of growth of actual pension payments during the last three years along with data on forthcoming retirements. The Government has completed creation of computerized database, wherein pension and salary payments are generated online, which has led to better appreciation of these payments and better policies. State governments have accepted and implemented the New Pension Scheme, whereby the contribution by state governments on such payments becomes statutory and predictable. (See FRBM ACT Documents, Feb 2024)

**Table 9.4 Fiscal Indicators Projections for 2024-31**

**(Rs Crores)**

Year	Revenue Receipts	Tax Revenue	State Owned Tax Revenue	Non Tax Revenue	State Owned Non Tax Revenue	Revenue Expenditure	Public Debt
<b>(In Rs. Crore)</b>							
2024-25	235600.26	191466.24	144693.64	44163.98	21222.91	215706.50	404281.57
2025-26	257225.31	208617.82	156117.42	48678.12	23383.78	235979.91	441836.90
2026-27	280835.26	227305.84	168443.14	53653.66	25764.65	258158.74	482880.89
2027-28	306612.29	247667.94	181741.98	59137.77	28387.95	282422.07	527737.61
2028-29	334755.33	269854.08	196090.79	65182.43	31278.33	308965.82	576761.26
2029-30	365481.53	294027.66	211572.46	71844.93	34463.02	338004.31	630338.91
2030-31	399027.99	320366.71	228276.44	79188.42	37971.96	369772.02	688893.60
Projection Rate (%)	<b>9.18</b>	<b>8.96</b>	<b>7.90</b>	<b>10.22</b>	<b>10.18</b>	<b>9.40</b>	<b>9.29</b>
Year	Revenue Receipts	Tax Revenue	State Owned Tax Revenue	Non Tax Revenue	State Owned Non Tax Revenue	Revenue Expenditure	Public Debt
<b>(As a Percentage of Projected GSDP)</b>							
2024-25	8.52	6.93	5.23	1.60	0.77	7.80	14.62
2025-26	8.36	6.78	5.07	1.58	0.76	7.67	14.36
2026-27	8.20	6.63	4.92	1.57	0.75	7.54	14.09
2027-28	8.04	6.49	4.77	1.55	0.74	7.40	13.84
2028-29	7.88	6.36	4.62	1.54	0.74	7.28	13.58
2029-30	7.73	6.22	4.48	1.52	0.73	7.15	13.34
2030-31	7.58	6.09	4.34	1.50	0.72	7.03	13.09

Source: Study estimates

The table outlines public debt figures over seven years (2024-25 to 2030-31) in absolute terms and as a percentage of projected Gross State Domestic Product (GSDP).

Public debt increases from Rs. **4,04,281.57 crores** in 2024-25 to Rs. **6,88,893.60 crores** in 2030-31, growing at an annual rate of **9.29%**. Public debt as a percentage of GSDP declines from **14.62%** in 2024-25 to **13.09%** in 2030-31. While debt increases in absolute terms, it becomes less burdensome relative to the economy's size, reflecting improved debt sustainability. Revenue receipts grow at a rate of **9.18%**, slightly lower than the debt growth rate of **9.29%**. The ratio of public debt to revenue receipts is approximately **1.71 in 2024-25** and remains consistent at **1.73 in 2030-31**. The proportional relationship suggests that debt is being utilized to support revenue generation, but the marginally higher growth in debt indicates a reliance on borrowing.

Tax revenue grows at a slightly slower rate of **8.96%**, and state-owned tax revenue grows at **7.90%**, compared to debt at **9.29%**. Tax revenue as a percentage of GSDP drops from **6.93%** in 2024-25 to **6.09%** in 2030-31. Slower tax revenue growth and declining GSDP shares highlight limited success in using taxes to reduce reliance on borrowing. Efforts may be needed to improve tax compliance and base expansion. Non-tax revenue grows at a higher rate of **10.22%**, outpacing public debt growth (9.29%). Despite robust growth, non-tax revenue's share in GSDP marginally declines (1.60% in 2024-25 to 1.50% in 2030-31). Higher growth in non-tax revenue suggests diversification of revenue sources, potentially helping to stabilize debt reliance over time.

Revenue expenditure grows at **9.40%**, slightly faster than revenue receipts but close to the debt growth rate. Revenue expenditure as a percentage of GSDP declines from **7.80%** in 2024-25 to **7.03%** in 2030-31. Public debt has likely been used to manage rising expenditure, with declining GSDP shares signaling improved fiscal discipline.

**1. Debt Sustainability:**

- The decline in public debt as a percentage of GSDP reflects improved economic resilience, even though absolute debt is increasing.
- This trend indicates efforts to balance borrowing with economic growth.

**2. Revenue and Expenditure Balance:**

- While revenue growth is robust, it lags slightly behind expenditure and debt growth, signaling potential risks of higher future borrowing unless revenue efficiency improves.

**3. Tax vs. Non-Tax Contributions:**

- Non-tax revenue outpaces tax revenue growth, which is crucial for reducing tax reliance. However, the slower growth of state-owned tax revenue is a concern for fiscal autonomy.

**4. Debt as a Fiscal Tool:**

- Public debt is being leveraged to support revenue and expenditure growth. However, the slower growth in tax revenues indicates challenges in generating internal resources.

**Suggestions:**

**1. Improve and increase Revenue Efficiency:**

- Strengthen tax compliance and expand the tax base to align revenue growth with debt growth.

**2. Optimal Utilisation of Public Debt:**

- Direct public borrowing towards high-return investments to ensure debt-fuelled growth benefits future revenues.

**3. Strengthen Fiscal Autonomy:**

- Accelerate state-owned revenue streams to reduce dependence on public debt.

This interrelationship suggests that while public debt is currently sustainable, it hinges on effective fiscal reforms and revenue optimization.

## 4. SUSTAINABLE DEBT ROAD MAP FOR 2026-31

To work out a sustainable debt road map for Gujarat for the period 2026-31, following factors need to be taken into account in light of current trends in tax and non-tax revenues, expenditure priorities, and debt dynamics:

### 4.1. Revenue Trends and Projections

- Owning tax revenue from Gujarat is a predominant proportion of state's revenue receipts and consists mainly of SGST, sales tax, and excise duty. In FY 2021-22, the own tax revenue for the state increased by 39% with a thrust on collection modernization and compliance. The non-tax revenue, while smaller in proportions, is also growing as mining royalties and reforms in public utilities take shape.
- Assuming the economy to grow moderately post-pandemic, the revenue forecast of Gujarat should be closely aligned with the level of growth rates in their economies. Advanced data analytics improve the probability of forecasts and help identify and capture new sources of revenues

### 4.2. Debt and Liabilities

- Gujarat Public debt has risen over the years. Total liabilities stood at ₹3.81 lakh crore as of FY 2021-22. The debt-to-GSDP ratio remains within manageable limits at 18.44%. However, given the interest burden, already 7.12% and on an increasing trend, carefully constructed debt servicing policies are called for. It should look at high return capital expenditures and rationalize subsidies and drive innovation financing models in the form of green bonds or public private partnerships

### 4.3. Expenditure Rationalization

- Revenue expenditure constitutes the bulk of Gujarat's fiscal profile at 84.58% in FY 2021-22. Although revenue expenditure is unavoidable, this leaves very little room for growth-inducing capital expenditures. Proportionately, these have declined over time
- Expenditure efficiency, such as zero-based budgeting and outcome-based monitoring, would help in better resource allocation and easing the fiscal stress

### 4.4. Debt Sustainability Strategy

- A debt sustainability strategy for Gujarat should aim at
- Keeping DSGP under 20% with GSDP growth still in the high zone.
- Improving the fiscal deficit to within the FRBM Act-permitted 3%.
- Creation of a healthy and robust Consolidated Sinking Fund to provide for the systematic retirement of debt.

### 4.5. Innovative Revenue Mobilization: The following alternatives are available for Gujarat:

- Improvement in the efficiency of GST collections.
- Auction of renewable energy assets or rights to natural resources.
- User charges for urban amenities, as applicable, to help address the growing costs of urbanization.

It is, therefore, able to balance the fiscal management of Gujarat's health in the long term and sustain its growth. (See State Finances, RBI and State Finances Audit Report 2022 – CAG, GOG).

"A sustainable debt roadmap for Gujarat for 2026-31 would mean aligning fiscal policies together with revenue projections and expenditure planning in a way that guarantees fiscal health while supporting growth and development."

#### 1. Debt Sustainability Indicators

- Debt-to-GSDP Ratio: Maintain the debt-to-GSDP ratio at less than 20% by 2031 to have growth-driven borrowing with fiscal policy on a long-term sustainable path.
- Fiscal Deficit Target: Pursue a limit on fiscal deficit at 3% of GSDP as envisaged in the FRBM Act; however, extraordinary circumstances may sometimes allow slight flexibility on this norm.

#### 2. Revenue Growth and Diversification

- Tax Revenue: Own tax revenues of Gujarat should be topped and targeted for an annual growth rate of 10-12% in line with the growth in GSDP. Simplification of tax compliance and widening of the tax base are major challenges.
- Non-Tax Revenue: User charges for infrastructure in urban areas, royalties from natural resources, and revenues earned from auctions for renewable energy should be harnessed to increase non-tax revenues.
- PPPs: PPPs can be used in infrastructural projects that can create cash flow but the returns are still fetched in the future
- Capital Vs. Revenue Expenditures: Increase the share of capital expenditures as it is presently below 15% to spur infrastructure and long-term economic growth. Some key areas for improvement will be renewable energy, transport, and smart urban solutions
- Subsidy Rationalization: Rationalize agricultural and energy subsidies with DBT and targeted programs to reduce inefficiencies

#### 3. Rationalization of Spendings

- Strengthened CSF: The fund must be ensured to undergo smooth rollover of maturing debt; the fund shall be adequately resourced every year
- Interest Cost Management: Refinance high-cost debt with low-cost bonds or multilateral loans; pursue green bonds for environmentally sustainable schemes
- Asset Monetization: Generate revenue by monetizing non-critical public assets, such as surplus land or underutilized PSUs

#### 4. Debt Management and Reduction Strategies

- Outcome Based Budgeting: Use performance-linked expenditure models to spend money on endeavors that will yield measurable developmental impacts.
- Digital Transformation: Use advanced analytics and AI systems to ensure real-time fiscal health monitoring along with revenue trend forecasting
- Transparent Reporting: Publish periodic updates on debt sustainability metrics and fiscal performance to help build investor confidence.

With these, the state can plan a debt path with conditions that make its debt safe and sustainable as it creates space for growth in the economy and also meets social and developmental priorities. (See, State Finances, RBI and State Finances Audit Report 2022 - CAG, GOG).

#### Line Strategies for Sustainable Debt Roadmap

A debt roadmap for Gujarat that is sustainable in the context of 2026-31 will therefore be worked on with caution, taking into account the fiscal health of the state, overall revenue trends, commitments to expenditure, and debt management strategies. Therefore, a sustainable debt roadmap would be met through suitable borrowing needs and adequate repayment capacity, keeping debt within safe limits while enabling infrastructural, social sector, and economic developmental investments.

To maintain Gujarat in a sustainable debt position from 2026 to 2031, the state would need to primarily execute following line strategies:

## 1. Review of Present Debt Levels and Fiscal Situation

The roadmap should be put in the context of current conditions at Gujarat, which includes all the main fiscal metrics for that moment.

- **Debt to GSDP:** As of 2023, the debt-to-GSDP for Gujarat remains at prudent levels, despite facing some upside due to the pandemic-related borrowing. State should make concerted efforts to achieve a debt/GSDP of less than 25-28 percent by 2031, considered sustainable enough.
- **Fiscal Deficit:** The fiscal deficit of Gujarat was in the range of 3% of GSDP. This falls within the limits envisaged by the FRBM Act for the fiscal deficit. Fiscal deficit needs to be reduced further to 2-2.5% by 2031 so that it leads to fiscal sustainability in the state.
- **Revenue Deficit:** Gujarat has kept revenue deficit relatively low, though social sector expenditures like health, education, and welfare, plus interest payments, might exert pressure. It would be crucial for the state not to utilize borrowed money on recurring expenditure to achieve a revenue surplus or have near zero revenue deficit.

## 2. Tax Revenue Projections (2026-31)

Tax revenue is the most significant factor of the fiscal capacity of Gujarat as well as its ability to sustain debt levels:

- **Goods and Services Tax (GST):** Since it is a manufacturing state, GST brings about significant advantages. The average annual increase in the state's GST collection in the period 2026-31 is estimated to be 8-10%, since the GST system is stabilizing and compliance is improving.
- **GST Reform Efficiency:** Prospects for continued improvements in the GST collection system, better compliance, and even further prospects in the reform areas such as simplification of tax rates and improvement of input tax credit mechanisms would have an effect on further increasing the revenues of the state.
- **Excise, Stamp Duty, and Property Taxes:** As these factors will eventually augment, these taxes are expected to grow at a moderate pace of 5-7%. It should be an imperative for the state of Gujarat to work towards improving efficiency in collection of taxes from these heads, especially through digital reforms.
- **Direct Tax Collection (Income Tax/Corporate Tax):** Though not collected directly by the state, Gujarat enjoys tax devolution on account of the recommendations of the 15th Finance Commission. This is likely to see an increase due to growth in the Indian economy, which will then translate into higher central tax devolution to Gujarat.

## 3. Non-Tax Revenue Forecasts (2026-31)

Non-tax revenue might be a smaller slice of the overall pie for Gujarat, but the amount and potential are significant and thus cannot be ignored:

- **Royalties and Mining:** Significant revenues for Gujarat are generated from royalties on minerals, particularly oil, gas, and limestone. As exploration and production in the state expand, revenues from royalties will increase by 6-8% every year until 2026-31.
- **Power Sector Revenues** Gujarat is now a leader in renewable energy (solar and wind), and higher, expanded power generation capacity along with better efficiencies in distribution should bode well for these NT revenues. Discom reforms to reduce losses and thus boost collections will be a key factor.
- **User Charges and Fees:** The scope exists to enhance user fees on water supply, urban services, and transport in particular in the urban areas. This shall not put undue pressure on citizens. Such digital payment systems and smart pricing could facilitate better collections from these sources.

## 4. Expenditure Trends and Commitments

While revenue growth is important, expenditure growth needs to be kept under some control so that the debt level can be managed. The major spending heads for the State of Gujarat fall in two broad categories: developmental and non-developmental heads.

#### 4.1 Developmental Expenditure:

**Education and Health:** The state of Gujarat is going to drive growth in the social sector based on improving human capital. Spending in these sectors is likely to increase between 10-12 percent a year. That apart, however, the state will need to catch up on expenditure efficiency so that the desired budget outlay is not overrun.

**Infrastructure:** Most of the capital expenditure would be on transportation, energy, and urban infrastructure development. PPPs would be adopted to share the burden of funding and minimize costs through borrowing.

#### 4.2 Non-Developmental Expenditure:

- **Interest Payments and Pensions:** The interest payment on debt and pensions is likely to increase by around 7-8% CAGR that would largely soak up a chunk of the budget. Gujarat needs to develop plans for debt restructuring and pension liabilities management.
- **Administrative Services:** Administrative expenditure growth should be capped at 5-6% through efficiency enhancement, digital governance, and personnel rationalization.

### 5. Sustainable Borrowing and Debt Management Strategy

Gujarat should have a prudent borrowing strategy that aligns the developmental objectives with fiscal sustainability to achieve a sustainable debt profile in 2026-31.

- **Borrow for Capital Projects:** Borrowing by Gujarat must be for capital expenditure especially on infrastructure projects from where future economic growth and revenues will be realised. Borrowing for recurrent expenditures should therefore be shunned to ensure sustainability.
- **Focus on Long-Term, Low-Cost Debt:** The state should focus on long-term borrowing at low interest rates, such as through multilateral loans from institutions like the World Bank or Asian Development Bank (ADB) for infrastructure and climate resilience projects.
- **Green Bonds:** Gujarat may use green bonds to raise money for solar, wind energy, and other clean sources to be used in renewable energy projects, urban infrastructure, and sustainability processes involved in the conservation of the environment. Thereby, it shall avail itself cheaper funds while complying with the state mantra on sustainability.
- **Debt Restructuring:** If possible, the government of Gujarat should opt for the restructuring of high-cost debt using market conditions to get alternative options at a low-interest rate. The active debt management strategies could minimize the debt burden incurred from servicing debt.

### 6. Roadmap for Fiscal Consolidation 2026-31

The fiscal deficit of the State must be reduced over the medium term with a view to achieving fiscal consolidation by 2031

**Target Fiscal Deficit:** By 2026-31, Gujarat should target reducing its fiscal deficit to 2-2.5% of GSDP by containing non-essential spending and increasing revenue mobilization.

- **Debt-to-GSDP Ratio:** The state should target capping the debt-to-GSDP ratio at 25-28% by 2031. Needs for borrowing should be directly linked to projects yielding economic returns; the state must not borrow more than it can repay.
- **revenue deficit:** the state's ability to maintain a balanced or positive revenue balance with minimal revenue deficit will depend on its productive investment and revenue growth outpacing non-productive expenditure.

### 7. Risk Management and Contingency Planning

The state also needs to think about the possible risks implications in its debt plan:

- **Economic Shocks:** Another pandemic, a global economic slowdown, or fluctuation in prices of commodities could shock revenue collections and an increased need for expenditure. Gujarat should have a buffer (contingency reserves) to deal with such shocks.
- **Natural Disasters:** Gujarat is prone to natural disasters such as floods and cyclones. It must have a well-funded disaster management fund and access insurance arrangements so that the potential financial impact of these situations can be controlled.
- **Fiscal Responsibility and Budget Management (FRBM):** The state must adhere to all the provisions under its FRBM Act for maintaining fiscal discipline and not into some unsustainable debt trap.

#### 8. Public Financial Management Strengthening

Debt sustainability needs to be enhanced in Gujarat by improving its PFM system:

- **Expenditure Control:** Strong budgetary controls along with spending according to fiscal targets would check such fiscal slippages.
- **Rainy Day Funds:** Gujarat should continue to enhance tax collection efficiency through digital tax systems, better compliance, and widening the tax base.
- **Performance-Based Budgeting:** The linkage of the budgetary allocations with performance outcomes will ensure proper usage of funds and wastage-free.

Conclusion:

To maintain Gujarat in a sustainable debt position from 2026 to 2031, the state would need to primarily execute following line strategies:

1. Fiscal deficit is brought down to 2-2.5% of GSDP by the end of 2031, while keeping the debt-to-GSDP ratio in the range of 25-28%.
2. To ensure revenue growth through improving tax compliance, realizing growth in GST collections, and enhancing non-tax revenues such as royalties and user charges.
3. Better control over non-developmental expenditures, such as interest payment and cost of administration, through efficient debt management and fiscal prudence .
4. Strategic borrowing for capital investments in productive projects, green bonds, and long-term loans at low interest rates.
5. Public Financial Management: Enhancement through performance-based budgeting, good fiscal discipline, and robust systems of revenue collection .

By implementing these actions, Gujarat can be sure that its debt levels are not increasing beyond manageable limits but is building its economy and improving.

## CHAPTER 10

### OUTCOME EVALUATION OF GUJARAT STATE FINANCES IN THE CONTEXTS OF RECOMMEADATON OF 14TH AND 15TH INANCE COMMISSION

The 14th Finance Commission had come with a crucial recommendation in regard to the center and state's financial relationship that affects the finances of Gujarat.

#### KEY RECOMMENDATIONS

1. Higher Devolution of Tax Revenues: States' share in central tax revenues was enhanced from 32% to 42%. The emphasis was more on providing states with greater financial autonomy to meet developmental requirements.
2. Revenue Deficit Grants: Grants have been proposed to complement states on revenue deficits. For 2015-2020, a total amount of ₹1,94,821 crore was distributed among all states.
3. Fiscal Discipline Norms: The states were advised to maintain a fiscal deficit of 3% of GSDP, with virtually no room for further borrowings under the debt and interest indicators
4. Support to Panchayati Raj Institutions: Grants to local bodies encompassed both, basic and performance-based allocations to enhance their financial and operational capacity

#### Fiscal Response of Gujarat:

1. Revenue Mobilization: Revenue-to-GSDP ratio for Gujarat was about 10.2% during 2006–2016. However, the performance of the state's non-tax revenue was very low that had an impact on its overall fiscal strength.
2. Expenditure Priorities: The state had followed a balance between developmental and non-developmental expenditures while giving importance to infrastructure and social sectors.
3. Debt Management: Gujarat had been a follower of fiscal responsibility norms through maintaining the debt-to-GSDP ratio under control and maintaining the fiscal deficit within the limits prescribed

#### Outcome Analysis:

1. Improved Autonomy: Devolved funds strengthened the power that gave Gujarat resources for the development of priority sectors in terms of infrastructure and welfare.
2. Revenue Problem: A constant characteristic had been the slow growth in both own-tax revenue and non-tax revenue, thus under capacity to effectively use the fiscal to take advantage of transfers.
3. Reform and Efficiency: Fiscal reform characterized the state, especially improving its debt management and control in expenses which enhanced its sustainability over the financial.

The **outcome evaluation of Gujarat state finances** in the context of key recommendations from the **15th Finance Commission (2021–26)** involves assessing its fiscal performance, implementation of reforms, and resulting outcomes.

## Key Recommendations of the 15th Finance Commission

1. **Tax Devolution:**
  - 41% of the divisible pool allocated to states.
  - Gujarat's share within this pool remained proportionate, with minor adjustments for Jammu & Kashmir's changed status
2. **Fiscal Deficit Targets:**
  - Fiscal deficit capped at:
    - 4% of GSDP for FY 2021–22.
    - 3.5% of GSDP for FY 2022–23.
    - 3% of GSDP from FY 2023–24 onwards
3. **Health and Social Sector Spending:**
  - States were urged to allocate at least **8% of their budgets to healthcare**, with a focus on primary and rural health
4. **Reform-Linked Incentives:**
  - Additional borrowing of 0.5% of GSDP allowed for implementing reforms in sectors such as power, urban infrastructure, and GST compliance
5. **Disaster Management Funds:**
  - Dedicated disaster risk mitigation funding for states, with Gujarat receiving allocations for mitigating industrial and environmental disasters

## Fiscal Response of Gujarat

1. **Tax and Revenue Generation:**
  - Gujarat implemented measures to improve GST compliance and increased revenue collection from state taxes, including professional and motor vehicle taxes.
  - Continued focus on industrial and export promotion, leveraging Gujarat's strong economic base.
2. **Expenditure Management:**
  - Focused on improving efficiency in social sector spending, particularly in health and education.
  - Higher allocation to infrastructure projects, including renewable energy, to align with green development goals
3. **Health Sector Investments:**
  - Gujarat expanded its health infrastructure under state-specific schemes and increased spending to align with the recommendation of allocating 8% of the budget to healthcare.
4. **Debt Management:**
  - Gujarat adhered to the fiscal deficit limits but faced challenges due to reduced revenues during the COVID-19 pandemic.
  - The state leveraged the additional borrowing limit for implementing reforms in power sector distribution.

## Outcome Analysis

1. **Fiscal Health:**
  - Gujarat maintained a stable fiscal position despite pandemic challenges, benefiting from industrial growth and improved tax administration.

- The state adhered to most fiscal deficit targets while ensuring adequate spending on priority sectors
- 2. **Social Sector Improvements:**
  - Health sector spending rose, with significant progress in rural healthcare access and infrastructure development.
  - Education reforms showed mixed outcomes, with efforts to improve enrolment and skill training
- 3. **Power Sector Reforms:**
  - Gujarat reduced power distribution losses through better financial management and direct benefit transfer schemes, aligning with Commission incentives.
- 4. **Disaster Preparedness:**
  - Utilized disaster management funds to strengthen resilience against industrial and environmental risks, particularly in coastal areas
- 5. **Revenue Growth:**
  - The state capitalized on its industrial and export strengths to recover from revenue shortfalls caused by the pandemic.

**Table 10.1**  
**Allocation to state 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 & Kashmir	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 provided to GPs, who increase their own source revenue and get their accounts audited. Performance grants are created 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 clearly depict 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 advised grants for Gram Panchayats as they are directly responsible for delivery of basic services with no share for other levels. As indicated in the guidelines issued by the MoF on 8th October, 2015 the released grants are made over to the States by the MoF. State Finance Commission (SFC) approved formula is being followed while making grants at the Gram Panchayat level. But in the absence of SFC formula, grants should be distributed with the population of 2011 Census with a weight of 90% and area with a weight of 10%. For instance, 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 base grant is shared with the local bodies based on guidelines issued by Fourteenth Central Finance Commission, which is 90% weight population and 10% area. The grants provided are for the support and strengthening of 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 grounds and any other basic service within the functions assigned to Gram Panchayats under relevant legislations. Comptroller and Auditor General (C&AG) may undertake audit of expenditure in selected Panchayats. In addition, State Governments can also get audit done either through Local Fund Audit or through empanelled Chartered Accountants. Publishing service level data and auditing accounts will provide necessary transparency and accountability in the use 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 suggested that the Centre stop the release of NSSF Loans to the States. Consequently, NSSF loan has been stopped to be disbursed to the State from Financial Year 2016-17. The Market Loans are the most dominant part of public debt accounting for 68.28% of the total public debt as on 31st March 2017. According to RE for FY 2017-18, it is estimated that the State would borrow Rs. 28000 crore in the financial year. Under open market borrowing, the State has been able to borrow at most competitive rates without resorting 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 more fiscal space, states can meaningfully contribute to the overall growth and development in their regions and add to the aggregate growth of the nation. States will now be able to implement delinked CSS schemes according to 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 likely that most GP has not been better informed about the guidelines of the 14th Finance Commission. It is essential that they should be informed about the guidelines and also informed 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. (See, Outcome Evaluation of State Finances – Gujarat, Study Report, Fifteenth Finance Commission, Government of India, May 2019)

**Table 10.2 Total Transfers Recommended by FC-XV**

(Rs. crore)

States 1	Share in Central Taxes & Duties 2	Post Devolution Revenue Deficit 3	Local Governments 4	Disaster managem ent 5	Health 6	PMGSY roads 7	Statistics 8	Judiciary 9	Higher Education 10	Agriculture 11	State Specific 12	Total Grants- in-Aid (sum of col.3 to 12) 13	Total Transfers (sum of column 2 & 13) 14
Andhra Pradesh	170976	30497	18063	6183	877	344	19	295	250	4209	2300	63037	234013
Arunachal Pradesh	74227	0	1618	1382	133	1508	49	20	48	107	400	5265	79492
Assam	132152	14184	10934	4268	2161	3103	57	610	171	748	1375	37611	169763
Bihar	424926	0	35577	7824	3223	1694	77	960	483	1720	2267	53825	478751
Chhattisgarh	143938	0	10368	2387	588	911	54	200	146	917	1660	17231	161169
Goa	16307	0	609	63	56	0	5	15	50	63	700	1561	17868
Gujarat	146938	0	22163	7316	1070	330	51	310	298	2818	2860	37216	184154
Haryana	46177	132	9066	2715	695	128	40	300	146	1696	2003	16921	63098
Himachal Pradesh	35064	37199	3049	2258	377	2222	21	50	70	247	1420	46913	81977
Jharkhand	139712	0	12322	3138	1014	966	48	275	179	677	1300	19919	159631
Karnataka	154077	1631	21877	4369	1233	398	45	295	299	2290	6000	38437	192514
Kerala	81326	37814	12554	1738	607	113	20	405	181	1086	1100	55618	136944
Madhya Pradesh	331642	0	28367	10059	2340	2109	102	690	349	4587	1765	50368	382010
Maharashtra	266877	0	41391	17803	2710	613	63	1240	520	3285	2750	70375	337252
Manipur	30251	9796	1277	234	191	1193	28	30	54	101	900	13804	44055
Meghalaya	32403	3137	1385	363	187	544	23	30	54	86	800	6609	39012
Mizoram	21124	6544	713	259	115	546	14	15	48	86	700	9040	30164
Nagaland	24039	21249	1038	228	153	372	23	10	51	124	525	23773	47812
Odisha	191297	0	15752	8865	962	1949	45	425	218	1271	1775	31262	222559
Punjab	76343	25968	10305	2736	902	230	43	145	156	1966	1545	43996	120339
Rajasthan	254583	14740	27172	8186	1186	1618	57	460	332	3301	2322	59374	313957
Sikkim	16393	1267	360	279	100	484	7	5	45	41	500	3088	19481
Tamil Nadu	172329	2204	25526	5637	1002	506	47	250	347	2632	2200	40351	212680
Telangana	88806	0	13111	2483	624	255	46	245	189	1665	2362	20980	109786
Tripura	29912	19890	1580	378	265	502	17	85	55	228	875	23875	53787
Uttar Pradesh	757879	0	67160	10685	6150	1465	114	1825	893	5334	3495	97121	855000
Uttarakhand	47234	28147	4181	5178	728	2322	25	70	83	277	1600	42611	89845
West Bengal	317828	40115	30393	5587	2106	1114	35	1165	428	3438	2100	86481	404309

Total	4224760	294514	427911	122601	31755	27539	1175	10425	6143	45000	49599	1016662	5241422
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Note: (1) Amounts under 'Share in Central taxes and duties'-Column 3 are indicative and actual amounts will vary with the size of the divisible pool over the five year award period; (2) An amount of Rs.16,400 crore is not included in the total Grants-in-aids figure in column13. This comprises of three grants (a) School Education (Rs.4,800 crore), (b) Grants for aspirational districts and blocks (Rs.3,150 crore) and (c) Local Bodies grants for (i) Incubation of new Cities (Rs. 8,000 Crore) and (ii) National Data Centre (Rs. 450 Crore)

Source : Fifteen Finance Commission Report, 2019

## **FISCAL AND ECONOMIC ANALYSIS WITH EMPHASIS ON GUJARAT TOTAL TRANSFERS RECOMMENDED OF FIFTEEN FINANCE COMMISSION :**

The table gives an overview of inter-state financial transfers, grants-in-aid, and sectoral allocations for all states. In the following section, it has been analysed by underlining the strengths and weakness points of Gujarat in comparison to its peers.

### **Main Positive Points of Gujarat**

#### **1. Self-Sufficiency in Revenue Management**

- The state does not have a post-devolution revenue deficit, which showcases the fiscal strength and self-reliance of the state.
- In comparison, states like Kerala has a deficit of ₹37,814 crore and Himachal Pradesh ₹37,199 crore rely heavily on central assistance to bridge budgetary gaps.

#### **2. Highly Contributory Share in Central Taxes**

- Gujarat's share in central taxes and duties is ₹1,46,938 crore, which is a healthy contribution considering the already sturdy industrial and economic base it boasts of.
- Compared to states like Goa (₹16,307 crore) or Himachal Pradesh (₹35,064 crore), Gujarat's allocation reflects its strong economic standing and capacity to generate revenues.

#### **3. Sectoral Allocations Supporting Economic Priorities**

- Disaster Management: ₹7,316 crore reflects the pro-action of Gujarat in countering natural disasters as the State is vulnerable to cyclone and flood attacks. The budgetary allocation is one of the highest compared to industrial states Haryana (₹2,715 crore) and Maharashtra (₹17,803 crore, which covers larger population).
- Local Governments: ₹22,163 crore reflects the significance of having grassroots-level governance for service delivery.
- Agriculture: ₹2,818 crore, guaranteeing sustained support to the farm sector in the state where cash crops and dairy farms are predominant. Lower compared to Madhya Pradesh's ₹4,587 crores, it reflects modern methods of farming and irrigation prevalent in the state of Gujarat.

#### **4. High Grants to Rural Development**

- It received ₹330 crores under PMGSY which is relatively more developed on rural road infrastructure than States like Rajasthan that got an amount of ₹1,618 crores.
- Such allocations highlight Gujarat's steady development in rural connectivity and infrastructure.

#### **5. Higher Education and Judicial Support**

- Gujarat's focus on technical and professional education is evident in its allocation of ₹298 crore for higher education.
- Comparatively, Rajasthan (₹460 crore) and Uttar Pradesh (₹893 crore) receive more due to their larger populations and education deficits.
- Judiciary, Gujarat provided ₹310 crore, which is much higher than Goa (₹15 crore) and Nagaland (₹10 crore), as the state invested in the betterment of judicial infrastructure.

#### **6. Strength in Total Transfers**

- Total transfers received by Gujarat: ₹1,84,154 crore, central taxes + grants-in-aid. The total is 3.51% of the national total.
- This is for a state that is less dependent compared to Uttar Pradesh at ₹8,55,000 crore and Bihar at ₹4,78,751 crore.

### **Comparison with Other States**

#### **1. Economic Peers**

- Maharashtra: With a total transfer of ₹3,37,252 crore, Maharashtra serves a greater population and more urbanized needs. Gujarat, although relatively smaller in size, is an efficient user of its allocated funds.
  - Karnataka: Like Gujarat, in terms of industrial focus, Karnataka received ₹1,92,514 crore. Gujarat's allocations in disaster management and agriculture are slightly higher, indicating tailored financial prioritization.
2. Developing States
- Bihar and Uttar Pradesh receive higher shares of the total grants because of low economic self-reliance. The industrial and trading base in Gujarat makes this state least dependent on grants from the center.
  - States like Odisha (₹2,22,559 crore) and Rajasthan (₹3,13,957 crore) receive larger grants to develop the countryside, while Gujarat puts grant money into sector-specific development and disaster preparedness measures.
3. Smaller States
- In comparison, higher allocations for Gujarat reflect the size of its economic contributions and its complex governance needs vis-à-vis Goa at ₹17,868 crore and Sikkim at ₹19,481 crore.

#### **Strategic Highlights for Gujarat**

- **Balanced Allocations:** Gujarat has found an optimal balance between its economic independence and dependence on central support and therefore reflects effective fiscal management.
- **Proactive Disaster Response:** Funds allocated to disaster management reflect proactive preparedness for natural calamities that frequently strike the state.
- **Focused Development:** Allocations to local government, agriculture, and higher education underscore Gujarat's focused efforts in developing grassroots governance, education, and economic productivity.
- **Economic Efficiency:** The absence of any post-devolution revenue deficit by Gujarat indicates its prudent fiscal policy, whereas economically weaker or smaller states need more assistance.

#### **Conclusion**

The financial and economic indicators of Gujarat reveal a state that is economically resilient and strategically focused on sustainable development. It can sustain fiscal self-reliance with targeted allocations for disaster management, agriculture, and local governance that distinguish it from other states that are either more dependent on central assistance or lack similar economic independence.

## **CHAPTER 11**

### **CONCLUSION AND RECOMMENDATIONS**

The evaluation of the finances of the State of Gujarat for the period from 2012-13 to 2023-24 provides a comprehensive understanding of the state's fiscal health, resource mobilization, expenditure priorities, and performance of key sectors, including the power sector, public sector undertakings (PSUs), and urban local bodies (ULBs). This analysis underscores the achievements and challenges faced by Gujarat in its pursuit of sustainable economic development and fiscal stability.

#### **1. REVENUE PERFORMANCE**

The State of Gujarat has demonstrated steady growth in its revenue receipts over the period under review. Tax revenue has been the primary contributor, driven by robust performance in Goods and Services Tax (GST) collections and state excise duties. Non-tax revenue and grants-in-aid from the central government have also played a significant role, albeit with some volatility. Despite commendable revenue generation efforts, the state's dependency on central transfers indicates a need for further diversification and strengthening of its own tax base.

#### **2. EXPENDITURE PATTERNS**

On the expenditure front, Gujarat has maintained a balance between developmental and non-developmental spending. The state's capital expenditure on infrastructure development and social sector programs has been instrumental in fostering economic growth and improving human development indices. However, rising revenue expenditure, particularly on salaries, pensions, and interest payments, poses a challenge to fiscal sustainability. Efficient allocation and monitoring of resources will be crucial to ensure that expenditure priorities align with the state's developmental goals.

#### **3. DEFICIT MANAGEMENT**

The state's fiscal deficit has largely remained within the limits prescribed by the Fiscal Responsibility and Budget Management (FRBM) Act. Prudent fiscal management and effective resource mobilization have contributed to this achievement. However, the rising debt burden, resulting from increased borrowings to finance infrastructure projects and other capital-intensive initiatives, necessitates careful debt management strategies. Maintaining a balance between fiscal prudence and developmental needs will be critical to sustaining long-term fiscal stability.

#### **4. PERFORMANCE OF THE POWER SECTOR**

The power sector in Gujarat has shown significant improvements in operational and financial performance. Reduction in transmission and distribution losses, coupled with enhanced capacity addition and renewable energy integration, has positioned Gujarat as a leading state in the energy sector. However, challenges persist in the form of financial stress on distribution companies (DISCOMs) and issues related

to tariff rationalization. Addressing these challenges through policy interventions and technological advancements will be vital for the sector's continued growth.

## **5. PUBLIC SECTOR UNDERTAKINGS (PSUS)**

The performance of PSUs in Gujarat has been a mixed bag, with some entities exhibiting commendable profitability and operational efficiency, while others have faced persistent losses. Strategic disinvestment, restructuring, and improved governance mechanisms can enhance the efficiency and financial performance of loss-making PSUs. Strengthening the accountability framework will also be essential to maximize the contribution of PSUs to the state's economy.

## **6. URBAN LOCAL BODIES (ULBS)**

Urban Local Bodies in Gujarat have played a pivotal role in urban infrastructure development and service delivery. However, their financial performance has been constrained by limited revenue generation capacity and over-reliance on state grants. Strengthening the fiscal autonomy of ULBs through innovative revenue generation measures, enhanced property tax collections, and improved financial management practices will be crucial to meeting the growing demands of urbanization.

## **7. OVERALL ASSESSMENT**

The financial performance of the State of Gujarat over the period 2012-13 to 2023-24 reflects a trajectory of sustained economic growth, supported by prudent fiscal management and strategic investments in key sectors. Nevertheless, challenges such as rising debt levels, increasing revenue expenditure, and the financial health of ULBs and PSUs require targeted interventions and reforms. By focusing on enhancing revenue mobilization, rationalizing expenditure, and fostering efficient management practices across sectors, Gujarat can continue to strengthen its fiscal resilience and pave the way for inclusive and sustainable development.

## **8. SUGGESTION FOR IMPROVEMENT OF FINANCIAL PERFORMANCE OF GUJARAT STATE :**

To improve the financial performance of Gujarat after 2024, the following strategic measures can be introduced by the state regarding generation of revenue, effective control of expenditure, and sustainability

### **8.1. Revenue Improvement**

- Improved GST Compliance; Invest in advanced technologies so as to monitor GST filings while stopping tax evasion. Automate audits and reduce manual error thereby ensuring higher tax collection efficiency
- Diversify State Revenue Sources: Be encouraged to diversify state revenue sources with tourism, renewable energy, and e-commerce
- Lease or Sell Unused State Land, and other underutilized state-owned assets for sources of non-tax revenues

### **8.2. Expenditure Efficiency**

- Targeted Subsidy: Subsidize analysis and use it to ration the neediest subsidies that go to people thereby availing leakage.
- Renewable Energy Efficiency of the Public Service: Upgrade to renewable energy for public buildings, reducing the cost of operational expenses.
- Public Procurement Reforms: Implement e-procurement with a view to making procedures more transparent and cost-advantageous resource acquisitions.

### **8.3. Industrialization and Innovation**

- Emerging Industries: Biotechnology, green hydrogen, and advanced manufacturing units will be encouraged with provisions of tax incentives and appropriate infrastructure support.
- Export Promotion: Revitalize the export value chain of Gujarat by bolstering trade infrastructure like ports, freight corridors, etc.
- Startup Ecosystem Development: Innovation through startup incubation programs and funding partnerships.

### **8.4. Infrastructure and Urban Development**

- Smart Urbanization: Smart cities with efficient public services to attract investments. Municipal bonds for infrastructural funding.
- Improved Public Transport: An integrated network of transportation to complement the economic activities and decongest the city.

### **8.5. Sustainability and Environment**

- Green Bonds: Financing renewable energy projects by way of green bonds to attract environmentally conscious investors.
- Desalination Plants and Efficient Irrigation: Desalination plants and high-scale irrigation to deal with scarcity.

### **8.6. Institutional Reforms**

- Digital Financial Systems: Utilize AI and blockchain to improve transparency in public financial management.
- Capacity Building: Train state employees in financial planning and performance-based budgeting.

### **8.7. Collaborative Growth**

- Public-Private Partnerships (PPPs): Partnerships with private organizations for the larger projects to reduce the burden of fiscal on the state.
- Skill Development: Align workforce training with the future requirements of the industry to enable employability and growth.

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