

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

Chhattisgarh is one of the leading States in the country in mineral production. The State of Chhattisgarh was formed on 1 November 2000 in terms of the Madhya Pradesh Reorganization Act 2000 (No. 28 of 2000) with 16 districts¹ of the erstwhile State of Madhya Pradesh. Two² more districts have been formed after the formation of the Chhattisgarh State. The apportionment of assets and liabilities of the composite State of Madhya Pradesh prior to the date of reorganization as well as other financial adjustments were carried out in accordance with the provisions of the Act³. Chhattisgarh has higher poverty levels as compared to the all-India average as indicated in *Appendix-1.1*. Density of its population (154 persons per sq km) as per the 2001 census was lower than the all-India density (325 person per sq km). The State has shown a relatively higher economic growth in the past decade as the Compound Annual Growth Rate (CAGR) of its Gross State Domestic Product (GSDP) for the period 2000-01 to 2009-10 has been 17.70 *per cent* as compared to 12.54 *per cent* in other General Category States⁴. During this period, its population has grown by 14.25 *per cent* against 13.42 *per cent* in other General Category States. The infant mortality rate of the State was 57 (per 1000 live births) which was higher than the all-India average of 53. The inequality of income distribution in the case of rural areas of Chhattisgarh was less than the all-India average but more in the case of urban areas (*Appendix-1.1*).

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts of the Government of Chhattisgarh are laid out in 19 statements, the structure and layout of which are depicted in *Appendix-1.1(a)*.

This chapter provides a broad perspective of the finances of the State Government during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and the information obtained from the State Government. *Appendix-1.2* of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and *Appendix-1.3* presents the time series data on key fiscal variables/ parameters and fiscal ratios relating to the State Government finances for the period 2005-10.

¹ Bastar, Bilaspur, Dantewara, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Korja, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja.

² Bijapur and Narayanpur.

³ Ibid.

⁴ Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal.

1.1.1 Summary of current year's fiscal transactions

Table-1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) vis-à-vis the previous year while **Appendix-1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table-1.1: Summary of current year's fiscal operations

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					Non -Plan	Plan	Total
15,662.76	Revenue receipts	18,153.66	13,793.70	Revenue expenditure	10,447.64	6,817.80	17,265.44
6,593.72	Tax revenue	7,123.25	3,598.75	General services	4,305.19	44.58	4,349.77
2,202.21	Non-tax revenue	3,043.01	6,152.75	Social services	2,874.87	5,148.67	8,023.54
4,257.91	Share of Union Taxes/ Duties	4,380.66	3,523.24	Economic services	2,823.59	1,599.56	4,423.15
2,608.92	Grants from Government of India	3,606.74	518.96	Grants-in-aid and Contributions	444.00	24.98	468.98
Section-B: Capital							
1.78	Miscellaneous Capital Receipts	2.31	2,940.16	Capital Outlay	0.11	2,744.81	2,744.92
533.42	Recoveries of Loans and Advances	992.43	490.75	Loans and Advances disbursed	#	#	896.79
1.46	Inter-State Settlement	3.04	1.47	Inter-State Settlement	#	#	3.29
386.34	Public Debt receipts*	1,287.21	489.36	Repayment of Public Debt*	#	#	651.57
0.00	Contingency Fund	0.50	0.50	Contingency Fund	#	#	0.00
20,043.95	Public Account receipts	24,511.62	19,585.29	Public Account disbursements	#	#	23,878.77
2,731.19	Opening Cash Balance	2,059.67	2,059.67	Closing Cash Balance	#	#	1,569.66
39,360.90	Total	47,010.44	39,360.90	Total			47,010.44

(Source: Finance Accounts of the State Government 2009-10)

Figures for Plan and Non-Plan are not available in the Finance Accounts.

*Excluding net transactions under ways and means advances and overdraft.

The following are the significant changes during 2009-10 over the previous year:

- Revenue receipts increased by 15.90 per cent (₹ 2,490.90 crore), mainly due to increase in tax revenue by 8.03 per cent (₹ 529.53 crore), non-tax revenue by 38.18 per cent (₹ 840.80 crore), State's share of Union taxes and duties by 2.8 per cent (₹ 122.75 crore) and grants-in-aid from the Government of India by 38.25 per cent (₹ 997.82 crore).

- Revenue expenditure increased by 25.17 *per cent* (₹ 3,471.74 crore) over the previous year due to increase in Plan expenditure by 25.77 *per cent* (₹ 1,396.85 crore) and Non-Plan expenditure by 24.78 *per cent* (₹ 2,074.89 crore).
- Capital expenditure decreased by 6.64 *per cent* (₹ 195.24 crore) over the previous year mainly due to decrease in expenditure under the heads: Major Irrigation and Minor Irrigation, Roads and Bridges, Social Security and Urban Development. The capital expenditure was 33.38 *per cent* (₹ 1,375.12 crore) less than the assessment made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS).
- Both the public debt receipts and repayment increased by ₹ 900.87 crore and ₹ 162.21 crore respectively during the year. The increase in public debt receipts was mainly due to the increase in market loans (₹ 700.02 crore) and special securities issued to the National Small Savings Fund (NSSF) (₹ 185.05 crore).
- Public Account receipts and disbursements increased by ₹ 4,467.67 crore and ₹ 4,293.48 crore respectively over the previous year. Thus, the increase in net receipts during the year was ₹ 174.19 crore.
- As a result of inflow/outflow of the funds as stated above, the cash balance at the end of the year decreased by ₹ 490.01 crore (23.79 *per cent*).

1.1.2. Review of the fiscal position

In response to the Twelfth Finance Commission's (TFC) recommendation, the Government of Chhattisgarh enacted its Fiscal Responsibility and Budget Management Act, 2005, with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework.

An increase of 25.17 *per cent* in revenue expenditure during 2009-10 in comparison to that of 15.90 *per cent* increase in revenue receipts resulted in a decrease in the revenue surplus from ₹ 1,869.06 crore in 2008-09 to ₹ 888.22 crore in 2009-10.

The decrease of ₹ 980.84 crore in the revenue surplus and increase in non-debt capital receipts of ₹ 461.12 crore accompanied with the decrease in capital expenditure of ₹ 195.24 crore and increase in disbursement of loans and advances including inter-State settlement of ₹ 407.86 crore, resulted in increase of ₹ 732.35 crore in the fiscal deficit in 2009-10 over the previous year.

Due to increase in fiscal deficit (₹ 732.35 crore) as well as interest payments (₹ 17.33 crore), the primary surplus of ₹ 50.87 crore in 2008-09 changed to primary deficit of ₹ 664.14 crore in 2009-10.

The fiscal performance of the State vis-à-vis FRBM targets and those framed in the MTFPS for the year 2009-10 is presented below:

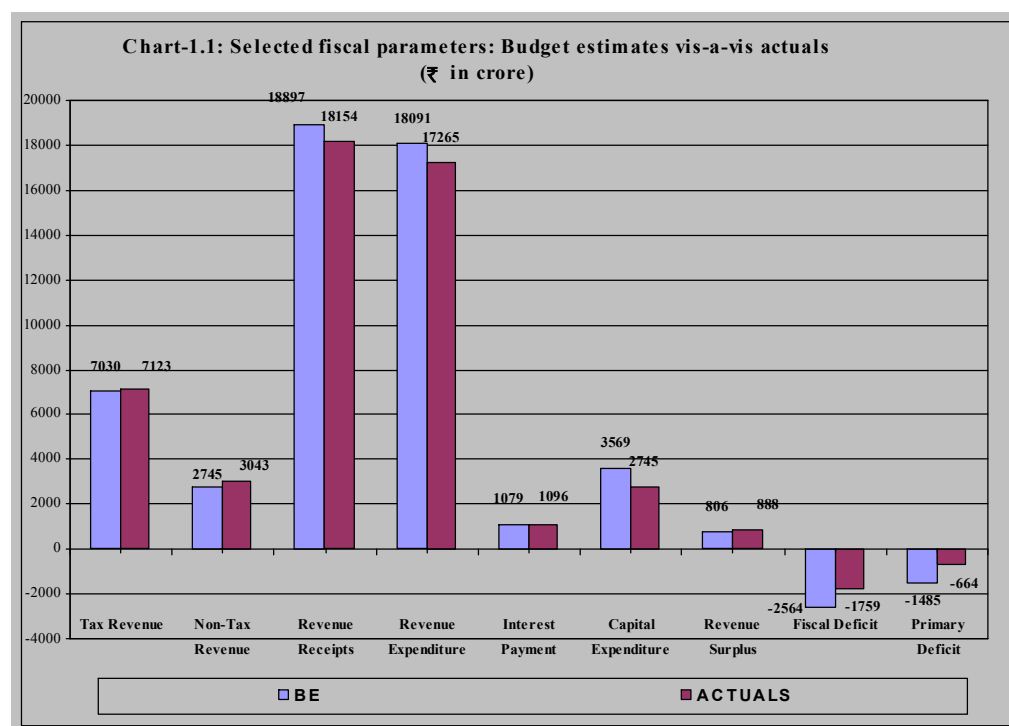
Fiscal forecasts	FRBM Targets	Projection as per FRBM Act	Actual
Revenue deficit (-)/Surplus (+) (₹ in crore)	To be wiped out by 2008-09	(+)806.16	(+) 888.22
Fiscal deficit (-)/Surplus (+)	To reduce to not more than three per cent of GSDP by 2008-09	2.98 per cent of GSDP	1.63 per cent of GSDP

(Source : FRBM Act , 2009-10 and Finance Accounts of the respective year.)

The State Government achieved revenue surplus five years ahead of the scheduled period of 2008-09. The fiscal deficit as a percentage of GSDP was within the limit as prescribed in the FRBM Act/by TFC.

The State's actual own tax revenue receipts, non-tax revenue receipts and Non-Plan expenditure were more than the normatively assessed level of the TFC by ₹ 1,465.07 crore (25.89 per cent), ₹ 1,338.35 crore (78.51 per cent) and ₹ 2,894.03 crore (38.31 per cent) respectively but the interest payments were less by ₹ 378.62 crore (25.70 per cent).

Chart-1.1 presents the budget estimates⁵ and actuals for some important fiscal parameters.



(Source: Finance Accounts of the State Government 2009-10 and Budget Estimate 2009-10 of State)

⁵ Budget estimates do not include the revised estimates.

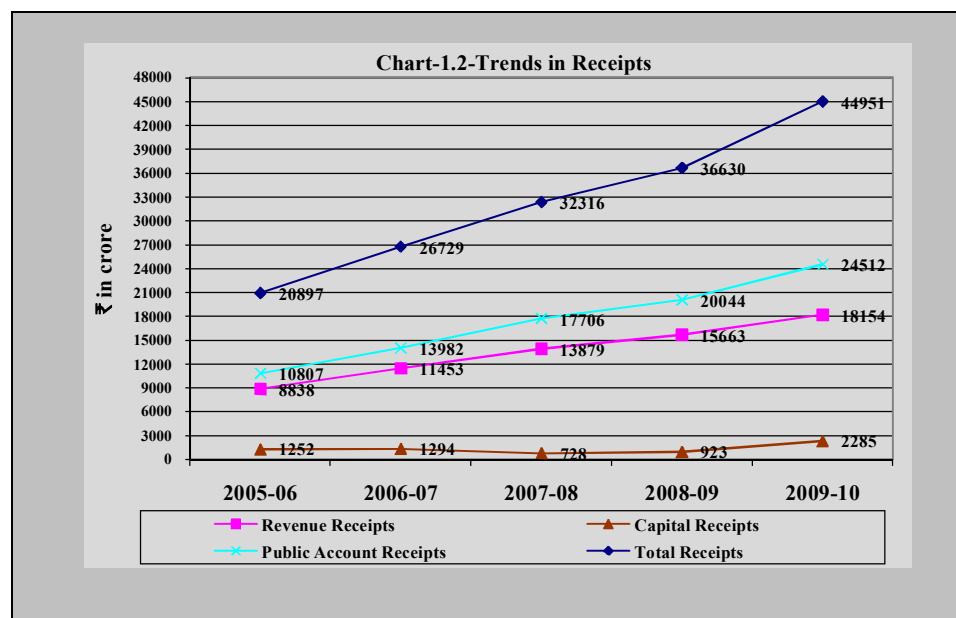
It is evident from the above **Chart** that during 2009-10, the actuals were fairly equal to the budget estimates, barring the following:

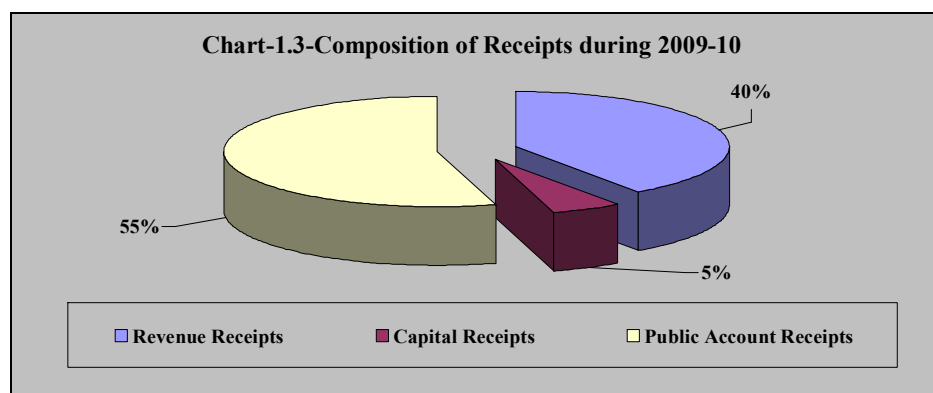
- Non-tax revenue and revenue surplus were more than the budget estimates by 11 *per cent* and 10 *per cent* respectively.
- The fiscal deficit and primary deficit were considerably lower than the budget estimates by 31 *per cent* and 55 *per cent* respectively.
- The capital expenditure was lower than the budget estimate by 23 *per cent* mainly due to less expenditure under capital outlay on civil aviation, medical and public health, roads and bridges and village and small scale industries.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart-1.2** depicts the trends in various components of the receipts of the State during 2005-10. **Chart-1.3** depicts the composition of resources of the State during the current year.





The total receipts of the State for the year 2009-10 were ₹ 44,950.77 crore. The total receipts rose by 22.72 per cent during 2009-10 over the previous year mainly due to increase in revenue receipts (₹ 2,490.90 crore), recoveries of loans and advances (₹ 459.01 crore), public debt receipts (₹ 900.87 crore) and public account receipts (₹ 4,467.67 crore).

1.2.2 Funds transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies⁶ for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated.

Government of India transferred funds of ₹ 2,851.01⁷ crore directly to the State implementing agencies. Instances of funds directly transferred to the State implementing agencies are presented in **Table-1.2**.

Sl. No	Name of the Programme	Name of the implementing Agency in the State	Total funds released by the Government of India (₹ in crore)	
			2008-09	2009-10
1	National Rural Employment Guarantee Scheme (90:10)	Chief Executive Officer, Zila Panchayat	1,632.17	827.10
2	Sarva Shiksha Abhiyaan (60:40)	Mission Director, Rajiv Gandhi Shiksha Mission	495.97	555.94
3	Pradhan Mantri Gram	Chief Executive Officer,	931.12	438.03

⁶ State implementing agency includes any organization/institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM etc.

⁷ As per Central Plan Scheme Monitoring System (CPSMS) portal of the Controller General of Accounts.

	<i>Sadak Yojna</i> (100%)	Chhattisgarh Rural Development Authority		
4	National Rural Health Mission (85:15)	Mission Director, National Rural Health Mission	145.64	180.19
5	<i>Indira Awas Yojna</i> (75:25)	Chief Executive Officer, Zilla Panchayat	156.46	162.60
6	<i>Swarna Jayanti Gram Swarozgar Yojna</i> (75:25)	Chief Executive Officer, Zilla Panchayat	65.78	65.13
7	Integrated Water shed Management Programme (75:25)	Chief Executive Officer, Zilla Panchayat	0.00	51.57
8	Member of Parliament Local Area Development Scheme (100%)	Collectors	29.00	31.00
9	Scheme for setting 6000 Model Schools (75:25)	Mission Director, Rajiv Gandhi <i>Shiksha</i> Mission	0.00	22.65
10	National Food Security Mission (100 %)	Director, Department of Agriculture	83.74	21.67

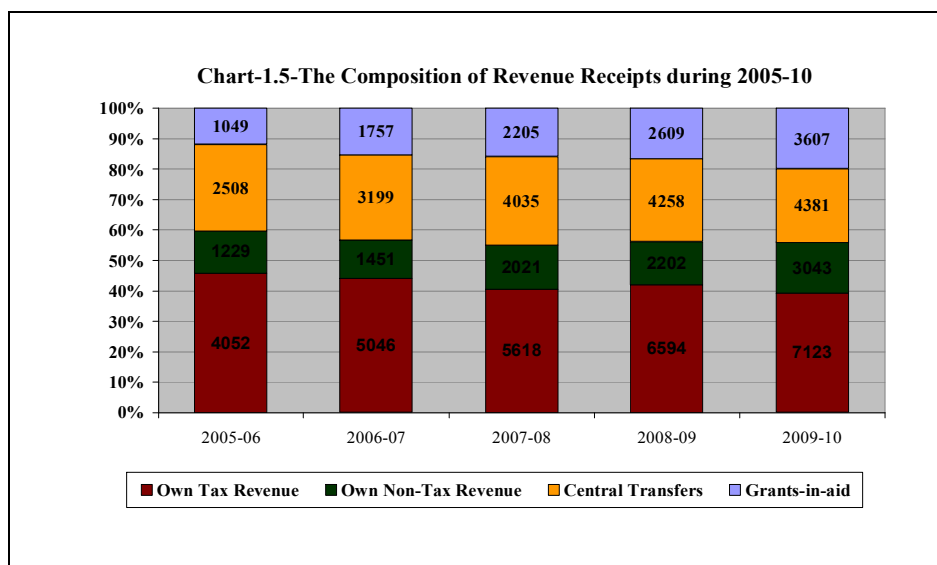
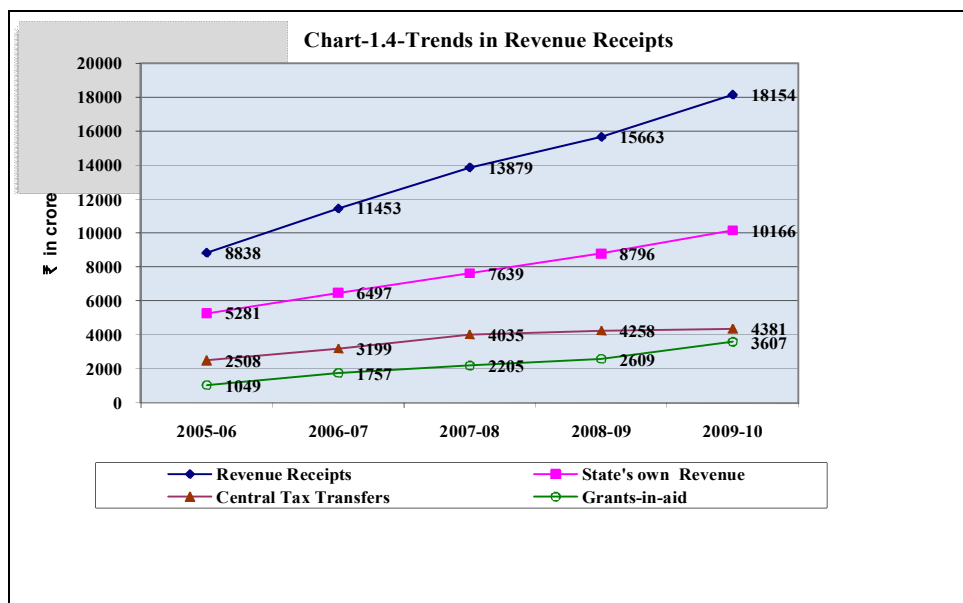
Table-1.2: Funds transferred directly to the major State Implementing Agencies

(Source: Appendix-VII of Finance Accounts 2009-10)

Direct transfer of funds from GOI to the implementing agencies ran the risk of improper utilisation of funds by these agencies. The aggregate amount of unspent balances in the accounts of the implementing agencies kept outside the Government accounts (in Bank account) is not readily ascertainable. The Government expenditure as reflected in the accounts to that extent is, therefore, not final.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in *Appendix-1.3* and also depicted in **Charts-1.4** and **1.5** respectively.



The revenue receipts increased with only marginal changes in their composition during 2005-10. These receipts increased from ₹ 8,838 crore in 2005-06 to ₹ 18,154 crore in 2009-10 and increased by 15.90 per cent during 2009-10 (₹ 2,490.90 crore).

While 56 per cent of the revenue receipts during 2009-10 came from the State's own resources comprising tax and non-tax revenue, the Central tax transfers and grants-in-aid together contributed 44 per cent of the total revenue. The increase of ₹ 2,490.90 crore in the revenue receipts in 2009-10 over the previous year was due to 8.03 per cent (₹ 529.53 crore) increase in tax revenue, 38.18 per cent (₹ 840.80 crore) increase in non-tax revenue, 2.88 per cent (₹ 122.75 crore) increase in State's share of Union taxes and duties from GOI and 38.25 per cent (₹ 997.82 crore) increase in grants-in-aid from GOI.

The trends in revenue receipts relative to the Gross State Domestic Product are presented in **Table-1.3** below:

Table-1.3: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue receipts (RR) (₹ in crore)	8,838	11,453	13,879	15,663	18,154
Rate of growth of RR (<i>per cent</i>)	21.9	29.6	21.2	12.86	15.90
RR/GSDP (<i>per cent</i>)	17.32	17.70	17.48	16.45	16.83
Buoyancy Ratios⁸					
Revenue Buoyancy with respect to GSDP	1.29	1.10	0.93	0.65	1.20
State's own tax Buoyancy with reference to GSDP	1.50	0.91	0.50	0.87	0.60

Revenue buoyancy with respect to the growth of GSDP decreased from 1.29 in 2005-06 to 0.65 in 2008-09 and then increased to 1.20 during 2009-10 due to the rise in the growth rate of revenue receipts.

As the GSDP grows, the ability to increase the State's own tax revenue should also increase. During 2005-10, the State's own tax buoyancy with reference to GSDP showed an oscillating trend and ranged between 0.50 and 1.50 during 2005-10.

Grants-in-aid

The increase of ₹ 997.82 crore in grants-in-aid receipts i.e. from ₹ 2,608.92 crore in 2008-09 to ₹ 3,606.74 crore in 2009-10, was mainly due to increase of ₹ 820.00 crore in Non-Plan grants and ₹ 398.70 crore in Plan grants for State Plan schemes. However, the receipt of grants for Centrally sponsored schemes decreased by ₹ 236.10 crore during the year.

Central tax transfers

Central tax transfers increased by ₹ 122.75 crore (2.88 *per cent*) from ₹ 4,257.91 crore in 2008-09 to ₹ 4,380.66 in 2009-10. The increase was primarily due to increase in corporation tax: ₹ 406.59 crore (29.12 *per cent*) and taxes on income other than corporation tax: ₹ 127.47 crore (14.54 *per cent*) offset by decrease in Customs duties: ₹ 200.82 crore (24.67 *per cent*) and Union excise duties: ₹ 216.03 crore (30.43 *per cent*).

Debt waiver under Debt Consolidation and Relief facilities

The Twelfth Finance Commission (TFC) had framed a scheme of debt relief of Central loans named debt consolidation and relief facilities based on the fiscal performance of the States linked to the reduction of deficits of the States. Under the scheme, the repayments due on Central loans from 2005-06 to 2009-10, after consolidation and reschedulement of loans, would be eligible for write-off. The amount sanctioned by GOI as debt relief each year would be adjusted by showing repayment of Central loans and crediting the amount to the head of account '0075 Miscellaneous Receipts'. The States would be eligible for the benefit subject to fulfillment of certain conditions, viz.

⁸ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

legislating the FRBM Act, gradual abolition of revenue deficit by 2008-09, bringing annual reduction targets for fiscal deficit, bringing out the annual fiscal policy statement etc. Since the State had already achieved revenue surplus in 2004-05 and was continuing with it, the State was eligible for availing of the benefit of debt relief.

During the period 2005-10, GOI sanctioned ₹ 466.30 crore against ₹ 570.31 crore due as per TFC recommendations, as debt relief for the Government of Chhattisgarh, as detailed below:

(₹ in crore)

Year	Debt relief due as per TFC recommendations	Debt relief sanctioned by the Government of India
2005-06	114.06	0.00
2006-07	114.06	0.00
2007-08	114.06	279.78
2008-09	114.06	93.26
2009-10	114.06	93.26
Total	570.31	466.30

(Source : TFC report)

1.3.1 State's own resources

The State's share of Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for Plan schemes etc. The State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The tax administration cost in the State was relatively lower than the national average during 2009-10 showing more effectiveness in tax collection as detailed in *Appendix-1.5*.

Tax Revenue

Tax revenue increased by 8.03 per cent (₹ 529.53 crore) during 2009-10 (₹ 7,123.25 crore) over the previous year (₹ 6,593.72 crore). The increase in tax revenue was mainly due to increase in taxes on goods and passengers (₹ 275.39 crore), State excise (₹ 223.62 crore), taxes on sales and trades etc. (₹ 101.22 crore) over the previous year.

The total estimate of tax revenue of ₹ 7,029.56 crore made by the State Government in its Macro-Economic Frame Work statement, was almost equal to the actual receipts of tax revenue of ₹ 7,123.25 crore and was more by ₹ 1,465 crore (25.89 per cent) than the normative assessment made by the TFC. The tax revenue increased by 8.03 per cent over the previous year which was less than the normative assessment of 11 per cent made by the Government in its MTFPS.

The sector-wise components of tax revenue during the period 2005-10 are shown in **Table-1.4**.

Table-1.4: Sector-wise components of tax revenue

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Taxes on Sales, Trade, etc.	2,089	2,843	3,024	3,611	3,712
State Excise	635	707	843	964	1,188
Taxes on Vehicles	206	253	277	314	352
Stamps and Registration Fees	313	390	463	496	583
Land Revenue	27	61	88	359	160
Taxes on Goods and Passengers	395	302	511	421	696
Other Taxes	387	490	412	429	432
Total	4,052	5,046	5,618	6,594	7,123

(Source: Finance Account)

Non-Tax Revenue

Non-tax revenue increased by 38.18 *per cent* (₹ 840.80 crore) during 2009-10 over the previous year, mainly due to increase in receipts from non-ferrous mining and metallurgical industries (₹ 417.63 crore), minor irrigation (₹ 357.30 crore) and power (₹ 100.00 crore).

The actual receipts under the State's tax and non-tax revenue vis-à-vis assessment made by TFC and the State Government in its budget estimate are given below:

(₹ in crore)

	Assessment made by TFC	Budget estimates	Actual
State's Tax Revenue	5,658.18	7,029.56	7,123.25
State's Own Non-Tax Revenue	1,704.66	2,745.34	3,043.01

The tax revenue as well as the non-tax revenue receipts in 2009-10 exceeded the normative assessments made by TFC by 25.89 *per cent* and 78.51 *per cent* respectively. Similarly, the tax as well as non-tax revenue receipts of the State during 2009-10 were also more by ₹ 93.69 crore and ₹ 297.67 crore respectively than the assessments made by the State Government in its budget estimates. The higher revenue receipts in respect of non-tax receipts were mainly due to excess receipts in non-ferrous mining and metallurgical industries (₹ 210.92 crore), interest receipts (₹ 66.27 crore), forestry and wild life (₹ 15.85 crore), medium irrigation (₹ 21.19 crore) and medical and public health (₹ 19.72 crore) over the budget estimates. The non-tax revenue increased by 38.18 *per cent* over the previous year which was less than the normative assessment of 36 *per cent* made by the Government in its MTFPS.

1.3.2 Loss of Revenue due to evasion of taxes, write off/waivers and refunds.**Evasion of tax**

There were 33 cases of evasion of tax pending finalization in respect of commercial tax and two cases in respect of State excise involving an amount of ₹ 75.79 crore as on 31 March 2010. Similarly, 104 cases of sales tax and two cases of the State excise department involving ₹ 7.53 crore were pending for refund.

1.3.3 Revenue Arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue amounted to ₹ 1,014.67 crore, of which ₹ 212.09 crore (20.90 per cent) was outstanding for more than five years.

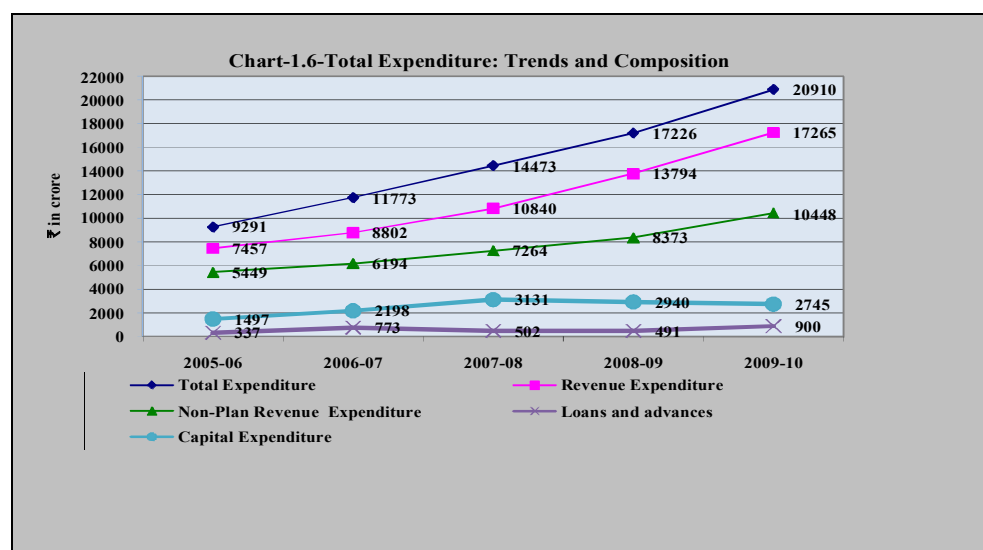
Arrears were mainly in respect of revenue from taxes/VAT on sales, trades etc., (₹ 131.45 crore), irrigation (₹ 45.49 crore), State excise duty (₹ 23.00 crore), taxes and duties on electricity (₹ 6.53 crore), taxes on vehicles (₹ 1.77 crore), mineral resources (₹ 2.12 crore) and stamps and registration fees (₹ 1.73 crore).

1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and composition of expenditure

Chart-1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' has been depicted in Charts-1.7 and 1.8 respectively.



The total expenditure comprising revenue expenditure, capital expenditure and loans and advances, including inter-State settlement, increased by 21.39 per cent (₹ 3,684.36 crore) over the previous year.

The total expenditure and its composition during the years 2005-06 to 2009-10 is given below in **Table-1.5**.

Table-1.5: Total expenditure and its composition

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure	9,291	11,773	14,473	17,226	20,910
Revenue Expenditure	7,457	8,802	10,840	13,794	17,265
<i>Of which, Non Plan Revenue Expenditure</i>	5,449	6,194	7,264	8,373	10,448
Capital Expenditure	1,497	2,198	3,131	2,940	2,745
Loans and Advances*	337	773	502	492	900

*Includes interstate settlements

(Source : Finance Accounts)

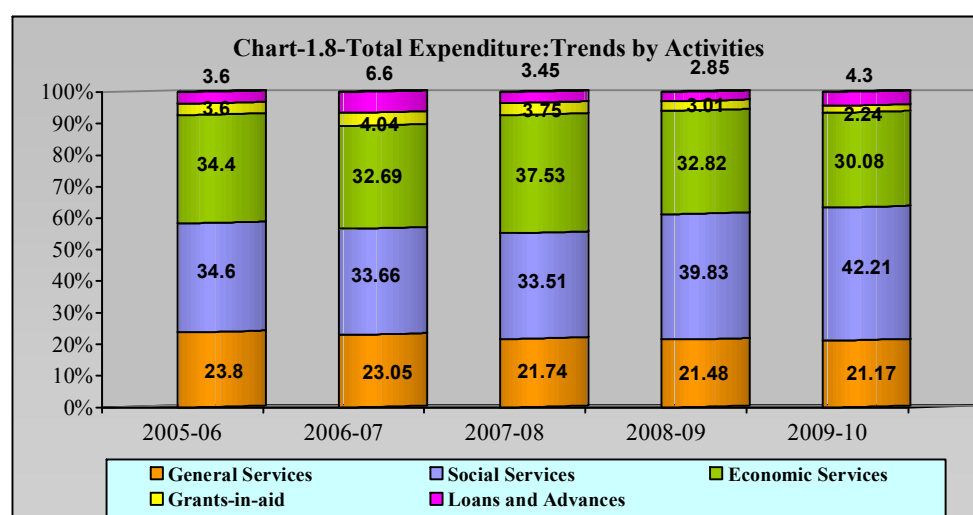
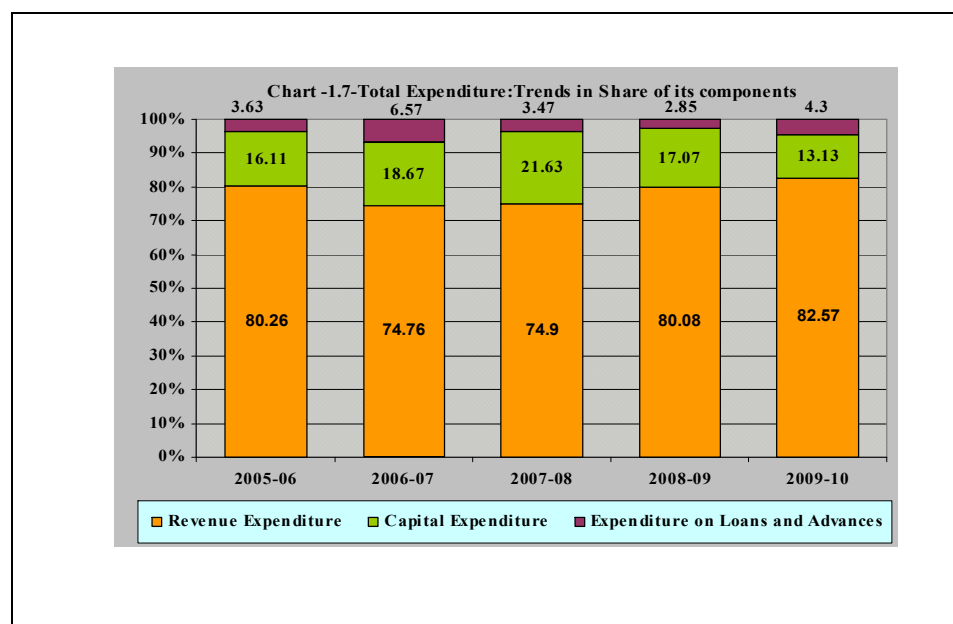
The increase of ₹ 3,684.36 crore (21.39 per cent) in total expenditure in 2009-10 was mainly on account of an increase of ₹ 3,471.74 crore in revenue expenditure, ₹ 407.86 crore in loans and advances including inter-State settlement, set-off by decrease of ₹ 195.24 crore in capital expenditure.

The revenue expenditure was 82.57 per cent of the total expenditure of which 60.51 per cent was on Non-Plan components and 39.49 per cent was on Plan components.

The capital expenditure, loans and advances including inter-State settlement were 13.13 per cent and 4.30 per cent respectively of the total expenditure.

During the current year, 86.82 per cent of the total expenditure (₹ 20,910.44 crore) was met from revenue receipts (₹ 18,153.66 crore) and ₹ 997.78 crore (4.77 per cent) was met from non-debt capital receipts. The State was left with ₹ 1,759 crore (8.41 per cent) to be financed out of borrowed funds.

The buoyancy of total expenditure to GSDP stood at 1.60 in 2009-10 while it was 0.55 in 2005-06.



The revenue and capital expenditure on General Services, Social Services and Economic Services during 2009-10 grew by 19.61, 28.64 and 11.25 *per cent* respectively and the loans and advances along with inter-State settlement grew by 82.86 *per cent* during the year.

The increase in the expenditure on General Services, Social Services and Economic Services was mainly due to implementation of the Sixth Pay Commission's recommendations.

Revenue expenditure of the State increased by ₹ 9,808 crore from ₹ 7,457 crore in 2005-06 to ₹ 17,265 crore in 2009-10, of which Non-Plan Revenue Expenditure (NPRE) increased by 50.97 *per cent* and Plan revenue expenditure by 49.03 *per cent*.

The share of Plan revenue expenditure which normally covered the

maintenance expenditure incurred on services, increased as a percentage of the total revenue expenditure, from 27 in 2005-06 to 39 in 2009-10. The share of NPRE in total revenue expenditure declined from 73 *per cent* in 2005-06 to 61 *per cent* in 2009-10.

The Plan revenue expenditure during 2009-10 increased by ₹ 1,396.85 crore (25.76 *per cent*) relative to 2008-09 mainly due to increase under education, sports and culture (₹ 584.22 crore), social security and welfare (₹ 443.96 crore), energy (₹ 135.75 crore) and health and family welfare (₹ 112.31 crore).

The NPRE during 2009-10 increased by ₹ 2,074.89 crore (24.78 *per cent*) mainly on account of increase in the expenditure by ₹ 591.75 crore (53.15 *per cent*) in agriculture and allied activities, by ₹ 352.54 crore (34.71 *per cent*) in administrative services, by ₹ 303 crore (32.55 *per cent*) in pensions and miscellaneous general services, by ₹ 267.46 crore (31.85 *per cent*) in education, sports and culture, by ₹ 249.12 crore (44.06 *per cent*) in welfare of scheduled castes, scheduled tribes and other backward classes and by ₹ 118.01 crore (34.54 *per cent*) in transport.

The total NPRE (₹ 37,228 crore) during the award period of TFC (2005-10) exceeded the normative assessment (₹ 31,283 crore) of TFC, by ₹ 6,445 crore (20.60 *per cent*) and during 2009-10, this exceeded the normative assessment of TFC by ₹ 2,894.03 crore (38.31 *per cent*).

The share of expenditure on grants-in aid and loans and advances together with inter-state settlement in 2008-09 was 5.87 *per cent* which increased to 6.55 *per cent* of the total expenditure during the year.

1.4.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table-1.6** and **Chart-1.9** present the trends in the expenditure on these components during 2005-10.

Table-1.6: Components of committed expenditure

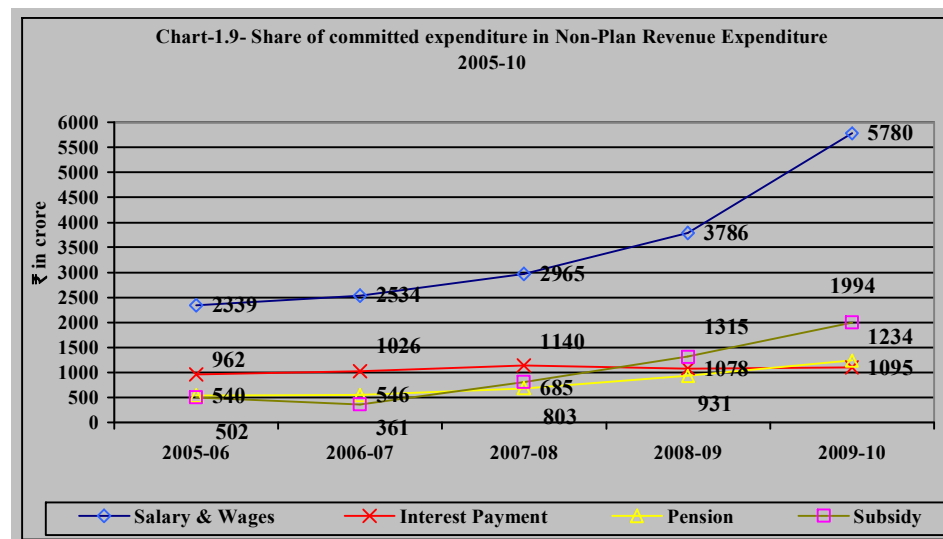
(₹ in crore)

Components of committed expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries & Wages , of which	2,339.01 (26.47)	2,534.16 (22.13)	2,965.01 (21.36)	3,670.34 (23.43)	6,053.09	5,646.29 ⁹ (31.10)
Non-Plan Head	1,888.50	2,030.83	2,307.68	2,772.46	NA	4,016.30
Plan Head**	450.51	503.33	657.33	897.88	NA	1,629.99
Salary through Grants-in-aid	NA	NA	NA	115.60 (0.74)	NA	133.71 (0.74)
Interest Payments	962 (10.88)	1,026 (8.96)	1,140 (8.21)	1,077.53 (6.88)	1,079.07	1,094.86 (6.03)
Expenditure on Pensions	540.18 (6.11)	546.08 (4.77)	684.58 (4.93)	930.77 (5.94)	919.62	1,233.76 (6.80)
Subsidies	502.32 (5.68)	361.07 (3.15)	802.55 (5.78)	1,314.68 (8.39)	1,972.59	1,994.30 (10.99)
Total	4,343.51	4,467.31	5,592.14	7,108.92	10,024.37	10,102.92

Figures in the brackets indicate percentage to Revenue Receipts

** Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

(Source: Finance Accounts of the State Government 2009-10)



The overall committed expenditure increased by ₹ 5,759.41 crore from ₹ 4,343.51 crore in 2005-06 to ₹ 10,102.92 crore in 2009-10. Committed expenditure during 2009-10 has constituted 97 per cent of the NPRE and 56 per cent of the revenue receipts. The component-wise analysis is given as under:

(1) Expenditure on salary and wages

The expenditure on salaries and wages increased by ₹ 1,975.95 crore from ₹ 3,670.34 crore in 2008-09 to ₹ 5,646.29 crore in 2009-10 and the salary paid through Grants-in-aid (GIA)¹⁰ increased from ₹ 115.60 crore in 2008-09 to ₹ 133.71 crore in 2009-10. The increase was due to implementation of the

⁹ It includes Salary- ₹ 5,308.93 crore and Wages -₹ 337.36 crore.

¹⁰ Salaries paid to various institutions under Education, Sports, Art and Culture, Agriculture and allied activities and Rural Development through grants- in-aid.

recommendations of the Sixth Pay Commission during the concluding year of the award period.

The expenditure on salaries and wages increased by ₹ 3,307.28 crore (141.40 *per cent*) during the TFC period i.e. from ₹ 2,339.01 crore in 2005-06 to ₹ 5,646.29 crore in 2009-10.

The expenditure on salary and wages inclusive of salary paid through GIA was ₹ 5,780.00 crore and accounted for 35.74 *per cent* of the revenue expenditure (net of interest payment), which was almost equal to the limit of 35 *per cent* as recommended by TFC for 2009-10. The expenditure on salary and wages including salary paid through GIA as a percentage of GSDP and revenue receipts increased during 2009-10 from 3.98 to 5.36 *per cent* and from 24.17 to 31.84 *per cent* respectively with reference to 2008-09. However, the expenditure on salary and wages in 2009-10 was less by 6.72 *per cent* (₹ 406.80 crore) than the assessments made by the State Government in its budget estimates for the year 2009-10.

(2) Expenditure on pension

The expenditure on pension increased by 32.55 *per cent* (₹ 302.99 crore) from ₹ 930.77 crore in 2008-09 to ₹ 1,233.76 crore in 2009-10 and consumed 6.80 *per cent* of the revenue receipts and was 11.81 *per cent* of Non-Plan revenue expenditure.

The expenditure on pension payment exceeded the projections made by State Government (₹ 919.62 crore) in its MTFPS for 2009-10 by 34.16 *per cent* (₹ 314.14 crore) and was 7.15 *per cent* of revenue expenditure, which was within the limit of 10 *per cent* of revenue expenditure as per MTFPS.

As per the projection made in the TFC, the pension payments were to be ₹ 694.44 crore at the end of 2009-10 and total pension payments were to be ₹ 2,895.74 crore during 2005-10. The actual payment on pension during 2009-10 exceeded the TFC norms by ₹ 539.32 crore (77.66 *per cent*) and exceeded the same by ₹ 1,039.63 crore (35.90 *per cent*) for the period 2005-10.

The State government has constituted a pension fund to reduce the pensionary liabilities in future. A contributory pension scheme was launched by the State Government in 2004 for Government employees to reduce the burden of pension on the Government.

(3) Interest payment

Interest payment comprising interest charges on internal debts, loans raised from GOI and other obligations, increased by ₹ 17.33 crore from ₹ 1,077.53 crore in 2008-09 to ₹ 1,094.86 crore in 2009-10.

The components under which the interest payments were made during 2008-10 are shown below:

(₹ in crore)

Interest on	2008-09	2009-10	Percentage increase(+) / decrease (-)
Internal debt	701.11	680.65	(-) 2.92
Small Savings, provident funds etc	126.31	149.33	(+)18.22
Loans and advances from Central Government	168.13	177.67	(+) 5.67
Other obligations	81.98	87.21	(+) 6.38
Total	1,077.53	1,094.86	

The interest payments (₹ 1,094.86 crore) were within the projection made by the TFC (₹ 1,473.48 crore) for the year 2009-10. The total interest payments were (₹ 5,301 crore) also within the projection made by the TFC (₹ 6,300 crore) for the period 2005-10. The interest payment as a ratio of revenue receipts was 6.03 *per cent* during the year which was within the norms of the TFC of 15 *per cent*.

(4) Expenditure on subsidies

During the award period of the TFC i.e. 2005-10, the State Government provided subsidy of ₹ 4,974.92 crore. The details of these subsidies are shown in **Table-1.7**:

Table-1.7: Details of Subsidies provided by Government during 2005-10

(₹ in crore)

Head	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Land Revenue	0.01	0.01	0.00	0.00	0.00	0.02
Social Security and Welfare	0.51	0.32	0.44	946.28	1,288.78	2,236.33
Crop Husbandry	49.49	35.93	39.35	41.23	41.00	207.00
Fisheries	0.00	0.00	0.55	0.41	0.47	1.43
Forestry and Wild Life	25.54	28.52	19.53	10.09	10.00	93.68
Food Storage and Warehousing	311.47	157.01	606.16	109.47	406.61	1590.71
Co-operation	9.68	9.24	7.50	40.03	46.00	112.46
Minor Irrigation	8.11	6.99	8.09	10.49	10.62	44.30
Power	93.44	112.87	110.14	128.04	150.10	594.59
Village and Small Industries	2.88	6.98	9.66	24.27	39.26	83.05
Industries	1.19	3.20	1.13	4.37	1.46	11.35
Total	502.32	361.07	802.55	1,314.68	1,994.30	4,974.92

(Source: Finance Accounts)

The expenditure on subsidies increased by ₹ 679.62 crore from ₹ 1,314.68 crore in 2008-09 to ₹ 1,994.30 crore in 2009-10. It constituted 11.55 *per cent* of revenue expenditure. The major recipients of subsidies during 2009-10 were social welfare and nutrition (₹ 1,288.78 crore), agriculture and allied activities (₹ 504.08 crore) and energy (₹ 150.10 crore).

The substantial increase under the Social Security and Welfare heads in 2008-09 was due to supply of rice at subsidized rate (₹ three per kilogram) and further increase in 2009-10 was due to supply of rice at further subsidized rate (₹ one and two per kilogram) to below poverty line (BPL) families.

The increase in subsidies to food storage and warehousing during 2009-10 was due to payment made to meet the losses incurred by the State Cooperative Marketing Federation.

1.4.3 Financial Assistance by State Government to local bodies and other institutions.

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table-1.8**.

Table-1.8: Financial assistance to Local Bodies etc.

	(₹ in crore)				
Financial assistance to institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (aided schools, aided colleges, Universities, etc.)	143.00	75.91	98.86	83.82	83.90
Power/energy	165.67	572.13	135.13	118.00	65.05
Agriculture	22.67	25.31	16.81	19.78	26.50
Urban Bodies	411.35	544.84	618.15	737.26	577.71
Panchayat Raj Institutions	585.57	763.82	955.14	1,299.47	1,520.71
Other Institutions	484.24	219.79	183.17	304.72	615.58
Total	1,812.50	2,201.80	2,007.26	2,563.05	2,889.45
Assistance as per percentage of RE	24.31	25.01	18.52	18.58	16.74

(Source: Finance and Appropriation Account)

Financial assistance to local bodies and other institutions increased from ₹ 1,812.50 crore in 2005-06 to ₹ 2,889.45 crore in 2009-10, recording a growth rate of 12.73 per cent over the previous year. During 2009-10, the financial assistance was given by the Government mainly to urban bodies (19.99 per cent), Panchayat Raj institutions (52.63 per cent) and other institutions (21.30 per cent).

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz. adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of public expenditure

The expenditure responsibilities relating to the social sector and the economic sector are largely assigned to the State Governments. Enhancing human development levels requires States to step up their expenditure on key social services like education and health etc. The low level of spending on any sector by a particular State may be due to low fiscal priority attached by the State

Government. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective general category State's average.

Table-1.9 analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.9: Fiscal Priority of the State in 2005-06 and 2009-10

Fiscal Priority of the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States' Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Chhattisgarh State's Average (Ratio) 2005-06	18.22	72.37	35.06	16.11	14.22	3.57
General Category States' Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Chhattisgarh State's Average (Ratio) 2009-10	19.39	76.52	42.44	13.13	16.04	3.78
AE : Aggregate Expenditure, DE : Development Expenditure (includes Development Capital and Revenue expenditure and loans and advances disbursed), SSE : Social Sector Expenditure and CE : Capital Expenditure						

(Source: For GSDP, the information collected from the State's Directorate of Economics and Statistics.)

Table-1.9 presents the fiscal priorities given to various categories of expenditure of the State in 2005-06 and 2009-10 (award period of the Twelfth Finance Commission).

The State Government's aggregate expenditure was more than the general category States' average. The Government gave adequate fiscal priority to development expenditure (DE) and social sector expenditure (SSE) since DE/AE and SSE/AE in the case of Chhattisgarh was higher than the General Category States' Average.

The capital expenditure (CE) as a proportion of the aggregate expenditure was higher than the general category States' average but decreased in the current year compared to 2005-06, indicating low priority being given to capital expenditure during 2009-10.

It was also observed that even though the infant mortality rate (57 per 1000 live births) of the State was more than the all-India average (53) and the literacy rate was also less than the all-India average, the expenditure on education and health was lower than the general category States' average in the first and concluding year of the award period of the TFC i.e. 2005-06 and 2009-10. Hence, the Government may consider giving greater fiscal priority to education and health.

The ratio of AE to GSDP in 2005-06 (18.32 per cent) and 2009-10 (19.39 per cent) were higher in the State as compared to general category States. This means that compared to other general category States, the State is spending more as a proportion of its GSDP.

1.5.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods¹¹. Apart from improving the allocation towards development expenditure¹², particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table-1.10** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table-1.11** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.10: Development expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Development Expenditure (a to c)	6,724 (72)	8,578 (73)	10,773 (74)	12,995 (75)	17,204	16,002 (77)
a. Development Revenue Expenditure	4,938 (53)	5,687 (48)	7,257 (50)	9,676 (56)	13,195	12,447 (60)
b. Development Capital Expenditure	1,469 (16)	2,123 (18)	3,024 (21)	2,838 (16)	3,468	2,668 (13)
c. Development Loans and Advances	317 (03)	768 (07)	492 (03)	481 (03)	541	887 (04)

Figures in brackets indicate percentage to aggregate expenditure

(Source: Finance Accounts)

Development expenditure, in real terms and as a percentage of the aggregate expenditure of the State, was increasing continuously during 2005-10. The

¹¹ Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

¹² The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

total development expenditure increased by 23 *per cent* during 2009-10 mainly due to increase in development revenue expenditure (28.64 *per cent*) and development loans and advances (84.41 *per cent*).

However, the development capital expenditure as a percentage of aggregate expenditure of the State declined marginally from 21 *per cent* in 2007-08 to 13 *per cent* in 2009-10. As a percentage of development expenditure, it came down from 21.84 *per cent* in 2008-09 to 16.67 *per cent* in 2009-10.

Table-1.11: Efficiency of expenditure use in selected Social and Economic Services

(in per cent)

Social/Economic Infrastructure	2008-09			2009-10		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		ME	S &W ¹³		ME	S&W
Social Services (SS)						
Total Social Services	4.11	0.80	32.70	3.84	0.84	39.92
<i>Of which</i>						
General Education	0.88	0.21	43.17	0.57	0.32	52.85
Public Health and Family Welfare	0.66	0.52	63.66	0.46	0.55	73.61
Water Supply, Sanitation and Housing and Urban Development	0.85	4.65	7.57	1.69	4.31	10.07
Economic Services (ES)						
Total Economic Services	12.36	8.06	21.48	8.92	7.23	27.00
<i>of which</i>						
Agriculture and Allied Activities	0.45	1.52	29.54	0.32	1.08	30.51
Irrigation and Flood Control	5.01	10.15	61.98	4.64	4.57	63.28
Power and Energy	0.00	0.00	0.00	0.00	0.00	0.00
Transport	5.85	74.61	13.59	3.05	58.85	19.26

TE: Total Expenditure in the concerned sector; CE: Capital Expenditure in the concerned sector; RE: Revenue Expenditure in the concerned sector; S&W: Salaries and Wages, ME: Maintenance Expenditure (does not include operational expenses.)

(Source: Finance Account)

Table-1.11 reveals that the share of capital expenditure on Social Services decreased from 4.11 *per cent* in 2008-09 to 3.84 *per cent* and on Economic Services, the expenditure declined from 12.36 *per cent* to 8.92 *per cent* in 2009-10.

Expenditure on Social Services

The increase in share of capital expenditure was mainly under water supply, sanitation and housing and urban development where capital expenditure as a percentage of the total expenditure increased from 0.85 to 1.69 *per cent*. The share of salaries in revenue expenditure under Social Services increased from 32.70 *per cent* in 2008-09 to 39.92 *per cent* in 2009-10 mainly on account of increase in the share of salaries due to implementation of the recommendations of the Sixth Pay Commission. In the case of maintenance, the expenditure increased from 0.80 to 0.84 *per cent* in 2009-10.

¹³ Including salary Grants-in-aid.

Expenditure on Economic services

The share of salaries under revenue expenditure in Economic Services increased from 21.48 to 27 *per cent*, mainly due to implementation of the Sixth Pay Commission's recommendations. The decrease in capital expenditure to total expenditure in Social Services as well as Economic Services indicates less improvement in efficiency of expenditure due to lower priority to capital expenditure on education, public health and family welfare under Social Services, agriculture and irrigation and flood control under Economic Services. In the case of maintenance, the expenditure decreased from 8.06 to 7.23 *per cent* in 2009-10.

1.6 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also to meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Incomplete projects

Blocking of funds on incomplete works which include works stopped due to reasons like litigation, etc., impinging negatively on the quality of expenditure. At the end of March 2010, there were 159 incomplete projects each costing ₹ one crore or more involving ₹ 1,114.61 crore as given in **Table-1.12**.

Table-1.12: Department-wise profile of incomplete projects

(₹ in crore)

Department	No. of incomplete projects	Initial budgeted cost	Revised total cost of projects	Cost overrun	Cumulative actual expenditure as on 31.3.2010
Public Works Department	136	773.99	997.00	23.84	362.27
Water Resources Department	23	78.24	117.61	0.49	59.05
Total	159	852.23	1114.61	24.33	421.32

(Source: Finance Account 2009-10)

The reasons for non-completion of projects in the scheduled time were not intimated by the departments.

1.6.2 Investment and returns

As of 31 March 2010, Government had invested ₹ 251.67 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table-1.13**). The average return on this investment was 0.17 *per cent* while the Government paid an average interest rate of 7.13 *per cent* on its

borrowings during 2009-10. Continued use of borrowed funds to fund investments which do not have sufficient financial returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment of high cost funds.

Table-1.13: Return on investment

(₹ in crore)

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year* (₹ in crore)	103.24	159.64	400.95	430.01	251.67 ¹⁴
Return (₹ in crore)	0.00	0.00	0.10	0.10	0.44
Return (per cent)	0.00	0.00	0.02	0.02	0.17
Average rate of interest on Govt. borrowing (per cent)	7.54	7.49	7.97	7.36	7.13
Difference between interest rate and return (per cent)	7.54	7.49	7.95	7.34	6.96

*The investment at the end of the year does not include un-apportioned investment

Out of ₹ 251.67 crore invested upto 2009-10, ₹ 21.76 crore was invested in two statutory corporations, ₹ 77 crore in 12 Government companies/boards and departments, ₹ 2.63 crore in joint stock companies and ₹ 140.01 crore in 26 co-operatives and ₹ 10.28 crore in rural banks. Further, investment of ₹ 1,082.58 crore made pertains to the composite State of Madhya Pradesh, pending allocation between Madhya Pradesh and Chhattisgarh.

There were no set norms prescribed for making investments in various public sectors, companies, rural banks etc.

1.6.3 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organizations. **Table-1.14** presents the outstanding loans and advances as on 31 March 2010 and interest receipts vis-à-vis interest payments during the last three years.

Table-1.14: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Opening balance	1,604.61	1,667.38	1,625.53 ¹⁵
Amount advanced during the year	500.28	490.75	896.79
Amount repaid during the year	437.52	533.42	992.43
Closing Balance	1,667.38	1,624.71	1,529.89
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	NA	NA	1,517.60
Net addition	62.76	(-)42.67	(-) 95.64
Interest receipts	69.11	121.89	71.63
Interest receipts as per cent to outstanding Loans and advances	4.22	7.40	4.54
Interest payments as per cent to outstanding fiscal liabilities of the State Government.	7.97	7.36	7.13
Difference between interest payments and interest receipts (per cent)	(-)3.64	(+)0.04	(-)2.59

¹⁴ Decrease in investment was due to refund of ₹ 200 crore by Chhattisgarh Public Works Department (as shown in the Finance Accounts 2009-10).

¹⁵ Figure changed as per Finance Accounts 2009-10.

At the end of March 2010, the Government had outstanding loans and advances of ₹ 1,529.89 crore, of which loans for General Services was ₹ 126.11 crore, loans for Social Services ₹ 698.65 crore and for Economic Services was ₹ 715.48 crore. The interest received against these loans and advances was only 4.54 *per cent* during 2009-10 as against 7.40 *per cent* in the previous year. There was an increase of ₹ 459.01 crore in respect of repayment of loans and advances over the previous year, leading to a net reduction in outstanding loans and advances during the year.

1.6.4 Cash balances and investment of cash balances

Table-1.15: depicts the cash balances and investments made by the State Government out of the cash balances during the year.

Table-1.15: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 1 April 2009	As on 31 March 2010	Increase(+)/ decrease(-)
Cash Balance	2059.67	1569.66	(-) 490.01
General Cash Balances	(-) 348.68	(-) 555.06	(-) 206.38
Investments from Cash Balances (a to d)	1727.62	1364.05	(-) 363.57
a. GOI Treasury Bills	(-)1121.86	(-) 363.57	758.29
b. GOI Securities	2849.48	1727.62	(-) 1121.86
c. Other Securities, if any specify	0.00	0.00	0.00
d. Other Investments	0.00	0.00	0.00
Other Cash Balances and investments (cash with departmental officers)	31.82	11.30	(-) 20.52
Funds wise Break-up of Investment from Earmarked balances (a to d)	648.91	749.37	100.46
a. Sinking Fund	646.94	746.94	100.00
b. Famine Relief Fund	0.95	1.41	0.46
c. Revenue Reserve Fund	0.97	0.97	0.00
d. Development and Welfare Fund	0.05	0.05	0.00
Interest realised	115.51	149.07	33.56

The State Government's cash balance of ₹ 1,569.66 crore at the end of the current year showed a decrease of 23.79 *per cent* (₹ 490.01 crore) over the previous year. The investment from cash balances reduced by ₹ 364 crore whereas the investment from earmarked balances increased by ₹ 100 crore.

The interest received against investment on cash balances was 10.93 *per cent* during 2009-10 while Government paid interest at 7.13 *per cent* on its borrowings during the year.

Under an agreement with the Reserve Bank of India (Bank), the Government of Chhattisgarh has to maintain with the Bank, a minimum balance of ₹ 0.72 crore on each day w.e.f. 1 November 2000. The Bank informs the Government by e-mail of its daily balance with the Bank at the close of each working day. If this balance falls below the agreed minimum on weekly settling days, the deficiency is made good by taking Ways and Means advances (normal and special) from the Bank or by selling Government of India treasury bills.

The State Government had neither availed of Ways and Means advances nor overdraft during 2005-10. The State Government also maintained the minimum cash balance with the Bank during the year without taking any advance.

1.7 Assets and Liabilities

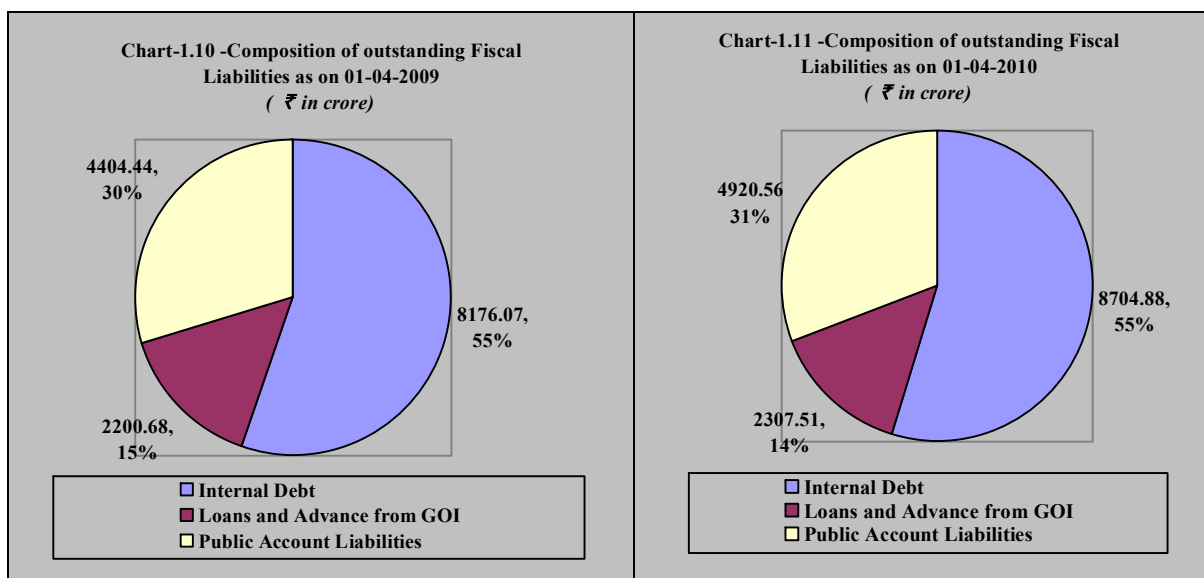
1.7.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-1.4** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

During 2009-10, the growth rate of the liabilities increased from 1.80 per cent in 2008-09 to 8.98 per cent in 2009-10 while the growth rate of assets decreased from 12.72 per cent to 11.99 per cent in 2009-10.

1.7.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix-1.4**. However, the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Chart-1.10** and **1.11**.



There are two sets of liabilities, namely, public debt and other liabilities. Public debt consists of the internal debt of the State and is reported in the

Annual Financial Statements under the Consolidated Fund- capital account. It includes market loans, special securities issued to RBI and loans and advances from GOI. The Constitution of India provides that the State may borrow within the territory of India upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by an Act of the Legislature and give guarantees within such limits as may be fixed. Other liabilities or fiscal liabilities which are a part of the Public Account include deposits under the small savings scheme, provident funds and other deposits.

Internal debts, at 55 *per cent* of the fiscal liabilities at the end of 2009-10, remained the same as that of the previous year. While the Public Account liabilities as a percentage of the fiscal liabilities slightly increased from 30 *per cent* in 2008-09 to 31 *per cent* in 2009-10, the outstanding loans and advances from GOI decreased from 15 *per cent* to 14 *per cent* of the fiscal liabilities during the same period.

The fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP and revenue receipts are brought out in the following **Table-1.16**:

Table-1.16: Fiscal liabilities – basic parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Fiscal liabilities (₹ in crore)	13,273	14,113	14,512	14,780	15,933
Rate of growth of Fiscal liabilities (in <i>per cent</i>)	8.43	6.33	2.83	1.85	7.79
Fiscal liabilities/GSDP (in <i>per cent</i>)	26.03	21.81	18.27	15.52	14.77
Fiscal liabilities/Revenue receipts (in <i>per cent</i>)	150.18	123.23	104.56	94.36	87.77

(Source : Finance Accounts)

The overall fiscal liabilities of the State increased from ₹ 13,273 crore in 2005-06 to ₹ 15,933 crore in 2009-10. The growth rate of liabilities was 7.79 *per cent* during 2009-10 as against the 1.85 *per cent* growth rate in 2008-09. The higher growth rate in liabilities during the year was due to increase of market loans (₹ 700 crore) and special securities issued to the National Small Saving Fund (₹ 185 crore).

The fiscal liabilities as at the end of 2009-10 represented 87.77 *per cent* of the revenue receipts during the year as against 94.36 *per cent* during 2008-09. During 2009-10, the debt to GSDP ratio at 14.77 *per cent* was less than the projection made (28 *per cent*) in the TFC and was also lower than the projection made (19.44 *per cent*) in MTFPS.

1.7.3 Status of guarantees – contingent liabilities

Guarantees are contingent liabilities on the Consolidated Fund of the State in cases of default by the borrower for whom the guarantee has been extended.

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table-1.17**.

Table-1.17: Guarantees given by the Government of Chhattisgarh

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed	2,495	3,649.53	4,400.65
Outstanding amount of guarantees	481	895.16	3,337.53
Percentage of maximum amount guaranteed to total revenue receipts	17.98	23.30	24.24

No law under Article 293 of the Constitution has been passed by the State Legislature laying down the limits within which Government may give guarantee on security of Consolidated Fund of the State. However, the State Government has guaranteed loans raised by various corporations and others which stood at ₹ 3,337.53 crore at the end of 2009-10.

The outstanding guarantees included 45 institutions/companies, under power (₹ 429.30 crore), statutory corporations (₹ 3.67 crore), co-operative societies and banks (₹ 1,656.31 crore), State Finance and Development Corporation (₹ 96.23 crore), municipal corporations and urban development (₹ 148.21 crore), marketing federations (₹ 1,003.72 crore) and others (₹ 0.09 crore).

The outstanding amount of guarantees in the nature of contingent liabilities was about 18.38 *per cent* of total revenue receipts of the State.

To provide for sudden discharge of State's obligations on guarantees, the TFC recommended that States should set up a Guarantee Redemption Fund through earmarked guarantee fees. However, the State Government had not yet set up the Guarantee Redemption Fund.

1.7.4 Off-budget borrowings

Government companies/corporations borrow funds from the market/ financial institutions for implementation of various State Plan programmes projected outside the State budget. The borrowings of many of these concerns may sometimes turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. During 2007-10, the State Government did not undertake any off budget borrowings.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability¹⁶ of the State. This section assesses the sustainability of debt of the State Government in

¹⁶ Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that a rise in fiscal deficit should match with the increase in capacity to service the debt.

terms of debt stabilization¹⁷; sufficiency of non-debt receipts¹⁸; net availability of borrowed funds¹⁹; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table-1.18** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2007-08.

Table-1.18: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread +Primary Deficit)	3,102	1,868	245
Sufficiency of incremental Non-debt Receipts (Resource Gap)	(-)167	(-)898	(-)731
Net Availability of Borrowed Funds	(-)1,385.13	(-)1,106.81	57
Burden of Interest Payments (IP/RR Ratio)	8.21	6.88	6.03

(₹ in crore)

(Source: Finance Account)

The trends in **Table-1.18** reveal that the quantum spread together with the primary deficit was positive during the period 2007-10, leading to a constant decline in fiscal liabilities to GSDP ratio which came down to 14.77 in 2009-10 from 15.52²⁰ in 2008-09.

Though the quantum spread and primary deficit was positive during the period, the same decreased over the previous year.

The debt redemption ratio increased from 1.12 to 1.28 from 2005-06 to 2008-09 but decreased to 0.99 in 2009-10 mainly due to significant receipts under internal debt. During the current year, internal debt redemption and redemption of GOI loans was cent *per cent* of fresh debt receipts while in case of other obligations, repayments were 90.98 *per cent* of fresh receipts. These trends indicated that the debt receipts were mainly utilized for repayment of debt.

A persistent negative resource gap²¹ indicates non-sustainability of debt while a positive resource gap strengthens the capacity of the State to sustain the debt. The sufficiency of incremental non-debt receipts marginally increased from

¹⁷ A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

¹⁸ Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

¹⁹ Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

²⁰ The change in figures due to change in GSDP figures.

²¹ Resource gap is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure.

₹ (-)898 crore in 2008-09 to ₹ (-)731 crore during the current year, indicating the increasing capacity of the State to sustain the debt in the medium long run.

Maturity Profile of the State Debt (In Years)

Years	2007-08	2008-09	2009-10	Percentage to total debt
0-5	3,497.91	3,728.29	4,224.98	38
6-10	3,136.69	3,022.19	3,333.13	30
11-15	1,876.53	1,951.07	1,987.75	18
16-20	1,408.79	1,282.04	1,150.28	11
20 and above	559.85	393.16	316.25	3
Total	10,479.77	10,376.75	11,012.39	

(Source: Finance Account)

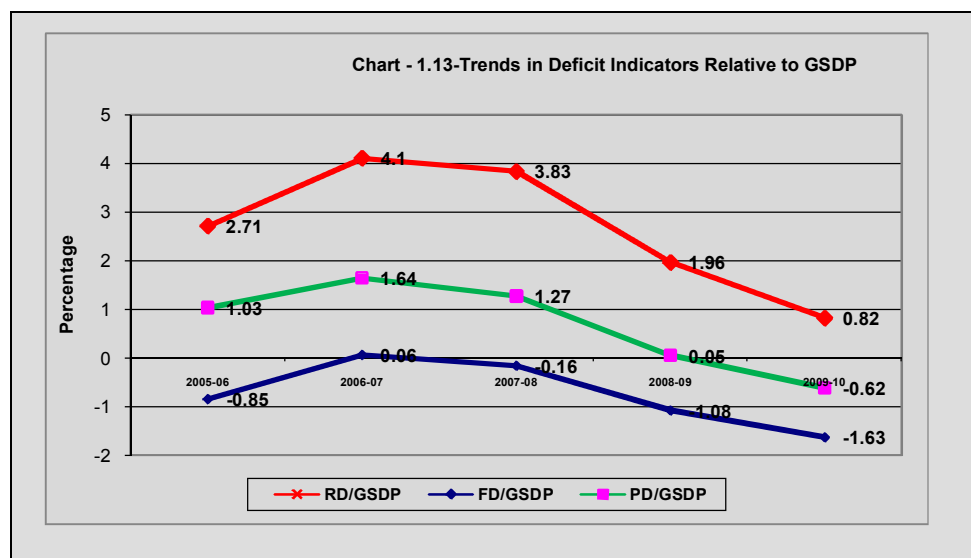
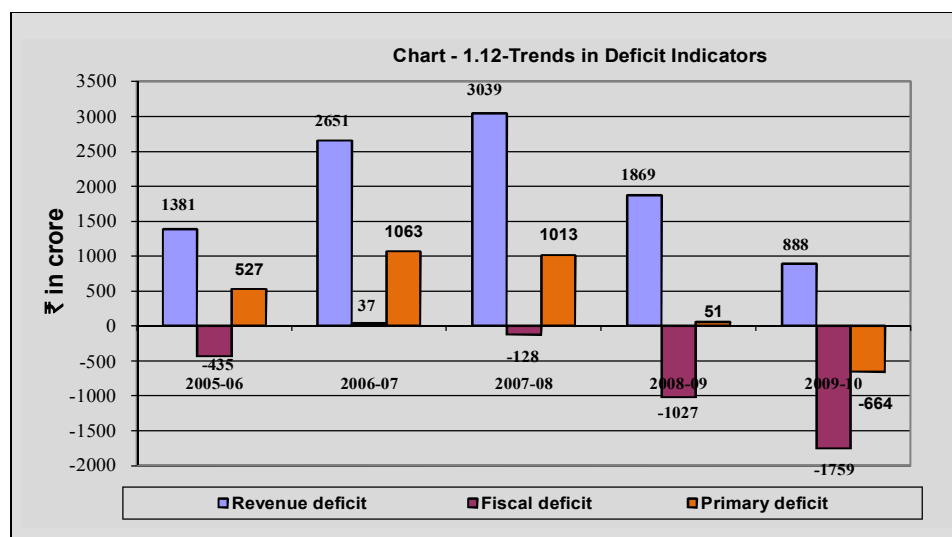
As regards repayment of debt, large amounts of repayments to the extent of 38 per cent of the State debt would be taking place in the next five years. Hence, the State may consider restricting its short-term borrowings so that repayment obligations in the next five years do not increase unduly.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2009-10.

1.9.1 Trends in Deficits

Chart-1.12 and 1.13 presents the trends in deficit indicators over the period 2005-10.

**Table-1.19: Trends in deficit**

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue deficit (-) / surplus (+)	(+)1,381	(+)2,651	(+)3,039	(+)1,869	(+)888
Fiscal deficit (-) / surplus (+)	(-)435	(+)37	(-)128	(-)1,027	(-)1,759
Primary deficit (-) / surplus (+)	(+)527	(+)1,063	(+)1,012	(+)51	(-)664

The fiscal target of eliminating the revenue deficit by March 2009 as laid down in FRBM Act was achieved by the State in the year 2004-05. Thereafter, the State maintained a revenue surplus, which increased from ₹ 1,381 crore in 2005-06 to ₹ 3,039 crore in 2007-08. The decrease in revenue surplus began in 2008-09 and it declined sharply by 52.48 per cent from ₹ 1,869.06 crore in 2008-09 to ₹ 888.22 crore in 2009-10. The decrease was mainly due to lower increase of 15.90 per cent (₹ 2,490.90 crore) in revenue receipts in comparison

to an increase of 25.17 per cent (₹ 3,471.74 crore) in revenue expenditure during 2009-10.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, increased from ₹ 435 crore in 2005-06 to ₹ 1,759 crore in 2009-10 and increased by ₹ 732.09 crore (71.31 per cent) during the year.

The primary surplus increased from ₹ 527 crore in 2005-06 and reached the highest level of ₹ 1,063 crore in 2006-07 and turned into a primary deficit of ₹ 664.14 crore in 2009-10 due to increase in primary expenditure of 22.70 per cent against an increase of 18.22 per cent in non-debt receipts (Table-1.19).

The revenue surplus as a percentage of GSDP decreased from 1.96 in 2008-09 to 0.82 in 2009-10. Though the fiscal deficit relative to GSDP increased from 1.08 per cent in 2008-09 to 1.63 per cent in 2009-10, it remained within the three per cent recommended in the FRBM Act.

1.9.2 Components of fiscal deficit and its financing pattern

The fiscal deficit is the total borrowing requirement of the State and is the excess of revenue expenditure and capital expenditure including loans and advances over revenue and non-debt capital receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirements of funds over and above revenue and non-debt receipts. NSSF loans were major players in financing the fiscal deficit during 2005-06 and 2006-07.

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the Table-1. 20.

Table-1.20: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars		2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
1	Revenue Deficit(-)/Surplus(+)	1,381.35	2,650.80	3,038.79	1,869.06	888.22
2	Net Capital Expenditure	(-)1,496.91	(-)2,198.10	(-)3,103.73	(-)2,938.38	(-)2,742.61
3	Net Loans and Advances ²²	(-)319.56	(-)416.18	(-)62.77	42.67	95.39
	Total	(-)435.12	36.52	(-)127.71	(-)1,026.65	(-)1,759.00
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	(-)85.39	(-)95.24	(-)157.08	(-)153.44	449.85
2	Loans from GOI	(-)108.43	42.04	(-)167.06	94.93	106.83
3	Special Securities Issued to NSSF	980.64	736.23	37.75	(-)2.78	146.33
4	Loans from Financial Institutions	3.98	34.68	(-)10.06	(-)41.73	(-)67.36
5	Small Savings, PF etc	(-)19.27	9.65	51.50	73.74	294.37
6	Deposits and Advances	115.22	312.77	441.77	30.20	(-)22.47
7	Suspense and Miscellaneous	(-)1,067.68	(-)1,026.83	(-)257.12	1,024.80	512.00
8	Remittances	(-)15.42	26.82	(-)78.72	80.65	(-)111.83
9	Others ²³	138.59	(-)203.09	184.00	265.96	244.91
10	Overall Surplus(+)/Deficit(-)	(-)492.88	(-)126.45	(-)82.73	345.68	(-)206.38
	Total	435.12	(-)36.52	127.71	1,026.65	1,759.00

*All these figures are net of disbursements/outflows during the year

(Source: Finance Account)

²² It includes inter-State settlement.

²³ It includes Contingency Fund , Reserve Fund .

During 2005-06, the deficit was financed mostly from the Special Securities issued to NSSF but the trend has changed over the years and during 2009-10, the fiscal deficit was mainly financed from the resources raised from market borrowings, loans from GOI, special securities issued to NSSF and small savings, provident fund etc.

1.9.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit²⁴ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, the persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup.

The ratio of revenue deficit to fiscal deficit exhibits an oscillating trend in the State. The bifurcation of the primary deficit (**Table-1.21**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table-1.21: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure ²⁵	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	8,856	6,495	1,497	337	8,329	(+)2,361	(+)527
2006-07	11,810	7,776	2,198	773	10,747	(+)4,034	(+)1,063
2007-08	14,345	9,700	3,131	502	13,333	(+)4,645	(+)1,012
2008-09	16,199	12,716	2,940	492	16,148	(+)3,481	(+)51
2009-10	19,151	16,170	2,745	900	19,815	(+)2,981	(-)664

(Source: Finance Account)

The above table shows that there was primary surplus during 2005-06 to 2008-09 but showed declining trend from 2007-08 and turned into primary deficit in 2009-10.

The capital expenditure as a percentage of primary expenditure increased during 2005-08 but reduced during 2008-10, indicating higher revenue expenditure. One of the reasons for higher revenue expenditure was the implementation of recommendations of the Sixth Pay Commission.

²⁴ Primary revenue deficit defined as gap between non interest revenue expenditure of the State and its non-debt receipts to the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

²⁵ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

While primary revenue expenditure and loans and advances increased by ₹ 3,454 crore (27.16 per cent) and ₹ 408 crore (82.93 per cent) respectively, the capital expenditure decreased by ₹ 195 crore (6.64 per cent) during the year.

1.10 Conclusions and Recommendations

Fiscal position

The State achieved the targets of zero revenue deficit as laid down in the FRBM Act and maintained the fiscal deficit below three per cent of GSDP.

However, during 2009-10, the overall fiscal position of Chhattisgarh as reflected in terms of key parameters: revenue, fiscal and primary deficit, worsened as revenue surplus decreased and primary surplus turned into primary deficit, while the fiscal deficit increased over the previous year. However, there was no imminent fiscal crisis as there was revenue surplus and a manageable level of borrowings.

The deterioration in fiscal performance during 2009-10 was primarily on account of a relatively lower growth rate in the State's own resources and higher revenue expenditure due to implementation of recommendations of the Sixth Pay Commission. This position may also continue during the next year as the payment of remaining arrears will be made during 2010-11.

The outstanding fiscal liabilities increased from ₹13,273 crore in 2005-06 to ₹ 15,933 crore at the end of 2009-10. The outstanding fiscal liabilities in 2009-10 increased by ₹ 1,152 crore over the previous year.

The ratio of fiscal liabilities to GSDP was nearly 15 per cent during 2009-10, which was less than the norm of 28 per cent recommended by TFC.

Revenue Receipts

Revenue receipts increased by nearly 16 per cent over the previous year due to increase in non-tax revenue by nearly 38 per cent, grants-in-aid from the Government of India by nearly 38 per cent, tax revenue by nearly eight per cent and State's share of Union taxes and duties by nearly three per cent.

The State's own tax revenue and non-tax revenue were higher by ₹ 1,465 crore and ₹ 1,338 crore respectively than the normative assessment made by the TFC. The total own tax revenue and non-tax revenue during the award period of the TFC (2005-10) exceeded the normative projection of the TFC by ₹ 6,014 crore (27 per cent) and ₹ 2,435 crore (32 per cent) but the State's own tax revenue buoyancy with respect to GSDP reduced from 1.50 in 2005-06 to 0.60 in 2009-10.

Recommendation

As GSDP grows, the State has the potential to increase its own tax revenue as well as non-tax revenue. The State may explore the possibilities of widening the tax base so that there is greater fiscal space for undertaking developmental projects.

Revenue Arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue amounted to ₹ 1,015 crore, of which ₹ 212 crore (21 *per cent*) was outstanding for more than five years.

Recommendation

The tax recovery mechanism needs to be strengthened to realize the arrears of revenue.

Revenue expenditure

Revenue expenditure continued to be a dominant (83 *per cent*) part of the total expenditure during 2009-10.

Non-Plan expenditure exceeded the normative projection of the TFC by 38 *per cent* during 2009-10. The total Non-Plan expenditure, during the award period of the TFC (2005-10), also exceeded the normative projection (₹ 31,282 crore) of the TFC by ₹ 6,445 crore (21 *per cent*).

The committed expenditure consumed about 56 *per cent* of the revenue receipts as against 45 *per cent* during 2008-09, mainly due to implementation of the recommendations of the Sixth Pay Commission.

Recommendation

The expenditure on salaries and pensions witnessed substantial increase during this year due to implementation of the recommendations of the Sixth Pay Commission. As the expenditure on these items is expected to stabilize in the coming years, the State should take action to restrict the other components of Non-Plan revenue expenditure by phasing out subsidies and by ensuring that borrowings are continued to be used for creation of productive capital assets.

The ratio of expenditure on health and family welfare to aggregate expenditure in 2005-06 and 2009-10 was lower than the corresponding ratio for general category States. Considering that the infant mortality ratio is higher in Chhattisgarh than the all-India average, the State government may consider giving a greater thrust to this sector.

Capital expenditure

The capital expenditure showed a declining trend since 2008-09 (seven *per cent*) and its proportion to total expenditure also decreased from 2008-09. The capital expenditure was 23 *per cent* less than the provision made in the budget estimate.

Recommendation

The State Government should step up asset creation through capital expenditure, as this would enhance future growth prospects.

Return on Investment

The average return on Government's investments was 0.17 *per cent* while the Government paid an average interest rate of 7.13 *per cent* on its borrowings during 2009-10.

Recommendation

The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor time and cost overruns with a view to avoid blocking of funds and to derive better returns from the investments.

Guarantees

Even though no limits within which the State Government may give guarantees on security of Consolidated Fund of the State were fixed, the Government gave guarantees for ₹ 4,400.65 crore, of which ₹ 3,337.53 crore were outstanding upto the end of 2009-10.

Recommendation

The State Government should consider laying down limits on Government guarantees on loans raised by State corporation through legislation under Article 293 of the Constitution and also take early steps for setting up a Guarantee Redemption Fund.